



“Dabur India Limited Q1 FY2015 Earnings Conference
Call”

July 28, 2014



MANAGEMENT

MR. SUNIL DUGGAL – CEO

MR. LALIT MALIK – CFO

MR. ASHOK JAIN – VP, FINANCE & COMPANY SECRETARY

MR. SAIBAL SENGUPTA – SR. GM-FINANCE

MS. GAGAN AHLUWALIA – GM-CORPORATE AFFAIRS



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Gagan Ahluwalia:

Good Afternoon, Ladies and Gentlemen. On behalf of the management of Dabur India Limited I welcome you to this conference call pertaining to the results for the quarter-ended 30th June, 2014. Present here with me are Mr. Sunil Duggal – CEO, Mr. Lalit Malik – Chief Financial Officer; Mr. Saibal Sengupta – Senior General Manager-Finance; and Mr. Ashok Jain – VP Finance & Company Secretary. At the onset, we will have 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 our conference call pertaining to the Results for the Quarter-Ended June 30th, 2014.

During the quarter, Dabur’s consolidated sales increased by 13.2% to Rs.1864 crores and profit after tax increased by 13.3% to Rs.211 crores. The Domestic FMCG business reported a growth of 12.5%, driven by volume growth of 8.3% during the quarter. This is the 9th consecutive quarter of plus 8% volume growth for the Domestic Consumer business. The company was able to maintain its volume growth in spite of the FMCG sector witnessing a significant deceleration in growth rates across all categories. The deceleration was particularly noticeable in key HPC categories which reported negative volume growth as indicated by syndicated reports.

The Health Supplements portfolio performed well and grew by 21.6% during the quarter driven by strong growth in Dabur Glucose and Honey. Glucose in particular witnessed strong gains in market share. Digestives grew by 11.3% during the quarter with a Hajmola franchise reporting double-digit growth. Two new products under the Hajmola franchise which have been launched recently elicited positive response from the consumer.

The OTC and Ethical’s portfolio registered growth of 4.4% during the quarter with the Ethical’s portfolio performing well, driven by a combination of on-ground and digital initiatives. Hepano, a new product for liver protection was launched in the Ethical’s range. This is the first of a slew of new products which are proposed to be introduced in the branded Ethical portfolio. The OTC brands reported relatively slower growth due to seasonal factors; however, growth is expected to pick up going forward driven by new initiatives.

Our Homecare portfolio grew by 14.7% with Odonil and Sanifresh reporting strong double-digit growth. The strategy of getting into newer formats such as Gels and extending Odonil into living spaces is working well for the brand.

Hair Care portfolio grew by 8.4% with Hair Oils reporting growth of 7.1% and Shampoos by 15.3%. Vatika Enriched Coconut Oil with Hibiscus which was launched last year in select markets in south continue to receive positive consumer response.



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The Toothpaste portfolio grew by 10.7% during the quarter. Our premium offerings – Red Toothpaste and Meswak witnessed strong double-digit growth and posted gains in market share. The value brand Babool was relaunched during the quarter with a superior formulation including the goodness of clove. The strategy of premiumization of Toothpaste portfolio with objective of improving the margins is on track. The Toothpowder brand Lal Dant Manjan was flattish during the quarter.

Skin Care category grew by 4.4% during the quarter, particularly impacted by an overall slowdown in the discretionary side of the HPC segment of the FMCG sector. Fem Bleaches reported double-digit growth while the more premium Oxy Bleach brand was under some pressure due to slowing demand for higher priced products.

Foods business continued its strong performance growing by 20.6% with Real Fruit Juices performing exceedingly well and gaining market share.

The Culinary portfolio under home-made brand also reported strong double-digit growth. A 500 ml SKU in Active and Real Juices was introduced to expand the range and offer greater convenience to the customer. Real Milkshakes which were launched last year were extended to more markets.

Our recent distribution enhancement initiative ‘Project Core’ is on track and the effective coverage for chemists in our 150 focus towns has gone up to 53,300 outlets as on June 2014, as compared to 31,297 chemists prior to Project Core. The initiative has received a good response in the chemists channel with the improved availability of our product range.

Dabur’s International business including acquisitions grew by 18% during the quarter with the organic business reporting growth of 24% in spite of pockets of disturbance in Nigeria and Bangladesh. Namaste business continue to make inroads into African markets while the Turkish acquisition Hobi Cosmetics, reported strong double-digit growth in revenues.

On the “Profitability” side – EBITDA margins were stable at 16.3% for the quarter, material cost as a percentage of sales were marginally higher at 49.5% as compared to 49% in the corresponding quarter last year, as there were pockets of inflation in the Domestic business. We continue to invest behind our brands and this was reflected in the advertising and publicity as a percentage of sales being similar to the corresponding quarter last year. Consequently, profit after tax grew by 13.3%. Going ahead we believe that the near-term pressures on the sector can continue for a few months, post which the improving economic environment should lead to a revival in demand. We are striving towards overcoming the short-term challenges and channel our efforts towards growing ahead of the market by improving the overall marketing mix, deepening our distribution reach, investing aggressively behind our brands and drive the new product initiatives across our portfolio. With this I now open the Q&A and invite your questions. Thank you.



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Abneesh Roy of Edelweiss

Abneesh Roy: My first question is on the Health Supplements: 21% growth, how sustainable is this and was it also benefited because of the late monsoons?

Sunil Duggal: I think the health supplements it is really contingent upon two brands – Glucose and Honey; Glucose, we were fortunate that there was a long hot summer which made the growth good. Honey is a brand which has got strong resilience in terms of growth and we have seen strong double-digit growth happening over the last many years. Chyawanprash while it grew very well is not an important quarter from the perspective of the Chyawanprash growth, but Glucose I think was the chief driver in terms of our good performance and Health Supplements. Going forward Q2 is a fairly muted quarter for Health Supplements with the Chyawanprash sales happened towards the fag end of the quarter, and I think we are pretty hopeful that the Chyawanprash season will get off to a good beginning starting September, but the real answer to your question would be played out in the 3rd quarter when the Health Supplements sales peak and almost 45% of our annual business in Chyawanprash comes from that one quarter.

