



## “Dabur India Limited Earnings Conference Call”

**July 24, 2013**

**MR. SUNIL DUGGAL – CEO**

**MR. LALIT MALIK – CFO**

**MR. ASHOK JAIN – SR. GENERAL MANAGER-FINANCE &  
COMPANY SECRETARY**

**MR. SAIBAL SENGUPTA – GENERAL MANAGER, FINANCE**

**MS. GAGAN AHLUWALIA – GENERAL MANAGER,  
CORPORATE AFFAIRS**



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**Gagan Ahluwalia:**

Thank you. Good afternoon ladies and gentlemen on behalf of the management of Dabur India Limited, I welcome you to this conference call pertaining to results for the quarter ended 30<sup>th</sup> June 2013. Present here with me are Mr. Sunil Duggal – CEO, Mr. Lalit Malik – CFO, Mr. Saibal Sengupta – Senior General Manager, Finance and Mr. Ashok Jain – Senior General Manager-Finance & Company Secretary. We will begin with a brief overview of the company's performance by Mr. Duggal followed by a Q&A session. I now hand over to Mr. Duggal.

**Sunil Duggal:**

Thank you Gagan. I welcome you to the Dabur India conference call pertaining to the results for the quarter ended June 30<sup>th</sup>, 2013. During the quarter, Dabur's consolidated sales increased by 12.9% to Rs. 1651 crores. Profit after tax increased by 24.5% and before exceptional items by 20.7%. The domestic FMCG business reported a growth of 13.2% driven by a volume growth of around 9%. This was in spite of conspicuous slowdown in the FMCG space as reported by external agencies.

Our hair care portfolio grew by 11.8%, with shampoos growing by 22.8% and perfumed hair oils by 15.3%. Some price corrections were taken in coconut oils due to the lower copra price table. This is expected to drive growth in coconut oil going forward. Oral care registered growth of 8.6% during the quarter with toothpaste growing by 14%, led by Red Toothpaste. Red Toothpowder declined marginally in line with a general shift in consumer preferences from toothpowder to toothpastes. Skin care category grew by 12.7% during the quarter. The FEM bleach portfolio grew well and registered gains in the market share. During the quarter we launched OxyLife Gel Bleach, which is India's first gel based bleach. Home care continues to perform well growing by 25.8% driven by strong growth in Odonil and Odomos. Odonil and Odomos continue to be the #1 brands in air care and mosquito repellent creams respectively. Health supplements grew by 7.5% during the quarter. Growth rate was impacted by pressure on glucose sales due to an early onset of monsoons. Honey continued to perform well across regions and channels. This quarter is of not much significance for Chyawanprash due to seasonality and hence it does not have much impact on the category growth. Digestives grew by 15.1% with both Hajmola tablets and candies performing well. The initial response to our recently launched Anardana variant in Hajmola has been very encouraging. The OTC and Ethical portfolio registered a growth of 11.8% during the quarter with both the OTC and Ethical reporting double digit growths. Lal Tail which is the biggest brand in the OTC portfolio performed well during the quarter. Foods grew by 18.7% with both Real and Real Activ performing well. We continue to innovate in the foods portfolio and during the quarter launched two new products - Drinking Yoghurts under active and Supa Fruits under the Real brand. Dabur's international business including acquisitions grew by 17.4%. The organic business reported a growth of 18.5% in spite of pockets of disturbance in Egypt and Bangladesh. Namaste business which had been under pressure in the last fiscal witnessed a recovery and posted a strong 16% growth. The changes which have been affected in branding



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and operations have started yielding results in both the US business as well as the African operations. The Hobi business based out of Turkey also reported a double digit growth. The new fruit juice facility set up in Sri Lanka commenced production this quarter.

On the profitability side there was a growth of 15.5% in EBITDA and EBITDA margins expanded to 16.8% versus 16.4% in the corresponding quarter last year. Material cost eased during the quarter by 115 basis points, though inflationary pressures still exist in pockets. Profit after Tax increased by 24.5% and by 21% before exceptional items pertaining to sale of Weikfield business which was effected last year.

We are pleased to announce that Dabur's Board has been ranked amongst the top-5 boards in India in a study conducted by the Hay Group and Economic Times. In addition Dabur has been ranked amongst the top-5 companies to work for in the manufacturing sector according to Business Today Magazine. We are in fact the only Indian company as part of this list. Whilst so far the business is steady, going ahead we would be cautiously optimistic, since as per some syndicated studies there seems to be deceleration of the growth in the FMCG sector as a whole, with sector growth rates being significantly lower than what they were in the earlier quarters. This is more pronounced in urban markets. Nevertheless, we will continue to focus on delivering superior performance in leveraging our brands and distribution across categories and geographies in which we operate.

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

**Percy Panthaki from India Infoline**

**Percy Panthaki:** My question is on the Namaste Business, basically out of the 16% growth, would you be able to clarify how much is driven by currency?

**Sunil Duggal:** In dollar terms the growth is 13% and there is 3% translation gain.

**Percy Panthaki:** And also wanted to understand for Namaste basically in the last few quarters where the business was disrupted. I am sure the margins also would have come down, so from that level how much of expansion potential do you see over the next 2 or 3 quarters when the business reaches a sort of a stable state versus what it was 2 or 3 quarters back? What would be the differential margins on Namaste?

**Sunil Duggal:** Well we have recovered some of the lost margins and the balance recovery will take another few quarters before we get back to the margins which we saw in 2011-12. So 2012-13 obviously showed severe erosion and we have made a part of it and for the balance we are pretty confident of doing that by the end of the year.



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**Percy Panthaki:** So from the lows till the highs which you are expecting in the next 2 or 3 quarters, what would be the differential? Would it be almost a 1000 basis points or something like that at an EBITDA level?

