



“Dabur India Ltd. Q4 FY 11-12 Earnings Conference Call”

**April 30, 2012**

**Dabur India Ltd.’s Participants**

**MR. SUNIL DUGGAL - CEO**

**MR. S. RAGHUNATHAN - CFO**

**MR. ASHOK JAIN - SENIOR GENERAL MANAGER, FINANCE & COMPANY SECRETARY**

**MR. SAIBAL SENGUPTA - SENIOR GENERAL MANAGER, FINANCE**

**MRS. GAGAN AHLUWALIA -GENERAL MANAGER – CORPORATE AFFAIRS.**



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**Gagan Ahluwalia:**

Thank you, Marina. Good afternoon, ladies and gentlemen. On behalf of the management of Dabur India Limited I welcome you all to this conference call pertaining to the audited results for the year ended 31<sup>st</sup> March 2012. Among the Dabur's team present here are Mr. Sunil Duggal – CEO, Dabur India Limited; Mr. S. Raghunathan – CFO; Mr. Ashok Jain – Senior General Manager, Finance and Company Secretary and Mr. Saibal Sengupta – Senior General Manager, Finance besides me. I will now request Mr. Duggal to give a brief overview of the company's performance before moving on to the Q&A. Over to Mr. Duggal. Thank you.

**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 year ended March 31, 2012. Fiscal 2011-12 has been a landmark year for Dabur as we surpassed Rs. 5,000 Crores Revenue Mark. During the quarter, Dabur registered growth of 23% in consolidated sales and 16% in profit after tax. Volumes increased by 12.4% during this period. Domestic business reported growth of 19.2% driven by strong growth in Hair Oils, Digestives, Home Care, Skin Care and Foods. Input cost inflation continued during the quarter putting pressure on gross margins. Calibrated price increases have been taken to partially offset inflationary pressure. Hair Oils grew at robust 22% during the quarter driven by good volume growth and price increases. Input cost inflation in Hair Oils have been significant and was managed by affecting portfolio-wide price increase during the year. Dabur Amla Hair Oil posted a strong performance during the quarter with good volume growth. The recently launched Almond Hair Oil has done well and prospects for this brand look good. Vatika Shampoos staged a strong revival growing at 16.8% during the quarter as an outcome of focused marketing initiatives. Health Supplements recorded growth of 10.9% during the quarter with Chyawanprash and Honey performing well. Chyawanprash grew in double digits and gained market share. Dabur Honey reported robust growth across regions and channels. Oral Care registered growth of 7.7% during the quarter led by strong growth in our premium offering. The company gained market share in both toothpaste and toothpowder categories. Skincare category was back on track post distribution realignment and grew by 17.6% during the quarter. The core skin care portfolio under Fem including bleaches and hair removal creams reported a strong 22.4% growth. Digestives business robust growth of 19.4% during the quarter. Hajmola continue to perform well despite earlier price increases on the back of enhanced media initiatives and launch of new variants and SKUs. Home Care continued on the growth trajectory growing by 18% during the quarter. The largest brand in our Home Care portfolio Odonil reported strong growth across formats and regions and has now become the 12<sup>th</sup> Member of Our Billion Rupee Brand Club. OTC and Ethical portfolio grew by 13.8% during the quarter. OTC performed well growing by 11.4%. The Ethical portfolio is also back on the growth track post distribution realignment and grew by 18% during the quarter. Foods maintained good momentum growing by 30.4% during the quarter led by Real and Active's excellent performance in the Juices portfolio. During the year our Foods division surpassed Rs. 500 crores mark, reflecting a strong consumer preference



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which this brand has carved out for itself. During the current quarter new variants such as plum, pomegranate and super berries have been launched

Dabur Organic International business excluding acquisitions witnessed healthy sales increase of 45.8% during the quarter. Growth in same currency terms was 35%. Nigeria, Egypt, Nepal and GCC reported strong growth with categories such as hair creams, shampoos and tooth paste doing well. The business continued to invest strongly behind A&P and new product activity which included products like new variants in hair oils, shampoos and skin creams.

The two overseas acquisitions Hobi and Namaste Laboratories contributed to around 12.4% of consolidated sales during the quarter. Hobi Group performed well growing by 19.5% driven by continued investments behind the brands. Namaste laboratories performed very well with growth of 15.2% during the quarter. Manufacturing for Namaste products has already commenced at the Ras Al Khaimah facility.

On the profitability side Dabur saw a growth of 16.0% in profit after tax during the quarter, in spite of high input cost inflation and continued uptick in Adpro. Adpro as a percentage of the sales increased to 13.3% during the quarter versus 11.5% in Q4 FY11. Consequent to inflation and material cost and step up in Adpro's, the EBITDA margins witnessed some compression and were at 17.8% of sales during the quarter as compared to 21.1% in the previous year. Although 2011-12 was one of the most challenging years in terms of inflation and increase competitive intensity, the company has been able to counter the challenges and grow its business strongly. Going ahead, the inflation scenario remains uncertain and to deal with this, we may choose to affect calibrated price increases during the year. Competitive intensity in some of the HPC categories may demand higher expenditure on Adpro's and this could continue to exert pressure on margins. However, we would overcome these challenges by investing strongly behind our brands, new product initiatives, efficient management of cost, expanding our distribution footprint and thrust on rural markets and new geographies.

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

**Parineeta Poddar from ICICI Direct**

**Parineeta Poddar:** My question is first on the Consumer Care business. On a QoQ basis we see that there is a slight slowdown in the business, like against 880 crores it has come down to 790 crores. So, is there any specific reason or any other segments specifically which has not been able to perform?

**Sunil Duggal:** In our domestic business in particular, actually in all our businesses never see the QoQ numbers. Always see YoY as the portfolio changes slightly every quarter.



