"Dabur India Limited - Q4 FY2013 Results Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Dabur India Limited's earnings conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Gagan Ahluwalia. Thank you and over to you ma'am.

Gagan Ahluwalia: Thank you Marina. 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 period ended 31st March 2013. We have present here Mr. Sunil Duggal – CEO, Dabur India Limited, Mr. Lalit Malik – CFO and Mr. Saibal Sengupta – Senior General Manager, Finance. At the outset Mr. Duggal will give a brief overview of the company's performance post which we will invite your questions for Q&A. I now hand over to Mr. Duggal. Thank you.

Sunil Duggal: Thank you Gagan. Good afternoon ladies and gentlemen. I welcome you to the Dabur India conference call pertaining to the results for the quarter and year ending 31st March, 2013.

In fiscal 2012-13 Dabur's consolidated sales crossed the Rs. 6000 crore mark growing by 16.3% to Rs. 6146 crores. During the quarter, Dabur's consolidated sales increased by 12.3% to 1531 crores and profit after tax increased by 17.6% to 200.5 crores. The domestic FMCG business reported a growth of 15.1% with strong volume growth of 12.3%, the highest in the last 11 quarters. Amongst categories, Foods, Home Care and Health Care grew ahead of others.

Our Hair Care portfolio crossed the Rs. 1000-crore mark in fiscal 2012-13. During the fourth quarter growth was led by shampoos growing by 29.4% and perfumed hair oils growing by 13% backed by strong double-digit volume growths.

Oral care registered growth of 12.3% during the quarter. Toothpaste recorded strong growth of 15.8% led by premium offerings, Red toothpaste and Meswak. Babool brand reported flattish sales as compared to the earlier decline. A new variant of Babool fortified with salt was launched during the quarter.

Skin Care category grew by 11.1%. Growth was somewhat impacted by moderation and growth rates of bleaches due to high base of the fourth quarter of last year. However the Skin Care brands Fem and Gulabari continued to make forays into their niche markets. Our turmeric herbal bleach, the first of its kind was launched under the Fem brand, which received a positive response from the customers.

Home Care continued on a strong growth trajectory growing by 33.3% during the quarter with all the three brands Odonil, Odomos and SaniFresh performing well. The response to the recently launched Odonil Gel which was the first of its kind in India has been encouraging. Odonil continues to be the #1 brand in air-care while Odomos has a dominant share of the applicator mosquito repellent category. SaniFresh experienced gains in market share and is now the #2 brand in the toilet cleaner category.

Health supplements recorded a strong growth of 22.6% during the quarter with Glucose and Honey doing well. This quarter is not a significant quarter for Chyawanprash due to seasonality and hence it did not have much impact on category growth. Digestives were flattish largely due to the high base and significant price increases which were necessitated to restore brand profitability. The OTC and ethical portfolio registered a growth of 13.7% during the quarter with the OTC portfolio growing at 16.7%.

Dabur launched two digital portals www.daburmediclub.com and www.liveveda.com. The first aims at connecting to the medical fraternity by disseminating information regarding various ayurvedic and Healthcare products and the second one is aimed at the actual consumers who are looking for information about Healthcare solutions for common ailments. These are part of the larger digital marketing initiatives which provide better connect with customers and influences.

Foods grew by 22.6% during the quarter with our flagship brand Real performing will and registering gains in market share. Banana Strawberry and Green Apple Punch variants were launched and a new drink called Tender Coconut Water was test marketed. Foods business crossed the Rs. 600-crore mark in this fiscal.

Dabur's International Business grew by 11.6% during the quarter. The organic business reported good growth of around 20% led by strong growth in GCC, Levant and Bangladesh. The business continues to invest strongly behind its brands and launch several new products in hair and Skin Care. Namaste LLC which was acquired in 2011 has been under some pressure in the last few quarters on account of operational restructuring and re-launch of brand. This exercise is now complete with the new brand ORS being put into the U.S. market. In addition, the distribution networks in Africa have been streamlined. We expect to start local manufacturing of some Namaste products in Nigeria and South Africa soon. The management team at Namaste has been strengthened with deputation of resources from our other operations. With these initiatives we expect the Namaste business to be back on the growth path during fiscal 2013-14.

The Hobi business posted strong growth of 43% during the quarter driven by strong investment in brands and expansion of its geographical footprint. In addition Fem brand has been launched in Turkey to leverage the existing distribution network of Hobi and enter the fast growing depilatory and Beauty Care markets.

On the profitability side there was growth of 21.6% in EBITDA with EBITDA margin expanding to 19.3% versus 17.8% in the corresponding quarter last year. Material cost eased during the quarter by 190 basis points though inflationary pressures still exist in pockets. During the quarter our adpro-to-sales ratio was at 12.5%, profit after tax reported a growth of 17.6% with PAT margins improving to 13.1% versus 12.5% in the corresponding quarter last year.

On the whole the year went off well in spite of some challenges on the macro front and in some overseas markets. In the home markets most of our brands performed well with stable or improved market shares. We experienced good gains from our distribution penetration initiatives on the rural side. Few of our large brands such as Amla Hair Oil, Chyawanprash and Vatika Shampoo witnessed a makeover in terms of packaging and communication. We launched several new variants and products to cater to the every changing requirement of consumers; as a result we were able to post good growths in spite of the economy witnessing a slowdown. As we embark on the new fiscal, we would strive to continue to drive profitable growth on the back of enhanced distribution, marketing mix and new initiatives across categories and businesses.

