“June Quarter 2022 Earnings Call of Hindustan Unilever Limited”

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Speakers:

Mr. Sanjiv Mehta, Chief Executive Officer and Managing Director

Mr. Ritesh Tiwari, CFO and Executive Director, Finance and IT

Mr. A Ravishankar, Group Finance Controller and Head of Investor Relations

Moderator: Ladies and gentlemen good day and welcome to Hindustan Unilever Limited Conference Call for the Results for June Quarter 2022. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. A. Ravishankar – Group Controller and Head of Investor Relations. Thank you and over to you sir.

A. Ravishankar: Thank you Steven. Good evening, everyone and welcome to the Conference Call of Hindustan Unilever Limited. We will be covering this evening the Results for June Quarter ended 30th June 2022.

On the call with me from HUL is Mr. Sanjiv Mehta – CEO and Managing Director and Mr. Ritesh Tiwari – Chief Financial Officer, HUL.

We will start the presentation with Sanjiv sharing an overview of our performance in this quarter and the operating environment. Ritesh will then cover our financial results in more detail and share our future outlook as well.

Before we get started with the presentation, I would like to draw your attention to the safe harbor statement included in the presentation for good order sake. With that over to you Sanjiv.

Sanjiv Mehta: Thank you Ravi. Good evening, everyone. Thank you for joining us on the call and it is always a pleasure to interact with all of you.

Let me begin with a quick summary of our performance for the quarter and then cover the external environment and our strategy. Then we will have our CFO – Ritesh take you through the results and the outlook.

In this quarter we grew our top line at a strong 19% with a decent underlying volume growth of 6%. In an environment that was extremely challenging, we focused on growing our consumer franchise and protecting our business model. Our growth has been ahead of the market and we continue to gain value and volume shares in more than 75% of our business. Our EBITDA margin at 23.2% remained healthy in the context of the unprecedented inflation that the country as well as the industry is witnessing. Overall, this has been a good start to the fiscal year and we are on a strong momentum with 11% EPS growth, clearly reflecting the strength of our brands, the capabilities that we have, the strategic clarity and our agility to run the business.

Now let me spend some time on the external environment - the inflationary situation and the market growth. Inflation has been a big challenge for the industry for the last few quarters. There've been periods of high inflation in the past as well but what makes this different and challenging is the fact that prices of several commodities have inflated to the decadal highs at the same time. While the chart that you see is not an exhaustive one, but it gives you a good idea about the kind of inflation that the industry is witnessing. Against the 10-year median price you will notice that Brent crude, caustic soda, polyethylene, and barley have all inflated by more than 50% and the prices are at an historic high. Palm oil which has seen more than 100% inflation has softened in the recent days from its peak. Tea saw extremely high inflation in 2021 and since then has cooled off from the peak but it is still at relatively high level.

The other source of inflation has been the currency depreciation. With dollar strengthening and the USD-INR rates that was relatively stable around 74-75 is now hovering around 80. So very clearly there are two things. One is that several commodities are at the decadal highs. Secondly despite the recent cooling of a few commodities, most of them remain significantly elevated versus the long-term averages.

Let me now talk about the FMCG market growth in reference to the categories we operate in and as all of you know it's pretty broad-based categories that we operate in. In June quarter markets have grown in mid-single digit driven by price growth. Volumes continued to decline. Rural growth continues to lag growth in urban markets. We should also keep in mind that optically on a year-on-year basis June quarter looks better than March quarter, but that is on a low base of 2021 where the country was going through second wave of COVID. However, when we look at the market growth on a 3-year basis to compare against the normalized baseline we can see that the volumes are nearly flat, both in March quarter and June quarter. There is a slight uplift in value growth, which is due to incremental pricing. Rural growths also remain in the same trajectory. In such inflationary scenarios, it is but natural for consumers to feel the pinch of increased pressure on their wallets and they adjust volumes and prioritize essentials over discretionary to manage the household budgets. In these difficult times, as we have articulated in the past we have two clear imperatives. First, we need to navigate the short-term challenges with agility and grow our consumer franchise while protecting our business model. Secondly, we need to continue single-mindedly on our journey to create a purpose led future fit HUL and deliver on our 4G growth agenda.

We are making great progress on the five strategic choices that I had covered in detail during our March Quarter Results. Just to recap for your benefit:

- First is developing a portfolio by growing the core ahead of the market, accelerating market development or creating the future market and driving premiumization, where we are with all the thrust over the years are over indexed to the market. We are investing behind our brands and in market development of under-penetrated categories. We continue to upgrade the consumers to higher order benefits, thereby growing our premium portfolio at twice the growth rate of the rest of the business.
- Second, win with our brands as a force for good, powered by purpose and innovation, our focus is on providing value to the consumers through superior products and impactful innovations.
- Third, leading the channels of the future, we continue to expand our presence in e-commerce and drive digital adoption through our e-B2B app Shikhar which has now been adopted by over 9.5 lakh or 9,50,000 retail outlets. Put together our total digitized demand capture is now more than 20%.
- Fourth, build differentiated structures and capabilities through our Reimagine HUL program, to digitally transform HUL from linear value chain to an interconnected web of ecosystems powered by data and technology. Leveraging our WIMI strategy to de-average India and find growth opportunity.

- The last one, is to build a purpose led future fit organization and growth culture by empowering our people, giving them the environment to thrive and outperform.

Talking about purpose:

We have taken a big step in this quarter and announced our full suite of ESG commitments across the three focus pillars of planet, people and the society. Unilever globally has always stood out as being the pioneers in sustainability with the vision of making sustainable living commonplace. Way back in 2010, many of you would recall that ahead of the industry, Unilever had codified what was famously called the Unilever sustainable living plan which detailed out our sustainability strategy. In early 2021, Unilever fully integrated the business and sustainability and announced a single integrated compass strategy with very clear time bound actions. Now we took inspiration from Unilever's compass to create our time bound and focused ESG commitments. What you see here is of course a very busy chart, since we have been really busy charting our ESG commitments.

Let me now talk about a few of these:

Under our first pillar which is improve the health of the planet. We have taken a target to achieve zero emissions in operations by 2030, which will be ahead of India’s COP26 commitment. Further we aim to have net zero emissions from all our products from sourcing to point of sale by 2039. We are also committed to transitioning from fossil fuel-based carbon in our cleaning and laundry products by 2030. By 2023 we want to create a deforestation free supply chain, in palm oil, paper, board, tea etc. Contribute to creating cumulative water potential of 3 trillion liters in India by 2025. By 2025, 100% of our plastic packaging will be reusable, recyclable, or compostable.

Our second pillar is to improve people's health, confidence, and well-being. Here we are committed to doubling the number of products sold that deliver positive nutrition by 2025. We will also take action through our brands to improve the health and wellbeing and advance equity and inclusion.

Our third pillar is to create a fairer more socially inclusive world. Here we are talking about creating an equitable and inclusive culture, ensuring that everyone who directly provide goods and services to us will earn at least a living wage or income by 2030. We will pioneer new models to provide flexible employment opportunities.

These are audacious targets, but we are confident about achieving them and being the leader in sustainable business. With this let me now hand over to our CFO – Mr. Ritesh Tiwari to talk about the performance of this quarter and our outlook in detail.

