



“Dabur Q1 FY11-12 Earnings Conference Call”

July 28, 2011

Dabur India Ltd.’s Participants

MR. SUNIL DUGGAL - CEO

MR. S. RAGHUNATHAN - CFO

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

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MRS. GAGAN AHLUWALIA - GENERAL MANAGER, CORPORATE AFFAIRS



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Gagan Ahluwalia: Good afternoon. On behalf of the management of Dabur India Ltd. I welcome everyone to this conference call regarding the results for the quarter ended 30 June, 2011. The Dabur team here is Mr. Sunil Duggal - CEO, Mr. S Raghunathan - CFO, Mr. Ashok Jain - Senior General Manager- Finance & Company Secretary and Mr. Saibal Sengupta - Senior General Manager- Finance. We will start with a brief presentation by Mr. Duggal on the company's performance and then go on to the Q&A post that. Over to Mr. Duggal.

Sunil Duggal: Thank you Gagan. Good afternoon ladies and gentlemen I welcome you to the Dabur India conference call pertaining to the results for the quarter ended June 30, 2011. Dabur India has registered growth of 31.6% in consolidated sales and 19.6% in profit after tax during the quarter. Excluding acquisitions, the sales grew by 13.8%.

The consumer care division, CCD, reported a growth of 13.0% driven by a combination of volume growth and price increases. The division witnessed good momentum in hair oils, toothpaste, home care, skin care and foods. Hair oils reported a growth of 16.1% during the quarter. There was significant input cost inflation in this category which was managed by effecting price increases across the portfolio. In spite of the price hikes, demand remained robust, resulting in strong double-digit growth in Vatika hair oil and Anmol coconut oil. Amla hair oil registered a growth of 10% and improved its volume market share. While the shampoo category continued to witness intense competitive activity, Vatika shampoo showed signs of revival as sales picked up on a sequential Q-o-Q basis. We expect this momentum to continue. We have continued to focus on improving the proposition of Vatika shampoo through the combination of value enhancing strategies, small product focus and impact for media spends.

Health supplements were flattish during the quarter primarily on account of marginal decline in Glucose sales which is typically the largest component of our health supplements portfolio in the first quarter. Glucose category was impacted by a weak summer, however the brand recorded increase in volumes market share by 140 basis points. A new litchi flavored variant for glucose was launched during the quarter. Honey witnessed double-digit growth driven by focused media inputs. Chyawanprash sales are not significant during this quarter due to seasonal factors.

Oral care registered growth of 12.7% during the quarter; toothpaste grew by 14.1% and its volume share increasing by 80 basis points. Both Red toothpaste and Babool reported robust performance driven by innovative media and promotional strategies. During the quarter toothpowder reported robust growth of 9% driven by focused marketing efforts.

Skincare category posted a growth of 16.3% during the quarter; growth was driven by strong performance of the Fem portfolio which grew by 18.6% with bleaches and hair removal creams performing quite well. This category saw numerous innovations in particular the



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Oxylife portfolio. Growth in Gulabari however was in single digits during the quarter and mainly due to the high base of last year.

Digestives category grew by 7.8% during the quarter. Growth in Hajmola was driven by a new variant such as Hajmola Sauf and Hajmola Mint Masti. Dabur Lal Tail witnessed double-digit growth driven by focused consumer activations.

Home care registered strong growth of 24.9% during the quarter largely driven by Odonil. Sanifresh also performed well driven by media support and trade marketing initiatives. Odomos reported decent performance back to activation and increasing market penetration.

Foods category grew by 31.5% during the quarter, led by strong performance by Real and Activ Juice portfolio. The new fiber enriched flavors launched under the Activ brand elicited a positive response from consumers. Strong demand improving distribution and innovations has been the growth drivers for fruit juice business, which has shown great resilience in spite of supply bottlenecks from Nepal. Dabur's culinary brand Hommade, continued its robust performance posting double-digit growth during the quarter. The foods business will continue to grow on the healthcare platform through launch of large number of innovative new products.

Consumer health division, CHD, witnessed growth of 11.4% during the quarter. Both OTC and ethical portfolios witnessed steady growth. During the quarter we had acquired 30+ from Ajanta Pharma and the brand is getting ready for a relaunch later during the year.

Dabur's international business excluding the two acquisitions witnessed increase in sales of 12.3% in value terms and 14.5% in the same currency terms. Political turmoil led to disruption of sales in Libya, Syria and Yemen. In addition disturbance in Nepal brought down the overall growth of the business during the quarter. However, growth was strong in core markets like Egypt, GCC and Nigeria which are continuing to show signs of strong demand and preference for our brands.