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

Abneesh Roy from Edelweiss

Abneesh Roy: My first question is on the volume growth overall 12%, you said now that the direct distribution expansion is done, my question is how much of the growth is coming from direct distribution expansion and now with the expansion done, when do you see the impact kind of reducing and any plan for the next phase of distribution expansion, some insights into that.

Sunil Duggal: No, see the word expansion is not quite accurate in regard to our Project Double particularly. If you just go through the stats, we were present in 5.3 million retail outlets in 2011 before Project Double began. Today we are present in 5.8. Now there has been a 10% increase which is not a huge number, it is a good number but not a huge one. The difference really is in the quality of distribution and that was the whole endeavour behind Project Double, was not really to expand distribution but to improve qualitatively with regard to a better product spread. And I think that is what really has been achieved and you see good traction in some of our smaller brands and categories consequent to Project Double. We would not have seen 33% growth in home care and substantial growth in Skin Care categories had it not been for this initiative. So I think the journey has just begun. We would continue to widen our distribution in these rural markets and we see sustainable growth coming from this initiative for the next many years.

Abneesh Roy: Coming back to specific segment of home care, 33% growth, any one-offs in this and what is the sustainable growth you are looking at in the light of expansion which you just explained?

Sunil Duggal: I think there is no one-off. It is a regular growth. Regarding the sustainability, regarding let us say the air freshener category Odonil, which is around half our home care portfolio, now this in my definition is discretionary and we have seen a lot of other discretionary parts of our portfolio coming under some pressure, may be the high end beverages and part of Skin Care but none whatsoever in air care and I am quite frankly pleasantly surprised by this development. But having said that, there is no reason to believe that this very strong trajectory in air care of 40-50% growth can continue. So these growths may not be sustainable but as long as we are able to maintain good trajectory through distribution initiatives or whatever other means, I think we should be happy with the outcome. Having said that, our air care products are again a little bit bottom of the pyramid stuff, low cost air fresheners etc. which perhaps would be more resilient and less discretionary in nature. But let us see how it goes.

Abneesh Roy: Sir my next question is on some of the challenging segments of the business, for example hair oil 7% growth, so obviously competitive intensity is one of the reasons there and I understand that you are offering some promotion there, and some specific example might be the toothbrush which is being offered in some regions. So what is the plan?

Sunil Duggal: Again hair oils is into two parts perfumed and coconut The perfumed growth has been excellent, 13%, Amla grew almost 14% so no problem with that account. The problem really has been in the coconut segments where almost by definition whenever the coconut oil prices come down very sharply we do see a significant premium happening as far as our products are concerned, vis-à-vis baseline coconut oils and therefore there is some shift in consumer preferences from the value added stuff which we make to the regular oils. So that is something which we have seen over the years and as and when the coconut oil prices rise you will see the reverse happening. You will see some margin compression but great traction at the revenue side like what happened 2 years ago. So this is something which we have learned to deal with and we are not overly concerned. I think the most stable part of the portfolio is perfumed which is growing quarter on quarter in double digits and I think 13-14% or something which we are pretty happy with.

Abneesh Roy: Sir my next question is on the Skin Care – the other large company has also said that there is a slowdown because of the discretionary nature and we have also seen 11%, so are you agreeing with the fact that Skin Care is one of the most exposed sector in terms of the discretionary slowdown?

Sunil Duggal: I think Skin Care is definitely more discretionary than let us say oral and Hair Care, amongst the three big categories in HPC this is definitely the most discretionary out of the lot. And therefore I think we have to learn to live with this element and we have to also create products which are comparatively recession proof and I think a lot of our initiatives are in that direction to have affordable Skin Care which by definition will be less discretionary in nature.

Abneesh Roy: Sir my last question is on the international business, if you could give us constant currency growth for Q4 and FY13 and also on the exports, Guar Gum exports if you could tell us what are the FY13 sales and profit and how do you see Guar Gum exports in FY14?

Sunil Duggal: Guar Gum on a YoY basis in Q4 the sales were almost half of what they were last year. That is a logical outcome of the collapse in the Guar Gum prices, so nothing which came as a big surprise. But that is obviously not a strategic business, when the going is good it does shore up the numbers and when it is not it does depress them. So if you take consumer growth of 15 percent for domestic market aggregating to 12.3 on an aggregate basis it is largely on account of Guar. Outlook for Guar unfortunately is not that bright I think we would see softer prices and soft offtake because the whole oil table is under some pressure. But again, it is a commodity business, it is not something which we have a huge exposure in. It comes in useful a certain times but it is not really core to our business and if you take constant currency

Gagan Ahluwalia: Constant currency growth in the organic international business was 13% and value growth was around 19.7%.

Abneesh Roy: And overall international?

Sunil Duggal: 11.6% overall international.

Abneesh Roy: This is constant currency?

Sunil Duggal: No, total growth. The acquisition, volume growth, etc., are hard to map out so you can say that roughly the organic business grew by approximately 10% to 11% in terms of volume growth, organic international business. And obviously there was precious little volume growth in the acquired business because of Namaste.

Abneesh Roy: Sir just one follow-up on Namaste – the resignation of CEO plus the overall change which is happening, are we now confident enough of the turnaround? You have been saying that FY14 should see a turnaround. My question is, is it going to be back-ended or we expect turnaround in the initial part of the FY14 also?

