



“Dabur India Limited Q1 FY 2013 Results Conference
Call”

July 23, 2012

MR. SUNIL DUGGAL, CEO
MR. S. RAGHUNATHAN, CFO
MR. ASHOK JAIN, SR. GENERAL MANAGER-FINANCE & CO. SECRETARY
MR. SAIBAL SENGUPTA, SR. GENERAL MANAGER, FINANCE
MRS. GAGAN AHLUWALIA, GENERAL MANAGER-CORPORATE AFFAIRS



*Dabur India Limited
July 23, 2012*

Gagan Ahluwalia

Good afternoon, ladies and gentlemen. On behalf of the management of Dabur India limited, I welcome you all to the conference call pertaining to the results for the quarter ended 30th June, 2012. Present here with me are Mr. Sunil Duggal, Chief Executive Officer; Mr. S Raghunathan, CFO; Mr. Ashok Jain, Senior General Manager, Finance and Company Secretary; Mr. Saibal Sengupta, Senior General Manager, Finance besides me. We will start the conference with a brief presentation by Mr. Sunil Duggal followed by a Q&A session. I now hand over the call to Mr. Duggal.

Sunil Duggal

Good afternoon ladies and gentlemen. I welcome you to the Dabur India conference call pertaining to the results for the quarter ended June 30th, 2012. During the quarter Dabur's consolidated sales increased by 21.4% to Rs. 1462 crores. EBITDA increased by 20.5% and profit before extraordinary items by 20.9%. Domestic consumer business reported growth of 16% driven by volume growth of 11.6%. Most categories performed well with foods, health supplements and shampoos growing ahead of others.

Health supplements recorded a growth of 18% during the quarter with glucose and honey performing well. Glucose grew in double digits with gains in market shares. Honey reported robust growth across regions and channels. Chyawanprash sales are moderate during this quarter being off season. Hair care portfolio grew by 10.4% with shampoos growing at 23%. Perfumed hair oil posted growth of 14%. Excluding CSD channel which has been going through pipeline rationalizations, the portfolio saw healthy growth of around 17%. Growth in coconut oil based brands was moderate on account of lower coconut oil prices and increase in price differential between value added and plain coconut oils.

Oral care registered a growth of 8.1% during the quarter. Premium offerings, that is Red toothpaste and Meswak reported strong double-digit growth. However, sales of the economy toothpaste Babool were impacted by price rationalization initiatives which were essential to enhance the margins. Red toothpowder had an exceptionally strong quarter on the back of media activity and focused marketing efforts.

Skin-care category grew by 13.3% during the quarter. The core skin care portfolio under Fem including bleaches and hair removal creams reported 13.4% growth. Gulabari also grew well on the back of new marketing initiatives.

Digestives grew by 10% during the quarter with strong growth in Pudín Hara backed by media and packaging initiatives.

Home care continued on the growth trajectory growing by 14.4% during the quarter with Odomos and Sanifresh delivering good performance. Sanifresh witnessed a successful restage during the quarter.



*Dabur India Limited
July 23, 2012*

The OTC & Ethicals portfolio registered growth of 12.7%. OTC performed well growing by 13.5% and the Ethicals portfolio grew by 11.3%.

Foods maintained strong momentum growing by 34.5%. Real fruit juices performed exceedingly well driven by strong market growth and market share gains. During the quarter new variants and flavors were launched in our beverage portfolio. Media activities continued for Real and Activ brands leading to a greater consumer interest and awareness in the juices portfolio.

Dabur International business witnessed healthy sales increase of 24%. Nigeria, Egypt, GCC and Nepal reported a strong growth with categories such as hair creams, shampoos and toothpaste doing well. The business continued to invest strongly behind A&P and new product activity which included new products such as hair serums and professional hair care products under the Vatika brand. The acquired entities that is Namaste LLC and Hobi Kozmetik have been integrated completely and their portfolio is being extended across geographies. These are now an integral part of Dabur International.

On the profitability side, Dabur saw a growth of 20.5% in EBITDA. Material costs witnessed some easing during the quarter due to which the gross margins saw some improvement. We invested strongly behind our brands with our ad-pro to sales ratio increasing to 15.7% versus 12.6% in Q1 2011-2012. Profit after tax before extraordinary items reported growth of 20.9%. During the quarter the non-core business of Weikfield International was divested due to which there was an extraordinary charge of Rs. 4.9 crores. PAT growth after the extraordinary charge was 17%.

With the monsoon playing truant, the country may face deficits in crop output and consequently inflation in agri based inputs may put pressure on disposable incomes. In this situation FMCG sector may not remain completely insulated and demand may be impacted in the future. Our rural distribution enhancement initiative is on track and has been rolled out in 10 states. We expect this initiative to enhance our product width and depth in the hinterland.

Going ahead we will continue to drive revenue growth on the back of distribution footprint enhancement initiatives, focused media and promotional activities, new product initiatives and market expansion activities. With this I now open the Q&A and invite your questions.

Abneesh Roy fro Edelweiss

Abneesh Roy

Congratulations on a good set of numbers. My first question is on the oral care business 8.1% growth. Could you give us the growth of Meswak and Dabur Red because powder would have declined so what is the growth rate of these two businesses?



*Dabur India Limited
July 23, 2012*

Sunil Duggal

We do not give exact numbers for brands but both Red toothpaste and Meswak saw strong double digit growths and in fact this quarter even toothpowder growth was pretty good. So we got double digit growth in toothpowders too. The problem really was in Babool where we have taken our prices up quite dramatically because the margins were really not appealing for this fairly large brand and it was dragging down the overall profile of our oral care portfolio. Consequently there was an impact in terms of the volume growth of Babool which dragged down the overall growths to under 10%. So I think now with a lot of rationalization being complete we should see some growth coming back in Babool. And if we are able to continue to generate good growth in Meswak and Red then we should definitely see a better performance in the 2nd Quarter.