The two overseas acquisitions, Hobi and Namaste Laboratories contributed to around 14% of this quarter's consolidated sales. Namaste demonstrated strong growth within the US and in the international markets. The brand continues to be one of the fastest growing in the US ethnic hair care market and retained its strong competitive position with gains in the market share. We are now embarking on an aggressive plan to introduce Namaste products in Africa. These are expected to contribute significantly to the growth of this business. Hobi has posted a good performance and we are focusing on investments in the brand and increasing its penetration into its other overseas markets such as Africa and the Middle East.

On the profitability side Dabur saw a growth of 19.6% in profit after tax during the quarter in spite of severe input cost inflation. The company witnessed marginal compression at the



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EBITDA level which came down to 15.9% of sales during the quarter as compared to 16.4% in the previous year. We had earlier mentioned regarding the continuing strong focus on the healthcare side of the portfolio. Currently, part of the healthcare portfolio that is health supplements and digestives reside in CCD and the OTC and Ayurvedic part are part of the consumer healthcare division. In order to synergize the two portfolios and to provide enhanced capability and scale to our consumer health business, we have decided to integrate the consumer care and consumer health SBU's. The integration process has been initiated and we expect it to be completed over the next 3 to 4 months. This initiative will pave the way for stronger focus on healthcare with enhanced scale, distribution strength and brand optimization.

Inflation has been the biggest challenge this year and may continue to dampen our gross margins for some time. To combat this we continue to affect calibrated price increases without compromising on our competitive position or eroding consumer franchise.

The competitive intensity in some of the HPC categories may demand higher expenditure on A&P and this could also exert pressure on margins. However, we will be able to overcome these challenges by initiatives such as strategic stocking, cost management, focused ad spends, thrust on rural markets and new geographies. With this I now open the Q&A and invite your questions. Thank you.

Parinita Poddar from ICICI Direct

Parinita Poddar: Just a couple of questions, firstly on your raw material front I would like to know that your raw material prices increased dramatically, can you just give us the reason for the same as in which commodity specifically did you experience the raw material price increases ?

Sunil Duggal: The main one was coconut oil followed by light liquid paraffin, then something called as PDCB which goes into Odonil, all the edible oils, mustard oil in particular and a whole host of other raw materials. Let me share with you, what is not inflationary as that is a shorter list. Kesar, sugar and Honey these are the three items which actually underwent some level of deflation and it is a very tight list. Otherwise it was very severe across the whole raw material and packing material spectrum.

Parinita Poddar: And for the raw material which you experienced the price increase, what would be the share in the total raw material or if you could give me the other way? The ones which have not experienced a price increase?

Sunil Duggal: 90% of the total raw materials that go into our product would have increased and would have experienced some level of inflation.



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Parinita Poddar: The second question would be like whatever price increases you have taken for the year and in the last quarter, have they been enough to give you cushion against the increase in raw materials prices or do we expect any further increase in prices in the coming quarters?

Sunil Duggal: Let me answer this question in this way that the price increases which we have taken so far have accounted for around half the material inflation. The other half has eaten into our gross margins. Going forward we do intend to take up another round of price increases towards the end of this quarter. And post would then substantially enhance the margin profile perhaps not take it up to what we had last year which was in a comparatively benign environment but certainly improve it from where we are sitting today. Why we have chosen to delay these price increases is that we do not like to take very sharp back-to-back price increases because it can damage the consumer franchise in some instances and in some instances the competitive environment does not permit that. And also we did have some hopes a few months ago that inflation would taper off but that does not seem to be happening, I think another round of price increase is around September would be almost necessary .

Parinita Poddar: So basically you expect the second half for your margins to ease off and to be slightly under pressure in the second quarter too?

Sunil Duggal: Broadly yes. Now outlook for the 3rd and the 4th quarter is a little far-fetched and you may have inflation easing off. In that case, margins might rise up to last year's levels. That is the best case scenario but it is not necessary that will happen because inflation does seem to be surprising everybody with its intensity and continuity.

Parinita Poddar: With any of the price increases like suppose 1% or a 2% price increase what is the kind of volume growth do you pitch at? Do you see any decline in that or you expect it to remain the same?

Sunil Duggal: I think if we spread out the price increases they are cushioned and the consumer impact is comparatively low. If you take a very steep price increase or back-to-back price increases then there is visible erosion in terms of consumer franchise in many categories. So we tend to avoid that and if you see that our price increases have been fairly calibrated in the way that there has been no dramatic price increase in any category including hair oils, which witnessed perhaps the highest levels of inflation.

Parinita Poddar: One last question. What would be your outlook on the advertising cost going ahead except for what you told us that in the home care segment you will be doing more, right, because of the increased competitive activity? But what about the overall because you are experiencing an increase in your raw material costs also in the next coming quarter?

