

# Q1 2012 Earnings Call – Dabur

Dt-28 Jul'11

## Operator

Ladies and gentlemen, good day, and welcome to the Dabur Q1 FY 2012 Earnings Conference Call. As a reminder for the duration of this presentation, all participant lines will be in the listen-only mode and this conference is being recorded. There will be an opportunity for you to ask questions at the end of today's opening remarks. I would like to hand the conference over to Mrs. Gagan Ahluwalia. Thank you, and over to you.

## Gagan Ahluwalia, General Manager, Corporate Affairs

Thank you, Rachana. Good afternoon. On behalf of the management of Dabur India Limited, I welcome everyone to this conference call regarding the results for the quarter ended 30 June, 2011.

The Dabur team here is Mr. Sunil Duggal, CEO, Dabur India Limited; Mr. S. Raghunathan, CFO; and Mr. Ashok Jain, Senior General Manager, Finance and Company Secretary; Saibal Sengupta, Senior General Manager of Finance.

We will start with a brief presentation by Mr. Duggal on the company's performance and then go on to the Q&A post that. Over to Mr. Duggal.

## Sunil Duggal, Chief Executive Officer

Thank you, Gagan. Good afternoon, ladies and gentlemen. I welcome you to the Dabur India conference call pertaining to the results for the quarter ended June 30, 2011. Dabur India has listed growth of 31.6% in consolidated sales, and Excluding acquisitions, the sales grew by 13.8%. The Consumer Care Division, CCD reported growth of 13.0% driven by a combination of volume growth, and price increases. The division witnessed good momentum in Hair Oils, Toothpaste, Home Care, Skin Care and Foods. Hair Oils reported growth of 16.1% during the quarter. There was significant input cost inflation in this category which was managed by affecting price increases across the portfolio. In spite of the price hike, the demand remain robust, resulting in strong double-digit growth in Vatika Hair Oil and Anmol Coconut Oil.

Amla Hair Oil registered growth of 10% and improved its volume market share. While the Shampoo category continue to witness intense competitive activity, Vatika Shampoo showed signs of revival as sales picked up on a sequential quarter-on-quarter basis. We expect this momentum to continue. We are continuing to focus on improving the proposition of Vatika Shampoo through a combination of value enhancing strategies, strong product focus, and impactful full media strength.

Health supplements were flattish during the quarter primarily on account of a marginal decline in glucose sales, which is typically the largest component of our health supplement portfolio in the first quarter. The Glucose category was impacted by a weak summer. However, the brand recorded increase in volume, and market share by 140 basis points. A new Litchi flavored variant for glucose was launched during the quarter.

Honey witnessed double-digit growth driven by focused media input. Chyawanprash sales are not significant during this quarter due to seasonal factors. Oral Care witnessed growth of 12.7% during the quarter, Toothpaste grew by 14.1, and this volume share increasing by 80 basis points.

Both Red toothpaste and Babool reported robust performance driven by integrated media and promotional strategies.

During the quarter, Toothpaste reported robust growth of 9% driven by focused marketing efforts.

Skin Care category posted growth of 16.3% during the quarter. The growth was driven by strong performance of the same portfolio which grew by 18.8% with bleaches and hair removal cream performing quite well. This category saw numerous innovations in particular the OxyLife

portfolio. Growth in Gulabari, however was in single-digit during the quarter, mainly due to high base of last year.

Digestive categories grew by 7.8% during the quarter. Growth in Hajmola was driven by new variants such as Hajmola Saunf and Hajmola Mint Masti.

Dabur Lal Tail witnessed double-digit growth driven by focused consumer activations. Home Care reported strong growth of 24.9% during the quarter, largely driven by Odonil. SaniFresh also performed well driven by media support and trade marketing initiatives. Odomos reported decent performance back to activation and increasing market penetration.

Foods category grew by 31.5% during the quarter led by strong performance by Real Activ juice portfolio. The new fiber enriched flavors launched under the Activ brand elicited a positive response from consumers. Some demand, improving distribution, and

innovation has been the growth drivers for fruit juice business, which has shown great resilience in spite of supply bottlenecks from Nepal.

Dabur culinary brand Homemade continues its best performance posting double digit growth during the quarter. The food business will continue to grow on the health platform through launch of large number of innovative new products.

Consumer Health Division, CHD witnessed growth of 11.4% during the quarter. Both OTC and ethical portfolios witnessed steady growth.

During the quarter, we had acquired 30-plus from Ajanta Pharma and the brand is getting ready for the relaunch later during the year. Political turmoil led to disruption of sales in Libya, Syria, and Yemen. In addition, the disturbances in Nepal brought down the overall growth of the business during the quarter.

However, growth were strong in core markets such as Egypt, GCC and Nigeria which are continuing to show signs of strong demand and preference for our brand.

The two overseas acquisitions Hobi And Namasté Laboratories contributed to around 14% of this quarter of consolidated sales. Namasté demonstrated small growth within the U.S. and in the international markets. The brand continues to be one of the fastest growing in the U.S. ethnic hair care market and retained its strong competitive position with gains in market share.

We are now embarking on an aggressive plan to introduce Namasté products in Africa. These are expected to contribute significantly to the growth of this business. Hobi has posted a good performance and is focusing on investments in the brand, and increasing its penetration into other overseas markets such as Africa, and the Middle East.

On the profitability side, Dabur saw a growth of 19.6% in profit after tax during the quarter in spite of severe input cost inflation. The company witnessed marginal compression at the EBITDA level, which came down to 15.9% of sales during the quarter, as compared to 16.4 in the previous year.

We have earlier mentioned regarding the continuing strong focus on healthcare side of the portfolio. Currently, part of the healthcare portfolio that is health supplements and digestives reside in CCD and the OTC, and Ayurvedic part are part of the Consumer Healthcare Division.

In order to synergize the two portfolios, and to provide enhanced capability, and scale to our consumer health business, we have decided to integrate the Consumer Care and Consumer Health SBUs. The integration process has been initiated and we expect it to be completed over the next three to four months.

