



“Dabur India Limited Q3 FY2014 Earnings Conference
Call”

January 22, 2014



MR. SUNIL DUGGAL - CEO

MR. LALIT MALIK - CFO

MR. ASHOK JAIN - VP-FINANCE & COMPANY SECRETARY

MR. SAIBAL SENGUPTA - SENIOR GENERAL MANAGER-FINANCE

MS. GAGAN AHLUWALIA-GENERAL MANAGER-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 31st December 2013. Present here with me are Mr. Sunil Duggal – CEO Dabur India Limited; Mr. Lalit Malik – Chief Financial Officer; Mr. Saibal Sengupta – Senior General Manager, Finance and Mr. Ashok Jain – VP, Finance and Company Secretary. We will begin with a brief overview of the company's performance followed by a Q&A session. I now hand over to Mr. Duggal. Thank you.

Sunil Duggal

Thank you, Gagan. Good afternoon ladies and gentlemen. Welcome to Dabur India Limited conference call pertaining to the results for the quarter ended December 31st, 2013. During the quarter Dabur's consolidated sales increased by 16.8% to Rs. 1904 crores and Profit After Tax by 15% to 243 crores. The Domestic FMCG Business reported growth of 14% driven by volume growth of 9% despite a general slow down in the sector. Despite this we significantly enhanced investment in our brands driven by a number of new product launches during the quarter.

Our Health Supplements portfolio grew by 20% during the quarter driven by strong growth in Chyawanprash and Honey. A premium health supplement, Dabur Ratnaprash was launched. Dabur Ratnaprash helps in body strength and stamina and is targeted at adults. Early signals post the launch have been positive.

Digestives grew by 18% with a Hajmola franchise performing well. The Anardana variant continues to elicit positive response and is driving category growth.

The OTC & Ethical portfolio registered a growth of 13% during the quarter with the Ethical portfolio growing by 16%. A number of on-the-ground and digital initiatives helped drive the Ethical portfolio to register this strong growth.

The Toothpaste portfolio witnessed growth of 14.3% led by Dabur Red Toothpaste. Our premium offerings – Red Toothpaste and Meswak continue to witness uptick in market shares.

Skin Care category grew by 13.4%. During the quarter the Fem portfolio was re-launched and rebranded as Fem Fairness Naturals with no added Ammonia.

Home Care portfolio grew by 16% with strong growth in Odonil and Sani Fresh. During the quarter we launched Odonil (One Touch) Air Freshners in South India – this is a second introduction after Odonil Gel to extend the format to living spaces.

Our Hair Care portfolio grew by 7% with shampoos growing by 25%. Perfumed Hair Oils reported growth of 8% which was in line with category growth. The coconut oils continued to



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witness compression as the category reported a decline. As part of our strategy to add new drivers of growth we stepped up the pace of new launches in the Hair Oil category. We had launched Vatika enriched coconut oil with Hibiscus in the previous quarter; this quarter we have launched a unique product Vatika Olive Enriched Hair Oil which has the goodness of olives and other natural ingredients. We believe that value added superior offerings will continue to elicit good consumer interest. Dabur Almond Hair Oil which we had launched around a year ago continued to report strong double digit growth.

Foods continued its good performance growing by 18% with Real Fruit Juices performing exceedingly well. The culinary portfolio under Hommade brand also reported strong double-digit growth. While we have been increasing our distribution reach in the rural markets through our '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 have recruited around 350 additional resources in the front end and increased the focus on distribution points as well as range selling in the channel. This is expected to enhance visibility and growth of our Health Care portfolio across key urban markets in the first phase.

Dabur's International Business including acquisitions grew by 26% during the quarter with the organic business reporting growth of 29% in spite of pockets of disturbance in Egypt and Bangladesh. Namaste registered double-digit growth in constant currency terms with the non-US business reporting strong growth of about 50% in African markets. This is in line with our strategy to enhance the contribution of the non-US business and increase Namaste's presence in Africa.

On the profitability side, EBITDA margins were stable at 17.4% and material costs as a percentage of sales were also stable even though there were pockets of inflation in the international business. We stepped up investment behind our brands driven in particular by new launches in both domestic and international markets. This was reflected in advertising and publicity as a percentage of sales increasing to 15.2% as compared to 14.4% in the corresponding quarter last year. Consequently, profit after tax grew by 15%.

Going forward, the weak macroeconomic environment, persistent inflation and a general slow down in demand pose some challenges. At the same time, there are indicators that category growths have bottomed out and inflationary pressures are abating. With our distribution enhancement initiatives, new product introduction and continued investment behind brands we should be able to sustain the growth and expansion of our business across categories and geographies.



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

Suruchi Jain of Morningstar

Suruchi Jain

Yes Hi. I wanted to ask you more about the rural growth and how much further are you planning to expand your footprint as well as what kind of volume versus price growth are you seeing in these areas?

Sunil Duggal

The rural growth was going much ahead of urban in the last few quarters, now the growth has been nibbling off a little bit, while urban growth we do see some uptick happening there. So I think the expansion which we have done which was a 2.5x expansion in our coverage universe will now taper down a little bit. It certainly won't happen at the same trajectory as what we did in the last year or so, at the same time we will continue growing the rural markets in terms of number of touch points in line with the growth of that economy. So the focus is now shifting a little bit more towards the urban side which took a back seat over the last couple of years because of lack of demand and we do see urban now contributing increasing amounts to our growth as compared to what we did like you said in the last couple of years. So again the trajectory would be something two-thirds to 70% volume and the balance price. I think with inflationary pressures coming off a little bit we do see signs of cooling which would be visible in the first quarter of next fiscal, there would be perhaps no need to increase prices the way we have been doing. We've done 5% already this year, and little bit more to come. So that would perhaps level off to some extent. There would be still some price increases but perhaps less than what we did this year.

Suruchi Jain

Okay. Can you tell me a little bit more about the number of villages or the number of outlets that you have currently in the rural areas?

Sunil Duggal

So at this point in time the number of – total coverage is 45,500, and out of which the number of villages is around 38,000. This is the number of touch points. When we began double it was around 15,000, we made it 30, and then end of project double now we made it around 38. Now, this 38 is not going to become 75. I mean it's going to now start growing at a more sedate pace but that was the intent - to a big bang jump, up the touch points, and now the effort would be more in terms of consolidation and increasing the distribution width in terms of number of SKUs available in the last mile. So that itself will grow our rural business at a decent pace.

Suruchi Jain

Sure. And on the Hair Care side are you still seeing a lot of competitive intensity or has that also cooled off a little bit for what are you doing differently to compete?

Sunil Duggal

Well, I think the issue really is the lack of growth in the Hair Oil segment, there has been comparatively muted growth happening here. So I think the way to grow here is to innovate to



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have new products perhaps targeting the more urban buyers and we've recently launched two Hair Oils – one in the Coconut segment, one in the Perfume segment under brand Vatika. We will have to do perhaps a little bit more of this to keep growths going ahead. So I do see Hair Oils not being as a big driver of growth but being at the high single digit levels or low teens levels and that kind of growth I think we should be able to sustain but only with some innovation happening here.

Suruchi Jain

Okay great, and just one follow up to that if Hair Care won't be such a huge growth area going forward which are the other parts of your portfolio you think might grow faster? Do you think Home care might grow to something?

Sunil Duggal

Home Care will always grow faster, it's a smaller category with much more head room for growth, so it will grow definitely ahead of hair oil. Hair Oil is a comparatively mature category, but I think the real big growth will happen perhaps in Health Care and we do see signs of strong demand potential happening in Health Care and I have been always saying that we need to invest here and I think the fruits of our endeavors both in terms of product innovation and people management as well as distribution expansion are now beginning to payoff and with 'Project CORE', I think that is an absolutely essential process in terms of us getting to the chemists with the focused array of products and not being diverted by the growth of the groceries segment which has been so dominant in our distribution infrastructure.

