"Godrej Consumer Products Limited Q3 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Godrej Consumer Products Limited Q3 FY2020 Earnings Conference Call hosted by SBICAP Securities Limited. Please note, this conference is being recorded. I now hand the conference over to Mr. Nitin Gupta of SBICAP Securities Limited. Thank you, and over to you, Sir!

Nitin Gupta: Thanks, Bikram. Hello, and good evening, everyone. On behalf of SBICAP Securities, it is my pleasure to welcome you all to third quarter fiscal 2020 earnings call of Godrej Consumer Products Limited. I would like to thank management team of Godrej Consumer to have given us this opportunity, and let me now hand over the call to Pratik of Investor Relations team at Godrej Consumer. Pratik, over to you!

Pratik Dantara: Thanks, Nitin. Good evening, everyone. Thanks for joining us today to discuss the quarterly performance.

We have with us Nisaba Godrej, Executive Chairperson; Vivek Gambhir, Managing Director and CEO; V. Srinivasan, CFO and Company Secretary; and Sameer Shah, Head of Finance, India & SAARC, and Investor Relations.

We will now have Vivek share his thoughts on our performance, and then we can open up for Q&A.

Vivek Gambhir: Thank you very much, Pratik and Nitin. It is a pleasure to be talking to all of you. What I will do is share with you a few highlights of our performance in Q3 and after that, we will be very happy to answer your questions and take your feedback.

Overall, on the sales front, we achieved a 6% growth in sales on a constant currency basis. This growth was driven by a very strong 7% volume growth in India, in spite of a deteriorating consumer demand environment that the FMCG industry experienced in the quarter. What was encouraging was that we saw good market share gains across all our categories and the innovation focus continues. We recognize that there was an imbalance between volume and value growth. As we have mentioned before, this was a conscious call that we had taken to be able to drive volume growth. We do expect this imbalance between volumes and value to improve in the quarters ahead as a result of some calibrated price hikes, premiumization and portfolio mix changes.

On the international front, we achieved an 11% growth in sales on a constant currency basis, with continued strong growth in Indonesia and some improvement that we saw in sales growth in our Africa cluster.

On the margins front, EBITDA was flat in India, but the margins were very strong 28.9%. So, we continue to sit on record high margins in India.

In the international business, we saw an 80 basis points improvement in margin. This was aided by a 50 basis points improvement in gross margin. Gross margins improved both in India and in the international business, in spite of some of the commodity price pressures that we have been seeing. So overall, the P&L has been looking very healthy.

Let me now turn to the presentation, I will quickly walk you through some of the main slides there.

So, on Slide 3, , we are summarizing our overall sales performance on a reported basis, 2% growth in sales, 6% constant currency growth in sales.

On Slide 4, we list the exceptionals and the one-off items, not much to report on that front.

On Slide 5, we mentioned the bridge between reported and operating EBITDA, again not much to mention there.

On Slide 6, we mentioned our key balance sheet data. Across all the parameters, we have seen a good improvement and overall, the balance sheet remains extremely healthy.

Now let us turn quickly to the overall India business. On Slide 8, as you see, the momentum of strong volume growth continues. This robust volume growth was led by new product launches, effective marketing campaigns and consumer offers. EBITDA margin stood at a very high 28.9%.

On Slide 9, we show the growth rates across categories. What again was encouraging is that we saw very good market share gains across every single category that we participate, in. So, the growth was actually very broad-based from a market share perspective.

If we turn to the actual categories, on the soaps side, the business delivered a mid-single digital volume growth because of price-offs and consumer offers and it resulted in a sales decline of about 4%. We continue to gain market share, 40 basis points gain in the value market share in the third quarter, driven by effective micromarketing initiatives and very impactful consumer offers.

On Page 11, as far as Household Insecticides are concerned, the recovery in insecticides continued with higher than mid-single-digit volume growth, resulting in 3% value growth. We continue to sequentially gain market shares in the overall category, including incense sticks. The initial response to the recently launched Goodknight Gold Flash Liquid Vaporizer in South India has been encouraging, and we plan to scale it up nationally in Q4.

In incense sticks also, we are now seeing good market share gains. And we continue to have a very strong new product development pipeline to help strengthen the portfolio going forward. And you will see a couple of more very interesting launches in the months ahead.

On Hair Colours on Page 12, the performance was actually soft on the back of a general slowdown that we have seen in the hair color category due to the discretionary nature of the category and consumers stretching the consumption. Secondary growth was flat. We have continued to gain market share month-over-month during Q3. Our Godrej Expert Easy 5-minute Shampoo Hair Color is performing well in South India and has been scaled up nationally. Our relaunch of Expert Crème with a new proposition is getting positive feedback and so we will continue to focus on activations and effective media campaigns and to recruit new users in the category.

