"Dabur India Limited Q3 FY2016-17 Financial Results Investor Conference Call"

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MANAGEMENT

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Gagan Ahluwalia: 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 31st December, 2016. We have present here Mr. Sunil Duggal - Chief Executive Officer, Dabur India Limited; Mr. Lalit Malik - Chief Financial Officer; Mr. Ashok Jain - Vice President (Finance) & Company Secretary and Mr. Ankush Jain - Head (Financial Planning and Analysis).

We will begin with an 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: Thanks Gagan. Ladies and Gentlemen, good afternoon. I welcome you to this Conference Call regarding quarter and nine months ended 31st December, 2016.

The quarter has been challenging post the demonetization of Rs. 500 and Rs. 1000 notes which accounted for 84% of the currency in circulation. Before this FMCG growth was beginning to look up and we witnessed double-digit growth in October after a few quarters of subdued demand. Post 8th November, because of the cash getting sucked out of the system, this led to both a reduction in consumer spending and huge trade dislocation. Due to this the FMCG sales were severely impacted in November. In December sales did pick up but not fully as trade and wholesale channels continued to remain stressed and replenishment of cash was slow. There was massive down-stocking both at the distributor and trade levels, particular in rural and northern and central India as these regions were more dependent upon cash. Growth of key categories as reported by Nielsen had touched double-digit levels before November and they went down to half in December reflecting the state of the market.

Dabur also experienced sharp drop in sales during the month of November. The decline was contained in December by focusing on modern trade, cash and carry and institutional channels, extending selective credits and facilitating the trade wherever possible. In addition to the domestic situation, the Company was faced with multiple headwinds in its international business with currencies devaluing sharply in some of our key markets like Egypt and Turkey and geopolitical and macroeconomic challenges continuing in the MENA region.

Overall, consolidated sales declined by 6.1% and consolidated profit after tax by 7.5%. The domestic FMCG business declined by 6.8% in primary terms, however secondary sales which measures sales from distributor to retail reported growth of 0.7%. As a step towards reducing our pipeline, inventory and business hygiene, we decided to allow destocking of the channels by around Rs.100 crores during the quarter, reflecting around 10 to 12 days of inventory reduction in trade pipelines.

In terms of domestic business, we recorded improvement in market shares in most categories. Oral care business reported a decline of 5% in primary terms, however secondary growth in this category was flat. Our market share in toothpaste increased by 70 basis points YoY indicating the strength of our brands. Hair care was impacted more than others due to higher rural and wholesale saliency for the category, the category reported a decline of 20%. However, this was much lower in secondary terms around 12%. Market share in Hair Oils and shampoo expanded by 20 basis points and 30 basis points respectively, indicating better than category tertiary sales. Almond Hair Oil which is more modern trade led posted double-digit growths. While Home Care registered around 5% decline in primary terms, the category recorded a growth of 4% in secondary sales. Odomos and Odonil both performed well, reporting strong improvements in market shares. Our share in mosquito's repellent creams went up by 420 basis points and air fresheners by 100 basis points.

Demonetization happened just as the winter session was setting in, therefore some of the winter centric brands were impacted in primary terms. However, the decline was much lower in terms of secondary's. Our market share in Chyawanprash was lower by around 300 basis points over last year. However, the brand reported high single-digit growth during December as the liquidity situation eased and winter intensified.

Food reported a strong growth of 52% led by good off-takes of fruit Juices in modern trade and institutional channels and a favorable base of last year. Market share for Juices and Nectars went up by over 500 basis points over the same quarter last year. The Real Wellnezz range has been extended with the launch of Amla plus Juice which is a unique blend of Amla and other fruits.

Modern trade channel has been a star performer with the sales in this channel growing by over 20% and modern trade saliency touching around 16% of domestic sales. This enabled us to make up for the slowdown in GT and wholesale to some extent, and also further gave a push to brands which have a higher contribution of modern trade.

International business reported flat sales in constant currency while in INR terms there was a decline of around 6%. While markets like Egypt and Turkey reported strong constant currency growth of 29% and 19% respectively, it was lost in translation on account of massive devaluation of their currencies. GCC markets were under stress mainly due to macroeconomic issues in Saudi Arabia. SAARC markets performed exceptionally well with strong growth in Nepal and Bangladesh lead by Juices and oral care categories. Our market share in key markets were resilient and reflect the strength of our brands even in a stressed market environment.

On profitability side, the gross margins reduced during the quarter on account of three key reasons, adverse category mix, higher level of consumer promotions and some inflation in inputs like sugar and fruit concentrates. This impacted the operating margins which were lower by around 110 basis points. While the media spends came down marginally, overall A&P spends including trade and consumer promotions were at similar levels last year. Most of the factors impacting margins are incidental to the quarter and should largely correct themselves going forward.

We have taken several steps to enhance the efficiency of operations in terms of improving productivity of our workforce, managing Adpro spends more effectively, conserving resources and managing our working capital efficiently. In fact, our receivables and inventory saw a reduction during the quarter on account of better collections and improved forecasting of sales. It is notable that in these challenging times we have maintained focus on channel hygiene, tightening credit and enhancing sales efficiencies. While the revenues are coming back to normal, the revival which we were expecting in consumer demand appears to have got deferred. However, with sequential improvements on the macro situation and some stimulus coming from the government, demand should look up in the coming quarters. We will continue to focus on investing strongly behind our brands and business to grow profitably and strengthen our market position in the categories in which we operate.

With this, I would like to open the Q&A. Thank you.

Abneesh Roy from Edelweiss

Abneesh Roy: Sir, my first question is the oral care Red Toothpaste growth, and Nielsen data also says tertiary off-take in double-digit. But if I see the other oral care companies, whatever results they have given out, they seem to be much weaker. So, in your sense is this a market share gain you said, 70 bps, but I am trying to go further into it, what are the reasons why your performance has been better in this quarter more versus earlier quarters?

Sunil Duggal: Both the Red paste and the Meswak brand both continue to grow quite well despite issues of demonetization and the competitive intensity having increased in this space. But the traction is still good, it has moderated a little bit so we are no longer growing at 20% - 25% but still the growth is well ahead of market and we continue to gain share. Babool had a weaker performance which we are now going to reverse going forward because that is more dependent upon rural and that was affected the maximum. But the Red franchise is substantially urban, Meswak is almost entirely urban and so the benefit is a little bit from the fact that urban markets did better than rural.

