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Sub: Transcript of Investor Conference Call for Dabur India Limited Q3 FY 2015-16 Results

Dear Sir,

Please find attached the transcript of Investor Conference Call organized on 28th January, 2016 post declaration of Financial Results for quarter ended 31st December, 2015, for your information and records.

Thanking you,

Yours faithfully
For Dabur India Limited


(A K Jain)
V P (Finance) and Company Secretary

Encl: as above



**“Dabur India Limited Q3 FY2015-16 Results
Investor Conference Call”**

January 28, 2016

MANAGEMENT

MR. SUNIL DUGGAL - CHIEF EXECUTIVE OFFICER

MR. LALIT MALIK - CHIEF FINANCIAL OFFICER

MR. SAIBAL SENGUPTA - VP-FINANCE

MR. ASHOK JAIN - VP (FINANCE) & COMPANY SECRETARY

MS. GAGAN AHLUWALIA - SR. GENERAL MANAGER-CORPORATE AFFAIRS



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Gagan Ahluwalia:

Thank you. Good Afternoon, Ladies and Gentlemen. On behalf of the Management of Dabur India Limited, I welcome you to this conference call pertaining to the results for the Quarter-ended December 31, 2015. We have here with us Mr. Sunil Duggal – CEO, Dabur India Limited; Mr. Lalit Malik - Chief Financial Officer, Mr. Saibal Sengupta - Vice President (Finance) and Mr. Ashok Jain - Vice President (Finance) & Company Secretary. We will now start with an overview of the company's performance by Mr. Duggal followed by Q&A. I now hand over to Mr. Duggal. Thank you.

Sunil Duggal:

Thank you, Gagan. Good Afternoon, Ladies and Gentlemen and Welcome. During the quarter, Dabur's consolidated sales increased by 2.4% to Rs.2,122 crores and profit after tax increased by 12.6% to Rs.319 crores. The business faced several headwinds this quarter which we believe are episodic in nature and not structural:

First was a disruption in juice supply from our Nepal facility due to longer than expected political turbulence in the country. This one-off situation had the impact of approximately Rs.100 crores on the top line on account of a decline of 23.7% in our Foods business in the 3rd Quarter. We have taken action to ramp up alternative sources of production and would be able to meet substantial part of the demand through our Beverage facilities in Sri Lanka, Rajasthan and tie-ups with 3rd party manufacturers even if the border situation continues.

Second, the season was not favorable for our winter-centric products as the winter was delayed by over a month. In fact, this December was the warmest ever recorded.

Third, there has been a continuous slowdown in category growth and heightened competitive intensity in the FMCG sector. While demand slowdown is persisting and revival is not yet in sight, we are continuing our efforts to invest strongly behind our brands and business through aggressive innovation, premiumization, building strong consumer connect, setting up the advocacy platforms and a number of other initiatives.

Coming to the Category Highlights:

The Toothpaste portfolio continue to outperform the category and grew by 15.5%. Red Toothpaste and Meswak continued on a strong growth trajectory and recorded double-digit volume growth on the back of strong consumer pull and focused marketing initiatives. Our market share in Toothpaste category continues to show an upward trend with a gain of over 1% over last year.

Skin Care category recorded around 10% growth in Q3 on the back of effective campaigns during the pre-festive season. To capture the trend of premiumization in the Bleach category, we added the Fem Diamond Bleach to our portfolio. Gulabari Face Wash Range has been test launched with three variants – Pimple Control, Fairness and Daily Cleansing. The Salon



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channel is further being ramped up with penetration of our three Skin Care brands – Oxy, Fem and Gulabari.

Home Care portfolio grew by 8.4% with both Odonil and Odomos posting double-digit growths. Extensive use of Digital Media and Innovation has helped enhance growth in the category. We recently launched the Sanifresh Germ Card Variant and also added two Food-based Gel Fragrances to our Odonil portfolio.

Hair Oils witnessed value growth of around 2%; however, volume growth was in high single digits. Perfumed Hair Oils registered good growth in the back of consumer engagement and regional focus. Coconut Oils posted subdued growth because of deflation in Coconut Oils. Shampoo category remain subdued on account of heightened competitive intensity; however, we are continuing to invest behind our brand and have re-launched Vatika Shampoo in a more contemporary format and variants. We believe that the revamp portfolio would help in attracting consumers and enhance the brand appeal.

The OTC and Ethical portfolio registered growth of 7.5% during the quarter. The Medical Detailing Initiative called “Project League” is on track and has helped clocked good growth for a host of products like Honitus, Janma Ghunti, Gripe Water, Nature Care and Shilajit.

Health Supplements registered decline in growth as sales for Chyawanprash and Honey were impacted due to delay in the winter season. However, the variants and flavors under the Chyawanprash umbrella witnessed strong growth of around 25%, which is indicative of market evolution towards premiumization and value added products in Healthcare.

In the Digestives category, Pudín Hara registered strong double-digit growths driven by continued investment behind the brand to induce trials. Hajmola Franchise was under pressure due to sluggish consumer demand.

The International business recorded growth of around 15% led by strong revival in the Namaste portfolio. Both the domestic and international markets of Namaste performed well with the International business growing ahead of 50%. The Organic International business recorded growth of 10.7%.

On the profitability side, gross margin increased by 416 basis points, driven by benign input cost environment. Operating margin improved by around 85 basis points and touched 17.8% in the 3rd Quarter. We continue to invest in our brands and this reflects in our ad pro expenditure which was at 16.5% of sales growing by 109 basis points year-on-year. Profit after tax grew by 12.6% during the quarter. Although we have faced several headwinds in the 3rd Quarter we believe that we have the ability to mitigate them going forward. The Juice supply issue has been largely addressed by ramping up alternative facilities and the business is already getting back on track. We believe that the long term health of the business is intact and we will



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continue to invest strongly in future development and evolution of the brands. More specifically, we are orienting our brands towards more premium and value added offerings in most of our categories. This will enable us to cater to more discerning consumers who demand higher quality and newer formats to cater to their evolving life styles. We believe that this strategy would enable us to innovate strongly, expand the categories in which we have leadership and achieve sustainable and profitable growth.

