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NSE Scrip Symbol: DABUR, BSE Scrip Code: 500096

Corporate Relation Department
Bombay Stock Exchange 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.

Re: Transcript of Investors Conference Call for Dabur India Limited Q2 FY 2020-21 Financial Results

Dear Sir,

Please find attached the Transcript of Investors Conference Call organized on November 3, 2020 post declaration of Financial Results for the quarter and half year ended 30th September, 2020 for your information and records.

Thanking you,

Yours faithfully
For Dabur India Limited

Sd/-
(A K Jain)
Executive V P (Finance) and Company Secretary

Encl: as above

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Dabur India Limited
Q2 FY 2021 Results Investor Conference Call

November 03, 2020

MANAGEMENT:

MR. MOHIT MALHOTRA - CHIEF EXECUTIVE OFFICER
MR. LALIT MALIK - CHIEF FINANCIAL OFFICER
MR. ASHOK JAIN - EXECUTIVE VICE PRESIDENT (FINANCE) AND COMPANY SECRETARY
MR. ANKUSH JAIN - HEAD (FINANCIAL PLANNING AND ANALYSIS)
MS. GAGAN AHLUWALIA - VICE PRESIDENT (CORPORATE AFFAIRS)

Gagan Ahluwalia: Thank you, Stanford. Good afternoon, ladies and gentlemen. On behalf of the management of Dabur India Limited, I welcome you to this Conference Call pertaining to Results for the Quarter-Ended 30th September 2020.

I have here with me Mr. Mohit Malhotra - Chief Executive Officer, Mr. Lalit Malik - Chief Financial Officer, Mr. Ashok Jain - Executive Vice President (Finance) and Company Secretary; and Mr. Ankush Jain - Head, Financial Planning and Analysis.

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

Mohit Malhotra: Thank you, Gagan, madam. Good afternoon, ladies and gentlemen. I hope all of you and your families are staying safe and healthy during these tough times. Let me also wish all of you a very Happy Diwali and a great festive season ahead.

Our war against COVID is not yet over and my heart goes out to all those who have been affected by the virus. I would like to express my deepest gratitude to the frontline Corona warriors, our police personnel, healthcare workers, and sanitization workers for the selfless service towards keeping us all safe during these trying times. Moments of extraordinary challenge like these test our collective will, and I am proud and inspired by the way the entire extended Dabur family, from factories to supply chain, to the frontline sales force have risen to this challenge across the globe. I would like to thank them for their hard work, commitment and invaluable contributions, which have helped us weather the COVID storm and emerge even stronger. They are our true heroes.

COVID has entirely changed the business landscape around the globe, opening up newer categories and challenges, while dismantling some of the established ones. As I have often said, a crisis is not to be wasted. It is in fact an opportunity to work harder, strengthen the business with new capabilities, beliefs and innovation to emerge stronger and even further entrench our leadership position in the marketplace. This is exactly what we did in COVID times.

We have transformed ourselves as an organization, becoming more agile, nimble, aggressive and fearless. We have also enhanced our risk-taking ability, encouraging our employees to become more entrepreneurial, and self-driven. This crisis has propelled the company towards a journey wherein we have accelerated the pace of innovation, retooled our distribution, increased digitization across value chain, enhanced our efficiency and productivity, and brought in a complete cultural change within the company. We have launched multiple new products since the advent of COVID, in spite of restrictions on supply chain and limited availability of labour and raw materials. I can say that this has been the inflection point for the company, which has brought in enduring changes in the way we operate.

Our strategic business transformation exercise helped us to develop and implement growth strategies in the core business areas to successfully address the emerging challenges and deliver a robust top-line growth, accompanied by healthy profitability during the quarter. We saw growth of 13.7% in consolidated revenue from operations. Our FMCG business recorded a stellar growth of 20%, backed by a volume growth of 16.8%. Operating profit increased by 16.3% and consolidated profit after tax reported a growth of 19.5%.

Riding the tailwind of immunity products and bolstered with new innovative launches, the Healthcare portfolio recorded a growth of around 50%. This was driven by a strong growth in our power brands in Healthcare portfolio, and supported by creative marketing campaigns, localized sales activation, and sustained investments. The Health Supplement business grew by 70%, led by 2x surge in sales of Chyawanprash, a double-digit growth in Honey. OTC business reported a strong growth of 56% on back of robust performance of Lal Tail and the NPDs like Health Juices, Health Drops and other Ayurvedic products. The Ethical business also performed well, reported a growth of 26% on back of strong demand for immunity boosting product, contextual activations, visibility drives in chemist channel and initiatives like Immunity@Doorstep.

Within HPC portfolio, oral care recoded to industry-leading growth of 24.2%. Dabur Red Paste, our flagship brand, continued its growth momentum, along with the strong performance of Meswak and Babool franchise. Our market share in Toothpaste category witnessed a 90-basis point gain vis-à-vis last year. Our Lal Dant Manjan also witnessed a strong growth of 30% during the quarter. Hair oils reported a marginal decline, primarily on account of lower sales in the enterprise business, particularly CSD business, which continues to be impacted. Ex-enterprise, the sales of hair oils was flattish. Our flanker brand strategy remains intact with the launch of Badam Amla and Amla Aloe Vera. The Shampoo portfolio recorded a growth of 17.8%. Our market share in shampoo business increased by 80 basis points, touching 6.4%. Our focus on increasing bottle salience has yielded results, with a strong surge seen in the quarter. Vatika Shampoo reported a good off-take on ecommerce platform as well.

Home Care reported a muted performance during the quarter due to discretionary nature of this portfolio. The air fresheners and mosquito repellent creams categories were under some pressure. However, our market shares in both categories saw an uptick. In air fresheners, Odonil recorded an increase of 60 basis points in market share. And in mosquito repellent cream category, Odomos recorded the improvement of 80 basis points.

The recently launched Home Hygiene portfolio under Dabur Sanitize and Dabur Dazzl brands have registered a strong performance.

Skincare portfolio witnessed a growth of 38%, driven by strong performance of Dabur Sanitize range, which includes hand sanitizers, antiseptic liquids and soaps, along with Fem hand washes portfolio. Albeit the traditional portfolio of HRC bleaches declined by around 12%.

With the HORECA and CSD businesses continuing to operate at lower levels, the food business reported a decline of 3.8%. Ex-HORECA and CSD, the domestic foods business saw growth of 8.5%. The in-home domestic business has sharply rebounded, while out-of-home portfolio has seen sequential recovery month-on-month. Our market share in J&N category saw an increase of 170 basis points, reaching to a market share of 61.5%.

Our culinary portfolio under the Hommade brand recorded a growth of 12%. Domestic business of culinary, ex-HORECA and CSD has shown a strong growth of 45%. The new products launched and of the Foods portfolio were Real Mango drink, Real Frappe milkshakes, which are also witnessing encouraging response from the market.

Among the channels, ecommerce was an outperformer, with a growth of more than 200%. This channel is now contributing to around 6% of sales vis-à-vis 2% last year. We were able to capture the increasing preference for online purchases among the consumers and increase our market shares on ecommerce platform across categories.

International business recorded a muted growth of 5.5% during the quarter. While MENA region continues to face macroeconomic headwinds due to lower crude prices and outward movement of expats, we saw strong double-digit growth in Turkey, North America and SAARC businesses. New products were launched in hair care, skin care, hygiene categories. The business reported an increase in operating margins aided by saving initiatives across the board.

We believe innovation is a cornerstone of our strategy to deliver robust growth and tap the emerging opportunities. During the quarter, we extended our portfolio with the launch of Dabur Honey Immunity Range (Tulsi and Ashwagandha) variants, Dabur Herb'l Clove toothpaste in South, Amla Aloe Vera hair oil, Dabur Badam Amla hair oil, low calorie juices and Real Apple Mini. We also entered new categories with launch of single herb Dabur Vedic Suraksha Tea, Ayurvedic Nasal Drops, along with chutnys, pickles range in the culinary portfolio. Ecommerce continues to be a driver of growth and we fortified it with the recent ecomm-first brand launches of Dabur Himalayan Apple Cider Vinegar, Baby range and Cold-pressed Mustard Oil.

