December Quarter 2015 Earnings Call of

Hindustan Unilever Limited

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Speakers:
Mr. Sanjiv Mehta, CEO and Managing Director
Mr. P.B. Balaji, CFO and Executive Director, Finance and IT
Mr. Dinesh Thapar, General Manager, Head of Treasury, Investor Relations and M&A

Moderator
Good evening, ladies and gentlemen. I am Palak, the moderator for this call. Welcome to the Hindustan Unilever Limited December quarter earnings call. For the duration of the presentation all participant lines will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted for all the participants on this call.
I now hand over the floor to Mr. Dinesh Thapar. Thank you, and over to you Mr. Thapar.

Dinesh Thapar
Thank you, Palak. Good evening and welcome to the conference call of Hindustan Unilever Limited. We'll be covering this evening results for December quarter ending 31 December, 2015. On the call as always from the HUL end is Sanjiv Mehta, CEO and Managing Director and P. B. Balaji, CFO. As is customary we will start with Balaji taking us through the presentation on the results for the quarter, and hand it over to Sanjiv who will then share his thoughts and perspectives of the performance. We will then get into the Q&A session. I will come back and talk about that. But before we get started on the presentation, I would like to draw your attention to the Safe Harbor for good order's sake. With that, over to you Balaji.

P. B. Balaji
Thanks, Dinesh. Firstly, Happy New Year to all of you. Let me quickly take you through the results which you would have received earlier in the day. Standard agenda, no change there. Again strategies this is something which we have not changed for many, many years. Something that is working for us and therefore good news is that it continues as it is. And to get quickly into the context, this is a market context we are talking about. Business environment was challenging and market growth moderated on rural slowdown. The growth of course given the benign commodity environment continues to be led by volume, and the commodity costs softened further, and as all of us have recognized starting January, it has softened even further. Competitive activities continue to remain high in this environment. And if you look at our key raw materials, we have PFAD or brent crude, you could see there are significant reductions that are consistently happening. The silver lining being a reasonably stable rupee which is creditable, given the rest of the currencies in the emerging markets that we have observed. In this context we have another quarter of profitable volume led growth, and this is now being sustained for yet another quarter. The domestic consumer growth was at 3% with an underlying volume growth of 6%. The impact of phase out of excise duty benefits on the top line is almost 80 bps. The impact of up stocking in view of the transport strike which you would recollect we had alluded to in the previous quarter is another 50 bps. The continued price de-growth that is arising basically due to the two reasons of lower commodity costs being passed on to the consumer and the phase out of excise duty benefits.

As far as the financial operating profits are concerned, operating profits are up 7% with a margin expansion of 60 bps. The impact of phase out of excise duty benefits is about 35 bps, which means on an underlying basis, it is about 95 bps, and this is fundamentally coming through because the cost of goods sold is lower by 290 bps, driven by lower input costs and a strong savings program. A&P spends continues to be competitive and this quarter they are up by about 165 bps, which is about 16% increase, or Rs. 160 crore delta over the previous year same period.
PAT (bei) at 1024 crores is up 7% despite increase in corporate tax rates. And the net profit is at 971 crores which would look like 22% reduction in net profit, and has been fundamentally impacted by the sale of properties in the base quarter where we sold property at the same time. And the provision for restructuring in select contested matters in the current quarter. And the corporate tax rate is now at 31% in line with what we have been guiding you.

If I go a little bit deeper into the individual segment and we are trying to ease out for you the growth before the impact of phase out of excise duty benefits, just like what we did last time. Soaps and Detergents grew by 2%, Personal Products up 7%, Beverages up 7%, Packaged Foods continues to do a 9th successive quarter of double digit growth at 12%, and overall domestic consumer adjusted for phase out benefit is about 4%. In this, the Soaps and Detergents registered robust volume growth and they are offset by continued price de-growth. Personal products had a healthy underlying performance and that was impacted by delayed winter on one end, and a one-time realignment of channel spends which we will talk about later on in the call. Beverages had steady volume led growth, and as I said earlier, Packaged Foods, we were delighted to see 9th successive quarter of double digit growth.

Moving on to category highlights, yet another quarter of innovation intensity. Draw your attention to Wheel which has also performed well; I will talk about it later. And Lakme continues to do very strong innovation. Another new one is the fact that you would see the Knorr Packaged Foods innovation for masalas as well as new variants coming through on the instant soups category. So we see strong innovations pipeline starting to come through in foods as well. These innovations have been activated in an impactful manner. Lifebuoy, help a child reach 5, I am sure you have heard the whole 'haath, munh aur bum' story across three brands of Lifebuoy, Domex and Pureit. And of course whoever has been to Calcutta during Durga Puja would have realized the scale with which we activated the Ice creams portfolio there. Additionally we are now starting to build a natural's portfolio with an acquisition in Indulekha, which we had talked about earlier in our press releases. This brand will be coming to us by the end of the financial year. So by April, we hope to have the brand in our hands. We have finished signing, and we have been signing and closing all the conditions and are being implemented by both parties. And of course Ayush therapy, which is an ecommerce only launch, is now starting to grow wider in terms of the portfolio mix and we are learning a lot as the brand is starting to move.

Moving on to individual category performance, in Skin Cleansing, it is a volume led performance due to the commodity price deflation that I talked about earlier. Love to see Dove, Pears and Lifebuoy continuing to deliver strong volume growth. Liquids clocked another quarter of double digit growth. Price de-growth and impact of commodity costs and excise benefits is what impacted this category.

Homecare, a very strong performance- double digit volume growth, where Surf sustained its strong broad based double digit growth momentum for yet another quarter. Rin also delivered double digit volume growth, led by the bars portfolio. And Wheel steps up performance on the powders re-launch. We are now starting to see it coming through there as well. Comfort registered another robust quarter on back of sustained market development. Household care, the performance was led by Vim. The premium laundry segment is now started with the impact of excise duty benefits that will start paying out from now onwards. I will talk about total impact of excise duty towards the later part of the presentation.

Moving on to Skin Care, it was a healthy underlying performance. And here, the growth was impacted by delayed winter and a one-time realignment of channel spends. FAL continues to do well, and there is good response to the BB cream launch. Ponds- driven by premium skin lightening, while Lakme is fundamentally led by premium innovation particularly the CC cream.

Hair care- continued strong momentum is coming through in hair care as well. There is volume led double digit growth and basically the growth we are calling it as an impact of fiscal benefit and it continues to deliver strong double digit growth there. Dove led the category's performance and Tresemme continues to do extremely well. And the focused market development of conditioners also continues to grow well. This is a category where we are very happy with what we see and it's across the board performance, what one is able to see here.

On Oral Care, there continues to be a subdued performance in the quarter. Close Up continues to grow led by impact of activation but Pepsodent's performance is muted. While the Clove & Salt variant is doing well, the core re-launch is underway, the core actions are being taken to revive growth and competitiveness. We should start seeing results pretty soon. So that is the story on Oral Care.

On Color Cosmetics, yet another quarter of strong innovation led growth momentum. Lakme is on a roll and delivers another quarter of double digit growth. It is broad based, with core, Absolute, and 9 to 5 range doing very well. And with some stunning innovations, stunning visuals and finally all proof of the pudding is in the stunning performance.

Beverages, steady performance, broad based volume growth, led by impactful activation and market development. Red Label led the performance, Taj continues to build its premium credentials, and Lipton Green Tea and Natural Care portfolio continues to deliver very strong double digit growth. Great news on coffee where Bru registered double digit growth, and for the first time has achieved market leadership. We always were volume leaders and in this quarter we have now achieved value leadership as well.