Sunil Duggal: No, I think we would see the revival happening right from first quarter. Now it is hard to just pinpoint numbers because obviously the visibility of that business is a little bit lower than the domestic part. But we are looking at putting and getting a strong set of numbers in FY14 starting from the beginning of the year and we do hope those will come true. But a word of caution, the visibility on Namaste is a little bit less than what we have over the rest of the business. But we have just been through the whole budgeting exercise and we have put a very high quality bunch of people in Chicago from all over our system to repair the damage which happened last year and I think we will be able to get the business back on rails very strongly this year.

Percy Pantanki from IIFL

Percy Pantanki: Sir, question is on the employee cost and other expenses this quarter which have grown much faster than the sales growth. So can you throw some light on why that is the case?

Sunil Duggal: Yeah, we have had substantial deployment of resources on the ground – rural markets also substantially giving up through project speed or urban infrastructure and that has been really the root cause. Then also we have beefed up our CSD organization and the results have come up quite well this quarter, CSD sales have grown quite well. We put in 50-70 people in the CSD organization so these are all necessary inputs to drive growth which we have seen it. So I think this is not something which will continue. I mean we should see a leveling of at least this particular ratio and then the ratio is progressively coming down as and when the operating leverage kicks in. But this was a necessary investment in infrastructure and people.

Percy Pantanki: Sir according to you how many more quarters will this phenomenon of these expenses growing faster than the sales growth continue?

Sunil Duggal: No, I do not think it will grow faster than sales going forward. These are substantially one-off expenses. A lot of it came together in this quarter and I do not see this trajectory continuing in the next few quarters.

Percy Pantanki: But on YoY basis that might still be the case for a few more quarters.

Sunil Duggal: I do not think so, may be yes, you are right. To some extent two quarters, three quarters, there may be some impact but it is not a huge amount.

Saibal Sengupta But this is a YoY impact. We have grown over the last 2-3 quarters so hopefully it will taper down from the next quarter onwards.

Percy Pantanki: Okay. Secondly I just wanted to ask you, see most of your growths are on domestic as of now have been volume driven so that is in a way is definitely very good but the environment in the market, is it very tough to take price increases, I mean in the coming months also do you think it would be tough for you to take price increases going forward?

Sunil Duggal: Not really, I do not think it is very difficult to take price increases but we are being a little cautious because the material outlook is very soft. So we do not want to do anything very preemptive, take our prices up now even though the market can sustain price increases and be a little bit pressured later on because of competitive reasons or whatever else. So we are seeing material prices softening, we are being circumspect in terms of price increases. I earlier indicated that we would see price increases around 4% to 5%. I have moderated my plan to more like 2% to 3%. If opportunity permits we will take it up further but I think around 3% price increase this year is probably what we will see.

Percy Pantanki: And on gross margins you have got a very good gross margin benefit this quarter. So just wanted to understand that if input costs remain where they are today then how long will this benefit continue?

Sunil Duggal: I think it should continue for the rest of the year because we were sitting on a higher table last year and we are seeing overall aggregate softer material prices happening this year. So the benefit should continue for the rest of the year unless there is a spike which we cannot foresee.

Percy Pantanki: So approximately in the same quantum that we have seen in this quarter?

Sunil Duggal : Yeah, I mean in Consol, it is around 200 basis points material cost change. So yeah 150-200 is what we are looking at.

Saibal Sengupta: There could be some variation because of seasonality.

Sunil Duggal: Yeah, of course there would be varying seasonality for example, honey is a pocket of high inflation so in the quarters where honey is very big it will be lesser. So these are small issues but I think overall 150 basis points improvement in material cost ratio is the likely outcome as we see.

Percy Pantanki: And sir one last question on advt. spend, this quarter you have gone easy on Ad spend so is it because the volume growth has come back, you have the confidence that you can now do with a lesser Ad spend and is that something we can take as a trajectory into the future or is it something very specific to this quarter, it is a blip on the lower side or something?

Sunil Duggal: I think you would see some moderation in Ad spends. Last year we did 13.6% let us say for the Consol business. This year, I would pitch it around 13%, we did 12.5% in the fourth quarter. So a little bit higher than what we did in the fourth quarter but a little bit lower than what we did in the full year. 13% is probably the most likely outcome and of course there could be variances here but that is what we see as of now.

Prakash Kapadia from Alfa

Prakash Kapadia: Three questions – basically we have seen food inflation being at double digits over 50 months in India. Is that bothering you and do we see some slowdown in the domestic side of the business because of this? And if you could share your insights given that the upcoming election year within the next 12 months, does growth happen because government spend increase? Does rural grow faster? If you can share some perspective. And thirdly has the Sri Lanka plant started and some outlook for the newer southern markets or faster growth because of that?

Sunil Duggal: Let me answer your third question first – Sri Lanka plant will be inaugurated this Friday and we hope to see a reasonable amount of production happening this year. Now coming back to your first in terms of food margins, yes, it is an area of concern because Foods is growing ahead of our rest of the business. So it does put pressures on aggregate margin delivery. So if you see our numbers this year our margin expansion has happened despite the fact that the Foods business has grown much faster than the rest and in a sense has led to overall margin compression. But I think this shows the resilience of the consumer business that is been able to take up this load and still deliver a good deal of expansion. Now on the second question, I think that is probably going to be little a pleasant surprise because we are entering into election year, now whether the election happens in 2014 as scheduled or earlier, we have seen a pattern emerging that GDP growth, I am talking about rural GDP, does tend to prime up during the election year. And a lot of this money will go into heightened consumption of staples. So the election year probably will be good for businesses such as us going by the experience of the past. But we have not really built that into our projections but there could be some surprises.

