Hindustan Unilever Limited

December Quarter 2020 Earnings Call of

Hindustan Unilever Limited

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Speakers:

Mr. Sanjiv Mehta, Chairman and Managing Director

Mr. Srinivas Phatak, CFO and Executive Director, Finance and IT

Mr. Amit Sood, Group Finance Controller and Head of Investor Relations

Operator
Ladies and gentlemen, good day, and welcome to Hindustan Unilever Limited Conference Call for December Quarter 2020. 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. Please note that this conference is being recorded.

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

Amit Sood
Thanks, Steven. Good evening, and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening the results for the quarter ended 31st December 2020. On the call from HUL end is Mr. Sanjiv Mehta, Chairman and Managing Director; and Mr. Srinivas Phatak, Chief Financial Officer, HUL. We hope that you are staying safe and healthy.

As is customary, we will start the presentation with Sanjiv sharing his perspective on market and then overview on how we are navigating the current environment. Then Srinivas will share with you our performance for the quarter with category highlights and our outlook for the future.

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's sake. I request all of you to please pay close attention to Sanjiv's and Srinivas's messages over the next 30 minutes. We will be addressing upfront a lot of questions, which are likely to be top of mind for the analyst and investor community.

With that, over to you, Sanjiv.

Sanjiv Mehta *Hindustan Unilever Limited*
Hi. Good evening, everyone, and thank you for joining us on the call today. I wish you and your loved ones a safe, healthy and a very happy 2021. Before I get into the results, I would like to start with a sense of gratitude about being safe and healthy and would like to thank every member of team HUL. I am very proud of the efforts of all our employees and partners, our frontline heroes in factories and sales for the outstanding commitment and hard work that they have shown in the most difficult circumstances. They have exemplified the meaning of perseverance and resilience. For me, it is an honor to lead them and to serve our consumers.

I will today take a bit more time and have some more flesh to the bone on many of the issues that we have faced. So, let me first start by talking about our strategy. 2020 has been a year of pandemic, disruption, disorder and loss, yet it has also been the year, which has marked the triumph of human resilience, agility, grittiness, fortitude and very importantly, compassion. In these challenging times, our clear and compelling strategy remains consistent. We remain focused to deliver on our strategic agenda of consistent, competitive, profitable and responsible growth.

To weather the current storm, like seasoned sailors, we have adjusted our sails, which has helped us to navigate the crisis. Our 5 growth fundamentals and the COVID priorities have enabled us to maintain consumer connectedness while embracing speed and agility in operations.

On to the macroeconomic front. In this quarter, India saw the impact of COVID-19 receding, we are extremely grateful for the speed with which the government is rolling out the COVID vaccines. The count of the daily new cases in the country has come down substantially. At one stage, it was about to touch 100,000 cases a day, and now it is in the vicinity of 15,000. Recovery rates are high and mortality rates continue to remain low.

Mobility is on the rise as people are increasingly stepping out of their homes, just like we have done, and we are taking this call from our office today. After witnessing a sharp contraction in GDP of 15.7% in the first half, the Indian economy is exhibiting stronger-than-expected pickup in recovery, which is also very clear with the IMF forecast for '21, which has come out a day or two back. The timely and decisive measures taken by the government and RBI are indeed helping the country be put back on the path to recovery.

Now from an FMCG market perspective, we did see the growth reviving in the last 3 months. The overall market growths have inched up to 5%. And within this, rural and smaller towns continue to lead the growth while the metros and big cities are improving progressively. From a channel lens, general trade and e-commerce continue to rise the tailwinds, while modern trade is slowly mounting a comeback. The megatrends of COVID-19, health and hygiene continue to drive demand. With the increase in mobility, we believe, the discretionary categories and out-of-home consumption has also started to improve.

On the commodities front, we have been witnessing unprecedented inflation, especially in tea prices and the palm oil prices, which have gone up by 40% to 50%. Buoyed by COVID-19 vaccine rollouts and the faster than expected recovery in global economy, crude prices too have gone up sequentially. We believe the inflation in select categories is likely to continue in the near term.

COVID-19 has brought to the forefront some very clear trends, like demand for health and hygiene, in-home consumption, e-everything and resurgence of the humble grocer. Leveraging these trends we swiftly pivoted the organization to serve these demand spaces and landed relevant innovations. We also accelerated our journey in e-commerce and strengthened the execution in the traditional trade through our E-RTM initiatives.

The COVID-19 pandemic has fundamentally reshaped how we look at and approach hygiene. Practicing hygiene is no more a problem-solution based approach, it is increasingly now becoming a lifestyle need. We launched the Nature Protect Hygiene range, a powerful multi-category hygiene mix that is designed for new normal. Powered by plant-based actives, the Nature Protect range includes surface disinfectants, germ removal detergent, fruit and veggie disinfectant, on-the-go hygiene sprays and wipes. I would certainly urge you to try them. They are available online.

We have also launched Domex toilet cleaner with the power of sodium hypochlorite, which is proven to destroy the virus in just 60 seconds. Surf Excel, which is known to fight tough stains, introduced a variant, "Active Hygiene" with hygiene boosters proven to remove 99.9% of viruses.

We have introduced new hygiene products in Lifebuoy. Lifebuoy laundry sanitizer is an anti-germ post-wash liquid, which has a very special formula that removes 99.9% invisible germs post wash, which ordinary detergent wash may not always remove.

Lifebuoy Germ Kill Spray. While we always remember to sanitize our hands, we often forget the germs on surfaces that are frequently touched. Lifebuoy has introduced instant germ kill spray that kills illnesses-causing bacteria and viruses instantly.

During the pandemic, in-home cooking has picked up and along with it, the daily chores to clean dishes. Taking this head on, Vim introduced its new Matic Dishwash range, especially designed to remove the tough Indian grease. Given the low penetration of dishwashers in India, this is yet another market development initiative which will help us build and premiumize the utensil cleaning segment in the country.

Adding to the convenience, we have expanded a range of offering into multiple formats like the Surf Excel smart spray with a stain lifting technology, surely a smart way to remove stains. Lifebuoy has introduced multipurpose germ protection wet wipes for on-the-go germ protection needs and Domex has dropped multipurpose disinfectant surface spray, which contains sodium hypochlorite that kills infection-causing germs.

As a fall out of COVID-19, another mega trend that has emerged is the need for nutrition and stronger immunity. With the relaunch of Plus range from the house of Horlicks, we made strategic intervention into the high sciences space of adult nutrition. Talking about Horlicks Protein Plus, Indian diet sometimes may be insufficient to meet the RDAs of protein. Horlicks Protein Plus encourages Indian adults, to fight protein deficiency every day by making "Protein ka Routine". It is a scientifically formulated high protein nutritional beverage for adults that contains a triple protein blend of whey, soy and casein, which is known to support muscle maintenance and growth. I would again urge you to please use this range.

We have also launched Horlicks Mother's Plus, which has been scientifically designed keeping in mind the nutritional requirements of pregnant and lactating women. It contains 25 vital nutrients that are important to provide optimal nutrition for the mother's health and baby's growth. Another one from Horlicks is the Women's Plus. Research shows that 1 in 2 women over the age of 30 have a risk of low bone density, and hence, requires bone-building nutrients. The Women's Plus with its advanced CALSEAL formula has 3 nutrients: calcium, vitamin D and K2, proven to support bone health.