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- Parineeta Poddar:** Is this a quarterly phenomena?
- Sunil Duggal:** It is a quarterly phenomena but please ignore QoQ numbers, they are pretty meaningless.
- Parineeta Poddar:** My second question is what about the rural growth you are looking at expanding a presence in the rural India and that was coming out quite well and you were doing some realignment in the channels and setting up something. If you could just give me a highlight on what is happening on that front?
- Sunil Duggal:** I think the rural growth definitely has been ahead of urban growth and two reasons have driven this. One is that the rural growth in aggregate terms for the FMCG business, especially the non-food FMCG business has been ahead of urban growth in the fourth quarter and we have taken advantage of these high levels of growth by expanding our rural footprint and therefore driving the growth significantly ahead of urban growth in the fourth quarter particularly.
- Parineeta Poddar:** So, you expect the same growth to follow in FY13 kind of like on the same trend?
- Sunil Duggal:** Not that we can take it for granted, I think the third quarter has witnessed sharp contraction in rural growth and fourth quarter was little better. So, it is a little volatile here but I think even if rural growth does not happen at a category level for us we certainly would see them, at least we hope we would see them happen because we are in the process of investing large amounts in creating a rural infrastructure and enhancing our rural distribution infrastructure. I think we would be able to generate strong growth on the back of market share gains even in the event of the rural markets not really growing the way we hope they will.
- Parineeta Poddar:** So in expanding in rural India which is the segment that you are majorly concentrating on, is this equal for all categories in Consumer Care or...?
- Sunil Duggal:** Across. Earlier on, our energies were more concentrated on HPC but now it will be all the three business segments; HPC, HC and interestingly enough even Food and Beverage; of course, Food and Beverage will be a largely urban phenomena but we are seeing increasing evidence of rural preference for our products emerging even in the high priced Beverage segment, obviously, the more affluent areas of a country, North and parts of South and we intend to take advantage of the trend.
- Parineeta Poddar:** That's about it from my end. Thank you very much.

**Percy Panthaki from Daiwa**

- Percy Panthaki:** Hi everyone, congrats on a good set of numbers. My question is on the gross margin compression which really continues unabated and the trend is slightly different from other



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FMCG companies where we have seen some amount of recovery in Q3 itself and Q4 we are expecting further more recovery there. But we have not seen that happen in Dabur. I understand that hair oils inflation is really high and there is no way you can catch up on that segment. But that is a part of the entire business and to have a 300 basis points margin contraction on the entire business for the quarter is there something I am missing, is there some hedges you took which went the wrong way or something of that sort?

**Sunil Duggal:**

No hedges, we are not sitting on any positions. We do not really want to go long in this kind of environment, we never go short as a matter of company policy, so it is not a hedging issue, it is really that I think we have been a little unfortunate that the Dabur basket of materials has been a little bit higher levels of inflation than the overall. If you take WPI's 7% inflation we see our material cost rising by 10%. So, I think there is a little bit disadvantage because of the peculiar nature of our portfolio. Having said that this could abate very quickly once inflation turns benign. So, that is really the reason and I think also a little conservative in taking our price increases, we have been looking at revenue streams and the volume growth and I think we have succeeded in that in terms of driving the domestic business growth by 20%, half of it led by volume and that is exactly what we intended. That could only be done if you are a little circumspect in terms of price increases. So, I think we are going according to our plan, we are reasonably satisfied with domestic EBITDA margins of 18.6% and despite the higher levels of Adpro's. And provided they generate revenue stream which is fairly, fairly aggressive.

**Percy Panthaki:**

If I look at your sales growth at 20% out of which volume is around 10% which means pricing is another 10%, then your inflation in the consumer basket is also 10%, then your gross margin should not compress, right?

**Sunil Duggal:**

The gross margin will compress because to neutralize inflation of 10% you got to take our prices much ahead of 10% if you want to maintain the same EBIT or the same gross margin profile in percentage terms. So, one rupee of price increase does not neutralize one rupee of inflation if you have a material cost to sales ratio of 50%, let us say typically that is the kind of scenario we are in, you have got to take up Rs. 2 of price increase for every Re. 1 of inflation to maintain your same gross margins and that is the mathematic.

**Percy Panthaki:**

That is true in rupee terms, but in percentage terms 1%...

**Sunil Duggal:**

No, I am talking about percentage terms. You want to maintain, say a gross margin profile of say 50%, right? For every Re. 1 of cost increase you are going to take a price by Rs. 2. Now, Re. 1 increase will maintain the same rupee gross margins but will compress your percentage realization.



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- Percy Panthaki:** All I am saying is that Re. 1 on the COGS in percentage terms would be the same as Rs. 2 on the sales in percentage terms. So, if you have taken 10% increase in the selling price it should cover a 10% increase in the COGS.
- Sunil Duggal:** But then your gross margin percentage would not remain constant.
- Percy Panthaki:** Okay, sir, we will probably take this offline. My second question is on your purchase of traded goods that has gone up quite significantly even for the standalone business about 60% for the year for the consol even higher, so just wanted to understand what is the reason for that?
- Sunil Duggal:** That is on the Namaste phenomena, am I right?
- S. Raghunathan:** In Standalone accounts we also are importing from Nepal, you will find that it is showing as a purchase of traded goods. The juice business has grown at 30% which is predominantly volumes so that is reflected there.
- Percy Panthaki:** On the standalone particularly I can understand juices growing at 30% obviously that will come as purchase goods. But this is a 60% on the overall sales of the standalone. So, if you take it mathematically that would mean that juices have grown by over 100% which is not true.
- S. Raghunathan:** I am not saying that the entire thing is because of juice. We have also changed our sourcing configuration in in purchase of traded goods but predominant part is coming from juices.
- Percy Panthaki:** But is there some kind of sort of strategic initiative towards outsourcing versus insourcing or something of that sort?
- Sunil Duggal:** No, nothing else. No significant change. It is just a mix issue and on account of Nepal and Namaste.
- Percy Panthaki:** The sales network which you are trying out in two states on rural which you told us about four to six months back, just wanted to understand what exactly is the on the ground situation there, are those networks fully in place, if not, when can we expect them and if they are in place, what has been the experience so far?
- Sunil Duggal:** Well they are being rolled out in 10 states now, it was two when we spoke sometime ago. Actually, we did two in the first quarter then we paused in the second because we were doing our urban reorganization, so we did not want to take on that initiative simultaneously. We regrouped in the fourth because the second and third was basically realignment of the urban piece and now it is being rolled out to around 10 states covering around 70-80% of our business by the end of the second quarter. So, this would significantly enhance our total reach, for example, the total number of villages which we were covering on say, March 31, 2011 was



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around close to 14,000, this would be close to 27,000 by end of March 2013. It is a different order of magnitude in terms of enhancement of reach in the rural areas and the result of that already is visible in markets such as U.P. where the pilot has been done and the infrastructure for rural distribution has been crafted.

