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GCPL Conference Call on Darling acquisition

June 3, 2011

Moderator: Ladies and gentlemen good afternoon and welcome to the Godrej Consumer Products Limited conference call. As a reminder for the duration of this conference all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Khushnum Pestonji from Citigate Dewe Rogerson.

Khushnum Pestonji: Thanks and good afternoon and welcome to this call. We have with us on this call Mr. Adi Godrej: – Chairman of the Godrej group, Mr. Mahendran – Managing Director, Mr. Ganesh, Mr. Vivek Gambhir and Mr. Omar Momin.

Before we begin I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. I would now like to hand over the call to Mr. Godrej.

Adi Godrej: Ladies and gentlemen, I welcome you to the investor and analyst call of Godrej Consumer Products Limited to discuss GCPL acquiring the rights for a 51% stake in Darling Group Holdings.

As I mentioned in our annual meet a few weeks ago, FY2011 has been a transformative year for GCPL on many fronts. In June, 2010 we acquired the remaining 51% stake in Godrej Sara Lee Ltd. With the merger of the two businesses, GCPL is now the largest Indian household and personal care company. Along with this, we also continued our evolution from an Indian FMCG company to a leading emerging markets FMCG company. Most of you are now well-versed with our 3x3 strategy. I would only spend a few minutes on it to set the context of our latest acquisition.

We have been following a very disciplined and focused globalization approach, which we call our 3x3 strategy, presence in three continents, Asia, Africa and South America, through three core categories – home care, hair care and personal wash. Our 3x3 strategy starts with the premise, that apart from tremendous opportunities available for growth in India, there are attractive opportunities available in other emerging markets as well. These emerging markets have characteristics in consumer demographics similar to India. With economies of Indonesia, Africa and Latin America all expected to grow at more than 5% in real terms. We expect strong brands and businesses in these geographies to grow in healthy double digits in nominal terms, both in revenue and even more so in profits.

We believe that we can very effectively leverage GCPL's fundamental value proposition of superior quality of affordable products and our deep understanding of consumers to our international markets. And we can add tremendous value to these acquisitions through the rigor of the Godrej processes, operational discipline, manufacturing, technology, and sourcing strengths. This investment thesis has worked very well for us in the acquisitions that we have made in the last several years.

The integration process on the acquisitions that we made last year is proceeding smoothly and is well ahead of plan. Through our learning's from the last few years, we have been able to put together a best-in-class post-merger integration process. We also have now Shashank Sinha, who has years of experience in international FMCG markets as our Head of International Operations. Supporting Shashank is a dedicated International Center with experts providing value added support on HR, finance, IT and supply chain optimization to our international businesses.

An interesting learning experience for us, with the integration of our Indonesian acquisition Megasari has been of significant value creation possible, who partnering effectively with an outgoing seller CEO. A combination of our processes and his entrepreneurship has created a unique results driven innovation culture at Megasari. More importantly for us this partnership has insured a smooth transition, efficient integration, and optimal use of management capabilities and bandwidth. We have management committee with seasoned team members in place in all our acquisitions. The organic growth in both Indonesia and Argentina is upwards of 20%. And we have improved gross margins by 200 to 300 basis points. Our acquisitions have been very value accretive for us. We now will look to reach the next level of synergies through expanding distribution and introducing new categories in these markets.

Africa is a critical part of our 3x3 strategy. As you may know over the past 4 years we have made three acquisitions in the region. These businesses have performed well and we have learned a lot on what it takes to be successful in Africa. We believe that the timing is opportune for us to scale up our presence in the region. More than ever we are convinced about the tremendous potential that Africa offers. India and Africa have enjoyed a close association panning multiple decades. There are significant cultural similarities between the regions, along with a rich legacy of the Indian Diaspora who have made Africa their home. There are also several similarities in the retail and distribution environment across India and Africa.

After many years of lagging global growth, Africa has outperformed many other parts of the world in the last decade. This has been led by a combination of structural reforms, reduced conflict, and rising income. The outlook is even better given that we believe that Africa has crossed an inflection point on the growth curve. GDP is projected to grow at 6% plus CAGR over the next 10 years. With healthy growth rates and a sizable middle class emerging in the region, Africa is clearly the next frontier of growth.

There are two critical factors for success in the FMCG space in sub-Saharan Africa. Firstly, one needs a business to scale sufficient to support a strong distribution structure just like in India. The retail environment in the sub-Saharan Africa is similar to that in India but perhaps even more fragmented, subscale and geographically distributive. This implies that a robust distribution infrastructure with scale is a significant competitive advantage. Secondly, in line with the global trends existing brands command a sizable premium and building new brands is both a risky and costly proposition. We hence believe that a pan-African business with sufficient scale and well-established brands is one of the best growth platforms for sub-Saharan Africa.

Within our focus category, hair extensions are one of the largest opportunities for a company like GCPL. The hair extension market is estimated to be valued at over US\$1 billion of consumer prices with no multinational presence. It is one of the highest involvement categories for the African woman and consequently strong brands enjoy high profitability. The Darling business provides us a perfect platform for sub-Saharan Africa, being both the largest brand in its category as well as one of the best distribution platforms pan-Africa.

The Darling Group, enables us to take our presence in Africa to the next level. Our aspiration is to touch the lives of at least a 100 million consumers across Africa in the next five years, through superior quality, innovative products at affordable prices. Over 500 million Indians use at least one Godrej product on a daily basis. We would like to build a similar kind of trust and relationship with the African consumer and delight them. We believe that the strong share position that the Darling Group brands enjoyed will further accelerate our trajectory of sustainable profitable growth in the region.

