Godrej Consumer Products Limited

Q1 FY25 Earnings Conference Call

August 07, 2024

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Moderator: Ladies and gentlemen, good day and welcome to Godrej Consumer Products Limited Q1 FY25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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 Mr. Sudhir Sitapati. Thank you, and over to you, sir.

Sudhir Sitapati: Hi, guys this is Sudhir here. We had a bit of a tech problem in our office and our MTNL lines are down. So, I'm speaking from my mobile. Am I clear and audible?

Moderator: Yes, sir. Please go ahead.

Sudhir Sitapati: Welcome to all. Though it could have been even better our, Q1 FY25 results are better than they seem optically. As we laid out in our Investor Meet in May'24, our strategy has been to drive volume growths in India and Indonesia through category development, drive EBITDA growths at a consolidated level on the back of improved profits in GAUM and LATAM through simplification. We also spoke about increasing our Total Addressable Market (TAM) in India. The quarter performance and our announcements are in line with the same.

Our organic volume growth in India were 8% (reported 10%) on a high base of 10%. Organic revenue growth was 6% and this should be the last quarter of negative pricing we see. We were able to achieve this despite cutting trade schemes on soaps and an unusually hot summer for household insecticides. EBITDA growth in India was 8% on back of some sharp and sudden increases in palm oil prices. We, however, think we will be able to recover this through the year without changing the quality of our soaps. Indonesia grew volume at 7% on a tough comparator of 12%. Due to a currency devaluation in Q1, the rupee revenue growth of 3% and EBITDA growth of 24% hid a much stronger constant currency revenue growth of 11% and EBITDA growth of 32%. We are hopeful that with the relaunch of Goodknight Liquid Vaporizer with RNF, India grows volumes slightly faster through the year and Indonesia sustains.

GAUM had an extremely poor quarter in terms of revenue and grew organic volumes at -21% and organic revenue at -25%. This was due to extreme currency volatility, the shipping crisis, some tough calls on pricing and a one-time distributor base in Nigeria. Given the high interest rate scenario in many African markets we may continue to reduce the trade stocks in the next 1-2 quarters and hence GAUM UVG may be under pressure, but this is neither having a material impact on offtakes nor on profits. Despite this drop in revenue in Q1 our EBITDA grew at 19%, taking our EBITDA margins to 14% for the second quarter in a row. In LATAM the story was similar to poor topline growth but high bottom-line growth. In fact, when compared to Q1'24 the revenue salience of GAUM + LATAM has fallen from 29% to 21% while the profit salience has actually inched marginally from 11% to 12%.

This led to a consolidated performance of -3% revenue (9% CC), flat UVG, 13% EBITDA and 14% PAT (before exceptions). Our organic growth was -1% revenue (11% CC), 2% UVG.

Our journey to increase TAM in India is also going well. Laundry liquids is growing exponentially as is sexual wellness. In both, we are seeing strong market share gains. Our launch into Body Wash has started well. On Deodorants, we remain positive on our business case in the medium to long term. However, living the principle of 'Tomorrow before today,' we have taken multiple simplification actions, thereby rebasing 10%-15% of revenue. Hence optically while the growth may look flattish for 2-3 quarters, there is good underlying momentum. We have seen sharp share gains in modern trade, ecommerce and rural but have however lost share in urban general trade. In hindsight it was a mistake to have integrated the Urban GT distribution and hence we are reverting to a more focused channel in urban GT for this category, which will also help us in some of existing products and future innovations. As a consequence, we may be slightly behind the profit targets we had set ourselves for FY'25 though we will still be much higher than the margins inherited.

We are today announcing the formation of Godrej Pet Care (GPC) a subsidiary of GCPL. Pet foods is already a INR5000 crore category with many decades of late teens growth ahead. To give a perspective only approximately 10% of Indian's own a pet of which only 10% feed packaged foods and that too only 40% of the time. Calorie conversion in India is only 4%. China, which was remarkably similar to India 15 years ago has 20% pet ownership today and a calorie conversion of 25%.

