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May 16, 2012

BSE Limited

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The National Stock Exchange of India Ltd

Exchange Plaza, 4th Floor,
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Dear Sirs,

We enclose herewith for your information, a transcript of the proceedings of the analyst meet held by the Management team of the Company with financial analyst on May 3, 2012, post the announcement of Q4 and yearly results for 2011-12.

Yours faithfully

For Godrej Consumer Products Limited



P Ganesh
Executive Vice President (Finance & Commercial)
& Company Secretary

Encl: as above



Investor and Analyst Meet Transcript

May 03, 2012

								
								

Gavin Desa - Moderator

Good afternoon everybody. Welcome to Godrej Consumer Products Limited, Investor and Analyst meet. We have with us the senior management team of Godrej Consumer Products Limited on the dais as well as sitting in the front row. The agenda we would follow for today's forum, Mr. Adi Godrej would initially make opening remarks followed by Mr. Mahendran who would share business update, Mr. Vivek Gambhir who take you through GCPL strategy update and P. Ganesh on the financial update. Now I would request Mr. Godrej to make opening remarks.

Adi Godrej - Chairman

Ladies and gentleman, I welcome you to the investor and analyst meet of Godrej Consumer Products Limited.

The economic environment in India over the last year has been challenging. Surrounded by global uncertainties, the Indian economy itself had a subdued performance over the last fiscal year with GDP growth of 6.9%. The reform program has slowed down and governance issues have not been tackled as rapidly as they should have been, but the opportunity is tremendous. Restoring growth through reforms and good governance is going to be very important and should be the main objective of the government. We expect the economy to get a push on the back of reforms such as the Goods and Services Tax, Direct Tax Code and opening up of FDI in key sectors. Progress on reforms will create a virtuous cycle of boosting production and consumption, improving India's image, attracting more investments and reviving growth.

The recent rate cut by the RBI is also a positive sign as high interest rates were having a negative impact on India's GDP. Consumer demand within India remains strong and we hope that it will continue.

In spite of this challenging macroeconomic environment, GCPL maintained strong sales momentum crossing US \$ 1 billion of sales in FY12.

In the domestic business, we have gained both volume and value share and grown well ahead of the market in most of our categories. Our performance in Household insecticide and toilet soaps has been excellent. In hair colors, while we have faced some challenges, we believe that we have turned the corner.

We remain focused on driving our core categories to full potential and further enhancing our leading positions in these categories. There is tremendous opportunity for growth in these categories through driving penetration and more importantly, through increasing consumption. At the same time, we believe that many of our brands hold tremendous equity with our consumers - we will continue to harness opportunities to extend our brands into adjacent categories. Our proposition of providing superior quality products at affordable prices continues to resonate very well with our core consumers.

The strong sales momentum in our domestic business has been driven by successful new launches backed by effective marketing and a robust go to market strategy. Our go to market strategy has benefited from the integration of the erstwhile Godrej Household Products Limited (GHPL) and GCPL. We are reaping the manifold benefits from the integration in the form of both revenue and cost synergies. We had set ourselves an aspirational goal of achieving Rs 1,500 to Rs 2,000 crore

								
								

of revenue synergy and cost synergy of Rs 200 to Rs 250 crore by 2015. We have made very strong progress in FY 12 towards this goal. We expect further gains over the next couple of years as well and will share more information on this later in today's session.

Internationally, we are progressing well on the path towards becoming an emerging markets FMCG company. Our disciplined 3 by 3 approach for acquisitions has worked well for us.

The integration of our international acquisitions is ahead of plan. We have a strong international center in place that works closely with our various international businesses to ensure optimal integration, to harness synergies and to support cross pollinating the company portfolio across geographies. We are clearly seeing the results of our value based partnering approach - in a lot of our acquisitions, the revenue and profit trajectory has improved measurably post - acquisition. Our acquisitions have been accretive for us and have been a key source of value creation.

Internationally, our focus in the near term will be on consolidating our position in our existing geographies rather than creating new beachheads. We will continue to work hard to integrate our acquisitions, drive additional top line and bottom line synergies and further accelerate the revenue and profit momentum in these markets. In addition, we will explore both organic and inorganic opportunities to add additional scale to our current footprint and to also enter attractive adjacent categories.

Going forward, we will remain much focused on executing the key pillars of our strategy. We will provide additional details about our progress and plans on these pillars in our session today.

There are 5 priorities in particular that are important to us as we look forward to continuing the excellent momentum in our business:

- Accelerating the pace of innovations both in our domestic and international portfolio. You will see a lot more news from us on new products to continue delighting our core consumers
- Driving additional synergies in distribution from the merger of the erstwhile GHPL. You will see us increasing both the width and depth of our distribution in both urban and rural India to make our products more accessible and more available
- Cross-pollinating portfolio across markets. We believe that we have some excellent products in our portfolio that can be leveraged outside their home markets. We will work on selectively cross-pollinating the portfolio where and when it makes the most sense
- Successfully integrating and complete the Darling acquisition. Darling provides a very compelling platform in sub-Saharan Africa. We will work on leveraging this platform to the fullest to establish a scale business in an attractive and emerging part of the global economy
- Continuing to build our talent engine. Ultimately, our success relies on the quality of our people. We will focus on creating an inspiring place to work and providing unparalleled growth opportunities for our talent

As a company, we have always been committed to strong and sustained value creation. Over the last 10 years, we have achieved sales growth at a compounded annual growth of 27% and profit after taxes at a compounded annual growth of 33%. The market has also rewarded us well for our strong performance, with our share price delivering a compounded annual growth of 42% since year 2002 - making GCPL among the best performing FMCG stocks during this period. This is against the backdrop of the FMCG index which grew by a compounded annual growth rate of 18% 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 Mr. A. Mahendran, we have a strong team in place ably driving our ambitious growth plans. We believe that the opportunities ahead of us are tremendous in spite of the near term economic uncertainties. We believe that we have a great team and sound strategy in place. We will remain laser focused on execution.