The Darling Group is the market leader in hair extensions across Africa and has a 13 year successful track record of running businesses in these African countries. In calendar year 2010, Darling had revenues of about \$200 million and has been growing at about 15% in the last five years. It has full-fledged operations in 14 countries across Africa including manufacturing, distribution, sales and marketing and sells in many more. The two brands of the company, Darling and Amigos are ubiquitous household names for the African woman.

Let me review a few highlights of the transaction. On 1st June, GCPL signed a term sheet with the shareholders of the Darling group to acquire rights to buy a 51% stake in Darling Group Holdings. Darling Group Holdings will include operations of the Darling group in all 14 countries. The 51% acquisition will happen in a very systematic manner in three stages over the next 24 to 30 months. Phase 1, comprises companies which contribute 45% to the Darling group revenues and operate with EBITDA margins of close to 20%. This will be concluded in the next two months, post which GCPL will consolidate the accounts of the business included in Phase 1. Phase 2 will be concluded in about 12 months from then and should include about 70% of the group's business. Phase 3 will be after another 12 months. Between 3 and 5 years from the conclusion of Phase 1, GCPL will have the rights to own 100% of the business through a combination of call and put options on the business. The Phase 1 transaction will be funded through low-cost overseas debt and it is expected to be EPS accretive in year one. Just like some of the early acquisitions the seasoned management of Darling group will continue to manage within us. We will form cross functional teams in HR, finance, brand management and supply chain. These teams will consist of both Darling and GCPL team members, who will work together to share learnings and find ways to further accelerate the growth trajectory. We will also initiate the process of evaluating the potential of taking other products from the Godrej portfolio to these markets. Finally we will put the necessary control systems and processes in place so that these operations are well harmonized with our global of operations.

We are confident that we have the right building blocks in place to propel GCPL towards its goal of becoming a leading emerging markets FMCG company along with continuing to drive our domestic India business to full potential, we remain committed to capitalize on the huge potential available to us in other attractive geographies.

Our partnership with the Darling group is an important linchpin to enable us to meet our aspirations. As a first objective we will look to build the Darling brand into one of the largest personal care brands across Africa, with capabilities from the Godrej's stable on design, innovation and branding. In parallel with this platform we

hope to create a significant business in household insecticides and hair care across Africa in next 3 to 5 years.

I will now be happy to address any questions you have. We will do our best to provide the answers. However, please recognize that we are still in the process of closing the transaction, so some information cannot be shared at this stage and will only be shared post-closing.

Moderator: Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy: Why this is being done in three phases and why is Darling group selling out 51% currently and if you could give us some color on the deal value?

Adi Godrej: It is very difficult for us to say why they are willing to do a deal at this stage. I think the family recognizes that a joint venture with us will create a lot of value and since they will participate in the value for the balance 49%, is attractive. We have been discussing this with the family who owns the business for quite some time, several months, almost a year. As far as the valuation of the deal, we are not free to give it currently, however, I can say that we expect in this financial year which will be for a period of consolidation of between 7 to 8 months accretiveness of about 20 Crores after all the cost of acquisition are taken into account and obviously that accretiveness would be much more in the next financial year.

Abneesh Roy: What are the current margins?

Vivek Gambhir: 20% plus. Add to add a little bit to what Mr. Godrej was saying, you know what we find typically in the lot of deals growth would be very entrepreneurial. The reason why they wanted to do a JV is first of all they still see a huge amount potential in this category going forward. The second is of course is a lot of these growths reached a stage where the next phase of growth really requires much more sophisticated talents in brand building, innovation, marketing and supply chains and so partnering with the group likes our who has the demonstrated practice and expertise really has to make sure that some of the whole is better than the past.

Abneesh Roy: Sir you said Phase 2 happens after 12 months and Phase 3 further after those 12 months. My question is will it be fair to assume that those deals will happen at a much higher price because you also said that Darling group would also like to participate in this value creation.

Adi Godrej: The valuation multiples will remain unchanged throughout even when we go up to 100%. However, since there is restructuring required in each of the countries to meet our due diligence needs, they need some time. That is why it is being done in three phases.

Vivek Gambhir: And also from our point of view to make sure that we have the right talent to work with in these countries because the operation is in 14 countries, a phased approach is a actually much better way to ensure that we do not bite off more than what we can chew.

Abneesh Roy: How easy is it to take Indian products to Africa and if you could give us some details of successes which we had in the last three years and what is the overlap in distribution which this acquisition brings with your earlier acquisitions of Africa?

Adi Godrej: Our earlier acquisition in hair extensions of Kinky which has mainly operations in South Africa but has a quite a different business model from Darling, will be

integrated with the Darling operation. Godrej Consumer Products will continue to own 100% of Kinky but operations will be integrated and the joint venture management team will be incentivized. Now Kinky is more of a front end operation with retail stores, Darling is an integrated operations right to the backend into the raw material research and therefore there will be a great synergy between Kinky and Darling. So a lot of accretiveness will come from improved profitability in Kinky. The other operations in Africa are not sought to be integrated at this point of time. Rapidol itself is doing extremely well and one example I can give of how Indian products have been introduced in Africa is that the Inecto brand which is the hair colorant brand of Rapidol is very well-known in Africa and we have taken powder hair colors which did not form part of the Rapidol range of products into Africa in the Inecto brand extremely successfully. So we think one of the categories we think can get into Africa very strongly is household insecticides like India demands of household insecticides in Africa because generally the tropical climate is high. I think the platform available through 14 country operations in Africa will be very strong for a potential launch of household insecticides.

