Ref: SEC/SE/2017-18
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Scrip Symbol: NSE & MSEI – DABUR, BSE Scrip Code: 500096

Corporate Relation Department
Bombay Stock Exchange Ltd.
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001.

National Stock Exchange of India Ltd.
Exchange Plaza, 5th Floor
Plot No. C/1, G Block
Bandra – Kurla Complex
Bandra (E)
Mumbai – 400 051.

Metropolitan Stock Exchange of India Ltd (MSEI)
4th Floor, Vibgyor Towers, Plot No. C-62
G-Block, Opposite Trident Hotel,
Bandra Kurla Complex,
Bandra (E),
Mumbai – 400098

Re: Transcript of Investor Conference Call for Dabur India Limited Q1 FY 2017-18 Results

Dear Sir,

Please find attached the Transcript of Investor Conference Call organized on 4th August, 2017 post declaration of Financial Results for quarter ended 30th June, 2017, 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

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“Dabur India Limited Q1 FY2017-18 Financial Results Investor Conference Call”

August 04, 2017

MANAGEMENT :

MR. SUNIL DUGGAL - CEO
MR. LALIT MALIK- CHIEF FINANCIAL OFFICER
MR. ASHOK JAIN - VICE PRESIDENT (FINANCE) & COMPANY SECRETARY
MR. ANKUSH JAIN - HEAD-FINANCIAL PLANNING & ANALYSIS
MRS. GAGAN AHLUWALIA - SR. GENERAL MANAGER-CORPORATE AFFAIRS

Gagan Ahluwalia: 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 30th June 2017. We have here with us Mr. Sunil Duggal – CEO, Dabur India Limited, Mr. Lalit Malik – Chief Financial Officer, Mr. Ashok Jain – Vice President (Finance) & Company Secretary and Mr. Ankush Jain – Head (Financial Planning & Analysis).

We will start with an overview of the company's performance by Mr. Duggal followed by a Q&A session. I now hand over to Mr. Duggal.

Sunil Duggal: Thank you, Gagan. And good afternoon, ladies and gentlemen. Welcome to this conference call pertaining to Dabur India Limited's results for the quarter ended 30th June 2017.

This quarter was impacted by significant de-stocking in trade channels and among key institutional customers. Prior to the transition to GST on 1st of July, the entire distribution chain reduced inventories in order to curtail losses on account of input credit. FMCG sales have been impacted all across and our domestic sales also declined by 5% in value and 4.4% in volume. The decline in consolidated revenues including international was 8.3% due to translation impact from overseas market. International business was down by 2% on a constant currency basis.

In the domestic business, Toothpaste category continued to perform exceedingly well posting 10.4% growth. Babool Toothpaste which had been underperforming in the last few years saw a turnaround with double digit growth. Red franchise performed well and the newly launched Red Gel Toothpaste received a good response.

Hair Care saw the brunt of destocking with hair oils declining by 10% and shampoos by 15%. Hair Care being more depend upon wholesale channels was severely impacted particularly in North and East part of India. In addition, institutional sales amongst which CSD is the largest customer reduced offtakes in June which further had an adverse impact.

Home Care and Skin Care performed reasonably well with mid-single digit growth given the uncertainty prevailing in trade. Health Care segments were down to some extent, but some of the brands such as Hajmola, Pudin Hara, Dashmula and Ashokarishta and Honitus beat the trend and posted a good performance. Glucose was also impacted due to a short and wet summer as it is heavily skewed towards the summer season.

Foods business saw a decline of around 8% on account of destocking in trade and heightened competitive activity in the form of deep discounting and promotions. The category was also impacted due to early rains in North and Central India, which are large juice markets for us. Some of our brands such as Activ Coconut Water, Real Wellnezz and JuC performed well driven by good consumer demand.

International business continued to see a slowdown in MENA on account of macroeconomic headwinds. Currency devaluation further impacted value growth in translation while some of the markets registered good growth in constant currency terms. SAARC markets performed well with double digit growth led by local sales in Nepal.

Profitability margins were affected this quarter by higher proportional intensity preceding GST. Gross margins declined by around 185 basis points on account of higher promotional costs in India and currency impact in international. Adpro expenses were maintained in India business whereas the came down in international due to lower offtakes during Ramadan.

Operating margins on consolidated basis decreased by 60 basis points on account of lower accruals and efficiencies and overheads. Exceptional item of Rs.14.5 crore has been provided in the P&L this quarter on account of provision made for GST transition impact on the inventories lying with the stockist and distributors as on 30th of June. Decline in profit after tax for the quarter is around 6% without this exceptional item. While the quarter has been challenging and the wholesale channel is still impacted to some extent, underlying consumer demand appears to be steady. Normal monsoons are positive for the agrarian economy and should boost rural consumption.

The outlook for the rest of the year remains positive and we will be investing strongly behind the brands to capture the opportunities ahead.

I now invite your questions.

Abneesh Roy from Edelweiss

Abneesh Roy: Sir, my first question is on the Toothpaste, you have done well. We are now seeing the number one and number two player come out with specific herbal brand and very herbal-centric products and Patanjali continues to do well. So in that context, how do you see risk on your business, you have done well for the past 3-4 years consistently gaining market share. Now, what do you need to do, is Red Gel enough to ward off this incremental competition?

Sunil Duggal: We are also working on invigorating Babool. I think there is a lot of potential there at the discount end of the market and we will further continue strong investments behind the Red franchise and there is also a prospect of introducing white ayurvedic products which is in the pipeline. I do not know when it will come to market. But there is a plan for that too. So, I think overall we will be able to protect our Red franchise. The real threat is from Patanjali and not from any of the other players because there is momentum in Dant Kanti, but we are able to still generate consistent double digit growth in our herbal franchise. So, I do not think that should change.

Abneesh Roy: How much is tooth powder as a percentage, it is bringing down the growth significantly. So, what is the performance this quarter?

Sunil Duggal: The last quarter performance was particularly bad, it was around -30%-35%, but that I think is exceptionally bad quarter. It is entirely wholesale dependent and you know what happened to wholesale and very strong North India, UP focus. So while tooth powder will continue to decline, I do not expect the decline to be as sharp as what we saw in the first quarter. So, typically we grow at 0 to -10% and in a good quarter, we kind of have flattish growth and in a bad one, we have say -5 to -10. This quarter was exceptionally bad one. So, I would not take this as an indicator of Toothpaste sales, but definitely the franchise is not growing and we do not expect it to grow.

Abneesh Roy: And what is the percentage of powder currently?

Gagan Ahluwalia: 11% in this quarter.

Sunil Duggal: Of the Oral Care and it is going down every quarter obviously.

