"Dabur India Limited Q2 FY11 Earnings Conference Call"

October 28, 2010

<u>Dabur India Ltd.'s Participants</u>

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 Affair

Gagan Ahluwalia: Thank you. Good afternoon ladies and gentlemen. On behalf of the management of Dabur India Limited, I extend a warm welcome to all participants in this conference call pertaining to the results for the period ended 30th September, 2010. Present here with me are Mr. Sunil Duggal, CEO, Dabur India Limited, Mr. Raghunathan, CFO, Mr. Ashok Jain, General Manager, Finance and Company Secretary, Mr. Saibal Sengupta, General Manager, Finance. I would now request Mr. Duggal to give us an overview of the company's performance, post which we shall have a Q&A. Thank you and hand over to Mr. Duggal.

Sunil Duggal: Thank you Gagan. Good afternoon ladies and gentlemen. I welcome you to the Dabur India Conference Call regarding the results for the quarter and half-year ended September 30, 2010. Dabur India has registered a growth of 17 % in consolidated sales and 16.9% in profit after tax during the first half of financial year 2011. The quarter witnessed 14.7% growth in consolidated sales and 15.4% growth in profit after tax.

The Consumer Care Division (CCD) registered 16.5% growth for the half-year and 14.2% for the quarter. Although some price increases have been put into effect to offset inflation, more than three-fourths of the growth was volume lead**.** The division witnessed strong growth momentum in health supplements, home care and foods. Hair oils grew 12.4% during the half-year and 7.1% for the quarter. Dabur's largest hair oil brand, Dabur Amla reported growth of 14.9% for the half-year and 10.4% for the quarter inspite of high competitive activity. Vatika Hair Oil grew at 10.7% for the half-year and was flat during the quarter. Anmol Coconut Oil reported a growth of about 7% during both half-year and quarter.

Shampoos category contracted by 15% during the half-year and by 13.9% during the quarter primarily on account of disruptive competition and aggressive promotional activity witnessed during the period. In addition base effect kicked in as the first half of last year had witnessed highest ever growth of 37%. Vatika Shampoos' restage has been completed along with new communication and marketing inputs. Early signs of revival of the brand are visible as market share improved to 6.5% during the recent quarter from around 6% in the beginning of the year. Anti-dandruff variant of Vatika Shampoo posted a growth of 9% during the quarter.

Health supplements reported a growth of 36.2% for the half-year and 31.1% during the quarter. Dabur Chyawanprash grew by 50.4% for the half-year and 44.3% for the quarter led by immunity building campaigns and positioning on around the year usage platform. An interesting new initiative has been undertaken with the launch of flavoured Chyawanprash in orange and mango flavors to extend the feel of this product to more customers. Dabur Glucose continued with market share gains and posted an impressive performance with 48.6% growth during the half-year and 28.8% for the quarter. Dabur Honey grew by 15.8% for the half-year and 14.5% during the quarter driven by introduction of new SKUs and sustained marketing activities.

Oral care recorded a growth of 15.3% for the half-year and 11.1% during the quarter. Toothpaste grew by 20.5% during the half-year and by 14% during the quarter recording gain in market share of more than 100 basis points over last year. All the three brands in this category Red

Toothpaste, Babul and Meswak have reported good performance. Dabur Red Toothpowder registered a growth of 7.1% during the quarter reversing the declining trends seen earlier.

Skin care category posted a growth of 11% during the half-year and 8.8% for the quarter. Gulabari brand grew by 15.5% for the half-year and 8.8% for the quarter. Sales of Gulabari Rose water increased by 13.6% for the quarter; however, lower growth in Gulabari cream and lotion pulled down overall growth for the brand. These products are expected to pickup with the onset of winter. Fem portfolio grew by 10% for the half-year and 11.9% for the quarter while Fem bleaches reported 12.6% growth during the half-year and 10.5% for the quarter. The hair removing creams witnessed an uptick post relaunch in the second quarter of the fiscal. Fem liquid soaps are undergoing a changeover in formulation, which would provide additional benefit of protection from germs. These are being introduced in the next quarter. 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 14.4% during the half year with similar growths during the quarter. The Hajmola brand reported steady growth driven by new variants and innovative customer activation.

Home care registered a strong growth of 37.4% for the half-year and 42.1% during the quarter. Odonil grew by 73.4% during the half-year and 71.7% for the quarter post relaunch in the last quarter of the previous fiscal. Electric air fresheners, which were launched under the name Odonil Pluggy to target this emerging sub-category of air fresheners had a good initial launch and are gaining acceptability in the market. Odomos grew by 32.9% for the half year and 48.8% for the quarter on the back of extended monsoons, which led to spread of mosquito related diseases. Odomos oil the first mosquito repellent of its kind, which was again launched in the first quarter, took foray into the rural markets, received encouraging response.

Foods category reported a good growth of 21.3% during the half-year and 21.9% for the quarter led by strong performance by Real and Active juices portfolio**.** Dabur's culinary brand Hommade continued its good performance posting 33.4% growth in the half-year and 30.5% for the quarter. Consumer health division (CHD) witnessed a growth of 12.2% during the half-year and 14.1% for the quarter. Pudin Hara grew by 14.9% for the half year and 20.9% for the quarter driven by launch of Pudin Hara Lemon Fizz. Honitus registered a robust growth of 40.3% for the quarter. Post completion of CHD's strategic review, new OTC products are all set to be launched from Q3 onwards.

Dabur's international business continued its strong growth with sales increasing by 18.7% during the quarter and 23.3% during the half-year. Key markets of MENA and West Africa recorded same currency growth of 24% during Q2 while Nepal sales showed a minor contraction of 2% due to local disturbances which have since been resolved. Overall the international business is showing a good momentum with deepening presence in existing markets of Middle East, North and West Africa and South Asia as well as exploring new markets in these regions. This expansion will further be strengthened with the acquisition of Hobi Group.

On the profitability side, Dabur saw a growth of 16.9% in profit after tax during the year and 15.4% for the quarter in spite of increased taxation as the minimum alternate tax rate went up from 15% to 18%. The consolidated EBITDA margins remained stable at around 19% for the half-year and 22% for the quarter. This was despite pressures on gross margin due to inflation with material cost going up on a Y-o-Y basis.

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**,** and this is being met through a judicious mix of strategies such as price increases, efficient buying and other cost saving measures.

Acquisition of Hobi Group has been completed on October 7, 2010 with acquisition of shares of the three entities of the Hobi Group: Hobi Kozmetik, Zeki Plastik and Ra Pazarlama. Post acquisition integration is now underway with initiatives to align the Turkish entity with Dabur International to yield the envisaged synergies.

The Company has proposed an interim dividend of 0.50 paise per share on expanded post bonus capital.

