“Dabur India Limited Earnings Conference Call”

May 1st, 2008

Dabur India Ltd.’s Participants

Mr. Sunil Duggal, CEO (Chairperson)
Mr. Rajan Verma, CFO
Mrs. Gagan Ahluwalia, Additional GM-Corporate Affairs

Gagan Ahluwalia: Ladies and gentlemen on behalf of Dabur India I welcome you all to our conference call on the annual results for the year 2007/2008. I have here with me Mr. Sunil Duggal, CEO and Mr. Rajan Verma, CFO. Mr. Duggal will present an overview of the company's performance and operations during the year after which we will have the question and answer session. I now handover to Mr. Duggal.

Sunil Duggal: Ladies and gentlemen good evening. I welcome you all to our conference call regarding the results for the year ended 31st March 2008. Dabur India Ltd has achieved a growth of 15.6% in consolidated net sales during FY2008, the consolidated profits grew by 18.5% while EBITDA margins expanded by 44 basis points. The consolidated business includes our new venture-H&B Stores-the initial cost for which were factored into the financials this year. The growth in the net profit for the FMCG business excluding retail venture was 21% and the EBITDA margins of the FMCG business expanded by 74 basis points.

Consolidated sales during the 4th Quarter grew by 14.6%. While the EBITDA for the quarter increased by 17.6% the profit growth was only 6.7% due to higher taxation, depreciation and amortization. Tax rate was significantly higher at 13.6% as compared to 6.5% last year. The low tax rate last year was due to a deferred tax credit of Rs.4.5 Crores which reduced overall tax incidence. As tax rate has come back to normal level this year, it depressed the growth in quarter's profit after tax. However as mentioned earlier the EBITDA margins were intact and the growth in operating profit remained at 17.6%.

The Consumer Care division, which now houses all domestic FMCG businesses, recorded a steady growth of 14%. Almost 60% of the CCD portfolio was relaunched during the year with completely new packaging and changes in the formulation to improve product efficacy.

Oral care category has shown good growth with toothpastes growing by 27% during the year. The corresponding growth during the 4th quarter was 16%. Toothpowder sales grew at 2% for the full yearwhile the brand reported good growth during the quarter of 15%. Toothpaste continued to out perform the category reporting a growth of 35% as per AC Neilson as compared to category growth of 14%. Dabur's share in the toothpaste category has increased from 10.4% to 12.5%, an increase of 200 basis points as compared to last year.

Hair Care category has shown strong performance this year growing at 15% for the year and 19% for the quarter. Shampoos have done exceedingly well with 25% growth during the year and 28% during the quarter. This was led by re-staging of the entire Vatika Shampoo range and launch of new variants, which have supplemented the portfolio offerings. Hair Oil continued to do well led by a stellar performance by Amla Hair oil which booked a record of 18% growth. Vatika Hair oil has been restaged and relaunched during the last quarter with new packaging and formulation and a brand new campaign, which has done well for the brand. The brand grew at 16% during the quarter. The overall hair oil portfolio grew by 12.9% for the year and 17% during the quarter.

Health supplements category grew by 14.6% during the year with similar growth in the quarter. Chyawanprash category experienced some contraction this year due to late onset of winter. However Dabur maintained its share growing by 6% even when the category was sluggish. Dabur Glucose and Honey performed quite well posting 32% and 26% growth respectively. The company's efforts to increase market share in these markets is paying off as we continue to make inroads into competition through innovative marketing and strong distribution initiatives.

Digestive category registered growth of around 11% for the year although the growth was moderate during the quarter. Pudin Hara and Candies led the growth for the category with Pudin Hara recording a growth of 16% and Hajmola Candies growing by 22% during the year. Hajmola tablets have recorded a growth of around 9% for the year.

Baby and skin care category witnessed a growth of 4% during the year. Gulabari range witnessed a good growth of 26% during the period. The brand was extended during the year with launch of Gulabari Hydrating Rose Crème and Gulabari Hydrating Rose Lotion. Last quarter the brand was further extended into spray format with the launch of Gulabari Rose Touch Face Freshner. Overall growth in Baby & Skin Care category has been moderate due to lower focus on soaps category. Strategy for soaps is being reformulated and would be finalized in the current year. The Dabur Baby Ayurvedic range was supplemented with launch of Sarson Badam Oil during the year.

Home care category recorded a growth of 10.3% for year with similar growth during the quarter. Odonil brand, which operates in the air-fresheners category, recorded a growth of 17.8% for the year. The brand was re-launched with new packaging and fragrance makeover. The aerosols also performed well with sales of over 6 Crores during the first full year of launch. Sanifresh posted growth of 14% for the year. This brand was also re launched during the year and has seen pick up and momentum post the restaging. The growth of home care was dragged down by flat growth in Odomos, which was due to high base last year on account of mosquito epidemics. The new hard surface cleaner brand Dazzl, which has been test launched in Tamil Nadu and Karnataka has received good initial response and is set for a national launch in the current year.