Abneesh Roy: And Sir on Red, the market leader has introduced a new product with Indian brand name, 30% lower than the other herbal player in terms of pricing. But if I see that product from far it seems very similar to your product in terms of look and feel, so are you concerned that this could have…

Sunil Duggal: Well, we have a very strong franchise of Red and very loyal user base, so I do not think just price would be instrumental in down-trading, we have not seen evidence of that even though we are priced higher than the market leaders in terms of the main offering. So, a 30% discount typically will not move traffic from incumbent into a cheaper brand, it might move traffic from existing cheaper brands into something which consumers may perceive to be of better value addition but not from brands such as Red or Meswak.

Abneesh Roy: And Sir, in Honey now you have done an extended promotion period, so in that context if you could share how the market share is and why do not you repeat that in Chyawanprash? You are seeing 300 bps dip in market share although growth in December is good but in Chyawanprash you do not feel you need similar kind of strategy?

Sunil Duggal: No, we did exactly the same in Chyawanprash, we gave a fairly significant consumer promotion, all of it was completely destroyed by demonetization. You see, we loaded the trade in October, we had great sales in October and the off-take really began in November. And just when the off-take began you had this issue, so the demand just dried up and no amount of consumer promotion could rectify it. In the case of Honey, the equalization of prices with competition and reduction of premium has been happening for a longer period and Honey is not that seasonal, so the impact was not as dramatic as Chyawanprash where the sales performance was quite weak. But that was entirely because of the timing. If the demonetization happened in summers I think we would have had a great season for Chyawanprash.

Abneesh Roy: And Sir, Honey, when do you see the aggression from both players reducing, because now premium is much lower, you have a much stronger brand, so wouldn't it be logical for both players to now increase prices, how are the margins now?

Sunil Duggal: I think the input costs are not really favoring any price increase, input costs are low, Honey availability is plentiful, there is no economic case to increase the price. So I do not think any of the players will budging from the current price points, there might even be further intensification of price, you never can rule that out. So, in our case we plan to continue the current promotions at least till the Honey input cost remains very soft as they are today. And when we see upswing in terms of the input costs then we will reduce the promotions or do something else, at the moment there is no case to support any price increase.

Abneesh Roy: But your margins in this will be much lower than what it was one and a half year back, right?

Sunil Duggal: Yes, but having said that I think those were unreasonably high margins, so they probably could not be supported for a long period of time in a category such as Honey. We would have reduced prices in any case, we did it perhaps a little bit more sharply than we would have done in normal situation, but a price reduction was on the cards.

Abneesh Roy: Sir, last question on mosquito repellant, you have gained market share but if you see the other player has come out with disruptive products in terms of pricing and usage. So, are you looking at innovations here, any pricing strategy here?

Sunil Duggal: Well, innovations really, not so much pricing strategy, we are looking at products which are priced very low on the whole pricing spectrum as well as value added offering. So, there is a lot of innovation which will drive consumption of out-of-home products in this repellant space. I think Odomos is in a good position with regard to where we are, market shares are very dominant as usual and we are looking at innovation, we have already done lot of that in terms of wrist bands, patches, but we need to accelerate some of the innovations at the popular level because the lot of untapped market which needs to be serviced in terms of out of home usage of mosquito repellants.

Abneesh Roy: Sir, one more question I had, IME9, so you are essentially in the diabetes space, many companies have got the formula, so I am seeing IME9 kind of advertisements being very aggressive, in your case I think it is still clinical sampling and all those things are happening. So are you not missing out because this is a good formulation but if other companies are aggressive and Rs. 5 pricing, in that context will you miss out on the big opportunity?

Sunil Duggal: We consider most of this advertising to be completely unethical and directly in contribution of DMRI regulations. We will certainly not go down that path being company of our stature. So, if people make these kind of claims, well they can get away with it but ultimately a diabetic measures his sugar levels five times a day and if they do not work they go off the radar. We are having a very interesting product called Madhu Rakshak which is based on our officially certified formulation, Ayush 82 Formulation, I think that will give sort of a credibility in marketing the product rather making wild claims. Because this product actually does work in extended clinical trials. So, we will be doing things a little bit more scientifically rather than based upon hype and tall promises.

Abneesh Roy: So, your formulation is superior, because you have taken it from the government only, so…?

Sunil Duggal: It is a government formulation with huge amount of clinical trials and a lot of backup data which would have taken us years to make, so that data is available to us, we are licensee for I think 10 years and that product could do very well. We are promoting it entirely on the ethical platform as of now, we believe that we should not take it over the counter, but perhaps at some point in time we will.

Percy Panthaki from IIFL

Percy Panthaki: If I look at the difference between your primary and secondary sales growth, it is about 600 - 700 basis points which would suggest that the distributor days have reduced by about six to seven days. So, just wanted to get your view on this that this reduction which has happened, is that reduction here to stay or once the cash availability increases, etc., this will revert and you will go back to whatever original days of holding you had with your distributors?

Sunil Duggal: No, the pipeline reduction for the main CCB business as we call it which is Personal and Healthcare is actually in the region of 10 to 12 days. Foods, there is actually a small build-up of pipelines but then if on a YoY basis we did not have any pipelines at all last year, so we can take Food aside and the main business has got a 10 to 12-day contraction which we believe is here to stay. The reason for this is that our supply chain over the last few years has become far more efficient than it was both in terms of its ability to forecast and ability to replenish. So, we do not need the kind of pipelines which we had earlier, we would have done this in any case but it would have been, let's say, easily digestible if the growth rates had been good. So, we were pretty committed to this 10 to 12-day reduction by the end of this year, but this in a sense almost forced us to do it immediately because unlike perhaps some companies which did credit extensions to keep the pipelines going at earlier levels, we decided not to. We tightened up our credit, we reduced our working capital through receivables by pretty big margin and we reduced the pipelines consequently to maintain the dealer ROIs. So, I think this is a health step in cleaning up the whole system, toning up the system, ensuring better responsiveness, freshen the product, we are pretty committed to it. Opportunity present I would not mind by reducing it by another five days but which may not happen till demand revitalizes itself.

Percy Panthaki: So just to understand this correctly sir, this 10 to 12 days in consumer care division, the correction is only at the distributor end or it is 10 to 12 days throughout the value chain?

Sunil Duggal: No, it is 10 to 12 days at the distributor end, the total value chain it will be more, very hard to fathom. But obviously, the destocking has happened in a big way at the wholesale level, but it is very hard to decipher how much.

Percy Panthaki: So, after this correction of 10 to 12 days the distributor currently is sitting on how many days' inventory?

Sunil Duggal: The distributor is sitting on something like 22 to 25 days' inventories, depending on where you are. And out of which around 15 is paid and seven is something which we give them credit for.

Percy Panthaki: And second question is on input costs, now with input costs picking up just wanted to understand what would be your strategy, would you in this kind of an environment be okay to take the input cost hit on your margins or would you try to keep your margins more or less stable, what are your thoughts?

