



*Hindustan Unilever Limited*

**“June Quarter 2023  
Earnings Call of  
Hindustan Unilever Limited”**

**July 20, 2023**

**Speakers:**

**Mr. Rohit Jawa, Chief Executive Officer and Managing Director**

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

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

**Moderator:** Ladies and gentlemen, good day, and welcome to Hindustan Unilever Limited Conference Call for the results for June quarter ended 30th June 2023. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on a touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. A. Ravishankar, Group Controller and Head of Investor Relations. Thank you, and over to you, sir.

**A. Ravishankar:** Thank you, Yashashri. Good evening everyone, and welcome to the conference call of Hindustan Unilever Limited. We will be covering today the results for the quarter ended 30th June 2023. On the call with me is Rohit Jawa, CEO and Managing Director; and Ritesh Tiwari, CFO.

We will start with prepared remarks from Rohit and Ritesh, which I expect to take around 20 minutes, leaving us about an hour for our Q&A session at the end. 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, Rohit.

**Rohit Jawa:** Thanks, Ravi. Good evening, everyone. I'm delighted to be here for my first earnings call as the CEO and Managing Director of this great company. I look forward to engaging with all of you.

Since I have come onboard in April as CEO designate, I have been spending time reconnecting with the business and meeting our people, consumers and customers. It has helped me to better understand our purpose-led future-fit business, our winning strategy and our distinctive capabilities. While so much has changed in the business over the years, what remains constant is our values, our belief that what is good for India is good for HUL and the high-quality talent that we have in the company.

I have had the opportunity to also witness first-hand the on-ground impact that we have created through our working communities across the country, I'm very proud of that. We have delivered this quarter a resilient and competitive performance, which was again marked by challenging operating environment.

Let me now hand over to Ritesh to cover our results in detail. I will then come back to share my perspectives about the operating environment and our outlook. Ritesh, over to you.

**Ritesh Tiwari:**

Thank you, Rohit, and good evening, everyone. I will begin with FMCG market context and then cover our quarter performance in detail. Starting with market growth for HUL relevant categories, we are seeing a gradual recovery in market volumes with aggregate volume growth now at mid-single digit. Urban markets continue to lead the growth for FMCG. Rural market volume, which at one point was declining in double digit has just turned positive in this quarter. Having said that, we need to be cognizant that these growths have come on back of volume decline in June quarter 2022.

If we were to look at market growth on a 2-year CAGR basis, total volume growth is still marginally negative, with rural volumes declining at 4%. With most commodities remaining stable, the year-on-year inflation continued to moderate. There are however 2 call-outs that I would like to highlight:

- First, within our portfolio, we do see some divergence in commodity trends, input materials for Home Care and BPC, like crude and palm derivatives remained benign, whilst F&R commodities like coffee, cereal and skimmed milk powder continue to witness high levels of inflation year-on-year.
- Second, as we said earlier, we need to be mindful that most commodities continue to be at levels higher than their historical averages.

With this moderation in year-on-year inflation, we have seen more players passing on benefits of lower input cost to consumers. This is reflected in a sequential reduction in the price growth that we see in the market, albeit it being in high single digits. In anticipation of lower prices, we are seeing trade reducing the stock levels by 1 to 3 days.

As we highlighted earlier, there's a time lag between companies taking price reductions and consumers experiencing the benefit of lower prices due to trade pipeline stocks. This is seen in the Nielsen offtake data where price growth is in high single digit.

Volumes will recover gradually due to high levels of cumulative inflation that consumers are facing and the fact that consumption habits typically recover with a lag.

With softening in input cost, we are witnessing increased competitive intensity in the market. If you look at media deployment, which saw a steep reduction during high inflationary period has started normalizing and is now at 95% of June quarter 2019. With increasing share of digital spend in A&P, one can anticipate that the overall media deployment is now very similar to pre-Covid levels.

We are also seeing resurgence of small and regional players in select categories and price points, many of whom had vacated the market during peak of inflation.

In this backdrop, HUL delivered a resilient all-round performance. Our underlying sales grew 7% with an underlying volume growth of 3%. Both these measures strip out the impact of disposal of our salt and atta business.

Talking about our bottom-line performance, EBITDA margin at 23.6% remained healthy and improved 40 bps year-on-year. I will cover the details of EBITDA movement in a subsequent slide.

Profit after tax before exceptional items (PAT bei) at Rs. 2,500 crores was up 9%. Net profit at Rs. 2,472 crores increased 8% year-on-year. Slightly higher levels of restructuring cost explains the difference between Net Profit and PAT bei growth.

Talking about our market share performance. Our growth was competitive with more than 75% of our business winning market shares, both value and volume.

Premium portfolio continues to lead growth for us, and this reflects in higher share gain in this part of the portfolio.

As I said earlier, we are seeing resurgence of small and regional players due to moderating commodity prices. Consequently, there are certain pockets of our portfolio, primarily in mass segment and specific regions where we have seen a dip in our market shares. However, on an aggregate basis, our shares are ahead of what it was pre-inflation.

On a 2-year basis, we continue to significantly outperform the market with our sales CAGR at 13% and our UVG CAGR of 5%.

Moving on to performance across our 3 segments.

Home Care delivered yet another quarter of robust performance and grew 10% on a very strong base. Beauty & Personal Care delivered a volume-led growth of 4%. Foods & Refreshment grew 5%.

Margins in all 3 segments remained healthy with Home Care at 18%, BPC at 26% and F&R at 18%.

This time, we have included information on segment and category level UVG, which we normally do not disclose. We have done this to help you better appreciate our volume performance, especially with the divergence in the operating context of each division. Both Home Care and BPC delivered a mid-single-digit UVG while F&R had a near flat UVG.

Let me give you some more color on our UVG performance across the various categories.

As you can see, all categories in Home Care continue to have strong volume growth. Household Care had a double-digit volume growth where Laundry grew in mid-single digit.

Moving on to BPC, Skin Care and Color cosmetics had a high single-digit volume growth driven by Ponds, Lakme and Vaseline. Hair and Oral Care had a mid-single-digit volume growth. Skin Cleansing UVG was in low single digit.

When it comes to F&R, Tea continue to grow volume ahead of the market, volumes in Foods, HFD and Coffee was impacted due to price increases taken to cover the input cost inflation. Ice cream had a very high base last year and was also impacted by the unseasonal rains in April.

In summary, Home Care and BPC which constitutes 75% of our business is growing volumes in mid-to high single-digit range.

Hopefully, this helps you better understand our volume growth trajectory and the divergence we have seen between categories. For the sake of abundant clarity, we don't intend to make this a standard disclosure.

Now talking about our innovations for this quarter. Surf Excel Matic liquid was relaunched with a superior WiMI formulation and new packaging. Comfort perfume wardrobe hanger is a line extension from our fabric enhancer brand Comfort, this ensures the wardrobe and clothes in it remains fresh and fragrant.

Dove Men+Care two-in-one shampoo plus conditioner was launched in 3 variants: Thick and Strong, Anti-Dandruff and Fresh & Clean.

Pureit has launched a new range of water purifier Revito with best-in-class filtration technology independently certified for heavy metal removal and gives higher water recovery of up to 70%.

Indulekha has extended its franchise into Skin Cleansing with Indulekha soap and ayurvedic proprietary medicine, which is clinically proven to help repair visible signs of skin damage like dark spots, uneven skin tone and acne marks.

Expanding this product line further Knorr introduced a range of Chinese sauces - Green Chilli, Red Chilli and Dark Soy Sauce. The perfect choice for restaurant like Chinese at home.