Percy Panthaki of HFL

Percy Panthaki: This is Percy Panthaki here. Sir, just wanted to understand on your Shampoos business, what is the cause for this sales decline?

Sunil Duggal: Very high level of competition, you know that the prices of the lead brands were down by around 30-40-50% over the last few months and that has led to a change in the whole value proposition equation from a competitive landscape. So we have obviously reacted to it, but most of our portfolio that the Rs.1 sachet and there is no further price element which we can play on. So I think as there was a situation 4-5-years ago when our brand took a bit of beating during the time of disruptive competition and then strongly regained growth when that competition disappeared. We believe a similar situation will occur here, so we just kind of weather the storm, continue to invest behind the brand, come up with new offerings and wait for the storm to pass.

Percy Panthaki: So have you changed the grammage of this Rs.1 Sachet?

Sunil Duggal: No, we have not changed it that would be devaluing the product, so we prefer to keep it at that and in Bottles not much of a sale happens. But we are focusing now much more towards the Bottle part away from Sachets by again reengineering the whole pricing platform and making the value proposition stronger. We launched four new variants in the Vatika Shampoo and one in Dabur Almond Shampoo and we believe that these are superior offerings than what we had in the past and we will see to rebuild our non-sachet franchise. I think the Shampoo issue will correct itself, it might take a quarter or two, but we have seen this before, so I am not overly worried.

Percy Panthaki: So in the Sachets business, what is the action that the competition has taken -- have they reduced Sachet prices or increased the grammage or what other action are they doing in that?

Sunil Duggal: One lead brand has decreased the prices from Rs.3 to Rs.1.50 and that has become now the dominant SKU for that brand, which is one of the market leaders. I think that has created a fair amount of disruption in the market.

Percy Panthaki: So it is a 50% price drop or is there some adjustment in the volumes?



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Sunil Duggal:

Maybe some adjustment, I am not too sure about that, but the volume is not really very material if you drop from say 8 to 6 ml, it is probably enough to do the job, so it is really the price decrease which is very-very important. It is a fairly commoditized situation as far as Sachets are concerned, so if you drop prices you tend to get volumes back very quickly. There is a lot of temptation on the part of the Shampoo leaders to drop prices in case their volumes are under pressure because it is a quick mechanism to get some volumes in.

Percy Panthaki:

The other thing that I think all of us are trying to understand is this new company, Patanjali, who has entered a lot of segments and although he may be small in many of the segments right now and may not actually be causing any sort of hurt to your market share in the current time, what is your judgment over two to three, four year kind of period? Which are the categories where you see Patanjali gaining traction, and he may not be hurting you today, but there is a chance that he might do so three years down the line, which are those categories?

Sunil Duggal:

He has got a presence practically in every category and a majority of our categories he has got some offering. Now quite frankly, how the Patanjali initiative will play out I really do not know because there is really no precedence for this. A faith based product offering which caters to obviously a significant number of consumers is something whether it is going to be of enduring nature. Whether it is going to be a passing thing, it is very hard to say. So I would not even go down that path of just trying to predict what Patanjali will become. But having said that there is overlap in terms of categories. Honey and Chyawanprash are the most evident ones, but overlaps even in others. So I think the way forward is to really strengthen our own value proposition, cater to the more premium end of the market and what good can Patanjali do actually over a long period of time is to really enhance the whole market for herbal and natural products. At the moment it was really a one-man show, we were the only people in this space and perhaps added noise in this space will over a period of time enhance the whole size of the Natural Ayurvedic offerings substantially to every one's benefit. At least it will benefit people like us. So I do not see this very negatively, we cater to different segments, the bottom end of some of our consumer segments may gravitate towards Patanjali, but I think we will be able to get far more at the upper end to compensate for that. There would be some near-term impact we are seeing that a little bit in Honey and Chyawanprash most of it in honey because of the price disparity but these things tend to mitigate themselves if we play our cards right. As we have mentioned, we will now gravitate even more aggressively to the premium end of the market which we believe will offer us significant benefits and where our competitors will not be able to enter that easily.

Percy Panthaki:

Just wanted to understand the road ahead in terms of volumes and margins, this quarter even if I ex-out the Foods category, I guess your volume growth would be in the region of around 3%. So just wanted to understand going ahead what kind of volume growth should we expect from Dabur once the sort of disruption on Foods is taken care of? Secondly, also given the current view on commodities, should we factor in more gross margin expansion in FY'17 as well in addition to what we are seeing in FY'16?



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Sunil Duggal:

To the first part, I think the volume growth outlook near-term does not really offer much promise, we do not see any tailwinds happening in terms of revival of growth. A couple of triggers could happen -- one is with the budget and perhaps the time around the budget could see that significant acceleration in rural stimuli now... I am not saying that will necessary happen, but there is every possibility that it will. The second is that we do believe that after 2 bad years, we are now gravitating towards El Nina, we will probably have another a couple of years of good monsoons and that will significantly spike up demand. So there is every possibility that the demand improving probably more likely in the second quarter of next year but I do not see anything significant happening in the current quarter and perhaps in the early part of next quarter. But it is again like I said a very hypothetical. So definitely the volumes have moderated, we have been consistently cutting our estimates and as we speak they are in the mid-single-digits if the Food business were to operate as normal. So that is the very near-term outlook. Mid single-digit is that is as we speak, that is the kind of volume which we should be able to generate. Going forward we believe it will accelerate from here and not decelerate, I see no further triggers to deceleration.

Percy Panthaki:

Gross margin, sir?

