

CONSUMER GOODS

Q1FY20 conference call highlights compendium



In this compendium, we have put together Q1FY20 conference call highlights for all the companies under our sectoral coverage, which had conducted the conference call.

<i>Asian Paints</i>	<i>Bajaj Consumer Care</i>
<i>Berger Paints</i>	<i>Britannia Industries</i>
<i>Dabur</i>	<i>Emami</i>
<i>GSK Consumer Healthcare</i>	<i>Godrej Consumer</i>
<i>HUL</i>	<i>Marico</i>
<i>Pidilite</i>	<i>United Spirits</i>

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Asian Paints

Overall demand

- The Indian economy is going through a slowdown. Challenging business conditions are being seen in the coating industry as well.
- A broad-based economic slowdown may lead to softer volume growth in the coatings segment.
- Growth in smaller town is better than that in metros. Thus, rural has done better than urban.
- The lower-end and economy segments continue to grow faster than the company level growth rate.
- Channel inventory levels may have moved up. In the base quarter, there could have been some de-stocking owing to the anticipated rate reduction in GST.
- The company believes it is expanding the water-proofing market. The company is introducing products, facilitating new usages, etc. Trying to make waterproofing a default process (and before paints).
- The builder segment is a small part of the portfolio. This segment impacts growth rates in the Home improvement segment.
- Last year Diwali was delayed and thus painting period post monsoon was longer. This year, since Diwali is relatively early, the number of painting days between monsoon and the festival is lower.
- Higher marriage days in north India would also have aided the volume uptick.
- Infrastructure business also did better than that in the base quarter.
- Innovative schemes helped in channel filling driven by the channel-push at the dealer level.
- Some market share gains from the unorganised segment cannot be ruled out in the economy segment.
- Material prices remained soft; hence the company cut prices by ~0.4% on aggregate. These reductions happened in two instalments: the first on 1 May and the second on 1 June.
- The decorative business segment in India registered high double-digit volume growth and delivered strong performance across regions.

Decorative volume growth

- The decorative business segment in India registered high double-digit volume growth and delivered strong performance across regions.
- The company had innovative schemes working which helped in channel filling and hence there is channel push at dealer level. This helped company had more shelf space. However, company has not increased credit days etc.
- Economy segment is a larger market. Within rural, all range of products are being sold. In fact within Urban, the company is seeing higher sales of low-end paints.

- In the economy segment, applying the top coat directly is more prevalent. In the premium segment, waterproofing precedes putty/paint application.
- Ex-putty too, volume growth is in double digits.

Other segments

- The Automotive coatings JV (PPG-AP) business was affected by the severe slowdown in the automobile industry. The Industrial Coatings JV (AP-PPG) business too was impacted by the general demand slowdown.
- Both the segments in the Home Improvement category, viz., the Kitchen (Sleek) and Bath (Ess Ess) business, performed well during the quarter.
- A larger proportion of Sleek and Ess Ess goes in new construction; hence, their growth rates have been comparatively soft.

International business

- In the International operations, key units such as Egypt and Sri Lanka continue to witness challenging business conditions, which impacted the overall performance.
- The Ethiopia unit was able to manage forex during Q1FY20.

Margins

- Benign raw material prices supported the margins for the entire coatings business.
- Cost escalation for the Mysore and Vizag plants was limited since there was limited production at these plants in Q1FY20.
- Annual ad spends budget remains the same; however, ad intensity in Q1FY20 is typically soft.
- A large part of the cost for scaling up the Mysuru and Vizag plants has been incurred.
- Staff cost is fully factored in the cost of the new factory.

Distribution

- 10% YoY increase in outlets will happen.

Capex

- INR7bn for FY20

Bajaj Consumer Care

Overall

- Growth has been sluggish across rural and urban markets.
- Rural markets continue to lead growth across states, but sequential slowdown observed.
- Volume growth is 4.7% YoY.
- Slowdown in hair oil is led by the march-down in rural.
- Rural growth at 4.8% YoY and urban growth 4.1% YoY.
- After two months of data analysis and one month of planning, execution for the company's new strategy in consultation with Bain took effect on 1st July. The new strategy is three-pronged – improving effective communication, better assortment and increasing the reach. The company is trying this in one state at the moment.
- Assortment strategy will take about six months to implement.
- Lost-cost products doing better than premium products in this quarter. This normally happens when there is a strain in rural areas. This shows down-trading to low-cost amla and coconut oil.
- ADHO volumes at 5.2% YoY. Rural contribution at 41% and urban contribution at 59%.
- By month, April was good for the company, but May and June have been poor.
- The company is trying to take advantage of the slowdown by spending high on advertising while other players have cut down their ad spends.

Hair Care

- Bajaj Cool Almond Drops launched in March 2019 to extend the Almond Drops equity into the cooling segment.
- Increase in TV advertising spends would improve penetration.
- Focus on using Digital media to target urban consumers.
- Ravindra Jadeja taken on board as the brand ambassador.
- Bajaj Cool Almond Drops has the highest offtake among launches in hair oil (four months since launch).
- Market share of 1.3% in cooling oils in June 2019.
- Cooling oil coming under the Bajaj Almond Drop Oil umbrella gives the company more confidence.
- Focusing on the Hindi-speaking belt for the cooling oil.
- The company is trying to create differentiation by having a light hair oil in the cooling category.
- In the cooling category, the company's pricing is similar to competition.
- Hair oils category grew by 8.9% YoY in volume in MAT June 2019, whereas value growth has been 16% YoY.
- Volume market share % of Bajaj Almond Drops improved to 7.7% in MAT June 2019 versus 7.4% YoY in MAT June 2018.
- Value market share % of Bajaj Almond Drops improved to 9.6% in MAT June 2019 versus 9.5% in MAT June 2018.

- Strong penetration increase in ADHO at 21% (MAT March 2019) versus 17.8% (MAT March 2018) with a 22% YoY increase in households.
- Largest SKU in ADHO is the 100ml pack.

Nomarks

- Bajaj Nomarks Antimarks Ayurvedic Sunscreen launched in March 2019.
- Ayurvedic sunscreen products were developed with proven efficacy and consumer-validated sensorials. Products' fragrances were developed in partnership with an internationally acclaimed fragrance house.
- Product very well accepted in modern trade and e-commerce.
- The antimarks category grew by 7.3% YoY in volume and 10.2% YoY in value in MAT June 2019.
- Nomarks MAT June 2019 market share % improved to 8.6% from 8% in MAT June 2018.
- Sunscreen's share in modern trade chains (Grofers, Apollo, Vishal) has hit 3–4%.
- In test market, Sunscreen contributes to 13–14% of Nomarks turnover.
- Sunscreen market is very fragmented. No big leaders.

Input cost and margins

- The landed cost of LLP for the quarter increased marginally by 0.5% YoY.
- The landed cost of RMO for the quarter increased by 2.6% YoY.
- Other expenditure up largely due increase in sales & administrative overheads and advertising, which has led to EBITDA margin compression.
- The company looking at cost optimisation, which should help other expenditure reduce over coming quarters.
- Promotions restricted to modern trade. In general trade, competitive intensity hasn't gone up.
- The company has 570 employees on the roll, looking to reduce it by 100 through outsourcing.
- Another way the company will optimise employee cost will be increasing the variable pay component.
- The company has been re-engineering its glass bottles; hence, the weight has reduced, so has the cost. This has compensated for the inflation in glass.
- The company is covered till October for LLP.
- Incremental ad spend will be made towards almond hair oil.