**Sunil Duggal:** I do not think as much as a 1000 basis points but perhaps around 500 to 600 in that kind of range. That is something which you can look forward to, nothing to be taken for granted here but that is the recovery plan as we see it.

**Percy Panthaki:** My second question is on the ad spends, I mean in the base you had a very high ad spend of 15.7% and we were expecting that on this high base we should see some substantial savings but the savings have been really very small. So what is the reason that we have still kept ad spends at such a high level in spite of the guidance earlier that we would see in savings. So what is the view for the rest of the year?

**Sunil Duggal:** I think we have guided 13% to 14% for the full year. We probably would stick to that. I do not see any change in revising the guidance. And they are typically a little bit high in the first quarter of a low revenue base so the ratios are normally higher. They should ease off now from the second quarter onwards and we will see a lower trajectory in terms of ratios but the guidance remains. I do not see any reason to change it.

**Percy Panthaki:** But would we on a full year basis see a savings in the ad spends as a percentage of sales given that FY13 our ratio was 13.6%. So if you are guiding a 13% to 14% range, if at the higher end of the range we could actually see ad spends going up YoY?

**Sunil Duggal:** I cannot give a sharper outlook than 13% to 14%. So there is a possibility it could be higher but I suspect we will be able to keep it at the lower end of the band rather than the higher but I would not hold out any assurance to that fact.

**Percy Panthaki:** Would you be able to tell us some housekeeping numbers in terms of the overall international business, what would be the constant currency growth and also what would be the volume growth within that and specifically for the toothpaste business if you could share the volume growth number?

**Sunil Duggal:** Well if you take international business you can take an overall growth of 17.5%, the composition of that is volume 15, price minus 0.7, there has been actually a deflation there because it is mostly in the MENA region and translation of 3%. So that aggregates to 17.4%.

**Percy Panthaki:** And for toothpaste if you could just tell me the volume growth?

**Sunil Duggal:** Again the total growth in toothpaste has been 14%. We will not be giving you the breakup. We do not give it category wise, so you will have to excuse us. But since toothpaste is such a



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focus area we give it in terms of the revenue growth which is 14% but you can take the majority of this as volume. It is not a big price increase. You know that the Babool issue in terms of pricing etc. There has been some price increase but pretty muted.

**Parineeti Poddar from ICICI Direct**

**Parineeti Poddar:** This is regarding your skin care portfolio. I would just like to know, how is Uveda panning out and how are the sales for that coming up? And second question would be regarding your share of rural sales in the overall sales for the quarter and in FY13?

**Sunil Duggal:** As we have mentioned in the earlier conference calls the Uveda portfolio is still being driven on ground through direct sales promoters etc. So it is a pretty limited exposure which we have. And we always look at the possibility of taking it mass because that is the intent for the growth of Uveda. Quite frankly we have not found the timing suitable for that because of the economic conditions and the demand crunch and some constraints which we have. So this is not really the optimal time to spend a lot of money in taking it to the mass market. So we are still incubating it and as and when we find the opportune time then we will take it more powerfully forward.

**Parineeti Poddar:** And about the share of rural sales in the overall sales for Dabur in FY13 and during the quarter, has it improved or has it remained the same?

**Sunil Duggal:** Yeah, it has improved because rural growth has been much higher than urban growth and therefore the ratio is improving towards rural.

**Parineeti Poddar:** So could you give me a ballpark number around how much would be rural and how much would be urban?

**Sunil Duggal:** Well it is not an easy question to answer because it depends upon how you define rural. Now we define for pop-strata of something like 10,000 and there could be different definitions. But let us say by our definition around 47% is rural and this is obviously creeping ahead of urban because we are seeing higher growths in rural. Also I think as far as overall consumer categories are concerned rural growths once again have been ahead of urban growths. They are much higher than urban so the whole portfolio shift is happening towards rural.

**Parineeti Poddar:** So can we say that it would be like twice what urban growth is witnessing?

**Sunil Duggal:** Well not twice but it is 1.5x of urban growth. That is for the category as a whole. For us it is not dissimilar, it is around the same.



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**Prakash Kapadia from iAlpha Enterprises**

**Prakash Kapadia:** Initially I think last quarter we had guided for a 150 bps increase in gross margins based on rupee being 55, oil being 100 and inflation being under control. What is the outlook because all of them have started inching up. Secondly if you could throw some light on tax rates. We have seen a certain increase, so what should we look at in the near term?

**Sunil Duggal:** All of our assumptions have gone wrong by the way. 55 has become 60 and crude has also gone north and inflation has been ahead of what we thought. So obviously the expansion in gross margins has not been as good as what we would have hoped for three or six months ago. Now having said that I think we have done a reasonably good job by reducing material cost by 100 basis points and going forward we will have to see how to play this, whether we will be able to take up price increases because inflationary pressures and the rupee situation is not going to ease in a hurry. So we will have to deal with that and we are finding various solutions to that problem, but we have continued margin expansion. Even though I do expect margin expansion in terms of the material rates being fairly modest going forward. There would not be any big leap here.

**Prakash Kapadia:** Sir on the tax rates if you could give us..?

**Sunil Duggal:** It has gone ahead and that is largely on account of the culprit is India where they have gone up from 21.4% to 22.9% because of the surcharge but overall in Consol, tax rate has gone up only by 90 bps because of the higher profit capture in Dubai. So overall there has been a small increase but it is not likely to continue like this.

**Lalit Malik:** So I think one is the surcharge that of course has gone up from 5% to 10% and second is the deferred tax impact, so we would be more or less stable at this level going forward for the financial year 2013-14.