If you take a look at Slide 14, now turning over to our international business the performance was mixed with a constant currency growth of about 11% and an 80 basis points increase in EBITDA margin.

If you turn to Slide 16, you can see where the margin improvement was largely in the Indonesia and the others cluster, which is basically a mixture of Argentina and Chile and our SAARC business. On the Africa business, we did see margin erosion, largely driven by some one-offs that we had to deal with in our U.S. business.

On Slide 17, we talk about our Indonesia business. The business continues to deliver strong performance. Last quarter, we delivered a 9% constant currency sales growth. The adjusted EBITDA margin expanded by 120 basis points, led by gross margin expansion and cost savings programs. We are stepping up the innovation momentum across categories, and we are seeing good traction from our general trade distribution project, Project RISE, to drive steady growth going ahead.

On our Africa cluster, which is Slide 18, the business was a mixed performance. We did see a recovery in sales with constant currency growth sales was of 6%. The South and the West cluster recorded healthy low double-digit growth rates. However, we witnessed a weak performance in the East cluster because of significant liquidity challenges in the market due to temporary impact of demonetization.

On a MAT basis, our shares are looking healthy as we have gain volume market shares increase in South Africa and continue to hold shares in Kenya as well. The scale-up of the wet hair portfolio continues well, and the relaunch of the Darling brand also has been viewed positively.

As I mentioned, the adjusted EBITDA margin decreased 130 basis points year-on-year due to some onetime impacts we had because of changes in regulation as far as treatment of waste water was concerned in the State of Georgia in the U.S., which impacted our margin. The rest of the slides are just basically our standard slides, which summarize our key priorities.

But overall, as I mentioned to you, the business performance was steady and going forward, we do expect good volume growth in India, supported by continued focus on innovations and enhancements in our go-to-market model. We will continue to drive profitable sales growth in Indonesia while focusing on profitability in Africa and ensuring a strong turnaround in our Latin America business.

We will now be happy to answer your questions and take your feedback.

Moderator: Thank you, Sir Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thank you for the opportunity. My first question is on the India business. If I see, in soaps, there is a 40 bps increase in market share and in Household Insecticides, there is a 70 bps increase. In hair color, you have said that you have maintained market share, and on a monthly basis, there is some improvement. Hair color, I understand, people are elongating the period of consumption. But what is it that you are doing proactively? I understand that Godrej Expert Easy 5 Minute Shampoo Hair Colour has been recently launched but is there anything else you can do? In the previous FMCG slowdown, was hair color the most impacted category within the 3 categories in India?

Vivek Gambhir: Abneesh, I think, with regards to your question, as you mentioned, clearly, we have seen strong, good market share gains in Household Insecticide and in Soaps. In Hair Colours, on a MAT basis, our shares have been remaining consistently flat. So, we have gained share over the third quarter. I think the strategy has been, one is, as you have mentioned, to scale up, Expert Easy Shampoo Hair Color nationally. So far, it had been more of a South launch. But as we start scaling up that more nationally, we should see gains. The second is a relaunched proposition for Expert Crème. Again, that was launched a few months ago with a new brand ambassador, and that should give us some improved traction as well. The third is that we continue to see some challenges in the powder segment where we have launched Godrej Nupur herbal-based powder. I think the herbal-based powder in Nupur has required us to go back a little bit to the drawing board to be able to tweak the marketing mix and to be able to get much more micro in our plans. But a combination of, , focusing on Godrej Nupur herbal-based powder, Godrej Expert Easy 5 minute Shampoo Hair Color and Expert Crème should enable us to basically try and get some recruitment back in the category. The penetration rates in hair color seem to be holding up fine. The challenge has actually been that consumption has been facing challenges, largely because of the discretionary nature of the category. So, I think penetration is fine, but we need to continue to find ways to be able to upgrade our consumers and to be able to improve consumption.

Abneesh Roy: Vivek, my second question is on Household Insecticides. I see a difference in the value growth and the volume growth of around 4%. So, value growth is 3% and there is high single-digit volume growth in Household Insecticides When do we see these converging? Is this because of the lower priced incense stick growing faster? And are you not seeing premiumization because of the Goodknight Gold Flash in South India,and is there some level of premiumization happening in the market? The cannibalization is happening, but is that essentially happening due to premiumization?

