"September Quarter 2012 Conference Call of Hindustan Unilever"

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Moderator: Very Good Evening, ladies and gentlemen. I am Sourodip Sarkar, the moderator of this call. Thank you for standing by and welcome to Hindustan Unilever Limited September quarter 2012 earnings call. For the duration of presentation, all the participants' lines will be listening-only mode, and we will have a Q&A session after the presentation. I would like to now hand over the conference call to Mr. Dinesh Thapar. He's the General Manager for Investor Relations. Over to you, Mr. Thapar.

Dinesh Thapar: Thank you, Sourodip. Good evening and welcome to the September quarter 2012 results conference call of Hindustan Unilever Limited. We have this evening with us Mr. Nitin Paranjpe, CEO and Managing Director, and Mr. R. Sridhar, CFO, on the call, from the HUL end.

We will start the presentation talking about the September quarter results which Sridhar will take us through, and then we will have Nitin share his perspective on the business performance, which will be followed up by a question-and-answer session. Now, based on the feedback that we received from you the last time around, we have switched the technology. There are two options which will be new to you this time around. You will receive an audio feed through an audio line, which is your telephone, and you could also receive it through your laptop. If you therefore choose to use the audio line, I will recommend that you put your laptop speakers mute, because there will be a latency between the two. The other option that we have for you this evening is the option to be raising questions and posting comments, which you will see appearing on a screen below the presentation slides. I would therefore recommend that you use that option as well.

Before I start the presentation and hand over to Sridhar, I would like to draw your attention to the safe harbor statement included in the presentation for good order sake. Over to you, Sridhar.

R. Sridhar: Thank you, Dinesh, and good evening, everyone. Thank you for joining our September quarter results call. As on this, I'll just start with a brief reminder of our strategy. Will then give you a sense of how the FMCG environment took place in September quarter, and then walk you through some details about our financial results during September quarter.

So as a reminder, compass which guides our strategy, is our strategic framework, that remains unchanged. As we've discussed in the past, it sets direction for us by setting ambitious goals demanding a growth mindset. It requires us to focus on consumers and customers who are imbibing the performance culture and driving speed through our actions. The sustainable living plan is at the heart of our operating philosophy and gives us our purpose, and together we strive to deliver goals that need a four-G criteria, which is Growth that is consistent, competitive, profitable and responsible.

So with that reminder, let me share a couple of words around that business context in September quarter. Clearly the environment remains very challenging. Fast-moving consumer goods markets sustained double-digit growth levels in September quarter. Important to point out that in Soaps and Detergents, a larger proportion of the market growth continues to be driven by price. As we move through the quarter, there are some signs of moderation in volume growth in some of the discretionary categories. For example, in

Personal Products, in Packaged Foods. On the cost front, we continue to see a volatile cost environment. And on the competitiveness front, we have seen a clear step-up in competitive intensity, particularly media intensity. And I'll talk about that a little later.

So the cost environment for sectors, the chart that is coming up on the screen now, we have put out three parameters which are quite important from our portfolio perspective. One, which is crude, which as you can see held steady during the quarter. Forex, that was on an increasing trend, but as we ended the quarter and gone into October, we have seen some drawback. So the Forex situation remains volatile. And in relation to palm oil, and specifically PFAD, we saw some softening, clear softening in September quarter.

So all in all, from a cost and commodity perspective, currency commodities which translate into total cost, we see volatility continue. And it is something, I guess, is becoming a new norm. In this environment, however we performed. I think the summary is that we've delivered a robust set of business results, delivering growth that is profitable and broad-based. Our Consumer Business grew by 16% with a strong 7% underline volume growth. As in previous quarters, growth continues to be led by Modern Trade and Rural channels. However, during this quarter, the Canteen Stores Department channel has adversely impacted our top line growth. From a margin perspective, operating margins improved by 100 basis points, which is a combination of our continued focus on cost efficiencies, cost savings, as well as some judicious pricing; a combination of which resulted in our cost-of-goods sold coming down by 140 basis points. As I mentioned earlier, media intensity had gone up and A&P spend has also gone up by about 120 crores, which is about 70 basis points higher as a percentage of sales. Profit After Tax and before exceptional items, which is sort of underlying and comparable net profit figure, is up 23% while our reported net profit after taking into account exceptional items is up 17%. So in summary, as I said, strong top line growth, healthy margin expansion and a good bottom line growth.

Before we get into each of the segments, just a snapshot of our segmental growth performance, and you can see double-digit growth in all segments. Overall, as I mentioned, domestic FMCG grew by 16%.

Let me now give you a sense of one of the key drivers of growth, which is innovation. As we have said before, innovations and in-market execution are the key drivers of our growth. During this quarter, we continued to focus our innovation on strengthening the core as well as leading market developments across segments. Some of the key innovations which we launched in the quarter are reflected on this chart. And I will talk a little bit more about them as we go through the various business segments.

Finally, before getting into the categories, a little bit of detail around the point I made earlier about media intensity. If you see this chart both in terms of the dark line, which represents the Soaps and Detergents segment, media spend as well as the lighted line which reflects the non-Soap and Detergents segment media spend, the overall spend by the industry in terms of GRPs has clearly moved up in September quarter. Going by our data, this seems to be at the highest level in the last 15 quarters.

Needless to add, we have ensured that our A&P spends remain competitive, our spends have been increased by about 120 crores as I mentioned, and brand investments have been stepped up across all our FMCG segments. At the same time, focus on driving determined market investment continues.

Now, let me come and share with you some details about our individual categories, starting first with Skin Cleansing. Skin Cleansing which has had a very good run of strong double-digit growth continued its strong performance in this quarter. All our key brands grew in double digits, particularly Dove and Pears continued to drive minimization of the skin cleansing category. In Lux, our growth momentum has been sustained while Lifebuoy delivered one of its strongest quarters.