Ritesh Tiwari: Thank you Sanjiv and good evening, everyone. I will now walk you through our June quarter performance and our outlook. We had a strong start to the year with the robust 19% top-line growth and an underlying volume growth of 6%. Growth has been ahead of the market and we continue to gain value and volume shares in more than 75% of our business.

Moving to our bottom-line performance:

Profit after tax before exceptional items grew 17%. Net profit at Rs. 2,289 crores grew 11%. There was a one-off prior period tax credit in June quarter 2021 and that largely explains the difference in growth of PAT and PAT (bei). Our EBITDA margin was at a healthy 23.2% despite the unprecedented inflation.

Let me spend a couple of minutes to bring to life how we are navigating this challenging environment through dynamic financial management:

As we had anticipated and called out earlier in March quarter results, inflation has further worsened in this quarter and prices of many commodities are at their decadal highs. This has led to a 330 bps, year-on-year increase in our cost of goods sold. Despite this we have been able to hold EBITDA margins at a healthy 23.2%, a 110-bps year-on-year decline. This was possible due to our clear focus on fundamentals that we have been consistently speaking about.

- First ensuring that we adequately support our brands and maintain our share of voice ahead of our market shares. As you can see, our A&P expenditure has increased 70 bps year-on-year as we continue to invest at competitive levels and lapped a relatively weak base. This is in 30% absolute rupees crores increase year-on-year.
- Second, investing in our products and giving better value to the consumers. Our product superiority continues to be 2X of pre-COVID levels.
- Third, we continue to take calibrated pricing actions. Our UPG for the quarter was 12% a step up from 10% in March quarter of 2022.
- The most important thing is to drive savings harder and optimize all non-consumer facing costs. Through this frugal mindset and growth leverage, we have delivered a 270-bps reduction within other expenses and employee cost.

Moving on to performance across our three segments:

Home Care delivered yet another quarter of robust performance growing at 30% Beauty and Personal Care (BPC) grew ahead of market at 17%. Foods and Refreshments had a steady quarter growing at 9%, led by a stellar performance in Ice-cream. Our margins in Home Care were flat on a year-on-year basis as the increase in costs were offset by strong savings, operating leverage from high growth and price increases. BPC margins declined by 180 bps year-on-year largely due to very high inflation which was partially offset by savings, growth leverage and price increases. Foods and Refreshment margins declined by around 200 bps largely on account of step up in A&P investments and an adverse mix coming from higher growth in ice-cream business relative to other categories like health food drinks and tea.

We will click down to talk more about performance within each of the division in subsequent slides:

Despite high inflation, we have continued to build our brands through consumer relevant innovations and activations. In this quarter TRESemme has launched its Pro-Pure range which includes, shampoo, conditioner, serum and mask across two variants, damage recovery and moisture boost. It is a premium offering in clean beauty space. Our premium naturals brand, Love Beauty and Planet has expanded its portfolio with three new products for hair fall reduction and deeply nourished hair. Taking its strong ayurvedic credentials to newer format Indulekha has launched hair serum and mask. Baby Dove has introduced Derma Protect moisturizing baby wash for ultra-gentle care. Lakme expanded its skincare portfolio with facial foams that has built-in silicone facial brush that gently exfoliates. In April Vaseline launched a new range of body serums especially designed for Indian summers. The launch was followed with focused activation across TV, digital and influencer marketing. Our fabric conditioner brand Comfort has launched a new variant Comfort Delicates which protects delicate fabric and gives unbeatable softness.

Talking about our new marketing campaigns through its purposeful and iconic #'Meri Beti Strong' campaign Clinic Plus is celebrating mothers for being the first role model in their daughter's lives. Glow & Lovely's new campaign is bringing forth the product benefit relevant for its consumers. Underlying its belief that game is about stamina, not gender, Boost's sponsored the Women's T20 challenge and deployed various on-ground activations including the stamina meter. BRU's WiMI film is talking about its great aroma that is hallmark of a perfect cup of coffee.

Moving on to our performance in home care; our business grew at 30% enabled by robust performance in both fabric wash and household care. Both categories grew in strong double digit with all parts of the portfolio performing well. Supported by our strong market development actions, liquid detergents and fabric conditioners continued to outperform and lead growth for the business. Our dishwash brand, Vim was recognized by Kantar for fastest growing consumer reach across FMCG brands globally in the last decade. With more input cost inflation, we have continued with our calibrated pricing actions in both fabric wash and household care.

Talking about Beauty and Personal care we grew 17% led by strong performance in premium portfolio across categories. Soaps delivered, price led double digit growth, beauty and premium soaps continue to outperform, demand for hand hygiene products moderated on a relatively high base. Haircare grew in high double digits. Our premium brands TRESemme and

Dove are performing very well and are at the forefront of driving consumer upgradation to higher order benefits. Further we are seeing good performance from our innovations such as and TRESemme serums and masks, Dove masks, Sunsilk Onion and Clinic Plus egg protein variants. In skincare, Ponds and Lakme delivered robust growth and are now significantly ahead of pre-COVID levels. Glow & Lovely and Talc were impacted due to slow down in discretionary consumption. Color cosmetics had a very strong growth and a soft base and is marginally below pre-COVID levels. In Oral Care, Close Up continues to grow consumer franchise.

Let me now turn to Foods and Refreshment:

F&R grew 9% led by strong performance in Ice- cream and Foods. Tea continued to cement its market leadership and deliver steady performance on a high base. Coffee sustained its growth momentum and grew in double digits. In health food drinks we continue to focus on market development actions to build category relevance. These actions have helped us continue gaining market share and penetration. As we had mentioned earlier the category growth have been impacted significantly due to inflation and this has led to a subdued quarter for HFD. Foods delivered double digit growth led by strong performance in jams and food solutions business. Ice-cream delivered another stellar performance with very strong growth across brands and formats. Our innovations like Trixy Cheesecake and Feast Black Forest have found good traction with consumers and done extremely well in this quarter. Our home delivery solution ICNow continues to gain relevance and is a significant source of growth for us in this category.

Let me summarize:

Our performance has been strong, both on top line and bottom line. While I have covered most lines, let me pick up couple of more things to elaborate. Increase in other income is largely due to higher income from services rendered to Unilever Group, higher commission on OTC sales of GSK CH products and government grants. Finance income is higher in the quarter due to improvement in treasury yields and a one-off interest received on income tax refund of about 40 crores. Our ETR for the quarter was 25.8%. As I mentioned earlier, we had a one-off tax prior period adjustment in June quarter 2021. ETR for this fiscal is expected to be around 26%.

Now moving on to our outlook:

Inflation continues to be a significant challenge. As you can see, market prices of most of the commodities have further increased sequentially in June quarter 2022 and are at very high levels. In March quarter results we have spoken to you about the measure that we use in our business to look at inflation, that is net materials inflation or NMI. As a reminder this is net absolute inflation that the business faces after factoring in all savings and efficiencies. As a percentage of our total material costs, NMI in June Quarter 2022 was circa 20%. We need to be mindful that this is on top of 9% inflation that we had in JQ'21. Given that the correction in some commodities like palm happened in last couple of weeks of June, we will have higher cost pipeline inventory that was contracted earlier. With consumption of this inventory in September Quarter and many commodities like crude oil, caustic soda, and plastic remaining elevated year-on-year, September quarter NMI will be higher than June quarter.

