



Hindustan Unilever Limited

**“March Quarter and Financial Year 2023
Earnings Call of
Hindustan Unilever Limited”**

April 27, 2023

Speakers:

Mr. Sanjiv Mehta, Chief Executive Officer and Managing Director

Mr. Rohit Jawa, CEO Designate and Whole Time 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 March quarter and financial year ended 31st March 2023. 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 start then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. A. Ravi Shankar, Group Controller and Head of Investor Relations. Thank you and over to you, sir.

A Ravishankar: Thank you, Tanvi. Good afternoon, everyone and welcome to the conference call of Hindustan Unilever Limited. We will be covering today the results of March quarter and Financial Year ended 31st March 2023. On the call with me is Sanjiv Mehta, CEO and Managing Director, Rohit Jawa, CEO Designate and Ritesh Tiwari, CFO. We will start the presentation with Sanjiv sharing an overview of our full year performance and the progress made on our strategic priorities. Ritesh will then cover our financial results and share the outlook. Before we get started with the presentation, I would like to draw your attention to the Safe Harbour statement included in the presentation for good order's sake. With that, over to you, Sanjiv.

Sanjiv Mehta: Thank you, Ravi. Good afternoon, everyone. Thank you for joining us on the call today, my 39th and final quarterly earnings call as the CEO of Hindustan Unilever. This also happens to be the ninth consecutive quarter of double-digit growth for HUL. As always, it is a pleasure to interact with all of you. Let me begin with our full year results and progress on our strategic priorities. Then I will hand it over to Ritesh, who can take you through our results and outlook in detail.

This has been yet another year of strong and resilient performance. We grew our top line by 16%, significantly ahead of the market and gained market shares handsomely. In this fiscal alone, we added nearly Rs. 8,000 crores to our turnover, taking it to over Rs. 58,000 crores. I am even more pleased with the 5% volume growth that we delivered in the context of FMCG market declining volumes.

EBITDA margin for the year was at 23.4%, profit after tax and earnings per share grew 13%. Despite the high levels of inflation, we managed the business dynamically. During the pandemic and at the beginning of the period of high inflation, we had articulated that our overarching objectives would be to grow our consumer franchise and protect our business model. I am pleased that we have been able to deliver on both counts. We have had impressive market share gains and our margins have remained healthy.

Our solid performance is a testament to our clear and compelling strategy backed by the strength of our biggest assets - our people and our brands. We not only navigated the short-term challenges with agility but also made great progress on our long-term strategic priorities. Let me take you through some of the highlights of this fiscal.

What a fabulous year this has been for our Home Care business. We delivered 28% revenue growth and grew volumes in near double-digits despite the high inflation. Growth was led by a premium portfolio. To put in perspective, our home care business now has a turnover of over Rs. 21,000 crores which is bigger than most FMCG businesses in India.

Our laundry brand Surf Excel reached an important milestone this year. It became the first home and personal care brand to cross \$1 billion turnover. This was achieved with a relentless focus on product superiority, driving market development and premiumization and engaging consumers through iconic long-term engagement platform 'Daag Ache Hai'.

We have strengthened our role as a market maker in Indian FMCG industry and a fitting example is a home care liquids business. Through our consistent market development efforts, we have scaled the business to over Rs. 3,000 crores in this fiscal.

Our dishwash brand Vim has been on a strong growth trajectory, expanding brand loyalty through innovation and purpose. The brand was recently recognized by Kantar for fastest consumer reach growth globally in the last decade.

Beauty and Personal Care is another powerhouse business with a turnover exceeding Rs. 21,000 crores. We delivered a competitive growth of 12%. More

importantly, we grew volumes despite the mid-single digit decline in market volumes.

We continue to contemporize our core brands to keep them aspirational. Last year, Lux was relaunched with unique regional mixes and since then the brand has been delivering stellar results. Our skin care brand Ponds has been leading the premiumization agenda with on-trend innovations and future formats. With a very strong performance, both these brands crossed Rs. 2,000 crores turnover. We now have five BPC brands, Dove, Lifebuoy, Glow and Lovely, Ponds and Lux in our Rs. 2,000 crores club.

We are transforming our portfolio and driving premiumization through innovation and entry into fast growing demand spaces. During the year, we launched three new brands in the premium beauty space. You have already heard about Acne Squad, which is a specialist acne brand and Find Your Happy Place, which is about experiential bath and body ranges. What you see on the left side of the chart is our new skin care brand Novology. It is a masstige beauty brand in the Derma Therapeutic space. The brand includes clinically proven range of solutions created with experienced dermatologists to solve persistent skin concerns, such as Pigmentation, Dry Skin and Acne.

This year, we also forayed into health and well-being category with strategic investments in OZiva and Well-being Nutrition. We are now providing support to scale the businesses further. We are moving rapidly in our transformation journey to premiumise our portfolio and meet emerging consumer needs. Our focus on market development premiumization enables us to grow our premium segment significantly ahead of the rest of the portfolio.

Moving on to Foods and Refreshment, which is nearly a Rs.15,000 crores business. Our revenue growth was 5% led by strong performance in Ice cream, Coffee and Foods. In Health Food Drinks (HFD), we steadfastly continue the focus on the fundamentals by building category relevance, educating the consumers about the benefits of HFD and driving a plus range by creating awareness for consumers through activation in home and in store, as well as by tying up with leading healthcare diagnostic chains.

In the wake of high milk inflation, we piloted 3-in-1 ready mix variant of Horlicks to make a cup of Horlicks more affordable. Millet Chocolate Horlicks

is our new addition to the Horlicks portfolio. It is made with multi millets like Ragi, Jowar, Kanngani and Bajra which are a natural source of Calcium, Iron, Protein and Fiber. As a result of our actions, we strengthened our consumer franchise gaining market shares and penetration handsomely.

In tea, we are the value and volume market leaders and have widened the gap versus our nearest competitor. Leveraging our WiMI strategy, we have been crafting unique blends for different parts of the country and driving premiumization. Our Ice cream business delivered a stellar performance in this fiscal led by a strategy to de-seasonalize Ice Cream consumption. We launched a wide range of innovations across the portfolio like Chuski, exciting flavours in Cornetto and Ice Cream tubs.

We are leveraging our digital commerce platform 'ICNow' to enable instant last mile delivery. In a span of three years, it has become about 10% of our business. Talking about foods, we divested Salt and Aata business in line with our intent to exit non-core categories and focus on driving growth in the packaged foods business. Our Jams and Ketchup range continue to do well. We relaunched our brand 'Kissan' with new packaging that highlights our deep connection with the farmers of India. Hellmann's Mayonnaise and Kissan Peanut butter are scaling up rapidly.

Now looking at this chart, it is quite obvious that we are a powerhouse of big purposeful brands. We have a total of 19 brands clocking over Rs. 1,000 crores each in annual turnover. Put together, these 19 brands account for over 80% of our turnover in this fiscal. At the top we have Surf Excel and Brook Bond with more than Rs. 5,000 crores turnover each. Then we have nine brands in the Rs. 2,000 crores club - including Lux and Ponds which have moved up the table. Further our tally of Rs. 1,000 crores brands have increased to 8 with 3 more brands Close Up, Pears and Comfort joining the club.

