"Godrej Consumer Products Limited Q1 FY 2024 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Godrej Consumer Products Limited Q1 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator: by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference to the management. Thank you and over to you.

Tapan Joshi: Thank you, Aman. Good evening, everyone, and thank you for joining us today this evening to discuss the performance of Quarter 1 FY '24. We have with us Nisa Godrej, Executive Chairperson, Sudhir Sitapati, Managing Director and CEO, and Sameer Shah, CFO from GCPL Management Team. Without taking much time, I will hand it over to Sudhir for his opening remarks. And then we'll be happy to take any questions.

Sudhir Sitapati: Thanks Tapan. Good evening to all of you. Despite the tough market conditions, our performance in Q1 FY '24 was ahead of our expectations on both volume and profit growth. At a consolidated level, including inorganic, UVG was 10%, constant currency sales growth was 15%, INR sales growth was 10%, EBITDA was 28% up and PAT with our exceptional was up 19%. Operating cash flow was up 4.9x, albeit on a weak comparator. Organically, UVG was 8%, constant currency sales growth was 13%, INR growth was 9%, working media was up 68% and EBITDA was up around 36%.

Our USG was impacted due to price deflation in soaps and the currency translation impact in Nigeria. PAT was behind EBITDA due to higher forex losses and MAT credit utilization. This is a non-cash item as our growth in operating cash flow shows. Our working capital reduction across the board continues to be significant, resulting in exceptional operating cash flow. If one compare these numbers with Q1 FY '20, pre-COVID quarter, our reported EBITDA is roughly the same, but with a very different shape of P&L. Our GMs are down 350 bps and our ATL is up 100 bps. Both these are investments into things consumers see. But our BTL and overheads are down by a corresponding 450 bps. We think our underlying volume trajectory, while not yet double digits has significantly improved because of the shape of P&L.

Organically, India had a strong quarter with 10% UVG, 6% USG and around 32% EBITDA growth. Market conditions in India are tough and our good performance has been due to a soft comparator and soap volumes, a good HI season in the North and our market development investments.

Indonesia had a strong quarter despite another round of down stocking in modern trade, volume was up 12%, 15% constant currency growth, 20% sales growth 53% EBITDA growth. Stocks in modern trade are now down from a peak of 95 days to around 58 days. This, along with generally strong macros augurs well for the future of the business.

GAUM also had a good quarter with 3% volume, 16% currency growth, 9% sales growth and 55% EBITDA growth. These numbers have been affected marginally by the devaluation in Nigeria in the last fortnight of June.

The impact of the Nigeria devaluation will be significant optically over the next few quarters, so it merits some understanding. In May'23, the official market rate was NGN450/$ while the parallel market rate was NGN750/$. We were buying dollars at a weighted average cost of NGN650/$. The delta between official rate and parallel market rate was reflected in forex loss / (gain) line. The accounting translation was happening at official rate of NGN450/$. With the free float the NGN is now around N750/$ and it may depreciate further. But what we will do is pass on price increase to end consumer for NGN650/$ to NGN750/$ such that our profits are intact. However, we will have to read EBIDTA + Forex loss / (gain) line item together for the next 4 quarters as Forex loss / (gain) will move to material costs from Q2 onwards. The earlier guidance on profitability remains intact.

Secondly, there will be accounting translation impact from NGN450/$ to NGN750/$, which will get partly offset by the price increases for NGN650/$ to NGN750/$ increase. However, the balance will affect INR sales grows by about 200 bps at a consolidated level. Please note that there will be no impact on volumes or constant currency growth here. So, between NGN450/$ to NGN650/$ we will not price and it will be an accounting hit and NGN650/$ onwards we will price for. In the long term, we believe that it strengthens our competitiveness as all players will have to now buy at the free-floating rate of NGN750/$1. And hence, we think there will be an opportunity to gain market share.

Latin America also had a good quarter with 12% volume growth. Let me now share the progress we have made on our strategy, which I had detailed out in our annual analyst meet a few months back. We remain committed to our strategy of category development, simplification, and sustainability.

