



“Dabur India Limited - Q1 FY2015-16 Results Investor Conference Call”

July 29, 2015

MANAGEMENT

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Gagan Ahluwalia:

Good afternoon Ladies and Gentlemen. On behalf of the management of Dabur India Limited I welcome you to this conference call pertaining to the results for the quarter ended 30th June 2015. We have here Mr. Sunil Duggal - CEO, Dabur India Limited, 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 a brief overview of the company's performance by Mr. Duggal followed by a Q&A session. 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 June 30th 2015. During the quarter Dabur's consolidated sales increased by 10.7% to 264 crores and profit after tax increased by 24% to 261 crores. The domestic FMCG business grew by 11.6% with volumes increasing by 8.1%. Hair care portfolio comprising hair oils and shampoos recorded growth of 12.7%, hair oils revived this quarter posting good growth of 13% with both perfumed and coconut hair oils performing well. This was on the back of focused marketing spends and activations. The shampoos portfolio recorded a healthy growth of 11.5% in Q1.

Oral care grew by 17.5% during the quarter with toothpastes posting a robust growth of 23.8%. Red toothpaste and Meswak continue to post strong volume led double-digit growths on the back of product efficacy and various marketing initiatives. Skin care category registered a growth of 5.2% this quarter, Gulabari Rose Water has been restaged with a contemporary packing and new advertising campaign. To facilitate the change a pipeline rationalization of old stocks was done. Initiatives have been taken in the Fem and Oxy portfolio to improve presence across salons in addition to gaining traction in retail markets. Homecare brands grew by almost 12% with both Odonil and Odomos posting double-digit growth. Digital media has been leveraged to enhance visibility and awareness of this portfolio.

Health supplements reported softer sales growth of 1.2%, this was mainly on account of lower sales of Glucose this quarter on the back of unseasonal rains and a short summer. Dabur Honey continued its robust growth backed by its positioning on health and fitness and focused marketing initiatives. Digestives grew by 1.7% during the quarter with the Hajmola franchise recording low growth due to a category slowdown. We have been driving categories through innovations and new formats. Last quarter, the Hajmola Chatpat variant was introduced and now we have launched Hajmola Yoodley which is a ready to drink ethnic beverage in six flavors. This has been launched in modern trade at food services channels to begin with.

The OTC and Ethical's portfolio registered a growth of 16.7% during the quarter. Ethical's portfolio posted good growth driven by activation and digital initiatives. OTC performed well with Lal Tel and women's tonic Ashokarishta and Dashmularishta Asavasposting good growth.



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One of the key initiatives for Dabur this year has been kick off of project LEAD - Leveraging Through Empowered Anchoring and Detailing. As a part of this initiative we shall have two separate front end teams one to manage the OTC and Ethical healthcare business and the other team shall cater to the rest of the domestic FMCG business. We expect this initiative to provide an impetus for focused growth in both pieces of the business. As part of this doctor reach will be significantly ramped up for the healthcare business as doctor advocacy shall be the key to demand generation. A medical detailing team has been built, 170 medical representatives have already been hired and will be taken up to 275 by the end of the fiscal. A head of business has been inducted for the doctor detailing and marketing, this initiative is in line with the focus on healthcare as an important driver of growth and will help establish a good connect with the healthcare fraternity. Food business continues to report double-digit growth this quarter and grew at 15.5% in spite of a weak summer. We recently introduced Real wellness range of juices beginning with a Jamun flavor. Going forward, we shall extend this range to other Indian flavors. The Activ range was extended with the launch of 100% mix fruit variant. Our innovation pipeline continues to be strong in this space.

The international business recorded growth of 9.2%, Organic international business grew by 10.3% this quarter which was lower compared to the previous quarters primarily on account of political disturbances in the Mena region. However, the acquired Namaste business has shown recovery in growth this quarter. On the profitability side, operating margins improved by around 120 basis points in Q1. This was on the back of inflation cooling off this quarter as material costs were lower by 320 basis points. We continue to invest in our brands and this reflects in our adpro expenditure which was 66 basis points higher than the corresponding quarter last year and stood at 16% of sales in Q1. Profit after tax grew by around 24% during the quarter.

In spite of an unfavorable season and weak underlying demand in many of the key FMCG categories, our business has reported steady growth. Capturing cost efficiencies and investing behind our brands will help the business grow. Our key priority shall be to dynamically manage the business in order to post profitable volume led growth. With this, I now open the Q&A and invite your questions. Thank you.

Abneesh Roy of Edelweiss.

Abneesh Roy:

Sir this first question is on this doctor thing which you are targeting, project LEAD. This will lead to what kind of cost escalation ? 170 MRs and then to be ramped up further, and will it help largely OTC Ethical's or will it help even supplements, oral care, foods, and baby products also?

Sunil Duggal:

It should cost in the region of 10 crores to 12 crores annually and part of the cost will be picked up this year and of course will be annualized next year and it's primarily aimed at the OTC and Ethical segment. It will have a spin off on the health supplements too, not too much on the personal care part of the business or home care or foods, but the main thrust is towards OTC



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primarily and secondly towards Ethical, but then some of the rub off will be there on the other products.

Abneesh Roy: And your OTC Ethicals has recorded quite a good growth this quarter, so what is the thinking behind project LEAD at this stage, which part of OTC Ethicals ? Is there is any issue if at all, why project LEAD has been launched?

Sunil Duggal: See, the growth of 16.7% in OTC and Ethical this quarter cannot be attributed to LEAD because that project has just begun, I do not think it is any impact on the business in this quarter it will start having impact from Q2 onwards. This growth has been largely on account of CORE the earlier initiative which was chemist directed. So going forward the combination of LEAD and CORE in terms of execution and lead in terms of advocacy will propel our OTC Ethical business to grow quite at a good pace.

Abneesh Roy: And sir what will be the cost escalation and this 170 MRs, is it good enough a base, see the pharma companies obviously will be having much larger base so is it enough and how much of the universe you will be able to target by this 170 initially and 275 MRs by the end of the fiscal?

Sunil Duggal: It is just the beginning and I do not know whether this will go to 500 or more, at this point in time this 275 is the number which is visible. 175 has been done, another 100 will happen by the year end and then the calibration process is going to continue. You will never have a target and say, a three year target and say we will go towards that you do it in stages and the calibration process is very important because you do not want to just waste money in the areas which are not productive. So I think this is comparatively a new field for us, we have never done advocacy of this type before, we also need to keep fine tuning the business model and the ramping up will be in consequence with that.

Abneesh Roy: And cost, the salary cost, the hand held device and the other things which will be required?

Sunil Duggal: Again, an estimate of 10 to 12 crore and it should be in that range for that 275 odd people, and then let's see whether this needs to be taken forward at what pace.

Abneesh Roy: Sir my second question is on skin care growth which has been a bit of laggard this quarter, so why Gulabari Rose Water required restaging and if you see even in Fem we do not know what has been the growth, so if you could give some clarity on Oxy Life and Fem growth. And when I correlate this with the market leader, there FAL brand is seeing a very good recovery, so is some section of consumption of yours going to this?

