



“Colgate-Palmolive India Limited FY 2017-18 Results
Conference Call”

May 21, 2018



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Moderator: Good Day Ladies and Gentlemen and Welcome to the Colgate-Palmolive India Limited FY 2017-18 Results 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Sujata Nairi, Head Commercial and Investor Relations, Colgate Palmolive India Limited. Thank you and over to you, Madam.

Sujata Nairi: Thank you, Karuna. Good Afternoon to all and Welcome to our Q4 and full year 2017-18 earnings release conference call. I have with me Mr. Issam Bachaalani – Managing Director of Colgate Palmolive India Limited and Mr. M. S. Jacob – Chief Financial Officer. Today's session will be for 60 minutes. We will start with a brief presentation by Mr. Issam followed with an Q&A session. Please note that the conference call will include forward-looking statements. These statements are made on the basis of our views and assumptions as of this time and are not guarantees of our future performance. Actual events or results may differ materially from these statements. I now hand over to Mr. Issam to take this forward.

Issam Bachaalani: Thanks, Sujata. Good Afternoon everyone and Welcome to our Colgate Palmolive India call. The presentation has been sent to you, so what I will do is that I am going through the presentation but I will mention the slide number every time I move onto a new one. I will probably sound like a broken record but this way we could move faster. Moving on from Slide #1 to Number #2, the disclaimer on Slide #3 and to the agenda. We will take you through Q4 and full year '17-18 results, our company overview, key growth drivers and at the end, overall performance and then we will do the Q&A session. Let me start first with the Q4 '17-18 results. I am now on Slide #6. Just again, a quick reminder of our financial strategy. We always look at driving our sales and volume up, continue to drive our margins, bring down our cost, continue to invest behind our advertising, and then this will drive our operating profits up.

Moving onto Slide #7, which is the financial results of Q4 '17-18, if you look at the net sales, the fourth quarter has seen positive response or growth momentum. It has been a challenging and competitive environment but the company has been able to register a strong volume growth of 4%. This has been driven by good growth in both toothpaste and toothbrush category. Post GST, the company has not taken price increases but has been able to show a positive growth momentum. So basically our net sales is up to 1085, which is plus 5.1%.

Moving onto Slide #9, which is gross margins: Colgate has a program called, Funding the Growth, which has really assisted us in increasing our gross margins by 290 basis points. Again as I mentioned before, that despite no price increases been taken in this quarter, the company has improved its gross margins to 65.4%. Again, these are due to cost efficiencies and better controls on our overall variable cost spending.

On Slide #10, our advertising level at 144 in '17-18. Improving gross margin again assisted us in innovation and continue to build our brand. We continue to invest and strengthen the brands through our advertising spends through this period. Now, the prior quarter was post-demonetization and had a higher spending, so we have maintained more or less similar spending level in the current quarter. As we said we will spend behind new News and innovation. So again we held the same levels as last year.

Slide #11, EBITDA upto 28.3 in strong volume growth and positive momentum on gross margins definitely increased our EBITDA by plus 480 basis points, which is really terrific, and we are very happy with it.

On Slide #12, which is the profit after tax, the profit for the quarter really grew by 32% over the prior period. If you look at it excluding the tax reversals and exceptional items, the profit grew by 25% which is a very strong growth with strong gross margin and investing behind our business.

Again, if I go to Slide #13, this is just a summary of Q4 '17-18. Again, net sales are up by 5%, margins are plus 290 basis points, advertising 13.2% to sales, EBITDA plus 28% to sales, and profit after tax is plus 25% growth.

This summarizes the Q4 '17-18 and I will move onto our financial results full year '17-18 and I am on Slide #15. Again, the current year, as I mentioned had lot of challenges with GST implementations and really strong competitive environment. Despite all these, our net sales grew by healthy 5% over the prior year and this has contributed to volume growth of 2.4% and an FPI of 2.9% on the full-year basis to 4159 crores and plus 5.3%.

Slide #16 which is our gross margins, the momentum of gross margin expansion continues with the current gross margin at 64.2%, which is really a 160 basis points over the prior year. On advertising, the increase in advertising spends, this is on Slide #17, by 3% over the previous year, our 80% to sales is close to 13%, which is similar to prior year levels and we continue to build really and strengthening our brand and innovation stream.

On EBITDA which is on Slide #18, again it is plus 280 basis points, and this is up to 26.7% versus prior year at 23.9. Our profit after tax on Slide #19, this is (+15.2%) to 646 crores. Again, the impact has really shown an increase of 17% and basically when you take out the excluding tax reversals for both periods, again CTD and PAT increase was close to 15.2% versus the prior year.