Going forward, we intend to drive our business by investing aggressively behind our brands, staying focused on health and hygiene, driving innovation and renovation across our portfolio, leveraging the new-age channels like ecommerce, cash and carry and modern trade, besides expanding and enhancing the efficiency of a distribution network. These initiatives are coupled with cost and cash flow management to ensure stable and healthy margins.

I would once again take this opportunity to acknowledge the superlative efforts of each and every member of the Dabur Family from our plants to the sales organization, who have gone above and beyond the call of duty to catalyze the transformation of Dabur into a stronger, more nimble and agile enterprise.

While the challenge of COVID still remains, we will strive to continue our pursuit for excellence and stay course on our strategy of strengthening and leveraging our power brands, expanding distribution footprint, digitization across the value chain in the company, cost optimization and building organizational capabilities for sustainable and profitable future growth.

With this, I will now open the Q&A and invite your questions. Thank you.

Abneesh Roy from Edelweiss

Abneesh Roy: Mohit, congrats on a very good set of numbers. My question is on the oral care portfolio. So, two questions, one, market share data other companies are seeing is not reliable because of the lockdown. If you could comment on that. Second, how much is the contribution of Dant Rakshak and the Dabur Clove in the percentage of sales this quarter?

Mohit Malhotra: Thank you, Abneesh, first of all. Thanks for your support. Market share data, actually in my mind is pretty robust and it's very indicative of the way we have actually performed. So oral care the market saw the uptick of around 5%. And as compared to 5%, Dabur shares in Nielsen are showing a growth of almost like around 10% for us, in the Nielsen data. Whereas our business, in terms of our secondary and primary is showing a growth of around 24%. So in my mind, its pretty indicative, and the difference between our sales and the Nielsen sales remains intact. That said, there were COVID disturbances, which Nielsen also witnessed in their field work while they were collecting the data. But overall, it seems to be in line with the performance that we have shown.

As far as Dant Rakshak and Dabur Clove are concerned, I think very miniscule contribution. We just rolled out these brands around two months back, still there is pipeline filling happening. Overall, we would have only done around Rs. 7-odd crores out of Dant Rakshak, and very small, Rs. 1 crore or Rs. 2 crores out of Clove, which is insignificant to our overall performance of oral care.

Abneesh Roy: My second question is on the new products and very high A&P spend. So if I see, sanitizer, ACV and herbal tea, these are not products in which you have a right-to-win, because you have entered here late, already established players are there. So one, will you advertise here? And second, will this go into the general trade also at some point of time?

Mohit Malhotra: Right. As far as sanitizer is concerned, Abneesh, we have actually tried to create a vertical of home and hygiene under the brand called Sanitize, and this will continue across our portfolio, whether it's a sanitizer, service cleaner, or it is home hygiene products like antiseptic liquid, soap etc. This is a portfolio that we are trying to create which is all about sanitization. In my view, consumer habits are changing, and consumer behavior of purchase is also changing. And these habits will ingrain as we go forward and the number of players in the market are very few and far between here, with Reckitt being one of the players and one or two more players in this category. Rest of the soap market if you see, it is all about beauty space, and less about antiseptic space. To me, market is underserved in the antiseptic space. So, there is a need of multiple players.

As far as the right-to-win is concerned, Dabur stands for health and wellness. And I feel we have a right-to-win in these categories with the credibility and legacy of Dabur and the trustIf you see, our antiseptic liquids are doing fairly well and they are not just plain-jane antiseptic liquids, they are herbal antiseptic liquids which will actually carve their own niche in the antiseptic liquid category the way we guys did it in shampoos, or the way we guys have done into an oral care. Likewise, there are examples replete with I can tell you one after the other, wherein Dabur has carved out a niche of herbal and natural in these more cosmetic or these artificial categories.

As far as Apple Cider Vinegar is concerned on ecommerce, it is showing very good traction. There are a limited number of brands present. And with the Dabur's name, we have a right-to-win. So your point is right, we will be extending this brand to modern trade also going forward, as we launch extensions and variants in Apple Cider Vinegar.

Abneesh Roy: And have you seen a slowdown in sanitizer in terms of weekly sales number?

Mohit Malhotra: Yes, sanitizer sales have really gone down, there are multiple players who have entered into the market and the prices have also come down, the margins have also reduced and everybody is getting into a market, be it a larger multinational or be it a local company, there are multiple players gone into the market. So therefore, our sales have also gone down. We had registered a total sales of around Rs. 80-odd crores in the first quarter and in this quarter, we have only registered around Rs. 12 crores sales coming from sanitizer business. So, it is not a sustainable business, it will go down over a period of time. And that is what we had anticipated when we had launched. It was very contextual for the COVID times and it served its purpose. And now the business will kind of mute and we are well-prepared for that. But that said, that is only one of the products under the Dabur Sanitize brand. But now we have got a multiple portfolio under the Sanitize brand, which with the new launches will more than cover up in terms of margins and also turnover in the Sanitize portfolio.

Abneesh Roy: Right. My last question is on Chyawanprash 2x sales and strong the growth in the Honey. So, any sense on how much growth is coming from new customers? Second, is this all in-house manufacturing? Third, edible oil companies are coming into this space, do you see a threat long-term in terms of market share or because you have the dominant share it will be loss for other players, if at all?

Mohit Malhotra: First of all, DCP. If you look at the total penetration levels of Chyawanprash, Chyawanprash used to sit at a 2% penetration level in the country only. The penetration levels have gone up from 2% to around 3.5%, 4%, in the season we go up beyond this also. But that said, 4% is also very low, if you compare the hair oil portfolio you have got 90% penetration. If I have to compare myself to other developed countries, which is where India will move from developing towards developed, in other developed countries like the U.S., health supplements and nutraceuticals penetration levels are 80%, with the VMAs contributing 80%. In India, it is barely 10% level. So, the headroom for growth is huge. The onus is on companies like us to bring about Chyawanprash in modern formats, in palatable formats, in better packaging which can traverse the distribution and then sky is the limit for increasing the penetration. Back of Chyawanprash we think we should be able to increase the penetration levels of nutraceuticals in the country also going forward. As far as Honey is concerned, also Honey penetration levels are high, so they are in the range of around 24%, 25% and they have gone up post COVID. And multiple players will come into the category. But if you look at other countries, honey penetrations are again in the range of around 60%, 70%. So, we have a huge headroom to cover as far as, again, honey potential is concerned. And more the number of competitors come in, the more share of voice on media, the more category expands and therefore more players will come in. More players are welcome into the honey category, while we try to protect ourselves, but they are welcome and we will try to do our best in the marketplace to fight competition.

Abneesh Roy: Mohit, one small follow-up there. So, in the penetration for Chyawanprash, what are you doing on LUP? We have seen Horlicks and Complan come out with a much stronger and lower pricing smaller pack. What are you doing there? And manufacturing capacity if you could discuss for Chyawanprash, is it all in-house?

Mohit Malhotra: I will answer the second question first, Abneesh. Our manufacturing capacities are all in-house, it is a very sensitive product, not everybody can make it. And if other companies claim to be make it in third-party, I think one has to be very sure that it's a proprietary formulation which is registered or authorized or authenticated by Ministry of AYUSH before you buy, because Chyawanprash is a classical name and you need to follow a classical proprietary methodology of making the product, health product before you say, taking it from a third-party and rolling in the market can be very risky for the health of the consumer. So that's why most of them are not naming it as Chyawanprash, they call it Chyawan Amrut or they call it Chyawan something, etc. So it's a twist in the tail which I think the consumer will understand very fast. So, as far as we are concerned, it's all in-house manufacturing, and which is very proprietary to us and which is inspected by Ministry of AYUSH, which is made as per the text. And we have augmented the capacity, our capacities were running short, we have augmented the capacity and therefore we are expanding our capacity.

We are taking a mega project in MP of roughly around 40 acres of land. We have also paid in advance for that and we will be commencing our production in couple of months, almost three months' time. So, we are augmenting the capacity of Chyawanprash manufacturing going forward as well.

