



“Dabur India Limited - Q2 FY2013 Results Conference Call”

October 26, 2012

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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. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mrs. Gagan Ahluwalia. Thank you and over to you ma'am.

Gagan Ahluwalia: Thank you Marina. Ladies and gentlemen on behalf of management of Dabur India Limited, I welcome you all to the conference call pertaining to the results for the quarter and half year ended 30th September 2012. Present here with me are Mr. Sunil Duggal – CEO, Dabur India Limited; Mr. Ashok Jain – Senior General Manager, Finance and Company Secretary and Mr. Saibal Sengupta – Senior General Manager, Finance. At the outset, we will have a brief overview of the company's performance from Mr. Duggal followed by a question and answer session. I hand over now to Mr. Duggal.

Sunil Duggal: Thank you Gagan. Good afternoon ladies and gentlemen. I welcome you to the Dabur India conference call pertaining to the results for the quarter and half year ended September 30th. During the quarter, Dabur consolidated sales increased by 20.6% to 1522.6 crores and profit after tax by 16.4% to 202.4 crores.

Domestic Consumer Business reported growth of 15.3% driven by a mix of volume and price increases. Volume growth in the business was around 9%. Most categories performed well with health supplements, OTC and Ethical shampoos, Skin, and Home Care growing ahead of others. Health Supplements recorded a growth of 15.7% during the quarter with Honey in particularly performing well across channels and regions. Chyawanprash also witnessed a double digit growth during the quarter, although its major sales happen during the winter season.

The OTC and Ethical Portfolio registered a growth of 22.6% during the quarter. Brands such as Lal Tail, Honitus and the Ethical portfolio reported strong double digit growth. The Health Care Business is witnessing good growth pursuant to the distribution enhancement initiative which was implemented a few quarters ago.

Hair Care portfolio grew by 13.2% with shampoos growing at 40.2%. Perfumed hair oils posted growth of 16.3%. Oral Care registered a growth of 6.9% during the quarter. The premium offerings i.e Red Toothpaste and Meswak reported double digit growth, however, sales of the economy segment toothpaste Babool were impacted by price rationalization initiatives which were essential to enhance the margins. Red Tooth Powder had a small decline during this quarter.



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Skin Care Category grew at a robust 24.8% during the quarter. The Fem portfolio grew by 27.7% and Gulabari also performed well.

Digestives reported growth of 11.9% with a strong momentum in Pudim Hara backed by media and packaging initiatives.

Home Care continued on the strong growth trajectory growing by 23% during the quarter with Odomos and Sanifresh as the key growth drivers.

Foods grew by 18.1% during the quarter. Real Fruit Juices continue to perform well driven by strong market growth and market share gains. During the quarter, new variants and flavors were launched in the beverage portfolio.

Dabur's international business witnessed healthy sales increase of 24.8% during the quarter. Nigeria, Egypt, GCC and Nepal reported a strong growth with categories such as hair oils and tooth paste doing well. The business continues to invest strongly behind A&P and new product initiatives. The Namaste business is undergoing some changes with a re-launch of the brand in the U.S. This led to some slowdown in US sales. However, we are continuing to focus on growing the business aggressively in the overseas market particularly Africa and efforts are being made to put the infrastructure in place in order to capture the opportunities that exists. This will include distribution enhancement initiatives, localized supply chain, investment in A&P and putting in place local resources.

On the profitability side, Dabur saw a growth of 12.7% in EBITDA. Material costs witnessed some easing during the quarter due to which gross margins saw an improvement. However, inflation continues to be a worry as input cost pressure persists due to rising agri prices and adverse currency movement. During the quarter, we invested strongly behind our brands with our ad-pro to sales ratio increasing to 11.9% versus 10.1% in the second quarter of last year.

Consequently, profit after tax reported a growth of 16.3%. Our distribution enhancement initiatives particularly in rural India bore fruit and have translated into higher and more profitable sales.

Going ahead, we would continue to drive revenue growth on the back of distribution footprint enhancement initiatives, focus media and promotional activities, new product initiatives, and market expansion activities.

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



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Abneesh Roy from Edelweiss

Abneesh Roy: My first question is on the skin care, we have done well with 24% growth. So is it because of market share gains or is it because of new innovations and if you could give us more color on Uveda, you have said that you have planned to launch some variants out here, so some color on that?

Sunil Duggal: I think we have gained the substantial market share in the bleach segment, so that has been instrumental in driving growth of bleach. This has actually been not too much in terms of new innovations on the Gulabari brand, but Fem has witnessed some innovation, which have also driven growth. We have launched new initiatives under the gold and the pearl range. So overall it has been the bleach portfolio which has driven growth which is also at very high margins, so that is something which works for us. Gulabari is mostly a winter centric product being into cold creams and moisturizers. So, while it has done well in the first two quarters, I think the real test for Gulabari is in third and fourth, but we are hopeful that we will be able to do well here. There is a lot of activity in terms of new initiatives and innovations in the Gulabari brand. To reply to the third part which is Uveda, we are still not prepared to go mass for this brand. We are still incubating it. We do not believe the time is right to really put a lot of money behind it. Perhaps sometime early next year, we will take a call and then drive some major initiatives behind Uveda.

Abneesh Roy: Sir any distribution led gains in skin care because distribution has been expanded in the rural side?

Sunil Duggal: Definitely. I think overall you may see higher growth coming from rural as compared to urban, also the margin profile of rural is improving significantly. It is not far behind the national average, earlier it was lagging behind quite a bit. So, Fem is one of the components of the rural initiatives which has been successful and while we do not have precise numbers as yet, we are still farming them out, I think a fair amount of Fem growth could be rural driven.