I am pleased to welcome you once again to this Investor and Analyst Meet. Over the next hour we will be sharing a snapshot of the performance highlights of Quarter 4 and financial year 2012, our strategy and plans, and what our outlook for the future is. We will also be happy to answer your questions.

Now I request Mr. A. Mahendran to come and give you an overview of the business and the performance over the last year. Thank you.

A. Mahendran - Managing Director

I would like to welcome all of you to GCPL Investor and Analyst meet. GCPL management team is quite happy to announce results for the year ended March 31, 2012. I am going to run through GCPL business performance of Q4 FY12 and for the year ended March 31, 2012. GCPL has consistent results track records for the last at least 8 quarters; our growth has been quite extraordinary. We are growing at a CAGR of 54% in last 2 years. PAT is also growing at a healthy pace with a CAGR of 46% in last 2 years. GCPL category mix has become more well balanced over time. The personal wash salience of 41% in FY 2009-10 has now come down to 22% in FY 2011-12. Home care category salience has moved to 47% in FY 2011-12 from 20% in FY 2009-10. Our domestic growth story has been strongly aided by primarily the acquisition of Godrej Household Products Limited (GHPL), which was originally acquired from Sara Lee. We grew about 48% in FY11 and 21% in FY12 with a 2 year CAGR of 34%.

Our international business too has grown significantly over the last 2 years and this includes the inorganic growth as well. Our international business grew by 219% in FY11 and 54% in FY12 with a CAGR of 122% in last 2 years. In FY 2011-12, Indonesia contributed 50% to our international business whereas Latin America, Africa and Europe contributed 15%, 23% and 11% respectively.

The results momentum has been sustained in Q4 FY12 for the domestic business. Domestic sales grew by 21% and PAT grew by 39%. Our household insecticide business continues to perform well ahead of the market. Of course, we have been consistently growing ahead of the market from last 5 years. Q4FY12, the category growth is 9% and we reported growth of 28% and on a full year basis, our growth rate on household insecticide is 31% while full year growth rate reported by AC Neilson is at 10%.

Our soap business too has delivered growth ahead of the market. Q4FY12, category growth is about 20% whereas GCPL grew at 30%. On a full year basis category growth is 10% while we reported a growth of 27%.

								
								

Though we have faced challenges in hair colour category, we are working on it and we are trying to reverse this year. Q4FY12, the category grew at 22% and our company grew at 13%. On a full year basis, we grew about 14% while the category grew at 20%.

Our international business too delivered a stronger quarter. We grew at 49% for the quarter and PAT grew by 26%. We continue to hold leading positions in our international operations. We are No. 1 in air fresheners and wet tissues in Indonesia, in hair colour in many countries in Africa as well as in Latin America. We also hold No. 1 position in hair extension in Africa. We are No. 2 in home insecticides in Indonesia and medicated soaps in Nigeria.

Our Indonesian business has sustained its excellent momentum with a growth of 30% in INR terms (Local currency growth at 20%) during Q4 FY12. The EBITDA margin is at about 20% for Q4FY12 and on full year basis, which is quite healthy.

The scale up of our Africa business continues with our Darling acquisition. EBITDA margin for Q4FY12 is around 19% and on a full year basis is around 25%, which is again quite healthy.

LATAM has also supported our overall growth. Latam business grew by 29% in INR terms (Local currency growth at 22%) for Q4FY12. EBITDA margin for the quarter is at 16% and on a full year basis is at 8%.

Our European business has done well in spite of tough economic conditions. Q4FY12, business grew by 21% in INR terms while local currency growth stood at 8%. EBITDA margin at 11% is quite healthy for the quarter as well as for the year.

Overall consolidated performance has been very strong for the year and even for the quarter. Q4FY12, GCPL consolidated net sales grew by 31% and consolidated PAT grew by 36%.

I would like to invite Vivek Gambhir now to share GCPL strategy.

Vivek Gambhir - Chief Strategy Office (Godrej Group)

Thank you Mr. Mahendran, I will try and spend a few minutes giving you a brief review of our key strategy pillars. These are some of the guide posts that we use to essentially figure out what areas to focus on, to drive competitive advantage. What I will do is spend a few minutes reviewing the progress we have made over the last 1 year on each of these 6 pillars. Then spend some time on providing an assessment of the plan ahead in terms of these 6 pillars:

1. Core categories leadership,
2. Drive international growth,
3. Renovation and Innovation,
4. Creating a future ready sales system,
5. Best in class supply chain,
6. Agility and professional entrepreneurship.

								
								

Starting with the first pillar, the most important priority for us always continues to be able to build, extend and sustain leadership in our core categories.

I think we are a very focused household and personal care player. Our priority continues to be to grow well ahead of the market. We also want to drive consumption and penetration in our core categories.

As Mr. Godrej said, there are tremendous growth opportunities for growth in our core categories both in terms of penetration and in terms of driving per capita consumption. Along with driving a core business to full potential, what we also see is that our brands have a tremendous amount of equity. Over the time we are planning to strengthen portfolio and extend into adjacencies.

So this is a 2 pronged approach. Prong 1 is driving a core category to full potential. Prong 2 is overtime extending our core in to an attractive adjacent categories and this is best I think exemplified by the results over the last 12 months as Mr. Mahendran had mentioned. Clearly as you can see both in insecticide and soaps, we have grown at almost 3x of the market.