On category development, we have been consistently investing in our brands with our media investments in India increasing by 125% year-on-year. We have launched an innovative membrane-based air freshener called Aer O in the car segment. Lastly, we are also planning to invest around INR 900 crores in organic manufacturing capex in India over the next 18 to 36 months, largely for volume growth but also for logistic reasons.

On simplification, our partnership with the national distribution in Nigeria is progressing well, and we expect to see the benefits of this as the year progresses. In Indonesia, we reduced stocks in modern trade from, as I mentioned before, 95 days to around 58 days.

Lastly, on People and Planet, alongside Profit, we have recently pilot launched Magic Floor Cleaner, which is an environment-friendly powder to liquid-based format playing in the large and fast-growing floor cleaning space.

The understanding of the financial performance of GCPL in FY '24 is complex due to several factors. The optical devaluation of Nigeria, the inorganic impact of the RCCL acquisition and the MAT credit we will avail in FY'24 and FY'25. We, therefore, believe that the four primary metrics to look at while evaluating our performance, our organic UVG, organic constant currency growth, EBITDA, including forex and operating cash flow, which are largely unaffected by the above. Despite market conditions, especially in India being tough, we remain optimistic on our full year ambitions, including on Park Avenue and Kamasutra. Thank you.

Moderator: Should we open the line for Q&A?

Tapan Joshi: Yes.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: Thanks and congrats on a good set of numbers. My first question is on the INR 900 crores capex. We are seeing food companies do a lot of in-sourcing versus outsourcing. On the other hand, HPC companies like Reckitt, HUL have been gradually outsourcing. So, I wanted to understand why we did not think outsourcing in this and what will be the long-term ratio we are looking at in terms of in-sourcing versus outsourcing?

Sudhir Sitapati: Thanks, Abneesh. While evaluating in-sourcing and outsourcing there are three criteria. One is the scale within the industry and in most of the categories that we operate in, we have a pretty good and high scale within the industry. So, when you have lower scale, it makes sense to take the benefit of the scale of the third-party supplier and when you have high scale, it makes sense to do it yourself.

The second is really how commoditized or differentiated the categories are. Many of our categories we see are differentiated with enough secret sauce and high margins. Our soaps maybe an exception here, but it's not an exception to the rule of scale and most people manufacture soap with scale by themselves.

The third thing is capabilities, if you have capability like we do in India, one should do it oneself. And finally, how automated or labour-intensive the process is, the more labour intensive, sometimes it's better to outsource. But the way we see a lot of our businesses is that the production will be pretty automated. So, for a combination of these four reasons, we feel that a lot of our growth in logistics-related savings needs to come from in-sourcing.

Of course, this doesn't mean that we will completely stop outsourcing. For instance, our coil business in Household Insecticides doesn't meet any of these criteria or most of these criteria and so we will continue to outsource it. I suspect I don't know the exact number Abneesh, and what it will be, but I suspect that the majority of our business will be in-sourced.

Abneesh Roy: My second question is on the massive simplification, SKU rationalization and inventory reduction you have done, especially in India and Indonesia. My question is, why was GCPL not doing it earlier. So how does this impact your business in terms of consumers getting more choice because now lesser SKU, lesser inventory. So, in terms of customer choice, obviously, it will be lower. Does it impact in terms of say, market share overall? I understand this could be a lot of pain, but wanted to get clarity why it was not done earlier?

Sudhir Sitapati: I think the defined focus of our business has been on category development and category development needs a few SKUs because you're convincing consumers to enter categories. So, the moment our focus becomes category or market development, you realize a very few SKUs are required to catalyse the category development.

So, the SKU reduction and simplification has been because of a re-emphasis on category development, which has certainly been there, and I won't say it's a new strategy. I think we always had it. But certainly, it has been re-emphasized. It does not have an impact on market share, Abneesh. If anything, the market share in general products are very good both in India and Indonesia. And when we simplify our SKUs what tends to happen is core SKUs tend to have better availability in shelf, because the tail SKUs don't block retailer capital and market shares tend to go up as have been happening for us.