Sunil Duggal:

Now gross margin expansion would continue at a far more moderate pace and perhaps it will play out fully by first or second quarter of next year. We will see some margin expansion happening even in this quarter on a Y-o-Y basis but the gap would narrow in terms of increase in the gross margin because now we would be entering into a lower base of last year. Having said that if we are able to even maintain the current margin profile I think that is a very satisfactory situation to be in provided of course our top line grows at a reasonable pace. So further margin expansion we should take as a bonus, not as a given, and we should really focus a lot more on the top line.

Percy Panthaki:

Sir, with a stable cost scenario, which is most likely scenario for FY17 and even 2% or 3% price growth, would not your gross margin expand by about 200 bps or so, mathematically that makes sense?

Sunil Duggal:

I do not see a scenario where the market will support 2-3% price increase. So let us assume there is a no price increase, right. Most companies in fact are actually having the reverse move into price reductions, we do not intend to do that, but at the same time it will be fool hardy to get into any price increase situation. So assume zero price increase and then if you do the math, it all depends upon the volumes and if the volume growth picks up which it should then I think we should be able to A), get the top line without really eroding any margins further. But margin expansion I do not see happening unless there is some catastrophic decrease in input costs. I think input costs already have hit a reasonable bottom, there is further possibilities in agri in every process which actually have not really gone down so much, but it is hypothetical whether edible oils will go down further next year or remain where they are.



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Rohit Joshi of Beyond Global Solutions

Rohit Joshi: Q3 we have seen ad spends were at 16.5% level which was higher both on sequential as well as on yearly basis. As you have said the heightened competitive intensity was the reason behind it, what range do you expect it to remain going forward?

Sunil Duggal: Competitive intensity is not really the reason, I think the underlying overriding reason was the lower sales, so the ratio has kind of got adversely impacted because the sale did not happen to the extent we had anticipated. So some of the money was up-spent upfront without the realization that the Juice business will not really happen to the extent we had budgeted for. So overall we are more or less maintaining the last year levels, may be a little bit increase. So what you see on the sheets is a little bit exaggerated because of the top line.

Rohit Joshi: Apart from this, have you witnessed any improvement in rural demand because other FMCG companies have seen more deterioration in this quarter vis-à-vis the last quarter, what is your take?

Sunil Duggal: I think overall there has been no deterioration because our HPC business has actually done quite well, but there has been a deterioration in the products which are winter-centric and I blame that not on the demand, but on the climatic conditions which are very instrumental in driving demand.

Rohit Joshi: What is the update on Project Lead?

Sunil Duggal: Project Lead is doing quite well. Project Lead is driving not the entire Healthcare portfolio as some people think but a sub-segment of that which is the OTC and Ethical Products like Honitus and Shilajit etc., that is what Lead is all about. The large brands in terms of Chyawanprash, etc., are parked in our non-Lead part of the business. So Lead grew by around 7.5% little bit lower than what we wanted, but still not bad under the circumstances. Since a lot of the Lead products are again winter-specific, Honitus, etc., there was overhang in terms of the weather also.

Vivek Maheshwari of CLSA

Vivek Maheshwari: A few questions; first on the Food side, so do you think that we can come back to say this quarter, next quarter, the 100% of what your sales for or there is basically Rs.100 crores gap that we had in this quarter get kind of offset by supplies from Sri Lanka, Rajasthan, etc.?

Sunil Duggal: I think 80% or so of the gap we are already able to mitigate even if Nepal were to shut down. But having said that I do expect Nepal to do some business because we are able to get the containers out through rail, but it is a little bit of problem in getting the raw material in. Once we are able to get that issue out I think Nepal will be able to produce not anywhere near full capacity but enough to take us to that 100% level which we are desperately seeking = 100%



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supply. So let us hope that happens, in which case there should be no impact, but in case Nepal remains shut down and at this point in time the border is still totally shut, but if we are able to get the rail network working, then we should be able to get full supplies in.

- Vivek Maheshwari:** That you are seeing for the full quarter as in from January to March we will be at 80%, 90%?
- Sunil Duggal:** If Nepal remains shut down and completely unproductive, we are able to get nothing out of Nepal.
- Vivek Maheshwari:** Then 80-90%?
- Sunil Duggal:** I would say more like 80% than 90% because we will be entering summers when the demand rises, but in case Nepal was even able to produce something, then we would be at 100%.
- Vivek Maheshwari:** Would there be a big difference in terms of procurement, manufacturing or whatever costs between Nepal and other geographies in terms of margins...?
- Sunil Duggal:** Yes, there is a difference in margins and higher freight from Sri Lanka, lot of our business is in the North and Sri Lanka freight to say Punjab is much higher than Nepal. So there is Rs.10-20 crores impact would be there in that region and yes, we are able to do only 80%, and in case, if Nepal were not to operate, then there would be some impact; Rs.10 to 20 crores is what we estimate.
- Vivek Maheshwari:** One bit on Foods again. Given that there was supply related issues and around the same time ITC was ramping up its Be Natural and I am sure Tropicana would be also quite active, has there been any loss in market share which can continue or can you come back to over 50% market share and you do not worry about that bit as yet?
- Sunil Duggal:** Q3 obviously has led to a 5% decline which obviously it would not have happened in case supplies were there, we were able to hang on to our share despite new entrants, etc., I am pretty confident that we will be able to get back to the almost full recovery, may be not 100% recovery till supplies are absolutely streamlined, but close to full recovery.
- Vivek Maheshwari:** On the volume growth side, can you please give us domestic... because your presentation says domestic revenue is down (-2.5%), right? Going by the previous quarter run rate, there maybe two to three or possibly even a little higher price hike impact. So does that mean volumes in domestic are down like (-5%) including Foods?
- Sunil Duggal:** We do not give separate numbers. You are right that 2.5% is what we have shown as the overall volume decline for the Domestic business. Keep in mind
- Vivek Maheshwari:** Your presentation says sir it is sales growth. Is it sales or is it volume?