This initiative will pave the way for stronger focus on healthcare with enhanced scale, distribution, strength, and brand optimization. Inflation has been the biggest challenge this year, and may continue to dampen our gross margins for some time. To combat this, we continue to affect calibrated price increases without compromising on our competitive position, or effecting consumer franchise. The competitive intensity in some of the HPC categories may demand higher expenditure on A&P and this could also affect the pressure on margins. However, we would be able to overcome these challenges by initiatives such as strategic stocking, cost management, focused ad spends, thrust from rural markets, and new geographies.

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

## **Questions And Answers**

### **Operator**

Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions]. Our first question is from the line of Parineeta Poddar of ICICI Direct. Please go ahead.

### **Parineeta Poddar**

Hello?

### **Sunil Duggal, Chief Executive Officer Parineeta Poddar**

Yeah, hi sir. Sir, I have just a couple of questions. Firstly on your raw material front.

## **Sunil Duggal, Chief Executive Officer**

Yes.

## **Parineeta Poddar**

I would like to know that your raw material prices increased dramatically. Can you just give us the reason for this turn as in which commodity specifically did you experience the raw materials price increases?

## **Sunil Duggal, Chief Executive Officer**

Yeah. The main one was coconut oil followed by light liquid paraffin, then something called PDCB, which was into Odonil, all the edible oils, mustard oil in particular, and whole stocks. Let me tell you what did not do strong.

## **Parineeta Poddar**

Yeah.

## **Sunil Duggal, Chief Executive Officer**

That way the short list.

## **Parineeta Poddar**

Okay.

## **Sunil Duggal, Chief Executive Officer**

Specifically is kesar, sugar and honey. These are the three items which actually undergoing some level of deflation, and is very tight list.

## **Parineeta Poddar**

Okay.

## **Sunil Duggal, Chief Executive Officer**

It was very severe across the whole raw material and packing material spectrum.

Okay. And for the raw materials, which experience surprisingly, what would price increase, what would be the share in the total raw material or if you could give me the other way, the one which have not experienced the price increase, what is their share?

## **Sunil Duggal, Chief Executive Officer**

90% of the total raw material.

## **Parineeta Poddar**

Raw material.

## **Sunil Duggal, Chief Executive Officer**

Goes into our products would have increased, which have experienced some level of inflation.

## **Parineeta Poddar**

Okay, okay. Okay, now the second question would be like whatever prices we have taken for the year and in the last quarter, have they been enough to give you a cushion against the increase in raw material prices or do we expect any further increase in price in the coming quarters?

### **Sunil Duggal, Chief Executive Officer**

Let me answer this question in this way that the price increases, which we have taken so far.

### **Parineeta Poddar**

Yeah.

### **Sunil Duggal, Chief Executive Officer**

Have accounted for around half the material inflation. The other half has eaten into our gross margins.

### **Parineeta Poddar**

Okay.

### **Sunil Duggal, Chief Executive Officer**

Going forward, we do plan to take up another round of price increases towards the end of this quarter. And the plan was then substantially enhanced the margin profile, perhaps not take it up to what we had last year, which was in the competitively benign environment, but certainly improve it from where we are sitting today.

### **Parineeta Poddar**

Okay. Okay, so you basically expect in the second half for your margins to erupt, and to be slightly under pressure in the second quarter too?

### **Sunil Duggal, Chief Executive Officer**

Probably yes. Now the outlook for third and fourth quarters is a little weird, and you may have inflation easing off in, which case the margins might rise up to last year levels.

### **Parineeta Poddar**

Okay.

### **Sunil Duggal, Chief Executive Officer**

That is the best case scenario, but it's not necessary that will happen, because inflation thus seem to be surprising everybody with its intensity, and with its continuity.

### **Parineeta Poddar**

Okay and with any of the price increases like suppose 1 or 2% price increase, what is the kind of volume growth do you pitch at. Like do you see any decline in that or you expect to remain the same?

### **Sunil Duggal, Chief Executive Officer**

I think if we spread out the price increases, they are cushioned, and the consumer impact is comparatively low. If you take a very steep price increase or back-to-back price increases, then there is visible erosion in terms of consumer franchise in many categories.

## **Parineeta Poddar**

Okay.

## **Sunil Duggal, Chief Executive Officer**

So we tend to avoid that and if you see that our pricing which has been fairly calibrated in the way we have gone up in prices. As you know dramatic price increase in any category including Hair Oils, which witnessed perhaps the highest levels of inflation.

Okay, one last question. What would be your outlook on advertising cost going ahead except for what you told us in that in the Home Care segment you will be doing more, right, because of the increased competitive activity, but what about the overall, because you are experiencing an increase in your raw material costs also in the upcoming quarter?

## **Sunil Duggal, Chief Executive Officer**

Which obviously means that we will keep some gap on the A&P spend, but I do see them nudging a little bit ahead of what we did in the first quarter.

## **Parineeta Poddar**

Okay

## **Sunil Duggal, Chief Executive Officer**

In the last four quarters if you see, it will be a different one, we have been at a level of around 12.5, between 12 and 13.

## **Parineeta Poddar**

Yeah, yeah.

## **Sunil Duggal, Chief Executive Officer**

I think it would be in region of around 13 going forward may be 13.5, but certainly not 15, or 16, but neither would we shrunk it down to 10, and 11.

## **Parineeta Poddar**

Okay

## **Sunil Duggal, Chief Executive Officer**

My best guess would be around 13, 13.5%.

## **Parineeta Poddar**

Okay. Okay. That's about it. Thank you so much.

## **Sunil Duggal, Chief Executive Officer**

You're welcome.

## **Operator Hemant Patel**

Yeah, hi Sunil.

## **Sunil Duggal, Chief Executive Officer**

Hi.

## **Hemant Patel**

A couple of questions. One in terms of the demand scenario itself, how do you see this actually panning out given the fact that most of the players have actually started going up and increasing prices. Could you dissect this in terms of the urban and the rural market for me?

