



“Godrej Consumer Products Limited
Q3 FY '24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Godrej Consumer Products Limited Q3 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to the senior management of Godrej Consumer Products Limited. Thank you and over to you.

Sudhir Sitapati: A very good evening to all of you. Our performance in Q3 FY '24 was in line with our expectations in terms of volume and ahead in terms of profit, especially in the context of the current market conditions. Our consolidated reported volume grew by 8%, sales grew by 2%, EBITDA including forex by 16%, PBT by 18% and PAT by 6%. Organic underlying volumes were up by 5%, sales declined by 2% and at constant currency grew at 15%. Overall organic underlying volume growth of 5% has been on expectation, though the quality of volume growth has been better than expectation. High margin, which are greater than 20% EBITDA categories and countries, have grown volume at almost double that of low-margin sales, which are less than 10% EBITDA. This, along with savings in a benign cost environment has been the reason that our EBITDA and PBT growth have been so much ahead of sales. This in sync with our strategy, and we have been able to deliver this improvement over the past few quarters. PAT lagged PBT due to the higher tax rate, although our cash tax was lower due to MAT credit and deferred tax charge in brands acquired.

India volumes grew by 12%, revenue by 9% and EBITDA including forex by 18%. Organic UVG was 5% and sales growth was 2%. India domestic sales and volume were up by 4% and 6%, respectively, with our low-margin export business showing some volatility in performance. India volume growth was in line with our expectations. Household Insecticides continued a steady performance. Hair Colour, Air Freshener and Fabric Care are all seeing strong double-digit growth and we continue to gain share in these categories. The revenue growth continued to lag the volume growth driven by price declines in Personal Wash.

The integration of Raymond's Consumer is now complete, and the cost synergies have started to flow. We are now operating with approximately 30% of the erstwhile overheads and remain confident of achieving the business case.

Indonesia continues to deliver consistent performance with 9% volume growth, 8% revenue growth and 12% EBITDA including forex growth. Apart from macro tailwinds, the Household Insecticides business seems to have responded very well to a significant improvement in the efficacy of our products a few quarters ago. Our Hair Colour business has started delivering over the last few quarters on account of an impressive performance in Shampoo Hair Colours.

The GAUM and LatAm business saw volatility in INR sales due to currency devaluation. The Argentine Peso devalued from 361 to 808, which due to hyperinflation accounting has

impacted nine months of revenue. This is having a negative impact of mid-single digit on consolidated sales. However, the impact on operating profits and cash flows is minimal.

We are conscious of the fact that some portions of our business would experience volatility on currency or other geopolitical factors. Despite this volatility, we are committed to deliver on an annualized basis, underlying volume growth and improvement in profits and cash generation in GAUM and LatAm in the years ahead. To further elaborate on this volatility in the sales of GAUM and LatAm business as we understand that this can sometimes be confusing. A simple way to look at our business is to look at underlying volume growths in India and Indonesia and overall consolidated EBITDA margins post forex and operating cash flows. On all these three fronts, we are likely to meet the expectations we set for ourselves at the beginning of the year. Operating cash flow will probably see the second consecutive year of 20% growth.

We continue to make substantial progress on key strategic pillars of Category Development and Simplification and strive to improve the organic underlying volume growth to levels closer to our aspirations while sustaining the EBITDA and cash flow deliveries. On Category Development, we have consistently been investing in our brands with our media investments increasing by roughly 200 bps year-on-year. We had two new launches last quarter, which we think will give us an improvement in our volume trajectory going ahead. We launched Godrej Fab liquid detergent at a category-defining price of ₹99 per litre. This has been currently launched in select markets and will be scaled up gradually into other markets. We have entered the ₹1,200 crores market of anti-mosquito Incense Sticks that is dominated by illegal players as of yesterday. Goodknight Agarbatti is India's only government-registered, active-based, anti-mosquito Agarbatti. Goodknight Agarbatti uses a new molecule, Renofluthrin, RNF, which is 2x more effective than other molecules that are used in India. Renofluthrin is a novel molecule indigenously developed in India by our strategic partner. GCPL has a long strategic partnership with a manufacturer who has been in business of Household Insecticides for 25-plus years, and we have an exclusivity on this molecule in India for the medium term. It is indeed a proud moment when an India-developed molecule outperforms global molecules, many of which are illegally imported into India.

Our Simplification journey is a holistic one to release fuel for growth. Our EBITDA margin is now greater than 20% and we anticipate steady improvement through various structural cost reduction actions. We are on track on our reorganization journey in East Africa and will complete the same by Q4 FY '24 to Q1 FY '25. We will assess any one-time impact on accounts of this, as we get more clarity in Q4.

Thank you very much.

Moderator:

We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Nuvama.

Abneesh Roy:

Congrats on good margins and decent volume growth. My first question is on Liquid Detergent. So here, three sub-questions to your overall Fabric Care and Liquid Detergent portfolio. I understand you have been coming out with this disruptive pricing in terms of the powder to liquid. But the issue there is, if it is successful, it gets copied by the other larger

players very quickly. Second is, Liquid Detergent is a premium product in India. So, for that kind of a premium customer, is ₹99 pricing relevant? Because he may think that the quality may not meet the standards, plus generally premium customer is a bit more brand loyal. Third, of course, is what is your market share in Fabric Care? Because here, two large MNCs completely dominate. And when you joined, you had rejigged the strategy. You focused on core and where right to win is there. So, Fabric Care, is there a right to win for you? What is the market share? And how do you compete with the two large MNCs?

