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

November 9, 2012

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

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

Dear Sirs,

We enclose herewith for your information, a transcript of the proceedings of the conference call held by the Management team of the Company with financial analyst on November 3, 2012, post the announcement of Q2 results for 2012-13.

Yours faithfully
For Godrej Consumer Products Limited

Ramesh Iyer
Dy Company Secretary

Encl: as above

Godrej

Investor and Analyst Q2 FY13 Conference Call

Nov 03, 2012

Nikhil Vora - Moderator

Good afternoon, everybody. I welcome you all to the Q2 FY13 post results conference call of Godrej Consumer Products Limited. We have with us the senior management team of Godrej Consumers led by Mr. Adi Godrej. I will hand it over to Mr. Godrej to make the opening remarks and way forward and then we will open it for Q&A.

Adi Godrej - Chairman

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

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

I will recap our six key business imperatives and assess how we have performed on these priorities during the quarter. After this, I will discuss the highlights of our financial performance during the quarter. We will then open the phone lines for any questions you have.

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

Our household insecticides category delivered yet another quarter of robust performance with a 20% sales growth. This growth is much higher than the category growth. The growth drivers are distribution synergies, innovation and continuous brand investments. We continue to gain market share and enjoy leadership positions across all formats of electrics, coils and aerosols. We remain optimistic of continuing the growth momentum going ahead.

Our soaps business continues to grow strongly, at 24% growth for the quarter. Volume growth of 6% was marginally ahead of the category growth. This is the seventh consecutive quarter of volume growth ahead of the category growth. We continue to be the second largest toilet soaps player in the country.

Towards the end of the quarter we launched a major refresh of Cinthol. Cinthol, as you know, enjoys tremendous brand equity. With the Cinthol refresh, we hope to address three objectives: (1) Connect to a vibrant, energetic, young India, (2) Build a strong personal grooming brand and (3) Deliver premium experiences to our consumers

The refreshed Cinthol range of soaps, deos sprays, talcs and shower gels delivers functionally and experientially superior benefits that are perceptible by consumers. The range of soaps have great fragrances plus high TFM with deodorant and have an ergonomic shape. The deos have superb fragrances that last long. The shower gels also have excellent fragrances and are easy to wash off. The packaging and the look and feel of the range is very innovative. We are backing the Cinthol refreshed launch with a very compelling "Alive is Awesome" marketing campaign.

We are optimistic that the success of our earlier new launches and re-launches, along with our intensifying marketing and promotion focus, will enable us to sustain a strong growth momentum in the personal wash category. Gross margins have expanded on year over year with full impact of price increase and efficient vegetable oil buying. With the recent fall in vegetables oil prices, we expect margins to expand, along with maintaining our focus on gaining volume market share.

We continue to enjoy market leadership position in the hair colourant category. We grew by 10% during the quarter and are optimistic of growing at relatively faster pace during the second half of this year. In early October, we launched Godrej expert rich crème hair colour, a very innovative product. The Godrej expert rich crème comes in pre- measured sachets that make it easy to use. It contains the goodness of aloe protein that makes the hair soft and shiny. The no ammonia formula helps retain hair protein keeping hair stronger. The product gives 100% grey hair coverage and is available in five long lasting shades that look rich and natural. The product is priced at a very accessible price point of Rs. 30 per sachet. To hand hold first timers, Godrej expert rich crème offers a hair coloring kit at just Rs. 59 with a bowl, brush, crème, developer sachets, ear caps, gloves, stain removal wipes and conditioner.

Godrej Expert rich crème has been developed leveraging learnings and technology from our Argentine business. In a blind consumer test, consumers voted Godrej expert rich crème as being far superior to other available crème colors. The second pillar of our strategy is to drive growth in our international business, guided by our 3x3 strategy, of being in three core categories and in emerging geographies in Asia, Africa and Latin America. Our biggest international business, Megasari in Indonesia continues to grow at a strong pace of 37%, aided by the success of new launches and distribution expansion. Local currency growth was around 26%.

Megasari is the market leader for urban household insecticides, air care and wipes in the Indonesian market. EBITDA margin was stable at 19% (before payment of technical & business support fee). HIT Magic, which is a disruptive innovative paper format mosquito repellent, continues to gain good traction replacing coils in the market behind strong media campaign. Hit one push aerosol was successfully launched during the quarter

Our African operations, which comprise Rapidol, Kinky, Tura and Darling, made steady progress during the quarter. Revenues stood at Rs 163 crore and EBITDA margin at 16%.