Abneesh Roy: Sir, this quarter OTC and Ethical was a laggard. So my question is in spite of the distribution expansion being done in chemists, when do you see the numbers also benefiting that and how much of the distribution expansion has been done ? On the new introduction Hepano how much work will be required in terms of engaging with the doctors and the decision makers?

Sunil Duggal: To answer your first question, particularly, the OTC portfolio did not grow at a very high pace in the first quarter, and I would not read too much into it because a lot of the products in OTC have a strong bias towards cooler temperatures, particularly the Baby Oil and the rejuvenants, etc., are products which sell well when the temperature is a little bit low and sales do fall off when the temperatures are high as they were this summer. Going forward I think the OTC growth looks very good as far as our projections go, I think Core would drive growth into double digits from this quarter onwards. So I am not overly worried about the lack of growth in the first quarter. To your second question regarding Hepano, the launch of Hepano and the branded Ethical segment is obviously just a precursor of taking it over-the-counter, and when we do it and how exactly we do it would depend upon the response we get from the doctors and from the patients. So if it does well then perhaps some time next year we can take it OTC and make it a largest brand in this particular space, but as of now we will incubate it with the doctors as our strategy goes.

Abneesh Roy: Sir, could you explain that part migrating to OTC what exactly is required – is it just your own decision? In terms of doctor engagement what is the level of investment required or are we already doing it?



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Sunil Duggal:

We are already doing it, we are scaling it up, because it is still done comparatively on a small base, and we have to get into far more doctor clinics than what we are doing today. But this is a necessary precursor and the decision to take it over-the-counter is essentially ours. It depends upon the level of advocacy the product commands from the doctors, whether it is built up as a critical mass in the ethical space. If you believe that these two parameters are okay, then we can take OTC, which means that we stop depending upon doctor advocacy and we go direct to consumer through advertising. Now that decision has taken on a case-by-case basis, there is no formula laid out, but certainly there is a period of incubation which could be between 1 to 3-years with doctors before we take it OTC.

Abneesh Roy:

Sir, my next question is on Oral Care. We have done well in the premium offerings, but could you explain the consumer behavior in this category in this quarter because the leader also have saw very good growth mid-end but in the lower-end they were also impacted, so what is happening at the lower end – are they going back to Tooth Powder or are they cutting back on the grammage?

Sunil Duggal:

I think the economy segment is actually growing much lesser than the premium segment. So this is one area where growth is contrary to what we see in other segments that the premium segment or the value added segment is actually doing better than the economy segment and the same goes for us. In our case of course we are deliberately cutting down the sales of the lowest margin SKU and moving the resources to the higher grammage products in the economy segment as well as the premium segments. But I think the good thing is that both the premium brands enjoy very strong growth and very strong franchise and very predictable level of growth. We have seen the growth of Red Tooth Paste in the high-teens quarter-on-quarter for the last so many quarters, and if that trajectory continues then I am not overly concerned about the lack of growth in the economy segment.

Abneesh Roy:

Sir, a follow up on this although, we are not spending too much on the lower end, but because of now high penetration in Toothpaste in the urban - is that the main reason why lower end even for may be the leader or for the category, not growing? So in the urban areas are you seeing a much lower number versus the rural area in the lower end of Toothpaste?

Sunil Duggal:

I think the lower end has been driven by rural, and as and when the rural growths are falling off, which is the case as of now you will see more pressures on the economy segments than on the premium segments. Now after gap of quite a few quarters our urban growths are much ahead of rural growths, and as a consequence our both premium offerings in at least Oral Care are showing much better traction as compared to the economy segment. It is also a question of resources we are obviously deploying - far more resources for the premium segment as we are for the economy and that is also driving growth.

Abneesh Roy:

Sir, last question is on the Skin Care. Although you said urban growth in Oral Care has been better versus say rural etc., why we are not seeing the same thing in Skin and where do you see growth in the coming quarters since Skin versus the 4.4%?



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Sunil Duggal:

I think that is a very good question and my only answer to that is that urban consumer is buying in to value but not buying into enhancement, so he is buying into anything which is doing him good, but not necessarily which is making him/her look better. So there is a subtle difference between Oral Care which is a far more therapeutic area as compared to Skin Care which is almost entirely enhancement area, and the money is really not getting squeezed in Oral Care, but it is getting squeezed in Skin Care, as was in the case of some Hair Care segments too which are showing a lot of stress in terms of overall growth.

Abneesh Roy:

Sir, one follow up on this can it also be because market leader has cut back on the prices and its main brand, and if you see in terms of advertising, etc., also they are aggressive, they are pushing the price point also. So is there a market share issue also in this?

Sunil Duggal:

I do not think so, I would urge you to look at the Nielsen numbers which show something like (-4%) degrowth in skin care volumes, it is the most impacted of all the HPC segments in terms of growth. So overall there is a market contraction happening on the ground as we see it because remember Nielsen is a lead indicator and I do see in drying up of spends happening in these very discretionary segments and I do not consider high end Toothpaste to be discretionary, they have almost become a staple now.

Abneesh Roy:

But sir you had said urban growth will revive in FY-'15. So at some stage do you see that even benefiting Skin Care in this year itself or it will?

Sunil Duggal:

I stick to my stand, I think it will improve. I had made this statement let us say a couple of quarters ago when the whole monsoon and the inflation scenario was really not turning out the way it is, I think the growth is going to be delayed, it certainly would not happen this quarter, may be not even next, so it will happen, but it is going to happen with a lag which is higher than what we thought a couple of quarters ago.

