September Quarter 2019 Earnings Call of

Hindustan Unilever Limited

14th October 2019

Speakers:

Mr. Sanjiv Mehta, Chairman and Managing Director

Mr. Srinivas Phatak, CFO and Executive Director, Finance and IT

Ms. Suman Hegde, Group Finance Controller and Head of Investor Relations

Operator

Ladies and gentlemen. Good day and welcome to the Hindustan Unilever Limited Q2 FY '20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now hand the conference over to Ms. Suman Hegde, Group Controller and Head of Investor Relations at Hindustan Unilever Limited. Thank you, and over to you, ma'am.

Suman Hegde

Thanks, Raymond. Good evening, and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening the results for the quarter ended and six months ended 30th September 2019. On the call from HUL, we have Sanjiv Mehta, Chairman and Managing Director; and Srinivas Phatak, CFO, HUL. We will start the presentation with Sanjiv sharing his perspective on the markets and HUL business, and then hand over to Srinivas to share aspects of our performance for the quarter. Before we get started with the presentation, I would like to draw your attention to the Safe Harbor statement included in the presentation. With that, over to you, Sanjiv.

Sanjiv Mehta

Hi, Good evening, everyone. Always a delight to share our thoughts with you and thank you for being on the call today.

You might as well say that our strategy is boringly consistent. Indeed, it is. It is about delivering consistent, competitive, profitable and responsible growth. Our thrust on sustainability agenda and enhancing digital capabilities across the value chain by 'Reimagining HUL' makes us confident of building an organization that is Purpose-Led and Future-Fit. I'm delighted to share that HUL has recently been named as a 'Purpose-led Company of the Year' by Business World. This is a testament to our purposeful brands and to the DNA of our company that embeds purpose into their thoughts, practices, products and, in fact, in our very presence.

Now moving on to how the overall markets have been performing. First half of 2019 witnessed slowdown in demand led by rural. Rural consumption has been weak for the last few quarters due to macroeconomic factors that all of you are aware of. Urban consumption has also softened. However, the pace of deceleration is comparatively starker in rural markets. Crude and currency continue to be volatile due to geopolitical imperatives, global economic cycles and the trade dynamics playing out.

The slew of recent policy measures and announcements signal government's strong commitment to arrest and reverse the slowdown. The monsoons have been good and this together with the direct benefit transfers to farmers should help revise consumption to some extent. RBI has cut repo rate by 135 bps on a cumulative basis this year to boost the aggregate demand and private investment. In addition, policy measures to link lending rates to benchmark rates will accelerate transformation of rate cuts by RBI and thereby, improve the liquidity in the country and in trade. The mega announcement on corporate tax rate reduction is a big boost to the industry, makes India much more competitive and should accelerate investments in the economy.

We are quite hopeful that these policy measures will augur well for the near to medium term. How the virtuous cycle of investment and savings results in more income especially in the hands of the rural consumer is a key element we need to watch.

Coming to our performance, we have delivered a resilient performance in a challenging context. Our Domestic Consumer Growth stood at 7% with Underlying Volume Growth at 5%. We registered a strong 200 bps EBITDA margin expansion on a comparable basis. We are focused on sustaining growth in a challenging economic environment by significantly improving consumer value across the portfolio. We continue to invest in strengthening our brands, developing market and driving end market execution even harder.

At the same time, we are making good progress on our Sustainable Living agenda. Recently, HUL was named 'Corporate Trailblazer' by India Today and honoured for creating awareness and infrastructure in health and sanitation. This is yet another recognition of our belief in 'Doing Well by Doing Good'. This quarter, Unilever has announced two new and even more ambitious plastic commitments. Firstly, we will halve our use of virgin plastic in our packaging by 2025 by using more of recycled plastic. In this area, HUL is making good progress. This quarter, we extended post-consumer recycled plastic usage to Vim bottles and some part of Sunsilk portfolio. We will also continue to put thrust on innovating our products and experimenting with new business models to reduce the use of plastics altogether. Moving on to our second commitment, we will collect and process more packaging than we sell by 2025. We continue to work with various partners across several cities for collection and disposal. Finally, we'll continue to work towards existing commitments to ensure that all our plastics packaging is 100% reusable, recyclable or compostable. This quarter, we also launched a curriculum on waste segregation and benefits of plastic recycling to drive behavior change in nearly 2,000 schools reaching over 1 lakh students in select districts of Maharashtra.

We remain committed to building a Purpose-Led Future-Fit business and proving beyond doubt that sustainable business drives superior performance.

The key enablers to our resilient delivery amidst the softening market conditions are-

- First, we focus on strengthening the core by innovating, strengthening the reach, driving purpose-led engagements and acting on local trends. We launched #MeriBetiStrong campaign on this Daughter's Day with a purpose of raising a generation of strong daughters in sync with the proposition of Clinic Plus.
- Secondly, we continue to drive premiumization market development by investing behind brands and building a futuristic portfolio that straddles the price benefit pyramid. This quarter saw an example of how we build access packs like TRESemme, in sachet format to drive premiumization.
- Our third enabler is innovating for future. We've brought in several consumer relevant innovations in the market like Love & Care, Pears Naturale, Pond's Super Light gel. We continue to explore new business models and channels. In line with the agenda of 'Future-Fit' and even innovating on building differentiated capabilities, we co-created a course with IIM Ahmedabad for our distributors to help improve business skills and thrive in the rapidly changing environment.
- Lastly, we put relentless thrust on flawless execution to unlock operational efficiency in savings opportunity across all the lines of P&L, which continue to feel our growth.

Looking ahead, we remain confident of the long runway for growth that India offers. We are well positioned to leverage the growth potential of the Indian FMCG story. Under our 'Reimagine HUL' agenda, we have dialled up our digital transformation across the value chain leveraging data and technology. We have shared some of the work that we're doing in this area during the Annual Investor Meet. I must reiterate that an integrated end-to-end organization change program will strengthen our data-led capabilities moat. We remain optimistic and confident about what the future holds for India and for HUL.

With that, I hand it over to Srini to take you through the details of our quarter performance.

Srinivas Phatak

Thanks, Sanjiv. Hello, everyone. Sanjiv has given you a full context of the economic environment in the quarter. While there were headwinds clearly coming through from slowdown in the market, there were also challenges in the form of disruptions to the physical supply chain given the rains in various parts and there were also liquidity concerns elsewhere. In the context of this, I think our performance with 7% Domestic Consumer Growth, and 5% Underlying Volume Growth is actually a very robust and resilient performance. It's a good performance. Our Net Profit has grown at about 21% to reach INR 1,848 crores. This also takes into account the corporate tax rate reduction, which we have factored in and all of that has come into this quarter. And I will talk more about that when we come to a separate chart on this. The overall margin expansion was driven by mix, benign commodity cycle and our savings agenda. Overall, it has enabled us to deliver a good top line and a good bottom line growth.