Prakash Kapadia: And we have seen that historically.

Sunil Duggal: Yeah, absolutely.

Prakash Kapadia: And sir historically we have had roughly 50% sales mix I think over the last few quarters you have maintaining rural is growing faster as compared to urban, so has there been a huge variance for the FY13 sales mix or -

Sunil Duggal: No, it is not a huge variance. I mean the aggregate numbers are so big that even if you grow rural ahead of urban it will take many quarters for a significant change in that ratio to happen.

<u>Richard Liu from JM Financial</u>

Richard Liu: I wanted a perspective on Foods' margin, while it has definitely picked up QoQ, if you can just throw some light on YoY decline of about 3.5 percentage point? Is it the same thing that you mentioned last time in terms of the CVD and FOREX etc?

Sunil Duggal: Yeah, the Foods' margin compression is largely on account of currency and also the concentrate table has been fairly high last year. A lot of damage was done because of the CVD impact, which came out of the blue around a year ago but that is now being played out so it would not hurt us next year. So I think we have to find a way to get the margins of Foods back to levels which we saw in 2010-11. We have someway to go before getting there but I think if you are able to continue to grow the business at this 25% pace I think we can live with the current margin profile for a tad longer.

Richard Liu: Sure. You know we have seen about a very strong growth this segment, I mean 22% last year, 24% this year etc. and some of the factors you mentioned with respect to currency, CVD and even the concentrate cost – what is your perspective on pricing power that exists in the segment? Don't you have enough pricing power to actually pass on these impacts or you think that these would be more temporary in nature?

Sunil Duggal: We are sitting on a Rs. 100/liter price point, right. Where you stay in Singapore you can probably get the same product at Rs. 60/liter with 20 times the disposable incomes. So when you talk about pricing power, you got to be very cautious here that are you now beginning to become unaffordable and will that impede growth? Therefore you have to be circumspect about increasing prices. I think we will be able to take up prices in line with inflation going forward but using pricing as a tool for margin expansion seems unlikely. We really will have to look at the whole COGS profile, our entire value chain, little bit of help will come from Tetrapack which is opening up a very large facility in Pune which will supply laminate locally and bring down cost. The Sri Lanka plant would kick in, supply chain efficiencies with regards to freight etc. So I think we have to look at this business long term and not to damage by taking up prices beyond the current very-very high levels.

Richard Liu: Would it be correct to presume that in this business, I mean if you want to really make this business really big, gross margin will keep falling and whatever margin cushion has to be there will have to be through some bit of a cost, more like an overheads management.

Sunil Duggal: No, I think we have to agree structurally that the EBIT margins here would be lower than the consumer care. We can never hope to converge them. Consumer care business in India is now about 22% EBITs or some very-very high number. The Foods business is more like 11 to 13. We can endeavor to narrow the gap a little bit, bring Foods margin up to the levels of 15-16 but structurally they will be lower. And I think that is the nature of the beast. You have to live with it. So if you want to be in this business, you cannot expect the margin profile to be similar across all the businesses.

Richard Liu: That is useful. I just have one question on the overall growth, I mean if I were to look at Q3 vs. Q4, the value growth has increased by about 80 bps. Within that your volume growth has actually jumped about 3 percentage point, 12.5% this time vs. 9.5% last. Where did the volume to price trade off happen? In which category would the volume have actually accelerated and where the price growth would actually have decelerated between the two of course?

Sunil Duggal: In relation to our overall growth which was still very-very good across the entire spectrum. There were two points of additional growth one of course was Foods, even the Foods actually we were little bit lower this quarter and the second to a bit CSD. Now CSD obviously it does not do great things to your margins but it is great in terms of driving volumes. So it was a drag in terms of volumes for the last four quarters and it has contributed to volume growth this quarter. CSD I think is back on track so we will continue to drive reasonable amount of volume growth at least for the next three quarters till the base effect again gets kicked in.

Pritesh Chaddha from Emkay Global

Pritesh Chaddha: Referring back to your CSD comments, has the channel normalized and second, would there be any significant contribution on account of inventory filling in CSD for you and for the sector as a whole this quarter?

Sunil Duggal: I think there has not been significant inventory fill in. To some extent you are right, there has been but CSD is now learning to live with far lower inventory levels than it ever did in the past. So it is not that they are normalizing it to the earlier levels of inventory in which case our sales growth would have been far higher. Now having said that, I am still a little circumspect about the future of CSD. I think there is a lot of volatility in that business and we will see periods of high and low growth happening, so overall we would definitely I think see a fairly decent growth over what we did last year. But it is very hard to pin a number on it. I do think it will mirror our domestic growth may be a little bit ahead of that but hopefully and almost certainly it would not be a drag on our growths next year.

Pritesh Chaddha: But it should certainly be some pep-up contributor for the quarter in terms of volumes at least.

Sunil Duggal: Oh yes, it will certainly pep up volumes. It will at the same time put additional pressure on margins. So there are two sides of the CSD story. The more we sell in CSD, our margin ratios are adversely impacted and we have to make it up from somewhere else.

Pritesh Chaddha: My second question is one of the comments you made about material cost drop as a percentage of sales expected of about 150 basis points, and on the contrary about a 3% price led growth. So are these two a bit contrasting? Second, is this a scenario or a business environment where ideally material cost benefit should now flowdown to your margin because you have to retain consumers; you have to retain market shares and hence take up A&P?