Needless to say, we will continue to extensively drive productivity improvement in our business and take calibrated pricing action. However, cost of goods sold will be higher in September quarter as price versus cost gap widens. If the softening that we are lately seeing in commodities remain, we expect December Quarter NMI to be lower than September Quarter. We would need to wait and watch how the commodities play out in the next few months to get a sense of exact quantum of reduction.

Looking ahead in the near-term growth will be priced led, as inflation continues to impact consumption. As I mentioned most commodities have further inflated in June quarter and continue to remain at very high levels. This along with consumption of higher cost pipeline inventory will result in our September Quarter margins to remain under pressure. The recent softening of commodities augur well for us and if this stays it will positively impact our sequential margins from December quarter 2022 onwards. Our two clear imperatives remain, first our priority is to grow our consumer franchise and protect our business model. We will do this by investing competitively behind our brands, driving savings harder and taking calibrated pricing actions as needed. Second continue, on our journey to create a purpose led future fit HUL and deliver 4G growth, growth that is consistent, competitive, profitable, and responsible.

Before we move to Q&A session let me summarize what we covered till now:

We had a strong start to the year with 19% top line growth and 11% EPS growth. Our growth was ahead of the market and more than 75% of our business is winning shares. Despite the unprecedented level of inflation our EBITDA margin remain healthy at 23.2% as we continue to drive savings harder and take calibrated pricing actions. In the near-term growth will be price led. Our margins in September quarter will remain under pressure. If the recent softening of commodities were to remain, it will positively impact our sequential margins from December quarter onwards.

With this let me handover to Ravi to commence our Q&A session.

A. Ravishankar: Thank you Sanjiv and thank you Ritesh. With this we will now move on to our Q&A section. We request you to kindly restrict the number of questions to a maximum of two at a time. In case you have further questions please do join the queue again. In addition to the audio, as always participants have an option to post the questions through the web option on your screen. We will take these questions at the end. With that I would like to hand the call back to Steven to manage the Q&A session for us. Steven over to you.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy: Thanks and congrats to the team on great numbers. My first question is on the disruptive innovations happening in the liquids. For example, you came out with a Rs. 10 handwash powder to liquid, competition has come out with Rs. 15 and now competition has come out with Rs. 45 disruptive pricing products. My question is what do these kinds of disruptive innovation do to the category minimization and margins because ideally you would like to grow that with the premium product rather than a premium product at a value pricing. Could you elaborate on medium, long-term, is this more of a niche segment or this will become the main part of the liquids?

Ritesh Tiwari: Talking about innovation, Abneesh remember we called out in our full year results 2021-22 that we had 900 crores delta turnover that we added because of driving innovation across the length and breadth of the portfolio. Innovation continues to remain an extremely important element for us to drive competitive growth, be it in skin cleansing or for that matter any other category in the business. Second element for us equally important of innovation is also to drive market development and market development being driven through price point packs, through different formats and albeit different innovations with which we will be able to bring market development. Now every category which today has very low amount of penetration, many players will end up making innovations to drive penetration and ensure that the category growth keeps coming up. To me examples that you quoted are examples like that. Across multiple categories we keep doing that be it innovation you heard many examples, I was quoting today on premium products and clean beauty. So whenever we do see demand space is attractive, wherever we do see market development need to continue to build penetration we will continue to deploy innovation with impact across the portfolio.

Abneesh Roy: But one follow-up there, margins in these disruptive innovations will be similar to your solid soaps, solid bodywash, so margins won't improve because of this?

Ritesh Tiwari: What happens Abneesh for many innovations, for example when we do innovations in premium category, they will be margin accretive. But there will be also premium products with which we will end up investing more in the initial stage of market development or launch for that matter. So, margin profiles could be very different. It all depends upon the objective that we have defined that we want to do. Ultimately for any innovation or market development the first single biggest objective is to grow and ensure that we are able to get consumer franchise for their product or for that format and price point. So that's the single biggest objective. Some innovations end up being margin accretive because it is lot of innovation in premium portfolio across brands and yes sometimes as I mentioned we will end up investing more in certain products. So, margin profile in short term might be different but the whole objective there is to ensure that we will be able to gain penetration and grow over consumer franchise in that product segment.

Abneesh Roy: My second and last question is on the divergence in the performance of two categories. Premium skincare is now significantly ahead of pre-COVID while color cosmetics is marginally below pre-COVID. Ideally as a layman I would have thought these to grow almost similar given they would depend upon mobility, colleges restarting and offices also, reasonably back to normal. Is there a difference in the consumer behavior, so D2C is picking up more in cosmetics or in cosmetics there is the mass end which is underperforming? The premium cosmetics are doing well.

Sanjiv Mehta: Our mass end also of color cosmetics has picked up. When you are comparing, you're right in saying that color cosmetics has the mass range, popular range, and premium range. Whereas premium skincare as the name alludes is primarily premium and it is very clear Abneesh that premium has remained very resilient. If you look at the Nielsen numbers, the premium is growing both in value and volume. This is very clearly and it is not counter intuitive because premium caters to consumers who have more disposable income. This is a smaller part of their wallet spending as compared to rest of the population. But we are very optimistic about our color cosmetic business and it has bounced back very strongly.

Abneesh Roy: Sanjiv sir one last quick question. I know I have completed my two questions. But you speak of very good growth in almost every category which is a commendable achievement. When do we see good growth being mentioned in health food drinks where you are still mentioning the market share penetration gains etc.? When do we see double digit growth being mentioned?

Sanjiv Mehta: I know that's a right valid question Abneesh. What we have been doing is we continue to focus on the fundamentals of the business. Had COVID and inflation not happened, with all the work that we have done we would have bounced back strongly. The market share gains have been superb. If I look at the history of this category, in this short period it would be the highest market share gains we have seen for many years. Same goes with penetration. But when you look at the price of milk going and different factors have affected the category at different point of time. There was a time when the children remaining at home, the mother had many other alternatives. Now when you look at this category, price of milk going up significantly, cost of Horlicks with milk which used to be about Rs. 12 earlier is now Rs. 18. All these factors have contributed but we will remain committed because we believe that this nutrition category is so essential for the people of India to give them the right kind of nutrients and a year here a year there doesn't faze us because our focus will be on doing the right things and a time will come when we will unlock the top line growth also for this business. We must also Abneesh accept that this is a very profitable business. While there is a stress on top line growth the fundamentals are strong and we are still very bullish about its future.

Moderator: The next question is from the line of Vivek Maheshwari from Jefferies.

Vivek Maheshwari: Two questions, so first is on the rural demand. Some of your competitors are of the view that rural is picking up, others have a view that it has bottomed out, yet to show a pickup. Given that you are the market leader what is your view on rural from a demand standpoint?

