"December Quarter 2022 Earnings Call of Hindustan Unilever Limited"

January 19, 2023

Speakers:

Mr. Sanjiv Mehta, Chief Executive Officer and Managing Director

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

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

Moderator: Ladies and gentlemen, good day, and welcome to Hindustan Unilever Limited Conference Call for the Results for December Quarter 2022. As a reminder, all participants lines will be in listen only mode and there will be an opportunity, for you to ask questions, after the presentation concludes. Should you need assistance, during the conference call, please signal the 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 Mr. A. Ravishankar, Group Finance Controller and Head of Investor Relations. Thank you, and over to you, sir.

A. Ravishankar: Thank you, Aman. Good evening, everyone, and welcome to the conference call of Hindustan Unilever Limited. Best wishes to all of you and your families for a wonderful 2023. We'll be covering this evening the results for the quarter ended 31st December 2022. On the call with me is Sanjiv Mehta, our CEO and Managing Director, and Ritesh Tiwari, our CFO.

We will start the presentation with Sanjiv sharing an overview of our performance in the quarter and the operating environment. Ritesh will then cover our financial results, outlook and also cover the details of our new royalty arrangements. Before we get started with the presentation, I would like to draw your attention to the safe-harbor statement included in the presentation for good order sake. With that, over to you, Sanjiv.

Sanjiv Mehta: Good evening, everyone, and thank you for joining the call. My first engagement with you this year, and I take this opportunity to wish all of you a fabulous new year with good health, success and tons of happiness. Now let me begin with a summary of our performance for the quarter, and then I'll talk about the external environment and our strategy. We have the momentum, we delivered yet another quarter of solid all-round performance.

Our top line grew 16% with an underlying volume growth of 5%. EBITDA margin remained healthy at 23.6%, sequentially improving by 30 bps over the last quarter, led by step-up in gross margin. Earnings per share grew 12%.

We continue to significantly outperform the market with over 75% of our business winning both value and volume market share.

Sustainability remains core to our business, and I'm very happy to report that we have received industry-leading ratings when it comes to ESG.

To sum up, in the last nine months of this fiscal year, we have added more than Rs. 6,000 crores to our top line and reported a turnover in excess of Rs. 43,000 crores. Our net profit grew 14% to more than Rs. 7,400 crores. Our consistent strong all-round performance is a testament to our strategic clarity, strength of our brands, our capabilities, our execution progress, our agility in running the business, and most importantly, the determination and passion of our talented purpose-driven people.

Now let me spend some time on the external environment, the inflationary situation and the market growth. This year, the FMCG industry has witnessed unprecedented inflation across a wide basket of commodities led by supply side issues. Lately, we have seen a few key commodities soften notably palm oil. With this, the year-on-year inflation is moderating gradually from its peak, the consumer price inflation has also softened in recent months. Having said that, commodities remain at an elevated level when compared to long-term averages. This is evident when you look at inflation from a two-year lens, commodities such as crude oil, soda ash, food ingredients are seeing close to 100% inflation when compared to the December quarter of 2020. The other, of course, the source of inflation has been the currency, US. dollar has appreciated by more than 10% versus rupee this year. Overall, if commodities remain where they are, we expect the inflationary pressure to moderate gradually, and this augurs well for our industry.

Now talking about FMCG market growth with reference to the categories we operate in, in December quarter, the market grew about 8% year-on-year, which is higher than the growth in September quarter. Benefit of higher festive sales was seen in September and October months, which grew at double digit. Growth continued to be price led and volumes declined, although the decline in December quarter was lower than previous quarter. This December happened to be India's warmest in more than a century, delayed on-set and late severe winter adversely impacted the performance of categories such as hand and body care, facial moisturizers and similar categories.

Now talking about FMCG market growth from urban and rural lens, urban markets have continued to lead the growth. Rural has shown some signs of improvement with December quarter growth higher than growth in September quarter and the last 12 months. If I were to summarize the last three slides, we can say that there is a gradual improvement in the FMCG operating environment. Commodity inflation seems to have peaked and is moderating from its unprecedented level. With lower inflation, strong winter crop sowing and signs of pickup in farm incomes, it is likely that rural slowdown is bottoming out. The next few months will give us further certainty on this aspect.

In this context, our strategy, of course, remains unchanged. One, we will continue to operate the business with agility and remain focused on growing our consumer franchise while protecting our business model. Secondly, we will continue single-mindedly on our journey to create a purpose-led future fit HUL and deliver on our 4G growth agenda. And by now, I'm sure every one of you is conversant with this 4G growth mantra of consistent, competitive, profitable and responsible.

Now we have always believed in doing business responsibly. In fact, we believe it is the only way of doing business. A shining example of this is Prabhat, our sustainable community development initiative, which we started in 2013. In the last nine years, Prabhat has made a positive difference to nearly nine million people in the communities around the factory in depot locations, be it through economic empowerment, environmental sustainability or supporting health and nutrition. So great work done under Prabhat has also been recognized by the World Economic Forum. It also won the FICCI CSR award for skill development.

October 15th is observed as Global Handwashing Day with the aim of increasing awareness of handwashing with soap, which is an effective way to prevent diseases and save lives as we all saw during the pandemic. Our purpose-driven brand Lifebuoy has been championing this cause for several decades, building on its impact created so far and amplifying it further. Lifebuoy has partnered with children and young change makers to take on the mantle of age for handwashing, Chief Education Officers, the CEOs. Over the years, Lifebuoy has reached 500 million people in India educating them about healthier habits.

Last month, we announced our foray into the fast-growing health and well-being category. This is clearly in line with the strategy to develop a portfolio in fast-growing demand spaces. One of the mega consumer trends that we are witnessing in the Indian consumer market, is the increasing focus of consumers on the health in a very holistic way. From health as absence of disease, we are seeing a rapid shift towards health as a lifestyle pursuit, with the strategic investments in OZiva and Wellbeing Nutrition, we welcome two young science backed new-age brands into the HUL family.

We have completed both the deals and are absolutely delighted to partner with the two businesses. The two companies will continue to be run by the respective teams led by their wonderful founders. HUL will provide them the necessary support needed to scale up the businesses, be it our strong understanding of consumers, our R&D and regulatory expertise, our execution excellence and the digital capabilities. We will also leverage Unilever's experience of running a Euro 1 billion health and wellbeing business.

With this, let me now hand over to Ritesh to talk about the performance in this quarter and outlook in detail and then on the subject of royalty. Thank you.

Ritesh Tiwari: Thank you, Sanjiv, and good evening, everyone. My best wishes to you and your family for a great 2023. I will now walk you through our in-quarter performance and our outlook. Starting with overall results, this was yet another quarter of strong all-round performance. Our turnover for December quarter grew 16% with an underlying volume growth of 5%.

Both value and volume growth were significantly ahead of the market. EBITDA margin was at a healthy 23.6%, sequentially up 30 bps led by gross margin improvement. On a year-on-year basis, EBITDA margin declined 180 bps impacted by 480 bps increase in cost of goods sold, partly off-set by savings and leverage across other lines of the P&L. Net profit at Rs. 2,505 crores, grew 12%. Profit after tax before exceptional items grew 13%.