If I were to talk about our divisions, it has been a steady performance across divisions. Home Care has continued its trajectory of consistent growth and grown at about 10%. This will be the 9th consecutive quarter of double-digit growth from Home Care point of view. BPC grew well at about 4%. Within that, it's a story of two halves. Personal Products had a good performance, and we'll talk a little bit about our Personal Wash business, where we have taken some pricing corrective actions in the quarter and ongoing as we speak. Foods & Refreshment delivered an 8% growth.

Our innovations and activations continue to be critical in terms of how we really run the business. And notwithstanding the macroeconomic environment, we continue to lead our market development, we continue to invest behind our core and therefore, what you really see on the chart is a series of innovations that we have put together. You've heard us talk about Love & Care, which is actually our expert care solution tailor-made for special fashion fabrics. I think that's a very interesting innovation, and it's a brand launch that we have done in this category after 30 years. Similarly, in Personal Care, you see a series of innovations, whether it's on gels, whether it's on bodywash or whether in the Lakme range. And I think, if you really see from our investments point a view, in the quarter, we have actually stepped up our advertising expenses both from a year-on-year perspective as well as sequentially.

Now, if I give a bit of a flavour from Home Care point of view, I think it's been a consistent top line growth be it in terms of our Fabric Wash, where I have talked about the Love & Care launch. We have also launched Magic Rinse powder sachets in Tamil Nadu, which helps us manage water scarcity. It gives great wash while managing the water challenge. Our Household Care continues to grow driven by bars in rural areas and liquids in the urban areas. Domex campaign has been taken beyond Andhra Pradesh and now, it is extended to Tamil Nadu. In the Purifiers, as you are aware, we are going through a complete channel transformation and focus only on premium. The premium segment continues to perform well post the complete change.

Looking at Personal Wash, in our previous call, we had spoken to you about taking a series of actions to address our mass part of the portfolio. We had talked about price reductions in the range of about 4% to 6% to pass on the benefits of benign commodity. We have landed most of these actions on Lux and Lifebuoy during the quarter. And as we speak into the current quarter, we will be taking further price reductions on other parts of our portfolio i.e. Dove and Pears. We had mentioned about 4% to 6% price reduction. So, if we now look at the total Personal Wash portfolio, total price reduction is likely to be circa 6%. You would have seen between 3% and 4% landing in September quarter and the balance you will see landing in December quarter. So, this starts to give you a flavour of what we have done with respect to pricing. On proposition, it's a work in progress. We have dialled up different communications and more will come in due course. And similarly, we will be addressing other aspects of our products. So, there is going to be a complete 6P holistic change, which you will continue to see over the next couple of quarters as we complete this journey.

Skin Care has delivered very good growth. It has grown double digit in the quarter backed by robust performance across the brands. We launched Pond's Super Light gel and some of the other ranges nationally. Elle 18 also has been launched in the Skin Care segment in select geographies. Hair had a good performance with broad-based growth across the portfolio and Sanjiv talked about the Clinic Plus #MeriBetiStrong campaign, which is quite an exciting and impactful campaign and we're really proud of that. Colour Cosmetics is again a business which has been growing at a good momentum for us and that continues. We continue to focus on the channels of the future. We also launched the Absolute Matte Revolution lipstick nationally, and there was also a purpose-led communication which got rolled out during the quarter. Oral Care had a good quarter, with growth led by freshness and naturals proposition. And obviously, you can see from the charts that we've also added some more variants addressing the opportunity in a certain segment with whitening proposition. Market context for Deodorants continues to be quite challenging, and we are doing a lot of work to lead market development. As a part of that, we launched the Axe Mini Ticket variant in select geographies. This is, again, an exciting format at an affordable price, and will really help us a long way in terms of building that category.

When I look at Foods & Refreshment performance, it has been broad-based growth across the categories, be it Beverages, Ice Creams or Foods. In beverages, we continue to drive growth by leveraging purposeful communication. New communication has been released for Taj, Lipton and 3Roses. While from Ice Creams point of view, our whole strategy of geography expansion is yielding results and we have seen good growth again in this quarter even though it's not the season. We can clearly start to see the results of geography expansion. We're also starting to clearly see the benefits coming through from the Adityaa acquisition. In Foods segment, we had a good performance across the segments. Kissan has been doing quite well. Its brand equity has further strengthened. And in terms of our ketchups, we continue to expand our market position versus the competition. Again, the WIMI strategy is working extremely well for us.

Now, when I look at segmental revenue, I think the numbers are clear. Margins continue to be healthy. Home Care is at about 18%, Beauty & Personal Care at about 29% and given that we have had phasing of some of the expenses in F&R, there's some bit of lowering of margins in F&R from sequential basis and year-on-year. It's because we have been investing behind our brands and our portfolio. And for us it's a phasing issue. At an aggregate, our margins continue to be healthy and, to be honest, we're quite comfortable investing behind this category to really lead market development.

That's again, a snapshot of the SQ numbers, and I think, the clear callouts would be Domestic Consumer Growth at 7%, margin improvement of 200 basis points on a comparable basis and I think it will be worthwhile to spend ten seconds explaining here. You would have seen the reported EBITDA expansion about of close to 310 basis points. If you strip out the effect of the leases, we'll come closer to 200 basis points. You would also remember that we had called out a bit of a change to the accounting treatment of government grants in the base period. Between the September quarter and December quarter, they negate each other. Having said that, in September quarter because of the accounting treatment, we are getting an uptick of about 50 basis points. If I were to call it out clearly for you, the best way to read it is

310 basis points as reported, 200 basis points is after stripping out the impact of leases and about 150 basis points is the number if I were to strip out the effect of government grants to meet more of a quarter comparison issue. When you look at the September quarter and December quarter together, they get completely phased out.

Another important piece here. We have made the change with reference to the corporate tax rate reduction. Two important elements to call out. While the statutory tax rate was at about 34.9%, our ETR was at about 30.5%. I think it's always important to focus on ETR here and eliminate PPA because it is more of a timing issue. We had indicated a slightly higher ETR for this financial year because some of our fiscal incentives start to come off. With the change, 25.2% will be the nominal tax rate. Again, it's good to talk about full-year number before we get into quarter. So, the nominal tax rate will continue to be 25.2%. But we will have two changes. We will have some disallowances, which we always do, and you can see those details in our annual report. We will also have to rebase our DTA as with lower tax rate, we'll lose some of the benefit that's factored in our deferred tax assets. So, if you make the change, the effective tax rate for this fiscal year becomes 27%. If you're going to project it into the future, let's say, from an FY 2020-21 point of view, the number is likely to be more like a 26% circa. Obviously, there will be a few basis points here or there change, but it's good to start thinking in terms of round numbers and hence, likely to be 26%. It could be 20 basis points here or there, but we'll deal with it when we come closer to it. All of these numbers are excluding GSK. Because we have taken the correction in September quarter, the effective tax rate for the first half and the quarter will be different, and that's what you see on the chart.

