



“Dabur India Limited Q2 FY2015-16 Results
Investor Conference Call”

October 28, 2015

MANAGEMENT

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AFFAIRS**



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Gagan Ahluwalia:

Good Afternoon, Ladies and Gentlemen. On behalf of the management of Dabur India Limited I welcome you to this conference call pertaining to the results for the quarter-ended 30th September, 2015. We have here Mr. Sunil Duggal – CEO, Dabur India Limited; Mr. Lalit Malik –Chief Financial Officer; Mr. Saibal Sengupta – VP (Finance) and Mr. Ashok Jain – VP (Finance) & Company Secretary. We will start with a brief overview of the company’s performance by Mr. Duggal followed by a Q&A. I now hand over to Mr. Duggal. Thank you.

Sunil Duggal:

Thank you, Gagan. Good Afternoon Ladies and Gentlemen. Welcome to Dabur India Limited’s Conference Call pertaining to the Results for the Quarter-ended September 30th 2015. During the quarter Dabur’s consolidated sales increased by 8.7% to Rs.2,092 crores and profit after tax by 18.7% to Rs.341 crores.

Domestic FMCG business reported growth of 8.8% in the second quarter with volumes increasing by 5%. Volume growth in the business excluding Beverages at 7%.

Hair Care portfolio comprising Hair Oils and Shampoos recorded growth of 9.4%, Hair Oils witnessed volume-led growth of 14.3% with both Perfumed and Coconut Hair Oils performing well. This is on the back of continued consumer engagement and regional focus. We have recently added the Vatika Jasmine Hair Oil to our Hair Oil portfolio.

The performance of the Shampoo category was subdued this quarter on account of heightened competitive intensity. However, we are continuing to invest behind our brand and launch more products to enhance our competitive advantage in this challenging environment.

Oral Care continue to outperform the category and the portfolio grew by 18.7% during the quarter with Toothpaste posting a robust growth of 28.1%. Red Toothpaste and Meswak continued on a strong growth trajectory and recorded volume-led double-digit growth on the back of increasing consumer preference and focus on marketing initiatives. In addition to these brands, Babool was back on the growth path and posted growth in Q2.

Skin Care category grew around 2% mainly due to delayed festive season and some supply constraints. However, Gulabari Rose Water clocked double-digit growth. The Winter Gulabari range has been restaged for the more contemporary packaging in order to appeal to a younger target audience. The whole host of new products are planned to be launched in Skin Care category in the next few months. To start we have launched some premium offerings like OxyLife Salon Professional ProWhite Facial Kits and Creme Plus Creme Bleach. This is the first of its kind product innovation having a Creme-based Activator instead of a powder format.

Home Care portfolio grew by 12.4% with both Odonil and Odomos posting good growth. The new digital campaign for Odonil has been well received.



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Health Supplements reported sales growth of 9% primarily driven by Honey which continued on a strong growth trajectory and recorded strong double-digit growth backed by various marketing initiatives to enhance brand visibility and build consumer connect. Chyawanprash posted muted growth this quarter mainly due to lower institutional sales; however, the Chyawanprash range is all set to tap the winter season sales. Digestives grew by 1.6% during the quarter with the Hajmola franchise recording low growth due to sluggish consumer demand and regional competition; however Pudina Hara clocked double-digit growth with a new communication helping the brand gain traction.

The OTC and Ethical portfolio registered growth of around 11% during the quarter. Lal Tail and women's tonics Ashokarishta and Dashmularishta posted good growth driven by improved doctor advocacy on ground execution and digital initiatives. The Medical Retailing initiative called "Project Lead" is on track and is expected to have positive impact on growth of our Healthcare portfolio. Foods posted 2.4% growth in Q2 on account of shifting of the festive season to Q3 in FY-'16 versus Q2 in FY-'15 and supply disruptions from Nepal due to political disturbances. Our Innovation pipeline continues to be strong in this space and we plan to add more Indian variants to the Real Wellness range.

The International business recorded growth of around 9%. Growth in international has been lower compared to previous quarters primarily on account of political disturbances in the MENA region. Namaste performed well and posted double-digit growth driven by good momentum in the US business.

On the profitability side, operating margins improved by around 110 basis points and the operating margin touched 19.3% , one of the highest in the last 5-years. This was on the back of continued deflation as material costs were lower by 193 bps. We continue to invest in our brands and this reflects in our ad pro expenditure which was 13.3% of sales. Profit after tax grew by 18.7% during the quarter.

In spite of challenges in terms of sluggish demand, political disturbances, and currency fluctuations, the business remains on a sound footing. We will continue to build capabilities, improve our product portfolio, and increase penetration across categories in both domestic and international markets in order to deliver the best returns to our shareholders.

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

Abneesh Roy of Edelweiss.

Abneesh Roy:

Sir, my first question is on the three segments – Digestives, Skin Care and Shampoo. Shampoo, I understand there was a 30% price cut. So if you could tell us when do you see recovery there? Skin Care and Digestives had two consecutive quarters of slow growth. So,



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what is the problem here – are the MNCs gaining in Skin Care, for example, in Digestives I understand local competition is an issue. So what is the revival plan in these two?