Balaji Prasad of Barclays.

Balaji Prasad:

Firstly, on the Hair Oil category, I think last year on this time we had mentioned that you would be taking price reductions and that we ought to see the benefit of these reductions play through in the coming quarters, but we seem to have seen now four consecutive quarters of single-digit growth. Do you think there is scope for a turn around and what led to this kind of expectation mismatch, if there is any?

Sunil Duggal:

I never spoke about price reduction that is not what we believe in. We are continuing to increase the prices, in fact, the price increases for Hair Oils has been the highest amongst all our categories Coconut Oils in particular, but even Perfumed we have taken up prices very steeply. The Hair Oils category unfortunately is not growing and again I would draw your attention to the syndicated study numbers which indicate volume degrowth of 3-5% and I do not think any large player in Hair Oils can



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be fully insulated from that. So we are also seeing some pressure on the revenue side. Having said that I think there are signs of some revival happening, I think we probably may have bottomed out in Hair Oils, we also have some plans in terms of rejuvenation of our brands complete relaunch of Amla Hair Oil for example which will happen in the next few weeks. So we do feel that we can put back some buzz into growth in the Hair Oils category, but as we speak this probably remains one of the slower growing categories in our entire portfolio.

Balaji Prasad: So for the rest of the year we probably still likely to see mid-to-high single digit growth, is that the takeaway?

Sunil Duggal: That is a likely outcome, yes. The revenue growth may be in double-digits because there would be some significant price increases, but the volume growth are almost certainly likely to be perhaps in the mid-single digits.

Balaji Prasad: On the Juices front can you help us understand what the category growth rate has been, and have you seen any kind of shift in market share between your competitors towards Dabur?

Sunil Duggal: Data of beverages is very hard to get. A lot of it is carbonated, then there is water, there are so many subcategories. But I would suspect that if you take the category as a whole, there has been great growth in cold beverages because of the summer. In the Juices and Nectar segment that is the only data point which we have, our growths have been way ahead of category because our market shares now are at all-time high. So therefore it being just a two or three players game in J&N, so I can fully say with a great deal of confidence that our growth rates are much ahead of category, and at 20% I do not think anybody comes close.

Balaji Prasad: What is your current market share?

Sunil Duggal: In J &N it will be around 60%.

Balaji Prasad: So just coming to may be just on the launches front, which categories have you earmarked for newer launches this year, and also just broadly do you think the general positive optimism on the macro side means that you could launch more a premium end products, is that the thing?

Sunil Duggal: We would wait for categories growths to revive before getting into the premium end big time. I do not see the market currently supports aggressive launches of premium products. So we will have to just wait for consumer sentiments to improve. Having said that there is enough play which we have in the whole consumer space to launch a number of new products, and to re-launch a number of existing brands. So there would be fairly brisk pace of launch in the balance of the year and that is not something which we are going to stop doing. But perhaps it will be a bit circumspect before launching some very high end or very discretionary products.



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Balaji Prasad: Just lastly one question on gross margins, there has been a 70% decline Y-o-Y. Which category contributed the most to this decline in gross margins?

Sunil Duggal: I think it was fairly secular, there was a small dip in most categories, and I would only say that there was a lag between our price increase and the inflation. So I would not read too much into it; 70 bps is not a big number, we can make it up pretty quickly. But the worrying part is that our margins are not improving, and we really hope that this year we would see significant uptick in margins, but I think we will have to be a little bit more patient before we get to see significant margin improvement over last year.

Balaji Prasad: Would decline in ad spends be the largest contributor for margin improvement?

Sunil Duggal: There is no decrease in ad spends; ad spends are flat in terms of percentage over last year. We have not taken the foot off the gas in terms of investments in our brands, so A&P has not contributed to any margin enhancement, so our spends on our brands remain intact.

Prakash Kapadia of iAlpha Enterprises

Prakash Kapadia: Sir, national election as a big event has failed to lift rural demand, and given that MSP prices modestly have increased this year, and monsoons are also sub-normal although they have improved, so what is the rural growth looking like, and for the balance of the year if you could give us some sense on the urban side, is that strong enough to counter the rural slow down?

Sunil Duggal: I am not very hugely optimistic about any big revival of the rural markets in this year, and the indicators are obvious – MSP price increases have been amongst the lowest we have seen in the last many years, and NREGA has been pretty much capped at current levels. The monsoon seems to be significantly below normal, it may not be a complete wash out, but certainly it is not going to be a good monsoon by any stretch of the imagination. So what makes the rural market work? There is nothing much on the horizon over the next couple of quarters, so it is basically the overall growth in the economy which would fuel consumption, and that consumption would obviously be led by the urban sector. So therefore I think I am far more hopeful of strong revival of growth in the urban sector, and I would be happy to see growth along the way in rural. I do not see any big signs of uptick, there are no triggers really.

Prakash Kapadia: And sir on the Food segment, we just launched the 500 ml packets. Is it more for rural markets and I think....?

Sunil Duggal: Not at all, Juices do not sell in rural, there are some pockets of affluence in Punjab and Haryana, West UP where we do get good sales of Juices, but they are an exception. It is entirely an urban phenomena; 90% of our business comes from urban. Even juice which is upwards of Rs.20 MRP per 200 ml is almost entirely urban phenomena. So this 500 ml is to offer people choice. If the litre cost



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say Rs.110 and this costs Rs.60, so people might hesitate to buy something which is of exotic nature may be a new flavor or may be a milkshake or a drinking yogurt and shell out Rs.110 for it. So this kind of mitigates the risk a bit, your ticket size is smaller, and also you can have more flavors – family can buy say four flavors instead of buying two for the same price or a similar price. So it is an effort to widen and deepen consumption, and let us hope it succeeds because it would really open the market big time.

