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

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Corporate Relation Department
Bombay Stock Exchange Ltd.
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Dalal Street, Mumbai- 400001

National Stock Exchange of India Ltd.
Exchange Plaza, 5th Floor
Plot No. C/1, G Block Bandra – Kurla Complex
Bandra (E), Mumbai – 400051

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

Sub: Transcript of Investors' Conference Call for Dabur India Limited - Q2 FY 2017-18 Results

Dear Sir,

Please find attached the transcript of Investor's Conference Call organized on October 31, 2017 post declaration of Financial Results for the Quarter & Half year ended September 30, 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

"Dabur India Limited's Q2 FY2017-18 Financial Results Investor Conference Call"

October 31, 2017

MANAGEMENT:

MR. SUNIL DUGGAL - CHIEF EXECUTIVE OFFICER
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 Results for the Quarter and Half Year ended 30th September 2017.

We have present here, Mr. Sunil Duggal – CEO, Dabur India Limited; Mr. Lalit Malik – Chief Financial Officer; Mr. Ashok Jain – Vice President(Finance) & Company Secretary and Mr. Ankur Jain– Head-Financial Planning & Analysis.

We will begin with an "Overview of the Company's Performance by Mr. Duggal", after which the "Q&A Session" will open. I now hand over to Mr. Duggal. Thank you.

Sunil Duggal: Thank you, Gagan, and good afternoon, ladies and gentlemen. Welcome to Dabur India Limited's Conference Call pertaining to the Results for the Quarter and Half Year ended September 30th 2017.

The quarter saw a good recovery in domestic volumes as the market and trade stabilized post the GST implementation. While Dabur's consolidated revenue showed a decline of 1.1% on reported basis, constant currency growth adjusted for GST was 8%. The Domestic FMCG business recorded the highest growth in the last eight quarters with volume growth of 7.2% and like-to-like value growth of around 10%. Categories such as Foods, Oral Care, Skin Care and Home Care performed well. The category growths being discussed in this presentation refer to the underlying growth after adjusting for GST impact.

Oral Care category reported growth of 22.8%, led by strong growth of 26.4% in Toothpaste. This was on account of healthy double-digit growth in the Red franchise, Babool and Meswak Toothpaste. Toothpaste category recorded gains in market share. Red Gel launched recently showed good momentum and was rolled out nationally.

Perfumed Hair Oil registered growth of 5% in spite of lower sales from CSD channel as CSD sales continue to see a decline. Amla group of Hair Oils recorded a growth of 9.2% excluding CSD. Brahmi Amla and Sarso Amla Hair Oils reported double-digit growth, driven by activations and rural-led penetration. Vatika Coconut Oil witnessed pressure due to downtrading on account of high copra prices. The brand has been relaunched during the quarter with a proposition of 'Satt Poshan', that is seven ayurvedic herbs. Almond Jasmine Hair Oil was launched in the Jasmine Hair Oil category. Vatika Shampoo has been restaged on a stronger Ayurvedic platform. Due to relaunch, the earlier stocks have been brought down which has resulted in lower sales.

Home Care performed well growing by 10%, backed by a strong growth in Odomos and Odonil. Odomos growth was in double-digits despite less prevalence of the mosquito based diseases this year. We launched Odonil Zipper during the quarter and are seeing increasing traction of this new format.

Skin Care registered like-to-like growth of around 16%, driven by strong growth of Gulabari and high single digit growth in Fem and Oxylife.

Health Supplements registered growth of 3%. Dabur Honey witnessed a strong come back with 8.6% growth, reversing the trend of the previous quarters. Pre-season sales of Chyawanprash were low in anticipation of new promotional and media input starting next month.

Digestive category witnessed a strong growth with Hajmola Tablets reporting double-digit growth. OTC reported mid single digit growth. Brands such as Lal Tail and Pudin Hara performed well. Ethical category faced stress in this quarter being a more wholesale-driven category and posted a decline of 2.5%.

Foods business reported growth of 11.7%, driven by 13% growth in Beverages. Our market share in Juices and Nectar category saw an increase with the Real brand gaining close to 200 basis points share. New flavors such as Real Mosambi and Real Wellness continued to perform well. Our entry into the Food Drink category has helped us gain a foothold in this category which will be taken forward under the Real Koolerz brand.

Keeping in view the growing importance of E-commerce in catering to the millennial generation, we have tied up with Amazon to increase our online and overseas presence. Under this collaboration, Amazon will host a web page dedicated to Ayurveda in India and also help Dabur take 30 of its products to consumers in the USA.

International business reported constant currency growth of 3.9% during the quarter in spite of geopolitical disturbances continuing in the Middle East. Import quota embargo in Algeria led to a complete shutdown in that country, putting further pressure on sales. On the other hand, Egypt, Nigeria and Turkey, recorded strong constant currency growth. There has been a translation impact of currency devaluation in these countries amounting to Rs.97 crores which had an impact of around 5% on a consolidated basis. Going forward, we expect this impact to reduce as currencies will become comparable to last year. SAARC business posted good growth led by Pakistan and Nepal.

On the profitability side, the consolidated operating margins remain stable. On account of lowering of the turnover, due to GST netting off, margins appear to be higher but were flat on a like-to-like basis. A&P spend in the Domestic business saw an increase of around 9% while A&P spend in the International business were lower due to stress business environment. SG&A expenses reflected some savings on account of cost synergies. PAT was impacted by one-off amounting to Rs.10 crores due to GST transition and currency impact of around Rs.13 crores. Excluding these, the comparable PAT growth was 7.2%.