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- Gagan Ahluwalia:** Sales... value both.
- Vivek Maheshwari:** Do you think 0% pricing impact?
- Sunil Duggal:** Yes, if you take into account mix, etc., the pricing impact is almost zero. Keep in mind that there has been a 23.7% I think to be precise negative growth in the Beverage business and that really has taken the whole volume table down big time.
- Gagan Ahluwalia:** Your question is on the pricing, Vivek. Basically there was hardly any pricing impact this quarter because the pricing has actually flattened out.
- Vivek Maheshwari:** There was no flow through from the previous quarter as well?
- Gagan Ahluwalia:** No.
- Vivek Maheshwari:** Consol level volumes, would it be possible to get it?
- Sunil Duggal:** Consol is a lot of moving parts here because there are so many diverse markets, etc., So aggregating the certain volume numbers almost impossible, but keep in mind that the pricing in international has been not just now but over the last 1-year practically were zero. So whatever growth you are seeing for a long period of time in international is almost entirely volume driven.
- Vivek Maheshwari:** On the gross margin side, obviously, there was a big expansion in gross margin, but I would imagine given that Foods is also out, there will be a benefit to that extent given Foods should be lower on gross margins. One, is that a fair assumption? Second, adjusting for Foods, what will the underlying gross margin expansion?
- Sunil Duggal:** I think it is a valid point. There has been some mix improvement because of the lesser growth of Foods. 1 to 1.5% is the number - the mix improvement if you can call it that has led to 1-1.5% improvement in gross margins.
- Vivek Maheshwari:** The 1-1.5% because of the mix change due to basically Foods?
- Sunil Duggal:** It was a higher contribution of the higher margin portfolio -- HPC and HC.
- Vivek Maheshwari:** I know this question on Patanjali has been asked, but one thing what I have noticed about Dabur is despite deflationary pressure there have been portfolios where thus far you have been able to take up prices now. On Honey, Chyawanprash given the kind of discount between your brand and Patanjali brand has on honey, 45% gap, do you think price hikes are possible over the next two, three years now even assuming that they also do not take-up prices and all? Will there be price setter in certain cases now which was thus far with you?



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Sunil Duggal: A combination of low price competition and no inflation will mean that price increases will not happen. Now how long this persists is anybody's guess. But I would not really look 2-3-years into the future while decoding price changes, but at this point in time there is no rationale, no basis for a price increase. In fact, most companies are actually decreasing prices, we are holding on to our price line, we believe that our value proposition can support the current prices, but it will be risky and fool hardy to take up prices in this environment.

Arnab Mitra of Credit Suisse

Arnab Mitra: You have spoken about the Perfumed Oils business growing quite well. So if you could just tell me what has been the volume growth or the value growth in the overall Perfumed Oil business including the Amla Oil? Other than Almond, you have mentioned Sarson also doing quite well. So are you putting some specific effort on this brand which has been in your portfolio for a while?

Sunil Duggal: While we do not disclose category volume growths, the overall growth in volumes in Hair Oils has been good, particularly, Perfumed Hair Oils and in Coconut Oils has been little bit moderate. So Perfumed Hair Oil has been actually very good performance in terms of overall volume growths.

Arnab Mitra: Specifically on the Sarson and Almond Oils, are they in absolute size material now for your oils business or they are still on a very small base?

Sunil Duggal: They are both very material, they are both much bigger than what people think they are. So they are significant and they are both growing very fast. They are two different products -- one is at the lower end of the pricing spectrum one is at the upper end. They have played a very different consumer segments and geographies, but both are doing very well.

Arnab Mitra: Specifically, the Mustard Oil, have you kind of put some additional efforts there in the last 1-1.5 years, because this product probably has been there, but...?

Sunil Duggal: We do not talk about it specifically but it has been growing every year at a good pace, this year I think performance has been little bit better than previous years, but it has been generally growing ahead of other Hair Oils.

Arnab Mitra: Secondly, on the Toothpaste side. Your growth rates continue to be very high. Is it reflecting in market shares now because you have been growing very high now for the last 7-8-quarters?

Sunil Duggal: I think we have gained 1% share and two of the three Toothpastes are growing very fast, the third, the cheaper one is actually not doing all that well, but Meswak and Red really that is where we want the Toothpaste portfolio to go as part of our overall premiumization strategy. they are both doing extraordinarily well and one would have thought that disruptive competition would hurt Red Toothpaste, nothing of that kind has happened.



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- Arnab Mitra:** You are seeing the momentum continue in the sense, no significant slowdown in the sequential momentum on the brand?
- Sunil Duggal:** Again, it is a little bit hazardous to predict the future because now you have a very high base particularly for Red Toothpaste. So, I will keep saying that we should moderate our growth expectations not expected to grow at 20% as it has. But as long as it continues to grow at that pace we will go along the ride.
- Arnab Mitra:** On your Namaste business, the growth came back there. So essentially in the Africa business, are you now manufacturing locally there, what is the status on the supply chain there? What kind of uplift can you get when that system is fully in place?
- Sunil Duggal:** At the moment still around 80% of Africa sales are from hard currency origin, mostly Chicago of course, but little bit of Dubai, UAE. This whole thing is going to change very rapidly towards localization. Egypt has now ramped up fully and has supplied in a limited quantity in this quarter just past but far more aggressively into East Africa going forward. Nigeria plant will be operational for Namaste products from July and that would be very-very important initiative. The last part is South Africa where we are actively exploring acquisition opportunities not so much brands, but in terms of buying into existing manufacturing infrastructure. I think we have shortlisted some interesting opportunities there which would enable us to quickly localize. So the endeavor is that over the next 2-years something like 2/3rds of Africa sale should come from local manufacturing and that will significantly alter the whole profile. So I think even while shipping in dollars we are able to grow Africa by strong double-digit growths if you localize the acceleration and growth would be even more and more importantly we will make good money doing it.
- Arnab Mitra:** So would it reflect in better pricing versus competition there or in a sense it would...?
- Sunil Duggal:** Today, I think we are highly overpriced; we sell at 30 to 40 premium over L'Oreal in the core relaxing kit in South Africa and that kind of pricing is not sustainable, but there is precious little we can do because we are shipping it from the US. Now, if you were able to price it closer to our lead competitor or at par with him as we used to do in the past then competitively speaking we are far better placed. I think it is very impressive that we are able to sell at this kind of premium. So you can imagine how things will change when we are able to compete better in terms of pricing.
- Arnab Mitra:** In the Middle East business, is there any pressure you are seeing on the consumption cycle because of where crude oil is?
- Sunil Duggal:** Yes, I think there is a little bit of stress happening in Saudi Arabia particularly, but that I think we can mitigate it is more of episodic nature, some wholesalers running away, etc., or being told to leave. I think the little bit more serious issue is ISIS and the prospect of whole country



