Godrej Consumer Prod

Operator: Ladies and gentlemen, good day, and welcome to the Godrej Consumer Products Ltd. Q1 FY25 Earnings Conference Call. 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 this conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference call over to Mr. Vishal Kedia. Thank you, and over to you, sir.

Vishal Kedia – Interim CFO: Good evening to all. I welcome you to the conference call for GCPL. We have with us Mr. Sudhir Sitapati, MD and CEO, and myself, Vishal, Interim CFO for the company. We will start with opening remarks from Sudhir, after which we will move to the Q&A segment. I hand over the call to Sudhir now.

Sudhir Sitapati – MD & CEO: Good evening, everybody. Q1 FY25 has been a quarter of strong, broad-based performance for Godrej Consumer Products Ltd., fully aligned with our expectations and strategic priorities. We delivered strong, broad-based underlying volume growth across India, Indonesia, and Africa, despite subdued monsoon conditions in India, while being supported by tailwinds in Indonesia.

At a consolidated level, revenues grew 19% year-on-year, 15% in constant currency terms, with underlying volume growth of 8%. EBITDA grew 12%, and net profit grew 14% to 523 crore. This marks our second consecutive quarter of high-teens revenue growth with high single-digit underlying volume growth and double-digit profit growth.

Our standalone business delivered a 13% sales growth performance, driven by 7% underlying volume growth. This is despite an estimated 150 bps impact from trade inventory correction in the quarter. While this has been a modest near-term impact in terms of the correction we have undertaken, we believe that maintaining healthy channel levels is important for operational excellence and for sales teams to remain focused purely on off-take. Standalone EBITDA was mildly impacted due to this correction.

In Home Care, we delivered 19% value growth, led by strong performance in air fresheners and home care liquids. Alongside that, we gained market share in household insecticides. This is encouraging and indicates that the actions we have taken across brands are beginning to deliver. Our electrics portfolio delivered sequentially improving performance, supported by the new six-minute campaign, while incense sticks continue to scale strongly. Godrej Fab maintained its strong double-digit growth trajectory and continued to strengthen its market position. {? Godrej HIT ?}, which was scaled nationally during Q1, continues to witness healthy consumer repeats and sequential growth, with significant distribution headroom still available. During this quarter, we launched Godrej Blitz in selected markets across West and South India. We also launched Godrej Zap, our entry into stain removers online. Both these new launches have been received well.

Personal Care delivered value growth of 8%. Soaps remained stable despite significant price increases and grammage reduction, although with a favorable comparator. Our premium liquids continue to do well. Cinthol body wash continues to scale sequentially, while Muuchstac face wash progressed in line with our business plan. Actually, it progressed beyond our business plan. Hair

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colours maintained their growth momentum and continued to gain market share across formats. Perfumes and deodorants delivered strong double-digit growth, supported by healthy underlying volume growth in deodorants and continued momentum in perfumes and EDP.

Our international portfolio delivered strong growth. In Indonesia, sales grew 20%, with underlying volume growth of 8%. EBITDA grew 12%, with LPG prices doubling. However, we have benefited from El Niño tailwinds in Indonesia, leading to increased mosquito infestation. With our future portfolio of LV, Pocket, and others, we have seen tremendous success, with double-digit underlying volume growth sustained.

GAUM delivered another outstanding quarter. Sales grew 40% in INR terms and 23% in constant currency terms, supported by underlying volume growth of 16%. EBITDA grew 43%. This performance was broad-based across categories and geographies. More importantly, GAUM has now delivered 7 consecutive quarters of double-digit top-line growth and 11 consecutive quarters of double-digit bottom-line growth. This reinforces our confidence that the improvement in the business is structural. We continue to be focused on the larger opportunity that the continent offers. The launch of HI in South Africa was well received and is having good early traction.

The input cost environment remained significantly challenging through the quarter. Inflation intensified across crude oil derivatives, palm oil, and commodity inputs. This led to one of the highest inflationary impacts in the last many years. Due to the nature of our portfolio in India and Indonesia, the impact of such inflation has been high single-digit. Despite a significant portion of our portfolio being price-point packs, we have taken stringent pricing actions combined with a large cost savings program and media and trade-level investment optimization. We tried to keep the share of voice range-bound. We have also increased the salience of our digital investments, which have given us much higher ROI.