Abneesh Roy: Sir my next question is on your overall volume growth. If you see, there is some tapering off from double digit to 9% in the domestic business. So between rural and urban, how is the relative growth and obviously your beverages have seen some slowdown from the explosive growth. So, if you can give us overall growth why some slowdown happened and between rural and urban relative growth, how is it?

Sunil Duggal: The core portfolio growth is probably not very different from what you saw in the first quarter. If you take core urban, rural, HPC, and HC that growth remains good. Definitely, the foods growth has come off considerably from the first quarter and that is largely on account of seasonal factors. One is of course much higher base of last year, second is that the festive season which drives a lot of consumption of juices in the form of gift packs etc. is now



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delayed by almost a month as compared to last year. So much of our sales which happened actually in September last year will now happen in October. So, I would not worry too much about it. I think the foods part would regain momentum, but certainly foods and to some extent CSD have contributed to slightly lower growth in the second quarter. We saw around 11% in the first, 9% in the second. So it is a bit of a come down from the first quarter, but nothing serious.

Abneesh Roy:

Sir my third question is on the hair oil business. If you see coconut based, you have given the explanation. So, is there any long-term solution we are looking at? Second sub question to that is almond hair oil now it is three quarters, so how would you judge versus initial expectation in the almond hair oil because the leader is reporting very good growth?

Sunil Duggal:

Which is true and we are also I think showing good performance in almond hair oil. It is as per the action standards. We are pretty satisfied with the way it is growing. Obviously this whole category of almond hair oil is really growing at a very high pace much ahead of any other part of hair oils, but overall if you take perfumed hair oils, we grew at 16.3% which is pretty substantial and I think this remains one of the key elements of our growth. Coconut oil was far more muted because as you know Vatika in an area where the coconut prices are low does tend to flag in terms of top-line, but spins off extraordinarily high margins. So, last year we saw a huge growth in Vatika on the back of high copra prices. But we saw much less margins. This year, the reverse is happening and this is part of a trend which we will see for many years. So I think it is a little bit dependent upon the overall copra table because we do not move prices of Vatika up and down in line with coconut oil prices.

Abneesh Roy:

Sir last question is on Babool, if you see that has remained under pressure for some quarters now. In the PPT, you have mentioned that some value-added variants are planned, so wanted to understand on an overall basis, market share how is it because Unilever has also said a double digit growth and coming back to Babool, do you want to now address the price issue there by doing the value-added variants?

Sunil Duggal:

I think the focus in oral care as far as we are concerned has not shifted to profitability. We were driving very good growth over the last few years but obviously the Babool margins were shrinking to a point where we found them quite unsustainable. Secondly, even the Red Tooth Powder which earlier was the high margin product has seen a steady erosion of margins consequent on very high input costs of spices particularly which have been further aggravated by the weak rupee. So, I think what we are doing here is we are putting investments now behind the higher margin brand which are doing extraordinarily well, Red Toothpaste in particular and we are trying to recreate profitability in Babool and to some extent in Red Tooth Powder through varianting and many other initiatives which obviously I would not be discussing but we do believe that we should be able to get Babool back on track by the year end, in terms of both growth and margins.



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Prakash Kapadia from iAlpha Enterprises

Prakash Kapadia: Sir if you could give some insights into the oral care. This is the third quarter where we have seen single digit growth. So given that 50% of India's population has a dental issue in terms of a cavity or tooth ache or a gum or a bad breath, isn't it more better to focus on our premium offerings Meswak and Dabur Red rather than the economy segment over the long run?

Sunil Duggal: Which is precisely what we are doing. The problem is that Babool is 50% of our tooth paste business, it is a big brand and if it is flat, it brings the whole growth down. Now we can easily grow Babool in double digits, that is something which we have been doing but it will be at a very high cost in terms of margins. A brand of this size will drag down overall business margins, not just oral care and I think it is time that we grow more profitability here through value additions offering more benefit to the consumer etc. We do believe that there is lot we can do in this area, otherwise we would have gone down this path and if you take Red Toothpaste, the growth is very high and really that is our flagship toothpaste today.

Prakash Kapadia: Because these two products are really very good and they have a huge efficacy and it can make wonders.

Sunil Duggal: We are investing very substantially behind these two products. The fact we have pulled out investment from Babool to a very significant extent and moved investments into these two, but having said that we are not going to let the Babool just sort of fade away; it is a big brand and we do see a lot of traction which we can develop. I think we just need to be a little bit more creative in terms of offering value-added solutions to customers and then executing that strategy well on the ground. I do see revival happening in Babool by the fourth quarter or perhaps latest by the first and we have been traveled down this path of erosion in terms of the margins and volumes in shampoos etc. I think the key thing is just to be creative, innovative, continue investments and the cycle will correct itself. It is really the Rs. 10 price point which is the cause of much pain and ultimately 10 rupee price points are going to become increasingly unsustainable as and when inflation continues to be close to double digits.

Prakash Kapadia: And sir secondly on the health supplements, given the stress and lifestyle issues especially in urban India and given our leadership what are we trying to do more to make honey and Chyawanprash more like a habit amongst consumers, specially the younger generation, because the taste and the perception is still like a medicine, so as a leader you know what is the..

