Godrej Consumer Products Ltd.
Regd. Office : Pirojshanagar,
Eastern Express Highway,
Vikhroli (E), Mumbai 400 079. India
Tel. : +91-22-2518 8010/8020/8030
Fax: +91-22-2518 8040/8065/8069
Website : www.godrejcp.com
CIN : L24246MH2000PLC129806

August 7, 2015

BSE Limited
Corporate Relations Department
1st Floor, Rotunda Bldg., P.J. Towers, Dalal Street,
Mumbai 400 023.

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

Dear Sirs,

We enclose herewith for your information, a transcript of the proceedings of the Investor & Analyst Conference Call held on July 30, 2015, post the announcement of Q1 results for FY 2016.

Yours faithfully
For Godrej Consumer Products Limited

Ramesh Iyer
Dy. Company Secretary

GODREJ CONSUMER PRODUCTS LTD. MUMBAI 400 079

Encl: as above

Godrej

Investor and Analyst Q1 FY16 Conference Call

July 30, 2015

Moderator:

Ladies and gentlemen, good day and welcome to the Godrej Consumer Products Limited Q1 FY16 Results Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ritesh Vaidya from Ambit Capital. Thank you and over to you sir.

Ritesh Vaidya:

Thank you. Good afternoon everyone. We welcome you to the conference call of Godrej Consumer. We have with us the senior management team of Godrej Consumer led by Mr. Adi Godrej, the Chairman. I will hand the call over first to Mr. Godrej who will take you through an overview of the quarterly performance and then we will open the call for Q&A. Over to you sir.

Adi Godrej:

Thank you Ritesh and good afternoon. I welcome you to the Godrej Consumer Products Limited conference call to discuss the performance for the first quarter of fiscal year 2016.

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

We have had an encouraging start to FY 15-16 and have delivered strong volume led growth coupled with robust profit growth. We continue to grow ahead of the market gaining share across our key categories and geographies.

We continued to strengthen our leadership position across our core categories. In the first quarter, our India business branded net sales grew by 13%. This was driven by a healthy volume growth of 13%. Our international business (in organic constant currency terms) too grew by 13%, despite the macro challenges and slowdown in a few of our larger markets. Our consolidated EBITDA (in organic constant currency terms) grew by 32%. This was aided by lower commodity costs, the impact of our cost transformation programs and effective leveraging of our brand platforms.

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

One of our most important imperatives is to extend leadership in our core categories - home care, personal wash and hair care. Our focus remains on growing ahead of the

market, driving consumption and penetration in our core categories, as well as extending into attractive adjacencies. In our India business, we have outperformed category growth rates, across categories. For the quarter, our India business branded net sales growth of 13% has been driven by a volume growth of 13%.

Our Household Insecticides business continued to deliver a strong performance, with a double-digit, volume driven sales growth of 15%. This was aided by the success of new launches and deeper penetration. We continue to extend our leadership position and closed this quarter with our highest ever overall market share. Our focus on innovation, backed by superior execution, has enabled us to consistently outperform the market. We will continue to make efforts to widen this market share gap versus our competitors and sustain our double-digit growth in the quarters ahead. Good knight Fast Card continues to see strong demand and drive penetration and consumption for the category, especially in rural India. Similarly, our other innovations like the Good knight Xpress liquid vapouriser and Neem Low Smoke Coil, continue to be well received by consumers.

Our Soaps business sustained its healthy momentum, with a double-digit, volume and mix driven led sales growth of 13%. Godrej No. 1 and Cinthol, both delivered double-digit value and volume growth. We also re-launched Godrej No. 1 with a new positioning as "India's No.1 purest soap". This has further boosted its strong growth momentum. Cinthol's strategy of focusing on functional benefits in the premium segment, supported by 360-degree activations, has delivered encouraging results. Gross margins during the quarter benefited from lower palm oil prices and have improved significantly.

In Hair Colours, we maintained our strong performance and delivered a consistent, double-digit, volume driven sales growth of 12%. Godrej Expert Rich Crème continued to gain market share due to increased penetration. Godrej Nupur Coconut Henna Crème, launched this quarter, is an oil-based hair colour with Henna, in a crème format. This will enable us to cater to the demand of herbal-based powder users and also, up-trade existing powder hair colour users. Overall, we will continue to drive initiatives to increase penetration and consumption in the category.

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

Our Air Freshener brand, Godrej aer, continues its strong sales and distribution ramp up, aided by our innovative gel format technology and consumer engagement initiatives. aer is now the number three player in the air care market. We continue to focus on increasing distribution and driving consumption.

Our portfolio of Godrej Protekt hand washes, sanitisers, and anti-mosquito spray – a foray into the Health and Wellness space – continues to be well received in modern trade. We believe that the hand wash and sanitiser categories have a lot more room to grow, given changing consumer needs and increased awareness of hygiene levels.



