

# "Dabur India Limited Q3 FY2014-15 Earnings Conference Call"

**January 30, 2015** 

# **MANAGEMENT**

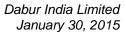
MR. SUNIL DUGGAL - CHIEF EXECUTIVE OFFICER

MR. LALIT MALIK - CHIEF FINANCIAL OFFICER

MR. ASHOK JAIN - VP, FINANCE & COMPANY SECRETARY

MR. SAIBAL SENGUPTA - VP, FINANCE

Ms. Gagan Ahluwalia - GM, Corporate Affairs





Gagan Ahluwalia:

Good afternoon ladies and gentlemen. On behalf of the management of Dabur India limited. I welcome you to this conference call pertaining to the results for the quarter and nine months ended 31<sup>st</sup> December, 2014. We have here Mr. Sunil Duggal-Chief Executive Officer, Mr. Lalit Malik-Chief Financial Officer; Mr. Ashok Jain-VP, Finance & Company Secretary, Mr. Saibal Sengupta-VP, Finance and Mrs. Gagan Ahluwalia-GM, Corporate Affairs.

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

**Sunil Duggal:** 

Thank you Gagan. Good afternoon ladies and gentlemen, welcome to Dabur India Limited's conference call pertaining to the results for the quarter ended December 31st, 2014. During the Dabur's consolidated sales increased by 9.2% to 2074 crores and profit after tax increased by 16.4% to 283 crores. On constant currency basis growth in sales was 10%.

The domestic FMCG business reported growth of 11.7% with volumes increasing by 7.4%. There was some rebalancing of the growth this quarter with relatively higher growth from consumer care business that is health and personal care and lower growth from foods. This is overall positive for the business as the core CCD business showed improvement in top line.

The hair care portfolio comprising hair oils and shampoos recorded growth of 12.1%. Coconut oil witnessed strong growth while perfume segment showed some pick up.

In order to strengthen our position in the light hair oil segment, we have introduced Anmol Jasmine Coconut Hair Oil in some markets. More product offerings for specialized hair care is in the pipeline which will be launched in the coming quarters. The Toothpaste portfolio grew by 19% defining the category trends. Our premium offerings Red Toothpaste and Meswak continued on a robust growth trajectory recording strong double-digit growth and increase in market share. Overall care category reported growth of 11.3% as Babul toothpaste and Red toothpowder were a bit slow.

Skincare category reflected muted growth of 4% this quarter mainly on account of supply constraints post the fire it the Baddi plant. Gulabari franchise posted double-digit growth driven by marketing spends and acquisitions.



Health supplements portfolio grew by 13.5% during the quarter driven by strong volume led growth in Dabur Honey. Chyawaprash performed well in retail channels in spite of the delayed winter. Digestives grew by 11.6% with the Hajmola franchise reporting good growth. Recently introduced extensions elicited positive response from the consumer.

The OTC and Ethical portfolio registered growth of 8.8% with the Ethical portfolio reporting double-digit growth driven by increase in doctor advocacy and digital initiatives. The OTC category did reasonably well with Lal Tail and Honitus syrup showing good growth.

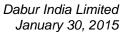
Homecare portfolio grew by 16.2% with Odomos posting robust growth. The new format for Odomos Mosquito Repellent badges and bands are amongst top sellers in e-commerce channels. Sanifresh performed well and the new campaign "700 se 7 kadam" has helped drive the topline.

Foods business reported 11.8% growth this quarter which was lower than the previous quarters mainly due to bunching of sales in Q2 as the festive season happened earlier this year versus quarter three of last year. Growth in Active Juices improved backed by digital initiatives and marketing efforts.

The organic international business grew by 16% with constant currency growth of 16.8% driven by new product initiatives and marketing activities across MENA and South Asia. Overall growth in international was soft due to currency devaluation in market such as Egypt and Turkey and some initiatives taken for price stabilization leading to one-time pipeline correction in Namaste.

On the profitability side – EBITDA margins improved from 17.5% in Q3 last year to 18.8% this quarter. This was mainly on account of inflation cooling off this quarter as material cost were lower by 117 basis points and stood at 47.7% of sales. We continue to strongly invest in our brands and this reflects in our adpro expenditure which was marginally higher than the corresponding quarter last year. Consequently, profit after tax grew by 16.4%.

In spite of headwinds and low demand in many FMG categories our business has reported steady growth. Going ahead we will continue to focus on innovation and invest strongly in our brands. Also expansion of our business across the categories





and geographies in which we operate shall help the business to continue on a strong footing.

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

# **Abneesh Roy of Edelweiss**

**Abneesh Roy:** 

Sir, my first question is on the overall macro. A few quarters back you had called out urban recovery but that has not panned out. But now with interest rate cut and food inflation cooling down, what is your forecast for urban and similarly on the rural can it be the other way round, do you expect rural to slowdown on a more pronounced way from here on in the next one to two years?

**Sunil Duggal:** 

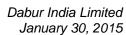
Yes, I think the lack of growth in urban has been a mystery and it has defied predictions not just of me but of many other people. It has certainly not responded to lowering of inflation and lowering of other costs so the growth in urban retail particularly general trade continues to be very muted. On the other hand rural showed a surprising resilience this quarter reversing a few quarters of downward trend and grew at a much higher pace in fact than urban. Now having said that I don't think this rural growth is sustainable, neither do I think that the lack of growth in urban is going to continue for long. So I would stick to my earlier stand that we would have better growth in urban and perhaps slightly slack growth in rural in the next few quarters. But having said that, the current numbers do not really indicate that happening in a hurry so I think we would continue to see subdued demand in the fourth quarter of this year and hopefully there will be some uptrend in the first quarter of next fiscal.

Abneesh Roy:

Sir in quite a few categories your growth has been better versus the nine month such as oral care especially than Homecare, Healthcare, and OTC. So any special thing you have done in this in terms of either inventory or in terms of activations, etc., so if you could clarify if there is any one-off and do you expect this outperformance to continue even in Q4 and going ahead?

**Sunil Duggal:** 

I think if you see the quality of our growth it has actually been pretty good. There has been a rebalancing of growth, much higher growth coming from home and personal and Healthcare and considerably lower growth coming from food and beverage, particularly beverages which obviously means that the mix has improved and part of our margin expansion is on account of this factor. So all the three categories, home personal, health and food are growing around 12% this quarter which probably is





better than this more skewed growth in favor of food which we saw earlier. Now a lot of this to answer your question has happened on account of the infrastructure building which we have done in rural and urban markets and also a better quality of execution on the ground and that will continue. So I do think that the trend of the last few quarters in which we say super normal growth in beverages and comparatively subdued growth in health and personal care to now become far more balanced and we would see strong growth coming from all these three segments.