Sunil Duggal: The input cost uptick actually is not very damaging at this point in time, it is restricted largely to some areas like sugar, fruit concentrates, little bit on plastics, but it is pretty benign because there are pockets of deflation also like Honey. So, I do not think we need to resort to any aggressive price increases. You have seen obviously a 300 - 350 basis points of increase in our material costs or deterioration in our gross margins which is a combination of many factors, consumer promotions being higher than what they normally were, a little bit of inflation and also a much larger slice of the pie for the low margin beverage business this quarter. All that has led to optically a sharp deterioration in our margins. But I think the portfolio will rebalance itself to margins which are not very different from what you saw earlier on a YoY basis. And if there is some erosion we will make through price increases. But like I said, the price increases would not have to be dramatic.

Percy Panthaki: So, for this quarter if I remove the mix effect then the gross margin contraction would be ballpark how much, sir?

Sunil Duggal: I think around 1%.

Percy Panthaki: 100 basis points?

Sunil Duggal: 120 basis points to be precise, so 120 is on account of material inflation.

Percy Panthaki: Okay. And if at all in the future you have to counteract this 120 basis points would it be larger, I mean, it is always a mix of different strategies but would it be more towards withdrawing the promotions or would it be more tilted towards taking MRP increases?

Sunil Duggal: We would lower the promotions quite a bit starting this quarter and accelerate it further. Because I do not think there is any need for promotions, rather than increase prices it is better to take up promotions first. So, we are taking up promotions fairly rapidly, exceptions being really Honey and a couple of other things. So, that would lead to some improvement. And then the mix, now Juices was around 17% - 18% of business in Q3 which was extraordinarily high, this will rebalance to the normal 14% - 15% which will also mean a mix improvement. Because, one, the biggest down-size in margins actually has come from Juices, so while we have had great sales we have also had bad margins because of combination of high input costs in beverages. So, I think the domestic margins should be pretty much stable, I am not really concerned about that. International margins would come under some pressure because of currency depreciation. If you see the consolidated business the currency depreciation issues would linger on for the next two to three quarters because big devaluation has really happened in Q2 and Q3 of this year.

Percy Panthaki: Sir, what I was saying is that since most of your promotions are in the form of giving extra volume to the consumer, when you withdraw these promotions will it not affect your volume growth?

Sunil Duggal: To some extent it will, but this extra volume growth which you see on account of promotion it is not universal, it is only there in some SKUs and not everywhere. So I do not think that that will be very dramatic when we take off the promotions.

Sunil Duggal: Another thing which perhaps led to a deterioration of volume growth was the high Juice saliency, Juice accounted for, in the way we compute volume, for a much lesser amount, so they drag down the volume growth to some extent. So, I think the volume growth should trend reasonably stable post this quarter and post the demonetization effect from the first half of next year, even first quarter of next year they should get back to reasonably good levels.

Prakash Kapadia from Anived Portfolio Managers

Prakash Kapadia: Just wanted to get some perspective, what do you think will drive growth for us in the near-term, will it be rural or urban? And specifically, what category should we look at over the next few quarters to bring those back to the normal growth rate which we have been doing over the last few quarters?

Sunil Duggal: See, personally I think that rural growth would be more significant than urban. I think the government would do a lot to stimulate rural demand because that has really got the bad end of the stick as far as demonetization is concerned. So, I would invest ahead of the curve in again rural portfolio, rural distribution, etc., etc., I think that is where the demand hike would be strongest, we might see tomorrow how the stimulus will be given, but I am pretty hopeful that it will be significant.

Prakash Kapadia: And you have already started building some of these initiatives in terms of our near-term strategy?

Sunil Duggal: Yes, we have, we have done it fairly aggressively because we did expect even pre-demonetization that rural demand would trend ahead of urban. And I think our hypothesis is even more validated. So we are moving aggressively in to having let's say rural variants of many of our key products, Hair Oils for example, many others and they are doing quite well, it is early days yet but they seem to be having a lot of scalability.

Prakash Kapadia: And when do we see ad spends normalizing because I think in the earlier comment you did mention about pulling off some of the promotion led incentive. So when do we see ad spends normalizing?

Sunil Duggal: See, as we speak we would probably put all the Adpro savings from consumer promotions back into media, so you probably will see a big spike in the ad spends which under the IndAS reflect only media and not promotions. So, I think there would be a significant increase in the Adpro on the media part and correspondent reduction in consumer promotions. Whether aggregate there would be any increase in spends or not, it is hard to say at the moment but there would be a rebalancing in terms of way we are spending.

Prakash Kapadia: And sir, lastly, what kind of outlook or a growth do you think would now be possible in the international business, given the current environment currency movements?

Sunil Duggal: See, the big overhang is in currency over which there is very little visibility and even less control. Now, the Lira has gone from 150, 200 to 500 literally in two, three months, the Egyptian Pound has gone from 11 to 19 in literally weeks, the Turkish Lira which was a reasonable stable currency has gone from 30 to 19 in two, three months. Now where do they end, we keep hoping that it has kind of bottomed out but I do not think one can navigate currencies that easily. We have to really look at how the local market is performing and even though the aggregate currency translation losses may be still significant but the performance of the local business has to be strong. And that is one positive because in local currencies all these businesses are delivering extraordinarily strong set of numbers, Egypt for example growing at 30%, even Nigeria which was doing so poorly around 20%, Turkey 15% to 20%. So I am pretty happy with what is happening and at the same time there is something which I cannot control which is the currency movements. Now, well, there could be some flattening or plateauing of currencies, I do not think they will depreciate as sharply as they have earlier, but there is always some risk there

Arnav Mitra from Credit Suisse

Arnav Mitra: I just wanted, if you could throw a bit of light on how the recovery is panning out in January between the retail and the wholesale channels? And do you see yourself getting back into positive growth territory on revenue value basis in the fourth quarter? And in that light, this Nielsen data that December has been worse than November, do you think it is more of a lag issue of reporting or actually there could be a risk that growth actually slips, does not really recover?

Sunil Duggal: So, I think there is a little bit of lag, the December numbers are also representing some element of November sales. I think I would wait for the January numbers to come which will happen in say two, three weeks' time before I really pronounce judgment on how the recovery is happening. One thing is for sure, we are not going to see strong growths emerging in next few months, I think it is going to take longer for the trade to rebalance. But will we get into mid-single digits, I believe we can in terms of category growth. 10% to 12% will probably happen only post substantial stimulus, complete liquidity emerging and trade reassessing and recalibrating their business model. And then do not forget there is a little bit of overhang of GST, I think everybody is going to become very cautious as they approach the GST deadline in driving up pipelines even more. So, I personally would like to have as little pipeline stock in the supply chain as I can afford prior to the GST implementation, because it is going to get very messy after that in terms of input credits and all that. We did that similarly in VAT and this in the order of magnitude is higher up. So that could also depress short-term performance if GST comes into play in July. But I think inherently the consumption stays resilient, it has got battered but it is recovering, pace of recovery yet to be ascertained but definitely recovery is going to happen.