The integration of the Darling businesses is proceeding smoothly. Phase two geographies will be consolidated in Quarter three.
We are also happy to inform you that early this week, we launched home insecticides in Nigeria. We are optimistic about the opportunities in the home insecticides category in the African continent. We expect stronger sales growths and steady state operating margins from this region going ahead.

Our Latin American operations, which comprise Argentina and Chile, made steady progress during the quarter. Revenues stood at Rs 127 crore and EBITDA margin at 4% during what typically is the relatively weaker season for hair colors. The integration of the Chile business is going on quite smoothly. We had several launches during the course of the quarter supported with upfront higher brand investments. We also continue to invest in growing our business in the neighboring countries of Argentina. We are also working on several automation and cost reduction initiatives to strengthen margins in Argentina. Going ahead, we are hopeful of strong sales momentum and better margins.

Our Europe business registered revenue growth of 29%, with EBITDA margin of around 9%. Local currency growth was around 10%. Brands like Bio Oil, Cuticura and Touch of Silver continue to grow well.

Our third strategic pillar is to accelerate the pace of innovation and to strengthen our brand portfolio. The last few months have seen many innovations and new launches across categories and across geographies. We launched Aer air fresheners, refreshed Cinthol, Godrej Expert rich crème hair colours in India, home insecticides in Nigeria, Hit one push aerosol in Indonesia, Villenueve sun care range in Argentina, Pamela Grant summer collections cosmetics range in Chile and the Aapri skin care range in UK. The initial response to these launches has been encouraging. We are very optimistic that all the launches, strongly supported by 360 degree marketing campaign will help drive the strong growth momentum further.

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

Our fifth pillar is to create a global best-in-class supply chain. We have taken strong steps in this area by establishing centers of excellence in TPM, lean, six sigma and low cost automation. We have also set up a strategic sourcing team to leverage scale and reduce our procurement costs. Our strong gross margin performance, especially in our Indian sub-continent business, is well supported by ongoing cost saving initiatives. Our final imperative relates to fostering an agile and professional entrepreneurial culture. We recently conducted an engagement survey with Aon Hewitt. Our engagement scores have moved up by 800 bps from last year's level and are 100 bps higher than India's best employer in 2011. This strengthens our position, of being one of the most preferred companies in India and to retain and attract high talent employees.

I will now cover the highlights of our financial performance this quarter. For the quarter ended September 30, 2012, our consolidated net sales stood at Rs. 1,595 crore, with a growth of 35%. Our consolidated business organic sales growth also was very robust at around 24%. EBITDA margins stood at 15.6%. EBITDA margins are normally lower during the initial quarters of the year due to seasonality effect, where, in Indian sub-continent we have higher saliency of soaps and lower saliency of household insecticides, and internationally, this is the weaker quarter for the Latin American business. The coming quarters will have a more favorable category and geography mix, especially from a gross margins perspective. With likely lower commodity costs as well, we thus expect improvements in the EBITDA margins. Earnings per share non-annualized stood at Rs. 4.68 for the quarter. The Board of Directors has declared second interim dividend of 100%, which translates to Rs 1.0 per share.

Our net sales in the Indian sub-continent increased by 19% to Rs. 917 crore, with significant growth across the core categories. EBITDA margins stood at 17.6%, growth of 10%, relative lower than the sales growth completely driven by higher marketing investments. Our international operations, which accounted for 43% of our consolidated turnover during the quarter, reported revenues of Rs. 681 crore, an organic growth of 32%. EBITDA margins stood at around 13.0%.

As you can see, our operating performance has been very strong. The GCPL team has worked very hard to deliver these excellent results. I believe that our strong operating performance is a reflection of a robust business model, a great team and our ability to manage risks and challenges effectively.

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

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

Continue: - Q&A…

Questions and Answers:

Moderator

The first question is from Abneesh Roy of Edelweiss

Abneesh Roy

For the domestic business in the three sub-segments; soaps, HI and hair care if you could give us volume growth, price growth and market share. How have they grown?

Adi Godrej

I have already mentioned the volume growth in the soap category was 6%. In the other categories, it is very difficult to assess volume growth because the different category formats in household insecticides and hair color are very difficult to compare with each other because if you take weight it is not comparable, if you take any other measures, it is very difficult to compare, but a lot of the growth in both the categories was volume based. In terms of each subcategory, there was large volume growth.

Abneesh Roy

And what was the sales growth and market share?

P Ganesh

The sales growth for soaps was around 24%, for household insecticides was around 20% and for hair color around 10%.

Abneesh Roy

Sir you have launched the Cinthol in the last few months, do you see the 6% volume growth improving?