Now, I will move on to the summary, similar to the Q4 this is the full-year '17-18. Net sales are plus 5% growth, margins, healthy 160 basis points, advertising plus 13% to sales, EBITDA 27% to sales, and profit after tax plus 15.2%. Again, I would say a good year, strong year delivery on top line and EBITDA and profits while improving while post-GST no price

increases, increasing our margin by 160 basis points and advertising percent to sales continue strong at 13%. This is summarizing the financials of Q4 '17-18 and full year.

Now, let me move to the agenda, our Colgate-Palmolive review overall. I am on Slide #22, again this is just a snapshot of our journey in India since 1937 leading to the last few years of inaugurating whether it is Baddi in 2005, our plant or 2009 Goa plant to Sanand in 2014 in Gujarat and Sri City, our first manufacturing toothbrush in India in 2016. On Slide #23, again as you all know extremely proud that Colgate remains India's most trusted brand for the seventh year in a row. This is an amazing achievement that we are extremely proud of. Slide #24, really showing here our endorsed by really the biggest celebrities in India from Ranveer Singh, Anushka Sharma, Virat Kohli, and Kajal. Again, this is a testament of the strength of the brand as well as the strength of our brand ambassadors. On Slide #25, this is showing you here the toothpaste market growth. Again, the Orange is the volume growth and pricing is in Green, but if you look at from Q2 '17, the growth has been declining. On a full-year '17, yes it has grown, but if you look at the last three quarters, we have seen some softness in the market growth and if you go to the next slide which is the market share, the market share on volume we are still at 3X our competitor, but for sure we have lost market share over the past couple of years, we are at 53.7 and the nearest competitor is 17.6.

If you go to Slide #27, here we are showing a longer spectrum from 1999. We had some downs, but we had also many ups, many new entrants, but we were able to come back and come back strong. I have no doubt in my mind based on our latest innovation and the latest go to market as well as the devising strategy that we have in specific states, we will see the market share coming back, very confident of it. When you move to the next slide that shows you the toothbrush market growth, again more or less you see same trend as you have seen on a quarter basis as toothpaste, similar kind of growth is not coming back same as was before especially if you look the volume from Q2 '17 from 19 to 9. Moving onto the next slide which is our toothbrushes, we got to 47.3 that is, us leading at 45.1 and you have the close competitor at 14 and competitor two at 11. But when you look at them, I think those market shares figures as we know do not add to a 100. There is another component called Others, which is close to 100 brands in India. We have seen that some of these brands have grown and these are no-name brands. I would say unorganized players have grown over the past few periods. We have addressed this and we should see our market coming back. We have launched few products that are tactical in nature in specific states that has been trying to capture shares in those states, but still on our national base, we do not see the impact as of yet.

Moving onto Slide #30, key growth drivers Slide #31 these are the four I would say buckets that we are working. The device or drivers are innovation, engaging with our customers with our brand, winning on the ground, and our strong relationship with the profession. Let me start first with innovation, which has been developed really over the last many years, I am on Slide #34. As you know, we have introduced Cibaca Vedshakti in the North, it continues to do well and continues to grow. Second comes Active Salt. Really it was the first natural toothpaste and continue its strong base in the South of India. Kids' portfolio which we have seen significant

growth in it, that is on Slide #36, and we continue to participate in the Sensitive segment with the latest entry as you know Sensitive Clove couple of years ago.

On Slide #38, we continue our innovation behind our brushes be it on the Value or Super Flexi Black or the high-end super premium with Slim Soft Advanced.

Next slide, talking about our premium brushes. Basically, this is mainly on e-commerce, and continue to build the mouth rinse business which have seen really terrific growth for us in 2017 that is on Slide #40, and when it comes to PCP on Slide #41, we have introduced a new format in shower gel which is pump, again focusing on modern trade and medical stores and continue in the same format be it in liquid hand soap whether it is the pump with foam or the straight pump, again modern trade and medical stores and pharmacy channels.

On Slide #43, but again this is not all. We have introduced in October of last year Swarna Vedshakti which is the perfect Sangam, we launched it in the South, so far growth is very pleasing. We are extremely happy with the success of it in the South and the plans now are to take it on a national basis. We are spending significant amount of advertising behind building digital and building the conversation on digital. Especially within the natural segment specially on Swarna Vedshakti. We are taking Cibaca Vedshakti in all in-stores, this is just one snapshot on Slide #46 of a Delhi Metro and when you look at the overall portfolio of Naturals, we have strengthened it further by the entry of Swarna Vedshakti back in October. Now, this is I would say not the end, this is the start. You will see more innovations coming from Colgate within the Natural segment.

