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NSE Scrip Symbol: DABUR, BSE Scrip Code: 500096

To,

Corporate Relation Department
Bombay Stock Exchange Ltd.
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai- 400001

National Stock Exchange of India Ltd.
Exchange Plaza, 5th Floor
Plot No. C/1, G Block Bandra – Kurla Complex
Bandra (E), Mumbai – 400051

Sub: Transcript of Investors' Conference Call for Dabur India Limited – Q4 FY 2018-19 Financial Results

Dear Sir,

Please find attached the Transcript of Investors` Conference Call organized on May 2, 2019 post declaration of Financial Results for the Quarter & Year ended March 31, 2019, for your information and records.

Thanking You,

Yours faithfully,

For **Dabur India Limited**

(A K Jain)
E V P (Finance) and Company Secretary

Encl: as above

"Dabur India Limited Q4 FY'19 Results Conference Call"

May 02, 2019

MANAGEMENT:

MR. MOHIT MALHOTRA - CHIEF EXECUTIVE OFFICER
MR. LALIT MALIK - CHIEF FINANCIAL OFFICER
MR. ASHOK JAIN - EVP(FINANCE) & COMPANY SECRETARY
MR. ANKUSH JAIN - HEAD(FINANCIAL PLANNING &ANALYSIS)
MRS. GAGAN AHLUWALIA - SR. GENERAL MANAGER (CORPORATE AFFAIRS)

Gagan Ahluwalia: Good Afternoon, Ladies and Gentlemen. On behalf of the management of Dabur India Limited, I welcome you to this conference call pertaining to the Results for the Quarter and Financial Year ended 31st March, 2019.

We have with us here Mr. Mohit Malhotra who has taken over as Chief Executive Officer of the company. We also have with us Mr. Lalit Malik – Chief Financial Officer; Mr. Ashok Jain, Executive Vice President(Finance) & Company Secretary and Mr. Ankush Jain – Head, (Financial Planning &Analysis)

We will start with an overview of the company's performance by Mr. Malhotra followed by a Q&A session. I now hand over to Mohit. Thank you.

Mohit Malhotra: Thank you, ma'am. Good Afternoon, Ladies and Gentlemen. My first conference call with you all. So I think you should all be mindful of the fact that this is my first call. With that I will start off. Welcome to Dabur India Limited's Conference Call pertaining to the results for the quarter and year ended 31st of March 2019.

Dabur's consolidated revenue grew by 11% during the financial year '19. Domestic FMCG business recorded growth of 13% in financial year '19 driven by a double-digit volume growth of 11%. All the three verticals of Healthcare, Home and Personal Care and Foods recorded a strong growth led by investments in brand building and distribution expansion. International business reported a growth of 6.5% during the year and was impacted by macroeconomic headwinds in the MENA region and adverse currency movements in markets such as Turkey and Pakistan.

Before we move to the quarterly performance, I would like to give you a perspective of our long-term strategy since I take over as the business head. The overarching theme for Dabur is to strengthen the long-term health and competitiveness of our brands and to grow ahead of the market in order to gain share across categories.

Investments will be concentrated on power brands such as Dabur Amla in Haircare, Dabur Red Toothpaste in Oral Care, Real in the Beverage & Foods space, Dabur Honey in Honey category, Dabur Chyawanprash and other three scalable brands - Lal Tail, Pudin Hara and Honitus, with disproportionate investments that will be made. This initiative is already yielding positive results in all the three brands wherein we disproportionately invested with strong double-digit growth during the year. Lal Tail has registered a growth of 15%, Pudin Hara 21%, Honitus grew by 17%. In order to drive innovation agenda, power brands will be extended into adjacent areas in order to leverage the strong brand equity and consumer connect.

Further, in Consumer Health, we have a large Ethicals Ayurvedic portfolio in which would be transitioning some prescription brands to the OTC portfolio and once the OTC brands become larger, we will extend them to the larger FMHG which is Fast Moving Health Goods space. We would leverage our brands strength and R&D capability to pursue these healthcare initiative since there is a significant headroom due to low penetration and lower competitive intensity in the Ayurvedic space.

To support our brand building initiatives, we have undertaken projects to increase efficiencies in front end and back end supply chain in both India and international business which will help the company become leaner and more efficient in the future.

On the people front, we are creating a more engaged, agile and accountable organization. People are the key pillars of the organization and we have a strong internal talent pool and we are supplementing the same with talent development and experience internal hiring. The management remains optimistic about the future of the company.

Now, coming to the Q4 Financial Year '19 Results. Consolidated revenues from operations grew at 4.7% in Q4 Financial Year '19. Domestic FMCG business recorded a growth of around 6% on back of volume growth of 4.3%. Excluding Foods, the value growth was 8.5% backed by a volume growth of 5.5%. Growth was slightly lower than the previous quarter due to prolonged winter season and a general slowdown in demand due to agrarian distress and liquidity crunch. Healthcare vertical performed very well with the growth of around 11.2%. Health Supplements grew at 10.2%, led by double-digit growth in Chyawanprash. Digestives category recorded a growth of 11.9%, driven by continued strong performance of Hajmola tablets and Pudin Hara. New variants, focused marketing inputs and distribution expansion contributed to driving this growth.

