



“GSK Consumer Healthcare
Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the GSK Consumer Healthcare Conference call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vismaya Agarwal from ICICI Securities. Thank you and over to you.

Vismaya Agarwal: Thank you Steven. Good morning everyone. On behalf of ICICI Securities, I would like to welcome you all to the call. From GSK Consumer, we have with us today, Mr. Navneet Saluja, Managing Director; Mr. Nitin Mathur, Head of Finance; and Ms. Parul Agarwal, Finance Controller. I now hand the call over to the management for the opening comments.

Navneet Saluja: A very good morning everyone and thank you for joining the conference call for Q3 2019-2020 results. The results witnessed sustainable growth in line with the past few quarters. The revenue from operations increased by 4% to 1159 Crores driven by strong domestic HFD growth of 6%. HFD business volumes grew by 3%. Business operating income continued to be a key contributor, consistently growing high double digit with distributed GSK Asia and CPL and ENO going at an accelerated pace. Gross margin for the quarter declined by 160 basis points driven by commodity inflation. We have been witnessing this inflation since the last quarter and expect these prices to remain bullish in next quarters as well.

We continue to drive cost-saving initiatives across our P&L lines helping us mitigate some of this inflation. We are investing competitively behind our brands with increased focus on TV and digital media. Spending during the quarter was at 13% of sales. PBT for the quarter increased by 6% to 367 Crores, the underlying PBT has increased by 9%, adjusted for one-offs largely explained by tax reversals and clearing of old vendor balances sitting in other income. PBT growth is driven by domestic HFD volume growth, pricing and cost initiatives partially offset by commodity inflation. PAT for the quarter increased by 25% to 277 Crores on account of changes in corporate tax rates. GSK has gained volumes and value share in both Horlicks and Boost in the current quarter as per the Nielsen results.

Horlicks gained 1.2% volume share and 0.8% value share. Boost gained 1.2% volume share and 0.8% value share in the last 12 weeks as per Nielsen. HFD volume market share in the last 12 weeks stood at 67% and value market share at 56%. We continue to drive brand-building activities through stepped-up investments in our brands, innovations and consumer connect activities that have helped us to HFD market shares in volumes and value growth. HFD distributions stood at 2.1 million outlets in the current year as against 1.88 million outlets in the previous year indicating a healthy growth of 12%. Q3 FY2019-FY2020 distribution is also the highest ever distribution that we have achieved in the last 5 years.



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Further, we continue to strengthen our business through science-based innovations and brand-building initiatives. Some of the important initiatives were Horlicks continued its hunger for growth platform and driving the nutrition credentials across South and East. The campaign on Play a Better Game platform continued in Q3 by consistently strengthening the association with the brand on stamina and energy. The iconic tagline “Boost is the Secret of My Energy” was customized to every South Indian city’s name to print in outdoors to establish the dominance of the brand in its core market. The entire market was painted red with strong visibilities and this was executed in every Southern market.

The innovative digital platform boostcamp.com was taken on ground to kids across 39 cities in Tamil Nadu as a selection camp that provides access to quality cricket training for deserving kids. This is for participation from kids across 900 plus schools. The top 200 selected kids were awarded a 6-month cricket scholarship with a Boostcamp Partner Academy. This also done a tremendous press coverage reaching 5.1 million readers in Tamil Nadu. Boostcamp.com website also saw the introduction of an international coach for the first time with the greatest fielder in cricketing history, Jonty Rhodes training kids on fielding. The macro environment continues to be a key watch out with subdued demand and rising inflation.

The government has announced several policy measures to revise sentiment. We are hopeful that these policy measures will augur well in the near to medium term. Regarding the merger with Hindustan Unilever, in continuation to what we spoke in the previous quarter, the Chandigarh Branch of National Company Law Tribunal NCLT, it is hearing on February 3, 2020, has reserved its order on the scheme of amalgamation between Hindustan Unilever Limited and GlaxoSmithKline Consumer Healthcare Limited. We are now waiting the formal order and once we receive it the other procedural formalities for the merger will be completed. Till the process is completed, HUL and GSK will continue to operate as separate entities in the market.

The order from the Mumbai Branch of NCLT was received by HUL on November 6, 2019 already. With this, we end our brief update on Q3 and open the call for discussions and questions. Thank you for joining the call today.

Moderator: Thank you very much. The first question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Percy Panthaki: Sir, I just wanted to understand basically the competitive landscape here, so two questions in that, one is the new variants that you have launched in the last 2 to 3 years including the protein variant and some other variants that you have also launched, what is the value market share that these variants currently have and secondly you have a total value market share of somewhere around 56%, so if you could just help us with the split of the rest of the market, who are the main players and what is the approximate value market share that they would have?