In the space of in-home consumption, we have launched Kissan Peanut Butter, which contains 100% real peanuts from the farms of Gujarat. It is naturally an excellent source of protein and zinc. One serve of Kissan Peanut Butter (30 grams), has as much quantity of protein as 1 glass of cow's milk. We've also introduced a new variant of Bru instant coffee, Bru Veda, a great tasting instant coffee infused with ayurvedic ingredients like ginger, black pepper, tulsi, palm jaggery and coriander seeds, known to ease the symptoms of cold and cough.

New Knorr Chicken Cube is a unique product that is made with best quality chicken and a special blend of spices to give you the flavour of slow cooked chicken instantly without any added preservatives.

We have strengthened our play in the skincare and haircare categories by landing new innovations. Let me talk about a few.

With the launch of Vaseline 2 in 1 Anti-Bacterial hand cream, we have combined skin moisturizing with germ protection for soft and hygienic hands in one go. Clinic Plus has imbibed Egg Protein in its shampoos that nurture hair strands to give strong and shiny hair. Another innovation in hair care comes from TRESemmé, which has launched deep smoothing serum and mask providing frizz-free, shiny and vibrant hair.

As you can see in the last 9 months, we have stepped up innovation intensity significantly in our business. Winning in channels of future like e-commerce was a strategic imperative for us even before the pandemic. With consumer preference for e-everything, there are clear tailwinds for this business. As consumers gets used to assortment and convenience of e-commerce, we believe this will continue to stick. We have a strong portfolio of products with the right pack price architecture, exclusively designed for e-commerce. Surf Excel Matic value pack offers value to the consumers and is economically viable from a last-mile delivery perspective. We are seeding e-comm first brands like Nature Protect. We are bringing premium offerings like hair masks and serums, which form part of the haircare regime of consumers who shop on this channel.

Our focus on building perfect store online and driving everyday great execution has ensured best-in-class online availability and discoverability of our products. Consequentially, we continue to gain shares in e-commerce and the current shares are higher than the pre-COVID levels. E-commerce channel contribution for us has doubled year-on-year basis. Our growth momentum has picked up significantly and our growths in this channel are now 2x versus December Quarter 2019.

Sharpening our execution focus, we continue to expand our direct coverage and are back to pre-COVID levels. We have significantly increased our assortments, which is now higher than the pre-COVID levels. Rural has become the driver of growth, and we have doubled down to capture this opportunity. Our network of Shakti entrepreneurs today is at 1.36 lakhs and has doubled from the 2016 levels. This rural channel of ours is growing at twice the rate versus 2019. In December quarter, we have deployed more than 8 lakh outdoor assets in rural areas.

This has enabled us to augment the physical reach of our products with mental reach, especially in many of the media-dark geographies.

As digitization has picked up rapid pace, technology adoption has become a clear imperative. GT is now more open to the adoption of technology. At HUL, we have always worked with and for the Kirana stores. We are driving our Connected Stores Program to digitally rewire the traditional trade ecosystem, and we see this as a clear competitive advantage.

Shikhar, our e-B2B ordering app is now available in 3.4 lakh stores. Our orders per month have gone up by 6x versus the December Quarter '19 baseline, indicating an active participation from the retail stores.

We continue to make strong progress on our 5 COVID priorities. We remain committed to ensure full safety and well-being of our people. On the supply front, all our factories and depots are operational and service levels are back to pre-COVID levels. As I already spoke earlier, keeping our fingers on the pulse of consumers, we have invested significantly behind rolling out innovations. At the same time, we have repurposed our brands to drive relevance to the consumers. We have committed INR 100 crores in the fight against coronavirus and have been deploying these funds in a manner which serves the best interest of our Nation. We continue to embrace cost agility in operations. Our focus behind driving savings and preserving cash has allowed us to preserve the sanctity of our business model.

Now if we look at our performance in the current quarter, there are a couple of standouts. First, this has been another quarter where we have delivered competitive growth, our business fundamentals remain strong with 86% of our business gaining relative penetration basis Kantar world panel on last 3-month basis, 86% of our business is gaining volume shares. With reported turnover growth of 20% and profit after tax growth of 19%, we can say that we have sustained strong performance. Health, hygiene and nutrition, which forms about 80% of our portfolio, continues to grow in double digits for the second quarter running. We have also seen significant improvement in discretionary and out-of-home categories as well. These are extremely attractive categories and the improvement in growth is directly linked to increase in mobility. This has enabled the business to gain sequential momentum and our performance is improving every quarter.

Sustainability is fully integrated into our strategy. We believe business has to be purpose-led and future-fit, and that is what drives superior performance. The very business of doing business responsibly brings benefits to the society. Through HUF, our foundation, and its partners, we have cumulatively created 1.3 trillion liters of water conservation potential, working in thousands of villages. 76% of our tomatoes and 78% of our tea are being sourced from sustainable sources. At the exit of 2020 calendar year, more than 67% of our plastic footprint is now in recyclable form. In 2020, we also collected and processed ~58,000 tons of plastic which is about 60% of the total plastics that we use. Till date, we have touched the lives of 150 million people through our 'Swachh Aadat, Swachh Bharat' initiative. 4 Suvidha centres have been operational in Mumbai, and I am pleased to inform you that on the occasion of our

Republic Day yesterday, we inaugurated the fifth Suvidha centre in Kurla East.

Our water conservation initiative under HUF have also helped generate 30 million person days employment. Nearly 4.5 million people have been benefited under Prabhat. 136,000 Shakti entrepreneurs are getting opportunities to enhance their livelihood.

So as I look forward, the near-term demand outlook is improving, and we expect to see improvement in urban while rural should continue to be resilient. Inflationary pressures are building up in select commodities, and we will manage them judiciously. I am confident that we are well positioned to capture the growth opportunity and accelerate the momentum. With that, let me hand over to Srini to cover the details of our quarter's performance.

But before I hand it over to him, I have a very pleasant task of thanking Srini. He has been a fantastic partner. I am extremely delighted that Srini is going to Unilever headquarters in U.K. and will be occupying a very important position as Executive Vice President, Financial Control and Risk Management. Another quality product of HUL goes and occupies a senior position in Unilever. I am sure all of you would like to congratulate him and wish him well.

I am also very pleased to announce the appointment of Ritesh Tiwari, subject to government approvals, as CFO of HUL and Vice President Finance of Unilever South Asia. He is a homegrown talent, has done a fabulous work in Unilever and now returns home. I am sure many of you know him. I am absolutely certain that like his great predecessor, he will take the finance function to the next level of excellence. Even as we imagine being done with this crisis, crisis, ladies and gentlemen, is surely not done with us. So please keep physical distance, wear your mask and keep washing your hands with soap and water or use sanitizer.

As a great brand, Lifebuoy purposefully said in its public service message at the beginning of the pandemic, use any soap. With that, over to you, Srini.

Srinivas Phatak

Thank you, Sanjiv. Good evening, everyone. So, let me start by giving a bit of a flavor of some of the financials and category dynamics.

As Sanjiv said, during the quarter, our growth was competitive and profitable. In the quarter, we saw economic activity picking up and FMCG growth reviving. And more than 86% of our business has been gaining relative penetration and volume shares. Our reported turnover growth stood at 20%, including the nutrition business and acquisition of VWash. On a like-to-like basis, if we remove the mergers and acquisitions, our domestic consumer business grew by about 7% with UVG of about 4%.