Abneesh Roy: Sir, last quick question. We have seen segments where commodity deflation has happened, regional players have come back, so biscuits, detergents, etcetera, even in soaps. So how are you retaliating to this because your growth rate, of course, the base was a bit soft. But going ahead, do you see that regional players are coming back, so you need to pass it on to the customer. So because overall, you did say many times that demand scenario in India remains reasonably challenging. So from that context, how do you see that?

Sudhir Sitapati: I think there are two things Abneesh, the Soaps category compared to, let's say, 10 years or 15 years ago, doesn't have the same salience of local players with some other categories do or indeed Soaps did a decade or 2 decades ago, It's become a pretty consolidated category. Not that there are no local players, but that is not the major salience in the Soaps category.

Our general principal on pricing is, in inflationary times to absorb the inflation to the extent that we can and protect consumer. And when prices fall not to kind of make excess profit from those margins. So, our gross margins in Soaps have not crossed our historic levels. And we have been quick off the block in passing prices. Our real goal is volume growth and we are not that fussed as long as volume growth is good and cash operating cash flow is good, we are not really worrying all that much about sales growth. And we have certainly, have passed on prices commensurate with the margins we think we should earn in this category.

Moderator: The next question is from the line of Avi Mehta from Macquarie.

Avi Mehta: I want to kind of just focus you on the RCCL portfolio. Now this quarter, we have seen almost a INR 45 crores EBITDA loss in this business. Wanted to understand what drove that sharp drop because the sales is almost similar to that. And, could you give your thoughts because you've retained the guidance of single-digit EBITDA margin for the year. So how do you see this changing as we move into the quarters of FY '24?

Sudhir Sitapati: So, I think our RCCL acquisition so far has been quite good. It has been on plan, and we are quite happy with the progress and the integration. The reason for the GSV (gross sales value) number in the 1.5 months that we bought it has roughly been the average despite down stocking at the primary point, which is a distributor. We have had two reasons for a lower NSV sales and low profits. One is take back of slow-moving inventory, which we had planned to do so that we can get distributor capital to move faster. And secondly, from the day we have taken over the business, we have started investing in ATL because we believe that this is a category where ATL will drive business. So these are the two reasons that we have reported the loss that we have and reported a sales growth, which is significantly lower than the gross sales value growth. We've maintained broadly what we said we will do for the year, which was not single-digit UVG.

Avi Mehta: I was looking at the EBITDA margin.

Sudhir Sitapati: Yes. So I think we remain committed to doing what we've done in year one because we want to just clean up a lot of stuff and by the end of this year and certainly next year, our goal is to get to be EPS positive. And there's nothing that has happened so far in the business that leaves us to believe that there has been surprises in the business so far.

Sameer Shah: And Avi, just as in quarter one, we didn't have overhead synergies, we should start getting paid out from Q2 onwards. And hence we remain still confident of getting close to the ambition of high single-digit EBITDA margin on a full year basis.

Avi Mehta: So the way it should be this loss should no longer kind of I mean, it should kind of improve, which will become a profit and then we kind of reach towards that trajectory for the full year. That's the way I should see it, that the hard work is more or less behind us in 1Q and the impact is largely..?

Sudhir Sitapati: In Q2, there will still be things that we are doing to synergize. So I mean, it may not be like Q1, but it will still not be life as normal. In Q3 and then Q4, we hope things improve. We are currently quite confident of that Avi. Our general thing has been, put the investments upfront, take the pain early and be patient in the results. And we've seen in category after category that's played out, and we see no reason why it shouldn't play out here.

Avi Mehta: Perfect. That clarifies. And just a bookkeeping or just a simple clarification on the palm oil prices. I would love to hear your outlook on how you see that kind of trending and whether there is, as of now, any reason to revisit pricing?