Prakash Kapadia: And this would be sir pan India or?

Sunil Duggal: At the moment we have just started off, and it would be pan India definitely, but the focus would be to begin would be our strong markets in the north and of course modern trade across the country and then we filter it down to general trade in south, east and west.

Prakash Kapadia: And sir, lastly on the other income that has seen a muted growth this quarter, any one-offs or FOREX or any changes?

Sunil Duggal: I think with regard to the other income there is a change in the accounting based on AS30 which we did in the later quarter of last year, whereby we have now started accounting the other income on the actual realizational basis and not on the accrual basis. That is where you see the gap from the previous year where it was accounted on the accrual basis to be higher by the tune of I think Rs.3 to 4 crores in the previous quarter, that is where you see the impact. Other than that I think other income is growing at a steady pace and also there is some FOREX impact which is comparatively lower in the previous quarter compared to this quarter, therefore the other income is growing at lower than the previous quarter.

Prakash Kapadia: So given our current liquid portfolio they should get normalized during the year?

Sunil Duggal: Absolutely, it will get normalized as we go forward in the quarter.

Prakash Kapadia: Of the FMP and liquid funds, any impact on yields going forward for us?

Sunil Duggal: No, the yield will remain same because we were not investing into the FMPs earlier, we invest directly into the instruments, so no impact.

Sunil Duggal: We do not have any FMP exposure.

Percy Panthaki of IIFL

Percy Panthaki: Sir, first question is if you can just give some idea whatever new products or variants which you have launched in the last 1.5-2-years and which of them have performed above your expectations, which of them have performed in line or below your expectations?



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Sunil Duggal:

Let us say the new Vatika Hair Oil which we launched with Hibiscus has done well. The Almond Hair Oil obviously has been quite a big success, so we got a couple of wins in Hair Oils which is very important because the category like I said is not growing very well. Odonil Gel is a big success. SUPA Fruits and Beverages has been something which is selling very well. So there have been quite a few successes. In terms of not meeting the action standards I think perhaps our yogurts have not done too well, these are very discretionary items that we perhaps launched in a time of economic stress, so we perhaps need to launch it when things are better. We launched an expensive Hair Oil under the Vatika Olive which again does not seem to be doing that well, again expensive product. There is a pattern here anything which is of a discretionary nature, high priced is feeling the heat of the market slow down, and the other products which are priced comparatively lower are doing quite well.

Percy Panthaki:

But SUPA Fruits is priced at a premium and that has done....?

Sunil Duggal:

You are right, SUPA Fruits is exception, but then it is priced in line with our Active range, it is not above that. So may be, it is offering more value to the consumer as compared to let us say the 100% Juices, that is why it is doing well. But again there is no mantra here, you go to push the right buttons, and sometimes you get it right, sometimes you do not, but overall we are pretty satisfied with our success rate. And I think it will only improve now going forward as and when the market sentiments improve which like I said should happen after a couple of quarters.

Percy Panthaki:

Secondly sir, just wanted some idea on the growth rates. Urban we are expecting to pickup but we have not actually seen any major pickup yet, on the other hand rural has been slow and if the monsoon is bad, etc., there is a risk of it becoming even slower. In light of all these circumstances what is the probability you think that this growth might slip below the 8% to 12% band that you have been talking about?

Sunil Duggal:

Catastrophic failure of monsoon could drive it definitely below that. Other than that I am still hopeful to see the Consumer business grow in this band. Keep in mind one thing, our 8-9-10% whatever we talk about is on the back of similar or higher growth in the corresponding quarters in previous year. As I mentioned in the conference call this is our 9th consecutive quarter of 8% plus growth, and much of this growth has been 9-10-11%, so we continue to drive growth at 8-9-10% over this very high base is never to be taken for granted. But at the same time seeing the momentum in our business which I believe is still quite high, I am hopeful that under normal circumstances which like I said excludes a catastrophic failure of monsoon or the economy fragmenting or inflation becoming even more hyper than what it is, we should be able to hang on to these rates. At the same time, under the current scenario getting into double-digit volume growth does appear a distant dream at this. But you never know, and if you see our trajectory of growth which was significantly driven by rural over the last couple of years, there is a complete shift in terms of where the growth is coming from, our urban growth were in the region of 13% to 14% our rural growth are now in the region of 11 to 12%/ So there has been a definite shift in terms of where our growth are coming from. And this shift could



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only accelerate going forward. So therefore we have invested in urban infrastructure, we have built a lot of platforms and capability in dealing with modern trade; our modern trade sales grew at 25%. So I think we are directionally right, and if the environment is even a little bit supportive, we should continue to deliver strong growth in the quarters to come.

Percy Panthaki:

Sir, on gross margins you just mentioned a couple of questions back that basically for the gross margin to expand this year as you are expecting earlier, that seems less likely, if there is expansion it will be more or less flattish kind of thing for FY15. So just wanted to understand what has driven that change in view?

Sunil Duggal:

Very clearly, inflation. Our material inflation for example last quarter was something like 9% which is huge, we had predicted something like 4-5% and I think that has really made all the difference. It is a long list, but let me give you the top three or four – Honey, Coconut Oils, LLP, and PDCB what goes into Odonil - these are some of the four or five high impact commodities and the ones which have actually inflated are very few. So, this meant that inflation in the first quarter was very high, second quarter unfortunately will remain high and hopefully things might cool off a bit in the third. There are some positive signs that oil prices have come off, the rupee is fairly stable now. Some parts of the business would perhaps see some margin pressures easing. But the second quarter is going to remain very challenging in terms of the margin delivery. I do not get overly obsessed with margins unless I see a major slippage which is certainly not happening. I would have hoped for a margin improvement, but in the light of the macros, I am reasonably satisfied with us being able to maintain margins without cutting back on A&P, and delivering 8% plus volume growth. So, I think the business is intrinsically on a very sound footing. As and when the revival comes we will be on top of that. Last year for example a very few companies delivered this 8-12% volume growth and I think you have to see it from that context.