Sanjiv Mehta: Thanks Vivek and good to get this question from you. When I look at market and that would be the best way to answer your question, the rural demand is from a value growth perspective if I were to look at, the total FMCG is at 7%, urban is slightly above 9% and rural is about 4%. But when I look at the volume growth for the last three months urban is about -3% and rural is -7% and this is the closest you can do to assess the rural demand. So rural demand still remains soft but when you were to put, you would have seen from Ritesh' chart. If you put the 3-year picture together then the distortion go away and while the value growth in urban is higher, the volume growth is nearly flattened both urban and rural. Virtually very little change. That would indicate that from a longer-term period if you remove the distortions, there is not much difference at all. In fact, quarter-on-quarter for 3-year basis rural may be, value maybe slight higher than urban. So, it is not, if we remove the year-on-year growth perspective and look on a longer-term basis, not significantly away. Where we see some of the green shoots of course is one is the government has done a very sensible thing in terms of enhancing the commitment on fertilizer subsidy by nearly Rs. 1.5 trillion, giving more free food to the rural population, primarily rural population and monsoon saving it except the heartland where also the forecast indicates that the rain will catch up, in rest of the country the rain has been decent. If the realization for crops is more than the input price inflation then there will also be an increase in income for the farmers and that should augur well for them. So, these are factors which could result in the coming quarters rural bouncing back from where it is today.

Vivek Maheshwari: Second on the Horlicks, Boost portfolio. Already a question has been asked so I will not repeat that. But Horlicks has been a very powerful brand to an extent under leveraged. So, when do you plan to make it an umbrella brand and launch more, get into more categories? Now that the 2-year period is over there has been all the disruption hopefully behind us, once inflation deck stabilizes do you think that would be the time to start expanding into newer categories?

Sanjiv Mehta: One of the things we have done of course is streamline the portfolio. The second thing what we have done is we have gone into the plus range much more strongly and which is a high science range and we have a very attractive innovation funnel. But we are also focused on driving our top line of the core portfolio stronger and lot of work on market development is happening. A lot of work is happening on market development. We are reaching millions of consumers and I am very confident like you are rightly saying Vivek that when commodity prices soften a bit we will see a huge bounce-back on the top line of HFD portfolio. And then we will start unleashing the innovation that we have all got ready in the pipeline.

Vivek Maheshwari: When you say Sanjiv, just to clarify innovation you also mean innovation beyond the core HFD, right?

Sanjiv Mehta: We have several plans, also looking adjacencies. That's what you're alluding to because at the end of the day is this whole area of pure nutrition, vitamin, mineral supplement is a focused area for us globally and certainly very relevant for India considering the nutrition deficiency in the country.

Moderator: The next question is from the line of Latika Chopra from JP Morgan.

Latika Chopra: My first question was Home Care, the revenue strength is better, is very strong. Just wanted to understand this a little better. If you could throw more light on how the category trends have been, are you seeing an acceleration in the category growth here? Is it benefiting from full market reopening or is it that your market share gains have stepped up meaningfully or other players are probably investing less than the category in view of input cost inflation?

Ritesh Tiwari: Talking about Home Care, you've seen our performance has been very robust at a 30% growth. It's a growth which of course in short term is price led. But it's also good performance of volume as well, behind the growth that we have. It's a category which has grown very well from our top line perspective both volume and value, number one. Number two, the growth is also competitive, we are growing ahead of the market and gaining market share as we speak. There are many drivers to our Home Care growth. This is a classic example of a long-term portfolio deployment. For years we have been investing in Home Care and working on the portfolio, all the ends, at the premium end, popular end, and mass end. To start with we have a very fuller portfolio that we have in Home Care and we have driven very well premium portion of the portfolio. So, if I call out fabric conditioners for example, is a clear market development cell for us and it's a pretty big driver for growth for us in Home Care for last several quarters now. If I talk about liquid detergents, again is extremely strong contributor of growth and market development as far as Home Care is concerned. We have done the job of portfolio evolution in Home Care which has only become stronger over last several years. To me that is a real hallmark of how we are able to drive growth in Home Care. Yes, there have been ups and downs in terms of various realities which impact Home Care, the latest one being significant amount of inflation that we have seen in crude basket, inorganics like soda ash which has impacted, of course the fuel cost which has impacted the distribution costs as well. The business has been challenging in terms of its own input cost materials but again we have been very mindful with our own pricing calibration and as usual we always call out that our first protocol is to keep driving savings hard and then keep taking a calibrated price increase. In this journey of higher inflation again with Home Care we have exactly done that. Our strategy is to grow consumer franchise and protect our business model and that's exactly what we have done. You've seen for example our margins; they are at 18%. We've been able to hold year-on-year margins in Home Care with all the intervention. Yes, of course a very strong growth which happens gives also good amount of growth leverage. So, we said those would be causality of good Home Care performance and plus also strong set of brands, be it Surf, be it Rin, be it Wheel or in household care be it Vim. So strong set of brands performance across the portfolio.

Sanjiv Mehta: I will just supplement some of the things Latika which Ritesh spoke about. One very important thrust of ours over the years has been product superiority and we benchmark our products versus our eyeball competitors and ensure that our products are superior to our competitors. So that's also very important. The second thing is you would have all heard me talk about market development consistently over the years. Now market development is not something which gives you massive growth immediately. It has to reach a point of inflection where the growth comes in. The third important bit which is a very unique HUL strategy is winning in many India's. Our strategy is very distinct for different parts of the country and somewhere it is about improving our competitiveness, somewhere it is about upgrading powders, somewhere it is about converting powders to liquids but it is a very distinct strategy. This is something which is a complicated play and not very easy to replicate but we have created an ecosystem whereby we can play the WIMI game very effectively. And one of the best examples you will find is in laundry category. The other is the way we have taken leadership in the tea category and we have been cementing our leadership in tea category is through WIMI play.

Latika Chopra: My only point that I was trying to understand is does that mean that the market share gains for you would have accelerated in the recent past?

Sanjiv Mehta: It has been unprecedented market share gain.

Latika Chopra: The second quick question I have is on soaps and two aspects. Just to get a better understanding basis your vast experience in the past during periods of price deflation. So one is that how soon do market players start passing on commodity gains to consumer? How will you approach that? The second is does it impact channel inventory in any way? Is there any material impact given expectations of the channel for price reduction and assuming price hikes happened in phases so even price reductions will also happen in phases, any preliminary thoughts?

Sanjiv Mehta: First let me give you a headline picture. Our price increases have not been in tandem with the commodity price increase. At a macro level in the June quarter our commodity price inflation was 20%, our price increase has been 12%. It gets more accentuated in certain categories. So that's point number one. The second point, you're right in saying that the price increase is easier because a retailer doesn't worry about having lower price inventory when the price picks up. But whereas on the reverse side, they would be very circumspect. So, the model that we normally follow, price increase we take taking small bites and price drops we take in a larger bite. But we have also developed now a science and muscle of how to manage the trade both for price increase as well as for the price drop.

Moderator: The next question is from the line of Avi Mehta from Macquarie.

Avi Mehta: I just want to understand, hearing your comments on commodity costs showing some signs of correction and on rural. Would we look to change the focus to volume growth instead of market share and hence more aggressive marketing, market development etc. or is it still some time away?

Sanjiv Mehta: First I will tell you is, our focus on market shares is both on volume and value. It's not just on value. Our pricing has been competitive and while we lead the price increase in most categories, it is not that we are significantly ahead to lose or to not gain volume share. So that one is very clear. Its still today it is not just about inflation in our categories, it is also about inflation in the environment. When a consumer pays more for fuel price, if a consumer pays more for all other products in the basket of the consumption, then the total wallet shrinks, so it is not just our categories which impacts the consumption but also the inflation of all the household goods that they acquire or they use which impacts the consumption. Still, we are at stage where the volume growth are pretty negative and it will take time and hopefully the inflation is the beginning of tapering off. Once that happens and if the Indian economy keeps growing at the same time, then we should start to see the volumes come back.