On Slide #48, we have introduced colors to our toothbrush business. We have launched Colgate Neo, it is in medical stores and modern trade. It is very unique; it has close to 3600 Ultra soft bristles. The next Slide #49 will show how the packaging looks like and on Slide #50, this is the Colgate Star toothbrush at Rs. 10. Again, this is the brush that we have launched in addressing the 'all others' that have been growing. The unorganized players that they have been growing in volume pieces. So far in the three states that it has been launched, I would say the success and the shares on Colgate Star are very promising and are good. On Slide #51, we introduced two more body washes, Feel Good and Glamorous.

Now, moving onto engaging with our consumers on building our brand, I am on Slide #53. Over the past couple of years, we have established really terrific platforms and I would say be it from Scholarship to collectibles to Learn & Win and our Oral Health Month. If I look at Scholarship on Slide #54, this has been one of our biggest and best introduction into the market. Scholarship has done phenomenally well. In every year, it is the idea of how we make it better. Last year and again this year we have tied up with Byju's whereby every pack of CDC on 100 g will have a free educational course worth of Rs. 999.

Moving on to Collectibles, every year we try to look for new I would say new theme. This year was the Safari on Slide #55 and we have just re-launched our MaxFresh, Extra Freshness. We

have been working on upgrading our formulation of MaxFresh with intense cooling crystals for many years. And finally we have cracked the code. MaxFresh even before this new News has been growing close to double digits in volumes and the performance have been extremely well, and with this new News coming in and with new go to market and new TV commercials, I believe that MaxFresh will help new heights, and we continue as I mentioned earlier the conversations, we continue to spend on digital media through different platforms as well as addressing different events. On Slide #58, this is pocket dentist, probably some of you have heard of it. It is launched in UP and basically this is addressing oral hygiene and everyone can call the 1800 number and they could get an advice on any oral health condition that they have.

When it comes to toothbrushes, on Slide #59, this is our retailer engagement on toothbrushes. Again, you know this is the season of IPL and on the next slide, we have a special Virat pack on Super Flexi Base as well as Super Flexi Black. This has already hit the shelf especially in IPL season.

And when we get to Slide #61, we get to the changing habits again spending advertising fund in mouth rinse. Again, the mouth rinse business in current year has done very well and we are pleased with one with the market share as well as with our volume and value growth. This is just sharing with you some of the impressions. We had 40 million views that we have on this campaign and continue to grow on the ground. On Slide #63, this is just sharing some of our superior execution on the new launch of Swarna Vedshakti. This is basically again modern trade.

Moving onto Slide #65 which is our collectibles in *kirana* stores and general stores. On Slide #66, this is Cibaca Vedshakti in the North and Colgate Neo toothbrush. On Slide #66 for special engagement on Active Salt dedicated to the South and celebrating Tamil culture with *Thirukural* tribute packaging. Again, this has done terrific for the Active Salt toothpaste. On Slide #70, we have expanded our toothbrush business to increasing our multipack going from three packs to six packs. Again, the brush multipacks have done very well in the modern trade be it from internal shipment as well as market share. When you look at the reach what we are doing on those platforms that I mentioned before be it from Scholarship to Oral Health Month to Learn & Win and to our Collectibles, you can see the numbers there, 535 million reach, 8.4 million of scholarship, 12.4 million on Learn & Win, and 35 million on the collectibles. Again, these platforms have proven to be extremely well. The idea is how to continue to drive engagement as well as making it much better than prior year on those special promotions. When it comes on Slide #72, this is how we continue to drive our distribution number of brands in rural, it is 3X versus 2012 to 1047 and we have special plans this year on how we could increase our direct coverage. The plans are in place that we have already started and the idea is that to increase our direct coverage between 20% to 25%. As I mentioned before, the plans have been initiated and not just initiated on paper. The plans on the ground has started and I am hoping by Q3 which is the October-December quarter, we would start to see some improvement to our infrastructure, and basically, it really emphasizes, one is, strengthening the current coverage that we have and adding to it by 20% to 25%.

Now, I am moving to Slide #74 which is again as I shared with you earlier this is strengthening our partnership with the Indian Dental Association which has been there for many, many years. Now on Slide #76, oral health month, this is done every year. This year we have done it through 35,000 Dental Clinics across 1300 towns and really this time we reached close to 6.5 million patients, who all received free dental checkups. In addition, we had a two-day camp at the Chhatrapati International Airport. It was specially done for the Mumbai taxi drivers. Moving onto our long-standing Bright Smiles Bright Future program which has been running for the past forty years, we have reached by end of '17 of 151 million students. The year '17-18, we reached close to 8.2 million students and continue to look at trying to increase the number of students every year. Slide #78, we continue to work with our NGO partners from NTP Plus, children with HIV AIDS working closely with Seva Mandir and Saksham, which is a program for social and economic empowerment for the underprivileged youth.

