Conference Call Transcript

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PRESENTATION

Hina - Moderator

Good evening ladies and gentlemen. I am Hina, the moderator for this conference. Welcome to the Hindustan Unilever Limited earnings call. For the duration of the presentation all participants will be in the listen-only mode. After the presentation the question and answer session will be conducted for all the participations on this call. Present with us on the call today is the senior leadership team of Hindustan Unilever Limited. We propose to commence this call with opening remarks from Mr. S.C. Srinivasan after which the floor will be opened for the question and answer session. Before I hand over the call to Mr. Srinivasan, I must remind you that the overview and discussions today may include certain forward-looking statement that must be viewed in conjunction with the risks that we face. I now hand over the call to Mr. S.C. Srinivasan. Thank you and over to you Mr. Srinivasan.

S C Srinivasan, VP - Treasury, M&A & Investor Relation of Hindustan Unilever Limited

Thank you Hina and good evening everyone. Welcome to Hindustan Unilever June Quarter 2010 results conference call. We have with us Mr. Nitin Paranjpe, our CEO and Mr. Sridhar Ramamurthy, our CFO. We will start with the presentation of the June quarter results by Sridhar. Nitin will then give his perspective and then address some of the queries which you have raised. We will then have a Q&A session. If you have questions, I would request you to register with the moderator. Please identify your name and organization before asking the question. Before Sridhar starts the presentation, I would like to draw your attention to the safe harbour statement included in this presentation for the sake good order. Over to you Sridhar!

Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Good afternoon or good morning or good evening to everybody on the call. Before we take you through the details of our June quarter results, let me start with a bit of context about the market and environment in which we saw June quarter. Firstly in terms of the FMCG market, the market growth rates have sustained, in fact we have seen a little bit of pickup compared to March quarter; however relative to 2009 the market growth levels are obviously at a much lower level. In terms of the operating environment, we have seen the competitive intensity increase through the quarter and across multiple segments. High food inflation, as all of us know, is continuing and this certainly is not great from the perspective of consumption and as we speak the progress of monsoon which is so critical for economy overall and the FMCG sector in particular, is under watch.

Moving to the highlights of our June quarter performance, the results of which were declared yesterday, our domestic consumer business sustained a strong double-digit growth of 11% underlying volume growth during the quarter. Sales grew by about 8 % in this quarter. In soaps and detergents, we delivered double-digit volume growth underpinned by the key interventions that have been taken to strengthen the competitiveness of our portfolio. Due to the price reduction in laundry, revenue growth was modest. Personal products, foods, and water, all three segments continue to grow in double-digit, driven by innovation. We continue with our strategy of unblinking defence of our leadership positions which is yielding positive results and we remain confident as we look ahead. Our focus on innovation, Brand building and strengthening the various capabilities continue. As I will spend a little time later talking about our A&P spend, you will see, it has been stepped up by 310 basis points. Cost saving programs coupled with effective buying reduced the cost of goods sold by 60 basis points. At the bottomline, profit after tax before exceptional items for the quarter is at Rs.551 Crores, while net profit at Rs.533 Crores was lower by 1.8%, primarily due to higher levels of A&P investments.

Talking first a little bit about innovation which is the fundamental driver in FMCG, let us take a quick look at the key innovations of March quarter which are up here on the chart. We continue to drive these innovations hard in June quarter as well and they had contributed well to our growth in the quarter. Just reminding you of some of the new interventions we made, which we talked about last time. In the case of skin care, we expanded our portfolio with Vaseline Menz and we rejuvenated our facial cleansing portfolio through interventions on Ponds, Lakme and Pears. As a result, our skin care business has accelerated growth momentum and is growing in double digits. Similarly in foods, last time we talked about launch of Knorr Soupy Noodles. I am very pleased to say that this is receiving excellent response and we are in the process of rolling it out nationally. In case of tea, we launched Brooke Bond Sehatmand, a significant presence in the mass market. This is also currently getting rolled out nationally, in fact it is present in most part of the country and it has performed very well. If I come and talk a little bit about the some of the innovations that were brought to the market in June quarter are up in this chart. We have got couple of examples – Rin was relaunched towards the end of June quarter with further strengthening of product superiority. We believe the relaunched Rin is clearly the best powder in terms of the removing yellowness from the garments. Our Fair & Lovely brand was relaunched on the proposition of clear fairness and we expanded our portfolio with the launch of Max Fairness for men under Fair & Lovely. We have also continued with our strategy of investing to build on categories. Comfort Fabric conditioner which was present in a part of the geography in the country, has been rolled out nationally during the quarter. During the quarter, we also launched Sure which is world's number one Anti-Perspirant. So all in all, we continue to invest heavily in new innovations and expanding the portfolio to new segments for the future.

Alongside innovations, we have also focused on building capabilities, last time we had shared with you project iQ which is key intervention in the go-to-market space. This technology provides a complete history of the outlet and significantly enhances productivity of the salesmen making the call. This also provides sophisticated analytics on consumer and shopper behavior. I am happy to share with you that project iQ is progressing well and the roll out is on track. We had also talked about strategy of more stores and better stores. First talking about more stores, we have been increasing our direct coverage in the new markets, newer outlets and also expanding the footprint of our Shakti initiative. This is particularly focused on rural but there is also some expansion of direct coverage in urban. Against ambition of adding 500,000 stores between 2010-11, as of June 2010 we are absolutely on track in terms of the progress. In terms of better stores in June quarter, we had launched an initiative call Project Bushfire which harnessed the collective energy of some 4000 employees who went into the marketplace and converted about 14,000 stores into perfect stores over a period of six days across the country. As the bottom line of the chart says the perfect store is one which has the right assortment, the right visibility and stocks available in the right quantity. This is very important initiative to make sure that at the point of purchase our brands are winning. What have been the results of these innovations and go-to-market interventions is reflected here in the chart in terms of strong volume growth momentum.

Our volume growth has been accelerating during the past few quarters, which clearly demonstrates the positive impact that our various actions have been yielding. We achieved double-digit underlying volume growth in March quater and this has been sustained in the June quarter as well. The volume growth is broad-based and across various segment within our business including personal products which we are very pleased to say has been growing in double digits in volumes for the last five quarters. This volume growth is also ahead of the market as you can see from the chart here. In the aggregate, our volume growth is ahead of the market; however, if you look at the value growth, we have grown ahead of the market in many categories but in the aggregate we are slightly behind, particularly in skin cleansing and toothpaste.

If you look at how are category revenue growths have panned out and some of you would have seen it in the segmental results of advertisement, this chart really talks about where our performance has landed in terms of individual segments. Soap and detergents have grown well in volumes but the laundry price reduction which is also a function of base effect has muted the revenue growth. Personal products grew in double digits largely through volumes. Beverages are at just under 8%, in a market which has been fairly weak during the quarter. Process foods and ice creams grew very strongly around 20% each resulting in a total domestic FMCG growth of just under 7%. Including Water, our Domestic Consumer business has grown just under 8% during the quarter. T

his growth has been delivered in an environment which continues to be intensively competitive. As you can see from the chart, the aggregate level of media investments across the FMCG industry, the level of media investment continued to remain high and has inched up further during June quarter. This is not specific to one or two categories; in fact it is broad based and also reflects the number of new products and innovations that are coming into the market. In this context, we have increased our advertising and promotional spends level by about 310 basis points however, it is important to note how this increase has been deployed. As you can see from the chart, a significant part of the increase in brand support has gone towards building new segments and defending our leadership in existing segments. We have also invested appropriately behind various relaunches and of course maintaining the competitive heat in the market. This is something that we will continue to do. Therefore this translates into a 15.7% of turnover investment in advertising and promotion. There are really four key drivers which we have highlighted. I think you will also see the positive results we are getting in the form of strong volume growth momentum. While the competitive intensity demands that we invest behind our brands appropriately, it is also imperative that we continue to sustain the strong focus on cost savings both in terms of supply chain cost and indirect cost. We can see from the chart that our cost effectiveness program (CEP as we call it) has continued to step up in momentum. This trend has been continuing and in the last year or so we have stepped up the pace. Similarly in terms of indirect or overhead expenditure, we have been making continuous improvement with the index in the last six months being 75% of what it used to be in 2007 as a percentage of turnover. So both on supply chain cost and on indirect we are making very good progress.