Although, we have faced some short term challenges in the hair coloring business, we are still the market leader in hair colors. The reality is that hair colour business has become a lot more competitive in recent times and in response to that our strategy has been to drive growth through differentiating innovations. As a market leader we need to be ahead of the innovation curve. Over the last 12 months we have launched very exiting innovative products. However these innovations are taking some time to gain traction in the market. We launched a new advertising campaign and last couple of months' results has been encouraging. Given the competitive intensity, it will take some time but we are committed to re-gaining our share position and continuing to be the market leader. We continue to launch very strong innovative products. Some of the products, we have already launched particularly to strengthen the portfolio. In the hair colour category, we are attempting to straddle a broader part of the consumer pyramid, provide consumers with additional benefits and through those benefits also increase average realize price in the category. Clearly the market has recognized our focus on leading our core categories and a lot of our brands feature as the most trusted brands in India. Godrej Expert Powder hair colour - care was voted Product of the year 2012 in powder hair colour category. So clearly a lot of focus has been on trying to stay focused on our core businesses and continue to drive leadership in these core categories.

We see lots of opportunities in driving more penetration and consumption in the categories that we participate in and this is something that we track quite systematically. Both in household insecticides and soaps, there is a fair amount of growth from penetration increase. Increase in household penetration is close to 15.5% for household insecticides category and 6.7% for soaps. Ultimately a lot of our growth will come from both penetration and consumption increases. So that was the first priority around driving our core categories to full potential by building, extending and sustaining leadership.

The second important priority for us is to capitalize on the huge potential that we see on the international side. I have spent a couple of minutes talking about it but Shashank Sinha who heads the international business will be very happy to go through international plans in more details during Q&A. On the international front, the strategy has been to extend our capabilities in our 3

								
								

core categories where we have leadership in India and tap into very attractive opportunities in emerging markets. There again it's a fairly focused strategy staying true to our core categories and participating in the emerging markets which offers the most growth opportunities and the way we do it has also been quite systematic.

We have a very disciplined M&A process, we go through an extensive amount of diligence and then we have a very well defined M&A play book. In last 1 year there were a fair amount of questions posed in terms of our abilities to effectively integrate the acquisitions. To answer them we will share a couple of case studies in terms of how the integration has gone in Indonesia and Argentina.

There are 3-4 facets of our integration approach that I believe are quite distinctive for Godrej. The first element of our approach is that we try and create a lot of alignment with the local team of acquired company through our Godrej value system and the Godrej way of working which essentially provides a huge amount of comfort to the local team to work effectively. The second is that we work very hard to drive a lot of synergies through our management processes and through operational efficiencies. The third is that we also work very hard to ensure that the management incentives are aligned. We converted most of the management incentive schemes to an EVA or EVA-like scheme. We believe this is the best way to have a very performance linked mind set. Fourthly, to drive innovation, we closely work with the local teams. Ultimately the name of the game in a lot of these markets is the ability to out-execute and out-innovate larger competitors. We found that through effective partnering we have been able to rapidly scale up the innovative capabilities of the acquired companies.

Just like in the domestic domain, on the international business, our focus is to continue to lead in the category that we participate in and to grow ahead of the market. Indonesia we grew by 19% on like to like full year basis. Argentina business grew by 22% on like to like full year basis. UK where the FMCG segments that we participate in have de-grown at a category level, our business has grown at 11%. So the same principle of trying to build, extend and sustain leadership applies to our international footprint as well.

Now I will share a case study on Indonesia business. In a lot of ways Indonesia is market similar to India. There is a big emerging middle class and there is a very strong consumption story which we understand very well in India. Indonesia sales grew by 19% growth on like to like full year basis (local currency), and over 90% of this growth has been volume growth.

We have also leveraged a lot of our learning from India to enhance sales and distribution capabilities in Indonesia to drive growth. This includes things such as improving sales force productivity and improving sales execution. The other critical part in Indonesia has been the focus on innovation. Out of the 19% growth rate, almost 5% has been led by innovations launched in Indonesia. One of them is Hit nonstop extra power, which is largely modeled on our Goodknight active plus advanced product in India. In the air freshener segment we have launched a number of products to segment the area of usage such as Stella Bathroom freshener and Stella Car freshener. There are a lot of other products as well. Perhaps the most successful product launch for us has been hit magic paper. In Indonesia historically we have not participated in the coil segment of insecticides. HIT magic paper is a destructive innovative paper format product which is our way of

								
								

trying to participate in the coils segment. In about 8 – 9 months we have gained about 9% of the coils market. HIT magic paper is actually a more profitable product than the coil which tends to have much lower margin.

Alongside products and distribution the team has also worked very hard to improve gross margins which have increased by 60 basis points. This is after factoring in input price increases and has led to a meaningful increase in the bottom line. A bunch of initiatives have been launched and Dr. Rakesh Sinha, who heads our global supply chain, will be happy to talk to you more about them. We have done things such as global sourcing of ingredients, transferring our best manufacturing practices from India, providing more automation, etc.

Along with gross margin, we have also worked very hard on reducing working capital which has reduced by about 30 days. This significant decrease in working capital is through better inventory management, better credit terms with global suppliers and a much tighter control on receivables. As you can see we have really worked hard on every single element of P&L to be able to drive much better performance from the Indonesian business. Of course, none of this would be possible without a great team in place and we are very proud of our team. It's a very strong local team with a lot of guidance provided by Shashank Sinha through international centre. The business today has a healthy mix of resources which were there from prior to the acquisition, some from India and some external hire where we wanted to bring in more capabilities. As I mentioned the management team is aligned on a delta profit improvement plan and there have been a range of employee engagement initiatives that have been launched in Indonesia.

So if I were to step back before we made this acquisition, we had identified 40 people in the Indonesian team as critical talent and since the acquisition out of the 40 people only 1 of them has left the company which again shows to you hopefully the strong value proposition that we are providing to the Indonesian business.

