Hindustan Unilever Limited

ANNUAL INVESTOR MEET 2016

Question and Answer Session

Sanjiv Mehta – CEO & MD:
Hi good afternoon everyone. I will now request my colleagues on the management committee to join me and we'll also ask Pradeep Banerjee who heads our supply chain to join us on the stage. So you've had presentations from all our executive directors who handle the categories. And we also shared with you the capabilities and the various experiments and the forays that are happening in the connected world. We have next about 30-45 minutes and that's the time for you to ask questions. So over to you now.

Question:
Sir my first question is on the niche part of the distribution. For example if you could share how Lakme salon, Bru Café and the Tea Café in Bandra have done. Second is, what is the logic of Humara Shop from a longer term perspective. Why I am asking this is because you have focused staples, ecommerce site like Big Basket, Reliance Mart, and of course Amazon, Flipkart also. And secondly Humara Shop I don't see any ads. You have launched in Bombay, Delhi but no ads. So what is the long term need for Humara Shop at all?

Answer:
Yeah thanks. Let me first start with Humara Shop and then I will go into salons and all. Humara Shop is an experiment we started and the whole idea was it has to serve various purposes. We do several experiments at any given point of time. You would have seen many, on the digital side we shared. The whole idea is how can we get more insights from shoppers and how can we use the strength that we have on the last mile distribution to service our consumers better. Classically there were consumers or shoppers who would use the telephone to call the grocery shop and place the order. Now they would be much more comfortable getting on the app and placing an order through their mobile phone. So that is the experiment that we're doing. We're not looking at becoming the Big Basket of India. That's not the intention at all. The intention is how could we market to them better, how could we glean lot of insights from the data that we would be able to capture on the buying behavior, shopping behavior, and also use a last mile to do a better job of execution. So we have been experimenting with this. We have done it in some boroughs of Mumbai, we have done it in Gurgaon and we are very pleased with the way the experiment is unfolding.
As far as the Lakme Salons are concerned, again we have a pretty ambitious plan. As we speak we have about 300 salons. And the salon business to us is linked very closely with the Lakme beauty business. Because we are able to understand the trends. In many ways we are able to share the latest that is happening on the brand with people who visit the salons. And the whole idea is how do we ramp up the salon business that we have from 300 to a multiple or many times over as India keeps growing. So that's the intention we have as far as the salon business is concerned.

Now Bru Café or I don't know how many of you have visited the Taj Tea House. That's one of my favorite joints. The whole idea about Bru Café or the Taj Tea House is not to have a chain of coffee shops. It is to build our brand. And Taj Tea House which is I think a great example, a very successful example, Taj is all about classical music. And we bring it to life over there where we do the pairing of food with the different types of teas. And what again it gives us insights into there could be possible blends of tea which we could end up alter commercializing it. So we get a lot of insights and the idea is not to become a Taj Tea Shop in every corner. That's not. It has to be exclusive, that's what the brand is about. And it has to help you build the brand. That's the fundamental purpose. But in the process we also get great insights which we can leverage to develop our business.

Question:
So these three are seen as P&L business on its own or more from a branding perspective?

Answer:
You know for the size of our company, these are essentially looked at investments behind the brands. But when we look at investment behind the brands we always look at whether they are making commercial sense or not. That doesn't mean we will be looking at ROCE what we generate on HUL. But they are clearly looked as investments behind the brand.

Question:
Sir my last question is on the advertising per say. So you mentioned media saving and you gave a number 100 and 140. So I wanted to understand that part. And earlier you have shared non-TV advertising at around 35%. I want to understand how much is non-TV, non-internet. Because I see in your presentation lot of print and lot of outdoor buzz. So if you could talk about how the number was say 5 years back and how it's right now, non-TV, non-internet.

Answer:
See what I'll Abneesh give you a sense that about 5 years back television used to be 90% of our spend. Now television is slightly less than 70%. But within this 30-35 non-television, the component keeps shifting. Remember something we still have a large part of the country which is media dark, where outdoors still do play a big part. And clearly in India unlike many other parts of the world, the print or the newspaper industry is still flourishing. And newspaper is again a medium, depending on the brand, and depending on the objective, is still a medium to be harnessed. So we have not been giving up on the print medium as well. But the area where the incremental or the delta investments have been the maximum I would say are on the digital and mobile. And the trend that will be there is obviously as more and more Indians get on to the digital and the internet mobile bandwagon, you know for us where we see is look at the consumer's path to purchase and then we look at it how do we intervene at what stage to make the maximum impact on the business.

Question:
Two questions for me actually. The first I was wondering when you speak to the parents of Unilever PLC, you know three of the big strategic things they're talking about at the moment are zero based budgeting, the new functional models in net revenue management. And I was just wondering how this is interacting with HUL and how that's being rolled out here. The second one I was wondering about was homecare because given you split out the segments now, you can actually look at the relative profitability of the home care segment. That's something obviously at a global level margins there are quite low. I know that the parents are trying to push up margins. So I was basically wondering what can you teach the rest of the company about that.