Consumers continue to be increasingly discerning, looking for highly superior products and making informed choices and demanding brands with a point of view. To serve consumer needs, we are creating more superior products, bringing the best of our marketing insights and R&D together. We continue to have 2x more superior products when compared vs 2019. Let me make it clear, this does not mean that the remaining of our products are inferior. It just means that they are at par with competition on functionality.

We are weaving the magic of marketing in our campaigns to create brands that traverse the minds and hearts of our consumers. Our marketing campaigns have won many external accolades. Vim is deeply committed to championing the cause of everyone taking ownership for their own home chores. Its un-stereotype campaign won the Kantar Creative Effectiveness Award. The Vim Black campaign triggered a good response from our consumers.

Dove continues to build on its StopTheBeautyTest platform and launched another award-winning campaign. Clearly, we are winning with our brand that are a force for good, powered by purpose and innovation.

Customers are an integral part of our value chain and play a crucial role in reaching our products to consumers across the country. We continue to partner with them for mutual growth. Our eB2B app Shikhar, is providing retailers the convenience and flexibility to order online anytime and get faster service. Shikhar is one of the highest adopted eB2B apps with over 1.2 million retail outlets. Through Shikhar, ECom and our 14 D2C websites, we now capture over 30% of our sales digitally. We are rewiring our demand fulfilment capabilities through automated warehouses and intelligent back-end systems. This action not only helps us in demand capture and fulfilment, but also enables us to do demand generation in a very disruptive manner.

Excellent execution is a bedrock of our winning with customers agenda. We have continuously stepped-up our effort, effective coverage and assortment which now stands at 1.2x of pre-COVID levels. Wherever a shopper wants to buy a product, we want to create an environment where our differentiated products would be appealing to the shoppers. That's where our focus of creating perfect stores comes in - whether it is offline or online.

While we are a very large organization, selling over 60 billion units annually, our focus always has been to be the most nimble and agile. Our agile innovation hub uses data and technology to pick up consumer trends and quickly launch new innovations by leveraging Unilever's world-class R&D capabilities. In the last fiscal, we launched over 60 SKUs through our Agile Innovation Hub Platform. We are driving digitization across large factories and bringing more agility in operations. One of the key parameters that we track in our factories is to measure the speed. To measure the speed and agility is the Days Before the Next Run of what we call the DBNR.

For our A class SKUs, that is our top SKUs which contribute to 80% of our turnover, our DBNR is just 3.5 days. This means on an average, all our A class SKUs are manufactured every third or fourth day. In order to cater to the need for niche premium products, we have set up seven nano factories. These are fully functioning, mini production lines that house everything we need to produce a batch of final products. These nano factories enable us to manufacture niche products in a much more agile manner without impacting our cost efficiency.

We are creating automated warehouses which enable us to further improve our distribution and drive efficiencies in the value chain. We recently opened our new distribution centre in Sumerpur which houses state-of-the-art equipment such as a fully automated storage and retrieval system including stacker cranes, robotic palletizers and rail guided vehicles. Our mantra of doing well by doing good is very well ingrained across our business. Even in very challenging circumstances, we have continued to make strong progress on our sustainability agenda across the pillars of Climate, Nature and Social.

We are decarbonizing operations and have achieved 97% reduction in CO₂ emissions per ton of production across our manufacturing operations when compared against 2008 baseline. We are plastic neutral since 2021. That is for calendar year 2021 and 2022, we collected and safely disposed more plastic than what we use in packaging of our products. Through the Hindustan Unilever Foundation, we are supporting amplifying scalable solutions to help address India's water challenges. Till date, the foundation has delivered a cumulative and collective water potential of over 2.6 trillion litres across thousands of villages. We are committed to a deforestation free supply chain. In this fiscal, 95% of our paper and board in packaging, 82% of our tomatoes and 69% of tea came from sustainable sources.

Talking about our social initiatives with Prabhat, a community development program, we have reached over 9 million people in the last nine years to improve livelihood, health, nutrition and environment of communities near our factories. We launched Project Shakti as a pilot in early 2000 and today the program empowers around 1.9 lakh women entrepreneurs by enhancing the livelihoods and promoting financial independence.

To guide our ESG strategy and agenda, we have also created an ESG committee of our board this year. As I get ready to hand over my responsibilities after nearly 10 years at the helm of HUL, I go with a huge amount of satisfaction and pride in what we have achieved collectively. In the last 10 years, we have added nearly Rs. 33,000 crores as delta turnover and over Rs. 9,500 crores as delta EBITDA.

Our business today has never been more stronger in terms of size, scale, profitability, capabilities and its impact on the country and society. I want to take this opportunity to thank all of you for your warmth and tremendous support to HUL and to me in the last 10 years. It seems like it was just the other day that I was introducing myself to you.

Now, before I hand over to Ritesh to take you through our results in detail, I want to introduce my friend, my colleague and a fabulous leader, Rohit Jawa, who will succeed me as a new CEO and Managing Director. I am sure you will continue to extend your support to him and to HUL in the same way as you did during my tenure.

Rohit, you may want to say a few words to our friends on the call.

Rohit Jawa:

Yes, thank you. Thank you, Sanjiv, for your kind words and the welcome. I'm deeply honoured and privileged to join this great business and the HUL family. I'm really looking forward to meeting you all and working with you. Thank you very much and look forward to more times together.

Ritesh Tiwari:

Thank you, Sanjiv. Thank you, Rohit. And good afternoon, everyone. I will now walk you through our performance in more detail and cover our outlook. Starting with the operating environment, this year, FMCG industry witnessed unprecedented inflation across a wide basket of commodities. Lately, we have seen commodities correct from their peaks. Inflation moderated on a year-on-year basis with easing in some of the commodities and lapping of high prices in the base period.

Most of you would be familiar with the chart on the right but let me reiterate. The blue bars represent maximum and minimum price range of commodities in last 10 years and the pink line is their 10-year median. The red and yellow symbols represent average prices for this fiscal and March quarter, respectively. As you can see from the chart, all commodities except tea are

significantly above their median prices. Clearly, the worst of inflation is behind, but inflation has not gone away.

As we had anticipated and called out earlier, the slowdown in FMCG market is bottoming out. This improvement was led by volumes, which have turned flat in this quarter, versus a mid-single digit decline in December quarter. FMCG market is still showing a very high price growth of 11%. We expect this to go down as Nielsen starts to pick up price corrections taken by us and the industry.

Talking about FMCG market growth from an urban-rural lens, urban markets continue to lead the growth for FMCG. Rural has shown some signs of improvement with higher value growth sequentially. While volumes continue to decline, the extent of decline has reduced vs last quarter. In this context, HUL delivered yet another quarter of strong all-round performance. Our turnover grew 11% with underlying volume growth of 4%. Growth was competitive with more than 75% of the business winning market shares. EBITDA margin at 23.7% remained healthy and improved 10 bps sequentially.

Let me cover EBITDA in a bit more detail in subsequent slides. Moving to our bottom line, Profit after tax before exceptional items at Rs. 2,471 crores was up 8%. Net profit at Rs. 2,552 crores increased 10% year-on-year. Gains from sale of property and brands largely explain the higher net profit growth as compared to PAT bei growth.

Now talking about gross margin, the unprecedented inflation that FMCG industry witnessed this year resulted in two things - 1. Pressure on gross margin and 2. Reduction in media intensity. In the last results update, we had called out that with softening in commodities, our focus is to build back gross margin and step-up A&P investments. If you look at March quarter results, we have improved our gross margin sequentially by 120 bps and increased our A&P investments by 80 bps. We will continue to focus on building back gross margins and stepping up A&P investments in coming quarters as well.