Avi Mehta: No, I understand that market share focus on value. It was more about you driving being the leader driving.

Sanjiv Mehta: Long-term has always been, we have articulated it very clearly volume led profitable growth. You would have heard us saying many times in the past.

Avi Mehta: I understand that and lastly on the expectation on the healthcare and it's essentially across all the spaces linked a lot to inflation moderation is what I can hear the common thread across. Do you have any expectations on when you kind of see this momentum changing especially, not in terms of volume growth but more in terms of margins, EBITDA margins? Would you argue that 1Q has bottomed out on EBITDA margins or was the comment on EBITDA that it would be moderating further in the second quarter and that's and probably DQ when you have the certain uptick?

Ritesh Tiwari: As we called out, in June quarter we use a number called 20% inflation, net material inflation that we've seen in the business. Our current understanding is that in September quarter we will see sequentially more inflation. There's one headline commodity palm oil which has come off from its peak. But there are several commodities which have risen to the historical high levels and they remain at elevated level, be it Brent crude which was at $110 average for June quarter. As we speak it's $105-$106. We are seeing sequential inflation in soda ash, caustic soda, milk extracts, coffee, barley. So there are many commodities which are inflating and we should also not forget that US dollar has strengthened and hence Indian rupee has given 5% to 6% in last 3 months' time. There are many commodities which are bought on international port parity pricing principles or for that matter the materials which are sourced locally have input ingredients which are imported. PFAD is a classic example where the palm oil gets imported from Indonesia/Malaysia. and then in the refinery product we end up generating PFAD. We will see all put together in September quarter inflation higher compared to June quarter. There will also be impact of a pipeline inventory plus ultimately there are supply chain lead times in procuring many materials. You have at any point in time anywhere from 4 weeks to 13 weeks of inventory of different materials depending upon the source location, demand visibility, supply variability and concerns and logistics time which is purely involved in those materials. We will also have higher price pipeline inventory in cases where commodity prices come off for some time after the commodity comes off. So, all put together we will end up consuming that inventory in September quarter. Now if the commodity situation like palm oil, (a) it remains at a lower end as we have seen it coming off and if at all we do see that across many other commodities then we do expect that from December quarter onwards, inflation might come off to some extent and that should help sequential margins being getting built from December quarter '22 onwards. September quarter because of the higher sequential inflation of material cost, margins will remain under pressure. The point that Sanjiv was mentioning earlier, in June quarter we have seen 20% material cost inflation but again that 20% material cost inflation, our pricing has been 12%. We have also not priced at the peak of the commodity. There is a price versus cost gap and to some extent when there is a reversal of commodity trend, we are also circumspect on our pricing decisions. We will also as Sanjiv mentioned earlier, we closely follow to an extent when price drops in case happens, we will not take any small bites, we'll take in big bites, the price decreases and hence there might be transitionary impact on margin in the short term. But given the conversation I mentioned earlier if commodities, they keep coming off, beyond palm and that remains, we should see from this December quarter onwards sequential margin getting built. So that's what I would say, the margin view would be on September quarter and December quarter onwards.

Moderator: The next question is from the line of Sameer Gupta from India Infoline.

Percy Panthaki: Hi, this is Percy Panthaki here. My first question is on the pricing. You have about 12%-12.5% pricing this quarter. Going ahead basically there is in Q2, there is 400 basis points of pricing which is anniversary because last year in Q1 you had 7% and Q2 you had 3%. There is a 400-basis points anniversary which happens. At the same time, you are also during the quarter and probably as we speak taking some more price increase also versus the average of Q1. So, net-net these two forces, which one is the net sort of positive? Do you think that the price increases that you will take will more than offset the anniversary or do you think it's the other way around and therefore the YoY pricing in Q2, will it be above the levels we have seen in Q1 or will it be below the levels we are seeing in Q1?

Ritesh Tiwari: Percy, thanks for your question. Coming to pricing, as you mentioned about growth outlook for near term, this year will be price led. There will be pricing in the business and the point I was making earlier yes, you're right in the base, there is price which is another factor but we also have many commodities which are inflated and the point I was making earlier we have almost 8% price versus cost gap with 20% material cost inflation, June quarter and 12% is pricing that we have taken. There are many categories I mentioned earlier which has impacted. We are seeing continuous commodity inflation. In fact, in certain categories we see sequentially more inflation even compared to elevated level. The examples I was quoting on milk extract, on coffee, soda ash, caustic soda, and stuff like that. There will be total amount of inflation. So, I do believe that we will end up doing what is right which means categories which will see sequential commodity inflation, we will take price increases in those categories but after having driven hard as we always kept saying, in terms of driving, savings first and then after that take calibrated price increases. Now in my view it will be the case for September quarter onwards as well. There are very few select categories like tea, where we do have year-on-year deflation and those are the categories whereas we also have done the right job, in terms of taking price decreases where we had to at different price points that we operate in the category. But apart from tea, this point in time as you've seen there's a pretty comprehensive impact across many categories. The close one that you got to watch out is palm oil impact and we have seen that coming off significantly. I did articulate the September quarter outlook and if the palm oil prices remain benign and if commodity outlook remains where it is, then from December quarter onwards we will see cost decrease coming in. September quarter as I mentioned, we have a higher cost pipeline inventory for many materials which have very high inflation in June quarter including palm oil for that matter in June quarter. So, I hope that gives you some amount of understanding of where pricing would net out in September quarter.

Percy Panthaki: Yes, very helpful Ritesh. Just a related question to this. Supposing if I take a simplifying assumption that let us say commodity prices remain where they are going into the future; how long do you think it would take for you to restore your EBITDA margins to pre-COVID levels?

Ritesh Tiwari: Where we are today with our EBITDA margins…

Percy Panthaki: Sorry not pre-COVID levels, I mean the levels you had before basically this big inflation set in which was, I think somewhere around the 25% mark; you have been pretty stable at that 25% mark so that's the benchmark I have in my head?

Ritesh Tiwari: So, there are multiple elements Percy out here. (a) first of all, also we need to understand how commodities will play out. We are as we speak; I am saying sans palm oil at a very high inflated levels for multiple commodities. That will be one very important driver how commodity play out over next few quarters from December quarter onwards. That may be in my mind a very large determinant how we are able to build sequential margins from December quarter onwards and we will get to know with currency depreciating, with other commodities further inflating and ones which are at high levels like crude remaining elevated, we've got to see as to how the commodity atmosphere gets pulled off in quarters down the line and if that does happen, we will start building sequential margins from December quarter onwards, that's one. Number two when deflation like whichever commodity comes off, we do also expect competitive intensity to go up on A&P, on investments, on innovation, so margins of course have one element of commodity hence gross margin and pricing, there is also an element of competitive investment in the business that we have to do. That again is something that we need to see how it pans out and last but not least something the price value equation. As I mentioned that we do have a price to cost gap this point in time and that price to cost gap needs to start getting bridged over a period of time. We will have to see as to how various variables gets play out. Sanjiv you want to add something to it.