Abneesh Roy: And it is coming down anyway every quarter and now with predatory pricing by Colgate Vedshakti, do you see that this might become negligible because of the predatory pricing?

Sunil Duggal: Vedshakti is toothpaste and these two franchises are totally different. I do not think that Vedshakti will move the needle on tooth powder sales. You are referring tooth powder in fact, right? There would not be any impact from Vedshakti.

Abneesh Roy: No sir, anyway if you see powder seems to be migrating towards paste, that is why the decline is happening and now if much more affordable price point comes in paste, would not that further increase that shift, maybe competition?

Sunil Duggal: Already it was very much there even with Red or with the Patanjali product. So, that was not really the issue, affordability because whether a product is Rs. 12 or Rs. 14, I do not think is a big source of migration from category. It is basically that the demographic category are ageing, it is an ageing demographics. So obviously, there are less people to consume the product, the recruitment is negligible and that is the root cause of the decline in franchise and the migration, it is still probably happening, but happening at a much lower rate. The big migration happened in the early days of the decline and now it is perhaps more of a recruitment issue and it is very hard to get recruitment in tooth powders.

Abneesh Roy: Sir in Juice, you have been consistently doing well, last few years gaining market share. Now with these two new products, Activ Coconut Water, not exactly a new product, but definitely in the past few years and entry into fruit drinks category. So these two, can they become large enough in the longer term say 2-3 years timeframe?

Sunil Duggal: Most certainly, I think in coconut water, we have a supply constraint. So, we were limited due to that. Now, we are expanding our supply sources from 1 to 3 and that should take up the growth to, I hope to double the growth this year from last year in coconut water. In the case of fruit drinks, we were just testing the water. So, we launched the product, that did very well and I think it gives us confidence that we can scale up this business. We are working on the economics of this product and the capacity issues do not seem to be a big constraint. Next year, it is a very summer centric product, we should be able to take up the volumes by at least 2 to 3X of current year.

Abneesh Roy: So that is the question because your products are normally applying the premium and not too much of value, more in terms of higher value to consumer but not necessarily in terms of price. So in fruit drinks, clearly pricing is a big issue in terms of the industry, right? It is very aggressive pricing. So in that context, do you really see Dabur fitting in medium to long term?

Sunil Duggal: Through a different brand and JuC will be now migrated into another brand. So that is a different story and it will be even more distant from our rest of the franchise. But the basic issue is that the bottom of pyramid beverages, it is too big to be ignored. So you cannot just play the premium game here and totally ignore the bottom of the pyramid, you have to seek value and there is value available there if you rejig your supply chain well and if you have got surplus capacities because there is a high CAPEX involved here. We believe that we should not ignore this opportunity and like we have Babool in Oral Care, we should have brand at the lower end in the beverage market without taking our eye of the main prize which is premium brands.

Abneesh Roy: Sir, promotions of B Natural has been quite high. You have also mentioned in the slide higher discounting by competition. Is it B Natural only where you are seeing higher promotion and in terms of market share, now how big an issue B Natural is?

Sunil Duggal: I think that brands seems to be around at 9% share which is fairly considerable, but there is a fair amount of discounting which is happening, not just in this brand, but in some of the others too. So, there has been disruption in terms of pricing, but I would not attribute the lackluster performance of Real in the first quarter entirely on this, it is only a part. Part is massive destocking by trade. So this brand perhaps bore the brunt of destocking and also CSD completely dried up. We should get back reasonably good growth in Real going forward, perhaps not the levels which we experienced over the last few years. And then we will see where to take it from there, then of course it becomes more of a consumption story. If the consumption space grows in double digits, I see no reason why we should participate in the growth to the same level, but definitely it is now competitive.

Abneesh Roy: Could there be a repeat of Shanti Amla kind of market share loss. ITC plays the price warrior here. So could there be sustained market share loss and then what is the answer because you have seen in Amla market share, gain has been considerable for Marico. So could that be repeated here?

Sunil Duggal: We did not react to disruptive competition in hair oils till late in the game and now that we have, we have been recouping lost shares quite rapidly. We would not let the same story play out in juices, I think we will match disruption with better supply chain management, fresher product and also better value proposition in terms of price. So I think as an entity, we would be little bit more aggressive in reacting to disruptive competition that is what we have done in the past. You have seen that in Honey where we have reacted and the lag in Honey was entirely due to the time it takes to get the glass molds into the market. But we have reacted aggressively and we are now regaining market share. So in Juices, we will probably have a similar situation. The advantage we have is unlike maybe in Hair Oils or Toothpaste or any other category, we still have the best value chain in the business across three of our plants overseas. So if we want to play the discount game, there is nobody you can play it more aggressively than us but we would do it obviously as a last resort.

<u>Amit Sinha from Macquarie</u>

Amit Sinha: Sir, at the beginning of the year, you gave volume guidance of 5% to 10% for the year. Now for the remaining 3 quarters, how do you see the volume growth panning out?

Sunil Duggal: I think I stick to that 5%-10%. I do not see any reasons to change it because it is predicated really on very aggressive growth in the second half of the year and I see no reason to change my views on growth in the second half. The first half lack of growth is almost entirely on the GST issues and during the second quarter, the GST issues should be largely mitigated. I am not saying that there will be very great numbers coming in the second quarter in terms of volume growth, but it will set the platform for more aggressive growths in the third and fourth. And I think my hypothesis is strengthened by the fact that the end consumer offtake seems to be robust, you have the syndicated numbers which have come out which look actually very aggressive, a bit too aggressive given the situation on the ground, but nevertheless, they provide comfort in terms of driving that kind of volume trajectory.

Amit Sinha: So that would mean a run rate of around 8% to almost 14% for the rest of the 3 quarters. So that can happen, right?

Sunil Duggal: Yeah, if you look at the lower end of the band of 5-10%, then it's probably we do not even have to do what you just mentioned, we probably have to do something like 8% in the next few quarters on an average. But like I said earlier, you probably would not see that number emerging in the second quarter, I mean you may, but it is unlikely. But certainly third and fourth on the back of a low base as well as the disruptive issues getting played out, GST issues etc., we should see strong growth emerging.

Amit Sinha: Okay. So July has recovered significantly?

Sunil Duggal: I would not talk about July because that would not be right, but I am just giving you a broad indicator that the domestic business would probably stage a recovery, how strong recovery I cannot say in the second quarter, maybe a mild recovery, but it will be better than first for sure because the Q2 base is also fairly aggressive. We do not have base advantage which we have in the third and to some extent even in the fourth, certainly the third. So, therefore the second half is going to be crucial in terms of driving that volume trajectory which was spoken about, but I think the domestic business seems to be fine, I am reasonably satisfied the way it is evolving. the challenges still remain in the international business and that is where the issues would be a little bit more challenging than domestic.

