"Godrej Consumer Products Limited Analysts and Investor Conference Call"

April 28, 2023

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Moderator: Ladies and gentlemen, good day, and welcome to Godrej Consumer Products Limited, Analyst and Investor 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to the Management. Thank you, and over to you.

Sudhir Sitapati: Hi, everyone, this is Sudhir here, a very good morning to all of you. A quick presentation from our side on what we think is a hidden jewel which is RCCL and why GCPL bought RCCL, there has been a lot of curiosity among the analysts and investor community on why we made this move. So, I thought we would spend about 25 to 30 minutes explaining our rationale and then I will be happy along with Sameer and Nisa to take on any questions that you all have.

Having a quick reminder before we start of on RCCL and what is our strategy. And I just go back with this deck from Circa December '21, where we said that this is a business that we would like to move to double digit volume growth as an aspiration. Certainly, a high aspiration and one that the first few quarters of last year we were quite far away from, but it still remains our aspiration. And we said we would do it through two things, we would develop the categories we are present in and fund this development of category through simplifying our business. So, this was a one slide deck on our strategy for the next few years.

I think over the last two years now, or one and a half years we feel that our category development capability has got a lot better. I think our insights on category development are sharper. We have launched a lot of innovations which democratize categories; one of the big levers for category development is access. We have invested media even when the going was tough in the first half of last year and are also using proprietary algorithms to make sure that the return on investment on media is at its best. And we also have an army on the ground, to give your perspective, we are making close to 10 million calls this year on home-to-home; at any point in time, we have about 4000 people on the ground, doing on-ground marketing for GCPL. So, over the last one and a half years, along with a lot of talent boosting and talent capability, we find that our marketing capability and category development capability has significantly improved.

And we are increasingly feeling more and more confident that if we look at GCPL's portfolio which is India, International, high penetration categories and low penetration categories that the set of low penetration categories in India is really a bull's eye. And we would like to increase the salience of India-based low penetration categories, because ultimately penetration is the biggest driver of volume growth. We feel confident that we can probably develop a few more underpenetrated categories. When we were going to present to the analysts and the Board on the next few opportunities we were probably going to say that we feel ready that along with developing existing portfolios, we could probably develop a few more underpenetrated categories in India, some perhaps organic, some perhaps inorganic, and we were really mulling over what are the categories that we should develop organically. What are the categories we should develop inorganically. Deodorants has always been a category that has been quite on top of my mind personally, I kind of have known it at a distance for many years. And it's one of those categories which is surprisingly attractive in many parts of the world, where Deodorants become like an oral care category, where people don't leave home without Deodorants, especially in Latin America and so on, where it's hot. And where category development has been very good, it becomes a basic necessity category for those countries. And I kept wondering why this category hasn't developed but it was, you know kind of slightly recessive because many things to do and also Deodorants in India I wasn't sure is it too fragmented. Is the category really a high margin category in India, and do we have other problems to fix when we got this phone call from the bankers for Raymond saying this asset is available. And when the call came, I said, yes I mean good but you know probably not for us, not at this time, not sure about Deodorants, not sure about Sexual Wellness and I sort of parked the thought and I didn't take this forward for a few days when the call came, I also know this has been around for some time.

A few days later I was in Pune market where I just happened to be in one of these retail outlets and I saw this Beer Shampoo of Park Avenue, which I had seen in the past, I thought the packaging was quite interesting but had never tried it. I just picked this up because I have spoken about Park Avenue a few days ago so I thought let me just try this product. Despite my income levels, I operate pretty close to the median of the consumer in terms of Personal Care. So, this is roughly my Personal Care repertoire, in my bathroom, there is a Cinthol soap which I have been using for many years. Earlier on, it was in the closet, but right now I use it openly.

And secondly what has now replaced my shampoo has been this Beer Shampoo because I really like the product. And that got me curious about the company. Then, we did a few visits to retailers to check out their main line of business which is Deodorants. One of the interesting things we found about Deodorants when we went to the shop was that unlike many other brands of Deodorants this was centered around a few key SKUs. They had Park Avenue Good Morning, Park Avenue Voyage and Kamasutra Spark, which itself tells you that people are buying products and not brands.

And then I visited a Good Morning consumer, who really swore by it. He was using it every day the way Deodorants are used in many countries in the world, spraying it on the body and going to office every day and said I can't go to office without using Good Morning.

I think that really picked our curiosity about the fact that perhaps this was a slightly different company in the deodorant space, because that really was our primary interest. And we said okay let's have a look bit more closely at this business. What we found was a couple of things about the RCCL business. The first is that the brands were Park Avenue and Kamasutra, in men's Deodorants it was #2 in men's, and men's is about 75% of the Deodorants market in India. Surprisingly the market share had been rock-steady for as long as we could find market share in the 18% to 19% range of shares. It was #3 in commercial condoms, had lost a bit of share and then had stabilized, but Deodorants was a rock-steady market share. When we look at its sales mix it was 60% Deodorants, 20% Condoms, another 6% to 7% of Soaps and Shampoos each and another 7% to 8% of other things. So, predominantly Deodorants business, Deodorants of course is both Kamasutra and Park Avenue; and condoms is only Kamasutra. But the majority of the Deodorants, two-thirds of the Deodorants was Park Avenue.

We then said, okay, this is looking interesting, the product seems to be good, consumers seemed to like it. Stable share over long period and we know that this hasn't been a company that's invested too much in advertising. So, we said, okay let's look at these numbers a little bit more in detail, and we saw that the growth prior to Covid of this business was double digit about 10% for many years actually. During Covid like many businesses their business dipped, post-Covid it has come back to pre-Covid levels pretty rapidly. Kind of again indicating that Park Avenue in Deodorants is a strong brand, all these sort of indicate that we are really talking about a strong brand.

Incidentally Park Avenue was launched in India in 1964, so it's been around for a long time in the Fragrance space. But we then looked a little deeper in the financial, we went to a next step saying, this is an exciting category, this does look like a strong brand or the makings of the strong brand, a loyal product. Couple of things surprised us when we looked at the P&L. The first was that the gross margin was largely in line with the GCPL gross margin, and this was despite the fact that the MRP to NSV leakage was in the 50s. To give you a perspective, GCPL's MRP to NSV leakage is in the 30s. So, that was about 2000 bps more that was the gap between MRP and NSV, and part of this to be explained by category, but most of these gets explained by distribution and direct distribution and distribution discipline and efficiency, companies that have better direct distribution tend to have a lower leakage from MRP to NSV.

We also saw that the advertising and publicity was in the mid single digits, it seemed a bit low. Even GCPL has advertising and publicity in India, I am talking all India here is 10%. And the other one which was quite staggering was that the employee and other expenses were in the late 30s. GCPL India's employee and other expenses are 18%. The gross margin that was similar to GCPL was resulting in EBITDAs of high single digits where GCPL runs mid-20s EBITDA. So, what we were seeing is that a lot of loss from MRP to NSV, and then from NSV and GM down to EBITDA a lot of loss that consumers don't really see. Consumers don't really see employees and other expenses they only see gross margin and advertising publicity. So, it did look to us that there seems to be a lot of scope in this P&L for value creation and we said, okay, now let's study this business a little bit more carefully.