**Percy Panthaki:** On the new initiatives, you had spoken about a couple of things; one is on the healthcare initiative, OTC Healthcare and second is something in the newspapers I read a couple of days back on functional beverages. Apart from these two is there any other new initiatives you are thinking about, any update on that?

**Sunil Duggal:** You will see far more aggression in terms of introduction of new products. This year we have got fairly significant number of brands on the drawing board which we will execute during the year and we will phase it out so as not to unduly stress our margins but there would be much higher levels of progress on this than what we saw last year.

**Percy Panthaki:** That's all from me. Thanks a lot and all the best.

**Abneesh Roy from Edelweiss**

**Abneesh Roy:** My first question is on the Foods business. We have seen volume led growth of around 30%. Wanted to understand that with the 5 billion sales now, how is FY13 looking on a very high base and in the past you have spoken on new initiatives in terms of product side in the Foods business? So, some insights into that?

**Sunil Duggal:** The revenue streams continue to be very strong and we are seeing signs of that already. So, no concern on that front. I think the concerns are more on margin because you have a double whammy of very high concentrate prices globally at a very weak rupee, so that is really where we will be focusing our energies on. The demand is there, we really cannot supply enough to service the market. The new plant in Sri Lanka would really make that possible which is still six to nine months away. But I think the margin piece is something which we will have to see whether it is structural or whether we need to just wait it out, that is the area of concern.

**Abneesh Roy:** Next question is on the Almond Hair Oil business. Some quarters have passed since the launch and the market leader has recently taken the price hike. So, what is our target in terms of FY13 in terms of say distribution or say, the market share target if you have in this segment?

**Sunil Duggal:** We certainly intend to build this into a strong offering. I am not saying that we will be directly challenging the market leader. It is a very big brand but we would seek to have our own distinctive niche in the segment with our offering which is perhaps preferred by at least some



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segments of the consumer. So, we believe that this is a big market, there is room enough here for more than one player and we certainly intend to be the second player in this market.

**Abneesh Roy:** Are you planning to close the price gap which has now come?

**Sunil Duggal:** We will see. I think it will depend on the opportunities that exist on the ground and also the kind of margins which we see emerging from this brand. But that is a call which we will take perhaps over the next month or two.

**Abneesh Roy:** Next question is again on Hair Oils. In the Coconut segment, I am seeing renewed aggression in terms of advertisement - Amla and coconut oil. So, is there a change in the stance in the positioning you have taken that you will now kind of refocus on coconut?

**Sunil Duggal:** I think coconut did extremely well last year both Anmol and definitely Vatika, they had a great growth and then that was on the back of some fairly benign prices which enabled us to put more marketing spends. Atleast in the last quarter there was some opportunities there. But going forward I think our flagship remains perfumed oils and that is really where our energy will be concentrated on. And we will make sure that we defend our turf as well as we can.

**Abneesh Roy:** On the Oral Care, you said market share has expanded for the full year. But if you see the numbers being reported in the previous quarter by the market leader, they have grown on higher levels. So two questions here; one is what is the real sense you are getting in terms of growth versus the peer? Second is if you see the product portfolio gap with the market leader we have some gaps in terms of say Sensitive or say Mouthwash, so what is your comment on that?

**Sunil Duggal:** I think we have large gaps in our portfolio in toothpaste which we need to plug. And now that we have a fairly significant presence in Oral Care we need to have a more complete range of offerings and we will progressively put them into market. At the premium end the traction is very good. The pressures are more at the discount end where there is a lot of competitive pressure. Overall, the growth has been as you would see reasonably moderate in this quarter but both the premium offerings Red and Meswak have done very well, the pressure is really on discounted brands like Babool. And I think we need to perhaps build a better value into Babool through, like you said, new offerings, etc. We are looking into that. You will probably see something happening recently soon.

**Abneesh Roy:** My last question is on Shampoo segment. Good growth in this quarter. You have highlighted that henna and the green variant have done well. So, any positioning change here also taking the MNCs aggregation in most of the sub-segments of shampoos, are you kind of focusing more on henna sub segment?



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**Sunil Duggal:** I think we obviously needed to consolidate our spends and not spread them too thin across too many segments so our flagship always shows the green shampoo and the henna shampoo and that has done extremely well. Obviously, since we have reduced spending on some of the variants they have done less strong growth but we are satisfied with that. I think the henna conditioning shampoo has got enormous amount of equity, the distribution is perhaps the widest amongst entire portfolio, 3.5 million accounts. So we can grow the Shampoo business on the back of the green shampoo we really do not need many variants at this point in time. I think we need to further consolidate and recoup our loss of ground in this segment before we look at spreading ourselves into other segments.

**Abneesh Roy:** Last question on glucose. Here, flattish growth is being seen and also Emami plans to go Pan India, plus Wipro has also said that they had launched Glucose tablet, so are you worried in this segment, the industry is not growing and then you are seeing more competition?

**Sunil Duggal:** Competition does not worry me because we have seen competition from the established players. What worries me in Glucose is really the seasonality the seasoned climate you have cool summers and a lot of momentum has taken off growth and long hot summer really makes growth that much easier. So, that is really the concern and there is no guarantee that this would be a hot summer, it has begun actually on a different note, remarkably in fact cool summer to begin with especially in the north. So, that is the cause of worry not competition.

**Ashish Uppanlawar from Spark Capital**

**Ashish Uppanlawar:** Just wanted to understand in categories like Oral Care and Shampoos where we have seen some revival on the growth, would it be entirely dependent on prices and the volumes would be flat in these categories and how do you see the outlook on this?

**Sunil Duggal:** There is growth in the volumes, the price increases in both Shampoos and Oral Care, actually have been fairly moderate because of the competitive intensity prevailing in these categories. So, the volume growths have been instrumental in whatever we have done in these. In fact, last year Shampoos witnessed a sharp contraction in terms of prices, so the volume growth actually was pretty good but the revenue growth which did not happen last year. Now, going forward it would be a blend, it would be again largely volume-driven, I do not see huge price increases happening in these categories because of the competitiveness. So the volume picture remains. In both these categories I think our rural initiative would be extremely important in enabling us to drive strong growth.