Amit Sinha: Sure, sir. And I would request some commentary on the recovery of the wholesale channel, please.

Suni Duggal: Wholesale is still, I mean it has got out of ICU, but it is still in hospital. So the whole channel members in wholesale are adjusting to the new realities and are very not sure in terms of what direction they should go. I think there is a genuine desire that they should be compliant now. The problem is that full compliance at this stage will mean a lot of skeletons emerging from the closet in terms of their past history where it was broadly non-compliant and that is really giving them some scare as to how they should do it, so that we do not expose their past to the regulators and authorities. So once they deal with that and they deal with them in different ways for different people, the wholesale channel will come back. Even though I do not think it will ever be the force it was in the past. It will be a shrunken channel and how much will it shrink, I do not know, but certainly the 34%-35% of business which you were getting from wholesale will come down. And then of course we will have to recalibrate our entire distribution in favor of more direct, deeper reach through super sub networks. But the end demand if it remains robust, the product will find its way on to the shelf. So, I think that is really the key metric to watch out for.

Amit Sinha: Sir, one of the competition commented that towards the end of July, they saw significant recovery in that channel. So do you agree to that?

Sunil Duggal: There was some improvement and significant is a subjective kind of word, but there is some improvement in wholesale, but it is not nowhere near normal, let me stress that. The wholesale as the behavior was earlier, it is not happening and also I think the 100 crores of inventory reduction which we did in the first quarter, that sales we will not recover. And I am not too bothered about it because we were going to destock in any case to the extent of 100 crores during the year and it happened in 10 days. But now that has happened, we are not going to get that whole 100 crores in terms of re-stocking because we believe that the current inventory levels are just right for our business. They are not too high, they are not too low. And the third headwind which is going to happen, I am just telling you things even you have not asked for it, but it is just to clarify the situation, is that the army channel which is 5%-6% of business has decided to substantially reduce its size of business. And that is a directive from the Ministry of Defence that they should ration the number of amount of products which they give to the end customer because they believe that there was some leakage or some misuse of this which they want to stop. So that perhaps the business going to shrink and might shrink quite dramatically. I think these are the kind of issues we will have to deal with. But having said that, the decline in our canteen business should be made up by higher sales in the domestic business and certainly the profitability improves because our margins were much lower in canteen than in the regular market.

Amit Sinha: Sure, sir. I mean, last question is on the margin trend. So this quarter was definitely impacted on account of higher promotions, especially on the food business. How do you see the margin for the full year compared to FY '17?

Sunil Duggal: Compared to FY17? I do not see a big change but this is predicated to the fact that competition would not be disruptive all across. I do expect competition to be disruptive in beverages. Whether it will be the same way in other categories, I am not sure, but if it is not, then I think we should be able to hold onto margins.

<u>Manoj Menon from Deutsche Bank</u>

Manoj Menon: Couple of questions here. Some of the questions have already been answered. Only one thing on the wholesale down stocking-upstocking bit, so if I heard you correctly, you mentioned that the entire upstocking may not be to the tune of the down-stocking rate. Let us say if index of 100 went down to let us say 80, we will probably get back to 90.

Sunil Duggal: Maybe we will remain at 80 because of Army remember that.

Manoj Menon: Okay. No, what I just getting at was leave aside the Army and leave aside the modern trade part, say if I look at the GT part of it, the distributors and the superstockists. I am not sure how much of the stock wholesale anyway would carry because it is a fast churn model. So do you think that the distributor inventory also perhaps fundamentally would be much lower for you versus let us say till last year?

Sunil Duggal: Yeah, definitely. It is compressed by around 7-8 days and it is at the level which we want now. We were moving towards the level in any case, but we would have done it more gently. So it was in a sense done for us, thanks to the government and we will be happy with the outcome, we will live with it. I think it will mean better hygiene, better management of working capital and I think our supply chain in terms of technology has now advanced to a level where a much lower pipeline can be supported. Earlier on, we have kept high pipelines only to not to lose service levels and not to have any lost sales, but we can now manage the same service levels with lower inventory.

Manoj Menon: But it is already done, right? So whatever correction you did not do, it is…

Sunil Duggal: No further corrections and therefore now our primaries and secondaries will sort of match each other. There would obviously be some buildup of pipelines pre-season in categories like Chyawanprash, but those will come down when the season comes to an end. But those are of seasonal brands. So there will be some ups and downs, but those are completely in sync with the seasonality of the products. The other thing which you should keep in mind, I am sure you people know about it is that from this quarter onwards, you would see approximately 6% shrinkage in the topline on account of the higher GST rates. So just to give you a figure, our average VAT rates which were netted off the topline was around 9.5% which now has gone up to 15.5. So you would see a 6% shrinkage but that is only optical and only thing is that the past year results, we cannot reaggregate. There is no way to do that to make it conform to the new one, so we cannot say that last year our sales, we can't give you an optical number. That number we will provide you which will obviously show the real growth, but the headline revenue which we will be publishing will show a 6% compression approximately. It is only in the India business of course, globally you can discount it by that factor of two-thirds being India business. But keep that in mind, so that you would not get any surprise when the results come out and this is true for every company. So in other words, you also see an improvement in the ratios. You will see improvement in EBITDA, you see higher A&P because all the denominator would come down. So that is one thing, which I think we should keep in mind.

Manoj Menon: Got it. There is a question on the gel extension, is it really Patanjali, I thought it is more to do with the bigger market opportunity which is actually there for Red to address the bigger gel segment? Is that the way to look at?

Sunil Duggal: Yeah, very clearly. I do not think it is Patanjali at all. It is because Patanjali does not have a gel offering or it has a gel offering, but doesn't sell. There is I think a large market, 25%-30% is gels and it perhaps growing ahead of the rest if you do not account for Patanjali at least. There is we believe a market sitting there which would like a herbal product, but would like to stick to the gel format. It really addresses that audience.

Manoj Menon: Okay, understood. Just couple of smaller ones. One on the Odomos part of the portfolio, given that Godrej has now finally entered with a reasonable investment on the out-of-home part of the market. Is there an opportunity for both of you to kind of develop this part of the market? So how do you look at this out-of-home opportunity for you?

Sunil Duggal: Well, Odomos has been our best performing brand in the last quarter. The growth is quite spectacular and in addition to the cream, we have also launched a whole array of products including the spray, so many others. So I think this franchise is on a very solid footing.

Manoj Menon: But anything which you can talk about in terms of let us say, could this business grow at let us say 20% plus for the next 2 years. I am not really looking for a number, but more like a directional thought process in terms of can it really be the one of the best performers for you or where do you put it?

