Ref: SEC/SE/2023-24
Date: May 9, 2023

To,

Corporate Relation Department
BSE 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

BSE Scrip Code: 500096

NSE Scrip Symbol: DABUR

Sub: Transcript of Investors' Conference Call for Dabur India Limited – Q4 FY 2022-23 Financial Results

Dear Sir/Madam,

Pursuant to the provisions of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the Transcript of Investors` Conference Call organized on May 4, 2023, post declaration of Financial Results for the quarter and year ended March 31, 2023. The said transcript is also available on the website of the Company at www.dabur.com.

This is for your information and records.

Thanking You,

Yours faithfully,
For **Dabur India Limited**

ASHOK KUMAR JAIN

Digitally signed by ASHOK KUMAR JAIN
DN: c=IN, postalCode=110092, st=DELHI, street=EAST DELHI, l=EAST DELHI, o=Personal, serialNumber=ecb3e1fdc2a028c70333c2d10a7e968110c5d0645b352ed6dfd1bc6aad8147b3, pseudonym=459e115d99c240908ca599222de2db9e, 2.5.4.20=08443b3bbbcf5f80cd46cc26add8b8bdd652ffd20caa6b7340b03564e4b39dfa, email=ASHOK.JAIN@DABUR.COM, cn=ASHOK KUMAR JAIN
Date: 2023.05.09 12:17:48 +05'30'

(A K Jain)
EVP (Finance) and Company Secretary

Encl: as above

"Dabur India Limited Q4 & FY23 Results Investor Conference Call"

May 4, 2023

MANAGEMENT:
MR. MOHIT MALHOTRA – CHIEF EXECUTIVE OFFICER
MR. ANKUSH JAIN – CHIEF FINANCIAL OFFICER
MR. ASHOK JAIN – EVP(FINANCE) AND COMPANY SECRETARY
MS. GAGAN AHLUWALIA –VP (CORPORATE AFFAIRS)
MR. N. KRISHNAN – DGM (FINANCE)

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 Full Year Ended 31st March 2023.

Present here with me are Mr. Mohit Malhotra – Chief Executive Officer, Dabur India Limited; Mr. Ankush Jain – Chief Financial Officer; Mr. Ashok Jain – EVP (Finance) and Company Secretary; and Mr. N. Krishnan – DGM (Finance).

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

Mohit Malhotra: Thank you, ma'am. Good afternoon, ladies and gentlemen. Thank you for joining us today for the Results Call of Q4 and FY23.

FY23 saw geopolitical issues disrupting the global supply chain, which led to a steep rise in commodity prices. As a result, inflation across the world went up to unprecedented levels. While it had started to wane during the end of the year, pockets of stress remained. To tame this inflation, central banks across the world have raised interest rates, which has led to a demand slowdown and currency headwinds in our key markets, especially.

India has not been very different. With WPI in double digits for the majority of the year, CPI is still hovering around the upper range of MPC comfort levels. The operating environment remained challenging during the quarter. As per syndicated data, for the first 9 months of the year, there has been a volume decline across the FMCG sector. We have seen some positive growth emerging in the later part of Q4. This positive volume growth was mainly driven by the food basket. HPC and OTC categories continue to report volume declines. Rural markets have continued to lag urban on account of high inflation and downtrading by consumers. Having said that, the silver lining for the year has been the performance of the new age channels and some green shoots which are emerging in the rural markets towards the end of the quarter, indicating early signs of revival in demand.

In this context, Dabur's consolidated revenue for the year crossed Rs. 11,000 mark to close the year at Rs. 11,530 crores and registered constant currency growth of 8.2%. India business grew by 6.2% and international business registered a growth of 11.1% in constant currency. The 3-year CAGR for India business is 11.2%, with near double-digit CAGRs in healthcare and HPC and strong double-digit growth in F&B business. Our consolidated gross margins contracted by 258 bps in consolidated business as we faced material inflation to the tune of 12.6%. The good news is that margin contraction is sequentially reducing with moderation in inflation.

During Q4, the company recorded consolidated revenue growth of 8.6% in constant currency and 6.4% in INR. While India business reported a growth of 4.7%, secondary sales grew around 10%.

In terms of categories, the food and beverage business recorded a stellar growth of around 30%, both during the year and the quarter. The beverage business continued to be on a strong trajectory on back of strong execution and our initiatives towards expanding the total addressable market. We outperformed the industry significantly, and our market share in J&N segment have increased during the year. The food drinks portfolio under the Real Koolerz crossed Rs. 200 crores mark during the year. The Foods business also performed very well with a growth of 34%. This has been further bolstered by the Badshah acquisition, which was consolidated for the first time in Q4. Including Badshah, F&B business recorded a growth of 34% for the year.

HPC portfolio recorded a 5.1% growth during the year despite category declines. Our toothpaste portfolio recorded a growth of around 5%, leading to a double-digit 3-year CAGR. Dabur Red continued to gain market share in the category. We are the #2 player in the Oral Care segment with every second household in the country being a Dabur Oral Care household. Hair Oils' market share witnessed an increase of 130 basis points to touch the highest ever market share that we've ever witnessed in hair oils of 17%. Shampoo recorded an 8% growth with a 3-year CAGR of 15%, and we saw our market shares inch up in shampoos by 30 bps. During the quarter, secondary sales of HPC saw a growth of 7%, but the primary sales were impacted on account of unseasonal rains and a bit of down stocking.

While for the year, healthcare portfolio recorded a 7% decline, the 3-year CAGR is strong 9% after lapping over the high basis of the COVID year. We saw market shares across health supplement portfolios also grow. The digestive category saw a growth of 10.4% on the back of robust performance of our Hajmola and Pudin Hara franchises. OTC portfolio recorded a double-digit 3-year CAGR with a strong performance in Honitus brand. Growth of healthcare in quarter 4 was flattish on account of high basis due to Omicron variant in the base quarter.

Among the channels, e-commerce was a standout performer with a 30% growth and contributes around 9% of our revenue. Modern trade saw double-digit growth during the year. We also saw market-leading expansion in our distribution during the year with our direct reach now going up to 1.4 million outlets. Village coverage was further increased to 1 lakh villages. Efficiency of distribution, as indicated by the Edge score, also improved by around 20%.

International business recorded a constant currency growth of 11% in FY23. While Turkey and Egypt recorded exceptional constant currency growth, INR growths were impacted due to currency devaluations in these countries. Sub Saharan Africa and Nepal business clocked strong growths.

For the quarter, while overall inflation reduced, there is an increase in input cost of F&B basket leading to gross margin contraction of 163 bps in consolidated business and 74 bps in stand-alone business. Sequentially, our gross margin contraction has been reducing. Operating profit declined by 9.6% during the quarter due to resumption of media spends in the quarter, which saw a 16% growth in India. Reported PAT for the quarter touched Rs. 301 crores, recording a 2.2% growth. This includes amortization related to Badshah acquisition.

During the year, despite facing challenges such as inflation, demand slowdown in categories and currency headwinds, we have aggressively pursued our business growth and have successfully increased our market share across the portfolio. As a matter of fact, secondary growth in the quarter was in double digits. Also, our gross margin contraction is reducing. Inflation is abating and we are seeing positive volume growth in rural markets. Healthcare has already lapped over the basis of COVID and should see strong growth going forward.

With this, I bring my address to a close and open the Q&A. Thank you.

Mihir Shah from Nomura

Mihir Shah: Sir, first question is on juices. From next quarter onwards, we are likely to cycle to the high base. And will Dabur's entry into the drinks category help tide over this high base? Or just like what we had seen in health supplements, there can be a sharp optical decline in growth numbers in juices from first quarter onwards?