Our recently launched BBLUNT range of hair care and styling products also continue to be well received by consumers.

The second pillar of our strategy is to drive growth in our international business, guided by our three by three strategy, of focusing on three core categories of home care, personal wash and hair care in the emerging geographies in Asia, Africa and Latin America. We believe that there are tremendous medium to long term growth opportunities in these emerging markets. These geographies are home to around 80% of the world's population. They are also slated to account for over half of the increase in global consumption, going ahead. Overall, our strategy will be to drive growth in the categories where we are leaders and have a competitive advantage.

Our biggest international business, Megasari in Indonesia, delivered a competitive constant currency sales growth of 8%, compared to the flat FMCG industry growth in Indonesia. If you exclude the impact of our discontinued foods business from the base quarter, our growth was much stronger at 13%. Our EBITDA margin of 21%, which is before the payment of a technical and business support fee, was higher by 560 basis points year-on-year. This was driven by lower crude oil prices and the rationalization of marketing and sales promotion investments. Overall, Hit and Stella continue to deliver competitive performance and maintain their leadership positions. During the quarter, we launched a range of compact Hit aerosols, an example of how we are creating more affordable versions of our products, given the overall macro-economic slowdown in the country.

Our Africa business EBITDA margin declined by 130 bps year-on-year due to a planned lag between price increases and increases in input costs, led by continuing currency depreciation. This planned lag has helped deliver strong constant currency sales growth of 40% in Darling business.

Our Latin America business sustained its strong sales growth momentum with a growth of 29%, in constant currency terms. This was driven by the success of new launches and superior on-ground execution. Moreover, our EBITDA margin improved to 9%, which is our highest ever first quarter margin. The margin expansion of 570 basis points year-on-year was mainly driven by the implementation of Project Iceberg and price increases. Our market share in hair colour in Argentina has increased due to the robust performance of our Issue brand. The successful launch of Illicit Ammonia Free Hair Colour has aided an increase in market share in Chile.

I would like to share with you that the Board of Directors of the Company have approved acquiring the balance 40% stake in our Chilean joint venture, Cosmetica Nacional. Negotiations with our partner are ongoing. We will post you on additional details once the transaction is concluded.



Our European business had a relatively weak quarter. Constant currency sales de-grew by 2%, due to the impact of adverse weather for most of the quarter. Our EBITDA margin, however, improved by 70 basis points year-on-year, led by a better mix and rationalisation of spends. We are working on listing our products in more modern trade outlets and new product launches / re-launches to accelerate our medium to long term growth.

Our third strategic pillar is to accelerate the pace of innovation and strengthen our brand portfolio. Innovation is a key driver of our growth strategy. Our innovations address the bottom of the pyramid, as well as provide premium benefits to our mass consumers, and are helping us accelerate our growth. Over the last few years, we have introduced several new products and renovations across geographies and categories. In India, we launched Nupur Godrej Nupur Coconut Henna Crème, new shades and packs in Godrej Expert Rich Crème Hair Colour, new variants in aer air fresheners, Good knight Fast Card, Xpress and Neem low smoke coil, new Godrej No. 1 and Cinthol soap variants, a new range of Protekt handwashes, sanitisers, and anti-mosquito spray. We also made a foray into premium hair care with BBLUNT and skin-cleansing, with a Godrej No. 1 face wash.

In our international business too, we had several new launches, such as an ammonia free hair colour for Illicit, a Pamela Grant make up range extension in Chile, new variants for Stella air fresheners and Hit household insecticides in Indonesia and a new range of Soft & Gentle deodorants. We have a robust pipeline of innovative products to be launched during fiscal year 2016, which will aid stronger growth and market share gains.

Our fourth strategic pillar is to create a future ready sales organisation for our India business. We have done a lot of intensive on-the-ground work to enhance our go-to-market approach and deepen our distribution, both in rural and urban markets. Rural growth continued to be ahead of urban growth and remains an important focus for us. We continue to make efforts to deepen distribution and reach, while increasing extraction, in rural markets. We are ramping up sales manpower and setting aside focused marketing investments for these areas. We are also simultaneously strengthening our capabilities and leveraging technology to drive greater portfolio penetration in urban markets. We are overhauling our go-to-market approach to increase efficiency and coverage through better segmentation of sellers and more feet on the street. We have also been focusing our attention on growing channels like e-commerce, where we have set up a dedicated team.

Our fifth pillar is to build a global best-in-class supply chain. We have taken strong steps in this area by establishing centres of excellence in TPM, lean, six sigma and low cost automation. We have integrated leading practices in demand driven supply chain, continuous replenishment and the Theory of Constraints, to make us more responsive to continuously changing consumer demand patterns. As a result of these efforts, we are clocking higher fill rates, which are now an industry benchmark. We have set up a



strategic sourcing team to leverage scale and reduce our procurement costs. We also introduced an advanced technology solution in our international businesses to improve our supply chain planning and execution capabilities. We have made good progress on 'Project PI', our cost transformation project, and we expect to see continued impact over the coming quarters.

