



Hindustan Unilever Limited

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

January 19, 2024

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 December quarter ended 31st December 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 your 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 Hindustan Unilever Limited. Best wishes to all of you and your families for a wonderful 2024. This evening, we'll be covering the results for the quarter ended 31st December 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, where we will cover an overview of the operating environment, our performance in the quarter and outlook. We expect this to take around 25 minutes, leaving us with an hour for the Q&A session. We will try and end the call by half past 7.

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. Wish you a great 2024. Thank you for joining us on the call today. It's always a pleasure to interact with all of you. Let me start with an overview of the operating environment. The effect of uneven monsoon was felt on the Kharif crop output impacting agricultural yields and rural incomes.

Lower reservoir levels continue to be a cause of concern for the Rabi crops, although the crop sowing has been recovering off late. Further, on the weather front, winter this year has not only been delayed, but has also been less severe with higher-than-average minimum and maximum temperatures recorded in many parts of the country.

This has impacted the winter categories, which we will cover later in the presentation. Due to lower agriculture yields and uncertainty of future crop outputs, rural consumer sentiment remains subdued. Consequently, the anticipated buoyancy from festive season did not materialize. The dualism we've seen in the recent past continues with certain parts of the market recovering faster than the rest.

Urban growth continued to outpace rural across many industries, we see premium segments doing better than mass. These factors have played out in shaping the FMCG market demand as well.

Overall, FMCG demand trends have largely remained stable and similar to what we saw last quarter.

While market volumes grew at high single digits year-on-year, this came on a base period where volumes declined in mid-single digit. Hence, cumulatively over 2 years, market volumes have grown marginally at 2% CAGR. Within this, urban continues to lead growth. Urban markets grew 3% on a 2-year basis, while rural was 1% in the same period.

At channel and price segment cuts, the same urban and rural dualism in consumption patterns is visible. As we've seen in the recent quarters, Modern Trade is doing well and continues to outpace General Trade. Similarly, volume growth of premium products significantly ahead of mass products in the market. Price growth in the market continues to tail off as expected. This is reflected in a sequential reduction of market price growth from 8% in June quarter to marginally negative in current quarter. However, viewed over a 3-year period, we see relatively high levels of pricing reflecting in the broad base of unprecedented levels of commodity cost increase, we saw in our markets. Three-year cumulative price increase in December quarter '23 is circa 25%, similar to what we had in the past couple of quarters.

In this challenging operating backdrop, we delivered a resilient performance. Our Underlying Volume Growth was 2% in the quarter, but divergence between segments and volume growth remained with Home Care and Beauty & Personal Care continuing to see volume recovery while Foods & Refreshment declined volumes on account of the pricing taken. Ritesh will cover this in more detail when he explains the performance of the 3 segments.

Underlying Sales Growth was flat, impacted by negative Underlying Price Growth as a result of the price cuts taken during the year, particularly in categories like Personal Wash and Home Care. EBITDA margin at 23.7% improved 10 bps year-on-year. Profit after tax before exceptional items declined 2% and Net Profit grew 1%.

While there have been near term macro challenges, we have been focused on ensuring that the fundamentals of our business remains strong. We continue to expand our consumer franchise despite heightened competitive intensity in the market. Circa 60% of our business is winning value market share on MAT basis. Ritesh will cover this metric in more detail later.

More than 75% of our business is gaining penetration both absolute and relative penetration, which means not only are we expanding our consumer base, we are also doing it ahead of the rest of the market.

With more than 80% of our business either growing or maintaining brand power scores, we are winning when it comes to mental reach as well. This is a testament to our iconic brands, long-term engagement platforms, superior products and sustained investments behind them. Our absolute A&P spends in the 9 months of this fiscal is 33% higher than the same period last year.

We have now 3x more superior products, when compared to the 2019 base and the rest of the products are at par with competition on functionality. We are winning with our consumers through product superiority, which translates into increased brand loyalty and repeat purchases. Excellent execution is a bedrock of strong consumer goods business. We have continuously stepped up our effective coverage, which now stands at 1.25x of 2019 levels. We reach about 3 million outlets directly, of which 2.3 million outlets are covered through our distributor network and the remaining by Shakti Entrepreneurs in the rural hinterlands. Our strong business fundamentals provide us with a solid base, which will hold us in good stead as we continue to build for the future.

Let me also take this opportunity to speak about some of the recent changes we made in the organization as we embark on the next phase of growth and transformation. From 1st April 2024, the Beauty & Personal Care business will transition into 2 independent business units, namely Beauty & Wellbeing and Personal Care.

Beauty & Wellbeing business unit will have Skin Care, Premium Beauty, Hair Care, Color Cosmetics, and Health and Wellbeing categories, while Personal Care will include Skin cleansing, Oral care and Deodorants. We believe this is the right time for this transition given the diverging trends in the business models, innovation rhythm and competitive landscape.

The other change we made is the appointment of a Chief Digital Officer, who will steer the next phase of HUL's digital transformation journey focused on enhancing consumer and customer experience through digitization. I'm very excited about these changes, I'm confident that these steps will go a long way in further building our strengths to win in the marketplace.

Moving on to an update on responsible growth. Sustainability is the core to our business, and I'm very happy to report that we've received in industry leading ESG ratings from rating agencies such as Dow Jones, CRISIL and others. Further, we were awarded for excellence in BRSR reporting by the Institute of Chartered Accountants of India. These achievements stand as a powerful testament to our unwavering commitment to sustainability and ensuring transparent and clear disclosures on progress are made on our ESG initiatives.

We recently announced our strategic partnership with Brookfield to set up solar energy park within 45 Megawatts capacity in Rajasthan. We will invest up to 32% of equity share capital for Special Purpose Vehicle incorporated by Brookfield. This initiative will contribute towards achieving our Net zero goals by increasing green energy consumption in our own and collaborative manufacturing units.

It's been 10 years since we have started 'Prabhat', our sustainable community development initiative. Since its inception, 'Prabhat' has left a profound mark on the lives of nearly 10 million people across 1,200 plus villages in the communities around our factory and depot locations. Through a multifaceted approach to community developments, 'Prabhat' has showcased the tangible outcomes of economic empowerment, improved health and nutrition and our commitment to environmental sustainability. The past decade has not just been about the number of years, but about the lives transformed, the communities uplifted and the spirit of a positive change that 'Prabhat' embodies.

With this, let me now hand over to Ritesh to talk about our performance in this quarter and our outlook in detail. Ritesh, over to you.

Ritesh Tiwari:

Thank you, Rohit, and good evening, everyone. My best wishes to you and your families for a great 2024. Let me now take you through our results in detail. Rohit spoke about FMCG market trends, which have largely remained stable and similar to what we had seen in the last quarter. In this context, we have delivered a steady Underlying Volume Growth of 2%.

As you're aware, we have taken price cuts in past few quarters in commodity linked categories to pass on the benefits of lower material prices to our consumers. Consequently, we had an overall negative price growth of 2 percentage leading to a flat Underlying Sales Growth. If you were to split this by division, Home Care and BPC had negative Underlying Price Growth in mid-single digit. F&R continues to see positive pricing with inflation in commodities like coffee and sugar.

Talking about our bottom-line performance, EBITDA margin remained healthy at 23.7% and improved 10 bps year-on-year. Profit after tax, before exceptional items, declined 2 percentage. Net Profit grew 1% year-on-year. The difference between PAT bei growth and Net Profit growth is due to lower restructuring costs in the current quarter.

Let me now talk about how we have done competitively. On a 2-year basis, we continue to outperform the market with underlying Volume Growth CAGR being ahead of market growths. This is reflected in our market share position as well. Compared to 2021, we have improved our corporate value market share by almost 200 bps. This is the result of strong operating fundamentals that Rohit spoke about earlier and our ability to manage the business with agility.

As we said previously, we are seeing resurgence of small and regional players who had vacated the market during peak of inflation. Consequently, in recency, the pace at which we are gaining incremental market share has slowed down. But it is important to note that we're holding on to almost all the gains made in 2021 and 2022.

