



“Dabur India Limited Q1 FY2016-17 Financial Results
Investor Conference Call”

July 27, 2016

MANAGEMENT

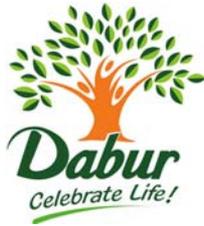
MR. SUNIL DUGGAL - CHIEF EXECUTIVE OFFICER

MR. LALIT MALIK - CHIEF FINANCIAL OFFICER

MR. ASHOK JAIN - VICE PRESIDENT(FINANCE) & COMPANY SECRETARY

MR. SAIBAL SENGUPTA - VICE PRESIDENT-FINANCE

MRS. GAGAN AHLUWALIA - SR. GENERAL MANAGER-CORPORATE AFFAIRS



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Gagan Ahluwalia:

Thank you. Good Afternoon, Ladies and Gentlemen. On behalf of the management of Dabur India Limited, I welcome you to this conference call pertaining to the results for the Quarter-ended 30th June, 2016. We have present here Mr. Sunil Duggal - CEO, Mr. Lalit Malik - Chief Financial Officer, Mr. Saibal Sengupta-Vice President, Finance and Mr. Ashok Jain-Vice President, Finance & Company Secretary. We will start with an overview of the company's performance by Mr. Duggal followed by Q&A Session. I now hand over to Mr. Duggal.

Sunil Duggal:

Thanks, Gagan and Good Afternoon, Ladies and Gentlemen. Welcome to Dabur India Limited's Conference Call pertaining to Results for the Quarter-ended June 30, 2016.

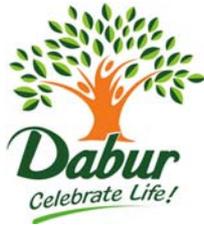
During the quarter, demand decelerated further with most categories slipping into low single-digit or negative growth. While the slowing demand scenario posed a major challenge, the competitive intensity remained high. Further, regulatory changes regarding declaration of PAN numbers added to the uncertainty and stress in the Wholesale and Retail Channels. This particularly impacted some of our core markets during the month of June.

Dabur consolidated sales increased by 1.2% to Rs.1,924 crores and profit after tax by 11.8% to Rs.293 crores.

The company has implemented the new accounting standards and this is the first quarter we are reporting our financials under Ind AS. As you would have seen the change is mainly on the sales line which has been restated by netting off some of the promotional and trade spends. There is no significant impact on the net profit of the company.

The Domestic FMCG business reported flattish growth; however, volumes increased by 4% driven by aggressive consumer promotions and below the line promotional spends. Within HPC category, Oral Care performed well with 11.6% growth, led by double-digit growth in the Toothpaste portfolio where Red Toothpaste and Meswak continued the strong momentum driven by consumer advocacy and focused marketing activities. Our market share in Toothpaste category reported increase of 200 basis points over same quarter last year. Hair Oils posted volume growth of 5% even though sales declined by 3% in value terms. This was also on the high base of 13% growth in the first quarter of last year. Shampoo category continued to be under pressure due to high competitive intensity; however, the decline reduced as compared to previous quarters. In spite of this, our market share in Hair Oils showed an improvement over last year and share was maintained in the Shampoo category.

Health Supplements reported 7% growth in volumes while sales were flat in value terms. Glucose performed well growing in double-digits while Dabur Honey showed signs of revival posting volume growth of 5%. We will continue to focus on taking our brands up the value chain and introducing innovative extensions. In line with this strategy, we have launched Honey Fruit Spreads in four exotic flavors.



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Digestives including Hajmola and Pudina Hara had some decline as categories remain depressed and consumer spending was low. While OTC and Ethical portfolio was under pressure Lal Tail performed well. In spite of near term pressures, we will continue to invest behind our Healthcare portfolio in terms of strengthening the distribution, building the medico marketing channels, launching innovative products and promoting more brands on the OTC platform.

Foods business reported growth of 4.3% on the back of high base of last year. Volumes increased by 7% in the category. Our market share in Juices and Nectar category reported an uptick coming back to same levels as last year. We have introduced an innovative range of sparkling Juices under the brand Real VOLO. Real Mousambi has been added to the Juices and Nectar range.

The International business reported growth of 6%. Organic International business grew by 6.8% as political disturbances continued in the MENA region. The acquired business of Hobi Kozmetik recorded near 15% growth while Namaste posted flat sales during the quarter. SAARC markets reported growth of 22% with strong performance of Nepal and Sri Lanka markets.