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

GCPL was recently ranked the number 1 FMCG Company to work for in India in the Great Place to Work Survey 2015. This is our twelfth consecutive year on the list. We ranked number 14 on the Great Place to Work – Best Workplaces in Asia 2015 list and were featured among Aon Hewitt's Best Employers in India 2015. Our rankings in these people surveys reinforce our commitment to creating an outstanding workplace that attracts and retains talented team members and delivers superior value to our consumers.

I will now cover the highlights of our financial performance.

For the quarter ended June 30, 2015, our organic consolidated constant currency net sales growth was 12%, led by strong performance across our India, Africa and Latin America businesses.

Our India business reported sales increased by 12% on a year-on-year basis. India's branded business net sales increased 13% on a year-on-year basis, led by volume-driven, double-digit value growth across categories.

Our international operations, which accounted for little less than half of our consolidated turnover during the quarter, recorded an organic constant currency sales growth of 13%.

Our consolidated gross margins expanded by 380 basis points, aided by lower input costs and cost saving initiatives. Our consolidated EBITDA margins of 15%, expanded by 220 basis points. This was driven by better margins in our India, Indonesia and Latin America businesses.

In India, EBITDA increased by 23% and margins expanded by 150 basis points year-on-year. This strong expansion in profitability was delivered along with a branded business volume growth of 13%. In our international operations, organic EBITDA margins of around 13%, expanded by 290 basis points year-on-year.

Earnings per share (non-annualised) stood at INR 5.85 for the quarter. The Board of Directors has declared an interim dividend of 100%, which translates into INR 1.00 per share.

We are seeing a gradual uptick in consumer demand in India. We remain optimistic that as the economy continues to gain pace, the growth in the FMCG sector this year will be better than last year. Though the macro-economic environment in some of our international markets remains challenging, we are confident of delivering ahead of market, profitable growth in these geographies. We will accelerate the pace of new launches and enhance our go to market infrastructure. We will also continue to manage our costs prudently in the near term, while investing for the future. Overall, we will strive to deliver a stronger operating performance in fiscal year 2016.

The medium and long-term growth prospects in India and our other emerging markets remain robust. We believe that there is still a lot of headroom for growth across these markets, given the low penetration and consumption rates in our core categories. I am confident that with our clear strategic focus, differentiated product portfolio, superior execution and top-notch team, we will continue to deliver industry-leading results in the future.

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

Continue: - Q&A…

Questions and Answers:

Moderator:

The first question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy:

You'll have done quite well on the HI business. How much is the penetration still available in urban and rural areas? In Fast Card segment, the other two players have copied a complete Xerox of your product in terms of pricing and everything, then how is the growth of your product still so good? Is it because of distribution and the first mover advantage?

Vivek Gambhir:

In terms of insecticides, urban penetration is in the high 70s and rural penetration is in the high 20s, so there is still significant headroom for growth from a penetration perspective in rural areas whereas in urban India, the focus is much more on driving increased consumption. As you mentioned, there are other players who have launched Fast Card-type of product but we do have the benefit of a year's early lead in the distribution and because their product is not differentiated. We feel confident that it's still early days for this format and there is significant opportunity for growth both for us as well as for the other players.

The format is actually allowing some new users to come into this category and is driving consumption in terms of multi-use products. We are hopeful with the efforts that we make along with the other players, will help drive the overall category growth and that it should be positive for the industry as a whole.

Abneesh Roy:

On the urban area in terms of increase of usage, do you have some study or data points which you can share? Are we seeing the consumer now using the product as a part of hiss lifestyle? Secondly on Fast Card, is the share above 10% of your portfolio?

Sameer Shah:

Fast Card will be very close to 10% of our overall HI portfolio.

Vivek Gambhir:

It is clearly still a seasonal category. We are all making efforts with increased awareness of Dengue, a day-time mosquito, and malaria, that consumers will start treating this more as a habit category. But these are still early days. As seen in the past, the category growth

rates do vary quite a bit depending on the season, so seasonality will exist, though the efforts are on to try and make it more of a habit category.

Abneesh Roy:

Regarding Africa, on a relatively high base of 17%, 40% growth was delivered and 32% constant currency growth was delivered. Then, how has the ex-Darling business done? In spite of the growth, there was a planned lag of price increase. So how much was the price and volume growth? Why is margin down by 130 bps, is it because of A&P spends being high?

Sameer Shah:

We first need to dissect the 32% constant-currency growth into what's organic and what's inorganic. If you strip out the inorganic business, the organic constant-currency growth would be upwards of 20%, very close to 20-21% levels. Similarly, for Darling Business growth of 40%, we need to strip out the inorganic growth to read as to what are the organic constant-currency growth rates.

