Question and Answer Session- Annual Investor Meet
Hindustan Unilever Limited
26th June 2015

Speakers:

1. Harish Manwani, Chairman
2. Sanjiv Mehta, MD and CEO
3. P.B. Balaji, Executive Director, Finance & IT and CFO
4. Geetu Verma, Executive Director, Foods and Refreshments
5. Samir Singh, Executive Director, Personal Care
6. Punit Misra, Executive Director, Sales and Customer Development

Opening remarks by Harish Manwani, followed by the question and answer session.

Harish Manwani
Good afternoon everyone. A pleasure to have you here.
HUL as a company tries to ensure that whatever we do, satisfies everyone. Every year, I hope we are doing this a little better, and in many ways, this is the spirit of our business, which is, our business has actually been built around some very robust and predictable business models. You heard Sanjiv talk about the 4 Gs, we want to make sure we deliver consistently, competitively, profitably, and we deliver responsibly. Even I was struck at some of these numbers at the progress we actually make when we look at it over a four year period. You know, when we look at it every year and we meet you every quarter and we see numbers like, is the growth only 10%, 9%, 12%. But when you look at it over four years, the fact that we have added about 10,000 crores in our turnover, the fact that we have improved our margins by 340 basis points, the fact that we continue to generate very satisfactory and handsome cash flow and return of capital employed, that gives you a sense of the power of business. And I hope what Sanjiv and the team have been able to demonstrate to you, that we have a strategy behind this. And the fact that we are making sure that we can make our core continue to grow because that's one of the things that I keep hearing all of you say why aren't you adding new things. And I hope you are convinced that we can still grow our core. And at the same time lead market development in some of the newer categories. But it is not about the what, I hope what Sanjiv and team have given you is a much better appreciation of the how. And that is really the purpose of what this session is, that there is some real expertise and rigour that is going on which is, things like magic in marketing, things like sharpening our marketplace execution, being operationally efficient and agile, winning through our people, and doing well by doing good, those are some of the thrusts that we spoke about. But most importantly you got a sense of our leadership team and you interacted with a large number of them and hopefully you got a sense that this is not all we have, there is plenty out there. So with that let's open it up for questions.

P.B. Balaji
By way of introduction we have Punit with us, Punit is Executive Director for Customer Development Sales and he joins us in the podium, of course, the rest of us you met them during the course of the day today. Over to you guys for questions.

Question
My first question is on the distribution side, last 3-4 years your direct distribution has gone multiple times, but last one year it has been stagnant, so have you reached a plateau and if you could share in the urban areas, in last year not in FY'15, you had added one million outlets through the telephonic route. So if you could talk about that what were the benefits, how that has gone about, that would be helpful. That is the first question.

Sanjiv Mehta
You know, Punit, I will just comment and then you can add to it, distribution or the infrastructure development that takes place in the company you have to look at it from a lens like a capital

investment. You make an investment, then you consolidate it and then you get juice out of it. So we ramped it up. In India you can talk about we have stores anywhere between 8 and 9 million stores. Out of which we now reach 3 million stores. This includes the stores that we cover through our Shakti model. So now our whole thrust instead of just the quantitative aspect of numeric distribution is to improve the quality of our distribution in these stores. So that's where the thrust is and not just mindlessly keep increasing the direct coverage.

Punit Misra
So I think that's the fundamental thing that we are focusing on now, having grown our direct reach so much, how do we get more out of it as Sanjiv explained. And really for example we have a wide assortment that we sell, how do we ensure more assortment is available in the store. How do we ensure that as we develop the markets for newer categories that we want to, how do we ensure that through distribution we contribute towards that market development. That's really the big thrust that we focus on.
The second part of your question was on telecalling, if I heard that right. So that was essentially our thrust again to reach out to the very small stores and also try and balance out our cost of distribution because our normal servicing would be that we would send a salesman to a store and then we would send the delivery vehicles, which means that we would have the same model to service them as we would to a large store. So this telephone model was really an attempt to see if we can optimize on cost while ensuring that we keep the direct reach the way it has worked out for us wherever we have been efficient in doing it and we have managed to sustain because fundamentally it is people who are doing the telecalling, wherever we have managed to do that well, we have really got good results. So it is really wherever the execution has been really good, results are good and that's what we will have to really keep improving further on.

Question
My second and last question is on the distribution of the future. Sir, in modern trade the market share is higher than your national market share. Now if you see the new distribution is essentially your Big Basket of the world, Local Baniyas of the world, if you could talk about that, what are you doing extra there? For example, Patanjali which is now a 2000 crore revenue, they have their entire assortment on Big Basket, so that really removes the distribution issue which Patanjali has for example, their distribution is much lower than yours but suddenly in these cities in Big Basket it is available. So if you could talk about that currently is your market share on Big Basket higher than your national market share or trade market share and how do you combat Patanjali, not just in Big Basket but overall pan India?