Horlicks biscuit was relaunched in South India as a Millet based biscuit. We are using the power of 2 millets - Ragi and Sorghum with whole wheat to create a special Millet biscuit.

Vim launched an all-new product called Vim Shudhham for brass and copper vessels in easy-to-use format of gel and spray.

On the occasion of World Social Media Day, Brooke Bond Red Label launched a beautiful film called Red Label, India's favorite social network, reminding that Chai is India's original social network.

Building further on its purpose of owning chores, Vim's new activation 'Apne Bartan Apne Aap', is a 'call to action to men and society to own the chores'.

Moving on to our performance in Home Care. This was another solid quarter for Home Care, with strong performance in both Fabric Wash and Household Care. Revenues grew 10% with mid-single-digit volume growth. Fabric Wash delivered double-digit growth led by premium portfolio. Household Care had double-digit value and volume growth, led by outperformance in dishwash.

Talking about Beauty and Personal Care, our business delivered 4% revenue growth with mid-single-digit UVG.

Skin Cleansing had a modest volume-led growth with LUX and Hamam continuing to outperform. Benefit of lower input costs were passed on to consumers through pricing actions taken in the quarter.

Hair Care delivered mid-single-digit UVG led by TRESemme, Indulekha and Clinic Plus.

Skin Care and Color cosmetics grew double digit on back of strong performance in the premium portfolio. We continue to build our Skin Care portfolio in high-growth demand spaces through innovations and further scale up of our digital brands.

Oral Care delivered a strong double-digit growth led by Closeup.

Let me now turn to Foods and Refreshment. F&R grew 5%.

- Starting with Tea the category continued to witness consumer downgrading due to high inflation in premium teas vis-a-vis loose tea. Overall, the business delivered a modest volume led growth in the quarter.
- Coffee grew in mid-single digits led by pricing.
- Health Food Drinks had a good quarter with both Horlicks and Boost performing well.
- Foods grew in mid-single digits, led by strong performance in Ketchup and Food Solutions.
- Ice-cream delivered mid-single-digit growth on an exceptionally high base. Ice-cream consumption was impacted due to unseasonal rains in the quarter.

Softening commodities coupled with our sharp focus on savings and ensuring the right price value equation to consumers has led to our gross margin improving 140 bps sequentially, taking it to 49.2%.

As I mentioned earlier, media intensity has increased in the market. We have stepped up our A&P investments to keep our Share of voice ahead of Share of Market and ensure our brands are well supported. A&P spends in this quarter was higher by 110 bps versus March quarter 2023. This is an additional investment of almost Rs. 200 crores.

Summarizing our performance for this quarter, we had a resilient top line and bottom-line delivery. I've already covered most of the lines but let me give you a quick highlight on a few other items.

- Our other expenses was up year-on-year due to step-up of investment in building capabilities and impact of the new royalty and central services arrangement. There was also a favorable impact in the base due to phasing of costs.
- Our ETR for the quarter was 26.5%. We expect this to come down slightly on a full year basis.
- I would like to remind you that our ETR in Financial Year '23 was positively benefited due to prior period tax adjustments.

Speaking about progress made on some of our key sustainability initiatives,

- HUL in partnership with HSBC and BMC has established 12 Suvidha centers in Mumbai, which provides safe sanitation facilities to 3 lakh people in low-income communities annually. During the quarter, we signed a strategic partnership with JSW Foundation to establish 10 new Suvidha centers in Mumbai. These new centers will save 300 million liters of water over a decade and will run on solar energy.
- In association with Genpact, we launched Be.Seen, an accelerator program to help scale businesses owned by minority and underrepresented groups in India. This program aligns our ESG goals of increasing procurement from diverse businesses.
- FICCI has set up a center for sustainability leadership with HUL as a founding member. The center aims to help accelerate India Inc.'s climate



action in line with government's net-zero commitment embodied in the 'Panchamrit' framework.

Let me now move on to our near-term outlook.

The situation on weather front remains erratic. We have seen unseasonal rains, heatwave and a delayed monsoon. El Nino has set in early, which could impact latter parts of monsoon. While monsoon has picked up pace off late, spatial variations persist. We have seen unfortunate floods in parts of the country.

Consequently, cropping especially of rice and pulses seem to have been impacted. Higher reservoir levels and better agri infrastructure should hopefully contain the impact.

On non-agri front, we are seeing mixed trends. While MNREGA demand remains high, remittances to rural have improved.

Looking at demand from consumer lens, we should be mindful that consumers are still facing high levels of cumulative inflation. As you saw earlier, due to pipeline stocks, they are consuming higher-priced inventory and hence, the volume recovery will continue to be gradual.

Clearly, the operating environment remains volatile and we should be watchful of how these variables pan out.

In this context, we will continue to manage our business with agility and take actions to ensure long-term 4G growth, growth which is consistent, competitive, profitable and responsible. Speaking specifically about outlook for the next couple of quarters.

- Price growth will tail off further with lapping of high prices in the base and sequential price reductions. If commodities remain where they are, we expect our price growth to be near flat or marginally negative.
- With inflation moderating, the competitive intensity is likely to go up further.
- We remain focused on providing superior value to our consumers, building back our gross margins and investing competitively behind our brands. With this, we expect to sustain our volume growth momentum.

With this, I complete my prepared remarks, and let me pass on to Rohit for his perspectives.

**Rohit Jawa:**

Thanks, Ritesh. Let me start with my perspective of this quarter's performance. I'll summarize this as another good quarter for HUL, delivering consistent, competitive profitable and responsible growth. On a high base, we grew 7%, equally balanced between price and volume. We have stepped up our gross margin and increased A&P investment behind our brands. Our business fundamentals remain strong - More than 75% of our business is winning shares and gaining penetration. Our brand power scores are looking healthy, product security is significantly better, and we continue to make good progress on our long-term strategic priorities. We have a clear and compelling strategy that has delivered strong results for us.

Let me now turn to the operating context and our outlook. I'm pleased to see that commodities, which a few quarters back were at record levels have now corrected and inflation is moderating.

Market volumes are recovering, although gradually. Rural market volume growth has just turned positive in the quarter, and we are seeing sequential improvements. However, we need to be cognisant of the soft base that the market is lapping. On a 2-year basis, total market volumes are near flat and rural market volume has declined. We expect volumes to continue recover gradually due to the high levels of cumulative inflation and the fact that consumption habits typically recover with a lag.

With inflation moderating, we are witnessing increased competitive intensity, small regional players who vacated the market during high inflation are now coming back. We're also seeing increased media investments by FMCG players.

On the weather front, the situation remains challenging. We've seen some extreme weather events playing out in the last few months, such as the unseasonal rains in the summer, followed by heat phase and delay onset of monsoon. Recently, monsoon has picked up pace, and we've also seen unfortunate floods in parts of the country. El Nino has set in early and hence, that could impact the latter part of the monsoon.

Clearly, the operating environment continues to remain volatile. In this context, we will continue to manage our business dynamically, provide superior value to our consumers and invest behind our brands and future-fit capabilities.

Notwithstanding these near-term concerns, I remain confident and positive about the mid to long-term outlook for FMCG sector in India and HUL's growth prospects. Our focus remains on delivering 4G growth.

I now hand over to Ravi to commence the Q&A session. Thank you.

**A. Ravishankar:** Thank you, Rohit. Thank you, Ritesh. With this, we will now move to the Q&A session. We request you to kindly restrict the number of questions to a maximum of two at a time so that we are able to address questions of more participants. In case you do have any further questions, feel free to join the queue again.

In addition to audio, as usual, participants have an option to pose the questions through the web option on your screen. With that, I'd like to hand the call back to Yashashri to manage the next session for us.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Abneesh Roy from Nuvama Institutional Equities.