International business

- IB reboot completed last fiscal.
- Business growing rapidly – added 250bps to total company growth (value).
- Focus on key geographies, all of which are firing.
- Thrust on secondary sales; registered 60%+ growth (value).

Distribution network

- Bajaj Almond Drops now available in over 4mn outlets.
- The target is to increase overall reach and not direct-reach.

- Lowering of Wholesale contribution from 60% to 33% over the last 2.5 years.
- Wholesale has seen a sharper sequential slowdown.
- Urban Retail continues to be stable.
- Cool Almond Drops accepted well by trade.
- Modern trade sustained its strong growth, up 22.5% for Q1.
- Channels such as e-commerce and pharma grew by 217% and 117%, helping overall growth of the alternate channel.
- Nomarks brand showed solid growth of 300%-plus with the help of Sunscreen and deeper reach.
- No business done in CSD for the quarter due to procedural issues thereof due to the change in the company's name.
- Wholesale makes up 33–34% by both value and volume and Retail the rest in general trade.
- The company would maintain the current wholesale and retail split.
- CSD contribution was 5% three years ago, 2–3% two years ago. Nil in the current quarter. The issue should be resolved in a quarter.
- Modern trade contribution at 7.5% in Q1FY20.

Others

- Other income includes mark-to-market gains as well. The company invests in AAA-rated bonds, mutual funds and fixed deposits.
- Bain is only working on brand-building. Currently, not working on networking etc.
- Relooking at capex for the manufacturing plant. Thinking about outsourcing instead. The final decision is yet to be taken.
- The company doesn't have a high incidence of slowing, moving or expired stock. Right now, it is at 0.3–0.4%, so the scope for further improvement is minimal.
- The company has a policy of paying out at least one-third of its PAT as dividend.
- Promoter holding is 60%.

Berger Paints

Industry Outlook

- The decorative paint segment is expected to sustain performance subject to the monsoon's performance. There was a strong channel push as well.
- Expect retail sales to be in line with company sales.
- Paint companies are growing more since most of the demand is repainting-led.
- **Tier 2 and 3 towns have done better than most of other geographies.**
- Base of the pyramid as well as top of the pyramid paints are growing fast. Only soft growth product are solvent-based.
- New products did very well—"Home shield roof coating", "Easy Clean" and "Anti dust" have specifically done well.
- **Price reduction of 0.5% of overall basket. Price cut taken in solvent-based products.**
- There is a change in distributors commission in UP. Through this, the company will approach weaker markets.
- Infrastructure and Protective coating segment expected to sustain growth performance.
- Industrial business contributes 20% to overall business.
- Impact of volatility in crude oil prices, adverse movement in exchange rates, and soft demand conditions in the automotive sector continue to remain potential concerns.
- In an environment of liquidity crisis, the company is refusing business on extended credit terms, particularly wherein margins are low.
- The adhesives business in Poland is mainly for the insulation system. Will undertake adhesives business in India once insulation business picks up in India.
- Paint cost is only 27–28% of the overall painting cost.
- The construction chemicals business is doing well.

Standalone

- Decorative business had another strong all-round quarterly performance backed by price increases in FY19.
- General Industrial/Automotive business delivered muted performance for the quarter on account of continued weakness in the automotive sector.
- **Protective coatings business delivered another quarter of robust top-line growth. Berger remains the market leader in protective coatings.** Protective coating would be in large-scale projects – oil rigs, power plants, roads, etc.

International

- Wholly owned subsidiary Bolix S.A showed improved performance both on top line and profitability.
- Wholly owned subsidiary SBL Specialty Coatings Private Limited (erstwhile Saboo Coatings Limited) posted steady top line and profitability growth.

- Nepal has the highest profitability of all the subsidiaries and continues to be so. On the demand side, some corrections needed to be made; network corrections have also happened.

Margins

- Raw materials continue to decline. A favourable forex exchange rate helped too.
- Rutiles, monomers and other crude-based raw materials have decelerated.
- Rutile prices have remained broadly flattish.
- **In industrial paints, some price hikes are still required.**
- Growth of premium products is faster, which is also helping margin expansion.
- Material cost as a percentage to sales is lower on account of price increases in FY19 and declining raw material trends.
- There was a marginal price decrease in some solvent-based paints to reflect lower crude-based raw material prices.

Distributor

- Dealer addition would be 10% and this was achieved in FY19.

Tax rate and capex

- The Assam impact on overall turnover is limited and hence effective tax rate will remain similar.
- Capex likely to be in a range of INR2–2.5bn.

Britannia Industries

Overall growth

- The company outpaced the market and strengthened its market position during this phase of sluggish demand. **Slowdown is seen in the value segment.**
- Improvement likely from Diwali.
- **Volume growth came in at 3% and the balance 3% growth was price/mix-led.**
- Slight improvement in July vis-à-vis Q1FY20.
- Very small price hike taken in Q1FY20.
- **Earlier, rural was growing 1.5x urban. Now rural is growing slower than urban.** Furthermore, urban market has also slowed down.
- Some slowdown is owing to lack of consumer confidence.
- Earlier competitor was inadequately placed, and Britannia had taken advantage of that. Now that is no more an industry phenomenon.
- Britannia's cookie business grew 70% YoY in H1FY19. Now that is in the base and, on that base, growth is flat this quarter. Now, premium products are being sold more and that is aiding the product mix.
- **Premium part of portfolio is >65% and is growing fast.**
- Growth in the Hindi belt restricted due to rural distress. The Hindi belt has grown at the same pace as the company-wide growth rate.
- Share gains continue (up 1.3%).
- **Contribution of four new categories was 2.5% of revenue.**
- The company remains hopeful that the government will take requisite measures to boost the economy and get it back on a high-growth trajectory.
- Journey to become a "Total Foods Company" is progressing well with good response to new products, viz., "Treat Wafers" and "Winkin Cow Milkshakes".
- The company is redefining bakery with the launch of "baked salted snacks" and "Croissant".
- Recent innovative product launches, viz., Open Sandwich biscuit "Treat Stars" and launched centre-filled biscuit "Treat Burst", which are gaining traction and redefining the biscuit space.
- The priority now is to scale up the recent launches and achieve profitable growth.
- The company has received back INR1,850mn of ICDs from group companies. So, INR6,850mn outstanding at end-FY19 has reduced to under INR5,000mn. These outstanding will be further reduced by INR1,500mn over the next one year.
- According to the company policy, outstanding loans and advances to group companies will not increase beyond INR5,000mn.
- PAT for subsidiaries has dipped from INR120mn to INR10mn since there was a loss in the dairy business and upfront cost pertaining to Britchip (the croissant business).

- Management believes Britannia products offer quality at a proper price. It also believes Amul's recent launches are premium, and that selling premium products is a bit difficult.

Cake & Breads

- Focus on driving profitable growth and entering new markets for breads.

Dairy

- Growth in double digit on the back of the milk shakes' launch.
- Profitability impacted due to inflation in dairy prices.
- The dairy business is classified into two subsidiaries—milk shakes and Yogurts are under Britannia, whereas core dairy is under VDP.
- No capital employed in milk shakes; hence the return on capital employed is very high.
- Payback for milk shakes and wafers would be less than four years.