Moving on to Packaged Foods, absolutely sweet music here. Ninth successive quarter of double digit growth. Double digit growth across the three brands of Kissan, Knorr and Kwality Walls. I would draw your attention here- we always talked about activation, we talked about market development, we talked about building relevance that is where we have been at it. And now innovations have started coming in as well. We have now added new variants in Knorr instant soups, and we have also launched a new range of Knorr masalas and the Chinese range of noodles has been reintroduced into the market as well. Ice creams continues to deliver another strong quarter of double digit growth through sharpened market execution, you know with Kwality Walls and Magnum.

Pureit has had subdued performance, but news here is the market is changing extremely rapidly and we are midway through a full portfolio strategy being refreshed to play in the wider market. We have launched our first entry level RO in the market and the initial signs are extremely promising. And our focus continues to remain in building the relevance because the need for safe drinking water will continue to remain in this country. And we just need to approach it from a different lens because the issue is around taste of water as much as there is an issue around quality of water which is where consumers are moving to. And we also need to do it in a manner where the products are accessible to our consumers. That's the reason why we have done the entry level RO re-launch. And this entire piece has been done in record time to ensure that we catch the changing tides that are happening. Ecommerce channel here continues to grow very rapidly.

The overall results which have delivered both growth and margins where net sales up 3%, PBIT up 7% and PBIT margins up 60 bps. We called out the impact of transport strike in the last quarter of 50 odd bps and excise duty benefits are going out in the top line of about 80 bps and the bottom-line about 35 bps. We go a little bit deeper from PBIT to Net Profits, other income-interest, dividend and gain on sale of our non-current trade investment of about 94 odd crores and a dividend from a subsidiary of about 46 crores. Exceptional items this year see a big movement here. In the last year, there was a sale of surplus properties, the biggest one being the head office sale. There is a big swing that is happening on that line. In this year there is a provision for restructuring expenses in select contested matters. Given a company of our size there are various contested matters that we deal with and when we believe the timing is appropriate and there is a risk to the business that we need to make a provision for, that is what we do. And this is something which is a one off that has happened in this particular quarter. And the effective tax rate for the quarter is 31% broadly in line with what we have guided.

So in summary, volume led growth sustained and it is something that we have been talking about.
So the 9 months ending 31st December, we are reporting our net sales growth of 4%, domestic consumer growth growing at 5% with an underlying volume growth of 6% for the 9 months. And this is after an impact because of fiscal benefit of 115 bps and which means we are talking of almost 6% kind of growth on underlying basis. Sustained volume growth of 6% and sustained margin improvement after making very competitive A&P investment. A&P investments there are up almost 200 bps for 9 months. And the PBIT because of fiscal benefits go out at about 50 odd bps. So we are talking of an underlying improvement of almost 80 plus 50, 130 bps under the PBIT margin line. Net profit has been fundamentally impacted in the same period for the same reason, property sale in the base period and provision for restructuring contested matters this year. ETR for the 9 months is about 31.5%.

So what are the near term outlooks that we have- In the near term, we expect the market growth to remain largely volume driven given the benign commodity scenario, and the rural growth relatively soft. The phasing out of fiscal benefits is likely to impact this particular quarter post which it is likely to be insignificant. Channel interventions that we have undertaken will be completed during this quarter as well; Here, I am talking about the March quarter. And we will continue to focus on driving volume led growth with improvement in operating margins. Our strategy for the period remains unchanged- consistent, competitive, profitable and responsible growth.

There is an additional new angle for this quarter, where there has been a scheme of arrangements. Background being that as you are aware, there has been a buildup of significant reserves through the transfer of profits to the general reserve as the earlier Companies' Act mandated a 10% transfer. This particular mandate does not exist anymore with the new Companies' Act. And the funds therefore that are represented by this general reserves is currently an excess of the needs that we have for the foreseeable future. Therefore HUL has proposed a scheme of arrangements between the company and its shareholders, where we will transfer the entire balance of 2187.33 crores from general reserves to the profit and loss account. What happens now, the board has today approved it. It is the first step towards proceeding with the requisite formalities. The scheme is subject to the approval of shareholders and the sanction of the Honorable High Court of Mumbai, and approvals that maybe prescribed under the Act. Upon approval of the scheme, the transferred amount will be returned to the shareholders as per the terms of the scheme. We have been getting questions that how long do you expect this to take. We expect a time period of anywhere between 6 months to 1 year for this approval to be secure. But today's approval from the board the first step has happened on this particular direction. With this, let me hand you over to Sanjiv. And if you need any further information, we are always at your service. And our website and the app, I am sure you are well versed with. Over to you Sanjiv.

Sanjiv Mehta

Thank you Balaji, good evening and a very Happy New Year to all of you. To those who have celebrated Lohri or Pongal or Makar Sankranti, our greetings to you. Now let me start by saying that I am quite pleased to see the healthy volume growth in our numbers, something that we have been driving in an environment where there is price de-growth in the large part of our business. If we step back a bit in 2014, our fiscal year ending March 2014 we had an underlying volume growth of 4%. In fiscal year ending March 2015 it went up to 5% and for the last 9 months it has been at 6%. It is comforting to see the resilience in our volume growth over the last many quarters, and the fact that it is broad based across category. Market growths have been relatively modest, particularly rural, where we called out pressure in the recent past. In such a scenario it is important to keep the eyes set on the volume growth something which we have been alluding to in the last few quarters. This is from a health of the business perspective. It is also a reflection of consumer preferences. We have been delivering steady progress here and as I said it has moved up to the 6% level in the last few quarters.

As for the price growth element, it continues to be a story of two parts. We have price degrowth in the commodity linked categories, notably Soaps and Detergents where we have taken a conscious call of passing on the benefits of the lower input costs to our consumers whilst staying competitive in the marketplace. I believe that this is the right thing for us to have done and it will stand us in good stead in terms of retaining the momentum on these categories. I am confident that when the cycle turns, we will be well positioned here. As for the rest of our portfolio, we continue to have an element of price growth, albeit at levels lower than what we may have seen in the past. So I don't want you to take back that there is no pricing in this environment. Although the pricing environment by and large remains subdued, we keep looking for the opportunities where we can take pricing judiciously.

Coming to bottom-line, it is heartening to see how we continue to dynamically manage the business in a manner in which despite passing on the benefits of lower commodity costs to consumers we have been delivering on a goal of constant and modest improvements in margins for some time now. The good part here is that we are driving all levers of margins, be it operating efficiencies or cost savings program, the mix as well as the right pricing. It is not just the commodity price alone. And you will make out from the result which Balaji just presented as well as from the previous quarters that we have chosen to invest a significant part of the lower input cost benefit behind supporting our brands, not just for competitive growth in the market place but also for very importantly what we call as market development or building the nascent segment, something which we have been doing for many quarters now, something which is core to our strategy and really this is driving what we call the virtual cycle of growth. Essentially more investments, driving more growth, which in turn will provide more fuel for investment. All in all, I would say that the performance has been consistent and healthy as you would have seen for several quarters now, and repeated here in this quarter.

Now let me touch on some of the actions that we have taken in December quarter which I believe are pertinent to talk to you about. The first action is the conscious call that we have taken to realign our channel strength with a view to driving their effectiveness in the market place. Over the last few months what we have done is to really take a hard look at what we have been spending across the channel, how we have been spending it, and the ROI thereon. You have heard us talk about the fact that we keep evaluating our spends from an efficiency and effectiveness perspective on an ongoing basis. But this time around we've embarked on a much more detailed exercise. Business of our size and given the amount that we spend with channel partners, it was important for us to align these spends with our strategic objectives, ensure that it was effectively directed, and was giving us a right bang for the buck.

