



“Godrej Consumer Products Limited  
Q2 FY '25 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Godrej Consumer Products Limited Q2 FY' 25 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 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 GCPL team. Thank you, and over to you.

**Vishal Kedia:** Good evening, everyone. Welcome to the investor call for Godrej Consumer Products Limited. For GCPL, we will have Mr. Sudhir Sitapati, and Mr. Aasif Malbari. We will start with opening remarks by Sudhir. Following that, we will go into Q&A. Now I welcome Sudhir for his opening remarks.

**Sudhir Sitapati:** Good evening, everyone. GCPL has had a good quarter given the headwinds of oil costs and tough consumer demand in India. Our Standalone business grew 7% volume, 7% value and EBITDA was flat. Our Standalone EBITDA margin at 24.3% is at the lower end of our targeted band of mid-20s and is caused entirely by high inflation on palm oil. The already high prices were further exacerbated by the import duty on oil. We think this is a short-term hit, and we will recover the margin through judicious price increases and stabilizing our costs over the next few quarters. Despite margin headwinds, we have not and will not cut media investments. Despite the drop in margins, we have held our A&P at 11.6%. In fact, if you include rural van operations, which gets captured in overheads, we have increased our brand investment by 100 bps.

As it has been our practice in the past, we will not compromise on the quality of our products by reducing TFM in soaps. We have been asked several questions by analysts on 'structuring' of soaps and while we do not comment on competitor actions, it may be worthwhile for me to spend a few minutes on our own view on structuring of soaps. Bathing bar as a category was introduced by the BIS in 1992, that's almost 32 years ago. It allowed reduction of TFM with a partly compensatory addition of synthetic surfactants. A bathing bar reduces not just insoluble fatty matter, which is used for structuring and not for cleaning, but also good soluble fatty matter. When the total math on surfactancy is done, a bathing bar cannot technically equal a grade one soap in cleaning, lather and sog/mush. A change in quality of the filler may improve peripheral sensorials, but it doesn't change this basic science and chemistry. In benign conditions, consumers may not notice when you reduce TFM and add structurants but in difficult circumstances like hard water, consumers do notice. For the last 30 years, we have known a structuring technologies, but we have stayed away from the temptation of the bathing bar category. From 2% to 3% shares in the early '90s, GCPL in volume terms is now in the mid-high teens and this is largely being in our assessment because of consistent adherence to quality standards. We are not going to revisit the strategy now just because palm oil prices are inflated.

The inflated palm oil prices, coupled with our view on ATL and quality means that our overall margins and volume growths may be range bound for the next couple of quarters. But we are sure that if we can continue to hold on to this high single-digit volume growth, despite soaps

volumes being under pressure and I talk about why soaps volume will be under pressure, EBITDA growth will follow in a few quarters.

I must add that high single-digit volume growth during a period of low soap growth, we grew volumes in soap even this quarter, but it is testimony to the strength of the rest of our portfolio, particularly noteworthy are the continued growth of Air Care, the rapid scale-up of Laundry, Incense Sticks and Sexual Wellness.

Indonesia continued its steady performance with 7% volume, 9% revenue and 17% EBITDA growth, driven by the core categories of Air Care and Household Insecticides. GAUM continued to have a weak top line quarter, but an exceptional bottom-line quarter. Organic volumes declined 8%, value declined 10%, but our reported EBITDA and forex grew at 33%. Our GAUM margins are now ~14.5%. On the back of macroeconomic stability returning in Argentina, our LatAm business performed well with 50% UVG, 46% USG and double-digit EBITDA margin. On both GAUM and LatAm, we are reasonably bullish that some kind of structural change in margins seem to be underway.

Our overall growth was 5% organic UVG, 5% organic USG, 8% reported EBITDA and 12% reported PAT.

Our re-launch of Household Insecticides with RNF molecule is showing clear green shoots in incense sticks and coils, which were launched a few quarters earlier. We are waiting for the results on electrics, which may take a quarter or 2 for it to be visible and as we speak, we are going in with a better molecule on aerosol. At the end of this month, our entire portfolio would have been revamped with superior formulations. Overall, we feel that we have stuck to our strategy of holding high single-digit volume growth in India and Indonesia and structurally improving profitability in International markets. We will continue to play on this strategy, while volatility in palm oil prices plays out over the next few quarters.

Wishing you and your family a very happy Diwali. Thank you so much.

**Vishal Kedia:**

We can now move to the Q&A part of the call.

**Moderator:**

Sure. Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask question may press star and one on your touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking questions. Ladies and gentlemen, we will wait for a moment while the question queue assembles. First question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

**Abneesh Roy:**

Congrats on the 7% volume growth in India. My first question is on the clear green shoots which you mentioned in the incense stick and in the coil. Could you elaborate on that? And is it more in the rural India, where any way FMCG is seeing a reasonable consumption revival. So how much is it because of the consumption revival and in the urban India, in the slump, in the lower end of the population, also are you seeing a decent recovery, not just in incense stick and coil, if you could comment on urban India slowdown in the rest of the 2, 3 categories?

**Sudhir Sitapati:** As you correctly said, we are seeing a slight bit of reversal in the sense that rural is now growing at ~2x of urban. But our urban is still growing reasonably well. And both coils and incense sticks have grown very well in urban as well. In fact on coils, we didn't launch RNF across the country. We launched it only in some parts of the country, 2 quarters ago for a variety of reasons. But what we are seeing is in the parts of the country where we launched RNF is doing better than the parts of the country that hasn't. I think that is pretty encouraging for us for RNF. It has taken six months, though. So given the fact that we launched electrics in July, we are hoping that by Q4, we will see results in electric. To be honest, last quarter, we had reasonably good seasonality on Household Insecticides as well. So there are a little bit of compounding factors. But I would say that the green shoots we are seeing are secular across urban and rural, but I wouldn't call victory yet, Abneesh on this.

