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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.

Re: Transcript of Investors Conference Call for Dabur India Limited Q3 FY 2018-19 Financial Results

Dear Sir,

Please find attached the Transcript of Investors Conference Call organized on February 01, 2019 post declaration of Financial Results for quarter ended 31st December, 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 Limited's Q3 FY'19 Results Investor Conference Call"

February 1, 2019

MANAGEMENT:

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

Gagan Ahluwalia: Thank you. Good afternoon, ladies and gentlemen. On behalf of the Management of Dabur India Limited, I welcome you to this conference call pertaining to the results of the quarter and nine months ended 31st December 2018.

I have here with me Mr. Sunil Duggal - CEO, Mr. Mohit Malhotra - CEO(India Business), Mr. Lalit Malik - Chief Financial Officer, Mr. Ashok Jain - EVP (Finance) & Company Secretary and Mr. Ankush Jain - Head(, Financial Planning & Analysis)

We will start with an address by Mr. Sunil Duggal followed by Q&A Session. I now hand over to Mr. Sunil Duggal.

Sunil Duggal: Thank you, Gagan, and food afternoon, ladies and gentlemen. Welcome to Dabur India Limited Conference Call pertaining to Results for the Quarter and Nine Months ending 31st December, 2018.

Domestic FMCG business recorded growth of 15.2% on the back of volume growth of 12.4%. In the base quarter, we grew volumes and revenues by 13% and 17.7% respectively. It was driven by double-digit growth across all the three verticals led by investment in brand building and distribution expansion. Consolidated revenues from operations grew at 11.8% in Q3.

HPC vertical posted robust growth of 16.3% led by a strong performance in Hair and Skin Care. Hair Oils registered a strong growth of 23.6%, volume market share in Hair Oils moved up by 50 basis points vis-à-vis the same quarter last year. Shampoos posted a robust performance growing by 25.2%; this was despite high growth of 56.1% in the base quarter. Skin Care registered growth of 19.3%, driven by double-digit growth in Gulabari and good performance of the Bleach portfolio.

Oral Care category grew by 10% with 11% growth in Toothpaste. Red franchise continued to perform well driven by increase in penetration, aggressive marketing and visibility initiatives. Babool had a muted performance due to high competitive intensity at economy price points. Despite that our market share in Toothpaste category continue to see an uptick. Home Care grew by 8.9% this quarter backed by strong performance of Sanifresh. Odonil and Odomos recorded subdued performance because of low institutional orders as compared to the base.

Healthcare vertical performed very well with the growth of 15.9%, Health Supplements grew by 13.8, led by double-digit growth in both Chyawanprash and Honey. Digestives recorded growth of 22.5%, driven by continued strong performance of the Hajmola tablets and Pudin Hara. New variants, focused marketing initiatives and distribution expansion contributed to driving this growth. Strong winter season also helped in generating good demand for the winter-centric products.

OTC category grew by 17.7% because of good growth in Lal Tail, Honitus and Shilajit. Ethicals business picked up pace and delivered growth of 17.4%. Foods recorded growth of 11.1% which was slightly lower than other verticals, primarily due to exceptionally cold weather. Profitability in Foods continue to see improvement because of network optimization and lower input cost. Media spends, tactical consumer promotions, modern trade focus, e-commerce and new products continue to drive the business. Driven by these initiatives, our market share in the J&N category increased to 56%, an increase of over 300 basis points over the same quarter last year.

International business reported growth of 3.4% during the quarter. Egypt market declined by 10% on constant currency basis because of hyper-inflation and liquidity issues. SAARC grew by 11% on the back of strong growth in Pakistan and Bangladesh. Hobi had a strong quarter growing by 31% in constant currency terms. However the currency devaluation impacted its translation into INR. GCC markets reported a subdued performance due to consumption pressure and sharp decline in categories. Namaste business registered double-digit growth in SSA and North America, but was brought down by EU and the Middle East.

Operating margins in international business declined by around 250 basis points because of increased trade **schemes,** adverse material inflation and adverse currency movements.

Standalone operating profit increased by 18% and operating margin increased by 60 basis points to reach 22%. While media spends this quarter were lower, the overall marketing spends including promotion expenditure increased by 20% in consolidated and 9% in standalone. Consolidated operating profits posted growth of 10.4% while with operating margins steady at 20.3%. PAT increased by 17.6% standalone and 10.2% in consolidated.

