



“Dabur India Limited Earnings Conference Call”

October 28, 2013



MR. SUNIL DUGGAL – CEO

MR. LALIT MALIK – CFO

MR. ASHOK JAIN – VP - FINANCE & COMPANY SECRETARY

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MS. GAGAN AHLUWALIA – GENERAL MANAGER - CORPORATE AFFAIRS



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Moderator

Ladies and gentlemen good day and welcome to the Dabur India Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Gagan Ahluwalia. Thank you and over to you.

Gagan Ahluwalia

Thank you. Good afternoon ladies and gentlemen. On behalf of management of Dabur India Limited, I welcome you to this conference call pertaining to the results for the quarter ended 30th September 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 the 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. Good afternoon ladies and gentlemen. Welcome to Dabur India Limited conference call pertaining to the results for the quarter ended September 30th 2013. During the quarter, Dabur’s consolidated sales increased by 14.9% to 1748.8 crores and Profit After Tax increased by 23.4% to 249.7 crores. The Domestic FMCG Business reported growth of 14.4% driven by volume growth of 10.7%. Strong media support, innovative consumer connect initiatives and distribution expansion in rural India enabled Dabur navigate a challenging business environment and report strong growth across categories. The international business grew by 25.8% with constant currency growth of around 14%.

Within the domestic FMCG business oral care portfolio registered a growth of 18.7% during the quarter with toothpaste growing by 16.5% lead by Dabur Red Toothpaste. Red Toothpowder also posted strong growth of 25.3% on account of some special promotions in this quarter. Our premium offerings were toothpaste and Meswak witnessed an uptick in market shares.

Skin Care category grew by 17.4% during the quarter. The Fem bleach portfolio grew well and registered gains in market shares. During the quarter we launched OxyLife for men marking an entry into the males grooming segment. Gulabari also reported good growth back by media support and activations.

Home Care continued to perform well and grew by 25.3% driven by strong growth in Odonil and Sani Fresh.

Our Hair Care portfolio grew by 4% with shampoos growing by 13% and perfumed hair oil registering growth of 6.4%. The relatively subdued performance in hair care can be attributed



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to high base effect and MRP reduction in Vatika Hair Oil. During the quarter Vatika enriched coconut oil with hibiscus was launched.

Health supplements grew by 16.8% during the quarter driven by continued strong growth in Dabur Honey. Though it's a little early to comment but the initial off take for Chyawanprash have been encouraging.

Digestives grew by 11.9% during the quarter with Hajmola franchise performing well. The recently launched Anardana variant has seen good response from the customers.

The OTC & Ethicals portfolio registered growth of 11.2% during the quarter with the Ethicals portfolio growing by 18.1%.

Foods registered strong growth of 22% with the Real Fruit Juices performing exceedingly well. We continued to innovate in the foods portfolio and during the quarter test marketed Real milk shake in Delhi and Punjab.

Dabur's international business including acquisitions grew by 25.8% during the quarter with robust performance in MENA and Bangladesh. Namaste continued on the recovery path, with revenues growing in double-digit growth in constant currency terms. The Hobi business based out of Turkey also reported double-digit growth in constant currency terms.

On the profitability side there was a growth of 23.7% in EBITDA and EBITDA margins expanded to 20.1% as compared to 18.7% in the corresponding quarter last year. Though material cost as a percentage of sales eased by 326 basis points, largely driven by benign input cost environment in the international business, we expect inflation pressures in certain pockets in the domestic business. We continued to invest strongly behind our brands is reflected in the advertising and publicity as percentage of sales increasing to 13% as compared to 11.9% in the corresponding quarter last year. Consequently, profit after tax grows by 23.4%.

Though the business has so far been steady, going ahead the weak macroeconomic environment, slackening demand and rising costs will be the key challenges which we will need to factor into our growth plans. However, we will continue to focus on improving marketing mix, investment behind our brands, new product initiatives and distribution enhancement initiatives to take the business forward.