In the near term, we expect our MAT Business winning metric to be impacted as we lap the high deals. We expect it to dip below 60 percentage for a couple

of quarters before coming back towards second half of calendar year 2024. However, on a 2-year basis, we would continue to have substantial market share gains and a very healthy percentage of business winning share.

One of the key pillars of our strategy has been to grow premium and market development segments ahead of the rest of the business, and that is exactly what we have done.

This is a result of our focused long-term strategic actions that we have taken involving seeding the right categories, increasing accessibility and improving mental and physical reach through a series of consumer interactions. On a YTD financial year basis, premium portfolio continues to lead growth for us, growing at more than 2.5x of the mass portfolio.

Premium products, to remind you, are those with the relative price index greater than 120 percentage of the category average. Let me quote a few examples of premium and market development portfolios that are seeing strong traction and expanding, demonstrating our ability to do market development at scale. Our Premium Beauty business unit, the plus range within Horlicks, Mayo and Peanut Butter in Foods and our premium Laundry portfolio are a few examples of segments growing in strong double digits in this fiscal.

Let us now look at performance across the 3 segments. When it comes to Underlying Volume and Price Growth, the divergence between the segments continued. With the benefit of lower commodity costs being passed on to consumers in Home Care and Beauty & Personal Care, these business units continue to see volume recovery and had mid-single-digit underlying volume growth.

Put together, these 2 segments constitute about 75% of our business. It is also worth noting that this volume growth has come on a strong performance in the base period. Consequent to price cuts taken during the year, USD for Home Care declined marginally, and Beauty & Personal Care remained flat.

Foods & Refreshment on the other hand, saw a low single-digit decline in UVG primarily due to the pricing taken in the year to offset the impact of higher commodity costs. Consequently, USG was 1%. If you were to get down in F&R, again, 3/4 of our portfolio is HFD, coffee and tea where we are yet to see volume recovery. HFD & Coffee is witnessing commodity inflation, and we

have spoken about consumers downgrading in tea due to the price differential between premium and plain tea.

I hope this gives you some color on volume recovery across our segments. Moving on to margins. All 3 segments remained healthy with Home Care at 18%, BPC at 26% and F&R at 19%. The transition of Beauty & Personal Care into 2 separate business units will be effective 1st April 2024. Hence, we will begin reporting performance for 4 segments instead of 3 from June quarter '24 onwards.

I will now click down to talk about performance in each segment. Starting with activations and launches in Home Care. Comfort had an activation around winter, which highlighted the key advantage of Comfort in enhancing the fragrance of cloth and addressing the musky smell that comes with drying closing winter. Surf Excel has launched a new campaign in North India on detergent bars with a superior proposition and winning communication. Rin Matic liquid expanded its physical reach and launched a campaign with a superior proposition.

Moving over to Home Care performance in the quarter. We delivered a robust volume at performance on a very high base in December quarter '22. Home Care had a strong 14% revenue growth on a 2-year CAGR basis, driven by high single-digit UVG. In the quarter, volumes grew in mid-single digits in fabric wash.

Our premium portfolio continued to outperform with both Surf and Comfort leading growth for the category. At the mass end, especially in detergent bars, we continue to see heightened competitive intensity due to benign commodity environment. Household Care delivered low single-digit volume growth led by Dishwash.

Talking about Beauty & Personal Care, we continued our good momentum and innovation with launch of several new products this quarter. Simple expanded range with an active skin barrier care range, which is powered by ceramide booster and hyaluronic acid to help restore a damaged skin barrier and soothe dry sensitive skin. Sunsilk has introduced hair serums with a superior mix and at affordable price points.

Lakmé had a number of innovations this quarter. One of them was lash boost mascara, which is part of the show stopper collection unveiled at our iconic Lakmé Fashion Week. Our latest launch of Close-up toothpaste in 3 different variance, clove and orange, lemon and sea salt, and green tea and clay is made with a 95% natural original formula to provide specific oral care benefits and up to 12 hours of freshness.

Moving on to our performance in Beauty & Personal Care, we delivered a mid-single-digit volume growth for the quarter. Skin cleansing declined year-on-year with pricing actions to pass on the benefit of lower commodity prices impacting top line delivery. Body wash continues to scale up well and is seeing good growth. Hair care had a strong quarter. Volumes grew in double digits led by TRESemmé, Dove, Sunsilk and Clinic Plus. Our focused intervention in premium and formats of the future such as serum, mask and conditioners are delivering good results.

In December quarter, winter portfolio typically constitutes 1/3 of Skin Care category. This portfolio declined year-on-year on account of delayed onset and lower intensity of winter. However, our non-winter premium portfolio continues to perform well. Lakmé and Ponds Skin grew volumes in double digits on back of strong innovations and a beauty-focused execution at the marketplace. Oral Care delivered mid-single-digit growth led by Close-up.

Now talking about innovations and activations in F&R. Bru Gold expanded its product portfolio with a new range of flavored coffee. Available in 3 flavors, vanilla, caramel and hazelnut, this freeze-dried coffee is sure to transform your usual cup of coffee into a luxurious treat. Following the launch of Korean Meal Pot, Knorr launched Korean noodles in popular flavors Kimchi and Jjajangmyeon. Continuing with its endeavour to de-seasonalise ice cream consumption Kwality Walls had activations around Diwali and Puja festivals.

Talking about F&R performance in the quarter. We continued to see the impact of judicious price increases taken during the year to offset the impact of inflation. Consequently, volumes have declined year-on-year in low single digits. Tea further strengthened market leadership in the quarter with strong gains in both value and volume. Business had a muted performance year-on-year as we continued to witness consumers downgrading. Green tea and

flavored tea performed well. Coffee delivered double-digit growth driven by pricing.

Health Food Drinks delivered competitive price led growth driven by Plus range. We remain focused on driving growth through bringing in more users into the category while creating more occasions for consumption and premiumizing our portfolio.

Mayonnaise as well as peanut butter continues to see strong consumer traction and food solutions remain resilient with double-digit growth momentum. Ice cream grew in mid-single digit on a high base. As you would have noticed, market development portfolio across F&R categories is leading growth for us.

I will now take a moment to elaborate on the construct of EBITDA margin for the quarter. At 23.7%, EBITDA has improved 10 bps year-on-year. Gross margin at 50.6% has improved by 400 bps year-on-year. I will cover gross margin in more detail in subsequent slides. Advertising and promotion investments at 10.7% is up 270 bps year-on-year.

Our absolute A&P investments were up almost INR400 crores higher than last year as we continue to invest competitively behind our brands and maintain share of voice ahead of share of market. Employee benefits and other expenses net off other expenses -- sorry, net off other operating income at 16.3% is up 120 bps year-on-year.

There are a few things here as you unpeel these numbers. In other expenses, there is about 50 bps impact of royalty increase. The rest of the increase can be attributed to investments made in future fit capabilities, phasing of costs and lack of top line leverage. On a full year basis, we expect that other expenses to be circa 13 percentage of turnover, which is in line with our long-term trends.

Let me click down and talk about gross margin. As you're aware, we took a hit on our gross margin during inflation as we did not price to the full extent of commodity price increase. In the recent quarters, as we have rebuilt a large part of the lost gross margin, we will remain focused on improving our gross margin through end-to-end net productivity programs.

This is a necessity as gross margin provides us with the funds to invest behind brands and capabilities including innovation, market development activities,

digitalization and other strategic priorities. These actions are extremely critical for the long-term health of the business and for us to continue winning in the marketplace.

As part of our net productivity program, we are stretching ambitions on unlocking value by way of initiatives like net revenue management, simplification through digital acceleration and cost competitiveness. Driving mix through premium portfolio will also be an important lever for gross margin improvement.

Moving on, a summary of our performance for this quarter. I've already taken you through most of the lines, but let me pick up tax. Effective tax rate for the quarter was 26.6%, and we expect our full year ETR to be marginally above 26% after taking into consideration prior period tax adjustments.

Let me quickly take you through our year-to-date numbers for this fiscal. We grew at 3 percentage taking our 9-month turnover at INR44,886 crores. EBITDA and PAT both grew at 6 percentage. Net profit grew at 4% to INR7,708 crores.