Abneesh Roy of Edelweiss

Abneesh Roy

Thanks for the opportunity. Sir, my first question is some of the skin care companies have seen some winter impact this quarter. We continue to grow at relatively better numbers 13%. So if you could elaborate was it because of the innovations or because of the portfolio difference we continue to grow strongly?

Sunil Duggal

I think our Fem portfolio is very unique and that drove a lot of the growth, it being the largest part of our skin care. Also, our Skin Care products under Gulabari did well, and even though the winter began not on a very strong note but I think we were able to navigate that problem and now that the winter has gained some momentum, and as we speak our Skin Care sales are doing extremely well. We should be able to grow Skin Care in the mid-teens quite comfortably, and this is something which we intend to do because it is an emerging area for us, comparative small, but with again great scope for growing.

Abneesh Roy

Sir, in the opening remarks you said in the urban segment you are seeing some green shoots that the demand seems to be reviving. You have launched a premium variant in the Chyawanprash at almost the double the price, so my question is why this kind of timing when



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currently slowdown is still there and confidence in the urban markets is a bit weak, are you banking on your core chemist expansion for this product?

Sunil Duggal

Absolutely, I think it's important for us to see signs of revival early and to grab that opportunity early. Because if we do it when the revival is full blown then already whole lot of competitors have got into the game, so we really want to get the first mover advantage here. Now if you look at our trend in Adpro has gone up this quarter from 14.4 last year which was high to begin with to a very high 15.2 and this is not to do anything to do with disruptive competition or any attacks by any of our rivals. It is basically an attempt to build our portfolio and to premiumize our portfolio and to get new products in which we have been delaying so far because of the reasons of market growth. I think we are now beginning to get a far more aggressive new product agenda on the ground. And like I said it's important to do it early because then the full fruits of these initiatives will come, and therefore I have no hesitation whatsoever in spending this kind of money even though it does mean a little bit of compression in our EBITs but it's for a good cause. And I think it also validate the fact that we are growing volumes at a fairly decent 9% in extremely adverse circumstances and we should be able to maintain and even enhance this level of growth.

Abneesh Roy

Sir, my next question is on Toothpaste, the number one player has also come with very strong numbers, and you have also done well. P&G has launched which has not worked, what's your take? And if I see the competition they have come out with a lot of premium products if you see Visible White by the number one player, and if I see your innovation in other categories I am seeing a lot many innovations at the premium end. In Toothpaste most of our growth is still coming from the existing products which we have had for the last many years. My question is in terms of say either Sensitive or something at the premium end, is the product required and any thought process on that?

Sunil Duggal

I don't think we should necessarily follow what other people are doing. To survive in a business like Toothpaste where we are comparatively new, we need to do things differently. So just by launching another Sensitive Toothpaste, another whitening toothpaste which is driving a lot of category growth is not going to be very meaningful because there are already brands there and there are brands which are specialists in this arena, so it will be very hard to fight them. I think we need to build the franchise of Red, it's going at an incredible pace and we need to continue that momentum. There is no reason why this brand can't become significantly larger than what it is. So this will remain at the epicenter of our growth, we need to do more in terms of driving growth better for Meswak which has done well but could do better and we need to rebuild the profitability in Babool, so I think our Oral Care growth rate of brands is good enough, we don't need to do anything very spectacular here, these brands will provide us with long term sustainable growth, and hopefully Babool margins come back to where they should be, the growth will be highly profitable also.



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Abneesh Roy

Sir my next question is on the Coconut category, we have seen the category has seen decline. So what's the reading you are seeing there when this category should revive, is it linked to the food inflation or because of the high penetration and all that the recovery is going to be delayed? Why I am asking this is the number one consumer company has entered the Almond space. And second is if you could also elaborate on your recent innovation Olive Enriched Hair Oil. So in Hair Oil how much scope does Olive have and if you could speak on the pricing part of this new innovation?

Sunil Duggal

I think to your first question the decline in Coconut Oils could be either structural or just episodic. Now if it is structural then perhaps we have to live with long term decline in consumption of Hair Oils. On the other hand it could be perhaps driven more by high coconut prices and the attendant rise in prices of raw coconut oil. And I am not too sure where the answer lies but I tend to believe that the lack of growth in coconut oils could be structural, change in terms of preferences and habits and overall lower consumption just because perhaps women are wearing their hair shorter. So whatever it is I think our exposure to the coconut segment is comparatively small, so we are not that impacted by it but the growth obviously will come more from perfumed and we've built two initiatives in perfumed – Almond last year and Vatika this year and I think both of them will do well and I am very hopeful that the aggregate perfumed oil basket led by Amla of course but significantly supported by these two would keep our Perfumed Hair Oils growth in the double-digits.

Abneesh Roy

Follow up on that, in Almond where do you see your share stabilizing and if you could speak on the share currently? And how do you see the number one consumer company enter this space, do you see this enlarging the space or from a longer term this is a significant risk?

Sunil Duggal

I wouldn't like to comment upon market shares or what our competitors are going to do, I do believe that this is a high growth area. It's just a slice of perfumed hair oils but a important one is that, so we need representation here, we've got it with Dabur Almond, we will perhaps definitely grow ahead of category, and we intend to be good #2 in this category to the market leader. And then we have plenty of other options in the form of Perfumed Oils like Vatika and perhaps others to come which will enable growth in many of the other sub-segments. So, our Hair Oil strategy is well mapped out, there's concern about the future of Coconut Oils but even if structurally there is a decline in consumption of coconut oils etc., etc., we will be able to navigate that as we've done with so many other categories – tooth powders etc., because we have such a wide variety in our portfolio.

Abneesh Roy

Sir my last question is on distribution. You spoke on 'Project Double.' How it will be in FY-'15 in terms of consolidation and width? Sir, in terms of width what have we targeted in the last few quarters and in terms of width in FY-'15 which will be the specific SKUs or specific categories wherein the higher focus will be?



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Sunil Duggal

Well, let's put it this way, there are different consumers in different markets and different products in different markets, and obviously the rural portfolio is still a fraction of what we sell in urban areas but if you take the margin profile in rural through 'Project Double' it has gone up by 300 basis points and that's entirely due to a wider and a more profitable mix coming from 'Double.' So that's really a big help to us because our rural margins were significantly lower than urban margins. Now they are converging and if rural is going to be a fast growing part of our business then it's important that doesn't drag the overall margin profile down. So I think the 'Project Double' has exceeded expectations both in terms of number of touch points as well as in terms of the profile of the product mix which we are delivering at the last mile. And we are very happy with the outcome, it's kept our volume growths at a much higher than market average level over the last so many quarters.

Nillai Shah of Morgan Stanley

Nillai Shah

Sir, my question revolves around the ad spends. Could you quantify or at least give some color as to where these ad spends are really going, which are the emerging categories, products, brands which are soaking up these ad spends at this point in time?

Sunil Duggal

It's largely new product introductions, I think our basic level spends for existing brands have been pretty much where they were in the last few quarters - there has been no increase and there has been no need to increase. But new products are very hungry for advertising, we all know that, and if you do half a dozen new launches in one quarter it will impact your A&P and there is no reason to shy away from that, it's a necessary part of building new brands. So this quarter we've launched Ratnaprash, we have launched Odonil variants, we have launched beverage variants, we have launched Vatika Hair Oil, we've launched Vatika shampoo a new variant and the Fem portfolio with no added ammonia. There has been so much activity that it has meant some stress on the A&P but then this is a necessary part of doing business. If you want to grow volumes in the double-digits in the future you have to start investing. But this investment is not structural, I think it is driven by new product introductions, we obviously will not be continuing with the same pace which we did this quarter, there would be some tapering off when we consolidate these new products, and therefore I do believe that there would be a lesser pressure on A&P in the next few quarters and this has been a bit of an anomaly, I am hopeful of getting it to more like 14%, 14.5% as we were so far.

Nillai Shah

You also mentioned that you could accelerate the volume growth from these levels. Where is that volume growth delta coming from in your view?