Abneesh Roy

Any insights when price hike happens in these high loyalty products, for example, Babool. I sense loyalty would be fairly high, where does the customer shift and what was the quantum of pricing?

Sunil Duggal

Actually the loyalty in brands like Babool is comparatively low because these are brands driven more in terms of economy rather than huge brand preference. Those come under the premium offerings like Red which are very sticky as far as consumer franchise goes. So here if you take up prices, you are almost inevitably going to have some impact on volumes and we were prepared for it but there was really not much point in driving high growths on the back of very low margins for a comparatively large brand like Babool. So we believe that once the pain is done and once the pricing has been taken and digested, we can get back our volumes as we did with shampoos, the revival can happen. There is a bit of a lag, so I think we will be able to do it. We are also looking at other initiatives under Babool which will again enhance the overall margin profile. So there are plans in the offering and I think the whole reengineering of Babool is on its way and should be complete in the next couple of quarters.

Abneesh Roy

My next question is on some of the categories where market share expansion has happened, glucose, Fem and juices, so if you could tell us the quantum of the market share expansion and Fem I was a bit surprised because 13.4% growth but market share gains, so has the category growth slowed down in these categories.

Sunil Duggal

You cannot extrapolate out of one quarter of Nielsen numbers so the category growth obviously has been modest because we have got growth on 13% volumes but it is not unexpected given the economic situation that the growth would slow down in categories such as Fem which are little bit more discretionary as compared to say toothpaste or hair oils or whatever. But the Fem franchise I think it is really our task to grow it much ahead of what the category growth is. We have only in the last quarter begun to invest heavily behind Fem and I think this investment will yield results in the subsequent quarters. I am looking forward to mid-teens kind of growth in the Fem portfolio which I think is well within our reach.



*Dabur India Limited
July 23, 2012*

Abneesh Roy Lastly my question is on hair oils, growth has slowed down for you specially in Vatika, etc., so when do we see growth coming back in this and price differential against coconut might increase because coconut players might take some price cut, so what is the game plan for Vatika Hair Oil?

Sunil Duggal There are structural issues here partly. One is that the perfumed hair oils are growing far ahead of coconut oils as a category, all segments of perfumed hair oils are growing if you take the syndicated numbers. So there is a structural shift in terms of consumer preference from coconut to perfumed. Secondly, of course, the Vatika sales always is impacted in a low coconut oil price environment because we do not move Vatika prices up and down in sync with the oil table. So when the oil prices drop dramatically the margin enhancement in Vatika is substantial but so is the impact on the volume offtake. This is something which we have seen again and again, so Vatika had a great year last year on the back of high coconut oil prices and this year it is going to be much less attractive in terms of volume growth. But having said that the margins last year were severely impacted and this year they are looking very attractive. So it is a trade off which we have to do and we have chosen many years ago not to play the price game in Vatika but to stay consistent in the pricing and take the pains and the gains as they come.

Jamshed Dadabhoy from Citigroup

Jamshed Dadabhoy Just a question on your value added hair oils portfolio, could you give us some sense in terms of how your market share is tracking out there?

Sunil Duggal If you take the overall hair oils Amla has actually recorded reasonable gains in market share. Part of the reason is structural that perfumed hair oils have grown much ahead of coconut oil, so the growth there is reasonably significant. Again we do not disclose exactly the numbers because there are confidentiality issues but there has been a reasonable increase in market share here.

Gagan Ahluwalia If you see the perfumed hair oil category then we have seen some gains coming in.

Sunil Duggal If you see overall, the gains will probably be even more.

Gagan Ahluwalia Stable.

Jamshed Dadabhoy So is it fair to say that your hair oils portfolio the margins are generally improving because of structural shifts rather than just movements in input costs because the value added segment would be growing faster.



*Dabur India Limited
July 23, 2012*

Sunil Duggal

We are obviously taking advantage of the structural shift so if you track Amla growth over the years, it has been fairly consistent despite the fact we have taken up very massive price increases here and it has not really impacted growth to any significant extent. Now let us just see how the price movement goes further whether there will be a shift back to coconut on the back of low coconut oil prices or whether it is something more structural that there is an overall shift towards perfumed oils. I suspect the shift is structural. My hypothesis is that the consumer is increasingly moving to lighter oils and perfumed oils by definition are lighter than coconut oils. Coconut oils are 100% edible oils. Perfumed oils range between 60% to 20% vegetable oil, sometimes in some cases it is as low as 10%. So they are lighter and I think due to both urbanization as well as the overall grooming regime does indicate a shift towards lighter oils.

Abneesh Roy

Second question on the volume side you had indicated in a media interview a few weeks ago that you all would be pretty happy with 10% or double digit sort of volume growth. For the year now, this quarter you have achieved about 12% that is obviously on a low base. Do you see any signs that might dislocate this volume growth?

Sunil Duggal

Yes, there is always a possibility that a bad monsoon and consequent problems in the rural economy would make the growth slower than this. But I think there is some momentum in the business here. So if you can generate say double digit growth in the first two quarters, then even if we have a lower growth in the third and the fourth we would average out to perhaps in the region of 10 plus which is not a bad place to be in considering the problems with the economy as a whole. So I think I would still stick to a double digit growth estimate because we do have some momentum as the year is beginning.