Sunil Duggal: See the whole proposition of Chyawanprash, we are shifting to immunity which I believe is the single most important health care need in the country today especially amongst kids and the target audience is definitely kids. If you see the new campaign which promises three times more immunity, it is really aiming at the center of this need gap and now if this campaign



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works which we believe it will it is not really radically different from what we were doing earlier, but I think it drills down to the immunity benefit in a very hard hitting manner. If you see the new set of advertisements and communications which we have developed, I think you will find it striking home hard especially when you have Dengue and all kinds of immunity deficient related diseases. So, the outlook for Chyawanprash is very bright. We have seen a shift to value added products, for e.g. we have seen the consumers shift back to say Lal Tail, which is a fairly, not very great in terms of organolytics etc. but it is great in terms of efficacy. So I think because the customer will rediscover value in Chyawanprash vis-à-vis other platforms such as malted drinks, etc., and we should be able to drive long term sustainable growth here. We are also innovating as you have seen in terms of flavors etc

Prakash Kapadia:

Which are the mixed fruit variant and...

Sunil Duggal:

I am very hopeful about Chyawanprash, I completely disagree that it is sort of sunset category and Indian consumer is becoming more like its western counterparts in terms of behavior, I don't see that happening at all. I mean Red Toothpaste is a classic example, it is not a rural product, it is largely an urban product. It is so different from what mainstream toothpastes are and it is the fastest growing toothpaste, major toothpaste brand in the country for so many years.

Prakash Kapadia:

And sir if you could share some thoughts, given that India's 25 million babies which are born every year is that now a category which we are increasingly looking at given that CCD and CHD integration is over, we have the distribution in place and who better than Dabur can grow this category.

Sunil Duggal:

See, baby care has never been a big area for us. We have got a large brand a 100 crore kind of brand in the form of Lal Tail. You have got Janma Ghunti which is a digestive product but we find a little difficult to put new products into market, because it is a huge barrier to overcome the...

Prakash Kapadia:

Johnson?

Sunil Duggal:

Johnson of course is there in categories such as baby oils and shampoos but we see even baby oils has been a huge category to drive growth and we are also looking at other areas in the food space, not so much for infants but for young children, which will be an interesting initiative.

Prakash Kapadia:

And sir lastly if you give some sense on CSD, where do you see CSD sales going forward because I believe in the winter season there is good traction in terms of the health supplements so are we on track of the CSD still a concern, what is the sense we are getting.



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Sunil Duggal: I believe the worst is behind us. I do see revival happening in CSD business. Even though quarter two was minus 17%. So, it was a significant drag, on overall particularly in terms of volumes, margins are obviously little bit lower. But I do see the worst behind us, I think over this year we should probably get back to flat growth over last year, which is not a bad place to be in considering that we have de grown in the first two quarters. But then I won't really bet everything on it, because it is really not under our control that depends on the internal work of CSD. But we will definitely no longer witness this sharp decline which we saw in the first two quarters.

Prakash Kapadia: And sir is it fair to assume that we will see debt reduction going forward as we have seen in this quarter over the next quarter.

Sunil Duggal: We are for all practical purposes zero debt, I mean there is debt lying in the overseas books, there is cash lying in India and we haven't swapped the two for obvious reason. So, we are a debt free company. What is our net debt today?

Ashok Jain We are positive net cash by Rs.33 crores.

Nilai Shah from Morgan Stanley.

Nilai Shah: Sir, in terms of the new launches or the variant strategy and the re-launches can you share a few quarter details on how they have performed, the Amla and what is the initial reaction on Thirty Plus, etc.?

Sunil Duggal: Thirty Plus has just been launched, so I won't really talk too much about it; perhaps three months from now we will be able to give you a heads up on performance. But we launched a product called Shilajit Gold which has been really flying off the shelves, it is a restorative/ aphrodisiac - a very good product. It is that something which we believe that has a lot of traction. So this was one of the many relaunches that we did, the other major initiatives which we did in the earlier part of the quarter was refurbishment of shampoos in terms of formulations in terms of packaging, in terms of the marketing mix and the results we have all seen. So, it just shows the resilience of the brand. Third quarter we will be very active in launch of new initiatives and beverages, we are looking at some value added products in beverage space, some of them are really very interesting. We will be completely revamping the marketing mix for Amla Hair Oil which is actually now already on air the new campaign etc and there will be several initiatives in practically every category in which we are operating. So you will definitely see much more happening in terms of launch of new products as well as renovation of existing brands.

Nilai Shah: So against that backdrop, how confident are you of double digit volume growth for this fiscal year?



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Sunil Duggal: You know, we are little circumspect here and I would say that the volume band which we are seeing is 8-12, that may be a little wide but it is hard to drill down to more sharper figure. The reason for that is the input cost remain high, so the price increases would continue to happen and the economy is perhaps not as stronger as it was a year or two ago. So therefore it is better to have kind of caution. We are internally shooting for 10% kind of volume growth, I believe this is something which we will be able to achieve but there is no guarantee and I am talking about the domestic business, overseas business would be largely volume driven.

Nilai Shah: And on the gross profit front, last time you spoke about 200-250 bps sort of a gross profit margin expansion, has that view changed?

Sunil Duggal: No, it hasn't changed, even though if you see Q2 numbers you would question my statements because there is actually a bit of contraction, if you take gross margins, having said that as far as India business is concerned I am quite frankly little disappointed with the margin expansion, by fairly miniscule 33 basis points we expected considerably more. If you include overseas then the picture looks much better and the reason for that is the rupee continues to be extremely weak, our input cost in key areas such as beverages, concentrate, the laminates, spices continue to rule at lifetime high prices. Key domestic inputs like honey and sugar have been extremely unfriendly in terms of the pricing table and while there have been some pockets of good numbers coming in from edible oil LLP etc. overall there has been only a marginal improvement in our material cost profile as far as the India business is concerned. Overseas it is very different, particularly in the MENA business there has been a dramatic increase in improvement in the overall margin delivery but since India is really the big boy here that has been little bit less than what we expected. Going forward again, I don't see huge expansion in gross margins. There would be some but I would peg it to be in the region of 100-150 basis points over last year and not perhaps 200-250 which I would have expected 6 months ago.