When it comes to saving water, I am very proud to say that we have partnered with our NGO, Water For People, in India. We started in West Bengal and Bihar. Last year, in August we launched it in Amravati, in Maharashtra because we know that region had severe water shortages. And I am happy to say that it started back in August last year and we are looking forward to meeting them again in August after one year to see how the program is running. In addition, we are extremely proud that we have partnered with Metro Cash-and-Carry where we launched the water campaign which is Every Drop Counts. This was launched across all Metro stores in India whereby proceeds from the sale of Colgate toothpaste, Cibaca Vedshakti, that certain proceeds will go to the NGO, Water For People support for Amravati. On Slide #81, again Colgate we have won the Asia Book of Records for most people brushing at the same time, this was done on the SRU University in Chennai, close to 24,000 students have brushed their teeth all at the same time on campus ground.

I am on Slide #83, coming down to the last few slides, again net sales here we are showing a CAGR of 11%, '17-18 at 4159 crores. Our gross margins continue to build and be healthy at 64.2. Our profit after tax CAGR of 11% again after the '16-17, we had the demon- and post-GST, I am proud to say that we have our delivery of profit after tax is solid and the CAGR at 11%, EPS again 10 years at 11% to 24.8 in '17-18. Again this is the special dividend that we was announced today Rs. 11 taking it to 24, and this is my last slide.

Again, we really continue to be very well poised and to grow our shareholders value and pleased with the delivery of this year and we are looking forward to our '18-19 to deliver top line, bottom line as well as market shares. Thank you all.

Moderator:

Thank you. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra:

My first question was on your expectation of a mid-term volume growth with specific thoughts on how you perceive overall toothpaste category growth rates, and secondly, level of competitive intensity you are noticing incrementally on the ground?

- M. S. Jacob:** In terms of the volume growth, we are seeing about in the 6% range that is the volume growth we have seen in the latest quarter. In terms of competitive intensity, it continues to be high and most of it is in the natural segment. We have launched Swarna Vedshakti as you know and we continue to get into programs that will help us gain share, but that is a segment where we definitely need to do better.
- Latika Chopra:** You mentioned 6% volume growth rate for the fourth quarter, so 4% was overall and 6% was toothpaste?
- M. S. Jacob:** Yes.
- Latika Chopra:** Would you expect these kind of trends to be maintained or do you see an upside if the market shares move up?
- M. S. Jacob:** Sorry, 6% is the category was, that was your question, right?
- Latika Chopra:** My question was more on what is the expectation, so you expect the category to kind of sustain at these levels?
- M. S. Jacob:** Right now, we expect it to be at current levels in the foreseeable quarters.
- Latika Chopra:** You have not seen any decline or any moderation in competitive intensity, over the past quarter or so?
- Issam Bachaalani:** Not at all, quite the contrary, I think it has intensified even more. , I would say all that intensified with our launch of Cibaca & Swarna Vedshakti. As you know, two years ago, we launched the Cibaca Vedshakti in the North and we expanded it and launched Swarna Vedshakti in the South. We needed to reach a certain point where we introduced new SKUs as well as taking it national. We have reached that point where we are comfortable of adding the additional SKUs and expanding. It is happening as we speak.
- Latika Chopra:** Lastly, on pricing clearly you have not taken any price increases post-GST, but do you see a need for pricing to move up in view of the inflation trends?
- Issam Bachaalani:** Post GST, we have not taken this I mentioned, but we have been able to grow our margins consistently, and yes, there will be a need to take our pricing, and yes, we will take our pricing up.
- Moderator:** Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.
- Arnab Mitra:** Firstly, if you could help us with a little bit of a slightly deeper dive into Naturals as to what has been happening in the recent few quarters, how big is the category as part of oral, how is it

growing and this whole news flow around potentially a slowdown in Patanjali, is it showing up in your category at all or you are not seeing signs of that here?

Issam Bachaalani:

Overall, when you look at the, let us call it Family Naturals basically, the segment is close to I would say 20%-25% and if you look at the growth, last year it grew around 30% to 35%, but it has been slowing down so I would say since Q2 '17, the growth rate has not been the same as it was two years ago when the entire Naturals phenomenon came, so now in the last quarter, it is around 20.7, let us say 21%, so we have seen slowdown in it, but does that mean this is slowing down to a point where it is not going to grow, no I would not say that, but it is slowing down. If you look at few years ago, I would say almost four years ago, the Sensitive segment was one of the fastest-growing segment and after three to four years, it kind of slowdown, to now it is mute. Naturals am I making the comparative with the Sensitive be the same, no, I am not saying that at all. I am saying that you have seen some slowdown. As far as competition, I will not mention by name, I think the intensity as I mentioned to Latika before, the intensity of the promotions being overall modern trade or pharmacy channels continue to be very, very strong as well. As compared to looking at expansion, hence this is where I mentioned what we are doing today is that we are strengthening our current direct coverage and we are looking to increasing that coverage by 20%-25%. Where we are today from the Natural segment, we are very confident with SVS and CVS that our natural segment is turning around.

