"Dabur India Limited Q1 FY'20 Results Investor Conference Call"

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MANAGEMENT:

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Gagan Ahluwalia: Good afternoon, ladies and gentlemen. On behalf of the management of Dabur India Limited, I welcome you to this Conference Call pertaining to the Results for the quarter-ended 30th June, 2019.

We have with us here Mr. Mohit Malhotra - Chief Executive Officer, Mr. Lalit Malik - Chief Financial Officer, Mr. Ashok Jain - EVP(Finance) & Company Secretary and Mr. Ankush Jain - Head (Financial Planning & Analysis).

We will start with an overview of the company's performance by Mr. Malhotra, followed by a Q&A session. I now hand over to Mohit. Thank you.

Mohit Malhotra: Thank you, Gagan. Good afternoon, ladies and gentlemen. Welcome to Dabur India Limited Conference Call pertaining to the results for the quarter ended 30th June, 2019.

In spite of the sluggish demand environment and slowing industry growth, Dabur's domestic FMCG business recorded a growth of 11% on back of a robust volume growth of 9.6%. The consolidated revenue from operations grew at 9.3%. India business was driven by double-digit growth across Healthcare and HPC, led by aggressive investments in brand building and distribution expansions.

Healthcare vertical performed very well with a growth of 18%. Health Supplements grew by 20%, led by a robust growth in glucose. Digestives category recorded a growth of 18%, driven by very strong performance of Hajmola and Pudin Hara. New variants, focused marketing inputs and distribution expansion contributed to driving this growth. OTC products category grew by 13%, helped by growth of e-commerce platform. Ethical business recorded good growth of 15%, driven by medico-marketing, distribution and visibility enhancement initiatives.

HPC vertical posted a growth of 12% led by strong performance across all categories. Hair oils category registered a growth of 12%. Volume, market share in Hair Oils moved up by 80 bps on MAT basis vis-à-vis last year. Shampoo category posted a growth of 11% with newly launched bottle portfolio gaining traction.

Oral Care category grew by 11%. Red Toothpaste, our flagship brand, continues to perform very well by increasing penetration, aggressive marketing and visibility initiatives. Babool Ayurvedic has been launched with a strong ayurvedic formulation and a very attractive price point. Our market share in Toothpaste category continues to see an uptick.

Skin Care registered a growth of 12%, driven by strong growth in Bleach portfolio and a good performance of Gulabari.

Home Care category grew by 11% in this quarter, backed by strong performance of Odonil that grew by 23%. Odomos and Sanifresh recorded subdued performance as compared to the base quarter.

Foods business recorded a growth of 1.5%, which was on account of category slowdown and increased competitive intensity by milk-based players. Innovation in this category continued with the launch of Real Fruit ORS, Mixed Berries and expansion of our Masala range. We have also launched Real Koolerz Mango at Rs. 10 price point to expand our presence at the lower price points. With these initiatives, our market share in J&N category rose to 56.9%, an increase of 300 basis points over last year.

We are continuing to expand our direct reach, both in urban and rural markets. In line with this strategy, we added 40,000 additional outlets, taking our direct reach to 1.14 million. In addition to this, our village coverage went up to 48,000 from 44,000, giving our rural business a good momentum. We intend to continue to expand reach and productivity of our distribution network to enhance availability and penetration of our products.

International business is showing signs of recovery with constant currency growth of 7.7% during the quarter. Turkey posted a strong growth of 41% in constant currency. However, the currency devaluation continued to impact the translated value. GCC markets reported flattish sales but arrested the decline of previous quarters. Namaste business registered 6% constant currency growth. Sub-Sahara Africa grew by 10% on back of strong growth in Nigeria. Nepal business grew by 8.3% and Pakistan business grew by 22.2%.

Consolidated operating profit posted a growth of 18.5%, with operating margin seeing an improvement of 157 bps to touch 20% level. Excluding the impact of IndAS 116, operating margin has seen an improvement of 117 bps. Consolidated PAT increased by 10.3%. If we exclude the impact of exceptional items, the PAT grew by 14.2%.

While increase in media spends appeared to be muted optically, the overall A&P spend including consumer and trade promotions increased by 18% in consolidated results and 15% in standalone. Although we are seeing continued stress in demand both in urban and rural, our initiatives to invest strongly behind our power brands, expanding distribution footprint, streamlining our supply chain have enabled us to remain competitive and expand our market share. We will continue to stay the course on our strategy and invest strongly behind our business, brands and infrastructure going forward as well.

Now, I open the Q&A and invite your questions, please.

Abneesh Roy from Edelweiss.

Abneesh Roy: My first question is on the power brands. Last year you had identified the Lal Tail, Pudin Hara, Honitus. So, what would be the plan for this year? Would you continue with these three brands? And when do you start taking new brands, because you have a Rs. 100 crores target, but obviously in the first year or second year that will be very tough for most of those smaller brands. So, when do you go to the next stage of new brands?

Mohit Malhotra: Right. Thanks, Abneesh. On the power brand architecture, we continue to invest behind Pudin Hara, Honitus and Lal Tail. And all the three brands have actually given a strong growth to us. Pudin Hara has grown by 18%. Lal Tail, because of season is not there, it's also grown by 5% to 6%. And Honitus also registered a growth of around 8% to 10% in the existing quarter.

On your question of whether these brands will remain or we will take on more brands, still these brands haven't realized their potential of Rs. 100 crores that we were aiming then. Pudin Hara and Honitus are still in sub Rs. 100 crores level, so I think it will take another couple of years for these brands to actually reach that level before we take other brands. As far as Lal Tail is concerned, it is doing exceedingly well for us, and I think in the coming season, this would continue to fire. After these three brands have reached the Rs. 100 crores or more than that in their potential levels, only then we will look at other brands and investing behind them. So, we will restrict our investments to these three brands in Healthcare and other brands in the different other segments.

Abneesh Roy: Sir, one follow-up here. So, quarterly performance for these brands can be volatile based on seasonality, but if you measure for the last one year are you happy with these three performance, is there any learning in one particular outperformance or underperformance of any of these three?

Mohit Malhotra: So, I think the strategy has worked out very well for us, Abneesh, we invested on Pudin Hara. We have launched modern and contemporary formats and the formats have actually done very well, like we have invested in Pudin Hara Fizz. Pudin Hara Fizz has grown very well, and has taken market share from the competitor. So, I think the strategy is doing well. On Lal Tail also we have done a lot of seeding operation to modernize the formats of Lal Tail, which would see the light this season, and that's also done well. Honitus, we have again launched a sachet for Honitus, which has done very well and driven the growth of Honitus. So, most of the initiatives have done well. And whatever we thought has actually fired. So, we will stay the course on the strategy. And there is not much of course correction which may be required on the strategies that we thought.

Gagan Ahluwalia: And as you would know, last year all the three brands grew in strong double-digits. Lal Tail had grown at 15%, Honitus around 17-18% and Pudin Hara at around 21%. So, this is the full year number for these brands.

Abneesh Roy: That's helpful. My second question is on volume growth. You had said in Q4 that Q1 will be impacted because of the base effect. So, on a 21%, 9.6, it's a very good number. Is there any one-off, any channel filling, any inventory which has gone up at the trade level?

Mohit Malhotra: Not really, Abneesh. We were sitting at inventory level of around 18 to 20 days, we are still at the same inventory level. So, there is no pipeline filling. Except barring that when there is a season, seasonal brands you need to put in more for the season to come. Like when the festive season will approach then we tend to put in more beverages, in which the uptick will happen. So, barring that, there is no pipeline filling which has actually happened. The primary sale is leading to secondary and secondary is leading to tertiary. But saying that, we are seeing a slowdown in the market, so that will impact us going forward in the future, I would imagine.

Abneesh Roy: Sir, my next question is on the strategy. So, you have a much more pronounced strategy on volume growth. So, when I see Almond Hair Oil, you are giving 50% extra. Similarly, in value-added hair oil you are doing comparative advertising, mentioning competitor brand and pricing, etc., which was not the case earlier in your case. So, one is, I don't see that impact on gross margins in standalone, gross margin is up 85 bps. Second, in Almond Hair Oil is this 50% extra also available in kirana stores, for example, or only in modern trade?