While the opportunity is clear, we believe that our right to win as a group is high. GAVL our group company is the market leader in animal feeds and has a good understanding of pet foods, R&D and competitive advantage in supply chain. GCPL will invest the entire capital of INR500 crore in GPC over a period of 5 years post which we hope to see GPC becoming cash positive. GAVL will be our manufacturing and R&D partner. Lead time to set up capex is long and we hope to commence manufacturing in the second half of next year.

We have appointed Mr. Nitin Jain as COO for the business. Nitin joins us from Mars and he has extensive experience in sector. We will shortly announce the appointment of a CEO as well for this company. Thank you very much and look forward to hearing your questions.

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

Abneesh Roy: I have three questions. My first question is on pet food. So here specific questions are what are the reasons for entering this? Second is, GAVL you said has good understanding of pet food. So could you elaborate what exactly they have done in pet food till now? And this category if you see has a different distribution than any other FMCG plus it does have a very strong one large MNC and Nestle has also entered a few years back. So what will be our right to win here given our distribution, our understanding of this space till now is not there?

Sudhir Sitapati: Thanks, Abneesh. I think let me answer the three questions one by one. The reasons for entering the pet space. The opportunity is large. I think all of us know that it's already a large category growing fast, will become very large. It's globally a reasonably good, high-margin category. So I think the size to win is reasonably large.

I think in terms of our right to win, it's still early days in the business. It's currently a two-player game. Typically, you can perhaps see a few more players still being able to create value here. We ourselves at GCPL have good consumer understanding, good marketing understanding, good distribution in some channels where Pet Care sells, E-Commerce and a little bit of Modern Trade but mainly E-Commerce.

We have to build distribution in specialty pet stores, but we broadly understand the principles of FMCG marketing and distribution and consumer understanding. GAVL has two advantages. One is the animal feeds business and the fish feed business has similar manufacturing technologies to what is required in pet food. Secondly, the raw materials for Pet Care which is chicken, corn, et cetera, these are raw materials that GAVL is one of the largest buyers in India off and they have a good outstanding of the cost and commodity.

So I think from a supply chain point of view, GAVL understands it well. From a marketing and sales point of view, we have the ability to understand it well. About half the category is in specialty pet stores, which are few in number, will grow rapidly in the future, and we will have to build distribution there. The rest of it, we already have a distribution presence.

Abneesh Roy: Sure. My second question will be on the Raymond business. So you briefly alluded to the Urban GT, slight change in distribution, which I think you are planning, and there has been some market share loss. If you could elaborate why did you choose to do what you did? And what is the change now which will happen? And you also mentioned there was obviously some portfolio rationalization. Would you need to bring back some part of that portfolio back in the Urban GT? And when you mentioned slightly behind profit expectation, could you again tell us FY25-26, what kind of sales growth and what kind of EBITDA growth or EBITDA margin will be possible, given these changes which you'll now do in terms of Urban GT or maybe some other change in the portfolio?

Sudhir Sitapati: Okay. I was saying that when we did the merger we kept the OTC system, which was the chemist distribution channel separate for condoms and that's worked quite well for us. What we did was we merged the entire GCPL system and RCCL system across channels. It worked for us in Modern Trade and E-Commerce where we've gained share. For example, in the two top Modern Trade channel stores we have gained close to 1,000 bps of share. In Rural, we have gained market share, but in Urban what happened is that the footprint was actually pretty similar to our footprint. And there are specific cosmetic stores that do a lot of deodorant sales where the task is more selling than distribution. So our realization is that in Urban cosmetics, we need a more specialized selling channel, and we have started rolling that back. So that's the reason that we're doing and that's what we did.

When we inherited this system, it was roughly INR60 crore EBITDA business. We wanted to do EPS accretive by the end of this year, which is about INR160 crore. We may do anywhere between 15% to 20% short of that. Maybe we may do 15% short of INR160 crore is what we may end up doing. So significantly ahead of the EBITDA that we inherited, a little behind what we wanted to do.

Abneesh Roy: Sir, last quick question on the Household Insecticides business. So HIT Spray Matic looks very interesting. So here, the molecule again will be the same RNF. And given this is an industry-first, is there any other market globally where this is successful?

