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November 15, 2022

BSE Limited
Corporate Relations Department
1st Floor, Rotunda Bldg., P.J. Towers,
Dalal Street, Mumbai 400 023
Scrip code: 532424

National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East), Mumbai-400 051
Symbol: "GODREJCP"

Transcript of Conference call with Investors & Analysts held on November 08, 2022

Dear Sir / Madam,

Please find enclosed herewith transcript of Conference Call of Godrej Consumer Products Limited with the Investors and Analysts held on Tuesday, November 08, 2022 at 6:30 p.m. The same is also available on the website of the Company at the link mentioned below:

https://godrejcp.com/public/uploads/financial_presentation/GCPL_Transcript_2Q_FY2022_23.pdf

Please take the same on your records.

Thank you.

Yours faithfully,
For Godrej Consumer Products Limited

Rahul Kirtikumar Botadara

Digitally signed by Rahul Kirtikumar Botadara
Date: 2022.11.15 15:39:56 +05'30'

Rahul Botadara
Company Secretary & Compliance Officer

“Godrej Consumer Products Limited Q2 & H1 FY'23 Earnings Conference Call”

November 08, 2022

MANAGEMENT: **MS. NISABA GODREJ – EXECUTIVE CHAIRPERSON, GODREJ CONSUMER PRODUCTS LIMITED**
MR. SUDHIR SITAPATI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, GODREJ CONSUMER PRODUCTS LIMITED
MR. SAMEER SHAH – CHIEF FINANCIAL OFFICER, GODREJ CONSUMER PRODUCTS LIMITED

MODERATOR: **MR. KRISHNAN SAMBAMOORTHY – MOTILAL OSWAL INSTITUTIONAL EQUITIES.**

Moderator: Ladies and gentlemen, good day and welcome to GCPL Q2 & H1 FY'23 Earnings Conference Call hosted by Motilal Oswal Institutional Equities.

As a reminder, all participant lines will be in 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Krishnan Sambamoorthy from Motilal Oswal Institutional Equities. Thank you, and over to you, Sir!

Krishnan Sambamoorthy: On behalf of Motilal Oswal Institutional Equities, I welcome you all to the 2Q and 1H FY'23 Earnings Conference Call of Godrej Consumer Products. Without further delay, let me hand over to the management for introduction and opening comments.

Pratik Dantara: Good evening, everyone, and welcome to the call. On the call with me from GCPL is Ms. Nisaba Godrej - Executive Chairperson; Mr. Sudhir Sitapati – MD & CEO; and Mr. Sameer Shah – CFO. We will now have Sudhir share his thoughts on our performance, and then we can open up for Q&A.

Sudhir Sitapati: Good evening, everyone. I hope you and your families are doing well. Thanks so much for joining us on the call today.

I wanted to first start with an organization change upfront. Pratik who has been leading Investor Relations and M&A has decided to move on. Tapan who has earlier lead Investor Relations and many of you would have interacted with him, would head Investor Relations alongside Global FP&A. I wish both Pratik and Tapan all the best.

I will now start with an update of our quarterly performance. Our results have been behind our expectations though the quality of profits have been good. Our sales grew by 7%, three year CAGR of 9%. Volumes declined at 5%, three year CAGR of (+1%). And gross margins after four quarters of decline, grew by 3%.

However, led largely by a nearly 50% increase in advertising spends to drive market development, our EBITDA declined by 15%. Our PAT declined by 25% led largely by VAT Amnesty Scheme settlement and some currency volatility. Despite this, our operating cash flow doubled driven by simplification initiatives largely on working capital.

In India our sales grew at 8%, gross margins grew at 7% and above the line grew at 52% leading to an EBITDA decline of 5%. In Q2 FY'23 our three-year CAGR in India was 1% versus 4% in Q1, this reduction was entirely led by a drop in our Household Insecticide business, which basis positive sales growth in this quarter seems probably like a seasonal impact.

GUAM had a good operating quarter with 15% growth. Gross margins grew at 8%. ATL grew by 77% and as a consequence EBITDA declined by 12%. However, severe depreciation in currency have meant that our forex and interest costs were up.

Indonesia sales declined by 8%, gross margins declined by 14%, while EBITDA declined by 41%. This was largely driven by an increase in media spend and inflation pressure. However, the good news is that the growth in Q2 ex-Saniter was 12%. As the Saniter base wears off, as it did in September, we should see positive growth in the second half of the year.

So, while headline Q2, FY'23 Results are below our internal expectations, we think that the quality of profits within the results was good. This along with some green shoots in parts of our business as seen in October, augurs well for the rest of the year's performance.

Our strategy to achieve long-term consistent volume growth is based on three pillars, market development of our core portfolio, funded by simplifying our business and finally placing planet and people alongside profit.

I would now like to talk a little bit about our progress on all these three. Despite adverse costs, we have been committed to increasing our spends for market development in three areas, advertising, penetrative pricing and sampling. In Q2 while our ATL increased by 46%, our working media increased by 70%. An area where this is reaping rich dividend is in Air Care and Hair Color, where we are seeing very high growths in key markets like India and Indonesia. An area where increased investments have not yet led to significant trajectory change is Household Insecticide in India. While we were happy with Q1, Q2 results have been soft. We will see how H2 plays out before reviewing our strategy and regrouping on next steps.