Sunil Duggal: Which obviously means that we will keep some cap on the A&P spends but I do see them nudging a little bit ahead of what we did in the first quarter. See in the last four quarters if you



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see they have been different, one we have been at the level of around between 12 and 13%. I think it would be in the region of around 13% going forward maybe 13.5% but certainly not 15% or 16% but neither the would shrink it down to 10% and 11%. My best guess would be around 13% to 13.5%.

Parinita Poddar: That's about it. Thank you so much.

Hemant Patel from Enam Securities

Hemant Patel: Couple of questions, one in terms of the demand scenario itself, so how do you see this actually panning out given the fact that most of the players have actually started going up and increasing prices, could you dissect this in terms of the urban and the rural markets for me?

Sunil Duggal: Well the rural market has tapered off a little bit, urban markets we are pretty confident. Overall the demand side seems to have slowed down marginally and I think going forward whether the slowdown would accelerate or would it just be plateauing at the current levels it is hard to say. Typically when you take up prices vary sharply there is an impact on demand but often it is hard to measure. It all depends upon how disposable income particularly in the rural area moves up. So it is extremely hard to predict but intuitively I believe that very high pricing price increases would dampen demand.

Hemant Patel: And what would be the volume growth rates this quarter?

Sunil Duggal: Volume growth will be in the region of 8%.

Hemant Patel: Could you give us a sense of what is happening on the overall international business, I mean in terms of the growth excluding Hobi and Namaste?

Sunil Duggal: Well it has been a mixed bag the numbers are not as strong as what we saw in the last few quarters, largely on account of political disturbances rather than on any other brand or market related issues. We have some large markets in North African region, of Africa and then Nepal is an important market for us and all of them underwent fairly high levels of turmoil. In fact even as we speak there is no real sales happening in Syria, Yemen and Libya. So these are causing some pain but the core markets which are from the bulk of our business in the GCC and markets like Egypt, many other parts of the Middle East are still showing very robust performance.

Hemant Patel: Will the growth rates lag last year's performance in a larger sense because of these issues?

Sunil Duggal: I do not expect the top line to be as strong as what we saw last year but it certainly should be better than what we saw in the first quarter.



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Hemant Patel: And in this one final question on your raw material front given the fact that you have had a major squeeze in the last quarter and you did mention that you feel that the inflationary cost pressures will probably subside during the second half of this year. You're reading into that predominantly stems from which particular categories?

Sunil Duggal: That is a statement more borne out of hope than of any expectation. Hope that inflation would taper off. It is anybody's guess whether it will or will not. I think we did expect three months ago that it will taper off by the end of the first quarter but no signs of that happening. Quite frankly now we are prepared for a structural shift in the whole pricing cycle northwards and we are now prepared to do business in a highly inflationary environment for the next few quarters at least.

Hemant Patel: On the same like the reason why the margins in the food segment declined?

Sunil Duggal: The food segment was one of the better performers in terms of margins.

Gagan Ahluwalia: Consolidated year margins on the food business declined because of Nepal.

Sunil Duggal: If you take India food business the margins were pretty healthy there because (a) most of the products are imported and the inflation on the imported raw material was very low. (b) the currency worked in our favor the juice business for example and Honey of course the margins look pretty good. In fact the juice business we have seen perhaps better margins in the first quarter.

Hemant Patel: All right, fair enough and thanks a lot and I will get back with a few more questions.

Vivek Maheswari from CLSA

Vivek Maheswari: A few questions on pricing as well as gross margins again. First is, in the first quarter what would be the quantum of price hike that you would have taken and how much of this is getting captured in the first quarter itself. Which essentially means that the second quarter will have some benefit of price hike which you would have taken during the quarter?

Gagan Ahluwalia: The pricing element in the domestic business is 6.6%. Out of the 13.7% growth, 6.6% has come from price increases.

Vivek Maheswari: 6.6% pricing will also have some carryover effect of hikes that you would have taken in the previous year but not captured in the first quarter last year right?

S Raghunathan: Split it between the two, about 3% will be carryover from what they took since first July of last year and 3.5- 4% will be the fresh pricing we have put through this quarter.