As informed earlier the food subsidiary has been legally merged with Dabur India Ltd and consequently the food operation has been integrated with the mainstream DIL operations. The integration of food with CCD was completed in the last quarter; this is expected to lead to a much higher distribution footprint and enhanced visibility for the business. Due to a major restructuring of the distribution and operations of foods, the growth in the business was slightly lower at 19%. With the integration completed, the business is now poised for renewed momentum in the fruit beverages segment where it holds a position of strength.

Consumer health division reported growth of 5.4% for the year.The quarter's growth was healthy at 21%. A number of initiatives have been taken in CHD to sustain a good growth going forward:

Some of these are:

- Re-launch of a substantial part of OTC portfolio and increased focus on advertising and promotions for all offerings.
- Introduction of several new OTC products: Three new products were launched during the last quarter-Dabur Active Blood Purifier, Bhringraj Ayurvedic Tail and Dabur Super Thanda Tail, which has been relaunched.
- Restaging of the generic ayurvedic portfolio with strong media and promotional support.

These initiatives are expected to result in steady performance of the business during the current year.

International business recorded a growth of 25.5% for the full year and 17% during the quarter. The Middle Eastern market posted strong performance growing by 32.8%, led by introduction of several new products under the Vatika Hair Care franchisee. Sales in Egypt was strong growing by 49%, while Nigeria sales more than doubled going to Rs.20 Crores. The division continues to maintain a strong growth momentum with significant investment in branding and distribution network in the focus markets.

As you know Dabur's health, wellness and beauty chain New-U was launched during the last quarter, opening its first few stores in Delhi, NCR, Hyderabad and Bangalore. The initial response has been good and as we stabilize the product mix and promotion strategies we expect the stores to do well.

Essentially the financial year 2007-2008 was a year of consolidation and the business maintained its growth momentum in revenues as well as margins. The company now stands on a stronger footing with their complete product makeover, fully integrated back ends and strong operational capabilities in place. We have lined up a number of new initiatives for the current year to drive growth aggressively and further enhancing the shareholder value. With this I would now open the house for the Q&A session, thank you.

Aniruddha Joshi from Anand Rathi Securities.

Aniruddha Joshi: Hello Mr. Duggal, congratulations for a good set of numbers..

Sunil Duggal: Thank you. Yes I can hear you, please continue.

Aniruddha Joshi: Yeah can you just brief us about the New-U stores, when do we see profitability coming in this venture or we will see profitability in next year only. So overall whether Dabur India consolidated FY09 profitability will be lower as compared to FY08, due to initial expenses of New-U stores.

Sunil Duggal: See last year we lost 7.5 Crores on the New-U operations. This year the losses are expected to be in the region of 17.5 Crores. So the losses will continue as more stores open and the cost would be initially obviously very high. We expect to reduce the losses next financial year and then breakeven in financial year 2010-2011.

Aniruddha Joshi: Breakeven in 2010-2011.

Sunil Duggal: 2010-2011, but the losses would reduce in the next year (FY10).

Aniruddha Joshi: Okay, what is the expected probable loss on the retail venture, if you can give us a ballpark figure for next year.

Sunil Duggal: For the current fiscal 2008-2009 we are budgeting 17.5 Crores loss.2009/2010 would be approximately 15 Crores.

Aniruddha Joshi: 15 Crores.

Sunil Duggal: Yes the cumulative losses for the venture as has been declared earlier are expected to be in the region of 40 Crores and we stand by that number as of now.

Aniruddha Joshi: Expected to be around 40 Crores.

Sunil Duggal: Out of which 7.5 Crores have been already booked and another 17.5 Crores will happen now and 15 Crores in the next year and then we expect to break even then in the year 2010/2011.

Aniruddha Joshi: Okay so that was my question, thanks.

Sunil Duggal: Thanks.

Hemant Patel from Enam Securities

Hemant Patel: Yeah hi Sunil.

Sunil Duggal: Hi.

Hemant Patel: Yeah, I have a couple of questions on your food division, could you just give us an overview on what the competitive environment is. And during this phase while we were doing the integration exercise in terms of distribution, how has market grown in financial year 2008 and what is the outlook there going ahead.

Sunil Duggal: See one of the key drivers of this integration process was the heightened competitive intensity, which we saw coming into the sector. With the cola majors now aggressively into food based beverages; the integration was something, which we considered absolutely necessary to sustain business health and growth. 4th quarter was when the business went through maximum change in terms of the whole integration process, which obviously meant that there would be some consolidation and consequent loss of revenues. That process has been completed, we now expect robust growth to start happening. And the business to be on a much stronger footing consequent to stronger management being in charge and a much higher distribution footprint. This year we expect to remain in the food & beverage space and then we will be exploring opportunities outside while sticking to beverages, but within the overall health and wellness space.

Hemant Patel: What would be your market share in the food & beverage space last year and this year?

Sunil Duggal: See in the fruit juices really we are in the lower 50's at this moment in time.

Hemant Patel: Low 50's ?

Sunil Duggal: Around 51% to 52%.

Hemant Patel: Okay and that has been moving up or moving down, wanted a sense of what is the competitive environment in terms of market share.

Sunil Duggal: Yeah sure.

Hemant Patel: And could you give me at least an estimate in terms of how fast the industry has been growing.

