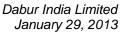


"Dabur India Limited - Q3 FY2013 Results Conference Call"

January 29, 2013

MR. SUNIL DUGGAL - CEO
MR. LALIT MALIK - CFO
MR. ASHOK JAIN - GENERAL MANAGER, FINANCE & COMPANY SECRETARY
MR. SAIBAL SENGUPTA - SR. GENERAL MANAGER-FINANCE
MRS. GAGAN AHLUWALIA - GENERAL MANAGER-CORPORATE AFFAIRS



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 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 management of Dabur India Limited, I welcome you to this conference call pertaining to the results for the period ended 31st December 2012. We have here Mr. Sunil Duggal - CEO, Dabur India Limited. I have pleasure in introducing Mr. Lalit Malik who has joined us as Chief Financial Officer. In addition, Mr. Saibal Sengupta - Senior General Manager, Finance and Mr. Ashok Jain - Senior General Manager, Finance & Company Secretary are present here. We will now start with a brief presentation by Mr. Duggal, post which we shall have the Q&A. I now hand over to Mr. Duggal.

Sunil Duggal:

Thanks Gagan and good afternoon ladies and gentlemen. I welcome you to the Dabur India conference call pertaining to the results for the quarter and nine months ending December 31st 2012. During the quarter, Dabur's consolidated sales increased by 12.3% to Rs. 1,630 crores and profit after tax by 22.1% to 211.1 crores.

Domestic FMCG business reported growth of 14.3% driven by a combination of volume growth and price increases. Amongst categories foods and HPC grew ahead reporting growth of 22.1% and 15.7% respectively. Hair Care portfolio grew by 13.9% with shampoos growing at 29.6%. Perfumed Hair Oil posted a growth of 14.9% despite lower volume off-take in the CSD channel. Excluding the CSD business, perfumed hair oils reported a growth of 23%. Our market shares in hair oil categories have stabilized and are demonstrating a steady trend.

Oral Care registered a growth of 13.6% during the quarter. The premium offerings, Red Toothpaste and Meswak reported growth in excess of 25% and gains in market share. Though the sales of the economy toothpaste Babool was under pressure, the decline as compared to previous quarters has reduced significantly. Toothpowders performed well and grew by 14.6% during the quarter.

Skin Care category grew by 15.7% during the quarter with the Fem portfolio witnessing strong double digit growth. Gulabri also performed well.

Home Care brands continued on a strong growth trajectory growing by 30.5% during the quarter with all the three brands Odonil, Odomos and Sani Fresh performing well.



Health Supplements recorded growth of 12% during the quarter with Honey in particular showing good momentum. Dabur Chyawanprash witnessed close to double digit growth despite lower offtakes in the CSD channel. Digestives reported marginal decline largely due to high base and significant price increases in Hajmola which were necessitated to restore brand profitability.

The OTC and Ethical Portfolio registered growth of 15.6% during the quarter. Ethicals grew well at 19% and OTC by 14%.

Foods grew by 22.1% during the quarter. Real fruit juices continue to perform well driven by strong market growth and market share gains. During the quarter new value added variants were launched in our Activ portfolio.

Dabur's International Business grew by 9% during the quarter mainly impacted by some compression in the Namaste Business which has been undergoing restructuring and changes in brand architecture and distribution. Our organic international business reported growth of 22.4%. Egypt, GCC, Turkey and Levant markets supported good growths with categories such as hair oils, hair creams and shampoos doing well. The business continues to invest strongly behind A&P.

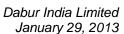
On the profitability side there was a growth of 19.7% in EBITDA with EBITDA margins expanding to 18.2% in the third quarter versus 17% in the corresponding quarter last year. Material cost eased during the quarter by 220 basis points on a consolidated basis. During the quarter we continued to invest strongly behind our brands with our adpro-to-sales ratio increasing to 14.4% versus 13.6% in the same quarter of the previous year. Profit After Tax reported a growth of 22.1% with PAT margins improving to 12.9% in the third quarter versus 11.9% in the same quarter last year. Our distribution enhancement initiatives particularly in Rural India continued to bear fruit with increase in product width in Rural India translating into higher and more profitable sales. Going ahead, we will continue to drive revenue growth on the back of distribution footprint enhancement initiatives, focused media and promotional activities, new product initiatives and market expansion activities.

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

Abneesh Roy from Edelweiss.

Abneesh Rov:

My first question is on the modern trade if you see some of the FMCG companies and retail companies which have reported numbers, they are pointing towards a sharp slowdown in the same store growth and store closures on a net level. So how much is modern trade contributing on an overall basis for the domestic business and which are the categories in which modern trade is more relevant because if I see your Real Juice we see a 29% YoY growth. So what is the trend we are seeing in modern trade?



Dabur Dabur

Sunil Duggal:

For us modern trade actually did an extremely good performance in this quarter. The revenue growth was close to 30% again largely in volume. So we do not see any compression in terms of demand from modern trade. I do not have numbers in terms of same stores sales etc. but overall aggregate modern trade growth was more than twice of the total of domestic growth. So in our case the two drivers of growth have been rural which has grown close to 20% and modern trade like I said which is around 30% and the biggest drag really has been canteen stores department which continued its decline. Urban markets have grown at a relatively sedate pace, double digits but not as fast as the other two.

Abneesh Roy:

Regarding rural are you seeing the trend reversal at any point because it still is 20% growth and how much of this growth is coming from your rural distribution initiative? On the market overall how will you see the rural market if you take off the distribution expansion?

Sunil Duggal:

It is hard to say how much is due to the distribution expansion but it has significantly factored that part in because the rural expansion has been instrumental in driving rural growth. We certainly would not have 20% growth had we not done the changes which we did a year ago. So definitely it has played its part.

Abneesh Roy:

Sir my next question is on your oral care – premium oral care has done very well. If you can point from where we have taken market share especially if you see in sensitive we have already strong players. So what is the thought process Dabur has on the sensitive and the premium end and secondly 14% growth in toothpowder after many quarters, is it largely base effect?

