Ref: SEC/SE/2018-19
Date: 06.08.2018

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 Investors Conference Call for Dabur India Limited Q1 FY 2018-19 Financial Results**

Dear Sir,

Please find attached the Transcript of Investors Conference Call organized on August 01, 2018 post declaration of Financial Results for quarter ended 30th June, 2018, for your information and records.

Thanking you,

Yours faithfully
For Dabur India Limited

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

Encl: as above

# "Dabur India Limited Q4 FY2018-19 Financial Results Investors' Conference Call"

# August 01, 2018

**MANAGEMENT:**

**MR. SUNIL DUGGAL – CHIEF EXECUTIVE OFFICER**
**MR. MOHIT MALHOTRA – CHIEF EXECUTIVE OFFICER, INDIA BUSINESS**
**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**: Thank you. On behalf of management of Dabur India Limited, I welcome you to the conference call pertaining to the results for the quarter ended 30th June 2018. We have present here, Mr. Sunil Duggal – CEO, Dabur India Limited; Mr. Mohit Malhotra – CEO, India business; Mr. Lalit Malik – Chief Financial Officer; Mr. Ashok Jain – Vice President (Finance) and Company Secretary and Mr. Ankush Jain – Head-Financial Planning & Analysis.

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

**Sunil Duggal:** Thank you, Gagan. Good morning, ladies and gentlemen. Welcome to Dabur India Limited's conference call pertaining to results for the quarter ended 30th June 2018. On comparable constant currency basis, consolidated revenues from operations grew at 19.6%. Domestic FMCG business witnessed like-to-like growth of 23.7%, driven by one of the highest ever volume growth of 21%. Consolidated operating profits increased by 25% in spite of high media spends which grew by 46% on comparable basis. Consolidated operating margins expanded from 17.3% to 18.6%. If we exclude the GST impact, improvement in operating margins was around 80 basis points. Consolidated profit after tax reported growth of 24.6% for the quarter. Standalone India business reported growth of 24% on a like-to-like basis. Standalone operating profit grew by 35% in spite of media spends increasing by 48%. SG&A expenses reflected some savings on account of cost synergies. PAT reported growth of 35.9% in standalone in spite of the sharp increase in A&P expenditure. The revenue growth was broad-based with all verticals showing strong double-digit growths.

Healthcare portfolio reported growth of 23%. Health Supplements grew by 27.5%, led by strong double-digit growth in both Chyawanprash and Honey. Market share in both categories reported an uptrend. Dabur Honey continues to ride on its strong brand equity and above the line spends which are adding to the momentum of the brand.

Digestives category recorded 21.6% growth on the back of good growth in Hajmola Tablets. New variants, focus market inputs, and distribution expansion contributed to driving this growth. OTC and Ethical grew by 16.9%. OTC products such as Honitus, Madhuvaani, Lal Tail and Mahabhringaraj Hair Oil posted good growth, backed by marketing initiatives and activations.

The Classical Ethical portfolio grew by 23.4%, led by medico marketing initiatives and on the ground activation.

HPC vertical posted growth of 19.7% led by strong performance in Hair Care and Skin Care. Hair Oil category registered growth of 18.8% on the back of strong growth of 45.3% in coconut oil category. Volume market share in hair oils moved up by 70 basis points vis-à-vis the same quarter last year. Shampoo category posted robust performance, growing by 30.3%. This is the third consecutive quarter where this brand had grown at 30%+.

Oral Care category grew by 17.3%, with growth of 16.8% in Toothpaste. Red franchise continues to perform well, driven by increase in penetration, aggressive marketing and visibility initiatives.

Home Care category grew by 17.4% this quarter due to strong performance of Odonil and Sani Fresh.

Skincare registered growth of 27.1% driven by strong performance of the Gulabari portfolio and Fem Bleaches. Oxylife which is on a premium platform, posted strong double-digit growth. Facial Care and Fem Hair Remover Cream also performed well.

Foods business has made a strong come back with growth of 26.1% driven by good momentum in the beverages portfolio. Along with increased sales growth, profit margins in foods saw an improvement of 380 basis points on account of network optimization and lower input cost. Various strategies are being adopted to counter competition including aggressive media spends, tactical consumer promotions and sampling. We have also launched a new ethnic range of juices under the Real brand with three new variants.

International business reported growth of 11.5% during the quarter with constant currency growth being 10.5%. GCC market posted strong revival with 17% growth, led by Saudi Arabia which grew by 54%. Egypt market continue to perform well with growth of 31% in constant currency. Turkey registered constant currency growth of 37%, although currency devaluation was down to around 11% in INR translated value. Namaste saw a turnaround with good improvement in profitability and double-digit growth in the sub-Saharan African region.

The year has started well with some green shoots in demand, normal monsoons and Trade coming back to relative normalcy after the GST disruptions. We will continue to invest strongly in our brands, distribution and infrastructure to continue to grow ahead of the market and enhance shareholder value.

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

**Abneesh Roy from Edelweiss**

**Abneesh Roy:** Sir, my first question is in beverages, NPD is around 3.8% of the revenue. In terms of the overall India business and in some of the categories where you want to call out, what is the similar NPD number?

**Sunil Duggal:** NPD other than beverages has been pretty muted in the last one year, we have not done too much other than Red and Red Gel and a couple of other initiatives but the situation did not permit whole lot of new product initiatives which we will start doing now. I think we have a strong pipeline of new products which we will take to market in the quarters ahead particularly in the second half of this year. By the year end you will see a considerable amount of acceleration in this pace of growth.

**Abneesh Roy:** Sir, in the Toothpaste, Red has done quite well in spite of toothpaste base being 10% growth. So, if you could tell us in terms of the Red Gel, are you able to get new customers and in terms of the non-Red toothpaste portfolio, how has been the performance? What is the way forward and in terms of the category, are you seeing lesser advertisement in general by the players in the toothpaste and more promotion and if that is the case what will be your strategy?

**Sunil Duggal:** To answer your first question, Red Gel is doing reasonably well, I think we need to accelerate the growth and we have some initiatives in the pipeline to enable us to do that including some formulation changes, etc., The other toothpastes have been a mixed bag, Meswak has done well, strong double-digit growth, Babool has not, Babool has actually declined marginally over the previous quarter, and that is because of the very high competitive intensity at the Rs.10 segment. So, again, we have plans to resonate Babool and relaunch it in a different kind of formulation, etc., in a couple of quarters. Babool, I think, will come back to normalcy but with a lag of about 1 or 2. Red continues to grow ahead of 30%, that is amazing considering the high base. Meswak is a very steady performer. The value-added segment of toothpaste is doing well, the discount segment is not. So, overall the blend is to our favor, but we need to do something about Babool to push the momentum forward.