Sunil Duggal: I think where the material cost environment is very benign there would be no price increases, but there are pockets of high inflation in our portfolio and there we have no choice but to take up prices and we will take up prices there but then so will the rest of the bunch. So then again it will be a level playing field. There is going to be no secular across the board price increase but they are going to be very selective and calibrated according to the need and the input costs.

Pritesh Chaddha: And the second observation about material cost and A&P in such a demand environment, in sense that the industry is where and companies are where it is hard to say it but it is slightly difficult in terms of a business involvement so you might want to increase the A&P or the promotions in order to retain market shares or retain the volume growth and hence gains might be used off in A&Ps?

Sunil Duggal: I do not think so. I think 13% A&P is a very comfortable number over close to Rs. 5000 crores domestic business and we need not really spend much more than that.

Pritesh Chaddha: And my last question is your comments on the oral care category in terms of its performance for the category and for you as a company in particular and one data point which you shared was Babool did not grow which means that is it in the category that probably the base end is not growing and the higher end is growing?

Sunil Duggal: Yeah, this is in toothpaste particularly, you are absolutely right. The premium offerings are growing and the discount ones are flattish. But I think this phenomenon will probably not continue forever, the premium segments should continue to show good growth. But even our baseline brand should grow much ahead of what it did last year. So I think this is going to be a good year for Babool and we are looking at a pretty decent growth here and hopefully the trajectory of Red Toothpaste and Meswak will continue along similar lines but a 16% growth in toothpaste which is very substantially volume driven is something which we are pretty happy with.

Pritesh Chaddha: Have you mirrored the category growth in oral?

Sunil Duggal: No yet. We have not really got the latest set of numbers in terms of category but I suspect we would be ahead of category, may be you will have some data on that.

<u>Bhavesh Shah from CLSA</u>

Vivek: Vivek this side. Sir on the gross margins and A&P bit again, has there been any substantial shift from A to P in this quarter which has also helped the volume growth?

Sunil Duggal: No A to P is pretty constant.

Vivek: So that has not benefited. The 2.8% price hike broadly in domestic business looks a little lower than what it should have been otherwise, so there are no freebies which is pulling down the price growth.

Sunil Duggal: No, this quarter if I am not mistaken we did very few price increases. I do not remember any significant price increase. Most of it is carry forward. In the first quarter in April we have done some price increases, not a huge amount but fourth quarter was pretty much constant prices and there was of course a carry forward 2-3% happening but nothing more than that.

Gagan Ahluwalia To add to that Vivek, there has been a higher volume growth in categories like Foods, Healthcare and Homecare where pricing component has gone down in this quarter as compared to the nine months' period.

Vivek: And sir on the A&P there is a dip of 80 basis points, are you satisfied with the level of investment or there has been some cutbacks because other costs were rising faster, so staff cost or other expenses growing by 25% or so. Are you satisfied with the A&P levels? Your share of voice, or were you competitive during the quarter? You maintained your share of voice?

Sunil Duggal: I understand what you are saying. We did not do any cutbacks. We did not put any pressure on marketing to reduce spends. We spent whatever was needed and we got good results despite lower spends so we are pretty satisfied with the outcome. Going forward I think the spends would increase from 12.5 which is in the fourth quarter to closer to something like 13% but there was no pressure on anybody to cut back on spends.

Vivek: Okay. And one more thing, over the last few months you have taken a number of celebrities to endorse the products and all that, I would have imagined a part of that cost would have come in this quarter as well. So this number 80 basis point decline therefore looks quite surprising, or a 5% YoY.

Sunil Duggal: I do not think there is any huge loading in any quarter of celebrity cost. The contracts are such that we have milestone payments, little bit upfront payment when you sign the contract but otherwise it is milestone then we charge off every 3 months or 6 months as the contract runs it course. So I do not remember seeing any extraordinary expenses on account of celebrity cost or any production cost this quarter. I think it was a pretty normal quarter. We spent like I said what was required.

Vivek: Understood. And one more thing, Hindustan Unilever mentioned the transporter strike benefiting their volume growth also. Was there any channel filling ahead of transporters strike or something like that which benefited the volume growth in this quarter?

Sunil Duggal: Not at all. I think the epicenter of the transporter strike was Mumbai and the western Maharashtra and we do not have a huge business in Mumbai and Maharashtra. We have no factories there. So the transporter strike had absolutely zero impact on our business. We did our business in the usual course. We are pretty sure that the transporter strike would not perhaps last for long. There is enough inventories in the system at various points, where there are stocks of clearing forwarding agents to sustain may be a week's shutdown and we did not anticipate anything more than that happening.

Vivek: Okay. And as we head into Fiscal 2014, where would you peg the price hikes to the overall growth in fiscal 2014? And if I recall correctly the band that you had given for volumes was between 8% and 12% in the near term. Do you stick to that or there is some change on that or this band reducing to may be 8% - 10% or something like that?

Sunil Duggal: No, I think I will stick to 8% to 12% but now I would start looking at a number which is closer to the upper end of the band than the bottom end of the band because I do believe that the environment would be reasonably benign as far as staples are concerned especially the kind of staples which we sell. The election impact would be favorable. There are issues which we will have to deal with like the possible monsoon failure, etc., but even the monsoon outlook now seems to be fairly normal, it is early days there. But still whatever forecasts have come indicated normal monsoon. So I am pretty optimistic about the outlook for this year at least.

Vivek: And for fiscal 2014 the broad price hike bracket for domestic business in your view would be around?

