

Conference Call Transcript

Event: Hindustan Unilever Limited JQ'11 Results Conference Call

Event Date/Time: July 29, 2011 / 1630 hrs

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Namita – Moderator

Good evening ladies and gentlemen. I am Namita, the moderator for this conference. Welcome to the Hindustan Unilever Limited 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. Present with us on the call today is the senior leadership Team of Hindustan Unilever Limited. I now hand over the call to Mr. Srinivas Phatak. Thank you and over to you Mr.Phatak.

Srinivas Phatak – Hindustan Unilever Limited

Thanks Namita. Welcome to the Hindustan Unilever June Quarter results conference call. We have with us today Mr. Nitin Paranjpe, CEO and R.Sridhar, CFO. We will start with the presentation on the JQ'11 results, Sridhar will be taking the session. Nitin will then share his perspective on the business performance. This will be followed by the Q&A session. If you have any question, I would request you to register it with the moderator, please identify your name and the organization before you ask the question. Before we start the presentation, I would like to draw your attention to the safe harbor statement included in this presentation for the sake of good order. I now transfer you to Sridhar.

R. Sridhar – Chief Financial Officer – Hindustan Unilever Limited

Thank you Srinivas and good afternoon to everyone. Hoping that you have noticed that while we have had a change of guard at the helm of our investor relations Team, both Srini Srinivasan who used to head it earlier and Srinivas have a common name, as Srini mentioned we are quite investor friendly even when we change our Team. But focusing now on the reason why we are here together, I would like to spend a few minutes to talk about our strategy and the market

context before we delve into the quarterly results that we announced and then conclude with outlook statement in terms of how we see the future.

Starting with the strategy, as we have shared earlier, compass really sets the right direction for us in terms of our strategy and the four things to pull out of this are ambitious goals, a growth mindset to drive the ambitious goal, focus on both consumers and customers while imbibing a performance culture and driving speed through our actions. We will drive the compass using the virtuous circle of growth and the virtuous circle of growth is really at the heart of our strategy. We believe that driving cost leverage and efficiencies accompanied by cost savings will give us the funds to invest behind the brands which in turn result in profitable and volume-driven growth and thereby the virtuous circle of growth continues.

The compass also outlines how we will bring the strategy to life. I think last time Nitin shared with you the compass non negotiables which are there in this chart and really comprises of four pillars. Firstly, Winning with brands and innovations which is about driving bigger, better and faster innovations. Second, is winning in the market place and driving our agenda which is simply called "More Stores Better Stores", along with gearing up execution across the organization. Third, "Winning through Continuous Improvement" and this translates into guiding our supply chain for both cost leverage and service, driving our indirects and at the same time building capabilities for speed and for the future. Fourth, "Winning with People" as energizing and engaging employees are key for our future plans and growth prospects.

Turning now to the business environment in which our June Quarter performance was delivered. The FMCG market grew in double digits during June Quarter. However, as we had indicated to you last time, we have seen rebalance between volume and price component of market growth particularly in Soaps and Detergents category. The market for Personal Products continued to show strong growth led by volumes. The competitive environment remained intense with step up in intensity in some of the categories like Hair. Alongside this, we saw high input cost inflation with crude oil prices remaining high and volatility in other input costs. This volatility was particularly seen in palm oil and input cost inflation continues to be high despite the recent corrections. I would now like to share with you the highlights of our June Quarter 2011 performance.

If I have to summarize this, it is strong and competitive growth in a challenging environment that we have delivered in June Quarter. Our domestic consumer business grew by 15%, ahead of the market. This was driven by strong 8% plus underline volume growth with the balance coming through price. We delivered double digit growth across all our FMCG segments. Personal Products continued strong growth momentum with 19% turnover growth during this quarter, largely volume led. Packaged Foods also delivered good growth while innovations expanded the consumer franchise. Operating profit grew by just over 11%, 40 bps decline in operating margin. Profit after tax and before exceptional items (PAT bei) at Rs. 578 Crores grew by 11% while net profit after exceptional items at Rs. 627 Crores grew by 18%. Moving now to the cost side of the P&L, Cost of Goods Sold has gone up by 480 bps in the current quarter driven by steep