Sameer Shah: I think the bulk of gap between value and volume in Household Insecticides is driven by the 10 percentage price off which we have in Liquid Vaporizers in North and Central India, a little bit of West also. With ramp-up and scale-up of Goodknight Gold Flash Liquid Vaporizers, we will see this gradually coming off. It is already launched in South. In fact, next week, we are taking it up nationally. So, my sense is over next 3 to 6 months, we will see this value and volume converging in Household Insecticide category also.

Abneesh Roy: And this 10% off, is it industry-wide phenomenon? Or it is largely your own initiative?

Sameer Shah: We had driven this and it is worked very well for us because that is one of the major reasons alongside scale up of incense sticks why we have gained market share of 70 basis points at overall category level, including incense sticks as a format. But with Goodknight Gold Flash Liquid Vaporizers, we will start premiumising gradually.

Abneesh Roy: Sir, last question on Soaps, again, a good quarter and 40 bps gain in market share. So, if you could discuss what you are doing in terms of, micro markets? What is the strategy difference? Versus the #1 player which has problem in two of their brands, is there a risk that they could come back strongly? And thirdly, because of the coronavirus, we are seeing a lot of ads by the competitor to capitalize on that. So, have you seen in previous such instances, the soap consumption, in fact, goes up when we see corona or that kind of issue. Does the consumption at least the bigger cities go up?

Sameer Shah: What we will continue to do, Abneesh, is what has worked very well for us, which is the micromarketing initiatives. We had shared last time around that we had a bunch of local launches, which have done extremely well in terms of getting us market shares and we will continue to press on those launches as well as the micromarketing initiatives at very granular level. In each state, and within each state, also a bunch of districts where you go deeper, not just in terms of new products but pack/price mix, more feet on ground, digital way of engaging, interacting with channel partners, also with end consumers. So, this is something which will continue to drive our volume as well as value share gains.

Abneesh Roy: And any gains on the corona in the past instances?

Sameer Shah: Too early. I mean, so one at least, which I remember is categories like hand wash and Hand sanitizers is something which sees a bump up. During H1N1, I do remember, those formats or categories, do see a bump up. However, it is too early to comment It is still not that big at this point in time in India, at least. But if it turns out to be so, then I am sure with our Mr. Magic powder and liquid hand wash, we should see a good bump up.

Abneesh Roy: Thank you.

Moderator: Thank you. We have next question from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: My first question is on the Household Insecticides segment and clearly, in the last two quarters, we have seen recovery. But the question is, how confident are you on the sustainability of this recovery? And also wanted your commentary in the last two quarters, how big was the contribution from good season across the country in terms of the recovery of the category?

Sameer Shah: Amit, we have shared, at the beginning of this year that we will see gradual recovery in Household Insecticide category, and so far, it has panned out that way. We also shared what will be the growth levers We said we will have next-gen Liquid Vaporizer, which is in market now and also scaling up nationally. We will scale up our own incense sticks portfolio, which has happened. We will have some incremental launches like HIT Anti Mosquito Racquet and HIT Rat Glue Pad, and now GK Naturals range of Household Insecticides. So that should also drive growth, and last but not the least, also the price off of Liquid Vaporizers to gain volume and value market share. So, all the initiatives from our end, at least for this fiscal year, have got rolled out and executed in the market, and we are seeing the results not just in terms of growth, but also now share gains. So, we expect this momentum to continue. We do have a lot of initiatives and strategies to build on this growth for next many more years to come, which we will share, at the right point in time. But we remain confident of continuing this growth momentum and share gains in Housing Insecticide category going ahead.

Amit Sinha: My second question is, when you launched Gold Flash, the idea was that this will be the primary Liquid Vaporiser format going forward. And you have mentioned in the presentatioin this time also that you are basically taking this pan India starting fourth quarter. My question is, does that plan still hold? Or Gold Flash will be a one-off and or just 1 of the 2 vapourisers formats in the segment?

Sameer Shah: Yes. So, the way it happens is both the Liquid Vapourisers continue. And basis our past experience, it takes anywhere between 12 to 18 months for the latest vapouriser to take over the previous vapouriser. What we do, however, in parallel is we stop the sales of machines of Activ+. So that has happened in South, and with national launch, that will also happen at a national level. However, the refill sales continue because consumers would have the old machines wherein they would want to use refills. So, this is the past experience. The overlap, if any, remains for 12-odd months, and then it completely moves out.

Amit Sinha: Just a follow-up on Gold Flash..Any update on how have been the secondaries there? How has been the consumption and what are the early trends? Any commentary there will be helpful.

Sameer Shah: Yes. I think qualitatively, the response has been very good and not just trade response but also from consumers. We are doing more than dipsticks to gauge on what is the product efficacy and if the product is well received. So farthe feedback has been good , and that gives us the confidence of sort of launching it nationally.