Percy Panthaki:

Sir, one last question if I might squeeze in, basically, as you said last few years most of your growth has been coming from rural, now, you are focusing more on urban. One of the actions you have taken to make sure this happens is to basically have the supply chain in place, so you are targeting chemist shops, you are targeting modern trade, you are sprucing up distribution in urban. So that is entirely on the supply chain or the distribution point. But do you think there is any other action you need to take to make your products more appealing to the urban consumer in terms of the product portfolio...?

Sunil Duggal:

Very clearly, you have to evolve the portfolio. You want to have growth, supply chain will take you up to a point and not beyond. So, I think the portfolio composition is changing rapidly towards a more urban bias, and if you see our NPD in the recent past and certainly going forward it would have a strong urban bias. Another reason is not HPC so much as the Personal Care portfolio has got a rural bias, the other parts which is Home, Health and Beverages have a strong urban bias. So, that is why we are retooling internally in terms of focus and investments and we are seeing urban as being



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instrumental in recovery, and that is in sync with the thing what the government policies and all will play out to be.

Aditya Soman of Goldman Sachs

Aditya Soman: Following up on the earlier question you said that there are certain categories which have a rural bias, say something like Personal Care and the rest maybe a more of normal bias. Is this in some way sort of altering the way your segment of the overall margins for the business work?

Sunil Duggal: Yes, because the urban segments by and large have a much better margin profile. The exception is of course beverages, which has got a lower margin profile. So, if you take let us say Healthcare and Personal Care, Healthcare has a significantly higher margin delivery than Personal Care. But even Personal Care got a higher margin delivery than say Food and Beverage. So, you cannot really look at each of these entities in a composite way, they have their own profile and it is not that we want to necessarily move Healthcare just because we got a higher margin, that is certainly directionally favorable to us, but I think far more importantly we believe that the growth opportunities in Consumer Health in the urban centers are far more than perhaps any other segment we have. And Beverages is still a sunrise segment. So even though it offers lower margin delivery if it gives us 20% growth consistently, it is a pretty good place to be in. So, it is not just a plain margin focus which drives our portfolio shifts and our business strategies, it is really where long-term sustainable growth is going to come from.

Aditya Soman: Actually, my question was from a perspective of just trying to understand if the change in mix had something to with slightly lower margins in this quarter?

Sunil Duggal: The portfolio change has really had no significant impact on our overall margin delivery. While Healthcare has grown ahead of Personal Care with higher margin but so have Beverages. So, I do not think there is any much to read there. The margin impact or lack of it has really been on account of inflation and our price increases and not so much on mix.

Aditya Soman: Second question actually on your segment break up on standalone. I see there has been a shift in the other allocable expenses I think. Is there...?

Management: What we have done is that we have moved some of the unallocated expenses to the allocated expenses, to the extent we could. Therefore if you see we have regrouped our quarter data also, and we have now started allocating more expenses which we are able to allocate directly onto the segments, and therefore you see that...

Management: They are more representative of the margins in that segment.

Aditya Soman: So, this will now be what you will sort of provide going forward from here?



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Management: Absolutely.

Ashish Uppanlawar of Elara Capital

Ashish Uppanlawar: Just wanted your perspective on the margin picture in the International business. From whatever commentary we had till now it seems that the Domestic business profit growth is in line with the top line growth. So anything that gives an extra lever from the international business which will take profitability higher than the sales?

Sunil Duggal: There is no huge difference in the profit delivery from the composite Overseas business as compared to the Domestic one. So I do not think it is having any significant positive or negative impact on our consolidated margins.

Ashish Uppanlawar: Anything to share on how the outlook is for the Overseas business across geographies and even if you could specify how the US business is overall doing?

Sunil Duggal: The US business is the only drag we have. All the other businesses except for perhaps Nigeria which is not rapidly improving are doing extremely well. So, the US business now should get back on the growth track, the basis on a fairly low level. So we are looking forward to a very good second half for the US business, I think most of the issues which were causing us some stress in that business would be over by this quarter. The Overseas business of Namaste is actually doing very well and the composition of the Overseas business is now 40% (all-time high). North America is only 60%. So directionally, we are on the right track. We will be now rapidly localizing manufacturing in Nigeria, South Africa and Egypt for the Namaste products so that would further impetus to the Overseas business. The Overseas business is pretty much intact, it is a steady business and the MENA part continues to deliver very strong profit growth. Egypt is a very high performer. And with the distribution issues in Nigeria sorted out, you should now look for good growth coming from that market too which was dragging our growth in the last two or three quarters.

Ashish Uppanlawar: So putting it all together 15-20% band for growth on sales seems to be the case maybe for the Overseas business on a continuous basis....?

Sunil Duggal: If I get more towards 15% at this point in time and hopefully going further...I am talking about constant currency now, so we would look at that kind of growth from the Overseas business over the next few quarters at least, try to take it up a little bit later.

Ashish Uppanlawar: Any delta available in the Namaste business as far as the profitability improvement is concerned, would we see in this year, any significant...?

Sunil Duggal: The real revival of Namaste would be in the second half, because that is when all the growth levers which you put into play would start firing, and also the localization of our manufacturing in Africa



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would then be a reality, at the moment it is very little. So the margins of Namaste should look much better in the second half as compared to the first.