Let me now turn to outlook. Looking ahead, in the near term, we remain cautiously optimistic. We expect the gradual recovery in market demand to continue, aided by increased government spending, recovery in winter crop sowing and better crop realizations. At the same time, rural income growth and winter crop yields will be key factors that we determine the pace of recovery. In this context, our focus remains on driving competitive volume growth by ensuring the right price value equation for our consumers.

If commodity prices remain where they are, we expect our price growth to be marginally negative in March quarter. We will continue to step up investments behind our brands and long-term strategic capabilities while maintaining EBITDA margin in a healthy range. As always, we will manage our business with agility and take actions to ensure long-term 4G growth, growth which is consistent, competitive, profitable and responsible.

With this to conclude our prepared remarks, and will now hand over back to Ravi for Q&A. But before that, I just want to quickly speak about, I would like to take this minute to update you about a change in our Investor Relations team. Shilpa Kedia, who currently heads our M&A and treasury function will take

over from Ravi as Group Controller and Head of Investor Relations. Ravi moves on to an exciting role within HUL as Head of Finance for our Beauty & Wellbeing segment. Shilpa will meet many of you in the coming months as she transitions into her new role.

I would like to take the opportunity to thank Ravi for his contributions to the past 3 years as Controller and IR head and wish Shilpa the very best. With that, over to you, Ravi.

A. Ravishankar: Thank you, Rohit, and Ritesh. With this, we will now move to the Q&A session. We request the participants to kindly restrict the number of questions to a maximum of 2 so we can take questions from everyone on the call who has questions. And do feel free to join the queue again if you have anything further.

In addition to audio, our participants do have an option to post the questions through the web link and we'll take -- try and take these towards the end. With that, I'll hand over the call back to Yashashri to manage the Q&A session for us. Over to you, Yashashri.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have a first question from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Thanks. My first question is on the premiumization and rural. So currently, two themes, both we are seeing, both are kind of opposite to each other on paper. So, I wanted to understand when you are saying that premiumization is growing 2.5x of the mass end, my specific question is in terms of the rural demand, how is premiumization shaping up?

Why I'm asking this is if you see other forms of rural consumption in terms of 2-wheeler and 4-wheeler data rural is doing well. And obviously, that's a premium consumption, but that's also coming after 4 years of very tepid volumes. It's Y-o-Y good growth, but 4 years, if you see, it's not a good growth in 2-wheeler and 4-wheeler. So, I wanted specific examples in terms of premiumization in rural because in terms of rural slowdown that is completely missed. So could you say whether premiumization is happening there and specific examples will be helpful.

Ritesh Tiwari:

Yes. Thanks, Abneesh. So rural and if I look at the portfolio with -- to start with in rural, the premium portfolio, people who can afford and spend money and hence rural portfolio in rural has also grown well like it has grown in urban part of the business as well. So that's point number one. Point number two, to give specific examples, portfolio again, just to remind, price point, 120-plus price index is what we call as premium.

And within the rural portfolio, we have always seen that essential and discretionary are the 2 realities of rural. At the peak of inflation, where the disposable income got curtailed and got impacted, we saw overall consumptions coming down and consumers down-trading in the business there.

But if I look at mass skin and a good example to speak about, overall within the choices the consumer has to take within the portfolio, mass skin has seen growth, and we have grown at mid-single digit in mass skin. And this is one item, which I would say is changing. Second, if I just probably quote a higher level number after having responded to what you asked precisely. Rural on a 2-year basis in September quarter was negative 1 percentage at FMCG market. In December quarter, on a 2-year basis, rural is positive 1 percentage.

So obviously, we have seen a split change in terms of minus 1 momentum for market on a 2-year CAGR becoming to a plus 1 percentage. And within that, to your point, we have seen premium portfolio is growing, and we also have seen some elements of discretionary portfolios like mass skin also growing. So I hope it gives you some number of understanding of how the consumption pattern is moving in the rural areas.

Abneesh Roy:

Sure. That's helpful. One follow-up on the rural is, you did say the winter care portfolio has seen volume dip, now winter was delayed last year also, and it was mild last year also in Q3. So would you attribute this dip in winter portfolio to winter? Or will you attribute it to rural slowdown?

Ritesh Tiwari:

No. I think after having very clearly seen Skin Care business, and I'll come to rural winter, but I just want to speak on Skin Care, Abneesh, overall. If I look at the Skin Care portfolio, we have winter portfolio, which is roughly 30 percentage of Skin Care. Then, of course, you have non-winter mass Skin Care portfolio and then we have premium Skin Care portfolio. In the quarter, we

have seen winter portfolio decline. We saw non-winter portfolio growing mid-single-digit volume. Premium Skin Care growing and having the momentum of double digit.

So that's the reality. And hence, this cut is pan-urban and rural put together, we did not see any different signals as far as winter portfolio is concerned in rural areas. And of course, the reality is that the mass skin and winter price point packs are over indexed in rural area, but the reality between winter and non-winter has been similar in urban and rural.

Abneesh Roy:

Sure. My second and last question is on the volume growth. So 5% kind of volume growth in Home and BPC is a decent volume growth. Now these have multiple categories. So if you could elaborate, which ones are growing faster, which ones are slower. And related question is local players, when does it go away as a concern. Will it go away when the anniversarization happens essentially in Q1 in terms of the Detergent Bars or Tea or even say Body Wash because these 3 segments saw either downgrading, down trading or the deflation, which was taken in terms of pricing. So could you address both the parts?

Ritesh Tiwari:

Yes. So Abneesh, I think I've got all your questions, but let me start which I heard, if I missed up answering something, if you don't mind just coming back, what I missed out. Yes? Because I saw 3, 4 questions in what you articulated. First, a little rundown as you asked me to give you on what's behind the mid-single-digit volume growth in Home Care and Personal Care, some category flavor.

So within Home Care, very similar categories flavor across laundry business and dishwash and household care business, where we have seen recovery of volume. Last quarter, we had mid-single-digit volume growth. This quarter, again, we have mid-single-digit volume growth. But if I just unpack BPC, which is where there are more different nuances.

Skin Cleansing is a category where you mentioned that we have taken larger price cuts. This is where we have seen commodities meaningfully getting corrected. So, and that has led to a muted performance of Skin Cleansing. If we look at hair care, hair care had double-digit volume growth, double-digit value growth.

If I then look at skin care within Beauty & Personal Care, I just explained to you, reality has been a little different between winter portfolio and non-winter portfolio. And again, non-winter portfolio between mass and premium. I will not repeat what I mentioned, but I gave a flavor to you how that is shaping up.

Oral care had a decent growth, as I mentioned, about mid-single digit, Close Up performed pretty well within that portfolio for us. So that's a little bit of, let me say, tilt down on overall category growth. And if you don't mind repeating what other questions you had beyond category granularity.

Abneesh Roy:

Yes. Very small question. So in terms of local players, you had highlighted that it was impacting in terms of the category in terms of the lower end detergent bars and tea downgrading, down trading, etcetera. So my question is this is something which is not a very resilient thing. We always see that whenever deflation happens or rural slowdown happens, it happens for a few quarters. So my second question is when do you see this going away because you have taken proactive steps, you have also cut prices or given promotions. So will it happen when the full anniversarization happens 1 year full impact will be there?

Ritesh Tiwari:

Yes. So Abneesh, two different, I would say answers, detergent bars is a lately different reality compared to tea. So let me just answer both of them separately. On detergent bars, whatever actions we had to take in terms of grammage fill-back, price correction, trade input corrections, all of that as you've mentioned has already got deployed in the marketplace.

And you had rightly called out the kind of acceleration we saw from mass players where more players started participating in the market. In our view, bulk of the price correction and impact is now behind us with conclusion of this quarter. We are hoping that going forward from next quarter onwards, it's gone back to the equilibrium that we had pre this disturbing period of inflation, deflation and more amount of value disconnect in the short term. So we expect that to get stabilized from this quarter from March quarter onwards, that's on detergent bars.

Now coming to tea, the deflation of tea has continued, especially the plainer teas, which is what gets into loose tea. In tea, what we have seen was more down gradation not down-trading where people go down clicks on the pack

sizes. But this is when we saw consumers going down on brand choices and to loose tea. And the down gradation we had seen continued happening even in this quarter.