Sunil Duggal:

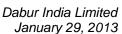
Well we do not have any sensitive toothpaste offering. We have two premium variants; both are herbal in nature, Red toothpaste and Meswak. And they are not as premium as the sensitive toothpaste which are at a much higher price point. They are more at the upper end of the popular segment rather than at the premium end but these are high margin offerings and this is where we put money behind and where we want to see growth. The third is the economy variant which obviously has much lower margins and that has been really not being pushed as aggressively as these ones because we want to regain better margin profile for the economy offering.

Abneesh Roy:

And sir toothpowder?

Sunil Duggal:

Toothpowder, actually this quarter was fairly positive around close to 15% growth but largely price driven. The volume growths are not happening to that extent which is only to be expected. It is not a category which is growing and certainly not a category in which we are investing behind.



Abneesh Roy:

And sir on the sensitive would you say that it is a relative small market and already 3-4 players are there, would you say like that or is it a category in which over the longer term even Dabur would like to have a presence?

Sunil Duggal:

I think we would like to have a presence and we would like to have a sharply differentiated presence as compared to the main stream players because there is a lot of noise and activity in this area, so we will have to be a little careful about which direction we choose. But we do see sensitive as being a very big category in the future if one were to follow global trends where sensitive is very significant in terms of the overall composition of the toothpaste franchise. So we are exploring possibilities in the space.

Abneesh Roy:

Sir my last question is on the Home Care and on the Real business, both have grown almost 29-30%, so how sustainable is it, especially Real I understand, slight benefit will be also because of the full impact of festive season. In Home Care how sustainable is this 30% growth?

Sunil Duggal:

Well I do not think 30% growth is ever sustainable so I do expect at a point in time growth to start leveling off. I think the first signs of some moderation in growth for the food franchise is visible, the growth in the third quarter was lower than the first. And that is only to be expected as the base becomes very big. Home Care is showing a lot of resilience. This year the growth was driven by Odomos, traditionally it is driven by Odonil so obviously the mosquito season was in favor of driving brand growth and may or may not happen next year. But overall we are positioned very strongly in both the segments. So I think we should be able to drive growth perhaps ahead of the rest of the portfolio but may be not at 2x or 2.5x which we are doing so far.

Abneesh Roy:

But sir any plans to make the presence in HI mosquito category more in terms of more product presence?

Sunil Duggal:

No, I think we will continue to be in the applicator space so we will focus on outdoor usage rather than indoor usage, that is a space which is already been taken up. Also applicator brand should normally be differentiated from an insecticide brand because the two have very different connotations in terms of usage and safety. So Odomos will remain applicator for outdoor usage and we believe there is a huge market potential waiting this area.

Percy Panthanki from India Infoline.

Percy Panthanki:

Sir, first question is on the volume growth, I know that you have given a range of about 8 to 12% but would you be able to sort of give any views, I am not interested quarter to quarter but let us say on a 4 to 5 year basis what is the amount of CAGR volume growth that you can do in the domestic business and if you could narrow the range a little bit?



Sunil Duggal:

Well, it is hard to narrow the range to anything sharper than 8 to 12% and the reason for that is that inflation is an unknown factor so we will be operating, other things being the same at the lower end of this band in periods of medium to high inflation and hopefully at the upper hand of this band when inflation is more benign. So I think that is the way it normally plays out. Of course there are numerous other considerations which one cannot predict but I would still confine myself to this 8% to 12% band.

Percy Pantanki:

Right sir and just wanted to know your views on any further acquisition, how do you see that over the next 2 to 3 year period? Would you say that the possibility of further acquisition is very low or do you think it is possible?

Sunil Duggal:

Well it is possible but low. I would not say very low but I do not think there is anything which is immediate or very compelling but you never know these things happen unexpectedly. We still would look out for an acquisition particularly for the domestic business. We have not done anything for the last 4 or 5 years. So the business is quite prime to take on any acquisition and drive it forward. But early days and we still are really prospecting but nothing is coming up.

Percy Pantanki:

So in that case supposing if there is no further acquisition, do you see your dividend payout ratios going up in the future?

Sunil Duggal:

Well not immediately. I think for the next I would say 2 years I do not see any enhancement in the payout ratio. After that we will have to kind of do a rain check, what the cash accumulations are and if they are exceedingly large I think they would be need to pay it out. But certainly in next fiscal I do not see that happening. I cannot predict beyond that.

Percy Pantanki:

So in the next fiscal would you therefore use your surplus cash to repay the debt on the books or will it remain as cash?

Sunil Duggal:

No, it would remain as cash because a lot of the cash will be raised in India. The overseas cash will be used to pay the debt which is all overseas. In India we have no debt worth the name. So India cash will remain in India to build the war chest, in the meanwhile there is a good amount of treasury income to be earned. But ultimately we will have to see how to deal with it.

Percy Pantanki:

Right. And just a couple of housekeeping questions – what are the tax rates that we should take for FY13, FY14 and FY15? That is one.

Sunil Duggal:

Last year the tax was a little depressed on account of the write off which we did of the capital of H&B business. So what you see now is the true MAT rate and that should continue unless there is something which is introduced in the finance bill in terms of raising the level of MAT that is not too predicted but otherwise we continue at MAT for the next 4 or 5 years at least.



Percy Pantanki: Okay so safely we can say that your tax rates should not be more than 20% unless there is any

.

Sunil Duggal: It is 21% as we speak; actually it is a little bit lower. 20.9% exit rate, so yeah, around that

much. It depends also upon how much profit we capture overseas because overseas particularly the Middle Eastern markets the tax rate is lower, so yeah around 20% is what you

should look at.

Percy Pantanki: Right. And can you also throw some light on why the interest cost has dropped so much in this

quarter, YoY and QoQ?

Saibal Sengupta Yeah, I think it is primarily because in the previous year same quarter there was higher

exchange rate impact which if we compare it now with the current quarter it is showing

comparatively a lower finance cost.

Ashok Jain The level of losses have come down. The losses the still there but the level of losses have

come down both year on year as well as QoQ.

Sunil Duggal: There is more of a convergence in the exchange rate than it was in the first two quarters.

Percy Pantanki: Sir QoQ basis I do not think the exchange rate would have significantly shifted, right?

Saibal Sengupta On an average no, but in terms of the blend and the mix which has happened in between the

quarter that has undergone some change and that has resulted to the drop in the absolute loss.