Mohit Malhotra: Mihir, good question. So, while we are cycling the high basis of food and beverage going forward, and majority of the business comes in Tetra Pak, which is sitting on a high base, a slight amount of moderation in the Foods growth cannot be ruled out. So, there will be moderation in the growth. We will not see a growth of around 30%, because 90% of the portfolio is around Rs. 1,700 crores for us and only Rs. 200 crores is happening, plus there is a seasonality impact also, which will be there. So, I think overall, our Foods growth should moderate, and I would say that it would be a high single-digit to a double-digit kind of Foods growth, but not a very high double digit of around 30%.

And we are also very careful on the Foods. So, this, in a way, has got a silver lining to it, because food is a low gross margin business. If it balances across the other portfolios, our gross margin also inches up. Plus, there is also a factor of seasonality. There are untimely rains happening now, which we saw in the fourth quarter and also, we are seeing in the first quarter going forward. So, a little moderation in the Foods growth is definitely on the cards that we see.

Mihir Shah: Sir, secondly, on Hair Oils, while you mentioned that you have increased market share to an all-time high, it seems that versus peers, what we saw in the other commentary from peer companies, the Hair Oil growth has seen some kind of a pickup. So, can that be a case for a delayed improvement for Dabur's brands in Hair Oils?

Mohit Malhotra: See, as far as the syndicated data is concerned, I can't comment on the results of the peer companies like Bajaj and all, but definitely, we'll tell you about the syndicated data. Syndicated data shows still a decline. While the decline is stemming and it's becoming almost flat, we see a decline of around 3% in the Hair Oil category, actually 2.3% in the Hair Oil category, whereas our business has increased by around 2% in the Hair Oils, thereby gaining market share of around 130 basis points as I talked about. And this is pretty secular across all the subsegments of Hair Oils for us. So, even in perfumed hair oils, we've gained market share, and our strategy of supporting our core brand with the flanker brands is working very well.

Our Sarson Amla registered a very, very high double-digit growth. Our Brahmi Amla registered a growth. Our Dabur Amla related products also registered a growth. Our coconut oil, which is Anmol, has also registered high growth, and we've increased our market share. We are also improving our presence in other subsegments, which hitherto we were not present, like cooling oil also, in the current season. So, I think overall, I'm pretty positive about the Hair Oil category. While the category growth is not there, Dabur has huge headroom to grow because we are only around 17% of the overall market. The rest of the market is open for grabs. Our Dabur Almond Hair Oil is also doing very well, and we feel it's got a lot of legs in modern trade and e-commerce, and that's where we're building the business.

Mihir Shah: Got it. Understood, sir. Sir, next on Health Supplements. I actually missed the point that you made. I believe you mentioned some strong growth in Health Supplements, likely because now the high base phase is over. Can you just allude to what you were indicating, please?

Mohit Malhotra: Yes. So, there are different parts of our Healthcare. I think you're referring to Healthcare for us. In the Healthcare segment, there are three subsegments that we have. First is the Health Supplement. Health Supplement was cycling a high base. So, I think we've already entered a phase where the last of the high bases of the Omicron quarter, which is now over and out. Like in the last quarter, we had a Rs. 90 crores base of Chyawanprash and we registered a business of roughly around Rs. 60 crores. There was Rs. 30 crores fall in Chyawanprash that we saw in the last quarter. But now it's all behind us.

And on honey, already registered a growth of around 6% in the last quarter, but Chyawanprash declined by around 35% in the last quarter. That's impacted our margins also. Going forward, I think that being behind us, we will see good growth in the Health Supplement part, which is glucose, we are already seeing. And honey, we are already seeing some green shoots. And also, in case of Chyawanprash, the growth has begun, which is also high margin for us. That's one part of the Healthcare portfolio.

The second part of the healthcare portfolio is the OTC business. OTC business on back of brands like Hajmola, Pudin Hara, Lal Tail is already seeing a good growth. Again, COVID bases are now over, and we should see a high growth there. And third is the Ethical and the generic business for us, which is around Rs. 400-odd crores. That also should see a high growth. What we've done in the healthcare business is that we've inducted, and we've restructured the whole company, and we have got ex-CEO of Himalaya join us, Mr. Philipe Haydon.

I think I alluded to this before in my previous call also. He has come in and he has announced some sort of restructuring in our Healthcare business, in which we've created a new vertical. It's called Dabur Therapeutics Limited, it's therapeutics as a division. Now this division is manned by around 440 people that we've got. So, Fem Pharma business, which we inherited on back of the Fem acquisition, has been integrated with our branded Ethical business and 440 people will be doing advocacy to allopathic doctors.

Unlike hitherto we were only going to ayurvedic doctors, now we are going to allopathic doctors. There are almost like around 15 to 16 lakh allopathic doctors. So, in the key metros, we'll be reaching out to those doctors doing advocacy and they have been given a target of roughly around Rs. 200 crores. And Baby Care will be one of the frontrunner portfolios which we would sell through this team. And we've taken a target of roughly around Rs. 20 crores to going up to around Rs. 40 crores, Rs. 50 crores next year, driven by this advocacy where we'll be reaching out to gynecologists, pediatricians, etc., So, those plans are being made and also being executed as we speak.

So, I will expect good growth in the OTC and the branded Ethical portfolio on back of this. And then the third part is the Ethical business, which is already navigated the COVID basis, and we should see good growth in the Ethical business also, which is selling generic products through vaidyas, which is business as usual for us. So, that's a flavor on healthcare portfolio for you.

Mihir Shah: Got it. Sir, my last question is on other expenses. It seems that there's some kind of a one-off in the other expenses sequentially jumped quite a bit. Is there any cost of Badshah sitting there? Or is there any bunch up of cost that will likely discontinue in the coming quarters?

Mohit Malhotra: Yes. So, these are one-off expenses of roughly around Rs. 20 crores to Rs. 25 crores, which is actually sitting in with that other expenses, which is seemingly very high, growth of around 20%. Now what's happened in the business is, our business in terms of case sales has grown by around 11% in the quarter. And for the full year, it's grown about 14%. So, 60% are the variable expenses here. Those variable expenses have grown in line with my case sale growth, which is around 11%. So, that 11% is explained, and variable expenses include freight, travel, processing fee, warehousing charges, et cetera.

Travel, which was not there due to Omicron last year, has also come in now. Processing charges with third parties have gone up, warehouses charges have gone up. Freight has gone up because the tonnage of the food that we sold in this quarter was very high on account of the season being there. That is one, which is intrinsic, which is not one-off. The other one-off in the range of around Rs. 20 crores, which is a Forex adverse impact, which we saw coming in from Sri Lanka. Last year, when the Sri Lanka currency got hammered, we had booked some gain there, which is a loss coming in the current year. Then there was a phasing of CSR expenses, which happened roughly to a tune of around Rs. 10 crores here. There's some distribution restructuring that we have done in International business in MENA markets. There are some costs, which are sitting in that bucket and similar expenses like that. So, I think that's what should not get repeated. That's the other expense for us. There is no Badshah related expense here.

Chirag Shah from CLSA

Chirag Shah: Mohit, I think you did a good job explaining Mr. Philipe Haydon's role in the Healthcare business. If you can just elaborate a little bit further as to how do you see that part of the business growing over the next 2 to 3 years? And on Badshah, I understand that the national rollout would be a gradual play. Are we also seeing margin pressures over there? And are there plans to get into adjacencies through that brand?