**Abneesh Roy:** Sir, in terms of the category advertisements and promotions, are you seeing a change in the mix in terms of advertising?

**Sunil Duggal:** The new entrants in the herbal space are advertising very aggressively particularly Colgate. So, that is one dynamic which has changed. I do not think the overall intensity has increased but there is a pronounced shift in advertising away from the traditional toothpaste to what is herbal particularly by the market leader and this might continue. It is not very clear, but overall intensity I think is pretty, pretty normal. Am I right?

**Mohit Malhotra:** The trade spends in the category have actually enormously gone up and the price decreases are coming in and bringing down the category growth also. The value growth is muted but the volume growth is very high, almost double of the value growth. There is trade intensity and comparative competitive intensity at the trade level has gone up and in media, as we see going forward I think media is also intensified by the competitors.

**Sunil Duggal:** But above the line I think is reasonable, nothing extraordinary. Below the line in terms of trade promotions and particularly sharp reduction in prices by the new herbal entrants are really the standout features of the last quarter or two. But I think we are still pretty happy about the performance of our value-added portfolio, despite all these challenges we have been able to hold ahead without resorting to any great level of discounting.

**Abneesh Roy:** One follow-up here, so have you seen any impact from Vedshakti and Ayush? On the Gel portfolio, you expect some impact in the coming quarters because of this?

**Sunil Duggal:** I think the Colgate offering, the cheaper one perhaps is taking some share away from the discount players but very marginal and the other brand does not seem to be really very material at this point in time. But it is a very aggressive price strategy, more than anything else which can be countered but otherwise I do not think Red franchise has in any way been impacted. Perhaps to some extent lack of performance in Babool is a consequence of this very aggressive discounting by the market leader, this is only hypothesis, we still have to study the household panel data which will show where the movements are happening. It is a possible move in the direction, but then that is very sharply discounted segment, offers very little margin upside. So, not something which really excites us, we are looking at perhaps more offerings but at the value-added segment which offers sensible margins, not really this Rs.10 price point strategy

**Abneesh Roy:** My second question is on the beverages, growth has been good, 27%. In the past quarter you had mentioned that ITC and Paper Boat have become very aggressive on the pricing promotions, etc. So, if you could talk about that? Also, I think you had lost some market share. So, any improvement in the market share?

**Sunil Duggal:** What happened in the third quarter was that there was a sudden outburst of very aggressive discounting by a couple of smaller players in this space. It does take us around a few months to react because there is a basic changeover time in terms of the laminate and putting in the promotions, etc. We were not able to do it in the fourth quarter and therefore you saw fairly muted growth in the fourth quarter. The revival has happened very strongly in the first quarter when we have challenged those initiatives of the new players and the underlying franchise is so strong that we are able to get back to high levels of growth which perhaps will be ahead of most of the competitors. That has reflected partially in terms of revival of market share… there is some revival, I think it is only the lag in terms of the Nielsen numbers, so I suspect the numbers in this quarter will reflect fully the true extent of our market share gains or how much we have regained in terms of the earlier couple of percentage points we lost.

**Abneesh Roy:** Sir, one follow-up on this business. You mentioned margins have expanded because of network optimization and RM. Could you talk about that?

**Sunil Duggal:** There has been some freight savings, but I think largely the input cost have been lower. Despite the fact that rupee has weakened and the imported pulp is little bit more expensive. But aggregate we have been little bit lucky that the input costs have been fairly benign in the beverage space and the freight is a big component of input cost.

**Lalit Malik:** We are manufacturing in local Pantnagar Plant where we have some incentives also and the freight is lower. It is also reducing our dependency on Nepal and Sri Lanka.

**Sunil Duggal:** The blend is around 40% domestic manufacturing, 60 Nepal. It was earlier little bit more in Nepal and the network cost out of Nepal obviously was more and Pantnagar also offers us excise benefits, etc., which make it very economical to produce there. So, Pantnagar is the main cause. Also, consequent to GST, there has been some rationalization of freight which the process has only begun but we are seeing some upsides in freight despite the very high prices of diesel.

**Abneesh Roy:** Last question in terms of Honey and Chyawanprash, pre-Patanjali entry and current, what is the category size and where is your market share in terms of this?

**Sunil Duggal:** Almost impossible to give you an answer to that because there is no data available, we can only triangulate household panel data etc. I prefer to let the dust settle a bit before giving you a clear answer. Definitely, the growth which you have seen over the last three quarters now in Honey would indicate sharp increase in market share. Precisely how much? Perhaps we can give you a sharper picture how much we have and how much we lost, how much we have regained with the household panel data which comes up in the next month. I think we are back to the highest ever levels in both revenue and definitely in terms of tonnage because there have been some price reductions. Fortunately, the Honey input costs have been benign, so the price reductions which we have done over the last, 1, 1.5-years have not really hurt us and there has been some impact in terms of the lower GST rate also. So, overall, I think honey is on a strong wicket, it is a very powerful brand with a lot of momentum.

**Percy from IIFL**

**Percy**: This is Percy here. Sir, just looking at your numbers, they are really good and congrats on the results, 21% volume growth. But it also comes with a low base, so the way I am looking across all companies, I am looking at two year CAGR numbers to adjust for the base and that is at around 7.5-8%...two year CAGR which is also very-very healthy in the given environment. I am just wondering how to look at this going forward. For the remaining nine months your average volume growth in the base is around (+9) versus (-4.5) this quarter and if I have to maintain the same two year CAGR that will yield me a sort of volume growth for about 7.5-8% for the remaining nine months on YoY basis. So, is this the right way to look at it or is there some other way that is more appropriate?

**Sunil Duggal:** Personally, I will be very disappointed to show only 7% growth going forward. But keep in mind the last two years CAGR is on the back of massive disruptions whether it was demonetization, GST and in our case in particular disruptive competition largely in HPC from one player and also a little bit in beverages. And on top of it, we saw a period of very slow consumption trends over the last two years. So, these are massive, massive headwinds and despite that we grew 7%, I think we can look forward to better growth in the quarters ahead because many of these headwinds now appear at least to have if not completely disappear, at least weakened, you are seeing some revival of category growth. First quarter numbers are pretty poor actually at this point in time but green shoots seem to be visible in terms of what we are looking at in terms of June exit. One month of course is not something which we can extrapolate, but I think there is every reason to believe that category growth are going to accelerate on the basis of now what it appears to be a normal monsoon and that stimulus which the government will pump in perhaps more than anything else. MSP is just the first manifestation of that, I think it will further accelerate. So, I see demand particularly in rural trending up perhaps sharper than what we would normally expect. So, on that hypothesis 7% growth obviously is not going to be good enough, we should look at something much more because in addition to what is happening in the category growths, our business has a lot of momentum and we have comparatively soft base even going forward. So, let us see how it goes but I think this year we should be able to do double digit volume growths in fiscal ’19.