Sunil Duggal: The FOREX losses in Q3 have been significantly lower than the previous two quarters and

that is captured under this account head.

Percy Pantanki: So going forward what kind of interest cost should we take on a quarterly basis assuming that

FOREX rates are constant?

Saibal Sengupta So if the exchange rate remains constant then we could take it at a similar level but it will all

depend upon how the exchange rate will pan out in the future.

Percy Pantanki: Similar to Q3 you mean?

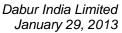
Sunil Duggal: Yeah. Now there is an increasing convergence in the exchange rate on a YoY basis, so YoY

there should be less interest captured and then it will kind of moderate itself by the first

quarter. So fourth quarter should be a little bit lower on a YoY basis and then sequentially.

Percy Pantanki: Sir just talking about the absolute rupees million interest cost on quarterly basis, would it be

similar to what we had in third quarter?





Saibal Sengupta It will be more or less similar.

Aditya Soman from Goldman Sachs

Aditya Soman: Just a quick question, I see that your food margins for this quarter for the standalone accounts

have come off significantly to about 10%. Is this as a consequence of higher ad spend or have

the gross margins come down as well?

Sunil Duggal: The ad spend has not increased significantly, I think there has been some increase but nothing

much. It is really on account of FOREX. Foods has got a high import content and the rupee

depreciation has significantly altered the margins of the foods business in this year.

Aditya Somani: But even on a QoQ basis they have come off significantly, so is that just because...

Sunil Duggal: That is because of an extraordinary element i.e what we call the Diwali Gift Pack which is a

lower margin SKU and there was a large quantum of that. That is not structural and is just on account of the gift pack which is around 15%-20% of sales during the quarter. That caused some margin compression. But structurally there are issues with regard to FOREX and there is also a new duty imposed by the Indian government which is additional 1% CVD. So this is

impacting the food margins here.

Aditya Somani: And so typically how do you hedge this FOREX loss for your juices particularly?

Saibal Sengupta Most of this will be MTM loss which we have to bear. Whatever our outstanding liabilities are

there we have to convert them at the closing rate in spite of whatever the FOREX hedging we

have taken.

Aditya Soman: Okay. And one more question on your international business what would be the same currency

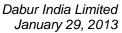
growth?

Gagan Ahluwalia: Same currency growth in the organic international business is around 16%.

Amit Sachdeva from HSBC

Amit Sachdeva: Just one question has been answered on the food EBIT margin, which you just explained. The

other question I had was that last quarter you were sounding quite optimistic for the Chyawanprash growth outlook and if I look at it, Chyawanprash has slightly been perhaps lower than what you expected before the quarter began. Do you see some amount of - and you sort of also mentioned that perhaps your CSD channel has impacted some part of it, but if you could give us what is the salience of like CSD revenue growth for this category and do you see some underlying trend also here which is larger than like discretionary spend somewhat slowing down? Or do you see some amount of growth has been impacted as a result of general





economic climate? Do you see some underlying slowdown in discretionary foods which sort of has been reflected by the other players as well?

Sunil Duggal:

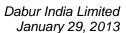
To answer your question, no, the civilian growth is around 14-15%, 14-odd percent non-CSD growth of Chyawanprash which is pretty decent by any standards. But CSD is a huge contributor to sales in the third quarter. Something like 37% of CSD business comes in the third quarter and the large quantum of that is Chyawanprash and there was a huge dip there. So instead of doing what we should have done which is around 14% we did more like 10% in Chyawanprash. It does appear on the surface to be a problem but I think as and when CSD corrects itself the growth will come back into the teens. So there is no structural problem here. I think we have been investing strongly behind the brand, it is enjoying good franchise. We do not see any attrition happening. There could be some fall-off in terms of some rural consumption of Chyawanprash given the high price but to that something which is reversible. So structurally I do not think there is any issue here.

Amit Sachdeva:

Okay sure sir. Other question was can you just talk a about bit of Namaste what is really happening there because I think the international growth obviously if you look at overall it has been obviously pretty low in terms of 7.8% odd if I were to see that. So do you see what sort of compression are you seeing and what is really going on, what should we expect for this year and the next and if you could give some thoughts around Namaste business it would be really great.

Sunil Duggal:

See the Namaste issue as we speak is largely now a US market issue. The Africa piece is something which we are rapidly correcting, South Africa is back on track and Nigeria and East Africa also would be the next quarter or so. The US will take a little bit longer, I think may be 2 quarters to get back on its feet and the reason for that is that we decided to change the brand name from Organic Root Stimulator to ORS because of regulatory issues and that meant a massive change on the ground with regard to drying up of pipelines, alteration of the entire brand architecture, communicating the same to the trade, relisting and it was very disruptive. We took most of this year for that to happen. The process is largely complete and I do expect better numbers to come out of Namaste starting this quarter but really coming to full fruition in the next year. So next year should be a good one for Namaste by any standards especially if Africa starts to fire and we will put in all the Dabur resources which are there in Africa to push now the Namaste business which we were not doing earlier. We are also doing some fairly big transitions in terms of management, we are putting some of our key people from India and Dubai to Chicago who will be better able to manage the business. We are putting in processes like implementing SAP's enterprise software which we have. I think all this will mean that the Namaste Business which is intrinsically very strong would undergo a strong revival next fiscal.



Amit Sachdeva:

Sure and you have also mentioned about some production capacities I think already up and running, can you share what is really happening on the localizing production in Africa? What is the problem there?

Sunil Duggal:

We are close to finalizing an arrangement in South Africa, (a), and (b) we are now making the blue print of manufacturing Namaste products in our own facility in Lagos. So these are the two plans which will feed South and West Africa. Then for East Africa we are looking at manufacturing some of these products in our Egypt factory which again has a free-trade arrangement with markets like Kenya etc. So I think with this all the four parts of Africa would enable us to push locally manufactured products into the market. And all of that will progressively unfold next fiscal and we should see a much higher level of localization happening for Africa which would be good for the business. But even without that I think particularly in South Africa which is the biggest market, we are seeing very strong growth and we are confident of doing an extremely good business from South Africa next year.