Jamshed Dadabhoy

Do you have any visible quantifiable tailwinds on some of the small brands due to the distribution initiatives?

Sunil Duggal

Yes, I think the tailwinds are there in the lesser known brands as far as the rural consumer is concerned. Things like beverages or skin care particularly Fem, etc., so we should be able to take advantage of it. But having said that by definition many of these brands would also be little bit discretionary. If there is a substantial drying up of rural income then those tailwinds may also evaporate. So there is a little bit of risk there. Having said that we are committed to building infrastructure in rural and that will facilitate growth here but those never have been taken for granted. I think there is an overall economic context on which you have to base this growth on.

Suruchi Jain from Morningstar

Suruchi Jain

Firstly, I wanted to ask you on the international business and I will be asking more strategic questions. I wanted to know you mentioned that in Africa you are looking to start



*Dabur India Limited
July 23, 2012*

manufacturing locally. Can you tell us what would actually make you take that decision and what is the cost benefit around that?

Sunil Duggal

Obviously there is a strong economic rationale for manufacturing in Africa, the value chain does improve substantially. There is also a secondary issue in terms of better management of the supply chain and all our businesses overseas are driven entirely by local supply chains. We do not view Namaste as being an exception to this rule. It might take a little bit longer than what we would have normally expected because we have to create green field activities in South and East Africa. So there obviously is going to be a little bit of lag there but we are committed to localizing the supply chain and thereby enhancing the value chain and there would be a considerable amount of benefit here because the duty profiles in most of Africa is pretty severe and you save all of that as you localize. But there are other issues which impede localization in terms of availability of raw materials, etc., so you got to proceed one step at a time.

Suruchi Jain

So in terms of cost benefit analysis it is a clear win?

Sunil Duggal

It is a clear win but sometimes it may be more optimal to do outsourcing through third parties rather than to set up green field, high CAPEX manufacturing units because the pay back for those maybe very long term. So we are exploring both options. I think in both North and West Africa where we have existing infrastructure it is quite a no-brainer that we produce some of these products within those facilities and we are really seeing the whole cost benefit analysis of doing own unit versus outsourced, make or buy decision for South and East Africa and we will come to a conclusion in the next few months.

Suruchi Jain

On Dabur Uveda I wanted to ask what exactly was the thought process behind that, what is the plan because I do not see it supported as much by advertising and promotion spend.

Sunil Duggal

All the support is on ground, there is no on air support as of now. We believe that it is a great thought, it is a great idea, it is something pretty unique, it is the only way we can track mainstream skin care through something which is as differentiated as Uveda. At the same time these are hugely expensive initiatives which today's economic environment cannot support through, we cannot invest very substantial amount of ad-pros in doing this franchise. So what we have decided is to build it on ground to a certain critical mass which we believe will happen by sometime next financial year and then take it mass and then the risk involved in getting this portfolio through mass market channels becomes much lesser rather than if you do it at this point of time. So it is very much alive, it is very much on our map and we do see a lot of promise for it which will obviously take time, there is going to be a long gestation period here.

Suruchi Jain

When you say 'build on the ground' do you mean more through modern trade?



*Dabur India Limited
July 23, 2012*

- Sunil Duggal** No, it is more through direct consumer contact through these activation agents on the ground, etc.
- Suruchi Jain** Then you have mentioned on your rural reach that it is done really well.
- Sunil Duggal** Rural roll out is now reasonably complete. By end of 2nd Quarter it should be entirely complete and we believe that is going to be instrumental in driving growth over a long period of time.
- Suruchi Jain** In terms of additional overheads would you be able to give us a sense of what this would mean, additional drag on overheads?
- Sunil Duggal** Very roughly it is an estimate of 15 to 20 crores annual expense on this account
- Suruchi Jain** Okay that's about it.
- Sunil Duggal** Yes, that's the ballpark kind of figure.
- Suruchi Jain** With the full integration of the international revenues, has it gone up further from 30% of revenues?
- Sunil Duggal** No, I mean, integration basically means capturing of synergies that means we divide it by geographies rather than portfolio and we optimize the whole supply chain through capturing the synergies and that is something which we have done in all the companies which we acquired. Overseas, the lag is a little bit more than for acquiring the India business. So now like we have no visibility about Fem and Balsara numbers in a separate sense, same scenario is now happening with the acquired entities overseas. So we intend to have a seamless supply chain across all our businesses whether it is Namaste or Dabur or Hobi and optimize the value accordingly.

Nillai Shah from Morgan Stanley

- Nillai Shah** International business your ad spends have gone up quite dramatically this quarter yet the revenue growth is fairly benign about 12%,-13% in terms of same currency. What is the reason for this massive increase? Is it a one-off because it's the first quarter and you like to spend your ad spend in the first quarter?
- Sunil Duggal** I think part of it is one off but it is not entirely one off, part of it is driven by some fairly benign margin profiles which enabled us to spend much more. Also I think we did lot of up front expenditure in terms of modern trade in the Middle East and on a complete revamp of our branding architecture in the US, lot of these are one off expenses and we don't amortize advertising as you know. So all the listing fee etc have been charged off in the 1st Quarter for



*Dabur India Limited
July 23, 2012*

the Middle East and there is a massive architectural change in the Namaste portfolio in the US and subsequently in Africa which also entails a significant amount of upfront cost. So I don't think these kind of ratios will remain, I think, they will definitely cool off in the subsequent quarters. But it will remain high because we are committed to investing large sums of money in our brand both in India and overseas.

Nillai Shah The growth profile 12% on same currency, constant currency basis, would that be a reasonable estimate to take away forward?