OTC products category grew at 16% on back of good growth in Lal Tail and Shilajit. Ethical business delivered a growth of around 10%. HPC vertical posted a growth of 6.8%. Toothpaste grew at 9.3% during the quarter. Red Franchise continues to perform very well with the increased penetration, aggressive marketing and visibility initiatives. Babool remained under pressure due to high competitive intensity at economy price points. In spite of this, our value market share in Toothpaste category increased by 45 basis points YoY. The Hair Care portfolio was impacted by demand slowdown and prolonged winters in the North India. That said, our market share in Hair Oils moved up by 70 basis points vis-à-vis same quarter last year. Also, our market share in Shampoo category increased by 64 basis points. Skin Care registered a growth of 11.2%, driven by double-digit growth in Gulabari and good performance in the Bleach portfolio. Home Care category grew at 16.2% in this quarter, backed by strong performance of Odonil and Sanifresh. Odomos recorded a subdued performance on account of low instance of mosquito led diseases. Foods business recorded a decline of 5.9%, mainly on account of prolonged winter season which impacted our largest market that is North India. The Ethnic Masala range launched during the year in the modern trade has received a very positive response from the consumer.

Encouraged by this, we are now rolling it out with general trade across the country and are adding few more variants.

Our market share in the J&N category has increased by 540 basis points over the same quarter last year, touching the highest peak of around 56%. We believe the dip in this quarter is temporary and the business will come back on growth track in the coming quarter.

International business recorded a growth of 1.9% during the quarter. SAARC grew by 8% on the back of strong growth in Nepal, Bangladesh and Myanmar. Turkey had a strong quarter, growing by 40% constant currency terms; however, currency devaluation impacted the translated revenues. MENA markets continue to remain under pressure; however, we have seen market shares increasing in almost all the categories across the key markets of Saudi Arabia, UAE and Egypt.

During the quarter, profitability was impacted by exceptional items and one-offs. Growth in the PAT excluding the exceptional items and one-offs was 4.6%, in line with the top line. While the media spend has come down in Q4, the overall marketing spends including trade and consumer promotions were higher particularly in India business where the total ad pro went up by around 4%. A&P spends on power brands have on the other hand increased in double-digits. Going forward, we will continue to invest strongly in our brands, distribution and infrastructure to enhance our visibility and market share. In spite of challenges in some of our markets, we will continue to drive the business based on strong innovation pipeline, distribution expansion and enhanced A&P spends. Our endeavor will be to continue to build strong and sustainable enterprise, backed by a brand portfolio which resonates with consumers and offers superior products to delight them.

With this, I open the session to question. Thank you.

Abneesh Roy from Edelweiss

Abneesh Roy: My first question is on market share data in some of the segments, for example, your share has improved in most of the segments, but in Skin, Home, OTC, Ethicals and Digestives, wherever you have the market share, is it possible to share how YoY performance has been?

Mohit Malhotra: Abneesh, in Home Care and the Skin Care segments, our market shares have actually gone down and we will tell you the exact numbers. While the category growth rate has been very high in excess of our overall growth rates, market share has actually gone down in Home Care. In Skin Care we are ahead in terms of market share, much ahead of the category which is in the Gulabari space. In OTC segments, we do not have market share data available with us but we have our consumer panel data and consumer panel data shows that we have actually increased our market shares here.

Abneesh Roy: Sir, where your market share has improved, are you seeing direct correlation with growth also because you mentioned in two of the segments you have seen a dip in market share, but your internal growth has been quite good. Where growth has happened and market share has improved, is there a correlation?

Mohit Malhotra: Yes, there is a direct correlation in all of the segments. We see Oral Care like Red Toothpaste has grown by around 17.5% and there our market shares have actually improved by around 45 basis points. So there is a direct correlation there. In Hair Oils also, we see growth coming and the market share data shows increase of around 70 basis points there also. But I think in the Skin Care segment and the Home Care segment, the market is actually surging much ahead of our profile. We have grown at around 16% but the market I think is growing at around 20%-odd. That is why our market shares have actually dipped here and these are not our power brands also as we stated earlier. So we are very happy with the kind of growth rate that we have here and we are working towards increasing our market shares and growing ahead of the category growth rates.

Abneesh Roy: In two of your cost items, more clarity if you can give on consultancy cost and GMP. GMP, why is that required now – was it for a new factory?

Lalit Malik: No, so I think there are two elements. We always have the GMP as the improvement areas to have the good manufacturing facility. We have made expansions as you know in Tezpur. So therefore, there is some expenditure required on the GMP side there. The other part is also wherever we have an export under the US-FDA rules, we need to upgrade our manufacturing facilities in order to meet that. There are expenditures which are required to be incurred. So these are the expenditures that you see on the revenue side on account of GMP.

Abneesh Roy: And consultancy, what was it for?

Lalit Malik: What we have done is we have taken a Project Lakshya to improve our supply chain network during the last financial year and therefore this periodical expenditure that we have talked about is on account of the consultancy that we have paid in order to have the design and the implementation of the supply chain improvement networking. So that is the cost that we have incurred incremental in this quarter.

Abneesh Roy: My next question is on the International business. This write-off of Rs.75 crores in terms of the goodwill, is it only because of currency devaluation because currency can be volatile? You take a goodwill write-off based on fundamentals of the business more likely. So if you could update, is it also because fundamentally the business is looking far tougher than when you had acquired?

Lalit Malik: See, as far as we talk about the local currency business, we have grown almost 40% in this quarter and around 28% for the year. And if you were to look at longer term in terms of our overall CAGR, our growth has been close to 20% in top line and around 25% in PAT. So, I think on the local currency, local market side, we have been growing pretty well since inception. It is just the currency devaluation which has impacted the investments that we have made into this acquisition, required for the impairment and we have done the impairment testing in accordance with our accounting standards. Considering the fact that in this last year, there has been currency devaluation to the extent of 40%. That has required us to make a provision on account of impairment of goodwill to the tune of Rs.75.3 crores.

Abneesh Roy: Sir, last question is in terms of pricing and promotion. In the past you have said, your strategy is to match any aggressive competition. So in Babool, you have seen multiple quarters this issue being there. So are you not going to take action there in terms of matching competition? And in Foods business, I see you have done lot of promotions. Are your promotions in line with the competition?