**Abneesh Roy:** And second is of course, your pricing in incense stick is competitive, but what we generally see is the illegal segment offers more trade margins, trade discounts. So is that a problem, given, Kirana overall income levels are under stress. So they obviously will prioritize something which gives them more trade commission?

**Sudhir Sitapati:** Yes, Abneesh, what we've noticed is that the basic fix here is direct distribution. So when we look at our share of incense stick last month, we were roughly about 5% share in incense stick. It was only 10% weighted value distribution of incense stick, but 50% market share in outlets where we've distributed. So, in the case of incense stick, it's just a hard job of making sure that the product gets placed in an outlet. And once the product gets placed in an outlet, typically, the outlet keeps two products. One, will be a branded product, which will be us, and one perhaps is an unbranded product, which is higher margins, and this is how we think it will play. So our single-minded focus on incense sticks is to double and triple distribution because as we double and triple distribution, our market share will keep going up. As things stand today, we don't have much wholesale demand. So we've done well in incense stick, despite wholesale, but wholesale typically takes a year to come. First demand gets built, retailers demand it, you have to advertise it. We anyway are not going to play that kind of trade game. We are going to play a consumer game on incense sticks.

**Abneesh Roy:** Sir, my second question is on the India soaps. So this quarter, both the top two players have seen weak volumes here. So, second is, there is an urban slowdown across almost every consumption category, not just FMCG, there is slow down everywhere. So now when you say that next two quarters, volume growth for you in soaps will be soft. And I think market leader is also saying almost similar, although they are saying that recovery of the new disruption will take one or two quarters. It's not a specific comment on slowdown. Is soaps now a flattish kind of volume growth for the industry because see now price growth is happening, whenever a price growth happens, top two players always gain market share. So, in that context, shouldn't your market growth in soaps also revive?

**Sudhir Sitapati:** I think the value growth will revive. Sequentially for the last two quarters, we've taken pretty sharp increases in soaps. The soap volumes for the category tend to be in the 2% to 3% range. What we see when we take sharp increases is that in the short-term volumes fall, they may even become negative for a quarter or two, but the consumption doesn't really fall, people don't really reduce number of bath. Pipeline pin down when you take up prices, volumes recover. This

quarter, I must tell you that we grew volumes on soaps. It's not that we didn't grow volumes on soaps. We both grew volumes, value share, volume share, all of it we've done quite well on soaps. But from past experience, I know that when you cut grammage, when you take up prices, there's an immediate effect on pipeline. So there will be a little bit more pressure on soaps, but we hope that the other parts of the portfolio compensate for it, and we roughly remain around this kind of volume growth.

**Abneesh Roy:** Sir, last quick question on the premiumization of the portfolio and the liquid detergent disruption, which you have done, if you could share some data points in some of the key markets where liquid detergent has been quite successful? And in terms of premiumization, would you be worried given the urban slowdown or in fact, premium continues to do quite well. If you could comment on that?

**Sudhir Sitapati:** We are very happy with our internal performance on Laundry Liquids after many years. Ezee was a winter detergent, and we were losing share as it was a specialist detergent. We have started gaining share in liquid detergents. We are performing well ahead of our expectations on liquid detergents. It is a pretty big volume driver. It will only increasingly be so, which is what gives me confidence that we may be at this level of volumes, despite soaps becoming slightly negative, what we expect it to be for this quarter, maybe again 0 next quarter. But we're still expecting because laundry detergent has done extremely well. I don't really feel comfortable right now sharing market share data, except for the fact that we're gaining share and doing very well across markets.

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

**Vivek Maheshwari:** My first question is on HI again. On the LV, you're expanding it into across different geographies. In the geographies or regions where you've expanded so far, have you done consumer checks in terms of whether the consumer is noticing that the product efficacy is far better than what it was in the past? Can you just talk about any of the feedback that you have from the ground?

**Sudhir Sitapati:** Our feedback is general. See we launched LV in July. We've also done reasonably well on LV in this quarter, but have to be fair, it's also been a good monsoon and normally when the monsoons are bad, we let you guys know. So I mean, it is not fair for us to read into this quarter on the performance of LV, because this thing, to really read it, you have to take 6 months. We have done lots of store and consumer checks. We are very pleased with the consumer feedback on it. Consumers are able to notice the difference. It's a technical category. So we are very hopeful and bullish on this. But I would say we'll have to just wait it out in all humility till probably Q4 for us to give you a picture on whether it's working or not. Right now, we can say that incense stick is going as per plan, and it is a pretty significant volume driver for us, and it will remain so for the next couple of years.

**Vivek Maheshwari:** Okay. Got it. You have also explained well on your position on the soap, but just one quick thing. So, you mentioned about the quality part but is it that the fillers can help from a sensorial perspective in any way, sorry, it is a naive question, but I just want to be clear. The quality part understood, but sensorial part, do you think fillers can do better job than what you have?