- Abneesh Roy:** And soaps you are ruling out as of now?
- Adi Godrej:** Soap is something that is manufactured in each country, in Africa and other countries. So we are not looking at taking our soap business strongly except in Nigeria where we already have a soap business.
- Abneesh Roy:** In North Africa we have seen a lot of political turmoil. In that context, do you see any risk in these countries sub-Saharan Africa also?
- Adi Godrej:** Well, these businesses are entirely in sub-Saharan Africa. We do not see the kinds of regimes that have been in the Arab world being in Africa now. If you look at most countries in sub-Saharan Africa, they are democracies now and unlike the Arab world which does not have a single democracy in the Arab world both historically and now. So we do not expect that kind but at the same time we have to be practical and clear that these are always possibilities. But being dispersed in 14 countries in Africa affords tremendous balance.
- Moderator:** The next question is from the line of Kunal Bhatia from Dalal and Broacha.
- Kunal Bhatia:** Now we have four acquisitions in the African regions, so on the whole, what would be the current size of Godrej in Africa?
- Adi Godrej:** Sales in Africa would be about 200 Crores currently and this is about \$200 million by the time it is completed it will be around 1000 Crore plus, so this is a much bigger acquisition than our past acquisitions.
- Moderator:** The next question is from the line of Pritesh Chheda from Emkay Global.
- Pritesh Chheda:** The phases if you could give us again and how is it going to get consolidated with accounts, if you could shed more light there?
- Adi Godrej:** The first phase will get consolidated once it is put into effect which will be about 2 to 3 months from now and we expect a consolidation in this financial year between 7 and 8 months. We expect accretiveness for that period for the first phase of the consolidation of about Rs 20 Crores to our net profit. The other phases will get consolidated as and when they are acquired. On the top line being a subsidiary as we own 51%, 100% of the sales will get consolidated and 51% of the profits will get consolidated.

Pritesh Chheda: And 45% of that sale would be consolidated in the first year of operations?

Adi Godrej: That is right but for 7 to 8 months.

Pritesh Chheda: Is there any debt on the balance sheet of this company?

Adi Godrej: No, zero debt.

Pritesh Chheda: And is there any surplus cash in the company at the end of FY10?

Adi Godrej: No, the actual company which we will invest in is a restructured one from the original company, so clearly if there was any cash in the original company we will remove it, so what we are investing in will have zero debt and no cash.

Pritesh Chheda: In the restructured company so you would have then broken it up as 45% of sales as one company and then other company.

Adi Godrej: No, there are several companies, so based on our due diligence, requirements, etc., they have sufficiently restructured things before we invest.

P Ganesh: Just to clarify these could be new companies in to which the existing business would be bought in.

Adi Godrej: First they have restructured their businesses into a new company into which into which we will invest. Our investment in the first phase will be in one company which would be constituted by them putting their earlier businesses which constitute 45% of the total business.

Pritesh Chheda: Okay, so you then retain the option to then go ahead with the balance companies based on the call and put?

Adi Godrej: Yes, that is right.

Pritesh Chheda: Okay. Lastly what kind of growth has these companies seen over the last 5-7 years?

Adi Godrej: 15% plus.

Pritesh Chheda: And how many years of operations do they have in the country?

Adi Godrej: 30 years. I think that would vary from country to country. Overall in Africa they have been operating for 30 years. In some of the countries it might be less.

Pritesh Chheda: Okay and how much is the taxation?

Adi Godrej: Taxation in Africa generally is reasonably low. I think the average would be about 25% to 30% taxation in Africa. In South Africa we are paying about 28% tax currently.

Moderator: Our next question is from the line of Richard Liu from JM Financial.

Richard Liu: Sir two questions from my end, one is, what is the growth rate in the two African companies that you witnessed in FY11 that is Kinky and Rapidol? And if one would look at a little longer-term, from the time you acquired these two companies

respectively, one has probably seen a couple of years in between when the revenue growth kind of plateaued out between themselves. So what do you think would be different this time around the year in the new African acquisition and what was the cause for the past plateauing. If you can take us through whether there is any similarity or difference in distribution in Africa for household insecticides and what is your game plan there for Africa considering what you achieve through this acquisition?

Adi Godrej: Most distribution in Africa is through Mom and Pop stores. So they are pretty similar across FMCG categories. Growth in Africa last year for us in South Africa was about 10% because last year was a poor year for the South African economy but historically we grew at a 20% plus in South Africa. And now the economies of Africa including South Africa have revived. South Africa was the slowest growing African country last year but this year we expect a much faster rate of growth. This business as I mentioned earlier has been growing at 15% plus. This is also fast-growing category compared to other FMCG categories in Africa. It is one of the largest categories across Africa, a billion-dollar category and we expect strong growth in-line with the economic development in Africa.

Richard Liu: Sure and if you can give a little perspective on Kinky and Rapidol's past performance. If I have my data correct, the like-to-like growth for Rapidol in FY08 and FY09 which was year two and three of the acquisition was a little flattish, if my data is correct?

Adi Godrej: No, I do not think so but I do not have the numbers here. Rapidol has grown very considerably since we have acquired it over five years. I do not have the exact numbers but I will tell our people to provide it to you. We are very happy with the growth in Rapidol.

Richard Liu: Sure and little bit on the insecticides strategy?

Adi Godrej: Insecticides is something we are still studying. It is too early to tell insecticides into Africa. We would like to take it organically.