Sanjiv Mehta
See without getting into talking about one specific cusp competitor I think what I will talk about from a lens of a business of 30,000 crores. We have different channels and our perspective is that we need to have a fair share of different channels. Now when you do indirect distribution, one thing which happens is you lose destiny of your brands in that store. One of our thrust is building brands in stores. And what we are trying to do is very importantly is not just ensure that with those numeric distribution are part of a direct coverage but we have more assortment in that

store, we have more point of sales material inside that store, and if the store is bigger like a modern trade format we have more of our people inside the store also doing market development work, the kind of what you have seen in home care today, or in foods or in personal care. So that is where we come in. We built capabilities in modern trade and today our share in modern trade is higher than what is there in the non modern trade channel. Similarly, we are using the best of Unilever to build our capabilities in e-commerce which is the channel of the future. And once the expansion of this channel for our categories happen I believe we will be ready to reap the harvest.

Question
Numbers you can share, say for example, some companies say in the next 7-8 years 8 to 10% of revenues.

Sanjiv Mehta
If you would like to do a crystal ball gazing, you don't know how it will evolve but what I am very clear about I have to build capabilities to be ready for explosion of that channel.

Question
I am just referring to the slide on Sanjiv's presentation regarding of addition of 10,700 crores revenue, and about, an incremental A&P of about 1100 crores. So if I look at incremental A&P as a percentage of incremental revenue that's about 10-11% versus your current total of about 12 – 12 and ½ percent. To that extent maybe you would have had the scale when of a lower A&P in the past 4 years which has driven the profit growth for you. Now given what you are really talking about competitor intensity etc., you may not necessarily have the tailwind for the next four years. Incremental A&P I would think need to be higher than incremental revenue if you are really seeing the kind of competitive activities on this. So what's your comment on this with respect to profit growth for the future.

Sanjiv Mehta
You know there is often what I call as the trending of indices. You look at the indices and you often fall into the trap of extrapolating that into the future. The way we look at our A&P spends is, one is we want to be competitive when it comes to share a voice, or share of expenditure, when it comes to our core categories, when it comes to our nascent categories, it is not about competitive spend because we are in the process of growing those categories and we invest like we have been doing what Geetu talked about experiential marketing. It is one of the largest scale of experiential marketing sampling that we have been doing. Similarly, what you have seen in the home care one we are talking about X percentage of the target group being reached by our brands to explore and grow those categories. So that is where we spend the money. Also you have to understand what we look at as the business, when Harish talks about 4Gs, when we talk about profitable growth, we talk about a modest improvement in margins on a consistent basis, and that's the direction we would be getting into. You would also have seen when I talked about innovations, invariably our margins have been accretive when we bring in new innovations. That also enables us to have the wherewithal to build, to invest in building the categories. So the way I

would look at is not simple extrapolation because the mix of the category changes, the shape of our investment changes. We used to earlier invest mainly in TVCs, now we don't do that, we do in digital, we do in mobile, where the effectiveness might be very different. So the way I would look at it, don't just extrapolate, look at it from a lens of are we growing competitively, are we ensuring that there is a modest improvement in margins and that's what we will endeavour to do getting into the future.

Harish Manwani
Also you got to keep in mind that there are economies of scale even in advertising and promotion. You cannot expect a company of our size and scale not to be more efficient and effective in the way we spend our money. So when you look at your incremental spends and incremental return, always expect that we will do a little better than what the market place will do. The other thing you got to recognize is that and this is something Sanjiv raised again in his presentation of focus on just non-TV, you know. It is not just about television anymore, there is a multiplicity of media and you can be very efficient if you understand these dynamics better. So it is a combination of all this and at the end of the day if we are growing competitively and we are improving margins that's a true test.

Question
Thank you, wish you all the best.

Question
In one of the slides we saw that Fair & Lovely has started seeing better growth, so my question is what actions were taken due to which the growth trajectory changed, and second what are the actions being taken to sustain the growth momentum?

