



“Dabur India Limited - Q4 FY2014-15 Results Conference Call”

May 7, 2015

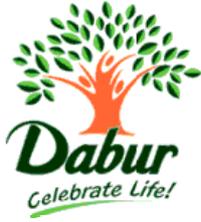
MANAGEMENT

MR. SUNIL DUGGAL - CHIEF EXECUTIVE OFFICER

MR. LALIT MALIK - CHIEF FINANCIAL OFFICER

MR. SAIBAL SENGUPTA - VICE PRESIDENT, FINANCE

MS. GAGAN AHLUWALIA - GENERAL MANAGER, CORPORATE AFFAIRS



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Gagan Ahluwalia:

Thank you. Good afternoon ladies and gentlemen. On behalf of the Management of Dabur India Limited I welcome you to this Conference Call pertaining to the Results for the Quarter and Year-ended 31st March 2015. We have here with us Mr. Sunil Duggal – CEO; Mr. Lalit Malik – Chief Financial Officer; Mr. Saibal Sengupta – Vice President, Finance. We will now begin 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.

Sunil Duggal:

Thank you, Gagan, and Good Afternoon, Ladies and Gentlemen. Welcome to Dabur India Limited’s conference call pertaining to the results for the quarter and year-ended March 31st 2015. During the quarter, Dabur’s consolidated sales increased by 10.2% to Rs.1,945 crores and profit after tax by 21% to Rs.285 crores. On constant currency basis, growth in sales was 11.1%. During the fiscal, the company achieved sales of Rs.7,806 crores and the net profit crossed the Rs.1,000 crores mark to end the year with Rs.1,066 crores.

The Domestic FMCG business reported growth of 12.1% in Q4 with volume growth being 8.1%.

Health Supplements portfolio grew by 13% during the quarter led by robust growth in Dabur Honey and Glucose. Chyawanprash continued to perform well in the Retail channels with flavors gaining traction. Digestives grew by 11% with the Hajmola franchise and Pudina Hara Pearls reporting good growth.

The OTC and Ethical portfolio registered growth of 7.7% during the quarter. Ethical portfolio posted double-digit growth driven by focus on medical marketing and activation. Some of the OTC products were a bit sluggish as the category remained slow during the year. However, Honitus Cough Syrup performed well and the brand format was extended by inclusion of Madhuvani under the Honitus umbrella.

A new baby massage oil called Dabur Baby Massage Oil with Olive and Almonds has just been launched; this is the first of a new range of Baby Care products which are being introduced under the brand “Dabur Baby” which will have a range of products using natural oils. The product is free of paraffin and parabens making it completely safe for babies.

Hair Care portfolio comprising Hair Oils and Shampoos reported a growth of 7.4%. We recently launched Dabur Keratex Hair Oil, a therapeutic hair oil which will help expand our footprint in problem solution Hair Oil category. The Vatika Brave and Beautiful Campaign has received acclaim and has helped enhance the brand imagery for Vatika. This is a precursor for number of initiatives in the Shampoo space which would be unfolded during the year.



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Oral Care portfolio grew by 11.6% during the quarter with Red Toothpaste and Meswak continuing on a strong growth trajectory, recording double-digit growth and also gaining market share. Babool Toothpaste and Red Tooth Powder posted muted growth as the market gravitated towards more premium offerings.

Skin Care category reflected a good pickup with 16.6% growth this quarter mainly on account of strong growth in the Bleaches portfolio, driven by focused marketing spends and activations. Gold variant in the Bleach portfolio is performing well and driving growth. Home Care portfolio grew by 12.1% with Odonil registering good volume-led growth. Sanifresh performed well helped by a new campaign “700 se saath kadam” an association with Swachh Bharat Mission. Odomos had a good year driven by new formats such as wearable bands, patches, and newly launched Roll-Ons.

Foods business reported a 19.6% growth this quarter backed by focused advertising, good offtakes in modern trade and good demand for healthy beverages. I have great pleasure in informing you that Real has become a 1000 crore brand, the youngest brand to join this distinguished club. With this we have three brands which are a Rs.1,000 crores plus globally – Real, Vatika and Amla. While Vatika and Amla have a substantial presence overseas as well Real is predominantly a domestic brand. It has maintained its leadership by building a strong consumer franchise and remaining ahead on the innovation path.

During the year, we piloted a new initiative on sales and distribution side – Project 50:50. This project is aimed at leveraging the potential of top 130-towns which contribute to 50% of urban consumption. As part of this, steps were taken to enhance quality of market interface and improved distribution efficiencies by segregating the grocery channel teams for wholesale and retail separately as both trades have different requirements. The initiative is in line with renewed focus on urban markets as we believe that the revival in FMCG sector would be led by urban markets as the urban sector is expected to be at the forefront of development and growth.

At the same time, rural demand has proved to be quite resilient. As a part of “Project Double” we had increased rural coverage from 14000 to around 44000 villages over the last 3-years. We are now entering the next phase of “Project Double” to focus on 60,000 high potential villages over the next 2 to 3-years. Of this we plan to increase coverage to 50,000 villages by end of FY-'16. We will be using a mixed of localize promotions and marketing strategies as well as technology to access the consumer in these markets. As we had already built the infrastructure as part of “Project Double” this expansion will not entail any significant additional investments in S&D costs.



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The International business recorded growth of 8.8% on constant currency basis. The Organic International business grew by 16.5% this quarter, driven by a range of new products and marketing activities across MENA, Egypt and other geographies. Namaste portfolio is still witnessing some pressure due to corrections initiated last quarter which had an impact this quarter as well. New products, streamline distribution and renewed consumer focus is expected to bring the business back on track soon.

On the profitability side, operating margins improved by around 100 basis points in Q4. This was mainly on account of inflation cooling of this quarter as material costs were lower by 206 basis points. We continue to step up marketing spends and this reflects in our Adpro expenditure which was 70 basis points higher than the corresponding quarter last year and stood at 13.6% of sales in Q4 FY-'15. Profit after tax grew by 21% during the quarter.

In spite of headwinds of low volume and weak demand in many of the key FMCG categories, our business has reported steady growth. Gradual improvement in the macroeconomic environment is likely to lead to revival in consumption going forward. We would continue to channel our efforts to outperform the market and expand our footprints across categories and geographies. With this I now open the Q&A and invite your questions.

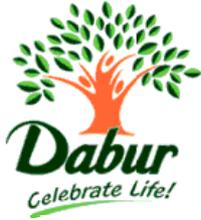
Abneesh Roy of Edelweiss

Abneesh Roy:

My first question is on your three 1,000 crores brands. You said Real is the only one out of the three which has largely India presence. So, my questions are in terms of international, how is the opportunity for Real? Second is, with ITC's advertisement also starting in Be Natural, do you expect any impact from a 2-3 years' timeframe? Thirdly, the urban recovery being highlighted in your initial statements. Will the Real continue to grow at 18-20% CAGR in coming quarters?

