

“Dabur India Limited Q2 FY2014-15 Earnings Conference Call”

November 3, 2014

MANAGEMENT

MR. SUNIL DUGGAL - CEO

MR. LALIT MALIK - CFO

MR. ASHOK JAIN - VP, FINANCE & COMPANY SECRETARY

MR. SAIBAL SENGUPTA - VP, FINANCE

MS. GAGAN AHLUWALIA - GM, CORPORATE AFFAIRS



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Gagan Ahluwalia:

Thank you. Good Afternoon, Ladies and Gentlemen. On behalf of the management of Dabur India Limited, I welcome you to this Conference Call pertaining to the Results for the Quarter-ended 30th September 2014. 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 – VP Finance & Company Secretary. We will 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. Thank you.

Sunil Duggal:

Thank you, Gagan. Good Afternoon Ladies and Gentlemen. Welcome to Dabur India Limited Conference Call pertaining to the Results for the Quarter-ended September 30th 2014.

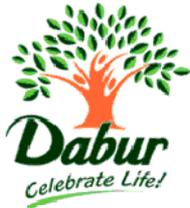
During the quarter, Dabur's consolidated sales increased by 10.4% to Rs.1,924 crores and profit after tax increased by 15.1% to Rs.288 crores. On constant currency basis, growth in sales was 11.8%.

The Domestic FMCG business reported growth of 13.8%, driven by volume growth of 8.7% during the quarter. This was on the back of a high base of 10.7% volume growth in the same quarter last year. In spite of the continuous slow down in the FMCG sector and negative volume growth in some of the large HPC categories, the company was able to achieve healthy volume growth in its business.

The Health Supplements portfolio grew by 10.7% during the quarter, driven by strong volume-led growth in Glucose and good growth in Dabur Honey. Chyawanprash had a moderate quarter, though this quarter is not relevant and the main season for the product is just setting in. Digestives grew by 12.3% during the quarter with the Hajmola franchise reporting double-digit growth. Recently introduced extensions also elicited positive response from the consumer.

The OTC and Ethical portfolio registered a growth of 7.5% during the quarter, with the Ethical portfolio performing quite well, driven by a combination of on-ground and digital initiatives. However, OTC category was under some stress during this quarter mainly due to seasonal reasons.

Homecare portfolio grew by 10.2% with Odonil and Sanifresh performing well. Odonil in particular witnessed strong growth driven by the new formats. Our Healthcare portfolio recorded a pickup in growth while Hair Oils growing by 13.6% and Shampoos by 15.4%. Both Coconut Oils and Perfumed Hair Oils performed well. Our flagship Hair Oil brand Dabur Amla Hair Oil was relaunched this quarter with an improved packaging and a new campaign.



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The Toothpaste portfolio grew by 11.5% during the quarter. Our premium offerings Red Toothpaste and Meswak continued on a robust growth trajectory. Red Toothpaste reported a strong double-digit growth and gained good market share.

Skin Care category showed signs of revival this quarter and grew by 10% driven by good performance of Fem Bleaches.

Foods business continued a strong performance growing by 29% with Real Fruit Juices performing extremely well. Robust sales of Diwali gift packs added to the momentum.

The Culinary portfolio under the homemade brand also reported strong double-digit growths. Dabur's international business including acquisitions grew by 8.3% in constant currency terms during the quarter with our Organic business reporting growth of 17.5% in constant currency.

Hobi, our acquired business based out of Turkey, continued to perform well and posted strong double-digit growths. Namaste, however, was under some pressure due to slow down in the Relaxing category in the US. The non-US business of Namaste has been growing well; however, the growth was muted this quarter due to high base as it had grown ahead of 50% in the same quarter last year.

On the profitability side – EBITDA margins was stable at 20.3% for the quarter. Material cost as a percentage of sales were marginally higher at 47% as compared to 46.3% in the corresponding quarter last year, as there were pockets of inflation in the domestic business. Sustained Agro which was marginally higher than the corresponding quarter last year, reflects continued investment in the brands. Consequently, profit after tax grew by 15.1%. We continue our focus on making strong investments in brands, channels, and infrastructure in order to keep the business on a strong footing. The company had performed well in spite of the slowing demand environment. We will continue to make efforts to drive the business on a strong growth trajectory.

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

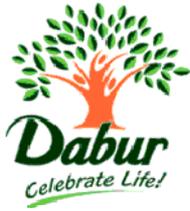
Balaji Prasad of Barclays

Balaji Prasad:

Firstly, I heard you earlier say that volumes were an area of concern. Now that you have done 8.6% volume growth in H1 and your earlier assessment was 8-10% volume growth for the full year, does that mean that there is a chance that it could be below 8% volume growth for the full year?

Sunil Duggal:

The possibility is there, I would still stick to it at 8 to 10%, I do not think I would lower my estimates as of now but we are faced with a fairly challenging demand environment. Over the



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last 6 quarters, we have seen a consecutive dropping of the volume growths across major HPC categories at least. And if this trend continues to head that way then 8 to 10% is going to very tough, but we do expect that sooner rather than later there would be some demand uptick. I do not think categories can continue to de-grow the way they have been doing for the last two quarters or so. I am fairly optimistic that demand cycle would revive even though quite frankly there is no empirical evidence of that happening. We are just triangulating various data points, like lowering of inflation and better management of economy, etc., and while the consumers sentiment is extremely positive it is not really translating into purchase, but I suspect this is just a lag and the demand would come back.

Balaji Prasad:

Secondly, on the Food segment. Were there any one-offs at all or this is...?

Sunil Duggal:

Yes, there was one-off, let us say Diwali was a little bit early this year, so we got a fairly big ramp up in terms of what is known as the Diwali gift packs - that is stuff which we sell for gifting. Last year was booked during October because Diwali was early November and this year half the sales were booked in September and half in October. So the September uptick was considerable which made the Foods growth extraordinarily high about 29%. But even otherwise it probably would have been north of 20% but this was like you said a one-off. There is no other one-off as far as I can see.