Arnab Mitra:

The last question is on Cibaca Vedshakti and Colgate Swarna Vedshakti, if you could just tell us what kind of shares you have there, and secondly, it seems you have been very cautious in expanding in terms of number of states or number of cities, what is the reason for this relatively cautious expansion and why not kind of go much more aggressive in terms of the width of the distribution in these two products?

Issam Bachaalani:

Fair point, I think if you look at where CVS is, it is close to one share on national basis, if I look at Swarna Vedshakti when we launched back in September-October actually mainly October, it is close to one share point on all India basis. We launched it in the South and I think you can say as far as our point of distribution and our coverage, we could take it on a national basis I would say we wanted to make sure that the proposition that we have is successful, and once it is successful, we could do the expansion. The second thing is we only launched with two SKUs, 100 grams and 200 grams, it was only in modern trade, we did not introduce any other size. Now, I would say we are more confident that with the success that we have, we are comfortable that this is the time where we will see the expansion of it, but it is easy to go, you say I have 1.3 billion people of let us say 700 million and 800 million people use toothpaste, why do not you go all-out. It has to be done in the right way, we need to walk before we run because you can run and at the end you will fall, so I think the approach was the right approach that we have.

Moderator:

Thank you. The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.

- Annish Aggarwal:** Sir, couple of questions from my side, one being that you have declared this fourth interim dividend by saying that there are low capital requirements and there is surplus cash, so can we see it as you can say symbol that the overall growth opportunities which we are witnessing are low and so you are looking at lower CAPEX requirements in particular in the coming couple of years?
- M. S. Jacob:** It does not mean that we do not see the kind of growth levels we have seen in the past. So we have been on an expansion spree for the last at least three years with the start of the new plant, so we have these new plants in place, the buildings are in place, so it is now matter of adding lines and in parallel as we operate the lines, the efficiency goes up every year. So with all that we believe, we have come to a bit more steady state on CAPEX and of course the cash flow continues to be very healthy and a combination of this allows us to return a bit more cash back to the shareholders given the interest or returns on surplus cash is fairly soft right now. But we do expect that the kind of growth we have seen prior to the last two years, we would expect to deliver those kind of numbers with the capacity we have.
- Annish Aggarwal:** Sir, in this regard what could be the CAPEX guidance for the next couple of years?
- M. S. Jacob:** We are looking at about between 150 to 200 crores is what we are looking at and we expect that will be steady state for some time.
- Annish Aggarwal:** My next question is on the volume growth, as is stated in the presentation that there has been no price increase post-GST and we understand that GST rates were reduced from something like 28% to 18%, so I believe that particularly on the price pointed pack of five and 10 there would have been grammage increase and no price cuts as such, so can you break the volume growth in terms of say what has been the impact of the total increasing grammage and what is actual volume growth in terms of say packs?
- M. S. Jacob:** You are right; we did like the smaller sizes we went back like Rs. 9 to Rs. 10 and up sizes back to 10 and for the larger sizes we dropped prices between 9% and 13%, so that is what we have done. So right now if you are asking for the split between the two, how they have grown I do not have it readily available and we can get back to you separately.
- Annish Aggarwal:** My final question is that our inventory has declined very sharply from something like 280 to 290 to 226 crores, so what is the exact reason for this and are these kind of numbers sustainable going forward?
- M. S. Jacob:** Earlier, we used to have the excise component on inventory, inventory valuation included excise being a production tax and now with GST that is not the case, it is not part of inventory valuation and that is really the key reason.
- Moderator:** Thank you. The next question is from the line of Jamshed Dadabhoy from Citibank. Please go ahead.