Sudhir Sitapati:

So Abneesh, there are three questions there. So let me answer it one by one. I think the first question, this is not a powder to liquid. This is a regular liquid. It's not a reconstituted product. See in laundry liquids, not long ago, we were the main player in this market. I think today, our market share is 15% to 20%. So, we are a close number three. In many quarters, we are number two in the laundry liquid category. So, this is very much a category where it's a core category, it's not a new category and a category where we do have a right to win. We have two strong equities: Ezee, which is a very strong equity and Genteel, which has been doing very well for us, which is also a reasonably strong equity in some parts of the country. Ezee is positioned on woollens, Genteel is positioned on care and Fab is positioned on clean.

Now on your question on the laundry liquids being premium category, that's not how it develops in many countries. In many countries, laundry liquids very quickly becomes a mainstay. That's what we are seeing in many parts of India, it is not only premium consumers who buy into Laundry Liquids. A whole lot of mid-priced and mass consumers move. That's what we've seen in China. That's what we've seen in Indonesia. So, in fact, our anticipation is that as this market moves from being a premium to a more mainstay category, I think we see a need for a brand like Fab.

Abneesh Roy:

Sure. My second question is on the disruptive Agarbatti which you have launched. So, few sub-questions there. One is in the past, GCPL has not paid same level of focus on coils versus, say, the higher-end products there. So, in Agarbatti also, it's a lower-end product. I understand it's a ₹1,200 crores market. So, wanted to understand, can you extend this product to coils? Second is, in terms of pricing, how does this compare to the illegal players? And in terms of efficacy, how does this compare to the illegal players?

Sudhir Sitapati:

See, I think the larger point in Household Insecticide and Agarbatti is, one, of course the format of Agarbattis; two, is active Renofluthrin, which is exclusive to GCPL for the medium term. I think our Agarbatti is a format that consumers want. Today, they're using illegal Incense Sticks with varied amounts of dosage. We don't exactly know what goes into each incense stick. So, this guarantees a safe experience for consumers. On average, we have noticed that our Agarbatti is 2x as effective as regular Incense Sticks. There's a wide variation in illegal Incense Sticks but we have noticed that it is twice as effective as the illegal Incense Sticks. It is priced at the same price as illegal Incense Sticks. The MRP of it is ₹12 in the South of India and ₹10 in the North of India. That is roughly the price of illegal Incense Sticks in South and North.

Abneesh Roy:

And could you expand that to coil if it is successful?

- Sudhir Sitapati:** The active will work everywhere, Abneesh. So, it's a matter of time and we'll figure that out. But the fundamental principle is Renofluthrin, which is the active, obviously has implications in many parts of our portfolio.
- Abneesh Roy:** And last question, essentially on Household Insecticides again. You have mentioned more such products will continue. So, my specific question is, in Bangladesh, I think you have come out with a disruptive Household Insecticides launch. So, if you could mention how is the pricing of that product versus your earlier products? And in terms of market share and growth, how the numbers have been? I understand, your presence is small there. But could you become a very relevant player post this disruptive launch in long term?
- Sudhir Sitapati:** I think both in Bangladesh and Indonesia, we changed the active molecule, which is the global molecule that is used in many parts of the world in Household Insecticides, to more efficacious formulations. They may or may not be exactly the same molecule as India but more efficacious formulations. In both, Indonesia, which we declare the results but Bangladesh, the results in Household Insecticides is even better and this has all been on our liquid electrics. Electric penetration in Bangladesh is sub 3% unlike which is about 20% in India. So even compared to neighbouring Bengal, it is very small. And it is growing exponentially this year in Bangladesh. So, we are very, very bullish on improving efficacy of Household Insecticides being a route to better performance in Household Insecticides. It is something that you've been asking us for a long time. We've done it already in Indonesia and Bangladesh. With the launch of Incense Sticks in India, I think this is our first step in improving the efficacy of Household Insecticides products in India.
- Abneesh Roy:** And how is pricing different in Bangladesh versus similar existing products?
- Sudhir Sitapati:** So, the liquid vaporizer, the price is roughly the same as India.
- Moderator:** The next question is from the line of Arnab Mitra from Goldman Sachs.
- Arnab Mitra:** Congratulations on a good quarter. My first question was again on Household Insecticides. So, from what you said, the efficacy is stronger than even illegal Incense Sticks, where at least our understanding initially was the dosage is so high that, that's almost like a killing product. But in your assessment, your product is more effective than the average of the illegal incense stick market?
- Sudhir Sitapati:** Yes. I think in May, we will do an analyst conference and maybe at that time, we can show you guys how the various products, including illegal Incense Sticks work. But we think that our incense stick is 2x as efficacious as the illegal Incense Sticks.
- Arnab Mitra:** Got it. And if you could just help us understand this ₹1,200 crore category, what is it as a percentage of overall Household Insecticides market? And in terms of margin profile, does it have acceptable margins given whatever would be your like minimum margin thresholds?
- Sudhir Sitapati:** It is between 15% and 20%. The numbers on illegal Incense Sticks are not absolutely clear, ₹1,200 crores is what Nielsen reports. It may be higher than this, is what we informally think. So anywhere between 15% and 20% of the market is what illegal Incense Sticks is. It's

growing at 15%. So, it's growing very fast as well. Over the last five years, volume growth of actives in Household Insecticides has been pretty good but all this growth has been taken by Incense Sticks. So that is the incense stick story. The margins on our Incense Sticks are acceptable but is probably not great. But we will see with time how we play this market. We certainly meet the minimum threshold, but we will play it with time. We will figure out how we can get there. I think our first step is to grow the Household Insecticides category rapidly. You see, Arnab, that this quarter, for example, we declared 29% EBITDA in India. So, we've got a solid P&L in India to fund this kind of fast-growing category.