Sunil Duggal

Let's put it this way, rural growths which over the last 3 or 4 quarters were driving so much of our growth have now begun to level off a little bit, so our rural growths are in the region of around 14-14.5%. A lot of growth has been actually surprising enough been driven by modern



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trade which is growing at around 25%. So therefore even though urban general trade is growing more like 11% but the blended urban is now going very much in the same trajectory as rural and this a phenomena which we have not seen in the last 4 or 5 quarters, which according to me speaks of some shift in terms of where the demand is going to happen in the quarters to come, it's going to become more urban-centric as it ought to be because urbanization had to drive demand like in every other economy. And also I think that the new change in terms of the economic climate, etc. would lead to now higher investments in urban infrastructure and lead to higher levels of urbanization. So it's critically important for us to refocus on urban markets and not get taken away by rural demand that we lose sight of this single most important segment of the Consumer business.

Nillai Shah Sir, two quick questions, again going back to some of the brands where you are investing money into, let's say these brands are currently about 100 crores as far as your top line is concerned...

Sunil Duggal Which brands are you referring to?

Nillai Shah All those brands, I could take a number of brands – Odonil, etc.

Sunil Duggal Many of them are well over 100 crores.

Nillai Shah But I am saying cumulatively, supposing if it is Rs.100 where do you think the capacity for Dabur is to generate revenue growth from these brands as we sit today? You think it's 3x, 4x of this value today?

Sunil Duggal Well, Hair Care is a comparatively small category in India. In let's say the developed markets Hair Care rivals Oral Care in terms of size, so that is really realizing its true potential, of course, which is many decades away, but even in an emerging economy I think Hair Care has a significant role to play. So we being leaders in Hair Care have to be part of this growth. So we are investing a lot in this category in both existing and new segments and then amount of innovation which we have done in Hair Care is quite a bit. So it could be 3x-4x in the next let's say 5 to 7 years I see no reason to dispute these numbers.

Nillai Shah And the same would hold true for say in a category like Health Care for instance for Dabur?

Sunil Duggal OTC Health Care, yes. The Ethical perhaps will grow much lesser, OTC Health Care the headroom is enormous. This is again a very emerging category which will be huge but then it's not something which happens overnight. You build the foundations, you invest in the infrastructure and the payoffs are immense both in terms of the revenues, and more importantly, in terms of margins because these are inherently high margin categories. And again why are we investing so much in categories like Hair Care and Health Care? They are



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again very urban-centric. So I think we have to build our urban infrastructure to service the needs of these categories and if we don't do that then we won't get the growth from here.

Nilai Shah Sure sir, and finally your margins in the international business have expanded quite a bit over the last few quarters. You think these levels are sustainable?

Sunil Duggal Well, yes, I think they are. In fact the margins for some of the businesses which we have we are definitely going to improve them further. Of course, there is a translational element here which will not last, but if you take the core margins from international business we believe we can significantly enhance them.

Balaji Prasad of Barclays

Balaji Prasad Firstly, in the ad spends can you just give us a sense of how you are planning or thinking about it for fiscal '15 or the current quarter, and how you would iterate it with the volume growth that you expect?

Sunil Duggal I think the volume growth I may be sounding a little repetitive but 8 to 12% is what we see now and perhaps in the next fiscal. We are at the perhaps little bit at the lower end of the band, but then the overall category growths have been very unsupportive, so I am not embarrassed about delivering 9%. But having said that if things revive especially if urban demand revives we should see growth coming back into double digits and that's what we will be shooting for in the next fiscal.

Balaji Prasad Basically how you would plan to iterate this as a volume...

Sunil Duggal Ad spends have been extraordinarily high this quarter, but we will moderate them, and I think 14 to 14.5% is perhaps what we will maintain then which is again a fairly high level of investment because we will be continuing a very aggressive new product roll out agenda. I will be little surprised if they come up to current levels of 15.2, these have been extraordinarily high.

Balaji Prasad I understood, thank you. So would 14-14.5% ad spend driving around 10% volumes...?

Sunil Duggal We can take that as indicative, but then again if there is a need to spend (+15%) I will spend that. If there are good compelling reasons - I saw them in this quarter and we signed the cheque but we won't do it as a matter of course, we will try to keep them at the 14-14.5% level but there could be exceptions. If we really don't have any great new ideas and we might even go below 14%, there is nothing wrong with that either.



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Balaji Prasad Understood. Also, in 'Project CORE' that looks very interesting, can you help us understand what your current penetration of this segment and what is the opportunity size that you are looking at in the space?

Sunil Duggal Let's put it this way, the current direct chemist coverage is in the region of around 60,000, right – the 55,000-odd is the current average...

Balaji Prasad Around 10% of the chemist in India.

Sunil Duggal Well, Yes, 10% if you aggregate everybody but I would leave out the pure Rx guys who are really not a part of our coverage universe because we go to the people who sell OTC. So the coverage universe is perhaps half of what you are saying. So its comparatively low but having said that even the quality of this coverage is not as good as it ought to be. The reason is that when a salesman was on a beat he is typically covering say 25 – 20 grocers and 5 chemists or some kind of blend of that. The grocers are taking up most of his mind share and his revenues, and the chemist really are pretty much at the tail of his distribution. So the quality of coverage with chemist was always a sore point with us and we did recognize that and we did believe that we should have exclusive coverage for chemist which will not go to the grocers only then the mind share would be 100%. But quite frankly, the cost involved was so daunting, and with the urban markets being very depressed we didn't feel it opportune to spend that 10-15 crores a year which this initiative would take. The time for that to happen is now and that's when in this quarter we have pushed the button, we have very rapidly scaled up direct coverage which is up to something like 75,000 up from 55 and the endeavor is over the next one year to go to 125,000, which is 50% of the coverage, which is probably optimum. Now, there has been a massive change in the way our Health Care portfolio is evolved. It will facilitate not only growth of existing portfolio, but will enable us to put new products into the market at a much more rapid pace. So I think again it's again a big investment like Double was but it will have quick pay off and very strong pay off.

Balaji Prasad Thank you. Could you also may be just give a sense of profitability or compare the profitability in this channel versus the traditional channels?

Sunil Duggal Well, let's put it this way; the profitability of the Health Care portfolio is ahead of that of Personal Care, and much ahead of Food and Beverage. So out of the three business segments, – out of the four business segments, only Home Care is ahead and Health Care is #2 followed by Personal Care, of course, last of all Food and Beverage. So it's not just profitability, it's also the headroom for growth, and the competitive intensity which is comparatively low here and as a self-medication market, India is completely in its infancy. So we believe that the headroom for growth is absolutely enormous here.



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- Balaji Prasad** Thank you, that's very helpful. Lastly, could you just give us a sense of new product launches lined up for the year, would it be at the same rate or would we see some acceleration?
- Sunil Duggal** I think we would be enough taking out a range of some of our launches mostly in Beverage, this will happen this summer, this is obviously the time to launch new beverage offering. There would be new initiatives in summer in health supplements and there would be the regular stuff which goes on. So next year would be pretty, pretty big in terms of new product launches, but perhaps not as concentrated as this quarter was. So they would be more evenly spread out because we did have a backlog of new product introductions which we put into market this quarter. If you notice we didn't do a huge amount of work in the earlier three or four quarters, so there were a lot of pent-up new product initiatives which we suddenly took to market.
- Balaji Prasad** Thank you very much, Sunil, wish you the best for 2014.
- Vivek Maheshwari of CLSA**
- Vivek Maheshwari** Hi, good evening, everyone. This is Vivek. Sir, my first question, could you remind me what is this readjustment in the base quarter, the staff cost, other expenses, depreciation and other income, there is something which offsets basically, so at EBITDA level there is some restatement at EBIT level it sets fine, so what is that restatement?
- Lalit Malik** I think we did the ESOP amortization which was shown earlier below EBITDA, now it's part of the employee cost. So that was the regrouping that we did in the previous quarter. So that's what you see here. But comparatively we have kept it at the same level both for the previous period and of current period. So that is the comparative analysis.
- Gagan Ahluwalia** The regrouping has been done across all the periods.
- Vivek Maheshwari** ESOPs will impact staff line item, other expenses so earlier was it part of depreciation or amortization?
- Lalit Malik** That's right, it was part of depreciation and amortization.
- Vivek Maheshwari** Why is there a big change in other income as well? So there is a delta of 7.2 crores, there is a delta of 5.3, 5.4 crores, right?
- Lalit Malik** I think if you compare from the previous quarters there was a loss which was considered on account of the mutual fund investments which were going down and we had changed our Accounting Standard AS30, which is now considering it as a regular practice. Therefore we see an increase in income in the current quarter.



