



“Dabur India Limited’s Earnings Q4 & Year Ended
2013-14 Results Conference Call”

April 29, 2014

MANAGEMENT

MR. SUNIL DUGGAL - CEO

MR. LALIT MALIK - CFO

MR. ASHOK JAIN - VP-FINANCE & COMPANY SECRETARY

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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 and Year-Ended 31st March 2014. Present now with me are Mr. Sunil Duggal - CEO, Dabur India Ltd; Mr. Lalit Malik - Chief Financial Officer; Mr. Saibal Sengupta - Senior General Manager-Finance; and Mr. Ashok Jain - Vice President- Finance & Company Secretary. At the outset, 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 Dabur India Limited Conference Call pertaining to the Results for the Quarter and Year Ending March 31st 2014.

During the quarter, Dabur's consolidated sales increased by 15.5% to Rs.1,769 crores and profit after tax by 17.3% to Rs.235.3 crores. The company achieved sales of Rs.7,073 crores during the full year with net profit of Rs.913.9 crores. The domestic FMCG business reported growth of 14% driven by volume growth of 9.2% during the quarter in spite of a general slowdown in the FMCG sector and a very high base of 12.3% volume growth in the same period last year.

Our Health Supplement portfolio grew by 17.6%, driven by a strong growth in Chyawanprash and Honey. The newly launched Dabur Ratnaprash received a positive response from the consumer and Chyawanprash variants also performed well. Digestives grew by 23% during the quarter with the Hajmola franchise reporting strong double-digit growth. Pudín Hara performed well, driven by main offering as well as effervescent variant – Pudín Hara Lemon Fizz.

The OTC and Ethical portfolio registered growth of 11% during the quarter with Ethical portfolio growing by 13% driven by a combination of on-ground and digital initiatives.

The Toothpaste portfolio performed quite well with growth of 21% during the quarter. This was led by Red Toothpaste which continues to post strong growth and witnesses increasing market share. Meswak, our most premium offering in the portfolio performed well during the quarter. The Tooth Powder brand Lal Dant Manjan also posted 6.8% growth during the quarter.

Skin Care category grew by 10.1% with Gulabari and Fem Bleaches performing well. Other variants of Fem namely Hair Removal Cream, Hand Wash lagged in growth as the focus remained on the larger products.



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Our Home Care portfolio grew by 13% with Odonil and SaniFresh reporting good growth. Odomos witnessed lower growth due to postponement of some institutional orders.

Our Hair Care portfolio grew by 6% with shampoos growing by 19%. The Hair Oils portfolio reported moderate growth due to lower offtakes in institutional channel. Net of institutional business Hair Oils reported 7.6% growth in retail channels with Coconut Oil also reversing the declining trend. Overall, the Hair Oil market has been under pressure and continued to witness moderation in growth rates across all segments. As part of our strategy to add drivers to growth, we have kept up the pace of new launches in the Hair Oil category and our recently launched products – Vatika Enriched Coconut Oil with Hibiscus and Vatika Olive Enriched Hair Oil continue to receive encouraging response.

Foods business continued its good performance, growing by 21% with Real Fruit Juices performing exceedingly well.

The Culinary portfolio under Hommade Brand also reported strong double-digit growth. Real Activ Coconut Water was relaunched in select markets posted good response to the brand during its test launch last fiscal.

While we have been increasing a distribution reach in the rural market through 'Project Double' there was a need to increase our footprint in some of the urban centric channels such as 'Chemists.' The Chemist channel is very important in implementation of our Health Care strategy. In order to increase our coverage in this channel and enhance the portfolio width, we have launched a new initiative named "Project CORE" – Chemist Outlet and Range Expansion. As part of this we recruited around 350 additional resources in the front end and increased our focus on the distribution point as well as raise selling in the channel. In the top 150 towns the coverage has already increased from 31,300 to 53,200 outlets, and the total direct reach has increased to 2 lakh outlets.

Dabur International business including acquisitions grew by 20% during the quarter with the organic business reporting growth of 24% in spite of disturbance in Egypt and Bangladesh. Namaste reported good growth in markets outside the US in Africa and EU which is in line with our strategy to increase Namaste's presence in these markets and reduce dependence upon the US market.

On the profitability side – EBITDA margins were stable at 18.9%. Material cost as a percentage of sales were also stable even though 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 increasing to 12.9% as compared to 12.5% in the corresponding quarter last year. Consequently, profit after tax grew by 17.3%.



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Overall, the year has ended well with the business momentum remaining strong in spite of challenging macro environment and volatility in input costs. Our strategy to invest strongly in our brands and distribution channels has enabled the company to meet the challenges and continue on the growth trajectory.

Going ahead, we would continue to focus on innovation and expansion of our business across the categories and geographies in which we operate, and aim at delivering superior growth and value creation for our shareholders.

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

Abneesh Roy of Edelweiss.

Abneesh Roy: My first question is on the current slowdown; some of the companies have said that the downtrading is visible in some of the segments, LUPs are selling higher and in premium and discretionary, the slowdown is more, and in the Modern Trade also, the slowdown is higher. So, if you could also share data points or insights into all of this?

Sunil Duggal: There is selective slowdown in discretionary spending which we see in products categories such as Skin Care and Home Care but certain other categories let us say like Beverages where we are selling large quantities of some fairly high priced products, we do not see downtrading happening because those products are positioned more on the Health platform. I think wherever we offer a good rationale to buy for even a product which could be called discretionary, there is traction for that product, but where that differentiation does not exist and it is only perhaps just enhancement, then there is a slowdown.

Abneesh Roy: Coming back to Home Care, we have seen 13% growth Vs 20% for the full year, so why sudden there is a slowdown and if you could give more granular details into this?

Sunil Duggal: Let us say the Air Fresheners which is a dominant part of this portfolio grew by around 15%, if I am not mistaken, during the quarter which is a pretty decent pace of growth, little bit lower than what we have been seeing, but then those growth rates were extraordinarily high. What has not performed well is Insect Repellent, and that is really because of the lack of a couple of large institutional orders which normally come in the fourth quarter which will probably come now in the first, and that led to some temporary reduction in the rate of growth. I think under the circumstances the Home Care portfolio is not doing badly but it is feeling a little bit of pinch of the slowdown in discretionary incomes.

Abneesh Roy: In the Oral segment, our growth rate has improved to 17% Vs 14% for the full year. And the other company which came out with results they have seen disappointing numbers in one of the brands, the other brand was fine; they said that the promotional intensity in Pepsodent has



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increased many-fold. So, have you also seen a similar step up in promotions and have you also responded, because our growth has improved, so has the margins taken a knock because of this?

Sunil Duggal:

Not really. If you take the blended margins of Oral Care they have improved considerably because the high margin products continue to grow at strong double-digit rates. The low margin products are growing in the mid-single digits which is Babool and Red Toothpowder. So the margin profile is improving considerably. What we have done in Oral Care is we have actually reduced our consumer promotions and we have increased the advertising above the line spends, and I think that has worked to our advantage because products like Toothpaste, we believe are of completely non-discretionary in nature and people will buy products which deliver value like Red Toothpaste, no matter what the economic situation is. So this is a very robust part of our portfolio which has shown excellent growth quarter-after-quarter, and we hope that this growth will be maintained.