More importantly, we have seen a strong sequential pickup and we expect this to continue. Seven of our categories, namely, Household Care, Skin Cleansing, Hair, Oral, Tea, Nutrition and Packaged Foods have grown in double digits, and this augurs very well. c.80% of our business, which is in the space of health, hygiene and nutrition has grown at 10% again for one more quarter. We will talk a little more about growth when we get into the category slides, but let me spend a little bit of time talking through the bottom line.

The net profit after tax for us grew by 19% at INR 1,921 crores. The overall EBITDA margins were closer to the range of about 24.5% and remained quite healthy. You would appreciate that our year-on-year comparison on margins gets distorted on account of many factors, but more importantly, the nutrition merger. So, what we are also doing is to give you a bit of a flavor on the sequential movement that's really comparing the September quarter margins with December quarter and giving you a flavor of that. On such a lens, if you see, sequential margins for us have been lower by about 100 basis points.

Now if I look at some of the key drivers, clearly, from cost of goods sold, notwithstanding that there has been inflation, we've had many positives. The first one really has been a significant improvement to our mix, whether it's category, division or premium. For example, many of our premium segments in categories such as skin cleansing, tea and hair are now growing and growing very well.

We have also taken up prices, and that has partly negated the higher commodity cost especially in Tea. So, on a sequential basis, we have seen a cost improvement of about 90 basis points. Employee expenses are also lower by about 20, and this is a line that we continue to manage well while continuing to leverage the synergies from the Nutrition business. And if you see the third element is from other operating income, on a sequential basis, we have seen about a 10 basis point improvement. So, if I really add these up, about 120 basis points of sequential improvement you would see in these 3 lines.

I think the two places where we are significantly stepping up our investments is really in terms of our BMI spend behind our brands and spend behind the other expenses, which is really going to do all elements including our capabilities.

Let me first take our BMI. On a sequential basis, our BMI is higher by about 180 basis points. Importantly, we have actually increased our absolute spends by about INR 250 crores. This is important for us as demand is reviving, we are continuing to invest for growth, and we are going to support our innovations.

You heard from Sanjiv, he spent a bit of time explaining to you, giving you examples and we'll also touch a little more in the category section. Our spends are competitive and our share of voice is higher than the previous quarter. For sure, there is also a bit of the media rates normalizing, where we did enjoy some discounts early on, but that started to normalize. But all in all, we are investing for growth. We are investing to really capture the opportunity.

You'll also see that on other expenses, on a sequential basis, you would have seen an increase of about 40 basis points. Actually, the other expenses, as you are all well aware, is a wide spectrum of costs. There is supply chain costs, which are non-material. There are general overheads, there are sales overheads. In June quarter and September quarter, we were a bit circumspect given the lockdowns and the disruptions, and we held these expenses very, very tight. But now as we are seeing demand revive, we are investing ahead of the curve to capture growth opportunities. We are investing into our go-to-market, into our e-route to market, into the channels of the future and our capabilities. These investments will help us bring the long term and deliver the long-term competitive advantage.

Now if you look at a quick construct of the divisional group, BPC has come back strongly. It was flat in September quarter. We are now growing at about 9%. Foods & Refreshment has continued to sustain the momentum of 19% at similar levels of September quarter. More important is Nutrition business with supply issues being resolved and now growing in double digits.

Our Home Care, as Sanjiv also explained, has been an issue of category consumption. Again, when you strip it out, Household Care does well, but laundry specifically has been impacted because of category consumption. But as mobility is improving and people are coming back to offices, schools are reopening, we have started to see a sequential pickup. So clearly, we'll now see every month sequentially the growth trajectory is looking better and the growth trajectory is looking up. Having said that, in aggregate, our growth has continued to be competitive.

A bit of a flavor in Home Care. Sanjiv did talk about our launch of Nature Protect across categories and Vim Matic, which is really addressing a new need as well as premiumizing. All in all, it helped sustain a double-digit quarter, one more quarter of double-digit growth in Household Care. I have spoken to you about the sequential improvement and the category performance of fabric. But more important within this, when you look at some of the premium formats of liquids, they continue to do well, whether it was in September quarter. They're continuing to do very well as we look at December quarter. And we are actually getting into the new formats, such as the Smart Spray and the Active Hygiene.

Purifiers has been a stable performance, again, enabled and led by e-commerce with our portfolio now really reshaped to play and win in this channel.

When it comes to Beauty & Personal Care, it's been a broad-based growth across all categories. Our Skin Cleansing continues to be stellar with high double-digit growth led by Lifebuoy. What is very pleasing is that the premium parts of our portfolio, whether it's Dove or Pears have now started to revive, and we have seen them growing double digits.

Lux, which has been more in the Beauty space has picked up growth even in the previous quarter and it's likely to continue. We did talk about significant inflationary pressures in Skin Cleansing. You track the commodities as well, and you are well aware of the replacement cost increases. If one needs to mitigate the cost, one needs to price up anywhere between 7% to 9%. If you need to price for margins, it's even higher.

In December quarter, we have taken up prices on our portfolio by about 2.5%. And as we speak, we have initiated further pricing actions, which will again tantamount to about 2.5%. So, between the 2 rounds that we have done, we have taken about 5% price increase.

While we will continue to look at all avenues in terms of managing the business model, we will continue to look at pricing with a close eye on inflation and keeping a close eye in maintaining the right price value equation from the consumer's perspective.

In Oral Care, we have seen a very strong double-digit growth led by Close Up. Pepsodent has also picked up performance in the quarter. And overall, I think the performance in Oral Care has been quite strong.

Hair, in many respects, has been stellar. We have seen double-digit growth across our brands, and it's been a broad-based performance. The consumer-focused innovations are yielding very good results. And again, in this segment, we see that our growth will be significantly ahead of the market and anyone else.

Skin Care was a category in September quarter, we did talk to you about winter loading being a bit slower given the trade sentiment. Happy to note and happy to state that winter has picked up well with good performance coming through in Vaseline. And, in addition we are seeing that some of the effect is also coming through in January. We have also seen facial cleansing and talc do well.

The Glow & Lovely transition has happened well and it's on course as we look at it. The first part of the communication was really landing the transition, which has gone off well. And we are now focusing our communication to drive towards demand and with the country opening up, I think, again, the communication will be apt and we are confident that those are actually going to start giving us better growth trajectory in that part of the portfolio.

Our Color Cosmetics, again, has been an important piece of our business. Done well for a long period of time and has taken a certain beating. But again, on a sequential basis, we've started to see good pickup come through in this category.

If I go to Foods & Refreshment, I think the growth momentum has been sustained, and we have seen double-digit broad-based growth. In Foods, ketchups and soups continue to do well on the back of strong consumer traction.

In Tea, performance has been stellar for a couple of quarters with high double-digit growth and across all brands. This is well ahead of the market and our calibrated approach to pricing, even sacrificing some margins, has helped us manage the Tea inflation extremely well. You would recollect that after hitting highs, some of the inflation came off but then our approach of being calibrated has enabled us to manage this well, and we are gaining share across the board and definitely from the unorganized sector.

Sanjiv did cover coffee innovations, the performance has been reasonable coming on a high base.

And the good news is really about Nutrition. When we have spoken to you last, we said that, with the supply issues getting resolved, we should start seeing this business come back to growth, and indeed it has happened. Both Horlicks and Boost have actually grown in double digits. Sanjiv spoke to you extensively about the Plus range, which has just gone in. What I also want to tell you is, earlier in the year, we had introduced the pouch packs to make the products more affordable and drive penetration. This has landed extremely well. We are now starting to see volume growth in the 500 grams Plus segment, and we've actually gained penetration. Boost was relaunched in north and west, and we saw some good sell-ins and some share gains. So in totality, Nutrition has started to pick up the trajectory. Of course, we will have bigger opportunities in 2021 as the innovations come through. And our go to market, we will complete the job, which is likely to take about 6 months from where we sit. That is when we will start to see the next level of benefits coming through on distribution.