- Sudhir Sitapati:** I mean, look, filler technology can do a less worse job than it was in the past. That is possible. You can have a filler that can kind of mask the impact of a filler. That is possible, see what is the sensorial consumers look for in soaps? It's a simple category, right? They're looking for lather as a measure of clean. They're looking for fragrance. They're looking for long lasting soaps which should not sog and mush. On these 3 fundamental things, the fillers can't do anything. It's a filler at the end of the day. Now if you put a filler, which is not very good, that can have a negative impact. So a better filler can have less negative impact than the worst filler. But on these 3 fundamental attributes, how can a filler make an impact.
- Vivek Maheshwari:** On Household Insecticides you mentioned about rural versus urban. When you look at the overall portfolio, are those comments relevant for the portfolio as a whole? Or is there anything else that you want to add between rural versus urban?
- Sudhir Sitapati:** See, rural has done better for us than urban as seems to be the general commentary from a lot of companies. We have also driven rural, as I said, almost 100 bps of margin we have invested in a massive rural van operation program, and that is yielding results. So I don't know how much of this is natural rural growth, how much of it is induced by us. But across the portfolio, it is true that rural is doing better for us. It's growing at ~2x of urban roughly.
- Vivek Maheshwari:** And is that because urban has moderated, that is also the reason, and rural has picked up as has been highlighted by some of the other peers of yours?
- Sudhir Sitapati:** I think in our case, I don't see urban is moderated. I would say rural has picked up. See, if you look at the composition of 7% growth and leave soap aside because soaps varies depending on palm oil prices between minus 2% volume and plus 4%/5% volumes. So if you leave soaps aside, it is 35% of our portfolio, let's say, roughly just about growing, the balance part of our portfolio has accelerated its growth to 10%. So when we have a time of benign palm oil prices and volumes go up on soaps as well, what I have been saying from the beginning, which is we have to inch up the business towards double-digit volumes. At least in the non-soap portfolio, we've gone there. So I would generally say, frankly, it has been an improved performance for us compared to our base rates in most categories.
- Vivek Maheshwari:** Okay. And the last bit, other expenses in stand-alone are up 20%. One of the reasons is the van bit that you highlighted. Anything else in that line item?
- Sudhir Sitapati:** No. I think it's mainly the van operations, which is a very large investment that is being made, which is coming in other expense.
- Moderator:** The next question is from Percy Panthaki from IIFL Securities.
- Percy Panthaki:** My first question is on pricing. It's in 2 parts. So one is on Household Insecticides. The volume growth is mid-single digit. Is the value growth also the same? Or is it higher by some amount? That's part A. Part B is in soaps, while sequentially, there is some price increases. On a Y-o-Y basis, is the pricing positive or negative in soaps? And how do we see this going ahead like in Q3 or Q4 on a Y-o-Y basis, will the pricing turn materially positive and that can sort of boost the overall top line of the company?

**Sudhir Sitapati:** Yes. we have some price growth on Household Insecticides. So our value growth is higher than our volume growth there. In the case of soaps, we have taken sequential price hikes and because of the nature of it, it's not visible. It is positive pricing this quarter also. Next quarter or this quarter onwards, we will see significant price growth and next quarter will be even higher. We do expect if we can continue this volume growth or even slightly lower in this kind of 6% to 8% volume range, we will see pretty significant price growth in the second half, and you will probably see growth past the double digits, probably bordering on the teens in the second half.

**Percy Panthaki:** Got it. Understood. Secondly, on Household Insecticides, I wanted to understand, see, despite seasonally favourable sort of factors, the volume growth is around 5%. So I mean, how should we look at this category now because, let's say, the seasonal impact here is huge. In the past where the season has been bad, the negative impact has been as high as 5% to 10%. So a positive impact even if I assume it so, let's say, 3% to 5% seasonally positive impact that's a 0% to 2% kind of growth in absence of the seasonality. So what is really wrong with this category because we have always maintained that this is a category in which penetration is low, premiumization we can do, et cetera. And now we have put in so many initiatives, we have democratized the hit liquid at much smaller size. The HI also, we had launched at a much smaller size. Now we have done incense stick. We are rolling out the new molecule, et cetera. And still if the growth is only 2% ex-seasonality, I mean, is this an attractive category? Or how should we look at it? It's just general consumer slowdown, which is pulling it down?

**Sudhir Sitapati:** Not consumer slowdown. See, I mean it's difficult to say, this has not been a massively seasonal quarter or anything like that. Some slight seasonality is there compared to last year. Typically, the one that really affects us through this Q3, Q4. So, there's a slight seasonality in this quarter. I would say that this category has been growing 1%, 2% steadily I would add 1% or 2% on account of seasonality and about 2% on account of incense sticks. It's really hard for me Percy to say how much is seasonal, how much is not. I would say that mid-single-digit volumes and near double-digit value in Household Insecticides is progress. And I think these numbers have to get better every quarter once you start seeing electrics, starting to perform. So I would say that that's how we should look at it. We're actually quite happy with the Household Insecticides numbers this quarter.

**Percy Panthaki:** Got it. Lastly, on the International business, Africa has done very well with 30% plus EBITDA growth and margins are also up to 14% to 15%. What is your sort of medium-term margin target here? Are you looking at a 17%, 18%? Or is it something else? And on Indonesia, what is the driving the top line or the volume growth there, is it the distribution expansion in general trade, which is doing it? Is it some portfolio expansion? Or what is really the main driver here?

**Sudhir Sitapati:** I think in Africa we're running roughly a little short of 15% margin this quarter. We will shift to the high teens. Then once you get businesses in FMCG bordering on the high teens to 20's then you can single-mindedly focus on growth. So I would say that there's still some scope on Africa to probably expand margins over the next year or two. And that will still be our priority over the next few years and then probably move to top line once we structurally corrected the margins.

We've also benefited a little bit in Africa by a little bit more stable macroeconomic situation this year compared to last year. And I hope this kind of stays for some time. Indonesia is like India,

a pretty good economy. We are present in 2 categories, which are still quite underpenetrated. So I would say execution, both in terms of distribution but also increasing media spend is driving these categories. So 7% volume growth in an economy that's growing at 4%, 5% in 2 categories is what we should consistently get in Indonesia.