Let me get down further to elaborate how we are dynamically managing our business. We are seeing sequentially inflation softening in few key commodities. As we had anticipated and called out earlier, our DQ '22 net material inflation or NMI at 18% was sequentially lower than September quarter, albeit very high on a year-on-year basis. This helped partly bridge the price versus cost gap, leading to improvement in gross margin from 45% in September quarter to nearly 47% in December quarter.

With softening in commodity, media intensity for categories in which we operate, was higher in DQ '22 versus SQ '22. We continue to maintain our share of voice ahead of share of market and invest competitively behind our brands leading to 80 bps quarter-on-quarter step-up in A&P investments.

Moving on to performance across our three segments. Home Care delivered yet another stellar performance growing at 32%, with double-digit volume growth. Beauty and Personal Care grew 10%, despite the impact of delayed winter on skincare portfolio. Foods & Refreshment delivered 7% growth. Margins in all three segments remained healthy with Home Care at 19%, BPC at 25% and F&R at 18%.

Now we'll kick down to talk about performance within each of the divisions in subsequent slides. Starting with some of our key innovations for this quarter, TRESemme has launched a new salon-inspired Keratin range of shampoo, conditioner and Serum which is enriched with bond plex technology, our latest innovation that goes deep inside to repair broken hair bonds and make hair up to 20x stronger.

With St Ives, we launched our first-ever scrub soap range. St Ives soaps are made with 100% natural ingredients like coconut water, aloe-vera, walnut scrub, that scrubs out dead skin cells and gives naturally glowing skin.

Lakme launched new range of serums spanning benefit spaces of brightening with niacinamide, hydration with hyaluronic acid and anti-aging with pro-retinol. Lifebuoy launched a new superior soap with neem and aloe-vera. Red Label launched a new premium tea, especially designed for pregnant and lactating women. It has 80% less caffeine content and its ayurvedic ingredients not only ensure a great taste, but also known to nourish and energize the body.

BRU's new decoction coffee is a perfect way to enjoy delicious and strong filter coffee. Taking inspiration from the latest cuisine trends and consumer insights, Knorr has launched Korean Meal Pot and added new flavors in soup, a perfect solution for hopeless chefs like me. We have now quite a few interesting activations this quarter.

I'm sure you heard the buzz around Vim's latest campaign. Vim is deeply committed to championing the cause of everyone taking ownership for their own home chores, its Vim Black campaign, which as a satire launched Vim Black, especially designed for men, triggering a lot of social media conversation and got a very strong positive consumer response. Other key campaigns include Sunsilk's pujo activation and new ad films by Horlicks and Surf Excel.

Moving on to our performance in Home Care, this is another stellar quarter for Home Care with 32% growth, led by solid performance across the portfolio. Despite high pricing, Home Care continues to grow volumes in double digit, reflecting the strength of our brands. Fabric Wash grew in high double digit with strong performance across brands and formats. Business continues to gain handsome market share, both value and volume. Household Care accelerated further and grew in high double digits with strong performance in both dish-wash and surface cleaners. Volumes grew in high teens. With significant input cost inflation, we have taken calibrated pricing actions in both Fabric Wash and Household Care.

Talking about Beauty & Personal Care, the business grew 10% led by skin cleansing, delivering broad-based double-digit growth. Volumes of skin cleansing grew mid-single digit. With softening in palm oil prices, price reduction were taken in soaps portfolio. Hair Care delivered high single-digit growth. Our innovations and future formats such as mask and serums continue to gain consumer relevance. Delayed onset and lower intensity of winter impacted performance of winter portfolio in skincare. Non-winter portfolio performed well, delivering double-digit growth. We continue to expand our portfolio in emerging and on-trend demand spaces through focused innovations and market development actions. Oral Care had a steady quarter led by Close Up.

Let me now turn to Foods & Refreshment. F&R grew 7%, led by strong performance in foods, coffee and ice cream. Tea continued its value and volume market leadership and grew volumes in mid-single digit. Overall value growth was soft, reflecting the impact of price cuts. Coffee sustained its strong growth momentum and grew in double digits. Health food drinks grew mid-single digit, with strong performance in Boost and Plus range.

We continue to gain market share and penetration led by effective market development actions. HFD market remained subdued due to impact of inflation. Foods delivered volume led high-teens growth with strong performance in Ketchup, Jams, and Food Solutions business. Our Food Solutions business that provides products for chefs and restaurants continues to scale up and is now almost twice the pre-COVID levels. Ice Cream had another strong quarter with double-digit growth led by festive activations and delicious innovations.

Summarizing our performance for this quarter, we had a strong top line and bottom-line delivery. I've already covered most of the lines, but let me pick up other income, which saw an increase due to higher treasury yield and dividend from subsidiaries. Exceptional items were higher due to increase in supply chain restructuring costs. Effective tax rate for the quarter was 26%. Considering the impact of tax PPA, that we received in the first half of this fiscal, we expect our full year ETR to be around 24%.

Let me quickly take you through our year-to-date numbers for this fiscal. Our performance is strong, both on top line and bottom line. We added Rs. 6,000 crores to our top line, growing at 17% and taking our nine months turnover to over Rs. 43,500 crores. Despite unprecedented levels of inflation, we grew our EBITDA by 10% to more than Rs. 10,000 crores. Net profit at Rs. 7,410 crores grew 14%.

Now moving on to our outlook. We remain cautiously optimistic in near term. As you have seen earlier in the presentation, we have seen softening in a few key commodities, notably palm oil. If commodities were to remain where they are, we believe that the worst inflation is likely behind us. This augurs well for FMCG industry and should aid in gradual recovery in consumer demand. Having said that, we must be mindful that year-on-year inflation is still high, and we expect growth to continue to be price led.

In this scenario, we will continue to manage our business dynamically with focus on ensuring the right price value equation for our consumer and building back gross margin. We will continue investing competitively in our brands and market development actions, leading to a further step up in our A&P investments. As Sanjiv mentioned, our strategy is unchanged, and we remain focused on delivering 4G growth, growth that is consistent, competitive, profitable and responsible.

Now you would have seen our announcement today about new royalty and central service arrangement with Unilever. In next few charts, I will cover the context and details of the new arrangement that has been approved by our

Board of Directors today. Our current trademark and technology license and central service agreement with Unilever was signed in January 2013 for a period of ten years. The effective payout for this arrangement was about 2.65% of turnover for the last fiscal. To put simply, this agreement grants us three key things: number one, the right to use Unilever owned brands. Secondly, it gives us access to Unilever's technical know-how, world-class R&D and innovation capabilities. Third, we'll leverage Unilever's expertise and services across various functions, including procurement, marketing, quality, manufacturing excellence, talent management, amongst others.

I will give more color on each of these in subsequent charts, but important to call out that these capabilities have greatly equipped us to meet many emerging consumer needs and trends with agility and thus win in the marketplace. If you were to look back in the contract tenure, we almost doubled our turnover to more than Rs. 50,000 crores and improved our EBITDA margin by about 1,000 bps. There is 100 bps improvement on an average every year.

Let me now click down, as I mentioned earlier, on three elements I spoke about. Unilever, as you know, is one of the largest global consumer goods company with over 52 billion turnover spread across its five business units, namely Beauty & Wellbeing, Personal Care, Home Care, Nutrition and Ice Cream. It's a truly global company with presence in over 190 countries and a strong understanding of emerging markets. About 60% of Unilever's turnover comes from emerging markets.