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

Abneesh Roy from Edelweiss

Abneesh Roy: Sir, thanks for the opportunity. My first question is on the hair oils business. We have seen a 7% growth and in some of the other hair oil companies also we have seen some slowdown in the growth rates. So do you see this as a structural change or was it more a case of one off because of the festive season getting delayed because of higher base or because of maybe some floods in some of the areas. Any structural problem here Sir?

Sunil Duggal: I do not think the problem is structural. I see no reason to see this as being a slowdown, I think it is partly on account of like you said the festive season being a little bit later in the year and also floods etc., longer than usual monsoon period, which normally shows less consumption of hair oils. I will be surprised if this trend continues and it is expected to reverse in the Q3 and we should show good growth once again. Structurally there is no reason why there should be any slowdown, but we have seen that hair oil actually is fairly volatile in terms of growth and we do see a fair amount of ups and downs here.

Abneesh Roy: Overall between urban and rural where do you see the difference in the growth rate and trends in that and in rural do you think that growth rates are going to go up because of the good monsoon overall?

Sunil Duggal: If you see the trends you see growth rates in rural are a little bit higher than urban even in the first six months of this year.

Abneesh Roy: How much will be difference in bps growth rate?

Sunil Duggal: I will just give you the numbers but they are in fact higher and I expect this trend to continue now the Kharif crops entering the markets by the end of this year, we should see more money in the hands of the farmer, which will drive consumption, but just to give you a feel of the numbers. Gagan.

Gagan Ahluwalia: The value growth, I will just tell you about some categories. The rural we do not have for hair oils but shampoo category for example the rural growth in the category is around 10%, urban is around 6%, toothpaste is 7% and 5%, and Chyawanprash is 13% and 7%. So there is a trend of rural being a little ahead of urban.

Abneesh Roy: Sir my second question is on the shampoo business. Two quarters of slightly disappointing numbers. When can we really see a change happening here and overall in terms of strategy where exactly Dabur fits in? We have got so many MNCs, ITCs so exactly where do we see a phase out here?

Sunil Duggal: I think lack of growth in shampoo in the first two quarters should be seen in the context of close to 40% growth in the corresponding period last year. So it is very hard to grow on that base and I think there has been a huge amount of flurry of competitive activity, which has been almost disruptive in nature. I think the whole paradigms in terms of the management of this category have changed and they have been obviously changed by the market leader. So we had to react to that and there is always a bit of lag in terms of reacting so I think by the end of this year certainly in the fourth quarter we should have got our act back in place. Now this will mean that we get back on to the growth trajectory but it will be at a cost and therefore we do see good growth going forward but lower margins in this category unless this competitive activity were to reverse itself. So there is no free lunch here because you are bound by the fact that the sachet prices are capped at a rupee and even in the bottles where there is huge amount of competition. So we can regain our position, which has been eroded a little bit in the last couple of quarters but you would see around 500 to 1000 bps contraction in the gross margins in this category. That will be a necessary jump to this move.

Abneesh Roy: From what level - from Q2 FY'11 levels or which level is it sir?

Sunil Duggal: Say from Q3 and Q4 levels to the corresponding period of last year. By Q4 we would have totally restaged the shampoo portfolio and obviously we will be offering more value and therefore there will be some shrinkage in margins. But that is something, which is going up for the whole category so you cannot get away from this basic paradigm.

Abneesh Roy: Sir my last question is on the margins front in the consumer health division some dip in margins there so what would be that outlook here?

Sunil Duggal: I would not worry too much about that. A lot of it is in account of adpro. If you see the gross margins there is some slippage on account of COGS, which I believe is reversible but a lot of the margin contraction or lack of margin increase has happened consequent to preponement of certain advertising spends, which have been very high. You have the numbers, Gagan?

Gagan Ahluwalia: Adpro expenses were about 4% higher than last year.

Sunil Duggal: So we do expect lower ad pros to happen in the third and fourth quarters and we do also expect that the price increases, which they have taken and CHD has taken actually some pretty aggressive price increases would neutralize the COGS impact. So I am not worried about profitability of CHD. It is not structural in nature. Only structural issue in terms of profitability remains in the shampoo category.

Abneesh Roy: Thanks a lot. All the best.

Percy Panthaki from HSBC

Percy Panthaki: Hi good afternoon Gagan and Sunil. I have a couple of questions. One is on the gross margin front, contraction of 210 basis point at least for me has come as a surprise especially in light of the the price increases that you had spoken about in the Q1 concall, at least I got the impression that would be more than enough to offset the inflation. While LLP has inflated the inflation was not as high as earlier anticipated, that is what basically was the discussion in the Q1 call. Therefore I mean my expectation was either a flat gross margin or marginally positive and to see 200 basis points dip I am not getting the full story. Is there something that I am missing out?

Sunil Duggal: No, not really. I think we read the inflation outlook wrong as did most analysts. If you remember going back three months the expectation was that the inflation would substantially moderate in the second quarter and it has not moderated at all. So that has got I think everybody by surprise. That is one and secondly the price increase outlook has been fairly muted because of very high levels of competition. It has been a bit of a double whammy that high COGS and low price increases, which has lead to this margin contraction, which frankly has caught us by surprise too and it is something which has been unexpected.

Percy Panthaki: Sir can you give us an idea out of the total sales growth in the domestic Indian business what is the split between the volume and the value?

Sunil Duggal: 10% and 3.6%.

Percy Panthaki: 3.6% price increase and what have been the main cost elements, which have had an inflation, which has impacted your margins?

Sunil Duggal: There is LLP of course is right at the top of the list, then there is coconut oil, edible oil in general both coconut and groundnut in particular then some flavorings like menthol, gold which goes into some of our ayurvedic medicines, it's a long list and now the total impact have been quite considerable.

Percy Panthaki: What has been the percentage inflation in LLP on a year-on-year basis that is Q2 this year versus Q2 last year approximately?

Sunil Duggal: 35% year-on-year. I think first half is around 30%-35%. This is the issue with LLP there is a capacity crunch and you know the few manufactures really have a fair amount of flexibility in pricing product, because demand for the product is more than supply. We believe this will correct itself over the next one year. It is not going to happen in a hurry when fresh capacity is built up for this particular fraction of crude, which is LLP and when that happens then we will see a price correction, it is way out of whack. It has got no correlation now with crude prices that it used to have traditionally speaking.

Percy Panthaki: Near-to-medium term how do you propose to manage your gross margins?

Sunil Duggal: We are looking at substitutions. We are even looking at the possibility of substituting LLP and lot of work is being done by the R&D people on this and I think what we have done is we have changed the edible oil blends in flavor of lower cost blends and we believe that would improve the margins in Amla hair oil in particular in the third and fourth quarters, but I do not expect any significant reduction in LLP and coconut oils. As far as the groundnut and others are concerned, it is a little hard call but quite frankly we are able to substitute groundnut oil now with cheaper palm and other oils.

