# Hindustan Lever Limited

## ICICI Securities' - India Unlimited

Fourth Annual Investor Conference

Singapore, 9th March 2005



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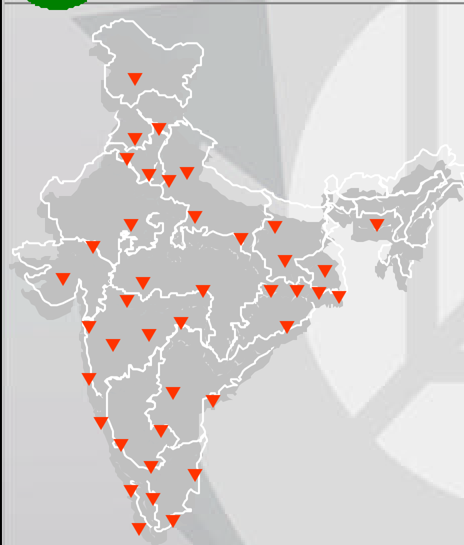
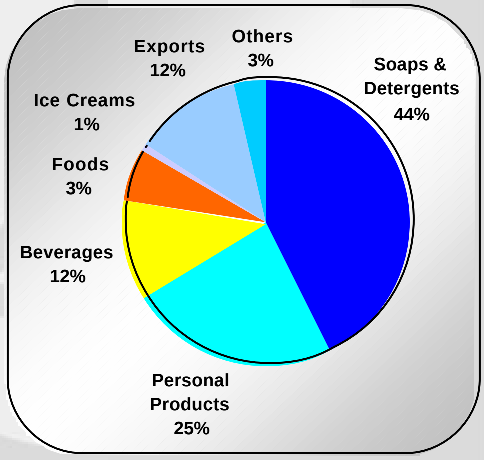
# HLL - India's Largest FMCG Company



- 36,300 employees
- 1,350 managers
- 2,000+ suppliers & associates
- 80 company factories
- 45 C&FAs
- 7,000 Stockists
- Direct Coverage - 1 Mn outlets

## Financial Overview

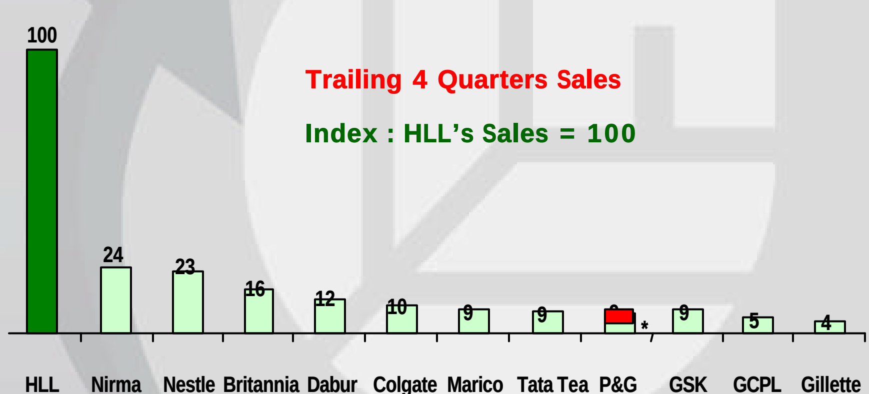
| | Mn $ |
|---|---|
| Turnover | 2,268 |
| Operating Profit | 360 |
| Operating Margin % | 15.9% |
| Net Profit (bei) | 275 |
| EPS | 13c |
| Surplus Cash Generated | 265 |
| Market Capitalisation | 7,600 |




* Figures based on FY2004 Audited Results
++ Market Capitalization as on 3rd March'05



