“Dabur India Ltd. Q3 FY10-11 Earnings Conference Call”

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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

Gagan Ahluwalia: Hello and good afternoon ladies and gentlemen. On behalf of Dabur India limited, I am pleased to welcome you to this conference call pertaining to the results of the third quarter and 9 months ended 31st December 2010. I have with me here Mr. Sunil Duggal, CEO; Mr. Raghunathan, CFO; Mr. Ashok Jain, General Manager, Finance and Company Secretary; and Mr. Saibal Sengupta, General Manager, Finance. We will start with the brief overview by Mr. Duggal followed by a Q&A session. I now hand over to Mr. Duggal.

Sunil Duggal: Good afternoon ladies and gentlemen. Welcome you to the Dabur India conference call pertaining to the results for the quarter and nine months ended December 31st, 2010.

Dabur India has registered growth of 16.9% in consolidated sales and 15% in profit after tax during the first nine months of financial 2010-11. The quarter witnessed 16.7% growth in consolidated sales and a 11.8% growth in profit after tax. The consumer care division, grew by 15.4% for the nine months and 13.8% for the quarter. The growth has been largely volume led which is contributing to more than two-thirds of the total sale.

The division witnessed strong growth momentum in skin, home, homecare and foods during the quarter. Hair oils recorded growth of 12.4% during the nine months and the quarter. Shampoo category contracted by 19% during the nine months and by 29% during the quarter due to drying up of pipeline stocks prior to a restage scheduled for January. The restage has been completed along with the communication and marketing inputs. In addition, the value proposition has also been enhanced with increase in millage per unit, early signs of revival of the plants are visible with improvements in secondary offtakes as reflected increase in volume share for Vatika shampoos from 6.3% to 6.9% in the quarter ended 31st December, 2010.

Health supplements recorded growth of 23.7% for the nine months and 12.7% during the quarter. Dabur Chyawanprash grew by 25.5% for the nine months and 15.5% for the quarter led by immunity building campaigns and introduction of variants. An interesting new initiative has been undertaken with the launch of flavor Chyawanprash in Orange and mango flavors, to extend the appeal of this product to more consumers, especially children. As per AC Neilsen volume share of Chyawanprash is 70% during the quarter which is an all-time high. The other health supplement brands Dabur Honey and Dabur glucose also showed robust growth and market share gains.

Oral care registered growth of 13.2% for the nine months and 9.4% during the quarter. Toothpaste grew by 18.7% during the nine months and by 15.2% during the quarter recording gains and market share with volume share increasing to 14.9% during the quarter. Red toothpaste and Babool reported robust performance. Our volume share as mentioned earlier now stands at 14.9%, up from 13.6% as compared to a year ago.

Skin care category posted a growth of 14.2% during the nine months and 18% for the quarter. Gulabari brand grew by around 15% both during the nine months and the quarter. Fem portfolio grew by 14.3% for the nine months and 20.7% for the quarter. While this growth was led by Fem bleaches, the hair removing cream portfolio also witnessed an uptake post relaunch. Fem liquid soaps are undergoing a changeover in formulation which would provide additional benefit of protection from germs. Uveda brand continues to be present in select markets and is planned to be extended in a phased manner with enhanced product range.

Digestive category grew by 13.3% during the nine months and 11.3% during the quarter. The Hajmola brand reported steady growth, driven by new variants and innovative consumer activations. Homecare registered strong growth of 33.1% for the nine months and 24.1% during the quarter driven by Odonil. Electric air fresheners which were launched under the name Odonil Pluggy to target this emerging sub category of air fresheners also has good initial launch gaining acceptability in the market. Odomos and Sanifresh also witnessed steady growth.

Food category reported a robust growth of 27.7% during nine months and 42% during the quarter led by strong performance by Real and Active juices portfolio. The new Fiber enriched flavours launched under the Activ brand received encouraging consumer response. Dabur's culinary brand Hommade continued its good performance posting 34% growth in the nine months and for the quarter.

Consumer health division, CHD, witnessed growth of 13% in the 9 months and 13.8% for the quarter. Steady growth was witnessed in both OTC and ethical portfolios. Post the renewed focus on OTC healthcare, new products are being introduced to enhance our portfolio. Honitus – Day and Night Cold and Flu tablets were launched during the quarter as part of this initiative and more introductions are in the pipeline.

Dabur's international business witnessed sales increase of 20.3% during the nine months and 14.2% during the quarter. Growth in same currency terms was 25.3% and 19.2% respectively. GCC, Egypt, North Africa, Nigeria, Levant were the key growth markets. The recent developments in Egypt and North African region may impact business growth in this region if disruptions are prolonged. Egypt contributes to about 3% to our consolidated sales. However other markets in MENA region are not dependent upon Egypt for supplies which are serviced from our UAE plants, therefore the sales in other markets are continuing without disturbance.

On the profitability side, Dabur saw a growth of 15% in Profit After Tax during the half year and 11.8% for the quarter in spite of high input cost inflation and increased taxation as the Minimum Alternate Tax (MAT) rate went up from 15% to 18%. In spite of high inflationary pressures the company was able to maintain its EBITDA margins at around 19.5% for the nine months and 20% during the quarter.

Overall the business has performed well driven by volumes in domestic as well as overseas business. Input cost inflation continues to pose a challenge however this is being met through a judicious mix of strategies such as price increases, efficient buying and other cost saving measures.

Acquisition of Namaste Laboratories has been completed on January 1, 2011. Post acquisition integration is now underway with initiatives to align Namaste with Dabur International to yield the envisaged synergies.

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

Margaret Kalvar from Harding Loevner.

Margaret Kalvar: Good afternoon or good morning to you. I wanted to probe a little more into the hair care division and what is happening in shampoos. Is this the competitive environment that is much tougher or is your product less differentiated in that category than it is in some of the other categories? If you could provide me with more color I would appreciate it.

Sunil Duggal: I think from the point of view of past growth, shampoos has been growing at around 25-30% year-on-year for the last 3 or 4 years. So it was sitting on a very high base and what happened this year was that there was a change in the whole value proposition driven by some companies which made the offering far more attractive to the consumer and the consumers did gravitate towards relative brands. So we did react and now we are fully competitive once again with regard to the attractiveness of our product proposition and from this January, we are seeing a significant uptick in the entire offtake that we will be able to recover a lot of lost ground by the end of this quarter and the next year should be substantially better than what we saw in the current year. While there would be pressure on margins of shampoos, consequent to increase in value proposition. We believe that our competitive position in the market is still intact and we will be able to now like I said show robust sales during the year.

Margaret Kalvar: Okay, by value proposition you mean that there were price decreases in the market or that it is a question of more volumes, larger pack sizes being offered for the same price?

