



Hindustan Unilever Limited

**“June Quarter 2024
Earnings Call of
Hindustan Unilever Limited”**

July 23, 2024

Speakers:

Mr. Rohit Jawa, Chief Executive Officer and Managing Director

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

Ms. Shilpa Kedia, Group Financial Controller & Head Investor Relations

Moderator: Ladies and gentlemen, good day and welcome to the Hindustan Unilever Limited Conference Call for the Results of June Quarter ended 30th June 2024. As a reminder, all the 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 any assistance during this conference, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shilpa Kedia, Group Financial Controller and Head Investor Relations. Thank you and over to you, ma'am.

Shilpa Kedia: Thank you, Dorwin. Good evening everyone, and welcome to the conference call of Hindustan Unilever Limited. This evening, we'll be covering the results of June quarter ended 30th June 2024.

On the call with me is Rohit Jawa, CEO and Managing Director, and Ritesh Tiwari, CFO. We will start with the prepared remarks from Rohit and Ritesh. We expect this to take around 30 minutes, leaving us with an hour for Q&A session. We will look to end the call by 7:30 p.m. 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 sake. With that, over to you, Rohit.

Rohit Jawa: Good evening, everyone and thank you for joining us on the call today. Welcome to the first earnings call for financial year '24-'25. Let me begin with an update on the operating context, post which I'll move on to our performance and key highlights in the quarter. I'll then hand over to Ritesh to talk you through our results and outlook in detail.

Let me start with an overview of how the FMCG landscape has evolved over the last few years and some key trends we saw in this quarter. In the last 2 years, market volume recovery has been gradual and much lower than what we would have liked due to the impact of sustained high inflation, combined with erratic weather patterns. Consequently, rural growth which used to surpass urban had lagged behind urban over the last year.

In the last few months, we are seeing some green shoots in rural demand recovery. However, our 2-year CAGR rural growth still lags that of urban. We continue to closely monitor rural progress. There are a few critical factors that could impact the pace of recovery. India was hit by one of its worst heatwaves this year with many parts of country experiencing record high temperatures. This was followed by rainfall deficit in the month of June. And while we are seeing recovery in July, we need to be watchful on how the entire monsoon season pans out and the overall impact on agriculture.

Employment levels, real wages and food inflation in rural India could also have a bearing on the pace of recovery and we continue to be watchful of that. Commodity prices have been volatile in the last few years. Post a period of unprecedented inflation, commodities have been mostly deflationary. In this quarter, prices of key commodities for our business have been range bound. Ritesh will cover key commodity price trends in more detail later in the presentation.

India is undergoing a significant transformation at a fast pace, which is reflected in the changing consumer trends. With increasing affluence, the new India is spearheaded by aspiration for better quality of life. Consumers have become increasingly discerning seeking higher order benefits and making holistic buying decisions. This has also translated in premium segments performing better than mass, not just in FMCG but across industries.

The landscape for information consumption and decision-making is also rapidly shifting with consumers increasingly turning to digital sources supported by the country's focus on building digital ecosystems.

HUL has traversed this macroeconomic scenario with single-minded focus on our priorities for driving volume growth, strengthening competitiveness and maintaining healthy margins.

In this backdrop, we have delivered a robust volume led performance in this quarter. We generated revenue of INR 15,166 crores, led by 4% underlying volume growth. Underlying sales growth at 2% was impacted by negative UPG as we passed on the benefits of lower commodity prices to consumers.

EBITDA margin at 23.8% was up 20 basis points year-on-year. Our gross margin at 50.9% was up 170 basis points versus JQ '23. We continue to focus on operational excellence and build back our gross margins with a substantial part of those being reinvested behind brands and capabilities. Net profit at INR 2,538 crores grew 3% year-on-year.

We continue to focus on improving product superiority while fortifying our execution prowess and distribution might to strengthen our competitive position. In this quarter, we continued to hold on to most of the circa 200 basis points of market share gain that we gained during inflation. While there has been a slight dip in recency, this is in expected lines as we navigate the inflation-deflation cycle.

As mentioned in the last quarter, we are experiencing our MAT business winning metric to be back to 60% levels by the end of this calendar year. Our last 3-month metric is already at circa 55% levels providing compelling evidence that our strategic actions are driving the desired results for us. With the total reach of over 9 million outlets in the country we are the FMCG company with the widest reach. With a value-weighted distribution over 95%, we are present in stores that cumulatively sell over 95% value of the overall FMCG market, giving us an undeniable edge and bolstering our market making and premiumization efforts.

Our unwavering commitment to brand superiority, investments in A&P and brand building have driven brand awareness with over 75% of our business maintaining or growing brand power.

We first shared our key strategic thrusts with you last October. And since then we have made significant progress in our journey on transforming the business to outperform. While we continue to make headwind in line with our clearly set out strategy backed by capabilities that set us apart, let me share some examples of the initiatives taken in this quarter.

We previously spoke about how we are broadening the way we measure product superiority. Under the framework of unmissable brand superiority, we will measure our products against 6 drivers of consumer preference and take targeted actions to strengthen all our brands. Let me share two examples of actions taken in this quarter. Vim has relaunched newly formulated dish

washing bars to re-define the dish washing experience for our consumers and set new benchmarks in the market. Armed with differentiated Winning in Many India's insights, the relaunch involved a full 6P refresh including product superiority, attractive packaging, pricing actions, new communication, including digital deployment to land our best dish wash bar in the market. These actions will strengthen our momentum as we continue to improve brand power of Vim.

We are ushering a new era of Ponds which will continue to cement our leadership in Skin Care. Ponds is a much-loved brand by consumers all over India evidenced by strong growth year after year. With sharper, more relevant proposition, new desirable packaging, contemporary visual treatment we are building a platform of innovative products formulated with breakthrough ingredients in exciting formats that give millions of women their desired skin. Augmented by these actions the brand continues to gain market shares in a highly competitive category.

We have a wide portfolio of brands that straddle the price benefit pyramid offering consumers choice at relevant price points. This ensures that we can actively partner with our consumers at various stages of their upgradation journey. Our premiumization strategy has yielded tangible benefits over the last few years. This can be evidenced by a circa 300 basis points increase in our premium contribution over the last 3 years.

Let me give you a few examples of how we have continued driving upgradation even during this quarter. Lakme has introduced its first ever Skin Care plus makeup range this quarter, supercharged with 3% active vitamin C it not only gives you instant radiant look, but it's clinically proven to transform your skin to look smoother and more hydrated. We are one of the pioneers to have makeup Skin Care range with an active vitamin C ingredient rather than an emotive one. We recognize that the skinification trend is set to expand in the coming years and as trendsetters, we are at the forefront of this change.

We have expanded Dove Hair Care with a new glycolic plus hydration range of shampoo, conditioner and spray serum. Backed by a scientifically proven 5% hydra glycol technology, crafted by R&D team the product is unique and highly efficacious and delivers long lasting 100 hours of hair hydration. And

as market leaders in Hair Care we continue to launch innovative value-added products to aid consumers in their upgradation journey.

In coffee, we launched a range of specialty coffee under the Bru Southern Trails branding. With this, we are foraying into premium roast and ground coffee format including coffee pods and easy pour. Bru Southern Trails builds on HUL's rich heritage and deep expertise in coffee as we continue to premiumize the portfolio.

While we play across the wide portfolio we are also tapping into new demand spaces going where the growth is. Our ability to do market development at scale positions us well to build these categories of future. In the last couple of years with sharp focus on portfolio choices, we have expanded our play in laundry liquids, premium beauty and Hair Care, body wash and international cuisines.

This portfolio is leading growth for the company with circa 20% UVG in June quarter and 50% growth in e-commerce and we remain committed to stay invested behind these growth drivers. We have had multiple innovations in these high-growth spaces during the quarter. Let me share a few examples with you.

In laundry liquids, we embarked on our journey to democratize liquid detergent category by relaunching Rin liquid with a quality product at an attractive price point, thereby making accessible to everyone. The new top load and front load variant across SKUs along with an attractive packaging will help build machine expertise. Rin Matic liquids will ensure HUL has a strong 2-tier play in the growing detergent liquid category, further strengthening our category leadership.