On the profitability side, the operating margins improved by 125 basis points going up to 18.1% in Q1. This was on the back of expansion in gross margins of around 100 basis points. The ratios reflect some changes due to the Ind AS as part of our A&P spends have been netted off from sales. On an overall basis, the A&P spends remain stable as compared to last year.

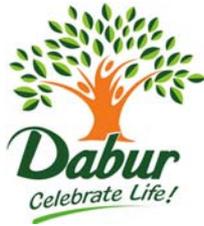
While the demand scenario remains challenging we continue to focus on profitable growth of our business and brands. We will be investing around Rs.500 crores in CAPEX this year which includes a new plant being set up in Tezpur in Assam costing Rs.250 crores. Along with this significant investments in R&D, new product development and distribution networks will take place. With the economy picking up and good monsoon having a beneficial impact, we are hopeful of recovery in demand in the second half of the year.

With this I now open the Q&A and invite your Questions. Thank you.

Abneesh Roy from Edelweiss

Abneesh Roy:

My first question is in terms of pricing. In Q4 in the standalone business there was 2% price growth and 7% volume growth. This time the pricing growth seems (-4%). So, if you could take us through each segment for example, Oral, Skin, Foods etc., where there has been pricing decline higher?



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Sunil Duggal: We have not resorted to direct price decrease. There has been nothing as far as I know in entire portfolio in terms of MRP reduction. What we have done is, we have upped the whole promo spends in terms of consumer promotions in particular, also trade promotions. The India business consumer promotions are almost doubled on Y-o-Y basis and now it accounts for a significant part of the A&P, which you do not see in the published results because it is charged off to the revenue line. So, the consumer promotions have been pretty secular and anything in particular which has been higher, but they have been across the board because the stress in terms of demand was felt everywhere and we resorted to consumer promotions to drive at least the volume growth.

Abneesh Roy: Sir, in terms of promotions, your gross margins are up 100 bps and...

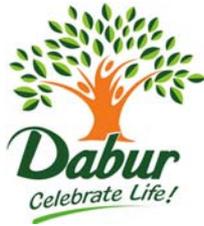
Sunil Duggal: True, because the material cost dipped very sharply. In the standalone business, the material cost changed by 164 bps. So that is a massive change. Part of it will be passed on in terms of consumer promotions, but also we shrank the media part, the ATL part did shrink like around 10%, which was then reinvested in promotions. And also I think part of the gross margins we put into the A&P line, you see only around 50% of the total A&P spends in the published results, the balance is all charged off either to COGS or to the top line. So that is not visible, but we can give you some granularity about these trends if you want.

Abneesh Roy: Sir, coming to the ATL which is down 10%, we are seeing some of the other players also cutting down on ATL this time. So is not that dangerous, because on the other hand, the herbal player Patanjali is spending so much and then you are cutting back. But you are fighting that with promotions, so, from a medium longer term, is not that bad for the brand?

Sunil Duggal: I agree with you, I do not think it is good for the long term health of the brands. We see this as a short-term tactical move. I think the category degrowth, which were far below what we expected in this quarter and also the stress which came out of the trade from that PAN number issues made us do the promotional thing very quickly and we did that out of the ATL spend. I think going forward, we would not reduce the ATL spend, at least that is the mandate I have given the marketing team, and we will review this very closely that we are not underinvesting behind the brands. So we would like to keep the ATL spends on a flattish trajectory as compared to last year while obviously increasing the spends in promos.

Abneesh Roy: Sir, coming to demand side, in Q4 con-call, you had said if monsoon is good, from Q2 you will start seeing recovery. Now, monsoon clearly has been reasonably fine in most areas. So, are you still holding on that in Q2 there will be recovery or now the expectation is more a second half?

Sunil Duggal: The earliest we will see recovery would be around September when the monsoon is done with and the harvesting is beginning and people are now seeing visibility in terms of money.



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Actually, the issues are far more complex; it will depend upon the prices which the farmers can get from the crops, and if there is a sharp dip in the prices consequent to a record harvest, then the incomes may not grow that much. So there is a lot of moving parts here, but I think the biggest driver of rural consumption is not monsoon or anything else, it is actually stimulus given by the government. So, we will be watching that very carefully as to whether the stimulus increases or whether it remains very tight as it has been. So, we are still definitely looking at improved demand from rural which has really come off big time. Whether it will go back into robust levels...still uncertain. Actually it does not look very visible even as of now, we will have to wait a little bit longer I think for the demand to recover, because the stimulus does not seem to be coming with the intensity at which we thought it might.

Abneesh Roy: PAN card issue, others have not highlighted. If you could tell us what exactly is happening -- is it a short-term thing or it can continue to impact?