Sudhir Sitapati: Yes. I mean, palm oil prices in the recent past has again sort of strengthened a little bit. But nothing out of the extraordinary. I think in normal times, we will prudently pass on kind of reasonable cost to the consumer. If it's hyperinflationary, then things are there, but that's not what palm oil is looking like right now. It's looking slightly inflationary compared to where it is today, but still significantly lower than what it was last year.

Moderator: The next question is from the line of Vivek M. from Jefferies.

Vivek M: A few questions. First, on the capex bit, again, Sudhir, so this capex, INR 900 crores, I don't know when did we last see this kind of bunched up capex. Just to clarify, when you say that it adds 20% to your capacity, that's the theoretical capacity or the real capacity. What I mean by that is basically, is it because of you want to augment capacity or some of this is actually replacing the existing ones let's say, because of technology reasons or let's say, better logistics?

Sudhir Sitapati: See, the three things we want to do Vivek. Number one is we are bullish on volume growth. We're seeing it, and we have to now plan for volume growth. Number two is, we believe that significantly, we had mentioned this in our strategy that we have to move money from working capital to automation. So we believe that our supply chain needs better automation. Our higher degrees of automation in order to increase productivity. That's number two. Number three is that we think that the logistics footprint of our manufacturing needs to change.

A lot of our business is down South, and we feel that we need some manufacturing closer to the big markets to start. So these are the three reasons. See, it's INR 900 crores over 3 years, which is about INR 300 crores a year in India. We would normally have put INR 140 crores, INR 150 crores in a year in any case for augmenting capacity. So it is an increase of about INR 450 crores over the next 3 years. We are more than recovering for all this through growth and working capital and our view on savings and our view on ROCE is very good for this capex.

Vivek M: Okay. Got it. The second bit, sorry Sudhir, you explained this entire Nigerian thing. Can you just explain it again in terms of which all line item is going to hit over the next few quarters?

Sameer Shah: Vivek, this is Sameer here. So I think as Sudhir called out earlier, around May 23, official rate of Naira to dollar was around NGN450, and entire translation was happening at NGN450/$1 and then the dollar to rupee. Now what has happened is NGN450/$1 has devalued to say around NGN750/$1 which means the entire accounting translation line-by-line kind of translation of each of the P&L line items will happen at NGN750/$. So that's not a cash impact. It's more of an accounting translation impact, which will get reflected in say, the overall INR sales growth. So that's one accounting translation impact. The second impact is on inflation. So earlier what was happening is we used to buy part of our dollar needs at NGN450/$ and part was that whatever you want to call parallel market or blue market rate say around NGN700/$1. The blended rate was around NGN630/$ to NGN650/$. So that NGN650/$ will move to say NGN750/$, which is a rate at this point in time, which means the cost of purchase will increase from NGN650/$ to NGN750/$, which we will pass it on to the end consumer. Part of it has already got passed on and part will again get passed on over the next couple of months. So that we will take care of it, the passing on the prices to end consumers. It may come with a lag of a few months, but it will directionally get passed on. So that's an inflationary impact, but it will get mitigated.

The third is again more in terms of grouping-regrouping. What was happening technically earlier is the forex line item in the P&L was the delta between purchase at the open market which NGN700/$ reduced by NGN450/$. Now that will start sitting in the materials cost and gross margins. And hence, we should be looking at EBITDA including forex line item for a better comparability in terms of how the trends are sequentially, but more importantly on a year-on-year basis. So these are the three different impacts to it, which this Naira devaluation will have eventually on the P&L.

Sudhir Sitapati: So, basically Vivek, the USG will get affected because NGN450/$ to NGN650/$, we won't price for because that's just an optical change. NGN650/$ to NGN750/$, we will price on, albeit over the next two months, three months, so there might be some short-term impact. The second thing is the Forex plus EBITDA is what we should look at. So we anticipate about 200 bps of USG reduction on purely optics from NGN650/$ to NGN450/$ on a business that is 7%-8% of our revenue. There's about 200 bps on the optics of USG but that's an optical change. It's not a real change. I don't know if that's clear, Vivek?