Arnab Mitra: Got it. And just one last follow-on to this. Do you need any additional approvals to use this molecule in LV and other formats, or once the registration is done, it's up to you in terms of how you execute it?

Sudhir Sitapati: See, the way they work is that; it takes a lot of time is for the molecule to get registered. Once the molecule is registered, it takes a certain amount of time for the formats to get registered. So, molecule was registered some time ago. We have now got approvals for the incense stick format. It won't be proper for me to say what we're doing on the others, but natural thing is, it becomes easier with time. So, one would expect approvals to come one by one across formats.

Arnab Mitra: Sure. And just one last question for me. The price mix this quarter was still negative by about 3% for India business. Is this largely to do with the soaps pricing anniversarization? And do you see pricing coming back in FY '25 based on the current outlook that you have?

Sudhir Sitapati: Yes. So, Arnab, on the domestic sales, it wasn't that high as 300 bps. It was close to 200 bps. It is largely due to soaps and that will come back from Q4 onwards.

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

Vivek Maheshwari: A few questions. First is again on Goodknight Incense Stick. So again, I know it's too early and you have just literally rolled out now but if the product is 2x more in terms of efficacy and assuming that the distribution might is there with you, you will also support it with the advertising bit, how do you define success over here in terms of what would be the, let's say, aspirational market share for you in the next three to four years?

Sudhir Sitapati: See, I mean, look, this is a ₹1,200 crores entirely illegal category. So, if you logically think about it, there's no reason why we shouldn't pretty much be the only player or have a dominant market share here. I think while we go on this journey, to answer Arnab's question, we must be a little careful on how fast we grow versus the right margins. So, we will have to calibrate a little bit here. But I would certainly say in destination, there is no reason for illegal Incense Sticks to exist in India. When they are less efficacious, they're less safe, they're not allowed, they're not advertised and it's basically a proxy product why should they exist.

Vivek Maheshwari: And in terms of what would be your distribution strategy over here, I mean, again, we definitely like the growth mindset. But in the past, you have had mentioned or have had some concerns around incense stick. The fact that you have launched it shows the growth mindset. But would there be a total overlap in terms of your LV and Incense Stick or Incense Stick will

be more in markets where you think that the existing illegal sticks are floating around much more, basically, the idea is to displace illegal or to grow this category?

Sudhir Sitapati: I mean, look, some of these answers, Vivek, will get clearer to us with time. I think some of these things we'll just wait and watch what the market wants to do. And our job is to distribute and communicate it's available. What has happened so far in Incense Stick is that it has upgraded from coils in India and prevented the fast growth of electrics. I don't think it has really taken from electric so far. So, while we will get into Incense Sticks, hopefully, replace illegal Incense Sticks, the underlying reason why illegal Incense Sticks won is because the molecule is very efficacious. I mean, while it is illegal, it is efficacious. So, we hope to have a strategy on liquid vaporizers and aerosols and coils as well, which will let them have their own place in the sun and provided margins of everything is acceptable. So ideally for us, we must get to good margins in everything we sell and then let consumers choose.

Vivek Maheshwari: Got it. On Indonesia bit, we have seen again smart margin expansions over there. How do you think about the margin trajectory from where we are? I think in the past, you have mentioned that it may be difficult to get back to the same or you wouldn't necessarily want to go back to 28% kind of margins. But in the next couple of years, where do you think Indonesia settles at?

Sudhir Sitapati: Indonesia margins today are round about 20%. At its peak, it was 28%. So, I think it can go somewhere in between the two.

Vivek Maheshwari: Somewhere in between the two, okay. And on the Raymond, again, you have not explicitly given but could you highlight where would be Raymond margins right now in the third quarter?

Sudhir Sitapati: That I think we'll probably give to you guys at the end of one year. But suffice it to say that the gross margins we are happy with. We are very happy with the reduction in overheads, and we have significantly increased the ATL beyond what we wanted to because we feel like let's do that. So, one has to look at the structure of the margins, it's also a little difficult for us to compute it right now because it's all been merged. But I think once we finish a year, we will probably show you guys what the shape of margins are. But I would say that we're quite happy with the shape of margins. The thesis on margin extraction seems to be bearing out.

Vivek Maheshwari: Got it. And last question, your P&L margins, everything looks quite good. You have been, let's say, launching or you have acquired this RCCL portfolio. But let's say, from a next two-three-year perspective, do you think whatever launches, acquisition you had to make, you have already done that, and it will be building around the existing platform? Or do you still think there are white spaces like, detergents for example, liquids, for example, you have entered, RCCL you have done, so the blocks are in place? Or you think there may be a couple of more categories that you may look into?