## HLL - India's Largest FMCG Company




*Estimated

# Leadership across categories

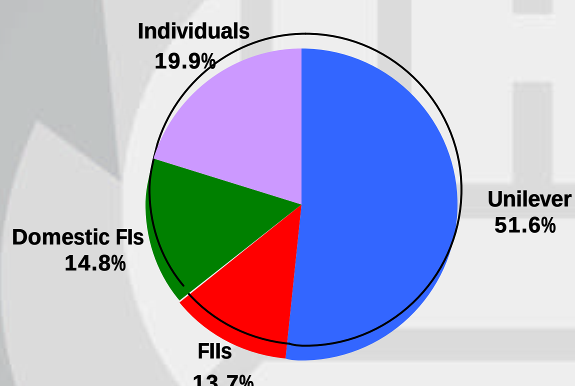
| | Category | HLL - Market Share (%) | #2 Market Share (%) |
|---|---|---|---|
| Market Leader | Fabric Wash | 38 | 17 |
| | Personal Wash | 57 | 10 |
| | Dishwash | 57 | 11 |
| | Skin | 60 | 6 |
| | Hair Wash | 49 | 20 |
| | Talcum Powder | 61 | 14 |
| | Packet Tea | 30 | 20 |
| | Jams | 79 | 5 |

| | | HLL - Market Share (%) | #1 Market Share (%) |
|---|---|---|---|
| Strong No. 2 | Toothpaste | 33 | 47 |
| | Instant Coffee | 38 | 61 |
| | Ketchups | 29 | 43 |

*Source : A.C Neilsen - ORG Marg FY'04 Value shares*



# HLL Shareholding Pattern




**HLL Equity Capital - 50 Mn $**

**Market Capitalization - 7,600 Mn $**

*Market Capitalization as on 3rd March'05*

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# Economic Outlook

*Growth%*

| | 2001-02 | 2002-03 | 2003-04 (AE)* | 2004-05 (E)* |
|---|---|---|---|---|
| Agriculture | 6.5 | (5.2) | 9.1 | 1.1 |
| Industry | 3.3 | 6.2 | 6.7 | 6.8 |
| Services | 6.8 | 7.1 | 8.7 | 8.0 |
| **GDP** | **5.8** | **4.0** | **8.2** | **6.2** |

** CMIE Estimates*

**Positives**
- Strong GDP Growth
- High Forex Reserves
- Growing Exports
- Focus on Rural & Infrastructure

**Concerns**
- Oil Prices
- Inflation
- Fiscal Deficit
- Agricultural Growth

## The India Opportunity

- More than 1 Billion Consumers
- Growing Disposable Income
- Young Population: 45% less than 20 years*
- Growing aspirations fuelled by media
- Low levels of
  - Penetration
  - Per Capita Consumption

** Source : Statistical Outline of India (2002-03)*



## Opportunity to Drive Penetration

| Category | Urban Penetration (%) | Rural Penetration (%) | Total Penetration (%) |
|---|---|---|---|
| Toothpaste | 69.8 | 32.3 | 43.5 |
| Skin | 36.6 | 19.8 | 24.7 |
| Hair Wash | 40.1 | 16.3 | 23.3 |
| Talcum Powder | 66.0 | 36.8 | 45.1 |
| Dishwash | 54.6 | 11.5 | 24.4 |
| Ketchup | 12.5 | 0.7 | 4.2 |

*Source : Indian Readership Survey 2002*

## Opportunity to grow consumption

### Per Capita Consumption (US $ )

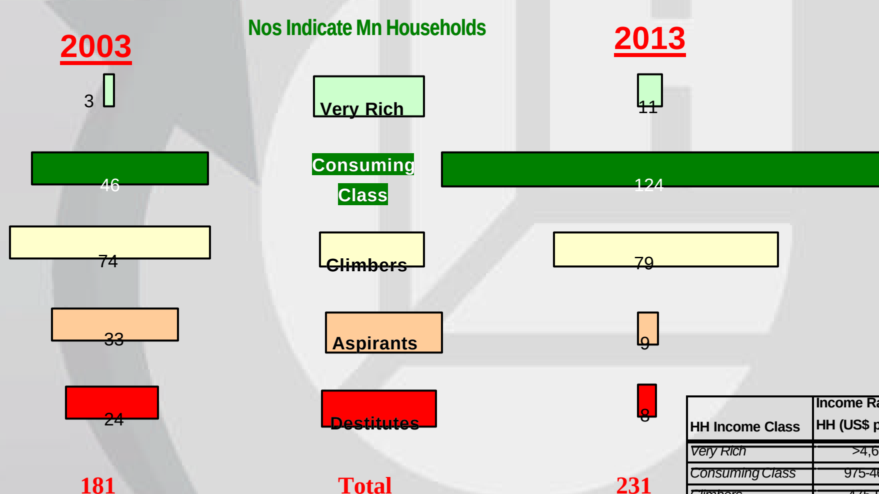
| | Fabric Wash | Toothpastes | Shampoos |
|---|---|---|---|
| China | 1.7 | 0.8 | 1.1 |
| Indonesia | 2.0 | 1.1 | 1.2 |
| Thailand | 4.7 | 3.0 | 3.7 |
| India | 1.2 | 0.4 | 0.6 |

