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Scrip Code: NSE – DABUR & BSE – 500096

To,

Corporate Relation Department
BSE Ltd
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai – 400 001.

National Stock Exchange of India Ltd.
Exchange Plaza, 5th Floor
Plot No. C/1, G Block Bandra – Kurla Complex
Bandra (E)
Mumbai – 400 051.

Sub: Transcript of Investors' Conference Call for Dabur India Limited – Q2 FY 2019-20 Financial Results

Dear Sir,

Please find attached the Transcript of Investors' Conference Call organized on November 5, 2019 post declaration of Financial Results for the Quarter & Half-Year ended September 30, 2019, for your information and records.

Thanking You,

Yours faithfully,

For **Dabur India Limited**

(A K Jain)
E V P (Finance) and Company Secretary

Encl: as above

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"Dabur India Limited Q2 FY'20 Results Investor Conference Call"

November 05, 2019

MANAGEMENT:

MR. MOHIT MALHOTRA - CHIEF EXECUTIVE OFFICER
MR. LALIT MALIK - CHIEF FINANCIAL OFFICER
MR. ASHOK JAIN - EVP(FINANCE) & COMPANY SECRETARY)
MR. ANKUSH JAIN - HEAD (FINANCIAL PLANNING & ANALYSIS)
MS. GAGAN AHLUWALIA - SR. GENERAL MANAGER (CORPORATE AFFAIRS)

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 September 2019.

Present here with me are 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 and 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's Conference Call pertaining to Results for the Quarter-Ended 30th September 2019.

Demand for the FMCG products saw further slowdown during the quarter, with volume growth going down to low single-digits in most categories. Navigating the macro headwinds and liquidity issues in the trade channel, Dabur reported a growth of 4.1% in revenue in the consolidated business. Standalone revenue grew by 4.9%, backed by volume growth of 4.8% in the domestic FMCG business.

As Foods category saw a deceleration, domestic growth without Foods was at 6.8%, backed by a volume growth of 7.4%.

Health Care business stayed resilient, growing at 11%. Health Supplements grew by 14.4%, led by a robust growth in Glucose and Chyawanprash.

Digestives category recorded a growth of 10.2%, driven by a strong performance of Hajmola tablets.

OTC & Ethical business grew by 6% on back of new product launches, medico-marketing, distribution and visibility enhancement initiatives. A range of single-herb churnas and NatureCare Kabz Over were some of the new product initiatives during the quarter.

HPC business reported 4.3% growth, impacted by a sharp slowdown in Hair Oil, Oral Care and Skin Care categories. These large staples saw volume growth falling off to flat or negative territory. This impacted our growth in Hair Oil, Oral Care, also we continued to grow ahead of the categories and gain market share across all segments.

In Oral Care, Red Toothpaste continued to perform well with 9.5% growth. Babool Ayurvedic was launched in the last quarter and is showing promise, as the initial response to the product is very encouraging. Our market share in toothpaste category increased by 66 basis point versus last year.

Hair Care reported growth of around 4%, led by double-digit growth in shampoo segment. Dabur Almond Hair Oil, Brahmi Amla, Sarson Amla posted very strong growth. Our market share in Hair Oil segment went up by 30 bps and in shampoo by 65 bps.

Skin Care category was flattish, mainly due to very high base of last year.

Home Care category grew by 7% in this quarter, backed by strong performance of Odomos.

Foods business declined by 5% on account of sharp slowdown in overall juice consumption. The J&N category reported 7.2% decline in volume on account of significant down trading by consumers to low priced alternatives, such as dairy and carbonated drinks. We believe that going forward the category should recover with improvement in consumer sentiment and macro recovery. The J&N category still has a lot of headroom for growth as penetration levels of food-based beverages in India is very low at a 3 percentage point level. In order to manage the slowdown, we are continuing to launch differentiated value-added products in our Foods portfolio on one hand and increasing our presence in lower price points on the other. Real Fruit ORS, Mixed Berries juice, masala drinks and recently launched Kiwi and Aloe Vera variants are few examples of this. Real Koolerz Mango at Rs. 10 price point, which was introduced in quarter one is also being ramped up. Real ORS, which was just marketed in Northeast, is also being launched in other markets as well. With these initiatives, our market share in J&N category rose to ever highest to 60.5%, an increase of 420 basis points over last year.

With the liquidity situation continuing to remain challenging in general trade, our growth in modern trade and e-commerce was resilient. E-commerce posted a growth of greater than 63%, taking its contribution to 2.2%. Modern trade grew at 6%. We are continuing to expand our direct reach in both urban and rural India. During the quarter, our direct reach increased to 1.18 million outlets and our village coverage expanded by 3,000 villages to touch around 51,000 villages. This indicates the company's intent to continue to invest strongly in its channels and GTM initiatives.

International business reported constant currency growth of 3.2%, mainly impacted by VCTS implementation in Nepal and infiltration issues in Bangladesh. Excluding the SAARC market, the growth was 8.5%, led by a recovery in GCC markets, which reported a growth of 9%. Turkey business posted a strong growth of 54% in constant currency, while Namaste U.S. business reported a good recovery. Operating margins improved in International business by 160 basis points on account of soft commodity price and favorable country mix.