Balaji Prasad:

If you could just, on this segment, nearly 30% growth but when I look at the operating margin in the segment it went up by just 100 basis points. So am I correct in concluding that there is not much for a meaningful operating leverage?

Sunil Duggal:

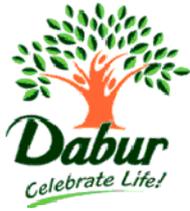
I think one is the mix; the Foods grew at 29% and obviously much ahead of the rest of the business, so Foods generate lower operating margins and therefore dampened the consolidated margins. Now I think you would see a little bit more balance growth emerging from the portfolio. Foods will definitely not stay at 29% - it would come off may be the high teens and other categories would start looking up. And then of course you have a much better environment as far as COGS is concerned; freight charges to begin with and followed by many other raw material costs. So I think the margin outlook remains actually very benign as we speak, there may be a bit of lag, we may not capture too much of it in Q3, but certainly we should see significantly better margins emerging in Q4, unless something untoward happens.

Balaji Prasad:

One last question on the Health Supplements. I understand that there is a seasonal impact, so the numbers came below what we were expecting, but I would have expected the success of the Chemist Outreach program to kind of offset any variations?

Sunil Duggal:

Not really as the numbers were a little bit softer than what we thought but then I think the seasonal factors are very important here and the long drawn out summer did impact sales of



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many of our say, cough, cold, fever products which they were dependent on early onset of monsoons etc., So I would not put too much store on it, I think the healthcare categories would revive in the 3rd quarter, assuming it is a cool winter, if it is a warm winter then perhaps the revival will not happen. So, if seasonal factors do not play against us we should see a good growth emerging from Healthcare.

Suruchi Jain of Morningstar

Suruchi Jain: Two questions on advertising. Could you split Ad spends by spends on new products versus existing products?

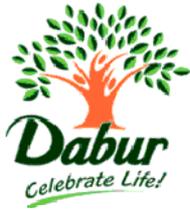
Gagan Ahluwalia: That kind of breakup I do not think we have, but...

Suruchi Jain: Roughly, just a percentage perhaps?

Sunil Duggal: There was not too much activity on new products this year. So I would not put the numbers on new products to be very aggressive. Having said that on renovation etc., there is a lot of spends happening; Amla Hair Oil underwent a process of renovation. So it would not be very significant in the overall scheme of things, but certainly both innovation and renovation has been on uptick and will further accelerate, but I do not have a precise number at the moment to share.

Suruchi Jain: How are you looking to broadly grow your OTC and Supplements which I believe is the highest margin product again going back to the chemist outreach versus the seasonality factor, is there anything that Dabur can do to sort of increase the offtakes there?

Sunil Duggal: The Chemist Outreach is irrespective of seasonality which is beyond our control. Now if you have a sweet spot of good outreach as well as seasonal factors playing in your favor then the Healthcare growth can be extremely high. If the seasonal factor does not really go with the flow and we have a warm winter then it could be muted because many of these Healthcare products are dependent upon a long and cool winter which may or may not happen but the Outreach program is as much directed towards new product introductions than as it is for the existing portfolio. In fact more so for the new products because the existing products were going ahead, they could have done reasonably well even without Core, but Core is instrumental to ensure the success of new product introductions, some of them will emerge in the quarters to come. But like all new products, they would not be very meaningful in terms of aggregate volume and revenue delivery that would happen over a period of time. So while Core would definitely be strategically very important, its impact on number delivery in the next quarter or two may not be that as high as one would expect.



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Suruchi Jain So over the next say 3 to 4 years, you are looking to make Health Supplements as a percentage of say overall...?

Sunil Duggal: It would be higher than what it is. It is already at 15% or 17% of Domestic business and is one of our larger categories. It could go ahead of the average growth of the Consumer business. So how much it will become really depends upon how many innovations we put into play, how many successful innovations that are delivered. But we do have some interesting thoughts even coming into play in this quarter, Ratanprash, for example, would be a national brand this quarter. We are introducing a new flavor of Chyawanprash which is very interesting innovation and at least will be partially introduced this quarter, nationally perhaps only the next winter. So there are innovations which are happening in this space as we speak and there will be many more to come in the quarters ahead and all of them would be requiring good support to ensure success.

Suruchi Jain: Just a follow up, would it possibly become something like 25-30% of your portfolio be...?

Sunil Duggal: I do not think portfolio shifts can happen in as dramatic fashion as that, but even if 18% becomes 20% or 21% it means it grows well ahead of the rest of the portfolio. But portfolio shifts will never be so dramatic. We are not really moving the portfolio that aggressively towards Healthcare, it is only directionally little bit more skewed towards Healthcare, but Home and Personal Care would remain our single largest portfolio even over the next 3 to 5-years.

Abneesh Roy of Edelweiss

Abneesh Roy: This quarter, one observation is most of the Hair Oil companies have shown recovery. And on an overall basis you are saying slowdown remains for the entire FMCG category, but how do you correlate this with the recovery in the Hair Oil sales for most of the Hair Oil companies?

Sunil Duggal: Our Hair Oil business has done quite well in the second quarter and we have grown by something like 13.6%. So that has been a much better performance than the last few quarters, and I do agree with you this does not really match well with the category decline of 5.5% in Q2 that is what the syndicated data shows for Hair Oils. I suspect that a lot of this growth especially in the Coconut Oil segment is on account of pricing because we know what has happened to Coconut Oil prices. The volume growth would be far more muted and therefore the aggregate picture of Hair Oils is buffered by unprecedented price increases and the real growth would be much lower than what the headline numbers represent.

Abneesh Roy: And then Chyawanprash, you are planning to introduce or maybe introduced Biscuits, etc., So how large can that foray be because earlier also you had tried Junior, so in that context again



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some kind of a diversification, Biscuits is a very hypercompetitive segment, so how aggressive you will be in this and will it be a large portion of Chyawanprash?

