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Godrej Consumer Products Limited

Investor/Analyst Meet
3.30 p.m. Thursday, May 12, 2011

Moderator: Good afternoon everybody and welcome to the Godrej Consumer Products investor and analyst meet. I take this opportunity to introduce the gentlemen on the desk Mr. Adi Godrej, the Chairman, Mr. A Mahendran, the Managing Director, Mr. Vivek Gambhir, the Chief Strategy Officer and Mr. P Ganesh, the CFO.

Adi Godrej: I welcome you to the annual investor and analyst meet of Godrej Consumer Products Limited. The Indian economy has performed well over the last fiscal year with the GDP growth of 8.6% in spite of global uncertainties. While inflation and rising commodity prices have been areas of concern, the fundamentals of the economy remain strong. We expect a healthy growth to continue with the government projecting robust GDP growth for fiscal 2012. We have also seen a spate of reform efforts over the last year and serious attention is being paid towards tackling corruption. Tax reforms such as the goods and services tax and the direct tax code while delayed, are still on the horizon and could provide massive benefits over the medium term. Fiscal 2011 has been a transformative year for GCPL on many fronts. In June 2010, we acquired the remaining 51% share in the erstwhile Godrej Sara Lee Limited. With the merger of two businesses GCPL is now the largest Indian household and personal care company. We believe that this merger provides us a unique opportunity to significantly change the trajectory of our FMCG business as we leverage the complementary strengths of the two companies to create one GCPL. The potential for value creation, simply put, is huge. As a result of the GSLL acquisition we now have a broader category portfolio. Home care now comprises 43% of our portfolio and personal wash is 32% of our portfolio as opposed to 65% of the portfolio resting on personal wash in financial year 2009. Apart from a broader category portfolio our domestic scale has

increased significantly. Over the last year our domestic business reported growth was 46% to reach Rs 2,443 crore, the increased scale enabled GCPL to further expand distribution in India and improve penetration in channels such as chemists, modern trade and rural markets. It will allow us to compete more effectively in terms of investing and creating new platforms to develop innovative solutions to meet customer needs. The merger also provides the ability to drive significant synergies in our operations. Finally we believe that we now have strengthened ability to attract and retain top-notch talent for future business growth. We have special initiative called Project Neo to enable us to capture the promise on the integration.

Along with becoming the largest Indian household in personal health care company in fiscal 2011, we also continued the evolution from an Indian FMCG company to a leading emerging market FMCG company. Through our numerous acquisitions outside of South Asia, GCPL now has operations in Indonesia, South Africa, Nigeria, Argentina, Uruguay, the UK and the Middle East. Our products are available in 55 countries around the globe. 33% of revenues in fiscal year 2011 came from our international operations. The integration of our international business is proceeding well and is ahead of plan. We have been following a very disciplined and focused globalization approach which we call our 3 x 3 strategy, presence in the continents, Asia, Africa and Latin America through 3 core categories, homecare, hair care and personal wash. Our 3 x 3 strategy starts with a premise that apart from the tremendous opportunities available for growth in India, there are attractive opportunities available in another emerging market as well. These emerging markets have characteristics and consumer demographics similar to India. With the economies of Indonesia, Africa and LATAM, all expected to grow at more than 5%, we expect healthy organic growth in our international businesses both in top line and even more in the bottom line. We believe that we can very effectively leverage GCPL's fundamental value proposition of superior quality affordable products and our understanding of consumers to our international markets. We can add tremendous value to these acquisitions to the rigor of the Godrej processes, operational discipline, manufacturing, technology and sourcing strengths. Our acquisitions have been very value accretive for us.

Apart from expanding our geographic presence, our other key priorities to continue driving leadership in our core categories, we are the leaders in hair color, home insecticides and liquid detergent and the number two player in soaps in the Indian market, we are also the market leaders in air freshener and a wet tissues in Indonesia and in hair colors in many countries in Africa and Latin America. We are

also the number two player in home insecticide in Indonesia and hair extensions in South Africa.

To capitalize on the growth potential in our categories, innovation is a key area of focus. We are actively building our innovation platform of the future. We would be investing heavily in these platforms and the projects are undertaken will guide the future trajectories of our categories. The recent re-launch of Godrej Expert, one of our older brands, in an exciting new avatar with multiple benefits is an example of this.

As a company we have always been committed to strong and sustained value creation. Over the last 10 years we have achieved sales growth that has compounded annual growth of 23% and profit after taxes, at a compounded annual growth of 28%. The market has also rewarded us well for our strong performance with our share price, delivering a compounded annual growth of 37% during this 10-year period making GCPL as the best performing FMCG stock during this period. This is against the backdrop of the FMCG index which grew by compounded annual growth rate of 15% over the same period. All of this would not have been possible without the exemplary commitment shown by the GCPL team. Under the leadership of Mahendran we have a strong team in place ably driving our ambitious growth plans. GCPL today provide tremendous growth and development opportunities for its employees. In recognition for its strong people proposition, Aon Hewitt ranked GCPL at the fourth best employer in India moving seven notches from number 11 rank we had previously.

Over the next hour, we will be sharing a snapshot of our strategy and plans, the performance highlights of financial year 2011, a financial review of the year and what our outlook for the future is. I would now ask Vivek Gambhir to come and share overview of the GCPL strategy.

Vivek Gambhir: I would spend a few minutes providing you with a very brief overview of our strategy. We are continually guided by the mantra of profitable and sustained growth. The results of the past few years bear testimony to our commitment and as this chart shows over the past two years our reported sales growth has been about 62% a year and our profit growth has been about 73% a year. Our strong financial result story is complimented by an equally strong value creation story and the tremendous returns we have delivered to our shareholders. In the last year also, we have maintained a very strong trajectory. To ensure that we are competitive to win today and to also ensure that we build the capabilities that we need to win in

the future, we have defined six priorities for the business. I will provide you with a brief overview of these priorities

Our first objective is to remain focused on our three core categories and to strengthen our position in these three categories. We believe that there is a lot of headroom to actually increase consumption and penetration in these categories that we operate in. The per capita consumption in these categories is still quite low versus other relevant markets. So as market leader, this means that we will capitalize both on the near term opportunities while we build the portfolio and the capabilities that we need for the future. Along with strengthening the core we are, therefore, sowing the seeds in adjacency around the core. The adjacency might be small today but we expect them to be quite large in the next 5-10 years. So we believe that this two pronged approach on first strengthening the core and then second extending it over time will enable us to consistently deliver profitable growth ahead of the markets.