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- Vivek Maheswari:** Any of this 3.5% of this quarter anything over and above that which will get reflected in the second quarter results or...?
- S Raghunathan:** Some of the price increases we put through the month of April, sometime in early May. So some of this will flow into the next month.
- Sunil Duggal:** We have taken up prices in every month, even in June we have taken up some prices, toothpaste for example and that will carry over into the second quarter. It is hard to put an exact number to it but we take prices as and when the opportunity presents and they could be in whichever time of the year or month as the case may be.
- Vivek Maheswari:** And I mean difficult because difficult to probably put a number but anything on full year price increase that one can see?
- Sunil Duggal:** In the region of 8 to 11% I would put it. That should be the range we have done say 6.6%. The best case scenario is that we take it a tad more and from 8% the more likely scenario is around 10% and if inflation continues it could be as high as 12%. I personally tend to think it would be around 9% to 10%.
- Vivek Maheswari:** Which will be like amongst the highest that you would have taken in any particular year, right?
- Sunil Duggal:** In this decade at least. It is back to the 90s level of inflation where these kinds of price increases were pretty routine.
- Vivek Maheswari:** And these as you have mentioned these would start coming in from October or thereabouts, right?
- Sunil Duggal:** You've already seen six percentage points happening out of which four is the carry forward part. I would not put a timeline during this time, it will happen throughout the year. As and when the opportunities present or inflation begins to bite, we will look at pricing opportunities and take up prices. But at the same time I think the focus is on not losing consumers franchise and not losing our competitive position. So these are the constraints to price increase which will have to factor in.
- Vivek Maheswari:** Secondly, of the total raw material costs the purchases portion was very significant in this quarter. Is there any specific reason is it because of Hobi, Namaste or anything and the kind of raw material to sales ratio that I have seen in this quarter we have not seen in the past ever this kind of number?
- S Raghunathan:** Vivek the entire Namaste model is on traded model, it buys from a third-party, so that is exactly the reason for doubling of the traded goods line if you see it in the P&L account.



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Otherwise there is no significant change in our supply chain configuration other parts of the business.

Sunil Duggal: The organic business has undergone no significant change in fact there has to be a little bit increase in sourcing but they are very marginal, so it is only the Namaste factor which is it is not like to like comparison.

Vivek Maheswari: But 4th quarter too had Namaste but at that point of time was there any reason why that portion was much lower?

S Raghunathan: No, there was a reporting issue because Namaste was just coming, we were not able to bifurcate with the available information at that time. So this quarter onwards we have a perfect way of accounting it.

Vivek Maheswari: On a like to like basis 52 or thereabouts should be the raw material to the overall sales, that will be the number right?

S Raghunathan: True

Vivek Maheshwari: But then the problem in the previous quarter as in the first quarter fiscal 11 the A&P base was very high at 16.5% so you had lever of reducing it by 380- 390 basis points but the problem is that the next three quarters has around 11.5% kind of an A&P. If the A&P remains at the same level the problem is that the reduction in gross margin is going to impact EBITDA margin much more than what it has done in this quarter, thanks to the lower A&Ps?

Sunil Duggal: Therefore it is imperative that we would look at a superior gross margin profile in the second quarter than we had in the first and that is the challenge before us that the material cost to sales ratio has to go down from the current 52% levels.

Vivek Maheswari: So it is not going to be as dramatic, as one should not extrapolate to that extent this number?

Sunil Duggal: I do not think we should because the comparatively lower A&P spend in the second quarter onwards, should be offset by lower material costs, otherwise there would be obviously a shrinkage, of course, there will be other cost elements which we can manage there will be operating leverage etc. but a lot of it will have to come from material costs.

Vivek Maheswari: For full-year is there any indication on the EBITDA margin that you would look at to maintain?

Sunil Duggal: Well it is hard to give a clear feel for that. I think it will be very hard to maintain last year's EBITDA that is very clear in such a highly inflationary environment. But we will try to manage the situation as well as we can but I would hesitate to give a number at this point in time.



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S Raghunathan: One of the important factors that you should keep in mind that Mr. Duggal pointed about a proposed price increase, which is being considered from September to October. That is an important factor when you factor in these margins calculations. The second price increase kicks in later so it is not correct to assume the current EBITDA margin or the gross margin will continue through the year.

Sunil Duggal: Yeah, there are two elements, one is of course the inflation which is impacting the organic business and that is why companies also have a slightly lower EBITDA profile. So the blended EBITDA would also be impacted by that element. But having said that we peaked at that 20% EBITDA last year and we are not dogmatic about maintaining that EBITDA level I think we will look at a more robust growth model whether even if it mean some shrinkage at the EBITDA level.

Vivek Maheswari: Okay understood. I am sorry just two more quick questions on two categories; one is on shampoos in which I was slightly disappointed considering the base was relatively better and second, foods, what drove this strong revenue growth and are you looking at new launches or extending the category beyond juices etc.?

Sunil Duggal: One thing that all of you should look at the numbers in this quarter is that they are sitting on top of one of the highest ever bases. Q1 of last year in at least as far as top line is concerned was a spectacular quarter. We grew top line by around 20% almost all of it was volume driven so that was a very hard act to follow. Shampoos is a very similar story, we peaked shampoo sales in the first quarter of last year. A reduction from those very high levels is not surprising. We would urge you to look at sequential growth where you see fairly strong uptrend happening in which we expect to continue. The picture will correct itself by the 2nd and 3rd, certainly by the 3rd quarter and substantially by the 2nd quarter of this year. You will see growth returning to this category and I do not see that there is a top line issue as far as shampoos is concerned. I will always maintain that our problems more are in terms of squeezing profitability out of this category which is ofcourse a little bit harder, actually change in the whole pricing mechanism. So the volumes will revive. That is not a problem.