**Sunil Duggal:** So you can figure it around 22% for the rest of the year.

**Lalit Malik:** That depends upon the deferred tax in case there is a small variation.

**Prakash Kapadia:** Okay so 21% to 22% should be good.

**Sunil Duggal:** Well more like 22% - that is going up. We are talking about standalone here and for the consol it is around more towards 21%.

**Prakash Kapadia:** Also if you could give us some sense on the CSD side and some of it on the early monsoons and LBT there was some issue in Maharashtra. Does that affect the domestic sales?



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**Sunil Duggal:** I think the LBT in Maharashtra significantly impacted sales in April and May. June sales were normal but we could not recover April and May loss. CSD is acting quite well. We are showing good growth in CSD so no issues there. That story has been cleared out. I think the monsoon is favorable overall in terms of demand, even though it did have a very negative impact on sales of certain products like Pudin Hara and Glucose but that goes with the territory. Early monsoon helps in the long term but short term it does have some negative impact on certain summer driven brands.

**Prakash Kapadia:** And sir on the interest cost we have seen quite a bit of savings, so should that continue going forward?

**Ashok Jain:** The interest cost reduction is primarily because of the repayment of loan that we did approximately \$13 million in this quarter and plus there are some payment terms that we revised in the international markets, so the exchange impact has got reduced. When we look forward we should have lower interest rate but it will also depend again upon the exchange implications that may drive the interest cost for the remaining year

**Abhijeet Kundu from Antique Stock Broking**

**Abhijeet Kundu:** My questions are primarily on your three key categories which is oral care, hair care and health supplements. In oral care what we are seeing is the toothpaste growth has been quite healthy but at the same time due to a marginal decline in your powder business the growth has been relatively lower. Going ahead do we see this trend to continue in the sense because there would be a pressure on toothpowder growth. So essentially you have to grow your toothpaste business at a higher rate to really record double digit growth. So what are your thoughts there?

**Sunil Duggal:** Well I think we can hope to drive toothpaste at our mid-teens level. I think that is a very good growth rate for toothpastes, unrealistic to expect anything much ahead of that. Toothpastes do have their variations; last year was actually a pretty good year for toothpastes. This year we have not begun too well but obviously there is a long term decline which is inbuilt into this category. So we will have to manage the decline which will take another may be 2 years to play out before it becomes too small to matter. In the interim I think a blended growth of around 10% toothpowder, toothpaste put together is a reasonable trajectory because this would still mean that we grow a toothpaste in the mid-teens and therefore we are going ahead of category and gaining share and so that is the way we would like it to be. But I think there is a margin issue here also which is not that visible that we are aggressively growing the more profitable parts of the portfolio. The least profitable parts are the low priced toothpaste and the toothpowder which are lower margin. The most profit generative parts which are Red and Meswak are actually going at a clip which is in the high teens. So the whole margin delivery from oral care is improving significantly ahead of the revenue growth.



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**Abhijeet Kundu:** And in case of hair care, in hair oils though we have seen very good growth in perfumed hair oil there has been a 10% growth in hair oils. So basically in coconut, Vatika hair oil there should have been a decline?

**Sunil Duggal:** In the coconut category, let us talk about individual brands which is Vatika there has been a decline and the reasons were spelt out earlier. We said that in the first quarter we will be taking a significant price reduction to normalize the prices with regard to the vanilla coconut oils and that is what we have done. The results will come in the quarters ahead. We will definitely see growth in Vatika in terms of the tonnage and in terms of revenues but that would be at cost of some margins. There is no free lunch here. So we reduced the price, we increased the trajectory of growth but we also put additional pressure on margins. But I think since we do not see any huge uptick in copra prices in the near future, it is better to do it that way and retain market share rather than capture profit and not grow.

**Abhijeet Kundu:** And in terms of shampoos you have shown about close to 23% growth but at the same time you are seeing that there is significant competition which was already there. So have you seen any intensification in competition there because of overall industry growth being lower, has there been any slowdown in the industry growth in shampoos?

**Sunil Duggal:** Well if you take all HPC verticals the syndicated numbers indicate very sharp slowdowns. Now how much reliability they have etc. that is a different story but whether it is shampoos or oral care or many other parts of HPC, the slowdown is evident in the syndicated numbers. In that context a 22% growth is quite extraordinary and we are very happy with it.

**Abhijeet Kundu:** And in case of your health supplements, how much would be glucose typically in this first quarter?

**Sunil Duggal:** This quarter, glucose, if I am not mistaken, would be close to half of supplements category. But then glucose is first quarter and a fourth quarter phenomena, there is very little or no sales in the second and third.

**Abhijeet Kundu:** Other than the seasonality part has there been any intensification of competition in glucose?

**Sunil Duggal:** Yes and no, there has been some higher level of activity by our competitor. But I do not think that has been that material as the seasonality because our strong holds are mostly in the eastern part of the country and there we dominate the glucose market and early onset of monsoon evaporates demand.



**Nillai Shah from Morgan Stanley**

**Nillai Shah:** On the margin in the domestic business, the point is with the fact that even though you cannot expand margins and in the broad contours on the ad spends, the INR depreciation etc., but over the next 4 to 6 quarters what are the triggers that we have to drive margins higher? Where is the margin expansion really going to come from?