And under the six big bets in beauty and Hair Care, we launched Vaseline's first overnight serum-in-lotion. The product is powered by a potent blend of three actives and is an extension of our successful Vaseline gluta-hya range. We relaunched Lux body wash with a new campaign that leverages Unilever's fragrance technology to deliver 12 hours of long-lasting fragrance along with a new packaging that complements our proposition. This is in line with our agenda of reshaping our portfolio in skin cleansing.

We remain committed to stepping-up actions in high-growth food spaces specifically international cuisine. With our focus on further strengthening the mayonnaise business, we launched Hellmann's 5-in-1 mayonnaise.

Customers are an integral part of value chain, and they play a crucial role ensuring our products are made available across the country. We continue to strengthen our partnership with them for mutual growth. With our wide portfolio that straddles across the price benefit pyramid we are uniquely positioned to lead category growth for our modern trade partners. Take the topical example of Sun Care. We have a diverse portfolio spanning across numerous price points and formats from Glow & Lovely to simple and gel-based application to a sun stick.

Sun Care has had stellar growth in modern trade with gross sales growing by circa 60% in the quarter as we continued to cement market leadership in this segment. We have continued to strengthen our presence in modern trade and our modern trade shares are ahead of that in general trade, signalling our leadership in this channel. In e-commerce and in quick commerce within that, our strategy of design for customer continues to hold us in good stead as we grow competitively. Through customer engagements and joint business planning we are able to curate product portfolios and pack sizes that best suit the need of consumers using a specific platform.

E-commerce continues to be a very strong growth driver for us growing ahead of the market and at 3x of our modern trade growth. Our in-house e-B2B Shikhar app continues to scale up its operations with better tech and analytics. Our dedicated efforts towards elevating app experience, introducing new features for added convenience and delivering our bespoke user interface with retailers has resulted in high customer satisfaction scores.

The net promoter score for Shikhar is impressive at more than 70%. Net promoter score or NPS is a metric used to gauge customer loyalty and satisfaction with the product or application. It is calculated by subtracting the percentage of detractors from the percentage of promoters. At 70%, we are higher than industry standards and this reflects our very loyal customer base. I hope this gives you a glimpse of the work we're doing and that's happening within HUL to transform our business in the longer term while continuing to deliver in the near term.

I'm looking forward to host you all for our Capital Markets Day towards the end of the year where you will get to see a holistic view of the exciting journey we are all on. With this, I now hand over to Ritesh to take you through our JQ results in detail.

Ritesh Tiwari:

Thank you, Rohit, and good evening, everyone. As always it's a pleasure to talk to all of you. Let me start by covering the current landscape of commodity prices that Rohit briefly alluded to earlier. This will give you a better context of our pricing. As you're aware the industry has witnessed unprecedented inflation across a wide basket of commodities between 2021 and 2023. Post this, most commodities have been broadly deflationary.

The chart that you see covers key commodities for HUL contributing to 70 percentage of our total commodity footprint. It gives you a good idea about the deflation that we're witnessing over the last 2 years. Soda ash, palm oil and skimmed milk powder have been deflationary over 2 years and while crude oil is slightly inflationary this year, this is on a deflated basis. Tea prices are currently inflationary due to an uptick in the prices in JQ on account of a very harsh summer impacting produce. However, we are closely monitoring how the overall Tea season pans out which as you know will happen over SQ and DQ.

If we are to look at the impact of commodity prices to our business, NMI or net material inflation is the right metric to track. NMI is the net absolute inflation after adjusting for the benefit of our buying efficiency, hedging, future cover, product design to value and other savings. As you can see from the chart on the right since June quarter '23, NMI has been negative, signifying deflation. This leads to limited opportunities for pricing as we have always taken calibrated strategic pricing actions to ensure we provide consumers with the right price value equation through inflationary and deflationary cycles.

Moving on to our in-quarter performance. We stepped up our volume growth in this quarter, delivering a strong underlying volume growth of 4%. Underlying sales growth was 2% reflecting negative pricing. We continue to build back our gross margin with 170 bps improvement year-on-year through continued focus on driving savings, efficiencies and delivering our premiumization agenda. We have continued to invest competitively behind

our brands, maintaining share of voice greater than share of market and stepping up digital investments leading to a 90-bps year-on-year increase in A&P spends.

EBITDA margin at 23.8% improved 20 bps year-on-year and profit after tax before exceptional items at INR 2,572 crores grew 3%. Coming to segment performance. As you're aware since April of this year, our Beauty and Personal Care business transitioned into two independent business units namely Beauty & Wellbeing and Personal Care. This was a strategic decision taken by HUL given the diverging trends in the business model, innovation rhythm and competitive landscape of the businesses.

Post the reorganization, this is the first quarter where we report the performance of all four segments separately. If you have to look at the contribution of different segments of the business in June quarter '24, Home Care is our largest segment with 37% contribution. Beauty & Wellbeing contributes to 21% of our business while Personal Care is 16% of our business. Foods and Refreshment contributes to one-fourth of our total business. Margins in all four segments remained healthy with Home care at 20%; Beauty & Wellbeing at 31%; Personal Care at 18% and Foods and Refreshment at 19%.

Moving on to Home Care performance in the quarter. Home Care delivered a robust high single-digit volume growth. Underlying sales growth at 4% is a result of pricing actions taken during the year. Fabric Wash grew volumes in high single digit led by broad-based performance across formats and price segments. Our structural actions across mass and premium portfolio have delivered strong results.

Our liquid portfolio continued to grow double digit volumes. At the mass end, specifically detergent bars we have seen strong growth with sales volume nearing that of the peak volumes achieved during inflation. Household Care delivered competitive mid-single-digit volume growth led by strong performance in premium liquid dish wash segment. We have recently announced the sale and divestment of Company's water purification business carried under the brand Pureit subject to customary closing conditions. This move is in line with our strategic intent to focus sharply on our core categories.

Talking about Beauty & Wellbeing, the segment grew at 3% driven by mid-single-digit UVG. Hair Care had a strong quarter with double-digit volume growth. Performance was broad-based across formats and segments. Sunsilk, Dove and Clinic Plus led growth for the category. Coming to Skin Care and colour cosmetics this category being highly discretionary in nature had a muted performance on account of mass skin decline. Our focused investments in channels and formats of the future continues to deliver consistent results with premium skin clocking strong growth.

Moving on to Personal Care. While underlying volume growth was in low single-digit growth, the segment declined by 5% due to pricing actions in Skin Cleansing. Oral Care delivered a broad-based mid-single-digit growth driven by pricing. Skin Cleansing witnessed a resilient volume recovery with low single-digit volume growth. Price cuts taken in the quarter and during the year has resulted in revenue decline. Bodywash maintained its strong competitive growth momentum.

In the last earnings call, we spoke about concrete actions we had initiated to step up growth in this category. This included adjusting price value creation, stepping up product formulation, accelerating innovation intensity and winning in channels of the future. We have made significant progress across all these actions resulting in positive performance indicators for the category and volume growth recovery. We've already implemented pricing actions since March this year and we continue to stay the course on other actions to unlock their full potential.

As market leaders in skin cleansing, we continue to be a front-runner for unmissable brand superiority and exceptional consumer experiences.

I'm pleased to share our pioneering work in this field. A revolutionary technology that will bolster our product superiority while at the same enable us to transition to more responsible sourcing and reduced carbon footprint. To fully understand and appreciate the innovation, let me take a step back to touch upon the traditional soap structure. Soap bar contains total fatty matter commonly known as TFM to give the bar structure, lathering and cleansing.