Sunil Duggal: I don't think so, I think a), it was a very high base of last year, b), the Fem portfolio is impacted by very high sales in Q1 because we had not had much sales in Q3 so we compensated for that in Q4, sorry, in Q4 we had high sales so Q1 was a little bit of a slack period for us and Gulabari was impacted by the packaging change which was part of the contemporization of the brand. So I



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think it is not that we are losing share, I think we have got some very interesting initiatives particularly around Oxy which is growing at a faster pace than Fem and we should back to double-digit growth sooner rather than later. But again it is contingent upon the overall demand situation, if it picks up then skincare will be one of the biggest beneficiaries.

Abneesh Roy:

Sir, next question is on digestives, you said category slowdown, so is the consumer shifting to some other kind of usage of other companies ? And this Yoodley brand how confident are all of you of success, is it going to take market share from Paper Boat ?

Sunil Duggal:

Well, obviously it is a new introduction so it will take market share from whoever is the existing player and at the moment we have done apparently a soft launch. We have put it only in modern trade and this is to test the initial response, taste, packaging etc and then again we will calibrate and perhaps six months down the line launch it more aggressively in general trade back with advertising and promotion. But I think there is room for ethnic flavors and we do have a significantly different pallet delivery compared to our competitors so I think it should do well.

Abneesh Roy:

What is the reasons for category slowdown?

Sunil Duggal:

That is for Hajmola, the churans and two reasons, one is that and the main reason is that Pudim Hara sales were quite low, in fact the brand did not do at all because of comparatively cool summer. So the same glucose phenomena played out in Pudim Hara. And I think in case of Hajmola the issues were more in terms of influx of very low priced local competitors which did cut into our base to some extent. I think what we have to do is to go up the whole value chain in terms of having more differentiated and better offerings like Yoodley, like different flavors and the bottom end of the market we will have to seed to the unorganized sector which is at half our price.

Abneesh Roy:

Sir last question on toothpaste portfolio, extremely strong set of growth, my sense is much ahead of the other two players, 24% growth easily well ahead of number one and number two players. The question is, what exactly has worked here? You have done quite a few initiatives in the last two years, urban, chemist, rural, so many initiatives. So what has worked in toothpaste and between Red and Meswak which is growing faster and Meswak dental kits are in hotels, is this good margin business because this is B2B essentially?

Sunil Duggal:

No, that is more of a brand building initiative, I do not think we make much money in the hotel kits etc. But it does facilitate sampling to our kind of audience which we want, so it is a brand building measure rather than a profit generating measure. The volumes are never going to be very big as far as the hotel segment is concerned. But I think the key point to your earlier part of your question is that these brands are doing well because of a very high product delivery. The products work, they are able to meet the needs of the consumer in terms of dental hygiene. In terms of the therapeutic part for breath, etc., the flavor delivery of Meswak is a very unique one, nothing like nothing else in the market, all this works in favor of the brand and the traction is



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immense and it does seem to be sustainable. It has been sustaining like this for the last eight to 10 quarters, I see no reason why it should slowdown. Of course the base is becoming high, Red is now a very large brand so lapping this kind of numbers with this kind of growth is never going to be easy, but definitely it should grow well ahead of category.

Abneesh Roy: And which has grown Red or Meswak?

Sunil Duggal: Both are the same.

Abneesh Roy: And no one offs in this right, 24% growth?

Sunil Duggal: No, the base was high so there is no one-off, I don't think so. It is on a very high base of last year.

Percy Pantaki of IIFL

Percy Pantaki: Sir this Yoodley product, actually can you give some idea as to what the product actually is?

Sunil Duggal: It is ethnic flavors with added spices and herbs, so it is basically what we used to make at home or our parents and grandparents used to make. Nobody has the time for that anymore, so this is a packaged product which replicates the flavors which we used to have when we were young.

Percy Pantaki: So it's got nothing to do with digestives, right?

Sunil Duggal: Well, there is a digestive element, the moment you put those spices in there is a digestive element. We are not propagating it on the digestive platform even though as Hajmola brand it does have its digestive connotations but we are doing it more on the proposition of flavor and fun. But there is an underlying digestion benefit but you know we do not want to load the brand with digestive claims, because then the message becomes confusing to the consumer.

Percy Pantaki: So sir why not just launch this under a sub brand of Real?

Sunil Duggal: The reason is that what delivery here is not fruit, it is flavor, ethnic flavors.

Percy Pantaki: So this does not have any fruit content?

Sunil Duggal: No, some of them have fruit content, some of them don't. like Golgappa flavor does not have anything to do with fruit, so it does not sit well under the Real equity, Real equity is all about fruit and we do not want to mess around with that and Hajmola is about fun and digestion, Hajmola is actually more of a fun brand then a digestion brand as we have promoted these days, so it sits very well under that equity which is India's ethnic and the Chatpata.

Percy Pantaki: What is the main SKU here, is it like a 250 ml or something like that?



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- Sunil Duggal:** Yes, there are six flavors in one size, 250 ml and because you have seen the product... you can see pictures of it on the web. It gives the impression of being a fun tasty product.
- Percy Pantaki:** Right. And what is the pricing for it?
- Sunil Duggal:** Pricing is Rs.30 for 250 ml.
- Percy Pantaki:** Right, understood. Secondly on this project LEAD, what my understanding is these medical representatives which you have hired they are going to go and talk to both Ayurvedic, Allopathic doctors and build advocacy for the product. So they are more on the marketing function rather than on the sales function, there will be sales guys who will actually go and supply these products in stores. So are you going to have a separate sales team as well for this?
- Sunil Duggal:** Yes.. Now what we have done is we have created two distribution verticals in terms of teams, the distributor maybe same or different or whatever but the teams are different - one team is a FMCG team, now FMCG also includes Chyawanprash, it also includes Hajmola, it also includes Honey and Glucose because these are grocery driven products. So basically we have structured this channel and then you have the healthcare which has the products which are sold largely through chemists and Ayurvedic outlets. So this is how the division has come because what we were finding was that the FMCG products which were grocery driven, whether they were healthcare or personal care were overwhelming the long tail of healthcare. So there wasn't an adequate amount of attention paid to healthcare, to some extent that concern was addressed through CORE but not entirely.
- Percy Pantaki:** And how long as this split been in place actually on the street?
- Sunil Duggal:** Just a month or so, it happened in Q1, started in the beginning of Q1 and complete by the end of Q1, so it is only now almost entirely complete.
- Percy Pantaki:** Okay. So basically you are having a split line distribution where some of your SKUs will be going through one team and another SKU will be going through another team?
- Sunil Duggal:** Precisely, and then the advocacy part will link up with the second team and then there would be one management which will be responsible for both the advocacy and the execution. The detailing and the retailing will come under single window.
- And the FMCG, the main FMCG business will be 80% of the whole mix that will be under a separate management.
- Percy Pantaki:** Right. But the advocacy is going to be linked to a much narrower product portfolio than the sales team for the healthcare, is that understanding correct?



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Sunil Duggal: You are absolutely right, you can do advocacy for five to 10 products, more 5 then 10 at one time and of course the whole product portfolio will comprise many more. But then you will keep changing these products as and when the need arises, the five or 10 products in retail is not something which is very rigid, it keeps changing. So the whole thing has to be linked up, so whatever you are advocating has to have the necessary infrastructure in terms of the sales, the retailing team. The two have to come together and that is why the entire team is completely separate, end to end.