Moving on to performance across our three segments, Home Care delivered yet another quarter of standout performance and grew 19%. Beauty and Personal care delivered broad-based 10% growth. Foods and Refreshment grew 3%. Margins in all three segments remain healthy with Home Care at

19%, BPC at 26% and F&R at 18%. We will click down to talk about performance within each of the division in subsequent slides.

Starting with some of our key innovations for this quarter, Sanjiv spoke about our new masstige Skin Care brand Novology. Created with experienced dermatologists, the brand provides clinically proven results for persistent skin issues such as Dry Skin, Acne and Pigmentation. Lux launched a new Bath and Body Collection which is inspired by rich biodiversity of the Himalayas. Dove's Beautiful Curls range was launched in India specially crafted to meet unique needs of Indian curly and wavy hair. Lakme introduced new face and lip mousse. Our digital first brands Love Beauty and Planet and Simple further expanded their offerings with new on-trend innovations.

Tresemme expanded its portfolio with the new Moisture Boost range of products. To beat the summer heat, Ice Cream launched exciting new flavours such as Cornetto Salted Caramel Brownie, Hazelnut Chocolate Ice Cream tub, Boost Sandwich Ice Cream and range of Ice Candies. Horlicks expanded its range with introduction of Millet Chocolate Horlicks which is made from goodness of multi-milletts like Ragi, Jowar and Bajra combined with a taste of chocolate. It is currently available across South markets.

Talking about some of our activations in this quarter. Lakme has always been synonymous with fashion and beauty in the country. The brand has stayed contemporary over years by constantly re-inventing itself. At the recent Lakme Fashion Week, the new look of Lakme was unveiled. Boost has a rich legacy of inspiring kids to persevere, sweat it out and overcome any sporting challenge with the grit and stamina. Recently Boost partnered with rising cricket stars to celebrate their story of determination. Red Label launched a new heart-warming TV campaign about two strangers bonding over a cup of tea.

Moving to our performance in Home Care, this was another stellar quarter for Home Care with strong performance in both Fabric Wash and Household Care. Revenues grew 19% with mid-single digit volume growth. Fabric Wash delivered solid double-digit growth led by premium portfolio. Household Care had double-digit value and volume growth led by outperformance in dishwash. Both categories continued to gain handsome value and volume market shares.

Talking about Beauty and Personal Care, our business grew 10% with broad-based performance across categories. Skin Cleansing delivered double-digit growth with all brands performing well. With softening in Palm Oil, further price reductions were taken in Soaps Portfolio. Hair Care strengthened its market leadership further and delivered mid-single digit value and volume growth.

Skin Care grew in double digits led by strong performance in Premium Portfolio. We continue to make excellent progress in our portfolio transformation journey, especially in Hair and Beauty categories with launch of several premium and on-trend innovations and entry into high growth demand spaces. Oral Care delivered high single-digit growth led by strong performance in Close-Up.

Let me now turn to Foods and Refreshments. F&R grew 3% led by Foods, Coffee and HFD. Tea strengthened its market leadership and widened the gap versus nearest competition. The category witnessed consumer downgrading due to higher inflation in premium teas vis-a-vis loose tea. Combined with price reduction, the business declined marginally in the quarter in value, while tonnages grew 3%.

Coffee sustained its strong growth momentum and grew in double digits. Health Food drinks grew mid-single digit led by Boost. We continue to gain market share and penetration led by effective market development actions. HFD market remains subdued due to impact of inflation especially in milk which is carrier for HFD products. Foods delivered mid-single digit led by strong performance in Ketchup and Food Solution. Hellmann's Mayonnaise and Kissan Peanut Butter continue to gain consumer traction.

Ice Cream grew in mid-single digit on a high base. Ice Cream consumption was impacted due to unseasonal rains in the quarter. Summarizing our performance for this quarter, we had a strong top-line and bottom-line delivery.

I have already covered most of the lines but let me give you a quick highlight on few other items. Our employee cost was up year on year due to impact of true up of various employee benefits. On a full year basis, our employee cost is down by 20 bps. Other expenses include the impact of higher royalty and central services from February'23 onwards. Other income saw an increase due

to higher treasury yields. As I mentioned earlier, our exceptional income increased year on year with gains from sale of property and disposal of Annapurna and Captain Cook brands. Our full year ETR excluding prior period adjustments was 26%. Including PPA's, we had a reported ETR of 23.8%.

Since we have already spoken in detail about our full year delivery, let me quickly recap the numbers. Our full year turnover was Rs. 58,154 crores, an increase of 16% year on year. We added about Rs. 8,000 crores to our top line. Underlying volume growth was 5%.

Moving to bottom line performance, despite unprecedented levels of inflation through the year, we have dynamically managed the business and delivered a healthy EBITDA of 23.4%. Net profit at Rs. 9,962 crores grew 13%. Let me cover this in a bit more detail in subsequent charts.

It is important to put our gross margin performance in perspective. The Net Material Inflation or NMI that our business experienced in last two years was clearly unprecedented. Put together, we had a cumulative NMI of about 30% which is highest in the recent past. In such times of extraordinary inflation, we acted swiftly to drive our savings harder and take calibrated pricing actions with an intent to grow competitively whilst protecting our business model. Over the last two years, our price growth is about 18% cumulative. Consequently, our gross margin declined over 600 bps vs this pre-inflationary period. Despite the record levels of inflation through dynamic financial management, we maintained our EBITDA margins in a healthy range. EBITDA in this fiscal was 23.4%, a decline of 140 bps vs last year. Cost of goods sold was higher by 360 bps, reflecting the impact of inflation.

Our absolute A&P investments were Rs.140 crores higher than last year as we continued to invest competitively behind our brands and maintained share of voice ahead of share of market. A&P as a percentage of turnover improved by 100 bps due to growth leverage. Employee benefit and other expenses put together was lower by 120 bps. In absolute terms, our EBITDA grew 9% year on year.

Building on our EBITDA growth of 9%, we delivered EPS growth of 13% led by 1% benefit from depreciation and about 2% each from finance income and exceptional items. Through strong capital discipline and an asset light model,

we generated 1% incremental profits as leverage from depreciation. Higher treasury yields and prudent allocation led to higher finance income in this fiscal. Gains from prior period tax adjustment along with sale of non-core assets helped to generate 2% incremental EPS growth.

Even if we were to exclude the benefit from exceptional items, we have delivered a double-digit EPS growth this year. Overall, this was an excellent performance of balancing strong top-line growth and profitability leading to double digit EPS growth.

Sanjiv has already covered the highlights of each of the divisions. Let me quickly summarize the performance. Home Care delivered stellar results with 28% growth. BPC grew 12% and F&R delivered 5% growth. Margins remained healthy with Home Care at 18%, BPC at 26% and F&R at 18%.

Considering our strong performance, the Board of Directors have proposed a final dividend of Rs. 22 per share. Along with the interim dividend of Rs. 17 per share, the total dividend for this year is Rs. 39 per share, which is a 15% year-on-year increase.