Typically, only about 20 to 25% of the TFM in a soap bar is soluble and required for bar lathering and cleansing properties. The remaining 75% to

80% exists as insoluble soap that is there simply to give the bar its structure and during use gets washed down the drain adding to environmental load. This is therefore completely wasteful oil that adds no consumer value. Important to note that hence the concentration of total fatty matter does not in any way correspond to the performance of the soap, neither does it impact its effectiveness or sensory attributes. Stratos is a first of its kind groundbreaking technology developed and patented by our R&D team. This technology that took us about 5 years to develop with 20-plus patents filed makes it possible to reformulate soap with a proprietary mix including plant-derived polysaccharides, vitamin blends and Skin Care actives. This not only improves the product, but also reduces the non-functional TFM from the soap by using smart structuring technologies and include more skin health actives that can provide new and better benefit to the consumers.

The efficacy and benefits of the new soap formulation has been tested with thousands of Indian consumers apart from independent clinical studies and lab tests. The results are unanimous. Our products have tested superior across the country and our results have been published and presented in the top international journals and conferences.

Lesser palm oil in our soap combined with use of sustainable palm drives a multitude of benefits from reduced reliance on a forex dependent commodity to reduced imports and reduced greenhouse gas emissions. We're very happy to report that as on date all the palm oil we're sourcing is 100% no deforestation, no peat certified sustainable palm oil. With this significant move, we are delivering superior and sustainable products which is in line with the HUL's philosophy of doing well by doing good.

Coming to performance in Foods and Refreshment. The segment witnessed a stable performance with 1% USG and flat UVG. The harsh summer season has affected sales of hot beverages that is tea and nutrition drinks in this quarter. Ice cream, albeit a relatively smaller business, has seen an uptick in numbers during the quarter.

Tea further strengthened market leadership in this quarter with gains in both value and volume shares. Premium segment that is Taj Mahal Tea, Green Tea and flavoured tea continued to maintain its growth momentum. Coffee delivered double-digit growth driven by pricing. Nutrition drinks which

includes Horlicks and Boost had a subdued performance. This category continued to witness market share and penetration gains during the quarter. The adult plus range performed well.

Foods delivered low single-digit growth. Investments in product activations and strategic partnerships has led to a strong volume growth in food solutions, mayonnaise, peanut butter and International sauces. Ice Cream witnessed double-digit volume growth. This growth has been driven by successful multiyear innovation and in-season launches.

Coming to a summary of June quarter results. I've already taken you through most of the lines but let me pick up tax. Effective tax rate for the quarter was 26.1%, and we expect our full year ETR to be marginally above 26%.

Let me now turn to outlook. We expect FMCG and rural demand to continue improving gradually. Forecast of above normal monsoon and better crop realization augur well. You might recall that we received a one-off credit due to favourable resolution of an indirect tax litigation boosting our UPG by circa 100 bps and EBITDA by 80 bps in September quarter '23. Excluding these one-offs we expect our intrinsic price growth to be near zero in short term, if commodity prices remain where they are and EBITDA to remain at current levels.

We will continue to evaluate strategic opportunities for pricing and expect pricing to be low single-digit positive by end of this financial year. Looking ahead, our focus remains on driving competitive volume led growth across our business. We will continue to generate savings through our productivity program and reinvest it behind our brand and long-term strategic priorities. With this, we conclude our prepared remarks, and will now hand over back to Shilpa to commence the Q&A session.

Shilpa Kedia:

Thank you, Rohit and Ritesh. With this, we will now move to the Q&A. With that, I would like to hand the call back to you Dorwin to manage the next session for us.

Moderator:

Thank you very much. We will now begin the question-and-answer session. First question is from the line of Arnab Mitra from Goldman Sachs. Please go ahead.

Arnab Mitra: My first question was actually on the soap change in technology. Just a few questions here. One is, is it across all the soap brands that you have and has Unilever tried this technology, any other large market like India, have you seen any feedback on any quality issues there and how should we think of the risk of making such a big change in a large category like soaps?

Ritesh Tiwari: Yes. So, Lux and Lifebuoy as you know these are the two largest brands Arnab that we have and on a larger scale. Both of these brands now have gone live with this change. This technology Arnab which has taken us more than 5 years to get it curated, get it perfected has been tested extensively not only lab test, clinical tests, but also with thousands of consumers and the decision is completely unanimous that it's a far better-quality product.

The benefit of skin cleansing, the benefit of skin barrier, the benefit of fragrance delivery, the benefit of sensitivity are very many. So, we do believe that this is a dramatic step up on overall product superiority that we have in this space. That's number one. Number two, as I called out that this technology, to your question that where else we tested. India as you know is the largest market of soap bar in the world for Unilever. So, this is a place where this is first going live.

And as we end up doing this across the board as I mentioned earlier, this is not only great in terms of products, but also good in terms of business model with reduction in palm usage overall and we end up using more polysaccharide, vitamin blends and skin actives, the formulation overall becomes more resilient to overall volatility in palm market.

We also now end up localizing a group of materials with this change. So overall it's better for the product formulation in the financial business model. It is superior product. It's better for the environment. With this change Arnab we also moved our entire sourcing of palm oil to as we call it NDP which is no deforestation, no peat. So that has gone live. This means also 20% reduced greenhouse gases. So, from all perspective of sustainability, business model, product superiority this is a move that we have done, and we have 20-plus patents that we have filed as part of this entire technology chain. So, we are very encouraged that this has gone live at scale, and this should help us to further drive our business model very strong and hard.

Arnab Mitra: Thanks, Ritesh, for that. And my second question was actually on margin expansion. So, you did mention the fact that you probably will get into some kind of a low single-digit pricing in the second half. So, the fact that in a very benign environment your margins have been kind of flattish in the recent few quarters, would it basically be operating leverage that is now needed for margin expansion to come in on the top line growth or are there any other levers that you are looking for to get back into a modest expansion annually?

Ritesh Tiwari: Yes. So, as we mentioned in short term we would want to maintain our current levels of margin. In mid-term there are two or three big drivers Arnab that will help us to drive margins going forward in moderate time period. Number one absolutely to your point, operating leverage. Today, the pricing is negative. You heard our view ignoring the one-off that we have in the base it will be basically near zero and then we should get into low single-digit price growth going forward. So in fullness of time healthy market volume growth, healthy pricing put together will give us operating leverage. That's number one.

Number two, mix improvement. Our intention is to keep driving growth ahead in premium part of the portfolio. Last three years alone we have seen 300 bps improvement an increase roughly in our premium part of the portfolio. So overall mix improvement is the second driver which helps us to get growth in terms of margins.

And third, we do have some more jobs to be done in Horlicks portfolio as we had acquired where the supply chain synergies and remodelling that we're doing will give us more amount of savings in time to come. So, these are three vectors which will be determining our moderate margin expansion going forward in medium term.

Arnab Mitra: Thank you so much. That's it from my side and all the best.

Ritesh Tiwari: Thanks Arnab.

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

Manoj Menon: Hi team. Just a couple of questions here. One, in the UVG of around 4% this quarter if you could just broadly help us understand how much is mix and

how much is actual tonnage- volume growth and also for the context, let's say how this would have trended over the quarters and over the years. So that's question number one.

Secondly, when it comes to the calling out of green shoots at this point in time some more colour on let's say performance of brands like GAL or CP etc also would be helpful. If I can push a sub-question there if some comments on relative competitive activity in the beauty space as well?

Ritesh Tiwari: Sorry, what was the third part was competitive activity where?

Shilpa Kedia: In beauty.

Manoj Menon: In Beauty specifically.

Ritesh Tiwari: Okay. So, coming to UVG, we've seen our commentary. We spoke about that Home Care had high single-digit UVG growth. B&W had mid-single-digit UVG growth. Personal Care which had a declining UVG in the previous quarter and we spoke on the four different actions that we're doing, that has shown some early signs already and we have grown volume in this quarter at low single digit. It's F&R space where the volumes are flat.

So, if I just probably spend a little time on F&R. Tea we have called out that with 2 years of deflation, we have seen down gradation of the market. So, though the premium tea is growing, Taj is growing, Green tea is growing so is flavoured tea. It's the mass end of the tea which is getting more downgraded, and which is where we have our volume at this point in time, the volume growths are muted.