You are aware that the retail and distribution space is changing very rapidly, impacting all categories, but more so in evolving and premiumising personal care category. What we have done is to take some key decisions to ensure that we build our competitiveness across the routes to markets, be it our distributors or cash and carry, and also the channels, be it the general trade or channels like the fancy stores, the chemists and grocers, as well as the evolving channels like ecommerce. Through sharper design of our trade spends, we intend to drive better channel effectiveness in line with its strategic objectives while ensuring competitiveness. This sharp targeting has meant that there has been some changes in inventory and ordering patterns in specific channels in the immediate term relative to the past which has had a bearing on trade inventory pipelines and sales more specifically in the personal products categories. The changes were initiated in this quarter and I expect that the interventions that we have taken will be completed in the next quarter. While I can already see stability setting in, I expect that this should normalize over the next few months as channels restore inventory levels and adjust to the new spends structure. You know ours is a long term play in business and while this intervention may have a one to two quarter impact, it will equip us to handle the evolving channel dynamics well in the coming years.

The second action is a strategic intervention that we have taken on plugging the white space that we had on the fast evolving Naturals segment in our portfolio. You are aware that we have revived Lever Ayush in September – the first set of products are out in the market and available through ecommerce. It is an inspiring range of personal care products ranging from hair and skin to pain management. And then there is Indulekha which we announced in December. The acquisition of Indulekha brings to us a premium brand with strong credentials around Ayurveda that will complement our existing portfolio and strengthen our presence in the Hair Care category. We are excited by the strong equity that the brand enjoys among consumers and see an opportunity in leveraging it's 'naturals' and therapeutic positioning. We are committed to investing behind the development of both these brands to strengthen our play in the evolving Premium Naturals segment.

Let me now briefly share my views on the segments. It is good to see the robust volume growth in Soaps and Detergents. We have continued to take decisive actions to drive our competitiveness and leadership positions in these categories. Our key brands, be it Dove, Pears, Lifebuoy, Surf, Rin to name a few have been performing well in what is a challenging and highly competitive environment. What I am reassured to see this quarter is the step up that Wheel has made. With an encouraging early response to the relaunch, I am looking forward to seeing Wheel get back on track very soon.

Talking about Personal Products, whilst the headline numbers might have been impacted by the channel spends realignment exercise that I have spoken about earlier, the fact is that on an underlying basis, we have had a healthy, broad based performance. Skin care has done well across brands, be it Fair and Lovely, Pond's or Lakme, though the performance of the Hand and Body segment has been a drag with the onset of winter being delayed this time around. Hair continues to maintain its strong growth momentum – the category has had a stellar run for some time now and continues to be in good shape. Our brands have been strong and delivering consistently. Oral, I know has been weak for some time now, but you will see action on this part of the portfolio very soon. In Color cosmetics, Lakme has continued to stand out and strengthen its position in the category with its one after another successful launches in premium make up. Not only are we building a relatively nascent category, we are also setting/shaping contemporary fashion and beauty trends through what is has now come to be regarded as an iconic brand. On Deodorants, Axe Signature continues its strong run and is gaining ground. So overall, in Personal Products, business looks good, apart from Oral which is where actions are underway.

This then brings me to beverages which has continued to deliver a steady performance with healthy volumes this quarter as well. We should keep in mind that beverages are another segment where price growth comes and goes. But that does not deter us from a larger goal of driving preference towards our brands as far as our consumers are concerned. The category continues focus on strengthening brand equity, sharpening in market activation, and driving market development has been yielding good results. And whilst on this segment, I am delighted to share with you a key milestone achieved in our coffee. While Bru has strengthened its leadership position in the instant coffee segment over time, for the first time in 10 years Bru is not only market leader by volume but also by value. A proud moment and a fitting recognition for a fantastic brand that we have nurtured locally.

Packaged foods continues to be a delightful story. This is a segment which has been strengthening its solid performance quarter after quarter with all its brands shining bright in the market. The business delivering its 9th successful quarter of double digit growth is an indication of how serious we are on this part of the portfolio and the team's determination to grow all the categories by playing all the levers starting with market development and now also innovation has come into the equation. Overall this segment is shaping up well and we are excited about the head room and opportunity in this space.

Let me end by saying that when I look at the business, in an environment that remains challenging, I can see that we are leveraging the strong equities of our brands and with an able team, executing our strategy well with greater discipline – and importantly, with our consumers and customers at the heart of it all. And although, in the near term, there is a tepid outlook on market growth and the likely continuation of benign commodity prices, we remain focused on sustaining profitable volume led growth. But let me reiterate that our priority will always be the long-term health and enduring success of our business. I am pleased and at the same time reassured to see the way our portfolio is shaping up as we continue to invest competitively behind strengthening the core of the business whilst bridging the white spaces and driving market development of nascent categories. This along with the consistent investment behind capabilities and strategic interventions that we are making, keep us well positioned to deliver on our goals and win in the market place of today and tomorrow.

With that let me now hand the call back to Dinesh and of course I look forward to engaging with you in the days ahead. Thank you.

Dinesh Thapar
Thanks Sanjiv and Balaji. With this we now move on to the Q&A session. And like always we try and do it for about an hour. So we will try and bring the call to a close by about 7:30 pm India time. And like always can I request participants who want to ask questions to really keep it tight so that we can try and accommodate as many. Apart from the audio questions, there is an option to use the web to post the questions. We will pick it up through the web as we go along. Before we get started with the session I would like to again remind you that the Q&A session is only for institutional investors and analysts. Therefore anyone else who is not an institutional investor or analyst, but would like to ask a question or seek clarifications, please feel free to reach out to us at the investor relations team at HUL. With that I would like to hand the call back to Palak who will manage the next session for us. Palak over to you.

Moderator
Thank you very much, sir. We will now begin the question-and-answer interactive session for the all the participants Who are connected to the audio conference service. Participants who wish to ask questions may press *1 on their telephone keypad now. The first question comes from Mr. Manoj Menon from Deutsche Bank. Mr. Menon you may please ask your question now.

Manoj Menon
Hello sir, congratulations on a very good top line performance. Just a couple of questions Balaji, one on the volumes bit. Is it possible to quantify the one offs- I understand that the winter quantification is not easy but what do you think delayed winter probably would have impacted, or let's say it was the flood situation and high rains in South,

and thirdly the channel impact on PP. If you could tell us broadly what all these three put together, because these are all clearly one offs.

P. B. Balaji
Thanks Manoj. Let me pull back a bit. I think the impact of Tamil Nadu floods, we are not calling out at all because it happened towards end November-early December. And we got a full month after that. I cannot on a verifiable basis confirm that this was an impact, because the pipelines have filled up, city has bounced back. It is just not right to quantify that. That is one point. As far as winter is concerned we have done a simulation of it, and we believe the impact of winter alone in our portfolio in the PP side of the business will be about 200 bps. And as far as the channel interventions are concerned, we believe that if I remove the channel interventions that we have seen, we have been seeing PP through its normative growth rate what we have seen for previous quarters. That is the reason we have called that out as healthy performance. We are not unduly concerned about it. And therefore you should be able to say barring the channel interventions you should have seen PP in the kind of growth rate that you would have normally seen.

Manoj Menon
Fair enough, it's very helpful. Sir second question on the ad spends or on the A&P line item. The context to this question is that it is a bit surprising to see A&P going up in absolute terms significantly given the revenue performance and the market performance as such. If you could just help us understand the drivers of this. For example is this just a function of you maintaining the absolute kitty which you spent on the categories of tomorrow, or is it just a function of promotional spends being higher because of the relative competitive intensity. Because you would have probably saved some money on the A&P line because of the channel realignment which you spoke about.