Unilever is known for its great brands and purpose-driven business model. It has a wide portfolio of over 400 brands spread across several FMCG categories. Many of these are iconic world-renowned names, 12 Unilever brands featured in Kantar's top 50 global brand list. It also has a very strong portfolio of on-trend brands in new and emerging demand spaces.

Talking about Unilever's R&D progress, Unilever has deep science and technology expertise. It has a team of over 5,000 R&D professionals with many world-leading experts in the field from things like material chemistry, microbiome or alternative models to animal testing. Globally, Unilever has over 20,000 patents and patent applications. It has a very large network of innovation partners from big suppliers to innovative startups to some of the biggest technology companies in the world. With eight global technology and innovation hub that sit in key markets across US, Europe, India and China, Unilever R&D has global scale and local knowledge. Annually, Unilever spends over EUR850 million in R&D doing cutting-edge work, which will not only serve the consumer today, but also in future. Some of the examples include the work being done on renewable ingredients where Unilever is working on carbon rainbow, bio-surfactants for cleaning products, which are 100% renewable and biodegradable. Next-generation biology is another key field where work is being done on Microbiome and Immunity, which is relevant for many of the categories, including hair, skin care, skin cleansing and oral care.

Unilever has a state-of-art food innovation center in Netherlands where they are doing a lot of work on sustainable food systems, such as nondairy plant-based protein. Many of these innovation technologies have already been deployed in India and others we will keep bringing at appropriate time. It is important to note that R&D and technology not only helps us land faster, better innovation, but also in driving product cost optimizations.

The third key arrangement for us as part of this overall scheme is a wide array of centralized services and functional expertise. This is really, about leveraging Unilever's global scale and expertise across various functions, be it supply chain, procurement, marketing or talent management. On the chart, you will see some of the examples of centralized services and support that we receive from Unilever. Access to this give us significant competitive edge.

Let me bring this alive with a couple of examples. If you look at our overhead costs, employee costs and other expenses put together, we are a leading industry benchmark. And this is after having taken in the expense line, overall, the royalty central services costs, which sits in this bucket, in the last one decade. Our inventory levels are best-in-class. Access to Unilever's world-class manufacturing techniques, efficiency improvement programs, deeper planning and forecasting capabilities gives us the agility and ability to run our operations very efficiently.

Another good example is Unilever's procurement capabilities. Unilever globally spends over Euro 20 billion in raw and packing materials. It's huge scale and global presence gives us a significant competitive advantage in sourcing of input materials. Many of you would recollect from our Capital

Markets Day about net revenue management and how it helps us navigating business during a challenging environment. This entire science around NRM is something that we got from Unilever.

Let me pick up an example on digital marketing. As you're aware, digital marketing has been gaining a lot of relevance in recent times. Unilever globally has developed centralized toolkits and digital assets, which can be used by Unilever group companies, including HUL to deploy its digital marketing strategy in their respective geographies. We have been able to leverage on the efforts of external agencies and knowledge database on marketing to deliver impactful digital marketing campaigns. So overall, we greatly benefit from Unilever's functional expertise and centralized services.

The current contract, which was for a term of 10 years, will expire on 31st January 2023. On the impending expiry of this contract, Unilever requested for a review of the same. We have been receiving a steady stream of benefits, as I mentioned, from Unilever in terms of faster innovation, superior products and technology, greater expertise and enhanced services. This helps us to continue to meet emerging consumer needs with agility and create value for all stakeholders. With India being one of its top three priority markets, Unilever remains committed to support HUL with dialed up access to faster innovation, investment, technology and capabilities.

The new contract terms are subject to a detailed evaluation and due diligence led by our senior management and guided by our Audit Committee and Board. A reputed big 4 firm was engaged to conduct independent external benchmarking of comparable transactions. Taking the detailed due diligence and external benchmarking into consideration, HUL Board has today approved the new loyalty and central service arrangement effective 1st February 2023 for a tenure of five years.

The new arrangement envisages a staggered increase of 80 bps over a period of three years from circa 2.65% to circa 3.45% of turnover, which will result in an effective increase of cost by 45 bps from February to December 23, a further 25 bps increase in effective cost from January to December '24 and a circa 10 bps further increase in effective costs from January '25, so a total of 80 bps over three years. New arrangement is subject to appropriate regulatory approvals. This new arrangement is one of the necessary investments that positions HUL well to continue delivering consistent, competitive, profitable and responsible growth.

Before we move to our Q&A session, let me summarize what we covered till now. We delivered yet another quarter of strong all-round performance with 16% top line growth and 5% underlying volume growth. With price versus cost gap narrowing, we improved gross margin sequentially by 170 bps and invested Rs. 160 crores more sequentially in A&P. Our EBITDA margin remains at a very healthy level and improved 30 bps sequentially.

Looking ahead, we remain cautiously optimistic in the near term. We believe peak inflation is behind us, and this should aid in gradual improvement of consumer demand. Growth will continue to be price-led, albeit the level of price growth will be lower from here on. We will continue to manage our business dynamically with a focus on ensuring right price value equation for our consumers, building back gross margins and stepping up A&P investments.

Lastly, HUL Board has approved new royalty and central service arrangement with Unilever effective 1st February 2023. This envisages 80 bps increases staggered over the next three years. This is a necessary investment, which positions us well to meet emerging consumer needs with agility and continue delivering 4G growth.

With this, we complete our prepared remarks, and let me now hand over to Ravi to begin Q&A session.

A. Ravishankar: Thanks, Rakesh. With this, we'll now move on to the Q&A session, so that we are able to take questions from all participants, I request you to kindly restrict the number of questions to a maximum two at a time. In case you have further questions, you are free to join the queue again. In addition to the audio, as always, our participants have an option to post the questions through the web. We will take those questions just before we end. With that, I'd like to hand the call back to Aman to manage the Q&A session for us.

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

Abneesh Roy: Congratulations, Sanjiv, on the results. My first question is on the royalty aspect. So three bits to that. One is earlier contract was for 10 years. This is for five years because then the risk for increase, say, five years down the line, clearly seems to be there. So what's the thought process behind five years and not 10 years?

Second is why the increase front ended? So 45 bps in first year and then 25 and then 10. So what's the thought process?

And third is, what are the approvals needed here?

Sanjiv Mehta: Abneesh, thanks for the question. So let me just pick up all three elements that you mentioned. So first of all, the contract duration, you're right, the earlier contract was for a period of 10 years. And we know the world is very volatile and we are living in times which are very different. In these times, it's a good corporate governance to lock in the contract for five years. And as situations will change, we'll improve in different directions in the context we change, we will then have a chance to revisit the terms that we are agreeing to, and which is why this time the agreement has been for a period of five years.

And then your point on overall increase, let me just spend a few minutes in talking about it. First of all, there are two components out here. There is a royalty and royalty has two subcomponents. There's a royalty for trademark for usage of brands of Unilever. And second for usage of technology that we get from Unilever. That's one component of the arrangement. The second large component of the arrangement is central services. So we get many services from Unilever. And I give multiple examples as part of my presentation, be it procurement, be it digital marketing, be it learning and be it the other capabilities that we get from Unilever.