Amit Sinha: Thank you.

Moderator: Thank you. We have next question from the line of Mr. Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh: A couple of questions. Firstly, you have had a very good volume growth especially in the current context. Could you just give some color on how rural versus urban has panned out for you in terms of growth?

Sameer Shah: For us, rural growth rates continue to be ahead of urban. That is because our salience in rural is less than 30 percentage. However, if you look at the rural/urban delta, that has narrowed down. Even last quarter, our rural growth was around 3% points higher than urban growth. So rural continues to be better for us, but this delta of 3 % used to be as high as 8%, 10% a couple of years ago.

Vivek Gambhir: I think, Prasad, what we saw was that in terms of rural, we began seeing a slowdown at an industry level in quarter 2. So that slowdown persisted in quarter 3 as well. But what was different in quarter 3 was a much sharper deceleration in urban. And within urban, we saw a much sharper deceleration in the western part of India. So, if I were to look at it regionally, I think the West and the North is where we saw more of a slowdown, with the South and the East doing relatively better.

Prasad Deshmukh: Not at the company level, but at the industry level, would you say that the situation has further worsened in January? Or it is stabilizing?

Vivek Gambhir: In January, it seems to be more of the same so very early days right now. Our hope is that perhaps the worst is over, and things may have bottomed out. But honestly, it is a little bit too early to say. At least, we are beginning to feel like perhaps the worst is behind us from an industry point of view.

Prasad Deshmukh: Sure. Second question is on general trade versus modern trade, Whenever we talk to distributors, not necessarily only Godrej distributors but overall industry distributors, there has been a constant complaint for the last couple of years that the industry has been treating general trade a bit at a disadvantage versus, say, modern retail. There are more discounts being given to modern retail versus general trade, and they have been trying to address that by talking to companies. Has there been any such discussion that your company has had with general trade bodies? And if at all, there have been some discussions like that, is there any outcome of that?

Sameer Shah: Yes, we have had engagements, which we regularly have with our channel partners, and they did bring this out. The way we are doing this is through a different pack-price mix architecture for different channels. One, there is no overlap, and hence there is excessive discounting to one channel vis-à-vis other. So, we have more than amicably resolved, which otherwise, at least for us was not a very big issue. But yes, I mean, we did engage with our channel partners over last 3to 4 months on this point.

Prasad Deshmukh: So, are you are saying that there will be something new and that there will be some exclusivity for one channel versus the other?

Sameer Shah: Yes, in different pack/price mix architecture. So, you will find normally in modern retail as well as e-com, more of bundle packs as compared to general trade. So, you will have a different SKU itself with a different price point in both the channels to the extent possible, and that is the best way of navigating through this overlap.

Prasad Deshmukh: Third and last question. There is a sharp rise in palm oil prices. I understand that typically in such a scenario, the larger companies end up gaining share. However, in terms of the impact on margins, probably you may have to take price increases and till Q3 there have been consistent price offs, which was driving volume growth. So, any thoughts on how your pricing will trend ? I don’t need any advanced information in terms of how price hikes will happen but any thoughts on whether the price offs are now over or we will still see similar price promotion continue?

Sameer Shah: So, we will see a little convergence of value and volume, Prasad. Now some of it is premiumization and some of it perhaps could be also driven by increase in input costs. But we are equally wanting to continue this volume growth momentum as well as market share gains. So, it is not going to be one for other. We will find a balance between how to mitigate the increase in input costs. And if any, margin pressure vis-à-vis continuing this good growth momentum and market share gains. There could be a temporary blip. I do not know because it is extremely dynamic. Our pricing decision could be more of evaluating first the consumer offers and price offs, and then if need be, a plain vanilla kind of pricing or pack change. But again, we will play it at a very micro level also. So, we will see how this kind of shapes up in the coming quarters.

Prasad Deshmukh: Thank you.

Moderator: Thank you. We have next question from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: First of all, I think volume performance is great. But if someone was to say that you are probably buying growth from the market at this point in time. How would you respond to that criticism?

Sameer Shah: Nillai, I think the strategy of driving stronger volume growth has worked outquite well because that has now started getting reflected in our volumes as well as value market share gains. The thought process was, otherwise, when we are seeing general slowdown, we would want to fast-track our growth by gaining market share, which happens through innovation and new launches, which is happening in parallel as well as go through these kind of price offs as well as consumer offers. So, to that extent, we feel that the strategy has played out very well. We also said that this is the strategy, at least to begin with for a period of 12 months. And then we have a playbook of converging this value volume gap or premiumising and maybe select pricing change which, to some extent, we will start seeing in quarter 4. And I am sure next year, it is going to be, again, a much better year even on value growth compared to what FY2020 was

Nillai Shah: Got it. And specifically, on Household Insecticides, given that you are ultimately looking at migrating the consumers from the Activ+ to Gold Flash, why wait for Gold Flash to ramp up and not just remove the discounts at this point in time, if ultimately that is the objective?