Our second priority is to capitalize on the tremendous potential of becoming an emerging markets FMCG leader. Our approach is to leverage our leadership in our three core categories and replicate the growth formula in developing markets in Africa, Latin America and Asia. These markets present tremendous growth opportunities. For example, one of the geographies where we see a lot of potential in is Africa where, in fact the reported number of middle-class people actually exceeds even that in India. But what is also equally important is the way we do international business. Our M&A approach will continue to be very disciplined and we will continue to pursue synergistic accretive acquisitions. And we will partner very closely with the companies that we acquire to ensure that the sum of the whole is greater than the parts. We will integrate them in the Godrej way making sure that we maintain the right balance. Local management teams will be fully empowered to drive local decisions and we will drive synergies through value added support provided by the center and ensure adequate cross synergies across geographies.

In terms of our third priority, this is all about innovation and renovation. We are witnessing a rapid change in the social and economic landscape in India and other emerging markets. Our key challenge is to make sure that our brands remain relevant. We need to make sure that we give consumers enough reasons to remain excited with our products and to buy more. So we are dramatically strengthening our innovation capabilities. Over the next three years we want every single part of our portfolios to go through a major overhaul and re-launch. Our approach to innovation will be centered around creating meaningful differentiation. We have

created a dedicated design and innovation cell and are employing design driven thinking to accelerate the time to market and to improve the odds of success.

Our fourth priority is to make sure that our sales system is future ready. We are substantially strengthening our go-to-market approach to expand our rural and urban reach and to deepen distribution. To address the needs of many Indias we are pushing micro-planning to the next level. We are focusing on locally relevant activations and harnessing the power of technology to improve the quality of coverage.

Our fifth priority is to make sure that our supply chain is efficient, flexible and dynamic. We have a global supply organization in place and are pursuing several initiatives to maintain our competitive edge. At the end of the day we are what we are because of our brands and our people. For us to sustain our tremendous results track record we need to make sure that we remain agile and nimble. Our ability to move faster than our competitors, the empowerment that we provide to our team and our strong Godrej value system have been strong differentiators for us. We now need to raise the bar even further and become much more dynamic in terms of how we manage and operate the business, attracting, motivating, developing and retaining the right kind of talent is critical to our future success.

I now request Mr. Mahendran to come and share with us a few thoughts on the year gone by.

A. Mahendran I would like to welcome all the analyst friends here today and the year 2010 and 2011 is a year of I would say quite historical in the period of Godrej Consumer Products. In a sense as we have heard from Mr. Godrej that a decade from 2002 to 2011, the market cap growth rates grew at a CAGR of about 37% and we have a top line growth rate of 23% CAGR, the last 10 years.

As far as 2010-2011 is concerned, it has been a major turning point in the history of Godrej Consumer Products. In line with the trajectory of that CAGR growth rate over that decade both in market cap and top line as well as bottom line, we have now evolved a 10x10 strategy. Thanks to our Chief Strategy Officer, Vivek Gambhir's plan, which was accepted by the board as well as within the group and we are going ahead with that. Now in that plan, the growth rate envisaged is 26% over the 10 year period top line in CAGR terms. So with that spreads, let me say a few points before I get into the performance highlights post to 2010-2011 now 2011-2012. If I look at integration, the acquisitions of remaining 51% stake in Godrej Sara Lee happened sometime in May last year, if we look at the quarter-by-

quarter performance since, the velocity of growth both in terms of top line as well as bottom line, we have ended up very well 2010-2011, as well as in Quarter 4, the results are pretty good and satisfying. So I must confirm that the velocity of growth has been sustained, that is number one. The second one is, in the last so many years we have developed the culture of being ahead of the category in which we are present, in terms of growth. The 3 core categories for us are personal wash, household care and insecticide and hair color. Our culture is always to be ahead of the industry growth, and we have maintained it in the Quarter 4.

The third aspect is, that all our acquisitions announced in the past, have been accretive and we would like to sustain this in our future plans for inorganic growth, the fourth one is at Godrej Consumer products; we strongly believe in professional entrepreneurism as a part of culture.

The synergies from the merger of Godrej Sara Lee and Godrej Consumer Products that happened last year have been attained. We have also created value on the merger and also during the year we started focusing heavily on new products and innovation. The next one is the global organization build up has been achieved during the year and we have a good bandwidth of team as well as we have recently brought in Shashank Sinha as an International Head President to focus on that business and as Mr. Godrej said we have also been acknowledged by Hewitt study, the best employer ranking number four in the country. The last point is the input cost pressure has been sustained during the year as well in the soaps we have the competitive intensity has also being managed in the year. With this background I will like to go through the performance highlights.

We have leading positions in our core categories in the domestic market. In hair color we have a market share of 29%, in home insecticide we are at 36% and in liquid detergents 86%. So in all the three segments we are holding number one position and number two in the soaps market share of 10%. The scale of domestic business has increased significantly and if you look at this chart the growth rate is 50% from 2009-2011. This is driven by the game changing acquisition, Godrej Sara Lee during the last year, a merged Godrej Consumer Products enables that to strengthen our brand portfolio, expand our distribution network in the country and leverage operational and supply chain efficiency. Apart from that we have value creation potential for the next four years where the revenue synergies we are looking at due to this merger somewhere between Rs. 1500 to Rs. 2000 crore and we are also looking at a cost synergy of Rs. 200 to Rs. 250 crore. Post-merger, we have developed the project called Project Neo and this is well underway to capture the promise of ‘’One GCPL” and this chart gives us a 3 to 4 year perspective, how

the building blocks will be. In year one, we are planning to create one aligned senior team which has been done and we have also created a common way of working between these two companies as both had its own culture, so that integration is completed. We have also integrated their marketing and supply chain and, international operations and also we are more or less on the verge of completing the integration of IT, Infrastructure, and support functions.