Ice Creams, Food Solutions and Vending which is a smaller part of our business in the quarter, did take some beating early on but sequentially, again, that's something, and I'll show you in a separate chart, is continuing to pick up.

I think this is a good summary. And perhaps we are also reaching stages, maybe it will be worthwhile to see whether this will be relevant for future. But for now, Health, Hygiene and Nutrition, as I said, has been growing at 10%. Discretionary, which was negative 25%, has now come back to minus 1%. And out-of-home is improving all the time. And when you look at health, hygiene and nutrition, it's important to also highlight that this has got the full Home Care portfolio. So, notwithstanding the category consumption being lower, I think there's a mega opportunity here.

It's also important sometimes and often a question has been asked of us saying that, post demonetization and post GST, we have come back very strong. And is it any different this time?

I think it's important for all of you to understand that in the segments which have not been impacted by lockdowns, our performance has been significantly better and have been picking up sequentially extremely well. I think the part which actually hit us hard has really been the portfolio, part really being in discretionary and part really being in out-of-home.

But I think it's important to give you a bit of a flavor. Lakmé is a business which sits in discretionary, has grown for more than 5 years in mid-teens and is highly profitable. If you look at Skin Care, again, it's been a business which has grown for us for many years in high single-digit with very strong margins. If you look at laundry, laundry actually grew close to double digits for many-many years and it significantly led value creation in all aspects of P&L. And even in Ice Cream business, grew in mid-teens with strong cash generation for many years. So, if you really look at all of these categories, these are fundamentally very attractive categories with massive growth potential.

We are confident that with the sequential improvement, we'll keep getting better as the country is opening up and mobility is increasing. We do recognize that the timing of full recovery is difficult to predict. But the pace of the recovery has definitely been quite encouraging.

Now I think to talk a little bit about the profitable volume growth, I think the strategy that profitable volume growth is a centre of what we do, absolutely intact. As demand is picking up, we are clear that we will invest for growth, be it in innovations, be it in market development, be it in e-commerce, go-to-market, and we will make sure that all our spends are competitive across lines.

Yes, we do have a robust program for generating tool for growth. The mix is coming back and if augurs well, we'll get a lot more sophisticated with net revenue management and we are being judicious with pricing. We will not shy away from pricing while maintaining the right value equation. I expect that the inflationary pressures that we've seen in Tea and the inflationary pressures that we've seen in Cleansing are not small and are material. And we will continue to manage them more dynamically. But, if I have to put out a real focus, our focus for a couple of quarters would really be on driving growth while protecting our business model, but if you have to put a premium, we're actually putting a premium on growth. And why do we say that? If we get the profitable volume growth going for us, we have a demonstrated track record of driving margin expansion. We've done that for more than 8 or 9 years, and we are very confident that we will be able to come back to our mantra and our model of growth ahead of market and a modest margin expansion going forward.

But for now, I think, clearly, for the next quarter or two, the focus would really be in driving profitable volume growth. The other different cuts to really look at that would be our segmental performance. You will see that they changed slightly, but the picture broadly remains the same. And from a margin perspective, while the segmental margins continue to be very healthy in Home Care and Beauty & Personal Care, we did see an impact of Tea playing out on F&R, notwithstanding significant progress in the synergies from Nutrition. It's also that we've been investing for growth across the portfolio.

Therefore, if I now come to our December quarter summary of results, from a sales perspective, the reported growth are up by 20%, our EBITDA is up about 17%, and there are aspects of other income coming lower because of cash being paid out because of dividend and Horlicks brand acquisition and second is that we also had lower yields given the interest rate regime in the country.

Our PBT is up by 16%. Profit before exceptional items after tax is up by 15%. And net profit is up by 19%, given also that we had certain one-offs in the base.
The exceptional items continue to be restructuring of our supply chain operations and the integration of our Nutrition business. You would well know about our 9-month performance. At an aggregate, it is a 14% reported growth with a double-digit net profit increase. And if I come to one of my second last chart, it is really about the outlook looking ahead. As we've clearly articulated a couple of times during the course of this evening, the demand outlook is definitely

looking up. Rural is continuing to do well and growing in double digit. Urban has come back into a positive trajectory. And we do expect that barring any unforeseen events such as COVID outbreak coming back, we clearly see demand picking up. And our focus, therefore, is to really invest behind consumer-centric innovations, market development and capabilities.

We do have elevated pressures in select categories. We will look at all levers, be it mix, net revenue management, including pricing and savings to manage the business model. But overall, our focus remains to be one of delivering volume growth, which are competitive and profitable. And on the last piece, Sanjiv did share the news and I'm sure you have seen that having served this wonderful business for large parts of my career, and more importantly, in a little over the last 3 years as a CFO, now I'm actually moving to the mother ship, if I can call it that, to Unilever.

It's never easy if you've been running and brought up this business to parts, but it is an opportunity and with active encouragement from Sanjiv, I am taking that responsibility. I'll continue to hold the business until May 1. And then that's when I hand it over to my wonderful friend, Ritesh Tiwari. It's an upgrade in every sense, whether it's in terms of quality of what he will deliver or even the quality of looks. So we have got a rather impressive looking Ritesh on screen. Wide set of experiences in the business, in the function. And interestingly, Ritesh also brings to the table experiences from product, just not finance but also from demand planning, supply chain. And in his latest role, he was managing the performance management for Unilever across all the markets, and he was also the CFO for our international businesses.

So all in all, I think he is a delightful addition to South Asia. And I have no doubt that he will really take the business and the function to new heights. So that's what we had to share. And we are very happy to take any questions, and I'll hand it over to Amit at this stage. Over to you, Amit.

Amit Sood ***Hindustan Unilever Limited***
Thank you, Sanjiv, and thank you, Srinivas. With this, we will now move to the Q&A section. In addition to the audio, as always, our participants have an option to post questions through the web option on your screen. We will first take those questions which come through the audio line and then we'll pick the web questions. With that, I would like to hand back the call to Steven to manage the next session for us. Go ahead, Steven, over to you.

QUESTIONS AND ANSWERS
Operator
Thank you. The first question is from the line of Abneesh Roy from Edelweiss.

Q- Abneesh Roy ***Edelweiss Securities Ltd.,***
Yes. Congrats, sir, on all around good show in the current context. My first question is on the brand strategy. So pure-play e-commerce kind of brand like Nature Protect, which is a very generic sounding name, unlike your specific brand names that you have. Because it's e-commerce, we'll not have much of mass media. And every other FMCG company is doing

similar strategy, either in terms of product or in terms of naming. So, how do you scale up these kind of products, any learnings from Ayush? Because essentially, it is again the natural kind of positioning.
And similarly, on the Lifebuoy laundry sanitizer. Lifebuoy is more of a skin/body wash. So, taking that to fabric, how does it work? This is my first question.