Answer:
Thanks for those questions. You know we have a fantastic relationship with the parent. I would believe it's an interdependent relationship. We rely a lot on Unilever to help us build capabilities, to help us give R&D, technology. We depend on their repository of great brands that we tap into at frequent intervals. And also we believe that we are in many ways a thought leader for Unilever as far as the D&E world is concerned. So we have an absolutely great, open, transparent, interdependent relationship. As far as NRM and ZBB are concerned, both of these initiatives, India was amongst the first companies where they have been launched. They are deeply embedded into our system and they form part of our total ecosystem what we call as the project symphony. The whole idea is to maximize the revenue and as well as look at costs from a lens of where is it creating value and how do we maximize that. So both these initiatives are deeply embedded. In fact we have started getting benefits of NRM this year and they will keep getting bigger as we get into the next year. And the third is the question on home care. Home care historically has been a portfolio with a lower margin. But the good bit for us is that we have – like you would

have seen today from Priya's presentation that it's a category with a very impressive track record of top line growth as well as margin improvement. The absolute margin today are certainly much less than what a personal care business has. But we are clearly on the path, just like Unilever is, to keep improving the margins of the home care business and the couple of routes that we shared with you: one is premiumisation, the other is market development, getting into nascent segments where the margins are much higher than the rest of the portfolio or the core part of the portfolio. So we are very pleased with homecare. It's a very integral part of our business. And it's doing well on the top line as well as on the margin improvement side.

Just to amplify that point, the Indian home care business, the laundry side of it is arguably among the largest businesses in Unilever if not the largest. And therefore in the reach for Unilever to deliver on its strategy, it's crucial that India delivers on that strategy as well. So therefore our fates are intertwined completely.

Question:
The point I was making was that actually margins in home care here in India are much better than the rest of the Unilever universe. So sort of what can you teach – are they learning from you essentially and what can you teach them to get margins up?

Answer:
You know like I said we have an interdependent relationship. And we not only learn from them, they also glean lessons from us. Just to give you an example of what is being done. Some of the work done on low cost business models emanated from India which is now being carried out to the rest of the world. Work happening on let's say, work on cost savings agenda that runs across, we call it as slim fast, some of the work that Pradeep and his team do where development work also goes in. Research and development work done on low cost models again is an area we share. So we share quite extensively and that's the reason why there is a very common way in which both of us work today. And similarly when premium innovations are coming in, come in from there. Where there is work on whether we understand consumer insights on premium portfolios which also we would love to take from there which help boost the mix.

Question:
The whole presentation we thought today was very much hinged on innovations, premiumisation etc. I mean if there is a broad underlying theme so to say. But if I look at – Hindustan Lever is not a 1000 crores, 2000 crores company. It's a large company, largest FMCG company that we have today. And we need to attack the largest categories and today in hair we are the market leaders in hair care and we have the largest category in hair care in hair oils, we don't have any presence apart from marginal presence here and there. We have no presence in the top 5-6 food categories. So while categories of the future is great but are we doing anything about the categories of the present?

Answer:
See you can never always play in all the categories. So you have to be selective in where you are going to play. As far as hair oil is concerned to be very specific, we have got in again with an acquisition called Indulekha. It's a premium hair oil significantly above the rest of the market, and we believe it has a great potential. So we are not going to play everywhere, but we are very selective, very clear about where we are going to play, and where we are going to play we will come alive in a big way. So even in foods if you look at it, the first whole idea was to fix our portfolio which we have done. And in the last couple of years our thrust has been on Knorr and Kissan. Once we have fixed that we've got them back to big growth. Having said that there is still huge potential in the segments in which we operate in Knorr as well as in Kissan. The penetration levels are still very low. There is huge head room

for growth over there. But clearly Geetu is now looking at expanding beyond Knorr and Kissan, ie, Knorr's existing segments of soups etc and getting it in with other areas. We've just got into with masalas. That's the first big foray, another big foray we have done with Knorr. And you will see more happening on both the sides on foods as well as in refreshments as well as in home and personal care.

Question:

Thank you for taking my question. Could you talk a little bit about your JV with Kimberly Clarke which you plan to divest and what is the rationale behind it? Because there are some categories and some brands which are extremely low penetrated and has huge potential. For example Kotex is there and Huggies is there. So that is my first question. My second question was we have talked about few categories and few categories we have not talked about. For instance oral care or Axe. We did touch upon that Axe Signature is doing very well. But at the same time deo is not doing very well. So could you tell us what all segments are there in deo and where do you hold the lead? Those are the two questions thank you.

Answer:

See Kimberly Clarke is a JV that started in 1995. And we have got a fabulous relationship with Kimberly Clarke Global. And this JV has been really been with us for the last 20 years and it has done very well. You are right the penetration opportunity still remains, that is still out there. But from our point of view we also need to look at it in terms of our agenda that is there, what is it that we want to do. I hope you have understood today is the size of the agenda that we have is pretty significant and something that we want to really come alive. In that conversation we said let's get back to focusing on the core because all said and done I should be in a position to work on those areas where I believe I will be able to add consistent value all the time. And that is one of the reasons some of the categories in the earlier question as well, we choose not to play in a few categories because it's about what is our right to win in that category as well. So as far as the Kimberly Clarke JV is concerned, we have been advising on the marketing side, we have been advising on the distribution side and we have a finance person there. Those are the three areas that we work with. And we believe time is now right because the JV is big enough to stand up on its own feet. Time is right for us to actually move on and then hand it back to our JV partner who runs Huggies globally in any case because we don't have this arrangement anywhere else. So it's a very simple decision of getting back to focusing on the core and that is what we have called out as well. In terms of timing, we expect to start having the conversation – we had an agreement with them that we will announce this and now we will work through with them and it will be done to our mutual satisfaction.