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



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Abneesh Roy from Edelweiss Securities

Abneesh Roy My first question is on the oral care business which had 18% growth. P&G entered this category and media spends were very high so this 18% growth is because of base or we have gained share and how do you see the initial reading from the new competitor's performance ?

Sunil Duggal Well we don't like to comment upon performance and outlook of the competitors but our growth has been on the back of very high growths in the premium brands so the overall mix has improved. The growth in Babool has been comparatively muted as compared to Red and Meswak so that's pumped up the overall numbers and I don't think in terms of advertising we have done extraordinarily high numbers anywhere in oral care. So we believe that our portfolio is comparatively insulated from competitive activity because of its highly differentiated nature.

Abneesh Roy I am surprised by the growth in toothpowder, after how many quarters this is there and what's driving this?

Sunil Duggal Well, it's obviously not sustainable so I wouldn't ever like to comment that this is something which will be able to do going forward. It's largely on the back of some very high promotional and other activities which we typically do once a year or twice a year which props up growth but having said that I think the Red Toothpowder has stabilized and its decline seems to be arrested, so we are looking at small yet reasonable growth in the quarters to come.

Abneesh Roy In the foods business we have done consistently well and in spite of the discretionary slowdown in foods in most of the companies we have done well. Sir, my question is on the real milkshake. Milk is a tough category especially the backend and the brand Real is associated with fruit juice so how easy will it be to take to a milkshake category so if you could tell us where exactly our plan in terms of, is it PAN India plan, is it the top 10 cities and what really gives us confidence in this extension.

Sunil Duggal Well, obviously we are not going to spend a huge amount of resources and investments behind milkshakes given the weak nature of the consumer demand so it will be a test launch and then if the test launch results are positive as I believe they will be we will probably roll it out in the top 10 or at best top 25 towns. I don't think we will roll it further down because you are right it is a difficult category and only if you are able to get only strong consumer connect you would invest behind the brands. Otherwise we might be a little muted in its roll out and then do far more ambitious re-launch once whole macro situation improves so that's really the way we are playing some of our very discretionary products. We are being calibrated in rollout but we are incubating them because we do need to judge consumer reaction and if it is positive then we will take it forward aggressively at an opportune time which may not be immediately year after.

Abneesh Roy Our volume growth has been particularly strong this quarter, one of the other companies said it is because of winter related demand there has been some pipeline filling. Have we also



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witnessed in some of the categories a benefit of maybe some pipeline filling because of maybe better winter, stronger winter?

Sunil Duggal

Not really I think the only very winter centric product we have now is Chyawanprash otherwise there are products like cough & cold segment that are Q2 and Q3 products not really winter but monsoon and winter and then honey which was earlier a very strong winter product is now year round consumption so I don't think. While there is always a little bit of pipeline filling every year in September pre-winters but that has not done anything significant in terms of propping up the volume growth so answer to your question is no, it has got nothing to do with seasonality.

Abneesh Roy

My last question is on OxyLife which you have taken to the men's segment. Obviously, this is I think is the fastest growth segment in FMCG currently because of lower penetration etc so if you could tell us what's the plan here, how many categories we might like to take this and how much of promotional or advertising spends we intend to target here?

Sunil Duggal

I think the men's skin care is an interesting area and again we would like to be a little bit different from what other people are doing, so we would be entering categories which have not been exploited I don't think it's ever going to be a very huge initiative but it's an interesting extension of OxyLife brand. Earlier we had a much smaller brand which we acquired from Fem called Saka which was part of the male grooming, basically it was a men's bleach but obviously the category was not big enough for us to support a new brand so we migrated that brand under the Oxy portfolio and we have got a new subcategory called OxyLife for Men and I think it's very interesting concept which is scalable even though it will be little bit of accessory to our main women's skin care portfolio, so we will definitely develop it and if we find the interesting niches in men's skin care to get this portfolio moving into we will certainly do that.

Abneesh Roy

So, one follow up Saka we are not investing any ad spends anymore?