Abneesh Roy:

What will be the organic component of Darling business constant currency growth of 40%?

Sameer Shah:

It would be around mid-20s.

Abneesh Roy:

Would it be largely volume-led in both the cases?

Sameer Shah:

Broadly, it would be largely volume-led in the Darling business i.e our hair extension business.

Abneesh Roy:

When do the margins start improving in this?

Omar Momin:

It's not that volume growth is higher than value growth. It's just that input cost inflation is higher than revenue growth or volume growth, because the currencies have devalued significantly. It's a matter of a quarter or two before the pricing catches up with the currency devaluation and it also will depend on the behavior of currencies, going

forward. But typically about two quarters is enough to recover pricing related to devaluation.

Abneesh Roy:

On EVA last quarter on standalone basis, there was a 450 bps gross margin improvement, and salary grew just by 27 bps. In this quarter on standalone basis, gross margin expansion is 627 bps but salary has taken a lot of away at 365 bps. So how does the EVA model work? Is it linked to the quarter or is it for the full-year? How do you see the profits? Secondly on the international business, do you have this EVA model?

Sameer Shah:

EVA by its definition is linked to net operating profit after taxes and capital employed applying WACC charge, so it's not just correlated to gross margins or expansion or contraction in gross margins. In the overall quarter, net profit after one-offs and exceptional at the consolidated level has moved up by close to 53% after providing for performance-linked variable remuneration, which in turn is driven by the delta EVA. This is something, which needs to be kept at the back of our mind. It is also very close to Q3 FY15 performance wherein net profit had grown close to 40% and the manpower cost moved up primarily again driven by performance-linked variable remuneration.

Secondly, in terms of why the entire impact is more in standalone and relatively less in international, there are multiple reasons. In international, on rupee term basis there is currency depreciation. When there is a comparison between the rupee manpower cost for Q1 FY16 versus Q1 FY15, we also need to bake in the currency depreciation impact. Also, in standalone basis, because many of us are on consolidated businesses delta EVA performance, the provision of performance-linked variable remuneration for many also happens in standalone because many of us are on India books, so to that extent we will always see relatively higher PLVR provision more in India books as compared to the international books.

Abneesh Roy:

Will delta EVA be linked to that quarter itself?

Sameer Shah:

Yes.

Abneesh Roy:

As gross margins and EBITDA margins are currently looking good, so broadly, for the next two quarters the salary cost can see a sharp hike?

Sameer Shah:

It's correlated in either of the directions. So in the last quarter, we saw good expansion in net profit and in EVA, we saw relatively higher performance-linked variable remuneration. If this trend continues, we will continue to see higher performance-linked variable remuneration. But if the trend reverses, then we could also see contraction in performance-linked variable remuneration.

Moderator:

The next question is from the line of Percy Panthaki from IIFL.

Percy Panthaki:

We are about 2-3 quarters into the implementation of Project PI, so can you share some details on that for this quarter? What were the total rupees million benefit that you realized out of Project PI? Under which account heads were they split up into? Also, can you just give a particular instance where we made some changes and reduced costs in a manner to get healthy savings?

Sameer Shah:

Project PI is an India-based project. If we look at the gross margin expansion for India which has been over 600 bps, around 150-200 bps has come from Project PI and the rest is behind lower commodity costs. We are also seeing Project PI benefits in our advertisement and publicity line item. It is difficult to decode to the last decimal as to how much is behind Project PI and how much is behind rationalization or driven by other factors like new launches etc. But there is a significant part of Project PI sitting in A&P. The third line item is other expenses and within other expenses, there are multiple line items whether it be logistics cost, whether it be processing charges or even sales promotion to some extent.

Percy Panthaki:

Can you give some details on the 150-200 bps benefit in gross margin from Project PI? Is it because some trade margins have been rationalized or due to some substitute materials which were used without affecting quality?

Sameer Shah:

It's more driven by our buying efficiencies and strategic sourcing. It's also driven by our manufacturing productivity; the yields have gone up compared to what they were in the base. This is also partly driven by rationalization in trade margins for couple of our offerings, which are doing extraordinarily well for us in the market.

Percy Panthaki:

If you were to split up the benefits above the gross profit and below the gross profit, then would the larger part be above the gross profit line?

Sameer Shah:

Yes, that's right.

Percy Panthaki:

Why has this project been restricted to India, and why is it not taken to Indonesia which too is a well-established geography? Since uou don't have any other priorities there, like in case of Africa, where you are still absorbing the acquisition.

Vivek Gambhir:

The plan is to look at a Project PI kind-of-a-project in Indonesia this year. We've already begun some good work which has already resulted in a significant expansion in profit margins in Q1 FY16. Thus, in Indonesia, we are looking at a similar program this year and in Argentina, we already have Project Iceberg which is very similar to Project PI. So, across the board, there are initiatives. Even in Africa, the team is working hard on improving profit margins, while we integrate the various companies.