Abneesh Roy:

You said mix change has helped the gross margin, so next quarter taking the overall raw material scenario into picture which should benefit quite a few inputs - definitely packaging and oils, etc., and then the mix reverting back to it is earlier will mean - could the margins trend be lower quarter-on-quarter in Q4?

**Sunil Duggal:** 

No, they could trend higher because I think the impact of material cost has really not been felt to the full extent to this quarter. It will be felt in the next quarter, so that will significantly improve margins. On the other hand there could be some reversal in the rebalancing; we would definitely see higher growths in foods compared to what we saw this quarter. But the net impact of this rebalancing and lower material cost would play in our favor so I think we would see margin expansion continuing certainly in this fourth quarter and well into first quarter of next year. After that the outlook is more cloudy, a lot will depend upon the oil prices and overall inflation. But this quarter and the next we are pretty confident of generating good margins on account of lower material costs despite the fact that the mix may work either way.

**Abneesh Roy:** 

Sir could you put some numbers to the raw material fall because your raw materials are fairly diversified, so maybe expect packaging and some of the oils are you getting benefit in some of the other raw materials also and some numbers if you can put, what kind of gross margin expansion you can expect?

**Sunil Duggal:** 

On oils and hydrocarbons, the derivate, plastics, etc., the fall has been very dramatic. In the other big items like say raw honey for example or coconut oils, the fall has been comparatively muted and hopefully we will continue to go southwards. But the oil component has been pivotal in the improvement of at least the material costs.

Abneesh Roy:

Any numbers you can say, how much can be the expansion?



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**Sunil Duggal:** 

No, I just can say that out of our EBITDA margin expansion domestic business of around 110 basis points, broadly you can say that around half has come from mix and half from lower material costs.

Abneesh Roy:

That's quite helpful. My last question sir, two of the categories which did not do well, foods you had pointed out rightly in Q2 itself, so in Q4 does it revert back to 20% kind of growth? And Skin, sir what really happened in Fem if you could elaborate that part supply chain issues?

**Sunil Duggal:** 

Well, let's take the foods question first, we grew 29% in Q2 because of the Diwali gift pack which happened in Q2, normally it happens in Q3 and we grew at 12% in Q3, so if you take a normalized growth it comes to around 20% odd. I think the trend going forward for foods that's the best I can give you is 15% to 20% growth. It probably will not trend beyond 20 because of a very high base of last year so I think on that base it will be unrealistic to expect growth north of 20%. But we are still pretty confident of maintaining the 15% to 20% growth for the next few quarters. So that's broadly the outlook for the food and beverage business.

**Abneesh Roy:** 

Sir on the Skin?

**Sunil Duggal:** 

Yes, Skincare you will see strong revival happening this quarter simply because we dug into pipelines last quarter, the headlines numbers were just 4% growth because we did not do primaries on account of non-availability of product. So we should be back in the double-digit growth certainly this quarter but it certainly will be much better than the last. And then going forward it will all depend upon the urban consumption story because Skin is largely an urban phenomena so they will trend towards the high teens or high single-digits it is anybody's guess.

**Abneesh Roy:** 

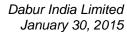
No sir, wanted to understand why that supply chain issue happened?

**Sunil Duggal:** 

Our factory making Skincare, basically the Fem factory which we bought during the Fem acquisition was completed gutted. So for all the Fem range we didn't have products for a couple of months, only the production resumed not in the factory but through ancillary units, etc., in the month of December. So we were caught wrong footed on that, obviously nobody expects the fire to happen.

**Abneesh Roy:** 

which geography?



Dabur Celebrate Life!

**Sunil Duggal:** 

All geographies, Fem is largely concentrated in west and north and these were the markets most affected. Now the Gulabari portfolio did well, grew around 12% because it wasn't produced in that plant, it was produced in our main plant so no impact on the Gulabari piece. But Fem is bigger and more profitable so it has impact both on margins as well as the revenue side.

Abneesh Roy:

Sir one follow-up on the beverages, ITC's acquisition, Be Natural, it wants to scale up. So over a longer term from a positioning perspective do we need to do something in our existing range and are you really worried form a longer-term perspective from Be Natural because ITC does have much, much bigger advertising scale and budget capability. So from that perspective and from a positioning perspective do we need to do something on our existing portfolio to match up with Be Natural?

**Sunil Duggal:** 

I am not overly worried because it is a very difficult business to enter and to sustain, both the value chain is always stressed and the supply chain is incredibly complex. So I think we have mastered it over the years and there are high entry barriers to get into the segment, a lot of people have tried but nobody has succeeded. So I think we will be able to manage the competitive intensity which will obviously be enhanced by coming of ITC. And we are very confident about our brand strength, the diversity of our portfolio, the strength of our value chain and the expertise we have created in the whole supply chain. So I think we will be able to sustain. What I am a little concern about is the beverage market continue to grow at the pace it has been growing, partly it was fueled by a very favorable summer. So perhaps we should not expect super normal growths from foods next year as we have generated within the current year and that would not be on account of competition it will be more on account of environmental factors.

#### Balaji Prasad of Barclays.

**Sunil Duggal:** 

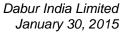
Balaji Prasad: Most of the questions have

Most of the questions have been answered, just one on Namaste, can we just get an update on what exactly were the initiatives that led to the blip in this quarter and how should we be thinking about it for this year?

should we be tilliking about it for this year

See there were two reasons, the main reason was that we decided to do a major price correction, there was a fair amount of anarchy in terms of pricing with a rampant discounting and I think we did not have control over the end pricing with a lot of flow of product from North America into Africa and to Europe and vice-versa. So we wanted to harmonize the pricing and that could only happen by just completely

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withdrawing discounts and obviously when you do that people do not buy the higher price product till they have exhausted the inventories which they are now close to exhausting. Once they do that they will have no choice but to buy the product because the demand side remains strong. So that was something which impacted the North America numbers but only optically because most of the product was actually going into the African continent and to Europe.

The second was that the dollar, when the numbers are consolidated in dollar terms were impacted because of the currency strength particularly against African currencies, you know how much the Rand and other African currencies have depreciated. And since supply chain originates from North America in consolidation we lost a lot both in terms of revenues and in terms of profitability because of the currency issues, even the Pound and Euro which have large footprint in the Namaste ecosystem have devalued by around 10% in the quarter. So that was another overhang. So I think it was a combination of many things, partly some of our own creation to improve the business prospects in the future and some beyond our control which led to this weak performance. Going forward it will improve, I think we have one more quarter of pain in Namaste and then things will normalize from the first quarter of next year where all the hygiene issues would have been sorted out, hopefully the currency won't play as adversely as it has done this quarter and things would look much better.