Today also happens to be the day when the interim budget has been announced. The impact of today's budget will be positive on consumption trends in India. The package announced for supplementing farmers income, increase in MGNREGA to Rs.60,000 crores, tax cuts for the middle class taxpayers and other such measures will surely increase the disposable in the hands of the consumer, and lead to increase consumption of staples in the next few years.

Looking at the longer-term trends: 172 million lower- and middle-class outlook in India which earn an income of less than Rs.10,000 per month are likely to see steady growth in their income over the next many years. This in my view is a strong lever for driving sustained FMCG growth going forward.

As you would know, the succession planning which we had embarked upon a couple of years ago has now concluded with Mohit succeeding me as the next CEO of Dabur w.e.f. 1st April. The entire succession process has been in progress for over three years and has been meticulously planned. It has involved extensive internal preparation and external intervention to ensure a seamless transition. Mohit is an outstanding professional and has done a commendable job in all his assignments in the 25-years that he has spent in Dabur. I am happy that he is going to take over this job which I have been doing for the last many years and I assure you that he is extremely capable of handing it. We wish him all the best in his new assignment.

Lastly, on a personal note, I wish to thank the investor community for their unwavering support for the last 17-years which has enabled our market cap to increase from Rs.1600 crores in 2002 to over Rs.80,000 crores today, 50-fold increase. I have always enjoyed our interactions with over 61 consecutive quarterly conference calls and innumerable meetings in India and all over the world. This has been both energizing and enriching and I have gained immeasurably from these interactions. I look forward to remaining in touch. With this I now open the Q&A and invite your questions. Thank you.

Percy Panthaki from India Infoline

Percy Panthaki: Hi, sir. This is Percy here. In domestic, quite heartening to see price growth coming back, I think this quarter your price growth is 2.8%, I am just taking the difference between volume and value and that is much higher than what we have seen in the previous couple of quarters. So despite this higher price growth, we are seeing compression in gross margin in the standalone business - about 130 bps and in consol, 230 bps. So, just wanted to understand why both for standalone and international if you could reply separately? What are the drivers, I mean, in spite of consumer promotions, your price increase has accelerated, so then it has to be inflationary pressures only, is my understanding correct?

Sunil Duggal: To some extent, yes, because we did buy into slightly higher price raw material in the first and second quarters. Inflation cooled off dramatically in the third, but then we were still consuming the earlier materials. I do see the gross margins now coming back to the earlier levels as quickly as the fourth quarter. So there is nothing structural in the domestic business. There is now huge level of promotion even though our consumer promotions have gone up considerably, but it is not that large. In international it is a little bit more structural because of higher consumer and trade promotions. We have taken up that whole number significantly because of the headwinds which consumption had in those parts and there you see lower gross margins emerging both on this account as well as an account of the currency devaluation. Now we will have to rebuild those and hopefully with currency stabilizing we should be able to do that and also if the consumption piece revitalizes, then again the margin should come back. I am very optimistic about the domestic margin profile; I think it should emerge quite strong over the next few quarters. International we will have to still wait and watch due to the externalities.

Percy Panthaki: Just wanted to understand what is happening on the volume growth front. This quarter you hit the ball completely out of the park; Q2 was around 8% volume growth, this time we have accelerated to beyond 12% which is our best in several quarters. So just wanted to understand the drivers behind the same – do you think there is any change in the macro which is driving this or is it mainly some company-specific measure and if it is the latter, do you think this kind of volume growth is sustainable going ahead?

Sunil Duggal: I do not think you should look at volume growth in a quarter in isolation. There is a big impact of base and like even last quarter when we did little more than 8 and people said that this is well below our expectations. I thought you should have moderate expectation in line of the base and we had a high base in Q3, comparatively soft because of the shift in season in Q2 and little bit softer in Q3. So if we normalize these two numbers, you get to around 10% or 11%. That is what I have been maintaining that we are in this kind of trajectory as of now and going forward we do not know, it could accelerate, could decelerate, could remain pretty much the same, but I think with the measures which we already saw this morning and also perhaps going forward you will see more of them. The consumption space does seem to be pretty decently poised to have reasonably robust volume growth. So if we normalize it, this year we will be doing double digits as I have always maintained, but it will be lumpy and one has to live with that fact.