Sunil Duggal: I think the latter really more volume being offered, more millage being offered for the same price which meant that the consumer was offered a value better proposition at the cost of lower margins for the manufacturer. So that is how the shampoo market has evolved. I think it was a very high margin area which has now corrected. It is still pretty attractive in terms of margins, but they have come off from the highs of last year. We believe that this equilibrium now will maybe maintained and whatever erosions we had in our market competitiveness because of value proposition perhaps was not as attractive as that of the competitors is now effectively neutralized and we believe that we are now on a growth path once again. I am pretty hopeful that the quarter 4 numbers would be indicative of the revival in shares and growths and now that we are sitting on a somewhat eroded base, next year by all means should be a good one for the shampoo's portfolio. I do not believe that our competitiveness in the market has been eroded once the value proposition has been re-engineered by us.

Margaret Kalvar: And if I could also ask a little bit, in terms of the international, could you give us some idea of what the overall EBITDA margin is in international relative to domestic and talk a little bit more about the Egypt situation?

Sunil Duggal: EBITDA margins for the international business excluding the acquired businesses is close to 28%. So it is definitely higher than India business and has grown at a very higher rate of 48% Y-on-Y. I do not think there should be substantial impact in the EBITDA margins we should be able to maintain it. I think the bigger concern is the Egypt situation and its long-term impact on business and it is too early to take a call on that. Egypt is one of our better markets. It contributes 3% and around the same in terms of profits. We would not like to have any business slippage there. I think we will be watching events unfold and hopefully normalcy will be restored and business will continue. There is a possibility of course that it may take a little bit longer than what we would like.

Margaret Kalvar: And then finally I just wanted to ask in terms of the SG&A, congratulations for keeping it down as you said you would and indeed that did help. Are you concerned at all that you have to ramp it up to revive marketing spend at some point are you concerned about sacrificing perhaps future sales or do you feel that your brands can withstand the decline in the SG&A?

Sunil Duggal: I think we have not reduced investment in our existing portfolio at all. In fact we have actually enhanced it. What we have not done with the same degree as the previous couple of years is to launch expensive new initiatives which suck up a lot of cash particularly in the HPC domain and you will see a fairly muted new product introduction calendar this year in HPC as compared to what we did last couple of years. So I think that is where the support has been withdrawn and regrouped into our existing brands. We have launched new products, but largely in the healthcare domain which is much less competitive and much less demanding in terms of investment. So I do not think anybody needs to worry that we are constraining investment in our existing brands and that is certainly not the case and the international business of course the growth is fairly substantial. In fact the ratios have grown from 15 to 17-18%. So there is higher investment in the very high growth international business and more of maintenance work in the domestic business.

Margaret Kalvar: Thank you very much.

Abneesh Roy from Edelweiss.

Abneesh Roy: My first question is on the Fem Care which has seen a relaunch, 21% kind of growth, is it sustainable and in Gulabari I think we have taken a lot of price hikes. So any impact from the price hike?

Sunil Duggal: To answer your second question first, Gulabari operates in the near monopoly as far as the rose water is concerned which is the biggest SKU and we have taken price increases with no visible impact on demand. So it is pretty inelastic from that point of view. As far as Fem is concerned, we do believe that growth in the high teens is something which we should be able to maintain whether it can be ramped up into the 20s is anybody's guess, but mid-to-high teens 15 to 20% band is definitely something which we would look at and as I mentioned in the previous conference call, comparatively muted growth in the first half was consequent to problems in the first quarter where we had supply disruptions, they have been eased out and also I think we have done a lot of work in terms of re-engineering the portfolio, putting in new products, for example the gold bleach which we launched has been an unqualified success. We are putting a slew of new products which may be small in terms of tonnage, but we will enhance the whole value proposition of the brand in aggregate terms. So lot of good work is being done in Fem and I see no reason like I said portfolio shouldn't go in the high teens.

Abneesh Roy: Sir where are we in terms of deriving synergies of Fem distribution both for your existing and for Fem also, so synergy benefits and distribution?

Sunil Duggal: I think so far we deliberately kept the CCD and the Fem distribution separate because a) we wanted to understand the business better and b) we wanted to get a certain minimum scale into that business and also revamp the portfolio. I think that has been now largely completed and now we will be looking at synergizing these two businesses and getting theeconomies of scale as you mentioned somewhere from the first or the second quarter of next year. So I think that also will help in providing the Fem portfolio with a larger platform in terms of distribution width.

Abneesh Roy: Coming to food segment, 42% growth...new product launches like Activ Fibre, how much is being contributed by it and what is the real reason for 42% kind of a growth in this segment?

Sunil Duggal: 42% is a little bit exaggerated and I do not think that is we can maintain that. So I would look at growth more in the region of around 25% for foods which is still pretty good. I think a 42% growth purely came because of the Diwali season being in the third quarter this year as against the second quarter last year. So we get a substantial amount of revenues from Diwali gift pack so all that flowed into the third quarter. Do not take 42% as being sustainable, but I will be pretty happy with growth in the mid 20s. I think that is a very aggressive growth. On top of margin expansion, this is one of the few areas in domestic business where we have actually witnessed a margin expansion.

Abneesh Roy: And any fall out effect from the Nepal issue for this segment because some manufacturing happens there?

Sunil Duggal: There were some issues so the Nepal impact has been there in December and January. We believe that from February, it will all be normalized. There were some supply dislocations etc. and we think that the worst is behind us on that.

Abneesh Roy: Coming to NUTRiGO, this is a new product for you, wanted to understand what is the market size of this? Who are the key competitors? I believe competitive intensity is low here, but what is the market size and where do you see NUTRiGO from a 2- to- 3-year perspective. You have been advertising?

Sunil Duggal: NUTRiGO actually it is in a pretty competitive environment. You have brands like Revital and Supractiv, etc. which are fairly entrenched particularly Revital. So I would not minimize the competitive intensity here. I think in OTC, we are really testing the waters at this point in time rather than doing something very very big. We have got some very interesting products up our sleeve, but I think consequent to a reorganization which we are planning and which might bring the whole health care under one umbrella and also craft detailing superstructure which would enable many of these products to go to market mode easily - that is something which we are working on. So we are still very committed to furthering the OTC VMS regime and I think NUTRiGO has been a successful introduction. Even more successful has been Honitus Day & Night relief, but before we attempt to become OTC majors, I think it is important for us to build a detailing vertical which we are planning to do in the first half of next year.

Abneesh Roy: If you can explain that part – the detailing initiative?

Sunil Duggal: Detailing is basically when you go to the doctors and explain to them the benefits of the product and urge them to prescribe it so that is really what detailing is.