Mohit Malhotra: Abneesh, the promotions are pretty much as far as the Foods business is concerned, we have been matching our competition with the promotions and tactical trade inputs also and you can see the results as far as the market shares are concerned. We already have highest ever market share there and that is the result of the tactical promotions. As far as other categories are also concerned, we will keep shoring up our tactical trade and consumer activity to match up with the competition to ensure that we surge ahead of the competitors in the marketplace.

Vivek Maheshwari from CLSA

Vivek Maheshwari: A couple of questions: First, your outlook on demand for FY'20?

Mohit Malhotra: We have actually seen across categories a little bit of demand slowdown happening in the Q4 and that is evident through the Nielsen data and all other data indicators also. We see there was a demand - FMCG growth rate was around 15.9%, down to around 13.6%, if you see the exit rates they are around 10%-odd level. If you look at volume growth rate which were around 12%, now we see down to around 10% if you look at the exits of March, they are in the range of around 7%. Definitely demand slowdown is what we have witnessed and I think one of the reasons could be agrarian distress, lack of stimulus within the consumers, unemployment being all-time high and lot of other macroeconomic factors. That being said, our business got impacted because of more winter seasonality where the beverage category also declined by around 3% but the syndicative data shows that we have grown by around 6% in terms of secondaries and tertiaries while our primary business is down by 5.9%. So I think for us it is a temporary blip in terms of winter seasonality. That is why the business is down. Hopefully we should be able to recover in the first quarter of the current fiscal year. I do not think any structural or fundamental problem is there in the business.

Vivek Maheshwari: On the margin side, there has been some bit of pullback in FY'19. What do you think happens as we head into FY'20 – would you want to protect margins at this level or is there any expectation of an expansion or it can even slide down further?

Mohit Malhotra: If you look at the India business, our margins have been more or less stable. Gross margins are pretty stable, I think the cost of the raw material has been benign and whatever little inflation was there, that was set off by the price increases that we could easily take. We want to maintain the margins going forward across categories. We do not want to dip the margins and there will not be any margin expansion also. In case of any cost efficiencies that accrue to the business because of Lakshya project that we have embarked on, will be ploughed back into our A&P spends and try to shore up the volumes rather than increase the margin. So therefore, maintenance of margins is what we want to consider.

Lalit Malik: I just want to add that where you see there is a decline in margin on two accounts – One is the one-off expense in the operating margin that you see on account of the employee cost going high on account of ESOP, which probably going forward that one-off adverse impact may not be there. The second is on account of the deep devaluation in some of the markets like Pakistan, Nigeria, etc. There has been a pressure on the margins on account of transaction exchange impact which will get rollover once the 12-months period is over. But that would depend whether there is no further devaluation happening. So that is where the exchange will also have an impact on the margin. But going forward, if there is no steep devaluation, we may not have that impact but if it happens, there would be some impact on account of that.

Vivek Maheshwari: Quickly on the staff cost. So from first quarter FY'20, is the base reset or this exaggerated impact will continue in the first half?

Lalit Malik: I think going forward in FY'20, there will not be that extended impact happening in the next financial year. This was one-off case because of the low base in the last fiscal year where we had reversed some of the ESOP amount, and at the same time because of the rate difference between the previous Vision rate and the current Vision rate, we saw in '18-19 financial year the adverse impact. But going forward it will not be continuing because it will get evened out and in fact to some extent it can go down on account of the amortization basis. It may be slightly lower but at least it will be at a similar level or slightly lower but it would not be on the higher side.

Mohit Malhotra: It actually may give us a benefit going forward next year because in terms of the ESOP scheme that we have, we have higher amortization of around 29%-odd in the first year, goes down to around 26%. So that will actually add to a benefit going forward and last year was the closing of our internal Vision period, which was the fourth year of our Vision period and because of demonetization we did not do our numbers, therefore we had to reverse the stock options. That is why the base was lower there. That is why you saw the growth in the current year which is around 33% in staff cost. .So it will not happen after this quarter, it is only a one-off case.

Vivek Maheshwari: My last question is on the India tax rate. When does it hit to the marginal level?

Lalit Malik: I think as far as our tax rate is concerned, it has always been as per the MAT rate; however, in view of the accounting standards, we had to take the credit of the MAT in this fiscal year which you see that in the current quarter we have taken the credit on account of reasonable certainty as per the accounting standards and therefore you see the rate is lower than 20% which is the MAT rate.

Mohit Malhotra: But the MAT rate will continue for around 5-6-years going forward, till 25-26.

Lalit Malik: Our effective tax rate will continue to be close to the MAT rate around 22% for next five years.

Prakash Kapadia from Anived PMS

Prakash Kapadia: You articulated focus on power brands. As we step into FY'20, if you could give us some sense on pegging order of growth say between Foods, Healthcare, Home and Personal Care because we have a large product range and some of the power brands are big enough?

Mohit Malhotra: In the HPC space, definitely our focus area is going to be the Hair Oils category and that is where we think the growth is going to come from. Then there will be Healthcare and also Foods. So in the pegging order it will be more Personal Care first, followed by then Health Care and then the Foods. And within the Personal Care, there is Hair Care and also Oral Care. Hair Care #1, Oral Care maybe #2 and third will be Healthcare, followed by Foods.

Prakash Kapadia: Hair Care will be driven by premiumization ,because that is a fairly penetrated category?

Mohit Malhotra: There are both ends to the growth potential and the growth pillar. One would be premiumization. Premiumization will be more margin-accretive for us and the launch will be more in the eCommerce space and the modern trade space. So the volume growth will really come at the lower end targeting the bottom of the pyramid and therefore LUPs in the Rs.10 price points will be the one which will be the instruments through which the growth will be leveraged going forward.