Now coming to talk about penetration of Chyawanprash and introduction of LUPs. Yes, we understand there is a huge potential there and we have to reduce the price points to make it accessible to the rural consumer. For that it is early days, but we are working on some formats which are amenable to a LUPs and reducing the price points there. We are working on that, it's difficult for me to let you know at the moment.

Percy Panthaki from IIFL

Percy Panthaki: Congrats on a very good set of numbers. My first question is on your margins and related to ad spends also in that context. You have grown your ad spend by 40% this quarter, and that has prevented the margins from expanding. So just wanted to know your view on sort of four to six quarter basis, where do you see ad spends stabilizing? And do you think that there is any upside in your EBITDA margins from these levels?

Mohit Malhotra: Right. Thanks, Percy. So, as far as our ad spends are concerned, I think if you compare Dabur to other companies in terms of the ad spend, we are sitting at a very low ad spend to revenue ratio at the moment. I think we have a lot of catching up for us to do. So we still sit at round 8% ad spend ratio. If I look at the best in class companies who would be spending till 12% on above the line to generate demand. We will have a leverage coming in from other line items of cost and also some Samriddhi projects, and they will be invested on ad spends, and increasing our ad spends going forward. So for the balance of the year, we will only increase our ad spends vis-à-vis last year, that’s on ad spend. And we don't want to increase our margins, we want to keep the margins where they are, and we want to invest the upside or the leverage in the business into the ad spends.

Now coming to the margins. We have already got upside on the operating margins. In India, the operating margins have gone up by 22 basis points and in consolidated it is around 50 basis points that has already happened. Even in first half you have seen a margin growth. And in the balance of the year we want to keep the margins same as what they are do last year. So overall, for the financial year there will be an upside in the margin of the first half getting captured into the balance part of the year.

Percy Panthaki: But Mohit, how do you look at the margins on a slightly longer term basis, let's say, on a three to four year basis do you think that your margins which are, let's say, at 21%, 22%, they can like structurally go up to 25%, 27%? I mean, most of your categories can actually do much higher margins than that. And of course, the foods margins are pulling that down, I understand that. But your categories are such that not too many products have direct comparables. So from that point of view, they are niche products so to say, so can the margins not be higher on a three to five years perspective?

Mohit Malhotra: Percy, we have embarked on a journey of innovation and launching NPDs and now trying to get into categories which are much larger than where we are already existing in, because COVID taught us a lesson that we don't have to restrict ourselves to discretionary categories or high margin, we also have to pivot our business to categories which are larger, and which will give us the scale leverage. So therefore, we have to invest the upsides into advertising. And like I told you, there is a improvement required in our advertising. So in terms of long-term, two to three years of horizon, we are wanting to invest in advertising and not increase the margins to a level of 25%. It is more maintenance of margins and little bit upside, if it happens, it happens.

Percy Panthaki: Right. Sir, my second question is on the growth of the healthcare business. Right now, that business is doing very well, of course, there are COVID tailwinds. But once this kind of growth anniversarizes, how do we look at growth going ahead? Do we say that on the back of this 40%-50% kind of growth, the growth in FY 2022 will be sort of low single-digit or even negative in those categories because the base is just too high? Or do we say that this is a new normal base and on that base we will now have a normal growth?

Mohit Malhotra: Yes. So, I can't give you a very straight answer on that. I don't know as to how the business will trend. I can only tell you the trends going forward, I cannot forecast what is going to happen next year. But as I told you, when I answered to Abneesh that the penetration levels of healthcare are going up in the country. And we are seeing it happen, and multiple players are coming in and therefore the categories will expand. As the categories expand, the market leader only gets to capitalize from this kind of a tailwind, which will continue. Now in terms of absolute growth rate, whether we will be able to sustain? Answer may be no, because it will come off of a very high base.

Now, if you look at Chyawanprash, in last quarter there was a low base and in the coming quarters of winter, now we have lapped over the high base of last year of winters, because summer was off season and in off season on a low base we had a high growth of 2x, 3x. As we enter into the new quarter, now we will come off a high base, but still I am seeing a growth because the number of consumers are actually going up who are using Chyawanprash, so therefore they are new customers. And when the new customers come in, that's a delta growth which happens, although your base is higher. So therefore, the overall category and the pie increases and the market leader with 60% odd share, which is us, will only expand. But exact quantification of the number, I will not be able to do. But I feel the habits have got ingrained and prophylactic healthcare has become more salient, it's got ingrained in the consumer buying behavior. So therefore, health and hygiene is not going to disappear from the country even in FY 2022. So I will not say that it will be low single-digit or negative sort of a growth rate in the category. And it's just not the base or what the market does, it is also what you do to yourself to take the business forward. So therefore, we are cognizant of the fact that there will be a high base and we are planning for that. And therefore, maybe more better formats will come in, more NPDs will come in, we will get into better categories. So we have full 12 months to actually work on the same and we shall work to prove you wrong that it would be less than mid-single-digit.

Percy Panthaki: So if you can just tell me what was the household penetration of your brand in Chyawanprash in the peak season last year, so that would be Q3 last year versus what is the household penetration today? Is it higher than the Q3 of last year?

Mohit Malhotra: Yes, definitely. It's higher by at least a percentage point, and we have seen it from first quarter to now the third quarter also as we enter into the season, it's gone up from 2 percentage to 3.5 percentage points, and penetrations have gone up. And I still don't have the data as yet, but around 1 percentage point increase in penetrations has happened. But that is still very low in the range of around 3%, 4%.

<u>Latika Chopra from JP Morgan</u>

Latika Chopra: Congratulations on a strong print. My first question on the food business, we saw 6% growth, excluding the enterprise businesses. Is it right to assume that this quarter won't have the benefit of any festive related loading and we should see the full contribution of festive only in Q3? And on some of the new launches here, like low calorie juice, frappe, you have launched an apple variant at Rs. 10, what kind of distribution these new launches have? And how do you think the contribution of these new products will be in the overall sales mix? And if I could just check, do you think now this business is geared to move to about double-digit odd growth?

Mohit Malhotra: Right. As far as beverage business is concerned, you are absolutely right, Latika. Beverage business, ex of HORECA, ex institutional and enterprise business, is growing at 6.2%. If we look at the food business, ex-HORECA is growing at 8.5% for us, and driven by culinary portfolio. Hommade, if you see the culinary portfolio, is growing at 12%. But if I exclude HORECA, culinary is growing at 45% for us, there is a tailwind for the culinary in-home consumption that we see. So I think the Food business is back on recovery path very strongly. In beverage business, there are two sub segments of beverage, in-home versus out-of-home. If we look at out-of-home, also there is a sequential recovery and out-of-home, which contributes around 35%, 40% of the total business is growing at 3.5%, whereas the category is declining by around 34%. So, that is on growth path.

The in-home consumption is growing by around 11.5% to 12% which is significant around 60%, 70% of our portfolio, which is a 1 liter pack, that has staged a recovery of around 11% growth now, although offseason, but then the growth is happening. And I am sure this growth will continue going forward in the first quarter next year also when we come into the season, because people are shifting from carbonated beverages to more healthy drinks, and juices are considered healthy and carbonated beverages a big market of Rs. 25,000 crores and here we are talking about only, including drinks, Rs. 6,000 crores to Rs. 7,500 crores market. So, there is a source of business and people are moving from that source of business here. So, I have no doubt that juices will trend back to growth trajectory. Today it's minus 35%, but the growth will happen. And if we gain share, we should get back to a double-digit on back of all these entities of getting into the drinks market and Frappe and low calorie and restaging of brand etc. So I don't think there is any doubt that we will get into a double-digit growth rate going forward in the season next year.

NPD contributions will be around 5%, 6% on the beverage business. We have a lot of potential there. We are hardly scratching the surface and utilizing the equity of Real. Real as a huge market equity and we will keep expanding that. As far as distribution is concerned, we are very small with NPD. NPD distribution is going on, seeding operations are happening as yet. And as we scale the business, we will have to embark on new distribution network. Our existing distribution food network, E&D outlets are not doing justice to the drinks market. But as we scale up the business we will get on to more dealers and more network of the drink space. And that is where we will be able to grow the business.