Percy Panthaki:

FY16 annualized target for cost-saving is Rs. 250 crore, so can you just let me know in Q1 FY16 on an annualized basis, what percentage of that target have you already achieved?

Sameer Shah:

FY16 annualized target would be anywhere between Rs. 200-250 crore. In FY15, we would have achieved savings around Rs. 70-80 crore. In addition to these savings, we are currently working on many fresh ideas which should accelerate this Rs.70-80 crore of last year's savings and get us very close to the annualized aspiration of Rs. 200-250 crore this year.

Percy Panthaki:

So, is Rs.200-250 crore annualized as of exit FY16 or will it come for the full-year of FY16?

Sameer Shah:

Rs.200-250 crore annualized as of exit FY16.

Percy Panthaki:

For FY16, you will bank about Rs.150 crore?

Sameer Shah:

We are progressing pretty well; many initiatives are in the pipeline. But we should have savings much better than what we had last year, which was around Rs.70-80 crore.

Percy Panthaki:

For Household Insecticides in Africa, you'll have been doing some very soft launches in Nigeria since the last couple of years and now you have confidence to go about it in a bigger way. Can you give more granularity on it, in terms of which countries are you looking to spread this out to? What are the offerings, will they be the same or different across countries? Which brand will you look at? What market share aspirations do you have over a three-year period? Can you give some flavor on this entire initiative of HI in Africa?

Vivek Gambhir:

It's still in early days, we are testing out the product mix and the marketing mix across various countries. We should have more information in about a couple of quarters. In terms of brand choice, we are experimenting with a couple of different brand options. Given the potential of the market, we want to try and get it right. Thus, we are taking our time to ensure that the proposition and the marketing mix resonate with the consumers. We will have more granular information to share in a couple of quarters.

Moderator:

The next question is from the line of Prakash Kapadia from iAlpha Enterprises.

Prakash Kapadia:

What has led to the volume growth on the domestic side? Is it the slew of product launches over last year? Also, could you provide some details on increased distribution and on market share gains, is it from organized players or unorganized players?

Vivek Gambhir:

Strong volume growth has been largely a function of the team firing on all cylinders and it's hard to pinpoint one particular reason. It's a combination that a lot of our innovations seem to be working quite well. Most of our innovations have been priced at very affordable ranges, which have resonated well with consumers. This has been coupled with very good distribution increases both in urban and in rural. In terms of both expansion of outlets along with productivity improvement, the team has executed quite well and it is encouraging that the growth has been quite broad-based. In the past, we've occasionally had situations when two categories have done well whereas one may not have done as well. Q1 FY16 is one quarter, where all three categories have done well with double digit growth and all channels have done well, modern trade, rural and urban. So

across the board, we have seen a good broad-based growth and as a result we have seen strong volume growth performance.

Prakash Kapadia:

Any targets for direct or indirect reach that you would have or you can share for the next year or two?

Vivek Gambhir:

Our products are normally available in about 4.5-5 million outlets. Out of which, a direct coverage is about a million or so and we have been expanding our direct reach by about 15 every year.

Moderator:

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

Amit Sachdeva:

There was some channel issue with the modern trade partner in Indonesia, last quarter. Has that issue been resolved? Last quarter the revenue growth was about 12% despite that issue. For this quarter, it's still in the same range. Is this issue been lingering on? What is the status there? Despite all these challenges, how has this margin increase come?

Sameer Shah:

Last quarter, we did have this de-stocking issue from modern retail outlets but that's behind us in Q1 FY16. The trend over the last 3-4 quarters for overall FMCG growth rate has been very sluggish. In Q1 FY16, the FMCG growth rates in Indonesia have been flat with negative volume growth. The markets are getting quite sluggish and quite challenging in a way to grow significantly ahead of the market. So, a growth rate of 13% compared to a flat FMCG growth rate is a good place to be in. In terms of sources of EBITDA expansion, there are couple of them. One is the gross margin expansion, which comes with lower crude prices, which again is a key ingredient, direct as well as indirect in both air fresheners as well as in the Household Insecticides. We have been also rationalizing many of our spends, whether it be advertisement, whether it be other fixed overheads in the business.

Amit Sachdeva:

How is the outlook when you say lower A&P and rationalizing it, does it mean to work with the same framework in the next quarter as well or it was something that was rationalized only in this quarter? How do we see the outlook for the rest of the year, especially on the margin side in Indonesia?

Vivek Gambhir:

The margin side, the team is feeling quite comfortable. As Sameer indicated, we have significantly outperformed the FMCG market not just last quarter, but over the last four years, so in that sense the business on a relative basis is doing very well. The big question mark will be on the overall FMCG growth and the overall macroeconomic conditions in Indonesia and it is difficult to give you a sense of that right now.