Abneesh Roy:

If you see the other results have pointed towards cut back on mass media ads but some step up in promotions, in your case we are seeing the opposite. Which strategy is better in terms of the current slowdown or maybe the pickup which is likely because of a new government? Are you of the view that the mass media is a better strategy and if you believe so, why we are not seeing a same thing by other companies?

Sunil Duggal:

If you take this question at a very high level spending money above the line yields better results if your products are differentiated. If you got something to say which is very different from what your competitors have to say. And it works less effectively than consumer promotions if you have a comparatively a less differentiated portfolio. So in Oral Care where our portfolio is highly differentiated we believe above the line spends work much better for us.

Abneesh Roy:

In the previous concall you had said you expect urban recovery in the next few quarters. Where do you stand now with stronger government that signal stronger and now three months has further passed, where do you see now urban recovery – how soon is it, how much stronger is it? And if you could also comment on rural because of the El Niño likely impact?

Sunil Duggal:

The urban recovery if you really see the headline numbers in the Nielsen reports, etc. actually is not showing any kind of uptick. So my projections were more within the realm of where we are and we are investing in urban infrastructure. Even if urban markets continue to remain under pressure we believe we will be able to generate better growth in urban because much of the fast growing part of our portfolio which is Health Care and Food and Beverage has got a highly urban-centric focus, and if this portfolio does well, then obviously our urban growth will do well. So we are really going on faith; we are investing in an urban infrastructure and we believe there is enough scope in the urban market to support our portfolio and enable us to



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grow at a decent pace. Of course, the monsoon effect and all which is a little bit uncertain at this point in time, could prove to be a little bit of a dampener here in the pace of revival of this growth, etc. Even under adverse circumstances I think we will be able to maintain our growth rates in urban because of the nature of shift in portfolio focus.

Suruchi Jain of Morningstar.

Suruchi Jain: Just wanted to check on the progress on your outreach to chemist; you mentioned a few numbers. Could you just repeat them for me? I believe it is 2 lakh outlets in total.

Sunil Duggal: 2 lakh is the total availability of our products in chemists, but the focus part which is under Project CORE we were at around 35,000, just to round up the number, we are now 33, now we are at around 52, so it has been a big jump over a fairly short period of time; 3-4 months we ramped it up from 33 to 52 and we will take it up now further may be to around 70-75 depending upon where the need is. This will constitute the core of our Consumer Health Care initiative because these are the outlets which would generate very substantial percentage of our throughputs for at least the newer products which we are going to launch. Products like Chyawanprash and Hajmola and Glucose would continue to have a strong growth re-focus. So they may not be impacted very much by this Project CORE but certainly the OTC and the other new initiatives which are very important for our future growth would be benefitted strongly by Project CORE. It is a part of our game plan of building a much stronger Consumer Health Care franchise and it has got to be done by going to the chemist in a concerted manner, no matter what the cost is and building the relationships with the chemists who is not just a seller of the product in the novel sense like groceries but also has a strong advocacy element built into his profile, and you have got to leverage that if you want to sell Consumer Health Care products in a meaningful manner.

Suruchi Jain: So just to clarify, 33,000 as of January, December 2013...?

Sunil Duggal: I think it is a little bit earlier.

Management: In October we started CORE and it reached 53000 in March or thereabouts, in April we would have done further....

Suruchi Jain: 70-75.

Sunil Duggal: So, I think we will be doubling it. 70-75, we will go as much as what is required. You cannot just set a number and say, I will go for that number and stop there. So, you either stop before that number or after that depending upon the response. But 75 I think is a fair indicator we would like to take to go to.



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Suruchi Jain: And so, two lakh outlets is the total chemist outlets and these are the CORE, say, the high throughput ones that you...?

Sunil Duggal: The high throughput ones are the 75 which are under CORE, and the other ones would be the lesser chemists or those which are not under CORE; there could be towns which are of a small size which we have not put under Project CORE because it does not justify one person exclusively meant for this purpose. So there may be a large chemist in a small town who is not covered under CORE, who is still important but the CORE footprint will be limited to 150 towns and there will be a lot of chemists outside this 150 towns which will not be part of Project CORE but would still get the requisite attention despite not being under CORE. Basically, the agenda for this is that we have dedicated chemists detailing people who go to chemists, tell them what the product is, book orders, and deliver. So this is what CORE is all about and we cannot obviously extend this to every small town in the country. So, 150 towns is where we will take CORE-2.

Suruchi Jain: Just a clarification – how often would your salesman actually visit a chemist which falls under CORE?

Sunil Duggal: Mostly 4 times a month; once a week, but in some cases it will be twice a month.

Suruchi Jain: My second question was on the launch of your Coconut Water. Firstly, how are you seeing the competitive intensity shaping up in the Beverages portfolio on a whole? Secondly, what made you launch the Coconut Water, like, do you think India is ready for something like this?

Sunil Duggal: To answer your second question first, I think India is ready for it, we are selling it at Rs.35 for a 200 ml pack which on the face of it seems to be very high, but we just cannot produce enough to satisfy demand. So, whenever you position a product in the health platform and you are able to deliver a convincing rationale for purchase, there is a market for it, no matter what shape the whole discretionary scenario is. So in Coconut Water basically we are constrained by supply. Whatever we make, we sell. It would not be a very huge amount; this year we will do around Rs.15-20 crores, but that is extent to which we can get the raw coconut water in our supply chain. As and when we are able to build the supply chain we will be able to take it further up and hopefully bring down costs to amount where we can sell it maybe for Rs.25, but I think in a way and you deliver a product which are strongly health focused, there is a market. Overall, the competitive intensity to answer your first question and Beverages actually is not very high if you ask me vis-à-vis let us say Personal care and some of the categories. So, we compete in the Health Beverage space which is really dominated by us in terms of fruit juices – we are the innovators here – we just launched a line of products like Drinking Yogurts, fairly advanced offerings. I think our dominance in this space will remain.



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Prakash Kapadia of iAlpha Enterprises.

Prakash Kapadia: Sir, on the Hair Oil segment, what is your sense at an industry level – when do we see growth coming back, are people downtrading, is hair oiling seeing a structural change in habits because still a few quarters ago everything was fine and we are seeing a decline across categories?

Sunil Duggal: I do not think people are downtrading. It is really a category growth issue, not just a pricing issue here. The overall category growth in Hair Oils now have come down to practically zero levels as far as Nielsen data is concerned. I think it is really an outcome of fairly mature category where the headroom for growth is very limited now after many years of strong growth. Also, now there is a squeeze in rural income over the last couple of quarters, at least the rural income is not being as buoyant as what it was and the rural markets which were instrumental in driving growth are now no longer driving growth. So, I do not think it is end of the road for Hair Oils, but I do not think we will get back to the strong double-digit growth which we saw maybe a year or two ago. It is a mature category. I think we have to live with the life cycle issues of this category. So, mid-to-high single digit growth is pretty decent expectation for Hair Oils, anything more than that would be nice, but that seem unlikely at this point in time.

