



“Dabur India Ltd.Q4 FY10-11 Earnings
Conference Call”

April 28, 2011

Dabur India Ltd.’s Participants

Mr. Sunil Duggal - Chief Executive Officer
Mr. S. Raghunathan - Chief Financial Officer
Mr. Ashok Jain - GM-Finance & Company Secretary
Mr. Saibal Sengupta - GM-Finance
Mrs. Gagan Ahluwalia - GM-Corporate Affairs



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Gagan Ahluwalia

Thank you, good afternoon ladies and gentlemen on behalf of management of Dabur India Limited, I welcome you to this conference call regarding the results for the quarter and financial year ended 31st March, 2011. I have here with me Mr. Sunil Duggal – CEO, Dabur India Limited, Mr. S Raghunathan - CFO, Mr. Saibal Sengupta - General Manager, Finance and Mr. Ashok Jain - General Manager of Finance and company secretary. I would now request Mr. Duggal to give an overview of the company's performance, post which we will invite your questions for the Q&A, over to Mr. Duggal.

Sunil Duggal

Good afternoon ladies and gentlemen, I welcome you to the Dabur India conference call pertaining to the results for the quarter and financial year ending March 31st, 2011.

Dabur India has registered growth of 20.3% in consolidated sales and 13% in profit after tax during fiscal 2010-11. Excluding acquisition, sales grew by 15.2% during the year. The fourth quarter witnessed 30.7% growth in consolidated sales and 8.5% growth in profit after tax. Excluding acquisitions, sales grew by 14% during the quarter.

The consumer care division reported a growth of 15.4% for both fiscal 2010-11 and the fourth quarter. This growth was the highest in recent years. This has been largely volume led with volumes contributing to around 3/4th of the growth during the year. The division witnessed strong momentum in hair oils, home care, skin care, health supplements and foods. Hair oils recorded growth of 15% during the year and 22% for the quarter. There was significant input cost inflation in hair oils which was managed by effective price increases across the portfolio. In spite of price hikes the demand growth remained strong which resulted in double-digit growth in all three brands - Amla Hair Oil, Vatika Hair Oil and Anmol Coconut Oil. The Shampoo category continued to be under pressure due to an enhanced competitive intensity. We have taken corrective measures and there is a gradual improvement in secondary off-takes with volume market share for Vatika shampoos increasing from 6 to 6.8% in the quarter ended March 31st 2011 on a YOY basis.

Health supplements recorded growth of 23% for the year and 20.7% for the quarter. Growth during the year was driven by both Dabur Chawanprash and Glucose. As per AC Neilson, Dabur has outpaced category growth rate in Chawanprash and Glucose in terms of value and volume and gained market shares. For fiscal 2010-11, Chawanprash commanded a volume market share of 66.8% as compared to the 64.8% in the previous year. The launch of flavored Chawanprash in orange and mango flavors to extend the appeal of Chawanprash to more consumers, especially children has been well accepted. Glucose also witnessed increase in market share with the volume share increasing to 24.9% in 2010-11 as compared to 22.7% in the previous year.

Oral care registered growth of 12.1% for the year and 8.9% during the quarter; toothpaste grew by 16.8% during the year and by 11.8% for the quarter. Our volume share increased to 14.6%



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during the quarter as compared to 13.4% for previous year as per AC Neilson. Dabur continued to grow ahead of the category as evidenced by volume growth for Dabur at 18.1% was its category growth of 10.8 % in FY 11. Red toothpaste and Babool reported robust performance driven by on ground activation and media support.

Skin care category posted growth of 16.8% during the year and 26.3% for the quarter, growth was driven by good performance of both Gulabari and Fem during the year and the quarter. Fem portfolio grew by 21.4% during the quarter with bleaches and hair removing creams delivering strong growth. Fem's liquid soaps have undergone a change over in formulation to provide additional benefits of protection from germs. This month we have entered the hand sanitizer category with the launch of Fem Safe Hands.

In Uveda we have introduced new product formats and expanded distribution.

Digestive category grew by 8.9% during the year, Lal Tel and Hajmola tablets performed well during the quarter. Lal Tel grew strongly at the back of initiatives to increase rural reach and consumer activations. While Hajmola tablets have done well but the candies have been under some strain due to market conditions.

Home care registered a strong growth of 32.5% for the year and similar during the quarter, largely driven by Odonil. Odonil Pluggy range of electrical air fresheners continue to get acceptability in the market. In addition Odomos and Sanifresh continued on the strong growth category.

Food category reported robust growth of 28.3% during the year and 30.1 for the quarter led by strong performance by Real and Active juices portfolio. The new fiber enriched flavor launched under the Active brand elicited a positive response in the consumer. Dabur's culinary brand homemade continued its robust performance posting strong growth during the year.

Consumer health division witnessed growth of 13.0% cents during the year and 13.9% for the quarter. Steady growth was seen in both OTC and the ethical portfolios. With the renewed focus on the OTC healthcare new products are being introduced to enhance the portfolio. Honitus Day & Night cold and flu tablets were launched during the year as part of this initiative and more introductions are in the pipeline going forward.

Dabur's international business excluding acquisitions witnessed sale increase of 17.6% during the year and about 10% during the quarter. Growth in same currency terms was 22 and 13% respectively. The recent development in Egypt and North Africa region has impacted business growth in this region. Also disturbances in Nepal brought down the overall growth for the business during the quarter. However, the outlook for the region remains positive in the long as on the ground demand should recover with improvements in the political situation. Dabur's



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international business received a big boost with acquisition of two overseas companies, the Hobi Group of Turkey and Namaste Laboratories LLC based out of the US. These two entities were consolidated during the second half of the year and contributed to around 5% of annual sales in FY 10-11. Going forward these acquisitions are expected to supplement the product portfolio as well as provide access to newer markets that is Turkey and Sub Saharan Africa.

On the profitability side, Dabur saw a growth of 13% in profit after tax during the year in spite of high input costs inflation and increased taxation. The company was able to maintain its EBIDTA margins at around 19.9%.

The year 2010-2011 was full of challenges with costs going up sharply and other costs that is like taxation impacting the bottom line. Alongside the competitive pressure in categories like shampoos further lead to pressures on personal care side of the business. The unrest in the MENA and Nepal region impacted the overseas business. However, I am pleased to say that in spite of all this the company has been able to counter the challenges and continue on its growth path with both sales and profit reporting double-digit growth for fiscal 2010-11. With this now I open the Q&A and invite your questions. Thank you.

Abneesh Roy from Edelweiss

Abneesh Roy

Good sales growth. My first question is, what you were saying in shampoo, do you see the same thing happening in fruit juice and to an extent in toothpaste, because in fruit juice Coke and Pepsi are also getting more aggressive while in toothpaste I see the growth rates coming down in Q4 11, although you say that you are growing ahead of the market you have to understand these two trends?

Sunil Duggal

So far no pressure in either the juices or toothpaste which is not to say that it will never happen but you know both Coke and Unilever have introduced their variants but I do not think there have been any significant change in the market structure. So our beverage business is on very strong momentum. I think changes will happen only if somebody introduces a product at an incredibly low price and that would be game changing as far as the market structure is concerned, so if that does not happen then I do not think there is any reason to worry. Likewise in toothpaste there has been no change in the market construct, and growth would be a little bit lower in the fourth quarter due to a variety of reasons probably just a base effect. Though we see really no reduction in the momentum of growth as far as oral care category is concerned. Tooth powders remain of course a low growth category which brings down the overall growth rates, but even now they are in the positive territory at least for the year.

Abneesh Roy

Earlier Con calls we have discussed shampoos war in detail, P & G has become more aggressive after that, so are the margins trending further downwards from the very high levels then it came down and now one more round of price cuts?



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Sunil Duggal I do not think further price cuts will be warranted but the intensity is not slackening. We had hoped that there would be some rationality entering the category but it is still it is very disruptive in terms of what is happening on the ground. So I think we have to live with some margin contraction at least for the period of time but we are hopeful of regaining our top line momentum at least in the current year and I think after that we should be able to retain some margins gradually over a period of time, but there are going to be no quick fix in this category that is for sure.