**Percy**: That is for the remaining three quarters or for the full year put together?

**Sunil Duggal:** I am talking about full year, it is very hard to predict remaining quarters, etc., but if you take the full year double digit volume growth seem to be something which we definitely have to aspire to.

**Percy**: But for the full year you will reach a double-digit volume growth even if you do 7-8% for the next nine months because the first quarter is so high?

**Sunil Duggal:** You are very clever, but having said that, we do not give outlook, but we are looking at good growth in the quarters ahead on the back of this extremely good growth in the first quarter.

**Percy**: Secondly, on international business, we have had this quarter a very soft base but in spite of that growth has not been that great. So, could you just disaggregate that and tell us what are the different drivers of different geographies and how you expect these to pan out in the next three quarters?

**Sunil Duggal:** MENA is going to remain a little volatile but it will be much better than last couple of years, but the volatility is almost embedded in that business as of now. So is sub-Saharan Africa, but there are some green shoots appearing in Namaste, I think Namaste will be able to deliver reasonably strong growth in the top line and very high growth in terms of margins. The North African business particularly Egypt is doing well. We had a bad run in Algeria for the last one year which now maybe behind us, so Algeria will pick up but then they are always negatives, and the big-big negative is Turkey where despite extraordinary growth as far as the local market is concerned, (+30%), we still get only perhaps 10-11% growth in INR terms. The currency devaluation remains unabated. Iran is another pain point, even though the market is small, but we did have high expectations of Iran. But the recent sanctions have perhaps made our plans now look little aggressive. We budgeted the currency at around 60,000 **Rials/ dollar and it** is now 100,000. These are big changes which make the business model very fragile. So, it is a mixed bag, but overall, I think international business this year will deliver much better performance than in the previous two or three years, there is no doubt about it. How much more? Like I said, it is very hard to predict.

**Percy**: Your EBITDA margins in FY18 at around 21% has been the highest in the past several years. So, now in FY19 are you targeting a margin expansion, or you would be happy to maintain these levels?

**Sunil Duggal:** I would be happy to maintain these levels on the back of very good volume growth. Again, the strategy of this company today and always has been to really focus on the volume growth without diluting the mix, so that the strong net margin profile emerges and then some operating leverage to push up margins to whatever extent it can. But sometimes when we move our adpro line well ahead of our top line as we did last quarter, there can be some impact on margins. But it is of a general in nature, this is the top line driven business. We have 50% gross margins and unless we do something silly, just growing the top line will mean that the margin expansion will happen. So, we keep a very sharp focus on revenues and not really have a margin obsession that I deliver X-percent of EBITDA or Y-percent EPS. That is the outcome really of the top line performance.

**Latika Chopra from JP Morgan**

**Latika Chopra:** My first question was over the last one to two years we are seeing you competing very effectively and aggressively in categories like Honey and Juices to protect your market share and then we saw various rural go to market initiatives coming through. In your view, over the next two to three years, could you call out any other major initiatives which are underway which could accelerate the top line growth momentum for you?

**Sunil Duggal:** I think one strategy which we are adopting which I have articulated before is to scale up brands within our portfolio which I have not invested in for a variety of reasons but we believe that many of them are poised to have a breakthrough kind of growth on the back of large investments. Rather than build new categories of brands which come at enormous cost and very high risk of failure, this is really what you will see this year and perhaps the next before we start looking at other categories to enter. Because there is enough headroom for growth adopting the strategy at lower cost and lower risk.

**Latika Chopra:** Secondly on Hair Oil category specifically, you have taken some initiatives on introducing low price packs. Are you going to adopt more aggressive market share gain strategy there and also if you could share for last fiscal what was the contribution of Amla and non-Amla in the overall Hair Oil portfolio?

**Mohit Malhotra:** Latika, Mohit this side. We are committed to invest in our Brands including Dabur Amla . So, in the past what we have done is we have introduced new initiatives in the economy range, Sarson and Brahmi, they continue to do well. But these are not really margin accretive initiatives to Dabur Amla. But Dabur Amla, we will now very aggressively invest behind and both at the trade level and also the media level and gain back the market share that we lost to economy players. While Brahmi and Sarson will continue to drive the growth at the rural line first. So, that will be the strategy for the Hair Oils and overall, we look at gaining our market share both in terms of value and volume in the Perfumed Hair Oil market segment. We have also got a play at the discount level in the coconut oil where we continue to gain market share there.

**Latika Chopra:** Just lastly on the margin question, should we expect pricing to move up in any material manner for you going forward?

**Sunil Duggal:** It is possible, I think inflation pressure is now emerging starting from this quarter and perhaps even accelerating going forward because unless oil prices come down very sharply, the gradient material prices will trend up because of the MSPs and other such measures. We will have to mitigate that inflationary pressure. So, I think price increases which will not be dramatic but perhaps to the extent of 3-4% maybe necessitated during the balance of the year. To like I said mitigate inflation these initiatives will also put a little bit of brakes on margin expansion because price increase will be used as a tool to manage inflation. But I think there would be no compression on margin consequence to inflation.

**Prakash Kapadia from Anived PMS**

**Prakash Kapadia:** If you could give us some factors in terms of pecking order for the 21% growth in terms of channel rationalization, is it government schemes, is it low base or GST reduction – or is it obviously a combination of most of these factors, what could be the most critical factor for driving this 21% growth in the domestic business?

**Sunil Duggal:** Two factors stand out. One is our investments in media, 46% increase in A&P, they have yielded great results. We have also rationalized our go-to-market strategy in terms of the media platforms and that obviously seems to be working. And then over the last 1.5-years which I kept speaking about the massive build-up of rural infrastructure, the separation of the health and personal care verticals down the middle which happened around a year, year and a half ago, all that is now paying dividends. As and when the green shoots emerge, and they do seem to be emerging as we speak, that infrastructure will come into play and drive the business growth. And even the media money is very well spent because in an environment of slightly bullish offtake, that is when media works best. So, that is the reason why we have been able to improve shares and perhaps grow ahead of our competitors particularly in rural India. But I think other initiatives like our supply chain management also has played a part - our fill rates are now improving, especially in modern retail, our eCom initiatives are gaining a lot of traction. Now these may be less in terms of overall impact but they have contributed to the overall growth story.

**Prakash Kapadia:** On the rural side, you mentioned about the momentum and the outlook being strong because of various government push and factors, so any specific geographies you would like to highlight in terms of rural, is it more towards northern part, is it western, is it across, some sense on specific geographies?