Nilai Shah: And finally on the international business, is the recalibration of the ORS brand complete now?

Sunil Duggal: No, well it is complete as far as we are concerned as far as on ground roll out is that is still happening so we have to get relisting done on several accounts and it is still work in progress. I think by end of this quarter the calibration would have happened, the architecture would have been completely revamped, even more importantly I think the Africa business which now we have got South Africa back under control but West Africa will take another 2-3 months for recovery to happen. So, overall we believe that the worst in Namaste is behind us. There will be still another couple of quarter where we will have to navigate with some care but I think the numbers which you will see going forward will definitely look better.

Nilai Shah: One last question, you are talking a big way about the distribution realignment and putting more feet on the ground etc. So, if you just look at the volume growth at this point in time and



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talking about 8%-12% would it be fair to assume that in the absence of this distribution thrust, the volumes would have been even lower than what you will report or are reporting?

Sunil Duggal: I believe so because there has been the CSD drag etc which we manage to overcome and deliver a reasonable set of volume growth numbers and it has really been significantly driven by rural. Now, it is not entirely on account of the rural initiative because rural markets are growing ahead of urban and we would have taken advantage of that, but just to give you one sort of a headline number, the initial estimates of our rural growth in Q2 are around close to 20% which means urban growths are more like 10%, which gives a blend or around 15%. So, that is indicative of the success of the rural initiative. I think even more importantly the gross margin profile has moved up by approximately 400-450 basis points for rural portfolio. It is still lagging behind overall but only marginally so, earlier it was lagging significantly behind overall gross margin. So the gross margin delivery is very close to aggregate gross margin delivery for the India business.

Gagan Ahluwalia: Urban growth also includes CSD erosion, so actual urban growth is around 13% excluding CSD.

Sunil Duggal: Actually we haven't factored CSD into urban or rural. The CSD is going to urban.

Varun Lohchab from Religare Capital Markets.

Varun Lohchab: Sir, my first question was again on the volume growth, if you see 9% is against a very favorable base of last year, when you grew only 5% in this quarter, so if I look at the two quarters combined, then there is a significant slow down in growth vis-à-vis what we did in last couple of quarters. So is it just the festive pushback or is there some sort of a significant slow down that you are seeing in certain pockets and if that is the case which category is broadly at a category level not for your portfolio perspective are you seeing that?

Sunil Duggal: It is part festive pushback, part CSD which is a major generator of volume but having said that I am still pretty optimistic about driving good volume growth even the next two quarters where the base was no longer low. So I gave an indicative number of 8%-12% and that is something which we should be able to do even when the base is high like in the next two quarters.

Varun Lohchab: So that is assuming CSD obviously one underlying...

Sunil Duggal: I am pretty confident that CSD will no longer be the big drag it has been in the first two quarters. If my assumptions are wrong then obviously there would be lower in volume growth, but I am pretty certain and we know the way CSD is operating and we do believe that the downsizing they did for the business etc it now largely over they cannot downsize for ever, ultimately there is certain consumption which happens downstream. So the growth will revive.



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So, you have already seen the order book, does look fairly healthy, still early days but like I said we believe that the worst is over.

Varun Lohchab: And sir secondly on when I look at the segmental margins, CCD you have done very well. Segment results are up around 20% Y-o-Y, so the problem has been the juices or the foods part, where the EBIT has not grown at all Y-o-Y, so is it largely currency impact or significant A&P.

Sunil Duggal: No, entirely currency impact. We have taken up prices but they haven't been enough to mitigate the rupee weakening, basically that is the culprit. There is one more element which there is higher amount of countervailing duty imposed by the Indian government from Nepal imports which has also contributed, but the biggest culprit is currency. So you know, having said that you might say that your margin expansion, your EBITDA growth is pretty muted at 12.7%, overall But keep in mind that Q2, like somebody mentioned earlier that it was on a low volume base, but Q2 was on an extraordinarily high EBITDA base last year, 20.5% is the number which we saw for consolidated and 22.1% for domestic, these are the numbers which we have never seen ever in the history of this company. So, we really are delivering a domestic EBITDA of 21.3% which according to me is pretty good and 19.2% for consol which is again as per our action standards. Now if you take third quarter you will see EBITDA delivery last year of 16.7%. You might see a much better EBITDA delivery happening this quarter because of the lower base. So you should straight line this a little bit and not get taken away because obviously your 22% EBITDA delivery for domestic business is really not sustainable at this point in time at least.

Varun Lohchab: And also in terms of the input cost and looking at the way currency is at least stabilizing now, at the margin it seems that gross margin pressure should be less in second half vis-à-vis first half, will that be a fair statement?

Sunil Duggal: Not necessarily, rupee is still 54, I don't see much hope on that front, inflation is still at 9%-10%; there doesn't seem to be any major comfort coming from these two metrics, rupee and inflation. So I don't see COGS part really coming down, the material cost proving beneficial to us. So I will be happy to see EBITDAs at the current level which is 19 or little above 19 for the balance of the year which is like what we had indicated even earlier on, that if he have a full year EBITDA delivery of 19-19.5 we will be pretty satisfied because this is pretty close to our all time high which we saw in 10/11. But even this I am not taking for granted, it is not going to be easy to achieve this for the balance of the year.

Varun Lohchab: And sir thirdly in terms of shampoo category, how are you seeing the competitive intensity, you are back to good growth now, has the margins also improved in this category for you. Are you seeing some return of pricing?