As far as our separate infrastructure of distribution is concerned, we are putting in more feet-on-street and more SSMs. And today we have a separation distribution network in metros and only North India, gradually slowly we are expanding that also and we will have exclusive distribution network across India as we scale up the new businesses.

Latika Chopra: Sure. If I could go check a little bit more on toothpaste, would you say the toothpaste growth in the quarter, I have probably missed it. And what is really driving this? Is it also supported by some kind of channel inventory normalization? Is there a big difference between the primary and secondary off-take here? And also, are you happy with the traction for Dant Rakshak?

Mohit Malhotra: Right. As far as the Oral Care category is concerned, the Oral Care category if you see is growing by around 5%, and Nielsen shows our growth at around 10%. natural toothpaste segment which is around 27% to 30% of the market is growing at 8%, overall market is 5%, that means the chemical based toothpaste or calcium carbonate toothpastes are actually doing much worse as compared to the natural segment. And the beneficiaries of this growth are Patanjali, us, Vicco and other natural players.

So this natural sub-segment of oral care is actually growing, and this is growing across different benefit segment also. Today it is limited to anti-cavity, but tomorrow there will be more benefit sub-segmentations also being carved out here in natural, as the segment becomes more and more attractive. And therefore, you see, for us the entire portfolio oral care has done well. So we have revamped Meswak and we have revamped Babool toothpaste, and on back of Babool Ayurvedic, Babool franchise is doing well, Meswak is doing well for us. Dabur Herb'l Toothpaste, which is limited to Kerala, we are gradually slowly expanding it beyond Kerala to South of India, therefore, we have launched Clove toothpaste as one of the variants there. Early days yet, but it is a NPD.

Dant Rakshak has been launched in areas where Dabur Red is not very strong, which is the North belt, where Dabur has a lot of equity, because Patanjali is a player which is very salient there. And it's coming at a price point of around Rs. 40 per 100 grams as compared to Dabur Red which sits at Rs. 50, so it has got the sweet spot of price point which is very attractive. I think it should gain strength there. We have got a turnover of around Rs. 6 crores, Rs. 7 crores yet, but that's small. But I think the initial feedback from the market is about 20% to 30% repeat, which is good by any standpoint. So I think we will continue to push this brand. And the initial feedback is pretty positive. And we are very hopeful on Dant Rakshak.

As far as, I think I missed out, primary and secondary. We have actually corrected our pipelines by almost nine days, overall, including oral care for us. So there is no pipeline loading which has actually happened. There is a pipeline correction happened, at 24% growth in primary is also a 25% growth in secondary. So, we have corrected the pipeline. Secondaries are higher as compared to primary.

Prasad Deshmukh from Bank of America Merrill Lynch

Prasad Deshmukh: Congratulations on the robust 2Q results. So, two questions from me. One is, of the raw material exposure that you guys have, how much is linked to agriculture and do you have any opinion on how the new agri reforms will impact these costs?

Mohit Malhotra: Right. So, Prasad, our results are very close to what you had estimated, closest to what you had estimated in terms of results. So, I think you predicted it very well. I don't know how you predicted it, because we could also not predict it, but you predicted it, and we were startled when we saw your exhibit, it was very closer to us. So that aside. On raw material exposure, yes, we have four buckets of raw materials here, one is petroleum and crude linked, and one is agri linked, and third is specialty chemical and fourth is juices portfolio. So, we have around 50% almost purchase happening on herbs, species, agricultural linked commodity, even more than that. So that is seeing significant inflation going forward and we are contemplating judicious price increases in selective sub-segments and to see how we can mitigate that inflationary trend which we are seeing.

As far as quarter one and quarter two are concerned, we saw deflationary trend on back of crude and agriculture. But with MSPs and the government reform coming in, and which is more linked to agri only, we are seeing inflation hitting us. CPI is already sitting at (+7%) and even WPI is seeing a growth of around 2% odd. So that we are looking at how to offset it by way of price increases.

Prasad Deshmukh: So, are there any efforts in terms of getting into contract farming or bypassing the APMCs completely so that cost structure reduces permanently?

Mohit Malhotra: We are evaluating. We have made a cross-functional team in procurement and we are seeing that in selective raw materials we can actually go to large scale farmers to bypass APMCs. But at the moment, not really, because still it's a very new Act and we have not come across suppliers with whom we can engage directly. So, at the moment, we are continuing with both. But that said, we have made a core committee and they are still thinking and evaluating the major raw materials in which we can go directly there.

Prasad Deshmukh: Got it. And the second question is on your new launches in food, these look like mostly in ready-to-eat or cooking essentials. So, could you throw some light on how you are selecting these categories? So, especially something like mustard oil is not something that one could have expected otherwise. So, how are you selecting these categories? And how do you plan to scale up these products in terms of distribution?

Mohit Malhotra: Right. We are looking at opportunities which are existing in the Foods business, which are high business volume, wherever we have the right-to-win, where competitive intensity is low and where the margins are higher. This is a three-way framework that we evaluate every category, that the scale of business should be high, competitive intensity should be low, our margins should be high, and we should have a right-to-win. So if all these three or four criterias are actually met, that's when we look at the category. And then we look at selective channels, that do we only get into ecommerce, and if ecommerce is a cradle of innovation or cradle where we can test market our brands, if successful, then we extend it to modern trade, and then subsequently to GT. So, we will do a proof-of-concept check on ecommerce, and if it does well, then we extend it. It's almost like a test pilot that you do when you launch it on ecommerce. As you saw, mustard oil is only available on ecommerce, the apple cider vinegar only available on ecommerce, baby range only available on ecommerce, Amla Kids was only an ecommerce launch. So that's what now you have got a test marketing platform available to yourself, so therefore there is no flipside of getting the stock back from the marketplace. And Amazon and other platforms also help you co-create with them and they are very keen to stock all the innovations that you may have.

<u>Arnab Mitra from Credit Suisse</u>

Arnab Mitra: Congratulations on a brilliant quarter. My first question was on the NPDs from your side. So, if you could help us in terms of the top five, six NPDs which you would say you have seen very good traction in, and where you see scalability to, let's say, a minimum threshold of Rs. 50 crores, Rs. 100 crores of turnover over a few years, wherever you have seen strong traction and you have moved from ecommerce to general trade, and you are seeing the rollout continuing there?

Mohit Malhotra: Right. So, in terms of NPD, if you ask me, our first five, six will be pet bottle is a very big one. So Real's entry into the drinks market with pet bottles, so I think that's doing significantly well. Second is our Health Drops are doing pretty well. Then third is our Health Juices are doing reasonably well. Then our Amla Plus Juice is doing good business. Pickles and chutneys, early days yet, but I think that's doing well. Apple cider vinegar, I would opine that's got established. So these are the big ones, which I should say, are doing reasonably well. So we have not really entered into very, very big categories. While it may seem that Dabur has gone into a lot of NPD, but we have chosen our battlegrounds very carefully. And wherever we go into bigger categories there we have been very channel focused and got into. For example, our Vedic Suraksha Tea, we have gone into tea category, but that's more of a kadha variant of a premium tea, which is adjunct to Dabur where we have a right-to-win is what we have launched. It's almost like a tea replacement by a kadha. So I think those are the big ones. And where the competitive intensity you will see that it is low, margins are pretty high for us, and we have a right-to-win here where Dabur brand lends its credibility to us.

Arnab Mitra: Okay. Thanks, Mohit, for that. And the second question was, when we started this quarter, at that time I think growth in Dabur had come back to a high single-digit kind of a territory, and you have ended the quarter at high teens. So obviously, you have gained some momentum through the quarter. While one would have assumed possibly that with the reopening of the economy, COVID, the fear kind of slightly going down, the traction in some of the categories may start tapering off. So have you not seen any tapering off in terms of the broader trends from things like Chyawanprash which are very immunity driven? And actually, would you say that the business is continuing to grow very well, because the absolute distribution profile of the category has changed quite a lot? And despite the COVID fear going down, it's becoming more of a necessity in the current environment.