Percy Panthaki: Do you think this double-digit can continue into FY'20 as well because you have significantly high base in some of the quarters in FY'19?

Sunil Duggal: Yes, it will have to be fueled by significant increases in disposable incomes because on a normal base which we have in '18-19, getting to double digits is not a walk in the park. We have to have some tailwinds behind us. There has to be improvement in the whole consumption space, disposable incomes have to go up significantly, then I think double digits will be visible. In the event of that not happening, then it is going to be perhaps again back to the high single digit trajectory. I do not see it coming down significantly below that, but this is the base case and bull case scenario; base case is that we continue that 8% to 10% growth, the bull case is we get into double digits on the back of stimulus and disposable income increases and we do not know where the truth lies at this point in time.

Percy Panthaki: Finally, if I can just ask for a few comments on some particular category, firstly, Hair Oils growth has been very-very strong at around 24%, 25%. So, what exactly is happening there – are there any pipeline issues or anything or is this sort of representative of the end consumer demand you have seen this quarter? Secondly, on Juices, it has been weak. What is the reason for that? Thirdly, on Toothpaste, is it mainly just Babool-led problems or are you seeing a slowdown even in Red?

Sunil Duggal: Red continues accelerating decently, of course this 20% growth will not continue forever, but while we are there we are quite happy to live with it. But Hair Oils to your earlier part is something which has surprised us positively; close to 20% growth in Hair Oils has never been easy and we have been doing it now for the last couple of quarters. It is really on the back of market share gains rather than any huge consumption improvement the way I look at it, maybe a little bit of both, but the market share gains even there maybe only 50 basis points. optically I think have led to pretty significant improvement in our overall growth and this is both in Amla Hair Oil as well as in the Coconut space as well as the lower priced Perfume Hair Oils. It is everywhere - all the Hair Oils brands are firing, Almond Hair Oil for example has done extraordinarily well. The work over the last few years in terms of building distribution infrastructure, expanding the brand franchise beyond Amla Hair Oil and Vatika are now paying very rich dividends. Anmol is Rs.100 crores plus brand, Almond is doing extremely well, Anmol Jasmine we did again great sales in the last few quarters. Sarson Amla is now Rs.100 crores plus brand. So all these are now kicking in. Foods - a little bit softer; it has underperformed to some extent. The reason is two -- I think the main one is a very cold winter in the north, which is around two-thirds of our consumption in the northern zone and does lead to some depression in consumption and also coupled with that is massive increase in the competitive intensity, people just throwing money in terms of trade promotions, etc., and it is a combination of both. There is nothing wrong with the franchise because the market shares have grown tremendously, it is just that the consumption of beverages in particular in North India has slowed down considerably in the third quarter and lets see now how fourth quarter pans out, the winter continues to remain very severe in the north. So we may not see that kind of growth even in the fourth quarter unless March turns out to be very hot. But there is nothing structurally wrong. Our franchise is extremely strong, distribution and supply chain, absolutely no issues and now the new products also beginning to kick in, the Masala range for example. So I do expect the next year to be a decent one for Foods.

Abneesh Roy from Edelweiss.

Abneesh Roy: My first question is on the very high promotional intensity in the Beverages and the Toothpaste business. So, how is the profit pool for the industry – would it not be down significantly versus say two years back in both the segments?

Sunil Duggal: Fortunately the COGS are pretty much on our side, so whether it is beverages, whether it is oral care or even hair care, etc., HPC has benefited lot from these material cost tailwinds which has kept the margin profile at a pretty decent level. If I am not mistaken, the Foods margins have actually gone up considerably ; 0.6%, which is pretty significant. But keep in mind that this has been without us retaliating in full measure which we probably will start doing now. So the margins may trend down but not significantly. We may not see any growth of margin lets say in the fourth quarter in Foods, we might see some decrease, but it will be for a noble cause of protecting market share and try to increase the sales volumes.

Abneesh Roy: What about Toothpaste because HUL has become very aggressive on pricing and Patanjali is very aggressive on the wholesale promotion, so are these two things big worry from longer-term perspective or more of a tactical?

Sunil Duggal: I think that is impacting Babool and not Red. We have to now make sure that Babool franchise is reinvented and reenergized and get growth from there because that is really the only drag here. But yes the consumption intensity is high, we do not know how long it will last, but I think our fortresses are largely intact and we do have some very clear plans in terms of revitalization and reinvigoration of Babool which you will see perhaps this quarter itself, and I think that would be significant in improving the fortunes. Now Babool which is now in negative territory, it goes into even breakeven or slightly positive, it will be big uplift for the oral care portfolio as a whole and I am pretty sure we will be able to do that.