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Sunil Duggal

Last quarter we booked a mark-to-market loss of around 10 crores on our investments and mutual funds because of the diminution of their NAV, and that has not happened because we moved money out of this mutual fund then to liquid instruments, so that was a one-off charge in the previous quarter, and now we are realizing the true value from our investments and this kind of trajectory will continue so long as we maintain those levels of cash.

Vivek Maheshwari

I think this has been already asked, but again you mentioned initially about category growth or category whatever – in the urban India kind of bottoming out, but if I look at your number in the fiscal '12 you had really a moderate growth trajectory of around 5-7% in volume, for the last several quarters you have been growing fairly high single digit to double digit. So why do you think it should – and what are the indicators which are – so maybe we are close to bottoming out, but what gives you confidence that things will pick up from this point?

Sunil Duggal

See, we've been growing at consistent level of averaging 9.5-10% over the last 4-5 quarters now. This growth has been very significantly rural driven and driven by Project Double. Now, obviously that growth will not continue till the end of time, we have done most of the work in Project Double and growth will be little bit more sedate. But I think what gives me a lot of confidence is that whatever little bit of slack which comes from rural and there won't be much there, but let's say if we drop off a couple of points of growth in rural, we will be able to more than make it up in urban. I may be wrong here but this is what I felt in the market is that there is revival of demand which is happening as we speak in urban. It may be slow, may take time, may not happen for another quarter or two, but the green shoots are visible, and I do believe that this summer onwards we're going to see strong demand growth happening in urban India. So we will have a more balanced growth between rural and urban, and modern trade also would revive, so we are pretty optimistic about the future here.

Vivek Maheshwari

Okay. And beginning this year, you had indicated a broad range of 8 to 12% volume growth, I mean so far it has been closer to 10%, I know it's a little early, but if you have to make an estimate for fiscal '15, where would you pencil it down to right now?

Sunil Duggal

If my hypothesis is correct, then it will trend towards 10 to 12 rather than 8 to 10 as it is tending now as we speak. And now it's more like 8 to 10 lower end of the band, it will trend towards the upper end of the band if my urban revival hypothesis is it all correct. Otherwise, it will probably remain at 8 to 10% if the revival doesn't happen. But that's a Dabur perspective. I don't think category growth would be at this level unless there is strong revival of urban demand.

Vivek Maheshwari

So your hypothesis also means that your base case builds in basically market share gains for Dabur then?



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Sunil Duggal

Yes, base case is market share gains and growth ahead of category and also to build a more profitable portfolio. I think perhaps our overall margin profile has got a little bit diluted over the last four or five years due to strong growth in Food and Beverage and also a faster growth in Personal Care. The two other building blocks – Home Care of course has done well, but Health Care has been a little bit of laggard which is actually very profitable. So we need to revive growth in Health Care to rebuild our gross margin profile closer to 50% levels from the current 48% odd. I would seek another 2% growth in terms of gross margin delivery, it's not going to happen next year, but perhaps over the next couple of years that would happen and that if we are able to cap the A&P spends at current levels, should prop up our EBITDA because I think operating leverage which again we have not been seeing over the last few quarters would come back into play because the very high salary and wage increments which we have been giving will also level off. So overall I do see good things happening in terms of most line items in the P&L next year onwards.

Vivek Maheshwari

Okay. If I can ask you two more questions, one is on the international business. Your margins are down almost to 30 basis points YoY at EBITDA level, so your gross margins as I computed almost down 350 basis points. Is it just because of the base because third quarter last year had roughly around 65% gross margins compared to 61% or there is something you know?

Sunil Duggal

No, significantly that also and higher A&P; these are the two contributing reasons.

Vivek Maheshwari

So the 13, 13.5% which you have done in third quarter, I mean will it move to 15, 16% band or it's going to kind of stay at this level. Because first half was much higher at around 17% and this quarter has been clearly much lower than...

Sunil Duggal

I think it will go up. I will give a quarter or two before that stability comes in, but certainly from next year we will be looking at the kind of margins which we got in the earlier part of this year rather than the latter part of this year.

Vivek Maheshwari

Okay. And you have articulated the reasons why A&Ps have been so high and new launches, etc., but what kind of media inflation are you seeing? Because as you mentioned, the base portfolio has seen almost similar trend on the A&P front, but it looks a little counterintuitive given that we are hearing a lot about media inflation?

Sunil Duggal

No, there's nothing, it's all smoke. Media inflation is just 1 or 2%. You've got to buy spot, you've got to have bulk, you've got to aggregate spends, and then you can get value from the TV channels.

Vivek Maheshwari

I see. And finally, Medical channels, is it possible to quantify how much it will be of your total throughput currently?



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- Sunil Duggal** Medical channels like O2 etc.?
- Vivek Maheshwari** No, Medical channel the sales from...
- Sunil Duggal** Okay. The Medical channels chemists, I won't be at this point in time be able to put a number in terms of absolute quantum of revenues we generate, but we are going to see something like 30, 35% growth from the chemist channel. And perhaps offline Gagan can give you some indicative numbers in terms of what is the chemist throughput, but we were discussing the chemist initiative and we're pretty enthused about what's been happening and we do see 30% odd growth being possible through the chemists.

Sanjay Singh of Standard Chartered.

- Sanjay Singh** Just wanted to know – most of my questions have been answered but your comment on urban green shoots has sparked some interest and I think we are the probably the only one who is seeing this now. So can you just elaborate it to a more what exactly you are seeing in specific categories or in some kind of channel or what exactly is behind the statement, what has gone into it?
- Sunil Duggal** I think one of the key drivers here is that inflation in terms of some staple elements, food and vegetables, milk and dairy etc. is cooling off. So there is a little bit more surplus available to the consumer and perhaps some of the high value add offerings are still not on the table for food consumption, autos or durables, etc. But definitely the mood in terms of consumer, the way they perceive buying of staples seems to be improving. It's very early days and I could be wrong here, this could be just a temporary phenomena, but also if you look at some of the syndicated data numbers for October, for the November and December, they do see a revival in terms of demand as compared to let's say Q2. So, it is my hypothesis that we have seen a bottoming out of Q2, Q3 is going to be slightly better, and then the million dollar question is, "Is Q3 revival just flash in the pan or is it just predictor of things to come?" And I am taking the optimistic view that this is something which we are going to see. It won't be anything dramatic, maybe slow, long drawn out, but the bottoming out process I believe has happened.

Harit Kapoor of IDFC Securities

- Harit Kapoor** I just wanted to check with you, you see any signs of inflationary trends at least in your – in your domestic portfolio, because in terms of COGS you have done quite well, so just wanted your sense on how you are seeing the cost index on your domestic portfolio?
- Sunil Duggal** Actually, I would disagree a little bit. I think we saw good improvement in terms of gross margins in the first half of the year, much less so in the third quarter which means inflationary pressure in the third quarter actually have increased. Having said that, again, I do see that the



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inflationary pressures having peaked in the third quarter. Now, the spillover of this inflation will happen in the fourth, we typically sit in a month and half of inventories. So after February I don't think there's going to be any huge improvement in our gross margins. They might even be further pressure. But that's I think just temporary, and I think going forward that is at the end of Q4 and certainly in the first part of next year, we should see a significant drop in inflation and cooling off of commodity prices. Hopefully we will be able to hang on to current price levels and see margin expansion on the back of that. But, this is again early days; we are still sitting on some very high price inventories which will take us till end of February. After that the outlook I hope will be more benign.