So, this was just a portfolio of some of their SKUs including Good Morning, Voyage, Spark, and Kamasutra. I think there are three reasons why we bought the business. So, once we sort of got the preliminary check on product strength starting brand strength next, margin expansion possibilities.

When we said that there are three key reasons why this is an exciting business. Fundamentally in countries like India one has to take a step back, because in the FMCG, PCC game, we are very low. And one has to take a long view on categories and both Deodorants and Sexual Wellness, we think have long growth runways, it depends a lot of how leaders manage it, but fundamentally long runways. These are powerful and underleveraged brands and three resource significant cost synergies in the deal.

Let me first talk about categories having strong growth runway. So, Deodorants is a super exciting category across the world. Nisa and I was just talking about it now and how many countries, Deodorants has been developed the way Oral Care has been developed, it's akin to Oral Care rather than akin to Perfumes. And if you take India for example, if per capita consumption is x, it's about 40 cents; Vietnam which is one and half times the income of India, has two and half times the per capita consumption. Indonesia with 3x, it's about a $4,000 has 3x. Thailand is $6,000, so about three and a half times India's per capita income has 7x. And Mexico which is about $9,000 so about four and a half times has 14x the per capita consumption of Deodorants.

If you see almost all countries that have a per capita GDP of greater than $10,000, Deodorants and Fragrances is the largest HPC categories, except the U.S. where it becomes a second or third. But almost all other countries, so unless you go to really high per capita income like Scandinavia etc., then other one or two more HPC categories come, but anywhere between $10,000 and $35,000 Deo plus Fragrances is the largest HPC category. And both consumption and penetration so as income goes up, consumption goes up, it becomes a regular-used category. I cannot go to office without Deodorants. But in India we not only have massive consumption gap, we also have massive penetration gap.

And we reckon we can draw a curve of how per capita consumption of Deodorants will go up with income. We reckon that this should be at a dollar and this is all in dollars or in volumes whichever way you look at it, a 13% to 14% CAGR is what logically speaking this category should be. And a lot of it depends on what companies and marketers here do. And so if this is the dollar number, we are talking of the rupee number that's higher than this. So, that's the real destiny of this category the way we look at it. So, firstly, this is a one of those categories that would become huge in India and is structurally a very attractive category.

Contrary to perception and a lot of analysts have asked us the question on whether, is this category, a lot of people I speak to say oh you know this is just not exciting, there are too many players, and it's too fragmented. But actually when you put pen to paper right, because what appears in the market is a long tail but if you looked at the data and we got Bain into do piece of work for us that the number of brands purchased per household per year in Deodorants is less than Soaps and a little bit more than Shampoo and Washing Powder. So, they are all in this kind of 3.5 to 5 range of number of brands used. And secondly, the number of brands that contribute to 2/3rd of the category is not different in Deodorants than it is for the other categories or it's not materially different.

So most of the big categories seemed to have about four brands for using category and about five to six brands account for 2/3 two-thirds of the category. So, if this is not an outliers either in terms of loyalty or fragmentation and we also saw that you know if it was a super fragmented disloyal category, it's hard to make high gross margins here. So, the fact that it's making high gross margins even at the size at which RCCL is, sort of lends credence to this, but this is kind of more rigorous work based on panel data and our consumer work.

I think that has been a question that a lot of you all have asked, one question is, is this really an exciting category? I want to say that, if you take a long view of this and that's how we got to really look at a market like India and most certainly is, but even if one takes a short view of it, it appears more distort and fragmented than it really is, it really is a long tail, it really is a few brands occupying 60 share. And there has been a question saying, you know when you guys have Cinthol if you believe Deodorants is such a big play, why not play with Cinthol.

I got a few questions last night, I read, one or two analysts report so. In my bookshelf, in my office I have this book, which if you haven't read it, is one of those books that you must read as FMCG analysts book called The 22 Immutable Laws of Marketing. And the very first law that Ries and Trout say, "It is better to be first than it is to be better." First whoever advantage and that reason is when you enter a category you have a bit of mind space and it's very easy to take the mind space. And the second person takes a little bit of it, the third takes it, and after that that mind space gets occupied for the category.

The second law of the book just tells you how important is it that if can't be first in the category, you setup a new category where you can be first in. So, what Ries and Trout are saying which is my experience says if you are not among the first few entrance in the mind, you can only enter a category if you have a seriously disruptive product. So, Cinthol entering as another Deodorant, will be very hard when there are five or six brands that have already occupied the mind space of Deodorants. And it's important to understand that mind space was a different concept to market space. And while the market is underdeveloped, the mind, when you say Deodorants has already got a few brands that consumers have taken ownership. If we want to play Deodorants, it is important that we first take one or two of these brands that have already taken that real estate in the mind. So, that's probably why we may still have a view on Cinthol, we have not thought about it, but it's important that if we want to enter Deodorants we enter with brands that are already established and develop the category.

That's really about Deodorants on why it's an exciting market, why the characteristics of the Deodorant market in India contrary to popular perception are not different from other HPC and why it's important for us to enter inorganically, and hard for us to enter organically. Condoms is the other category which is, to be perfectly honest, not the first reason why we are looking at this acquisition. As we started studying condoms, we felt that there is a big growth runway here as well, the global leader in condoms firstly is an FMCG player which is similar to us, the channels are quite similar, it is a heavily marketed and distributed category. What we also realized in India is that two-thirds of this market is non-commercial condoms in terms of volumes. So, another 25% of it is mass commercial, but really lot of the action is happening in premium commercial, which is Ultra-Thin, Long Lasting etc., and that market has been consistently growing for five years at 20%.

Kamasutra plays already in kind of the lower end of premium commercial and can certainly ride this trend, it has a strong equity there seems to be one player playing premium commercial today. And certainly there seems to be scope for a second one with a very large upgradation or premiumization value driver. So, you have one category Deodorants which has a penetration and consumption value driver and another category which has a very large premiumization value driver.

So, that's really why the categories were fundamentally attractive to us. And I guess the question is that the categories maybe attractive but what about the brands? And anecdotally, I told you right we got interested in this acquisition because we found a lot of people, not all that many people who are using this one, it is not the most famous of brands, but those who were, were swearing by these products. So, I think if you look at Park Avenue, if you know the Deodorants share of RCCL has been rock-steady, despite pretty much not spending media in this category. So, it's been a pretty absent in media, it has been under-distributed even compared to the market leader, leave alone the fact that as I show you in the next chart, we actually think that the Deodorants category itself can be better distributed. So, it's a low media investment, average distribution. But when we did an NPS score, which is looked at users and Net Promoter Scores of users we actually found that Park Avenue was pretty much at the top of the category. So, all of this sort of makes sense - strong brands, few variants, high margins, stable market share, because an existing base of loyal users who really like the product a lot.