The second case study is around Argentina; here we had acquired 2 companies which were actually competitors- Issue and Argencos. We kept them separate for the first 6 months to learn how to operate in Argentina and from December 2010 we began integrating them and in about 15 months we have done a very successful integration of these 2 companies and also done integration with GCL corporate. There has been a range of initiatives that were launched. Because these were 2 competitive companies, we spent a fair amount of time rationalizing the portfolio and focusing on the top 5 brands. We standardized SKUs. We also realized that apart from Argentina, there was a significant amount of growth potential for these companies in other parts of Latin America. For instance, the combined entity along with being the No. 1 player in hair colour by volume in Argentina also enjoys market leadership in Uruguay, Paraguay, and Bolivia and is among the top 3 players in Peru. Thus our team is focusing on accelerating it out of Argentina with a Latin America international strategy. A lot of work was also done in delivering synergies on procurement and logistics. Sales force has been re-organized and integrated.

The results are there for all to see, 22% sales growth, 200 basis points expansion in gross margins and 160 basis points expansion in EBITDA margins. If you compare the results of these companies pre and post-acquisition, in most of them we have been able to work very successfully with the local team to accelerate both the top line and bottom line.

								
								

One of the question that comes up is how do we think about the ROCE once we have made an acquisition. To answer this we can take a look at one of our earlier acquisitions, Rapidol. Rapidol was an African acquisition. When we made the acquisition the return on capital employed was about 21% largely because of the acquisition costs that were entailed in the acquisition. But through improved performance, revenues and profits, this year the ROCE for Rapidol is over a 100%. So clearly we believe that while the ROCE might dip in the initial years, overtime you will see our international businesses reporting very healthy ROCEs, once we finish making the improvements that we can make on the underlying business and the debt has been paid off.

Thus if you take a look at our international business at our EBITDA margin improvement both on a quarter-to-quarter basis and on the full year basis, you see the result of the strategy pay off where EBITDA margins have expanded by about 400 basis points over this period. This clearly indicates that our strategy of partnering with the local teams and driving synergies in a very systematic manner seems to be working thus far.

The third important priority for us is innovation and this is one area where we are substantially enhancing our capabilities. As Mr. Godrej said you will see a lot more news in this area over the next few years, but ultimately most important objective is to make sure that our brands remain relevant and that our consumers remain excited about what they buy from us. Nisa Godrej, who heads, innovation for us is here to answer more questions around it but we are focusing on figuring out how to differentiate ourselves from competition, how do we accelerate innovation and how do we harness opportunities to cross pollinate our portfolio across various markets. We have some great brands in different markets and a lot of what Shashank's team does is focus on how to cross pollinate the portfolio.

I will quickly walk you through a few of our key innovations and not spend too much time on it but clearly in India we have seen a lot of growth from Godrej No. 1. Saffron and Milk Cream variant has done extremely well over the last 1 year and will continue to do well over the next 12 months. We have just launched a new variant, Rose Water and Almonds. So you will see a lot more growth coming from the new variant as well.

On the hair colour side, we have launched 2 very innovative products, one is Godrej Expert Care which is a Henna, Amla based natural formulation and the other one is Godrej Advanced which is a very unique pro-gel formulation with no drip and a triple conditioning formulation. I have already talked about HIT magic paper in Indonesia but apart from that there have been other products in the Stella range and in me-too baby care range as well. In South Africa also we have had a fair number of new launches, of particular mention is Renew. We re-launched Renew a few months ago targeting the Caucasian market in South Africa. Historically we have only played in the ethnic hair coloring market in Africa where we are the clear market leader but a few months ago, we decided to target the Caucasian hair coloring market in South Africa through Renew. Within 6 months we have achieved a tremendous amount of success and Renew is now the third largest Caucasian hair coloring brand in South Africa. Along with that, both our Inecto and Inecto plus products there has been a fair amount of innovation happening in packaging and in additional benefits we provide in the product formulation.

								
								

In Argentina we have launched an ammonia free cream. We have also launched under the Roby range a hair serum that addresses the problem of split ends with a product that contains keratin. We have also introduced a hair gloss product which is the first anti-frizz product in Argentina in an aerosol can.

In the UK, the name of the game has been innovations. Of particular mention is the Touch of silver brand. The product was re-launched last year to target blondes and grey through a three step shine treatment. This is just a small sliver of the innovations that we have launched over the last 12 months and clearly our focus will be on accelerating the pace of innovations that drive additional value for our consumers.

The fourth critical area that we are focused on is to build a future ready sales system. Sunil Kataria, who is our India Head of Sales and Marketing, can spend more time with you during the Q&A to provide more details around this. But there are broadly four key areas of focus. One is that, as Mr. Mahendran mentioned, we have seen a lot of benefits through the merger with GHPL and we are seeing a fair amount of distribution benefits from that merger. We will continue to leverage this big scale, expand urban coverage and tap into rural potential. We have seen a lot of synergies on the rural front which I think Sunil will be happy to address. At the same time we are focusing a lot on new and untapped or under tapped channels like chemists and colour cosmetics. We are also working very hard to build next generation sales capabilities in areas such as merchandising and trade marketing and also on improving our sales force productivity through the use of IT.

There has been 24% sales growth if you look at our branded sales growth domestically over the last 12 months. Our direct and indirect reach has increased by 0.6 million. We intend to increase it by 1 more million this year. We added 8000 villages to our reach and our plan is to do 15000 villages this year. Clearly we are seeing a lot of benefits of the increased scale GHPL provides from a distribution point of view and we fully intend to capitalize on that.

The other important priority for us has been in modern trade. We have seen about 50 basis points increase in saliency in modern trade and it is now about 5.5% of our India business. We are investing a lot of our effort in becoming a preferred supplier to modern trade partners and in improving fill rates.

This brings us to our fifth priority which is trying to build a world-class supply chain. A lot of groundwork has already been laid by Dr. Sinha and his team to have a global supply chain organization and a global strategic sourcing cell. We are also working across the entire spectrum on a range of best-in-class practices. One which deserves particular mention is in the area of demand driven supply chain. This is one area where I feel we are actually pioneers and we have introduced a lot of innovations. We are seeing a lot of benefits by being a lot more demand driven in our supply chain.