Going forward, we will continue to invest strongly behind our brands, supply chain and infrastructure to manage the headwinds and see profitable growth. The consumption trends towards Herbal and Ayurvedic products will help us strengthen our presence in Healthcare and Herbal Personal Care segments as we continue to focus strongly on these.

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

Abneesh Roy from Edelweiss

Abneesh Roy: My first question is on the Real Koolerz brand. You have gained 1.5% market share. So if you could tell us how big is the overall category size in this? Who is losing market share?

Sunil Duggal: The gain of 1.5% was by Real and not by Koolerz. Koolerz was soft launched this summer and we did a small amount of business being a summer-centric brand. We will do a far bigger activation in the summer perhaps starting from February. The Koolerz brand did not really materially impact our performance… it was not that big. The share gain was in Real. But there have been losses amongst say Tropicana and B Natural on QoQ basis. Gains were probably from these two brands, more than anybody else.

Abneesh Roy: Even B Natural has started losing market share?

Sunil Duggal: I think it declined on Q2 vis-à-vis Q1 as per Nielsen. It is now around 7.2%, it was around 8.5%, something like that.

Abneesh Roy: Real Koolerz will be targeting essentially that segment of Frooty and Manpasand?

Sunil Duggal: In the value segment and with a strong focus on South India because that is where the Drinks segment is very big and we are very underpenetrated in that segment.

Abneesh Roy: Toothpaste has seen a very strong growth and surprisingly Toothpowder also is 4.7%. So Toothpowder, is it largely because of the restocking the positive growth has happened?

Sunil Duggal: One issue I would table is that actually in this quarter we saw very little restocking and deliberately so. Because we were planning to destock over the year by an amount which was not very dissimilar to what happened in June. So now instead of restocking and then destocking again which makes no sense, we decided to let the pipelines remain at the levels of 18-20-days which happened in July. We deliberately did not restock. The wholesale had never destocked in any case in June, it was really the distributors who destocked and who are now at the lower levels. So this is true secular growth. The Oral Care growth is exceptionally good and need not necessarily be repeated in the future, it is something which has been really through high level of rural activation. I think that it is the single most important reason behind this growth.

Abneesh Roy: In Ethical, what is the issue? If I see last six quarters it is almost negative numbers. You have pointed out wholesale here but the decline started from Q1 of last year wherein demon or no GST impact was there. So what is driving the consumer behavior here? We have seen some of the other companies also struggle in this segment. On the one hand in FMCG, Natural is gaining traction and here Ethical it is other way round.

Sunil Duggal: The entire pharma sector is stressed. So this is part of that entire space. While I do agree that the performance is much lower than what we should expect, I do not think this is really a trend. I do think performance will pick up. The channels have been stabilized. We have a lot of new products into the pipeline, we put them there. We do expect if not double-digit growth, at least strong single digit growth happening in the quarters ahead.

Abneesh Roy: Finally, on the macro, you mentioned that the impact of Patanjali, the worst seems behind and you also said clearly this is a multi-quarter high in terms of volume performance by Dabur. But if I really see, first half your volume growth was (-4%) in first quarter and 7% in this quarter which means hardly 3% growth for the first half. So in that context, do you see this as a recovery because clearly headline numbers are still not good enough for the first half if I see?

Sunil Duggal: First half degrowth was largely on account of destocking by the stockists network. That was the one-off event which hopefully will not be repeated. So I do not think first quarter (-4%) was reflective of the condition of the business. I think second quarter is a little bit more reflective. Going forward, whether we can grow at this pace or higher or lower, it remains to be seen but I certainly think that most of the headwinds, growth in the international as well as the domestic business do seem to be behind us. I am not saying that the pain is totally over especially in the International business. But we do see better quarters ahead. How much better? It remains to be seen. That would depend upon the underlying demand situation which is still a little murky how strong the underlying demand is. We saw the Nielsen numbers trend up very smartly in the first quarter, trend down very sharply in the second, so it is very volatile out there. So I think ultimately if the demand remains in the secular double-digits across categories, then we should partake of that growth and see good growth going forward.

Abneesh Roy: One follow up on the Canteen Stores. Most companies in this quarter have continued to face a big impact. The market leader said that now it has almost come back to 85-90% of its earlier run rate. My question is one, have you also seen 85-90% of the run rate in terms of the exit? Second is if for two, three quarters, CSD has been weak, then it does not really impact numbers because ultimately that consumer was buying from CSD, now he will shift to the normal trade channels right?

Sunil Duggal: Most of them will, some would not. The reason is that CSD prices are sharply discounted. So let us say somebody was buying Chyawanprash for Rs.250, he has to buy the same thing at Rs.300 in the civilian market. So there could be some attrition there, people saying, no-no, I cannot afford that. But I do suspect that 80% of the lost CSD volumes will be made up by the modern trade. More importantly, the profit contribution even of this 80% will be much higher than before. So it will be good for margins, maybe not so good for the revenues, but it remains to be seen how this is played out and how much of this conversion from CSD to regular channels would happen.

Abneesh Roy: Is it back to 85, 90%?

Sunil Duggal: This quarter we lost 27%; we were -27% in CSD, so both CSD and Para have got very sharp decline. I do think that this decline will continue. I think the quantum of the decline will slow down. So even in Q3 and Q4, I do not see growth happening on YoY basis, but certainly the situation will not be as bad as 25% decline reflects, it may be more in the region of 5-10%. It is very hard to say because we have no visibility about how they are planning to rework the business model. They are certainly cutting down in terms of the number of SKUs they are keeping and far more importantly they are putting quotas in terms of consumption. So earlier on, someone could buy as much Chyawanprash or Amla Hair Oil as they wanted. Now they said, okay, you can buy only say 2 Kgs a month or something like that. That puts a big cap. All this is enforceable through smart card. So there is monitoring system there too. Overall the entire consumption of CSD is certainly going to drop. I do not see any reason why it will grow.