Sunil Duggal:

I think Skin Care will revive for sure because we have now huge number of innovations both in Gulabari as well as in the Fem OxyLife brands which should drive growth much ahead of what we have seen in the last couple of quarters. Digestives... a little bit of concern on Hajmola because low price, regional competition is doing some damage, but again here new flavor introduction and product innovation would be key to driving profitability. Pudín Hara is a summer centric brand. So we will have to wait for what happens in the first quarter of next year in terms of the summer season. But that brand like I said is growing in double-digits. So no issues there. So these are the issues with regard to Skin Care and Digestives. Shampoos, of course, we all know the hugely disruptive competition which made growth hard. We do believe that there will be a couple of more quarters of lackluster growth in Shampoos till this disruptive competition heads out. We have seen the cycle happened 3-4-years ago and we had to weather the storm for around a year before things stabilized. So these triggers do happen occasionally and I think one has to just ride them out.

Abneesh Roy:

On Shampoo where you are late in terms of price cut. You are saying two more quarters it will take. Why I am asking is ...

Sunil Duggal:

That is just estimate. It might be over very soon but one should be prepared for a disruptive competition to continue for a while.

Abneesh Roy:

After your price cut, have the volumes not come back for you also because of the ...?

Sunil Duggal:

Our portfolio is mostly comprising of the 1 Re. sachet and now if products which were earlier 1.50 to 2 Rs. move to 1 Re. then there is some erosion of franchise, right? We saw that happen a few years ago when again similar situation happened, it is just a repeat of what has happened in that point in time. And when the prices start moving back to the earlier levels of Rs.1.50-2 we regained our price points and Shampoo has been in fact one of the best performance over the last couple of years. So this is just a phase which we have to ride out and growth will come back.

Abneesh Roy:

On your Juice business, last many-many quarters you have done exceedingly well except this quarter which you had highlighted as a slowdown in last quarter itself. My question is how serious is this twin problem essentially Nepal supply issue and this new player selling at a much lower price? I am seeing the other players also offering a lot of promotions. So, is the profits for Juice business coming down for the entire sector for the next few quarters and so sales also will be a challenge because the one player is selling much below the other players?



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Sunil Duggal:

I think what is concerning me more is the Nepal disruption because we are well into now October and there has not been any supply from Nepal, the border is still closed. As and when supply resumes I do not think we will suffer any competitive disadvantage because of any new player. In fact, the September numbers look very good and they would have been back to the old levels had we not lost some sales in the month end. Particularly July did have some impact particularly in the southern part of the country. But I think we have kind of weathered that, not a problem, but the supply issue remains a major concern and we still do not know when that bottleneck will get over.

Abneesh Roy:

This Nepal issue... how much are you able to meet up from your other locations?

Sunil Duggal:

Around 60% we can make up from Sri Lanka and India plants but 40% is still something which we really do not have any other option. We can do a little bit more but it will drain profitability and there are long lead times here because of laminate printing, etc., The border will open for sure. One thing is certain that you cannot keep the border shut down for long. So it is not something which is going to do long term damage but it could damage this quarter to some extent. It will definitely damage this quarter because we have lost most of October but I do not think the long term damage to the brand will be there because the border is likely to open any day.

Percy Panthaki of IIFL.

Percy Panthaki:

Sir, just wanted to understand on your gross margins front. Expansion has come in a little lower than expected despite a lower proportion of Foods which would be lower margins. So there would be a positive mix effect on the gross margin line. I also notice that the standalone margins are better than the consol margins. Can you throw some light on what are the moving parts here?

Sunil Duggal:

No, I think in terms of the standalone margins that has not been very big here, Foods is not a very low margin business, it is 44-45% gross margin. So even if the mix changes against the Juice it does not have a material impact. But I think overall we are lapping now, some deflation happening last year. So the upside in terms of margin expansion is going to reduce, it was maximum in Q1, considerable in Q2, still remain in Q3 and taper off in Q4 unless of course there is further deflation which we do not anticipate. So it is on expected lines and I do not think the Q1 margin expansion which you saw is something which can continue for the balance of the year.

Percy Panthaki:

The difference between the standalone and consolidated?

Sunil Duggal:

Consol is lesser because there is no price increase and deflationary pressure is low. International margins have been again lapping a pretty low base of last year. So there was high



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deflation in the same period last year in our MENA business at least. So there is not much upside which we have seen unlike India where you still had fairly high inflation in the second quarter. That is the best explanation I have. And also, of course, then many of our very high margin markets have been the most stressed in terms of both currency overhang as well as in terms of political disturbances whether it is Egypt or Yemen or Syria or Iraq or whatever, these are actually very high margin markets and they have underperformed., And then in Egypt and all there also a currency overhang. So all that has led to some erosion of margins. But it is not something which is secular. I think we will be able to regain margins but the growth in margins in international business will be subdued because we do not have really any low base to measure it against any more.

Percy Panthaki:

As you said your commodity cost will start to anniversarise, that benefit will go away. Do you think that as and when that happens, you will therefore be able to take some more price increases which you might be constrained at the moment and therefore the growth from pricing might go up probably towards Q4 or Q1 of next year?

Sunil Duggal:

Yeah, definitely it will. I do not think one can continue at the low price for a long period of time but it will happen in pockets, so there would be pockets of high deflation, there would be pockets of inflation. Even now there are pockets of inflation and we are taking our prices of Honey, etc., and some Herbal products. So there would be increases in prices which happen. I think what we have demonstrated is that we have a fair amount of pricing power which obviously we have not chosen to exercise very much in the current quarter. But if you see the current mix in terms of the India numbers you do see a pricing element is there which just shows that we do have that pricing power and we will exercise it only when some demand comes back. Perhaps not just to anniversarise the inflation part, but there has to be some demand to facilitate a price increase, otherwise you might just do some damage to your own business.