Vivek M: Yes. That is helpful, although I'm sure we will have some challenge on the modelling, but this is useful. The other point was, Sudhir, on the A&P spends, can you talk about where you think India and Consolidated would settle in FY'24. It's good to see a push up in the spend, but where does it settle for both India and International?

Sudhir Sitapati: The India organic business is not very far from our competitors, peers, etc. The RCCL business is still low. So there on a weighted average basis, that may go up, but that's because RCCL frankly was not spending anything on media at all. Indonesia probably should go up more. I think it's still low at what is it, 4%-5% now. That's in a bit low. Africa has to be disaggregated a little bit and the requirements of hair extension are different from FMCG, but I would probably say that is also a bit lower. So India organic is kind of roughly where it is, but not the other three parts of our portfolio - RCCL, GAUM and Indonesia. And the confidence in the thing about investment in ATL is it's not just an ideology, right? You got to invest.

Vivek M: Okay. And really, two very small points. One is on Magic Floor Cleaner. Sudhir, it doesn't dilute the brand Magic because from a Hand Wash, Body Wash to a Floor Cleaner, doesn't that dilute the brand?

Sudhir Sitapati: Vivek. I'll send you the advertisement for Magic Hand Wash. I think, see, at the end of the day, Magic is positioned as good for the planet. And basically, this idea of reconstitution that you take one small sachet and reconstitute it into a product. So our thinking has been that is the core of Magic. And what we have seen is that across the world, many brands have positioned themselves pretty strongly on the environment and planet are able to straddle a few categories in Home & Personal Care.

I mean, Ecover is a good example of that in the UK. And therefore, we felt that it was probably better for us to have a single brand in Home Care and Personal Care, and Magic is not, frankly, a skin cream. It's a Hand Wash there and it's a Floor Cleaner here versus getting into different brands and because the mode of communication. It's obviously something you thought about, but sometimes you've got to just take a call and this is the call, we took Vivek.

Vivek M: Interesting. And lastly, Sudhir, how big is Shampoo Hair Color as a percentage of overall category right now?

Sudhir Sitapati: Shampoo Hair Color is a fast-growing segment. I don't think it will be proper for me to give you the exact numbers. It's a fast-growing segment within the Hair Color market, and we are also growing fast. One of the things that we did last quarter was to launch a INR 15 Shampoo Hair Color in the South of India, and that has been doing extremely well for us. So just as we launched INR 15 crème in last year. This quarter, we launched a INR 15 Shampoo Hair Color, which we were the pioneers in the market to do so.

Vivek M: But no comments on how big it is as a percentage of overall Hair Color category?

Sudhir Sitapati: Not specifically, but it's a fast-growing segment Vivek. It is material and fast growing, but you'll be able to find out and it's not proper for us to tell you, what it is.

Vivek M: Got it. Thank you, Sudhir, and team. Wish you all the very best.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: My question is on Household Insecticides for India. I'm assuming that the Home Care is 13% growth. So Household Insecticides will be like somewhere between 8% to 10% at least, if not more. So what I wanted to understand is that, what are the drivers for this growth? Of course, you have launched two new products, the spray, and the vaporizer both in the small units. So is that the main driver? And now it's been some time. So can you give us some idea on whether you consider these two products as successful products internally based on repeat purchases, etcetera?

Sudhir Sitapati: See, Household Insecticides performance has been driven by two factors. One is that it has been relatively sort of weaker summer and therefore, the season extended. So that has been definitely a good contributor to Household Insecticides. There has been some impact on market development. It's still too early to say, how much of it is due to the smaller packs. We are quite encouraged by those results. But in consonance with heavy advertising. Our non-mosquito format has done particularly well. So there's been, I would say, market development investments, plus a good season. I mean I still would say that this is not a category where in all honesty, we can say that this is really at the potential that it should be. It still requires more effort. This has been a good quarter, but I don't think we can call victory yet in this category.