Varun Lohchab of CIMB

Varun Lohchab: The question was more from next two to three year perspective in terms of shaping the portfolio as you said say getting more urban bias. Do you believe that with the current portfolio you will be able to capture the upturn apart from Beverages, because the performance has been sort of patchy in some of the categories in last 12-18 months. They have not been consistently delivering as well, so changes in which of those categories would you really want to beef up the portfolio over next 12 months to get position for that upturn?

Sunil Duggal: I think we have been consistently performing at a very high level in even hypercompetitive categories like Shampoos and Oral Care over the last so many quarters. Consumer Health is one area which of course we will be focusing on a lot and we should be able to deliver very high growth in this space in the urban centers in the next few years. So therefore the urban categories I believe are actually very well poised to capture the growth which will emerge in the urban centers. I think what we really have to do is to manage reasonably strong growth in rural so that rural does not become a drag on our overall business performance. I think with the distribution expansion which we have invested in over the years we should be reasonably insulated from any sharp downturn in the rural segment, but the growth certainly would come from urban.

Varun Lohchab: In case of Shampoos again, like your portfolio is more geared towards the mass end. I think Oral you are well positioned with the top end brands also performing, but like in case of Shampoos and Skin, do you think you really need to kind of put in a lot of effort to premiumize that portfolio?

Sunil Duggal: Any of these categories you have to put in a lot of effort, hype competitive categories with all the global players being here. So you got to take strong niche positions and to grow those niches and I think our track record proves that we have the ability to do it. So, I am not worried about competition, I am more worried of the overall demand side and inflation. So these are the two elements which bother me far more than any competitive activity. I think our portfolio is very unique, very insulated from competitive factor but obviously not completely insulated from demand destruction consequent to our management of the economy.

Varun Lohchab: Like in Hair Oils, you have already taken up a few actions with the launches at the premium end. So one to two year should we expect say more launches in some of these Personal Care?

Sunil Duggal: We would be launching more Hair Oils, but it does not necessarily have to be at the forefront of our business growth, it is a fairly mature category and I think we will be managing this growth in a



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moderate fashion, but we will see growth from the more sunrise categories in Consumer Health and others rather than from Hair Oils.

Varun Lohchab: In terms of the pricing lever, do you think you are utilizing it enough or given the sort of inflation we have seen, do you expect to see more price hikes I do not know if you have commented on it so far, but what have been the extent of price hikes taken in this quarter?

Sunil Duggal: This quarter was around 2-3% and full year price increases would be around 6-8%, that is what our expectation is if inflation continues to be the way it is. We are always as you know conservative about taking up prices and I think today the mood of the consumer is not many much in favor of accepting very sharp accelerated price increases. So, we are more or less managing the inflation impact through price increases, but not seeking it as a tool for margin enhancement. I do not think the consumer sentiment would permit us that. But so long as we maintain our margins at current levels and like I said maintain a good trajectory of growth in a fairly stressed environment, we are pretty happy with the outcome.

Varun Lohchab: So price hikes like earlier, I guess you are thinking 4-6%, now that band has shifted to 6-8% probably...

Sunil Duggal: That is what it looks like. I hope it does not come to that, but it is likely to.

Vivek Maheshwari of CLSA

Vivek: This is Vivek. First question sir on the volume growth. You always give kind of more like a band where you expect the volume growth will settle for say the next few quarters. What do you think about for the next nine months where the trajectory should be?

Sunil Duggal: I stick to 8-10%. I see no hard evidence on the ground to change my views, so I would stick to that band.

Vivek: Considering whatever you highlighted about rural, you are essentially implying that whatever weakness that maybe in rural India will be offset by urban, that is how we should be looking at it, right?

Sunil Duggal: I think you put it broadly in context, the urban growth should make up for the lack of rural growth.

Vivek: Second on Hair Oil, the growth although it has kind of bottomed out, but structurally the growth trajectory will be lower over here. So when Hair Oil kind of starts coming off, then Hair Gels and Creams and even the Conditioner should pick up. Has there been any trend like this and how do you want to play in that space if at all that has happened?



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Sunil Duggal:

There are some signs of the new age Hair Care products coming into play, but it is very much at the infancy stage, but we do have a vast armory of such products available with us to be launched at short notice, but there has to be a some critical mass, otherwise the products really are not sustainable. But we are looking at now launching Serums and Hair Creams and such more and more new age Hair Care products, mousse for example at least in modern trade in the near future, and then see how the customer preferences emerge for these products. You are right, I think there would be some small shift in terms of preferences from Hair Oils into some of these new categories. But we have got enough experience in the Middle East and other markets in running these categories. So we are pretty confident we can put them to market at a very short notice.

Vivek:

Because your presentation slide on the 'Innovation' also shows one product which is Hobi Trends Hair Gel, so it would be really relatively simpler for you to bring this product for example to India?

Sunil Duggal:

Very much so, because the Hobi Gels we launched under the Vatika name in Egypt and Middle East very successfully. So, we can label them whatever you want in India, and have the same or similar formulations. Thanks to the acquisitions – we have technologies available in many categories which we did not have earlier. And it is already helping our International business tremendously where Hair Gels is one of our fastest growing categories, developed based upon technology from Hobi. This is one example of the cross-pollination which is happening across our International businesses.

Vivek:

I am still not very clear so why is it that if Hair Oils growth itself is decelerating, is it the consumer urge is getting out of it and not using any other products, why that uptick is not visible for example in Creams and Gels at all, had that been the case you would have probably launched it by now, right?

Sunil Duggal:

There is always a lag, I think the usage of these products takes its own time to pick up, because it is more by word of mouth. Because nobody is going to spend a huge amount of money advertising these products, so it spreads in a very slow fashion. But as and when these products start getting currency, a lot of the promotions are actually through digital, so then the growth can be quite exponential.