Percy Panthaki:

My second question is on Shampoos. My understanding is...correct me if I am wrong, price cut in Shampoos by HUL and P&G have happened only in the bottle segment whereas we are present mainly only in the Sachet segment. So there is a very little overlap between us and HUL, P&G in terms of the pockets in which the competition is happening. So, why...

Sunil Duggal:

That is only optical, there may not been any MRP revision, there has been massive amount of trade lubrication which really fuels Shampoo sales. Shampoo Sachets are a little bit commoditized and if you lubricate trade you get the volumes and quite often sometimes when price is 1.50, it may be actually selling at Re.1 because that is how the pricing has performed. But it would not be visible at first sight because the trade margins is not something which one would be able to capture very easily.



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Percy Panthaki: What is the action that we have taken now – have we increased the trade margin or have we played around with the grammage or MRP or something?

Sunil Duggal: No, there is not much scope to do that but we have increased the trade margins towards the fag end of the quarter, but perhaps not to the extent which our competitors have done.

Percy Panthaki: How do you internally measure your business? So some companies measure their business in terms of the top line growth and whether that top line growth is above or below industry and then they look at margins, whether there is a margin expansion or not. And the resultant of this is a growth in the net profit or EBITDA on a YoY basis and absolute rupees we can figure. But they do not really care about this YoY growth. So just wanted to understand what are your internal metrics – do you take a YoY growth in the absolute profits as something you measure or do you just look at the top line growth and the margins?

Sunil Duggal: No, the Y-o-Y growth is what everybody looks at, right ? So we cannot just ignore that part. Everybody is talking about Y-o-Y growth in this conference. But at the end of the day it is a resultant of what the top line is and what the margin delivery is. So you have to map out the P&L every month every day almost to make sure that your profit delivery is on track, at the same time not lose focus on the top line. So I think all these measures are important depending upon the audience and for the investor community Y-o-Y growth seems to be the paramount measure.

Latika Chopra of JP Morgan

Latika Chopra: My first question is on Hair Oil and the Toothpaste portfolio. Both these categories have seen significant improvement in growth rates for you. Would be helpful to know how the key brands are fairing here and what initiatives are actually driving this improved growth trajectory and how sustainable these trends would be in your view?

Sunil Duggal: I think Amla Hair Oil has been the chief driver of growth, it is a big brand and it has grown in strong double-digits. So that has been an outperformer. So I think the measures which we adopted in the last 1-year or so in terms of product renovation, etc., are yielding results, and we have been pleasantly surprised by strong growth in Hair Oils. And the growth is secular, it is there in some of our Coconut Oil brands and in all our Perfumed Hair Oil brands and it is more skewed in terms of volume terms to the Perfumed side of the business where again we are much bigger than in the Coconut side. So partly that thing is on account of shift of some preferences towards Perfume Hair Oils, partly on account of our own marketing initiatives and a fair amount of NPD activity here. We have launched two or three newer Hair Oils in the last 6-months, all of them seem to be doing well. So I think Hair Oils has been outperformer after a couple of years of fairly mediocre performance. In fact, the whole HPC other than Skin Care has done well. That has been really the stand out performer this quarter more than the



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Supplements which have also done well but certainly the Beverages which drove a lot of our growth slowed down to almost zero levels but we manage to keep the secular nature of growth fairly intact under these very challenging circumstances.

Latika Chopra:

What about the Toothpaste portfolio 20% to 25% growth rates, how sustainable do you think this?

Sunil Duggal:

I do not think the 30% growth rates we are seeing of Red Toothpaste and Meswak can continue till the end of time, we will see a moderation of these growths. Hopefully it will happen later rather than sooner, but I think also we will see revival of growths in Babool which might take up the slack in terms of lower growths of the Red and Meswak. This is because now we have taken a lot of punishment in Babool. We have rationalized prices, we have made it into a decent margin product and obviously a lot of volume loss was caused as a consequence of these rationalization measures over the last 2-years. Now the uptrend is visible and while we are still growing around 5%-odd which is not a huge number we do expect that this number will only increase over the next few quarters. So hopefully if there is moderation of growth in the other two brands it will be mitigated to some if not the full extent by Babool.

Latika Chopra:

My last question is on OTC and Ethicals portfolio. Firstly, what is the sales mix here now? We witnessed somewhat moderate growth in Q2 versus Q1. How should one think about the growth rates here considering significant investments are being done on distribution, doctor advocacy front?

Sunil Duggal:

OTC is around 65% and Ethicals is 35% of the category.

Sunil Duggal:

It grew by 10.8% in this quarter which is pretty decent I think, it is not the fastest growth category in the universe, so if we do double digits that is not a bad performance. Having said that, the investments will yield results which should propel the growth rates to much higher than what the numbers you see. But it is a slow burn, advocacy program is just 6-months hold, we have just tapped in to 10,000-odd-doctors which will ramp up now. So I do not think the results for advocacy will be visible before 1-year. And the core program is yielding results, we have seen much better growth in our smaller brands which languishing before core happened.

Pradeep Joshi of Dion Capital

Pradeep Joshi:

My question is how has been the demand in the rural segment? And has the urban demand this time has also surpassed the rural demand?