Sunil Duggal: See the industry is growing at a very fast pace. And consequently there will be some share erosion, which is almost inevitable when the competitive intensity becomes this high, but we expect, despite the loss of some share, our revenue growths to be very robust, because the overall category is growing at a very good pace. So while some shrinkage could be there over the next couple of years consequent to all the big players getting into this category, this need not result in any kind of revenue or profitability slump as far as we are concerned.

Hemant Patel: And would be fair enough to say that 19% growth last year you would be able to do something like a 25% growth this year.

Sunil Duggal: We expect so yes.

Hemant Patel: Okay a quick outlook on your Home Care segment as you mentioned that Odomos hasseen a seasonal impact, what do you see going ahead I mean given the lower base do you see volume traction coming back into that particular segment and improving your Home Care growth. And can you give us an idea in terms of your national rollout of Dazzl and what kind of size/revenues are you looking at from Dazzl.

Sunil Duggal: See the Odomos, Odonil and the Sanifresh portfolio continues to grow at a good pace. We expect double digit growth to come back into Odomos because now the base has eroded consequently tolow sales last year. We expect Dazzl to significantly contribute to this years revenue. So overall we are expecting a fairly decent growth in Home Care, pretty much ahead of what we saw last year.

Hemant Patel: Okay in terms of the sales can you give us a breakup of pricing and volume growth witnessed during the quarter.

Sunil Duggal: So far we have been very circumspect in increasing the prices so out of our 14.5% growth approximately 2.5-3% has come from price. So it has been largely volume driven. And going forward it is likely to be more than what we saw last year in terms of price increases but as of now we are still being little circumspect in terms of increase in prices. we have tried to map out the whole inflationary horizon, seeing, whether the inflation would come down or whether it will continue to mount and also see how our margins are panning in the month of April. We will be taking pricing decisions one way or the other in the next couple of weeks.

Hemant Patel: And we have been hearing some negative news on consumer confidence in certain segments, do you see any kind of risk on that in any of your product category.

Sunil Duggal: Consumer confidence in categories specific to us or ….

Hemant Patel: In terms of volumes of any of your categories.

Sunil Duggal: No the demand continues to be strong, and I do not think the top-line pressure at this point in time is very high. The issue is more at the margins, I think we need to be very careful in terms of protecting margins as we speak consequent to inflation, but the demand continues to be robust, there has not been any slackening of demand in any of our categories.

Hemant Patel: All right thanks a lot sir.

Sunil Duggal: You are welcome.

Mr. Sumeet Budhraja from First Global Securities

Sumeet Budhraja: Thank you for taking my questions and congratulations to the team for delivering a great set of numbers sir.

Sunil Duggal: Thank you.

Sumeet Budhraja: What kind of top-line are we expecting from the retailing venture in 2009 ?

Sunil Duggal: See in 2009 we are not going to open a lot of stores, we will be opening between 10 and 16 stores in addition to the 6 which have already opened. So the top-line would not be very high, it would in the region of 40 odd Crores, because of the comparatively low number of store opening.

Sumeet Budhraja: Sure sir.

Sunil Duggal: The reason why we are not opening a large number of stores is that we still need time to fine tune the mix in terms of store size, in terms of store location and most importantly in terms of the portfolio which we are going to keep in the store. Now this cannot happen very quickly because we need to open at least a dozen stores to get a feel ofwhat is the most optimum mix. We also need time to build a private label initiative within the New-U stores, which will be very critical in driving profitability and that is something for which we need a little bit of time to ramp it up further. So the call in terms of how many new stores we have to open after the initial set of stores will have to be taken in the 2nd half of the current year as we would have a good feel of what is the mix and how we should drive the whole initiative forward. So at the moment there is a learning curve, which is inevitable in a new initiative of this type.

Sumeet Budhraja: Sure. We have seen an increase of Rs 110 Crores in the Gross Fixed Assets. Can you please elaborate on the same?

Sunil Duggal: Sorry I didn't get you…

Sumeet Budhraja: In the gross block we have spent around 110 Crores.

Sunil Duggal: 110 Crores that is right, Gagan do you want to answer that.

Gagan Ahluwalia: Yeah, if you look at the presentation which is circulated we have given the breakup- - 43 Crores has been spent on fixed assets which have been added in overseas business. 35 Crores in India in various manufacturing facilities including some capex on the corporate side. We have spent Rs 26 Crores in Nepal unit where we have added a new juices line and 12 Crores in H&B which is the retail venture.

Sumeet Budhraja: And what is your guidance on the tax rate for FY2009.

Sunil Duggal: We expect it to be 14% or there about. I do not think there will be any significant changes in tax vis-a-vis this year. Last year it was a bit lower because of deferred tax but that is not likely to be there going forward.

Sumeet Budhraja: Thank you so much.

Mr. Sandeep Bhatia from UBS Securities

Sandeep Bhatia: Hi Mr. Duggal.

Sunil Duggal: Hi Sandeep.

Sandeep Bhatia: Great results.

Sunil Duggal: Thank you.

Sandeep Bhatia: I was a bit surprised by the huge cut in net current assets, do you think that would reverse with the retail business expanding this year.