**Abneesh Roy:** I have two questions. My first question is on the impact of palm oil price cost correction. So, when I see the biscuit companies and the other listed soap company, there, we are seeing very strong Gross margin and EBITDA margin expansion on Y-o-Y basis for the past few quarters or maybe for one or two quarters. When I see your Q1 number in terms of the Beauty and Personal Care, the margins are almost stable.

So, wanted to understand if you are being more aggressive in Skin Cleansing in terms of advertising spends and promotion or giving back to the customer. Why it's not visible in terms of the volume growth? And is there a lagged impact? So, supposing you are more aggressive currently, does it mean that later you will get that benefit?

**Ritesh Tiwari:** Yes. Thanks, Abneesh. Let me pick it up. See, overall, let me start at aggregate level. Of course, there are different cycles of commodity. If you look at

aggregate numbers for Hindustan Unilever, there are commodities like Palm to the point that you made Crude oil, Indian rupee which has, by and large, remained stable, are factors which has led overall inflation to moderate.

But equally at a total company level, we also have Food and Refreshment efficient business where Coffee, Milk, Barley are materials, which are significantly inflated. So, when you look at total company level, you're just ensure that you have looked at both the elements put together. At the peak of inflation in September quarter '22, at that point in time, we have seen a 600 bps impact to our Gross margin.

Again, as you know, across the industry, this was a better performance where our price versus cost bleed was lower than many other players. From that front of 600 bps, we have already recovered 400 bps of Gross margin in the last 3 quarters between December quarter, March quarter and June quarter. And a good portion of this 400 bps Gross margin that we have improved over the last 3 quarters has gone behind A&P. It was roughly 7 percentage for us, 3 quarters back, and now, as we speak, it's almost 10 percentage.

So, we have dialled up 300 bps of investment in A&P. Of course, where required, we did lean in with price reduction, with more amount of grammage to be filled back, and we will see the impact of these changes, the point that Rohit articulated earlier that we should see impact of these changes in consumer behavior and volumes in times to come.

Typically, this takes 2 to 3 quarters for the whole thing to stabilize. When we do price cuts and price changes, it goes to trade, trade has high price inventory, we liquidate that first, and it goes to consumer. Consumers also have pantry stock at home, which typically will be higher priced, bought earlier. And when that inventory in the pipeline clears up, consumers start experiencing lower priced product. And of course, after that, we expect them to start changing their behavior and start to consume more.

This transition typically takes 2 to 3 quarters. And we have seen that, Abneesh in the past as well. If I go back a decade ago, for example, Laundry in 2012 & 2013, similar conversation. A year later, in Tea 2014, 2015 similar conversation. Even if I go back, say, 2008 and 2009, similar conversation for Skin Cleansing. Each of this period, we have seen substantial inflation and post

that as commodities came down, we saw it took 2 to 3 quarters for consumption levels to start to recover. And we expect it to be similar this time as well.

**Abneesh Roy:**

Sure. That was helpful. Just one follow-up on that. I understood you explained on an overall basis, the Gross margins are getting flowed back. My specific question was on the Beauty & Personal Care, there why we are not seeing the margin expansion in terms of the EBIT because clearly, Skin Cleansing would have seen a very strong margin expansion.

So here, my specific question is, in terms of the palm oil inventory, would you be a bit more in terms of the pricing versus, say, some of the other players? And in terms of your non Skin Cleansing, Beauty Personal Care, how is the cost inflation there? That math I'm still not able to understand.

**Ritesh Tiwari:**

Yes. So, both elements, element of (A) price actions in Skin Cleansing, (B) dialing up A&P in Skin Cleansing and equally dialing up investments behind other categories within Beauty & Personal Care. And you've seen the impacts of those. For example, we grew in double-digit Skin Care and Color cosmetics.

We had good volume growth in Hair Care, Oral Care, and those are the examples where the investments that we have done in A&P across BPC categories, we are seeing impact of it coming in. And of course, overall, one of the charts you saw me presenting in media intensity has gone up it's almost back to 2019 levels.

So, it's a summation of (A) we have increased Gross margin. In fact, a large portion of Gross margin of 400 bps has come from categories which got impacted in the first place through commodity, be it Laundry or be it Skin Cleansing, and hence, recovery also has been led on Gross margin on those categories. But a mix between inflation impact, Gross margin improvement and investing in A&P behind categories.

**Abneesh Roy:**

Sure. My last question is on Oral Care. You have also done well. Our sense is the other two players listed are also doing well. So, what's the reason for all three players doing well? Is it a market share loss for the unlisted player? And second is when you see the recovery in the Oral Care versus some of your other Personal Care business, is there any difference in terms of the consumer behavior, which is driving this?

**Ritesh Tiwari:** No, Oral Care, one of the conversations we've spoken for last few quarters, the amount of work we have done with Close up. And our performance, as we speak in this quarter, has been driven by Close up. So, Close-up has seen good traction with consumers, and our activations have worked pretty well, and so is innovation. So, we are seeing the benefit of that in terms of overall growth that we see in Oral Care.

Oral Care as a category you can imagine is a highly penetrated category. Of course, there's a job to be done in terms of increasing the brushing occasion. That's a long longer-term job to be done. But the overall price value equation, the kind of distribution that we have done and the innovation activation put together, we have seen Close up basically driving the growth of Oral Care overall for us.

**Abneesh Roy:** So, thanks. That's all for me.

**Moderator:** We have our next question from the line of Vivek M from Jefferies.

**Vivek M:** I have two questions. First, a broader question to you Rohit. So HUL is a very well-run company. But in the last few months that you have spent here, where do you think there are still some gaps that you want, that you've identified and you want to work on from a next 12-month perspective? If you can elaborate on that, that would be useful.

**Rohit Jawa:** Thanks a lot, Vivek, for the question and happy to speak to you and hope to work again also in the future together. So, to your question, I have now been immersed last few months, as a designator, in the business meeting different customers. Our teams also the branches, and I've been to a factory or two. So, I have a sense of really how the business is and seen the impact on the ground.

So first of all, let me just say that clearly, it's a great business with very, very sound fundamentals. I have come back after two decades, but I must say I'm very proud of the scale and the quality of the talent we have. I'm very proud of the impact we make in the communities through our 'doing well by doing good' mission. Particularly, I'm also impressed with the portfolio and the quality, the discipline of our operations, our supply chain teams.

So by and large, I would say we have a fundamentally a very strong business that's well poised for growth in the long-term story of India, which, as you

know, is very exciting, and we have very strong positions and we should be able to leverage and exploit that to grow our company to the next level and doing that by fulfilling our mission of what's good for India is good for HUL.

So, I feel quite good. It's coherent and in good space. Of course, as you look forward, the country is at a moment of big inflection. We all know the opportunity, the macro tailwinds that are supporting the market. There are lots of changes, the clock speed of the country has gone up. We see the transformation on what we need to do on the portfolio, in channels and also deepening our sustainability and of course, our distinct capabilities and taking them to the next level, such as Winning in Many Indias, which I believe is a very, very strong moat.

The digitization agenda, which must go to the next level, especially when it comes to our eB2B platforms like Shikhar. So, I see more opportunities than gaps, to be honest. And I think I'm in that sense, quite optimistic. I do feel, of course, that there will be some jobs to be done like any other business, whether it's to drive the opportunity of portfolio in Skin Care, or to get more and more growth in our Health Food Drinks business or for that matter, also expand the opportunity we have in the consumer-packaged foods business, which again is quite a promising space. So, all in all, I feel pretty optimistic and really it's about us to leverage and exploit the opportunity then to actually fill any gaps.