Sunil Duggal:

The overall demand in rural is quite poor. Having said that this quarter at least we have done pretty good in rural, we have grown in double-digits in rural, much ahead of urban growth and that is largely a portfolio issue. Our HPC brands have done well which have got a strong rural



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focus, Foods has not done well which is almost entirely urban. Healthcare has done reasonably well which is a blend of urban and rural but to the urban buyers. So since the HPC portfolio has done well our rural growth have been good. But, I do not think there is a huge amount of underlying demand in rural for the FMCG category as a whole. There is no stimulus happening. We do believe that demand will revive perhaps in the fourth quarter or the first quarter. The reason for this is that you would have a fair amount of cash being then put into the rural economy both urban and rural but with a bias towards rural through OROP, through the Pay Commission, and most importantly, hopefully a higher MSP delivery by the government given its much better fiscal position there will be move to perhaps open the purse strings a little bit. But, it is not going to happen in a hurry, I do not see a huge demand this quarter for example and it will start happening in the fourth quarter and hopefully by the first quarter of next year we would see much better traction in rural markets.

Pradeep Joshi:

Do you expect H2 to be better than H1 of this fiscal?

Sunil Duggal:

Probably, yes, I think H2 for sure will be better for the International business, for the Domestic business if let us say the Nepal issue is resolved quickly and if there is some revival in demand during the festive season, etc., I do expect for domestic business also H2 to be better. But I think very clearly H2 would be stronger for the International business than H1 was. For the Domestic it may be similar and not substantially better is what we had hoped for.

Puneet Jain of Goldman Sachs. Please go ahead.

Puneet Jain:

Your gross margins now have reached to a level which is the highest in the recent years. So, do you estimate at any particular point of time you will say that you do not want to take gross margins higher than that level?

Sunil Duggal:

I think gross margins on a Y-o-Y basis the growth are going to come down, right. Now again the gross margins are highest in Q3 for example and lowest in Q1. So you should ignore that because that is a mix issue. But in terms of the growth in the gross margins which were double-digits that is definitely now going to taper off. But, hopefully, we will be able to retain the current high margin profile for the next few quarters. I do not think that it will erode. The erosion now typically happens when you have high inflation and there is no inflationary cycle which is visible at this point in time. So till that happens I think that the gross margin profile will be very benign, may be you would not see the same kind of growth, but it will still remain very benign.

Puneet Jain:

In the last quarter call you have mentioned that there is some stress in the rural trade. So...

Sunil Duggal:

Yeah, there is a liquidity issue and that is definitely visible, there is a consumer overhang also, the consumers are also not fighting into consumption and then there is a trade because the rural



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markets are driven by trade and not more than by any other factor and the trade does have liquidity issue. They are reluctant to stock up, they want to downsize their inventories. They are willing to stock up only if you extend them higher lines of credit which typically companies like ours do not like to do. So we have to struggle with that aspect of down stocking which is very strongly felt by the traders particularly in the semi-urban and the rural markets.

Puneet Jain: You attribute it more to the retailer level or more at the stockiest level?

Sunil Duggal: No, it is at the stockiest level because that is where the aggregation happens. I do not think the retailer is down-stocking because the retailer is all of 200 sq.ft. and those shelves are always filled, he is not a big inventory holder in any case. He typically has 1-week to 2-weeks of stock but the stockiest who could have between 10 days to 30 days of stock that is where the play happens and we are seeing down-stocking happening at the stockiest level.

Puneet Jain: The investments in advertising in this quarter has not risen in proportion to the increase in gross margins.

Sunil Duggal: No, the increase in advertising has been commensurate with the increase not in the top line so much but the gross margin improvement overall. So there has not been any deterioration as far as the net margin or the EBITDA profile is consequent to ad pros, they have been pretty much in line with the profit delivery at the gross margin level.

Puneet Jain: Like in first quarter the expansion in advertising and promotional expenses were a lot larger as gross margin expanded while in this quarter that does not seem to be the case?

Sunil Duggal: No, gross margin expansion is entirely on account of cost.

Puneet Jain: Yes, I am saying those investments into advertising was a lot larger in first quarter.

Sunil Duggal: You are talking about the ratio? The ratio is higher in the first quarter because the top line is lower in the first quarter.

Puneet Jain: Not the ratio, the YoY change in advertising and promotion expenses in first quarter was larger in terms of BTL?

Sunil Duggal: I think the BTL will grow ahead of ATL as long as demand is stressed, that is for sure, you will see it perhaps in every business. But in our case the increase is not hugely different. I think we are spending ahead of ATL in terms of the BTL which is trade of consumer-driven activities but not by a massive margin. So our ATL line is still strong, but it will be the double-digits.



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Prasad Deshmukh of Bank of America

Prasad Deshmukh: Two questions: If we see this quarter, Skin Care is the smallest in terms of percentage of revenue for you. However, in this quarter most of the innovations are in Skin Care. So just wanted to understand what is the thought process behind this and what do you think will be key drivers for Dabur in this particular category going ahead?

Sunil Duggal: No, I do not think most of the innovation in Skin Care. I think Skin Care has more innovations as a percentage of its business which is like you said not very large than perhaps any other category. But that is up to the marketing team who drive innovation and sometimes they do it in a far more aggressive fashion than in other times. But innovation is there across the whole portfolio, even in Beverages, we have launched the Wellness range, we have test launched the Yoodley range. There are other innovations which are happening. We have launched three new Hair Oils, I think only in Oral Care perhaps there has been not too much innovation because of various reasons, many of the products are still under development. But other than Oral Care there has been innovation in most of the other categories. And International, of course, is really innovation-led but in India business where innovation has been pretty secular.