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shutting down. We have already seen that in Syria, Yemen and Algeria and we hope the contagion would not spread. That I think worries us little bit more than oil prices which even though will have some negative impact on economy which should not significantly dent Staples consumption. I think luxury goods, etc., would obviously get impacted far more seriously but Staples I doubt whether oil will have any big impact.

Naveen Kulkarni of PhillipCapital

Naveen Kulkarni: Just this bit on Middle East again. While we have been able to register strong growth in a challenging environment, but the news flow from Middle East is pretty bleak in terms of the job scenario and the expats returning. So do you think that can have an impact over the next 1-2-years for our business?

Sunil Duggal: Yes, I think we have already moderated our growth rates from around 15% in the MENA region to more like 10%. So that is part of our business plans, we have already done that and that is the kind of growth we are seeing. Will it fall well below that? Not to be ruled out but I think we should be able to maintain our 10% trajectory even when Egypt had this huge problem post Arab Spring and economy went into a complete tail spin, we were able to get a pretty decent growth in Egypt because we found that Staples consumption remains pretty immune to political and economic upheavals. So if a country is still able to function as a governing entity, I am not all that worried about our growth, but definitely there will be some moderation.

Naveen Kulkarni: My second question is on the advertising spend. So while our revenue growth has come down significantly, but advertising spends are still reasonably strong. So what is the strategy and how do we see it panning out over the next 12-months?

Sunil Duggal: I think as I mentioned earlier the advertisement spends look a little bit exaggerated this quarter because the sale line is softer than what we had anticipated and you just cannot reverse some of the A&P spends very quickly. Overall, we should be at the region of around between 15 and 16%, that is the range of A&P for the consolidated entry and something like 14%-odd for the India piece and I do not see any radical changes from this. We continue our new product development agenda. We believe that even though the demand side is little bit soft we should still innovate and launch new products. So there will be a fairly large number of new offerings in the next few months which will take up a reasonable amount of ad products. So I do not see ad pros moderating but I do not see significant jump there. You also kind of get more bang for the buck, squeeze more efficiencies out of our A&P spends and then use that to deliver additional GRPs, etc.,

Naveen Kulkarni: One bit on the market conditions. Sequentially, we know that the winter scenario has impacted revenues, but if we take that out of products which are not necessarily impacted by seasonality, how are you seeing the demand scenario?



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Sunil Duggal: If you take non-seasonal products, the growth rates have been far better than that of the seasonal products, there is a clear correlation. So therefore I am not that worried about because season issues keep coming and going and next time we may have a cold winter or early winter and last year we had a pretty bad start to the summer season, so sales of Glucose did not do well. This year hopefully it will not happen and the summer products will do well. So these are the things which are a little bit out of our control. The overall growth story should not get derailed by these episodic issues.

Naveen Kulkarni: So is this because of our exposure more to the Northern markets than to the Southern markets, is that impacting or rural, that's the rural market is still contributing reasonably strong to that?

Sunil Duggal: To some extent, yes, it cuts both ways, North and East are something like 60% of our business and they are a little bit more extreme in terms of weather. So, if weather is a little bit more moderate, cooler summers and warmer winters, our business has kind of affected and the reverse happens if the weather becomes more extreme. In that sense South is a little bit less exposed to temperature variations than North and East.

Ritesh Vaidya of Ambit Capital

Ritesh Vaidya: What is the exact domestic volume growth if you can quantify?

Gagan Ahluwalia: Almost similar to the value growth; it is actually (-2.5).

Sunil Duggal: This is really because of Foods. The Foods business degrew by 24%.

Ritesh Vaidya: Is it possible to quantify excluding Foods if at all?

Sunil Duggal: We normally do not go into segments or sub-segments in volume growth but you can do the math and estimate it, I think you will come very close.

Ritesh Vaidya: One question was on the market share that you have right now in Chyawanprash and Honey. Has that impacted by Patanjali over the last quarter or so or has the market share gone down?

Sunil Duggal: A little bit yes. It is very difficult to map out from Nielsen, etc., so we have other data sources. Nielsen does not really pick up Patanjali, so it understates its growth. But, we believe that we have lost some 2% market share in each of these categories at least in the third quarter. Now, the issue is that it is something which is of permanent nature or can we regain it. I believe we can regain it but might take a little bit of time.

Ritesh Vaidya: When you said that you are targeting around mid-single-digit top line growth for the coming quarters, which are the ...?