Sunil Duggal:

These are new initiatives. They have a high failure rate as all new product introductions do. Whether the customer would perceive this to be as good as the Paste form or whether they would say that 'no' this cannot be the same, it is hard to really map that out, but I think we have had success with flavors and of course that is a far more limited evolution of the brand because it is far more radical. So I would not really say that this is going to be successful or not, but I think it is something which we ought to try to evolve the brand and to garner a new set of consumers. And if it does not work so be it we will try another formats, but I think there is a reasonable chance of it succeeding, because what we have in mind is something which is very edible, very-very mainstream in terms of its flavor and can appeal to a larger segment of consumers. So let us see, we do not know how exactly they will go.

Abneesh Roy:

Initially, this will be just the test market, right, in a few markets?

Sunil Duggal:

Likely, yes, I think we will test market it and I do not think we will do it this winter, because we would not be able to get the supply chain going for this, so it will be really next winter. We will look at October type of launch next year, we do not want to launch it off peak because chances of success is always much higher when you launch during season. I think that is the period of time we will do it. And we still have a little bit of work to do in terms of the product delivery in terms of dosage, in terms of flavor. So some work has to be done in terms of product. We have done the first cut, got the research findings, we are doing the second round of development, and I think it will be ready for launch next winters.

Abneesh Roy:

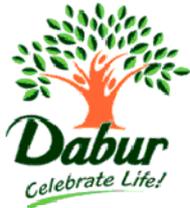
One follow up on this category. Ratnaprash has been rolled out in a few markets and now you want to take it pan India. So, could you share the initial feedback, how it has been in the key markets where already it was there and then how bullish are you in terms of pan India, because it is much more expensive; almost twice the normal?

Sunil Duggal:

The test market results have been uniformly good and we are very enthused about that. Despite the fact that discretionary spends are very muted, we are still going ahead with this launch. If the test results launch were lukewarm, we would have put it on the shelf for another year perhaps, but we are enthused, we believe that this product will generate adequate amount of business and we are going ahead with the national launch backed with very high advertisement spends and promotions. Let us see how it pans out. I personally think it will do well. Now whether it does spectacularly well or only moderately well, I do not know.

Abneesh Roy:

Our next question was on the overall demand side. A few quarters back, you had pointed towards likely urban recovery. If I see currently, a few consumer discretionary category seem



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to have recovered based on the limited data, if you see Consumer Durables, four-wheelers, two-wheelers, we see reasonably better data than what was seen last two years. Sentiments also if you see Nielsen's data is quite good, new government, etc., food inflation is also under control, diesel price cut, etc. In that context, things are better than what it was when you had given the initial remark. So I was surprised by slightly your pessimism on the demand recovery. So if you could clarify what has changed versus your initial hypothesis?

Sunil Duggal:

Let me make no bones about it that the demand uptick in urban India has been much less than what we thought 6-months ago. When I gave this indicator it was predicated on the back of fast urban recovery, we did expect that rural demand will soften which it has. But we did expect faster recovery in urban India than the numbers which we see. So urban India has not performed the way it was expected to and there is a dichotomy between high level of consumer confidence and actual spends. While you may argue that the discretionary or the Durable sector has improved, remember, it is of a very-very eroded base of last year. So there is nothing much to cheer about that. And even the October numbers for many business coming in do not indicate any great joy as far as demand is concerned. The urban recovery has not happened. And while I am still optimistic that it will happen, one is a little bit less confident about the timing. I was pretty sure that by the third quarter the recovery would be strong third quarter I think is going to be not a very great quarter in terms of aggregate demand. There may be some uptick over Q2 which is really when things appear to have hopefully bottomed out, but will it be a slow U-shaped recovery or a much sharper one, I do not know. So therefore we are lowering our estimates, I was even hoping for double-digit growth in volumes to happen in the latter part of the year, does not look likely at all.

Abneesh Roy:

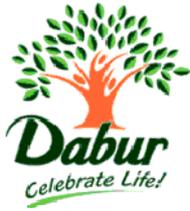
But any sense you got as to what else is required on a macro basis – it is just the entire job addition and the salary increase – those have to come, that is the big thing, which is left?

Sunil Duggal:

I think inflation will play a big role in reviving our consumer sentiments. The second big trigger would be lowering of interest rates and that has not happened. So inflation is cooling off and I think it will cool off in a far more accelerated manner in the months to come and that would be one positive trigger. Interest rate cycle, one does not know but again it could be much lower than what we have to-date in the near term. So these are the two factors which would then make the sentiment actually perform on the ground. So it is likely that by the end of this quarter you would see definite improvement in terms of demand. Sentiment is positive yes, because I think there is a much more optimism about the future today, but that still remains in the sentiment stage.

Abneesh Roy:

Sir, coming back to the categories, Skin portfolio, you have also seen a recovery versus Q1 and the market leader also did reasonably well. So in this category, is there any underlying recovery or is there a base effect or any specific initiatives you have done?



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Sunil Duggal:

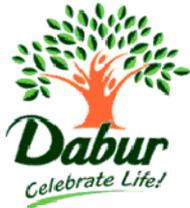
Yes, I think there is a little bit of base effect and some renovations, etc., which we did in the Bleach portfolio, those have worked for us. I do not think one should read too much into these numbers, one quarter numbers, it is 10-11 double digit growth in Skin Care. So how it will pan out? But having said that there are some discretionary categories like Beverages which have behaved very well. So there is no pattern here, it is not that it is only the staple categories that are doing well and discretionary which are not. Sometimes, some of the discretionary categories are actually doing very well – Air Purifiers continue to do well and Beverages is a case in point of an expensive product generating great sales.

Abneesh Roy:

This quarter I saw a marked increase in the sampling exercises in some of the toothpaste brands of yours. So what was the need for such a sharp increase in the sampling and have they delivered? Because Red has done well, Meswak has done well, Babool seems to be having issue. So is more required for Babool?