Sunil Duggal: It is not that big a brand. So it won't move the needle too much in terms of overall performance, but as a brand by itself it is and I have always maintained that this is brand which is really punching below its weight. But I think it is beginning to unveil its full potential and we do see that growth would be significant. I will not like to put a number to it, but there would be very good growth.

Manoj Menon: Understood. And some comments on the Namaste turnaround. If I am correct, you have done some price corrections in that market couple of quarters back or may be a few months back etc. Underlying growth trends in Namaste, how do we look at it for the next couple of years?

Sunil Duggal: I think those price reductions led to a topline compression. The volume growths were better. But the North American business is still stressed. The reason for that is that this is a continued movement from chemical to natural products in terms of hair straightening and relaxing. While we are aggressively getting into this natural segment, we have been late to enter this whole initiative. Because the naturals came up around 10 years ago, we began our natural initiative when soon after we took over the company 3 or 4 years ago. So there has been some loss in terms of going to the market first. But we believe that our naturals portfolio would rapidly scale up and would rebalance the decline in the chemicals, assuming that the decline continues and there is every reason to believe that the chemicals decline would have plateaued out. So that is really the reality of the North American market. The performance is still suffering on account of that. But having said that, we believe that what we have done in Africa will substantially compensate for the decline, maybe not entirely but substantially compensate for the decline in North America. We have, I think got our act together in Sub-Saharan Africa particularly in South Africa in terms of establishing manufacturing footprints and local supply chain. The recent acquisitions would go a long way in that. So in a 2 or 3 years' time, I do expect Africa business to be as big as the North American business and growing at a pretty rapid clip. If the currency remains stable and that is always a big overhang. The Namaste business should now start growing on the back of Africa.

Manoj Menon: Understood. And lastly on the staff expenses standalone plus 5 consol minus 4, are there any one-offs here?

Lalit Malik: I think as far as staff expenses are concerned, what we see increase in the domestic market is on account of increase in number of people whereby at the end of last year or middle of last year, we converted third party contract employees to our payroll. So that is why you see the shift that is happening to the employee cost from the other expenses - that is one reason. Second there has been normal increment that we do as a cycle from July, which will have an impact. So India you see the increase, but as far as the consolidated is concerned, we have done reduction in terms of the manpower. And also, that increase was on account of rural sales officer and as far as international is concerned, we have reduced the manpower and therefore you see it is more or less parallel on the employee cost that we see.

Sunil Duggal: We were actually paying the people at TeamLease to hire village sales reps to supplement our rural initiatives. That happened for a year or two and that was being charged off in other expenses and not under salaries and so it is more of a reallocation. And the same people have moved to our rolls at similar cost because the proof of the concept has been established and we will be able to manage them better if they are on our rolls. Now they come under salaries. Otherwise of course, the lower base is partly responsible for the higher ratio, but nothing significant here.

Percy Panthaki from IIFL Institutional Equities

Percy Panthaki: This is Percy Panthaki. Sir, just wanted to understand your sales performance this quarter and put it in perspective of other companies. So if I look at similar companies' exposure to North and East or exposure to sort of Indian hair oil and similar type of products, Emami volume down 18%. Jyothi Labs also similar kind of volume decline, or part of it was Kerala-led. Even Marico had a 9% volume decline, you have only 4.5% volume decline, so just wanted to understand what are the reasons behind the fact that your decline has been so less?

Sunil Duggal: I am delighted to hear from you that 4.5% is a great performance, -4.5. I would not have believed this 6 months ago. But I think we are very happy with this 4.5% decline. I think lot of it is on the back of pipeline reductions. If you net off the pipeline reductions, the volume growth is positive if the pipeline had been maintained at current levels. But from a situation where we are expecting to grow at least 5% if not then, this is not the best start of the year and it makes the balance 9 months challenging if we have to end the year on a high note. But I think we managed the transition of GST well, we educated our dealers extremely well. Our first invoice from the dealer to the retailer happened on the morning of the 1st of the month. We began invoicing to the stockists on the 4th etc. So, we are able to manage the transition and also I think we seem to be the only company which has kept to its promise of reimbursing dealers on their inventory. So, we have kept a 15 crores provision which has been charged off in Q1 to compensate the dealers. So all that, I think the dealers had a lot of reassurance that we would be protecting their interest and when we start giving out the cash this month, they would be even happier. I think channel management was the big part of this whole initiative. The second thing was that we did not take foot off the pedal in A&P. If you see the domestic A&P, it is better by I think almost 8%. So basically we did not cut back on the advertising spends in the first quarter.

Percy Panthaki: Sir, I think you mean the promotions because ad spend is down some 20% plus.

Sunil Duggal: A&P is 9.6%, it was 9.5% last year.

Gagan Ahluwalia: So we were talking of standalone, Percy.

Sunil Duggal: I am talking of only on standalone. In international, it will obviously be reverse. Look at standalone Percy, A&P went up as percent of sales that precisely what I told. And in international, it went down dramatically because June is Ramadan and most of our A&P is in MENA. You do not advertise personal care products in Ramadan because there is no point. We advertise only food products there. So therefore the aggregate in consol, there was a compression. Domestic, we continued investment.

Percy Panthaki: Sir, my second question is on your pricing and gross margins. So if I look at your domestic business, the difference between the sales growth and the volume growth is -1 which means that net realization declined -1. And this is on a base that is Q1 FY17, your domestic net realization I think was down somewhere around 4%. So in this kind of an environment, I understand there is no heavy inflation or anything like that, but most of the FMCG companies have pricing which is positive. And we were hoping that this quarter, it would get positive especially because the base is quite unfavorable. So how do we look at this, I know the answer is it is a higher promotion intensity, but why are we one company where the promotional intensity is much higher than the peers and when does this actually sort of reverse and we see a pricing growth for you guys. And I think the main reason why your gross margin is down 185 bps on a consol basis this time probably is one of the reasons at least is the higher promotional intensity leading to lower net realizations?

Lalit Malik: Yeah. So I just said that compared to volume decline of minus 4.4, our value is 5 and in that, we have price increase of approximately 1.2% but as you said we also had higher promotional expenses to the tune of which is reducing 1.8, so therefore net price impact is still down. We have increased the promotional activity in quarter one primarily because of the destocking that we were anticipating, we wanted to help the distributor in terms of liquidating their inventory. So we have spent the promotional expenses on a higher side in this quarter and that is what is reflected when we look at the value versus the volume in this scenario.

Sunil Duggal: I think one more issue is that, many companies took up prices in Q1 pre GST in anticipation of price reductions post GST in categories where GST rates were reduced. We took no such action because as a philosophy we do not believe in violent price movements that disturb the market. So we decided not to increase the prices and keep it as steady as possible.