New businesses

- Salty snacks – Will take more than one year to reach pan-India.
- Croissant – Struggled initially in manufacturing. Solution to all ingredients available. Focusing on ramping up capacity with the national launch soon.
- All new businesses have gross margins better than those in the Biscuit business.

International business

- While the Middle East continues to be challenging, America and Asia Pacific are growing well.
- Nepal local operations commenced in April 2019 and are growing well in double digits. Import duties in Nepal are now 40%; it will benefit Britannia since the company already has plant up and running there.
- **Foray into southeast Asia is underway, post-Nepal.**
- India exports from Britannia to MENA are accounted for in Britannia.

Margins

- On the cost front, the company witnessed moderate inflation in the prices of key raw materials for the bakery business. Overall, the inflation is 4%.
- Had taken a long position in certain commodities such as flour, which has helped in managing inventory.
- **Looking at even more cost efficiency — budget is INR2,650mn.**
- However, the inordinate increase in milk prices impacted profitability of the Dairy business adversely.
- Market leader should not cut on ad spends and that is what Britannia has done.
- The company strengthened its brand equity through focused campaigns and invested in building capabilities & structures for both the base business and the strategic business units to drive future growth.
- With a focus on tightening belt in this phase of low growths, the company has accelerated the cost efficiency initiatives to maintain the shape of business.

- Ad spend was INR1,300mn (INR1,070mn in Q1FY19).

Balance sheet, capex and others

- **Debt went up by INR5bn to purchase wheat.** Purchased wheat amounted to INR7bn during the quarter. Wheat cost constitutes 25% of overall COGS.
- This debt will come down by December.
- Ranjangaon will be fully operational by end-FY21.
- Impairment of INR160mn towards the Kolkata factory (VRS).

Dabur

Overall demand

- Domestic revenue grew 11.0% YoY led by volume growth of 9.6% YoY. Inventory levels continue to remain at 18-20 days and there is no increased channel filling.
- Eyeing mid-to-high single digit volume growth for FY20.
- Rural grew at 13% YoY and hence much faster than urban counterpart.
- Weighted average price hike is 1.4% and going ahead there is no inflationary pressure since Dabur has sufficient covers. Max price hikes in next quarter could be overall 2%.
- April was exceptionally good and so was May. However, slowdown was seen more in June. More slowdown was seen in North and West, especially beverages. June sales were ~7% and sales growth has been dipping in coming months. This are Nielsen's findings.
- Trade members are asking for more liquidity. Expects some broader slowdown in the future.
- Launched more LUPs for rural distribution, thereby making products more accessible.
- A robust distribution expansion strategy in rural India, higher investments in Power Brands and a revamp of the supply chain infrastructure helped Dabur mitigate the impact of macroeconomic headwinds. It posted 9.3% YoY jump in Q1FY20 consolidated revenue.
- While the macroeconomic environment continues to be challenging with an overall demand slowdown in India and competitive intensity remaining high, Dabur has executed well on its distribution expansion strategy in rural India which has resulted in consistent improvement of performance.
- For Dabur, rural demand is growing ahead of urban.
- Despite tough operating conditions and high competitive pressure, Dabur brands reported a robust performance during the quarter. They grew ahead of the market, delivering strong double-digit growth and gaining market share across key categories like health supplements, hair care, oral care and foods.
- Sharpened focus on the consumer health space and disproportionately higher investments in Power Brands have started paying dividends. Dabur will continue to invest in brands, accelerate product innovation efforts and enhance capabilities for sustainable future growth.
- New FSSAI regulations: The company is part of regulations. It has already reduced sugar content by 5%. If these regulations come into effect, 70% of Dabur's portfolio could be impacted. Looking to have portfolio with no sugar to low sugar products.
- Dabur has eight Power Brands—Dabur Amla, Dabur Red toothpaste, Real, Chawanprayash, Honey, Honitus, Lal Tail and Pudín Hara. Growth of 10-12% should be CAGR over the next four-five years. Revenue contribution of these brands will be ~65%.
- India funds are not being diverted for international expansion.
- Launch of premium products for e-commerce only is still six months away.

Domestic growth

- Domestic revenue grew 11.0% YoY led by volume growth of 9.6% YoY.
- Continues to invest in Pudín Hara, Lal Tail and Honitus. These have grown at 18%, 5-6% and 8-10% YoY, respectively. Of these, Pudín Hara and Honitus are sub-INR1bn category. Once these cross INR1bn, Dabur will take up focus on other products. For FY19, these three had grown at >15% YoY.

Healthcare – Segment grew 17.8% YoY.

Health supplements

- Category grew 19.6% YoY.
- Recorded strong growth on good momentum in Dabur Glucose.
- Dabur's market share in Glucose category increased by 106bps.
- Overall summer season has been short.
- Taken price increase in honey. However, seeing some competition from regional players, but not worried.
- Honey growth for Q1FY20 is 5% YoY and was 4% YoY in Q4FY19.

Digestives

- Category grew 18.2% YoY
- Driven by continued strong performance of Hajmola tablets and Pudín Hara.
- Hajmola Chat Cola continues to gain traction.

OTC

- Category grew 13.1% YoY.
- OTC posted strong double digit growth on account of good growth in Shilajit and Badam Tail.

Ethicals

- Category grew 15.9% YoY.
- Driven by robust growth across product categories riding medico-marketing, distribution expansion and activations.
- Classical ethical is growing at 10% - this is what is being prescribed by Doctors. 121 feet on street have been added; this is helping reach 8,000 doctors (reach ~36,000 doctors now).
- Branded ethicals is about 30% of ethical business. This is growing at 25% YoY. Lot of room to expand this.

Home & Personal care – Segment grew 11.7% YoY.

Shampoos& Post Wash

- Category grew 10.9% YoY.
- Driven by strong growth in the newly launched bottles.
- Market share in shampoo category increased by ~46bps to 5.3%.

Hair oils

- Category grew 12.1% YoY.
- Amla franchise continues to gain momentum with double digit growth.
- Market share in hair oil increased by ~46bps.
- Offers in almond oil currently running in MT.

Oral care

- Category grew 11.4% YoY.
- Overall naturals category growth rate for industry at 18%.
- Red Toothpaste franchise sustained growth momentum with RTP growing 15.0% YoY.
- Value market share improved by ~40bps.
- Babool Ayurvedic toothpaste was launched during the quarter.
- Will embark on new set of advertising for Babool Ayurvedic. Price points are also competitive at INR10 and INR20. These will not directly compete with Patanjali's since its price point is higher.
- There is a lot of traction for Babool in rural areas. Industry is moving towards INR10 price point and hence Babool should expand incrementally.
- Working aggressively to revive Meswak.
- June end MAT market share is 15.4%, up 30bps YoY.

Home care

- Category grew 10.9% YoY driven by strong growth in Odonil.
- Odomos was impacted due to low incidence of mosquito-led diseases.

Skin & Salon

- Category grew 12.1% YoY driven by good growth of bleach portfolio and Gulabari.
- Fem HRC was restaged with a new TVC.

Foods

- Segment grew 1.5% YoY. Competitive intensity remains intense.
- Category declined 3.5% and volume decline 5%. Thus there are headwinds in the segment. In broader beverages market, there is too much competition across juices, CSD as well as milk-based beverages.
- Will step up on innovations going ahead.
- Investing in capex to enable to launch smaller SKU for rural route to market.
- Penetration of juices is mere 3-5%.
- Initial feedback of INR10 Real Koolerz is encouraging. Will take time for distribution to catch up to pan-India basis.