As far as the categories are concerned, our whole thrust today has been to share with you the strategic thrust on the big Cs which is personal care, home care, foods and refreshments. We haven't gone into the small Cs or the small categories. For instance if we take personal care, it has skin cleansing, it has hair, it has oral, it has deos, it has face care, it has hand and body. We haven't gone into that. What we have picked up are the big themes and worked on them and most of those big themes transcend the small Cs. So that's what has been our focus. Now talking about deos and oral, deos we are very pleased with the performance that has happened in the last year or thereabouts, if we look at deos as a category, one is the aerosols or the body sprays aerosols, there we are getting back, we just had a relaunch with fragrances which have just been tailored for the Indian consumers. Then it comes to the pump spray or it comes to what you call as the liquid. There together with the Signature I think we have done a great job of getting back into the game. The third most important leg is anti-perspirants. Anti-perspirant as a category virtually does not exist in India. And a lot of market development work has to be done to grow and develop that category. And we have started, we have launched Rexona in Tamil Nadu and in West Bengal. And that has been done this year based on the results and the learnings we will roll it out to the rest of the country. So I am pretty pleased with the way we are progressing on deos. It's been a good growth even in the quarter that has gone by. We had excellent growth in deos. We are gaining shares and we are getting the momentum back.

As far as oral is concerned, I would certainly admit much more work is to be done. Close Up as a brand we are happy with it. And we have brought in an engagement platform called the 'first move'. We are building it up and we believe we should be getting more traction as far as oral is concerned. The second bit is, as far as our brand Pepsodent is concerned, Pepsodent we came in early this year with a new mix. The whole idea now is that people who have gone away from Pepsodent, how do we make them try that brand so that it can get back into contention and many of them can get back into the brand. In the last couple of months we have had a massive sampling drive running into millions to make people try the new brand. So those are our thrust areas as far as this is concerned, the existing two brands is concerned. But we are looking at the whole portfolio of oral care and asking ourselves that what are the segments which are growing faster and how can we get into it to strengthen our play in that. So I would say watch this space. We will have more game come into it as far as oral care is concerned. We are committed to oral care. No question about that.

Question:

Hi sir. Couple of questions from my side. Firstly in this environment where demand growth is slow and it seems that there is very low sort of correlation between the pricing and the demand. Earlier we had thought with pricing coming off, it should lead to a fillip in the volume growth. That hasn't happened. So in some of the categories which are not extremely price competitive like maybe a detergent or soap, is there option to play the pricing lever in a scenario where the volume growth is subdued?

Answer:

Okay. First is you know the pricing where we took a price reduction were essentially in two of our big categories- skin cleansing and in fabric cleaning. And both these categories are highly penetrated. And these are categories where had we not taken a price correction, which is a downward price when the commodity price is softened, we would have lost market shares to mushrooming players who come in when the commodity prices are soft. So it was not about necessarily driving more consumption in the category, but ensuring very much that we don't lose our franchise. And when the categories are highly penetrated, a 5 to 10% decrease in price, does not necessarily result in a huge change in the consumption and which is very apparent. Then also you will look at a category like hair care where we responded to a competitive action of taking the price down on bottles. Now the whole thinking behind that must have been that you reduce the price of bottles and you will be able to upgrade consumers from sachets to bottles. We were clear that doesn't happen. And it did not happen. So price sensitivity again varies from category to category, from segment to segment and from format to format. So when you are talking about price increase, like we always elucidate that there is no one to one correspondence between commodity price and the pricing of our products. We have a strategic pricing for all our brands. We look at the price value equation. We look at our whole value chain. And wherever we can optimize we try to do that. Because the whole intention is not to lose the price value of the equation. And if there is an opportunity, we will certainly encash that and we have been doing it.

Question:

Sir my question was more on the non-soaps and detergent category like for example a skin care or a hair care. Now hair care price cuts are already in the base, it's been more than a year. So my question is from today onwards into the future is there an option with you to exercise the pricing lever in a situation where the volume growth is subdued if you take prices up and since the volume growth doesn't react either positively or negatively to the price, will the pricing lever help you to grow the top line?

Answer:
See we have been taking price increases in rest of the portfolio. It's not that we haven't taken price increases. We do a market mix modeling to understand the sensitivity of pricing and volume relationship. And we keep doing that wherever there is an opportunity without destroying the value to the consumers. And there is an opportunity we do that and we have been doing it. Otherwise the price reduction that we took in laundry and skin cleansing, would have hurt the top line much more than if we would not have taken a price increase in rest of the portfolio.

Question:
Right sir. My second question is for Balaji. The Assam plant which you are proposing to put up, assuming it does come up before 31st March 2017, can you give us on what kind of tax benefits you can get I mean let's say 3 years down the line when it has ramped up in terms of production. How much could your effective tax rate come down due to this pant 3 years hence?

Answer:
If you remember the conversation we had yesterday and I will probably just ask Pradeep to give a little bit of color to the project as well after I finish, I think what we have clearly said is we are seeking approvals. Let the approvals come through. We will be the first one to come out there and give you chapter and verse on what to expect as far as the financial modeling is concerned. Because clearly if you are able to hit the March 31st deadline, there will be an excise benefit as well as a benefit on the income tax line. But let's get the approvals. And Pradeep is the one who is now fervently landing the project. And Pradeep do you want to throw a little bit of light on where the project is?