Sanjiv Mehta: Yes Percy, there is also one very important factor. Assume for the time being that commodities remain at an elevated level, then that equation changes permanently. Then one of the big drivers would be India's GDP growth and if India keeps growing at 7%-8% and it is an inclusive growth then our ability to restore margins would be that much more easier.

Percy Panthaki: My second question is on the detergents market share which you mentioned we have seen unprecedented growth in market share. Could you give some more flavor on this? Is it at the market share gain more accentuated towards the mass-end, mid-end, premium-end, and any more flavor as to why this is happening? Are there certain players in the market who for whatever reason have become very weak or something like that?

Sanjiv Mehta: Yes, Percy first the good bit is, we are gaining shares across our portfolio, in bars, in powders, in liquids and this gain is across the price tier. In mass, in popular range and the premium range and some of the factors if I may allude to is which I would repeat, which I was also telling Latika, one is a massive focus on product superiority. The second is we have for the last several years invested significantly in market development of liquids and upgrading consumers to higher order benefits. And the third is our WIMI play and the categories like laundry and tea lend itself to a WIMI play much more because your competitors are different in different pockets, the market shape is very different in different pockets and you can't have one recipe for the entire country and I think of the large companies, we are the company which is most adroit in playing the WIMI game.

Moderator: The next question is from the line of Amit Sachdeva from HSBC.

Amit Sachdeva: My question is on the basic makeup and skincare part of the portfolio and I allude to also that you are working with channels for the future and e-commerce being a clear focus; could you give us little bit more detail on e-commerce contribution coming from specially the beauty part and skincare part of it and do you see that new wave of business being done in the D2C side is it looking like a long-term opportunity or you see also some amount of challenge because it opens up plethora of new entrants coming into beauty space specially and also mass end of skin where you are dominant; it is migrating to masstige and premium side of things and wherein your play still evolving and if I may say that there's some gap there? How do you read the skincare and beauty situation under the new realities and if you could give us some share of what percentage of revenue from these particular products are coming from e-commerce and how it has grown over last year?

Ritesh Tiwari: Performance in, if I just break down into few components of beauty categories you spoke about. Let me start with haircare. It is an excellent performance for last several years now and several quarter where we are very full-on portfolio across the different price points and different formats and different pack sizes and (b) the premium end of haircare of Dove or TRESemmé that has grown well or for that matter premium end in Ayurvedic range like Indulekha that has grown well. We had called out that our market share gains are one of the best in last decade what we have in hair care. If we talk about beauty categories, hair has an extremely well and the kind of portfolio development we have done, the kind of market development we have done over years is really leading results and a portfolio which is strong across multiple brands, be it Clinic Plus, be it Sunsilk, be it Dove, be it TRESemmé, that really helps us to get that. Even within the area of masstige, we had spoken about that we have our range which we have launched. Be the premium product of Dove or for that matter, our range in this quarter also under Love Beauty & Planet which is our D2C brand. We have launched more innovation in Love Beauty & Planet. We have been very active across price points. Masstige is still a niche segment in the country. The kind of the power of large brands like Dove, TRESemmé, Clinic Plus to drive incremental growth is huge. But at the end of the day, we are also focused on niche opportunities which masstige provides and which is why our portfolio in beauty, across skin, across hair in premium beauty business unit, what we had called out between Simple, between Love Beauty & Planet and Baby Dove. Coming to skincare again Pond's has done extremely well performance in there and we have seen business coming in skincare pretty strong, good growths in the portfolio. There are parts within skincare we yet have to see full resurgence like GAL we had called out. There are elements of discretionary categories. At the end of the day with so much amount of kitchen inflation happening at consumers end, there's a clear amount of priority a consumer today gives to kitchen items and essential items and hence to some extent discretionary categories have taken a beating in where the market grows of these categories have come off I would say in the last three to four quarters. We should see that getting build back as situation improves as Sanjiv was articulating, be it on economiy front or be it on commodity front where there's some amount of relief in the input cost inflation and the kitchen inflation should start coming down and which is where we have seen impact in Glow & Lovely. When I talk about Talc, Talc has a pretty high rural footprint and there's one area in the country which has seen highest amount of bite of inflation is in rural areas and that was a point that we were articulating earlier, when you have high inflation happening that's a segment of the population which end up seeing more impact. But if I just take a step back, skincare is a category which is still as a category under-penetrated. There are many products within skincare where the penetration levels are very low from 10% to 20% and hence a huge headroom for growth by doing market development. And which is what has been the focus for us bringing innovations in skin and I quoted many examples as I was alluding today from serums to multiple areas, hydrating mask on face, there are many things that you launch in skincare. So, portfolio is evolving and so our brands within that portfolio which are evolving. This is a space which in our view for years to come we would keep doing penetration and market development and keep getting growth.

Sanjiv Mehta: I will just give a bit more flesh to it. Some really valid questions you have raised, if I have to peer ahead while all the categories in which we operate have gotten massive headroom to grow; one of the fastest growing markets would be beauty and wellbeing segment of BPC which is hair care, skincare, and all, for the simple reason that the per capita consumption is still very low and as the country progresses, you would see a massive explosion. The second is you are again right in stating that it is predominantly a mass, upper mass kind of market and the masstige and prestige is very-very niche and prestige most of the consumers would buy while traveling outside and masstige is still a very slow segment and it is still to evolve. There is a lot of noise but still the segment is pretty small. Now one of the things is in haircare we have grown our shares consistently over the years and now we have over 50% share of the market and growing. In skincare we have the highest relative market share of any player in any of the big markets. So, the right to win for us is massive and we are now focusing huge amount in building the portfolio of the future and lot of the work which we are doing and you will see a lot of innovations coming in and you will realize what I'm talking about in the days to come that as the leader we have to take the role of converting the market to masstige and beyond. And we will not shirk away from that responsibility and if you were to look at just Pond's range, how we have evolved over the years. It has become a very majestic brand and that is the thrust. There will be newer brands, there'll be newer formats and we will, I am absolutely clear; we will build on our leadership and not cede our leadership.

Amit Sachdeva: That's extremely helpful Sanjiv. I just wanted to ask that do you need a newer brand other than Pond's and GAL just to or the Lakme is coming in bits and pieces but?

Sanjiv Mehta: No, there would be a need for more brands and you will see the space evolving because a brand cannot be everything for everyone.

Moderator: The next question is from the line of Kunal Vora from BNP Paribas.

Kunal Vora: My question similar to last one. In your annual report you have said that almost 30% of sales for Lakme come through digital channels. That's a large number. Can you help us understand this and would this be entirely B2C to e-commerce or even B2B sales would be a part of that, Shikhar sales would be part of that 30% for Lakme?

Ritesh Tiwari: Thanks for the question, Kunal. So, Lakme has highest number of Instagram followers across any beauty brand in the country. It is a true digital brand and which is why there's no surprise that it has basically more than 30% of the turnover which comes from e-commerce pure play, Amazon-Flipkart-Nykaa equivalent. Lakme also has its own D2C site and we get 2 million unique visitors every month on that site. It is again basically a platform for us apart from pureplay e-commerce which drives sales through Lakme's own D2C website. That's what by and large comprise the 30% is digital sales for Lakme that we spoke about. As I mentioned because of the digital footprint of the brand, we were able to drive that. I hope that answers your question.