P. B. Balaji
See if I look at percentage turnover wise, it is roughly about 14.5%. It is broadly in line with what you would have seen last quarter as well. And keep in mind that this is a quarter where the PP category because of the winter and therefore you will be, whether delayed winter happens or not you will continue to go and spend the money because you want the off take to happen, and therefore you would press the accelerator there. And innovations have been intensive as well. So those are the drivers that I see. And there is an element of 'P' in the A&P line and that is with the falling commodity prices, there would be an element of P that has gone up as well. But suffice to say that whatever we invest is analyzed for effectiveness and do have a clear point of view where we will invest and for what reasons.

Manoj Menon
Okay, no actually allow me just one follow up on this because the context here is that A&P in absolute terms year on year, because I am not looking sequentially, has gone up from about 970 odd crores to about 1140. So there is a significant absolute increase here. Now when I see this in the context of overall volume performance and the segmental S&D revenue growth and the margin performance etc, it appears that the S&D volume has been very high. So my only question here is that is there any relative competitive change in the S&D part of it specifically in this quarter or something?

P. B. Balaji
The competitive intensity remains high across all categories. So let's keep that as part aside as far as India is concerned. As for volume growth, it is widespread. It is not only soaps and detergents, we have seen volume growth across the board. Therefore, we are comfortable in what we see as a broad based volume growth happening across categories. That is the second one. Third one, as far as absolute number of A&P itself is concerned, that is driven by a lot of factors, and largest of them is the magnitude of innovation that is put through. Given the P angle, there is a promotional angle to it, and of course for example the percentage numbers would have changed differently if the entire PP were normative numbers, it wouldn't have shown up to that extent because you would have seen the turnover growth coming through. So these conscious calls that we have taken. But reacting to your point on absolute

numbers, that is the driver of the first two factors: innovation intensity and the point around promotions being as part of A&P as well.

Manoj Menon
Fair enough, very helpful. Should we look at the staff movement and staff costs year on year in absolute terms in conjunction with the operational income? Is that the only explanation?

P. B. Balaji
Yes you should see alongside that. That's right.

Manoj Menon
Sure, sure. Thank you. All the best.

Moderator
Thank you very much Mr. Menon. The next question comes from Mr. Abneesh Roy from Edelweiss. Mr. Roy you may please ask the question now.

Abneesh Roy
Sir thanks for the opportunity. My first question is in the Naturals Space and 2-3 sub parts to that. Sir you did that acquisition after many years of Indulekha which is in the super premium category. And normally if I see you are present in lower end, medium end and premium end of every segment. So in this part of the business you do have some offerings but not very aggressive in the hair oil space in the lower end and mid end. So what will be your strategy on other parts of the business? And Ayush is currently being done through the ecommerce side. So when do we see you offering Ayush in kirana space. And third sub part to the natural space, in the oral care, you are facing tough times. If I see the herbal care, Dabur Red is doing extremely well and Patanjali is doing well, again market leader which doesn't have too much of herbal offering in its core portfolio, it is not doing well. So is herbal offering a solution to your toothpaste business? Is that one analysis which is coming out?

P. B. Balaji
Thanks Abneesh. Let me go through the questions one by one. If I understand you right, first question you want answered- Indulekha what is your plan. You are going super premium and what are you intending to do with that, or are you trying to fill up the entire portfolio. That is the first question that you asked. I think for us first of all Indulekha is not in our hands. It will start from April, we intend to close the transaction by then, when all conditions are completed by both parties. The time frame that we have in mind is I think by end of March we should have it sorted out. So that is when it comes in to our hands. I think our going in position of Indulekha is we love the brand, we love the equity. I think it is beautifully positioned, and that is the reason we bought it. I would only suggest that just give us a bit more time. Let it come out there and do it. You wouldn't want me to share things with you that are in a premature stage. And we do have aggressive plans as far as Indulekha is concerned. Otherwise we wouldn't have bought it.
Second as far as ecommerce is concerned on Ayush, yes we have started the launch in ecommerce and it is a very conscious call because we would love to understand the consumer conversations that are happening around Ayush and you would see that it is a very intense set of conversations that are happening in the social media. And therefore it is giving us a lot of learning, and therefore we would want to first internalize those learnings and ensure that we make our offering even more robust compared to where it is today. It is almost like a creative recycling that is happening where you put something out, you hear the conversations and feed back to your innovations and go back. That's the space we are in and therefore it will definitely come out in the general trade as well. But we will do it when we are ready and we are confident that we have cracked the code when we want to launch it. So that is the point on ecommerce.
As far as oral is concerned, yes we have not had a stellar performance in oral. That would be an understatement if we were to say that. And therefore we have to get our act right on the core that we are talking about. And that is a focus as we speak and we should see the intervention sooner or later on the core.

Abneesh Roy
Sir on toothpaste are you agreeing that the herbal part of the business is the missing link? Because market leaders are also not seeing growth but the other herbal players are seeing growth. So is that also something which you are taking into your own plans that you need some herbal products at some stage? You do have some small brand extensions like clove and salt. But I am asking more herbal focus in terms of complete products?

P. B. Balaji
Abneesh you know us well. I think the way we operate is we first take the core. It is very easy for us to start doing herbal offering on the side, but if we have not fixed the core -you need a soft account and get that firing. And that is where the work is going on. Of course we like what we see as far as Close Up is concerned. Pepsodent, the launch is happening any time now and therefore that is where we are actually focusing on. Let’s get that right. That gives us the license to start playing in other areas. If your core is not firing, it doesn’t matter what we do because there won’t be - I believe in momentum and momentum is mass into velocity. So therefore I first need mass. Velocity can be exciting but if you don’t have mass, you cannot move. So I would rather build momentum in a core business which is a solid share and get that right, and that is the focus we are on to.

Abneesh Roy
Second question is on Bru, you have become market leader first time in 10 years. First question is that Tata Coffee has entered this so what are the risks from there. And second is could you talk more about how you have gained the leadership, the other player did have issue in one of its drivers, was that also helping? And the innovations and market interventions if you could talk more about that. How sustainable is the leadership because it is the first time it has happened in 10 years?

P. B. Balaji
As far as Bru is concerned, we are very happy. It is a strong brand in the south, and it is a brand that has been doing very well. It is true filter coffee zone, that is what Bru is all about. And coffee that has taste like filter coffee that is the proposition. And we like what we see there. We have been building it methodically over many, many years and we always were volume leaders. And it was a neck and neck game for quite some time. We love the fact that we have managed to get value leadership as well. We also have innovations that have landed us there which is the whole Bru Gold which we have been calling out from time to time consistently if you go back in time on our call. There we have it has been launched in the north and the south and that is pure coffee. That has also helped us deliver good growth. We shouldn’t forget that the belly of the market lies in the small towns and the deep interior rural reaches that we took Bru to, and that is what we believe consistently building that with the taste as the main platform is the basis on which we are building the Bru portfolio.

Abneesh Roy
Sir one small follow up on the soaps and detergents. Wheel you said has come back strongly. If you could talk about that, what is working there? And your absolute profits on soaps and detergents is flat for two quarters. Sir the entire industry in your sense is also facing flat profits inspite of such a huge correction in raw materials. Question is do you see profit growth coming back in this? Now again raw materials have further corrected so do you see yourself and the industry passing on most of those. I know you don’t give forward statements but it is very surprising that in a category two quarters no profit growth in absolute basis, in spite of raw materials pulling out sharply?