Sameer Shah: We are evaluating that possibility. Iin South, it was in a way a smoother transition because there was no price off. There was a consumer offer temporarily. To be honest, we are still evaluating in North, Central and West, whether we should continue with price off till like next 12-odd months.

Nisaba Godrej: I think you should understand that the demand situation in India is quite difficult. and consumers are struggling with the amount they are willing to pay. I think in a space like this, if we can go along with them, it is very helpful. Do not forget that with the Gold Flash my bet is that when one person uses it, he/she will say, "Wow, this is like a super effective product.". At this stage, we prefer to discount to get people to try to make it an easy choice, and then prices do not necessarily stay static. We can raise them when we want and like we said before, in this product, we put the locks back in. We have the patents there. So, it is not a simple thing for someone to come in and copy it.

Nillai Shah: Thank you.

Moderator: Thank you. We have next question from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: On the hair color side, from a category perspective, I just wanted to check whether the lower growth or the slow down were seen equally in the mass segment as well as the premium segment? **Sameer Shah:** So, if you just look at Crème as a format, and we did share earlier that we have seen increase in penetration. However, the consumption has been kind of flattish and tepid. Now this is something which you have seen in the past, categories which are close to discretionary, if not completely discretionary, especially hair color, does see a little bit of subdued growth at overall category level.

Nisaba Godrej: Yes. And I think if you look at something like Crème hair color with a low penetration, the growth is upgrade. So, if I am using a powder hair color or Henna, maybe I will stick on to it for a couple of quarters if my pocket is tight againI think what we are focusing on is continuing to serve the customer the best way and if you might have noticed, we had a big relaunch of Crème. . We saw our market shares go up almost immediately, which does not normally happen right after a launch. So we are also getting prepared for when demand comes back and not holding back on launches. We had rather focus much more on the cost side and efficacy side, but keep our new product pipeline and innovation ready We definitely had a couple of hard years in Household Insecticides, but we are fully back with whether it is incense sticks, or even Liquid Vapouriser , where penetration has a long way to go.Especially in rural what works is that you give better value for money, and better value for money here just means higher efficacy and safety. So, those are the things that across the categories, we will continue to focus on. And some of that pricing power increases as there is a bit more money in consumer's hands.

Harit Kapoor: Got it. The second question was on the Africa performance on the GAUM cluster. The margin contraction there on a year-on-year basis, you did explain part of it, the expectation is that you are going to see an improving margin trend with the cost rationalization which you are doing. So, is this a little bit of blip, and you are going to see this kind of margin improvement trend again going forward?

Sameer Shah: We had shared at the beginning of year that, for Africa, it is much better if we aggregate the quarters and look at full year margin performance because it tends to be a little bit choppy, especially on a 3-month period basis, right? It is 9 to 10 countries and 5 subclusters. We are still on track in terms of full year margin maintenance driven by the pivots which are primarily cost-saving programs. And we are working in parallel to ensure that we see a favorable category mix, premiumization and more importantly scale leverage, such that, we see a further boost to either overall margin expansion or further reinvestment for growth. So, a quarter margin, especially like this one, where more than half of it was driven by a onetime expense, is where we think there is nothing much to read into.

Vivek Gambhir: Harit, as we dissect the Africa performance, Southern Africa and the West Africa clusters did very well. Their growth was in double digits. The challenge we faced was in our Kenya business, which actually went through demonetization in the country, where liquidity was at a 6-year low. And so, because of the risk of receivables shooting up, the direction to the team was actually to focus far more on collections and receivables management, which actually led to a bit of a degrowth in the business. And that is where we saw some operating leverage challenges. But again, we are seeing strong growth in both West Africa and Southern Africa. I think weak performance in Kenya is temporary. Once recovery happens there, we will again be back on the path that Sameer was mentioning of margin improvement.

Harit Kapoor: Last question, if I may, there is a little bit of an increase in the other expenses line item compared to the first half of the year in terms of growth. So, anything to read into that? Or that is just normal?