Sunil Duggal:

On Real I think yeah 90 to 95% of sales comes from India, there are some sales from Nepal which is quite substantial, but, of course, majority sale comes from India and the reason for that is we have not really explored taking this brand overseas. Because it is comparatively lower margin and high CAPEX cost, etc., So prima facie it is less attractive to populate this brand outside India than many of our other categories. So I think the franchise has been growing at around 20% and whether it can continue to grow at 20% you cannot really say, 'hard yes' to that question, but the momentum is very high and any further growth in the urban demand will accelerate the growth rather than anything else. I think you should see from the context of very low and stressed urban demand despite which this brand has been growing at 20% CAGR over the last 3-4-years. That is a very impressive performance and we can only hope for this to be sustained if not bettered, if urban recovery comes about. If it does not then this 20% growth could come under some stress. On the competition, it is early days, I do not



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think there has been any impact felt on our business, our demand continues to be very robust, but we are keeping watch on thing and if we need to take something preemptive, we will do that but I do not think at this point in time we need to be very reactive in terms of what the competition is doing.

Abneesh Roy:

On urban recovery, one of the other companies which came out with results said, urban recovery seems to have started. You have earlier said that versus initial expectation, urban recovery has been slower. Where do you stand currently – are you still maintaining that maybe second half is where urban recovery signals will get stronger?

Sunil Duggal:

Yeah I believe so but I have been saying this for the last few quarters and it has not happened. But I think it is a matter of time, it has taken longer than expected. Fortunately, rural demand has been little bit more resilient than what we expected. So overall our growth is around the same in urban and rural contrary to the market, which is showing higher growth in rural as compared to urban., But then I think it should logically be much higher in urban as compared to rural, and may be that situation will happen during the latter part of the year because there is also the monsoon overhang, etc., which can further stress rural demand and hopefully the slack will be met up by urban.

Abneesh Roy:

In OTC, Ethicals, the performance has been lower versus many other categories of yours. You said Dabur Baby Products will see a pickup. So will this be largely in the Oils segment only or are you targeting the other Baby Products also?

Sunil Duggal:

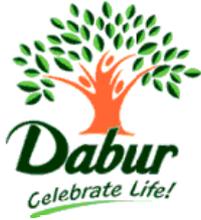
We have begun with Oils, we will move this franchise to other Baby Care offerings too. So it will encompass the complete range of Baby Care products but Oils is the place where we believe we should make the entry, and if this does well it will lead to a lot of other products coming in.

Abneesh Roy:

I am not asking the exact entry in terms of which products, but how large is it and in terms of entry barrier obviously there is one large player there. So in that context, will it be a phased entry and will it largely happen in FY'16 only?

Sunil Duggal:

I think if you have a differentiated product with clear benefits and USPs, the entry in any category is possible if that differentiation connects with the consumer. In the case of Baby, yes, there is one large incumbent and there is really nobody else. So I think the prospects here are very favorable and very encouraging. So let us see how well we execute and how well we are able to decipher consumer preferences and design the product appropriately. We do believe that purely natural products which are free of any additives, any chemical preservatives or anything which is of an artificial nature like mineral oil, etc., is best suited for babies and we will be stressing this advantage in favor of our products.



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Abneesh Roy: You said in Shampoo, aggression levels will increase when may be new products may pick up, so if you could elaborate that? And second is in terms of Swachh Bharat Abhiyan, how realistically are you expecting benefit to you as a company because government schemes normally are slower than initial expectation. So in that light is it really a big opportunity from a one-two-year perspective?

Sunil Duggal: I think Swachh Bharat Abhiyan can only help accelerate sales of products like Sanifresh and other Hygiene products which we are also going to be introducing. And I think the government is committed to it, it is not just kind of a fad which will disappear. I think it is going to be enduring policy of the government, so we should be part of it and we are part of it, and it will be to our benefit if we participate. Shampoos, this quarter the numbers were a little stressed because of substantially heightened competitive activity in this area which may or may not stay but I think in terms of new products, we will be introducing new products for sure. How many new products we introduce, we will be very careful in terms of the roll out, and also I think the urban demand side will be very instrumental in terms of determining how quickly we launch and how many products we launch. But certainly we have an interesting set of products in Shampoos which are awaiting launch.

Abneesh Roy: One follow-up on this you said shampoo competitive intensity has picked up. Sir, in the previous cycle, we had seen when competitive intensity in shampoo had picked up, the gross margins of the sector, you had only said that had almost become half. So, is it P&G again which is getting competitive? What are the reasons? Is it because of the gross margin expansion overall the sector is seeing? And are you seeing this heightened competition in any of the other MNC segments?

Sunil Duggal: I think without naming any competitor this competitive activity has seen a resurgence because the Shampoo category was simply not growing, and if you see the numbers in terms of Nielsen data, etc., over the last few quarters the growth was absolutely zero. So perhaps that has propelled companies to up their spends to gain share because that is the only way they can see some growth. Again it depends, if the categories resume its growth path perhaps the competitive intensity would reduce, otherwise it may continue. It is very hard to say but I do not think it is going to stress our margin so much because we are largely at the Re.1 price point level in Shampoo. I do not think that this price point would be eroded, but, yes, there could be some pressure on the top line.

Abneesh Roy: Where are the gross margins in that segment? You earlier said industry margin had I think collapsed from 60%, 65% to maybe half. So, are we much better than the low levels because that will...?



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Sunil Duggal:

I think our margins were definitely better than what they were 2-3-years ago because the competitive intensity had come down, so we were able to capture better margins. If it is reviving then they will trend down, that is for sure. But having said that Shampoos being largely an oil derivative kind of product there is a fairly benign material cost coming into Shampoos at this point in time. The surfactants have gone down, the laminates have gone down in terms of pricing and perhaps that is one of the reasons which is propelling this competitive intensity, the margins actually have expanded over the last 1 or 2-years.

Prakash Kapadia of iAlpha Enterprises

Prakash Kapadia:

Two or three questions: If you could give us some color on what kind of rural growth do we foresee given the impact of unseasonal rains in North, lower MSPs and lower rainfall being talked about? You did mention in your opening remarks that rural is doing pretty well for us. So do we expect some softening in demand or we are okay, what are the signs from rural side?

Sunil Duggal:

Our rural and urban growth are matching both in the region of around 12%, there is not much to choose between those. Logically, I would expect rural growth to trend down a little bit from this 12% to may be more in the region of 10% but I would expect urban growth to pick up to around 15%. Let us see if that happens or not. Either way we are prepared to tap in into rural markets or urban markets. As I mentioned in my conference address, we are significantly building infrastructure in urban, and also we are now getting into the next phase of growth in rural. So while we may not be able to control the macros in terms of where the growth is going to come from, we would be prepared infrastructure wise to tap in into the growth.

Prakash Kapadia:

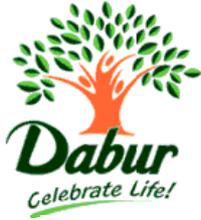
From a slightly longer-term perspective, in our Health Supplements portfolio, is it fair to assume that Honey is the easiest to scale because it is not seasonal in nature as compared to Chyawanprash or Glucose and do we think due to the benefits of Honey and more consumption, it can overtake Chyawanprash in longer-term in terms of size?

Sunil Duggal:

May be not, it is a still much smaller than Chyawanprash, but it is growing ahead of any of our supplement brands. I think you are absolutely right that it is seasonality-agnostic to a larger extent as compared to say Glucose and Chyawanprash which are our other two big supplement brands. So definitely the trajectory would be ahead of perhaps the other supplement brands on a long-term basis, but whether it will be able to overtake Chyawanprash in the next 5 to 10-years I have some doubts, but it probably will remain our fastest growing supplement brand.