**Vivek M:**

Great. And Rohit, one follow-up to that. Two portfolios, I want to know your specific views. One is the HFD category. And my estimate is that this quarter, it would have declined probably mid-single digits in volume terms. And since the acquisition, we have seen this portfolio probably performing lower than what the expectations were.

The other bit is Beauty and Personal Care. So, on the Laundry side, you have on a phenomenal job over the last decade, but Beauty and Personal still has been somewhat lower than what the expectations would have been. So, what are your views or problem areas in both these portfolios, any specific views on this?

**Rohit Jawa:**

Yes. If you pull back and let's take one by one, the two of them that you mentioned, I'll ask Ritesh as well to help support my thinking. If you look at basically the Health Food Drinks, it's bang on the sweet spot of the portfolio

that worked for Hindustan Unilever. It's purposeful because it serves to fill the deficiency in micronutrients. It has huge opportunity and space for growth because only a quarter of our households use it. It's got a very wide footprint where we could drive synergies in distribution and supply chain, which we have.

It's at the moment, on business case when it comes to the cash cumulative generation, there is a job to be done when it comes to top line. And here, it's a little bit more nuanced. Some parts of the HFD portfolio have, are showing growth already. So, I would say that like Boost and some of our more premium clinical-based parts of the portfolio are in tailwinds. When it comes to the more of the core, which is where the heart of the business it has been impacted over the last few years by inflation in milk, but also in its basic cost, and that does impact consumption in heartlands.

That said, we do see penetration growing. We do see market shares growing. In that sense, therefore, the business, I believe, is poised for growth, and we have to see this more in the longer term, I'm absolutely convinced that this is a great fit it's in the sweet spot in heartland of our, what we do well. What we now need to do is to make sure we get the relevance increased, and we have done that.

We made attempts for instance, our advertising has gone back to the core proposition of sharper, packaging is being improved. We are activating it and sampling it quite aggressively. So, we'll stay the course. We keep driving the core up in its relevance, will keep running the value up through value-added variants and building the portfolio widely, and it's a big brand, and I'm very hopeful that in the years to come, this will prove to be a very, very good part of our portfolio. So, I'll stop there on the HFD part.

That's really how I think about HFD. And I think this quarter, for what it's worth we grew 10%, largely through price, but this is one of the better quarters we've had, and we'll see how the future shapes up. But in the medium to long term, we feel confident about the business and we are on it.

When it comes to the BPC side, let's more specifically on the Beauty Care and Personal Care, the two parts of that business. I think we have a very high market strength where the relative market shares are high. If you take Skin



Care is 4x, on hair, we have a 55-odd share. On Skin Cleansing, we are about, we are the largest player. Oral Care, we've talked about that Close up is doing quite well. Let's stick to these three big categories. So, if you look at it, we are in a very, very strong position.

And the per capita consumption of all of these categories is low. There is a huge opportunity for market development, category growth and also of course, huge opportunity for up-trading because consumers in Beauty, in Hair Care and even in Personal Wash are willing to upgrade to better formats.

So specifically speaking, we already start to see in Skin Cleansing growth in our Body Wash liquids, its doubling, but it's a small base. So, 10 years down the line, that's going to be a very large share of our total Skin Cleansing. We feel quite confident about the trends we're seeing in our Skin Care portfolio, especially the premium end with Ponds and Lakme. We see tailwinds there, and we see growth coming in and high return on investment. And as far as hair is concerned, I think we have a beautiful portfolio right from Clinic Plus all the way up to TRESemme, and we will keep expanding that to serve the needs of consumers at all ends of the market. And here, again, is a beautiful market to be in high margin, high growth.

So, all in all, I feel that, yes, it's true, that Home Care has been a star performer in the last decade. But that said, we do have two very large parts of our portfolio, BPC & F&R and there's only opportunity for us to leverage into the right moves on. And I'm confident that as we go forward, we'll see these components also delivering value creation to our company as they have done previously as well. I hope that is a comprehensive response to your two questions, Vivek.

**Vivek M:** No, indeed, it was quite detailed. And second, one quick very small question on other expenses, Ritesh while you mentioned 20% and royalty impact despite that, is there any one-off setting in that number, Ritesh?

**Ritesh Tiwari:** Yes. So, we did have one-off in the base period, Vivek, hence year-on-year when look at it, you will see the impact of coming in. If you look at sequentially what we had a number of other expenses in the previous quarter, March quarter, is very similar. The only item, as I mentioned, (A) the impact of royalty which has gotten booked in this quarter. And hence, year-on-year, that royalty and

central expenses that has gone up. But apart from that and impact on the base of one-off explains by and large, what has changed year-on-year basis on that line.

Plus, we also have stepped up investment in capabilities, Vivek. And that expense also basically shows the amount of investment that we have to bring into different parts of the business to dial up capabilities, and there's a conscious choice we've done to lean-in on that front as well. So those are the 3 reasons put together while you see other expenses of where they are. But suffice to say, Vivek, we do drive across length and breadth of the P&L of our savings agenda, be it trade promotions, be it supply chain cost, be it other costs.

And we ensure that we are able to balance between generation of savings and then deployment of savings, be it on capabilities in overheads & other expenses or be it on advertising sales promotion to dial up, as media intensity goes up. So that's how we end up managing the P&L across lines.

**Moderator:** Thank you. We have our next question from the line of Percy Panthaki from IIFL.

**Percy Panthaki:** Rohit, just to continue the question that Vivek asked in terms of what will be your priorities going ahead. One of the things I wanted to sort of put forth to you is the Skin Cleansing portfolio. I mean, if I look at it over a fairly long period of time, like around 15 years or so, there has been significant market share erosion in this. So just wanted to understand, I mean, what is the reason why this has happened? And what are we planning to do in order to sort of stem this decline and reverse it?

**Rohit Jawa:** Yes. Maybe Ritesh can respond to the more near term and then I'll come back on how I see the category.

**Ritesh Tiwari:** Yes. So let me pick up Skin Cleansing and we'll hand over to Rohit on the question you asked on long term, how does Rohit see in terms of overall evolution of FMCG.

Skin Cleansing, we did call out Percy. Yes, if I look at last more than a decade, our shares are lower compared to what it was at we say a decade or 15 years ago. Some parts of that have been portfolio choices, where a part of the

segment, which was not making profit and at the lower end, we did vacate that part. That was one reason.

There were also competitive reason where we lost shares in the initial part of the decade and we had called out. The learnings we had were two. Number one, product superiority; and number two, dialing up the rigor of Winning in Many Indias. And these are the exact two things that we deployed in Skin Cleansing where our propositions, LUX, for example, the way we sell LUX in North, East and South is different, the fragrance, the proposition and the overall mix that gets sold.

So, we dialed up WiMI, in Skin Cleansing as number one, broad action. Number two, we dialed up big-time product superiority, as I mentioned earlier. And both these elements of action put together gave us good results. And which is why in the last couple of years, our we grew ahead of the market also gained shares. So that has been a Skin Cleansing journey over the last 10 - 15 years. The focus remains in short term, the focus for Skin Cleansing is very simple and clear, maintain competitive price value equation, whilst doing the job, as Rohit mentioned earlier, there are vectors like Body Wash, we want to ensure that, that starts growing, that's one of the market development cells, how do we accelerate growth of segments like that.

So, maintain price-value equation, dial-up market development part of the portfolio and keep doing the job of ensuring that we segment the market as Winning in Many Indias and then keep looking at the growth opportunities appropriately.

So that, I would say, will summarize Skin Cleansing, but let me pass over to Rohit on long-term overall trends and growth.