Harit Kapoor

Which pockets are we seeing the high price inventories...?

Sunil Duggal

All the petroleum derivatives are ruling at very high prices. I think again if you buy the oil, the converters would have bought the oil a month or two ago, then they have to pass on the prices to us. But, this will again cool off say from February onwards. Then there are pockets of high inflation in terms of honey, liquid paraffin, and some edible oil, not all of them. Coconut oil particularly it's a surprise, and that's something little bit more structured because of aggregate lowering of production globally. But again I think the key element in our basket which is the petroleum derivatives is likely to see a cooling off. I do believe that the rupee is going to be far more stable than what it has been, so that won't be an overhang. At the end of the day, Q3 currency exchange rate have been far more friendly than Q2, we have averaged around 62, 63 perhaps in Q3 as against 65 or thereabouts in Q2. So that also has been a bit about of a boon. Surprisingly enough, the Beverage part has revived quite strongly and we were really worried about margins coming from our Beverage business from the back of very weak rupee, but we've been lucky that commodity prices have cooled off even more than the rupee depreciation, so our beverage margins have actually expanded even though marginally. So overall I think the worst does seem to be behind us.

Harit Kapoor

Just lastly, on the price increases, you said you have taken up 5% in the first 9 months and probably little more to come. So do you think Q4 you probably have to take up a little more in terms of 1 or 2%?

Sunil Duggal

Yes, I think 1 or 2% that's something which we can do. It is not a forced increase, is something which is pretty natural. Now, the question is that how much will we increase next year? I think it will almost certainly will be under 5. Will it be 2 or 4? I don't know, but it will be under 5. I mean this year we'll be around 6 in fact the Q4 price increase is coming through, but next year it is going to be less than that.

Harit Kapoor

Fair enough. That's all from my sir. Thank you.



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Aditya Soman of Goldman Sachs

Aditya Soman

Hi, good evening. Firstly, on the Beverages growth, you clearly reported very strong growth in category that is perceived to be primarily urban. Now your presentation talks about you expanding your rural reach for this product. I just wanted to understand is the product very different in terms of packaging when it is distributed in rural areas or it is similar?

Sunil Duggal

No, it will be broadly the same. Rural will be more single serve 200 ml and we are experimenting with 125 ml a little bit, less of a litre packs. But it will still be juices it won't be drinks. We really don't think there is much value in drinks for us and we seek to go with the market which is the more affluent rural parts. So it will be important part of our Beverage portfolio, but we don't expect it to be very large. We do believe that real growth in Beverages will come from introduction and relaunch of some very highly value-added products which we sub-launched last year, perhaps it's not too much success because the market was not ready for it, so we didn't go the whole hog. This summer if what I am saying holds good that urban demand revives and sentiments improve, then we will be very aggressively launching a few more new beverage initiatives at a very high price levels, and hopefully the customer will be far more willing to accept them than they were last summer. So rural will be one component. The smaller pack sizes under the Real brand and the urban would be more under the Real Activ brand which is the fortified beverages at higher price points.

Aditya Soman

Got it. And in terms of supply from the Sri Lanka plant, has that been material and ...?

Sunil Duggal

It's not been very material because there were a lot of bottlenecks in terms of customs clearance, FSSAI approvals which slowed down the introduction of those products. But then we really need Sri Lanka this summer. The winter part we were able to quite comfortably meet from Nepal and Newai. This summer Sri Lanka should be in full flow. I think we have ironed out the bottlenecks at the ports, so we should be able to get good uninterrupted supply from Sri Lanka this summer. So, we will be utilizing the full line capacity this summer, that's for sure.

Aditya Soman

Okay. And on the Namaste business, what proportion of your sales are now coming from Africa?

Sunil Duggal

Something like 30% now and growing at around 30% that's a good part. I think we are on track. We obviously need to build substantially higher level of infrastructure in Africa and that's what we are now doing at a very rapid pace. Nigeria, local manufacturing should start. In the interim, we are going to do a whole round of manufacturing from the UAE plant which will service Africa at much lower cost than from Chicago. Basically the international business is being fully integrated with our regular IBD - international business out of Dubai. There is end-to-end integration because that's where the synergies and the leverage will come in, whereas



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the US business will be run by management from the US and will operate very differently from the international business. So we really see a lot of evolution in terms of Namaste and different trajectories and formats, which will apply for international and for domestic business.

Varun Lohchab of CIMB

Varun Lohchab

Hi, good evening, everyone. Thanks for taking the question. My first question was on the margin profile of the company. If I take a 2, 3 year view and given the sort of visions you are doing now seems to be like more at the premium and strengthening the premium end portfolio and also in terms of channel mix as you said, we could see an improvement. Do you foresee EBITDA margins can go back to 18, 19% sort of peak levels which you had seen earlier although in a gradual fashion? And if you have seen what would be the key margin levers, would it be gross margin through better mix or just the operating leverage?

Sunil Duggal

To answer your question, Yes, they can definitely go back to the 17 to 18% levels. I don't really see them going beyond 18 and there is no need for that for us to do that because it might risk growth, and I do see urban markets being instrumental in that and the key lever being gross margin expansion.

Varun Lohchab

Okay, but more driven due to mix rather than say pricing?

Sunil Duggal

Better mix and the rural markets still generate considerably lower margin than the urban markets, so if the mix shifts in favor of urban, it will improve the overall trajectory, and also I think there is a lot of new product introduction, which we are doing particularly in Health Care will be very high margin, very urban-centric and should uplift the whole margin profile. But I think the key issue before us is to keep the top line growing at least in volume terms in double digits and that's really the most important initiative which we have, the margin expansion we believe will happen. It will be much easier to realize if we were able to grow the top line.

Varun Lohchab

And like if the thesis of say urban pickup doesn't hold true in FY15, do you see a risk to margins or even in worst case, do you think you will be able to at least maintain them if not expand?

Sunil Duggal

I think the risk to margins is very low. It's never going to be zero, but it's very low. I think the margin profile which we have is very sustainable even during adverse times because we can always then cut back on A&P a little bit if there's pressure on the gross margins. So I think we should be able to do better than what we are and not much chances of going worse.

Varun Lohchab

Okay. And sir, Secondly in terms of international business if you could throw some light on Bangladesh how is that doing and what are your thoughts on that as a country, how are you seeing that?



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Sunil Duggal

It was doing great in the first half of the year, actually the first quarter started tapering off and the second, this quarter has been fairly muted around 10% kind of growth and I don't blame the team there because it's been very hard to get anything done in Bangladesh because of the strikes and business disruption. So, we're just going to be patient there. I think we're doing a great job in building brands and we've got a fairly substantial size of markets, but we cannot go against issues which are beyond our control. So, as and when Bangladesh political situation resolves itself, we believe that the growth will come back and come back strongly. So, I am not worried about Bangladesh. I think it is going to be temporary as it is in many other markets, but the good thing is that we've been able to build a strong team there and a very strong portfolio of brands there led by both Vatika and Amla, and now increasingly Meswak and Hajmola etc., etc.,

Varun Lohchab

And sir, on the domestic business again just in terms of market share movement if I look at last 12 months, it seems like you seem to be outpacing the industry growth at aggregate level, but a couple of categories where you would have gained significant market share in last 12 months, and if there are any where you have probably lost in last 12 months you could highlight a couple of things?

Sunil Duggal

There has been no significant gains or losses in terms of market share, it's been fairly steady. We have been holding on in some cases, marginally improving in some cases, marginally declining, but those could be statistical errors. So I think market shares have been fairly steady, but then I think the Nielsen bases and the whole panels etc., have been changing so rapidly that comparing market shares is a very hazardous task, the panel changes have been immense and the stability still hasn't come into the recent numbers. So while we definitely do take a long hard look at them, it's not something which we believe is absolutely the last word on the game. But the numbers have been good generally speaking particularly in Health Care, Chyawanprash, Glucose, Red Toothpaste, beverage space, there have been strong market share gains.