Apart from the underleveraged equity of Park Avenue, we feel that the category itself with the player like GCPL, who has let's say 4x the direct distribution reach of Park Avenue, we feel that we can go well beyond the category in terms of distribution. At the same time, Kamasutra has an excellent chemist footprint. Similar chemist footprint to us though not all intersecting, so some unique outlets for Kamasutra, some unique outlets for us, but I think the interesting thing is, condoms are a necessity for a chemist. Household Insecticide and Air Fresheners are a nice optional, I mean they will keep it if you go to them, but they are not going to go and necessarily buy these categories. So, if you have a necessity product for chemist, we would be able to probably improve the distribution of Household Insecticide and Air Fresheners in chemist as well.

So, that was really the point on brand strengths and leverage. Finally coming to this point on significant, which is probably, one is look at the stars on what these categories can do, one has to have one feet firmly on the ground, in terms of what we can deliver in the next 12 to 15 months, because otherwise there is no point having these kind of acquisitions with all the bets on the future.

I think cost synergies are something that we are 100%, well you can never say 100%, but very very confident of. There is definitely a large scope to reduce MRP to NSV leakage and there are very simple things, for example, the urban distributors in RCCL makes 6.5% distributor margin, ours are at 5%. The rural channel there is a 10%, 11% distribution margin leave the retailers aside, ours is 7%. So, there are just very low hanging fruit. And then there are lots more that we can do.

The second one is really on fixed overheads as I told you fixed overheads and other expenses are in the late 30s versus 18% for us. So, you can just imagine what it is that we can get out of this. Then a bunch of smaller ones, one is Soaps is a small business but there is significant savings. Procurement, we are a large buyer of aerosols both in Household Insecticide and in Air Fresheners and palm oil derivatives as well. So, aerosols in particular is a category where we will now probably be the largest aerosol buyer in India, it will give us significant scale, and we also intend to radically simplify our business.

See we radically simplified our Indian business; I think we have kind of halved our SKUs over the last one year. And what we are going to do and what we are going to do here is, to kind of rationalize the non-core so whatever we need to take in the first year, we will take, and remove the low margin SKUs, bring the blockbusters into play here. And that also ultimately leads to significant cost synergies, a lot of overheads get spent on the long tail, and one doesn't really understand the cost. So, once you cutoff the long tail, you would find a lot of cost savings coming as we have even in India. So, at the one end of the spectrum we are very confident of the product and the brand and at the other end of the spectrum, we are very confident of the cost that we can remove.

With that I will hand it over to Sameer to just talk you through the business case and the valuation of this business.

Sameer Shah: Good morning to all of you. So, let me try to sort of cocktail in or what you have heard earlier in terms of outlook and numbers. To begin with FY'23, the revenue of the business is close to around Rs. 620 odd crore and the margins are somewhere in the range of mid to high single digits. In FY'24 on revenues front we will drive simplification, we will see SKU rationalization and also focus on core. We will also see marketing investments and market development initiatives. Hence we expect, I mean in FY'24 the revenues to be more of the same in absolute terms as compared to FY'23, and margins to be relatively better as compared to FY'23, but not a whole lot.

Obviously, I mean simple maths would suggest that in FY'24 the acquisition is going to be EPS dilutive but come FY'25, we remain extremely confident of clocking low double digits to mid-teens growth in this portfolio. Given my cost synergies, scale; driven by a revenue growth drivers, we do expect overall EBITDA margins to move up to mid-20s, from FY'25 onwards and that's not just the year outlook, it's I mean onwards and we expect this trend to continue both in terms of growth and margins in the acquired business from FY'25 onwards. EPS would be largely neutral in FY'25 is what we believe at this point in time.

If we move to the next slide, which is on valuation and funding, let's break this into two parts, let's start with valuation. There has been lot of questions in terms of what's the gross, what's the net valuation, and I think a couple of clarifications over here. If you look at the gross valuation, it's Rs. 2825 crore which got released in stock exchange filings. But that includes a Rs. 100 crore of cash in the balance sheet which we will acquire. So, the net valuation is around Rs. 2725 crore, so that's point #1.

The other thing to note over here is the way we have structured this transaction which is a slump sale as a result of which we will acquire brands. And these brands will get depreciated in tax books, in statutory books these brands will have indefinite useful life, so there will be no depreciation, no P&L impact and no EPS impact. But in tax books, the brands will get depreciated as a result of which the tax profits will be lower. And very importantly the cash tax outflow for a period of the next 7 to 8 years would be significantly lower. This from an NPV perspective, roughly aggregates to around Rs. 400 crore and this was quite an important aspect in terms of the overall value which we paid for the business, because the way we looked at this transaction net from a valuation perspective is about Rs. 2725 crore but close to around Rs. 2325 crore adjusting the cash tax savings which we get, the way we have structured this transaction and that implies close to around 3.7 to 3.8x of FY'23 sale value.

On the funding front, couple of things, we are going to evaluate short term financing to begin with. At this point in time, say as of March end, we are net cash. We will be net debt for next six months I think, ceteris paribus and with the cashflow expected in FY'24, by mid of FY'24 again we will be net cash. So, that's the piece on funding as well as how the net debt, net cash will evolve over the next six to eight months.

Thanks for your patient hearing, we can open the floor for the Q&A.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: I just wanted to follow up, the market split based on income for Deos, is it similar to Oral Care with a large chunk at the base end, if you could kind of help understand that.

And secondly if you could, there is going to be, the brand is going to be split between two parties, in terms of FMCG being with you especially Park Avenue and the garment business being with Raymond. So, how do you kind of address the possible your share in terms of brand positioning which could pan out?

Sudhir Sitapati: The market, when I was comparing it with Oral, I was comparing it in many other countries not in India. The market in India for Deodorants is very different from Oral, Oral is universally penetrated in urban and rural and consumed twice a day. Deodorants is only 20% penetrated in urban areas, roughly it's about Rs. 200 a bottle for aerosols and even for water-based sprays. And of course, now they have the smaller pack as well. So, it's a very different dynamic from what Oral is, I was only making a point to Oral to see that what can the future be, if we develop the category such that body odor becomes as important a driver for consumer as Oral on breath.

Nisa Godrej: Yes, just to add on that I think Deodorants has been developed as Fragrance and a want versus a basic need in other countries. So, in a hot tropical country, we definitely see that as a huge advantage. I think on the question on the brand being both in lifestyle and in consumer care, I think legally obviously we have complete rights for this for all the consumer product categories with GCPL. You will appreciate that Godrej has a lot of experience of having a brand that grows across many categories. We see even in Godrej that there has been very little rub off from one category to the other. So, consumers really go into the category to buy that category. So, I think Park Avenue is very standalone in the consumers mind as a deodorant brand. I don't think, they necessarily are buying it because of the clothes brand. I think as we go down over the next few year, we will have the opportunity to enhance the Park Avenue brand, perhaps bring Godrej into the branding so those are all options that we will look at in the future. But we don't see this as a risk at all.

Avi Mehta: And just and small bookkeeping, if you could give us a sense on the current market size for Deodorant and Condoms reach?

Sudhir Sitapati: I think the, I mean estimates vary but roughly I think it's probably about Rs. 5,000 crore for Deodorants and above; Rs. 1,200 crore for commercial condoms that is probably the size today. Deodorants is more accurate, condoms is a little bit more difficult because there is huge amount of non-commercial condoms, but that's the ballpark of the market size.