Sunil Duggal: The working capital, we had a large shrinkage of working capital.

Sandeep Bhatia: Yes.

Sunil Duggal: Part of it was due to dividend, which was declared in March last year which impacted the working capital where as this year we would be distributing final dividend in the month of July. But otherwise if you adjust the working capital for dividend paid the working capital management has become much more efficient - inventories have seen a reduction, in debtors there has seen a reduction. So overall we will continue to see better management of working capital.

Sandeep Bhatia: Yeah but would that mean a working capital increase as the retail venture expands.

Sunil Duggal: Not in the current year because the expansion of the retail venture would not be significant, but going forward yes it would.

Sandeep Bhatia: And what would be the square foot under retailing by the end of this year and next and what were they at the end of the last year.

Sunil Duggal: Last year we ended the year at 6 stores all of them opened in the fag end with an average store size of around 1800 square feet. And current year we are going to experiment with different store sizes, so I cannot give you a precise idea of the square footage which will happen because one of the key variables which we are testing is what is the optimal store size, and we are experimenting with stores as small as 700 sq feet and as large as 3000 sq feet. And then we will be able to get through the right mix in terms of store size and portfolio in another 6 to 8 months time and our entire rollout would be contingent upon these learnings.

Sandeep Bhatia: And what is the trend in rentals for retailing - is that now stabilizing or falling?

Sunil Duggal: We will witness some softening of rentals in the next financial year 2009/2010 which is one of the reasons why we are delaying our rollout, because we are going to buy ahead into store openings in early 2009/2010 and those are coming at a significantly lower cost than the stores which are ready to open now, and therefore it makes a greater sense to slow down the rollout a little bit to take advantage of that.

Sandeep Bhatia: Just one last question, how has market share trended in the Home Care category, how have they been trended with the various segments under Home Care.

Sunil Duggal: Home Care you know in Odomos we have close to 95% share. So there is not really competition in that space and it has been very stable in terms of the personal applicator category. In terms of fresheners, we are the only players, Home Care data on shares quite frankly is very puzzling because in this sense it is not really tracking most of these categories, but if you take toilet cleaners I think we may be able to give you some idea.

Sandeep Bhatia: No, okay I just was specifically interested in …

Sunil Duggal: You want the shares in any other categories we have the data with us.

Sandeep Bhatia: Okay thanks.

Mr. Jamil Ansari from Lehman Brothers

Jamil Ansari: Yeah good evening sir. Sir if you could give us a growth map of what is the kind of new launches and re-launches that one can expect in FY2009 across categories.

Sunil Duggal: Yeah we have a very substantial number of new launches in the pipeline and some of them have been tested out at a local level in the last fiscal 2008/2009 and will be rolled out nationally this year. So there is the Gulabari range, which will be now nationalized this winter since it's a winter product. Then a new shampoo variant will now become national, it already actually has become national. Chawan Junior, which is a big initiative we would be launching in the later part of this year and we had tested it out last year. Then we have Babool Toothpowder, which now will be launched, Babool Neem varient, the new flavors in candies in Hajmola range. There would be new generic offering within the consumer health category. There is a Super Thanda Tail, which is now in the market just launched. So there is a numerous number of initiatives and the big one would be skincare now we do not have very clear timelines it is likely to happen in the 3rd Quarter. So that would be a different brand.

Jamil Ansari: Right and secondly sir I know it is a bit early but can you give us a sense of how your New-U stores performing, I mean if we take the example of your first store in Delhi and what are the kind of foot falls and / run rate that you have achieved till now.

Sunil Duggal: No let me tell you it is early and it has only been a few days since the store were opened, but just to give you a flavor 5 out of our 6 stores we are very happy with the foot falls and we are not happy with one store. I think that is really something which we are now going to analyze as to why that store is not getting the foot falls in and once we have the diagnosis I think that will be part of learning process but 5 of it are actually functioning quite well.

Jamil Ansari: No sir I was coming from the fact that you are targeting a very stiff 25,000 per square feet per month target from these stores so I mean how are we faring currently in the sales intensity and by what time we will achieve that.

Sunil Duggal: See this 25,000 rate was contingent upon a certain gross margin, now one variable which we are looking at is that suppose we are able to increase the gross margin significantly at the back of private label and general merchandise offering then the stores can support a lesser foot fall and a lesser sale velocity so we will be playing around with various variables. We are not just stuck on one particular element and I think one of the issues we are working on is that how to get a gross margin profile which is going to be 30% rather than the high 20s which we are planning at this point in time.

Jamil Ansari: Okay lastly you have commented in the media that you expect some RM pressures now given that RM portfolio is very fragmented is there anything specific that you are looking at where you expect some input cost pressure.

Sunil Duggal: Yeah we are expecting very clearly input cost pressures in hydro carbon derivatives i.e. all plastic and packaging material.

Jamil Ansari: P.M. okay.

Sunil Duggal: Yeah PM inflation is almost certain because oil prices now show no signs of softening. So that is one area of concern. Other than that the picture is less clear, we believe that given the political situation etc, many of the raw materials, which are driven from agri products would actually not feel significant inflationary pressure. Now I maybe wrong there but that is the thought, which we are going forward with. So around 35% to 40% of our total cost, which is packing material are likely to get impacted by inflation.