increases in the material costs particularly in the commodity sensitive categories like Soaps and Detergents. In this environment, we have dynamically managed the P&L through judicious price increases and aggressive focus on savings. A&P spends at Rs.633 Crores, 11.5% of sales was competitive. We have stepped up advertising spends both in Personal Products and Packaged Foods. However, as far as the commodity sensitive categories like Soaps and Detergents are concerned, industry trends show a reducing level of spend and we too re-calibrated our expenditure. Focus on "ROMI" that we had spoken about last time, has been stepped up even further and we have seen good levels of efficiencies coming through our ROMI programme. Strong top line growth with positive pricing really captures the essence of our turnover during this quarter. As you can see from the chart, progressively through the quarters we have been building on the top line growth momentum and we now are starting to see pricing also comes through into the top line. We continue to drive our growth through volumes while there is now a contribution from price in our top line growth.

Moving now looking at how our segments have performed, all our segments have grown in double digits during the June Quarter. The Soaps and Detergents segment growing at 13% had positive underline volume along with positive price growth. In Personal Products, as I mentioned earlier, a large part of the growth is led by underline volume growth. Beverages have grown by 13% while Packaged Foods which is the new segment with a combination of processed foods and ice creams, grew by 18%. In aggregate, our FMCG business grew by 15%.

One of the key drivers of our growth agenda is innovation and on this chart you can see some of the key innovations that we launched during the quarter. On the left hand side of the chart, within the context of our Personal Products of beauty business, we had several innovations that we brought to market: Ponds Pure White Deep Cleansing Facial Foam, Fair & Lovely Multivitamin Face Wash, Vaseline Healthy White Cream are some of the innovations in our Skin Care categories that we launched during June Quarter. Towards the end of June Quarter, we have re-launched Clear Shampoo and I will talk a little bit about that later. We also had range expansion in our Lakme Colours business. On the right hand side of the chart are the innovations that we brought in our Foods and Beverages business: Lipton Ice Tea has been launched during this quarter, available in three formats and two flavors. Premium range of coffee with coffees sourced from Brazil, Colombia etc. was launched under Bru Exotica and in Ice creams which had its strongest quarter ever, we had several product innovations brought to market.

A&P is a very important driver of our growth and as I mentioned earlier, we continue to remain competitive in our A&P spend. However during this quarter, you could see that the media expenditure in the market has really shown two trends. One, in the Soaps and Detergents, the level of media spends in terms of GRPs is clearly coming down and this reflects the commodity cost challenges that these categories face. On the other hand, the other categories which are Personal Products, Packaged Foods etc. have shown continued increase in media heat by the whole industry. In this context, we have maintained competitive level of A&P spend. As you can see from the chart, across all the segments our media spend has been competitive, measured as share of voice over share of market. We have stepped up our advertising & media spends in

Personal Products and Packaged Foods where as you saw in the previous chart the media heat continues to be intense. However, in Soaps & Detergents and Beverages, where the media heat has reduced during the quarter, we have also accordingly realigned our spends without losing competitiveness. Promotional spends were also lower in the market during this quarter. However, the entire area of A&P spends has been positively impacted by our ROMI programme and we have driven a significant amount of efficiencies across both the advertising as well as the promotional line through our specific initiatives under ROMI. Third key driver of growth is execution in the market place. We have shared with you earlier “More Stores Better Stores” as our main thrust, so we continue to focus on winning in the market place and during this quarter, we have seen really strong growth both in organized retail in modern trade as well as in our rural channel and the various actions that we have taken over the last year or 18 months are clearly yielding results.

There is a chart to update you on the cost inflation among some key commodities as we saw during this period. As you can see from the chart, palm oil prices have been fairly volatile in the last few months and despite some recent corrections, they are still well ahead of the levels that we saw same time last year. Crude, on the other hand has clearly stepped up and vis-à-vis the first half of the last financial year is now 50% up. Coffee prices are at an all time high, I understand this is the highest price for coffee over the last 14 years or so and there seems to be a continuing upward bias. So, it was quite a challenging environment in which we have operated June Quarter.