Balaji Prasad:

Understood. So most of the impact was only through pricing or was there any differential --?

**Sunil Duggal:** 

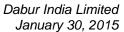
Well, I think 80% of the damage was done on account of pricing and that was a bitter pill which we had to swallow because I don't think the business would have performed well over a long period of time unless you have pricing discipline, we have seen that in geography after geography. If we don't control the pricing then we are really at the mercy of the middle men and that is not really the way we want to do business.

Balaji Prasad:

Understood. Just on the question of pricing, in India are you seeing any challenges on pricing from your regional competitors? And if so, which category is getting affected the most?

**Sunil Duggal:** 

No, two things here, one is that as a company and you have seen that in the past, we are a little bit slow on taking up prices, we normally lag inflation and lag competitors





and that's really a part of our company policy of not sacrificing volume to protect margins beyond a point. So we didn't take up prices sharply as perhaps some other people did and I don't think there is any pressure on us in the near term at least to take down prices. We do have pricing power and we haven't taking up prices sharply as perhaps other people have. There is no visible pressure on us to take down prices in any of our product categories. Obviously the price increases now will be very few and far between only in areas which are still affected by inflation, but as a portfolio we will probably not take down prices in any significant manner across any of our business components in India.

Balaji Prasad:

Just to understand it better, which categories would you be having enough pricing power to take up pricing if at all?

**Sunil Duggal:** 

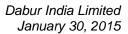
Take Healthcare for example, I mean honey for example where we completely dominate, many of the health supplements like Chyawaprash where we have a dominant share, there is enough pricing power available. You got to excercise it with caution because you do not want to destroy demand, when people opt out of a category. I mean there is not a competitive issue here but people will say, no Chyawaprash is too expensive, it is unaffordable. So you got to be a little circumspect here, you got to respect the fact that while you have pricing power you cannot misuse it. But then going forward even when the market turns deflationary there is no pressure on us to take down prices, for example in honey we are priced very high because the raw material cost went up by 30%-40% over the last couple of years. Unless they fall off a cliff we will not really be inclined to reduce prices at all, we will be able to sustain the volumes which we are getting which are pretty healthy 15% to 20%.

Balaji Prasad:

Got it. And just an update on Project Core Sunil. It has been a few quarters since you launched this, would you be able to kind of put a number to how much is this contributing to your growth now, how much of volumes is coming through this? And also do you think there is potential for any of your competitors to replicate this strategy?

**Sunil Duggal:** 

Well, I won't say Core has contributed very much in the last quarter or two and the reason for that is not of any flaw in the design and execution of Core. It is that the whole consumer health segment in urban areas particularly, and that is really where most of the revenues come from, has been a very low performance area in terms of growth. As per the syndicated data growths are hardly 5% 6%. So even if you have





Core you can only grow a business so much, we have grown the business by 11% to 12% this quarter which is much ahead of market. But it is not as much as what we had hoped for. That's more of an environmental issue it will play itself out as and when urban demand revives. But Core is an urban phenomena and that is one part of the market which has been the weakest performance not just for us but for the categories as a whole.

Balaji Prasad:

And other part of my question was, would you see any of your competitors replicating the strategy?

**Sunil Duggal:** 

Well, you got to have the portfolio first to replicate the strategy so I think that comes first, we would not have done Core had we not existing portfolio to sustain core and the future pipeline of products to nurture it. So now you can decide which of our competitors has that portfolio to build a Core type of platform which costs serious money by the way and maybe some have but perhaps not too many.

Balaji Prasad:

Fair enough. And just one last thing on Baddi, so you said there is issue in this plant impacted Skincare, is it done and over now?

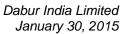
**Sunil Duggal:** 

The plant? No, the plant will take three four months more to completely revive. There has been no damage done to the P&L because we have the insurance, etc., so there is no damage on that front, but I think there is some damage in terms of OPEX because we will be currently meeting market demand by producing outside excise free zones, etc., through third parties and of course third parties would cost us more. So I think the top line we will be able to now manage, there would be some temporary impact on margins for the next quarter till this plant comes back into operation.

# Percy Panthaki of IIFL

Percy Panthaki:

My question is on the margins, I mean we have sort of entered overall cost deflationary cycle for many of the commodities and in such a scenario most of us analysts tend to look back at the last deflationary cycle in FY10 where your sort of gross margin expansion on a consol basis was around 380 basis points. So just wanted to understand the current situation, is it similar to what we faced in FY10? Actually I would think that FY10 was much volatile in terms of crude prices and the drop was not as sharp as it is this time, this time around actually the expectation at least is that it will not be as volatile and will stabilize at a lower level and not go back





to \$80 or \$100. So in that perspective do you think that the gross margin expansion that we would see in FY16 would be similar or even better than what we saw in FY10?

**Sunil Duggal:** 

Not necessarily, the crude derivatives are around 40% of material cost, give or take a couple of percent. So really what happens to the non-oil components which are largely agri based which will determine whether the material cost deflation can be 300-400 basis points or will remain at around say 100 to 200. So I would not hazard a guess on that, the visibility on prices of say some of the edible oils, coconut oil in particular, raw honey to give another example, herbs which are very important and big for us is not as sharp as on crude. So certainly there would be deflation and certainly we would be expecting deflation to accelerate because in the third quarter we consumed largely high price inventories while we were buying into low priced commodities but we were not consuming them and the margin is on consumption and not on purchase. Going forward we will be now digging into the low cost purchases and you will see margin improvement on account of oil and hopefully on... but perhaps not to the same extent, some improvement on the non-oil part also. But even non-oil part is showing some signs of softness.

Percy Panthaki:

Sir the non-oils portfolio, the deflation that you are witnessing currently, is it comparable to the deflation witnessed in FY10 or is it lesser than that?

**Sunil Duggal:** 

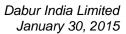
I don't think so because there are two or three components of non-oil, coconut oils and raw honey have shown super normal inflation of something which we have never witnessed historically. So we are sitting on a very high base of those items and unless there is a sharp correction which we are not seeing at the moment, we are seeing a slow correction. We will not really get back to the sweet spot where we saw secular deflation happening three-four years ago.

Percy Panthaki:

Right. Coconut oil and honey I understand but the agri based inputs in terms of herbs, etc., what is the cost trend there?