A- Sanjiv Mehta *Hindustan Unilever Limited*
Abneesh, a very happy new year to you. From being an analyst, now you're becoming a marketeer. Nature Protect, at the end of the day, it is a brand which is based on credentials of neem which is a very distinct property and antiseptic property, cleaning properties and that's the reason we are focused on neem first in the south of India and in e-commerce. And depending on the success, which we are very optimistic about, we will not restrict it just to e-commerce. But initially, we have put the brand over there. And for us, we have a lot of learning. We have learnings from Indulekha, which has been absolutely a fabulous success. And we have learnings from our brands like Hamam. We have learnings from brands like Lever Ayush.

So, we put them in whenever we look at new launches. As far as brand extensions are concerned, these are carefully thought through. And only when a brand has the property to move to adjacencies that we take it over. So, the steps that we have taken on Lifebuoy, which is an extremely strong brand and has got very clear health credentials, antibacterial credentials, and that's the very thought through decision that we have taken. And we are, again, very optimistic with all the extensions that we have done that more than fewer will prove to be good success in the marketplace.

Q- Abneesh Roy *Edelweiss Securities Ltd.*
Right. My second question is on Oral Care. So, second consecutive quarter of double-digit sales growth. For the past many years, this has been a tough category for you in terms of market share. And you have called out also many times that it is a WIP. So, are you now calling it as structural? And in the category, naturals is growing faster. So, how are you playing there? And is Sensodyne in the portfolio helping or is it something which will pan out in the future?

A- Sanjiv Mehta *Hindustan Unilever Limited*
No, please. The numbers that we have quoted you do not include Sensodyne because Sensodyne, we are just doing a distribution.

Q- Abneesh Roy *Edelweiss Securities Ltd.*
So from a distribution, sir, my question was from a distribution scale up and that advantage, not from the number.

A- Sanjiv Mehta *Hindustan Unilever Limited*
Not really from that perspective. I think both Close Up stands on its own right. It is absolutely a fabulous brand standing on the freshness platform and appeals immensely to the youth. And we are very pleased the way Close Up has performed. The good bit has been that we are also seeing strong traction on Pepsodent. But on Pepsodent, I would still say there is more work to

be done. Yes, that is still working progress. But as far as the overall Oral Care category is concerned, last couple of quarters have been very heartening for us with the performance.

A- Srinivas Phatak *Hindustan Unilever Limited*
And specifically on naturals, yes, it has indeed been a high demand space. While we've had some play with Ayush and others, we're also looking at opportunities and a strategy in terms of how to handle it differently. And in due course, you will see more action there as well.

Q- Abneesh Roy *Edelweiss Securities Ltd.*
Right. My last question, sir, is on the recent PH issue. The competitor is claiming INR 400 crore run rate and 10x from there in 5 years. So, my question is, do you need to launch something here differently? All the campaigns which you're already running, those should be more or less enough to our numbers?

A- Sanjiv Mehta *Hindustan Unilever Limited*
Abneesh, I'll only tell you one thing. See, I don't want to comment on what others say. But as far as we are concerned, we know how to protect ourselves, and we will protect ourselves. This, let me be absolutely clear about it.

Operator
The next question is from the line of Warren Ackerman from Barclays London.

Q- Warren Lester Ackerman *Barclays Bank PLC*

It's Warren Ackerman here at Barclays. I hope everybody is safe and well. Can I ask two questions to you, please.

The first one is on your Nutrition division. You mentioned nutrition opportunities in 2021 on innovation, you mentioned finishing the job on go-to-market and distribution and nutrition synergies. I'd be very interested if you could touch on each of those 3 buckets. And what do you actually think you can do on top line, on margin and on distribution of Horlicks as you bed in the acquisition and it moves into the organic growth? If you can just frame the opportunity for us into the medium term, that would be really, really helpful.

And then the second one is just around the kind of domestic organic growth. Nice to see the acceleration in the quarter. And it's nice to hear you're being so upbeat about the outlook. But I guess when I look at it, you've got the Home Care division negative 2%, but you've got Food & Refreshment plus 19%, and you've got the improvement coming through on discretionary and out-of-home. But clearly, as we go into 2021, some of those categories are going to sort of move in different directions. I guess Home Care is going to increase and Food & Refreshment might normalize. Can you kind of maybe look at the crystal in your crystal ball, how we should think about the moving parts by category and channel as we look forward 12 months?

A. Srinivas Phatak *Hindustan Unilever Limited*

Yes. So thanks, Warren. Two interesting questions, and I'll give my bit first, and Sanjiv can add on. I think let me take you back to the Nutrition business case. When we actually look at the acquisition, clearly coming through from a perspective of very strong brands, a clear consumer need where you can actually transfer through the variousstages of life cycle of people, right from child to an adult. Our overall category penetration being around 24%, 25%, which also means it's a massive market development opportunity.

If you think about distribution, clearly with Hindustan Unilever's reach, we said that we will have advantages of about 2.5 to 3x the distribution reach. And therefore, we also said, when we look at our portfolio, you can play the high sciences, you can play the base. If you look at the formats, you can play the large pack, you can play the small packs. So there are multiple levers to get growth. And therefore, if you said into the medium term our objective was to grow this business in double digit and we talked about synergy realizations in the bottom line to close to about 1,000 basis points. So that really was the construct of where we were.

Important to highlight that this business actually has come into our fold only from April of this year because the whole regulatory process took more than 15-odd months, not much we could have done earlier. But if you really see from a first 9 months' perspective of a large integration of the kind that we have done, it's been one of the best integrations in the FMCG space and for Unilever by far. If you start to see, yes, we did have some supply challenges given some industrial relation issues in a quarter, we also had some very tough lockdown months in the country.

The good news is all of that is behind us. The business is picking up traction. We have seen a double-digit growth. We were comparing with what GSK did in its base. Clearly, the momentum and the trajectory have now started to pick up.

I had talked to you about the 2 key brands, being Horlicks and Boost. Both the brands have grown in double digits. We have taken Boost national. And in Horlicks, we are doing multiple things, the dialing of communication on one side, introducing new packs, such as an affordable pouch pack. At a certain time, we will look at doing a sachet, a low price offering, which also enables us to drive penetration. And Sanjiv spoke to you extensively about the high sciences change.

So interventions coming through on portfolio. Communication, you've already started to see it take a very different cue. I believe it, again, works well. So, if you start to see, we started to put the wheels in motion on many aspects relating to portfolio.

The second aspect is going to be go-to-market. To date, we are taking the easy pickings and the early wins and doing multiple things. In some cases, we are combining distributors between nutrition and HUL, they're handling the combined business. And in some cases, we are synthesizing and going deeper into rural areas. The other place we also started some work is the chemist channel and the medical marketing program. So some of those benefits have started to come in.

The big advantage for us is, if you really see, it's a big algo-driven distribution model because we have the widest retail coverage in India by far. That actually means that we have to put out a larger assortment in stores, and we need to replenish those stocks at a certain frequency. To really run that, you need the full power of the analytical engine, which is able to not manage us at a distributor level but at a store level.

So, we've always been clear saying that into the second half of the year, once we finish the SAP integration and then the CD systems integration, we'll start to see the big juice coming through from a distribution side. But all in all, I think many levers in motion, both on portfolio as well as in channel, and let's do acknowledge that some of this takes time. This business had massive potential, but this was not running in the rhythm of double digit. And that's exactly where we are trying to take this to, and we're very pleased with the performance to date.

If I look at the bottom line synergies, we are significantly ahead of our plan. If I were to contrast, and I said 1,000 basis points over medium term, if you really look at the first year, perhaps we are actually we have done better than first year. We have actually done better than the second year synergies and somewhere we are between 2.5 to 3 years in terms of getting the monies upfront. So all the hypothesis that we said in terms of media, promotions, buying savings, have started to come through. And we're also using some of that to invest behind product and product quality. So if I were to bring home the total answer, I think progressing well from a growth perspective, more to be done, significantly better from a margin and cash realization point of view.