Source : Euromonitor



## Growing Prosperity

### Consuming Class Households to Treble




| HH Income Class | Income Range per HH (US$ p.a) |
|---|---|
| *Very Rich* | >4,675 |
| *Consuming Class* | 975-4675 |
| *Climbers* | 475-975 |
| *Aspirants* | 350-475 |
| *Destitutes* | <350 |

Source : NCAER; HLL Research

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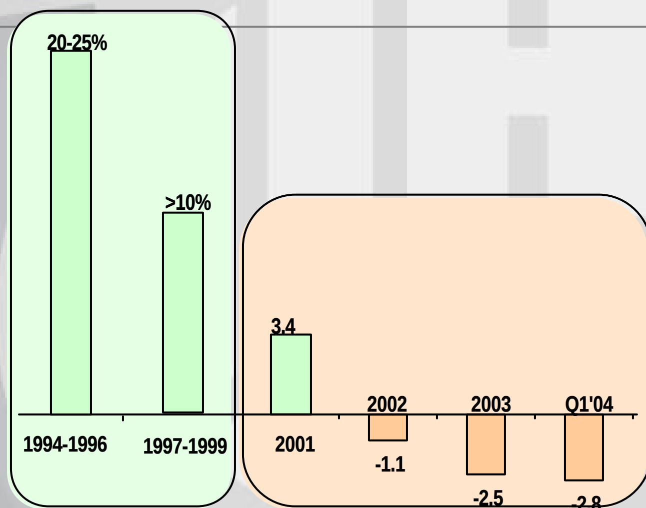
## HLL : Three Pronged Strategy

2000+

| | |
|---|---|
| Grow through focus on "POWER BRANDS" | Rationalization completed from 110 to 35 power brands |
| Improve profitability of Foods | 1300 Bps improvement in foods gross margins |
| Secure future of Non - Core businesses | Portfolio focused: Share of Non FMCG down from 24% to 8% of sales (Value delivered 84 Mn$) |

"Profitable Growth Through Focus"

# FMCG Markets



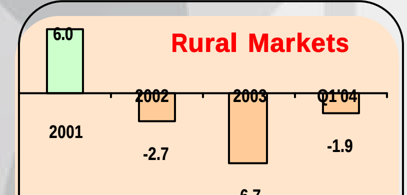

**From Double Digit growth rates to declines**

*Source : AC Nielsen ORG Marg Retail Audit*



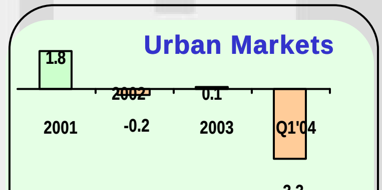
# FMCG Markets
## Two years of decline

**Rural Markets**




Pressure on Incomes
- Poor Monsoons & Agri crops

**Urban Markets**




Pressure on monthly budgets
- Increased cost of utilities, health and education

- Increasing competition for share of wallet (durables, homes, auto, services)
- Aided by cheaper and easier credit facilities
- Increasing EMIs

**Down-trading in most FMCG categories**

*Source : AC Nielsen ORG Marg Retail Audit*

## Challenges

- Price Led  Local Competition
- International companies seeking market position
- Driving Penetration & Consumption