Mohit Malhotra: No, today it is restricted to modern trade, but going forward we may want to extend it. So, I think we are doing this promotion also selectively. We are not extending it to all the channels. For example, e-commerce would be a separate promotion and GT is separate, modern trade is separate. Horses for courses, so there is no standard formula for all the channels here.

Abneesh Roy: And could you comment on the no impact on gross margins in spite of all this, what is driving that?

Mohit Malhotra: There is no impact on gross margin, these brands are actually high gross margin. So, if you give aggressive trade scheme which gets netted off from the top line that may impact the gross margins little bit. But I think, overall, the volume growth more than compensates for the absolute gross margin decrease and the volume increase.

Abneesh Roy: And sir last question, in Oral Care you have come out with this Babool Ayurvedic. Now my question is, Unilever has become very aggressive and seems to have taken share from #1 player. So, in that context would you also need to fine tune your strategy to fight Unilever's aggression in promotion? And what is the target you expect from Babool Ayurvedic?

Mohit Malhotra: See, we will be very competitive in the marketplace. As I talked in my commentary that the proposition of Babool Ayurvedic is extremely attractive by virtue of its Ayurvedic from the stable of Dabur, which has a very high credibility in the area of Ayurveda. That's one. Plus, Babool is a very active ingredient in Ayurveda which till now we have not advertised and spoken much about, which is what we will do now. We will be embarking on advertising also. And the price points are also pretty aggressive. So, we have got a Rs. 10, Rs. 20 and a Rs. 30 price point here. And we have been competitive and the same strategy will apply on Babool also going forward.

Abneesh Roy: And would you target Patanjali in this, Babool Ayurvedic?

Mohit Malhotra: Patanjali is available at a different price point altogether. Patanjali has a Rs. 40 for a 100 gram, we guys are operating at a Rs. 30 per 100 gram. So, it's a different target audience that we are addressing. This is not really meant for Patanjali. That being said, Patanjali is also operating in Ayurvedic area and so are we. So, positioning speaks to the consumers at a broader level, but the price points are different, yes.

Abneesh Roy: Yes. Because consumer is down trading, that's why I asked.

Mohit Malhotra: Yes. If this proposition becomes attractive to a Patanjali consumer, we would be happier, there is an incremental gain.

Percy Panthaki from India Infoline

Percy Panthaki: This is Percy here. Sir, my first question is, in the context of the overall FMCG slowdown that we are seeing, your number is very good. So, if you could give us some idea as far as your sales and not the Nielsen numbers, how it has trended across the three different months of the quarter?

Mohit Malhotra: Yes. So, Percy, overall, you have seen the quarterly numbers. The month of April was exceptionally good and then May was also great. But the month of June, we are seeing a little bit tapering off on the secondaries in the marketplace. And I think that's got to do with the headwind of the economic slowdown that we are feeling a pinch. And the more we felt that in the geographies of north and west. east and south continues to fire well for us, but north is where we are feeling a lot of pushback, especially in the area of beverages. A, I think the competitive intensity has gone up; and B, there is an economic slowdown and there could be a little bit of liquidity crisis also, because trade members are also asking for high liquidity, especially in the rural areas. So, we feel that the month of June is a little slow as compared to April and May was, and that is getting exaggerated, that slowdown, as we are going along. And Nielsen is also speaking to those numbers. So, if you look at, I know you didn't ask for the Nielsen numbers, but still Nielsen numbers corroborates to our sales and they seem to be correct. And the overall quarter was 10% in value, but if we break it up into the three months, April, May, June, June is in the range of around 7% odd and it's sequentially going down and we also feel that pinch happening. From the peak of around 16% level, the quarter is down to 10% and sequentially down to around 7.8% in value, and volume is down even more sharper, it used to be peak of 14% and down to around 5% levels now.

Percy Panthaki: Okay. So, sir for the quarter, Mohit, I mean let's forget the months, you have definitely done better than the industry, which means that you have probably gained market share in many of your categories. If it's not showing in Nielsen, there could be pickup issues or there could be lead lag. But the fact that you have grown faster than the industry, I am just trying to figure out the reasons behind the same. So, one is the distribution expansion, 4,000 new villages that you entered. The other is medico-marketing initiatives, are there any other causes that I can attribute towards this good performance apart from these two?

Mohit Malhotra: See, there is a definite marked improvement. Like we have said in the beginning, we have started focusing on these power brands which are big brands for us. And we are disproportionately investing also on these brands. While I said that optically the advertising investment doesn't seem to be very high, but if you actually go deeper, on power brands the investment has gone up to a level of around 15% and that also is now focused on limited channels and limited programs. We are definitely seeing an uptick in the demand because of this, and that is leading to offtake. And moreover, we have got more aggressive also. Plus, we have also introduced the right price points to be accessible to the consumers and the channels where we are present in. So, like we have extended villages, earlier there wasn't SKU which could drive that the route to market that we had established. Now we have introduced more number of LUPs. So, these low-unit price points have made these products more accessible to the rural consumer, and therefore, we are able to leverage this route to market that we had established. So, that's also one of the big gains, advantages that we are seeing going forward.

Also, we had embarked on the Project Lakshya, in which we talked about network optimization, and we talked about consolidation of warehouses, our range availability at the distributor level and the warehouse and C&FA levels that has also improved. Because of that improvement, our loss of sales has gone down, because of that also we have gained some amount. Plus, freight cost has also gone down, nothing significant though, but definitely it has made a difference and added to the efficiency of doing business.

Percy Panthaki: Understood. And lastly, Mohit, if you could just elaborate on this ad spend issue. I mean, I did not fully understand this. As you said, on a reported basis, the ad spend percentage of sales has gone down, but you are saying that there is a 15% increase. So, is it that there is money shifted from ad towards promotion? Or is it that there is money shifted away from fringe brands which anyways can survive without ads, and that money is now going into the power brands? So, what exactly, can you elaborate on that?

Mohit Malhotra: Yes, very rightly pointed out. So, we have now identified the brands which need to be driven through advertising and brands which need to be supported through trade, and there are brands that need to be supported through consumer promotions and providing value to the consumer. So, these power brands that I have been talking about, these definitely need to be supported through advertising and demand building. And therefore, we have redirected the money from these fringe brands, other fringe brands in the portfolio to these power brands where we see a growth of around 15%. Then the fringe brands can thrive and sustain through consumer and trade also. So, that's what we have done. But if you look at our overall advertising and promotion expenditure, that has gone up in consol by 18% and in standalone by 14%. So, the overall Adpro spends are higher by 14%, but the advertising spend doesn't seem to be high, but on power brands it's 15% again.

Gagan Ahluwalia: Even in absolute terms in the India business if you see, we have spent on media Rs. 166 crores versus Rs. 155 crores last year, so absolute terms also it has gone up.

Percy Panthaki: Understood. And can you just enumerate which are these brands on which you decide to spend more on ads, which are the brands on which more consumer promotions and which are the brands on trade promotions?

Mohit Malhotra: Wherever the competitive intensity is high there we got to do both in tandem. So, for Hair Oils and for Oral Care we need a continued sustained awareness buildup required on advertising and also supporting them with CPs and TPs. The Healthcare portfolio, which is less competitive, where there is less competitive pressure whether it's share of voice or it is market share, etc., there it's more trade-driven and maybe trade-driven essentially, not even consumer. So, consumer facing brands are more Hair Oils, Toothpaste and Honey to a certain extent and that's pretty much, yes.

<u>Arnab Mitra from Crédit Suisse</u>

Arnab Mitra: On the first question, I have had both on the beverages where you continue to face headwinds, I think, at a category level. So, you have taken a lot of actions which you enumerated. Do you think this is going to lead to some turnaround in the category for you? Or there are lot deeper changes that you need to make over the next year or so on this?