P. B. Balaji
To answer what you have said, you are well aware that we don’t comment on profits by segments, and we believe in the portfolio and we want to really play the portfolio. We have a portfolio and we will play it. Wouldn’t want to comment on a particular category’s inherent momentum or profitability.

Abneesh Roy
Okay sir thanks, all the best.

Moderator
Thank you very much Mr. Roy. The next question comes from Mr. Percy Panthaki from IIFL. Mr. Panthaki you may please ask the question now.

Mr. Percy Panthaki
Hi Sir, Congrats on a good set of numbers. Sir this scheme for returning the money to the shareholders, basically what is it that you are going to propose? Is it going to be a special dividend or is it going to be in the form of buyback? Any clarity on that yet?

P. B. Balaji
Percy I think, let me take that. I think the point is right now what we have suggested is a scheme the board has approved today, where we will ask the approval of the shareholders under the scheme to move the non-distributable reserves of about 2100 crores into distributable reserves. That is step number one. How the scheme will be approved will decide how the pay off happens. And the reason why we are walking in gingerly there is this is the first time in the history of the country where we have asked for a blanket approval of cleaning out the entire general reserves balance into the P&L balance. And the reason why they are doing it now is the new Companies' Act very clearly says there is no more mandatory 10% transfer. So we believe that opens up the opportunity that we explore because we don't need that; we have evaluated all our requirements going forward, and we have to keep in mind that we are a cash generating business. You are aware that we have done a 5000 crores odd every year. So there is enough and more cash coming through in the business. So this is actually a signal of clear strength from which we are operating, where we believe we have enough and more cash generating potential to meet any requirement for any point. And that is the basis on which we have gone ahead and done it. One of course is share holder friendly we do agree. And second it also makes my balance sheet lean and therefore takes the returns up further. And we would there want to continue to be seen as the guys whose return on investments are incredibly lovely and that is how we would like to position it. So this we are operating, we are coming at it saying that we have the potential to grow as much as we want with no cash requirements. Hence return it to the shareholders because I would rather not earn treasury returns on this if it is not required. That is the thinking on this. And the modus operandi with which we will return the money will depend on how the scheme comes back. And all options you said, be it dividend, special dividend, buy back all the options are on the table. That is not where we are going with this. We will first do the first step, see the scheme, then the board will take a decision on what is the best way to return it. And we are very clear we want to return the money back to the shareholder. So that is the intention. Just the modus operandi we need to work out. Wait for the scheme to be approved and then.

Mr. Percy Panthaki
Sir my second question is again Ayurvedic or natural platform. I think Abneesh did touch upon this but I will dig a little deeper in this. See there are two approaches which can be taken in this. One is that over the longer term the consumer is going to up trade to a premium offering and could be the go-to person in the premium space. And as the consumer matures he will come to me. Other option is to realize that right now and for several years more the natural or Ayurvedic space is going to be much, much larger in the popular or mass segment and pretty small in the premium segment. So what is it that your thought process or philosophy is? Would you like to play across the price piano as you have been doing in your other categories and other things? Or do you believe in natural or Ayurvedic space you would like to be in the premium segment only?

P. B. Balaji
Percy firstly this is a quarter call and therefore I won't take too much time on the strategy around it. I think the right place to do that may be the investor meet so let's park the details there. But to quickly answer your question, we are in the process of building a portfolio. That's the reason you will find Ayush coming in, Indulekha coming in. and we already had some of the natural variants happening with Hamam which has always existed. We have offerings in

various places. We like the space Naturals the way it is growing. We had pointed that out even in the investor meetings when we did meet. And therefore we will be looking at it. We are there to get our fair share, be it channels, be it segments or positions. So that is what we are focusing on.

Mr. Percy Panthaki
And a last quick question if I can – your ad spend at 14.5% I think is at an all time high now. So do you think this has really peaked out and can only go down from here? Or do you think this is a new normal and it can be at this level for 2 or 3 years more?

P. B. Balaji
I think I won't comment on individual lines. I am sure you are bored of me saying this. We are committed on modest improvement in operating margins and we have given you a track record of delivery of this, Dinesh can correct me, 18 quarters in a row. And that is the track record we would like to maintain. And we would want to play all line of the P&L and we play to ensure that we have relevant categories today and categories of the future. And therefore don't just look at it as a percentage turnover game. It depends on what are we doing and as a full company portfolio in a context here commodity costs are benign. So I think there is a lot of play is happening on it simultaneously. And I would want to talk about it on an overall level how growing volumes are handled, financial model volume growth, how do you drive – how do you convert that to value growth. How do you land that in the growth by improving margins. And how do you convert that to cash growth. That's the way we would like to play this game.

Mr. Percy Panthaki
That's all from me. All the best and thanks a lot.

P. B. Balaji
Thank you.

Moderator
Thank you very much Mr. Panthaki. The next question comes from Mr. Prasad Deshmukh from Bank of America. Mr. Deshmukh you may please ask your question now.

Prasad Deshmukh
Good evening to all of you, couple of questions. Could you qualitatively comment on your market share movements in this quarter across categories?

P. B. Balaji
Let's maybe talk about market growth that is coming through. I remember last time we did talk about a divergence in what we were reading as market growth versus how the retail panel data is picking up. We are now seeing the numbers starting to come more in line to what we have been expecting. There is still some distance to go but the retail panel data is now starting to pick up price de-growth much better than what was done earlier. But still, there is some distance to go as far as the price de-growth is concerned. As for volume growth, we are comfortably placed.

Prasad Deshmukh
Okay. In packaged foods you had discontinued some of the variants in the noodles category. So is there any update on approval status for them? And also if you could comment on if there is any increased regulatory scrutiny now versus what it was a year back?

P. B. Balaji
The Chinese variants of noodles are already back in the market and doing very well. So that is already there. And as far as the regulatory thing is concerned I think we see far more engagement and far more of what I call as positive drive towards resolving issues growing on this. If you say this morning there was a complete clarification on import of product for instance. So there is lot of movement happening and all of it we see in the positive direction.

Prasad Deshmukh
Okay and just one more question if I can ask. In this quarter you commented on rural relatively weakening in terms of demand and urban probably stable and likely can pick up going ahead. So in terms of market response, what are your market development efforts, how you responding in these two markets?

P. B. Balaji
The very fact that we launched WiMI is a recognition that India is diverse, we need to be responding to each and every place in its own way. And in that context I think market development is universal across the country, but will be different in different regions, there will be different products that we will be focusing on market development, in line with the jobs to be done in that particular cluster. So that is what we are doing. And the reason why we call rural as relatively soft is we are now seeing growth more in line with urban growth rather than the 1.5 or 1.8 times that used to be there. But it seems to be stable at that level and not going down further. Which means that is the reasons I just called it relatively soft and left it there.

Prasad Deshmukh
Okay thanks a lot sir.

Moderator
Thank you very much Mr. Deshmukh. The next question comes from Mr. Amit from HSBC. Mr. Amit, you may please ask the question now.

Amit
Good evening everyone. Just a quick one on oral care. Pepsodent has been struggling for a while and despite several trials has not been able to make a mark although Close Up has done well. Is it something to do with the way Pepsodent is positioned and consumer base is not very loyal and has lapse rates that are very high? And what is the underlying reasons for several trials. Have you done a survey of who is really buying it and what is the loyalty factor that comes with it? Or is it that the revenue mix is so inferior that consumer churns away very quickly?