In years 1 to 3 we are looking at creating value from these operations such as the strategic procurement team has been formed, we are looking at global manufacturing competencies, network optimization and integrated and differential planning. We are looking at manufacturing efficiency improvements and we are also planning to build up R & D to drive growth. In years 2 to 4 we are looking at a future ready sales platform, accelerate the pace of innovation and to drive the rural growth in a big way. As you know most of the FMCG companies have entered the rural segment and I expect the rural saliency from currently whatever the percentage is to improve in terms of consumption in the rural market and we plan to focus on that. We want to leverage the IT in international businesses also and also build future capabilities. In order to drive this Project Neo we have formed over a 100 team members working on key initiatives, the integration is on-track and significant benefits are expected in the years 2011 to 2015.

Our domestic products portfolio is now quite diverse from 2009, the personal wash was at 65% level whereas in the year which ended up in 2011 it has come down to 32% which is coming from the soap business and home care is at 43% and hair color at 12%. Our household insecticide business has done very well, 28% year-on-year growth led by innovative products on Goodnight brand which is focusing on low smoke coil and Goodnight Advance Active System. Strong marketing campaigns by the brand Hit towards how do we kill malaria and other initiatives led by Goodnight Advance Active System and also we have a very heavy investment on above the line expenditure during the year, has led our market share to increase from 33% to 36% now.

We have also faced some challenges in the soaps during the year, but the situation is improving now. The year which went by was a challenging year where the input prices shot up by about 58% during the year and the impact of food inflation on discretionary FMCG purchases had an impact, continued competitive intensity in that segment and also we had in the early part of year some distribution hygiene issues added to the challenge. But we are holding our ground; we have managed to calibrate the price increases by taking efficient forward covers on oil buy. If you look at Quarter 4, we have 9% volume growth versus 1% for the industry. And we

have also grown by 13% in value whereas the industry grew only 7% in the last quarter.

Going forward several initiatives planned to go ahead of market. A lot of micro marketing initiatives focusing on key geographies, innovating with new variants and launches on new platforms, maintaining profitability through efficient forward covers and calibrated price hikes as necessary. While we lead in hair colors we believe that potential is much greater, the key imperatives are innovative delivery formats, tapping new channels like salons, chemists and modern trade and innovative marketing campaign. I must acknowledge that our marketing team has been quite aggressive and recently we have re-launched and re-staged the brand Godrej Expert and our feedback is pretty positive in the market and I hope this is going to do very well during the year.

We also have leading positions in our international operations. We are number one in air fresheners and wet tissues in Indonesia. We are number one in hair color in many countries in Africa. In hair colors also we are number one in several countries in LATAM. We are number two in home insecticide in Indonesia and we are number two in hair extension in South Africa and number two in medicated soaps in Nigeria.

Our international business too has grown significantly over the last year, the revenue grew to Rs.1207 crore from Rs.378 and if you look at the EBIDTA grew from Rs.61 to Rs.152 crore, and 33% revenue growth from international business as compared to 19% last year but this includes acquisition. Growth has been driven by our recent acquisition, the number one is, Megasari in Indonesia which has three brands like Stella, Hit and Mitu, and presence in household insecticide, hair care, and baby wipes categories. And if we look at Issue and Argencos in Argentina we are in the space of hair color there and we are number one in several Latin markets. In Nigeria we have a brand called Tura in medicated soaps category and are number two there. Our international portfolio is also now more diverse, in FY09 the UK sale was 64% and in 2011 the UK sales has come down to 14%, whereas Asia, which is primarily Indonesia excluding India is 55% and Africa is 15% and LATAM is about 16%.

International integration is ahead of plan and we have formed an executive committee for the business in the place, the gross margins have improved. Projects commissioned to deliver benefits of increased distribution reach and sales processes have happened in Indonesia. And if you look at Argentina we have integrated these two businesses which we acquired one is, Issue and the other one

is Argencos, both have been integrated during the year. Gross margins improved and focus is also on expanding across LATAM. And if you look at Nigeria the project is underway to launch other categories. Our purpose of entering Nigeria through Tura is to get other core categories into Nigeria.

Innovating across our portfolio is our key focus and as I said earlier the hair care, we have re-launched and re-staged Godrej Expert which was originally called the powder hair color. Now the platform in which this particular brand is built is quite interesting and is something unique. In the hair color portfolio the platform which we are building now is, 'Happy Hair, Happy You', this is a product in which we do not have ammonia and 100% gray coverage, natural looking so we have brought in a concept of care and original and advanced, and all the three are tracking well post-launch in the market and this is going to be a good winner in the year.

In terms of our household insecticides, work is going on in different innovation pipelines but these innovations have been already launched last year which is the Good Night Naturals, which is a lotion part of a personal repellent. And we have the liquid vaporizer and we also embarked on Hit malaria campaign which is also doing well, but in the current year we're looking at more innovations in the household insecticides which would help growth. In Personal wash category, Godrej No 1, launched new variant during the year which is a mix of saffron and milk cream and also Fair Glow, as a brand has been re-launched during the year.

In international markets we have launched new products during the year and in LATAM Issue has done some good work in these launches. In UK during the year we acquired a brand which is a heritage brand called as Salon Selective and that will get launched during the current year and in Indonesia we have done some work on Stella.

We are ensuring that our sales system is ready to address the future needs, in the sense how we expand the coverage in India, current direct and indirect reaches have expanded to roughly 4 million outlets. We would like to drive scale benefits by synergizing the channel strength of different categories we have. Household insecticides to expand into rural markets, hair colors and toiletries to expand in chemists particularly and to scale up operations in modern trade, for that we have a combined team looking at modern trade, we're expecting that to grow well.

We would like to step up the channel activation, implementing next leg of salon channel in India and leveraging LATAM professional salon business experience, how do we cross-pollinate in India. Godrej Rural Internship Program, this is another

program which is called GRIP, it is a self-funded program to increase our rural sales by imparting training to the rural Indians working as our channel partners. This is one part of our project which we have embarked in Godrej Group called Good and Green and this increases the employability in India.

We are building a world-class supply chain organization. Global supply chain is already in place headed by our Chief Operating Officer, Dr. R. K. Sinha. We have 20% additional capacity created in coils, aerosols, soap making. Some debottlenecking was done during the year and strategic sourcing of our non-commodities raw materials and packaging materials is expected to generate significant savings during the year.