Sunil Duggal:

The sampling we do basically for Red and there is a clear motive behind it, we want people to experience the brand and experience it to the extent that they see definite improvement in terms of the Oral Health. Once they do that they are likely to stick to it. So we do have evidence to suggest that the trial rate is low but the retention is high. So how do we get the trial rate going? One tool is samplings and it also act as a consumer promotion, so it works both ways. We do not give away anything free, it is more in the form of consumer promotion. For example, our Chyawanprash will have Red Toothpaste as a promotion which would act both as a tool as a consumer promotion for the people who are already using or are willing to use their Toothpaste and as a trial mechanism for people who would not normally buy the Toothpaste. So it is working very well and we do internally feel that the sampling exercise for Red Toothpaste have been instrumental in driving this very-very strong growth which we see. Babool, as with earlier quarters, we are committed to improving the margins, we have not been satisfied with the margin profile as I have made it clear over the last 2-3 quarters discussions with you folks and that journey continues. So we are reducing the weightage of the 10 rupee SKU, we are trying to push the larger SKUs and that has had a negative impact on tonnage. And also I think some of the lead brands have bought the price points down very aggressively to Rs.10, and while they deliver lower grammage they still are available at Rs.10 and that is something which has impacted Babool. So it is a mixture of all these, but I think directionally we are doing the right thing, we are moving the portfolio towards a more profitable level. I think the damage in terms of the top line will now stop, over eroded base which will start moving once again, but it has been done according to plan, and if you take the overall profitability of our Oral Care portfolio which was quite low to begin with because we had two low margin offerings – Red Toothpowder and Babool Toothpaste – is now close to our HPC average. So that is a very big gain which has happened.



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Abneesh Roy: One follow up on the Oral Care the MNC launch has completely flopped. In that context, do you see the category margins both on gross and EBITDA bottoming out and will it be a sharp recovery because of this?

Sunil Duggal: I think the worry in Toothpaste is that the syndicated numbers indicate very sharp category slow down, it is deeply into the Red as far as volume growths are concerned. So that has to change in case whether you want volume growth or whether you want better margin delivery because it is hard to deliver good margins when the categories are degrowing at this stage. So let us see how things work out, it is very counter intuitive that Toothpastes are declining at 5-6% in terms of tonnage. Our portfolio is doing very well especially the high margin portfolio. So we are pretty satisfied with the way our portfolio is performing, but once again cause of concern is that can we swim against the tide for very long periods of time, that remains an issue.

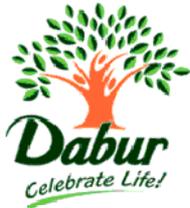
Abneesh Roy: My last question is on the Chemist distribution. How has been the feedback till now? I understand because urban recovery is slower than your initial expectations. So does that have an impact on the chemist? If you could tell us when do you see the full impact of the chemist distribution expansion?

Sunil Duggal: I think full impact will happen when consumer sentiments revive in urban India. , When I say low sentiments for actual spending, many of these categories are little bit discretionary in nature and the Supplements, etc. So the benefits of Core will really kick in when that happens and perhaps we were a little bit ahead of the curve putting Core on the ground, but directionally we have done the right thing and we got to be just a little bit patient. the benefits of Core will emerge.

Prasad Deshmukh of Bank of America

Prasad Deshmukh: A couple of questions; firstly, I heard earlier you spoke about possibility of margin expansion. In the context of reducing comfort on the volume growth, why are we still confident that margins will expand over say next few quarters?

Sunil Duggal: The commodity cycle is on a down slide. We see emergence of lower prices happening practically in most areas of raw and back end materials. There is a little bit of lag here because the plastic prices are now beginning to show some signs of softening, this should have happened a couple of months ago, but there is always a lag between petroleum prices and the downstream plastics. Freight should kick in now. From November we should see substantial benefits coming out of lower freight rates and other commodities too are showing signs of softening. We have taken fairly aggressive price increases and the full impact of price increases has not yet come because there is a flow through which will happen in Q3 also. So a



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combination of all these and also I think our mix would change a little bit in favor of non-food. So the Food growth is likely to be slower than what we have seen and the non-food growth is likely to be faster than what we have seen. So therefore I think that mix would work in our favor, food does generate lesser margins than rest of the portfolio. So I am pretty optimistic of reasonably good margin recovery happening and we are already spending A&P at around 13% levels, we do not need to take it up further. So that also would not act as a dampener. So I think the margin picture looks far more benign, the concern is on the demand side.

Prasad Deshmukh: So basically this quarter we have seen gross margin actually compressing, but that was because the complete impact of softer raw material has not been seen?

Sunil Duggal: I think there was zero impact of raw materials in Q2, the impact will be really felt from November onwards, even October we have been consuming fairly high price inventories, but with the freight part also kicking in from November, there should be visible signs of margin improvement.

Prasad Deshmukh: Second question is last year you had started this Fruit Juice facility in Sri Lanka, you wanted to target that market. So what is the update there in terms of first of all the scale up in the facility and the kind of revenue that it is generating?

Sunil Duggal: The factory is operating with one line and we are starting another line by February, which we should have actually done little bit earlier, but then we had to face lot of issues with the FSSAI in terms of imports regulatory issues. There was some delay in terms of shipments from Lanka. All those issues are behind us, we have now complete control over the shipments from Lanka to India. And we will be putting in a second line like I said which will be moved from Nepal to Sri Lanka and it shall supply 200 ml packs into India as well as to other markets. So the facility will be ramped up quite rapidly and revenue this year will be quite low because even one line was operating at only part capacity, but next year with two lines going at near full capacities, the revenue generation should be quite high there. We are also making good steps to get the local market going for Juices. So we were not present in juice in Sri Lanka earlier, it was not viable to ship it from India, but with local manufacturing we believe we can become the lead player in Sri Lanka as far as Juices are concerned and that will be another point of growth. The third would be shipments from Sri Lanka to Africa and to the Middle East and that is something which we are exploring very aggressively. From India, we always have capacity constraint so we did not do that, but from Lanka that headroom for growth will be there.

Prasad Deshmukh: Just one follow up on that. What will be the margin impact of this?