And that's a second large component of the arrangement. The 3.45% destination as part of the five-year term arrangement that we spoke about is basically 1.95% for the bucket of the two-royalty put together and 1.5% for central services. Now this total rate of 3.45%, as we called out, will increase by 80 bps. And while approving this 80 bps and considering the proposal, Board conducted a very detailed due diligence process.

Board appointed, as I mentioned, a big four firm to also do an independent assessment of the rate of increase, which was getting considered as part of the proposal. And we received those independent benchmarks and the new rates that we have are very competitive. That was one assurance the Board book as part of the process.

Second, of course, is the amount of benefits that we get from Unilever, because behind this contract also is stream of benefits be it brands that we get from Unilever or with technology for driving across our portfolio that we get from Unilever, or for that matter multiple services that we get from Unilever. HUL remains a top three priority market for Unilever. So, these benefits will continue to come to our business for times to come as part of the contract.

Look at the last decade, in the last decade, as part of the contract with all the benefits that we have received, we've run a very successful business where business has doubled in terms of turnover and also improved healthy margins as well by 1,000 bps. That's one element. Now the second element of the whole conversation out here is the context in which we are agreeing, and which is why there's a very thoughtful job of ensuring that the increase is spread out over a period of three years. And that's where the judgment of the Board has come in terms of making the contract over three years, and you heard the three numbers that we spoke about. So, this is in terms of the overall context in which we have done the arrangement. And what we have now is approval from the Board of Directors.

Going forward, we know the requirement on the SEBI's LODR or for that matter Companies Act that any material transaction will require appropriate amount of approvals, regulatory approvals. It could be the case in this case as well. And we will take those approvals as required. We remain confident, at the end of the day, we know that this arrangement will bring superior value to all our shareholders. And hence, we should be able to create a very clear business case that how this arrangement will continue to benefit our business going forward. And that, in my mind, will be the foundation basis which we will conduct the balance approvals going ahead.

Abneesh Roy: My last question is on two of your categories. So, when I see your HFD, the commentary seems to be improving, and you have said that strong performance in boost. So wanted to understand, you have taken so much of marketing initiative and the Rs. 2 sachet etc in Horlicks also. But you're pointing towards Boost, so I wanted to understand why Boost is going faster. So, is it linked to the overall rural slowdown so the lower and smaller pack in Horlicks is linked to the rural slowdown? So, it will recover when the rural recovery happens is that the reason? And second category I want to ask is, in fabric wash kind of highly penetrated, the double-digit volume growth, the market share gains are coming from the No.2 player or essentially from the regional because it's not a high-growth category to start with, but double-digit growth is a good achievement.

Ritesh Tiwari: So, let me just pick up both of your questions. Let us start with HFD. HFD, we have called out the jobs that we have to do in this space. First, our job was to drive cost synergies, and we have mentioned in last few quarters consistently how we are running ahead of the business case in terms of driving cost synergies. And the second big job for us is to drive revenue synergies. And this is where we had articulated that to drive revenue synergy, the big job to be done is to drive market development because we have to increase the relevance of this category and drive penetration.

Our commentary has been consistent and strong that for last quarters as we've spoken about, that this market development efforts have started to yield results. And you've seen that last few quarter comments we spoke about how we are improving market share, how we are able to improve penetration of the category and ultimately that's the objective when you spend resources behind driving market development. And of course, we have a portfolio out here, be it the Plus range and which is what we mentioned that we do want to dial up the Plus range, which gives higher order benefits and science-based benefits to our consumer.

Equally Boost, we took Boost from a certain set of geographies and we took Boost nationally and activated the brand. And it's a very different consumer profile that uses Boost or for that matter that consumes Horlicks. And you're right, Horlicks has different price points and different pack sizes, which are sold and experimented by different consumers. So, if I look at overall business performance for Horlicks, the objective of achieving penetration growth, the objective of achieving market share gains, we have delivered on that as well.

Overall, the inflation impact, as we have called out, on HFD has been meaningful. And it is not the case only with Horlicks as a product, to make a couple of Horlicks, we require Horlicks and a cup of milk and milk prices as we called out and Sanjiv covered as well, the kind of inflation that you're seeing in milk price and hence the overall cup of Horlicks, that inflation impact has impacted discretionary consumption. But at the end of the day, the job is very clearly cut off for us, which is to keep driving category relevance, and we are seeing better results coming from that.

Now coming to your question on fabric wash. Fabric wash as a category we called out that over the last one decade, the kind of work we have done to change the way we sell the fabric wash portfolio. Our premium products be it liquids, be it premium powders have grown pretty well. And the total portion of our business in the portfolio now is over indexed to liquids and premium part of the portfolio compared to mass part of the portfolio.

That shift over a period of time has given us a benefit when you talked about the growth, price and UVG, remember which in our case, UVG growth has two components. It has a component of volume tonnage growth. It also has a component of mix. So when you sell higher products, which are premium, the benefit of that overall comes in the bucket of UVG. And you heard us talking about strong UVG growth also in the case of laundry. And that's the business model that we have at play out here.

Sanjiv Mehta: I'll just amplify, Abneesh, on the HFD and the laundry story. In many ways, the work that we are doing on HFD is the work that we did in laundry seven-ten years back. And that is the benefit that we are now reaping, we invested in very clear strategy first. Second is we had multiple formats and brands and sub-brands to play with. And then we invested significantly in market development to help us get into higher order benefits space as well as premiumize the portfolio.

Now in laundry, you had a question whom are we gaining with. Let me tell you the kind of growth we have got is nearly in the vicinity of 30%. Surf excel, Wheel and Rin all are growing in that vicinity. And same goes with Comfort, which is also in the 20’s growth. So when you play it well, and this is a similar thing we are trying to imitate but in a different manner with HFD as well so that you start getting the benefit of this. And the early signs are that our penetration and the shares have started moving majestically over the last one year in HFD.

Abneesh Roy: Just one last follow-up on the health foods. So, you now have two brands here. So Oziva also has obviously great products, decent brand. Some products, there can be an overlap now or later also. If you could tell us in terms of brand architecture and focus, how do these two brands play in the slightly more premium health category? I'm not talking about the HFD. I'm talking about some of the other premium products where both can play, how the differentiation would be?

Sanjiv Mehta: Now health and wellness is relatively a nascent category in India. Now here, we are getting into demand spaces such as sleep, beauty from within, gut health, and these are where the acquisitions that we have done in health and wellness is going to focus on. Now in many ways, this will be complementary to the work that is happening on the HFD business because that is also working on nourishing a billion lives. Now that is looking at helping people who are undernourished or malnourished or people who suffer from vitamins, mineral deficiency and all to plug that gap.

Whereas here, it will be very specific in areas that I talked about like gut health, sleep and beauty from within. Now both these brands are still at a very nascent stage. And at the end of the day, the way we play the portfolio that it may be in a similar demand space, but it could be a different proposition and different pricing point. That's how we will try to differentiate the brands as we start growing them.

Abneesh Roy: Sure, thanks. That's very useful. That's all from my side. Thank you.

Moderator: Next question is from the line of Vivek M from Jefferies.