Prakash Kapadia: In the release as well as in your opening remarks, you did mention about Dabur Red doing exceedingly well. I would guess Dabur Red would be more than two-third of our business. So, has Meswak also degrown? Babool you did mention is facing challenges. So what is the roadmap for Babool, Meswak and Dabur Red would be what now – 70% of our value sales?

Mohit Malhotra: Dabur Red should be around 65-70% of the overall value. Meswak has not declined. Meswak has actually grown by around low single digit growth rate. But as far as Babool is concerned, there is definitely a pressure in Babool and it is a large franchise of more than Rs.100 crores for us. We are definitely going to be revamping the entire brand going forward. So I think end of this quarter we should be seeing a relaunch of the Babool franchise.

Prakash Kapadia: Lastly on Honey. What is happening in Healthcare? We have done well for the year as well as the quarter. Quarter obviously would be more because of Chyawanprash. So Honey, what has happened during the year, what are we seeing as market share gains continuing for us, any plans on new launches if you could give us some sense?

Mohit Malhotra: Honey is doing exceedingly well. We have been able to gain the entire loss to Patanjali. We are back into the market growth rate. Overall year growth should be greater than around 20% as far as Honey is concerned and we have launched new squeezy pack which has also done reasonably well. So Honey we are back on track completely. Chyawanprash also continues to do well and in the current season Glucose is also doing reasonably well. So Health supplement portfolio along with OTC portfolio, all of them are doing reasonably well for us. But that being said in the current quarter because of the very high base of Honey last year, we saw a single digit growth rate in Honey. That is on account of little bit competitive pressure from smaller players like Apis and Hitkari, but we are mindful of that and we are taking steps tactically through consumers and trade promotion to counter that.

Gagan Ahluwalia: However, having said that, Chyawanprash did very well in this quarter and drove the health supplement category to a good level.

Prasad Deshmukh from Bank of America Merrill Lynch

Prasad Deshmukh: Just a couple of questions: Firstly, in the International business, what is your plan to revive growth mainly Middle East and also in the Namaste part of the portfolio?

Mohit Malhotra: As far as Middle East is concerned, there are definitely macroeconomic headwinds and geopolitical headwinds that we guys are facing and it has been a long time that we have been facing that. I think there should be another one quarter of pain that we see which should be the first quarter of current fiscal year. From next quarter onwards we should see growth reviving because we lap over the high base there and we will see the growth revival. Now, as far as fundamentals are concerned, there is a definite pressure in the Middle East. We see most of the categories in the Personal Care space that we operate which are declining at double-digit. That being said, our market shares across the category, the shampoo, hair oil, toothpaste, continues to gain traction and we have increased market share by 2-3% in the MENA region. So I think Middle East should be back on the high single digit growth path from second quarter onwards. But we do not see any abatement in terms of the macroeconomic headwinds in the Middle East.

Do we see a category revival? The answer is no. But I think based on our innovations and investments in media, we will continue to stay on course on innovations and media investments and the growth path will start. Inherently the business is exceedingly profitable in the larger chunk of our business and our brands are household names in the Middle East. As far as the Namaste business is concerned, we expect North America business to trend at a single digit, but on a growth path unlike last year where we actually declined there, but I think we should chart back the growth path there. There are category headwinds in terms of the chemical and the relaxers category declining double-digits and we are the major players in the relaxers category. We have launched lot of new products in the natural segment. Early days yet to see or comment or make a judgment on how the new products in Namaste are actually doing. So North America domestic business we expect low single digit growth rate in the hard currency. In other markets of sub-Sahara, which is where the real prize of Namaste products are, there we will continue to grow at double-digit. The currency has not devalued there. We will see the translation gains also coming in if we lap over the currency. That is as far as Namaste. The overall Namaste business should grow at a single digit all through maintaining the operating margin there.

Prasad Deshmukh: Second question, you mentioned about power brands being extended to more and more part of the portfolio. But does this mean that there will be defocus on some of the brands which probably may not be having too much of the scalability potential or power brands are like separate budget for you?

Mohit Malhotra: No, as you see that Dabur has got a very diversified portfolio. So you have to actually prioritize on where you put the money and the limited amount of resources. Within the resources available to the company, we have to prioritize. Therefore, power brands are the ones where we see the maximum potential and the headroom for growth and low competitive intensity. Those are the kind of power brands which is going to scaled up to a level of maybe Rs.1,000-odd crores level so that we can leverage those brands. But we should not be not focusing on the other part of the portfolio. When I say focus on these power brands that means disproportionate investment will be going behind it. We will see subsuming lot of brands under the power brand architecture and extending them so that we are able to scale them up. For example, our Hair Care business which is the Rs.1,200 crores business has the potential of scaling up to around Rs.5,000-odd crores. So how do we scale that? This will be scaled up through Amla franchise. That is the power brand that we have, for example, we have Real franchise. Rather than frittering the money among Volo or Koolerz, etc., we will focus all our energies behind Real and try to grow Real beyond 1,000 crores to a level of maybe 2,000, 3,000 crores because it operates in a category of around Rs.10,000 crores as juices and drinks and there is a huge potential and equity of the brand which has not been yet harnessed and leveraged. So I hope I have been able to answer the question. That does not mean that we will defocus on Home Care or Skin Care which are the brands there in a portfolio. There investments will be in line with what the P&L of the brand can actually afford.

Prasad Deshmukh: What was the growth in modern retail channel in Q4? And any update on your partnership with Amazon?