Before moving on to our outlook, let me summarize what we have covered till now. It was a solid all-round performance in a challenging environment. We grew 16%, adding c. Rs. 8,000 crores to our turnover. Growth was significantly ahead of the market with 75% of our business winning market shares. Our dynamic financial management helped us strike the right balance of competitive top-line growth and managing healthy margins in the face of unprecedented input cost inflation. EPS grew 13%. We were the best ESG rated Indian FMCG company by leading agencies, making it a comprehensive 4G growth. As you heard from Sanjiv earlier, we also made excellent progress on our strategic priorities.

Now moving on to our outlook, looking ahead the near-term operating environment is likely to remain volatile with global slowdown risk and weather-related uncertainty. With the financial sector stress, geopolitical crisis, and lingering effects of COVID, IMF has forecasted global growth to be below historical average. Consumer perception of inflation continues to remain high, which impacts their propensity and confidence to spend. Impact of weather phenomena like El Nino and heat waves remain uncertain at this point in time.

We need to be watchful of how these variables play out, especially the onset and intensity of monsoon.

Going forward, we expect the price-volume growth to rebalance further. Price growth will continue to tail off as we lap higher prices in the base and due to price reduction in categories where we are seeing commodity inflation. We expect volumes to recover gradually due to high levels of cumulative inflation and the fact that consumption habits typically recover with a lag. We need to be mindful that FMCG market volumes have been declining for almost a year and a half.

Rural market volume is still declining. In these circumstances, we will continue to manage our business with agility to grow our consumer franchise whilst maintaining margins in a healthy range. Our focus is on ensuring right price-value equation for competitive volume growth, building back gross margin and stepping-up A&P investments. From a mid to long term perspective - Indian FMCG sector continues to be very attractive. Favourable macros coupled with low FMCG per capita consumption continue to provide a huge runway for growth. Our focus remains on delivering 4G growth, growth that is consistent, competitive, profitable and responsible.

With this, we complete our prepared remarks. Over to Ravi now to commence our Q&A session.

A Ravishankar: Thank you, Sanjiv, Rohit and Ritesh. We will now move to the Q&A session. We request you to kindly restrict the number of questions to a maximum of two at a time. In case you have any further questions, please feel free to join the queue again. In addition to the audio, our participants have an option to post the questions through the web option on your screen. We will take these questions towards the end.

With that, I would like to hand the call back to you Tanvi to manage the next session for us.

Moderator: Thank you. The first question is from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Yes, thanks. My first question is on the tea downgrading which you have mentioned. So, I wanted to understand this because you and the other national

players both have highlighted this. And when I see your other categories in the Home, Personal Care etc, you have called out the premiumization quite strongly. So why there is a disconnect here? And is there a possibility that some of the other categories also could see downgrading if say El Nino happens, if the overall macro again further deteriorates?

Ritesh Tiwari:

Thanks, Abneesh. Let me start with tea. See, the development of tea commodity has been different from other categories. If I look at, for example, skin cleansing, if I look at Home Care impacted by crude, there is a base commodity like crude oil or a soda ash or a vegetable oil impacted across the portfolio, it doesn't matter if it's a premium brand, low brand etc. But for tea, the way the commodity market played out last year, the commodity which we're selling as we speak today in our key products, the premium tea basically saw much higher inflation and plainers, which essentially go into making loose tea, did not see that amount of inflation.

And in fact, it saw price correction. And hence the gap between premium tea commodity price and the loose tea price widened in the year. This is the reason why we saw in the year consumers downgrading. A feature that we did not witness as we spoke earlier in another part of the portfolio, when we saw high inflation coming, where people in fact moved to trusted brands. And in this case for tea, since the gap for premium tea prices and loose tea prices widened to that extent, it led to consumers downgrading.

Now, of course, as we speak, we're at the tail end of the tea season, and new crop will get plucked later part of the year. And we're hoping that like every year, tea commodity moves in tandem, and this distortion does not repeat. And with that, the market will rebalance the way that the tea is done.

Sanjiv Mehta:

Just to add to what Ritesh has said, we must also Abneesh, take cognizance of the fact that tea business has a large quantum of loose tea players. And what our job has been to basically upgrade them and get them into package tea. But when you have the differential that we are talking about, it is not surprising that many consumers gravitate towards the loose tea players. That is the reason this has happened. But in the long term, we believe the upgrading from loose tea to packaged tea will keep happening. And I also believe that the equilibrium in the price will also happen.

Abneesh Roy: Sure. Thanks, Sanjiv sir. Just one follow up I had on F&R was, your ice cream sales past few quarters has been fairly strong. This quarter, 5% growth seems lower than some of the other summer categories, for example, the beverages etc. So, is quick-commerce slowdown because of the funding constraints impacting you? Because for ice creams, 10% of the sales pan India was coming from quick commerce, is that the reason or is it only the unseasonal rains which you have pointed out? Because that would have impacted even the beverages for other companies?

Sanjiv Mehta: Yes. Abneesh, if we look at a full year figure, we are talking about ice cream, which has grown really handsomely. It's 37% has been the ice cream growth. So, I wouldn't worry about a quarter here, a quarter there. Yes and I believe that as we get into the peak season of ice cream, the growth will come back.

Abneesh Roy: Sure. Okay. My last question is essentially on HFD. So, any impact of the current issue of high sugar content in one of your competition brands? I understand that for the competition, but does it impact you also in any way? And 5% growth is a good number given the current slowdown. Any number you have for the category growth? I'm sure you're gaining market share because of the initiative. Is the category still declining?

Sanjiv Mehta: You know, we are still gaining market shares and we are still increasing our penetration. So, the controversy which has happened has not impacted us really. And one would also like to add that if we look at from a sugar perspective, there is a component of total sugar, there is a component of added sugar. In our Horlicks brand, the total added sugar per 27 grams, which is one serving is just about 3.6 grams.

And when you look at the Diabetes Plus range or a Horlicks light malt, there is no added sugar at all. Yes and clearly, these are brands which have been formulated to address the nutritional needs of India, where micronutrients, vitamins and minerals, there is a very clear deficiency.

Abneesh Roy: Sure. Thanks a lot, Sanjiv sir. That's very useful. Thank you.

Sanjiv Mehta: Thank you, Abneesh.

Moderator: Thank you. The next question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: Hi, team. In the context of the changing input index scenario, some qualitative and possibly quantitative comments on the relative competitive intensity situation in Home Care, particularly in the mid and mass segments, please?

Sanjiv Mehta: Yes, thanks, Manoj. First is, I think Home Care business is on a song. Yes, we continue to gain market shares handsomely and we continue to gain shares across the different price tiers. And we have strengthened our business. And the gains that we are seeing is not restricted to a pocket of the country, but it is very broad based. And when you look at the size of a business today at over Rs. 21,000 crores, delivering the kind of growth we have done in Home Care on a full year basis of 28%, the near nine plus percent volume growth under the circumstances is fabulous.

And then when you look at our thrust of market development and premiumization, where we have created a business of liquids of Rs. 3,000 crores is very clearly a testament to our ability to create the segments of the future. So, we have been very pleased with the performance. And while it would be wrong to expect that we can extrapolate the 28% growth on a year-on-year basis, but we are very clear that we will protect the market shares that we have gained and keep working on developing this category.

And as you know, Manoj, there is a huge market which exists in the basically at the bottom tier in powders, there is still a large segment of the category which is into bars and our trust of moving them up into higher order benefits will continue unabated.

Manoj Menon: Thank you. So, when you refer to market share assuming that you're also including volume market shares, right? And not just value?