Percy Panthaki: Would I be correct in assuming that this gross margin compression on a YOY basis would actually continue for one or two quarters more?

Sunil Duggal: I would not rule it out. It again depends upon the inflation outlook. Now we keep hearing that the inflation will moderate in the fourth quarter at least. One is a little skeptical about this outlook because they have failed in the past and if inflation continues at close to 10% as it was then the margin compression is likely to be pretty much in line what we have seen in the first half.But having said that if you take even standalone we have been able to mitigate half the material cost impact through other means. So the EBITDA shrinkage has been almost exactly half of the material cost increase. So I think is not a bad situation on the EBITDA front - we have shrinkage of 120 basis points, which under the circumstances I think is pretty satisfactory. The PAT margins have shrunk a little bit more 185 by bps largely on account of tax, but the EBITDA picture for even the standalone entity is not something to get worried about.

Percy Panthaki: Just because we spoke about EBITDA just wanted to touch upon it here, basically the ad spends coming off, are they really a factor of you trying to manage your EBITDA margins or are they because you think that the industry level ad spends are down or do you think it is because of a phasing issue, which of these three?

Sunil Duggal: I think they will go up little bit from the current levels having said that if you look at the launch environment in terms of new product and introductions, they are largely in the realm of extensions and brand and line extensions, which use up comparatively little cash as compared to new launches which we did last year, so I think we will be able to cap spends at around 13%-14% for the business as a whole, maybe 13%, which will be a tad lower than what we did last year. So that would be manageable we do not see a huge amount of media inflation or anything like that.

Gagan Ahluwalia: To add to that Percy, the ad pro in the standalone business is almost similar as a percentage to last year. So there is no cut down that side.

Sunil Duggal: Both are on 12%. Overseas has gone up. Again I think it is a kind of blip in terms of second quarter ad pro, which is extremely high and which will moderate. Second quarter is low and then it will be little bit higher in the third quarter, but the domestic ad pros are likely to remain at 12% to 12.5% band.

Percy Panthaki: Okay. I had asked for two questions, but I do have a third one. Can I go ahead? So on shampoo the third question is, you did touch upon on it in the previous question and you did say that the price value equation needs to be brought in line with the industry and that is certainly one of the aspects, but do you think that the decline in the sales has been only due to the pricing being slightly out of line or do you think it is a question of consumers being given access to some aspirational international brands at an affordable price and therefore they are choosing those brands. So is it also a question of a brand equity, which is also leading to the loss of market shares and decline in the shampoo sales for you?

Sunil Duggal: If you track shampoo brands the traction which they have had in the last few months the only real gainer has been actually Clinic Plus and that is really not a very aspirational brand it is a pretty mass brand, whether it is Proctor or Loreal.

Percy Panthaki: But I think Dove has also done also very well.

Sunil Duggal: Dove has also done well, but Vatika does not complete with Dove. If you see whether its Loreal or Proctor, their shares have remained static or declined so there has been only one big winner here and that is because that brand could completely change the whole price value equation by upping promotions and delivering better value. Let us put it this way, obviously at a high cost, but you know that paradigm everybody else has to follow now.

Percy Panthaki: So you basically think that fixing the price value equation will sort of I mean that is the only action that you would need to take to bring your shampoo category back in track in terms of growth?

Sunil Duggal: That sounds simple, but it is a combination of several set of marketing activities whether it is packaging or advertising or even for the matter of fact distribution. So all those are being put together I think they are in a fairly advanced stage of getting into play and I am pretty sure that we will able to revive the brand in the next quarter or two. Having said that and as I mentioned there would be some cost issue here, which we will have to live with.

Percy Panthaki: That answers my question. Thanks very much and all the best.

Harish Zaveri form Deutsche Bank

Harish Zaveri: Hi Sunil. You had mentioned on the television that the international business does margins of 25% is that correct?

Sunil Duggal: Well we did 26% in the quarter, but having said that I think the margins are more likely to be in the 22%-23% range for the full year. 26% was consequent to a little bit lower ad pros. So I would be a little conservative here.

Harish Zaveri: The reason for asking you this question is when I look at your first half numbers and I look at 324 Crores sort of an EBITDA number and I look at your revenue of 1900 Crores,. 400 Crores would be roughly international. And if you have done that much of a margin, which means roughly 100 Crores has come from the international business it would imply that 224 Crores would have come from the domestic business. And if I look at your standalone numbers and add up the EBITDA that number comes to 87 Crores. So that 60 Crores gap how do I look at that or how do I read that?

Raghunathan: The EBITDA for the six months is 84 Crores in international business. So the balance is from the Indian business what exactly is the question?

Harish Zaveri: Yes I will tell you. If I look at the standalone business Q1 and Q2 put together you have done roughly 287 Crores of EBITDA is that correct? Look I will tell you the missing piece is retail that is one part.

Sunil Duggal: Retail is very tiny in terms of EBITDA.

Harish Zaveri: That is exactly where I was coming from that if I look at your standalone EBITDA you have actually done very well in terms of EBITDA margins and gross margins and if I add up the EBITDA for the first half itself you have done roughly 287 Crores. If I remove this 84 Crores from your consolidated EBITDA, which is 324 Crores you would have ended with roughly 240 Crores. So the gap of 47 Crores is what I was trying to understand of how do we look that and where would that be?

Sunil Duggal: Can we deal with this offline Harish, what we do is the later in the day or tomorrow we will send you a reconciliation for that explaining this.

Harish Zaveri: No problem and the other question was on the domestic business if I look at your gross margins and if I look at your EBITDA you actually have done a fairly admirable job in terms of a 22%

growth in EBITDA itself. Just give us a view on how you have managed this because we have actually seen other companies struggle on both gross margin and EBITDA front?

Sunil Duggal: The material cost has increased by 210 basis points.

Harish Zaveri: It has gone up far more for other companies is where I come from, so how have you managed?

Sunil Duggal: Let us talk consolidated, material cost increase has been 210 bps. Now you are looking at consolidated now or standalone.

Harish Zaveri: I am looking at pure standalone number and when I look at the COGS I actually find COGS going down from Q2 last year as compared to Q2 this year?

Raghunathan: The material cost increase has been 242 bps, shrinkage due to higher, adpro has been 31 bps. SG&A has been 28 bps improvement and other expenditure let us say aggregate and all this put together around 60 bps has been others and SG&A. Therefore our operating margin has shrunk by 108 basis points and EBITDA has shrunk by 127 basis points. There has been a shrinkage in other income too of aggregating to 19 basis points. So this gives you the EBITDA profile, which has shrunk by 127 basis points vis-à-vis a material cost increase of 242. So there has been some mitigating factors on account of a little bit adpros, little bit salary, but basically these two are elements and other expenditures. Expenditure means indirect expense, the whole cost structure.