Prakash Kapadia: I am just wondering if you can help us understand, what could be a realistic acceleration in gross margin we should be keeping in mind due to the increase contribution of Health Supplements over the next two-three years?

Sunil Duggal: It is hard to give a two-three year outlook, but we do expect gross margins to improve marginally; I had given earlier outlook of around 50 basis points in a year, that is the gross margin uptick and that should go down to EBITDA level, I see no reason to change that, but having said that there is a lot of volatility in raw material prices, much more than what we had anticipated. So the margin movements would be both ways, but I think we have adequate amount of pricing power to maintain at the very worst, the margins at current levels and not get them slipped, but at least near-term the scope for increasing margins appear to be limited, because I do not think in the first half of this year there is going to be any huge improvement in consumer demand, I do not think the inflationary pressures are going to come off in the first half year, certainly, not the first quarter, and that is going to be a big challenge. I do see that there is a possibility of the sentiment improving in the second half of the year, especially if the monsoon is good and the new government implements policies which are positive. So, I am more optimistic of the second half than I am of the first; first will be a challenge, I think we will be naturally content with the growth which we are currently generating and not look at increasing them, that would be unrealistic, and we would like to see growth in the second half of the year beyond what we are doing today.



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Prakash Kapadia: So, from a Namaste perspective, would you talk about the milestones which we could be looking at in terms of the non-US contribution over the next two years or so? Obviously, that non-US contribution has been increasing and we have done fairly well this year. So, from a slightly mid-term perspective what is our target or what could be ...?

Sunil Duggal: North American contribution is 30%-32% as of now. Now, that the plan which we have in mind is to ramp it up by 5% every year over the next four years, so that it becomes 50-50 by the end of our current strategic horizon which ends in 2018 which has now begun and which will end in 2018. That is a little bit hard job, because it means the structural shift in business from US to Africa, but I think that is the direction which we will be seeking and hopefully we will get to that 50-50 level. So, we want to reduce our dependence upon low growth North American market which is inherently low growth and not too much we can do to change the dynamics of that market and seek growth in Africa where even today with all our problems we are still getting 30% growth and this could improve even more once we localize manufacturing in Africa. The future of the business in Africa and I think directionally, we are right, even though there are near-term pressures as far as the North American market is concerned.

Prakash Kapadia: In terms of Oral Care, is the renewed focus on children and the recent media initiatives helping us a lot in terms of gaining market share in Dabur and also on Babul, if you could give us some sense. Historically, I think Babool was more than half of a portfolio and we are seeing with increased traction in Dabur Red which was doing pretty well, has that come down more to like 40-45% in overall Toothpaste portfolio?

Sunil Duggal: I think it will be more like 40% as we speak and coming down and that is really direction which we intend to do it. So, we would like to see the contribution of Babul to be even lower and the way the growth trajectories are operating that would happen; 35%, it was 50% two-three years ago. So, that works to advantage even though it has depressed our growth rates overall, but the margin profile emerging is quite strong now for Oral Care was quite weak two-three years ago. I think even products like Red and Meswak are less immune to a) competitive forces and b) to cyclical downturns is what we are seeing today and they are far more robust in terms of their long-term outlook.

Amit Sachdeva of HSBC Securities

Amit Sachdev: I have three questions; one, coming back to Oral Care again. If you could give us a little bit of more color... who is the target consumer and who is actually buying it, where the marginal growth actually is coming up, one is pull approach that you are advertising and the product is available and people are buying it, but is the channel cut like Modern Trade, traditional trade, is there something like rural/urban cut there, who are you seeking as the marginal consumer, how confident are you that this growth will be sustainable the way it is going?



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- Sunil Duggal:** This is one product where we really do not have a demographic profile of the consumer, and that is very unusual, because typically we do have a clarity in terms of the demographics, here the usage cuts across urban, rural, gender, age, and SECs. So the consumer is universal and the need state is very simple; it is people who have occasional problems tooth of a minor nature which is fortunately for this brand, at least the majority of the population. So people who do not want to visit a dentist the problem is not serious enough or you cannot afford to visit a dentist, but who have problems with the teeth whether it is sensitive teeth or bleeding gums which are of minor nature, etc. Problems which are more generic than something which demand you going to a doctor. This product does seem to have a fix for many of those problems and that is where it works. So, it is a universally like product and the delivery is very therapeutic in nature.
- Amit Sachdeva:** In terms of Modern Trade sales, is there a growth picking up because of that or what is...?
- Sunil Duggal:** I do not think this product has got any huge Modern Trade bias – I do not have a numbers, but I think it delivers probably same level of salience in Modern Trade as the rest of our portfolio which is around 10%, but it is a mass distributed product. So, you will find in every Modern Trade, but you will also find it in most grocery.
- Amit Sachdeva:** It is very interesting in the way current context is because the second player reported that Pepsodent sales were actually under pressure in this competitive intensity and this clearly has steered clear of that heat and the numbers which are very impressive.
- Sunil Duggal:** I think what we are finding also here is there is a strong element of doctor advocacy and that has come as a bit of surprise because we made no efforts in that direction. So, a lot of dentists are actually advocating the use of this product, and this comes to us in a huge amount of feedback that we never knew about this product and the dentist told us to use it and now they are pretty much loyal consumers. I think that speaks well about its usage and its efficacy.
- Amit Sachdeva:** One comment that you made about there is a squeeze in rural income and perhaps....?
- Sunil Duggal:** Squeeze I mean, certainly the growth rates in rural have come off. That buoyancy which we were seeing a year ago in rural markets has been reducing and while rural markets are still behaving quite well under the circumstances, it is no longer the situation what it was a year ago.
- Amit Sachdeva:** So, what would the rural/urban split for say Oral Care?
- Sunil Duggal:** for Babool it would be around 70-80% rural, Meswak would be around 100% urban, and Red would be around 60-65-two-thirds urban and one-third rural.



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Amit Sachdeva: Another very impressive step up in growth has happened in the Health Supplements, and if you look at four quarters barring maybe second quarter which was a tad below but I think if you look at last three-four quarters the growth exactly has been stepped up over the previous year significantly. Is there because of distribution delta that you had in rural side or is there something else working, what is driving that sort of growth rates, suddenly in last four quarters have been very-very good?