An area that we have focused in terms of simplification is in the area of SKU count. In India we have reduced the number of SKUs by 25% in the last six months. In GUAM, we have reduced our SKUs by one-third in the last one year. These sharp cuts have led to a fall in inventory from 60 days as at September '21 to 51 days as at September '22. As a consequence, despite muted profits our operation cash flows have nearly doubled. These along with several other moves means that our cost-to-serve which is our total cost, ex-cost of goods and working media, despite high inflation is down 30 bps in Q2 FY'22. As gross margins recover to normative levels in H2, this augurs well for our operating profits.

Finally on people and planet alongside profits, in order to effectively compete in the hypercompetitive talent market, we launched Project Neo targeted at managers with one to three years work experience who perhaps wanted to change functions or industry. We received approximately 7000 applicants many of whom were extremely diverse and extremely high quality. We are in the process of finalizing candidates but feel that this move has the potential to be a game changer in terms of entry level talent for us.

The operating environment for FY'23 continues to be challenging at the consumer end. The demand environment remains taxing marked by unprecedented inflation, consequential impact on consumption, aggressive monetary tightening measures from Central Banks globally, resulting in strengthening of the USD and all this resulting in GDP growth cuts across the Board.

Despite this, our prognosis for FY'23 broadly remains unchanged on double digit sales growth, with low single digit volume growth. We have been focused on fundamentals both in terms of investments, but also correcting some of the issues in our international business. The external environment remains tough, but we are cautiously optimistic about the quarters ahead this year. Thank you.

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

Abneesh Roy: My first question is on Household Insecticides, you mentioned Household Insecticides has been soft in Q2. I understand that in Q2 there were extreme seasonal issues, very high summer and then very high rainfall, both are not conducive. So, when you mentioned the performance was soft, was it also in reference to the industry performance, because you did mention that in H2, you will evaluate if any changes are needed. So, changes would be needed only if competition is doing better, so wanted to understand that bit. Plus, global warming is a reality. In that context you think the mosquito presence etc. that remains a key question mark in the coming quarters also.

Sudhir Sitapati: Abneesh, I think I will answer this in two parts. Firstly, Q2 was indeed soft, I suspect for the entire market. Because of the seasonal impact that you spoke about, especially in the East of India, we had delayed monsoons. The monsoon seemed to have spread into October, you know, we have had a late monsoon as well. This is a seasonal category and probably not right to look at this category as one quarter. I would say that between Q2 and Q3 I hope anyway things will even out.

And we are broadly holding our shares in Household Insecticide. Our challenge in Household Insecticide, Abneesh is not to win share, our primary challenge given the fact that we are market leader is to premiumize this category and grow it faster. So, we had a good Q1. See, we made two big interventions. We have increased our media, as you can see in our results. And we have also repositioned in particular Good Knight. And we were very encouraged by the Q1 results.

Now the Q2 results have been relatively poor, we are not able to make out given where we are today, how much of it is due to seasonality, and how much is due to, whether some of the interventions, whether they need to be course corrected, bolstered etc. So, that's what I meant.

And to answer your question really on global warming etc., look this is a category which is 70% penetrated in India, volumes in actives used in this category continue to grow. The issue in the category is that the premium formats of liquid vaporizer, and aerosol should grow much faster than what they are growing. So, this category needs to premiumize faster than it is doing today. And our efforts are basically focused on that.

Abneesh Roy: But one follow up there, I do see lots of price or promotions in the liquid. So, your effort to premiumize could become difficult if your key competitors are always on an undercutting mode, which could be because they are not seeing that volume growth. So, it is linked?

Sudhir Sitapati: Pricing and tactical pricing is there every quarter, but if you take a step back, Abneesh we are the market leaders and our job is to get coil and incense stick users to move to liquid vaporizers and aerosol. You see as I told you, our market shares are flat in Household Insecticide. So, it is not, we don't see this primary issue as winning share or losing share or undercutting and price cutting and so on. That trigger we have to get to it; we will get to it. I mean, our Q1 was encouraging, Q2 is less encouraging. We will see when Q3 and Q4, and we have got plans ahead So, as they get rolled out, we will also share with you but just to acknowledge the fact that we are seeing many green shoots in our business.

Abneesh Roy: My second question is on the Indonesia business now with a new business head for the past few months, and encouraging 12% kind of growth ex Saniter. Would you say that now, high single digit growth in Q3, Q4 is possible. Because if I see the data last eight quarters, only one quarter, there has been a decent 5% kind of growth. In the balance seven quarters, last three quarter it has been a negative and the balance three quarters it has been flattish. So, it is not just a Saniter issue there are other issues in Indonesia, which you have always highlighted in terms of COVID restriction and the economy itself. I wanted to understand this 12% ex Saniter growth, is that a growth we can look at in terms of the second half say high single digit kind of growth?

Sudhir Sitapati: See I think the way the math will spillover because Saniter base etc continues and there is some more cleaning up that is to be done, I hope that Q3 will come to near flat in Indonesia and Q4 onward, we should see very high growth.

Abneesh Roy: One last question, that from the cleaning up of the SKUs, which you mentioned which is a commendable effort, wanted to understand, in your key segments in India, the 25% correction say in the SKUs, does the market leader also have in each of your category. So, say in Soap your SKU, how does it compare with the market leader and in FMCG choice and the fill rate and all those are also very important. So, is there any loss of demand also, does it happen because of the 25% curling of the tail?