Sudhir Sitapati: So I think there are two questions here. We'll move the molecule over a period of time. We have not yet moved HIT to the RNF molecule, we have not yet got clearance for it. So right now, we're using the older molecule which are higher dosage than the regular things. So HIT doesn't contain the new molecule yet and when we migrate HIT and maybe a few months later, we'll migrate Matic as well. So it's part of the journey, but it's the old molecule.

No, we don't know of any market where the HIT Matic product is big as things stand today. We, however, do think, in E-Commerce we've launched it and during Amazon big day and we've been quite surprised with the result that we've got on it.

Abneesh Roy: Sure. Thanks. That's all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Aditya Soman from CLSA. Please go ahead.

Aditya Soman: So two questions. Firstly, on the Africa EBITDA that you said has improved. Does this include the amount that we received from the entity that we sort of franchised out? That's one. And if we were to exclude that from the EBITDA, then what would be the underlying EBITDA of the businesses that we retain?

And secondly, on GAVL, when we've done this pet food launch, how would the transactions with GAVL work? I mean in terms of transfer pricing or will there be a JV with GAVL, I didn't get that clearly and lastly, on deodorant, just to clarify, how much would be the proportion of Urban GT as a proportion of overall deodorant sales?

Sudhir Sitapati: Okay, three questions. Firstly, the amount that we have received from EBITDA from the entity where we are getting royalty is very minor in Q1. We've only consummated the transaction towards the end of Q4. I don't know the exact amount, but it's almost nothing. So I don't think it makes any difference to the EBITDA in Africa. EBITDA in Africa has done well, mainly because of cost cutting, right pricing, right shaping the portfolio, et cetera. So that's been the driver of the EBITDA. And when we talk EBITDA, just to clarify, we're always referring to EBITDA plus forex which we've always done in the past. So actually in a way, 21% decline is painful, but in the context of the role of Africa, ~20% profit growth despite a 20% decline in revenue is actually a good thing. Getting to mid-teens margins is a pretty good thing in Africa.

Coming to the question on Pet Care, with GAVL, we don't have a joint venture. GAVL will be our exclusive supplier. So we have a transfer pricing agreement along with a small management fee to GAVL which will be a supplier to us, pretty much like anybody else, but an exclusive supplier.

And your question three on Urban GT, it is about 30%, 35% of the business. So it's not a huge part, but it's still a large part.

Aditya Soman: Very clear. Thank you very much.

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

Percy: Just wanted to understand this Africa performance, even after removing the areas that you have franchised out, even after that, on organic basis, the performance is down. So I understand you mentioned this is a pipeline correction. Just wanted to understand, again, is this mainly in Dry Hair or is it in the Wet Hair products, and if so which are the main geographies where this is? And is it just a normal pipeline correction that the pipeline was too bloated or are you changing something in the distribution system due to which this is required?

Sudhir Sitapati: Percy, it's a combination of some of the reasons. In South Africa, we were hit a little bit by the Red Sea crisis and the shipping crisis and those volumes are coming back in July. In Nigeria, it's a combination of two things. One is last year in the same quarter, we had appointed a national distributor, so we have given some primary stocks there. But more important than that, for the first time in Nigeria, we saw currency appreciation. Normally, we have been seeing currency devaluation in Nigeria. So when currency depreciates trade tends to stock up because for them stocks are like currency because prices are constantly going up, they like to sit on 60 to 70 days of stock. What we saw in Nigeria in the previous quarter was wide swinging of the currency. It went from NGN 1,200 to NGN 1,800 then came back to NGN 1,200. So for the first time the currency actually appreciated to the dollar and then it settled down at about NGN 1,500-1,600. So in an appreciating currency nobody likes to keep stock because prices will fall and then their stock will not worth much. So what we saw was massive down-stocking of retailers in Nigeria. We don't think it has affected offtakes or market share. So we think both these are temporary.

We also used this opportunity partly to correct our portfolio to sort of reduce low-margin SKUs, to take up some prices. So first get the health of the business in shape. Our objective was to get this business to 15% EBITDA margin and we're sitting at 14% this quarter. So we're quite happy with that. And we don't think there's any offtake loss and as a consequence of all these, things will recover and we'll anyway be a substantially more profitable business than we were last year in Africa.

Percy: So this pipeline correction, do you think that pipeline will build back or this is a permanent correction?