Prasad Deshmukh: Can I get some update on Project Lead? A couple of quarters back we have been talking about online taking over modern trade. So what are you thinking about that now?

Sunil Duggal: I will answer the second part of the question and Gagan will answer the first part. So in terms of modern trade our performance actually has been extraordinarily good. The weak point in our performance this quarter has been urban general trade which has grown at the slower pace and a lot of that is because of the Beverages. MT has grown at 25-30% and MT is we classify under urban because it is by definition urban phenomena, that has done extremely well, and like I mentioned earlier rural has done reasonably well. So eCommerce is still a very small part of the whole game. It is not likely to ramp up very rapidly in categories such as us. Having said that we are deeply engaged with all the market places and everybody else. So I think we have got rightful share of business in eCommerce but "Is it significant?" The answer is "no".

Gagan Ahluwalia: On Project Lead, we have got one of the medical reps team and there are about 70 people on board as of now. This number is likely to go up to 275 by end of this fiscal and last month we had about 27,000 doctors covered in this program which were much lower before we started this programme. We have around 6-7 products as of now which are being detailed to these doctors and we see good response from the doctors to our products.

Prasad Deshmukh: Just combining this question and the first question that I asked, is it right to say that of the categories that you will focus here on Skin Care, OTC, Healthcare will be a couple of main categories that can drive your growth, is that thought process inside?



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Sunil Duggal:

We do not like to predict where the growth is going to come from because every category in which we operate can drive growth and part of it depends upon how the categories grow and part of it is how well we execute within each category. So our thought process is always that every category should innovate, every category should seek to drive growth, and it is not that we will isolate 1-2-3 categories only. The only area where we are putting special focus is on Consumer Healthcare which is the OTC, OTC part of the business where special emphasis is being put in infrastructure. Otherwise in the main part of the business we do not do any favorites, the growth can come from unexpected sources, I did not expect growth to come from Hair Oils to the extent it has. Now we had stopped innovating in Hair Oils with the expectation that growth is not going to come from here, then we would have missed out of this opportunity. So I do not think anybody is that clever to understand how the future categories are going to move. So the safest thing to do is to innovate everywhere and the good innovations will hopefully click if the market supports them and we will get growth from there.

Navin Trivedi of Trust Capital

Navin Trivedi:

My question is on the Real Juice. You said in Q3 you expect 60:40 ratio; 60 is you will be able to supply through your other options...

Sunil Duggal:

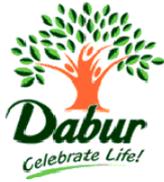
I am not talking about Q3, this was in the event of shut down of Nepal in Q3 which I sincerely hope will not happen. Nepal factory is operational but there is no inflow of raw materials and outflow of finished goods, right? So the factory has been now shut down for the last 3 or 4-days because we ran out of space to keep the finished products and raw materials to make them. There is a massive inventory lying there and as soon as the border opens we will be flooding the markets with those products. So we will be able to get back share very quickly if the border opens soon. If it does not, then we have a larger problem in terms of accumulation of inventory which we will have to deal with. So, what you are talking about is 60%, that is a scenario in which we will perhaps do 60% of what we normally would have done. But I am pretty sure that it will not happen because I do not think anybody can lock out a country for 3-months. Everything which they consume flows in via India. So you cannot have a long shutdown.

Navin Trivedi:

Yeah, 60% is based on the last year...?

Sunil Duggal:

I think the question really was at that point of time that what percentage of your sales you can derive from non-Nepal. My answer was around 60% which can be even 80% but then we have to prepare for that and there is a 2-month at least lead time for us to get the raw materials and packing material in which normally would have been sent to Nepal because the printing is different, you understand that no...



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Navin Trivedi: Considering that 1-month is already over in the Q3, and festive season is coming in the next 15-months, so the benefit of Q3 basically is the festive season, that will be...?

Sunil Duggal: No, festive season is only one part, important, no doubt, so what you are saying is right to an extent, but the seasonality of Juices can be right up to Christmas, New Year, this is the wedding and the party season and there is a massive consumption of juices. It is our best quarter, it is higher than the first quarter which one would typically expect to be the figures, it is actually Q3. So, even if we lose Diwali season, it is not the end of the story, there will be some damage in terms of numbers, but 45-days post Diwali will be also very productive for us.

Navin Trivedi: For most of the portfolio, we are seeing that Patanjali is also expanding their stores and all. So how are you seeing the challenges from the Patanjali for your portfolio?

Sunil Duggal: The one we are looking at it is that we are one of the very few players in the Ayurvedic and Herbal space. So more players come in, sometimes the market actually accelerates because there is more curiosity and more choice available. So, the positive way of looking at Patanjali is not as a threat but as a facilitator in terms of growth. Of course, it is very early days. I do not want to extrapolate. The categories in which we have products which are similar to Patanjali are also the categories in which our growth has been by far the highest, whether it is honey or whether it is your oral care or hair care. These are the products in which Patanjali also has offerings. It has not stopped our growth from happening. So, I am not worried about Patanjali. I think anything which further **promotes** Ayurveda and Herbal alternatives to mainstream products can only in the long term work to our advantage.

Navin Trivedi: The thing is that in terms of the competition among the unbranded, it has become more organized way. So the site challenges can happen for certain portfolio?