Abneesh Roy And my last question is on the new product which you have entered the hand sanitizer, actually it has a pretty small market and there are two or three players already there so what was the thought process behind this and any further new segment in FY '12 that you plan ?

Sunil Duggal It is a straight forward extension of our Fem Liquid soaps portfolio so it is not a very expensive or a radical new launch. It fits in beautifully with the equity of Fem as far as hand soap is concerned , we are trying to move the equity a little bit towards protection and away from just caring for the skin and the hand sanitizer fits in well there it is not a terribly important launch from that perspective because the category size is small sort of Rs. 20 crores and obviously you are not going to have some huge numbers coming in here. But having said that I think (a) like I said earlier it complements the portfolio and (b) this is obviously going to be a very high growth category, so the early birds will get a share of the whole pie.

Abneesh Roy And one follow up on Fem liquid soaps were flat, we had exited soaps some years back so what's the long-term strategy on liquid soaps?

Sunil Duggal See the liquid soaps were a courtesy an acquisition and I think this is a slow growth but not a bad portfolio to be in. What we really have done so far is that the portfolio was entirely concentrated on the fact that it does not damage your hands, in terms of it is not bad for the skin, so it has got a lot of moisturizers and expensive oils so I think we have to move part of this portfolio towards the protection segment which is the heart of the market and all the major players are in the protection area so we are proceeding in that direction. We will have three sets of products, one, is more for protection of the skin, other one is more in terms of antibacterial effectiveness and the third will be hand sanitizer's which is on the go, type of product.

Abneesh Roy Thanks Sunil and all the best.

Sunil Duggal Thank you very much.



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Percy Panthaki from HSBC.

Percy Panthaki

Hi Sunil, hi Gagan; I just wanted to understand this hair oil segment growth since the last 2-3 years we have seen that most players Dabur as well as some of the other players we track are clocking growth in mid teens, volume growth and if you had seen this about three years-four years back the growth rates were not so robust, they were probably in high single digits or something like that. I just wanted to understand why the growth rates in this category are so high. Is it that mainly a penetration led growth, is it something that what we saw in shampoos may be three or four years back is happening in hair oil now and just like in shampoo once the category penetration reached a particular point, if the growth rate started moderating, do you think 3 years down the line may be the hair oil growth rates could also moderate. I mean this is just my thought, I mean you would know better what exactly is happening and if you can share your thoughts please?

Sunil Duggal

I think in hair oils the growth is largely rural driven and it comes out of the rising income levels in rural areas and it is driven both by penetration, penetration as in people move in from commodities to brands as well as in terms of consumption intensity as well, I think it is a blend of both. Having said that, will the growth continue at 15-20% for the next 5 to 10 years probably not ? It will taper off at a point of time but I think this category still has some legs and we can look at 2-3 years more of substantial growth. What is happening is of course here is that can be a bit of destroyer of demand is the very sharp increase in the input cost, so if you take hair oil you have taken up the prices by 10 to 15%, much ahead of what we have done in many other categories. So we hope that doesn't play the spoiler and we see some demand destruction of people going back to commodities, but that is the only concern we have but otherwise we see very secular demand coming from all sections, all geographies and it is very steady growth every quarter we see growth happening.

Percy Panthaki

Sunil and give some idea what is the penetration percentage as it stands today and what it was maybe three or five years back?

Sunil Duggal

I will get to you on this. I don't have the numbers with me share them with you after analyzing them.

Percy Panthaki

Okay, my second question is on the margins. Basically if I look at your gross margins this time around even if I try and exclude the impact of Namaste which is pushing the margins up, your margins on a sequential basis seemed to have improved by about 100 bps and this basically is bit surprising given that between the December quarter and marked quarter the commodity costs at least the spot rates, have moved up significantly. Now is this margin expansion a result of some covers which you have, which is causing the cost to remain at a flat level and on the other hand some price increases in March quarter and therefore the margin expansion. If this is



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the case what happens when these covers run out and especially since you have already taken 5 to 6% or rather 7% kind of price increase across portfolio?

- Sunil Duggal** Let me answer the question, (a) It is more of an accounting issue, a classification issue. See Namaste is an entirely outsourced they do not make anything themselves and their classification is that they buy out the product from the third-party vendor and it comes under other costs. The costs do not come under COGS. So I think that caused this fairly sharp decrease.
- Percy Panthaki** No sir I am trying to exclude the impact of that even if I exclude the impact of that I think your margins would have moved up a little bit on sequential basis.
- Sunil Duggal** They are very marginal; it has gone up to around 45% to around 47% that is material cost and what is the gross margins here?
- Percy Panthaki** So gross margins have expanded about 100 bps roughly that is my estimate, correct me if I am wrong, on a sequential basis?
- Sunil Duggal** The gross margins have contracted in the quarter. Now let me share some data for the consolidated business. In the fourth quarter 2010, actually they will remain flat for the consolidated business, they haven't expanded either, and they have remained at 48% YOY basis.
- Percy Panthaki** What I am saying there is, if you compare them to your Q3 of FY 11 versus Q4 of FY 11, has it expanded on that basis?
- Sunil Duggal** Sequentially there is no point seeing it because the mix is so different, so if you see it and YOY they are....
- S. Raghunathan** Just to answer your question Percy, sequentially our margin has contracted excluding the acquisitions and all by the 0.7%. Gross margins as we understand mean material cost reduced by all the conversion cost and distribution costs.
- Percy Panthaki** 70 bps contraction on a sequential basis; which means that on a YOY basis it would have contracted by about 300-400 bps?
- S. Raghunathan** Contracted by 200 basis points. The sequential is little bit different because you should remember that there is a winter sale which comes in Q3 and there is a slight off-season sale in coming quarter so it is not comparable in the sense but for your information it is 70 basis points contraction.



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Percy Panthaki

I think I will contact you on this off-line because I think I have some figures which are miss matched, anyway that's it from me at this point of time. I will get back if I have any further questions. Thanks.

Avendus Securities

Ankit Jain

Good evening sir, my question is the follow on to what Percy was discussing regarding the gross margins. I just want to share with you the views of what you see going forward in the next one or two financial years over the gross margins. How do you see them firming up and the pressure on the margins, how do you see this for Dabur?

Sunil Duggal

I think gross margins would remain in the region which you have seen in the fourth quarter for the first and probably for the second quarter of the year. Post that I think there is some possibility of them expanding back to the 2009-10 levels but I would not bet on it, but there is every possibility of that happening. The first two quarters gross margins are likely to remain under pressure because the price increase has just happened and the full impact of them would be felt really by the end of April. And we are sitting on extremely high tables of input costs so I do not see gross margins expanding in any significant manner over the fourth quarter at least in the first and probably not even in the second.

Ankit Jain

We have also seen from the last two quarters that the ad spend is coming down and it has come down substantially from 16.4% sales in the first quarter to around 11.5% of sales in the last quarter. What is your view that?

Sunil Duggal

I think it is just an issue in terms of phasing, there is no concerted effort to cut back on spends perhaps we would have postponed a few launches from the fourth quarter of last fiscal to the first quarter of this one because of the again high pressure of inflation. But I think you will see increased spending on the A&P in 11-12 and the fourth quarter is a little bit of an aberration, it was extraordinary low because of a variety of circumstances. But I think you will see spends in the region of 13 to 15%, we will obviously not go overboard in terms of A&P as long as inflation remains the way it is. But it certainly will be ahead of what we did in the fourth quarter.

Ankit Jain

Would that be going towards the categories in which are witnessing the slow growth that is...

Sunil Duggal

I will not have a broad perspective on that but we will invest money where it will get us the best returns or in order to defend turf and probably it will not be concentrated in one or two areas it will be spread across most of the portfolio.

Ankit Jain

Sir one more question, regarding the earn-out agreement payment of Rs. 177 crores. Please correct me if I am wrong, it has been mentioned in the results of that it is a provision being



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included in the expenditure or it is sort of amortization that could be returned back at future point of time?