Moderator: Next question is from the line of Vivek from Jefferies. Please proceed.

Vivek: Great, a few questions first is, Sudhir ever since you took over the idea was to simplify and there has been a simplification journey and we are seeing results partially. One impression that I have is that, in the context of where let's say India HI is or for that matter, Indonesia, do you not feel that this acquisition is the bit ahead in time given that you still have had job at hand, in terms of turning around particularly the HI business which is one of the larger categories for you in India.

Sudhir Sitapati: See Vivek, one doesn't completely choose timings on things like this. But we felt confident when the opportunity came up that we were in the right direction in terms of market development of our core categories. We have simplified our SKU portfolio and you know all this becomes a judgment call, one can wait for a perfect time and not have, so I would say the combination of where we are in the journey in one and a half years and I think we already sent out our early reads on last quarter, we feel quite confident that our capability of market development has gone up quite a distance. I won't say in all honesty that we have fully solved the problem in some of our categories, but we feel confident that we are on that path. And it was the logical next step for us to then ask a question that if we get better at something, then what is our next step. And the next step was clearly to move into focusing on India.

See again you have to understand that we are focusing on HPC, we are focusing on India, we are focusing on underpenetrated categories. So, we are not going out of focus, so we are building a DNA on market development, in India which is far and away the most attractive market we operate in, and we are kind of expanding.

Timing, Vivek one can't fully choose timing in these things, you know. So, one just has to say one is either not ready, in which case one shouldn't do it and one is reasonably confident when an opportunity comes up at the right price and the right value which we think this one is, one has got to then move.

Nisa Godrej: I think our India business is a very strong business, and has the capabilities of integrating this business quite easily. I think the category itself is hugely interesting, Deodorants has a huge runway. We had this inorganic opportunity which I don't think we wanted to let it go. So, but from a management bandwidth perspective I think given the strength of the India business we have enough leadership to do these integrations successfully and I think it was a very good idea to do it now.

Vivek: A couple of follow ups to that one, Sudhir and Nisa, Deodorants over the last 20 years has always been very exciting category on paper, but if you look at let's say Darshanbhai came back with Fogg moved from 0% to 18% share Unilever lost a lot of shares. Then ITC came from 0% to 5%, 6% with pocket Deodorant. The slide was revealing, but nonetheless the brand loyalty still is low and if somebody comes up with, to your point, Sudhir, if any company or player comes up with something which is very differentiated, the loyalty still is way lower. Does that not worry you on this category?

Sudhir Sitapati: I mean this was a question that we started off when we did our due diligence of this asset. Lot of the facts we have on the table and I don't want to get into the diagnosis. Firstly, let's have a couple of facts on Deodorants; pre-covid for about five years pre-covid this category grew double digits for the 10 to 15 years prior to that this was a 20% growth category. So, in all of this, this has been a category that has been fundamentally a high growth category. In this period of disruption in Deodorants, the one company that has held market share despite not investing has been RCCL. When one looks at consumer level data one doesn't see this as being either a particularly fragmented category I mean those are facts, right, I have presented those charts, which is to the Top 5 brands account for 65% of share of this category, nor is it a particularly disloyal category.

Now I don't want to fully share what is our diagnosis of the category at this stage because I think that will be competitive and not fair to share. But if you take these three facts that it's a fast-growing category, RCCL has high gross margins, RCCL market shares have been stable.

And if you take these three facts and the fact to the category is neither disloyal nor over fragmented as it appears, I mean you go the shelves, it appears like that but when you aggregate the data and look at it, because sometimes categories look a little different on shelf than what they are, and I have seen several categories like that when you go to shelf, it looks super fragmented but actually when you look beyond that, you know two, three brands have a strong pareto.

So, when you look at these four facts, I would say having done the analysis we are not worried. Along with the massive upside, which is if somebody can get this category right, and someone can convert Deodorants into Oral, in terms of being a regular use, hygiene product, from being as Nisa said a 'want' which you use when you go for a party, like the consumer I met with Good Morning, he was using Good Morning every morning he was going to office. Then you have a really large TAM to play in. So, no, I think the downsides are very limited, and the upsides are very high.

Vivek: The other follow up, Sudhir was, quite a few investors have asked this question, does this acquisition also reflect in some ways your views on HI being a very tough category and difficult to see acceleration ahead and that's why the idea is to diversify into something which is more attractive. Can you clarify that a bit? And your position on existing portfolio now?

Sudhir Sitapati: Not at all, Vivek, HI and specially premium HI which is LV and aerosols are also sub 20% penetration categories. Those are categories that require the exact same skills that Deodorants requires which is market development in India. HI certainly has a long runway of growth. But you know as I showed in the chart where we have a non-India portfolio, we have an India portfolio, and in India underpenetrated portfolio, HI is very much part of that. But we also have Soaps and we all know that Soaps is a 99% penetrated category. So, we would like to increase the weight of categories like HI, Hair Color and Air Fresheners in India, that salience and this is only one step and we will take several steps, but our game plan is to increase nature of those kinds of categories in our overall category portfolio basket. And if you look at the next decade or two decades the largest value creation opportunity for GCPL continue to be HI in India.

I will give you perspective on HI, I mean like you know since we are talking about HI per capita and I think looking at this per capita consumptions, India is again at about half a dollar, HI category is slightly bigger than Deodorants but half a dollar, this can go to $2.5, I mean HI doesn't have a 20 year plus runway the way Deodorants has, because but there is still a 5x potential of growth in HI, which is very good for the next 15 to 20 years for us.

Nisa Godrej: If you see it Deodorants from an outside end perspective, from outside of India, this is a huge category and opportunity. I went to boarding school when I was 16 in England and broadly got influenced it around that time, to use Deodorant, antiperspirant, and it's like having a bath, it's like using Soap every day. So, I think for us the category itself is really exciting in terms of what we can do with its long runway for growth. And then we were presented it with this fantastic inorganic opportunity, very strong but underinvested brands and the cost synergies potential just make this business a real opportunity. I think given how strong our India business is, the ambition is a much bigger GCPL in India so a few more categories is a good strategy for us over the longer term.

Vivek: In media interaction you have mentioned 10% growth for this business that will you be satisfied if it grew at 10%, can you clarify on that comment as well?

Sudhir Sitapati: Well I won't be satisfied if the business grows at 10%, but I think the business case will make sense even if it grows at 10%, simply because of the cost synergy. I think we got a separate prudence of the business case and say, okay, historically this has been a 10% and it's very unlikely this category is going to grow less than 10%. Even if it grows 10% and we have mid-20s EBITDA which we feel quite confident of, this will be a really good business case.

But really the right potential of this business is mid-teens. That's rightful potential, I mean some of these things, Vivek take time. The bottom-line in what I have seen in the past, is bottom-line is more easy to predict, top-line takes time, top-line you have to look at the long runway, you have to have a long game on top-line and then you know because top-line is dependent both on category, but also what companies do. So, I would say the business case on 10%, but very much our ambition is mid-teens.