Mohit Malhotra: So, Arnab, there is definitely a headwind and the headwind comes in from the category decline of around 3% to 4% that we see, volume decline is even sharper of around 5%. Plus, there is a huge competitive intensity from the milk-based players and a lot of players who have jumped into the market and now all are competing with a shrunk wallet of the consumer. Definitely there is a headwind, we have taken steps. But what we find is that the strategic area that consumers are down trending, down trading actually, the juice segment which is selling at Rs. 100 for a liter price point, which is the majority 1 liter, the market is shrinking. Carbonated beverages, unlike what you would imagine, started showing a growth of around 10%, and drinks market is also growing at around 8%. Carbonated being around Rs. 25,000 crores, drinks being Rs. 6,000 crores and juice being around Rs. 1,600 crores. Therefore, this Rs. 1,600 crore market is seeing a pinch, and therefore the strategy of getting into the drinks space and also into the Rs. 10 price point space, which is the belly of the market. And we have got brands which can be leveraged at that space also. Therefore, that strategy of coming out with a Rs. 10 price point and having LUPs. And that being said, we have to step up a lot on innovations. Whatever we have done, introducing a Masala range and ORS may not be enough, we will be stepping up on innovation as far variants are also concerned going forward.

I can't talk to the exact initiatives that we would be taking, but definitely. We are also investing in some sort of CAPEX to enable us to launch smaller SKUs, which can straddle the rural route to market. Today, Real brand for us is very urban and rightly so because of penetration of juices in the country is also around 3% to 4%. If you want to increase the penetration and have the ownership of increasing the penetration, we have to get into rural, and for rural we have to get the price points lower. And that is what we are working on.

Arnab Mitra: And second question was, despite the increase in promotions, you said that you had stepped up your promotional intensity, in the standalone level there is a gross margin expansion which actually this quarter has flowed into EBITDA. Going for the full year do you see a possibility of EBITDA margin expansion from where you stand today? Or would you say that this quarter was kind of an outlier where that benefit actually was captured in the operating margins?

Mohit Malhotra: Yes. I think it was an outlier, if you ask me. The second part of the answer is correct. Even if the gross margin and the operating margin, even if there is an increase in the margin due to the leverage of the cost that we may have, because commodity prices and the raw material, packaging material prices continue to be pretty benign at the moment, and we don't expect this inflation going up because oil prices are also soft. Whatever benefit that we get we will plough it back into brand investments to increase our competitive intensity and gaining share in the marketplace. We want to maintain our operating margins, and we are targetting to have around 20% operating margin for the whole year going forward. And whatever additional leverage we get, we would be ploughing back.

Arnab Mitra: Sure. And just one last question on international business, you seem to have had a slightly better quarter compared to the last couple of years. So, is it still very volatile and we could see slippages here? Or do you get a sense that the worst is definitely over and we are not going to see big margin drops or declines in revenue here? And you could give a bit of color if you can on some of the different geographies.

Mohit Malhotra: Right. So, our international business operates in a couple of buckets again. The first bucket is 50% contribution in more of MENA markets for us. MENA markets, we were facing a lot of headwinds which are more macroeconomic in nature, footfalls going down and because of the oil prices dipping down there was a double-digit decline in the categories where we operate. We have seen that bottom out already. And now we see some revival and single-digit growth rates in Hair Oils, Shampoos and Toothpaste where we operate. And our market shares continue to be on an uptick trend in these markets. So, from the past quarter where this 50% of the business was declining, we have now come back to flattish growth here. And that has been supported by a lot of trade schemes, that's why our margins have contracted a little bit. But I think going forward as we lap over the base there should be some efficiency and margins should be improving in this 50% of the business.

Now, coming to the America part of the business that also we have lapped over the base. I think America has given a growth for us, although low single digit, those should also improve going forward. Turkey business, but for currency devaluations which continue and will continue till another three months or so before we lap over, and if there is no further currency devaluation happening there, Turkey business is growing at 40% for us, so it's a good story and so is the case with Pakistan. Our Bangladesh market is struggling a little bit, that was maybe because of the Eid which happened last quarter, but we see a huge potential of growth here and we will continue to invest. So, I think this is sustainable growth that we have attained in international business and we should be able to sustain it. And there should be a minor improvement in margins in international business going forward in the current year.

Vivek Maheshwari from CLSA

Vivek Maheshwari: My first question is again on the volume. I know a lot has been discussed already on the call, but if I go through your comments in the fourth quarter, I mean, other than the prolonged winter liquidity issues and agrarian crisis were two issues that you highlighted. But there was a pickup in April and May as you highlighted. So, what exactly is happening? Why there is such a big volatility, month after month?

Mohit Malhotra: See, to me it is not volatility. I think in the quarter four also if you look at segment-wise results, you see beverage portfolio was the one which actually suffered. And beverage portfolio continues to suffer in this quarter also. To that extent I think there is no volatility. There is a seasonal volatility which is bound to come, because it was a protracted winter at the time and now it is summer, so therefore the brand, Glucose, which wasn't very active then is active now. That has gone up. There is a volatility to that extent, which is inbuilt in the business. But the category wise, beverage is 20% of the business, it has struggled in the quarter four and which continues to struggle in the quarter one also, and there is a category decline. If you look at the business, our volume growth has come in on back of our Healthcare portfolio and also the Hair Care portfolio and Oral Care and all the three were good in the quarter four also, and these are robust till now as well. So, I don't think that scenario has materially changed so much.

Vivek Maheshwari: See, let's say that to your comments about April, May, June where April, May were good and June you saw a deceleration, so is there anything that you can attribute this slowing growth to in the month of June, for example?

Mohit Malhotra: I think liquidity is the reason which was there earlier, and liquidity is the reason now. But liquidity translating to our business we have seen. As I mentioned earlier also, the credits which our super-stockist and sub-stockist network is the one that caters to rural, which contributes to around 47% of our business. Here, the wallet of the consumer due to the farm distress is actually shrinking. Because of that, the retailers have to pass on some credit to the consumer, and therefore the sub-stockist is also not able to pay up to the super-stockist. And therefore, there is a credit crunch there, which is where we are feeling a pinch a little bit here. That is not so exaggerated in the whole quarter to impact our business results. But these are the small symptomatic anecdotal examples that I can give you for my diagnosis of the stress being more in the month of June as compared to April and May. Lalit, you want to add?

Lalit Malik: Sure. I think I would say that apart from the liquidity crunch that we have seen, it is getting severe. In addition to that, the overall consumer sentiment is also down. And even in the rural market, which we were expecting fiscal incentive or stimulus to help liquidity is not happening to that extent. And on the fourth side is also that there has been little uncertainty with regard to monsoon, which is also an important factor overall. So, keeping that in mind, the overall consumer sentiment is actually quite depressed as of now. And hopefully, depending upon how things will pan out, things should look better. But as of now as we see, overall consumer sentiment is quite low.

Vivek Maheshwari: I see. And one more thing on volumes, in that context let's say your guidance is mid-single digit to high single-digit for the full year. For rest of the year now where would you pencil in that growth number to?

Mohit Malhotra: Same, Vivek. We will maintain our guidance of a mid to high single volume growth rate for the full year. There could be some quarters, in which the season is favorable and it could be better. In some quarters, where season doesn't support us or a festival or a monsoon to Lalit's point, it could be a little low. So, overall for the full year, I think the guidance remains the same, mid-to-high single digit growth rates.

Vivek Maheshwari: Okay. And second one, what would be the explicit price hike in this quarter weighted average?

Mohit Malhotra: 1.4% is our price hike. And going forward also we don't see any inflationary pressure. We are already hedged till October, November. I think deflationary trend continues. So, I don't see a price increase beyond 2% at best. That also depends upon competitive intensity and how the inflation pans out to be.

Vivek Maheshwari: Okay. Sure. And last one, on the fringe brands, when you say on which you are, let's say, advertising or rejigging your investments, are all of these primary into Healthcare or is there something in the personal care as well?

Mohit Malhotra: They are into home care, they are into skin care, they are into Healthcare, they are into ethical area. So, all across there are fringe brands, they are also into personal care, hair oils. For example, we don't advertise on Brahmi or Sarso or anything, we only advertise our prime brand called Dabur

Amla and our Sarso Amla is also almost like Rs. 120-odd crores, Brahmi Amla is also seeing a high uptick, Almond is also a big brand. So, therefore, we have defined our power brands and we invest behind our power brands and this advertising provides some sort of a rub-off to these fringe brands also. If you see they are different in the other companies where they will have different brands, we have Dabur which is overriding brand, umbrella brand across our fringe brands, so they drive that benefit from wherever we had advertised. So, that way we are different, little unique than other organizations.