Prakash Kapadia:

Lastly on Skin and Consumer Healthcare, as I see, these two segments have grown single-digits for us in FY 2015. So when do we see growth coming back in Skin given that we are pretty gung-ho on urban recovery? And Consumer Health, given that chemist expansion channel is done, when do we see growth coming back?



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Sunil Duggal:

The growth has happened in Q4. I think we had soft growth in OTC and Ethical but in Skin Care in fact growth was very good. So these I do not think one should extrapolate from quarterly growth, it could be a base effect, it could be a combination of so many events, but definitely Skin Care would be impacted positively by urban recovery. OTC and Ethical would be depending both on urban as well as rural to drive growth, a lot will depend upon how much we innovate in OTC and Ethical and how much infrastructure building we do which we have been talking about in terms of the advocacy platform etc., but the outlook for the Supplements is definitely I think strong. In the case of Skin Care a lot will depend upon urban growth. So I would be a little circumspect in projecting growth for Skin Care on the next few quarters.

Prakash Kapadia:

How about the chemist expansion channel? We have achieved our targets in terms of...?

Sunil Duggal:

I think we have more or less achieved in the first phase, now we will wait and see how to take it forward. So we normally do an expansion which is very rapid, then we do a pause because then there is optimization which happens in the infrastructure which we have built and then we do the next level. For example, we finished "Project Double" around a year and a half ago, took a pause and sort of closed it at that 45,000 level, and within the 45,000 of course there was a lot of churn, some villages dropped out, others added. And now we are going to take it to the next level to 60,000, which is the objective over the next 2-years – 50,000 in the current year and another 10,000 next year.

Percy Panthaki of IIFL

Percy Panthaki:

Sir, my question is on the cost. For most other companies it is easy for us to analyze what is the impact of input cost, deflation, etc., Your basket is very wide and varied, so it is very difficult for us to track. So if you could just give an idea your overall consumption basket if 12-months back the index is 100, what would the index be currently?

Sunil Duggal:

We can give you some numbers for the domestic business, we have seen around 250 basis points improvement in terms of the material costs ...

Percy Panthaki:

My question is slightly different; what I am talking about is for your basket of products, your material cost as a percentage of sales is a combination of two factors – one is the pricing you take and second is the raw material cost itself. What I am asking you is on a per tonne of the material cost itself RM & PM put together, what is the cost deflation that you have seen

Sunil Duggal:

We do not compute this way, it is really the aggregation in terms of material cost-to-revenue - that ratio which is what we track. Just to answer your question in a slightly different manner, there has been actually zero cost deflation in our Health Supplements category, perhaps there has been a small inflation happening there. The impact really has been in the HPC and Foods,



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these two have been significantly deflationary. Now within Health Supplements, of course, there have been products which have been deflationary there have been products which have been highly inflationary, for example, honey. But aggregate Health Supplements has not seen the benefits of lower material costs because of the composition of those materials but HPC and foods have.

Percy Panthaki: Would it be wrong to say that for at least 80% of your portfolio by value, the respective inputs are actually flat or down YoY?

Sunil Duggal: I think broadly, yes, around 3/4th would be flat or down, the other 1/4th would be significantly higher.

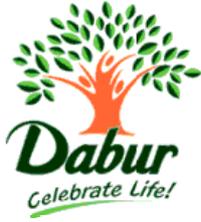
Percy Panthaki: The reason why I am asking is I am just trying to figure out why your gross margin expansion is not higher because if you have 3% to 4% pricing and your overall cost basket is flat, then you should have 300 to 400 bps kind of a gross margin expansion. So, I am just trying to figure out why that is not the case?

Sunil Duggal: It is a composition, for example, Honey prices increased by 20% even areas like Coconut Oils and some herbs were inflationary. There was Amla which goes into Chyawanprash inflationary again. There have been pockets of actually very high inflation. And the second thing is if you are looking at the consol numbers there has been actually almost zero deflation in the International business. So aggregate you have seen only 200 bps reduction in material cost for the consol business, 250 bps in the India business which means that actually there has been no improvement in the International.

Percy Panthaki: What was the issue with the international business? Why no cost saving came in through there?

Sunil Duggal: Because they were of a low base of last year, the deflation kicked in at least in the MENA region a year ago, whereas in India there was a lag of another 6-months before the deflation kicked in. It is just really the base, the base was already low in Q4 of last year in International, and then, of course, there have been pockets of very weak currencies which have led to margin erosion in countries like Egypt or Turkey, Nigeria, etc., which again have fueled no deflation there.

Percy Panthaki: These commodities where you have seen inflation like Coconut Oil, Honey, etc., it is difficult to predict but the trends we have seen very recently, do they point to a further increase going forward or they are likely to maybe sort of peak out at these levels?



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Sunil Duggal:

It is hard to predict but they seem to have peaked out, we should be looking at slightly lower costs not significantly so for Coconut Oil and Raw Honey which are two big ones. But whether they will go up again, Honey is a little bit of a risk, because as the rupee weakens the export becomes more attractive and that pulls up the table in terms of procurement. But early days; at the moment we have got around 6-month of cover lying in our warehouses of Raw Honey. So we are pretty much insulated at least for the first part of the year and then we will see how the second half goes.

Percy Panthaki:

This quarter you have posted 200 bps gross margin expansion on the consol, for these 3-4 items which are inflationary actually flatten out and other items anyways have seen a deflation, which will continue for at least another 6-8 months, so therefore, would it be fair to assume that the gross margin expansion in FY'16 over FY'15 can be higher than this 200 bps that we have seen in this quarter?

Sunil Duggal:

Unlikely and the main reason is Oil which is now again creeping up, for example, we had budgeted around 55 it is already 60 and perhaps will head even further North. So I do not think anything better than this. It may happen, but not likely, and then, of course, there is a monsoon overhang which could fuel inflation as far as the domestic business is concerned. So there are a lot of these uncertainties in the near-term. I am not looking at massive expansions in gross margin at this point in time, but we are looking at now improvement in terms of the revenue line which should be actually more meaningful.

Percy Panthaki:

This year I think you had your highest ever A&P spend at almost about 14.5% to sales. I just wanted to get an idea on what your view is on A&P going ahead? Since you touched very high level already, do you think it will stabilize at this level or do you think given your innovation calendar it would increase even from the current levels?

Sunil Duggal:

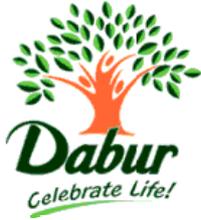
Domestic is likely to increase, international we will try to cap or even trend down. So aggregate there could be another 50 bps in terms of the A&P ratios on a consol level, which will happen largely on the back of higher spends in the domestic business. I think in the domestic business still there is some head room to spend more to drive the growth. International, I think we are spending perhaps a little bit more than we ought to. So we need to bring those ratios down a little bit.

Percy Panthaki:

Can you throw some light on what your innovations are going to be in FY'16? We have seen something in your presentation Keratex Oil, etc., what are those products?