Sunil Duggal: I would say 2% to 3% that is indicative. It could be a little bit more if opportunity presents itself. I think we will need to increase prices by 2% to 3%. Any further price increase would serve as a vehicle for margin enhancement so we will see whether that is something which we can do. But 2% to 3% is something which like I said we require to maintain current margin profile.

Vivek: And on international business side I just missed the number, so the organic volume growth for this quarter is how much?

Sunil Duggal: 10% to 11%.

Gagan Ahluwalia: In currency growth it is around 13%, so around 11% volume and 2% to 3% price hike.

<u>Rohit Gajare from UTI</u>

Rohit Gajare: Can you share with me the numbers for Hobi and Namaste for FY13?

Sunil Duggal: Well we cannot share specific numbers, that is not what we do but again in terms of growth we have indicated that Hobi grew by in excess of 40%, Namaste declined by around 10%. So these are the headline numbers.

Rohit Gajare: Hobi grew 14%?

Sunil Duggal: No 40%, 42% to be precise

Rohit Gajare: Tax rate for FY14 expected?

Sunil Duggal: I think the Namaste business should show very good growth because we have had problems this year so we have to grow on the back of an eroded base. So we should see growths in the region of 15-20% coming from Namaste and could be even better than that if things fall into place. Hobi, we should see a growth in the region of around 20% odd. Again these are very indicative numbers so do not even take this as a guidance, but something which we believe we can do and which should happen.

Rohit Gajare: And taxation for FY14?

Sunil Duggal: Pretty similar to what we have now. It is around 20% plus. And I do not think the ratio of overseas business to India business would shift dramatically. The split is 70-30 that will probably remain 70-30 next year also so the lower tax we should pay overseas, again would not have a material impact on our overall tax rate. So you can take it at the current rate which is MAT plus deferred tax.

Nillai Shah from Morgan Stanley

Nillai Shah: My question is basically on the longer term trends, your businesses which you potentially are building in the next 2-3 year perspective, can you share on certain categories where you are focusing on going forward, gross margin profiles of some of these categories, premiumization for instance and Skin Care what exactly are you doing with Gulabari. Your recent relaunch in the Home Care segments, etc.

Sunil Duggal: No, I am not a great advocate of premiumization as being instrumental in our growth. I certainly believe that there is such a huge expansion possibility in the categories in which we are in and given the portfolio diversity which we have which is according to me a huge source of strength that we do not have to do anything very dramatic in terms of premiumization of our portfolio or going up the value chain, etc. We just got to do what we are doing, do it better, do more of it and expand our categories much-much more than where they are. At the end of the day we have so many small categories, Skin Care 150 crores, Home Care 200 crores and these all can become 500-1000 crore categories. Just doing something what we have been doing all these years and I think the market is poised now to show very sustainable long term growth, we just have to go with the flow, execute well, build infrastructure, invest in our brands and the growth will come. And you have seen it happening, the moment we invested in infrastructure which perhaps we should have done even earlier, but never too late, the results are very visible and we just have to continue this trajectory. Premiumization is a double-edge weapon. It costs a huge amount of money and then you get into a very discretionary type of consumption pattern and I think both can be slightly risky.

Nilesh Shah: Can you give me some examples on what you have done for instance your gel based, air freshener segment which you went into, has that taken off, has that worked?

Sunil Duggal: Yeah it has worked but again our baseline will remain the blocks which we have which are Rs. 30-35, gels are almost twice the price Rs. 55-60. So they will remain, they will uplift the brand imagery. They will be able to penetrate certain homes which do not like the aroma of the blocks. So it is a logical expansion but there is no huge move towards premiumization. We are not going to take the eye of the ball. The baseline air freshener would remain, the hard working, low price block which everybody can afford. And for that it is a bottom list bit of a market.

Nilesh Shah: So are there any categories that you are focusing on over the next 2-3 years?

Sunil Duggal: No, we focus on every category which we are in. We believe that whichever category where we are in offers potential. I do not think it is necessary to channelize resources to 1-2-3 categories. We should invest perhaps everywhere and if there are some categories which show signs of fatigue going forward then we will deal with that. There are areas where fatigue is visible like toothpowders etc. and we have stopped investing in those categories, but those are few and far between. All our categories are sunrise, are potentially very high growth and we just have to make sure that we go with consumer preferences, change course as and when required and the growth will come.

Nilesh Shah: Second question is basically on the international business, Namaste – has the ORS issue finally been resolved?

Sunil Duggal: Absolutely, fully resolved and the good news is that the US consumer has shown absolutely no dissonance with the brand name change. It is such an old and respected brand that we did have some worries that the changeover might create some kind of backlash but it was taken over very smoothly. The trade has been very supportive. People like Wal-Mart and all did this change without any fuss, no change of distinct, we just moved shelves very-very smoothly. The change in Africa we have to be a little bit more careful and I think we are still struggling with what we should do in Africa in terms of the brand architecture. But the US and the Western European piece which is 75% of business the transition has been remarkably smooth.

Prasad Deshmukh from DSP

Prasad Deshmukh: Just a couple of questions. Firstly you said Namaste there is less amount of visibility there.

Sunil Duggal: My point is that it is a new business. It is two years old. In Dabur we have been running these brands for over 100 years, so obviously the visibility will be lower for newer business as compared to a traditional one. That is the only thing I meant.

Prasad Deshmukh: So just to get a sense there, how is the operational control kept on say Namaste business and Hobi Group by say Dabur management?