Sunil Duggal

No, we have discontinued Saka and migrated Saka to OxyLife for Men.

Percy Panthaki from IIFL.

Percy Panthaki

I just wanted to understand the movement in other income and interest costs. If I look at Q1 of this year Y-o-Y the other income was up almost 40% and the interest cost was down sharply whereas this quarter the opposite has happened. So, I just wanted to understand in stable state how this would pan out especially given that last year March 2013 your net debt was somewhere around 750 crores and given that this year your profit would be in the whereabouts of 900 crores and you will probably generate cash of about 450 to 500 crores after dividend so the net debt should go down sharply and net interest cost that is the interest line item and the



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other income combined together that should see a substantial reduction but in the first half we have seen contrary trends in Q1 and in Q2 so can you just comment on that?

Lalit Malik

I think I will just clarify in Q2 there has been one time loss on account of sale of investment in mutual fund of approximately nine crores that has been accounted in view of the fall in market. We have restricted the loss and converted it into fixed return investment securities so as a result of that there is onetime loss of nine crores which has resulted in the lower other income or miscellaneous income for this quarter. Having said that now that we have invested it into fixed return, we will see the steady impact of that. In terms of the overall cash flows I think we are approximately 200 plus crores surplus if we take the borrowing versus the investment on the consolidated level so that's where we are and the cash flow that you have talked about has been used also for the purpose of dividend payment as well as for tax payments etc and plus we have certain CAPEX so therefore keeping that in mind we will see going forward steady growth on the other income.

Sunil Duggal

But the basic erosion in other income in Q2 is of one off event driven by a reduction in the NAVs of certain fixed income portfolio which we were holding, which we have since liquidated and moved them into fixed income which does not suffer this erosion under any change in the interest rate regime. I think now Ashok will validate that. There was expectation of lowering of interest rates the contrary happened so there was some loss which we had to book.

Ashok Jain

I agree with him because when the interest rates are moving up it is better to take a hit on the investment which you are holding, which are mark-to-market but we have exited from those and had we kept these and not exited there could have been further loss in September so we have restricted the loss.

Sunil Duggal

And since interest rates are likely to rise again it's good that we did that otherwise we would have suffered losses in Q3 too which will not happen fortunately. So, to answer your question you will see regaining of our non-operating income in Q3 to what level I am not too sure but certainly it will be much better than Q2.

Percy Panthaki

For the full year would you be able to give some guidance on what we can take as a Y-o-Y growth in the interest cost or Y-o-Y decline in the interest cost and Y-o-Y growth in the other income.

Sunil Duggal

it's hard to say we really haven't got for the full visibility about it, so this is not as part of our core business, so it's very hard to predict this income.

Lalit Malik

And on the interest cost increase, it was higher on account of some FOREX impact, so if you see I think previous quarter was more reflective of the steady state interest cost. We had two components one is the hedging cost that's going into the interest expense column for this



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quarter at the same time there has been interest on account of Sri Lanka capitalization that we have started to pay now so these two factors have resulted into higher interest expense for this quarter.

Percy Panthaki And this is basically for this quarter and from henceforth it could come down from these high levels?

Sunil Duggal To the extent of hedging it will again depend on the foreign exchange and our hedging practice that we do. But yes I think it should stabilize going forward in the future quarter.

Percy Panthaki Right, second question is on the gross margins. You have mentioned that in international the cost environment is benign, just wanted to understand versus Q1 what has changed so dramatically because although we did have a benefit in Q1 also the benefit in Q2 is much significantly higher so in three-month period which raw materials have basically given that kind of a swing and why has that swing not impacted domestic as well?

Sunil Duggal I think acquired business is performing much better in the second quarter as compared to the first so they are propped up the EBITDAs to some extent.

Percy Panthaki Sorry, which businesses have performed better?

Sunil Duggal The acquired businesses and I think as far as the core MENA businesses are concerned the raw material environment has remained benign for the full year in the last two quarters, so there has been no major change there but I think international, the acquired business has performed much better in the second quarter on Y-o-Y basis as compared to the first.