Sudhir Sitapati: Vivek, look, our number one priority is market development of existing categories. As and when we find genuine ways to solve problems in health and beauty, our vision is to bring the goodness of health and beauty to consumers in emerging markets. So, in particular, in India, as and when we find opportunities in health and beauty, we'll evaluate it. But our thesis is based

very much on developing the categories we are present in, including liquid detergents. I must say that we've always been in liquid detergent category. It's not new category.

Vivek Maheshwari: I mean just a follow-up on that point because I also have had this question what Abneesh asked about right to win in this space given that there are two large multinationals. So, I'm not sure if the existing category and where you have entered are really in the same domain. Because one is, the existing two brands are really, really specialized, right, as a matter of speaking, as against this liquid detergent. But we would still like to give you a benefit of doubt and see the progress over the next few quarters?

Sudhir Sitapati: We can have a look at this, Vivek. But soaps and detergents are very much part of our knitting. I mean we, more than 20 years ago, launched Godrej No.1, and we've done really well over the last two decades. We have a very good understanding of surfactant technology. We have the right distribution. Two brands we've already got, which are strong, Ezee and Genteel. The third one we are launching at a disruptive price. So, we understand the technology well. We feel it's quite an overlap of technology, overlap with our selling systems, overlap with our marketing systems. We may or may not operate at the super premium of the market but there's a huge market in India that will develop in liquids, and someone is going to get the mark to the market as well.

Vivek Maheshwari: Okay. And the last follow-up to this, it's not a precursor to you entering into powder space, right?

Sudhir Sitapati: Yes. I mean, look, we don't tend to enter into markets where the problems are solved, the penetration is high. See, our thesis on liquid detergent is, this is a low penetrated category with rapid growth. We have studied it across many countries. So, we will not enter strategies which are highly penetrated, certainly, neither organically nor inorganically actually. So, we certainly have a filter of when we want to do something new on, what is the penetration of the category, and what is the growth potential of the category.

Moderator: The next question is from the line of Percy Panthaki from IIFL.

Percy Panthaki: A very basic question here on the incense stick. Is it a product which kills or is it a product which repels?

Sudhir Sitapati: It is a product that kills.

Percy Panthaki: Okay and this doesn't last the entire night, it will burn out in an hour or so and then will give protection maybe for a couple of hours more, right?

Sudhir Sitapati: Yes, it's a 45-minute burn product.

Percy Panthaki: Okay. Understood. So, tell me one thing. Now you are giving the most efficacious molecule in the most mass-market product. So, will users of liquid vaporizers not sort of feel short changed? I mean, they are paying a premium, they are buying a premium product. And they are not getting the most efficacious solution for the price?

- Sudhir Sitapati:** Liquid vaporizers won't stand still. Our game is to improve the efficacy of every single product in this category. We have launched with an Incense Stick, it's the largest market. We'll move with speed there. But in every single category, liquid, coils, aerosols, we will seek to significantly improve the efficacy of the products, so that the relative efficacy of products don't change.
- Percy Panthaki:** Okay. And what is the moat in this molecule that you have? I mean, you said that in the medium term, nobody else can use it. Why is that the case?
- Sudhir Sitapati:** It's a patented molecule of which we have exclusive usage for a reasonably long period of time.
- Percy Panthaki:** Approximately how long, any idea?
- Sudhir Sitapati:** If I could tell you that, then I wouldn't say for a reasonable time, right? But it's for a reasonable time, Percy. Nothing that is in the very short term.
- Percy Panthaki:** So tell me 1 thing, if that is the case, then can a case not be built that you're not just targeting the ₹1200-crores Incense Stick market, which, of course, you are doing through the Incense Stick format but if the larger plan is to use the molecule across all formats, then you're looking at sort of, logically, given that you're a market leader, you have a better distribution, you have a better brand recall and if you have a better efficacious product in LV as well as coils or other formats, what is the rationale for existence of even the other organized players in the Household Insecticides market?
- Sudhir Sitapati:** Yes. I mean, certainly that's what we've been doing in Indonesia and that's the game here, for us to improve the efficacy. I don't know about rationale of other competitors and all but to improve the delivery of mosquito kill, we feel, molecules take some time, they have a life cycle. The current molecule has been around for a long time and it's time for a new one. And so, we've taken a little bit of time because we also wanted to structure it right. So, to get a more efficacious molecule, to get enough exclusivity on it so that we can shape the market. So, I mean, I don't know how exactly the market will shape out but certainly, that's our intention.
- Percy Panthaki:** And across the world, are there other molecules which are more efficacious than the molecule you are using, which maybe some of the other competitors can just sort of try and get those molecules registered in India?
- Sudhir Sitapati:** See, there may or may not be, I don't know for a fact. But it is not an easy process to register a new molecule de novo in India. It takes many, many years. You see the formulation can be registered reasonably fast, but the molecule takes many years. So even if there was something, which I don't think there is, but I mean, there could be, but it will take a long time because it has to go through lot of safety. Because some of this is a combination of efficacy and safety, which is why I can't give you a direct answer. So, there might be a more efficacious molecule, but it may not clear safety tests in India. So, the short point is there's nothing that is registered in India which is better than this. It takes several years, six to seven years for a molecule to get registered.