Let me talk a little bit about the specific categories. I will start with laundry, where as I said earlier we have delivered competitive growth, with volume growth clearly ahead of the market both in powders and in bars. All our brands have grown well. Wheel delivered double digit sales growth underpinned by very strong volumes riding on the back of the relaunch that we did in the middle of March quarter. During June quarter, closer towards the month of June, we relaunched Rin with a substantially improved formulation and that will strengthen our brands going forward. We also rolled our fabric conditioners Comfort, which was present in part of the geography, has now rolled out nationally. Talking a little bit about the relaunch of Rin, which is a superior product to further strengthen the product superiority with new proposition of “only Rin removes yellowness to reveal shine”. We believe that with the new Rin our product delivers much more superior cleaning and removing of yellowness compared to all other products in the industry. Coming now to look at how our laundry business has performed relative to the market – volumes have grown substantially, as you can see from the top left of the chart with a monthly volume sale per month, which is the average tonnes for a month, now running about 20% ahead of 2009. On the top right you can see the acceleration in the volumes of Rin both in March quarter and June quarter compared to the exit rate of 2009 and all of this means that the HUL laundry business is growing well ahead of the market in the last six months and indeed in June quarter as well. Coming now to Personal Wash, we have retained volume momentum during the quarter. We had spoken earlier about rejuvenating our entire portfolio through the second half of 2009 and that is giving us reasonably good results. Our premium portfolio grew strong double digits and well ahead of market. We launched Rs.20 price point pack for Dove, which makes it now much more accessible to more consumers. We are quite satisfied with the uptrading that we are seeing in the soaps category though we have got a little bit of work to do in terms of one or two other brands in the mass portfolio.

Moving now to skin care where we believe that as market leaders, our clear role is to lead market development and we continue to do that through this quarter. Skin care grew in strong double digits, ahead of the market. As I mentioned earlier, in March quarter we relaunched an expanded facial cleansing portfolio. I am delighted to share that the facial cleansing business in the last six months has sold almost the same or slightly more than what we sold through the 12 months of 2009, so really doubling in size. Pears, Ponds range in facial cleansing are growing well ahead of the market. The launch of Vaseline Menz range is also meeting action standards. In June quarter, we relaunched Fair & Lovely with a new improved formulation and as you see on the next chart, this is how the new Fair & Lovely looks. We are really committed to strengthen our core portfolio and Fair & Lovely relaunch on the proposition of Clear Fairness is a very key initiative. Through the perfect stores program and Project Bushfire, the Fair & Lovely launch was given even more impetus in the market place. As part of this relaunch we also launched Max Fairness for men and the initial response is encouraging.

Coming now to hair, hair business continues to grow ahead of the market and this is now a consistent performance for three quarters in a row. All the Brands, Clear, Sunsilk, Clinic Plus and Dove grew in volume terms. Clinic Plus and Dove delivered good double digit growth and our conditioners business continues to grow from strength to strength, well ahead of the market. I will come and talk a little bit more about hair in the next chart but as far as oral care is concerned it is volume led growth in toothpastes. Pepsodent Brand has been revitalized with new salient advertising to strengthen the Germi-check credentials. Admittedly, our growth in this category is in single digit which is behind the market growth and this is something that we need to improve. Giving you little bit more flavor on hair, as you look in the top left of the chart this is how our hair business and hair volume sales progressed on an indexed basis. You can see how the acceleration has taken place compared to December quarter and March quarter into June quarter. This business is clearly growing ahead of the market and our portfolio, straddling the pyramid, is clearly a strength that we are leveraging. We are also committed to building new segments and you can see in the bottom left of the chart, the hair conditioner business, which started off with one brand, has now been extended into a second brand and in multiple formats, is going from strength to strength. All this is happening in an environment which has seen really heightened levels of competitive intensity as you can see from the indexed GRP spends on media. So both in laundry and hair, which are the battlegrounds, our performance has been very good and we are very pleased with this.

Coming now to our food categories and starting with beverages as I mentioned earlier, the Tea market is fairly weak and growth slowed down in this quarter. In this environment, we have delivered double-digit growth driven by Taj, Three Roses and Red Label. As I mentioned earlier, Sehatmand has been rolled out nationally and its performance is on track. Our coffee business also grew well led by volumes both across conventional and instant coffee.

Coming to Processed Foods, it has grown very robustly in this quarter and really leveraging the successful launch of Knorr Soupy Noodles. Processed Foods delivered strong double-digit growth and profitability was improved on account of savings unleashed from cost effectiveness programs with tight control over indirect costs. Knorr delivered strong growth led by extremely positive response to Knorr Soupy Noodles while soups and meal makers also grew well. Kissan sustained its strong growth momentum in double digits. Annapurna, where we launched a low sodium salt variant continue to grow steadily. Ice creams crossed a very important milestone, delivering more than Rs.100 Crores of turnover in this quarter. This was driven both by our ‘Impulse’ business as well as ‘Take Home’ segments with both the formats driving growth. Swirls’ Parlours which we have been sharing with you over the past few calls continue to expand with the number of parlours, the number I need to pickup depending on which week we are speaking because we continue to add parlours every week, at last count this crossed 110.

Coming to our water business, it continues to grow strongly in volume and value terms. Of course the growth is largely driven by the volume. The superior product of Pure-it gives us pure competitive edge vis-à-vis competitors. As you know Pure-it is the only water purifier which complies with the stringent criteria of safety, set by the Environmental Protection Agency of the USA covering virus, parasites and bacteria removal. We launched Pure-it Compact during March quarter and have now rolled it out across the country into many more geographies. This is at the price point of Rs.1000 but the germ kill effectiveness and the safety standards of Pure-it are the same as the current Pure-it Classic of Rs.2000. We have expanded our retail coverage to cover more than 20,000 outlets and we continue to improve our service levels achieving about 99.5% during June quarter. All in all, a very good performance by the Pure-it business

So, that is a run through on our category performance. Just quickly to take you through the financials which you all have seen yesterday. Net sales grew by 7.1%, as it is shown in the chart. As far as gross margin is concerned, I mentioned earlier that we have improved Cost of Goods Sold by 60 basis points despite competitive pricing in laundry. A&P increased by 320 basis points to support the innovations, new entries in the new segments and the competitiveness in laundry, hair, etc. Our EBITDA margin has remained more or less same but PBIT margin has declined about 180-190 basis points. Profit before tax and exceptional items are down by 4.5%. Profit after tax (bei) is down by c.3% and at the net profit level, we have delivered 533 Crores which is down 1.8%. The exceptional items in this quarter are primarily sale of assets, sale of properties; some sale of investment offset partly by restructuring costs.

So, that was a run through on our June quarter results. Just a word on looking ahead before I hand over to Nitin, our perspective is that we expect competitive environment to be intense and hence we will continue to focus on unblinking defence of our strong leadership positions in our core categories, the categories in which we are present now. We will sustain our competitive growth momentum through bigger and better innovations. At the same time, we will also focus on market development and building new categories through winning with consumers, channels and segments of tomorrow. We will continue to improve execution in the market place and speed to market by strengthening overall organization capabilities. At the same time our efforts on cost management and cash delivery will be stepped up. So with this overview, I would like to hand you over to Nitin.