Arnav Mitra: And you spoke about some of the rural interventions you might be planning ahead of recovery there, is something on the distribution side like you did a major initiative in doubling of distribution few years back? Is it going to be more distribution led or more product led which would be like a bigger part of what you could do there?

Sunil Duggal: The bigger would be products, distribution would be an important but I think the dominant theme will be to craft products which rural customer wants. And we have got a pretty good idea of what those products are. So, that would be the major theme here. But the extent of our rural investments will depend upon how the government policies unfold starting tomorrow and then we take a call on where to go.

Arnav Mitra: And my last question is on the Middle East where I think not only you but most of the players who operate there have seen a major decline. So, when does this basically lap up in terms of our anniversarization or is there any sign that things could actually improve in the Middle East, anytime in the next couple of quarters?

Sunil Duggal: Quite frankly there is very little visibility. The key compression other than currency is really in Saudi Arabia, which is a very large business, very profitable business. And the Saudi Arabian economy does not seem to be getting back on its feet in a hurry, at least there are no signs of that. It is still rebalancing itself, I think ultimately once again consumption will pick up there. But I do expect the Middle East in general and Saudi in particular to start picking up from the second half of this year and more towards the fourth quarter. But I think we would see recovery happening partly on account of low base, partly on account that the damage which was done in terms of consumption is over. So, we should see a decent growth coming back from maybe the third, latest the fourth quarter of next fiscal.

Arnav Mitra: And is there a distributor or a stocking inventory issue also given that this decline has been so sharp? Normally in a staples category, one does not expect these levels of declines to happen. So, is there also that angle which is playing out right now?

Sunil Duggal: No, but that we have been correcting over the last few quarters. It is still on the higher side, given the off-takes I would still say that It is maybe 20, 30 days more than what we should be having, but something which we have been correcting. And I think that correction will be over in the next couple of quarters, we will be back on reasonable pipelines and recalibrating the business model to a lower level of sales.

Amit Sachdeva from HSBC

Amit Sachdeva: Sir, just very quickly on volume and pricing data for key categories. Can you share some volume growth numbers this quarter on health supplement, hair care, and Honey as well both on the volume and pricing?

Sunil Duggal: Not specifically, but aggregate Gagan if you can share the numbers for consumer care.

Gagan Ahluwalia: Well, we have reported, we have mentioned there is a volume decline of 5% for the Domestic FMCG business. Unfortunately, that is the only number we have right now, because the whole system has changed to IndAS and we have not been able to get volume growth category wise. And in any case, I think this overall number is what is significant clearly speaking relevant.

Amit Sachdeva: Sure. The reason I was asking is because there was a price discounting obviously going on in Honey and I think Chyawanprash as well till December. And how long this will continue in the coming quarter and to what extent this will continue to get promoted? And I understand a few categories only will continue to see some promotional impact sustained, but can you give us some guidance on how this should evolve?

Sunil Duggal: Keep in mind one thing, the volume de-growth is almost entirely a consequence of destocking, right, because our secondary numbers are showing flat to small growth and there has been no significant price increase. So, you can deduce the fact that our volume growth at this secondary and even in the tertiary levels have not declined. Primary decline of 5% or thereabouts is entirely on account of destocking. Now having destocked, we should now look at volume growths which at least reflect the market growth and that is something which we would expect starting from perhaps the tail end of this quarter and certainly from the first quarter of next year. But keep in mind that the volume growths which we were hoping would trend at maybe 12% to 15% and every evidence was pointing in that direction are not going to reach that trajectory in a hurry. That is going to take longer, I do not know how long, it may happen sooner than what we expect but it is not going to happen perhaps in the next quarter or maybe two quarters. So, there is a big opportunity lost for the industry consequent to demonetization in terms of the sharp reduction in growth rates compared to where we ought to have been.

Amit Sachdeva: And sir, just one small thing on oral care. It looks like a good performance considering that demonetization was also impacting and Red and Meswak has done well. And I also noticed that now this seems to be a buzzword where every other company are looking at this pie, especially on the oral side. Look at the market leader and few others who have been the older brands have started advertising heavily on the oral side of things. Should we expect some more innovation in oral care from you as well because it has been a while where Red has been Red and Meswak has been Meswak? Are you sort of trying to extend the innovation pipeline for these two brands as well?

Sunil Duggal: In fact, you would have seen a lot more innovation in the quarter just finished, which we put on hold because there was really no point in introducing new products into the market. But as we speak, we have just launched a gel version of Red Toothpaste. I think that is a very interesting product, which could score well in strong gel markets. We have just launched it in a couple of states and we are launching another range of Ayurvedic products, which I would like to speak about, a very interesting range, which would ride on the Dabur inherent equity of herbal and Ayurvedic which no company has. May be Patanjali has of course because of its DNA, but no other company has the heritage and it is very difficult to create that heritage from nowhere.

Amit Sachdeva: And sir, when we talk about for example this innovation with Patanjali and I also see that amla Juice has also stepped into your Fruit Juices category, which seems like a very interesting foray. So, are you also looking at some of the successful categories which Patanjali may have invented, why not Dabur with its brand equity could also sort of tap into that already developed market and accelerate more of it? Are you also trying to sort of ape Patanjali in some sense in what markets they have already developed?

Sunil Duggal: I think the Patanjali model is based upon on very different equities - faith and Indian-ness etc. Our equities are more in terms of science, authenticity, and value for money. So, I think we cannot be another Patanjali. We have to follow our own code. And we believe that we have a very strong platform on which to further strengthen our Ayurvedic heritage and which is science based Ayurveda, which is something we are going to aggressively promote. So, there has been a setback on rolling out many of these initiatives, but it is only a matter of time before we start executing them.

Amit Sachdeva: Just very quickly, has there any target being set financially that the new Ayurvedic pipeline would be X in three years or Y in four years something like that?

Sunil Duggal: I think we really do not look at numbers in this sense, we look at concepts and how much to invest and where should they go rather than start with a target that is let's say I want Rs. 500 crores from this portfolio. But each thing is judged on its merit. Each initiative is funded according to its uniqueness and its ability to make an imprint in the market, and we prefer to do it more granularly rather than have an overarching vision of X thousand crores or whatever. It doesn't really work well in that sense.