Looking at the segment of tomorrow, which is the liquid part of our Skin Cleansing business, out liquids portfolio growth further accelerated during this quarter.

Moving next to Homecare, Homecare which comprises Laundry and Household Care also delivered broad-based growth. In Laundry, all our brands and formats grew in double digits, with particularly strong performance in the premium portfolio. Surf and Vim delivered double-digit volume growth. And in fabric conditioners, we continue our efforts to drive market development with the launch of Comfort One Rinse variant. In household care, both Vim and Domex registered strong double-digit growth. During the quarter we launched and anti-germ bar variant within Vim.

Coming now to our Personal Products categories, let me start first with Skincare. During this quarter, our Skincare performance, Skincare growth is slightly modest when you compare with the past trends. Within this, we had the strong double-digit growth across Ponds, Vaseline and Dove. Ponds growth was led by Age Miracle at the premium end. Fair & Lovely as you would recollect we re-launched towards the end of the previous quarter. The launched has been well received with good consumer recall on the new proposition of skin treatment. Within this, we continue to see the momentum on Fair & Lovely tubes being sustained. In sachets with the re-launch, we took a price increase from 7 to 8, and consistent with our previous experience of price increase in sachets, we see the stakes sometime to stabilize.

Next to Hair and Oral, there has been a clear step up in the growth of Hair and Orals categories. Hair we saw broad-based double-digit growth. This quarter saw the re-launched of flagship branch Clinic Plus as well as innovation of Hair fall rescue range in Dove. The big news of the quarter is the introduction of TRESemme which is a new brand being added to a Hair portfolio after many years. Conditioners where our role is to really develop the market and build the market continues to grow well gaining consumer franchise. In Oral care both our toothpaste brands grew in double digits, Close-Up was re-launched during the quarter on the proposition of "extra long lasting freshness". And in Pepsodent, both Pepsodent-G and Expert Protection have done well.

Just to give you a little bit more color on the new branch that we've launched TRESemme. TRESemme is a brand that, you may recall, has recently got added on to the Unilever portfolio through the acquisition of Alberto-Culver last year. This brand is having a strong proposition of giving users the power of a salon experience everyday at their home. This has just been launched in September quarter.

Moving on to Beverages where growth was led by Coffee and premium Tea. Within Tea growth was led by Modern Trade. Our top-end brand in Tea delivered double digit growth, while Taza saw a revival in growth on the back of its re-launched during the quarter. Coffee sustained its strong double-digit growth performance both across Instant and Roast & Ground formats. Our premium Coffee with which includes Bru Gold and Bru Exotica continues to grow strongly, and the Exotica range was expanded with the introduction of a Guatemala variant. Alongside innovation, we are also driving activation and leveraging digital to drive connect-to-consumers. This slide gives you an example of a big digital campaign on Red Label which was around consumers calling the film stars and recording their own personal message about why Red Label was not only tasty but also healthy.

Coming on to Packaged Foods, we've talked about our Packaged Foods portfolio having three platforms, Knorr, Kissan and Quality Walls. So Kissan delivered good double digit growth in ketchup in the non CSD channels, Knorr had good double-digit growth in Soup, and in the balance part of our portfolio, specifically Soupy Noodles, actions underway to step up growth. Quality Walls sustained its double digit growth performance, albeit this being a relatively smaller quarter for the Ice-Cream category.

Finally our Water business, Pureit, this business has grown very well in a challenging environment. The consumer durable market is seeing signs of slowdown. We have been strengthening our portfolio over the last several quarters. During this quarter we made another entry into the premium UV segment with the launch of Marvella UV. In the previous quarters we had launched a reverse osmosis offering that continues to do well and the Pureit Advanced which also was launched a couple of quarters back it's gaining strong consumer franchise. We continue to leverage IT to drive front-end execution, to drive growth of our Pureit business.

Just to share with you the financial performances, on detail, and also help you to look at the numbers in a comparable manner, given that our base results included the FMCG exports business which has since been spun off into 100% subsidiary. So on a comparable basis, our sales have grown by about 17%, margins are up 80 basis points and PAT(bei) up 27%. So summary of this would be a robust performance in our Domestic Consumer Business accompanied with healthy margin expansion.

As many of you had requested, so I would share with you the details of how our operating profit translates to net profit. Other income reflected here is really income from our financial investments, interest income, dividend income, etc. And the significant increase that you see there is a reflection of the substantial increase in our cash base. As far as exceptional items are concerned, we had 44 crores in the base but a much smaller amount in this quarter.

Tax has increased much higher than our profit increase which is consistent with the increased in tax rate that we have talked to you about. As we have mentioned in previous occasions, the effective tax rates for this year is estimated to be somewhere between 24% and 25%. As a consequence, net profit increased by 17% in this quarter. So in summary I think you described this quarter as delivering robust business results with a strong 16% growth in our domestic consumer business underpinned by strong 7% underline volume growth, margin expansions of about 100 basis points on a reported basis, and PAT(bei) growing by 23%. With this, we believe that our strategy which we have talked to you earlier about is on track and delivering results. Since this year also means that we have completed half year of this financial year we thought we will just share with you a summary of our first-half financial performance. And as you can see on the chart coming up on your screen now, we are delivering on our goals of delivering competitive growth, consistent growth and profitable growth. Our growth in aggregate is ahead of markets. It has a good mix volumes and price, and we have expanded our margin by 140 basis points albeit on a first base. As we have pointed out earlier, particularly June quarter of 2011 and also a little bit of September quarter of 2011 had a benefit in terms of lower base of operating margins, but we now believe the recovery is complete.