**Sunil Duggal:** I think we will have to work on building a better mix particularly in rural India. Rural India margins are still at around 46% so they lag aggregate margin, I am talking about the gross margin as against the gross margin which is more towards 49, so we will have to build a better margin profile there and project double is well configured to do that. So we hope to get better delivery from there. I think we will also resort to some price increases. I had indicated a quarter ago that price increases would be very muted but perhaps there would be some price increase ahead of what we had estimated. We had estimated just around 2% to 3% price increase. I am talking about fresh price increases, not the flow through but it is likely to be little bit more than that. So I think margin expansion possibility still does exist, even though the level of optimism in that is lower than what it was a few months ago. Because there are pockets where the margin impact would be definitely visible, for example beverages where there is no way out, I mean it is all dollar denominated imports, the raw material and so we have to take the pain. But in others there are possibilities in expansion and it is a very complex architecture of products so we will have to see it bit by bit and see how we can expand margins. So I am still hopeful that the gross margin profile would improve this year, perhaps not as much as what we would have liked.

**Nillai Shah:** And that should flow to the EBITDA line at least as much?

**Sunil Duggal:** Definitely, I do not see it being sucked up anywhere else because that flow would be pretty much contained and we would in fact seek to get aggressively operating leverage in the next few quarters. So the flow through will be there to EBITDA, in fact we seek to have a higher level of EBITDA flow through than the gross margin expansion.

**Nillai Shah:** Basically the performance in some of the mainstream consumer categories that you operate in has been very-very strong for the last two quarters now, which is surprising and very interesting. So how much would you attribute this performance to project double versus just something else that Dabur has been able to achieve?

**Sunil Duggal:** I think it has been continuous high investment in brands which we have been doing for the last six quarters or so and that has definitely resulted in better traction. Double has been very important because we have really built infrastructure where the growth is happening which is rural India and I think the recent set of numbers which do indicate hugely higher growth happening in rural compared to urban do validate our investments. I would not really be able



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to put how much of this growth is attributable to Double and how much is to brand investments or to other capability enhancement measures but it is a blend of all three, and Double has been certainly very important.

**Aashish Uppanlawar from Elara Securities**

**Aashish Uppanlawar:** Sir just want to understand on the raw material bit, you said the rupee and crude, except for those probably other raw material in cost, are looking a bit soft rather may be or plateaued basically, is it that way?

**Sunil Duggal:** Not actually I mean the pockets of items in edible oils etc. palm, mustard which have been fairly deflationary but they are an exception. I think many of our key raw materials, the beverage piece even LLP now is showing a strong move northwards, that is an important raw material. Honey is much ahead of what we had expected. Sugar is showing strength, so the aggregate commodity basket is not at this point playing out in favor. There are pockets of deflation too but not in the overall sense and part of it is enhanced by the rupee factor and part by other reasons. So it is a mixed bag and there would be pressures in terms of material cost and therefore I think pricing is a tool which we will have to exercise and I think we have the pricing power today to enable margin expansion or at least margin protection through price increases.

**Aashish Uppanlawar:** So would you put the price increase component this year may be around 5%?

**Sunil Duggal:** Including flow through that is a possibility. I mean we are still looking at more like 4% but I think 5 is not something which we can rule out.

**Aashish Uppanlawar:** Sir just wanted to understand on the shampoos category, apart from the base is anything else that would have changed for you in this category and the sustainability of this 20% plus growth on shampoos, how do you see that?

**Sunil Duggal:** Well it is of a very high base. That makes the 22% growth even more impressive. First quarter of last year if I remember was a great quarter for shampoos and which obviously means that the sustainability is a little bit suspect so it will have to play out of the category growing at 5 and 6, which some of the numbers indicate. We cannot keep growing at 25 till the end of time. But then having said that, sometimes there is a huge amount of resilience in category growth. We have seen that in beverages, we have seen that in shampoos and we will go along the growth as long as it happens. But we are prepared for a moderation in growth in both beverages and shampoos because they are going way-way ahead of what category growths are.

**Aashish Uppanlawar:** On the organic international business, how are you looking at the growth across geographies that we can see in Namaste and Hobi?



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**Sunil Duggal:** I think the only concern area was Egypt. Every other territory geography is firing very smoothly. Great growth, great margin expansion, very deflationary environment. There is a very sweet spot as far as the MENA region is concerned. Egypt, actually we are doing pretty well under the circumstances. We grew domestic business by 22% in Egyptian pound terms but all of it was lost in translation because the currency has tanked. So overall I think the organic business would definitely uplift margins and growth this year for our consolidated business.

**Aashish Uppanlawar:** How much of an improvement in margins do you expect this year YoY in FY14, the overall organic international business?

**Lalit Malik:** Approximately 200 basis points.

**Sunil Duggal:** That is a conservative estimate because like I said everything seems to be playing out in their favor and there is a lot of good work happening there to expand demand and keep the topline robust. But Egypt is a bit of question mark and if there is a big issue in Egypt, which we hope would not be there, that could drag down overall growths. And Egypt also is actually a very profitable market for us. So there is an exposure which we have there.

**Suruchi Jain from Morning Star**

**Suruchi Jain:** I had a question about the advertising spends. I understand that you have been spending quite a bit because of the increased competitive intensity. I wanted to get a breakup if it is possible of what you spend on say existing products and getting celebrities to endorse them versus what you spent on launching new products?

**Sunil Duggal:** If you take standalone, I keep hearing this comment about very high spends and actually it is not too high. Last year it was 13%, and now it is 13.3%. It is not a huge increase. So it is something which is pretty much normal. I would not really agree with this comment that we are spending much ahead of the curve. There are not too much of celebrities. We always have a few celebrities on our rolls but I do not think there has been any extraordinary spending on celebrities. Media spends continue to remain high and perhaps there is the odd extra promotion here and there but nothing exceptional.

**Ruchi Jain:** Any idea about split like 70-30 or -50 ?

**Sunil Duggal:** ATL is typically around 70% and I do not think the ratio has changed very much. Perhaps we have gone a little bit ahead what it was last year, the ATL spends ie media spends. They account for around 70% of our Adpro and that has not changed. Not too much of it has gone into celebrities etc. That is fairly normal. I do not think we signed on any major celebrity in the quarter. So there has been no great outflow.