Harish Zaveri: The other part is on when you look at the pricing in hair oils, we have seen Shanti Amla bring down pricing etc., now is that the way we should look at the hair oil business? Is it price sensitive, volumes do run to some extent when somebody were to reduce prices and typically what we are seeing is when prices get increased then also volumes do get impacted negatively? Is that the way to look at that particular category that it is becoming more sensitive to pricing?

Sunil Duggal: Let us put it this way. I am pretty happy with the way Amla has grown in the first half. It has grown ahead of category so that is not a bad place to be in given such a large brand. Now there will always be a market for Rs.10 hair oil, which today Shanti is occupying. The moment you vacate this Rs.10 slot then the paradigm changes and the whole category shrinks tremendously, because people want Rs.10 oil and they are not brand conscious about it. The fact that Shanti is well advertised, people would be having some preference for Shanti vis-à-vis the non branded or the semi branded hair oils. So I think that is really where the paradigm lies. At Rs.10 it is not obviously easy to make any kind of money, so as long as the Rs.10 slot exists there will be some traction for that slot but when that is vacated as we have seen in the past when our competitors vacated the Rs.10 slot the sales came crashing down. So in this very highly inflationary environment with LLP prices showing absolutely no sign of any kind of slowdown, how long can this price point be maintained is a million dollar question.

Harish Zaveri: The worry is that today it is Shanti Amla tomorrow it could be somebody else who will come in say okay...

Sunil Duggal: Yes but again Rs.10 will be un-remunerative for anybody, no matter what you do, Rs.10 price point we have done the math is basically an uneconomic proposition, you do not make any money there.

Harish Zaveri: One last thing - on Chyawanprash, that seems to have done well and this is not the season for Chyawanprash. The first half seems to have got off to a good start_________?

Sunil Duggal: We will still not take a final call on Chyawanprash but I am pretty optimistic that this will be one of better years for Chyawanprash. We are looking at mid teens kind of growth for the brand. There are a couple of new variants, which I have mentioned in my address, which we are pretty excited about, we believe that they will open up all new front in terms of new customers and that was the biggest challenge facing Chyawanprash. There are a lot of good things happening on the brand and not just Chyawanprash but the entire health care piece.

Harish Zaveri: What has changed from the consumer profile front that you have seen actually this brand come back and register good growth?

Sunil Duggal: Having said that the mother brand while at 50% growth is of a lower base.First two quarters are not very meaningful. Real challenge for the brand would be how it performs in this quarter but I think what we have done is launching of the variants which would appeal to basically kids, who do not find that the taste of Chyawanprash the way it is, very palatable. I think it will open up a lot of doors and lot more households will start consuming Chyawanprash, which earlier weren't, so with this the aggregate Chyawanprash franchise should grow at a pretty good clip even though the mother brand may not grow at the same pace but with the flavors I think we are pretty excited about the prospects.

Harish Zaveri: And one last question, how much was the growth in December during the season itself, what sort of a base will you be challenged by when you go back and do the Chyawanprash season this year?

Gagan Ahluwalia: Last year Chyawanprash grew by 13% for the year ending March 2010.

Sunil Duggal: We do not have the quarter numbers but obviously it would have been a good quarter so it is of a reasonably high base you will have to obviously do much better than that, but the fact that this season is looking good, Delhi is really cold as we speak and the variants etc., should augur well for the success of this brand.

Harish Zaveri: The tax rate is what we should be constant at this current level of tax?

Sunil Duggal: That is right, 20 percentage points or so is going to the effective tax rate for standalone entity. As and when we capture more profits overseas, the tax rate would come off a little bit. So its 18% now for consolidated so I think 18% and 20% or something like that is the range.

Harish Zaveri: Thank you Sunil and all the very best to you.

Hemant Patel from Enam

Hemant Patel: Hi Sunil, couple of questions have been answered just one key question on the consumer health care division any particular reason why the segmental margins fell off this quarter?

Sunil Duggal: I think they have been impacted more than other businesses on the COGS front and as I mentioned earlier the ad pros have been really high. Gagan can you run through some of the numbers in terms of gross margin shrinkage as well as the adpros, but this is something which is completely within our control you will see a significant reversal in the margin profile of CHD in the third quarter but let us run through some of the numbers.

Gagan Ahluwalia: The gross margin has compressed by about 150 bps and that is not very major and price increases have been already put into place for meeting this shortfall but I think the major change was the ad pros, some of the advertisement spends have been bunched up in this quarter and that has gone up from 22% to 26.5%, which is I think one of the major reasons for the dip in segmental profit.

Hemant Patel: A maintenance question on the debt level which I have noticed this quarter that you had taken on to make that acquisition given the fact that you have quite a bit of cash. Are you going to be repaying that immediately?

S Raghunathan: We will retain that debt position which we have borrowed for the purpose of acquisition…that will remain.

Hemant Patel: You will retain, so year ending you will have a similar amount of debt?

S Raghunathan: Roughly yes.

Gagan Ahluwalia: Little more than that because we will be borrowing actually US$60 million for financing of Hobi and that is because we get a good leverage.

S Raghunathan: The cost of borrowing is LIBOR plus 1.5%. It is very attractive in the international market so we continue to hold it.

Hemant Patel: Thanks a lot and best of luck.

Saurabh Arya from Bajaj Allianz

Saurabh Arya: I would like to ask if I see in the last few years other costs have been going down very frequently. So what is the outlook on that, will it remain on the same levels or we can expect some more decrease in other costs?

Sunil Duggal: I think the operating leverage should provide decrease in other expenses as a matter of routine so having said that I think this trend should continue. I see no reason why it should reverse and these spends become higher as a percentage of revenues, it should continuously be lower, because otherwise if you do not do that then you are not putting any efficiencies into the management of the business.

Saurabh Arya: So we can expect it to remain same or volatile?

Sunil Duggal: Also I think the acquisitions have fuelled a lot of this savings here, because when we acquire any companies there is a whole lot of cost which comes out and the residual cost is actually pretty low. That's happened both in case of Balsara and Fem and we expect a similar situation to happen even in our overseas acquisitions even though their reduction in expense would be a little bit lower than what happens if we do it in India but that is also a contributing factor. So both operating leverage as well as cost synergies emanating out of M&A activity is one of the reasons.

Saurabh Arya: The next question is if I see the breakup of net sales, there is something called other sales, what is it? Is there anything we can expect these sales can go up in future?

Sunil Duggal: The other sales are the non-strategic piece. This includes a little bit of Fem Pharma. When we acquired Fem there was a small pharma piece, which is not very strategic and that is struggling a bit but it is a very tiny business. Guar Gum which is a commodity export which also has been pretty flat this year and little bit of commodity exports in the form of mango pulp etc., so these are not items which are of great significance, do not impact profitability in any significant way.