Sunil Duggal In constant currency definitely it should pick up in the subsequent quarters. How much, it's anybody's guess because the environment in different countries is very differently governed but we would look at higher constant currency growths for our international businesses in the subsequent quarters.

Nillai Shah And domestic FMCG business what is the volume growth that you are reporting?

Sunil Duggal It is 11.6 volume growth.

Nillai Shah Is there no pricing element in the domestic business?

Sunil Duggal No there is a pricing element because if the domestic consumer is growing at around 16.5 there is a 4.5% to 5% pricing component here which is largely carried forward from last year out of which around 1% would be this year's price increases.

Nillai Shah The standalone domestic number that is about 12.5%-13%?

Sunil Duggal The standalone domestic number which I have is a consumer number or Dabur India legal entity. The Dabur India consumer growth is 16.4%.

Nillai Shah And the interest expense, how come that has picked so much?

Sunil Duggal Largely on account of debt, that would be on a consolidated basis. There would be a significant increase in debt and there is FOREX loss element of about 5 crores which is a mark-to-market loss on account of rupee depreciation.

S. Raghunathan We have to mark-to-market all our creditors which are imports creditors for our juices etc. So there is a mark-to-market loss of around 4.5 crores. There was 10% depreciation in Rupee compared to March ending so there has been about 5 crores of mark-to market loss which is captured under the interest line. It is not a cash loss and it will unwind going ahead.

Sunil Duggal Unwind or accelerate as the case may be depending upon the currency.



*Dabur India Limited
July 23, 2012*

Vivek from CLSA.

Vivek First question is on the CSD, you mentioned a bit about CSD that was related to oil or the overall business because I heard something where you said that ex-CSD the growth was actually 17%?

Sunil Duggal CSD is a bit of a problem and not just for us but for the entire consumer sector. There is a sharp decline in CSD sales on a YoY basis because of rationalization of the supply chain of CSD and other issues. In the 1st Quarter the maximum impact was on hair oil because that's a big quarter for CSD sales. So this has dragged down growth not just of hair oils, perhaps mostly of hair oils, but dragged down overall growth for our consumer business in a fairly significant fashion. Hopefully CSD will regain momentum in the quarters to come but I think, there is going to be another quarter at least of pain from the CSD front which is going to impact. We hope things will correct itself before the Chyawanprash season because that is the big number which we generate from CSD but this is something which is not of our doing, it is structural and as I said it will impact practically every consumer company in India today.

Vivek And which all categories other than hair oil it could have been impacted?

Sunil Duggal Air fresheners I think was one impacted, little bit on food not too much there, oral care a little bit, largely HPC categories this quarter and the big things here are Amla Hair Oil and Chyawanprash. So, Amla did have a fairly major hit this month this quarter in CSD and the Chyawanprash is 3rd Quarter phenomena so hopefully by that time things will improve and then there was bits and pieces largely air fresheners, Oral care somewhat got impacted.

Vivek What would be the CSD as a proportion of your domestic revenues?

Sunil Duggal Domestic revenues 6%.

Vivek It is around 6% and would you be able to quantify how much would be the decline on a y-o-y basis in this portfolio?

Sunil Duggal There has been a significant decline y-o-y in CSD in the 1st Quarter.

Vivek One very basic question, suppose if the off takes in CSD are lower, does that mean that the consumer does not buy it at all or they get into general trade and buy with a lag irrespective of CSD ?

Sunil Duggal I think you are absolutely right and that's what our internal analysis is that with a lag the civilian market should take up the slack which exists in CSD. But there is some lost element here because if CSD down stocks then there is an inventory issue which will be reflected in our



*Dabur India Limited
July 23, 2012*

primary numbers for CSD. But if CSD starts buying less and reduces their footprint then I do believe that most of the lost sales should be made up by the civilian market if not all and since we supply at a much lower cost to CSD and a much lower margin to CSD there actually will be some improvement in terms of overall gross margins realization but it will take some time so I think there will be some short term pain here.

Vivek Second, on the demand environment, I understand it is difficult to forecast how it is going to be but between April and June, has there been any change in trend so far as much as your numbers suggest?

Sunil Duggal Not discernibly there is a lot of talk happening in terms of rural slowdown and some Nielsen numbers do indicate the slowdown happening. We have not seen any slowdown as of now.

Vivek Is it that most managements right now are cautious just because of the news flow rather than anything wrong with the consumer sector itself, is that a fair assumption?

Sunil Duggal Most managers are concerned about how the rural economy is going to play out with the monsoon situation and other larger economic situation. So nobody is willing to stick his neck out and say that I'm going to grow at a breakneck space in rural India for that matter in urban India also, so there is a fair amount of caution here and I think, that is because the monsoon situation is looking increasingly bad with every passing day.

Vivek Is it possible to get the numbers for Namaste and Hobi?

Sunil Duggal We don't disclose company numbers now because the businesses are fully integrated. You have to see it in the larger context of International business, of Dabur International numbers.

Vivek My point was merely from the amount of investments that we have made and how the progress has been mainly from that perspective?

Sunil Duggal We are satisfied with the progress, this is a long-term investment, it is really to get into a very large fast-growing category which we were not represented in and which is very relevant for Africa in particular, so we are pretty happy with what we have done and we are very hopeful about the prospects. But like I said the true value capture in Namaste will happen when we localize the supply chain. Till we do that the growth is going to be not that attractive because 70% of revenues still comes from the US market which is slow growth and we have to build the Africa piece very quickly to really get the full benefits of it. So that's what we are engaged in doing.

Vivek How are you seeing the shampoo market now, I mean, obviously the growth has come back again but on the pricing front are you seeing some softening of stance?