Consolidated operating profit posted a growth of 8.6%, with operating margin seeing an improvement of 91 bps to touch 22.1%, about 40 bps out of which was on account of IndAS 116 changes. Consolidated PAT increased by 7%. An exceptional provision of Rs. 40 crores was made during the quarter on account of impairment of investments because of rating downgrade. Growth in PAT before the exceptional items was 15.1%.

Although the demand situation continues to be stressed, and there are no green shoots visible yet, we are staying the course in terms of our strategy to invest strongly behind our business, expand our distribution footprint in rural and enhance our competitive strength in the marketplace. So far, this has enabled us to grow ahead of our categories and gain market share across our portfolio. We plan to continue on this path and ride out the consumption headwinds while they last.

With this, I open the session to Q&A. Thank you.

Abneesh Roy from Edelweiss

Tushar: This is Tushar. Sir, my question is, you were facing liquidity crunch in the market, so is there something you are doing specifically to change the situation? Are you extending more credits to your wholesaler, are there any other initiatives taken by the company?

Mohit Malhotra: Tushar, we guys are selectively extending the credit in the marketplace, selective distributors who require a credit, earlier our credit used to be in the range of around six days, which has gone up to a level of around 15 to 20 days also. If you look at our working capital also, that has gone up because of the selective trade extension that we are doing. But we are very selective in terms of credit extension. And we are not changing our credit policy. Credit policy is remaining the same, but exceptional selective credit extensions are happening in the business.

Abneesh Roy: Sir, this is Abneesh here. So my first question is in toothpaste, this quarter your growth and Colgate's growth is quite similar. In the past few quarters for many years we have seen mostly in all quarters your growth has been ahead. I understand Red Toothpaste continues to grow at 10%, but anything you would like to call out that now your growth and Colgate's growth is similar?

Mohit Malhotra: Abneesh, not really. I think Red Toothpaste on the high base is continuously growing at 9.5%. The real true barometer of performance is market share. Our market share continues to surge, we have gained around 66 basis points of market share in the Oral Care category, which is growing at negative 3%. In a category which is minus 3%, growing at 9.5% is pretty creditable. I think the Babool portfolio still needs to revive, while we have launched Babool Ayurvedic and we are seeing a lot of green shoots in the brand as the brand seems pretty promising, but is not really impacting the entire portfolio. So we are in the process of revamping our Babool brand also. And also we are customizing a communication for Meswak and reshaping and revamping our Dabur Herbal Toothpaste also. So it will be stage by stage improvement of the brand that we will continue to do. But I don't see any cause of worry in terms of growth getting muted. We are maintaining the same headroom vis-à-vis the category growth rate. So there is no alarm or there is no cautious there. That being said, competitive intensity has gone up, but we are matching the competitive intensity, both at the trade level and also the consumer offer level because in slowdown environment, consumer is also seeking more value and which is what we guys are providing.

Abneesh Roy: Mohit, my second question is on the fruit juice business. Last three quarters your growth has been quite muted at minus 6, 1.5 and minus 5. If you see Varun Beverages' numbers, they saw 20% organic growth in their business. So is any customer shift happening from fruit juice business to the aerated beverages?

Second is, is this because of the down trading, because most of the aerated beverages will be at a much lower price point, so could you elaborate what's happening? See, market share is fine, but three successive quarters of (-6), (-5), 1.5 kind of numbers, market share may not that be that relevant, right?

Mohit Malhotra: No, I don't agree with you. I think market share is pretty relevant. We are sitting at all-time high market share of around 60.5%, but then we have gained market share by 420 basis points in juices. That being said, I think Varun Beverages' growth is driven by, you are right, the carbonated beverages. As I told you last time also in the conference calls, we have seen carbonated beverages growing as a market segment of Rs. 24,000 crores is growing at the rate of now high-single-digit that is because of low price points. And there are clear signs in the slowdown of consumer down trading and choosing cheaper drinks. As I told you last time, our juices are Rs. 100 for a liter, whereas the carbonated beverage sits at around Rs. 50 for a liter, and drink and milk-based beverages at around Rs. 35 to Rs. 40 for a liter. So consumers are definitely down trading without paying much heed to health.

But I think it's a matter of time that we will turn the bend around in the cyclical, as and when the slowdown bottoms out and we see the growth, I think the juice growth will come back again. And like mentioned last time, we are embarking on lot of initiatives to mitigate this kind of slowdown by innovations. And I spoke in my narrative also, we are launching multiple premium variants in juices. We are looking at new format of packaging, which is a PET bottle. We already got into the drink segment, which is Rs. 6,000-odd crores, which is where the growth is also in double-digits and also working on the GTM.

Abneesh Roy: Mohit, two follow-ups here. One is in terms of LUPs of your fruit juice business, what is it and where do you see this number from a longer term perspective? And have you seen higher slowdown in rural area because Varun Beverages said, a lot of their expansion has come because of the rural area. Earlier they were not there, electricity has come, and now, obviously, refrigerated cold drinks is finding a lot of consumption. So have you seen bigger slowdown in rural? I understand rural, everything is slowing down, but is there more slowdown in fruit juice business in rural areas?