Jamil Ansari: Okay and by how much - do you have an estimate on that?.

Sunil Duggal: See we have budgeted approximately 4-5% inflation with the growth and we have got a price increase plan of 4.5% to 5% to neutralize that. So that is how we have crafted the budget. Now if this 4.5% becomes 7% then we would either live with margin shrinkage or we have to take our prices further, but it is a bit early to call and we are being circumspect at this point in time and not doing anything very preemptive in terms of price increases till a clear picture emerges.

Jamil Ansari: Okay fine thanks a lot and all the very best.

Sunil Duggal: Thank you very much.

Mr. Shirish Pardeshi from Anand Rathi

Shirish Pardeshi Hi good afternoon Sunil

Sunil Duggal: Good afternoon

Shirish Pardeshi: Congratulations.

Sunil Duggal: Thank you very much.

Shirish Pardeshi: Just a couple of questions if you can answer, on the Oral Care category, quarter-on-quarter you have had fantastic impressive performance, this year also if i look at full year numbers the category has grown by about 14.9% and you have grown double than that what would be the reason I mean what is exactly happening, is that rural is contributing or is the Babool brand is now at the peak.

Sunil Duggal: I think the rural part definitely is contributing specially Babool, but at the same time I think it is the sharp product differentiation, which has been working for us. Keep in mind that we are the only really herbal brand in the market and there is a shift of consumer preferences towards herbal. So we are in a comparatively advantageous position from the portfolio point of view. So it is not just rural, even in the urban areas it is fairly significant because of Babool, but I think with the other products, which we have in our pipeline in toothpaste will be further able to consolidate our share gain in this category.

Shirish Pardeshi: Would you be able to tell me what is the breakup between price and volume increase in 27%.

Sunil Duggal: In the Oral Care.

Shirish Pardeshi: Yeah in the Oral Care.

Sunil Duggal: There has been a small price increase, which we took in Babool of around 7% to 5%. I do not think we have taken our prices in the other two brands at all. So it would be around a couple of percent to the category growth.

Shirish Pardeshi: Now one more clarification when you said Babool Tooth Powder you are going to launch, are you going to launch Babool Tooth Power or you are going to launch Neem varient.

Sunil Duggal: We have launched the plain variant first. If it does well then we will launch the neem varient.

Shirish Pardeshi: I think in the past Babool has tried I mean when it was in Balsara portfolio they tried but what confidence do you get now …

Sunil Duggal: The confidence, which we have now is that its mother brand is very robust, it is a very, very strong brand, it is heavily advertised. Now this powder with a comparatively lower margin category cannot support much advertising I am talking about white toothpowders. So we do not intent to advertise Babool it would be really be riding on the tails of Babool Toothpaste and leveraging our distribution network. So it is not going to be a huge launch in terms of you know on air support but we believe that we can get a small but significant share of the white toothpowder market by leveraging the Babool equity and our distribution network.

Shirish Pardeshi: Could you give us some sense as, if white is growing faster or red is growing faster.

Sunil Duggal: Both are growing around the same pace, there are areas in which white grows faster and vice versa, but you know the category is quite stagnant, the growth is around 2%. So actually nobody is really growing even our red toothpowder grew at around 2% to 3%. It is more of a maintenance job, which is being done here in this category. But since we are not present in the white category, which is actually larger than the red category, we believe that there are some share gains, which can happen. Earlier we did not have a vehicle to launch white tooth powder. But now that we have this Babool, I think it would be missing an opportunity if we will not do so.

Shirish Pardeshi: If you are aware recently Colgate has launched red tooth powder in UP and Bihar.

Sunil Duggal: That's right.

Shirish Pardeshi: What's your feedback, what are the activities they are going to do on DLDM?

Sunil Duggal: Well, the red tooth powder user is incredibly loyal to the brand. I mean if he is a committed user of red tooth powder he would not like to switch brands. If he is not committed red tooth powder user, he is likely to switch over to white range, basically a white paste or now to red toothpaste. So, I don't see comparatively speaking any major threat from that area and further if you see it on ground, it has validated my statement.

Shirish Pardeshi : Okay, so you are optimistic that 08-09 also we could see a big jump of about 25%?

Sunil Duggal: I think it's unrealistic to assume that the same brands will continue to grow at this pace; we have to take a view that the growth could moderate. But we have new launches, which is, I think very big one, which will significantly contribute to overall growths. So, even if the growth of Babool and Red drop a tad as it might, you still have this brand to take the growths up to this 20%-25% level, which we have witnessed.

Shirish Pardeshi: What share targets you have agreed for this year?

Sunil Duggal: Well, we are at 12.5%, we hope to end '09 with 15% and our three year objective is as I said earlier is 20% share.

Shirish Pardeshi: Okay, just one question on food. Now, you are confident that integration has happened what kind of growth we would see in the food business and if you can just give us some sense on RM cost for juices category?