Yeah look it's an exciting piece of work which we are doing in Assam. As indeed most of the supply chain in this company is. We await the approvals as Balaji said and we have tempered our tempo to keep in pace with the levels of approvals which we will get. And we are absolutely certain that we have the capability to ramp it up to the right level as you said depending on how the permissions come through. But exciting piece of work going on in the north east.

Question:
Is access of digital or is our smart phones just making it easier to develop a brand or is it more difficult to develop a brand? In a sense to develop a dominant brand, because I think the sense we are getting is some of the dominance we are seeing in the brands we used to see a few years back isn't there at the same level. And a corollary to that being that is it harder for a larger company like you to stay dominant because you could outspend your peers on advertising earlier. Now with new channels and more focus on regional is it easier for new competitors to enter?

Answer:
I think we look at it as saying that it's not much easier or less easy or more easy but it is really about a new world in which we are and really keeping pace with that and our edge has been that we have really kept pace in marketing over the many years with the way consumers are moving. And I think this is now the new direction in which consumers are moving. And I think the opportunity for us is to ensure that we are winning in this world, this new connected world. And I think that's really the opportunity- is a great opportunity for a large organization like us to learn ahead of others. And I think that's really the opportunity that we have to build our brands with now this way of connecting with the consumers and with its new ecosystem. So that's really how I would look at it saying that our opportunities we can learn ahead, we can experiment ahead, and grow our brands with great pace.

You know we are in a quest for reinventing ourselves. And that is what HUL has been doing successfully at periodic intervals in our 80 years journey. So we are very conscious of the world that is changing around us and we are saying how do we adapt to the changing world so that we maintain our supremacy in the FMCG world. So we are very conscious about that. Now as far as marketing is concerned the way we look at it is marketing at the end of the day it is about telling your story, having an attitude, and it is about reaching out to the consumers' intelligence and emotions or head and heart. But what is changing in the digital world is the way you are able to communicate your story. That is morphing in a very rapid way. And that is what you would have seen in our marketing in a connected world, how we are taking a lead as far as even that world is concerned. But you are not wrong in saying that today if you have to grow your brand, and depending on your aspiration and ambition, even without a massive distribution, you can to a limited extent certainly reach that through the ecommerce route. The crux of brand building will still be better consumer understanding and better technology. And those have always been the heart of what we are good at, and companies that do that better, I think they are the ones who are going to win. So it's a question of just being open and curious in adapting that medium because the power of the brands is definitely there for us to leverage.

Question:
Very small question on the natural segment. So I made one observation from the presentation this morning that detergents obviously have been easier to premiumise, and you are facing some difficulties, if not difficulties but the trend has been more sticky in the personal wash side of things where things are not premiumising so much and there is a price deflation. Is it not that naturals which has sort of become bit of a phenomenon of late and you have been participating as well, the market has become really fragmented there and there is very little one can do to premiumise those and consumer is extremely value seeking because some competitors are offering similar benefits and things on a natural path. So do you think that segment is now bit more pressured than it was before?

Answer:
So firstly is naturals a trend? Yes it is. And is it getting to be a trend across categories, yes it is. There is no doubt about that. Having said that, I think specifically your question on skin cleansing that is it more sticky to premiumise, I think there is no doubt that that segment is premiumising less than other segments that we have seen. But it's up to us- for us to do market development to help premiumise that segment. And we have plans to exactly do that, to see how we can premiumise even the skin cleansing segment so that it is not that price dependent or commodity dependent in terms of us being able to increase our profits or increase our sales. If you forget this price deflation which has happened in the last 1 year, over the last few years some of our brands which have really done well are Dove and Pears which are really premium to the market. And the other things which we must accept that in skin cleansing also the whole liquid segment is still significantly under developed. When I talk about liquids I am talking about liquid hand wash and body wash. Now liquid hand wash and body wash are clear much higher benefits to consumers, better benefits, and they clearly lead to premiumisation. If you look at Western Europe today, 80% of the body cleansing market is in body washes, liquids, and not in bars. Now that's the direction it's certainly going to be adopted in India as well at some stage, and we have a big role to play in market development as far as liquids are concerned in skin cleansing. We are the same company which has converted people from using soap for washing their hair to shampoos. We are the same company which is now saying to consumers that hey guys conditioners is a better way to do it after using shampoo and it is happening. So over the years we have been pioneers in changing behavior. That is what marketing is all about and we have done it. Now look at Geetu and Sudhir, they have done a fantastic job with green tea. Green tea didn't exist a couple of years back. And I would believe all of you sitting in the room would now have brought in green tea in your repertoire of tea drinking. And the benefit of green tea is not only it's a green tea but it's also the format because most of the green tea is used through tea bags.

Question:
The second one is also slightly related on the detergent side of things where max the mix clearly is a good strategy and it adds to higher margin and higher gross profit per ton. But do you see a possibility if this is so lucrative to you, it is so lucrative to others. And don't you anticipate that if you develop that market, price wars will follow on that segment because one can afford to do so, especially a second player.