Beverages

- Category grew 1.0% YoY.

- Beverages reported low growth on account of late onset of summer in North India and heightened activity by milk-based beverage manufacturers.
- Continues to maintain peak market share of 56% plus.
- Masala range expanded with introduction of Masala Mixed Fruit and Masala Aam Panna variants.
- Launched a new INR10 SKU for Real Koolerz Mango.

Culinary

- Category grew 12.4% YoY.
- Lemoneez, Hommade Tomato Puree and Real Honey reported strong double digit growth.
- Packaging revamp for the entire range.

International business

- International business showing signs of recovery with CC growth of 7.7% YoY.
- Hobby had a strong quarter—grew 41% YoY in CC; however, currency devaluation impacted in translation.
- SSA business grew 9.5% YoY with Nigeria growing 22% YoY in CC.
- Nepal business grew 8.3% YoY; Pakistan business grew 22.2% YoY.
- MENA market was flattish—signs of recovery in GCC markets.
- Namaste business reported 4.1% YoY growth in the domestic US business and 9.4% YoY in International business (now contributes 40% of Namaste).
- MENA contributes 50% to international business. Seeing strong signs of revival in MENA markets. From decline, there is flattish growth.
- Namaste will now lap up from low base and hence growth should be strong.
- Turkey devaluation issue will continue for two quarters more till devaluation comes in the base.
- Has separate dedicated CEO for the international business.
- US business is stabilizing and profits are also increasing in the Namaste business.

Margin

- Hair oil brands entail high gross margins. Offers and promotions cost are getting offset by higher volume and revenue growth.
- Investments in Power Brands up 15%. Different aggression shown in different trade channels.
- Different brands will be supported through either ad spends, trade routes or promotions. Thus, re-directed money from some fringe brands to Power Brands.
- Wherever competitive intensity is high (hair oil, oral care and honey) ads as well as promotions were run. In case of healthcare, it was more trade driven promotions.

- Going ahead, whenever there will be gross margin and operating leverage benefit, the company will plough back for higher ad spends. Will look at 20% EBITDA margin for full year.

Distribution

- Dabur's rural footprint has been expanded to over 48,000 villages now, up from 44,000 villages in March 2019.
- Seeing some distributors dissipating in Tier 1 geographies since margins are shrinking. Further, they are facing sales man issue as they are moving to Swiggy, Zomato, etc.
- Urban – 1.15mn touchpoints. This year target is to reach 1.2mn. Possible to take this number to 2-3 mn outlets over the next few years.
- Rural – will reach to 55,000 villages in FY20. Potential is to reach to 60,000 villages which contribute 50% of FMCG's revenues.
- Alternate channels – E com contributes 1.4% of business and will take to 2% of overall business in FY20.
- MT – Shares are lower than GT.
- Apart from this will focus more on B2B channels.
- Wholesale contribution is ~47%. Some credit crunch witnessed at trade channel.
- No challenge seen in RM procurement.

Others

- Treasury investment taken hit of 40% on bonds of Dewan's exposure of INR500mn.
- Overall capex of INR2.5-3bn for beverages in India and Nepal since capacity utilization has reached 70% levels.

Emami

Overall growth

- Consolidated volume grew 2% YoY, whereas domestic volume growth was flat.
- All geographies are behaving in the same way. **Rural grew at 1% YoY versus Urban at 2.5% YoY.**
- Business is expected to bounce back over the coming quarters.
- Looking at product extensions at this point in time rather than launches and new brands.
- Outcome of plans with BCG will be rolled out over the next six months.
- 2% YoY growth in domestic business, 34% YoY growth in international business and decline of 4% YoY in CSD business.
- Promoter pledge is 52%. Committed to reducing pledge over the next six–nine months.

Navratna

- Navratna grew by 4% YoY on a high base of 19% YoY.
- Navratna may not grow in double digit since the peak season for the product is over.
- Market share in cool oils is 66.8%, an increase of 60bps YoY. Not seeing a shift among consumers from cooling oil to other forms of hair oil.
- New TV ad for Navratna cool generated a good consumer response.

Kesh King

- Kesh King grew 30% YoY. Average growth for full year should be 15–17%. Relatively slow growth seen in Kesh Kanti.
- Marketing for Kesh King has been changed.
- Ayurvedic medicinal oil market share at 26%, up 190bps YoY.

7 Oils in One

- 7 Oils in One grew 31% YoY.
- Launched a 300ml SKU.
- Biggest selling pack in 7 Oils in One is the large one, viz., >100ml.

Pain management

- Pain management range declined by 6% YoY owing to a high base of 39% YoY.
- Balms market share at 54.7%, up 130bps YoY.
- **Balms should grow 6–7% in FY20.**
- Mentho plus balm became the no 2 balm, overtaking Amrutanjan.

Male grooming

- Male grooming range declined 7% YoY.
- Fairness creams maintain leadership with a market share of 64.6%.
- Male fairness category is declining.
- Launched new thematic campaign for fair and handsome featuring Shah Rukh Khan.
- Launched HE Magic Duo, a unique deodorant that packs two fragrances in one bottle.

Boro Plus

- Q1 being a non-season, the Boroplus range declined 7% YoY.
- Antiseptic creams: Market share at 76%, up 80bps YoY

Healthcare range

- The Healthcare range contracted 3% YoY.
- High base of 28% YoY impacted growth.
- The Nityam range, Generics and Ethicals showed strong growth.
- Pancharistha declined 12% YoY. Do not see Pancharistha bouncing back soon.

International business

- Sales shot up 34% YoY.
- Excluding Crème 21, sales grew 10% YoY.
- SAARC and MENAP grew strongly.
- Market share gains continue across geographies—Bangladesh, the UAE and Russia.

Margins

- Gross margin declined owing to an increase in raw material costs.
- **Expect gross margin expansion ahead since mentha prices have started decelerating.**
- Ad spends will remain at the same level as last year.
- Once demand picks up, ad spends can be increased in five days. So, the company will raise ad spends only when it sees demand picking up.
- Margins in the international business are lower than the domestic business.

Others

- Tax rate for the quarter was high owing to some deferred tax. For the full year, however, the tax rate would be about 22%.
- **Contribution of rural is 50–55% and that segment is slowing down.** Given uncertain times, the company is looking to save cost; hence, not looking at big brands. Launching a brand costs INR500–,000mn.
- E-commerce is a big opportunity and the company is focusing on these channels in a big way.
- Growth in modern trade has been 17% YoY, versus 40–50% YoY earlier. Modern trade contributes 9% to sales.
- Wholesale contribution is 40–43%.
- Crème 21 currently will be restricted to MENA countries (80% contribution).
- **Direct distribution has touched 0.95mn outlets.**
- Inventory in international business is 50–60 days.
- No major capex planned for FY20.

GSK Consumer Healthcare

Overall business

- Volume growth is broad based and cuts across portfolios and channels.
- GSK launched a new communication to strengthen kids connect and to encourage cold consumption of HFD drinks to improve seasonality impacts of HFD drinks which are generally consumed hot hence summer is weak sales wise.
- Competitive intensity is the same. Market share improvement down due to new products and ad campaign.
- The company is using cost rationalization savings and investing it in ad spends.
- Management believes adjacent businesses like boost bites biscuits a good opportunity.
- Sachet contribution 10.5% to sales, volume growth around 14%.
- Rural growth is sideways. No downtick no uptick. As per Nielsen data, Urban and rural growth in line.
- Domestic volume growth at 4% YoY. Broadly the same for boost and Horlicks.
- Exports sales grew by 15% YoY plus. Large part contributed by Malaysia because Malaysia is not the base.