Lean supply chain management has been implemented and integrated for both the companies during the year. Additional cost efficiencies being driven through energy conservation and deployment of lean and six sigma principles has also being established. Leveraging IT effectively is the key, domestic SAP consolidation has been completed. And we also have a phased migration of international operations to SAP in process. Business intelligence implementation is underway and our sales force is going in a very aggressive automation which is very much needed in these days, all the field force are now going for automated handheld terminals, that is going to lead to a good amount of efficiency as well as productivity. Several distributor management systems enhancement has also been implemented.

Ensuring an agile Godrej, focus on ‘’One GCPL culture’’, strong team in place under common management committee right now and a senior talent brought on board, Vivek Mathur, he is our President Marketing Sales and Innovation. We have Shashank Sinha, President International Business and we also have Sunil Kataria heading our domestic sales. Our HR policies and practices are completely harmonized within both the companies on an integrated fashion. International center has been created under a new head of international business and we are strengthening capabilities around innovation, and innovation and design cell is headed by Darshan Gandhi.

These charts talk about a few awards and recognitions of GCPL during the year. Brand equity's most trusted brand in that survey, Godrej brands feature the highest for the Indian company and Goodnight is ranked number one in household care and number 12 overall across all the categories, sectors or brands surveyed during the year 2010. We have also got Product of the Year Award for a Good Night Natural, which is a lotion launched last year and we also have this award ranking number four, study done by Hewitt for best employer and NDTV Profit has also

given us a Business Leadership Award to Godrej Consumer Products under the goods category during the year.

We are embracing the concept of shared value and this chart enunciates how we create the shared value. Addressing the social problems this chart also gives the concept of “Good and Green” where we as an FMCG business would like to get into the rural India, but then when you go into the rural India the issue is the employability concept, so we have introduced the GRIP project. And this concept of shared value can be defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. So we are quite proud of embracing this particular shared value concept growth will come from this area also.

For project ‘’Godrej Good and Green’’, by 2020 we have set an employability target, we intent to train 1 million rural and urban youth in skilled employment. We are planning to create a greener India, achieve zero waste in our business, carbon neutral and positive water balance and a 30% renewable energy usage. Innovating for ‘’Good and Green’’, we have a 1/3 of our portfolio revenues comprising good and green products and services that is the third objective.

Thank you so much and I would like to call our CFO, P.Ganesh.

P. Ganesh

I will now take you through the performance snapshot. If you look at the last 10 years from being 450 crore odd company we have grown to 3600 crore plus in terms of turnover and while we have done that what we also see is that in terms of the profitability which is reflected by the EBIDTA margin we have been able to consistently improve that and bring it to an 18 to 20% EBIDTA margin range. Therefore while FY11, especially on toilet soaps had seen a depression on our margins on account of high oil prices, still we have ended with a relatively healthy 17% EBIDTA. So what does this mean in terms of profitability? PAT CAGR for the 10-year is 28%. One another interesting aspect over here, again when we look at the last 10 years of GCPL’s existence when we started in FY02, we were a full taxpaying company with an effective tax rate of about 33%. Over the years through fiscal benefits we have been able to get to a minimum alternate tax rate, so for domestic operations we are at 20% and given that international geographies have higher tax rate on a consolidated basis we average about 22 to 23%.

The company has been quite generous and rewarding shareholders, so from a Rs. 1.4 per share in FY02, we see a consistent increase and in the current year the total

dividend paid per share is 4.5. At the same time the profitability has consistently improved. Over the last couple of years you would see a step jump also aided by inorganic growth which has been one of the core contributors on the sales growth as well as profitability. What this also means is that while on an absolute amount the dividend payout has been going up. In terms of payout ratio, the payout ratio which used to be about 75% to 80% also coupled with few buybacks which we used to do from time to time because the company used to generate a lot of cash by which the dividend was paid back to the shareholders. Now that we have a much higher use for the cash with acquisitions having funded by debt, we see a drop in the payout ratio down to about 33% in this year, while the absolute dividend continues to grow. So, therefore, when we look at the balance sheet from being a totally cash surplus company as lately as last year FY10 when we end FY11 we have a significant amount of debt primarily on account of acquisitions. But having said that we still are at a healthy debt equity ratio of about 1:1 which leaves sufficient leverage in terms of any future opportunities which may come our way. So what does this mean to the company in terms of value creation? The share price CAGR has grown by about 38% and we can see that the market cap has actually increased 35 times over the last 10 years.

With this I would like to hand the stage back to Mr. Godrej for closing remarks.

Adi Godrej Thank you Ganesh. Just to sum up, we feel the fundamentals of the Indian economy are positive. Our other key markets, Indonesia, Africa and Latin America are also poised for strong growth. As Vivek and Mahendran have shared with you we have identified six top priorities that will guide our actions. 1) Core category leadership, 2) International growth, 3) Renovation and innovation, 4) Future ready sales system, 5) Best in class supply chain, and 6) Agility and professional entrepreneurism.

The year ahead provides us with tremendous opportunities we feel. We are driven by the potential with the larger stronger GCPL offers. While there undoubtedly will be challenges that we will face, we believe that we have a sound strategy and a great management team in place to capture the promise that lies ahead.

We will now be open for any questions or suggestions you might wish to make.

Abneesh Roy: My first question is on Salon Selective. We have finalized the 3x3 matrix in terms of acquisition; I wanted to understand where does Salon Selective fits in this matrix, more from a geography perspective and a product perspective. This brand has not been there for the last 8 to 10 years and the geography where it was strong was

essentially U.K. and Australia. So why we are doing this kind of activation is it because we see scaling that up in India and the other emerging countries or is it because the brand is cheap?

A. Mahendran: As far as this Salon Selective acquisition in the UK is concerned, we have looked at that and it is a more of heritage plan and we are planning to roll out in UK to start. But as we progress we would look at India too and other markets of that particular brand. As far as the market, why we selected the UK is concerned, it was done quite some time back, 5-6 years back when we entered that market. We are confident that in UK a particular business we are doing some consolidation exercise and it should grow better.