- Moderator:** Next question is from Karthik Chellappa from Indus Capital Advisors. Please go ahead.
- Karthik Chellappa:** Just 2 questions from my side. The first one is on the channel mix. So if you were to break down the 7% volume growth across, let's say, general trade, e-commerce/quick commerce and probably modern trade as well as direct distribution. How will that growth rate look like?
- Sudhir Sitapati:** See, I mean, look, the general truth is a truth for everybody and let's do the math. As I said, rural is growing twice of urban. Within urban, both modern trade and organized trade are growing and e-commerce are growing in the 20s. The salience of urban may roughly be a third. So there's definitely pressure on urban GT, which I think is across. I mean, urban GT is now facing a double whammy because partly by the disruption of quick commerce and partly by the slowing or pressures on urban consumption, I would say, urban GT is the one that is having a tough time.
- Karthik Chellappa:** So my question basically was on urban GT. From a point of view of urban GT ROI, are there any other special initiatives that you need to take incrementally to make it more viable? Or has that adjustment already been done for our portfolio?
- Sudhir Sitapati:** Yes. I mean, look, we have to certainly consolidate, manage the efficiencies. Urban GT, it is very little we can do about channel growth. We have to make sure that our partners are happy. We have to try and keep rates balance between urban GT and organized trade. We have to keep stocks in relative control. So I guess these are the kind of way to drive for efficiency in urban GT because while it's doing badly, it still remains a very large part of our business.
- Karthik Chellappa:** Got it. My last question is basically on Household Insecticides. So assuming the current demand conditions hold, and let's say, where they are. And in 1 or 2 quarters, if our LV distribution is complete, what kind of volume growth can we expect?
- Sudhir Sitapati:** See I mean this category, honestly, it should grow in the high single-digit volumes. So it has traditionally been in the low single-digit volumes. This quarter, we've done mid-single digits, maybe some season, maybe not. And for us to call it successful, we have to have a few quarters of high single-digit volume growth. Then we say, look, this is the potential of this business and with a couple of percent of pricing, double-digit growth is what we should aim for this business. We are kind of on that path. Another couple of percent we should get as first LV and then aerosol is where we are relaunching, they start to pick up.
- Moderator:** Next question is from Rishi Mody from Marcellus Investment Managers.
- Rishi Mody:** Sir, my first question on the soaps front. On the Q-o-Q basis, have we had volume growth? Or have we seen a volume decline?
- Sudhir Sitapati:** We have seen volume growth, but not by very much, which is, by the way, I think is significantly higher than the market.

- Rishi Mody:** Okay. So you're saying the secondary is higher than the primary sales?
- Sudhir Sitapati:** That is also the case, but even our primaries are higher than and, whatever we see in Nielsen, whatever we hear, we are certainly performing well.
- Rishi Mody:** On the RCCL portfolio. So, I remember when you acquired it, you said distribution will be the first leg in which you'll get the portfolio ramped up. So in terms of the number of distribution outlets or the account, how much has it increased post your date of acquisition? I remember you all were like 30% below Vini cosmetics distribution and 25% of GCPL distribution. So today, where are we?
- Sudhir Sitapati:** So on RCCL, I think I mentioned in the last call, we've got some things right and some things wrong. The things we've got right are the Sexual Wellness is doing very well. Our Deodorant in organized trade is doing well. In rural, there has been significant increase in distribution. In urban general trade, we made a few mistakes in distribution. And in several states, we are now reverting back to a specific channel for the Deodorants, which we did in the last quarter. So I would say that there's still a little bit of work to be done in RCCL. As a consequence, we will probably be slightly short of the EBITDA number that we had promised at the end of this year. We acquired this business if I'm not mistaken with about INR70 crores of EBITDA. We had said we will do about INR140 crores, INR150 crores of EBITDA at the end of this year. We may be slightly short of that, not massively short, but we may be short of that.
- Rishi Mody:** All right. On the hair color front, I saw you all posted double-digit growth. So just wanted to understand, is it the primary sales and the secondary sales will take off in the marriage season or the festival season? Or even the secondary sales is double digit.
- Sudhir Sitapati:** I think secondary is also double digit. In general, secondary have been ahead of primaries in this quarter for us.
- Rishi Mody:** If you could explain why is it double digit, like because no other marriage linked consumption has shown strong growth in this quarter. So I'm just trying to understand.
- Sudhir Sitapati:** Last year, what has happened is there was a double Shravana month. So we're lapping a relatively low base.
- Rishi Mody:** Okay. All right. Understood.
- Sudhir Sitapati:** Normally in Shravana, people don't cut their hair in the West. Last year we had 2 Shravana months. So that was a low hair color base. And so on that we did well.
- Rishi Mody:** All right. So like it's a one-off benefits or a base effect rather than a longer-term trend
- Sudhir Sitapati:** Yes. But certainly it's a higher hair color than usual. As I told you, secondaries are higher. On the long term, we may be slightly lower than what we are this quarter.
- Rishi Mody:** Understood. And finally, on the Africa business, are you targeting high teens EBITDA margin? Is this going to be on the existing portfolio? Or are you going to sell off or shut down a few more

businesses and hence get to that margin? Or any plans of selling off any more of the Africa businesses?

**Aasif Malbari:** I think we've done whatever geography restructuring has been largely completed. There are certain other projects, which we believe we'll be able to be to drive efficiencies in terms of supply chain and other projects. Those will kind of happen but nothing on the ground of what we had kind of done in the past. So to kind of come to the straight answer, it will be on the existing business. We will obviously add more levers to growth like FMCG brands.

**Moderator:** The next question is from Amit Purohit from Elara Capital. Please go ahead.

**Amit Purohit:** Yes, I just wanted to understand on the soap category a bit better. I want to find on what would you share of these regional or unorganized brands in the overall category? And assuming that these players may not be the grade 1 soaps. What has been their response as of now given the palm oil prices have gone up. And do you think there is a likelihood of an increased competitive intensity from them as well as the leader is also looking at very aggressive pricing and all. So just wanted to know your thoughts on this?

**Sudhir Sitapati:** No. I mean the regional players over the last 15, 20 years in soaps have come down. I don't know the exact number, but I think it's up 10% now, and they're not what they used to be 10, 15 years ago. The category has now mainly become the national players. And in any case, even this, getting higher palm oil prices, they tend to become smaller and smaller. So it is generally in high palm oil prices branded players gained market share.

**Amit Purohit:** And they would have also taken price increases as of now?

**Sudhir Sitapati:** They would have. But normally, what happens is that they don't enter the market with lots of local players and palm oil prices get raised. So, they just don't manufacture because they buy noodles and kind of pack, if the price goes up, then their working capital goes up, so that becomes an issue.