Now if I talk about our first half performance, again, this is a testament to our strategy, agility and how well positioned we are versus anyone else in the market to drive the growth, which is competitive and profitable. Our first half numbers are Domestic Consumer Growth at about 7% and EBITDA expansion of about 170 basis points.

Pleased to inform that taking into consideration our overall performance, the Board has recommended a dividend of INR 11 per share versus INR 9 of last year. And that's going to give cash to many of our retail and domestic shareholders in times where, I think, liquidity is at a premium and we're very happy that we are able to do this and pass on some of the cash to our shareholders.

Important to talk about the outlook for the reasons that Sanjiv has explained and everything that we see in the macroeconomic fundamentals around us. The near-term demand outlook continues to be challenging. I think we have seen many indicators move southwards. While HUL has continued to deliver growth, which is market beating, I think the demand outlook is definitely challenging. The various policy initiatives taken by the government and the Reserve Bank of India are welcome, and we believe that they will spur investment and growth and in due course, we'll also start to see step-up in the consumer confidence. I think the income transference to the rural areas will continue to be a key. So, we are hopeful about the medium-term opportunity, but we expect a little bit of time before we start to see this growth story come back to its normative potential. Important to clarify here, there is growth in the market. I think in a context of where we were a few quarters ago to where we are today, there has been a slowdown. Currency and commodities continue to be volatile, such is the nature. If you've seen, the crude has moved between $58 to $68 during the quarter. We expect some of that volatility to continue given the macroeconomic fundamentals globally and trade related and other tensions. So, all in all, this will require us to step up in terms of what we really do well, which is continuing to maintain agility and responsiveness in all our operations. Our strategy, again, as we say, and we love to say it,

it's boringly consistent, and that remains unchanged. We are committed to driving growth, which is consistent, competitive, profitable and responsible.
And on this note, I will hand it over to Suman for the Q&A.

Suman Hegde

Thanks, Srini. With this, we'll now move to Q&A. In addition to the audio, all of you on the call have the option to post questions through the web option as well. We will take up those questions at the end. Before we get started with the session, I would like to remind you that the call and Q&A session are only for institutional investors and analysts. And therefore, if there's anyone else who is not an investor or an analyst, but would like to ask us a question or engage with us, please feel free to reach out to the Investor Relations team. With that, I would like to hand the call back to you, Raymond, to manage the next session for us.

Operator

The first question is from the line of Abneesh Roy from Edelweiss.

<Q – Abneesh Roy>
Sir, congrats on good performance. My first question is on rural. So, in Q1, rural grew at the same rate as urban, while in Q2, it has become half of urban in terms of the sector. While If I see your overall growth in terms of volume, it's fairly similar, 5% in both the quarters on a reasonably similar base. So, does it mean that your rural growth would have been faster than what Nielsen is reporting for the sector or the urban growth for you has seen some acceleration? If you would please clarify on this?

<A – Sanjiv Mehta>
First, Abneesh, belated Puja greetings to you.
If we look at the market construct, the MAT numbers, the value growth which was in the vicinity of 9% has come down to about 5% in the last three months and the volume numbers which were about 7% have now come down a shade under 3%. And then, if you compare it versus our numbers, then it is very obvious that it is resulting in a market share gain for us. And you're absolutely right that the bigger concern is rural, where we always index versus the urban growth and in good times, it is 1.5x, it also touches 2x at times. And it's slowly been coming down and now it is at 0.5x of urban growth. So, urban has reduced, but the deceleration in rural has been at a much faster rate.

<Q – Abneesh Roy>
One follow-up question here is on liquidity. Till Q1, it was wholesale which was getting impacted. What we are getting in Q2 is that even distributors are now getting impacted. So, if you could share whether in your case also have the distributors been impacted? And what have you done proactively to support growth for both wholesale and distributors?

<A – Srinivas Phatak>
So, I think, Abneesh, the real challenge continues to be in the downstream, whether it is retailers or whether it's in wholesale channel. And if you ask me, I think the acute liquidity crunch has been felt there. If you really look at our distributors, we got 3,500 of them. Many of them are large and well positioned. They manage our stocks. They manage the market credit in a well-oiled way. So, I don't

think that has really caused any big changes. But if you look at some of the rural areas or some of the central parts of the country, the overall liquidity crunch is actually coming in. I think that's where we are really working with many of our banking and financial partners to find the right kind of solutions and support our distributors and that's working well. And we're looking at a series of measures to really do that. Having said that, in the quarter, we also had many disturbances. I think it's important to highlight that there was a lot of disruption to the logistics and physical supply chain. And there in some select cases, we actually stepped in to support our distributors through credit. It happened during the quarter and also, towards the end of the quarter. We also made some direct interventions, given the disruptions and the market conditions, on selective basis to support directly and that's also helping us.

<Q – Abneesh Roy>
My last question is on the GSK merger. So earlier, December was the likely deadline. Is there any change to that? I understand there is some delay. So, if you could discuss what is the new deadline, and what is the reason for this delay?

<A – Srinivas Phatak>
Yes. So, Abneesh, there are two sets of NCLT proceedings, which we need to complete. One is at NCLT Mumbai, which deals with HUL and other is at NCLT in Chandigarh, which deals with GSK. In case of NCLT Mumbai, we had the final hearing, and we expect to get the orders maybe in a couple of weeks' time. Fingers crossed, everything seems to be working well there. While the NCLT Chandigarh proceedings have moved ahead, I think it's taking a bit longer in terms of getting the dates and having the hearings. So, as things stand, while we still want to see Jan 1st, if possible, I think December is looking tough. If that'd be the case, possibly we could see 1 or 2 months delay versus what we initially thought, which was December. But, overall, it's progressing well, it could be a couple of months from where we originally thought.

<Q – Abneesh Roy>
Right, That's all from my side. Thanks a lot.

<A – Srinivas Phatak>
Thank you, Abneesh.

Operator

Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

<Q – Arnab Mitra>
My first question was on the corporate tax cut. So, just wanted to get your thoughts on how you think about this. Because this is an income tax cut, does it get retained by the company in terms of its earnings or because you get a relatively high windfall gain below the PBT, do you relook and revisit your margin expansion aspirations for the year? And do you play it along any other line of the P&L or because this is corporate tax cut, you retain the benefit?