Sanjiv Mehta: Absolutely, you know, we are growing our volume growth, Manoj, at over nine percent annually. And in a context where overall FMCG has decreased, you're talking about a scenario where we have gained both volume and value share very impressively.

Manoj Menon: Perfect. The second and last question is, you know, which this pertains both to, let's say, Nutrition and BPC. Just again quantitative and qualitative colour on, let's say, if you could segregate some of the potentially, let's say, structural issues which you're facing versus cyclical. What I'm referring to is that let's say, the BPC, the assumption is that let's say, Glow and Lovely possibly is

having consumption challenges because of higher consumer inflation and consumers have to make choices vs, let's say, nutrition, the milk inflation which you alluded to is possibly a cyclical issue.

But also, particularly nutrition, there are actually some questions, let's say about category relevance etc. So, any comment with some quantitative backing would be super helpful to segregate us, you know, the narrative of the structural versus cyclical.

Sanjiv Mehta:

Sure certainly, Manoj. When we look at BPC and we have certain big categories, yes, like Skin Cleansing, Skin Care, Hair Care, and then we have Lakme and DMT and Oral. Now, on a full year basis, skin cleansing, which is Toilet Soaps, Skin Care, Hair Care, Lakme, DMT, all have grown double digit. Yes, so it has been a very broad-based growth. So, we are very satisfied with the way BPC has performed during the year. And even when I look at the quarter that has ended, BPC has again delivered very broad-based growth and it has delivered a double-digit growth. And it has delivered a double-digit growth with handsome mid-single digit volume growth. That really gives me very clearly comfort that this business is on the right trajectory. And the other more important bit is our premium portfolio is growing ahead of the market and it is growing ahead of the rest of our portfolio.

And our thrust again, Manoj, on market development and premiumizing our portfolio will continue. And that is how we will get growth. And a couple of years back, you would recall that we had issues with our Skin Cleansing business. Now we are very pleased with the turnaround that has happened in Skin Cleansing. And you would have also seen how agile we have been with the pricing of skin cleansing, both up as well as down.

Manoj Menon:

Sure. Thank you. Just one follow-up, Sanjiv, if I may. There was this comment about, let us say, milk inflation impacting HFD consumption. The logical thought which comes to mind is, let us say why that is not an impact, let us say for a tea or a coffee consumption also, where milk is an important ingredient. Is it essentially to do with the kind of, let us say, the discretionary element in HFD or is there some other angle there?

Sanjiv Mehta:

No. If you look at tea, the component of milk is a small component of the total consumer price. Whereas on HFD, even what goes into HFD are the milk

solids. And then you use HFD in milk, that is the general habit. So, the impact of high prices of milk certainly would be much more accentuated on HFD. The other bit also, we must understand that the tea prices have moved in a bit different direction compared to the rest of the commodities.

Tea prices went up in 2020. When the rest of the commodity inflation wasn't there, the Ukraine-Russia war wasn't there. And when the other commodities went up, the tea prices started deflating. So, if we look at it from that perspective, in tea category, we have had a negative price growth. So, it is a very different context when it comes to tea and when it comes to HFD.

Manoj Menon: Fair enough. Thank you, Sanjiv, for this patient response. I am wishing you great luck and God bless in your next innings. And Rohit, looking forward to meeting you soon.

Sanjiv Mehta: Thank you, Manoj.

Moderator: The next question is from the line of Vivek M from Jefferies. Please go ahead.

Vivek M: Hi, good evening, Sanjiv and team.

Sanjiv Mehta: Hi, Vivek.

Vivek M: Hi. Firstly, Sanjiv, thank you for all the perspectives and interactions over the past 39 quarters. And I definitely wish you all the very best. And Rohit, good luck to you as well on your new role.

Rohit Jawa: Thank you.

Vivek M: Two questions from me. First, if there is one thing which has been a constant, Sanjiv, in the last decade or probably even longer, has been this premiumization trend. And I think Abneesh was trying to ask that question. Do you think with, and generally, like it or not, but the stress has been more around rural, the stress has been more with urban poor. But whether it's your portfolio, generally speaking in the market, the premium part of your portfolio has done well.

With whatever news is coming, sentiments, interest rates, you know, EMIs, everything put together. Do you think that premiumization for the next few quarters can take a backseat of how concerned you would also be on overall

urban demand, the premium side of things? When we look at QSR companies, they are obviously struggling. The market leader is seeing decline. How worried you would be?

Sanjiv Mehta:

Yes. No, thank you for that question, Vivek. It is very difficult to give a very precise answer because there are many factors at play. But let me try to put things in perspective. First is rural consumption of FMCG is one third of urban. And you would recall, Vivek, that we always have been talking about, we in fact have been measuring the health of the market by looking at how rural growth has been ahead of the urban growth. And you remember we used to talk about 1.3x, 1.5x urban growth.

And a medium to long term, that should continue for many years, if not for a couple of decades, because you come from a very low base. And today we are seeing a scenario where the rural growth is really muted, even with the recovery that has happened. We are still talking about a rural volume growth at minus 3%. And if I look at the total value growth for the entire year, where urban has been about 11% for the market, rural has been just about 4%. So that kind of differentiates.

The other important bit we must always appreciate that whenever inflation happens, it bites the poor much more. Because the poor, the FMCG as a share of the wallet is much higher as compared to people with higher disposable income. And as far as FMCG is concerned, for middle class and above, FMCG is not recession proof, but it is certainly recession resistant, because of the element of necessity and also because it is a small share of the total wallet spent.

So, I don't think premiumization as a trend will stop so long as the country keeps growing at 6%, 7% real GDP. And then when you take into account the inflation, you're talking about a nominal growth of 13% - 14%. Even when you look at a salaried class, all surveys are indicating that the salary increases this year is going to be anywhere in the vicinity of 8%, 10%. So, money definitely will come in if the economy keeps growing. And when we talk about premiumization, we are not yet talking about masstige or prestige, which is in a different class of its own.

We are talking about premiumization relative to average of the market and relative in the sense above 1.2x to the average of the market. And take a look at laundry. Yes, with tough scenario, commodity prices going up tremendously, growing volumes at 9%, growing the total value at the kind of value we have grown at high twenties, which again gives us comfort that premiumization as a secular trend will not stop. And our investment in upgrading the consumer to higher order benefits with consequential higher prices will continue, that thrust will continue in the future.

Vivek M: Got it. And just a quick follow up, Sanjiv, you don't think in the interim, in the next few quarters, that pace of premiumization also slows down? You think it's a secular change and it keeps happening that way?

Sanjiv Mehta: You know, let me take this to talk about a bit of rebalancing that will happen. We are talking of if you look at the market, Vivek, the value grew at 8% for a full year, the volumes declined by minus four. The difference between the two was 12% price growth. Very similar to our full year results, where our top line grew at 16%, volumes grew at 5%, the difference of about 11% was the price growth, right.

Now what is happening is that period-on-period, commodity prices are not increasing at the same rate. So, at an aggregate level, we are seeing the price increase which last year was 11%-12% in the last quarter, which we have just presented the results, the price growth has come to 7%. Now many times people feel that price growth has come down, that means deflation has happened. There is a fine difference between deflation and further commodity increase moderating. At an aggregate level, we are not seeing a deflation yet, because the prices of commodities in general are still much higher than the average or the median level for the last 10 years.