Our drive on winning through continuous improvements has been further stepped up and there are two very specific areas that we would like to share with you. First, the chart on the left which is really about winning products. We have shared with you earlier that a key element of our strategy is to increase the proportion of our business where we achieve blind product wins and you can see, just over last two years there is now a threefold increase in the percentage of our products that win on blind product testing. This is quite crucial in terms of our competitive growth agenda. The chart on the bottom right is on customer service which we measure through CCFOT, which is “Customer Case Fill On Time” and you can see continuous improvement in this journey over the years. Starting with an index of 100 in 2007, this is now at 125 and we are now at pretty high levels of customer service. The other dimension of continuous improvement is our agenda on savings and I would like to share with you the savings across the full value chain. At the bottom left is the savings on supply chain where we have further stepped up the cost-effectiveness programs with an index level of savings at 162 compared to an average of 140 in the previous financial year. On the bottom right, our focus on indirect both in terms of running a tight ship as well in terms of driving leverage is yielding handsome results with indexed overheads 15% below of what they were about two years ago.

Top of the chart is a specific example about “Return On Marketing Investment” and this is a chart which gives you a sense about the return on investment particularly on promotional spends and as you can see during the last year we have stepped up what is in the green box which is both

driving positive growth and giving a positive ROI by upwards of 10%, so across all elements of our value chain, we are seeing continuous improvement.

I would like to now move to reviewing each of our categories under the category highlights. Firstly, Laundry, it is a very important category for us and I think the headline is that we have successfully defended and strengthened our leadership position in this important category. There seems sustained competitive growth led by pricing as well as volumes and this growth has been across all our brands. It has also been across both formats of powders and bars, both of which have grown in double digits. I would like to call out one of the brands Rin, where we have seen a really strong performance with Rin delivering sixth consecutive quarter of double digit volume growth. Comfort, the fabric conditioner that we launched about 18 months back, continues to grow well, building consumer franchise and more importantly building the fabric conditioner market across geographies.

Moving now to Skin Cleansing, where we have grown across segments and in aggregate, grown ahead of the market during June Quarter. Lifebuoy grew in double digits on the germ protection platform. Our premium portfolio which comprises Dove, Pears, Liril, etc., sustained a strong growth momentum driving premiumisation in the category. We continued to develop Skin Cleansing Liquids as an important segment for the future and I am happy to say that our business in Skin Cleansing Liquids has tripled in the last two years. During this quarter, we have had a series of innovations in this segment: Lux relaunch in Body Wash, Hamam Hand Wash launch, launch of variants of Lifebuoy Hand Sanitizer; lot of innovations in this category.

On this chart, to share with you the portfolio that we now have in our Skin Cleansing Liquids segment, the Lux Body Wash which we recently relaunched also has Dove and Pears in the segment of Body Wash. In sanitizers, we launched Lifebuoy Hand Sanitizer last year and in this quarter we have introduced three more variants and you can see the range of Hand Wash that we have with Lifebuoy and Pears, now being supplemented with Hamam.

Let me now move to Skin Care, where we have seen really strong performance underpinned by innovations and strong performance across all the brands. Fair and Lovely grew in double digits led by very strong performance on the core. We also had strong growth performance in both Vaseline and Ponds led by innovations like Vaseline Healthy White, Aloe Vera Body Lotion, Ponds White Beauty etc. Lakme continues to drive premiumisation of the category both in Skin Care and in Colour Cosmetics. During this quarter, we have introduced two new variants in the Face Wash segment, Fair and Lovely Multi Vitamin Face Wash for double action fairness and Ponds Pure White Deep Cleansing Facial Foam with activated carbon. Vaseline Healthy White entered in cream format with vitamin B3 and triple sunscreen; very strong performance of the Skin Care category in June Quarter. This chart gives you a slightly broader sense of the innovations that we brought to market in the Skin Care category over the last 12 months, this includes both innovations in our core brands and core offerings and also innovations to build new segments of the future.