<A – Srinivas Phatak>

So, Arnab, there are multiple ways to look at this. First is that we have some factories where we had fiscal benefits and now, there will be no longer fiscal benefits, or let's say the income tax part of it will come away. So, there's an aspect that we need to think in terms of what's the right manufacturing mix and how do we want to handle it? I think that's an important element we do. If we do that well, we'll be able to generate some more savings in gross margins and so on and so forth. I think that's going to be an important piece of work that we are doing. There are some interesting aspects in terms of what you can do with our supply chain. We have many third parties. There's again a case for us to relook as to how do you handle some of that and is it time to start bringing some of them in house. And if you do that, is there a benefit. Of course, you need to study the tax laws in terms of what you need to do. The third piece, which you also need to see is that is there a case for us to look at selective deployment of some of these monies to spur growth, lead market development, bring in further innovations. Of course, there is a case for that. There's also an interesting angle to see, how will some of the other peers in the competitive set react to it. So, there are three or four or five different angles to approach this. We are taking our time to pull together a few scenarios and work this through. And given it's a big change, I think we need to look at various aspects to it, and we will do all of that. I think the good part at the end of this is that finally, from an EPS perspective and, let's say, from a PAT perspective, there is value accretion and therefore, I think managing the lines in a sensible way is something which we will do once we work through the strategy.

<Q – Arnab Mitra>
Sure. My second question was on the competitive intensity. So, have you seen it remain stable through the quarter as the slowdown has worsened at an aggregate level or has it increased? And in that context, in the soaps, the additional price cuts you've taken, is it driven by an increasing intensity in the sector or is it something which naturally follows from your earlier two price cuts?

<A – Srinivas Phatak>
See, overall, from a competitive intensity, I will not say there's any big difference between where we were a quarter ago. There were pockets where we continue to see intense competition. Modern trade became a classic one where we have seen many people step up promotional intensity. I think that has continued. We have not seen a significant change to where we were.
On your second part of the question, which was around cleansing. I think we have explained in fair amount of detail. We've seen a significant benefit which is coming through from a commodity point of view. Some of the vegetable oils are lower by about 15% to 20% on year-on-year basis and they're expected to remain soft for some time. Hence, we made a correction. Of course, we have taken a series of steps with respect to Lux and Lifebuoy; one is to actually change the pricing between various packs and in some cases, it was a larger drop, in some cases it was a smaller drop. Given that the commodity is expected to remain benign for a further period of time, it's only natural for us to look at it from an entire portfolio and therefore, we talk about Dove and Pears in today's context. To us, it's more about passing on the right value to the consumer and therefore, driving consumer value and growth rather than being a reaction to the competition and what they are doing. I also called out for you, the effective reduction will be approximately 6%, a part of it has come in September quarter and the balance will come from December.

<Q – Arnab Mitra>

Sure, Thanks. That's it from my side. All the best.

<A – Srinivas Phatak>
Thank you.

Operator

Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

<Q – Vivek Maheshwari>
Hi, good evening. A couple of questions. First, this rural growing at half times of urban, would you remember when you last saw this number because as far as I remember, I don't think it has ever grown at half of urban to my memory. Is that correct?

<A – Sanjiv Mehta>
Yes. Vivek, first, it's been a pretty long time since we have seen the rural growth at half that of urban.

<Q – Vivek Maheshwari>
Okay. And I think in the previous quarter, you had mentioned you are hopeful that by second half, things will pick up. With the outcome that we have seen with whatever industry reports are suggesting, how are you seeing the second half? Does the recovery get pushed back to, let's say, 2021 or you are still hopeful on second half recovery?

<A – Sanjiv Mehta>
Vivek, as all of you know, there are two parts to how you could revive demand: One is having more income in the hands of more people and the second is giving a fillip to consumer confidence. Now, more income in the hands of more people could be through a conscious attempt by the government to transfer more money to rural people or it could be by increasing the MSP, which could result in the wage rate also going up in rural India. And as far as confidence is concerned, one good bit has been that in 30 out of the 35 divisions, we've had adequate to above average rainfall. So, that augurs well and that could translate into the confidence going up. But I think the critical complement would be that not only should the production go up, but the total realization of the farmers should go up. So, there are still variables at play. Our hope is there that things should improve. But at this stage, we are not seeing a sign.

<Q – Vivek Maheshwari>
Sure. And the other bit was on the launches. The launch activity continues to be good, which is certainly a great outcome. But in the context of slowdown in the market, do you think that there may be a case to kind of slowdown on the new launches and do it only when market environment improves?

<A – Sanjiv Mehta>
Our products, you could term them as small indulgences. And even when times are tough, you would still want to pep yourself up by having a good Magnum or buying Love & Care. So, as you know, we don't run the business on a quarterly basis or a short-term basis. We always take a long-term view, and broad strategy remains unchanged. We focus on the core. We will drive market development and

premiumization. We will keep focusing on driving efficiencies across the different lines of P&L. So, from that perspective, we don't do a significant change in the strategy. We might do a nick here and there from a tactical perspective, but we won't shy away from investing behind our brands and our categories.

<Q – Vivek Maheshwari>
Sure. And just 1 or 2 more, if I may, on the deferred tax rate, Srini, can you quantify, if possible, the amount of deferred tax asset that you would have reversed in this quarter?

<A – Suman Hegde>
Maybe, Vivek, I can take that question. We didn't reverse the deferred tax asset. You apply the revised tax rate on the deferred tax asset that you had because in the future, you will get value lesser by that extent. The quantification of that, as Srini mentioned, was about 1 percentage point for the year, which is why he said, in year is about 27%, but on ongoing basis for 2020-21, it would be about 26%. So, about 1% is the deferred tax impact in year.

<Q – Vivek Maheshwari>
So that means on a full year profit, there will be 1 percentage point delta. So, for the quarter, I can do the math and calculate it.

<A – Suman Hegde>
Meanwhile, you can do the percentage. Yes, you're right.

<A – Srinivas Phatak>
FY 2019-20: 27% and FY2020-21: 26%.

<Q – Vivek Maheshwari>
No. The effective tax part, I understood. My question was on the DTA just to get a normalized profit growth for this quarter.

<A – Suman Hegde>
1% is the deferred tax impact in year.

<Q – Vivek Maheshwari>
But on full year, which means that adjustment will be for the quarter here, right?

<A – Suman Hegde>
Yes. For the quarter, you'll see, 4%, if you do the math and multiply it by 4, yes.

<A – Srinivas Phatak>
I know it's easy to do full year, Vivek.

<A – Suman Hegde>
Okay, Vivek, I think that's a number. If you really want to, and if you're asking to give just the number, I will suggest if you can go through our annual report and you'll find the DTA numbers, just apply the new and the old tax rate.