Sunil Duggal: This year the facility will lose some money, may be around 4 to 5 crore.



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Prasad Deshmukh: Next year?

Sunil Duggal: Next year, we have not really put the numbers into play, I would not be able to give you an answer till couple of months down the line, but next year it should definitely give some money.

Nillai Shah of Morgan Stanley

Nillai Shah: The first question is on Consumer Care business core. How much would be the volume growth out there ex-Juices basically ex-Foods?

Sunil Duggal: We do not have separate disclosures for volumes, otherwise you get into very microscopic dissemination of our business, which we do not do but obviously the growth in the non-food business is lower than the Food, Food has been much higher but we see

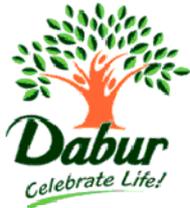
Nillai Shah: But like 4-5% volumes out there?

Sunil Duggal: Like I said, I would not be able to give you that precise amount, but you can draw your own conclusions. It would be lower than the 8.7% which we have seen which does include a reasonably higher food component. But, what this is changing now as we speak in favor of non-food, the Food growth at least in the next quarter where we have some visibility is likely to moderate to the mid to high teens from (+25%) in the first two quarters. We do see definite improvements in the HPC and HC delivery in the 3rd and 4th quarters. So while the overall trajectory of volume would remain under some pressure, the mix would change in favor of non-food business and....

Nillai Shah: But when you say that HPC delivery improves that is quite contrary to what you spoke earlier in the call in terms of urban sentiment not picking up the way you expect it to and hence the volume delivery may actually be sub-par versus earlier expectations?

Sunil Duggal: No, what I am saying is, we have been growing well ahead of category growth and we expect that trajectory to continue. So we have put into play drivers of growth which would take up the trajectory of growth of non-food to levels which are higher than what we have seen. While I would not be able to give you too much detail upon what we exactly intend to do, but there is definite optimism that non-food volume growth would pick up. Since that is such a large business it does not have to pick up hugely for our overall 8% volume growth to be maintained and now while I am not saying that we will be able to maintain 8% volume growth, but if we have to do that much more contribution would have to come from non-food.

Nillai Shah: The second question is you spoke about aggressive pricing. How much of the growth in 3Q would be contributed by pricing?



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Sunil Duggal: Not too much because I do not think that there is any substantial pricing which is going to happen in Q3 because we do see a cost moderation. It really is not the time to take up prices other than a few items here and there. Therefore the pricing component in Q3 would be lower, let us take 3% would be the effective price increase in Q3 and new prices will its flow through unless inflation kind of does not behave and I do not think that is going to happen.

Nillai Shah: Of the 29% Food growth for this quarter, roughly, how much would be volume and how much would be pricing?

Sunil Duggal: Half and a half would be the volume and pricing, just to give you a ball park number.

Nillai Shah: Final question on other income. I see your cash equivalents are down and yet the other income is up quite substantially from March. So what really is driving that other income growth?

Lalit Malik: I think with regard to other income there was a last year one off loss that we had booked approximately Rs.9 crores, as a result of it you see higher income coming up there, plus in addition to that we have also an additional investments made during the beginning of this quarter, which has generated higher interest in this quarter.

Nillai Shah: So ballpark this level is sustainable for the next two quarters?

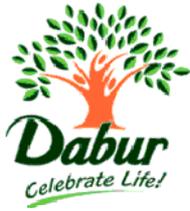
Lalit Malik: It may go down a little because as you see the cash flow wise we have paid interim dividend as well as final dividend in this quarter itself. So to that extent you may have some impact but in the overall annual scenario it will be more or less steady.

Sunil Duggal: We should see a decent growth in non-operating income this year on a full year basis, but it may not be as spectacular as what you saw in Q2, which was of eroded base of last year and reasonably high cash accumulation which we paid out in this quarter in the form of that interim dividend.

Ritesh Vaidya of Ambit Capital

Ritesh Vaidya: I have a few questions; First of all, in Personal Care, you said you are seeing a pickup in growth especially. So first wanted to know how is the pick up, I mean, are consumers still sticking to the low price pack or there is some kind of upgrading going on over here?

Sunil Duggal: I think a lot of consumers have migrated to the low price packs and I do not think further migration would happen because a lot of damage has been done, category growth has been consequent to this sort of downsizing to the LUPs from the larger packs because people saw great value in the LUPs. That is not likely to be sustainable over a long period of time, I think that story has been played out. And also we do believe that if your consumer sentiments is as



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what it is and inflation starts coming down and the income start rising once again, there is no reason whatsoever that consumer sentiment would not translate into consumer demand. So I think there has to be trigger here which may happen soon or may happen not so soon and the consumer demand would pickup. We cannot have a situation where categories are de-growing in terms of volumes, that is absolutely not possible, whether it will happen this quarter or next or even next year, I do not know but it will happen. Therefore I am pretty optimistic about the fact that our HPC business would pickup and perform better than what it has in the last couple of quarters, not that it has done badly, but I think it will do better.

Ritesh Vaidya:

In this particular quarter, there were no particular recovery in Personal Care. Was any particular trigger that you noticed in this quarter?

Sunil Duggal:

I think this quarter the only trigger which I am seeing is coming down of inflation and that is a very powerful trigger. The next trigger would be lowering of interest rates and that may not happen this quarter but may happen in the fourth. So these are the macro numbers which do predicate improvement in consumer demand. Till the second quarter, you had high inflation, you had high interest rates, and you had high everything. So there was no trigger to propel demand, but things are changing.

Ritesh Vaidya:

Second question is on the Hair Care category. I saw you are making comments that there is kind of shift in the usage that you are seeing, especially Hair Oil. So, what kind of shift are you observing and what are you doing particularly in that context?