If I take your second question yes. So if I take a second question, and I'll also ask Sanjiv to come in here. You are indeed right that, look, there will be a bit of a rebalancing of portfolio, health, hygiene and nutrition in some parts. And when I say some parts such as hand sanitizers, hand wash will start to come down a bit. But having said that, within that, we've got large Home Care business. Home Care business will pick up. Home Care for us, over 3, 4, 5 years has actually grown in high single-digit and has been a huge value-accretive business. So clearly, that rebalancing, even if it were to happen, we start to see that the numbers will continue to be high.

I also talked to you about the structural attractiveness of our discretionary categories. I spoke about Lakme, I spoke about Skin. We definitely expect them to start to pick up. And in Ice Creams, which has been an out-of-home business and took a big beating and our food solutions businesses, we'll also start to see traction and come back as out-of-home consumption picks up. Even if the aggregates change, the important spaces fundamental for the business are extremely well positioned. Now the big question is, yes, we are seeing consumer demand pick up. Yes, we are seeing the economic activity pick up. The pace of recovery and the pace of expansion is still a bit of an unknown. But within that construct, I think the portfolio is very well positioned to go ahead of the market. And with a bit of little luck and COVID staying away, I think, in the great space to drive momentum.

Sanjiv, any comments on the growth story?

A. Sanjiv Mehta *Hindustan Unilever Limited*

No. And the other bit of of-course is how the vaccines get rolled out. India has a very ambitious plan, and it has started well. And I believe with the vaccine because the mobility will increase tremendously. And today, if you were to deaverage the country, rural and GT are doing very well. And urban and modern trade, for reasons of lack of mobility, have not been doing well. So if the vaccine rollout happens the way the government has planned it out, then I think we will clearly see the urban demand also coming back. And with urban demand, that would imply that the modern trade would also come back. And which means that some of our discretionary categories which have got hit, like Srini alluded to, should start bouncing back.

Operator

The next question is from the line of Avi Mehta from Macquarie.

Q- Avi Mehta *Macquarie*

I just wanted to revisit your comment on the Foods & Refreshment margin. Despite there has been a sequential drop in Tea prices and GSK performance improving, could you explain why there has been a moderation in margin performance?

A- Srinivas Phatak *Hindustan Unilever Limited*

Yes. So a couple of elements. Definitely, the impact of the inflation, where we have taken a calibrated approach has been one reason because if you see the height of consumption impact of tea, which was bought earlier, came together in December quarter. And I think we have to be calibrated with the pricing because there's a massive opportunity to unlock from the unorganized sector. And it's a calculated business decision we have taken, I think, which is serving us well. You get sometimes opportunities to really gain significant volume shares and hold on to the franchise and that's what we've done.

The second element, which I also spoke to you that we've also been dialing up significant investments in our F&R category from a BMI line, whether it's really investing behind nutrition while the gross savings continue to be healthy. We've invested behind our packaged foods. We've invested behind our BMI in the category. And we're also starting to invest behind some of the capabilities for future. So the combination of that has really meant that, from a segmental perspective, we have seen a bit of a dip in F&R. But as an important comment that we make is that, it's important to make that investment. And I think if you get the right volume trajectory growing, which we are, I think we'll be well positioned to really pull back margins.

Important to understand that these are inflations, which have never been experienced in these categories over a decade. And this is exceptional. And we have got enough of history to say you don't go and price all of that. You lose consumers, you lose the franchise, getting them back takes much longer and seriously expensive. And it's worthwhile being calibrated, taking a bit of a knock in margins, managing it in your portfolio and getting that growth trajectory going on. And that's exactly what we're doing.

Q- Avi Mehta ***Macquarie***

Sir, I appreciate that. Let me rephrase the question. Is it possible for you to give us an impact of the investments that we would have in this? Because as you alluded that some of these investments will continue, which is where I'm coming from.

A- Srinivas Phatak ***Hindustan Unilever Limited***

We don't start to dissect some of them at a category line level. We haven't done that, and I don't think we need to do that. Rest assured, we know how to protect the business model and we will. And if it means a quarter or 2 of slightly subdued margins, don't worry about it. We know exactly how we are playing this game.

Q- Avi Mehta ***Macquarie***

Fair enough, sir. Lastly, just a bookkeeping bit. When you highlight the 5% odd growth that we would have seen in the Nutrition business on a 9-month basis, we are looking at the 9-month equivalent for the INR 4,542 crores sales number that we had shared in the GSK presentation. Is that understanding correct, sir?

A- Amit Sood ***Hindustan Unilever Limited***

On this front, what you need to know is we are talking only domestic business. And the GSK reported numbers also included the exports business. Hence, it will not be like-to-like comparison. And looking at 5% growth on base period reported numbers, and then arriving it for the reported numbers for HUL Nutrition business should be.

A- Srinivas Phatak ***Hindustan Unilever Limited***

So our exports goes into our subsidiary, whereas what you see also here is on the stand alone. If you can connect with Amit, he will be to help.

Avi Mehta ***Macquarie***

Sure, I'll take this off-line. No issue.

Operator

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

Percy Panthaki ***IIFL***

Team, congrats on a good set of numbers and, Srini, congrats on your promotion. Basically, my question is on the categories impacted by COVID. So, if I look at how it started off in Q1, basically, Skin Care was the worst affected, 40%, 50% down. And now it has become almost flat. Whereas your detergents business is probably a couple of percentage points down. So today, Skin Care, on a Y-o-Y basis, is growing better than detergents, which to me was a little bit shocking to see this data point. So I just wanted to understand what is it that is constraining the detergent growth which is clearly a category affected by COVID, but also, I would guess a category less affected by COVID than what Skin Care is.

Sanjiv Mehta ***Hindustan Unilever Limited***
No. I think, Percy, you have missed a very important point, which is the winter portfolio and Skin Care. Yes, winter portfolio went up majestically with the cold wave happening in most parts of the country.

Percy Panthaki ***IIFL***
Okay, so adjusted and that's the Q2 to Q3 delay which happened, that is the thing which is sort of causing. Approximately, what would be the impact of this change in phasing of sales from Q2 to Q3?

Srinivas Phatak ***Hindustan Unilever Limited***
So Percy, look, we've never split up our winter between month and quarter. So I'm not going to do that. Look, I'm also seeing a bit of effect coming through in January, which we never used to see earlier. So I think the whole picture is when we get to then start to see the full season, which I think we'll get a better handle around mid-February, yes, because the sales start somewhere between August-September. And this time, given the intensity of the winter, we are seeing it go a bit further. So perhaps it's something we can revisit at a later date.

The other element important to understand, Percy, is there is also a bit of a pent-up demand. We underestimate the need of consumers wanting to look good and feel good. So call it a bit of a lipstick effect or call it whatever, with lockdowns coming off, we are also seeing a significant improvement in categories such as Colors and Lakmé. The first instance is even in some of the social gatherings, you've now started to see a big step-up and people are meeting. People are wanting to look good and feel good. So there's a lot of hair products in consumption picking up. The negative growth in Lakmé and Colors have come off at a dramatic pace. To be honest, the last 3 months, has been a big pullback. A lot of laundry. Again, I think what happens with our laundry is the size and the magnitude of our business means that we are addressing the needs of all consumers, premium, mid and mass.