Adi Godrej: You are right that it does not fit in with our 3x3 strategy. The UK acquisition was our first international acquisition. It has been doing quite well. So we need to boost its operations also and this was a very good opportunity not only to boost the UK operations but later on we could bring it into our other geographies such as India and Latin America.

Abneesh Roy: On the project Neo, you have mentioned global manufacturing and procurement. Does it mean that over time for the same product manufacturing might be in just one country, for example, Argentina or say Indonesia? That kind of manufacturing can be done from, say, India and vice a versa? Is that the thought process?

Adi Godrej: The project Neo is for integration of Godrej Household Products with Godrej Consumer Products. That is the main focus of project Neo, because these are basically domestic operations. Each of the company obviously has international operations but there is tremendous synergy in the domestic operations both in cost cutting and in leveraging each other's strengths. So for example Godrej Household Products is very strong in South India, Godrej Consumer Products in North India, Godrej Household Products is very strong in chemist channel, Godrej Consumer Products is very strong in rural India. The household insecticides category is not very strong in rural India. So there are tremendous synergistic benefits. So project Neo which was an internal team, helped by McKinsey in the beginning is a project to take advantage of these huge synergistic benefits. We have already captured some in 2010-2011 we will capture a lot of these benefits in 2011-2012 and some may go into 2012-2013 onwards.

Abneesh Roy: Thank You.

Vivek Mavani: Something related to your international operations. What kind of cash flow pay back would you expect on what you have already invested over the last few years or what kind of internal rate of return would you be targeting? Mr. Mahendran laid out a plan between 2011-2015, so what would you hope in that sense, or what is your internal expectation?

P. Ganesh: When we look at acquisition opportunities, we look at EVA positiveness and EPS accretiveness. Now while the acquisitions done during the course of this year have been EPS accretive right for India the internal benchmark which is used as the acquisition to turn EVA positive over the medium term. When we say medium-term it is over a 2 to 3 years' timeframe. Now having said that, when we look at whether it is Indonesia or Latin America they are profitable right from the beginning but these are also markets where we see a huge potential in terms of growth. So they will also be significant investments which would go into these acquisitions. So while in terms of payback if we look at dividend flows that would take longer than possibly five years. The whole thought process here is in terms of these acquisitions being aides for the growth of the business as well as our own presence in those geographies. So all that position which we have done taken together has been highly profitable right from the beginning and in fact, they have been ahead of expectations I would say.

Adi Godrej: The way we look at it, we can have a CAGR of 10% inorganically from our internal accruals in addition to our organic growth. The definition of organic growth, anything acquired in the previous year, in the next year it forms part of organic growth. So we have targeted 15% to 20% organic growth in our global business plus another 10 percentage points of inorganic growth. Now this can be financed through internal accruals. If we have to grow inorganically even faster, we may have to dilute equity. So we think we can without diluting equity grow at about 25% to 30% CAGR. That are approximate figures, they would vary between 25% and 30%.

Vivek Mavani: My question indirectly was also on return on capital. It is a larger thought process as to what kind of internal rate of return would you benchmark to see whether acquisition is attractive or not?

Adi Godrej: We look at it from an EVA point of view. If the EVA is positive, we look upon it as attractive. In many cases the EVA could be very positive. But the benchmark is positive EVA because we take a WACC rate which is, of course, as you know a combination of equity and debt cost. If the return is higher than the WACC rate, it is positive. And the WACC rate, changes from year-to-year and we have an EVA

based variable remuneration for a large part of our employees which is based on EVA improvements which has worked extremely well for us.

Vivek Mavani: Thank you.

Q: Could you share some of your thoughts on what kind of a turnover would you expect currently which is two-third, one-third domestic and international, over the next 3 to 4 years? How would that mix change?

Adi Godrej: That is a little difficult to predict. I think we are pretty agnostic now. It would to a certain extent depend on organic growth rates in the international business and the domestic business which we think likely to grow at similar rates overall. And also it would depend on acquisition opportunities. Now, if a large Indian acquisition would come our way then the Indian salience might increase. Correspondingly if there is a large international acquisition it could be the other way. But I expect that by and large this sort of two-third, one-third is likely to be maintained, it could move up or down a little bit and the main thing is developing world and growth orientation, EPS accretiveness and EVA positive.

Q: Also if you could share some of the thoughts in terms of the rural penetration strategy which you highlighted for the household insecticides. Currently what are the penetration levels, how do we see that rural markets shaping up, the value chain, and how we would differentiate or penetrate these rural markets?

A Mahendran: The rural penetration in household is pretty low from the category perspective; it is only about 25% penetration in rural households. And in terms of consumption it is quite low. So if you look at this category it is a pretty new category in India, we just started off only in 1985-1987 the beginning of household insecticides and the category in India. So it is about 2500 crore today, but mainly the majority turnover 75% of the consumption comes from the urban India and the urban penetration is pretty is good. We are at 75% level in terms of urban. But the rural potential is very high, consumption is low, penetration is low, so we are embarking aggressively on the rural reach there. But the bottom base of the pyramid what we are looking at the household insecticides, we are planning to enter the rural market with the rural-oriented product which can satisfy the rural household. For example, if you look at the liquid vaporizer, which is a major consumption in the urban India if you want to take it to the rural, it may not fly there.

Q: Coils as a product category in the rural markets?

A Mahendran: The good consumption of the coil comes from urban India. The reason is again I would say the price points of coils today is as high as Rs. 2 per night usage, which is pretty high for the rural India. So we are developing coils which can go towards a rural household both in terms of to facilitate them how to use as well as the price points.

Adi Godrej: We are looking at a lot of forward-looking innovative product formats.

Q: My last question is for the hair color market given the acquisition of the Issue and Argencos. How our new products in the funnel in the Indian market? Are we going to tap the midsize market, are we trying to create a newer market in the hair color category?