**Sunil Duggal:** 

They are mixed but not really deflationary, I mean let's put it this way, we believe that inflation there has peaked, whether it will fall off or whether it will remain at a pretty high level it is hard to say, things like say pepper which is very important, cloves, etc., are still ruling at very high levels. Even sugar is a fairly important raw material for us not cheap any more. So the agri based commodities are showing signs of stickiness.





Percy Panthaki:

Right sir. Secondly, just wanted to understand the demand scenario and rural versus urban, I mean few quarters back you as a company had shifted your attention a little bit towards urban in terms of putting your sort of energies for urban growth as you had already done a lot in the rural in the past couple of years. Now supposing if the rural actually picks up earlier and the urban does not, do you think that it would be an unfortunate case of you sort of misprioritizing your energy, of course there was no way of knowing that rural would rebound quicker, that has certainly been a surprise to everyone but do you think that would be unfortunate?

**Sunil Duggal:** 

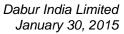
Well, not really if you put it that way. Let's put it this way - we had built the rural infrastructure and we had built it in a very aggressive manner and seeded the markets which were economic to visit three years ago. And there was really a point at that point in further building rural infrastructure and I do not regret not putting extra money there, all indicators showed that there would be revival in urban starting from change of government, etc. The fact that it has not does not mean that it is not going to happen, it just means that it is taking longer than expected to happen. I still have the faith that the urban growth would be pivotal in reviving demand. Question is when and I would not hazard a guess having being wrong on earlier equation, but I think it is sooner rather than later.

Percy Panthaki:

Right sir. And finally on international, I mean Namaste has been a drag not only for the last couple of quarters but something or the other has been going wrong ever since we acquired that company. So just wanted to understand I mean after this pipeline correction, price correction, etc., are we really on track to grow that business or are any other actions pending?

**Sunil Duggal:** 

I think we are on track, let's put it this way, we had two very good years for Namaste and year, year and a half which has not been good at all. So it is not that ever since we bought the company 3.5-4 years ago the trend has been downwards, we had a great start. And then perhaps because of our own lack of understanding of the whole supply chain which comes out of North America perhaps we did not take the corrections, we grew the business more aggressively than what we should have in the earlier part of our acquisition. So these are learning which you assimilate and make sure you do not repeat, I still think it is a great acquisition, I still think that this is the only mechanism we have to seed sub-Saharan Africa and to build a great business there. And it is a matter of time before the Africa piece kicks in which is really the most important part of the whole Namaste enterprise. And again we are now well entrenched in terms of localizing the supply chain, the Nigeria manufacturing will





come into operation, we are feeding East Africa from Egypt plant and the South Africa piece also is now in a advanced stage of planning. So I do not think one should take a short term view of Namaste, we will really have to look at the big price which is 800 million consumers in sub-Saharan Africa and hair care which is a huge, huge un-serviced need there and stay the course and just make sure that the North American business sort of maintains it's stability so that does not become a drag on the overall business, the Africa business will certainly fire up.

Percy Panthaki:

Right. So sir, would the total international growth and the organic international growth in FY16 be more or less at the similar level according to you?

**Sunil Duggal:** 

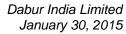
The organic growth will be higher, the consol growth will be lower again because of Namaste, even the Turkey is doing very well. So they are the two parts of the acquisition, the Turkey acquisition is showing 30% plus top line growth so doing extraordinarily well. So there is only one problem area which we have in our portfolio which is something which we can deal with, it is going to take time and it is going to be a little bit of overhang for a quarter or two, but the good part is that our MENA business, Turkey included is doing so well that the Namaste piece is not doing much damage and these price reductions which you see this quarter and a little bit in the next quarter are not going to be something which we will sustain, they will come off and then business would come back to a much sounder footing. So first quarter of next year, next fiscal we should see much better numbers coming out of Namaste even though they would be lower than our original projections. But as long as the MENA business continues to fire and generate very strong profitability and cash flow better than India for example, I am not overly worried about the international business.

Percy Panthaki:

Right sir. Last question if I might, for India what is your new product launch pipeline like, I mean we have not been very aggressive as we were maybe five or seven years back in terms of varianting, new launches, etc., which used to like drive 3%-4% points growth for us earlier, I am sure that has come off. So do you think that you will sort of put your foot on the paddle for that in FY16 seeing that you will have sort of benefits from input cost, you will reinvest them and launch a lot of new products etc?

**Sunil Duggal:** 

We probably will but I won't take that as a given, the reason is that all new products are by definition launched or most new products are launched in the urban markets, and unless the urban markets revive and respond we would be err on the side of





caution before launching our whole number of products in a market which is not responsive to innovation etc. So a lot depends on the growth here. While the pipelines are there, I am being circumspect in putting many of these products into the market. I am saying go slow and if you are very keen to do it then do it through a test market rather than blow up a lot of money on a national launch. But I would change my thinking very rapidly in case the urban confidence and sentiment and everything else translates into action on the ground.

# Nillai Shah of Morgan Stanley

Nillai Shah:

My first question sir is on your gross margin assessment, even the 40% of your cogs link to crude, given the sharp fall that we have had surely you should see more than 100-200 basis points of gross margin expansion even if you see flat numbers on some of the other raw material costs?

**Sunil Duggal:** 

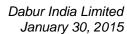
Yes, I mean I think that kind of numbers... crude linked inputs are 25% and not 40%, that was a mistake. But even with 25% and with other costs not going to go up, they will trend down and we will do more than what we have done. Like I said we have been consuming the higher priced materials in the current quarter. While I would not like to give any outlook in terms of the margin profile emerging in the next two or three quarters it would trend up, now how sharply it would trend up depends upon a whole host of factors. But both for the international business as well as for the domestic business we are in a comparatively sweet spot as far as material cost are concerned especially since we are not constrained like is said earlier to take down prices. I think that's a very important parameter otherwise most of your material cost impact can be just given away in terms of lower price or higher A&P, I don't think that will happen in our case.

Nillai Shah:

Okay. And coming to the longer term view, I would imagine that there are some categories within your portfolio that arguably could do with more ad spends and you could probably accelerate growth in some of these businesses. Given this gross margin flex that you will have over the next few quarters, do you think there is a possibility of driving volume growths much higher not from new product launches but just simply getting some of the smaller businesses to fire?

**Sunil Duggal:** 

We would but the markets also have to respond, it is not very productive to throw money at a market which is growing at 2%, 3%, 4%. So I would wait again like I said earlier for the consumer sentiments to revive before I unbottleneck the new products





and I spend significantly higher on the A&P. At the moment it is not very productive to raise the bar on A&P, you do it under better circumstances.