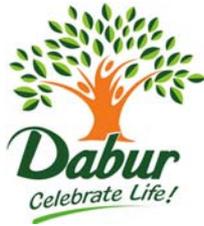
Sunil Duggal: It was largely concentrated in UP and MP and we are disproportionately present in these markets. So, it was more concentrated there rather in West and South. There was some confusion in the minds of the trade whether cumulative purchases of Rs.2 lakhs will make it mandatory for them to show a PAN card. So our interpretation was that only a single transaction above Rs.2 lakhs makes it mandatory, but the trade felt otherwise and there was a lot of confusion. So, I think everybody decided to play safe, thinking that cumulative spends of Rs.2 lakhs which of course every trader will have to do will force them to declare their PAN card which will let loose a can of worms, if you know what I mean in terms of scrutiny by the tax authorities, etc. I think it was disproportionately high, even in our business, we did not see much impact in south and many other parts of the country, but we did see definite slowdown in wholesale offtake and these are very wholesale-driven markets. So there was definitely an impact on us.

Abneesh Roy: Has it been resolved? Does it impact your sales at the outlet level or it is largely at the...?

Sunil Duggal: What has happened is that the wholesale has resorted to obviously a large amount of destocking and now there will be a workaround, either they will declare their whole incomes or something else. So it would not impact as much as it did in the first quarter, but I think the impact continues as we speak, perhaps tapering off, but it is not going to just vanish unless there is a clear understanding that this reflects only single transactions and not cumulative transactions.

Abneesh Roy: Final question on Patanjali. In Honey, you seem to have done well. So is it also because of some of the new launches because that...?

Sunil Duggal: Not really new launches. We are in the fag end of the quarter. It is largely because we have aggressively promoted the brand, we have given 20%, 25% free, which has narrowed the price



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gap. Also, I think the first flush of enthusiasm for Patanjali honey, maybe not so much now because of core issues regarding quality etc. Honey is reviving but the reality is that we will probably have to continue with these promotions for some more time, it is not that we can just take our foot off the gas. But having said that, the raw Honey prices are remarkably low at this point in time, it is at a three-year, five-year low. So, we are able to support those promotions without having huge impact in terms of margins. We continue to obviously invest in these promotions and also do new products, Fruit Spreads have been introduced. We will be launching another range of value-added Honeys this quarter, but those would be fairly niche products, there is not going to be massive volume upside on account of new product launches. We will have to really protect the core and continue to deliver value proposition on the back of lower prices even if it means some erosion in terms of the revenues for the brand.

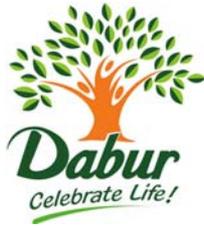
Percy Panthaki from India Infoline

Percy Panthaki: Just wanted to again ask on this PAN card issue. I understand this basically cropped up in the month of June. So any sort of color you can give us on what was the differential in the growth rates between the month of June and the other two months of the quarter?

Sunil Duggal: I am not going to give precise numbers, but the growth in June fell off very sharply, May in fact was a good month and we were pretty optimistic about having a good top line performance this quarter, but we saw that evaporate particularly in the worst possible time which is last fortnight of the quarter. So there was definite damage and the affected markets are somewhere like 30%, 40% of our total business. The impact was perhaps deeper as far as we are concerned compared to perhaps other companies which have larger exposure to south or west.

Percy Panthaki: Other thing I have been wondering is that these promotions have been going up at a time when the input costs are just about bottomed out and they are starting to see a revival in many of the input costs. So these two things seem to be moving in opposite directions. So you probably still have some margin benefits because of the rollover issues, either your price increase have not anniversaried or some of the input cost deflation has still be in lower on YoY basis although it might have been higher on QoQ basis. So as we go forward and if this situation continues, do you see a risk of margin decline at least on the gross margin level?

Sunil Duggal: Probably not, the reason is that the inflation cycle did seem to be on a slight uptick in the earlier parts of this quarter, but it has become once again now very benign. So oil prices for example which had bottomed out at \$35, went up to \$50 and now are around \$40, \$45 levels and there does not seem to be any build up in terms of oil pricing even in the months ahead. I think the inflationary cycle is continuing to remain benign and while that will definitely be good for us in terms of margins, it is also going to make the top line much harder to deliver. You probably will see a period of very subdued top line on the back of this phenomena, but hopefully it will be supported by good volume growth and a good margin delivery.



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Percy Panthaki: Can you give an idea on exactly what the promotions are -- are they more in the line of price-offs or are they more in the line of some product free with another product or is it extra volume? I am sure it is a mix of all these, but which of them is sort of more prevalent?