Vivek Maheswari: Okay, on foods bit it was obviously very strong quarter so any specific?

Sunil Duggal: It could have been even better had the supply situation been what we had wanted it to be. So the food business is on a roll and I think this is where the consumer preference is converging on to the health as part of beverage portfolio. It is also the affordability does not seem to be a problem here at least, people are willing to spend more money on high-priced beverages and not downtrading to lower price ones which is again counterintuitive but sometimes consumer behavior is surprising. The modern trade environment is now also is growing at a rapid pace which will further accelerate growth and I think our innovation pipeline here is perhaps one of the strongest, so we have great products in the pipeline which will continue to ensure high levels of growth at the top end of the market generating even higher margins.



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Vivek Maheswari: Any thoughts on going beyond juices but for the culinary portfolio small one?

Sunil Duggal: There is so much which we can do in juices and get into the domain of functional beverages as against vanilla juices. One element of that you have seen in the form of the fiber added juices and there is lot more we can do in beverages. But having said that we are exploring the culinary space and we will do some development here. We do not expect it to become a huge generator of revenues but it will be interesting initiative which we can drive very profitably. I think in the foods business we are really looking at very profitable growth. It is very easy to get sucked into the commodity end of this business and that might generate big revenues but it is a margin trap here which we would avoid getting in to.

Vivek Maheswari: All right, thank you very much and all the best.

Cheenu Gupta from Tata AIG Life Insurance

Cheenu Gupta: In continuation with the previous speaker I would like to question on the food segment. We have seen good growth as we stated 31 .5% and I believe most of it would be from the juices category. How much of this increase would be volume and how much would be pricing?

Gagan Ahluwalia: Pricing I think is not very much, it is largely volume led.

Sunil Duggal: I think 5 or 6% would be the price utmost.

Cheenu Gupta: How would have the overall category grown?

Sunil Duggal: We do not know but we have grown ahead of this category as far as fruit juices are concerned. We do not have the clarity in terms of the food drinks the lower end of the market which is actually substantially larger but as far as fruit juices are concerned we have grown ahead of the category.

Cheenu Gupta: Lastly you mentioned regarding some supply-side issues so if you just elaborate on this what were these and how would they stand corrected going ahead?

Sunil Duggal: The Nepal turmoil in terms of political instability was there in the 4th and the 1st quarters. We have had a very peaceful July and hopefully the same will continue, there were also some labor troubles at our plants, some union activities etc. which did take away around two weeks of production at a very crucial time to just when we were beginning to hit summer. So hopefully that would not recur we will have no supply bottleneck. We are also looking at putting up large manufacturing facilities in other places those will be commissioned next year. But I think that would serve to mitigate any kind of risk which we may face in Nepal in the future.

Cheenu Gupta: Would you be able to put a number to what kind of growth we would have missed because of this?



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Sunil Duggal: I think it would be anywhere between 35 to 40% as against the current 31 to 32%.

Cheenu Gupta: Okay, that's it for my side. Thank you.

Nillai Shah of Morgan Stanley

Nillai Shah: Just one question on the hair oils, what is the volume growth for the overall hair oils category?

Gagan Ahluwalia: It is flat.

Nillai Shah: The second question which I had was basically on your comment that you would be willing to forgo margins for stronger revenue growth of volume. Basically every management, every FMCG company seems to be talking the same thing. So in your view does this mean that even if input costs were to come down, competitive intensity would continue to remain strong and ads spends would continue to trend higher?

Sunil Duggal: Not necessarily, I think there is a point in time where the competitive intensity would ease because at the end of the day hair oils is bread-and-butter for a large number of companies not necessarily for us. So the sustainability in terms of being able to spend higher amounts on A&P and at the same time maintain aggressive pricing curve may be hard to match. Actually, in our case the lack of volume growth happened more because the largest customer which is the army has been substantially downscaling business and this hurt us in many categories but much more so in Amla Hair oil because they did not take anything of note this year than they are like I said around 15% of total Amla sales. So they have been reducing inventory as part of overall tightening up mandate by the government. So, that was one of the prime factors in the lack of growth in Amla.

Nillai Shah: One final question, is it possible going forward to cross subsidize some of these categories where there is high input cost inflation certain other categories such as Chyawanprash, digestives, consumer health where the competitive intensity and/or input cost inflation may not be as high?

Sunil Duggal: We tend to avoid doing that because we believe that each category should stand on its own feet but there are times when we ramp up or down at close in certain categories and cross subsidized some others but that is done as exception. We do believe that every category should have its own business plan and should adhere to it and deviations are few and far between.

Nillai Shah: Thank you.

Sachin Bhatia from Baring Private Equity

Sachin Bhatia: Good evening sir. During the start you mentioned that you will be merging CHD and CCD. Could you put some light on that?