Saurabh Arya: Last one, what is the outlook on your retail business?

Sunil Duggal: Well, the retail business I think is on a good trajectory and I think there is a rapid scale up in terms of numbers of stores. I think we are close to 30 as we speak. The good thing is that the store formats has now been pretty much embedded in terms of what would generate quickest profitability. So most of our stores breakeven very soon after their opening and therefore we are able to contain the losses this year even at around Rs. 10 to 12 Crores that is what the outlook is on a vastly expanded store footprint. So I think this positions us well to extract some value out of this business in the future especially when the FDI window is likely to open so we are building scale into this business with a clear objective of creating value here which can be unlocked at a point in time.

Saurabh Arya: Thank you.

<u>Anand Mour from Indiabulls Securities</u>

Anand Mour: Good afternoon Sunil. My question is on the skincare portfolio. How is the Uveda picking up and how does we see our skin portfolio going forward and the 10% growth in Fem portfolio in the first half is it in line with our estimates or is something missing out there?

Sunil Duggal: On the Uveda front what we are doing is we are reengineering the portfolio, making it very much driven through store promotion and in shop activities rather than mass media, which obviously means that we have to expand the range considerably. So it is a very different business model which we are now following which we believe would be far more suitable for this business in terms of risk-reward profile so that has been rolled out quite satisfactorily but reengineering of this whole business has taken a little bit of time. It is now almost entirely complete and as far as Fem is concerned the 11% odd growth is a little bit below what our internal expectations were. We were looking at more like 15% odd. We believe we can end the year with 15% plus growth. There has been some delay in new product launches etc., but I think overall the Fem portfolio remains highly profitable and will generate steady growth and we have put into play now some new activation activities which would propel the growth further. So we are pretty happy with the way it is performing and the future outlook for Fem.

Anand Mour: But are we not looking at new product white spaces primarily in the skin care portfolio as in the way competition is getting aggressive in the entire portfolio?

Sunil Duggal: Not really. I think the job which we have which will be again best in terms of risk-reward would be to deepen the presence of bleaches in the skin care regime of Indian women and we believe there is an incredible amount of headroom here for growth particularly in the smaller towns you know, we just made a round of semi-urban areas and we were amazed at the number of beauty parlours which were there in a place like Gorakhpur and that would be counted to something like 250. Which means that the beauty care regime is getting traction in the smaller towns where earlier on it was considered to be not very common. And the Fem portfolio is perfectly positioned to deal with that upsurge in terms of interest and demand. So rather than to spend our energies and money in launching new products, I think the smart thing to do is to really deepen presence in some of these categories like bleach where I think we have barely scratched the surface.

Anand Mour: In terms of priority within this skin care, is Fem going to be the number one priority for us?

Sunil Duggal: Fem and Gulabari both have their places. Gulabari has a mass market, retailed through regular outlets. No fuss affordable skin care. Fem is a skin lightening solution, which is very long lasting, very efficacious, both have their place in the sun, both will get lot of attention, but I think Fem would really be the flagship of our skin care initiatives.

Anand Mour: Thanks.

Richard Liu from JM Financial

Richard Liu: This is Richard Liu. Thanks for taking my question. Sir, just carrying on Fem on your internal MIS are you breakeven on the acquisition as on date in terms of considering the treasury income that you would have lost on the acquisition cost?

Sunil Duggal: I think it is accretive in terms of net income or net profit to the businesses if you compare opportunity cost of treasury versus the profitability of Fem. What would be the Fem EBITDA?

S Raghunathan: It would be upwards of 33%. There the gross margins are in the mid 60s. The A&P is in the mid 20s there is not too much of the cost because the same system carries to the whole base. So I suspect the EBITDA will be 30%-35% and it is certainly accretive.

Richard Liu: Sure nice to hear that, on the net realization basis, have you been able to increase net realization on the products based on the theory of rationalization of distribution margin that we had spoken about at the time of the acquisition?

Sunil Duggal: Yes we have, I think the gross margins have remained fairly static at around 65% odd. A&P has been actually pushed up that but other costs have come down so our margins have been a little bit ahead of what that business was generating, I am talking about the margins before in its SG&A. The SG&A has entirely come out of the Fem system.

Gagan Ahluwalia: In fact the EBITDA margin improved by more than 15% odd because it used to be at around 14% before the acquisition.

Richard Liu: Great. Just one more Mr. Duggal you mentioned about a disruptive activity in the shampoo category, which is leading to structural changes in the industry, if you could elaborate a little more on that. I heard your point on Clinic Plus giving more ml and etc., and the other thing I noticed would be Procter doing it with sachets is there anything else other than this that you would be able to throw some light on?

Sunil Duggal: I think what we have seen in shampoo is a consequence of the market leader reengineering the value proposition after many, many years of steady erosion of share and so I think something similar has perhaps happened in the detergent space etc, and then the shampoo I think we have seen the story played out significantly. I doubt if there can be a further round of disruptive competition then there would not be any food on the table for anybody. Now whether the story will repeat itself in other categories well not to be completely ruled out but at this point in time we do not see any signs of that happening anywhere else other than shampoos and some other categories in which we do not play and like soaps and detergents and others.

Richard Liu: What do you think of the probability of this happening to skin?

Sunil Duggal: I don't think it will happen in skin because people are not that price conscious as far as skin care is concerned. The value proposition in skin care is a little bit different. People are very clear as to what they want and they are willing to pay a price if it matches those aspirations. So, huge price war breaking out in skin care and skin care, let us put this way a little bit more fragmented than the shampoos was, so the possibility of that happening is certainly not zero but I would rate it low.

Richard Liu: Thanks for that and wish you all the best.

Vijay Chugh of Ambit Capital

Vijay Chugh: Good evening. I had two questions firstly on with the Hobi acquisition behind this. I just wanted to know how are our acquisition priorities now looking in the short and medium term?

Sunil Duggal: I think we still have an appetite for further acquisitions. We have the bandwidth to assimilate more companies. Our experience with acquisitions has been very positive. We believe this is a great way to grow the franchise, grow the portfolio, it acts as a great hedge against any disruptive competitive activities which happens in certain geographies, in certain categories so we are pretty much aligned with the strategy and we would like to continue it further.So I would not rule out the possibility of more acquisitions happening even in the short-to-medium term.

Vijay Chugh: Thank you, Mr. Duggal, and my second question was what outlook do you see for a Hobi now it stands integrated and how soon can you realize actually distribution synergies from the deal into MENA and other markets?