Let me now move to Hair and Oral Care categories, both of which delivered double digit growth during the quarter. In Hair, we saw broad based growth across brands with Dove accelerating the growth momentum and both Clinic Plus and Sunsilk delivering strong volume growth. Clear was relaunched towards the end of the quarter and this will further strengthen our Hair portfolio. In toothpaste, we had volume led double digit growth in both Close Up and Pepsodent. During the quarter we relaunched Pepsodent Germi Check with Germi Check Magnets.

Just to share with you some details about Clear which we relaunched during the quarter, with Nutrium 10 technology. Nutrium is a patented combination of vitamins, minerals, fiber active ingredients and anti-dandruff actives which is present only in Clear. It nourishes the scalp three layers deep thereby boosting scalp health and increasing natural resistance against dandruff and scalp problems. Clear comes with customized solutions for men and women.

Moving now to the foods part of our business; starting with Beverages, in June Quarter, there was strong growth in both Tea and coffee. Tea delivered double digit growth led by strong growth in the premium portfolio which includes Taj and Three Roses. Red Label continued its strong growth momentum. Coffee also grew very well and there were three premium variants of Bru which were launched under Bru Exotica. We also launched Lipton Ice Tea during the quarter under the refreshment platform and I referred to that a little earlier. This is now available in two flavors Lemon and Mint and across three formats, PET bottles, tetra-packs and powder.

Packaged Foods which now comprises both Processed Foods and Ice-creams saw a strong volume led growth during the quarter aided by innovations. Kissan, Knorr and Modern performed well with double digit growth and we are committed to invest behind these brands for the future. Ice-creams has delivered the strongest ever growth in a long time and this has been driven by both innovations and distribution expansion. As you know, June Quarter is the largest quarter for the Ice-cream business and we are very pleased with the strong growth performance. The innovations which we launched in the market at the end of March 2011, specifically for the summer season have performed extremely well and we continue to build “Out of Home” experience through expansion of Swirl’s Parlors.

Pureit water business strategy is on track and we are continuing to lead market development in this category. We have further expanded our portfolio to straddle across various segments of the consumer pyramid with the recent launch of Pureit Intella, our first sub-thousand rupee offering. We continue to transform our “Go To Market” model to enable managing a very diverse portfolio of offerings and also ensure that it is designed for scale up and optimizing costs. With the revised range of offerings, Pureit now protects more that 4.5 million households.

Coming now to our financial performance, you have seen the numbers, I would just like to highlight the key elements, Net Sales, at just over 5500 Crores, is up 15%. Gross margin, as I mentioned earlier, declined by 480 bps linked to significant cost inflation which we managed to offset to some extent through judicious pricing and aggressive cost savings. Profit Before Interest and Tax, our operating profits, increased by 11% while PAT (bei) also increased by 11%. Net

profit was up 18%. The key elements of the exceptional items really include sale of unused properties for 51 crores and dilution of stake in the subsidiary Hindustan Field Services which contributed 4 Crores.

So in summary, I think June Quarter was a period of strong profitable growth with 15% growth in our Domestic Consumer Business, well ahead of the market. We saw broad-based growth momentum across our portfolio. During the quarter, high inputs cost inflation led to Cost of Goods Sold being higher while buying efficiencies and cost savings programme were driven hard and these remain a priority for the future. Brand investments at Rs 633 Crores were maintained at competitive levels with brand investment behind Personal Products and Packaged Foods being stepped up. PAT(Bei) was up 11% while net profit was up 18 %.

Looking ahead, in a few words in terms of outlook the first thing to say is that our strategy remains consistent. The FMCG market will continue to grow though we believe that there could be further changes in the mix of price and volume some of which we have already started seeing in June Quarter. Input cost will remain high, volatility in certain inputs and this will therefore remain under focus for us. We also believe that the competitive environment will remain intense, our strategy and our focus as I mentioned earlier is consistent to defend and strengthen our leadership positions in our core categories, while at the same time leading market development of future categories and channels. We will do this by ensuring that we remain market competitive at all times and manage our business even more dynamically. At the same time we will ensure that we remain cost competitive. Now, I would like to hand you over to Nitin Paranjpe for his observation.