Answer:
Price wars can always happen. But I think the advantage of a premiumisation strategy is that you are building brands which matter to consumers. And it takes it away from the entire price commodity linear line. And I think you are building brands that are value in the lives of consumers. So I think it's a very, very different line as compared to just you know using something for basic necessity. So I think the entire strategy is based on building value in the lives of consumers beyond just basic necessity of what the product does which is to clean give you a basic level of clean. And I think that's really the value consumers are seeking and we are seeing more and more of that. Just to share it is not just at the top of the pyramid that we are seeing that. We are seeing consumers across the LSM profile of the country actually wanting more benefits. So when you see a premiumisation strategy which is not just for the top of the pyramid, it is at every level of the pyramid consumers are willing to pay for more benefits. And willing to pay for brands that are creating relevance in their lives. So I think it no longer becomes a price conversation. It's a brand conversation.
If you remember my conversations every time I talk about competition intensity, it is always intensely competitive in detergents. You are not going to face a free ride in detergents or in any other category for that matter. But if it is irrational price competition, and people just want to cut prices, we are very clear it will be unblinking defense. We will protect our franchise come what may. So therefore that I think should be crystal clear on that. Everything there is a context in which you operate and if the context changes, we are very clear and you can take it – you don't need to come and ask us, it will be unblinking defense immediately.

Question:
Fair enough. But Priya one thing that I wanted to know your observation of the market place today, as of today, do you see there is a bit of pricing competition building up especially in the premium end? As of today what environment do you see in modern trade or elsewhere?

Answer:
I think it's no different than it's been in the past. So I think it's quite similar. We have actually done extremely well at that end of the market. It's reflecting in all the results that we have declared. So I think it's been quite similar. I don't see it as any different. Actually I think that's the end of the market in which we have done extremely well. And there the strategy is also one of innovation and not just about pricing, but really building value like I said- in the minds of the consumer, whether it's with new formats, whether it's with new segments I talked about in the morning. For example the opportunity we have with fabric conditioners. So it's really a very different value you are building in the lives of consumers with new benefits, new formats, new segments. So I actually see a real opportunity more than competition in building the markets.

Question:
In the presentation we saw quite a few categories where our mindshare is more than the sales that we are doing. And considering the expansive distribution reach that we have there is some kind of disconnect. I always thought that we will end up having sales higher than the mind share that we will occupy.

Answer:
I think the answer is a simple answer. It has to do with the pricing power that we have. So if we have mind share higher than market share, it tends to indicate that we are operating at the top end of the pyramid where there is a lot of aspiration for the brand. Some amount of access because we create. But that is the primary thing. But more than – I agree with you on distribution, but it's really an indication of how as a portfolio we are premiumising over time and how we are really stronger at the top of the pyramid than at the bottom.

Question:
Okay. And just last bit, yesterday we spoke about this expansive slowdown in the market that we have been seeing. Now for HUL when we look at volume growth, there is hardly any change. Sequentially we are still at 4% volume growth. So what is this drastic slowdown in the market that you have seen and you have called out yesterday?

Answer:
You know when we were looking at from a market construct perspective, we look at the numbers which come from retail audit. And that is what gives us a perspective of how the market has been behaving. And it is very important not to look at the absolute number but the trend lines. And the trend lines that we are seeing very clearly as far as the volume for the market is concerned it used to be at the 6-7% level and it has been coming down. And this drop has been sharp and it had become a negative volume growth in the quarter that has gone by. That's what we said when we were talking about the market. As far as our volumes are concerned, you are absolutely right. It has been in a band of 4 to 6%. Last year for a full year it was a 6% volume growth. Last 2 quarters it has been at 4% reflecting the softening of the market.

Question:
Should we read it as some kind of trend line for HUL as well?

Answer:
See we have been growing ahead of the market. And I am very pleased with the way our volume growths have come out. So there is no question about that. And you would have seen from the category presentation some great work being done, excellent innovations being done, our thrust on market development and premiumisation paying dividend and that is the reason we see that we have been growing ahead of the market. And we hope to maintain that. That's the reason we have this 4G famous strategy of competitive growth.

Question:
Sir I have just two questions on foods. Why enter masala? In the past you have said that commodity part of the business you don't want to do. You exited breads, you defocused on aata, you sold off rice. I understand masala you are doing differentiated pav bhaji masala, chana masala, biryani, but there are so many players already here. So what's the right to win here? And second question is in soupy noodles have you gained market share? The market leader was not there for 2 quarters so have you gained market share?

Answer:
Okay so masalas you are right, we have actually entered at the top end of the masala segment which is the value added masalas. And that is really the heart of Knorr. Knorr stands for culinary excellence and chefmanship. And our products actually are blind product tested vis-à-vis what is out there in the market and the formulations are very special. So once consumers try them, the adaptation of the offering is very quick. So that's really a category which we are committed to succeed in. And it presents an array of possibility.

On soupy noodles yes we have been gaining share in soupy noodles.

Question:
One question I have on distribution so between 2010 and 13 I think HUL did disproportionate distribution expansion. We saw a tripling of the total reach, you had IQ, so it was almost like a step jump taken in distribution. Last couple of years it been more incrementalism probably a bit of consolidation. So going ahead do you think distribution is an important driver for growth or given where you are in terms of scale it's now going to be incremental from here on, overall on distribution?