Vivek Maheshwari: Two or three points on royalty bit again and actually, these are essentially the investor feedback that I have received. So one view is this 10-percentage point margin increase or the doubling of revenues or let's say negative working capital, wouldn't a lot of that would be more of an India factor more of what you have achieved as Hindustan Unilever, even from a talent standpoint, while I hear you about the talent management part that you mentioned, but India still has been or Hindustan Unilever has still been an important contributor to the talent pool. So how do you think about how do you balance this equation between Unilever versus Hindustan Unilever in several ways?

Sanjiv Mehta: We have a very symbiotic relationship with Unilever. There are areas where our pool of talent we send them outside to Unilever group companies. We train them in the bigger part of Unilever in different geographies, and then we get them back. There are people sitting on this table right now, whether it is my Investor Relations Head or whether it is my learned CFO, they have gone through the same drill, so that is something which will continue. But where, Vivek, Unilever comes and helps us, what's the chart that we were portraying earlier on, say R&D, if you look at R&D, we are today trying to upgrade on three axes, where we meet the consumer needs, where we have products which are superior, and they are sustainable.

Now whether it is replacing fossil fuel-based derivatives in laundry through carbon rainbow or getting into bio-surfactants or in, say skincare getting into micro biome or getting into skinification or getting into neurosignaling, now these are things where we have big global labs where they have access to the whole ecosystem. And that HUL can access, thanks to the relationship which we have with Unilever.

The other bit is Ritesh talked about procurement, for instance, now when you procure EUR20 billion worth of raw materials and packaging materials, you get certain big benefit of scale, you get benefit of relationships that have been built over the years across the world, and we get access to that. So there are very clear benefits which HUL gets out of Unilever. And the way I would urge all of you to look at it, it is like any other expense.

So tomorrow, if I were to increase the salaries of my people, then obviously, the question will be is the benefits that we get out of the talent that we deploy, similarly, when we spend money on BMI or on royalty is, are we getting the value for the spends? And I can confidently tell you that, yes, it may not be apparent to naked eyes, but there are very clear benefits to HUL and the value that we get out of payment of this premium.

Vivek Maheshwari: I will tell you the worry that a lot of and in fact, I have spoken to your holders as well on this issue. The worry is that can it go the Indonesia way because as margins are moving up, there is a five-year visibility. And I mean I think India still is less than half of where Indonesian margins are. So, the feeling is a bit that because you are now earning more, so the propensity to pay for that should go up sheerly because you are earning more. And otherwise, this higher royalty number would have been there from 2013 but that's the view, Sanjiv, and that's where...

Sanjiv Mehta: I'm glad Vivek, you have raised this issue. Now let me try to dispel it. First is, if you were to do a competitive benchmarking, and this is something which Ritesh alluded to. We are better off than most of our peer group, so it is not that just because there are benchmarks, we have tried to pay that kind of royalty, no. We have gone through a very detailed process. We have looked at it from a lens that are we getting value or not? And we have a fabulous people on our Board as independent directors and who go through that rigor to ensure that we are getting as a company, the value for what we have contracted for. And only after that process, do we agree to it.

Now I would urge you to please tell your investors that not to worry about it. I don't want to talk about Indonesia, Indonesia is still a great company, but we have to look at it from our context in India - we have had a very successful track record. And we are clearly the amongst the top three priority countries for Unilever. And if you look at any of the strategies of Unilever for any of the business group, India would be right on top when it comes to priority. That means we get access to the best technology, we get access to the best of innovations, we get huge talent and resources deployed to meet the needs of the Indian business.

So, I would say that guys don't worry about it. Yes, this is a business which is on absolutely sound footing. And our long-term strategy is very clear that we will have double-digit EPS. And just like the other expenses we take it in our stride. Similarly, we will take this in our stride because it gives us value, and we will ensure that we keep delivering on the strategy.

Vivek Maheshwari: Thanks, Sanjiv for taking pains to explain this part. One more bit if you can just clarify because that again comes from two shareholders in Hindustan Unilever, which is when you have had considered this proposal, the independent directors and governance side, nobody has any concern, but the view also is that should you not have gone to minority shareholder, taken a majority of minority approval as purely as a good practice as a good governance?

Sanjiv Mehta: Right now, we have taken just the Board approval. And whatever is required as per law, we will go through that process. We always maintain the highest standards of governance. We comply with the law of the land. Whatever is required, we will do that.

Ritesh Tiwari: And Vivek, as we mentioned, this is subject to necessary approvals that we require to complete the transaction. The first process of any such transaction always is Board approval. You can't get into any further regulatory approvals unless the Board has approved, and which is why that's always the first step. And then of course, we'll end up doing as Sanjiv mentioned, whatever the approvals we require under SEBI LODR or for that matter Companies Act, we will get those approvals as well. And given the value that is there to Sanjiv's point in this -- for all shareholders feel even confident that we should be able to secure those approvals as well.

Sanjiv Mehta: The point we are alluding to Vivek that -- forget the minority and majority first, I think the most important way, and even we as management do, we first look at the interest of the company and all the shareholders. That's what we are being paid to do. And that's what we will keep doing it.

Vivek Maheshwari: That will be reassuring. Just on this bit -- Ritesh, are you suggesting majority of minority approval will be needed in this case?

Ritesh Tiwari: If you look at Vivek, the SEBI LODR and the requirement, there are two different requirements. We have a requirement for royalty and there's a requirement for all other transactions. And as appropriately, a related party approval, whenever you do, you will always end up having the related party not part of the conversation. So, as I mentioned, whatever we need to do as the next step, the first step was both approval and which is what we have taken today. And we will do appropriately what was required in the SEBI LODR and for that matter, Companies ACT. And that's next logical step for us.

Vivek Maheshwari: And last question for you, if I may, Ritesh, which is basically, let's say, until whenever this proposal was put up to the Board, until then you were running with some assumptions from a few years standpoint, how does this incremental, let's say, 80 basis points change those? Will they like Sanjiv mentioned briefly, do you envisage offsetting it and therefore still reaching the goal? How will this play out from a -- purely from a P&L standpoint?

Ritesh Tiwari: Overall, Vivek, as you remember in the Capital Markets Day, we spoke about our long-term financial growth model. And we had articulated our long-term financial growth model, we are aiming to deliver double-digit EPS growth for medium and long term. And at the end of the day, there are various costs, costs like this are always part of the assumptions before you make a long-term plan. And so, in spite of this cost or for that matter any other costs, we are committed to deliver double-digit EPS growth. And as we called out as part of that financial growth model, unless the past decade, where our strong EPS growth has been driven by top line and substantial margin improvement, the next decade EPS growth will be driven more from top line growth and with a modest margin improvement.

I said modest margin improvement will come because of two reasons as I called out; A, because the mix of the portfolio keeps improving the way we drive market development for driving premiumisation and second, the leverage that the P&L gets because of the scale of growth that we have in the business. So that objective of driving double-digit EPS growth does not change.

Vivek Maheshwari: Look forward to double-digit growth numbers from year after year.

Moderator: The next question is from the line of Arnab Mitra from Goldman Sachs.

Arnab Mitra: Sanjiv and Ritesh, I just wanted to understand your commentary on rural a little better. Clearly, you are sounding more optimistic now than, let's say, three, four months back. Other than the Nielsen data, which is showing some improvement, are there other data points or your own sales analysis that makes you a little more confident that we possibly are going to see a modest improvement from here on?