Sunil Duggal:

Keratex is Ayurvedic oil which is a Therapeutic Oil for hair growth, hair fall control, etc., This is a category which we were not into and this is actually the fastest growing category in Hair Oils. So we believe that we should be in this category. We've launched Keratex which had a



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significant amount of franchise with dermatologists, it was part of the Fem Pharma portfolio and we have decided to now take it over-the-counter. It was a prescriptive product till now. We believe that this product does have equities, it does have distribution and can be scaled up. So we are taking this step in the area of Therapeutic Hair Oils. Then we have launched Baby Care range, at least we have begun the launch of a Baby Care range with another Baby Massage Oil and we intend to launch other products in Baby Care which are very different from what is already present in the market. These are pure 100% natural products without any artificial additives or preservatives or anything which is of chemical nature. And then we see a lot of other products which will be launched starting this quarter. I think we will be again a little careful in terms of how many products we put into the market, but certainly, the innovation will happen at an accelerated pace as compared to last year in which it was pretty muted.

Percy Panthaki:

On the Consumer Health segment, can you throw some light? That is two divisions – one is the Ethical which goes through the ayurvedic doctors, etc., other is OTC which goes in the mainstream. So, in which of these two segments have we seen the weakness being more or are they both sort of going at an equal pace?

Sunil Duggal:

I think for the full year the growth were reasonable enough, but Q4 there was some pressure. So I do not think one should read too much into it, few quarters of low growth is not something which disturb us very much.

Latika Chopra of JP Morgan

Latika Chopra:

My first question is on Namaste. If you could share any thoughts on the operations, growth expectations there, both on revenue and margin front over the course of the year?

Sunil Duggal:

Last year we had a sharp decline in sales in the second half of the year which was planned by doing a massive price correction of around 7% to 8% which was distorting the whole growth in overseas sales. So that price correction has happened, and obviously a lot of down stocking has happened, nobody was buying at the higher price till they had liquidated the lower price stocks. The business has bottomed out in the 4th quarter and we should now see growth from this year. How quick the growth will be depends upon how quickly we rebuild the Africa pipelines, etc., and the whole Africa local manufacturing framework. We have really seen I think the worst of Namaste and we do see better days ahead of us, how quick recovery will be depends, they are still a lot of headwinds largely on account of the very weak currencies in the African continent which were much below what we anticipated. So that has made the whole value chain more stressed. But, like I said Namaste should stage a pretty smart recovery this year. The North American business particularly is looking pretty good at this point in time.



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Latika Chopra: Overall, how do you view the volume and pricing growth trends in coming quarter for the domestic operations? And if you could also give any key categories, specific comments particularly for Hair Oil, Health Supplements, Oral Care and Foods?

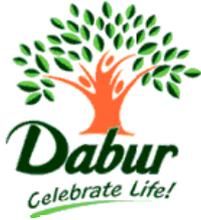
Sunil Duggal: We still would guide to the 6% to 10% band which we have been doing for the last couple of quarters. I do not think at least in the first half of the year there would be any movements outside this band, unless, of course, there is a catastrophic failure of the monsoon, etc., in which case second quarter would not look very good. We should still be able to hang on to this, but having said that we would like to trend around the top end of this band in the second half of the year. So we would like to see double-digit growth happening which could happen in case the economy picks up, inflation continues to remain low, and there is a favorable monsoon.

Latika Chopra: Pricing is going to be 3-4%?

Sunil Duggal: Pricing would be in the region of 2 to 3% at this point, but again we could see inflationary pressures coming back in which case it could be 3 to 4%. But at the moment we would be looking at 2 to 3% out of which around half would be carry forward from previous year and balance would be fresh price increases.

Latika Chopra: If you could also elaborate on expectations on growth for Hair Oil, Oral Care, and Health Supplement categories?

Sunil Duggal: It is hard to differentiate all these categories, but Hair Oils we would see growth in the high single digits. That is what the outlook for Hair Oils. The category is not really growing at any kind of pace, and what was a lot of the growth last year amongst all Hair Oil players was price-driven which probably will not happen this year. because I do not think Coconut Oil prices, etc., are going to rise anywhere near what we saw last year. So it will be a subdued performance in Hair Oils. So that is why we are launching brands like Keratex, etc., to propel growth outside our two big major brands. Oral Care I think will have a good year; we have done what we intended to do is to move the portfolio towards more premium offerings which are much better margin. So the quality of our growth is very good even though the underlying growth you will see may be 10-12% in terms of Toothpaste but it is much better qualitatively. I think Oral Care should have a good year despite the overhang of Red Tooth Powder. Health Supplements is significantly impacted by seasonal factors. So it is very hard to predict Health Supplements, for example, Glucose will probably not have a great year because the rains in April have kind of taken a lot of momentum off. So we should still see growth if there is a warm May and June, but like I said we would not see great growth happening like we saw last year. On the other hand, some of the products which sell in winters, would be hopefully



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impacted by early onset of winters. So I am very circumspect about predicting growth in Health Supplements. There is a lot of external extraneous climatic inputs into these growth.

Tejas Shah of Spark Capital

Tejas Shah: Sir, last time, if I recall correctly, you had mentioned that your product pipeline you will launch only when you are confident of urban market recovering. Otherwise, at best, you will resort to only test marketing in a few pockets. Sir, is there any change in that stance this year?

Sunil Duggal: Not at this point in time, even though the Baby Care we have extensively launched it... not launched it nationally but we have launched it over the fairly large swath of geographies. So I think there is a higher level of confidence today than what it was a year ago, but we are still not out of the woods as far as consumer sentiment is concerned. So we are being careful, but we are at the same time doing much more than what we did 1-year ago.

Tejas Shah: But all the launches will be pan India or would that be a test launch?

Sunil Duggal: It is hard to say, we would normally begin with a test launch, test launches are a little bit easier now because of the narrow casting which many the TV platforms allow us, so we are able to test launch and it is pretty silly not to do it under these circumstances. Now the ones which show potential will be definitely taken national and I only hope a majority of them are showing that kind of potential because we would love to take these products national. In which case the full energies of the system and the full synergies on account of media kick in but like I said little bit early at this point in time, it is better to do a test market.

Tejas Shah: Second question pertains to your gross margin guidance. Last quarter, you mentioned that you were carrying slightly high cost inventory and the full impact will surface in fourth quarter this year and first quarter next year. So what proportion of still high cost inventory would have impacted your margin?

Sunil Duggal: There is nothing, it is all exhausted now, in fact, it was pretty much exhausted in the early parts of Q4. We were consuming low price inventories, I think by early Q4 we started consuming that. So there will be a little bit of residual effect this quarter. But I think also the oil derivative products, the plastics particularly are now trending up so there is that issue also. Even on a Q-on-Q basis the prices of plastics have actually trended up. So that is that another overhang which we have. So broadly there will be some expansion in gross margins not substantial, I am talking about the full year there will be some expansion that is for sure.



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Manish Poddar of Motilal Oswal Securities

Manish Poddar: Could you quantify the benefit of mix improvement in your gross margins?

Sunil Duggal: Mix improvement has many facets. There is international versus domestic, within domestic what grows faster. Now if you have high growth and high margin categories, obviously, that propels, but at this point in time we are not seeing any substantial improvement or deterioration of mix this year vis-à-vis last year. So I do not think there is anything very significant, it is flat. Our budgeted gross margin improvements are on the back of lower material cost and price increases and not of mix. I hope this answers your question.