Sunil Duggal:

What we are doing is a), we are renovating brands very extensively, but I think more importantly we are now exploring getting into new areas of Hair Care and focus a little bit more on the pre-wash applications. The category if you take globally, it is evolving at a very fast pace away from traditional usage in the form of Hair Oils and Hair Creams and towards post-wash usage serums and other such products and I think we need to be part of that change. The only constraint really is not product knowledge, etc., because we have got all these products in our Middle Eastern and European businesses, but it is really the fact that the entry barriers are very high in terms of product placements, in terms of the cost to place these goods, the fact that modern trade is also on a bit of a back foot, is not willing to support initiatives very aggressively. So there are constraints in terms of the distribution piece, but I think the Hair Oils market would change, it would be different from what it is which is largely a pre-wash application to be left on the scalp for extended period of time into something which is more instantaneous delivery in a post-wash scenario. So that is how the category is evolving globally and I suspect the same thing will happen here.

Ritesh Vaidya:

Are you gaining share on Dabur Amla?



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Sunil Duggal: The share is pretty static for the last few quarters, there has been no significant gain or loss. I think last quarter we gained some share and previous quarter we lost a little bit, but there is no pattern here, we will be maintaining the volume shares at a pretty steady level. But like the Hair Oil category is one of the worst performing over the last few quarters. So therefore the growth of Amla Hair Oil is also pretty subdued, even though we are not losing shares.

Ritesh Vaidya: Just a few questions on the financial especially. In the international business, I observed that there is a sharp cut in your other expenditure as compared to sales. Any particular one-offs over here because there is almost 14% of sales versus almost 16-17% previous year?

Lalit Malik: I think one-off reason is with regard to change in our distribution pattern in US, we had some expenses which were overlapping the last quarter. So therefore if you see that there was a high base in the last quarter and hence what you see in international comparatively lower rate with regard to other expenses.

Ritesh Vaidya: Also the tax rate was substantially lower for the Overseas business.

Lalit Malik: That is right. Overseas markets especially in IBD which is non-taxable, we had a higher share of operations profits and hence you see the average rate on the international level going down.

Ritesh Vaidya: And so the guidance for the full year for the consol business if you can for tax rate?

Lalit Malik: I would say it would be at steady constant rates.

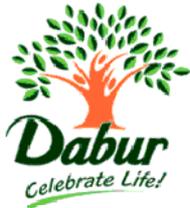
Sunil Duggal: The rate is not likely to change in the second half as compared to the first. There would be a slight uptick in the rate as far as the domestic business is concerned, there will be some product moving out of the exemption, but there would be higher profit capture in Dubai, so they should net themselves off

Sunil Duggal: More or less it will remain steady.

Vishal Gutka of India Infoline

Vishal Gutka: How has been the performance of Namaste basically? Because the US business has seen a decline in your category growth. Then how do you look forward for a period of next two years?

Sunil Duggal: Namaste has been the weak spot in our overall performance, every other business has performed except for Namaste, and the North American business particularly so, but even the African business was soft on the back of very high growth last year, not very high base. So we are fixing the problem which is largely pricing-related, there are price corrections to be done, I



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think there was the fair amount of ambiguity about this aspect and it is pretty complicated, but the reality is that the price fixing initiatives have now begun and we do expect another quarter or two of pain. Certainly this quarter and perhaps the fourth before the price is stabilized and the business continues its flow. But there is something which we have to do and the process is taking longer than what we thought, but we do expect to get out of this by first quarter of next year.

Vishal Gutka:

Sir, how has been the performance of Hobi and are you looking to cross-pollinate the products to bring down to Indian geography?

Sunil Duggal:

I do not think Hobi relevance to Indian markets is very high. We would be in a limited extent introducing these products in India, but not in the mass market. Certainly not through heavy duty advertising, etc., we are doing a little bit different by positioning them in Modern Retail, particularly in the B2B platform, etc., I would not go into too much detail here, but there are some thoughts in terms of how to see Hobi products at low cost in the India market. But the Hobi relevance is very high for MENA and African markets. And they get a lot of business from North Africa, which over the last couple of quarters has been hampered by the fact that Libya and Morocco, the two key markets were under some kind of turmoil and the business did not come from there. But despite that Hobi has grown by significant amount on the back of export sales, largely domestic sales. That business is doing well. It is still not generating huge amount of margins, but directionally we are getting into a top line where we can get the critical mass to deliver better margins.

Ajay Thakur of Axis Capital

Ajay Thakur:

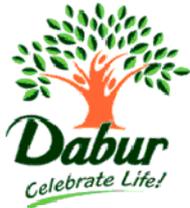
Just two questions; one question was I believe is a repeat of the question which was asked by Nillai. Just wanted, actually you had earlier mentioned in last quarter that you are looking at around 6-8% kind of price increase. So I believe you have substantially lowered your price increase expectations for the next two quarters. So what is driving the change?

Sunil Duggal:

We have done 5% and we are going to do a little bit more, I think it will still be in the region of around 6% maybe 7% for the year. So I am not deviating from my earlier 6% to 8%, it will be in that region. But I think inflation is dropping off quite well. So therefore the scope and the need for further price increases is very limited. We have done 5% YTD up to September, another 2%, perhaps maybe 1%. So they are pretty much in that range.

Ajay Thakur:

If I look at the Hair Oil category, I believe, a large part of the growth is coming from the price increases...



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Sunil Duggal: In the Coconut segment in particular, not so much in Perfumed, because Hair Oil pricing has been pretty subdued, there is no huge trigger to take up prices even though LLP prices have been high, but edible oil prices have been low. It is kind of trenced out. So margin pressures have not been there in Perfumed, but they have been intense in the Coconut Oil, both Pure Coconut and Coconut-based. There have been massive price increases done by businesses in that area.

Ajay Thakur: If I were to just look at the Perfumed Hair Oil category, would this ratio of the price increases versus the Oil category as a whole?

Sunil Duggal: In Perfumed, I think the price increases would be in the region of 4-5%, I am talking about category price increases, they have been fairly moderate, and the volume growth would be close to zero. In Coconut Oil, the price increases would be around 25-30-35% and the volume drop would be there, we are not very clear in Coconut Oil, so I cannot tell you about the volume degrowth there, but certainly there would be degrowth in volume as far as the syndicated numbers are concerned.