HUL–GSK deal

- The merger process is meeting expected timeline.
- The Scheme of Amalgamation was filed with the NCLT seeking directions to hold equity shareholders' and unsecured creditors' meetings. Pursuant to the order dated April 12, 2019, passed by the NCLT, the tribunal convened meetings of the Equity Shareholders and Unsecured Creditors of the Company on June 1, 2019. The Equity Shareholders and Unsecured Creditors of the Company, at their respective meetings, approved the Resolution as set out in the Notice of Tribunal Convened Meeting, approved the Scheme of Amalgamation with requisite majority. The Company has now filed the requisite Company Scheme Petition seeking sanction of the NCLT.

Horlicks

- Horlicks continues to be at No. 1 position in the HFD category with volume market share of 50.9% and value market share of 44.3%.
- The company launched Active Horlicks with Fiber during the quarter.
- GSK sees huge opportunity in Adult HFD segment. Launched Active Horlicks in south and east markets.
- Horlicks protein plus INR 500 mn target for FY20 on track. Close to 5.5%-6% market share.

Boost

- Boost's volume and value market shares at 14.9% and 11.2%, respectively.
- GSK launched Boost Bites—chocolate flavoured biscuits during the quarter leveraged by brand equity of boost.
- Launched Boost Bites in all 4 southern states.
- The company continues to be excited about Boost RTD however retaining it to the southern market for now.

Others business

- Auxiliary business growth was 15.5%

Distribution

- Highest overall distribution – 2.0mn vs 1.8 mn outlet in previous year.
- Distribution for significant proportion of packs have grown. Sachet however driving distribution the fastest.

Margins

- GSK is facing inflationary pressure from Q1FY20. Steep inflation in dairy prices, around 40% YoY. Barley price up 30% YoY.
- High single digit inflation for the remainder part of the year.
- Pricing will be line with CPI. Company generally takes price hikes in January. The company will maintain that.
- Select SKU price hike taken in July - less than 1% price hike.
- IND AS 116 impact - EBITDA increased by INR 50 mn which works out to be a 50bps impact. PBT INR 2 mn net negative impact.
- Employee cost on account of Nabha factory and some provisions due to the upcoming merger. Retention cost is a one off for this year.
- Other income growth is due to a one off, clearance of old vendor balance in the base quarter. Adjusting for that the growth in other income is 15% YoY.
- One third of the COGS is facing high single digit inflation for the rest of year. Company is covered for the YTD period.

Godrej Consumer

Overall volume growth

- Volume growth of 5% YoY (two-year CAGR: 10%); value growth of 1% YoY (two-year CAGR: 8%).
- April was slowest, and June performance was better than April and May.
- Onset of monsoon helps overall revenue growth; hence, June was relatively better for the HI segment.
- April and May were softer for hair colour since promotions were being run till March, but retailers had inventory till April-end to mid-May.
- Apart from this, the company has started micro marketing while planning helped in clocking better sales from April till June as month progresses.
- Two indicators watching closely: (i) monsoon — deficit has been reducing; and (ii) liquidity shortage.
- Strong innovations lined up across product categories.
- Looking at some e-commerce-focussed launches too.
- Continue to witness general consumption slowdown; hopeful of gradual recovery in coming quarters.
- Volume growth led by product launches, effective marketing campaigns and consumer offers.

Soaps

- Sales growth of 3% YoY led by strong volume growth; two-year value CAGR of 7%.
- Continue to gain market shares.
- **Margins in the soap business have been improving.** Commodity cost in soaps will remain benign.
- Focus on micro-marketing initiatives for scaling up growth.

HI

- Sales decline of 4% YoY; two-year sales CAGR of 7%.
- Extended category impacted sales; Nielsen data too shows slowdown in category growth.
- Expect H1FY20 growth to be better than Q1FY20 growth.
- Better performance in HI expected in coming quarters.
- Power chip relaunch will happen in Q2FY20.
- Naturals neem incense stick scaled up to six states up to July 2019 backed by marketing investments; accelerated PR efforts to discourage usage of illegal incense sticks.
- States where it has been launched depends on saliency of those product in those states. May not launch pan-India currently.
- Happy to see share gains in incense sticks. In AP, it has been three months from the launch and market share is in double digit.
- Driving volume growth in electrics through consumer offers.
- Strong NPD pipeline, innovations planned for H2FY20.
- There are only two prevailing price points in LV: INR72 and INR65.

Hair colors

- Sales growth flat during the quarter; two-year CAGR of 6%.
- Godrej Expert Rich Crème performed well during the quarter.
- Launched Godrej Expert Easy 5 minute shampoo hair colour in Southern states.

International business**Indonesia**

- Sales growth of 4% YoY in constant currency terms led by air fresheners.
- Hypermarket and supermarket are going through a slowdown. Now there is some shift happening towards mini markets and general trade. The company is undertaking some re-negotiations about commission with mini markets etc.
- Sales growth partially impacted by modern retail channel. Sales moving to other channels. This issue is temporary though.
- However, secondary and tertiary growth rates have remained strong.
- Focus on stepping up innovation momentum across categories and gradual expansion of general trade distribution (Project RISE) would drive healthy growth going ahead.
- Adjusted EBITDA margin expanded by 140bps YoY led by gross margin expansion.

Gaum cluster

- Sales growth of 2% YoY in constant currency terms; Africa growth of 4% YoY in constant currency terms.
- South Africa off to a good start with double-digit sales growth; adverse macro conditions in smaller markets impacted growth.
- Pleased to see recovery in South Africa markets. West Africa is holding steady. Areas for growth potential are Kenya and smaller markets like Angola. Rest of Africa is 20% of portfolio, and those markets are seeing challenges.
- **Wet hair portfolio scaled up very well.**
- Both dry hair (~52% of the overall sales) and rest of the portfolio grew in low single digits.
- Scaling up wet hair care and non-braids portfolio within dry hair to drive sustainable and profitable sales growth in coming quarters.
- Looking to come out with lower cost products in geographies, which are not performing well.
- Gained market share in wet hair care in Kenya and South Africa.
- Braids and hair colour both have clocked double-digit volume growth.
- Adjusted EBITDA margin decreased 140bps YoY mainly driven by upfront marketing investment.
- **Higher the salience of wet hair, the better the margin profile.**
- Incremental ad spends will be lower.

Margins

- EBITDA growth of 8% YoY (margin expansion of 140bps YoY) driven by gross margin expansion and lower variable-linked remuneration.
- Margin expansion in Indonesia and LATAM. Continue to assume marketing investments up front in Africa.

- **Company has undertaken Zero based budgeting in ad spends.**

Others

- Some brands were owned by its Dubai-based company. Those brands have been sold and pursuant, to which there was tax payable.
- These brands were relocated to Indonesia since brands were being used in Indonesia.