So, and we know that tea next season, August, September onwards, Next year, we will come to know how it is different. But current year, reality has not changed. It has continued where we've seen down gradation. So there's different reality between dets and tea.

But suffice to say, on tea, both value and volume leadership and value and volume market share gain is what we have delivered as part of the results of the quarter. Growth headline has been muted because of the reality of this down gradation.

Moderator: We have a next question from the line of Vivek Maheshwari from Jefferies. Please go ahead.

Vivek Maheshwari: Two questions. So first, in the context of tough macro and we are seeing several categories impacted, the ATL number has gone up quite a bit, 33%, which is good to see. And if I look at it right from FY '18 third quarter, this number is meaningfully higher than what you have invested in the past.

But Ritesh, how do you think about between the -- if there is a weak macro and consumer sentiments are an issue, how do you think about interplay of ATL versus BTL? Is there a case to actually go for more BTL at this time? Because customer is not opening the wallet. So that's one way of easily passing value rather than doing activation. I'm not sure if I'm thinking right on, but I would love to know what your thoughts are.

Ritesh Tiwari: Vivek, I think your thinking is in the exact right direction. And let me just give a little more color on both ATL and BTL. So in categories which are price driven and where we've seen meaningful commodity correction, skin cleansing, laundry are very good examples or for that matter, winter where we have to lean in with distribution expansion further of our portfolio.

In these cases, apart from what we have done on below the line and above the line, both of them have been used as a good mix -- so where we had to lean with more grammage increases or where we have to lean with more amount of

trade promotions or for that matter more margins to drive further growth of this business.

We have done price correction and leaned in with trade promotion. But equally, for these categories, along with other premium portfolio and other categories, we further dialed up A&P investments as well. And why we did A&P investments, the circa INR400 crores, the point I was speaking earlier, which we dialed up, it has gone into more accelerated innovation, especially in the premium end of the market and the premium portfolio across categories, which has started to show results.

One of the points I was making earlier that in last 9 months' time, we have seen premium portfolio 2.5x growth ahead of the mass. But also within that portfolio, be it Plus range, be it mayonnaise, be it premium beauty, be it premium home care. It has seen a double-digit growth for mid-term. So we are seeing results coming in. But equally, the overall competitive heat in the market on media has got dialed up, which is one more reason why the absolute expenditures have gone up.

So in summary, Vivek, we have used both items like trade promotions, product quality investment, which is what is driving superiority and A&P investments put together to drive overall growth. Sequentially, you see between September quarter and December quarter, in Home Care where margins are down 100 bps; in BPC, our margins are down 150 bps, are a result of these investments that I just spoke about.

And those having choices that we have done within the P&L because we ensure that overall growth is what we wanted to focus at length and then drive the recovery that we want to see.

Rohit Jawa:

Vivek, if I can pull back a little bit just to give you the why behind the investments. So as you have realised, we're going from, we're passing through this inflation, deflation cycle so the most important thing in this is to have strong, robust operational discipline in landing the right net productivity, right price quality on different products of the market.

Fundamentally, we believe we have done that well. We believe that we have a fundamentally a very strong robust business as many of the indicators that

define the success in consumer goods are telling us, whether it's brand power or its penetration growth, product quality, distribution.

So essentially now what we also want to do is use this period to come out even stronger at the other end by building for the future by investing behind our priorities, such as beauty or capabilities such as digital, all of which require investment and, more importantly, behind our brands, which is why you see a very marked investment step up mainly in above the line and where required also in below the line on thematic spends to make sure that our brand power gets even stronger, and we are able to also drive some of the high-growth spaces such as the ones in market development cells or through premium, which is showing a very good response to investment.

So we want, we feel good about where we are in terms of operational discipline, robustness, but equally, we want to also invest in this time to build for the future, which is why you see this. And we would like to keep doing this because we believe this will also then get us to the next level of growth curve when all of this inflation, deflation cycle completes.

Vivek Maheshwari: Got it. And Rohit, as a follow-up to this. Given, so your call focuses quite a bit about premiumization, and that's a secular trend. But do you think by virtue of focusing too much on premiumization, is there a chance that you are missing the target at the bottom end or at the mid-end of the market?

Because I'm sure demand side issues are there, but supply side can also take care of demand bit or at least part in some ways. How do you think about -- is it that premiumization is compromising the growth at the mid and the bottom end from this?

Rohit Jawa: No, not ambiguously not, because we are a full portfolio play company. We're an all-weather portfolio. We sell and serve to consumers in all tiers of the market. We are seeing proof point as we're seeing growth in market share in Wheel, our tier 3 product, as you know, brand in detergents. We're seeing recovery in mid-single digits in Glow & Lovely, which serves the first beauty brand of masses. We have a very, very strong brand with Taaza. So -- and of course, in our Personal Wash portfolio, we have Lux and Lifebuoy, that serve the masses, too.

So what I'm saying is that -- and the fact that the penetration is growing, in relative terms, also tells you that that's the one thing that we actually be very, very vigilant about to make sure that our -- number of households using our products keep increasing and that can only come by us serving our core of the market completely.

So that is the engine one of our company. We -- this is what we do well, the scale and efficiency, and that is a first stop of all of our focus. The second, of course, is to shape for the future because you've also got to go with -- you got to follow the money, follow the people. So clearly, you also have to build and invest for the future there, the premiumization, upgradation in the market development plays come in. So it's a twin engine thought. We will be doing 'and and' not just one or the other.

Vivek Maheshwari: Got it. And the second question, Rohit, is the new structure in terms of Beauty & Wellbeing and Personal Care. What does this intent -- so operationally, you are always good. So is it just more like a realignment with what parent is doing or because competition particularly has picked up on the beauty side. So this gives you better focus. How does it change? And what can we expect because of this?

Rohit Jawa: So you're right. Absolutely, your second part, which is a better focus opportunity, but let me just frame it. So we moved globally to Beauty & Wellbeing separation some 2 years ago. We could have done it then and we didn't, because we didn't think it was then the right time or appropriate for us. And coming in into the business, I quite clearly see in the last 6, 7 months, the opportunity, we have to create value by leveraging our strong relative market share in Beauty Care and Wellbeing for the opportunity and demands spaces on the future.

And which is why -- and we also start to see that between a very large BPC division, you had a set of products and portfolio, which operate on a very different business model choices, very different innovation rhythm and very different competitor set and clock speeds.

So there is basically by mixing everything up together, we create an average or averages, and we clearly knew this was the time and I took the call that this is a time to bring a high level of specialization and focus to build a beauty and

a well-being company within HUL and separate that from Personal Care, which beats more to the rhythm of scale and efficiency, a bit more like Home Care than like Beauty Care.

So now we are building a portfolio that serves all demand spaces with Beauty Care from mass all the way to premium prestige. We are organizing our talent, which is good in this space. We're looking at building a beauty ecosystem that operates to serve this kind of brand building needs. We're also making sure that the selling systems for some of our premium ends are almost end-to-end as well.

So we're pretty much building an end-to-end beauty company without compromising the scale we get from the rest of the Unilever engine to really operate and become an even bigger business in the times to come. So exciting days ahead. We see good traction. We have some beautiful equities, as you know, like Lakmé, Ponds, and we have also got now an ability to build small digital-first brand like Simple, Love Beauty and Planet and Novology. And we feel that with prestige coming in at some time in the future, we'll have a full portfolio play of very exciting market, which will see many, many decades of massive growth. And it also, of course, helps that it's very, very margin accretive for HUL as well.

Vivek Maheshwari: Got it. And just one small bookkeeping question. Other income -- operating income at INR260 crores, I thought this quarter, the GSK portfolio, the consignment income would not be there. Can you just, Ritesh, elaborate if there is some one-offs there?

Ritesh Tiwari: Yes. So Vivek, we had contract up to November on GSK, so that other income continued. And we also had a termination fee -- early termination fee, which accrued to us in the quarter. So put together, both in the quarter the scale of, let me say the other income, which you got from GSK is similar to what we had in the previous quarters.