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Sunil Duggal:

CHD is a comparatively small SBU around 350-400 crores and quite frankly we always believed that the operations of CHD were subscale in the context of the overall Indian market but it was the fledgling type of environment and we were unsure how it would sit with the larger consumer care business. But if you see over the years we have been progressively merging our various business divisions and creating a single large vertically integrated entity. We did this first with the erstwhile, I do not know whether you were around those days but we had HCPD and SPDs, healthcare and personal care part which we integrated to form CCD. Then we bolted on foods which was an independently run SBU and then we had the CCD plus foods portfolio and this is the final leg of the journey which means that the consumer care division will be the single depository of our domestic business. What I think this will facilitate is our ambitions of becoming a consumer healthcare major in this environment. We already are perhaps the single largest consumer health care company but I think we need to do much more here. And having a separation of the two healthcare businesses with supplements and digestives sitting with consumer care and OTC and generic sitting with consumer health was really not the best arrangement. I think now we put it together. It is going to take time and effort and there will be some disruption in terms of sales which we would be able to make up. So that process has begun and it will be completed by August-September and I think going forward it would a) release some cost but more importantly I think it would be b) very crucial in expanding our consumer health ambitions.

Sachin Bhatia:

Okay and how will you manage the distribution and the address the channels because I understand CHD would have a different channel to address the OTC and ayurvedic?

Sunil Duggal:

Yeah, it would be a very different channel. It is a very complex sales architecture but there is a lot of harmony to it. It is a division at certain levels of healthcare and HPC and HC as we call it, the home and personal care and healthcare with foods coming along with the healthcare piece. So I want to explain it in this forum but it is very well-mapped out, we have been working on the designs of this for last six months. It took us a lot of time and effort to come to the optimal design and now we are in the activation mode, we are implementing the design on the ground. So we are pretty confident about its outcome and we have been through this journey couple of times before so there is a lot of confidence in our ability to manage this integration.

Sachin Bhatia

Thank you.

S. Natraj from Quantum Advisors

S. Natraj:

Give us some sense on the rural versus urban dynamic of demands across the portfolios, are more people drinking more of juices or compared to urban because of lack of availability of those products there so, is there a sense if you could give us because of all the incomes that is happening at the rural side?



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Sunil Duggal:

I think the overall theme which you see today in the consumer space in India is that there is the distinction between the urban and the rural consumer is narrowing. Earlier on there was a distinct preference for a certain types of products, let's say Red Tooth Powder versus a toothpaste, rural versus urban and now we are seeing that the whole thing converged. Having said that the rural consumer still prefers lower price points, lower smaller pack sizes but it is increasingly drawn to buy the same brands as the urban counterpart. So the so-called rural brands I think is a figment of anybody's imagination, it doesn't really exist but you do see a lower priced what you call the LUPs of the same brands dominating the rural landscape. But otherwise we are seeing a demand for, even let's say our beverages which we never thought there would be a rural franchise for our fruit juices but we are seeing substantial demand coming in from fruit juices, while we don't have the numbers, I think it is fair to believe that significant part of the juice growth has actually come from rural, very hard to map out because we don't have distribution in rural for this category but there is a flow of product from urban to rural here. Similarly, our skincare and noticeably the Fem portfolio is a substantial rural element to it which is again under the radar and I think to facilitate that we are expanding our rural footprint which will incorporate these products which earlier on were confined only to the urban space.

S. Natraj:

So following up on that, give us a 3 to 5 years' perspective of how the distribution should shape up in the future for all of FMCG companies, especially you keeping in mind the rural versus urban is a figment of imagination. So in that sense how will your distribution change, will it be more expensive to service rural people or it will be less expensive or will your cost structure change. How will that be?

Sunil Duggal:

See, the cost structure will be dependent on each company's model but what is I think a essential and what most companies will have to do is, if they want to be players in the India rural landscape is that they have to facilitate the last mile access, go much deeper than what anybody has done, have a much stronger army of people on the ground which will service the rural trade and rural markets. So there has to be a structural shift in the whole distribution profile, we are already seeing signs of that happen. In fact as we speak we are modeling a rural initiative in Maharashtra and UP and by the end of this year we would have template on how do we see a rural distribution. All I can say is that it will entail a huge number of people which will be little bit different from what the current sales representatives are because they will have to be tuned to the rural landscape and in terms of logistics it will be a colossal enterprise but I think the payoff will be also very great.

S. Natraj:

And lastly on the fruit juices side, is there a thought process long-term as abroad for a vending machine kind of a platform compared to our tetra pack kind of platform as we go forward to widen the base?