Abneesh Roy: Coming to one of the laggards, Digestives and Odomos. Odomos was flat YoY and Digestives 11% growth. What are we doing there, any structural issues there?

Sunil Duggal: Odomos had a growth in the 9 months. It was only flat in the third quarter which is really not a great quarter for Odomos in any case, it is off peak, but I think if I remember the first 9 months, growth is in the mid 20s, 24% to be précise which is pretty good and I do not see any flattening of momentum of Odomos, but third quarter is not indicative. Just like summer is not indicative for Chyawanprash likewise the real action begins in the later part of first quarter and in the second quarter which is when maximum sales takes place.

Abneesh Roy: And Digestive sir?

Sunil Duggal: Digestive, we had an issue with Candy that is not growing as fast as it could. So we are really reworking the whole proposition getting into more flavors, etc. Hajmola tablet actually was pretty good around 21%, but Candy de-grew. I think that is the confectionary thing something which we are at the moment struggling with a little bit, but then again this was on top of 2-3 years a very high growth. So I am not unduly worried. I think we can get back growth in Candy too. Hajmola like I said, the real issue here is not top-line, but its margin pressures because again we are constraint by the Re. 1 sachet and that is putting up the pressure on margins, but revenue piece is intact for Hajmola which is by far the bigger part of the whole and confectionery mix.

Abneesh Roy: Sir my last question is on the international business. In your opening remarks, you spoke on Egypt. We had some issues in Nepal. Now the Egypt issue has come up. Is our belief in the international business shaken and is our new acquisition strategy in those areas kind of slowed down going forward?

Sunil Duggal: I think uncertainties are bound to happen. Now let us take India for example while there may be everything okay on the domestic front, but let us take inflation which is incredibly high in India. We do not see this kind of inflation anywhere else in wherever we operate other than may be Pakistan. So you have challenges everywhere I would say and I do not think that in the international business our view has changed at all, but it does wake up to the fact is that there is no free lunch and there would be problems at a point of time in every geography in which we operate. Now America would suffer from low growth, India from high inflation, Middle East from some disruptive issues. I think we have to deal with these problems as a business.

Abneesh Roy: Thanks a lot. I will come back if I have more. All the best sir.

Hemant Patel from Enam Securities

Hemant Patel: Hi Sunil, couple of questions. One on pricing itself, I remember the last quarter you had mentioned that for the full year in question you would be taking a price hike to the extent of around 3.5 to 4% and for the first half of the year you did around 2.5. In the context that you had a severe margin contraction in the domestic business going into the last two quarters, are we likely to maintain this kind of a pricing or you think that this 2% of price hike is sufficient to bring back margins to certain extent going into the next quarter?

Sunil Duggal: I think in the third quarter, we have actually taken prices in a more like 4%. We were holding the price line hoping that inflation would level up which obviously has not happened. So I think there is a margin squeeze being felt to this 200 bps erosion as far as gross margins are concerned and every likelihood of that increasing in case, we do not increase prices. So I think we would perhaps follow broadly a strategy of maintaining the gross margins at current levels which is 48 to 49% and not allowing them to recede beyond this. I am talking as long as inflation remains high. So we will take price increases which are adequate to neutralize it.

Hemant Patel: So the year-to-date price increase has been close to 5% is it?

Sunil Duggal: 3%.

Hemant Patel: And would it be fair to say that you would maintain a normalized margin at gross level for the 9 months going ahead as well?

Sunil Duggal: I think like I said the gross margins in the 48 - 48.5% band is something which we believe we can maintain and we ought to maintain and not allow them to deteriorate. I think the bigger challenge will be that we maintain the EBITs in an inflationary environment where there will be pressures on SG&A etc. because our EBIT performance has been very good and I do not think there is any substantial scope in further reducing ad pros from current level. So we have to look at the SG&A side also much more closely going forward. So far our salaries and other indirect expenses have been kept very firmly under control, but there is always pressure on these. So I am pretty happy with the P&L profile in terms of margins as of now and I will be quite happy to maintain it on top of robust top-line.

Hemant Patel: Sir follow-up question on advertisement spend that you mentioned that you continue to maintain the maintenance ad spends for the domestic business from the point of view that quite a few of the players have actually gone up and increased ad spends at least during this last couple of months. Are you likely to actually push up the ad spend level for the domestic business itself going ahead?

Sunil Duggal: It all depends upon how aggressive are we on our new product introductions. I think 12-13% band is adequate to service existing portfolio with some calibrated new product initiatives. If you go very aggressive on your new products, you probably would like to see it more like 14-15%, but I think in a hyperinflationary environment, it is going to be very hard to manage high ad pros. So we probably would be a little conservative in new product introductions keep ad pros in the 12% to 13%, may be 13.5% at max and not allow that to erode EBITs.

Hemant Patel: And just two maintenance questions. One was on the gross block itself, does this include the Namaste acquisition or it does not and if it doesn't then what would be the gross block for the year ending?

Raghunathan: Namaste acquisition has not yet been factored in because Namaste acquisition was completed on 1st of January. The total consideration in terms of capitalization of Namaste is $140 million, so that $140 million will be capitalized in totality.

Hemant Patel: It will appear in the gross block by the year *next quarter*.

Raghunathan*:* Yes

Gagan Ahluwalia: However the total capital employed as on 31st December 2010 includes the fund raised for Namaste because it was paid for on the next day i.e. 1st January 2011.

Hemant Patel: Okay fair point. And other thing which I wanted to check on was the loans and advances which has continued to rise in this quarter. Can you just draw some light on that?

Raghunathan: Loans and advances reflect the higher advance taxes which we have paid during this quarter..

Hemant Patel: Fine, thanks a lot.

Amnish Agarwal from Motilal Oswal Securities

Amnish Agarwal: My question is firstly with regard to the acquisitions of Hobi and Namaste, you have just mentioned $140 million is the cost of acquisition of Namaste, can we know how much will be the amount of Goodwill in this?

Raghunathan: The amount of Goodwill will be in the order of around 120 million.

Amnish Agarwal: And sir if we look at the margins of Namaste which we had disclosed at the time of acquisition if those are the EBITDA margins if we have to look at the gross margins, are the gross margins of that company in line with our current consolidated margins or they are at higher level.

Sunil Duggal: Little bit below, they are in the mid 40sfor Hobi and the Namaste margins are in line with our India business of the current Dabur business.

Amnish Agarwal: So it means that for Namaste, then the selling and distribution cost, etc., is slightly higher that is right?

Sunil Duggal: Selling and distribution is also definitely higher because of the nature of the market, but the gross margins are pretty much in line in the high 40s.