**Sunil Duggal:** I am not too sure about geographies, I think as we head into the elections, the government will seek to have a favorable impression on the voters everywhere but perhaps a little bit more concentration in the north which are the big states including Bihar for example and a little bit less in perhaps southern states. I am not too sure, this is more of a political question but if MSP goes up, it benefits everybody, you cannot draw a line and say that it will benefit only so and so. So, I think it will be basically secular. Any stimulus would have a higher element of rural impact than urban …I am not saying the urban impact will not be there, but urban impact is more in terms of the macros, whereas the rural is perhaps more in terms of distributors and other such micros. So, that is where the difference lies. But to show a robust sale, we cannot just rely on rural. This quarter was an aberration that rural grew around the same as urban, typically it grows higher, but that would be a consequence of the mix because beverages which is almost entirely urban grew at a strong pace. So that might have tilted in favor of urban, also modern trade grew very well, eCom is categorized under urban, grew very well, etc., But again, rural has to take the lead. If you take the indicators, rural is growing as far as FMCG is concerned, around 3.5% ahead of urban that is for the FMCG category as a whole. I think that kind of gap will perhaps remain. So, rural is very-very important. Fortunately, we have a great armory of rural-centric product which we have developed over the last couple of years and together with the distribution infrastructure build up, makes us a very strong player in rural India.

**Prakash Kapadia:** Some of the products on the rural side, so it will be broader based kind of growth going forward also across HPC, Foods or the certain categories which we are focusing on given the strong momentum we are seeing on the rural side?

**Sunil Duggal:** HPC definitely and Foods with a bit of lag, we are not really focusing at low price products in Foods to that extent which are more oriented towards rural which offer very little margin upside. So, I think beverages will remain urban phenomena. HPC does draw reasonable amount of revenues from rural, particularly in the traditional brands like Chyawanprash and Hajmola. We have a very strong rural franchise, but many of our newer products let us say Honitus, etc., or even massage oil, the rural franchise can go up manifold, but again we have to invest in building the media profile of these brands.

**Naveen Trivedi from HDFC Securities**

**Naveen Trivedi:** Sir, your volume growth is certainly higher than market and the competition. So, if you can share what percentage of portfolio gain market share this quarter and if you can also share any specific market share change, at least for the key brands?

**Sunil Duggal:** I think Gagan will walk you through some of the numbers. While Gagan will answer this, Nielsen numbers operate with a lag, the lag could be two months, three months but there certainly is. I do see the numbers which will come through perhaps later this quarter to be better than what they were a year ago. But the market share gains are not actually fully reflected in Nielsen. That does come with bit of a lag.

**Gagan Ahluwalia**: So, basically, we are seeing on MAT basis the gains are continuing in the toothpaste category, so our value share is now around 12.7% and volume share is around 15.5% and value share is showing a gain of around 50-60 basis points. Other than that, Hair Oil is stable, but there is a gain of about 60 basis points in the Hair Oil category on volume basis, value basis it is stable. Shampoos showing stable shares, the gain is not yet reflected, there is a lag in the Shampoo category and the fact that we are around 5% in the shampoo category, not yet reflecting the gains which we have been seeing in the strong growth in the last few quarters. So, these are the three major categories we are seeing gain in. Chyawanprash category have gained 200 basis points on MAT basis and Honey as Mr. Duggal earlier said is not available in AC Nielsen but we will be waiting for the **Household Panel Data**.

**Naveen Trivedi:** Just want to understand one thing like, if my understanding is right, then the consumer-led promotions are net of from the top line. So, do you think any impact or benefit from the lower consumer-led promotion also like has benefited on volume growth?

**Lalit Malik**: On volume growth, there would not be much impact there because I think revenue is reduced more on the value side that you see when we publish the results. So, on volume, there will not be, though there are some promotional issues that we have given, but that impact is very negligible.

**Gagan Ahluwalia:** In fact, we have reduced the promotions. That should not have any additional impact on volume growth.

**Naveen Trivedi:** So, we can say 21% is the underlying growth and there is no change from that number?

**Sunil Duggal:** Yes.

**Naveen Trivedi:** In your earlier comments, you were talking that the A&P spend and the marketing spend would certainly increase going ahead. Any budget like if you can share for FY19? Also if you can share the CAPEX plan for the next two years?

**Sunil Duggal:** I will answer the second question first; CAPEX this year is likely to be Rs.250 crores which is considered to be lower than what we have done in the last couple of years. Next year CAPEX is we have not really put in the numbers for fiscal '20 at the moment, but it could be a little bit higher on account of a new plant in Egypt, but we have not really quantified the impact of that. We are confident of investing much more in media and we will try to trim consumer and trade promotions to the extent possible, but the media spends will be aggressively growing. Now we grew media by 48% first quarter which obviously is not a sustainable growth, it will taper down and I think it should be still perhaps maybe even be high 20s in terms of YoY growth of media. Outlook is a little bit more blurred on consumer and trade promotions which of course the visibility we do not have, but they are part of our A&P spends and we try to taper them off as much as we can but that is more in terms of mitigating competitive activity rather than strategic tool. So, they are more tactical, and it is very hard to predict how much we need.

**Supriti Advant from Baring India**

**Supriti Advant**: Sir, has the wholesale channel normalized and how much would it be contributing to revenues now?

**Sunil Duggal:** I will answer your question in two parts: The rural wholesale is actually doing very well; we grew about 24%, so that is above the asking rate. Urban wholesale grew at 7.7% to be precise. So, the disruption of urban wholesale continues which started off by demonetization, accelerated with GST and perhaps the final nail on the coffin is now the e-way bill because the urban wholesale used to ship across state lines, etc., which now becomes harder to do. So, urban wholesale, the future does not look too bright but one of the key reasons for building rural infrastructure was that we envisioned this situation to happen and we took proactive action to mitigate it. I am not particularly bothered if urban wholesale continues to further decline, in fact, it may even be to advantage so long as we build adequate amount of rural infrastructure.

**Supriti Advant**: What would be the next step for Namaste in USA?

**Sunil Duggal:** I think we have put a new team in place and the team seems to be now very energized and very focused in terms rebuilding the chemical franchise and the adjuvant chemicals which are more in terms of texturizing, etc., and not hardcore straightening. These are subtle changes in our business model and the third leg of this growth will be to resurrect the whole naturals portfolio. It is small, but it does show signs of having significant upside. So, a combination of these three for North America would take top line definitely ahead of what we have seen in the past couple of years but the impact on the bottom line would be even more because I think we have now pruned organization to deal with the reality of the situation today. First quarter profit growth was enormous… it was actually a loss last year and considerable amount of profit this year and that will continue. So, I think the challenge in North America would be how strongly can we rebuild the top line. "Can we grow at 5-10% this year?" I think it is imminently possible but not to be taken as a given. The upside has to really come from sub-Saharan Africa which is actually showing a pretty good scale upside and growth, we grew by around 20, 25% this quarter and I think we can accelerate this growth because that market offers enormous opportunities. So, I think Namaste issue seems to be behind us and it will be a significant contributor to international growth.