Sunil Duggal:

Well at the moment tetra seems to be the only solution but within the tetra environment there are low-price format which we are exploring. The problem with any juice packaging is that entails large CapEx. So you have to be very careful what you want and where the demand lies otherwise



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it will sink in a lot of CapEx for something which has poor demand then this money is down the drain. But I think there is so much unmet demand in juices in the existing formats, in the tetra formats that the first step is to exhaust the demand rather than to get into completely different packaging formats.

S. Natraj: Thank you very much.

Naveen Trivedi from Pinc Research

Naveen Trivedi: Can you just give couple of growth numbers on products like Babool, Meswak, Chyawanprash, Honey, and Active?

Sunil Duggal: We would prefer not to talk about individual brands but I think if you take overall growth in toothpastes has been little ahead of 14% and our market shares have grown by 80 bps and so it's been a strong performance in this category.

Naveen Trivedi: But at least if we can classify toothpaste in terms of volume growth and price growth?

Gagan Ahluwalia: 5% in volume and 9.5% is price growth

Sunil Duggal: Toothpaste, like I said is another area where inflation has impacted very substantially.

Naveen Trivedi: In your press release you mention that there was a moderated growth in the Chyawanprash or was it on the back of off-seasons?

Sunil Duggal: Yeah, that's immaterial, I would urge you to not to look at Chyawanprash numbers in the first quarter because they are so small, it is probably 10% of the annual sales and growth or lack of it is meaningless. The quarter two numbers would be interesting but the story really is the 3rd Quarter Story. Quarter two numbers are typically maybe 25% of annual sales and then it peaks in the 3rd Quarter which is more than 50% of annual sales.

Naveen Trivedi: So any specific reasons was there in 1st Quarter FY11, there was a 94% growth that we reported last year?

Sunil Duggal: But again of a low base 94%, it is not a very meaningful number so I think you can safely ignore this and really look at the 2nd Quarter and beyond numbers to really measure the Chyawanprash performance.

Naveen Trivedi: Right. If you can throw some light on our new launch Real Burrst?

Sunil Duggal: Real Burrst is a initiative which we are looking at in terms of seeing whether we can drive profitability from a low-price beverage and as we speak we are still not very sure whether we would like to pursue the Burrst initiative or focus on the higher price once but there is such a big



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market for low-priced beverages that it is important for us to explore it especially in the context of what we was spoken of earlier that if you can get into the lower price packaging formats then a lower-priced beverage option may be a possibility. At the moment we are just sort of feeling away in this space.

Naveen Trivedi: Thank you so much sir.

Anirudh Joshi from Anand Rathi

Anirudh Joshi: Hello sir, just wanted to know on the shampoo portfolio, when do you see the shampoo business probably returning to normal growth or profitability?

Sunil Duggal: Well, profitability it's going to take a while, normal growth by the 3rd Quarter definitely, but profitability is going to take a while. The Re. 1 price point has to break for the shampoo category to regain profitability and it's anybody's guess, how long it will take to crack that Rs. 1 price point.

Anirudh Joshi: Okay and on the margin front, which are the segment we are finding it difficult in terms of maintaining margin, I guess, shampoo is one so which are the....

Sunil Duggal: Many areas. Basically, there are two or three domains one is shampoos and the only other one which we are finding a bit of a struggle to maintain margins actually is toothpaste because again you have a category leader who is putting a lid on the overall pricing. So these are the two areas where the margin pressures are perhaps the most severe. If you take other categories whether it is beverages or lot of our healthcare products, we are far more liberated in terms of our ability to take up prices but these are two areas where you have a competitive issue which is keeping the price ceiling much lower than what we would like.

Anirudh Joshi: Okay, lastly, with the entry of Unilever or Minute Maid in juices segment, do you see probably the juices segment can go in a similar way of other competitive segments?

Sunil Duggal: Well, if somebody wants to play disruptive then there can be some damage done but that is true of any category anywhere. I do not believe that will happen because juice margins are not so much for us inspite of our unique supply-chain but for everybody else margins would be under huge stress. So the possibility of disruption happening here is low. In shampoos, the situation was very different because the margins actually were some of the most attractive in the consumer space so there was headroom to facilitate disruptive competition. I don't see that happening in beverages but it's anybody's guess whether somebody would pull the trigger here but I don't think so.

Anirudh Joshi: Okay and in the glucose segment you mentioned that due to summer issue, the growth was not there. Is it also due to the increased competitive?



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Sunil Duggal: No, no. Competition played no role, I suspect; everybody would be impacted by this very early outbreak of monsoon and a comparatively cool summer as we were. I dint see any heightening of competitive activity this year; we have been facing high level of competitions over the last three years but nothing exceptional this year. It was really a seasonal climactic issue.

Anirudh Joshi: Thank you.

Anshul Mishra from ING Mutual Fund.

Anshul Mishra: My question was regarding the health supplement category within your consumer care. Just wanted to understand what kind of growth we have seen, this is Chyawanprash, Honey and glucose kind of combined.