A key part of our supply chain organization efforts is to make sure that we can extract efficiencies in our commodities buying. And if you look at PFAD which is one of the key commodities on the soaps front, on an average, our buying price has been 5% lower than the average replacement rates over the last 12 months. So we have been able to get significant cost advantage through efficiency

								
								

in commodities buying. Dr. Sinha and his team have been focused a lot on trying to improve the productivity of our supply chain. A lot of work has been done in de-bottlenecking soap and chemical capacities. This has effectively increased our production capacity without incurring any major CAPEX. A lot of initiatives have been launched to reduce wastage and increase yields.

We have been also focused a lot on strengthening our logistics, consolidating our CFAs and our transporters after having integrated secondary roots, lot of synergies in terms of trying to drive lower freight costs. As I mentioned before, modern trade has been a big focus area for us and we have been very focused on improving fill rates and achieve best in class levels. We have consistently been ranked among the top five FMCG companies, the definition for which includes household, personal care and food companies. In some modern trade retailers we are number one, in some we are number two, but on average we are among the top five of all FMCG companies in the modern trade space in terms of fill rates.

As we had mentioned before, we see a lot of opportunities in terms of the GHPL merger, both in terms of revenue potential and cost synergies. We had set ourselves a revenue synergy target for about Rs 2,000 crore of upside potential through the merger in 3-4 years time frame. Last year itself we have seen 24% growth in the India business. On the cost synergy side, we had set ourselves a target of about Rs 200 crore in 3-4 years post the merger. We have already seen synergies of about Rs 90 crore in current year, totaling to around Rs 120 crore in first 2 years. So we are already about 65% of our five year target in about two years. So we are clearly ahead of plan as far as capturing the potential of this merger is concerned.

The final pillar of our strategy is ensuring an agile Godrej and nimble we are and that means we ensure that we empower our teams and also create a culture of professional entrepreneurship. Ultimately our long-term competitive advantage will rely on our ability to out-execute and out-innovate our competition. On the domestic front it has been a very smooth integration over the last 12 months. As I mentioned before on the international front also I think we have been successful in terms of integrating our international businesses as well as maintaining the right balance between localization and the right Godrej culture. We have a very strong international center in place and it is quite impressive that our regrettable attrition during this tough time of integration and transformation has been about a very low 3%. Not only have we managed to keep our attrition quite low but at the same time we have managed to have our employees highly engaged with GCPL. We worked with Hewitt and used one of their standard industry surveys to capture engagement score. GCPL is at an engagement level of about 70% which puts it in the high-performance best employer range. The best employer in India across all industries has an engagement of 77% and the best employer in Asia has an engagement of 81%. Clearly while 70% is very good our aspiration is to move that score even further to be among the best employers in India and other parts of the world.

The way we deliver this strong employee proposition is to have a HR vision having three key prongs. Rahul Gama who heads HR is here and can answer more questions about this. One prong is to make sure that the processes on the HR front are very simple. The second is to be true to who we are. We have a philosophy called Tough Love and I will spend a couple of minutes later on talking about it. The third is that we have a very unique employer proposition and we want to be very edgy in terms of our remuneration, our brand and our culture. For all of these three parts of

								
								

our HR vision we have clear metrics and KPIs in place to measure how well we are doing on these dimensions. One of our key philosophies has been around this concept called Tough Love which very simply means that the bar continues to rise. So expectations will increase and we will demand more and more from our people. In return for higher expectations what is sacrosanct is the Godrej value system and our commitment to provide our employees with the best career opportunities. So we provided a lot of feedback, coaching, career, but in return we expect a lot. The market recognizes our employer proposition and that is obvious from the fact that in all surveys GCPL has been consistently ranked as among the best FMCG companies to work for in India.

The final thing that we want to talk about is our commitment to philanthropy and our communities which has been core to the Godrej group and a part of who we are. Over the last 12 months or so we have tried to figure out how to up that game and we have defined a group initiative, called 'Godrej Good and Green' which is all about building a more inclusive and greener India. We are starting with India first and then we will take this to other geographies as well. We have set ourselves some very aggressive goals. Goal number one is to train 1 million rural and urban youth for skilled employment. These people will not necessarily all work for us but part of our commitment to India has been to create a much more employable workforce.

The second big goal is around creating a greener India where we aspire towards achieving zero waste, carbon neutrality, positive water balance and 30% renewable energy. The third goal is to innovate to create more good and green products. These products would be focused on the people who get the bottom 50% of the income in India. Like other group companies GCPL has embraced 'Good and Green' in its fullest and there is a lot of work going on within GCPL on all of these three pillars. Over the course of the next year and two subsequent years we will provide you with more information on how we are doing on 'Good and Green'.

I will stop at that. I will ask Ganesh to continue with the financial overview.

P. Ganesh - Chief Financial Officer

Godrej Consumer Products in its present form came into being about 10 years back when it was spun off from the erstwhile Godrej Soaps Limited into a separate legal entity. As you would see we started off with a turnover of about 450 crore and over the last 10 years we have grown more than 10 times in terms of sales. So that translates to a CAGR of close to 27%. As Vivek mentioned earlier in presentation, quite a few initiatives which we have been taken recently and the fact remains that we have continued to grow very profitably and EBITDA margins in fact have improved over this 10 year period. What it means in terms of bottom-line - driven by many initiatives both in terms of margin improvements as well as in ensuring that we have a leaner balance sheet. Net profit CAGR has been 33% over last 10 years. While the focus has been in terms of growing profitability, we are equally committed in terms of ensuring that the balance sheet continues to stay healthy. So as you would see from the current numbers we have ended March 2012 with a debt-equity ratio of 0.43 which is a very comfortable and strong position to be in. As Vivek mentioned in his presentation, focus has also been in terms of improving working capital. Just in the current year we have improved working capital by more than 100 crore.