So once the commodity prices start deflating, then you will see the volume, the price value equation changing, and then you will see a volume kicker coming in. But in the intervening period, there would be this period where the price tapers off, but the volume will not get a kicker, and this we have to be very cognizant of.

Vivek M: Got it, got it Sanjiv. And one question to Ritesh, you know Ritesh, somewhere around your concluding slides where you have mentioned about, there is a

chart on UPG, you have mentioned that something like consumption habits will revert with a lag. Can you just elaborate, you know, what is your thought process, how much time will it probably take etc. Because, the price, the UPG will certainly go down, so will the lag be too much, or how should we think about volume vs pricing equation as we go forward?

Ritesh Tiwari:

Yes, so that's what Vivek, that's what Sanjiv was alluding as he concluded his thought. So, price growth to start with, you need that on an average we had a 12% price growth, which then came down to 7% this quarter, and to the point that we spoke earlier with sequentially inflation moderating and us lapping high price base and see sequentially some commodities also are coming down and hence we are also giving price offs. We will see this price growth of 7% further tailing off.

Number two, the volume as part of that then has to come up. Now there's always a big question as to how much lag it happens between price coming off and then volume taking over. And there are two variables out here. Cumulatively, over two years, we still have 30% inflation and cumulatively over two years, if I talk HUL numbers, we've taken 18% price increase. So, there's not overall deflation which has happened as consumers are concerned the price that they're paying to buy commodities. That's number one fact.

Number two, if you look at the RBI survey, the expectation that consumer has is still inflation being stubborn. And hence it then also impacts their confidence in spending money. So, both elements are playing out here. And which is why in our view, the going up of volume will be gradual. And of course, different categories will have different amount of impact. Overall, as you know, Skin Cleansing as a market, for example, went to much higher amount of commodity inflation and it got impacted at peak of that inflation much heavily on overall volume growth of the market. Now we have seen that coming off, it is still negative market growth, but it has come off significantly from the peak. So in our view, it will take a few months, it could be a little more than a few months, all depends upon as to how the income levels and how overall inflation basket stabilizes over next, I would say quarter or two.

Sanjiv Mehta:

Yes, if I may, Vivek, I would just like to complete the other half of the conversation. You know, if we look at where he, Ritesh rightly said that cumulative NMI was 30% and we took a price increase of 18%. The price

increase on the price point packs was much lower than what we took in the midsize or the large price packs. Consequently, we took a big hammering on the margins of the low price point packs.

Now when the commodity starts softening, one of the things we would do is, is price point packs, we will start putting the grammage back. When we start putting the grammage back, you will also see the volume growth consequentially coming in. But here again, one wants to explain to you the principle that what is happening. The 30%, as all of you would recognize, has been an unprecedented inflation. And that took a knocking on a variable margin of about 700 bps from a pre-COVID level. Now the lowest point of a margin was the September quarter of 22. Since then, our variable margin has moved up by 290 bps. And during this period, we have also put back 160 bps of A&P and also, from the lowest EBITDA margin of June quarter of last year, we are now talking about even the EBITDA margin having gone up by 50 bps.

So, there are going to be various variables at play. But going forward there would be just like we have always consistently talked about consumer franchise protection and protecting the business model. Going forward there would have to be a focus on the volume growth and the gross margin improvement.

- Vivek M:** Perfect. Thank you very much and wishing you all the very best.
- Moderator:** Thank you. The next question is from the line of Latika Chopra from J.P. Morgan. Please go ahead.
- Latika Chopra:** Hi. Thanks for the opportunity, Sanjiv. Congratulations on a successful long inning with Unilever. Good wishes to you and your new endeavours.
- Sanjiv Mehta:** Thank you so much.
- Latika Chopra:** And Rohit, wish you the best in the new role.
- Rohit Jawa:** Thanks so much.
- Latika Chopra:** I just wanted to extend the discussion that we just had on the revenue growth, seeing probably we have to deal and sit with single-digit revenue growth in coming quarters as we wait for volumes to catch up. My question was on operating margin outlook clearly, you're going to step up A&P spends. Do you

sense that competitive landscape is toughening relatively more as this low volume environment, everybody would try to grab whatever market share they could?

And hence, the EBITDA margins that we saw in maybe FY 20-21 of 24.5%-25% could take longer time to come back. At the same time, if you see, there is a lot more intent stated by some of the large leading retailers on their own label side. I understand you've always dealt with regional brands in the marketing space, but this time it seems at least efforts could be a lot more. And does that in any way kind of influence brand investments for the company?

Sanjiv Mehta:

Yes, that's a good question, Latika. Let me give you that. When we took a knocking of 700 bps of variable margin during this crazy commodity cycle, what also happened not just with us, but with the competitors as well, that the spend on A&P went down. But one thing we were highly focused on, that our share of spend has to be greater than the share of market. And that we ensured during this period.

But if you were to relook at our numbers, our A&P during this year was the lowest in several years at about 8.4%. And when you compare with the pre-COVID level, it was at 12.2%. Now, what is going to happen as the gross margins, variable margins come back, one of the things would be the correction of the price value equation. The other would be the increase in the spend in A&P and when we look at A&P spends, we look at it from two lens. One is our own activities, our own innovation plans, our own getting into new brands, launching, etc. And the other is competitive spend. We also are very focused on reach and frequency. So, we would be very clear that the market shares that we have gained, we will not give up. So, protecting the consumer franchise, not only protecting, increasing the consumer franchise is going to be a key priority. And just like we have improved the margins by nearly 50 bps from June quarter'22 to March quarter'22, if scenario remains as it is without much deeper competitive heat, then the modest improvement in margin we would be looking at.

But we must also accept Latika, that we have very healthy margins today. At 23.5% kind of margins, it's very good. So, for us growing our business, investing behind our business, protecting our market shares, that would be the key focus area. And we will certainly just like we have been very efficient

wherever we have found the opportunity of giving the value back to the consumers, we will be very adapted continuing to do so.

Latika Chopra: Sure. Thank you. And the second question was very specific to Hair Care category. You mentioned a mixed single digit volume and value growth in the quarter. Just trying to understand, was it because there were more price discounts or was there any mix issue here?

Sanjiv Mehta: If we look at hair, that's the reason sometimes just looking at a quarterly number never gives a full picture. Hair has been on a great trend. And even for the year we have grown double digit. And despite the price increase, we have had a good solid volume growth increase. So, I am not much worried about the hair category at all. And sometimes you know you have a base effect and you look at the numbers in a quarter. We should also look at it from a perspective that it was mixed single digit topline growth. But even within that, volume growth was still handsome.

Latika Chopra: Sure. All right. Thank you.

Moderator: Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: Thanks for the opportunity. Best wishes to Sanjiv and congrats and best wishes to Rohit. My first question is, according to slide 17 market growth both on value and volumes is on a recovery trajectory. While what you've seen is in your case, there is some moderation. Can you explain the disconnect since you are the largest player in the industry?

Sanjiv Mehta: Yes, I'm glad you asked this question. So, remember I gave you the figure of 8% top line growth and minus 4% volume growth for the market for the full year with the difference between the two being 12% of price growth. Then you come to for the quarter. For the quarter, the value growth was 11% and the volume growth was flat. That means that the Nielsen numbers are still reflecting a price growth of 11%.