Varun Lohchab

But, overall it's a bit surprising because like Nielsen is reporting I think at an aggregate level more like low single digit sort of value growth whereas you have been growing significantly ahead and market shares are more or less are constant and it seems to be a dichotomy that...?

Sunil Duggal

Yes, but then there's always is. I think we really have to see how our business is doing and whether the category growths are wrong or understated, it's very hard to say.

Varun Lohchab

Lastly, on modern trade, we have heard from quite a few companies now in terms of fairly strong growth in modern trade now. What exactly is driving that? Is it lot of new store opening or same store you are seeing good pickup?



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Sunil Duggal

No, it's actually same store, the new store opening is very muted, in fact, in some cases there is a shrinkage, but I think, perhaps more than the traditional players, it is the new entrants both in cash-and-carry and in the B2B retail which are driving growth rather than the incumbents. There has been fair amount of new entry here and cash-and-carry is becoming now very significant in terms of modern trade. In modern trade this is the first time this quarter crossed 10% in our portfolio and that is a very important event. Also I think beverage has been doing very well and 25% of beverage sells in modern trade. So since that is going ahead of the rest of the business, it is lifting up the overall modern trade contribution also.

Varun Lohchab

Lastly, on CAPEX for FY14 and if you could give some guidance on FY15 as well?

Sunil Duggal

'14 is around 170, 180, something like that. Next year, I think, 200., We are still putting the CAPEX numbers together for next year, but around 200 is indicative.

Varun Lohchab

Okay, perfect. Thanks a lot sir and wish you all the best.

Sunil Duggal

You are welcome.

Richard Liu of JM Financial

Richard Liu

Hi, thanks for taking my question. Good evening, everyone. We have been hearing a lot about the chemist channel lately, a lot of companies seems to be talking about it all of a sudden. If you can just throw some light on what has really happened, what has been the trigger? I know you spoke about that you always wanted to do that and you are doing it finally now, but I mean over the last year, what has suddenly happened that every company is now focusing on this channel? And the other question is will you be serving your entire portfolio through this or is it only related to the Health Care part?

Sunil Duggal

I don't know what the other people are doing, what we are doing I think as one of India's largest consumer healthcare companies, this is something which we ought to be doing. Perhaps we should have done it earlier, but it is a very expensive proposition to do it, and I have just indicated some numbers that the first phase of 'Project Core' would be a Rs. 15 crore investment. So the returns don't happen immediately. You have to be patient, ramp it up, it takes couple of years for that to happen. And I think the appetite to put in investment was not there a year ago because the urban demand was so muted and so low that we didn't feel like investing in urban infrastructure. We did do the first part around 2 years ago which was separation of Personal and Health Care, but the corollary of that which was separation of healthcare into grocer and chemist which is really what 'Project CORE' is all about, we felt confident of doing it only very recently. So other companies perhaps are doing the same, but a) to service chemist you go to have a armory of products which are relevant and sufficient depth



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in your portfolio which we do have starting with Chyawanprash, Honey, Glucose and with the whole slew of OTC products like Honitus, Lal Tel etc., etc., and a lot more in the pipeline.

Richard Liu

Would you also be pushing your Personal Care products through that?

Sunil Duggal

I think that would happen because let's say if we have a separate vertical for chemist the two way we can service the Home Care and Personal Care part, one is that those units go to the chemists or we have aggregate bundle of products for the chemist and both the models are applicable in different places of countries. But, definitely the chemist focus would go beyond Health Care, but the core purpose of going to chemist is Health Care, rest is in a sense periphery but important. Periphery say product like Odomos may not be in Health Care in the sense of category of placement but 50% of its sales comes from chemist, so obviously you have to be carrying Odomos when you go to a chemist.

Richard Liu

Right. Sir, my next question is on Namaste, you mentioned about Africa being 30% of the revenue and growing at about 30%...

Sunil Duggal

Africa, yes. Outside US is 30%. Most of it is Africa. Even lot of stuff goes to say Dubai and to London which find its way into Africa. So a lot of the non-Africa sales are actually Africa property but something like 25% of business actually would be Africa out of total overseas sales of around 30, 32% of total business.

Richard Liu

Does this mean that the US business is actually still growing at something like low single-digit constant currency?

Sunil Duggal

Yes, it is growing at low single-digit constant currency, and that is something which is a cause of concern, we should grow a little bit ahead of that, I do not think it can ever be double-digits, because the market is not behaving that way, but we need to revise growth closer to 8-10%, because that was the statement in '10 we have not been able to get there. And the reason for that is restructuring of the management there which means that there's a fair amount of dislocation, overlap of people, etc. we have in the process of disbanding our entire sales network there and recreating it from ground zero. So, once this process is completed, which should be done in the next 3-6 months I think the domestic business would see growth happening. But, it's always going to be a slow growth business, and that's why the urgency of having larger component of sales coming from Africa, makes the whole business model viable, and that's the reason we bought the company.

Richard Liu

If I got my facts correct, 3Q is a quarter last year where Namaste sales was impacted by about I mean 14, 15% because of the rebranding that has happened.

Sunil Duggal

Rebranding.



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- Richard Liu** So on a base where you actually seen 14-15% decline, I mean you have not really picked up that growth. So if I look at...
- Sunil Duggal** You are right, we were back to where we were the year before last. So whatever – what we lost last year we made up this year. So, the growth over the last two years have not really been there. Because the last year dislocation was also immense and it has continued into this year and almost entirely confined to the North American business. But I think the worst again is behind us. The new team is in place. The distribution reorganization would be completed by March at the latest. So the next year growth should happen. But I would be little cautious in not predicting very high growth for the North American market because when you see category growth, they are in the low-to-mid single digit.
- Richard Liu** Right. And can you give an indication of what EBITDA margin would Namaste be operating at right now?
- Sunil Duggal** At the moment, it would be in the 6-7% because of very high expenditure on both S&D, indirect overheads, A&P, everything. So all items in the P&L are under a lot of pressure, but this is not something which is going to last, because as and when the overseas business which is actually far more reflective of margins becomes much larger, the margin profile would emerge, and a lot of the retrenchment cost which are very high in the US are going to get over by this quarter end or even before that by say February end. Then we should be back on a far leaner cost structure in the North American business than what we currently have.
- Richard Liu** Last question actually on the international subsidiaries combined. If I do a simple subtraction of consolidated and parent, it seems that the other expenditure in the international business grew just about 12-13%, and just like you had maybe 13-14% of translation in the revenue ideas that would be applicable on the expenditure line as well. So if I actually knock off this 12-13% currency related impact it would seem that your expenditure was actually flat in the international business always actually declined. What would be the source of saving of this?
- Sunil Duggal** No, expenditure would not have declined. Even in dollar terms this would have grown.
- Gagan Ahluwalia** But I think the growth is not as much as growth in top-line.
- Sunil Duggal** They have not declined.
- Sunil Duggal** But if you see S&D expenditure in our international it's been quite high. Maybe we can drill down to items the expenditure and clarify Richard's query.
- Gagan Ahluwalia** Sure.



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Riken Gopani of Infina Finance

Riken Gopani

Most of the questions have got answered, just one thing is though we had seen that the urban growth might improve, but the opportunity that we have seen mainly because of being closer to the elections and secondly because of the actual money coming into the hands of the rural consumer in Q4 just about at the harvest time. Is that story according to you going to pan out or you are seeing some signs that that might not be as strong as you would have expected?