**Tejas Shah from Spark Capital**

**Tejas Shah**: Just picking up from your commentary today, there seems to be a strong premiumization trend in toothpaste category. So, just wanted to know if you are witnessing…?

**Sunil Duggal:** I would question that. Why have the urban players slashed the prices if there is such a big wave of premiumization, and with the hugely value-added products like the Sensitive range and all not done well? So, this mantra of premiumization I would question. I think premiumization is happening but on a far more modest scale than what people think.

**Tejas Shah**: But you mentioned that value segment has done better than discount segment, so that is why I just wanted to know…?

**Sunil Duggal:** That is true, but I would not call it premiumization, what you are saying is right. I am not disputing that the discount segment is now offering much less value because even the premium brands are available at the discounted prices. So, you have Rs.10 Colgate, Rs.10 Red Toothpaste, Rs.10 Close Up, etc., Now they may be lower in terms of grammage but in terms of value perception they are great. So, that is one of the problems reflecting the discount segment. But I would not call it premiumization, if premiumization happens then people move up the whole value chain into the very higher price products which offer very specific niche benefits and that does not seem to be happening.

**Tejas Shah**: Sir, what would you call out this trend – is the competitive intensity…?

**Sunil Duggal:** The massification of the mid-range products. I think that is really the big driver of growth. Everybody now seems to realize that there is pot of gold at the bottom of the pyramid, the margin realizations may not be enormous, but they are adequate to manage the portfolio. And the LUPs are driving a lot of that growth. What we believe is as and when affluence comes in and the disposable incomes rise, and we have seen that category-after-category, people move up from the cheaper Rs.10 SKUs into the bigger SKUs. That is again I would not call it premiumization because they will stick to the same brand, but it will mean better value, better realization in terms of margins for the key players here. So, that is what perhaps the medium-term trend will be. The major trend is really massification of the mid-priced products.

**Tejas Shah**: Sir, last one year because of GST and before that, because of DeMon, a lot of churn in wholesale channel has happened. So, what proportion of original channel strength would be back in the business and what will be loss for good would not be coming back in the stream, so just wanted to get a sense?

**Sunil Duggal:** I mentioned that in the earlier question that urban wholesale is I would not say it is going to be eliminated, it is still around 22% of our business which is a lot. But the slice would continue to come down if one were to just extrapolate current trends. Rural wholesale will grow, modern trade will grow, eCom will grow actually at the highest pace and pace which might surprise us. So, these are the big variables here. Ultimately eCom might even take a slice sort of modern trade.

**Tejas Shah**: That is slightly counterintuitive because we always thought that urban wholesale is actually ready for GST and hence the adaptability will be faster relative to rural wholesale. So, in fact, you started calling out this trend two years back that urban wholesale is losing market share to modern trade because the value migration happening there. So, this trend might not have anything to do with GST or am I missing something?

**Sunil Duggal:** Basically, what was urban wholesale? It was a feeder into rural like our super stockists network which we call the rural wholesale network. So, both of these are feeding into rural and now one is feeding much less because of the compliance issues whereas the compliance issues in rural wholesale are much less because the scrutiny is much less. If you go to any wholesale mandi in any of the bigger cities, you will find immense level of scrutiny in terms of the transaction and a much less ability to let us say not comply with the rules which makes the channel much less profitable than it was. So, this is something what is pretty evident if you understand the way urban wholesale works. The compliance issues have got impacted far more in urban than rural where the scrutiny like I said is almost not there.

**Amit Sachdev from HSBC**

**Amit Sachdev:** So, my question, Sunil, is that when we look at this such a strong number and if I have to dissect it how Dabur has changed over last 1.5-years post Patanjali thing has started, I think the biggest change has been your approach to sort of responding to price and tailoring your value proposition across products has sort of changed and Honey has started doing well or even Chyawanprash has started doing well. Would you attribute this to the kind of pricing action and the promotion action you have taken and that is a large part of the puzzle or distribution expansion has played larger role in this sort of sustained performance. Or even the standout performance now or is it something that has started working, the brands were strong and now with new value you are seeing more price elasticity there. How do we dissect this and how do we read into your competitive response especially in the context of and Amla has not responded, you lost market share but now it seems like you want to be aggressive there as well. So has that approach now being more price warrior yourself and trying to sort of maximize volume growth and not really lose anything to the competition purely on pricing -, how do you dissect this 21% volume growth in base distribution, your pricing action natural trends which are now getting a tailwind, how should we read into structural versus cyclical response from your side?

**Sunil Duggal:** There has been some attitude change in part of management in terms of how we respond to disruptive aggressive competition compared to the past. In the past perhaps, we were a little bit more concerned about defending profit, now we are completely committed to defending share and I think that is where the big difference lies. Also, our response time to disruptive competition has been now accelerated to the maximum possible extent. There is still some lag because packaging changes take time to get on the ground like honey and recently with beverages, but that is a quarter or two, so it has not damaged the brand beyond a very limited extent. Second thing what we do is we do not dump down our product to lower the prices, and even if it is a huge amount of pain like there was in honey where we kept the whole product entirely the same but offered better value in terms of lower price. That is something which really worked in our favor. I think the pressure on us for example in honey to move from glass to PET which would have saved us around 10% in margins was enormous at that point in time. It was a good thing we decided not to change that because ultimately the glass pack is really the gold standard in terms of packaging, people are willing to pay a premium for it and with respect to brands which do not weaken the whole value proposition, That is another learning. So, in Amla again we could have tinkered around with the whole composition, but we have resisted every change to put more LLP, etc., but in Amla we have done flanking strategy… we have flanked it with aggressive price warriors so as to protect the flagship. Different strategies for different situations but definitely our response time and aggression in the situations is much more than before.

**Amit Sachdev:** Just one small thing again on the tailwind that has got created at least what seems to be working for Oral Care and other categories which Natural consumer preference has changed but it seems like so far you have just gathered those tailwinds from the existing portfolio but not much aggression was shown instead of exploring some large new categories or at least where the market sizes have become some significant in some product categories. What would be your three big ideas for the next six to 12-months purely exploiting these natural trends?