Percy Panthaki: So sir, for the full year how do we see pricing, do we see it positive by about 3%-4% or something else?

Sunil Duggal: It will be positive but maybe not 3%-4%. That would mean substantial price increases in the second half and will that happen, it is very hard to say. So you may even see 3%-4%. I would at best at this point in time say it will be 2% to 3%.

Percy Panthaki: Okay. So this is of course just not price increases but price increase plus promotion change, the net effect of that is what I am talking about.

Lalit Malik: Yeah. So I think it will also depend upon the inflationary pressure that may happen on the raw material cost because that is also one of the important area to be factored in while deciding the price increases and the competitive activity.

Percy Panthaki: Right. And sir my last question is on margins, in an earlier question regarding margins you had replied that on a Y-o-Y basis it should be flattish subject to a few conditions and I am sure you are talking about EBITDA margin there. But just wanted to understand it a little more granular in terms of while EBITDA margin might be flat, would that also come from a flat gross margin and other things also being flat, or do you think there could be a significant play there where let us say your gross margin is contracting, but you extract sort of benefits out of A&P or other expenses or something like that. If you could just give some flavor on that?

Sunil Duggal: I think the gross margins would expand on the back of lower promotional activity and also a fairly benign inflation outlook. Now, it is very hard to predict how much, but we could see a 1%-2% improvement in our gross margins on the back of both these factors. This would partly mitigated by higher advertising because now what you see is really the media line. We would increase the media spends in the balance of the year, we have already done them in the first quarter and some increase in the salaries because we do expect better payouts this year as compared to what we did last. So therefore I am seeing the gross margin expansion being mitigated by these two expenses, advertising and salaries.

Tejas Shah from Spark Capital

Tejas Shah: Sir, you mentioned that CSD is going through some structural changes, can you update us on what days of inventory CSD used to carry and where will it settle after this transition?

Sunil Duggal: I do not think there is so much of inventory issue, the inventory correction has already happened in the month of June. It is basically how much they are going to buy. The size of the CSD business which was I think 10,000 crores etc. They want to shrink that whole size quite substantially and this seems to be an administrative decision taken at the ministerial level which will impact all sales to CSD and perhaps, the liquor companies will be impacted the most. But every company which does any substantial business in CSD will be impacted because now they are using smart cards and rationing. So let us say one of the rationing items could be that you can only buy one card and buy one kilo of Chyawanprash every month, that is it. Earlier on, maybe the same card could buy any amount, 10kg-20kg or whatever. So obviously there would be some impact on the total sales from CSD which has to be made from the regular channels.

Tejas Shah: Exactly. So when you mention leakage, does it mean that it was routed to the main channel through CSD? So at least retail obstacle should not…

Sunil Duggal: Yeah. Some of them that. Then we all know that friends and families used to also participate in the CSD franchise and people who are not army people. So I mean, that was something which is well known and well documented. CSD was much larger than its actual consumption.

Tejas Shah: But it was actual retail offtake, not necessarily directly, but indirectly it was retail offtake?

Sunil Duggal: No, it was actually real offtakes and real consumption. It didn't go anywhere else. So now it is going to be reflected and in addition to that, there are separate supplies which goes to the forward areas to the jawans which are rations, that will continue. There won't be any change in that. But this is basically from the unit canteens and there are 100s of them all over the country. The quantum of offtake is planned to be reduced. It is still not legislated but we are expecting something to that effect and there is already lot of noise on that account which is surfacing. I do not normally talk about current year, but even in July that is reflective of performance in the army business.

Tejas Shah: Sir, second question you mentioned that lot of channel partners are still not ready to get registered and all. And in that kind of scenario, where do we stand today? Would we actually accommodate? Let us say if they start business completely afresh and the cost of doing business will be higher for them. So what will be our stance to accommodate that increased cost for them?

Sunil Duggal: You know, I didn't talk about this issue in the context of pricing, but one lever of price increases going forward would be higher channel cost, right, which I believe we will be able to recover from the pricing. Now, there is definitely going to be higher cost of managing the channel. It is impossible to say how much but, if you take it say at 1% then the only way we can recover it is through price increases which I think we will do because it will be a secular matter across all companies. So there will be higher cost of doing business, consequent to GST for sure.

Tejas Shah: And sir, lastly looking at how the first quarter has panned out and perhaps you have a color on first month of this quarter as well. Where would you peg your margin expectation for the full year?

Sunil Duggal: I have answered the question before. It is probably at the same levels as last year, incrementally higher gross margins mitigated by higher advertising and higher employee costs.

Tejas Shah: Okay. And sir just one technical question on this. So would the guidance because the numerator will change from here on as you mentioned. So how should we look at that number?

Sunil Duggal: So I think you should look at the number from the prism of, I mean the way we treat revenues last year or discount last year revenues by a similar amount. Otherwise, the ratios will look, I mean there won't be apple-to-apple for the next 4 quarters and there will be lot of confusion. Therefore, I think our finance folks would be able to give you some color on what is optically the ratios and the growths which you are looking at. Now, these are not numbers which we can publish. But they will be indicative and I think I have been discussing it with the finance team and they are very confident that the accuracy levels will be very high. So we will give you color, but if you take the hard numbers in the P&L, there would be a 6% reduction in the topline, approximately could be 5, could be 7, but that depends upon the mix because some products are more impacted by the GST change than the others and there would be corresponding increase in the ratios assuming our profit delivery the same. Now what I just said in terms of the GST issues, it will have no impact on the actual profit delivery but on the ratios, yes, the denominator would shrink.

Sanjay Singh from Axis Capital

Sanjay Singh: Just on the front of GST, so given that some categories are at a higher GST, did you take any price increase for this or it is not required?

Sunil Duggal: We prefer not to. But in let us say categories like say shampoos or home care where there has been a substantial increase in rates, we will look at the possibility of price increases in the third quarter. At this point in time, we are not contemplating anything because it is better to wait.

Sanjay Singh: Okay. And just one on juices, the juices decline which has happened, maybe my understanding is wrong, but is juice a big category in wholesale. I thought juices would not be very big in wholesale?

Sunil Duggal: There is a specialized cadre of wholesalers which are called fat dealers in the parlance of beverages and they are very big for beverages, whether it is…

Sanjay Singh: Sorry. What dealers you said?