**Ashish Uppanlawar:** Wanted to understand in better depth rural initiative that you are talking about you earlier pointed out to us in the last calls that it is running parallel to the existing network and it enhances your direct reach. So, can you throw some more light on this?



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**Sunil Duggal:** Basically, the means that we look at a different architecture for rural market than what we currently have. Quite honestly, till this rural initiative happen, even our substockists and the van network were really going to the small urban towns and not to the rural villages really. So, this is really taking the last step forward in our distribution architecture. And we are going the last mile through a very different network which has been configured to deliver small volumes at low cost. So, we could not replicate and just extend the existing architecture, had to be a completely new one, the existing architecture would have meant enormously high cost and the whole purpose of this would have been self-defeating. So, it is a parallel network comprising of largely outsourced people who will instead of having our own sales force we would be looking at hiring people, actually using the services of outsourcing agencies to have these feet on the ground and having a parallel network of substockists for this purpose.

**Ashish Uppanlawar:** This does not cannibalize wholesalers from the existing network?

**Sunil Duggal:** No, obviously, there would be some tonnage which should be taken away from wholesalers. But the purpose of this rural initiative is even not to increase the total reach so much as to improve the quality of our distribution. That means we have a wider portfolio of width present in the rural retailer. Today, what does the wholesaler do? He takes a big van and he very efficiently pushes them into the rural hinterland. So you have say, Vatika Shampoo or Amla Hair Oil or Hajmola available in millions of retail outlets across the country. I do not think we can significantly enhance the reach of say the big three, four, five brands but if you go down the portfolio and you see the smaller brands the distribution is very spotty. They exist in some places not in the others because the way the wholesaler chooses to carry them they go and where if the wholesaler does not they just do not sell there. So, this is really to take control over the last mile and make sure that the retail outlet has as big a suite of our products as possible.

**Ashish Uppanlawar:** If one says that in FY13 the growth rate is suppose x on volumes, so would this rural initiative be say, point to x out of that or is it much bigger or smaller than that?

**Sunil Duggal:** I have to put a precise number on it. I think the results will follow. It has been a bit of an act of faith. The affluence today in the rural India enables people to buy products which they earlier would not have bought. So, it is really a timing issue also, for example, we see consumption of Fem bleach range, even juices many other such products which we would not have thought possible five years ago. And it is contingent upon us to enable availability. And if we do not then we will be really losing a big opportunity.

**Ashish Uppanlawar:** But it would be a substantial driver going ahead, I mean...?



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**Sunil Duggal:** I believe so. I think it will be not just a substantial driver, it will be essential for generating long-term sustainability. Because if we do not do it, somebody else will. And the rural retailer is not going to keep 10 brands, he is going to keep one or two, he doesn't have the bandwidth to keep too many. So, the person who gets there first and who builds infrastructure earlier is likely to be the long-term winner here.

**Ashish Uppanlawar:** Lastly on the A&P strategy, we have been spending a lot on advertising probably most aggressive on FMCG. So, what would your strategy be going ahead?

**Sunil Duggal:** The numbers in the fourth quarter are indicative of what we intend to do in the current fiscal. So, we would not take our foot off the pedal here. Unless inflation becomes totally out of control, in which case we may have no option but to cut back on ad pros, so that is a likely scenario. Under currently visible circumstances we will keep the ratios pretty much similar to what we saw in the fourth quarter.

**Ashish Uppanlawar:** Would you try to maintain gross margins in a particular ...?

**Sunil Duggal:** We are today at around 46-odd percent. Our endeavor is to push it to close to 50 as possible. I am not saying it is going to be easy but I do not know think frankly it will 50% this year because I do not see inflation pulling up to that extent. But we would nudge it ahead of what we are today and we are confident that a combination of better management of course and some price increases could enable that to happen.

**Ashish Uppanlawar:** If the volume growth sustains some of these 10% levels, would you be dropping your A&P spends a bit?

**Sunil Duggal:** Unlikely, because then we would look at volume growth well ahead of 10%. I think the Adpro's pay back for themselves. What would really worry us is that we have spent the money and we do not get the revenue stream in. But if we are bidding it in I do not think the reduced spends would see higher growth. That means the market is willing to accept a higher level of growth.

**Prasad Deshmukh from DSP Merrill Lynch**

**Prasad Deshmukh:** My question is about the volume growth which has improved this quarter versus the last couple of quarters. Is there anything else which is driving the volume growth other than the A&P that we have witnessed this quarter and also the sustainability of such factors?

**Sunil Duggal:** A&P is one, but I think even more important that A&P is our distribution reorg which has happened in the urban centres and partly in the rural. So, a combination of these two is very instrumental in driving the volume growths.



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- Prasad Deshmukh:** Can you throw some more light on this distribution reorganization has been?
- Sunil Duggal:** To delve upon it on the last many such interactions with investors but it comprises of two parts; one was what we called 'operation speed' which was the urban reorg in which we aggregated our entire portfolio into two buckets; HPC and HC, actually three buckets; Food obviously would remain separate. Earlier on they were fragmented across four or five different distribution streams which included erstwhile Consumer Health division and the Fem. So, it is a far more logical and cohesive distribution aligned across three basic portfolios; Home and personal care, health care and foods. And the second thing was, what we call 'Project Double' which was really to double our direct presence in the rural markets, and that's work in progress and both these are initiatives which did cause short-term pain, particularly in the second and third quarters where you did see some contraction in our growth but are essential to achieve long-term objectives.
- Prasad Deshmukh:** So given these, these appear to be sustainable factors, do we see volumes growing at these levels or maybe higher than that in the current year?
- Sunil Duggal:** We hope so. Unless there is a demand destruction which happens, which is of significant nature. That would really make double-digit volume growth hard but so far indicators are that the demand, particularly in rural India remains robust which will enable us to deliver these levels of growth.
- Prasad Deshmukh:** So, there are no headwinds in terms of any rural slowdown or something like that?
- Sunil Duggal:** It is not at the moment visible but like I said the only sort of spoiler can be very high levels of sustained inflation coupled with perhaps a mediocre monsoon. So, there is a scenario which can play out which will mean that there is a compression in demand but that always is something which we have to live with.
- Prasad Deshmukh:** That's it from my side. Thank you.