Sanjiv Mehta: As you know, when times are tough, you look at green shoots, right? And there was a period of time when we used to look at Nielsen data. We used to very clearly see that even the value growth in rural has turned negative, that was in the mid-year. And a big company like ours, growing headline growth in mid-teens would not have happened if you were not growing value in rural. So the good bit is that despite this high inflation, people in rural area, when it comes to real rupee prices spending, they have been spending more than last year, and certainly on our brands.

And even when I look at it today now, rural, in the last five months, we have seen value growth, and this value growth in the December quarter has been higher than the September quarter and the MAT number. So, these are the green shoots, yes. But like last time, if you remember, I had alluded to, that there are a couple of things we will have to observe very closely. One is that when the government stopped the money on the free food grains and what then happens to MGNREGA budget, whether the government keeps a leash on MGNREGA or do they spend more on MGNREGA, or there is more demand on MGNREGA. That would be one indicator.

And the other indicator would be, of course, how the market shapes up in our category, which would then be linked to what happens to harvest, what happens to the ingredients which go into, what happens to the net realization of farmers and what happens to the rural wage growth. All those factors will come in. So, we are not jumping to conclusion that everything is hunky-dory. What we are just alluding to from a real bad period in June, July, we have definitely seen improvement.

Arnab Mitra: Sanjiv, just one follow-up on that. One change I noticed was that since last quarter, you're highlighting lower end of beauty, essentially brands like Glow & Lovely facing a challenge. This quarter, your non winter skin care seems to have grown much better. Are you seeing some that pressure now behind in terms of the personal care kind of categories?

Sanjiv Mehta: Our total Beauty and Personal Care, as you would have seen, has grown in double-digits. And even when I look at this quarter, our GAL growth has been reasonably decent. In fact, it has been in double-digit, and but yes, the winter was for instance, Vaseline is a big brand that sells in winter, where the sales definitely shoots up. That was impacted because the winter was very slow in coming in December.

Arnab Mitra: And my last question was on gross margins. So, your gross margins are now 47%. And if I look at the pre-period of this very high inflation, it was 52% to 54%. You're still very behind that number. So, from here on, assuming that crude and other commodities don't go down further, do you take an approach of continuously passing pricing over a longer period of time to get back that margin or is margin improvement from here on contingent on commodity costs actually falling more from where it is currently?

Sanjiv Mehta: Margin improvement, assume for the time being that the prices stabilize at this level, right. Then the margin improvement will come through premiumization of portfolio, the mix change and the margin improvement will come out of leveraging the scale. When it comes to pricing, we will always be conscious about the price value equation and competitive pricing. We will never outsize ourselves.

Arnab Mitra: Sure. And just one add-on to that, there was this news that you had further taken price increases in the month of January. Is that accurate? And have you taken further price increases in this quarter as we speak?

Ritesh Tiwari: So, Arnab, on pricing, in December quarter, let me call out two categories, which is first is fabric wash from Home Care. And second is HFD. These are the categories where we've seen sequential increase in commodity costs. And we called out some of those commodities, be it milk, but it barley, be it soda ash and of course, the impact of rupee depreciation as the dollar keeps strengthening. And because of that, in those categories, we have taken sequential price increase. On the other way around, we called out two categories, be it tea or soap. Those are the places that we also then reduced our prices, passing on the benefit to some extent on commodity coming down.

But if I just go back to the conversation that Sanjiv mentioned earlier, the price versus cost, if I look at last quarter, we had a 22% net material inflation, and we had 12% pricing. So, net 10% price versus cost gap. That in December quarter has come down, where the headline inflation, net material inflation is 18%, and our pricing has been 11% and hence a net price versus cost deficit of 7%.

So, the job that we will have to do, as Sanjiv articulated earlier, is to keep working through this price versus cost gap through innovation, through mix, through scale leverage and then work through gross margin improvement in quarters ahead.

Sanjiv Mehta: And we must understand that when you look at the total company results, they are the weighted average results of the company. Now within that, there could be categories where the commodities could have gone up, where we might have taken price increase, and there could be commodities where the commodity price has gone down where we would have taken the price down, but what you reflect on total company, of course, is the weighted average.

Ritesh Tiwari: And to your specific question on the January newspaper article, I'm assuming you're referring that. We had clarified it was factually incorrect.

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

Kunal Vora: Question again on pricing. You mentioned that sales will be price-led. Is this only in the near term, or would you say that this could apply to FY '24 as well? How should we look at the equation in FY '24, assuming raw material price stabilizes as price hike becomes a part of the base and some prices cut or grammage, which you're taking in categories like soap start kicking in?

Sanjiv Mehta: First, let me explain that ideally, we would want volume-led profitable growth. That's what we would want to deliver, but when you have this kind of inflation, then obviously, we will have to pass on the cost to the consumers to predict the business model, but we do it in a manner that the consumer franchise remains protected.

Now look at it, Kunal, that even during this December quarter, when the total volume as per Nielsen has shrunk for the market by 4%, we have grown our volumes by 5%. So that is significantly outpacing the market. So, we never take our eyes off volumes. For us, the underlying volume growth will always remain a key performance indicator. But we have to live in a world which we have to confront the reality. And the reality is that if the prices go up to such extent, the consumers thankfully are still spending more money, but they would titrate the volume, which is completely understandable.

And we are gaining both volume and value share. So, look at it from that lens that we have significantly strengthened our business in the last two years, gaining volume shares and protecting our margins to the extent possible.

Kunal Vora: Just to get this right. So as the pricing contribution moderates from here, do you see volumes offsetting that? How do we see the sales growth from here?

Sanjiv Mehta: See, the volume will, of course, be driven by, I believe that if one is moderation of inflation, the other is the inflation which had come in recedes. Leaving aside palm oil, we have not seen the receding of inflation. Just to give you a very simple example, if we look at crude oil versus same quarter '21, the price growth has been 10%. So, it would look very nice. It's a moderate price increase. But when you look at versus 2020, it's a 100% increase. So, in simple average, it's 90% and 10%. So, it is not that like palm oil, where versus December quarter '20, the price increase is just 5%.

That means the prices which had gone up, it's not that they are now growing at a lower rate, they have come back, and that's when we pass back to the consumers. And that is when we will start seeing the volume growth come back. That has still not happened, leaving inside a few commodities.

Kunal Vora: Second and last question, what are the trends which you are seeing in the D2C space, you've seen acquisitions by FMCG companies for CPG companies. Are you seeing reduced aggression from these new players and their funding is drying up? And also, if you can talk about any trends which you are seeing in B2B commerce, any reduction and contribution from these days?

Sanjiv Mehta: It is very apparent that when the modern trade stores were closed during COVID or they were not operational in the full capacity, that was a time when a lot of consumers had shifted to E-commerce. And of course, in a country like India, shopping in modern trade goes beyond shopping. It's an outing for the family. People still love go and do shopping, it is touch and feel. So as modern trade has opened up and the growth rates in modern trade have picked up, it has impacted the D2C space certainly. But D2C, for the sheer benefit and convenience that it offers, it is going to be a secular growth story, albeit it's still a small channel relative to, say, the general trade.

But the growth rates will remain faster, and it's also a reality that the time of easy money has gone away. And investors, I would believe, would start now focusing not just on the headline growth, but also on the business fundamentals. And in the long term, there is no substitute for business fundamentally.