## **Sunil Duggal, Chief Executive Officer**

Well the rural market has tapered off a little bit. The urban market is pretty confident. Overall demand price seemed to have slowed down marginally. And I think going forward whether this slowdown would accelerate, or would it be plateauing, it is hard to say. Typically when you take up prices very sharply, there is an impact on demand, but often it's hard to measure. It all depends on how disposable income particularly in the rural area move up. So it's extremely hard to predict. But intuitively I believe that very high price increases would dampen demand.

## **Hemant Patel**

And what would have been the volume growth rate this quarter?

## **Sunil Duggal, Chief Executive Officer**

Our volumes will be in the region of 8%.

## **Hemant Patel**

Okay. Could you give us a sense of what's happening on the overall international business, I mean in terms of the growth excluding Hobi and Namasté?

## **Sunil Duggal, Chief Executive Officer**

Well it's been a mix bag. The numbers are not as strong as what we saw in the last few quarters largely on account of political disturbances, rather than on any other brand or market rated issue. You know that we have some large markets in region of Africa. And then Nepal is a important market for us. And all of them underwent fairly high levels of turmoil. In fact even as we speak there is no sale happening in Syria, Yemen, and Libya. So these are causing some pain, but the core markets which are from the bulk of our business in the GCC, and markets like Egypt, many other parts of the Middle East are still showing very robust performance. Will the growth rates lag last year's performance in a larger sense, because of these issues?

## **Sunil Duggal, Chief Executive Officer**

Because of these, I don't expect the top line to be as strong as what we saw last year, but it probably should be better than what we saw in the first quarter.

## **Hemant Patel**

Okay. And then just one final question on your raw material front, given the fact that you had a major squeeze in the last quarter. And you did mention that you feel that stationary cost measures will probably subside during the second half of this year. You are reading into that predominantly stems from which particular categories. Is it old?

## **Sunil Duggal, Chief Executive Officer**

That's a statement more born out of hope than of any expectations.

## **Hemant Patel**

Okay.

## **Sunil Duggal, Chief Executive Officer**

You hope that inflation would taper off. It's anybody's guess whether it will, or will not. I think we did expect three months ago that it will taper off prior at the end of the first quarter, but there are no signs of that happening. So quite frankly, we are not prepared for a structural shift in the whole pricing cycle northwards, and we are now prepared to do business in the highly inflationary environment for the next few quarters at least.

## **Hemant Patel**

And on the same like the reason why the margins in the food segment declined?

## **Sunil Duggal, Chief Executive Officer**

Actually it depends. The food segment was one of the better performers in terms of margins.

## **Gagan Ahluwalia, General Manager, Corporate Affairs**

Yeah the consolidated margins on the food business declined, because of Nepal, Hemant.

## **Hemant Patel**

Okay.

And if you take India's food business, the margins actually were pretty healthy, because, (A), most of the products are imported, and the inflation on the imported raw material was very low, (B), the currency was in our favor. So the juice business for example, and Honey of course, the margins was pretty good. In fact, the juice business we have seen perhaps the highest ever margins in the first quarter ?

## **Hemant Patel**

Alright. Fair enough, thanks a lot and I will get back with few more questions.

## **Sunil Duggal, Chief Executive Officer**

Thank you.

## **Operator**

Thank you very much. [Operator Instructions]. Our next question is from the line of Vivek Maheshwari of CLSA. Please go ahead.

## **Vivek Maheshwari**

Hi, everyone.

## **Sunil Duggal, Chief Executive Officer**

Hi, Vivek.

## **Vivek Maheshwari**

Sir a few questions on pricing as well as gross margins again. First is in the first quarter what would be quantum of price hike that you would have taken and how much of this is getting captured in first quarter itself. And which essentially means the second quarter will

have some benefit of price hike, which you would have taken during the quarter.

**Sunil Duggal, Chief Executive Officer**

Sure. Gagan?

**Gagan Ahluwalia, General Manager, Corporate Affairs**

The pricing element in the domestic business is 6.6%.

**Vivek Maheshwari**

Okay.

**Gagan Ahluwalia, General Manager, Corporate Affairs**

Out of the 13.7% growth, 6.6% has come from price increases.

**Vivek Maheshwari**

And 6.6% pricing will also have some carryover effect of hikes that you would have taken in the previous year, but not captured in first quarter last year, right?

**S. Raghunathan, Chief Financial Officer**

That is splitted between the two. About 3% will be carryover from what we took since July 1st of last year, and 3.5, 4% will be the tough procedure we have put through this quarter.

**Sunil Duggal, Chief Executive Officer**

Yeah broadly yes.

**Vivek Maheshwari**

Okay. And any of this 3.5% this quarter, anything over and above that which will get reflected in the second quarter result, or this quarter?

**S. Raghunathan, Chief Financial Officer**

The EBITDA effects some of the price increases we put through the month of April and sometime in nearly May. So some of it will flow into the next quarter.

**Sunil Duggal, Chief Executive Officer**

We have taken price in every month, even in June we have taken out some prices, toothpaste for example and that will carryover into the second quarter. It's hard to put exact number to it, but we take prices as and when the opportunity presents, and there could be in whichever time of the year or month as the case may be.

**Vivek Maheshwari**

Okay. And I mean it's difficult because it's difficult to probably put a number, but anything on full year price increase that one can see?

**Sunil Duggal, Chief Executive Officer**

In the vision of 8 to 10% -- 8 to 11% I would put it, that should be the range. We have done say 6.6 and the best case scenario is we just

take it up a tad more at around 8%. The more likely scenario is around 10 and if inflation continues it could be as higher as 12. I personally tend to think it will be around 9 to 10%.

Which will be like amongst the highest that you would have taken in any particular area, right?

## **Sunil Duggal, Chief Executive Officer**

In this decade at least.

## **Vivek Maheshwari**

Sure.

## **Sunil Duggal, Chief Executive Officer**

It's back to the 90th level of inflation, which were these kind of price increases were pretty routine.

## **Vivek Maheshwari**

Okay. And these you would, as you mentioned these would start coming in from October or thereabouts, right, September or October?