Percy Pantaki: So sir what would be your product pipeline, new product pipeline on this, since you already now have built almost built a good team on this, everything is in place on the ground you need to supply products to be alive. Are you planning a lot of product launches in this and what kind of product launches if you can just give some idea?

Sunil Duggal: Not too many this year because we have enough pipeline to feed the detailing teams. There are enough products in our existing Ethical framework, Ethical brand framework, you know products like Stresscom or Gastrina , you would not have heard of these products but they are selling extensively through the whole detailing network through Ayurvedic outlets and otherwise through chemists. So now we will be promoting them aggressively to general practitioners or gynecologists or other such specialists so as to further give them traction.

Percy Pantaki: So would this also be accompanied by media spends?

Sunil Duggal: Not immediately, we will give it enough room for these products to settle down into the whole advocacy framework before we take that OTC through advertising, so that is around one year to one and half year time frame. It could be even longer, we have to still calibrate that and will be different for different products, the more serious a product higher is the incubation time the more prone to self-medication the less is advocacy period. So this is not something which is one size fits all approach, you have to customize the product to the detailing framework and then to it's OTC movement.

Percy Pantaki: Sir lastly on gross margins, this quarter gross margin expansion has been 320 bps which has been higher than what I had thought, so just wanted your views on that. I mean three months back would you have thought that 320 bps would have come through and if not what are the factors which have led to this and how many of them are sustainable for the next three four quarters so that we get some flavor on what we can expect for the full year.

Sunil Duggal: No it has been certainly ahead of our estimates because there has been drop in prices of coconut oil and honey and couple of other items which we had not budgeted for. We did budget for lower prices of oil so that has come into place, but it has been a little bit better. I think we had budgeted around 50 bps less than what we delivered, but not significantly different. Going forward there are two things, one is that the deflationary pressures or the deflationary benefits kicked in from around Q2 of last year but in full measure they were felt only in Q3 and Q4. Q2 we saw the



beginning of deflation happening last year. So if the commodity cycle plays out the way it is today, then this expansion would slow down, 320 might become 250, 270 next quarter but if it continues to accelerate which is also likely because oil prices seem to be again softening then we might see a recurrence of this 320 even next quarter. And then going forward of course it will be hard to maintain this 320 improvement because like I said the deflation was considerable in Q3 and Q4 of last year, but we may have a decent expansion, similar expansion in Q2.

Percy Pantaki:

But sir also the fact that right now on a YoY basis your price increase is 2% to 3%, if the cost inflation also rises then you might have some more headroom to take up prices in Q3, Q4 on a YoY basis maybe or price increase can be 4% or 5%, is that a possibility and therefore your gross margins do not...?

Sunil Duggal:

I do not think price increases are going to happen, I do not see any realistic chance of that unless there is some big revival of inflation which is also extremely unlikely. So that is going to put obviously a lot of pressure on the top-line because it is going to be very volume driven, but then the margin story is going to remain attractive.

Ajay Thakur of Anand Rathi

Ajay Thakur:

Just wanted to get a sense on the rural market because we are hearing a lot of commentary around the rural market being slower than what it was delivering maybe last few quarters. And also can you just throw some light on your rural and urban breakup, as in how they are shaping up?

Sunil Duggal:

Yes, to answer the last part of your question, our urban growths have been slightly ahead of rural, say around domestic FMCG urban has been around 12% and rural has been around 10.5% broadly in that range, small delta here. To the other part which is outlook for rural, at this point in time the demand side is very weak and there is no doubt about that, partly driven by poor consumer sentiment on the back of unseasonal rains to begin with and now erratic monsoon, but perhaps a little bit more to do with acute liquidity issues which are hampering the flow of goods into rural markets. So what is happening is that the wholesaler has got a severe cash crunch, the banks' lending and base rates are high and the credit requirements are long. So he is down stocking, he is keeping less, he is keeping only what is fast moving and that is impeding the growth of rural markets in particular. To some extent this impact is even in urban so we are seeing a demand compression happening on account of liquidity and also in terms of the underlying consumer sentiments and demand.

Ajay Thakur:

Okay. And secondly if I were to just look at your toothpaste category, can you just throw some light on is the category itself recovered from the declining phase that it was into and what kind of market share gains over last maybe one year or two years you have seen because you have been giving pretty healthy kind of toothpaste volume growth numbers, so from that perspective just wanted to check on two issues on this.



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Sunil Duggal:

Well, I am not too sure about what how the other people are going to grow, I think once that the numbers are out the other one will happen soon, but I do suspect that the toothpaste category will not be growing more than 5%- 6%. In terms of volume if you take the category growths, there is no huge revival in toothpaste or hair oil, there is some revival but over a very-very low base of last year. The only significant revival seems to happening in shampoos, but then this is syndicated data which is not always very accurate. So I think perhaps the data points exaggerate the growth in FMCG as a whole because I am not seeing that kind of growth really happening on ground.

Ajay Thakur:

Okay. And the market share gain part of it?

Sunil Duggal:

Well, you have seen our numbers we have been growing well ahead of category for the last six or eight quarters, unfortunately this is not reflecting adequately in our market shares, even though our value shares are going up they are going up only very marginally as far as data is there by around 50 basis points over the last one year or so. I suspect our market share gain should be higher, but then that is the only data which is available.

Jubil Jain from Phillip Capital

Jubil Jain:

Can you throw some light on Namaste and Hobi businesses?

Sunil Duggal:

Yes, to answer your first question Namaste, two very different parts of the story, the North American business has staged a strong revival and grown by 20% odd, so I think we are on the right track to further accelerate growth in that piece of the business. The Africa business is still underperforming entirely on account of major- devaluation of currencies and since the supply chain is still denominated in dollars the end price in terms of the local markets whether it is in South Africa or Nigeria or Kenya the prices have gone up by around 40% to 60% which has obviously reduced the demand. So the Africa piece is not performing as well as we expected, the North American piece is back on track. Overall, Namaste has grown by around 8% and we should see further acceleration of growth in the quarters to come and this will happen both on the back of continued revival in North America as well as improvement in demand in Africa consequent to local manufacturing which is now going to happen in the third quarter of this year.

Jubil Jain:

Hobi?

Sunil Duggal:

Hobi grew by around 22% in TL, very impressive growth, it all evaporated in translation so the INR growth is hardly 5%. So it is a little unfortunate but the currency overhang is very severe in Turkey - perhaps one of the worst performing currency globally, so we do great business in local currency, lose all of it in translation.

Jubil Jain:

Okay. And sir with deflation looming around, can we expect ad spends to be sustained at around 16% to 17% of sales or will you be even increased beyond this?



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Sunil Duggal: I don't think they will increase, I think there will be maybe some shift between ATL and BTL depending upon, if the underlying consumer sentiment is weak and the demand is weak then we may move more spend below the line which we did not want to do but there may not be any option but if the demand revives then the spends will move again back above the line.