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Thank you Sridhar and thank you all for taking the time to attend our call today. Now Sridhar has taken you through the highlights of our performance in June quarter and shared with you the financial results. What I propose to do is to give you my perspective on the overall competitive context that we face and some insight into our strategy as we go forward. Overall our FMCG business growth has been sustained in June quarter and we are very pleased with the accelerated volume growth momentum in the business. The volume growth has also been competitive, growing ahead of the market. Our value growth has been a little lower, mainly on account of the pricing action especially in laundry. As we anniversary some of the price correction we made, value growth will follow and we expect to see competitive value growth as well. The actions we have taken in the previous quarter in rejuvenating and expanding our portfolio, are yielding results. While we focus the faster growth in the core, we have also expanded our portfolio in new categories and brought to market the better innovations. Our recent entry in male grooming, soupy noodles, conditioners, mass market tea and mass market water purifier are showing good results. We are seeing growth being ahead of the market in most categories though there is still some work to be done in toothpaste and in mass skin cleansing. Our focus on building organizational capability in distribution and faster speed to market is also on track. We have added a significant number of stores to our direct coverage, particularly in rural markets. This drive will continue. At the same time, the level of competitive intensity remains high, especially in laundry and hair. We are encouraged by the result so far, yet we must remain focused and committed. In skin cleansing, we have seen higher competitive intensity with increase in the level of promotion and price off. We are determined to ensure our leadership positions are well defended. Sridhar has explained the background of our high A&P spends and where the brand investment has been focused. While on the one hand, the level of competitive intensity is high, on the other hand the opportunity in the new segments of tomorrow remains very attractive. Like I said last quarter, we will operate with a bifocal lens - build segments and categories of the future even as we invest to defend and grow our core.

Now what I want to do is to use this opportunity to address some of the top of mind questions that you raised between yesterday, when our result were announced, and this moment and those are really three key questions. The first has been around wanting an update on the status of our competitive battle especially in laundry. I have said earlier and Sridhar has explained as well, the competitive intensity in laundry remains high. The actions we had taken are yielding results. All our Brands are growing very well in volume and ahead of the market. We are confident that value growth will follow. More recently, there has been report of some scale back on promotions and pricing in laundry. We will watch this space carefully and act in a manner that strengthens our leadership position and positions us better for the future. In recent months, we have seen an increased intensity of competition in hair and skin cleansing. In these categories as well, we have taken steps to defend and grow our business and will continue to take any further action as may be warranted.

The second area of question has been around the level of A&P spends in this quarter and a question around whether it will continue to remain above 15%. Now that is difficult for me to say. What I can say, however, is that the principles we use to decide on the level of spends will remain unchanged. We will invest to ensure competitiveness of our Brands in light of increased media heat. We will invest, as required, to support innovation and build segments and categories of the future; like I said we will operate with the bifocal lens. In addition to this, you would have noticed in Sridhar's presentation, a fourth component of spends and that was on account of the fierce battle in specific categories like laundry and hair. How much we invest in these categories will really depend on how these battles shape out in the months to come and will have a bearing on the overall levels of spend. So, while I cannot comment on what the level is likely to be, it is likely to remain high in the immediate future. I would, however, like to reassure all of you that we have a fairly comprehensive benchmarking and measurement process in place to look at the return in marketing investments that we get for both above the line investment and below the line spend. This is we do regularly within the business and is now receiving even more attention.

The third set of questions has been around the progression on operating margin going forward, in the context of higher raw material cost, price increase possibilities, higher A&P etc. Now, you are aware that I cannot give you any guidance but it would be fair to say that in June quarter we have increased our gross margin delivery by driving cost savings even harder. This strong focus on managing cost within the business will remain. A scale in buying efficiencies will make us more competitive. However, going forward there is a distinct possibility of commodity cost moving up. We have to watch this space carefully and decide the price increase and the extent of increase given the competitive context. These calls will be taken closer to the time. I have already addressed the point on levels of A&P, which are likely to remain high in the near future. While we remain committed to delivering growth that is both competitive and profitable. If in the short term, the competitive context requires us to make a trade off, we will. We remain convinced that this approach is right and will help us create longer-term value. So, that is really what I had to say at this stage and with that I hand you back to Srini.

S C Srinivasan, VP - Treasury, M&A & Investor Relation of Hindustan Unilever Limited

Thank you Sridhar. Hina we are open for questions. Let me remind all listeners that this Q&A is open for institutional investors only.

Hina - Moderator

We will now begin the question and answer interactive session for the participants who are connected to the audio conference service from Airtel. Participants who wish to ask questions may please press "*1" on their touchtone enabled telephone keypad. On pressing "*1", participants will get a chance to present their questions on "first-in line" basis. To ask a question, participant may please press "*1" now.

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

As the participants are getting ready with their questions, I notice that the question put up on the web and that question is from Mr. Hemant and the question really is how much of the 310 bases point increase in A&P was directed towards soaps and detergents versus new launches. Was it one-time investment to support the pricing intervention, will it be scaled back going ahead; so, that is really the question. Now let me first say that some of it has already been addressed by us during the course of Sridhar's presentation where we showed you a chart which gives exactly the breakup between what has been happening, as we have been fighting battles in laundry and in hair and how much of the investment has gone behind building categories for the future. You would have noticed that a very large part of it has indeed been in the defence of categories where these competitive battles are going on. Again, as I said earlier how this spans out in the future is difficult for anyone to say. As and when and if it does scale down, A&P of course will come down but it would be unreasonable to expect that the block to disappear completely given the nature of the market that we have and the nature of competition that we see going forward.

S C Srinivasan, VP - Treasury, M&A & Investor Relation of Hindustan Unilever Limited

Over to you Hina.

Hina - Moderator

Thank you sir! The first question here comes from Mr. Abneesh Roy from Edelweiss, Mumbai. Mr. Roy you may ask a question now

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Abneesh Roy - Edelweiss - Mumbai

Thanks for the opportunity. My first question is in the water purifier segment. You have launched the lower end and there has been extremely high competitive intensity in that with many people entering. I wanted to understand two things – one is if there being cannibalization within our products because of the lower end and do you think the market will expand because of so many players entering?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

First of all, we are very satisfied with the presence and the entry of the low cost purifier and levels of the cannibalization, if any, well within the norms and benchmark that we have set for ourselves. So, on that front we do not see any worry. We have also found a way to think in terms of channels and how we sell this in geographies, channels and consumer segments in a manner that we will be able to limit the amount of cannibalization that could take place. As far as competition is concerned it is intense and it is increasing. We welcome competition that keeps everyone on the toes. The market is large and I think you are right with more competition and with more entries it will grow the market as we move forward. As of now, we feel pleased with how our business is progressing. We have a presence, now, with a set of purifiers, the first one which you will now get at Rs. 2000; we introduced one at Rs. 1000; as you are aware and you have heard of our strategy across all the categories, which is the need for us to straddle the pyramid and address multiple price points and multiple benefit areas. Now, we will have a portfolio in Pure-it which will accomplish exactly that. You talked about the low cost purifier which has come in at Rs. 1000. I want to share the two other interventions, which have taken place recently. The Rs. 2000 purifier was our first entry. We have introduced Rs. 1000 now but we have also introduced a Re. 3,200 purifier, which is an auto fill version of the Rs. 2000 variant which we had and even more recently we have introduced a really premium version which is a little over Rs. 6000, which is the first in our judgment the fully automatic purifier which does not requires any electricity and it is called Pure-it Marvella. So, we now have portfolio-addressing consumers who require the products like a fully automatic and actually products at Rs. 1000, which will address consumers. As we are selling all of these the other key feature and points over, which I would like mention is all of them even the Rs. 1000 brand and variant, which we have introduced, continues to have the same levels of safety with no compromise whatsoever all them meet US EPA standard, which are the most stringent ones which exists. Along with devices, the progress that we see in our battery sales, which is an important indication for us because this business is dependent on the lifecycle and value which you get out of a customer continue to progress as per our plan.