## **Sunil Duggal, Chief Executive Officer**

You've already say six months is happening out of which four is the carry forward part. And some would happen I mean I won't put a time line that it will happen during this time, it will happen throughout the year. As, and when the opportunities present or inflation begins to bite, we look at pricing opportunities, and take up prices. But at the same time, I think the focus is on not losing consumer franchise and not losing our competitive position. So these are the constraints to price increases, which we'll have to factor in.

## **Vivek Maheshwari**

Okay, understood. Secondly sir, the purchases of the total raw material cost, the purchases portion was very significant in this quarter. Is there any specific reason. Is it, because of Hobi, Namasté or anything?

And the kind of raw material to sales ratio that I have seen in this quarter we have not seen in the past ever this kind of number?

## **S. Raghunathan, Chief Financial Officer**

Vivek, the entire Namasté model is created model. It buys from a third-party there, so that's exactly the reason for doubling of the creative tools if you see it in the P&L account. Otherwise there is no significant change in our supply chain configuration in other parts of the business.

## **Sunil Duggal, Chief Executive Officer**

The organic business has undergone no significant change. In fact there has been a little bit of increase in-sourcing, but very marginal. So it's really that the Namasté factor which is it's not really a like-to-like comparison.

## **Vivek Maheshwari**

Sure. But sir, fourth quarter too had Namasté right, but at that point of time, was any reason why that portion was much lower?

## **Sunil Duggal, Chief Executive Officer**

Yeah. No, on the reporting issue in the fourth quarter, because Namasté was just coming in. We were not able to bifurcate with available information at that time. So this call is a perfect way of announcing it.

## **Vivek Maheshwari**

Understood, so on a like-to-like basis, 52 or thereabout should be the raw material to overall sales, that will be the number, right?

**Sunil Duggal, Chief Executive Officer**

True.

**Vivek Maheshwari**

But sir, then the problem is that in this quarter you, the previous quarter as in first quarter fiscal '11 the A&P base was very high at 16.5. So you had a lever of reducing it by 380, 390 basis points. But the problem is the next three quarters has 12.5% say around 11.5% kind of an A&P. I mean if A&P remains at the same level, the problem is that the reduction in gross margin is going to impact the EBITDA margin much more than what it has done in this quarter, thanks to the lower A&Ps?

**Sunil Duggal, Chief Executive Officer**

Therefore, it's imperative that we look at our at a superior gross margin profile in the second quarter than we had in the first.

**Vivek Maheshwari**

Okay.

**Sunil Duggal, Chief Executive Officer**

And that's a challenge before us that the material cost to sales ratio has to go down from the current 52% levels.

**Vivek Maheshwari**

Okay. So it is not going to be as dramatic as one should not extrapolate to that extend this number?

No I don't think we should, because the comparatively low A&P spend in the second quarter onwards should be offset by lower material cost, otherwise there would be obviously a shrinkage. Of course there will other cost elements, which we can manage. There will be operating leverage et cetera, et cetera, but a lot of it will have to come from material cost.

**Vivek Maheshwari**

For full year sir, is there any indication on the EBITDA margin that you would look at to maintain?

**Sunil Duggal, Chief Executive Officer**

Well it's hard to give a clear feel for that. I think it will be very hard to maintain last year's EBITDA, that's very clear, in such a highly inflation environment. But we will try to manage the situation as well as we can, but I would hesitate to give a number at this point in time.

**S. Raghunathan, Chief Financial Officer**

One another thing you should keep in mind. Duggal pointed about proposed price increase, which has been considered from September to October. That is an important factor when you're factoring this margin calculation. The second price increase is planned later, so it is not correct to assume the current EBITDA margin. The growth path will continue through the year.

**Sunil Duggal, Chief Executive Officer**

There are two elements, one is of course the inflation, which is impacting the organic business, and then the acquired companies also have a slightly lower EBITDA profile. So the blended EBITDA would also be impacted by that element. But having said that we peaked at that 20 to 30 EBITDA last year. And we are not dogmatic about maintaining that EBITDA level. I think we look at a more robust growth model, even if it means some shrinkage at the EBITDA level.

## **Vivek Maheshwari**

Okay, understood. And sorry just two more quick questions on two categories, one is shampoo or product category. One is Shampoo which is where I was slightly disappointed considering the base was relatively better?

And second fruits, what drove this strong revenue growth, and are you looking at new launches in extending the category beyond juices et cetera?

## **Sunil Duggal, Chief Executive Officer**

See one thing, which all of you should look at the numbers in this quarter is, that they are sitting on top of one of the highest ever basis. Q1 of last year at least as far as top line was concerned was a spectacular quarter. We grew top line by around 20%. Almost all of it was volume driven so that was a hard act to follow. Shampoo is a very similar story. We peaked shampoo sales in the first quarter of the last year.

So a reduction from those very high levels is not surprising. We would urge you to look at sequential growth where you will see fairly a strong uptrend happening, which we expect to continue, so the picture will correct itself by the second, and third, certainly by the third quarter, and substantially by the second quarter of this year. You will see the growth returning to this category. And I don't see that there is a top line issue as far as shampoos is concerned. I have always maintained that our problems more are in terms of leaving profitability out of this category, which is of course a little bit harder.

## **Vivek Maheshwari**

Sure

## **Sunil Duggal, Chief Executive Officer**

But a change in the whole pricing mechanism. So the volumes will revive, that's not a problem.

## **Vivek Maheshwari**

Okay. And on Foods, it was obviously very strong quarter so any specific?

## **Sunil Duggal, Chief Executive Officer**

It could have been even better had the supply situation been what we would have wanted it to be. So the foods business is on a roll. I think this is where consumer preferences are converging to the health are part of the beverage portfolio. It's also the affordability doesn't seem to be a problem here at least. People are willing to spend more money on high-priced beverages, and not down trading to the lower price one, which is again counter intuitive, but sometimes consumer behavior is surprising.

The modern trade environment is now also growing at a rapid pace, which will further accelerate growth. And I think our innovation pipeline here is perhaps one of the stronger, so we have great products in the pipeline, which will continue to ensure high levels of growth at the top end of the market generating even higher margins.