Jubil Jain: Okay. And sir coming back to oral care, is there any difference between the secondary sales and the primary sales growth because as you mentioned...

Sunil Duggal: No, there is no difference, so do not worry we are not building a pipeline or anything like that. In fact we are doing some destocking over the first two quarters, nothing very huge but there has been some destocking. So the numbers what you see is actual delivery, actual consumer off take, it is actually tertiary sales, I won't even call it primary sales, it is actually consumer off take from the shelves.

Jubil Jain: Okay. And sir you had mentioned that you expect toothpaste to grow at around 5% to 6% in volumes, so can we expect Dabur to maintain higher volume growth of say high single to the double-digit?

Sunil Duggal: I expect so because one of the biggest impediments to growth of oral care, I mean toothpaste in particular has been the influx and the higher saliency of LUPs. Now what we have resisted is that for Meswak and Red we have strongly resisted the move to LUPs. There is a lot of demand for a Rs.10 Red toothpaste but we cap it at a very low level because we believe that all these are value traps. I put in a toothpaste at Rs.10 I get sort of stuck at that point and my business starts moving there. People who would have otherwise bought a higher grammage toothpaste will buy that Rs.10 product, so we have resisted that temptation and that is one of the reason these two brands have done well and the Babool has not because Babool has got little bit stuck into that LUP trap so it has not grown. Now we are getting out of that by reducing sales of the Rs.10 and improving that of the higher grammage, but it has come at a huge cost in terms of volume de-growth, from next quarter onwards we would have lapped that de-growth and will begin to grow again in Babool but we have not repeated that mistake in Meswak and Red, so we have strongly resisted this urge to get into the Rs.10 pack.

Jubil Jain: Okay. And sir last question, what would be the volume growth in the international business?

Sunil Duggal: Well, international business is almost entirely volume, so if you see a 9% growth you can say that it is 8.5 volume or something like that.

Latika Chopra of JP Morgan

Latika Chopra: My first question is on health supplement, while Q1 is not big for Chyawanprash but does flat growth worries you here?



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Sunil Duggal: No it does not because glucose is entirely a seasonal phenomena, I do not think there is any underlying issues with the brand. We had a great 2014, we had a lousy 2015 because 2014 was hot summer and 2015 was not. And like 2013 was again a bad year, so we are used to this. And Chyawanprash is not really a material factor in Q1, it does not sell, I think it has got around 10% saliency in Q1, maybe even less than 10%, so it is not material. The third part of health supplement is honey which grew at a very-very good pace, so no issues there and that is really the critical brand because that is not that seasonal, there is some seasonality but it is pretty much sells across the year. So if honey is taking my volumes up, if honey is growing at a good pace then I am less bothered about the seasonal brands.

Latika Chopra: And in hair oils, after witnessing a relatively good Q1 would you expect full year growth rates to trend around these levels or there is a risk to these coming down?

Sunil Duggal: Well, I think Q1 growths have been good and there is no assurance that 10%, 12% growth are maintainable for the full year, so I won't like to stick my neck out and say that we will do 12%, these are on the higher side of normal. I would be happy with around 10% growth in hair oils and we should be able to get there, but not to be taken for granted.

Latika Chopra: And lastly is the follow-up on the organic overseas business here you mentioned the volume growth is about 8% to 8.5% odd, now the Q1 seemed a bit subdued so how should, any thoughts on the outlook for the full year here? I know it is difficult...

Sunil Duggal: I think we have kind of bottomed out in Q1, there were headwinds in many places which they all came together same time so we had Yemen closing down, Yemen is a 20 crores market, we had issues in Egypt with regard to liquidity, etc., hopefully many of those are behind us, we had Libya shut down another big market, we had issues with political issues in Saudi Arabia, Iraq. So it was kind of pressure points all across, many of them are now less visible so I think growth should revive in the Mena region maybe not to the levels 15%, 20% which we saw but certainly much better than what we have done in Q1 and then hopefully we should take up the growths back to the 15% odd levels which we are used to.

Aashish Uppanlawar of Elara Capital

Aashish Uppanlawar: Sir just wanted to understand on the consistency of growth, I mean we can say that foods definitely has been the most consistent and for some time we have seen homecare, Red toothpaste has been performing well, shampoos doing well but often there has been lot of inconsistency. So do you expect this kind of I mean these categories providing kind of base on consistent growth and others kind of filling in to give you the overall growth rates and any outlook on qualitative inputs basically on each of these categories?

Sunil Duggal: I think as I have been maintaining that within the total Dabur portfolio there is obviously volatility amongst different parts of the portfolio, but they tend to kind of net each other out and



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we do seem to have a fairly consistent level of growth in aggregate terms. I do not see that factor changing. Of course Q2 is going to be very challenging and I want to put this on record because one is the seasonality elements are against us, Diwali was in October last year it is November this year. So a lot of pre-season loading, the real gift pack, etc., which we sold last year in September will move to October this year, so we have a high base of last year. And we will have a low delivery this year, but I am not too worried about that because these are factors which are entirely seasonal and they tend to net each other out over a couple of quarters. I think the more bigger concern is that the consumer sentiments in terms of liquidity as I mentioned, the cash crunch, the banks not lending, the interest rates continuing to be very high, that is impeding business growth in a very meaningful manner and that is something which can track down growth for the balance of the year. So I think Q2 is going to be most challenging and on account of the reasons I described earlier, we should have a much better second half and overall the year should be fairly consistent but we are still not satisfied with the overall underlying consumer sentiments and demand. We expected them to be much better than what they are.

Aashish Uppanlawar:

Okay. Sir the two important categories are the bigger ones of foods and hair care, so foods we understand but hair care what do you see as a trajectory which is a conservative trajectory on the growth maybe for the next three years of this, maybe you can segregate to shampoos and hair oil part?

Sunil Duggal:

It is fairly mature category, both shampoos and hair oils are well into 90% penetration levels, pretty well mapped out so the growth is not going to be very spectacular here, I suspect the growth of around 10% to 12% I would consider it to be a good growth in this very mature category.

Aashish Uppanlawar:

Okay. And sir on Namaste what is the margin kind of currently and what is the outlook for it because you said that there is a problem with RMs being denominated in dollars, so...?

Sunil Duggal:

Yes, the Africa margin is obviously under lot of stress, the US margins are doing very well because of the strong currency and North America is a higher margin delivery than Africa. So overall we are seeing a considerable improvement in margins but I think a lot of margin delivery will come on the back of top-line improvements, so if you are able to grow that business by around 20% as we ought to this year the margins will automatically look good and if we don't, no matter what the material prices are the underlying deleveraging in terms of cost would keep the margins low.

Aashish Uppanlawar:

Are they in double-digit as of now overall for Namaste?

Sunil Duggal:

Well close to it but not quite there.



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Arnab Mitra of Credit Suisse

Arnab Mitra: First question is on the overall demand, you did sound cautious on demand, so I was just wondering because between you and even some of the other companies actually volume growths have been either steady or improving in the last two quarters. So where is the disconnect and is your cautious view being driven by your own feedback from your sales guys or it is a bit more of a macro view you are taking based on other variables in the economy and is it more driven by the fact that specifically for you there is a 2Q issue with the seasonality of Diwali or are you thinking it will actually deteriorate on the ground?