*Dabur India Limited
July 23, 2012*

- Sunil Duggal** No softening, there is some little bit of hardening of price in fact in shampoo.
- Vivek** I was saying softening of stance by P&G or some of the other players?
- Sunil Duggal** Some brands have taken prices back up, some brands remain at Rs. 1 price point. It is a mix kind of bag but I think overall the kind of irrational pricing and competitive activity which we saw last year and the year before last is no longer there, it is more rational on the ground and I think we are going to have a pretty good year in shampoos and the rural part would further play a very significant role here. There was some margin erosion here last year and that was avoidable but we are inching back to far better margin profile than what we had last year in shampoo so I think it is a good story vis-à-vis what we did last year both in terms of revenues and in terms of margins.

Ashish Uppanlawar from Spark Capital

- Ashish Uppanlawar** How do you view the gross margins of the domestic and the consol entity this year because as you are saying that monsoon can be a trouble factor but it also impacts raw material probably?
- Sunil Duggal** When I spoke to you three months ago I was pretty hopeful of capturing around say 300 basis points may be 400 basis points improvement in gross margins and having part of it expended through higher A&P and part of it flowing down. Since then I have moderated my views and I would perhaps be satisfied with a 200 basis points improvement in gross margins, little bit like what you saw in the 1st Quarter. Now the question would be that do we spend all of it in A&P and have an EBITDA profile which is not very different what we did last year but we cut back on A&P a little bit and have a better flow through. I think, we haven't really committed ourselves to which course of action as of now, it all depends upon the demand scenario or the competitive environment but I would still look at least 200 basis point improvement in gross margins and let's see how much of it flows down.
- Ashish Uppanlawar** Is it mostly the Agri related commodities or some....
- Sunil Duggal** Yes, it is mostly Agri related commodities, packaging is still is pretty much under control. The Agri part, is now causing some concern.
- Ashish Uppanlawar** So no more price increases?
- Sunil Duggal** I think there would be price increases. I totally expect inflation to be reasonably high at least in Agri commodities which will entail some price increases perhaps in the 3rd Quarter. They must be definitely more moderate than what we had last year but they would be ahead of what we had envisioned when we cast the budgets for this year.



*Dabur India Limited
July 23, 2012*

- Ashish Uppanlawar** So was the price increase component for this quarter, you said about I think 5% odd?
- Sunil Duggal** No, 4% and most of it is flow through, the fresh prices probably will be one third of that.
- Ashish Uppanlawar** On the international ex-currency what is the top line growth?
- Sunil Duggal** In constant currency or in rupees? The total international business growth is 25%.
- Ashish Uppanlawar** This is like-to-like comparison on the top-line growth?
- Gagan Ahluwalia** This is in value terms.
- Ashish Uppanlawar** This is without any impact of the currency, any contribution from the currency?
- Gagan Ahluwalia** It includes the currency impact.

Aditya Soman from Goldman Sachs

- Aditya Soman** We have seen that the food growth has been very strong this year despite having a strong base in the previous year but your margins have compressed and even though 1Q is traditionally sort of weak margin quarter for food, it is compressed even more than the comparable quarter last year, is it because you have not passed on all the price increases or do you expect the growth to slow down as you pass them on?
- Sunil Duggal** Actually the base of last year was low in food and we did have a lot of dislocation in Nepal and we did not have a great quarter if I remember last year. So the growth should be taken in light of that so 35-36% growth is not something which we would be doing every quarter. On the margin front there has been some dollar impact here. Raghu am I right? The dollar is really the main culprit in terms of the margin compressions?
- S. Raghunathan** Yes, the import landed cost of concentrates and laminates have gone up due to the dollar. Though we have passed down a bit of the price increases the flow through will happen in subsequent years.
- Sunil Duggal** I think the growth in foods will be largely volume driven and I don't see the rupee appreciating in a hurry. So the margin pressures here would remain but having said that the Sri Lanka facility which should begin may have some margin improvement upside and then Tetra Pak is localizing lot of manufacturing. Therefore should have some upside here and other initiatives in terms of better sourcing, the change in vendor mix, etc., should also help us in improving profitability.



*Dabur India Limited
July 23, 2012*

Varun Lochab from Religare Capital

Varun Lochab My first question was on the juices category, if you could just spend some time on how are you seeing the competition in that category and especially the action on the fruit drinks side? Given the current environment have you seen any signs of slowdown, it does not seem like in your portfolio as of now but overall in the category are you seeing any signs of stress?

Sunil Duggal It is not just that we are growing, the whole category is growing at a pretty smart clip, we are growing ahead of most others but it is not that the category is sluggish, not by any stretch of imagination. So there is a great momentum here, perhaps to some extent the fruit drinks, etc., would be fueled by hot summer. Even in our case the hot summer would have some positive impact on the consumption but overall there is a big shift in consumer preferences, which is lasting perhaps longer than one would have expected, from unhealthy drinks to a healthier beverages like ours and this trend if it continues, it augurs well that momentum should continue. Fruit juices is still a comparatively small category, so I think there is still headroom for growth but let's see how it pans out.

Varun Lochab On relative growth rates between fruit drinks versus juices are you seeing any signs of up trade and down trading?

Sunil Duggal No, remarkably not so, I mean, one would have expected that there would be down trading from juices to drinks. But our internal information indicates that juices are actually growing ahead of drinks despite the fact that it has been a hot summer which really favors the drinks market because that's more on premise consumption which obviously accelerates dramatically with hot summer. But I think our growth is ahead of category growths so we are doing something right here but overall this category is very buoyant.