Adi Godrej: We have recently relaunched our Expert range which is our main powder hair color. Now we are the world's largest manufacturer of powder hair color. This has enabled us to penetrate very strongly, not just in India but in other South Asian countries, now increasingly penetrating into Africa. Now, we have relaunched this in three formats as we have shown. The original one we have renamed it from powder hair dye to powder hair color. So this has raised its image, it is a larger package; we have raised the price from Rs. 10 to Rs. 12. And they are to other formats which we think will help us penetrate the market extremely strongly. One is, the natural's format, and the other one is an advanced format. The advanced format becomes a gel when you mix it instead of a liquid, very easy to apply, it allows you better coloration and other hair properties and we feel will compete quite strongly against even crèmes. So, we are upgrading our powder hair colors very strongly through R&D. Some time ago we were the first to introduce perfume and conditioner in powder hair colors which continues in the new range. So this will enable us to penetrate strongly at the lower end and yet attack the medium end very strongly too. And, of course, we will look at more products in the crème range too which should come in very soon. So there are very strong innovation platforms across the board. Not just household, insecticides and hair color where there is a big penetration possibility but even in soap which is one of the most penetrated categories, lot of innovation possibilities to help us grow.

Q: So that could mean medicated kind of soaps or newer categories?

Adi Godrej: Well, I will not specifically say anything. We will talk about our new product when it is introduced.

Parag Thakkar: My question is regarding debt equity. Since you want to grow at 26% CAGR and two years ago when you started this journey there was no debt and now debt is slightly higher than your net worth. So going ahead would you stretch this debt-equity ratio more to say, more than 1.5 times? What is the outer limit you have kept?

Adi Godrej: Not only did we have no debt we had a lot of cash on the books. We have deployed that. Earlier we had a lot of cash on our books, we were generating a lot of cash and we did 9-10 buybacks because we felt that was the best way to increase the earnings per share for the continuing shareholders. 4-5 years ago, we changed our strategy slightly because we felt acquisitions could add tremendous growth in earnings per share. But when there was a sudden market dip in 2009 as you know, we did a buyback at that time. So we will concentrate on improving earnings per share. We are going to be very careful that debt-equity ratio should not go very high. Now what's very high will depend on how we expect equity to also grow. Now last year for example, we increased our equity quite considerably through internal earnings. We also raised a QIP last year because we felt otherwise debt-equity ratio will be high because we had a lot of acquisitions. So this will be judged by our board from time-to-time. We will be very prudent about it and see that debt equity ratio is not very high.

Parag Thakkar: Thanks a lot sir.

Q: My question is on the inorganic growth that you referred to. If we are looking at growing, say, 10% inorganic growth, we are looking at buying consumer goods company which is say, at 350 crore and a well-run consumer company in that space will probably trade at around two times sales or 1.5 times sales. Now how do we meet this through internal accruals and manage that every year?

Adi Godrej: See we worked it out that in some of the developing countries acquisitions are available at reasonable EV-to-EBITDA ratios and each year we will add increasing amounts to our equity which will enable us to leverage that for some debt and that has been taken into account to see how much we can grow. Now it is not a sacrosanct figure, if is the cost of the acquisition becomes a little higher than 10% might turn out to be 6% or 8%. But over a period of time we think we can do it. And we are looking at it from a base of 2010-2011 because we had cash on our books at that time. So we feel this is about what we can do without diluting equity. But it could be that we end up with only 8%, it is very difficult to be very precise about it but these are the approximate figures we think we can do.

Q: In the past our high payout ratios had always kept returns on net worth very high and even going forward the greater amount that we retain within the business, it becomes a tougher discipline to maintain those returns ratios. It becomes a balance of growing the business as well as having a very high efficiency of capital when we have stated beforehand that we are going to grow through acquisitions.

Adi Godrej: Yes, that is a bit of a challenge and as we have publicly stated that currently our dividend policy will be increasing absolute dividends but diminishing percentage dividend. Now, the board can re-look at it later at any particular point of time but this is what the board has discussed and feels comfortable with.

Abneesh Roy: I have to follow-up questions on the soap business in India. In Quarter 4 we have seen good volume growth come back after a few quarters. In FY12 how does the volume growth outlook look taking into account decreasing food inflation, but on the other side price hikes in soaps are happening. Do you expect volume growth in FY12 to be higher for the industry? I am asking for the industry? For you the first 2 to 3 quarters the base will be low in FY12, so for the industry what is the volume growth?

Adi Godrej: It is a little difficult to answer your question. Soap is one of the only three packaged branded categories in the country which are fully penetrated. Only detergents, whether powder or cake, toilet soaps and match sticks are fully penetrated packaged branded categories. No food category is fully penetrated. So obviously growth rate of the category will be limited to population growth, slightly higher consumption growth every year and inflation based growth. So we cannot expect very high category growth rates. But over the last several years our market share in soaps has grown. In the last year or so we did cross a stronger competitive situation in the soap business. We cannot foretell how it is going to be going forward. One of the reasons why our growth in the first half of the year was low is because the base when we had grown very strongly in the same period in the previous year. Then our growth in the second half of the previous year was a little lower. So we have grown much better in the second half. And because the base last year was low we expect very strong growth in this financial year. We have started off with a good growth rate in our soap business. So we expect good growth rate and over a 3-5 year period we think we will have a faster growth rate than the category through share gain.

A. Mahendran: Just to add, the soap volume growth rate for the Quarter 4 is about 9% and the value is about 13% whereas the industry category grew only by 1% volume and

value 6%, this is for the Quarter 4. So we look at that and we are tracking well in Quarter 1 for the current year.

Abneesh Roy: In the light of what you have said between the three segments in India, HI, hair color and soaps, for the next one or two years in your aggression and focus, in terms of ad spends, innovation, and renovation, will it be highest in HI, then hair color, and the least in soaps?

Adi Godrej: I am expecting a faster growth in hair color and HI will continue to grow well because there is realization after last year's malaria, dengue, epidemics, there is realization both in urban and rural India that for protection of health more and more adoption of formal household insecticides products is good for the family so we expect a strong growth. And soap for the reason I mentioned that being a very penetrated category we expect will be the slowest growing of all our categories. But even in soap over the past years we have had a CAGR well into the teens.

A. Mahendran: Category-wise if you look at it there are certain categories specific ATL spends will vary. It is not that it should be in a relative sense that in HI we will be spending more because the share of voice and the share of expenditure that we have to calculate. Whereas in HI we are a market leader in terms of category data. So the ATL spends need not be exactly higher than the hair color category. So the spends level allocation, when we do that it goes by category specific as well as the market share that we have.