Amnish Agarwal: And sir my second question is regarding the volume growth where we have seen our volume growth coming down to 11% during the quarter. So do you think it is due to the inflationary impact and is likely to sustain for some more time or do you think that the volume growth will bounce back quickly may be say in another quarter or so?

Sunil Duggal: There is one issue particularly in third quarter,that was the shampoo problems that we faced which did act as a dampener to our volume growth. I do not think there is any impact on growth with regard to inflation, 4 to 5% price increase should not dampen growth just because of the price increase, but having said that, will demand taper off this continued high inflation it is hard to say. Going by previous experience, the inflationary environment does not cause substantial damage to demandso long as your price increases are moderate.

I think there could be some down trading happening which does not bother us too much because we have got enough catcher products at the bottom of the pricing spectrum, but I do not see any huge impact on volume growth.

Amnish Agarwal: Sir my next question is regarding Chyawan Junior where we have entered the multi food business. So can you throw some light where we have reached in our sales over there and what sort of benchmarks, whether we have been able to scale up the business and have we been able to satisfy some internal benchmarks which we were looking at in this business?

Sunil Duggal: I think the learning from the Chyawan Junior experience has been that do not try to change the fundamentals of this brand and work within its current format and try to offer innovation within it. So I think the investments are now going to be initiatives like the flavored Chyawanprash which has been a unqualified success and that is really easier to sell to the consumer than something which is radically different as Chyawan Junior. Chyawan Junior we can still carry it forward, but it is a high investment category and unfortunately the margin pressures of Chyawan Junior makes that investment very hard to sustain. So we are taking the more bigger route to markets in terms of growth which is the flavored variant like I said have been doing extremely well and we will be launching other variants too. We launched a very successful sugar-free variant. So I think we have to work within the nature of the existing template for Chyawanprash within the existing boundaries and not try to do something radically different.

Amnish Agarwal: So does it mean that are we looking at say withdrawing Chyawan Junior or do you think we will not further scale it up?

Sunil Duggal: I think we will not put investments behind it. It will continue to float as a small, but loyal customer base and we will continue to service that, but quite frankly the margin profile does not permit us to invest substantial sums of money and the malted food category is a very demanding one in terms of investment. When we began the journey in Chyawan Junior, the margin profile was very different from what is turned out now. It eroded considerably because of inflationary pressures.

Amnish Agarwal: And sir finally my last question is regarding the hair oil business where we have seen one of our competitors going quite aggressive and trying to push the products and particularly if we look at say some of the categories that for example Almond oil where even Marico has entered, I think Dabur has also entered this business. Can you throw some light on how the entire hair oil category is planning up and what sort of initiatives are there when you as a large player are looking at entering the small-small niches now?

Sunil Duggal: The growth of Amla has been actually one of the best ever. We have grown the brand by something like about 15% and that is a very aggressive growth for such a large brand. So there are no problems here. The demand seems to be continuing. We have been able to take some fairly aggressive price increases here because the margin pressures here have been quite substantial. So no problems really as such. Because of Vatika, the growth has been little bit more muted more in the high single digits and the reason for that is possibly a little bit of downtrading happening from expensive formats like Vatika to cheaper formats and then pure coconut oil domain which are expected in a highly inflationary environment because the price increase in Vatika also have been very steep. So I think the hair oil category fundamentally is on a very strong footing. Its actually operated much ahead of our expectations. I would have been very surprised if somebody had told me in the early part of the year that Amla would grow at 14% plus after taking the kind of price increases which we probably have never done in the past.

Amnish Agarwal: Sir what is your take on pure coconut oil and Almond oil business?

Sunil Duggal: We have a brand which is Vatika Almond oil which is a very different format from the market leader. It is herbal Almond oil and that has been performing actually quite well. It has got a small but loyal consumer base. We will end the year with something like 7-8 crores of sales which is not a bad beginning and we do see substantial amount of head room available so we will grow the category and the pure coconut oil is not something which is terribly important to us. Anmol brand has done well, growing by around 15 odd percent, but in terms of its strategic importance, it is obviously much less than Vatika and Amla.

Amnish Agarwal: Okay sir, thanks a lot.

Sumit Daseja from SPA Securities.

Sumit Daseja: Good evening everyone. Congratulations for good set of numbers. Want to ask just this one question can you please provide me the breakup of raw material and the percentage price in cost year till date?

Sunil Daggal: The inflation happening in key raw materials? You can go through some of the top 3-4 raw materials where inflation has been high.

Gagan Ahluwalia: The major items where we have seen inflation is coconut oil, vegetable oil, and LLP.

Sumit Daseja: Can you provide the percentage contribution in overall raw material and what is the breakup of coconut oil. How much it contributes to the raw material?

Raghunathan: Coconut oil is a small input item for us. Our material cost is around 46% on our turnover and our overall inflation material is around 6.5%.Few items like coconut oil, light liquid paraffin oil and vegetable oils have seen higher inflation, in double digits.

Sumit Daseja: Sir what are the possible steps to mitigate any further raw material cost pressures?

Sunil Duggal: Very little quite frankly. We have to really follow now the market prices because we would be hesitant to build our positions at these prices which may be seeing the peak of the inflationary cycle. So we are really buying as per market and there is a little bit of product re-engineering which we can do, but that is also pretty limited. So I think we have to live with the pain for a little while longer. I do feel that there will be a time sooner rather than later when the inflation would stop and also keep in mind that inflation looks extremely high today because of comparatively low base. At the same time last year including the fourth quarter, we were actually sitting on very low price inventories because we had built substantial positions and the base effect will gradually ease probably from the second quarter of next year and you will at least see less high-nominal inflation atleast happen.

Sumit Daseja: And sir in case the inflation persists on such a high level, there could be pressure on margins I suppose?

Sunil Duggal: There will be pressure on margins we will try to mitigate it through price increases and I think there is enough pricing power available. A lot will depend upon the competitive environment. So I think we will be able to manage and like I said, we will try to maintain our gross margins in the high 40s, 48-48.5%, through price increases wherever required.

Sumit Daseja: And sir can you please tell me the timing of any other manufacturing units coming out of tax exempt zone and any corresponding effect on your tax rate?

Sunil Duggal: Nothing in the near term. Everything will remain under MAT. So most of our manufacturing will be in excise-free areas and we will continue to remain under MAT in the foreseeable future.

Sumit Daseja: Sir one more question is like your retail business plans and outlook, just wanted to know on that?

Sunil Duggal: I think the attempt here is to scale it up as fast as we can without incurring any additional bleed. So we will be losing around 10 crores in the business this year and next year on a substantially higher top-line, we would cap the loss at that level and then the loss would start reducing very dramatically from 2013 onwards. So that is the plan and we believe that we are building some value here because in this business scale is important and once certain amount of scale has been achieved then we see, how next to deal with it.