Sunil Duggal: Glucose as I said was flat and so was Chyawanprash. Honey was at 13% growth.

Anirudh Joshi: Okay and just to understand from a seasonality point of view Q1 would be what percentage of the entire year sale for this health supplement as the entire category roughly.

Sunil Duggal: I think, 20%.

Anirudh Joshi: So it is similar to Chyawanprash probably Q2...

Sunil Duggal: No, no. Chyawanprash is probably 5% in the 1st Quarter.

Anirudh Joshi: Okay.

Sunil Duggal: In fact, health supplements, I won't be able to give you the accurate number but health supplements is very high for glucose and very low for Chyawanprash and lower than average for Honey. Honey also peaks up in winters but not as much as Chyawanprash does.

Anirudh Joshi: Okay, thank you.

Gokul Masheshwari from Allard Partners.

Gokul Maheshwari: Thank you for taking my question. Just on the Namaste and the Hobi acquisitions, if you could just give an outlook on the annualized sales growth for both the acquisitions and how are the margins working because in the Turkish acquisition you are investing in the brands and Namaste had seen improvement in Q4. How do you see this full-year margin outlook for both these acquisitions?

Sunil Duggal: We expect Namaste to be strongly accretive and spin off very high margins and profitability. Hobi, we are expecting much lower return but it is in still be accretive but perhaps only marginally so because we would as we mentioned investing substantial amounts in A&P but



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both of them would be accretive so there will not be a drag on our bottom-line on account of Hobi.

Gokul Maheshwari: So, I mean on the Hobi front, I think they operate at around 10% to 12% at the EBITDA level?

Sunil Duggal: I think, 12 to 13%.

Gokul Maheshwari: You hope to maintain that for the full-year basis?

Sunil Duggal: I hope so, yes, having said that there are inflation issues in Turkey which are fairly severe. There are competitive issues in Turkey which are not similar to India and the outlook for Turkish Lira is also a little bit uncertain. So the Turkish outlook is less clear than perhaps the Namaste outlook but we are still pretty hopeful in maintaining and enhancing these EBIT levels.

Gokul Maheshwari: Likewise, I think, Namaste would operate around 14% mark.

Sunil Duggal: At 13% to 14% and we are hopeful that we will gradually be able to take it up to the high-teens. Namaste, the upsides are more visible here because there is lot of cost management which we can do for the African market and we have already begun to do that. So the visibility in terms of the margin profile is far more apparent for Namaste than it is for Hobi.

Gokul Maheshwari: The high-teens numbers for the current year or it is spread over the next 2-3 years?

Sunil Duggal: More about the next year. This year it would be certainly better than what we saw last year but maybe not substantially so.

Gokul Maheshwari: Your organic IBD business had a very high profitability in the parts of last year and that was the particular time when you had huge benefit of lower raw material prices. Given what's happening to the raw material prices, how you are seeing margins for the ex-Hobi and the Namaste margins for the IBD business?

Sunil Duggal: I think, as with the domestic business it is going to be hard to keep those EBIT margins going ahead, which we saw last year. To do that we will have to do price increases, which we may not like to do so you could see some shrinkage at the EBIT level. We are prepared for that in the business model incorporates it but I think the real number which would be EPS growth would remain very strong.

Gokul Maheshwari: Thank you very much.



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Harit Kapoor from Motilal Oswal Securities Ltd.

- Hart Kapoor:** Hi sir. Just one question on Hobi and Namaste, just wanted to know if, I know it is the 1st Quarter of consolidation for both, I mean on YOY basis but I just want to understand if you could give us the like-to-like growth in these markets or in these companies for us?
- Sunil Duggal:** Turkey grew at 14.5%, Namaste grew at 22%.
- Hart Kapoor:** Okay, could these numbers be carried on for the remainder of the year or do we see a significant deviation on the upside especially for Namaste because we are looking at moving into Africa etc.?
- Sunil Duggal:** 22% is a strong number and any big upside on that does seem to be hard to visualize but you never know but we are also in a sense only getting used to the business now and the mapping of the trajectory is a little bit harder than let us says the domestic business but I think the growth in both should be fairly strong. The challenge really would be really managing Turkey margins, I think that is a big challenge and otherwise I'd do not think there is any other issue before us.
- Hart Kapoor:** Just one housekeeping question. In the last quarter the Namaste processing charges which were below the gross profit levels those have been adjusted, right, in this quarter?
- S Raghunathan:** Yes. We have adjusted that is why we say that the traded good cost has gone up this time.
- Hart Kapoor:** Okay, that is it from my side. Thank you.
- Gagan Ahluwalia:** Thank you everybody for joining this call. A transcript of this call will be uploaded on our website shortly. For any clarifications do contact us. Thank you once again and have a great evening.
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