- Jamshed Dadabhoy:** Sir, two questions, you mentioned a lot of innovations that you have done, will you give us a sense of what percentage they are of your revenues as of today and what you think they go to and above for five years, alternatively new products which you have launched say in the last couple of years?
- M. S. Jacob:** Right now, we are looking at like the key innovation has been you know the Vedshakti one which is close to two share, so that would put it at like 4% of our toothpaste sales and from there we expect it will get into double-digit gradually.
- Jamshed Dadabhoy:** My second question on the pricing side, I know you all mentioned you have not done anything post-GST, but if you just take a step back and go look at this category over the last two years or so, it looks like you all have done in aggregate despite all the rate cuts etc. between 6% to 7% kind of price hikes, do you think you are all taking the price table up to an extent where it makes it easier for competition to just keep coming in competing for share, I want your thought on medium-term pricing?
- M. S. Jacob:** We have not taken any price increase post GST. In the past around 5% used to be in the average pricing and as you know Indian is a high inflation market unlike some other markets in the region, so you have to expect you would see a price increase, you can see it coming through commodity price changes, the currency is going to come through so we continue to see cost inflation coming and building and pricing will need to start moving up, and on that competition thing, I mean really the one if you see most of the other products in the category or in the same price range.
- Issam Bachaalani:** It is only one that is basically lower, but the others are more or less on the same platform.
- M. S. Jacob:** Correct and we are not using pricing as the game with that player, I mean we are using tactical promotions with consumers to get ahead with that, so it is a mix of pricing change and product differentiation.
- Moderator:** Thank you. The next question is from the line of Richard Liu from JM Financial. Please go ahead.
- Richard Liu:** I got two questions actually, the first one if I look at Slide #25 where you talked about the toothpaste market growth, can you help understand what would have explained the Q1 and Q2 '17 industry volume growth that suddenly spiked to about 7% and 12% for those two quarters, from 1% to 4% a few quarters back and there again back to 5% after that?
- Issam Bachaalani:** You are talking about the Q2 '17?
- Richard Liu:** Q1 '17 whether industry volume growth was 7.2 and Q2 where it was 12%?
- Issam Bachaalani:** It is basically pre-GST and post GST, I would say this was kind of spiked it and then it went back to the normal numbers. Again, you see the same thing within the toothbrush category at

the same time, but this is the only I would say explanation that we have pre-GST and post-GST price.

Richard Liu: Is not this consumption growth, I mean why would GST affect that?

Sujata Nairi: Richard, again as I said earlier also this is quite different from what we would really see how the category would move post demon- and GST, but that is how Nielsen has picked this up. So that is thing which we would really like to see is right now. The story that is there is that if you see the volumes are right now being similar and pricing being at its low that is where the market is today, but the Q1 and Q2 post demon- is an upside which we really did not see on the ground.

Richard Liu: Q1 '18, your growth is about 170 bps lower than the industry and is there any concrete plan in place where you would look at bridging this gap and corollary to this did I hear you say that the Naturals category is now growing at about 20% to 21% you know for the Naturals market as a whole and if that be the case, would you mind sharing what is the growth rate for your own Natural segment?

Issam Bachaalani: When you go back and look at the growth that we have, let us say you see our market share is on the stress, if you look at the share losses is really mainly on the super-premium side of the business, Colgate Sensitive and Whitening, while the health of share on CDC is strong except for the last reading, MaxFresh has been growing really internal double digit and some softness basically in Cibaca, but when you look at the Naturals growth is about 20% to 25%.

Richard Liu: For Colgate?

Issam Bachaalani: Yes.

Richard Liu: If I look at your FY '17 financials, did you really need this 290 bps margin expansion that you finally clocked, what I mean is why not have used that to try and spur growth, which is really lacking for want of a better word at this stage, I recall in FY '14 when Procter was said to be coming into India and I also recall how Colgate used to be super aggressive on advertisement just to ensure that Procter does not even get a foothold into the Indian market, why not have use this margin cushion into doing something of a similar nature to really ward of competition?

M. S. Jacob: It is not that we focused or that was the top priority first to drive margins, of course, it is priority to drive margins, but we did all the right things we think things like upsizing post GST price correction that gives you margin pickups as you would expect, we have negotiated with suppliers post GST that any input taxes they save they should pass on to us, so we did that. Then there is a combination of some things like cost savings like octroi, so those are some of the things we have got to get the margin percentage to this level, but we would not say that was our key focus. We went about doing the right things in terms of pricing, in terms of advertising spends and this was a good pickup when it came. So our target was, yes drive margins up but I would not say we targeted this level of margin increase.

Issam Bachaalani: EBITDA has expanded, still I would say you look at the past quarter, this was still a good quarter especially as compared to the quarter post demon. The second thing is that we always say that the spend should go also behind new activities and then basically the innovation came towards the quarter of October to December of last year and continued into this year and continued this quarter as well. The spend behind Swarna Vedshakti as well as the latest MaxFresh. So you could spend advertising to sales at a much higher ratio on anything and everything, but the way we do it really, we targeted where the spend needs to go. As Jacob mentioned, some of these the improvement in the gross margin really is based on the terrific funding the growth program that we have to ensure that we have strong margins to support the business. It is not that we are taking a completely blind eye on what needs to be supported and only drive margins, generally speaking quite the contrary.