Percy Panthaki: Right. Secondly, on the RCCL portfolio, just correct me if I'm wrong, but this has been consolidated for 1.5 months only and not the full quarter, is that right?

Sudhir Sitapati: That's right. We took over on May 10. So really from that day onwards. So 1.5 months roughly is what is consolidated for.

Percy Panthaki: But still like a INR 45 crores sales isn't that too less considering that this will be the biggest quarter out of the four for this and the overall annual sales is like INR 620 crores. So on a run rate basis, also, it's not even meeting last year's sales, right?

Sudhir Sitapati: Yes. I told you right, there are two-three reasons for this. One is you're right about the fact that the run rate for this business is about INR 150 crores a quarter or half a quarter would have been INR75 crores or INR80 crores. We down stocked the distributors and we're going to have to further do it. The distributors in this business were sitting at 80 days to 90 days of stock. Our distributors and GCPL sit on 10 days of stock. While we didn't come on the way to 10, we had to come up pretty large distance in terms of down-stocking.

The second thing that we have done is we have taken returns, which is negative sales to pretty large tune. So our GSV is lower than it should have been by a little bit because of the down-stocking at the distributor point. Our NSV has been lower than GSV because of stock returns. You must remember that we have done nothing to this business in the last 1.5 months, except to clean up.

Now as and when we see synergies, etcetera, etcetera, we will see these numbers go up. So we remain quite confident that what we are doing because we are investing in media right now, sooner than later, we will start investing in distribution once we are able to bring the might of

GCPL onto this business. So we don't think that in the context of that, of the down-stocking and the returns, INR 50 crores of NSV for 1.5 months, is okay.

Percy Panthaki: So this down stocking and returns, are they now behind us? Or this will continue into the next few quarters?

Sudhir Sitapati: I think returns are probably more or less behind us. Down-stocking will have to continue because for 90 days, we are determined to bring this down to 10 days which is 80 days in general trade, not in modern trade, which is you can calculate and that we will do because we see a lot of cost that gets trapped because of holding this kind of inventory which we want to release. So that will continue in Q2 but I don't think it will continue in Q3 and Q4.

Percy Panthaki: And on a full year basis, at a net sales level, you stick to your guidance of having a flat year-on-year?

Sudhir Sitapati: Yes.

Moderator: Thank you. The next question is from the line of Jay Doshi from Kotak. Please go ahead.

Jay Doshi: Just a quick follow-up on the previous question on Household Insecticides. Now two consecutive quarters of double-digit growth in Household Insecticides on a weak base, how should we think about the next two quarters? Because if I remember correctly, September last year and December last year were a reasonably good quarter for Household Insecticides with some shifting season. Do you expect this trajectory to continue or will be..?

Sudhir Sitapati: It's hard to predict. I mean, I don't think you're sitting on a weak base, by the way, of Household Insecticides. I think last year was sitting on an extremely strong core base of Household Insecticides. So when we look at four year numbers, CAGR, which is how we look at numbers. We still think the quarter was good, but it's not on a weak base or anything like that. It is a seasonal category; the seasons have moved. So it moves I mean, it moves in what I've not seen in two years and it moves in steps of two months. So we shouldn't get too excited with one quarters or two quarters of good results. Similarly, we shouldn’t get too affected by one quarter or two quarters of not so good results. I would say, however, just to repeat this, that we made some progress on Household Insecticides, but unlike many of the other categories like Indonesia, many of the categories in India where we feel we are really kind of absolutely there. I think Household Insecticides, it is still early to declare victory in Household Insecticides. I still remain by the way, really confident that in the medium term this will be a accretive growth driver for GCPL. But the last two quarters' results shouldn't be read as a premature sign of declaring victory in this category.

Jay Doshi: That's helpful. One more on capacity, if I may. So 15% to 20% increase in net capacity, does this sort of also factor in that you will be moving some of your outsourced capacity or production to in-house and over and above that, your total capacity outsourced that in house will also increase by 15%, 20%?