Sunil Duggal: In the short-term, it is more on-pack promotions, so 250-gram Honey free with a one kilo. Going forward, we would like to give them more millage because that is cheaper, but that takes time to kind of retool to get to...so you want to give a 1.25 kilo pack, you have to then make the moulds etc., which take a few months to make in the case of glass, for example. So it is more on-pack now. Almost no price offs. We do not believe in price offs as being a good vehicle. That will happen if there is a secular shrinkage in terms of the material cost, then actual price-offs may happen, but that is another story. So, we will move from on-packs to higher millage.

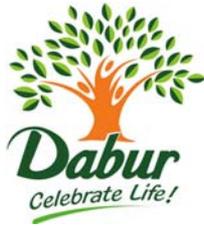
Percy Panthaki: But, is not that sort of just an indirect price cut if you are giving more quantity for the same price?

Sunil Duggal: It is a better delivery in terms of value. Now you can call it a proxy price cut and you may be right. We see it as offering better value to the customer, but then, yes, you get more for the same price. So you can treat it as a price cut. That is more nomenclature than anything else.

Latika Chopra from J.P. Morgan

Latika Chopra: You referred to the COGS inflation in the previous question. What is your outlook in terms of margins in the coming quarters? Would you be able to manage the sort of margin expansion we saw in Q1 given the flexibility on A&P and benign inflation?

Sunil Duggal: Two scenarios here and I do not know which one will actually happen. One that is the best case scenario is that we will be able to hang on to the current margins even while upping the promotional spends because the material cost environment will continue to remain benign and we do expect it that way. The other and not so pleasant scenario is that a toxic mix of low demand and high input cost would trigger off major price wars, because everybody will be fighting for a shrunken slice of the pie. And that would mean that you will actually have some shrinkage of margins. Now which way the scenarios will play out? We do not know, but everybody is going to defend their turf in terms of market shares and in terms of the volume delivery. So let us see how the scenarios pan out. The best thing is that the demand cycle will revive, will take pressure off the volumes. So, we will have the great combination of reasonably good top line as well as good margins. So let us hope the latter prevails, but there is a possibility that it may not.



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Latika Chopra: At this point, how would you think about the full year growth rates on both volume and price front. Should volume growth pick up to say high single digits in the second half assuming you see some stability in rural?

Sunil Duggal: Yes, it could. One thing that the current volume growth of 4% or whatever you see is on the back of around 8%, 8.5% volume growth of last year and it started tapering down after the first quarter. We all know that it started coming down because the category growth started slowing down. So off a lower base we should see better visibility in terms of the volume growth. The best case scenario is that it will trend towards the high single digits, but there is no guarantee that will happen because like I said, the demand situation is still little bit uncertain. We do have a lot of tailwinds coming in monsoon, pay commission etc., but whether they will translate into anything substantial in terms of demand revival, I think nobody can really give a clear answer to that.

Latika Chopra: The promotion intensity will continue at least...

Sunil Duggal: It will continue depending upon the competitive outlook, but as far as we are concerned, it will probably go up rather than come down at least in the next quarter or two, may certainly in this quarter and perhaps even going forward.

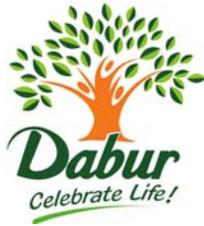
Latika Chopra: When you say go up in terms of the overall revenue growth?

Sunil Duggal: Let us put it this way, as Abneesh said earlier, we would revive spends above the line and we would continue spends below the line. So, the total A&P spends would trend up which should be largely mitigated by better more benign gross margin scenario. So, we should be able to deliver a similar margin at the end of the day, but that is again only one scenario.

Latika Chopra: My question was more on the top line growth actually. If the pricing deflation continues at similar levels and volumes remain in the similar range, so if there is an upside on either of that, it seems volumes could pick up more than pricing at this point?

Sunil Duggal: If you look at the categories and they are pretty visible numbers. Toothpaste I think is 1% growth, Hair Oil is negative growth, Shampoos is again 1% or 2%. So these are very sorry numbers in terms of category growths and now which way they will move is anybody's guess, they should trend up by any logic, but we thought that same thing three months ago when I spoke to you. I thought that the growth would trend up because when we are sitting on 1%, 2% growth, you think it cannot get worse and then it does.

Latika Chopra: A quick check on OTC and Ethicals, why very moderate or very sluggish performance there -- is it again a very category phenomena or what is driving that?