Sunil Duggal: No, I think due to the combination of seasonality issues the Diwali in particular being in November and not October and that could be a major factor but then it has placed above two quarters, it will normalize in Q3. So there is not really a cause of any concern. I think the bigger concern is how is the trade going to support business growth if they are so short of cash. If liquidity continues to be a constraint, if interest don't come down, if there is not more money flowing into the market in the hands of traders then the business growth is going to be impeded by that particular fact and that is the larger cause of concern.

Arnab Mitra: So but other than the trade in terms of end consumer demand are you seeing things stable there or any signs of improvement or deterioration?

Sunil Duggal: No, in terms of end demand I do not think there is any change. There is no improvement or deterioration, it is really the trade part which is getting impacted and that includes modern trade which is also under some stress, but more than modern trade it is general trade in semi-urban and rural areas which is the bigger cause of concern.

Arnab Mitra: And any sense of if news is capturing any kind of reduction in stock levels and any quantification of how much could be the impact?

Sunil Duggal: No, I do not think anybody captures the stock levels and inventories, but we do see strong signs of destocking and lower stocking happening across the whole trade channels due to this liquidity crises, or we are seeing increase in receivables. So you can put more product in but the money is not going to come. So if you have rigid norms in terms of receivables management and credit limits like we do then the destocking would be inevitable.

Arnab Mitra: Right. Just second question is on this, again going back to the doctor detailing thing, just wanted to understand in terms of when you go to an Allopathic doctor is there appetite for natural product or a herbal product which is not an Allopathic product are they open to listening and actually recommending these kind of things?

Sunil Duggal: I think they are delighted to see our people come because they do not expect us to come, we have not come for the last 130 years and all our products are so well known and most of them



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consume some product or the other. So they greet us quite warmly and we are quite impressed with the reception we have got and it is surprising that they don't even bother enough whether we advertise the product or not, they are more interested in knowing that what makes this work, what are the proof you have, what are the clinical trials and they want some evidence in terms of how the efficacy is. Even for products like Chyawanprash they are quite receptive to the idea of detailing because at the end of the day they are so used to people selling different versions of the same molecule that this comes as a sort of breath of fresh air to them.

Arnab Mitra: Sure. Just last question on your price growth which has been still, there is some 3% to 4% of pricing, is this all kind of follow through from previous quarters or there is something incremental here and specifically on toothpaste is there some pricing component on this growth?

Sunil Duggal: Yes, I think toothpaste we have increased prices like I said Meswak and Red we have been fairly aggressive in pricing and I would say not just MRP increase but reducing the saliency of the LUPs which improves the whole pricing table. But other than that I think the pricing has been pretty much non-existent. So 0.5% this quarter and the balance is carry forward from the previous quarter.. The thing is we do have enormous amount of pricing power in many of our brands, even Red toothpaste or Honey or Chyawanprash but at this point in time with the consumer sentiment being low we chose not to exercise it. So I do not rule out the possibility of price increases in areas where we do have the validity to do so but we may chose not to do it.

Arnab Mitra: And in toothpaste what would be approximately the pricing component of this 24%?

Sunil Duggal: Maybe around 5% or thereabout.

Arnab Mitra: So not much, okay.

Sunil Duggal: But it is fair, I mean 5% is much more than perhaps any other category.

Naveen Trivedi of Trust Capital

Naveen Trivedi: My question is, in the last con-call you had mentioned that there is a cost deflation benefit happening in the international business, so how much it has benefitted in the current quarter and how do you see it going ahead?

Lalit Malik: So I think overall if we see it is around 300 basis points is the deflationary impact that we see even in the international, so overall between India and that is more or less on the similar level.

Naveen Trivedi: Can you give some idea about how has been the EBITDA margin for international business this quarter?

Lalit Malik: Well, if we look at the consolidated levels the EBITDA margin is around 18%, 17.9%, and the India level is approximately 18%, so more or less again they are at the same level.



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Sunil Duggal: There is pretty high level of similarity in the EBITDAs. Of course the organic business is high and the acquired is low, but if you aggregate there is not of a difference between these two ratios India and overseas.

Naveen Trivedi: Okay. And my next question, as you said 320 basis points growth margin expansion you are saying largely it is led by raw material softening, so in the current quarter there has not been any benefit of price hikes or revenue mix benefit?

Sunil Duggal: No, I do not think mix has had much impact, there has been flow through of price which we mentioned of around 3% and fresh price increases have been around 0.5% at max. So overall it has been really the fall in commodity prices and fortunately I do not think that is over, I mean we are seeing perhaps another fall coming in the quarters to come so I am hopeful of maintaining this increase of 320 even in Q3 and Q4 when you had similar deflation happening last year. But it is not to be taken for granted, the commodity cycles can reverse very quickly but oil prices again seem to be now coming off very quickly and you have softness in coconut oils and honey and other hydrocarbon derivatives, PDCB, etc. So the COGS environment is pretty benign.

Naveen Trivedi: But there will be some inventory also raw material inventory which is giving you visibility...

Sunil Duggal: Not too much, we have not really gone very long, we have kept our inventory levels low so there will be around six to eight weeks of inventory which obviously will be maybe a little bit higher price but the impact of that is not going to be much.

Naveen Trivedi: They are also anticipating prices to further fall that is why you are maintaining low inventory?

Sunil Duggal: Yes, we are not covering anything which is of a non-strategic nature. So we have commodities for which you need to stock up because they are highly seasonal, like some fruit concentrates, etc., or some herbs where the cropping pattern is annual. So that is what we call strategic stocking and that we do not worry too much in terms of how the price movement will be there because we have to have that stuff to keep the business running. Now commodities such as the oil derivatives is something which we are not obviously going long at this point in time, we have not built any positions for most of these traded commodities.

Puneet Jain of Goldman Sachs

Puneet Jain: Sir my first question is actually about pricing decision in a cost deflation environment. Now like as you mentioned that you have seen some gross margin expansion and you will possibly further see gross margin expansion in coming quarters so what level of peak gross margin will you be comfortable with and will there be a point where you could start passing on some of these cost benefits to the consumer?



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Sunil Duggal: I think the current GM level which is around 50% is a good place to be in so we would not seek to grow it very aggressively beyond current level. I am talking about gross contribution and not gross margin, which is revenues less cogs including variable cost. If you take the other way the gross margins it is more like 54%, but then we prefer to use other ratio of gross contribution. Anyway, whichever way you chose it the current gross contribution level of around 50% is something which we are comfortable with. We seek to grow it further but not at the cost of volumes. So I think there is a resistance level beyond which it is hard to grow the gross margins and you have to keep testing the pricing sensitivity and it is possible that we may be able to grow it further but not much more.

Puneet Jain: Like you mentioned that if the gross margin actually expand by 300 basis points in Q2 your gross margins will go to a 51% range?

Sunil Duggal: Yes, I mean the gross margin which is like I said sales less COGS are today at around 50%-51% and they could go a little bit north but there is no guarantee of that, they could go a little bit south too, but whatever it is there will be still an improvement of what we delivered last year.