Sharing with you the financial results with the comparability of what the results would be, taking into account the demerger of our FMCG exports, you can see that our top line growth is about 18%, operating margin improvement about 120 basis points and a strong PAT(bei) growth of about 38%. The reported numbers of course are slightly different. So in summary competitive consistent and profitable growth. Earlier during the day, the Board of Directors reviewed and approved the results and also declared interim dividend. The Board has decided on an interim dividend of Rs. 4.50 per share which compares with Rs. 3.50 per share for the financial year ending March '12. The interim dividend along with the dividend distribution tax will result in an outflow of Rs. 1130 crores. At the same time, the board, in addition to the interim dividend, also declared a special dividend of Rs. 8 per share. This has been declared taking into account the strong track record of profit growth and tax generation, as also looking at the healthy position of our balance sheet in terms of results and cash. The Rs. 8 special dividend will result in a total outflow including dividend distribution tax of Rs. 2010 crores.

Just to close, a few words on what is our perspective of the environment looking ahead. As we expect on various occasions earlier, the medium to long-term growth potential of India, from a consumer goods perspective, FMCG perspective, is very positive. The consumer demand drivers, both in terms of size of population, growing income levels and the relatively low per capita consumption, all of these drivers remain intact. At the same time we see opportunities from emerging trends in terms of consumer habits and behaviors. Having said that, we are also conscious that in the near term, the environment will continue to be challenging. Inflationary pressure will be there on consumers, and we are therefore committed to driving our strategy even harder to deliver growth that is competitive, consistent, profitable and responsible. So with that, I would like to pass on now to our CEO, Mr. Nitin Paranjpe, so that he can share his perspective.

Nitin Paranjpe: Thank you, Sridhar, and let me also welcome all of you on the call and start off by saying that I am pleased with our overall performance. We have delivered another quarter of strong volume and healthy margin expansion in what continues to be a challenging environment, and despite a key channel like CSD being severely impacted in the quarter. Against the backdrop of high inflation and continued economic uncertainty, FMCG markets by and large have shown signs of resilience, sustaining levels of double-digit growth, though with signs of volume growth moderating across some of the discretionary categories. And therefore what satisfies me is the consistency of our performance and the fact that for many quarters now, we have been delivering a quality top-line and a healthy bottom-line in tandem. It is a sign that we are driving our strategy with greater vigor, that we are doing the things that are right for our consumers and customers, that we are stepping up our innovations and execution and that we are getting better at managing volatility. At the end, it is all of this which makes us fit to win.

Now, many of you have asked questions about what's going to happen to markets in the near term. Now, you have just heard Sridhar talk about the views in the market as we look ahead. And I would like to get this out of the way so that I can then focus on a few other topics. There is no doubt that the operating environment will continue to be challenging. There will be volatility; competitive intensity will remain high or even intensify. Inflation could create heightened pressures in household budget. All of these are for real. Having said that, the fundamentals of consumer demand continue to remain intact. Though there could be an odd blip as this trend evolves. We live in the world where VUCA is the new normal and it is for businesses to accept this and adapt to the new reality. We are conscious of the near term concern and need to find ways to manage and tide over them. We are not overly preoccupied with what happens in the next quarter. I have always maintained that we don't run this business in a quarter-to-quarter basis and therefore, what is important is that we have a strategy, a clear and a compelling one which provide the sense of direction and purpose, one which guides us and drives us, which we must remain focused on and implement harder, faster and stronger to win the consumers in the India of today and importantly in the India of tomorrow.

Now, over the last few hours, there have been many of you who have sought certain clarifications. These relate to our Personal Products growth and to the impact of the CSD budget rationalization on our business. Some of you have even asked whether we can quantify this impact. Now, while I would normally not do this, given the number of you who've asked this question, I will offer my perspective this time. Specifically CSD accounts for about 6% of our business in totality with varying contributions at the segment level. The impact of CSD on the quarter's growth is about a 120 basis points in volume terms, but the impact is substantially more pronounced in the case of Personal Product segments, almost twice the overall number. The CSD continues to be a large customer for us, and it is clearly a relationship that we value. Therefore, we understand the constraints at which the department has to work, and are working closely and partnering with them to build back their business.

Let me come to the other aspect of our performance which you have asked us to comment on, our Personal Products growth rate. You have heard from Sridhar that the PP segment delivered the growth of 12% in the quarter. There are fundamentally three large categories in our PP business. And let me talk to you about each one of them. In Skin, let me start with Fair & Lovely, our largest brand. You are aware that we relaunched Fair & Lovely at the end of last quarter. It was a big launch with a new proposition around skin treatment. The relaunch was accompanied with a price increase on the sachets from Rs. 7 to Rs. 8. And as we see it, the launch has been received well, with strong consumer recall in the new proposition. And while the sales momentum on the tubes has been good, as expected, it is taking us some time to stabilize the transition to the higher price in the case of sachets. The transition of the impact on sachet pricing is consistent with our past experience that it has taken up to a couple of quarters for the pricing to stabilize. But the rest of the Skin portfolio, Ponds, Vaseline and Dove, all grew in double digits. The sustained performance of the Ponds portfolio also gives me the confidence that in the journey that we are making to build authority, expertise and capabilities in beauty, we are on course.

On Hair, I am pleased with the way the category has performed, given the context that you are all aware of. It has been a good quarter with stepped-up broad-based double-digit growth. There are a range of actions that we have been taking in this category in the recent past. As a result, we now have a portfolio today which is stronger in terms of products and proposition. This quarter has seen a step up in our activity; Clinic Plus was relaunched, the Dove portfolio was expanded, Sunsilk saw a new activation on the back of a new campaign. Most importantly, we launch TRESemme during the quarter. TRESemme as some of you might be aware, was a part of the Alberto-Culver business that Unilever acquired about a year ago. The launch of TRESemme in India is a significant milestone since it has been some time, since we have launched a new brand in the country. And this is clearly an example how we have acted with speed, to leverage the might of the Unilever global portfolio to win locally across markets. I am excited by the proposition of a salon-like experience that it provides and the strength that it adds to the existing Hair portfolio.

In Oral, we have been taking actions to get back to competitive growth, and it’s heartening to see the results that some of our initial actions are beginning to yield. Both the toothpaste brands have grown in double digit this quarter. Of course, one has to recognize that there is more which we need to do, but I am encouraged by the progress that we are making and the directions in which our performance in this category is headed.