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**Suruchi Jain:** So you expect Adpro on a full year basis also to remain high because the cost inflation might come down and your gross margins might expand. do you have an opportunity to either let it flow through to the bottom line or utilize in higher advertising spends?

**Sunil Duggal:** As I see it today standalone advertising costs would probably be not very different from what they are today. We would see some muting of the overseas advertising costs which have been high because we spent a significant amount in June because Ramadan in the Middle East came into play early July and we typically spend just ahead of Ramadan because of various reasons. So the overseas spends were much higher than what they normally would be. So they would come off a bit. Domestic spends would remain fairly constant. Aggregate spends would reduce so it is nowhere near runaway expensive. It is well under control and no pressure on us to keep increasing advertising.

**Suruchi Jain:** I just wanted to confirm the rural when you said it was 47%, is that 47% of your total sales contributed through rural?

**Sunil Duggal:** That is right, of domestic revenue.

**Suruchi Jain:** And last year full year I believe it was closer to a 30% number?

**Sunil Duggal:** No, no, it was more like 44-45%. It is creeping up. I mean there would not be any big leap here. You probably have seen the consolidated number. Now consolidated number you frankly take with a pinch of salt because we do not have very sharp rural urban cut-offs, very hard to say that. So this whole rural-urban splits take it for the domestic business.

**Pritesh Chedda from Emkay Global**

**Pritesh Chedda:** Your comments on any visible or notable changes in market shares in any of your category in the domestic business?

**Sunil Duggal:** Nothing dramatic here, shares have been fairly constant, not big movements either way. So we improved a little bit in perfumed hair oils and perhaps lost a little bit in toothpaste which again goes contrary to our growth, so nothing much to read in market shares.

**Prateek Bivani from Standard Chartered**

**Prateek Bivani:** You mentioned about some external agency reports of deterioration in growth profile which they are expecting especially in urban, so what has been our growth trend in urban? Have the growth rates fallen off for us as well in urban and same question on this is does that mean that our overall volume growth guidance which you have given for 8% to 12% which will be more towards the lower end of 8% to 9% than 10% plus?



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**Sunil Duggal:**

Well let me give you a break up of our growths in some level of detail. I would come to what the syndicated data speaks about category growths without getting into specifics on that because we do not share those. Now our urban growth has been 9.6%. And this is the revenue growth, not volume growth. And rural has been 14.2%. The total trade has been 12 and if you add on institutional which is CSD and others they add another 1% to growth which gets into the 13 point, which I spoke about earlier. So 12 is trade, 1 is institutional and 13% is the total growth. So therefore if you now take the rural versus urban it is 14.2% versus 9.6%. So significantly higher obviously in rural. Another interesting data point is that modern trade growths are much ahead of general trade. So modern trade growths are around 20%, which is twice that of the general trade. So that is another interesting facet because it is generally assumed that modern trade is not growing but for at least us it seems to be operating quite satisfactorily.

Now if you take the category growths and I am really concentrating upon the non-food part because that is showing the strongest decline because the growths last year were generally strong, peaked in the second and third quarters and then showed a sharp deceleration in the fourth which has continued in the first quarter of this year. So this is mostly in non-food urban. This is where the deceleration has been most pronounced. It is been less so in food and less so in rural. Rural, in fact has held up reasonably well but urban there is a cause for concern. And I suspect it will be perhaps more pronounced amongst the more discretionary end of the urban consumption rather than the staples but I may be wrong here. So this is something for us, we know how to introspect that deceleration is structural or whether it is something which will just play itself out with a good monsoon and with higher spendings by the government. In fact the rural demand will continue to remain pretty strong because the monsoon would impact rural demand favorably as well as the doles from the government whether it is the direct cash transfers or so many other stimuli which would benefit the rural population much more than urban. So I think I am not very concerned about rural demand but urban demand is something which we will have to watch out for.

**Prateek Biyani:**

And sir on some categories especially oral care as there has been a launch by a competitor, there have been increased promotional activities by various toothpaste players, so have we also increased our promo or what are our plans there?

**Sunil Duggal:**

We have not reacted very much to that because we still believe that our portfolio is very differently aligned and it has got its own share of users which are pretty much loyal to the brand. But we are watching the situation and if there is any need to take up the spends we will do so, at the moment we are not.

**Prateek Biyani:**

And sir have we taken any price hikes for the juices because if the dollar impact comes in the coming quarter?



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**Sunil Duggal:** Yes we have, not enough to neutralize the dollar impact because there is a little bit of an issue in terms of the overall pricing table of juices. Now many of our juices have crossed the Rs. 100 a liter barrier. So we are a little concerned about the demand destruction happening consequent to, if you were to pass on the entire impact of the dollar to the consumer. As we have a dominant share we do have pricing power. But we do not want to take big chances here with regard to erosion of consumer franchise because we believe that these are already at very high prices and we should not take them aggressively forward. So part of the impact in the food margins will come to us, only part of it will be neutralized through pricing.

**Prateek Biyani:** Last question on your employee expenses, there have been some companies where their employee expenses have been a tad higher because of some change in actual assumptions, so has that been the case for us as well because your standalone employee expenses were up by 18%?

**Saibal Sengupta:** No, I think on the actuarial evaluation on AS15 if you are talking about there is no material change because of that. There has been a normal increase in salary cost and we have also added workforce on the institutional sales, so that has caused a slight increase in the salary cost but as for AS15 or actuarial there is no material impact that we see.