Mohit Malhotra: Yes. So, Chirag, first of all, Healthcare business. So, Philipe has just come in. It's already been around 2, 3 months since he has been there. But I must tell you that we are very happy with his joining the company. I think there's been a hockey stick kind of a growth which has come in action that we are seeing in the Healthcare space. We've created a vertical in a short span of time. And 450 people have already come in, and it's not additional recruitment, it is relocating resources from different places in the company.

So, we divide Healthcare into three parts now. One is the Ethical part; one is the Health Supplement part and the OTC part. There will be a part of the portfolio which will be promoted through advertising, which is our power brand structure, and there is a part that will be promoted through ayurvedic advocacy, and a part will be promoted through allopathic advocacy. And the portfolio will also increase there, which will be more relevant to allopathic, which will be more margin accretive.

Like I told you, Baby is the space that we are initially going with. So, slowly and gradually, I think we want to provide impetus to our Healthcare portfolio and grow there, and that could not happen just on back of advertising. So, I think doctor support was the most critical, which we guys were missing out on. I think with his coming in, I think that will really help us bolster that support. How to market to a doctor, what a pharmaceutical company does, all those missing pieces which were there, they are being plugged as a gap in the organization with his coming in.

And a lot of new recruitments have also happened, which are from the healthcare space or pharma space that we are plugging in our business. So, there are 3 business verticals now. One is the Health Supplement, headed by a person under Philipe. There's a person who's heading OTC. There's a person who is heading our Ethical business. And the fourth person has been added who will be heading our Therapeutics division.

Chirag Shah: That's great. And just on the Badshah part.

Mohit Malhotra: Yes, the second part is the Badshah part. In Badshah part, we are still focusing on Gujarat, Maharashtra and Andhra Pradesh as being the key market, and we will focus there. We don't want to put pressure on Badshah to extend to all India at the moment until and unless we start the national advertising there and create some sort of pent-up demand before we start distribution there. We don't want the stocks to get stuck anywhere.

So, the second part of your question was about inflation. Yes, inflation in the Foods basket has gone up. Spices inflation is in the range of around 20%. So, there is a pressure on the gross margins definitely in Badshah, but we've done some rationalization in terms of marketing and sales. Margins and price increases that we have taken, pack price architecture, grammage reductions, etc., All those things are happening as we speak. We've got a different structure for Badshah. One of our key people, who was heading our Turkey business earlier and international business, Mr. Rehan, he is now the profit center head for Badshah, sitting out of Bombay and running the business.

So, we are continuously monitoring the situation, and we are very hopeful about Badshah registering a 20% growth going forward next year. And Badshah is one element of our Foods business, which is what we acquired. So, that is the 20% growth we're talking about. Our existing Organic Food business is also trending at around Rs. 120-odd crores. Badshah is another Rs. 250-odd crores. So, we're talking about Rs. 400 crores. Next year, we are targeting ourselves to reach a Rs. 500 crores level, which in the next 5 years should become Rs. 1,000 crores for us as a Foods business, I'm not talking about beverage Business.

Beverage business is separate. In beverage, we said drinks, which is Rs. 200 crores will become Rs. 500 crores for the next 5 years, and our J&N business is separate. So, we feel that our Foods business has got a lot of legs with the equity of Real and Badshah and Hommade, three businesses here. And we are providing a lot of thrust on the Food and Beverage portfolio. And with this Food and Beverage portfolio, I think, which is in the range of roughly around Rs. 1,700 crores, should easily, in next 5 to 6 years' time, it should double in 5 years. I think 18%, 19% growth has gone nowhere. So, we are looking at around Rs. 4,000 crores to Rs. 5,000 crores in the next 5 years' time for our Food and Beverage vertical, which today is 1,700 crores for us.

Chirag Shah: You were also looking at a separate distribution network for drinks you said last time, right?

Mohit Malhotra: Yes, it is not just drinks. We are looking at a separate network for our Beverage business. So, what's happening is that when we were restricted to J&N market only in the metros and the two-way towns, we had separate distribution network. One network which catered to the chemist outlet and healthcare, one network which catered to the grocery, which is HPC, and the third network which caters to E&D outlets which is eating and drinking outlets. So, that team has got bolstered as the Foods business is increasing and drinks business is also increasing. So, that is happening as we speak in Dabur. But in Badshah, which is a separate distribution network for spices, that's a separate business altogether. I hope I answered your question.

Manoj Menon from ICICI Securities

Manoj Menon: Just continuing with the template which my friend Mihir had on few categories, I also have questions at the category level. Mohit, the first piece on Toothpaste. The tailwind of Natural and plus, let's say, South India penetration or distribution, maybe few other factors were, let's say, long-term drivers for growth in Toothpaste for you, let's say, in the last 5 to 10 years. How do we think into the medium term that Toothpaste growth for you, specifically, given that the natural salience in my understanding is somewhere in the 30s?

Mohit Malhotra: Manoj, Natural, as I understand, you want a flavor on the Oral Care business as far as we are concerned. So, I think we are in a very good space as far as Oral Care is concerned. So, Oral Care Natural segment, like you're saying, is 30%, and the growth has stemmed in value terms in the Natural segment, which is essentially because Sensitive has caught up in Oral Care. If you do a fine segmenting and analyze the whole thing, the Sensitive segment on back of Sensodyne is the one which is growing, and there’s a lot of action happening in the Sensitive segment.

But as far as Natural is concerned, I think the volume growth there continues to take business from the regular white. And I think the value-added Natural segment will continue to grow. We have our representation in that segment, which is our general Dabur Red. Dabur Red is doing exceedingly well for us. But before I came to Dabur Red and specific brands, I think now Dabur’s penetration in Oral Care segment has gone up from 45% to 50%. So, every second household in India is a Dabur Oral Care household, like I talked about. So, it’s already. So, our penetration is every second person has got a toothpaste brand from Dabur in his home. So, that is the kind of traction that we’ve gained over the past 5, 6 years and 5% increase in penetration over the past 2, 3 years is absolutely a humongous effort which the team has made and done pretty well. So, that is as far as Oral Care is concerned for us, and we think we’ll continue to take a share from the market leader on the Oral Care space.

Now coming to Dabur Red, which is our flagship brand. It continues to do well for us, and we are looking at extensions of Dabur Red. We will continue to support Dabur Red with media, which is our core brand. That's why we've taken Amitabh Bachchan and the creatives are really working for us, and we've seen penetrations of the brand and market shares of the brand actually inch up on back of that communication. The second is Dabur Herbal Toothpaste, which has got very strong traction in South of India. It's doing well. The growth is around 23% for that brand. Meswak is doing well for us. And Babool, because of rural distress, Babool has pulled us down and our market share has declined in our Babool Toothpaste. So, we've got some work to be done there. Even our LDM declined on the back of rural stress. So, I think there's some work to be done there.

So, that said, I think overall, Oral Care, we are in a very good space. And in terms of margins also, our margins have gone up. Because inflation happened, we've been able to take the price increases and completely hedge the inflation with pricing. If you look at the growth in our gross margins, our gross margins have inched up in Oral Care and pretty profitably so. So, I think overall in a good space. I don't know if you want any other flavors, and I can provide you with that. We already had 7% secondary growth in Q4 in our Oral Care, and our market shares have improved.

Manoj Menon: Fair enough. I will take it offline because I've got a few follow-ups actually on Toothpaste, in the interest of time. Sir, I also had a follow-up on the juices business. In your presentation, thanks for the disclosure that the new launch Koolerz sees Rs. 200 crores exit run rate. And I also heard you had a medium-term target of Rs. 500 crores. But I was actually wondering, is it low balling or can this be much, much higher, because given your, let's say, distribution strength, given your expertise in the Beverages segment over the last 20-plus years. And also, the question on, let's say, Mihir's was on, let's say, high base, etc., But given your opportunity for simple placements, and that also you are actually expanding or extending the Real brand only, right? It's just an extension, why should there be a high base issue so early?