Harit Kapoor of IDFC Securities

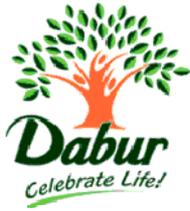
Harit Kapoor: On your presentation, you did mention the two products on innovations – one was Amla Hair Oil, the innovation in packaging, and the second one was the Odomos Wrist Band and Patches. Just wanted to understand more on the Wrist Band and Patch business, how the initial response, what are you seeing and what do you expect going forward – more innovations in Odomos?

Sunil Duggal: Definitely more innovations in Odomos, I think Odomos we have been little slow in terms of innovating and we need to do much more to make this a far bigger player in the Insect Repellant market than what it is. The Patches and the Bands have done very well and at the moment I am importing them, so therefore the prices are quite high and that limits demand. What we are now aggressively exploring is manufacturing the products in India to bring down the prices dramatically and make it more affordable. I think in the context of kids going to school, these are products with unlimited potential, but the price points today are a little daunting. So the affordability is an issue. Hopefully, by next season, we should be able to drive down prices and bring them within the purchasing power of the masses.

Harit Kapoor: So the performance so far gives you confidence that you can do this in-house manufacturing?

Sunil Duggal: I think in-house or third-party manufacturing?

Harit Kapoor: Third-party in India?



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Sunil Duggal: India manufacturing, yes.

Harit Kapoor: HI as a category is huge, but from your perspective, Outdoor Repellent, what kind of addressable size do you look at?

Sunil Duggal: Outdoor Repellent market is potentially huge, but there are barriers in terms of adoption of the Creams. It is a slightly complex process, you have to apply the cream, etc., and there is inhibition in terms of usage, particularly amongst kids. So therefore, while the brand is doing well, it is still dependent upon outdoor mix, etc., to really fuel growth. On a normal day, people tend to avoid putting on Insect Repellent Creams. Now, the Band and the Patches are almost a fun way of getting to the same end, and the barriers to adoption are very low other than the price. So, we believe that if we are able to manage the pricing part, the potential is very-very large.

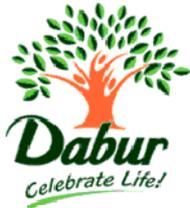
Harit Kapoor: Where are we launched here – is it all over India or is it test market, how...?

Sunil Duggal: Mostly in North. I do not think we have gone to south which is the biggest market for Insect Repellents. We will do that once we are able to get the feel of how big the market size is, and also I think our import had its limitations in terms of quantity. So we did it in some towns in the north. But, we are very enthused about the outcome, we ran out of stock very soon after it was launched.

Abneesh Roy of Edelweiss

Abneesh Roy: Sir just one or two follow-ups. In the Sanifresh brand, wanted to understand, this is not discussed much in the concall, so what exactly is our strategy in this because there are large MNCs in this and with a Swachh Bharat campaign, how does this category benefit in general and how does Sanifresh in particular benefit from this?

Sunil Duggal: In the Toilet Cleaner space, there is basically the lead brand which dominates this market and we are the challenger – we are the No.2 brand. And the equities of both these brands are very sharply directed towards toilet cleaning and not surface cleaning in the products stands like many of the other large MNC offerings. Now, with Swachh Bharat this can accelerate the usage of Sanifresh. I think Sanifresh is a more affordable product than the lead brand. So therefore, Swachh Bharat which will be obviously directed more towards less privileged sections of society. The pricing element would play a very pivotal role in terms of driving demand for Sanifresh. So I think we would like to be associated with Swachh Bharat and it is a good public cause, we are also funding a lot of CSR initiatives in the states and it will be good for the brand too. So I think the brand could be scaled up much more rapidly post this campaign than it would normally otherwise. Otherwise, it is doing very well growing at



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(+20%) year-on-year and now generating pretty decent margins. So it is a good performer and it will only be better with times.

Abneesh Roy:

In the Household Insecticides, this quarter has been tough for all players because of the seasonality. Is the seasonality the only issue or is there the slowdown impact in this category also? One follow up on this is we see other FMCG companies take much more product extensions into new categories. What is our thought process on taking Odomos into inside the home also, because it is such a strong brand, what prevents you from taking it inside the home, it is the faster growing segment of that category also?

Sunil Duggal:

This has been debated obviously internally for many times, but I think the core equity of Odomos is that it is not Insecticide unlike the in-home products which are Insecticides, they kill they require insecticide license for storage for sale, etc., it is a very different ball game. This is a product which is completely natural, completely harmless and if we were to position Odomos on the Insecticide platform, I think there would be a negative rub off for its safety, especially for children. So we would not like to go into the Insecticides space with Odomos, we may choose to do it in other brands, but I am not too sure whether that is a good idea. But Odomos, I think in terms of out-of-home application, it has got enormous amount of headroom, it completely dominates the out-of-home segment which is a small fraction of the in-home segment. So, we have to devise innovative ways to accelerate usage because the out-of-home situations are much more than in-home, particularly for children. We are doing that. I think the adoption has been slower than what we had hoped for. But also, I think the pace of innovations from our side has to improve, we have also been perhaps slow on the innovation platform. Now, these Bands and stick-ons, etc., move in the direction. But I am actively encouraging the brand team of Odomos to innovate here and I personally think this is potentially Rs.1,000 crores type of product which we can build over a period of time.

Abneesh Roy:

How has Modern Trade done for us this quarter?

Sunil Duggal:

Pleasantly well, I have been pleasantly surprised with the numbers, 25% odd growth when the Modern Trade has been growing at I think around 7-8% if I am not mistaken.

Abneesh Roy:

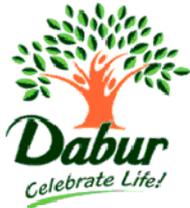
Largely because of the Beverage?

Sunil Duggal:

No, it has been across. Beverage, of course, has grown ahead of HPC, but the delta is not as stark as for general trade. In Modern Trade, our regular products have done extremely well.