We will continue to take calibrated pricing actions, particularly in soaps and liquid detergents, where the cost impact is large and the margins even today are below normative levels. With continued cost savings and future pricing, we will ensure that we continue to invest behind our growth drivers while managing to deliver on our stated profit growth guidance.

We continue to hold our FY25 guidance: high single-digit underlying volume growth in standalone, and double-digit revenue and EBITDA growth at a consolidated level. With revenues running ahead of plan through the first half, we remain on track to deliver, with the confidence to exceed it in certain areas. We remain confident in the resilience of our portfolio, the strength of our brands, and our ability to deliver sustained profitable growth going forward. Our measure of outperformance remains double-digit UVG and profit growth. Thank you.

Vishal Kedia - Interim CFO: We now open the call for questions.

Operator: Thank you very much. We will now begin with a question-and-answer session. Anyone who wishes to ask a question may press star and then one on their touchtone phone. If you wish to remove yourself from the question queue, you may press star and then two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Again, to register for a question, please press star and then one.

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Our first question comes from the line of Abneesh Roy with Nuvama. Please go ahead.

Abneesh Roy – Nuvama: Thank you. My first question is, when the recent management transition happened, a lot of imperatives and priorities were shared with us quite candidly. I understand that when any management transition happens, changes in numbers will take time. So, my question is not at all on numbers. My question is on the slightly softer aspects which you have mentioned. First, of course, was the digital advertising capability, where we saw in the analyst meet that you are quite low in terms of percentile. What are the initial changes which have happened, without getting into numbers if you do not want to? Second, in terms of the hustle to achieve daily targets, market share, and so on, what has changed? Again, no numbers are needed. Third, in terms of the HI new molecule, is there any change in the advertising message or overall communication? I have not seen it, and I may not have noticed the advertisement, so I am not the right person to comment. But if you could address these 3 aspects, that is my first question.

Sudhir Sitapati – MD & CEO: Thank you, Abneesh. I think, Abneesh, the first one in terms of—or let me put it this way—I did share the direction, I did share the strategy, and I did share the multiple changes which we are looking at. All of them have been changes which are well thought through. Over the next few months, at regular intervals, we will share the progress we are making against some of them. Some of these changes which we spoke about are structural; they result in a change in the ways of working. It does require rebooting in terms of certain teams coming on board, and they are all being put in place as we speak.

The first one, in terms of digital advertising, is a clear direction which we have taken. We understand that we do a reasonable amount of work when it comes to digital advertising, but we are not in the top percentile. Again, it does not happen overnight. But building those capabilities, making those shifts, and ensuring that we move significantly to the world of influencers, digital, and so on, is something which we have started, and I do see ourselves moving and getting into the top percentile over the next few quarters. But it is not to do with what percentage of spend moved; it is more to do with capability, and whether we believe that in each of the categories we are in the top percentile. We know what is best-in-class and how to get there. So, I do see us getting there in a few quarters, but it is not about the percentage of spend. So, I think that is the first one.

When it comes to operational excellence, we are decisively moving, and we understand where the rhythm should be built, what should be corrected, and how it should be corrected. Some of the corrections which we started to make in terms of trade inventory, and so on, are purely with that in mind. You need the engine to fire where the entire sales team is focused on off-take and primary is completely run without any human touch. For that, you bring down the inventory to completely system-defined inventories and move that way. So, we are making decisive shifts on this, and I do see ourselves getting into a rhythm of operational excellence quite soon.

Coming to the new advertisement on HI, the product is the RNF product, and the advertisement also calls it out. The advertisement is significantly clutter-breaking, and we do believe that this will give us a bigger impact in terms of reach.

Abneesh Roy – Nuvama: Sure. Second, regarding the India CEO, is there any update? Are you looking at any timelines? I know that for these very senior positions, timelines cannot be [trails off]

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Operator: Sorry to interrupt, sir. Abneesh, your audio was not clear in between. Could you repeat the question?

Abneesh Roy – Nuvama: Is the audio clear now?

Operator: Yes, sir.

Sudhir Sitapati – MD & CEO: Abneesh, I think you were referring to the India CEO, is that right?