Nitin Mathur: Thanks for the question. So in terms of the competition and the recent products we have launched, I will go one by one, so the first one is Boost RTD. In terms of Boost RTD, it is a flavored milk and category whey segment and our market share currently is around a percentage point and we are doing well, growing very well in that segment. If I talk about Protein plus, our market share is 0.6%, again it has grown very well since its launch and it is on an annual basis a 40 Crores brand right now. On Horlicks Growth plus, we are at 0.3% of the HFD segment market share, again we are expecting 30 Crores to 40 Crores annual turnover from this brand and it is growing well and the recent launch is Active Horlicks it took 30 years, again has done very well and again 30 Crores is the annual size we are looking at it, and we have reached the market share of 1.4% in East and 0.7% in South. We also launched Boost Bites, which is the biscuit variant of Boost doing very well again and we have gained about 7 Crores turnover in the half year that it has been there, so these are the launches and all of them are doing well, promising. In terms of competition landscape, it is difficult to comment on competition strategy, but as GSK we are continuously investing behind our brands, and our shares are growing, so I cannot comment more on the competition.

Percy Panthaki: Right Sir. Secondly, just wanted to understand the volume/value mix for the HFD category, which is a 6% value, how much of that is volume and secondly the reason behind the difference in the 6% HFD category growth whereas your reported sales growth is 4%, so the reason behind that also, please?

Nitin Mathur: So, you are right, HFD product is growing at 6%, 3% is volume and 3% is value. There is also this food business before. In the food business we are taking certain selective calls on SKUs and variants, which are not very profitable, not doing well, so we are discontinuing them. So there is a decline in the foods category, so foods has declined by roughly about 13% in this quarter. We are also getting a decline in the exports because of two markets, Sri Lanka and Malaysia. In Sri Lanka, we are changing our go-to-market model and the entire business is being restructured, so there is a decline in demand from there and in case of Malaysia, destocking is happening, so there is a decline there, so our exports have also declined by about 17%, which is why you are seeing an overall 4%. It is made up by BAS income, which has been growing very handsomely at 21%, so overall the growth comes to 4% because of these reasons.

Percy Panthaki: Right Sir and lastly just your view on the input cost inflation, we have seen quite a lot of inflation in milk and SMP and how does that effect you going ahead?

Nitin Mathur: As you would have heard right now, in terms of inflation it is just sitting up in commodity inflation. In fact, for this quarter we have 6.5% inflation in commodities, so our gross margins, which is material cost is basically gross margin has declined, but it is made by other lines. For example, we are doing a good job in freight negotiations, conversion negotiations, so we are saving money there. That is helping partly offset the inflation we are getting, more than partly actually and also our BAS income is growing very well, which is a reason overall basis, our



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P&L is still growing in terms of PAT and even PBT, so while inflation is there we are using various levers to kind of mitigate it and overall protect the P&L.

Percy Panthaki: Sir that is all from me. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Nikita Maheswari from JM Financial. Please go ahead.

Richard Liu: Thanks for taking my question. I just wanted to request your comment on this media report about the Health and Family Welfare Ministry talking about banning advertisement and imposing penalty on advertisement for a few products including products like HFD that makes claims about making people taller, stronger, etc., my request for comment is with regards to how do you all as a business as an organization generally deal with these kind of stuffs that, I guess, can come up on and off by government agencies every now and then?

Navneet Saluja: This is a draft regulation, right and we really do not have got full details of it, but our discussion with FSSAI on all the aspects of HFD has been always very positive, so I think let us just take a little bit of shape for us to really understand. This also has to do with the Ministry of Health and Family Welfare, which is always Drugs and Magic Remedies, that is the act, which they speak about, so this is, if you obviously promise a magic to a consumer, then obviously that advertising is banned, but I think genuine science-based claims, which is what we are focused on because all our claims are actually based on real science and clinicals there, so none of our claims are just claims, which we just think of it magically. They are tested, we do clinicals in them and only then do we go and really promote our claims here, so I do not think this will really impact us, that is my view; however, let the draft become a reality because right now the industry will obviously be communicating with all the regulators to get the final picture out here.

Richard Liu: That is useful Navneet. So I mean, not so much in this particular case specifically, but I was just trying to understand your role as an important stakeholder in this whole process, how do you guys generally go about this kind of an event whenever it comes by, I mean, today, it is about these claims, tomorrow, it could be something else that, that some of the other Ministry wants to do, you obviously dialogue with the government, I just wanted to understand this whole process and the background of the kind of things you all do to ensure that there is a finesse and equity at the end of it?