Sunil Duggal: Yeah, the challenges will happen even from non-Herbal players. I do not see this as being something which we cannot manage because it is not that our target audience for both these companies exactly the same. There is a very large audience which would look at lower price products which perhaps we will not be able to attract.

Navin Trivedi: If you can share our market share in the Toothpaste because our growth rate is significantly higher than the market growth rate?

Sunil Duggal: We do not disclose market share numbers because Nielsen does not like us to do that, but I am sure you can fish out data. There has been improvement in the shares, that is all I can say. Perhaps which does not reflect our growth but I would rather see my own growth numbers than market share numbers which are basically reflective only of a trend and one should not go by the absolute numbers with great deal of the business.



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Navin Trivedi: My last question is on International business. You said second half you are sure there will be good growth as compared to the first half. So, will that be led by the Namaste business or do you think that there are other drivers of the business also?

Sunil Duggal: I think Namaste will definitely be one of the key architects of this growth in the second half because we took the corrections in the second half of last year so we are benefiting from that. But also localization of Namaste products manufacturing in Africa a), revival of business in Egypt which is our largest overseas market of the US that is happening. So, a lot of positives. And the Libya market would at least partially open up, it was completely shut for the first six months and we do expect partial opening up, still have to come back to normal, but we will be able to get some stocks in. So all that would help.

Vivek Maheshwari of CLSA

Vivek Maheshwari: First question is on urban GT what you mentioned there is some stress. If you knock off Food from the base, is there any stress or it is just because of Foods?

Sunil Duggal: I think overall even if you take out the Foods part urban GT is a under performer and I really do not know why because our growth have been quite spectacular and despite the fact that Foods is huge in MT... 30 to 40% of our MT business is Foods and that obviously underperformed. So there has been a maximum uptick in modern trade in HPC and I think that is really because of very high quality execution and alliances which we have done with MT. So that is something which is a very bright for the whole portfolio.

Vivek Maheshwari: But any thoughts on why urban GT would then underperform suddenly?

Sunil Duggal: One is Juices. If you take urban GT growth are there around 7% which is the number I have. If juices were in full supply, it would trend towards 10% which is not too bad.

Vivek Maheshwari: Compared to the previous quarter, has there been a deceleration or it is kind of holding up if you adjust for Foods say even in the first quarter? On a like-to-like basis...

Sunil Duggal: Again, I have not really done with Foods and without Foods cut, but there has been some deceleration in urban GT, but it has been kind of mitigated to a substantial extent by MT.

Vivek Maheshwari: If I just for a moment look at your standalone P&L and HUL 300 basis points of gross margin expansion, A&P for HUL moves up by 225 whereas for you 40 basis points now. I understand the portfolio difference in Soaps and Detergents, etc., but could you comment on share of voice or there was a more higher focus on profitability which is why A&P increase has been somewhat moderate at just about 40 basis points?



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Sunil Duggal:

I think you should look again in context what is the base. I really have no idea of the base of our competitors what it was last year. Our growth has been on a fairly high base of A&P. So, quite frankly there has been no need to grow it beyond the current levels. At the same time, since we have not been aggressive in reducing prices and one of the price reductions are actually in COGS in company's books. So they are not visible in the A&P line. Since we have not pursued that path, we have been taking the ATL piece at least at a fairly high growth levels. I do not think we should compare Company A with Company B, but overall "Have we shrunk A&P?" The answer is "no", we have increased A&P. "Have we increased it by a number which is the highest in the business?" Obviously not, but....

Vivek Maheshwari:

But there is no issue with the share of voice for sure, right?

Sunil Duggal:

There is no issue with the share of voice. In fact, part of the reason why we have not grown A&P as much as the number suggested that we have actually done much better deals with the media houses We have rationalized the entire way we buy media and we plan media and that is pinning of savings which means that we have the same and so we are lower cost. So our efficiency in terms of media buying has definitely improved from the second quarter and will further accelerate in the third quarter. So even if you see some deceleration in advertising which I do not think it will happen but even if it happens, again you should not assume that we are cutting back on investments.

Vivek Maheshwari:

On the pricing front, if I look at your reduced domestic volume growth from there, what I see there has been a slight 50-60 basis points increase in pricing component and this is despite Shampoo price cut which you would have taken so the inherent number assuming Shampoo is say 4% of your domestic portfolio, it is still an acceleration. So has there been any part of the portfolio where you took up prices in this quarter?

Sunil Duggal:

There are large parts of our business where we have actually immense pricing power and I just share two or three brands with you -- some of our Toothpaste brands have huge pricing power, we have not leverage that pricing power in full but to some extent we have. So there has been price increase in Toothpaste. There has been price increases in Honey. There has been price increases in Air Fresheners which again we have a dominant share. So these have also enhanced the gross margins. And while we were under no pressure to do so because the margin profile was already attractively exercised it because we did not see any downside in terms of growth of these brands consequent to the price increase.

Vivek Maheshwari:

If suppose input prices remain flattish or the trends remain where it is today, how will you pencil in fiscal '17 pricing component if you have to ...?



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Sunil Duggal: I have no idea, I do not even want to think that first. We have to manage the business in the second half of the year and under some fairly trying circumstances, so we will come to that thing around sometime in January-February when we carve the numbers for next year.

Vivek Maheshwari: The same question say for second half because the margins started moving up in say third quarter and quite a lot of the benefits we saw in fourth quarter. Is there a possibility of further price hikes in second half?