Sunil Duggal

We're not banking upon it. Stimuli would suddenly emerge even though it is not that visible as we speak. But I do not think we should bank upon pre-election money to really stimulate demand beyond a certain level. I think rural markets have behaved extremely well over the last couple of years. To expect them to maintain that tempo of growth for ever is next to impossible. Because at the end of the day there is much less increase in population in rural as compared to urban, and ultimately urbanization as a phenomena is unstoppable. The rural growth will always and should lag urban growth. What we have seen is perhaps an artificial creation by various types of stimuli, which is not going to last, maybe last up to the election, but then it's got to taper off. There are so much of assets deployed in rural which are not getting commensurate returns to the economy that somebody will have to stop that stimuli at a point in time.

Riken Gopani

So you foresee the growth slowing down from here or you think that that should just sustain at the current level of growth?

Sunil Duggal

We'll be prepared for some kind of slowing growth. At the moment still it is at levels which are very high. Till the recent slowdown rural growth was at 12-13% and now of course it's come off. But, they are still matching urban growth as far as syndicated data is concerned that they should actually lag urban growth. So I think the good monsoon momentum would take the rural growth further but not ahead of what urban growth, but they should be maintainable over a short period of time. After that, again, we will have to look back to urban market for high growth. And if we don't grow well in urban markets, then overall pressure is going to be there.

Riken Gopani

And sir, just one more point on the employee cost front. If we look at the first nine months the YoY growth is more than (+20%). Any specific reasons for that? And what the trajectory should be for next year?

Sunil Duggal

I think two reasons. One is the sharp increase in the wages. Wages are always low growth normally. But the recent increase in minimum wages as high as 30% in some states has put a lot of pressure on wages. So that's been a big increase around 15% which was typically 7-8% in the past. The second has been of course the translation - overseas the salaries have been high and look even bigger in terms of the translation. So that's also added to the cost. But, I think



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substantial amount of recruitment in S&D particularly, so S&D line is under pressure. But, once again will taper off. The big bang expansions are over, now we should be seeing more calibrated growth in terms of staff cost.

Riken Gopani

So for next what do you think that this should grow slower than the revenue growth itself for...?

Sunil Duggal

I think once again we should get operating leverage. At the moment we are getting actually de-leverage which is not good and we don't tend to sustain it. So we should get back to operating leverage very soon, maybe not from this quarter but certainly from next.

Percy Panthaki of IIFL

Percy Panthaki

You did mention that you would look at expanding gross margins by about 200 basis points over a period of time. Would you be able to give some kind of idea what part of that expansion could come into FY15?

Sunil Duggal

Answer is no, because I don't know what the inflation scenario is going to be. This is predicated on the back of more benign inflation and partly on account of better product mix. On the better product mix I can see we will have some impact, but the inflation part would be a bit of a spoiler. Suppose, inflation remains high and CPI remains at 9-10%, it's very hard to grow margins in that kind of environment.

Percy Panthaki

Let's assume that inflation is not a factor right now and if you were to look at only the product mix change, how much could product mix impact gross margins on a year-on-year basis?

Sunil Duggal

Around 1%, that would be the product mix change over a short period of time. Over a longer period of time it'd be much more but immediate impact would be around 1% and we hope to get another 1% from less inflation. So, that is what the hypothesis of 2% margin improvement is but again, may not happen.

Percy Panthaki

So when you earlier spoke about 2% were you implying that if the inflation is benign it could happen in FY15 itself?

Sunil Duggal

In the sense I do expect inflation to cool off. I could be wrong here, but the first signs of lower inflation are visible in many categories and now I do expect with tapering, etc., that commodity prices would cool off and a lot depends on the rupee. So all this hypothesis is on the basis of rupee being at current level and not weakening further.

Percy Panthaki

It was not a 2-3 year kind of target.



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- Sunil Duggal** I mean I would like to push it up next year itself, but I think I would be little conservative and look at more moderate increase of around 1% or thereabouts next year but the best case scenario is that it could go up by 2%.
- Percy Panthaki** Sir, my second question is more on the urban versus rural growth. I can understand urban you are saying it's picking up and that you explained in detail, but what do you think could be the reason that rural is actually decelerating?
- Sunil Duggal** High base I think. A year ago it was growing at 13-14%, and growing at that pace is very-very hard. I think the rural growths are still pretty good which has looked little bit muted in comparison of what was happening six months or one year ago. But if you take historical levels the rural growth is still fairly perky.
- Percy Panthaki** But won't you think that given the lower per capita consumption, lower penetration of all FMCG items in rural, naturally their growth rate should be higher than urban even if you adjust for the population differential?
- Sunil Duggal** Yes, but urbanization takes away a lot of rural population. as it probably will once the economy gets back on track. This would lead to lower consumption in rural not on per capita of course, but the aggregate population would be lesser comparatively speaking as to where to urban.
- Percy Panthaki** Also, sir, can you give me some idea on your international business plans over the next 12-15 months? What geographies will you focus on apart from Namaste which you have spoken about? And what kind of constant currency top line growth would you be targeting in the international business?
- Sunil Duggal** See, we'd be looking at existing geographies. So there's no far east or Latin America or any other initiative. Far east maybe some initiatives in the Myanmar, Indo-China area, but not into the more developed markets of East Asia. Nothing really in terms of developed markets or Latin America and certainly not Europe. But definitely, Africa is going to be the epicenter and we would seek to deepen presence in Turkey and adjacent markets like Iran, Iraq where our presence is comparatively small, but Africa really would be most critical. We're also going to build substantial scale in markets like Pakistan, Bangladesh where we've just commissioned a very large new facility, unfortunately, our timing was little wrong of the market situation but we believe that both Pakistan and Bangladesh are potentially 500 crores markets for us.
- Percy Panthaki** Okay. So would you be confident in stating that your international growth constant currency would be higher than your domestic sales growth?



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Sunil Duggal Yes, I think so. It would be higher and we would seek around anywhere between 200-400 bps higher revenue growth from international which is not to say it will happen but that is what the intent is.

Percy Panthaki Right sir. And my last question is on the Foods category. It is now a sizeable category for you – you would probably be somewhere in the region of about 800 crores on Foods this year. So it's no longer a small nascent category so to say. So I just wanted to know your view that growth rates of 20% on this large base, do you think these are possible or should we sort of moderate growth rates going ahead in our estimation?

Sunil Duggal This 20-25% growth with pricing we've done when the urban consumer has been at its lowest level in terms of confidence and willingness to buy product. So, if in these and worst circumstances we've grown at 20-25% in more benign environment, why can't we maintain that level of growth. That is a question I ask myself. Even though at the face of it maintaining 20% growth is looks very hard. But, if we'd done that now, why can't we do it in a more benign economic climate?

Vidrum Mehta of Centrum Wealth.

Vidrum Mehta Thanks for the opportunity sir. Sir, I just wanted to know what is the growth in the Oral Care category?

Sunil Duggal Growth in Oral Care, if you take Toothpaste it's around 14%. If you take...

Gagan Ahluwalia Overall oral care is around 10.5 including toothpowder.

Vidrum Mehta 10.5 because Tooth Powder as usual is around

Gagan Ahluwalia Flattish in Powder.

Sunil Duggal Really negative. But I think Toothpaste has performed well and the good part of Toothpaste is that rapid improvement of a margin profile. Red Toothpaste which is a flagship product is growing at 25-30% and obviously, spinning off substantial margins, Meswak is also a very profitable product. And while Babool is a very low margin, there are a lot of efforts which we have put into play to improve the margins of Babool. So, we are not focusing on the revenue part or the top line of pool, far more on improving margins. I think that's the direction which we want to take that brand.

Vidrum Mehta Okay. Sir, one more on the domestic front. What would be the contribution from the modern trade?