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Sunil Duggal: No, there is no improvement, I mean, there is improvement in margins vis-à-vis last year, but they haven't gone back to 10/11 levels which was like I said extraordinarily high, almost unsustainable for a very competitive category but we are seeing gradual inching up of margins and our initiatives are so programmed that the margin delivery would continuously improve here. So I am pretty hopeful that we see better margins emerging but like I said they are still much better than what they were last year.

Varun Lohchab: And sir just lastly on the international growth what would be the constant currency growth?

Gagan Ahluwalia: It is around 16% excluding the acquisitions.

Shirish Pardeshi from Anand Rathi

Shirish Pardeshi: Just couple of questions. Broadly, there were market reports which are suggesting that there is a slowdown in rural. I do not want to rub more but just wanted to see if Tier-2 the growth momentum is still intact or is Tier-2 reflecting higher growth momentum?

Sunil Duggal: Having said that when you talk about these macro numbers like overall slowdown, we are still a pretty small fish in the pond. So even if there is some slowdown, we should not really let that hook us into thinking that our performance is going to be reflected in the slowdown. We can outperform; we can gain market share; we can do so many things, but to answer your questions, overall there seems to be some slowdown in Tier-3 and rural basically; Tier-2 and Tier-3 seems to be intact and urban seems to again slowing down a little bit, large urban Tier-1 and the metros, but again I would not use that as an excuse to reflect any slowdown on our business. I think there is enough headroom in most of our categories to grow even if there is a slowdown. So, we should aim at strong double digit growths happening in rural markets because we have put in a lot of investments and infrastructure and we have to get the full benefit out of it.

Shirish Pardeshi: My next question is on the international business, although you guys have done wonderful job and now the growth is back to 25. I just wanted to check this unrest in GCC and MENA region, is that over or this is the steady state growth or there is some more steam which is left and then coming two quarters, we can see that further growth?

Sunil Duggal: See, the unrest was last year in the so called YSL countries, Yemen, Syria and Libya. So Libya and Yemen are pretty much under control. We are getting good growth there. Syria there is no business happening and this is a 20 odd crores market which is highly profitable. I think the bigger slowdown has really happened in Egypt where we were growing business consistently at 20%-25% plus which has come down now to 15%-16%, still not bad, but lower than what we were doing earlier. So, GCC business continues to be under good momentum and so does Nigeria.



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Shirish Pardeshi: My last question is on the skin care portfolio, though it has a fantastic growth of 24.8%. Probably if you can share what is the volume and value in that particularly and what segment of skin care you are seeing the growth?

Gagan Ahluwalia: It is largely volume driven growth in skin care.

Sunil Duggal: I do not think there has been any significant price increases in skin care. You can take it down as 80% volume driven.

Shirish Pardeshi: And within that, growth is more led of in terms of the rural segment or in the urban segment?

Sunil Duggal: Both, but rural started performing of a very low base, so it is still not huge in the context of the skin care portfolio but the growth in rural are significantly ahead of Urban but since urban is so overwhelming here it has to be driven by urban growth but I think rural is not chipping in and will increasingly form an important part of the skin care portfolio.

Paresh Jain from Max Life.

Paresh Jain: Sir can you throw some light on other expenses which have increased something like 30% Y-o-Y?

Gagan Ahluwalia: Other expenditure basically, there are two elements, one is the investments in distribution side which we have made in India and this is mainly relating to Project Double and as we had indicated earlier, there will be investments about 20-25 crores in these initiatives on an annualized basis which is reflected in the increase in overheads here and also in the overseas businesses, they have seen increase in other expenditure on account of distribution expansion and infrastructure which we are building in Africa for Namaste business.

Paresh Jain: So this is likely to continue or is it likely to stabilize at this level?

Gagan Ahluwalia: I think as we move forward, the increase may not be as high. There could also be some phasing issues here. Some expenses could have bunched up in the second quarter.

Sunil Duggal: This will be more or less stabilizing because in the base the distribution has got impacted going forward. So, we will see more or less like-to-like going forward. We will not see distribution expenses growing here. Because the initiatives were really completed second quarter of last year and the full impact began in the third quarter. Again on like-to-like, you would not see the same increase third quarter onwards. Part of it would have been already factored in into last year's numbers.

Paresh Jain: And how do you see the A&P expense now going forward?



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Sunil Duggal: That would be higher in Q3 as compared to Q2, one is because of the festive season which will demand higher level of investment and typically Q3 advertising is the highest months all the four quarters. So, you will definitely see an increase of, let us say in domestic we did 10%, it will be higher than 10%.

Gagan Ahluwalia: Qualitative it will be around 11.9%.

Sunil Duggal: Qualitative it may not be much higher because overseas spend is still ahead of the curve. Domestic is going to be higher, so aggregate if you take consol, it will be probably be higher than 12% which you see, but not dramatically, but domestic is likely to be significantly higher.

Vivek Maheshwari from CLSA

Vivek Maheshwari: Your consolidated volume growth in this quarter is 10.5%, is that correct?

Sunil Duggal: Yes.

Vivek Maheshwari: Second on domestic business, your presentation says the growth is 15.5% whereas standalone if I look at your accounts, the growth is 18.5%. Does that mean that standalone will have an element of exports and therefore the growth is looking higher there?

Gagan Ahluwalia: Yes, there is commodity export business which was very high this quarter which added to the growth

Saibal Sengupta: That is right. Domestically the domestic FMCG business has contributed 15% plus and it is the Guar exports which has facilitated standalone growth of 18% plus..

Vivek Maheshwari: And your tax rate at consol level was around 18.5%. What will be full year; 1) why is it lower? 2) On a full year basis, what should the number be around?