Sudhir Sitapati: It may or may not build back. It depends on how much the currency depreciates. Because if the currency continues to depreciate in Nigeria, which it doesn't seem to be, it seems to be moving towards stability, then trade will stock up. If it doesn't and it remains stable, what they were sitting on was too high, maybe it will go up a little bit. But I would say these are all on the margins, Percy, I'm saying offtakes are what they are, and the hit has been taken in this quarter. And there might be a little bit more hits in the future quarters in terms of revenue and UVG but I'm reasonably certain it will be profit accretive or profit positive.

Aasif Malbari: And Percy, if we were to add just an additional piece, the interest rates in West Africa also has significantly increased. As we speak, in Nigeria, interest rates are anything between 27% to 30%; in Ghana, we are at 30% plus and some bit of the cost of borrowing is higher. So it's in everybody's interest to run a more efficient operation with lower stocks as long as offtakes are not impacted.

Percy: Understood. Coming to the Indonesia business, it was at one point of time struggling and then FY '24 has been quite good, margins, top line, everything has recovered. Can you give some idea on what is happening here in terms of the different segments that you have? I believe, HIT last year did very well. So, do you think it can continue to sort of grow at a high pace and therefore, pull up the overall business? Because I believe last year, HIT growth was significantly ahead of the rest of the business in Indonesia. And in fact, I don't know if I'm deriving this correctly, but excluding HIT, the rest of the business did not really grow much. So what's the prognosis there for the future quarters or future years in Indonesia?

Sudhir Sitapati: So firstly, Indonesia, as I said, grew 7% volume on a 12% base. Anywhere between 6% and 8%, we'd be quite happy with Indonesia in terms of volume growth. Margins have to inch up and they have gone up, grown EBITDA even in rupee terms it has gone up by 24% and in local currency rupiah by 32%. So our strategy in Indonesia is to be in this type of high single-digit range and to take our EBITDA margins closer to 25% from roughly 20% that's they're right now.

I think this year the growth has been more broad-based. Last year it was only HIT. This year, Stella, which is the other big part of the portfolio, has also done very well. So unlike last year, this year, I think, Stella will grow slightly faster because we've got this big business and then a host of small businesses. So it appears to be more broad-based growth in Indonesia this year.

Percy: And one quick question on your innovation rate, however you define it, what is the contribution of new products? And also let me know what your definition of that is?

Sudhir Sitapati: I mean we have a technical definition, which is launched in the last three years and incremental turnover, I don't know the exact number, but we've launched in the last 1 year, three or four big innovations. We launched Incense Stick, which is doing extremely well, especially towards the end of Q2, beginning of Q1 was a bit hot.

We launched Laundry Liquids which is also doing very well. And the third thing that we've launched in the last 1 year was Aer O, which is our car Air Freshener, which you will see all over cars, that's also doing well. So we've got three blockbusters that we've launched in the last year.

We've launched two new innovations this year, one was Cinthol Body Wash and it's a strategic play to upgrade Soaps to Body Wash, and this is our second entry here into Body Wash after Magic, which didn't do so well. That, again, we launched it in Tamil Nadu and in E-Commerce, early signs are good and we've launched HIT Matic which is the automatic HIT spray, which also the early response in E-Commerce has been good. So I would say in the last few months, three big innovations. We're also moving to fewer innovations. So we do only one or two innovations a quarter, a few a year. But last year, I would say all these three have new big hits for us. And of course, driven 8% volume growth, in the context of a hot summer with Household Insecticide is not easy to drive without these innovations.

Percy: Sure. Thank you.

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

Harit Kapoor: I just had three questions. One was on the pricing. So if you look at this quarter, the India pricing is close to negative 2%. While you did mention that this is the last quarter of price deflation, how do we see pricing going forward over the next three quarters in India? Do we come back to pricing growth? If yes, what's that kind of ballpark? That's my first question.

Sudhir Sitapati: So the answer is, from this quarter onwards, we should get pricing now sequentially. By the end of the year, it will be a couple of percent. So if you end up with a high single-digit volume growth for the full year, I expect to be at low double-digit value growth is what I expect and I hope for. So we will get a couple of percent. By Q4, it may be quite significant also. But overall, for the weighted average for the year, maybe 2%, 3%.