Abneesh Roy - Edelweiss - Mumbai

Thanks for the answer. My second question is on the key investor concern in terms A&P spends could you give us some trend in terms of above the line and below the line how the trend has been in the past few quarters and also if you could split between the earlier products and the new innovation how the A&P spends are really being earmarked?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

I think the second question, Abneesh, which you raised, has been shown in terms of the chart, which Sridhar has and you would be able to go on the web and see this presentation. As far as the first question is concerned, the large amount of it is in advertising and promotion, which is above the line. Of course there will always be some, which is below the line but it, is our effort to constantly make sure that our spends are behind Brands and strengthen the Brand as with time.

Abneesh Roy - Edelweiss - Mumbai

And then one last bookkeeping question is on the tax rate; there has been some volatility in the 22.6% good tax measures this time. So is this our sustainable rate or this can go up from these levels?

Sridhar - Chief Financial Officer - Hindustan Unilever Limited

This is Sridhar here. First of all, let me say the approach that we follow to tax rate is that take a tax rate based on view of what we believe will be tax rate for the fiscal year. The reduction that you see in June quarter 2010 relative to prior year is a function of some new units that we commissioned in the March and the tax benefit that are accruing from those near units in the current financial year.

Abneesh Roy - Edelweiss - Mumbai

Okay sir! that is all from my side. Thanks a lot.

Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Thank you Abneesh.

Hina - Moderator

Thank you Mr. Roy. The next question comes from Mr. Nikhil Vohra from IDFC, Mumbai. Mr. Vohra you may ask the question now.

Nikhil Vohra - IDFC - Mumbai

It is heartening to look at the volume growth coming back in Levers. Just to understand this better, how long do you think the competitive intensity will continue for us to continue to deliver a double-digit volume growth and more importantly does it at some stage boil down to margins for the business given that most of the players have been growing volume plus value and thereby their margins and thereby their ability to bite into market shares into other categories also?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Thank you for your comments on volumes and the recovery in volumes. I know you have been saying that for a long time and we too are pleased by seeing the recovery in volumes as in June quarter like we have seen in March quarter. It is our intent to make sure that we continue driving volumes as we move forward. As far as the comment which you made in terms of pricing and value where value has been lagging volumes; I think it is a fair comment. Volume growth cannot be at the cost of value growth as we keep moving forward. This quarter you would have noticed that there has been a pricing effect largely on account of the price corrections that we have taken in laundry as we anniversary some of these prices by towards the end of the year we should see volume growth translating into value growth, which will be ahead of the volume growth that we have got. So that's point one. As far as our competitive context is concerned, your guess is as good as mine in terms of how long that is likely to last. However, our actions and our response are going to be very similar to what you have seen. We will continue to take actions to defend and grow our core, even as we focus on different categories of the future and that in our judgment will position us very well for the future. As far as margins are concerned, I think our focus on cost effectiveness and reducing the structural cost of this business will continue and as we drive volume growths better we will see an increasing amount of operating leverage come in the business, which will help us as we move forward.

Nikhil Vohra - IDFC - Mumbai

Second was, Pure-it is now likely to get across price points. So does it make a sense that it is starting to also look at out of home markets?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

At this moment, Nikhil we are in the devices and business and delivery batteries and getting into people's home, but no plans at this moment of getting into the out of home. We are hugely excited at the opportunity that this provides and at the pace that which we could grow this business as we move forward.

Nikhil Vohra - IDFC - Mumbai

I guess we should talk about this after six months. Just lastly, on the Knorr Soups and culinary that we have, is there a sense that may be the action standards that we have right now are may be too stringent for us to do national rollouts at a pace which could be faster than what competition is doing right now?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

So, I think at this moment the reason we have not rolled out nationally is less to do with our action standards but to do with us gearing up in terms of capacity to be able to cater to the demand that we are likely to have for this offering. So, that I think the point. So we are very pleased with the response that we have got and it has been ahead of what we had expected through our testing and we are gearing up to be nationally. We are already in two branches, two parts of the countries but we have not gone rural and we have not gone in the other two parts but by December we should be across the country.

Nikhil Vohra - IDFC - Mumbai

Good. Thanks and all the best.

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Thanks Nikhil.

Hina - Moderator

Thank you Mr. Vohra. The next question comes from Mr. Richard Liu from JM Financial, Mumbai. Mr. Liu you may ask your question now.

Richard Liu - JM Finance - Mumbai

Hi good evening everyone. I have two questions really; one is, if you were to look at the action of Proctor recently in terms of the introduction of Tide Plus, how do you weave this development? Do you see further fragmentation of price points in the segments from three to five maybe now?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

So, first I think we have heard the news as well. We are watching this carefully. As we understand it at this moment is relaunch of the Tide Magnets, which was there. If it is another variant we will have to deal it differently our responses at this moment are based on the assumption that it is a relaunch of Tide Magnet which was there.

Richard Liu - JM Finance - Mumbai

But do you really see price point getting further fragmented; we have seen a new price point getting introduced between Rin and Wheel in the form the Tide Naturals. Do you see that really coming in between somewhere Surf and Tide here?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

I think they already were there with Tide Magnet. So, we are seeing Tide Plus as a relaunch of Tide Magnet at this moment and therefore it is not an introduction of a different price point, it already exists.

Richard Liu - JM Finance - Mumbai

Sure thanks. My second question is on PP margin for the quarter. While we have seen a good apparent expansion on a YOY comparison, but then if I were look a little in history, the margin seems to be on the lower side for the June quarter in perspective, can you help us in dissecting that a little bit?

Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Richard, Sridhar here. As far as the segment margins are concerned, I think in PP first of all the real focus and the opportunity is the ability to grow consumption of the market even faster and really look at how do we expand our franchise; how do we expand the consumption in the market. I think that is the first thing and second is the double-digit growth and how do we drive that. As far as the particular quarter is concerned and your comments on the margins are concerned, PP margins have been relatively good if you compare to the last year and that cost savings are coming through. Also, it is an environment where one of the PP categories continues to be very-very intensive competitive but what I would say for PP is to really look at the growth because the future potential in terms of topline in this category is very-very attractive.

Richard Liu - JM Finance - Mumbai

But if we were to look at it in historical perspective, the apparent erosion because of the higher Brand building cost?

Sridhar - Chief Financial Officer - Hindustan Unilever Limited

I think we have had some occasion this conversation between percentage margin and absolute pool of profit, so growing this business in strong double-digit even if the percentage margin is 100 or 200-basis points lower, the essential value that you can create will be much more substantial and on a structural basis the operating margin of personal products is much higher therefore from a corporate mix point view driving the PP growth harder even if it mean the percentage margin of personal products is slightly lower, net-net it is still beneficial.

Richard Liu - JM Finance - Mumbai

Okay, sure I got your point. Thanks for taking my question. All the best to you.

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Thanks Richard.

Hina - Moderator

Thank you sir. The next question comes from Mr. Percy Panthaki from Mumbai, HSBC. Mr. Panthaki you may ask your question now.

Percy Panthaki - HSBC - Mumbai

Hi sir, my question is on the detergent segment. I recall during the 2004 price war, the company had come out and made a statement saying that they are not making any money at all on the detergents segment. I just wanted to ask you if we are in the same kind of situation currently.

Sridhar – Chief Financial Officer – Hindustan Unilever Limited

Thanks for the question. First of all as far as what we disclosed in the public domain is obviously the segments that we have disclosed and that are soaps and detergents and you will see in the aggregate the operating margin in soaps and detergents is obviously positive. I think the good news in this quarter relative to March quarter is that not only volume growth both in soaps and detergent has accelerated but also we are back to positive revenue growth so that is the good news. As far as the detergents specific margins are concerned while I cannot talk number, it is a very straightforward inference that our margin levels are below what used to be the norms if you go back a few years. But beyond that I would not like to comment on any specifics.