Abneesh Roy: Where is the Babool customer going because many quarters Babool has been seeing very challenging numbers, your overall growth is still decent; 11% in Toothpaste is still decent number, so is some flow of Babool happening to Red also?

Sunil Duggal: Little bit of that happens, but perhaps now with the Rs.10 franchise and the Rs.10 universe expanding to beyond Babool and Cibaca which were the only two incumbents, there is a lot of choice available for the Rs. 10 consumer. He can buy Ved Shakti, he can buy Active Salt, he can buy Patanjali, Gels are now significantly at 10 rupees; Close Up and Max Fresh. So there is a big choice before him and therefore some of them do opt or at least experiment with other brands and we just have to make sure that the stickiness of Babool improves because we do believe that this 10-rupee price points are going to stay here for a while.

Abneesh Roy: Could you talk about your smaller Hair Oil brands? Almond I am seeing 100 ml plus 50 ml promotion on top of that and Sarson Amla, the 17-brand to hit Rs.100 crores, Marico has also been aggressive. So any impact of that? In Almond, what is the market share gain?

Sunil Duggal: The competitive Sarson product has not done very well. So that does not bother us. But in Hair Oils we are matching competition rupee-for-rupee in terms of promotions and that is why the whole promotion space has increased quite a bit in the domestic business. The gains in market share are there and we are holding on to our margins because petroleum prices are friendly which is the main input cost and that is the reason why we are able to do well in Hair Oils and not have margins also eroded there.

Gagan Ahluwalia: Market share in Almond we see it a small brand; so as a percentage of the Almond category, it is still around 5%.

Sunil Duggal: We are growing Almond at around 40% or so. It is fueled by promotion. I think that is something which we did because we have to build the brand up to a certain scale, and to do that it does require promotional intensity because we are not at a discount to the market leader unlike the other Perfumed Hair Oil brands which the competitors have put a sharp discount to us, we are parity with the market leader. So if you want to gain franchise at his cost, we may have to be a little bit more aggressive than him in promotion. But having said that I think the incumbent is also very aggressive in promotion, not that we are the only one.

Abneesh Roy: Next question is EBITDA margins for the domestic business is fine, but you have managed that through the A&P cut. Now Patanjali ad spends first nine months is down sharply in most categories significantly. Is that the reason or you have cut down on ad spends because there is a gross margin pressure or you want to phase it out, is structurally the industry lower on the ad spend because Patanjali has cut down significantly??

Sunil Duggal: The A-line is visible to everybody and in the case of domestic business it is up by around 3%. Media part, the A-part is up by around 3%, the A&P and you do not see the P, is up by around 9%. So it is not that we are cutting back very dramatically in terms of A, but yes, there is moderation in spend there because we are spending much less than what our top line is generating. So the P-part is growing well ahead. And this is largely to counter these disruptive areas in beverages, in hair oils, tooth paste, etc., we have no recourse because that is the only weapon which we have. So while we do not like the idea of having A&P reductions, it is still something which is not a bad number and if you go by many other companies they have seen sharp decreases in their A&P which we have not resorted to.And going forward the intent is to build up the A-part and hopefully we will be able to do if some of the headwinds ease and if the consumption improves.

Abneesh Roy: At the start of the year you had identified that every year you will take smaller brands to the bigger level. So this year first nine months what has been the performance -- which brands you had put more effort?

Sunil Duggal: Honitus and Shilajit are the two standout performers and we have also done well in Pudin Hara, moderately well in Lal Tail. So I think it has been overall a very positive reaction to our higher levels of investment especially for Honitus and Shilajit, and Pudin Hara has done extremely well. We also up the whole promotion and advertising expenditure on Hajmola which has done spectacularly well so far. So I think the team is in place, we did have issues with regard to leadership in the healthcare team that has been plugged now. We have a great set of people. Once we have that, we are willing to sign the cheque in terms of advertising and promotion. So, it is going exactly according to plan. We will up the whole ante in this space, may be add a couple of new brands in the next financial year and our plan remains completely unchanged. There were perhaps some issues; demonetization and GST happened, it impacted the space quite a bit but now things are back on track.