Rahul Maheshwari from IDBI Mutual Fund

Rahul Maheshwari: A couple of questions. First of all, your three brands which are falling in about the range of Rs. 10 billion and there are 16 brands which are falling within the range of Rs. 1 billion. Over the next 5 to 10 years if we look, I am not just saying for FY18, how many brands will fall into the bucket of the Rs. 10 billion if you take Oral Care or the Skin Care or the Foods or Health Supplement?

Sunil Duggal: Only thing is that in that monolithic form it will take a long time for them to reach that Rs. 1,000 crore kind of mark.

Rahul Maheshwari: Which you have that throughout the 10-year or decade journey it may come into the bucket of Rs. 10 billion?

Sunil Duggal: We do believe that the Amla Group of Hair Oils, which is the heavy perfumed category, should very soon reach Rs. 1,000 crores. We do believe that the Chyawanprash range of products, which is Chyawanprash and all its variants should reach Rs. 1,000 crores within the next three to five years. So, there are many such products which we have in addition to Real Juice and others which already are there. But it probably would not happen in the form you see them, we will have to innovate a lot around those. I think people seek variety and if you just give them the good old product which they have seen for 50 years, they only buy so much. But if they look at innovations around those but conforming to the core equities, then they are all very scalable.

Rahul Maheshwari: Do you find Honey as a Rs. 1,000 crore brand?

Sunil Duggal: But again we have to innovate in Honey more aggressively. We have to get into Honey variants, we have to get into different formats. It is certainly a Rs. 1,000 crore potential.

Rahul Maheshwari: Can you give the category size of Honey? How big is the size for the Honey in the Indian market?

Sunil Duggal: See the market would be in the organized market, I am not talking about the unbranded stuff, is in the region of around Rs. 700 crores - Rs. 800 crores.

Rahul Maheshwari: And what is your market share currently?

Sunil Duggal: We are today at around 51%.

Rahul Maheshwari: And what the category growth is currently right now?

Sunil Duggal: There are no hard numbers here because the Nielsen data is not yet available for Honey category, but I would estimate it especially with Patanjali coming in the growths now are probably 15%, 20%.

Rahul Maheshwari: And what is your growth rate right now, though it is ahead of the market, but any rough estimate?

Sunil Duggal: For the last one year, it has been below market because we have lost some share. We were 56% share, we are down to 50% because Patanjali has also gained around 25% - 30% share. So it is a two horse race and between us we own the market. So, while we have lost some share to them we are in the process of recovering it through the price initiatives, and I think within the next few months we should be back to our peak shares. But what I would hope and expect both Patanjali and Dabur to do is to expand the share of Honey, expand the whole size of the market for Honey which is still pretty small. And even if there is some share point erosion, etc., that is less important than making this category much larger than what it is.

Rahul Maheshwari: So, recently you have launched couple of products into the Honey category like Ginger, Honey Spread, and Honey Squeezy. How well those products are doing and is it leading to gaining market share?

Sunil Duggal: Those products are small and I think what we need to do is to bring value addition products at competitive prices. Honey Spreads and all are niche products. They are priced extremely high at Rs. 250 a bottle, etc. We need to bring Honey variants at prices which are maybe 10%, 15%, 20% higher than our base Honey and then you can open up the market big time. But for niche products, they are more in terms of building imagery and giving people variety and building overall equity of the portfolio. But we need to do something at attractive price points.

Rahul Maheshwari: Second question, what is going wrong in terms of Skin Care, leaving apart the demonetization phase because it is more related to the little bit discretionary nature but any learnings in that particular category or any further actions or innovation launches we might be going forward seeing? Because from last so many quarters also we are finding the Skin Care categories are not doing so well as compared to the other categories?

Sunil Duggal: My own internal assessment is that Skin Care was doing quite well and we had a great couple of quarters, and third quarter which is around 50% - 60% of total sales obviously we had this roadblock. So Q4, etc., the market drops off and then starts picking up in Q3. So next year, we should have a much better performance in Skin Care.

Rahul Maheshwari: Any launches in particular Skin Care?

Sunil Duggal: Yes, but we will probably launch them a little later in the year, maybe around the festival time. September-October is a good time when we launch Skin Care not now.

Rahul Maheshwari: And it would be into the herbal or Ayurveda segment kind of thing?

Sunil Duggal: In some areas, yes and in some areas, no. Gulabari is an herbal franchise, Fem and Oxy is the non-herbal franchise. But we are exploring within Oxy if we can launch some herbal variants.

Rahul Maheshwari: And sir, you said that OTC, scale would be increasing through the new innovations and something. Can you throw some light that though it is a small segment, but going forward any actions on that?

Sunil Duggal: We spoke about go to doctors and that is the route to market is via doctors, and that initiative is playing out very well. The ethical business is our fastest growing business today and we believe that a lot of these products in the next one to three years we can then transfer into the OTC space and take them directly to consumers. So, it is progressing exactly the way we had envisaged and this whole doctor outreach campaign is going to be further expanded and widened. We are also going to build omni-channel and sell a lot of these products through the web, even thinking of retail stores which will keep the products. So many of these initiatives are work-in-progress, a little bit of delays on account of the demonetization, but pretty much our commitment to them is very high.

Rahul Maheshwari: And sir, as you said consumer demand would be recovering into the second half of FY18. But going forward, how much of your incremental growth would be coming through the Ayurveda segment not just for FY18, but as you are backing on much of the Ayurveda based science as a theme so going forward, how much would be the growth? The majority would be through the Ayurveda base kind of thing?

Sunil Duggal: Well, a substantial amount would be, but growth will even come from non-Ayurvedic products like Juices for example, we do see huge amount of scalability in Juices. We do see even in Personal Care, not all of which is Ayurvedic, business is being able to grow a lot. So again, we will choose Ayurveda as a platform more in terms of Healthcare and in Personal Care, it would be a blend of Ayurvedic and herbal and in a few cases even non-herbal. But Healthcare would be large or almost….

Rahul Maheshwari: Any rough percentage how much Ayurveda would be contributing?

Sunil Duggal: We really have not done the math in that fashion. But again, perhaps not less than half would be Ayurvedic. Now how much more, it is very hard for me to say.

Rahul Maheshwari: And just last question sir on Oral Care. As you said, it would not be growing at the 20%-25% growth rate it used to be. But we used to give more of promotions but when we say specific for Oral Care into the EBIT margins, are we doing better in that because if we are doing promotions are we finding that the margins are squeezing. So, is it going to be better even after removing the withdrawals of promotions and all those things?

Sunil Duggal: Once you withdraw the promotions, then the margins in Oral Care aggregate mirror that of the full portfolio. You have high margin offerings like Red and Meswak and you have low margins like Babool and Toothpowder. So, the blended margins are not very dissimilar from business center.