**Vivek Maheshwari from CLSA**

**Vivek Maheshwari:** My first question is again on the industry growth rates. I presume the numbers that you are talking about would be from A C Nielsen. If I recall correctly for the last few quarters you have been consistently maintaining that your rural growth is around 4% point higher than urban and this time around also the numbers do not look different that you have just mentioned 9.5% and 14.2%. Do you really care about the external agency number because if they are talking about a slowdown in fourth quarter and thereafter continuing in the first quarter, whereas if I adjust for your base, so given that your volume base was higher in this quarter compared to the fourth quarter, overall growth rates continue to remain fairly steady. So do you really care about these external agency reports?

**Sunil Duggal:** No, we do not get too obsessed with them but they are hard to ignore. If they point out to a slowdown in certain areas like urban India then we need to tactically change the way we are operating on the ground to take advantage of where the growth is happening. So while they do not dictate strategies but definitely they have some influence over our tactics and one of the reasons why we are emphasizing so much on rural growth is because that is the only place where the growth is happening. So I think it will be silly to ignore these data points and that is the only information we have.

**Vivek Maheshwari:** But at least as of now this 9.6% number for example in the first quarter, would it be very different from what it was said over the past few quarters?



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- Sunil Duggal:** Well Q4 was high, that was exceptionally high but it is in line with Q1 to Q3 of last year. If you remember in Q4 we did 12% volume growth which was the highest we have ever done but if you take the first three quarters the average was around 9-9.5%. So we are in line with the first three quarters of last year.
- Vivek Maheshwari:** So there is no noticeable difference at least in the growth rates that you are enjoying, right because I think in the fourth quarter the base was also relatively easier compared to what it is now in this quarter?
- Sunil Duggal:** Probably, I do not remember that but you may be right that the fourth quarter and Q1 of last year was a good high base. So I think I am very satisfied as to the trajectory of the domestic business as of now. And I only hope we can maintain this trajectory. If you are able to do that I think we would be doing exceptionally well under the circumstances.
- Vivek Maheshwari:** I do not know whether this industry data also has volume numbers but is there a possibility of the growth tapering off because of the anniversary impact of price hike because the price hike component would be coming off in the recent past?
- Sunil Duggal:** I think the pricing impact will not be much because even in the worst case scenario you will take prices up by 5-6% which is far lower than the CPI. The impact would be largely on account of squeeze in income consequent to the overall inflation levels which are extremely high. So that would filter down to most categories, staples included. So that is really the biggest threat which we have in terms of consumption.
- Vivek Maheshwari:** On the rural bit Project Double obviously helped you quite a bit and all but when do you expect the numbers being there in the base, which is where the growth rates can taper off or do you think the 4-5 percentage point delta between urban and rural can continue even in fiscal 2014?
- Sunil Duggal:** Well I think what we have advised our sales people is that to continue the Double push, I mean do not take your eye off the ball, continue the acceleration in terms of rural outreach because that is where the growth is happening. So this is one cue which we are taking from the syndicated numbers that growth is happening and are visible in rural therefore push the boundaries of Double to areas which perhaps we did not envisage a few months ago. So just to give you one data point we have added 3000 villages to our coverage in the last quarter and that is much ahead of what we would have normally thought. So I think the Double acceleration continues. The big bang expansion may be over but even now the expansion is continuing at a fairly high clip, so this is where we are depending a lot upon rural growths to keep our business growing strongly.



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**Vivek Maheshwari:** Secondly on the gross margins, your gross margins expanded by almost 115 basis points, I would presume there would be some inventory carryover that you would have exhausted during the quarter which means that some of the impact of the recent correction or recent rupee depreciation as well as oil increase will come in the second quarter. What will be the quantum of price hike that you would have taken in this quarter and immediate plan for the second quarter, if you can give that number?

**Lalit Malik:** Our in quarter price increases have been to the tune of 1% whether the flow through of around 3% from previous year.

**Vivek Maheshwari:** And beverages you mentioned where you have taken up some prices but second quarter anything noticeable or specific that you want to highlight?

**Sunil Duggal:** Not at this point in time we are still exploring opportunities and there is internally a debate going on. I think we are just waiting a little bit to see how the inflation story plays out. Second quarter in any case there is not much scope for price increase because of various reasons. The big numbers come in the third quarter so I think by the end of the August we should be reasonably certain about the trajectory of pricing for the balance of the year.

**Vivek Maheshwari:** And lastly on home care sir, why is it that the industry growth rate as well as your growth rate has accelerated in the past few years, has there been any specific change in this category which is driving this?

**Sunil Duggal:** No, I think it is really of a very low base. So it is a high growth category inherently speaking. There are more people getting into air care and insect repellents and so many such categories. I mean there is much more consumption of these categories happening. I mean many of these categories from a discretionary aspect have become now non-discretionary and so that is adding fuel to the demand. So it will continue to grow for the next few years I think at a good pace before it matures and then the growth is tapered off. And for us it is a 25% growth category for now many quarters and we do not see any muting in terms of demand at least in the near term, which you can argue that it should happen because it is of a discretionary nature but then it is of a low base, so the headroom for growth is still quite high here.

**Trilok Agarwal from Birla Sun Life**

**Trilok Agarwal:** One is if you can highlight what is the growth trend in juices given the fact that you have highlighted where pricing may be crossing over Rs. 100. And second is, are you witnessing the premiumization across categories slowing down as being witnessed by other competitors?