Sameer Shah

This 6% volume growth does not have the Cinthol relaunch impact. So surely going ahead, we do see our volume growth as well as value growth strengthening with refresh of Cinthol.

Adi Godrej

Cinthol launch numbers did not come into the last quarter numbers. So coming quarters can see the benefits of that.

Abneesh Roy

Similar in hair care category 10% growth should improve going further and if you could tell us how the crème launch has been?

Adi Godrej

The crème launch has done exceedingly well. In fact in some of the SKUs we are short supplied because the demand is much more than we expected, which we will correct very soon.

Nisa Godrej

I think the response both internally from our sales team and from retailers is one of a lot of excitement and especially on the hair kit which we did not think would be as high in volumes. There has been a lot of demand for that because it is a very differentiate product.

Abneesh Roy

Sir can you comment on the CSD impact on sales?

Sameer Shah

CSD is around 1% of our sales and we have not seen any growth, it has remained flat.

Abneesh Roy

Sir coming to Africa, 146% growth, if you could tell us what is the breakup of organic and volume data in this?

Sameer Shah

Volume is very difficult to compute because we are looking at different categories like hair extension, hair colors, but organic growth has been in high teens

Abneesh Roy

Sir in Latin America 85% growth looks very high, if you could explain that?

Sameer Shah

Again it includes Chile. So if you exclude out Chile, the growth is upwards of 25%.

Abneesh Roy

On the cost front, other costs have increased 38% YoY and 21% QoQ. The staff cost is up 3.4% QoQ?

P Ganesh

The increase in other costs is mainly on account of higher sales promotion expenses in line with the higher top-line growth and then when we look at employee cost, we have the consolidation of Darling as well as Chile which has happened this year which wasn't there in the base and these two geographies have relatively higher employee cost.

Abneesh Roy

And the sales promo expense will be in which particular geography or it will be across?

P Ganesh

It is across and largely in domestic.

Moderator

Our next question is from Shariq Merchant from Ambit Capital

Shariq Merchant

On the market share gains as we have been continuously seeing, just wanted to understand whether these gains are distribution led or is this winning market share from competitor in the sense the consumer switching to using Godrej products?

Adi Godrej

I think it is a combination. I think some of our product initiatives, some of our variant launches has helped and in certain cases, our increased distribution has helped. So it is a combination especially on household insecticides and soap, market share has been gained quite considerably. In household insecticides especially, the distribution initiatives and the merging of the two operations have helped a lot because in areas where household insecticide distribution was weak, we have leveraged the soap distribution very strongly.

Vivek Gambhir

The other point I would add to Mr. Godrej said was that along with distribution synergies and the innovations that we are launching, I think we are also backing the new product launches with a fairly compelling marketing campaign with an investment, with the result of the investments we are making, we are beginning to see the benefits of that as well

Shariq Merchant

And secondly, on the relaunch of hair colour, Crème format. Have we started seeing any signs of cannibalization, is that the process to have cannibalized product offering to the crème product?

Vivek Gambhir

I think this is both an opportunity to actually win share against other crème competitors and as Mr. Godrej said, in the product tests that we have done in the blind test, Godrej expert Crème has been rated far superior to competing products. Along with that, this is also an opportunity to migrate some of our existing powder users to crème and from first timer perspective also, we expect to start getting share for the hair coloring kit. So the combination is of all three different things, upgrading consumers to crème, encouraging first-timers particularly younger first-timers to adopt crème as a format and third of all also to win share of competitors.

Shariq Merchant

On the international business you just highlighted that the staff costs in Latin America and Africa are much higher, so just wanted to know whether this is going to be sustained over a period of time or is this only one of kind?

Sameer Shah

I think in terms of absolute value employee costs, more or less we will see the same levels going ahead. The benefit which we will get in later quarters is because of the sales base which would be much stronger latter part of the year, the percentage of employee cost to sales will move down going ahead in coming quarters.

Adi Godrej

All FMCG businesses in Latin America have high employee costs because of the structure of the employment terms etc. in Latin America. In Darling, the employee costs are high because it is a very labor intensive process. So Darling generally a fair part of costs is employee cost. So it is structural to both, the category in the case of Darling and the geography in the case of South America.

Vivek Gambhir

In terms of these numbers, I think this is driven more by timing of the consolidation as supposed to any other trends that you might be seeing here.

Shashank Sinha

I have to add one comment here that we have earlier in the year restructured our sales force and integrated 3 different sales force into one in the Argentinian business and favorable impact of that

we expect to see in the future quarters. So some of these initiatives that we taken to streamline our work force are yet to be shown in the numbers that you have seen.