Manoj Menon from Deutsche Bank

Manoj Menon: Three questions from my side; the first is on competition. While there is a lot of focus on Patanjali, etc., my question is more to do with what Patanjali has done to the overall herbal/natural/ayurvedic market? I am using these words interchangeably because probably the consumers look at it that way. Correct me if I am wrong. But this has resulted in a lot of newer entrants, let us say someone like Unilever looking at the Natural space more aggressively, etc., What is your take currently? Does it really expand the market in terms of new consumers coming in? One evidence if you could share us some numbers in terms of let us say if you take the Toothpaste category, how much was Herbal as a proportion of the total let us say market few years back and how much is today. The question here is Patanjali, what is happening to them. Of course, that is relevant to understand at this point. But what it happening to the overall contours of the competition which you are facing currently?

Sunil Duggal: In the case of competition and particularly Oral Care, let us take competition in a more aggregate manner. The herbal, ayurvedic space is certainly growing ahead of all the other spaces. This is perhaps most pronounced in Oral Care. The reason for that as I said earlier is that Oral Care is a therapeutic healthcare space, not a cosmetic personal care one. So this is where ayurvedic equities converge very well. Now, obviously, if you have let us say 25% in our Herbal portfolio and Patanjali, nobody of course knows the exact pace of growth, but it is obviously a fairly aggressive number. This has not entirely come at the cost of the traditional players. Lot of it has come from traditional players, part of it has come through market expansion, people perhaps using toothpaste more often and also increased level of consumption intensity and penetration. It is not a zero sub-game, that herbal and non-herbal add up to a number. Similarly, even more so in Honey, which was highly underpenetrated unlike Oral Care, the entry of Patanjali has definitely expanded the space for honey consumption at the expense of maybe other sweeteners, sugar, etc., So these are all positive things because at the end of the day if we are just gaining share, there is only so much you can do. It is much better to expand the whole space for consumption of herbal products. As regards to your second part which is the share of herbal in oral care in toothpaste is at the moment at least 20%. Nielsen puts Patanjali at around 5%. They could be a little bit more than that. We are around 15%. So this aggregates to at least 20%, maybe a little bit more than that. This is the one segment which is growing at this 20, 30%. So now if you extrapolate this it will become fairly significant, even dominant say ten years from now but the pace of penetration obviously will need not continue at this level. It will taper off at a point in time and become a little bit more reflective of the category growth. Nobody would have expected that in 10-years from zero to 20% being the share of herbal toothpaste. That is how the category has grown.

Manoj Menon: Secondly, on the execution, the channel Hygiene part of the inventories, etc., the adjustment which you have done in the last 12-months, assume for a minute that there are no more disruptions whether it is demon or GST, leave that external elements out, are there any internal further adjustments needed…I am not referring to obviously the 18-20-days which you are maintaining currently, is there any other internal changes which can affect the outlook for the next year or two?

Sunil Duggal: I think we have to recognize the fact that there has been a structural change in the way the supply chain is going to operate as far as distribution is concerned. We have to recognize the change and we have to leverage it. I think we have been pretty good to do it. So just to give you a few data points; our wholesale which is the traditional urban wholesale which is rural and a little bit of urban, declined by 5.2%. Now the super-sub market which is the other rural feeder…this is the pure rural feeder, this grew by 15%. Enterprise largely driven by Army and Canteen declined by 12%. The Direct Sales increased by 9%. So these are all big changes, we have never seen such high movements across the supply chain as what we have seen in the second quarter. Modern trade grew by 21%. So we have to then ride with these changes, we cannot really drive too much here because the wholesaler is not going to buy, there is no point in just incentivizing him to buy, the product will just get stuck in that pipeline. So we have to really improve the second leg which is the super-sub rural feeders and deploy far more resources and investment in that channel which is what we have done. One of the big initiatives was Project Bunyad which basically said we will carve down the portfolio for the super stockist network down the middle into personal and healthcare. While this maybe very expensive and in the short run not remunerative, this is really will be the focus into the entire portfolio and have a much broader SKU mix at the last mile. So these are the initiatives which we are doing.

Manoj Menon: Maybe I will take this offline because need more understanding here. Third one, what is the outlook for price growth?

Sunil Duggal: The headline numbers for India consumer is 10% revenue, 7.2% volume, right, so that leaves 2.8%, out of which approximately 1.5% is price and the rest is mix. So the pricing momentum is still pretty soft and this quarter the visibility is pretty high. We do not see any inflationary issues emerging, coconut oil is already mapped in, we are seeing a little bit of inflation in honey, but there are many other parts of the business which are fairly benign. I think the growth going forward will have to be driven by volumes at least in the next quarter or two I am not seeing more than 2, 3% pricing component, maybe not even that.

Manoj Menon: Any early comments about the implementation of VAT in some of the Middle East markets and its consequent impact on consumption?

Sunil Duggal: Not really, I think we will have to just simply pass on that impact. 6% VAT which we will have to pay for on 90% of our GCC business, because only the way we will be able to claim them, put credits, else we will lose. So we will have to just raise the prices which is what everybody is doing. Whether this will mean demand compression? Not very likely because I do not think there is a lot of pricing sensitivity there. It is really a question of the expats moving out which had led to this softness in consumption and other economic issues in Qatar, etc. So we are not very worried about VAT.