S. Raghunathan It is part of the consideration since it is capitalized as purchase cost of the total business, reflected by acquisition of goodwill and the other fixed assets of the business.

Ankit Jain What is the Fem revenues for the quarter

S. Raghunathan Fem revenue for the quarter is around Rs. 32 crores.

Ankit Jain Thank you

Naveen Trivedi from PINC Research.

Naveen Trivedi Good afternoon sir, my question is if we exclude Namaste and Hobi what is the outlook over the IBD results?

Sunil Duggal I think there are some near-term pressures in parts of North Africa but the big issues are sorted out if not entirely at least substantially and those are Egypt and Nepal. So we should get these two back on rails, Egypt is already back on rails and Nepal is rapidly heading back towards normalcy. Now there would be pressures which would impact approximate business size of Rs. 50-100 crores in Libya, Algeria, Yemen, Syria and Jordan. And the outlook for that quite frankly obviously and your guess is as good as mine. These are political issues, if they play out quickly and things get back to normal it should not impact the business in any significant way. But we do have around Rs. 50 odd crores exposure in these markets and we will have to deal with that. Now this is not going to become zero but this is the extent of the exposure. At the moment business is coming only in trickles in these 4-5 countries but let us see how the political situation unfolds.

Naveen Trivedi And what are the total revenue from Egypt and Nepal

Sunil Duggal Egypt would be Rs. 120 crores and Nepal would be around 80 to 100 crores. So around 200 crore in these two, and these I am not overly concerned. You never know how the situation becomes there too, but as we speak the situation looks pretty benign to me.

Naveen Trivedi Okay, my question is on Namaste, for the quarter the margins have improved from 12 to 13% to 16% - any specific reasons for this?

Sunil Duggal I think the business is being run well so having said that whether it is 16 or a little bit lower than that for the next three quarters, we will have to see how it unfolds. The expectations which we had from the business have been fully realized and the management who are running the business has done an extraordinarily good job in the fourth quarter. And from what we



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have seen and our discussions with them, there is every likelihood of this momentum continuing for the rest of the year.

Naveen Trivedi

Can we expect that these margins are sustainable for at least two years ?

Sunil Duggal

See we have pitched targets at little lower than the 16% as per earn out model so if we are able to maintain this fourth-quarter momentum for the rest of the year I think that would be exceeding expectations but there is a likelihood of that happening.

Naveen Trivedi

What is the driving force for the sales growth for Namaste?

Sunil Duggal

Interestingly enough the key driver in the fourth quarter was the US business and not so much the outside US business, that actually performed even better and now if the Africa piece goes into top gear as we expect it to be over the next two or three quarters and the US business continues on its momentum, then I think we have a very sweet spot as far as the whole business growth is concerned. But let us see, like I said, our understanding of this business is also as deep as for the other parts so we will also have to learn. But so far so good it is been a great deal, it is been very accretive right from the first day and even in 2011-12 it will contribute considerably to our company's profitability.

Naveen Trivedi

Okay, one question Hobi, what was the average sales growth for last three years for Hobi?

Gagan Ahluwalia

Sales was averaging around 10 to 12% on constant currency basis.

Naveen Trivedi

I guess, there are no substantial drivers especially for Hobi?

Sunil Duggal

Well there are I think, MENA region is the substantial driver but as with the Dabur business that also has been under some pressure so the Hobi numbers are not looking as strong as the best case scenario which we had thought out for them. Almost entirely because of the Africa issues, now that again will depend upon how they sort out. Their exposure in fact to these disturbed geographies was even more than Dabur's as the percentage of revenue because their strong markets were actually in North Africa. But I think there are many other geographies in which we can put their products in and how we quickly we are able to do that will determine how much growth we will get out of that business. But even Hobi, the business would be accretive, it will not be a driver of our profitability but it would be definitely accretive in the current year.

Naveen Trivedi

Okay, one question on the acquisitions also. We have to utilize our 270 crore cash which was in the books for the acquisition. Is there a specific reason for that, are you looking for some more acquisitions in near-term?



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- S. Raghunathan** Yeah, we continue to look at opportunities both India and abroad. Whatever rightfully fits our overall context, we will look at it seriously.
- Naveen Trivedi** Okay, one last question on the loans? What is the term of this new loan which we have raised for the acquisition?
- Ashok Jain** These are all internationally borrowed, averaging interest cost within around 3 to 4%. And it is repayable for a period of five years
- Naveen Trivedi** 5 years, in equal payments
- Ashok Jain** More or less it is equal payments. One year is moratorium. They are repayable after one year over a period of four years.
- Naveen Trivedi** You are saying 3 to 4% is interest rate
- Ashok Jain** Average, because it is internationally borrowed.
- Sunil Duggal** So it is obvious it does not make sense to ship cash out of India to fund these purchases, you might as well borrow overseas.
- Naveen Trivedi** And what is the size of this loan?
- S. Raghunathan** The overall borrowed around Rs. 800 crores for the purpose of acquisition.
- Naveen Trivedi** This international loan is Rs. 800 crores
- S. Raghunathan** Yes.
- Naveen Trivedi** Thank you so much.

Margaret Kalvar from Harding Loevner

- Margaret Kalvar** Hi, I wanted to ask few questions with bit more just depth about margins, particularly in the consumer health division where I saw they decreased and if you could give the breakdown of the international business division just for sales. Then, I have couple of others.
- Gagan Ahluwalia** Your question relates to PBIT margin of the consumer health business?
- Margaret Kalvar** Yes.



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Gagan Ahluwalia Yeah, there is a small like 200 bps, I think decrease in margin as per the segment. It is mainly because of inflationary pressures and little bit more adpro in this business because we have been investing behind the OTC portfolio.

Sunil Duggal So, the healthcare business was impacted by material inflation because many of their inputs such as herbs for example or spices they were hugely impacted by inflation. So the margins did come under the pressure but having said that I think we were able to neutralize much of this impact through price increases. We have a lot of pricing power in the segment particularly in India there is Chawanprash etc. so the damage was not deep but this is probably the most impacted out of all our categories in terms of inflation.

Margaret Kalvar Okay, and you said that you are investing behind the OTC portfolio and we talked about this before. Are you seeing the consumer health division as a more significant driver going forward?

Sunil Duggal I think so, I mean it will certainly have more importance in our scheme of things than it did in the past because we do believe that OTC is the strategic initiative which we should pursue the competitive pressures are low and the margins are substantial. Only thing is that the category sizes are typically much smaller a fraction of what we find in food or in HPC. So it is slightly slow burn types, you are not going to see very dramatic revenue numbers coming out of health care because that is not the way this category operates. But we have made a good beginning and we intend to continue this path in terms of building a substantial consumer health care franchise.

Margaret Kalvar In terms of future acquisitions, you have a strategic goal of more acquisitions in one area than in other or you are opportunistic?

Sunil Duggal I do not think we are opportunistic at the same time we do not put any numbers objectives behind acquisitions. We do a scan and when we see something which is strategically sound and financially solid then we get interested and start talking. So there is no huge master plan in terms of acquisitions at the same time it is certainly not opportunistic. Just because something is cheap which we won't buy, it has to have a place in our portfolio. We are looking at certain geographies and certain categories and we intend to stick to that. So we will not be very promiscuous in terms of seeking acquisition. They will follow a very sharply defined template but we don't put any numbers behind how much we will acquire and by when.

Margaret Kalvar Okay and could you talk about the international margins including and excluding the new acquisitions?