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- Sunil Duggal:** Volume growth hopefully can be a little bit better revenue growth, but like I said the difference may not be significant, the growth is going to be largely volume-driven for the next two quarters.
- Ritesh Vaidya:** So, in that case any particular categories that you think will be at a core of this top line growth or which are the key categories that you are hoping for?
- Sunil Duggal:** We are hoping to get go from all, let us say, summer brands which is Glucose, Pudín Hara, etc., we make a very good growths if the summer is off to a hot start in say in the month of March, then we will obviously have a great quarter for summer products especially on the back of not-so-good quarter last year. If that does not happen, then these products would not do well, but the other products like Oral Care and Hair Care and many Healthcare products which are climate-agnostic, season-agnostic and we should get good growth from them, but growth comes in different places at different times. That is very hard to predict. So we just put in innovation and initiatives and investments in all our categories and some grow well ahead of what we expect and some do not. That is the way it goes.
- Ritesh Vaidya:** On the employee cost and the other expense actually for this quarter, the employee cost has been trending up in double digits for last few quarters in terms of YoY growth. Any particular reason for almost 14% YoY growth in your employee cost this quarter?
- Sunil Duggal:** I think we have added our distribution set up in African countries especially in Nigeria and also we have added people on the medical marketing channel. So, as a result of it, you see growth in the employee cost and obviously there is some inflationary impact that is there and the ratios all will look exaggerated because of the softer top line. So keep that in mind that these costs do not move along with the top line. So the ratios deteriorate when the revenues do not come.
- Ritesh Vaidya:** Was there any one-off in the other expense relating to shifting of production of Fruit Juices from Nepal to other geographies, was it any...?
- Sunil Duggal:** That is a very valid question, how much money did we lose out of this whole Nepal thing. There is a loss in terms of the margin not coming in because that is a sale loss which we anticipate to be of around Rs.17-odd crores but there is another Rs.22 crores of loss which has happened on account of other things; one, most important being demurrage of input raw materials, then there is a freight component because we shipped from more distant locations, there is additional customs duty component. So there is aggregate Rs.39 crores, out of which Rs.17 crores is really due to the sales loss which is fairly visible and Rs.22 crores is the invisible part which is buried under various lines in the P&L mostly in the other expenses line. This is on account of higher freight, demurrage and some of it is actually under gross margin also because some of the domestic production was of variants which we should normally make



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at lower cost in Nepal. So there has been fairly serious damage even in terms of margins because of this whole Nepal thing.

Nillai Shah of Morgan Stanley

Nillai Shah: In terms of international business margins, how should I look at them let us say the next two or three years given that Namaste have finally turned the corner?

Sunil Duggal: Namaste obviously would generate a lot in terms of incremental margin growth. Once the top line gets streamlined and we are able to get into that \$100 million kind of sales range, the margin generation would be quite substantial even though it still remains lower margin business as compared to say MENA. The aggregate growth if the Namaste business grows would definitely be more, but it could be to some extent eroded if we have lower growth in our higher margin MENA business. Again, it is a mixed bag. Overall, we believe that the margin profile may not differ significantly than what it is today, but it will improve only if the MENA business grows in double-digits. If it does not, then it will probably remain pretty much the way it is. At the same time I do not see the margins deteriorating either because Namaste which was the biggest contributor to our margin erosion in the previous two years is now back on track.

Nillai Shah: These margins for Namaste, I know you do not disclose them on a company-wide basis but the margin erosion was over 10 percentage points versus when you acquired it first. So would not that change dramatically over the next two or three years?

Sunil Duggal: If you are able to get it to the \$110 million level, the margins would look very strong because underlying cost structure would remain very similar. That is one. Secondly, if you are able to improve margins by localizing Africa for the Namaste products and that is part of the Namaste P&L that would be the second contributing factor. So overall I think the margin outlook for Namaste is pretty benign. How quickly we can accelerate it to levels which are comparable with the company average, that remains to be seen, I do not think it will happen this year, but we do hope that in '18 the Namaste margins would not be significantly different from the rest of the business.

Nillai Shah: What are your aspirations for constant currency growth from the entire international pie over the next one or two years?

Sunil Duggal: Again, it is contingent upon several issues and the most important one is the MENA economy and the law and order problems, etc., That is something which causes us the maximum amount of worry. Sub-Saharan Africa if there is further currency devaluation in Turkey and Sub-Saharan Africa can prove to be a significant headwind. But hopefully the bulk of the currency corrections 20-30% devaluations have already happened and while devaluations probably still continue it will not be in the same pace. There are a lot of moving parts here and we are



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pitching for low teens growth in the International business next year and we believe that that is something which is well within reach. That may or may not happen but due to circumstances beyond our control but that is what we are pitching at.

Nillai Shah:

Over the last two years or so, you have relaunched a few products in the Domestic business which are higher margin than your overall company profile. Can you comment as to how some of these products are actually performing at this point in time?

Sunil Duggal:

Many of them like the Hair Oils are doing very well where there is Anmol Hair Oil the new one, the relaunch of the Anmol Coconut Oil, the Anmol portfolio is one of our faster growing portfolios. Almond is doing well so is Sarson. Some of them are not new products but are comparatively new in terms of portfolio. You will see a lot more happening in the next few months. You will see the new Beverage launches both in Dabur as well as in Hajmola and may be in Real a little bit uncertain because of the supply issues, but certainly in Dabur and Hajmola you will find beverage offerings which look very interesting and there is a whole lot of stuff which is happening in Home Care for example in terms of Air Fresheners in particular which will take its franchise strongly forward. Innovation is now going to be unveiled even if there is lack of demand happening in the market because I believe that it is time now to get into the next level of growth through premiumization, through new product offerings and that is something which we will pursue.

Nillai Shah:

Maybe on Healthcare you want to highlight?