Whereas in our case, the price growth has come down to 7.5%. So, what does that mean. When you take a price down, we are reporting numbers based on what we sell to our distributors. Whereas what the Nielsen captures are the store numbers and between our numbers and the store numbers, there would

always be a lag because there are inventories on the pipeline. So, it will be a time before Nielsen starts capturing the reduction in the price growth and that is the difference is what you are looking at.

Kunal Vora:

Okay, that's very clear, Sanjiv. Thanks. And I also wanted to get your sense on the industry revenue growth going forward. Before the inflation hit, industry was growing at single digit, same was the case with HUL. Now that the price hikes are fending, do you see the industry revenue growth again going back to single digits in FY'24? And why is the industry in last five years, 10 years grown below nominal GDP growth rate in your view?

Sanjiv Mehta:

Okay, so now you are talking about serious macro issues. Okay, now let me tell you, say, over the last 10 years, you know, we have grown at a CAGR of about 8%, 9% and with about 60%, 70% of our growth coming from volume growth. And during these 10 years, there have been two years of no growth. One was the period of demonetization and the other was the period of COVID. So, if you were to remove this, then certainly our growth would have been in double digits, with the volume growing at 6%-7%.

Now, if you were to look at the GDP growth rate, you know, while in the over the last three decades, the GDP growth rate at a CAGR has been about 6.5%. During the last 8-9-year period, there have been periods when the growth has been 4%-5%. And when you look at the growth versus the GDP, then you would be looking at a volume growth and not the nominal growth. And so, the GDP growth rate has been in the vicinity of the market growth rate in volume. But as the economy picks up, I would believe that the FMCG growth rate and the volume growth rate, if we have consecutive growth of 6%-7% consistently, and remember something, 6%-7% when we look at the GDP growth rate, that's an average. If Arnab Mitra's income goes up, that does not mean that the entire country, there has been inclusive growth. So, what we always need in our sector is more money in the hands of more people. So inclusive growth is what will drive the consumption in FMCG.

Kunal Vora:

Sure, Sanjiv. Just wanted to get some sense on FY'24. I mean, like pricing contribution will moderate volumes also, it doesn't look like there'll be a big recovery. Are we looking at a much lower growth rate compared to what we saw in FY'23?

Sanjiv Mehta: See, the headline growth will be lower. There's certainly no question about that if the commodity prices don't spike. But the volume growth, I would believe should start picking up if there is no further increase in commodity price and the macroeconomic situation in the country remains good with 6%-7% GDP growth rate.

Kunal Vora: Sorry to just hype on this, but like, even if I look at last decade, our volume growth has been 5%-6%. Right now, also you are like in that range only. So, is there a reason to believe that going forward the volume growth will be much higher than that?

Sanjiv Mehta: You know, look at it from this lens. A very important picture is that when you have a small economy, or people have smaller income the FMCG as a percentage of your wallet consumption is much higher. If the country becomes, say a 5-6-10 trillion-dollar economy, then your FMCG consumption as a percentage of your wallet becomes much smaller. And then the increase in consumption is at a much rapid rate.

Today, people who want a higher order benefit brand, they may find it difficult to buy it. But tomorrow, if the incomes go up, they won't hesitate to buy it. That would be the macro picture.

Kunal Vora: Thanks for patiently answering my questions. Best wishes, Sanjiv.

Sanjiv Mehta: Not at all.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Goldman Sachs. Please go ahead.

Arnab Mitra: Yes, hi, Sanjiv and best wishes from my side also for all your future endeavours.

Sanjiv Mehta: Thank you so much.

Arnab Mitra: Best of luck to Rohit for his tenure here. I look forward to interacting soon. So, Sanjiv, my question was actually on the volume growth which has come, moderated a little bit from 5% to 4% this quarter. I think it's not a very large moderation, but this is a quarter where almost all companies in your competitor set, which I've reported, seem to have had a slight acceleration in their volume growth in the 4Q vs 3Q and also, as you rightly mentioned, as the price comes

down, volume takes time to pick up. But in this case, it's actually moderated a little bit as the price came up so sharply. So, anything to read into this or was there something specific in one of your categories which led to this moderation, little bit of moderation from 5% to 4%.

Sanjiv Mehta: You know, 5% to 4%, I wouldn't make much about that. Yes, I don't think it is something which would overtly concern at this stage. The good bit is that the competitiveness remains very strong. We are gaining shares in much above 75% of our turnover and we are gaining corporate value share. So that's a very good indicator that our competitiveness remains very strong. And one must also remember that in a scenario where your market is still flat, us growing 400 bps, 400 bps above the market growth, it's still a very handsome difference.

Arnab Mitra: So, I meant that one is that you're saying it's not a big number and secondly, there's not one category or segment which has tracked down the number from 5% to 4%, which you need to kind of think we need to worry about?

Sanjiv Mehta: That's right.

Arnab Mitra: Got it. And my second question was on gross margin. So, in your chart, as you show you were at a 53% before COVID, which has obviously went down and now come back to 48%. So should we even think of going back to that 53% level given that there was a very unique situation where commodities were low, and we had the entire industry at high margins at that stage.

Given that if commodities remain at the current levels, is there even a possibility in the near term to get anywhere close to that 53% level or should we settle somewhere in between where you are today and where you were before the COVID period? And a combined question to that would be the A&P spends going back to that normal 12%. Is it contingent on the gross margin fully recovering? And if it is contingent, does it mean that there could be some underinvestment, which maybe the lag starts affecting the growth rate?

Sanjiv Mehta: So, my friend, you have several questions rolled into the couple of sentences that you've spoken but let me try to answer you. First is when we look at the way we improve our margins, it is not all linked to commodities. The margins have also gone up because of a better mix. That's one very important bit. Remember our thrust on premiumization. And today we are much ahead of the market when it comes to premiumization. And then on average over the last 10

years, we have increased our premiumization by 100 bps every year. So that's one very important factor.

The second implicit in your question is what will happen to the commodity prices? If commodity prices overnight were to go back to the pre-COVID level, then I will be much more confident in saying yes, the margins will also go back to the pre-COVID level. So, one doesn't know how much time it will take and what will be the stimulus for the commodity prices to go down to the pre-COVID level. Some may, some may not but it will depend on a lot of factors and they are not just linked to commodities.

There are a lot of geopolitics also involved in it. And so that's a bit unknown factor. But from a strategic point of view, we will ensure that we protect our market share. That's first the most important bit. So, if, for instance, it requires that we spend more, we will spend more for protecting our growth and market share. But we are very, we have got a huge focus on effectiveness of spend, efficiency of spend, and we're not going to waste money.

And just because pre-COVID it was at 12%, that doesn't mean automatically we will spend that same money. It depends on activities. It depends on what the competitors spend. And that's what we are going to do. But protecting our market shares will be an overarching objective. There's certainly not, we are not going to shy away from that. And remember also that we have been generating savings in the vicinity of 7%-8% of our turnover over several years. And that focus is bound to remain. So, when you get this kind of money, we will put behind investments. We will put behind correcting the price value equation and we will also look at if there is a room, certainly a modest improvement in margin.

Arnab Mitra: Understood. Thanks, Sanjiv. That's very clear. Very helpful. Thanks all the best.

Sanjiv Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Mihir Shah from Nomura. Please go ahead.