Sunil Duggal: Not in this quarter at least, I do not think there is much scope for price increases, we have already done some price increases in the first half and this has been carry forward. But I think again we would pause a bit, because and fourth quarter we relook at the pricing and see how much we can do, we have to be very careful in this kind of environment. But whenever we see revival in demand or inflationary cycle build up there will be price increases for sure. But, today is more sort of low inflation and low demand. So this is not the time when you think aggressively about price increases.

Nillai Shah of Morgan Stanley

Nillai Shah: The first question is on the International business. When I look at your numbers on the international organic bit you have reported numbers of about 9.5%. You said Namaste is double-digit and Turkey as I see constant currency is (+22%). The total number is just a shy of 9%. So which part of the portfolio is under stress then?

Sunil Duggal: Part of MENA is under stress because MENA growth has come off from the 15% levels to around 9%. Hobi 22 become zero in INR. That is a huge impact. And then similarly Egypt which is again 20%-odd comes down to practically nothing or low single digits in translation. So, we lose a lot of top line from those.

Nillai Shah: Going forward, the base case is one thing, but how is the business actually panning out in terms of the inorganic international business which is basically Namaste and Hobi?

Sunil Duggal: Namaste part is doing well, there is no currency overhang obviously and North America is reviving very strongly. Africa we are putting the engines of growth into place in terms of localization, etc., I am pretty optimistic about the Namaste business. Turkey is worrying on account of currency because it seems to be only one direction that currency is moving and it is very hard to mitigate that kind of impact. So, I am very optimistic about Namaste and cautious in terms of prospects for Hobi.

Nillai Shah: In Namaste the margins have crashed for Fiscal '15. Let us say as you exit Fiscal '17, what are your expectations for margin expansion for that one business?



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- Sunil Duggal:** I think the EBITDAs will come back into double-digit territory for sure in '17 and you will see beginnings of that even towards the fag end of this year. But in '17 we definitely look at improvement, I do not know exactly how much, let say the low-teens is the best I can think of at this point in time.
- Nillai Shah:** So that will be like more than about 600-700 basis points of margin expansion that you are factoring in?
- Sunil Duggal:** It will be entirely top line driven, but the gross margin of Namaste is in the 50s. So, we will just improve the top line which we are doing, the margin automatically improve, you do not have to do much else.
- Nillai Shah:** There is no pressure to increase distribution or cost pressures or the operational expenses, etc.,?
- Sunil Duggal:** Not really, but there will be some cost impact in Africa, but, we have already in a sense substantially invested in Africa infrastructure in terms of people. Some more work has to be done there, we have put in the CAPEX, etc. So, that part is to some extent done, a little bit more to be done. North America... nothing much in terms of infrastructure, the infrastructure has been always there and built in.
- Nillai Shah:** On Hair Oil, you spoke about three new brands. I know one is Jasmine. Which are the other ones?
- Sunil Duggal:** We have just introduced another product called Vatica Jasmine Hair Oil which has just been put into the market.
- Sunil Duggal:** Anmol Jasmine is now a few months old, doing very well and Keratin is a therapeutic brand which we are again starting off on a low key, it is a brand which we have transferred from the Fem Pharma portfolio, it was an Rx brand which we have made OTC and showing again good performance.
- Nillai Shah:** What about Anmol CHO? Have you revived that brand again? It is in a bigger way than it was earlier.
- Sunil Duggal:** Anmol CHO has been a brand which we have not invested in, it has been highly underinvested. It has got a strong potential because there is a discount segment in Coconut Oil which also demands quality. In some places that need is served by brands which our competitors sell, but many other places it is completely undeserved need and that is the areas which we are going for. Also I think we have done very good work in modern retail, etc., in



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putting the brand forward. It is a very high growth brand. Obviously, not the best margin generator, but very scalable in terms of its top line.

Nillai Shah: And the margins are lower just because you are discounting at this point in time...?

Sunil Duggal: This is inherently a lower margin category, so there is a discount, which we plan out this brand compared to the market leader. The overall margin profile is low but not massively low because it is comparatively low spends on A&P also. I am talking about the ATL part, most of these spends are BTL, in fact, there is no ATL...

Nillai Shah: Strategy on Anmol at this point in time or was it always there?

Sunil Duggal: No, I think we have executed it well. We always have this thought of mind on how do we scale up this brand. But let us say people who are more convinced about the brands potential to unlock its full value and that is what has happened in the last one year or so. So we have totally renovated it. If you see more now it is very-very sleek pack, we have got the pricing right, we have got the trade management right, we have got the modern retail piece right. So it is doing well. I think it will be a reasonable contributor to our top line, maybe not so much of course in margins.

Nillai Shah: If I ex out the impact of Shampoos for pricing, what is the total pricing growth for this quarter?

Sunil Duggal: This quarter would be around 1%, 2%, there is a lot of carry forward price increases because we did price increases in the third quarter of last year and that is all flow through but it is 80% flow through and 20% fresh price increases broadly. In the so-called pricing component, there is always a carry forward price when you have not lapped the earlier prices. So if I take up Chyawanprash prices in 1st of January I get the full benefit of that increase in my top line till 31st of December.

Nillai Shah: So the lapping of effect plus 1-2% fresh price increases this quarter?

Sunil Duggal: Yeah, most of it is lapping, but some very moderate new price increases.