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Sunil Duggal:

This is a phenomena which is related to the way we have structured distribution. What we have done is we have created two verticals in our FMCG, which are completely independent of each other even though they may be housed with the same distributor and it is HPC and HC. Earlier on we had a single vertical of FMCG which had a lot of these OTC brands. Also it did not have Ethical, but it had a lot of OTC brands. So we found that they were not getting the requisite attention, because they were too small, long tail. So, we split up in the month of June, the portfolio down the middle into Personal Care and Healthcare. We do believe this will be very important in driving the tail which will now get a substantially higher share of mind than in the earlier thing. Earlier thing perhaps was a mistake in terms of aggregating the whole business under one umbrella. So we are now doing the reverse. As a consequence of this move, when the FMCG we separated at the distributor level it caused a fair amount of disruption in business. So I think the OTC Ethical portfolio, which has been the worst performing part of our business in the first quarter will substantially improve going forward, I am pretty confident.

Nillai Shah from Morgan Stanley

Nillai Shah:

On Namaste what is the reason for the flat growth this quarter?

Sunil Duggal:

Largely currency, again, the Y-o-Y currency impact in EMs has been huge, 30%, 40%. So the Africa piece, you would see almost no growth at all, actually negative growth in dollar terms and also in rupee terms. That is the main reason, but again, I think the currencies have now stabilized. While on Y-o-Y basis, we will still have another quarter or two of some pain, but they do seem to now be devaluing at a much lower pace. So the dollar realizations would improve. Secondly, from this quarter onwards, the localization agenda would be reasonably complete except for South Africa where again through that company which we have bought we do intend to localize the supply chain very quickly. So a combination of currency stability and local supply chain would improve the Africa delivery, and in North America, I think there is a lot of new product activities in the naturals space. which is where the growth is which would enable us to grow better. So I think for the year, I would look at delivery of around 5% to 10% from the Namaste business.

Nillai Shah:

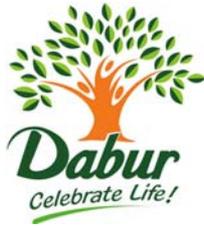
Any flavor on the margin delivery for the same?

Sunil Duggal:

The margins are still very substantial. They have improved in Namaste despite the fact of currency devaluations. So that is not where the pain is. The profitability is good. The problem is that we are not getting adequate traction at the top line.

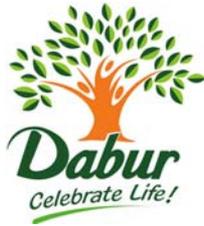
Nillai Shah:

For fiscal 2016, your margins are more single-digit?



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- Sunil Duggal:** Yes, it is not trending up. So this year, we do hope to have the EBITDA more in the 10% range, still early days. So I would not really say that that is given, but the plans which we put into place will enable us hopefully to deliver 10% EBITDA and that was the intent. We move it from 5% to 10% and the next year to 15% and that is pretty much then close to the company average and we do believe that a mixture of reasonably strong revenue growth and better cost management through local supply chain and others would enable us to do that.
- Nillai Shah:** Given the way demand trends are panning out, what is your view on new product development and introduction over the next few quarters?
- Sunil Duggal:** I think we should be very circumspect because you can throw a lot of money on new products and get very little value in return. Also I think since the core brands are now going to demand more money both above and below the line, they will be only so much pool we have. So we are going to now look at initiatives which are more likely to succeed and perhaps put some of the more riskier initiatives on the back burner.
- Nillai Shah:** Sir, why would not you allow the margins for fiscal '17 in the current demand environment to go down and still have new products better...
- Sunil Duggal:** I could do that if I found the demand environment to be supportive, but now according to me the levels of risk in launching new products where the customer is not really in an experimental mode is not worth the risk.
- Nillai Shah:** The same holds true for even the increased value for the consumers. So for the elasticity of demand for pricing would not be very high in your view?
- Sunil Duggal:** I think the consumer is reacting very positively to downward price changes. That is the reality.
- Nillai Shah:** So why would not you take across the board price cuts?
- Sunil Duggal:** I would do that if I found the material cost environment to be benign over a long period of time. I do not like price volatility. So if I find that the near-to-medium-term outlook is benign, but the long-term outlook is perhaps not so, then I would rather do consumer promotions, etc., which...
- Nillai Shah:** The question I am getting at is that at these price levels, do you think consumer is probably telling you that I need better value and hence you need to cut prices...?
- Sunil Duggal:** Our volume growth are still ahead of industry, we are gaining share in most categories that we are in. So what we are doing so far is working. Now, obviously you cannot run a business on the back of consumer promotions forever. You had a point in time if the material costs trend



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low, you will have to resort to price increases in some form or the other, but I think we would not rush into that. But we will take a call end of this quarter. If the monsoon impact and other triggers which everybody is so hopeful of do not translate into better demand, then perhaps in the second half of the year, we will resort to price cuts, but that is something which we do not want to take a call on right away.