HUL

Overall growth

- Domestic Consumer Growth was 7% YoY with underlying volume growth at 5% YoY.
- Against the backdrop of moderate market growth, HUL delivered a resilient performance driven by expansion of consumer franchise, improvement in portfolio mix and sustained growth in margins.
- Near-term demand likely to remain subdued given macroeconomic conditions. Demand should improve in **H2FY20**.
- Rural growth rates on a par with urban growth.
- Rural contribution is 30–35%.
- Not seen deceleration in June vis-a-vis prior months. But demand remained soft in Q1FY20 vis-à-vis Q4FY19.
- Overall, competitive intensity has come down.
- Seeing good growth in Uttar Pradesh and Bihar.
- CSD channel's buying behaviour continues to remain erratic. Some pressure pertaining to receivables has been seen in this channel.
- Not seeing consumers down-trading.
- Unorganised players are facing some stress.
- The focus is on expanding access packs and extending categories via innovation.
- With the union budget focused on village and poor people, the company continues to remain optimistic about improvement in rural growth.
- Right policy measures will improve consumer confidence as well.
- The company is focusing on strengthening the core, leading market development and premiumisation, driving channel transformation and building brands with purpose. This continues to serve the company well.
- With respect to the merger: HUL has received approval from shareholders and creditors for the proposed merger with GSK CH and that is on track, subject to NCLT approval, for consummation before the end of 2019.

Home care

- Home Care continues to tread its journey of double-digit growth.
- Fabric Wash performance was driven by relentless focus on core and market development initiatives.
- Liquids is currently very small, but a very large component of developed economies.
- Not launching Love, Home and Planet at this point in time.
- The Rin brand was relaunched nationally this quarter.
- Launched Sunlight liquid in select geographies.
- Household Care delivered another quarter of strong performance with innovation and relaunches continuing to build momentum. Portfolio growth led by Central and South markets. Variants and relaunches continue to build momentum.

- In Water Purifiers, the focus continues to be the premium range; the redesigned 'Go-to-Market' model is now in place.
- In Home care, ad spends were lower than previous quarters.

Beauty and Personal care

- Within Beauty and Personal Care, Personal Products' performance was steady while Personal Wash witnessed a muted delivery, particularly in the popular segment. Promotions in Lux and Lifebuoy to be undertaken in Q2FY20.
- Overall, the popular soap segment has seen slower growth.
- Commodity cost has remained benign in Personal Wash; hence, a lot of promotions and MRP cuts have happened. Despite this, volume did not grow.
- In light of the changes effected by the budget, the company has started raising prices selectively.
- Skin Care registered broad-based growth (across brands).
- Pond's Men range was relaunched and FAL Ayurveda facewash and facial kits were also launched during the quarter.
- Hair Care had a good performance across the portfolio. Two new Sunsilk variants with natural ingredients were launched nationally to enhance presence in naturals.
- Lever Ayush Hair Oil was launched and is seeing good traction.
- Colour Cosmetics sustained double-digit growth with a slew of shade expansions increasing online and offline traffic. Elle 18 Lasting Glow Compact was launched nationally.
- In Oral Care, good momentum continues in Close Up and Lever Ayush. At an appropriate time, we will look at expanding Lever Ayush beyond south India. On Pepsodent, management said it is still work-in-progress and some tests are being conducted.
- In Deodorants, the focus is on driving market development and strengthening the brand purpose.
- Personal Wash: National launches of Lux Botanicals and Pears Naturale range in the premium segment and launch of Fair & Lovely Soap in select geographies.
- Improving share of liquids within personal care.
- Gross margin expansion has led to EBITDA margin expansion for the quarter.

Foods & Refreshments

- Foods & Refreshment delivered a steady performance.
- Beverages witnessed a reasonable quarter driven by consistent strategy across brands and markets. Leveraging new trends in consumer taste preferences through innovation.
- Ice Cream and Frozen Desserts had a good season and delivered strong double-digit growth led by innovation.
- In Foods, core segments performed well. The company continues to leverage new trends in consumer taste preferences through innovation.

- News about financial stress for tea plantations are true, but so it is for any commodity-led product.

Margins

- Margin expansion was driven by an improved mix, leverage in operating and advertising spends and cost optimization agenda.
- In July, prices of Lux and Lifebuoy were reduced by 4–6%. This is to pass the value equation to the end consumer given company expects cost to continue to remain benign.
- Home care has not seen a sizeable increase in gross margin.
- Palm oil has come down by 15–20% YoY. Thus, in spite of custom duty increase effected in the union budget, price cuts have been taken in Lux and Lifebuoy.
- Overall ad spends have been reduced also because of lower competitive intensity. Competitive intensity in modern trade remains high, but that has been largely tackled through trade promotions.

Distribution

- Overall, modern trade growth has moderated. That said, MT continues to outgrow Urban. The share of MT would be 15–17%.

Marico

Overall demand

- In Q1FY20, the company delivered strong earnings growth on back of resilient volume growth amidst moderation in the overall demand environment in the domestic market.
- Marico is targeting volume growth of 8-10% and top-line growth of 13-15% (depending on inflation) over the medium term. However, it expects volume and value growth in FY20 to be in high single digits.
- Consumer spending remains weak. But Marico continues to focus on innovations and consumer promotions.
- Post GST, wholesale channel started facing challenges and this continues.
- Marico is eyeing **6-8% YoY volume growth in the domestic business.**
- **Reversal of copra prices expected from Q3FY20. Current buying is 25% below historical price.**
- Will continue to focus on innovations and ad spends will be 10% of sales.
- Revenue from operations grew 7% YoY with an underlying domestic volume growth of 6% YoY and constant currency growth of 7% YoY in the international business.
- There was a one-time trade inventory correction in the Gulf business. Adjusting for the same, constant currency growth in the international business stood at 9% YoY.
- Marico has short-term plans to revitalise GT. But looking at more disruptive practices to get growth back structurally.
- Of new launches, aloe vera is successful, value-added mustard oil, nihar shanti amla, foods business have done well.
- Supply chain finance has got elongated and hence capital employed has dipped.
- In the traditional channel, growth was led by rural, while new-age channels of Modern Trade and E-Commerce sustained stellar run.
- CSD sales grew for the third quarter in a row, but should be monitored over the next few quarters for a definitive trend to emerge.
- Marico will continue to focus on a balanced approach towards volume growth and healthy profitability. The company is targeting to maintain EBITDA margin at 20% plus in the India business over the medium term.

Parachute

- Parachute rigids clocked strong volume growth of 9% YoY. However, with deflation in copra prices setting in, the low margin non-focused coconut oil brands posted double-digit decline in volumes.
- Tactical inputs to maintain the value proposition enabled accelerated activation in non-core markets.
- Deflation in copra this time is different versus earlier and hence Marico is not looking to cut rigid prices.
- Marico believes this time higher direct distribution will aid stronger revenue growth.

- Given the market construct and brand equity, the company expects to deliver 5-7% volume CAGR in Parachute rigids over the medium term.

VAHO

- Value Added Hair Oils registered 7% YoY volume growth and value growth of 11% YoY, lagging the medium-term aspiration as growth in the premium segment of the hair oil category visibly slowed in a subdued demand environment.
- Seeing good gains by organised players.
- Nihar Naturals Shanti Amla Badam has been the leading hair oil in volume sales among all sub-brands in Value Added Hair Oils category. The brand gained 176bps in volume share (MAT June 2019) in the Amla Hair Oils category.
- Parachute Advanced Aloe Vera Enriched Coconut Hair Oil now scaled up to a pan-India level; it sustained accelerated growth. The brand garnered sizeable market share in key markets and will continue to aggressively invest in growth.
- Nihar Naturals Sarson Kesh Tel garnered volume market share of 13% in the perfumed mustard oil category. The brand strategically capitalised on the equity of Nihar Naturals Shanti Amla Badam to build reach. Marico will continue to invest in the brand as it taps in to the sizeable unorganised mustard oil market.
- During the quarter, Hair & Care was relaunched in its classical pack and fragrance in prototype markets and subsequently extended across the country. This move is expected to rejuvenate the brand and regain its identity as the preferred non-sticky hair oil among consumers.
- In addition to driving premiumisation and scaling up new launches, Marico also stepped up participation in the bottom of the pyramid segment through Nihar Naturals Shanti Jasmine and Nihar Naturals Gold.
- The company aims to drive double-digit volume growth.