Kunal Vora: Sure, yes. On the D2C website point, like you mentioned that for premium brands you have your own like website and how about app? Are you also looking to have your own apps for that and can you help us understand your thoughts on prospects of your own D2C platform and how you're looking to do the fulfillment?

Ritesh Tiwari: So, we have done four different brands where we have over own D2C website and we keep adding where it is relevant and consumers need it, be it Lakme where we have, be it Dermalogica where we have, be it Love Beauty & Planet. or Indulekha for that matter. Wherever relevant where we want to give messaging, product knowledge and of course sales and where consumers engage in a very different way and is relevant, we will have our D2C website. To that the format is more website rather than apps; we have not seen that behavior where consumers prefer different apps for different brands to buy, it is more website. So, which is why you see more D2C websites when you see apps this point in time. But again, all that Kunal will always be driven by what consumers want. At the end of the day wherever they go is where we want to ensure that we make them our products available. They go to a pure play e-commerce website; we would want that to be available. They go to a modern-trade outlet to shop as footfalls are increasing as we speak, we will have our products fully available there or for that matter they find convenience of both content and product availability through our own D2C websites; we make them available as well. So, all depends upon where shopper wants to go to get content and get our service.

Kunal Vora: What's the kind of potential you see from this and how are you looking it like doing the fulfillment part? I mean are you looking to get into competition with e-commerce or you think this is going to be a small-scale affair?

Ritesh Tiwari: We are an FMCG player and we are good at making soaps, we are good at making shampoos, we are good at making fabulous products and as a large FMCG player, our focus always will be to make fabulous FMCG products, market them and then fulfill the needs of the consumers. There are various channels and vehicles to ensure that the products that we make more importantly what consumers want we are able to reach them. Now GT still remains in the country the most dominant channel and which is why wherever consumers go and shop be it general trade, be it modern trade, be it e-commerce, we will ensure our products are available across all the channels that consumers shop. Our strategy of channel, all depends upon where consumers find convenient to go and shop. As I mentioned that we still believe in for times to come GT will remain a dominant channel. Equally for that matter, stock keeping be it Cash ‘n’ Carry, be it wholesale within GT or be it eB2B players; wherever our retailers want to go and access our products, we will be available. We see all of them to be our customers. So yes so our priority always been to ensure that we do brilliant job in customer service to our retailers and be it GT, be it e-commerce or be it modern trade and ensure that our stock availability for our consumers wherever they shop is available. So, the distribution and customer service strategy will all depend upon the shopping behavior of the shopper. But as I mentioned our focus always is to make brilliant product available and fulfill consumer needs in the space of FMCG categories.

Moderator: The next question is from the line of Harit Kapoor from Investec.

Harit Kapoor: I have two questions. The first was on the COVID base impact. In categories like ice creams, color cosmetics possibly even in Home Care due to some extent you would have had a positive impact of the base. Also, probably a negative impact of the hygiene category. Just wanted to understand for this quarter my assumption is that your impact would be net positive. So firstly, is that understanding, correct? And secondly do we now have a normalized base from Quarter 2 across most categories and it becomes a little easier to kind of judge the growth there?

Ritesh Tiwari: So, everything else being equal, yes, you are right we had COVID wave 2 in June quarter last year and COVID wave 1, the year prior and over last 2 years, two June quarters have got impacted and hence the growth that we have in this quarter is on the base of June quarter last year where you are right the health portfolio, we have seen moderation in consumption of these products. I expect from September quarter onwards I think it's all in the base but one can never be very sure. There are different dynamics of pricing and the different dynamics of category growth and we will see in times to come but yes there are no major callouts if I see next few quarters, from a base adjustment perspective.

Harit Kapoor: So, it is this quarter it's a net positive is what you're saying.

Ritesh Tiwari: Correct.

Harit Kapoor: And the second question was on the grammage impact on UVG, we have been calling that out in the earlier quarters. Just wanted to know what is the kind of net negative impact in the UVG due to the grammage?

Ritesh Tiwari: Number would be net 2% to 3%. And as you know what has happened, Harit given this quarter, June quarter with a significant amount of inflation, the conversations that we had on price point packs and the fill levels etc. that is absolutely relevant and there's a 2%-3% impact of volume on the price point packs which is as we had quoted earlier, is 30% part of the portfolio

Harit Kapoor: Just a follow up on that is do we incrementally given that we are seeing commodities, they stabilize or come off, any incremental change in pricing? Would that still be a mix of price and grammage or what you are putting into the market now or it's more pricing than grammage or is still a mix?

Ritesh Tiwari: Harit, my only request would be, we should not make palm oil as a headline commodity to make assumption across the portfolio of commodities, it is one of the commodities and there are multiple of the commodities which are either at historical high levels in terms of inflation or they are further inflating as we speak. It is very important to ensure that palm oil is not, we don't generalize that across the commodity portfolio, number one. Number two you're absolutely right the price value equation is something which we very closely monitor to ensure that remains intact for the consumer and to an extent for example, if commodities, they do come off and like palm for that matter we will again restore the price value equation where we need to. The point which I had mentioned earlier, in the first place for many of these price point packs, we have not increased pricing because when yes to the extent we could I am saying reduced grammage we have but there's a point beyond which you cannot. If a sachet of shampoo has to give a hair wash for a lady,you want to ensure that there is sufficient amount of shampoo in the sachet. For that matter if Rs. 2 Horlicks sachet has to give a cup of Horlicks, there's no way we could reduce the quantity in that Horlicks cup beyond a point which will not give a full cup of Horlicks. So, there are those limitations and within that we have done what best we could do on price point packs. We have not fully priced all the inflation that has happened in price point pack. Hopefully when commodity comes off, the unit economics of that portfolio in many parts will get restored and but as needed where relevant we will restore back value to consumer. At any point in time, we will be competitive with our offerings at right price value equation to our consumers.

Moderator: The next question is from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: I just wanted to understand Ritesh, if you can help me, I am a bit puzzled that 6% volume growth; indeed, it is very high but if you can give some quantitative or qualitative remarks and to my understanding soaps and detergent is a big portfolio for us. So, is that the growth, volume growth which is driven more by the down trading which we have seen, people would have downgraded to may be from Rin to detergent or say Wheel? Is that understanding correct or the growth 6% what we have got is across all the three segments?

Ritesh Tiwari: The growth that we have, volume growth you are right it is across the segment. We have pretty comprehensive volume growth performance across Beauty and Personal care, Home Care and Foods and Refreshment. It is absolutely broad-based. Soap as a category, we have seen much higher impact in terms of if I talk about market to start with, soap as the category have seen much higher inflation and extremely unprecedented level of inflation and which has had an impact on overall market category volume which have declined. When Sanjiv quoted that we have 5% to 6% volume decline of market, FMCG market in June quarter and categories like soap are a good contributor to that decline; just the sheer amount of inflation which has happened. What we are seeing is there are two different behaviors, down grading, and down trading. Down trading is where a consumer who is buying the larger pack, buys smaller pack and hence that's down trading where smaller amount of volume gets consumed and gets sold in the period and consumers do tighten consumption in that time and that's down trading. We have not seen many examples of down grading where the consumer goes down the price sphere. Point in case we had quoted for financial year 2021-22 and including our current June quarter, our premium portfolio has grown at twice the pace, the rest of the portfolio. So, we have seen premium portfolio growing ahead. 'Winning in Many India's as a strategy we call out its different parts of the country and there are different consumers. There are consumers who are able to afford even in such high inflationary times the product that they love to consume and we have seen those sales remaining intact and hence with say over indexed growth that we have seen in the premium portion of the portfolio. So yes, so there are many puts and takes in the portfolio and that is a benefit of having a business like HUL has which has multiple categories, multiple brands and multiple price points and we are able to use our portfolio to get best outcome for our stakeholders.