Sumit Daseja: So how are you planning to open up the stores going ahead?

Sunil Duggal I think there is a lot of learning here and we have now found the format which works best in terms of store size, in terms of portfolio etc., the cost of the stores and we are able to bring the stores to breakeven levels very quickly. I do not think any store would breakeven right from the day of opening, but if we are able to get the breakeven within one year of launch that is pretty good because a lot of the earlier stores are now becoming fairly profitable. So that is what happens that if you want to build scale, you open new stores and incur some damage there that is necessary and some of the older stores become profitable. So overall the business on a much bigger footprint in terms of stores and revenues does not lose additional money.

Sumit Daseja So sir we can expect a breakeven in the next fiscal year?

Sunil Duggal Not next fiscal, the year after that perhaps. What we will definitely attempt to do is that not to have any higher level of bleed that means next year also we are looking at capping at around 10 crores.

Sumit Daseja Okay and sir one final last question on the logistic side, I just want to understand like your inbound and outbound logistic operations are outsourced or?

Sunil Duggal They are all done, I mean outsourced in the sense these are transporters and some of the logistics which are outbound are outsourced through C&FAs but you know the controls are really with us.The C&FAs are basically businessmen who operate as per our instructions, so there is no end to end outsourcing of logistics to specialists in this domain.

Sumit Daseja Thank you sir, that is all from my side, thank you and all the best.

Vivek Maheswari from CLSA.

Vivek Maheswari Good evening everyone, sir my first question is on your volume growth I mean 10% volume growth obviously you mentioned about the shampoos are not doing that well. Was there any other category where the volume growth was slightly muted and over the medium term what are your expectations, I mean in the context of rising inflation, would it be like you know still like 12-13% or there can be some deceleration that we can see. I know it is a difficult call to take but….

Sunil Duggal I am assuming that inflation will continue to remain at a pretty high pitch. So I think the fair expectation of growth for domestic business would be something like 10% volume and 4-5% price, that is what could pan out and I don't see volumes dropping below 10% but if inflation continues for a long time then there may be some damage in terms of consumer demand that would happen only if there is actually a shrinkage in terms of real disposable incomes consequent to higher inflation happening in other categories. Let us see, it is hard to forecast, but at the moment we don't see any deceleration of demand.

Vivek Maheswari And any category other than shampoo where volume growth had been impacted for whatever reason?

Sunil Duggal Small pockets here and there, Hajmola Candy like I said was a bit of a weak spot. Toothpowders have always been a weak spot but that is something which we have learned to deal with. Nothing much, I think there has been pretty secular growths and there have been pockets of very high growths like homecare and foods.

Vivek Maheswari And the 4% price hike that you have taken in third quarter, does it pretty much offsets the cost inflation that you are seeing in total or as input cost are today do you need to take the prices further or this is it.

Sunil Duggal It is not easy to protect. I think the increase which we have taken this quarter should take us through for the balance of the year and we should not see any further shrinkage in terms of the COGS piece. But what is the outlook for the first quarter of next year and beyond it is hard to stay and I am not ruling out the possibility of taking up another round of prices perhaps in the end of this year or early part of next quarter. So I think we are really playing wait and watch. We are like I said reasonably satisfied with the margin profiles, even though it has come off a bit compared to last year, but last year was exceptional year, so you can't have that every year and if you are able to maintain it, then we will take price increases which are required to maintain it and not necessary to enhance it.

Vivek Maheswari My question is slightly different. What I am saying is assuming the input prices stay where these are, if 4% completely offsets these price increases or you would be carrying certain inventory or covers and therefore you know post first quarter even if the prices of key inputs remain where these are, you will still need to take prices up or you are pretty much done assuming the same things stays.

Sunil Duggal I think the pricing which we have taken in the early part of this quarter, till January first week are enough to take us through till the end of this quarter. And quite frankly there is very little positions we have like I said, we are not going long in any material today other than may be sugar, because we are not comfortable in terms of building positions at a very high levels. So I think we are covered till the end of this quarter with regards to our pricing strategy. Beyond that we will take a call whether in this quarter, how is the inflation playing out, is it dipping or is it continuing the way it is or even accelerating.

Vivek Maheswari And the first half price increase was around 2% right?

Sunil Duggal It was very muted, because as I mentioned earlier we didn't expect the inflation to continue as long as it has. So we have been caught a little bit by surprise by say third quarter inflation which we did expect that it would taper off a little bit after Diwali, but it has not. in fact it has gained momentum. So with a bit of the hindsight we could have taken our prices a little bit more aggressively but it was something hard to anticipate.

Vivek Maheswari Sorry for asking you again a question on A&Ps but you mentioned that the activity was slightly lower in this year, etc., but considering competitive scenario in some of the category like shampoo or oral care, is there a possibility that you would have done some rationalization or optimization in terms of spending behind particular brands much more and you know curtailing expenditure behind some of the brands where competitive intensity is not as much because this contraction is still quite surprising even if you have not done major launches simply because the intensity is quite high.

Sunil Duggal Other than Shampoos, I don't see at least in the categories which we operate anything extraordinary happening with regard to the competitive environment.

Vivek Maheswari Not even oral care you would say?

Sunil Duggal Not even oral care. Oral care is pretty much business as usual and we do see some signs of high level of competition emerging. I do agree that competitors have upped the spends on advertising or A&P, but it is not a huge amount of visibility on the ground with regard to impact. Also I think in oral care, our products have a very loyal consumer base and our growths despite the fact that we are not investing perhaps as much as other companies are in our oral care portfolio still are way ahead of everybody else. So why unnecessary invest where there is no need where you have strong consumer loyalties via a differentiate product offering.

Vivek Maheswari And my last question is on your international business division, this 19.2% growth in the quarter does this include Hobi as well?

Gagan Ahluwalia This is excluding Hobi**.**

Vivek Maheswari So what is the reason for you were earlier looking at something like a growth in excess of 20% and perhaps closer to 25% for the next few quarters, do you think that growth trajectory could be maintained or you think that it will be closer to 20% now?

Sunil Duggal There are two reasons here. One is translation loss which is around 2-3%. The rupee has strengthened considerably vis-à-vis the dollar from the period one year ago. Second, the Nepal performance has been very muted, the Nepal was earlier generating 15-20% growth it is now down to single digits because of local issue, supply disruptions, etc. etc. and Nepal is a fairly big market for us. Combination of these two reasons have meant that Q3 performance of IBD has been lower than expected, but otherwise there is no real structural issue there. The business is on a very strong wicket and unlike the domestic market, we are continuing to fund the spends there very aggressively. Third quarter spends were considerably ahead of with what we did in the third quarter of last year. So there the new product introduction agenda is actually very aggressive unlike the domestic market where we are little bit more muted.