Nitin Paranjpe – CEO & Managing Director – Hindustan Unilever Limited

Thank you Sridhar and welcome to all of you to this conference call on quarterly results. Let me share with you my perspective on the results. You would have heard from Sridhar the details but I do believe that we have delivered a strong growth ahead of market in a challenging environment. The growth momentum has increased to 15% underpinned by a strong 8% underlying volume growth. Growth has been broad based and across all FMCG segments. Personal Products in particular have grown very strongly by 19% led by volumes. It is pertinent to note that all key brands in Skin Care have registered strong growth on the strength of core as well as innovations. Product innovations and market development and our thrust for “More Stores and Better Stores” which we have been talking about all through last year were the key drivers of growth. With respect to channels, we have seen growth both in terms of modern trade at one end as well as rural at the other end.

Sridhar has also shared with you the concept of the virtuous circle of growth. Driving profitable volume growth continues to be at the centre of our strategy. Let me dwell on what this actually means for us. For us virtuous circle of growth is all about driving operating leverage, it is about stepping up cost savings and increasing the investments into the innovation funnel and in

supporting a brand. This in turn we believe will lead to driving profitable volume growth. As an integral part of the strategy, we will focus on winning in the market place through market development and stepping up focus on execution.

Looking ahead, FMCG markets will continue to grow with a mix of both volume and price. Managing this business dynamically to ensure that we remain competitive and cost efficient will be the key.

There are three specific elements of our performance that I want to talk about, level of volume growth, level of brand investments and increase in level of Cost of Goods Sold. As far as volume growths are concerned, I have already mentioned that we are pleased with our overall levels of volume growth which has been ahead of the market. Sridhar has already explained that in Personal Products and Packaged Foods, we have delivered strong double digit volume growth. You would also recollect that in my last briefing, I had talked about the rebalancing between volume growth and price growth in commodity sensitive categories. This has played out as we had expected. I wish to draw your attention to the fact that in our Soaps and Detergents business, volume growth has been ahead of the market.

On levels of brand investments, all I can say is that we remain committed to competitive brand investment. Even in June Quarter, this has remained unchanged, as Sridhar explained we had stepped up media spends behind Personal Products and Packaged Foods while recalibrated the spends in commodity sensitive categories where the industry trend showed a decline in level. 'Return on Marketing Investments' continues to be a focus area for us.

As far as levels of cost of goods sold increase which you have seen in this quarter I have the following comments to make. In the context of a question which seems to have come over the last day as to whether we believe that the 480 bps increase in Cost of Goods Sold reflects the peak level of cost. Now the truth is, these are volatile times and it is impossible for anyone to predict this, however we can say with confidence that we will manage all levers of the P&L without compromising our competitiveness in the market. I reaffirm our commitment to driving volume led growth that leads to competitive, profitable and sustainable growth.

That is all I had to say on our results which we have declared. I am now going to hand you back to Srinivas Phatak for taking this forward.

Srinivas Phatak – Hindustan Unilever Limited

Thanks Nitin. We will now have the question and answer session. Before we start I would like to highlight that it is only open for the institutional investors. If any other investor has a question or query, we request you to send it to our email id investor.relations-hul@unilever.com. Now I request to open the session for question and answers.

Namita – Moderator

Thank you very much Sir. We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Participants who wish to ask questions may please press “*” and “1” on their touchtone enabled telephone keypad. On pressing *1 participants will get a chance to present their questions on first-in-line basis. To ask a question participants may please press “*” and “1” now. The first question comes from PPratesh from Mumbai Emkay Global, Sir you may ask your question.

Pritesh – Emkay Global – Mumbai

Hi, my question is linked to the price increases in the Soaps and Detergents portfolio and has it completely flowed down to the segment EBIT margin. Secondly, if you could highlight the reasons for Q-on-Q shrinkage in gross margins in the business and lastly your call on the A&P spends.