Richard Liu: Will this distribution platform that you get from Darling have any role to play in that?

Adi Godrej: No. We will have to first of all, get used to Darling then we will decide how our HI strategy can be into Africa. We think it could be a good platform especially because it is operating in many countries. I just got the CAGR numbers for Rapidol, since we acquired the company, it is been 30.3% and EBITDA CAGR has been 29.5%.

Richard Liu: What is your view on the debt-equity ratio post this acquisition?

Adi Godrej: Debt equity ratio would be quite reasonable. It usually works out in the beginning of a large acquisition. The debt-equity ratio rises a little bit and comes down soon. Currently our debt-equity ratio is less than 1:1 at this point of time. As of March 31st I think it was slightly over 1:1, very marginally. Right now it is much less because of the increase in equity over the last two months. We have also received the payment for the withdrawal of the Kiwi brand which is very substantial. All that will be deployed into this acquisition. We expect debt equity ratio might rise to little over 1:1, temporarily but again would come back into line.

Richard Liu: Okay and you think you will be able to manage funding at the same 3% to 4% kind of a cost?

Adi Godrej: We expect very economical funding.

Moderator: Our next question is from the line of Sachin Bhatia from Baring Private Equity.

Sachin Bhatia: I just wanted to check, in your presentation it said that hair extension market in Africa is 1 billion and there are three large players. So can you just put some light, who are the players and what kind of market shares they have?

Adi Godrej: What we have mentioned is, the market is about \$1 billion, Darling is the leader and it has about 20% share of the pan-African hair extension market. The other players are not pan-African. Some of the players operate in one or the other geographies, of course, if you include Kinky into it, our market share will rise to well above 20% although Kinky's operations are mainly in South Africa.

Sachin Bhatia: So basically the other players are not pan-African?

Adi Godrej: No, they are not pan-African players. So there are some Korean players, some Chinese players. There are other local players in some of the countries but none of them are pan-Africans. And Darling is by far the strongest brand across Africa.

Sachin Bhatia: Sir what could be the company sales, Darling company sales by category like hair extension, hair relaxers, and aftercare? Would that breakup be available?

Adi Godrej: It is entirely hair extensions.

Sachin Bhatia: Okay and across Darling and Amigo brand, what would be the breakup of the sales?

Vivek Gambhir: We do not reveal that at this stage.

Sachin Bhatia: Would you like to reveal what kind of multiple you are giving?

Adi Godrej: No, unfortunately at this stage the sellers had certain conditions in our confidentiality agreement. So we are not able to give that information. As mentioned to you it will be highly accretive.

Sachin Bhatia: And in the past acquisitions like Argencos, Issue, Megasari, and Tura, all those acquisitions, all the payment has been made or are some payments deferred?

Adi Godrej: No, everything has been paid. It was paid immediately on our purchasing the shareholdings which was done approximately a year ago. All has been paid, all has been financed by international debt at low cost and we have already started paying back some of it.

Moderator: The next question is from the line of Peter from Aberdeen Assets.

Peter: Just two questions. One is on the governance of the new entity. Just to confirm firstly it is guaranteed that in five years you will have a 100% control or is that not absolutely certain?

Adi Godrej: It is an absolutely certain option.

Peter: And the second question is that in the interim while you do not have 100% control, what is the governance arrangement, do they have the vetoes of what you do and so on?

Adi Godrej: We will have a control in terms of 51% shareholding. We will be fully in control at the board level. We expect to use their management expertise very considerably over the years and we will certainly be able to bring in our governance standards, our business process improvements and our marketing and sales inputs. This is a category where we have a fair amount of expertise through our Kinky acquisition but the Darling group of course, is far more experience in the category. So for technology and category expertise we will rely a lot on our partner.

Vivek Gambhir: In a lot of our other previous acquisitions, we typically send people to be part of the management team such as CFO and Head of HR and we will do a similar thing in this kind of acquisition itself also where we will send our team members to actually support them in critical functions.

Peter: In terms of the 14 countries what are the major exposures by country?

Adi Godrej: Unfortunately, we cannot give the name but you can understand that it covers all the major countries of sub-Saharan Africa.

Moderator: The next question is from the line of Vivek Maheshwari from CLSA..

Vivek Maheshwari: I am still not very clear on the structure. Correct me if I am wrong. Basically, what you have acquired is a 51% stake in this restructured entity Darling Group. This entity would keep adding entities under it which would take up your revenues or your effective holdings, say from 45% in the first stage to 70% in phase 2. Is that understanding correct?

Adi Godrej: That is correct. Geographically it will rise from 45 to 70 and then to 70-75 and then to 100. And in terms of shareholding it will rise as we exercise options from 51 to 100 over a period of time.

Vivek Maheshwari: But in the phase 1, 2 and 3 all throughout your holdings will still be 51%, it is just that the underlying business will keep getting added to the overall structure.

Adi Godrej: In any geographically phase it will be 51% to start with, with options to go up to 100.

Vivek Maheshwari: If a particular geography is not yet consolidated into Darling, at that point of time you will continue to have 51% as and when this entity keeps adding more businesses, you will have effectively 51% in those businesses, right?

Adi Godrej: That is right.

Vivek Maheshwari: Okay, the second thing is that Rs 20 Crore accretion that you have guided for, that is only adjusting for the EBITDA that you get and minus the interest. So any synergies with Kinky will flow in the next year, right?

Adi Godrej: That is right.