Manish Poddar: A year back, actually you had given a revenue target of 125 billion going down four years down the line. One year down the line now, do we see the target changing any materially anyhow?

Sunil Duggal: We had put a 4-year plan, in which we had shown a certain growth trajectory in terms of the revenue side, which at this point in time is looking stressed. But that was on the back of certain assumptions in terms of category growth, which were perhaps in the region of 10% odd. Our basket of products at this point in time is growing at hardly 1-2%. So obviously, there has been a complete change in the business environment. So broadly speaking, we are at this point in time trending short of revenue projections, but we are reasonably ahead of those in terms of the margins. So the margins look good, the top line is stressed as we speak, we still hope we still got another 3-years to make up. We still hope that we will be able to hit the numbers which we have projected, but at this point in time, the assumptions on which these numbers are built are actually not holding good. On the other hand, the deflationary environment has been better than what we had expected - inflation of 5-7% in our projection which has not happened.

Manish Poddar: Was there a target for profitability also?

Sunil Duggal: Absolutely, we may not have disclosed that, but internally we had a target. I am just giving you an internal flavor or where are we with regard to our 4-year plan, we are little bit below our revenue projections, we are reasonably ahead in terms of profit.

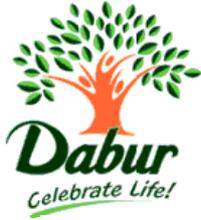
Manish Poddar: Is there any benefit from "Project Core" which has been realized in this quarter?

Sunil Duggal: Not visibly in terms of the growth, because OTC and Ethical growth has been fairly muted, but there are a lot of extraneous factors which have gone into it, I think Core has definitely enabled us to build a better franchise with the core chemists and I think the new product introductions in Baby Care and in other areas of Health Supplements, etc., would be fairly enhanced the likelihood of success because of "Core."



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- Manish Poddar:** What is this “Project 50-50” you mentioned, could you delve a little bit on that?
- Gagan Ahluwalia:** So basically this is a project which is focused on the top 130 towns and there the objective is to enhance field efficiencies and improve the output of the front end team. For that purpose, there has been a segregation done between the wholesale trade and the retail trade. So there is a separate front end team for both the trades, because the requirements are different. And that is leading to a lot more focus on penetrating deeper into both the channels. That is one aspect of 50:50. But, overall, the “Project 50:50” denotes that 50% of the total potential urban consumption comes from top 130 cities. We are sharpening our focus on these and there will be multiple strategies to tap this potential.
- Sunil Duggal:** So basically these 130-cities will be focusing separately on wholesale and retail. Many of these cities, we have bundled the two. Now, we will be having special teams at least in most of these 130-towns to deal with wholesale and to deal with retail.
- Suruchi Jain of Morningstar**
- Suruchi Jain:** The 130-cities have been chosen on what basis? It is the top 130-cities where Dabur has the maximum sales?
- Sunil Duggal:** No, it is a top 130-cities in aggregate terms which may not mean they are top 130-cities as far as we are concerned, but the top 130-cities in terms of market potential.
- Suruchi Jain:** How would one judge that?
- Sunil Duggal:** Their metrics which define the potential and the consumption patterns of towns, these are available. So, we just choose the top 130-towns which will account for 50% of urban consumption and then it makes sense to focus on these towns. And many of these towns are let us say in the South of the country, where our presence is comparatively small, but the consumption intensity is high. So there is a lot of focus on the South which is yielding excellent dividends, for example, our sales in the South are now closing into 15-20% of total sales, much ahead of what we were. So, there is a Southern slant to this “Project 50:50” because that is really one region which we were underrepresented.
- Suruchi Jain:** Could you just help me understand this a little better or just in terms of when you say potential, is it say, five years out, so the growth...?
- Sunil Duggal:** It is current potential. I do not think we extrapolate potential 3-5 years from now, that is too hard. There is no data available for that, but the current potential which are the towns, which account for 50% of urban growth. You do a top/down listing, you come to 130 numbers and



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some of these towns we already would have high quality distribution and sales, some of them we maybe underrepresented. So we will make sure that the towns in which we have lower share than what we ought to be having on a per capita consumption basis, we will build infrastructure to tap into that.

Suruchi Jain: When you also say consumption intensity is high, do you mean per capita consumption or per household consumption is high?

Sunil Duggal: Per capita per household similar numbers. So this is where the prosperity index of the consumption and density is high and we need to obviously focus on these towns ahead of the others.

Suruchi Jain: Just to match this with what some of the other consumer firms have been saying in terms of central India is a belt where say consumption is lower, they would want to tap that potential because looking from a futuristic standpoint since it is low it is easier to get that sort of growth, so how...?

Sunil Duggal: Naturally, I think Central India does have low consumption intensity, but does it have growth path which is accelerated or not. I do not know what are the companies are doing, there is a clear Southern slant to this, because with the lot of towns in 50:50 which are in the South and where our presence is considerably lower than what it ought to be. So, as a consequence of focusing on the South, our growth in South has been at least 50% ahead of the rest of the regions. And now slowly South is catching up, we do expect that South will perhaps be bigger than West over the next one or two years which is a huge change and ultimately we would expect South to be the #2 region in the country after North.

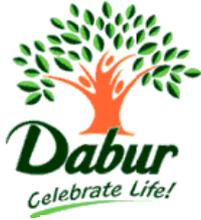
Suruchi Jain: So from what I understand right now, it is North, West, then Central and then South and...?

Sunil Duggal: We are very strong in the East, which is a comparatively slow growth area, so all the more reason we need to focus on the South. It is really tapping into where consumption happens and whether the extension of the Project Double which is the 60,000 villages which have the high level of consumption or 130 towns really we go where the market is.

Suruchi Jain: Currently, how much does East, North and central contribute to your sales?

Sunil Duggal: We do not have central, we have East, South and North which are at this point in time around 85% and we do expect this ratio now to come down and South to come closer to 20% over the next couple of years and then perhaps 25% over the next five.

Suruchi Jain: East you said is the biggest?



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Sunil Duggal: East is not as much, North is the biggest. East is number two followed by West, there is not much of a difference between East and West, and South is the smallest.

Suruchi Jain: Now moving to my two questions: Firstly, I wanted to check, you answered some questions on Shampoos and it is a competitive category, margins tend to vary here a lot, there is high competition because there are a lot of multinational brands here, it is a low margin realization business. What makes you to continue staying in that?

Sunil Duggal: It is not a low margin business, it is a big-big category with margins, which fluctuate and oscillate depending upon the market situation, but overall the margin level is good. We just cannot walk out of categories because of short-term pressures of competitive intensity, otherwise, you would not have any business to build. So, Shampoo is a category we are committed to, we have a differentiated product. This has been one of the fastest growing Shampoo brands over the last couple of years. The margin profile has improved. Now if the competitive intensity heightens it could be a short-term problem, which we will have to deal with, but not something which we need to panic about.

Suruchi Jain: I am just curious to understand in terms of why not focus on few brands and products and do that ...?