Adi Godrej: The other thing that you have to bear in mind is if you look at our three big categories they are all reasonably high margin categories, however, hair color is by far the highest margin category, household insecticides would be number two, and soap would be number three. But they are all strong margin categories. And of course, we have smaller categories which vary in their margin profile like liquid detergents, talcum powder etc.

Hitesh Zaveri: My question is could you talk about the potential and the challenges of your 3x3 strategy and by that I specifically mean that if you look at the upside or the benefits of that may be in terms of the lifestyle improvement, the per capita income changes in this continent and its population growth. If you balance that versus with potential of having sub-optimal brand sizes everywhere, lot of your business actually they need to be country specific versus PAN-continental businesses. So if you could talk about the potential and the challenges of 3x3 strategy?

Adi Godrej: I think the potential is very strong because of the growth in Africa, Africa has turned the corner. It was a slow growing economy, slow growing continent from an economic point of view but it has changed quite dramatically over the last 2 to 3 years. Growth rates in Africa are running higher than 5% as governance improves, as mineral resources in Africa become more and more valuable, we are expecting African growth to accelerate. It is the same with South America. South America growth is also accelerating, therefore we feel and Indonesia which is our biggest international geography is also because of mineral resources and other reasons growing very well. So we feel very optimistic about the growth in these geographies. We do not think the average growth in these geographies over the next three year period will be as high as in India but it will be a high growth rate. And because of our various positions, we have market leadership in many of these countries in the categories we are in. We have very strong positions. And another thing I would like to highlight is our per capita sales now in Indonesia, in South Africa, in Argentina, in Uruguay, for example is higher than our per capita sales in India. So we have scale and size and we expect to be able to leverage that for strong growth.

Hitesh Zaveri: And challenges?

Adi Godrej: Challenges of course are executional. The opportunity is there. Even in India the main challenge is execution. We have a good strategy. We have a good innovation and our execution must be strong. And if we can improve our executions regularly then achieving our strategic objectives will improve. But I see execution is the main challenge in all our businesses. I have seen that over the last 3 to 5 years and probably continue in that direction.

Hitesh Zaveri: Just to take this further, it will be most impactful for your business in case you have few product categories that have multi-continental relevance. Now how do you achieve that given the fact that most of your products are intimate and very individual to a customer and to a household and their requirements, their desires, their intimacy for a brand would be very different. How would you be able to create a few platforms where this will happen and in contrast corollary to that? Do you run a risk of running multiple sub-optimal brands in terms of size?

Vivek Gambhir: As Mr. Godrej was saying the brands that we are acquiring are local jewels that are actually leaders in their country and have done very well. So the fundamental premise of the brands we acquire, first of all tend to be in our three core categories where we have a lot of knowledge that we can share in terms of brand management, in terms of technology, in terms of manufacturing, and we leverage

that across the entire portfolio to actually create platforms. Along with that I think because these brands are leaders I would challenge the association that they are sub-optimal; they are actually very optimal for those geographies. And I think what is critical for us is to maintain the balance of allowing these brands to flourish but provide the back end support and synergies and not lose the entrepreneurial edge which makes this brand very successful in the first place. It is a very unique Godrej way of doing it. It is not a MNC way; it is Godrej's emerging markets FMCG way of running these businesses.

A. Mahendran: See when we talk of sub-optimality in brand, what is relevant is not the brand it is the category, we look at the category. And we look at the category potential and the growth in those countries or geographies. So our expertise is brand building and we have proved that as far as India is concerned. We have been in soaps as well as hair color, we are the pioneers in hair colors today, and we are there for the last 30 to 40 years and household insecticide and soap. So if you talk about sub-optimal position, let us say, Argentina or South Africa our expertise is brand building and that is where our core competency is so we will transfer that there, which will ensure the growth.

Q: Could you have a Coke or a Colgate Total or a Gillette, one category or one product which has appeal across multiple countries and can become large for you. Are there any product in your portfolio that can do that on in the future would like to do that?

Adi Godrej: I think that typically happens, 50 years into a company's globalization. If you look at all the companies that you have named they are at least that old or more in terms of globalization. Then that becomes important if you have to advertise in global magazines on global television channels then having a focus global brand is important. And because this has become a very important factor, what you mentioned, to the large global multinationals they are now not as interested in acquiring the local jewels that exist. So that gives us an opportunity. And whether we promote the Issue brand in South America or the Inecto brand in Africa we are quite happy because we do not have to advertise as yet at least in these global magazines and in the global television channels. So, for example, the Inecto brand is a jewel of our African brand. When we bought Rapidol we had leadership in about eight countries in Africa, now we have leadership in 14 countries in Africa and we are almost adding a couple of countries every year. We have taken our powder hair color technology into Africa but in the Inecto brand. It is even exported from India, manufactured in India, in the Inecto brand into Africa. So we are able to leverage these benefits of technology but the local strong brand is also leveraged

and that is why our position would be a little different from the Unilever's or Proctor and Gamble's or L'Oreal's or the world.

Varun Kejriwal: You just spoke about Lever's and Proctor and Gamble. Now both these companies have really become incredibly aggressive compared to what has historically been seen of them in emerging markets. Just wanted some sense how they have reacted in India so we have seen tremendous intensity here. But what we also seeing in Africa and Latin America, have you seen any change in competitive intensity given that these markets are now growing significantly as well.

Adi Godrej: Competitive aggressiveness in FMCG has been there through the decades. You might see a company or two become more aggressive at a point of time and that happens especially when the geography you are talking about is doing very well. And what has happened in the case of some of the multinationals over the last two or three years because the slowdown in the West, their growth rates in their home geographies have been rather low. So they have become more aggressive in some of the developing countries. But Indian companies such as ours have continued to do extremely well in the face of such aggressiveness. And in some of the other countries we see it in some countries, we do not in others. In some countries the multinationals are growing at a reasonably fast pace, in some they are not, so it varies from geography to geography. So India is a country almost everybody wants to grow in, Brazil is another such country.