Sunil Duggal: There are three big brands in Supplements; there is a whole lot of smaller brands, but the three big ones which drive growth are Chyawanprash, Honey and Glucose. The growth in this year that has just gone by, has been entirely driven by Chyawanprash and Honey, and Glucose had a pretty bad year, I do not think we grew at all in that business in '13-14. It is a little bit more impressive in the context of one of the three not doing well, and it is fairly been driven by the fact that it was the mix a) and b) the variants are now contributing big time to Chyawanprash, and they were off to a slow start both the Sugar Free variant as well as the Flavor variant. Ratnaprash which is a premium variant is small, but it shows great promise. So, I think we have been able to unbundle Chyawanprash from the confines where it was and make it a fast bigger brand than the case one year ago. Also, we have changed the whole messaging towards rather than having celebrity sportsmen and actors, now towards mother and child interplay and that seems to be connecting well with the consumer which is really the mother. Honey continues to defy gravity; it is a very great product and we are completely dominant in this space, hopefully the brand will continue to grow at this strong double-digit growth.

Amit Sachdeva: In terms of variants, what is the percentage of sales would be coming from the variants rather than the basic standard products?

Sunil Duggal: Still small; I think the variants will be less than 10% but the variant growth is maybe 3x that of the main brand, that is exactly what we wanted to be, because we want to get traditional consumers in, and many of the new consumers would come into the variants.

Amit Sachdeva: On the chemist channel, which has the 350 headcounts which has been added covering now additional 15,000, 18,000 outlets roughly, this quarter the impact...?

Sunil Duggal: This 350 will cover 55,000 outlets and then going up to 75,000. So the team is not covering the delta, it is covering the entire universe under CORE.

Amit Sachdeva: And this was happened in the last quarter also, you said that you have already done this. So, in this quarter...?

Sunil Duggal: Completed in Q4.



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Amit Sachdeva: So, we should assume that some part of that benefit and capacity addition has actually been reflected in this quarter?

Sunil Duggal: Yes and no, in the sense part of it has been, but the main desire to implement CORE which came at a pretty high cost was really to expedite the launch and success of new products and we still have not really gone to market big time with the new products, we are just still incubating them through doctor advocacy and other means. So, I think the real power of CORE will be unleashed when we put these products to market which we will do progressively during the year, and this would really mean that the money on CORE is well spent if we are able to generate high level of success from new products. Because Chyawanprash is going to sell in any case, Honey is going to sell in any case – CORE or non-CORE – but you want to launch a new range of OTC products you need something like CORE to drive sales through chemists, otherwise the task is much harder.

Amit Sachdeva: Have you sort of given some color on the kind of products which are likely to be launched till there any further thought process have you shared around it if you have?

Sunil Duggal: We have not done too much about it because that would disclose something which we do not want to necessarily publicize, but there are a lot of products in therapeutic areas like cough, cold, fever, digestive, women's health and neutraceuticals and a whole host of products which are being now incubated at various levels and we are deliberating going through the doctor advocacy path before we take them to retail. Even with CORE we feel that it is better to spend a year or two with doctors incubating these products and getting the strong doctor advocacy for these products, then we put them to chemist, chance of success becomes very high, otherwise it is not an easy area to get a foot in the door.

Aashish Uppanlawar of Elara Capital

Aashish Uppanlawar: My question is on the margins of the Consumer Care business. Actually, last two-three quarters we have seen that YoY dropped in the margins of the business. So, do we plan to make it good by taking price hikes and would it be possible in the current environment to take decent price hikes?

Sunil Duggal: The material cost in this quarter has been adverse, and for the full year actually it has been favorable. This quarter I think we hit a pocket of inflation which was quite high in raw materials like honey, etc., but if you take the material cost ratios they have improved by 60 bps adverse for the standalone basis, but not a big amount...

Aashish Uppanlawar: I am looking at the EBIT margins of the....



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Sunil Duggal: This quarter has been a bit of aberration where the material cost has gone up almost by 1%, but if we take the full year the material cost actually has gone down by 60 basis points. So, now hopefully the trend in Q4 will not continue and we will be able to mitigate this through whatever means but a lot depends upon the inflation outlook which at this point in time is still pretty uncomfortable.

Aashish Uppanlawar: For the next year should we expect the gross margins to be kind of flattish or do you see any improvement in the gross margins...?

Sunil Duggal: I am deliberately not giving any kind of indicator for the full year, because quite frankly I have zero visibility about the second half of the year. A lot can happen between now and September which will change the dynamics of how the rest of the year pans out. Visibility for the first half is a little bit better and I think our gross margins would remain at current levels on a YoY basis within sequentially there will be fluctuations, but on a YoY basis, there should not be any significant change in the gross margin profile. Hopefully, if things go well, we should be able to improve gross margins in the second half of the year.

Aashish Uppanlawar: Secondly, just wanted figures if you could share on Namaste and Hobi, what you did in terms of sales, EBITDA and PAT for these companies for this year maybe?

Sunil Duggal: We do not share individual company numbers. The reason for that is there is a lot of now cross-pollination in terms of where we source and where we sell. So there are a lot of products now being made and buy under the Namaste brand and we sold in Africa. So, the company wise numbers are now not beginning to make much sense. So what we are going to do from next quarter... we have been debating internally, we will be giving you geography wise sales, because that is what encompass the business in a more meaningful manner than giving company wise, because let us say in Africa we will be selling products from four companies – whether it is Dabur International or Dabur India or probably Namaste – So giving you a separation of these numbers would not be meaningful, giving you the aggregate set of numbers would be better. So, from the first quarter we do intend to do that.

Aashish Uppanlawar: Can I get some directional comments as to how the performance has been for this year for Namaste in terms of?

Sunil Duggal: The profit has been low and largely on account of one-off activities. We would have generated comparatively low profit as compared to last year but then we had a fairly large one-off write-offs which were consequent to the brand change. So we had a lot of old inventories, particularly in packaging materials. So the total write-off was in the region of \$3-4 million which will not be repeated. So, I think that depressed the profit to a significant extent. Also, there were a lot of loss of sales in North America consequent to this changeover, we did not



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have product available of the new brand. So the inventory management was certainly not as good as what we would have expected. This year would be definitely better for domestic because I do not think any of the issues would recur, and we are looking at strong growth in profitability and a reasonable growth in revenues, coming out of the Namaste business. The growth would be driven largely by Africa where we will be looking at strong double-digit growth but even the North American market which has been really the source of some stress will grow now at a reasonable pace which is in consonance with the North American market growth. So, aggregate Namaste business would show a better performance this year.

Aashish Urganlawar: Lastly sir, just wanted to understand your thoughts on the fact that you mentioned sometime back that you would like to break the seasonality in Chyawanprash and efforts would be going into that. So, what exactly are we trying to achieve here and is it going to be happening maybe in the next 2-3 years as regards to all these efforts that you would be putting probably?

Sunil Duggal: We do not address that question at this moment because when I say flattening seasonality, best I am saying that we would like to extend the season from winters into monsoons. I do not think there is much hope in getting traction in the summers. "Would we do that this year?" If it is a good monsoon and if the discretionary spend scenario improves, yes, we will. Otherwise, we may choose not to and hold on to our resources and do it some of this next year. So, we are still being a little circumspect in choosing which initiatives to pursue and which ones to kind of keep on hold. Certainly, we will be putting far more new products into the market than we did last year. But, we will be still cautious in terms of what all we do.