Abneesh Roy: Your Honey has grown very strongly almost 20%. Now, I see the premium of Dabur and Honey on Patanjali coming back significantly again and then we have a new competition from Rasna which is selling 35% cheaper than Patanjali at Rs.99 in the eCommerce at least for 500 gms. So, one is how are you able to manage good growth in spite of now premium coming back and any risk from Rasna from medium, longer-term perspective?

Sunil Duggal: We always enjoyed 30% to 40% premium over our lower price competitors and we were able to sustain and grow market share despite that. The only disruptive force which came into play was Ramdev which came on the back of certain assurances and promises, but the consumer now is back to very happy to pay us 30% to 40% premium and I do not think any other company coming in will be able to disrupt this premium which we enjoy. So we are taking down promotions little bit gradually and again the whole idea is not to have huge premiums over our competitors but 30% to 40% premium is something which I think is structural, works for the brand and something which we should not discard, but at the same time we have to ensure the highest possible quality of honey and that is something which we never compromised on.

Prakash Kapadia from Anived Portfolio Managers

Prakash Kapadia: I had two questions: If I look at the current domestic mix of 70-73%, on a medium-term basis do you expect this mix on international and domestic to be around this level, and in domestic of the three broader categories, which would be the fastest growing and what is the focus area say in the medium-term for us?

Sunil Duggal: I think this quarter we were at 25% international, 75% domestic. It seems to have kind of leveled off at this point, but at least for the next two to three quarters, I do expect the domestic business to grow higher than international, may be not significantly so, but definitely because we still have not lapped the whole currency issues which began in the second quarter of last year. So, once the rebalancing happens, I think the ratio will stabilize at around 75:25. In terms of the best performing categories, I do expect next year the OTC part to be the best performing. It may not be the largest category which we have, but I think it certainly should perform above most of others.

Prakash Kapadia: The entire new product pipeline will help us there or is it just the products…?

Sunil Duggal: Next year you will see significantly higher number of new products. I think we are now over the disruptive issues and we have rebalanced from that, we rebuilt revenue line, we rebuilt margins. Now we would like to invest significant amount in new products and you have seen little bit of that happening but you will see far more happening next year. So new products would be a big driver of growth, perhaps even at the cost of some profitability, but that is a good trade-off if the new products succeed.

Vivek Maheshwari from CLSA

Vivek Maheshwari: My first question is on the rural market. What is the trend that you have seen in the quarter gone by? Obviously, lots can change after the budget and what government is intending to do.

Sunil Duggal: There is a 4% delta between rural and urban. Having said that if you add back modern trade to urban, then the delta kind of reduces to 1% or thereabouts. But this does not factor in certain amount of consumption with its origin in urban but actually going to rural which is hard to factor. Almost impossible to give an absolutely correct number, but rural outgrowing urban by around 2%. Going forward I think that would continue, perhaps even expand, because the rural stimulus is likely to be higher than urban, we have seen a little bit of sample of that this morning when you are having the whole pension schemes as well as the doles of Rs.6,000 which will definitely improve rural consumption. Urban is likely to be steady but we do think the whole growth will come significantly from rural.

Vivek Maheshwari: Second on the promotion bit, I am not very clear. So if your revenue growth in domestic is let us say just under 15% and if your volume growth is 12.5%, the delta is 2.5% points of pricing, but is this your promotion intensity?

Lait Malik: Pricing and mix. I think in fact the price growth is around 2.7, the mix impact is around 0.1. So overall what you see is the gap between volume and value is around 2.8%. But I think on the promotional side what you do not see is the consumer and trade promotion which is reduced from the sales to arrive at the revenue, which is what earlier Mr. Duggal suggested that though A&P reflects 2.8% growth, effectively we add TP and MP which is around 9% growth. So these are the two factors that you will get to see when you add up at the gross level.

Vivek Maheshwari: I understand that part, so which means the revenue growth is deflated with the extent of promotion which means the pricing impact is deflated. So let us put it this way; 2.6, 2.7% pricing on a like-for-like basis adjusting for promotion, how much that would be at let us say MRP level?

Lalit Malik: MRP level if you were to see it should be in the range of around 3.5% to 3.6%.

Vivek Maheshwari: So, as you reverse your promotion intensity that is what is going to benefit you in terms of both growth and will also obviously to margins?