Therefore, when I look up at PP business in totality, given the context of the CSD issue and the Fair & Lovely sachet price transition, I am satisfied with our performance. It has continued to be broad based and the momentum has largely been sustained. Let me reiterate that as a business, we see Personal Products as the key focused area and a strong growth driver which is integral to our strategy of winning today and winning tomorrow. Let me end by saying that I believe that our strategy is well on track and we stay strongly committed towards delivering growth which is consistent, competitive, profitable and responsible. That’s all that I have to say. Over to you, Dinesh.

Dinesh Thapar: Thanks, Nitin and Sridhar. With this we will now move on the question-and-answer session. May I remind you this call is only for Institutional Investors and Analysts, and therefore if anyone else from the call has a question, we might like you to get in touch with us with the Investor Relations team at HUL. What I now would like to do is to hand over the call back to Sourodip. Sourodip, handing over the call back to you to manage next session on questions and answers. Over to you.

Moderator: Thank you so much, sir. Thank you all the panelists. With this we are going to start with the Q&A interactive session. So I would request all the participants and the attendees who have joined in the audio, if you wish to ask any question please press "0" and "1" on your telephone keypad and wait for your name to be announced. I repeat, participants who have joined in audio can press "0" and

"1" to ask a question. I would also request the participants, if you wish to ask any question over the chat you can use the chat facility over the web. So, there are a couple of questions that we have in audio. The first question comes from Mr. Sanjay Singh. The line has been unmuted, Mr. Singh.

Sanjay Singh: Hello?

Management: Hi, Sanjay go ahead.

Sanjay Singh: Yeah, sir just wanted to understand, this is on PP margins that PP margins on a y-o-y basis is down about 125 bps. Now, if I am not wrong, number one is CSD sales being lower, where CSD margins would have been typically lower than the normal company margins, the segmental level, hence there should have been some kind of improvement in margins. Also if I am not wrong your Star Plus this thing was off with Star in this quarter and hence there would have been some kind of lower A&P spends. So why is this margin decline, if you can explain it?

Management: I think first thing, Sanjay, thanks for the question clearly you are on a reconciliation mode with a variety of drivers, inputs Star TV, etc. Let me just say one thing which is, we have periodically, regularly, consistently maintained that looking at things from that narrow lens of a quarter is sometimes unhelpful. It is true irrespective of which way the numbers move. As far as we are concerned, PP is clearly a more profitable segment as the margins reflect. And the in-quarter number can vary from a variety of reasons, whether it is linked to innovation, it is linked to mix or other things. The second point I want to make is the assumption that you have that Canteen Stores Department as a segment has a poorer margin is not necessarily correct. So all I would say is that do not get too much into a single quarter. And the assumption of canteen stores margins is not necessarily correct.

Sanjay Singh: Okay, okay but just as a sense, even if you look at the first half, your overall PP margins are lower by 70 bps y-o-y. So should there something to be read or it is only maybe a quarter-on-quarter thing overall…

Management: I think there is nothing to be read, or if I interpret your question, is there any cost for concern. Let me assure you there is no cost for concern at all. It is a profitable segment. It is a segment in which frankly the percentage margin from our perspective is relatively of lesser importance than investing to drive the category growth, both for today as well as for tomorrow. Some of the investments that we drive the segments and build the segments for tomorrow will in the current year potential, even in the next year, not have a commensurate impact on top-line, but in the fullness of time it would be strategically taking us into a much stronger position and being better prepared to win tomorrow.

Sanjay Singh: And in terms of Soaps and Detergents margins I recall last quarter where we had made a good improvement sequentially, you had mentioned that there is some kind of inventory benefits, which was sitting in the Soaps and Detergents segment and hence probably extrapolating those numbers would not be prudent. But, of course, we have now seen a better expansion this quarter, and this is despite a very significant increase in media spends or industry media spends on S&D. So, can you throw some light on this expansion despite inventory benefits last quarter so what is going on, how do we…

Management: Sanjay my response is exactly the same as what I mentioned just a little while ago for Personal Products. If you just replace the word Personal Products with Soaps and Detergents, the principle still remains the same. I urge once again that please do not look at a quarter either way, up or down, it's just… First of all that's not the way we run our business. We run our business for the long term. We want to make sure that we continue doing the right things that will strengthen the leadership of our core, which is sort of winning today, and investing in businesses segments, markets, etcetera, of tomorrow, which means we will be well positioned to continue winning in the future. So just a request, please don't get too focus on a single quarter line number.

Sanjay Singh: Okay, that's it. Thank you.

Management: Thank you, Sanjay.

Moderator: Thank you, Mr. Singh. Well, the next question is from Mr. Abneesh Roy from Edelweiss. Mr. Roy, you can go ahead and ask your question please.

Abneesh Roy: Sir, thanks for the opportunity and congratulation for the good set of numbers. My first question is in the past quarter we have seen slowdown and Packaged Foods, now you are saying some discretionary slowdown even in PP. In the previous slowdown in 2008, was there a slowdown in PP, and if you can tell us how do you read this situation, can this extend to some of the other categories also?

Management: So Abneesh, thank you first of all for asking the question because the way you asked the question, it might suggest that maybe the way I talked about the volume growth moderation may have got misconstrued. So firstly I would to clarify we are not talking about a slowdown to mean that the markets are declining or the volume growth of the market is declining. When I talked about the volume growth moderation, what I meant to say was in certain discretionary categories, in some segments within PP in some parts of Packaged Foods, we are seeing the market growth rates being a little bit slower than what we saw in the previous quarters. So these markets are continuing to grow, both volume and value, but it is just that the growth rates are slightly lower than earlier. So if for any reason my previous comments suggested that markets are actually de-growing, then let me clarify that. Having said that, your question about 2008-2009, I think more about 2009, I think that we did see some amount of slowing down in growth even at that time. But in addition, in 2009, we saw a significant amount of down trading in Laundry and Tea. That is a phenomenon that we have really not seen this time around.