Vivek Maheswari So what would be your expectation on growth rates in international business?

Sunil Duggal The whole scenario has changed, thanks to the Egypt situation. So I would not stick my neck over and forecast any number till the Egypt situation becomes clear and the fall out of Egypt and neighboring markets also cannot be ruled out. So we are just waiting and watching and hope that this disruption ends pretty quickly and business can resume, it's still early in the quarter. So we can retrieve all of the lost ground provided at least some level of normalcy returns, but having said that even if there is some damage done in Egypt we will probably be restricting it to Egypt because our supply chain for Egypt is entirely local and does not feed any other market. So the U.A.E. plants and Nigeria plants and all feed the respective markets in the MENA area. So we believe that at least large parts of our international business would remain intact.

Vivek Maheswari Okay correct, thank you very much sir.

Percy Panthaki from HSBC, .

Percy Panthaki Hi good evening everyone. Sir my question is not related directly to this quarter, but the company strategy and how it looks like and how it has changed over history. In my view the DNA of Dabur has always been to identify and grow niches and it has done this very well right at the start, Dabur Amla itself was a niche and now it no longer remains a niche category, it is mass market now. But we have seen several new initiatives like Red Toothpaste, juices along the last 10 to 15 years, but I do not know whether my thought process is correct, but I get the feeling that probably that kind of levels of innovation and going into new categories identifying new niches - that is probably not happening as aggressively in the last 1 or 2 years as it was and obviously that will not have an impact on growth immediately, but if it continues impact growth 2 or 3 years down the line because obviously your maturity cycle of the product portfolio will change and you will have lesser products at the beginning of the cycle and probably a bit more which are so to say relatively mature.

Sunil Duggal I think you have a point when you say that we may not be identifying niches as aggressively as we used to simply because perhaps those niches have already been unearthed and there is not a huge amount of new areas where the platforms have not been taken up by our competitors. But in a sense our M&A strategy is driving this whole niche identification and it is very much in consonance with that. If you take whether it is Balsara, which was a portfolio of herbal toothpaste or FEM which was very niche, skin care or perhaps, most importantly, Namaste which is ethnic hair care, these are all niches which are highly specialized, I will not say immune but comparatively less upfront in terms of competitive intensity. So where we are unable to identify and build a niche for ourselves I think we are able to acquire companies which have strong positions in the niches and that is driving a large part of our strategy today.

Percy Panthaki Continuing with this thought, yes, your M&A strategy is there and that will drive some part of growth but if I just reflect on the organic part in the last 2 to 3 years we have had things like malted food drinks, floor cleaners and premium skin care in terms of Uveda and there was also some talk a couple of years back on ready-to-eat which has not materialized. So do you think that probably, I might be mistaken or I might be sort of taking too early a call or whatever but do you think that Dabur has lost that touch which it used to have?

Sunil Duggal Well, I do not think we have because the whole M&A piece also requires a) great deal of creativity in terms of identification, and b) in terms of execution. So I think we are not siloed that we will keep looking at niches and then try to find something where nothing exists. But having said that there are some niches which we are building like OTC products for example, and we have made an interesting beginning there. And we continue to explore and infact our culinary portfolio while small is actually growing at 40-45% which is another niche which we are going forward. But I think the big players here are really in ethnic hair care with regard to Namaste I think that is very interesting. And we do believe that the same portfolio is scalable to a huge level and rather than fritter away our energies and money in terms of identification of completely new business areas, niche or not. It is better to put money behind these initiatives which already have a certain amount of critical mass and consumer acceptance and recognition and then take them forward because the cost of doing business, believe me, is increasing tremendously with regard to new product introductions and you have to be very careful in what you do as even building a niche is a very expensive proposition.

Percy Panthaki Overall I understand that there are limitations in identifying new categories every time continuously and obviously your M&A strategy is also working and that is not bad at all. But everything put together what is your view regarding growth rates if I compare your last five years and compare that with the next five years prognosis, do you think there is going to be an inflection point or it is going to be more or less the same trend? This is also in line with your earlier statement at the beginning of the call that the NPD pipeline in HPC this year is relatively scant. Every year you have had certain amount, maybe 2%-3%-4% of your growth coming from new variants or new products or something like that, so if that reduces is your organic growth going to take a hit? I understand that inorganically you will grow and there is nothing wrong with that strategy either but just trying to clarify this issue.

Sunil Duggal Well you may be right in the sense that if inflation continues the way it is and put pressures on margins and we are not able to invest in new categories then at least the volume growth could ease off a bit but the mitigating factor here would be the acquisitions and also if you have high inflation your revenue piece would still look pretty robust because of price increases. So I do not think this is anything to get very concerned about we are still very committed to the innovation process. I think this is more of a timing issue. For the last 10 years we have not experienced inflation in terms of food of 17-18% and aggregate of 10-11% is something which is typically in all these years inflation used to hit us in one or two areas and there used to be big areas of deflation and we used to manage the gross margins pretty effectively. This year, frankly, there is no place to hide. So it is better to regroup and marshall your resources so that you do not have shocks in terms of your profitability and your margin profile and when the situation eases off you get back into investment mode. I think overall with the M&A piece which is this proceeding unabated inflation or no inflation, I think we are continuing to innovate perhaps in a different way.

Gagan Ahluwalia And just to add to that in our international business there is a huge amount of innovation that we have had.

Sunil Duggal Actually there the level of innovation is actually unprecedented, whenever we scanned their pipelines we are amazed at the sheer level of innovation. For example, we are building a very substantial shampoo business overseas and the toothpaste business which we have never attempted in the past.

Percy Panthaki So Sir can you throw a bit more light on your M&A strategy as well as your international business strategy, these two would be overlapping to a large extent. And also can you tell me your thought process on also the fact that cost of capital is cheap right now while U.S. recovers from the recession, but do you think that your acquisitions will be front ended in the next one or two years or 1.5 years while cost of debt is really cheap and you might have a spate of acquisitions which you might then consolidate and build over a large number of years over a 4 to 5 year view, what is your geographic mix that you are probable to look at? Some general thoughts on this basically?

Sunil Duggal I think what you are saying is right that the cost of capital is low, so therefore, the paybacks look very attractive. Having said that there is danger in doing too much too soon because you have to assimilate and integrate all these acquired businesses and you can only do that at a certain pace. So I think we will have to temper the whole strategy so as we have adequate level of inorganic opportunities which we are able to buy at comparatively low cost but not compromising our ability to assimilate those. So one way of doing that is to buy into companies which have strong management, where the businesses in at least the home geographies can be managed pretty much the way they have been already doing it and we are able to employ the revenue and the cost synergies to scale up the businesses outside the home territories and both in the case of Hobby and Namaste, the same philosophy applied that we said we will leave the home base pretty much to the existing management and put in our infrastructure and scale to grow the overseas business.