Sudhir Sitapati: I don't think so, Abneesh, we have done a very rigorous analysis like all companies do, and you will find that there's a very strong pareto in terms of SKUs, in terms of top-line, but even more so in terms of margins. So, curling these SKUs are not likely to impact top-line. We have been very careful, we have used two three criteria, knocked off anything which is less than a certain value, make sure that that doesn't have a substitutable SKU, make sure the gross margin of the knocked off SKU was low so it doesn't have any value discretion.

So, I don't think it has. When we benchmark ourselves versus peers in terms of number of let's say SKUs per call that the salesman makes versus the number of SKUs we have. So, if you have a numerator, the number of productive SKU sold and output divided by the total number. We think those numbers were low. I think now they are on benchmark, what we have now done in

India by reducing 25% SKU and the results are very visible, right. I mean in a quarter like this, where profits have been poor and we have had to take one-offs, if we still manage in particular in India to grow cash flow, almost double cash flow, a lot of it is coming from removing capital drop in SKUs.

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

Percy Panthaki: My first question is on Indonesia. On the margin front, you have done around 17% margins here. If you can just parse out the different impacts on the margin, one is the operating deleverage because the sales have declined. Second is the input cost inflation and third is increase in advertising if any.

Sameer Shah: Percy, this is Sameer here. So, I think we have detailed out in the 930 bps drop in Indonesia, I think around 150 bps is driven by upfront working media investment. And as we can see the core business relatively well, I mean in Q2, and we continue with the upfront investment. The second impact is because of the scale deleverage, on the whole, the business did decline, high single digits close to double digits. So, that does have it's impact on overall operating performance. And the third is, in Indonesia, we still continue with consumption of high cost inventory, it is difficult to quantify the impact, but our gross margins sequentially were better, but still on a year-over-year were lower, we expect that to ease out in the coming quarters, because generally the inflation is cooling off. And we have also taken some price increases.

Percy Panthaki: So, the reason I asked is that the margins are down almost 1000 basis points. 150 basis points is due to the increased investments, which is fine. I mean, I just wanted to understand going ahead, let's say if I look forward into FY'24, or maybe second half of FY'24, if that gives you more comfort, what kind of stable state margins are we looking at, in this geography?

Sameer Shah: Yes so I think the ambition for us would be to kind of go to early 20s margins in Indonesia, read with the fact that we will still continue to up the marketing investments.

Percy Panthaki: And on Africa, again, we have in the past also mentioned that we aim to increase margins here, but they still remain in single digit. So, while the medium-term target is quite clear, can you give us some sort of route map to that, in terms of how and at what pace, we would see the increase in margins happening in Africa?

Sameer Shah: Couple of things here, if we see into last quarter's margins by close to around 270 odd bps, I think half is upfront media investments and half is input cost as well as currency depreciation. And currencies have depreciated sharply in some of the markets, which we will mitigate through price increases. I think going ahead the target which we have set out as ambition, which we have pointed out earlier, in terms of reaching to high teens margin is very much intact, so no changes on that front. I think the route is also as what we have called out in the past one is definitely a scale. And the second is some very serious, considerable cost saving program. Also we are evaluating some changes in our operating model. And once we have some of those in place, we will be very happy to share this street in terms of not just the changes in operating model, but also the impact which it will have over a period of time.

Percy Panthaki: And my third and last question is on Household Insecticide. I know you probably won't share the exact market share numbers. But I mean, from a longer-term perspective, if you remember, what you had shared is that when you had taken over this business from Sara Lee in 2010, the market shares were around 30% to 33%. Then in a short span of about five to six years, they went up to the early 50s. Just wanted to understand in that context, where are we today? And I mean, is it that we are still gaining market share and we have probably sort of progressed from that 50 to 55 band into the next band, or are we about still approximately in that same market share band as we were in 2016/2017?

Sameer Shah: Yes, so I mean, without sharing very specific details, Percy, I think Sudhir also mentioned earlier that largely we have kind of kept our market share. And that has been the case or some if you look at basket of last three to four years, we have directionally lost the market share because of the emergence of incense sticks, because the category was growing largely driven by incense sticks, and none of the organized players had incense sticks in their portfolio. But the recent past performance, start of COVID, mid of COVID market share has been more of the same.

Moderator: Thank you. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Just wanted to understand one bit on the volume growth. Now you have clearly called out that the second half we would be looking at a single digit kind of volume growth coming in, from the declines that we are witnessing. Is this based largely on the Home Insecticide recovery that you were alluding in the earlier question, or is there any other segment?

Sudhir Sitapati: There are three reasons for the volume decline in the first half and three reasons why we feel that the volumes would be quite good in the second half. The first reason is the whole Indonesia, sort of, for lack of a better word Saniter, reduction of inventory, etc. which should come back in second half. The second reason is that there was hyperinflation in Soap. And what happens when there is hyperinflation in Soap and we didn’t pass on anywhere close to the inflation, but that kind of inflation usually does not lead to marginal drops in consumption, but pretty large drops in pipelines. So, now with the Soap prices cooling, and all of us having we were, we took the lead in dropping prices, we are already seeing volumes come back in the Soap category, and it will come back because consumption doesn't go anywhere in Soaps. The third thing is Household Insecticides in second half, the first half of this year was with a very high comparator of first half of last year, which was COVID affected. And, as we discussed during COVID, a lot of people stocked up Household Insecticide at home. And we have had a particularly poor frankly, August end and September. So, moving to softer comparators, and with the seasonality shift, which we hope to see in at least one or two months now, we think that the Household Insecticide volume should go back to normative level. Now, this is not necessarily the kind of aspiration that we have for volume growth, but it's nowhere near the kind of declines we are seeing now. So, a combination of these three, give us reasonable confidence that we will see, at least for the next few quarters, good volume growth.