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

Shirish Pardeshi: Ritesh and Sanjiv, hearty congratulations for the stupendous growth in the quarter. Just one read through, while in my field trips, what I found that there is an incremental consumer shifting from detergent bars to powder. Now to what extent this phenomena is there? Because to my understanding, Central India and the Northern India was behind the growth in the powders. So, is that growth is now primarily driven in the upper half of India and there is some more growth in latter, which is also going to come in the subsequent quarter?

Sanjiv Mehta: If we look at it's not that the bars have disappeared. Bars is still a pretty significant part of the market. And the other bit is mass markets. The mass market segment is still a very large component. So, our strategy has been to move the bars to solution watch. Our strategy has been to upgrade consumers from mass powders to higher order benefits and from powders to specialists like liquids, like Matics and that is the strategy that will continue into the future. And I can assure you that despite fabric cleaning being a universally penetrated category, the headroom to grow is massive, and we are over-indexed as you go up the pyramid in terms of market shares.

This is a good question and for all my friends on the call, I would just let you all reflect on that the work that we did on laundry, which I was, I think, explaining to Vivek or Abneesh, or what we did on tea. We have to do the work consistently for a few years before you start seeing the benefit in the results. And this consistent strategy executed with precision and having knowing both the science and art of market development, that's what gives you joy. And the similar thing we have done in hair, for instance.

Shirish Pardeshi: I got that, Sanjiv, I completely echo that having spent time on the field. The second related question on this is that the 32% growth what we have gathered in this quarter, is it suffice to say that 50% is coming from the price and 50% is volume or 2/3 is price and 1/3 is volume?

Sanjiv Mehta: About 40%, say volume.

Shirish Pardeshi: And my last question, if I draw the parallel you did mention in between that or Ritesh did mention that we are doing a lot of work around HFD on the activation. And we have taken almost five, seven years to get the benefits in the Detergent and Home Care business. Does that mean that the similar time it will take in HFD business?

Sanjiv Mehta: No. It is not that. Our laundry results have been giving us a result for the last five, six years. It is that now we have reached that point where we are outpacing the competitors by a mile. That's where we have reached. So, I'm not saying that HFD, we are going to wait for 7, 8 years to see the results as I believe the results will come in much earlier.

Shirish Pardeshi: So, actually, I'm looking for a qualitative comment, when actually we see growth, which is higher than…

Sanjiv Mehta: Let me give you like this that had the inflation not been there, we would have got the results by now, but with the increase in prices of barley by 120%, skimmed milk powder by 50% over the last two years, that's made a significant impact. Otherwise, we would have got it much earlier. So, if say the commodity prices, if there is a certain stimulus which leads to commodity prices deflating, then we'll start seeing a much higher growth in HFD come in much early.

Shirish Pardeshi: I agree, Sanjiv, your point. But just to dwell on, the amount of sampling we have done, 1 million-plus sampling and the penetration and distribution what we have done, I mean…

Sanjiv Mehta: Done more than 1 million. 1 million is very less.

Shirish Pardeshi: Sir, that's what I'm saying that where is the conversion?

Sanjiv Mehta: You know today, the conversion is happening in terms of shares, etcetera. The conversion is happening when we are increasing the penetration where we are bringing more consumers into the fold. But then what happens at the middle-class level, people who are using the bigger pack size, they start to reducing the consumption to manage the budget. As that eases, this will go back. And our job also is to build much increased relevance for the category. And our Plus range is doing exceedingly well.

Moderator: The next question is from the line of Percy Panthaki from IIFL.

Percy Panthaki: In one of the earlier questions, you mentioned that basically, apart from palm oil, you have not seen commodity costs correct meaningfully. Now my question is supposing if they don't, if they just stabilize at where they are rather than correcting, in that scenario, how do you see the volume growth and overall top line growth and margins panning out? Because also in addition to this, there was one more question on the margins, where you mentioned that from now on, the margin expansion will come only if the input cost goes down or due to normal premiumization, cost efficiencies, etcetera.

But I think one or two quarters earlier, you had mentioned that we would reach 25% - 25.2%, which was there before the inflationary cycle started, we would reach there pretty soon. And after that, we would have a modest margin expansion on back of premiumization, etcetera. So just to summarize my question, if the input costs remain where they are, how do you see the effect on volume, top line and margin?

Sanjiv Mehta: If you look at the story of the last, 9-10 years, when we have improved the margin by 1,000 bps, it is not by moving away from the strategic price points. We improved the margin is, one, by getting the benefit of scale. Second, importantly, is premiumization. We are now significantly over-indexed to the market in terms of premiumization. The third is market development, getting into new segments, which are inherently having a higher margin. And wherever there was an opportunity where we took modest price increases, we kept doing that. So that was the rhythm.

Now your question is that the commodity price, this becomes a new normal for instance. So, this becomes a zero base from here onwards. Then we will have to play a similar game, drive our saving agenda harder which we have been doing and keep doing that. And if more cost increase doesn't come in, then the saving agenda will translate into margin improvement. Similarly, if more inflation doesn't come in, our mix change will translate into margin improvement. And that's how the way we played the game in the last few years, similarly we'll play going into the future.

And also Percy, we will not shy away from investing behind our brands. We invest our share of voice to share of market is anywhere in the vicinity of 120 to 130, we're not going to shy away from that. And that's what we will maintain because we always play the game for the long term. And getting it from 23.26%, if we can come from 14%, 15% to 23.6% or 25% is not a long journey, I can assure you.

Percy Panthaki: Understood, sir and also on volumes, you're currently clocking around 5%. So, any acceleration from here? Is it contingent on commodity costs actually going down from here or they can accelerate in a scenario where commodity costs are stable at this level as well?

Sanjiv Mehta: Let's because this has also got to do with macroeconomics. If for instance, India has another year of 6% - 7% growth and even if the inflation is at a modest 4% - 5%, you would be talking about a nominal growth, which would be in the vicinity of 11% - 12%. And if that happens and it is dispersed in a sensible manner across the population set up, then I see no reason why they will not start consuming more.

Percy Panthaki: Understood. But I would be right in assuming that in FY '24, if we are to target close to a double-digit top line growth, then we would have to do at least a high single-digit volume growth to reach there. Would that sort of construct in my mind be reasonable?

Sanjiv Mehta: Percy, you're not wrong because historically, we have delivered anywhere between 65% to 70% of our growth through volume growth.

Percy Panthaki: Understood. So, my second question is, sorry, I couldn't hear that.

Sanjiv Mehta: I said that's under the normative environment.

Percy Panthaki: Understood. My second question is on skin care, which was a category which was affected by the COVID-related disruption as well as the pressure on incomes, inflation, etc. Now in skin care, apart from the adverse seasonality, your portfolio has grown in double digits. So, would you say that basically, whatever issues were there from a macroeconomic standpoint in this category, they are resolved and the recovery is sort of done and dusted? Or do you see some I mean; we are only partially through the recovery in your view?

Sanjiv Mehta: Because Percy, there has been price increase also in skin care, maybe not to the same extent as skin cleansing or personal wash and laundry. But still, there has been a good price growth in skin care, so the real test will be because it is relatively discretionary, when the consumers have more disposable income, I would believe that is when, we will feel far more confident about skin care. Either the inflation remains where it is, doesn't go up, the commodity prices don't go up or they start deflating while the GDP keeps growing, that would be then we'll certainly see discretionary items like skin care getting a much bigger fillip.