Amit Sachdeva:

In Africa, since the price increases are delayed, can you just give out some quantification of what price has already been taken and what was the timing and what should be the impact in the next couple of quarters? How do you see pricing playing this part in Africa?

Omar Momin:

The pricing in each country differs as also the currency devaluation is very different by country. So sufficing to what was said earlier, it would be about 1-2 quarters for the restoration, assuming there is no further depreciation of the overall basket of currencies.

Vivek Gambhir:

This is not very unlike any other market, even in India, typically whenever we see high cost increases, it usually takes one or two quarters before a price increase fully starts impacting the numbers.

Amit Sachdeva:

The price increases were delayed as a deliberate strategy to maximize volumes in a market and is clearly visible in the numbers, with Africa growth being pretty impressive, at least since the last few quarters. So, would there be a trade-off when the price increases happen? Would you see some impact coming to the sales growth or how do you see trade-off there? What growth rate and margins will you be comfortable with?

Vivek Gambhir:

This is clearly a balancing act as you are pointing out. On a sustainable basis, we believe the business can deliver a growth rate in the high-teens to low twenties. The challenge will always be in Africa with certain amount of choppiness, because the geographic dynamics for each country are so different, there are differences in currency devaluation, growth rates are different. Overall, we feel quite comfortable to deliver strong growth in the high teens to the low twenties, with the caveat that there might be some choppiness in the quarters. As far as profits are concerned, at this stage it's really a key for us to establish the footprint and consolidate the business. Generally, the profit picture will again look quite healthy, though there might be couple of quarters where profit growth ends up trading straight.

Amit Sachdeva:

Was there a put option on Cosmetica Nacional?

Vivek Gambhir:

That's right. The sellers have indicated that they would like to exercise a put option in line with the agreement that we have with them. The valuation multiple is a predetermined one like our other acquisitions. So now that the board has given us the approval, we are in discussions with the sellers to finalize the consummation of this transaction.

Moderator:

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

Prasad Deshmukh:

We are talking about multiple innovations that are being launched in India as well outside, so on the distribution end, are you taking any steps which can drive your growth for the next couple of years?

Vivek Gambhir:

This has been a big focus area for us in terms of distribution both in urban India and in rural India. The focus has been on two or three big levers. One is on increasing the amount of coverage we have on the ground, which has roughly around 15% increase, in expanding the reach in both urban and rural. But more importantly than just increasing the coverage, there has been a huge amount of focus in terms of improving the productivity of our sales force and we are trying to ensure that for each store that the salesperson visits, we can drive almost 20% improvement in productivity and lines sold through basic usage of technology, more training and also more feet on the ground. This is a critical area for us and we definitely see significant gains coming to us over the next couple of years. We are also experimenting with things like splitting lines at the DSR level on the ground. We have also implemented a new zonal structure as well, which we believe will make us far more agile and we are also experimenting with a lot more empowerment at the local level. This will be an important growth driver for us over the next 2 or 3 years.

Prasad Deshmukh:

And outside India?

Vivek Gambhir:

In Indonesia, there is a fairly extensive effort right now to equip the sales force with handheld devices. In India, we had implemented the business intelligence application

that's now been taken to Argentina and to the UK. In Africa, there is a lot of work going on in terms of distribution initiatives. Clearly, there is a lot of effort going on but we believe some of these geographies are about a year behind, where India is today.

Moderator:

The next question is from the line of Puneet Jain from Goldman Sachs.

Puneet Jain:

Could you provide some sense on the seasonality in Household Insecticides business? I thought the first quarter was supposed to be a strong quarter, but if you look at what you have disclosed in this quarter in terms of sales, it is less than 25% of the full-year, on standalone business. What has caused seasonality in this business?

Adi Godrej:

January-March is the strongest quarter for Household Insecticides and April-June is one of the weakest quarters.

Vivek Gambhir:

Also, it is because of the pattern of rain falls in this quarter. While overall rainfalls were quite good, some of the markets like the East receive rainfall later on and thus the full growth in the East wasn't fully captured in that quarter. From a timing perspective, our markets in the South did quite well.

Puneet Jain:

Will the Jan to March quarter be strong to supply for the channel for the start of monsoons?

Vivek Gambhir:

No, it doesn't work like that because our inventory levels and our stock levels are quite low and each quarter will be independent of the other. It depends much more on the pattern of rainfalls and seasonality rather than any kinds of distribution stocks.

Puneet Jain:

What will cause seasonality in the March quarter for it to be higher sales quarter compared to the other quarters?

Adi Godrej:

Either when it is very cold or when it is very hot, mosquito population declines. So in the January-March quarter, the South temperatures are not very hot. South markets, where

we are very strong, the demand goes up quite considerably and overall in India, that's the strongest quarter generally for Household Insecticides.