Sudhir Sitapati: Yes, it factors in the fact that as we increase our capacity, in many of the categories we are realizing that we outsource it because of some seasonal demand etcetera. We find our manufacturing is more effective. So this includes the volume growth and the in-sourcing of capacity that is currently outsourced.

Moderator: Thank you. The next question is from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

Sheela Rathi: Just one question from my side, Sudhir. This is in respect to the ad spends again. We are at about 12.5% of ad spends for the India business and about 9.4% consolidated. Probably, we would be the highest in the FMCG space this quarter from a percentage of sales perspective. And on an absolute basis, also significantly higher, almost doubling on a year-on-year basis. Do we think we can sustain this?

And what is it where we see that these kind of spends will be going into, if you could elaborate? And just a follow-up on that question itself is that does that incorporate the high-teens EBITDA growth, which we have called out during the strategy meetings last quarter?

Sudhir Sitapati: There are two, three questions here. So let me answer it. I think there's no right number. If there is a good return on investment to be had on media, we're not going to stop at a number because 12.5% and similarly, if we find some of our business over a few quarters, not giving return on investment and we have to scale back and get it back, we won't do it. I mean, we won't hesitate from doing it. So it's not a specific number.

I think an important point Sheela is to look at what I read in my note, which is compared to 3 years ago, same quarter or 4 years ago same quarter, which is a pre-COVID quarter, our GMs are down and our ATL is up but our EBITDA is actually greater or equal to what it was, which means there's a fundamental and volume growth trajectory. While I think 10% does have this element of good Household Insecticides season is higher than our volume growth trajectory in the past.

So this model is broadly working. We will now keep calibrating it as we go along. I mean ultimately, we're investing in ATL to drive volume growth. We will keep calibrating it up and down. But in India, as I answered, I think, the number broadly or roughly seems in the vicinity, but it's not from any other parts of our business.

Sheela Rathi: And on the EBITDA growth number. I think that it is helpful.

Sudhir Sitapati: No, I think we will continue. I think if volume growths come, we're efficient on cost. And we're simplifying our business. Volume growth always leads to good EBITDA growth. So I mean, and there's no such thing is again the right EBITDA. There is gross margin is important because gross margin is value to consumers. Sometimes it crosses the threshold on gross margin on existing category if it comes because the mix is great, it can have impact, but we'll continue growing EBITDA as long as we know volume growth are coming.

Moderator: The next question is from the line of Jitendra Arora from ICICI Prudential.

Jitendra Arora: Just a curiosity that whenever, let's say, we are launching the new SKU at a lower price like you did in the Hair Color and Shampoo and also in the Aerosol. How do we calibrate the volumes for the existing SKUs given that some of the users may shift to this new SKU?

Sudhir Sitapati: Look our general view on this in India is an under penetrated categories. I think there's a question of how penetrated the category, with under penetrated categories, when you launch an access pack, the upgradation that you get is far in excess of whatever down gradation you have A. B, the down gradation that you have tends to be in the first 12 months of the launch, whereas the upgradation that you get tends to be for a much longer period. That's because those consumers who are value-seeking and want to downgrade, downgrade off in the first year. But there are a lot of consumers who don't want a small pack. I mean, you think of most of us, we don't necessarily buy the smallest part, which is the best value for money. We buy what's convenient. So these are the two trends that we see in India.

Moderator: The next question is from the line of Abneesh Roy from Nuvama Institutional Equities.

Abneesh Roy: Basically, my question is again on Household Insecticides. You have done the LUP also and you said that still a bit early to celebrate. And what exactly is needed here because earlier you have done very disruptive products at INR 15 in the hair dye or say in Household Insecticides also you have done and in terms of the powder to liquid, etcetera. So here, what is the missing link? Will it be much more efficacious products at much lower price point because currently, the INR 35 or the INR 50 LUP in Household Insecticides is more of a smaller version of the existing product. It is not more efficacious. Is that the missing link?