Vivek: And you are now buying manufacturing footprint along with, in this transaction right?

Sudhir Sitapati: No, so it's a asset light transaction. RCCL buys Deodorants from third party and we have a big Deodorant / aerosol supply. The condom manufacturing will remain with RCCL, who will supply to us as a contract manufacturer.

Vivek: This Rs. 400 crore tax you know what you were talking about Sameer, are there any carry forward losses or so, or this is just the intangibles write-off that you are talking about?

Sameer Shah: This is the depreciation on intangibles which is largely Brands in the tax books.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: A lot of questions have been asked on Deodorants, so my first question will be on the men's wellness. Do you see GCPL continuing with this four, five years down the line? Why I am asking this is, one comment in your commentary was, this was not the first reason for buying this product portfolio. And second, if you see in terms of the size also as a percentage of the total business which you have bought, it's a small size. And third is GCPL currently has no presence there, and we also mention that there are non-commercial products by other companies also and maybe even the NGOs etc. So, do you see that you will continue to exist say four, five years down the line or you would focus only on the Deo essentially in the medium term.

Nisa Godrej: I think the Deo category was definitely something that we had outlined as a very interesting play for GCPL for the future. But I think while when we looked at the sort of Sexual Wellness business, I think we find that category also very interesting, but I think the main theory was on Deodorants. We can't comment in terms of four, five years later what we would do, but I think for now we are committed to play in both categories.

Abneesh Roy: My second question is on the overall leakage etc., which you explained in terms of the MRP to NSV. So, now when I see your guidance for FY'24 in terms of flattish sales, flattish EBITDA, wanted to understand that because clearly in some of the acquisition by other companies we have seen that the first year in terms of sales is a bit tough, because there is normally EV to sales and methodology being used in terms of acquisition. So, there is a push model by the earlier company which is huge.

So, is that a reason why you expect sales to be flattish? You did mention that you will rationalize the non-core and the tail, so why would you want to start with non-core and tail rationalization in the first year? Why don't you do it later, because ultimately when you are starting, it's better to start with bigger revenue and then also do the higher advertising spent, so could you explain that a bit?

Sudhir Sitapati: I will roughly tell you what we will probably do in year one. See it's important to rationalize the non-core SKUs for a variety of reasons. One is non-core SKUs tend to be lower gross margin, they tend to occupy a lot of overheads, for instance we can easily add, just for instance, I mean it's not that we have decided, you can easily add on the top 50, 60 SKUs on to our existing salesman who goes to a shop at no added cost. So, it's important for us to right structure this, and to be strategic right from the beginning. So, that's why it's important for us to remove non-core SKUs in the beginning itself.

There is also inventory, the business runs much higher inventory than GCPL runs. We run 10 days of inventory at our distributors, they run 30 days of inventory at their distributors.

The distribution gains that we see will not coming in the first few months. We will figure out what parts do we retain, what part to be merge, all this won't happen immediately. So, I think for a combination of the fact that the benefits won't come immediately, we need a little bit of time to plan. We have to reduce the inventory and complexity has to be reduced if we have to really focus on Deodorants and Sexual Wellness and really propel them.

These are the likely reasons that revenue will be flattish. There will be some natural growth as well, because this category will grow, I think, it has grown in the last two years post-COVID, those will get counteracted by some of these. But I mean Abneesh it's hard for us to give an exact number but by the time this year ends and we start with a new year we will then really kickstart with a lot of momentum.

Abneesh Roy: One clarification on the flat margins which you mentioned. So, when I see currently you have said that distributor margins can easily save 150 to 200 bps because of your distribution system. And secondly you also mentioned you will save 12% employee cost, 30% vs 18%. So, will it be fair to say that ad spends will commensurately increase because you are guiding towards the flattish EBITDA margin?

And second is when you mentioned the leakage in terms of MRP to NSV, I think you are comparing your whole company to this small company. My question is, on the overall Deo category won't the leakage to be very similar, will it be unfair to compare GCPL which is a much larger company in Soaps and HI and Hair Color, you have a very strong market share. While Deo has a very different consumer behavior, very different buying behavior also so can you comment on what's the leakage between MRP and NSV in the Deo category?

Sudhir Sitapati: Let me answer question two first, see firstly - MRP to NSV even within Deodorants RCCL has higher leakage then the benchmark. It has to lot to do with the direct distribution and the command of the channel that the market leader has. So, yes, some of it has to do with the nature of the category. Within the category itself this one has got excess MRP to NSV leakage compared to leader of the category. If someone like us with a lot of direct distribution and a large player comes in, we will see further synergies in MRP to NSV, it may or may not match. So, I don't think Abneesh that right thing to say is that these guys have mid 50s, or 50s leakage, we have 30s leakage so we would bring this to 30s leakage it's just to show that, there is a very large gap, some of it we will bridge.

Similarly on the employee plus other expenses which is what we call overhead this is in the late 30s, it's not 30 to 18, in the late 30s and we are 18. So, there is a very large gap there. Those are you know completely internal, that is what a scale of a large company versus a small company.

On advertisement spends, you have seen the amount that this brand spends on advertising when compared to its peers. It is a mix single digit A&P advertising company, GCPL itself with our kind of portfolio with large amount of soap, etc is a double digit A&P. So, that will be certainly be an area that we will look at.

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

Harit Kapoor: If you look at gross margin tier for the three segments which is 60% of the business is Deos, 20% is Sexual Wellness and 20% is others, what could be the gross margin tiering for this 50% gross margin. So, my assumption is that Sexual Wellness would be high as followed by Deos and followed by Others, would that be the fair way to look at it.

Sudhir Sitapati: I don't think we would want to share the exact numbers but Deodorants is the highest followed by Sexual Wellness. Deodorant is a high gross margin category, so that is why I was saying it is a perception, this is a high margin category.

Harit Kapoor: Is there any kind of brand royalty arrangements between Raymond and GCPL for the Park Avenue brand or is it a clean-cut apparel is Raymond and FMCG is you guys?

Sameer Shah: There is no royalty arrangement Harit as Nisa mentioned earlier, we have the Park Avenue brand rights foray into any FMCG category. And apparel space and the lifestyle space it continues to with Raymond under Park Avenue brand.

Harit Kapoor: And the last quick one was, is it a fair assumption to make that the bulk of this business is urban. So, you guys are 70-30 in terms of urban, rural split at GCPL India standalone, would this be much higher in terms of urban maybe 80% to 90%?

Sameer Shah: Yes the business would have a relatively higher urban skew in both Deos as well as Sexual Wellness products.

Harit Kapoor: So, significantly more than the India GCPL business?

Sameer Shah: Yes, at this point in time, yes Harit.

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

Sheela Rathi: My first question was, at the time when you were evaluating this transaction, was there any mindset that instead of going an acquiring why don't we go and build such a business, because yes, the next extension for you would be getting deeper in the Personal Care space, but why not choose the other route of building it on our own? What is very different versus the past acquisitions we had done?