Shariq Merchant

And lastly you just talked about the seasonality aspect, could you take me through how seasonality works in the African and Latin American business?

Vivek Gambhir

Typically in the Latin American business, this is still the end of winter and typically hair colour usage tends to be highest during the summer month. So typically the Christmas quarter tends to be the strongest in the Latin American business. Similarly in Africa, the Christmas and festival season tends to be the strongest season in terms of hair extension usage.

Moderator

Our next question is from Prasad Deshmukh of Bank of America

Prasad Deshmukh

My question is on the household insecticides launch in African continent. How big is the market there and who are the key players?

Vivek Gambhir

The market size in Nigeria, again it is very difficult to give you an exact estimate but from our preliminary assessment the market in Nigeria per se where we have done the launch, is about Rs 500 crore with aersol about 55% and coils are 30% in the salience**.** Competitors are a mixture of SC Johnson, local competitor by the name of Rambo and lot of Chinese import. So the market still is quite fragmented.

Prasad Deshmukh: Okay and what are your plans here, Are we going to go aggressively and launch household insecticides in the rest of the countries in Africa or will we like taking it step by step?

Vivek Gambhir

I think we will take it step by step. I think we need to learn first of all in Nigeria to see how well the products do and based on our learning in Nigeria we have a plan in place over the next 2-3 years to roll to this out in other markets, but I think we will evaluate this after couple of quarters to see how Nigeria does, because that is by far the biggest market, apart from South Africa in the sub Saharan Southern Africa region.

Shashank Sinha

The key competitors there are similar to what we face in India, except one local company there and like we said, which is currently our focus is to make this a successful launch in Nigeria and then evaluate the roll out in other markets including Africa and Latin America. But that you know that will happen in the later stage.

Prasad Deshmukh

Just any sense on what kind of market size it is overall other than Nigeria if you include rest of the countries where GPCL is right now present in?

Adi Godrej

We are not evaluating the entire market for HI in Africa yet.

Vivek Gambhir

The complication is that there is virtually no information available and whatever secondary research is available is very suspect. So I think in this situation as we have to get into a market, we are spending our own time trying to understand the market dynamics and so we don't necessarily have a full informed view of the African region as of yet.

Prasad Deshmukh

Last time we have said that we will see significant improvement in margins in LATAM, there were the seasonal reasons why margin LATAM had come off, that is one of reasons while LATAM margins have been hit. What are you saying about margins there now?

Shashank Sinha

Yes, like you said last time, the margins do move up as we come into season and typically quarter 3 and quarter 4 margins are significantly higher. So if you see the trend last year, we had for the full year double digit EBITDA margin and Q3 and Q4, delivered most of that. So I think clearly seasonality has a very big effect and that is yet to open up, the key season starts now leading up to Christmas and then into the summer months; you are going to see significant improvement in the EBITDA margin in the coming quarter based on the seasonality.

Prasad Deshmukh

What is the market share of HIT magic?

Sameer Shah

Close to around 8 to 9% in terms of volumes

Moderator

Our next question is from Vivek Maheshwari of CLSA

Vivek Maheshwari

On the margin bit, if I look at standalone or consol spread or delta on a YoY basis still there is 200 basis points decline; going ahead do you expect on a YoY basis there still can be a 150 basis point kind of decline in margin or it is going to improve as we hit into the second half?

Adi Godrej

We expect the margins to improve in the second half.

Vivek Maheshwari

On a YoY basis?

Adi Godrej

Yes, because one of the reasons is, commodity costs are getting to be favorable especially vegetable oils, which is a major raw material for our soap business.

Vivek Gambhir

I think one is as Mr. Godrej said commodity prices, secondly I think the seasonality effect will work in our favor, and third of all I think you know on a relative basis I think we are significantly upped investment in A&P for the new launches and to have good launches gain traction over the next couple of quarters you will see the benefits also on a margin perspective there.

Vivek Maheshwari

Second on the hair colour, the recent launch; have we gone national with that?

Vivek Gambhir

It is a phase national launch I think because it is only about 3 weeks into the market and so you may not see the products in all the geographies quite as yet, but the intention is to overtime make it a national launch.

Vivek Maheshwari

Any reason why you didn't go ahead with the test first, is it just that you got the product recipe right and therefore you wanted to go national or there is any other reason for that?

Adi Godrej

The test marketing is usually resorted to when we are not very sure of the product or the product format. Here the product is very familiar we are in crème colour so that was not the major issue.