Sunil Duggal: We have enough bandwidth to focus on all the categories in which we are in. What we have decided at this point in time is not to build new categories, because we do have a large number of categories. So each category gets the level of investment, which is required by our business plan, and we are able to manage good trajectory of growth despite this fragmentation of the business and perhaps because of this fragmentation. Now some categories we invest ahead, some we pull down investment, and that changes on a year-to-year basis depending upon where we believe the growth is going to happen.

Suruchi Jain: I just want to understand on your Retail business. From what I understand you are looking to make it profitable and perhaps spin it off. What is the thought behind continuing to invest significantly in that?

Sunil Duggal: There are no plans to spin it off, there are certainly plans to make it profitable, it is cash profit now and marginal loss at PAT level. So I think we are doing pretty good under fairly stressed circumstances. We grew the business by around 25%-30%, and the outlook also is in the region of 20%-30% next year. Next year the business will hopefully become profitable, this year it was cash profit at a marginal loss. So I think the Retail business is doing well under the circumstances. How we take it to the next level of growth is something which we will think about, but it does not necessarily mean that we spin it off, that is one possibility, but not the default option.



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Suruchi Jain: Just to understand a little bit more about where the capital employed is going, is it mainly in working capital sucking up more?

Sunil Duggal: One part is on the capital expenditure because we are expanding our capacity, so therefore we are investing in the capacity expansion. There is a part of it which goes to working capital on account of increase in our turnover and volumes, and, of course, we also distribute the dividend beside paying taxes. So this is how we are utilizing our cash.

Suruchi Jain: Are you still looking to open more stores?

Sunil Duggal: Definitely, we need to scale it up, it is a Rs.100 crores business which is still very tiny, but we are very careful in terms of how many stores we open and a lot of new stores would be through the franchisee model which is guaranteed to make profit right from the beginning. So, we are looking at expanding this business more through franchisee than through on stores.

Suruchi Jain: Could you just give us a flavor of how many you have currently and how many you are looking to move to in the next?

Gagan Ahluwalia: There are 62 stores.

Suruchi Jain: Is that like 100 in the next two years?

Sunil Duggal: 100 is unlikely, I do not think the Retail environment would permit 100, we can do 100, but that will mean losses. So I think 80 to 85 is what we are looking at unless there is a dramatic improvement in urban markets and consumption, in which case we may be shooting at 100.

Suruchi Jain: This is mainly in the NCR in the North region, right?

Sunil Duggal: Little bit in East also, but North and South are the two big footprints,. NCR in North being the largest. We are getting reasonable sales through e-commerce and we are looking to scale that route up, which is very attractive in terms of future growth. So there are various business models being explored for the new brand both in terms of brick-and-mortars, e-commerce, franchisees, own stores, etc., and we will adopt the route which is scalable and profitable.

Suruchi Jain: I have been to some of these stores and I notice that you do keep competing brands and other products...?

Sunil Duggal: Obviously, the whole idea of the store is to have complete independence to keep what they want, we put no pressure them to keep to our brands or any other stuff. It is a business which is run by a bunch of retail professionals who understand that business and we let them choose the



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portfolio which works for them. Our brands like many other Indian consumer companies are available in every retail outlet. So perhaps these stores which are in a sense destination stores will keep brands, which are not of everyday consumption basis, if you know what I mean, color cosmetics or perfumes, etc. They will trend towards keeping these brands.

Harit Kapoor of IDFC Securities

Harit Kapoor: On Project 50:50, just wanted to understand, what is the investment like there?

Sunil Duggal: It would not be very large because in a sense the infrastructure is already there in many of these areas. So I have not got a number yet, but it will be Rs.3-4-5 crores at best for all these... it is not like double where we put in Rs.20, 25, 30 crores because there was a massive infrastructure build up. This will be riding largely on existing infrastructure and optimizing it. So it is not that we do not have presence in 130-towns, we have presence, we will be just bulking it up, and that comes at a comparatively low cost. But expansion into new geographies which was really Double which went from 15 to 40,000 villages comes at a massive infrastructure cost.

Harit Kapoor: In the Oral Care business, on Toothpaste, in your initial remarks you had said that the market is moving premium. So, I just wanted to understand more on that because you have seen lower growth in your mass toothpaste. So is this your effort or is it a market wide phenomenon that you are seeing the mass category not growing at the kind of pace the premium category is growing at?

Sunil Duggal: I think we will look at from another perspective, we see that consumer preferences are being more channelized towards specific product delivery which normally comes at a higher price. So the commoditized categories are perhaps not doing as well as the value-added ones. So people are looking at specific benefits whether it is sensitivity or natural products or whatever else, and typically those would come at a higher price. So there is some level of premiumization which is happening on this front, people are no longer wanting to just buy a generic product, they are looking at value addition.

Harit Kapoor: On Real, obviously a Rs.1,000 crore brand and the Foods business is fantastic. I just wanted to understand how do you see this brand over the next 3-5 years, because we have a huge presence in Juices. Is there a thought process to leverage the Real brand on the Health platform across other Food and Beverage categories as well over the next 3-5 years because this is a great platform that we have.

Sunil Duggal: You are absolutely right. We begin with beverages and anything which is of a fruit origin, there are actually two equities here – one is Real, the other one is Active. And the Real equity



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is around fruit and flavor and taste along with health of course the underlining benefit being health. And Active is on fitness via the fruits. So both these equities will be taken forward into areas where they can travel and that includes other Food products including Non-Beverage products. So you will see a lot of that happening over the next one-to-three years and some of it will begin very soon, maybe in the next few weeks. I think this brand has got a lot of potential now to extend sideways into adjacent categories and not just remain as Fruit Juice brand.

Aashish Uppanlawar of Elara Securities

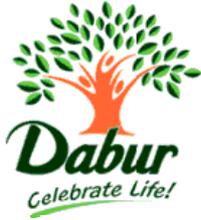
Aashish Uppanlawar: Just wanted to understand, from 2-3 years perspective, are there any specific categories or bigger pockets that you think would be kind of higher potential and easy pickings in terms of growth and that is why you would like to focus more on those categories in terms of innovations and driving growth kinds?

Sunil Duggal: I think we have spoken about Health Supplements you know many times as being perhaps the most important driver of our future growth, and that position stays even though the growth in Healthcare products over the last few quarters has been pretty muted. But then you have to take a much longer perspective..These are categories which are in the infancy and which have got massive headroom for growth, then, of course, you have Beverages, and then, of course, we are comparatively small players in large categories like Oral Care and Hair Care... Shampoos in particular. So there is a lot of room to scale up through improvement in market share in these two categories. So I think in terms of growth prospects we are in a very sweet spot with regard to our category composition and we can grow in practically every category in which we are present.

Aashish Uppanlawar: Sir, on Foods we saw the margins picking up quite handsomely. So how do you see the margins going ahead, and any picture that you can give how the raw material is shaping up for that category?

Sunil Duggal: At the moment, do not have clear visibility about the prospects for the concentrate prices over the next six months to one year, that visibility is not there. A lot depends up on the cropping patterns in Brazil or other countries, which produce these fruits. What is going to happen is that the weaker rupee perhaps will put some pressure on margins at least compared to what we saw in the fourth quarter. But it would not be a major impact, at best a percentage or two, which we could be mitigated through price increases or through better mix, etc., So broadly speaking the Food margins are likely to be similar to what you saw last year, whereas we should see improvement in HPC and Healthcare margins.