Prakash Kapadia from Anived PMS

Prakash Kapadia: Congrats on a good set of numbers. I see that Rs. 20 crore treasury hit, so what is this chunky exposure, to which entity and any more hit expected, if any?

Lalit Malik: See, this is with regard to our treasury investment in DHFL where you must have seen that there has been a default by them in paying the interest. Now though we do not have any default for us as of now, but still on a prudent accounting principles, we have considered 40% as the provision and we have provided for Rs. 20 crores on that.

Prakash Kapadia: On the Ethical range, could you give us some sense the direct doctor reach and on the OTC channel kind of chemist reach we have, any room for expansion, because that seems to be stabilizing?

Mohit Malhotra: I don't know what you mean by the word stabilizing. You mean is it...

Prakash Kapadia: In terms of the growth now being consistent, so is it expansion led, is it product led? So, kind of is it driven by distribution because that seems to be stabilizing in terms of the quarterly trending numbers.

Mohit Malhotra: Right. So, there are three buckets to our Ethical business. First is the classical bucket that we have, which contributes to almost 50% of the total Ethical business. Classical is growing at the rate of around 10% and this is the one that a vaidya or a doctor actually prescribes. So, this is driven by medico marketing and that's what I had mentioned in my narrative. We have increased our feet-on-street to do advocacy to the doctors. The number of people that we have added, around 121 people that we have added in last quarter, so therefore the feet-on-street has gone up, that is leading to an increase of roughly around 8,000 doctor reach that we have done in the first quarter. Now we are going upto around 36,000 to 40,000 doctors, earlier it was around 27,000-odd doctors. So, our reach to doctors have improved, which is improving our prescriptions of the classical drugs. And therefore, the throughput has actually gone up.

The second bucket for us is called Branded Ethical. As the product scales, we brand it and then it's more proprietary to us. That is roughly around 30%, 35% of the business. That is growing at 25% for us. As we speak, we have stepped up our innovation on launching a lot of Branded Ethical products. If we compare ourselves with other competitors which are more regional in nature, they have got a better brand portfolio and a better spread which goes to the doctor as compared to Dabur. So, I think we have got a lot of room to expand there. That also we are improving. We stepped up our innovation there and we are launching a lot of brands in that portfolio. That has also gone up by around 25% and there is lot of headroom of taking price increases there and it's not very competitive. So, if you look at the Ethical portfolio, we have taken 6% to 7% price increase also there, which is also linked to part inflation and price increase, otherwise.

And the third part of the portfolio Roaks what we call Asavas, they are basically tonics. Here also that has grown by 20%, 25% for us. And the team that we have added, that is also now advocating that tonic portfolio for us, which is another 20% or so.

Prakash Kapadia: And lastly, Mohit, on Oral Care I think you have been mentioning about Babool being a strong part of the overall Oral Care franchisee, so how confident are we with this relaunch? And anything specific on Meswak, if you could comment that would be helpful.

Mohit Malhotra: Yes. See, Babool has been a big brand and has been with us for roughly since 2005 when we acquired Balsara. It's a big franchise, more than Rs. 100 crores and a lot of traction in rural for this. What happened of late is that most of the other players in the Oral Care category have now come down to a Rs. 10 price point. So, Babool, which we hadn't advertised for past five to six years, was seen as more of an economy price fighter in the marketplace. And that's how the organization was treating it and milking it. And the entire consumer franchise that Babool has wasn't exploited. And the price positioning was somewhere lost out in past couple of years. So, therefore, we had to rebrand, repackage and reposition this entire brand and nothing better than Ayurvedic positioning, which has got a lot of tailwinds today. Because in Oral Care, if you will see the natural space, that is growing at what 18-odd percent and overall category is growing at 1.8%. So, we thought we will reposition it. We have launched it at a very aggressive price point, capitalizing on the economy equity and the Ayurvedic equity that has traction, and supported by the tailwind. So, I think this has got a lot of good chance of success. And we will be spending some advertising money to build the demand and resurrecting the entire equity of Babool for us. And I think it's a good proposition. So, we are keeping our fingers crossed that this should do well.

As far as Meswak is concerned, we are yet to do some work on Meswak. We guys are working very aggressively to resurrect Meswak also. I think perhaps next quarter end you should see Meswak also kind of reviving. At least that is what we will attempt to do. And besides this we have also done a reorganization in the team which was handling Oral Care now, so we feel we are now very well placed and we have increased our bandwidth also in Oral Care. I think we are very well placed to take shares in Oral Care. That being said, the players are becoming extremely competitive and aggressive. So, we have to be aggressive and fight in the marketplace with aggressive schemes, etc, whatever competition is operating. But we still feel there is a lot of opportunity here in this segment. We are only around 15% market share as compared to the category, which is around Rs. 8,000-odd crores.

Prakash Kapadia: Sure, I think, that is helpful, but with your product efficacy, I am sure you will be able to compete.

Mohit Malhotra: You must try Babool and circle back the feedback to us. The great ayurvedic strong formulation, you must try, and its very effective.

Latika Chopra from J P Morgan

Latika Chopra: Mohit, well done on volume growth. My first question was on, you talked about distribution increase over the past quarter and last few quarters. Is there a more headroom for you to increase direct reach, which could still contribute to the top line growth momentum?

Mohit Malhotra: Yes. So, again, different buckets of opportunity. There is urban, there is rural and then there are alternate channels. I will take them one by one. In urban we are still around 1.14 million, and this year, we are definitely going to be reaching out to around 1.2 million only. If I compare ourselves to other FMCG players, I think there is a headroom to grow up to something like around 2 million to 3 million also in the urban direct reach is concerned. And as the wholesale is under pressure, I think it's very important for us to go direct as well as urban is concerned. Then coming to rural, we only reach out to 44,000 villages, and this year we are targeting to go up to 55,000 villages. But if you look at the overall FMCG space, there are around 60,000, 65,000 villages, which contribute to 50% of FMCG consumption. So, there is a huge headroom for us to grow even in the village coverage. As far as India, the total number is 600,000 villages here in the country, so the headroom is huge. So, I think in the beginning, we will go up to around 60,000 villages and then maybe put a barometric performance, check if the ROI suits us beyond that number.

But our sub-stockist and super-stockist network is doing well for us and it's self-generating ROI model at the moment. And we don't have to give too much of subsidies to get into direct reach. So, till the time that happens, I think we are very well placed to capitalize on this opportunity, which is staring at us. Then the third is the alternate channels. E-commerce, today we are only 1.4% of the total business. This year we will go up to 2%, but there are enough and more examples in the FMCG space where people are doing 8%, 9%, 10% of the total sales coming in from e-commerce. So, that's why we have erected entire vertical of e-commerce to support us with that growth. And modern trade also, our market shares are lower as compared to GT. So, that gain also we need to up, which is 15% and growing at a very fast pace. There is also a tailwind which is driving the modern trade growth in the country. And then there are other channels like cash and carry and now E-butors, which are coming up and we need to leverage in that also. So, that's as far as reaching directly to the consumer and trying to not go through the intermediaries, which is both margin accretive to us and also the business comes in our direct control.

Latika Chopra: Yes. This is quite clear. Secondly, just wanted to hear your thoughts on these draft regulations by FSSAI on package food products. We don't know how it's going to evolve going forward, but are there any kind of steps you are taking for the beverage portfolio to improve the health quotient, so that it doesn't get affected as much in case such regulations come into effect later on?

Mohit Malhotra: Yes. So, we are pretty much updated and we are monitoring all the regulations very, very closely. We are part of the consortium of CII and we are representing the government along with CII and to influence the draft regulation we were a part of that. We signed an undertaking with FSSAI, and along with that we reduced the added sugar content by 5% on our entire portfolio, which is also margin accretive to us. So, as we speak, we are prepping up our portfolio to be prepared to align with the regulations of FSSAI for the existing portfolio, for the active portfolio and also creating a portfolio which could be low cal will conform with FSSAI. That being said, 70% of the packaged food industry will get impacted by a red dot in case these regulations come in. And we are not too overtly worried on that count, because like I alluded to before, there is a carbonated soft drink as a segment which is Rs.25,000 crores and penetrated 80% of the country, all that will be under red dot. And the entire drinks space, which is Rs. 6,000 crores will be under red dot. We are only around Rs. 1,000 crores out of Rs. 1,600 crores, which is minor. That being said, we are preparing ourselves for a portfolio which will be no-added sugar, only natural sugar, having low calorie sugar and also operate in the drink space which may have a red dot. So, I don't think there is so much of worry here. But that being said, we are very cautious and we are keeping our eyes and ears open and preparing our portfolio also in case this draft becomes the final regulation.