You will see from 1st of January full impact of that income not being there in the P&L. And we also had a better amount of outcome on -- to some extent on PLI, which has got accrued in the quarter. So put together this quarter, other income continues to be robust, but you will see the impact of GSK from 1st of January. There was no impact, if I add both the elements, the continues element

and the termination element put together, there was no impact in December quarter. You will see that from 1st of January.

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

Manoj Menon: I'm audible, right?

Rohit Jawa: Yes. You are.

Manoj Menon: When we talk about, let's say, the resurgence of regional players somewhat impacting us. What I observe is that it does kind of repeat this cycle -- kind of repeats every inflation, deflation cycle. So how do we think about this for the long term? Is it a case of, let's say, the profit pool expectations in certain segments which you have if let's say, higher than what the market stands at equilibrium, which is there currently?

Or is it a case that you've exited certain, let's say, segments, maybe lower segments, lower profit segments, single-digit margin segments, etcetera, where the consumers in stress times move down and you are just not capturing the consumer?

Ritesh Tiwari: So let me just start and then Rohit can build. So the way we look at it Manoj, that in inflationary period, the point that all of us know that we do see players vacating the market when they see very high amount of commodity inflation. We they see volatility and less predictability. And at that time, we know that big brands are hugely favored. And we also saw substantial market share gains in this segment of the business.

We also know, to your point, when corollary happens, when deflation happens, more players participate in the market and ultimately, you end up losing some amount of market share. The way we see with inflation and deflation put together, over the course of the cycle on a net basis, if you improved your market share, then the business model has worked.

If I go back and look at the results of this cycle of inflation and deflation within the mass detergents, we have gained market share, put together. And to me, that's how we want it to work every time we get into the cycle and we are very meaningful and mindful about it that as we get in the cycle, as we exit the cycle

net put together, we should come out of these up and down on a net basis gaining. That's exactly what has happened. So that's fact number one.

Fact number two, it has not disturbed our medium to long term, let me say, portfolio presence at different price point. It has continued. We have 30 percentage of our business which sits at price point portfolio, including mass detergent bars that you alluded to and this 30%, let me say, component of the business, it has remained 30%-ish before and after.

And we do believe that it's an important 30 percentage business which drives penetration and which keeps increasing consumption at the lower end of the market by making not only mass but also premium portfolio affordable, like shampoo. And we don't believe that there is a need to vacate any part of the portfolio.

Manoj Menon:

Secondly, some of the qualitative or granular color on the GSK portfolio, particularly on Horlicks, so when I see in the presentation, let's say, you're talking about relative growth and also about the Plus range, etcetera. What essentially I decode this to say that looks Horlicks, let's say, base variant consumption appears to be probably declining probably 10% or higher. First of all, is that the right way to think, if yes, why?

And secondly, one assertion, which you had made in earlier calls was that dairy inflation has been one of the limiting factors for Horlicks growth. Given that we have seen some dairy deflation -- presently deflation in general, how do we think about recovery in Horlicks?

Rohit Jawa:

Yes. Let me just start, and then Ritesh can come back to specifics to some of the subsegment numbers or the shape of those numbers. So we do believe HFD is a structurally attractive category. It's got a long-term growth potential. It serves the underserved, especially as micronutrients are concerned.

So it has everything going for it in so far as HUL is concerned. In the efforts we've made over the last few years, we managed to achieve a few outcomes that are in the right direction. The penetration of Horlicks or the HFD portfolio, along with Boost has gone up by 600 basis points. So we go to more households than we did before we acquired the brand.

Number two, as a consequence, the market shares are increasing quite handsomely. So we have a very strong gains even as we speak. Number three, we've been able to build a strong top tier value added part of the portfolio with both the light versions but also most importantly, the plus versions, which are more functional nutrition led pharma-type offerings that we are extending quite programmatically.

And they now are between the two -- the top tier has quite a significant portion and going quite well and, of course, also even more margin accretive. Talking of margins, the business's EBITA are ahead of where they were when we acquired. It's profitable. So in all of these aspects, I believe we have now -- we are in a good place. Where we need to do more work is in the space of usage or the core Horlicks user has dropped consumption on account of one the inflation shock that came with more -- higher price of Horlicks to begin with or Boost, but also higher price of a cup because of milk.

And that -- now that the milk prices are sort of stabilizing to softening, we feel that we should be able to be more kind or -- watch as we go forward. Second, we've also sharpened our proposition around taller, stronger, sharper. So that proposition is being -- is being driven hard to increase relevance with the moms about why they must use Horlicks. And third point is that we've also become quite focused on driving Horlicks consumption in occasions such as winter and monsoon that also seems to be helping.

So our focus will be to continue with the tailwinds we have on usage -- on usership, on premiumization, on profitability, on competitiveness, but at the same time now, very, very disciplined fashion, keep driving relevance of this category for the mother, especially in the strongholds. And then, of course, the other levers that we haven't even come to on extending it to new geographies or to new segments, but that we can pick up when we have achieved a core job, which is to basically drive relevance of the core Horlicks in the market.

So we expect to see a stronger performance going forward. And for specific numbers, I request Ritesh to fill you in with really how we've done this quarter and then a little bit on the outlook ahead.

Ritesh Tiwari:

Yes. So just to your specific question, did we decline by 10% volume? Answer is no. Our volumes declined by low single digit as we increased pricing and we

had a muted growth, but volumes within that had declined by low single digit, number one.

Number two, as you split the portfolio to your question, Manoj. The Plus range has seen double-digit growth. And it's the Horlicks core, which is where penetration vis-a-vis consumption meaning penetration improving, consumption not yet improving, the point that Rohit mentioned, which impacted overall outcome in terms of growth.

And to your other question, which is dairy, so dairy, SMP has seen and hence, our input cost has seen benefit coming in. Fresh milk prices have not moved in tandem to skimmed milk powder. So as a consumer has to consume a glass -- a cup of Horlicks, the fresh milk component, which is, again, an important component, it has not seen the amount of, let me say, price correction as SMP has seen, that is still elevated. As that starts to correct yes, we do believe that will augur well to drive consumption as penetration is already up compared to when we acquired the business. Every year, we have improved penetration.

So consumption will augur well with dairy fresh milk prices coming down. But suffice to say that we have gained market share, both volume and value market share in the category. So I hope that just puts all the pieces, Manoj, together.

Manoj Menon:

Yes. Just a quick follow-up here. Let's say, in your definition, would you call Horlicks, a premium product or, let's say, a mass product? I mean how do you kind of approach it? Because since you are the market leader by a distance, right? I mean -- and you kind of operate with the relevant competition out there, the 2 other players. One way you can define is that within the category, you have mass. But from a consumer lens point of view, for a product which costs, let's say, INR500 plus for a kilo, would you call it a premium product? The reason I'm asking because when we had this premiumization and the affluent consumers of consuming more, etcetera, I would have expected Horlicks to recruit more number of consumers or more usage. So that's point number one.

Point number two, given that it's been a little more than 4 years of integration, have we not really seeing any sales vector-driven growth despite a rupees 2 price point as well. So how do we think about that as well?

Rohit Jawa:

Yes. I think I'll change the axis or rephrase the question, and let's see if it works for you. So when you put all the categories on an axis of not so discretionary

to essential discretionary, Horlicks would or HFD would tend to be on the more discretionary side. Therefore, when under income stress, consumers might choose not to have as often or as much, and that might have been one of the dampeners given all of the massive price increases and the income stress we saw in this -- in the last few years.

If you go to south and east and I've visited a few homes, it's really the average consumer who uses this for their children. It is not a luxury or it's not something that is seen as being ultra premium. It is expensive compared to other areas, and therefore, that is a little bit discretionary, but it's seen as a day-to-day use product widely consumed certainly in the south and east, which is strong holds.

But even in the south and east, the penetration -- annual penetration of this category is sub-40%. And in north and west, it's actually very, very low. So the opportunity or white space for this is more as a category, which needs to drive market education to increase its relevance and basically address the taste and the nutritional needs of mothers across length and breadth of India.

So I will not qualify this as a premium game but more as a market development, a relevance increasing job to do. It has tiers, which are premium. So things like the Plus range, which is even more expensive, tends to be clinically supported. It is sold in pharmacies to specialized needs like bone strength or diabetes and or use of special conditions and is also showing very high levels of growth.