While premium has continued to be robust and continues to grow well, at an aggregate, if I need laundry to move -- because end of the day, it's a sizable part of my business, I need a lot of rural to come back in. I need a lot of consumers who consume Surf Easy Wash at INR 10 to come back in. And they come back in when schools, colleges and offices start to open. So multiple ways to look at it. We are indeed in strange times. Give it a quarter, and I think you'll start to see a much better reflection of where the underlying demand is.

Sanjiv Mehta ***Hindustan Unilever Limited***
Yes. And we are very pleased with the strength of our laundry portfolio. And it is still -- even now, the volume shares are looking very robust. I'm very confident that as people start moving out, laundry will come back to its growth patterns, which have been fabulous over the last several years.

Percy Panthaki *IIFL*
Understood. Second question is on margins. And maybe you will feel it's a rather unfair comment because this is an exceptional year, but you typically sort of used to have this sort of guideline that we would grow more margins modestly on a full year basis, which obviously, in the beginning of the year, only you said that this guideline will not apply for this year. But now that you've seen demand, except for a couple of products to come back so strongly across all product categories, what is it that is now holding us back from taking price increases where necessary? And a corollary to this question is that since this year, we have missed out on the margin expansion. Next year, would you sort of look at a slightly higher than normal margin expansion to make up? And on a 2-year basis, the run rate would be more or less equalized or that doesn't work that way?

Srinivas Phatak *Hindustan Unilever Limited*
It doesn't work that way, Percy. Firstly, look, yes, demand is looking good, demand is picking up. But 4 months ago, 6 months ago, the picture was quite difficult, and you know that very well. Sometimes, I think we just miss how fast some of these changes can happen and how important it is for one to be calibrated in the way you manage this. And I think both are important. If you start to see the inflation which has come through in categories such as skin cleansing, and it's an evolving picture or theme, these are the kinds of inflation which are say, 50%, 60%, 70%. We haven't had these kind of inflation for many, many years.

You can price in the short term, everything looks good. You'll get price growth, you'll maintain margins, and you'll structurally lose your consumers because of the affordability issues. And that's something clearly we don't want to do. And therefore, we have been calibrated, but we will price, yes? It's not a question of saying we will not price. And actually, better word is judicious rather than even being calibrated. So, we are continuing to look at opportunities. We are continuing to price. And we will do that.

At the same time, we are also significantly investing for growth. And if you see our model starts to work, when the full portfolio starts to play, that means I have Home Care grow, I have BPC grow and I have F&R grow. So without getting ahead of ourselves into 2 years and trying to make it up, the model has always been of a profitable volume growth. Now you would have seen that when the equation works well for us, in years, we have had margin expansions, which have been even upwards of 200 basis points, significantly ahead of what we wanted to do so much so that all of you started to ask is what does modest even mean for us? But then there are years and quarters where the equation doesn't hold.

So suffice to say, we want to focus for the next couple of quarters in capturing growth, being sensible, and if it means a little bit of margin dilution from where we are on a sequential basis, it's not bad, at 24.5% EBITDA margin is very healthy. But when we start to see that growth trajectory, our ability to dial up margins, I mean, we've got plenty of levers. So, leave it with us. And then we will come back to that modest, whether the modest will cover 1 year or 2 years, let's start to talk about the next couple of quarters. Because for us now, I think it's getting the growth trajectory going, with a sensible business shape, I think that's the model that works very well. But rest assured, profitable volume growth is at the centre of where we are. Once we get this period the way we want to navigate it, we will come back to our plans of competitive growth and modest margin expansion.

Operator
The next question is from the line of Rajesh Kothari from AlfAccurate Advisors.

Rajesh Kothari ***AlfAccurate Advisors Pvt. Ltd***
Sir, one question is basically from a strategic perspective. If I look at this quarter, apart from Home Care, most of your businesses have shown now decent numbers. This is unlike FY '18, FY '19 and also first 9 months of FY '20, where growth was a little bit subdued from 7%, 8%, 5%, 9% kind of thing. So do you think that most of the work in progress areas are now getting kind of rectified? It is working fine? So that's the first question.

And second question is that from the organization perspective, from the leadership perspective, I'm talking about division-wise, which are the areas which are the sub micro segments, where do you think the work is yet to be done and it requires probably a lot of efforts to further improve the growth over the next 3, 5 years?

Srinivas Phatak ***Hindustan Unilever Limited***
So, Rajesh, you've covered a very wide spectrum. And I think on the first part of your question, I think we have spent a fair amount of time talking through growth, whether it is through the lens of divisions, whether it is through the lens of health, hygiene, nutrition, discretionary or out-of-home, whether it is through the lens of 7 of our divisions growing in double digits. We also spent enough time explaining some of the dynamics from a Home Care point of view. If you look at the aggregate, I think that starts to give you a good picture in terms of where we are.

On the second part of your question, I thought it was a very wide one. You talked leadership. You had also talked portfolio, and you also talked a horizon of 3 to 5 years. Tough to answer all of them in a results call. I think there are more opportunities -- let me put it this way, there are a couple of parts where we have more work to do. As Sanjiv said, in Oral Care, where Close Up has been doing well, Pepsodent has been a bit of work in progress, Naturals there is a bit of work in progress for us. So that's one cell, I think, we have more work. If you look at deodorant and male toiletries, again, a small part of our business, work to be done.

But if you're seeing, I think, the bigger opportunities in the whole space of how do we digitize, how do we reimagine HUL? And there's a comprehensive program. And I think if we do that well, it will augur very well and set us up for future. So to be honest, for us, it's less about some of the troubled cells, but it's really about reimagining the company to capture the growth opportunities. And I think that's where our focus is. I know you have some more strategic questions. I would suggest you connect with our Investor Relations team, and they will be able to give you better and more detailed perspectives.

Rajesh Kothari ***AlfAccurate Advisors Pvt. Ltd***

Sure, sir. If I can add this last question, in terms of the margin, just continuing from where the previous analyst left, in terms of the while it is, of course, difficult to increase the price when the raw material inflation is very high. Do you think the initial signs of reducing promotion, which has already started from January, which actually results into the higher margins?

Srinivas Phatak ***Hindustan Unilever Limited***

So Rajesh, there are multiple levers to play margins. There is mix, there is price, there is terms of trade, there is savings agenda, there is overheads. We continue to do all of that. And we will continue to drive them. So there is no one short answer to it. But suffice it to say, we look at all levers.

We are conscious of time. I think we also want to take some questions from the web. Amit, if is there a way I can just access it here to pick them up, please, and I can answer.

Question which came from Vikas Maheshwari as an individual investor. What is the growth ex GSK?

I think we have clarified that excluding GSK, 7% is our USG, 4% is really our UVG, underlying volume growth.

Kirit Kapadia has asked a question, why is the company not taking strong legal action against sebamed?

I think, Kirit, we have taken legal options. We have taken some of them, and we are also exploring others. More importantly, we're also taking many actions to educate our consumers. Because soap is not all about pH, it's about cleansing, and it's also about care. And I think we are doing all the right actions to educate the consumers and communicate our proposition. And you will see more of this going forward.

Hasmukh Vishaya wanted a color on the growth of the Home Care subcategories, and

I think we have covered that, Hasmukh.

Jason Gindodia from AlfAccurate Advisors. Recent pricing actions suggest that focus has shifted from margin improvement to sales growth and market share. Is there a strategic shift for the company's targets? Does this mean that the margins will remain flat for the next 3 years?