Sunil Duggal: Fat dealers, they are called fat dealers because they are a peculiar entity which only stock beverages and they supply urban retailers. They do not do anything which is rural. So beverages being a very disaggregated business, what retailers often preferred to do is to buy a baseline level directly from the distributor and then keep topping it up because it is a bulky product and keep topping it up from the fat dealers, maybe everyday even. So there is a big entity which started off with Coke and Pepsi, the carbonated folks who are very dependent upon the fat dealers. The drop sizes in these dealers was typically a 100 times more than any retailer and that has continued with still beverages including juices and nectars and it is very big in fruit drinks and carbonated. So this is the entity which is very big and this entity destocked substantially.

Sanjay Singh: Okay, got you. And lastly on the primary versus secondary what you are mentioning, does that mean that your distributors have taken another round of pipeline connection?

Sunil Duggal: Yes. The pipeline connections have happened at the wholesale level but perhaps even more so at the distributor level.

Sanjay Singh: But when you are mentioning primary versus secondary, it means distributor?

Sunil Duggal: Yeah. Distributor also and wholesaler also. But distributors also have taken a substantial cut in pipelines which we have not discouraged because the underlying promise is what? I can maintain the same pipeline and prop up my numbers. There is a lot of temptation to do that because nobody wants to show decline in growth. But here the shoe will pinch you more because I have to compensate them for the loss of input credit. Now I have less than 15 crores which is 5% of my quarterly profits towards that thing. I could have clubbed in another 15 crores to maintain the pipelines but do we want to do that? Plus in any case if I was clear that I will reduce the pipelines going forward, I might well do it now and save a lot of money in the process. The pipeline correction was something which we were quite happy to do, and the CSD pipeline correction was not in our control in any case. They said from the first of June that they did not want anything. So our sales in June were around 5% of what we normally sell to CSD.

Sanjay Singh: And ignoring all this noise of wholesale and CSD and everything else which we are bothered about currently, while you talked about the Nielsen numbers. But Nielsen we all know how it works. So given in that context, how is your true assessment of the end consumption demand, if you can give your thoughts on it, how things are? Or whatever your thoughts on how it is going to change, I mean monsoon is just one aspect. It is 12% of GDP, but apart from monsoon etc. how do you think if you want to crystal gaze, what is happening currently and of course what is going to happen in the future of the end consumption demand?

Sunil Duggal: It is very hard to say and we are still struggling with that answer because that is so important in terms of what will happen in the rest of the year. The best case really was that Nielsen is reasonably accurate and reflects a situation as it is today. But the Nielsen numbers which you see are actually Q1 numbers and Q1 numbers if you see the disconnect between Nielsen and what companies have reported, the largest company has reported 0% volume and that is probably the best performance and other companies have recorded -5 to minus whatever. Even accounting for pipeline corrections and while we probably had amongst the highest pipelines in the whole industry, other companies may not, we were all taking about 7-8 days pipeline. So where is the correction if you have 7-8 days pipeline and wholesale pipeline is sort of that big. In Q1, there is a clear disconnect between those numbers and what companies have recorded, now that we have most of the numbers in place. The interesting thing would be that how do Nielsen numbers coordinate with company numbers in the second quarter. Now one hypothesis is that Nielsen could sharply revise its estimates downwards in the second quarter, in which case then things will begin to make sense or companies would record much better than expected performances in the second quarter because now the rebalancing would have happened to the large extent and the Nielsen numbers and company numbers should not be very disconnected.

<u>Prasad Deshmukh from Bank of America Merrill Lynch</u>

Prasad Deshmukh: I have one question, you have been reluctant on taking price increases. You also said that cost of doing business is going up because of channel realignment. You are unsure of the demand scenario. What gives you confidence that margins will remain stable?

Sunil Duggal: Because I think we believe we will be taking price increases in the early part of third quarter and those would mitigate if not entirely at least substantially the higher cost of doing business.

Prasad Deshmukh: Okay. So in the second half, we should expect some price increase?

Sunil Duggal: Yeah. In the second half it is very likely, even though it is very hard to predict because a lot depends upon competitive activity which I cannot foresee. But in case the competitive behavior is rational and not disruptive, then definitely price increases are in order.

Prasad Deshmukh: So just one question if I may ask, modern trade what was the growth this quarter?

Sunil Duggal: Modern trade growth was positive. If I remember, it was around 5%. Enterprise was down, Modern trade growth was 5.8%.

Srikant Kotha who is an Individual Investor

Srikant Kotha: My question is, are you planning to do a price increase in your juice business?

Sunil Duggal: Answer is no. I do not think the juice business will support price increase. There is a lot of disruptive competition here, massive discounting etc. In this environment, we do not see a price increase happening but you never know. If there are opportunities which come up in the second half of the year, then we will take up the prices, but at the moment no price increase is planned in our balance of the year budgeting.

Srikant Kotha: Okay. One more question which worries actually is, last year you had an issue with Nepal. It was said that you will be setting up plants in India, what about that?

Sunil Duggal: All done. Commissioned the power plant in Uttaranchal. In addition to that, we set up a plant in Sri Lanka to mitigate the Nepal risk. So while all these have increased the cost, the Sri Lanka plant has increased the cost of doing business. It is also mitigated us against any risk of closure. So if we have a closure in Nepal, other than perhaps in peak summers, we will be able to get product out from the other plants without going outside to other third party etc.

Srikant Kotha: So Uttarakhand you said something you put a factory in Uttarakhand?

Sunil Duggal: Yeah. We have an existing plant which makes healthcare and personal care products. So we put a juice plant in the same premises. There are two Tetra Pak lines there and we may add a third in the next few months.

Srikant Kotha: And one more question if I may ask, you said that you had a value chain advantage over competition because of manufacturing outside India, what is that because that I did not understand.

Sunil Duggal: If you make in Nepal or Sri Lanka, then there are treaties which permit import of those products without any duties and also import a raw material into those countries without any duties, right? Now the duty component in Beverages in terms of concentrates or whatever else is quite high. So we paid much less duty than if we were to make in India and that is the value chain advantage and also with those plants, the plant which we have in Nepal at least is an old highly efficient one with almost fully depreciated plant which is able to produce large volumes at comparatively low cost. So we have economies of scale there which I do not think any of our competitors have. So all this adds up to fairly significant amount.

Srikant Kotha: So this benefit doesn't go in GST?

Sunil Duggal: No. GST has no impact one way or the other. In fact, with GST we get the CVD input credit. So there is actually a small advantage consequent to GST because we can set up the CVD against GST.

Srikant Kotha: Just last question. Any new launches?

Sunil Duggal: Of course there will be new launches, in every category. In fact we have been fairly aggressive in new launches in the fourth and first quarter. We have done nothing from June and I think we will just wait for another couple of months before getting into any new initiatives. But this quarter is going to be fairly aggressive on new products, I mean this year. We have already launched JuC, we have launched new Hair Oil, we have launched several other products, Home Care, Zipper.