- Percy Panthaki:** Understood. See, when you started off this business in 2010, the market share was somewhere in the early 30s. I remember last time some market share data was shared and I have, it was that in 2016 or '17, it moved up to the early 50s. So basically, in six to seven years, a 20-percentage points market share gain is really huge for any company in any category, which is what GCPL achieved at that point of time. And then I think the market share has more or less flattened out. Do you think now we are at the cusp of another huge market share gain over the next few years, given this new molecule? Or are we just maybe becoming too bullish on the back of a new molecule? What is your take on this?
- Nisaba Godrej:** I think, Percy if you look at GCPL's market shares in Household Insecticides, we've always roughly had about half the market. So even if you look at a decade, we've certainly not played in the Incense Stick, in that burning part of the market, although we started that market with our Fast card but that's not the place where we won. But actually, in the other formats in Household Insecticides, we've been gaining share consistently and constantly over the last 10 years. So, our overall share in Household Insecticides has stayed consistent over the last decade. Our job is to serve the consumer to the best we can. The last time we had a new molecule and an update like this, the business really gained. So, we're hoping that happens. But I think the consumer will answer that question as we roll out the new product.
- Percy Panthaki:** Understood. Last follow-up on this, how confident are you with this new product now that Household Insecticides will very soon go and stay into a double-digit growth kind of a trajectory?
- Sudhir Sitapati:** I mean, how to still answer that question, Percy, except that this is certainly the most decisive move. More importantly, than the launch of incense stick is the launch of RNF. But the launch of RNF in the format of Incense Stick is certainly a decisive move that will change our growth trajectory in Household Insecticides. The rightful growth trajectory, when compared to our per capita consumption to Indonesia and the kind of growth level we are in, is about 1.2x GDP. So, you should get volume growths of 8% to 9% in Household Insecticides. And of all the moves that we have done, this is the most fundamental.
- Moderator:** The next question is from the line of Jay Doshi from Kotak.
- Jay Doshi:** Continuing on the previous question. So how much time did it take you to register this product in India? And when did this journey start, RNF molecule?
- Sudhir Sitapati:** The RNF molecule, Nisa, correct me if I'm wrong started, almost a decade ago?
- Nisaba Godrej:** Yes.
- Sudhir Sitapati:** So, the molecule has been in the works for a decade including development, registration, that's the time but it takes, I think it's taken five to six years for the registration of the molecule. And then there's a formulation registration which can take anywhere between a year to two years.
- Jay Doshi:** Understood. So then is there any possibility that any other competitors of your can sort of launch something similar anytime in the next two, three, four years?

- Sudhir Sitapati:** As I said in RNF, we have exclusivity for the medium term.
- Jay Doshi:** But comparable molecule, something comparable.
- Sudhir Sitapati:** If you get a comparable molecule; a, you have to develop it; b, this molecule format registration time is a long process because there are a lot of stringent safety rules on molecules and then formulation is another two years. So even they're many years away from getting a new molecule into India.
- Jay Doshi:** Understood. That's helpful. And Indonesia and Bangladesh have a different molecule, right? It's not RNF.
- Sudhir Sitapati:** Indonesia is another molecule but procured locally pfrom India. By the way Jay, on RNF, I want to say, it's an Indian-developed molecule. So, it's an Indian patent. It's a proudly made in India molecule. It's quite rare actually to have a patented molecule created fully in India. In Bangladesh, in Indonesia, it isn't RNF, it's another molecule but equally there, we have got some supply chain advantages and structural advantages there as well.
- Jay Doshi:** Understood. But the efficacy of that molecule is comparable to RNF?
- Sudhir Sitapati:** Yes.
- Jay Doshi:** Understood. And in a short period, what is the extent of market share gains you've seen in those markets?
- Sudhir Sitapati:** I don't want to give exact numbers in Indonesia, but we have seen very significant gains of share in Indonesia. Bangladesh, we don't measure it. But if one looks at our volume growth, we have seen significant market share as well.
- Jay Doshi:** Finally, last one, is this molecule, RNF, something that you can take elsewhere in the world as well in Africa and in your other markets. In Indonesia, Bangladesh, you already have something.
- Sudhir Sitapati:** We can. There are alternate routes there as well, but we can.
- Moderator:** The next question is from the line of Avi Mehta from Macquarie.
- Avi Mehta:** I just wanted to clarify a bit on RNF. Would it be fair to say that if we were to extend this formulation to other formats, the pricing of the format would remain the same or would not have to be tempered with the despite the additional efficacy? So, on a per ML basis, the pricing still comes out to be favourable. Is that the right way to look at this?
- Sudhir Sitapati:** I mean, we obviously don't give out specifics on pricing and so on but approximately and roughly speaking, yes.