Sudhir Sitapati: So, I think Sheela it is not easy to build new brands and categories which are established in the mind for a long period of time. You can build new brands and new categories or new brands in existing categories when you have a disruptive product. For examples we have built Magic in Handwash it was a disruptive product. You can't just come with another handwash product and expect to succeed in handwash. So, these are the two criterion in which you can build new products, new brands within categories.

May be we can disrupt deodorants category but it's not the obvious thing right now for us to enter with another Deodorant and succeed in it. Say when we look at the Personal Care category there may be categories which we feel are undercooked. And they might be appropriate for us to enter organically, or we may find a disruption like we did in Magic handwash and we enter organically or we may find that there are large number of brands but the category is undercooked and have a long runway. So, the brands are cooked but the category is undercooked in which case we should buy the brands and then develop the category.

Nisa Godrej: When penetration is 0% to 5% there is nothing actually to buy, so you have to build like we did in Air Fresheners, but when you are in the slightly higher penetration than that when you do the math also, this is quiet a sweet spot in terms of how it will financially workout, in terms of building a brand, especially if you can get a strong brand.

Sheela Rathi: And would we have plans of rebranding these products going ahead? I think this question was asked earlier also, but I just want to be very clear on that bit.

Sudhir Sitapati: No, as I said we bought these brands because the brands are strong.

Sheela Rathi: And my final question is what is the salience of online penetration for this category?

Sudhir Sitapati: I think it's about 10%. So, it's about 2x of FMCG.

Sheela Rathi: So probably the distribution strategy will be very different from our usual product offerings.

Sudhir Sitapati: Sexual Wellness will certainly be different because most of Sexual Wellness comes through chemists. And yes 10 is higher than five, but it's still there is 90 which goes through for Deodorants for regular channels.

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

Arnab Mitra: My first question was again on the competitive landscape though you have, I think touched upon lot of aspects there, but the consolidation of the Top Five brands that you mentioned, has that consolidation increased over the last five, six years, because we do remember a very high clutter in the category, 7 to 8 years back. So, I just wanted to know as a trend line is that change towards more consolidation?

And an added question to that would be when Fogg came with the no aerosol kind of spray, there was a big move in the market towards that, has that trend reversed or at least stabilized or is the market still moving towards that form of deodorant?

Sudhir Sitapati: I can answer the second question more easily Arnab which is it has stabilized. The first question I can answer impressionistically which was this was a very consolidated category where I remember it in the 2000s, impressionistically but I don't know numerically it may have got fragmented but it certainly is consolidated, it's not super consolidated today, but it is pretty consolidated today.

You know a good way of looking at it is how many brands constitute the Top 2/3rds of the category. It may be what you said, but I am not sure about it, but certainly if there has been fragmentation which has been excessive in the category, it has been a short-lived thing, it is neither fragmented today nor is it fragmented when I remember it Arnab in the 2000s.

Nisa Godrej: And Fogg phenomenon has happened many times in many different categories, when you disrupt, give the consumer better value. It happened in detergents, we have seen it happen in many categories. So, I think Fogg was such a success that it's top of mind but this does happen in, across categories.

Arnab Mitra: My second question was on the distributions, if you could help us with what is the current distribution of the Raymond's FMCG business and how is the distribution of Park Avenue different from let's say the market leader in terms of direct plus indirect, just to understand how much of benefit can happen when the distribution expansion plays out.

Sudhir Sitapati: Yes I put that up Arnab which is the market leader has got approx. 2x in terms of direct plus indirect of Park Avenue. And our direct distribution is 4x of what Park Avenue is and I think that's at the very least. So, you know we will ramp up distribution.

Arnab Mitra: And if I could just ask on seasonality, any sense if you could help us with how the category seasonality is between the four quarters? Is it very seasonal towards summers and therefore is that going to be a bit of a challenge as you transition this year, in the middle of the season?

Sudhir Sitapati: I know it is seasonal Arnab, I will get back to you on how seasonal exactly it is. I don't think it's as seasonal as Household Insecticide. But there is certainly a summer seasonality. Certainly globally it is not hugely seasonal because as Nisa said it becomes a habit and as it becomes a habit it deseasonalizes.

Moderator: Thank you. The next question is from the line Latika Chopra, from JP Morgan. Please go ahead.

Latika Chopra: My first question was if you benchmark the product portfolio on average net realizations to the company, it could get influenced from the channel mix that you have versus the Top 3 brands in Deos. Where does the Park Avenue brand stand? And partly I am asking this question also is that if you are going to reduce the gross price to MRP to net price differential down from 50% done you think it poses a risk to market share which Park Avenue enjoys today, any thoughts?

Sudhir Sitapati: See there are two to three things here, right. One is there are, some of this is relatively low risk, some of it is will have to happen in consonance with brand strength. What is relatively low risk is distributor margins. Our primary distributor margin, they are relative low risk that just has to do with scale. What is relatively low risk is the gap of gross to net between Park Avenue and other players in the market, which we will get through direct distribution.

What is relatively higher risk which will happen over a period of time as brand strengthens and velocity goes up, because ultimately retailers look not at margins but at return on investment. So, you have to have a few SKUs that have very high velocity, that will come a little later. So, I would say this gross to net may not go overnight from 50s to where GCPL is today. There is some part of it whether it's very low risk which we can do immediately, which we get as a consequence of scale and some part of it we will get, I hope, over the next three to four years as a consequence of strategy.

Latika Chopra: But Sudhir, I was asking more from end consumer price, is it very different from the Top 3 to 4 players in the category? Why people buy Park Avenue, is it like if you increase the final net price to the end consumer, does that offset the growth trajectory for the brand, any sense if you have looked at the numbers of the last couple of years?

Sudhir Sitapati: Most deodorant sell about Rs. 200, the MRP difference is about Rs. 20 give or take for most brands. The price at which retailers buy it is anywhere between Rs. 120 and Rs. 140. Now there is this gap between Rs. 120 and Rs. 140 between various companies which is a relatively easy bridge. Between the Rs. 220 and Rs. 140 which is significantly higher than other categories in

FMCG, that's a longer game. So, as I told you there is a short-term benefit which is low risk and a longer-term thing which we won't do immediately. We will only be able to bridge the gap between let's say Rs. 140 and Rs. 220, which is the MRP is Rs. 220 the net selling price is Rs. 140 give or take that gap we can only bridge when the equity becomes stronger.

Latika Chopra: And then the second part was the M&A strategy of the company, we have seen this transaction, should we expect that you will be more aggressive to look out for more M&A opportunities in the HPC space? And if you could also elaborate the process that the company follows, is there an M&A committee and who the members are, when such opportunities are presented to the Board?

Sudhir Sitapati: GCPL as a company that it's quite blessed to have a very good position in India and very strong capability in India. And certainly, we would like to increase our TAM and we would like to increase our TAM not because we are unhappy with the categories that we are present in, we are happy with those categories. But because we feel that we have the capability of addressing a larger TAM quite well in India. Now that TAM will come periodically from organic you know you have to first and foremost the priority is to get our existing businesses growing, so I don't want to move focus way from, that is the biggest job. But we will keep evaluating new categories in terms of whether we can do an organic entry if it's an under developed category or we have a disruptive innovation, we will do it organically. And if a category needs certain set of criteria, broadly speaking still remain in the HPC space we would like to be in relatively high margin businesses, relatively underpenetrated categories but not so underpenetrated which is less than 5%, and if the opportunity presents itself at the right price and right valuation we may go into inorganic. But I think the main point is that as we strengthen our existing categories and as we get more and more confident of our existing categories we will certainly look towards expanding the TAM of GCPL.