Amit Sinha from Macquarie

Amit Sinha: Sir, while in most of the large categories, it looks like that you have either continued to gain market share or have reversed the declining trend. However, in Hair Oil segment, given the numbers, correct me if I am wrong, it looks like that even in this quarter you have lost some market share. So just wanted to hear your outlook on this segment of yours?

Sunil Duggal: The Hair Oil market share, really no loss there, because in the Coconut Vatika segment there is some loss, but in Perfumed Hair Oil there is none. While optically the numbers may not look that great, 5% growth in Perfumed Hair Oil, but if you take the general trade it is 9, 9.5% which is perhaps above the category growth. So I am not unhappy with that 9% growth in Perfumed. Now of course the slack in CSD should be taken up by the civilian market which I have gone through that logic earlier, some of it will be, some of it will not. So we should see better traction in Hair Oil. The basic issue in Hair Oil is that there is serious downtrading happening in this category. It began a few years ago with Rs.10 Hair Oil, it further gained momentum, the lower GST rates permit LUP, and so the whole thing is converging into Rs.10, Rs.20 price points. We are now playing very aggressively in the price points and those brands are responding very well. So we have got Rs.120, 130 crores portfolio as we speak of the cheaper oils and this is growing at 20%. So that is the reality of Hair Oils. The downtrading is sort of endemic and all the high priced Hair Oils are actually having some issues in terms of consumer demand.

Amit Sinha: Even you will be participating in the prices?

Sunil Duggal: I do not think we have a choice. We were not doing it a few years ago because we did not think the input cost table would drop to this level, but a combination of very low oil prices, very friendly vegetable oil prices, plastic cost coming down and now the GST rate coming down, has meant that the margins even at the Rs.10 price points are much better than what they appeared a couple of years ago. So there is no harm in now aggressively participating in that growth. That is what we have been doing.

Amit Sinha: Secondly, there has been a sustained improvement in your other expenditure cost. Can you please highlight some of the broad areas where the company is working and in the presentation you have mentioned cost synergies. Can you throw more light on that part of it?

Lalit Malik: There are two parts -- #1 is that if you look at in the pre-GST scenario, the costs were inclusive of service tax and VAT wherein now under the GST scenario which is reflected as a balance sheet item, for which we claim the input credit. So that is one aspect of it, but on the other hand, we have controlled the expenditure, keeping in mind the pressure on the top line in all the areas, whether it is on account of corporate overheads or whether it is on account of the job work or the third-party expenditure, consultancy expenditure, so we have control over all our expenditure, keeping in mind the top line pressure and also on account of change in the accounting principle arising out of GST.

Sunil Duggal: I think we have moved a lot of products now in-house especially beverages with the setting up of the Pantnagar plant, almost the entire beverage business is now in-sourced, earlier around 30% or so and the costs there were being reflected in SG&A, we put in the CAPEX, so they are part of COGS. So therefore, that has been one positive. I think there has been a lot of rationalization in terms of headcount, in terms of administration, etc., which has all led to some operating leverage coming in and there is more which can happen here. But we have not cut back on A, the P part has been cut back, but that is not visible any more. But if you take our

India advertising, it is up by around 10%. Consolidated is down because we have sharply cut back on spends in international business. There was really no need to spend much on advertising because of the turmoil there. But having said that, advertisement numbers in international will go up very sharply this quarter because now things have stabilized a bit there and we do see a need to invest in that business once again.

Amit Sinha: Would you like to give any volume growth range for the second half? Any commentary on the rural recovery side?

Sunil Duggal: I will hesitate to do that because it is going to be very volatile. You have a low base of Q3, normal base of Q4. So the headline numbers would look very aggressive, the performance would look very good in Q3 but you have to keep in mind the underlying base. I think Q4 will be really reflective of the true state of the business that will really depend on how many initiatives you put in, the quality of execution and most importantly the underlying demand especially from the rural. I do expect that now we are leading into an election here and also the signals which are coming do point out to fairly aggressive stimulus which is being planned to be delivered and that will really help rural consumption. So if that happens, I am very optimistic about demand even in the fourth quarter and beyond. But like I said, there will be a lot of volatility and then of course you will have further dip in the base quarter in Q1 of next year, etc., So keep these things in mind, but overall I think the future is going to be much better than the past even this quarter was the best we have had in the previous eight both standalone and consolidated and this is not of a soft base, this is of a normal base. So going forward, we should continue this momentum at least much better than what we have seen in the past.

Prakash Kapadia from Anived PMS

Prakash Kapadia: On Healthcare, what is the outlook for the upcoming winter season given Chyawanprash and the low base of Honey, any specific new flavors launched, anything we are doing in terms of channel activations specifically for the modern trade given the higher urban salience of the product?

Sunil Duggal: Honey, I am very optimistic because honey is of a low base and the reworked value proposition is working now very well into advantage. So I see very strong growth coming in honey. The Chyawanprash outlook is still a little bit uncertain. I still think we will have a good growth in the third quarter, but a lot depends upon the severity of the winter and at this point in time it is not very clear, it has been a warm start to the winter quite frankly, it is still pretty warm in Delhi. So if the winter is severe, I think the traction for Chyawanprash will be good. We have not done any new initiatives this year because most of them were done last year and did not really work because of the demonetization which happened at the bang centre of the season. So Chyawanprash would have a very good third quarter but more on the base effect, the other aspect in terms of true consumption increase is still to be mapped out. But we will be aggressively investing behind this new initiatives and we do hope that we will be able to get a good growth in Chyawanprash which is where 50% or 60% of the volumes play out.