Mohit Malhotra: Yes. So sequentially, Arnab, the business has definitely turned better and turn round the corner, I should say. But that said, most of our channels are doing well. So, our stockist channel is doing well, urban growth has come back, we are growing in urban by around 18% odd, our rural growth which is super-stockist, they are being a barometer of the performance, its growing at around 25%. Our ecommerce is doing well, our institution business is still down, HORECA is still down, it is declining by around 30% odd, 25%, 30%, is yet to come back. CSD is still declining and the CSD and HORECA contribute to 3%, which are very significant, especially to our Food business. Parlour channel is not doing well, therefore, skincare is under issue. Modern trade is only growing by around 1.7% because of the Future Group issues, and as the Future Group issues with Reliance gets sorted out, I think modern trade will also come back. Reliance is reconfiguring itself in the cash and carry, so cash and carry growth is also only around 10% odd. Had Reliance been doing well, 50 stores, etc., we would have registered a growth of maybe (+20%) there also. So, I think a lot of channels and a lot of categories like Home Care, Skin Care, traditional categories, and Hair Oils, they are still not firing to their potential. I think going forward, they should improve the channels and the portfolio. And healthcare business, which will come off a high base, will mute a little bit. But in my view, they should balance each other going forward.

Arnab Mitra: Mohit, and one last question on the international business. Any comments on how that is tracking? The non-Middle East recovery recovered very strongly, but would there be some element of pipeline in the non-Middle East part of the recovery? And Middle East itself, do you still see the current headwinds continue into the second half?

Mohit Malhotra: Yes. So Middle East, in the last quarter in which we saw the results, obviously, faced macroeconomic headwinds on account of crude oil prices being low. And therefore, having a pressure on the economy and the disposable income of the people, a lot of sops were withdrawn by the local Emiratis and by local Saudis, because they are the true consumers of our business. Plus, higher per capita consumers for Dabur brands, which are expats actually moved out of that market, that was an issue with our Middle Eastern business. But as we go along, I think we come off a low base now, our Middle East business should recover and the categories are also going back, as now lockdowns have been removed and people are getting used to the new normal. So, our Middle East business should be back on recovery from current quarter onward.

And besides Middle East, other businesses under pressure are the sub-Sahara business there which is Nigeria, and you would know the issues in Nigeria. But because of the COVID, I think Nigeria also gradually and slowly should trend back. Barring that, all our pockets of international business are doing reasonably well. So I don't think there is a problem. SAARC is already back, Bangladesh, Nepal, Turkey, America, UK, Europe, all the businesses are doing well. Sub-Sahara and Middle East are the only two pressure points, out of his Middle East would recover, and sub-Sahara should also recover in due course.

Tejas Shah from Spark Capital

Tejas Shah: Congrats on a good set of numbers. Sir, last September at the Analyst Meet we had in Gurgaon, you had revealed the strategy of power brand and then COVID happened, and like many other companies we also used tactically our brand into many health and hygiene platform. And now we are talking about changing the DNA of the company on NPDs platform. Now, if you can just elaborate, are the two strategies of power brand and the new NPD strategy, are they mutually exclusive or part of the same broader construct?

Mohit Malhotra: Right. So Tejas, they are not mutually exclusive, they are actually subsumed in one. Actually innovation is a strategy we said then and we are saying now, it's innovation across power brands only that we guys are doing, like Real is our power brand. So what you see innovation in Real, we have launched a Real pet bottle, we have launched a Real Frappe, we are launching everything under Real. Hommade is a separate brand altogether, so that is separate. But innovations are happening in Real. Similarly, in Amla, we have launched Amla Aloe Vera, we have launched

Amla Badam, so we are strengthening that only. In Hajmola we have launched a Hajmola ChatCola, we are launching a Hajmola LimCola, so we are strengthening the Hajmola brand. So, in Honitus also we are launching Honitus Hot Sip. And then there is a Dabur Healthcare brand under which you have a Suraksha Tea coming up and you have eventually MFD coming up, and then Honey variants coming up.

So, the power brands in NPD, they are not mutually exclusive. The power brands will grow on back of line extensions of these brands or brand extensions of these brands. So, it will be line extension, brand extension, SKU extensions of these power brands and, therefore, a brand which is Rs. 1,000 crores will actually become a Rs. 2,000 crores brand. And we will get synergies of investments also on back of this. So, in my mind they are just not mutually exclusive. They are actually a similar strategy. But what happens is, when you enter into a new category, which was the opportunity presented to us in COVID, like sanitization became very big. Sanitization could not be subsumed under our Odonil brand or a Odomos brand or any other, so therefore it called for the creation of a new brand called Dabur Sanitize, which would cut across the home hygiene and personal and home hygiene. That is why we created that brand. It is an opportunity, we cannot be slaves to one strategy that we save, the environment is so dynamic, so we have to keep continuously changing or tweaking our strategy. That is what we have done during these times.

Tejas Shah: Fair enough. Sir, just a follow-up on that. Dabur brand is now in from pickle to apple cider. So how should one look at Dabur as a brand architecture? And how is this strategically different from what Patanjali attempted three years back and then they saturated in their growth as well?

Mohit Malhotra: So, Dabur stands for health basically for us. And this is the area where Dabur will get extended. Apple Cider Vinegar is also like a health platform, and this will only strengthen the quality of Dabur as we get into it. It is a little different than Patanjali. It is our execution excellence which actually makes us different from Patanjali. And to my mind, Patanjali also did a very good job out of mainstreamizing Ayurveda. I think their execution and their funds management somewhere led to the demise, especially acquisition of Ruchi Soya now when there were cash flow problems that the company is facing and the quality issues which came as a big hurdle to their growth. Otherwise, in my mind the strategy was not flawed, it was okay. That is my take as a professional.

Prakash Kapadia from Anived PMS

Prakash Kapadia: What I was trying to understand is, despite increased contribution from the healthcare portfolio and especially Chyawanprash, our gross margins have not actually seen an increase. So is it because rural contribution from other products has increased so that has some bit of offset this gross margin because I guess rural would be low LUPs and lower margin? Am I reading it correctly?

Mohit Malhotra: No, India gross margins have gone up 100 basis points, Prakash, so that's a right analysis on the count of product mix in favor of healthcare. It is the international business wherein the gross margins are lower because Middle East, the high margin business did not do well. If you look at India business, gross margins have indeed gone up by 100 basis points.

Prakash Kapadia: Right. And on the healthcare segment, on the OTC and the ethical side, which is largely chemist channel focused, is there a lack of distribution from, I think, 2 lakh kind of outlets which we had earlier and can you give us some sense on the mix between ethical and the OTC portfolio in terms of value?

Mohit Malhotra: Right. So, as far as the distribution is concerned, Prakash, we have distributed, like you rightly identified that, the distribution essentially is with chemist outlets. So ethical portfolio is distributed more in Ayurvedic chemist outlets and the OTC portfolio is more available in the allopathic chemist outlets. So, Ayurvedic chemist outlets are much fewer in number as compared to allopathic chemist outlets. Auyrvedic chemist outlets will be roughly around 100,000 is where we go to, it has gone up drastically. And our OTC chemist outlets are in the range of around 275,000, which is going up from 245,000 to 275,000, and we are working on the same. So, we are working on special channel programs across 4,000-5,000 chemist outlets and trying to do visibility there to drive demand, even in OTC chemist outlets. There was a second part of your question?

Prakash Kapadia: Some value mix between OTC and ethical portfolios for direction, what was it historically, what is it now?

Gagan Ahluwalia: OTC is a little larger, and it is growing at a faster pace. And I think our presentation has the numbers, so you can check from there.

Mohit Malhotra: Yes. So ethical business will be growing at around 26% for us, and OTC business is growing at around 55% on that business, which is almost, I think, double the size of our ethical business. And what we do is we guys cross pollinate products from our ethical business, as they become scalable, we bring them on to OTC and make it available in larger set of chemists outlets. And that's how we grow, before it becomes available in grocery also as it becomes a FMHG.

Aditya Soman from Goldman Sachs

Aditya Soman: So first, just quickly, any sense on how sales have been posted the quarter, particularly in October as we sort of enter the festive season? And secondly, you launched several new products on this Amazon Big Day and some of these other ecommerce events, how has the response been to those?