Abneesh Roy: And any insights why the consumer behavior can be so different in different slowdown time horizons?

Management: Well, if I were to just give you a personal viewpoint, first of all, I think, we must expect to see change. I think the times that we live in being so dynamic, during 2009 and 2012, when you have a lap, a sort of time gap, of three years, I think a little bit of change you should expect to see. Beyond that, I think we should have to look at the overall macro-economic condition, what is happening to employment, etc. There are many other factors. It is not, therefore, something that you can see direct co-relation because circumstances are not the same. You should look at what is happening on commodity, this time for example, whereas in 2008, you saw significance inflation in commodities, this time in 2012, you are seeing commodities flattening/softening. So palm as I said in the first few charts, PFAD, in September quarter has softened. So it is not identical situations that we find ourselves in.

Abneesh Roy: Sir, my second question is on the Hair care, we already had a many brands, and after so much time, a brand launch has happened. So is it largely urban-centric, and if you could tell us from a consumer buying behavior, how are you really able to create that segmentation because the price points are not really drastically different from maybe some of the current offerings. So can there be shift from your existing brand to present, and how do you really manage because in skin creams also you see the same kind of… you do it quite well but wanted to understand how do you manage and how large is this opportunity?

Management: So, firstly, I think we are quite exciting with the launch of TRESemme. It is proven mix not just in the United States but in the two other markets where we have taken it to, that is, Brazil and the United Kingdom, it's done very well. It has a very distinctive proposition. One of the important things as you have portfolio is a very distinctive proposition which therefore results in complementarity in terms of what you are doing. The proposition from a consumer standpoint, which offers a consumer a salon-like treatment, which you can get at home, a salon-like Hair feel which you get at home, is a very, very relevant proposition. Most consumers would agree that they get a great experience when they go to the salon. Unfortunately, they can't keep going there regularly, they can't go there every day, it's expensive, but they all agree that that outcome, that experience, is special. TRESemme builds on that, and therefore we believe that as a proposition, it is unique and in a space which has not been occupied in the country thus far.

So, therefore, we feel it is relevant will add incremental values to our business. For sure, there would be some aspects or some parts of the TRESemme business in this, which we get, will come from our portfolio given the fact that we are such a large player. Our job is to make sure that in the way we go to market, in the channels that we drive, in the manner in which activate, we get more than a fair share coming from other competitive brands rather than our own, but that, time will tell. And lastly, when you have something like TRESemme coming in with a fundamentally new proposition, it has the possibility of growing the market *per se* as a result of, which -- frankly a little bit of cannibalization here or there, -- is not as important as the capacity to grow the market, satisfy consumer needs better than we were doing before and overall provide us an incremental value.

Abneesh Roy: Sir, that's very useful. One last question on the Tea segment, we have seen the recovery in the Taaza brand, but if you could talk about the low end of the tea consumption, what are we doing there, because there is lot of competition there and inflation is happening. So any viable option we have at the lower end, or focus will be at the mid and the premium ends?

Management: I think at this moment our portfolio which is with Taaza, Red Label and Taj Mahal which we have got allows us and with 3 Roses in the southern part of the country allows us to straddle the pyramid. We believe that this portfolio and the manner in which we will play with price points, after all different geographies will address us to drive upgradation in the tea market and participate affectively. Lastly I think while we talk about Tea with these three brands, we continue to believe that even within the tea, there is a role for uptrading people and we will drive Tea bags which are very small part of the portfolio, but will be segments of the future, hard over the next few years.

Abneesh Roy: But, sir, how are Tea bags growing versus the other market players? Any sense on that?

Management: Tea bags are growing many times faster than the overall category except that the current size of the tea bags, in terms of the contribution to total tea, is very small. It is in the very, very low single digit at this moment. But you would have noticed that over the last few months we have dramatically expanded the range of Tea bags and offerings that we have got. We now have a range of not just classic tea bags which are black tea but a range of flavored tea bags which we have got; we have the range of green teas that we have got, we have got also flavored teas from western flavors, etc., and therefore we really have quite an impressive range. Over the last few months, we have started developing a market development model, and we will now consistently be deploying this model over the next few years to grow the size of the Tea bags markets as we move forward.

Abneesh Roy: Okay, Nitin. Thanks for this, and all the best.

Management: Thank you so much.

Moderator: Thank you, Mr. Roy. Well, the next question is from Mr. Richard Liu from JM Financials. Mr. Lieu, you can go ahead and ask your questions, please.

Richard Liu: Hi, thanks for taking my question and congratulations for good result. You know, I am coming to the slide 10 where you talked about media intensity, I was a little taken aback with the sharpness of the move especially in S&D form about 85 index to about 118, if you could just show some light on what’s the source of this kind of a sharp move, I mean who are these guys who are contributing to this increase intensity?

Management: So, again, firstly I think what you have notices is absolutely correct. It has been a significance increase, but once again we shouldn’t ever get carried away by what happens in the quarter. That's I think the first point I would make. Some of it is simply a level of activities which are going on between us and other players in the market. The other aspect is, if you recollect the next several quarters ago as when costs were going up and commodities cost were increasing, we had seen a moderation in trend that people were managing, the overall shape of their P&L. I think we have seen softening of PFAD, which is vegetable oils, etc, in the marketplace and a plateauing in terms of what is happening to crude. So I suspect it is a combination of a slightly more benign cost environment which we have seen in this period, competitors and the various activities and innovations that they might have had, which has led to this outcome. We have always maintained that we will watch this carefully. And you would have noticed that despite these increases which we have taken place, we have managed to stay competitive. We have a way by which we are able to track the media intensity at a period of a week and two weeks and be able to correct our plan as we move forward, as a result of which, unlike previous quarters, our spend this quarter have moved up by 70 basis points, from 11.8 to 12.5, to remain competitive. How it pans out into the future, time will tell. But you can be certain of one aspect which is our principle of spending behind the A&P will remain unchanged. It will be a function of our innovation intensity and the needs of our business, and making sure that relative to the others we remain competitive.