Vivek:

Third, on the OTC and Ethical, broadly, of the total consolidated revenues this will be like 5% kind of a portfolio, and your presentation and your opening remarks also mention about further expansion in this. How easy or difficult it is to create an OTC brand because advertising cost given the scale for each of the products because these are essentially problem solution kind of a product, and you will obviously need to play with a number of products over there, so can you actually for example national advertise these brands or it is prohibitive in that context?

Sunil Duggal:

It is prohibitive to launch a OTC brand through advertising and it is almost guaranteed for failure if you do that. You have to bake it through the advocacy route, you have to go to doctors, you have to get endorsement of the doctors before you take to OTC. So that is a long slow process, you got to have that infrastructure to do it, and there are a very few companies who can do that, because mostly



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people who have strong doctor detailing platforms are in the prescription space. But we are building one purely for the purpose of incubating it through the doctors and then taking it over-the-counter. You got to be patient here, like I said it takes one to three years to make it for OTC, but the learning is very clearly that you try to take this product to OTC right from the beginning, the chances of success are very-very low.

Vivek: On the margins again, I think you have fairly well explained your stance on price hikes and everything, but given that say Namaste for example would have benefited from an INR perspective because rupee was depreciating, there will be margin benefit on that front, etc. Even second quarter as I have seen my model the gross margins are quite high and the reason you explained at that time was international, etc. You will at least maintain your margins on a YoY basis even if there is no accretion but there will not be any dilution, is this the safe assumption as we stand today?

Sunil Duggal: I do not think currency will impact margins in any substantial way. There will be some stress on the revenue line because the translation gains on the revenue side are quite high. But the gains on the margin side are negligible. So, I do not think you should be worried on that; if the rupee strengthens it will impact our consolidated margins because of International business margins going down in INR terms, that would not happen.

Vivek: So flat margins full year as things stand today, is that a fair assumption?

Sunil Duggal: You are talking about consolidated margins?

Vivek: Yes.

Sunil Duggal: That is a likely outcome, but we still have not given up hope of improving margins.

Sundar S of Spark Capital

Sundar S: We had initially outlined about 53,000 outlets to be the reach in the top 150 towns. Now that been reached. So what is the further target out here, and what has been the progress out here?

Sunil Duggal: We certainly are looking at something like 70,000-75,000 by the end of the year. After that we will calibrate the whole exercise and see how many more we need to go. I do not think it is a great idea to start with a certain very high targeted number and to say I am going to necessarily get there. When you see the returns which you get from extension of the core platform and whether they are commensurate with the cost, we certainly believe that up to 75,000 there would be, beyond that it is a little bit uncharted. So, I think if we have a lot of OTC initiatives on the ground and which are doing well, the last mile reach in core should be much higher, maybe ahead of 100,000, but if the launches are slow to get off the ground we may choose to be a little bit more circumspect in expanding core.



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So, certainly our first phase target has been reached of 50,000 odd, second phase of 75,000 could be reached by the year-end, after that it is hard to say.

Sundar S: The current 53,000 outlets reach what percentage of the Healthcare products should already be serviced in these outlets?

Sunil Duggal: I will have the answer only by the end of Q3, because a lot of our Healthcare products is sold in the winters, and we still do not know how much will be sold through core, but fairly a high number, we can work out some of the details and feed them to you.

Sundar S: Second, given that the winter quarters are yet to come, the expansion would be at a much quicker pace going forward?

Sunil Duggal: A lot of expansion will happen prior to the onset of the season in Q3, so Q2 would mean substantial expansion, I think the full impact of Core would be visible in the third quarter. That is when a lot of our existing small OTC products would benefit tremendously from being part of core and the overall Healthcare growth should show some substantial uptick as compared to the previous year. Of course, in Healthcare, always remember, there is a strong seasonality element. So cold winter certainly would help things, but if you take a normalized seasonality scenario, through Core, you would see definite uptick in Healthcare numbers, and it is already visible unlike say a couple of years ago - our Healthcare growths are ahead of the other categories apart from Beverages of course.

Sundar S: What percentage would be from these chemist outlets, can you throw some ballpark number?

Sunil Duggal: I will give you the number later in the year, because the meaningful number will emerge only by the end of Q3.

Nillai Shah of Morgan Stanley

Nillai: This is Nilay. Just two quick questions I had; one is on the near-term margins. You had mentioned in the past that in the International business there was a tremendous gross margin flexibility because of lower input cost. Has that changed because I am seeing a margin decline for this quarter?

Sunil Duggal: This is more in terms of lower throughput from the International business from the North American sales. Our MENA regions are actually ahead of what they were last year but the North American margins have come off because of the lower top line, attendant cost have not come down, so therefore the EBITDA delivery is much lower than what we had last year. So that is the only reason. I think the North American business like I said should get back on track in the second half, and then you would see a stronger margin profile emerging from the International business than what you see in this quarter.



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Nillai: Second question is more long-term, given the nature of the shift in the portfolio that you are aspiring for, over the next three years or so, where do you see consolidated gross margins heading to and what would be the drivers for that? Actually more interesting to understanding will there be a margin accretion in the Juices portfolio?

Sunil Duggal: There could be, but not to be taken for granted, I think a lot depends upon the fiscal policies of the government, whether they allow imports at cheaper rates, whether the overall supply chain cost go down, but I do not think the margins would increase very substantially. We will be looking at around 15% EBITDA delivery, around 40-42% gross margin profile emerging out of the business. So it is structurally a lower margin, and I do not think there is much possibility of it catching up with Personal or Healthcare. I do not think we should aspire to those margin levels, because they will impede growth and penetration of the Beverage business. So we would see it as a comparatively low margin, but a very fast growing business and that is how it is configured. For the consol business, we would look at certainly margin improvements, we are not satisfied with the current level of margin, and we would look at gross margin delivery of around 50-52%, EBITDA delivery of around 20%. This is really what our internal benchmarks are and we intend to get there within the next 3-4 years, but like I said, the inflation in India is really proving to be a big impediment to getting to those numbers.