## **Vivek Maheshwari**

And any thoughts on going beyond the juices, but for the Homemade, the Culinary portfolio small one?

## **Sunil Duggal, Chief Executive Officer**

There is so much things you can do in juices and get into the demand of say functional beverages as against vanilla juices. One element of that you have seen in the form of the fiber-added juices, and there is lot more we can do in beverages. But having said that, we are exploring the Culinary space and we will do some development here. We don't expect it to become a huge generator of revenues, but it will be a interesting initiative, which we can drive very profitably.

I think in the Foods business, we are really looking at very profitable growth, which is very easy to get stuffed into the commodity end of this business, and that might generate big revenues, but it's a margin trap here, which we would avoid getting into.

Alright, sir. Thank you very much and all the best.

## **Sunil Duggal, Chief Executive Officer**

You are welcome.

## **Operator**

Thank you. Our next question is from the line of Cheenu Gupta of Tata AIG Life Insurance. Please go ahead.

## **Analyst**

Yeah, hello sir.

## **Sunil Duggal, Chief Executive Officer**

Hello.

## **Analyst**

In continuation with the previous speaker, I would like to question on the food segment. We've seen good growth as we stated 31.5% and I believe most of it would be from the juices category.

## **Sunil Duggal, Chief Executive Officer**

True.

## **Analyst**

How much of this increase would be volume and how much would be pricing?

## **Sunil Duggal, Chief Executive Officer**

Gagan take it.

## **Gagan Ahluwalia, General Manager, Corporate Affairs**

Pricing I think is not very much. It's largely volume based.

## **Sunil Duggal, Chief Executive Officer**

I think 5 or 6% would be the price at most.

Yeah.

## **Analyst**

Okay. And sir how has the overall category grown?

## **Sunil Duggal, Chief Executive Officer**

We don't know, because the numbers for this are but we have gone ahead of the category as far as fruit juices are concerned. We don't have clarity in terms of the food drinks, the lower end of the market, which is actually substantially larger. But as far as fruit juices are concerned we have grown ahead of category.

## **Analyst**

Okay. And sir lastly, you've mentioned regarding some supply side issues. So if you could just elaborate on this, what were these, and how would they stand corrected going ahead?

### **Sunil Duggal, Chief Executive Officer**

See the Nepal turmoil in terms of political instability was there in the fourth and the first quarters. We've had a very peaceful July and hopefully this trend will continue. There is also some labor troubles in our plant, some union activities et cetera, et cetera which did take away around two weeks of production at a very crucial time just when we were beginning to hit summer. So hopefully that won't reoccur. We'll have no supply bottleneck. We are also looking at putting up large manufacturing facilities in other places. Those will be positioned next year. But I think that will serve to mitigate any kind of risk, which we may face in Nepal in the future.

### **Analyst**

Okay. And sir, would you be able to put a number to what kind of growth we would have missed, because of this?

### **Sunil Duggal, Chief Executive Officer**

I think it would be anywhere between 35 to 40% as against the current 31-32%.

### **Analyst**

Okay. That's it from my side. Thanks.

### **Operator**

Thank you. Our next question is from the line Nillai Shah of Morgan Stanley. Please go ahead.

### **Nillai Shah Sunil Duggal, Chief Executive Officer**

Hello sir.

### **Nillai Shah**

Sir just one question on the hair oils. What's your volume growth in overall hair oils category?

### **Sunil Duggal, Chief Executive Officer**

Volume growth is flat.

### **Gagan Ahluwalia, General Manager, Corporate Affairs**

Flat.

### **Nillai Shah**

So volume growths are flat. All right.

And the second question, which I had was basically on your comment that you will be willing to forgo margins for stronger revenue growth of volumes. Basically every management, every FMCG company seems to be talking the same thing. So in your view does this mean that the competitive intensity even if input would have come down, competitive intensity would continue to remain strong, and ad spends would continue to trend higher?

### **Sunil Duggal, Chief Executive Officer**

Well not necessarily. I think there is a point in time where the competitive intensity would ease. Because at the end of the day hair oils

is bread, and butter for a large of companies, not necessarily for us. So the sustainability in terms of being able to spend higher amounts on A&P and at the same time maintain aggressive price income, and maybe it is hard to match.

As in our case, the volume, the lack of volume growth happened more, because our largest customer, which is the Army has been substantially down scaling business, and this hurt us in many categories, but much more so in Amla Hair Oil, because they did not take anything of note this year. And they are like I said around 15% of total Amla sales. So they have been reducing inventories as part of our overall tightening of mandate by the government. So that was one of prime factors in the lack of growth in Amla.

## **Nillai Shah**

Okay. One final question. Is it possible going forward to cross subsidize some of these categories where there is high input cost inflation with certain other categories such as Chyawanprash digest is consumer health where the competitive intensity, and our input cost inflation may not be as high?

## **Sunil Duggal, Chief Executive Officer Nillai Shah**

Okay. Thank you so much, sir.

## **Sunil Duggal, Chief Executive Officer**

You're welcome

## **Operator**

Thank you Mr. Shah. Our next question is from the line of Sachin Bhatia of Baring Private Equity. Please go ahead.

## **Analyst**

Hi, Sunil.

## **Sunil Duggal, Chief Executive Officer**

Hi.

## **Analyst**

During the past you mentioned you will be merging CHD and CCD, could put some light on that?

## **Sunil Duggal, Chief Executive Officer**

See CHD is a comparatively smallest view of around 350 to 400 crores. And quite frankly we always believe that the operations of CHD were subscaled in the context of the overall Indian market. But it was a fledgling type of environment and we were unsure on how it would sit with the larger consumer care business. But if you see over the years, we have been progressively merging our various product division and creating a single large vertically integrated entity. We did this first with the . I don't know whether you were around those days.

But you had HCPD and HPD, the healthcare, and the personnel part, which we integrated to form CCD. Then we bolted on foods, which was an independently run SPU. And then we had the CCD plus foods portfolio, and this is a final leg of the journey, which means that the consumer care division will be the single depositary of our domestic business.