Navneet Saluja: Yes. I think there is a very healthy forum with all the government regulators, which the industry and the regulators have whether to RCI or other forums that we have. In these forums, obviously what the government wants is to do the right thing for the Indian consumer and Indian citizens, as organizations we also have an absolute duty towards doing the right thing for the Indian consumers and for the Indian citizens, so it is all about finding what is right and if there is anything wrong, which organizations are doing, obviously, the regulators will come and plan



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down on them, but right now, we do not see any such unhealthy relationship between the corporate and this thing, so it is a pretty healthy discussion, debate, what is right for the consumers, what is right for the country, what should the regulation look like and they keep taking a significant input from us and there is a healthy debate around it here, so we are not really concerned because we know that the intent of this is really to protect the consumer here.

Richard Liu: Sure. I have 2 more questions, if I may. One is if you can give us some sort of a detail regarding the performance of North and West versus South and East and second, and I will just go on mute after this, there was this Chandigarh NCLT hearing on the 3rd, if you can just give us some perspective of what is happening, I hear that you mentioned in the opening remarks that you are waiting NCLT order, my question was, that did the hearing happen and will there be any follow-on and so on and so forth? Thank you very much.

Navneet Saluja: Thanks, The first question I will reply exactly what I did last time. North and West continue to grow faster than South and East, but all 4 regions are growing, so we are in a good space here from that particular perspective. From the NCLT hearing perspective, Nitin will just give you his comments on that.

Nitin Mathur: So in terms of the hearing, the hearing happened and the order has been reserved by the bench and it will be pronounced in the near future, so that is what we are waiting right now, so once that happens we will do the other formalities to continue with the merger.

Richard Liu: And you reserved by the bench in the sense?

Nitin Mathur: So they have not pronounced the order. They have reserved the orders. They will pronounce it at a later date.

Richard Liu: Any sort of ideas to how long this sort of things generally take or do you just have to wait for them to pronounce it?

Nitin Mathur: We will have to wait for them.

Richard Liu: Thank you very much. Wish you all the best.

Moderator: Thank you. The next question is from the line of Latika Chopra from J.P. Morgan. Please go ahead.

Latika Chopra: A couple of questions. The first one is if you could share with us what is the contribution of sachets and the overall portfolio now and how are the growth rates tracking, secondly, on a 9-month basis, if you could share the exports have been declining, but if you could just give a sense of what is the revenue breakup between HFD, foods and exports for you excluding other operating income, which includes your business auxiliary and thirdly you talked about a



significant increase in distribution, this 2.1 versus 1.88 in the previous year, which regions are you adding this distribution more, if you could give some color there? Thank you.

Nitin Mathur: So in terms of exports, let me handle the export question first. So the exports have been declining for us, and there are a few reasons behind it. If you look at the various markets who constitute our exports, there is Bangladesh, Malaysia, Sri Lanka, there was Pakistan and Middle East. Now I will start with Bangladesh, so Bangladesh has been witnessing a bit of a slowdown in their category that is why the demand from them has been coming down. In case of Sri Lanka, there are 2 reasons. Sri Lanka, one, we had restructured the formulation, which made it a little cheaper to import in Sri Lanka, which is why the absolute amount declined and secondly, recently we are restructuring the operations in Sri Lanka. We are all looking at a new go-to-market model, which is why the exports have not happened to Sri Lanka in this quarter. As far as other markets are concerned, be it Middle East, be it Nepal, they are growing. Malaysia, again, due to a slowdown there, there was a significant inventory buildup in that market, so again, they are destocking, which is why again in this quarter Malaysia exports will not happen. So these are the countries, which constitute our exports, and which is why the reason it is declining also Pakistan because of the tensions between the 2 countries, the exports have stopped. So overall basis, these are the summary for exports on the decline bit. Now you also asked in terms of contribution, how much the contribution of exports in our numbers, so if I look at the revenue from operation in this quarter, which is 1159 Crores, exports would be about 75 Crore, foods would be about 45 Crores and BAS would be about 64 Crores.

Latika Chopra: On a 9-month basis, would it be possible to share what is the MFD share for 9 months for you on export share and food share?

Nitin Mathur: We will have to probably get back to you on those numbers. We do not have them handy right now.

Latika Chopra: The share of sachets and their growth?