Vishal Gupta from BNP Paribas

Vishal Gupta: ITC, they are bringing the B Natural brand from South India to pan India - is this affecting the business in Beverage segment?

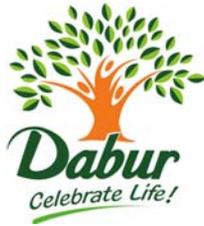
Sunil Duggal: That brand has been promoted very aggressively and has managed to gain some volume share because of the huge promotional intensity behind the brand. But the good thing about Juices is that in all the segments other than perhaps enterprise, we have completely regained our share which we had substantially lost in the third quarter because of product not being available. So, we are back to almost peak levels in terms of shares in both general and modern trade. We still have to recover some business from the enterprise accounts, which we had lost. Some of them we have regained, but that is a slower process. Enterprise is only 15% of total Beverage sales, Enterprise is all these airlines, hotels, etc., So they tend to be little bit sticky. We could not supply them, so they obviously moved to somebody else. We are trying to regain them back, but they normally would be bound in by six-month to one-year contracts. So it will take a little bit of time to get that business back. The B2C business whether it is general or modern trade is regaining traction very quickly.

Vishal Gupta: How has been the performance of the Yoodley brand Ethnic Beverage segment?

Sunil Duggal: It is still being incubated. So, I would not like to give any comments upon the performance. We will really have to wait to another season next summer. It is fairly summer centric. So that brand is still being incubated and like I was speaking earlier to Nillai, we are not at this point in time sticking out our neck and investing large sums of money into new initiatives. We would rather do adjacencies like the Honey Spreads and Therapeutic Honeys, etc., and many such products than venture into completely new domains. We have launched let's say Mausambi Juice and Jamun Juice and all and we are investing behind that because those are far safer avenues of investment.

Vishal Gupta: Sir, in Aerated Drinks segment, you have gone with Real brand, so should have you gone with some another brand, because...

Sunil Duggal: If it is in the Fruit, you are absolutely right, we should not have gone with Real. The fact is Fruit and the Fruit equities are very strong here, it sits quite comfortably with Real. But then the weightage of Real is obviously much lower than in our 100% Juices or nectars or whatever.



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Vishal Gupta: Sir, can you give some highlight on the Project Lead and Project Core, what is the update on both the projects?

Gagan Ahluwalia: All the distribution initiatives are right now being consolidated and as we said earlier, we had some amount of restructuring at the front end for the Healthcare business. After this restructuring we will take them forward to the next phase. Obviously, that is also linked to the demand revival of these projects. But in any case, the medical detailing project, Project Lead is going on and we already have around 170 people on board who are doing medical detailing, we have a portfolio of products, which are being detailed to the doctors and building up doctor advocacy through that route.

Sunil Duggal: Another thing which we are doing now is in our "Village Outreach Program", the village salesman were largely through outsourced manpower through suppliers like Team Lease We have decided now that these initiatives have mapped out well and they show a lot of promise to in-source all of these. So, we have got almost 1,000 people on our rolls, which did not exist few months ago. Massive exercise and now they would be on company rolls and they would obviously be far more productive than if it was on Team Lease plus we will save a little bit of money in terms of service tax, etc. That is a big change which we made in distribution, which obviously means that our commitment to distribution enhancement and better quality of people is very much there.

Vishal Gupta: You have signed up with government for marketing their Ayurveda drug for diabetes and malaria. So can you just elaborate on this arrangement - will you have to pay some royalty to the government, how will it work out exactly?

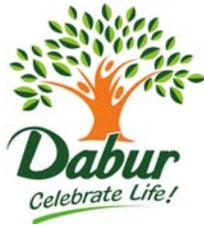
Sunil Duggal: Yes, we will pay a one-time royalty and there was I think a ten-year tenure. These products will not be OTC, they would be through prescription and there would be through medico marketing. So that will be one of the arrays of products which we are incubating through medico-marketing, which includes both home-grown products as well as these two products from Ayush.

Kuldeep Gangwar from HSBC

Kuldeep Gangwar: Like you mentioned overall Oral Care category growth was close to 1%. Whether my understanding is right.

Sunil Duggal: 0.9% in Q1.

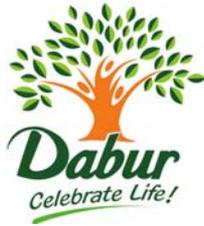
Kuldeep Gangwar: In your case, the growth has slightly come down. Is it the base effect like last quarter it had been 18% or so and this quarter 12%. So is it market, is it the base effect and related bit like how are the regional trends like in south and north for you in the Oral Care?