Nillai: So a large part of these will be driven by the portfolio mix itself or just...?

Sunil Duggal: Not so much the mix, because the mix would in a sense be favorably impacted by faster growth in Consumer Healthcare but unfavorably by equally fast, if not faster growth in Beverages. So I do not think the mix is going to impact things. You really have to take up the whole margin profile through price increases to better management of cost, and through a better intra portfolio mix. So you have high margin products coming out of say Oral Care, and directionally, we are in that direction. So our Toothpaste margins improve because we sell more of Red and less of Babool. And likewise many other such products – we go into higher margin Hair Care products; Skin Care – we move the portfolio towards Oxy rather than Fem which delivers 10% higher margins. Intra-category movements in terms of margins would help things a bit but not really intra-portfolio shift, because that I do not think would have a meaningful impact on margins.

Nillai: Anything remaining constant at these levels on sequential basis now over the next three-four quarters we should expect margin expansion? You spoke about the pricing.

Sunil Duggal: No, three-four quarters I do not have any huge expectations, because I do not think inflation is going to just evaporate. The monsoon or lack of it has really brought that into focus. So this year would be fairly muted in terms of margin expansion, I am really looking at perhaps the next year where we would see a significant uptick in terms of our margin delivery.



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Sanjay Singh of Standard Chartered

Sanjay Singh: This is Sanjay here. Firstly, on tax rates, can you just tell us what the standalone tax rate will be for FY15 and '16 and the overall consol tax rates?

Management: On a standalone basis, we are under MAT, so therefore it is going to be 21% which would be the effective tax rate that will continue with in this year. At a consol level it will all depend upon the country's tax rate, but on an average we would say something to the tune of 22% or so, plus there would be some deferred tax impact. So, within the range of 22-23% is what would be the impact at the consol level.

Sanjay Singh: This is even for FY16?

Management: FY16 we will have to see again as I said what the tax rates would be, but we would expect it to be within the same range.

Sanjay Singh: When do you move out of the MAT rate?

Management: We would expect to move from the Financial Year '17-18 or maybe a year after that. So that is what will be the first time where we will see ourselves out of MAT.

Sunil Duggal: It will go up in a calibrated manner, it is not going to go to nominal over a period of one or two years.

Sanjay Singh: Secondly, I think I am not too sure if you have mentioned it, but was the domestic FMCG volume growth?

Sunil Duggal: 8.3% domestic FMCG, 8.8% consolidated.

Sanjay Singh: And lastly, this is a more longer term, I mean, I think last time we had discussed on the four-year vision, where we had 15% sales CAGR. Now when I am hearing you in terms of both domestic and international where you are seeing 8% to 10%, maybe inching up to 10% to 11% volume growth for 5% pricing plus international low-to-mid-teens growth. So, essentially are we as of now even with the improved economy or maybe expectations of a improved economy looking at 15% CAGR kind of growth rate, let us say for next 3 years?

Sunil Duggal: I think 15% is a pretty decent number to shoot at, it is very much achievable. At the same time, not to be taken for granted. So we stick to 15%. So there is 13% or 13% odd which you see is just the first quarter of the next 15 quarters which we have in vision. So, there is a long way to go. We will certainly be at 15%. I would be extremely surprised if we are not.



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- Sanjay Singh:** And in terms of margin delivery, what you have mentioned to the previous question that you expect intra-category margins to move up. So, essentially you think that there is some scope of margin delivery improvement under normal circumstances?
- Sunil Duggal:** Pretty definitely so. Like I said we see today's margins are being at the lower end of our capability and I think they can only go up from here. But I do not see any near-term trigger next quarter or two to make them shoot higher. But the longer-term trend if you really look at the way we are managing our portfolio, especially the intra-category piece, improving the mix within the category, we will definitely see margin improvements, I am absolutely confident of that.
- Sanjay Singh:** You were mentioning about having urban bias at least some parts of the portfolio, and that is why probably you are over a rural sales is a little higher than the overall industry average. So the parts like maybe the whole Skin Care range, Gulabari brands or even the Hair Oil portfolio, so do you think it is going to be a big drag or your Food, etc. will take care of your overall 15% ambition?
- Management:** I think we go where the growth is and we chase growth in rural when it was very apparent that it is going to happen say 3 years ago, and we are now looking at urban to fuel the next stage of growth. So, maybe 3 years down the road we will be in a different scenario that the rural growth once again will be very important. So, you got to have foot in both the doors, and you go to then in a very calibrated fashion, allocate resources between urban and rural brands to invest where the growth is going to come from. So, there is no point throwing money at a low-growth category in a low-growth environment. So that is just a calibration and we do believe that Consumer Health and Beverages in urban setting does provide us with the strongest growth driver over the short to medium term. But as and when this trend starts reversing we are free to take advantage of those changes, and we will recalibrate our portfolio once again.
- Sanjay Singh:** But you are confident that the competition is giving you enough space to move into the urban space where probably it is a little more hyper-competitive?
- Sunil Duggal:** You have to create your own space and I believe that you can only do that if you have a different proposition of differentiated products on offer to the consumer and then the space is available. But if the growth rate is apparently low as they were in urban India over the last couple of years, then it becomes very hard, because it gets into a market share game and the consumer is not really receptive to any new entrant. But, we believe that the mood of the urban consumer at least a quarter or two from now would be far more offbeat and would be receptive to acceptant products such as what we have.
- Gagan Ahluwalia:** I just like to thank everybody for your participation and interaction in this conference call. The webcast of this call and transcript will be available on a website. For any queries or feedback you may kindly contact us. Thank you, and have a great evening ahead.
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