<Q – Vivek Maheshwari>
Alright, sure, thank you and all the very best.

<A – Srinivas Phatak>
So, that's a good conversation. All of you can have a say as to what is the easiest way to work it through. 1% is the right way of thinking about it.

Operator
The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

<Q – Kunal Vora>
Thanks for the opportunity. How do you expect the distribution to evolve over the next few years with the emergence of technology-led B2B players such as Udaan and potentially Reliance also coming in? How do your traditional distributors see this? Any conversations that you had with them?

<A – Srinivas Phatak>
Kunal, that's quite a long term and strategic question rather than really focused on the in-quarter performance. So, look, if you really don't mind, I think we can take that separately, happy to clarify anything related to the quarter and the outlook now rather than a structural change, what's happening to our trade and the trade structure.

<Q – Kunal Vora>
Sure. Okay. You mentioned tax rate will be 26% for fiscal '21 and going forward. Is there a scope to reduce it further by setting up new factories? Any new investment plans which are coming up?

<A – Srinivas Phatak>
So, look, there is a provision which is available in terms of if you set up a new company. But, then it's a question of how will you think about it and what will you do? From a stand-alone company perspective, I don't think so if it's Hindustan Unilever. One will have to really think about something in terms of the new structure to unlock it. But otherwise, I don't see an opportunity to really bring it down from an existing HUL.

<Q – Kunal Vora>
Sure. Okay. And lastly, can you share an update on your tie-up with telco operators, Jio and Airtel, so like you're trying to do something on the consumer connect side? Any update which you can provide on that?

<A – Srinivas Phatak>
So, look, we are doing lots of partnerships. Airtel is one, and there are a few others actually. And these are all coming through in terms of whole aspect of how you digitize the traditional trade and there are a plethora of initiatives. So, there are partnerships with some fintech people, there are partnerships with Airtel and Jio that was talked about. There are a few others whose names we have not mentioned, but it's really about looking at different solutions. And many experiments are progressing well and

that's what we keep covering in our 'Re-imagining HUL'. Overall, it's progressing well and we're quite pleased with that.

<Q – Kunal Vora>
Okay. That's it from my side. Thank you.

Operator

Thank you. The next question is from the line of Bhakti Thacker from Investec. Please go ahead.

<Q – Bhakti Thacker>
Hello, sir. Congrats on your numbers. I have only one question left. What has actually changed in the Oral Care that the performance has been good and improved?

<A – Srinivas Phatak>
Thank you, Bhakti. For Oral Care, the two callouts for us have been all about freshness proposition, which is, again, aspect of Close Up; second is about Ayush and what we're doing in naturals. We've also now started to effectively deploy our WIMI strategy in terms of how we are focusing on a few geographies and how we are focusing on a few packs. And, we have also started to make the changes to our communication, which is today a lot more adaptable to the different languages and different preferences. So, I think these would be some of the changes that we have done from an Oral Care point of view and it's also started to give us some good growth. But to be honest, I think, it should be good for us to see from a bit longer term perspective because where we are coming from is also some of the weaker base. So, while our headline growth may look good for a specific quarter, we need to observe it for a few quarters before we can say that we have completely addressed the issues and we have come back to a good cadence. We are happy with what we have seen so far, but we would want this to continue for some time before we have got it all going the way we want.

<Q – Bhakti Thacker>
Okay. Thank you, and how is the competition in that space now?

<A – Srinivas Phatak>
It continues to be intense. It is one of those categories where we still see that naturals is playing a big part. So, to that extent, some of our peers have got some good presence. I think that category has also seen a lot of step-up in terms of innovations which have come through in the last 12, 18 months. So, I think there, the competitive intensity continues to be high.

<Q – Bhakti Thacker>
Okay. Thanks, that's it from me.

<A – Srinivas Phatak>
Thanks, Bhakti.

Operator

Thank you. The next question is from the line of Sanjay Singh from Pine Bridge Investments. Please go ahead.

<Q – Sanjay Singh>
Yeah, hi. Just wanted to clarify, with the new tax rate, the fiscal benefits for the income tax go away, which you were getting for the factories, which were in income tax-free locations, but the GST benefits continue, right?

<A – Srinivas Phatak>
Yes. So absolutely, you're right. GST benefits continues. For example, if you look at our annual report, we've talked something about 560 basis points as a benefit of fiscal in the last year. That was predominantly coming from some of our manufacturing plants in Assam and a couple of others. So, to that extent, while the income tax benefit goes away, we still get the GST benefits in Assam and therefore, the Assam factory continues to be relevant. The question that we need to ask is, do I need to continue to produce everything that I'm producing today or once I work out as to where my consumers are, where my raw materials and packing materials coming from and where is my GST benefit arising from – if I do the math of all of that, there is a case for me to shift some of the production differently and that's what we will be doing. But the overall attractiveness of NESA as a factory continues and hence, the Assam factory will continue.

<Q – Sanjay Singh>
And when does the Assam factory complete 10 years?

<A – Srinivas Phatak>
It doesn't matter now because I am moving out of that fiscal incentive scheme under the new corporate tax regime.

<Q – Sanjay Singh>
For the GST benefit?

<A – Srinivas Phatak>
When is it, Suman?

<A – Suman Hegde>
Yes. So, we have different units set up in different points in time. The outer limit on the last one is around 2028.

<Q – Sanjay Singh>
Okay. And I didn't understand the 26% part because ideally if the deferred tax asset goes away -- I mean this year, I understand, but why 26%, why not 25.2%?

<A – Srinivas Phatak>
No, that's simple. If you see, 25.2% is going to be my base tax rate. I always get some tax disallowances, and they have been going on for a long time and there are some structural issues, which are all matter

of judicial cases. So, there are some elements on which the income tax department has been giving me a disallowance for some 7, 8 or 10 years. So, to that extent, there is no reason for me to factor in anything differently. As and when we win those cases, and we are hopeful we will, then you're likely to be seeing more like a 25.2%. However, failing which, I look at a 26%. ETR. So, if you see our annual report – what's page number, Suman, on this?

<A – Suman Hegde>
111.

<A – Srinivas Phatak>
If you look at our annual report Page 111, you'll get to see that even in the earlier regime, we always had some disallowances. So, question is absolutely right – if everything were to be normal, it should be 25.2%, however, given that we'll have some disallowances and it has got nothing to do with DTA, we will get 26%.

<Q – Sanjay Singh>
And is there some view from your tax consultants that legally or technically, it is allowed that if Lever sets up a manufacturing with a subsidiary, it will get a 15% tax rate for the new manufacturing entity under the new income tax laws or this is not allowed – is there any legal aspect to that?