Sunil Duggal I think the international margins were perhaps the most impacted in the fourth quarter amongst all the geographies and the reason for this is that material inflation caught on very rapidly in



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the international business. The international business in the sense was cushioned from inflationary impact in the first three quarters because they were sitting on some very substantial positions which we had fortunately bought at very low prices in the first quarter and in the fourth quarter of last year. Now the positions were substantially exhausted by the end of third quarter and the full impact of inflation was suddenly felt by us in the fourth quarter. So the high margins which you saw in the second and third quarter in the international business were obviously not sustainable. But having said that we have now embarked in the past to regain some of the lost ground in terms of margins and you certainly will see a better margin profile emerging going forward than what you did in the fourth because we do have a substantial amount of pricing power there. But there are a couple of roadblocks, one is of course the political uncertainty there and secondly to control a lot of public dissent many of the governments there have actually imposed price controls and are using permission to manufacture such as to take up prices, this is happening much in the MENA regions, so we will have to deal with that also. Hopefully this is just a temporary phenomenon and will go away. So if the political situation remains stable and these regulatory controls etc. disappear then I think we should be looking at a margin with is perhaps closer to what we did in 2009-10 but perhaps not as much as what we did in the first half of 2010-11.

Margaret Kalvar

Okay, so in general is the margin higher than the domestic margin? Do you see that sustainable for the international business?

Sunil Duggal

It is pretty much similar to the domestic margin, I think it can go a little bit higher in international as we saw in the earlier part of the year of last year. So we would try to have some kind of margin upside in international business vis-à-vis the domestic because that is the business which is growing more rapidly. So the blended growth should not suffer because of lower margin in the international business.

Margaret Kalvar

Okay, and finally in terms of your A&P spending and way you have been able to keep it under control are you concerned about long-term support for products or are you planning to keeping it, as you said you are keeping it at 13 to 15% level. Do you feel that there is a risk that you may not be supporting new products enough to give them the competitive push that they need in this market that might be a risk going forward?

Sunil Duggal

We are pretty committed to keeping the A&P spends into the 13 to 15% band so what you saw in the fourth quarter was a little bit an aberration. And when you see the numbers in the first quarter, I am sure you will see the numbers in the 13 to 15% band emerging because that we believe is the baseline level which we need to protect our existing brands and to launch reasonably high number of new products. So irrespective of what happens in terms of margins, I think we would be maintaining those levels of spends in the long term interest of the business.



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Margaret Kalvar And is the competitive environment vis-à-vis either the MNCs or local players has that intensified further in the quarter or is it about the same, i.e. quite competitive?

Sunil Duggal I think, in shampoos it's probably heightened because of further lowering of prices by at least one of the major players, other than that I do not see any change. There has been in fact tendency for companies to take up prices like we have done, so there seems to be no whiffs of anything like shampoos emerging. I think shampoo is not something which is just an India phenomenon. Some of the major companies have been taken prices down very substantially across the world really, certainly in the Middle East and Asia and this is part of a larger game plan which obviously has impacted business in India. And there is no at least visibility of similar eventualities happening in other categories.

Margaret Kalvar Okay, thank you very much.

Amnish Agarwal from Motilal Oswal

Amnish Agarwal Good evening everyone, I have a couple of questions. Sir, my first question is regarding the MENA region, where you have indicated that there are some sorts of price controls being imposed. So, can you throw some more light on which are the countries where these controls are and when you are indicating that the margin there could be in line with the margin in the domestic market, so are we taking into account that the price control will remain there for at least the foreseeable future?

Sunil Duggal I do not think so. I think, it is little bit of panic reaction emanating out of the unrest which happened last quarter. So it is a little bit of knee-jerk reaction in some markets particularly in the GCC to advise manufacturers to take up prices. I do not think it is sustainable because those economies do not function in this manner; it is something which will evaporate very quickly. So we have built into our budgets very substantial price increases in the MENA and Africa regions because they will have to happen to neutralize then input costs increase. So I think by the end of this quarter even earlier we should have those price increases in place.

Amnish Agarwal But for the price increases actually to happen there has to be some sort of and approval or go-ahead given by those governments?

Sunil Duggal There are regulatory issues there in place which govern pricing, typically it is just a formality so you do not even bother about taking those permissions. But this time there has been specific advice from the governments not to manufacturers to avoid taking prices.

Amnish Agarwal But the kind of margins that we had seen particularly in the Q3 when the margins were significantly ahead of the domestic margins, so do we see that kind of scenario being emerging again at least?



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- Sunil Duggal** I think the second and the third quarter margins were extraordinarily high because like I said, we had taken up prices because of the inflationary environment permitted it but we were still consuming very low price inventories. So 26% -27% EBITDA was perhaps not something which we cannot maintain. But certainly we should see the EBITDA margins north of 20% which is ahead of the India business and then I think we will be pretty satisfied with that particularly if the top line trajectory continues to be very swift.
- Amnish Agarwal** You also indicated that the demand scenario in Egypt is now it is more or less normal and Nepal it is recovering. So in Egypt is it absolutely you can say the growth is in line now or is it still in a recovery mode, so to say.
- Sunil Duggal** I think it is more or less in line. I do not see any signs of stress coming out of the Egypt business. Of course, Egypt had its problems basically in the fourth quarter and the first three quarters were great. So you may not see any huge growth happening in the first three quarters, it will be the regular business increase and then fourth-quarter you would probably see some significant increase. Likewise in Nepal the political issues etc. really came into play in the third quarter so that is when you see the growths really happening vis-à-vis last year.
- Amnish Agarwal** If we look at our Hobi business we are indicating that some of the products will be taken to other countries in GCC and maybe even in India. So which all products are we looking at, say, if we want to launch them in the Indian market and where do you think we stand in terms of competition in those products?
- Sunil Duggal** We will be at the moment importing those products and putting them through a separate distribution channel for general trade and using our existing channel for modern trade. Now it is really the call of our salespeople to decide what they want because we are not going to be advertising these products. It is going to be really just being imported and put on the shelf and sold because of the value proposition which they offer. So we will start small but I do see a considerable scope here once we get to know what is working for this market. They have a huge assortment of products, everything obviously is not going to be imported here but we will have to learn as we go as to what products are clicking in the market and what are not. So we have not set the bar very high for the current year but I do see the Hobi brand impacting the market in some way next year. And then when it gets to a certain critical mass then we might even start advertising it and building its equities in the minds of the consumer. But for the MENA region where many of these products are already sold and people are familiar with them, we will be ramping up distribution using our own networks to leverage their sale and we should see some business coming out of that.
- Amnish Agarwal** And regarding our Odomos Pluggy, the product which we had launched last year...



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Sunil Duggal That's Odonil actually. We have not gone into the repellent Pluggy business. That's an air freshener.

Amnish Agarwal And finally just one maintenance question, what could be the guidance approximately for the consolidate tax rate in the coming year?

Sunil Duggal It will be around 20 to 20.5%. It will be lower than what we saw in the 4th, so that is one upside. 4th was extraordinarily high because of the deferred tax provisions etc. which are of non-recurring nature.

Amnish Agarwal Okay sir, thanks a lot.

Nillai Shah from Morgan Stanley

Nillai Shah Mr. Duggal, last quarter the pricing contribution in revenues was about 4.1%. This quarter it is about 4.7%. So sequentially it appears that the pricing power is not there. And whatever pricing you have taken seems to be taken in the CHD business.

Sunil Duggal No we have not taken prices across, CHD is a very tiny business so any price increase there is not going to impact the India business as a whole because...

Nillai Shah sequentially it appears to be only a 70 bps increase there.

Gagan Ahluwalia That you are seeing for the overall consolidated, if you see stand alone business it is around 5.8%.

Sunil Duggal CCD is 5.7, CHD is 7.9.

Nillai Shah And the same thing last quarter would be approximately if you have a fair idea?

Gagan Ahluwalia It was 4.2%.

Nillai Shah About a 150 basis points increase; and going back to the previous question you had on gross margins. There has been a very sharp increase in the spot prices and yet your gross margins on a Y-O-Y basis are down only about a 130 odd basis points. Is there an element that next quarter as the spot prices turn around in to your cost base you could see some more decline in the gross margins, you did maintain that gross margins would remain flattish but is there a possibility.

Sunil Duggal I think the expectation is that there will be no further erosion in gross margins in the 1st Quarter vis-à-vis the 4th neither is there likely to be any insignificant improvement, so I think we will be more or less where we were.