I think that we have discussed this in detail. We have discussed this in terms of what is the focus for the next couple of quarters and the rationale for it. I also said that we are committed to a model which is competitive growth and modest margin expansion. But for the next couple of quarters, I think we have a clear priority in terms of getting growth while protecting our business model. And that's an important one I keep reiterating, protecting the business model means time to hold it where we are with a certain flex. We are not talking about diluting big. We're not talking about expanding big. Important to understand that because we are healthy margins. Our model is one of growth which is competitive and growth which is profitable.

Rashmi Uppal from Novozymes has congratulated me.
Thank you.

She's absolutely said more power to team Sanjiv. For sure, I continue to be always invested into this business and proud of this business.
So I absolutely agree to more, more power to Sanjiv and team HUL.

Chetan, I think we have discussed Home Care in detail. Your question again was on decline on fabric care.

Alok Shah from AMBIT Capital. Has sequential rural growth remained at similar levels as it decelerated, would the company focus more on ad spend or channel trade spends and promotions?

I think on the first part, rural has continued to be just going well and has been resilient and has been growing in double digits. I think that has helped so far. With regard to our spends, look, while the principles is in an environment like this, we would want to give value to the consumers. We would definitely want to invest behind our brands. That's always been our philosophy. But we will also make sure that our spends in channels are competitive. And with respect to promotions, we will not flinch if we need to do something to defend. And there are certain promotions, not all of them are bad, they serve purposes of brand growth, channel expansion. And in those cases, we also need promotions. But if I were to give a priority in inflationary environment, I will say value to the consumers and invest behind our brands would be, let's say, our first 2 steps.

Rohit Chordia from White Oak. Could you please spend some time on a few brands that have delivered subpar or below our performance in the past few years, Lux, Lifebuoy, Breeze, Lever Ayush, Citra, Purederm and Pepsodent and what are the learnings?

Again, a great question for me to pick it up, Rohit. A couple of headlines, and then we can discuss more of this, hopefully, and soon when we'll have an investor conference. Lux has actually picked up quite a bit. Lifebuoy has been stellar performance in the last 12, 18 months. So therefore, I think, Lifebuoy clearly with investments behind product, communication, the benefit that it does has done extremely well. Lux, I think we clarified with some of the relaunch going through with some of the product changes happening, has picked up growth. Yes, clearly, there are learnings from Lever Ayush and some of the aspects of Citra and Purederm. We are building that into our innovation pipeline, but happy to pick it up when we have a further discussion in the course of our investor conference.

So there's a detailed question from Susmit Patodia from Motilal on margins on the GSK bit. *Susmit, may I request you to connect with Amit and the Investor Relations team, and they will be able to address it in detail.*

Chirag Shah from CLSA. Thanks, Chirag, for your good wishes. Yes, most of the, hopefully, questions have been answered and thankful for that. It's heartening to see 3.4 lakh onboarded on Shikhar and 6x increase in average. Where do we go from here given the SBI tie-up would have multiple incentives? On ground, has SBI helped gain acceleration in retail?

So big opportunity if you are able to onboard more stores into Shikhar, big opportunities are able to drive adoption. Clearly then starts to help us get a better demand signal, gets us to service the demand within the certain periodicity, addresses the needs of the retail shop in terms of space and capital.

The SBI tie-up is an important element and a leg for us. So in the last couple of months, we have done a lot of work with SBI in terms of getting the technology right, in trying to make it simple and seamless for a retailer. It's important that a retail shopkeeper is not the same as you and I. So therefore, there is elements of speed, there are elements of simplicity.

We are piloting in a couple of cities. The traction is picking up, but definitely more to be done.

And once we have the solution come through well, it will definitely aid Shikhar. It will also definitely aid growth.

Just a clarification for Mihir Shah from Nomura. Just a clarification on GSK SAP. This was expected to conclude in Jan-Feb and GSK's portfolio was to get access to its distribution. If you can throw light on where is this in this journey and what percentage of benefits have been captured.

So I think I covered some of this in detail in reference to a question from Warren from Barclays. As far as the IT integration is concerned, we have 2 important phases. Our phase 1 happens in February when we do the first transition to the SAP system of the financials and the operations. And in the middle of the year is when we will actually start to bring in the full suite of the CD solutions. Because CD solutions have bolt-on solutions and cover the whole aspects of coverage and assortment and data and analytics, they come in on board. So that will happen towards the middle of the year. In parallel, we are working through our full distributor strategy and multiple levers will start to play out as we move into the second half of the year.

If I now look at Amit Purohit. It's heartening to see launches in the premium segment. Could you please provide some insights into the economy brand in each of these categories since rural is witnessing a strong growth after many quarters?

So I think Amit, the good news here is that we've got a very robust portfolio, which actually covers the full segment, whether it is from a price perspective or whether it's benefit. And therefore, if you see, I also spoke about some sachet offerings coming in Nutrition. We also talked about a big focus on our Shakti channel. There is also a big focus in terms of rural activation and the assets that we have created. From a portfolio perspective, we continue to always look at a pack price architecture and we continue to introduce formats which are more amenable for rural. In a manner, we are blessed that in most of our portfolio, I think we are well positioned there. I think if we continue to execute it well, we will start to see benefits. Having said that, we continue to look at opportunities.

Premium is an interesting space. I think that's important to capture. Health, hygiene, nutrition is an important space and a space to capture.

Mihir Shah from Nomura. During lockdown, there were many cost savings like travel and logistics, have these costs started to come back? Any structural cost savings ex GSK that we can continue?

So Mihir, many aspects to it. Travel, logistics are some aspects. So obviously, we're not spending back at those levels. COVID also brought a lot of on costs because of safety, health, hygiene. Hopefully, with cases coming down, some of those costs will also start to come off. And to be honest, we would like to invest back in some of the travel and logistics for our people because we need more feet on street. We need more of our salespeople on ground to capture the demand.

And as far as savings is concerned and again, we need to invest, we had a lot of reimagined HUL capabilities. As far as savings is concerned, I think we've continued to run always a comprehensive program, one of the best within Unilever in terms of driving synergies of what was called as Project Symphony. I think that continues to give us a lot of joy and use. Our scale gives us lots of benefits. So our ability to use data and analytics gives us lots of benefits. I think a combination of all of that is that, look, it's a way of life for us, like we think about brands, like we think about channels, the same way we think about generating the fuel for growth. And we continue to use all of this. And as we said, look, once we get a profitable volume growth model enabled for fuel for growth, I think that's when our magic of competitive, responsible, profitable and sustainable growth happens.

So broadly, that is where we were. So given that we are closer to 7, I'd hand it over to Amit to try and bring the call to a close.

I'm sure we have addressed most of your questions. This time, we actually made a deliberate effort between Sanjiv and I to cover many of them upfront. And having said that, if there are questions which are still remaining with you, do reach out to Amit and our Investor Relations team. And they will do their best to answer them, please. Amit, over to you.

Amit Sood ***Hindustan Unilever Limited - Group Financial Controller & Head of IR***
Thank you, Srinivas. With that, now we come to the end of Q&A session. Before we end, let me again remind you that a replay of the event and the transcript will be available on the Investor Relations website in a short while, and you can go back and refer to it. A copy of results and presentation, if not with you, is also already available on the website, and you can go back and refer to see it.

With that, we'd like to draw this call to a close. So thank you, everyone, for your participation, and have a great evening ahead. Stay safe, stay fit. Thank you.

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