Sunil Duggal: Well we do keep certain people at strategic areas in both these managements, e.g., the CFOs are normally people from our system. In Namaste we are now taking over large parts of the management and populating it with our own people. And also therefore in addition to the CFO, the head of purchase and many other head of sales, very importantly, etc., from the Dabur system and we put some of our best resources in Chicago to deal with the problems which we had with Namaste and I think we are absolutely certain that these people would be able to get the ship back on track very quickly. So sometimes the local management works, sometimes it does not, sometimes it works in certain parts of the business and not in others and that is something which we will learn as we go along. The Hobi management on the other hand has been very-very good in terms of delivering results. Even though we do have some people there including the CFO and the head of sales and marketing which are from the Dabur system but there is a substantial Turkish component to the management there. So there is no mandate here as to what you do. We try to get the best management talent from wherever it is available.

Prasad Deshmukh: Second question again just now I think Nillai asked you which categories you guys would be focusing on going ahead and you said it is more or less all categories. Also when we discussed this Project Double there is this mixed improvement that you say is something that you guys will be focusing on, so which are these categories which basically can improve your mix in terms of say higher margin categories or when you are reaching more and more villages?

Sunil Duggal: Well, two comes to mind immediately. One is Skin Care, particularly the Fem portfolio and the other one is Home Care, both of them are very high margin areas which have got very low rural penetration and which can be substantially enhanced.

Prasad Deshmukh: Final question, this advertising and promotional savings that we have seen, are they because of domestic business or are they because of international business?

Sunil Duggal: No, I think it is little bit more domestic than international. International spends remained very high in the fourth quarter. Domestic business we just did not need to spend more than what we did, moreover phasing issue and I think going forward may be in the first quarter or two of this year, you would see higher spends in domestic and lower in overseas. A lot of the spends in Namaste and all were on account of one off expenditure because of the brand architecture issues and those are likely to now moderate. So we are looking at moderating advertising spends overseas this year and perhaps maintaining the current levels of spends. I am not talking about Q4. I am talking about the full year levels of spends in the domestic market.

Utkarsh Maheshwari from Reliance

Utkarsh Maheshwari: I just have one question. Just want to get an idea, how much as a proportion of total sales CSD channel should be?

Sunil Duggal: Around 5-6% of domestic business, that was the normal one, this year it has been lower because this has been a bad year for CSD. Hopefully, next year it will come back with the normal rate of around 5%.

Utkarsh Maheshwari: So if I just want to get an idea of what was the number this year for fiscal 2013 as a proportion of sales?

Sunil Duggal: CSD saw a decline and was 4.7% that means it was probably a little bit traditionally 5.5% to 6% and this year 4.7%. Does that answer your question? Next year it is probably going to be somewhere in between. I do not think that it will peak at levels which we had the year before last because CSD has changed structurally. So you can take a number which will range between 4.7 and 6. I think that is the best indicator I can give.

Sanjay Singh from Standard Chartered

Sanjay Singh: Sir just wanted to know on your whole margin expansion or margin outlook for FY14, we are talking about a 150 bps kind of gross margin expansion and may be around 50 bps from A&P. So this 150 bps of gross margin expansion what would you assume for let us say a rupee crude at current level or do you see some kind of further improvement or things going worse from here.

Sunil Duggal: I think this 150 bps material improvement is hinging upon two or three assumptions. One is that the rupee does not deteriorate beyond 55. Secondly the oil table does not go beyond $100. And thirdly the overall inflation levels remains at last year or below. So if these three assumptions come true which they are likely to be, but you cannot be certain but they are likely then I believe that we can have a 100-150 points improvement in our gross margins.

Sanjay Singh: Because the context I am saying this is, similar time last year we were expecting a margin expansion for FY13 and it did not come through of course, there were reasons. Rupee was one of the reasons and A&P also was a little higher than what probably we were thinking at the beginning of the year for FY13. So in this context with macro not improving may be overnight, of course GDP increasing because of election, etc. your expectation may come to later part of the year. But may be if volume growth remains a little tight, A&P savings may not happen or may be increase from here. Is there any possibility of that? If volume growth let us assume stays at the lower end of the band or middle end of the band of what you are saying, so it will be 9-10% volume growth instead of may be 11-12% which you want to deliver. Will that increase A&P or where will the compromise happen in that sense?

Sunil Duggal: I do not think the volume growth will have a huge impact on our A&P spends. I think the volume growth will be consequent more to with our distribution infrastructure expansion than with A&P. So while A&P certainly has an impact on volume growth it is not the only game in town. So I think if you are able to maintain double digit volume growths and the best case scenario is that we will, it does not necessarily mean that they will come through much high levels of A&P spends. It will come through better disposable incomes at the rural end and they will come through better execution and better leveraging of our infrastructure in rural areas. Therefore around a 13% spend aggregate is kind of what we are looking at. Now it might become 13.5%. I am not trying to say that that would not happen but I think we should be able to manage with 13%.

Sanjay Singh: We are basically looking at 10-11% volume growth and 2-3% kind of pricing.

Sunil Duggal: 10 and 11 is a little bit optimistic but again 8 to 12 and hopefully at the slightly higher end of this band.

Sanjay Singh: And in terms of Namaste, is there any specific issue with the management that you have faced for bringing any changes or is it what you think was not efficient enough or -

Sunil Duggal: Well, let us put it this way we believe that the changes which we are putting into place will substantially improve business delivery going forward.

Bhavesh Jain from Sushil Finance. Please go ahead.