Sameer Shah: Yes. We have had a few one-times. I mean, if I dissect India's other expenses, we had a legal amnesty scheme, resolution of close to around Rs. 3 Crores. We also had consultancy charges, both in India and international business, which will be onetime. We had a little bit of delta CSR spend. So, I think on the India front, to begin with, my sense is at least Rs. 8 Crores to Rs. 10 Crores is something which is not going to come in the coming quarters. And even in the international business, we had a couple of consultancy charges sitting, which mostly should not be coming inon a recurring basis.

Moderator: Thank you. We have next question from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: You already touched upon it, but just on margins. How should we be looking at it going forward? Palm oil is moving up, crude is down again. You are looking to cut back on discounts. So, should we expect some pressure on marginsor are you looking to maintain margins?

Sameer Shah: Yes, I think it is too early, Kunal, to call out in terms of what will be the margin profile, but we have seen this cycle of palm oil prices moving up and moving down. If we just go back to our history, Godrej No. 1 historically has done very well when palm oil prices have gone up. That is because lot of small local players move out of the market. We more than mitigate this through cost saving programs to select the pricing change. But we want to continue our momentum on growth. So, if the growth happens, which is what we are all working towards, I am sure there will be leverage, and hence, at least margin maintenance, if not, margin expansion. If all goes well, you never know, there could be a margin expansion. So, it is early to call out, but we are not too fussed about this increase in input cost and how, on a medium-term basis, it impacts our margins.

Kunal Vora: On volumes, like you had almost double-digit discounting on promotions in both soaps as well as Household Insecticides,would you look to reverse it completely? And in that case, would you expect volume growth to moderate? How should we look at volumes?

Sameer Shah: Yes. I think in terms of data, in Household Insecticides, we just had 3 to 4 % of value/volume gap. So, it is double digit deflation. In soaps, it is around 9%. This is the level of deflation. As I was sharing earlier, in Household Insecticide category, my sense is we will see a gradual path towards bridging this gap. And in soaps, we will also see through some pricing action, consumer offers, tweaks, this gap narrowing down. And we also want to continue the volume growth, but of course, read with the overall how FMCG HPC sector also trends in near future.

Kunal Vora: Thank you.

Moderator: Thank you. We have next question from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Just a few quick questions. We have seen that cash-and-carry is picking up very fast. The penetration of cash-and-carry is clearly showing the trend forward, and there is a disruption in western and northern part. This is the fast-growing opportunity. How does business give you opportunity or a problem or an issue?

Vivek Gambhir: Yes. I think it is an important channel for us. But in terms of an overall growth in cash-and-carry, it is not as if you will see disproportionate growth in cash-and-carry versus the rest of modern trade. I think cash-and-carry is growing at the same pace as modern trade. It is an important channel for us as well. But as Sameer was saying, what we are doing is creating more tailored products with a price/pack architecture. And throughstrong joint business planning sessions with our partners, we will look for driving growth in cash-and-carry. But along with cash-and-carry, modern trade, e-commerce, all of these emerging channels are very important for us, Shirish.

Shirish Pardeshi: My simple question is that, incrementally, we have seen that the net weighted distribution is the thing which we are i using this channel for and the traditional distribution is not giving you that kind of inroads. So, is there data, you will be able to share that your net weighted distribution has gone up because of these efforts?

Vivek Gambhir: Still very early days. I think in terms of weighted distribution, the impact on cash-and-carry is still very small.

Shirish Pardeshi: What could be the number for Godrej No. 1 for net weighted distribution for us?

Sameer Shah: Shirish, selectively, we would not want to share for a specific brand, what is the kind of distribution reach.

Shirish Pardeshi: Okay. The other question I have is that on soaps, you have seen a tremendous volume growth. Is this growth is primarily led by Godrej No. 1 or even Cinthol has seen similar growth?

Sameer Shah: Growth is broad-based. We have seen growth led by both Godrej No. 1 as well as Cinthol and so is the market share gains also. I mean volumes growth, of course, Godrej No. 1 has a higher contribution, but even Cinthol is doing extremely well. The strategy was always Godrej No. 1 is more at mass end of the market and Cinthol is at premium mass end of the market to drive value growth. And Godrej No. 1 does the task for driving volume growth. So that is playing out very well for us, but it is quite broad-based between both the brands.

Shirish Pardeshi: The other observation is that when I look at North and Western market, the competitive intensity on the soaps part of the business has really gone up. And we see a lot of local players also becoming very active. So is it that the slowdown is more visible in the North and maybe Western market. North is not strictly compliant because in the winter season, so it may not consume that kind of soap volumes. But I am seeing the competitive intensity in this season has really gone up. I did not understand what is the reason behind it?