Varun Lochab Sir, my second question was on A&P spends, obviously for you they have been particularly strong last couple of quarters and this quarter was even higher but any comments on the overall industry wide A&P intensity? Is it still reasonable or you are seeing inching up of that with some softening in commodity prices, what are the broad trends at a category level?

Sunil Duggal Wherever companies are seeing softening of commodity prices they are increasing A&P and I would suspect when the results are out we would see some pattern there, like us we have put most of the gross margin increases in A&P and that may be a bit of a trend here. Like I said I don't see a huge increase in advertising but neither do I see the significant contraction either, it is pretty much r par for the course.

Varun Lochab Sir, from your end would you stick with that 13%, 13.5% sort of A&P-to-sales ratio for full-year?



*Dabur India Limited
July 23, 2012*

Sunil Duggal So it averages out over a few quarters, yes this is what it would look like, but there will be oscillations in between. I don't think we will be necessarily maintaining Q1, I doubt it very much because this is extraordinarily high. There would be some tempering of this ad-pro and a lot will depend upon on how the COGS environment behaves.

Varun Lochab Just lastly within your portfolio have you seen any shifts in urban or rural growth rates like....

Sunil Duggal Our growth rates have been a little ahead in the last few quarter in rural as compared to urban even though the rural growth rates have come down significantly below urban rates in the last two or three quarters. But I think the rural initiatives, etc., have been fairly instrumental in driving this part. So, it is a fairly balanced growth between urban and rural with rural being a little bit ahead of urban.

Manoj Menon from Kotak Equities

Manoj Menon Couple of questions and one request. The question is basically one on the toothpaste, particularly just quite interested to understand the dynamics of the mass market segment per se, basically Babool segment because how it has evolved over the last five years and how do you really see that going into the medium term. Not really anything actually one or two years, it is probably beyond that. The question is essentially on the thought process that this particular segment has seen significant up trading led benefit from either a powder or direct recruitment. Are we kind of done with that sort of the low-hanging fruit of growth? Is that kind of playing out in pricing, etc., currently, so that's one? The second question was in terms of the foods margins, I was just looking at the Page #11 of the presentation where you are talking about flavor enhancement, is it essentially part of a cost issue, which is not recovered fully that also is playing out in the foods margins?

Sunil Duggal No, foods margin is largely a forex issue to address your second question and I think there has been no enhancement in terms of flavors or any other cost element here. So, as and when the rupee corrects or we take our prices, we should get margins back on track. Not that the margins have dipped significantly. It is fairly marginal deterioration but nothing which we worry too much about because then if you have a 20% depreciation of the rupee over a year then obviously there is going to be some damage here. But we have kept the damage under some control. On toothpastes basically a lot of the Babool revenues are coming from the Rs. 10 price point and that Rs. 10 price point was increasingly becoming a drag on margins for the entire oral care portfolio. It was something which we had to address and so we took surrogate price increases by reducing grammage, etc., and obviously there was some impact in terms of our total tonnage delivery. But that is something which we had expected. What we will be doing now and I cannot disclose too much detail here but what we have been attempting to do is to improve the overall margin profile through value enhancing initiatives and we do have some interesting thoughts with us which we will put into market in the balance of the year. So the



*Dabur India Limited
July 23, 2012*

aggregate Babool margin capture should be significantly higher than what we are seeing today. It is already much better than what it was say six months ago but there is a lot more ground to be covered. So, the brand is inherently strong. It has got a great franchise, great distribution width. We just have to find creative solutions to its profit compression.

Manoj Menon

But at the opportunity level the up trading or either the penetration led growth which Babool products have seen in the past, are we kind of at some threshold level where any IMRB or any such data which suggests that are we done with that. I am essentially wondering if we look at shampoos in the early part of the last decade which has actually seen substantial growth for a fairly long period of time, high 20s, etc., in terms volume growth for a long period of time then it kind of cooled off. Is there something similar happening in this toothpaste mass market segment also?

Sunil Duggal

I will not completely rule it out that oral care as a whole you would see a little bit lower growth because it is reasonably well penetrated and unlike most of the consuming categories, the Indian consumption of toothpaste is not that low also. The overall penetration levels are actually reasonably high. So, you probably won't see a very high growth coming out of this category. Having said that this is a long-term play here and even if we get growth in the low-teens for extended period of times, it still aggregates to very significant revenue enhancement potential. It is a large category. So, we are very committed to oral care and we believe this is a very good category for us to play in. We are very impressed with how our value-added offerings have formed despite very high price increases. For example, Red is priced higher than Colgate and does remarkably well. So, we have to similarly create a fairly strong niche for Babool which will enable us to command much better pricing than what we do today.

Manoj Menon

There is one request actually but this is essentially not just from me, I mean it is actually from I can say analyst community at least for Vivek, Jamshed, Sanjay, Percy, Latika, Arnab a few of us kind of were actually wondering that we should request companies in terms of disclosing the AC Nielsen numbers if possible because in reality what is actually happening is that since most companies have stopped talking about it obviously there is no trend whatsoever available from a category point of view to bank on. And more importantly, in reality what is happening is that it creates some sort of asymmetry of information in the marketplace, at least in our view it is actually creating more damage than good by actually not disclosing the numbers. It is more of a request from few of us which I think you should consider.