Puneet Jain:

With respect to gross margins on the standalone business, what is the level of gross margins you will be comfortable with over the medium term, as the cost inflation eases or cost stabilizes? Or is it that the gross profit margin for standalone business has reached to a new level and will possibly stay at this point?

Vivek Gambhir:

It is difficult to make a call because there are so many puts and takes here with regards to the USD-INR exchange rate, palm oil prices and also competitive intensity in terms of promotions that we need to do. It is difficult to make a call in terms of what the ideal level of gross margin would be. What we are more focused on is to try and ensure that the overall profit growth is ahead of sales growth, because sometimes the gross margins might end up looking better but ultimately the focus is far more on looking at overall profit growth ahead of sales growth.

Puneet Jain:

In terms of A&P, your A&P as a total portion of sales is lower on a year-on-year basis, while volume growth has picked up significantly, any reasons for that?

Vivek Gambhir:

The range of A&P that we are comfortable with is about 12% to 13% because we believe that this is a very competitive level of spend that will allow us to invest in our core categories along with investing in our innovations. Secondly, we believe it is not right to look at A&P in isolation. It is more important to look at overall marketing spend, which is a combination of both A&P and below the line spends. Like other companies, a fair amount of our below the line spend actually gets captured in other expenses. Looking at the other expenses line, it has seen a significant increase. Both A&P and the expenses in sales promotion, this number has been growing very well and in line with sales growth. So we feel comfortable that we have significantly invested behind the right kinds of brand building.

It's important to look at the trajectory over the last 2 or 3 years of how our A&P has grown to this 12% level, which again will show you that we've actually invested significantly behind our brands. There is a certain amount of volatility in A&P that is driven by the new launches that happen in each quarter. What happened in Q1 FY16 was that we had two new launches – one was the Nupur Coconut Henna Crème, second was the re-launch of Godrej No. 1. Both of these launches happened towards the end of the quarter, so the total spend wasn't fully captured in that quarter. But because the launches

are happening more along the June time frame, it made the A&P line look a little bit understated.

Moderator:

The next question is from the line of Jubil Jain from Phillip Capital.

Jubil Jain:

What percentage of Indonesia sales comes from foods?

Sameer Shah:

There is hardly anything which we have from foods. What we had from foods was in the base. So in our portfolio, over the last 3-4 quarters, food contribution to sales is zero.

Jubil Jain:

The growth rates are very different, if we include foods and exclude foods?

Sameer Shah:

The reason we have given both reported growth rates as well growth rates without foods is because we had food contribution in the base quarter.

Jubil Jain:

What are the market conditions for our categories in Africa and Latin America?

Omar Momin:

Africa is not just one place, so in South Africa we are seeing reasonably sluggish economic environment overall.

Jubil Jain:

Do you see the market conditions better than last year or have they gone worse as compared to last year?

Omar Momin:

I think overall they would be about the same.

Jubil Jain:

What about Latin America?

Vivek Gambhir:

Latin America growth rates tend to be in the lower single-digits volume growth and market conditions are slightly better than what they were last year, because last year Chile went through some issues. Now conditions are little bit better in Chile. In Argentina, there is a little bit of high anticipation on elections in October so market conditions are slightly better.

Jubil Jain:

Could you tell me what is the direct distribution and indirect distribution reach for our domestic business? What has been the difference versus last year?

Vivek Gambhir:

Total outlets where products are available is about 4.5 million, out of which direct reach is about a little over 1 million and typically our direct reach has been increasing somewhere around 15% every year.

Jubil Jain:

Could you give details about the planned lag in the Darling business between the price rise and the input cost rise?

Omar Momin:

We operate in local currency markets in each of the countries where we are present and all our imports are dollar-denominated. So when the local currency depreciates to the dollar, our input cost goes up by that account.

Jubil Jain:

So the price rise had some lag as compared to cost of inputs, is that it?

Omar Momin:

That's right.

Moderator:

The next question is from the line of Ashish Upganlawar from Elara Capital.

Ashish Upganlawar:

On the innovations that we have been doing especially in the categories such as the BBLUNT range, Protekt range, and aer fresheners, what is the plan going forward? Are these materially enough in the topline, as of now? Can you give certain indication as to how much of these would be in India business as of now?

Vivek Gambhir:

It's still in its early days. With aer being in the market for a couple of years now, we are the number three air-care brand in the country. We have seen very good progress being made in terms of aer. With Protekt, it is still a modern trade focused brand and BBLUNT is still in its early days. Over the next 2 or 3 years, we don't expect significant amount of revenues from these brands but certainly in terms of the long-term potential, we are very excited by the kind of transformation and the kind of expansion that it will be able to drive, going forward.

Ashish Upganlawar:

Protekt range of categories is seeing an off-take, so why we are thinking of putting efforts after 2-3 years and not now? What is the reason for holding back?