Percy Panthaki But your acquired businesses performing better would give you a benefit in terms of operating leverage I am talking at the gross margin the raw material cost per unit that would need to change on a sequential basis for your gross margins to improve on a sequential basis so just was wondering which item would have changed on that?

Sunil Duggal Well, broadly speaking the plastics have been fairly soft all the packing material in the MENA business which is a big chunk of our overseas. Light liquid paraffin has not really gone up, as they are softened in the first and second quarters that's a very big component. The A lot of the overseas business has been very soft. So, on an all there have been very few pockets of increase which may not last because we do see LLP prices and all moving up now but the first two quarters have been very good for international COGS.

Gagan Ahluwalia In addition even in the India business we are seeing certain improvement in the gross margins as we can see.

Gagan Ahluwalia Yes, India business gross margins have improved.



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- Percy Panthaki** But India business gross margins will be impacted mainly because of the reduction in guar gum basically a product mix change right because the gross profit has grown at about 14% in India which is more or less in line with your FMCG sales growth.
- Sunil Duggal** Yes you are right the mix has improved because of guar but then also there is a higher component of food and CSD which are lower margin, so it's very difficult to slice these mix into its components within both the guar upside as well as the CSD foods downside. Overall I think the contributing factor more has been price increases which have been more than adequate to mitigate inflation and have propped up margins. So, close to 4% price increase in the domestic consumer business has been very instrumental in keeping our margins float.
- Percy Panthaki** Would you be able to give some outlook on what you think about basically the gross margins for the remainder of the year?
- Sunil Duggal** I think we would be able to maintain them, we would be seeing improvements in gross margins perhaps a little bit more muted in the next two quarters than what we saw in the first two. Even though the worst of inflation that is behind us that our pockets of inflation which are beginning to emerge in honey and in LLP particularly so it's a little hazy but I think with the currency now stabilizing unless there is another sharp downtrend we would see some stability returning to margins, so I am reasonably confident about the gross margin outlook for the balance of the year. It should mirror what we have seen in the first half may be a little bit lower than that but still we would see expansion happening.
- Percy Panthaki** And just couple of housekeeping questions. Would you be able to give the number of the revenue growth in the toothpaste category and also the volume growth in the hair oil category?
- Gagan Ahluwalia** Toothpaste, 16.5% is revenue growth. Volume we don't disclose category wise.
- Sunil Duggal** But it will be substantially fueled by volume I don't think there has been much of price increases, so it will be double digit, for this year it will be double-digit volume growth and again in perfumed hair oil which has been 6.5% and coconut oil is continued to remain negative territory because of sharp price reduction in Vatika hair oil which we spoke about earlier which we implemented in the second quarter and that reflect to erosion as far as the revenue line is concerned so that's pulled down the overall hair oil performance.
- Percy Panthaki** So, these 6.5% which you mentioned it is volume growth or a value growth?
- Gagan Ahluwalia** Value growth for perfumed hair oil segment.
- Percy Panthaki** Would it be possible to give for overall coconut and perfumed put together your total hair oils volume growth?



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Gagan Ahluwalia I mean we don't slice it that way because as you know perfumed oil is reported as independent segment.

Sunil Duggal But it would be substantially volume because I just mentioned we took a price cut in Vatika hair oil so but again we would hesitate to disclose specific numbers.

Percy Panthaki No problems that's all from me thanks and all the best.

Prakash Kapadia from iAlpha Enterprises

Prakash Kapadia Three questions. If I were to break the growth in terms of standalone and consolidated for H1 we have done very well at the consolidated level but if I were to slice that on the standalone level this is the second quarter in a row where EBITDA has grown sub 10% for us so if you could give us some color on that, so is it lower sales or we are investing in more people or why is that happening? That's the first question.