<A – Srinivas Phatak>
Sanjay, this is work in progress. It's not something which I can really off the cuff remark because of the various aspects that we are examining and as and when we are ready with that, I think we'll be in a place to share.

<Q – Sanjay Singh>
Okay, Thank you very much. Appreciate this.

<A – Srinivas Phatak>
Thanks.

Operator
Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

<Q – Tejash Shah>
Hi, thanks for the opportunity and congrats on a good set of numbers. Sir, just if you could share some more read on the rural slowdown as in is there any regional diversity to it or is it uniform across?

<A – Srinivas Phatak>
Thank you for your wishes. So, in a large country, such as ours, there's always going to be different dynamics. I think what we have not spoken about is that premiumization is intact. Premium is still growing faster than the aggregate. Have we seen naturals growing faster? The answer is, yes, naturals is still growing faster than the overall portfolio, so even that continues. Have we seen a bit of a slowdown? Sure, we have seen pockets of slowdown. If I were to quote couple of examples, parts of

Madhya Pradesh, Chhattisgarh has been a bit slow. Some of the slowdown, we have seen, has been stark in parts of greater Maharashtra, which is outside of Mumbai and Pune, so we have seen a bigger slowdown there. A little bit of Punjab and Haryana and hills have been a bit slow. So therefore, there are some pockets where it's slower. There are other pockets also where it's holding on quite well. For example, if you look at some of the southern markets, I think they're holding on quite well. If you look at parts of UP, and that's the contrast of India, that's also holding on well. So yes, different parts of the country are behaving differently. And that, again, is something we observe and watch very closely. And that's also where our whole Winning in Many Indias' strategy help us navigate and manage these different patterns.

<Q – Tejash Shah>
Sure. And sir, if I reconcile your overall industry commentary and now with your numbers, is it a safe assumption that you would have gained market share in larger part of the portfolio?

<A – Srinivas Phatak>
Yes. So look, we would definitely believe that the growth is competitive, and so the short answer is yes.

<Q – Tejash Shah>
Okay. And sir, lastly, you said naturals is still growing faster as a trend, but if I observe, then Ayush has been missing from our communication for a while, this is second consecutive quarter. Any rethink on that strategy?

<A – Srinivas Phatak>
There's no rethink on that strategy. If you see in Oral Care, I still said that it is coming from freshness and naturals. By the same logic, I have not even been talking about Indulekha for many quarters now. So, it's not about every quarter trying to call out each of this. The strategy on naturals remains unchanged, the focus on naturals remains completely intact. And we continue to do it the way we've talked about our three-pronged strategy. So, nothing changes there because as a trend, it is the right trend and it's here to stay. And if you ask us, it's also an interesting time to talk about some of the different brands – for example, Simple is a brand, which we brought in e-commerce. It is a slightly different take on it. It's not naturals, but it's about no baddies, it's about being chemical-free. So that's also an interesting trend. So, even that is something, which is going to be promising for future. So, you can be rest assured, there is no change to our strategy.

<Q – Tejash Shah>
And sir, last one, bookkeeping question. Even on a low base of last year, our employee cost has degrown this quarter. So, any one-offs or reclassification here?

<A – Suman Hegde>
Yes, you're right. So, there are some base numbers, which have changed in terms of variables and some cross charges that we do between our parent company and our subsidiaries. But intrinsically, there has been a certain amount of salary increment. But in a large company, there will always be some one-off in the base because of which you are seeing the number drop.

<A – Srinivas Phatak>
This question keeps coming up often and I think it's always good to look at an year-on-year number to get a better picture because in a quarter depending on how some of our VPA or some of the pay outs happen and some of the valuation assumptions, which change in terms of our longer-term benefits, we do tend to see a bit of volatility to the numbers. If you want to pick up a secular trend, I would encourage all of you to start looking at a full year number rather than see quarter-on-quarter. We do pay our people well, and therefore, to that extent, we are in good state.

<Q – Tejash Shah>
Great. Thanks and all the best sir

<A – Srinivas Phatak>
Thank you.

Operator

Thank you. The next question is from the line of Vishal Gutka from Phillip Capital. Please go ahead.

<Q – Vishal Gutka>
Yeah. Hi, sir. Congrats on a good set of number. Can you please elaborate on this new launch that you have made, Magic Rinse powder, it seems to be a water-saving product. So as of now, it seems you launched in Tamil Nadu, do you plan to extend it to many more geographies in the near future?

<A – Suman Hegde>
Let me take that question, Vishal. You are right. It's now launched only in Tamil Nadu – in parts of Tamil Nadu per se. It is a product which has been launched from a water conservation perspective. So, what does it effectively do? You add it to a bucket of water and it cuts out the amount of lather that the detergent generates and hence, the amount of water used in rinsing comes down. For now, it is planned only in the city – we will see how it picks up and how the proposition works, then we could look at expansion, but very early days, it is launched just in the quarter. So as of now, we only want to see if the mix works and if there is genuine consumer need for the same.

<Q – Vishal Gutka>
Cool, thank you.

Operator

Thank you. The next question is from the line of Suvarna Joshi from Axis Securities. Please go ahead.

<Q – Suvarna Joshi>
So, thank you for the opportunity and congrats on good numbers. Sir, just wanted to know how is the naturals portfolio tracking for us, and could you highlight about the competition in this particular category, in the industry as such?

<A – Srinivas Phatak>

Yes, so thanks, Suvarna. I think we just had a slight discussion on naturals before this question came up. Naturals as a proposition is relevant. We are continuing to see a lot of traction in naturals both from our side as well as many of the peers. As you recollect, we have a three-pronged strategy where we are doing naturals under our existing brands – there are a lot of natural variants that we bring in. There is Indulekha, which is a specialist brand and Ayush, where we are now focusing on south and in west, which is our master brand. We continue to stay invested in all three, and I have already explained that naturals is still growing faster for us than the company average. Of course, for everything we've seen a slowdown, so that has also impacted naturals which is not immune to that. Coming back to your second question, I think, Oral Care is one space, where natural proposition has landed the best and, given the nature of the players involved, there is fair amount of competitive intensity. Having said that, this is a space we continue to believe will gain traction, there will be a lot of interest and people will continue to invest in this segment. So, if I were to call out today, it tends to be a little intense in Oral Care, but clearly relevant across all categories, including cleansing, skin and others.

<Q – Suvarna Joshi>
Sir, just a follow-up on that, in Q3 FY '19 call, we mentioned that naturals portfolio was growing 2x to 2.5x of company. So, what would that number be right now if you would want to call that out?