								
								

We do have a balance sheet with a very low gearing. We have low cost debt with cost of debt being a little under 3% p.a. We continue to maintain a healthy debt-equity ratio. Although we have brought down our overall debt to about \$305 million, debt repayment in fact is quite spaced out over the next six years.

In terms of the market place appreciation, the share price CAGR has been 42% and our market capitalization increased by 47 times in last 10 years. In the same time FMCG index has a CAGR of 18%.

I would like to open the floor now for questions. Thank you.

Continue: - Q&A...

								
								

Questions and Answers:

Adi Godrej - Chairman

We will be very happy to answer any questions.

Participant

What are your growth plans for future?

Adi Godrej

We want to be 10 times as in size in 10 years time, which is a compound annual growth rate of about 26%, we hope to achieve about 15% to 20% organic growth and the balance through inorganic growth.

Participant

How do you see the international business scenario in diverse markets like Latin America, Europe and South Africa with such growing product range and where will be emphasis going forward?

Adi Godrej

Indonesia salience will come down because our African acquisition will add a lot of salience to our growth. Africa Latin America will be very big geographies for us. We just concluded a partnership in Chile where we own 60% of the company, which is mainly in the hair colour field. We will grow in more geographies as well.

Vivek Gambhir

I want to mention is from an international strategy point of view. Currently our focus on to consolidate in the geographies that we are in as opposed to opening up new beachheads. So as Mr. Godrej as mentioned one of the critical priority is successfully integrate Darling group of companies. Along with that, we are very open to both organic and inorganic ways to actually get additional scale to further accelerate the growth in the geographies in which we are.

Participant

Will it be safe to assume that five years down the line international business will contribute as much as the domestic business or is it a little early to say?

								
								

Adi Godrej

We are agnostic to that. We want to grow if we get a good opportunity for an Indian acquisition we would like to go ahead with it. Organically also we would like to accelerate our growth both in India and internationally. We do not have any particular goal for salience of international to our total.

Participant

Would you please indicate few of the initiatives which led to EBITDA margin expansions?

P. Ganesh

The EBITDA margins expanded across all our businesses. I think it's a combination of factors as Vivek has presented in the slide. Clearly, there are synergies in sourcing and cost of goods as we combine volumes and take benefit of scale that is being the obvious one that we have.

I think more than that we have been pro-active in managing our cost and keeping our pricing in tune with the inflation or ahead of inflation in most of the markets. We have improved our mix and most of the innovations are at a higher gross margin level than our existing product range states. It is a combination of 3-4 initiatives that eventually deliver the kind of delta increase in EBITDA margins.

Adi Godrej

We are able to translate our best business processes from India to our international geographies and that has also helped manufacturing, logistic, supply chain and various other business processes.

Participant

This is Pritesh from Emkay Global, congratulations for achieving a pretty large size in operations in a very short span of time. My question is largely towards the financial integration of the company.

1. What could be the steady growth rates for some of these acquisitions geographies?
2. What would be cash generation potential that one should look at over the next three year for these geographies?
3. Is there a difference between the return ratios for Godrej Consumers compared to four- five years back and now? On a consolidated basis, where do you see return ratios moving up? It doesn't

								
								

happen that the growth is actually coming at these return ratios moving up, it doesn't happen that the growth is coming at the cost of these return ratios

4. What would be the cash utilization program over the next three year period from these businesses, the potential for the cash generation and utilization?

Adi Godrej

I would like to answer the one of the questions than I will ask, P. Ganesh to answer some of the other questions, but as far as return on capital employed is concerned, and the return on net worth is concerned, we used to have triple digit figures, but obviously you can't get those kind of very high returns on new capital investments and as long as you get high returns on new capital investments, which is well beyond the cost of capital. When we take the cost of capital, we take the weighted average cost of both Debt and Equity. We are very happy because we think we're creating a lot of shareholder value, so our return on capital employed still continues to be very high, but clearly not be very, very high triple digit figures that we had in the past. We run our business on EVA measurements, as long as we are strong positively EVA been generating for new capital deployment, we think we're creating a tremendous value and we continue to view our returns on capital from that point of view.

P. Ganesh

The cash generation potential, I would say is quite immense. If you look at our businesses the India business continues to generate 18 to 20% EBITDA margins. If you look at some of our international geographies such as Indonesia and now the acquisition of Darling, these geographies also have similar margin potential. We ended the year with more than Rs 600 crore in terms of profit after tax. The cash generation potential continues to be significant as we grow further. In terms of utilization, we have more than \$300 million debt in the books at the moment. The first priority clearly is using good part of cash generated for debt servicing, We used to have close to 75% to 80% dividend payout ratio 3-4 years back, today while the absolute dividend has gone up the payout ratio has come down closer to 30%, which again shows that good part of the cash generated is retained in the business for debt servicing.

Participant

Is there any larger cash deployment requirement in these businesses in the near term?

P. Ganesh

FMCG businesses across the world and, more specifically, the business that we operate in only require cash deployment for working capital management. While in India, of course, we work on negative working capital. However, our most of our international business are running on positive working capital as there is higher salience of modern trade. The fixed capital requirement is very

								
								

minimal so the cash generation for the business is largely on working capital, which is by and large generated by the businesses themselves.

Adi Godrej

New capital requirements could mainly be for further acquisition. Currently we have announced the Darling acquisition, which will require some capital deployment as we go into phase 2 and phase 3. The Chile acquisition which we have announced has already been paid for, so we don't see much additional capital requirements unless there are further value added acquisitions.

Vivek Gambhir

As far as capital requirement is concerned for the acquisitions where we have visibility largely being the Darling group acquisition it would be funded through internal accruals, cash which we have on the balance sheet and partly by that.