Sunil Duggal: I think that should happen starting now. We are having a major business review next month for Hobi and that is when we will chart out the course in terms of applying these synergies. Synergies are very visible in Africa in particular also parts of MENA which are a little bit less affluent because there is a great value proposition in terms of formulation, etc., and we believe that their products along with our infrastructure is a very, very good combination. We were in Kenya a few weeks ago we were very excited about the prospects that market offered for the Hobi. The Hobi products are already on the shelf without any effort and with a little bit of infrastructure support put in, the sky is a limit. The challenge here would be to grow the Turkey business in line with the overseas business which we believe is comparatively easy and if we are able to grow the Turkey business at around 15% odd or plus then we would be extremely happy with the outcome of this acquisition.

Vijay Chugh: Thank you so much.

Grishma Shah of Envision Capital

Grishma Shah: Thanks for taking my question. Couple of questions, just wanted to know what would be your market share for the hair oil category for Dabur Amla and the Vatika, Almond Hair Oil?

Gagan Ahluwalia: Market share of the entire hair oil category for Dabur Amla is around 8.5%.

Sunil Duggal: This is so for the entire hair oil coconut, perfumed and everything.

Grishma Shah: How is the response for the promotion for Vatika Almond Hair Oil and how do you feel that category growing?

Sunil Duggal: I think the response has been very good. We should be recording a fairly decent sale in the current year and this is the first full year of its launch and we believe we can go further from there in a very rapid fashion. I think it is a good proposition, which seemed to have struck a chord with the consumer.

Grishma Shah: Currently at what percentage would it contribute?

Sunil Duggal: Very little it is only the first few months of its launch. So it would be maybe around 5% of what Vatika is or 2% or 3% of Amla is but I think it has made a good beginning.

Grishma Shah: How is it priced vis-à-vis the competition? Is it on par, etc.?

Sunil Duggal: **I**t is more or less at parity, pricing vise, with the market leader, which is the Bajaj product.

Grishma Shah: Primarily the LLP pricing or the cost pressure you would be facing it for this product in the hair oil categories or it is across?

Sunil Duggal: Well the margin pressure is across the whole hair oil category. This is a small product the pricing flexibilities little bit higher here so this does not bother me very much.But there certainly has been margin pressures felt both at Amla hair oil on account of LLP and edible oils and in Vatika on account of coconut oil. So we have not been fully able to mitigate the input cost increase through price increases so that has really been perhaps the largest area of concern as far as margins are concerned - that has been actually hair oils.

Grishma Shah: In the mosquito repellent category what is your market share and how is the competitive intensity shaping up. I was reading today’s newspaper and it had a very nice article, regarding product differentiation and product innovation, if you could give some colour on that?

Sunil Duggal: Let us look at this way that in the terms of the on skin application which is the only place where we are in, we are close to 90% share. We are the only significant player and we believe that this particular type of application has got enormous amount of headroom for growth provided the mosquitoes still continue the way they are because this is the only thing which you can protect yourself from mosquitoes when you are out in the open. Within the home of course there are a host of other solutions, but what happens when you leave your home, when you are outside and I think with the spread of this epidemics both dengue and chikungunya, there is a huge amount of concern amongst mothers in particular that the kid should be protected when they go out to play and that is providing us with very strong growths.

Grishma Shah: With the launch of this oil in the rural markets and you have grown around 33% in the first half, you think that is sustainable in this future?

Sunil Duggal: I think it a lot depends upon the mosquito cycle to be very honest, you have a long season for breeding of mosquitoes and it is seasonal. For example, now you will see sales drop off very rapidly and then pickup again in February because at least in the northern part of the country and north and east the mosquitoes disappear for the four or five months of the year and then reappear, again they will vanish in the summer, so this is a seasonality element and that will always make this category a little bit volatile.

Grishma Shah: Thanks a lot.

__**Navin Trivedi from Pinc Research**__

Navin Trivedi: Good afternoon Sir. What would be the CapEx in FY'11 and FY'12 and any specific category in which we are focusing?

S Raghunathan: Our expectation is around Rs. 100-110 Crores of total consolidated basis CapEx for FY'11.

Navin Trivedi: FY'12 any guidance for that?

Sunil Duggal: It should be in the region of Rs. 120-150 crores.

Navin Trivedi: So last quarter the CapEx would be on the capacity expansions or would it be for the international business?

Sunil Duggal: I think next year there would be a substantial CapEx for Egypt, which actually should have happened this year but there has been some delays in machining up of the plant. I would not rule out, even though we have not mapped out Hobi yet, but there could be some CapEx's there I think we need to do a little bit of upgradation in terms of the facilities and if you are looking at high volumes coming out of the whole Hobi manufacturing then we need to scale up their manufacturing capacities quite a bit. But we have not mapped that out. And then there would be a third CapEx in the beverage arena where we are now little bit running out of capacity, the business is growing extremely well and we will be adding substantial CapEx in Nepal particularly.

Navin Trivedi: Any kind of breakup in terms of domestic as well as the international, because most of the growth is coming from the international business?

Sunil Duggal: Well this year this has been more 80-20 or 85-15, it should all be domestic. I think the next year it would be more like two-third domestic, one-third international, but we have not fully mapped out the CapEx requirements for next fiscal, but it will be in the region of 120-150 Crores as I discussed.

Navin Trivedi: We have already discussed on the gross margin thing, but I was just worried about one of the thing that in second half FY'10 the gross margin was higher than the first half FY'10 given the scenario when the prices are on the rising trend would it be right to assume the severe fall in the margins in second half FY'11?

Sunil Duggal: I do not think so, but your point is valid that last year was a very benign material cost environment throughout the year particularly in the first three quarters, obviously there is a bit of struggle to match up with those margins and that is one of the reasons why you see little bit slower growth in profits in the second quarter. And this problem will perhaps remain to some extent in the third and then ease off in the fourth and from next year again the base effect would act in our favor, but these are the cyclicals which we have to live with and last year was the year where we had great growth in terms of revenue consequent to the Fem acquisition and great growth in margins on account of the COGS part. Only this year is a little bit more difficult.

Navin Trivedi: But the issue is that we are also focusing on investing in categories like shampoo where we are facing severe problems so investment cost would be higher in terms of SG&A?

Sunil Duggal: I think shampoos is perhaps the only place where investment cost is significantly higher otherwise our spends are pretty much under control and I think there is a lot of focus now on the international business being very important to drive our overall margin profile up.The medium outlook for India could be a) that the inflation would remain very high and the competition would remain very intense, so we do hope to achieve at least 25% of our business coming outside India even in financial FY'12 and we believe that will be a very benign impact on our overall margins.

Navin Trivedi: Can you give me such breakup in terms of SG&A in India and SG&A for international business because most of the growth is coming from the international business maybe the overall SG&A cost will decline?

Sunil Duggal: The cost overseas is obviously much higher than India because of the smaller scale of the business, but then the headroom for shrinkage in SG&A is much more because when we get the operating leverage then those benefits would come and we have already seen that happening in the Dubai end of the business and that will happen all across.

Navin Trivedi: I did not get you, so SG&A would be higher for international business?