Prakash Kapadia: Are the newer flavors mixes of honey available nationally now?

Sunil Duggal: On honey, not really. Honey we basically have some variants in modern trade, spreads, etc., which are small niche initiatives. At the moment, we are really concentrating upon the base brand and not really try to fragment it too much because it took a lot of effort to rework the whole price value equation. We have done that and now we are putting a lot of money in driving that rather than put a lot of money into new variants, etc., we will probably do that sometime in the next fiscal.

Prakash Kapadia: On Hair Oil, what has been the journey in Almond so far, what is the reach as of today, do we see Almond being a larger contributor to the overall Hair Oil portfolio in the near-term?

Sunil Duggal: The Almond Hair Oil has been consistently growing and we see no lack of any momentum there. There is a lot of focus on modern retail in South India which are underpenetrated categories where the incumbent does not have too much presence. So we have made a very good foray into modern trade where our share is not very different from the market leader and in south where our share is perhaps equal to if not more than the market leader. So we have taken these more of a flanking position rather than to face the incumbent in his heartland. But the brand continues to grow, I think it is close to reaching a critical mass after which we can fund it significantly. So it looks promising.

Prakash Kapadia: The reach would be approximately how much as of today for the Almond?

Sunil Duggal: 200,000-250,000, I do not have exact number, but it will be that much.

Prakash Kapadia: Historically, Babool was half of our Toothpaste portfolio. Is it fair to say today Dabur Red is more than 50-55% of our overall toothpaste here?

Sunil Duggal: It is more like 60-65%. That is very virtual because this is a very high margin product Red Toothpaste, Babool is low margin. So I am very happy to make this play it off from Red Toothpowder. Meswak is equally important, it is now Rs.100 crores brand and spins off very high margins, very loyal clientele.

Prakash Kapadia: Lastly, on the rural side of the market, say the next four to six quarters, do we see rural growth being better than urban markets, do we see urban growing faster for us, some sense on urban versus rural?

Sunil Duggal: I think the rural growth will be high, not because of anything great happening to the rural economy, but because of stimulus which is going to be more likely than not being put in by the government prior to the elections. I think the growth will become very secular and very strong if there is a good monsoon next year and perhaps not so much if there is not. But I do see and we are bidding on this fact that starting from the first quarter, one year before elections, there will be a lot of priming of the rural economy which inherently is not on a very good wicket because the so-called monsoon actually has not been a very good one, the dispersion has been poor. While there are pockets which have done very well in terms of the yields, but the other which have not. It is really the stimulus which will drive the rural economy.

Arnav Mitra from Credit Suisse

Arnav Mitra: It is very interesting to see your presentation slide on coconut oils where you are saying that you are taking on the market leader. Just wanted to understand, is this a tactical move to disrupt pricing or are you going to back this up with advertising and some kind of attempt to even kind of differentiate on the product and is this kind of a change of you, you are taking on coconut oils which you have kind of not invested in over the past maybe five, six years?

Sunil Duggal: We see opportunity here in the era of high copra prices, there is opportunity for a brand which is advertised but at the same time it is affordable. We are not saying that we are taking on the market leader that is too big hill to climb. I think there is an opportunity to get sales at comparatively low cost and comparatively low effort from coconut oils and we are tapping into that opportunity. Anmol is Rs.100 crores plus brand and we do see this becoming much larger because the space is so large. So I think it will be unwise to ignore the space even though the margins obviously realize from here alone, but then the activation effort is also low and I think it is low hanging fruit here.

Arnav Mitra: Just last question on international business. If we look into the second half this year, the GCC base becomes quite low, so do you think GCC can turn positive on constant currency basis in second half? Secondly, you have not mentioned about the US business growth in your presentation, if you could comment on that. Overall as a business, are the currency headwinds going to go away in the second half and therefore in rupee terms also we start seeing some growth there?

Sunil Duggal: GCC is basically a hard currency area, so constant currency is same as they are translated. I do see growth coming in Q3 particularly from Saudi Arabia. There is a little bit of overhang of Qatar which we will have to navigate because that has been locked out. But overall, I do see from GCC, the hard currency markets, good growth coming in Q2. The problem really lies in the MENA region in the non-hard currency markets and particularly in North Africa demand. I mentioned Algeria in my earlier presentation. A very good market, not that big - around Rs.70-

75 crores, but hugely profitable which has come to a complete halt because of embargoes on any imports. Now we might set up a small unit there but will take time, so we may lose this year in Algeria. And then there is Yemen and Syria, etc., which continue to be in turmoil. The currencies there have plummeted. That is really the 30-40% of the MENA business which will still remain challenged. I am excluding Egypt from this analysis. Egypt is fortunately the bright spot in terms of growth… around 35% growth is huge. When the currency anniversarizes itself, Egyptian pound which will happen around middle of November, I am not saying the growth will continue at 30%, that is too high to be sustainable, but we will see double digit growth in constant currency or in INR coming from Egypt which is by far the biggest market in the MENA region. So overall the MENA performance will be good in Q3 and perhaps very good in Q4.

Arnav Mitra: Any comments on the US Namaste business?

Sunil Duggal: I think USA business would now start showing some growth from the fourth quarter and there are underlying reasons behind it because the Africa trajectory will take off around the middle of third, end of third quarter and will then be having a lot of momentum in the fourth and that should lift up the whole pace of Namaste. But Namaste would not have a good year because the performance in the first two quarters have been very muted. But definitely the third and particularly the fourth quarters will be much better than what we saw in the first two.