R. Sridhar – Chief Financial Officer – Hindustan Unilever Limited

Pritesh thanks for the questions. I think let me deal with the first one, as far as Soaps and Detergents categories are concerned, all of us are aware that these have really borne the brunt of commodity inflation, both in terms of palm oil which is key ingredient in Soaps and crude oil based derivatives which are critical for the Detergents category. The level of cost inflation that has impacted these categories is far higher than what has been managed through price and as I mentioned our efforts have been to drive aggressively our cost savings programmes while at the same time making judicious pricing, by no means is the price increase that we put in the market anywhere close to recovering the impact of the cost inflation.

Pritesh – Emkay Global – Mumbai

The comment includes the factors of price increase which was taken in July also?

R. Sridhar – Chief Financial Officer – Hindustan Unilever Limited

This conference call is about June Quarter, and in June Quarter whatever pricing that we have taken would be at a level that is still well below what the cost inflation demands and the way we are doing it is to really drive aggressively our cost savings programmes so that we make sure that we are still giving good consumer value. As far as your question on gross margin is concerned, this level of increase in consumption costs and therefore impacting costs of goods sold certainly

has an impact on gross margin but we are, as Nitin said, committed to making sure that we remain competitive both in the marketplace and on cost front. As far A&P is concerned I think Nitin had talked about it but perhaps he could emphasize it.

Nitin Paranjpe – CEO & Managing Director – Hindustan Unilever Limited

In the past and in various calls, we have been asked about levels of A&P and at times they have gone up and at times they have come down and questions have been asked. We have always said that the actual level of spend in a given quarter is a function of two things. One is our own activity levels which are there in a particular quarter and second is the intensity of competitive heat – the media intensity which is there outside. Both of these determine what we need to spend. Based on this, there are times when we have to spend a lot more and there are times when it could be less, what remains unchanged is the commitment to make sure that the brands get competitive levels of support. This quarter we had stuck to the same principle. All our brands have received competitive levels of support. It just so happened that the trend that we have seen in the market place shows a very different picture between what is happening in Personal Products and Packaged Foods where media intensity not just remains high but it has also inched up a bit while in the commodity sensitive categories, Sridhar's chart would have shown you that the industry spends have come down quite sharply. We have calibrated our spends keeping that and our own activity levels in mind but ensured that we remain competitive. The outcome of all of that happens to be the spend levels which you see.

Pritesh – Emkay Global - Mumbai

In Soaps, did we lose any market share?

Nitin Paranjpe – CEO & Managing Director – Hindustan Unilever Limited

I think we shared with you in the category chart that we have grown ahead of the market.

Pritesh – Emkay Global - Mumbai

Many thanks and all the best to you Sir.

Namita - Moderator

Thank you very much Sir. The next question comes from Nillai Shah from Morgan Stanley, Mumbai, Sir you may ask the question now.

Nillai Shah – Morgan Stanley - Mumbai

Thank you. Sir, my first question is in the PP segment, you mentioned that the growth has been volume driven but correct me if I am wrong, about 8% to 9% price increase was effected in Fair & Lovely and some significant price increases in Dove and some other SKU too, so what is the total component of pricing in Personal Products for the quarter.

R. Sridhar – Chief Financial Officer – Hindustan Unilever Limited

The pricing element in Personal Products is very low and when you talk about specific examples, we must remember those may be on specific packs but when we look at the Skin Care portfolio which is Fair & Lovely, Vaseline, Ponds, Lakme, it is very low, therefore a very large portion 15% plus would be underlying volume growth in Personal Products.

Nillai Shah – Morgan Stanley - Mumbai

Okay it is 15 % volume growth.

R. Sridhar – Chief Financial Officer – Hindustan Unilever Limited

Even more than 15%, let me just give you a directional idea that bulk of the growth in Personal Products is volume led, very-very small contribution from price.

Nillai Shah – Morgan Stanley - Mumbai

The second question is coming to Soaps and Detergents, if you got a 12-13% revenue growth and there have been significant price increases effected out there and if your Detergent portfolio has grown ahead of the market and in certain categories double digit means you would have got a negative volume growth in soaps?

R. Sridhar – Chief Financial Officer – Hindustan Unilever Limited

Soaps and Detergents is the segment we report on Nillai, we talk about Soaps and Detergents as a whole. Soaps and Detergent as a segment has grown value and grown volume. Underlying volume growth of Soaps and Detergents is also positive.