Percy Panthaki - HSBC - Mumbai

My second question is on the soaps industry and the overall competitive structure as such. What I have noticed in soaps and it is true for many other categories if I add up the market shares for most of the players as reported by AC Nielsen you will probably not reach 100%, you will reach somewhere in the region of about 70%-75%, which means that there is a tail of about 20%-25%, which is like a semi unorganized or probably unorganized kind of a segment. So I just wanted to know in case you have any data readily available or just an estimate kind of thing, how much has that tail shrunk or expanded in the soap segment over the last five or ten years?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

So, Percy I would not be able to give you an answer off hand, but you might contact us separately and we may be able to have a conversation on that. So, we do not have an answer readily for you at this moment.

Percy Panthaki - HSBC - Mumbai

I was trying to gain an inference – if you see a definite trend of this tail shrinking and actually this could apply to detergent as well as soaps and therefore even if some of the large MNC competitors of yours are able to increase market share, it does not necessarily mean that you will loose market share because the tail will shrink – is that something that you can say with confidence?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

I think, if the comment really is – 'Is there a highly fragmented market and is there a possibility that many of the organized players could grow their share', the answer is yes. That is possible. Depending of various strategies that we see, we have seen across categories upgrading and upgradation. This may happen if players get their act right. So, this could happen in the future whether this happens or not time will tell.

Percy Panthaki – HSBC - Mumbai

My last question sir is on all your new variants or new categories that were not there three years back but are there today. Those new variants or categories are adding up to approximately how much in terms of sales in case you do not have that would you be able to get back to me on that?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

We can only share the details in a manner in which we disclosed and those are the segmental disclosure that we have made, having said that I think you have to just bear in mind that the actions that we are taking are strategically around segments, which will be important for us not in the short term, not in the 6 months, 12 months, 2 years, but the segments that we are focusing on and the categories that we are building will invariably become a much larger proportion of our business going forward, so whether it is water, whether it is conditioner, whether it is HFC and surface cleaners that we are building, whether it is Knorr that we are building or whether it is Dove the brand which we introduced, or the conditioners which we are building will become large as we see it moving forward. For example some of this are already very significant, if I was to take among these Dove is already very large and significant for us, water business is large and significant for us and the Knorr business is large and all of these again with the intervention which are going behind them, the soupy noodles, the waters straddling the pyramid and the actions Dove are only positioned to become larger in the medium term itself.

Percy Panthaki – HSBC - Mumbai

Sir I fully agree that what you are doing is in the right direction. I just wanted to get a sense of the magnitude or the quantum, so if you cannot share absolute numbers even an indicative percentage of sales or something could really help.

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Why don't you touch base with Srini after the call and maybe we would see but it is unlikely that we would be able to share any specific beyond what I have said

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Sridhar – Chief Financial Officer – Hindustan Unilever Limited

We would not like to say specific numbers but all we can say is that with the actions we have taken, the contribution of the innovations, the momentum is increasing.

Percy Panthaki – HSBC - Mumbai

Thank very much sir. That's all form me.

Hina - Moderator

Thank you Mr. Panthaki. The next question comes from Mr. Nillai Shah from Morgan Stanley, Mumbai.

Nillai Shah – Morgan Stanley - Mumbai

Good evening. Thank you for taking my questions. The first question is on essentially soaps and oral care. There have been a number of efforts taken by the company and yet both these categories have essentially lost market share. Any comment on this issue?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

So, I think the first comment I would make is, it is not as if we have not seen the response to many of the actions we have taken. I just want to mention that while on an aggregate, as Sridhar mentioned, soap has grown a little slower than the market and that is not what we want and we would like to get back to growth which is ahead of the market. I would draw your attention to another fact which he had mentioned in his chart that the premium personal wash portfolio is growing well. It is growing, growing in contribution and growing ahead of the market, so we are pleased with that. There are some actions that we need to take in the lower-end discount end of the market where the nature of competition is quite severe. We have taken some action and maybe in some cases where some interventions are required we would look at them as well. As far as oral is concerned, there was an intervention which took place late in to the quarter with a relaunch which took place in Pepsodent and Close Up anyway has been doing very well, the category on an aggregate however has continued to trail the market in terms of its growth. We are not satisfied with this outcome; there are further interventions and actions, which are planned into the second half of this year to correct the situation.

Nillai Shah – Morgan Stanley - Mumbai

Second question specifically on skin care, we have had new product introductions, re-launches of Fair & Lovely brand, significant ad spends going into skin care also and yet again that category seems to be point below potential. So what is the underlying growth potential in medium term for skin care and what are the specific steps being taken to correct this possible below potential growth?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Firstly, I do not know Nillai, the basis on which you think that this is below potential; that is point number one. I think we are growing this category well. We have made several interventions to address structurally our portfolio, the balance between mass skin lightening that we had in Fair & Lovely and other segments which will be growing faster although they are small today but will become a larger part of our portfolio going forward. So, whether it was our actions in facial cleansing or whether our actions in anti-ageing, or moisturizing there are several actions that we are taking, male and male grooming, top end skin, the hand and body with the entry of Vaseline, several interventions have gone in, all of these are doing well and in line with or ahead of the expectations that we had. Sometimes, what happens is that for a period of time these, because they are relatively small segment, do not become visible given the large base that we have of some marked entries like Fair & Lovely in our overall business but overall our actions are yielding results. On an aggregate as well, growth that we are getting in skin care is good and both in volumes and in the values is ahead of the markets that Nielsen has reported at the end of the first half. The long term potential of this category is significant. I can only quote some numbers, which is talked about in the past. The consumptions opportunity in all categories is high but in a category like skin care our consumption in India is one tenth the consumption of a market like China as I have talked about earlier and if India is about 10-12 years behind China in terms of affluence and other development condition. It is not inconceivable that if India grows the way it can over the next 10-12 years this market would not grow by just double - treble but could be many times larger than the market we see today.

Nillai Shah – Morgan Stanley - Mumbai

Is there a number that you have in your mind over the next two to three years in terms of industry growth?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

No, it will grow in double digits, how much and how strong the double-digit growth we see, will really depend on variety.

Nillai Shah – Morgan Stanley - Mumbai

Last question sir is on the impact of the distribution initiative, the hand-held devices and the enhanced reach, how will you measure this going forward and when is the full roll out planned?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

So, firstly I think the technology intervention, the hand-held device has been rolled out, has gone across urban already and over the next few months we will also get this into our rural markets as well, so at this moment it is across all other markets this intervention has already been rolled out. There are different ways to measure the effectiveness of this device. We have what we call an FCS or a field capability score, which measure the effectiveness of our in-store execution and the effectiveness of our distribution system. We tracked the progress of that. We are pleased to find that post the intervention of this hand-held terminal, we are seeing the scores move up and move up significantly and that is attributable to this device which we have put in place. We also measure, just to give you a sense of what we measure as part of field capability score, we measure the sort of assortment that we are able to sell in an outlet, the bill productivity that we are able to get, whether we are serving the right items in a given outlet and all of these measures are trending in the right direction.

Hina - Moderator

Thank you Mr. Shah. The next question is from Ms. Rajas A., from Credit Suisse, Mumbai. You may ask your question.

Govind – Credit Suisse - Mumbai

This is Govind here, thanks for taking my question. Couple of questions, we have seen across players a massive acceleration in media spends, has that led to an acceleration in the overall market growth as well, have you seen that trend in any of the categories, usually we do expect when ad spends for the industry goes up so much the industry acts a bit. Have you seen that in any of the categories?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

I think at this stage I would be hesitant to say that we have seen this other than the fact which Sridhar mentioned in the beginning that we feel markets in June quarter being little faster than the markets in March quarter but they remain at levels which are lower than the 2009 market growth for reasons which you are aware of - which is pricing coming off. The second point to notice is that advertising and category building is not something that we observe from one quarter to the other quarter, these are interventions which will help the market to grow in the longer term.

