

PRICE VOLATILITY

To hedge risk, Dabur, Emami tap overseas commodity exchanges

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In an effort to hedge risks involving the volatility in commodity prices, at least two home-grown consumer product companies have recently begun trading on international commodity exchanges, while some others are contemplating the move.

Dabur India Ltd, which started trading on the National Commodity and Derivatives Exchange Ltd (NCDEX), two years ago, has now begun trading on five international commodity exchanges. These include the Chicago Board of Trade (CBOT), the Chicago Mercantile Exchange (CME), the London International Financial Futures Exchange (LIFFE), the Kuala Lumpur Commodity Exchange (KLCE), and London Metal Exchange (LME).

Dabur that makes products such as hair oil, shampoos, toothpastes and health supplements among others, began trading on these exchanges around three months ago.

"Given the high rate of volatility in the domestic and international market, it (the trading on international exchanges) is a key initiative in terms of sourcing primarily for our international operations," said Jude Magima, executive vice-president, supply management at Dabur India.

At present, Dabur is trading around 12 products on these exchanges. "Last year, when we were trading on the domestic ex-

Dabur now trades on five such exchanges; Emami is hedging in Kuala Lumpur

change, we managed to save 25% of the total sourcing costs on commodities such as spices, sugar and jowar," said Magima. The company said these savings helped it in reining in the costs, and when other firms increased the prices of their products by up to 20%, because of the steep increase in commodity prices, Dabur raised prices by only 5%.

The cost of raw materials, such as crude, palm oil, wheat, and packaging costs rose up to 50% last year because of an extreme volatility in the markets globally. These raw materials account for substantial costs for most consumer product companies.

According to a person close to the development, who did not want to be identified, Dabur saved about Rs2 crore by sourcing 10% of its raw material through the international exchanges in the last three months of fiscal 2009. From the current fiscal onwards, Dabur plans to source 50% of its raw material through trading on international exchanges, he said.

Dabur's overseas operations accounted for more than 18% of its consolidated revenues at Rs2,073.78 crore during the nine-months ended 31 December. Their share in the consolidated revenues was 16% in the same period the previous year.

The international business, which grew 43% during the first nine months of 2008-09, has been one of the key growth drivers for the company. Last year, Dabur entered Algeria, Lebanon, Turkey, Mauritania and China. It has already been present in West Asia and North Africa.

Like Dabur, **Emami Ltd**, which makes a range of personal care products, also began hedging on KLCE six months ago. "Hedging helps us cover our risks," said Aditya Agarwal, director, Emami. "We will soon begin trading on CBOT for Soya."

Hedging, however, seems to be a new trend in the consumer products sector as many companies such as **Hindustan Unilever Ltd**, **Godrej Consumer Products Ltd**, **Marico Ltd** and **Britannia Industries Ltd**, do not trade on the exchanges.

ITC Ltd is another company that used to hedge wheat prices on Indian commodities exchanges, until such time government suspended futures in wheat a couple of years ago.

"We will review the situation if and when there is a policy change," said S. Sivakumar, divisional chief executive, agri business division at ITC.

Analysts, however, warn that the companies have to make the right decisions to be able to benefit from the trading on the exchanges. "In hedging the call has to be right. For instance in case of Dabur, it worked in the company's benefit," said Sameer Deshmukh, analyst, institutional equities, at **Tata Securities Ltd**. "If they are able to replicate the success in international market, it may help them grow fast on back of volumes instead of price hikes."