Saffola

- Saffola Edible Oils grew 3% YoY in volumes. The company remains cautiously optimistic for the franchise.
- Edible oil growth slowed down further due to sluggishness in the traditional urban channel. Growth during the quarter was led by the new-age channels of Modern Trade and E-Commerce. The brand also gained significant traction from the step up in media spends that accompanied a new campaign for the mainstay variant, Saffola Gold.
- Prototyped differentiated packaging at INR699 for 5litres in GT against INR825 for 5litres with 1litre free available in MT. However, this has not led to gains in distribution yet. Will wait for few months before changing the strategy.
- Foods grew 38% YoY in value terms. Saffola Masala Oats strengthened its dominance with a value market share to 75% (June 2019 MAT) in the flavored oats category. The response to Saffola FITTIFY Gourmet and Coco Soul ranges has been positive.
- If Saffola FITTIFY can deliver INR2-3bn, management will be happy.
- The company continues to expand the prototyping of Saffola Masala Oats vending machines in corporate offices, gyms and hospitals in Mumbai, Pune and New Delhi.

- Further, during the quarter, Marico prototyped *Saffola Perfect Nashta*, comprising a range of 3-minute ready-to-cook mixes of traditional Indian breakfasts such as idli, dosa, upma (semolina) and poha (rice flakes), with a perfect balance of traditional spices fortified with five essential nutrients. The range is being test marketed in Modern Trade and select General Trade channels in Delhi.
- This is a low investment prototype. Looking at increasing trend of eating packaged foods.
- Within foods looking to create scale.
- For profitability, looking to scale up food. Looking at IRN4bn food business over next few years.
- Aims to deliver high single digit volume growth over the medium term in this franchise.

Male grooming & premium hair nourishment

- Premium Hair Nourishment grew 28% YoY, led by growth in Livon Serums. Male Grooming (ex-deodorants) grew in double digits.
- Livon Serums continued to grow healthily during the quarter. The 2.5 ml sachet pack (priced at INR 3) is clearly emerging as the key trial pack by reaching 150,000 stores.
- True Roots Botanical Hair Tonic has not met action standards so far.
- Parachute Coconut Crème Oil has gained consumer acceptance in its launch markets. Establishing category relevance would be the key growth driver for this brand and will continue to direct efforts towards the same.
- The Male Grooming franchise had a flat quarter due to a weak performance in deodorants. The company does not expect any medium term concerns, given the healthy traction in hair gels, hair waxes and the Set Wet Studio X range. The Excluding deodorants, the Male Grooming franchise posted double digit value growth.
- Set Wet Hair Gels continued to register high offtakes on the back of its 57% value market share. Set Wet Hair Waxes witnessed good traction and gained share in the overall styling segment.
- Parachute Advanced Men Hair Cream was seen gaining traction in the E-Commerce channel. The Company has planned focused initiatives to accelerate growth of this franchise.
- Premium Skin Care: In the last quarter, the Company had introduced the Kaya Youth O2 range, marking its entry into the premium skincare space. The range includes Day Cream, Face Wash, Face Wipes and Micellar Water.
- Kaya skin creams can be taken to General trade and chemist channels.

International

- In Q1FY20, Marico's International business grew by 7% YoY in constant currency terms led by double digit growth in the key markets of Bangladesh and Vietnam. Adjusting for a one-time trade inventory correction in the Gulf business, constant currency growth in the International business stood at 9% YoY.
- Bangladesh (11% YoY cc growth) and Vietnam (11% YoY cc growth) led the growth in the International business, while the rest of the geographies had a subdued quarter.

- The business in Bangladesh grew by 11% YoY in Q1FY20 in constant currency terms. The non-Coconut oil portfolio in Bangladesh grew by 29% in Q1FY20 in constant currency terms.
- The implementation of the new VAT Act in Bangladesh is expected to accelerate the formalization of the economy and thereby benefit organized players.
- The company remains confident of delivering double-digit constant currency growth in this geography over the medium term.
- The South East Asia business (mainly Vietnam and Myanmar) grew by 8% in Q1FY20 in constant currency terms.
- Vietnam posted growth of 11% in Q1FY20 in constant currency terms. Growth was led by the Home and Personal Care (HPC) business as the flagship brand, X-Men, maintained its leadership position in the segment. The Foods portfolio also rebounded.
- The MENA business declined in double-digits in Q1FY20 in constant currency terms, mainly on account of a one-time trade inventory correction in the Middle East business. Adjusting for the inventory correction, the MENA business grew by 2% in constant currency terms. Egypt had a flattish quarter. The volatile macro environment keeps us cautiously optimistic about the medium term outlook of these markets.
- Have started making money in gulf business.
- The South Africa business grew 6% in constant currency terms. In the context of the macro headwinds in the region, expect this business to grow in low single digits in constant currency terms over the medium term.
- With expansion in adjacent markets such as Sri Lanka, Nepal, Bhutan, exports to diaspora and other markets generated revenues of more than USD 10 million in FY19. The business grew by 16% in constant currency terms during the quarter.
- Expect to clock an organic broad-based double-digit constant currency growth over the medium term.
- Aim is to maintain operating margins at circa 20% over the medium term.

Margins

- During the quarter, the average market price of domestic copra was down 25% Y-o-Y. Other key input prices for the India business- Rice Bran Oil, Liquid Paraffin (LLP) and HDPE were down 12%, 1% and 21% respectively on a Y-o-Y basis. Safflower Oil was up 20%.
- Easing raw material costs in the domestic and key overseas markets led to gross margin expansion by 524 bps on a year-on-year basis. However, EBITDA margin expanded by 324 bps YoY, as the Company stepped up A&P spends by 32% YoY to support its core and new franchises.

Distribution

- Rural led the growth in General Trade (GT). Rural GT grew by 6%, while urban GT was down 5%.
- Improving the quality of reach od distribution.

Modern Trade grew by 30%, while E-Commerce almost doubled. Modern Trade and E-commerce contributes 13% and 4% of the India business respectively. CSD also posted decent growth.

Pidilite

Overall standalone

- Net sales grew by 11% YoY, with sales volume & mix growth of 6.3% YoY. This was driven by a 6.1% YoY increase in sales volume & mix of Consumer & Bazaar products and 11.7% YoY growth in sales volume & mix of Industrial Products.
- Remain cautiously optimistic on growth for FY20.
- **Cost of VAM: USD870 versus USD980 in Q1FY19.**
- Growth for Pidilite comes from premiumisation, new products, and increasing distribution.
- Demand conditions have been challenging in the quarter, with challenges skewed towards construction-related segments such as waterproofing.
- The focus is on emerging India—small towns and rural India.
- Improving capability and have therefore inducted new staff and recruiting more as needed. Taking a close look at staff costs.
- Two-thirds of the market would be new and one-third remedial in waterproofing.
- The pigment business has done very well recently; this could be partly due to the reduction in its manufacturing in China.
- **Capex would be about 3% of sales.**
- Still substantial potential to expand distribution further in rural.
- In smaller towns, distributors for Consumer and Bazaar are largely common.