P. B. Balaji
You can be rest assured that the amount of surgery that has got done on Pepsodent to come back with the re-launch that is currently underway. Let me not comment on this now but probably pick up this comment on the next call and I will tell you why. Because I believe we have gained the entire mix and put together a completely radical mix going into the market. Let's wait for this to play out. We are confident that we have done a good job of it. And given the team I am also confident about them because it is the same team that has turned around Fair & Lovely, and it is the same team as a company, that has turned around Wheel as well. I know that that a lot of soul searching has happened and we have put our best foot forward. I wouldn't like to comment on its likelihood of success without actually seeing the proof of the pudding, for exactly the same reasons that you have said, there have been too many false starts. People have tried on it and we believe that we have a good thing going there. But the proof of the pudding is in the brushing in this case.

Amit
Sure Balaji. A very quick one, if you could just clarify for me one thing, if I assume personal products were impacted 200 bps for example, by delayed winter and if I were to see a normal run rate of 10-11% then we are saying 200 bps because of this channel realignment. So are we saying it is going to the next quarter as I hear it is going to last for one more quarter and it's done? Could you give details on what sort of an alignment is this and how is it structurally playing out? Little bit more color would be very helpful?

P. B. Balaji
Okay I don't want to comment on the exact number on this because the number won't be verifiable. All I can say is that we see healthy growth there in line with what we have seen in PP in the past. I will leave it there. As far as what exactly have we done, Sanjiv covered it extensively. But just to give you a short version of that, channels are

evolving at high speed and channel evolution is particularly affecting PP category, be it ecommerce, modern trade, fancy, chemist, family grocers, whole range of channels are moving at high speed. We have taken a conscious step back and looked at what are the kinds of investments we are making in each of these channels and what is the growth forward; how do you see these channels evolving, what are the objectives you want in each of these channels, the best way we should be able to deploy our money in these channels, what should be the right way we remunerate this channel, and therefore what should be the reconfiguration we need to do on these various schemes that we run on these channels. This we believe is important to take this pause and ponder moment right now because if we do it right now then it will be in play in the next 4-5 foreseeable years, which will ensure that the channels are working in unison and not trying to disrupt each other. And we are to win more than our fair share in all these channels. How we win is all these channels without creating havoc with what this call was about. It is particularly relevant for PP because the values are large and it is where growth is also very high. And therefore right time to do it in a carefully thought out manner. That is what we have done.

Amit
Alright Balaji. Thank you so much. This is all from my side.

P. B. Balaji
Okay thank you.

Moderator
Thank you very much Mr. Amit. The next question comes from Mr. Bhavesh from CLSA. Mr. Bhavesh, you may please ask your question now.

Vivek Maheshwari
Hi good evening everyone, this is Vivek. Continuing from the earlier question, when you say realignment, I mean I understood what you meant but it is still not clear. Is it draw down of inventory at the retail distributor level? Is it lower commissions or lower promotions? What exactly does it entail? And why this timing when the market itself is not very – the growth is somewhat under question and we are changing something which may have some repercussion at some point of time maybe?

P. B. Balaji
What exactly has been done, I will explain to you and the implication goes across the board. Implication goes in terms of where you are making changes- Are you doing it on TTS, are you looking at visibility, are you looking at number of phase ups, all those things. And that then ensures okay this is the objective that I have for that particular channel, and this is the basis on which I am remunerating. Is there is an objective on the remuneration or are they in sync or are they leading to malpractices. What are the kinds of portfolios you want to promote. So those are all the conversations that needed to be had. And you have the conversation and decided on the way of moving ahead. The question that you raised is a very interesting one and you can be rest assured that there are enough people in the company who ask the same question, is this the right time to do it? But we are very clear as a company that we will take decisions for the long term. So if you get it right in the long term, things will sort itself out immediately. We can't be held hostage to what is happening to the price growth in the market. In fact we are seeing that volume growth is still 6% despite all these corrections that we have done. Therefore we are able to pull it off without creating too much havoc in the market. And the key thing you must notice is that the reasons why you see a lower turnover growth coming in are for two reasons: One is one segment in the portfolio you have got a commodity deflation and the fiscal impact is happening at the same time. And the earlier we take these hard calls, the better because you give yourself runway length when the markets are turning completely on value growth as well. So we are very, very clear that if there is an issue to be solved we fix it right now and not postpone it because to keep a healthy set of numbers growing. It would be irresponsible on our part if we came back saying because of that we dropped numbers. We have still delivered the 6% UVG, we've still delivered the 7% PAT (bei), EBIT growth. Therefore we believe we are able to, as Harish says it in his own style, 'walk and chew gum'.

Vivek Maheshwari
Okay. While I have no doubt about your execution, still just for my satisfaction, it doesn't entail a lot of dissatisfaction or heart burn in the channel right? They are aligned to what you are trying to do?

P. B. Balaji
Absolutely. Otherwise we would not have been able to deliver the growth, number one. Number two, this will be good for everybody because it ensures that channels are growing in tandem or not undercutting each other or not fighting with each other which is not good for everybody. Channels are different and we need to be remunerating, we need to be supporting the channels for each objective. Which is what the purpose is all about the effectiveness of all channels.

Vivek Maheshwari
Okay. Second on the soaps and detergents line again although you have specifically highlighted, that it is a lucrative portfolio. But even in the fact that you fight in the market in different segments and not necessarily as a company, and you want to protect your market shares at every segment levels. Now if I look at soaps and detergents, YTD 1% revenue growth and 3% EBIT growth, we are talking about a branded business. An industry like paint which is a very difficult industry, there we are seeing a growth in earnings. Whereas here we are talking about a branded soap or detergent where the market leader is growing just at about 3% on earnings. Where the crude is right now, where the prices will be after the end of the quarter, do you envisage further deflationary pressure and reckless competition, particularly as crude has broken say $30 mark? Or how will this cycle play out and why shouldn't branded guys make more money in the deflationary environment is something I am unable to understand.

P. B. Balaji
Let me comment on the pricing part of it. As I said earlier we will remain competitive is what we have said. And that is important for the long run. And that is the reason why you take the decisions that you take. And it is also a great time to keep in mind that we are also spending a lot in market development. It is also a great time to push some of your nascent categories, some of your premium categories. It is a great time to drive premiumisation, because you can afford it. So these are conscious calls that have been taken and what you see are after effects of that. There is a reason why we take these problems out of your equation and say that as long as I am delivering modest operating margins and I am delivering strong volume growth it just gives me the degree of freedom to decide what the best way to invest for long term sustainable profitable growth, and therefore which is exactly the game we are on to. And that is playing out well for us. That is the reason why strategy remains unchanged. Individually we have people held accountable for the targets, on an overall level we would want to leverage the portfolio to the hilt.

Vivek Maheshwari
Sure, sure. But doesn't this worry you that such deflation cycle and your soaps and detergents portfolio is just not growing in earnings right?

P. B. Balaji
If it is a conscious choice to invest and grow for the future. For example take a brand like Surf, the fastest growing and largest brand in the country growing in strong double digits but premiumising at a scale that we haven't seen before. And that is long term sustainable. Seeing it in the down turn now I think these investments need to be seen in fine print and see that you have actually taken a very strategic point and put it in there, that is when you start seeing it. Today we are reacting basis the turnover growth not coming through. Therefore you do lose a bit of leverage I think. But it is absolutely strategically the right thing to do.

Vivek Maheshwari
Okay. Since you mentioned about tough times and all, I am sure you have heard this question time and again. But if I look at internet sales, if I look at car sales in India, is it that consumers – you know earlier aspiration of products in personal care perhaps, moving towards mobiles and all. Because when I look at numbers supported by Flipkart,

Snapdeal or any of the car sales numbers, it doesn't look like the slowdown is as big as it appears for staples. Have you done any analysis or found any insights on that trend.