Amit Sachdeva:

Just one last very quick one, OTC and Ethical - are we seeing some growth at least somewhat slightly lighter compared to last quarter and we had 30-plus launch as well. So do you see some amount of, what has happened to the launch and can you share the traction last quarter was pretty impressive.

Sunil Duggal:

I think last quarter's growth was on the back of a very low base because if you remember in the second quarter of last year we had undergone a massive reorganization of urban distribution and that really impacted businesses like FEM and Ethical and OTC more than the bigger businesses. The smaller businesses underwent some amount of temporary damage during the transition. So the high growth which you saw in the second quarter was a little illusionary. I think what you are seeing now is around 15% growth in OTC and around 20% in Ethical, which is off for the normal base. So I would give a lot of credence to these numbers and they show the strength of our prescriptive business.

Amit Sachdeva:

Sure. And how the 30-plus launch has been, what's the traction in the marketplace?

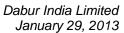
Sunil Duggal:

It is early days yet. The initial response has been good, but it has just been launched so I would not like to comment upon it as of now.

Varun Lochab from Religare Capital

Varun Lochab:

My first question was on the two competitive categories, Oral and Shampoos and it seems your growth is coming back in those two categories. So if you could just share some thoughts on those categories and the outlook, do you think this recovery in growth can continue and you could grow your market shares in these two categories?



Sunil Duggal:

I think we can, I mean the growth in shampoos obviously will never continue to be 30%, so perhaps it will moderate a little bit next year but I still think we will be able to grow ahead of category and therefore have market share gains because we have now in a sense almost reinvented our shampoo's portfolio, new proposition, new marketing mix, new everything and that is really working for us on the ground. Also the rural expansion has worked very much in favor of shampoos. In fact shampoo now becomes our largest distributed brand which earlier on that claim was with Hajmola. So now shampoo is available in 3.5 million outlets and that just shows the strength of the franchise and the deep equity it enjoys across the country. We still have a lot of work to do in the southern markets to get the franchise moving there and then that will open up a new frontier of growth. So the outlook for shampoos as we speak looks good. The disruptive competition, while not completely abated has certainly lessened. Oral care the whole thrust was towards profitability. We could have grown the franchise much more than what we have done but we deliberately have been focusing on regaining profitability in Babool. It is a big brand and we have to have a certain minimum margin threshold. But the good thing is that with the higher margin products as we saw are showing extremely high growth amongst the best in the business. So that is something which we are very happy with.

Varun Lochab:

And sir my second question was on Skin Care – given your rural distribution expansion I thought Gulabari would get a big boost. Overall skin growth at 15% when winters have been quite good and all, do you think it is satisfactory or any part of business which sort of underperformed in this quarter?

Sunil Duggal:

Well we could have grown more and I was discussing it with the sales people, they said that we could have sold much more because the winter was very severe. But being a seasonal product we did not put too much of the moisturizer and the creams into the market simply because it is very unpredictable. These are very seasonal dependent and if winter is not severe you can have a lot of unsold inventories. So we could have sold more. There was an opportunity lost here but again it is easy to say so in hindsight. So I would say that a 15% growth if we are able to deliver it year on year is probably not bad. And the more profitable FEM franchise which is actually what we really look at to drive growth because it is so unique, that is the Fem bleaches and hair removing creams, that is growing at around 20%.

Varun Lochab:

So Fem would have again outperformed the category growth this quarter?

Sunil Duggal:

Well, we are in a sense the category not of course in hair removing creams where we are the #3 brand but we hope to become #2 soon, but in the bleaches we have complete dominance. In the bleach portfolio I think a lot of good work has been done in expanding of both the Fem bleach and perhaps even more importantly the Oxy portfolio, which has been rebranded as Oxylife and there is a lot of new initiatives happening here and lot more which you will see in the months ahead. So we are on a very good wicket as far as this business is concerned.



Varun Lochab:

And sir just lastly on margins if you could throw some light on gross margins, they expanded very nicely in this quarter so in terms of the near term outlook on some of the key raw materials and how do you see the gross margins behaving and A&P was again very high in this quarter despite a high base, so what is the outlook on that as well?

Sunil Duggal:

I think the domestic margins are likely to remain at current levels, the gross margins because I do not see the rupee correcting in a hurry. I do not see inflation cooling off in a hurry so there would be margin pressures but certainly no erosion of margins happening at the gross level. We would try to do some moderation in A&P. I am not saying that that is something which we are committed to but we will try to reduce A&P spends to by another 50 to 100 basis points and if that is possible I think that would lead to some margin expansion. Overseas is sitting on sweet spot as far as gross margins are concerned. There is a massive expansion there particularly in the Middle Eastern and Turkish areas but even for the Namaste business and that trend I think will continue at least for a few more quarters. So we should see better margins happening there. Of course the overseas businesses are spending a lot on A&P and I certainly see some moderation happening in A&P because these spends were really fueled by very high margin expansion because we did not reduce prices so we spent a little bit more on A&P.

Varun Lochab:

Okay. So the spurt in A&P is due to increase in both geographies like domestic as well as overseas.

Sunil Duggal:

Yeah more so for overseas than for domestic. Domestic growth has been just around 60 basis points on a YoY basis whereas for the consol it has been more like 80 so obviously the overseas has been more aggressive in adpro than domestic. But we will try to moderate it. It is never easy to do that but I think there is a case for spending less.

Varun Lochab:

So 13-13.5% of sales would be the ad to sales ratio?

Sunil Duggal:

Yeah, I think that is what we would seek to do.

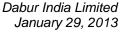
Vivek Maheshwari from CLSA

Vivek Maheshwari:

On the gross margins again if I look at, if I simply subtract standalone from consolidated it gives an impression that international margins have moved up by almost 900 basis point gross margin, 850 basis points. Is that a correct reading or there is some commodity element which is sitting over there?

Sunil Duggal:

No, it is not 800-900 but it more like around 700 basis points. There is genuine movement of that level simply because we have not passed on any of the commodity depression to the market so we have captured all that but we have obviously been forced to spend more on A&P to mitigate compared to the high prices. So it is still very-very high.





Vivek Maheshwari: So the expansion is 500 basis points, is it?

Sunil Duggal: Yes.

Vivek Maheshwari: And the balance will be because of commodity that you would have traded in the mix change

over there, is it?