Puneet Jain: Okay. And in a scenario where maybe in the second half when the COGS start to go up...

Sunil Duggal: There is no certainty about that, COGS could go down in the second half.

Puneet Jain: Yes, so like later when the COGS actually start to go up will you endeavor to keep this gross profit margins so to take price increases in line with cost increases?

Sunil Duggal: No, our internal targets are around 100 bps improvement in the EBITD. Now whether it is through any other part of the P&L we will seek to maintain this improvement of 100 bps but not at the cost of sales. So I think that is the line you should see rather than GC because it is a combination of many elements, 100 bps improvement in the EBITDA or operating margin delivery is what we are seeking to get minimum. We will try to make it more than but there is no guarantee.

Puneet Jain: And second thing is that you mentioned that urban growth has become faster than rural growth in this quarter, so this is clearly a trend which is different from other consumer companies and even for your company in the past. So like though you have been mentioning that urban growth has been picking up while rural has been slowing down, will it be the first quarter where urban is actually taking the rural growth?

Sunil Duggal: Yes, the first quarter is a long time and I think the reason is different than other companies that we have perhaps slowed down our rural infrastructure building because we have already done a huge amount of that in the last two to four years and we have accelerated the infrastructure building in urban through LEAD or through CORE or through many such initiatives or through reorganization. So I think that's the reason why our urban growths are ahead of rural and also



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there is that issue in terms of the credit squeeze which is more apparent in rural than in urban. So this is according to plan, I always wanted the urban growth to be ahead of rural, that is the way it is ought to be and urban delivery is typically far more profitable than rural so our mix is also improving if you take higher urban growths. So directionally I think we are quite satisfied with this outcome, we are not obsessed about rural growths, we think there is huge amount of headroom in urban, and that is where many of our new initiatives particularly healthcare are very urban centric.

Puneet Jain: And finally with respect to you having mentioning credit squeeze quite often, so can't you offer higher receivables to the credit and differentiate yourself from unorganized sector given the fact that you are clearly seeing that it's an issue in the trade right now?

Sunil Duggal: No, we can but it is very hard to then retract those extended credit periods. We have let's say a seven day credit to most dealers, we can make it 10 or two weeks, but then getting it back to seven becomes a very hard task.

Vivek Maheshwari Maheshwari of CLSA

Vivek Maheshwari Good evening everyone, this is Vivek Maheshwari. Sir first question on this credit crunch thing, is this something that you have particularly observed in this quarter only, or this was something pressure that you were facing in the previous quarters as well?

Sunil Duggal: I think it has accelerated this quarter, we were feeling beginning of this in Q4 too but it is little bit more visible this quarter than earlier.

Vivek Maheshwari I see, and just to get it right, so basically you give them seven day credit and in turn do they sell to consumer also on credit or this is normally cash and carry?

Sunil Duggal: Yes, we do. No it is not cash and carry at all, it is all credit. Typically the credit they give is more than the credit which we give them, so we advise them to give one cycle credit which is also seven days but more often than not it is something like two cycles. So I think their average credit would be more in the region of 10 to 11 days as against what we give.

Vivek Maheshwari Which is typically seven days you are saying?

Sunil Duggal: Which is seven days for non-warehouse towns and 24 hours for warehouse towns.

Vivek Maheshwari Okay. And you mentioned about liquidity issues, bank not releasing funds, etc., but is there a possibility that some of this credit crunch is also because the end consumer because of unseasonal rains or whatever factors slowdown in rural has actually not been paying which means that it can become a much wider issue then what we are feeling today in terms of middle men being impacted?



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- Sunil Duggal:** Probably not, I think the monsoon has been behaving reasonably well recently, so I think the unseasonal rains did a lot of damage in terms of agrarian income but the monsoon perhaps will pan out to be a reasonably good one so I do not think this will continue. But I think the key thing is that there has to be more liquidity and there has to be some softening of interest rates. The banks are typically not very reluctant to lend and they are sitting on a whole lot of nonperforming assets. We know that story and till that story improves I think there would be issue in terms of liquidity and that is the fuel which is required to run the business in rural areas which is entirely fueled by businessmen, serviced by businessmen, traders and middlemen.
- Vivek Maheshwari** Okay, got it. And sir what would be your urban versus rural growth in fourth quarter if I may know, would you have that number?
- Sunil Duggal:** I think basically the growth of urban is moving ahead of rural by a visible measure. Earlier on it was more or less neck to neck and most of last year actually we saw higher rural growth than urban growth. But rural growth has been tapering off at least for us and partly it is on account of again perhaps more infrastructure building in urban and refocusing. We are trying to cut down on LUPs as much as possible. In some areas we cannot like shampoos but wherever we can we are deliberately cutting down on these LUPs which have almost entirely a rural franchise because we are not satisfied with the margin deliver in many of these and we do not want to dump down our products. So that is again one area why the urban markets are performing a little bit better for us. So it is part of a plan, it is not something which is happening at random.
- Vivek Maheshwari** Okay. Because in the last quarter you had mentioned the recovery in urban market was slower than what you expected while rural was surprisingly resilient, so that seemed to have reversed in this quarter, right which was your original thought process?
- Sunil Duggal:** Yes, but I think that was an aberration.
- Vivek Maheshwari** Got it. And lastly, I think Percy had already asked you this question about Yoodley, don't you think you are restricting yourself just to problem solution if you push it on that platform?
- Sunil Duggal:** You see the packaging, it is nothing about problem solution. It is all about fun and flavor. So if you see the communication, if you see the product itself I don't know whether you probably have not seen it. And Hajmola no longer is a digestive brand in the classic sense. Some people do have it for its digestive properties but a vast majority of the sales is for fun and flavor, taste. And the fact that it has some digestive undertones is only a factor which plays out in its sale but it is mostly for fun and flavor.
- Vivek Maheshwari** Got it. The reason of asking again was, if it becomes a sizable brand why should you classify it as a digestive but rather it should be part of foods right, because the channel will looking for Real.



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Sunil Duggal: We have reclassified Hajmola as a foods brand internally, I mean that is foods team manages Hajmola and not the Ayurvedic team, Pudina Hara is Ayurvedic brand but not Hajmola.

Richard Liu Liu of JM Financials

Richard Liu: Hi this is Richard Liu here, thanks for taking my question. Sir I just want to pick your brain on foods, you have launched the wellness range and also this mix fruit thing under Real Active, so I know 15% growth is very good but it is a much lower trajectory that you have been used to delivering and is this entire thing because of the summer factor that you mentioned in the presentation?

Sunil Duggal: Yes, partly summer and partly it is hard to lap 25% growth for more than a couple of years, the growth rate would slowdown, it is now a 1000 crores brand, it is no longer small so even a 15% growth is actually far ahead of what our competitor are doing. So I am pretty happy with 15% delivery this year.

Richard Liu: But is this the new range that we should be looking at rather than the 20% growth?

Sunil Duggal: I think so, I do not think we should look at 20% on the back of last year's base, that would happen if it's an exceptional year but in a normal year I think 15% is more what we are likely to deliver. Even this is not cake walk believe me, we have to work very hard to deliver 15% growth in an environment as it is. The season has to support you, the Q3 is very important in terms of the overall sentiments, party and holidays and festivals, etc. So nothing should be taken for granted.