Vivek Maheshwari: Okay, even if you have 45% of revenues, etc. because you have 51% stake in the company, you will be consolidating it on a line-by-line basis as soon as it happens?

Adi Godrej: Profit will first be consolidated 100% then minority interest will have to be given credit so it will be 51%.

Vivek Maheshwari: Okay and because of all this restructuring and everything and the fact that you would be acquiring in phases, etc. would there be high one- off expenses that can come into the business?

Adi Godrej: No.

Moderator: The next question is from the line of C A Manish from Blue-Chip India.

C A Manish: What will be the outlook for the next 5 years post this acquisition, once we complete this transaction going forward do we also have more transactions coming up or more transactions getting through going forward in the geography like Africa itself?

Adi Godrej: We are looking at other transactions in the three geographies where we are focused on, Asia, Africa and South America. We have mentioned but we feel we can have a CAGR of 10% inorganically without diluting our equity. This is on internal cash generations. If we have a very strategic acquisition which is important which creates a growth faster than a 10% growth then we may have to dilute equity but we have no plans to go so at present.

Vivek Gambhir: I think in terms of Africa at this stage we are not looking for any other acquisition, if the opportunity comes by we will study it. But we feel that with Darling we now actually have a very strong distribution footprint across all the major countries of South Africa which are rather first of all to build extension business and also use it as a platform for our hair care and HI products over time.

CA Manish: What growth outlook do we foresee going forward in the next five years?

Adi Godrej: We would not like to guidance but this is a category that has been growing quite rapidly and it is one of the fastest growing FMCG categories across but we cannot provide guidance on that.

Moderator: The next question is from the line of Nikhil Vora from IDFC.

Nikhil Vora: Wanted to know whether there were other bidders in this transaction per se. And second related was, as we increase our focus on international operations, do you start to sense that the India growth is getting slightly more diluted not because we are not focused on it, but possibly just that a lot of management time and focus would be on consolidating the international operations?

Adi Godrej: No not at all. India growth continues to be very strong. We feel that we had good growth in Q4, we expect a very good growth in Q1. So India growth is not affected at all. We have separate teams handling our international business and India business; I do not think one in any way negatively affects the other. It is just that our financial capabilities have expanded and that allows us to create not only the organic growth we did in the past but allows us to create inorganic growth without equity dilution. So our potential for improved earnings per share will be higher going forward we feel, as a result of this strategy.

Vivek Gambhir: I think the other important thing to mention is that our approach is quite unique it is a partnering model and what the partnering model does , it allows both partners to bring the best of capabilities from each side and it also means lesser management attention or bandwidth worries from the India side. We have a very strong India team focused on India and we have built a very small international team with experts who guide these countries but the value space partnering model does allow us to actually rely on our partners for a fair bit and therefore I think the

worries about management bandwidths are usually overstated. And your other question around bidders they were no other formal bidders in the process, it is the relationship that we have built over the last 12-15 months, because in a partner relationship like this we really have to strike the right relationships. It has been a very good relationship with the sellers.

Nikhil Vora: You mentioned somewhere during the conversation that the balance shareholding will be acquired at the same PE multiple, not the valuation but I guess the PE multiple?

Adi Godrej: That is right.

Nikhil Vora: Okay. Is there a cutoff internally that we think we will maintain to ensure that the domestic business remains a dominant part of the business or we would be slightly indifferent to it as long as the growth opportunities continue in inorganic markets?

Adi Godrej: I have hardly any doubt that the domestic business will continue to be the major part of GCPL's total business because as you know, we have acquired erstwhile Godrej Sara Lee business, which was also largely domestic in the recent past.

Moderator: The next question is from the line of Bhavik Mehta from Girik Capital.

Bhavik Mehta: My question is basically related to your 3 x 3 strategy, you have acquired companies in Africa and South America. But you have just taken your hair care segment more seriously in these continents and the rest of the business that is the personal wash and the home care segment is stronger in Asia. I would just like to know your strategies on the South American and the African subcontinent how would you expand your other two segments in these continents?

Adi Godrej: We have acquired mainly a personal wash in other personal care business in Nigeria. We have acquired mainly household products business in Indonesia. So it also depends upon the opportunities that we see, hair color is a very strong category for us that is a category where transfer of technology successfully between different geographies works very well, has worked well for us. So clearly hair care is a category in which we have concentrated but we are equally strongly on the lookout for acquisitions in household products and other categories.

Bhavik Mehta: And what about the Middle East operation I have seen that they contribute a very minor segment of your revenues, how do you plan to expand them?

Adi Godrej: No, we have some plans to expand in Middle East operation, of course, you must realize that currently the territories in which we operate in the Middle East is a low population area but we have strong plans to organically grow our Middle East.

Bhavik Mehta: Are there any plans to introduce the Megasari products in India as well as the pan-Asia the line that you all operate?

Adi Godrej: There is a lot of exchange of technology and product design etc. between our various geographies including exchange between say Africa and South America. So clearly yes, there is a lot of but not necessary brands. Brands will mainly be the strong brands that we have in the local geographies.

Bhavik Mehta: So you do not plan to introduce new brands in different geographies, you just plan to consolidate on the present prevailing brands?

Vivek Gambhir: The reality as you know, starting a new brand from scratch typically tends to be very expensive. And second of all, whatever brand names that we use has to resonate well with the local individual customers. And so for instance we are evaluating introducing air fresheners in India, what brand we actually use will depend really on the name that the Indian customers resonate with. The focus is far more on sharing product technology, branding and marketing principles but the brand name per se will depend really on the local needs of the consumers there.