Sunil Duggal: Well not so much mix change it is sheer lower prices of commodities.

Vivek Maheshwari: No, what I am saying is if I subtract standalone from consol the delta is 850 basis points. If the

500 basis point is like to like international gross margin expansion, does that mean the balance

will be because of commodity mix change, the commodity that you trade in?

Sunil Duggal: No, I do not think the mix change will lead to a 300 point expansion.

Gagan Ahluwalia: There is also the H&B component in the consol minus standalone, you have to account for the

H&B -impact as well.

Sunil Duggal: So what we will do is we will answer your question offline. We will have to dig a little deeper

but broadly there has been a substantial softening of commodities overseas and we have been

able to capture all that in gross margins.

Vivek Maheshwari: Understood. And 150 basis point is higher A&P Delta broadly, right? So everything has

flown into, leave aside their overheads, it has flown into the EBITDA margin expansion.

Sunil Duggal: In the Namaste business the A&P spends have been extraordinarily high because the topline

has obviously not performed and all these changes which I spoke about has put a lot of stress on the A&P but these are not structural. We should be able to reverse them next year as and

when the one-off events like brand architecture chain, etc., play themselves out.

Vivek Maheshwari: Okay. And in your domestic business there is broadly margins have almost stayed flat which

were, I mean last year itself these were down some I think 200-250 basis points. Does that

mean the entire gains were offset by currency movements or you have been restricting...

Sunil Duggal: Broadly yes, the currency movements have been a major factor in keeping the domestic

margins pretty flat as compared to last year. So this has been a little bit of a disappointment.

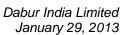
We did not expect the rupee to behave the way it is and the main impact has been felt on the

beverage business. Also just to complete my sentence, there has been a couple of other events which are perhaps unique to us. One is extraordinarily high price of honey which again is a

very key raw material for us and that has shaved off a fair amount of margin as far as our

healthcare portfolio goes and sugar to a lesser extent. So if you see HPC margins they have

been very healthy but healthcare margins have been flat and food margins have come down.



Vivek Maheshwari:

And I mean overall again as a business if I look at your domestic business topline growth is 14.3% and your volume growth is around 9.5%, right, so which means something like a little less than 5% realization increase. I would imagine there would some carry over from last year as well. If the momentum in the domestic business was good couldn't you have taken up some more prices or you wanted to focus on volumes as a strategy in the last few quarters or...

Sunil Duggal:

I think the overall price increase in the whole sector has been fairly moderate. So it may not have been easy to take up the prices significantly and keep in mind that we took our prices by 8-9% last year. On top of that doing anything more than 5% could have some impact on demand. So I think this was a balanced approach. Given the high inflation I think 5% price increase was something what we had to take and more would have been a little risky. I think the price increase is going to continue we are not going to end the way it is. Wherever we see opportunity we will take up prices. So we believe the inflation is now structurally high at least for the next year or two at high single digits and we will have to live with that realization and be fairly aggressive on the pricing front.

Vivek Maheshwari:

The reason I asked you think question is because if I look at your standalone business last year we had 140 basis point margin contraction at EBITDA level and this year again we have 100 basis point margin contraction. So that is why I wanted -

Sunil Duggal:

No, domestic EBITDA is flat if you take the third quarter.

Vivek Maheshwari:

My numbers do not include operating and other incomes, so possibly because of that.

Sunil Duggal:

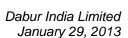
I think we will be able to nudge it up. I am not saying that we are happy with this margin. We will seek some expansion but having said that there are some structural issues with regard to the rupee parity and some additional taxes and all which have come into play which again were not something which we anticipated.

Vivek Maheshwari:

Okay. And overall from a 2013 perspective how do you see overall market growth rates, are you concerned at all about I mean staple side has done well in the last few years despite discretionary be it jewelry or be it 2-wheelers, 4-wheelers which have seen the impact of whatever weak sentiments or higher inflation. How do you see staples in 2013 in general?

Sunil Duggal:

I would put staples into two buckets – the discretionary staples and the main-stream staples. I do see pressure on discretionary staples happening as we speak and continuing into the future. But the base level staples that will be continue to fire because direct transfer of cash or economic stimuli continuing the way it is, we will definitely keep that part robust but the high end the products, difficult to say.



Vivek Maheshwari:

And last bit in that context, why would you look to reduce your A&Ps between 50 and 100 basis points which you indicated, I mean given that at the higher end discretionary may get impacted or staples may get impacted so why such a thought process.

Sunil Duggal:

Because we believe that the staple demand will continue and perhaps not be so dependent upon high levels of A&P. The discretionary spend would be very much tuned to A&P levels and quite frankly the discretionary part of our portfolio is comparatively small, I would not put in more than 10% of our domestic business. So therefore we do not have to spend in fueling demand for the discretionary staples because we do not have too many of them and the baseline staples would continue of the back of strong distribution initiatives and stable level of advertising support probably do not need more lubrication than that.

Arnab Mitra from Credit Suisse

Arnab Mitra: My first question is on the Namaste business, as you said there has been a lot of disruptions

there, so when we look at FY14 and a recovery would you say we will see sharp YoY kind of growths because there was a disrupted base or it will be a more of moderate ramp up through

the fiscal year 2014 as you see it now?

Sunil Duggal: I think the US business will be a moderate ramp up. The business is not that volatile that it

would see sharp spikes and troughs. The Africa business, it depends upon how quickly we are able to execute localization and infrastructure building in Africa. That could see a sharp spike northwards. So since Africa is around 30% of Namaste business and will grow ahead. That

really holds the key. The US business I do see double digit growth emerging next year but it is

not going to be anything very-very high.

Arnab Mitra: And just coming back to the question of gross margin in international business I see that even

in the base quarter of this year, this quarter's base quarter had a very low margin. So would you say that the YoY growth in the margins will continue going ahead or it was more of a very

weak base and you are delivering good numbers on that on international side?

Sunil Duggal: Again if you see the margins here are, you are talking about the EBITDA margins?

Arnab Mitra: No actually I am talking about gross margin more, that 500 basis point increase in gross

margins.