Nillai Shah:

So at the instance what would be your growth in some categories like Odomos or Lal Tail or...?

**Sunil Duggal:** 

Well, Odomos depends upon...you ask the mosquitoes how much they will contribute... so it is dependant upon epidemics. It is a volatile kind of product, but I think in a normal year Odomos should grow at 15% to 20%. The Lal Tail has got limitations regarding organoleptics so I do not see more than let's say low-teens kind of growth coming from Lal Tail, even that is not a bad place to go. We are coming out with other baby massage products, I won't talk about that in detail but I think they would be more mainstream if you know what I mean and perhaps our aggregate baby massage oil portfolio and the larger super segment of other baby products would be one of the important initiatives which we will be doing in the current year.

Nillai Shah:

Right. And finally on the international business, where would the margins for Namaste settle at once you get the business back on track say in the next 1-1.5 years?

**Sunil Duggal:** 

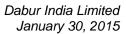
I am not looking at generating massive margins from Namaste, over the next 1, 2, 3 years. If I get something like 10% EBITDA, I would be pretty satisfied provided the business is performing in the direction which I want it to go - that means I am building infrastructure in Africa, I am building scale and winning customers in sub-Saharan Africa. To get those customers I would have to invest and the profit delivery from Namaste especially at the PAT level would be pretty nominal. But again this is a build up for the future, we have got very profitable businesses to support this. But if you are looking at long-term growth they would come more from businesses like Namaste than from our organic business in the MENA region which is constrained by the fact that there is a finite amount of population which is pretty well saturated with products from every company in the world.

Nillai Shah:

And when can we expect this growth to really start kicking in, you said 1Q 2016, would that be...?

**Sunil Duggal:** 

I think 1Q 2016 we would have bottomed out and we would now start seeing growth. The sharp growth will probably come the year after that in terms of when we have the supply chain localized in Africa, when we have the product appropriately reengineered for the African consumer, lower price product in other words, that





would more be towards 2016-17 than the next year. So the next year would mean that we build infrastructure, we see revival in the growth perhaps not dramatic but visible and we accelerate the business the year after next. Infrastructure building in Africa is a time consuming and costly matter, you can't build too much too soon, it is not possible and there is a big drain on the financials.

Nillai Shah:

And in terms of acquisitions, are we still in the digestion mode or are you actively pursuing opportunities?

**Sunil Duggal:** 

No, I think where we see opportunities which we can digest we will go for it, so there is no lack of appetite for acquisition but at the same time for whatever reason nothing of interest has come across. Whatever seemed to be interesting has been not value and some of the other stuff is a value trap so we have not had much luck in the last couple of years. But I think we just got to be patient here and not be in any desperate hurry to get a company, something good will come along, it will come along in due course.

#### **Apoorva Kumar of Jeffries**

Apoorva Kumar:

Sir just wanted to understand the breakup between revenues from urban and rural areas and if you can put on a figure to the growth rate that you are getting in urban versus rural?

**Sunil Duggal:** 

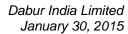
Well, just to give you a flavor, the urban growth were similar, I mean let's say Q3 the urban growth were a little bit lower than rural growth and for the YTD they have been very similar. I am talking about domestic consumption for the consumer business. So let's say urban total growth versus rural general trade have been trending in a very similar fashion for the nine months and rural has been trending higher in the third quarter. Not significantly so but this again has been contrary to expectations which we thought that rural will significantly lag urban, so it has come as a bit of surprise.

**Apoorva Kumar:** 

And are there any particular product segments where you see this trend more pronounced?

**Sunil Duggal:** 

I think the softest part of the business has been urban general trade, the modern trade actually has been very good. We have grown 25-30% in modern trade so that has been one of the bright spots of our urban story. So urban GT which is really the heart





of the business and that has been comparatively sedate. Still in double-digits but underperformed other areas like rural and urban modern trade. Another drag has been the enterprise business and that has been a drag in the third quarter but something which is of a temporary nature.

### Prasad Deshmukh of Bank of America Merrill Lynch

**Prasad Deshmukh:** Sir in 3Q are there any one-off cost linked to this Fem factory issue?

Sunil Duggal: Nothing.

Prasad Deshmukh: Okay. And in oral care your growth seems to be much sharper versus what otherwise

the industry growth is being reported at. So first of all your market share gain is

happening only in Red toothpaste or is there something else to be read into this?

Sunil Duggal: No, Red and high priced offerings are showing good growth in terms of market share,

Babool is showing small decline. So aggregate toothpaste portfolio is growing at 19%, high priced definitely much more than that and aggregate oral care is 11%

because of lower delivery from the toothpowder which is de-growing.

**Prasad Deshmukh:** So any comment on who would be losing on the market share?

Sunil Duggal: No, no comment.

Prasad Deshmukh: Okay. Last question, in January what kind of demand trend are you witnessing

especially in urban market?

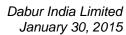
Sunil Duggal: January, quite frankly I don't see any improvement happening, it is early days, I

don't think one should read too much into it but January, the urban trends have been still sluggish, they have been not very different from Q3. So like I said I am not very optimistic about any sharp uptick in demand happening this quarter, it is too short a time frame. So I would be a little circumspect in projecting growth from urban but I think the rural growth would improve, growth from the beverage business will improve so overall we are hoping for a better delivery from the domestic consumer in

Q4 as compared to Q3 but may not be significantly so.

# **Sudhir Kedia of ASK Investment Managers**

**Sudhir Kedia:** Sir you said RM benefit is of 2% to 3%...





**Sunil Duggal:** 

No, I didn't say that. See 110 basis points is the material cost impact, not 200-300.

**Sudhir Kedia:** 

So that is upon Q2 and Q3 because you have been consuming high cost inventory. So as the prices stand today, crude prices, how your RM index would have behaved Q3 and now?

**Sunil Duggal:** 

Let's put it this way, actually the material cost impact in the true sense has been not 100-110 basis, it is more like 50-60 somewhere around that, the rest has come out of mix improvement, lower sales of lower margin portfolio, etc., etc. So the improvement in terms of the material cost has been pretty marginal this quarter, 50, 60, 70 basis points in that region. Going forward, this would trend up; definitely trend up because now we are going to consume the lower priced purchases.

Sudhir Kedia:

Can you give some idea, some color on the RM index, so in Q2 if it 100 then Q3 it will be more like 99.5 or so. And going forward in Q4 should it be more like 95-96?

Lalit Malik:

Q3 was better than Q2 without doubt, so there was an improvement in the whole cogs profile in Q3 versus Q2. Q4 there would be a further improvement.