**Amit Purohit:** And in the interior markets of, say, probably in North or so region, there the salience would be slightly higher, right?

**Sudhir Sitapati:** Mainly, the central belt is where they're strong. Chhattisgarh is where they've traditionally been strong and in and around those parts of the country.

**Amit Purohit:** Second question on Household Insecticides. What would the value growth you talked about mid-single-digit volume growth.

**Sudhir Sitapati:** Yes, we've got a couple of percent pricing. So it's bordering on double digits.

**Amit Purohit:** Okay. Is there price increase has been in the later part of the quarter and hence, probably some more benefits we will see in the coming quarters from a pricing perspective especially?

**Sudhir Sitapati:** Yes, I think in steady state, we will see some kind of pricing growth in Household Insecticides as well.

- Moderator:** The next question is from Nihal Mahesh Jham from AMBIT.
- Nihal Mahesh Jham:** A couple of questions. First, in case of RNF, you did highlight about the importance of scaling distribution, would it be fair to say that improving customer awareness of the superior efficacy is a key driver to gain market share and improve the growth? And how are we approaching this?
- Sudhir Sitapati:** Yes, it is. We have a very compelling claim, which is around it lasts for 2 hours after the electricity goes off. And we have been spending a lot of mass media, towards the end of August, September. Typically, we waited for a month after launching it. We will continue to invest heavily on this so that we can build awareness of the new product.
- Nihal Mahesh Jham:** Understood that. Second question is for Indonesia. We've seen a larger competitor that are obviously getting impacted because of route-to-market issues. Just in our case, would our initiatives in terms of getting our route-to-market sorted is more or less done and dusted with?
- Sudhir Sitapati:** Yes, I think so. I think we've had a very successful transition from branch to RD in Indonesia, and I think it's yielding us rich results in terms of distribution.
- Moderator:** Next question is from Harit Kapoor from Investec.
- Harit Kapoor:** Just one question on the margin. So, you spoke on the soaps cost pressures. I just wanted to know in India or internationally, is there any other pocket of RM-led cost pressure that you are currently facing or it's largely okay, margin and pricing should take care of it?
- Sudhir Sitapati:** I think it's largely palm oil only. There was last quarter a little bit on shipping and all, but I think that's been sorted out now. But largely, I would say, the inflation is on palm oil. Very recently, actually, with this import duty on palm oil, there has been a very sharp increase. But generally, palm oil is the problem this year.
- Harit Kapoor:** Even outside India?
- Sudhir Sitapati:** No, there's nothing outside India, which is why margins are very good outside India. Profitability is generally good. So there is no major inflation.
- Moderator:** Next question is from Jay Doshi from Kotak.
- Jay Doshi:** My question is on soaps. Now you have decided not to adopt the structuring technology, whereas the market leader has gone ahead with it. So if we leave aside the current inflationary environment in palm oil and assume that palm oil prices normalize during the course of next 6 to 12 months, even then the market leader would potentially have ability to offer more grammage per the soap versus what it used to be in the past which may result in widening of price gap between your product and their? Do you think that with that kind of equation, you would still be able to gain market share or hold market share like you have been in the past? Or you would like to maintain the price gap as it has always been, and which probably means that you may operate at a slightly lower margin on the medium-term basis?
- Sudhir Sitapati:** Over the last 7 years, we have gradually been taking the relative price index of our soaps compared to the market up and we have only continued to gain volume and value share. So

gradually our brands are becoming stronger. So our general strategy is to give the right value to consumers what we think is the right quality to command the margins, invest in building brands and get on to that virtuous cycle. That fundamentally doesn't change our view. It's not like our relative price index to the market has remained stagnant over the last 5 years. It has gradually gone up, in fact, pretty significantly over the last few years and hasn't had any detriment to either volumes or value relative to the market. So I think we will be determined by a principle of strengthening gradually, taking our prices as our brand strengthened, giving what we think is the best quality to consumer, doing what's right by consumers and slightly diverse from what others do.

**Jay Doshi:** Understood. That's helpful. Second is, could you give us some more color on the progress in laundry detergent and the road map over the next 12 months. You've expanded in new markets ahead of your original timeline. Can you offer some more color on what we should expect in the next years to come?

**Sudhir Sitapati:** Laundry Liquid is a really exciting category growing really fast. It's going to be one of the largest FMCG categories and I think now with Fab and Genteel, along with, of course, Ezee, which is already a big player. We have 3 brands in the portfolio, and we are going to play Laundry Liquid seriously. We were the pioneers in Laundry Liquid. We're going to play this aggressively. Ezee is a high-margin player, and this category may be margin dilutive, we have to find ways of funding it in the rest of the portfolio. So this will be a growth driver for us going forward. As it surprised us this year itself. But I think it will continue to be a big growth driver for us.

**Moderator:** Next question is from Sheela Rathi from Morgan Stanley. Please go ahead.

**Sheela Rathi:** Sudhir, I just wanted to understand this better. With respect to your comment on rural growth being ~2x urban growth, in terms of category salience, is it fair to say that soaps, hair color and maybe now even incense sticks would be the key driver of rural growth or is there any other category which has done specifically well for us in this quarter?

**Sudhir Sitapati:** No, I think most categories in terms of volumes have done well. Air continues to do well. PAKS in terms of volumes continues to do well. Slightly below our expectations, but nonetheless, it's done well. Laundry Liquid does extremely well for us. Hair Color has done really well. And Household Insecticides has done moderately well for us. And soaps has been a little bit not disappointing, but what is to be expected in high inflationary times. Magic has done well for us. So combination of these has given us pretty good numbers.

**Sheela Rathi:** And historically, Sudhir, what would have been the salience of certain categories in rural? I mean, is the mix changing for us?