Samir Singh
Yeah. So I talked a little bit about it in my presentation, I think Sanjiv referred to in his. Two or three things, I think for me like I was saying in my section, core brands like Fair & Lovely always need to keep aspiration alive, that's the life blood of a beauty brand. And I think what we have done with FAL is created the aspiration among women taken it up. Because in the beauty category if you become a mass brand that is the end of you. So I think Fair & Lovely, even though it goes to millions of women, even though it is in the 100th price index in the market, we have built a lot of aspiration behind it. I think the second thing is we have got the formula and the product exactly right. We have customized it, we have taken our best formulation and offered it and that has resulted in a lot of repeats etc. I think the third is that we are also doing innovation on Fair & Lovely that brings all the latest trends in beauty to the masses. So I was giving the example of FAL BB Cream, you know BB Cream started in Korea but Fair & Lovely is the brand which is bringing it to millions of Indian women in terms of people who want to use make up but actually find it too expensive or too heavy. And BB Cream is just one example, we have done SPF, etc, etc. So if I was to summarize it we have built the core multi-vitamin proposition, we have kept it aspirational, we have added the right variants, and we have invested back and customized, leveraged the power of unique and that's what is giving us the growth.

Question
We have recently seen that some of the premium Ayurvedic brands like Kesh King and some of brands of Patanjali have become fairly large in size. So according to your market research do you see that is there any preference for Ayurvedic products for similar brand category. And what are your thoughts on entering this space?

Sanjiv Mehta
You know, I would go beyond Ayurvedic and I would say that the whole space on naturals, whether it is herbal, or Ayurvedic, there is a clear propensity of consumers not just in India but globally to go more into the natural space. We are very cognizant of the trends and we are working on it to improve our play in this whole natural segment.

Question
This is more on the industry, you know, last ten years, FMCG if you go by Nielsen the published number of companies more or less 14 to 16 to 17% top line growth rate, and last ten years, except for the past two years of economy, has been great in terms of overall economy, plus the previous government did a lot of artificial priming of the rural economy which was beneficial. The pace of penetration was very low ten years back. Now if one needs to crystal gaze on the industry growth rate for next 10 years or next 5-7 years assuming a good economy, do you see that accelerating, coming down or remaining the same.

Sanjiv Mehta
The way I would look at our industry is from a head room to grow, some of our categories like I said in the morning are anywhere close to being called as mature, yeah. So there is headroom to grow whether it is increasing penetration. You saw today from Geetu's presentation, even from a category like ketchup which everyone in an urban city is aware of the penetration is just about 20%. So there is so much more to grow, and then like the examples you saw from home care even in categories where penetration is high.

Question
Nobody is debating the growth, it is just the pace of growth I am saying.

Sanjiv Mehta
See that is as much your guess as mine, what are the factors which lead to it. There is something called private consumption, and private consumption also you are aware of what are the factors that lead to more private consumption, then there is something called consumer confidence. And then the third is what is the industry doing as an intervention to propel the category growth. So those are the factors which get into determining how the categories would be growing. I would just ask you to pause and reflect back in the beginning of this millennium 2001 to 2004 when the industry wasn't growing. And it wasn't that the economy wasn't growing, economy was growing but lot of people were putting, those were the days when the interest rates had crashed. And people were putting in money into consumer durables, into buying another scooter or getting into mobile and those kinds of things but then it picked up. So very difficult to fathom how the

economy will play out and that's the reason our perspective always has been from a medium to long term basis, India offers huge potential for a company like HUL. So we don't just look at a quarter, we look at it are we building the capabilities, do we have the right brand, are we doing the right kind of investments to reap the harvest, when the growth picks up.

Harish Manwani
I want to give you just one number without telling you the number about India, for last twenty years in emerging markets Unilever has grown by 9% per annum, of course there is some currency, it's not all volume, but think about it. For the last 20 years in emerging markets Unilever business has grown by 9% per annum, I think the case rests. Generally speaking in markets, in emerging markets and India is one of the biggest emerging markets, that over a longer term period the growth prospects are good, now whether it will be some years less, some years more, whether it is 9 in India or higher in Africa, I mean that's for you to guess. But there are lots of people who work on this every year but you can't really spend too much time on working exact numbers, you should spend time to say these are growth markets what are the 4 or 5 things we need to do in growth markets, market development, penetration, distribution and so on.

Question
Sir, can you help us to understand on what parameters we divided India in 14 clusters for our winning strategy and what are the key insights where penetration opportunity is huge and where premiumization game has begun.

Sanjiv Mehta
It's like I said, for us, the imperatives were focus and scale. And we wanted to bring in enhanced focus without losing the benefit of scale. So what we looked at, we had 7-8 variables to get into and we looked at it from that lens to make it into a bit more homogenous cluster. And which included factors like the space of category evolution in those markets, the competitive context is the propensity to consume in those markets. So that's how we did it and we made it into 14 clusters, which are relatively more homogenous and that is where how we did the classification.

Question
Any particular clusters you are more excited about growth versus.