Percy Panthaki Any thoughts on which particular geographies you are more likely to target in terms of M&A and which particular categories?

Sunil Duggal Our first port of call is India, then of course, our existing geographies in MENA and Africa region. India, as we all know is extremely expensive, opportunities in Africa are few and far between. So there is not always possibility of doing a deal here. So, therefore, we have to look a little bit further field into the peripheral territories like say Turkey and occasionally a developed market initiative which has relevance to emerging markets like Namaste.

Percy Panthaki Okay and do you have like a ball park range in mind like, three years or four years down the line what could be your mix of India versus International ?

Sunil Duggal No we do not have a number quite frankly. I think we do not approach it in terms of that we have to build 50% of our business overseas. I do believe that the overseas business would grow ahead simply because the cost of assets is lower and the cost of capital is lower and, of course, the number of opportunities are significantly higher. Beyond that I would not like to hazard a guess, but I do think that our overseas business would be substantially more than what it is today**.**

Percy Panthaki Okay and sir one last question related to the quarter. Basically on the shampoos segment you have I think taken a decision to increase the grammage for the sachets by about 40% or so, if I am not mistaken.

Sunil Duggal That's right.

Percy Panthaki Do you think that with this increase your profitability of at least the sachets portfolio of shampoos will come down to almost zero kind of a number?

Sunil Duggal No, it is still fairly attractive but it is not as much as what it was. Just to give you a flavor the cost of these initiatives would wipe out around 10 percentage points from our gross margins, this is an indicative of number of course, of the shampoo sachets. It still leaves enough food on the table quite frankly.

Percy Panthaki Okay. And also in terms of this situation which you are seeing in shampoos, any kind of prediction you would like to make, when you will be able to return back to a YOY volume growth level?

Sunil Duggal I think in the beginning of that we are hopeful we will see even in the current quarter, at least there would not be any red ink in terms of growth. And next year should be actually a very good one in terms of the revenue profile and actually both in terms of revenue and profitability. Because this year we did have a significant impact in terms of profitability on the shampoos portfolio, next year things should be significantly better. I think we have pushed the right buttons here. We may have reacted a little late but we are now back on track.

Percy Panthaki Right, that's all from me sir, thanks very much it was very useful.

Sunil Duggal Thank you very much.

<u>Anirudha Joshi from Anand Rathi.</u>

Anirudha Joshi Hello sir, congrats for excellent set of results. I wanted to know what has been the real problem in shampoo because we have re-launched the entire segment; we have launched one more new brand as well. So despite that shampoo has been losing volumes. And with the rising competitive pressure from MNCs do you see that growth rate in this segment or the entire profitability of this segment will remain lower compared to historical levels which we had seen?

Sunil Duggal Profitability, as I mentioned earlier, yes there will be impact in terms of unit profitability. Hopefully we will be able to maintain portfolio of profitability at historical levels and beyond because of good growth. But the basic margins here are definitely lesser than what they were a year ago. But that is the structural industry wide issue, it is not restricted to us.

Anirudha Joshi Earlier the segment which was competitive was oral care, so there we started losing volumes, now shampoos, so probably do you see that if one or two more segments coming under pressure because our ad spend is also lower now.

Sunil Duggal I think if you track our oral care portfolio over the last five years its the fastest growing by far we have come up from practically zero share to 15 share in no time at all. Even this year we have grown our share by around 1.5%. So it has been an outstanding performer and I do not anticipate the same margin pressures emerging in toothpaste because simply the margin profile here is lower than shampoos. The shampoos were ripe for a correction with the benefit of hindsight because everybody was sitting on enormously high margins so it was easy for somebody to pull the trigger and change the whole value proposition. Now the play in toothpaste is much lower, it's a less profitable category in terms of gross margins at least. Then I think in another sense our product offering in toothpaste is far more differentiated than it was in the case of shampoos. So we have a competitive position here which is very strong. So while I'm not saying that we will be able to grow the toothpaste portfolio in the high teens as we have been doing in the last couple of years forever, but I do believe that our growth will be ahead of our competitors.

Anirudha Joshi Okay. Now regarding the new launches, various new launches like Gel toothpaste or even Chyawan Junior or any such major new launches has not been able to do very well.

Sunil Duggal No Gel is going well while Chyawan Junior has not met with our internal standards. It was largely on account of margin pressures but Chyawanprash variants whether it is the Sugar Free or the flavors are doing extremely well. So in any portfolio you will have successes, you will have failures that is part of the game. I think our track record here is pretty good and hopefully that will continue. Fem for example, where we have revamped it and reenergized that portfolio is again very interesting and there has been few activity here. When I mentioned earlier that we will not be participating in whole slew of new product introductions because it was mostly referring to domains which are not within the existing set but even in Fem we have launched new hair removing cream, we have launched a new bleach, we have launched new parlor packs, but these are comparatively low-cost initiatives because they are not dramatically different from the existing portfolio, but they are basically extending and building on existing strengths rather than doing something completely new like even Chyawanprash.

Anirudha Joshi Okay. One more question on international business. Now we have sizable business in various countries so what is the management structure we are going to follow whether we will have a separate CEO and CFO in each country or the business will continue to remain managed at your end only?

Sunil Duggal Well at the moment it is really in three or four buckets, there is the MENA piece which is out of Dubai and under a CEO who has the P&L responsibility for MENA. There is a U.S, the Namaste paste which is under the U.S. CEO who is based in Chicago and he has responsibility for the P&L which is largely a U.S. P&L under his control. In fact, his earn out model is based upon the entire business and then we have a CEO in Turkey who is responsible largely for the Turkish business and whenever those products get into the IBD domain, then the IBD CEO takes over from there. So they have to work obviously with a great deal of harmony together but the home base as I mentioned earlier, would largely remain with the incumbent CEOs. And the South Asia piece, other than Pakistan, which is manager of Dubai is really managed by the India business heads which is Nepal and Bangladesh.

Anirudha Joshi And regarding the retail business?

Sunil Duggal Retail is fairly independent. In fact that has got a very high level of separation. The CEO of the retail business does report to me but he is pretty much left to run the business the way he believes is best and we obviously have our periodic reviews and we sign off on key Capexes and new outlet introductions etc. But the business as complex and as large as ours there has to be fairly high level of independence given to respective CEOs.