Bhavik Mehta: One last question that, in the last two years you have been on a rampant acquisition spree. So why such quick acquisitions, isn't it hard to integrate so many companies together at the same time?

Adi Godrej: We have been very successful in this integration. Last year we acquired several international businesses. The accretiveness on the bottom line was even higher than the high number we put out as our expectation, so we have been extremely successful. We have been successful not only in successfully bringing them into our fold but we have been very successful in improving the earnings per share for our shareholders. So this is a process which we have done reasonably well. And obviously we will go as fast as we think we can manage and not any faster, and we have set up a very specific team for our international operations. We have a very successful M & A team. So all in all it is under control.

Vivek Gambhir: The same question was asked 12 months ago. Integration is ahead of plans in all our international assets and we have been acquiring companies for the last five years. The experience in terms of defining a well laid out process having the right support systems and also having an approach that is based on partnering and selective integration would allow us to be able to do it. And Mr. Godrej was saying, the biggest thing is for us is to make sure we do not lose focus. So anything that we do will be done in a way that is actually digestible by the management team here.

Bhavik Mehta: All these acquisitions that you have done were opportunistic in nature or were planned earlier?

Vivek Gambhir: We have been working on this M & A strategy for the last 4 to 5 years while there is always a certain amount of opportunism and luck involved in acquisition. If the possibility of luck and opportunism increases far more then one is far more strategic about these things. It is all based on a very thorough analysis of assessment of each country, understanding the risk and based on our 3 x 3 focused strategy here.

Bhavik Mehta: Can you just provide me the cost of debt that you have in this present acquisition?

Adi Godrej: This debt is currently being raised. It is offshore debt but the cost of the debt will be low.

Bhavik Mehta: Around 3 to 4%?

Adi Godrej: Around that level.

Bhavik Mehta: And what would be the present standing of debt on our books, post-acquisition?

P Ganesh: Presently we are well under 1:1 because as Mr. Godrej mentioned earlier in the call we have profits of first couple of months as well as one-time compensation we have received on the kiwi brand. Post this acquisition funding we will be a bit over 1:1.

Moderator: The next question is from the line of Harit Kapoor from Motilal Oswal Securities.

Harit Kapoor: Firstly on Kinky, just wanted to understand how similar or dissimilar are these two businesses in terms of product mix, in terms of distribution, if you could just throw some light over that?

Adi Godrej: The product of the new acquisitions is entirely hair extensions. Kinky also is mainly in the hair extensions business. However Kinky is more front ended business with its own retail stores etc. This is a totally integrated business from raw material to distribution. And the synergies between the two businesses will be tremendous in South Africa. So we will be running the businesses together and we expect that the synergistic benefits will be very considerable.

Vivek Gambhir: Kinky tends to be more a premium product whereas Darling products are both mass premium and mass, so what this allows us to do is actually have a full product portfolio that will straddle across all the various price points.

Harit Kapoor: And if I understand correctly, Darling would be sold through retail outlets, through Mom and Pop stores through the general retail groups as compared to Kinky which has its own stores right?

Adi Godrej: Yes, but Kinky also sells through modern retail but considerable amount of sales is through its own stores. And we have been able to integrate to these two distribution systems and synergize them.

Vivek Gambhir: What we would also like to evaluate is better we should sell Darling through Kinky stores that is part of the evaluation that we will do.

Harit Kapoor: Just want to understand at a later date probably once phase 2 and phase 3 are completed, as you said that the brand strength of the Darling is quite strong across Africa, is there a possibility that we could look at hair care products launches.

Adi Godrej: It is too early to tell but obviously the team will study that.

Harit Kapoor: Lastly on the deal structure, would the payment for the 51% be made immediately or that also would be on a phased basis?

Adi Godrej: 51% of the payment will be done immediately. We take over the 51% share which will be in 2 to 3 months' time.

Vivek Gambhir: It will be 51% only of Phase 1, just to clarify that.

Harit Kapoor: As we go into Phase 2 then the payment for 51% of that will be made accordingly.

Adi Godrej: That is right.

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

Kaustubh Pawaskar: My question is that you just mentioned that the operating margin of this particular company is around 20%. So going ahead can we expect it to sustain at these levels considering the fact that you will be investing behind the brands?

Adi Godrej: Yes, I think we clearly ought not to only to sustain it but to improve it with better business processes, improve marketing and advertising inputs etc. So hopefully once it becomes a partnership we can improve these margins.

Vivek Gambhir: We will also hopefully see this improvement in margins in the Kinky business as well.

Kaustubh Pawaskar: My second question is that, you just mentioned that you are organically looking at introducing household insecticide for us in Africa. So when can we see household insecticide products in Africa and besides household insecticide products and hair care, which other categories you see are great potential in the African geography?

A. Mahendran: As far as household insecticide is concerned in Africa work is going on, we are looking at one Africa strategy and in another three or four months we will finalize it. But we are looking at the earliest to cater to the market in household insecticide in Africa within this year.

Adi Godrej: I think much more will be known only after we start working with the Darling group after two or three months, we will get a better picture of what are the opportunities, what are the possibilities and then we will formulate our plan.

Kaustubh Pawaskar: Which other categories do you see of great potential in Africa.

Adi Godrej: Right now we are concentrating on household insecticides then if that is successful then we take a look at what else can be done.

Moderator: The next question is from the line of Arjun Khanna from Principal Mutual Funds.

Arjun Khanna: My question is in terms of the EBIDTA margins for the company for the Darling group. Is it uniform for all the countries in terms of revenue? So when we go for a 45% to 100% is the current EBIDTA margin 20% for all the regions?