Moderator: Thank you. The next question is from the line of Amit Kumar from Investec Capital. Please go ahead.

Amit Kumar: Just two questions from our end, one is again just continuing with ad pro investments, given the fact that you sort of already commented that competitive intensity sort of remains fairly strong, so how do we sort of see the ad pro investments either as a percentage of phase or in absolute terms going into FY '19 from a modeling perspective and specifically your parent company has also talked about very sort of sharp investments and very sharp commitment to increase the Bright Smiles Bright Future program globally, so how do we sort of look at those spends in light of that as well for FY '19 and '20, if you can help us on that?

Issam Bachaalani: Basically, our Bright Smiles Bright Futures this is our Corporate Social Responsibility, let me address the spend, I mean 13.2% of the advertising is in sales, we are still at very healthy levels and again as far as the spend and where we are looking at, this again spend behind is going behind really the freshness segment driving MaxFresh to new heights, our base business and as well and the other one is Naturals and that is where the I would say the spend that went behind Swarna Vedshakti, we look at the advertising spend, it was in the South so it was targeted towards that region, now that we are expanding I would say nationally we are looking at not only on National TV, but more also more focused on specific states as well as upping our spend on digital and the change in the composition behind on Colgate especially on the natural segment.

Amit Kumar: Then very quickly on this wholesale dependence for the company, I mean our understanding is firstly it continues to remain slightly high in the 45% to 50% sort of range, now what we have seen the commentary from other companies is that progressively post-GST as the wholesale channel has adjusted to the new realities pretty much every company has seen wholesale dependence sort of go down by about anywhere between 300 to 500 basis points essentially, so you all were looking to increase direct reach in FY '18. Two things, one is that what is the state of the wholesale channel as it stands currently, and secondly, in terms of percentages where do you sort of, there would be sort of an optimal mix of direct versus wholesale for your company, let us say may be not FY '19, but let us say two to three years down the line?

M. S. Jacob: Wholesale, obviously our dependence is pretty high. Close to half of our sales come through the wholesale channel. We did see it disrupted post demon, post GST and that did affect us. We think it has come to steady state, but I would say at current level of steady state because some part of it is permanently damaged, there is pressure on wholesalers in terms of profitability and they are looking at SKUs that they are talking and so some of it is kind of permanently destroyed and we expect it will remain at the current level which is in a way lower than where it was in the past. So one of the reason for expanding our direct coverage to 20% to 25% that some refer to was to start addressing the needs of the indirect retailers directly and going forward that is going to be a big focus. We still believe the wholesale dependence will continue considering the structure of our business, one category led etc. We will expect that it will still continue to be at the current high level probably marginally slightly lower than where it is, but not meaningfully different.

One correction I have to make the natural growth for Colgate was around 10%, Richard had a question, so I need to correct the response we gave at that time, so it is around 10% level.

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

Harit Kapoor: Sir, just had two questions, firstly on the market growth that you are witnessing your slide it suggests that it is fairly stable over the last three quarters, just wanted your sense other companies have spoken about an improvement in the aggregate demand especially in rural, so just wanted to know what you were seeing as well as do you expect this 6% number for the category only to improve going forward say at 19 or so?

M. S. Jacob: Your question was in terms of rural growth, right?

Harit Kapoor: Yes Sir, and in context to the aggregate to growth for the category and how do you see that moving forward?

M. S. Jacob: In toothpaste especially we are not seeing big difference in rural and urban growth, rural is slightly ahead of urban, so to that extent, we do not seem to be seeing the pickup that other companies have referred to, but having said that internally we are confident there has been a lot of this in the press already, MSPs and normal monsoon, election year, freebies, loan waivers, there is a lot of the stuff that is happening so which is positive for rural and it should play through at some stage and we do expect rural growth will be ahead of urban in say with a lag of quarter or two, but we will have to wait and watch obviously.

Harit Kapoor: My second question was on the reach, so what proportion of your overall reach would be direct now as we stand?

Issam Bachaalani: We do not share the number of stores the direct coverage that we have, we used to give just overall numbers of how we are growing on a yearly basis, so as I mentioned before that the

growth in the support that we are having for '18-19 is to strengthening our current coverage that we have and increase it by 20%-25%, but those numbers they are not published.

Harit Kapoor:

Last one was on the margin front again, if you look at the last three quarters the margin trend has been around the 28% level in operating margin level, do you believe that going forward you have the strategy and levers in place to not only drive revenue and market share growth, along with that also an improvement in profitability what is already a fairly high level of margin?