Nillai Shah from Morgan Stanley

Nillai Shah: The first question is a month ago there was a media report you have given some interviews in which you have said that the sell-ins post-GST have been now good. But you are unsure about demand going forward and you have spoken about the erratic monsoon, etc., So any change in views out there for underlying demand trends over the next few quarters or you still hold all those views that you had about a month ago?

Sunil Duggal: I would not talk about next few quarters because the visibility is not very good, but definitely the undertone in terms of demand is still pretty weak, there is really no upsurge of demand which we are seeing either from rural or urban. Whatever growth we have got which is much ahead of market growth is on the back of distribution initiatives and some new product initiatives. Now, we will have to pursue these rather than just rely upon market growth. So therefore, getting back into double digit volume growth trajectory will be contingent on both secular market growth as well as our own initiatives and both will have to fire. On our own, we can probably drive growth in the region of what we have done this quarter and perhaps trended up a little bit when the base is low. But there has to be support from the consumption side which is quite likely to happen like I said on the back of the rural stimulus which could happen.

Nillai Shah: This is actually very interesting because last few quarters you held back on the NPDs citing what is a very sluggish demand environment and also the fact that in the past you said you want to introduce products incrementally which are higher gross margins. So when I see the Anmol Coconut Oil has been there for some time but you reduced prices I think out there. The Jasmine Oil launch which is there plus the Koolerz launch which is there. It is interesting because you are okay now getting into product segments which are arguably lower gross margins now than the base category. So what is the change or the shift out there?

Sunil Duggal: Basically, in Hair Oils, the downtrading is so intense that there is no option but to get into the more aggressive price points. In the case of Koolerz, we would not have done Koolerz in the situation where we did not have substantial amount of excess capacity in our plants with Sri Lanka and Pantnagar coming in. So we really see South India which is highly underpenetrated as being a place where we can do business at a low margin without interfering with the high margin businesses. So these two are outliers. Now if you take the new introductions in Home Care or in Consumer Health, they are all at the very high margin level. So there is no dilution in our basic philosophy of getting into high margin areas but there are some low margin platforms which you have to build. We do not intend to get into low margin Oral Care for example, there is no need for us to do that, we have low margin brand, so that will continue in most of the other categories. But Hair Oil and this Food Drinks product are two exceptions to the rule.

Nillai Shah: You were looking at launching something in the Oral Care space, sub-brand out there to take on Patanjali more aggressively. Any update on that?

Sunil Duggal: We will do that, I cannot give you a timeline on what kind of plans we have, but we certainly will enter this space, it is a matter of time, we are just waiting for the mix to come together in a way which completely satisfies us and then we will go to market.

Nillai Shah: For the next two, three, four quarters whatever you are comfortable with, would you say that going forward the underlying margins on YoY basis will be broadly flattish?

Sunil Duggal: If you take the gross margins, yes, they are likely to be flattish, near-term the EBITDAs are likely to be flattish, because the whole effort of the management is going to rebuild the top line and not really to have a very high margin focus. When the top line is rebuilt in a sustainable manner, you will see strong margin expansion happening and we do not really have to do much to drive it. The operating leverage and other initiatives will take care of it. So we really have to take a near-term view which is to rebuild top line and a longer-term view which is to get the margins to much higher levels. Certainly, the potential to increase margins is there but not at this stage, it will take two or three quarters of the top line rebuild for that to kick in.

Latika Chopra from JP Morgan

Latika Chopra: Actually, just an extension from the previous question on our product launches. Clearly there is a bit of aggression coming back in terms of new launches and relaunches. Could you also share the success if any you are seeing in the case of air care and home care categories because you have definitely seen new formats being launched there? Going forward, how would this new launch momentum behave -- any focus categories in that regard?

Sunil Duggal: To answer your question on Home Care, we launched the Gels around a year ago. So that is not really new-new and that has done very well; it is around 10, 15% of the Odonil portfolio is the Gels. We launched Zipper which is doing extremely well. We are very happy with the traction has got. The distribution has only just become national. It was launched in modern trade and that shows a lot of promise, there is a lot of headroom here. So Home Care initiatives has done well then we have had initiatives in Beverages which we launched under a brand called JuC. We tested the water with one of the brands called JuC. We are going to relaunch it in a new avatar which we have renamed Koolerz in next summer and this will be mostly out of our Sri Lanka plant which is highly underutilized and sold mostly in the southern catchment. But the response from JuC was excellent. We sold whatever we could and that was mostly like I said in the first quarter. We have been actually doing the initiatives over the last one year which have been comparatively low cost, Red Gel for example which is an extension of Red Paste, even though we are putting a lot of money there. Odonil Zipper again not a very transformational initiative but otherwise a good one. Koolerz, etc., We have really done things which did not require a huge amount of money simply because the resources were not there. Now going forward, we will be getting into the more intensely resourced categories perhaps in Oral Care, in Hair Care, etc., Consumer Health, where the investments will be very large and once like I said we have rebuilt the top line or it is in the process of being rebuild, we will have the headroom to invest behind these. There is no point doing the launches in a half-hearted manner, they have to be resourced homungously these days. So we will take it as it comes and to now the more aggressive launches even towards the end of this current year.

Latika Chopra: Secondly, on the Amazon tie-up that you talked about, does this imply more intensified focus on digital investments and how do you see that share of eCommerce changing in your revenue mix?