Vivek Maheshwari

On the minority interest line, why is there a big fluctuation between first quarter and second quarter? The first quarter it was around 200 odd million and this quarter it is around 85 million.

P Ganesh

The major fluctuation which you are seeing is on account of the first quarter having a tax benefit in Africa, a part of which also goes to minority interest.

Vivek Maheshwari

Okay, so on a going forward basis but for the second phase of Darling, this number should be around 80-85 million, is that what you are saying?

P Ganesh

The number you are seeing in Q2 is something which you will see going forward, of course as we have further cases of Darling this will again change, just to articulate a little more, we had a tax write in in Q1 on account of the backward area benefits which came with the time lag. So that write in was taken in Q1 and that resulted in a much higher minority interest.

Vivek Maheshwari

And on Darling, the second phase, will the consolidation be for the full quarter in third quarter?

P Ganesh

No, it will be for part of the quarter, so it will be for roughly about 2 months

Vivek Maheshwari

You would obviously be making more payments, will there be further draw down in debt or you have enough cash on books to take care of that?

P Ganesh

No this has been funded by debt.

Vivek Maheshwari

So you will be borrowing or you will be drawing down more for funding this?

P Ganesh

So this additional phase which is Kenya has been funded entirely by debt so it has happened already.

Vivek Maheshwari

And lastly on the growth rate, while the overall growth rate has been very strong in this quarter, but these have been lower than what these were in the recent past. Anything on the industry in terms of growth rate, what your outlook is, are you seeing any slowdown or moderation, whatever it may be.

Adi Godrej

No, we are not seeing much of a slowdown. I would say overall FMCG growth may be slightly lower currently than it was say in the first quarter, but we don't see any major slowdown and we expect growth to continue especially with our new launches, our growth in the domestic market is expected to continue strongly.

Vivek Maheshwari

Would this comment be also relevant for the industry as a whole, keeping aside your market share gains and therefore you can grow faster?

Adi Godrej

From what I understand, it is very difficult to tell exactly what is happening in the industry as a whole, but from what I understand the growth rate is moderating slightly for two reasons, one is price increases are not being taken with the same frequency as earlier which contributed to some of the higher growth and secondly there are still some categories where economic pressures might be affecting it, but then there is ample evidence now that the GDP growth of the country seems to be accelerating again. So I expect this may turn around very soon.

Moderator

Our next question is from Kaustubh Pawaskar from Sharekhan Limited

Kaustubh Pawaskar

I have a question on soap segment; the volume growth for this quarter was 6%. So if we see the previous quarters, you have been clocking volume growth somewhere in the range of 19-20%. So why is there moderation in volume growth or it is a high base effect of Q2FY-2012?

Adi Godrej

A lot of this has to do with the base effect. So in a quarter where we previously may not have grown very much, we might have higher growth and lower growth if the base in the same second quarter of the previous year, our growth was quite good. So I think base effect has something to do with this. Secondly even the 6% volume growth was moderately higher than the industry volume growth rate.

Vivek Gambhir

And then also you know because we were preparing for the Cinthol relaunch, from our end also we were moderating a growth a little bit because we knew we had a big relaunch coming this quarter.

Kaustubh Pawaskar

So this relaunch should help you to see better volume growth in Q3 and Q4?

Vivek Gambhir

Yes, that is what we expect.

Kaustubh Pawaskar

Sir my second question is on the African business margins, the EBITDA margins this quarter were somewhere around 16% and in preceding quarter 1 it was 19% and year-on-year there is a vast difference, so what is the steady state of margins once the integration process is happening. What kind of margins you would be achieving in the African business?

Vivek Gambhir

We are looking at margins between 17-19%. There will be some fluctuations on a quarter-to-quarter basis for instance last quarter margin was slightly lower because we had a transporters strike in South Africa. In Nigeria, there were floods and some other strikes as well which ended up delaying things quite a bit and so there will always be a little bit of quarterly turmoil in these geographies, but we are hoping that on the steady state basis, margin should be within 17-19%.

Kaustubh Pawaskar

So should we believe that this is one-off quarter because there were these events and from next quarter we should expect margin to little bit improve?

Adi Godrej

Seasonality will also come into play.

Vivek Gambhir

Exactly as Mr. Godrej said because quarter 3 should be a stronger quarter from a seasonality perspective, you will see margins improvement again hopefully.

Moderator

The next question is from Pritesh Chheda of Emkay Global

Pritesh Chheda

In the Africa business exclusive to Darling I just wanted one clarification we would have consolidated in this quarter to the extent of what percentage only in Darling?