Harit Kapoor: Got it. And this would largely be Soaps or across categories?

Sudhir Sitapati: Largely the delta is on Soaps. The rest of it, even last year, we got some pricing growth. So the delta will be on Soaps.

Harit Kapoor: Got it. Second question was on the LV launch. So if you could give us an update of how far ahead are we on having put it in the markets now? And also, is there any kind of impact that we see when we put out a new LV in and you have to phase out the old one? How do those dynamics work between quarters?

Sudhir Sitapati: So on that, Harit, we've just launched it on July 1 and we are just launching it across country. Honestly, the real results of the LV will be known only 5 to 6 months from now because these things in India take time because there is old LV in the market, that gets moved, then this moves in, then consumers try it. Then they see a material difference, they tell their neighbours or they see the advertising and then buy it. So if we're lucky, 4 months; if we're not, 6 to 7 months is when we hope we start seeing results here. There's no problem on phasing in and phasing out because it's a replacement. The LV, which is a liquid is the same. The machine also is functionally the same, aesthetically it's different. So there is no problem of phasing in and phasing out.

Harit Kapoor: Got it. And last question is on India margins. This quarter, it's been in similar range as last year. We do have a big kicker from the Raymond piece where even though you'll be below 15%, 20% below your numbers, at an absolute basis, you'll be more than doubling EBITDA. So optically, EBITDA margin also, that kicker is there. How do we think about it for the balance part of the year? Is the non-Raymond business we expect to be in similar range as last year or will pricing give us some benefit, etc?

Sudhir Sitapati: Actually, without getting exact, roughly we should be in net positive EBITDA. That's what we've roughly done this quarter. That's what I think we will do in future quarters. Remember that Raymond while giving us a delta EBITDA, it comes in at a lower EBITDA than average. I mean there will be quarters in which it will be 50 bps less and more. But roughly holding on 20s EBITDA is doable. There is a bit of a headwind in terms of palm oil prices which are not unusually high, but they are higher than what they were last year. It gives us some opportunity in terms of pricing. But it is probably still a bit higher so that's the headwind which we'll navigate through cost savings, etc. So I would say that no major change in EBITDA from where we are right now. And I hope in EBITDA a slightly better volume growth than 8% is what I hope for the next few quarters, slightly better.

Harit Kapoor: Got it. Wish you all the best to achieve that. Thank you.

Moderator: Thank you. The next question is from the line of Vishal Gutka from HDFC Securities. Please go ahead.

Vishal Gutka: My question on Liquid Detergent. So one of your competitors has launched at a significantly lower price, I think a new Liquid Detergent. Do you think there is a scope for you to rationalize the prices further to drive conversion or are you okay with current numbers? And secondly, if you can give any color or comment on other two brands that is Genteel and Ezee how are they performing within the overall liquid in portfolio?

Sudhir Sitapati: Yes, we have now three brands in Liquid Detergent. We're doing very well in Liquid Detergents, we have three brands, Ezee, Genteel and Fab. Ezee is a specialist wash and it has limited growth because it's mainly used for woollens in the north during winter. So Q1 also is not a particularly big quarter for Ezee. With the other two have their own role to play. Genteel is positioned on gentle on clothes, Fab is positioned on whiteness, is bit of a value brand. So I think the size of price there is enormous. I mean it is genuinely enormous size of price from an HPC. So, I mean what others do is of less relevance and what important is the kind of growth that Liquid Detergents is seeing. We're participating, over a period of time, we'll figure out how to make respectable margins on this. So I think it's an exciting entry for us.

Right now, our objective is to build these brands in consumers' minds and to rapidly get some shares there and get some volumes. So I would say an exciting journey ahead in Laundry Liquids.

Vishal Gutka: One more question on the Soap side. So recently, HUL has re-formulated, or they have come out with a revised formulation in their Soap business. So how do you view that development? Do you think that you also need to change your proposition or formulation or it's too early to comment upon?

Sudhir Sitapati: See, it's not appropriate for me to comment on what a competitor does. But let me sort of reiterate our position on soap formulation, which has been the same for the last two decades. And the position that we have on Soaps formulation has yielded very, very rich results for us in terms of market share.