Vivek Gambhir:

The team is just trying to juggle across multiple priorities. We want to try and make sure that the product feedback is very positive and the good news is that the feedback from the consumers has been very good. It's a matter of figuring out how to scale this up and sequence it, given some of the other priorities that we have.

Ashish Upganlawar:

How much of these brands contribute to the India business as of now?

Vivek Gambhir:

At this stage, we would not like to talk about specifics around these brands for competitive reasons.

Ashish Upganlawar:

On the A&P line, what will be the increase for the full-year this year?

Vivek Gambhir:

Typically, we feel comfortable for our A&P to be in the 12-13% range. The number will fluctuate by quarter. We have worked towards optimizing our marketing spends and have used tools where we have been able to get more bang for the buck from the same level of spend rather than reducing the spend and this optimization has been helping us quite a bit. But we will continue to invest in this range of A&P, which we believe is a very competitive level of spend.

Ashish Upganlawar:

What is happening in the overall FMCG market? If you could give certain color on how urban-rural markets are shaping up in categories such as soaps, where you have significant presence?

Vivek Gambhir:

Generally we are seeing an uptick in demand, both in rural and in urban. Urban demand has picked up more; rural is still growing faster than urban. The gap between urban and rural has narrowed a little bit more, because the urban pickup has been sharper. Going forward, let's see how the monsoon pans out. Good news is while the monsoon started late, it's picking up quite nicely, Kharif sowing has been around 25% more than last year, and inflation is under control. If the remainder of the monsoon does reasonably well, we should have a very strong food production that should auger well for the rural market as well. In terms of monsoon, 80% of India has received excess or normal rainfall. The only three pockets Rayalaseema, Marathwada, and Bihar are causes for concern right now. But if the current pace of monsoons continues in August and September, we should see good rural growth as well. Urban has been picking up as well and the government also is working on several initiatives, so we are still hopeful that FMCG growth this year should be better than last year.

Ashish Upganlawar:

Is urban growth faster than rural growth specific to the soaps category?

Vivek Gambhir:

No, rural is growing faster than urban and that has consistently been happening for a few years. In the past, the delta was higher and that has narrowed down a little bit in terms of rural growth being little lower. Overall, rural growth has been actually higher than urban across all categories.

Moderator:

The next question is from the line of Arjun Khanna from Principal Mutual Fund

Arjun Khanna:

In Africa and LatAm, is forex availability an issue in any of the markets?

Vivek Gambhir:

In some markets like Nigeria, it has been a bit of a challenge. The team has done a very good job of being able to navigate it, but certainly this is something we have to pay very close attention to.

V. Srinivasan:

We have tied up with some of the known banks to facilitate faster release of these dollars. In Nigeria, the government releases the dollars based on the due date and on availability. We are doing a lot of work within the country there and also seeing whether they can source something or de-risk ourselves through some derivatives overseas also.

Arjun Khanna:

Currently, it has not had any impact and you do not see it having an impact, going forward?

V. Srinivasan:

As of now, we have sufficient availability, though there is a bit of a delay but we are able to manage it with our suppliers.

Arjun Khanna:

In Latin America, Argentina specifically?

V. Srinivasan:

No, there is no issue that we are facing there.

Arjun Khanna:

In terms of the raw materials for Darling business that we import from Japan, have we seen any price corrections?

Omar Momin:

We don't want to get into the specifics. Broadly, we are seeing that our raw materials are not linked to crude, they have been relatively at the same price for decades now in dollar terms. There is no inflation in dollar pricing or changes in dollar pricing for those raw materials.

Arjun Khanna:

The Yen has depreciated against the USD, so haven't we got any advantage from that angle?

Omar Momin:

No, these have remained constant in dollar terms from over a decade.

Arjun Khanna:

Regarding the Darling acquisition, how much further in terms of capital do we intend to deploy?

Omar Momin:

Today for Darling business, we own a 100% of Nigeria and Ghana, we own 90% of South Africa and Mozambique, and we own 51% of Kenya. In the immediate term, we will be looking to take all of these to 100%.

Arjun Khanna:

In the other regions, would it be a licensing or a royalty fee model?

Omar Momin:

We will decide on that as we feel the time is appropriate for each of the countries.

Arjun Khanna:

What would be the last date by which we have to take a call?

Omar Momin:

There is no last date.

Moderator:

Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Ritesh Vaidya for closing comments.

Ritesh Vaidya:

Thank you. On behalf of Ambit Capital, I thank the senior management team of Godrej Consumer and all the participants on the call. I would like to hand the call back to Mr. Godrej.

Adi Godrej:

I'd like to thank everyone for being on the conference call.

Moderator:

On behalf of Ambit Capital that concludes this conference. Thank you for joining and you may now disconnect your lines.

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