**Rohit Jawa:**

Yes. Thanks, Ritesh. So to your question Percy, Skin Cleansing is a heartline of our business. We've all grown up in this company selling a Lifebuoy. So that is really, really close to all of us. And I think, so I think over the medium to long term, the Skin Cleansing consumption because per capita consumptions are low, is going to grow up both in terms of volume and value, because just the share nature of the secular effect.

So, we need as the market leader, our job is to really grow the market. So I see 3 big levers was to follow. Number one, given that we are almost a \$1 billion

business there, our first job is to play the portfolio smartly, which is through price segments, central benefit segments, and we have really good brands, as you know, right from Lifebuoy, LUX, Dove, Pears, Hamam, Indulekha now as well entering the sort of source segment.

So, first job is to make sure we play the portfolio, full portfolio and make sure that we are smart when it comes to price value equation, Winning in Many Indias is pretty much what Ritesh spoke. The second point of emphasis is on premiumization because consumers are up trading. We do see that on growth rates and for instance, in our premium part of the portfolio, where Pears and Dove have shown smart growth, and we expect that to continue, so in urban areas, for instance. So that's the second driver.

And the third driver of value is new formats and regimes. So even though it's quite small, the shower gels, growth are doubling, but this will get close to the 20% mark in the medium term because that's what happens to liquids when they become accessible very close to soaps, in terms of cost per wash.

So, we expect liquids to grow, including regimes like scrubs and bath and shower experiences. So, there's a lot of growth that exists in basically getting consumers to expand and upgrade their shower experiences. So yes, that's really see very optimistic, and we'll continue to drive the innovation in our portfolio to leverage these 3 drivers that I mentioned.

**Percy Panthaki:**

Right. My second question is a little bit more on the near term. So, you mentioned in your PPT that soon the pricing growth will become flat or even negative on a Y-o-Y basis. So, in light of this, how do you see the volume responding? And how do you see the overall sales growth in light of this? Like in the longer term, HUL has done a high single digit, 9% type of overall sales growth. Do you think that with the pricing being flat, this number is at risk?

Or do you think that the volume growth would pick up to a high single digit in the second half to sort of keep the overall revenue growth in line with the longer-term average? And if you think that is the case, then what really will drive that change from a 4%, 5% or 3%, 4% to 8%, 9% kind of a number?

**Ritesh Tiwari:**

Let me pick it up, Percy. So, see, overall, let me start with market to start with. This quarter, as we speak, market grew volume in mid-single digit. Same period last year, market had declined volumes by 6 percentage. And hence, one

of the things we spoke on the chart when you look at a 2-year number, CAGR market volumes are roughly flat over 2 years. As far as HUL is concerned, we had 6% volume growth in period last year and a further 3% growth this year. So over 2 years, we've grown a 5 percentage of our volumes.

So, volume trajectory is very strong and robust in comparison to where markets are growing. And hence, that's also the reason Percy, why over 2-year period, we have substantial outperformance compared to the market. And hence, we also gained compared market share in the last 2 years substantially. That's number one. Number two, when I look at in short-term here and now, market is in transition. The point I was mentioning to Abneesh earlier that whenever you see substantial increase in commodity cost and then commodity cost comes off, it takes 2-3 quarters for market volumes to recover.

(A) Trade does destocking, and we have seen across categories anywhere from one to three days, trade has destocked because they do want to ensure that they are able to get out the high price inventory before they source and they stock up lower price inventory. And consumers, of course, end up experiencing the lower price inventory a little later.

You also see the divergence between the price growth that we as a business, we declared this quarter, we spoke about 4% price growth to our business, by and large, which is coming off the price that we've taken in the previous period. Market had shown a price growth in this quarter of 8 percentage. So, there's always a lag between what we end up doing as businesses and what market ends up showing.

So, this transition, and I was quoting 3 periods, 2012, 2013 Laundry, year after Tea, if I go back to 2007 and 2008, in terms of Skin Cleansing, each of these periods, we saw 2-3 quarters, so market will be in transition and the volume recovery of the market will be gradual.

In short term, as we speak, this will be the reality in terms of overall gradual volume recovery of the market. Price growth in short term, we called out that if commodities remain where they are, I do expect our price growth to be either flat or marginally negative. So, the growth for the next couple of quarters will be fully led by volume.

Now of course, this is a transitional period. Long term, FMCG industry grows by both volume and price. So once the cyclical trends settle in, now, of course, that's anybody's guess when the price tables commodity settle in, but we had called out at the peak of inflation even in September 22, that commodities are cyclical in nature. Ultimately high-price impacts demand, high demand impacts price, and they do normalize the curves. And which is why we did see that the inflation started moderating of any commodity which had significant amount of inflation.

Now with that getting let me say just stabilize. Hopefully, in near to medium terms post some quarters, we should start seeing this equilibrium coming back. Coming back, which was a high price growth situation, which was there, let me say, last year in several quarters. And a situation now where, as I mentioned, next couple of quarters, we do see volume leading growth. And hopefully, if commodities do stabilize, hopefully industry goes back to what its long-term trends are, roughly 1/3 or 40% comes from price and what about 2/3 or 60% comes from volume, that equilibrium should start getting established.

Price did lead growth. You've seen our overall numbers in last year as well. Last Financial Year, we had roughly 11% - 12% pricing. Now that pricing is no more there for the next couple of quarters, and hence, overall amount of absolute growth, to your point, will be very different and growth will be led by volume. And how much volume we sell, as I mentioned, depends upon this transition, how quickly it settles in across different parts of the country, and across different categories.

This, of course, external environment, we spoke about, be it rural demand or for it matter, be it weather related uncertainties. We have to put all that into mix. But in summary, I do see next couple of quarters to be in transition.

**Percy Panthaki:** Right, Ritesh. Thanks very much. That's all for me.

**Moderator:** We have our next question from the line of Manoj Menon from ICICI Securities.

**Manoj Menon:** Team, I know that there's maybe two questions, but allow me to ask three. Basically, the first one is actually on the inflation part of it from a consumer lens. It's been Ritesh, first of all, I want to thank you for making it very clear

about the interplay between inflation and the volume price elasticity, how the consumer sees it.

Rohit actually from your global experience, if you could actually call out a few examples or learning actually on, let's say, how the interplay plays out. Because we are in a unique situation in India where from a consumer staples, it's an industry point of view, where we have actually seen material inflation in the last couple of years versus, let's say, which is not the case from a consumer lens 5-6 years prior to that.

So how do you see actually this, I don't want to call deflation, but let's say, lower inflation or deflation from a consumer lens. That's question number one. Second actually, on the GSK part of the nutrition part of it, how do you see actually the issues which you have as a company in terms of solving the consumer problems.

The third is, it's more of an observation than a question. When I look at more of the listed space in consumer staples in India currently, it appears that most companies are trying to solve the problem in the premium end, not necessarily at the bottom of the pyramid. Let me explain that, for example, at least I don't hear from any listed consumer, a staple company talking about, let's say, solving the or creating the next Fair and Lovely or Glow and Lovely or the Wheel. So, three questions.

**Ritesh Tiwari:**

Inflation, I think good reflection Manoj you are posing. If you look at market price growth, FMCG, over 2 years, we've seen overall as an industry, there has been 22% price increase. This is substantial and which is why the impact on volumes is no surprise. The point I mentioned earlier, a 5% volume growth on the back of a 6% volume decline of the industry. And hence, 2 years CAGR has been flat on volume front. That has been the impact of these categories. In the meantime, we did see this got more pronounced at the beginning of the inflation on discretionary categories.