Latika Chopra: All right. And just lastly, you talked about little more CAPEX, right, on the beverage side. Could you tell us what is the planned CAPEX for FY20?

Mohit Malhotra: We have a total CAPEX budget of Rs.250 - 300 crores and all that to be invested in India and Nepal to augment capacities wherever we are reaching a level of around 75% of capacity utilization. We got a policy that anywhere we have 75% capacity utilization, we will be augmenting new capacity. And because we are also embarking on lot of innovation and making acceptable SKUs for the rural markets, so the CAPEX is required for that objective. So, it will be around Rs.250-300 crores CAPEX.

Gagan Ahluwalia: Total.

Mohit Malhotra: Total for the whole year.

Gagan Ahluwalia: All the categories.

Lalit Malik: All the categories.

Rajesh Kothari from AlfAccurate Advisors

Rajesh Kothari: Good set of numbers, sir. I have two questions. One is on power brands. Can you little bit give more color on what is your power brand strategy? How do you select the brands? And what kind of targets you put for the road map perspective over the next two to three years? And once we get answer, then we to go question number two.

Mohit Malhotra: Right. So, our Power Brands are already alluded to before in our call. We have got 8 power brands in the company. The first is the Hair Care, which is Hair Oils. We got Dabur Amla power brand. So, we are creating a lot of moats around the power brands to make the power brands very competitive. We do disproportionate investment behind it. We get more competitive in our communication and also, we will do premiumization and making acceptable SKUs around the power brands to expand those power brands beyond Rs. 1,000 crores level. And we see enough opportunity there. So, just to give you an example, Dabur Amla operates in a category, which is Rs. 10,000-odd crores. Our size is pretty small. We got around 8% to 9% market share on this brand. Overall, Hair Oils will be around 14% market share. So, huge headroom for growth. So, that's one power brand.

Second power brand is Oral Care, Red Toothpaste. Again Rs. 600-odd crores franchise. Huge headroom for growth in the Oral Care category and creating flankers around the brand. That's second power brand for us.

The third power brand is Real, which is in the beverage space. The fourth power brand is Chyawanprash, Honey for us. And then Healthcare space where we have Honitus, Lal Tail and Pudin Hara. These are the power brands, and we put in disproportionate investment behind this and want to grow these brands to the level of creating big franchises. So, growth of around 10% to 12% should be the CAGR that we should aim in next four to five years for these brands.

Rajesh Kothari: So, total 8 power brands put together what is your current revenue size?

Mohit Malhotra: 65% is the contribution of the power brands to overall. I didn't hear the question properly.

Rajesh Kothari: My question was what is the total size of power brands in revenue?

Mohit Malhotra: Yes. They contribute around 65% to 70% of our total turnover.

Rajesh Kothari: Understood. My second question is on International Business. Considering that there are different points of time there are different challenges and those geographies require different bandwidth altogether compared to domestic market where you have very rich understanding of the market. Do you think it takes too much of bandwidth from management perspective to spend time on the international market? And instead of that, if we do little bit, probably more focus on the domestic market, do you think it can be more value accretive?

Mohit Malhotra: Rajesh, our International Business has been a great growth driver for us. If you look at the period four years prior and that is 30% of contribution at the time used to come from there. So, it doesn't take too much of bandwidth for the India management to spend time on that. We got a separate management team, which actually handles the international business headed by a CEO who is based out of Dubai. And I was doing that job before I came into India. So, we have a huge headroom for growth there. And there are two vectors of growth. One is geographies and other is the brand. So, therefore I don't think it's the bandwidth issue at all. And we have created a structure where this is being managed reasonably well. Of late, you have seen some headwinds, which are not in control of the management, it's more macroeconomic, more currency led and more political issues that we are facing in the market, that's why. But I think we are in a great place and we got market shares of more than 30%, 40% in the categories where we play in. If you look at GCC, if you look at Egypt, Nigeria, Pakistan, Turkey, we are market leaders in majority of the categories where we play in. So, I think we are in a great place in International Business. And we are already seeing the signs of recovery there. I don't think that we should keep our eye off the ball from International business. Instead, we should be focusing more to revive that particular business.

Rajesh Kothari: So, from capital allocation perspective, the current margin profile, if you think about there is a new category, then would you again enter new categories and you may do disappropriate brand investment over there because your market share might be initially very small in such international market. So, just trying to get color over the next three to four years, what is your strategy on international front?

Mohit Malhotra: See, International Business, we don't want to get into newer categories. We want to consolidate the existing categories because the consumption space there is not very conducive to putting out a lot of new products and getting into new markets there. So, as I telling you there is lot of headwinds that we are facing, which are more geopolitical in nature. In that environment, we don't want to get into newer categories and expand. So, it's more consolidation and getting back on the growth path before we look at getting into newer categories and further investments there.

Lalit Malik: Yes, also I would like to add that all the international expansions are happening through the earnings done internationally. So, it's not that we are diverting our India funds there, but we reinvest the earning back in expanding our International. So, we have a very clear strategy on that.

Rajesh Kothari: And that will remain the strategy, am I right?

Lalit Malik: Yes.

Gagan Ahluwalia: So, as you can see, we have surplus funds on India operations lying in the Indian balance sheet and the balance sheets are treated very differently. We don't send out the surplus funds from India to fund the international expansion.

Rajesh Kothari: Great. My last question is on raw material. Considering that everybody is going for herbal and ayurvedic or natural kind of things. Do you see sourcing of raw material a challenge and inflation in that basket of raw material, which is more like natural kind of a basket?

Lalit Malik: Yes. So, I think we operate in three buckets to your point. One is more crude-driven which is soft and then there is agri-driven, which is where we see inflation, but we are very easily able to pass on that inflation to the consumer. And we don't see a challenge in terms of procurement. Wherever we see a challenge in the procurement, we are trying to integrate backwards or do a sort of tying up with farmers to ensure that we have sustained delivery of the raw material. And now there is also Ministry of Ayush, which regulates and provides incentive for us to tie up with farmers, etc. So, we are not overtly worried on that and we have a proper biodiversity department that ensures continuity of supply of our raw materials, which are more agri-based and herbal-based.

Amit Sachdeva from HSBC Securities

Amit Sachdeva: Mohit, great set of numbers this quarter, but I have some small observation here on fruit juices. So, if I were to look back last 1 year, there have been massive promotions. So, I am not sure about all the channels, but my observation across few channels was that there is lot of 33%, 40% off from competition and from you as well. And has that actually impaired the willingness to pay off the consumer, which we are seeing in form of a slowdown and basically this category being more impacted by this sort of slowdown narrative rather because other numbers look very good and clearly you have done extremely well across most of the categories. And other observation is that Honey has got no mention here. While Glucose has done very well, but Honey probably is facing significant price competition from say APIS or something on several channels as well. So, the question is while you paint a cautious picture for the rest of the year, is Honey and say juices were not there, would you still be so cautious and paint a picture that your volume growth could be still this. Is the two categories largely which is causing you to talk like that?