Sunil Duggal So, in a sense domestic consumer business actually has performed quite well, we have grown top line at around 14% we have grown margins. I think all the key indicators are positive but there is an overhang of the guar business so if you see the standalone the legal entity numbers they look much less impressive than the consumer care numbers which you will not see because they are embedded numbers in the legal entity numbers. So that has the overhang of the non-operating income and guar gum business sharp decline, etc. The consumer care business has got actually a pretty different set of ratios behind it and while the EBITDA growth has been muted but then keep in mind that there has also been uptick in the A&P spends and also in terms of SG&A because minimum wages have gone up tremendously in this year so we are very satisfied with the performance of the domestic business. What you see here is some total of two or three business.

Prakash Kapadia And employee expenses have been going up rapidly this quarter at least on the standalone?

Sunil Duggal Yes I think those are consequent to fairly high wage environment, wage environment more than salary environment fuelled by very aggressive stipulations by government on minimum wages, etc., but I think the last point here is that take the underlying volume growth as far as the India consumer business is concerned is 10.7% and that's something which I find very encouraging that is really the stand out feature of two performance of global Q2 performance I would say.

Prakash Kapadia Secondly, on the food business we have done very well despite the rupee volatility in fact we have-?

Sunil Duggal We have done very well on the top-line but as far as the segment it is also concerned.



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- Prakash Kapadia** The sequential margins have improved so that is what I was referring to so it is mix change, so is it variant change because I think Q1 we are at 12% segment margin and this time we are at 15%.
- Sunil Duggal** The gross margins have remained flat or actually it dipped in the second quarter y-o-y.
- Lalit Malik** As far as the segment results are concerned there is an improvement primarily triggered by the price increase and there is a little bit of mix.
- Prakash Kapadia** Okay the mix change and the price.
- Sunil Duggal** Yes, even though there has been no respite from the costs inflation. Of course, I don't want to spill over into Q3 with the high rupee depreciation the foods margin may be under pressure and there is no denying that as long as rupee stabilizes and we are able to take up the price, increases will always lag with very sharp rupee depreciation so there will be a couple of quarters of pain. But having said that the business is incredibly resilient on the revenue side and we have been gaining share, we have been having great sales and in fact we have supply constraints more than anything else.
- Prakash Kapadia** And lastly on Dabur Almond hair oil, now the price gap with the leader is not there earlier when we had launched the product we were giving additional grammage so some sense on almond hair oil in terms of market share, distribution reach and any plans of new variants in the light hair oil category going forward, because we have done very well?
- Sunil Duggal** The brand is performing well, we as a company do not believe in a discounting strategy we believe that's not really sustainable and it's not value creating in the long run. So we always intended to catch up in terms of pricing to the market leader in fact we believe that we should be selling at a small premium but that's another story so the initial discounting in terms of extra millage was really to introduce the product with the consumer and now that we have got a consumer franchise we need not do it. Of course, we will continue to invest heavily behind the brand in terms of A&P, etc. and we are pretty satisfied to the outcome, obviously the growth is not going to happen overnight but we are on the right track. And your second question yes, there will be other light hair oils which we will be launching, one we will launch in the third and one perhaps in the fourth or early first quarter. This is important area because quite frankly in hair oil business where the growth is coming is not coming from the heavy oil it's coming from the light hair oils and we need to get more aggressive in this space.
- Arnab Mitra from Credit Suisse**
- Arnab Mitra** My first question is on the top line growth in India which is volume lead. With now such high volume growth does it increase your leeway to take up prices in the second half or is it that the



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demand situation as I was hearing you on television is still very challenging and you are seeing overall market growth continue to slow so you would be more cautious on that going ahead.