**Sunil Duggal:** 

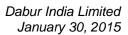
I would perhaps not like to comment but there would be an improvement over the margin delivery at the gross margin level in Q4 on a YoY basis compared to Q3.

Sudhir Kedia:

Okay sir. And second thing, whatever the magnitude is the savings out of COGS, so what kind of assumption we can take in terms of reinvestment business in terms of ad and promotion and how much can be retained with the company?

**Sunil Duggal:** 

As we speak we do not expect A&P for the domestic business which is currently at 13.8 to trend up, it will probably remain in this 13.5 to 14 level and for the global business at around 15-15.5%. So I am not anticipating any changes on the upside or downside in terms of A&P, I think as an enterprise we have deliberately not taken down A&P like many of our competitors, we have maintained at current levels and I don't see any reason to take it down, but quite frankly there is no reason to take it up further unless we see a revival in sentiment in urban which leads to aggressive introduction of new products which obviously suck up a lot of cash. In that event we would see A&P perhaps trending up but it will be more than balanced out by improvement in terms of margins. Keep in mind the urban markets are significantly more profitable than rural, so any uptick in urban demand only plays in our favor.





Sudhir Kedia:

Sir next question in terms of going forward, as you said that price increase will be very insignificant or maybe none at all and your volume growth if you assume about 10% to 12%. Which respectively means your value growth will be in the vicinity of 12%, 13% and if your sales and promotions as percentage of sales, ad and promotion as a percentage of sales remains at a similar level, your ad expenditure will increase

by only 12% to 13%, am I correct in my understanding?

**Sunil Duggal:** Well, let's say the ratio of A&P which is 13.8% in Q3 is not likely to change

significantly.

**Sudhir Kedia:** So that should grow in terms of value growth?

**Sunil Duggal:** Yes, that would grow in line with the top line and if you take the top line in the

region of 10% to 15% it would certainly be within this band.

Sudhir Kedia: So is the volume growth assumption correct given what circumstances they are in?

**Sunil Duggal:** I think your estimate is too optimistic, we did 7.4% this quarter and I would pitch

> volume growth in the 6% to 10% band at this point in time, I am talking about the near-term the next or two. After that I would not have a guess but 6% to 10% is the

likely delivery from domestic consumer in the near future.

**Sudhir Kedia:** Okay. Sir one more thing, in the past we have been seeing value growth in the

vicinity of let's say...in FY2010, 2011, 2012, your sales growth was in the range of

20% and then in 2013, 2014 it slowed down to about 15%, 16%...

**Sunil Duggal:** But that had an acquisition component, etc., I don't think organic growth trended at

> 20% over any extended period of time. It never was like that. And of course the overseas growth was very high. So if you did domestic consumer growth it was in the mid-teens, mid-teens has been the average growth which was seen over the last few

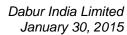
years net of acquisitions.

# **Jamshed Dadabhoy of Citigroup**

Jamshed Dadabhoy: Sir just a quick one, you mentioned volumes you all expect 6% to 10% over the next

> one to two quarters, is it fair to say that your volumes would be closer to about 9% or so for this quarter sales if you were to adjust for the base effect in Juices and the one-

offs on the Skin side?





Sunil Duggal: Well not quite, I think they will be a little bit lower than that but they won't be higher

than what we saw in the first two quarters.

**Jamshed Dadabhoy:** No, but 7.4% includes the one-offs right on the Skin side and the Juices side?

Sunil Duggal: Yes, I am including that one-off, I am including but it has a lower Juice component

than the earlier quarter so therefore the delivery from non-Juice business is higher than the earlier quarters. And going forward Juices actually would deliver perhaps better growth, it does not mean that the consumer business will drive a lower growth, I don't think we would like that to happen. So overall volume growth should be a

little bit better, let's see, it is pretty hard to predict.

Jamshed Dadabhoy: No, I guess where I am coming from is I am saying it should be much better, right,

because adjusted for your one-offs this quarter itself will be close to about 8.5, 9?

Sunil Duggal: To be very honest, every quarter there is some one-off or the other, so in a business

as diverse and complex as ours there would always be some one-off. So I won't like to blame too much on one-offs, I mean one can argue that everybody talks about the negatives of one-offs but nobody talks about the positives, so I trend not to talk too much about it. So the business is as it is, it is growing at 7.4%, we hope to bring it up with or without one-offs but there is no certainty of that happening. It is contingent a lot upon urban growth developing further, strengthening further. The margin profile looks a little bit more benign, we should see better delivery on that front, top line

does remains a concern.

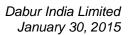
**Jamshed Dadabhoy:** On the Juices side just carrying forward from there, is the growth soft just due to base

or is that some sort of weakness that you are all sensing?

Sunil Duggal: Largely base but the base now is going to go against us. The base is very high

remember from last year when we grew consistently at 20%-25% over the last many, many quarters and it is hard to deal with that kind of base especially when urban demand remains subdued. So I will be happy with around 15% growth from Juices which is still pretty good. A lot will depend upon summers because a part of our growth this year was driven by hot summers which accelerated sales of single serve packs which typically is only 28% of mix. This year it became more like 25% because that is a summer driven product and the big packs are not seasonal driven. So there are a lot of moving parts here in our business but I think the big picture is what

I painted to you earlier in terms of both the top-line as well as the margins.





**Jamshed Dadabhoy:** And will a strong dollar impact margins for the Juice business?

Sunil Duggal: No, significantly I mean the dollar is not really that strong, we have seen much worse

days and then the component Indian flavors is constantly increasing. So I think the

margin outlook for Juices is very stable, I do not think it is going to trend

dramatically either way.

# Amit Sachdeva of HSBC.

Amit Sachdeva: If I may just delve a bit on urban growth, you mentioned the soft part is urban general

trade and urban modern trade is better. Just to get a sense of the numbers behind,

what is the urban modern trade kind of sale is for you in general?

Sunil Duggal: It is around 10% for the total business which means it will be around close to 20% to

25% of the urban business.

Amit Sachdeva: Okay. And sir in urban modern trade as we measure it, do you include cash and carry

also a part of urban modern trade?

Sunil Duggal: It is a very important part of modern trade. One third of our modern trade is to cash

and carry and wholesale.

Amit Sachdeva: Okay. And because if I gather that cash and carry channel has been expanding quite

rapidly for the last two three years.

**Sunil Duggal:** Very true.

Amit Sachdeva: Where say modern trade in retail side actually has been either shrinking or has been

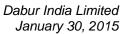
more or less flat. And so is it something to read that where urban general trade, I do not know how the measurement is done but I would assume that you are selling it to wholesaler or distributors and calling it a general trade sales versus something goes to modern trade whether through retail or to cash and carry would be seen as a modern trade sale, but actually that sales also being further going to the general trade through the cash and carry route. So would there be some amount of sort of channel

shifting happening but it is looking like urban general trade is actually soft?