Sunil Duggal: Now that is something which I think the current state of gross margins is something which will

probably continue. I doubt very much if it will increase, expand further because we are sitting on a commodity sweet spot overseas and perhaps there are not too much upsides there. But it would certainly be ahead of what we saw last year. I am talking about now next year. So

perhaps it is safe to say that we should be able to maintain the same gross margin profile as

current year but very unlikely to expand it further.



Arnab Mitra:

And just coming to your overall growth numbers in domestic as you said pricing growth still remains, I mean you will look at opportunities should take up pricing. So with say something like a 10% volume growth is 15% to 16% kind of revenue growth what you are looking at for the next year?

Sunil Duggal:

Yeah I mean that is what we would set our internal benchmarks at, 15% revenue growth fueled by a 10% volume and hopefully we will be able to achieve it. It is hard to say but that is something which we would set as our minimum internal benchmarks.

Arnab Mitra:

Right and just one last question, on international, on the overall international business what would be the constant currency growth if you also include Namaste in that?

Sunil Duggal:

That would be much more moderate entirely on account of Namaste. If you take the constant currency growth for the organic business is 16% which if you aggregate everything drops down to 4% because of very sharp decline in the Namaste business. That is the overall volume growth and the growth in terms of revenues is 9% for total international and 22% for the organic international business.

Arnab Mitra:

And just lastly on hair oils, any comment on how the almond oil traction has been? Is it something which is meeting your expectations and how do you look at that segment?

Sunil Duggal:

Yes it is meeting our expectations. I think the brand is performing well. I would not of course disclose precise numbers but it is meeting our internal benchmarks. I think one more aspect of our domestic business which perhaps has escaped the scrutiny, it is actually not domestic business, it is business which we export, is the sharp drop in the revenues for the commodity exports in the third quarter which is significantly Guar Gum. Guar Gum is a small side business we had which was performing exceedingly well in the first two quarters and starting from the fourth quarter of last year and with the gaur prices cooling off that is now into negative territory. But this business is not strategic but that has pulled down the overall growth and that is why the 14.5-odd percent domestic consumer business growth moderates to around 12.3 if you look at the total domestic growth.

Priya Ranjan from Macquarie

Priya Ranjan: My question is regarding the international business regarding Egypt. How is it now doing?

Sunil Duggal:

Egypt is around 15-odd percent growth this quarter which is much lower than what we normally get from Egypt which is more like 20, but still not bad under the circumstances because the country is obviously under some stress politically and economically. So the 15% growth is reasonable under the circumstances.



Priya Ranjan: And about the Nigeria, since last two quarters we have not given the numbers of the growth, is

there any kind of pressure in Nigeria right now in this quarter?

Sunil Duggal: Yes there is. The third quarter was not a good one for Nigeria. We had pretty decent two

quarters but the third quarter was low. We hope to regain this. There is nothing against structural there, more on account of local unrest and inability to supply product because of

market closures etc. so we should be able to get back on track in the fourth quarter.

Priva Ranjan: And in the domestic business coming back to oral care, do we see some kind of market share

changing hands between your brands like from Babool to Meswak or Red? Is it happening

or...

Sunil Duggal: Yes we are obviously investing much more behind Meswak and Red than behind Babool but

we are in a sense trying to capture better profitability from Babool both in terms of better price realization as well as by launching new variants, one of them will hit the market pretty soon. And I think those variants obviously will have much higher margins and if they are able to do well in the market, the overall margin profile of Babool which is a pretty large brand now would be significantly enhanced. So we have a long term game plan for Babool. We are obviously not content to live with the margin profile as it exists but the future should be much

better.

Priya Ranjan: And coming back to your growth numbers which you have shared earlier in the call, like 30%

growth in I guess in the modern trade and 20% growth in the rural. If I do the math actually I

guess the rural will contribute something around 50% of your total sales, right.

Sunil Duggal: Indirectly yes, not directly in terms of primary billings because a lot of flow comes from urban

to rural but if you take market consumption then it is close to 50%.

Priya Ranjan: So if we do that 20% growth it comes to around 10% and the modern trade will be roughly

around 10%, right?

Sunil Duggal: Yeah 9% or so.

Priya Ranjan: And if I include the rest of the business as urban then 10% growth, if I calculate all this then it

does not come around 14%, it should be higher.

Sunil Duggal: But if you again redo the math with a negative growth in CSD then the numbers sort of come

together.

Gagan Ahluwalia: We can do this offline.

Sunil Duggal: Yeah, but keep the CSD part in mind. That has been a fairly big drag.



Priya Ranjan: Okay. And in terms of the margin recovery I guess since last year we have not see much

improvement in margin. So should we look at 16-17% margin going ahead for the entire

business?

Sunil Duggal: I think EBITDA margin of 18.5% is not something which we are very disappointed with. I

think we can increase it further but it is not something which is something to be embarrassed

about.

Priya Ranjan: It used to be around 20% so --

Sunil Duggal: In periods of high inflation it is hard to retain peak margins. If inflation moderates I am sure

we will be able to get into 20%. If inflation remains high it is going to be hard because we just cannot keep increasing prices. The market's ability to bear very high price increase is very

limited.

Priya Ranjan: And on consol basis what was the volume growth?

Sunil Duggal: Again if you take the organic international piece it is entirely volume, 16% is volume and

6.5% is translation, price is almost zero. And domestic volume growth as we said is 9.5%,, but obviously consol volume if you take Namaste, etc., would be much lower. But let us take the two businesses, the organic which is 16%, Hobi which grew by 20-odd percent, almost entirely volume once again. So these two businesses are doing very well in volume terms. Namaste due to the issues which we have discussed will be dragging down the aggregate

volume growths.

Suruchi Jain from Morningstar. Please go ahead.

Suruchi Jain: I have follow up questions on your previous clarifications. First is on the shampoo business

you mentioned that you expect to go ahead of the category. I wanted to understand what are

you doing differently that you would expect that?

Sunil Duggal: One is the distribution piece which has been pivotal for expanding reach and consumption.