P Ganesh

So the top-line consolidation happens at 100%. Bottom-line consolidation happens to the extent of 51% which is our shareholding.

Pritesh Chheda

On the margin in the international business, if you could give some highlight that is one part and second what could be the growth in Darling business generally without the consolidation effect? So for us it is a higher number, but generally that business grows in Africa at what rate for you?

Sameer Shah

Well, for competitive reasons we do not share what is the individual businesses growth. For the continent is what I shared earlier, our organic growth has been in high-teens.

Pritesh Chheda

And if you could give some idea on the margin from the international business?

Sameer Shah

As of now, margins are 13%, marginally higher on a sequential basis. Going ahead as what we have mentioned earlier in the call, we expect because of seasonality the margins to pick up.

Moderator

The next question is from Prakash Kapadia from Alpha Enterprises

Prakash Kapadia

The gross margins at consolidated level, they are slightly lower as compared to last year despite we have seen some increase in hair care contribution in the salience, so if you could give some sense on that?

Sameer Shah

If you look at the gross margins at consolidated levels, we are looking at 52% which is a 40 basis points increase on a year-on-year basis. So to begin with, we have added 30-40 basis points on gross margins on a YoY basis.

Prakash Kapadia

And if you could give us some sense on your Indonesia distribution expansion, what is the kind of traction are we seeing on distribution?

Sameer Shah

It is progressing well. Earlier we had mentioned that we have moved from roughly 100,000 outlets to 120,000 outlets. We are adding the number of outlets to improve strongly.

Prakash Kapadia

And lastly on the air freshener business. How have been the response and what format are we focusing on, is it the dealer channel or modern trade which is the focus area?

Nisa Godrej

The response in the air fresheners has been very strong. We are actually going through all our channels which is both modern trade and through general trade especially for the home fragrances and through car dealerships which we have been able to build up a very strong network in a short time.

Prakash Kapadia

So it will be a combination of both, car dealers as well as modern trade?

Nisa Godrej

Yes because we have both home and car fragrances, so we need to go through all the channels.

Adi Godrej

We have been experienced this sort of distribution earlier

Moderator

The next question is from Priya Ranjan from Macquarie Capital

Priya Ranjan

My question is regarding the distribution setup in Africa because many of your products like existing Darling distribution is significantly different than what you are launching in home insecticides, so how comfortable are you with your distribution setup and what is the structure basically?

Shashank Sinha

So particularly related to Nigeria, we have two businesses in Nigeria. One is our typical FMCG soap business, which is Tura business that we acquired and that distribution channel is exactly the same and what is required for household insecticides. In addition to that, we also have the Darling and Amigos hair extension business which has slightly different distribution channel which is required for the hair extension category, but there are overlaps between the two, but particularly in Nigeria, what we are doing is we are leveraging the distribution network that we got with the acquisition.

Priya Ranjan

So is it a single distributor for a whole country or there is a distributor in different states or different cities of Nigeria like in India?

Shashank Sinha

It is very similar to India, just to give you some key metrics. Traditional trade accounts for about 95% of this total sale in that country which is similar to the split that we have in India and the distribution structure for traditional trade is also very similar, so there are sales regions and sales territories. There are regional managers, territory managers and distributors in each town, which then take the product to the retail channel. So it is a two-level or three-level distribution that we normally see in India. That is the predominant way of distributing in Nigeria and in many other part of Africa.

Moderator

Our next question is follow-up question from the line of Abneesh Roy from Edelweiss

Abneesh Roy

In your international business in South America, you have got some personal products like facial creams, waxing strips, mascara, etc. Just like you have brought Crème to India, any chances of bringing this over the longer term because domestic companies like Marico are launching skin cream?

Adi Godrej

We are always looking at all such opportunities. We have in fact a team that gets together to see how we transfer knowledge and products from geography to geography. Need not only be from international business to India or India to the international business, we even look at transferring ideas and products between say South Africa and Argentina. So we constantly keep looking at it and our team will identify opportunities which can be leveraged strongly and then we will decide.

Abneesh Roy

Sir next question is on Nigeria HI launch. In terms of distribution, how well are we placed in Nigeria because of the soap acquisition which we have done and Darling, is this sufficient or we need to really build up a big distribution or largely are we modern trade focused in Nigeria for HI?

Adi Godrej

No, we expect to be sufficient in terms of distribution and since in Nigeria we have very good distribution, we have picked Nigeria as the first place of launch.