Sunil Duggal: Yes, I mean you are right in the sense that a lot of cash and carry actually feeds into

general trade so one should perhaps add cash and carry to general trade rather than to

modern trade. That is an interesting question but so far the categorization has been





the way I have mentioned and if you add back that wholesale component then the general trade certainly looks much better what the optical numbers show. But I think one has to see this modern trade growth in the context of overall modern trade which has grown just by 7% so if you grow at 3-4x of that amount there is something which we are doing right in modern trade. And we are pretty happy with the performance as well as the margin delivery from modern trade which is actually superior there from the aggregate general trade rural and urban put together.

**Amit Sachdeva:** 

Okay, sir. Sir which products are say when 10% sales are in the modern trade, so which part of the portfolio has a highest salience as will Juices?

**Sunil Duggal:** 

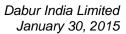
Juices followed by Homecare. So obviously the more urban and more discretionary part of the portfolio does have a higher modern trade component. Now Juice is of course lower margin but Homecare is very high margin, but these are the categories which typically drive modern trade consumption much ahead of the others, so around 30% of Juices goes through modern trade, around 35% of Homecare goes to modern trade.

**Amit Sachdeva:** 

Okay, sir. Sir that is very helpful. Sir just a second question on general OTC and sort of Ayurvedic kind of positioning that obviously the core positioning of Dabur has been Ayurvedic. But if you look at some of the new entrants, if I say Patanjali or someone who has been going through an alternative way of positioning as Yoga and then they have their franchise of developing these products as well and a lot of media reports suggest that they have become quite significant in the kind of sales they have started generating for this product. Do you see that market is sort of evolving faster and do you see some amount of segment which is now becoming more and wide spread acceptable and is there something that you see acceleration in such segment and how do you read that sort of development?

**Sunil Duggal:** 

Absolutely, I mean we are seeing alternative therapies, remedies, and products gaining traction big time and especially amongst the youth which traditionally shun them. So I think there is a move back to organic, herbal, Indianness, etc., which works in our favor and the entry of many of these players only accelerates the trend, gives it more resonance. So we do not see them as competitors, they are almost collaborators because we are all bound together by trying to wean people away from the more westernize solutions to Indian and organic solutions.





**Amit Sachdeva:** 

Sure. Sir my question is actually then, are more established company such as yourself are actually have been slightly less innovative than these new guys who come in and they are like plethora of products, selling this or have you not thought through in that direction and now is it not the time that you should be looking those say candies or fruit stuff or lots of things this is very creative product they have put together. So is it not Dabur is national owner of selling those products more and more rather than just about any Ayurvedic positioning guys who is starting these products?

Sunil Duggal:

No, I think we are the original innovators in this space. I mean nobody made Chyawaprash before us and then everybody makes Chyawaprash.

**Amit Sachdeva:** 

That is the reason you are the natural owner in my view, I mean where you should be having the lead in terms of developing more and more products very aggressively in this space.

**Sunil Duggal:** 

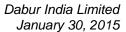
I agree with you and perhaps we have been not focused that much on this phase in the past but as I keep mentioning that the Healthcare domain is really at the center piece of our future growth story and there would be far more innovations in Healthcare including areas like say baby care than you have seen in the past. So we will be innovating much more in this domain than what we have because we believe now that this domain entrenched, it shows a growth path, Red Toothpaste is a classic example of how doing things differently makes it work rather than following the heard and I think that is a learning which we constantly strive to build into our DNA and the way we develop our products.

**Amit Sachdeva:** 

Sure sir. So would the direction be HPC in that space or will be more?

**Sunil Duggal:** 

I think the direction broadly is that a) your products should enjoy a very high level of differentiation and innovation otherwise you cannot compete against the big boys in at least the HPC space and then grow the whole emerging consumer franchise for Ayurvedic, alternative healings, organic products, and herbal products in whichever domain and the underlying philosophy which will then cut across our entire portfolio would be that our products are on the Healthcare platform whether they are in HPC or Healthcare or beverages or whatever else. And that is a very strong property and proposition which will serve us for a very, very long time, does not fade away, not subject to fats and other such things.





#### Richard Liu of JM Financial.

**Richard Liu:** Sir with oil price going the way it is, how do you see the economies panning out and

hence growth for you in some of the regions that your organic international business

operates in especially with respect to some of these rather oil-dependent countries?

Sunil Duggal: Yes, I think the oil price decline is hugely important for India, I mean in terms of

lowering cost and improving the whole state economy that is pretty well-mapped out.

**Richard Liu:** Sir I am talking more about what the repercussions that it will have on the growth in

Middle East and Europe and some of the countries?

**Sunil Duggal:** Okay. So from the Middle East, the oil producing countries?

Richard Liu: Right.

Sunil Duggal: Well we withstood the oil shock and the deep depression these economies had been

into three, four, five years ago and we came out it unscathed, our businesses did extremely well in fact because then what we were doing earlier. So going by that experience I think we are well-poised to witness another oil shock and a downtrend

in those economies. But going by pure macros there should be some headwinds but we did not feel them last time. Sometimes when things are troubled on a ground the

business actually does not suffer, take Egypt which is our fastest growing global

market by far, 30% growth year-on-year. It is not really the most stable place in the

world but the business has done exceedingly well both in terms of revenues and margins. So these headwinds do impact some businesses but not so much staples and

I think especially in the kind of staples which we sell there I am not really worried.

But I keep saying that the MENA is finite business it is not going to a growth up by

15%-20% for the next 20 years, there will be a point where it will kind of mature and

start yielding low growth so therefore the imperative to push southwards into sub-

Saharan Africa.

Richard Liu: Sure, that is well taken. But if I just stay with Middle East for the time being and if

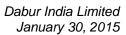
one is to talk about what the government can do to perhaps protect its fiscal kind of a

position, because in between one were hearing things like probably the government

imposing income tax on expiates and so on and forth. So do you think any such kind

of adverse can come all of a sudden that could have any impact on the business that

operates there?





**Sunil Duggal:** 

Yes, I think the impact to some extent is already being felt in terms of our ability to recruit expiates to run businesses there. For Saudi Arabia to begin with has embarked a very aggressive local employment policy and which means obviously the number of people whom we would like to employee has shrunk. The pool has shrunk quite a bit. And these can impact business but I think if the underlying demand remains strong, we will find some ways to get to the end consumer, we will rejig and restructure our business model and the distribution model to make sure that happens. So it is hard to say but going by past experience the downtrend in oil prices and the consequent impact does not bother me very much.