Mass Skin Care got impacted, how's Health Food Drinks got impacted where the bite was higher and consumers basically did more prioritization on kitchen inflation and hence kitchen essentials and they did dial back on discretionary category.

Now is this and I spoke to the point earlier of elasticity. So, we do see this coming up in terms of in the next couple of quarters, we do see gradual recovery happening in overall consumption trends. Overall, if I see within the portfolio, Skin Care, if I look at Skin Cleansing, Hair, Laundry, bulk of the commodities, which impact these parts of the portfolio have seen moderation. Of course, the point still remains over 2 years, there is cumulative inflation, but it has seen moderation. Income levels to some extent have caught up. Rural demand to some extent has got supported because of this inflation getting moderated. And equally, the job now has to be on driving more volume and driving more consumption.

That remains the focus area for us. Keeping aside the price elasticity of these categories, the job of in medium to long term on market development, on making the portfolio more premium on entering high demand spaces. That remains a fundamental for us, product superiority, driving WiMI, that remains a fundamental for us. And that's a playbook in terms of driving growth in the business. So that's basically overall the inflation playbook. And the point I was mentioning earlier, there are still parts of the portfolio.

Milk, Cereals, mostly barley in this case, and Coffee, substantial inflation we have seen in these commodities. And like, I'm hoping like crude like vegetable oil, these also will be cyclical in nature and these commodities will start deflating in times to come. But there's always an interaction of price inflation and demand for these commodities. So that interplay we have seen in India, we're seeing across the world in many markets, emerging markets.

At least in India, we don't have a large interplay on currency at this point in time. But we've seen in many international markets, Latin American markets, currency ends up playing a very large implication on overall inflation and hence price tables. Indian rupee after having, I would say, to some extent, depreciated last year, the last 6 to 8 months' time, it has remained pretty stable, and that has helped overall inflation in the economy.

As I come to GSK, there have been multiple jobs that we have to do, as I was articulating earlier. We had a job of integration, which the job has been pretty well executed. Go-to-market has got fully integrated, business has been onboarded. We had a job to be done in terms of correcting the price value



equation. We launched sachets and ensured that we're able to increase access to sachets and small price point packs

Market development at scale, almost last year, we spoke about 45 million plus home-to-home contacts to ensure that we're able to educate on the benefits of Health Food Drinks, where the food palate by and large, is carbohydrate heavy and micronutrient deficient, how Horlicks ends up playing a role in supporting that and missing that meal plate more balance. So that job of educating and increasing the relevance of the category and driving consumption is the single biggest focus area.

As part of that, we did the job of activating Boost across the country, we did the job of ensuring that the plus range backed by high sciences has got activated, and we're seeing good amount of growth in that part of the business. So, in summary, all relevant jobs to be done in terms of building penetration, building relevance of the category and boosting consumption has been in play.

Inflation has played a spoilsport. Earlier, we had a peak of as we acquired the business, as you know, we had this was a peak of COVID and post that, a very high amount of inflation as a basket overall and then our overall inflation impacting in particular HFD category milk essentially.

So those impacts have overall had a tell on the HFD growth. And you saw in this quarter, we had a value growth, but volumes were just below flat, to marginal decline. But medium to long term, we do see for this category, our ability to build relevance through market development and focus on driving growth remains and we are very confident about that.

Let me hand over to Rohit, on the premium end and the mass segment, how do we ever play at both the end FMCG market.

**Rohit Jawa:**

Yes. Thank you. I think this is to really simplify this. The first point to note is that we're a highly penetrated company with reach 9 out of 10 households, multiple categories, and we are of the scale because we have over the years played the full portfolio. So, from the lower to the middle to the upper price segments.

So, if you look at if you consider that context, the second point is that we are, therefore, two big parts of the portfolio. There's a core, which is really what

drives our baseline. And this is all about getting the right what you call sometimes mass, but it's basically the one that gets us to every household, gives us that reach in distribution in GT, but also in every home. And this is where we got to make sure we have the right price quality equation, the right mix, right region, which you call WiMI. And this is what drives the fundamental baseline of the business.

This doesn't take away from the fact that as for the growth is coming from the premium end, which is about 1/3 of the business now growing faster. And here, in fact, much of the focus of our innovations, our A&P spends, our market development and our portfolio expansion is happening. So, we are focused on both the end and drive the core usership, keep it healthy, keep the baseline humming and drive the growth of our premium end because that's the secular trend of the market and make the right investment in mixes, innovations, market development and portfolio expansion.

So, I hope this answers your question on how we see these to sort of simplify the ends of the business.

**Manoj Menon:**

Thank you, Rohit, and thank you, Ritesh, for response. Sorry, if I may if I can push an envelope a bit. Rohit actually, the context I was trying to get from you in the call today, this is the first call. When you take a step back and go 2013, maybe longer in the history, HUL or Unilever in those days or HLL in those days created, a Fair and Lovely, created a Clinic Plus, Wheel etc.

The context is that today, it appears that the strategy does not necessarily have those ingredients saying that, look, we're not going to, let's say, solve the problems of bottom of pyramid from a brand point of view, we'll probably solve the problem from a, let's say, pricing per unit point of view. That is my only question about the premium versus BOP.

**Rohit Jawa:** Yes. So I think the what we talked about is, indeed, about category expansion. We have, we do have the right brands like Taaza, Wheel, Lifebuoy, LUX, Glow and Lovely, these are deeply penetrated solutions, and you're right. We want to make sure that they keep serving the consumers in the right way, and they still have a lot of runway of growth. When it comes to category creation, the category creation is going through the underserved areas, new benefits, and we are building brands there, TRESemme is a great example,

excellent vibrant brand did not exist many years ago. Now it has helped us increase our market share in the hair category to well over 50. The brand is positioned on a new trend, it's a salonization trend and is doing very well. And equally, there are brands that will get stretched even for the premium for instance Lakme, to solve the beauty needs of every Indian. And there is a segment that's emerging that Lakme will serve. So, I think our thesis of growth continues to be at the primary level market development, category growth because that's a story of India for the next many, many years to come. So yes, it is a part of our genetic code.

**Manoj Menon:**

And one last thing, if I may ask a follow-up. If Rohit from your global experience actually, when a country or a geography which you cover, moves from, let's say, significant inflation to lesser inflation to, let's say, deflation or rather lower inflation. So how do you manage the P&L? Because these are things which are not that easy to handle.

The reason I'm asking because when I look at India in the last, let's say, 10 years. India has really not seen material inflation, which I presume most consumer staples CEO and CFO would allow to see it because that's where you get operating leverage from. In the last few years, you have seen material inflation that's been a tailwind in different ways, let's say, in a home care segment or digital segment, etc. Now it's actually reversing. So, anything from your global experiences on handling the inflation to lesser inflation, stroke deflation would be super helpful.

**Rohit Jawa:**

Yes, I think there's collective knowledge and experience of the company, and we've been through cycles in India a few times. And as Ritesh mentioned, we've seen analogies of what have happened, of course, it might not exactly be the same because things do change in the number of factors that play may be different.

We are, at the moment, specifically focused on driving competitive volume growth. That at one level is on the top line job. And at the bottom line, we do have tailwind of reducing commodity costs. Some of that we are passing in higher A&P investments. We want to keep our brands strong, penetration is

growing. And we do have our productivity program Symphony to drive the savings.

So, it's really about, from a margin point of view, its about driving the levers of pricing, mix and cost and we know that machine well. And from a top line point of view is to drive volume growth competitively in the quarters to come.

Thereafter, I think when price returns back to the market or in our categories, we will go back to, we hope, the organic trend of about 2/3 volume and one-third price but driving volume and mix in any case is absolutely the most virtuous thing to do, which is what we focused on at this point.