Mohit Malhotra: Modern trade for us is growing at the rate of around 19% broadly which is much ahead of our overall growth and modern trade is also going to be a thrust area going forward because we think this is the window into the GT and also incubator for all of the NPD that we will want to roll out eventually. And eCommerce is the business which has grown overall, if you see the full fiscal year last year we have grown by around 100% in eCommerce albeit on a lower base. But then the growth has been tremendous and next year also we are taking a very ambitious target and we want to drive this growth and to augment this we have also inducted a vertical head for eCommerce who will be working as the P&L Head to drive that kind of growth next year. Last year in the beginning, eCommerce being 0.8% of the business, it has already touched 1.4%, and next year we want to project it to go up to around 2.2-2.3% of the overall turnover, and this will also be incubator for lot of the NPD that we will be rolling out, which will be exclusively for eCommerce. Amazon happens to be our largest partner in eCommerce among all the customers that we interact with. Amazon is #1, followed by Big Basket and Paytm, etc.. In the last quarter we had little issues on Paytm because they stopped giving freebies and cash back on their platform. That is why you see growth not 90% in eCommerce but in the range of around 60%-odd in the last quarter.

Percy Panthaki from India Infoline

Percy Panthaki: This is Percy here. Sir, first, couple of hygiene questions wanted to ask. You mentioned that the Foods sales was up 6% but in primary terms it was (-6%) which means the inventory pipeline went up. So what was the reason for that? Secondly, if you could just give the rupees crores amount for the ESOP cost which is embedded in the staff cost for this quarter, the full year FY'19 and also what do you think it could be in FY'20?

Mohit Malhotra: Percy, I will seek Lalit help on the second part of your question. I think the first part of the question is Foods. The (+6%) growth that I talked about was the Nielsen date of the tertiary growth. So Nielsen indicates the growth of around (+6%) for Real but the category declined at around (-2%). So therefore, there is a market share gain there. So that is the tertiary figure. As far as our figure which is the primary sale invoicing figure is concerned, there we have a decline of around (-5.9) on the Foods portfolio for us. There is always a gap between what the primary sales are and what the tertiary sales are and that is the gap between the Nielsen. But I think what is more important here is to ensure that there is brand equity, and that is indicated is through market share gains. And we have seen around 450 basis points got added to our market share from last year same time. So we have got 56% market share and that is what we have gained. So that is the answer. I hope I have been able to answer your question. The second part, I think whatever I cannot answer, Lalit, you can help me with it. So for the ESOP, the total amount for the year is around 77 crores and for the quarter is around 40 crores.

Lalit Malik: There are two aspects to this. Just to clarify the incremental impact in the quarter what Mohit is saying is around Rs.40 crores for Q4 and around Rs.74 crores for the full year. However, if I were to just look at the last year's annual impact after eliminating that, that itself was approximately Rs.77 crores. So therefore you can see it almost got doubled impact on account of the reversal that we had.

Percy Panthaki: I am not very clear on this. So, Rs.77 crores is the total ESOP cost in FY'19, is that what I should understand?

Lalit Malik: Yes.

Ankush Jain: Just to further add on what Mr. Malik said, total ESOP cost this year is Rs.77.4 crores, last year it was Rs.3.5 crores and hence the incremental is Rs.73.8 crores.

Percy Panthaki: Q4 was Rs.40 crores you said?

Mohit Malhotra: Incremental cost of Rs.40 crores.

Lalit Malik: Let me just clarify, in the financial year '17-18, we reversed Rs.40 crores of ESOP. Therefore, the ESOP amount was much lower. In the current year, in view of the new scheme, the total annual ESOP impact is Rs.77 crores which happened to be only Rs.3.5 crores in the last year which is financial year '17-18. So therefore, the net incremental that got impacted in this year is around Rs.73.8 crores. Going forward it will be at a same level or maybe slightly lower because of the amortization basis that has been provided as per the standards.

Percy Panthaki: Mohit, next question is that when we had this Analyst Meet, I think about 8,9 months back, you had given a very nice presentation with lot of action points that were to be carried out over the next several months and quarters. So if you can just give us a quick update on what has happened on what you had set out to do as far as your journey is concerned, what action have you taken, which ones are pending and among the actions which you have taken, how has been the response for them?