Adi Godrej: No, it is not uniform the EBIDTA margins are good across the board obviously but they are not uniform everywhere. Nothing will be based on our EBIDTA multiple. Nothing will vary depending on the EBIDTA margins.

Arjun Khanna: So if I understand correctly, this current 45% revenue would have the highest EBIDTA margins?

Adi Godrej: Not necessarily. It will average but not all geographies are the same.

Arjun Khanna: So the motivation for our partners would be to get their EBIDTA margins for the remaining regions to a higher level so that they could get a better price exit, is that a fair understanding?

Adi Godrej: That is not the only reason for the time-based takeover. There are restructuring points because you have to form new companies etc. also each country has its own regulation etc. So there are many reasons why we are phasing it out. It is also our absorptive capacity, we better deploy by phasing it out

Arjun Khanna: You mentioned this is backward integrated, I understand with earlier conversations with you that we used to import Kinky from abroad. Are we looking at moving it all domestically within Africa?

Adi Godrej: That is right. So now whatever Kinky used to import can be supplied by the Darling operations.

Arjun Khanna: Would you give us some guidance what kind of EBIDTA margins improvement we could see in Kinky?

Adi Godrej: That is difficult to tell, it is too early to tell but we will see a significant improvement in Kinky's margins.

Arjun Khanna: Which would start off right away?

Adi Godrej: It could start off pretty soon after the takeover. Obviously it will not be the next day; it could happen in a short period of time.

Moderator: The next question is from the line of Rohan S from ICICI Prudential Life. Please go ahead.

Rohan S: Fairly basic question on the business itself, the Darling business. Since it is slightly an alien market for those of us who live in India, their extension, could you give us some color on how this industry has evolved over time. It seems to be fairly big I mean if it is billion-dollar business in the continent, it seems to be a very big business. How has it evolved over time? Is this the same size that you would see in Asia or South America in terms of aggregate size of hair extension?

Adi Godrej: Hair extensions is typically a much bigger business in black African population countries because as you know their hair is very curly, it is difficult to manage and earlier there were products called hair relaxers or hair straightners which would straighten that hair. But they are now considered damaging to the hair, so the hair extension business where you add-on these straighter pieces of hair onto your own original hair is catching on very strongly. The African woman tends to spend a higher percentage of her income on hair care than almost any other people in the world. And therefore this business has grown very significantly. And it is continuing to grow. The opportunities for further penetration and growth are very strong. So we expect this is likely to be a high-growth category for a considerable period of time.

Rohan S: So what is the frequency of the purchase for hair extension, for instance?

A. Mahendran: Frequency of purchase is, on an average twice a month. So that in fact when I calculate in Indian rupees, it comes to roughly Rs. 800-1000 a month expenditure done by a woman there.

Rohan S: So the turnover is that quick, twice in a month it is sort of discarded, is it fair to say that?

Adi Godrej: It varies product to product, price also varies from product to product. There are very expensive pieces made from natural hair and there are very inexpensive pieces from synthetic hair. So it varies.

Vivek Gambhir: And this frequency will vary in terms of whether it is a weave or a braid, so generally product category frequency tends to be a little bit different as well. But the per capita consumption is actually quite high for this category.

Rohan S: Is there enough evidence to support that, it is not a fad or fashion that is probably going to be diluted over time?

A. Mahendran: I think it is come to a stage of a necessity, I do not think it is a fad. This all started about 30 years back.

Adi Godrej: Currently it is a successful business even in North America among the African-American population and in other parts where there are African-American, even in

Europe where there is African-American population; these products have become very sophisticated.

A. Mahendran: When we look at the age profile of the use of this product, pretty younger age girls are using it there in Africa. This is to say that even at 18 years they start using these hair extensions. The length of the hair of a woman at a younger age is very short so they aspire for longer hair, so they go for extension. However if I look at India, looking at the Indian girls, they have long hair up to 40 years, so probably it is an opportunity in the 40 plus population.

Moderator: The next question is from the line of Subramaniam P S from Sundaram Mutual Fund.

Subramaniam P S: Just wanted to know what are the factors contingent upon which the other businesses also would be eventually merged into the existing new company which has been formed?

A. Mahendran: We are looking at that, particularly Kinky as a brand in South Africa would be an opportunity for a joint management possible immediately but the other products like of Rapidol would continue separately.

Subramaniam P S: What I wanted to understand now I think only 45% of the business of Darling is being brought into this new company?

Adi Godrej: That is right. 45% in the 1st phase and the balance of roughly 55% in the next two phases.

Subramaniam P S: So is it going to be sure that eventually all the 55% would come, even there do you have an option to take only what you want or what you do not want?

Adi Godrej: No, everything is led by options but clearly we would like to complete the entire one, the option is ours.

Subramaniam P S: So you have an option as to the percentage of stake that you want to hold and also what part of the business you want to own?

Adi Godrej: That is right.

Moderator: The next question is from the line of Ajay Thakur from Alchemy shares & Stocks..

Ajay Thakur: Just wanted to know what would be the hair color market in the sub-Saharan Africa market. And also can you just throw some light on the distribution structure since you know Kinky's distribution structure is through the specialized store I believe and through super stores in the South African market.

Adi Godrej: Size of the hair color market is much smaller than the size of the hair extension market. We think it is about \$200 million in sub-Saharan Africa. We already have a share of hair color market in sub-Saharan Africa through the Rapidol business. 70% of the Kinky sales are accounted for by its own retail stores.