Percy Panthaki: And my last question is on this pre-COVID scheme, which the government has recently sort of rejigged, they have discontinued some part and they have sort of made the other part free etcetera. But there is still a net sort of hit to the inflows into the hands of the poor people on account of the scheme. What is your view, is this like a material macroeconomic event for FMCG? or it's something which we should not dwell on too closely or we should not sort of focus too much energy on?

Sanjiv Mehta: The way I would look at it is that government has put in big budget under two schemes. One was when they were giving certain five kg or something free ration. The other was subsidized ration at two rupees a KG and all. So, what they are doing is, they have pulled out the free that they were giving, but the subsidized one, they will now give it free. So earlier, there were two benefits coming in. I think as first looking at it from a national perspective, relief of the stressed is one of the big core jobs of the government.

And one of the reasons why the headline growth in rural has remained during these tough times during the COVID period and during the post-COVID high inflation period has been the support that the government provided to the rural poor. And getting into the election year, I think every government will be cognizant that you need to look after your poor who are stressed.

Moderator: I now hand the conference back to Mr. A. Ravishankar to proceed with the text questions received by the webcast participants.

A. Ravishankar: We'll start with questions from Richard. Two questions. The first is on rural. His question reads from what we hear from most companies, this whole narrative of rural recovery seems to be premised on government doing a lot more for the rural folks, base effect apart. In the event the government chooses not to be populous in the run-up to the next election, what actions can companies take to drive a recovery? Example, what levers are available at HUL's disposal to drive the recovery, assuming no help from government?

Ritesh Tiwari: Thanks Richard. Rural, as we called out, there are more than one variable. There'll be variable that government will lean in in terms of support to rural economy. And for minute if I just keep that side since already a lot of work has happened in terms of support, if I just look at our own internal variables within FMCG, the point that you mentioned that the biggest hurt that rural has got is on inflation. And with inflation, as we spoke, A. peaking out in September quarter, and we have seen moderation in December quarter.

And if that trend continues, that will surely augur well, in terms of the bite the inflation has on overall disposal income and the spend capacity that consumers have in rural area. We've also seen pretty good encouraging data on farm income. That also augurs well. We've seen farm inflation and hence farm margins that also augur well. We've seen the sowing which has happened for winter crop. Hopefully, that will also give a good amount of boost.

So, there are more than one factor, which is also in this point in time, is favoring the amount of work which is happening in rural area. At this stage, you saw our commentary. We do see the rural slowdown is bottoming out. And in our mind over next few months, three - four months, will cease to from once it has bottomed out or where the trajectory goes from here as each of these variables that I mentioned about, they start to pan out.

In the meantime, the job that we have to do on market development, we continue to do that job. And that is a longer-term story, as we mentioned about value creation for FMCG overall. With India having spent $46 per capita consumption, rural within that, as we have spoken about, is more like $25 - $30. There's a massive amount of job to be done in terms of developing market in rural area. So, the long-term trend of value creation in rural area by driving consumption and penetration that will continue. So those levers apart from what I mentioned about the macro context lever which are changing now should help us to keep driving sales. But this is something in the next few months' time, you will see how it pans out.

A. Ravishankar: The second question is on the royalty arrangement. In the last announcement on royalty change in 2013, the terminal rate was to have gone up to 3.15%, but the rate is still 2.65%. What were the reasons that the rate didn't go all the way up to 3.15% as agreed last time?

Ritesh Tiwari: So, what has happened also along the way last one decade, when we had put up the royalty contract a decade ago, and we had seen the destination to reach to 3.15%. But the portfolio has evolved over last one decade. And the substantial impact, Richard, which has come is through acquisition of Horlicks, which basically bought business from GSK, Horlicks and Boost and these brands have been acquired by Hindustan Unilever, and the trademark is owned by Hindustan Unilever, so they don't attract the charge of royalty and trademark and for that matter technology. Similar is the case with Indulekha, similar case with V Wash. So, there are these portfolios that we acquired and we have grown and this portfolio does not attract those costs and hence, the weighted average cost as it has panned out is lower compared to what was envisioned when we did the contract a decade ago.

A. Ravishankar: One other question on royalty. What has changed for higher royalty is a question from Manoj?

Ritesh Tiwari: Manoj, we spoke a little bit at length as to what has changed for royalty. As I mentioned, the earlier contract was done a decade ago and as the contract has expired and we have to sit and renegotiate contract with Unilever and as they approached us to revisit the current contract, when you end up entering in the contract, you have to then see what are the latest set of rates at which these contracts are done at arm's length in the industry.

And this is why independent benchmarking has been a very big input to what we end up agreeing as a rate going forward. And I had captured when I spoke earlier that the Board considered independent study by a big four and the rates that we have now agreed and the Board has approved the cumulative impact of that, as I mentioned, for royalty, both components of trademark and technology put together is 1.95%, and central services that you get from Unilever is 1.5%. These rates which benchmarked, they are extremely competitive. And as Sanjiv called out earlier, it's a public data in all the annual reports, the rates after increase also will be at the lower end when you compared to the peers. So, it's an extremely competitive set of rates.

And more importantly, as a point we mentioned earlier, there's a cost which gets incurred. But equally, there are benefits that we receive. And over the last one decade, the kind of benefits that we have received from Unilever and that we continue to get, be it the strong brands, be it for that matter capability. And some examples I quoted of what benefit we're getting and how impact those are creating to our business, be it digital marketing, the example I was quoting on net revenue management, what Sanjiv, mentioned about procurement global scale, when we add what we buy to EUR 20 billion purchase that Unilever does globally, that's a scale advantage we get when we procure materials.

And to the expertise of commodities risk management, market expertise of understanding what is up to with commodity those are the benefits we get from Unilever. Or for that matter learning content, ESG, on sustainability, massive amount of work happens in Unilever, and we have leveraged at work as we have driven our system agenda in the country. Today, we are a reiterate, one of the top in the country on ESG metrics and a lot of learning and inputs have come from the learnings that we have got globally in the space of ESG and the way we drive it.

So, there are those associated benefits. And ultimately, as I mentioned earlier, where the cost fits, royalty, all the components, trademark, technology and central services, they all sit in the line of costs, overhead costs and other lines of the P&L outside material costs. And you see this line even for the earlier contract, which is going to conclude, by end of January and the results up to December quarter, over a period of time, our percentage cost to turnover has kept reducing. And including the cost of royalty of 2.65 that you pay today, the total amount of other expenses that we have in our P&L, they are a benchmark.

They're lowest, one of the lowest in the industry in the country today. So that's the level of cost efficiency we've been also able to deliver because of those capabilities. So that's what ultimately justifies as to where we are in terms of the rates. And these are the cost and investment in our view, which are generally required for us to keep doing the business and performing the way we have performed over the last decade, and we shall do the same over the next decades to come as well.

A. Ravishankar: With that, we now come to the end of this session. If there are any unanswered questions, please do reach out to any of us at Investor Relations. Before we end, let me again remind you that the playback of this event is available on the Investor Relations website from a short while from now. Thank you, and best wishes. Good night.

Sanjiv Mehta: Thank you. Thanks for joining.

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

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