Richard Liu: Okay, if I can just go a bit out of tangent, do you see this somehow -- the intensity of the S&D media spends somehow co-relatable in a margins you make on S&D, and related to that does this phenomenon of media intensity adjusting itself up and down sort of put a natural gap to the margin that you could perhaps make on these segments?

Management: Richard, in general we have consistently stayed away from trying to give any kind of future guidance, whether it is on top line or A&P or margin. Therefore, very, very difficult to say what is the outlook for it, has it reached the ceiling, is there more room to play, etc., is something that's really very, very difficult to pan out. I would just verge once more that we just don't look at the one quarter and throw any conclusions on any aspect of the performance.

Management: I think just in addition to what Sridhar had said the only comment that I would make is to remind you of the goals that we have set for ourselves which is to find ways and business models to grow our business in a way that is competitive and profitable, which means modest and consistent increase in operating margins. We do not believe there is any reason for us to feel that, that cannot be delivered.

Richard Liu: No, don't get me wrong. I wasn't asking for a guidance, but what I meant is that if you look at -- probably if you study perhaps your own mindset as a businessman and also your competitors' mindset, do you get the feeling that maybe the kind of margin that you are earning right now is fat enough for competitors to really start aggressive again such that the dynamics of the competitive situation plays out such that you may not really be able to go much beyond this level of margin, because either you will face raw material cost pressure or people will spend overtly on ads and promotions.

Management: So I think I understand where you are coming from, Richard. It's difficult, but it's a hypothetical question in terms of how things will move. You should be sure of one thing that we will not compromise our ability to deliver competitive growth and, therefore, our brands will remain competitive; that's our primary objective and we will make sure that we do that and find ways to ensure that we deliver on our overall goals of getting competitive and profitable growth in a consistent manner. And from time to time there will be different levers which will come into play and we will bring all of them to bear to achieve these outcome.

Richard Liu: Sure, thanks for that, very useful. If I can just push in one more; if I were to look at the absolute quantum of other expenditure, is there some kind of an investment mode, something that you all are investing and again which led to this high increase or is it just something quite natural?

Management: So, Richard, thanks for that question because this may also be there on some other people's minds. The other expenditure line that you see really has two components, one of which is clearly driven by size of business growth. So for example things like freight or things like processing expenditure, etc. The other aspect is that in relation to certain costs that we would incur in terms of the services, and you see that in our income, other operational income, the income through services, there you see the revenue from those services but the corresponding costs, some of them come into salaries line, some of them come in the other expenditure line. So it not just a function of turnover but it is also turnover and the other operating income.

Richard Liu: Okay. Got it. Right, thanks a ton for that and wish you all the best.

Management: Richard, thank you. Just to say, while Sourodip comes around, just to say, there are a couple of question, I think, that we have got through the net and we will certainly answer them at the end, as we finish the questions that are coming live from the call. We will certainly answer those questions as well. Sourodip, over to you.

Moderator: Thank you, sir. Thank you, Mr. Richard. Before we move on to further questions in the audio I would request all the participants once again, if you wish to ask any question please press "0" and "1" on your telephone keypad and wait for your name to be announced. I would also request the participants you can always use our chat facility over the web if you wish to ask any more question. So the next question on line we have Mr. Vivek Maheshwari from CLSA. Mr. Maheshwari, your line has been unmuted. You can go ahead and ask your question please.

Vivek Maheshwari: Thanks for taking my question. Three questions, first clarification on CSD again. In the first half of this calendar we had a number of players complaining about slowdown in CSD, etc. And if I refer to my notes for the previous quarter, which is first quarter, you categorically mentioned that CSD is around 6-7%, it is not material and there is no slowdown at all that you were seeing at that time. This is exactly the time when all other players in the industry were seeing a slowdown. Why is that the CSD impact is coming to you with a lag?

Management: Well, to be honest, Vivek, that's a question that is difficult to answer but just to comment on both the June quarter and the current, it is indeed I think the right position that at the time when we had our June quarter results and we announced our results, in June quarter we did not see a slowdown in terms of CSD whereas in September quarter the reality is, and I think Nitin gave some specific information in respect to that, that the CSD channel has actually declined in sales for us. Now, why this comes with a one quarter lag to us is very difficult to answer. Anyway it is not great news. So coming a little bit later is not such a bad thing.

Vivek Maheshwari: Okay. No formal guidance from you, but any sense how do you see this? What is your assessment for the coming quarters?

Management: So CSD is an important customer for us and we continue to work with them while -- yeah the decline is never great news. We also understand that they are having their own constraints and we are working with them to see how do we best manage, they are important customer, and we will continue working together. We do not have any formal guidance from them or otherwise in any case. We don't give any guidance as you know.

Vivek Maheshwari: Understood. Okay. Second thing is on the growth moderation that -- the point that you made, in the past quarter or I think two quarters you have been talking about Packaged Foods, now very specifically if you strip off the impact of CSD and the Fair & Lovely sachet price hike that you have taken, would you still say that excluding this are you still seeing a slowdown or whatever growth moderation or if you adjust for this impact to the fact that consumers with the lag will -- the price hikes will be absorbed in the market. I mean how do you see that? Is there genuinely some moderation or you would say that the sachet impact as it kind of gets into the market and it is absorbed; the things are quite okayish on the ground?

Management: So I think I want to just distinguish between two things as I answer this question. The comments which we made in terms of slowdown in discretionary categories or some slowdown, some moderation, is basis what Nielsen is reporting. So that's I think point number one. The comments that we made in terms of CSD and Fair & Lovely sachet, if I were to say keeping that in mind, keeping the fact that CSD has such a big impact, and in categories like personal products impact has been substantially higher, and the Fair & Lovely slowdown, then we feel quite pleased with our growth and do not see any broad-based slowdown in the Personal Products categories.