Nillai Shah – Morgan Stanley - Mumbai

Question on the Foods segment, can you just break it up between Ice-cream and Packaged Foods for the quarter?

R. Sridhar – Chief Financial Officer – Hindustan Unilever Limited

The whole idea of combing it was, because in their own right they were quite small categories and they are overall part of our Packaged Foods segment which is really a growth priority but I can just say to you both have had good double digit growth in the quarter.

Namita - Moderator

Thank you very much Sir. The next question comes from Hemant Patel from Enam Securities, Mumbai, Sir you may ask the question now.

Hemant Patel – Enam Securities - Mumbai

Sir you mentioned that in all categories we have actually grown ahead of the market and doing so we actually posted 8% volume growth rates on an overall basis. This is a sequential decline from 14% that we had in the last quarter of last year, am I to sense that the market overall itself is slowing down at this particular stage and how do we actually dissect that?

Nitin Paranjpe – CEO & Managing Director – Hindustan Unilever Limited

Firstly, I would like to correct an impression; we have communicated that on aggregate we have grown ahead of the market both in value and in volume. That is really what we have communicated and not your interpretation which is in every single category, so I do not want there to be that miscommunication. That I think is point number one. Point number two, when it comes to growth rate that you talk about, I think, it is reasonable to say that there has been some slowdown in growth that has taken place in terms of volume in some categories, those categories

happen to be the commodity sensitive categories where we have seen that slowdown. The other categories which are Personal Products categories and Foods categories continue to see strong volume growth and our growth that you see on an aggregate is ahead of market reported growth.

Hemant Patel – Enam Securities - Mumbai

The second question is, 50% of our portfolio last year has been relaunched and we had a few new introductions which had actually flown into every category that we can even think of, broadly the sense what I wanted to get was in the A&P spend what would be the proportion of spend that we actually do towards new launches because if the overall budget spend is lower this year and we have done a lot more last year and even the beginning of this quarter, is it that we are spending less on our new launches and relaunches that we have done in the recent past?

Nitin Paranjpe – CEO & Managing Director – Hindustan Unilever Limited

I would urge you to recognize and remember the response, which I gave that one quarter whether it is high or low is not the basis on which you can project a trend. The spends that we have in this quarter are a function of both higher activity levels as well as the level of industry activity and media investments which were there in the market place. Equally in terms of how much have we spend behind innovations etc., I think it would be difficult for us to make that comment for a quarter. When we start taking a longer period of time it might be a little easier for us to make that comment. Absolute levels of spend that we are talking about are actually even in this quarter higher behind Personal Products and Packaged Foods.

Hemant Patel – Enam Securities - Mumbai

All right. Thanks a lot.

Namita – Moderator

Thank you, very much Sir. The next question comes from Mr. Jamshed Dadabhoy from Citigroup, Mumbai. Sir you may ask your question now.

Jamshed Dadabhoy – Citigroup - Mumbai

Sure. Thank you for taking my questions. Just a couple of questions from my side. One is the first quarter of last year you had a pretty depressed revenue growth on the PP side about 11% or so

and the explanation that you had given at that point in time was that there were some issues with the hair business. So this 19% sort of revenue growth that we are seeing on the PP side, is it sustainable or is it part of due to base effect? That is number one. Second question a lot of the growth last year was as you have all indicated in your annual report driven by 600,000 outlets that you all opened in rural India which contributed to 50% of the rural growth. Now with that in the base going ahead do you expect volume growths to ever go back to the double-digit phase or do you think that it will continue to be in this 8% trajectory and may be even decelerate as the base becomes more challenging.