HFD which is our Nutrition Drink business, a good amount of further progress on market share and penetration. The job that we started to do for the last few quarters we called out on further building consumption remains a top priority. All actions have been put and hopefully we shall start seeing traction of that in times to come. So that's an overall colour of UVG. Within, if I talk about the beauty and wellbeing. Again, Hair Care had a very strong double-digit UVG performance.

And we don't typically give a split Manoj and give the numbers out of mix and tonnage. So, I would not be able to share that, but suffice to say that everybody is contributing. Mix is contributing and so is volumes contributing

to arrive at a total 4% UVG and our trends have been to some extent, up and down depending upon which part of the portfolio has seen up and down in a quarter, but by and large if I talk about secular trend both mix and tonnage have contributed in terms of UVG performance.

In fact, just some specifics which you asked for GAL and CP. Our overall Hair Care performance I called out had a strong double-digit volume growth. Clinic Plus brand has also grown within that pretty strongly and so all other brands like Sun Silk and Dove. And so that we're seeing pretty good amount of growth across formats as well within the space.

Coming to GAL. We did call out that within Skin Care, mass skin portfolio declined in the quarter. Premium skin continued its growth momentum and mass skin we called out even in the same period last quarter as well that A it is over-indexed to rural B it is discretionary nature, and it has seen impact coming in from all that we spoke on macros for some time.

But if I talk within Skin Care, the 6 Big Bets that we have which is, as now you know, we also split our portfolio and we show the numbers are out for B&W roughly INR 2,000 crores plus portfolio sits across 6 Big Bets within Beauty & Wellbeing. These 6 Bets, which are INR 2,000 crores plus portfolio that was at 20 percentage approximately. Within that, e-commerce growth of this portfolio is near about 50 percentage.

In each of these segments, we're also market leader, we're also adding shares. So, there's a good amount of momentum as we're transforming our portfolio to high growth spaces within Beauty & Wellbeing. On Glow & Lovely, we have done reshaping of the brand, extended the brand into more products and formats and I'm hopeful to what will happen to rural given the monsoon expectation, given the way the budget is leaned in on rural area. And we're fully ready, as rural picks up, we expect our restaged, more contemporized GAL brand will end up getting far better growth for us going forward.

And talking about competition in Beauty, as I mentioned that, of course, it's intense. The point that we have spoken more than once that be it Beauty, be it Foods, these are highly attractive categories, which attracts competition across all price points. In that Beauty segment, the key is priority for us is to transform the portfolio into high-growth spaces.

And that's the point I just referred about as there was narrating on UVG and that has gone pretty well for us. That part of the portfolio, INR 2,000 crores plus, A, of course, it's profitable and B, growing ahead of the market by gaining share. And those are the right spaces that it is also growing in terms of organized trade, be it modern trade or be it e-commerce.

The brands which we had launched new, D2C brands, be it Simple, Love Beauty and Planet - encouraging results in terms of overall growth. The formats we have extended into like serums - encouraging growth in terms of performance. The overall portfolio of sun, we had a fabulous suncare growth in the entire June quarter with very tough amount of summer as all of us know in the month of April and May. So overall, I will say we are pretty happy with the way our Skin Care portfolio is transforming and re-shaping itself into high-growth spaces.

Manoj Menon: Thank you, Ritesh, for very comprehensive response. Just one follow-up and I'll stop after that. Is the context of inquiring about the tonnage and mix breakup in UVG, I really don't know numbers, etcetera, but I just trying to understand the context was, when I think of that volume growth, about, let's say, about 70 bps from population growth. And in the context of you calling out green shoots or just trying to understand, is it -- you're actually finding the tonnage getting better or mix getting better?

Ritesh Tiwari: Yes. So both to start with, tonnage getting better because overall growth acceleration, which has happened, it is tonnage led. As we start dialling up more amount of growth for B&W mix, that will help -- as you know, 30 percentage of our portfolio, when you talk mix, there are more than one variables to the mix. There is 30% portfolio which sits at price point. That's one element to the mix, which is price point pack and non-price point pack.

Second element of the mix is within categories. Higher realized categories like B&W vis-a-vis let me say Tea, mass Tea and mass detergent. So there also we are seeing a good amount of traction coming. Overall, growth in the industry is led by premium, led by organized and led by urban. So which is why also we have seen premium portfolio being much better for us. In the last 3 years, one of the data points I quoted in my prepared remarks, 300 bps is the amount of increase we've had in our premium portfolio contribution. So it's contributed from both and going forward as well, I do believe with

resurgence of rural given all the pace of the recovery we spoke about, we should end up seeing both.

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

Avi Mehta: Sir, I wanted to understand Stratos a bit a little better. How do you see this kind of impacting margins. Is there a cost aspect also that changes this? If you could kind of share us some colour on that as well?

Ritesh Tiwari: Yes. So Avi, overall, we have invested in the product. As I mentioned that apart from dropping some amount of palm contribution, replacing with polysaccharides, we also have invested in vitamin blends and skin actives, which is what has made the formulation overall more superior.

Now the fact that overall, our dependence on imported palm supply chain in the country reduces, this gives more resilience to our financial growth model for skin cleansing, which means the volatility will be less felt in the business and we'll have more control of the P&L with locally sourced ingredients. Now if commodity price become very volatile and there's super high inflation that happens in palm, which we have seen, as you know, in the recent past, it will benefit us in those scenarios. Otherwise, it's a competitive price formulation with more investments leaning in to make the formulation more superior.

Avi Mehta: And from a bill of materials, just to better understand, does this allow us to be more price competitive as well? Is that the right understanding? Or that would not be the right understanding here. Not just from the resilience...

Ritesh Tiwari: Yes. So there are different reasons why one would take a pricing action. A, the brand power; B, the inherent input material costs; c, of course, the competitive landscape, which happens. Now the way all these three will present itself is determined where we end up doing what we end up doing.

The good news is with a superior formulation, we do believe we should keep seeing continuous improvement in our brand power and hence our pricing competitiveness. But of course, we'll always have to be mindful on input cost inflation and competitive price value equation before we end up determining where the pricing table should go.

At this point in time, you see in the chart, which I was presenting earlier. On a 2-year basis, we are seeing overall a 45% decline in palm oil cost. And that is what is overall overhang on pricing table as the skin cleansing is concerned.

Avi Mehta: Got it. Got it. And just the last second bit is on the Tea inflation. Now I understand that we are still to get a clearer picture. But just your early reads, is there a risk of the volume performance that we saw in the last few quarters continuing on the back of these trends. What is your initial rate? If you could give us some sense on how should we look at this inflationary scenario? That's all from my side.

Rohit Jawa: I think the tea crop and Ritesh can help me with that. The tea crop has been impacted by the hot summer. And in the near term, it has gone up. And we see close to almost 15% as you saw JQ by JQ increase. It's been many almost 2 years of deflation and we expect and we hope that we are reaching a point where the prices start firming up again. And so far as we are concerned, we have a tea excellence centre of many years of expertise in buying the right kind of price, the right blends. And we continue to sort of chase quality and make sure that we get the right quality, the best price available. But at this stage, I think we'll have to wait and watch with what happens with the next few months because the bulk of the buying season is still ahead of us.

Moderator: The next question is from the line of Abneesh Roy from Nuvama Institutional Equities.

Abneesh Roy: This is Abneesh Roy. My first question is on the strong performance of this category. So, we have seen double-digit growth in your Hair Care business. So, I wanted to understand here if both rural and urban, both are doing well? Or is it largely the urban channel of future, which is taking market share? Second is, is there any learnings you can take from here to Oral Care and the mass Skin Care because there, the volume growth is either not there or low single digits. So, in the same broader Personal Care, how can one category grow in double digit and the other two categories hardly any volume growth. That is the question.