Mohit Malhotra: Right. So LUP business, business potential is huge, because I told you Rs. 6,000-odd crores is drinks category, and majority of the drinks category happens to be in the low unit price point, which is Rs. 10, driven by Frooti and Maaza. So we have got 160 ml juice, which is priced at Rs.

10, which has got a huge headroom for growth. And as we have launched it, we don't have capacities to service whatever demand that we are having. So we have launched Real Koolerz at a Rs. 10 price point, which is showing great traction in urban markets, and also will have good traction in our rural infrastructure. So that's one side of the story, which we are trying to capitalize in the rural market.

Our juice business is mainly urban. I think 80% of the juice consumption happens in urban India. We got more impacted by Jammu and Kashmir lockdown in the juice business. In J&K, our market shares are ahead of 80 percentage points, which was completely locked down for almost a month and the supply chain got impacted. So around 2 to 3 percentage points of growth was impacted because of J&K, and also some flood situation here and there. That being said, we wouldn't have been negative, we could have been flat, and we have gained market shares. So that's where we are. So I don't think rural is too much of a pressure for us, while for the category, definitely rural is having a steeper decline as compared to urban. But for us, because we are more urban consumption, rural didn't impact us much there.

Abneesh Roy: And Mohit, my last question is on Hair Oils. We have seen all the players show a marked slowdown in this quarter. In Q1 you grew almost 30% on a two-year basis, while in this quarter on a two-year basis growth is much, much lower. So one, has your aggression, which was translating to market share, has that come to a standstill? And second, why do you see the entire category slowing much more than other categories? It's not that hair oil is 90% penetrated, there is still a 30% unorganized in hair oil. So what's the reason for sharper slowdown here?

Mohit Malhotra: First of all, on the category, the category seems to be a little more discretionary as compared to other staples. Hair oil is discretionary, in a slowdown environment there is a pressure on the consumption, and consumer will delay the purchases and all that and start consuming less. As far as our aggression is concerned, I don't think that has gone down. We continue to gain market share. We have gained 30 basis points market share; our flanker strategy remains intact. Brahmi, Sarson, all the brands have actually done well. On premiumization, we have launched Amla Kids and that is showing good traction. Even Dabur Amla, the growth rates are although flat, but the brand is gaining market share there also.

In Coconut Oil, our performance has been muted, because of the copra prices going down, there is a windfall to the competitor, and the entire windfall was passed on as consumer scheme. Therefore, the competitive intensity went up, and we took time to kind of get back to them and re-gear ourselves to match with the competitor. We thought that the prices would go down, but the prices didn't go down in the marketplace and it took us some time. So therefore, we lost month, 1.5 months to gear ourselves. And that's why in coconut our performance has been a little lackluster in the quarter. But perfumed oils, we have done well. Almond, as a matter of fact, has grown by 24% for us and doing reasonably well. I don't think there is a problem there. Plus, the business also got impacted by floods in Maharashtra, Bihar, MP and also in Gujarat and some areas of West Bengal.

Abneesh Roy: And sir, one question on International business. Pakistan, 20% growth, when economy is not going anywhere. And second, Nepal, could you clarify this implementation of VCTS, what is that?

Mohit Malhotra: Yes. So Pakistan business continues to do well for us, 20% plus growth. And this is constant currency growth that we see. While, when you translate the growth becomes much more muted because the currency has kind of depreciated. But we are continuously gaining share, both driven by our Digestives business there, which is Hajmola driven, and also Hair Oils driven. Even Vatika shampoo is doing reasonably well and gaining share from local and multinational competitors in Pakistan. We have got a great team in Pakistan and the business continues to do well, that's one.

Nepal, business got impacted by VCTS implementation. VCTS is called Vehicle Consignment Tracking System. It's the likes of E-way Bill conformance there where all the intermediaries when they are shipping goods have to divulge their VAT and PAN numbers. And a lot of people sitting on stock have bought the goods not declaring their VAT and PAN. So the business came to a standstill for almost a month and a half but is limping back to normalcy as we go forward. So I think in the month of October, we have seen good sales in Nepal, and we should recover very soon. These are teething problems like we faced in India during GST implementation, so is the case in Nepal now for us.

So excluding Nepal, our International business clocked a growth of 8.5%. Nepal declined by 35%. And in Bangladesh also, we faced some few issues of infiltration of stocks from Calcutta to Dhaka, and wholesale got impacted because of rate issues, which are internal hygiene issues, because we operated some schemes in India which were not there in Bangladesh, so stock infiltrated from one area to the other, which we are correcting very soon.

Abneesh Roy: And this Nepal issue would have impacted all the players, right, not just you?

Mohit Malhotra: Yes, that has impacted all the players. So our market share, again, has gone up in Nepal. And again, 70% of the business in Nepal is juice business, that got impacted. So if you look at the domestic growth rate, it's minus 5%. But if you look at total international plus domestic in segment-wise reporting will be minus 7% because it got accentuated by the issues in Nepal.

Percy Panthaki from India Infoline

Percy Panthaki: This is Percy here. Sir, just I was looking at your quarterly volume growth for India, and one quarter it is good and the very next quarter it is low, and that has been continuing for a few quarters now. So is this just a coincidence or is there any other explanation you can offer for the same?