Saibal Sengupta: It is lower mainly because of the reason that the international profits have been higher where the effective tax rate is much lower and there was a marginal deferred tax adjustment as well due to the tax computations. Going ahead, it may be marginally higher from this level but there will be no significant increase. It will be capped at around sub-20%.

Vivek Maheshwari: And somebody had asked you about other expenses. Similarly staff cost anything to read there 25% increase?

Sunil Duggal: Staff would be partly on account of sales and marketing personnel which are not captured under others. As we have explained this is the distribution. So, distribution includes the expansion of the feet on street as well and that is also partly captured in the staff costs as well.



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Vivek Maheshwari: And one last thing, your presentation also mentioned that Pudina Hara, Isabgol you have reclassified under digestive category from OTC, what would be the rationale for this. Will there be any advantage of this because of the realignment and all that?

Sunil Duggal: I think it puts more focus into our digestive category which was earlier Hajmola. In fact I never understood why we put it under OTC, it should always have been under digestives. It is a pure digestive product. If we have a digestive category, it is pointless not putting Pudina Hara and Isabgol under that.

Vivek Maheshwari: So is it just a classification change or something also changes on this account.

Sunil Duggal: Just ignore it. It is just a classification change.

Vaishali Jajoo from Aegon Religare

Vaishali Jajoo: Again one question on the advertising spends. If we see a quarter-on-quarter trend, sequential basis Q1 to Q2, there was substantial decline and as we go into the second half, I think it will be a marginal increase as you said.

Sunil Duggal: Marginal increase on a consol level, but fairly probably....

Vaishali Jajoo: On a domestic, I am talking on a consol basis. It will not go substantially higher as it was in the first quarter right. It was 15.5% around?

Sunil Duggal: It would not be 15.7%. I think that was extraordinarily high because we had cut back on some A&P spends earlier on but it will definitely be higher than this 11.9 which you saw.

Vaishali Jajoo: And other is on other expenditure side. Is there any variable component on that for staff costs and other expenditure because of the promotional thing which is going on for rural development?

Saibal Sengupta: Not really. It is because of the distribution expansion more or less you can assume 80-85% are fixed in nature.

Sunil Duggal: So the subsequent increase will be fairly marginal. The big ticket costs have been already booked.

Vaishali Jajoo: One more thing on the raw material side. Last time, when we spoke about on the spices and other raw materials which is not available as a trend; so last time you mentioned that there was a little bit of concern on the monsoon side but right now monsoon has panned out quite well. How do you see the inflationary pressure on the spices and other Agri commodities which goes into your input costs?



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Sunil Duggal: See around half of our spices are imported from East Asia, from various parts of the world actually and that really is the area of concern, even though the domestic prices do seem to be fairly benign but the overseas prices are high. So, the overall spice table is still as high as what we saw last year if not higher

Vaishali Jajoo: So the trend continues to be inflationary and there is no softness in those types?

Sunil Duggal: I do not think we should see big inflation over current base but when we see any significant level of deflation because that is what we should expect given the very high table which exists that may or may not happen, but I think they are already at lifetime highs as many of these commodities, I do not see them further strengthening.

Javshree D from Pari Washington

Aruna: This is Aruna here. It would be helpful if you can just comment on your Amla Hair Oil performance that will be helpful, Sunil.

Sunil Duggal: Again, we do not disclose individual brand performance but Amla has grown strongly in double digits largely volume driven and the performance has been pretty good. If you take overall perfumed hair oil growth which is 16.4%, 80% or 90% is Amla.

Aruna: So perfumed hair oil includes Amla?

Sunil Duggal: Perfumed includes Amla. It is in fact 90% Amla and there are a couple of smaller hair oils. So it is indicative of how Amla has grown.

Aruna: My next question is what is the planned CAPEX for this year?

Saibal Sengupta: It is around 175 crores.

Aruna: For this year?

Saibal Sengupta: 175 to 200 crores. The projects are in progress. So it will be incurred more towards the second half.

Aruna: That is for FY13?

Sunil Duggal: FY13, 175 crore is what we anticipate, could be a little bit of overrun but more or less it will be in that level.



Aashish Uppanlawar from Spark Capital

Aashish Uppanlawar: Sir just wanted to understand on the profitability of the international business both on the acquisitions as well as the organics that we have?

Gagan Ahluwalia: So overall overseas business basically profitability has expanded very well in the organic business. The gross margins have shown an improvement of about 400 bps while ad-pro remained high but there was a good expansion in the EBIDTA margin. Margins were around 22% for the overseas business excluding acquisition.

Aashish Uppanlawar: So, is this gross margin expansion because of the price increase or softening of raw material something?

Sunil Duggal: It is basically softening of raw material and there has been very little or no price increase. All the growth you are seeing in the overseas business has been volume driven. The material cost environment has been very favorable both of the overseas market.

Aashish Uppanlawar: So there is some deflation that is expected to continue basically in these geographies, is it?

Sunil Duggal: Not necessarily. I think we are sitting on a pretty low table. In fact, we are encouraging our teams to now buy at current prices to cover future requirements at current prices. There may be a small downsize in materials overseas, but not significant.

Aashish Uppanlawar: And what about the acquisitions Hobi and Namaste. Anything on that?

Sunil Duggal: Those obviously because of Namaste, the margin profile has eroded considerably, the Hobi piece is doing well, no issues there but if you take overall overseas EBITDA margin has shrunk 150 basis points.

Aashish Uppanlawar: What would be the numbers to share on Hobi and Namaste?

Sunil Duggal: We do not share individual businesses numbers but Hobi recorded good growth whereas the sales of Namaste are declining, in dollar terms. In rupees, of course they all showed increase.

Aashish Uppanlawar: Sir on the rural side, you said you witnessed some slowdown in the market basically, but is it any cause to worry for the FMCG market as a whole, not per se for Dabur probably?