Abneesh Roy – Nuvama: Yes. Are you looking at any timelines, and are you looking for any specific skill sets? For example, in digital advertising, you currently think that there is a gap. In sales and daily sales achievement, there is a gap. So, are you looking at specific skill sets also? Of course, at senior levels the person will be well-rounded, but if you could provide an update on the timeline and any skill sets you are looking for?

Sudhir Sitapati – MD & CEO: We are in the process of bringing in the India CEO. This is an important and key hire for us, and hence, to ensure that we [cut off]

Management: ...we get the right person, both in terms of Godrej values and, second, in terms of an entrepreneurial mindset, is what I would call out. Frankly, I am not too worried about a few weeks here or there in terms of the appointment. Getting the right person is more important, and we are running through that process in a fairly robust manner.

Abneesh Roy – Nuvama: And the last quick question—

Management: Yes.

Abneesh Roy – Nuvama: Last quick question: any update on the milestone reached in terms of your new product in the bathroom cleaning space and pet food? Is there any further progress? I understand it is still in pilot mode, but have you seen more success in any geography, and how many states have you expanded to, if any, beyond Tamil Nadu?

Management: Sure. We have gone national with Spic. We were quite happy with the success which we had in TN. We reached our milestones in terms of repeat. We do believe the brand met its action standard in TN, and we have moved the brand to national. We are quite happy with Godrej Spic, which is the toilet cleaner.

When it comes to pet care, I would say there have been a lot of learnings in terms of how this category works, and initial acceptance of the product has been observed. Abneesh, I would possibly take a quarter, until next quarter when we speak. I think I would be in a better position to tell you exactly how we are thinking about this business and what kind of milestones I would be looking at.

Abneesh Roy – Nuvama: Sure, thanks. Thanks for the candid answers. That is all from me. Thank you.

Management: Thanks a lot, Abneesh. Thank you.

Operator: Thank you. Before we take the next question, a reminder to all participants: you may press star and then one to ask a question. The next question comes from the line of Percy

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Deshmukh with IIFL Capital. Please go ahead.

Percy Deshmukh – IIFL Capital: Hi, everyone, this is Percy. My question is on the Personal Care category. The growth there in value terms is 8%, while volume is probably significantly lower than that. What is really stopping us from performing better in this category? First of all, is it that a larger part of the trade inventory correction was in this category, or is that one of the reasons? Or is there some other reason? I know it will always be a slower-growing category because soaps are well penetrated, but given that there has also probably been pricing in this category, could you provide some color on where the gaps are, or which parts of the portfolio are weak and can be addressed over the next few quarters?

Management: Thank you, Percy. I think, directionally, you are right. Typically, soaps have seen a correction in terms of trade inventory, and that has had an impact. Normally, trade inventory builds more in terms of the larger SKUs, so I think that has been one of the reasons.

Having said that, soaps are also going through their fair share of price-volume recalibration because of what is happening with commodities. As I mentioned, both in soaps and detergents, there has been a reasonably aggressive price increase, which the entire industry and we have taken, and we still are not at normative margin levels. Normally, when this kind of cost increase happens, you see rounds of price increases taking place. These are also the times when you start seeing wholesale and other inventory decline. So, I think both these factors have contributed to it.

When it comes to hair colour, we had a very good quarter in terms of market share gains. So, I think that part of the portfolio has done really well. I am quite happy with the way the numbers have fallen into place in Personal Care because of these reasons.

Percy Deshmukh – IIFL Capital: Understood. And detergents also—I did not exactly understand—you mentioned detergents in the same breath as soaps. Has there been a slowdown in detergent sales as well versus the earlier trajectory?

Management: No, I am sorry if it was understood that way. I did not mean that there has been a slowdown in detergents. Soaps are where there has been price recalibration and that kind of shift has been happening. Detergent growth has been as strong as the trend lines have been.

We continue to do extremely well in terms of Fab, and we are entering the season for Ezee. I am seeing good traction when it comes to Ezee. The point I was making was more about where we are in terms of normative margins on soaps and detergents. Fundamentally, in both these categories, there will be some more pricing which will come through.