Mohit Malhotra: I think that is a pretty long question. I will try to give a short answer to this longish question, Percy. So I try my best, but I think we should have analyst meet once again Gagan, to address all the questions that Percy is asking, but I will try to give you a summary of the same. So, I think first of all, let me touch upon category. As I told you Dabur has got a very diversified portfolio and we are very scattered. So therefore, we wanted to consolidate this entire portfolio in the power brand architecture to consolidate spends, to consolidate our initiative and endeavors and also to focus energies of the company behind select eight brands. So that architecture is already in place. Now coming to the investments to be made, we said that we will funnel behind these eight brands most of the investments because they contribute around 75, 80% of our turnover. So that has already happened. Category architecture has already happened. Third was the demand fulfillment. We had to change or reconfigure the way we were planning on the demand which is all about media expenditure. Earlier we used to follow approach of CPRP which is cost per GRP, whatever we used to get cheaper, eyeball is eyeball which was the basis of our planning and wherever we were getting cheaper media, we were buying it. Now, we are putting our money where our mouth is, so we selected 50 out of 200 channels, we rationalized the channels to around 50 in terms of number of programs, we have reduced the number of programs. So we are doing more impactful buys as against just media buys which is actually reflecting in our market share gains in all the categories where we are present which is what you have seen whether it is Hair Care or it is Oral Care or Juices or it is Healthcare. Only in the areas that we are non-focused which is Home Care and Skin Care is where our market share losses are getting registered but our growth are still 20% because we are investing there also. So this was the third part. The fourth part that I talked about is go-to-market strategy. We said that we want to reduce the reliance on wholesale and therefore build infrastructure so that we can reach directly to the outlet. That happened as against 1.2 million is the outlet reach that we are planning to go we were able to go to 1.1 million. We could not do 1.2 million. I think next year going forward we should be able to reach out to 1.2 million target of direct reach. Then fifth one is increasing the number of villages. So direct reach was more urban, then reaching out to more number of villages was more rural reach. That also we have embarked upon and I think this is going to be little longer journey. We find that around 66,000 villages in the total 600,000 villages in the country contribute to 50% of the FMCG business. So we want to eventually reach out to those 66,000 villages. So today we are reaching out to 44,000 villages. There is the journey to bridge this gap from 44 to 66. Next year we have taken a target to go to around 51,000 villages, for which we will be strengthening our super-stockists and sub-stockists networks. The work has already started and we are moving towards that. The sixth element if my memory serves right is the strategy of regionalization in which we embarked upon a program called “RISE” which was called regional insights and speed in execution. Regional insights meant that we have identified around 12 regional cohorts and we are making those regional cohorts as a consumer demand generating cohort. We have taken a test case of Northeast which is where Tezpur, our manufacturing facility is and therefore there is some sort of a tax benefit also if you sell in the same region where you are actually producing, which has been taken up as a test case and see if we can do something with RISE. We have seen a growth of around more than 25% coming in the Northeast wherein we build infrastructure, we hired more SSMs, we appointed sub-stockists, we took local celebrities, we took local newspapers and we bombarded that area with regional communication also which has given us great returns going forward. Now, going forward in the next financial year, we are embarking on South India as a second case for RISE. South India for Dabur contributes only 16% to the overall business as against other FMCG companies that contribute to around 25-30%. There is a huge gap between what the potential is and what we are doing. Next year going forward we are looking at South India. And what we have done in Northeast we will be replicating it in South India also, looking at regional strategy for South India and we think there is a huge growth potential. So that is as far as RISE is concerned. In line with RISE, we are now creating P&L for every cohort. So there will be top line and bottom line and we make the area heads who are responsible for areas, for not just top line but also bottom line, be mindful of what the bottom line will be so that we are able to scale up the profitability in every region. Our average gross margin is around 50%, somewhere it is 45%, somewhere it is 55%. So there is headroom which through analytics we have identified and we will be doing that. So pretty much I think I have been able to summarize on the go-to-market and on the brand area. The last area is capability building. We have recruited lot of resources; first, Healthcare was our focus. So therefore, we recruited Vice President, Healthcare in the company, we recruited Healthcare OTC Head for us, we recruited eCommerce Head, we have recruited Parlor Head. So therefore, we injected a lot of capability through lateral hiring in the company to drive Healthcare as a vertical. Then in the Healthcare we had to scale up some three brands. I told you we identified and I just narrated the results to you, Lal Tail and Honitus and Pudin Hara, all three have been giving us great results. So, I think we are on the right path fundamentally and structurally and we will keep steering the course on our intent and not get really affected by one-off results not being in our favor. So, I think we are pretty much on the right track and that is the way we will steer the business going forward and hopefully we will be able to organize analyst meet wherein we will catch up with you one-on-one.

Aditya Soman from Goldman Sachs

Aditya Soman: Just two questions from my end. Firstly, on the Foods business, can you break out between pricing and volume that will just give us better context on how the promotional activity played out?

Gagan Ahluwalia: Volume decline was around 4% as compared to the value decline of around 6%.

Aditya Soman: So the rest was pricing. So there is no impact of any adverse mix or anything of that sort?

Mohit Malhotra: Not really.

Aditya Soman: Secondly, you mentioned that eCommerce and modern retail are growing much faster. Is there a difference in the margin profile there and also on the working capital?

Mohit Malhotra: In terms of margin profile, eCommerce and modern trade are actually accretive to the business because we try to reach out to the modern trade directly and that is what we are embarking on going forward. So we are trying to eliminate the intermediary between the company and the modern trade big chain and try to deliver them directly that is a supply chain that we are bringing about. But as much also if you include the intermediary in between our margins are accretive because what you sell in modern trade are large packs and large packs invariably have a higher margin as compared to the LUPs which go through the GT. And also in eCommerce, all the platforms focus on higher ASPs which is Average Selling Price, is generally higher. They are not interested in selling lower ASP product because the cost of freight is very high for eCommerce. Therefore there also the profitability is fairly high as compared to our regular business.

Aditya Soman: Following up there on, working capital, are there any meaningful differences or nothing?

Mohit Malhotra: Working capital is actually favorable because you are directly going out there and selling it. Once you sell the goods, it becomes their property and working capital actually benefits us positively there also. But in some modern trade chains, I think the credit will be higher…

Lalit Malik: It is not very significant.

Aditya Soman: Lastly, all the sales to the modern trade channel, are they done directly or do you go through intermediaries?

Mohit Malhotra: Today it goes through intermediaries. The intent is to go directly for the major ones. You cannot supply all the modern trade customers directly, but as we scale up the business who becomes big customers, we are trying to go direct with them. We are in the process of negotiating margins for us to supply and it is meaningful for us to supply them full container loads or full truck loads directly. Where the customers are sub-scale, where we go through stockists.

Amit Sinha from Macquarie

Amit Sinha: My question is again on the Foods segment. Barring this quarter if I look at the last two years performance, the segment has underperformed the other segments and you have gained market share, you have done specifically well within the overall segment. So the question is for the overall category, are you seeing competition from Dairy-based RTD, and is the overall growth in the category supposed to come back to double-digit in the near-term?