Rahul Maheshwari: Any rough what sort of margins for Oral Care right now?

Gagan Ahluwalia: No, sorry. We do not disclose category wise margins.

Sunil Duggal: But like I said, they will be not very different from our aggregate EBIT; 1% or 2% higher or lower, but not significantly.

Rahul Maheshwari: And overall the Home Care as a category in consumer space, how much de-growth has been taking place as compared to your company, any idea about it?

Sunil Duggal: Home Care I think de-grew by 5%.

Gagan Ahluwalia: Around 5%, but actually in secondary terms there was a growth of 4%.

Rahul Maheshwari: And Oral Care, ma'am?

Gagan Ahluwalia: Oral Care growth was flat in secondary terms.

Sunil Duggal: And de-growth of 5% in primary, that is Oral Care. But then if you take toothpaste, there was positive growth. Oral Care was dragged down by Red Toothpowder as always.

<u>Vivek Maheshwari from CLSA</u>

Vivek Maheshwari: My first question is your Consumer Care in India has seen a 13% revenue decline, almost all of this will be pretty much in volume terms?

Sunil Duggal: You are right about that it is 12% - 13%, secondary decline is 5%. So, the 7% primary to secondary delta you see is on account of destocking. And like I said earlier, all the destocking happened in the Consumer Care business, in Foods there was obviously no destocking.

Vivek Maheshwari: And bulk of this will be in volume terms only with minimal price hikes?

Sunil Duggal: Yes. Price hikes will be few and far between and here and there, one or two places.

Vivek Maheshwari: And how much is your sales through wholesale channel at the moment?

Sunil Duggal: At the moment, it has obviously come down, but this is a temporary event. Now you asked an interesting question because will the wholesale contribution decline going forward? It probably will, but not dramatically. Obviously modern retail and to a lesser extent e-com is going to be the biggest beneficiary of demonetization and also we will definitely have to expand our direct reach. So the pure wholesale, which is around 35% will definitely come down maybe by 5%, maybe by 10%, and we would have to have better direct access to the consumer through super sub-networks, direct reach out to retailers, as well as modern retail. But it will still remain very significant. Cash and carry for example, which is a wholesale proxy, is likely to be significantly larger than what it is today.

Vivek Maheshwari: And in that context, your comment about next few quarters probably being suboptimal whereas most of the companies are talking about maybe March quarter and then things looking up or perhaps normalization by April to June. Why is it that you are sounding a bit more cautious than your peers?

Sunil Duggal: I think I am a bit more cautious because I do see the wholesale rebalancing as well as the advent of GST to be very salutary in terms of impeding growth. So, therefore I am erring on the side of caution and saying that only from the April to June quarter would we be seeing some growth. Even that may not be very high because of GST happening perhaps in July and then things slowly returning to normal. So, therefore more of a U-shaped recovery than a V-shaped. So, I do see a muted Q4, I do see a Q1 which will be definitely better, but recovery happening actually post-GST.

Vivek Maheshwari: So for a moment if you assume, it is a theoretical one, but nonetheless if suppose GST doesn't come into effect from July 1, then you would say that in the first quarter ex of GST, would you be more optimistic in that scenario?

Sunil Duggal: See, the advent of GST will mean a one-time further pipeline correction which will again impact the primary numbers, the headline numbers which you see. Now, whether this happens in July or September is not very material because it is going to happen only once. And the dates of GST will have to be announced in the next few weeks and that is when we will know exactly when the hit will take place. We will dry up pipelines, I do not think there is any doubt about that. I think a bigger question, which we do not really have an answer is, when will the consumption come up to double-digit levels? When will it regain that 12% - 15% trajectory which we were all so hopeful of and we came very close to getting. Now, I do not really have the answer to that. I do hope that it will come perhaps, the raw consumption in terms of tertiary consumer off-take which is not really dependent upon GST or anything else to come back around the first quarter of next year, but there is no guarantee it will happen. I think a lot will depend upon whether the government really gives stimulus, because remember the last time it happened, there was a combination of good monsoons and high stimulus and really that is what is needed to take the consumption levels to that strong double-digit levels, and every possibility of that coming back in the first quarter. But still there would be the GST impact which may subdue corporate performance to some extent.

Vivek Maheshwari: I do not know if you can really answer this one, but when I look a lot of your peers have reported the results, when I look at advertising or media spends when I look at Godrej consumer flat, Unilever, Emami 4% - 5% down; but in your case, it is down like 20% in India and I think a similar one in Colgate as well. And normally we have seen A&P moving in a particular fashion, maybe higher or lower in different cases. Why was there such a big disparity between what you did and what your peers did?

Sunil Duggal: I will tell you the reason and you rewind back to the last Conference Call when I said we are going to aggressively embark on a consumer promotion initiative which is going to take up a lot of money, right? So, we did put that into execution around September of last year and you cannot overnight withdraw it, there is a huge supply chain which is built into that whole initiative. So we were committed to very high levels of consumer spends. At the same time, we were looking at a volume decline which was because of the destocking. So, there was no way we could have upped the ATL spends without really damaging margins big time. But I would have perhaps still done that if I had seen some responsiveness of consumer to advertising. In this situation, I thought it was going to be a waste of time doing it. I actually would regret even those consumer promotions because in a situation like that even the consumer promotions didn't work out to the extent they would have worked in a normal situation, but anyway that is hindsight. So therefore, we shrank above the line, which we are going to reverse quite dramatically in this quarter. So I do not think two, three months of above the line spends which shrank are really going to have any material impact for the long-term business.

Vivek Maheshwari: Okay. Last bit on this again, what you have done and what you have reported was pretty much the thought process when demonetization happened and in fact most companies were of the view that there is no point in spending big time on media because there are issues in reaching out to consumer. If you can answer that question, why do you think your peers would have then not cut back on advertisements as much as they should have or you have?

Sunil Duggal: Well, many companies are tied into deals and it is very difficult to get out of those deals, those are commitments. So that would be one reason, but I do not know. I thought it is not very prudent to spend big time money on advertising and a lot of advertising money is really taken up by new product introductions, which we completely froze in the third quarter. So that could be it but I really can't tell you what my competitors are thinking or their thought process.

<u>Nillai Shah from Morgan Stanley</u>

Nillai Shah: Sir, the first question is on your views on revenue growth. I am sorry to nitpick out here. But you did say that near-term cannot expect that 12% to 15% growth trend, but mid-single digit is possible. Now given that you are unwinding the promotions, I would have imagined that you should be able to drive stronger revenue growth near-term?