Lalit Malik: I think you will have also have to see how do, we rebalance the total A&P. So if you reduce TP wherein we will invest little more into media.

Sunil Duggal: I think we almost certainly will, because our A-part is actually little bit below than what we would like to have and the marketing team is always wanting some more money. So we will be happy to give it to them if the promotional intensity is reduced or if the inflation tailwinds accelerate.

Vivek Maheshwari: On international business, Mr. Duggal, what is your medium-term aspiration in terms of growth because it has been fairly bumpy, right… not just for you but for your peers as well, but how do you think about the international business as a basket?

Sunil Duggal: I think the medium-to-long-term, the prospects are very good and we are very enthusiastic about the long-term prospects. There will be always volatility and I think let us say three to four years ago this business was driving growth in a very significant manner, then it fell off significantly. We are getting our momentum back. It will take another quarter or two. So I do not see headwinds happening in this quarter and next quarter and we rebalance currency evaluations. But I think from as early as second quarter of next year we should see good growth coming back. This is with the disclaimer that currency should remain reasonably stable and the economic situation should not go completely downhill which some people do, speculate will happen in the Gulf. And if these two events do not happen, I think the businesses are very well poised, we are seeing sustained gain in share, the teams are intact, many of our constant currency growth in let us say, markets are excellent; Pakistan, Turkey, Bangladesh, many other. So I am not at all worried about the long-term prospects of this business. Yes, there will be turbulence and we have to live with that.

Nillai Shah from Morgan Stanley

Nillai Shah: In terms of the international business for Namaste, you highlighted that sub-Saharan Africa and the US has done very well, but there are some issues in the EU and some other parts of the world. Sub-Saharan Africa and US are okay. So, where is the problem actually?

Sunil Duggal: I think you are right that was smaller part of the business, but why is it being such a drag. The reason is that we practically did no sales in the third quarter in EU because of some issues with regard to pricing, the distribution-led business demanded a certain price and we kind of drew the line that we will not give you that price. So there were practically no sale happening there. Now I think that is a necessary issue which we have to face that we cannot be compromising on our pricing. And if we are firm on that we may have some short-term losses, but long-term we will gain. We did exactly that a few years ago in Africa when we drew the line again on pricing and that is sort of quite a bit for few couple of quarters, but the business did rebalance very strongly and we also did the same in North America. So you have to take this bitter medicine and this is the last area where this medicine has to be administered, the pricing is largely corrected in North America and SSA which are the two big consumption segments and you are seeing double digit growth happening from there. I think EU will correct, may be not this quarter, but it next, it does take a couple of quarters for somebody to blink and we certainly do not intend to be the first one to do it.

Nillai Shah: The only other problem really in the entire pie is GCC. There are no big currency issues out there, but it is more of macro problem in that region. So do you see that also correcting itself over the course of the next two quarters or so?

Sunil Duggal: Perhaps it will take two quarters; this one and the next. Now having said that in the GCC itself our secondary growth are very good; they are at high single digit which is not a bad situation considering that the overall category growths are declining. So our market share is improving, our business on the ground is doing fine, we are concentrating a lot on shampoos and toothpaste where we have comparatively low shares, so the upsides are almost unlimited and I think we got strategies right in terms of focusing on the core which is Hair and Oral Care and perhaps disengaging little bit from the Skin Care business. So, I do not see long-term issues. But then having said that if the economic downslide continues or accelerates, and I am no expert on how things will pan out, then the problems will continue. But otherwise we do see light at the end of the tunnel from the second quarter of next fiscal and the rebalancing could be quite sharp, the growth in business could be quite dramatic, but there has to be macros which do not go against us. Turkey had a massive devaluation in August last year and now the currency is actually strengthening a little bit. If this trajectory is maintained, then Turkey will emerge as one of our big growth drivers because we are growing the business at around 30% to 35%, all of it which we lose in translation, but if the translations are not there, then that itself will provide us with the big impetus. Namaste I think will continue to now deliver reasonably high growth once the EU issues have been sorted out and SAARC and many other geographies remain very reilient. I think the big concern is GCC and how will the economies behave. There is no other issue which we are facing there.

Nillai Shah: So when I extrapolate this to margins too, your acquired businesses operating in the last year with margins which were like the mid to high single digits. So does this mean that there could be over the course of let us say the next two years, there could be 500-800 basis points delta even on the margins front from your acquired businesses?