Mohit Malhotra: So, 1 thing, we are not talking about drinks as exit. This is actually the total business that we generated for the whole year is Rs. 200 crores. It's not exit. Exit will be even higher. So, I think Rs. 300 crores should be the exit that we are talking about. And therefore, distribution, that's why we are carving out a separate distribution network for juices and nectars and drinks all together, because the same outlet actually sells that. And we are also intending to get into the fizz market, which is even a larger addressable market, again, and with the Real brand. So, which is, in a sense, consolidating the core brand of Real is what we are looking at. And this business will scale up for us.

So, there are no holds barred as to the growth in drinks, juices and nectars for us. Our gross margins were also increasing till the last quarter, but we've seen now inflation inching up of around 12% in Foods. So, there's a little pressure, and we are watching and doing some cost optimization if we can do that. But there are no holds barred on the juices segment for us, yes.

So, as far as the season is concerned, now there are rains which have come in. And if you look at the drinks portfolio, Manoj, this is basically out-of-home consumption. And whenever rains happen, out-of-home consumption gets impacted, and it is not Real drinks which will get impacted, it will be all across. Other players will also get big time impacted, because I think the entire drink market, which is available in bottle, will get impacted, which is out-of-home consumption due to rains happening. So, that is what I was alluding to, not that we've just seen one month as yet, but our intent is to take up the business to Rs. 500 crores in the next 2 to 3 years if you ask me.

Manoj Menon: And just one last one on this, if I may. What proportion of, let's say, your direct GP distribution, in which, let's say, you'll be able to sell the beverage products?

Mohit Malhotra: See, our direct distribution is invariably around 15%, 20% to our overall distribution. Like we reach out to around 1.4 million outlets, and totally, we go to around 7.7 million outlets. So, it will be in the same proportion that direct will be there because a similar stockist will be selling that. But that said, the more the direct, the better it is because you are able to sell the entire breadth of the portfolio in those outlets.

Manoj Menon: No, Mohit, sorry, I didn't explain appropriately from my side. So, what I'm trying to understand is out of the 1.4 million direct overall reach which you have, what proportion of this, let's say, realistically you can actually place Real Koolerz? Or any of these newer products which you are looking to launch in Beverages?

Mohit Malhotra: So, if you ask me, around 80% of that we'll be able to place. But we've kept a separate distribution network, Manoj, from our Healthcare and from our grocery distribution. This is E&D, and this is a second or third person who's going and selling this to those outlets. So, we already have an equation to that outlet, but a new person will go and sell this, because the credit extension has to be separate, payment collection has to be separate. Separate investment by the stockist has to go there. And the agents have to be typically selling or they should have a DNA of selling drinks, which is a much higher turnaround time. So, it's a separate network. But that said, I think 80% of our direct network can sell, because rural is common and every grocery will carry a drink except for the chemist outlet, which is roughly around 100,000 only.

Shirish Pardeshi from Centrum

Shirish Pardeshi: I have got 3 questions. The larger question is on HPC. And Mohit, you've brought in lot of complexity into the business. There are separate teams for different verticals. The healthcare team is separate, your HPC team is separate, and there is a separate distribution which you are trying. How we should think on a base of FY23 where the growth in HPC was muted. And I'm sure you have taken a lot of initiatives. So, the question here is how we should think of FY24 growth? The distribution piece is already stitched. You have been guiding that rural expansion is happening and you're already touching now almost 1 lakh villages. So, is the growth going to be more of the distribution? Or at the back end, the rural recovery is also going to be an important factor in FY24?

Mohit Malhotra: So, Shirish, cutting to chase on your question, I think the total -- why the business could not perform so well for HPC, while I will not say it's not performed, our CAGR of HPC for past 3 years, that if you see, has been near 10% CAGR of HPC business, which is a very good growth that you see over the past 3 years. In the current year, we've seen our business also grow by around 5%, while the HPC categories, if you consolidate the categories where we exist in, which is Hair Oils, which was minus 3%; Toothpaste, which was minus 5%; Home Care, which was the only category which is growing for us; and Skin Care also reeling under COVID.

So, these are the 4 different subsegments that we have in our HPC business, all were down. So, there was a negative (-4%) as compared we have grown by 5%, which is gaining market share across our brands. So, I will not say that the business is under pressure, or the distribution network is under pressure, or there is too much complexity. I think there is more efficiency and effectiveness to be added through analytics and data. I think that is the issue which is lacking in the company and which we are building with a very strong hold. This is the history of HPC.

Going forward, granularly if I have to tell you, HPC, I told you 17% market share in Hair Oils is huge. But if the Hair Oils category is declining by 3%, if I'm growing by plus 3%, I'm actually gaining that market share there. So, that was a problem. And I'm getting into all the gaps in the Hair Oils segment also. In shampoo, our bottle saliency is picking up. Our shampoo market share is around 7%. I remember when I joined the company around 4, 5 years back, our market share was in the range of around 3%, 4%. Now it has gone up to around 7%, which we've never seen. Our bottle saliency is picking up. Modern trade Vatika has become very salient, and the bottle saliency is going up and there the gross margins are also very high.

Yes, for last 1 year, we've seen huge inflation. And because in sachet, we are present in a 6 mL, 7 mL sachet, there was no scope of taking a price increase at the Rs. 1 price point. So, there was a gross margin pressure. But that said, our growth has been 8% for the full year as well as shampoos is concerned.

Coming to toothpaste, our growth is 5%. The category is declining by 5%, so we've gained share from the market leader. There is also no problem, I've already told you. In Home Care, there is a big goldmine the way we see it. We have Odonil brand. The Odonil brand now has a 33% market share for us as compared to our competitor, which also has 33% market share. We are already teetering on the brink of being a market leader and becoming bigger than our market leader, who existed there, and #2 brand is Aer there, and Odonil is the parallel brand. And I think next month we should become the largest brand in the Air Freshener business. And now we are calling ourselves India's largest selling air freshener brand

So, good traction that we are seeing in our Odonil in all the formats, be it the gel format, powder format, aerosol format. Odomos, which is our personal application cream, is getting extended into LV, which is a larger category of Rs. 2,500 crores. That we have just rolled out in South of India, and we are growing the Odomos brand in line with our strategy of increasing the total addressable market. So, that's doing well.

Skin Care, Gulabari and Fem. In Fem, because of COVID, out-of-home consumption was impacted, but gradually slowly we are seeing that is also coming back. And so is the case with Gulabari for us. So, HPC is in a good space. Next year, I think we should be able to do a high single to a low double-digit growth as far as HPC is concerned, with gross margin expansion. Because petroleum-based, crude-based inflation is now abating quite a bit with LLP prices now softening. It used to be in the range of around 100. Now petroleum prices are in the range of around 80, 85. So, there is an expansion happening here.

That said, because of rural pressure, there was LUP growth which was happening. And because of that, there was gross margin issue, but because of that our penetrations have gone up. So, there's a flip side to it. Our penetrations have gone up in Hair Care also. So, I think I've given you a flavor of HPC.

Shirish Pardeshi: That's really helpful, Mohit. My second question is on the margin front. We always used to be in the tight band of 20%, 21% EBITDA margin. Now what you have mentioned in the beginning is that there is some cooling of the inflation which is there. So, can we look back going to 20% margin in FY24? Or do you think we're still not there?