Aashish Uppanlawar: Any disruptions that you would have had because of the Nepal thing what has happened?



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Sunil Duggal: No disruption in terms of production, the plant has just had a one-day shutdown. There could be some disruption in terms of local consumption and sales which so far at least we are not feeling, but long-term impact could be there because of the economy issues. But our plant was located outside the seismic zone, it is actually very close to the Indian border, so there has been no disruption whatsoever in terms of product.

Aashish Urganlawar: One more thing wanted to understand on the international business, what is the outlook because you shared in brief what you think of Namaste, but overall how are you thinking in terms of organic growth and the inorganic part of it?

Sunil Duggal: We had a great year for organic growth; we had growth of around 17 to 18%, I suspect this will trend down marginally, largely on account of extremely disturbed conditions in Yemen, Libya, Iraq, which are some of our bigger markets and more importantly, because of the currency issues remaining in large markets like Turkey, Egypt and Nigeria. So I think in terms of dollar delivery, organic business could be a little bit softer than what we saw last year. Having said that Namaste business should pick up after a fairly mediocre 2015. So aggregate, the International business should look better than what we saw this year.

Aashish Urganlawar: And on the margin, sir?

Sunil Duggal: Margin profile should be pretty similar to what you saw this year, I think it will be actually better because Namaste should make decent money this year than we did last year, so the margin profile I think would be better. The top line, revenue should be similar. That is the outlook, its early days yet, so I cannot be more specific than that, but internationally you should see a similar trajectory going forward.

Prasad Deshmukh of Bank of America

Prasad Deshmukh: My question is on innovation. How much is your innovation budget up this year versus last year?

Sunil Duggal: We budgeted around half 0.5% aggregate and 1% in terms of India business higher A&P spends and all of it has been taken up by innovation. So the entire increase of 1% is to the innovation account and not to heighten spends on the existing products.

Prasad Deshmukh: So, this is you are talking about FY15?

Sunil Duggal: I am talking about '16.

Prasad Deshmukh: Historically, this number has been similar, 1% of sales?



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Sunil Duggal: Last year, our numbers were not higher than the year before that, this year we are taking up our innovation budget at a fairly high level, we could invest another Rs.50 crores to Rs.60 crores in terms of innovations which is much ahead of what we spent last year. When I say innovation, new products we introduced this year. Now, whether all the spends will happen or not, yet to be fully mapped out, but that is budget which we put in to place. So, it is just one month into the year. We can see the situation on the ground, we will see the seasonality factors, consumer sentiments, economy growth, inflation, before we decide how much to roll out, how much to take national, how much to pull back, but the budget is around like I said Rs.70 odd crores of innovation.

Prasad Deshmukh: In terms of revenue, can you share some internal targets as to how much of total revenue you are targeting from innovations in next couple of years, the innovation which have been launched now?

Sunil Duggal: It depends upon how you define innovation, what is the timeframe of the launch, innovation begin very small, so the revenue numbers would not look good compared to spends which we do. In two years' time, the revenues generated from innovations are only marginally higher than what you spend on the innovations. In the first year, they are much lower, in the second and third year you are trying to kind of start breaking even on the innovations. So it is an expensive process. There is no short cut to profitability in terms of innovations at least in India.

Prasad Deshmukh: Final one on that, the last time you saw revenue increased your budget for innovation very sharply.

Sunil Duggal: I think we did around if I am not mistaken, around three years ago, after that it has been a little muted because the market went into bit of a downturn and the innovation engines stopped firing as much as they used to do earlier.

Prashant Kuttv of Emkay Global

Prashant Kuttv: Firstly, the question is as far as the Skin Care segment is concerned, we are seeing fairly strong growth for this quarter and this is despite the fact that the urban uptick has still not been visible, so what do we foresee as far as growth is concerned as far as the coming quarters are concerned, and maybe in a couple of years?

Sunil Duggal: The skin care category has been one of the most stressed in the whole HPC domain, so it has been under a huge pressure in terms of growths because of the lack of urban demand coming in which is instrumental in driving growth. From where we are I do not think 16 to 17% growth which we saw in the fourth quarter is sustainable. We probably will see growth in the low to mid-teens in Skin Care and unless there is improvement like I said of consumer sentiments.



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But we should see better growth coming from Oral Care, better growth coming from many other such categories, which will make up this, and if you take the full year, the Skin Care growth has not been as good as what we saw in the fourth quarter, which is reflective of how the category is behaving.

Prashant Kuttu: If I may extend that to the overall category, so the overall category growth itself weak, so there has not been some pickup as far as this quarter is also concerned?

Sunil Duggal: I do not think so, I think it has been more in terms of the base, also we had a fire in the factory in Q3, so our Q3 numbers are very soft in terms of Skin Care. We had a lot of catching up to do, which we did. So, I think we have done well, we made up the loss on account of the fire to almost a full extent in the fourth quarter. But, whether we can grow the category at 16 to 18%? It is a little hard to say, I do not think it is possible in the near-term at least.

Prashant Kuttu: So, with regard to the Oral Care category, is it more safer to say that right now the competitive intensity might have softened off or does it still remain at the heightened level as it has been in the last couple of years?

Sunil Duggal: I do not think it has ever come out, at the same time it has not been a disruptive type of competition. So there has been no big change. In Shampoos you have seen recently big change happening in terms of competitive intensity. Oral Care none; it has been pretty much the same as it was over the last few years. So I do not know whether it will become far more aggressive than what it is today or it will remain at today's level. We will deal with it either way.

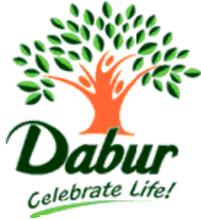
Prashant Kuttu: Moving on to the International business, if I see for the quarter, I guess, we have seen a gross margin expansion of about 130 bps or so. Could you probably help us understand what would you attribute this to in terms of both raw material and in terms of mix?

Gagan Ahluwalia: That is a derived number I think, but it has been little lower than that.

Sunil Duggal: But at the same time it is mainly on account of the price deflationary impact that you saw over the crude impact that has got advantage in terms of improving the gross margin on the international also.

Prashant Kuttu: And lastly if you maybe just help us understand in terms of working capital for the International business, that seems to have increased a bit. Anything on that side and would there be any cut down on that side going forward?

Sunil Duggal: This increase a bit because we have to give higher levels of credit to some of the more disturbed countries, but I think that is not something which is structural. We should get back to



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the older levels of the working capital in international and we have kept a pretty tight lid on the working capital as far as the domestic business is concerned. For international, yes, there has been some higher levels of credit which is all secured, so there is no risk there but when these geographies are very disturbed, the distributor demands higher credit to, then of course, we had changed the distribution architecture in Nigeria, etc., which lead to higher level of credit there. But, it is all secured, it does impact the working capital to some extent, but there is no other risk.

Varun Lochab of CIMB

Varun Lochab:

My first question was on the Foods business. We saw pretty good recovery this quarter. You think this sort of a growth rate of around 20% would be sustainable even going forward given the size of the brand is much bigger now, and there is no meaningful pick up yet in consumption environment, so this has done pretty well so far despite being a discretionary category. So any thoughts on sustainable growth rate for Foods business?