Sunil Duggal

My caution stands from reading of syndicated growth data which shows a very dramatic slowdown happening in the last two three quarters and in fact September numbers are not looking great at all so that gives me some cause of worry that if the growth is going to be impacted so strongly can we go against this tide and we grow at 3x – 4x market growth, I am talking about the business segment as a whole so there is a little bit of caution which I would like to add to our outlook. Now, having said that there is every reason to believe that this growth in terms of market could have bottomed out and we would be seeing revival fuel largely by rural because of harvest coming in and all the other stimuli kicking in, there could be a revival of both but that is of course the hypothetical it may or may not happen, it should happen but sometimes logic doesn't play its role. So, therefore I am inclined to be optimistic but still cautiously optimistic about our ability to maintain these kind of growth rates so there could be pressure in the balance of the year but I think if you are able to navigate Q3 which is going to be a challenging quarter then I see much better outcome for the consumer business in starting from Q4 onwards.

Arnab Mitra

But leaving aside the industry data in your own sales side you are not seeing any significant change in the trajectory of the pressure in terms of sales growth and secondly, any color on the rural versus urban situation in terms of your own growth how those are differential?

Sunil Duggal

I think there is a little bit of slowdown we have seen that over the last two months of so. Again, we believe that the slowdown is reversible and we are just waiting for the next few weeks to emerge. I think a cold winter would help us it would fuel sales of Chyawanprash which is very important component of Q3 so these are the other factors which will come in to play the seasonality issue, etc. So, again it's very hard to predict the headline numbers are flashing red but as far as our business is concerned we are still seeing a good momentum happening but at the same time we just can't completely go against the market trends over a long period of time.

Arnab Mitra

Just one question on Namaste where you have seen a strong turnaround in revenues. Is it kind of good enough for you to call out that the business has clearly turned around after the problems last year and can this kind of growth and kind of profitability improvements can sustain in that business going ahead?

Sunil Duggal

I think it corrected the major flaws which have come into that business over the last couple of years. The big change has happened now it comes the more bread and butter stuff in terms of improving the operational efficiency, etc., and fine tuning the sales system which we have the capability of going over the next six months or so but the broad structural framework which had to be taken apart and put together once again in terms of brand architecture, in terms of



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broad based organization, etc., that has been largely completed. So, the hard work is over but lot of detailed stuff needs to be done.

Arnab Mitra Just one last question on your margins you said that probably the worst of cost inflation is behind but I am just wondering with most of the crude derivatives reacting typically with a lag and also the INR impact being fully there and this coming quarter will the pressure actually went off or it will still remain high on the cost side from the rupee depreciation.

Sunil Duggal I think it is marginally went off I don't think it will revive the oil now is sub-\$100 so that's a very encouraging sign. The rupee also seems to have come back to stability zone so that's very encouraging. The full effect of our price increases will now begin to kick in so the aggregate impact of these three would hopefully result in more benign material environment over the next couple of quarters. So, I am less worried about the margins as I am about demand.

Vivek Maheshwari from CLSA

Vivek Maheshwari First, staying on the last point that you mentioned about demand versus margin so why is it that if I understood correctly you have taken prices by 4% is that the extent of price hike or that's the Y-o-Y carry over in this quarter?

Sunil Duggal Including carry over 3.7% is increased which we always do it on a Y-o-Y basis which includes carryover.

Vivek Maheshwari So, this quarter the product prices have gone up over first half product prices have gone up by 3.7% that's what you mean?

Sunil Duggal Price increases of which around 2.5 is the carryover and 1.2 is the current price increase because we did take our prices in the fourth quarter of last year which now kick in.

Vivek Maheshwari I see so first half fiscal '14 price hikes would be closer to 1.2% right?

Gagan Ahluwalia No, total for first half would be around 2.5% or so.

Sunil Duggal So, around 2.5% and 1.2% so other way round. We have been taking our prices, there will be no big bang price increase but we have been taking our price increases in small bits across various brands at different times over the last two to four quarters.

Vivek Maheshwari But I mean given your own point about the demand versus margin equation and the fact that you are more worried on demand. Is there a case of not taking up prices for rest of the year sacrifice margins a little bit and allow volumes to grow because domestic growth has also been fairly impressive and wouldn't you want that momentum to continue and wouldn't that be a priority over margins.