**Sudhir Sitapati:** Yes. I mean I do feel like GCPL's portfolio, except for soaps is a rural forward category. In the sense, we have traditionally been under-indexed to rural. And time has come for us to really expand our rural distribution. So we have put 100 bps of margins. I think I spoke to you in the investor meet as well. I think we're now touching 60,000 more villages and 200,000 outlets. So massive rural distribution increase, again, this is costing us. It's not widely profitable in year 1 and 2. But we do believe that our portfolio, Household Insecticides, Hair Color, Crème,

Air, Laundry Liquids, all of these have a tipping point in rural. So we're quite happy with the fact that rural markets are back, and we will play this game aggressively in rural now.

**Sheela Rathi:** So this is going to continue for us now. I mean, even going ahead. Just second question was on incense stick. You talked about our market share being 50%.

**Sudhir Sitapati:** Not 50%, Sheela, I said that our market share is 5%, our distribution is 10%. So in the outlets where we are distributed, our market share is 50%.

**Sheela Rathi:** Yes, absolutely. So what is the distribution reach currently? And what is our interim target?

**Sudhir Sitapati:** Firstly, we have to do direct distribution and complete the job on direct distribution. Then we've got to get wholesale to buy. That will take some time. Over the next 6 months, we will saturate direct distribution. Then once we saturate direct distribution, we'll have to wait for demand to pick up and then rural will really see 3 quarters of distribution in this category will come through wholesale. So, at the end of the day, whatever we do, we get a quarter distribution directly. So that 10% distribution, we can move it directly to 20% or 25%. Then to go to high numbers, we had to wait for wholesale, which will pick up. There's a method in this.

**Sheela Rathi:** Any markets in specific we are focusing here?

**Sudhir Sitapati:** No, I'm saying across the country, incense stick is doing well, Sheela. Initially, it was not so well in the South, but now it's picked up in the South. So across the country, incense stick is a big category.

**Sheela Rathi:** Another question was on QC, quick commerce. What part of our portfolio is doing well on QC? Or have we created a separate portfolio for quick commerce? How are we thinking about this strategy?

**Sudhir Sitapati:** See, quick commerce is generally beneficial to us. Our margins are higher in quick commerce because pricing is higher in quick commerce. Quick commerce generally is not a long-tail business model at least so far. So it is a top brand in each category that does well. So quick commerce has been generally accretive to us. Our market shares in quick commerce are generally higher than they are in, let's say, regular e-commerce because there's no long tail. It's not in that model. So quick commerce has generally been good for us only. And we welcome the fact that many e-commerce players are moving to quick commerce. We're very, very serious, very, very focused on quick commerce.

**Sheela Rathi:** Understood. And lastly, final question is on India standalone margins. It's in the lower band of our own estimates. Is this the bottom? Or can we see some margin deceleration in the coming quarter?

**Sudhir Sitapati:** I think it may be around about this level a little bit here up and down. I don't know for maybe 2 quarters. So it may be in this between 24% and 25%. It's hard to say exactly how much because the palm oil prices are extremely volatile, and we can't respond to it. And the reason I'm not committing is that the easiest thing to do is to cut media to get a target EBITDA margin that we don't want to do. We would rather drop EBITDA margin than cut media because we know that

EBITDA margin comes back and then that media helps you in the long run on volume growth. That's why it's a bit hard. Otherwise, it's just a balancing number. If you have a target EBITDA margin then it's relatively easy to cut ATL, but we don't want to do that.

**Moderator:** The next question is from Jitendra Arora from ICICI Prudential Life Insurance.

**Jitendra Arora:** Two questions from my side. One on the hair space, like entering new formats, in the form of spray as well as some powders. Do we intend to launch these? Second, in terms of inventory, how would and this is across the value chain. How would e-commerce differ from general trade?

**Sudhir Sitapati:** In terms of inventory held by the various channels, is that the question?

**Jitendra Arora:** Yes, by the entire value chain, whether you are a distributor and then the retailer. And finally, across channels, how does the number of days of inventory change? And does it make our business more profitable in quick commerce?

**Sudhir Sitapati:** Look, on hair color, actually, see our portfolio, it's very clear that we have to move this category from powders to Creme. That is the future. That is how most global countries are. We have a pretty large powder business, and that is actually declining at 15%, 20%. That affects the growth numbers that you see. Actually, the Creme part of the business is growing really well. It gets hit by the fact that we have a Godrej powder, we have a Nupur Mehendi, which are slower parts. But we are not looking at defending what is yesterday's category. We are going to grow Creme, and our aggression is really on Creme and distribute for those consumers who want powder. So, we don't advertise powders. But over a period of time, we expect this country to move entirely from powders to Creme, and we want to be the company at the forefront of that.

As far as inventory on various channels goes, I'll have to revert to you. I know what it is in GT, which is typically GT carries about 20 days and our distributors carry 12, 13 days. So, there's about 32 days in the overall channel in general trade. Let me ask Vishal to revert to you. I don't know how much inventory e-commerce carries for us. I know we tend to carry more inventory for modern trade because demand is more volatile. I don't know the exact numbers. We will revert to you with the exact numbers. But thanks for asking that question. I also should have anticipated that.

**Jitendra Arora:** Sudhir, on hair color, my question was actually moving to more premium formats like hair sprays?

**Sudhir Sitapati:** So we have to premiumize this market. You're right. So we are at Crème, One of the things that we as a company have to do is to premiumize hair color. Right now, I must tell you that the bulk of the game is still to move from powders to Creme. So we have at least 5 to 10 years of that value driver remaining in India. But as we do that, we have to think about the future as well. Sorry, I missed your question. I don't know, there was some disturbance in the line. Does this answer your question? We don't have an answer for it. We have to do it. It is important but not urgent.

**Jitendra Arora:** Yes. No, simply, I was asking more because of the fact that in quick commerce, we've seen a lot of premium products taking off because of kind of clientele we are targeting. And so that's why one can start at multiple fronts and just wait for it

**Moderator:** Next question is from Percy Panthaki from IIFL Securities.

**Percy Panthaki:** I just wanted to understand from you how you're looking at the consol EBITDA growth for the second half, like this quarter, you have done 8%. Would it be a fair target to sort of expect the same in second half? The reason why I ask this is that your base effect in second half is more adverse compared to what it is in first half. Is that like a normal seasonality and therefore, the Y-o-Y growth should have continue? Or the Y-o-Y growth will dip given that the base effect is getting more adverse?