Sameer Shah: So, again, it is very early to sort of pick and chooseif a specific region has underperformed or outperformed. But if you look at the trends over last 5, 6 quarters, definitely North and East are the two regions, which have relatively slowed down compared to at least, say, South. So yes, over a period of last 4, 5 quarters, that is the trend, but it is too difficult to call out trend or even have a hypothesis for the last 2- 3 months of performance.

I think competitive intensity isvery category specific; and it really depends on what is the objective., If the objective is to drive volumes growth, get consumers recruited in new brands, and eventually, gain value/volume market share, that is the right place to be in. But there has to also be a playbook to converge this value/volume gap. It cannot be a perennial growth vector. So that is the reason why you will be seeing competitive intensity at least in soaps, also read with the fact that we were at sort of relatively lower palm oil pricing scenario over last 12 to 18 months.

Shirish Pardeshi: Yes. Just one last question. Probably, Vivek can answer this. Hair Color business, if I look at over a long period, we have always seen that there are challenges, the price points in herbal formats. Is the perennial issue that we have not been able to resolve that what kind of format? I mean, is there an upgrade, which is happening from powder to Crème? Or the discretionary spends are really itself is an issue how the hair color growth will happen?

Vivek Gambhir: Yes. I think at an overall category level, as Nisa was also mentioning, the penetration rate in Hair Colours is still extremely low, particularly in formats such as Crème. I think from our perspective, if I look at the journey of upgrades, particularly from powders to Crème, that journey continues quite well. And with things such as now Godrej Expert Easy 5 minute Shampoo Hair Colors, we have another format for consumers to upgrade from powders to Crème. So, the upgrade part of the portfolio strategy is working quite well. Our challenge has been, frankly, more in the powder part of the category, and that is where the recruitment of new users becomes an important priority. And there, I think, it has taken us a little bit longer to scale up Godrej Nupur herbal-based powder. So, I think as the herbal-based powder scales up, we will have a very good answer as far as an entry point is concerned for recruitment of mass users, particularly in urban and rural, along with that, the upgrades that we will have, both with Crème and shampoo hair colors. So, I think it is a bit of a matter of time, where we need to give the strategy some more time to play out. But if I look at all the vectors of growth in terms of both upgrades to drive consumption and to drive penetration, I think they are largely in place.

Moderator: Thank you. We have next question from the line of Raghav Malik from Axis Capital. Please go ahead.

Raghav Malik: My question is pertaining to the incense sticks category. So, I think it is safe to assume that the incense sticks imports from China would definitely go down to a certain extent because of government restrictions, closure of the factories and now even because of the spread of coronavirus, to some extent. So, what is the incremental revenue expansion you can see in this category? And my follow-up would be that how much if you could, share, how much would the incense sticks category be as a total of the Household Insecticides segment or the overall business?

Nisaba Godrej: Okay. So, I would not give you that exact number, but it is very small right now because we have just started out on it. And overall, even the saliency to the category overall is still small. In terms of the China piece, originally when the incense sticks were coming in, they were coming in illegally from China. But us, Indians also are quite enterprising. So now they are being done illegally in India all over the place. So, I guess we do not see too much of it being Chinese import. I think the only impact that we will actually potentially see because of this Chinese issue is actually in our Africa business because the trade there between China and Africa is much stronger. And what they do is that quite a lot of the goods that they cannot get through the U.S, they come and dump it in Africa So, you will see some of that. I think that might slowdown quite a bit because they would not be able to fly in with their suitcases full of stuff. So, there could be an impact there. But obviously, we have just no idea how it is going to play out. What we are really hoping for that people say, "Play safe and the Chinese get a handle on this, we do not look forward to benefiting business from something like this." So, we actually do hope to just play safe and they sort it out.

Raghav Malik: Thank you.

Moderator: Thank you. We have next question from the line of Alok Shah from Edelweiss. Please go ahead.

Alok Shah: Two questions. One is what we understand is that Nigeria has signed African free trade agreement, so Nigeria is now part of that. So, do you see that, that can be a good boost to your overall Nigeria business coming within the Africa piece? And second was a bookkeeping question. It is largely the 9-month tax rate is quite low at about 10-odd percent, what is the guidance that you are giving for the full year?

Vivek Gambhir: So, I will answer the first question, and then I will ask Sameer to answer the second one. In terms of the free trade agreement with basically trying to create 1 big trading block across Africa, I think the opportunity is tremendous. Having said that, though, as you know, implementation of these agreements does take time so from a ground reality perspective, I think, certainly, it will take time before these agreements get operationalized. But if they do get executed well, the potential clearly will be very huge for us to be able to tap a lot of the neighboring countries. Sameer, do you want to answer the second question?