And second is the marketing mix has been reengineered completely. A new proposition, we have gone back on the herbal platform which we had perhaps diluted over the years, so it is now strongly herbal once again. So it does resonate with the consumer. We have got a new campaign, a new brand ambassador, so it has been a fairly major overhaul of the brand, which we did towards the fag end of the last year when the results had come in. So I do think that we are uniquely positioned as a mid-priced herbal shampoo and that is something which nobody else has and given the nature of our reach in the rural areas where the herbal franchise is pretty

strong I think we should be able to grow this product well into the future.

Suruchi Jain: Okay, so you feel like you are converting a lot of the new users in the rural areas?



Sunil Duggal:

Yeah, I think we are getting a lot of new users. This is a sort of catch up brand in a sense as far as the rural markets are concerned. I also think that a lot of consumers who had moved away when the disruptive pricing had happened there were people who had moved from popular price brands into the so-called premium brands which are now available at proper prices. With that tapering off there has been a return to the Rs. 1 sachet consumption in a big-big way. So that is something which has gone in our favor.

Suruchi Jain:

Okay. So again then mostly is it small SKU's that you are selling?

Sunil Duggal:

Yeah I mean 75% of our business is the Rs. 1 sachet and that franchise had rooted to some extent because many of the earlier premium brands had dramatically cut their prices the year before last year, leading to some erosion of consumer franchise. And so I think we have done two things. We have reworked our propositions to put in on the herbal platform very strongly. We have kept our pricing intact and our competitors have shown perhaps little appetite in reversing this Rs. 1 strategy.

Suruchi Jain:

So given that there is slight gross margin easing and you have not raised prices as much others, and you have not passed on those gross margin increases and may be other competitors have, do you feel like if you would increase prices in line with what other competitors have you would still be able to hold on to the rural consumer?

Sunil Duggal:

Yeah I think one has to be a little careful in increasing prices for the rural consumer but if it is done in moderation and in a calibrated fashion then you should be able to sail through. You cannot have very violent movement of prices. That puts off customers.

Suruchi Jain:

My other clarification is on the Namaste business. You mentioned that there was a rebranding as ORS and because of that there has been a slowdown in the US business. What I want to understand is this mostly internal you feel or is it also that the US as a market as we know it is quite saturated?

Sunil Duggal:

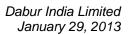
We do not believe that US is a high growth market. We do not believe we can get double digit growth from the US. The whole intent while buying Namaste was that our dependence upon the US market progressively reduces and Africa takes over. So that is really the direction in which we are progressing. So if the US grows at high signal digits we will be pretty happy with the outcome but then Africa has to grow obviously much ahead of that to make the blended growth strong. So the real future of this brand is in Africa and not in the US.

Suruchi Jain:

Okay, and what was the reason you changed the name?

Sunil Duggal:

That was regulatory. I think there was some legislation in California which restricted the use of the word "organic". So we were advised that it is better that you change the name because otherwise there could be some legal issues emanating. So we were proactive in this and we



decided to change it not just in California but across the US. It did mean that we did realize that it would be a painful process but better do it now rather than later. Obviously this is not something which we had factored into our calculations when we cast the budget for this year but it happened very early in the year and we had to regroup and invest behind this brand change.

Suruchi Jain:

I had two other questions about two other businesses. One is on your juice business. Can you tell us a little about the competitor landscape there and how it is shaping your internal plans because a lot of the large heavyweights and beverages are in the juice space.

Sunil Duggal:

Well, all the major players are here in some form or the other but our market shares are at an all time high. They have never been higher than what they are today. So we are doing extremely well.

Suruchi Jain:

Can you share the numbers?

Sunil Duggal:

No, I cannot share the numbers. We do not share Nielsen numbers because of confidentiality but if you were to gain access to the numbers you will know what I am speaking about. They are at an all-time high. We are gaining. We are growing much ahead of our competitors. Having said that there are pressures on margins, so the top-line looks great but there is a squeeze in terms of the margins which we are getting because of the high cost of material. So it is a mixed bag. But I think so long as we are able to maintain this market share gains and market dominance so as to speak which exist in North and East India, we then perhaps would like to do the same in South and West where our market shares are comparatively lower. And we have a new plant coming up in Sri Lanka which is directed towards the southern, eastern and western markets. So we should be able to grow well ahead of the curve in juices. The bigger challenge would be to regain better margin profile from juices than what we are doing today.

Suruchi Jain:

And from what I understand you are also slightly more mid-priced than some of the other competitors?

Sunil Duggal:

No, we are actually the premium end, we higher priced than our main competitor and so therefore the headroom in terms of pricing is limited. We really have to manage costs in other ways. But having said that 20% depreciation of the rupee over one year is something which is very hard to manage under any circumstances.

Suruchi Jain:

On the retail business as well I wanted to understand do you expect breakeven anytime soon?

Sunil Duggal:

I think the losses have progressively reduced but I do not think next year a breakeven is possible because I do not think the economic environment today would make very high growth in modern retail a possibility. So we would seek to expand the footprint, open more



stores, reduce the loss but it will be unrealistic to expect it to breakeven. But the losses are pretty much under control. So it is not something which does any damage to our own

aggregate margins.

Suruchi Jain: And if I may ask since Marico recently spun off its business, would Dabur consider doing

something like that if it is not able to breakeven or would you look at....

Sunil Duggal: First we would like to reach some kind of critical mass, so I think we would incubate it to

grow within the fold and later on we will seek other options.

Hemant Patel from Axis Capital

Hemant Patel: I had a couple of questions on (1) the hair oil portfolio where the growth rate actually has been

around 12% and you did mention last time around as well that the pricing differential between your hair oil portfolio and that of copra has widened. I have been noticing that the base copra oil prices have actually started moving up, so can we expect or hope for much better traction

in terms of the portfolio itself going ahead?

Sunil Duggal: Well we do not have too much of copra driven oils. Our base hair oil is perfumed oil which

has no coconut oil content, Amla Hair Oil and other perfumed hair oils. And those brands have been doing extremely well growing at 15-20% so no pressures there. The margins while in smaller coconut oriented hair oils have expanded, the growth has been much more modest. The reason for that is that the key brands there which is Vatika now has a huge premium over regular coconut oils, plain coconut oils. And that typically what happens when the copra prices are very low. So we have big margins there but we have low growth and the reverse happens when the coconut prices are high. So again it is not something which is structural as and when

copra prices correct which I suppose they will then you may have lower margins in Vatika but you will have much better growth. But the base oil which we have which is Amla is actually

performing very well and the growth there is extraordinarily high.