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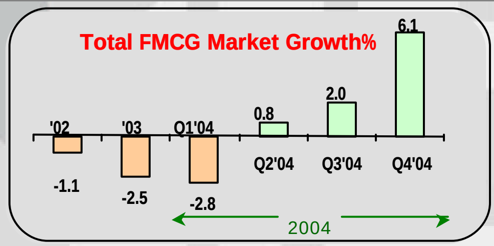
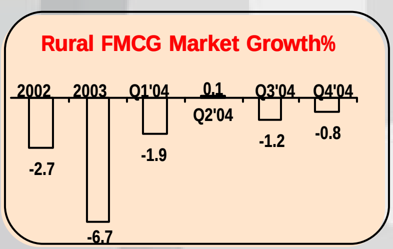
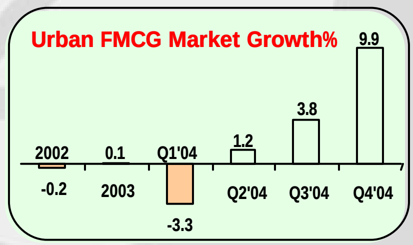
## FMCG Markets

### 2004 - Revival after 2 years of decline




**Revival led by growth in urban markets**

*Source : AC Nielsen ORG Marg Retail Audit*



## MQ 2004

### Steps

- Drive growth agenda
- Take competitive challenges head on
- Financial commitment for long term value

## Current Market Context
### Actions

- Pricing
  - Laundry : Price Reduction
  - Shampoos: Value Improvement & Lower Price Points
  - Toothpaste: Value Corrections & SKU rationalization



## Pricing Actions in 2004

# Current Market Context

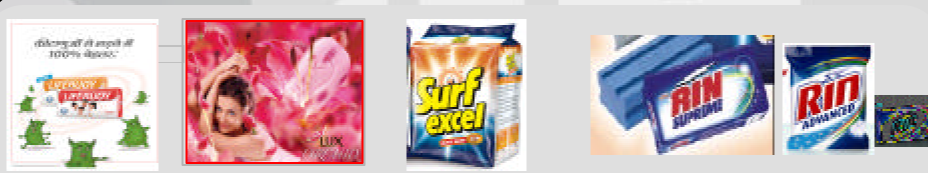
## Actions

- Pricing
  - Laundry : Price Reduction
  - Shampoos: Value Improvement & Lower Price Points
  - Toothpaste: Value Corrections & SKU rationalization
- Investments behind brands
  - Innovations
  - Quality
  - Higher A&P

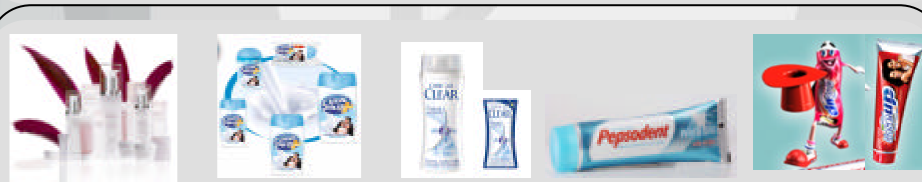


# Investments behind Brands

## Innovation & Superior quality



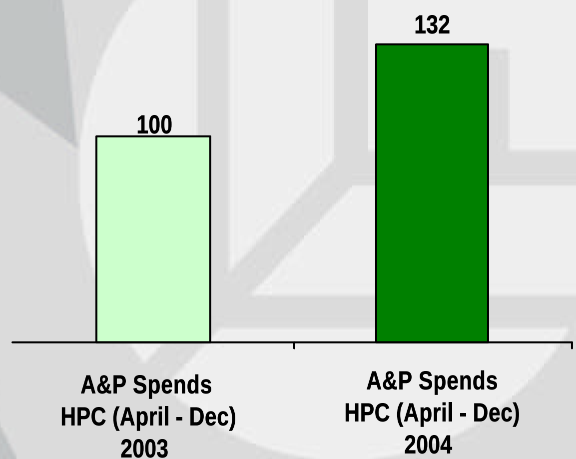

Family - safe from germs | Petal-soft | Quick wash - 50% Water & effort saving | No mud | Rin Advance