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- Nillai Shah** And what is the kind of price increases that you have already affected for the current quarter, which average?
- S. Raghunathan** For certain products we have taken in March and April some price increase ranging from 5% to 7% like glucose, like Vatika Oil, like Amla Hair Oil etc. So those all are going into the market as we speak.
- Nillai Shah** So weighted average would be about 1% to 2%?
- S. Raghunathan** Yeah 1% to 2% than what we have over and above taken in the early part of the quarter.
- Nillai Shah** The second question is on Hobi can you indicate what the margins for Hobi were for the current quarter?
- Gagan Ahluwalia** Which margins are you asking about?
- Nillai Shah** The EBITDA margins?
- Sunil Duggal** 10% to 12% for Hobi because of very substantial spends on A&P, there is a lot of investment going on in terms of the brands there, new launches, etc., which have put some pressure on the EBITs. It is about 10%.
- Nillai Shah** And final question is on Namaste margins. Was this primarily driven because of product mix improvement, i.e., U.S. versus Africa sales for the current quarter and should we expect margins to go back to the 12% to 14% levels from next quarter onwards if Africa comes back?
- Sunil Duggal** I think it was more of a scale issue. The top-line went up fairly rapidly and that flowed down to the EBIT level. I do not think there was any significant change in the mix per se.
- Nillai Shah** So again 16% may be possible going forward?
- Sunil Duggal** Yeah the way the business is structured there is not any significant difference in terms or profitability between the U.S. and the Europe or Africa businesses. Going forward we would perhaps try to extract more profitability from the Africa piece by local manufacturing, etc. At the moment geographical mix does not have any significant impact on overall margins.
- Nillai Shah** Thank you so very much.

Anand Mour from Indiabulls Securities. Please go ahead.

- Anand Mour** A couple of questions, the first, how are we moving on our distribution reach expansion? Primarily that spans from for about two years back, we were very aggressive on our South



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India expansion plan, or rather to increase the contribution of South India? I would like to know how does it stand now and what are we doing in the same regard?

Sunil Duggal

See South India remains the fastest-growing region and we are gradually inching up in terms of the share of south to the total. So that is happening. But the real initiative going forward is to build a very substantial corpus of people who will only be selling to the rural markets and this will be a different cadre of people who would be stationed in these very small towns and villages and would be having very tight geographies to manage and their salaries and other structures would be fairly different from our mainstream sales organization. So we have started an experiment in U.P. and Maharashtra and we have completed the U.P. piece and then we will see how much output it is giving us, how much additional output it is giving us and then do the cost-benefit analysis before rolling it out to the rest of the country. But this is a very ambitious initiative in terms of having their feet on the ground in the last mile which today we did not have and we depend upon wholesale and sub-stockist to manage these markets but I think we need to have our own presence there.

Anand Mour

What is your direct reach now?

Gagan Ahluwalia

We can get back to you on that.

Anand Mour

And any idea as on how are looking to expand that?

Sunil Duggal

The direct reach is about a million outlets, close to a million about 900,000.

Anand Mour

And the plans, are we looking at 10% to 12% increase every year kind of thing?

Sunil Duggal

Yes, I think a lot will depend upon the rural initiatives. Without this initiative we will not be able to do for the next 10%, it will be more like 3% to 5%. But if this rural initiative is rolled out nationally we still have to map out the exact numbers but this would take it up to north of 10% in terms of the increase in direct reach.

Anand Mour

Second, you mentioned that you are looking at A to S of about 13% to 15% for FY12. Looking at that what would be your outlook on EBITDA margin, are we inching towards EBITDA margin contraction for the full year?

Sunil Duggal

I think the EBITDA margins for the current year are likely to be a tad lower than what we saw in the previous year but having said that you should be able to see a very strong EPS line. So I think we are now getting out of our obsession with maintaining the 20% plus EBITDA level because I do not think that is really going in the interest of the business growth as a whole so we are looking at providing strong revenue growth as well as good flow in at the EPS level without being overly obsessed with EBITDA line. Because once you get into the margin trap



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then it can have long-term consequences for the business which are not always good. So we will be pitching EBITDA at around 17% to 18.5% in that level and we will try to do better than that but I think that is what we are likely to reach.

Anand Mour In the same regard, you mentioned about the growth rate. Most of the categories that we see for 4Q the growth rates were a bit a tad lower than what we saw for the full year. Are we seeing some sort of slow down in the domestic FMCG business?

Sunil Duggal I do not think so. I think it is too early to call one quarter does not really change the scenario. From the demand side I see really no issues so far but it is anybody's guess how the market will play out but there should be no contraction in terms of demand. The only thing which does worry us at a certain level, it is more of an industry phenomenon that price increases of 5% to 10% will they destroy some demand? It is anybody's guess, whether they will or they will not. I do not think they will but you can never rule it out.

Anand Mour Just final question sir, we have our debtor days increasing. Has there been any increase for the credit period for our domestic channel partners?

Sunil Duggal No, there is no significance; it is really an aberration on account of one of our very large institutional customers who said that I cannot pay you by 31st of March. And for a substantial amount of sales which happened in February and March we got the payment only by April and we had to accommodate that customer because he is a very large customer, an institutional buyer. So that was around 70 crores of additional debtors from this one entity.

Anand Mour Are you referring to CFT?

Sunil Duggal I will not mention the name. You can take a guess.

Anand Mour Fine sir, all the best for this year.

Richard Liu from JM Financial

Richard Hi this is Richard here from JM Financial. My question actually pertains to Namaste. Just wanted to know on a longer-to-medium-term basis, what is the kind of mix you are looking at between Africa to US? Right now I believe the US is about 70% odd but your reason for acquisition from what I understand is obviously you have to enlarge the Africa piece. What is the kind of mix you are looking at in the next few years between these two regions?

Sunil Duggal Africa is where the future of this business lies and there is no doubt about that. Now how quickly we will be moved down the path of populating the Africa market with Namaste products is more of an executional issue and we would try to fast forward it obviously to the best of our ability but we do believe that we can double Africa sales not in this year because



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this year we will be building up infrastructure but every year from next year going forward, in other words within the next 5 to 7 years the Africa piece should be as big as the US piece. And that is really the intent. Now like I said we have just begun, and we will probably start making products in Nigeria in the next six months or so and that will be the start. But then we do have to build Greenfield infrastructures in South and East Africa which will take a little bit of time. West Africa and North we already do have it but that is not good enough to seed the entire continent.

Richard

And with respect to your earlier comment on EBITDA margin of being at 20% level and yourself not being obsessed with it. If one were to look it at like-to-like, my understanding is your Namaste and Hobi would bring the group margin down to a certain level because they are by nature lower margin than your existing businesses. But if you were to look at like-to-like excluding these two businesses are you still expecting some kind of a margin contraction in FY12?

Sunil Duggal

We are just seeing a contraction which could be of a temporary nature. I do not see any structural changes in the India business unless what we saw in shampoo spreads to many categories and the entire EBITDA profile could take a bit of a knock. But if that does not happen then I think once this inflation comes off and the price increases neutralize it, then we would be going back to the old EBITDA levels on a like-to-like basis. I think if you look at the consolidated business, now we are evolving a fairly different model with overseas now contributing to 1500 crores and growing much ahead of India business. So I think you cannot really compare India EBITDAs with what comes out of Namaste or what comes out of many other emerging geographies and I think you really have to look at now the metrics at the top-line and at the bottom-line and see how quickly you can move these two ratios forward because the EBITDAs of India are not comparable with that of Namaste. Maybe over 3 to 5 years the Namaste EBITDAs would converge with India or maybe they would not. If you really want to seed Africa market and we want to have a very aggressive pricing we may sacrifice EBITDAs in the interest of long-term growth through market share expansion. So these are calls which we have to take but the business last year has moved into a very different orbit courtesy of these acquisitions and courtesy of how we believe we should move this business forward. And also I think long term sustaining very high EBITDAs in the India market is going to become increasingly difficult. That is my personal view because India is a very attractive price for every global company and I suspect they will come and put considerable amount of resources here and that would not go in favor of rapid margin expansion. So there is an inherent contradiction here and that is one of the reasons which drive us to look beyond the shores of India and see opportunities in other emerging markets.