M. S. Jacob:

Our strategy is to try to maintain this level of margins, you are right, so it has gone up quite significantly in the last few quarters, so the only variables there would be the level of advertising, we continue to look at it very closely, what is the level of advertising we need to have to grow our shares and so that could be a variable, but other than that we do expect with the combination of pricing and cost control, we will be able to deliver the gross margins.

Moderator:

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

Amit Sachdeva:

Sir, if I make one observation around market share, so 53.4 which is at Q4 FY '18, I assume this is the weighted for the full year like you always report, each subsequent quarter is the basically accumulated total for the full year, if I were to just roughly back calculate then it would perhaps suggest that at exit Q4, the share is about 51.6% and rather than 53.4 which means you continue to lose about 3% market share each year, this year and the previous year as well, whether this understanding is correct; in this context if the volume growth for a rural has picked up and at least the growth in national is tapering, will not you feel that you should be perhaps gaining now market share and be aggressively growing volume and your suggestion of 4% volume seems a bit too conservative, would you comment on this volume market share first and then maybe if you could talk about your volume share target for the next year and beyond?

Issam Bachaalani:

Basically, if you look at we are around the 52-53, you see there are two aspects when you look at the shares within our portfolio. You look at CDC the mother brand, MaxFresh and CAS to the recent point, the shares were holding to slightly growing. The stress on shares was really coming from the super-premium side of the portfolio which is Colgate Total, Sensitive, and Whitening, and in the North the entry of Cibaca Vedshakti had helped. Going forward and this is again, if you look within the Fresh segment, we continue to grow our business on MaxFresh and within the family segment, we continue to grow at lower base, but since it is pan India and it is a big brand close to 28% to 29% market share one single brand. The future of the growth is going to come regardless from the Natural segment and that is the reason now we are spending significant advertising support behind our Vedshakti product. Again, we launched it back in October, three years ago we did Cibaca Vedshakti again only in the North, because Cibaca equity strength is only in the North, if I am going to think it is the South, it is going to flop, it is not going to do anything while under the Colgate umbrella, Vedshakti can travel across India. We launched it in the South only in two SKUs, two more SKUs are going to be

launched by June and the expansion will start across India. So that is where I would say the shares will come back and the volume will come back, and by the way throughout this year though the shares are down and they are on the stress, we continue to support our mother brand CDC, MaxFresh, Colgate Active Salt. All these three have been heavily supported well. line. Again, as I showed you the longer trend since 1999. But you say 1999 was a very long time ago, fair, but if you look at the I would say at the trend, we had come down without that, we went down all the way through from 52 to 47 in 2003 and we came back up to 57, and now it is close to 53.3. As I mentioned again, before and I am confident not just because of the call, the shares will come back, I have no doubt based on the coverage expansion that you are doing, strengthening and increasing, as well as the aggressive push that we have behind the Natural segment.

Amit Sachdeva: Issam, just one small thing, this is very anecdotal but we just kept on hearing that there were lot of supply chain disruption on Patanjali in the last two quarters maybe because they had some internal issues and external issues on supply chain and this and that, but did you notice that Patanjali actually slowed down in the last two quarters quite a lot which gives some indoor to other people on maybe other products if not in, but did you see any disruption from their side on supply chain or on dental side?

Issam Bachaalani: I cannot comment on the competitors and what they are doing, I can tell you from our end that we have upped our spends about the line and in-store significantly and I would say stronger support be it on price, be it on promotion, be it on in-store activities, behind our natural portfolio before, now, and going forward and I will leave it at that.

Amit Sachdeva: Can I simply conclude that volume would at least should be going forward, your own anticipation would be at least it inches up to 6% to 6.5% rather than say at 4 in FY '19, what would you think about the volume growth for the year and given the initiatives, how would we should think about this?

Issam Bachaalani: I think we should be at least around the 4% to 5% and higher, I would say we are closing the quarter for the year, we are going forward with the level of activities that we have that will be investment on dialing up the conversation, change in the conversation, upping our investment in digital, increasing our investments in e-commerce, spending behind the infrastructure on enhancing our foreign coverage, increasing our coverage by 20%-25% and this is another way just to answer the previous question what before, dependency on wholesale because of this the dependency on wholesalers, this is even much more our plan is to ensure that our current coverage direct and moving forward is increased so that the dependency will always be there because it is the nature of our business, but at least we are strengthening the other side, so I would say going forward, we should see the volumes coming back.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints that was the last question. Thank you very much members of the management. On behalf of Colgate-Palmolive India Limited, we conclude this conference call for today. Thank you for joining us and you may now disconnect your lines.