Hemant Patel: So what is the typical pricing differential that you operate at where you see actually volume

traction building out in your Vatika portfolio?

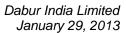
Sunil Duggal: We normally like to work at a 50% premium over base coconut oil. The premium has

increased to around 70-75 and that is a little uncomfortably high but it is not something which we have not seen in the past so the cycles repeat themselves every few years and we have learned to write them out and not do any violent movement in prices because that goes against

the basic ethos of the brand. It is a highly branded product. We like to maintain price stability.

Hemant Patel: Another question which was put forward ahead was that rural portfolio you mentioned that for

us has actually grown by around 20% but if I were to step back and look at the overall rural





categories as you operate in, how has the category growth rate been? Has it been starkly different from what the urban market growth rate has been?

Sunil Duggal:

No, category wise I don't think there is any huge differential there because most of the categories which have grown in rural have grown in urban they have just grown at a higher pace in rural but I think what has happened is really that as an outcome of our distribution reorg we have been able to put more products like the Fem bleaches, like homecare, like beverages which never entered the rural market so the portfolio width has improved and overall profitability has improved. At least a few years ago rural markets basically meant Amla Hair Oil and Red Tooth Powder and Vatika Shampoo and a few others and a significant part of our portfolio actually was not present in rural because of limitations of distribution so that is changing and that is really the prime objective of this rural outreach is to expand the portfolio width.

Hemant Patel:

And in terms of the comment on direct cash transfer and there is potentially likely to be an election splurge happening because of state election next year. Are we likely to see both discretionary and base portfolio having a better growth rate in volumes in the rural market especially at the mass end?

Sunil Duggal:

Certainly, discretionary is a little bit more tricky because it all depends upon how big the bonanza is. While it is certainly going to be there to some extent and may not be as extravagant what we have seen in the past I think the government is also very constrained in its ability to throw money at the rural consumer. So I still would expect some pressures to remain on discretionary end.

Hemant Patel:

One final question if I may. In terms of packaging norms have we actually had a pricing or volume implication?

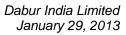
Sunil Duggal:

I think the brand which we had to do some major changes has been in Glucose. Now we are entering into the glucose season so glucose is to typically operate under some promotion say 200 gm plus 33% free or something like that so that has to change because we have to now perform to the packaging standards so obviously some changes have happened there but nothing really very significant. Other than that I don't think there is any other change. We had a problem with 330 ml tetra pack for beverages but we managed to convince the authorities that this is legitimate because 330 is a regular SKU so no impact.

Richard Liu from JM Financial

Richard Liu:

I just got one question from a longer term perspective and then I got two more relating to the quarter. If you look at your product portfolio as it stands today and whatever growth prospects that you see for the individual categories, the several of them that you have in your portfolio. Do you see natural margin levers arising from the product mix going forward or you think that



you will need to do some extraneous action be it pricing or something on the cost front for you to really get gross margin expansion going forward? I mean in another words do you see product mix improving in the medium to longer-term to you benefit?

Sunil Duggal:

I think we have to make concerted move to push higher margin products ahead of low margin and I think the case in point is oral care where we have completely refocused and even if it meant some volume sacrifice we have gone ahead with that but I think what we would like to do is to put a lot of higher margins product particularly in skin care and homecare with the wider distribution footprint because they will improve the overall quality in terms of mix. And that could be one way which we could sustain and improve margins without doing anything silly in terms of prices increases.

Richard Liu:

If I look at not so much within a category let us between categories like for example I would think that the Chyawanprash could probably grow lower versus oral care and so on and so forth so if you look at your long term view on how the growth between categories pan out do you think there is margin headwind or tailwind coming from there?

Sunil Duggal:

I think there is a tailwind if you are able to manage what I have said earlier if you are able to manage to put more quantities of higher margin products in areas where they were previously not distributed then there is a actually a good tailwind which is happening. If we are not able to do that then if inflation is structural there would be headwind so a very important reason for the distribution expansion and doubling of direct reach is the fact that we need to improve the mix on the ground.

Richard Liu:

With that do you see a lot of cost levers in your system in terms of other than advertisement and sales promotion if I would look at other expenditure, do you see some areas where you can get cost and therefore margin benefit for yourselves?

Sunil Duggal:

Nothing very significant. I think we managed cost reasonably efficiently. The indirect costs are pegged at around 7% and normally there is some operating leverage which we get every year from that. So we really have to look at the gross margin improvement as being the key lever here and not anything below that. A&P of course is not something which we should play around with too casually and structurally I don't think there will be any huge downward movement in A&P they would probably remain at current levels or moderate just a little bit. So the trick is to capture better margins at the gross level without resorting to very heavy price increases.

Richard Liu:

Two questions relating to the quarter. You mentioned something regarding gift pack in juices to boost margin. If you can just give me an idea is to what is the kind of margin differential there is in gift packs versus regular pack? Is it like half the normal gross margin?



Sunil Duggal: It is around 10% lower, which is something which we will correct next year. The issue in

juices is more the FOREX that's the only thing which worries us and CVD is something which is structural in nature. Now if the rupee goes to 60 then the business will come under the

increasing stress. On the other hand it could move the other way if we are lucky.

Richard Liu: The next one is I think somebody else asked as well that if we take the difference between the

consolidated and parent and we presume that the balance is actually international business and as Gagan mentioned there was also some bit of retail business there but if I do this subtraction I seem to be getting a gross margin for the balance business at about 65%. Is that actually the

margin profile of the balance of the non-parent business?

Sunil Duggal: No, I think it will be more in the mid-50s.

Gagan Ahluwalia But the gross margin number what we are talking of is net of variable cost. It is different from

the number that you are looking at.

Sunil Duggal: Our gross margin is revenue less COGS. Broadly speaking gross margin in domestic business

is around 48% and gross margin in overseas business is around 54%.

Gagan Ahluwalia: Thank you Marina. I thank all of you for participating in this conference call. Webcast of this

will be available on the website. For any queries or feedback, you may kindly contact us.

Thank you and have a great evening ahead.