What I think this will facilitate our ambitions of becoming the consumer healthcare, major in this environment. We already are perhaps the single largest consumer healthcare company, but I think we need much to much more here. And having a separation of the two healthcare businesses with supplements and digestive sitting with Consumer Care and OTC, and generics sitting with the Consumer Health, was really not the best arrangement.

## **Analyst**

Okay and how you will manage the distribution and the access of the channel. because I understand you have a different channel

to the Thermax, and the Ayurvedic?

## **Sunil Duggal, Chief Executive Officer**

Yeah, it will be different. It's a very complex sales architecture, but there is a lot of into it. It's a division at certain levels of healthcare, and HPC, and HCS we call it, Home and Personal Care and Healthcare with Foods coming along with the Healthcare piece.

So I want to explain it in this forum, but it's a very well-mapped out. We've been working on the design of this for the last six months. It took us a lot of time and effort to come to the optimal design, and now we are in the activation mode, we are implementing the design on the ground. So we are pretty confident about its outcome and we've been through the journey couple of times before, so there is a lot of confidence in our ability to manage this integration.

## **Analyst**

Okay. Okay. Got it. Thanks.

## **Operator**

Thank you. Our next question is from the line of Ashwani Gujral of Quantum Advisor. Please go ahead.

## **Analyst**

Give a sense on the rural versus urban dynamics of demand across your portfolios. Are rural people drinking more of juices while compared to urban because of lack of availability of those product there. So is there sense that we could give us, because of all incomes there is happening on the rural side.

## **Sunil Duggal, Chief Executive Officer**

I think the overall theme, which you'll see today in the consumer space in India is that there is the distinction between the urban, and the rural consumer is narrowing. Earlier on, there was a distinct preference for certain types of products, let's say Red Tooth powder versus a toothpaste, rural versus urban. And now we are seeing that the whole thing converged. Now having said that the rural consumer still prefers lower price points, lower smaller pack sizes, but is increasingly drawn to buy the same brands as the urban counterpart.

So the so called rural brands, I think is the segment of anybody's imagination. It doesn't really exist. But you do see lower priced, what you call the MUPs of the same brand dominating the rural landscape. But otherwise, we are seeing the demand for even let's say our beverages, which we never thought there would be a rural franchise for our fruit juices, but we are seeing substantial demand coming in from fruit juices. And while you don't have the numbers, I think it's fair to believe that a significant part of the of the juice growth has actually come from rural. It is very hard to map Similarly our Skincare and noticeably the same portfolio is a substantial rural element to it, which is again under the radar. And I think to facilitate that we are expanding our rural footprint, which will incorporate these products, which earlier on were confined only to the urban space.

## **Analyst**

So following up on that, how will your distribution -- give us a three to five year perspective of how the distribution would shape up in the future for all companies especially you keeping in mind the rural versus urban is a segment of imagination. So in that sense, how will your distribution change? Will it be more expensive to service rural people, or it will be less expensive? Will your cost structure change. How will that be?

## **Sunil Duggal, Chief Executive Officer**

See the cost structure will be dependent from each company's model. But what is I think essential and what most companies will have to do if they want to be players in the India rural landscape, is that they will have to facilitate the last mile access, go much deeper than what anybody has done, have as much stronger army of people on the ground, which will service the rural trade, and the rural markets.

So there has to be a structural shift in the whole distribution profile. We are already seeing signs of that happen.

In fact as we speak we are modeling rural initiative in Maharashtra, and UP, and by the end of this year, we would have a template on

how do we see a rural distribution. All I can say is that it will entail a huge number of people, which will be a little bit different from what the current sales representatives are because they will have to be tuned to the rural landscape. And in terms of logistics it will be a colossal enterprise, but I think the payoff will be also very great.

## **Analyst**

And lastly on the fruit juices side, is the thought process long-term aboard a welding machine kind of a platform compared to a Tetra Pak kind of a platform as we go forward to widen the base?

## **Sunil Duggal, Chief Executive Officer**

Well at the moment Tetra seems to be only crucial, but within the Tetra environment there are low price formats, which we are exploring. The problem with any juice packaging is that it entails large CapEx's, so you have to be very careful of what you want, and where the demand lies, otherwise you are using a lot of CapEx for something, which had poor demand then it's money down the drain. But I think there is so much unmet demand in juices in the existing formats in the Tetra format that the first step is to exhaust that demand rather than to get into completely different packaging formats.

## **Analyst**

Thank you very much.

## **Sunil Duggal, Chief Executive Officer**

Thanks.

## **Operator**

Thank you. Our next question is from the line of Naveen Trivedi of PINC Research. Please go ahead.

## **Naveen Trivedi**

Can you just give a couple of growth numbers on products like Babool, Miswak, Chyawanprash, Honey and Activ?

## **Sunil Duggal, Chief Executive Officer**

We would prefer not to talk about individual brands. But I think if you take overall growth in toothpaste it's been a little ahead of 14% I think. And our market shares have grown by 80 bips and toothpaste, so it's been a strong performance in this category.

## **Naveen Trivedi**

But at least if you can classify toothpaste in terms of volume growth and price growth.

## **Gagan Ahluwalia, General Manager, Corporate Affairs**

9.5 is price growth.

## **Sunil Duggal, Chief Executive Officer**

9.5 is price growth.

## **Naveen Trivedi**

9.5 is price growth?

## **Sunil Duggal, Chief Executive Officer**

Yeah.

## **Naveen Trivedi**

Hello.

## **Sunil Duggal, Chief Executive Officer**

Toothpaste as I said is another area where inflation has impacted very substantially.

## **Naveen Trivedi Sunil Duggal, Chief Executive Officer**

Yeah that's immaterial. I would urge you not to look Chyawanprash numbers in the first quarter, because they are so small. It is probably 10% of annual sales. That growth or lack of it is meaningless. The quarter two numbers would be interesting, but the story really is the third quarter story. The quarter two numbers are typically may be 25% of annual sales, and then it peaks in the third quarter, which is more than 50% of annual sales.