Overseas subsidiaries performance

- Bangladesh and Pidilite Lanka have reported good sales growth. EBITDA growth in Bangladesh is marginal due to higher manufacturing and SG&A expenses to support future growth.
- **Setting up a second manufacturing plant in Bangladesh**, which involved some related employee costs and other expenses. **The existing plant has reached its full capacity;** hence a second plant is needed for new products and future growth of existing products.
- Sargent Art, a division of Pidilite USA, reported good growth in sales and EBITDA mainly due to a favourable trend and growth of key customers.
- The subsidiaries in Thailand and Egypt reported flat sales due to competitive pressure and market conditions.

Domestic subsidiaries performance

- Nina Percept and Cipy reported lower sales as well as EBITDA due to the market conditions.
- During the previous year, ICA Pidilite had acquired brands and technical knowhow pertaining to certain wood finish products from holding company (PIL). Like-for-like sales growth after excluding these products is 18% YoY. EBITDA growth is attributable to improved margins as local manufacturing was scaled up and also forex gains.

- Nina services clients in the real estate, construction and infra sectors—there is significant stress in this segment; hence Pidilite is cautious in taking orders in this segment (does not accept a project if there is a financial risk).
- Substantial revenues in Nina and Percept come from new construction and infrastructure.
- Going ahead, want to focus more on the non-real estate sector.
- Potential in Nina Percept is significant in the country.
- Nina Percept will be largely targeted at the Bazaar segment and some large construction contracts as well.
- Paint companies have focused on the use of construction chemicals by painters (such as waterproof coating/waterproof primer/ waterproof putty) and they have been gaining market share there.

Margin guidance

- Likely to operate in the 22–24% band. Historically when input costs have gone down, margins have expanded to >24% for sometime.
- Apart from VAM prices, prices of all other raw materials remain soft.
- **Price cuts undertaken during the quarter** – overall price reduction may have been a couple of percentage points. Large price cuts have taken place in wood-working adhesives.
- VAM inventory would be of one–two months generally.
- Part of expansion in gross margin will be passed on as price cuts while some will be spent on advertisements if the input cost reduction is very sharp. However, in the past, whenever input costs had softened, the gross and EBITDA margin did expand so that also would continue to an extent.
- Advertisement and sales promotions at INR750mn for the quarter.

United Spirits

Overall growth

- Reported net sales increased 10% YoY, partially benefiting from a one-time sale of bulk scotch. Net sales, excluding this one-time benefit, grew 6% YoY, impacted by general elections and short store operating timings. There is still some bulk scotch left with the company and the same will be sold over the next six months.
- Reported volume growth was 6% YoY.
- Underlying volume growth was 7% YoY with the Prestige & Above volume growing at 8% YoY and Popular segment volume growing at 5% YoY after adjusting for the operating model changes.
- Looking ahead, the company remains watchful of the broader economic slowdown and its impact on overall consumption in the near term.
- Overall, there is general moderation of growth in overall CPG categories. And, thus, the company believes it is fair to be a bit more conservative on growth estimate.
- There have been emergence of some local competition and those products have done well.
- The company continues to remain committed to medium-term ambition to grow top line in double digits and improve EBITDA margin to mid-high teens.
- Input cost pressure—glass price inflation is over; however, there is some hardening in ENA, largely grain-based ENA.
- Received price hikes in 15 states over the past year. However, in Maharashtra, the company has strategically not hiked prices.
- Price hike in Karnataka has been pending for long.
- In BII scotch, the company has taken 15% price hike in Maharashtra. However, within Prestige, the company has partially absorbed since it wanted to protect consumer shock. In spite of not taking price hikes, Maharashtra is margin accretive.
- Looking at possibility of importing scotch, but currently there is no arbitrage opportunity.
- Historically, scotch has never been imported in India.
- USL's branch had old stock of scotch portfolio. The company sold the old stock and liquidated inventory. With this cash, the company has repaid debt.
- Launched McDowell's Platinum with bollywood actor Vicky Kaushal as brand ambassador.
- IND-AS 116 impact on EBITDA is mere 50bps. PBT impact is neutral.
- AP government has issued notification by which retail distribution has been brought under government control. The government has called out that it wants to increase revenue from excise duty.

P&A

- Prestige & Above segment net sales grew 9% YoY.
- The Prestige and Above segment's net sales grew 9% YoY on a base of 19% growth in the same quarter last year. Within that, the scotch portfolio continued to do well, particularly Black Dog and Black & White.

- The Prestige & Above segment accounted for 64% of net sales during the first quarter, down 1ppts YoY, primarily due to the one-time sale of bulk scotch affecting the relative salience of the segment; net of that, the segment accounted for 67% of net sales, up 2ppts YoY.
- In line with last year's trend, the Luxury portfolio continued to grow faster than the Premium portfolio, which in turn grew faster than the Prestige portfolio, further reinforcing the ongoing premiumisation.
- Furthermore, the scotch portfolio, including Bottled in Origin (BIO) as well as Bottled in India (BII) brands, grew much faster than the overall Prestige & Above portfolio.
- Overall scotch portfolio's share is still small.

Popular

- Popular segment's net sales grew 2% YoY. Net sales, after adjusting for the impact of operating model changes, grew 3% YoY, benefitting from a softer preceding quarter in one of the key states. Net sales of Popular segment in priority states grew 4% YoY.
- Popular as a category growth likely to remain flattish.
- The Popular segment accounted for 29% of net sales during the first quarter, down 2ppts YoY, in part due to the one-time sale of bulk scotch affecting the relative salience of the segment; net of that, the segment accounted for 30% of net sales, down 1ppt YoY.

Margin

- Gross margin at 47.3% dipped 291bps versus last year, primarily due to the adverse impact of COGS inflation as well as due to part-absorption of excise duty hike in Maharashtra. Underlying gross margin decline was 359bps YoY. This was owing to COGS inflation as well as adverse price/mix.
- Gross margin should not deteriorate hereon.
- Reported EBITDA was INR3950mn, up 95% YoY. Despite gross margin erosion versus last year, EBITDA margin was 17.8% YoY, up 772bps, primarily driven by savings in operating costs and phasing effect of marketing investment.
- Underlying EBITDA increased 42% YoY and underlying EBITDA margin was 16%; 407bps higher than last year.
- Low hanging fruits for margins are over and hence the company will look at other productivity led initiatives for margin expansion.
- Ad spends were trimmed in light of the ongoing general elections; however, they should normalise over the course of the year as investing in brands will continue to be an area of strategic priority.
- Implementing technology in ad spends—so far for same spend, the company is getting more buck.
- Lower operating expense during the quarter gives confidence to the management of sustained cost rationalisation initiatives.
- Eyeing operating leverage benefit.
- Staff cost remains volatile since a lot of the factories have been shut. This, coupled with severance and restructuring cost, led to volatility.

Others

- USL has repaid IDBI Bank's loans. Matter being currently heard in court.
- Has some assets for sale.
- Does not believe any of the residential properties if sold right now will make profit.
- Working capital has improved significantly over the past three years. Thus, average WC improvement will be gradual and slow hereon.

Q1FY20 Conference call highlights

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