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- Sunil Duggal** This quarter it was 10.2%, the highest ever.
- Vidrum Mehta** And sir, last year in similar period it would be around?
- Sunil Duggal** It was more in the region of 8.5 - 9.
- Vidrum Mehta** Sir, on the international front, what is our constant currency growth for this quarter?
- Gagan Ahluwalia** International, Yes, it was around 11% including acquisition. The organic international around 14%.
- Vidrum Mehta** Okay.
- Sunil Duggal** 12.4 is consol constant currency overseas, that's the number I have.
- Vidrum Mehta** Okay, okay. And sir, you guided international EBITDA margin around 15-17% going forward?
- Sunil Duggal** It's been lower than that because of the cost which we have put into the international business. But, I guess the margin profile should not be different from domestic. So, we're doing around 16% domestic, it should be the same in international – actually should be higher but might take a little time to bring it to higher level. Organic of course is more in the region of 20, but acquisitions is something which we have to pull up.
- Vidrum Mehta** And sir, just a housekeeping question, what is the debt on book as on December?
- Gagan Ahluwalia** Around 900 crore.
- Lalit Malik** Slightly below 1000 crore.
- Lalit Malik** The Net surplus is about 350-400 crores.

Manoj Menon of Deutsche Bank.

- Manoj Menon** Two data points from the discussion. One was about the urban recovery hypothesis. And secondly, specific to Dabur, the gross margin pressure what is there is likely to continue for let's say one more quarter because of the high raw material cost what you have. Essentially, the question is that is there a reluctance to take price increases or basically if there is a recovery expected you could probably implement a price increase at this point? You just don't want to do it because it's green shoots at this point in time. You know, so I was just kind of trying to tally these two statements.



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Sunil Duggal

No, let's say our material cost in the domestic business has actually gone down in the nine months period by 1.2%. I don't think we've done very badly in terms of material cost. Of course, in the third quarter it's not been so good. So, we have to now bear the pain for another quarter. My point is that if you are looking at a deflationary environment and you kind of tend to be slow in terms of taking price increases. Because you may be caught in a situation where you are actually selling at much above sustainable prices. So if I were to see inflation continuing which I am not, I would be far more aggressive in taking price increases even in this quarter. In the 3rd quarter I took price increases of only by 1% much lower than what have been in the first and second and this is the reason. So, again, I am trying to foretell the future and I do see lower inflation coming and therefore price increases have been muted and we can always reverse gear if we see inflation once again reviving.

Manoj Menon

Fair enough. So essentially the way we should look at fourth quarter as a more of a transitory sort of a quarter?

Sunil Duggal

Yes, that's my feeling because I think if you look at forward contracts and all, they are all at lower prices than our current inventory levels. Fortunately, we don't have any long position. We haven't built any long position. So, basically carrying the minimum inventory required for running a business which is around a month of inventory. And when this is exhausted which it will be by say end of February we should start looking at some improvement in the gross margin.

Manoj Menon

Okay. Sir, one last question on the urban environment improvement hypothesis again. Have you picked up anything from your panel discussions or anything and/or from your experience of the earlier cycles probably dating back to 10-20 years, anything which more kind of gives you confidence about picking up these green shoots at this point?

Sunil Duggal

Yes, one is this that these crests and troughs are cyclical and we have seen this down cycle for now almost 3 years and it is time for revival. Also, I think the whole focus on the rural economy by the present government has in a sense thwarted urban demand and kept it at low level, with those massive amounts of subsidies going to rural which are quite frankly unsustainable because they don't generate adequate returns. It has meant that the urban economies have caught the wrong end of the stick. That I'm absolutely sure no matter which government is in power will change, because productive assets are really far created much more in urban centers than rural. So once again the whole economic cycle will change and with every indicator that all governments will follow that path.



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Abhijeet Kundu of Antique

Abhijeet Kundu

My first question was on Health Supplements. You have posted a very strong growth during the quarter. For the last two quarters, we have been seeing a sort of acceleration in growth in the Health Supplements business. Yes, Chyawanprash has contributed to the growth, but anything additional which has gone into it because it has been quite a stupendous growth during the quarter and what could be your sustainable growth on a full year basis going ahead in Health Supplements?

Sunil Duggal

There are our three broad components to Health Care. There is Chyawanprash, Honey and Glucose all are big brands – Chyawanprash being the biggest, Honey in between and Glucose large but comparatively small. Glucose has had terrible year; declined by around 10%, so, that's been not so good. Chyawanprash and Honey have had a spectacular year, growing at (+15%) – 17-18% in the case of Chyawanprash, 20-25% in the case of Honey. Now, Glucose is a far more susceptible product in terms of climatic change and early rains kill demand, so that's what happened in most of our markets. I think the revival in demand for Honey and Chyawanprash has been a) dictated by some very high quality marketing initiatives in terms of change of the whole advertising formats, making it more women and mother-centric rather than celebrity oriented as what we were doing in the past. Honey, we have further accelerated demand by strongly plugging in new users in terms of weight management, etc. So I think there has been good work done by the marketing team and supplemented by distribution improvement. Also, I think the strong growth in Supplements which have got strong urban bias is also an indicator that consumer sentiment is reviving, because both Chyawanprash and Honey are actually pretty expensive products, the ticket size is Rs.250 odd – or Rs.200 in the case of Honey, Rs. 250 in the case of Chyawanprash. So the single outflow is quite high and people are willing to pay that kind of money and this shows that the sentiment is positive. And it's not that we've been really helped by season, in fact, winter settled late, we were a little worried. Our sales in October were terrible because there was no winter in October, that's where we sell in a lot of Chyawanprash but we saw strong revival in November and even stronger in December which is continuing into January, of course, now the winter is pretty harsh so that's helped, but I think very positive indicators. The flavors which were struggling a little bit in the last one year which we launched have now picked up very strongly and Sugar Free variant is performing extremely well. So, overall, I think it's been a good marketing mix.

Abhijeet Kundu

So in Health Supplements, Chyawanprash was really deriving about 75% of its demand from urban markets, I mean more than...?

Sunil Duggal

Yes, broadly true.



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Abhijeet Kundu

And sir, in your Home Care business, we have been very consistently seeing a 20-25% kind of growth. In this quarter, it would be a temporary blip, but in this quarter, we have seen a growth of about 16%. So anything extraordinary relating to it or it's in a normal parlance?

Sunil Duggal

There are the three components to Home Care. That is Air Care which is by far the largest, there is insect repellants which is in between and there is surface cleaner and toilet cleaner which is comparatively small. The problem really has been in insect repellants. Now, this is a fairly large institutional segment which typically comes into play in the third quarter. We didn't get the order. We are still hopeful of getting it in the fourth. So that has depressed the growth quite a bit for insect repellants. Otherwise, we would have been 20% in Home Care. And I think overall the demand for insect repellants have been little bit muted this year as compared to the previous year perhaps epidemic been much lower than last year. And also, there is another hypothesis that Tamil Nadu which was a big market for Odomos, suddenly has got lot of electricity, people are using less repellent creams, now that hypothesis maybe just pinned by the sales department or it would be true.

Abhijeet Kundu

Okay. And in your Hair Care portfolio, what could have been the growth in Hair Oils during the quarter? My estimation is about 2.5%-3%.

Sunil Duggal

Well, if you aggregate and coconut and the perfumed it will be around 4%, but like I said, the coconut is really what has depressed growth, perfumed has grown by around 8%, which is in line with category growth. But coconut has been a pretty bleak area and I think the new launch of the Hibiscus Coconut Oil which we are very hopeful will be able to revive growth, but as long as coconut oil category growth is muted (-3% to -4%) volume growth we will not be able to completely swim against the tide.

Abhijeet Kundu

So in Hair Care, what kind of growth can we look at? We are looking at a shampoo growth of about 20%-25% so which could be sustainable. Is that sustainable in the first place going ahead? And in Hair Oils, you had earlier said that it could grow at about 10%-11%, high-single digits to double-digit?

Sunil Duggal

I think realistically we should look at shampoo growth in the 15-20% band and hair oil in the 10-12% band, so which will give you a blended growth of 12-15%.

Gagan Ahluwalia

We thank all of you for participating in this conference call. Webcast of this call and transcript will be available on the website. For any queries or feedback, you may kindly contact us. Thank you and have a great evening ahead.