Avi Mehta: So, would it be fair to say that the Indonesia of this one would be the longest because largest impact, but that would be seen in 4th Quarter, right, because, so the 3rd Quarter impact is more on from the other two aspects?

Sudhir Sitapati: I think so, in the third quarter, Indonesia, also, in other words, to the kind of declines that you showed in Q2, and Q3. And Indonesia will come to flattish and go to growth, I think both Soaps and Household Insecticides and volumes will do better in Q3 and Q4.

Avi Mehta: The second bit is essentially on the margin side. Now, you did allude in the presentation as well, that with Indonesia margins kind of coming back, gross margins also improving, this is something that you expect. Do you see a similar risk of what we ki panned out in 2nd Quarter, could possibly play out even in the 3rd Quarter, given that Indonesia will probably be something that takes another quarter, because you had shared a similar expectation in going forward, this is something that will pan out, but obviously high cost inventory, the growth in Home Insecticide kind of weighed on this. So, would love to hear your comments on that.

Sameer Shah: So, I think one of the reasons why Indonesia's margins were what they were in last quarter, was because of scale deleverage, high cost inventory, and media investments, I think out of the three variables in media investments will continue, the high cost commodity impact will start flattening, because we are seeing overall commodities cooling off in terms of price, the scale deleverage impact will lighter up, will not completely go away and hopefully we will go away from Quarter 4 onwards. So, this is a way that three variables move and directionally we do expect, we are not getting into Quarter 3, Quarter 4, but at least in second half of the year and earlier, what I was sharing to Percy's question, I mean, also, for next year, we do expect increase in margins, but the margins are also not going to move dramatically because we will continue to be in investment mode and also keep an eye on the volumes which we will get in that business. That's going to be over a period of time.

Moderator: Thank you. The next question is from the line of Vivek Maheshwari from Jefferies. Please go ahead.

Vivek Maheshwari: My first question is Sudhir a big picture question. So, there is a feeling amongst investors that the business is taking a lot longer to turn around compared to what everybody expected, and you took over almost about 12 months back or so. What is your sense now that you have completed 12 months? Is it tougher than what you thought? Or do you think market expectations were running high at that point of time?

Sudhir Sitapati: No, the short answer is no, it's not tougher than I thought it was. I think we have been dealt with one card, which has been a big joker in the pack, which is the Ukraine crisis and the oil impact on account of the Ukraine crisis. I did think that Indonesia and Africa when I came in required a little bit of cleaning up and I think that's happening. So, the broad point is we have had a bit of a, stroke of bad luck, I guess in terms of Household Insecticides in September month and August month. So, I continue to be on many fundamentals, I am very happy with the state of the business, because you want to look at fundamentals of the business, we promised to invest in categories, we are seeing in categories like Hair Color, and Air Care. And even Indonesia actually Air Care has significant growth. We are seeing significant reduction in SKUs, reduction in inventory, increase in cash flows, reduction in controllable costs. So, I feel like the fundamentals are in good shape. And a lot of this is, I mean, I feel you will see pretty good quarters ahead.

Vivek Maheshwari: And a related point, you are advertising spends have gone up quite a bit, and yes, it's great to see that number, the fact that you are investing, but the fact that you are investing more behind growth, does that mean that a lot of work which had to happen has happened, and whatever cleanup, whatever fundamental changes that you wanted to make are pretty much done. And from here on the focus will be much more geared towards growth?

Sudhir Sitapati: No, no, I think Vivek it's a continuous improvement process. It's not like something is done. Certainly some of the volatility in the market has smoothened out, some of the things we wanted to do in Indonesia and GUAM we have done. Some of the bets that we invested in like Air Care or Hair Care or paying off. Some of them like HI, that I already spoke about, we have to be more circumspective, these things don't happen immediately. So, I think we have to constantly see progress every quarter. The Household Insecticide category, even accounting for seasonal variations, we have to premiumize it faster. So, that, for example is a challenge that remains. forex management in Africa, is the challenge that remains for us.

So, there are plenty of challenges that we have got ahead. I would just say that if I look a year, in terms of the inputs and what we have done, we have certainly made a lot of progress. And I hope the results come soon.

Vivek Maheshwari: Couple of small questions. So, on the SKU side, I understand on the cash flow side, and its impact on simplification. But can you just quantify because these are, large numbers from an SKU standpoint, but what would these SKUs contribute to overall revenues?

Sudhir Sitapati: Which ones, the ones that we rationalized? Typically, they will be less than 1% or 2%, but there will be much more in terms of inventory. So, typically, what happens is that these are less than 2% in terms of sales, less than half, I mean this is typical, I am not giving you exact numbers, but I am just giving you a typical flow, it will be less, a small, very small proportion of profits, a small proportion of sales, relatively large proportion of cash employed.