<A – Srinivas Phatak>
I don't recollect the 2.5x. We've always said it's being growing at twice the company's average. So, if I were to look at a year-to-date basis, it's about 1.5x. So, it's come off a little, not because it's come off, because we also had Indulekha with extremely good growth and they're sitting in my base. And until I find the next level of Indulekha, even a 1.5x is a very attractive number. If I were to look at on a year-to-date basis, it will be more like 1.5x.

<Q – Suvarna Joshi>
Great sir, that's it from my end thank you so much, wish you all the best.

Operator

Thank you Next, we have a follow-up question from the line of Arnab Mitra from Credit Suisse.

<Q – Arnab Mitra>
Srini, just one question regarding the refunds on the fiscal benefits. So, in the base quarter, you had basically called out for around 0.8% to 1% impact on the USG. So, would it be fair to, therefore, adjust that and say that the adjusted USG this quarter would be lower by that amount?

<A – Suman Hegde>
No. So Arnab, if you recall, last year, there was an impact of the 2017 base of December quarter, which we had said we have taken a correction in 2017 SQ and DQ where there was a movement, which was impacting the USG of 2018 September quarter. It wasn't on account of this because this is a difference between other operating income and other income, so it is not really sitting in the sales number. So, the two are not correlated. It was in the context of the 2017 correction that had happened on the GST refund. I think what you can take is the EBITDA impact this time only, which Srini has called out, is to the extent of about 50 bps. They are not really impacting growth in any sense at all.

<A – Srinivas Phatak>
Yes, Suman is absolutely right. There's no impact on USG. EBITDA margins are higher 50 basis points and not EBIT because it's again a question of where it sits. Next quarter, you'll see a reverse effect of that. So, that's why we quoted the numbers as 310 basis points, 200 basis points and 150 basis points, and 150 bps is a good way for you to look at stripping out these two effects.

<A – Suman Hegde>
This never sat in the sales number, Arnab, just to answer.

<A – Srinivas Phatak>
Yes. The other income and other operating income.

<Q – Arnab Mitra>
Sure. Thanks for the clarification. That's it from my side

Operator
Thank you. The next question is from the line of Priyanka Trivedi from Antique Stock Broking. Please go ahead.

<Q – Priyanka Trivedi>
Hello. Yeah, thank you for the opportunity. I just wanted to know what has led to the improvement in the gross margins?

<A – Srinivas Phatak>
So, it's a consistent story. There is nothing else which we can talk from a quarter point of view. I think it's a combination of 3 or 4 things. First element is of mix that we continue to do. There is a bit of savings that we have continued to drive, and it's been an ongoing agenda for quite some time now. We're still clocking closer to 7% or 7% thereabouts as on a year-to-date basis as we look at our gross savings. We've also had some benefit of benign commodity, which has come through. And these are 3 or 4 elements, which have continued to drive our margin expansion. And the fourth element is that we also get a growth leverage. All said and done, on a year-on-year basis, we have grown 7% one more quarter, which is a good growth rate and higher than many other fixed costs that you have, which by definition also then tends to give you growth leverage.

<Q – Priyanka Trivedi>
Done. Thank you.

<A – Srinivas Phatak>
Yeah, No further questions on the phone. We're taking a quick look at some of the questions which are on the screen. The first question is from Manish Ostwal from Nirmal Bang Securities Pvt. Ltd.

<Q – Manish Ostwal>

Rural growth has come off from 1.4x Urban mkt to 0.50x during the quarter. How do you assess recovery of demand in rural market and key factors driving rural market demand? The company showed strong core operating margin expansion during the quarter. Could you walk us through margin expansion factors and sustainability of current core operating margin? Ad-spends growth for 2HFY20? Reason for delay GSK consumer merger? Input price environment? Your comments on total price cut on overall portfolio during the quarter.

<A – Srinivas Phatak>
I think we've had a fair amount of discussion with reference to rural vs urban growth. So, I'm not going to repeat that. There's a question relating to margin expansion. I think we've also spoken about margin expansion, that's the last one, which I've answered. So that's been addressed too. Advertisement spends for second half 2020, not sure what that means. We continue to maintain competitive spends. Even if you see the current quarter, we have stepped up our spending year-on-year and sequentially. And as we've said, we will continue to drive innovations and market development. Next is reason for GSK consumer merger delay. I have already explained to you the status of GSK where we are with the NCLT proceedings. On your question on input price environment, as I have said, the story is in three parts. If I were to look at Home Care, crude year-on-year has come off a bit, but crude has continued to be extremely volatile. We have seen crude moving between \$58 and \$68. Currency has been a bit of a pressure, given everything which is happening. It's more led out of international factors and some domestic factors. So, on a year-on-year, if I were to take the volatility out, inflation is not much in Home Care, it's more benign. If I were to look at Skin Cleansing category and we've spoken about it, veg oils were lower year-on-year by about 15%, 20%, so there is no inflation there. We have started to see inflation in our Foods & Refreshment parts of the portfolio, whether it's premium teas or SMP as 2 examples. So overall, we are in a space which we need to watch out with different aspects of and different commodities behaving differently. Our total price cut – I think we've clarified that from a cleansing category perspective. I don't think there's any point in talking about price cut at an aggregate level. The price reductions are focussed towards cleansing and I have already clarified that number. So, Manish, I presume I've answered all your questions.

Srinivas Phatak
The next question is from Nitin Gupta from SBI Capital

<Q – Nitin Gupta>
Was there any up-stocking benefit in volume growth in Q2?

<A – Srinivas Phatak>
We sell to demand, we sell to replacement. I don't think there's any up-stocking, which works in our business. So, from our point of view, no, there isn't any.

Srinivas Phatak
The next question is from Percy Panthaki from IIFL.

<Q – Percy Panthaki>

Gross margin expansion at 230 bps despite price cuts in soaps and broadly stable input cost is commendable but surprising. Is there any low cost inventory or any other reason, and is it sustainable?

<A – Srinivas Phatak>
I think I've answered why I believe it is commendable, yes, I agree. Was it very surprising? Perhaps not. And I think we have had a good reason in terms of the levers and drivers for that. So, Percy, I hope that answers your question.

Srinivas Phatak

The next one is from Shirish Pardeshi from Centrum.

<Q – Shirish Pardeshi>
Hi Sanjiv/ Srini, good evening. A few questions - (1) Is rural growth slower largely in our stronger markets such as south/west? (2) In your assessment why wholesale trade is struggling to come back despite improvement in liquidity conditions? (3) Can you tell us something more about Magic rinse powder?