**Prakash Kapadia from iAlpha Enterprises**

- Prakash Kapadia:** Congrats on crossing the 1 billion turnover mark. Sir needed some perspective on domestic business. Foods last quarter we saw a bit of discounting at least at a local retailer end where we saw 200 ml being distributed with a 1 litre across Real, Activ or a cash discount being given. So, was it for a sales target or was it to keep competition at bay?
- Sunil Duggal:** What you probably saw was a very small slice of the whole market. You probably saw in modern retail where often such schemes happen on a periodic basis that is part of arrangement which we have with modern retailers that we would occasionally give them some such



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promotion. That is part of the terms of trade. There was no discounting of any worthwhile significance in traditional trade which is around 80% of our Foods business. I think what you saw is an aberration, really not reflective of what we did. Because our Foods margin other than the fact that both the depreciation of the rupee as well as the material cost even in dollar terms continued to be very high, that did compress margin on the fourth quarter. But other than that business is on very good footing.

**Prakash Kapadia:** If you could give some sense what has been the response in the Home Care segment specifically, the air fragrance market for the newer formats which we are targeting for growth and are we seeing any upgradation from Agarbatti to Odonil and when do you see that happening in India?

**Sunil Duggal:** We have not tracked Agarbatti market, it is very, very fragmented and we really do not have too much visibility about that. But we do see that the base air freshening products that the Odonil blocks are witnessing (+30%) growth. So, obviously, there is some switch happening but we have not really tracked that. It is also modern trade driven, around 25% of our business comes from modern trade here. And we have a complete hold over this market. So, I think the trajectory of business here is strong; Odonil is now well ahead of a billion rupee revenue and I think we just need to keep innovating and not just look at the base Odonil blocks as being the driver of growth. If you look at the value added options which we are doing by introducing car fresheners, plug0069es, gels. And I think what makes us interesting is it is a very high margin category. So, it pays to be here and pays to invest here.

**Prakash Kapadia:** If you could give some longer-term outlook for the Health supplement business what are we doing as a leader to grow the category, how do we get the experimental customers especially the younger generation to have something more of a Chyawanprash or Honey?

**Sunil Duggal:** I think there is a lot of work been down, that has been shown in the results. Both Honey and Chyawanprash have been consistently growing, particularly, Honey. So, the whole use of Honey has been now directed at the youngsters with slimming as the basic platform for usage. Chyawanprash we have launched variants, we have launched variants for the diabetics, so all that is helping fuel growth. But I do agree there is a lot more which we can do in terms of new product introductions.

**Prakash Kapadia:** Given your leadership you can really expand the category at a much faster pace.

**Sunil Duggal:** Absolutely. Both Health Supplements as well as the OTC range is going to be really very important to our long-term objectives but only for the domestic markets. Overseas, we stick to HPC, I do not think we have got any other than HPC.



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**Prakash Kapadia:** And this business roughly would be around 620, 630 crores. When do we see this crossing 1000 crores, is it possible?

**Sunil Duggal:** The Healthcare business is actually more than, it is around 1300, 1400 crores. So, you add all the Healthcare product portfolio together. It is a large business and doing quite well. Brands like Hajmola, etc., are doing exceedingly well.

**Prakash Kapadia:** Recently, we have seen you are talking about the first initiative. So, is it to counter the fruit base beverages like Rasna or Kraft getting aggressive or targeting Fruity and ensuring this is more of a rural product, so lower price points, that is the game plan there?

**Sunil Duggal:** We have a couple of thoughts here. One is that, this is too big a business segment to be ignored. So, can we get a slice of this market without any erosion of margins compared to our base juice portfolio? It is never easy, but I think with Burrst if we are able to make that brand successful, we would have achieved both these objectives on catering to the price conscious segment as well as not diluting our margin profile in Foods.

**Prakash Kapadia:** And one small addition, advertising specifically on the standalone business, we have seen that to be a broad range of around 380, 390 crores over the last three years. Obviously, the gross margin pressure as you have been talking pretty significant which has affected gross margin, so maybe ad spends are cut. When do we see our EBITDA growing to double-digits from the standalone business, will it be this year or we will have to wait for some time?

**Sunil Duggal:** EBITDA will certainly grow in double-digits. I do not think that is very difficult. You just have to have a little bit of moderation in inflation and you will see double-digit growth in EBITDAs.

**Prakash Kapadia:** And last question if you may permit, on the international business, given that our organic business is over 900 crores, what are the steady state growth rates now over the next two, three years we can see?

**Sunil Duggal:** For the organic business now, it all depends in our view regarding Namaste and obvious now being organic since they have been tapped fully. If you do, then I think, we would look at a trajectory of around 20% to 25% that would be a reasonable estimate.

**Richard Liu from JM Financial**

**Richard Liu:** Just on this standalone number, if I were to look at your gross margin for the parent account, we have seen a contraction in the gross margin for every quarter for the past, I think, four years, if you look Q4 FY09 onwards, every year, the margin has been compressing, YoY. If you can give us some perspective on this? Has it been purely because of inflation? I think, in



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this four years timeframe, there was a break in between when we actually witnessed deflationary situation in some of the raw materials, if you can share some perspective on this over the longer-term?

**Sunil Duggal:**

I think the gross margin which is around 46% now, really took off to close 48% to 50% levels in '10-11, I do not have the numbers in front of me, but before '10-11, it was pretty much in the 45% to 47% band. So, we had two great years, '09-10' and '10-11', and 10-11 was where they peaked. That was on the back of very benign inflationary environment. So, it is not that we regressed to what we were five years ago, it is two years of very high gross margin, not coming off because of inflation and other factors and every chance that we are able to come back to those levels but I do not think like as I said it will happen in a hurry unless inflation cools up very dramatically, which seems extremely unlikely. So, I think 48% to 50% gross margin profile is still possible. We just have to be little patient and not try to drive it too hard to taking unreasonable price increases, that would be bad for the business for the long term.

**Richard Liu:**

If I were to come back to the consolidated numbers now, Q4 last year I remember there was some kind of regrouping of expenses that has happened. If the gross margin of Q4 last year and Q4 this year, are they comparable or are they like-to-like?

**S. Raghunathan:**

We have made it comparable by restating the Namaste cost which was a bit of aberration at that time. Clearly, it is comparable now in the new system.

**Richard Liu:**

So, 320 basis points margin compression, that is apparent in gross margin, that is on the like-to-like basis?