Aashish Urganlawar: In terms of advertising spend, what would be your strategy next year – is there any change since the last call?

Sunil Duggal: At this point in time, we are looking at ramping up the spends marginally. "Whether we will be in a position to do that?" I do not know. I think a lot depends upon the gross margin outlook. If we are able to deliver better gross margins we would certainly put part of that additional amount into advertising. But I would again be a little circumspect in saying that would happen or not. Certainly, our budgeting envisages a hike in ad growth, but inflation scenario does not support, we may choose not to spend that extra amount and cap it at current levels. I do not think it will be low what we are spending this year.

Aashish Urganlawar: Would it remain the same or?

Sunil Duggal: India business same or a little bit higher. International business hopefully a little bit lower.



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Balaji Prasad of Barclays

Balaji Prasad: Firstly, I thought one of your responses on the value proportion that you offer and hence not seeing any downtrading was quite insightful, now if I may ask you, what portion of your Indian portfolio do you think kind of fits into those bills and which you think is very sticky?

Sunil Duggal: I think something like one-third is what I would classify as discretionary where people can opt out of buy less or down trade and the balance is really very sticky, and that includes some aspects of our portfolio which we perhaps earlier on believe we were of a discretionary nature but have turned out to be very sticky, products like Supplements and Beverages. I no longer classify them as 'discretionary', I would have classified them as discretionary two years ago, three years ago. They have shown remarkable resilience under very adverse circumstances as far as the market is concerned, and therefore I would put them into the non-discretionary basket. So, let us say, as far as the portfolio is concerned, what we would now classify as non-discretionary has gone up quite dramatically.

Balaji Prasad: So how is the change? You are saying now it is probably around 65% of Indian portfolio...

Sunil Duggal: I think 60-70% would be what I would classify as 'non-discretionary.' It is a very broad classification and we really do not look at it from that prism, but I think that is an indicative number.

Balaji Prasad: Secondly, on the Health Supplements, 18% growth in this category, is there any way you can quantify as to how much of these have come due to Project CORE expansion?

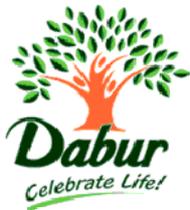
Sunil Duggal: No, I cannot, I think it is early days to quantify the impact of Project CORE, but we will be doing the analytics and hopefully we will be able to give you an answer next quarter when we have dissected, drill down into Project CORE deliverables and have got a set of numbers which meaningfully explain the impact of Project CORE, at the moment, I do not have it.

Balaji Prasad: In this quarter, which are the top categories where you have taken price hikes in and by what extent have you seen price going up?

Gagan Ahluwalia: Overall, price hike in the business is around 4.8% out of which 2% was in quarter price increase and rest has flowed through from previous quarter. The categories where we took up prices in Q4 are Honey, Odonil, Glucose and Fruit Juice.

Balaji Prasad: On the balance sheet side, your non-current investments have changed three-fold from 150 million to around 420 million. What is the change constituting of?

Management: Mainly on account of the investment of surplus funds into the long-term securities.



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Richard Liu of JM Financial

Richard Liu: With respect to Project CORE and the emphasis that you laid on the Healthcare initiatives related thereto, do you envisage a change in the shape dimension and composition of your revenue profile once this is fully implemented? If so, can you just elaborate what kind of shape do you expect to stake, OTC Ethical are right now is I think about 6% of turnover, if my numbers are correct, do you see this reaching something like 15-20% as a result of this implementation?

Sunil Duggal: I will answer in another way... our Healthcare business over the next four years as we see it today is likely to grow at around 40% higher trajectory as compared to our HPC business. Obviously, that would mean that the slice of pie of Healthcare is significantly higher four years from now as compared to with what we are today. So, we kind of look at extrapolation and see what kind of share of pie will be, but that is really the plan and the trajectory in which we are building up business growth for the future. It is significantly comprising of Healthcare initiatives. Food and Beverages will continue to be a high growth here because that is more of a sunrise business, but definitely we see better value as a corporate from Healthcare than we have seen in the past.

Richard Liu: Do you see Healthcare, you are talking about that OTC and Ethical and not...?

Sunil Duggal: No, I am talking about the entire spectrum of Health Care ranging from Health Supplements at one end to Ethical products on the other extreme. Everything in between. A lot of emphasis would be on OTC and products like that, but there would be equal emphasis on mass consumed products in the realm of supplements, etc. I think in terms of number of the offerings there will be more in OTC, because that is more of a fragmented space but there would be enough activity also in the CORE Supplement business.

Richard Liu: This 40% higher growth you see this necessarily coming out of the Project CORE implementation?

Sunil Duggal: Project CORE is essential component of this, not the only one, but I think Project CORE is more focused on OTC products which have an entirely chemist footprint and less element for Supplements which has a substantial grocery footprint. So, the OTC piece becomes critically dependent upon CORE. We will not be able to build a strong OTC franchise if we do not have Project CORE, that is the learning which we have got over the last few years.

Richard Liu: Margin on Foods, it I look at the segment reporting, seems to have recovered pretty well and on a sustained basis as well. Can you throw some light on the factors leading this recovery?



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Sunil Duggal: Partly, it is a fairly benign environment in terms of raw materials. Secondly, very aggressive price increases. And third is a relatively stronger rupee emerging in the fourth quarter. So, I think a combination of these three have enabled Food margins to recover quite well... in fact, they were under severe stress in the second and third quarters, but fourth quarter has shown a smart recovery. Unfortunately, our price increases which we were a little worried about the acceptability, have actually functioned quite well and we have seen no loss in momentum. So, Food margins are catching up with the rest.

Gagan Ahluwalia: Food margins in the quarter are at 17.5% in terms of PBDIT, EBITDA would be typically around 13%...

Sunil Duggal: 13-14%, which is pretty good, which is really the peak levels which we had reached.

Richard Liu: Excluding one-off factors, do you see this kind of a thing may sustain going forward?

Sunil Duggal: I think if the rupee continues to be reasonably strong 60-62 rupee levels and there is no any spike up in the nationally commodity prices, it should be sustainable, I see no reason why it should not.

Richard Liu: What kind of pricing power do you see exist here onwards considering whatever pricing you have done in the past, do you see further leverage possible on that front?

Sunil Duggal: We certainly see pricing power available to us to neutralize the inflation. Whether pricing power exist to ramp up margins I think would depend upon the overall sentiment which at this point is weak, but hopefully should strengthen. If consumer confidence revives, then it will only help the Beverage business. So, therefore to answer your question, the current EBIT level seem to be something which we can maintain, enhancement would depend upon the macros.

Vivek of CLSA

Vivek: This is Vivek. First, on the Beverages, continuing with that, across the board we see normally a high level of competitive activity and even in Beverages there are a lot of players including MNCs. Despite MNCs being active Beverages still you continue to lead almost half of the market shares and there is adequate price-led competition and all that, what differentiate it from say a Personal Care category for example?