Sunil Duggal: You are right, it could be higher but I think we need a dose of stimulus. Demonetization has had many consequences like unemployment, shrinkage of incomes particularly in the rural areas consequent to the real estate sector getting hammered, etc., so a lot of issues have occurred which inherently would depress consumption. So, there is a big difference between October and January or February in terms of the consumption space. So that is why I am a little bit cautious in predicting double-digit growth reviving, unless there is massive government stimulus, which there is every possibility of happening but cannot be taken as a given. Now if that happens then it takes a few months for that to trickle down; but let's say by first quarter of next year we should see animal spirits coming back into the consumption space and getting back into double-digit growth, but it is in the realm of a conjecture at the moment.

Nillai Shah: And in the last Conference Call you had mentioned that you would be willing to give up 100 basis points of operating profit margin simply because, one – you thought the margins anyways were too high; and two – you said you wanted to catalyze volume growth. Does that view still hold for the next…

Sunil Duggal: Yes. Unfortunately, what happened is we gave up 100 points of operating margins without getting the top line and then that was something obviously, we did not expect. But I am pretty optimistic about the future. I think the operating margins would remain steady to earlier levels. They would trend back to what they were before this quarter. And I do think that the growth will revive. Next year would be a good year for consumer business and I do not think there are any dark clouds on the horizon which worry me for the next year. So, we just have to ride out a bad second half and the future does look quite bright. Remember we are getting into election year, there would be a lot of stimulus happening.

Nillai Shah: Without talking about the stimulus at this point in time because we do not know what's going to happen out there, if I just put these two things together, the fact that you are expecting mid-single digit revenue growth for the next few quarters and margins which could be flat-to-down on a YoY basis, the earnings growth is not looking very optimistic for the next two, three, four quarters. Is that a right view?

Sunil Duggal: I think A) I am not saying next few quarters; I am saying next quarter or two we would be looking at in the absence of stimulus mid-single digit growth as a realistic scenario. In the presence of stimulus, they could trend much higher. In any case, they would trend higher from the second quarter of next year in case the monsoon is a normal one. In case the monsoon is also a failure, then they would probably still trend in the mid-single digits. So, the scenario is I think the base case is mid-single digits, but there is a very real case for growths trending into the 10%-12% range and I personally expect the growths to trend in that direction. They did come up in October, there is no reason why they should not come up again.

Nillai Shah: And finally, what is your slightly longer term view on the operating profit margins in the domestic business? You could take an 18 to 24-month view on this.

Sunil Duggal: I am pretty satisfied with 18% to 20% operating margins. In our case, EBITDAs are around 21% - 22%, I am pretty satisfied with that. But I get far more joy in driving the top-line in that 10% - 15% trajectory with underlying volume delivery of at least 10%. So, once again we will be focusing on that aspect and not on margins, so I think the margin growth would be a consequence of a good top-line. And if we are not able to support a strong top-line, the maintenance of those margins will also become difficult.

Nillai Shah: And in that context, when do you rev up innovation engine?

Sunil Duggal: We rev it up right away, but at what pace do we unleash these products will depend upon how the margin position and the growth is looking. But as we speak, new products are on their way into the market. Red gel is a pretty important initiative. At the same time, at this point in time we do not have the fiscal headroom to support a very large number of initiatives. For that we need to have better visibility in terms of the volumes and then we will be sticking our neck out like we did six months ago, and do a far more innovation on the ground. But there has to be visibility in terms of growth. At the moment, the visibility is not so much there.

Karthik Chellappa from Buena Vista Fund

Karthik Chellappa: Firstly, on the Hair Oil category, can you give us a sense of what is the distribution reach for let's say a brand like Dabur Amla and how will that reach compared with something like Dabur Almond?

Sunil Duggal: No, Almond is small and there is a little bit more focus on modern retail because we do see opportunities there. So, I think Amla distribution would be around 10x to that of Almond. I think Gagan will share the numbers with you in more detail.

Gagan Ahluwalia: Amla reaches to more than 20 lakh outlets.

Sunil Duggal: And this would be around 3 lakhs. So it is much smaller, it is 10th of the size of Amla.

Karthik Chellappa: So, Amla would be Rs. 20 lakhs and then Almond will be about Rs. 3 lakhs?

Sunil Duggal: Approximately, we do not have precise numbers for Almond. But having said that, the distribution expansion of Almond is growing well ahead of Amla because A) the base is small; and B) the brand is growing at a pretty good clip.

Karthik Chellappa: So out of those 3 lakh units, can we say the modern trade contribution for a brand like Almond would be easily around like 60%, 70%?

Sunil Duggal: No, it is around 25% to 30% which is also significantly high. It is probably the highest contribution amongst all our personal care brands. So, it is also at the same level as Home Care or Foods. In Hair Oils, modern trade can never be dominant unless you are very niche, very high priced.

Karthik Chellappa: And sir, looking at in terms of introduction of GST and the formalization of the economy, for any of your categories especially the ones which have a very high share of general trade or so, do you think there is a need for you to increase your margin let's say to some of the wholesalers because their margins will probably come under pressure as some of the bigger ones come into the tax net?

Sunil Duggal: I think so. But having said that, I really do not know how the general wholesale would deal with GST and we debate that a lot. How will they deal with it, will they fragment the business so as to go below the threshold level, but then they lose the input tax credit. So, I do not think we have any clarity. But having said that, since the cost of doing business will become higher for them if they have compliance, we will have to give part of that in terms of additional incentives. But GST as a whole should give us significant business benefits so we will be able to afford that additional 1% - 2%, or whatever it is, I do not know how much it will be. But there will be extra cost of doing business with the wholesale. Everybody even distributors, etc., will demand higher markups. Distributors are all compliant, but wholesalers who are not demand a little bit more than the others.

Karthik Chellappa: So when we talk about the modern trade salience of around 16%-odd and let's say the wholesale around is around 40% to 45% and when we talk about the operating margin that we intent to keep in this band if we are going to share some of the margin to the wholesalers, what we are implicitly saying is we do expect something like a 100 basis points - 200 basis points margin advantage from the introduction of GST then. Only then this whole arithmetic would be possible.

Sunil Duggal: If GST is not favorable, you take up the prices. If there is an increase in rate let's say in categories which we are operating in, you take up the prices. But you are right that 1% has to be found from somewhere but it is not a big amount so I think we'll be able to deal with it.

Sanjay Singh from Axis Capital

Sanjay Singh: Can you just repeat, sir, you said that you now have 22 days of distributor pipeline and earlier you had 34 days, I got it right?

Sunil Duggal: Actually it is 25 days and 37 days.

Sanjay Singh: That would be the highest probably across the board. Why is the distributor pipeline so high?