Percy Deshmukh – IIFL Capital: Got it. Which leads me to my second question. Typically, any FMCG company will have a consumption cost which reflects spot prices from perhaps a month or 2 ago. Therefore, Q2 might not have seen the kind of consumption cost that you would be recording as of today, given where prices have moved up in the last couple of months. In light of that, although you will take some price increases, how should we look at margins for the India business for the next couple of quarters? I do not know what the best way to look at it is—either to look at overall EBITDA margins for the India business, or to look at EBITDA growth for the overall business for Q3 and Q4, whatever you are comfortable with and the way you look at it internally. Any color on that would be

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useful.

Management: Sure. If one had to look at commodities, is commodity inflation likely to be mildly higher in Q3 versus Q2? I think the answer will be yes. Commodities did provide some relief in Q2 and have increased again, so I think we are at slightly higher, elevated levels in Q3 compared to Q2.

The second point is that when it comes to EBITDA, in these very drastic commodity increases, it is important to price for profit growth rather than to price for margins. Hence, we focus on EBITDA year-on-year rather than EBITDA percentages, and that is really what we would do. We would try to maintain EBITDA growth at a consolidated level, and that is where the focus should be.

Percy Deshmukh – IIFL Capital: So, EBITDA growth would continue at this high single-digit level? I am talking about the India business. Whatever we have delivered in Q2, would that same kind of growth continue in your view?

Management: We would want to deliver double-digit EBITDA growth at a consolidated level for sure. That is something which we would want to hold the shape of. Obviously, in India there are multiple moving parts. We are taking care of some part of the inventory, and we are taking care of some part of the recalibration of pricing and so on. But I think the broad shape of what we have delivered is something we would definitely want to continue, even when it comes to India. A few basis points up and down are bound to happen.

Percy Deshmukh – IIFL Capital: Got it. That is all from me. Thanks, and all the best.

Management: Thank you, Percy.

Operator: Thank you. The next question comes from the line of Harit Kapoor with Investec. Please go ahead.

Harit Kapoor – Investec: Good evening. Just 2 questions on India. The first was, if you look at the significant level of inflation in soaps and in Home Care, especially in detergents, and probably the early part of the HI season does not look exactly conducive for HI, I wanted to get your thoughts on maintaining this level of volume growth. Do you see any risks in H2 on account of a sharp inflation-led impact or a season-led impact? That is my first question. I will ask the second one after your response. You can go ahead. Thanks.

Management: Harit, thank you for the question. There are always some headwinds and tailwinds. Detergents do not really get as impacted, as we have not seen inflation impacting volume growth. What we have seen in the last couple of quarters on detergents is that we get the benefit of formalization of the industry because there is still a bit of local formalization, and hence there is also a reasonable amount of movement from powders to liquids. So, the detergent growth trajectory is very strong, and that should continue.

Soaps obviously go through their own turmoil, but as part of the portfolio, we have been able to offset that with gains in the rest of the portfolio. HI looks fine from a season perspective. I am not really worried about HI. Even the El Niño impact was a little more towards the first half, and the second half was looking fine. So, we are not really worried from that point of view. We should be able to sustain our trend-line volume growth.

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Harit Kapoor – Investec: Fantastic. The second question is on advertising spend. It has been about 7 quarters that India standalone ad spend has declined—7 consecutive quarters. Some part of that has obviously been due to the media agency change, but even after accounting for that, the absolute spends have come down. I wanted to understand whether, in your view, this is just a category issue where, because of inflation, overall category media spends have come down. We have seen that in Home Care. Or is this some kind of recalibration of advertising spends into something else? Or have you been competitive, but the category spend itself has come down, which is reflected in the 7% and 17% declines in Q1 and Q2, respectively?

Management: Thank you, Harit. I think it is clearly both factors. Largely in soaps and detergents, we have seen category heat come down, and hence we are also optimizing and balancing the spend. Given the strong inflation, we are also optimizing and balancing the spend and ensuring that our share of voice stays at the target level. So, it is about managing price and ATL in these 2 categories, where we have seen the industry also largely operate that way.

When it comes to the rest of the portfolio, it is more about ensuring that we get higher reach at a lower cost. We benefited significantly in Year 1 from changing the media agency. This year, we are benefiting by putting in significantly better practices and working more closely with the agencies to deliver that. We have been able to deliver much better reach at a lower cost in that area. Hence, I would say it is a combination of both. You could give pretty much equal weightage to both these parameters.