Sunil Duggal:

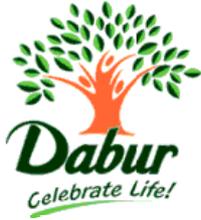
This business has been growing at a rock steady 20% growth path over the last, I think 8 to 10 quarters now. Even if you do the Q3 and Q4 average and you will find 20% growth happening, Q2 was a little bit lower because of Diwali dates etc., we have been through all that. So it has been delivering 20% consistent growth... one of the most predictable levels of growth we have seen in any of our business enterprises. Now can it grow at 20% forever? Perhaps only if there is some level of urban recovery. If urban consumption continues to remain stressed this number also will come under pressure at a point in time. I think it has been very resilient but past performance need not an indicator of what will happen unless there are some tailwinds as far as urban consumption is concerned. We are still projecting 20%, we have not changed our tact, but we do need some support from the market now.

Varun Lochab:

Week April or due to unseasonal rains or say weaker summer season does that also impact the Foods business like...?

Sunil Duggal:

Not so much, a little bit, but it impacted Glucose, Glucose is very sensitive to weather and it is a pure product which is consumed because there is need for it and the need is driven entirely by the weather and if that does not happen people just do not buy it. I do not think there is any issue in terms of demand, the underlying demand remains decent, but it is really the fact that at that point in time the season was not right. Now, if you have a hot May we will be able to get up all the slack of April. So I am not overly concerned about it. But juices now have become very agnostic to season, little bit of 200 ml sales go up, if there is a hot summer, with the 1 litre sales are rock steady, they are completely like I said seasonality-agnostic.



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Varun Lochab: Sir, on the overall business like as you mentioned volume guidance still 6 to 10% band and maybe in the first half of the year would not be at the upper end of the band and if pricing is 2 to 3%, means your top line growth in domestic would not be more than 10 to 12% and if you are looking to kind of up A&P a bit more, would it be fair to assume that EBITDA margins in FY'16 are unlikely to kind of go up much higher. Because gross margins also you said most of the benefit is already there?

Sunil Duggal: If you do 10 to 12% they will not go higher, that for sure because there would not be enough pool generated from sales to drive higher margins, but we do hope that we will do better than 10 to 12%; Lets put it that way - 10 to 12% will be a disappointment to us, we do expect it to do better than that. How much better lot depends up on the environment, but we would look at a higher growth in that and if we deliver a higher growth there will be margin expansion.

Varun Lochab: Basically top line has to comeback for you to get higher margins?

Sunil Duggal: Top line has to be more resilient than 10% to 12% to drive margin expansion because Adpros are going to happen for sure, I do not think there is any possibility of getting back on those, in which case we would not get any leverage if the top line goes at around 10 to 12% because there are a lot of other costs also going to grow at around 10% or so. So the EBIT delivery or the profit delivery will be significantly dependent upon what our top line is.

Varun Lochab: And given where input costs are today, would it be fair to assume that gross margin expansion in FY16 would be say somewhere not more than 100 bps over ...?

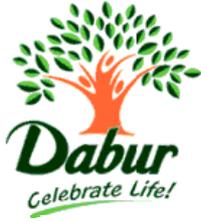
Sunil Duggal: It could be more, we have seen 250 bps in Q4 on a year-over-year basis. So I think the outlook is still very benign in the early part of the year because we are off a high base of last year. So I think in Q1 you will see good numbers in terms of margins, Q2 we do not know because it depends upon monsoons and then the outlook becomes a little fuzzy going forward, but the near-term margin outlook remains pretty favorable.

Poorna Venkateshan of Jefferies

Poorna Venkateshan: Just wanted to understand your rural and urban split of places in different segments may be your Hair Care, your Foods, and probably your Supplements business?

Sunil Duggal: It will take a long time to answer the question given the number of places we are in, can we take this question offline and Gagan will give you heads up on what our rural and urban split for various categories, there is a dozen-odd categories, so it is a long list.

Poorna Venkateshan: Broadly, the entire segment level?



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Sunil Duggal: Entire segment is around 55 urban, 45 rural. This includes the outflow from urban to rural, and also it is contingent upon a definition of rural which is pop strata of 25000.. So they are all these caveats to what we define rural consumption on and it is very different for different categories, for example, in Beverages it is around 90% urban, for Hair Oils it will be around 65% rural, and the rest lie somewhere in between.

Poorna Venkateshan: Going forward, you are involved in “Project 50:50” which is going ahead into 130 towns and then there is also the fact that you are trying to increase the number of villages you cover. What you await on – rural or urban?

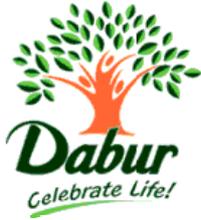
Sunil Duggal: We have put up bets on urban for sure and quite frankly urban growth has disappointed us over the last one year or so. It has been much-much below what we had anticipated, but we have not taken eye off rural markets. And I think broadly the thinking internally is that we should continue to invest more in rural than what we did last year. Last year we had stopped our rural expansion at around 43,000 odd villages, as I mentioned earlier we are planning to take it up to 50,000 now this year and 60,000 by the end of next year. So the next phase of rural expansion is happening partly on account of the fact the rural demand has been proven to be more resilient than anticipated or to put a different spin on it, the urban demand has been less robust than what we expected. So we have to go back to rural to seek higher growths there, we cannot depend upon urban.

Poorna Venkateshan: Basically, for the next two quarters, you will be looking at rural more than urban?

Sunil Duggal: No, we have to look at both; half of business come from each, but I think the rural growth which we had put on hold for around a year or fifteen months, we are now getting back into the growth more than rural, it does not mean that we are taking an eye off urban; 50/50 is urban initiative, “Core” is the urban initiative, but we will be refocusing now a little bit more on rural than what we did last year.

Poorna Venkateshan: The impact of GST that you see in your business. Would you be able to tell us what sort of market share increase that you are looking at?

Sunil Duggal: We do not even know what the financial impact of GST would be and it could be positive, it could be negative in either way we will have to change the way we do business in terms of network, in terms of the whole supply chain. So it is going to be a massive change in the whole dynamics of the business and one of them of course the impact on margins, which could be like I said favorable, but unfortunately it is a kind of level playing field. So even if the GST rates are higher than the current VAT rates, it could impact everybody in a similar fashion. So I am not spending a lot of time thinking about GST at this point in time, we have got consultants engaged who will be briefing us and another 3 to 6-months, I think we should have



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a sharper indicator of what GST is going to be and then we will start changing our business plans accordingly or at least preparing for the change,

Poorna Venkateshan: But in the segments that you are in, what kind of unorganized sector, what would their market share be?

Sunil Duggal: The unorganized sector obviously would be impacted adversely by GST, now in many of categories, yes, they have a significant presence let us say in Digestives, for example, is a large unorganized sector, Health Supplements there is a large unorganized sector. So hopefully that would be to our benefit, that unorganized sector comes under the tax net and then becomes less competitive, it can only be to advantage. How much? It is very hard to measure.

Gagan Ahluwalia: Thank you all for joining this conference call. Webcast of this call and transcript will be put up on our website shortly. For any queries or follow up questions you may kindly contact us. Thank you and have a nice evening ahead.