Gagan Ahluwalia: Just launched a new format under the Odonil franchise Zipper format. And some healthcare products as well Hot Sip and Madhu Rakshak and woman restorative tonic. So there are lot of products in the pipeline.

<u>Latika Chopra from J.P. Morgan</u>

Latika Chopra: Two questions. The first one was on excise benefits. It seems that you will not be able to recoup all of these now. So would you look, the price increase decisions will account for that as well?

Sunil Duggal: If you look at GST benefits and negatives holistically, there is a 60 crore approximately negative impact on account of the reduction is the excise benefits from the exempt plants. But that corresponded by a similar increase in terms of input credits etc. So if you take out the impact of GST, like the 15 crores which we put as exceptional item, the 10 crores if you put in as additional promotional activity and maybe 100 crores loss of topline, the aggregate benefits are positive for us. So that is where is that particular excise element, definitely it is a big negative.

Latika Chopra: The second one was if you could elaborate a bit more on consumer healthcare portfolio particularly how market shares for honey are doing for you and would you expect the category to go back into positive growth rates for you in the coming quarters?

Sunil Duggal: Very much so. I think our market shares have now stopped eroding in the last 2 quarters or so. We expect sharp improvement in market shares going forward because now the new price products are in the market and they have evoked a very positive reaction from the consumer. So the honey portfolio will rebalance, I think will take another year or so. But the signs, Green shoots are already visible in terms of market share gains and product growth.

Latika Chopra: When you say new price product, is that have you taken back promotions or?

Sunil Duggal: Broadly speaking, we have given a 25%-30% extra millage for the same product.

Latika Chopra: So that is continuing still?

Sunil Duggal: That is going to continue for a while unless things change in terms of competitive pricing or input cost. This is something which is pretty embedded.

Latika Chopra: And just lastly what is the CAPEX for the FY18?

Sunil Duggal: Probably more like 300, we budget 350. For just to give you some more information that the nature of promotions would change under the GST regime. There is a lot of now uncertainty in terms of loss of input credits on consumer promotions. So that would alter the nature substantially in the way we promote our products and it is a very large amount which we give out as promotions which is obviously netted off our revenue line. But the nature of that would change substantially. For example, the buy one get one free type of promotions may not be viable anymore because you may lose input credit on the free part which would make the things much more expensive. So this is as an aside because what I am saying is I am just trying to inform you of the way we are doing business is going to change quite rapidly post GST and promotions is only one of the many changes which we will have to make.

Kuldeep Gangwar from HSBC

Kuldeep Gangwar: Like you mentioned that in future, there will be lower reliance on the wholesale channel. That means either it will be substituted by the increase in direct distribution or increase in organized cash and carry. What is more likely in your view?

Sunil Duggal: There was a third element which is probably the most important one is the super sub network, which is wholesale format, but operates very differently. The super sub network which is around one-third of our business, that is very substantial amount. That might go up substantially. Cash and carry by all logic should go up exponentially and of course modern trade also will be a net beneficiary.

Kuldeep Gangwar: So what is your direct distribution reach now and what you are targeting in near to medium term if you can share?

Sunil Duggal: See, direct distribution is around 950,000 at the moment. As far as targets are concerned, we definitely move ahead till the time that the cost of increase becomes prohibitive. We can make it anything we want. But there is a cost which becomes higher and higher as we go down the retailers into the small volume retailers. So, we probably will be ending the year with around a million which may not seem a very large quantum, but that is what it is supported by economics. The retailer is willing to pick up larger and larger quantities from us and the size of the business to that last mile growth then we increase it further. So it is a moving target. We do not have any rigid numbers in mind.

Kuldeep Gangwar: Last but like what is the inventory level in terms of number of days in trade channels, now if you can share that bit as well?

Sunil Duggal: The distributors is around 18 days now.

Kuldeep Gangwar: And this is a new normal according to?

Sunil Duggal: This is the new normal. It might go up to let us say end of September to 20 days because of the stocking up of Chyawanprash and other winter items and it will come down end January back to 18. So 18 is the new normal.

Anubhav Sahoo from Money Control Research

Anubhav Sahoo: Sir, you touched upon this thing that the way from a trade promotion is done will change substantially. So I mean, could you give some instance, what new ways will come up?

Lalit Malik: I think in terms of our secondary incentives that we give it to our distributors to be passed on to distributors, those we have incorporated in our invoicing so we are giving upfront discount to them. That has now changed from the secondary promotional incentive to the primary on the invoice itself. So that is one instance.

Sunil Duggal: I think that is a very good question because over last many years we have been moving from on-invoice promotions to off-invoice. Because off-invoice actually work better. They are more targeted and you are able to address specific promotional needs. Now the problem is under GST, we lose a lot of credit on off-invoice. So off-invoice suddenly becomes may be 14%-15% more expensive than it was earlier because of the loss of credit. So, we will be moving a very substantial amount of promotions from off to on-invoice. Now we will have to find a mechanism and we already do have the IT infrastructure to manage these on-invoice promotion so that they have reached the targeted audience, but that is still work in progress.

We still have to sharpen that, but maybe 60% of off-invoice will move to on-invoice. Half of the off-invoice promotions will move to on-invoice. It will not affect the topline because even under IndAS we were netting off the whole promotional of even the off-invoice from the revenue. But it will change the nature of promotions in a very substantial manner. So both consumer promotions and trade promotions will change.

Anubhav Sahoo: On the distribution side, you mentioned 35% is wholesale, right, for Dabur?

Sunil Duggal: It is the wholesale excluding the cash and carry and excluding the super and sub.

Anubhav Sahoo: And sir how much is modern retail?

Gagan Ahluwalia: Modern retail is around 12%-13%.

Sunil Duggal: Its almost 15% now.

Gagan Ahluwalia: And this quarter, it has increased.

Sunil Duggal: This quarter will be at least in 15. So I think 15 is the new normal in modern trade when we go up.

Sunil Duggal: Out of which around 4 is wholesale and 11 is retail.

Anubhav Sahoo: And sir my last question is on the Oral Care market share thing. Sir could you provide some color on like, reasonable breakup or anything on the market share where you see more increased market share, is it like North versus South, as well as maybe Urban versus Rural, anyway?

Sunil Duggal: In the recent past, the maximum gains have been in South. But we are now putting more emphasis on North because we believe there is a larger untapped opportunity there. Also the Patanjali impact has been maximum in the North. So our growth in share has been the least there and maximum in the South. But North is really the new bastion in which we will be putting a lot of emphasis on Oral Care.

Anubhav Sahoo: And any new launches in this category, you are planning?