Perfect Radiance | "5 in 1" hair health benefits | Total Care | Whiter teeth | Fresher breath

# Investments behind Brands

## Step up in HPC A&P Spends






# Current Market Context

## Actions

- Pricing
  - Laundry : Price Reduction
  - Shampoos: Value Improvement & Lower Price Points
  - Toothpaste: Value Corrections & SKU rationalization
- Investments behind brands
  - Innovations
  - Quality
  - Higher A&P
- Corrective actions in processed foods

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# Processed Foods

- Corrective actions
  - Phased stock reduction
  - Withdrawal of '03 innovation
  - Defocus of Atta in unviable geographies
- Sales decline of 26% arising from above actions
- Market shares held / improved

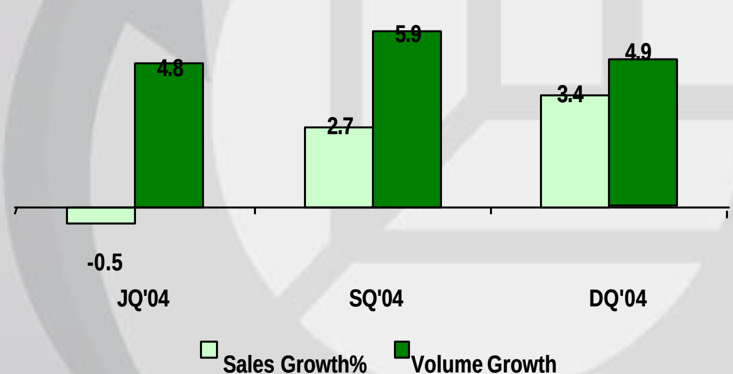
| Value Shares | MQ ' 04 | JQ ' 04 | SQ ' 04 | DQ ' 04 |
|---|---|---|---|---|
| Jams | 78.8 | 78.7 | 79.5 | 78.4 |
| Ketchup | 29.0 | 27.8 | 29.9 | 30.3 |
| Salt | 15.4 | 15.2 | 16.1 | 15.7 |

Restructuring completed, category portfolio focused for growth



# Current Performance

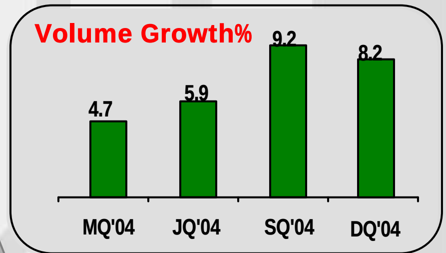
## HPC- Growth

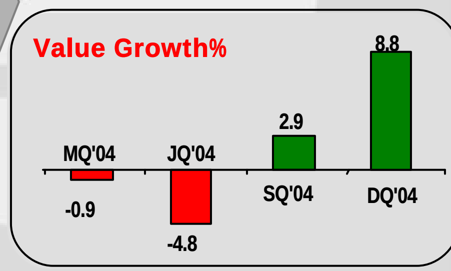


## Current Performance
### Fabric Wash

Actions taken

- Price reduction
- Additional investment in quality
- Higher A & P spends
- Brand repositioning

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## Current Performance
### Fabric Wash

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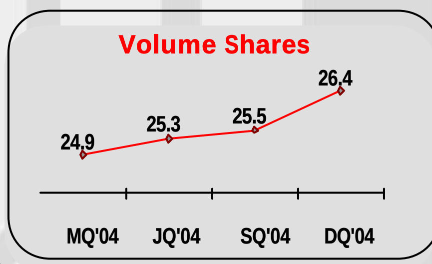