**S. Raghunathan:**

Absolutely.

**Richard Liu:**

One number related question, what was the domestic volume growth, I did not understand the number.

**Sunil Duggal:**

9.5% approximately

**Richard Liu:**

Last one, if I can on Oral Care, you have written that there has been a volume market share gain, but if I were to look at your growth number of about 11% for the year in toothpaste, that number seems to be on the lower side when I compare the number with Colgate. So, where is the disconnect out here in terms of the reported number and the market share gains?

**Sunil Duggal:**

There is always a disconnect between Nielsen and the reported numbers and sometime, it just on account of some lag, sometimes on account of sampling issues. So, it is hard to give you an answer. We are also on that, where is the disconnect, but, this is what the syndicated number show us.



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**Richard Liu:** But if I were to look at the toothpaste number of about 11%, the only other comparable I have maybe is Colgate. How are you looking at bridging this gap in growth between yourself and Colgate? Because clearly 11% seems to be it is on the lower side compared to Colgate, which is a much larger player.

**Sunil Duggal:** Toothpaste is a peculiar category that you have very different margin profiles emanating out of different offerings. So, I think what we are looking at here is to drive growth profitably. So, we are investing significant amount behind our profitable brands; Red and Meswak. Perhaps, not as much as in Babool which is considerably lower margin. I think that really is the strategy here. We can continue to throw money behind Babool and gain traction but there, but we will have to pay a very heavy price for that in terms of margins.

**Richard Liu:** Okay, you are okay with the growth differential as they exist as on date?

**Sunil Duggal:** As of now, yes. So I am really keeping my sight on the profitable plans and I am devoting a lot of my energy in trying to improve the profitability of our discounted brands through whatever means.

**Richard Liu:** Okay, the last one is actually on the skin care. If my numbers are correct, I think, growth has picked up quite attractively this quarter. In short, my question remains that some of these categories that you have, tends to be pretty volatile in terms of a growth profile. What has gone right in skin care this time vis-a-vis a couple of quarters back?

**Sunil Duggal:** The skin care portfolio felt the brunt of the distribution reorganization, the urban reorganization. Skin care is not the urban phenomena as far as we are concerned with. So, we unraveled the entire distribution and bolted it on to the HPC distribution. Which mean, literally hundreds of stockists were changed and that was very disruptive for the business in all of Q2 and part of Q3. In Q4, we saw a revival happening, I think, that will continue. It is really something we knew would happen and it would happen not just in skin care but also in our OTC ethical business which also saw some damage in terms of growth in the second and third quarters but that was part of our plan. So, we were top of things and we do expect the growth of our skin care to be ahead of HPC as a whole.

**Richard Liu:** Okay, got it sir. Thanks a lot and wish you all the best.

**Vivek Maheshwari from CLSA.**

**Vivek Maheshwari:** Hi, thanks for taking my question. Sir, my first question is on domestic business growth again. The 9.5% underlying volume growth and even the revenue growth has been highest in last many quarters. There has been a distribution expansion which we have done particularly in the



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rural India. I know, it is difficult to quantify but is it possible that some part of this growth is also coming because of channel fill which means the primary sales are going up and the secondary sales will come with a lag which can get reversed depending on how quickly the secondary sales takes place so any views on that sir.

**Sunil Duggal:** Normally channel fill happens at the primary stage when we appoint new distributors and that is when we do a channel fill. Our rural initiatives have been very retail driven where the channel fill part is not significant because the retailer typically does not keep more than 3, 4 or 5 days of inventory. So, I do not think it is significant but you are right, there is a little bit of channel fill happening, but I think that will be more or less consumed by the traditional traction which we will get on the back of higher A&P spends and better availability. So that really doesn't feature much into our calculation, the channel fill ad spends. It typically happens when you launch a new product and then there is a genuine level of channel fill because you are starting from a zero base.

**Vivek Maheshwari:** Understood. Second thing is what would be the quantum of price hikes that you would have taken during this quarter?

**Sunil Duggal:** This quarter on a 7% for the consol business and 9.5% for the domestic business, again YoY. That is YTD pricing. Quarter will be quite moderate. The bulk of the price increase was done in the third actually, more than second.

**Vivek Maheshwari:** You are saying fourth quarter would have seen moderate price increase, right?

**Sunil Duggal:** Moderate price increase on a standalone basis. But if you take the cumulative increase on a 12 months' framework, it came to 9.5% for the domestic business. March 31<sup>st</sup> versus March 31<sup>st</sup> last year.

**Vivek Maheshwari:** Recently, there was a media review that where you had indicated that you know for fiscal '13 you would look at two-thirds volume growth and one-third realization growth.

**Sunil Duggal:** That is broadly true, I mean, it is just a ballpark number but it would be reasonably close to reality, the way we look at it now. We would look at around two-third or one-third split volume and price. Having said that if the inflation continues to be levels ahead of what we anticipate then it might change more like 60-40 or even half and half but we entered the year looking at a two-third one-third kind of blend.

**Vivek Maheshwari:** When you say, inflation, what is it that you are looking at, you know, expecting for your input basket for fiscal 2013. Again, I know the input cost prices have been fairly volatile but any number.



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**Sunil Duggal:** We budgeted before we began this year around a month ago. We budgeted from 5% to 6% inflation. We are a little bit less optimistic about that happening a month down the road. At the same time, I think, the outlook is not very clear. There is a lot of volatility here but we are already looking at inflation which is ahead of that number, so, therefore we may have taken up prices ahead of what we had anticipated. But we are going a little of easy in the first quarter. I think the market needs time to digest the earlier price increase. We also need to have better visibility about the next few quarters of inflation before we take any final calls here.

**Vivek Maheshwari:** Sir, in reality, the inflation is indeed higher and a much higher than what you are expecting between growth and margin, what would be of importance to you? Because, clearly last year you went a little aggressive on pricing and the volume realization mix was almost half and half. This year will that change?

**Sunil Duggal:** See, we do not want to compress the margins below where we are. I mean, the whole effort now is to increase margins to levels which existed a year or two ago which like I said earlier, I don't expect that to happen this year but we certainly would not like to see any further contractions. So, I think we will take up whatever price increases are required to maintain this level and to enhance it, and make sure that they don't go southwards.