**Sunil Duggal:** Last couple of years have been pretty tough, so the whole attitude of the company was to defend and rightly so, because we were under attack on multiple fronts. Now with those headwinds significantly behind us, we are getting back into aggression mode in terms of new products and like I said earlier in the shorter run rapid scale up of some of the existing products on the back of heavy investments in advertising in particular and promotions. You will see more aggression and that is reflected in this massive increase in the media expenditure. The situation now is more facilitative of getting into aggression mode rather than just being on defense.

**Amit Sachdev:** But sir, if not specific products but what would be those categories that excite you in that space and how we should think about Dabur sort of exploiting which categories, how large they are, what sort of opportunities do you see in those categories, not asking for a very specific product launches but some color of how you are seeing where Dabur is strong at, where you will monetize this opportunity better than competition or maybe others?

**Sunil Duggal:** Obviously, we have got a massive equity embedded in our brands in terms of herbal and natural products. So, that will always be the point of scale up and high investments. But after that which categories we go to, to answer the question now, but we do have strong plans in consumer healthcare space in general and also other categories including beverages to some very aggressive investments in select product categories.

**Richard from from JM Financial**

**Richard**: This is Richard here. Would it be possible for you to share how does this 21% volume growth split up between Juice and balance part of the portfolio? I am just trying to get a sense of how important is Juices in the volume scheme of things?

**Sunil Duggal:** It is important, but it is not dominant, the Juice volumes are up 26% which makes the non-juice part maybe in the 18%. But that ebbs and flows, it is not that this is structural, juice can be lower going forward and other ones can be higher. So, I would not put a big emphasis on juices driving volume, it is there. But also keep in mind the first quarter is a comparatively large quarter for juices, second quarter you will find juice saliency shrinking considerably, first quarter it was something like 22% of domestic business, it will probably be 15% in the second and then be a little bit higher than that in the third and also higher in the fourth. So, these are salient issues which happens because there is a seasonality element in Juices and that does impact the volume growth up and down.

**Richard**: You used to talk about juice having become a very-very large category and this is the segment that can no longer grow at the 20s like how it used to consistently quarter-after-quarter two or more years back. Has anything changed on that in terms of the pacing of growth that you expect from this?

**Sunil Duggal:** I think juices are looking better today than it has been in the last few years. On the big changes is this whole scrutiny of sugar and any beverage with the high level of sugar content which is largely in the fruit drinks space is going to come under massive amount of pressure on the part of the regulators to either declare a sugar content and give it some kind of traffic signal visibility. The higher order beverages particularly 100% range are much less vulnerable to that. We also have some vulnerability in parts of our portfolio but there is a massive food drinks market which is thousands of crores in size which perhaps offer the opportunity to take consumers from. Therefore, the juice outlook is very good especially the higher end juices. I would put a lot of bet on my Activ range which has no added sugar because people will move up the ladder and do low sugar, high pulp content juices and again we are the leaders in that segment whereas we are really not present in the cheaper drink segment which has high sugar.

**Richard**: Can you help me get some perspective on how Namaste's margins would have moved in the last few years, I wanted to get a sense of what the deceleration has been and what has been acceleration and what do you expect going forward?

**Sunil Duggal:** The acceleration has happened very well. There was some momentum in the third and fourth quarters but last year in the first quarter we actually lost money in Namaste.

**Gagan Ahluwalia:** Operating margin has moved up to around 12% this quarter, so it has been a very good quarter.

**Sunil Duggal:** 13% is the EBITDA margin which is not bad at all since we lost money and we had probably negative EBITDA in the previous quarter.

**Richard**: How was this figure looking for the whole of FY17 and 18?

**Gagan Ahluwalia:** I think it was in low single digit.

**Sunil Duggal:** Now it is 12 in the beginning of the year, no reason why it cannot accelerate further but even where we are today the sharp turnaround from what we were in the last couple of years.

**Richard**: You are talking about the US and sub-Saharan Africa together…?

**Sunil Duggal:** It is Namaste legal entity which includes sub-Saharan component. They are higher in sub-Saharan but that is virtuous because sub-Saharan growth is higher than North America. So, the EBITDA profile in terms of mix will change, etc., but overall the localization agenda which we have for Namaste in terms of manufacturing in three African centers - Cairo, Lagos and Jo-burg is very instrumental in now moving up the profitability. 80% of SSA sales come from local manufacturing and this will probably become 90 or 95 and this is fairly single prime driver but in addition to that I think the North American team is making very impressive moves in terms of cost management. So, I do not have the North American EBITDA but while it will be lower than overall legal entity, it will still be sharply ahead of what was last year.

**Richard**: What is the split between North America and Sub-Saharan Africa now in terms of revenue?

**Gagan Ahluwalia:** 64% is North America is 36% from the non-US.

**Richard**: How much was this two years back?

**Gagan Ahluwalia:** It was around 70 /30.

**Sunil Duggal:** So, it has not moved very sharply but the trend line indicates movement towards sub-Saharan. Having said that we would be equally happy to see the North American franchise grow, it is not that we are concertedly moving towards sub-Saharan. The Africa franchise is where the incubation of the brands happen and where the brand equities are established. So, that is also very important to us.

**Sanjay Bembalkar from Canara Robecco**

**Sanjay Bembalkar**: Sir, do you wish to call out for any change in inventory level at wholesale levels or any possible pre-buying due to e-way bill which you may have noticed? Secondly, are you noticing any significant change in the retail level volume growth?

**Mohit Malhotra:** What happened in demonetization and GST, the STRs had drastically dropped at the retail level and inventory at the stockiest level. Post GST what has happened is it has gone back to a new normal and this new normal is significantly lower than what used to exist both at the retail level as also at the stockist level. So, at the stockist level we have continued to correct our pipelines which came as a blessing in disguise which happened to us. Today, we should be sitting at around 16-17 days of inventory at the stockist level and STRs at the retail level have gone back to new normal as we speak which is lower than what it used to be earlier during the pre-GST era.

**Sanjay Bembalkar**: Any sense on the volume growth at consumer level or retail level if you have any sense?

**Mohit Malhotra:** The volume level at the consumer level is very robust, as you know, the volume has grown by around 21% which is secular across all our categories, so that remains robust. Going forward in terms of outlook like Mr. Duggal mentioned, we can't put a figure to it but we are looking at a low double digit sort of volume growth going forward in the future.

**Nillai Shah from Morgan Stanley**

**Nillai Shah**: First question is just again going back to the domestic business. You did highlight last quarter that you are looking at market share gain and that was irrespective of what happened to category growth, you delivered that in the first quarter itself. So, if I can just go back and just trying and picking up your brains as to what were you seeing at that point in time to have given you this confidence of being able to pivot the business model to achieve this?