Mohit Malhotra: Yes. So I think the business, I can't tell you the exact numbers actually, but the business is trending okay as we enter into the festive season, so it's okay, because this time Diwali is later, so therefore we did not stock too much in the last quarter and the stocking is happening now in this quarter because Diwali has got postponed. And Amazon Big Days have been really good for us for ecommerce. And as I was mentioning in my con-call address also, we have gained market share across our different categories on ecommerce and we are gradually slowly looking at increasing our market shares vis-à-vis offline on ecommerce portals as well. That is why we are offering a lot of NPDs which are first-time e-comm as exclusively to either Amazon or to a Big Basket so that we are able to get traction from them. So, so far so good, I think October also things are only improving from what we saw in the second quarter.

Shirish Pardeshi from Centrum Broking

Shirish Pardeshi: Congratulations for the excellent execution and solid volume growth. My larger question is that in case of when I look at last ten quarter performance, the revenue growth and volume growth doesn't fall, and in between you gave also the explanation that there is a loading for the season which happens and the retail sales happens in the subsequent quarter. Now, does that mean that if the strong growth which we have seen in quarter two, we have more challenges on our hand for the winter portfolio also, if the winder doesn't pan out? And what is your thought on the core categories, you sound a bit cautious saying that health supplement or OTC may not repeat in the similar range of growth.

Mohit Malhotra: Sorry, Shirish, I did not get the first part of your question. Can you please repeat, again?

Shirish Pardeshi: I am saying, in the past you have been guiding us that there is always a difference skewness and pattern in terms of revenue and volume growth. And I think last year fourth quarter you explained that there is a seasonality factor where the loading in the trade happens in the beginning and then subsequently the retail sales happen in the next quarter. So is that one should read from this quarter number?

Mohit Malhotra: No, not really, Shirish. Now, as I told you, Diwali has got shifted, it has got postponed, so the loading which used to happen in the previous quarter has not happened because of postponement of the festive season, so that we did not do that loading. We have done some loading, but the loading has been relatively much lower. Despite the loading, we have corrected the pipeline by around nine days, as I told you, so we have corrected the pipeline by nine days. So there is no loading of increasing the pipeline that the secondary sales will happen later than the primary sales. So that is not the case this time in the quarter.

Shirish Pardeshi: Mohit, I understand what you are saying, my bigger question and I am wrestling in my mind saying that 50% growth on a Y-o-Y in one quarter, what has changed? Is the industry dynamics have changed or the regional players like Zandu, Baidyanath, these people have not grown and that is where we have got the market share? Or is the whole market is changing? I mean, you explained partially saying that the penetration level has gone up by a percentage. Now with 1 percentage increase our sales has gone up by 50%. And if the penetration goes another 5%, would we grow 5x?

Mohit Malhotra: Absolutely, if the penetration goes up by 5%, we will definitely grow at 5x or 10x for all you know. So because our market shares are only 60% today in Chyawanprash, so as the penetrations go up I think the market leader is the one who actually grows. But that's not the reason why our growth is there. Health supplement growth of Honey and Chyawanprash is only one part, or I should say, only a 10% part of the picture of the growth that you are witnessing. If you see the entire portfolio of Dabur, there is a growth across portfolio. So, I would not say that it is only health supplement, it is OTC portfolio which has grown, it is ethical portfolio which has actually grown, it is NPD which has come in, even the foods portfolio in domestic, as I told you, has grown by around 8.5%. Our oral care portfolio has grown by 24%, our shampoo portfolio has grown by 18%. So it's actually the GTM and the innovation and a lot of other strategy pillars that we have put in place are actually all firing, and the execution engine is doing fairly well for the company. And plus, to add it up, there is a tailwind in healthcare, which obviously is the case, which is leading Chyawanprash and Honey growth to where they are.

Shirish Pardeshi: You are not worried about the competition who has jumped in, in chyawanprash and honey?

Mohit Malhotra: No, no, we are very worried about it. And I think we should be very worried and not be very complacent about it, but there is little I can do for it. I think there is only a brighter side of this to look at that they will improve the penetration levels in the market, and we will do whatever it takes in the marketplace to protect our turf. Competition is a part of the landscape and we can't do much about it. So, except that we will keep charting our path of innovation and improving on premiumization and creating economy portfolio so that we are able to utilize our rural infrastructure that we put in place which is the entry barrier for people to come in. And nobody can take away from Dabur's equity and legacy and heritage that we have in the consumers' mind. If an edible oil company launches a chyawanprash, I don't know whether a consumer wants to buy an oil in honey or oil in a chyawanprash, or how does it go in the consumers' mind that is for you as consumers to choose.

Shirish Pardeshi: Well, you said nicely. My last question, if I may squeeze in, on oral care. For many quarters you have been beating industry numbers, what is working in your experience? And now you have got two more ammunition which is last year you had Ayurvedic launch and then now you have Dant Rakshak and you have now Clove which is coming. So, would you be able to tell us what is changing in the market? I mean, obviously, non-white segment is picking up faster as a natural base. But then how long do you think this trend, this cycle will last?

Mohit Malhotra: Yes. So, I think in oral care category, if you see the Natural and the Herbal sub-segment is the one which is growing, as I was telling you, 8% versus 5%. And that's the case, and this has become almost like 27% to 30% of the overall market which never used to be there. So definitely there is a tailwind, there is a inclination of the consumer to shift out from whites and shift into herbal, natural and ayurvedic kind of platform, because they are the value-added forms. And do I want to use a calcium carbonate or do I want to use a calcium carbonate plus a clove or a manjishtha which is much more effective when you do clinical trials and when the efficacy happens. Obviously you would want to a value added, and value added is we are coming at a cheaper price as compared to the calcium carbonate. So, it is cheaper, better value to the consumer which is what is working here, and working for the entire segment. Dabur is just trying to plug the gap that we are seeing, geographical gap and also the benefit positioning gap, and also the consumer gap.

So that's what, we will be very soon wanting to revamp our gel portfolio which we launched as Dabur Red Gel, which didn't do very well but we are completely revamping, in next quarter you will see a revamp of Dabur Red Gel happening. And we have got all these products, somewhere I think either the execution or the proposition did not work but then we will keep improving. Like I keep telling you, progression is the way to go and not perfection, we will keep progressing and keep repositioning the brand since the time they do well. Like, now Lal Dant Manjan, we had written it off, it is a tooth powder category, not growing at all. Since we started investing we have seen a LDM growth of around 30% coming on manjan. So, manjan is back, because rural is growing and that is only enhancing the equity of Red.

Shirish Pardeshi: In fact, you tried to partially answer my question on the LDM. The Dant Manjan business, you have purely grown because of your investments or is there the downgrading which is happening towards rural consumers?

Mohit Malhotra: No, it is really not downgrading, it is a habit of the rural consumer to use the manjan format, actually if you ask me. If you look at the price point, if I look at, the price point of manjan is as much as the price point of the toothpaste, format being different. So the price points are very similar. So actually, it could be a little more expensive than toothpaste. So there is no question of downgrading, it is a habit that the consumer is used to using a manjan in rural areas and urban consumer is used to using a toothpaste, and he can upgrade. And our margins are higher into paste as compared to manjan. But that said, manjan is a habit and it's a very effective format. So therefore, if you have seen the recent advertising of Dabur Red, we are promoting the use of powder as a sprinkler on paste also, on white paste. If 50% of the population is using a white paste, we are telling them to sprinkle our Dabur Lal Manjan as a herbal supplement on top of that pure calcium carbonate toothpaste and make it more effective. So that's the new communication that we have put on place.

Naman Jain from HEM Securities

Naman Jain: Congratulations on the goodness of numbers. I just wanted to ask you about the supply chain and the management that you guys are doing. So, I just wanted to know how many new suppliers have you added in this quarter and what is your target going ahead to reach new demographies and geographies?

Mohit Malhotra: So, supply chain vis-à-vis COVID time has actually improved now. So, I think there is no disturbance happening in our supply chain. Only some localized lockdowns happened. And besides that, I think it is complete streamlined operation that we have, Naman. We have added a lot of third-party vendors in our supply chain base in terms of vendors, they must be around six, seven vendors that we may have added during the course of the quarter.