Sunil Duggal

I think it is a valid request and I sympathize with what you have. I think the genesis of this began with some of the panel changes which Nielsen undertook two, three years ago, which led to wildly swinging data points which really had no basis in terms of reflecting company performance. Those numbers created so much anguish within companies and with Nielsen, that there was a collective view that these numbers actually should just be very privately held. As and when there is more creditability to these numbers and that moment may have come I see



*Dabur India Limited
July 23, 2012*

no reason why larger disclosures should not be made. But it is got to be industry-wide view. I don't think we can take a solo action because there are contractual issues here with Nielsen, which we cannot violate. But if the corporate, investors and Nielsen can get together and discuss this thing over a cup of tea, maybe some solutions will emerge. Maybe you can take the initiative and bring together these three parties and see what can be done.

Manoj Menon

So what we will do actually would be to request each company over the course of the next 15 days and try to....

Sunil Duggal

I think everybody has got to sit across the table and hammer out a solution. It cannot be done bilaterally.

Pooja Jain from FRR Shares & Securities Limited

Pooja Jain

I have a question on retail business segment. As you can see it is less profitable as compared to the other segments. Can you just give me the reason and what will be the scenario for the coming quarters?

Sunil Duggal

I think the business does not make money and we all know that. It is still in its incubation stage. The good thing about this business is that we are able to grow the revenue stream significantly without increasing the loss. So, therefore, the same store sales are improving and the profitability thereby is improving on the same store. The losses are really being caused more by new store openings which inevitably lose money for the first year or so. So, I think the business from the point of view of a retail play is actually doing quite well and we have to now just scale it up and then it would become a fairly viable entity by itself. So that is what the endeavor is, to contain the bleed to something like 10 crores odd which is pretty insignificant in the context of the overall profit delivery of the company while increasing the footprint in terms of stores and revenues and so far we have been reasonably successful in that effort.

Vaishali Jajoo from Aegon Life Insurance

Vaishali Jajoo

Regarding again the raw material cost if I were to take it forward for the agri commodities and if we look at the trend for most of the spices what happened in the last few years. Again because of the drought, how do you see that acting upon? And on the pricing front, how does elasticity plays out on the pricing front from your side as well as from the agri commodity side?

Sunil Duggal

I think there is going to be some impact in certain areas in the agri sector because of the monsoon issue. Now, if it is moderate, I think a moderate price increase can be passed on very comfortably I don't see any issues with that. A large price increase is something which may be difficult. So we may have to then absorb some pain here in the case of a significant margin



*Dabur India Limited
July 23, 2012*

erosion, which we will not be able to fully recover. But I think we are a little bit more concerned about the effect it will have on demand whether there will be a significant demand destruction consequent to lower income levels coming from the agri economy. So, let us see how it plays out. It is definitely a cause of worry but there is no panic here because as we speak we are still seeing a lot of momentum in the business as far as the domestic business is concerned and hopefully we will be able to overcome this hurdle.

Vaishali Jajoo

How it usually happens in terms of the fruit juice side of the business and does the fruit juice or the fruit prices volatility is also captured in the pricing as and when it goes up and down?

Sunil Duggal

There is about 70% import content in our juices and therefore the monsoon issues, etc., have very little relevance to our input costs because of this factor also because key flavors, which is orange or mixed fruit or grape all come from imported concentrates. So, what is happening in Brazil or Florida or wherever is more material than what is happening here. So, there is no correlation there. As far as crops like mango and all are concerned which make up most of our other beverage input cost, again they don't necessarily move with the rest of the agri produce. So, I don't think our beverage portfolio is very vulnerable to the monsoon at all. In fact, it is the least vulnerable. It is really some of the key HPC and healthcare categories which would feel the brunt of a poor monsoon.

Vaishali Jajoo

And the Nepal business is back on track?

Sunil Duggal

Nepal is back on track. It has been actually performing very well. We are getting a record output from Nepal in the first quarter and hopefully it will continue. So, there is volatility I think in the whole socioeconomic environment in Nepal, so you can never take continued steady output from our plant there for granted and that is why we are de-risking the whole juice business by having additional capacity setup in Sri Lanka as well as enhancing capacity amongst third parties in India.

Vaishali Jajoo

One question on the shampoos because the pricing difference in Dabur and others is slightly more, do you see that there is a down trading happening in the shampoo market now?

Sunil Duggal

See the core of the business in shampoo is the Re. 1 sachet and our price is same as that of that of Pantene or Sunsilk or many other big brands. So, there is no discounting here and even in the bottles there may be a little bit of discounting vis-à-vis couple of brands but we have parity with many others. So we are little bit in the middle. We have recently taken up some fairly significant price increases on the shampoo bottles but the heart of the portfolio still remains at the Rs. 1 price point.

Vaishali Jajoo

So there is no benefit in the price difference which is there?



*Dabur India Limited
July 23, 2012*

Sunil Duggal Not really, there is no real benefit which we have in terms of lower price as far as most of the portfolio is concerned. We just have to drill down our value proposition of being a herbal product and as the numbers you can see is having an effect. We are growing at well ahead of category growth in shampoos.

Jamshed Dadabhoy from Citigroup

Jamshed Dadabhoy Just a quick follow-up on Namaste, you have mentioned the brand architecture has been revamped especially for both US and Africa. Could you give us a sense of what you have done?

Sunil Duggal Basically the architecture was under the brand Organic Root Stimulator. There was a very little of Namaste on the pack. So, Organic Root Stimulators we believe is something which we should not use because of IP issues, etc. It is not something which we can register in many parts of the world. So we have now decided and we are already in the advance stage of implementation of now rechristening it ORS and that is the trademark. So therefore while it will prove disruptive for the business in the short run because we will have to dry up the inventories, pipelines, etc., and re-launch this and educate the consumer about this change, it is better that we do it now rather than we do it when the brand is very big because then the cost of this whole changeover would be that much more. So it is something which we thought deeply about and we said we have committed to now having strong IP protection. They do have IP protection in the US but then since that was a largely US-centric company before we took over they did not address this issue that seriously. We are looking at our Pan-Africa presence here, Organic Root Stimulator will increasingly come against a whole lot of trademark violations which we may not be able to counter. So it is something which we are doing and it will be completed by the end of the year. It is being first done in the U.S. and subsequently in Africa. So, this is really the change in architecture which I spoke about earlier.