Richard Liu: So what will need to happen for you to really get back to that 20% level for some more years, I mean will new product development?

Sunil Duggal: Yes, I think very aggressive new product agenda which then is supported by consumer sentiment and off take. We can be very aggressive in new products but the customer is not in a mood to experiment so then there is no point. So that is why even now despite what we earlier thought we are still being a little circumspect in putting big money and big distribution thrust on many of these products. So both I mean Wellness has been of course this is the single product so it can be easily launched but the Yoodley range is only going to be launched in modern trade where we will assess demand and then recalibrate it for general trade in a timeframe which is appropriate. So it is very easy to burn money in this market, you got to be very careful to husband your resources.

Richard Liu: Sure. I cannot help but compare the packaging of your new product with whatever is there in the market, if you can just let us know what is your thought on acquisition at this stage, does it really make sense or you think that internal work on this is much far more sufficient?



- Sunil Duggal:** You know if you do a make versus buy decision in the context of India valuations, the decision normally comes in favor of make, so it is as simple as that.
- Richard Liu:** Okay, got that. And my next question is really on other expenditure this quarter, we have seen a deceive step-up so to say in the fourth quarter spend versus the third quarter. So to just to recap I think third quarter last year you clocked another expenditure about 240 crores that went to about 260 crores and that 260 crores has further gone up to about 270 crores in the first quarter, what could be the reason for these sequential move?
- Sunil Duggal:** Well, obviously there is a little bit higher lubrication in terms of BTL spends happening in this quarter and that is more of industry because everybody is parting with some of the margins in the form of higher trade loads, etc., so part of it is that and a part of it is that a lot of new products have been launched in the first quarter and not too much happened in the fourth quarter of last year.
- Richard Liu:** And the BTL is actually a part of other expenditure not A&P?
- Sunil Duggal:** Part of BTL is part of A&P part of it is under COGS, but overall you have a higher spend in terms of trade promotions that what you had last year.
- Gagan Ahluwalia:** No, your question is pertaining to other expense not A&P?
- Lalit Malik:** Sure, I think other expenses there are a couple of reasons for that, one is there is a travelling expense that has gone up and it also depends on the distribution network that we are expanding., So that is one reason that we have. Second reason is that there has been some quality related, GMP related expenditure that we have incurring currently in order to upgrade the manufacturing quality standards of our manufacturing units in India. So that is also one of the contributory factor of increasing the expenditure. And the third is that we are doing certain cost saving initiative so there is an upfront cost for that to the consultants so these factors are contributing also. These are the three factors which are contributing to increase in the other expenses.
- Richard Liu:** Okay. And how long more will these costs be incurred?
- Lalit Malik:** Well as far as our quality standard expenditure and other travel, etc., I think would continue for the year.
- Sunil Duggal:** But consequent to the investments in the GMP, etc., there will also be some savings which should start kicking in the second half of perhaps more in the fourth quarter of this year. So overall these would be self-generative but the expenditure will be upfront.



Sanjay Singh of Axis Capital

Sanjay Singh: Sir, this credit crunch you are talking about is it you are talking about for the distributor or you are talking about the wholesalers?

Sunil Duggal: More wholesalers than distributors. But even the distributors are now beginning to kind of fret a little bit about their ROI so there is a lot of pressure on businesses to reduce the inventories and to improve their ROI. And distributors we can still manage they are our own people, but the bigger push back is from wholesalers and super stockiest.

Sanjay Singh: But interest rates have come off a bit and there is no liquidity issue. There could be issue that banks are not landing, but there is no liquidity issue in the system and interest rates have come up.

Sunil Duggal: There is enough money in the system it is just not available to the category of people who do business with us. The smaller traders are not really prime prospects for banks so they are not able to get money but particularly from public sector banks whom they use to deal with are now shutting down, clamping down a lot down a lot in terms of lending.

Sanjay Singh: And wholesale guys, do they work with bank loan, I would have not thought that wholesale distributors might but wholesale....

Sanjay Singh: So you are right, distributors work with bank, wholesalers work normally with cash but I think that a lot of the cash is stuck up in assets which are not giving them any yields like real-estate, etc. And overall I think there is genuine liquidity issue there is no doubt about that as far as the wholesale is concerned.

Sanjay Singh: Or rather wholesaler's investing in the stock markets?

Sunil Duggal: I do not think so, I think there is a lot of money stuck up in realty and that could be one cause and that is something which is very illiquid.

Sanjay Singh: Okay. No because to be frank you are the first company which is talking about that is why you are getting so many questions.

Sunil Duggal: This is very clear feedback from the field, I tend do believe what people are telling me this. So if you dig deep, the only way to do it is you go to field and talk to wholesalers and ask them what the issues are and you will get the appropriate feedback from them.

Sanjay Singh: Okay. And secondly on oral care outstanding growth there, in the last few years you have always done well on Red and Meswak especially Red, but still the growth rates were in 13%-14% kind of range. Now this (+20%) if you hit the ball out of the park so can we expect 18%-



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20% growth rate for the full year going forward or is it just like more probably little bit one-off maybe till come down to the normative say 15% to 16% kind of range as we go forward?

Sunil Duggal:

15%-16% is not normative because the category is growing at 5%-6% but I think we can continue to do 20% and the reason I am saying this is the Babool which was de-growing will start back on the growth path from next quarter, of course the growth will be probably modest single-digits but at least it will not drag down our toothpaste growth as it was over the last couple of years. So while I cannot assure that growth of Red and Meswak and all will be 30% odd, that might come down but the aggregate toothpaste growth at 20% is eminently possible.

Sanjay Singh:

Because you think Babool is back into growth.

Sunil Duggal:

Babool is back on the growth over a lower base. It is not that we will be getting back to what we were doing two years three years ago, the base got eroded but now we have fixed the problems with the brand in terms of its profitability. So I am very happy with the way Babool has been performing because at least I am making some money out of this, earlier I was selling a huge amount of toothpaste and making absolutely very little money. So now even if you grow at 5%-10% but we are making decent gross margins they will never be as much as Meswak, but if they are still at margins which add to my bottom-line I am pretty happy with the outcome.

Sanjay Singh:

And as of now Nielsen is not showing this market share increase really right?

Sunil Duggal:

No, the latest set of numbers it did not show quite frankly any improvement, I mean showed some improvement, the trend is up but it not as good as it ought to be just going by the primary numbers and as I said there is no stocking up, there is no smoke and mirrors behind the number. This is what the consumer is buying.

Sanjay Singh:

Secondly on personal care, I am not talking about the quarter but even on longer-term basis last five years after you have acquired Fem or last four years rather after FY12, FY13, FY14 and FY15 it has been not so great to be fair, it has been maybe 12%-13% one year good and that to in those four five years there have been good inflation at least in some of the years. So do you think that probably it can accelerate to a more 15% to 20% range or is it because although they are skin care they are not really Gulabari is more of probably state brand or something of that sort?