The BIS, the Bureau of Indian Standards defines quality of Soap based on Total Fatty Matter or TFM. So it says 76% TFM is Grade 1, 70% is Grade 2, 60% is Grade 3 and 40% is bathing bar. We broadly confirm with the government's view on quality of Soap. So we broadly believe that TFM is an absolutely important and essential component in quality and the margins, you know, margin go little bit here and there. We have for the last 20 years giving great value for consumers. We have done this despite extremely high commodity prices, we have not touched the quality of the Soap and we would not do that in the future either.

Vishal Gutka: Got it. Great. Wishing you all the best for future quarters. Thank you.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Indus Capital Advisors Limited. Please go ahead.

Karthik Chellappa: My first question is on Indonesia. What we hear from on the ground is there have been a kind of like a soft boycott of MNC brands in view of the geopolitical situation there. So from a competitive landscape point of view, are your competitors predominantly MNCs or are they local companies? And are you benefiting from this trend of a soft boycott in any of your categories? And just related to that, from a portfolio point of view, what percentage of your volumes or revenue will be HIT?

Sudhir Sitapati: Yes, I think HIT in Indonesia maybe roughly 30% to 35% of our portfolio on top of my head, but it's in that ballpark. There is a story I had heard it a few months ago, it was stronger than what it is today, it keeps growing. Our competitors are both Japanese and American. They are not necessarily well known as those. I can't necessarily say in the two relatively narrow sectors that we operate, this seems to be a big driver of choice in the market right now. It doesn't appear to be in any case.

Karthik Chellappa: Okay. The reason why I ask that question is if I look at your category-wise volume growth in Indonesia, basically, like Stella has grown double digit and your Hair Colors have also grown double digit, but it's only HIT which has grown single digit. But if it's only 1/3 of your portfolio, shouldn't the organic volume growth in Indonesia be higher?

Sudhir Sitapati: See, we have in Indonesia a tail of brands, which are B2B brands and very, very small brands, which are about 15% to 20% of our portfolio. Those are generally in decline, which we don't report to you guys. So we've got a brand called Carrera which is a car wash and a long tail of brands. So I suspect that the reason that your maths is not working out is that we've got a portfolio much more than those three categories. Individually it's small, but collectively reasonable size and structurally doing badly. I mean, they're not focused categories either for us.

Karthik Chellappa: Okay. And my last question is you have remarked that the agarbatti is scaling up well and gaining market share from the illegal incense sticks. Is this across states that you have launched in? Or is this like very specific to some states where it is doing better than others? Or how broad based is this launch again?

Sudhir Sitapati: Yes. See, we launched incense sticks in the end of Q4. And by the end of Q4, in the south, the season had got over. So it really sold only largely in the east and north. In Q1, generally in April and May and half of June, this category just doesn't sell, I mean, especially at the bottom of the pyramid. Then in second half of June and July it picks up, but what we are seeing is we are seeing broadly incense sticks on or better than our plan that we had set for the year. Like we're seeing Laundry Liquids, we are seeing significantly better, incense sticks we're seeing better than the plan we had set for the year is what our view is. It is broadly doing well across. Some ups and downs. In large incense sticks geographies, it's doing better; in slightly smaller incense sticks geographies, it's doing slightly less. But there is no immediate pattern of performance across the country we see different.

Karthik Chellappa: Okay. This is clear. Thank you very much and wish you and the team all the very best for the remaining quarters.

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

Jay Doshi: Now if I actually exclude RCCL then it looks like your India business margins have declined by about 250 basis points Y-o-Y, EBITDA margin. I just want to understand what is driving this and also your earlier comment that margins will be around these levels. So if you could sort of clarify what do you mean when you mentioned that margins will be around these levels for India business?

Sudhir Sitapati: I mean, look, we've got a sharp increase in palm oil prices as the quarter was turning and it's taken us a month or two to respond in terms of prices. So I would say we've lost a little bit of margins on Soaps in the quarter, but the cost increases on palm are not high enough for it to be worrying for the full year.

Aasif Malbari: And then to add on, I mean, I think the maths, we can kind of offline pick up, but it's not in sync with what you are mentioning. So yes, there has been a mild kind of impact on margin and we will get back to you regarding this.