Harit Kapoor – Investec: All right, I will come back for more. Thank you, and I wish you all the best.

Management: Thank you very much, Harit.

Operator: Thank you. A reminder to all participants: if you wish to register for a question, you may press star and then one now. The next question comes from the line of Jay Doshi with Kotak Securities. Please go ahead.

Jay Doshi – Kotak Securities: Hi, thanks for the opportunity. My questions are on the international business. Indonesia is shaping up better in the current year than what your outlook was at the beginning of the year, and Africa, or GAUM, has also delivered very strong growth. How sustainable is this when you think about growth beyond this year? In Indonesia, you called out that it is also because of El Niño, but does this mean that this is more seasonal in nature and not structural or sustainable? Likewise, for GAUM, how should we think about the growth trajectory beyond the current year? The current year is definitely recording very strong growth.

Management: Thank you, Jay. Firstly, on Indonesia, we have clearly called out that while El Niño had a mild negative impact in India, it did have a positive impact in Indonesia. We have seen it in the HI space by virtue of how weather conditions impact a country which is an island nation with that kind of rainfall. We had broadly modeled it that way, so we are not fully surprised with the way the seasons turned out there. We have received some benefit from the weather conditions there.

Having said that, I am quite confident about the larger international business. I think, in terms of the larger international business to outperform and deliver double-digit volume growth, we have multiple levers to do that. I believe that we should be able to sustain that kind of delivery.

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In Indonesia again, we are looking at more flywheels for generating growth and sustaining growth at higher levels. I think the plans which the team has are quite encouraging. We will need to see how we are able to sustain growth at these higher levels. But I would call out a few bps of growth which is actually attributed to better weather conditions.

When it comes to GAUM, I think it has been a structural shift which we have been able to deliver by ensuring that the core grows at a particular level, and on top of it, we are able to incubate and grow disproportionately in a lot of other categories. We believe we have the flywheel going there. We have the organizational bandwidth, the execution muscle, and a lot of the mixes which we can introduce to the continent and beyond in terms of exports to the larger region. So, I think we should be able to sustain, I would say, an outperformance and volume-led growth for a while.

Jay Doshi – Kotak Securities: Is it possible to elaborate further or break down your GAUM growth a little in terms of what the core portfolio growth is and how much growth is coming from incubation and new categories, with air fresheners and so on? Essentially, what is the structure of the business there? The way we have split it for India, about 20% of sales is from new categories and 80% is core. What is the similar structure at this point in time, and how do you see that shaping up?

Management: Actually, fundamentally, we have taken an approach that because there are lots of categories in which we were earlier operating in GAUM, let us take the entire space of wet hair and FMCG products for hair. Technically, this is not bringing in a new portfolio, but we have seen that we can serve the needs of consumers in Africa with so many other products. Our R&D capabilities in hair are extremely strong.

We have launched a range of new products, and there is MegaGrowth Mousse, which has been launched. There are various styling products which we have now launched under the Darling brand. So, there are lots of new products which are coming through.

We are operating with very high capacity utilization in some of our existing businesses. These are businesses which have been with us for many years, and we have reached capacity utilization levels which are now constraining our growth. There are expansions in capacity which are happening in the next few months.

So, the growth is fairly broad-based. It is not in one category. It is broad-based across various categories. Even the hair colour business we have has been growing at double-digit volume over the last 7 to 8 quarters. So, I think it is broad-based, and that gives us better confidence. The growth is not coming from just one category.

Jay Doshi – Kotak Securities: Thank you very much. Thanks.

Management: Thank you.

Operator: Thank you. Participants, if you wish to ask a question, you may press star and then one.

Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference back to Mr. Vishal Kedia for closing comments.

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Vishal Kedia: Thank you, everyone, for the wonderful questions. We hope you had a chance to get all your queries resolved. In case of any further queries, please reach out to us using our investor relations contact details. Thank you, and good evening.

Operator: Thank you. On behalf of Godrej Consumer Products Ltd., that concludes this conference. Thank you, everyone, for joining us, and you may now disconnect your lines. Thank you.

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