I mean if you look at the most valuable companies they operate very well both in FMCG and outside FMCG. They operate in very, very large addressable markets. And that is certainly going to be on our mind as we go forward, which is TAM expansion.

Nisa Godrej: TAM expansion also happens organically like we did in Hair Care, we want to see the India business grow very strongly. Organic is always our #1 priority but as very interesting opportunities come we look at them and we have been looking at them over the last few years also.

Sudhir Sitapati: To answer question on the process on M&A I think we have an M&A Head who is dedicated to M&A. And like all companies we have a process where the M&A Head scouts and identifies opportunities. There are few us in the management committee, Nisa is the Chairperson and then of course the Board. Ultimately all these acquisitions are approved by the Board.

Latika Chopra: There is only one feedback because we have been hearing from investors, obviously is that on the valuation bit and I know there are various nuances to it, but was it a very tightly fought asset for? Or anything that you can share or?

Nisa Godrej: I don't think that's something we can really comment on. But we have a very strong financial process, it has to make strategic sense and financial sense to us. So, we follow our process. We can't really comment on what exactly that process or who else was in the process.

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

Percy Panthaki: My first question is on the Sexual Wellness category, while you mentioned that's not the first category which drew you into this acquisition, but just wanted to know your thoughts on this I mean, right now the category is synonymous with condoms as far as this business is concerned. Would you like to expand and go into sub-categories of Sexual Wellness at some point of time, or that's not something that you have thought about at all?

Sudhir Sitapati: The thing about Sexual Wellness, you are right it's currently it's synonymous with condoms and probably not appropriate to share our future plans. But I think the important thing is 3.2 billion condoms sell in India. 2 billion of them are non-commercial and other billion are mass, the 200 million odd sell at the premium end. So, there is a huge runway for premiumization and that journey has begun, that segment is growing at 20%. So, there is a pretty huge and exciting premiumization journey within condoms to first crack for us within Sexual Wellness before thinking about other categories and so on. Our focus in the next few years will be upgradation within condoms.

Percy Panthaki: Secondly just wanted to know the funding of this acquisition, if you can give some more clarity on exactly how much do you plan to use from the existing cash balance and how much debt do you plan to take?

Sameer Shah: We are looking at short term funding; it largely will be borrowing because our existing cash is in medium to long term investments. I think in terms of arbitrage between borrowing cost and existing yields which we are getting on our investments, obviously there is nothing much to choose between 15 to 20 bps in kind of either direction.

As I was calling out earlier my sense is we are net cash any which ways as of March end, for next six months we will be net debt and ceteris paribus mid FY24 again we will be net cash.

Percy Panthaki: And last question is on the cost synergies as you mentioned their costs are in the late 30s we are at 18% I think that gap should be bridged pretty quickly, I mean as soon as you take over why is the margin expansion happening only in FY25 as per your estimates?

Sudhir Sitapati: There are one-time cost that hit in the first year of the acquisition, whatever you decide to do. So, my general experience on these matters has been that the first year is unpredictable and fluid and often not easy to really exactly pinpoint, it's just much easier to give yourself a little bit more time on these, because you can't overnight talk of some of the costs. It does take a little bit of time for us to get going on this. I don't think 9 to 10 months is a particularly long time Percy in the larger scheme of things.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: In terms of channel saliency if you have any data you can share at this time?

Sameer Shah: The basket of alternate channels would be anywhere between 25% to 30% odd in portfolio and the rest could be general trade including the chemist channel and that's where I mean we called out that we have significant synergies in terms of leveraging GCPL's distribution network for Park Avenue and Kamasutra Brands and visa versa leveraging Kamasutra's chemist network for leveraging GCPL's brands. So, that's a distribution synergy plans which we have which will kick start as we kind of speak.

Shirish Pardeshi: So, second and last question by when you think the consolidation will start and we will try and report the numbers? Is it from this quarter onwards or after a quarter we will do consolidation and start quoting the numbers?

Sameer Shah: From this quarter onwards itself I think the date of completion of transaction roughly would be around mid-May. So, the consolidation kick starts from this quarter onwards.

Moderator: Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: My question is on the historical revenue growth, while the two-year number looks good, if we look at three year CAGR it will be about 2%, with flat sales in FY24 even four year CAGR will be 1% to 2%. Just wanted to understand this FY20 is the right number to look at or how do we look at the historical growth rate of the business?

Sudhir Sitapati: Yes Kunal I think see what we will have to look at is many categories that got affected during COVID have recovered at different rates, largely depending on what companies have invested in the recovery. So, one has to look at the trajectory of whether it is recovering which the answer is yes and two is to really look at the secular growth of this category one has to look at a five-year period pre-COVID where the company grew at 10% and so did the category and the tenure before that where the category grew at 20%. Having seen a lot of COVID categories within GCPL and outside, these categories will recover. And one of the things we ask the question is post-COVID, is the category recovering, and the answer is it has recovered to pre-COVID levels. I would be very surprised if even other things being equal this didn't go back to pre-COVID levels of growth from here on.

Kunal Vora: Second and last question, on the margin improvement from high single digit to mid-20s with potential increase in advertisement spend, what are the risks and what are the key assumptions which are you building in, what are the low hanging fruits in terms of margin uplift?

Sudhir Sitapati: There are several cost levers. The two biggest of them are gross to net, some of those gross to net are pretty easy for us to do. So, I won't say they are high risk. And the overhead expenses, which is all expenses outside of COGS and advertising there seems to be almost a 2000 bps difference between us and RCCL. So, some of it of course maybe in the nature of the category but between these two there seems to be a lot more from high single digit to mid double digits. And leaving aside quite a lot even for increase in advertising.

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

Vivek: In terms of organization structure, so would you be also having employees coming in from Raymond or this will be managed by GCPL team?

Sudhir Sitapati: We certainly have employees coming in from Raymond, we are merging it. There is a lot of category knowledge that will reside within RCCL. There are lot of people in the company with expertise in the category and that is not something we would like to lose.

Vivek: And the other thing, Sudhir you started with a story on the Shampoo bit, so here the focus is primarily going to be Deos and Condoms or you are thinking already about Park Avenue as a mother brand and weaving a few more things beyond.

Sudhir Sitapati: I mean Shampoo was just an anecdote on what got me interested, but our strategic focus will be on Deodorants and Sexual Wellness. I mean Shampoos and Soaps are categories we know well. there are some cost synergies etc. but that's not been the basis for the thesis development here.