Naman Jain: Okay. And just one more question. Can you tell me about the pipeline of the new products that you are going to launch in the coming quarters? I mean, how many are there in the development phase?

Mohit Malhotra: Right. As I told you, there is no pipeline as such, first we have to establish the products that we have already launched. And as we go along, the percentage NPD will be in the range of around 4%, 5% for us going forward quarter-after-quarter. I can't give you the list of products and the numbers which we are working on.

Harit Kapoor from Investec

Harit Kapoor: Good evening. So just two questions, one was on the hair oil side. If I look at the decline of 6%, if you could just give us a sense of what's happened there? Is it a downgrading impact you are seeing in the category or something else?

Mohit Malhotra: Right, Harit. So in hair oils there are two sub-segments for us. One is the perfume hair oil segment and the coconut oil segment. In coconut oil segment which is growing we have gained market share by around 10 basis points there; in the perfume hair oil segment if you discount the CSD and the institutional business, then our business is almost flat and in line with the category, category of perfume hair oil declined by (-1), but our sales is almost flat. That said, we have lost around 10 basis points in perfumed hair oil segment, our flanker brands are doing well which is Sarson Amla has grown by 10%, so they are doing better. So it is clearly illustrating that there is a downgrading happening. That's why you find a lot of economy-based companies doing better than Dabur Amla. But our flanker brands continue to surge well there.

Harit Kapoor: And the second part was on distribution. So if you could just talk about the first half, what the distribution expansion has been like?

Mohit Malhotra: So, distribution expansion, so we are very much on course on the strategy increasing our distribution. So we have gone up from last year 1.2 million, we have gone up to around 1.3 million, and next year we will go forward to around 1.4 million outlets totally in urban and rural. In terms of number of villages, we lost a couple of villages because we could not serve them due to the COVID impact. But by end of the year we will go to our targeted number of 60,000 villages. And for next couple of years, we will make a plan to take up the 60,000 to around 80,000. That said, we are now appointing village level entrepreneurs which is like Village Yoddhas what we call them. And we are appointing them in some remote villages where there is no threshold level of business coming in. As and when we appoint them, they will become our inventory points and that's where we will try to do some demand generation and gather inventories. As the business scales up, we will convert them into a sub-stockist. So that's what we are doing. Also what we have done in distribution is, we have split our HPC line into two parts, HPC 1 and HPC 2, because there are 450 SKUs which are carried by our home and personal care guys to give a focus, one, we have made it a hair care centric line, and other, we have made it the oral care centric line. That's what we are dividing. We have started our pilot project in one or two urban markets; and if successful, then we will extend it in the other urban markets also.

Vivek Maheshwari from Jefferies

Vivek Maheshwari: A couple of questions, please. One was comment about A&P spends. You are looking at best-in-class 12% number, is that what directionally what you want to achieve or, let's say, or in the medium term I am guessing that there is a portfolio, a difference also, so that 12% number may not be comparable as much. But incremental is it what you are kind of planning to invest at a broader portfolio level?

Mohit Malhotra: Yes, so that is the number that we are working towards, and we know that we are at around 8% so we should gradually slowly increase our advertising spending, looking at our diversified portfolio I think we have got too many mouths to feed and too little resources. So therefore, we have to get into a higher degree of investment for demand generation. And our products are also pretty seasonal, so I think we can do it. So we had to get the monies out from other avenues of cost line items. And that's what we are working, therefore, Samriddhi and all that. So therefore, going forward in medium-term, our advertising spend will definitely go up vis-à-vis last year, Vivek. I don't know by what horizon will I be able to achieve 12%, but we will at least make an attempt of investing higher amount. Lalit is right here, he is my guardrail for increasing the advertising investment, as and when he allows me, I will do it.

Lalit Malik: Yes, maintain efficiency and the returns of that.

Naman Jain from HEM Securities

Naman Jain: I guess, I just wanted to ask, what is the volume growth in the multiple segments that we have? Can you give me the specific about each of the segments and the volume growth?

Gagan Ahluwalia: Sorry, Naman, we don't really disclose category wise volume.

Richard Liu from JM Financial

Richard Liu: Mohit, just one broad question, in the context of the way higher growth that you did for Q2, versus what you sort of projected and alluded to earlier, and your prognosis of what you have planned for the months ahead, how would you align the 5% to 6% growth objective for the rest of the year that you had been spelling out thus far?

Mohit Malhotra: Richard, we have not spelled out a 5% to 6% objective for the balance of the year. But that said, I can't give you any sort of a guidance on the numbers going forward, the situation happens to be very volatile and continues to be in flux with COVID second wave kind of hitting us. So one really doesn't know as to how it will pan out. But just to let you know, there is a recovery and there is a recovery that we see across all channels, across all categories, especially with depressed categories like HPC and foods are also seeing a recovery now coming back and we are seeing growth. As far as health supplements and health is concerned, we are now coming to a quarter of winter which is of a high base. So those exponential growth that we saw may not come in. But that said, it can get compensated by the HPC and foods portfolio. But I will not be in a position to give you a guidance because the situation is very volatile. I would also really not know as to how the business will turn out to be. But we will target ourselves to deliver a healthy growth.

Ayaz Motiwala from Nivalis Partners

Ayaz Motiwala: Sir, my question to you is on the point you alluded to, in general, the categories are a little bit of downgrading and the value segments of some of your business is taking off, in particular hair oil, and a couple other categories that you called out. So in terms of the contrast duration that we have talked about in the last few years, would you be sort of tweaking your strategy to launch some of these, as you said, flanker brands or warrior brands in categories where your core is very strong but you have some customers downgrading or competition nibbling to your market share?

Mohit Malhotra: Right. The trend that we see is definitely downtrading across our segments. So if you look at the food business also, so a 200 ml pack has gone down to 150 ml, Rs. 20 pack to a Rs. 10 pack, so we have launched LUPs or low unit price points or accessible price points. In toothpaste also Rs. 20 has gone down to Rs. 10, Rs. 50, Rs. 100 has gone down to Rs. 10. Hair oil also we have a Rs. 10 price point. And Rs. 10 and Rs. 20, these are cash rings which are very important for us to ride our rural infrastructure. And in rural business, which is only trending up at around 46% of our salience. It's important for us to augment capacities in these accessible price points and that is what we have been doing. Although these will be margin dilutive, but that's okay for us because it will provide us with the scale and the heft on the top-line and that will leverage our other line items as we are able to scale up the business. In some larger healthcare categories, it is not very easy to launch LUPs because the ticket size required is big. But we are looking at improvisation of formats, which permit us to launch sachets or tablets which are more at a Rs. 10, Rs. five price points, yes.

Ayaz Motiwala: And sir, just to follow-up on the same, downtrading related to modern trade, are you getting requests from specific sort of modern trade companies to have uniquely designed or uniquely package sized products for them to compete in the marketplace? And how are you sort of treating this versus a possibility that they would be potentially launching white label brands any which ways as a way of doing business?

Mohit Malhotra: Right. So far we have not seen a private label threat coming in modern trade, except for a couple of categories like home care, which are more commoditized. Rest of the places we are not seeing a threat of white label happening. That said, there is a channel called cash and carry, which is almost like a surrogate of wholesale, there it's important for the company to launch different SKUs or different products so that it doesn't undercut your regular GT. So we are trying to promote our non-KVIs there to ensure that undercutting doesn't happen there. So that is the need of developing new products for those segments of business.

Ayaz Motiwala: I really thank you very much. And it's been a very, very open and transparent conversation that you have all through this meeting and in the last few weeks. So really appreciate that. Thank you very much. And Happy Diwali to the team and all the very best. Thank you.

Vivek Maheshwari from Jefferies

Vivek Maheshwari: Vivek here again. I just missed on the A&P bit, so basically I just heard halfway, so you are talking about reaching 12% at some point of time?