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- Sunil Duggal:** Red and Meswak still continuing to grow very quickly. Babool did not have a great quarter, but overall, I think a little bit of base effect, sooner or later, it has to kick in. Also, lower category growth has meant comparatively lower growth than what it was. But there is no reason why we cannot get back to the earlier levels of growth, but I think that is contingent upon the market situation improving.
- Kuldeep Gangwar:** How has been the regional trends for you like in north market or southern market?
- Sunil Duggal:** South continues to grow ahead, somehow this brand has taken up very smoothly in the South. North is always a laggard because the equities of Red Toothpowder is still strong. East and South actually are driving growth in Red Toothpaste.
- Kuldeep Gangwar:** Second question is regarding the Hair Oil, like what had been the category growth in the value terms and how are the trends across various segments like which part of the Hair Oil is not doing well, which is doing well? Like in your case, I think this Amla Hair Oil has suffered. What could have been the reason for the same?
- Gagan Ahluwalia:** The category growth has actually declined quite sharply in Hair Oil which was around 2% in the previous quarter, now it is (-1%) or so. So the category is showing a massive deceleration.
- Sunil Duggal:** We have grown volumes of 5% in Hair Oil, which is actually not a bad performance, and remember there is very sharp price deflation in coconuts which brings down the overall top line.
- Kuldeep Gangwar:** So overall category declined by 1% in your case the value decline was (-3%). So it is because of the coconut oil you are saying?
- Sunil Duggal:** Volume growth was 5% as against category volume growth of (-1%). So we have outperformed category.
- Kuldeep Gangwar:** What about value -- it is a deflation basically?
- Gagan Ahluwalia:** Yes, there is some amount of deflation, some amount of again promotional spends and all those things.
- Kuldeep Gangwar:** What about Amla - is it doing good or...?
- Sunil Duggal:** Amla in revenue terms had a weak quarter, but again volumes were pretty decent.

Manoj Menon from Deutsche Bank



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Manoj Menon: Just one question on the Juices category. The question about growth in Juices is in the context of it being more urban and you actually had probably the tailwind of a very strong summer. So how do I look at the growth in these two contexts?

Sunil Duggal: We had some support from summer even though it does not make a material difference in Juices. It is a tailwind for sure, but it is not a very strong one like for carbonated drinks. I think we still did not have full supply in the earlier parts of the first quarter, there were some gaps in the supply chain with regard to flavors, etc., So that brought down the performance a little bit. I think going forward, I would look at double-digit growth coming from Juices once again and I think this quarter should be a much better one again than what we have seen in the last couple of quarters. The good thing is that we have recovered market share. That was a source of worry because for reasons beyond our control, we had lost a lot of share in the third and early parts of the fourth quarter and I am quite impressed with the way we have regained it.

Arnab Mitra from Credit Suisse

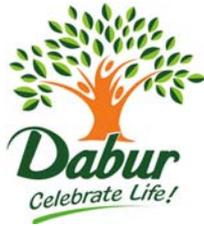
Arnab Mitra: Hi! Sunil. On the demand side, you mentioned the PAN impact. I just wanted to know if you were to see north and Rest of India, I do not want exact numbers, but what is the kind of difference in growth rate - is it more like under 100 basis points, 200 basis points or much larger than that?

Sunil Duggal: Something like that, North and West, and we being large in these were impacted by this phenomena, it is definitely growing slower than East and South. There is a discernible... I do not have the number whether it is 100 or 200, but these are the two laggards in terms of growth as compared to East and South.

Arnab Mitra: So you are saying that there is still lack of clarity in the trade which is why there could be some continuing impact into second quarter also?

Sunil Duggal: My point here is that the product will find its way onto the retailer shelves. So therefore the destocking, which was done by the wholesaler had a big impact in June and spilled over into July. After that the cycle would tend to correct itself. It is not that the product is not going to be available, it will fight its way in some form or the other to the shelves of the retailers. So, I do expect the impact to taper off toward the second half of this quarter. There could be still impact in July and at worst till middle of August. Then life carries on, people either become compliant or they find other creative means of doing business.

Arnab Mitra: On this CAPEX plan, you have I think highlighted in the press release about Rs.500 crores in FY'17. In India, in this Assam factory, because you are already on MAT and there is hardly any excise payment, does it help you in anyway lower any tax rates anywhere or is it more of growth CAPEX which is coming in here?



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Lalit Malik: Certainly, I think in Assam we will have the fiscal advantages once we start operations from there. So, we will see the advantage on the tax side also. However, it will depend on the volume growth, which will be gradually increasing as we start operations from there. So overall, there will be tax advantage as well.

Sunil Duggal: Our sunset is beginning in fiscal 17-18, not in a big way and it is entirely the whole portfolio will be on by March 2020. The products coming out of the excise free net are going to start happening from FY 17-18.