Richard

Okay, that is, if I may say so, a little bit of a scary statement. So if I were to look at shampoo for example, which you have been talking about for quite some time now, about the structural changes in landscape, etc. If you can take us through, let us say, three years back and one year



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back and now, how has your margin moved in this particular category. If you do not want to give out a number you can probably index it to 100 and let us know how it has moved?

Sunil Duggal

I think shampoo has been pretty dramatic in terms of margins because the prices have effectively come down by 30% to 40%. That is not going to happen in category after category but I think as far as India is concerned the demand side is going to be robust and I think you will have to take the calls in maintaining a rapid growth in top-line with some sacrifice of the EBITs but still a very strong EPS line. I think that is really the motto which we will be looking at for the India business and in fact for the global business as a whole. So what has happened in shampoos is very unlikely to happen, that is the worst-case scenario that will happen in many other categories. But having said that we are not in direct competition with trans-nationals in every category which we are in, so the three areas where we come into overt conflict with multi-nationals are obviously shampoos, toothpastes and fruit beverages. These account for around 1000 crores revenue base which is obviously quite large but it is still 20% of our global business.

Richard

Would you have any numbers to share on how margins have behaved in shampoos over the past three years; would they have halved or something broad to just to analyze....

Sunil Duggal

I will prefer not to share these details.

Richard

So I actually got two more questions. One is if I were to look at your foods numbers, the segment number tells me that you have got a growth of about 19% for the full year in the segment financials but I see that your presentation mentions something about a 28% growth in foods.

Sunil Duggal

See the branded business the growth is close to 30 and that is where we make the money from. We did have a reasonably large commodity export business which we are phasing out. We did not want to just kill it completely because that would be disruptive in terms of getting receivables in. So next year you will find the same picture emerging. The commodity exports will come down to close to zero levels and this is mango pulp and stuff like that which really does not do too much in terms of your financials. But the branded business is the real franchise is growing at 28% to 30%.

Richard

Okay. And just a last bit on the retail business. What do you plan to do with this business? We have seen it remaining there for some time, not taking too much of money but what is your store count now and what is your long term strategic intent with this business?

Sunil Duggal

The intent is very clear, at least with the short term intent and the longer term would be as it comes. But the short-term is to expand business size and have much larger store footprint without increasing the damage to the bottom-line. So we have around 38 stores and we intend



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to close next year with something like 75 and cap the bleed at around 10 to 11 crores which is what we have done in the current year. So just scale it up without inflicting any damage to your business to your financials and then I am sure we can unlock value at a point in time.

Richard Okay so that is what you are actually looking at?

Sunil Duggal Absolutely! Long-term it probably will not remain embedded in Dabur India. I am sure it will not. It will be separated from Dabur India and hopefully we will unlock some value at that point in time.

Richard Thanks a ton and I wish you all the best.

Varun Lochab from Religare Capital Markets

Varun Lochab Thanks for taking my question. First of all if I look at say FY11 sequentially through the year the volume growth has kind of slightly tapered off whereas the pricing growth kind of compensated for that and so overall top-line still looked healthy so I think we started off with around 15% to 16% volume growth in Q1 and last Q4 was more like 9.3%. First of all is there any kind of slowdown that you are seeing in terms of volume off-takes in categories due to price hikes or other reasons? And secondly what is the kind of baseline or sustainable volume growth that you think you will be able to do with this portfolio overall in say, FY12? Is there still some down sides to the volume growth and how will the volume and price equation look like in FY12 that was the first question.

Sunil Duggal The volume price blend in FY12 it should be around 10 and 5. That is my best estimate of maybe 9.5 and 5.5 and we will try to do a little bit better than that with regard to volume but that is something that we should definitely be able to manage, around a 15% growth coming out of these two components.

Varun Lochab So Q4 volume growth, we should not see further dips from these levels?

Sunil Duggal I do not think so. Like I mentioned earlier if there is some demand destruction on account of these price increases which is unlikely but not impossible then the volume growth could come off. We have seen that happen in the past. But I think the economy is still robust, the disposable incomes are still growing much ahead of the economy and we should not see any demand destruction happening with this level of price increases. Of course, if inflation continues to be at a hyper level and there is another round of price increases later in the year so you have price increases aggregating at 10% every year and compounded over a couple of years then you are looking at a scenario which could actually slow down demand but that is something which is true for the economy as a whole and then not just for our business. In fact



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it will impact our business being non-discretionary items a little bit less than it would do for many other components of the economy.

Varun Lochab

My second question was on the foods, specifically the juices part. Now, we have seen some launches in the fruit drinks category per se and I guess that category within the overall fruit juices and drinks thing is growing maybe a bit faster because of the better affordability that it gives to the customers. So what is our strategy to tap into that segment?

Sunil Duggal

No, we do not have any great ambitions of tapping into the drinks segment. We do not find profitability in that segment attractive enough; we do not have a good platform in terms of brand. We do not want to dilute Real's equity by getting into those low priced segments. So our strategy is very clear that we play to the top of the market, we look at value-added offerings like the fiber and we will be innovating perhaps more in foods that in any other part of our business in the coming year and I think that is what the future lies in. Even today despite improvements in the margins over the years the margins in foods still lag the rest of the business and we do not want that to be further accentuated. So we will play at the top of the market.

Varun Lochab

And lastly on the shampoos, given again the recent price cuts by the competition now what is going to be our strategy in shampoos, have we responded to those price cuts. And just one question on Q4 growth in shampoos if you can talk about how was the growth in Q4?

Sunil Duggal

Q4 there was a dip again because of very high base last year. But I think you will see now growth coming back starting perhaps in the first quarter either there will be a small growth or a small de-growth but it will not be very dramatic and then it will pick up as the year goes by. So I think we will be still in 2011-2012 little bit lower than what we were in 2010-2011 but not in any substantial manner. It should be reasonably close to what we did last year. So that is the first step towards recovery and from there we will only grow to the top-line very rapidly. But definitely there has been an impact on margins because of this higher millage and price being capped and a whole lot of trade duplication, A&P spend, everything has come of together. Now, whether this is something which is a temporary aberration and people will get back to more rationality in terms of pricing or whether it is structural only time will tell.

Varun Lochab

But in terms of our response have we done anything in terms of price?

Sunil Duggal

Absolutely! We have increased the millage by 40%. Quite frankly we have said that we will now just go out to regain market share and not bother too much about the margins at least for the next one year or so. And that whole strategy was put into plate towards the fag end of 4th Quarter, full impact of that will emerge now in the current fiscal. And I do expect substantial recovery as far as the top-line is concerned.



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Varun Lochab Thanks and all the best.

Vivek Maheshwari from CLSA.

Vivek Maheshwari My first question is how much would be the volume growth in domestic business, will it be closer to 9% again?

Sunil Duggal I just mentioned earlier that we are expecting around a 10% growth in the volume in the current fiscal.

Vivek Maheshwari I am saying 4th Quarter fiscal 2011?

Gagan Ahluwalia Actually domestic business was a 9.7% but overall for the legal entity it was a little over because of the other IPD was down and CHT being a bit lower. CCD grew volumes by 9.7% in the 4th Quarter.

Vivek Maheshwari And Mr. Duggal what you mentioned 9.5% volume growth for fiscal 12 broadly that will be the same for domestic business as well right? Or do you think they can be some deceleration in growth there?

Sunil Duggal I do not think so. I mentioned earlier that at least next year I do not see any deceleration in growth, at least first two quarters. But if you have sustained inflation and sustained price increases then deceleration cannot be ruled out. But there will probably be a lag so we probably will not see it this year but some cause of concern is that if inflation is here to stay and you have many years of very high inflation and that is what we did; we used to have in the 90s and 80s of the previous decades, very high inflation and very high price increases and very low growth in terms of category. So we hope we do not regress to that kind of environment.

Vivek Maheshwari Understood, and on the margin front again you mentioned about margins possibly going down or it is not necessary to maintain margins perhaps at the same level but does that mean that if inflation is within control and if 5.5% kind of price increase suffice or offsets the input cost inflation then you would still be able to maintain margin if there is anything above that in terms of input cost pressure you may not take up prices as much?