Govind – Credit Suisse - Mumbai

Secondly in terms of broad split of how abundant rural spends are, have you seen any noticeable change in trends in the recent past either in terms of acceleration relative growth rates?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Again at this stage I would be hesitant to make a comment based on what you have seen just now, markets are growing both in urban and in rural, both markets are growing, the difference is not material at this moment. Our growth in rural continue to be strong and I think we must watch this space over the next few months towards the monsoon, the effect of monsoon etc., to see if we see a change in trend as we go forward.

Govind – Credit Suisse - Mumbai

My last question is on rural growth in general. We have seen across all the big categories I mean in consumer durables especially all the discretionary categories at least in the last three years, a significant increase in growth rate, be it cars, two wheelers or even categories like electric fans, pressure cooker and we have not seen any such thing if I may say so in the case of staples. Could you just explain why that might be the case what needs to change for these categories to accelerate as well.

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

I do not want to speculate in terms of what happened over the last few years, in general rural growth was a little ahead of urban growth even for categories like ours. I think what we need to do in terms driving growth in rural markets even faster than what has been happening is a combination of market development work and intervention which will help consumers, pricing, distribution, access are all helpful things in driving growth but you need models of driving market developments will also be important for us.

Hina - Moderator

The next question comes from Mr. Anshul Mishra from ING Mutual Fund, Mumbai. Mr. Mishra you may ask your question now.

Anshul Mishra - ING Mutual Fund - Mumbai

Hello sir, I had a couple of questions first one was regarding your raw material and packaging distribution among various categories. My understanding was LAB prices and packaging prices have been going up year-on-year, growth of close to 20 plus%. I just wanted to have a feel and you have been able to manage that aspect very well in terms of the growth rate in sales and growth rate in the packaging and raw material cost. Just wanted to understand what is the break up and how have we been able to manage this and is there an inventory component to it and going ahead what your view is?

Sridhar – Chief Financial Officer – Hindustan Unilever Limited

So, I think first thing is to say that, as you say we have been managing the stakes well, we do believe that the whole area of supply chain and particularly supply management of buying is a particular area of strength for us because of our own scale but we equally importantly of the leverage that we have through the scale of Unilever in terms of global buying, regional buying etc. So, that is a particular area of strength for us and this is something that we continue to drive. As far as specifics are concerned you know this remains a volatile area that we have now experienced over the last year and year and a half, whether it is oils or whether it is products which are based on crude that remains something to be volatile. As far as we are concerned our drive and our focus is to make sure that we keep driving cost efficiency and getting as much of cost as we can out of our fundamental cost structure.

Anshul Mishra - ING Mutual Fund - Mumbai

So you mean to say the robust supply chain that we have is able to cushion the raw material price hike that has happened on the commodity front, is that so?

Sridhar – Chief Financial Officer – Hindustan Unilever Limited

That is correct and if you look at the part that is correct as I said it is a particular area of strength and we do believe on a relative basis we are at better positioned.

Anshul Mishra - ING Mutual Fund - Mumbai

Also secondly on the tea market front you mentioned that the market has been sluggish off late. I just wanted to have your views on the way ahead in general tea as a category, the growth rates and what kind of problems do you foresee especially the crops getting destroyed issue and stuff, basically your views.

Sridhar – Chief Financial Officer – Hindustan Unilever Limited

We do not want to give any guidance on growth rate etc, but one of things that as we observe the markets slow down in June quarter clearly one of the correlation factors is the high level of food inflation that is there in the economy. We have seen it in the past that when there is high level of food inflation and tea prices have been high relative previous, you do find some amount of downtrading into loose tea that impacts the growth of the packaged tea market. Hopefully, in our judgment, not a long-term structural change but it is something which is a short-term situation which is linked to the high levels of inflation.

Anshul Mishra - ING Mutual Fund - Mumbai

Thirdly and lastly, your views in terms of Hindustan Lever, looking at inorganic opportunities within India

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Sridhar – Chief Financial Officer – Hindustan Unilever Limited

That I can give you a very honest and straight answer, we continue to keep looking, obviously when there is something that you know fits our strategic requirement and is attractive from a value creation perspective, we will be very- very pleased to share it with you but nothing to talk about that at this stage.

Anshul Mishra - ING Mutual Fund - Mumbai

Thanks a lot sir and best of luck.

Hina - Moderator

The next question comes from Mr. Shirish Pardeshi from Mumbai Anand Rathi. Mr. Pardeshi, you may ask your question now.

Shirish Pardeshi – Anand Rathi Financial Services - Mumbai

Just a couple of questions, a broad question, we have seen the competitive intensity going up in last three odd quarters equally in soaps and detergents and we have been hearing that we have been taking a lot of competitive steps to arrest the decline. I just want to know we have re-launched the entire portfolio in soaps and now we have been very price competitive in detergents, would you be able to tell us what is the share gain – loss, gain or positive territory we are in this quarter and I do not want specific numbers what market share we are now but is the effect of what the activity we have done has helped us.

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

So I think that is an easy answer to give you, the actions that we have taken are yielding results and we are moving in the right direction at this moment. We have shared with you right at the beginning that on an aggregate basis we had our overall growth and volume which was ahead of the market reported growth and in many of the categories value as well as volume growth was ahead of the market although not in all. There were a couple of categories which we had singled out and said we were growing behind markets and lots to be done as far as those were concerned. That is really what I thought of at this stage on this.

Shirish Pardeshi – Anand Rathi Financial Services - Mumbai

My next question is on the skin care category. I mean we have seen again very competitive profile and large number of players coming back to category. I can understand the nature of the category, may be having a high gross margin but the whole question is that referring to your penetration, the penetration is very low but does that mean that just putting more money behind the Brand over a period of time, there are many brands which can be successful or there will be a consolidation of few brands in the skin care portfolio.

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

First of all, I think success in FMCG market requires more than just putting money and certainly sustainable success requires much more than putting just money behind your brand. You first need sound consumer understanding and an insight around which a brand needs to be positioned. Second you need technology to make sure that you brand and the products that you are delivering, actually deliver superior performance compared to the others and of course when you have these two you also need to make sure that you need to spend at levels which are competitive, so all these three things are important. We believe we are well positioned and we believe that in the fullness of time the technology that we have, the consumer understanding that we have built and our capacity to invest is appropriate and position us well going forward.

Whether there will be other players - of course, there will be other players who will come in, given the fact that the market is large, the opportunity is significant and the market will continue growing in the years to come.

Shirish Pardeshi – Anand Rathi Financial Services - Mumbai

Very lastly, we have the nationalization of the supply chain and we are rejigging the distribution model and now on the other hand, we are also expanding the retail coverage by 500,000 outlets. My basic question is that on one hand we are trying to rationalize and on the other hand we are expanding. Does that mean that we are having a trade of, on the margin or is that a trade of that we will gain the margin.

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Firstly, I just want to clarify that in an organization at various points in time, we would be doing what is appropriate for that part of the business. There will parts of business which will benefit as a result of our scale and consolidation. We consolidate distributors or units etc., it would be to give us the scale to enable us to leverage our scale and technology to service the market properly. In the end, this is in no way conflicting with a desire to expand the distribution and reach more outlets directly because there is enough evidence to show that direct access of an outlet and direct presence in an outlet improves your influence over the outlet and thereby goes to improve your shares that you are likely to get from that outlet.

Shirish Pardeshi – Anand Rathi Financial Services - Mumbai

I can understand that submission, what I want to know is that on one hand we are trying to redesign the distribution my only question is that at the end of the day it will take lot of money for investment to scale up the distribution or we have the benefit that we will have better cushion in terms of cost-saving programs.