Mohit Malhotra: I think your question is right. While the competitive intensity is only heating up in the category and we are getting aggressive and we are gaining market share, we are on the course of gaining market share in the beverage, but Dairy is daily definitely giving us competition and the growth rates are also higher in Milk-based and Yogurt-based products because the base is very small there. So, we are trying to recalibrate and rethink our strategy on where to go and where to focus. But the margins are really dilutive in Dairy and it requires the back-end capability also. As of now there is reluctance. What we feel is that there is enough headroom within the J&N category and the Juices category also to take the business forward. When I talk about 56% market share, we are operating in Rs.1600 crores category which is the J&N category, which is Juices and Nectar. The moment you expand this pie and go to drinks also where I think the real headroom is and where the equity of Real lies, we start operating in a category of around 6,000-odd crores. This is the overall pie. If you include the Dairy also, it could be 10,000-odd crores. So, I think we have enough headroom for us to go before we embark on Dairy or anything like that. So I do not think there is limitation in terms of the headroom or there is so much of competitive intensity that the future looks bleak for us. I think it is all contingent on the kind of innovation that you launch and that is what we have done. We have launched entire masala range which is doing exceedingly well for us. Now we are extending it. And going forward also you will see a step up in the innovation in the Juices category which will fuel the growth within the J&N space and Drinks space.

Amit Sinha: The second one is on your overall strategy. When I look at your overall market share gain strategy, it is very-very visible and it is very encouraging; however, at the same time we have also seen Dabur being very aggressive on the promotions and very active in the lower price points SKUs. So the question is does this strategy also put margins under pressure at least in the near-term? And while you have answered a question related to margin that you will protect the margin, but my question is that can we see margin expansion in this kind of aggressive strategy which you have undertaken for market share gain?

Mohit Malhotra: We do not have intent of taking up the margins forward. I think we are at a good level of margin. If we were to protect the margin, we want to have a stable margin actually going forward. But as far as strategy is concerned, it is a two-pronged strategy – The growth is going to come from premiumization as I told you, premiumization is margin-accretive but there is limitation on the volume of business that you can get out of it. So while there will be margins, the volume of business will not be there, whereas LUP which is bottom of the belly, which is scaleable, so there also we will have to embark upon. You cannot have one strategy and not have the other. So I think one is volume driver and other is the profit driver. Both have to go hand-in-hand together. So there will be premiumization on Dabur Amla, also there will be LUP strategy on Dabur Amla which is going to be Rs.10 price point or Rs.5 price point or a sachet price point. At one end in Shampoo, you will be investing behind the bottle and the other end you will be investing behind a sachet also which is a belly of the market, at one end you will get the volume and other end you will get the profitability and you will drive innovation and more premiumization and connect with the millennials through eCommerce. So it has to be hand-in-hand. I do not think this will put a pressure on our margin going forward. If you do not do it and it is skewed towards one end and only on bottom of the belly, then it can put pressure. But if the volume and the scale of business goes up, it will only leverage the cost and the operating margin can also be maintained by way of having a scale through LUP in volume also.

Arnab Mitra from Credit Suisse

Arnab Mitra: I had just one question. This year in the four quarters, we have seen a lot of volatility in the volume growth at the domestic level. So wanted to understand is this volatility largely due to base effects in different quarters or have you actually seen substantial acceleration and deceleration in the alternate quarters this year? Linked to that question is as you go ahead, do you see this volatility kind of come down or has there been any trade pipeline related reasons for this volatility to be there?

Mohit Malhotra: Arnab, our business as I told you is very diversified and there are seasonal variations during the whole year. So, I think season plays a very big role in our business. For example, Chyawanprash business, Healthcare business is pretty much skewed towards the winter, Juice business is skewed towards the summer and there is gift pack business which is skewed towards the festive season and the calendar keeps varying the seasonality keeps varying and that is how the volume actually surges or takes a dip. But I think fundamentally there is no issue on the volume business. We haven't built in the pipeline at all. We are very mindful of the hygiene to be maintained at the trade level. We operate at 15-20-days of inventory at the stockists level. That is where we guys are and our intent is to actually to cut on the pipelines going forward further. If you see our inventory levels have also gone down from last year to this year and we have also embarked on a supply chain project in which we are looking at a range availability at the distributor level which would bring down the pipelines at a distributor level also which we corrected our depot level inventory. Now going forward we will correct the stockists level inventory carefully so that it does not impact the business also so much.

Arnab Mitra: The second question was on Hair Oils. Because you mentioned this is one of the major priorities for next year. So this market share gain that you have done this year overall in Hair Oils, what has actually been the sources of this -- has it been more driven by your approach on coconut oil, or it has been more driven by Amla and other oils, and in terms of next year how would you want to grow this category for you?

Mohit Malhotra: To us Hair Oils business is definitely a potential. As I told you we are only Rs.1,200 crores and the category size goes up to around Rs.10,000 odd crores and we see a huge headroom for growth here with one or two single players in every sub-segment here. Therefore, there is a lot of potential in the category. Now the strategy that we have put in place last year is - first of all is revival of Dabur Amla franchise. We have got more competitive in terms of media, in terms of our communication, in terms of our go-to-market. But some structural changes in terms of modernization, which are time-consuming which we embarked upon, but which has not seen the light of the day, will be seen going forward next year. We have revamped our complete packaging of Sarson Amla and Brahmi Amla which are our flanker brands. So our strategy of building moats around our pillar brand, is paying dividend. We have got most in terms of flanker brands like Brahmi and Sarson and we have seen great volume growth coming from there. Dabur Amla also is back on growth path as we see it. It is an expensive brand and we see growth path back on Dabur Amla also. In terms of coconut oils, our initiatives of launching Anmol Jasmine is doing reasonably well and next will be revival of Dabur Vatika which is what we will embark on going forward next year.

Arnab Mitra: Within Amla also, have you gained market share or is the 70 bps more driven by the Coconut Oil side?