Sunil Duggal: It is hard to speak for the market, because we really focus upon our own business but yes if there is slowdown in rural which is instrumental in driving growth, it will curtail consumption, but having said that I personally do not believe that it will affect staples consumption very much. Certainly consumption of discretionary would get impacted. Staples consumption is here to stay that is what my belief is.



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- Aashish Upanlawar:** And this Project Double that we were running how much is it complete now?
- Gagan Ahluwalia:** 90% complete. We expect the whole thing to be implemented by December. Basically, the people who were expected to be recruited have been put in place.
- Sunil Duggal:** We are at 91% manning levels of target. So it is complete to a significant extent, of course it will never end and we will keep pushing the last mile forward but the big bang expansions have already happened.
- Aashish Upanlawar:** I was just asking the good numbers that we have been seeing on the volume growth because of this expansion as well. Till how long do you think that can significantly help the volume growth on the rural side?
- Sunil Duggal:** For a long period of time because keep in mind this is not a distribution expansion exercise. It is an improvement in the overall quality of distribution which is a prime focus. We want to have a larger assortment of products and a better margin profile emanating out of rural. One year ago, we estimated that our gross margins out of rural were 41%-42% as against business average of 47%-48%. We believe that we have pushed them up to around 45% and the task obviously is to put them at category center, so that the rural growth do not sort of drag overall margin profile. If that has achieved with some expansion in overall distribution reach then we really have no reason to complain because keep in mind that our products are today available in 5.5 million outlets, that is a huge number and it is not really the fact that our products are not available but it is really what products are not available and plenty of them are not.
- Aashish Upanlawar:** Sir but what products are being actively pushed now and what can be the continuing push that we can expect? I understand that few of the products which rather had pull factors were bought earlier and now some laggard products might pushed there which are lagging behind compared to the frontline.
- Sunil Duggal:** See, in the last 4-5 years we had expanded our portfolio so substantially that you cannot recognize it from what it was 5 years ago with the acquisitions etc. and these products are pretty popular, accessible, and affordable and people are aware of these products. We just have to make them available.
- Moderator:** Thank you. The next question is from Harit Kapoor from IDFC. Please go ahead.
- Nikhil Vora:** Just couple of things. Just as the way the environment is right now, do you think it is conducive enough to right now push more on volumes or is there any flexibility on increasing prices or so? What is the draw back that you would receive for doing either of them?
- Sunil Duggal:** I would peg a near-term sustainable volume price ratio as two-third, one-third that seems to be really what the market can sustain and which is supportive of your margins. So, that is really



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how we will seek to drive growth at least in the next few quarters. After that, it all depends upon the whole inflation scenario. If it cools off considerably, then growth will remain almost entirely volume driven because the headroom for price increases will not be there but if inflation becomes even more severe than what it is, then you may have a 50-50 ratio or perhaps even a one-third, two-third ratio like you saw last year.

Nikhil Vora: Right now, you do not sense any urgency or the need to change momentum of the business at all?

Sunil Duggal: No, I think the driving at around this trajectory of very calibrated price increases wherever opportunity presents itself and a strong emphasis on volume growth driven through rural initiatives is really the rationale behind the domestic business.

Nikhil Vora: Second was, is this a good environment right now to really look at NPDs or you think that would take a back seat in general for most.....

Sunil Duggal: Overall environment this year, I am talking about domestic business here, I am finding it far more supportive and benign to us at least than one year ago. The bad things about last year hyperinflation, disruptive competition, etc., and not so great consumer demand seems to be behind us. We are looking at brighter results coming out of the domestic business.

Nikhil Vora: And last is generally in generic again, your appetite for acquisitions, is it now slightly more domestic centric against international?

Sunil Duggal: Let's put it this way. There is still lot of work to be done in consolidating at least the two overseas businesses, so I think the domestic ones have been fully assimilated and are firing but I would be little bit circumspect in driving more acquisitive growth and really focus upon driving the synergies from the current businesses and really scaling them up before we venture into anything completely new. So, we have been far more picky in terms of our evaluation process, it is not to say that we shut our eyes to any deals at all, but we certainly are far more picky than what perhaps we were couple of years ago.

Nikhil Vora: Just lastly Sunil, just on brand specific Real; do you think there is lot more that we could have juiced out from Real than what we have done till date in terms of either the brand itself or moving in two different categories and so on?

Sunil Duggal: I am very happy with the way Real has performed, not just in terms of the volume trajectory as we all have seen very strong, but also in terms of the margin delivery. This is a very hard category to extract margins from and out of the 15 years of history, we led for 10 years and now we are making fairly decent 13%-15% EBITDA margins from this business. I do not think anybody else is doing this kind of delivery. So I think it is really a feather in our cap that we have been able to manage a very difficult category and drive a profitable business out of it.



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Prakash Kapadia from iAlpha Enterprises.

Prakash Kapadia: Sir just some sense on newer products, we have read about products like coconut water, fruit chips etc. and something on home care where we were looking at car fresheners, do we see them being launched some time next year?

Sunil Duggal: No, they have already been launched. In fact coconut water is in the market. It has been soft launched in Punjab. We have been little circumspect in doing national launch because we want to test product stability in actual consumption situation, etc., but if you go to Punjab, you will see the product. It is a very attractive pack, price unfortunately very high because of the high input cost Rs. 30 for 200 ml, but we think there is a lot of traction which we can drive out of this.

Prakash Kapadia: And is it under the Real brand sir or there is some.

Sunil Duggal: It is under Activ. In addition, we have launched range of gel air fresheners. So a lot of work is actually happening which we had promised, I mean some initiatives always sort of lag our designated timelines, but most of them do see the light of the day.