Sunil Duggal: In food we are likely to see growth in the region of 25% in the current year, that is a likely estimate, like I said we don't give guidance, but this is what internally we have thought can achieve, we will try to achieve that

Shirish Pardeshi: What's your outlook on the raw material prices like juices, orange?

Sunil Duggal: Not a major issue because of better management of vendors we have flipping vendors around, so while overall cost will remain high, but due to better management of our vendors, I think we will able to put a lid on cost, you should see some margin expansion at the gross level. But we will also be spending considerably more money in foods in A&P.I think foods has been heavily underinvested in terms advertising. So, we will be increasing the A&P ratio from the 10-11%, which we had last year to more like 15%, which share will be largely funded out of enhanced gross margins because of lower costs.

Shirish Pardeshi: In CCD; we have seen in the presentation you have re-launched the entire portfolio - about 60% has undergone the change and in CHD about 50%, can we expect about 20% growth this year from the entire business?

Sunil Duggal: 20% would come on the back of reasonably high price increase; you know if we continue this volume price split of 80% volume and 20% price, I don't see 20% growth happening because that's how categories are growing in domestic market. But; something more in the region of 15% with the moderate price increase is more likely to happen for the domestic non-food business.

Shirish Pardeshi: Okay, just last final question. There are various mixed results that GDP will slow down from the 8%- 8.5%, that is likelihood ofrecession, which is hovering over us. In case of absolute recession in the economy, which product categories are prone to decline in '08-'09?

Sunil Duggal: Well, none, we don't see any correlation between GDP growth and FMCG growth, sometimes even see a inverse correlation, so I don't see any impact in terms of lower GDP, unless there is a catastrophic reduction in the GDP growth rates. This is a sector which is last impacted by recessionary pressure and also the last to take advantage of the buoyant economy.

Shirish Pardeshi: Okay thank you.

Mr. Bhushan Gajaria from IDFC-SSKI

Bhushan Gajaria: Hi Sunil.

Sunil Duggal: Hi Bhushan.

Bhushan Gajaria: Sunil just one thing, unlike in the past, how confident are you about new product offerings going forward, because if you look at the homecare category, which while we believe there was a high base, the growth was at just at 10%. How do we see the new products going forward in all these categories right now?

Sunil Duggal: In homecare specifically or across the portfolio?

Bhushan Gajaria: No across the portfolio; because firstly which ought to be the faster growing categories, probably which did not do great this year?

Sunil Duggal: Yeah, it did not do great because the largest brand in this category was impacted because of very high base, so I wouldn't be very, very worried about it. I think lot depends upon how well Dazzl performs, because that's the big initiative in home care and if Dazzl is able to generate the kind of numbers, which we expected it to deliver the growth in homecare would be very robust.

Bhushan Gajaria: But then, before going forward do we see 2% to 3% of the incremental growth coming from new product launches?

Sunil Duggal: Definitely.

Bhushan Gajaria: Okay thanks a lot.

Sunil Duggal: Actually much more than that as well.

Bhushan Gajaria: Okay, thanks a lot.

Sunil Duggal: You're welcome.

Mr. Mahesh Nandurkar from CLSA

Mahesh Nandurkar: Hi, I have couple of questions. Actually, first two are on macro environment and in reference to couple of comments that you just made that you are witnessing RM cost inflation and at the same time you have been circumspect in taking product price hike. So; question is, in a high inflationary environment such as the one that we are currently in,you typically, find it is easier to take price increase because prices of all the other things are also going up or you find that it is more difficult because the consumers are forced to spend more and more on essential food etc?

Sunil Duggal: See I think that, lot depends on whatever is right for you, but the third element to it is how competition is behaving. Now, in categories where we have clear leadership Amla Hair Oil**,** Chyawanprash, few others; we have taken up prices, we have taken leadership in taking prices increases, so Amla has gone up by about 5%-7%, Chyawanprash will go up in the next few weeks. There are areas where we are number 2, number 3, number 4, there typically we are little reactive in terms of price increases, for example we tag red toothpaste prices to Colgate and as when the Colgate takes up prices, we will probably follow suit because that is the source of business. But having said that if you continue to face inflationary pressure in these categories, we would then be pre-empted in taking prices, we will not wait for the market leaders to take up prices, we will take the initiative on that and take a price level again if we find margin shrinkage to be more than what we have the capacity to absorb. So the whole pricing issue is not something on which can take any holistic view, we have to see it category by category and then see where the risks are the lowest and certainly there will be a certain level of risks, which we can mitigate to the highest possible extent.

Mahesh Nandurkar: Okay, now if I look at the quarterly trend in your CCD business, which is clearly the largest, in first quarter the growth was about 19% subsequently and came down to 15% and in the 4^{th} quarter it went down to about 12%. Now, I am just trying to kind of correlate this little bit slowdown in the growth to the increasing inflation in the economy and whether the two are correlated at all?

Sunil Duggal: No, I think it's more in terms of the base affect; there is no correlation with inflation per se not all because there is no demand slow down, which is happening in FMCG category and even if you map out Nelson you will find demand to be fairly steady. Maybe a little ahead in fact what you saw a year ago, so there doesn't seem to be any correlation on that account.