**Sudhir Sitapati:** See, Q3 last year in India, we had close to 29% EBITDA in our base, which is an exceptional unusual quarter. So, this particular quarter will have very poor EBITDA in India. But the next quarter, which is Q4, we should get back to pretty good EBITDA because I think the percentage EBITDA may remain roughly where they are or go up a little bit, we hope, provided palm oil prices remain at this level and don't further inflate, which you never know. So ,if that happens, Q3 will be tough on Y-o-Y on EBITDA, but simply because of the base of India of 29%. And then I'm hoping by Q4, we'll start to see some sequential improvement in EBITDA because we've taken one round of pricing. We hope that after Diwali, perhaps palm oil prices may soften. So I'm hoping Q4 is better.

**Percy Panthaki:** Understood. Although my question was on the consol EBITDA.

**Sudhir Sitapati:** We will have better margins. In Q3, generally GAUM does better because it has a higher seasonality there. So, I would say that this quarter, consol EBITDA margins will be significantly lower than what it was in the previous quarter. Q4, it may be higher. But between the 2 quarters maybe roundabout what we got in the first half, maybe a little less.

**Percy Panthaki:** Got it. Okay. I also just wanted to understand on the import duty you mentioned, my understanding was that the import duty is on palm oil. It doesn't really affect PFAD, which is what you import?

**Sudhir Sitapati:** See, we use CPS, which is crude palm styrene is a large component. Import duties on palmolein and on crude palm styrene firstly. So there's 20% incremental duty on CPS, which is a large part of the basket. What has happened as a consequence of the import duty on styrene, and I don't know fully why, but I can hazard a few guesses is that palm oil has also moved up, not to the same extent that crude palm styrene has moved up, but it has also moved up, partly because I also read that imports in September of palm oil in India crashed. A lot of PFAD is a byproduct of CPS in India. So if you import less palm oil, PFAD falls. So while CPS inflation has been to the tune of just in the last 2 months, 25% sequentially, PFAD has also gone up by about 10% sequentially. So not the same as CPS but has also gone up. So the overall market has gone up pretty sharply in the last 2 months.

- Percy Panthaki:** Understood. So with the price increases that you are taking, will you be able to offset the impact of this incremental inflation you have seen in the last 2, 3 months? Or we should see that margins can actually fall further versus the margins that you have actually clocked this quarter in soaps?
- Sudhir Sitapati:** There are a bit of catch-up there. So even in the last quarter in Q2, inflation has happened we've been following there. We didn't entirely take it. We're taking it again this quarter. Next quarter, we again take it. So, I would say that it's really hard for me to give an exact number, but I would say that we are behind inflation, but I hope to be kind of as behind as in the past, not to widen that gap unless there's a further increase in PFAD, then we can't do much about it.
- Percy Panthaki:** And lastly, just wanted to understand this rollout of distribution, both of incense stick as well as the new LV. I mean, at least in the direct distribution, which you are already tapping why should it take 6 months to roll this out? I mean, this should be near immediate to roll out in the outlets where your salesperson is already going with just 1 or 2 more new SKUs?.
- Sudhir Sitapati:** So on LV, the time is not 6 months because of distribution. LV is 6 months because when you make a new product, the offtakes take some time. Like in the case of coil, it is not a distributor issue. In the case of incense stick, somebody asked the question that the margins that we're giving to trade is a lot lower than what the local give. So, there is some kind of trade resistance, and we have roughly covered half the outlet we want to cover with incense sticks. You're selling it at 25% more premium to a local, Agarbatti. So it's not an easy thing that they're already keeping you or they're keeping the category or selling the category. So it's a slightly slower burn than, let's say, LV will be.
- Percy Panthaki:** Right. But even in LV, I understand it's not a distribution issue, but I really don't understand what is the hesitation from the trade to take the product.
- Sudhir Sitapati:** There is no hesitation for the trade to take LV. There is no distributed problem on LV. I'm just saying that the consumer cycle for noticing a new product and then acting on it is not immediate.
- Percy Panthaki:** I understand that it will take that much amount of time, let's say, a month or 1.5 months until the old product gets over, but after that, you will have to buy the new LV, he has no other option, right, unless he goes into some completely different brand altogether, no reason to do that.
- Sudhir Sitapati:** Yes. Of course, they have to buy the new LV, but for new consumers to switch from other LVs to our LV or for consumers to switch from Agarbatti to our LV on the basis of advertising will take some time.
- Percy Panthaki:** Okay. That I got.
- Sudhir Sitapati:** There's no distributor problem on LV. There is a slight distributor problem on incense sticks. That's why I'm quite bullish about. I mean we are basically meeting our plans and in fact, exceeding it. Everybody is not willing to keep our incense stick just because we are the first legal incense stick in the market.
- Moderator:** Next question is from Rishi Mody from Marcellus Investment Managers.