Vivek Maheshwari: Okay. And on the Fair & Lovely thing again, so if you strip off this impact, you would say that growth rates are intact or you will say that there is some moderation?

Management: I will say growth rates are in line with our expectation in terms of both PP and Skin Care if you take the context that was talked about. And obviously they are more details that Nitin also provided in terms of the other parts of our PP portfolio.

Vivek Maheshwari: Okay. And the last bit is on other income. Operating income is up some 65%. So is there any one off over here or what has contributed to this kind of growth?

Management: If we are talking about the other operational income, it is influenced by the amount of activity that takes place in India in some of the regional hubs that operate out of India which meet the needs both for the Indian business but also some of the business units of Unilever outside of India. To the extent that the activity levels are gone up, there is a higher level that is invoiced. So that the growth invoicing value comes in to the other operating income, the cost then feed through, as I had mentioned in response to an earlier question, the cost feed through in the salaries line as well as in the other expenditure line.

Mr. Vivek Maheshwari: Okay. And, specifically a few quarters back there was an impact of mark-to-market which was getting recorded as a part of other operating income. Is there anything substantial or noticeable over here because of MTM?

Management: Nothing material, nothing material.

Vivek Maheshwari: All right. Okay, thank you very much and all the best.

Management: Thank you, Vivek.

Moderator: Thank you, Mr. Maheshwari. Well, the next question is from Mr. Varun Lochab from Religare Capital Market. Mr. Lochab, you can go ahead and ask your question, please.

Varun Lochab: Yeah. Thanks for the opportunity. Sir, my question was related to the S&D segment. Can you just throw some light on how the category growth is performing, and are you significantly out pacing the category right now? And also some sense on the mix as you said for the year portfolio it seems most of the premium brands have outgrown, the mass brands. So is there a premiumization which you are seeing in those in that category? And thirdly given the way some of the raw materials are softening, like palm oil and all, how are you seeing the reaction of the regional players in this category?

Management: So, Varun on Soaps and Detergents growth, we have grown very robustly and we believe that our growth is ahead of market growth. That applies to both Soaps as well as the Detergents. Premiumization is a trend that we talked about, and to be honest that is a trend that we believe will be secular if you look into the next three-to-five-year horizon. So, frankly speaking, premiumization is not a surprise for us. Within our portfolio, yes, our premium brands, whether it is in Soaps or in Laundry have grown faster. Coming and talking about the raw material impact, we have certainly seen a significant softening in PFAD and we would expect therefore some more local players to become active. We would also expect that some of the players might decide to step up their advertising spends as a consequence of a softening of the commodity price. From our perspective, we are very clear we will remain competitive in the market place, and as we watch certain moves takes place, we will make sure that we do not compromise on our competitiveness.

Varun Lochab: Okay. And, sir, secondly on tax rate, you mentioned for this year it will be between 24 to 25%. Any guidance for next year like how much will it inch up…?

Management: Varun, broadly about 200 basis points higher in the next financial year is what we would expect it to be. And if you go into financial year ending March ’15, which is 2 years from now, depending on what happens with direct tax code etc., we would expect it to be in the range of 30-33%.

Varun Lochab: So, you will be almost going to the full tax?

Management: More or less.

Varun Lochab: Okay. Okay, thanks a lot. That’s it.

Management: Thanks Varun.

Moderator: Thank you, Mr. Lochab. The next question is from Mr. Paresh Jain from Max Life Insurance. Mr. Jain, you can go ahead and ask your question, please.

Paresh Jain: Thanks for taking the question. Just one clarification. Has there been a restatement of previous year's, I mean Q2FY12 PP segment’s revenue?

Management: Yeah. So, there is a small restatement in terms of one of the activities which is more in the nature of distribution which has moved from PP to others. That is correct.

Paresh Jain: Okay. And what is that activity, I mean if you can just explain that further?

Management: This is the distribution that we do of products which are made by our joint venture company which is the joint venture with Kimberley Clark. And as from time to time we sit and review the classification, this being a distribution activity in discussion with our auditors it was felt more appropriate that this is not your core PP segment but really a part of others. And therefore that is a reclassification.

Mr. Paresh Jain: Okay. So others mean the revenue of 279 odd crores, right?

Management: Yeah, the other is the segment. That is correct.

Paresh Jain: Okay. Because I think that revenue has fallen off from 449 crores to something at 279.

Management: That, Paresh, is primarily because the FMCG exports business has been transferred to 100% subsidiary. The court order of that was received only towards the end of the financial year ending March'12, to date was 1st April 2011. I am sorry but for one more quarter the issue of comparability will continue. March Quarter '13 onwards the numbers become comparable.

Paresh Jain: Fine, okay. Thanks a lot.

Management: Thanks Paresh.

Moderator: Thank you, Mr. Jain. The next question is from Mr. Ritesh Sinha from MK Global. Mr. Sinha, you can go ahead and ask your question. Your line has been unmuted.

Ritesh Sinha: Thanks. My question has already been answered. All the best to your, sir.

Management: Thank you.

Moderator: Thank you, Mr. Sinha. The next question is from Ms. Sagarika Mukherjee from SBI Capital. The line has been unmuted, Ms. Mukherjee.

Sagarika Mukherjee: Thanks for taking my question. Sir, I just wanted to know if you could quantify the growth of 22% that you have got in S&D segment into price and volumes, or if you don't want to quantify it if you could tell me the growth in that segment has been like in low, the volume growth, like low single digit or higher than that, if you could just give me some directions as to how much it was the volume?

Management: Thanks for the question. You are right that we would not like to get in to specificity but just to give you a sense, it is a good mix of healthy volume growth and price growth, with price growth being higher than volume growth.