Mohit Malhotra: Percy, I think it is coincidence. But the way you see the Dabur portfolio, Dabur portfolio is pretty mixed bag, and it's not really a single category that you may be used to seeing in other companies. We are a health care, personal care and foods business, which also happens to be pretty seasonal. So there are quarters wherein you are pushing more sales as a part of loading in, and the consumption happens in the other quarter. In one quarter we do primary sales; in other quarter we do secondary sales. Like giving you an example of Pudin Hara, the loading happens in the fourth quarter; Glucose loading happens in the fourth quarter, consumption happens in the first quarter. Also, Chyawanprash loading happens in the quarter two, consumption happens in quarter three, so likewise. That's why you see up and down, but that's got to do with the product portfolio for us.

Percy Panthaki: But sir, on a YoY basis those things should cancel out, right? I mean, we are seeing YoY growth.

Mohit Malhotra: Yes. So I think it's more coincidental, if you ask me. It's not really anything else. Our pipeline of stockists remains at 20 days and that has been there and this has been now. Our debtors are pretty much in control. So I don't think there is any other cause of worry.

Percy Panthaki: Understood, sir. Secondly, on the juices portfolio, you mentioned that there has been some down trading and aerated drinks has been growing much faster. But intuitively, since aerated drinks and fruit drinks price points are not very different from each other, wouldn't a fruit juice consumer down trade to a fruit drink rather than aerated drink?

Mohit Malhotra: No. There's a difference in the price point. The carbonated beverages sit at the lowest price point level, so that is where we see the consumption getting kicked in. So drinks are a little more higher as compared to carbonated beverages, carbonated beverages are the lowest end. And this has happened in six, seven years that we have seen the carbonated drinks going up. I don't have too much of understanding, but from the data analysis it seems like down trading very clearly, because drinks are also going up, so are carbonated beverages and so are milk-based beverages. And all of them are at almost half the pricing as compared to the juices.

Percy Panthaki: Right. So that is the point I was making that maybe the down trading is happening, but into drinks and not aerated drinks, and aerated drinks is growing irrespective, not because of down trading.

Mohit Malhotra: Perhaps. But in seven years it has not grown. We have seen this year as a exceptional year and end of last year that this has suddenly started growing. With so much of health awareness coming in, intuitively one would not imagine the carbonated soft drink to be growing at the level what it is growing now.

Percy Panthaki: Right. And one very general question. On the demand side, nothing to do with Dabur. See, if I look at the macro parameters between FY18, FY19 and now in the last two or three quarters when we have seen a further leg of slowdown, there doesn't seem to be much change in the macro parameters. In fact, monsoon has been normal and farm incomes in the last two or three quarters would not have been materially different versus what they were in the last two years. There is trade liquidity issue which has come up newly in the last few quarters. But apart from that, do you see any other reason for this second leg of slowdown in the last two or three quarters versus the last two or three years, which anyways have been slow? For the rural India, I am talking about.

Mohit Malhotra: Yes, definitely, there is a slowdown. I can't pinpoint the exact reason why the slowdown is happening, but this seems to be long and a protracted slowdown. To your point, sequentially it has impacted. So I can't tell you reasons beyond what we have stated that would have impacted this slowdown. But definitely, incomes with the consumers have gone down. We have a severe liquidity crunch happening in the market. I think it has got to do with the impact happening since GST implementation. While we thought that this kind of normalized, but the normalcy came from a low base, but things really have not improved. Lalit, do you want to add?

Lalit Malik: Sure. I think I just want to add up. Before even GST, if we look at demonetization, that is where actually it started where the real-estate got impacted, as one sector. Then we saw even the automobile sector now is getting impacted. The intermediary like wholesalers and all, they were finding it difficult to deal with those changes, etc., in the initial period. And overall, to couple with that, our unemployment is increasing quite high, and we have a young population, which is also putting pressure with regards to the earnings that are there. And specifically to your question on the rural, though a lot of fiscal incentives have been announced, but not very clear whether that has completely gone into the hands of rural population, where they are able to have more purchasing power in their hands.

So these are multiplier effect of all these factors, which is leading into the liquidity crunch. And as a result of it, new investments are not happening at the pace in which it was happening couple of years back. So all those things are putting pressure. And our GDP is getting suppressed because of that. And therefore, there is a strong need and a lot of fiscal initiatives have been taken recent past. Hopefully, they should start putting thrust that is required for the economy to start growing, including the RBI rate reduction, et cetera. But currently the way it appears is that, all these factors are adding up into the liquidity pressure. Not growing these businesses or future expansions, unemployment is becoming very high, all these factors are having a multiplier impact.

Percy Panthaki: Right. So in light of all this, is there any need to revisit your full year sort of expectation of a high-single-digit volume growth?

Mohit Malhotra: No. At the moment, I think we want to maintain our guidance of mid to high single-digit volume growth, that is what we targeted at the beginning of the year, and we don't see feel there is a need to alter it. Our first quarter was good. Our second quarter, not so good. Let's see how our third quarter and fourth quarter goes. But overall, we will maintain mid to high single-digit guidance for volume for India business.

Aditya Soman from Goldman Sachs

Aditya Soman: My first question is on urban growth. Is the slowdown relative? I mean, you have mentioned that rural has grown faster than urban, is this largely a function of juices or is there some other sort of insight into this?