Mahesh Nandurkar: Okay and also in the beginning, you had a statement about soap business, the fact that you are reformatting your strategy etc., so what's been the reason, Are you looking to re-launch or whatever, reformulate?

Sunil Duggal: See the soap business when we entered was highly competitive, but we did enjoy reasonably good margins in the soap business. What's happened in the last couple of years is with the competitive intensity remaining the same the attractiveness from point of view of margins has come down considerably because of very high input cost. So, it has become an unattractive category to be in and rather than to sink more money and it's a very high investment category, we believe we can deploy our resources better somewhere else. So, sometimes it is just better to cut your losses and you know redeploy your money more productive ways, now having said that, we are not given up on the soaps. We are seeing whether there is any value, which we can get from the soap category, in domains such as medicated soap where the margins will be inherently high. If we can have a product, which is differentiated enough to support gross margins in the mid-to-high 40s then we believe we can create a soap brand, but if you are unable to find that right mix then we probably will stay away from this category. You know our portfolio is diverse enough, so that we don't have to really enter into this one. So, we will not do it till we have a proposition on products, which are very differentiated.

Mahesh Nandurkar: Okay, thanks a lot.

Sunil Duggal: You're welcome.

Ajay Desai and Mr. Gautam Duggad from Edelweiss

Gautam Duggad Hi Sunil, my question pertains to gross margins. As you said the for the quarter the price increase has been between 3.5%, so can you throw some more light on how the gross margins have reduced so much, almost 250-260 bps?

Sunil Duggal: Gross margins have actually gone up as material cost has actually gone down by 226 bps in the 4th quarter, largely a mix issue I will not read too much into it. The foods business where the material costs are very high grew at a much slower pace in the 4th quarters compared to the first 3, so it maybe on account of that. If you take the DIL business on the standalone basis, stripped off food and international etc., the material costs have been actually pretty stable you know 47.8 going down to 47.1. Now, like I said we will be very carefully seeing the impact of inflation in the month of April and what we see in the next couple of months and we have to see how much erosion is happening in terms of gross margins consequent to inflation now hitting us and the pricing strategies would be mapped out accordingly.

Gautam Duggad Okay thank you.

Ajay Desai: One question from my side, why is the other income so high this quarter?

Sunil Duggal: See, basically we have some income on mutual funds when we liquidated at the end of the year, which resulted in some extra income coming in from the mutual funds during the quarter.

Ajay Desai: Can you throw some light on your volume growth for toothpaste category?

Sunil Duggal: As I said the price increase happened only in 1 brand Babool and that is also in the region of around 5% if I am not mistaken, 4% to 5%. So, if you take Babool has been half the category, the total price increase would be around 2%-2.5% pretty much reflective of the portfolio as a whole.

Ajay Desai: So; 25% volume growth for the quarter.

Sunil Duggal: That's right, 23% to 25% volume growth.

Ajay Desai: Thanks.

Mr. Sameer Deshmukh from IL&FS Investmart.

Sameer Deshmukh: Good afternoon sir.

Sunil Duggal: Good afternoon.

Sameer Deshmukh: Sir, how is Dabur Twist performed in FY08?

Sunil Duggal: We will be re-launching Twist in a very different avtaar with new technology, new packaging, and new everything. We will be testing the waters around September and we will be doing a full launch in beginning summer of next year, you know in February or there abouts , so that is the plan. Basically, we are fine-tuning a strategy for lower priced food beverages. as this is a very important area of interest to us because the market is really exploding at the lower end of the food beverages. We need to play here and we are just fine-tuning on our strategies.

Sameer Deshmukh: And sir in beverages segment if we consider fruit drinks as well as in fruit juice, is the fruit drink market growing at a much more faster rate now with Minute Made and Twister also in the market?

Sunil Duggal: And the reason for that is not so much down trading or may be little bit of that might be happening, but it’s significantly because of shifts from carbonated to still fruit based beverages, that is the key driver of this growth and if you look at the carbonated drinks number you would find that change is happening and that’s why, the cola majors are investing so heavily in to the food beverage segment because that is how they can protect overall shares.

Sameer Deshmukh: And sir our margins in foods have improved quite impressively by around 270 bps which is 16%, is it basically a product mix issue or because of some pricing action in the foods portfolio?

Sunil Duggal: That is better management of cost in terms of basically material cost and you now some advantage we were sable to achieve due to integration in terms of sales and distribution, which of course has been there only for the part of the year, so the integration of two businesses cut a lot of costs in the foods sales and distribution system.

Sameer Deshmukh: Right and sir advertising and sales distribution expense as a percentage of sales, is it same for the food’s portfolio as compared to rest of the portfolio?

Sunil Duggal: Foods in my view has under invested in terms of brand building. Typically the ratios have been 10% to 11%. What we are planning to do this year is to take it up to 14% to 15% and those significantly higher amounts will be spent in educating the consumer that you will see in the first set of campaigns that will hit TV screens now in few days. This would be very educative in terms of by telling the people, why our beverages are better than what the competition offers in terms of juice content and we believe that this educates you, it would be very pivotal in making this brand have recall into the minds of the consumer that it is much superior that the competition..