Vivek Gambhir

It is a bit of a reiterative process, as we start off with what we have and as we get more momentum, we are going to continue building and deepening our distribution particularly in term of Lagos we are okay as you, as we go in interiors we will start building that up as time goes on.

Abneesh Roy

Have you launched HIT Magic Paper in Nigeria or was it because of regulatory process, we haven't done that?

Adi Godrej

Not yet.

Abneesh Roy

Next question is on HIT Magic paper in Indonesia, where do you see the market share stabilizing; 8-9% is the current one, what was it some quarters back and any update on when this can come to India?

A. Mahendran

We are looking at bringing it to India, but there are regulatory issues, so sometime next year we can look at that. Indonesia is tracking well and we are at slightly above expected market share at the moment in Indonesia.

Abneesh Roy

Where do you see it stabilizing?

Adi Godrej

It is too early to tell. It has still got opportunities. We are looking at what else we can do to further improve its position in the market. It is too early to tell where it could stabilize. We are also looking at, as we get feedback from the market, to improve the product also, so that we can further increase our share of the market.

A. Mahendran

This particular format is a new format even to Indonesia. So one has to wait and watch.

Abneesh Roy

And last question is on ad spends. In the past you have said that ad spends would be aggressive**,** this quarter 40 bps increased, so not a major increase, but in the meanwhile we have launched lot products in India as well. So what is the ad spends number we are looking at for the second half?

Sameer Shah

We had launches and we would support them surely with 360-degree marketing campaign, but as the year goes by we will also have a stronger sales base. So as a percentage of sales, let us see how it shapes up going ahead.

Adi Godrej

We also look at advertising investment in a dynamic manner. So as if margins improve for example, we sometime decide to invest some of the profits into more marketing methods to get top-line growth. So our general objective is to get absolute profits to an optimal level or not necessarily margin or advertising expenditure

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Moderator

The next question is from Sumit Agarwal from Money Works for Me

Sumit Agarwal

Sir my question is on future guidance like what kind of sales growth do you expect in the next couple of years?

Adi Godrej

We do not provide guidance

Sumit Agarwal

My next question is on the business model, we operate in three core categories like personal wash, hair care and home insecticide, which category is the high penetration category? In the last quarter, the soaps volume was 24% and in this quarter 6%. Can you please tell me the sustainable growth rate in the future?

Adi Godrej

The only category we are in which has high penetration is toilet soap. All the other categories we operate in India have relatively low percentage of penetration and penetration increase will provide us strong growth. Soap is about completely penetrated. So soap growth can only come now from share improvement or population growth and per capita consumption increases. So as a category, we don't expect soap volumes to grow beyond single digit and it hasn't grown beyond single digit over the last several years.

Sumit Agarwal

Sir my next question is on the acquisition, over the last 4-5 years, you have done many acquisitions. So can we expect acquisition in the next couple of years?

Vivek Gambhir

We don't give guidance. Acquisitions, we continue to look for interesting acquisition that is value accretive and strategic, but there is no target or specific plan that we have in mind in terms of the number or the size or timing of the acquisition.

Adi Godrej

Acquisitions we do, will depend on the acquisition opportunities that come our way and we will look at them from a strategic vantage as well as they need to be accretive. So we would look at both, the financial implications of the acquisitions as well as the strategic position of the acquisition.

Moderator

The next question is follow up question from the line of Priya Ranjan from Macquaire Capital

Priya Ranjan

Just one more question on domestic hair care business. I just wanted to understand the market dynamics, how it is changing, is it moving more towards the hair professional driven market, out-of-shelf market or is it still out-of-shelf or the mom-n-pop stores are actually still playing major role in the segment.

Adi Godrej

Most of the hair colour consumed in India is at home, only a small part in the total hair color consumed is in salons and other professional institutions. We except home hair colour market will keep growing and our strength is particularly in the home hair coloring and some of our international competitors are stronger in the salons and parlors.

Priya Ranjan

Has there been any change in the market over the period of time or it is still the same?

Vivek Gambhir

The market structure is more or less the same, I think the only change recently has been is that the Crème market growth rate has been higher than the powder hair color growth rate and the result of which we have launched Godrej expert rich Crème, it is a very innovative product at very acceptable price points, to start playing much more aggressively in the crème format

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Moderator

The next question is from Ashish Upganlawar from Spark Capital

Ashish Upganlawar

Just a question on the Darling group, post phase II what will be the % of revenue will come of the overall darling group.

Sameer Shah

Till last quarter we indeed consolidated close to 45% of the overall Darling group business with phase II addition of Kenya geography will have incremental 20% and taking it close to 65% of the overall Darling group's revenue.