Vivek Maheshwari: And last question on Soaps. We have seen fairly, let's say aggressive stance by the market leader on the promotion side, following the palm price correction. What is the market context right now, specifically in Soaps? What is the level of competition or competitive pressures or intensity that you are seeing both from market leaders and other players in the market?

Sudhir Sitapati: Vivek, when prices went up, we did not pass on the full inflation to consumers because we knew that prices would come down. When prices came down as they did in Q2, and I think some of you have written about it, we passed it on quickly because our underlying principle on this is to be on the side of consumers. So, one of the other reasons for example, gross margins could have been higher in India than they were, but they aren't because even though we were sitting on high price inventory, we priced for what was the replacement, because we felt that is what consumers should get, we should be quick. And we have rich dividends, both in terms of growth and in terms of market shares in Soaps. So, we remain focused actually, in Soaps, we are catering to the value consumer we remain focused on doing what is right and you can, yes, that's really been our strategy in Soaps.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Goldman Sachs. Please go ahead.

Arnab Mitra: My first question was an ad spend, so this increase that you have seen, is it setting like a new normal of ad spend that this business can now have from here on or is it a few quarters phase where you would be investing heavily to kickstart the growth, and then you will be coming somewhere in between where you were and where you are now. And also, if you could just explain the difference between working media and ad spends, how you kind of calculate the two different metrics?

Sudhir Sitapati: So, I think, Arnab, exact numbers will be hard to get, because there is always toggling, we are investing when we will get return on media invested, we may cut back, we may go ahead, etc. But broadly, it's fair to say that as a company over the next four or five years, we should see increases in advertising spend, even from where we are. I mean, obviously calibrated, and obviously looking at what it's giving us in terms of growth. But this is certainly not something we are going to do for a few quarters, it's certainly more philosophical, in terms of what our portfolio deserves, and what we should do for it.

In terms of the difference between working media and above the line, working media is what consumers see which is the money that you spend on a TV channel or on a billboard. Total, Above The Line (ATL) includes other things like production costs, agency fees, some amount of visibility in modern trade, etc. So, this is really what consumers sees working, which is relevant, right, because the amount of money you spend in production or spend on agencies, consumers don't see it.

Arnab Mitra: And the second question was on gross margin. So, actually, your gross margins in the standalone business are nearly 1000 bps lower than what they were eight to nine quarters back. So, now that the palm oil prices have corrected, and you have also passed on some of the pricing, how do you see the overall gross margin recovery, does it at least in Soaps and those categories go back to what it used to be or those margins are going to be tough to achieve, given the overall context and the competitive intensity.

Sameer Shah: So, in Soaps, our margins will go back to the normative gross margins, which we had in FY 2021, maybe in and around those levels. Directionally also, I think, overall gross margins will go up in the coming quarters sequentially as well as on a YoY basis. Difficult to kind of put a number to it, whether it will go back to you know those +800 bps to +900 bps, which was the case eight, nine quarters back, but they will kind of directionally go up, going ahead.

Arnab Mitra: And just lastly, on Sudhir's comment that ad spends, this is not like a one-time step up, one one-time, a few quarter effect. So, fundamentally do India margins then become a little lower than in the past, given that your gross margins will at best go back to where they were, and your ad spends are going to be high or are there enough efficiencies, you would see that you could manage to get back to your normal margins at an EBITDA level, once the commodity deflation has kind of played off and growths are back.

Sudhir Sitapati: Arnab, I think, the gross margins as Sameer said, will go back in and around the normative maybe a little less, but broadly there. The working media will go up, but we hope to get both through growth and through cost cutting exercise, saving in the rest of the costs, which is apart from Cost of Goods sold in working media, everything else, we want to continuously cut. So, in the first half for example, if you remove these two costs, our costs are down by about 150 bps, right. So, this is the savings that we have got from our business. So, I don't know exactly where EBITDA will end up, but I do believe that there is potential in our cost to serve, which is pretty significant. It may or may not compensate entirely for the advertising. But it's certainly is not going to be gross margin minus additional media cost. There will be saving, and they are coming through.

Moderator: Thank you. Our next question is from the line of Krishnan Sambamoorthy from Motilal Oswal. Please go ahead.

Krishnan Sambamoorthy: Sudhir, since the change in strategy, resulting in focusing on fewer and more disruptive innovations, could you highlight with a couple of examples on the products launched more recently, how we have been able to back them, better compared to the past?

Sudhir Sitapati: Yes, I think it is better for me to talk about the innovations that we didn't launch and the products that we supported, and also give you a few examples of innovations that we did launch on fewer. So, for example, let's talk about Air Care right, which is a pretty large category, not top of mind for a lot of analysts, etc. But that category has seen explosive growth. And that has come by investing in one SKU, which is Aer Matic. Now, Aer Matic was an SKU that was present in India, and selling reasonably well and growing reasonably well. But in Indonesia, it is a far larger SKU. So, when we set up the global category structure, the team saw that hey, there is an SKU in Indonesia, which is, so many x times the size of this SKUs in India, and in India that got some kind of momentum. So, we started advertising Aer Matic, and we started advertising Aer Matic, we have seen explosive growth. I think many of you now, I go to a lot of households and I see this Aer Matic there. And that's an example of an innovation, because it is an innovative product but it was an innovation done, a few years ago, which has got focused support now. So, is it an innovation? Is it existing? I don't know. But that's really good. And that's made a material difference, by the way to our business in the first half, which is Aer Matic. So, that's a good example of an old innovation that we have supported and got exponential results.