**Sunil Duggal:** We are pretty optimistic in terms of the initiatives which we have taken in terms of the distribution infrastructure in particular along with the commitment of the team to put money behind media. So, that outcome definitely would have been favorable. I think it was little better than what we expected because there were perhaps some category tailwinds which are not reflected in the Nielsen numbers but do seem to be evident. The team today is very energized, very charged, I think the morale is very good after we have come out of pretty long two year type of trough and we have come out stronger as a consequence. So, all credit to the team both sales and marketing ably supported by supply chain and others to deliver this performance and I think this performance is sustainable.

**Nillai Shah**: Has there been any change from the top management communication down to the lines to the brand managers, etc., that you can kind of share with us?

**Sunil Duggal:** All we did was that we said that, do not worry, this is temporary, this is not something which is going to remain. We will emerge out of this stronger, especially disruptive competition perhaps will be a long-term opportunity for us and a great opportunity because it will enable a larger slice of the pie for herbal and natural products of which we are the natural owners and therefore all these disruptions ultimately will work for us. So, when we really were not able to support major infrastructure build up in rural, we did that a year ago on the faith that this would ultimately have a very positive outcome. So, I think we kept the momentum going, did not get disheartened and I think today we have emerged very strong from that challenge.

**Nillai Shah**: Moving forward, you spoke about due to the fact that there are some brands, some categories within your portfolio which are very small at this point in time, but have the potential of becoming very large products within your portfolio, you have spoken about that in the past, you had a few instances where you have moved ahead on this agenda - Baby Care, Juices with milk content, etc., but you pulled back in the past for obvious reasons. What is your view on some of those opportunities as you move forward, when you speak about new categories, are they more of the same Yoodely etc., or is it more of a complete new revamp that you are thinking about?

**Sunil Duggal:** It is neither, it is really looking inward at our current portfolio and seeing how much scalability that it has. Suppose if we have a cough, cold, fever brand which is around Rs.50 crores, operating in a 2,000 crores category, has got some unique benefits attached to it, can we invest strongly behind it, scale it up to Rs.200 crores? I think those are the answers which we are seeking and that is really the opportunity which we are going to build at least in the next year or so. After that we look at adjacencies like these value-added products which we spoke about, I think as and when this whole sugar issue comes up, the value in terms of milk additives, etc., would emerge. But immediately I think there is so much value which is lying unlocked within our current portfolio, it would be pretty silly not to take that as on priority.

**Nillai Shah**: Last question is on your inventory management. Are you moving to a replenishment cycle like most of the other consumer companies have or will that still take time to be completely automated?

**Sunil Duggal:** We are still ambivalent about a pure replenishment model. The current supply chain initiatives that is a huge one which we are putting into play which will end in the first quarter of next year is really on improving the service levels to the highest possible standards. If it happens with the replenishment model or without, that is not something we are overly concerned about. I think there are some dangers in a replenishment model which demands extremely low level of inventories at the distributor level. What happens when you have a transporter strike like we had one week of complete disruption in terms of transporter? You have a one-day pipeline with the distributor, you have no recourse… you lose sales. If you have 17 or 15-days pipeline which is I think the right one for us at this point in time, you really do not lose much in terms of sales, there will be still some SKUs which should be out of stock, but majority will not be. So, I think in a country like India with so many disruptions -- floods, strikes, etc., trying to behave like you are in Germany, sometimes does not work. So, we have to adopt local solutions, at the same time not compromise on efficiency but not necessarily follow things like replenishment model because replenishment model the way I understand it necessitates very-very low inventory levels at all parts of the supply chain.

**Amit Sinha from Macquarie**

**Amit Sinha**: My first question is on your India business gross margin that has improved significantly. One reason which you mentioned was Food business has done well because of the benign input cost. But what would be the other reason because you keep on highlighting pressure on the input side on the rest of the business, so is it a better product mix which is helping you to get this margin expansion on the gross margin side?

**Sunil Duggal:** The expansion has been modest, it has been around 1%, so it has not been game-changing, it has really been done because we bought ahead of the whole consumption cycle. We were basically consuming low price raw materials which we have brought in the fourth quarter and now this will probably peter out. It was fortunate because under the anti-profiteering provision, it was practically impossible to increase the prices even if there was an opportunity to do so. But now with inflationary pressures coming up, we would use at least moderate dose of price increases to mitigate the inflationary pressures and keep the margin profile perhaps where it is today. It may not be possible but at least we will definitely give it a shot. In any case I still think there is enough operating leverage in the P&L to facilitate good operating margin expansion. Of course, there would be some pressures in terms of non-operating income because we paid out huge amount in terms of dividend, so there will be some shrinkage there, but if we can take the operating margin profile, I think we should be able to do. So, that is really how the things will work out and then of course we will replenish our cash reserves over the next year or so, couple of years where there were before we made this higher dividend and then the non-operating income should catch up.

**Amit Sinha**: But you have talked about maintaining the gross margin levels compared to the last year levels, but there is a possibility of this expansion sustaining if you take adequate price hikes, right?

**Sunil Duggal:** But in inflationary environment it is very unlikely that gross margin will expand…I am not saying it is not possible, but it is unlikely. We are not looking at gross margin expansion at least on YoY basis over the next three quarters because inflation is almost a certainty which is going to happen, I think we are looking at around 3.5%, could accelerate as and when the gradient price hikes happen on the back of stimulus and MSP, etc., and then of course oil is a big issue, so unpredictable.

**Amit Sinha**: Secondly, I wanted your commentary on the Shampoo business, which has been doing significantly well in the last three quarters. So, what is working for us… of course you have made some initial commentary, but can you please give some more color there?

**Sunil Duggal:** The Shampoo growth in the recent past has been driven by rural infrastructure build up. Going forward, we are trying to now premiumize the whole shampoo portfolio by relaunching it in a significant manner to cater to the urban audience because ultimately we cannot keep depending upon the rural parts of growth. I think we are pretty confident of our ability to resurrect this brand on the back of its herbal and ayurvedic franchise for the urban audience where it has been underperforming over the years. So, that is the big challenge and we are pretty sure that we will be able to be on top of the thing and the brand should show some substantial resurrection. I would say in urban India maybe in the second half of the year and the rural franchise should keep growing because I think it offers such great value and it is a higher distributed brand, it has got more distribution, more numeric distribution than brands which are 5x the size in our portfolio.

**Amit Sinha**: Is it possible to share what percentage of Hair Care would be Shampoo now very broadly?

**Gagan Ahluwalia:** 15% of total Hair Care.

**Sunil Duggal:** It has got a massive amount of upsides in terms of scalability because it is just a 5% market share but it is a unique property, now only the pure herbal brand left, there were a couple of other brands which have sort of fallen by the way side.So we are pretty dominant in this space. If we play our cards well, we can build this brand into a very large franchise.