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- Sunil Duggal** No I would definitely do that if I believe that the price increase would impede margin in fact I have not taken our prices in certain brand SKUs where I believe that the impact in terms of growth would be large. So we are going to make this call and put in price increases only where the impact on volumes would be negligible and if you make the right calls then it doesn't impact it. In any case price increases have been fairly modest, it has been like I said no big bang increase. So, to answer your question I think the demand that will be more secular in terms of overall economic environment and the whole demand cycle and less dependent upon few percentage points of price increases here and there.
- Vivek Maheshwari** And on the shampoo portfolio you mentioned double digit growth, has there been any change or an increase in competitive activity in that segment?
- Sunil Duggal** Not clearly, I don't see any difference happening, only thing is our growths have now slowed down a little bit on account of very high base so 13% is still not bad but it's of course well short of (+20) which we were doing over the last few quarters.
- Vivek Maheshwari** Sure, the base part but generally as my observation had been that there have been again a few players discounting or offering higher grammages in sachets particularly has that been also trend that you have noted?
- Sunil Duggal** I don't think it's a trend I think it's more episodic some promotions happening but you are very right, may be part of our trend but it's not discernable as of now.
- Vivek Maheshwari** And one bookkeeping question there has been some change in your depreciation or realignment of depreciation spends or expenditure for base in both consol. as well as standalone what is this change on account of.
- Lalit Malik** Well, this is as per the new Schedule-6 the amortization of ESOP expenses is required to be clubbed under the employee cost which we have been showing below EBITDA so far so we have regrouped and reclassified it for the current quarter as well as for the previous quarter as a comparable data of employee cost so that's the change that has accounting principle we have done.
- Vivek Maheshwari** So, basically the delta between prior number and this number is ESOPs which you would have taken as a part of amortization now you club it into employee cost?
- Sunil Duggal** That's right.
- Bhavesh Jain from Sushil Finance**
- Bhavesh Jain** What is the response for our packaged coconut water which we have test launched in Punjab?



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Sunil Duggal The response has been overwhelming, the problem is the margins and the supply, so we have been not able to supply a fraction of what the market wants and also I think the margin profile which is emerging the pet bottle environment is not looking too good. So, we are now looking at other packaging alternatives to A), push the margins northwards and B), to also get far more assured sources of supply. So, it is a promising option but lot of problems to be fixed with regard to the supply chain and demand is very good and shortage of that.

Bhavesh Jain How big this digital channel can be for our sales, because I have read in one of the interviews that we are investing heavily in this particular channel digital channel and we are expecting to double our business in the next three – four years with that particular channel, specially for our healthcare portfolio?

Sunil Duggal Well, even I think as far as e-Commerce is concerned I don't see any huge revenue streams emerging over the next few years because products of our type are really not suited for buying on the web but as the resources which you are putting into digital marketing which is another medium for communicating with the consumers are going to be digital driven and a lot of effort is going to go into that so e-Commerce we are collaborating with the portals, Amazon, etc., and building sourcing platforms and I don't expect it to be any significant revenue stream over the next two to three years after that if e-Commerce really takes up in a big way we will definitely participate in that growth.

Bhavesh Jain What will be your CAPEX guidance for this financial year and FY15?

Lalit Malik I think our CAPEX will be around 150 to 200 crores for this year '13 – '14.

Bhavesh Jain And for '15?

Lalit Malik Similar one that we will look at.

Sunil Duggal I don't think there will be any big change.

Nillai Shah from Morgan Stanley

Nillai Shah Quick question on what is your pipeline looking at life for new product development and which areas you are going to focus on over the next two to four quarters?