Mohit Malhotra: No, in the overall Perfumed Hair Oil segment, we have actually gained market share. So I think I clubbed the Amla franchise, Amla along with Brahmi and Sarson, we have definitely gained market share despite we are sitting at a premium to our competitors. There is premium of 50% no less there.

Harit Kapoor from Investec

Harit Kapoor: Three questions. Firstly, on the competitive intensity or promotional intensity you spoke about, it seems like Q4 has even been higher than Q3. So just wanted to understand specifically where has the promotional intensity which categories has it stepped up?

Mohit Malhotra: Promotional intensity has been there across some segments; I will name some of them -- First of all it is Fruit Juices. I think in Juices the competitive intensity has really gone up with a lot of competition coming up along with Dairy and also Yogurt-based drinks and there the 10-rupee price points are actually heating up. That is one area. Second is on Amla competitive intensity on Hair Oils, competitive intensity remains what it is. In Oral Care competitive intensity is the kind of abating. We saw earlier lot of freebies happening by competitor, but we see that in Oral Care competitive intensity is actually coming down. In Healthcare, we do not see much of competitive intensity. In Homecare and Skin Care - there is a fair bit of competitive intensity in Homecare by lead players and in Skin Care by small economy players which are chipping away our market share. In Healthcare business, the only area that we have seen step up of competitive intensity in case of Honey with small economy players who are mushrooming which are very small geographic players. So I will not even call it as a competitive intensity. I think very small regional players coming and discounting the products and chipping away market share, but we have to be circumspect of it and quickly through tactical promotions tackle that issue so that our market share does not decline even in pockets. So that is the overall picture, but I do not think it has really gone up to an extent that we cannot combat it.

Harit Kapoor: The second thing was on the rural, urban kind of outlook. If you could just give a sense of qualitatively how much would have slowed probably for the last couple of quarters for you and how you are seeing things going forward on that side?

Mohit Malhotra: In the current quarter, we see growth of around 7.8% coming out of rural and urban is growing at around 7%. Now the gap between urban and rural has drastically come down. Earlier we saw a gap of around 30% higher rural growth as compared to urban growth, now it has come down to around 10-odd percentage level. So we see pressure. But that being said rural is still firing at higher pace as compared to urban. So once the government stimulus actually flows in and the sentiment actually improves post-election, that is what we are hoping and we have got a great infrastructure put in place for rural and we are able to launch accessible price points which can ride our infrastructure. I think rural will give us great benefits going forward. We are pretty optimistic. Our rural reliance is more as compared to our competitors, 45% of our sales happen from rural. We think rural resurgence will happen behind all the promises in the manifestos by all the parties. There will be money flowing into rural India and there will be demand resurgence happening there and some rev-up.

Harith Kapoor: Last thing was on the margin. When you speak about looking to maintain margins, you are speaking more about the India business because I assume that there is some scope to improve the international margin given the weakness this year?

Mohit Malhotra: International business is more faced with geopolitical and macroeconomic headwinds like Lalit mentioned previously. There are lot of currency depreciations which hit us from all quarters and currency depreciation hits you both at the transaction level and also at the translation level. At the transaction level, when you import the goods there it becomes more expensive because you buy dollar-denominated currency and therefore it puts a pressure on your bottom line and this you may not be able to pass on to the consumer, so that pressure will be there. That being said, there is a category pressure also to top it all. Therefore, we have been giving lot of trade schemes, but we look at small improvement or maintenance of the margins as the situation improves after this quarter. We expect maintenance of margins and a growth rate in margins also in line with the top line.

Tejas Shah from Spark Capital

Tejas Shah: You seem very clear on your margin outlook, basically want to keep it static to revive growth. So with this kind of goal seek, what sought of growth trajectory you are targeting with?

Mohit Malhotra: We are looking at a high single digit volume growth and to offset inflation, we are expecting inflation in the range of around 2% to 3%, so over 2% to 3% price increase and high single digit volume growth is what the outlook that is our target for the next year going forward for India FMCG.

Tejas Shah: When I look at your performance and your commentary where you are attributing lot of this weakness to seasonality factor also, so is it that in this quarter as we speak the underlying demand momentum is not as bad as it appear from the number, it has revived or is it such combination of both in fourth quarter's number?

Mohit Malhotra: I think what you are saying is right. We see a little bit resurgence in the demand because we had a severe winter and after severe winter we expect normal sort of a summer, if not very severe, and the monsoon is also going to be near normal as the data speaks as the rabi crop has been good. We are actually seeing one month is already lapsed for the quarter and we see a little bit of revival in the demand in the month of April and hopefully it will continue going forward in the May and June, but we have a high base of last year in which we registered 21%-odd growth, so we are mindful of that. It is a tall task to have a very high single digit volume growth also on that base of around 21%, but I think going forward next quarter hopefully should get better.

Tejas Shah: Lastly in NPD pipeline, are you taking a call of becoming category creator also in some of these new products or as of now there will be mostly around renovations and perhaps at best we will play a role of challenge in some of established categories?

Mohit Malhotra: As I told you, there are two-pronged strategies -- There is a strategy for the bottom of the pyramid and the belly of the market and there is a strategy at the premium end. At the premium end, we will play a role of a category creator and that is where we will launch formats which are perhaps new to India and we have already done that in the Personal Care space in the International business. So we have learning from there and we can bring those products, curate them at the eCommerce platform and see if they have any traction, then we can roll it out in the general market and in the mainstream. At the bottom we will play a LUP game, making the price points more accessible to the consumer. The role of innovation there will be low at the bottom of the market, but the role of category creation will be high at the premium end of the market, so both ways.

Gagan Ahluwalia: Thank you for your participation in this conference call. Webcast recording of this call and transcript will be available on our website. We will be happy to address your questions if any. Thank you and have a nice evening ahead.