Sanjiv Mehta
Yeah, one of the clusters we are very, in fact it's a region of a few clusters which is central India, which is the heart of India, where the per capita turnover, the scope to grow is relatively much higher than rest of the country.

Question
Hi. What percent of your portfolio has gained market share last year and similar to Axe, which other brands you have seen that they have started regaining market share.

Sanjiv Mehta
Over 90% of my portfolio we grew share. If I were to give you a list of brands, it will be pretty long list of brands.

Question
Similar to Axe, which other brands started regaining so like Axe, we lost market share but we have started regaining market share, so similar to that.

Sanjiv Mehta
See there are several brands that we have been sequentially year after year growing shares. The call out for us over the last couple of years have been two categories, one is oral care and the other is deos. Deos like we have seen today in the personal care presentation, we have regained the momentum and we did it on the back of Signature and we also did it by bringing in more relevant innovations on our core aerosols. And like I mentioned to you we have also started looking at how do we start unlocking the potential of antiperspirants. So for us we are determined to be in the play and make a difference to the deo category. The second is oral care, oral care for us is a very important category. We are the number two player but we have two strong brands we have Close Up and we have Pepsodent. On Close Up we had good innovation, Close Up Diamond which came in and we are also looking at how do we strengthen the core of the brand and we also, like I shared with you, started by bringing in a very relevant innovation for south which is clove and salt and its worked well. And now we are looking at, can we raise our ambition on that brand. Similarly on Close Up which has been a very iconic brand of the youth, Sameer alluded to it, how do we bring the zing back into the brand. It's been doing well but how do we raise the ambition and aspiration and make it even stronger. I believe for us this year in the oral category it would be a far better play than what we had in the previous year.

Question
Hi, on the food safety side there is lot of news flows in media about how certain brands have been off the shelf including one product which you have pulled out. Two points here, one how do you think about your food business from your next 2-3 years perspective in the context of the approval delays and the administrative challenges, and second do you think it will shake the trust of the consumer from our food category perspective package food and it can slow down and take couple of years to come back and bounce back again. So any thoughts will be helpful.

Geetu Verma
So to answer your first question from our perspective 99% of our portfolio is standardised. So everything that I shared with you today, ice-cream, tea, coffee, ketchup, jam it's all standardised. And also I spoke about the innovation and adjacencies, and therefore to our innovation pipeline, don't see that much of an impact. Separately however from an industry stand point, I think the whole processes need to be more amenable to the industry being able to innovate much faster than the industry has been able to. In terms of consumer confidence, I think consumer confidence it's important from a package food perspective because consumers today are not very aware. And I think between industry and regulators I think one of the biggest journeys in the next 2-3

years is to start to educate the consumer to make more informed choices. It's not, it's neither misleading consumers nor scaring consumers but it's about working together to help the consumers to make more informed choices and I think the industry and the government will have to work together on that.

Question
Hi, in your presentation you had said that 31% of your SKUs were rationalised last year. It's a very large number so just wanted to understand, what was the thought process behind it and what's the results that you got from it and is there any further rationalisation in the pipeline.

Sanjiv Mehta
First, in a business like ours where innovation is like a life blood, we keep adding SKUs as we innovate, as we renovate our brands, and the time comes when you pause and look at it from a lens of pareto and ask yourself, whether all the SKUs still remain relevant to the context or not. So we stepped back, took a hard look both from the perspective of what's been their contribution and also what is the strategic role in our portfolio and we felt that it's a time for us to simplify our play, remove those which are not adding value to the consumer and that's what we have done. And we have done it in a manner that in fact more focus comes in so it enhances the growth rather than pulling done the growth.

Question
So last year you would have not seen any basis point reduction in growth on account of this?

Sanjiv Mehta
None, whatsoever.

Question
Sir, recently Pepsi CEO made this comment that exclusive growth rate that we've witnessed in rural India for last decade or so are passing and from here on, difficult game will begin to gain market share or deliver to growth from that part of economy. Just wanted your thoughts on the same.

Sanjiv Mehta
Yeah, like we talked about that after the last quarter's results we have clearly seen the growth rate in the rural market has come down from what it was in the past. And now lot of it depends on, what happens to a good rainfall and the other levers of growth which would come into from a rural context. But again I would say let's not look at just a quarter or two, look at it from a lens that 70% of the Indian live in rural area. If India has to progress, rural has to progress.