Nillai Shah from Morgan Stanley

Nillai Shah Consumer care business the growth is actually about 12.5% on a YoY basis.

Sunil Duggal That's a segment reporting but we define the Consumer Care division as being healthcare, personal care and foods, which grew at around 16.5%.

Nillai Shah In the case of the consumer care business which is about 12.5% growth for domestic, how much is pricing and how much is volumes?

Sunil Duggal It will be around 8.5% and 3.5%. Again, there is a significant CSD component which has really impacted the volume growth tremendously here. All the CSD erosion has been in this part, healthcare and personal care.



*Dabur India Limited
July 23, 2012*

- Nillai Shah** So, then when you look at the overall numbers of 12% consol volumes versus 8.5% in the standalone business then the international business has there been some pricing cut that you have taken?
- Gagan Ahluwalia** No, in the standalone business you have to consider food also. Food is part of the standalone as well.
- Nillai Shah** No, what I meant is standalone consumer care versus consolidated consumer care.
- Sunil Duggal** Yes, consumer care segment reporting is not domestic.
- Nillai Shah** Consolidated consumer care versus let's say 8.5% in the standalone consumer care.
- S. Raghunathan** The consolidated Consumer Care revenue was 15.5% compared to 12.5%.
- Nillai Shah** So, the volumes are 12% versus 8.5%?
- S. Raghunathan** Yes, the volume growth is 8.5%.
- Nillai Shah** So, I am just wondering that when you take this equation you look at the international constant currency growth of about 12-13%, has there been some pricing cut that you have taken and the volume growth is actually much higher than 12% or so assuming all of it is volumes in the first place?
- S. Ranganathan** No, there also the volumes will be around more like 10-11% and balance coming through pricing.
- Nillai Shah** It does not add up because if your domestic business is 8.5% and your overall consol is 12% then the volume of 10% international does not add up.
- S. Raghunathan** The volume which we mentioned for our volume purposes in the earlier part of the conference call is that domestic volume of 11.7% that is what Mr. Duggal has mentioned to you, right, that should not be mixed up with the total consolidated volumes.
- Nillai Shah** So, what is the volume growth in that consumer care business consolidated?
- S. Raghunathan** Consolidated was more like 9%.
- Nillai Shah** Pricing out there is about 6%?
- S. Raghunathan** Yes.



Dabur India Limited
July 23, 2012

Amit Hiremath from Enam Asset Management

Amit Hiremath My question is related to the segmentation of our domestic sales into rural and urban area. So how is the segmentation there?

Sunil Duggal It is around 54-46; that is what the latest numbers indicate, 54 urban, 46 rural.

Amit Hiremath If you could give me the contribution on the low priced SKUs in both the areas to the sales of urban as well as rural?

Sunil Duggal Obviously the low price SKU is a little bit higher in rural as compared to urban.

Amit Hiremath So is that the category which will be vulnerable to down trading?

Sunil Duggal If you really take the so-called LUPs, I would really categorize very few of these products under LUPs. They would be the Rs. 10 Babool, they would be the Re. 1 Vatika Shampoo. So, it is not that big a component as what is generally believed over a domestic revenue stream of around Rs. 4,000 crores, LUPs would be maybe Rs. 200 crores, Rs. 250 crores, LUPs in the the classic sense.

Amit Hiremath Maybe in another way, is there any substantial difference in the EBITDA margin of rural sales and urban sales?

Sunil Duggal Not really. There is no significant difference because while LUPs are definitely more prevalent in rural since their overall share in the pie is small, it does not materially affect the margin profile of rural versus urban. We cannot afford to have a very different profile for rural versus urban because that would distort our numbers. So, we find ways to keep it fairly balanced. So, for example, Juices is around 90-95% of them, and that is a low margin profile. So that in a sense pulls down the urban profile, whereas some LUPs like shampoos have got a larger rural profile, so they pull down back. So, it is a kind of blend and overall there is no significant difference.

Anshul Mishra from ING Mutual Funds

Anshul Mishra My question was specific to CSD, just wanted to understand how much CSD contributes to the domestic consumer care business on a normal scenario not current scenario?

Sunil Duggal 5% to 6% is what last year's numbers are.

Anshul Mishra 5% to 6% of the consumer care business domestic?

Sunil Duggal Consumer care which includes foods by our definition of consumer care.



*Dabur India Limited
July 23, 2012*

- Anshul Mishra** If you were to exclude foods by the definition by way....
- Sunil Duggal** It will be more like 7% or so.
- Anshul Mishra** Also second question was on the debt side, just wanted to understand how much of the debt is foreign debt and at what cost and what would be the repayment in the next one year?
- S. Raghunathan** The foreign debt is in the order of \$135 million, so it translates around Rs. 750 crores roughly. It is a four to five year repayment cycle so you can even it out. Roughly every year around US\$25 to 30 million we have to repay. The interest cost is between 2.5% to 3% depending on LIBOR movement because it is a LIBOR linked cost.
- Gagan Ahluwalia** Thank you ladies and gentlemen for joining this call. An archived copy of the webcast will be available on our website for future reference. If there are any further queries, do let us know. Thanks once again and have a nice evening.
-