Sunil Duggal: We are looking to more than double our eCom volumes this year and this does not include the Amazon initiative which is over and above that. So therefore, it is definitely important and increasingly so. Even with the current volumes, it will be still at very small fraction of our total sales, maybe 1% of our global sales and 1.5% of our domestic sales. But there is no reason why it cannot run up to 3% and 5% over the next three years and from there it gets to be accelerating at a much sharper rate than what we thought. So this is the initiative which is very important. We have engaged domain experts to help us run it. So we are not doing it on our own. We are collaborating with Amazon on the global store which is a huge area of growth because there is a big unmet demand for our products in overseas, people just cannot get them and all the regulation, etc., very hard to navigate. So Amazon will take a lot of care of that. This could be potentially very big on the global scale.

Latika Chopra: Anything on the M&A front the way you are thinking about the opportunity?

Sunil Duggal: We are still looking, we do have almost Rs.2,500 crores of cash in the India books, so that gives us enough headroom in terms of resourcing to look for M&A, nothing has come out of it for a variety of reasons. But no reason to think that something will not happen, you cannot really predict this but the hunt is on and we have been in discussions with more than one party on this.

Tejas Shah from Spark Capital

Tejas Shah: Sir, just wanted to know how the terms of trade have altered with trade channels post the GST implementation in terms of inventory and margins also?

Sunil Duggal: There is a marginal increase which we have given them, and they had a lot of logic for it. They said that your top line has come down on account of GST. Now you are giving us x-per cent. X-percent of a lower top line means less money for us, our cost remain the same. Of course, they do not talk about it, their input cost credits are huge. So we passed on a part of that to the modern trade. I think it is 0.5%. So this was after long negotiations, but I think we were able to come in together an agreement where part of this damage was done to the total income was partly met by us and partly they take the hit. So it was a done in very amicable manner. We have great relationship with all the partners. Obviously, they are giving us more than average growth.

Tejas Shah: Is business change permanent in nature?

Sunil Duggal: Yes, it is almost embedded, I don't think the situation will come when you can reduce these margins that would be very unusual. But at the moment, the modern trade channels are quite profitable, so we can live with this.

Tejas Shah: How are things changing with general trade?

Sunil Duggal: General trade I told you that the urban wholesale which is the feeder, the trading wholesale as we call them, is really in coma and showing actually no signs of revival if you ask me. I thought they will revive by now, but they have not. The rural wholesale channels are doing well, the rural retail channels are doing well, the direct reach, super-sub. Modern trade is growing at 2x traditional trade. Enterprise is doing badly largely on account of canteen and army. So it is a mixed bag.

Tejas Shah: As you mentioned that because of very volatile base for next four quarters, so we are now entering into four quarters with disruptive base. So what would be the…?

Sunil Duggal: I think the next four quarters, I see two with the low base and two with the regular base. So it is not that is all low base.

Tejas Shah: Sir, with that kind of disruption even in two quarters, what would be the correct yardstick or benchmark you use to segregate the base effect in the maximum underlying recovery?

Sunil Duggal: I think you map the growth over four quarters, maybe two with the low base and two with the normal base and you will get to a pretty sharp idea of which direction the business is in. It is very hazardous to map it over Q3 which is a low base or Q4 which is actually a fairly high base. So it is going to be very volatile. I think you will have to use trending rather than YoY performance for a quarter to really extrapolate the growth over a longer period of time.

Tejas Shah: If you can comment on market share in your portfolio where we have gained and where we have lost?

Gagan Ahluwalia: The market in most of the categories are stable or rising. As we have already mentioned we are seeing some good gains in the Juices and Nectar category of almost 200 basis points and we are touching now around 55% market share there. In Toothpaste segment, the market share is showing a good improvement of around 90 basis points in terms of value. In terms of the Hair Oil, we are a little bit lower than last year. So in fact, in Hair Oil category in volume terms, we are 50 basis points higher than last year, in value terms a little bit lower. So these are the three key categories and that is about the market share.

<u>Vivek Maheshwari from CLSA</u>

Vivek Maheshwari: Sir, 7% volume growth you said is something which is secular, there is no restocking or big restocking impact. Is that correct?

Sunil Duggal: That is correct.

Vivek Maheshwari: Which means that July, August, September, other thing being equal leaving aside the base, it would have been fairly similar in all the months?

Sunil Duggal: No, it was high in July and low in August and moderate in September. But I do not think you should concern yourself too much with that because last July was a soft base, last September was a high base. So I think you should take it on a quarterly basis, because the base on a monthly basis can distort the numbers hugely.

Vivek Maheshwari: This (+7%) in this quarter and there was just an earlier question on this, are you being conservative because even fourth quarter when you say base is higher when I look at my previous note it was just 2.5% volume growth what you reported in fourth quarter. So third quarter we are on a base of (-5), fourth quarter, we are on a base of (+2.4) and again first quarter next year is (-4.4). For next three quarters, why should not be double-digit if this 7% is the true growth that you believe in?

Sunil Duggal: I am not ruling out the possibility that is happening, but I prefer not to make very aggressive predictions, because we live in a fairly volatile environment and things can happen which are not predictable. The underlying secular demand is showing a little worrying signs of trending down in the second quarter vis-à-vis the first and we hope that would not be something which will continue. So I think generally we would look at much higher growth than what I have been talking to you but that need not happen.

Vivek Maheshwari: The last comment that you made, you have seen some pull back that is what you mean in October?

Sunil Duggal: October was a very good month for us last year, November was a lousy month. There is no reason to get depressed if you do not show growth in October and there is no reason to get ecstatic if you show great growth in November. But definitely the base of Q3 is low and there is no reason why we should not perform well on that base. But that is not reflective of how things will go forward when the base becomes normalized. I still think that the government will come to our rescue and provide the stimulus which will fuel domestic consumption. Remember in 2013 before the election, it was one of our best ever years and repetition of that is not impossible.