Sunil Duggal: Two reasons; I think our Beverage portfolio is squarely positioned where consumer preferences are gravitating to, that means Beverages should have a strong health element embedded in them. That is where the growth is coming in Juices and Nectar segment and not so much in the Drinks or in the Carbonated Beverage segment. So, that is a huge advantage which we have. Second, I think we have innovated very well. We have also got great supply



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chain. Our products are fresh on the shelf and available. Our Flavor profile is enormously wide – one of the highest amongst any global beverage companies. So, a combination of innovation, product profile, consumer preferences and supply chain have led to the strong performance in our Beverage business and I see no reason why it should diminish. Again, now, the Sri Lanka plant should cater to the weak points in our geography which is the south and a little bit west, so that should make up that deficit very quickly. We are setting up a large new facility in Punjab to further augment supplies to the north which is our biggest market. CAPEX is also growing in the business, so it is not coming for free, but it is worth the investments, we are putting in this year itself around Rs.100 crores of CAPEX in Foods which is the single largest component of our CAPEX.

Vivek: So do you think supply chain is the biggest hurdle for any scalable business over here?

Sunil Duggal: I think with any product which has got a six months shelf life and which is effectively dead after three to four months as far as the consumer is concerned. The supply chain has to function extremely well. And this is a huge entry barrier to anybody coming in. So only a few people in the Beverage space have been able to master this supply chain issue and it has taken us years and years to do it, there is no shortcut to it, but once you do it then you have a huge competitive advantage. And where our supply chain is not so good like south, where we were shipping from Nepal and Rajasthan to the southern parts and obviously, the products were a little bit beyond their optimal shelf life. We did not get the shares, and with Lanka of course hopefully that would be a thing of the past. So, that is a huge entry barrier in this business.

Vivek: Beginning of the year you had indicated between 8 and 10% volume growth, I think you are ending the year with pretty much 9.5%. I know you talked about the second half lack of visibility, etc., but if you have to still take a guess where would you think the full year volume growth could be or if not full year the first half at least?

Sunil Duggal: The first half I would at this stage pitch it at 8-10%. I think that is a fairly aggressive assumption under the circumstances, but I think which we should be able to do. Second half, like I said, I have no visibility. We will shoot for 10-12%. So that aggregate we have something like 10% volume growth. It is a hard task, but if the market supports us in the second half then we should be able to get there. But first half, anything above 10% is highly unrealistic, but 8-10% band given the momentum in the business we should be able to achieve. Having said that it is early days; we have just about begun the year, and there is a fair amount of uncertainty in terms of the whole environment.

Vivek: On the momentum bit, if I recall correctly that last say 8-9 quarters back you had issues in volume growth; your volumes were growing at around 5-6% and all, but I think third quarter of 2012 onwards I think you have been consistently growing upwards of 8-9%. I think too late



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to ask you this question, nonetheless, what have driven to this consistent growth when every company or every marketer is kind of seeing a deceleration, your volumes are still holding up at least upwards of 8%, what is different this time at least in the last 10 quarters?

Sunil Duggal:

I would give a lot of credit to Project Double, and I think we will put the infrastructure into place, and that was a massive infrastructure, costing upwards of Rs.20 crores a year and we did it more on face than on any empirical evidence that the rural markets would grow at the pace at which they did. So, we were able to capture the rural growth perhaps better than the other companies. That led to this 5% becoming 10% very dramatically. With the rural markets now showing signs of flagging, I think we need to do something else which partly is Project CORE. So, you could keep a little bit ahead of the curve. And when I talk about urban being the new focus for us and the new place where we would like to grow, I think it was bit of a contrarian kind of call and it was treated with a lot of skepticism, but still I am strongly of the belief that the growth in the current year and perhaps even the next would actually come more from urban than rural, and we have to build infrastructure, you just cannot get growth out of nowhere, and we are doing that through new product introductions and through CORE. So, that is the reason you have to make these calls before the actual change happens on the ground, and make it work.

Vivek:

One follow-up on this, correct me if I am wrong, but Project CORE in terms of size is much-much smaller than Project Double, for example. Now, if that is the case, if most of the numbers gains are there in the base, the market is not very conducive and there is obviously pressure on consumption, and your base is obviously now quite tough and getting increasingly tougher. Is there is a possibility in fiscal '15, actually growth can falter quite a bit?

Sunil Duggal:

If you take a scenario that the growth rates which are today close to zero levels... I am talking about volume terms, the nominal growth rates, it is going to be hard to maintain this 8% to 12% over a longer period of time, because we cannot go against market trends for very extended periods of time. I do not see that possibility happening. Like I said, I think the growth will be under stress in the first half and will improve in the second half. If that happens I think we should be pretty safe, but long periods of no growth is something which will definitely impact our business and we will have to then cut back on cost to maintain margins, and obviously there would be a lack of growth at the top-line, but that is a pretty bleak scenario, I do not see that playing out, I am not saying that it will not happen, but I do not think it is likely. I think the Indian market is fairly resilient and it will revive.

Vivek:

You mentioned about 8% to 10% first half volume growth. Could you also quantify the level of price benefit that we will also see in the first half?



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Sunil Duggal: I think around 5% price is the likely what we will do, so you can look at around 13% odd top line in the first half; a little bit subdued, but still reasonably strong. I am also looking at faster run of growth in the second half. The only thing that worries me a little bit is very bad monsoon, which is less than say 90% of normal, and that makes the second half also quite challenging.

Arnab Mitra of Credit Suisse

Arnab Mitra: A couple of questions on the international business. We have seen very strong growth not only in the organic part of the international business also. So if you could highlight what is driving this products, distribution or some other things? And how would you look at the next one or two years the organic part of the international business?

Sunil Duggal: A lot of growth in the MENA business, which is really the organic business. Growth was led by substantial opening up of new geographies, and also sustained good growth in the existing geographies. Existing geographies is largely GCC – the traditional markets for Dabur, and we have been seeing growth in the region of 15 odd per cent in these markets, which is pretty good, because the economies were not doing too well over the last few years. But, a lot of uptick has really come from Levant and North Africa, and Iraq. Iraq and all are very big markets, Egypt is of course our largest overseas market, and that continue to behave despite lot of stress in terms of the political situation, but I think the real heroes are smaller countries like Libya, Algeria, Jordan and Lebanon, etc., which have shown remarkable growth and have taken up the aggregate level of growth close to 20% for the MENA business. Going forward a) we should continue to get benefits from these markets. So they should enable us to get to that 15% base line growth, and additional growth will now have to come from new portfolio initiatives, and when I say that I mean, Oral Care and Skin Care, I think they would be essential to drive long-term growth in the MENA region. Because our portfolio today is comprising of 80% Hair Care, and I think we need to diversify into Oral and Skin, and this is not just an empty wish, we have strong product lineup, we have got platforms in many countries in oral and skin care, we have the capability to build strong presence in these two areas, and that would take us to the next level of growth here, and hopefully we will be able to maintain strong high teens kind of growth in the MENA region.