- Rishi Mody:** I have a question on the taxation piece. So if I remember correctly, we still have a INR200 crores tax benefit in this year, right, from the Himachal Pradesh factories. And from next year, we move to the 25% regime. Is that correct?
- Aasif Malbari:** That's right. So this year, we are under the regime, and we are getting fiscal benefits and next year, we intend to move to the new regime.
- Rishi Mody:** And on the subsidiaries piece, right, I see we have like INR380 crores of deferred tax assets, INR330 crores close of FY '24. So are we going to be able to set off our profits against that? Or there's some issue in terms of geographic rules or regulations, which won't allow us to set it off?
- Aasif Malbari:** No. So there are certain regions where we have a deferred tax benefit, and we are utilizing some of those. It will obviously be on that geography profit. So it will take a while to use it, but we are using the deferred tax benefit in a few geographies.
- Rishi Mody:** So we can use the entire INR330 crores that we have recognized over whatever years.
- Aasif Malbari:** That's right.
- Rishi Mody:** So just like if I'm looking at tax rate, we're paying 30% tax rate right now in the P&L at least. So like I just wanted to understand, I was under the impression that we normally used to pay around the 20%, 24% mark. It's jumped up to 30, is it like we're going to set it off in the second half of the year.
- Aasif Malbari:** So, on the tax rate in the last year, our effective tax rate was around 29%. This year, we have guided that we move up by around 100 bps. So we've come to 30% in line with the guidance we gave in the investor meet. And next year, we expect this to go down when we move on to the new tax regime. So, we should see a reduction of around 350 to 400 bps next year. Having said that, while the effective tax rate is 30%, our real cash tax rate is much lower, yes. So that's more closer to around 18% to 19%. So there is a huge benefit on the cash tax, which we are getting. But obviously, from an accounting perspective, we have to account it on a higher rate.
- Moderator:** The next question is from Kunal Vora from BNP Paribas.
- Kunal Vora:** How should we look at the Africa and LatAm revenue growth from here? LatAm especially was strong this quarter. Anything exceptional there?
- Aasif Malbari:** I think LatAm this quarter, we had some good innovations in the market. And hence, obviously, the growth has been very, very strong. So we have launched a new personal repellent. We've got a strong number, which we did as we did a loading in on the sunscreen. So we genuinely had a good number in LatAm, but it won't be sustaining this kind of underlying volume growth for the full year.
- Sudhir Sitapati:** Yes. I mean, look, it won't sustain 50%. But the kind of inflation that consumers are seeing in the past seems to have reduced. So there seems to be more stability in Argentina in particular. And we have been organically launching some new categories every year. So actually, the Argentina business, if this macroeconomic stabilizes, may be quite a dual business because our

portfolio is a good portfolio, provided currency is stable and we're able to take out money, which we're still not able to do. That business may surprise us in the next few years if things are going the way they are.

**Kunal Vora:** And how we're looking at Africa in the second half?

**Aasif Malbari:** Africa, even last quarter, we had guided that some of the short-term actions we need to take, and that will be like 2 to 3 quarters. Fundamentally, there is no issue in terms of offtake or market share from a relative performance point of view, but we are taking actions on down-stocking in the trade, and that will kind of continue for pretty much Q3 for sure. Hopefully, by Q4, we'll be back into the positive territory.

**Kunal Vora:** Understood. And second, on the new LV, are you looking at different advertisement or do think the current advertisement of like lasting 2 hours power tools fully communicate the effectiveness, or would you like to have a clear messaging that this is more effective to the consumer?

**Sudhir Sitapati:** Yes. I mean, look, these are all ways of saying it's more effective. These are well-tested communications. And generally, if you go and tell people, I'm more effective, I'm 2x more powerful, they have heard these things. It's not the first time they're hearing this on TV. So, we have to always find creative ways in which we communicate efficacy. In fact, one of my other brand managers came and last week showed me an ad where he went to a shop and a shopkeeper was telling him that consumers are saying they don't want the old LV, they want the LV where it works after electricity goes off. So I actually think it's quite a creative and catchy way of saying it's more powerful rather than saying it's 2x more powerful. So that becomes a little bit like Boyle-Cradd-Wolfe, in our kind of business.

**Kunal Vora:** But can this reduce the usage?

**Sudhir Sitapati:** No, no, this is a metaphor. These are all metaphors for effectiveness. It's just a different way of saying 2x more powerful. It's not to say that switch it off when the electricity and switch it back. And people don't use it like that. The way they decode communication like this is if it can last for 2 hours after the electricity goes off, it must be a lot more powerful. That's how they decode these messages.

**Kunal Vora:** And just lastly, can you provide size of liquid detergents, hair colors, hair care, what will be the approximate revenues from there?

**Sudhir Sitapati:** I don't think we give that number, to be honest. Maybe at the end of the year, we'll give some indication, but I don't think that is a number that we share. We only share it at Personal Care and Home Care level.

**Moderator:** The next question is from Saurabh Jain from HDFC Life Insurance Company.

**Saurabh Jain:** Just wanted to touch on Indonesian margins. So basically, I think the aspiration was to take it to mid-20s. So we were there for the last 2 quarters, but this quarter, again, we are around 19%. So any comments on that? What is causing that drop margins?

**Aasif Malbari:** So, this quarter, there have been some related phasing of certain spends. And hence, it's not the margin level which fundamentally we are operating in this year. So you will see the full year margin in Indonesia this year will be more than what the Q2 margins are. We are on a margin improvement journey, and we should be seeing an improvement in margin this year.

**Saurabh Jain:** Okay. And second one is, can you just call out the revenues from the Raymond Consumer portfolio this quarter?

**Sudhir Sitapati:** What we'll do on Raymond's is we will give you at the end of the year a consolidated view of the performance. We don't want to give too many subcategory level pieces of data now. But suffice it to say that we think that this has great potential. It is value accretive. We certainly think we've created value in the last 1.5 years. It's a little bit lower than what we would have wanted to do. We'll give you the exact numbers at the end of the year.

**Saurabh Jain:** But is it fair to assume that it will be more than 10% because you have reported both volume on the deodorant and sexual wellness to be in double digit.

**Sudhir Sitapati:** I mean it is double-digit volume growth. I'm saying we are growing well only. It's a growth accretive part of our business, not growth dilutive.

**Moderator:** In the interest of time, we'll have to take that as the last question. I would now like to hand the conference back to the management team for closing comments.

**Vishal Kedia:** Thank you, everyone, for attending the call. We hope we have been able to answer all queries. Please reach out to us on our Investor Relations contact details for any further queries you have. Thank you, and good night.

**Moderator:** Thank you very much. On behalf of Godrej Consumer Products Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, 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.