Shirish Pardeshi: Just one last question. Referring to Sanjiv's comment on the HFD. We did see that last 2 years the HFD category has not run up as per our expectation while our investment has gone up out of proportion. So, just wanted to understand what is happening in the category, I mean if you can say last 1 year what is the price led growth and volume led growth and where do you think I mean we have invested significantly but this sampling what we have done is there some recovery we are seeing in terms of conversion and activation?

Ritesh Tiwari: So, there are 3-4 sub parts Shirish to your question. Let me just go one by one. First let me talk about market. I am not talking Horlicks; I am talking market for HFD. So HFD market, it is one of the categories which is seen as discretionary categories. I quoted earlier the amount of kitchen inflation that consumers are facing. In times as that they do prioritize essential items and hence discretionary items like Health Food Drinks category it has taken impact where the total amount of cost has gone up. Sanjiv was quoting an example, if a cup of Horlicks if I now quote example of Hindustan Unilever, a cup of Horlicks which of course is a fabulous Horlicks product with milk added to it, with milk inflation coming in, we have seen significant amount of increase of the cup of Horlicks. More because of the cost of milk which has increased in the process. So that has had an impact in the earlier phase that Sanjiv called out when the schools were all virtual and, in the household, there were more than one options of nutrition and now schools have opened up but at the end of the day inflation which is biting has also hurt the amount of consumption possibility of this category. Now as far as we are concerned, we are very bullish on this category. We know with micronutrient deficiency in India, this is a category of future. We would see consumption building up. It is a low penetrated category. Penetration of HFD is more like 20ish percentage which means there's a tremendous headroom for growth and which is why we are doing more than one thing. Be it expanding portfolio with Plus range as he spoke about or for that matter doing home-to-home sampling and doing market development or launching and activating Rs. 2 - Rs. 5 price point to give more access price packs to consumers to come into category or for that matter launching poly packs and ensuring we are able to give more good value equation to consumer. So, lots of those actions we have deployed to ensure that we are able to build on penetration and do market development of the category. We have done some very good job in terms of giving strong foundation to category in last 2 years, since we acquired the business of driving extremely good savings across the business of health and food drinks. Be it supply chain savings or synergies with Hindustan Unilever on overheads and cost management of the business. And what we have done is a good portion of that same we have deployed in terms of investment in the category. And one of the examples we had quoted out was exactly that, that we have invested in this category, a good portion of the savings that we have generated. So that is our play. It's something that we will be fully invested in and any market development and remember we are in COVID times in last 2 years and we are trying to build the category and these actions they don't yield results in short term and we have seen the way we have done for hair care, the way we have done for laundry, it takes time to build categories and improve penetration and that's exactly what our strategy is also with Health Food Drinks.

A. Ravishankar: We will now take up few questions from the web. I will start with few questions that Richard has asked, Richard from JM Financials. I think we have answered already. Ritesh, you just answered the question on Health Food Drinks. So, Richard I think that has been answered and Sanjiv spoke earlier about what our strategy will be when prices come down. So, I think both of those questions have been picked up. Richard has a specific question on F&R margins. Ritesh if you would like to comment on it?

Ritesh Tiwari: F&R margins Richard you have seen, it is down 200 bps, year-on-year and there are two elements. First, we have invested more in A&P. One of the examples I was quoting to Shirish earlier that we have invested in multiple categories within F&R, our A&P investments have been stepped up to drive growth and to drive competitiveness. That is one reason why margin is lower year-on-year. Second is also for this quarter impact of mix. We have seen a very stellar growth as you called out in ice cream and since ice cream margins are lower as compared to margin of rest of the F&R portfolio, that mix impact has also had an impact in the quarter for F&R.

A. Ravishankar: Question from Latika on tea business, more color on our performance on tea? Do we see any challenges from locals as tea commodity costs have started deflating and linked question on whether the recent weather changes, the Assam floods has any impact on tea prices?

Ritesh Tiwari: So, Latika, overall tea prices, as I speak today; year-on-year we do see a deflation and so far so good crop has been good. We are yes, there has been impact in June of floods in Assam. We have to just see as weather situation improves, how overall production pans out and we will have a good sense in next month or two. That is on the tea crop. As we called out, we have cemented our leadership in tea category. As we know we are both value and volume leaders in tea category and we have a fabulous portfolio across price points in tea, be it Taaza at the mass end or a premium Taj Mahal at the other end and is a pretty strong portfolio. With tea deflation coming in, the point that Sanjiv was making earlier; we have done what is required to be done in terms of pricing. We were very measured and we took in small steps price increases when tea inflated tremendously and but I see the market has come up, we have done equal job of also ensuring that the price value equation remains intact and remains competitive for our consumers. So, latest set of actions that we have done on Taaza is exactly landed that. There were certain players when the tea commodity was at peak, we did see that getting vacated and of course we do expect players will come back with tea deflation happening but we will do what is required to ensure that we hold on to most of the gains that we have got.. So that would be our tea strategy. I would say we are pretty pleased with the kind of performance that we have done in tea and our portfolio remains extremely strong across price points and the kind of agility that we have with our decision making; we will ensure that remains for times to come.

A. Ravishankar: One other quick question from Latika was on employee costs and whether the reduction is a sustainable one for the future?

Ritesh Tiwari: There are two drivers Latika in terms of employee cost. When you look at current quarter that you have seen there, year-on-year overall amount of cost has come down and there are two experience, two reasons for that. First in the base period June quarter '21, we had COVID related expenses which we had incurred. Those were incurred because we were at the peak of wave 2 and of course those expenses we don't need to incur today; health situation is much better in the country. That is one reason why there's a cost in the base which is not incurred currently and hence year-on-year benefit. Second is growth leverage with a 19% growth that we have, for all fixed costs everything has been equal. It also gives a good amount of growth leverage. Those two elements put together, you see not only employee cost but you also saw in the bucket of other expenses both put together, we have a 270-bps benefit in the margin and we have lost in price versus cost 330 bps in cost of goods sold. These are the two elements which have worked in our favor driven I would say largely because of growth leverage and there are other indigenous elements as I called out.

A. Ravishankar: There are a few other questions on the web but most of them have already been answered and if there is anything further, please reach out to any of us in the Investor team. We will be happy to address them. With that we have now come to the conclusion of the session. Before we end, let me remind you that the playback of the event will be available on the IR website in a short while and you can go back and refer to it. Copy of the results and the presentation is also on our website. With that, we would like to draw the call to a close. Thank you for your participation and have a great evening.

Ritesh Tiwari: Thank you so much everyone.

Moderator: Thank you. Ladies and gentlemen on behalf of Hindustan Unilever Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

Disclaimer:

This transcript has been edited to remove and / or correct any grammatical inaccuracies or inconsistencies of English language that might have occurred inadvertently while speaking.