Answer:
You know distribution for us will always be important. The question is how much we do direct distribution and how much we do indirect distribution. You're absolutely right we had a period where we improved our direct distribution significantly and now is an era where we're consolidating and the whole thrust is how do we get more juice out of the outlets that are under direct distribution. So our focus is on more assortments through that store, more throughput through that store, more frequency of coverage and better in store presentation of our products inside those stores, that's where the focus is. That doesn't mean that we're not going to again have a thrust on improving distribution. At the end of the day, we have 8 million stores in our country. To cover 8 million stores directly will never make sense. It will never be cost efficient. So that's the reason you look at various routes to market. The whole idea is a valuated distribution should be high and should justify in many ways the mental reach that we have of our products.

Question:
And just one more conceptual question on distribution, do you think the entry barriers on distribution are lowering because you're seeing some very small brands, single brands which are suddenly reaching a 5-6 lakhs store count, so is it easier for smaller players today to distribute than it was ten years back?

Answer:
See again it would vary from a category to a category. If it is a much developed category and if you have a high share of presence on the media then you may be able to get a good distribution initially through a pull through the wholesale and you could reach a certain numeric number of outlets within a shorter span of time. I think the key is sustaining that distribution and sustaining that distribution does require a distribution prowess; reaching a store once, easier to be done; ensuring that you consistently are present over there, that's what requires a distribution edge.

Question:
My question is on the food business, Kissan and Knorr are quite good and they are market leaders. However what's the perception in the consumer field, what ranks higher, healthy or tasty food?

Answer:
So starting with Knorr, the consumer perception of Knorr is it's tasty and it's very trusted brand which will always deliver the highest quality product. The same actually applies for Kissan as well. I think overtly when consumers think of our products they first think of taste because that's what we deliver. At the same time there's an underlying promise of unerring quality and trust which consumers play back for both the Knorr and the Kissan brand across the offerings that we have.

Question:
Okay so the taste comes first and then the health

Answer:
It depends, so for example if you look at soups, in terms of soup, the category itself is a healthier snacking option and there, there is a good balance of taste combined with health that consumers really decode that offering to be.

Question:
No my question, agreed, so there is a risk what we said say in the last two years in terms of Maggie, then the breads and those things, so probably how to, how well prepared you are in terms of taking those risks?

Answer:
So I in fact talked about it when I put up my last chart and I talked about some of the trends and one of the trends that I talked about is how the consumers are wanting to see more honest offerings, they are really wanting to see transparency, they want to see nutritional labeling and on all those aspects we've actually been at the pioneering end, in terms of the nutritional content, in terms of our adherence to sodium, in terms of fat, so we have an R&D program which has been going on for several years, it's got a long term vision where all these aspects of nutrition are embedded in the core as well as all the upcoming innovations that we have. It is absolutely important.

Question:
So when you're introducing any product is it compulsory that it has to be a part of the Unilever global basket?

Answer:
I think there are two things that the product should sort of meet, I think the first is the vision that I spoke about, I spoke about food which tastes good, does good, doesn't cost the earth and that's the vision that we have, that's a vision that we have for food globally and secondly in the products that we launch I think the first thing will be what's the local insight, how critical is it for the Indian market, what's the scale of the opportunity, at the same time leveraging the expertise that we have from an R&D perspective, from an insights perspective, so that we can bring it to life in its full force for the Indian consumer. Yeah so there is an inter dependence that Sanjiv spoke about and coffee actually is a prime example of a category which lives, breathes, has been born for the Indian market and has really not been borrowed from the global repertoire. You know our focus is on Indian consumer, that's the most important bit and the latest example Indulekha, of course it doesn't exist anywhere and we have brought it, we have purchased it with a single minded focus for the needs of the Indian consumer.

Question:
I have two questions, one is on distribution, which is a continuation of the previous question asked, is your distribution focus shifting towards urban because when I look at your, at least in annual reports it's more about perfect city program as well as slow-down in the Shakti program as well, so that's the first question. Secondly on your future growth plans, how do you feel about the competitive threat from the local players and I ask this question with regards to two aspects one is local players identifying wide spaces in the various categories that you have played especially the core categories, you've seen that in the past with regards to Deos as well as detergents and secondly it's from a management continuity standpoint, I mean because they have promoters who would probably be there for the next 10-12 years and you would have a rotation per se. So how does that work?

Answer:

Okay first let me take your distribution perspective; rural has, is and will remain very important for us, there's no question about that. We have 70% of our population living in rural areas and we directly reach 160,000 villages. So that's a pretty big number where we directly reach. Our whole thrust in rural is that if we again have segmented rural, if we look at the upper tier of rural which we call it as 'rurban', we are bringing in more assortment because clearly from an aspiration perspective, those consumers want the similar kind of products which our city folks are used to or are buying. So we are improving our service levels to those villages, multiple salesmen are going with split lists so that we have a higher amount of focus. So rural distribution will never get away from us, it remains a prime focus. As far as local competitors are concerned in India, over the ages we've had some very good local competitors and as a corporation we respect all our competitors. But the way we look at it, it's not a zero sum game and more so because there is so much of head room to grow. So I am unabashed in saying we learn from local competitors as well. We learn from them but we are very clear that we would bring in the best of Unilever to play into India and as far as management is concerned, of course we have continuity. This is continuity guys, we are able to retain our best talent and you see them on the podium today

Question:

Hello, yeah I have a couple of questions, you mentioned that market growth have turned negative in the last quarter, how do you explain that normally with the reported GDP growth rates, are consumers spending, shifting to other categories? And the second question is on market shares; obviously we've been gaining market share, then who is losing the market share, is it the local companies or other MNCs?