Nisa Godrej: I think one thing we have all been pleasantly surprised which is the quality of the Park Avenue spread and Kamasutra which probably explains its steady market share over these many years, even though it's the most under invested brand in the category. And I think sometimes with sharing these anecdotes I was just telling Sudhir today morning, my gym instructor congratulated me and said that she finds it a fantastic brand and that she keeps it all her gyms for all her trainers and customers to use. So, I think the products in themselves and the brands are both very strong. And we have seen in other categories also that we have seen this in Cinthol in Tamil Nadu and stuff when you get that perfume right it becomes quite a bit loyalty for the consumer.

Moderator: Thank you. The next question is from the line of Amit Sachdeva, from HSBC. Please go ahead.

Amit Sachdeva: So, my question is that the Deo category seems very attractive when we look at the past, historical growth rate. And it seems like it's the category to be in, but theoretically few have succeeded even many leaders have failed to sort of monetize that category growth. And in part it's very mass market, very A&P hungry and maybe one or two leaders take all and others remain fragmented. But if I interestingly compare China market with India markets, now China market deodorant is very small category. And China is about 15 year ahead of the consumption journey or at least a BPC evaluation of China is way ahead.

Now China, basically Deo is very small. In fact, India is four times the Deo market of China. And if I look at the fragrance market of China is way larger than the Deo market. And if I look at next say 20 years and India's economic incomes will be rising, consumer's preferences will be shifting from mass market to maybe more evolved category such as Fragrances. Do you see a risk that category takes some amount of transit headwind rather than a tailwind when consumer premiumizes and people who do mass market Deodorant have a right to win in say example the premium side which is Fragrances and more evolved consumer as it becomes. So, do you see that category while offers some tailwinds from the past and with some challenges of mass market being mass marketers when you said, but looking in the future, it might be a bit of a theoretically challenged category where it would be transitioning to something else?

Sudhir Sitapati: Now see the thing about Deodorants is Deodorants depends a lot on how marketers make it from a want to a need. China is an outlier; if you look at Brazil for example at the same income level as China it has $10 per capital consumption of deodorants. And it has been because of some of fantastic category development work done in Latin America. So, I would say China is the outlier, India is a below the curve but still not very far away from the curve. Indonesia, Thailand etc. are all on the curve, Latin America goes above the curve.

So, what differentiates if you draw a curve of deodorant consumption and per capital income, it's a line that rises exponentially till actually $20000 and then gradually flattens out, that's how Deodorants work. The country that are above the curve, which is Latin America etc. have done excellent work in making Deodorants into Oral that you need it to leave the house. The one, the outlier below the line is China where no work has been done in that area at all. India is slightly below the curve and most of Southeast Asia is on the curve. So, I would rather look at countries on the curve like Indonesia which we know quite well, Vietnam, Thailand etc. and not China.

You are right about one thing which is that as countries develop, perfumes also do become larger. Perfumes tends to be a fragmented market, is also correct. Deodorants doesn't tend to be a fragmented market. I mean the definition of deodorants is that which de-odorizes you. A perfume is that which makes you smell good in a fragrance. But there is room for growth for both deodorants and perfumes will both grow quite exponentially as countries develop.

And it's one of those categories by the way where per capital consumption can go as high, deodorants plus fragrance can go as high as $50, which is what the U.S. for example is today. So, deodorants becomes as smallest salient as countries become richer is also true, but that's a more attractive market, it's a more consolidated, more loyal market deodorants.

Amit Sachdeva: And if I may stretch a little bit on one more thing that, the kind of comment you made that despite very low A&P spend the Park Avenue has been still retaining its market share quite well. And that bit intrigues me because what is that value proposition in such a market where even Unilever has struggled with all the might of distribution and branding and capabilities or market development while Park Avenue silently could manage it without spending much. What is that value proposition that you discovered that the brand has been able to put together that others couldn't?

So, I am sort of interested and when you increase the A&P spends and how do you monetize that capability even further. I mean just want to understand from your perspective why this has happened that despite being low spenders they are able to maintain their market share?

Sudhir Sitapati: At the end of the day, it's speculative, but see I reckon that the product has high loyalty and brands that focus on one or two SKUs, so I told you like Park Avenue is, Park Avenue Good Morning and Voyage is 70% to 75% of Park Avenue. So, two SKUs, two fragrances, it's not you know they have gone down the path of building a habit with two, because there are two ways in which you can run fragrances, you can have a flirtatious model saying, hey you go to different party smell different and that's one way of building a category. The way Park Avenue has willing chosen, it's not done it through advertising, but willing through its products, has got two excellent fragrances Good Morning and Voyage, which it has built as a male habit in the morning to spray on your body and go to work. And you want to smell like that.

It is like the soaps that we use become part of our identity, you know the toothpaste we use, we smell that way. I think that is why Park Avenue has managed to be pretty resilient in the face of a lot of ups and downs in this category. And I think that's why it's a hidden jewel. I think we may have discovered in this category a brand that has got the makings of what can be a real cornerstone brand in this category.

Moderator: Ladies and gentlemen due to constraint of time, we will be taking our last question for today that is from the line of Chanchal from Birla. Please go ahead.

Chanchal: Sudhir just to understand the brand structure, now Park Avenue as a brand which will be managed by two entities. Godrej as a brand as you highlighted as Nisa highlighted within Godrej fraternity, Godrej Consumer, Godrej Properties, Godrej Lock, is a brand which is within the Godrej fraternity, but I mean can you give examples of the brands handled by two different entities and brand structure doesn't get differentiated.

Nisa Godrej: Even in the Godrej brand and we have done a lot of studies on when you advertise one category how does it sort of affect the other category or a prices in one category. And we see them, they are quite separated. So, when I think in India's history if you look at all these big conglomerates the Bajaj Group, they have a Bajaj Consumer Care, Bajaj Finance, Bajaj Auto.

So, I feel actually we could have a full conversation on this separately, because I don't want to take much of everyone's time, but you know legally we are very covered. Consumers buy the product because it's the relevance, the convincing of that advertising and the quality of the products in that category.

Chanchal: That answers the question, but still, I mean on a positive side, yes the brand has a positive rub-off but the problem is in the negative side also if the brand does something wrong, then we may have a negative repercussion that's the only worry. Otherwise, I think the structure if you have that right, it can play out.

Sudhir Sitapati: As part of the contract, we have some guidelines, for example, we have agreed categories that neither of us will enter for instance tobacco or cigarettes so on and so forth. So, we have some kind of guardrails. We are starting off from a position where the brands are both kind of - for the aspiring men, but as Nisa said there are plenty of brands that have started off from a common position, they have some things that mean the same. Park Avenue, it is a masculine brand in both sides, but then they go their different journeys and then they have to stand on their own feet to those two journeys.

Nisa Godrej: Yes let's say you have a Bajaj Motorbike, you have Bajaj Hair Oil, so and I am not even giving our examples which are varied. So, you know I think in everything there is probably some amount of risk but I don't think we see anything material here. And we will develop Park Avenue going forward, we have the opportunity also how do we use the Godrej brand on the pack and that association also which is available to us if we so choose to differentiate it more.

Moderator: Thank you. Ladies and gentlemen that would be our last question for today, on behalf of Godrej Consumer Products Limited, that concludes today's call. Thank you all for joining us and you may now disconnect your lines.