- Moderator:** The next question is from the line of Aditya Gupta from Tara Capital Partners.
- Aditya Gupta:** A quick clarification. The new stick that you launched, to the customer, what will be the cost on a per night basis when I compare it to the liquid format?
- Sudhir Sitapati:** See, the formats are different. It's ₹10 a pack, so ₹1 a stick used for instant kill, but it works to 45 minutes. In liquid vaporizer, the refill pack costs about ₹75 and it's for 30 nights, it's about ₹2 - ₹2.5 but it last through the night. So therefore, the use case is different. It gives a high dosage of molecules but gives it in 45 minutes. The liquid vaporizer gives lower dosage over a longer period.
- Aditya Gupta:** Got it. Now in that case, as a customer, if I have used it and it solves my problems in 45 minutes and obviously, the doors and the windows are shut, then if the formula is efficacious, then what does it do, what does it mean for the liquid format? I mean, does that not soften the efficacy of this new product and not solve the problem for the whole night?
- Sudhir Sitapati:** No. I mean, it won't solve the problem for the whole night unless you like completely shut all your windows and all your doors and don't have any mosquito come in. It is an immediate instant kill. And liquid vaporizer has not grown as fast as we wanted to but despite like 5, 6 years of Incense Sticks, at the efficacy and using TFT, which is the current molecule, has still kind of grown over the last 5 years.
- So, if the liquid vaporizer also improves in efficacy, there is no reason for that also not to grow because the use case is different. These are two things. One is that lasts through the night. Two, there are many consumers who don't like to burn things in the house. So, both those are distinct benefits for LV. And our suspicion is that as we increase the efficacy of all formats, all of them are slightly different use cases and all of them will do well.
- Aditya Gupta:** Got it. And just to clarify, there's one more incense stick product on the market, which I've seen. I used it before. How is this one different from that one? And I mean, is that a big product, I mean, in terms of revenue contribution, is the existing product big in size and so what happens to that product?
- Sudhir Sitapati:** The existing product was a natural product. It didn't have an active insecticide in it. So, the efficacy level, that was a repellent, to answer, I think, Percy's question, that was serving a repellent purpose, that cannot be compared in efficacy with this.
- Moderator:** We have the next question from the line of Jitendra Arora from ICICI Prudential Life Insurance.
- Jitendra Arora:** Sudhir, I was just checking. So, this molecule was registered sometime in 2015, '16 and taking into account 17 years of patent applicable. So, this molecule will go out of patent by 2032. Is my understanding correct?

- Sudhir Sitapati:** I mean I don't know the exact number. But yes, it will go out of patent sooner than 17 years. I don't think it was '15, '16, just check. I thought it was later than that.
- Jitendra Arora:** No. I can see papers online, which are referring to this molecule in 2015, '16. So, I'm assuming it would have been patented by then.
- Nisaba Godrej:** We can get the exact date.
- Sudhir Sitapati:** I'll get the exact dates. But anyway, even what you're saying is right, it's a pretty long period for us to shape this.
- Jitendra Arora:** Sure. No, just wanted to get the understanding, that's about it.
- Sudhir Sitapati:** We'll revert to you.
- Moderator:** The next question is from the line of Kunal Vora from BNP.
- Kunal Vora:** Again, continuing on the same line. In LVs, between your existing molecules, which are using in India and this new molecule, what is the difference in efficacy? And when do you expect an LV launch with this new molecule? And why are you starting with Incense Sticks and not with LV?
- Sudhir Sitapati:** See the efficacy of RNF in our view is 2x of TFT, whichever other format it's used in and there may be some slight differences in the format. But that is roughly what we think is the efficacy of RNF to TFT. Why are we starting in Incense Sticks, look, I mean, this is a large untapped market, large opportunity. And more importantly, this is not determined by us, you get permissions, you launch it. On when do we expect, that'll be pretty soon.
- Kunal Vora:** Okay. But from your side you're targeting both together and you've got permission for incense stick earlier. Is that the case?
- Sudhir Sitapati:** Yes. I mean, yes, we have applied for many things and they're all in the public domain. So, if you guys want to do the research, you'll find out what all we applied for with RNF. So, this has come first but we're also quite happy this has come first because this is low-hanging fruit. This will immediately, I hope, come pretty fast, we'll get delta volumes. On LV, we'll have to communicate, the habit we had to be built, the consumers want to see the product, etcetera. So yes, so that came first but we're actually quite happy this came first.
- Kunal Vora:** Okay. In LV, how will the consumer experience change? With the higher efficacy, will the customer need to use it for a shorter period of time?
- Sudhir Sitapati:** Yes. We measure in Household Insecticides efficacy by a measure called KT50, which is, 50% of the mosquitoes, how much time they take to die. And with RNF, under various conditions is roughly half the time as TFT. When you guys come here in May, we will show you, we'll take you all to our mosquito breeding centre and show you the difference in efficacy between RNF and TFT.