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Even the expansion of distribution has a business case, which is attached to it. There is a model that we have worked out, there is an understanding within the organization as to how deep should we be going, what is the sorts of results and returns that we are likely to expect and we continue to monitor those. So, it is not expansion without an eye on what it is likely to cost us in the short term. So, we consider that but we also consider the benefit both in the short and long term of a presence, of an entry like this. As far as, cushioning from a cost point of view is concerned, that is a separate program that must go on. It is a continuous effort to try and reduce your cost structure in every way which we can and reduce the structural cost and continue to drive our cost effectiveness program because you know and we know that the investment that we will require behind building Brands and growing our business in the India’s tomorrow, is likely to increase and this gives us the headroom to invest as appropriate and yet leave us a surplus to deliver on the profitable growth that we are committed to in the long term.

Shirish Pardeshi – Anand Rathi Financial Services - Mumbai

Okay thank you and best of luck. That is it from end.

Hina - Moderator

Thank you Mr. Pardeshi. The next question comes from Ms. Himani Singh from Elara Capital Mumbai. Ms. Singh, you may ask your question now.

Himani Singh - Elara Capital - Mumbai

Good evening sir, congratulations on good double digit volume growth. Could you please, since we are continuing from Shirish's question, we have good pursuit on improving our distribution reach and we are, as you said, on track on the program, the volume growth that we have seen in the detergent and soap division, could you elaborate how much of it is coming from the rural and urban region?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

I am afraid I cannot give you the split between urban and rural volume growth and certainly if you are looking at an understanding of how much growth has come as a result of the outlets that we might have added over the last few months, it is premature for me to talk about. It is suffice to say that each of these has a business case, we are monitoring the throughput that we get from these outlets and the capability that we are building now will stand us in good stead, not just over the next month or two, but in terms of the longer term period that we see for all our business and not just soaps and detergents.

Himani Singh - Elara Capital - Mumbai

Just wanted to understand as to growth that we are seeing in rural and urban, which is a faster one?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

I think we have seen good growth, both in urban and rural, rural growth is little ahead of urban growth as we see at this moment but nothing more significant than to talk about at this stage.

Himani Singh - Elara Capital - Mumbai

Sir, in the ice cream segment we have crossed a milestone and on the EBIT front also we are doing good, what is the Swirls' Parlour count that you would be comfortable in the middle term or say, from one year now or one-and-half year?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Again this would be actually disclosing more than what we would want to disclose in terms of how many parlours that we expect to have. What Sridhar shared with you is that every week which we talk about there is a different number that we have. So that should give you a sense of the number of parlours that we are adding at this stage. The stage may come and as we keep growing we will keep assessing whether the market can take more parlours as we move forward and it is a dynamic situation. We will calibrate our progress in that sense, having said that the out of home opportunities per se is a very large and growing opportunity and it would be therefore addressed through a combination of things that we do, ice cream parlors is one of them. It might or might not be known to many people that we are also driving and we have put up reasonable number of parlours which are Lipton parlours, I think they are close to about 50 parlours that we have created over the last few months. So, we will be addressing this opportunity through a range of Brands and through models that we are testing, refining, and when we get greater confidence, rolling out rapidly. Of course, the Lakme parlours, which I am sure you are aware of, I think over 130 odd Lakme salons exist at this moment.

Himani Singh - Elara Capital - Mumbai

Sir, my next question is on the oral care, how do you perceive the competitive space in this segment to be, as you said that we have much to do in this segment going ahead? What is the competitive intensity that you are seeing in this space?

Himani Singh - Elara Capital - Mumbai

I think competition is intense as it is intense in many other categories so I do not want to dwell too much on competition. I think the real thing for us to look at is what is it that we should be doing, how do we re-strengthen our Brands and how do we enhance growth of our business, that is what we are focussed on. We have ideas but I cannot say any more at this stage but we are not pleased with the performance thus far and actions are being taken to strengthen our performance as we move forward.

Himani Singh - Elara Capital - Mumbai

Sir, since we are clearly straddling the pyramid across various categories that we have. Are we looking at increasing our presence in the pyramid in the oral care pyramid and are we looking at much more newer launches there?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

I think if I continue this any longer, I might as well call all our competitors and share with them oral care strategy. Suffice to say that we are exploring various options to grow our business faster in the context of a market that we observe. We are studying the market, we are studying what is happening across price segments, benefit segments and we will act appropriately.

Himani Singh - Elara Capital - Mumbai

Sir my last question is on the Dove brand. As a brand, including the soap and shampoo category, how much would be the brand size for Dove?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

We certainly do not reveal individual brand sizes but it a sizable Brand, very material to this company’s business and growing very strongly.

Himani Singh - Elara Capital - Mumbai

Sir in the soap category how have we seen the response towards new rupee 20 Dove soap bar?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Again, we have just told out that the response is good; it is widening and expanding the distribution presence. There are many more outlets which had a shopper profile which could not afford the earlier Dove, are now in a position to keep the lower priced dove.

Himani Singh - Elara Capital - Mumbai

Thanks for taking my question and all the best for the future.

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Thank you so much.

Hina - Moderator

The next question comes from Mr. Aditya Soman form Goldman Sachs, Mumbai. Mr. Soman you may ask your question now.

Aditya Soman - Goldman Sachs - Mumbai

One question from me, globally Knorr is your largest Brand. Do you see that happening in the next say 10 to 12 years in India, not Knorr maybe the whole food and beverages segment?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

The answer is, do we see it becoming very large - yes it can become very large; could it become the biggest Brand - who knows; in the fullness of time, India will follow the pattern which many of the western markets have followed. The F&B category will become very large and who knows in the fullness of time foods may become larger than HPC even in a country like India. It is unlikely to happen in the next 10 years.

Aditya Soman - Goldman Sachs - Mumbai

Thank you.

Hina - Moderator

Thank you Mr. Soman. The next question comes from Mr. Neelesh Surana from Mirae Asset, Mumbai. Mr. Surana you may ask your question now.

Neelesh Surana - Mirae Asset - Mumbai

I have a couple of clarifications from the reported financial numbers. There is a significant reduction of about 700 Crores plus in the capital employed in the business particularly in the soaps and detergents, any specific reason on the working capital side you would like to highlight.

Sridhar – Chief Financial Officer – Hindustan Unilever Limited

Neelesh, I think it is fair to say that one of our other strengths in the business is the management of working capital. As a company we operate with a negative working capital and we continue to drive improvements in that, what you see as the sharp reduction or a continued reduction in our capital employed in most categories is a reflection of really the working capital being driven hard and being driven down, whether it is on stocks or whether it is on debtors or creditors, we have a very comprehensive program with very clear responsibilities and a steering group that drives the whole cash generation working capital effort.

Neelesh Surana - Mirae Asset - Mumbai

There is no one-off in let us say payable, is it sustainable?

Sridhar – Chief Financial Officer – Hindustan Unilever Limited

No, it is not one off certainly, but if the question is that is there a large payment that we have not made and therefore contributing, that is not the case. Even if you look at the trends over the last three or four quarters, I think you will observe a consistent trend of improving working capital which is reflected in the capital employed reduction.

Neelesh Surana - Mirae Asset - Mumbai

And secondly on the other operating income, if you could please elaborate what it is that exactly? There is almost a 3x increase in the other operating income. Apart from the income which we get from Unilever, if you could please elaborate on that?

Sridhar – Chief Financial Officer – Hindustan Unilever Limited

If you look at other operating income the real driver for a substantial delta is the marked-to-market. You may recall that on our foreign exchange exposures, where we are of course fully covered, The Institute of Chartered Accountants has an accounting requirement of marking the forward contracts as marked to market and that was negative figure in the base year which is in June quarter 2009, it is a positive figure in 2010 June quarter and that delta is really the biggest delta.