Sunil Duggal: Yes, there will be and hopefully in the third or probably in the fourth quarter, you would see some launches here. At the moment, we are concentrating on stabilizing the gel and re-launching Babool which I think has a lot of hidden potential there.

Kunal Vora from BNP Paribas

Kunal Vora: Only one question on CSD, what was the level of subsidy being offered by canteen store and as this goes away, would this result in any consumption impact or it will be just a shift from CSD to general trade buying? And how different was your realization…?

Sunil Duggal: See, there would be some consumption impact. Let us say if somebody is buying Chyawanprash for 200 in CSD and now he has to pay 250 from the civilian market, logically there will be some consumption in that, but I do not think it will be long lasting. People will get used to the new normal in terms of prices and they continue to buy it.

Kunal Vora: So the level of discounting would be what about 20%? What kind of discounting were they doing? What is the subsidy?

Sunil Duggal: It was between 10% to 20%.

Kunal Vora: Okay. And your realization from CSD, how different was that compared to general market?

Sunil Duggal: I think our realization was broadly lower than general market.

Kunal Vora: But nothing substantial?

Sunil Duggal: Nothing substantial, but we do believe that in some categories like Chyawanprash and all, I mean all Chyawanprash is discounted but let us say Chyawanprash is discounted more than a tooth paste. So if CSD does not take, we won't lose too much sleep over it. Margin improvement will more than mitigate any topline erosion.

Abneesh Roy from Edelweiss

Abneesh Roy: Sir just one question, the market leader seems to have done the best this quarter with flattish volume and they had one of the lower inventory levels, so what is your reading? Why other companies including you seem to have done not as well as the market leader?

Sunil Duggal: Because our inventory levels were maybe 3x the times of the market leader. If let us say my inventory is for 7 days, I would have done as well.

Abneesh Roy: And sir, just one more follow-up on the CSD, we have seen CSD problem come a few years earlier also and then it was sorted out. Now this time I understand that the sales which are happening through relatives, friends etc. that will not happen. But your products are not really discretionary. So ultimately they will be buying from non CSD channels and we should see that demand not being a permanent impact, right?

Sunil Duggal: No. Not permanent. But I think logically if suddenly there is a price increase, people either postpone purchase or they do not buy temporarily because of the price shock. So this will not last. In Chyawanprash, this season could be marginally impacted on account of lower offtake in, I mean consequent to CSD but it will rebalance itself next season. So I do not think or it will really have an impact on high value items. Let us say somebody is buying a suitcase in CSD from CSD whether discounting and all, I am just giving you some example, or liquor there will be impact there perhaps not so much in… Actually low value products will be no impact, Amla and what not. But Chyawanprash and all, there could be a small impact this season.

Abneesh Roy: Chyawanprash has more salience in CSD versus your overall?

Sunil Duggal: It used to but then we de-listed the one kilo two years ago because we found that realizations were becoming abnormally low and therefore the Chyawanprash salience has dropped quite dramatically in CSD and therefore the impact of Chyawanprash may not be that much because the salience is around 4%, right? And all of it is 2 kilo and half kilo. So let us see, it is difficult to say, but maybe not too much.

Abneesh Roy: So broadly CSD mix and overall mix is it similar? I am trying to understand where we can see more apart from Chyawanprash, any other category where there can be…?

Sunil Duggal: The big plays for us in CSD are Amla, Honey, Juice and Chyawanprash. Amla is big, followed by Honey and Juice and Chyawanprash are around 4% of our sales in CSD which is below the average of 5% and Tooth Paste is even smaller I think. So the impact will be little bit higher in Amla and Honey and lower in the others. But we do hope to rebalance and we have told our people in the catchment areas of the unit canteens that we could see better performance from there.

Percy Panthaki from IIFL Institutional Equities

Percy Panthaki: Sir, just wanted to understand this 6% impact on sales because of GST, the accounting impact. See, if we are looking at it on a net sales basis that is your MRP minus all dealer margins minus all taxes, that is the net sales. Why should there be any issue or any change or any optical problem in terms of comparing your Y-o-Y net sales?

Sunil Duggal: The issue is that our dealer margins assuming they are the same and there is no change in dealer margins which was being netted off before and after. Earlier on, we were netting off only VAT, right, and the excise was not being netted off, even though the excise was a small component, it was still 2%-3% and we were not netting off things like entry tax, octroi, they were all being charged into different lines in the P&L. I think that is the industry practice and that is what the regulations in terms of accounting standards stipulate. So therefore broadly only VAT was being netted off, which is 9.5% average and if you assume the same mix that balloons up to 15.5%. That is the 6% cost.

Percy Panthaki: Sir, you used to report excise separately in your P&L, right?

Sunil Duggal: But that is for gross.

Lalit Malik: Look at it like this that keeping MRP same, earlier I was reducing VAT which on the overall level we were 9.5, but it was ranging from 4 to 12. My PTS primary sales value will be lower now keeping MRP remains same because now I will have to reduce either 18% or 28% against earlier where I was reducing only 12% or 4%.

Sunil Duggal: Now people who are paying full excise, they will not be impacted by this. But people who are paying the excise that was concessional. I think the impact will be across the whole FMCG space for sure and maybe even other areas.

Percy Panthaki: So I understood most of what you said I did not understand why the impact will be different depending on whether you are paying sort of a concessional excise duty or the full excise duty. Why would the impact be different in both cases? Just the percentage would be different that is all you are saying, right?

Lalit Malik: That is right. Just the percentage would differ because if people who are paying full excise, for them the impact as a percentage of total would be higher than what we were paying at lower levels. That is what it is, Otherwise, directionally it will be similar for all other corporates.

Percy Panthaki: I think what we as analyst do is, we take your sales as reported and then we take your excise duty as reported and as far as our analysis is we look at the net sales only. So now also when you will report in Q2, you will be reporting the net sales only. So in that respect I do not think there will not be any problem for us to compare the numbers.

Lalit Malik: Well, you may not get the information directly because earlier you had only excise information. This would include the impact on excise, service tax, entry tax, octroi, CVD everything and it will have visibility of all those taxes**.**

Sunil Duggal: You have visibility only on the tax, earlier on, right? Not on the others.

Percy Panthaki: So you are saying the others like entry taxes etc. used to be part of other expenses line?

Lalit Malik: That is right.

Sunil Duggal: Also as per accounting standards, correct me if I am wrong, the true sales were inclusive of excise. You may have taken net sales, but the accounting standards stipulated that the revenue capture will be at the gross level including excise, so that is the standard to be followed which were laid down by the IndAS.

Gagan Ahluwalia: Thank you for joining us for this conference call. The webcast of this call and transcript will be available on our website. We will be happy to address your further questions if any. Thank you and have a nice evening.