The other innovation that I want to give is to Magic Bodywash, we launched Magic Bodywash, three to four months ago. And this is a habit changing innovation, it takes a lot of time. But we have continued to persist on this, even though it's a slow burn, even though the few consumers who are buying it like it, but it's a big habit change to move from soap to bodywash, to move from a liquid to a super concentrate. But this is again, an example of a new innovation, but not keeping the pedal, whatever the financial innovations are, we are committed to kind of keeping it going. So, these are two examples of kind of focus on the core and slightly different ends of the spectrum in terms of what we are doing.

Krishnan Sambamoorthy: Also just my second question is regarding the breakdown between digital and what you term as working media. So, how much was digital versus conventional media, say two years ago? How much is it now? And what's the intent going forward?

Sudhir Sitapati: Firstly, wthat's not the way we look at the metric, we just look at lowest cost to reach consumers, and whatever media is the lowest cost to reach consumers that it is. I think, when we do the numbers, and we look at it, and we benchmark it across FMCG competition, we are roughly around about where competition is, in terms of total digital to TV or conventional spends.

Moderator: Thank you. Our next question is in the line of Harit Kapoor from Investec Capital Services. Please go ahead.

Harit Kapoor: My first question was on A&P spends again. So, in the context where the demand environment for India as well as globally is a bit volatile and you are obviously supporting some of your new initiatives, is the share of voice significantly higher for you in terms of the spends that you are doing? And in an environment where demand is weak, are you still able to get ROIs in line with what you expect, given that the consumer is not as probably responsive as he or she was about a year and a half ago?

Sudhir Sitapati: See, we have increased our working media by 70% in the last quarter, despite the gross margin pressure, and you guys know better what FMCG companies and peers are doing. That's a pretty large investment in the context of the gross margin. I think see the media investment firstly is iterative if one invests, one finds out what's happening, then one takes a call again, but ultimately, media is an investment for the long term it is for developing and building categories. For example, on Air Care we have increased our media by like 5x or 6x. It's building for the future. So, the demand environment is weak or not is a separate question. But that is not the relevant variable here, the relevant variable is what are the categories of the future that we have to develop? And what is the kind of media investment required to take it there? And that's how we have done our media investments in Q2 and what we will do in the next few quarters as well.

Harit Kapoor: And the second question was on where you mentioned something about October optimism, if you could just kind of talk a little bit about whether any change you see in the market environment for your categories?

Sudhir Sitapati: See a bulk of our categories are dependent on market development and low penetration. So, consumer demand while there are I think I broadly agree with what most people have been saying, which is, there has been a softening of demand in the Eastern parts of India, the rest of the world, India is relatively stable and doing well, economically. Many other parts of the world in Africa, Latin America, countries are going through a tough time. So, it is a tough operating environment. I just feel like the October and November, it is a seasonal shift in Household Insecticides. So, I would say that, if Q2 for us has been similar the Q1 with the exception of Household Insecticide. And that I am not sure I can't say this for certain but seems to me sitting here now in mid-November, a seasonal impact of Q2.

Harit Kapoor: My last question was on a, you have put out a release on streamlining of some overseas subsidiaries, any comment, you would like to make on that.

Sameer Shah: Yes so it's part of the overall restructuring which we are rolling out. I mean, one of the biggest objective is also to simplify. We have heard this now as a theme from our end. And we have few special purpose vehicle companies which were created I mean at the stage of buying of those businesses and some of our acquisitions also have been in a calibrated way. They have outlived it's utility. So, we are looking at delayering and reducing down the number of subsidiaries, which simplifies. And also, evaluate possibilities of upstreaming cash in the most tax efficient way, for some of our large markets.

Harit Kapoor: So, apart from taxation Sameer any other business impact?

Sameer Shah: No, absolutely no business impact, hopefully, there should be lower G&A expenses also because of reduction in the number of legal entities.

Moderator: Thank you. The next question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: While a lot of questions and responses about Household Insecticides was already done, just wanted to push the envelope on one particular aspect on the mosquito repellant side. Now a lot of discussion on whether this being a market problem or a sales problem or an R&D problem etc. and thanks for the responses, but one question is, is that a sales problem or a distribution problem yet to solve? So, the reason I am asking is because you have been reiterating this for a while that premiumization is one of the important agenda for us as a company, particularly in the context of Hone Insectivides, are we essentially saying that it is just a marketing problem to solve or there is no sales uplift, which we can expect, in the medium term?

Sudhir Sitapati: No, there is in a sense that these premium categories are not present in as many stores as we want them to. But that's not because we are not going to those stores. We are going to those store in Soaps and many other categories. Where it's not going to the store is because of whatever reason, relevance of price, etc. it's not relevant to smaller stores. So, one of the things that will have to happen is the distribution, but I don't think that's the underlying reason for lack of premiumization on Household Insecticide is not, unlike, let's say Air Care so a lot of the growth that we have got on Air Care this year has been on the back of massive distribution increase and massive media increase, it's quite simple. But that's not the case in the case of Household Insecticide in India.

Manoj Menon: The follow up question on this is what is likely happening in Indonesia currently, that there is definitely a course correction in terms of the overall portfolio, or a country level margins, is that some sort of a necessity in India, also in the medium term, so that you are in a much wicket from a longer term point of view?