Bhavesh Jain: Apart from this local manufacturing for Namaste products in Nigeria and South Africa and in Sri Lanka plant, do we have any CAPEX plan for FY14 or FY15?

Sunil Duggal: I think that is a good question. CAPEX would be lower than what we did this year. This year we did a little bit more than 200 crores. Next year we are looking at more like 140 – 150 odd crores. So it will be substantially lower than what we did last year.

Bhavesh Jain: And sir in the last conference call you have mentioned that for shampoo you still have some potential left for increasing the franchisee in South India, so whether we have exploited that in this particular quarter?

Sunil Duggal: No, we have not really yet begun to invest in shampoos in South India. In shampoos we have got a 30% plus growth so we are up to our neck in terms of production constraints so we were just able to manage the growth which we had. And this all growth came from the NEW (North, East, West) markets, nothing from South. But South does offer a great opportunity. We are looking at customizing the product offering and marketing mix including advertising to the southern market for shampoos and perhaps sooner rather than later we will make a big foray into South with our shampoos and will be able to generate sales there. At the moment the south contribution for shampoos is practically zero.

Bhavesh Jain: Okay. And the same holds for food business also?

Sunil Duggal: No, no Foods is reasonably good. I mean it is still much lower than the category than the average. It is more like 15% odd. But I think Foods is really a big-big opportunity which is constrained not because of the brand not being known, etc. It is a well known brand there but because it being at the tail-end of the supply chain. Remember that our plants are in the northern part of the country, Nepal and near Jaipur so South does not get the prominence it deserves as far as the supply chain is concerned. And now with the Colombo being literally within a day or two of shipping from Chennai or Cochin or Mumbai we will be able to feed south and to some extent the western markets also from Sri Lanka.

Aruna Bharti from Pari Washington

Aruna Bharti: Just a couple of questions. One is on a sustainable tax rate actually going forward.

Sunil Duggal: I think we answered that, pretty much what you see today MAT plus some deferred tax.

Aruna Bharti: Okay that is fine, I missed that. The next question is on 218 crores what you have spent in 2013, if you can just give me a breakup

Gagan Ahluwalia Basically about 100 crores was spent in the domestic business on some balancing equipments and additional lines and about 120 crores were spent outside India in various Greenfields facilities like Sri Lanka facility. Ee built a Greenfield facility in Egypt and in Bangladesh.

Aruna Bharti: 120 crores is spent outside India and the balance in spent inside India.

Gagan Ahluwalia Yeah, about 90-100 crores is spent within India.

Sunil Duggal: I think one of the things which we forgot to mention in the address was that there has been a very substantial improvement in working capital towards the end of the year. India Business now is operating on a negative working capital and while there is a reasonable amount of capital black in the overseas business, overall there has been a great improvement in this front.

Vaishali Jajoo from Aegon Religare

Vaishali Jajoo: Just one question on your modern trade. Could you just give me what is the growth in the modern trade in last quarter and how much it is contributing to your sales?

Sunil Duggal: Third quarter was around 30%.

Gagan Ahluwalia: Modern trade growth was 26% in this quarter.

Vaishali Jajoo: And how much is contributing to the total sales?

Sunil Duggal: 9%.

Percy Panthanki from IIFL

Percy Panthaki: Sir just one follow-up from me. Just wanted to understand your innovation pipeline or NPD pipeline for FY14, of course you will not be able to tell am the exact details but just a flavor on whether it will be more intense than FY13, less intense, what broad categories will you be looking at, etc.?

Sunil Duggal: It will be more intense, there is no doubt about that. We would not be doing anything radically new, so there will be no new categories which we will build, no new brands which we will build. There is enough space in the adjacencies to our existing portfolio to expand. So in beverage we will be looking at some fruit milk combos, I cannot talk anything more than that but there are some very interesting products which will bring us into the dairy space, not so much as pure milk but fruit-dairy combos that type of products. We will be looking at new hair oils which are really at the cutting edge of consumer preferences as we see them. We will be looking at new offerings in toothpastes. We will be looking at a large number of offerings in the OTC space but in terms of brand architecture they will all sit within the current architecture. There would not be anything new, because there is no need to build now for us new brands and new categories. We just got to invest in existing categories and brands and build some platforms around them and that is the lower cost way of doing things as well as much less risky.

Percy Panthaki: If you can give some idea on how your NPDs in the last 12 to 18 months have done something like almond hair oils or anything else that you have launched recently in the last 1-1.5 years? What has been the experience?

Sunil Duggal: No we have been fairly muted as you would have tracked us. We have not been very aggressive in NPDs over the last one or two years. We have been dealing with margin pressures and then we wanted to focus on distribution rather than to spend a lot of time and energy on new product introduction. So, we launched Almond Hair Oil which is doing well, again I will not talk about specific numbers but we are very happy with the performance of Almond Hair Oil. There were a whole lot of beverage offerings, which we did. All of them, if not all, at least most of them have done extremely well on the ground especially the fortified beverages under Real Activ. Odonil Gel for example has done very well even though it is around 6 months into launch.

Gagan Ahluwalia A lot of new initiatives in the international business.

Sunil Duggal: And international of course, there are huge number of initiatives we begin to mention them but since your focus is domestic, these are some of the ones I mentioned. Going forward there would be substantially larger number of initiatives.

Gagan Ahluwalia: Thank you all of you for participating in this conference call. Webcast of this call and transcripts will be available on our website. For any queries or feedback, you may kindly contact us. Thank you and have a great evening ahead.