Ankit Agarwal of Argonaut

Ankit Agarwal: I just wanted to understand the Toothpaste category. We have been growing extremely well. At whose expense are we actually gaining this market share – is it from the organized, is it because of an increase in the distribution network?

Sunil Duggal: I do not think it is unorganized because we do not have catcher brands. Babool you can say is the catcher brand, but Babool is not the driver of growth. I do not think either Red or Meswak are recruitment brands. They are not priced that way. So people migrate from regular



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toothpaste to these. The catcher brands we all know who they are and in fact they are no longer catcher brands now, they are catcher SKUs...Rs.5 and Rs.10 which can be across various brands. So, the catcher brands increasingly have been the Rs.5 and Rs.10 offerings from the major players. Those are really what is the recruitment brands. But, beneficial levels are very high. I do not think the recruitment part is massive any more. So it is more in terms of increasing consumption intensity and then of course the market shares.

Sanjay Singh of Axis Capital

Sanjay Singh: Sir, you had called long time back that the urban recovery would be happening but I guess it has taken probably much longer than anybody else would have guessed. So in this respect if we take Juice which is complete urban category what is your sense of Juice if you remove the festival timing or the issue of Nepal, what do you think is now are sustainable volume growth in Juices going forward? Is it only urban issue or is it a category issue also?

Sunil Duggal: No, it is to some extent the category issue and the category issue has been there for the last one or two years that the category has slowed down. The GNN category was not growing as fast as it used to be, but I think we have grown share. Of course, there will be some perhaps erosion now in the fag end of Q2 and now Q3, but our peak share was around 62% to 63% and it went up very rapidly from 40, 45 to 60, 65. So that was the prime reason here. So we meet category growth.

Sanjay Singh: Naturally, you can see we have already reached (+60%) and there is no longer market share gains, is that much limited now?

Sunil Duggal: There is still 40% more to go but you are right, it is not new when you reach that. I think that is really what has driven growth, but also I think overall Juices have perhaps grown a little bit ahead of many categories such as Skin Care... I am talking about the overall context because of the health nature of the product and also switch from the carbonated space to JNN. I think a lot of growth happens because of that. So one is market share, of course, other one is people just switching from say fruit drinks or even more so carbonated to JNN.

Sanjay Singh: So one is your market share gains probably been no longer there or will be very incremental, not radical in nature what you saw, so that part will leave aside, but the category growth part of it, now there are two parts – one is overall consumption space because Juices are a little expensive product or whatever, is the growth slowing down in the category because of that or do you think also the shift from the whole fizzy space is slowing down, why is the category slowing down?

Sunil Duggal: Fizzy space even though we do not have the precise numbers, it is obviously deep into negative territory. So there is obviously a switch, the more affluent part of the audience which



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have had the fizzy stuff is not switching over to JNN, may be first two drinks and then to JNN, but that provision is there. I think the price is a major disincentive to very rapid growth and that will only be mitigated when somehow money comes into the pockets of the consumer. And then there are other triggers, for example, schools in many metros now are banning what they called junk foods which includes the fizzy drinks and that itself will be a big trigger because there is a lot of consumption which happens in the lunch box of school going kids. So I think once we get the supply constraints sorted out, growth should come back to double-digits. Now whether it will be 20% growth will be seen or will it be more moderate? Remains to figure out, but I think double-digit growth is still very much there. I think what makes us very powerful in the space is value chain which is superior to that of our competitors. So, we can always invest more, we can innovate more, we can do a lot more things, we got a very subtle, very flexible supply chain which is enormously invested in. And once Nepal thing sorted out, which I am pretty hopeful is a matter of days rather than even weeks. We should be getting back growth here.

Sanjay Singh: So if you need to pin point a number at the risk of speculating, would you say we can go back to 15% or 10% to 15% is more reasonable number to look at ...?

Sunil Duggal: No, it is going to be conservative because we should not look at 15% growth as a given. That is always a dangerous assumption. So I would look at growth in the 10% to 15% band. It will be not entirely but significantly volume-driven because the price table is already pretty high.

Sanjay Singh: The overall business as a whole, now given the fact that we are looking at you said probably Q1 of next year, we will be looking at some kind of recovery or maybe Q4 of this year. So essentially if you want to again speculate volume growth band for FY17 what it would be?

Sunil Duggal: I have been making predictions about urban recovery and this recovery and that recovery which never seems to be happening and I am not the only one who is doing that. Fortunately everybody is doing the same state across sectors. But I think a couple of metrics which I have mentioned earlier that there would be some relaxation in terms of government spending whether in both consumption as well as infra, there would be triggers stimuli like the Pay Commissions and OROP and other things. So I think the fiscal condition being superior to what it was a year or two ago will encourage the government to be a little bit more populist in terms of stimulus and everybody in the world is giving stimuli. So why should India be an exceptional? China is doing that, EU is doing that, USA has been doing that for five years. So I think perhaps the same trend will happen here. Ultimately, higher consumption would be incremental in terms of revenues for everybody.

Sanjay Singh: So you are looking at probably a volume growth of 8% to 9%?



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Sunil Duggal:

I have been saying 8% to 12% which are moderated a couple of quarters ago but I still believe that the sector should deliver 8% to 12% growth. That is what in an economy which is growing 7% and 7.5%. There is no earthly reason why it should not grow at that pace.

Gagan Ahluwalia:

Thank you, everyone for your participation in this conference call. Webcast of this call and transcripts will be posted on the website. For any queries or feedback, you may contact us. Thank you and have a nice evening ahead.