Rohit Jawa: Yes. Abneesh, this is Rohit here. I think the -- great question. I think on -- let me just start with Hair. We've seen -- we used to -- we were having good

growth in our large packs in the last few quarters, but now we've seen this quarter, broad-based growth across all our brands. Clinic Plus, Sunsilk across all formats, Dove. And this is a category we know very well. We serve consumers at all price points. And what we've essentially managed to do is to make sure the fundamentals are strong. The mental and physical availability is optimized, and product experience is as expected, but they continue at the right price point. So, we do see the mass of the market coming back quite strongly on Hair Care. Let's also recognize it is a very hot quarter. We, of course, have continued secular trend in the top end of the market, which is more premiumization. That continues to be resilient. So, it's not that the premium end has stopped growing, that is still there, and therefore, both the engines of growth of the core mass end of the market as well as the premium market are vibrant and robust as far as hair is concerned.

Coming to your point around -- and we have a great portfolio, as you know, and hair as well. We cover all price points, right, from Clinic Plus all the way up to TRESemmé and more to happen there. When it comes to Oral Care. We are -- we have a strong position with one brand, and we tend to take the lead from market leaders, and we have taken growth driven more by pricing. But recently, also, we have relaunched Close-up brand with a very, very superior formulation. We expect that to have a strong impact on our brand power and we have some geographies where we are very, very strong and expect the volume growth to come back when it comes to Oral Care.

And there are, of course, opportunities to make that better with a better portfolio, and that's the job we're on because, as you know, we are test marketing Pepsodent with the new mix in the South.

So far as mass Skin Care is concerned. This is mostly the discussion is really about GAL or Glow & Lovely, which as we know, is deeply penetrated. It's still a discretionary category when it comes to rural. As rural recovers, we expect Glow & Lovely to also get benefited by that macroeconomic trend but we're not waiting for that to happen. We are modernizing the brand by making sure that we have the right market development inputs in rural areas.

And in urban areas, we are making sure that we have not just the right communication, but also we are launching the Glow & Lovely in different segments, there are hydro segments like Suncare, as you heard from Ritesh

also in serums and so on and there is, of course, there's a light sensorial glass finish just being launched so that the brand remains relevant both for access to people deep in rural and urban, but also starts to become, made available in parts of the market that have got tailwinds to begin with.

But yes, I think our larger role there is to transform -- we're gaining share in almost all segments we play in. But the real deal there is to keep our strength in mass, but also start to transform the portfolio sort of flying both the engines there as well. So, I think that's the broad narrative for the 3 categories. Just to be doubly sure in Oral Care, we are gaining market shares. So even though it's more value led, it is competitive growth.

Abneesh Roy:

That was helpful. My second and last question is on Slide 6, where you have given the competitive performance. So here, you have given two numbers. One is the market share number at 55%, you're gaining back in 55% of the portfolio. Second is the brand power number at 75%. So, I wanted to understand, is there any lag effect between these two numbers? So could your market share eventually catch up with 75% brand power number.

And second is now we are at the end of the commodity inflation deflation. So, in the past, we have seen your market share number, which is currently at 55%. It was -- it has been a 75% number also. So, would you be confident of getting that back? And second, those pending categories, will it be essentially Tea, Personal Wash and mass Skin Care. Will those three be the pending categories in terms of market share gains?

Rohit Jawa:

Okay. So it's a broad question on competitiveness. Let me start by stating two principles or two metrics that you see on that chart #1 is the depth of winning, which is really our average market share over a period of time. The second is the width, which is what percentage of our business is gaining share. So, basically more than 0. So it's not a whole, if it's 1, then we take that as a gaining share category.

So on the depth, the big message is that since March 2021 from when the whole inflation-deflation cycle started, we are still holding thereabouts of the 200 basis points of share gain that we have gained, which is in that sense is unique in this cycle because in the past cycles in other categories, people tend to -- the leaders tend to give back the shares when deflation comes in, but

we've been able to hold by and large, the same level of corporate market share, which, of course, has been more represented by big categories like laundry, personal wash and hair and so on and so forth, which I think is quite commendable, and we intend to keep doing that going forward to keep that. That's sort of our mission is to sort of remain stronger as we come out of this inflation-deflation cycle and basically gain net-net.

The second is about the width point. As I said, the width is a pretty tough measure. It's a 0-1 measure. So we have indeed been high in the past, and we had come down, but we've seen an encouraging trend based on our focus on fundamentals to get our business right in terms of its price quality equation and to make sure that we adjust to the new reality, which we have. And we can start to see that come through in our competitiveness, the breadth of our competitiveness. And you see that, of course, strong growth in Laundry, Hair Care are basically helping.

How is that related to brand power? Brand power, we have given you a measure that means holding and growing. So that 75%, of course, brand power is the leading indicator. Brand power continues to grow, then normally, we do expect our brand shares will follow. So our intention indeed is to do the 2 things is to make sure our mental availability, quality of our mixes, our in-use experiences, all of that continues to be strong.

And then as fundamentals are strong, the outcomes follow. And that's why we are indicating that we expect to keep increasing the trajectory of our market share breadth as well in the quarters to come.

Ritesh Tiwari: Yes. Let me just to clarify, on Tea, we have always gained market share, and we continue gaining market share, both value and volume. The strategy was on that mass skin cleansing and mass detergent bar are the two large pockets we have called out in the past.

Abneesh Roy: In Tea are you gaining share even from the local player because the last 2 years, there is inflation, deflation even in Tea. So, I understand you are gaining from the other large national players. But are local players also losing share to you?

Ritesh Tiwari: Yes. So overall, Tea as a market all put together, premium, mass all put together, Tea as a market, against that market, we are gaining market share,

both value and volume. Now the dynamics is in the market exactly to your point, overall, the market growth of Tea has been subdued because the market has kept downgrading and hence losing value overall as an aggregate.

But as far our shares are concerned, we have gained both value and volume share. But those value and volume shares have not translated into headline high growth as a category for say shrinking with value degradation. So, there are two different things happening at the same time.

Rohit Jawa:

But the corollary to that is that it is our mission as one of the leading players in the Tea industry to invest behind the category growth agenda, whether it be through upgradation, to improve quality, helping the small holder livelihood, the farmers in the Tea states, because the health of the Tea industry is directly linked to the health of our business. So, we as responsible leaders are thinking of ways and means in which we could also as a category creators do that work.

It might be medium- longer term. But there are cycles but on the whole, and I look at some numbers. On a longer-term basis, the Tea industry grows 2%, 2.5% by volume and about 2%, 2.5% by price. But in the recent past, it's basically been through some deflation. But we're hoping that with the recent trends that we saw last quarter and all the efforts that the marketplace will do, then the market goes back to its secular growth of about 4%, 5% in total value terms, which is what it's been in the past compounded.

Moderator:

The next question is from the line of Mihir P Shah from Nomura.

Mihir P Shah:

Congrats on a good performance. So, my first question is on soaps. Soaps has come back to low single-digit volume growth from a high single-digit volume decline in the previous quarter. Is there any one-off like inventory fill up that one should keep in mind? Or can this improvement in performance continue? And a similar question on dets. After 4 quarters, detergents has returned to high single-digit volume growth. Can this performance continue? Or this is just a one-off?

Ritesh Tiwari:

Yes. So, on soaps, no, there was no one-off, which drove the quarter performance. Remember, when last time, we had Mihir spoken about our skin cleansing soap business. We had called out four different actions that we wanted to deploy. A, we said we are going to now intervene and improve our

product quality dramatically. Basically, what we were leading to is what we ultimately have spoken about a quarter later now that we have deployed stratos technology and significantly improved our product quality. So that's action number 1. It is in the market as we speak.

Action number 2 was pricing. At the mass end of skin cleansing, we mentioned that we had to give more value to be competitive. Those actions happened in the month of March and, of course, all through the quarter, June quarter, that second intervention that we have done. Third was dialling up the pace of innovation, be it Dove, be it Lux. So, we have done variants, we launched more amount of innovation in the portfolio. So, the innovation intensity of skin cleansing has gone up, as we had mentioned as our third action.

And the fourth action we had committed to end up doing is in the entire Channels of the Future, leading in with more promotions, more presence in stores and more innovation in those format of stores, even that we have executed. So, all four actions we have executed early signs in terms of reversing the trend of declining volume to increasing volume, albeit at low single digit. We do believe that these actions continued over the next few more quarters will start making our business stronger and which should end up doing better growth and then better share outcome as well.