Neelesh Surana - Mirae Asset - Mumbai

My last question is, apologies I am not able to trace the presentation which you have referred in the opening remarks, while you have mentioned double digit volume growth for personal product categories can I get the exact numbers for the three broad segments, hair care, oral care and skin care your volume growth numbers if it is disclosed?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

We do not disclose growth numbers by individual categories. We have disclosed that our personal product growth was in double digits and within that both in volumes as well as in value and it must be clear to you based on some earlier comments that we have made that within Personal Products, oral growth were lower and in single digit while we were delighted with the progress that we have made and growth that we have seen in hair as well as skin which are the two other large categories in personal products.

Hina - Moderator

Thank you Mr. Surana. The next question comes from Mr. Yogesh Bhatt from ICICI Prudential, Mumbai. Mr. Bhatt you may ask your question now.

Yogesh Bhatt - ICICI Prudential - Mumbai

Good evening sir, thank you for taking my question. A small question from my side is that there was some change which was done on the royalty side and last year's balance sheet is showing that 0.7%, 125 Crore of royalty which was paid, on overall sales percentage, but if I want to just attribute the turnover and the percentages on which brands which we have been paying because there are lot of brands for which royalty is not paid, so if I want to attribute that number, what would be that number and second question is what is your view taking a cue from Maruti what has happened, anything on that front if you want to like to guide us, thanks.

Sridhar – Chief Financial Officer – Hindustan Unilever Limited

I think Yogesh first of all, the royalty changes that you refer to, were approved by the Board in December and really there were two things. One, as far as our technical collaboration agreement is concerned, there is absolutely no change in percentage; it was 1% for the last 10 years, that continues to remain 1%. The only change that the Board has approved is that certain categories which we were not playing in and therefore were not part of the original agreement but we are now playing in those categories, they have been incorporated, for example categories like soups and savories under the Knorr Brand, the second is that previously we were operating with very fragmented sourcing arrangement from third parties and therefore third party manufacturing was not covered in it. As we have consolidated and linked up with more strategic parties and we offer them technology, those have been brought in scope. So, the technical collaboration agreement continues to be at 1% with a revised definition of scope. The other change is that previously there was no brand royalties that HUL was paying even on Brands that were owned by Unilever, what the Board has approved is 1% brand royalty on Brands that are owned by Unilever but which are being used or licensed to HUL for use. Very broadly, about 25-30% of the turnover that we get from our Brands is on Brands that are owned by Unilever, the balance 70 odd percent is turnover we get from Brands which are owned by HUL. As of now that is the only agreement that has been approved, so as of now, there is no other change.

Hina - Moderator

Thank you Mr. Bhatt. The last question is from Ms. Amrita Basu from Kotak Institutional Equities, Mumbai. Ms. Basu you may ask your questions now.

Manoj Menon - Kotak Institutional Equities - Mumbai

Hi, this is Manoj Menon. Good evening, thanks for taking our question. Sir, couple of quick ones, one on the laundry side, when I go through the current quarter press release and also some of the earlier investor communications of the last four quarters, it was said that Rin was relaunched with an improved formulation, last couple of quarters back it was about Wheel. So is it really something required at the market place or is it just a relaunch-driven formulation change?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

So again, we would not do it if it was not required, we would not do it if we did not see it as there would be value for the consumer and it would strengthen our proposition with our consumers, so that is the reason we do it. These are not just superficial changes. Many of them come with product improvement, many of them come with stronger proposition linked to product improvement. As you would see the most recent relaunch that we had of Rin just a few weeks ago which has a superior formulation with a special technology and which enables to claim and deliver a product which delivers the best whiteness in terms of the capacity to remove yellowness from garments. That is what has been claimed in terms of advertising at this movement so very simply put we would only do it when we believe that it has value to the consumer.

Manoj Menon - Kotak Institutional Equities - Mumbai

Right, but on laundry the weight stands now in terms of the relative price index, my understanding is Surf currently is about 120% premium to Rin which was say 70% earlier. So, the way it stands now your experience of the last six to nine months of the new price for Rin, any implications for Surf which you have seen?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

As of now we said all our brands are growing well, and that is all that I can say at this moment, all brands continue to do well, all brands continue to grow strongly.

Manoj Menon - Kotak Institutional Equities - Mumbai

Okay sir, and just one last question on soaps, you mentioned in the initial remarks that there is more work to be done on Breeze, I would recall that sometime back the product was re-launched with better formulation etc. Help me understand in terms of what needs to be done on mass-market type, which includes Lifebuoy as well?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

I think the relaunch and improvement in Breeze were driven to drive upgrading in the market and get people to move up, we continue to want people to move up; so that was the first. Secondly from Breeze, from Lifebuoy etc., our effort will be to continue to drive upgrading in our business. We are driving our premium portfolio very strongly. Fortunately, it is doing well and it is growing ahead of the market and growing share and that would be our strategic intent in order to drive the growth. Within our portfolio, Lifebuoy is a brand that has been strengthened and the equity is becoming stronger and continues to grow as well. So, that is really all I would say at this stage while on an aggregate it is true that we need to raise our growth rates a bit to make sure that we are growing ahead of the market. Large parts of the portfolio are already growing well and ahead of the market and our strategic intent would be to drive upgradation in this market.

Manoj Menon - Kotak Institutional Equities - Mumbai

One very last question on the cost of goods sold, particularly the raw material to sales line, absolutely commendable performance in terms of expanding gross margins in the context of the headwinds, however just trying to understand if it is predominately driven by per unit savings in the key raw materials because when I try to figure it out in terms of PP growth at double digits, total volume growth at 11%. Inherently, if the mix would have actually deteriorated, it just no way it could have improved, so is it per unit saving in the key raw material which would have likely driven gross margin savings?

Sridhar – Chief Financial Officer – Hindustan Unilever Limited

As far as cost of goods sold is concerned, I mentioned in an earlier response to a different question or a comment that as a company because of our own strengths and our scale as well as access to leverage of Unilever, we do believe we had a competitive advantage in terms of buying or supply management and that is something that we continue to leverage and even in this quarter we have seen benefit coming through in terms of overall supply chain and buying efficiency.

Manoj Menon - Kotak Institutional Equities - Mumbai

Sir I completely understand that point, but what I am just trying to understand is if you look at on a year-on-year basis, I presume that the scale would not have changed significantly. Assume for a minute that the industry cost is let us say 100 and Hindustan Unilever is at 90, that index would not have changed right so where is this incremental growth coming from considering the headwinds.

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

One of the comments you made about potentially the mix being inferior, that is not necessarily the case because we have also seen, if you look from a revenue standpoint, one of the charts that we shared where we talked about our segmental revenues, you would have seen that personal products grew in double digits whereas soaps and detergents grew in single digit, so if you look at value growth, the mix is actually not deteriorating, in fact it has improved during the quarter. If you talk about “has unit purchase price of individual raw materials change”, obviously that is a function of what was our holding, cover strategy during June quarter of 2009 and June quarter of 2010 on key commodities and key materials. As a policy, we do not really comment on our cover strategy, we do have our own cover strategy in terms of the key material but I am afraid we do not comment about that externally.

Manoj Menon - Kotak Institutional Equities - Mumbai

Thanks for the question and all the best.

Hina - Moderator

We do not have any further questions over to you Sir.

S C Srinivasan VP - Treasury, M&A & Investor Relation of Hindustan Unilever Limited

Just to say thank you very much, if there are any specific questions, you can give me a call or write to us. That is the end of the June quarter 2010 results conference call. Thank you very much all of you.

Moderator

Ladies and gentlemen this concludes the earnings call; you may now disconnect your lines. Thank you for connecting to conference services from Airtel, you all have a very pleasant evening ahead, thank you.