Mohit Malhotra: Amit, you're right. I think your observation is correct. We are facing huge competitive intensity in juices. And because we are competitive and we are the market leaders and we are committed to protect our market share, we are also matching that kind of competitive intensity by way of tactical consumer and trade and that's what our strategy will be. We don't want to compromise our market shares in any which way. But because the category itself is actually declining, therefore, and our market shares continue to gain, clear on the strategy. But we will embark a lot of innovations to take care of this issue more at the premium end and also at the economy end. I had mentioned before we want to be accessible because we want to enter into rural and also to our premiumization, to be there on e-commerce, etc. So, as far as Honey is concerned, yes, again, we had taken up a price increase on Honey and we had released our consumer promotions also. We were earlier giving a 30% off, we reduced it down to around 20% and taken a price increase also. We are facing regional pressure from players like APIS, Lion and other regional players, but we don't see that as a threat at all. I think we got enough strength to match up with these local, regional players by operating tactical consumer and trade and we will not compromise our market share going forward in the Honey category. That being said, we are facing headwinds of competition in other categories also. So, in Amla-based also, we have competition. In Oral Care also, we have competition. In Healthcare, we got regional competition which we are able to manage reasonably well. And on top of that, there is an economic slowdown, telltale signs, which are very visible. And in the first quarter, we have done well, but that doesn't give us any guarantee that we will have a sustained performance like this of around 10% volume growth while we are targeting mid to high single digit volume growth, but let's see. So, it's more cautiously optimistic sort of a guidance that I may have to give here rather than saying that we will be growing at very high single-digit growth rates in terms of the volume. I don't know if I've answered your question?

Amit Sachdeva: You have. I think I wanted to know the source of your real caution and that was the intent of that question, which probably you have answered that these categories have probably structural issue as well where there is some price competition and also consumer is not willing to buy expensive juices, which was giving lot of discounts earlier. So, they're now used to buying cheaper probably. The second question, if I may, Mohit is staff costs, you have obviously mentioned that there was a one-off and you had probably guided a Rs. 74 crores kind of ESOP impact was being embedded better for the full year. Now given this write back, can you give us the quantification of what was the write back and how we should think about next year and the beyond as well and for how long that will?

Mohit Malhotra: We never talked about Rs.74 crores before which is last year perhaps. I think in the current year, we are only...

Lalit Malik: Rs.7 crores.

Mohit Malhotra: Rs.7 crores of ESOP that we have written back because of exits of some employees. So, we had to cancel some ESOPs, and therefore, they're going back. But going forward on the staff cost, we will have a staff cost around 8% or 9% in line with our top line going forward. 8% to 9% growth in the staff cost is what we will register. So, this is 3% growth is not sustainable over the full year. This is only one-off in this quarter.

Shalini Gupta from Quantum Securities

Shalini Gupta: Sir, I just wanted to check, I mean, everybody's talking about a rural slowdown. So, I just wanted your thoughts on this given that now we find food inflation picking up and also a lot of government schemes again being announced. So, what is your thought on rural growth?

Mohit Malhotra: Yes. So, for us, rural is trending at double-digit growth rate. Our rural business actually grew by around 13% in the last quarter on back of a lot of initiatives that we had taken to increase our rural reach and also launch a lot of accessible price points, which has done well for us and the strategy has given us dividends going forward. In the last quarter, we have been able to beat the rural slowdown, but I think, now as I alluded to before also that we are feeling the liquidity crunch in the rural because of the agrarian crisis and the rural consumer doesn't have money and it's impacting the consumer staple sector as well. So, we are, therefore, cautiously optimistic on the rural, but we will continue to steer the course on the strategy that we have defined for ourselves as far as rural is concerned. If the government spending and the stimulus reaches out to the rural, then it will be a great. So, fantastic. So, that will be even better for us and if the monsoon is good and if the government funding happens in rural and the fiscal stimulus is provided, then rural growth should only trend up.

Shalini Gupta: Okay. And sir, my second question, I mean, in the presentation, you have mentioned that domestic FMCG growth was 11%, but sir, when I look at the standalone results, the growth is just about 5% or 6%. So, I mean, where is the difference coming from?

Lalit Malik: No, no. I think if you look at India standalone, the growth is 10.5%. The 0.5% that you see, 11% is India FMCG growth. In addition to that, we have certain private label Guar Gum sale. If you add to that, the overall average India standalone is coming to 10.5%.

Richard Liu from JM Financial

Richard Liu: This is Richard here. Mohit, I just wanted to get your perspective on the deferring impact that a delayed summer seem to have had on some of the categories. I think you talked about glucose having done very well and juices have had some impact of delayed summer. I think both of these are essentially summer products. So, why do you think the impact of a delayed summer was so different on both these categories?

Mohit Malhotra: See what happened is the winter got extended actually. We are talking about if you mix the quarter four and the quarter one, the winter got extended. Because the winter got extended, our pipeline filling for the season in juices was impacted a little bit in the quarter four. That being said, when the summer came in, the summer has been short this year and now there is been an advent of monsoon again which has actually started. So, summer has been short. Because of summer being short, juice got impacted. So, one protracted winter and then the summer being short and more competitive intensity going up, all these three factors impacted our juice business. As far as glucose is concerned, there is been a little shakeout in the marketplace for glucose, for which we had strategized and we had prepared inputs on our glucose to counter that in that shakeout, we could have gained extra market share and that is what has happened very well. We have gained almost around 100 bps in glucose. So, that has given us a lot of dividends on the glucose. There was an acquisition of Heinz which happened last year in glucose. So, this was the season, which came in. And in the season in the beginning, we do a pipeline filling, and we did the pipeline filling and the season has turned out very favorable to us as far as glucose is concerned.

Lalit Malik: And also, I think the juices are mainly north-centric whereas the glucose is east-centric. So, the amount of glucose sale was higher in east and in north because juice demand is normally high, in view of the extended winter that got subdued.

Richard Liu: So, a lot of the Heinz' glucose share now belongs to you. Is that the reason for the high growth in glucose?

Mohit Malhotra: We have gained market share in glucose definitely. We have gained around, I think, 200 basis points plus market share in the glucose and Heinz happens to be the market leader, so it could come in from the fringe players in glucose plus from the market leader and also from the new innovation that we launched in glucose. We introduced a new variant, which is C mango flavor, which has done very well for us. And also, lot of innovative consumer schemes were launched in the marketplace and that has given as good dividends. So, our secondary for glucose has also been very good because of these consumer schemes that we had launched.

Richard Liu: Okay. Second is do you see some sort of a conflict in the use of the Real brand for juices, which is again perceived healthy and for drinks, which is again perceived unhealthy, especially since those dots are going to start coming in. Do you think there is going to be some brand conflict if not today then some way down the road?

Mohit Malhotra: See, Real is a brand operating in J&N market, which is the juice and nectar market. And that juice and nectar market is also called added sugar market. And while the perception, if you look at the perception of juice being very healthy, this perception is also for drinks. And only in select urban consumer, is he able to differentiate between what a nectar is, what a juice is and what a drink is. For a normal consumer, a drink or a nectar or a juice is all the same. For him, all players are juices and because they come in mango flavor and lychee flavor and orange flavor, so it's all the same. It's only in the mind. So, I don't think this red dot is going to impact us big way. As I mentioned earlier, 70%, 75% of the packaged goods industry will fall under the red dot if this regulation comes in place. It will become, in my view, a new normal. That being said, we are planning for a separate portfolio, which is a 100% juice, which has no-added sugar, for which we have Active brand. We have a nectar brand, which has again very calibrated amount of sugar - low-calorie.

And there is a drink segment, which is there, which has got added sugar in it and then there are obviously carbonated beverages, which are nothing but sugar water with flavor and they're around Rs.25,000 crores, which as I said is 80% penetrated as compared to juice, which is only 3% to 4% penetration levels.

Richard Liu: And lastly, if I could just confirm with you, the figures you gave with regards to the volume growth, stroke value growth, the peak of 16% went to 10% for the quarter and 7% in June. Do the numbers are Dabur's number or the industry's numbers?

Mohit Malhotra: So, these are industry numbers. These are Nielsen numbers.

Richard Liu: Okay. And if there is some kind of a color you can share for Dabur's own numbers? I know you said that April was exceptionally good, May was great, June was tapering off. But if I just take this 9.6% to be the benchmark, June was it 0.5x, 0.75x, or if some kind of a color you can give would be really helpful.

Mohit Malhotra: So, I told you, June was a bit muted as compared to April and May and that is also a reflection of what the market is all about. So, that's pretty much that I can talk to.

Richard Liu: If the diversity for Dabur, has the divergence for Dabur as high as was for the industry?