Now coming to Home Care. Home Care, we have a pretty solid portfolio across price tier from mass to mid to premium to formats of the future of liquids and pods. So, we have a complete portfolio. And our entire portfolio is doing well in terms of across bars, across powders and across liquids. The area which we had called out, mass detergent bars, we have now gone through the entire inflation and deflation cycle. Our business model is completely protected because we stayed true to our business model and now we have come back to our scale of the business we had pre- inflation deflation cycles. And good news is in the latest 12-week market share, we're also gaining market share in mass detergent bars. So again, I would say an all round performance. There are no one-offs. We do believe the strong momentum to continue.

Mihir P Shah:

Fantastic. My second question is actually again on TFM. Just to clarify, does the new formulation aid you in lowering the product price in any way while

maintaining margins? And in your assessment, how much lead time would you have until competition can re-engineer the product and any market share movements that you have witnessed over the past few months? Or is it too soon to expect any change on that?

Ritesh Tiwari:

So let me start with market share. Market share too soon to expect change. Remember, all the 4 interventions, and we are at it and hopefully, in times to come in few quarters, we should start seeing positive impact of this intervention. Now the entire change has happened in formulation, which doesn't mean the soap bar has become smaller in size. That's not the case, Nor the grammage for that matter has become lesser for the price value we end up giving.

This is a change of formulation where an ingredient called palm oil is replaced by a set of ingredients like polysaccharides, vitamin blends and skin actives. That is what makes the formulation more richer and which is why we called out that it's a formulation, which is more superior, both in blind consumer test and also in clinical tests.

So, coming to TFM, the point I was explaining as part of the prepared remarks earlier, a typical soap bar is a structurant, which is typically 75% to 80% is in a soap and the main ingredient, which gives you lathering, which gives you cleansing properties, which gives you fragrance delivery, that is typically 20 to 25 percentage. Now what we are reducing is, of course, not the 20, 25 percentage that gives all the skin benefits. In fact, that has got dialled up.

It is the structurant, which is insoluble in a bathing process, it gets washed out and goes in the drain, that is the environmental load that we have taken off the formulation. And that has in no way impacts overall product quality. TFM is not equal to product quality. So, take an example of body wash. A body wash it has approximately up to 20% TFM, why? Because there is no structure in the body wash. It's the delivery mechanism is water there, which is not the case in the soap bar.

So, the delivery mechanism there is the format of structurant, which comes through palm oil. It comes through water in a body wash. And hence, body washes are typically up to 20% content of TFM. So, I hope that explains the

composition and give you comfort that the product quality has only got further stepped up as part of this formulation change.

Mihir P Shah: Right. No, I was referring to product price, does it help you to lower the product price while maintaining margins. But I get the point that you're making?

Ritesh Tiwari: Yes. See the product price that I was mentioning earlier, all change put together has only further stepped up the formulation quality, and we've invested in the formulation. So, there is no trigger for us to drop product price. The point I was mentioning earlier to a question, if there's a significant volatility and inflation in palm oil, we have insulated better compared to what we were earlier with the change in formulation.

Overall, when brand becomes stronger, brand power becomes stronger, of course, our ability then to price it appropriately also then become stronger, and that's the whole intention behind this superior product.

Mihir P Shah: Got it. Perfect. Ritesh, one bookkeeping question. Any one-off in employee cost? Or can will this cost be the new normal going forward?

Ritesh Tiwari: There are no one-offs in the current period costs. There's all the normal cost, and these are the periods where we have true ups we end up doing in a typical June quarter on our long-term payout. So this is all, I would say, normal year-on-year cost there is no one-off.

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

Latika Chopra: Let me take my first question as a follow-up from the prior question on soaps. Is my understanding right that you have launched this new formulation only in Lux and Lifebuoy as of now and in that also on select variants? And what is the benchmark kind of consumer response you would be watching out for a timeline before you would intend to kind of extend this to other soap brands? Is there a thought process like that?

Ritesh Tiwari: So, Latika, thanks for the question. So, this has got done across Lux, across Lifebuoy brand for us. And remember, the formulation that you see is very different, the chassis of formulation for Dove and Pears is very different, any which case. So, this is more applicable to Lux and Lifebuoy, which is where we have done the change, number 1.

Number two, the point I mentioned that the benchmarking that we have done, both clinical studies of in lab and with consumer, this has been done across formats and across thousands of consumers, both with our own products and with other products in the market and the conclusion of having a blind product win is when benchmarked with other players in the market. So, it's a superior product formulation to the consumers have perceived it, gives a better skin feel, gives a better skin barrier and deliver fragrance far better.

Latika Chopra: But there are no plans as of now to consider a renewed formulation for the other brands, right?

Ritesh Tiwari: As I mentioned, see Latika, between Lux, Lifebuoy, which has changed, a large part of the business. Dove and Pears are already at different chassis of formulation, which means no need to change anything there. Bulk of the business sits here.

Latika Chopra: All right. Understood. The second bit that I wanted to understand was I heard your comments on rural demand where you are seeing some green shoots. But I wanted to check on what's the sense you are picking up on urban brands. Is there any changes in pace of growth, any geographic variations you want to call out which could have seen specifically...

Moderator: Sorry to interrupt, Latika, but the line for you is not very clear in between.

Ritesh Tiwari: Latika, if you don't mind, you started talking about rural. We lost you for last 20 seconds.

Latika Chopra: Sorry about that. I was checking on your comments on urban demand. Have you sensed any changes on the pace of growth in some of the urban markets? Any geographic variations you may want to call out, which you're noticing?

Rohit Jawa: No, because it's difficult to call out trends with just 2 or 3 months of data points, but it's been the channels like e-commerce continue to grow strongly. Modern trade on the whole and in the quarter grew around the same levels, a little bit lower, but I think that's more a blip. But generally, the fact that it is growing much faster. And this then represents the big cities between e-commerce and modern trade. General trade, which is more the mass of the market, grew slower than the other 2. So, no real material change.

The big blip to note is the fact that rural grew faster. Although a 2-year CAGR basis, it's still lagging urban, but in the last few months, it grew faster in volume, and that is the more notable change, frankly, from the last 3 months. And it's a continued trend from the quarter before that.

Ritesh Tiwari: And Lathika, as we called out earlier, the last few quarters, we've seen urban, organized and premium driving FMCG market growth. To Rohit's point with rural recovery, the latest signs that we've seen for the last few months with hopefully a decent outcome of monsoon as harvesting happens of kharif in October, November. And the leaning in that we have seen across the board in the budget, which should all augur well for rural consumption demand to come up, which means mass will look better going forward as well, along with everything else which has been looking good till now.

Latika Chopra: Sure. I'm sorry, but if I could just squeeze 1 clarification. I'm just tying in your comments on overall EBITDA margins to be stable with the segment margin performance that you've delivered, except for Beauty & Personal Care so the other segments have done well on margins. So are we saying that Beauty & Personal Care segment could continue to see higher marketing investments to keep the overall company margins stable? Or do you anticipate any risk to margin profile of, say, home care because of, say, more competitive activity being seen in liquids, or you've been kind of now pushing Rin as well on the liquids front. Just trying to understand tying the comment segment wise versus the overall margin.

Ritesh Tiwari: Yes. So, Latika, If I take a step back on margins. See, the drivers of margin improvement, which is driving net productivity across all the lines of the P&L, improving mix across the business, 300 bps more premium portfolio today compared to 3 years ago. Those are the operating leverage, hopefully, going forward, with more amount of pricing compared to what we had in the last recent quarters compared to that. All that should augur well in terms of overall operating margin and leverage.

Short term, as we had mentioned, our current intention is to hold on to our margins. And of course, in moderate and medium term, we'll end up going for modest margin expansion. Now your specific questions on segmental margins. You've seen we spoke on all 4 segment margins separately. They're

all healthy to start with. Beauty & Wellbeing, of course, given the portfolio, given the price point at which itself, it makes better margin.