In fact, the growth there is quite good, and we want to lean more and more in creating that tier of the platform Horlicks, and some of the value-add variants also which had adults uses such as light are also seeing some tailwinds. So there is a premium part of this category.

But on the whole, I would not characterize this as a, let's call a niche or a more inaccessible category. So it's a widely used category with high potential of increasing usership in the country.

Ritesh Tiwari:

And then your second sub question, if I got it right, Manoj, on the INR2, INR5 equivalent. As we have spoken about the amount of market development that we did, and we did bring down the access of the category to consumers, and it has yielded results. The INR2 or INR5, the poly packs that we did for 250 grams, etcetera, that has helped us to build continuous penetration over the last

3 years. The job now is to convert the penetration into consumption is what Rohit was mentioning, and that's the focus for us now.

Moderator: We have a next question from the line of Avi Mehta from Macquarie. Please go ahead

Avi Mehta: I just wanted a simple question on the EBITDA margin range. You have said that you want to refer with healthy range. Could you kind of give us a sense on what this range is given that GSK portfolio, the distribution agreement falls off and that would also have a margin impact? Would love to know what ratings are you talking about and say healthy?

Ritesh Tiwari: Yes. So again, a sharp answer where we are today, the margins are healthy, and that's the range. We have been at 23%, 24% range for last some quarters now. And we would want to maintain at current healthy levels. Now over there, of course, puts and takes, Avi, to it. If I go forward from here, the focus that we would want to give is on the line of gross margin.

Now gross margin that we are between last quarter, current quarter, if I just average the momentum, we are already back to pre-inflation levels, but we will not get back to pre-COVID levels. There's still a 200 bps gaps to our pre-COVID levels. So that's the first part of call that we have to do. Equally, we are mindful that we have to further step up investments. In fact, in my outlook, we were calling out that going forward, we see further stepping up of investments given the job that Rohit was articulating on further dialing up on investments for innovation, further market development, more capability building, more beauty, more foods.

So you will see investments further getting dialed up. And of course, equally, the competitive intensity is increasing. So we will need more amount of A&P investments, which we will lean in. And to support that, we need to draw upon more gross margin. In the short term, we are leaning with price promotion as well as required for some price sensitive categories and price points. But equally, the job of making portfolio more superior from an offering perspective is the focus.

So hence in summary, the margins that we are, are healthy. From here, we have to dial up investments, they will be hurt, to your point, on margins from next quarter onwards on GSK portfolio, which we're earning roughly INR300-odd

crores, as you know, on an annual basis, and that goes away. That's how we come. But our job will be to keep driving net productivity across the lines of P&L and start building that back over quarters.

Will it happen all of that in 1 quarter itself? The answer is no. But our intention should start building that back over quarters. Yes. So that I would say will be the way we want to look at our overall margins. Medium to long term, we had called out our ambition is to have modest margin improvement and our EPS growth to be driven by top line growth. In short term, the puts and takes as explained would be a little different.

Avi Mehta:

Got it. Got it. Fairly clear on this. And the second bit -- just a clarification, I would love to hear your perspective on the distribution margin structure change that has been talked about -- and whether you see any near-term impact of this on channel inventory and probably because of the reported sales. That's all from my side.

Rohit Jawa:

Yes. Let me pick that up. So just to give a few facts and some principles around this. So distributor sales, general trade is core of the business, it's 2/3 or more of our company. It will always be a very, very important part of our business. We've been investing. We have long-standing relationships with our distributors. They are one-to-one relationships.

We have a mutually beneficial interest arrangement. And we've been investing to make our distribution and our distributors future fit. Shikhar is an example of the technology stack that is now well deeply embedded and is providing massive dividends in a competitive moat.

We have looked at and improved processes such as warehousing and delivery and many other ways of making our distributors basically also more or more capable and training them because we do think this is a long-term relationship, we are -- they are our partners. So it's generally in that constructive space, we have a distributor inclusive and a distributor progressive belief system.

Now in light of this, the margin structure, in fact, has been evolving over the last 10-odd years or longer. It's not what I started off as a management trainee. It's evolved considerably for different channels and for different kinds of distributors.

And what we've done essentially is in the same direction of change, made the margin structure more future fit. In that, we have now incentivized distributors in big cities to essentially sell more, of course, but importantly also to service more stores, service and deliver them the next day and to sell more lines, especially more on market development of premium lead lines or more assortment, or more width.

This is not just incentivizing what will increase their sales, but also incentivizing higher earning potential. And having done this for 1 year with a significantly large sample, we have seen favorable response. We saw improvement in all of these metrics.

We saw, therefore, a better served kirana store. We saw a higher earning realization not just potential of our distributors. And our sales growth were also stronger because we are basically getting to more outlets and some of the more often and selling more lines. So all in all, it made a lot of sense as a win-win-win to take this then to our big cities where this is important.

So we have not cascaded this to top 100 cities. It's 3 months, the transition has gone well. It was change managed. We are watching closely the results. There has been some claims, etcetera, of any stoppages, but we haven't really had any adverse impact of any kind and at this stage, we continue to work with our distributors one-on-one and making sure that they are able to realize the high earning potential that the new incentive system offers them.

So I would say that this is in the right direction, it makes our distributor's future fit. It makes them competitive versus other options the kirana stores have to access products like us.

Moderator: We have a next question from the line of Aditya Soman from CLSA. Please go ahead.

Aditya Soman: Just one question from me. Sir, this appointment of the new Chief Digital Officer as well as the split of the Beauty & Personal Care business, it seems like clearly, targeted towards some of these newer D2C brands that seem to be growing faster than the Unilever, at least in the past few quarters. Sir, what would be the immediate targets for both from the perspective of the Chief Digital Officer as well as from the Beauty business over what we can track over the next, let's say, 4 or 5 quarters?

Rohit Jawa:

Well, I think the reasons are not just to address the digital-first brands, which even though there are many and a few of them are successful are still not the scale. I think we have to look at this is more about the opportunity that lies even ahead of all of this discussion, frankly. Because the Beauty Care market and Beauty & Wellbeing market will grow exponentially and create way more value in the decades to come, if it is per capita consumption be anywhere near even Southeast Asia, forget China. And it would be -- it was very difficult for me to see how one person leading both these businesses, Beauty & Wellbeing and Personal Care could have managed the whole thing.

So the main -- the primary motive of doing this is to create the focus and specialization for a different competitive sets. Some of them, of course, are indeed digital. But digital is frankly not just any more about a few brands that is a pervasive. More than half the time of any average consumer in India now is on digital media. The e-commerce and digital commerce are increasing fast. And as you know, even on our route to market, we've digitized our Shikhar, which is 40% of general trade sales are now being tracked are being ordered through the Shikhar app and all of it is being tracked. So the digitalization is more secular and more pervasive, it's not just to do with the specific segment of players just to clarify.

Now insofar as what the mandate is for the Beauty head and the Personal Care head, and the CDO head, the beauty care mandate is of course, is to increase level of growth, is to grow the portfolio, go to faster growth -- new demand spaces, is to essentially be a best-in-class beauty company or beauty unit in the country. Not just Indian best practices, but world practices, which we are able to easily access and to build a system that's -- ecosystem that's absolutely tuned to deliver that competitive performance.

And of course, because it's margin accretive, that is why this higher growth here would be actually good for the company. As far as the CDO is concerned, the job of CDO is to is to program manage our reimagine HUL program because we have digitization efforts across our customers, across our supply chain operations.

And I am also asking our CDO to focus on building an even stronger moat or machine in marketing end as well given that the amount of eyeballs and monies that are becoming more and more digital. And the way the data has been

becoming effectively the new oil and better targeting will become the name of the game to get the competitive advantage.

So, the CDO currently got his hands full to really make this happen and make sure that we remain and make digital another moat for the future. That's really the mandate to the digital officer. I hope that -- and given that this person is along with top team, it makes digital absolutely a central to table discussion as far as our management committee is concerned for every agenda.