Abneesh Roy:

So that trend has continued from earlier quarters or is it a new development much faster growth in Modern Trade?



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Sunil Duggal: It has been there for the last I think three or four quarters, if not earlier. And consistently now for the first time we have gone into something like close to 11% of business through Modern Retail, of course, Modern Retail is substantially higher 20-25% for Beverages and for Home care and much lower for let us say Amla Hair Oil and our Oral Care business. But, that is only to be expected.

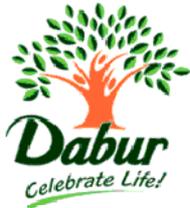
Abneesh Roy: This quarter if you see, quite a few FMCG companies including the largest one cut down on ad spend in a major way. So, going ahead, how do you see ad spend because I think the product funnel is not that as strong what it was say a few quarters back, so in that context, could there be savings on the ad spend also?

Sunil Duggal: I do not think so. If you are committed to driving volume growth at the level which we have been doing, there is no magic bullet which will enable you to cut down advertising and still maintain those growth. Now, we have a choice – we can improve margins and improve them overnight through ad-pro reductions, but at a cost of volumes. Now, we can continue this path. I think what makes our strategy actually better is that the outlook in terms of inflation is definitely benign, there is going to be reduction in terms of inflation, there is going to be a deceleration in product cost. I think what we have done over the last few quarters is to maintain the cost of aggressive volume growth even at some cost to margins has been the right one, it will have its pay-offs in the quarters to come, when we would see margin improvements happening quite significantly and hopefully the volume trajectory is also being maintained at, at least current levels.

Abneesh Roy: You said in November the logistics cost will come down. So, is it directly correlated with a cut in diesel price and do you get that cut easily, and how large can be the savings if you could quantify that?

Sunil Duggal: Most of diesel costs are netted off COGS. So you will see improvement in the gross margin to around 70% of reduction in freight that will come in COGS, all the primary freight, all the input freight costs, etc., are captured there. But I think in S&D expenses we will lap Core in Q3. So Core which has been taking a fair amount of money will be lapped so therefore the growth on a YoY basis would be more moderate. And also, I think overall inflation levels coming down in every area will also mean that there is some moderation in wages which has been a very large component of our cost. There should be some improvement in the operating leverage as well as improvement in terms of gross margin profile on the back of lower inflation.

Abneesh Roy: Last few years have been very inflationary for the economy in general. Now, last one or two months we have seen the reverse process. One school of thought says that when the cost increase becomes more benign, the pricing power for FMCG could also be hit, although they



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may not require that much price increase, because anyway gross margins will expand but does it become more difficult to take that price increase versus what it was in inflationary times?

Sunil Duggal:

I think it does, because your competitors are also going to be more sanguine in terms of price increase, but one should not look at price increase that is not an important number, the important number is your margins. And if your margins are improving without your taking price increase is actually a great place to be in, because that means your volume growth are going to pick up. So we see pricing as a necessary evil which has to be put into place to keep our margins afloat, but often add to the dampener to demand and we have seen one of the reasons for this very muted demand over the last few quarters has been, price increases have been much higher than normal.

Gagan Thareja of Comgest India

Gagan Thareja:

You talked at length on your assessment of growth in the domestic markets in volume and value. Could you give a similar outlook in categories in geographies for your International business?

Sunil Duggal:

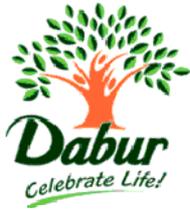
International, we are fortunate that we are sitting on a fairly benign raw material environment. So our margins have actually improved substantially as far as international business is concerned. And I think given the fact that inflation is almost dead animal as far as most international markets are concerned, the margin profile is going to improve for a while before it starts plateauing out at some pretty high levels. So I think the overseas business is much better positioned in terms of margin delivery, our MENA business for example is operating at all-time high EBITDAs unprecedented levels of profitability. So, that hopefully should continue. Of course, it would not accelerate further, because there is no price increase which is happening overseas, it is entirely volume-driven growth, but I think there is further moderation which we could see in material prices over the next couple of quarters before they start plateauing at current levels and before they start deflating.

Gagan Thareja:

Any changes in the competitive intensity in your categories abroad?

Sunil Duggal:

Not really, I do not see any huge change in the competitive intensity either in India or abroad. People are obviously moving spends from above to below the line. So there is no consumer promotions, etc., as far as the domestic business is concerned. Overseas, I think the only constraint we have is that there are some gaps on price increases which have been imposed by governments in the GCC markets in particular. So there is strong price controls which are happening there. Fortunately, there is no pressure in terms of taking the prices, so they have not really impacted margins, but that is one constraint which we have to navigate.



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Gagan Thareja: Could you maybe also talk a bit more on your strategy for growth on your distribution channels?

Sunil Duggal: It has been largely done. Now, we would like to see how the distribution models evolve rather than going for any accelerated expansion which I do not think is really required till the economy gets into a totally different level of growth. Then with prosperity further spreading in the rural areas, we may require further acceleration in terms of distribution reach, but that is still some quarters ahead. Otherwise, I think we need to consolidate, now with the distribution expansion see, where the distribution is profitable and impactful and where it is not. So we are recalibrating, we are taking some areas especially rural areas out of our direct distribution and putting them under wholesale and taking other areas which we did not give a path earlier. So that is more in terms of optimization of reach rather than any acceleration or deepening of the depth.

Gagan Thareja: Can therefore one infer that this itself would provide you a good margin lever going into the next year?

Sunil Duggal: Maybe not margin lever, I do not think the margin impact in terms of distribution growth is very high, it is really the top line which is benefiting, the volume growth which are benefiting. In fact, the deeper you go to rural, the less profitable the portfolio becomes, but one should not see it that way, one should see it in terms of incremental profit delivery.

Gagan Ahluwalia: Thank all of you for participating in this conference call. Webcast of this call and transcript will be posted on the website. If you have any questions we will be happy to answer them. Have a great evening ahead.