Prakash Kapadia: And sir given our culinary performance would we go slow say on newer initiatives like Bhuna Masala or Pizza Sauce, the gravy stuff.

Sunil Duggal: This is pretty muted initiative there. We have been not usually satisfied with culinary business not from the point of view of growth but from the point of view of consistency of margin delivery. It is still a semi-commoditized business. We are not putting huge emphasis here as of now but we are not getting rid of it either we are still seeing it as a business of the future keeping a foot in the door and who knows tomorrow we may find something interesting happening here.

Moderator: Thank you. The next question is from Jayshree D from Pari Washington. Please go ahead.

Aruna: Just one bookkeeping question Sunil. What is the total debt on books?

Gagan Ahluwalia: Debt on the books as on date is around 932 crores.

Aruna: And how does it split between foreign currency and domestic?

Gagan Ahluwalia: About 75% of that is foreign currency.

Ashok Jain: About 700-750 crores is in the foreign currency in the international business.

Aruna: Cash and cash provision?



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Gagan Ahluwalia: 965 crores is cash in the balance sheet, cash and cash equivalent.

Richard Liu from JM Financial

Richard Liu: I just wanted to check one thing, all these initiatives that we are planning and coupled with all the launches, re-launches, etc. where does this leave our earlier core offering of herbal and Ayurvedic proposition? Do you think that still has relevance and if I can just ask what percentage of your portfolio today in terms of the domestic portfolio, would have that stamp on it and how was it about 3-5 years back?

Sunil Duggal: If you take the umbrella proposition of herbal and natural, I would say that 90% of our domestic business is under that umbrella and I am including the beverage piece here. The only thing which is not here is really the home care business. So even our beverages are very squarely on the nutrition and health platforms so I would include them under the overall ambit of Ayurvedic and natural. Of course, the Ayurvedic component is smaller than the overall herbal component but even that is very significant in size and I think what we have learned over the years is that, we should certainly not deviate from this platform we should actually strengthen it because whenever we have deviated from this platform, in an effort to chase much higher growth, actually we have not really performed well and we have come back to our roots so as to speak and reinforce the herbal and Ayurvedic platforms. So this is the herbal and Ayurvedic company. There could be some businesses which largely would come through acquisitions like Balsara Home Care which would not be on this platform but the business would almost entirely be on herbal and natural platform and I do not see that changing at least in the medium to long-term.

Richard Liu: And do you see consumers being able to actually recognize that as a differentiated proposition because if one would probably look at pricing just very plainly, definitely that is not probably accruing any advantage to you at this point in time, but that is obviously a very unique proposition and how do you over a medium term see this playing out to your advantage?

Sunil Duggal: I think wherever we drill home the herbal proposition very hard, the Ayurvedic resonance is very high, I mean take that example as Red Toothpaste which is at a premium to the mainstream toothpaste and is definitely much faster growing than perhaps any other major brand in the market, very strongly herbs and Ayurvedic, take Chyawanprash fastest growing Ayurvedic tonic in the market. Even take say products like Amla Hair Oil which are able to sustain massive premium and still deliver good volumes. So, I think this is where we are and where we should remain. Just to have one learning we to try to mainstream our shampoos two to three years ago because we were looking at huge growth happening and that did not really work because consumers did not see adequate amount of differentiation. So we pulled back and we have repositioned it once again very strongly on the herbal platform and we are seeing growth coming back.



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Richard Liu: And if you can just share with us some insights as to what you are perhaps doing to really elongate the life of a may be a category like Chyawanprash. I know you have been trying a lot of the mango, chocolate variants, etc., how do you see the relevance of that playing out versus today's generation?

Sunil Duggal: I think we appeal to the consumer's logic that this is a product which is not something with the malt with a bit of cocoa added in it, but it costs 2000 years of heritage behind it. A very complex administration of 57 herbs, a proven history of delivering benefits such as building immunity, etc., and then we are leaving it to the consumer to judge whether he sees value here and more often than not succeed in delivering their proposition. So I think the future for Chyawanprash is extremely bright and as and when consumer becomes more educated and more discerning in their choices of products, I think products like Chyawanprash which has a whole value proposition, which is so strong would emerge with immense force. So earlier on there was a little bit of concern that this product may seem archaic and old fashioned but I think the Indian youth is far more sophisticated in the world and does not really go after western facts blindly. They are pretty rooted in Indian culture and traditions and Ayurveda is part of that. You see that explosion of Ayurveda, yoga, meditation, etc., it is all very Indian.

Richard Liu: And if you were to do a dipstick survey, do you see as many youths purchasing the product as you see the old generation?

Sunil Duggal: I think youth is not a problem. It is really the kids who more find taste as a barrier and I think we really have to appeal to the mothers to overcome this taste barrier and as and when they grow older, it is an acquired taste like milk products. They become habituated to that taste. So, really the task is to drill down the immunity platform so heavily, that the taste barrier is overcome and people start buying and consuming the product. So, it is something which I have immense faith in and I believe that strong growth will emerge for this product for a long time to come.

Richard Liu: That is useful. Thanks a ton and if I can just push in one maintenance question here. What was the growth in currency growth in international business?

Gagan Ahluwalia: Excluding the acquisition, it was 16% as I said earlier.

Richard Liu: And how much is it excluding the acquisition, the erstwhile your organic international business?

Gagan Ahluwalia: 16%.

Gagan Ahluwalia: Thank you Marina. We thank you for participating in this conference call. For any further queries, you may contact us, our archived webcast and transcript will be available on our website. Thank you once again ladies and gentlemen and have a very nice evening.