Aditya Soman:

Yes. No, that's very clear. I think just 1 follow-up here. I mean, in terms of growth, so obviously, I understand the opportunity for a very long period from on the beauty side in particular. So would we see sort of clear demarcation or differentiation in the growth between Beauty & Personal Care? Or do you think that even on the Personal Care business that is still a significant headroom for growth?

Rohit Jawa:

On Beauty, clearly as I mentioned, I won't repeat that, but on Personal Care also, we do have similar drivers with Home Care. We have upgradation of formats to liquids. We have premiumization where our brand Dove and pears are doing well, have done well this quarter as well and clearly can be extended to offer new formats.

We are the biggest Personal Care business of the world. When it comes to deodorants, that market will also evolve. Oral Care, we are a strong number two. We are -- we have a significant equity with Close Up. That's 15-odd share and growing and we have now test marketed the new Pepsodent in the south, and we intend to play to win in that category as well.

So of course, the shape and profile of the growth will be more balanced between top line and bottom line and will be more -- will probably not be as fast as Beauty because of the sheer sort of tailwinds across these two different businesses. I think that's really how I would characterize that. So clearly, the ask of the Beauty would be higher in terms of growth, and that's really what I would say about these two businesses.

Moderator:

We have a next question from the line of Mihir Shah from Nomura.

Mihir Shah:

My first question is on Gross Margins. I believe the focus is to get back to pre-COVID levels. When one would think a better mix and our net productivity

improvement will drive better gross margins over the medium term. Is there, shall you share what levers can be used in the near term? Can pricing growth be exercised here anytime soon? Or is it still some time for pricing growth to come back?

Ritesh Tiwari:

Yes. So, 3 different levers we end up using Mihir. Number one mix, to the point you mentioned earlier, as we see more amount of premium growth, more Beauty growth that should help mix and hence, mix should help margins, that's number one.

Number two, NRM, where commodities are today, we see a small amount of deflation in fact, we don't see inflation, which means there's no business case for us to take price increases. Now the only way you can get some headroom for price, though the outlook I mentioned for the next quarter is still a marginal price decline. But, if I just look at a little continue on next 3 to 4 quarters, we have to do a better job with NRM. And this is what is the second lever after mix, we will deploy in terms of getting price growth. When I say NRM meaning when you look at the incentive curve between the price points, when I look at how do we deploy promotion can we do better in terms of promotion pullbacks wherever we can, where we are doing a portfolio play across different price point pack, how do we deploy that entire mix of price point pack architecture that should help us to do.

So, the entire deployment apart from mix, NRM is the second way to drive pricing. And third, to drive gross margin is, of course, the job as you already articulated is net productivity, are we improving year-on-year net production cost? So, we have a pretty massive drive in supply chain of reducing year-on-year production per ton.

And behind that, a lot of work goes in. We're reducing the number of kilometers the product travels and distribution. As you know, we do spend money on a substantial amount of resources we commit to restructuring. That is again, reduction of cost pool of -- within the supply chain that will end up happening.

So, if I add all of those put together, the aim will be to improve also our cost competitiveness within supply chain bucket and hence, reduce in absolute year-on-year net production cost. So those are three large levers, I would call

out, within mix, NRM and net cost competitiveness and hence net production cost reduction are the three levers that we want to use to drive gross margin going forward.

Mihir Shah:

Got it. That's clear, Ritesh. Secondly, we have materially stepped-up ad spend and investments in brands. However, when one looks at the volume growth trajectory, it has not shifted meaningfully and remains at low single digits versus when you look at the market growth, it seems to be growing at a high clip at high single digits.

How should one think about ad spend in the near term? Is there a need for further increase in ad spends to drive volumes because they're still below the pre-COVID levels or the current level of ad spend is kind of optimum at this point of time and volumes will come back as the macros improve?

Ritesh Tiwari:

Yes. So first, just to give you a little more color Mihir, that you spoke about market growth in high single digit. So, market at a total level grew at 9 percentage, 8.9% to be precise as we saw in the categories that we play on volume. But remember, this 9% market volume growth is on the back of market data of negative 4% growth in the base. So important is to look at the 2-year CAGR how this is developing because base is going to change.

The minus 4 base of market will become 0, in March quarter, it'll become 5% positive base in June quarter. There will be a dramatic correction of the base that will happen. And which is why very important, at least in June quarter to look at 2-year CAGR to appropriately understand what's the market growth momentum.

On a 2-year CAGR basis, market is growing at 2 percentage. If I look at HUL growth, we had 5% growth in the base of December quarter '22. We further grow on top of that 5% positive base at 2 percentage in this quarter. So, we are seeing, because of that, overall, as you know, that what we called out earlier, a substantial amount of market share gain at the corporate level over the last 2-3 years' time.

Now the way I look at A&P, the way we look at A&P as response to that, A&P at the peak of inflation, of course, we had to curtail back. Industry curtailed back, the media heat came down at the peak of inflation with price versus cost bleed for the entire industry was very high. As that has started to settle down

meaningfully, we have started to see overall competitive intensity for A&P going up. Now is it yielding results? Three quarters of the business, which is Home Care, and Beauty & Personal Care has already seen volume recovery, and we are now talking about the last 2 quarters of HUL growth of mid-single-digit volume growth in September quarter and also mid-single-digit volume growth in December quarter.

So, we are seeing volume recovery. So of course, the headline goes up 2 percentage can also get impacted by 1/4 of the business, which sits in Foods & Refreshment. There, we have a low single-digit volume decline. And hence, when you take 3 quarters of the business at mid-single-digit price growth, 1/4 of the business in F&R low single-digit decline, you get an outcome of mathematically at a total company level of 2 percentage.

So, we have seen benefit coming in. And we articulated earlier why we have declined volume in F&R at low single digit because of tea down gradation, because of price increase taken in coffee. Coffee over last 2 years has seen 70% commodity inflation. Of course, then we have to take price increase, not at the peak of inflation, which has then led to impact the volume.

Similarly, for overall Health Food Drinks price up, volume lower, and that called out when Manoj was asking where we have declined at low single-digit volumes in HFD, but pricing is positive there. So, there are parts of the portfolio, which a combination of price growth because of commodity in F&R and because of the tea down gradation, we are seeing headwinds coming in from F&R.

Now this will start as commodities already started to moderate, the point we were discussing, we should start seeing price growth year-on-year moderating and what we have seen for 3 quarters of the business volume recovering, we also expect that this quarter of the business, F&R should also start seeing volume recovery. And then you will see the further impact.

Mihir Shah:

Got it. Great. That's wonderful. If I can slip one more quick one. Given the delayed winter, is there any case for Skin Care to see better 4Q or the channel inventory will take care of the demand? And that's all from my side and wishing all the very best.

Ritesh Tiwari: Mihir, we don't have concern for channel inventory. Winter has been a little better in January month. We are hoping offtakes will take care of channel inventory. So, we don't expect this point in time any big development here. But we will know as a full season complete, we will have a better read. At this point in time, I'm not concerned.

Moderator: We have a next question from the line of Jitendra Arora from ICICI Prudential Life Insurance.

Jitendra Arora: Just a quick question. We've been talking about a share of market across our products. If you can help me understand that -- in terms of channels, how our share of market has behaved or how was it placed, let's say, GT what will be our share of market in MT, what will be our share of market in E-commerce, what will be our share of market across categories?

Ritesh Tiwari: Yes. So we -- I will not be able to share reasonably precise numbers, but I'll still answer the question directionally. Our market share in Modern Trade is ahead of our market share in General Trade. Yes, number one, number one. Number two, of course, the market growth, as Rohit was articulating earlier, is higher in Modern Trade compared to general trade and hence, our absolute growth is better in Modern Trade compared to General Trade, yes? So those are 2 precise answers. MT market share and growth higher than GT market share and growth.

Jitendra Arora: And e-commerce?

Ritesh Tiwari: See e-commerce, again, one has to look into different components, pure play and grocer. And pure play is a fragmented market, as you're all aware. Grocer, very similar when I say omnichannel, very similar to what you see in Modern Trade.

Jitendra Arora: Okay. And quickly, a second question. We've been talking about building the digital-first brands like Love Beauty and Planet. If you can share what has been the progress in terms of brand sizes over last 4 years now that we've been at it for that much time?