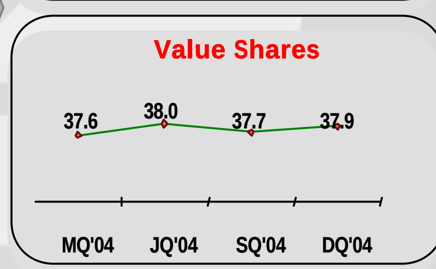


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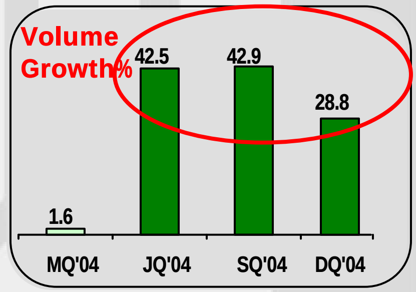
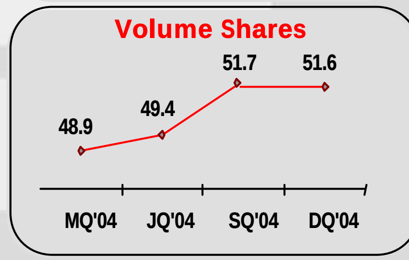
## Current Performance

### Shampoo

Actions taken

- Price reduction - bottles
- Value Improvement - Sachets
- Innovations
  - Sunsilk
  - Clinic Plus
  - CAC
- Higher A & P spends

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## 2004 - Financial Highlights

- Continuing sales flat
- HPC
  - HPC grows 6% in Volumes; growth across categories
  - Pricing actions lead to 2% value growth
  - Value growth momentum picking up
  - Volume market shares gains in Laundry and Shampoo
- Foods
  - Strong growth in BrookeBond, Lipton and Instant Coffee
  - Decline by 7% impacted largely due to planned discontinuation; stock reduction and one-offs

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## 2004 - Financial Highlights

- Operating Profits (PBIT) declines 29%
  - Competitive strategy in Laundry & Hair
  - Additional A&P spends in HPC
  - Higher foods losses

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## 2005 - Scenario

- **High input cost escalation particularly in chemicals & packaging materials impacting laundry most**
- **Aggressive cost savings and judicious price increases to partly offset cost pressures**
- **High brand building investments will continue**

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Key agenda will continue to be

**Topline Growth**



## Contents

- **Overview**
- **The India Opportunity**
- **FMCG markets & Strategy (00-03)**
- **Current Market Context**
- **Growth Agenda**

# Driving the growth agenda

**Delivering Consumer Value**

- **Brand Relevance**
- **Superior Quality**
- **Strategic Pricing**

**Ten Point Program to provide fuel**



# Strategic Pricing


- **Increasing Accessibility : Lower price points**
- **Driving Affordability : Strategic Price Reductions**

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## Technology Focus

- India is a base for
  - 1 out of 4 Unilever Global Research Centers
  - 5 Global Innovation Centers
  - >100 Scientists




## Winning the customer & channel focus

- Customer focussed sales organisation
  - Diamond model
    - Concern approach to modern trade and rural distribution
    - Category specific approach to general trade
- Developing new channels
  - Rural marketing
  - Direct selling
  - Out of home
  - Service centers

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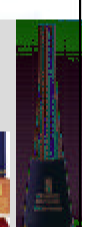
## Developing new channels
### Rural Marketing - Project Shakti

- **Challenges in Rural Markets**
  - **Accessibility**
  - **Viability**
  - **Media Dark**
- **Rural selling through SHG's**
  - **Benefits**
    - Improving product reach
    - Facilitating Brand-Communication
  - **Extended into 12 major states**
  - **Over 50,000 villages covered**
    - Touching 70 mn rural lives
  - **Plans to cover 1,00,000 villages**
    - Touching 100 mn rural lives.




## Developing new channels
### Direct Selling

- Product Range
  - Lever home range
  - Male grooming
  - Oral Care
  - Ayurveda
  - Personal Wash
  - Foods
- Reach - 1400 towns (Largest in India)
- Consultant base - 330,000



## In Summary

- Big Opportunity to grow Penetration & Consumption
  - Strong brands : Rationalization completed
  - Delivering Consumer Value
    - Brand relevance; Strategic Pricing; Quality
  - Innovation / Activation - supported by new organisation
  - New sales organisation
  - Strong Capabilities of HLL
    - Powerful Brands; Robust Business Capabilities; Management Talent



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