Richard Liu:

And I was just trying to get some hang of the Namaste number. You said that the organic business actually grew 16, and Turkey Hobi probably grew 30, does this mean that the Namaste business for whatever reason abnormal it was I know but the business actually declined some 35%-40% during the quarter?

**Sunil Duggal:** 

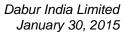
Well, it declined very sharply but like I said this is a big correction which we took this quarter, so this is extraordinarily high level of correction and degrowth which will not be repeated.

Richard Liu:

Got it. And lastly sir, what are the two-three factors that actually cropped up in the last three months that has actually caused you to take down your domestic volume target band from 8% to 12% earlier to 6% to 10%?

**Sunil Duggal:** 

I am still shooting for 8% to 10% but I am just erring on the side of caution here when I say 6% to 10% and the reason really is that the urban demand still remains stuck at the trajectory of 3%, 4%, 5% volume growths, and not even that in case of many segments. Toothpaste for example very large segment de-growing at 5% volume terms this quarter, hair oils de-growing by 7% this quarter. I mean these are very scary numbers and these are big segments and urban is not supporting the segments at all. Perhaps rural is supporting them more than urban is. So therefore unless the urban demand revives it will be not easy not to be taken for granted but we can hang on to this 8% to 10%. Therefore I am widening the band a little bit, I am hoping that this scenario won't come true and we should still be north of 8% but there is no certainty about that happening at least in the next couple of quarters.





# Percy Panthaki IIFL.

**Percy Panthaki:** Sir, a couple of follow-up questions. One is the other expenses line this year for the

nine months has YoY grown by only some 6%-7%, so can you just some reason why

the growth is so low?

**Ashok Jain:** Other expenses, or other income?

**Percy Panthaki:** Other expenses.

Lalit Malik: Other expenses, okay. Other expenses is primarily with regard to the synergies and

also the freight which has come down compared to the previous year and therefore we have a saving on account of that. There are certain expenses which are due to

phasing issues are not part of this quarter which will come into the next quarter.

**Percy Panthaki:** Sir I am talking about nine months.

**Ashok Jain:** Yes, as far as the nine months is concerned as I said one is the freight element which

has come down so you see the major impact in this quarter and therefore in nine months. The second one is on account of certain expenses which may come in quarter four, it is the phasing impact that. So nine months is lower as we may get some impact there. And the third one is due to synergies, our cost is coming down based on per unit cost that we had in the past. So all these three factor put together

our other expenses are lower in YTD as well as in quarter.

**Percy Panthaki:** So sir if I understand these three reasons that you gave most them are not one-offs, so

would I be right in assuming that even going ahead your other expenses inflation will

be restricted to some 8% to 10% kind of a number?

Ashok Jain: Well, going forward also our other expenses will have the synergy leverages, now

what percentage will ultimately pan out on the actual expenses but certainly the

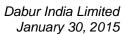
leverage will be there in the normal expenses, not on the one-offs.

Percy Panthaki: Fair enough. Another question for Mr. Duggal is, the OTC and Ethical's portfolio

again for the nine months has grown only about 7% so...

Sunil Duggal: Sorry nine months. There was uptick in the third quarter grew by around nine but still

below what we shooting for.



Dabur Gelebrate Life!

Percy Panthaki:

Yes, so just wanted to understand the reason for this sort of slightly lower than expected number and do you think that this number will pick up and go back to the mid-teens kind of level that we are used to?

**Sunil Duggal:** 

No it is partly on account of some delay in winters but mostly on account of the whole urban phenomena which I spoke about. These products are largely sold in urban centers and we did not get much support, the whole OTC environment is just growing by 6%-7%, I am not talking about ours. I am talking about the category as a whole. So there is not much support from the market for this category so that's why the growth is a little subdued. But I think the long-term story here is still intact, there is no issue about that. So we stay on course, we continue to build a Healthcare portfolio, we continue to add products which we may or may not launch in a hurry but the portfolio has been built up. The whole infrastructure in terms of advocacy is being built up, core is now fairly mature and we will see how much to expand it. So all the triggers are in place, we just got to weight for consumer sentiment and actual behavior to come back.

Percy Panthaki:

Right. So while it remains attractive in the longer-term there is a fair probability that for the next year this could still be a single-digit growth.

**Sunil Duggal:** 

No, the way I look at it is that growth when it comes back can come back very sharply very quickly and I do not think one should take a very pessimistic view about the demand scenario. Certainly, it is not going to come back in the next few weeks and maybe not for the next quarter or two, but to project that demand will remain subdued for the next one year I think is perhaps a little too pessimistic.

Gagan Ahluwalia:

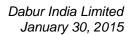
To add to that, actually the Ethical portfolio has been growing at 12%-13% which has been much ahead of the past growth trend of Ayurvedic Ethical products.

#### **Manish Poddar of Motilal Oswal**

**Manish Poddar:** I just have one question. What according to you has led to a better rural growth?

**Sunil Duggal:** 

I do not know and that is something which I have been trying to figure out, why has rural growth come up because it has not been a great year in terms of either the agri incomes as well stimuli, so quite frankly maybe you can let me know what the reason. It is contrary to expectations, it surprised us with this resilience and I do not





see any trigger therefore I am not very optimistic of its sustainability because what is the trigger and I just cannot figure it out.

# Apoorva Kumar of Jefferies.

**Apoorva Kumar:** Just one clarification, sir you said that the toothpaste industry has shrunk by 5%?

**Sunil Duggal:** 3% sorry, not 5%, 3% tonnage shrinkage this quarter as per syndicated data.

**Apoorva Kumar:** Would you have any break-up between urban and rural again on this?

Sunil Duggal: No, no.

**Apoorva Kumar:** And can you guide on the industry volumes for the other segments?

**Sunil Duggal:** Guide in the sense of future projections?

Sunil Duggal: No, I would prefer not to do that for segments, I think I have given a reasonable idea

of our own expectations, But again I think the overarching theme here is that there would be continued lack of demand for the next quarter maybe two and then hopefully it should revive itself, so that is what the current scenario seems to be playing out. I do not think there is going be any immediate uptick in terms of consumer demand, so expect moderate Q4 and perhaps Q1 in terms of the revenue

line but the margins should continue to grow at a decent pace.

Gagan Ahluwalia: Thank you. Thank you for participating in conference call. Webcast of the call and

transcript will be available on the website. For any queries or feedback, you may

kindly contact us. Thank you and have a great evening ahead.