Anirudha Joshi Okay. Lastly, earlier also we had tied with NewU and that kind of segment somehow failed. So what is different that we are probably offering or how different we are in the entire retail business so that we are confident enough of success?

Sunil Duggal I think basically what we have to see, this is a business of scale and till you have a certain amount of scale you cannot really be profitable and as I mentioned earlier the whole initiative is to build scale and then see how you can separate the business from the main consumer business and then capture the value which we have built there.

Anirudha Joshi But basically what it differentiates from any other retail stores or even of our earlier offering?

Sunil Duggal It is health and beauty store which is very unique. There is not format like that existing in India which offers high end cosmetics, toiletries, beauty aids etc. in a small format. It is little bit like the traditional rate beauty stores but in a far more sophisticated manner. So it occupies a niche which is unique, it attracts a lot of customers and attention. The gross margins by retail standards are quite high. What we do not have is enough scale to ensure profitability and that is something which we are working on.

Anirudha Joshi Okay. Roughly what is the investment which we are looking in this business or let us say next three years on a cumulative basis?

Sunil Duggal I will not say next three years. We will have to just build a business plan, but next year we will be investing approximately 10 to 20 crores in this business, in terms of loans to that business.

Anirudha Joshi Okay. And what are the number of retail stores we are looking at, let us say, by end of FY12?

Sunil Duggal We will have something like 60 stores by end of next year.

Gagan Ahluwalia We are already at around 30.

Sunil Duggal 30, 32 is the latest count and we are pretty rapidly increasing the number of stores. So, let us say, its minimum 50 probably more closer to 60-65 is what we should end next year with.

Anirudha Joshi Okay sir thanks a lot.

Anshul Mishra from ING Mutual Fund.

Anshul Mishra Hi sir. The question was relating to the hair oil segment. Basically I wanted to know how your market share has moved as a percentage of hair oil quarter-on-quarter basis and year-on-year, if you can give some figure on that?

Gagan Ahluwalia Market share is stable. Although we do not subscribe to AC Nielsen, household panel data shows that the market share is around 8.3% of the total hair oil category.

Sunil Duggal Which includes Parachute and Pure Coconut Oil.

Anshul Mishra This is stable is what you are saying on a year-on-year basis?

Gagan Ahluwalia Yes.

Sunil Duggal The brand is growing at 14-15% so even though like I said, we do not subscribe to Nielsen as the data was wildly inaccurate, there is no reason to believe that we would have had any share slippage because of a very strong volume growth.

Anshul Mishra The reason I asked this question was that the value added hair oil segment is growing at a faster pace to probably a coconut or an amla based hair oil, is what my understanding was. If you can correct me on that. And that is why I felt that just to check whether the market share was slipping or not?

Sunil Duggal No it is not slipping, most certainly not. Even now we are talking with Nielsen to resume subscribing to the retail audit but last couple of years the data was so erroneous that it did not make sense to spend a lot of money in subscribing to that data.

Anshul Mishra Right. So now second question was regarding the Egypt operations. Just wanted to check is Egypt a hub for any other….

Sunil Duggal No, it is not. In fact, Egypt we have difficulty in supplying the local market from the existing Egyptian plant, so we were putting in fairly large Capexes to scale up the Egypt business. So in fact we send stocks from other countries to Egypt as a top up.

Anshul Mishra Okay, thank you, that's it.

Nikhil Kumar from Motilal Oswal Securities Ltd. .

Nikhil Kumar Just two questions, one on the international business, if I am right, I think I heard the margins to be at 28%.

Sunil Duggal EBITDA?

Nikhil Kumar Yes EBITDA margins?

Sunil Duggal Yes that's right.

Nikhil Kumar Could you run me through the source of margins because if I understand it right….

Sunil Duggal With a word of caution, the quarter margins are much ahead of the nine month margins which are more like 23, so I would urge you not to take 27 as being indicative of the current margin profile, it is probably more in the region of 23-25.

Nikhil Kumar Sure. What is the number which one can look at on a going basis probably?

Sunil Duggal You see the current international business division does not include the acquired businesses. If you trade apples with apples, we believe that a mid 20s kind of EBITDA is sustainable here.

Nikhil Kumar Okay. And one more question on the new acquisitions both Namaste and Hobi. Could you run me through the working capital intensity of both these businesses?

Raghunathan I think it is typically as any other FMCG business. Of course, in the U.S. business you will have slightly more working capital requirement because the way the in which the supply chain is organized there, but it is not dramatically different from our International Business.

Nikhil Kumar Okay, that was helpful, thanks a lot and all the best.

Ashwin Shetty from Ambit Capital.

Ashwin Shetty Good evening sir and thanks for taking my question. Actually in your consumer health care space can you throw some light on the launches and the outlook for FY12?

Sunil Duggal See we have launched under the Honitus range some new products, the most important one being a cold remedy called Honitus Day and Night Relief which is a very innovative product in which you have three pills to be taken daily, one at night which induces sleep and two in the day time which does not induce drowsiness. That has done extremely well. It has been a genuinely innovative offering. And then there has been a fair amount of activity in the overall Pudin Hara and Honitus franchises with regard to innovations. Also brands like Shilajit and all have been expanded into value added offerings. So new products has been an area of growth here and out of the 13-14% growth approximately 3-4% would have come from new products.

Ashwin Shetty And you expect this same like 15% growth for FY12 in this category?

Sunil Duggal I think with the OTC initiatives, yes we should get around 15% because even if the generics portfolio which is comparatively mature grows at around 8-10%, OTC portfolio should take up the slack. In fact last two three years the genetics ethical portfolio has done extremely well but typically it grows at around 8-10%.

Ashwin Shetty Sir my last question was on the staff cost. As a percentage it seems to have come down quite a bit actually, is there like a one off item in this category.

Sunil Duggal Yeah salaries have come down from 7.9 to 7.4, operating leverage but I think 8% is an indicative number here so I would not say that operating leverage would yield us a lower ratio forever because there is pressure on the salaries and as we all know the wage bill is going up very rapidly fueled again by inflation in case of wages and overall salary increases for management staff.

Ashwin Shetty So on an annualized basis 8% is the …

Sunil Duggal Well maybe not this year, this year we are at 7.7 for nine months so we should not be 8%. I would probably predict minimum of 8%-8.5% but certainly 8%.

Ashwin Shetty Okay. Sir you mentioned about Egypt I think you mentioned a contribution of 3% of net sales and profit.

Sunil Duggal That's right.

Ashwin Shetty Thanks a lot.

Sunil Duggal You are welcome.

Gagan Ahluwalia Thank you everyone for joining this call. We will be posting a transcript of this call on the website. I would like to thank you once again and wish you a very good evening.