**Sunil Duggal:** Well juice growth was around 18-19%, so it has fallen off from last year's level which was more in the mid-20s. So this is an urban product; obviously there is zero rural consumption. So



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I think this is one example of the slowdown happening which is impacting the urban categories especially of a somewhat discretionary nature like our juices are. Having said that a 19% growth is still extremely attractive and we are fairly confident of being able to maintain this kind of trajectory for the balance of the year, not as much as last year but still well ahead of what others are delivering. But also I think there is another data point here which is very important that food is still going pretty strong. Again, I am talking about foods as a category. The growth as far as data is concerned shows fairly robust growth and much more than the non-food part. So I think there is something structurally changing within the consumer's mindscape that healthy food or packaged food or whatever else is something which the consumers are not willing to sacrifice on or compromise on once they get into this habit of consuming processed food then they stick to it despite inflationary pressures. They do not move out of the category. So this is an interesting aspect which we would have to learn further from and decide our food strategy accordingly.

**Sunita Sachdev from UBS**

**Sunita Sachdev:** You have just commenced production in the Sri Lankan factory, is there any one-off cost that we should know of?

**Sunil Duggal:** None, everything has been capitalized. There is no one-off cost which would happen. Now we just need to drive production there because it is obviously more profitable in terms of at least the gross margins as well as the other aspects it is going to be more profitable than the Nepal operations. We have income tax exemption for example there. So we just need to get more traction there and build very quickly scale into that operation.

**Sunita Sachdev:** Is that one of the margin drivers that you would look for and which is why you would kind of may be absorb some kind of cost increase in the near term?

**Sunil Duggal:** I do not think it is big enough to be classified as a margin driver. It will be an important part of our food strategy to de-clog the supply chain and feed the southern and western markets which were getting inadequate supplies from Nepal and from Jaipur. So that is really the most important aspect in terms of materiality of the margins, that would take time but I think it would make our entire food supply chain very strong. And I think we would also then perhaps explore exports of juices from the Lanka facility. We do believe there are opportunities in the Middle East and Africa and at the moment we did not even explore them because of capacity issues and supply chain issues, but Sri Lanka, the factory is perfectly poised to now build presence in overseas markets though our juices, so we will be getting into that also.

**Sunita Sachdev:** And your volume increase in the foods business should come through may be in the second-third quarter, when do you exactly expect this to ramp up?



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**Sunil Duggal:** No, it will come throughout because we are sitting on a very high base of last year so it is not that it is going to come in any particular quarter. The most important quarter is Q3 and Q4. These are the big quarters and if you are able to get traction in the business then we are pretty much going to see a good year again for foods.

**Sunita Sachdev:** Assuming that the rupee dollar equation does not change materially or in fact may be improves for you, what kind of sustainable margins can we expect in the foods business?

**Sunil Duggal:** Let us say our gross margin delivery here in foods with the dollar at around 60 is in the mid-30s. It was in the high 30s at 55, it has crunched by around 4 odd percent. Further depreciation would obviously mean further impact because like I said earlier we cannot take the full erosion through price increases. So the 35 leading to around 12-13 EBITDA delivery is something which we see for the balance of the year.

**Sunita Sachdev:** And especially with regard to CHD and also your new product pipeline any categories overall that you believe that could be a more promising new product pipeline?

**Sunil Duggal:** We are putting in products in most categories whether it is home care or hair oils or toothpaste or ethical etc. So every category has its opportunities and I think the trick is to push the right buttons to make sure that the products do well. But having said that there is so much to do in our existing portfolio that we do not seek to drive growth through new products. A lot of our growth will come just from enhancing scope of comparatively small businesses like say the FEM skin care or parts of home care or other parts of HPC and health care. That is an easier route to market and easier route to growth to scale up existing brands rather than to aggressively build new brands. Now having said that there are gaps in our portfolios which we need to fill up and some of them we are already doing. For example, we did not have a light hair oil and we are building a light hair oil brand. We are looking at other opportunities in light hair oils. So there is just one example of what we are doing but we are not going to do anything radically new or innovative in a completely new domain because we do not see any reason to do that.

**Richard Liu from JM Financial**

**Richard Liu:** I just heard your comments regarding you wanting to take some price increase because of input cost pressure. More broadly how does one really look at that? At one hand one is saying that the consumers are finding it so hard that they are actually cringing on demand for staples and on the other hand we are saying that there is going to some price increase. I know 4% to 5% does not really sound that much from a number perspective but do you feel that in a slowing consumption environment the consumers will be okay to absorb 4% to 5% price increase, or this could actually push them down further?



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**Sunil Duggal:** I think in principle a 4% to 5% increase is what the consumer is expecting and will absorb in the context of a 10% CPI and even higher fuel price and other increases. It is not something which would alienate the consumer. I think we have to look at it more from the point of view of the competitive context and other factors rather than just acceptability from the consumer standpoint. I think the FMCG space is perhaps the most conservative in terms of price increases and so I do not see any roadblocks to that. But the question is one of the competitive context and the other one is that price points of Rs. 1 and Rs. 10 are very hard to break. So there is no easy way out in terms of price increases. You have to break those price barriers which takes time. So overall I think 5% price increase looks on the high side but something like 3% to 4% is what we probably have to do and should be able to pull it off quite easily.

**Richard Liu:** If I look at the rural urban growth rate that we have cited, which is 1.5x rural growth versus urban. Can you tell me what the syndicated number also suggests?

**Sunil Duggal:** This is true both for our growths which I have mentioned in detail the 9.6 versus 14 and also true for the non-food category as a whole from whatever data we have been able to assemble from syndicated sources. That rural growth is 1.5x urban.

**Richard Liu:** And sir my last question is actually on food margin, after the severe compression that we have witnessed including 4Q last year, this time it is looking to be a little more stable. I think the YoY comparison seems to have stabilized quite a bit now as compared to the huge 350 to 500 bps erosion that we have seen in the past nine months. So are you more comfortable with the base now in terms of the margin remaining this way or could there be more volatility going ahead?