Sudhir Sitapati: No, I think, definitely there is reasons and we have already done it so it's not, we are not just talking about it, there is a need to increase our investments behind our brands. Gross margins, as Sameer said, we will take it to roughly where they were maybe a little less, or somewhere in the vicinity. And we will rather go behind costs. And our objective should, frankly, be to try and save as much as we increase investment in working media through costs. And hopefully, the balance gets covered by volume leverage. So, that is the business model.

Sameer Shah: Yes and I think the aggregate of that also Manoj should result in profitable growth, I mean something which we are called out in our strategy also few quarters back.

Manoj Menon: No, the question or rather one of the important investor questions, and I got one follow up also from investors, is that look where are we in the journey of, let's say, finding the right water table, in terms of margins, adjusting for inflation and pass through etc. I am talking about in a LFL basis?

Sudhir Sitapati: Manoj again, as I said and I have said this in the past as well, like, it's better not to target, what is a right margin, it's fair to say, what's the right gross margin for this kind of business. And what Sameer is saying which I agree with is normative margins are roughly the right gross margin to target this kind of business. What's the kind of advertising spend that this kind of business should have? I think we still somewhere away by the way, even after all the increases here, so you can bill that. Then we have to answer question that everything else, we got to keep reducing costs. And we will keep doing it. I am saying, I don't think we should stop at either cut on media, because we are not achieving a target EBITDA margin or stop at an EBITDA margin, even if there are more cost to be saved. So, if your question is, do I anticipate massive EBITDA margin declines versus the past? Probably not, but that's not how we are thinking about it.

Manoj Menon: And second, it's more of an investment question/chatter. There is a perception of higher managerial churn, or let's say particularly in the middle to senior management, and this is honestly excluding, Sunil pursuing other career opportunities. Is there anything which you will be able to offer comment for the larger audience?

Nisaba Godrej: I think there's been a cross industry, higher attrition than obviously that we saw in COVID. But Manoj if I look at some of the other external boards I am on, FMCG benchmark, so even within other Godrej Group Companies, I don't think GCPL's attrition rate is higher. And actually what's happening, we have had attrition, like other companies. What we are actually seeing right now is people also coming back. And what's happening, some of our best people are actually coming back. So, I don't think GCPL is facing any particular issue on attrition. And if anything, it's been a tough macro environment, but people are quite excited about some of the changes and some of the clarity on strategy and simplifying the business and going for the big bets.

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

Sheela Rathi: My first question Sudhir was to you, you mentioned in the opening remarks that the performance report was below your expectations. Is it more to do with India business or across businesses and across geographies?

Sudhir Sitapati: Sheela we have a forecast which we, you know, at the beginning of every quarter, we keep having a running forecast. So, when I say it's below my expectations, only been below my expectation on one particular sell which is India Household Insecticide, both in terms of top-line and bottomline, That has been the only sell that has not been what we forecast at the beginning of the quarter. So, yes, I mean, the rest of the sells, I mean, even Indonesia, which is not a great result is something we foresaw a few months ago.

Sheela Rathi: And my second question was, Just wanted to get some understanding, here is that from our perspective with right premiumization category development, the focus going ahead would be more on ad spends along with distribution or ad spends over distribution? And if you could just give us some idea on how the distribution strategy has been playing?

Sudhir Sitapati: So, look the focus on India market development is on three big areas: 1) One is on awareness lead by advertising, 2) Second is sampling and 3) Third is by getting accessibility. For example, on Hair Color, what we did, which was launching a Rs. 15 sachet is market development through accessibility. And we are very happy with those results. So, these are the three things in India that we will do. In Africa and Indonesia, in addition to this, we would like to increase our general trade footprint. So, we have had significant expansion of general trade footprint in Household Insecticides, in Nigeria, for example. In Indonesia, I think it's a structural problem. But Rajesh is engaged with how do we move our salience of general trade from 30 odd to 50 odd. So, I would say the unsolved problem on distribution as an independent variable is largely in Africa and in Indonesia. And Africa it's yielding very rich results. So, I would say a lot of our fast growth in FMCG, which we have not spoken about here, but we are very happy with the progress we are seeing in Household Insecticide or Hair care in Africa. And a lot of that has been driven by direct retail distribution expansion.

Sheela Rathi: And my final question was if you could just elaborate once more in terms of when you say what is the profitable growth which we are talking about? What is the profitable business, if you could just elaborate that?

Sameer Shah: Basically I mean increase in our margins, right. I mean, so while the sales will grow at whatever pace it does, it will also be backed with expansion in margin. Something again, Sheela, which we had call it out in our strategy, right, that we will see expansion in margins I think around 150 to 200 bps over a period of time. So, profitable growth is your margins expand alongside your sales growth.

Moderator: Thank you. The next question is from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu: I have two questions. Number one, Sudhir can you outline for us how you think Soaps will pan out now that you are doing price cuts, it was 25% kind of growth, what we have been seeing in recent quarters in this business, it can drop to how low as you start to cut prices? And how much will margin expansion offset that, that impact? And related to this, how much danger is there from the unorganized guys coming back and spoiling the party in the wake of the more benign input cost environment?

So, the second question is a different area. I wanted to understand a little bit about the movement in other expenses, which seem to be pretty well controlled in India, but there was a big increase in international?