Sunil Duggal: Yes at the moment, but it would rapidly come down as the business expands and since it is growing by 25% odd, we expect the operating leverage to be very instrumental in improving the margins.

Navin Trivedi: So given the scenario where we have the low base for FY'11, can we expect some rapid margin expansion for FY'12?

Sunil Duggal: I think so, but if inflation remains at 15% for next fiscal then that also maybe a little difficult. B) If the similar competition happens across multiple categories then it may be or may not be easy, so I would be a little cautious here but logically yes the high base of this year should act in our favor just as the low base last year went against us, but things are never so predictable.

Navin Trivedi: Right any weighted price hike you are expecting for the year?

Sunil Duggal: Well we have done 2.5%. We will probably end the year with around 3.5% maybe 4% - at most it is going to be pretty moderate. The price increases are not going to be very substantial.

Navin Trivedi: Largely would be for which category?

Sunil Duggal: They would be largely in healthcare and in some select categories of personal care. Food and beverage our margins are very good so we do not have any pressure to increase prices it will be really more in healthcare more than any other category.

Navin Trivedi: Thank you so much Sir.

Shirish Pardeshi from Anand Rathi

Shirish Pardeshi: Good evening Sunil, Good evening Gagan. Just few questions, in last two months we have seen that flood situation in the north and we had Commonwealth Games, is that a phenomenon which has affected or impacted any of our sales numbers?

Sunil Duggal: I think sales in Delhi were affected last month and even the earlier part of this month because of the Commonwealth Games because they stopped movement of all commercial vehicles within the city and in West UP there was some disruption on account of floods, but I do not think these are hugely significant developments which would have any impact on the full year sales.We will be able to recover whatever little losses we had.

Shirish Pardeshi: My next question is on the rural urban sales mix, I assume that some few quarters before you had mentioned that our rural sales is somewhere around 48%-49%, how it has changed over last one year?

Sunil Duggal: I think it has inched up. I do not have the latest set of numbers because it takes a lot of time to compile but today I think the latest set of numbers which I saw for September was around 50% coming from towns of population 50,000 and below almost exactly half our business was coming from there. Our definition of rural is a little bit different from the classical definition that all towns of 50,000 and below are classified as rural because that is how the consumer behavior is like.If you take rural as defined by census directly there is almost no sales there because they are really flowing through the wholesale channels, so 50,000 is a fair criteria in terms of defining rural and then we take a certain percentage of sale from urban wholesale which we believe is going to the rural areas and then stack it up. It is a not a perfect measurement tool, but it is the best we have and this gives us around 50% of our business from rural.

Shirish Pardeshi: My next question right from the rural background, we have seen after a long time, we are seeing the muted growth or the growth in the oral care business is coming down, is the category getting towards saturation or is the low price toothpaste opportunity is diminishing now?

Sunil Duggal: I think what you have seen in the second quarter at least is slowdown in category growth across categories whether it is toothpaste or hair care or whatever and as I mentioned in reply to first question, I do not believe this is structural. Because I do not see any drivers which will make this happen, why should the categories go down in a time of great affluence and growth especially where there is a good agri crop happening? I think it is a just a temporary blip and we will see resumption of strong category growths going forward.

Shirish Pardeshi: But you continue saying there is a shift happening from toothpowder to toothpaste?

Sunil Duggal: That obviously is there, but we have seen a growth in toothpowder also, but that is obviously of a fairly eroded base, so I would not put too much of emphasis on that. I still think that people would prefer toothpaste and our toothpaste portfolio always grows well ahead of toothpowders.

Shirish Pardeshi: My question is on the shampoo category we have seen there are some actions happening on Vatika and I also saw that in the presentation there is a new packaging which was launched, I have two questions on that with this change in packaging have we taken any price increase?

Sunil Duggal: No.

Shirish Pardeshi: So it is launched with the same price.

Sunil Duggal: Absolutely. It is actually that as we speak there is very little potential for price increase in shampoos because there is actually significant price reductions happening in real terms.

Shirish Pardeshi: That was the question, where do you see that there will be a reversal in the trend, which is happening in shampoo?

Sunil Duggal: I see it as bottoming out and I do not see any further trigger, which would let lose a fresh round of blood letting in this category. I think as I mentioned the market leader has taken some action to reverse their share declines and they could only do it by changing their entire paradigms in terms of the value proposition, but also the reality is the shampoo was one of few categories where everybody was sitting on very, very high margins, 50% plus margins so there was a lot of headroom here to reduce the prices and that same kind of ability may not be there in many other categories like say toothpaste and oral care where the margins profile is much less benign than it was in shampoos.

Shirish Pardeshi: One more question on shampoo, we have seen that you continue delivering 0.50 paisa sachet price point in shampoo, how big is the entire 0.50 paisa opportunity into the entire shampoo category?

Sunil Duggal: We believe it is around 10% of the shampoo sachet category of 0.50 paisa, but we believe that we need a foothold there, so only one SKU is what we have introduced in 0.50 paisa which is the black shampoo.Because there is a fair amount of demand for low price black shampoo which is used by people in rural areas for whom even Re.1 is a lot of money, but we do not intend to promote this in any major way. It is something, which will meet certain level of demand, we do not expect this category to be significantly large and grow very much fast, but there is a certain demand for 0.50 paisa.

Shirish Pardeshi: Just one last question, on presentation page #19 you have mentioned the various growth in categories where I am reading from the presentation if shampoos are grown at 190%, that may be because of last year the base was low ?

Sunil Duggal: This is in International business. Off a low base of course, but I think what has happened in international business is that we have now started focusing on both toothpaste and shampoos as being really what will fuel the next wave of growth in the GCC and MENA markets. So we have put a lot of investment and effort into marketing of shampoos portfolio. We have enjoyed a great deal of success in this and we believe that a lot of growth will come from shampoos and toothpaste in this part of world.

Shirish Pardeshi: Very lastly, in the same slide we are reading something by the name Meswak that I guess is a toothpaste. Thanks all the best.

<u>Kunal Bhatia from Dalal & Broacha</u>

Kunal Bhatia: Thanks for taking my question. Sunil just one thing you mentioned before in the call that your will be continuing with the debt for acquisition I just wanted to get your sense on like going forward what line of business would you like to expand into with this?

Sunil Duggal: We will continue with our existing lines of health and personal care, we are not totally looking at acquisition in the food and beverage space because we believe the margins there will never be that attractive, now personal care is really the focus of attention as far as M&A activities are concerned, but we will also I think at a point in time will start looking at healthcare opportunities.

Kunal Bhatia: You are looking more at domestic or overseas?