Mohit Malhotra: So, good point. Sequentially, we've seen the contraction of gross margins reducing and inflation also abating. So, we closed at around 18.8% operating margin. So, I think we will inch up definitely. Now I can't say with confidence that we'll inch up to a level of 20% in 1 year or will it take us 2 years, because our media spending has also gone down. And whatever upside that we get in gross margin, we want to invest in media, and we want to put it in operating margin. How much we can do that balancing is what we will have to see through the year. So, I can't really comment with confidence. But I think the first priority will be to put money back on media, getting the demand surge happen. And the second priority will be increasing the operating margin there to the 20% level.

Shirish Pardeshi: But suffice to say that FY23 we did 18.8%. So, you will be able to protect that number?

Mohit Malhotra: Definitely. Not protect that number, go beyond that number, for sure. We have set a target of roughly around 19%, 19.5%. So, that much we should be able to do. It's actually situational, no, depending upon how much inflation there is. If inflation cools down, then we'll be able to get it. And it's a mix of a lot of things of competitive intensity, landscape we are operating, inflation, etc., I can't comment with confidence and give you guidance on that, yes.

Shirish Pardeshi: No, that's wonderful. My last question on the NPD. Over the last 5, 6 quarters, you've entered into mustard oil, you've gone into dry fruits, and you have done a lot of actions into the juices and nectars and also dairy beverages. If I look back, I mean, you always maintain that 3.5%, 4% contribution should come from the new product. But tell me, again, I'm using the word complexity, what is the success you see in those experiments? Is there anything materially you will be able to share that you look at the growth in the new product is looking promising or the experiment is done?

Mohit Malhotra: See, I've shared a couple of examples already in my commentary. Now the first example was juices. Drinks have already become Rs. 200 crores. We are scaling that up to Rs. 500 crores. This is NPD. This never used to exist around 2 years back. So, it's a complete, pure, new business which will become Rs. 500 crores. Now Hommade, chutneys, pickles, etc., I told you that we have exited the year at around Rs. 110 crores, Rs. 115 crores, which we will be scaling the Foods along with Badshah to Rs. 500 crores. This is all new product business that is generated. This is Food and Beverage which I talked about.

Now coming to Healthcare portfolio. We launched Tea and Vita here, and also a lot of honey extensions. They have done very well for us, and we launched Baby Care. Baby Care scaled up to Rs. 20 crores. We are taking it up to around Rs. 50 crores level in the current year. And we will all watch how Baby Care actually does in GT, because we are creating a separate team through advocacy like I talked about. Honitus extensions have done well for us. Pudin Hara fizz has done well for us. Shilajit extension that we did in the form of a gel on e-commerce has pretty much done well for us. E-commerce - 7% of business is coming out of NPDs, which is doing well.

So, on Tea, we see a lot of green shoots. Wherever we've launched Tea, it's doing well, but I think we have to provide some advertising support to Tea and Vita. That is what we are in the process of doing. And then in HPC, we have NPDs in Amla that we did. I think our Sarson Amla has done exceedingly well. Our gel that we rolled out in Oral Care has already become Rs. 20 crores. We are taking it nationally now. And in Home Care, we launched aerosol extensions, which have done very well. I just told you our market share is 33%. We are already #1 air freshener brand in the country. So, that's done well. And LV extension to Odomos is what we've done. It's increasing the addressable market for us while using the Odomos franchise, which is the same thing that we did in Real also.

So, I think across the board, we've got great examples of NPDs doing well. But some of them have not done well, like I've been telling you, sanitizers have not done well. Some Tulsi Drops and Haldi Drops have not done well. And we've culled it. So, just to tell you some numbers, we culled around 180 SKUs in the last 6 months. Already, the brands that are not doing well will be culled. It will be a weed and feed strategy. You keep weeding out SKUs which are not doing well, but you keep feeding within the guardrails of your core business, which is it will be Real, it will be Amla, it will be Red. So, we will launch extensions which are only feeding into the equity of the existing core brands. I have been alluding in all my calls the same thing. So, this power brand strategy is working well for us, and that's what we'll keep doing.

Shirish Pardeshi: Wonderful. This leads me to last one question on the Nepal investment. Maybe you can answer at a later time. What is this NPR 900 crores going to get us? Is it pure manufacturing? And what are the products we are going to manufacture there?

Ankush Jain: Shirish, this news about NPR 900 crores of Nepal investment first let's clarify that the approval for this was made through the Nepal government around 4 years ago as an enabling permission to go on investment over the next 5 to 6 years. Because as per law of Nepal, you need to get an in-principle approval beforehand, 5 to 6 years, as an enabling provision. However, having said that, in the current year, our proposal is to invest only Rs. 90-odd crores as the demand is increasing and in juices capacity there is a shortfall. But for that, this approval was only an enabling provision necessary.

Arnab Mitra from Goldman Sachs

Arnab Mitra: So, Mohit, you started by saying that there was a 5% gap between primary and secondary sales. So, wanted to understand what drove this? Why did you have to correct the pipeline here? And also wanted to understand that from here on, do you expect secondary primary to track or there is some more pipeline correction that you need to affect, which is why primaries could be lower than secondaries even in the next couple of quarters?

Mohit Malhotra: Arnab, so slight correction. We did not do any pipeline correction, as there was no pipeline correction which was intended to be done. So, this pipeline correction or down-stocking or loading not happening, I think different semantics can be used here, but it is actually rains. There were unseasonal rains in the month of March and April, as you are seeing, and in North of India, where Dabur is very salient, usually, in the end of the quarter, we do loading of the season. So, there's a Beverage loading. There is a Healthcare loading of Pudin Hara, which happens. There's a glucose loading which happens. There's a Hair Oil loading which happens, which is the nature of the way we do business. So, that loading, because of rains, could not happen this year. So, automatically the stock in primary with the distributors went down, but the secondary growth is intact, this is around 10%.

So, in a way, I will say it's a 1, 2 day of correction which is happening, which is like a blessing in disguise. But that said, we are not very happy for this because they could be in other regions where competitors have loaded and there could be a market share fall because of that which has happened and which we've seen in some categories in quarter 4 also. But this is just by default. Rains, I think, and season loading has not happened, basically that. It is not a pipeline issue.

Arnab Mitra: Okay, understood. Thanks for that clarification. And my second question is on margins. I mean even if I do adjust for that Rs. 20 crores, Rs. 25 crores one-off that you mentioned, possibly the other expenses, your margins are still way below where they were in the first 9 months of the year. So, just wanted to understand, incrementally, what came significantly in the fourth quarter versus the first 9 months? And do some of those factors reverse very quickly? Or it's going to be a slow recovery from this 16% to, let's say, the 19%, 19.5% that you mentioned you would possibly look for the next year.

Mohit Malhotra: Yes, Arnab, it is a one-off issue. One is the one-off expenses that I just explained. I think the big picture was that the mix of the products, like I told you, in Healthcare business, we were cycling the Omicron variant base. And as I told you, Chyawanprash Rs. 90 crores versus Rs. 60 crores we missed out, so higher margin portfolio did not sell. Foods portfolio sold, which is actually low margin. So, the product mix and the portfolio mix that we sold was not very favorable. That was first. The volume of the business that grew, it actually grew by 11%, and 60% of our expenses are variable. So, the processing expenses, freight, travel, warehousing, all those increased by around 11% in line with my volume cases. But in terms of the volume that you see, which is value weighted, is around 1%.

So, the expenses were disproportionately higher as compared to what the profitability came in. So, I think this should get corrected going forward. Gross margins should increase, and all that. Plus, there's some distribution changes that we have made in international business. On account of that, there were some expenses that's come in, in the quarter. And that has also hit the business. We are doing a distribution rearrangement in our MENA market, which is a high-growth market and highly profitable market that impacted the margins. Plus, there was a phasing or some expenses like CSR. Rs. 10 crores of CSR came in extraordinary in the phasing in the last quarter, which I think will not happen henceforth.