**Moderator:** We move on to our next question from the line of Arnab Mitra from Goldman Sachs.

**Arnab Mitra:** My first question is your comments around the resurgence of local competition, especially in Laundry and Tea. So given, again, your past experience, what do you expect here? Does this mean that some of these categories could have a bit of a subpar growth for a year as the market conditions normalize? And therefore, the market share is normalized between local players and national players. And also in Laundry specifically and Tea does it really affect the lower end of your portfolio? Or does it also affect the entire price ladder, which includes premiumization into your premium brands?

**Ritesh Tiwari:** Yes. Thanks. And as you called out, in this period when we have seen a very high amount of inflation and inflation high is one element, but second important element is huge volatility. And this is a time where the business model becomes a little more tricky to manage, and that's the time we have seen that players did vacate the market. And now as we have seen commodities moderating, we've seen more number of players participating in the market, especially small players. The whole conversation comes on the ability to manage such amount of variations in the business model. And we have seen more players now participating.

One of the charts that we have put earlier that because of that, we did see in Tea in overall Laundry that the small players are growing ahead of the large players because there are more players participating in the market. And by and large, these conversations is in the lower price point of the market. Now when I look at Tea, apart from this the question we mentioned earlier, the current tier

Tea commodity cycle led to a widening of gap between premium tea and loose tea.

In nowhere else across the portfolio, we have seen downgrading happening. The point as mentioned quite a few times earlier, we did see consumers seeking value and either uptrading or downtrading, but we're not seeing downgrading happening. In tea, given the divergence of premium tea and loose tea, we saw consumers downgrading. And we do have brands like Taaza, which has done pretty good business. So that's one clear job.

When it comes to overall price value equation, the interaction usually in this part of the market is in the mass segment. There is never an interaction between, let me say, a mass brand, let me say, mass brand and a premium brand. That interaction doesn't exist. It's usually within the price point. And also the fact is the cumulative inflation has been pretty significant.

The point I mentioned market price per se over a 2-year period has seen 22% inflation in terms of price increase. So even in our hard business, we've seen cumulative inflation of 18% NMI. So there has been a pretty high amount of inflation and hence linked pricing decision. These equations in my mind will settle as commodities overall stabilize, the overall segments of the market, they become normalized. And then the job that we typically have, the point we spoke earlier of price volume balancing to a historical norm, whatever 2/3, 1/3 60-40 that keeps happening.

And also mentioned, just to complete Arnab I'm sorry, that over this 2-year period, where we've seen the players basically vacating the market. We've seen players coming back to the market over 2 years, this inflation period, we have grown significantly ahead of the market. And our market shares today are higher than what they were before the inflation started kicking in materially.

**Arnab Mitra:**

Sure. And similar to what you said about the consumer adjusting to the price, this market share or, let's say, market forces adjustment, would you expect this also to be a 2-3 quarter kind of phenomenon? Or this could be like a full year reset where you had gone to a much higher level of share in the market, which probably somewhere in looking you started and where you ended last year.

**Ritesh Tiwari:**

Yes. So, these players coming back is more of a last couple of quarters phenomenon as commodity started moderating. And in our mind where

commodity levels are today, they are by and large, they have got moderated. Now something can go up and down, we'll see in times to come. So hence, the let me say, more players participating has got fully paid out.

Now of course, the year-on-year implication in the next few quarters. But sequentially, in our mind, I'm saying that players have participated more, so that has got played out.

**Arnab Mitra:**

Sure. Understood. And my last question is on your margin side. So, as you take up your A&P spends, if you look back, you had this 11.5% to 12% A&P spend for many years. All other things remaining same, should that be the broader level of A&P spend that you need to be? To support market development, normal market conditions over a period of time. And therefore, if there is any expansion in EBITDA margin it would only happen if your Gross margin expansion is higher than the level of A&P increase we tried to get to that level. So just trying to understand that dynamic between A&P and Gross margin.

**Ritesh Tiwari:**

Sure. To the point, I mentioned earlier that with the peak of inflation, we did have a 600 bps impact on our Gross margin. We built that 400 bps out of that in last 3 quarters. And a bulk part of that got invested behind A&P. Now A&P, there are always 2 ways we look at it. It is not the percentage turnover that typically drives the model, investment model in this space.

We always look at the reach objective and the frequency objective to ensure that we've been able to communicate the messages of our brands to our consumers and ensure that innovations land in the marketplace. So, there's always a, let me say, a bottom-up way in which we compute is to watch the amount of investment that we require in a category or a brand for that matter in the quarter.

Second is always a competitive element where overall media heat goes up, the point that I spoke in one of the charts that, we're almost back to 2019 levels now where the media intensity has been. That's the second element which determines the absolute amount of investment that we got to do in A&P. The bottom-line principle still remains, Share of Voice ahead of Share of Market.

Now with peak inflation, the point I mentioned earlier of in our case, for example, 18 percentage. With peak inflation, we had seen overall media

intensity had come down as the price versus cost bleed across industry went up. And in our case, we had lower price versus cost bleed at margin.

So, we have seen at those levels, media intensity came down, which is starting to come up. So, will this go from here higher media intensity? I do expect the short-term that to further happen, which is why we did call out that if I look at next few quarters, the priority remains - single important line of margin remains Gross margin. Idea is to keep building gross margin and invest competitively behind A&P.

EBITDA margin for the next few quarters will be an outcome. Now where we are at this point in time, 23.6 percentage even last few quarters approximately at 23.5 percentage. It's a pretty healthy margin, and which is why our objective is to drive gross margin and invest in A&P. EBITDA margin will be an outcome of what evolved in terms of development of commodity hence Gross margin and what evolves in terms of A&P investment need to maintain SOV ahead of SOM. So, it will be more of an outcome of the two, but the focus will remain on driving gross margin.

**Moderator:** We have a next question from the line of Richard Liu from JM Financial.

**Richard Liu:** One thing that struck me is that your earlier comments on rural slowdown bottoming out seems to be missing from the deck this time around. And instead, you introduced a new comment on weather-related issues. Can you give a perspective on whether there's any change in your reading of what's happening on the ground on rural? And how should we look at the progression here on. You need may be more circumspect than before on this front?

**Ritesh Tiwari:** Sure, sure. So rural, as you called out for the last few quarters that slowdown has bottomed out. And indeed, this time, in fact, we did not repeat that comment because we also spoke hard numbers as well.

Let me summarize 3 or 4 elements, Richard, in rural. First, we had seen in these last few last quarter, year, year and a half, double-digit volume decline of the rural market. And from that space, as we spoke in the latest quarter, market for rural has turned positive and say market was 2% up. Still job to be done. If I look at 2 years CAGR, rural has a 4% circa 4% volume decline, but it is definitely looking up compared to what it was.

So there are a few elements which are helping this recovery. Where it has bottomed out and now it's on the path of recovery. And what's helping this recovery. Overall, inflation moderating and hence, overall commodity, we have given commodity linked savings we passed on, in terms of volume, in terms of price reduction. That is one thing which is helping rural recovery, number one. Number two, we are very conscious that government has maintained its heightened amount of rural expenditure. That supports overall situation of income levels in rural area. Third, the amount of capex, which government has committed last fiscal, this fiscal put together, and we have seen capex investments going up, including states spending money. And ultimately, as that happens, we know the non-farm income does get benefited in the rural area. If I look at data for the last few months' time, I do see remittances improving.