Answer:

Okay the first part is very simple, we have about 1/3rd of the total market and we have got 2/3rd of the market from where to gain shares. So that's not very easy to decipher the math. The complicated question is the link between the GDP and the FMCG market. FMCG market we pick up figures from retail audit which is the best indicator we have of how the markets are doing beyond HUL and you're absolutely right- we also struggle to see the linkages between the two and very difficult to decipher, we can hypothesize but not very easy to pin point exactly what the relationship is. If you look at FMCG industry you know GDP is a value creation number, that's what it is, how much more value has been created in the economy, whereas FMCG market is more dependent on more number of people in the country having more money in their hands. So I think the distribution of wealth or of the value creation will have a far bigger impact on how the FMCG market behaves. The other bit is the consumer confidence and also when you look at, you know again you can pick up some of the very clear no brainers, two consecutive years of drought. MSP being far lower in the last couple of years than what it was. Those are very clearly indicators which you can pick up but then you have to look at it from perspective and times are tough, people first focus on their essentials before they get into other categories and what constitutes essentials-not only changes but changes from LSM to LSM and over a period of time. So it's not a very direct correlation between GDP growth and the private consumption in FMCG market.

Question:

Hi, I just want to make a reference to what happened in 2002 and 2003 where I think the lure of the share of wallet went to some competing categories. With rural income improving, do you fear that something of that sort can happen again, maybe at the current level of income they can only afford the basic essentials, but let's say better monsoons, then better economy etc. and their per capita, you know the per capita income rises above certain level where you can actually aspire for those more expensive goods, do you fear something of that sort happening?

Answer:
You know that’s a question which has also been gnawing at us. It’s because 2002-03 is absolutely the right question to ask because that was the period when the economy started to pick up but the interest rates had gone down and people started spending more money on EMI, durables etc. Difficult to fathom how things will pan out, very difficult to put your finger on it, how the consumer behavior will change getting into the future. We’re conscious of that and that is the reason why our strategy is about building the categories of the future which will be far more resilient because people would experiment with it, people would try into it, that’s the reason why we’re looking at getting into with premiumization, which would again be relatively much more resilient. So those are very clearly strategy that we bear out and our whole conscious thrust has been that whatever be the shape of the economy, whatever be the spending from the wallet, we should ensure that we remain competitive and we keep growing in a profitable manner.

Question:
I sort of agree with your point when you say that you’re benchmarking your growth against the category but somewhere down the line will you not want to also ask this question, that if I am such a great organization should I not in some way be able to decide my own future? I know there’s a category context, there’s a market context and there’s an economy context. But if you are selling essential goods, is there not some way where I can guard myself somewhat against the vagaries of the unknown?

Answer:
See you can be much more resistant to the vagaries of changes and I think you should see that in our performance. Despite what Nielsen is saying, the markets are moving, our volume growth has remained pretty consistent in a 4-6% band, and that in many ways says that we are to an extent resistant to the changes that are happening around us. So there are some factors yes, we could be resistant to. But at the end of the day we are a big player in certain big categories where the consumption patterns do get influenced by the money in the hands of consumers. To amplify the point, if you realize the thematic image of market development that we keep hammering home, I think that for us is the way we decide our own destiny. So they are absolutely right, that’s how we want to brief it. And the internal what we call as acceptable growth for us is that volume growth should match GDP growth at least. That’s what we will be acceptable to us. And if it is less than that we are disappointed with it. Therefore we will keep striving for it. And the route to that strife translates into market development and therefore the pressure will be on all categories which are I am sure they can vouch for, to ensure how do they further invest in the market development. Look at some of the statistics that we showed out. Magnitude of sampling, and what you saw Geetu’s presentation on how the sampling has been converted into how we make it into a science. What are the ways in which you enter and break open the consumers’ mindset on that space. That’s exactly what we are doing so you have to spot on from that side.

Question:

Hi. In the GST regime what's the revenue neutral rate for you? And secondly what's the supply chain saving we can assume might get to GST and you will not have to have different state level CNF agent or warehouses?

Answer:

So I wouldn't want to hazard a guess here because I would love to see the fine print on GST. First of all I would love to see the GST bill and if it is finally passed and what's the fine print that is there in it. I think it will be very premature on our part to put out a rate on that because that will be conjecture. What goes in? What are the kind of disallowances on our part that are likely to come through, and what are the rules that are going to get created for that. What is for the sin rate, what is it for the taxes, for those categories which are currently on a tax free mode. We will need to see a lot more before we can comment on it. But some of those – whatever be the rate that is there, what is competition going to do needs to be thought through as well. You just can't take it to your bottom line there. So there is lots at play here. That's the reason I would rather respect the complexity that GST there, rather than make it simplistic and tell you a number there. Yeah but from a supply chain more than the number point of view, in terms of preparedness, maybe Pradeep can amplify that. As a supply chain we are extremely well prepared for taking on the GST and maybe he can give you a bit of color on that.