## **Naveen Trivedi**

So any specific reason was there in the quarter for FY11. There was a 94% growth that we reported?

## **Gagan Ahluwalia, General Manager, Corporate Affairs**

Last year?

## **Naveen Trivedi**

Yeah.

## **Sunil Duggal, Chief Executive Officer**

But again a bit of a low base 94% is not a very meaningful number.

## **Naveen Trivedi**

Okay.

## **Sunil Duggal, Chief Executive Officer**

So I think that you can specifically know this and really look at the second quarter and beyond numbers to really measure the Chyawanprash performance.

## **Naveen Trivedi**

Right. Can you throw some light on our new launch of Real Burst?

## **Sunil Duggal, Chief Executive Officer**

Real Burst is a initiative, which we are looking at in terms of seeing whether we can drive profitability from a low price beverage. And as we speak we are still not very sure whether we would like to pursue the Burst initiative, or focus on the higher priced one. But there is such a big market for low price beverages that I think it's important for us to explore it especially in the context of what is spoken off earlier that if you can get into lower price packaging the format, then a lower price beverage option may be a possibility. At the moment, we are just sort of feeling our way in this space.

Okay. Thank you so much, sir.

## **Sunil Duggal, Chief Executive Officer**

Welcome

## **Operator**

Thank you Mr. Trivedi. [Operator Instructions]. Our next question is from the line of Aniruddha Joshi of Anand Rathi. Please go ahead.

## **Aniruddha Joshi**

Hello, sir. I just wanted to know on the Shampoo portfolio. So when do you see the shampoo business probably returning to normal growth or profitability.

## **Sunil Duggal, Chief Executive Officer**

Well profitability it's going to take a while. Normal growth it will by the third quarter definitely. But profitability is going to take a while and I don't have any. The one rupee price point has to break for the Shampoo category to regain profitability. And it's anybody guess how long it will take to crack that one rupee price point..

## **Aniruddha Joshi**

Okay. And on the margin side, which are the segments we are finding it difficult in terms of maintaining margins, I guess shampoo is one. So which are the?

## **Sunil Duggal, Chief Executive Officer**

Many many areas. Basically, there are two, or three domains, one is Shampoos. And only other one, which we are finding a bit of a struggle to maintain margins actually is toothpaste, because again you have a category leader, who is putting a lid on the overall pricing.

## **Aniruddha Joshi**

Okay.

## **Sunil Duggal, Chief Executive Officer**

So these are the two areas where the margin pressures are perhaps the most severe. If you take other categories whether it's beverages, a lot of our healthcare products, we are far more liberated in terms of our ability to take up prices, but these are two areas where you have a competitive issue, which is keeping the price ceilings much lower than what we would like.

Okay. And lastly with the entry of Minute Maid juices segment, do you see the juices segment can go in the similar way of other competitive segments?

## **Sunil Duggal, Chief Executive Officer**

Well if somebody wants to play disruptive, then there can be some damage done, but that's true of any category anywhere. I don't believe that will happen, because juice margins, not so much for us, because of our unique supply chain, but for everybody else would be under huge stress. So the possibility of disruption happening here is low.

In Shampoos, the situation was very different, because the margins actually were some of the most attractive in the consumer space. So there was headroom to facilitate disruptive competition. I don't see that happening in beverages, but it's anybody's guess whether somebody would pull the trigger here, but I don't think so.

## **Aniruddha Joshi**

Okay. And in the glucose segment, you mentioned that due to summer issue, the growth was not there?

## **Sunil Duggal, Chief Executive Officer**

Yeah, there was no growth.

## **Aniruddha Joshi**

Is it also due to the increased competition?

## **Sunil Duggal, Chief Executive Officer**

No, no, no competition has played no role. I suspect. Everybody would be impacted by this very early outbreak of monsoon. And comparatively in summer, as we were, we have seen -- I didn't see any heightening of competitive activity this year. We have been facing high levels of competition over the last three years, but nothing exceptional this year. It was really a seasonal, a climatic issue.

## **Aniruddha Joshi**

Okay. Okay sir. Thank you.

## **Sunil Duggal, Chief Executive Officer**

Thanks.

## **Operator**

Thank you, Mr. Joshi. [Operator Instructions]. Our next question is from the line of Anshul Mishra of ING Mutual Fund. Please go ahead.

Yeah hi sir.

## **Sunil Duggal, Chief Executive Officer**

Hi.

## **Anshul Mishra**

My question was regarding the health supplements category within your Consumer Care. I just wanted to understand what kind of a growth have you seen. This is Chyawanprash, Honey, and glucose kind of combined. So if you can give me a?

## **Sunil Duggal, Chief Executive Officer**

Glucose was flat, and so was Chyawanprash.

## **Gagan Ahluwalia, General Manager, Corporate Affairs**

Honey a growth.

## **Sunil Duggal, Chief Executive Officer**

In Honey there would have been a growth?

## **Gagan Ahluwalia, General Manager, Corporate Affairs**

13.

## **Sunil Duggal, Chief Executive Officer**

So Honey was a 13. There was a little bit.

## **S. Raghunathan, Chief Financial Officer**

13% growth.

## **Anshul Mishra**

Okay, okay. And just to understand from a seasonality point of view, quarter one would be what percentage of the entire year sale for this health supplement as a entire category?

## **S. Raghunathan, Chief Financial Officer Sunil Duggal, Chief Executive Officer**

20%, yeah. I think it's 20%, 30%.

## **Anshul Mishra**

So it's similar to Chyawanprash and in probably Q2.

## **Sunil Duggal, Chief Executive Officer**

No, no. Chyawanprash is only 5% in the first half.

## **Anshul Mishra**

Okay, okay, okay. And for ...

## **Sunil Duggal, Chief Executive Officer**

In fact in health supplements, I won't be able to give the aggregate number, but health supplements is very high for glucose, and very low for Chyawanprash, and lower than average for Honey. Honey also picks up in winters, but not as much as Chyawanprash do.

## **Anshul Mishra**

Okay, okay. Okay. Thank you.