Mohit Malhotra: No. For us, rural is trending much ahead of urban. The rural growth is in the range of around 6%, whereas urban growth is in the range of 3%. Now, urban growth is low because juices, you are rightly saying, are 80%, 90% of the portfolio sales in urban for juices because juices has not fired, that's why urban growth is actually low. If you separate the urban growth into GT, MT and e-commerce, our e-commerce business has grown by around 63%. Our modern trade is trending greater than 6%. Our GT urban, which is more again juice-driven, was almost flat to 1.5% kind of growth level. And rural is trending at around 6%-odd, which is very contrary to what the market indicates. Market indicates 300 basis points urban growth higher than rural, but I think it's on back of the infrastructure improvement that we have done in rural and adding villages and direct reach and building demand in the rural areas.

Aditya Soman: That's useful. So in rural, basically, you have grown largely as a function of this distribution and sort of more product going down the pipeline, right?

Mohit Malhotra: Correct. So distribution initiatives, portfolio enhancement and demand generation and activations that we do at the rural hinterland levels and the wholesale levels. That's why we saw that growth coming in.

Aditya Soman: And secondly, I think on Oral Care, you answered briefly earlier as well, but are we seeing an increased challenge in the recruiting consumers for natural toothpaste relative to Colgate and Lever both sort of stepping up on advertising on their own products or is this just a timing issue right now with sort of Babool being launched during the quarter?

Mohit Malhotra: No. I think the overall slowdown is actually impacting Oral Care. I don't see competitive intensity becoming so high that we can't counter the same. If you actually analyze the business, 30% of the total market segment of Oral Care is growing which is herbal, ayurvedic and natural, which is growing at 10% and which is where we are a natural beneficiary, and that's why we see a growth of 9.5% in Dabur Red, it being a flagship brand. Competitive intensity is something which was there in the past also and which is there now also. So that will continue to happen. But we have also stepped up on advertising as also on consumer and trade inputs to match up with the competitive intensity. I think more than competitive intensity and matching up by way of resources, I think it's more positioning, more meaning of the product to the consumer, which is natural herbal and our products genuinely better than competitors. That's where we see that we will have a edge over our competitors.

Aditya Soman: I think just to follow-up on that. I mean, my question was largely on the natural space itself. So historically it was just largely a two-player between you and Patanjali. Now we have had Colgate and Lever also sort of get more aggressive in that category. So is that impacting growth or you think that you just have a much stronger position, so that shouldn't be a cause of concern?

Mohit Malhotra: No. We feel we have a much stronger position because Patanjali headwinds have actually abated. Patanjali, that used to grow at very high double digit, growth rates have come down to high single-digit level. And the other multinationals that had herbal, natural, ayurvedic offerings have not stood credibility test in the consumers' mind, so they are not doing so well. So we feel that we are in a best position to capitalize this kind of a tailwind of natural herbal positioning. And as our market share has gone up by 66 basis points, we are only strengthening our competitive positioning in the marketplace, which in the long run will keep us in good stead.

Harit Kapoor from Investec

Harit Kapoor: This is Harit from Investec. Just 3 questions. Firstly, on the International Business, how do you see the growth rates sustaining at this high single, early double-digit levels for the business once Nepal comes back? And also, on the margins, you have seen an improvement there. If you could just help us with, do you see the margin improvement sustainable as well?

Mohit Malhotra: Right. So Harit, International business, we feel we are in a good place now. We have already turned the bend. International business bottomed out last year and after that, we have seen a growth rate. And this growth rate, we feel is sustainable because the category growth rates are also now into low single digits, which had actually gone down, they were declining. So post the decline in the major categories where we are in HPC space in International Business, most of the categories are now growing at low single digit. That being said, the market shares in all the categories are growing reasonably well. Within the number of countries that we are present in, our GCC business is in a better space and GCC is high-margin accretive. So because of country mix, our margins will steadily improve, but we cut back on advertising.

So all the margin improvement that we have due to the country mix and benign raw material and commodity prices, we will be plowing it back into the advertising spend to strengthen our position in the marketplace. That being said, I think International Business should be trending at mid- to high-single-digit sustainable growth rates going forward. And there are lots of bright spots. GCC is a very bright spot. Our Nigeria business is, again, growing at more than 20%. Pakistan business is doing very well. Egypt business is growing at 10%, and that is sustainable level of sales. The Nepal business was impacted by this macro VCTS implementation. I think it should also be back in, at best, one more quarter, and then that should also see a growth back. So I don't see too much of issue in International Business, both on margin front and also top line.

Harit Kapoor: Very clear, sir. Second question was on the India business. You mentioned in your initial remarks that there are no real green shoots that you are seeing on the demand side. My question was more on the fact that though there are no green shoots, have you seen demand more or less kind of bottoming out at least from a category growth perspective over the last, say, three, four months or you have seen a continued slide, which might concern you going forward?

Mohit Malhotra: So quarter-on-quarter, we have seen continuing slide. But if you look at month-on-month, maybe there is a little bit of bottoming out which has happened, and we feel that the business should -- or the category growth rate should trend up going forward. The festive season has not been too bad for us. The monsoon has been near-normal and now the winter is also coming in, and we have got winter skewed product. So we feel the worst should be behind us, and we should be trending upwards from where we are going forward.