Participant

What has been your experience so far in terms of paybacks from these acquisitions and can they be improved by any measure?

Adi Godrej

It has been very good returns. As you can see, they all been very accretive and we have cut down the working capital used in our business. We are also taking our India business best process to our international business. In India of course we continue to work on negative working capital, which is increasing as the business increases. So that's a very strong cash flow for us.

A. Mahendran

We acquired two business in South Africa (Rapidol) and UK (Keyline), 4-5 years back and payback of those investments happened already. Now if you look at Indonesia business, the payback has already started and it has its own timeframe.

Participant

What could be the steady state growth rates for some of these geographies and the categories of FMCG market?

								
								

Adi Godrej

It is very difficult to define an exact growth rate in each of these geographies, but as I mentioned our objective is to have a 10 x 10, 10 times in 10 year, which is a CAGR of 26%, 15% to 20% of this growth we are very confident of achieving organically and the balance would be inorganic.

Participant

There has been significant improvement in the market share and a substantially high growth rate number, how do you see the market performance your own performance in these categories over the next 2 -3 years? Also is there any interesting trend or development which is visible?

A. Mahendran

As far as Household Insecticides is concerned, the good thing in the next three to five years, in our opinion we will bring a good amount of rural penetrations.

Adi Godrej

We also have strong innovation pipeline in the household insecticides business which we think will accelerate the growth.

P. Ganesh

Last one year, we have integrated rural business of two companies and what we're witnessing post this integration is that we have started getting synergies of both business right now and as Mr. Mahendran mentioned, that HI is one category, which has pretty low penetration right now in rural. Now we have got the infrastructure in place, we expect HI business to really benefit the most out of this rural synergy for us. So it is a very, very positive trend that we see in the coming years.

Participant

What is the growth plan for the African continent?

Shashank Sinha

Because we are integrating the Darling acquisition we need to really separate out inorganic and organic growth. I assume your question is most related to what is the steady state organic growth in Africa on a like for like basis, is that correct?

Participant

What are we trying to achieve and in what timeframe?

								
								

Shashank Sinha

Our Nigerian business last year on like for like basis has grown close to 35+ percent growth. Our South African business a part of it, which is the consumer goods business, has also grown in double digits. I think the steady state growth rate is quite healthy. On top of it when you add the integration of inorganic businesses we see a big delta increase in Africa business this year.

A. Mahendran

Just to add to what Shashank said, we are also planning to enter with household insecticides category in African markets. I expect that this will give a growth in Africa.

Vivek Gambhir

If you're asking about what the growth priorities are, then there are about five key priorities. As Mr. Mahendran said, one priority clearly is insecticides launch in Africa. Other priority is that we are leaders in ethnic hair colour across multiple African countries and that is a very big priority around driving the Inecto brand to full potential and extending the Inecto brand into some adjacent products. The third is around Renew which is really driving the Caucasian South African hair market to full potential. Shashank Sinha mentioned Tura and how we scaled up the Nigerian businesses effectively on the background of Tura so it is our fourth priority. The fifth one is around effectively integrating the Darling businesses.

Adi Godrej

Africa will clearly be a much bigger salience in GCPL businesses in the years to come.

Participant

That's why I am trying to understand how it is going to be?

Adi Godrej

The growth rates are very high primarily because of the inorganic growth.

A. Mahendran

Just to add to that we are the largest FMCG business in India (Indian home grown company). Our wish is to be the largest Indian FMCG company in Africa too. You have other Indian FMCG companies which are in Africa, but Godrej Consumed products will be the largest there.

								
								

Participant

What are the capex plans for next year?

Adi Godrej

Most of the CAPEX is on acquisition, there is no CAPEX in terms of land, buildings and machineries. In FMCG that is typically not a very high part of the total capital required. In fact, there was a time when despite our CAPEX investments we were paying 90% dividends. We did 10 buybacks so CAPEX in terms of factories is not a big thing in FMCG it is a very small part of the total cash generation. So for GCPL the main CAPEX requirement will be for the acquisition commitments as we go forward.

Participant

Which product lines are we trying to target and acquire in the near future?

Vivek Gambhir

Ultimately I think our strategy from an entry point of view. When we look at entering any geography I think the entry point has to be our Company, that's a leader in either in the insecticides or hair colour or personal wash in most cases, to be honest with it either hair care or insecticides that the entry point into a geography I think once we entered the geography and as you build additional scale then, the focus is on becoming a broader household in personal care player, but it's still a very focused strategy along the household and personal care.

Adi Godrej

In the three continents, which comprise the developing world so the Asia, Africa and South America

Participant

I see an advantage in Africa versus India on competitive landscape as MNCs are not very active in Africa yet, compared India in the last few years. What could one expect in the years to come from multinational companies?

Adi Godrej

I would disagree with you. I think the multinationals are very active in Africa. So, for example, Unilever has a very large presence in the Africa.

								
								

Participant

With respect to the categories in which GCPL operates?

Adi Godrej

We are in soap business in Africa. We are in hair colour where L'Oreal is very strong. The only category that we are very big in now is hair extensions where there are no multinational competitions. We do not expect any major multinational competitions to come into that category in the near future, but otherwise in all our categories, we do compete with the multinational. We have successfully competed with multinationals and we have gained shared against multinationals both in India and outside.

Participant

What is your USP or your right to win, which has enabled you to post this performance?

Adi Godrej

I think one of the things we compete very well with multinational in is that we have picked up over the years, some of the best business processes in marketing and innovation from what multinationals are very good through the partnerships we had with multinationals over the period of time and we have imbibed them very strongly, but in addition to that we have a very quick decision-making process, which is unlike what multinational tend to have so I think that is the key competitive advantage. Then I would dare say that some of the other Indian competitors of multinational companies have similar positive attributes of late.