P.B. Balaji
Our own ecommerce growth is a great point for this because then I can talk with confidence as we have done a research. And we are seeing tremendous pickup in ecommerce across the board. We like what we see. And we would want to ensure that our share, growth, profitability in ecommerce is greater than modern trade is greater than general trade. That is how we would like to run the business. And for that we ensure we play the right portfolio in the right place. The earlier point I made on sample corrections, realignment that we are doing is also to enter that this strategy plays out the way we want it, then the growth will seriously be value creating. And we have seen sequentially strong growths coming through in ecommerce where every quarter is seriously higher than the previous quarter. And that is how we would like to do it.

Vivek Maheshwari
What I am saying essentially it is not about you growing or the grocery or personal care as an overall in the ecommerce space. Point is that is it that the consumers are moving towards - so earlier aspiration products were personal care or whatever and now it is about mobile phones. It is not about your market share, it is about markets moving to something else. Particularly when I look at within discretionary space, cars or you know all these ecommerce spending, it doesn't look like slowdown is as big a problem for those sectors, as much as it appears for staple sectors.

P. B. Balaji
We are not calling it a slowdown at all. If you look at our own growth of 6%, is hardly a slowdown. There will be enough and more companies wanting to do that. What we are seeing is lack of price growth in one section of the business. Therefore the reasons we are taking volume growth as the starting point, and the commodities cycle turn and the change, you have secured your consumer base and then you are ready to move. And therefore I don't think, we are calling as a slowdown. If you look at the market we are talking about, you would love to see some of the growth coming through in rural for instance. And that is something which is now called out across the board. Most players are calling it out. We see that as well. And not just FMCG players, other players as well. And that is something we all know is a real threat there. And that part is the only call out that we have done. And other than that I think compared to last year's volumes, this year's volume growth in the market has really gone up, essentially gone up. And so I don't think there is a maybe slight growth challenge and not necessarily an uptake challenge on volume.

Vivek Maheshwari
I see, I see. Thank you very much and all the best.

Moderator
Thank you very much Mr. Vivek. The next question comes from Mr. Ashish Upganlawar from Elara Capital. Mr. Ashish you may please ask a question now.

Ashish Upganlawar
Sir, you have given quite some commentary on this call on the kind of market growth you are looking at on the discretional side. But if you can elaborate more on how are you reading the market on the rural side basically. It is equal to urban as you say but can it get a bit worse from here? Because you are saying that instead of improved on an overall basis, but if you could bifurcate that and give some more qualitative information to us on urban and rural, how things are shaping up that would be helpful to us. As far as the market is concerned, not HUL basically.

P. B. Balaji
As far as market growth or rural, the outlook that we are calling out right now looks relatively soft. And the reason is basically I think we would love to see a bit of traction. Keep in mind that it is an agrarian economy and with global commodity prices the way they are, there is only so much of minimum price increase that is possible. And if

you look at wholesale price inflation, it is actually negative. Therefore there is only so much of pricing that could go into rural markets. And we are hoping that in investment cycle terms there will be definitely more jobs getting created. Obviously there is a lot of progress happening in power, there is a lot of progress happening on roads. Those shifts are turning. And I am hoping that the stress because of monsoons is behind us now and we are starting to see some good news coming in some of the crops. Therefore one does hope it changes fast. And I am conscious that whoever we speak to, there is a lot of realization that there is something in rural. Maybe the budget could get us some support for the rural business as well. And that should start turning. But since everybody sees to it I am assuming that rural growth turning around will be the key focus area for 2016 and that should give us in other areas, be it direct benefit transfers, be it the whole one rank one pension, the whole element of the pay commission, all this should also start coming through both in urban and in rural. But specific focus on rural could help unlock matters. So we are positive as far as 2016 is concerned, situations should be better from an off take perspective. But commodity prices is anybody's guess and therefore it will be foolhardy for us to comment that it the company is going this way or will turn. But we are ready to be dynamically reacting to whatever happens in the commodity market.

Ashish Upganlawar
Okay. Sir what you spoke about is mostly the macro on the rural side that most of us are hoping of. But is the sales channel suggesting something incrementally things are rather than improving are getting difficult on the rural side because some companies we hear that the rural uptake are not moving for certain parts or certain categories. So is it that bad?

P. B. Balaji
If you recollect we were probably one of the earliest guys who were signaling stress in rural. Very early part of 2015, we did come in and say we do see stress in rural. And as we speak it seems to be relatively soft, it seems to be in the same space. I am not seeing aggravating trends as far as what we had called out earlier. And rest assured we will be the first ones to come back and tell you the minute we realize it that there is turnaround in the offering or there is further deterioration. As we speak we see that it is very similar to what was there earlier. There is no additional stress in the market.

Ashish Upganlawar
Okay, thank you so much.

Moderator
Thank you very much Mr. Ashish. The next question comes from Ms. Chitrangada Kapoor from Sameeksha Capital. Ms. Kapoor, you may please ask the question now.

Chitrangada Kapoor
Hi sir thanks for taking my question. My question is more broad based particularly in the naturals portfolio. I want to understand from you sir since you have now focus on the naturals portfolio, we had Hamam earlier in that portfolio as you have already mentioned. Did we actually miss out on reading to what exactly India wanted? Why did we wait for Patanjali to give us a wakeup call that is my first question to you?

P. B. Balaji
I think as far as Hamam is concerned, it is still a strong brand in the south. It is not a brand that we 'had' but it is a brand that we 'have' and it is quite a strong brand we have. And we do actively work on it. In Tamil Nadu it is one of the largest brands that we see. So that is the point in Hamam. As far as naturals itself is concerned, the portfolio gap is something that we had acknowledged sometime back. And the opportunities in India are many and we are working on all the opportunities simultaneously. Look at the track record of growth and the improvements that you see. All that we are keen to get on is a solid intervention that could work across platforms. There are multiple models in which natural can be worked on- in one category to one brand across categories, what are the various

offerings, what can you claim is an important point, because we need to be in a position to prove whatever that we claim. So there is a lot of work that happens in the natural space, which I would call out as fundamental work. We are focused on the consumer looking at naturals in a positive way and that is what we react to.

Chitrangada Kapoor
Okay fair enough. Just to clarify I understand that we have very strong brands and a follow up on that. Pepsodent is a very strong brand. And earlier on the call somebody tried to I think bring this point across. We have been re-launching Pepsodent in the past many times over. And now okay you said that you will comment in the next quarter. But my question here is since we have the benefit of benign input cost environment and we are looking to have a competitive spending behind brands, why particularly Pepsodent, when we can invest in brands that we already have a lot of leadership. For example Close Up, we are a market leader in the freshness category and the entire oral care category. As an industry, it is a little modest in terms of growth. The second example that I can give you, why not invest in winter care. Vaseline you said is impacted because of delayed winters, which given the global warming scenario it maybe a reality going forward. Or the brands that we are already very strong in, why particularly just to enrich our portfolio, why particularly Pepsodent and not Close Up?

P. B. Balaji
Let me assure you that we are investing as much as is needed as far as Close Up is concerned. And there is no starvation of funds happening to any of our brands. There is enough and more money available to ensure that we support all our brands. There are challenges and obviously we prioritize. And oral is a category that is not performing well, which we acknowledge. The reason why we are doing a full-fledged surgery on Pepsodent is the fact that we want to win back on that category as well. It is a huge brand and it is a very relevant positioning around germ kill. And therefore we would want to do that investment as well. There are two different positions. There is a freshness position for our set of consumers who love freshness. And there is a set of consumers who swear by the germ kill proposition of Pepsodent. So we would like to ensure that we keep those consumers as well and we need to respect their preference.