**Sunil Duggal:** No for food there would be margin pressures in the second quarter onwards, because remember the rupee depreciation happened right at the end of the quarter. Before that it was pretty stable so the full impact of the depreciation will really happen in the second quarter onwards and while we will be able to mitigate partly through price increases, partly it will flow down.

**Sanjay Singh from Standard Chartered**

**Sanjay Singh:** So just if you take everything into context, while earlier we were looking at 150 to 200 bps margin expansion and now first quarter is largely flat, so for the full year -...?

**Sunil Duggal:** If you take EBITDA margins yes there is 40 bps increase.

**Sanjay Singh:** So on an EBITDA margin level are we looking at closer to a 50 bps kind of number for the full year?



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**Sunil Duggal:** I would still shoot for around 100 bps increase. Now this may be sticking the neck out a little bit but I think it is something which we can do unless the cost pressures sort of spiral out of control, but with the rupee now perhaps reaching a certain level of stability I do not know whether that can hold, but assuming that it does and with the rural demand continuing to remain reasonably robust I do not see any reason why we cannot grow EBITDAs by a (+100) basis points because there is also the upside which we probably will get from our international business which will kick in, into the consolidated EBITDAs. So the India growth may be more in the region of 50 bps but the international may be say 150 to 200. So the blended would be north of 100. So let us see, it is early days, how it plays out. But I am pretty optimistic of generating a 100 basis points EBITDA growth.

**Sanjay Singh:** In terms of volume you think plus 10% domestic is possible or you would rather keep it to 8% to 10%?

**Sunil Duggal:** I do not see any reason to change my earlier outlook on 8% to 12%. Now obviously it is more likely to be in the 8% to 10% region rather than 10% to 12% region. But you never know and I think 8% to 12% is a band which we should stick to.

**Harsh Mehta from HDFC Securities.**

**Harsh Mehta:** First one, if you look at the standalone business, the sales growth in that business is around 10.8%. However the domestic consumer growth that you reported is around 13.2%, if you can just explain me the difference please?

**Gagan Ahluwalia:** The prime difference is there is a reduction in the commodity sales on account of Guar Gum by approximately 40%. So that has caused the decline from 13.2% to 10.8% that we talked about.

**Sunil Duggal:** The domestic consumer business which is really the only one which matters is 13.1 and there has been a sharp degrowth in the Guar Gum business, not so much in terms of tonnage but in terms of pricing. Now that business may be small but the turnaround was so swift, last year was a great year for Guar Gum and this year it was very opposite. So it has dragged down domestic overall growths. So the material part of domestic is really consumer. The rest is the side business.

**Harsh Mehta:** My last question would be the other income for this quarter has gone up by around 51%. If you can just explain the reason and if you think that this is sustainable for the coming quarters?



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**Ashok Jain:** The other income is sustainable over a period of time with more and more profits we generate and unless we find out some more acquisitions the other income will keep on increasing to some extent.

**Sunil Duggal** That is why it is coming up. I do not see any possibility of this income going down so the cash reserves continue to build up unless of course we do something which we do not visualize right away. So that will keep growing.

**Mohit Hulkotkar from Asia Capital**

**Mohit Hulkotkar:** On the maintenance CAPEX side what would be the number going forward?

**Sunil Duggal:** We are giving an estimate of around 150 crores. It could be little bit more 175 but that is about it. So CAPEX is going to be muted to this year compared to earlier years where it was more like 250 because a lot of the building of plants in Sri Lanka and Egypt has already been now done. So there is not too much we have on the table for this year or even the next in terms of CAPEX. Of course we could change our thoughts if you build plants in South Africa or some other parts of Africa but as we speak other than a new plant in Tunisia which we are planning, which is not a big CAPEX plant, so there is no Greenfield operation which we are visualizing.

**Ajay Thakur from Axis Capital**

**Ajay Thakur:** One, can you share a data on what will be the category growth for toothpaste?

**Sunil Duggal:** We do not share category growth because we are not allowed to do that but we suspect are lower than the growth which we got.

**Ajay Thakur:** Can you help us with what would be the food growth excluding of the launch of the new juices variant that you have done?

**Sunil Duggal:** All the new products?

**Ajay Thakur:** Yeah, so excluding that what would be the growth may be in the foods category?

**Sunil Duggal:** Well the new products have hardly contributed anything because they have just been launched towards the fag end of the quarter and they are fairly niche products, very high priced, largely modern trade and metropolitan driven. So the contribution from those has been fairly small, which does not mean that they are not succeeding but they have a very niche audience. So these are the Rs. 105 a liter products and not a large consumption.



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**Richard Liu from JM Financial**

**Richard Liu:** I was just looking at the balance sheet. I am not sure if I got my number 100% correct but it seems to suggest that the net cash balance, there is an accretion of roughly about 290 or 285 crores between March to June. If I have my numbers correct, this is actually substantially higher than the cash profit for the quarter. So if you could just take me through on how did this really happen?

**Lalit Malik:** No, I think primarily if we look at the quarter it is arising on account of the cash profit because you need to add up all the provision for depreciations and other, so that is the reason that you will see the accretion of cash coming in the balance sheet. Having said that incremental cash that we are talking about has also been subsequent to the quarter and has been used for payment of dividends.

**Richard Liu:** So if I take PAT plus depreciation that is something like 210 crores versus a net cash generation of about Rs. 290 crores.

**Lalit Malik:** Right and we have utilized it for the capital expenditure as Mr. Duggal just mentioned. So we have also spent on the CAPEX, around 60 crores.

**Gagan Ahluwalia:** We can take it offline.

**Gagan Ahluwalia:** Thank you very much all of you for participating in this call. Webcast of this call and transcripts will be available on our website. For any queries or feedback, you may kindly contact us.

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