Again I would refrain from getting onto the area of savings as to what we will get. The issue of getting the logistics right in GST, that is what is the primary concern which I have now in terms of making sure that we are completely prepared for that both in terms of hardware and software. And that I am pleased to say that's in a good place. I would not hazard a guess at savings at this stage. In fullness of time it will lead to changes in the way some parts of our network are structured, and that we are conscious of we will do it at the right place.

Question:

Yeah hi. Just two questions on the market growth again. The first thing was just wanted to understand in the Nielsen audit is it also under-reporting to a certain extent your numbers? So for example if you are showing a 4% growth, does the Nielsen number also report a lower or a higher number on your growth? So is there a divergence there that you are seeing for your own numbers as well? Just wanted to understand you know whether what Nielsen probably is reporting is more or less accurate of what is happening in the market.

Answer:

See from a Nielsen perspective we don't look at absolute numbers, we look at trends. So if I look at trends of what my numbers are coming and what is trends of the absolute numbers what is there, that is what is the deduction is and that is the reason why we called it out. So more than the absolute pick up factor, we can do a PhD on how Nielsen shares are done. But what we can definitely confirm is both our numbers as reported by Nielsen as well as the market numbers as reported by Nielsen have come off and that's the reason why we have called it off.

Question:

And the second thing on that was that you know you have a huge distribution and you deal in a big time with direct sales as well as super stockists etc. So over the last quarter or so have you also been getting pushed back from then in terms of real time data on the market demand slowing down on the rural perspective? This is apart from Nielsen, your own data.

Answer:

See rural slowdown, we were amongst the first companies to pick it up much before it became fashionable which was nearly more than a year back. And that time we had many skeptics and it was only much later when people started talking about it. So we get a very good feel of what is happening in rural markets beyond Nielsen, our own. You know that's the real cold face. We know how the rural market is shaping up.

Question:

So incrementally also you would have got the same feedback right over the last quarter or so?

Answer:

Absolutely, absolutely.

Questioner:

Yeah hi, my question was on detergents. In detergents we have seen that there has been a significant level of premiumization led by double digit growth. One question was how is the trend in Rin because that sort of is your backbone in an adverse environment where there could be a price cut or price competition. And secondly what has really – what has been the biggest factor that has led to higher growth in Surf? I mean has semi-urban markets as well contributed to the up-trading?

Answer:

Yeah so I think overall like I shared in the presentation, a key part of our strategy is this premiumization which is playing out very well for us. I think the key factors have been that we have built like I said a good line up of innovation that we have put into the market and I shared some of it this morning. The other is that we have brands that consumers trust, they love the products and benefits that we offer at this end of the market which are really able to drive both geographically – and I have shared some of the geographical differences between the states, there is a very different shape of the market depending on which geography and the whole strategy of wining on many India's. It will be also right to say that not just metros but the next 600 towns are driving a lot of this premiumization and so to your point on where is it coming from, it's coming from the next rung and the next tier of towns in our country. It's well documented information across FMCG. So really the factors that drive premiumization is the right portfolio choices and really playing it out well with the right innovation. But really keeping the consumer at the heart of everything that we do.

Question:

And on Rin?

Answer:

I don't want to comment on any specific brands or numbers, but we have an extremely strong business on Rin as well. We have done extremely well across the portfolio. So I think it's been a very all-rounded growth.

Question:

Hi. So I wanted to ask about margins that you have compared to your parent both in the home and personal care. Like I think Steven also alluded to they are much ahead of what the Unilever PLC margins are. What can we attribute this difference to? What do you think is driving higher margins, operating margins for the India business?

Answer:

Let me give it a bit of a historical perspective because if you go back in time, our margins were actually lower than what Unilever was, and especially 2009-2010 because of the competitive issue that was faced, there was a significant challenge on the margins at that time. And I think one of the biggest factors I would allude to is the personal care portion of the portfolio being such a sizable one and continuing to do very, very well. And as you would have heard Sandeep talk about, we are blessed with a portfolio that is really strong. We are the second largest PC business in the world. And that's a boon to be in. Second part of it, I think as a laundry business, and you've seen Priya talk about, the home care business has turned out after the challenge that we had in 2010. We've actually steamed along quite fast in that area. And it has been a super performance that came through from that side. These are the two big drivers of how margins have actually changed in that. And as I look forward in life I think we would expect to see the PC business continuing to power along while the rest of the business starts picking up as well as have their fair share in the overall portfolio. This is a great business with some fabulous brands that we have. And we would love to see that continuing to motor along, and laundry continuing to play its part. These are the two big biggies that we have in the portfolio. And as Sudhir then picks up the refreshment side, and Geetu picks up the food side as well, so that's how the portfolio I see that evolving going forward.

Question:

Sorry just one follow up on that one. I completely agree as the mix changes towards packaged foods, refreshments, there will be a lot of margin accretion. But do you think there is a risk of convergence of your home care segment, the margins that you make right now compared to the parent? Do you think there is a possibility of home care margins coming down over a very long period of time?

Answer:

I think, I wouldn’t want to comment on what happens to the margin of a particular business. We are committed to modest improvements in operating margins, and how to go about delivering it is our job. And therefore you should definitely hold us to account on that in the normal course of business- modest improvement in operating margins is something you should pull this account on. How to do that job, I think you should leave it to us.

Management:

Great! Thanks a lot for the fabulous set of questions.