Sagarika Mukherjee: Okay. And sir just wanted to understand like, was there any pricing taken in the first half of this year, any pricing action in this year itself?

Management: In the financial year, yeah, certainly. There would be some pricing action that we have taken across some categories in the first half of the financial year. Yeah.

Sagarika Mukherjee: Okay. Thanks a lot, sir. Thank you.

Moderator: Thank you, Ms. Mukherjee. The next question is from Mr. Sanjay Singh from Standard Chartered. Mr. Singh, you can go ahead and ask your question, please.

Sanjay Singh: Yeah. Sorry, just for coming again. Sir, you mentioned that the slowdown that you are talking about is basically from Nielsen numbers. Now, I just wanted to, because we don't have the benefit of having Nielsen numbers, so just wanted to know whether Nielsen has started reporting to a number only this quarter or has it been a more longer exercise, can you give some sense on what exactly Nielsen is reporting?

Management: Okay. So, Sanjay, just to remind that I made this comment about volume growth moderation in a few categories in the context of outlining the market environment in September quarter. So firstly it is not any longer term trend. It is something that we had observed and as the quarter has progressed. It is in a few categories, and that is all that has to add. So if you got the sense that this was a big issue, then let me reassure you, this is just about giving you a little bit of colour about what the market context was, and that is it.

Sanjay Singh: Okay, okay. Just wanted something else on a couple of companies, a few companies which have reported numbers till now this quarter, at least some trend which we got was that the differential between rural growth and urban growth has increased quite significantly where urban growth have come down and rural growth remained steady or maybe has increased or has been the same. So in some cases or at least in couple of cases I am talking about is the rural growth is almost double the urban growth where urban growth has come down quite significantly. So can you share some colour on what has been your experience?

Management: So I do not want to talk about obviously what other companies have reported or said. As I mentioned in my presentation that consistent with the last several quarters the Modern Trade channel which as you know is largely urban-centric and rural has led the growth for us. So in a way we are seeing, if I look at urban being the combination of modern trade and general trade and I look at Rural, we are seeing good growths in both parts of the geography.

Sanjay Singh: And there has been no differential which have increased or any...?

Management: That is I will say more or less consistent with the trends we have been seeing over the past few quarters.

Sanjay Singh: Okay. That's it. Thanks.

Management: Thank you Sanjay.

Moderator: Thank you, Mr. Singh. Well, the last question in the audio queue that we have, that is from Mr. Aditya Soman from Goldman Sachs. Mr. Soman, you can go ahead and ask your question, please.

Punit Jain: Hi. Good evening, sir. This is Punit Jain. Sir my question is actually with respect to impact of packaging norms. Now, as these are being implemented, how do you see impact of this on gross margins for the company going forward?

Management: Punit I guess you are referring to the packaging control regulation order revised norm that will come into effect from first November, right?

Punit Jain: Yes.

Management: So we have been preparing for this for the last several months. And I would think that for the most part of our portfolio we have sort of ready in the market place with the revised packs, etcetera. So, on an overall basis we will this make a very material impact one way or the other to a margin? I don't think so.

Punit Jain: Okay. And as per the norms you will start putting these products to market after 1st November?

Management: They are already in the market. For company of our size and our portfolio and the length and breadth of the country, it is not possible to time it to be exactly in the market on 1st November. So something that we have been, we have sort of implemented over the last couple of months and therefore I think most if not all of it will already be in the market.

Punit Jain: Okay. And second thing is that you mentioned that the tax rate for the year could be between 24 and 25%, for the first half, it is 23.3%. Could this mean that the tax rate for the second half maybe between 25-26%?

Management: Okay, Punit, I think you are good that you asked the question. When I talk about the tax rate guidance of 24-25%, 200 basis points higher in the next financial year and so on, these are tax rates without exceptional income. So it is tax rate on the normal profits. Obviously when you have exceptional income like a property sale where you have capital gains which is at lower level, that can change. So let me just clarify for the benefit of everyone the tax rate assessment that we gave for the current financial year of 24 to 25% is on the profit before exceptional items. And on the same basis we estimate about 200 basis points increase in the financial year ending March '14. And as we come into financial ending March '15 it would be between 30% and 33% depending on what happens with direct tax codes etc.

Punit Jain: Okay. Okay thanks a lot.

Management: Thank you.

Moderator: Thank you, Mr. Punit. So there are no more questions in the audio. So I would request Mr. Thapar to please take it over from here for the web questions and the final remarks.

Management: Okay. Thanks. We have got a couple of questions on the web. One is from Latika which is about the CSD. In fact I think we spent quite a lot of time and I have also clarified what happened in June quarter. So hopefully that has been addressed. There is a second question from Latika about competitive activities, stepping up, some moderation in discretionary categories, therefore what scope do we see for further pricing growth. I think, Latika, the situation is that clearly the market context is challenging. From our perspective we do not look at a line item of price or A&P or anything else as a single line item. We look at all the levers to ensure that we remain competitive in the marketplace and continue to offer consumer value. So it is very difficult to give an overall comment. We will have to of course wait and see what pans out both from commodity perspective, currency perspective, what happens in the marketplace. So nothing more that I can add at this stage. Lastly I think there is a third question from Shailesh about the percentage of Modern Trade in our business. Modern Trade in our business is about 15% of our turnover of our consumer business. I think those were the only three questions that are there on the web. So, Sourodip, are there any other questions on the audio line?

Moderator: No, sir. There are no more questions.

Management: All right. Thanks, Sourodip, for moderating that session. I think with that we would like to bring the call to a close. Just so that you know, an audio-visual replay of this event will be available on our Investor Relations website. You can always go back and refer to it. With that, I would like to bring the call to a close. Thank you, everyone, for your participation and have a great evening. Bye.

Moderator: Thank you so much, all the panellists. That thus concludes our conference for today. Thank you, all, for participating and you all may disconnect your lines. Thank you so much.