Sunil Duggal: We would like to do domestic acquisitions, but we believe that valuations in India do not justify any kind of value proposition which the acquirees bring on to the table so the prospects of doing acquisitions in this kind of environment in India I would rate as pretty dim. On the other hand we find great value overseas and if we considerthe Middle East region as being of equal significance in our scheme of things as India, we would prefer to do M&A activity in that part of the world where valuations make acquisitions accretive almost immediately so it makes much more sense to do some buying there.

Kunal Bhatia: Secondly, my question was on price increases, FMCG companies are facing competition in the current scenario, but just wanted to understand when the price increases which has been taken across, are you all facing any sort of pressure regarding volume growth or are you observing any kind of shifts?

Sunil Duggal: The price increases which we have done are pretty moderate so we have always been very conservative even in the past in taking price increases and we are also pretty conservative in decreasing prices. So we have not seen any impact in terms of growth consequent to these 2%-3% price increases which we have taken.

Kunal Bhatia: All right Sir. Thank you so much.

Yasmin Shah from Avendus Capital

Yasmin Shah: Good evening. My question pertains to oral care, could you separately give us growth numbers for toothpaste and toothpowder in Q2?

Gagan Ahluwalia: Toothpaste growth in Q2 was 14% and toothpowder grew by 7%. Overall growth for the category was 11% oral care in the quarter.

Yasmin Shah: Can you also give me for the oils basically?

Gagan Ahluwalia: Hair oils growth was 7% in the quarter.

Yasmin Shah: Dabur Amla hair oil?

Gagan Ahluwalia: 10.5%.

Yasmin Shah: What has been the currency impact on the international business or has there been any?

Sunil Duggal: 1% shrinkage in the topline on consolidation and very negligible impact in terms of profit.

Yasmin Shah: My last question pertains to Fem basically you have stated that you have been disappointed with the numbers in terms of topline growth?

Sunil Duggal: I think we have not met our internal benchmark of around 15%. I am pretty happy with the way that trajectory of growth is happening; I think we can make it up and grow at 15% for full year.

Yasmin Shah: How much is the category growing?

Sunil Duggal: We own the bleach category, so the category will be growing at the same pace as what we are.

Yasmin Shah: And hair removal category?

Sunil Duggal: I do not have the data here.

Gagan Ahluwalia: We do not have the data, but normally the growth rate has been around 15% in that category.

Yasmin Shah: Is there any issue with the distribution or what do you think is the real issue with the brand?

Sunil Duggal: I think bleach is basically a fairly complex fairness solution and we as the pioneers of this category have to do a lot more in the future than what has been done in the past by erstwhile Fem management in terms of driving trials, purchase and doing a whole lot of educational work behind explaining to the customer what the bleach solution is all about. So we are re-focusing our entire strategy to perhaps take a focus little bit away from the traditional above the line type of activation and go now on the street and in the parlors and teach people the whole regime of bleach. Once they do that we believe that we have converts and then people buy it from the stores, so we just need to do a lot more of that than what has been done in the past and it has to happen perhaps lot more in the smaller towns and not be very urban centric, large town centric.

Yasmin Shah: Sir I think of the growth of 11% in the entire portfolio, hair removal grew by 21% and bleaches would have grown by how much?

Gagan Ahluwalia: Bleach has grown by 11%, and HRC 21%.

Yasmin Shah: My last question pertains to for the whole company basically, most of the companies are talking of expanding their region in the rural areas are you also looking at a similar strategy and what kind of distribution expansion you are looking at in the next two to three years?

Sunil Duggal: The story has been played out many years in the past that rural expansion is integral part of our strategy. We have got last mile access to the level which we want. This last mile, we will keep expanding in a calibrated manner as and when the rural economy grows and the purchasing power in the rural pockets increases, so we are perhaps one of the best distributed companies in the rural areas. We have an enormous amount of infrastructure and not just in terms of people, but in terms of infrastructure both supply chain and IT, so we are very well poised to capture growth in the rural market, which we believe is inevitable.

Yasmin Shah: What would be your direct reach at this point in time?

Sunil Duggal: Direct reach would be around million plus, around 1.1 million retail outlets, indirectly would be around 3 million.

Yasmin Shah: Thank you so much Sir and all the best.

<u>Percy Panthaki from HSBC</u>

Percy Panthaki: Just a couple of followups; one is on the healthcare products about a year and year-and-a-half back you have said that, that will be our next leg of growth, so if you can just give some perspective on what is your thought process there and when can we expect launches? Second question is, in your opinion what is the impact of monsoon and inflation, we have seen a good monsoon, but we have not necessarily seen any major pickup in consumer demand and again on the inflation front do you think all in all for the topline is it a positive or negative because the farmer income increases in the case of food inflation going up so do you think his purchasing power therefore goes up?

Sunil Duggal: I think to answer your first question on the healthcare piece, I think we had perhaps the best ever year in terms of healthcare portfolio performance particularly in CCD where growth has been close to 20%, I think this is result of our strategies and focus on healthcare paying of even though we have not yet seen a lot of new products sit in the ground which we will in the third quarter, but even our renewed emphasis on Chyawanprash and Hajmola and Pudin Hara, etc., and also on the OTC portfolio has paid up very handsomely and I have also maintained that this is really set easier pickings as compared to personal care and we believe that the healthcare portfolio in all likelihood will grow ahead of personal care in the domestic context. Overall personal care may be higher growth because of international. In terms of inflation and its impact on the topline I think the impact will be marginally positive because inflation will fuel perhaps higher than normal price increases but I think everybody will be fairly circumspect in increasing prices. I think the first set of numbers which have come out in the second quarter reveal that people have not really been very aggressive in price increases and the volume growth in some cases have been ahead of revenue growth which is very, very unusual. So it will have some positive impact on topline but not significantly.

Percy Panthaki: And the monsoon impact?

Sunil Duggal: I think the monsoon impact should be favorable by any set of logic we have not seen that yet, but then it is still early days when the harvest, reaches the mandis and the money comes in the hands of farmers that is when it will be visible whether how much of this will flow into the nondiscretionary stuff like what we make. There is a hypothesis that where income levels increase very rapidly a lot of money is actually diverted to discretionary items which are typically of higher value and there is perhaps a shrinkage in the share of wallet. So I would not be very aggressive in saying that the outlook for FMCG is very, very positive, etc., by any stretch of logic it should be benign but it all depends upon what happens in terms of share of wallet for nondiscretionary product.

Percy Panthaki: Sunil my question on the healthcare thing was obviously you are continuing product is doing well, but the question was you were actually earlier year or so back talking about a new sort of leap into the healthcare space in terms of new categories, new products, etc., so we have not seen anything much there?

Sunil Duggal: These products are just being put into the market.By middle of next month little after Diwali you will find a slew of new product introductions which will validate what I said earlier.

Percy Panthaki: Thanks a lot.

Gagan Ahluwalia: Thank you everyone for joining this conference. If you want to access the transcript of the call it will be available on our website shortly. Thank you and good evening.