<A – Srinivas Phatak>
For your first question, I think I've already given a bit of a flavor of rural and I have also called out geographies. So Shirish, that should answer your question. To your second question, I'd say that the liquidity is not really where we need it to be. While many measures have been initiated, there still has to be transference through the banking system and become wider. So, if I look at it today, the liquidity continues to be quite tight and it's, therefore, the improvement is some distance away. We are hopeful that it will happen sooner than later. On your Magic Rinse Powder question, Suman has already clarified what is the product about and what does it do and our plans on that.

Srinivas Phatak

The next question is from Rohit Harlikar from Elara Securities.

<Q – Rohit Harlikar>
How has been the growth sequentially in July, August and September. Are we seeing any uptick in consumption? Any improvement visible in pre-Diwali sale?

<A – Srinivas Phatak>
So, not a material big difference between July, August and September. But because as we said, overall the markets are trending lower, if at all there is any, there is only pressure sequentially, rather than an uptick, which is coming through. So, as I said, that's the reason we have called out as demand outlook being challenging. On pre-Diwali sale, there is some effect, which comes through, but in our category, you're likely to see some benefit, which comes through in skin and colors categories. But on an aggregate, Diwali is not something which starts to skew our consumption or demand offtake.

Srinivas Phatak

There's one question from Shirish Pardeshi, again, from Centrum.

<Q – Shirish Pardeshi>
How does modern trade and E Com grow in Q2 and their sales contribution? Lastly, is there inventory correction witnessed by the company in GT?

<A – Srinivas Phatak>
Both modern trade and e-com are continuing to grow well. They're growing faster than general trade, obviously. But overall, the growth rates have come off even in these channels. But it's fair to say that both these channels are still growing in double digit. Yes, so that, I think, is a fair comment. On your second question – from a distributor perspective, inventory is something we continue to monitor. We don't see any difference because we sell to offtake, we sell to demand. Having said that, from a retail perspective, given the liquidity issues and given the consumer confidence issues, would there be some correction happening at the retail chain? Yes, it's quite possible because part of it will be consumers offtake, part of it could also be some of the people for whom the liquidity result is not stocking up to what they should and that definitely is a genuine issue out there in the market.

Srinivas Phatak

The next question is from Sagarika Mukherjee from Elara.

<Q – Sagarika Mukherjee>
Could you please give an indicative figure for volume growth in BPC? Also, key categories where price hike was executed (price hike is 2% in 1HFY20) and if it is carried forward pricing, when will it come into the base?

<A – Srinivas Phatak>
Sagarika, we don't talk about volume growth at a divisional level and hence, won't comment on that. I'll request Suman to just give a quick view on any pricing action.

<A – Suman Hegde>
Sagarika, to your question, there have been some price increases and some price decreases within a category, as Sanjiv and Srini answered previously. These are strategic pricing actions that we take through the quarter – sometimes linked to commodities, sometimes linked to certain markets where we need to do a strategic price correction basis the price value equation that needs to be landed to the consumer. But nothing specific like the skin cleansing intervention that we've done which we would like to call out. Yes, some of it would be a carry forward while some are new pricing actions that have been taken in the quarter.

Srinivas Phatak

Next question is from Chintan Patel from ASA Capital Management

<Q – Chintan Patel>
Can you give overall price increase or decrease for homecare, Beauty and Personal care and Food & Refreshment product portfolio?

<A – Srinivas Phatak>

I think Suman has already given the answer. At an aggregate level, we don't split it between our three divisions and go granular there.

Srinivas Phatak

The next question is from Anand Shah from Axis Capital.

<Q – Anand Shah>

Adjusted for drag from cuts in personal wash, would it be right to assume personal care growth has improved sequentially?

<A – Srinivas Phatak>

I think let me split this, Anand. On a personal products point of view, we have seen good volume growth. I think that continues. In the Personal Wash, given that we've taken some price reductions, we have seen some volume uptick and that's only natural. But, given that we have taken somewhere about 4-odd percent in terms of price reductions, we are not seeing volumes which will fully compensate for that. To be fair, that's not something that you'll see in the short period of time. But have you seen a little bit of uptick in volume? The answer is yes – we have seen a bit of an uptick in volume.

Srinivas Phatak

The next question is from Jaipal Shetty from Bonanza Portfolio Ltd.

<Q – Jaipal Shetty>

Other expenses grew 5% y-y in Q2FY20 while it declined by 6% y-y in Q1FY20, any particular reason for rise in other expense in Q2FY20?

<A – Suman Hegde>

If you're asking for a particular rise on year-on-year – yes, there has been an increase. There are some one-off investments that we have done in this quarter. We have been speaking in the past on the investments we're doing behind capability building and on our IT infrastructure. So, those costs are an increase, which is coming into this year. Also, some of the infrastructure we landed previously has come in. There is also some phasing of expenses, which happened in December quarter when we do our closing of books on physical verification, which we've taken as a one-off into this quarter. Plus, another thing between last year and this year is that there has been some movement in the Forex. So, the mark-to-market of that is a hit in the quarter as well. So, there are multiple things which are mostly one-off and phasing that have come in. Normative basis, we would anyway have a bit of an inflation coming into other expenses.

<A – Srinivas Phatak>

To add to it, some of the investment in capabilities is a consistent investment that we'll continue to do. Some of it could be higher in a quarter and some of it could be lower in a quarter. They may not be one-off investments in that sense, but everything else Suman has clarified is right.

Suman Hegde

The next question is from Avi Mehta from IIFL.

<Q – Avi Mehta>
Do you see personal care margins coming under pressure from price cuts in personal wash? Does each segment look at managing pricing actions to maintain margin or is the comment more on corporate level?

<A – Srinivas Phatak>
At this stage, I don't expect to see any big pressure coming from a Personal Care margins point of view. Two simple aspects – largely, what we've done in Personal Wash is passed through the benefit of commodity. And even if we were to take it forward and invest further in Personal Wash, I'm comfortable with that. Given that we have got different parts in the Personal Care business, we have got enough levers to generate fuel for growth. And to be honest, on a strategic basis, we manage the totality. The beauty of a company like ours is that it gives us the ability to manage portfolios. It gives us ability to manage at a corporate level, obviously, while we maintain either ends to a divisional strategy. Within that, I think we've got enough levers to play with. But on aggregate, I don't see the Personal Wash actions leading to any margin implications at this stage on a material level.

Suman Hegde

So, that's the end of the Q&A session. Before we end, let me remind you that the replay of the event and a transcript will be available on the Investor Relations website in a short while. You can go back and refer to it. You would already have a copy of the results and the presentation. If not, you can find that on the website as well.

We bring the call to a close now. Thank you, everyone, for your participation, and have a good evening.

Srinivas Phatak

Thank you.

Operator

Thank you very much. Ladies and gentlemen, on behalf of Hindustan Unilever Limited, that concludes this conference call for today. Thank you for joining us, and you may now disconnect your lines.