## **Sunil Duggal, Chief Executive Officer**

Thanks.

## **Operator**

Thank you. Our next question is from the line of Gokul Maheswari of Allard Partners. Please go ahead.

## **Gokul Maheswari**

Yeah. Thank you for taking my question. On the Namasté and the Hobi acquisition, sir if you could just give an outlook on the annualized sales growth for both the acquisitions and how the margins are looking, because in the Turkish acquisition, you are investing in the brands. And Namasté had seen improvement in Q4, how do you see this full year margin outlook for both these acquisitions?

## **Sunil Duggal, Chief Executive Officer**

In Hobi, we are expecting a much lower return, but it is still be accretive, but perhaps only marginally, so, because we would be as you mentioned investing substantial amounts in A&P. So it's, but both of them would be accretive, so there will not be a drive on our bottom-line on account of even Hobi?

## **Gokul Maheswari**

So I mean on the Hobi front, I think they operated around 10 to 12% of the EBITDA level.

## **Sunil Duggal, Chief Executive Officer**

It's like 13. At 12 to 13%.

## **Gokul Maheswari**

12 to 13. You hope to maintain that for the full year basis?

## **Sunil Duggal, Chief Executive Officer**

I hope so yes. Having said that there are inflation issues in Turkey, which are fairly severe. There are competitive issues in Turkey, which are not dissimilar to India, and then the outlook for the Turkish Lira is also a little bit uncertain. So the Turkish outlook is less clear than perhaps the Namasté outlook, but we are still pretty hopeful in maintaining, and answering these EBIT levels.

## **Gokul Maheswari**

Likewise I think so Namasté would operate around the 14% mark. Is that?

## **Sunil Duggal, Chief Executive Officer**

That's 13 to 14%, and we are hopeful that we will gradually be able to take it up to the high teens. In Namasté, I think the up size more visible here, because there is a lot of cost management which we can do for the African market, and we have already began to do that. So the visibility in terms of the margin profile is far more apparent for In Namasté than it is for Hobi.

## **Gokul Maheswari**

The high-teens number is for the current year or it's spread over the next two, three years?

## **Sunil Duggal, Chief Executive Officer**

It's more about the next year.

## **Gokul Maheswari Sunil Duggal, Chief Executive Officer**

This year it would certainly be better than what we saw last year, but may not substantially so.

## **Gokul Maheswari**

And your organic IBD business had a very high profitability in the parts of last year. And I mean that is a particular time when you had huge benefit of lower raw material prices?

## **Sunil Duggal, Chief Executive Officer**

Right.

## **Gokul Maheswari**

Given what's happening to the raw prices, how are you seeing margins for the Hobi and the Namaste margins for the IBD business?

## **Sunil Duggal, Chief Executive Officer**

I think as with the domestic business, it would be hard to keep those EBIT margins swaying, which we saw last year.

## **Gokul Maheswari**

Right.

## **Sunil Duggal, Chief Executive Officer**

To do that we will have to do price increases of a which we may not like to do. But you could see some shifting of the EBIT level. We are prepared for that and the business model incorporates it. But, I think the real number which would be EPS growth would remain strong, very strong.

## **Gokul Maheswari**

Okay, sir. Thanks a lot and all the best.

## **Sunil Duggal, Chief Executive Officer**

Thanks.

## **Operator**

Thank you. Our next question is from line of Harit Kapoor of Motilas Oswal Securities Limited. Please go ahead.  
Hello?

## **Sunil Duggal, Chief Executive Officer**

Hi.

## **Harit Kapoor**

Hi sir. Sir just one question on Hobi and Namasté. I wanted to know if, I know it's the first quarter consolidation for both I mean on a Y-o-Y basis. But I just wanted to understand if you could give us the like-to-like growth in these markets, in these company for us?

## **Sunil Duggal, Chief Executive Officer**

Turkey grew at 14.5%, Namasté. grow at 22%.

## **Harit Kapoor**

Okay. And could these numbers be I mean carried on for the remainder of the year or do we see a significant deviation on the upside especially for Namasté, because we are looking at moving into Africa et cetera?

## **Sunil Duggal, Chief Executive Officer**

22% is a strong number.

## **Harit Kapoor**

Yeah.

## **Sunil Duggal, Chief Executive Officer**

Any big upside of that, does seem to be hard to visualized, but you will never now. But we also in a sense are only getting used to the businesses now, and the trajectory, mapping of the trajectory is a little bit harder than let's say the domestic business. But I think the growth in both should be fairly strong. The challenge really would be managing Turkey margins. I think that is a big challenge.

## **Harit Kapoor**

Okay.

## **Sunil Duggal, Chief Executive Officer**

And otherwise I don't think there is any other issue before us.

Sure. Sir just one housekeeping question. I mean in the last quarter the Namasté processing charges which was in , means were below the gross profit level. Both have been adjusted right, in this quarter?

## **Sunil Duggal, Chief Executive Officer**

Yeah, we have adjusted it. That's why you say the good cost has gone up this time.

## **Harit Kapoor**

Sure. Sure, okay sir. Yeah, that's it from me. Thank you.

## **Sunil Duggal, Chief Executive Officer**

Thanks.

## **Operator**

Thank you Mr. Kapoor.

## **Sunil Duggal, Chief Executive Officer**

I think we should close now.

## **S. Raghunathan, Chief Financial Officer**

Yeah.

## **Sunil Duggal, Chief Executive Officer**

We will turn to the moderator.

## **Operator**

Sir, will you like to close the session now. There are no further questions from participants.

## **Sunil Duggal, Chief Executive Officer**

We can close now.

## **Operator**

All right. Sir then would you like to add a few closing comments before we end. Yeah. I am Gagan. Thank you everybody for joining this call. A transcript of this call will be uploaded on our website shortly. For any other clarifications, do contact us. Thank you once again and have a great day.

## **Operator**

Thank you Mrs. Ahluwalia and Mr. Duggal.

## **Sunil Duggal, Chief Executive Officer**

Thank you.

## **Operator**

Ladies and gentlemen, on behalf of Dabur, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.