Sunil Duggal:

I think Gulabari is a quite a performer, it has been growing. Do not take the current numbers, I mean the real growth in Gulabari you see in the winters when a lot of the winter products like a moisturizer and all cold cream kick-in and that will be what will drive hopefully good growth. And if it is a good winter I am pretty sure that Gulabari will grow from double-digits. Now the Fem has to be led by innovation and I do not think since we acquired it the innovation



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platforms have been as much as they ought to have been. The innovations which we are going to see in Fem particularly in the Oxy part are going to immense. So we are coming up with a whole lot of products with I would not like to talk about but all that should drive growth of Fem also into strong double-digits. So if we get our NPDs right in Fem and the Gulabari portfolio like I said is a little bit seasonality driven if that supports us then you could see skincare growth in the 15% if not 20% range.

Sanjay Singh: And any plans or revival of Uveda?

Sunil Duggal: No, at the moment there is no plan.

Sanjay Singh: Okay. And in terms of Fem since you would have acquired do you think there would have been any loss in market share to brands like Veet like, etc.?

Sunil Duggal: No, I think our key portfolio is the bleaches where is no competitor really. There has been in some parts of the country some loss of market share to very low price competitors, so I think again since the innovation piece is now kicking in we are going to look at products which are very high on the whole value chain so which do not really compete with the unorganized local competitors which are typically one-third or half of our prices. So that is the way to growth in Fem and I think that is directionally what we are doing, we were just trying to tell people we are the better bleach and that appeals only to a certain section of people and not to the price sensitive, but if you come up with a whole array of products which are completely new and innovative then I think the brand will grow at a very quick pace and like I said most of the innovations will be around Oxy and not Fem they are two different brands.

Sanjay Singh: Okay. And lastly, I know you cannot mention but any pipeline of acquisition which you can see in the medium-term?

Sunil Duggal: Quite frankly no, because we tend to stay away from valuations which are currently there. So the recent acquisition obviously we have also been part of the whole process but they never really interested us in terms of signing the cheque. Going forward there are some prospects here and there but nothing very compelling.

Sunita Sachdev Sachdev of UBS

Sunita Sachdev: Hi sir, this is Sunita Sachdev here. Just wanted to congratulate you on the new innovation on juice, I think it is just the right fit for Dabur to where the consumer see Dabur in. How big do you think you would target your revenues from this segment and how do we think of incremental growth?

Sunil Duggal: Well, this segment is still pretty nascent and the headroom here could be very large because I think there is a big need for ethnic juices which were earlier available through making at home



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and now are not. So it is difficult to size the market but I think if the youngsters stick to it and that is critical then it could be very large in size, it could be typically not much smaller than the fruit beverage size, so ethnic products do have a substantial amount of headroom and traction.

Sunita Sachdev: So you think that in the next four years to five year?

Sunil Duggal: I do not know, I do not like to make these projections. It is absolutely a nascent brand, one thing first you get to go to that magic 20 crores to 50 crores number before you start thinking of the next, so you take this one step at a time. But I do suspect that there is a lot of headroom here for such products but again the affordability quotient has to be kept in mind. These are not cheap products by the way, Rs.30 for 250 ml it is higher price than fruit juice. So whether that is going to be a limiting factor so we may have to have different more innovative packaging formats which make the product more affordable, so there is a whole lot of learning here which we will have to imbibe.

Sunita Sachdev: Yes, the 1 liter packs from the market innovator in this category come at the magic price point of Rs.100, so maybe we extend into those SKUs well?

Sunil Duggal: For that you have got to build the brand on the back of the single serve before you got into 1 liter, but we can go into liter literally overnight because we do have all the infrastructure to put into one liter. But we choose not to lead with 1 liter because we need to have this product firstly adequately sampled and accepted before people are going to invest Rs.100 in buying it. And I think the saliency of 1 liter in this category is still very-very low, I do not have numbers have I suspect it is very low.

Sunita Sachdev: All right, just one last question. I think the market leader in oral care has just launched a neem variant, it basically justifies that the segment it dominates is getting very interesting, what do you think of this?

Sunil Duggal: See I think Red toothpaste is package, it is not one herb, etc. It is a delivery system for oral the hygiene through use of multiple herbs. So the neem and clove root has been tried by everybody and everybody right and it is pretty much done to death. So I do not think a neem or a clove or a single herb variant is going to excite huge amount of attention, but if you package it as a therapeutic product with underlying support of multiple ingredients that probably is a much stronger platform to launch in herbal Ayurvedic product.

Sunita Sachdev: And that is something that this company called Patanjali is probably doing right, they have a very good product.

Sunil Duggal: Yes, they have fair amount of products and some of the products are doing well and some of them not and but they have limitations in terms of distribution.



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Prasad Deshmukh of Bank of America Merrill Lynch

Prasad Deshmukh: Sir most of my questions have been answered, just one on this project lead again. When you discuss that you said you are not sure how big this can be, just wanted to understand your thought process internally as to how did you decide that okay this is what you need to do and start the project, I mean if you are not sure as to how big it will become?

Sunil Duggal: No, we learnt through failures that you have go to the doctor, you go to have advocacy before you can build an OTC brand. And all the big OTC brands in the country are have had decades of detailing support behind them. So there is almost no example of therapeutic brand being built entirely on advertising, I am talking about in the OTC space, the only person who did that to extend was Paras and that was also pain relief, etc., and even their products like D'Cold never worked because they were of a more therapeutic nature, so the advertisement part can only work up to a point. So this journey has to be done and you cannot just be, if you want to be a healthcare company or a healthcare business you got to have products spanning supplements, OTC, and prescription, the whole domain and that is what we wanted to do. So this is a necessary part of the infrastructure building, fortunately it does not cost as much as money as what we thought that require a huge amount of investment and time so we got to build a team, you got to have leadership here who understands the space and once you are willing to invest there I am sure that rewards would be considerable. It is early days so I would not like say how much will be the ROI on this investment but I suspect it to be one of the better investments we have never made.

Prasad Deshmukh So just a follow-up on that, then one – is your sales force giving you a feedback that there is more kind of acceptance even in Allopathic stream of things for herbal kind of products, one; and second, is there any other company which is successfully traded the same path?

Sunil Duggal: No, I think other companies do tend to support their products of FMCG nature through detailing, I mean GSK does it, J&J does it, Nestlé does it, and they go to specialist. They go to pediatrician or they go to other such specialization which is in conformity with the product but that is really to support their existing established products here. Now here we are trying to detail products which will not be taken over-the-counter through advertising for a period of time, we are trying to incubate these products and then take them OTC. So I do not think anybody else is quite following this model, at least I am not familiar with it, because it requires an infrastructure which companies may not be able to build. It requires fairly deep pockets to do this not just in terms of money but also in terms of overall support systems. So here this team is pretty much integrated with our S&D infrastructure in terms of, their area offices, senior sales management team they all kind of fit in together. So I think we are much better equipped to do it with anybody and then Dabur as a brand is so well known that the initial feedback again is that people who are pleasantly surprised as to the response they got from the doctors.



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Gagan Ahluwalia: Thank you. Ladies and gentlemen we thank you for your participant in this conference call. The webcast of the call and transcript will be posted on the website soon. For any further queries or feedback you may kindly contact us. Thank you and have a nice evening ahead.