- Kunal Vora:** But will you have to address it in terms of pricing because if the customer is able to get the same productivity?
- Sudhir Sitapati:** I think I answered that question, which is, I mean I don't want to give you specifics on pricing, but we don't think there's a material difference that consumers are going to see. Neither it's a material difference for us in terms of cost.
- Moderator:** The next question is from the line of Latika Chopra from JP Morgan.
- Latika Chopra:** So just stepping away from Household Insecticides for a minute. Just trying to understand the underlying growth rates better in some of the other categories in India. On Hair Colours, you've clocked double-digit volume growth. If I recollect correctly, previous quarter was a little soft and we were betting on rest of the quarters to drive this growth. I just wanted to understand what's the confidence in sustaining this kind of volume growth in coming quarters. And if you could also share some colour on salience of Shampoo Hair Colour in the overall Hair Colour mix. And similarly, if you could also give some flavour on the Raymond portfolio, Y-o-Y growth rates that you saw in Q3?
- Sudhir Sitapati:** Yes. I think see on Hair Colour, it's true that Q2 was a muted quarter because of the extra Shravan month and also because of the delayed festivals and therefore, we had a really good Q3. Will they sustain? I mean, we mentioned here that we had double-digit volume growth in Hair Colours. I mean, look, you see there's one part of the Hair Colour market, which is Hair Creme and Shampoo Hair Colour, which will sustain and will grow in double-digit volumes. We still have a large salience of hair powders and mehendi, which is henna, which don't grow that fast. So, I don't know what the weighted average will come to maybe a little less than what it's been in Q3. But what we really look at is the rapidity of growth of our Creme plus Shampoo business. There, we've been seeing rapid share gain and penetration gain and volume growth. So that is the future of this category and that's where it is. See, shampoo Hair Colour is increasingly becoming a Southern phenomenon where it's becoming the dominant format of upgradation in the South. But the dominant format of upgradation in North, West, East tends to be Creme. So, this is the lay of the land between Shampoo Hair Colour and Creme, which is, it is growing slower than creme actually in non-South and growing very fast in the South, Latika. So that's the story of Shampoo Hair Colour. In a way, they're both similar. They're slightly different formats but they're both modern formats. They have a lot of similarity rather than differences. And we see these as the formats of the future. By the way, you didn't ask the question but since you mentioned it, we've grown double-digit volume growth in Fabric Care despite it being a large Ezee quarter and Ezee sells for silks and woollens, and it doesn't grow very fast. So, you can imagine how much Genteel and Fab has grown in a quarter in which Ezee is very big for us to have strong double-digit growth in laundry.
- Latika Chopra:** No, that's good to know. And Sudhir, if I could also check on Indonesia. Clearly, Household Insecticides has grown faster. We've talked about market share gains. I was curious to understand where we stand on Hair Colours. It's been a good quarter. Again, strong double-digit volume growth is what you mentioned. What is the salience of this particular segment in the Indonesia revenue mix currently? And do you see this becoming a substantial piece of the

business there? How are market shares? Any other benchmarks that you track for this particular category in Indonesia?

Sudhir Sitapati: See, we have a relatively small business in Indonesia in Hair Colour but rapidly growing through Shampoo Hair Colour. And one of the things we did a few months ago was to domestically manufacture Shampoo Hair Colour cause demand was so high and we have supplied from India. We have now unbottlenecked our production of Shampoo Hair Colour in Indonesia. And we seem to be the pioneers in the building of Shampoo Hair Colour in Indonesia, and we are very bullish on winning substantial share in Indonesia through Shampoo Hair Colour.

Latika Chopra: Sure. And lastly on Africa, are there any other incremental areas or markets that you're considering to move to a royalty model or what you mentioned in the deck is what continues from the previous quarter?

Sudhir Sitapati: I mean, what continues is there. I think in Africa, we're seeing a strong performance continued in South Africa, which is a high-margin business. We're also seeing a strong growth in what we call our Godrej International markets in Africa, which are countries like Congo, Saudi, etcetera, where we are doing a purely export-led operation. That is also, I suppose, in some sense, a royalty type model. So, we're seeing growth there. And of course, in Nigeria, we have moved to a distribution model, which is also showing good growth. So, in a sense, the only country where we have a complete operation today in South Africa, which is a high-profit business. Every other operation, we have varying degrees of partners operating with us.

Moderator: The next question is from the line of Nitin Gupta from Emkay.

Nitin Gupta: Just wanted to check how is the capacity for liquid detergents, I mean, the thought is like why not taking it national?

Sudhir Sitapati: See, bulk of the liquid detergents market today, mainly wash liquid detergent market is in the South. And I mean it's something we'd like to try out first. Majority of the market today is there. And to answer somebody's question, in the North, when you sit in Bombay, you think it's a premium category. But if you went to Tamil Nadu, you'll find rural outlets selling liquid detergents. So, the market has really developed fast in Tamil Nadu and Andhra. So, we'd like to focus there and then we'll see what to do with it.

Nitin Gupta: Second question is with respect to your thoughts on male grooming category where sort of we had attempted with Cinthol in the past, now have the Raymond's portfolio. Any thoughts here?

Sudhir Sitapati: I mean, no specific thoughts. I mean, in the Raymond's portfolio, I didn't answer, Latika, we did roughly ₹140 crores in this quarter, despite continued downstocking and so on and so forth. We're seeing green shoots in many parts of this portfolio, including in perfumes and male grooming parts of it. So, I would say that Park Avenue certainly gives us a platform to launch male grooming beyond deodorants. It already consists of it. It already has a soap and shampoo travel kit, etcetera. So, Park Avenue gives us some kind of play there in male grooming but I don't have anything specific to add on male grooming.