Sunil Duggal:

Healthcare of course, Lead is the incubator and a product let us say Stresscom which is anti-stress product, there are several such products in the pipeline. It is something which we will unearth when we believe that the critical mass in terms of doctor advocacy has been reached, and we will take them over the counter. But these are slow growing. I would not say that Healthcare from the point of view of the Lead initiatives will be a major contributor to our growth, but it will be one of our most important future growth drivers. In terms of the FMCG Healthcare, Chyawanprash is one of the brands, we will go the premium path. The theme of premiumization that is going to play out in our whole portfolio and I will give you a few examples -- one is say the Chyawanprash portfolio. Now the base variant of Chyawanprash may be getting a little bit commoditized, etc. because it is a generic name. What are we doing? We are getting into the premium variants and they include the Sugar Free Variant, the Fruit Flavored Variants and now Ratnaprash. These are actually growing at 25%. The base may be small but 25% growth is 25% growth. This is where we believe future growth will come from. So the base variant will obviously lag substantially the growth in these areas. You take Air Fresheners, another big and very important category for us. Again, the base variant which is the PDCB block which was 80% of the portfolio is now becoming less important in scheme of things. We have launched Gel which are doing extremely well and offering a far more premium offering to the consumer. We have launched Car Fresheners, we have launched Delayed Release Air Fresheners, Aerosols are doing well. So all this will take the whole Air



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Freshener profile far more premium. Why should people buy our expensive honey when there is cheaper honey available and some people will tend to go down that path. So what do we do? We can do premium honeys, we can do honeys with herbs, with spices, we get into spreads, we can do a whole lot of stuff which you will see in the market soon and even if some of them succeed, they will enable us to take our growth forward.

Nillai Shah:

A year and a half back I remember you commenting on the Air Care category, saying that people are spending more on advertisement in this category than the top line potential itself and you are reluctant to do that.

Sunil Duggal:

May be there was one entrant there. But Air Care we are pretty dominant in most of the areas and we are thinking to reinforce dominance in the premium areas which were erstwhile the domain of Procter & Gamble and Reckitt Benckiser. So we are getting strongly into these categories.

Nillai Shah:

What has changed to drive this new confidence?

Sunil Duggal:

The overall thinking in the company is that India despite what you see in terms of lack of demand, etc., is really poised to premiumize in a very significant manner going forward. The way to grow for a company like Dabur would be not to play to the bottom of the pyramid. We will cater to that but increasingly the focus will shift to the upper end of the whole pyramid. It is very easy for disruptive competition to come in and take the base variants where the pricing is very instrumental. So we are going to get into value-added offerings across our portfolio, a great example is Toothpaste where the premium offerings which are highly advertised, aggressively marketed are doing so well and the base variant which is really on the pricing platform is not doing too well. So this is a thought which we would pursue and this will cut across portfolios -- Healthcare, HPC, Food and Beverage -- and we believe this will take the company forward. The new revelation almost which took us a little bit by surprise is that the sheer acceptance of the herbal and natural space. That has come as a huge boost in terms of our ability to grow the size of our business from this platform.

Latika Chopra of JP Morgan

Latika Chopra:

You mentioned that you are looking at acquisition of some manufacturing units in South Africa. Besides that is there a change in the way you are looking at further inorganic growth opportunities?

Sunil Duggal:

To be very honest, our inorganic opportunities in the emerging markets now will be very clearly keeping currency movements in place. Earlier on quite frankly the currency movements we did expect devaluation but 5-10% is what we thought would happen. If currencies are devaluing at 20-30-40% because the whole commodity cycle has changed for various other reasons and that has really put a whole question mark over the emerging market strategies not



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only of Dabur but I think of many other entities. We got to recalibrate and make sure that the currency depreciation are integral to the business model and to the paybacks on account of these investments. Therefore, the value which we put on the investments will probably be much lower than what we would have done say three to five years ago when Africa was the big hope of every consumer company.

Latika Chopra: One follow-up on the honey bit; your CHD portfolio declined due to delayed winter. How did the honey bit perform in the quarter?

Sunil Duggal: Honey grew but at a slower pace and part of it was winter-centric and I spoke about some share erosion due to the lower price competition. Both were contributing factors. Having said that Honey we will regain growth because it is not so winter-centric as Chyawanprash. Chyawanprash we lost the growth because third quarter is really when the game is played and there is nothing much you can do after that. So we will hopefully regain momentum in the second and third quarters of next year. But honey we are quite hopeful that the momentum will happen now starting this quarter and we should be back to double-digit growth.

Latika Chopra: Is this because you would be pushing more promotions and would this be more short-term?

Sunil Duggal: Not really. There will be new product offerings, we will be advertising more, we may be giving some higher level of consumer promotions, etc., improving the value proposition of the pricing front. The new products also would be very-very important may be not in this quarter but subsequent quarters in terms of driving overall growth of the Honey portfolio.

Prashant Kuttly of Emkay Global

Prashant Kuttly: On the international operations, if you just do the math in the margin front, we have seen that the gross margins are flattish on a sequential basis and even on the EBITDA margin front, there is a decline over there on a YoY basis. If you could probably cite us the reasons for same given the fact that your MENA region has still seen a fair bit of growth. What is your outlook as far as margins are concerned going forward in the International business?

Lalit Malik: As far as the International market is concerned as Mr. Duggal said that Nepal has played a very major role. There have been some costs which are hitting there. That is one of the drivers that has brought EBITDA margin on the international level down. The second is on account of devaluation happening in countries like Turkey, Nigeria and Egypt which has also caused an impact in terms of the EBITDA margin. The third one is there has been an increase in the advertisement and sales promotion expenses though not very major, but in a part which has also contributed. These are the three factors which had some impact on the margins.

Sunil Duggal: The loss on account of Nepal in terms of the profit is something like Rs.17 crores in Nepal books. It is not that much in India books so the demurrage fees and the freight fees is actually a Nepal one.