So, I think we should be able to take it to the level what the other expenses used to be in line with business growth. But gross margin contraction, which is sequentially improving as we are going on, will take some time, to your point. So, therefore, 18.8% will not immediately go up to around 20%. It will just take some time as media investments, so there has to be recovery for that. So, our total media today is around 5%, 5.5%. We want to take it up to roughly around 7%, 8% and support our brands with that. So, we'll have to balance it. Ankush, you want to add.

Ankush Jain: Yes. Plus, Arnab, what happened, in the first 9 months, if you would have seen, our media investments were contracting almost 18% to 20%. However, in India, we have increased it by 15%, point number one. And overall, also, it is flattish and not contracting on a 9-month basis, as it was on 9-month basis. So, we have started reinvesting behind our brands, yes.

Percy Panthaki from IIFL

Percy Panthaki: A couple of questions from my side. So, firstly, on this allopathic doctor advocacy, this is not new. I have been hearing even Mr. Duggal saying this 10 years ago. So, just wanted to understand if there is anything really changing versus what attempts we have made in the past. That is one thing. Secondly, in terms of the volume growth, I believe it would be approximately flat for the quarter. Now if I look at other companies which have reported or given their pre-quarterly results till now, most of them are showing some low to mid-single digit kind of volume growth.

While it is true that we have grown faster than the industry, as reported by Nielsen, that is a fact which almost every listed company can boast about. So, it really does not give too much information. I think we should compare ourselves with large, listed peers rather than the entire industry. So, the question here is that do you see some kind of timing mismatch, and we should see that if basically other large, listed players are showing this kind of growth, is it just a matter of 1 or 2 quarters? Or do you think that's not the right way to look at it? So, these two questions from my side.

Mohit Malhotra: Yes. Great, Percy. So, I'll take your second question first, which is a more tricky one. So, first thing, I must assure you the Dabur mix of the portfolio that we sell is very different from the other company mixes that you're comparing with. Some companies are secularly a single portfolio, and some are a mix, which mix is pretty different. Dabur has got a Healthcare mix, it's got a food mix, and it's got an HPC mix.

Our Healthcare, it was cycling a very high base, unfortunately, because in COVID, it did very well. Like I explained to you, Rs. 90 crores vs Rs. 60 croresSo, it will normalize over a period of time. That is one area. Our Food business is a Beverage business, which is a little dilutive to our portfolio, and this was season time, and Healthcare was cycling a high base. So, therefore, the Food became very pronounced, which is margin dilutive a little bit, and a high-margin business got depressed quite a bit, which has declined by around 6%, 7%.

Our HPC business categories per chance have not grown, and we have gained market share there, and which is being reflected in our secondary, which I was telling you. Ideally, secondary and primary should be moving in line. And if the unseasonal rains wouldn't have happened, I would have seen a 10% growth in primary also. Had I seen a 10% growth in primary, in my overall business in HPC, while Healthcare was cycling base, and Foods, the margins would have improved and you would have seen a high-volume growth also, because volume growths are value-weighted for us. And if a high case rate sale, which is HPC - Toothpaste will sell higher, then obviously, my volumes will inch up and the volumes would have been mid-single digits. I hope I've been able to explain it to you.

Percy: Got it. And the second question?

Mohit Malhotra: So, it is I think one-off untimely impact which has happened. Now on the first piece, Allopathic Doctor Advocacy, I don't know what Mr. Duggal talked about 10 years back, I wasn't around. But I've been here for 5 years. One year overlapped with Mr. Duggal also. So, here it was very clear that we will only go to ayurvedic doctors because ayurvedic doctor universe is 5 lakhs. And until and unless we cover 40%, 50% of the ayurvedic doctors, we can't spread out our resources too thin to ayurvedic and to allopathic. So, we decided that because our products are either Ethical, which are mentioned in the text of Charaka Samhita, which an allopathic doctor doesn't believe in, it's no point barking up the wrong tree, and don't go there. And therefore, focus only on ayurvedic only. And be core to your knitting. That is the mantra that I learned from Mr. Duggal.

But when Haydon has come and he has said, while Himalaya is also a company which is ayurvedic in nature, , but going forward in the country, for ayurveda to become mainstream, you have to take the allopathic doctor, who charges Rs. 100 to see a patient, he has to say that it's good to take Chyawanprash. It is not bad to take Chyawanprash. If you don't take him by your side, then you will not be able to grow this category. And that is what the Ministry of Ayush is also talking about, and that's why Ministry of Ayush is saying that it's a complementary system of medicine, not an alternative system of medicine.

So, therefore, now that's why we created a separate vertical. So, earlier, an ayurvedic sales promoter was going to an ayurvedic. And maybe to your point, if you're saying 10 years back, Mr. Duggal used to say, maybe if he was making 10 calls to an ayurvedic vaid, one call would be to an allopathic doctor also. But now there is a focused team which would only cover allopathic doctors for us, like you have any other pharma companies. I hope I have been able to clarify the change.

Vivek Maheshwari from Jefferies

Vivek Maheshwari: A couple of questions. One is, as an outsider, my view is that there are like too many things happening at Dabur, whether it's your portfolio expansion or what you're trying to do with Healthcare or even in case of Foods, where you have given the guidance of this 18%, 19% growth, and you have had like hectic launches in the last few years, particularly through the course of pandemic. While you have mentioned and always maintained that a lot of those are part of either narrow in terms of being only on e-commerce modern trend or part of power brands. But this time around, we have not seen any new launches slide, which you typically have been putting every quarter. From a next 12- to 24-month perspective, do you think you will take a pause and basically consolidate and move forward after that, because as I said, as an outsider it looks like too many things happening at Dabur.

Mohit Malhotra: Yes, but that's an outside-in view. I think insider view knows how simple or complex it is, Vivek, if you ask me. So, it's not that difficult. And I think the second part of the question is, while it may be simple or complex, I think the key is to drive growth and volume tonnages and increase penetration in the country. We all drive businesses for the future, and sustainably so. So, that's why we are trying to make bigger, larger, bolder bets within the power brands and make them larger. So, to your point, will I give it a pause? The answer is, not really, focus only on the core brands. So, I think that's a singular message that I want to drive to the analyst community that its core brands, which are 8 core brands, and we are doing things only around those to make them larger. Like Real will, from Rs. 1,700 crores, move to Rs. 5,000 crores. Amla will become a Rs. 2,000 crores brand. Red will become a Rs. 2,000 - 3,000 crores brand. Chyawanprash will become a Rs. 1,000 crores brand. Honey will become a Rs. 1,000 crores brand.

That's how the business of Dabur will go from Rs. 10,000 crores to Rs. 20,000 crores, by driving megapower brands with some extensions around those brands, which will strengthen the core of that brand. Like a Healthcare brand will only have a Healthcare extension. So, we've not launched a new brand with a new name, etc., that we are investing money behind, no. Ma'am, you want to add something?

Gagan Ahluwalia: And in addition, Vivek, we are also doing a lot of culling, where the smaller NPDs have not worked, we are culling them and rationalizing scalable NPDs which are going to be bigger bets for us and put investments behind them as we go forward.

Vivek Maheshwari: Okay. Okay. Because again, just to, let's say, follow up or at least add my perception. Whether, let's say, it's a narrow one, but nonetheless, an edible oil, to pickles, to now you're thinking about LVs. While some of this could be under the core brand, these are new formats altogether, right? And at the time when your distribution is changing in a way, or the process is underway on the Healthcare side. But I think your point, maybe it's an outside view, and it's not as complicated from inside.