Nitin Mathur: The sachets would be roughly 12% of business right now, doing very, very well. We are growing in double digits and one of the drivers for our penetration and distribution is sachets.

Latika Chopra: Alright and distribution expansion, is it North and West where you are adding more outlets?

Navneet Saluja: Distribution drivers largely being led by sachets in the South and East, but in terms of percentage gain of distribution, it is across all the countries.

Latika Chopra: Alright. Thank you.

Moderator: Thank you. The next question is from the line of Karan Rohania from ICICI Securities. Please go ahead.



Manoj Menon: Navneet, this is Manoj Menon here. A couple of questions actually, one just following up on the regulatory environment question and your responses, if I look at the market shares, for example, when I add up GSK, Complian, Bournvita, PediaSure, probably there is 15%, 20%, which is rest of these players, would it be fair to say that the larger, the multinationals who actually are extremely compliant actually stands to gain if the industry becomes more regulated, is that the directional or correct thought process?

Navneet Saluja: I think Manoj, what you are saying, I am going to underline through it, because the genuine players, who are actually doing clinicals and their claims are research based, stand to always gain if the industry becomes far more regulated and compliant here, so you are right, in general direction, that will happen here, so I agree with you.

Manoj Menon: Understood and secondly, on dialing up growth, there are different strategic options, which you have on the table at all points in time, so let us say, for example, if I am to enumerate, one would be driving sachets further; the second would be putting dollars on the table to drive consumption in North and West, particularly the per capita part of it, third would be distribution, the fourth would be premiumization, while I understand that as an aggressive management, you will have to do everything at the same time, this may actually push you for a response in terms of how do you want to prioritize these 3, 4, assuming that there is a constraint theory here, what would be the 1, 2, 3 picking order which you would look at?

Navneet Saluja: Great question, Manoj. So I think the one-word answer that we really want to do, as the organization as a team is to drive penetration here and the HFD penetration is still in the mid-20s in India where we see there is a lot more headroom, the coffee penetration is, I think, a little higher only and the good thing is that the category is very well established in India and has got a very positive empathy with the consumer here, so our single-point agenda is to drive penetration, now to drive penetration obviously there will be multiple, India has now become very diverse. It is not one single India, many, many India and therefore we will require multiple strategies to drive the single-point agenda for penetration. So it plays a very, very important role in driving penetration in the low economic population startup and deep down in rural and in small, small towns so therefore, sachets becomes very, very important in that. The fact that you have started addressing the adult population is far more significantly with the launch of Protein plus and with the launch of Active Horlicks gives us now room to increase penetration in households, which do not have kids here, that is another important agenda and we have seen the success of Women's Horlicks massively over the last 8, 10 years, as when we drive this well, this can really, really become very big here. So that is the second agenda as to how do we drive household penetration, as to how do we get more family members connected with the brand through various propositions here. You spoke about expansion in North and West, which are basically going to be distribution leg, so over there our effort is to increase distribution to ensure that people have more accessibility to our brands there. So those are the three key areas, I will say, drive sachets, to drive penetration, segmentation and premiumization, I am clubbing because by and large they



happen together, so premiumization and segmentation to drive penetration in other, the target audiences apart from those kids and then attacking it geographically wherever we believe there are opportunities are there.

Manoj Menon: Understood. That is pretty helpful. If I just like to followup on, one of the interesting insights, which you just commented was, the reach in the North and West is a potential significant driver, but historically, the perception, at least, definitely, the financial community for sure was actually that North and West, it is more of a question of product relevance and then probably distribution, but you called out distribution, so is it fair to say that the product relevance has probably include a lot and you just had basically, you just had distributed dollar, which can actually get to that extra bit of revenue now in North and West specifically?

Navneet Saluja: Yes, North and West, actually, the household penetration is pretty decent. There is obviously not as high as South and East, but I think the relevance of the category over the years has been significantly increasing, so if I look at the last 25, 30 years journey of this category, and these long-term trends are important, Manoj, because they give you pretty much insight as to how the habits are getting well-established in the family, so I used to sell Bournvita, 30 years back in mid-80s, and I know what the penetration was and how the category is now evolved. When you go to the same town, 30 years later in Punjab, you can see the difference on the evolution of the category, so the category is establishing itself every day more and more and encouraging itself here.

Manoj Menon: Understood, it is very helpful. One last question from my side is that, having tracked this company for a very long period of time, at least I found installation actually hurting gross margins, the only question here is that, is it more to do with the general economic conditions, which makes a little more cautious on pricing or you may have a view that the commodity is more of a short cycle, you do not want to really increase prices, how do I think about the gross margin per tonne impact, thanks to the inflation you are finding currently and interestingly, Nitin commented about inflation persisting as well?