Arnab Mitra: Just on international margins, if I look at it, the margins still continue to be very volatile on a quarter-to-quarter basis. So is it something that we need to live with, given the nature of the geographies, or do you see this kind of stabilizing? And secondly, are there opportunities for margin gain over a longer term-two to three year period, what would be the key levers for that?

Sunil Duggal: I think the volatility will reduce, that was more of a Namaste effect in current fiscal where there was volatility in the EBIT delivery of Namaste which was fluctuating. The business



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should now normalize, stabilize, and what you will see is, you will see a blend of very high EBIT deliveries from the organic business, comparatively low delivery from the acquired businesses, but high growth rates there. So aggregate margin profile emerging out of international business would be similar to that of India – higher is more likely than lower, but not significantly different.

Arnab Mitra: So, you would be looking at increase from the current levels than to get to the India average levels?

Sunil Duggal: Yes, that is largely on account of better performance from the acquired businesses, especially Namaste, which was obviously an underperformer. Organic business, I am pretty happy with the margins, I do not see any great possibility of improvement there.

Nilesh Shah of Morgan Stanley

Nilesh Shah: If I look at your portfolio and you seem to be gravitating within that portfolio to higher margin products and higher margin categories. If you were to take a two or maybe three-year view on this, how much gross margin flexibility do you expect over this period, because of the share product mix that you are working on at this moment?

Sunil Duggal: The product mix will work to our advantage definitely in Personal and Health Care, because we will be gravitating towards higher margin Health Care offerings as well as higher margin in Home, Skin Care and Personal Care. But there would be a little bit of a drag from the Beverage business which also would be a high growth business and lower margins. So I think in terms of mix, I do not see any dramatic change happening. Within Health and Personal Care, there would be improvements. In terms of aggregate probably the impact would be marginal. So, we would have to look at improvement in either better management of cost or using pricing power. Again, the mix is not necessarily going to deliver a better margin profile in the years to come, because while we will be getting a better mix from our Personal and Health Care portfolio, because of our focus on high margin areas like Skin, Home Care, Personal Care, and Health Supplements, etc. in Health, there will also be a fast growing Beverage business which is inherently lower margin. So, therefore the blended margin which would emerge from our Consumer business in India may not be significantly different in terms of the mix profile. But having said that I think there is operating leverage which we will definitely get, there is I think some pricing element, which might come into play, and overall better management of cost including A&P, which should enable us to deliver better margins. We are looking at better margins, we are not fully satisfied with the margin delivery of our India business, there is scope for improvement there, but we do not want to rush it, and certainly the current situation does not permit any rapid ramp up of margins, but opportunities will come and we will take them.



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Nilesh Shah: I was just looking at the opportunities for extracting higher ad spend from gross margin flexibility over the long term, given the very strong diverse portfolio that you have, you probably will need more flexibility on that part, but maybe I can take it offline in terms of a more detailed discussion. The second question was more around the three or four big product launches or relaunches which you had done last year or the last 18 months, can you point to maybe a couple of successes within that relaunch program and maybe a couple which have not done very well?

Sunil Duggal: The Almond Oil has performed exceedingly well; it is doing good numbers and consistent numbers, which is more important. Many of the others have been either test launched or launched in a very limited geographies. For example, our Vatika Olive range and Vatika Hibiscus Hair Oil have only been launched in Andhra Pradesh. The Yoghurts have just been launched, I was talking with the food people a short while ago, and they have just gone national, so it is a little early to say about the outcome. The Coconut Water has just been launched, Ratnaprash was launched in a limited manner in winter, and obviously now we will have to wait for the next winters to have a national rollout. The NPDs are now happening. And I would be able to give you better perspectives, say six months from now as to how they have performed. At this point in time, there is nothing which has really under performed or not met our actual standards.

Nilesh Shah: The relaunch of Amla for instance?

Sunil Duggal: The relaunch of Amla would happen this summer, it has not happened yet.

Nilesh Shah: It already happened last year too, right?

Sunil Duggal: No.

Nilesh Shah: You had spent a lot of money behind that?

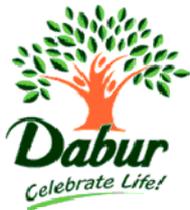
Sunil Duggal: Those are minor facelifts, I would call it...

Nilesh Shah: So you expect this summer?

Sunil Duggal: This summer would be a fairly substantial relaunch. If you are taking the analogy of a car, it would not be a facelift, it would be a new model launch.

Sanjay of Standard Chartered

Sanjay: Hi, Sir, this is Sanjay here. You had mentioned about your 4-year plan for 2018, now last time you did that, you talked about Rs.7000 crores top line, and Rs.1000 crores profit, you achieved



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the top line in a very difficult environment. So can get some view on what is in store for the next four years in terms of your plan?

Sunil Duggal:

You have a very good memory; it was Rs.7000 crores and Rs.1000 crores. So we did 7073 crores, so a little bit ahead of that, and unfortunately, the bottom-line, we did not meet the numbers largely on account of inflation. Because inflation estimates which we had done and also the GDP estimates which we had done, three things went wrong; One is, the GDP estimates, which were much lower than what we had anticipated; the inflation which was much higher; and third was currency, which again dented our margins a little bit. So a combination of these three meant that we had to reset the numbers to Rs.900 crores and we did a little bit more than that. So I think overall despite the fact that we missed our bottom line objectives, which were very aggressive to begin with, we still have done a fairly decent job. Now the next four years we put the numbers together in a very kind of indicative manner, we will be probably giving you a formal note on this; the top line envisages Rs.12,500 crores without any further acquisitions. With acquisitions, it could be higher if they happen.

Sanjay:

Anything on profits...?

Sunil Duggal:

At this point in time, we would like to avoid discussion on that, but I have just given an indicative top line, which gives you a flavor of the business growth.

Sanjay:

Any idea about the current business if you talk about, not new acquisitions, and if you would need to fathom a guess, would you say that overall international growth would be ahead of domestic, or it will be similar, or it would be ...?

Sunil Duggal:

It would be marginally, yes, assuming no acquisitions happening either in domestic or international, international growth would be marginally ahead of domestic. So I see 65-35 kind of mix emerging from the current 68-32, so lot of big change. But this could obviously change quite dramatically in the event of an acquisition. At this point in time our focus is not on acquisition, to be quite honest, it is really on navigating the problems which we have in various markets, and building strong platforms for future growth within the existing business.

Tejas Shah of Spark Capital.

Tejas Shah:

Just wanted to know if you can give us some sense on the growth in value added Hair Oil segment and do you extend your separate growth guidance to the whole value added Hair Oil segment as well?

Sunil Duggal:

We are only in value added, we do not have any significant base oil presence. So, as I said, I would not necessarily say separate, but I would say that it is not going to be a growth driver for our business. So we will be looking at something like high single-digit growth in Hair Oils.