Mohit Malhotra: Yes, correct. So Vivek, we want to inch up to that level, but it will not be immediate, it will be very slow and gradual process of inching up as and when the P&L permits us. Like this time P&L permitted us therefore you saw growth over 50%. So we can't erode our bottom-line for increasing our A&P, so we will have to etch out the right balance between the operating margin and increasing our A&P spends also. So, it will be a very prudent approach in the way that we increase. Principally, we are aligned as a philosophy to increase our A&P and investments behind our brand, and then the entire management committee is completely on board. But we will have to see the situation of the business so that we don't erode profitability in the bargain.

Vivek Maheshwari: Right. And Mohit, what will be roughly the BTL today in terms of as a percentage of sales?

Mohit Malhotra: BTL for us will be in the range of around 8% to 10%.

Vivek Maheshwari: So that will go down as the ATL goes up?

Mohit Malhotra: No, what you see, what is visible to you, Vivek, is only ATL for you, which is only 8%. The BTL which is there, it is getting knocked off from the gross sales as to the new IndAS.

Vivek Maheshwari: I understand that part, but I am just saying that as you push up ATL, the 8% BTL looks very high to me. So, does that mean that as ATL goes up BTL starts coming down?

Mohit Malhotra: Yes, BTL actually is driven, that's a philosophy and principally sounds right, but BTL is more driven by competition intensity in the marketplace. If you go to a wholesaler and there were two companies and one giving a 12% scheme and if one doesn't want to give a 12% then you lose out the wholesaler investment to the competitor. That's not what we want to do. So BTL is more tactical in nature and ATL is more long-term and more brand building in nature, so they cannot replace each other. Ideally, in P&L we want to replace it, that's what every management does. But I think the forces which work for each one of them are very different. One is a demand building force and one is a supply force. So they can't actually replace each other. You know what I am saying.

Vivek Maheshwari: Right, sure. The other question, Mohit, I have is on the sanitizer sales which has gone down from Rs. 80 crores to Rs. 12 crores for you between first and second quarter. Is there a pullback in the industry revenue pool also you think?

Mohit Malhotra: Pull back in industry?

Vivek Maheshwari: Revenue pull basically.

Mohit Malhotra: Right. So there is a pullback, because so many players are doing it. But I think consumer habits are changing, Vivek, if you actually ask. Consumer is not used to this kind of a disease or infection now. So the use of sanitizers has actually gone down and the use of liquid soaps and soaps has actually gone up in the marketplace. So it was a initial thing to carry sanitizers, but now we don't see so much of use of sanitizers, that's what. And I think there is a industry pull back also coupled with it, because people have seen the margins eroding here, because so many players have come in and the prices are falling.

Vivek Maheshwari: Sure. The reason I had asked about sanitizer was, there is a drop from Rs. 80 crores to Rs. 12 crores, does that worry you also from a healthcare perspective, given that as customers or consumers become more confident, the healthcare may not necessarily be in terms of the quantum, but there can be a declining revenues, given as consumers become used to the new world.

Mohit Malhotra: No, not really, it doesn't worry us so much because the healthcare penetration in India is so low and there are categories which been there, here for so many years. It is not like a sanitizer came in and it will blow out, it's not like that. Chyawanprash and Honey have been there as a part of our tradition, and they will never vanish, Vivek. And therefore, we are getting into more and more better formats under the same power brand strategy, so that it doesn't dissipate or have a same thing like a sanitizer. I don't think so that's the case with our overall healthcare portfolio.

Akshen Thakkar from Fidelity

Akshen Thakkar: Sir, just a couple of questions from my side. One was to understand the gross margin moment this quarter, maybe just in standalone. So you have seen a 100 bps improvement, while mix has improved quite a bit. So just trying to understand that does the 100 bps fairly reflect the mix improvement or was there some headwinds we faced this quarter, which would have impacted margins?

Lalit Malik: So, I think the margin improvement of 100 basis points that we saw on the gross margin for India standalone is primarily because of the favorable brand mix. When I say the favorable brand made, that means the sale of our juices were lower compared to the high profitable products like healthcare, so therefore the brand makes has added to the profitability. And at the same time, there have been some deflationary impact also seen, because of crude, etc., on the raw material costs, so that has also added. And there is a carryover of price increase that has also given us a favorable impact to some extent. And as a result of it, our margins have improved by 100 bps.

Akshen Thakkar: Okay. The next question was for Mohit, Mohit when you say that you want to increase A&P, let's say, to double-digit and your construct, like you have maintained over the last year, year and a half, is to maintain margins. So where does the cost saving come from? Are you looking at better gross margins in the business or are you looking at taking out cost?

Mohit Malhotra: Taking out cost. I think there is a lot of flab in the organization, the other expenses which account for roughly around 9.6% in the overall P&L and there are other elements of cost, staff cost is there, delayering is there, S&M is there, so there are a lot of line items which is where we can get the saving and it can be ploughed back into this thing. That is why we have launched the Samriddhi project which is looking at end-to-end value chain of the company and trying to take out the cost elements and get the savings from there.

Akshen Thakkar: Okay. And the last question from my side was, you mentioned that your secondary sales in the quarter was higher than the primary sales. Any way to quantify that or maybe just help us how the channel inventory was in June? And how does it stand right now?

Mohit Malhotra: So, the channel inventory last year this time was around 24 days, it has gone down to around 15 days, there is a nine days improvement in the channel inventory across sub-stockist, stockist, wholesale, across the board inventory levels we have consciously brought down to a level of around 15 days, which is almost the best-in-class now. And we are trying to get into CRS, which is Continuous Replenishment System, with keeping a 12.5 day of inventory, and whatever the secondary is there, that's how the projection can happen for the primary.

Akshen Thakkar: Okay. And this 15 days would have been something similar in June quarter as well?

Mohit Malhotra: No, it was the substantially higher. We have corrected the inventory from June to now by around two to three days. Rest we corrected in the June quarter itself.

Krishna Sambamoorthy from Motilal Oswal

Krishna Sambamoorthy: Congratulations on a very good performance. Mohit, my question is regarding the something that is highlighted in annual report, but did not elaborate significantly, which was on project RISE and the cluster-based approach. I can understand that part of this is already being shown in categories like Dant Rakshak. Can you elaborate a bit and how significant will this be as a part of your future plans?

Mohit Malhotra: So, I think RISE is a complete change in the way we guys are operating. RISE, while it means regional insights and speed for execution, but it's also a structural change in which we operate in the organization, we are trying to empower our regional heads which are east, west, north, south, and trying to create an organization under them, wherein we will identify innovations and roll out the innovation, also looking at state level and region level P&L to increase the business in different regions. So that is what we are trying to do as a part of RISE. So it's actually pretty integral to the way we are working. And the organization is also getting structured so that we are able to empower the channel heads as more P&L heads rather than only sales head.

Krishna Sambamoorthy: Okay. But would something like a Dant Rakshak also be a part of this structure?

Mohit Malhotra: Yes, absolutely. Because the Dabur Red is actually very strong in south and weak in North India, in north Patanjali is higher. So it's basically a north initiative that we have rolled out with Dant Rakshak. And it's not launched in South India. It's not a national launch, it's a regional launch for us.

Krishna Sambamoorthy: And there will be many more to come on this?

Mohit Malhotra: Absolutely. So we are identifying products, like for example, if you see in the product list, we have also got Nilavembu Kudineer, which has been launched in South India, this is also a South India launch. What we launched in North India is called Kadha, what we launched South India is Nilavembu Kudineer which is basically a RISE initiative for us.

Krishna Sambamoorthy: Okay. And just similarly, does your healthcare portfolio have more of a potential here or do you think that HPC also you can do more work on this as a part of project RISE?

Mohit Malhotra: I think across the board. So we are trying to identify insights across HPC, HC and foods, all the three pillars. And also empower the organization leaves there in different regions, and also HPC, HC and food leaves. Because we got all the three segments in sales also. So that is how we are trying to create, so it is across the board.

Gagan Ahluwalia: Thank you, Stanford. Thank you all for your participation in this conference call. Due to paucity of time, if we have not been able to answer all questions, we can answer them offline, please let us know. A recording and transcript of this call will be available on our website soon. Thank you and have a nice evening.

Mohit Malhotra: Thank you very much.