Mohit Malhotra: I would imagine so. I think for the entire industry; the Nielsen is presenting. I think this must be the case because sequentially month-on-month, the growth rates are actually tapering off, so and for us....

Gagan Ahluwalia: Lot of base effect comes into play here, Richard. So, you can't really look at an average.

Richard Liu: Okay. But if you just look at the quantitative numbers, I mean, the divergence was, as to what Mohit stated for the industry?

Gagan Ahluwalia: We haven't really calibrated that. So, we can get back to you.

Harit Kapoor from Investec

Harit Kapoor: Just two questions. The Nielsen data that you referred to, I think, also suggested that the growth rates have been slower in north comparatively. So, you know since you are a significant player in that region, have you faced a similar kind of experience as well?

Mohit Malhotra: Yes, definitely. I think for us, the number #1 region today is south followed by east, followed by west and then north. North, our growth rates are difficult to get, and we are facing a lot of this economic slowdown from north more so, because per capita incomes are also the lowest in north, especially the belt of UP, Bihar, MP belt. So, we are definitely facing problems, yes.

Harit Kapoor: Okay. Got it. And the second question was on the power brand versus, now that you have kind of mentioned that your money is more going to be spent towards the power brand side. If you could just help us, has there been any divergence in growth, in the 65% to 70% of this portfolio versus the 30%, 35% in Q1?

Mohit Malhotra: See the power brands are doing very well for us, and even on the fringe brands also, where we focus spends on may be at trade level. And so our growth is pretty secular across the entire portfolio. I don't see too much of divergence happening in the portfolio. Overall strategy is working for us because now the power brands are doing well for us and the quantum even if I grow by 10% on a power brand that gives me a much better margin and a much better top line as compared to a fringe brand. So, therefore, the overall strategy seems to be working, and we are getting secular growth across power brands, and also the other fringe portfolio because of the focused spends on the trade level and we are able to provide enough firepower for those brands to compete with the smaller players.

Aditya Soman from Goldman Sachs

Aditya Soman: Congrats on a strong performance. Just one question from my end. Most of my other questions answered. From hair oils, in particular, you are seeing an acceleration in growth from 2% odd last quarter to over 10% this quarter. What has this been led by? Is it just a new launch that you had last year of Sarso and Brahmi along with sort of a better season or is there more to that?

Mohit Malhotra: No, I think our whole strategy is working very well, Aditya. So, I think Dabur Amla is the one which has actually given us good growth along with both Brahmi and Sarso, which are the flanker brands that we created. All the three brands have actually grown in a robust manner. Actually, we have issues which we have to fix, which is in coconut oil. Our Anmol portfolio hasn't done very well. I think it is because of the competitive pressure that we faced from competition because the coconut oil prices have actually gone down. There is a bumper of profit, which is accrued by a competitor, and therefore, it was passed on in terms of consumer scheme. We were kind of not very proactive in terms of doing it and that's why our market shares in coconut oil haven't done very well. But in the perfumed portfolio, the almond portfolio and the other parts of our Hair Oil business, we have got a pretty secular growth across all the brands here.

Aditya Soman: Understand. Very clear. And you mentioned that on Amla, you are seeing a little more competition. So, you should be able to sustain these growths over for the rest of the year? Or do you think that could be a little moderation in the competition?

Mohit Malhotra: No, I think, in Amla, we should be able to sustain this growth. And we are systemically putting in initiatives, which are more structural in nature, which is what I talked about low unit price point, etc., which should be able to sustain our growth in the Amla portfolio category. I don't think there is any issue. I think there is a lot of opportunity, if you ask me, in Perfumed Hair Oils segment to grow share here. That you know, we are only around 8% and the headroom is huge, and Dabur Amla has got equity, which can straddle across different price points whether the premiumization is concerned or economizing is concerned in both levels.

Shirish Pardesi from Centrum Broking

Shirish Pardesi: Congratulations, Mohit. Good set of numbers. Quick questions. On the wholesale, we have seen the liquidity issue looming around wholesale channel and for you the rural is growing faster. So, is that on ground the wholesale is back or what are the thoughts on wholesale channel experience?

Mohit Malhotra: See, wholesale as a channel is broadly shrinking and therefore the initiative of going direct in rural and we have talked before about two sets of wholesalers, one is the trading wholesaler, one is the consumption wholesaler. The trading wholesaler is now no more existent in the marketplace and that has completely shrunk. Now that the consumption wholesalers are there. Now that's also stabilized post GST. We see a little bit recovery coming in our wholesale on a shrunk base, we are seeing a recovery coming. Our business has grown by around 8% to 9% in the wholesale channel. That being said, we are improving our direct reach also to the rural to have less dependence on wholesale and indirect reach. We rather have a direct reach to the rural consumer and the retail outlet than go through intermediary, which is a wholesale. So, wholesale is still a little significant to reach out to rural, but in urban with a lot of these aggregators and e-butors coming in, I think, wholesale going forward, in my mind, will lose its relevance and keep shrinking, because A, they don't redistribute and B, they operate on very wafer-thin margins going forward and with compliance becoming more rigid this channel should only shrink.

Shirish Pardesi: So, what could be the wholesale contribution for us in quarter one?

Mohit Malhotra: Our wholesale contribution will be in the range of around 25% to 30%. It's actually, I think 27% now.

Shirish Pardesi: Just more curious on wholesale. The healthcare business which has grown, so far wholesale channel are we so dominant in the wholesale channel for healthcare?

Mohit Malhotra: Yes, we are pretty dominant in the wholesale channel. Our direct reach to the chemist is in the range of around 200,000 to 220,000. We have added around 7,000 chemists, but on healthcare, we are quite dependent on wholesale at the moment. And therefore, we are embarking on using POCs to improve our direct reach to the chemist outlets also.

Shirish Pardesi: Okay. Just one quick question Oral Care. You have seen consistent performance on the Red Toothpaste and you have grown 15%. What's changing into the whole Oral Care category? I mean, if you actually see that, the low-price segment has been a problem last five, six quarters, but you are going ahead in that segment. So, is there a cannibalization happening towards natural so-called family or what's changing in that category?

Mohit Malhotra: So, if you look at the entire Oral Care segment, you got a tail wind, which is supporting the natural sub-segment. Natural segment is almost 25% to 30% of the total oral care category of Rs. 8,000 crores, which is growing at 18% as compared to a non-natural, which is growing at 5%, 6%. But if you look at the exit growth levels, Oral Care is only growing at, if I look at June numbers, it's growing at 1.8%, which is very low in terms of volume. So, I think there is a definite tailwind and cannibalization happening from the other toothpaste to the natural toothpaste. So, there is a tailwind and that is also supporting RTP.

In addition to that, we have embarked on initiative of supporting Red Toothpaste all through the year, all 12 months on TV advertising to build demand by putting disproportionate investment brand to brand. Our communication has also become a little more aggressive. We have also done RISE initiative and we are trying to build saliency in the northern markets where the salience of Red was weak, it was strong in South. So, we are trying to build salience here. The market shares in North are low as compared to South, where we have higher shares, we are trying to build market shares in North. In North if you look at the Rs.10 price point, salience is higher in North compared to the South, so therefore we have now put up additional CAPEX for Rs.10 price point and we are lubricating our North route to market. So, we are taking all those initiatives and that's why on back of all these initiatives, we are getting a growth of around 15% on Red, and we are trying to resurrect our Babool and Meswak franchise also, which I have already alluded to before.

Shirish Pardesi: What is of our June exit volume share in Toothpaste?

Mohit Malhotra: Our June end should be in the range of around 15.4%. And we have gained around 30 bps Y-o-Y.

<u>Prasad Deshmukh from Bank of America Merrill Lynch</u>

Prasad Deshmukh: Only one question. Are you witnessing any increasing trend of distributor actually surrendering their agencies because they are finding it difficult to do business any more and if so, what gives you confidence in that backdrop about increasing direct reach?