Sunil Duggal: If the currency remains stable in Turkey, yes, we would see that kind of increase, and if the top line in Namaste which is a high margin business continues this trajectory, we would see that kind of growth happening; 50 to 100 bps improvement in the EBITDA, but there has to be these tailwinds behind us.

Nillai Shah: Finally, coming on to the NPD pipeline that you spoke about accelerating next year, will this entail getting products from your international portfolio into India, will that be the primary focus or completely?

Sunil Duggal: No, that will be interesting, but comparatively small part, we intend to seed many of these products through eCom and also we have to now see how the eCom policy evolves and what impact does it have on our business. So that is another narrative, but broadly the products will be incubated through eCom and if they show life, then they will go to modern retail and then to the general retail if at all. So this is a very different way we could do. These products are highly premium and are affordable only by the upper crust of society. So it is not something which we can do on a mass scale, but incomes are rising. As and when these products begin to show some traction, then we can accelerate the growth by the distribution.

Nillai Shah: Can you give us one example of what the NPD pipeline for your mass market portfolio look like next year? You spoke about Toothpaste product being launched sometime. Would that be one such example of what you intend to do next year?

Sunil Duggal: Yes, one such example is that, then broaden the whole flavor range of beverages, perhaps get into other beverage segments which we are not present in and that has been under discussion. But the innovation will continue everywhere, whether it is in homecare or whether it is in Hair Care, etc., there will be everywhere and it is not that all of them will go to market, we will choose the best ones and aggressively push them and then we will have to see what kind of resourcing do we have. If the inflation continues to be benign and the category growths trend up, then there will be enough money on the table to fund many of these initiatives. Otherwise may be constraint to do comparatively fewer, but certainly more than what you have seen in the last two to three years.

Nillai Shah: At the start of the year, you had said focused on market share and hence the margins could be flat on YoY basis for fiscal '19 and that is probably where you are going to end at. So any views going into fiscal '20, would there be an expansion now that you have kind of rebalanced the whole thing?

Sunil Duggal: As I mentioned earlier that in most of the lines in our P&L you would see deleverage in the current fiscal, whether it was IOH or whether it was S&M, etc., because of big investments. Now these would be in the base. So I think the leverage will kick in right from the first quarter of next year in many such of these operating areas and I see a fairly benign outlook on COGS. Now the key thing is- would these all flow into the bottom line or some of these will get sucked in A&P? I do not have the answer to that. But the desired route would be as Lalit just said is to get some money out of the promotions and put them into advertising and have the aggregate spend at current levels. But that may not be possible if the competitive intensity remains the way what we have seen in the last few quarters.

Harit Kapoor from IDFC Securities

Harit Kapoor: This is Harit here from IDFC. Just two questions: Firstly, on the international business, just wanted to get a sense of how large is the GCC portion for you now in the overall mix on the international side?

Gagan Ahluwalia: 30% to 35% of international is GCC.

Harit: Would it be fair to assume that the margins in this business would be slightly ahead of overall international margins?

Sunil Duggal: Significantly ahead.

Harit Kapoor: Second question sir was on the Hair Oils piece. So obviously this quarter there has been a very strong growth in Hair Oils and you mentioned that has been across the board. If you could just give a sense of where this growth is coming from and where the share gains have been from really?

Mohit Malhotra: The share gain essentially has been on the back of flanker brands that we introduced - the economy brands; Sarson Amla actually gained share, Brahmi Amla has gained share. To Mr. Duggal's point Almond Hair Oil has done very well and Dabur Amla Hair Oil is also back on a growth path now. Volume market share has roughly gone up by 80 bps if you compare it on YoY basis.

Harit Kapoor: Third question was really on the staff cost. If you could just give us a sense of how much more accelerated in FY'20 would be the cost on account of the ESOP impact and how much would it have been this year?

Lalit Malik: I think as far as ESOP cost is concerned, next year it will be in line or maybe slightly lower but it will maintain, so there would not be any further increase that will happen compared to this year. So this year has been the first year of Vision, therefore the cost is on account of the current market price and therefore we see the increased cost in the employee cost as a percentage of sales., But going forward it will equalize, because the base will remain the same but at the same time it will be either comparable or maybe slightly lower in your amortization.

Harit Kapoor: So, that will happen from Q1 of next year itself?