Ritesh Tiwari: Yes. So let me just give a precise number. And then if Rohit can attribute on overall, if you want to further top it up. So, we've seen encouraging outcome, on Simple and Love Beauty and Planet. Remember, we launched 5 different

brands in that space. Two of them have started showing extremely encouraging signs.

Today, our -- if I add premium beauty business unit, which is why we launched brands, we are already our momentum is more than INR100 crores ARR. So, we are seeing and that's our milestone. That as we launch this brand, where do we want to see them in a couple of years' time, we wanted to have to see a scale of more than INR100 crores ARR, and we're seeing that.

And we always knew when you launch 4, 5 brands, some of them will pick up early and some of them will pick up as time progresses and some of them might not end up having that amount of success. And that's exactly how it's also panning out. We are seeing early encouraging growth signs in Simple and Love Beauty and Planet.

Rohit Jawa:

If I draw even a bigger benefit from this way of working is really how company of our scale is learning how to build digital-first, social-first brands. And then how do you scale them progressively as if you are a digital-first company within the span and the framework of a big company.

So the playbook that we have now been able to learn through this INR100 crores ARR division or unit is our ability to seed -- build new brands or new benefits by tracking or pioneering by through our Agile innovation lab, through our nano factories quickly to prototypes to check product market fit, find a successful product market fit through deep consumer interaction engagement, performance market to build a certain scale or digital only, lead that then next to the other platforms in e-commerce, then next to big Modern Trade, small Modern Trade and beyond to big stores in GT.

So, we now have a path and a playbook of how to take homegrown or HUL premium beauty brands and take them then successively to scale from 0 to 10, 10 to 100, 100 to 1,000. So, this playbook is a playbook we will learn and leverage not just for Beauty Care, but also perhaps in foods. Perhaps even our core businesses and make this basically a new way, a new muscle. And that is what's going to be also a very important outcome of our experience in the last 3 years, apart from the fact that we have now 2 beautiful brands, maybe a third one that would definitely go mass.

Jitendra Arora: Great. I look forward to that. Just to clarify, so this INR100 crores ARR is for both the brands put together?

Ritesh Tiwari: That is right.

Jitendra Arora: Okay. And that's ahead of our expectations, you've mentioned.

Moderator: We have a next question from the line of Krishnan Sambamoorthy from Nirmal Bang Institutional Equities.

Krishnan S.: Yes. Ritesh, a couple of questions on your Slide 15 where you have shown the business winning share proportion. Now if it is at 60% as of MAT, then is my reading correct that the proportion for the for the December '23 quarter will be substantially lower than that level? And therefore, you are showing on an MAT basis, some dip before recovery going forward?

Ritesh Tiwari: So, these measures, Krishnan, always good to look at MAT because it's always volatility on a monthly basis and a quarterly basis, and which is why we always firmly look at this measure on a MAT basis. And we called out that our overall development of width, which is what the business competitiveness on business winning measure stands for. If the number is 60% is plus, it's a very healthy outcome.

And over a long-term period, multiyear period, there will be points in time where this will take a dip as it will start lapping the high base that it has. And remember, it's a binary measure where 1 bps market share gain for a category is plus positive and 1 bps market share loss is negative. And which is why to help all of you we did put this time, both the width measure, which is personal business winning and also the depth measure, which is overall corporate value market share.

So, this number will dip below 60% on a MAT basis. And then as we mentioned in a couple of quarters, we will work our way back, and it will then start going in our view. This is all the investment line of sight, product superiority and innovation we have, we should then go back up again 60 percentage plus.

Important -- as that happens, we are holding on to our 200 bps corporate market share gain that we had in the last couple of years. And that's the depth measure that we want to ensure that this transition happens a bit below 60s and back to

60% plus, we're able to hold on and then start inching up our cumulative corporate market share. So that's how I would want to see this competitiveness. And hence, I thought it would take a few more minutes to explain that difference.

Krishnan S.: Okay. Ritesh, I know you may have shown this only for representative purpose, but you plotted the chart up to December '24. I mean you've taken at least on the chart, it seems that it's taken to slightly above 60%. Is this just general conservatism or can you do better than that?

Ritesh Tiwari: No, of course, no precise number, we will not be able to predict for future. But it's not for representative purpose. That's exactly what we want to do, which is, as I mentioned, we expect that to dip below 60%. And then we will work our way through in the second half of the calendar year '24 back to about 60%. And a number of 60% is healthy overall, Krishnan, and that's what we want to maintain. But the point -- I'm sorry, I'll repeat again, we will look at that and the depth, which is corporate value market share.

Moderator: We have a next question from the line of Sheela Rathi from Morgan Stanley.

Sheela Rathi: My first question was -- you talked about a gradual rural recovery. And let's assume that after the winter crop, there is a rural recovery. So, the question here is that which part of the portfolio do you see will see the accelerated growth because Ritesh talked about we're already seeing mid-single-digit volume growth in the Home Care as well as the BPC business.

Ritesh Tiwari: Yes. So, this Sheela overall is across the board, of course, because when the rural demand has got impacted because of high inflation, income levels not keeping pace, disposable income getting contracted. That implication has got implications across the board of the portfolio. So, we do expect this overall number recovery will happen will help all around.

But I also want to mention when we talk about rural, it has been resilient. Now just imagine for rural, it has seen high overall impact of cumulative inflation, number one. Number two, we have seen wage inflation did not keep pace with overall commodity or FMCG inflation. It has seen an impact of a lower monsoon, number three. Number four, we have seen overall job creation being there, but also unemployment have gone up.

If I add all these 4 macro realities, and then if I look at number of a rural, which is 2 years CAGR, as we speak this quarter, plus 1, I think this could have been more worse. So, market is pretty resilient. And hence, we do expect that from here on as this -- and we mentioned there are 2 things we will watch out for looking at the pace of recovery. What's the outcome of yield for the winter crop and how does this rural income level increase over the next couple of quarters. That, in our mind, will determine the pace of recovery of rural demand. But as that demand improves, the impact, Sheela that will be across the portfolio and not only A or B part of the portfolio.

The question I was talking about for 3/4 of the business on Home Care and Beauty & Personal Care, and I was trying to segment that against F&R. That was, again, at a totality level, talking about overall inflation, how that inflation is played out and hence a recovery. So those I would say both are additive in terms of how we see recovery. We expect recovery to happen of F&R as commodity starts to moderate, and we'll start seeing that consumption coming up.

And overall, across segment, we also can see rural as rural starts to come up, we should start seeing that benefit as well. But as I mentioned, we have to watch over the next couple of quarters how these signals turn into reality and the implications on demand improvement.

Sheela Rathi: Understood. The bigger problem at hand is the rural slowdown and not the competitive landscape. Is it a fair assessment to make here?

Ritesh Tiwari: I think that is fair. Very fact we mentioned about that overall 200 bps corporate market share gain substantially holding on where we are today, competitiveness, our view. So, there have been pockets we had called out where we had challenge of competitiveness. We also mentioned to you what we have done about it. So, we feel very confident there.

The challenge of overall recovery is critical and which is why I mentioned that 3/4 of the business has seen mid-single digit, and we would want to see the last quarter business also to come back with commodity coming back. Now of course, the important factor is, is it only volume growth that is determined headline growth or volume growth plus price growth, that will determine overall growth.

;Where we are today, as I called out in March quarter, we do see a marginal negative UPG. And we'll have to see as commodity plays out in quarters further, how does this price growth plays out. Long-term average for FMCG, we do expect 4% to 5% price growth to be there, which we have not seen, as you saw in current quarter in fact it was negative 2%, we do see marginal negative next quarter, and we'll see how commodity plays out to see what this means in further quarters to come. But there has to be a healthy level of some amount of price growth as well to help overall headline growth as well.

Moderator: I now hand the conference over to Mr. A. Ravishankar. Over to you, sir.

A. Ravishankar: Thanks, Yashashri. With that, we'll come to the end of the Q&A session. As always, we will have the presentation and the playback of this call uploaded on our website. Thanks again for everyone's participation and have a great evening ahead.

Moderator: 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.