And we had called out that one of the reasons why we wanted to split and start talking about Beauty & Wellbeing business model separately to Personal Care model because the amount of investment will end up doing in Beauty & Wellbeing. And we also have shared our numbers in the previous prior quarter prior year as well. And you see continuous leaning in or in terms of investments in Beauty & Wellbeing. Now the good news is as that business will start growing ahead of the average of HUL, it will also be accretive in terms of mix to the portfolio. So, though we might invest more in Beauty & Wellbeing, but the fact it makes better margin, there'll be mix positive impact overall to the margin.

Coming to Home Care, it's a complete portfolio across all the price point packs. And yes, there have been competitive intensity across the board, but I think we have a pretty resilient business model from a portfolio perspective and also from supply chain capabilities perspective to hold on to the kind of margin structure we have and keep doing the job in terms of driving as we keep calling 4G growth, competitive, consistent, profitable and responsible growth. That's exactly what we want to do for all the segments, including Home Care, and we feel confident about it.

Moderator: We have the next question from the line of Percy from IIFL.

Percy: My question is on the Skin Care portfolio. Would you be able to give me some idea on the growth of the -- at the industry level for the Skin Care? You have given some sort of colour on mass versus premium in your own performance. But at an industry level at an overall mass plus premium, is the growth in Skin Care sort of robust? And is it higher or lower than your overall Skin Care growth?

Rohit Jawa: We are gaining share across segments. On the whole, the Skin Care market is at per capita levels that are still low with beauty quotient and the aspiration increasing, we see many years of growth. So, what we have to do now is to transform our portfolio and shape it towards faster-growing segments such as premium face moisturizers, the big bets that we have spoken about.

And that's really what we are now trying to do. Our main brands like Pond's and all are growing quite handsomely well over high double digits. Where we have to do more work is to try and transform portfolios faster. And two, on Glow & Lovely, we need to invest behind rural market development as macro improves, but at the same time, make the brand Glow & Lovely more contemporary and more modern and as we're doing, offering value-added variants to the consumers in the urban areas. And it's a large part of our Skin Care business. So really, that's the job to be done. Everything else is growing in line or better than the market.

Percy:

So here is the context to my question, Rohit. See, basically, we have seen at an overall level, slightly lacklustre growth in Skin Care. And if you're saying we are gaining market share across segments, it means the industry growth is even lower than that. Now typically, what we see in industries where there is a trend towards premiumization is that it adds to the normal growth, whereas in skin care, there is definitely a trend towards premiumization, but the growth is actually coming even below what a normal growth should be.

So just not able to reconcile this kind of behaviour as an industry.

Rohit Jawa:

No, you're right. We would like to have higher growth than we have delivered this quarter on Skin Care. It's mainly to do with our mass Skin Care business. Our premium Skin Care business and our big bets in more specialized segments are growing ahead of the market. So, where we have to do work is to ensure that our Glow & Lovely mix remains relevant. And some of that is to do with the discretionary nature of that category in the rural areas. But there's also what we have to do is to make the brand book contemporary and make sure that it remains relevant for our consumers in the urban markets as well. So we would like to clock better growth than we have in total Skin Care, and that is what we will, we are determined to do as well. So that, does it help you answer your question.

Percy:

This point a little bit more, but at the rural consumer of Glow & Lovely, what is happening there? Is he leaving Glow & Lovely and going out of the category altogether temporarily? Or is he moving within the same segment to another brand? Or is it premiumizing? Out of these three behaviours, what do you think is the dominant behaviour of a rural Glow & Lovely customer?

Rohit Jawa: I think last quarter, specifically in the last one or two quarters, specifically, we also see some degree of category stress in the rural areas in the small pack users and it could well be temporary. And therefore, I think we should not call that a trend as yet. There is, of course, upgradation, but that's more in the urban phenomenon. And because Glow & Lovely is the large majority share in the rural areas, we are the market, so to speak. So that's really where we have to invest in market development.

And in urban areas, especially in the lower urban, smaller cities and also lower income urban areas, our job in Glow & Lovely, which is a large part of our business is to make it more modern contemporary and that's the job, that's the piece where we have to do more work. But the parts that are like Pond's as a brand, Lakme, Simple, Love Beauty & Planet, all the big bets are exceeding our expectations and are doing very well.

Percy: Got it. I just have two hygiene questions. One is the employee cost on a Y-o-Y basis has declined 7%. So if you can give some reasons and whether how sustainable this is, that is one? And secondly, in the press release, you have mentioned some structural changes in the Fabric Care division. Can you elaborate on what you mean by that?

Rohit Jawa: I'll take the Fabric Care point, and then I'll hand over to Ritesh on the employee cost. What we mean there is that in the Laundry Care area, we have adjusted the price and quality and made it competitive across all our WiMI cells and that has resulted in what we see as outcomes on our market share when it comes to our powders and bars portfolio. We have also structurally expanded our portfolio on liquids where we launched successfully the Tier 2, which is getting good traction with Rin liquids.

So, we always have a structural portfolio advantage because we cover all price points. And there were a couple of areas where we had gaps in the last few quarters and those have been corrected and we can start to see the resonance on our UVG, which, as we said, we shared was high single digits and our competitiveness, which is now we are competitive in the last three months and we're seeing that trend deepening.

Ritesh Tiwari: To pick up the question on employee cost. As I mentioned earlier, that typically in June quarter every year, we do a true-up of our ESOP, which is

shares where the cost we provide, against that we actualise it. And that true-up has happened in this quarter also, like every other June quarter. So, year-on-year, there is no impact. But when you look at sequentially quarter-on-quarter MQ over JQ, you will see that impact coming in, in the employee line. But sans that it's normal. There's nothing else. So, year-on-year impact, but sequentially, you would see ESOP being 1 element which leads to a different number in absolute compared to what you saw in March quarter.

Percy: Right. So, the number that we have for this quarter, that's a sustainable run rate for the remaining three quarters?

Ritesh Tiwari: So, this is a quarter I mentioned there's a true up which has happened and a credit, which has gone into for employee costs, which was also the case same period last year as well. But let me give you a full year number. So, for example, our total other expenses, employee cost and other expenses put together is roughly a little over 13%, a 13.4%. The way you should see that our other expenses bucket, which is employee cost and other expenses put together, it should be in that range typically. So, it will be a little bit up and down on a quarterly basis, but it will be in that space in that range.

Moderator: The next question is from the line of Jitendra Arora from ICICI Prudential Life Insurance Company. Please go ahead.

Jitendra Arora: Just one thing I wanted to check in the HFD, we are saying that we are gaining share, plus the market penetration is going up. However, the volumes are not growing. So is the overall market shrinking? That's the only logical conclusion I can draw.

Rohit Jawa: So, let me take this. On the HFD, penetrations are growing. So, we had said the job we had to do. So, let's pull back a little bit, on nutrition drinks, our job is to grow the market because we believe there's a micronutrient deficiency opportunity for us to serve that gap and our products are clinically proven and we have a great portfolio of Horlicks and Boost and many formats and segments and assortment within that.

So, let's start with the first mission. So multiyear, what we have to do or want to do is to basically drive market development through more users, more usage and I'll come back to that point and more premium or more value-added benefits. So as far as the more users are concerned and I'm not

speaking just of one quarter or the other, we are increasing in penetration. So, we are getting -- our products are getting to more consumers.

Secondly, on more premium, the premium-end of our portfolio, especially the one that's backed by adult science, so specific conditions to which we serve, it's sizeable already more than INR500-odd crores and growing double digits, give or take, some one-offs. So that continues to be on track. On more usage, it is true that last quarter, we have seen a very hot summer impacting the consumption and it has declined in volume terms, especially through our core variants. And as we know, the weather starts to normalize, we expect that should be addressed.

We do see all leading indicators of this category. So, brand power I mean, at the highest ever, so all our work on single-minded proposition communication, leveraging the seasons and exam for instance, or monsoons with the right kind of proposition, Winning in Many India's formulation and pricing, all of that seems to be paying fruit. So, we have very strong brand power and our market shares even in a market that was muted in last quarter, increasing in both volume and value.