**Gaurav Jogani from ICICI Securities**

**Gaurav Jogani**: Sir, you have outlined that the rural growth outlook is looking a bit better. However, sir, considering the monsoon in the Uttar Pradesh area, the Bihar and mostly the central parts of India, it has not been that great. So, any risk due to deficient monsoon in those areas?

**Sunil Duggal:** U.P., the monsoon has been little weak but fortunately large parts of U.P. are irrigated and the water tables, the reservoir levels are still pretty good. So, it does not seem to be a big issue as of now…in fact, the monsoon has turned out to be better than what we expected let us say a month ago, July rainfall have been generally good and even if it has not been all that well distributed, the irrigation is taking up the slack. So, we are seeing good amount of growth in terms of the acreage planted and with the MSP increase, there should be a jackpot for the farmers because of high output and high selling price, it is actually a great scenario…of course there is a fuel inflation but that is something which we will have to deal with separately.

**Harit Kapoor from IDFC Securities**

**Harit Kapoor**: You spoke about the future outlook on price increases. Just wanted to know in this quarter the increase in realizations or value minus volume would that be more led by mix or lower promotions because I do not think there are any major price increases, right?

**Sunil Duggal:** Not in the immediate term. So, the volume, value, the gap will start growing, let us say Q1 was 1%, I do not expect it to shrink further, I think this gap will grow now because the price increases will kick in and typically the value should be at least 2-3% higher than volume at least, sometimes it is much more than that. This will happen gradually because I do not see any major precipitous price increases happening, there is no reason to justify those kinds of increases. So, by the year end we may still have 3-4% gap between volume and value but again it is not very sure about that.

**Sangeeta Purushottam from Cogito Advisors**

**Sangeeta Purushottam**: My question actually related to the point you mentioned about your CAPEX estimates for this year. Could you give some kind of details on where this CAPEX is going to be spend? I also wanted to understand your overall approach to CAPEX and basically capital allocation because this is in general a fairly low CAPEX-intensive industry and if we compare Dabur to the other FMCG players, your ROEs are a little lower than that of many other players because the capital intensity is higher. Are you actually looking to change that in any way or look at more asset light model in your expansion program?

**Lalit Malik:** As far as our CAPEX this year is concerned, it is primarily with regard to expansion that we are doing in Tezpur. We are also doing it in Pantnagar premises, therefore there would be those capital expansion that we are going to spend this year as far as India is concerned and international also we are going to have in Nepal and a part in Egypt and other countries. So, therefore if we look at it overall, the CAPEX is going to be in the range of Rs.250-300 crores this year and if we look at the past it was higher because we had made Greenfield capital expansion in Tezpur, Pantnagar and other areas. So, whenever there is a requirement for capacity expansion, we are always going ahead with the capital expenditure on that. I would say that there is also a distinction between the categories where we need heavy capital expansion, for food category the capital requirement is comparatively higher than other categories that we have in HPC. So, it depends with regard to the category in which we are proposing for expansion.

**Sangeeta Purushottam**: So, in Foods for example, is it possible for you to outsource part of the production which is what many of the other FMCG categories companies do or are there any benefits to having it in-house?

**Sunil Duggal:** There are benefits in both. We prefer in-house because it offers better margin profile and the IRRs are very compelling than outsourcing it. Outsourcing is more in say the summer season period to meet the deficiency in production rather than being a strategic element. But going forward there could be categories in which the outsourcing model would work better than putting in our own capital. At this point in time putting own capital which we did let us say to a considerable extent in Pantnagar for beverages was the optimal thing to do. But sometimes we may have issues otherwise and there are positives to outsourcing also.

**Sangeeta Purushottam**: So, do you actually have any kind of a ROE target that you look at or an IRR target because I was just trying to understand why your ROEs are so much lower than those of other players?

**Sunil Duggal:** Our ROEs if you net the cash off are extremely high.

**Lalit Malik:** Our IRR is in excess of 19% which we normally take into account for the CAPEX. So, therefore that is the benchmark that we take before we take any decision.

**Gagan Ahluwalia:** Return on Capital net of cash is close to 50%.

**Sunil Duggal:** Maybe 80 but you do not have to really follow what best practices are here. We have to see our own operating model, for example, our plant in Tezpur which is a Rs.500 crores plant. You may ask why put it up in that place, but the IRR of that plant is incredible.

**Sangeeta Purushottam**: That is what I was trying to get at, but obviously you would have evaluated both and if you have chosen a particular path, just wanted to get an understanding of what advantages you see in that? I missed the ROE number you gave excluding cash. Could you repeat that please?

**Gagan Ahluwalia:** It is around 48%. You need to take out the cash reserves from the balance sheet and then look at the ROC or ROE.

**Sangeeta Purushottam**: How much is the cash balance as of June end?

**Sunil Duggal:** Gross cash is Rs.4,500 crores.

**Gagan Ahluwalia:** Net cash is around Rs.3,000 crores.

**Sunil Duggal:** We will be paying out dividend of Rs.1300 crores. So, we will certainly see a big improvement in ROE.

**Sangeeta Purushottam**: If you can just explain a little bit to me that what advantages that you get of actually having the manufacturing in-house, is there better control because it is the food sector, just wanted to get an insight into that?

**Lalit Malik:** Apart from the cost synergies, there are also one element of fiscal incentives. So, wherever we had the window open, we have taken the advantage of that by capitalizing in those areas to get the fiscal advantage. So, that is also one of the important criteria of taking it. Second is also with regard to the synergies and the confidentiality that we maintain when we manufacture in-house. So, therefore, that becomes important for us to do. The third piece is also with regard to third-party margins. If we do it in-house our margins are comparatively better than what we get when we outsource. So, these are the factors which are relevant in deciding whether it is in-house or third-party and third-party do kick in whenever there is a short-term capacity shortage and we want to take advantage of the demand, we certainly take third-parties also.

**Sangeeta Purushottam**: So, this Rs.250-300 crores that you are planning to spend, how much would be in the Foods business and how much would be in the non-Foods business?

**Sunil Duggal:** Foods will be comparatively modest, I think Rs.50 crores, Foods is very cyclical, you put in a new tetra line which cost Rs.50, 60 crores and then two years later you have to put another line, last year we put in a fair amount of CAPEX in juice, this year not, but maybe next year again we will have to.

**Gagan Ahluwalia:** Thank you everyone for your participation in the conference call. Webcast of this call and transcript will be available on our website and we will be happy to address any further questions that you may have. Have a nice day ahead.