Sunil Duggal I think there would be some pressure at the EBIT line but I am pretty confident of having robust growth as far as the EPS margins are concerned.

Vivek Maheshwari But a part of EPS will also be because of the acquisition and the fact that you are borrowing money at 3-4%.

Sunil Duggal I intend to scale up the acquisitions very rapidly and that will not be very accommodating as far as the EBIT line is concerned because they generate lower EBIT but they will be very



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accretive as far as the EPS is concerned. So that is how the whole game plan that how do we now use our revenue synergies, our infrastructure come into play after the acquisitions and scale them up very rapidly. It is not going to happen day after tomorrow but that is really the game plan. Can we make Namaste into a \$200 million entity in three years time or four years time? If we are able to do that it will have a very positive impact on our P&L. But you may not see it in the EBIT line.

Vivek Maheshwari And lastly in case of shampoos as you just mentioned a while back you have increased millage by around 40% or so at the end of the 4th Quarter, why as a company did you take time to change depending on the market landscape?

Sunil Duggal We had a choice, we could have written-off substantial amount of inventories and implemented the change three months or four months earlier or we chose not to do that. We said that let us liquidate the inventories and even if it means some lag and some reduction in terms off take, we will live with that. So it was just a business choice. We could have that the next day if that be the case.

Vivek Maheshwari No I am saying, the competitive intensity picked up sometime last year, exactly a year back or thereabouts right?

Sunil Duggal I think the game started changing around the second quarter and it doesn't happen very rapidly, it begins what people think is just going to be a one-off promotion and will kind of disappear so you kind of wait. You cannot be very reactive also. Sometimes you just have to see whether this is something which is of more permanent nature or whether it is just a tactical play. It is very hard to make these calls. You cannot read the minds of your competitor.

Vivek Maheshwari Thank you very much and all the best

Moderator Thank you. The next question is from the line of Aniruddha Joshi from Anand Rathi Securities. Please go ahead.

Aniruddha Joshi I just wanted to know, we have been pretty aggressive in launching new products in domestic business like Uveda, Chawan Junior, Babool Gel, Dabur Gel or even Dabur Total Protect Shampoo. So may be now we do not see much of aggression on these products. So I just wanted to know whether we would be continuing on these or we would be coming out with further re-launch or something

Sunil Duggal There has been some shift and focus away from doing many new things in HBC. When I say HBC I basically mean toiletries and getting more into innovation and healthcare and F&B and home care to some extent because we find that the return on our investment and also the level of risk is considerably lower in these categories, than in toiletries which has become



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hypercompetitive and extremely difficult to launch a product without entailing a very high level of risk. So I think if you had a very benign inflation environment and lot of money flowing in we would have been less risk averse but today I think there is a level of risk averseness in getting into mainstream HBC categories which means that you are going put serious money up front and the chances of success are also pretty moderate. You find much better bank for the buck in health care and we do see substantial upside there at comparatively lower risk. So there is a lot of innovation which is happening in healthcare in OTC segment, in food and beverage, in juices and in culinary and also in home care where the competitive intensity is lower. But try launching a new shampoo today you would realize what I am saying. It is extremely competitive and very high cost category to enter.

Aniruddha Joshi

But any update on products like Chawan Junior. I guess you were much more bullish.

Sunil Duggal

Again it is something which we learn as we go along. We would rather do say, Chawanprash flavors than do Chawan Junior. Again you get much better ROI in these initiatives than you get in those. Now you can only understand that by trying it out but trying to build a completely new category which is alien to your ecosystem is far harder than playing within your own sandpit and I think the Chawanprash flavors have been brilliant examples of very low-cost innovations which have produced very high quality results. You would see more of that happening. We play to our strengths really and not our competitive strengths.

Aniruddha Joshi

One question on the juices, now we have seen in this summer already Kissan, Minute Maid and SIL have launched their products.

Sunil Duggal

I think that is something which we are not too worried about because one of the products is a soya based product which is very different, it caters to a very different audience. And one other juice which has been launched is at similar price point so it does not really change the dynamics of the category. We have dealt with one beverage major we can deal with another.

Aniruddha Joshi

No, but maybe with the learnings from shampoo business we do not see any much threat of aggressive or MNC competition.

Sunil Duggal

One thing; that whole dynamics of shampoo was very different from beverages and from say toothpaste. Shampoo was an extremely high-margin category. The median margin in this category before these wars broke out was 70% gross margin. It was right for a correction. In fruit juices you are lucky if you make 30% to 35% gross margins. So the potential for being very disruptive in prices is very limited. You can do that but you do serious damage to your profitability and likewise even toothpaste is not as high margin a category as shampoos was. Shampoo was extraordinarily high. So that is why I am a little less concerned about the so-called competition, the disruptive nature happening in these categories. I maybe wrong but that is what my opinion is.



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- Aniruddha Joshi** Are we looking at any further extensions of the Real brand?
- Sunil Duggal** Real, there are two brands, there is the Active franchise and there is Real. One is on the health platform other is on the flavor and taste platform and both we will be putting into place very aggressive initiatives in both Real and Real Active. I am personally not much in favor of these low cost initiatives. We have some of them that I am not a great believer that we go down that path. So I keep encouraging the team to look at these value-added initiatives which are high-margin and which are very distinctive and play to where the consumer is gravitating towards, health and well-being and not just low price.
- Aniruddha Joshi** In the MENA region if we see the correction maybe we see the situation improving, would you like to give any guidance on the organic growth?
- Sunil Duggal** No, it is too volatile for me to give any, and in any case we do not give guidance and under the current circumstances it will be pretty risky for me to give any guidance, what will happen to Gaddafi or whatever else is anybody's guess.
- Aniruddha Joshi** Thank you
- Parineeta Poddar from ICICI Securities.**
- Parineeta Poddar** I would just like to know you said that you have taken loan of Rs. 800 crores for your acquisition right?
- Sunil Duggal** Yes.
- Parineeta Poddar** Hobi is partly internal accrual and partly by debt right?
- Gagan Ahluwalia** Yes.
- Parineeta Poddar** And your Namaste is completely by debt?
- Gagan Ahluwalia** Yes.
- Parineeta Poddar** If you see it's a \$100 million acquisition that comes to around Rs. 450 crores.
- Gagan Ahluwalia** Yes.
- Parineeta Poddar** And your Hobi is around \$67 million?
- S. Raghunathan** It will be around 275.



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- Parineeta Poddar** So when you say you have accruals also then why is there such a big loan on the books?
- Gagan Ahluwalia** 9 million we have funded out of our own.
- S. Raghunathan** Virtually 95% is about through debt, both acquisitions. Small portion is internal accruals.
- Parineeta Poddar** So then why is the debt of 800 crores? That is way too much a bigger amount than what it is for
- S. Raghunathan** I am saying that the debt is around 775 to 780 crores. 20 odd crores is to the internal accruals only, that much. We have borrowed 800, yes.
- Parineeta Poddar** And I would like to have the details of your Quarter 4 for all of the categories like if you get in Real fruit juices growth and everything that is according to the FY11 growth. Would you be able to provide us with the quarter growth only?
- Sunil Duggal** We do not do it at the brand level but segment visibility you have. If you want we can drill down to some brands. Maybe we can separate out branded food from commodity food. But will not like to give information at a very granular level brands. Gagan you can give out the details subsequently.
- Gagan Ahluwalia** Yes sure.
- Parineeta Poddar** That is about it, the rest of my questions are already answered.

Gautam Duggad from Prabhudas Lilladher

- Gautam Duggad** Good afternoon everyone, just one question on the shampoo market share. In your presentations you mentioned that the market share has remained stable on a year-on-year basis for the full year. Still after the 20% to 30% volume decline or 17-18% volume decline does that mean that the category has also witnessed that kind of volume decline if market share has remained stable?
- Sunil Duggal** I think in that sense, the millage decrease, because the volume share is determined by the content of the bottle or the sachet so one reason could be that since we increased the millage by 40% that pumped up the share.
- Gautam Duggad** But this volume increase happened in the later part of the years. And what would be the exact market share for you?
- Gagan Ahluwalia** Exact market share in volume terms is 6.4 for the last 12 months.