Chitrangada Kapoor
Okay. Finally you mentioned somewhere on the call twice the return on investments part. So realignment channel spends which we are currently undertaking will be completed in the next quarter as you had mentioned. What will be the return on investments that we are internally targeting to achieve because of this realignment?

P. B. Balaji
Wouldn’t want to get into individual numbers on this. Suffice to say that it is basic business prudence, the money that you put should be significantly lesser than the money that you get back. You would appreciate those are confidential numbers.

Chitrangada Kapoor
Yes. Okay thank you.

Moderator
Thank you very much Ms. Kapoor. At this moment there are no further questions from participants on the line. I would now hand over the call proceedings to Mr. Dinesh Thapar for the web questions. Over to you sir.

Dinesh Thapar
Alright thanks Palak. Balaji we’ve got a couple of questions over here on the web. So let’s take those if we have not covered. Avneesh Agarwal from Sundaram Mutual Funds has a question on why do we have a 35 crores loss on the others segment? Is that a one off there?

P. B. Balaji
I think it requires an explanation. The bulk of that segment is fundamentally the water business, and you would have noticed that we did call out in our slides that we are doing a fundamental reset of the water portfolio strategy. And therefore we have undertaken investments to support the existing portfolio as well as drive the new portfolio to support. We do see challenges in the growth of the consumer durables position during the early part of the year. But we also believe there is a change in the way the market is moving and we need to move fast and catch up on it which is the reason why we move at a very high speed to put in an entry level RO product in the market. The initial signs are incredibly inspiring and we hope that continues that way. The loss you see there is both due to volume de-leverage in the portfolio as well as investment in the new portfolio that we are building rapidly.

Dinesh Thapar
Alright. Tejas Shah from Smart Capital's question on how the pricing scenario on tea is. Last quarter was holding back pricing actions waiting for the monsoon seasons to go through?

P. B. Balaji
As we speak I think the pricing scenario is stable. And therefore we will not see much movement on that because of the way tea prices are currently operating. But we need to be watching out for how the global scenario pans out. While it may not have direct impact in the local turf but sentiments are affected and global prices have crashed in the last one and half to two weeks. We just need to keep a close watch and see how the local market reacts to that. But as of now it is stable.

Dinesh Thapar
Tejas's second question is that 'this is perhaps the best time to support nascent categories and you mentioned that we are doing the same. Can you share a few initiatives that we have taken in recent quarters?'

P. B. Balaji
Yeah let me give you a few instances. I think let me start with the soaps portfolio. For example, aggressively building the liquid soaps market, the hand wash or body wash we see very good growth coming through there. Or take a category like detergents, the laundry business we are building the Surf Excel liquid portfolio .We have seen some very good growth coming through there or Comfort. These are all deep market development work, be it product sampling, be it contact programs, be it experiential sampling. The whole work in terms of building categories of the future. Or an evolved category like hair where we are very, very consciously building conditioners, which has delivered very good growth this quarter. Or category like tea where we are building a natural care or green tea portfolio. Or deos, which is itself a nascent category. Enough and more innovations we have talked about. Or an out of reach category like Lakme, which is pure innovation driving new look and therefore growing that market for looks and how you shop that look in ecommerce and how you connect the two together. Those are the spaces what we are focusing on. And you are absolutely right, what a time to actually create those categories. The corns that you sow now are the ones that you will reap later.

Dinesh Thapar
Okay we will move to Jamshed's question is on what is the percentage sales rate of ecommerce and where do you see it trending in the next 3-5 years?

P. B. Balaji
Hold this question for another 6 months. Whatever I have seen so far is that it is giving tremendous momentum and we are starting to see the business, at least at the quarter level, starting to seem relevant and seems to be a sensible number to talk about. Give me another 6 months and the reason why I am saying 6 months is it is showing a sequential growth of very high order. We just want to see it for another 2 quarters at least before I come back and say this is what it seems to be looking like. Then only will I be personally more comfortable that it is really sustainable growth rate.

Dinesh Thapar
Okay next question is what percentage of sales is from premium brand versus 3-5 years ago?

So Jamshed if you look at the portfolio it will vary across categories. But a broad estimate of that would be close to about 25%. Don't have a fixed number but clearly the premium segment has been growing disproportionately in the 3 to 5 year horizon. We have answered Jamshed's question on segment of loss of 35 crores so we will move on.

Dinesh Thapar
Prashant Kutty asks: HUL is currently at its highest gross margin, how much is sustainable assuming input costs at the lowest point. And what is your strategy to expand price in a deflationary environment.

P. B. Balaji
I think the gross margin at the highest level as I said earlier as well, we talk at an operating margin level as far as what we are committing out, and therefore gross margin is at the current highest level which is what it is. We don't have any further attachment to that and we are keen to ensure that we continue to improve operating margins modestly every year. That is what we are on.

Second question was strategy to expand price growth in a deflationary environment. Absolutely, that is a great question. There are three salvations that I can think of, that is what we are driving. One is premiumise, so that gives you better mix and therefore you are able to get better price growth there. This is what we are driving consciously. Second have innovations that are margin accretive, and at the same time are value which is why you will find a lot of innovations coming on because we believe we can drive up that additional price there. Third, market development of categories that are nascent for the future that are invariably high end products, high end margins. And therefore the more you build them the better it is from the chance of both pricing and gross margins. So those are the three things that we are currently focusing on.

Dinesh Thapar
Question from JP Morgan is what is the contribution of mix and overall UVG of 6% over the last 9 months?

P. B. Balaji
We don't break it up as individual price component but suffice to say that the mix is accretive, and that is exactly in line with strategy.

Dinesh Thapar
Ajay Thakur from Anand Rathi. How would the gross margin benefit likely to pan out given the consistent decline in crude oil prices.

P. B. Balaji
Gross margin is not the line we look at. It will improve simply because the costs are coming off and one would expect to see gross margins to improve. Let's not get carried away on this because look at the percentage decrease that happened between a $120 and a $40 crude is very different from a $40 crude to a $20 crude in terms of what are the leverage benefits that you get. Because you have to be careful on that front when you start to extrapolate. What we are committing ourselves is a modest improvement in operating margin. So that will be the only point from our side.

Dinesh Thapar
Okay last question that I see here from Tejas Shah of Spark Capital, looking at the current urban-rural demand dynamics, do we believe that the key to overall demand recovery lies in rural recovery while urban demand only plays a supporting role of premiumisation.

P. B. Balaji
I would prefer to look both starting to fire and let me tell you why. Because there is a way to the market which is rural. If you look at our portfolio split roughly about 60% is urban and 40% is rural, that is our turnover growth. So therefore urban recovery is as much a critical portion of it. And if we look at all the macro factors, be it your pay commission, the money coming through, or low inflation coming through, those I think will actually kick start the urban story as well. So we shouldn’t underestimate the power of an urban recovery which also ensures that your premium products fly better. It does give you better momentum. Having said that 70% of the population is in rural and their rates of consumption is small, which also means percentage increase are very high there. So we need to respect that as well. And if your company is looking at winning in many Indias, playing the full portfolio at all ends of the pyramid, we want both these to fire and there is no reasons why it should not. Which is what we are positioning our portfolio for. Let’s say the wind starts blowing so that we can start catching those winds.

Dinesh Thapar
Alright. I think with that we have now come to the end of the Q&A session. Before we end I would like to remind you that the replay of the event and transcript will be available on the investor relations website. You can go back and refer to it. A copy of the results and presentation we have made is loaded onto the website and would already be with you. With that I think we would like to draw the call to a close now. Thank you everyone once again for your participation and have a great evening. Thank you.

Moderator
Ladies and gentleman, this concludes the earnings call. You may now disconnect your lines. Thank you for connecting to audio conference service from Airtel.