Sameer Deshmukh: Okay and sir my last question. Actually, if you look at the numbers for the base year that is for FY07 and Q4 FY07, the numbers are slightly different from what they are in the annual report, because for FY07 I believe in annual report, there is a difference in the sales?

Gagan Ahluwalia: Yes, that's because of the VAT, as we have shifted the reporting structure in the last quarter (Q3FY08). We have changed the method of reporting sales and we are now netting off VAT/Sales tax from the sales while the numbers reported in the annual report are inclusive of the VAT/Sales tax.

Sunil Duggal: That is how we used to report numbers in last year and we have now aligned ourselves to industry practices and taking VAT out of our revenues, so what you see is currently what the revenues are and wherever it is possible we have realigned the earlier numbers to facilitate comparison, but in annual report you don't probably find that.

Gagan Ahluwalia: Yeah in addition to that we have also posted the reworked numbers and the original numbers on the website, so if you want to check out the change in the format you can refer to the website.

Sameer Deshmukh: Okay, fine I will do that, okay thanks a lot sir and all the best.

Gagan Ahluwalia: Thank you.

Sunil Duggal: Thank you very much.

Mr. Akhil Kejriwal from Enam Securities

Akhil Kejriwal Hi Sunil, how are you?

Sunil Duggal: Hi Akhil.

Akhil Kejriwal: I just wanted to check, what would be your margin profile next year, I mean in the current year and next year considering the consolidation of the retail business, I mean would you be able to maintain your operating margin at about 17% or would it come down because of the consolidation?

Sunil Duggal: Well we believe we can by and large maintain it at the current level, because the bleed in the retail is going to be 17 Crores, which is less than 5% of our profits so, I don't think it would shrink margins really. But definitely, margin expansion in the next couple of year, it's going to be hard to get. But, we would try to counter that by having a robust top line, so that you know you still have the expansion at the PAT level, which is more or less convergent to the top line.

Akhil Kejriwal And the 15% odd growth that you said, that you might be able to do this year, would that be excluding retail or including retail?

Sunil Duggal: Sale from the retail venture would be just 40 Crores, so it would not be add significantly to growth this year.

Akhil Kejriwal About percentage.

Sunil Duggal: Around a percentage yeah, so I am not taking the retail numbers at all.

Akhil Kejriwal Are the gross margin in retail products, I mean the stuff the things you retail at the stores higher than DIL margins or at the same level or lower?

Sunil Duggal: No they are lower, retail will always have a lower margin profile as compared to manufacturing, but we are attempting now to improve the whole margin profile of our retail venture, we can only do that if you concentrate a lot on own label and general merchandize. If you retail regular branded products the best you can hope to get is in mid 20s or a little bit more.

Akhil Kejriwal Why I am asking that because then the earnings that we will have declining gross margin trend and probably because of operating leverage and some price hikes, somewhere you would have to maintain your margins, is that what is you mean?

Sunil Duggal: I think from the investor's point of view, you should really see the business segment wise and then retail is so much different from the rest of the businesses, one should silo the retail business and see it a little bit distinct from the rest; otherwise it won't be reflective upon how our own manufacturing business is doing.

Akhil Kejriwal Right, I agree on that, alright Sunil thanks a lot.

Sunil Duggal: Thanks.

Mr. Anand Mour from Prabhudas Lilladher,

Anand Mour: Hi Sunil.

Sunil Duggal: Hi Anand.

Anand Mour: Yeah, you mentioned that in '09 you are looking at about 16 new H&B stores.

Sunil Duggal: Yeah 10 to 16, 6 which are already opened.

Anand Mour: Yeah, can you tell what are you looking for 2010?

Sunil Duggal: At this point in time the diagnostic from the current set of 20 odd stores would really determine, how many new stores we will open, the pace of rollout. We have budgeted a fairly conservative 45 stores in '09-'10, but this number could go up, there is chance of the number going down also, but it's more likely that the number would go up and so once we are confident that we have a business preposition, which is A scalable and B, can give us the returns which we want.

Anand Mour: 45 new stores?

Sunil Duggal: That's right 45 new stores.

Anand Mour: Okay and I mean first whatever two weeks of operations for the stores, what kind of experience that we have in terms of consumer acceptance and consumer liking?

Sunil Duggal: Tt is very early days, so I would hate to even do this from first few weeks. But a mall environment is a little bit more conducive to footfalls than a high street environment, because we are very unique in a mall as we are the only store of its type, whereas in the high street there could be other stores, which offer similar merchandise but in a different environment. But I would be really extra careful to say that you should only open in a mall environment, but that is very quick initial learnings.

Anand Mour: Thanks Sunil.

Sunil Duggal: You're welcome.

Moderator: Thank you Mr. Mour. There are no further questions at this time, I would now like to turn the conference over to the management from Dabur for any remarks or comments that they would like to add.

Gagan Ahluwalia Thank you for joining this conference in spite of it being a holiday in Mumbai. We will be posting the transcript and archived copy of the webcast on our website for your reference. For any queries kindly let us know. Good-bye and have a nice evening.