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- Gautam Duggal** At the end of March 2011, just for the month of March not the MAT
- Gagan Ahluwalia** March we do not have, but for the quarter we have, it is around 6.8.
- Sunil Duggal** I think the value share is more reflective of the situation and the MAT for March 2010 which is a 12 months preceding March 2010, our share was 5.8 and the MAT for March 2011 is 5.3. I think this reflects the situation on the ground more accurately than the volume share.
- Gautam Duggal** Okay that is the only question I had. Thanks.
- Sachin Bhatia from Baring Private Equity Partners.**
- Sachin Bhatia** Just wanted to know what kind of tax benefit you get in GCC and how long they will be available on the manufacturing?
- Sunil Duggal** There is no income tax in GCC. Whatever we sell there is exempt and I do not see any likelihood of that changing. But we do pay tax in say Egypt or Nigeria or Turkey and many other geographies, Bangladesh, Nepal where the nominal rate is not very different if you average out all these countries, not very different from India, little bit perhaps higher. Egypt and Nigeria which are two big countries is higher. But if you think of a blended rate of international business obviously it is fraction of what India is.
- Sachin Bhatia** Okay and one query on the shampoo business. You said your value share has declined from 5.8 to 5.3.
- Sunil Duggal** Right, over the 12 months' period in 2011
- Sachin Bhatia** When did you increase the millage in which month?
- Sunil Duggal** We increased the millage effectively in the 4th Quarter.
- Sachin Bhatia** And can you give me the month?
- Sunil Duggal** January, but by the time it flows into the market it is more like February.
- Sachin Bhatia** Okay, was it across all the packs?
- Sunil Duggal** Yeah. All the packs mean all the sachets which is really the heart of the market. In the bottle there was a price reduction which is again more or less matched to what the competitors did. There was a MRP reduction which every manufacturer did and substantially so, whether it is Proctor, Unilever or anybody else and we followed suit. More than 80% of the market is sachets so that is where the price was not an issue it was really a millage increase.



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Sachin Bhatia Okay and any sense who in this over thing who is the major gainer in terms of market share value-wise?

Sunil Duggal There has been no huge movement of market shares as a consequence of this but probably I think Proctor has gained a little bit. But you will be able to get it from the inside. There was a Unilever gained share initially when they did this increase the millage but then I think the shares slipped off. But perhaps the net gainer is Proctor. Lever is flat. Proctor is around 1% higher. Surprisingly enough despite all this froth there has not been a huge change in the shares.

Sunil Duggal Thanks a lot sir.

PA Ranjan from Macquarie Capital.

PA Ranjan Good evening sir. Just one question on what kind of growth outlook you see for Namaste in U.S.?

Sunil Duggal We have planned for 10%. So far we are doing a little bit better than that. But I think just to be on the safe side 10% would represent for that market a pretty decent growth. So I would be very happy with 10%.

PA Ranjan And how were they doing before the acquisition?

Sunil Duggal Little bit less, but keep in mind 2008 and 2009 were disastrous years for that economy and they were the only brand which were growing. So I think if you take the CAGR for the last five years it will be around 10% to 12% even though there was some dip in 2008 and 2009. Let us say, the fourth quarter was I think 15% odd for the U.S. business, maybe a little bit more than that. And while I do not think 15 is sustainable because the economy is not growing at anywhere near that pace, I still believe they can do something like 10%.

PA Ranjan What kind of margin profile if you look at in Namaste, in U.S. and Africa?

Sunil Duggal At the moment it is not substantially different. There basic pricing strategy is to keep the margins pretty similar across geographies. Going forward we may not necessarily use that same philosophy. We would use pricing as a weapon to grow share or to grow profitability depending upon where we are so there will be no dogma in terms of pricing, we will follow what the market can absorb. U.S. pricing I think the management can understand the pricing better than everybody else because it is almost entirely modern trade and chain, etc. And they have done a very good job over the years of managing the US business.

PA Ranjan One last question on the other expenditure. What was the percentage of cost of sales coming from Namaste for this quarter?



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S. Raghunathan The other expenditure Namaste added 5% to other expenditure. The normal level is around 2.5%, which is reported at 17.5%.

PA Ranjan Thanks, that's all from my side.

Percy Panthaki from HSBC

Percy Panthaki Can you give an idea on what kind of accretion and the net profit level that you expect from your acquisitions of Hobi and Namaste?

Sunil Duggal I would not like to give a number but I will be a pretty decent amount. I would prefer not to give a number.

Percy Panthaki Is there any thought process we should follow to calculate that?

Sunil Duggal I have maintained in the past that these acquisitions would be highly accretive I still maintain that statement, but beyond that I would not like to give any disclosure.

Percy Panthaki And one more quick question on the overall category growth of shampoos business, after all these price cuts do you see any acceleration in the volume growth at a category level, industry level that is?

Sunil Duggal Logically it should happen because the customer getting much better value and the much better millage at the same price should drive growth. But sometimes things don't play out the way you expect. But logic says that it should happen.

Percy Panthaki In the last couple of quarters, this price cut has been going on since a long time now. In last couple of quarters have you seen any acceleration at the overall category or industry level?

Sunil Duggal I think it is too early to say. We have not seen the 4th Quarter data in detail from Nielsen, but I do not think so far anything substantial has happened either in terms of acceleration or deceleration. But I think it just may be a little bit of lag and demand should pick up, growth should increase. There is no reason why it should not.

Percy Panthaki Okay that is all from my side

Abhijeet Kundu from Antique Stock Broking.

Abhijeet Kundu I had one question primarily on your raw material cost if I see, in case of your standalone entity it has gone up by about 134 basis points whereas for the consolidated year it has actually gone down by about 113 bps. So essentially where has the gross margin improvement come in from? Pardon me if the question is answered earlier.



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- S. Raghunathan** Its basically accounting, the Namaste numbers which get accounted as part of consolidated numbers as a disproportionate other expenditure and less in material cost as it gets distorted. On an underlying basis even on consolidated basis the material cost has gone up by two percentage points. Excluding Namaste it has gone up by two percentage points.
- Sunil Duggal** I think to avoid this confusion, maybe we should try to re-aggregate the numbers so that it is reflected in COGS and not in other expenditure, and otherwise this confusion will continue for a long time. We will see how we can resolve that. We will consult the auditors and see if there is a solution to this.
- Abhijeet Kundu** Okay. And another question was what would have been the volume growth in hair oils during the quarter?
- Gagan Ahluwalia** 10.5%
- Sunil Duggal** In fact the hair oil category has proved surprisingly resilient because this has really borne the brunt of price increases and it shows still double digit growth. So it is behaving much better than say, shampoos which is quite great value is being offered to the consumer, the demand is not picking up to the same extent. So the categories behave strangely sometimes. It is counterintuitive what is happening in hair oils vis-à-vis shampoos but that is the way things are there.
- Abhijeet Kundu** One last question, what has been Dabur's value market share in toothpaste because we have been talking about volume market share. Has there been any change in value market share in toothpaste for Dabur?
- Gagan Ahluwalia** Yeah it has gone up from 9.9 to 10.5 for 12 months ending March 2011.
- Abhijeet Kundu** And that is almost true for this quarter as well?
- Gagan Ahluwalia** Almost similar improvements in the quarter as well 10.3 to 10.9 in the quarter
- Abhijeet Kundu** What has really driven that? In the sense has Babool done well or has Red Toothpaste had done well?
- Gagan Ahluwalia** Our growth as per AC Nielsen are ahead of the category growth consistently and these two brands are the main driver of growth, Red Toothpaste and Babool.
- Abhijeet Kundu** Okay thanks a lot.
- Gagan Ahluwalia** Thank you everyone for participating in this conference call. In case you require any further clarifications please do contact us. Thank you and have a great evening.