Harit Kapoor: Last question was more bookkeeping. On the tax rate side, so I think you mentioned on TV that you will look at 17.5% for this year. Just wanted to understand how do you see that, the tax rate going forward, when does it start to increase from 17.5%?

Mohit Malhotra: Lalit may want to take the question?

Lalit Malik: Sure. So I think what we do expect in lieu of the MAT credit that's available to us that we will be into 17.5% for this fiscal year as well as for next year. And beyond that, we should be somewhere between the range of 22% to 24%. As of now we will have to look into how we can minimize that. But certainly, till next year, we will be around 17.5% as an effective tax rate for India.

<u>Prakash Kapadia from Anived PMS</u>

Prakash Kapadia: I had two questions. If I look at our current Q2 EBITDA margins of around 22%, I think these are one of the highest margins on a Q2 basis. So going forward, isn't it better to give some more promotions to boost volume growth in these testing times, especially in the Indian context?

Mohit Malhotra: Yes. I would agree, Prakash, completely agree with you. So I think this tax rate came in the mid of the quarter, otherwise whatever upside that we have because of benign raw material impacting prices and renewed tax rate, we would be investing back into our brand building and would give a guidance, so maintaining our margins with no urge to increase our margins, but to maintain our margins at the level where they are and invest the money into our advertising, brand building, consumer trade, to shore up volumes and our market positioning here.

Prakash Kapadia: Okay. And typically in a slowdown, would promotions work better or not necessarily?

Mohit Malhotra: No. Promotions definitely work better because now with consumers the entire market is fighting for a limited share of wallet of the consumer, so the competitive intensity goes up. And when the competitive intensity goes up, now the trade has to be lubricated better because trade has limited amount of money, either you invest in company A or company B. Whoever offers the better lubrication to the trade, he is the one who is able to push the stock in the marketplace. So I think trade promotions work there. And when the share of wallet of the consumer shrinks, consumer also seeks better value and, therefore, consumer promotions also work much better than advertising. So that's what exactly what we have done. If you look at our advertising growth rate, it's almost flat, around 0.8% level, and our trade spends have gone up by 15% and our consumer spends have gone up by 50% in the India business. So we will continue to steer on the path of higher consumer and trade. And if there are surplus funds available, then we will invest behind building demand and advertising.

Prakash Kapadia: Sure. And secondly, you know on the Babool relaunch, is there availability and reach? Why I am you know trying to understand this, especially in Western India, a lot of stores say brand is not available, it is short, so have we done the relaunch of Babool?

Mohit Malhotra: So we have not done a relaunch of Babool. We have launched a new product called Babool Ayurvedic and that's also a selective launch. We have rolled it out in North India. East, West and South, the brand is not present. We are seeing how it performs before we make it national. So in the North India, also we are now going to be advertising it. Wherever we place it, we want the demand and the traction and the repeat purchase to happen before we roll it out nationally and increase the reach and distribution. It's actually both ways. The more you build demand, the more people demand, and your distribution also picks up, so it's a chicken and egg here. We don't want to place the product in outlets and the demand is not there and then the product comes back. It is better that we have slow trending revenue ramp up rather than immediate ramp up and then you know repeat is not happening.

Prakash Kapadia: Sure. And lastly on Dabur Red, so the market share is happening or Western or Northern part of India? And I guess rural would be still be a very low contribution to Dabur Red?

Mohit Malhotra: Yes, you are right. Rural is a low contributor to Dabur Red because we very recently augmented the capacity for low unit price points and accessible price points in Dabur Red, but we have started this from the second half of last year. We have augmented our capacities for low unit price points and accessible Rs. 10 price points, which is now going in a dispenser form to the retail outlets. This is also enabling distribution there. So rural distribution is limited. And the market share gains are majorly in North India and that too through urban at the moment, but a huge headroom for growth in the rural.

Prakash Kapadia: Okay. And anything on Red Gel, it's been quite some while we have launched it.

Mohit Malhotra: Yes. We launched it. The brand has not been received very well in the marketplace, so we are in the process of revamping our entire mix. The feedback from the market initially wasn't great, so we are in the process of relaunching and repositioning, the entire marketing mix is being reworked and the team is working on the same.

Shirish P from Centrum

Shirish P: Just a few questions. We have spoken last time when we met, you said the Health Care, Health Supplement segment is driven by wholesale. So I was more keen that what's happened in wholesale because we incrementally listen that wholesale is collapsed, wholesale is not working. So would you have any thoughts what's wholesale is shipping up, it has gone out of the business?

Mohit Malhotra: Yes. So wholesale has not gone out of business. Wholesale contribution to the business is still in the range of around 30%, 33% of our business happens through wholesale. Wholesale growths are muted. Wholesale growth will be in the range of around 3-odd percentage point level. So it's not out and about. Unorganized wholesale are the two types of wholesale, one is a consuming wholesaler and one is a broking wholesaler. The consuming wholesaler is still there and they've got redistribution. The ones who used to broke the deal, take the goods from you at a vapor-thin margin they, will be redistribute to others. They are kind of working on low margins and with GST coming in, that fraternity has actually got shrunk.