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- Prashant Kuttu:** If I probably leave apart the Nepal cost and the devaluation of the currency, looking at the increase in ad spends, do we expect this to increase going forward giving the fact that Namaste has actually turned around and probably are we expecting the ad spends to increase here on as well?
- Sunil Duggal:** We would like to moderate them. I am not too sure whether we can moderate them substantially. Lot of these ad spends actually are not media related. They are basically higher promotional activity to mitigate the deflationary situation which is there in at least the MENA area. So we are giving higher levels of trade promotions, higher wholesale duplication, etc. which is to be captured in the ad pro line. We are looking at ways to reduce that outflow through better distribution and stronger distributors, etc. I am hopeful that we will be able to reduce the ratios to some extent because this quarter they were particularly high and actually for the whole year they have been very high. Whether we can do that or not we will see, but at this point in time we are looking to cut the BTL much more than what we are doing so far.
- Prashant Kuttu:** Maybe from next year onwards maybe adjusting for these costs of Nepal or maybe assume the currency remains where it is, I guess your margins should come back to those levels what is earlier, is that a fair...?
- Sunil Duggal:** One thing is for sure; our third quarter next year will give you a better margin. I am looking forward to that.
- Prashant Kuttu:** One more bit on the domestic business. Obviously, we have been seeing impact of heightened competitive intensity especially the new player in regards to both the categories of Healthcare actually. But could you just also highlight, are there any other specific categories where we have seen the heightened competitive intensity, especially from the new player while we do know that some bit of it happening in Oral Care, but maybe any such thing which you are seeing or maybe we are hearing of that sort?
- Sunil Duggal:** Other than Patanjali the only other area where we felt heightened competitiveness is in Shampoos, nowhere else. Rest of them pretty much business as usual. But Patanjali, I do not think we have had any impact in terms of HPC, whether it is Hair Care or Oral Care, I do not think there has been any meaningful Patanjali impact. But there has been some in Honey and Chyawanprash and also I do not think there has been anything in our other Healthcare portfolios. There may be something but it is too insignificant. Shampoos obviously has been an area where competition was very severe.
- Prashant Kuttu:** If I could just have a clarification, just the rural growth is slower than the urban growth, is that a right assessment?
- Sunil Duggal:** For us it is pretty much the same, both are down, rural has been down much more sharply over the last few quarters than urban but today they are more or less at the same level.



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Richard of JM Financial

Richard: This is Richard here. So for FY 17, you alluded to near zero price hike and there is not a lot of confidence on growing volumes beyond mid-single digit at least in the first half. Does this therefore mean that domestic revenue growth next fiscal will be more in the 6-7% range assuming mid-single digit volume growth accelerates to say high single-digit in the second half?

Sunil Duggal: If we do nothing, yes, then it would be in the mid to little bit higher between say 5% to 10% top line growth is what we can see but we would not be satisfied with that. We are still looking at growth in the double digits and a lot of this will come from new products, new innovations, higher price points and not through price increases in our base bread-and-butter business. So that will be driving growth. Secondly, I am not just taking 5% as a given. We may see volume growth accelerating sharply over the current levels; today, we are really operating at a base of 8-10% of last year, so the volume growths are harder to get to capture and now the base effect is going to start disappearing from the next quarter onwards. So we would see better traction. 5% is almost a growth case scenario, we should actually try to do much better than that, we should try to do more towards 10 but I would not really bet too much on it. The current growth rates were unanticipated even six months or one year ago, but I think things can only look better from here.

Richard: This Foods, Rs.100 crores loss of sales in Q3 that you were referring to, is the underlying assumption here that sales would have grown 25% if the Nepal problem was not there?

Sunil Duggal: I do not know whether that adds up to 25% but certainly the sales would have been in the mid-to-high teens. We sold zero Diwali gift packs. We typically sell around Rs.50 crores of gift packs and unfortunately for us Diwali was really in the third quarter. If we had in the second quarter like last year then the damage would not have been so severe. I think we had particularly had luck in terms of timing and that led to this. That is why this Rs.100 crores number is a pretty hard number. It is not something which we are just making up. This would have been a spectacular quarter for Foods not just in terms of demand which is there but in terms of also the seasonality which was going to play out in our favor and I spoke about it in the last conference call that Q3 growth in Foods should be much better than before than Q2, but that was not fated to be.

Richard: We would be now in the high single digit, early double digit growth trajectory for Q4?

Sunil Duggal: It is a little bit hard to predict Q4 growth but because supplies are little bit uncertain etc., we are pitching for double-digit growth, I do not think I would like to sharpen the number further but double-digit growth is what we are looking at.



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Richard: Did I hear you mention two percentage points share erosion in Chyawanprash as well in the earlier question to the Patanjali problem?

Sunil Duggal: I expect so, I cannot decide for any other reason because the seasonality would affect everybody. So I am assuming that there is no share loss particularly because of seasonality. I can only attribute it to the competition. Other players have not really gained share, they are pretty much static or lower than what they were before.

Richard: Having had Namaste for some time now, looking back, would you say that the Africa piece there has turned out to be tougher than what you envisage when you first acquired it?

Sunil Duggal: Only on account of currency. I was in Nigeria and I see a lot of demand there but there is a price point issue. These countries have been economically ravaged. So there is very little market for premium pricing but there is a huge market for competitively priced products and the people who are able to get those products they are mostly local players are really having a great time. So there is no lack of underlying demand for at least the kind of products which Namaste makes and sooner we get into that space the better it is for us. It will really do great things for our business.

Sheetal Bhat of Catamaran

Sheetal Bhat: Would you be able to provide the break-up of brand size of the sub-categories of the Hair Oil segment? I think you said you do not get it.

Gagan Ahluwalia: Sorry, we do not disclose that.

Gagan Ahluwalia: Thank you, everyone for your participation in this conference call. Webcast of this call and transcript will be posted on our website. For any further queries or feedback, you may kindly contact us. Thank you and have a very nice evening ahead. Good Evening.