A. Mahendran: Just want to add, on the category of household insecticides the global leaders are S C Johnson and Reckitt Benckiser these are the two players, and as far as Godrej is concerned we are dealing with them for the last 15-20 years in India. Both S C Johnson is here, with a brand called All Out and Reckitt Benckiser's Mortein here. So dealing with them at a competitive intensity in India is already there. So now when we have entered into Indonesia we acquired the insecticide business, so the intensity in which the reaction of S C Johnson's present there in Indonesia we were able to manage that because we are quite acclimatized to that as far as India is concerned.

Varun Kejriwal: When we look at the product portfolio now typically over time Godrej has played in the mid-tier segment, just want to understand whether you are incrementally going forward looking at playing in the lower and top tier or whether broadly you want to continue focusing on the mid-tier a part?

Vivek Gambhir: As a market leader in some of these categories over time we do have to straddle all segments and so I think over time as categories in India premiumise so shall

we, giving consumers more reasons to buy our products and adding more features and benefits and at the same time there is a fair amount of growth in rural India and we have to get our price value proposition right for that particular segment. At the end of the day we are a value for money provider, providing the best value for a particular price point and that the definition of value will change for a lower-priced consumer to a sub-premium consumer and over time we do intend to address the needs of all of those segments. As a market leader we have to be able to do that.

Shirish Pardeshi: The first question is that we saw in the presentation you have reported goodwill entry as Rs. 1,590 crore. Would you be able to share how this goodwill entry will be treated in times to come? This Rs. 1,590 crore goodwill entry which is there what the thought on that is, how are we going to write off or it will remain?

P. Ganesh: Under the Indian GAAP you do not need to write-off goodwill. Good will is something which comes in on consolidation when we have subsidiaries. Typically in FMCGs you essentially pay value for the brand, so the fixed asset per say in the company would be quite limited which translates in the form of goodwill. And in the books these don't need to be written-off.

Shirish Pardeshi: My next question is that a quick observation and we have been hearing to Mr. Godrej and Mr. Mahendran, last five odd quarters we have been seeing that in the hair color segment we have been looking at an opportunity to build up the premium end and unfortunately now we are seeing the market share has dropped to 29%, is there a clear thought process by re-launching expert hair dye will give us the lead and in some time can we expect the increase in market share?

Adi Godrej: Yes, we definitely expect a considerable increase in the market share.

Shirish Pardeshi: On the Neo strategy how much work is still left and when do you see the strategies showing the numbers in terms of profitability and revenue?

Adi Godrej: I think in Neo most of the conceptual work has already been done. Now it is executional, so the benefits from execution are gradually coming.

A. Mahendran: The synergies, there are two parts; one is the cost synergy the other one is the value creation on the merger. In the presentation I have already informed that we are looking at Rs.1500 to Rs. 2000 crore in terms of top line revenue growth in the next 3-4 years because of this merger and on the costs side about Rs.200- Rs.250 crore by FY2015.

Manoj Menon: Couple of questions on the household insecticide business in India. One, just saw in one of the slides about the good market shares gains which you had in the last year in this category, just want to understand to know what is the dynamic which has paid out in the market which has helped you and probably if you can share in which segment that has actually driven this. Is it coils or mats? Some understanding on what is driving this market share gains that is point number one. Point number two, when I look at the historical growth rates of the insecticide business compared with the penetration levels in India kind of it compares is very similar to some of the personal care categories, but the competitive intensity what you actually are seeing in the insecticide business is very different from what you are actually finding let's say in a skin care or a or a shampoo. So what is so fundamentally different about this business is it technology, is it distribution or it is just branding?

A. Mahendran: HI as a category is pretty small even today. The Rs 2500 crore is not the right size for India. Actually as on today our category should be somewhere between Rs. 4000 to Rs. 5000 crore in terms of consumption in India. But I would say the number of players in this particular segment is fairly decent. We are having only about three players in this segment. But then we took a pioneer leadership status and we have very high level technology and we're one of the largest in the world, research facility we have in India when compared to the number one player who has some facility in US. So if you look at Asia our research asset is very good and we look at innovation as a major driver in terms of, HI market share from 33% exit last year and then going to 38%, primarily driven by innovation in the last year what we did and we intend to continue that strength. And there we feel that we are pretty aggressive on innovation on that. As I said earlier that category itself is not big, for a country like Indonesia if we look at the per capita or per night usage Indonesia is much ahead of even India today, if you look at the usage part, India is much more backward, China is much ahead so I see that is one of the reason why when we compared to the personal, as Mr. Godrej said, the maturity level of those categories are much higher in personal wash. It is similar like household I look at hair color also the category size is pretty small.

Manoj Menon: Actually the context in which I was trying to understand that if you look at shampoo every three years we would actually see some aggressive price cuts despite the fact that it is not really such a highly penetrated category, so probably a player is taking a call that you are willing to take losses for a while but you would probably make better money once you have the market shares. Now when I look at the HI category you actually have three players with similar sort of market shares not

really too much of difference. Is there anything fundamentally which is very different; is it something like let us say regional strength or it is the brand strength?

Adi Godrej: No first of all I think your premise that the similar market share is not correct. Because our market share is almost twice as much that of our nearest competitor in household insecticide. And number two and number three are pretty similar in market share. So we are way ahead. In hair color also we are leading but the difference between us and number two is smaller than it is in household insecticides. And I think as Mr. Mahendran mentioned we have driven our household insecticides business not only to high growth and high share through tremendous innovation and thanks to our R&D team. My personal view is our best innovations are yet to come.

A. Mahendran: Just to add to that, in this category of household insecticide, the highest profit appropriator among the three players in competition is Godrej Consumer Products. We look at profit appropriation of a category, we are the highest and we are sustaining that for the last 20 years, it is not just only now appropriation of the category profit. And that is basically because of the fundamental premise and the philosophy we do not go and believe in discounting. In the last quarter we got a feedback from Hindustan Lever there was a good amount of discounting going on in soaps and of course the volume growth has been projected there with that, but we do not believe in that.

Adi Godrej: Also one good thing in the household insecticides category is thanks to the malaria, Dengue fears, the Commonwealth games, Dengue being put on to television all the time etc. the growth rate of the category has been good. So when your competitors are growing reasonably well the competitive intensity tends to be a little less. Thank You.