Sudhir Sitapati: Okay, so let me answer the question on Soaps, it's easy for you to do the math. I mean, Soaps is a category that grows a little bit more than the population growth of the country is, what the volume growth of Soaps typically. So, the population of the country grows at 2% to 2.5% it's a 95% penetrated category, or 98% penetrated. The category grows at 3% to 3.5%. We roughly have been gaining some amount of share for the last decade odd, we have been gaining 50 to 60 bps of share a year, that's been our share trajectory. So, you can now calculate in this entire inflation period of about four or five quarters, while the volumes went down, I don't think consumption went down. At least in the past it has not happened, I will have to see this carefully now. So, one can assume that the consumption is what it was, and the inventory got reduced, somebody was having 60 grams of soap at home, it became 55 grams in the pantry. Shopkeepers are keeping less stocks, retailers are keeping less stock etc. So, I would say that the three year CAGR of this category will be in the 3% to 3.5%, our long term CAGR will be in the 4% to 4.5% now you can calculate based on the various ups and downs. And therefore, we will see the compensatory upside in volumes pretty soon, to compensate for the fallen volumes. If for a moment, you seen that consumption hasn't fallen, and it's all been in inventory pipeline for the last four quarters.

Richard Liu: And given that the rate of value growth was explosive in the last four or five quarters while the inflation last year. And now that is going to come off to normative level. From a profit growth perspective, as far as this category is concerned how much of leeway is the form of palm oil prices coming off, but obviously you will be passing on some of it through price cuts?

Sudhir Sitapati: Yes, I mean in general terms, see the price too, as Sameer said to get back to normative or normal margins so, we have passed on price drops, as things stand they are still significantly high than what they were, at this time of the year, but they will even out. So, this will again, like we are going through a cycle of results, there will be a cycle where it will even out eventually. So, what will remain is the long term, I hope, growth on the category at 3% to 3.5% and maybe 100 to 150 bps over that I hope is what the structure will remain. Margin should return back close to where they were. And that should happen pretty soon actually.

Richard Liu: And your comments on the unorganized guys probably going back and spoiling the party?

Sudhir Sitapati: See on that, in some of the categories, Richard, Soaps is not a category, which has a huge amount of unorganized players anymore. This category is now I mean, I think in terms of volumes, it will be like I am guessing, but 10% to 12% will be the unorganized players. It is largely the Top 5 to 6 players and at most some local, regional brands. So, unlike some other categories, where there's high deflation in some commodity categories suddenly local players come up, that's not to the same extent that will happen in Soaps.

Richard Liu: And the second question is related to your other expensive, especially on the international front, that seems to have like grown quite a bit, despite the fact that India other expenses were very well controlled. Your perspective on that please?

Sameer Shah: Yes, so I think couple of reasons for that, Richard, one is increasing the utilities cost, right, I mean, they have been obviously through the roof over the last three to four months. So, that's something just sitting over there. And also a lot of our route to market expenses, both in Indonesia as well as the key markets in Africa like Nigeria sit in other expenses. The combination of that has resulted in increase. And also by the way, we had a little bit of scale deleverage in Indonesia so that's the third reason why the other expenses in international business has gone up on a YoY basis.

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

Abhijeet Kundu: My first question was on directionally we have seen that all your India categories other than Household Insecticides has done well. I mean there would be some time to soak in the overall sales growth. But there have been those underline strategies across the board has worked. And what has not worked is in Home Insecticides where accessible packs innovations will lead the way. But when we say we are seeing some amount of optimism. Is there some optimism in Household Insecticides because our channel check say there has been some amount of recovery for the category as a whole. So, my first question was on that.

Sudhir Sitapati: No, I think look, as I said already, structurally our Q2 performance ex-Household Insecticides in India has actually been very good. In Home Insecticides, there are two components to it, one is that there is a seasonal impact, which I think is having looked at now October and November, I think was a seasonal impact. But there is also an impact in Home Insecticideswhich we have to do better, which is to premiumize the category. So, we have got to break up, even if the season was good, let me say that the Home Insecticides growth would not have been where we wanted to go. So, that broad story continues, if anything, the non-Home Insecticides part of the portfolio has done extremely well in, see don't forget, in India, we have grown at 8% in Q2, and that's on the back of a very difficult quarter on the Household Insecticides. It's a large component of our business so you can imagine what the rest of our portfolio has grown at.

Abhijeet Kundu: And secondly, on when we look at your Africa, margins, there is a significant difference between the EBITDA margin and the EBIT margin. So, just why is that?

Sameer Shah: I think one of the biggest reasons for that Abhijeet is the forex especially in some of the markets in which we play in Africa. So, that's the reason why the EBIT is lower than EBITDA.

Abhijeet Kundu: So, once the forex fluctuation reduces over a period of time, then that that difference should reduce?

Sameer Shah: Yes, absolutely. But my sense is in coming quarters, maybe the quantum of forex losses would move up. But as we have seen in the previous quarters, also they keep an oscillating, but yes, I mean, they will come down once the currency stabilizes.

Moderator: Thank you, Ladies and gentlemen that would be our last question for today. I now hand the conference over to Mr. Pratik Dantara for closing comments. Thank you.

Pratik Dantara: Thanks everyone for joining. If you have any further questions do reach out to the IR team. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Motilal Oswal Institutional Equities that concludes today's call. Thank you all for joining us. And you may now disconnect your lines.