Sunil Duggal: Our lost sales percentage is probably the lowest also in the industry. We do not lose any sale on account of stocks not being available, it is less than 1%. Now that is a more important metric to me rather than having the high pipelines. But ultimately your pipeline is also dependent upon how efficiently your supply chain is managed, and over the years obviously there have been lot of improvements because of technology. So, we are now in a position where 25-days pipeline is actually more than what we need. We can even bring it down to maybe not 15 days but 20 days. And that is something which maybe GST would compel us in doing and we will be very happy to then do it and keep it at 20 days. But when we had 37 days and that is a bit of a legacy, the ability to forecast was not so sharp in a very diversified portfolio such as what we have. And also our manufacturing centers were normally very far away from the markets. So, it was prudent to keep a high pipeline. It was deliberately built into our business model and into the ROI model. And only in Foods, we kept very tight pipelines because of the perishability of the product. But going forward, we would be progressively reducing the pipeline. It has come in one shot in November, 12 days but we will trim it back 5 days, I think then we should be perfectly balanced.

Sanjay Singh: And do you see further pipeline correction in Q4 or in the next couple of quarters?

Sunil Duggal: Not Q4. I think it will now happen closer to GST because there’s no point doing it. So we’d probably maintain 25 days, maybe shrink it to 22 days, 23 days. But no big change till GST comes and then we will bring it down to perhaps the 20-day levels and I think that is optimal. Then as and when our ability to forecast becomes sharpened, we will progressively reduce it but those will be small reductions, not very visible in terms of performance.

Sanjay Singh: I do not know if you have answered this and I missed it, the Food segmental margin this quarter seems to have declined very sharply, any particular reason for that?

Sunil Duggal: See, the concentrate prices rose very sharply and we do not believe that the increase would continue because certain fruits like pineapple they are softening also. And then sugar also increased very sharply as we all know.

Sanjay Singh: How do you see it in the near-term again?

Sunil Duggal: One more thing as Gagan just told me is that very high level of promotions which we are now taking off. So, I think Foods margins from this quarter we should see improvements. Certainly, from next quarter, which is the summer season the main season, they should be close to normal and we will be looking at price increases when the market enables us to do it.

Sanjay Singh: And I was surprised to hear your commentary that you were looking at 12% to 15% volume growth, I do not know if it was volume growth or sales growth, 12% to 15% sales growth in probably the second half of this year.

Sunil Duggal: I am saying that is a possibility. It is not to be ruled out. I do not think it is going to be easy. But to a question which was asked that are you looking at mid single digit growth for the next one, two years; I said not necessarily. The mid single growth is probably what we are seeing in the next couple of quarters and then they should trend up based upon certain initiatives which may or may not happen, most important one is fiscal stimulus and second is another good monsoon. So, those are possibilities and perhaps setting aside some kind of optimism.

Sanjay Singh: As of now you are saying we are looking at more like for FY18 if we would like to put a number it is more like mid-to-high single digits.

Sunil Duggal: I would look at it differently. I would say that in the first half it would be mid to high single-digits, in the second half it should trend more towards 10% to 15%. We also will have a lower base of this year so that makes a big difference. The second half base of this year would be quite low so on that if we do not grow 15%, then we are not doing a great job at all.

Sanjay Singh: And margin you think should be remaining at these levels?

Sunil Duggal: Margin, I do not see any serious shifts, I do not see inflation coming back in a big way, I do not see massive price increases happening to improve margins. So, I think margins would pretty much trend at current level. This is not a bad place to be because we are also close to historically highest margins.

Gaurav Nigam from Catamaran

Gaurav Nigam: In Oral Care segment, I wanted to ask how do you see or what is your outlook on the competition from the market leader and Patanjali, in like short-to medium-term?

Sunil Duggal: I think Patanjali have reached a certain level of scale. The moot point is will they continue with that very high base of growth or would they kind of now level off. I think there would be some plateauing which will happen because a large number of people who had affinity to his products, etc., would already be in his consumption basket. So, I think that the growth of Patanjali would start plateauing a bit, at least in categories like Oral Care where he's made a fairly significant impact; Honey, Oral Care, etc. As far as market leader is concerned, again it all depends upon how strong the herbal equities can be. At the moment, close to 20% of the market is between Dabur and Patanjali, so now whether that 20% can become 30% or whether it will kind of plateau at 20% or 25%, very hard to say. But we will make every efforts to increase the slice of the pie even if Patanjali participates in that part. How big the market for herbal is, it could be as high as 50% or it could be kind of plateauing at 20%, anybody's guess. If we innovate intelligently in the herbal space, I am pretty sure it can grow to be significantly larger than what it is. In the absence of innovation, it may not grow much beyond in terms of the size of the pie than where we are.

Gaurav Nigam: This particular segment like herbal and Ayurvedic in terms of consumer behavior, what is the trend you are seeing there?

Sunil Duggal: The trend is still strongly in favor of herbal products, but have we sort of converted the faithful or is there still a lot more conversion to be done, it is very hard to predict that. We never could have imagined that the size of the Ayurvedic market could be 20% in 5-10 years. So, it is exceeded expectations. Whether this trajectory can go forward into 25%, 30%, 40%; only time can really give an answer to that. We will on our own strength continue innovation and heavily investing behind the Ayurvedic space, but I think It is time now to innovate here and perhaps not rely upon the existing two players which have done an outstanding job, Meswak and Red, to carry the growth forward. We really have to do now something extra, which we plan to do this year.

<u>Amit Sinha from Macquarie</u>

Amit Sinha: My question is on the Juice business. I just wanted to understand the significant market share gain which you had in this quarter, was it because of your better direct distribution compared to the peers?

Sunil Duggal: Partly yes, partly on account of consumer promotions, partly on account of pretty high media spends in Juices. So, combination of all three. The downside was that the margins deteriorated very sharply a little bit unexpectedly, but as I mentioned earlier, we should be able to recapture the lost margins.

Amit Sinha: And then what will be your exit market share?

Sunil Duggal: 57% and it had gone down remember one year ago to 51% - 49% because we did not have the products. So it had peaked earlier at 57%, it is now back to 57%. We intent to grow it further into the 60%s this summer, let's see if that happens. Now we have got uninterrupted supply so we should be able to at least not have that baggage.

Amit Sinha: And do you see the promotions in this segment also coming down significantly?

Sunil Duggal: Well, we would be reducing promotions, we already have reduced them. There is always a little bit of promotional activity, which is traditional in the summers especially in modern retail and that may continue. But the overall aggregate promotion spends on Juices would be much lower than what we have seen.

Gagan Ahluwalia: Thank you. Ladies and Gentlemen, we thank you for your participation in the Conference Call. The webcast of this call and transcript will be available on our website. For any queries or feedback, please contact us. Thank you and have a nice evening ahead.