But now we have reached a new normal. That being said, I think wholesale is growing. And our health care dependence is, yes, it's through wholesale, but also it's through direct reach. We already reached to more than 2 lakh chemist outlets directly. So that reach is available with the company and the balance distribution happens through the wholesale. So I would not say that wholesale is out and about. The growths are muted. And yes, the channel got shrunk. But when the channel gets shrunk, there are big large wholesalers who are the ones who are feeding to rural, and in the rural we are reaching out to villages directly. In urban, we are reaching out to chemist outlets directly and we targeted ourselves to reach out to the chemist outlets directly. As we speak, we have increased the number of chemist outlets by around 12,000 in the last quarter. We are reaching out to 235,000 chemist outlets going forward and we will consistently increase the numbers going forward.

Shirish P: When I visited marketplaces across, I have seen that there is a new term, which is coined, which is organized wholesale, so likes of cash and carry, likes of METROs and Walmarts and Bookers and these all, so these are also penetrating. Is that helping us in terms of parallel wholesaling where the traditional wholesale is not growing to that speed?

Mohit Malhotra: Yes. I think it's early days yet. But to your point, with a new ecosystem of these wholesalers which has emerged, even the e-commerce platforms like Big Bazaar, Amazon, Grofers, now they've also launched their wholesale verticals and -- which is called B2B wholesale. So earlier Amazon used to be a B2C platform, now there is a B2B also, and Big Basket also has B2B. If you look at our e-commerce growth, I think we have grown by around 60 percentage points. I think a couple of percentage points also come from this wholesale channel. Besides the e-commerce portals who have launched their wholesale businesses, which are going to substitute the regular wholesale and we are working with them very closely. There are other players which are private equity funded, who have come up, which are also a variety of the wholesale, which is may not be a really a cash and carry like a METRO and others, but they are also reaching out to the retail directly, the types of Udaan and others. So we are working with them very closely and partnering with them to see how we can capitalize on their infrastructure, which is reaching out to retail outlets, which we don't service directly. But when they do the same, we have to be very cautious on the price parity that you maintain between the wholesale, these new emerging channels and also to the regular stockist channel, so that we are very mindful of. So even if the need arises, we cut back on the orders in order to maintain the pricing equilibrium in the marketplace.

Shirish P: See, Mohit, the reason why I'm asking is that if I look at this change, which has happened post GST and demonetization, this number was 50 outlets, which has now already gone up to 150 to 200. And this, they are talking about a big expansion likes of Siam Makro in Delhi, which is LOTS. If we look at Walmart has expansion plans, Reliance Market has expansion plans. So do you think this channel is very important in the absence of wholesale?

Mohit Malhotra: So whether absence of wholesale or not absence of wholesale, this channel is definitely very important because if you look at other countries, besides developing countries, where the channel is very well developed. Cash and carry contribution today is in the range of around 3% to 4%, and we are committed to be developing this channel. The only caveat here is that this channel leads to a lot of price disturbances because when you supply, they expect very high DUs, which are higher than your regular wholesale. And when you give them and honor them with those deals, it infiltrates into my regular market and it upsets my almost 30% of the market. Imagine, 3% of the market disturbing 30% of the market. So we hold back on the orders that we take. So with maintaining pricing discipline, this channel is definitely something which is a sunrise and we will continue to engage with them going forward.

Shirish P: I completely agree, and this is the point which I wanted to raise. While doing our field trips, we found this is the disturbance which is happening. So my comment what I am expecting from you, right now the saliency is just 3%. But if this channel is going to cater to the ultimate traditional trade and on the other side, we are finding it difficult to find out distributors in the large metros, so how are you going to tackle this? Because though it is emerging, so it is important.

Mohit Malhotra: So absolutely. So what's happening is now Reliance is also getting into platforms, like e-commerce along, with the cash and carry, along with the retail model, we are working very closely with them. So you are rightly saying that this will over a period of time take a significant share from the wholesale business. And it's good for us that we engage with them and this helps us to filter our products even though we are not available. So, did I answer your questions?

Shirish P: Sir, last point on this. What is the margins we offer to these alternative channels?

Mohit Malhotra: See, we maintain margin parity across our channels, be it distributor, wholesaler, e-commerce or modern trade, because we are very sensitive on the pricing discipline, unlike other companies because they are sunrise channels and they would want to engage with them, they will do annual DOTs and, therefore, offer high margins. We maintain a nondiscriminatory policy when it comes to margins and pricing across all channels.

Shirish P: Okay. All right. Just last one question on Oral Care, I mean we have discussed it so much. You said that the herbal, ayurvedic and natural is growing almost 30% of the portfolio, 10% plus it's growing. So which segment is declining? Is the low price pack declining? Which segment? I mean, I fail to understand why the category is declining because if you look at the exit number of September, the category has declined?

Mohit Malhotra: Correct. So therefore the herbal and natural segment, around 30% of the total market, which is growing at 10%. So the balance part of 70% of the market segment is the one which is declining. Now how to subsegment that market of 70%, either on price points, I don't think it's the price point. So high price would be declining definitely, but the low price would be growing, I would imagine. But the segmentation should not be just done basis the price point. It has to be done basis the product and the usage. Now Gel market, to me, I think low price gels would be growing, high price gels would be declining. Calcium carbonate white toothpaste should be declining. Herbal players are the ones that are growing. Low price white players who would be increasing penetration would be growing. High packs of white would be declining. Sensitive and more benefit-oriented players would be growing, and more generic calcium carbonate would be declining. So there could be several cuts of segmentation that you can do in Oral Care in the 70% of the market to provide that segmentation. So pricing, I don't think is the right segmentation variable to cut the market in these subsegments.