**Sanjay Singh from Standard Chartered**

**Sanjay Singh:** Regarding Namaste topline growth which is 15%, but considering the rupee depreciation it would mean constant currency pretty much low single digits. Am I right on this?

**Gagan Ahluwalia:** Yeah, this quarter, on constant currency terms, it was a single digit. On a YTD basis, growth is in mid-teens.

**Sanjay Singh:** Namaste was doing pretty well till last quarter, so any particular reason this quarter?

**Sunil Duggal:** I think, it is just an aberration. We do see growth in the double digits henceforth. We do not see any structural problem with that. Just an aberration, may be, a very high quarter, previous quarter and some few accounts not generating enough revenues. That normally spills over into the next quarter. So, the Namaste business is firing. The US business in fact is doing remarkably well considering the circumstances in which the US is. The Africa piece, we are now putting in to plans. It is a slow burner, it is not something that is going to happen tomorrow. We are putting in the infrastructure to make sure that the growth happens. We are pretty confident about the Namaste business, it is on track.

**Sanjay Singh:** Just wanted to know glucose, I understand it is a seasonal thing, but is the market share being constant, earlier it was increasing in glucose category.



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- Sunil Duggal:** Yeah, it continues to increase. Problem is not market share. Problem is market growth which has not happened. The overall category has shrunk. Our share has actually increased here, so, it is clearly as I said a seasonal issue here not a competitive issue here. It has improved by 140 basis points, the market share, if you take the third quarter for which we have the data. Even if you take math, it has gone up by 160 to 180 basis points. No problems in terms of share.
- Sanjay Singh:** This quarter other expenses in standalone looked quite high. Is it any particular restatement or something or is there any particular thing, which is a one-time issue here?
- S. Raghunathan:** In standalone, other expenses, there is nothing unusual in terms of one-off, etc. It is a normal payroll. It is bunching of S&B expenses in the quarter.
- Sanjay Singh:** How much is the amount?
- S. Raghunathan:** Amount involved is 25% more compared to the last year, but the S&P cost we have booked in this quarter.
- Sanjay Singh:** Okay, last case is the whole debate is around gross margins and as somebody earlier said while other companies have been able to pass it on. Here either you have chosen or the market dynamics are such that you are not able to pass it on completely. One of the strengths of Dabur has been the diversified nature of the business and hence one particular raw material or one particular slow down growth in one particular category that would have affected it but having seen a gross margin compression across the board, is it across the board all categories even in the categories where you are dominant or is it only in some categories. I do not want category by category explanation but some sense on where this gross margin losses happening, is it across the board or is it mainly a couple of categories?
- Sunil Duggal:** It is across the board. It has been a little peculiar and what you are saying is absolutely right. The diversity of the portfolio in a sense is we bracket it up from inflation because they tend to cancel each other out in many ways. At this time, it has been particularly severe across our entire portfolio. We have two buckets, basically the oil based and the agri based and both have been on fire. That oil table has been very high, we all know that. The agri base which was more in the sense able to cancel each other out with the exception of honey everything else has been extremely high. The prices of menthol oil of other edible oils, vegetable oils, herbs and spices and in some cases have doubled or tripled during the last year. But we do not believe this is something here to stay while the inflation would continue, the rate of inflation would certainly come down. So, we are just going to be a little patient and the margin revival will happen and we are very confident of that.



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**Sanjay Singh:** But earlier we recall you used to mention that probably 19% to 20% kind of EBITDA margin is something which you would like to see. Has that normal changed as of now?

**Sunil Duggal:** I still say 19% to 20% EBITDA is definitely what we should continue to aspire for. We are not very far away from that. We are at 18% in the fourth quarter and 100 to 150 basis point increase while it may not be visible in the next quarter or two but certainly it is not something which is out of reach. It will happen.

**Sanjay Singh:** Thank you.

**Amar Kalkundrikar, HDFC Mutual Fund**

**Amar Kalkundrikar:** Thanks for taking my question. I have a housekeeping question. Can you share the operating margins in Hobi and Namaste for Q4?

**Sunil Duggal:** No, we do not share individual businesses margins. We share it at the consolidated level.

**Amar Kalkundrikar:** The improvement in profitability sequentially that we have seen in international business, at least can you share is it coming mainly from the organic original Dabur business or one of these businesses have started showing better profitability than your two businesses?

**Sunil Duggal:** See, the margin profile of our organic business is superior to that of the acquired businesses. So, obviously that has driven the profitability at a higher level. Having said that the overall profitability of the international business also has been pretty much like the domestic business. There has been a compression in margins there too. But the good thing about the international business is that the margins there are likely to revive much quicker than the domestic business because we see much more benign levels of inflation overseas than we see in India.

**Amar Kalkundrikar:** Thank you very much sir.

**Abhijit Kundu, Antique Capital**

**Abhijit Kundu:** Congratulations on a good set of numbers. I just had one question on your interest outgo. During the quarter, if I look at the interest outgo on a consolidated basis, that has shown a sharp decline. Has there been a restatement or something?

**S. Raghunathan:** See, any FOREX gains on mark-to-market basis is reflected as a part of finance cost, which is why you are seeing this quarter there is a drop in finance cost on an overall basis. That is the reason.

**Abhijit Kundu:** Also, there has been a reduction in effective tax rate for the consolidate entity.



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**S. Raghunathan:** Two reasons, one is that last year the same quarter we had a slightly higher deferred tax shown and also in the current year, we are having a slightly higher proportion of international profits which are tax fee that is why. But you can take it on a trend on an annualized basis, but do not take this for the quarterly as a run rate.

**Abhijit Kundu:** Okay, thanks a lot sir.

**Suruchi Jain from Morningstar India**

**Suruchi Jain:** I had three very high-level strategy questions actually. First what are your thoughts behind combining the health care segment and the consumer care segment results in your annual reports? Is there some strategic shift behind this?

**Sunil Duggal:** Earlier on there were two business entities which prevailed with fairly separate managements which we have combined into a single entity called consumer care. Earlier on we had consumer care which was HPC, part of healthcare and foods and we had consumer health which was ethical and OTC. We clubbed CHD into CCD and made a single integrated healthcare vertical which encompasses supplements, ethical, OTC, etc. So, therefore, that was a logical realignment because we did not want to fragment our healthcare into two entities. One of which was very suboptimal in terms of size. So that was the change. That is reflected in our segment reporting.