Ajay Thakur: Is Darling also through this similar kind of a model?

Adi Godrej: Darling has got no stores of its own that we could leverage the Kinky stores in South Africa.

Ajay Thakur: What is the kind of store reaches for Darling's product?

Adi Godrej: Products are available for Mom and Pop stores, from supermarkets, and all kind of retail stores from which other FMCG product sell.

Moderator: The next question is from the line of Shirish Pardeshi from Anand Rathi.

Shirish Pardeshi: I just wanted to know which are the top three countries are contributing large business?

Adi Godrej: Unfortunately we are not at liberty to disclose that because we have a confidentiality agreement. But we mentioned the operations in 14 countries it covers all the major countries in the sub-Saharan Africa.

Shirish Pardeshi: What kind of reach in terms of distribution, we would be having right now?

Adi Godrej: Normally one of the best distributed FMCG products in South Africa.

Shirish Pardeshi: Would you be able to share how much manufacturing capacities we have and where are these locations?

Adi Godrej: There is adequate manufacturing capacity in the 14 countries; sales are in some further countries by export from one or the other of these 14 countries. And this is not a very capital intensive business, so expanding manufacturing capacity is not difficult.

Vivek Gambhir: And Shirish every country has it's own manufacturing.

Shirish Pardeshi: What I wanted to check that each country can take care of its own capacity?

Adi Godrej: Absolutely but there are smaller countries serviced from other countries where there is manufacturing.

Shirish Pardeshi: Just very quickly, lastly, you touched upon the penetration. Would you be able to help us to understand what kind of penetration level and what kind of usage on a monthly or maybe annually this kind of hair extension products are there in the African continent?

Vivek Gambhir: The penetration is about 25% today. On average, I think the consumption is about say 2 to 3 pieces a year, maybe about 4 but it is very difficult to say like Mr. Mahendran was saying, the frequency does change a fair bit by the product which a woman is using but again there is still a massive amount of headroom for growth both in terms of penetration and also in terms of increasing consumption for women.

Adi Godrej: There is growth potential for all three, penetration, consumption, and upgradation because you can upgrade into qualities of hair extension tremendously. So the scope of growth is very high and it is very aspirational category, I think most women in Africa would like to use the product.

Shirish Pardeshi: I agree, what I wanted to check is that what kind of share of wallet or what kind of spends in terms of local Naira or local currency any female consumer would be spending?

Adi Godrej: That would entirely depend on the per capita income in the particular country, so in more affluent countries like South Africa, we find that the consumption levels are higher. There are also countries like Nigeria where the consumption is very high although it is not a very high per capita income country and there are other countries where the penetration levels are lower. So once we are into the other countries we know the South African market reasonably well since the Kinky acquisition but it will enable us to do tremendous market research and expansion studies in the other countries once we are in the saddle.

Shirish Pardeshi: Very lastly, does that mean now we will not have any further acquisition in African continent because what I am seeing that the balance sheet is already stretched to 1:1, to what level of comfort we have to stretch the balance sheet?

Adi Godrej: I would not like to make any statement of that sort that is something which our board must decide. And it is very simple if you need to make an acquisition which is extremely strategic and accretive we could also raise equity. So the balance sheet can be expanded without much difficulty.

Moderator: The next question is from the line of Amit Purohit from Dolat Capital.

Amit Purohit: Sir on the presentation you mentioned the hair extension market is fairly unorganized with no MNC presence and then you mentioned three players account for more than 75% of the African market, so I am not able to understand if it is only three players accounting for 75% and then you say, unorganized?

Vivek Gambhir: There are three players in 75% of the organized market.

Amit Purohit: Second is the overall sales we talked about \$200 million, is there any risk in terms of as we integrate this number to change largely because there are so many countries there could be inter-segment company transfers or this number would remain same assuming that you acquire the entire company?

Vivek Gambhir: I think the risk of being impacted by inter-company sales is limited. The number might change a little bit if we would do more diligent but I think we are fairly comfortable with this number at this stage.

Moderator: The next question is from the line of Ashit Desai from B & K Securities.

Ashit Desai: Couple of questions, firstly if you could put some light on the competitive scenario in hair extensions market in Africa and with the kind of product positioning and market share that the Darling group has, how sustainable do you see these margins over the longer-term?

Adi Godrej: The Darling group is the largest player in the market, it has a very strong share of the market and we expect margins to be very sustainable, category growth potential is also extremely strong.

Ashit Desai: You had mentioned that there are a large number of Korean and Chinese players how much is their presence?

Adi Godrej: I did not say large numbers; there are some Korean and Chinese players.

Ashit Desai: Could you also throw some light, you said that Kinky stands at the premium end of this category, why is it that the Kinky margins are much below what Darling margins are?

Adi Godrej: Darling margins are very good because they are an integrated operation. Kinky imports its products from other countries that affects its margin to a certain extent but being at the premium end it has high value-added in terms of retailing, etc., but the combination we feel will be extremely synergistic and profitable.

Ashit Desai: So with the integration do you expect Kinky margins to go up to where Darling margins are?

Adi Godrej: Yes maybe even higher.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to the Mr. Adi Godrej for closing comments. Please go ahead sir.

Adi Godrej: Thank you very much for joining us at a short notice. We are very excited about the future of our business in Africa. This acquisition is extremely strategic and accretive for Godrej Consumer Products. And we look forward to communicate with you further in the near future. Thank you very much for being with us.

Moderator: Thank you. On behalf of Godrej Consumer Products Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.