Sunil Duggal: Yes, Q1, you would see some leverage emanating out of these salary expenses which include ESOPs.

Amit Purohit from CIMB Securities

Amit Purohit: Sir, on the growth, again, just want to understand, this quarter growth, you indicated driven by distribution and new launches. How much was the RISE strategy also playing out or the benefits of that, would see in the ensuing quarters?

Mohit Malhotra: RISE has actually kicked in. We started the journey of RISE way back in the first quarter. We have done a lot of analytical piece on RISE as to how much, which state is actually contributing to the business, what is the level of possibility, etc. We have done a small test market of RISE in the Northeast and I think in the last call also I talked about it. So the growth in the Northeast market is at the rate of around 34%, we put up new infrastructure in place. We have done a test pilot very-very successfully. As we speak, next year going forward, we will be now extending RISE to other states also. So therefore, lot of innovation that Mr. Duggal talked about will be taking germ from the RISE initiative also going forward.

Amit Purohit: Any specific categories that you think you can call out or just because it will be region-specific, so then hence it is difficult to call out any …?

Mohit Malhotra: Across the board, RISE is across states, across geographies and it is portfolio-agnostic. So across portfolio, whether it is HPC space or HC space or foods space, so there will be innovations which are pertaining to RISE, like in juices if there any flavors to be introduced, there could be very regional-specific flavors that we may introduce going forward. If it is a hair oil, somewhere it is a coconut oil market, somewhere it is a perfumed oil market. So it is very region-specific but across portfolios.

Arnab Mitra from Credit Suisse

Arnab Mitra: First question was on Hair Oils which has probably driven the highest growth this quarter. Now, a few years back, you had taken a view that possibly this is not a growth category, so you would not want to invest in it but since last year you put in some investment, tactical measures, now as we go into the next two, three years, do we see you kind of seeing this as a growth category actually putting in a fair share of investments, advertising, new products or is it just very difficult to sustain even mid-teens kind of growth in this category?

Sunil Duggal: Let me put this way that if we see opportunities for market share gains, because I do not see the category growing at hugely significant pace, but it is a fairly large category that the potential both through market share gains is immense and if we have to win in the place and if we are able to find right levers, then definitely we will invest because it is a high margin and like I said category where we have huge upsize in terms of market share growth. So, we will take it as it comes. It would not really be the foremost category for us. Those belong to the more next-gen categories in consumer healthcare, etc., but there are huge opportunities in Hair Oils which we will seek to exploit.

Arnab Mitra: Just related to this, market share gain in volume terms in Amla, is this the first time in a few years that actually market shares have ticked up in volume terms and any specific actions that you have taken to kind of help this happen?

Sunil Duggal: We did see sharp deceleration in Amla market share around two to three years ago. Since then there have been largely holding and the decline if any has been marginal. So yes, two years or so we have seen flattish kind of market share which are now trending up but they did trend down like I said say two, three years ago. So we still have a lot of catching up to do and I think we would not just look at Amla in isolation, we look at the Amla family of oil which includes Sarson and Brahmi and with that I think the prime brand can really pick up shares very significantly. Now, how much of that growth will come from Amla and how much from the satellite oils? Very hard to say, but we do intend to play these oils as a single unified approach against the competitors.

Arnab Mitra: Last question is on shampoo. Last four, five quarters, you have seen very high growth with the relaunch of Vatika. So, as you lap up now those, in the launch quarters, do you get a sense that this brand is now kind of on a strong growth trajectory like you had with Red a few years back and is this growth reflecting in market shares in the shampoo category?

Sunil Duggal: It has begun to reflect in market shares even though not significantly but having said that we are comparably small player, 5% share in shampoo. So, there is no limit to how much we can grow here because even if we grow to say six or seven percent market share, it certainly means more than doubling of revenues. So I would not say that the base should be a worry, we have 5.4% volume share. The base is not something which we should be too obsessed about. What is the potential? The potential here is perhaps more than any other category. It is such a huge category. So like in Hair Oils, we play the market share gain here and not get too concerned that we are sitting on a high base because I do not think that is very material. That maybe material in categories like Honey or Chyawanprash or some others but not here.

Gagan Ahluwalia: I thank all of you for your participation in this conference call. Webcast of this call and transcript will be available on our website and in case you have any further questions we will be happy to address that. Thank you once again and have a nice evening ahead.