Harish Manwani
You know, this question keeps coming up again and again about perspective or short term and medium term perspective of the business. If you don't take a medium term perspective in markets like in this case let's be specific rural India, you will never put the hardware and the

resources and the capabilities, because if you keep looking, lurching from rainfall to rainfall, you know, season to season we would never have done Project Shakti, we would never have done the expansion of 3 million stores, we tripled our distribution, we put investments, we put hardware there. And the reason we did it is because we are 100% convinced that irrespective of what happens this year, this is going to pay off, so this is payback strategy, it is not just a, it will pay off. And I think when you talk about businesses saying things are slowing, it is in the context of not dialling up or dialling down because particularly in rural areas, 70 to 80% of our investments are all long term, all long term because they are all go-to-market investments, as compared to what you would see in more mature markets where it is more about advertising promotion, here it is about feet on the street, creating the plumbing, the wiring into the rural areas. So all I can tell you is no matter what happens this year, next year, if this year is bad, next year also won't be bad, because that is the nature of this game, you know, what I mean. And if you average it out it will always be upwards and not downwards.

Sanjiv Mehta
Absolutely just picking up from what Harish said, Vipul shared with you the *khushiyon ki doli* which is essentially our thrust in rural to grow the markets. This year we have doubled our reach of *khushiyon ki doli*. Again we are not looking at it from a lens of this year alone. The investment that we do is going to pay us reap the harvest in the years to come.

Question
Today we have got two strong statements from Unilever. One was in green tea, you will become number one this year, and second one was oral care 2015 will be good year. Normally we don't get outlook statements such strong statements. Sir, my question is on Wheel, which has been asked in the con-calls earlier, so I expect a franker and maybe a stronger statement, on Wheel, when does WiMi again apply because Ghadi has been gaining share, Ghadi is not a pan India player. So on Wheel when do we become stronger?

Sanjiv Mehta
You know, if we look at our plate today, is we have three have different brands and what we have done extremely well, is in terms of premiumization. We have grown our Rin franchise and our Surf franchise at a much faster rate. And that is a strategic intent, very clear intent because that is much more profitable and as the country grows that is where the consumers are going to move towards. Because they are better propositions and they are better very clearly functional benefits on those brands. Having said that we want Wheel to remain competitive, Wheel is important for us. It is a big brand and we innovated on Wheel last year and we are constantly looking at how do we improve our gain as far as Wheel is concerned. And you know for us it is not just about either or, we always look at how do we ensure that all the benefits and all the price points are covered by our brands within our category portfolio.

Harish Manwani
Again a general point on category versus brand, you will recall many years ago there was a discussion around power brands. And we came back to tell you later that it is important for us to

keep a focus on brands, of course, and we have got some really big brands which are 2000 crores plus, 1000 crores plus, many brands which are 500 crores plus, but you have to always look at a combination of brand and category. That is the advantage of having a portfolio. If we were a one trick pony, then we have to look at only one brand. But because we know there is a lot of interplay in the categories, different price points, different socio economic segments we are catering to, our first and most important performance metric for competitive growth is a category lens always. Are we growing in laundry or not? Second lens within laundry are our brands strong enough or not? So you are right, of course we will look at brands, but always remember it is a category play in terms of competiveness and then brand play and it is a combination of the two.

Question
Sir, small follow up, you give market share in the categories in which you win. So if in Wheel if you could tell us how is the market share. Second is, Ghadi, if you see, the issue is if you ignore the bottom of the pyramid in detergents there is a risk that that player will now come into your other two segments.

Harish Manwani
I am going to let Sanjiv answer the specific question on market share, but let me tell you one thing. I hope you did not get the impression that we are ignoring the segment. I am sure a lot of your colleagues here will not agree with your point to tell Hindustan Unilever that we ignore the bottom of the pyramid, because our strategy is to straddle the pyramid which is again something which Sanjiv spoke about, that we want to cover all the price points. Wheel is a very important brand because it covers the mass end of the market, so is Rin it covers the middle end of the market. So the point is not that one is less important or more important. You look at the totality and then you look at the brand strength and of course if there is work to be done in a segment there are people who focus on the brand. But like they say we cannot also have a situation where operation is successful and patient dead, which is our power brands are growing but our categories we are down market share, you know what I am saying.

Sanjiv Mehta
It doesn’t need much to explain that we have had a far better run when it comes to premium brands in laundry detergent as compared to Wheel. That’s been a cold reality. But we are not getting away from Wheel, and one of the things which WiMi in India does is enables us to focus much more onto different parts of the country where Wheel is even more relevant than in other parts of the country, yeah, and that is what we are doing. And we are very cognizant that Wheel is another brand where we need to strengthen it even further. The first step we did was last year when we came up with the innovating on the brand, changing the mix, and now we are looking at even taking the next step to further strengthen the brand Wheel.