Jay Doshi: Okay. Maybe my assumption for RCCL this year could be on the higher side. Understood. I'll take it offline.

Aasif Malbari: RCCL last year was acquired through the quarter, so there was only a particular volume in the base. So I mean, that impact in terms of base was also not as much. But we can take it offline.

Jay Doshi: Sure. Second is, what will be the positioning of your brand in terms of price point perspective versus the existing brands in pet food space?

Sudhir Sitapati: I think it's too premature to say that. I think what is adequate to say is that it's a large market opportunity, and we are not the kind of company to play at just the top of the pyramid or something small. If we play, we would want to play pretty much in the belly of the market. What exactly the positioning and price is, we'll figure out with time.

Jay Doshi: Understood. Thank you. That's it from my side.

Moderator: Thank you. The next question is from the line of Aditya Gupta from Tara Capital Partners. Please go ahead.

Aditya Gupta: A couple of questions on the pet food business. Sorry if you answered it earlier. So the agreement with Godrej Agrovet, I mean, would you be buying finished goods from there and distributing and marketing it or would work in progress come from there and some of the capex has to be done on your part? I'm guessing you will own the brand. So if you could share some additional color on what the agreement exactly is and what would you be buying from Agrovet?

Sudhir Sitapati: Godrej Agrovet will put capex and we will underwrite it. We will buy the finished goods from Godrej Agrovet, we have transfer pricing and a return on capital invested for them plus a small management fee and that is how we'd operate. So we will as a company, really be involved with sales and marketing and Godrej Agrovet will be involved in manufacturing and R&D.

Aditya Gupta: Got it. So this INR500 crore is more a operating expense capital infusion that you'll have to do over a 5 year period...

Sudhir Sitapati: I think there's a lot of work to be done. I think what also excited us as far as the category is that there's huge category development opportunity. We feel, over the last 2 years, we've developed some muscle around category development. And we feel this is a category that can benefit with category development. So that INR500 crore is not for capex. It's mainly for opex and marketing and sales investments.

Aditya Gupta: Got it. And last question on this. How is the margin structure of that industry? Because if you're going to make marketing margins on that, would you be able to make 20-odd percent margin like your India business in that category or the growth is too high and even if it's slightly lower margins, that works for you?

Sudhir Sitapati: See, globally, what we have realized is that this category seems to be 40% to 50% gross margin and anywhere between 15% to 25% EBITDA. So, it doesn't seem to be on average as high a margin as HPC businesses are. But I would say that it has to justify itself on its own return on capital invested. And we see, like Laundry Liquids, it is a really massive huge opportunity ahead and as a group, we are also thinking long term, it's not about 2 or 3 years, it's about what happens in a decade or two decades. Already this category, food itself is likely to be INR5,000 crore or in the vicinity of and last decade it has grown at 20%, and it's likely to continue in the mid to late teens going forward.

And I said penetrations are really lower right now. I mean dog penetration is low, packaged food penetration is low. So there's multiplier effect. It is like one of those exciting categories like Air Care and penetration is low of pet and pet food and consumption within those who are penetrated are also low. So you have three vectors of growth. And I think there's scope for a lot of people to grow and make reasonable money. I doubt this will be in the 25% to 30% EBITDA, which is where GCPL is.

Aditya Gupta: Got it. So basically, you're saying that 15% to 25% range is going to be split up between you guys and Agrovet?

Sudhir Sitapati: Yes, I mean, short term, I guess EBITDA is not very important for us. Short term, it's important for us to get volume, gross margin. We'll see EBITDA with time.

Aditya Gupta: No, that's fair. And obviously, to grow a category, you need to invest. But on a sustainable, let's say, 10-year out basis, that 15% to 25% range will also be split between Agrovet and you guys, right? That the right way to think about it?

Sudhir Sitapati: No, that won't because we are 100% owner of the Pet Care business and Agrovet is operating on a return on capital invested and majority of the value creation will remain with GCPL. It's not a joint venture.

Aasif Malbari: You should treat Agrovet in this as a co-manufacturer with all the risk and returns being in a subsidiary of GCPL.

Aditya Gupta: Got it. Perfectly clear. Thank you for answering the question. Have a good day.

Moderator: Thank you.

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

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