Rahul Ranade from Goldman Sachs

Rahul Ranade: Sir, just one question. Wanted to know how the gift pack business has done for us since, I think, most of it would have come in this quarter since the festivals were earlier.

Mohit Malhotra: Yes. The gift pack business essentially came in October for us and it has done reasonably well. So when I talked about little green shoots in our business, I mentioned Foods business was a gift pack business. So gift pack has done well. So Diwali gift pack has done reasonably all right. Outside of gift pack, the other business is what is very sluggish for us. That being said, if you look at segment-wise reporting, our margins have also gone down in the Foods business. That is on account of the gift packs, which are little margin dilutive to the regular business.

Rahul Ranade: Okay. But most of it came in October here, you are saying, is it?

Mohit Malhotra: Yes. Most of it came game in the October. Diwali was end of October 27th. There was a marginal loading, which would have happened in the month of September. I think majority happened in the month of October only for us.

Percy Panthaki from India Infoline

Percy Panthaki: Sir, Percy again. Just one follow-up on the tax rate, which has already been asked, but I just wanted to know the ETR for the consol business, not just the standalone, if you could provide that? And also secondly, the ETR which comes in the P&L is one thing, but how much will the tax be in terms of the cash flow basis?

Lalit Malik: Well, I think whatever we have talked in terms of the cash flow is the one that we paid on account of effective MAT rate. On account of consolidation, again, the rate that you see here in this quarter is around 12.3% or so. But this has got a very different country mix, wherein if you look at our Dubai business, it is nontaxable, but if you look at U.S., it is taxable. So a lot depends upon the profit mix of a country that we have. However, for this quarter, if you look at it, it is around 12.3%.

Percy Panthaki: My question was more on a full year basis. Quarter, I can understand there will be a lot of volatility and there is adjustment of Q1 also. But for a full year FY20 and FY21 and then FY22 onwards, what will be the ETR on a consol basis?

Lalit Malik: Sure. So I will first tell you on a standalone basis, which I said earlier. It is going to be 17.5% for this fiscal year as well as for the next fiscal year. And going forward, it appears to be between 22% to 24%. However, we are working out to see what are the opportunities available to optimize that further. As far as the consolidation is concerned, on an annualized basis, we should be somewhere, if you look at in the past, we were around 18% to 20% on a consolidation basis. But again, it will depend upon the country mix, how it is going to pan out.

Percy Panthaki: Okay. And the tax rate that we see in the P&L versus the tax rate as per the cash flow, will it be the same?

Lalit Malik: That's right. So that's what I said, because what we are doing is with regard to this effective MAT rate, that's where we pay, it may have some adjustment on account of TDS that is being deducted, etc. But at a very, very broad level, it is in line with what we see as a charge in the P&L.

Percy Panthaki: Okay. So on a consolidated basis, in the P&L, you are likely to see around 20% for the next two years. And even after 2022, it will be at 20% only or after 2022, it will increase?

Lalit Malik: So just to clarify again that when we talk about next two years, because my standalone will come down to around 17.5%, in the past. I said we were around 20%, 21% in consolidated in the past, but now it will be lower than 20%, 21% on a consolidated basis.

Percy Panthaki: Okay. In the P&L itself, okay.

Lalit Malik: That's right. On account of the payment part of it, I said that as far as India is concerned, we pay whatever is the effective MAT rate, there would be some adjustment that would happen on account of TDS and there is also an element of deferred tax at times that we provide. So that's a incremental thing that at times we have to consider the deferred tax also, which appears in the annual accounts as a separate line item.

Percy Panthaki: So in the ETR guidance that you are giving, the ETR in the P&L, you are not considering deferred tax as part of that?

Lalit Malik: No. We do factor that in also. So 17.5% plus deferred tax, if we will take it, it will be somewhere around 1%, 1.5% effectively, that may be there. But that again depends on what is my capitalization, what is my depreciation difference, et cetera. So somewhere if you want to take as guideline, I would say you take 17.5% for India; for consol, you take below 20%, somewhere in line with 17%, 18%. So for this we can get...

Percy Panthaki: And this includes deferred tax charges also in the P&L?

Lalit Malik: That's right. It will include deferred tax also.

Percy Panthaki: Okay, sir. And the same FY22 and onwards, I should take an increase, right?

Lalit Malik: FY21, FY22 onwards, you should take an increase. The reason for that is that we would have utilized our MAT credit that is available to us by next fiscal year. But having said that, we will still be below 25%, which is the threshold if we don't factor in all the incentives that are available to us considering that tax exemption in Himachal that we had and at the same time with Northeast states, et cetera, that we have.

Gagan Ahluwalia: Thank you. Thank you, everyone, for participating in this conference call. A webcast recording of the call and transcript will be put up on our website soon. If you have any further queries, please do get in touch with us. Thank you and have a nice evening ahead.