Sudhir Sitapati: Yes. That's probably right, Abneesh. I mean if you look at some of the molecules that are available in China and which are illegally coming into India through incense sticks, incense sticks is really the carrier of it. These are much cheaper, high efficacy molecules. So they have not been registered in India, but that is definitely a dimension to the issue.

Abneesh Roy: Second question is on the India business. E-commerce plus Modern Trade broadly, if I see the FMCG pack most companies are in the 20% to 30% range. Of course, FY23, FY22, there has been a big growth. So what is the number for you? And in Q1, how has been the growth rate in these two trade channels?

Sudhir Sitapati: Well, these two trade channels have, like for most companies, outgrown General Trade, we don't measure and we don't track salience of these. We track availability of our products in Modern Trade, visibility and ease of search in e-commerce. But we are very, very particular about maintaining price parity across channels.

So we have realized that getting too worried about salience of channels is not very productive in the medium term. So these channels are growing faster. E-commerce is growing faster. Modern Trade is growing faster than General Trade. In fact, we kind of move away from having target for salience of these.

Abneesh Roy: And last quick question. Your earlier company has been doing innovation in the manufacturing in terms of nano factories. I understand that's much more relevant for small pack size Personal Care. In your own Personal Care, is it relevant? Or because you're doing a big capex of INR

900 crores capex over 3 years. But from a nano factory's perspective, what's your thought process?

Sudhir Sitapati: I mean, look, definitely, the need of GCPL's capex has to be more automated, larger lines, internet-enabled lines more productive factories. I mean, our strategy has been to simplify SKUs, growing categories with larger SKUs. And I don't know what other companies and it's not necessarily true about all categories and all companies.

But our game is category development through a fewer SKUs. So we really want to get scale production at the lowest variable cost. That's what our manufacturing strategy is. It will have to be tech-enabled and pretty high tech. So I think that is true of all new capex, but we are not in the business of having many small SKUs.

Abneesh Roy: The one follow-up I had on Indonesia business. So new leadership in place, you have done huge simplification there. The Modern Trade distribution also a lot of work in progress. So here, are you confident that most of the issues are now resolved. And next 1 to 2 years, this could be growth accretive on a console basis?

Sudhir Sitapati: Yes, I think so. I mean, look, I don't know the answer to that. I know that our business is now running really well. I know that we are gaining market share, how Indonesia will therefore grow is anybody's guess. But from what we see, both in terms of macros and what we hear on Indonesia, the nickel boom, etcetera, it does look like this is an economy that is going to be a fast-growing economy. So if we have the right capabilities in Indonesia, I will bet that this would be certainly a value accretive business to us, probably a growth accretive business as well. I don't know about growth actually, but certainly value accretive over the next few years.

Abneesh Roy: Sir, my question was on capabilities only our most of the issues are resolved?

Sudhir Sitapati: Yes.

Moderator: Next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas.

Kaustubh Pawaskar: Sir, my question is on the consolidated basis. So what is the debt on our books now?

Sameer Shah: This is Sameer here. So I think if you look at net cash, basically, there will be I mean largely net cash as of June end, I think during RCCL acquisition we had called out that with the RCCL acquisition debt on books, we would be net cash somewhere mid of the year, but I think that has come 2-3 months beforehand. So to answer your question, we are already in net cash position. It's marginal number, but still net cash as of June end.

Kaustubh Pawaskar: Okay. And the capex which we are planning to do of INR 900 crores, will it be largely funded through internal approvals or you are planning to take any debt?

Sameer Shah: I think it will be a mix of both internal approvals and that depending upon what's commercially more viable for us. Also, please remember we have a very strong cash from operations, right, demonstrated over the last couple of years, and we expect that momentum also to continue over the next 2-3 years. So funding this capex over the next 3 years should not be an issue as such.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. Thank you. On behalf of Godrej Consumer Products Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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