Sameer Shah: Yes. Thanks, Vivek. I think in terms of guidance, we have always shared that it should be in that range of 21 to 23 percentage because it is cocktail of profits and different tax rates, that too with changing tax rates across so many countries. So, we will stick to that range for the time being.

Moderator: Thank you. We have a next question from the line of Nitin Gupta from SBICAP Securities. Please go ahead.

Nitin Gupta: I wanted to know about the soap as a category. So, we have seen good double-digit growth in last year's fiscal. And this fiscal, we are seeing a mid-single-digit volume growth. So, given a slowed down environment, how do we see the overall per capita consumption of soap as a category evolving? So, have we seen a material improvement happening there because of our strategy?

Sameer Shah: So, for us, we have seen share gainsAnd we have been seeing strong volume growth in the last 6 to 8 quarters. It is a 99 percentage penetrated category. So, name of the game over here is to gain shares. And in parallel, also ensure that there is a bit of premiumization. So, get into the adjacencies of bar soaps into the larger personal wash space like body showers and hand washes. But that is the other journey, which we have started with Mr. Magic powder to liquid hand wash. So, that is the way we would play this game. We are a distant #2 player. So, there is always going to be opportunities to gain market share. **Nisaba Godrej:** I think per capita consumption is very different by state. So, if you look at the state like Punjab has very high per capita consumption. Obviously, some of the poorer states will have lower per capita consumption. So, in most categories in India, consumption will go up first. That is, again, dependent more on the economy.

Nitin Gupta: No. My question was likely because of our tactical call of taking price cut. Is there any benefit to the category as such? We have gained market share.But as a category, do you see any accelerated pace of expansion in the per capita consumption in terms of volume?

Nisaba Godrej: No.

Nitin Gupta: Okay. My second question is on Household Insecticides. Can you please elaborate more in the naturals side, the launches we are planning in the e-commerce? And how, in future, we will be like positioning our offering in naturals and chemical-based offering? Will there be any cannibalization?

Nisaba Godrej: Yes. So, our naturals actually are a culmination, and we will continue to work on this. Many years of the work has gone into getting efficacious and natural products and you have seen that earlier in our natural personal repellent portfolio. You have also seen that in our incense sticks. What you will see now is an electric offering and some offerings in sprays. We will start with e-commerce, mostly because we are focused on rolling out flash in the Household Insecticides right now. So, we did not want the news to clash in the broader market, but this will be a more broad-based launch eventually. You will be happy to know in the future, you will see portfolios in naturals, which will probably come in cheaper than incense sticks for rural markets. We are working on something very interesting there, and you will see products on a much the higher end also. So, we actually think there is a good market that is priced quite well above even the Liquid Vaporisers . It is probably a smaller, addressing maybe a 10 million to 20 million population in India, but we are seeing things like matics and our aer matics and some of the more expensive car products do very well. So, you will see our natural's strategy play out on both ends of the market and insecticides category

Nitin Gupta: So basically, this is a premiumization strategy we have, even if there will be any cannibalization?

Nisaba Godrej: No. It is going to be a premiumization and a rural strategy also. So, we have technology you can use or the formulations we are thinking of using across the business. You will see some of that play out over the next 12 to 18 months.

Moderator: Thank you. The next question is from the line of from Abhijeet Kundu from Antique Stock Broking. Please go ahead.

Abhijeet Kundu: My question was on your palm oil sourcing because there have been restrictions on palm oil sourcing from Malaysia. So, have you changed any sourcing strategy there? Needed your feedback on that.

Sameer Shah: Yes. So, we have been sourcing from both Indonesia, Malaysia as well as, at times, from local refiners because a byproduct for them is palm oil derivatives. So, it is largely unaffected at this point in time. Of course, the source of business at this point in time will shift more towards Indonesia than Malaysia. But yes, that is the way it will work out or has been at least over last few weeks.

Vivek Gambhir: Yes. I think as Sameer pointed out, because we tend to source derivatives, PFAD and PKFAD, versus the total quantum of palm oil, the derivatives market is miniscule compared to palm oil. So, there should not be much of an issue there.

Abhijeet Kundu: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments. Sir, over to you.

Vivek Gambhir: Thank you very much for your questions and your feedback. As we had indicated earlier, we do expect to maintain the volume growth momentum in India, supported by our continued focus on innovations and enhancements to our go-to-market model. We will continue to drive profitable sales growth in Indonesia, while focusing on profitability in Africa and ensuring a good turnaround in our Latin America business. Thank you very much.

Moderator: Thank you very much, Sir. Ladies and gentlemen, on behalf of SBICAP Securities Limited, that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.