- Nitin Gupta:** The last question is on employee cost for this quarter. Any one-off there?
- Aasif Malbari:** So, there are two things which have happened. One is, as Sudhir mentioned, we've completed the savings in terms of RCCL cost base. So that's been one of the drivers to the cost reduction. Secondly, this whole thing of Argentina has meant that the entire P&L of nine months of Argentina has actually kind of been reset downwards. So, while the turnover went down, entire cost base has also gone down. So that is the second factor which has resulted in the absolute number kind of going on. It's not that the percentage has gone down, but the entire P&L gets reset. Yes but no specific one-off.
- Moderator:** The next question is from the line of Jay Doshi from Kotak.
- Jay Doshi:** On your earlier answer to the question that this molecule kills mosquitoes instead of the repel. So even in other formats, if you were to apply the same molecule in different formats, will kill be the default outcome? And if so, does it mean that there will be a lot of effort required in terms of educating customers? How do usually consumers respond to this kind of change, right, from a safety perspective? If I see something that is killing mosquito instantly, as a consumer, I will naturally think twice about what would be the impact of it on our own health.
- Sudhir Sitapati:** The number one preference driver of Household Insecticides is drop down mosquitoes in the first 10 minutes. So, when consumers use a high efficacy format, they expect to see mosquitoes drop down.
- In terms of safety, certainly, these molecules are tested and the reason that this registration takes so much time is to make sure that we are 100% safe. And we also positioned Goodknight nowadays on protect baby's sleep. It gives you both the importance of efficacy and the importance of safety. So, from a positioning point of view, that's what we're doing in Goodknight. From a product point of view, the reason that it's taken us so much time to respond in Household Insecticides is, it's a long process, testing safety of molecules.
- Jay Doshi:** I understand. But the default will be kill, right, for all formats?
- Nisaba Godrej:** Yes, I think the way the format works is, the consumers' expectation is both kill and repel. So even within LV, if you put it on, even with the new Renofluthrin, it's not that you necessarily find hundreds of dead mosquitoes right around it. But it will be much better protected, when you were with the earlier molecule. And in our testing, it shows that it works much faster and more effectively. And we have obviously done extensive consumer testing with products like this, and they are very happy with the efficacy and the safety. So, I don't think we'll see any issues from that point of view.
- Jay Doshi:** That's very helpful. Second is, in case of Fab liquid detergent. Where does it sort of fall in terms of gross margin in your overall portfolio? Assuming if you were to sort of do that business at scale, at ₹100 price point, how would gross margin compare versus the current portfolio you have?
- Sudhir Sitapati:** I mean, lower than the current portfolio but nowhere near unacceptable.

- Jay Doshi:** Sure. Finally, one last question. I know this is December quarter but how has your operating cash flow trended? And is it tracking ahead of your EBITDA growth?
- Sudhir Sitapati:** Yes. It's not tracking ahead of EBITDA growth, see, last year, we grew operating cash flow by 20 odd percent. Last year, we didn't grow EBITDA by much, we didn't grow PAT by much, but we grew operating cash flow. This year, we expect operating cash flow and EBITDA to be greater than 20%. But PAT, because of MAT tax credit and variety of reasons may not grow by that much. I hope next year, all the three will grow at the same rate.
- Moderator:** The next question is from the line of Vishal Gutka from PhillipCapital.
- Vishal Gutka:** Sudhir, congrats on excellent set of numbers. I have one question on trade margins on illegal Incense Sticks. The trade margins given by illegal players are pretty high. So how do you plan to address that challenge? And second question is on Air Freshener. In the press release, you quoted that salience has doubled over the past two years. So, can you give any qualitative comments what have been the growth rates over the past and how do you look going forward?
- Sudhir Sitapati:** Good question. The first one is that illegal Incense Sticks do give higher trade margins than what we intend to give. We intend to give the same end consumer price but lower trade margins. And I think we've got to use our direct distribution to some advantage because illegal Incense Sticks just sell to large wholesalers, they don't have a distribution system. So that is certainly one of the things we have to figure out how to combat. We also have to get the right balance between margins and growth and so on and so forth on Incense Sticks. So, if you remember what I told you, which is that other Incense Sticks are significantly lower on efficacy and therefore, their product cost is much lower than what we are.
- So, we will figure this out. I think the important thing is that the end consumer price the same as illegal Incense Sticks, we give enough margin for that to be a good return on investment to the retailer. And then let products and marketing do the trick. So that's really the question on Incense Sticks. Sorry, what was your second question?
- Vishal Gutka:** On the Air Freshener piece, what is the growth outlook out there?
- Sudhir Sitapati:** Air Fresheners, one of these strategies is, we've got a very long runway of growth in India, and we have been gaining not just marginal but pretty significant market share in this category. We are now by far distance the leader here. This has been growing in the 20s for the last two years. It will grow fast. I don't know exactly know how much it will grow but it will certainly grow in the high teens. Or if it doesn't grow in the high teens, then we're not doing something right. But that's the kind of growth that's between high teens and early 20s, is what this category should have for some years to come.
- Moderator:** The next question is from the line of Aishwarya Dave from iThought.
- Aishwarya Dave:** My question is regarding the recent acquisition of brands, Park Avenue and Kamasutra. So, I wanted to understand where these two brands are in terms of percentage market share? And second question is what would you do as a company in the near-term to mid-term growth

strategy for these two brands? And are there any upcoming products or are you planning to increase the product portfolio for these two brands?

Sudhir Sitapati: I didn't hear your first question but let me answer question 2 and 3 and then you can ask me first question again. I think it was a bit muffled. The share of this category was in the high teens when we acquired it. That's what the share of these 2 brands in male deodorants is. We hope to grow this category consistently at double digits, along with a very significant improvement in operating margins of these 2 brands. What was your first question again?

Aishwarya Dave: Yes. My first question is, what is the current market share of these 2 brands in terms of percentage?

Sudhir Sitapati: It's in the high teens in men's deodorants.

Moderator: Thank you. Ladies and gentlemen, we have no further questions. On behalf of Godrej Consumer Products Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.

Sudhir Sitapati: Thank you.

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