The second is, Mohit, you have very well-articulated the Food numbers, and you also mentioned a bit about HPC in FY24. On the Healthcare side, if you have to, again, take that view from a next 2, 3-year perspective, what is your expectation of growth, like Food, 18% to 19%, let's say, HPC probably high single digit to double digit. What will be the growth rate over here in your view?

Mohit Malhotra: Yes. So, we are cycling now on a low bases, Vivek. And we've lapped over the high bases in Healthcare. So, I think the trajectory will start, and we are doing a little bit of reinvigoration also in our Healthcare portfolio. So, I think, again, a high-single to a low-double is what we are looking at at Healthcare portfolio. But Healthcare portfolio is a little slow burn portfolio. It's not as high burn as it because category penetration is an issue here, and especially post-COVID. So, I will say high single-digit growth is what is expected in Healthcare for us. But I think the negative is out of the way. If you look at the CAGRs of the past 3 years, our healthcare portfolio is also 9-10%; HPC is also 9-10%. Food is actually 20% for us because that market has intrinsically seen a tailwind of category growth. So, that is the CAGR that we want to continue at, yes.

Vivek Maheshwari: So, in that context, basically, Food will grow the fastest, and Healthcare, HPC, give or take, should grow around the same rate, right, which means that the excitement is much more around Foods in a way?

Mohit Malhotra: I will not say excitement is around Food. I think Food is a larger total addressable market. If you look at the total FMCG market also, Vivek, Food is one which is 60%, 70% of the overall market. I think that's the way the nature of the business is. Food will be larger. But if you look at the contribution of the business, we want to keep Foods at around 20%, and Healthcare at around 30%, and HPC at around 50%. So, that is the salience of the whole Dabur mix to be. So, that's what we are planning. And that's why a new vertical and a focus and the thrust on Healthcare.

Vivek Maheshwari: No, but sorry, Mohit, mathematically that's not even possible, right? If Foods grew at about 18%, 19%, and other businesses, high single to nearly double, that's not mathematically possible, right? On the Food side, you are already at 21%.

Mohit Malhotra: No, I told you, no, that Food has a tailwind. When a category is growing at around 15%, 16%, then if you want to increase share, then automatically you will grow, but this Food tailwind will not last for long. The Beverage has been growing at 15%. If you look at last 5 years, so 2 years, the Food was the one which was dragging our business. And now, Food is the one which is helping our business come in. I think that's the magic of having a diversified portfolio. That if one portfolio doesn't do well, the other comes up. In COVID, Foods was in the cast, and Healthcare did well during COVID. Now post-COVID, Food is performing, Healthcare is in a cast. So, that's the diversified portfolio, and you need to have diversity. Had we been only a Healthcare company, during post-COVID, we would have been dead because of flat growth.

Vivek Maheshwari: Got it, Mohit. I'll separately reach out to you on this any which ways. Wishing you all the very best.

Avi Mehta from Macquarie

Avi Mehta: I just wanted to clarify at this point that the divergence between case growth and volume growth that we saw in 4Q, should reverse, I mean, they should be in a similar trajectory going forward because this was more one-off. Is that the right understanding? Or is it going to take some more time?

Mohit Malhotra: I think it should even out. Ideally, I think it should even out. But what's happening, Avi, I will tell you, because of the rural pressure, what happens, there is a down-trading happening by consumers. So, low unit price points, the one which actually sells higher. So, as rural business recovers, I think this should even out. But if the rural is lagging behind urban and if we sell in rural with the rural infrastructure growth of Dabur, then this may continue. Our case growth may be higher as compared to our actual volume growth because we value-weight it, and larger packs don't sell as much as the smaller pack sells.

While the flip side is the penetration goes up, Ghar-Ghar Dabur comes up and Dabur is available in 80% of the households in India, those things happen, and people eventually upgrade from a low pack to a high pack as the penetrations move up. So, that's the silver lining to this whole thing. But till the time urban growth and rural growth parallel each other, this anomaly may continue for a while.

Avi Mehta: But Mohit, doesn't it also mean that other expense growth will be ahead of your sales growth? Because, obviously, when you have a scenario wherein case growth is stronger, as you rightly alluded, costs will move at a starker pace. And what you also said is gross margin pressures will also continue. Is that the right framework that I should be looking at? Or is there something that I'm missing from a margin story point of view?

Mohit Malhotra: Yes, you're right. That's why we are embarking on efficiencies happening in manufacturing, warehousing, and indirect overheads. So, variable expenses are only around 50% to 60% of the total other expenses that you see. The rest is where the leverage can definitely happen. And we generally embark on Samriddhi program and saving initiatives to manage that cost.

Prakash Kapadia from Anived Portfolio Managers

Prakash Kapadia: Mohit, to help us understand the gross margin impact, it would be helpful if you could break it up into down-trading, product mix change, and input cost inflation. And also, if we have to assume a scenario of gross margin improvement, will it be mix change, as you alluded Food will not grow as it was looking in terms of the pace of what we've seen. And are there any price increases or some cooling of inflation, which we would expect to change the gross margin?

Mohit Malhotra: Right. First of all, I think let me talk about inflation. Inflation is around 6% to 6.5%, and we've taken price increases also of 6%, 6.5%. So, I think gradually and slowly our gross margins here should improve on account of input costs. As far as down-trading is concerned, I told you, as the rural goes up, value piece will sell, and the penetration would go up. Eventually people upgrade. And so that is there, and also there's a mix change. Mix change is quite a bit dependent on the season. For example, if in summer season we sell juices more, in winter season, we sell Healthcare more, so that evens out each other. So, that's when -- and specifics, I will request Ankush to answer.

Ankush Jain: Sure. Prakash, I think just on your specific question. If you see India, gross margin contraction is 75 bps. Our estimate is that around 35 to 40 bps is coming because of mix change in the quarter. The rest 35 to 40 bps are coming because of, let's say, higher consumer promotions and certain trade interventions. But on a pure cost-to-cost basis, the good news is that at least in this quarter, on a pure product-to-product basis, we have been able to mitigate all our inflation, as Mr. Mohit said, 6% inflation and 6% price increases. I hope I have been able to answer your question.

Prakash Kapadia: Sure. That is helpful. So, that would mean there is more pressure on the international side. That is why the overall gross margins are lower?

Ankush Jain: Yes, because international gross margins declined at a higher rate. But the contraction in even international business has almost halved. It used to be almost 500 bps. At this time, it is almost 250 bps only, the contraction.

Mohit Malhotra: Yes, because the inflation is cooling even in international, because the petroleum prices is impacting them, but also the country mix is impacting international business, because the country mix in favor of MENA is reducing because we are doing some distribution changes in the MENA market. So, the MENA saliency has gone down in the last quarter and that business went down and declined by around 10-odd percent. And other markets where the currency depreciations are impacting the India translation, those have actually shot up. So, that's the issue. So, you're absolutely right, international margins are under pressure. While you see a constant currency growth of 11%, margins are under pressure because of country mix being a little unfavorable.

Prakash Kapadia: Sure. So, going forward, mix change as well as this cooling inflation will lead to gross margin improvement?

Mohit Malhotra: Yes.

Prakash Kapadia: And just one data keeping point. Honey, if you can give us the value growth in FY23? And we launched various variants, Tulsi, Ashwagandha, Organic, Himalaya. So, any meaningful contribution from these launches in Honey?