Vivek Maheshwari: A couple of quick questions; Oral, no big impact because of Gel as it was being sent to the market, there was not a big stocking impact because of that or meaningful contribution coming in from that, right?

Sunil Duggal: When you launch a product, you do not launch it through wholesale channel, you go direct to retail and therefore there is no real stocking as such because the wholesale you go to much later when the brand has got some traction. So in Gel, there was no wholesale component as far as I know.

Gagan Ahluwalia: There is an increase in growth because of Red Gel coming in, it has contributed to the growth.

Sunil Duggal: Out of the 26%, how much will be the gel approximately? Around 2%-3% would be the Gel contribution that has ramped up the growth to that extent, just to give you a ballpark number.

Vivek Maheshwari: When you think about Red Gel, how do you think about it? It cannibalizes. I am sure it will be margin-accretive or you actually are eyeing the Gel market which is outside of let us say Ayurveda Natural space, how do you think about Gel from an Ayurveda perspective?

Sunil Duggal: The target consumer is a person who is using regular gel and we are offering him a value-added gel. So the strategy is pretty similar to what we did with the Red Tooth Paste. The person who was using a regular white tooth paste and we have offered him a better alternative. So this is really targeted at the gel user and it is priced similar to that. So I do not think it will have any cannibalizing effect on red paste. It will really get fresh business for us from the Gel sector.

Vivek Maheshwari: On Honey Vs Chyawanprash, very different commentary. Is it just because of let us say, uncertainty on the winter or you think that Patanjali is playing in a different manner in Honey Vs Chyawanprash?

Sunil Duggal: I think in honey, the value proposition which we have recrafted is working beautifully for us. I see visible signs of good traction and growth and also push back people saying no-no, we have come back to Dabur Honey if you know what I mean. We have flirted with other brands and now we find that ours is delivers better value even though it is at a higher price. So this maybe anecdotal, but I think it is reflected in the underlying sales volumes. Honey growth was actually 13% if you take CSD out, which is pretty good. I am looking at much higher growth in at least the next couple of quarters from Honey. Chyawanprash is more volatile because it is very winter-dependent, unlike honey which does spike up in winter, but there is no huge spike. The plateau is much shallower there. But life and blood of Chyawanprash is strong winter. So therefore, I am always very circumspect while commenting about Chyawanprash because mild winter can really kill any significant growth.

Vivek Maheshwari: But since you mentioned that from a competition from Patanjali perspective, how do you think about Chyawanprash?

Sunil Duggal: Chyawanprash, I do not think there is anything which we need to worry about. Of course there will be some element, but then again I do not think Chyawanprash will be a zero-sum game that Dabur customers will go to Patanjali, etc. In fact, I am very happy if other brands like Patanjali come aggressively into Chyawanprash which expands the market which is pretty shallow. With all our resources we have not been able to expand the market really to its full potential. It needs more noise if you know what I mean to really grow it. So this may be good for ourselves. Even if we lose some share, we may ultimately be the biggest winners. Like I think in honey while we would have still lost share compared to our peak, I do see the future growth being much better than what we have seen in the past.

Vivek Maheshwari: Could you clarify the fiscal benefits, how have you accounted in your books for given that you will be getting it at a better future date as against an exemption?

Lalit Malik: So as far as the area based exemption is concerned, as per the law, we can take 58% as the refund and based on the notification we have accounted for as other operating income, which is now consolidated with revenue that you have seen now. So the revenue includes the accrual on account of 58% area based exemption.

Amit Purohit from Emkay Global

Amit Purohit: Sir, just your thoughts on the competition especially on the Food categories, in last quarter, you indicated heightened competition and discounting in that segment, and then we see these results which has seen a market share improvement vis-à-vis other players and now you are commenting of a new product launches and overall profitability also improving. So is in a quarter what has changed and what work well for you and what gives you this confidence that growth will continue?

Sunil Duggal: I am reasonably confident about Beverage growth and I am not hugely bothered about competition because I think we have seen competition in the past that never goes away. What I am a little bit more worried about is alternative beverage formats coming in, particularly in the dairy space which provide alternative to users in the others health platform and that is something which we have to look out for because there has been a lot of non-activity in the dairy segment and that is something which perhaps provides a biggest threat to us and other beverage manufacturers. Because we do have a very strong consumer franchise, outstanding supply chain as far as fruit juices are concerned, but there is every danger of some people now getting into other formats which are now available at fairly economic prices cheaper than fruit juices, we have to watch out for that.

Amit Purohit: Sir, has the heightened discounting which you indicated last quarter now subsided?

Sunil Duggal: Well, margins in Juices have actually improved sharply if you look at the segment numbers, the biggest improvement actually has been in Beverages. Beverage margins are still lower than for the business as a whole, but they have trended up. So I do not think there is any huge pressure on margins on account of competition.

Amit Purohit: Secondly, on the new product launches, do you have any indicative thing in terms of what would be the new product contribution to the overall revenue in India?

Sunil Duggal: We have not been very aggressive in new products. So I will not really apply too much mind at this stage. Let the business stabilize which it should by the year end and then we will really recraft our new product strategy depending upon resources and depending upon the market situation and then reset the benchmarks. Obviously, the proportion of new products to total sales has come down over the last two years, but definitely it will trend up now.

Gagan Ahluwalia: Thank you for joining us for the conference call. Webcast, Transcript will be available on our web site. We will be happy to address your queries relating to the results if any. Thank you and have a nice evening.