**Suruchi Jain:** Have your SBUs also changed internally? Is that what you are saying? Healthcare SBU is now a separate SBU or part of single business?

**Sunil Duggal:** It is a part of the single command and control, but it operates with some level of separation on the ground. So, the sales organization is common, the distribution organization is reasonably separated at least in the larger terms.

**Suruchi Jain:** Would it be possible to get these two separate numbers from you, maybe, offline? I understand that in the upcoming annual report.

**Sunil Duggal:** There is a segment report. We are confined by the constraints of the segment reporting which aggregates the consumer care both health and personal care into one entity. So, we would not be able to split it out.

**Suruchi Jain:** Second question on the overall strategy, from what I understand you had a lot of diversified products in niche businesses such as Honey, Chyawanprash, each of which has a very small market size anywhere between 3 billion to 9 billion, and you were the larger player in that. My thesis is that you are moving towards the larger markets, moving towards the segments that have larger market sizes, say 50 billion or 100 billion markets. So a smaller piece of the pie



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would mean larger sales for you and greater profitability despite being comparative. Am I correct in understanding that?

**Sunil Duggal:** We have made this move 10 years ago. It has not been just recent. Shampoo was 10 years ago and toothpaste was 7 years ago. So, it has been a while since we have been here and I think we have performed well in the very competitive environment and the reason why we have been able to compete is we have been siloed in a particular niche which is normally the herbal and ayurvedic niche and it is part of a very large category. We have not attempted to go main stream and that protects our margins and as well as our market share.

**Suruchi Jain:** Will it be the same with Uveda brand of products?

**Sunil Duggal:** Uveda is a very niche play skin care, so is Fem. So in all the very large 50 billion, 100 billion HPC categories we opt to remain small but very focused in a niche area and not mainstream because mainstream has obviously a much high level of competitiveness and number of players are numerous.

**Suruchi Jain:** Okay, my last question on the distribution changes. I am sure, you have received already a lot of questions, but basically I wanted to understand how does the reorganization change, either the number of wholesalers and dealers or expands of your reach and sales coverage. So, if you could explain a little bit more about you know have the numbers changed or has the reach changed for you?

**Sunil Duggal:** I will give you some data points. The rural distribution would envision that we double the number of our stockists and double the number of our villages which we cover in the two year period from March 2011 to March 2013. It is really scaling up to twice what we had earlier and that is putting it in a fairly compressed form.

**Suruchi Jain:** Would that include your feet on the street?

**Sunil Duggal:** Not necessarily, feet on street would in fact go up by even a higher number but there would be different feet on the street. There would be people who are not directly employed by us but who are engaged for our work by third parties and then who are obviously not of the same salary profile as the regular urban sales people. So it is a different architecture.

**Suruchi Jain:** So, when you say double, you just mean stockist and substockist?

**Sunil Duggal:** It is basically the number of touch points where we engage with the rural retailer will double and this obviously would mean considerably higher number of feet on street which would actually more than double which would go up by a factor of like 3 to 4.



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**Suruchi Jain:** Okay, does this increase your reach. So, you mention that the Fem distribution has been just combined with the rest of Dabur. So have you basically just chosen like the more stronger sub-socket or wholesalers and then decided to make your new redistribution.

**Sunil Duggal:** In a sense, yes. The more equipped dealers were chosen and the less equipped were left out. So that process of selection of dealers was something which was done on the ground and we chose whoever best was available to us.

**Suruchi Jain:** Does it affect anything in terms of your SG&A or anything in terms of your bottom line?

**Sunil Duggal:** Broadly over these two years, the SG&A will increase by around 100 basis points as a consequence of this change.

**Suruchi Jain:** Last two years?

**Sunil Duggal:** I am talking about these two year period 2011-12 and 2012-2013. You will have broadly 1% increase in our SG&A, largely in the sales organization. Let us not look at SG&A, because that is the big pie, but the sales the sales part, the S&P part would increase by around by 100 basis points.

**Suruchi Jain:** Overall?

**Sunil Duggal:** Overall, and we will to attempt to reduce the G&A part, which is the other indirect cost to a similar extent so that not to load our indirects. But the sales part would definitely increase. There is a cost to this expansion.

**Suruchi Jain:** How does your advertising and publicity expenses, do you see like every dollar that you spend there will have more impact basically on the ground with this new distribution.

**Sunil Duggal:** Today, a lot of our dollar actually goes waste. Because the product is not available at the last mile whereas the advertisement is so it will definitely enhance the efficiency of our spends.

**Suruchi Jain:** Okay, thank you.

**Vivek Maheshwari from CLSA.**

**Vivek Maheshwari:** Just two or three, couple of housekeeping questions. One, the CAPEX of 105 crores roughly that you mentioned, how is it going to be spread and will there be anything else other than this CAPEX?



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- S. Raghunathan:** CAPEX for 2013 will be above 180 crores, not 105. Largely this time these are on the International business. We are putting up our Sri Lanka plant and also a new plant in Bangladesh.
- Vivek Maheshwari:** Bangladesh will be for what sir?
- S. Raghunathan:** Bangladesh for the local business for HPC and OTC products; 105 is only Sri Lanka.
- Vivek Maheshwari:** Okay, 105 is only Sri Lanka. The debt number as of March 31, 2012, is 1074 crores, right?
- S. Raghunathan:** But the net debt is only 240 crores. You have to adjust surplus cash which we are holding here.
- Vivek Maheshwari:** Lastly, the other income, although, it is only a small number but it has moved up by 27%, anything specific on a full year basis, the financial income is likely to be maintained at these levels?
- S. Raghunathan:** Yes, it has increased this quarter due to bunching up some of scrap sales and so on and so forth which is why you are seeing a slightly higher number for the quarter.
- Gagan Ahluwalia:** This also includes interest received on surplus cash reserve.
- Vivek Maheshwari:** Okay, so there is nothing like one time?
- S. Raghunathan:** Yes, there is nothing unusual.
- Vivek Maheshwari:** Understood, thank you.
- Gagan Ahluwalia:** Thank you Marina. Thank you for joining this call. As always, the webcast archive will be available on our website for those who could not join the call today and for future reference. For any other assistance, please contact us. Wish you a very good evening. Thank you very much.
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