We are very hopeful, so we feel quite good about the strength of our portfolio in this category and we should see this go back to growth and we have to keep doing the three things: the more users, more usage and more premium as sort of a multiyear strategic job of making this category grow and of course, you do have the white space opportunity North and West, where we are not very, very big at the moment.

Jitendra Arora: Sir, that is understood and I appreciate your brand strength and the mission which you've set. But again, coming back to the question, is the market as overall declining?

Rohit Jawa: The market has not grown last quarter because of the extreme weather.

Moderator: The next question is from the line of Aditya Soman from CLSA. Please go ahead.

Aditya Soman: A couple of questions. So firstly, can you give us a sense of what the contribution of modern trade and e-commerce is to the overall business? And within that, how much is quick commerce as a proportion of e-commerce?

Ritesh Tiwari: Yes. So typically, we called out roughly 70-odd percentage is our general trade, and we have a little over, let me say, 25-odd percentage we have between modern trade and e-commerce and we have 5-odd percentage which sits basically across our government channels that end up doing. So the way I want you to see is 70-20-10, 70 GT, 20 the channels of the future and 10% everything has put together.

Aditya Soman: Understand. Very clear. And second question along the same lines. I mean would your gross margins for the same SKUs be similar across the channels? Or would they vary -- and if they do vary, would that variance be significant?

Ritesh Tiwari: See the way we do this, our portfolio that we sell across channel is very different. So, sachet gets sold, for example, in general trade, but a large bottle gets sold in modern trade and a small bottle will get sold in general trade. So, portfolio is very different. And one of the key objectives that we have is exactly to do that. Design for channel is the principal basis which we end up doing our pricing across different brands and offering across the channels.

If a pack is available across MT, GT and e-commerce for a minute, let's assume that's the case. There, we are very disciplined with the price that we end up selling at across the channels because you want to manage channel conflict extremely well. So, the way you manage pricing differently across channel is by offering different brands and different price points and different pack sizes. But theoretically, same product gets offered idea is to ensure that we maintain pricing discipline across channels.

And coming to overall margin, if I take a bottom line and answer to it, our margins in channel of the future, let me say, modern trade is better than general trade and it comes predominantly from the portfolio premium that we end up selling in modern trade.

Aditya Soman: Understand. That's very clear. I think it was very clear that the margin overall at a bottom line will be better. I was just trying to understand from a product perspective, but I also get what you're saying about the SKU is being different. So, the way to think of it is that to avoid any sort of conflict, you would usually avoid the same SKUs across the 3 channels, would that be...?

Rohit Jawa: There are overlaps. But of course, the intention is to differentiate. The shopper missions are different now between say quick commerce and beauty

commerce. General trade, the kirana store would have a different set of customers. So increasingly, the market is getting segmented, and we have to consciously and we have been cautiously designing for channels across, in fact, we are now designing for customers.

Aditya Soman: Understand. And maybe just one last follow-up. Would then the mix in urban India already be almost 50-50 for sort of modern retail and...?

Rohit Jawa: In metros, yes, that could -- I'm not speaking with exactness. But yes, in top cities, it could be as high as 40%, 50%.

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

Shirish Pardeshi: I'm just looking at the segmental performance. In Jan-March quarter, the F&R segment has done INR 3,900-odd crores. And this quarter, we have done INR 3,850 crores. So, four sets of observation, I think last few quarters, we've been struggling milk inflation was higher, the category headwinds were there. We have invested very heavily in terms of sampling and sachet and even penetration.

Now the question here is that this time summer was better for the ice cream business. And there are some talks that there is some business review will happen internationally for the ice cream business. So, if the HFD portfolio is going to be key and important, how we should think for next three to four quarters, how this category is going to behave assume that if ice cream business is divested.

Rohit Jawa: No, we can't assume that it's divested because the Board has to make that decision and it's only 3% of our business and HFD is much bigger. So, we do have an inherent hedge in that soaps and shampoos tend to be seasonally positively for summer and HFD is seasonally negative for summer. It's normally the case because it's -- and it does peak in monsoons, September quarter and December quarter. So, there's some seasonality. It may not be that skewed.

So we have -- given that we sell so many different categories, although through a focused list of some 20 INR 1000 crores brands, I would say that we're pretty hedged. And so far as HFD is concerned, it's a more medium to

long-term commitment because we are growing in high double digits in the adult science portfolio. It's already sizable at INR500 -INR600 crores. And that's where we see growth. We still haven't fully exploited the white space in North and West. And we will get there when we can prioritize that with adequate resources.

So there is a lot of levers of growth, and we will stay committed multiyear to grow this category given the fact that it also serves an important micronutrient need. And both Horlicks and Boost present two very good brands with very different and sharp propositions and that can serve the nutrition needs and those nutrition needs are very urban in nature and also link very heavily to the per capita consumption growth. And as the country develops, the need and desire for Nutrition & Health is a secular macro trend that these two brands will be very, very well positioned to serve. So that's how -- I don't want to like specifically comment on one or two, three quarters. I'm seeing this more as a three-to-five-year game and that's what we committed on. And I feel the brands are very strong. And we're in a good place and we just have to sharply follow that path with strategic discipline.

Shirish Pardeshi: That's helpful, Rohit. My second and last question to Ritesh. In your NMI chart, Slide 13, if I observe that your NMI and the price, the gaps were much higher, if I look back three quarters before, which is now diminishing. So does it make a case that with the food and palm prices forming up. Do you think very soon we'll have to take price increase to defend our margin? Or do you think the operating leverage and the three, four things what you have said in terms of mix is enough for us to defend the margin?

Ritesh Tiwari: Yes, see two things perspective, Shirish, out here, where the commodity is at this point in time, I give a very clear pricing outlook. Excluding the one-off impact, which will end up lapping next quarter, we'll have a near zero price growth in short term. And I do believe that going forward in second half of the financial year, we should have low single-digit pricing unless there's a dramatic change that happens from now in a few months' time to commodity basket compared to what you see out here.

The only element which we are not sure is Tea. Tea has seen inflation. We don't know what the rest of the season will end up bringing to itself. But if you see all in the commodities they are pretty range bound at this point in

time. So hence, what are the levers for margin going forward? What I was alluding earlier, lever for margin going forward is mix. We do want to drive premium. We do want to drive B&W higher than the average of Unilever, HUL. And this is why you will end up seeing that mix impact should come in terms of benefit.

Number two, we have a pretty strong program of driving Project Symphony (name of the project), which we call internally . And that's basically driving savings across all the lines of the P&L. The essential ambition and the objective of that program is to keep generating savings across all lines of P&L to be able to invest behind the business, not to deliver net margin, but to invest behind the business. Where we are given commodities, given market, given investment needs, given innovation intensity, we do believe that we will maintain our current levels of EBITDA margin in short term.

In medium term, the point I mentioned earlier, we will end up doing modest improvement. And that modest improvement will come with a combination of mix and operating leverage. I was quoting earlier other lines of expenses. For example, other expenses which is typically 13.4 percentage this quarter, we want to maintain that number at 13% to 13.5%. If you look at our employee cost, yes, it's roughly 4.5% to 5%. We want to maintain at that level overall org efficiency to ensure that number remains between that 4.5% to 5% corridor. So if I add between the two, we're talking 17% to 18% overall other expenses and employee costs put together. So we want to maintain our entire organization productivity at that level. And then double down on gross margin to keep generating fuel for investment.

Moderator:

Thank you. Ladies and gentlemen, we will take that as a last question for today. I would now like to hand the conference over to Ms. Shilpa Kedia for closing comments. Over to you, ma'am.

Shilpa Kedia:

Thank you. With that, we now come to the end of the Q&A session. Before we end, let me remind you that the playback of this event will be available on the Investor Relations website in a short while. Thank you, everyone, for your participation and have a great evening.

Moderator: Thank you. On behalf of Hindustan Unilever Limited, that concludes this conference. Thank you all for joining us. 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.