Mohit Malhotra: Right, Prasad. So, very well noted. So, we are also seeing some distributors actually disengaging because now the distribution especially in urban, we are not facing this issue in 50% of our business, which is in rural. Rural is very well placed. There is no distribution attrition issue. This issue is more metro-centric and more Class 1 town centric, where the distributor is finding an issue in finding the salesman because with Swiggy and Zomato and all these e-commerce players coming in, what they're able to pay to the salesman, our distributor is not able to pay and ROI actually becomes an issue. So, we are looking at distributor consolidation also in urban, so that we have fewer and larger number of distributors, rather than very scattered distributors. But this is only in metro at the moment that we are facing this issue, but not across the board. So, therefore distribution expansion will continue in North and with the super-stockist and sub-stockist and where there is no issue on the ROI, but in urban we are in the process of recalibrating our strategy for the route to market. But going direct is very important. Not getting distributor is not to say that we can't go direct. We have to get larger distributors and fewer distributors, so that the scale of business goes up and he is able to afford more salespeople. So, that's the answer for this.

Kunal Vohra from BNP Paribas

Kunal Vohra: Congrats for a great quarter. Just one question. Wanted to understand the juices Rs.10 pack opportunity. How has been the response to Rs.10 Real Koolerz? What is the size of the opportunity? What are the distribution plans, and what's the competition which you see at that price point?

Mohit Malhotra: See, the opportunity is huge in the juice segment, which is Rs.10, the value of the market around Rs. 6,000 crores, the total category size here of the drinks market and which essentially operating and there are two big competitors and we think opportunity is immense. And Dabur Real has got a brand franchise, which can really leverage this particular opportunity here. So, we have launched our Real Koolerz aligning it to the category codes and its initial response is very good. We have actually launched it only around three months back. Earlier there were capacity constraints so we have just augmented the capacity, and initial feedback from the market is pretty positive on the sales.

Kunal Vohra: And is it available Pan-India? Like, when will it be available pan-India?

Mohit Malhotra: I think it will take some time for distribution to catch up. At the moment, I think it will be available in the few metros, yes.

Nillai Shah from Morgan Stanley

Nillai Shah: My first question is on the margins front. Sir, in the International Business, I'm talking actually about the inorganic part of the International Business. The margin since the time of acquisition to now has shrunk quite dramatically. So, your margins are maybe in the low single-digit stage at this point in time. And view earlier was that there is an opportunity to take this up to the mid-teens at least. So, what are your views out there? And has that been triangulated into your flattish margin outlook going forward?

Lalit Malik: I think you are referring to the inorganic business we acquired internationally, right?

Nillai Shah: Yes.

Lalit Malik: Yes. So, there, there are two aspects to this. If you look at our Turkey Hobi acquisition, in the local currency, the growth has been very positive whether it is on the top line or on the bottom line. But when we try and convert it into the Indian rupees in view of this devaluation, it gets diluted substantially. So, as a result of it, the growth on profit is comparatively low. As far as our US business on Namaste is concerned, there has been issue with regard to the profitability in the past, but what we have seen is that it is turning back to profitability now and there again the business is in twofold. One, as far as the US is concerned, it is getting stabilized and the profitability is coming back. But on the international side, we are growing the top line faster and our share of International in Namaste business is also going better than what it is happening in the North America side and the profitability is coming back. It's improving, but yet comparatively it is still at the lower side.

Mohit Malhotra: But Nillai, it's double digit in the last quarter, both for Turkey and Namaste, so it's substantially improved from last year because the business in both the places, Namaste and Turkey from a top line and a bottom line perspective has improved drastically and now double digit, not single.

Nillai Shah: So, that should then continue, Mohit, right, going forward and hence the question, has that been triangulated into your flat margin guidance or that is just for basically the Domestic business as you stand today?

Mohit Malhotra: So, that will be reinvested in the business back, Nillai, because over the years because there was so much of headwind, we also did not spend in advertising in International Business. So, whatever growth that you will get will be ploughed back into advertising. And advertising growth has also been low single digits for us in International Business. And if you want to grow the business at a sustainable level, this has to be invested back. That's why the guidance of flattish margins going forward.

Nillai Shah: Okay. So, then in the growth rate for the International Business constant currency, are you seeking a double-digit growth out there given the recovery that's happened and maybe the FX will also come through, but that will obviously not come into constant currency, but essentially constant currency is double-digit growth something that's plausible in fiscal 2020.

Mohit Malhotra: Not really in the current fiscal year. We may look at high single digits definitely in International Business, but not yet double digits because 50% of our business being MENA market, still we are seeing a flat category growth. We are not seeing high single growth rates. We are market leaders and we get severely impacted by the category growth rates there. And with oil prices not trending up, we don't see market really reversing the trend and growing there, Saudia Arabia and most of the economies in MENA being oil dependent.

Nillai Shah: Got it. Okay. And my second question is, again, circling back on the power brand strategy. There were two aspects to it. One was to try and accelerate volume growth by recruiting new consumers, which is what you seem to have done very successfully. And the second aspect of that was launching new products, more premium products focused on e-commerce and modern trade formats. So, will the second part of the strategy also be embarked upon simultaneously? Or you think that will take some time to filter through?

Mohit Malhotra: No, Nillai, we are working very aggressively on the same, so that is somewhere I think, that's an area of improvement for the company. And because of our rural reliance and therefore, the brands have to be rejigged, they have to be modernized, they have to be contemporized before we can embark on that strategy. Because of the power brand strategy, we think we can leverage these brands at the premium level also, but we are doing phases of research and due diligence before putting the products out there for e-commerce to ensure that we have a success in what we do. So, we are working on the same. Still we will be around six months away before we really embark on innovations at the premium end for e-commerce, etc.

Kushal Agarwal from Locus Investments

Kushal Agarwal: Congratulations on a good set of numbers. We are new to the company, so I just wanted to understand the Ayurvedic Healthcare market a little better and how big is the market and what are the sizes of all the subcategories that you are in, the Health Supplements, Digestives, OTC and Ethical. If you can just give me a picture of the Ayurvedic Healthcare market?

Mohit Malhotra: Right. Kushal, you asked a very detailed question. So, I think we should take it offline because it will take me quite a bit of time to explain. But just to maybe give you a very bird's eye view, we operate in the market in the Ayurvedic specialty space, which is more doctor prescription route and we have a 25%-odd market share in this category. And it's got a range of products, which are 350, 400 and they operate in different buckets. And we are #1, #2 market players in this category. This comes under the classical bucket, then the branded ethical bucket and then there is a Roaks and there is a OTC bucket before we come to the Health Supplements. So, there are four types of buckets in the Healthcare space for Dabur. I think rest of the color; I will leave it to either a one-to-one or you can ask Gagan and we can send you answers for that offline.

Kushal Agarwal: Sure sir. Just a follow-up that this 25% market share is for your four categories, Health Supplements, Digestives, OTC and Ethicals. Is that right?

Mohit Malhotra: No. That is only for our Ethical portfolio. In Health Supplements, Chyawanprash will have a market leadership with around 50%, 60% market share. Honey also same and glucose also similar around 29% market share there. So, Lal Tail, again, will be in the range of around 20%. Honitus, we should be the market leader there with share of around I think...

Gagan Ahluwalia: Herbal segments, we have to see.

Mohit Malhotra: We will have to see the Herbal segment there. We don't compare ourselves. In Herbal segment, we should be the market leaders with 30%, 40% share with Kuka and other two players present.

Gagan Ahluwalia: For every subsegment, there is a different...

Mohit Malhotra: But your question is more relating to Ethical, which is what I refer to is a 25% market share broadly.

Amit Sachdeva from HSBC Securities

Amit Sachdeva: Just a very quick follow-up. Mohit, can you give us the growth rate of honey this quarter and the previous quarter, please?

Mohit Malhotra: The honey growth rate in the current quarter is around 5% and last quarter honey growth is 17%.

Gagan Ahluwalia: No. Sorry, full year was 17%.

Mohit Malhotra: Sorry. Full year was 17%. This quarter is around 5%. And last quarter, I will just have to check, if you can. I think 4%.

Amit Sachdeva: 4%, okay. That's very helpful.

Mohit Malhotra: But that being said, honey is more again a seasonal brand for us and the majority volume comes in winters like Chyawanprash. So, summer is a muted season for honey.

Gagan Ahluwalia: Thank you, everyone, for your participation in this conference call. Webcast recording of this call and transcript will be available on our website. We will be happy to address your questions, if any. Thank you, and have a nice evening.