Nitin Mathur: So, let me talk about the drivers of inflation for us. It is primarily the dairy market, which is driving milk and SMP. Now inflation has been very high, double digit, 40% more than that. Now this kind of inflation is something you cannot ever pass to the consumers. We will have to figure out other ways of dealing with this inflation, which we are doing right now, so if the commodity prices are moving up, we are trying to save in opex, convergent freights to maintain the overall gross margin, so while the material margin might be declining, overall on the gross margin, we are trying and holding the fort, so we will take a price increase in line with CPI. We will not take price increase, which kind of hurts our consumers or the products, so I understand what you are saying, but this kind of inflation is coming for the first time. It is going to hold for a couple of more quarters, but we are planning to negate with other levers in our P&L and not take a price increase of this magnitude.



Navneet Saluja: Just to build on what Nitin is saying, from a long-term philosophy, we really believe that whatever is the wholesale price index or the consumer price index inflation, which is happening in the country, let us say it is X, then our price increase in a year should be X minus delta X, which is to try and save at least 1.5% to 2% points from the index here. If you do that you will have a sustainable business over a very long period of time. If you try and take pricing in line with inflation or ahead of inflation and you do it consistently your brand will face headwinds in a country like India, which is very, very value conscious, so we have to therefore have projects and methodologies to make sure that we are more efficient in our operating expenses, our conversion costs, our capacity utilization and whatever other ways to save cost to ensure that we do not pass the excess burden of inflation to the consumer because that is a sure recipe for a decline in category penetration if you take prices ahead of inflation here.

Manoj Menon: Got it. Very, very helpful, actually understood, so essentially that the inflation actually what you are experiencing is beyond a certain threshold and I completely understood that. The only context, just more of a comment, actually, which I recently asked because my dairy analyst, Aniruddha have got a strong view that this inflation is going to persist for a long period of time, so I was just trying to kind of link to that thought process, I know that it is a view, but I respect his views on dairy quite a lot actually, I will take it off-line, Navneet and I will go back in the queue. I think there are more people in the queue to ask questions. Thanks and good luck.

Navneet Saluja: Thanks, Manoj. Thank you. Really appreciate it.

Moderator: Thank you. The next question is from the line of Siddhartha Bhattacharya from Anvil Wealth. Please go ahead.

S. Bhattacharya: I just had a bit off-topic question over here. I just wanted to understand what is your view on the sugar content in Horlicks in various categories I know you have launched sugar-free versions, but do you see that this increasing trend of mothers wanting their children to sort of consume food products with lesser sugar content can be a challenge?

Navneet Saluja: All our research is showing that there is no such significant worry from mothers. There will always be a small percentage of mothers who will be worried about sugar. Right now the kids actually require more and more sugar. In fact, the last study that I saw, we saw that actually India is taking lesser sugar than what is recommended, and obviously, the regulator is also very concerned, and that is why the whole FSSAI regulation is going to come. We have also made our own product category to make sure that when the regulation comes in we are very much within the norms and ensure that we actually give more value to the consumer from a science perspective. What we deliver is actually world-class nutrition, is really the focus and there has to be a little bit of a sweetness content in the drink to make it palatable for the kid to really have it here, so we are very much within the norms we are working very hard to make sure that we come out with variants, so that we give consumers a choice as to what they want. Right now I do not



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know what the figures are, but when I speak to some of the friends and ask a simple question, how many people in India put sugar in their tea, it is quite a crazy number here, so I do not know what your number is, but it will run into high 90s here, so it is not such a big worry when we really look at consumers because we put a lot of sugar in whatever we eat or drink here.

S. Bhattacharya: Are you looking at sort of replacing our normal sugar with sort of any of the substitutes that are there in the market, let us say like Stevia or something else, have you sort of been working on something like that?

Nitin Mathur: Yes, we have variants like that, and therefore, we offer the consumer some choice there.

S. Bhattacharya: But can it be sort of infused in your normal mass-market product, is that possible without sort of affecting..?

Navneet Saluja: The science is there, yes.

S. Bhattacharya: Thanks a lot for answering my questions.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

Navneet Saluja: So thank you much very much for your active participation. It is a pleasure to interact and get extra on the perspective for the categories and business. It gives us an opportunity to understand what you as analysts expect from us. As a company, we remain committed to grow in the category by bringing in product based on high science and innovation. With that, I would like to thank you once again. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.