Mohit Malhotra: Yes. So, the honey category, if you see, is actually declining, but we've grown honey by around 7%, and our market shares have actually gone up. We see a very high competitive intensity in modern trade. There are a lot of players wanting to get into the honey market as the honey prices are cooling and the margins are going up. So, that is where the competitive intensity is. That said, our counter data is actually showing increases in our honey market shares in modern trade, and also in GT. And the new launches are more premium launches, so by virtue of those, our gross margins have inched up in honey. But that said, we are expecting a lot of private label play happening in honey also with Reliance getting into a lot of their own private label brands. So, I don't rule out the option that space will become very competitive, and we will have to have a solve for modern trade, Reliance also.

Sheela Rathi from Morgan Stanley

Sheela Rathi: So, my first question was, Mohit, in the last quarter, you had made a remark that the rural slowdown particularly for us is coming from Central India. Just wanted to get some sense from you how things are changing. You said that green shoots are emerging, but if you could just elaborate a little bit more on how the trends have been? And how should we think of it in this quarter, that is the first quarter?

Mohit Malhotra: Right. So, Sheela, good question, actually. I think Central India is where the reliance of Dabur is quite a bit. Actually, North, where the reliance of Dabur is quite high. We are a North salient organization. So, in Central India, what we've done is, North we've broken up into 2 parts. One is called Central, and one is called North. Our Central business wasn't doing well, which is basically UP and Bihar. There was a lot of pressure, but we've seen a secondary growth of 7%, and we've seen a revival in Central.

Central means basically Bihar and UP revival. UP was also marked by elections. But post the elections, I think there's a recovery which has happened in UP, and also there has been a change of manpower which actually has happened, and we've changed our leadership in the Central region also. On the back of this, we see the Central doing far better as compared to the last quarter in the current one. And the South is where we see a little bit of pressure. As far as the West is concerned, that's also doing very well for us, and the East is also doing pretty well for us. The South is seeing a bit of pressure, which also we are in the process of correcting.

Sheela Rathi: So, this would particularly benefit our HPC portfolio, right? And this is not optical, it is actually improvement in demand?

Mohit Malhotra: Yes, that is improvement in demand, and also execution. So, I think execution plays a big role. So, I think our execution has improved in Central India and also the rural comeback, the green shoots that we are seeing, they are more visible in Bihar and UP for us, which was a very pronounced decline in rural in UP and Bihar. So, that's showing definite green shoots.

Ajay Thakur from Anand Rathi Securities

Ajay Thakur: I had just one question on the Hair Oil segment. Just wanted to understand which category would be showing the most growth for us in terms of where we would be getting the most market share in Hair Oil category, which brand or which segment?

Mohit Malhotra: So, Ajay, basically perfumed oil segment is where we've gained major market shares. In coconut oil, we've also gained market share, but that market share is a little muted at single basis point, but 130 basis points is coming majority on back of perfumed oils. And in Sarson Amla, we've gained market share. In all the flanker brands of Dabur Amla also we've gained market share. So, perfumed oils to answer your question.

Ajay Thakur: And just one additional question. Can we get to know what will be the size of coconut hair oil now for us?

Mohit Malhotra: Rs. 300 crores, I think.

Tejash Shah from Spark Capital

Tejash Shah: Couple of questions. Sir, you spoke about that we culled out some 180 SKUs and some NPDs also. Sir just wanted to understand the technicality of accounting here. So, how do we account for unsuccessful NPDs which are still in the pipeline and are unsold at the channels?

Ankush Jain: Yes, so first of all, Tejash, yes, so as a process, we review our performance of the NPDs and whichever are below the performance standards which we have set in terms of either the saliency of sales or the growth parameters, we decide to cull it off. In terms of your specific question of accounting, when we have decided to cull off the SKU, we give it a time. Till the time raw material and packing material is in the system, we allow it to be produced, but hold the procurement of fresh raw material and packing material, so that the losses in terms of inventory don't come, point number 1. Point number 2, also the finished goods, which are lying in at our CFA or warehouses, are they allowed to be sold. It's only the fresh production is stopped or curtailed to minimize losses. So, then the sales happen only to the extent of stock which is there.

Mohit Malhotra: Yes, so I think to reiterate what Ankush was saying, it's basically a metric of topline and bottom line. If the topline is not happening, or the bottom line is also not happening because of whatever reasons, then we cull out the SKU.

Tejash Shah: Sure. The second question is, Mohit, on rural distress that you spoke about, and most of the FMCG companies have also spoken about it in the last 4 quarters. But if I just see FY23 in review, something like tractor actually grew 15% this year. And even if we see commentary from microfinance companies or banks, there is no major distress in rural portfolio. In fact, they are doing very well on the rural side as well. So, where is the disconnect between when we pick up evidence beyond FMCG, then rural is not in as much distress as we are picking up in FMCG sector?

Mohit Malhotra: Yes. So, I think what we are seeing is actually recovery of payments is really not happening in terms of our servicing the rural. So, be it at a super-stockist level or at a sub-stockist level, at the retail level, I think that is where the problem was on payment recovery, and that's why the stockist is not selling out in rural areas while we try to facilitate funds also there. But that is the problem that we are seeing in our business in rural areas across the board actually. And I think it's more accentuated in FMCG because the allocation of funds by rural household happens to a durable like for tractor, etc., and they cut back on expenses on larger packs. So, down-trading is a big time. If somebody was buying a 100 mL, now he's buying a 50 mL SKU. So, the number of purchases maybe is going up, but the larger packs are down-trading to the smaller packs there. Sachet sales are the ones which are actually picking up. So, that's what I can say.

Exact answer, I really don't have, if other companies and other industries are doing well in rural and we are not. But that's not what we hear. I think rural stress has actually been echoed by most of the companies at our Board meetings also, where people are representing different industries, be it Maruti or others. So, we hear that rural stress is pretty much there, and it's all on the back of inflation. Because inflation is there, there is pressure on the purse strings of the rural consumer and that is what is telling on discretionary products.

Manoj Menon from ICICI Securities

Manoj Menon: Mohit, just an academic/accounting question. I understood Ankush, your response you gave about what you actually, let's say, which is futuristic thought process on what the culling, etc., means. But what exactly happens, let's say, if you have launched a product which has got a 12- or 18-month shelf life. And what is the time frame in which you look at the secondaries and tertiaries, see if it is, and decide what you need to do, but that is futuristic. But what exactly happens to the stock already there in the pipeline, whether a distributor, whether it is the retailer, etc., what exactly happens to those? And on a, let's say, logistical basis, the second aspect is, how do you account for this?

Ankush Jain: Manoj, just to build on what I initially said, initially, what I said was for the stocks which is currently in our system, but now I think you are asking for what has already been sold. So, as a normal process, anything which the retailer is not able to sell, we take it back as goods received, GRN, through our stockist, and they are accounted as sales write-off, or they are netted off from the sales as a sales return. So, we will compensate back our stock and the retailer eventually for anything which has not been sold in the stipulated time.

Mohit Malhotra: Yes, but just to tell you, our stock returns are pretty much in line with our historical averages. So, that's the way to do it, and it's pretty much in line with our industry standards also, that we are benchmarked against the industry. So, it's not alarmingly high in terms of our stock takeback. So, that's generally, in the range of around Rs. 20 crores a quarter is what is the historical average that we have, which is 1% of the business, so India turnover. It's 1% of return sales and which is best-in-class. It changes from category-to-category, but the average for HPC, HC, and Foods is roughly around 1%. In Foods, it's generally higher because shelf life is lower, but on average, it is in the range of around 1%.

Gagan Ahluwalia: Ladies and gentlemen, thank you for your participation in this conference call. The webcast audio recording and transcript will be available on our website. If any questions are left over, please contact us offline. Thank you and have a nice evening ahead.