A. Mahendran

Just to add to what he is saying, on a path front how do you address the bottom of the pyramid technologically in terms of how you deliver products for the bottom of the pyramid in India and next let's take the hair colour we are the first ones to introduce powder hair colour, which is to my mind is the addresses is very low cost solution for hair colour range. This we introduced a quite long 30 to 35 years back and now return to household insecticides again we have technology which can address bottom of the pyramid and now go back to Africa. If you look at is I think we are well here as the three core categories focus on Africa, the African markets today to the consumer point of view thus respond a lot to bottom of the pyramid, something similar to India, so that could be one of the strength for us as compared to asking specific African multinational.

Participant

This is Shirish Pardeshi from Anand Rathi. Congratulations on the set of numbers. I have three questions - one pertaining to India business.

								
								

GCPL posted 3 x growths in all the categories, Can you share the numbers reported in soaps and household insecticides? What exactly is happening in this space? Is the market shifting completely to the value added segment or is it moving from Coils to Aerosols? What is happening in the soap business?

Adi Godrej

I will talk about soaps first and ask Mr. Mahendran to talk about household insecticides. Soaps have grown ahead of the market, especially in the last year. We expect to continue to do so in future. No 1 brand has added a lot to this growth because of our variant philosophy where we are bringing in successful new variants. It is a good value for money offering. It is the largest selling Grade I soap in the country, so it provides excellent quality at a very affordable price. I ask Mr. Mahendran to talk about household insecticides and see if he wants to add anything on the soaps business also.

A. Mahendran

Household insecticides the up-gradation, as you said, to Aerosols is not true, actually the shift is happening towards liquid vaporizer. That's a category which is growing very well and if you look at it, Goodknight as a brand has taken market leadership. In the last two years, our growth rate has been much ahead of the market leader. We have now taken the leadership for liquid vaporizer which is primarily on account of Goodknight Advanced technology, which we introduced about 3-4 years back.

It is delivering good result and if you really look at the per night cost, liquid vaporizer is quite cheap in terms of per night usage. It is actually cheaper than the Coil. So the real growth is coming from there.

Participant

In last four years significant initiatives and challenges were taken by the senior management with respect to hair colour, but the growth is still a big question. What exactly is going wrong? Is there a market which is growing faster at the top end? What is your outlook for Powder Hair dye?

Adi Godrej

It's a very competitive market we have very strong profitability in that category. So if you look at the hair colour market by value, we have about 26%-27% share of the market, by the number of uses we are about 40 odd percent share of the market and if you look at the profits of the category we probably have about 60% share of the profit of the category. Now clearly it is a very remunerative category for us, so obviously will face competition, both at the top end and the bottom end, and we have come to the conclusion that we have to put a lot of emphasis on innovation which we have done. The re-launch of our powder hair colour range, we think, is catching on very well now and just like we made a major improvement in our household

								
								

insecticides market share over the last couple of years. We see that going forward and happening in hair colour. We have further innovations that we are putting in place which we expect to take into the market over the next couple of years, but I would agree with you that we have not done as well in the hair colour market as we have done in the household insecticides and the toilet soaps.

Participant

There have been significant acquisitions, I believe you would continue growing inorganically stronger in order to double the turnover, when will Godrej Consumer Products move out of soaps, hair colour and insecticides into new categories or is the acquisition strategy extending to new categories?

Adi Godrej

Our acquisition strategy globally is to acquire in businesses which we know very well and in which we have great strength in India, so hair care, household insecticides and personal wash. In India, we would be open to look at acquisitions in the personal and household care space but which is not necessarily in the area we are in. Organically, to get in into a totally new category we think would be a tough call whilst we are getting into adjacencies and we're getting it is new, smaller categories organically very successfully, we may not do so. So if you ask me would we go into a business like oral care. Organically, it is unlikely, but if we have good acquisition opportunities, we would look at it.

Participant

Congratulations on delivering a very good set of numbers. Is there synergy in having common operations or a common plant given that GCPL is spread across geographies to achieve better operational efficiency in the hair care business? GCPL has different plants in different regions under the different product categories. Is there some thought process to consolidate all these at the manufacturing levels?

Shashank Sinha

Already some of the geographies are quite strong in producing particular types of hair colour. For example, all powder hair colour that we launched in Africa are manufactured in India and exported out of here because of the strong technical base that we have here. In Africa, and Latin America we are still making crème hair colour from the crème hair colour is going from India to Africa and over a period of time we would look at our consolidated manufacturing hub if that leads to lower costs without sacrificing the agility in the market place. In an FMCG product category like hair colour agility is extremely important. Because consumer demands could shift very swiftly our inability to supply to consumer demands will be more detrimental than just doing some cost saving. So it's better to be closer to the market, but for now the specialized products in hair colour it's quite possible that you're making in one of the continents and supplying to adjacent continents.

								
								

Participant

How is the empanelment and registrations process in Africa with respect to household insecticides and what kind of timelines or costs would that entail?

A. Mahendran

As far as, you are asking specifically for Africa, the registration procedure there takes at least one to one and a half years range which is about six month lesser than in India. Cost involved in getting those registrations is not that significant.

Participant

There has been great improvement in the EBITDA margins on the international side, 400 bps increases on a year-on-year basis. How much of that would you attribute to favorable FOREX movements and what would this 400 bps come to for the year FY 12?

Adi Godrej

But when you translate the EBITDA margin from a local currency to Indian rupees, both the numerator and denominator change. So the margin in rupees would remain the same as the margin in the local currency.

P. Ganesh

The benefit will be in absolute amount in terms of EBITDA margins, there is no impact of FOREX.

A. Mahendran

If I may rephrase that, if you look at EBITDA margin as a percentage of sale we have seen 400 bps increase, which is not on account of any favorable currency. It is a result of 3-4 major initiatives that we have talked about.

Adi Godrej

There are no further questions.

Thank you very much.

								
								