Mihir Shah: Hi. Thank you for taking my question. So, since most of the key questions have been asked already, you know, I had a few near-term questions. Firstly, on the

margin, you know, HUL has seen smart recovering gross margins with no more pricing action, you know and relatively less upgrading intensity in the markets. What could be the possible margin drivers except for a better mix? And can one expect a sequential margin improvement to continue, including the seasonality in the near term?

Ritesh Tiwari:

Yes, so let me repeat that. So, there are two-three different ways one can look at it. The point that Sanjiv mentioned that, you know, at a very peak of inflation our commodity costs impacted overall material costs. And in that period, we basically lost 600 bps on an average of margin. And if you look at last two quarters alone, because this price versus cost gap, which had gone as high as 1000 bps plus, now it's come down to 200 bps in the last few quarters. Out of the 600 bps, we have already recovered 290 bps. So, half of that has already got recovered.

Now, of course, the journey from that half, which has already got recovered to further will all depend upon what happens in terms of price value equation, and hence also more importantly, competitively price value equation going forward. The strongest muscle that we have of driving savings at any point in time, 7%-8% percentage on a gross level, we do drive across all lines of P&L or savings. And that reflects muscle that we have as an organization will continue to come into play.

Sanjiv talked about that overall premium products becoming larger part of our portfolio and we keep driving that on an average ahead of the rest of the portfolio that will continue to drive margins going forward. Number three even items like HFD the point that we've spoken last few quarters that we have given pretty good amount of savings as we have generated synergies from the acquisition there's still some more job to be done in terms of realizing cost synergies from HFD portfolio.

So, the levers of savings, levers of mix, levers of supply chain transformation, Yogesh spoke at length about our supply chain transformation that we're doing where we're reducing the number of kilometres the product travels. Those elements, items continue to give us cost synergies. And last but not least we have articulated in the last couple of Capital Markets Day that over medium to long term, our double digit EPS growth will be driven from top line growth. And that in turn will continue to give us leverage in our P&L.

Because we do ensure that our fixed costs that we have in our base, we are very mindful of and very frugal in our mindset in terms of incurring the fixed costs. So turnover growth will keep giving us leverage on our fixed cost structure, be it supply chain fixed cost or be it non-supply chain fixed cost that further will end up giving us a margin. So, there are many levers that will end up having margins.

And the way we mentioned, there are three different ways we look at it. A: price value equation, keep it competitive to driving volume growth. B: drive gross margin and C, equally important, invest gross margin in terms of margin in driving competitive A&P spends where share of voice is ahead of share of market. So that's how we look at our margin model and EBITDA in our mind is basically the outcome of these three variables.

Mihir Shah:

Thank you, Ritesh. Perfectly understood. On price cuts, if raw material prices remain steady at current levels, would there be a need to further take any price cuts to remain competitive or the current product prices are competitive enough to drive volume growth? And also any colour if you can share on what would be the ratio of absolute price cuts taken in the portfolio vs the grammage increase?

Ritesh Tiwari:

Okay. So, coming to overall price, I think first of all the bottom-line point that you mentioned earlier that from 12% to 11% price growth to 7% this quarter, and this price growth element, as we start lapping the price base increase, and as we start seeing sequentially taking price decreases in certain categories like Skin Cleansing and Laundry, we will see this price growth tapering off.

Now, of course, when you look at overall long term, that doesn't change. Long term two-third business or overall FMCG coming from volume, one term from price, that's a long-term price value equation. In short term, if everything else is equal to your point, if you don't see further coming in of commodity inflation, we will continue to see price growth tailing off. Now the balance between price point pack and non-price point pack, you know, remember the conversation that we had the 30% of our portfolio is at price point.

And this is the part of the portfolio which has seen biggest amount of impact when commodity went up because our ability to take price increase was limited in this part of the portfolio compared to non-price locked portfolio. Now as

prices come off and then I would like to just get into some amount of detail, Laundry and Skin Cleansing has seen sequential price decreases and these are the places where also we've seen a good amount of commodities coming off, be it vegetable oil or be it crude oil.

Tea has already finished, I'm saying in terms of commodity inflation, tea is at baseline, we've seen very high amount of inflation, so we don't expect any new news on tea coming in before the next season kicks in, in August-September and until that, there is no new conversation to be done on price value equation as far as tea is concerned. But laundry and skin cleansing, we continue to watch and as required, as I mentioned earlier, the first quote of call, keep competitive price value equation.

So, we will do that if at all we do require to do. So that's how I will probably take in all three commodity driven categories, different amount of nuances and conversations happening.

Mihir Shah:

Understood. If I can squeeze in one small one on competitive intensity, with most companies, you know, witnessing this improvement in margins, are there any signs of competition from organized players heating up? And if you can throw some light on the unorganized players as well, have they started mushrooming back as margins are getting better for them?

Ritesh Tiwari:

So, again, there are two extreme examples, let me quote, one is Skin Cleansing and second is Tea. What we saw the point of explaining earlier, Tea has had a very different amount of development, where Premium Tea market commodity kept inflating and planers which is which goes into making Loose Tea was deflating. And hence we saw that loose tea market which essentially ends up using plainer teas at a low price point we saw that element of the market growing ahead of the average of the category.

And why did it happen as we explained earlier as the price level gap between Premium Tea and Loose Tea increased we saw consumers downgrading and hence the Loose Tea market the group of players have had better outcome to their growth and hence their market share. But if I take a corollary of Skin Cleansing now Skin Cleansing also has a portion of the market which sits at that price point of 60-70 price index. This price index market again when we had very high amount of inflation and the point that we made consumers do

turn to trusted brands during those periods where price value equation is much better protected.

And we saw that in this segment of 60-70 price index, there was a stress building up where either players did not participate actively or they reduced their level of participation. We did see as commodity of Skin Cleansing has come down that this segment of the market has started to grow and players have started to come back. So, we have seen in tea and in Skin Cleansing that developing. But a complete different example would be Laundry, where our portfolio is very different compared to average portfolio of the market given the work that we've done over the last several years of making our portfolio more premium, with Liquids, with premium offering, with Surf Excel, and stuff like that.

And hence, our overall portion of the business which is in mass market is much lower compared to what we had a decade ago. And hence the amount of impact on mass market players, again coming back and growing, is a very different impact as far as laundry is concerned to us. So hence a different amount of I would say nuances to different categories. But the bottom-line point is, across inflationary situation across moderating situation our market share is ahead.

So, we have grown market share last year and as we see now in some categories, mass market players increasing their share, we continue to gain market share in all these categories, be it BPC, be it Home Care, both the places we have seen our market share continuously gain.

Mihir Shah: Got it. Thank you, Mr. Ritesh for this and thank you, Mr. Mehta, for all your insights through the last decade. Wishing you all the very best for your next innings. And looking forward to our interactions with you, Mr. Jawa. All the very best to you.

Rohit Jawa: I look forward to that as well. Thank you.

A. Ravishankar: With that, we now come to the end of the Q&A session. I do notice that we had more questions in the queue, but paucity of time, we will need to close the call. If there are any other questions which are unanswered, feel free to reach out to us at the IR team, and we'd be happy to clarify. I also noted some comments on poor quality of sound on the web link, apologies for any technical difficulties.

The playback of this call will be available on our website very shortly from now, and hopefully that should answer any questions that you had. Thank you for your participation and have a great evening ahead.

Moderator: Thank you very much. On behalf of Hindustan Unilever Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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