Rural wages, yet we have seen the point are on a real-term basis, are almost flattish. It has a small margin decline as we saw previous quarter. Now it's come back to almost being flat on a real basis. So, there are forces which are supporting and helping at this point in time on many fronts. The only place where we have to watch out is the impact of monsoon and weather-related risk. El Nino has come earlier, and we know that when it comes early in the season grows more in the season.

So, we have to see what impact that has. And we know that it's not on the quantity of rain, it's also where the rain distribution happens, that's equally important. And, timing of the rain is equally important. So, all 3 quantity, timing and placement of the rain, all 3 have to work to ensure that the monsoon supports the overall agri growth and hence, overall rural growth.

That is one element is what we called out as part of unknown and all of us need to learn and we can watch out. We did see some floods in parts of the country in the last few weeks. So that is also a reality we are facing at this point in time. And this is why the only single business risk we called out is weather everything else is looking good. I've seen data on MNREGA, more enrollments, but I'm hoping and assuming that with capex spend, boosting remittances, that should help overall the non-farm income component of the



rural economy. So yes. So that's in summary, I would say the encouraging signs, weather in my mind, is the only watch out.

**Richard Liu:**

Sorry, Ritesh. Ritesh, second question, and you've alluded to this a bit already, but let me try my luck once again on this rather massive growth in other expenses this quarter. To put it more simply, this is a line that we are used to seeing growing low to mid-single digits. And that's why I'm finding it difficult to see this 10% to 15% kind of growth in this line even if I were to strip out the impact of the higher royalty. Wanted to get a flavor from you on this step-up in growth on this line? And what are the factors that's driving a different but a higher level of cost growth versus what we're used to seeing in the past?

**Ritesh Tiwari:**

The 2 lines, let me speak, Richard, I know you asked me about line. Let me talk about 2 lines. I'll talk about line, which is other expenses, we also talk about a line called exceptional items that we are restructuring. So let me start with the expenses. Other expenses this quarter is very similar to what we had in the last March quarter. In the base period I was responding to Vivek earlier, we had a one-off in the base, which impacts the year-on-year read.

Of course, we had seen salary inflation, which we have passed on to. We have done salary increases in the system which was one driver of cost increase. We have seen capability investment in the business, which has led to increase in cost. You did call out, of course, increase year-on-year on royalty and central services. And investments behind capabilities. If I look at even all these elements put together, and if you look at total expenses that we have at Hindustan Unilever, then I compare across industry, we are still at the lower end of the industry benchmark on other expenses.

So, we are extremely economical the way we run. We have a frugal mindset, any cost, which is adding value to consumer gets prioritized. Everything else we have extremely frugal mindset. We have savings program to drive cost of other expenses also down. To give you an example, look at the distribution expenses, it is part of other expenses. One of the items we have spoken about our entire job of driving lesser number of kilometers of product needs to travel before it gets out to the customer. Items like that we are driving in the system.

So, we're looking at our infrastructure as part of Nakshatra over distribution setup. If I look at overall other expenses, if I look at manufacturing expenses

in supply chain, we called out even in the space of Horlicks which I was responding earlier, that one of the jobs that we have, we still have more space to go in terms of driving supply chain synergies and cost transformation in area of HFD.

Current quarter, we invested in restructuring expenses to drive better cost structures in HFD and we have more work to be done in supply chain in HFD to drive cost reduction. And there are other elements in the system we are working on.

So and you will see that those expenses as time comes relevant, whereas part of Nakshatra, we will invest restructuring expenses to ensure that we're able to lower our supply chain manufacturing cost. Sans the procurement cost of materials, and we will drive them down by ensuring that we spend on restructuring as required to lower our supply chain expenses. So, you will see some amount of movements on these expenses overall.

But you will see always us being at a benchmark level. Across the industry, you will see that we will operate always at the lower end of the industry in terms of overall costs that we end up having. Quarter-on-quarter, there'll be some puts and takes as explained. But overall, is assured, that's a line which has a hawk-eye attention in the organization, and we run with a frugal mindset.

**A. Ravishankar:**

What we'll do now is take one question from the web and then we'll call it time. So, there's a question from Latika. On 3 parts to the question. One is what's the impact that trade destocking had in the quarter? Second, she says that you mentioned, it takes 2 to 3 quarters for consumer behavior to change.

In some categories like Skin Cleansing, price reduction started 2 quarters ago, and Laundry, Shampoos, etc, perhaps it started a quarter back. So, is it reasonable to expect volume growth recovering to 6% to 8% in the second half of the fiscal? And the third one is around rural and whether our optimism on rural recovery is lower versus what it was a quarter ago given the weather risks.

**Ritesh Tiwari:**

Yes. So, thanks, let me just pick up the 3 or 4 questions together. So, the trade destocking, of course, is always linked to the price change that we end up doing. We did speak about price change in the previous quarter. But even in current quarter, Latika, we have done price changes in Skin Cleansing and in Laundry. And of course, the trade an overall impact of volume recovery and

overall trade impact in pipeline, basically will be 2-3 quarters as we finish doing all this job.

Now where commodities are today. As we saw in current quarter, we have spoken a number of small amount marginal amount of deflation effect we saw in commodity costs. And which is why in this quarter, we did do price decrease of this new price has further landed in the market. If you look at the price growth that Nielsen, for example, has spoken, they're talking 8% price growth. That's what consumers are paying at this point in time, where we have a 4% price growth as we declared our results.

So, there's still a transition as you speak, happening in the trade, because of the latest set of price decreases that we did in the quarter. And that's the point I was making that we finished doing these price decreases. And assuming no further commodity up and down happens, this is the point where 2-3 quarters it will take for overall transition to complete, where trade, which is destocking by 1 to 3 days time. Where they're having higher price inventories, they will liquidate that. We will then stock of lower price inventory, consumers will end up using their higher price inventory pantry stock at home. They will start experiencing the lower price inventory. And with the lower price inventory, it's also the more volumes that we give it to consumer, and we want them to consume higher volumes and then come back with repeat purchase. Now that transition of 2-3 quarters it is what will end up taking. The absolute amount of volume growth, price, we had already clarified Latika that we see near flat stroke marginal negative price growth for the next couple of quarters if commodities don't change materially compared to where they are.

When it comes to volume growth expectations, I think one is be mindful where markets are. The point I mentioned earlier, market grew volume at 5 percentage on the back of a 6% volume decline in same period last year. 2-year market CAGR is near flat. As far as HUL is concerned, we grew our volume by 3% this quarter on the back of 6% growth last year's same quarter. So, we had a 2-year CAGR of 5 percentage.

I think hence, if I look at next few quarters, the point of transition, I mentioned, we will have to see volume recovery and consumers habit coming back in terms of more consumption and market growth will, of course, will end up driving the amount of volume growth we are able to do on the base that we have against

the market base. Once you add those two elements, you will see how things play out. Now coming to rural, yes, compared to earlier, I did mention that the slowdown has bottomed out. It's on the path of recovery, all right signs in terms of macro level. And the only element which is unknown, and we'll know in the next few months' time, how that plays out is weather.

And that's the reason we called out that unknown element. That's the element which we got to wait and watch. But if I take that element out, there are many factors which are helping in our mind, a rural recovery and which is why we did mention that we are optimistic sans the weather concerns.

So that's how I'll summarize Latika. Sorry, we will not be able to guide you to a precise number of volume growth in the next few quarters, but I hope that the narrative helped you to gauge where our minds are at this point in time, the way we see this panning out.

**A. Ravishankar:** Thank you, Ritesh. With that, we will come to an end of the Q&A session. Before we end, let me remind you that the playback of this event will be available on our website in a short while from now. Thank you, everyone, for your participation, and wish you a great evening. Thank you.

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

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