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We will definitely be able to achieve that kind of growth if the macros improve. But, looking at growth beyond that would be perhaps being a little too optimistic.

Tejas Shah: And sir, if you can give us some color on margin profile or pricing power in OTC portfolio versus overall portfolio that we have?

Sunil Duggal: In terms of pricing power, if your brand works and if you have pushed the right buttons, you can price it at pretty high levels and have super normal margins from OTC. So, it does not work like Personal Care, where the margin profiles in a sense mirror what the category is doing and what your competitors are doing. So, it is a very different set of measures and you can get products which have 80-90% gross margins and sell them quite comfortably in the OTC space.

Tejas Shah: And current portfolio, what were the delta of OTC portfolio of margins over our overall company level margins?

Sunil Duggal: Gross margins are much higher than overall margins by at least 10 percentage points. The EBIT margins may actually be lower, because many of them are smaller brands which attract very high levels of investment. For example, say, Honitus would have very high gross margins, it is a cough syrup around Rs.30-40 crores in terms of business size, the EBIT may be lower because we do spend a lot behind this brand to make it grow. So, it is a scale issue also. I do not think the OTC new product launches which we have in mind will contribute in any meaningful manner to profitability. But inherently, they are very profitable brands. When I say profitability, I mean in the next year or two, but inherently they are hugely profitable. The value will be unlocked after at least two years of investments if not more than that.

Varun Lochab of CIMB

Varun Lochab: So my question was on the overall portfolio if I take the next three to four year view, it seems clearly Health Care is one part of business where a lot of energy is being focused on. The second is obviously Foods which will remain a big driver. So HPC would probably be third in the pegging order. First of all, is that sort of a conscious choice, because you feel HPC is getting more crowded and more competitive? And then secondly within HPC, which are the two or three key categories, which you think, could really scale up over the next three to four years, where you would like to concentrate your efforts within HPC, because you have a fairly wide portfolio within HPC?

Sunil Duggal: I think in HPC we will be a little picky as to which brands we are going to invest in and which brands we perhaps would not be so bullish about. There are areas in HPC which are hugely attractive to us, for example, toothpastes, we believe is an incredibly important for our future



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growth. But, I am a little bit less optimistic about say, Hair Oil. So obviously hair oil is being a large part of our portfolio, and if the growth is lower, it is going to bring down overall HPC growth to some extent, but there are some very attractive and high growth components of our HPC portfolio, which include Home Care, Air Fresheners in particular, and also Insect Repellents where I think we have barely unlocked the potential of Odomos brand. Skin Care, where once discretionary incomes come back, it will be good, again see very, very strong growth emerging from our bleach portfolio at least. But, there are other components, particularly Hair Care, where I am a little less optimistic about, because either the categories are getting commoditized, or they are slow growth. So I think big investments in these categories may not be commensurate with the returns.

Varun Lochab: In terms of white spaces in HPC, do you see any sort of categories within HPC which you would target or say these three – which you said, Oral, Home and Skin – do you already have the right portfolio to grow?

Sunil Duggal: Within these also, we would be picky in terms of which products we promote, for example, I do not think Babool Toothpaste would get a huge amount of investment but Red Toothpaste would. We will put money behind products which are able to give good return.

Varun Lochab: And again is there that conscious choice of premiumizing the whole portfolio across?

Sunil Duggal: I think it is differentiating rather than premiumizing, I would want our portfolio to be very distinctive, and not one of a pack, because that is where value really lies as far as a company like ours is concerned. So, let us take our Beverages, there may be lower margins, but I think they are fairly unique in what we deliver to the market. So that it makes it of value because it will enable high growth and big level of competitive advantage. So it is not just a margin profile, it is really mix of many components.

Varun Lochab: So basically clear differentiation for the products you have...?.

Sunil Duggal: Yes, our mantra is 'Differentiate' or 'Perish,' and that is what we intend to do across most of our portfolio.

Varun Lochab: Structurally then should we expect that A&P to sales will probably continue to inch up or how would it kind of shape up?

Sunil Duggal: Not necessarily, I do not think it will go up, it is already pretty high, we are at the higher end of our historical band in terms of A&P, but I think India will continue to inch up and international we will try to trim, because international is proportionately higher of course, particularly below the line stuff, and we need to trim that, so for example in the Hobby business in Turkey we are shifting spends from below to above the line, and we are also trying to trim the overall spends,



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likewise in Namaste. So we have to cut some slab of the BTL spends overseas, and I think there is a lot of flak which we have there.

Varun Lochab: So at aggregate level probably move more from BTL to ATL?

Sunil Duggal: Definitely, for example, even in Q4 our ATL spends were 19% higher, so we are directionally right, we are spending money which will enable long-term brand building rather than short-term tactical initiatives. Our BTL spends have come down considerably, particularly in consumer promotions, etc. So we are not following the market in many ways, but you can only do this if your products are differentiated. So, if you are not differentiated, you cannot get away from the BTL crutch, and that is something which has been part of your product makeup, but once you are differentiated, for example, Red Toothpaste, we hardly do any BTL, the whole spends are above the line.

Sunita of UBS

Sunita: Hi Sir, Sunita here. I just have two questions; one is some insight into what you are doing in your Retail business, I can see that you have managed to control losses, but investments are continuing. So what is the plan here?

Sunil Duggal: Investments are not really continuing. We are basically only investing to fund the small amount of losses-Rs.3 to 4 crores a year which the business is now generating, for strategic reasons obviously and we don't intend to keep it longer than necessary. But, we are building here to improve its valuation for eventual strategic tie-up or divesture or whatever the path we choose. We believe that to do that we need to have around 100 store footprint as compared to something like 50 what we have today. Now, the challenge before us is to ramp up from 50 to 100 stores without increasing the quantum of loss, so we can live with this Rs.3 to 4 crores loss, it does not bother us very much, but we do not want it to go up. So, we have very calibrated kind of way to deal with this business, is to have more store openings but with strong checks to make sure that the losses are capped to current levels. And if we are able to do that and build a store footprint of 100 stores in the next couple of years, I think we would have built enough value into this business for eventual divesture at a profitable price.

Sunita: My second and last question is basically around your unallocable expenditure. On an average I think they are around 20% to 25% average two-year segmental EBIT, and if you do this approximately for all HPC companies across the board, they are usually in the range of 12% to 15%. Why is our unallocable expenditure so high?

Sunita: It is actually coming down.



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Sunil Duggal:

Probably have a more deeper allocation of cost. Perhaps in future we can provide a more full line reporting and with less level of unallocated costs. We have the platforms to do it. So let us we debate internally. We have taken your point, Sunita, and we would like to get a bit of visibility.

Gagan Ahluwalia:

Thank you. We thank everyone for participation and interaction in this conference call. Webcast of this call and transcript will be available on our website. For any queries or feedback you may kindly contact us. Thank you, and have a great evening at home.