Ashish Upganlawar

This 45% to 65% will happen by the next quarter end?

Sameer Shah

Yes, it will happen in quarter 3.

Ashish Upganlawar

And anything to share on what is happening operationally, the changes that you would have made and some marketing and distribution synergy, strategy that you could share in Darling geography?

Vivek Gambhir

What has been good for us is that demand has been very strong in both eastern and southern Africa. In Nigeria there has been a few challenges in terms of things like floods and strikes, have affected consumption a little bit, but given the seasonality effect you would expect Q3 and Q4 to be much stronger. Operationally I think what we have been doing is that we have been putting in strong systems and processes in place along with the necessary controls focusing a lot on distribution expansion in Nigeria, Salon activation in South Africa, we are planning for a packaging revamp later on this year and a lot of manufacturing quality processes are being put in place as well. So we have a fair number of cross functional synergy teams working closely with the Darling team as well to start really deriving a lot of operational benefits from this acquisition.

Ashish Upganlawar

Sir what would be the sustainable margins that you see over the medium term for Darling group

Vivek Gambhir

We are targeting between 17-19% margins for Africa as a whole, Darling should be marginally higher than that.

Ashish Upganlawar

Crème launch that we had in India, would it be a good assumption to make that the margins could be substantially higher than the current margins that the business would be making from hair color?

Nisa Godrej

Absolute margin will be higher. Every powder user we convert to a Crème user, both top-line and absolute margins will be much higher.

Vivek Gambhir

And typically what happens is that with any new launch, a launch gets frontloaded with higher marketing investments particularly for any new campaigns, etc., you create. So as the sales growth picks up on a relative basis margins improve.

Ashish Upganlawar

But the gross margin should be higher in this case?

Adi Godrej: Absolutely yes, not percentage.

Moderator

The next question is follow up question from the line of Prasad Deskmukh from Bank of America

Prasad Deskmukh

You mentioned that soaps volume growths will mostly be in the single digits and we have seen that in the last few quarters where the volumes have been?

Adi Godrej

I mentioned category volume growth.

Prasad Deskmukh

For the last four years we have seen a smaller player actually losing shares because of raw material cost pressures and all. Going ahead is the situation different this time or how is the situation different this time, that when the raw material cost actually starts softening will the whole phenomenon which happened over the last two quarters actually reverses?

Adi Godrej

Well two or three things happened. We have been growing much faster than category over the last five years in soap. So our volume growths have been well above single digit. Category as a whole for the reasons I explained we don't expect it to grow at more than single digit and two things happen when raw material prices come down. Yes, it is true that some of the smaller players are able to make a little margin when the raw material costs are lower but that is mainly because the general margins of the larger player increases considerably when the raw material prices are lower. So what happens in the soap business is when raw material cost goes up, it is met with price increases and as you know that an MRP that is required to be put on a cake of soap, it is very

difficult to reduce the MRP, because if you reduce the MRP you have to give a credit note to the entire stock in the market, which is quite considerable between wholesale and retail. So generally manufacturers tend to spend a little more on promotion and advertising at such times and margins also increase. That enables the smaller player to do a little better when the raw material prices are lower. They tend to do when the raw material prices are high. So, overall as a company we expect to benefit very considerably with the trend which has just started on the vegetable oil prices coming down. In every year or couple of years where raw material prices are on decline, Godrej Consumer products soap business has done exceedingly well and we expect that will happen over the next few quarters.

Vivek Gambhir

If you go back and look at the last 2-3 years, the consumers really have been focusing their attention on buying branded soaps and even when inflation was quite high it did not see too much down-trading happening in the soap segment, it is why I think to a certain extent while the smaller players could do better from a profit perspective, at the end of the day I think we are seeing consumers migrate towards more branded established soap brands.

Harit Kapoor

On behalf of the IDFC Securities, I thank the senior management as well as all the participants of the call. I would now like to hand over to Mr. Godrej for closing comments.

Adi Godrej

First of all I would like to thank IDFC for hosting this Conference Call. The overall situation in the FMCG market and in Godrej Consumer Products, prospects seems very strong to us, one of the major reasons I expect the next few quarters will be good as the containment in vegetable oil prices, we have been seeing over the last month and a half; growth in our international businesses will also be extremely strong, so I am personally very confident of Godrej Consumer products continuing to show very good results in the quarters coming along. Thank you very much for being with us and we appreciate your questions and comments.

Moderator

Thank you sir. Ladies and gentlemen, on behalf of IDFC Securities Limited that concludes this conference call. Thank you joining us. You may now disconnect your lines.