Sunil Duggal The pipeline is looking very robust, question is that how many products can we take into the market given the slackness in the whole demand environment so we are being little cautious we are not aggressively pushing discretionary products into the market and if we are doing so we are doing it more as a test launch filling the waters rather than going full pep. But there have been some significant launches in terms of the Odonil gel formats, in terms of hibiscus Vatika, hibiscus hair oil and now Vatika hibiscus shampoo. Also in terms of new juice variants, etc., so



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the pipeline is very full. Our ability to resource all these new launches is perhaps a little bit over question mark because we believe that this is probably not the best time to launch very discretionary type of products and a lot of our new initiatives are in that area. So, you will see a lot of new products but some of them will be test launched and only then taken national.

Nillai Shah

And specifically in the OTC category, I know you were talking about and focusing on the higher margin products out there so any update on that front?

Sunil Duggal

Oh yes, I think what we have done and we have made a lot of progress over the detailing space which I spoke to you in the earlier calls. Now, we are finally having almost a national footprint in terms of doctor detailing. We template what we were supposed to do in UP and Maharashtra over the last six to nine months, we are pretty satisfied with the outcome and now we have around 250 people more or less ready to detail our products to doctors across the country and once this sales force has been further consolidated and strengthened and trained then we will be launching slew of products in the OTC segment which we have developed but kept under wraps for lot of this organization. So, I think in not so much in Q4 but certainly in Q1 you will see a whole lot of OTC products coming into the market.

Nillai Shah

And final question, on two products or two categories, shampoos and the oral care segment and oral care specifically on Meswak and Dabur Red. What really in your view is driving this very strong growth in these three businesses for you because they are very different products they are not the normal category as you would define oral care to be, so what sort of driving the growth of there.

Sunil Duggal

I think it's a differentiation which is driving it more than anything else these are products which are very different from what the market leaders have and they enjoy and very strong, very loyal and a very growing franchise and the franchise is remarkably spread up all across the country, in fact our largest zone as far as Red Toothpastes are concerned is south zone, which otherwise is our smallest business and south did not have any legacy of Red Toothpowder from which Red Toothpaste emerged, so it has struck a chord somewhere. It's a product which I think delivers benefits which the consumers are seeking at an affordable price and even though we are a little bit ahead in terms of the market leader and in terms of pricing it's still pretty affordable and then if you use the product you will realized that it is generally beneficial as far as everyday oral care ailments are concerned likewise the Meswak a highly differentiated herbal product which has a more mainstream taste and people are very loyal to it. As far as shampoo is concerned I think a lot of growth has come from our rural initiative one of the biggest beneficiaries has been shampoos. Today Vatika Shampoo is the largest distributed product with closed to presence in nearly 3 million retail accounts which is much more than Amla hair oil or Hajmola or any of our very old products so that has driven a lot of the growth and we believe that both these products will continue to outperform.



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Richard Liu from JM Financial

Richard Liu My question is actually on the balance sheet, is there anything to read into these receivables number because if I look at it on Y-on-Y basis I think that balance has actually gone up by some 60%. And if I take September versus March and just knock off the standalone receivables, the receivables with the international business seems to have gone up 77% in six months, what would this be due to?

Sunil Duggal Well the receivables overseas are always much higher than domestic so part of this is that the business overseas has gone much ahead of domestics so the receivable profile has in a sense goes in because of that but and part of it would be some loading which is done in September for winter products which also leads to higher levels of receivable but I don't think there is anything which is fundamental in terms of how the business is being done to create any concerns.

Lalit Malik I think there are two factors also to be kept in mind that one is our business has grown so to that extent the receivable has grown. Second on the India side we have more space on the institutional side where the credit terms are different so I think keeping that in mind the receivables are comparatively higher for this quarter.

Richard Liu The India side I guess is okay because it has gone up very marginally between March and September it's the international one that has actually gone up by some 77% in six months?

Ashok Jain Yes, so that's I think at the international level as Mr. Duggal just said that it is in view of the increase in sales currently the international business has gone up by 25% so therefore in terms of the increase in business the receivables of our has proportionately increased and that is also reflected in the consolidated result.

Sunil Duggal So, we can come back to you Richard with a more detailed answer subsequently but again there is nothing of concern here as far as the business cycle is concern.

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