Arnab Mitra: So this will basically help you maintain your MAT levels of tax and excise exemptions even after the...?

Lalit Malik: It will help us to extend the MAT benefit for more years and it will all depend upon how the overall tax rate will come out since they are also announcing to reduce the overall tax rate from 30% to 25% gradually. So, one has to see how the fiscal rules will pan out, but as per the current provisions, certainly our MAT advantage will continue for more years.

Sunil Duggal: The big win will be actually excise, more than the income tax.

Arnab Mitra: The remaining Rs.250 crores is Assam, the remaining is international business or...?

Sunil Duggal: Around Rs.100 crores in our Uttaranchal factory for a couple of Juice lines. Rs. 100 crores in international, pretty much, dispersed over many locations. So the two big ones are Tezpur and Pantnagar which will stack up around Rs.350-odd crores out of this Rs.500 crores.

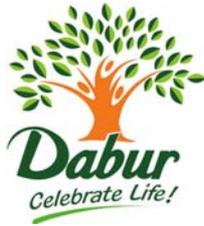
Arnab Mitra: You mentioned that there has been increasing competition. Other than the segments which are impacted by Patanjali, any other segments where you have seen an increase recently in the last three, four months where competitive intensity has stepped up?

Sunil Duggal: Not really, I think Patanjali of course is now almost a year old. So that competitive intensity remains, but other than that not very much. There is obviously higher level of competition across, but it is not of disruptive nature. They are still pretty much within the realm of the normal, which we are matching quite frankly.

Arnab Mitra: One question on the RM index. So I think you had mentioned it, but as an overall RM index all input cost put together, is there some level of inflation in FY'17 over '16 or it is more like flattish year-on-year I should look at spot prices?

Lalit Malik: It is more or less flattish right now.

Sunil Duggal: I think it is deflationary.



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Lalit Malik: It is inflationary mainly on the agro-based category.

Sunil Duggal: Aggregate is deflationary. Over a low base of last year, we have seen further deflation, which again was contrary to what we expected. So despite the fact that oil has gone high, but then like I said it is trending low, so we never really felt the pinch of higher oil prices. By the time the prices had risen, they were already falling. So the plastics and NLC for example remained very soft throughout the quarter.

Rohit Joshi from Dion Global

Rohit Joshi: What is the update on the MENA business region?

Sunil Duggal: MENA remains stressed in terms of the ISIS and other impacts. There are two issues here. One is political, which is ISIS basically, which has shut down four important markets of ours - Syria, Yemen, Libya, and Iraq. And then the second one is largely confined to Saudi Arabia which is the Saudisation program, which means that they have told a lot of the workers from all over the world especially from the sub-continent to leave and replace them with Saudis. Also, the wholesale trade in Saudi Arabia is largely Yemenis and that has been also in a bit of turmoil. So, Saudi is area of concern. The markets which are affected by ISIS, we do believe that slowly the business will begin. In Yemen, it has already begun to some extent and hopefully we will be able to get back some business in Iraq. Syria remains obviously shutdown almost completely. So, it is a mixed bag here. But then we are seeing some very good growth coming from Turkey, Egypt and now we will see definitely good growth coming from Sub-Saharan Africa for the Namaste portfolio. But it is a mixed bag and definitely the big markets of Saudi Arabia and all have proved to be a drag on total growth.

Rohit Joshi: Another book-keeping question sir, regarding the effective income tax rate, as you have said that the Assam unit will provide fiscal benefits, which will start in FY18 only. So what range would be the effective tax rate for FY17?

Lalit Malik: Yes, it will be more or less on the MAT basis plus the deferred tax.

Lalit Malik: 2017 I think we will continue the same level.

Sunil Duggal: The MAT may go up, but that is another story.

Ishpreet Kaur from Karma Capital

Ishpreet Kaur: I just wanted to get a little clarity on what are the kind of promotions which are netted off from the sales. Would that include the higher volumes that we are offering or would that be in the gross margin?



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Lalit Malik: I think with regard to the netting off, it includes the promotional expenses, the intermediary sales and the sales from joint venture. These are the three categories that are reduced from the top line. The free issues are part of the gross margins.

Ishpreet Kaur: The additional volume part?

Lalit Malik: Yes.

Ishpreet Kaur: So say suppose you are offering a one product free on some product, so that would be captured in the COGS?

Lalit Malik: Yes.

Gagan Ahluwalia: Thank you. We thank all of you for participating in this conference call. A webcast of this call and transcript will be posted on our website. For any queries or feedback, you may kindly contact us. Thank you and have a nice evening ahead.