R. Sridhar – Chief Financial Officer – Hindustan Unilever Limited

Jamshed, hi. Thanks for the two questions. Firstly, the Personal Products growth that you talked about and you referenced Hair, so first thing to say is that Hair as well as Personal Products in the aggregate have grown in double-digits during the quarter. As to whether it is sustainable, I think we would like it to be sustainable. One of the comments I had made when referencing the market context was that the Personal Products segments within the market have continued to grow strongly which has been volume led. As far as the outlet expansion is concerned, that is a specific programme along with other execution efforts that we had done and our effort would be trying to drive it even harder and we, going forward, maintain a good level of growth. As to whether 8% is sustainable or not, you know we do not give any guidance. What we can say is that our commitment is to grow ahead of the market and to some extent we got to wait and watch what is the balance between price and volume component in the market growth. That is something we have to see as it unfolds.

Jamshed Dadabhoy – Citigroup - Mumbai

Could you give some sense of how your rural growth versus urban growth trends have been over the last couple of quarters?

Nitin Paranjpe – CEO & Managing Director – Hindustan Unilever Limited

I think as far as we are concerned we continue to see good buoyancy in rural growth. Rural growth has been ahead of urban growth.

Jamshed Dadabhoy – Citigroup

Okay. All right. Thank you, very much.

Namita – Moderator

Thank you, very much Sir. The next question comes from Mr. Ashish from Spark Capital, Mumbai. Sir, you may ask your question now.

Ashish – Spark Capital - Mumbai

My question was actually was on whether on the ground any signs of the growth momentum slowing down in terms of volumes. Any indications as such or is it all good as of now?

Nitin Paranjpe – CEO & Managing Director – Hindustan Unilever Limited

I think on the ground we see the same thing reflected which I talked to you about, which means that there is some slowdown in volumes or lower volume growth has been in the market on Soaps and Detergents, which are the commodity sensitive categories. In all Personal Products and Packaged Foods we do not see any such impact. That has reflected in terms of what we see in the market place and is reflected in our numbers etc. In both cases our growths have been ahead of the market reported growths.

Ashish – Spark Capital - Mumbai

This was in terms of the categories Soaps and Detergents and Personal Products, but if you segregate it this in terms of urban and rural is there any difference between these?

Nitin Paranjpe – CEO & Managing Director – Hindustan Unilever Limited

In this case if you were to take reported market growth, reported market growth suggests that urban growth is ahead of rural growth. That is really what Nielson numbers would suggest; however, our experience does not corroborate that. We are finding rural growth continuing to be strong and certainly in our business rural growths are ahead of urban growths.

Ashish – Spark Capital - Mumbai

Sir, could you make some comments on where are we in terms of distribution and we have talked a lot about penetrating more into rural, some numbers over there? How are we progressing on that?

Nitin Paranjpe – CEO & Managing Director – Hindustan Unilever Limited

So the commitments which we had made in the numbers, which I had talked about of wanting to cover over 500,000 outlets last year were delivered. In fact in our last conference, I had shared with you the fact that we had exceeded that 500,000 outlet target that we had taken for ourselves.

Ashish Uppanlawar – Spark Capital - Mumbai

That is all from my side. Thank you.

Namita – Moderator

Thank you, very much Sir. The next question comes from Mr. Mahesh Nandurkar from CLSA, Mumbai. Sir, you may ask your question now.

Mahesh Nandurkar – CLSA - Mumbai

Hi, good afternoon everyone. My question pertains to one of the slides in your presentation where you have talked about significant improvement in the cost efficiencies as well as customer satisfaction and given some numbers on the basis of with the base being 100. I just want to understand what those numbers actually mean and if you could give some examples of cost efficiency improvement that you talked about. Also similarly if you could give us some examples of customer satisfaction. I believe you were talking about distributors when you talked about customer satisfaction and the step that you have taken to improve the distributor satisfaction?

R. Sridhar – Chief Financial Officer – Hindustan Unilever Limited

Mahesh, let me first deal with the cost savings and then talk also about the customer service. Cost savings really in the chart, if you recollect we had talked about three components; one on supply chain savings, second on our indirect costs and third really on return on marketing and trade investments. Supply chain savings really is about variety of things and goes through right from our sourcing which is our procurement of raw materials and packing materials through to manufacturing and conversion efficiencies, through to distribution and logistic savings and this is a very comprehensive and integrated programme, which is cross functional between colleagues in supply chain, colleagues in finance, colleagues in procurement and so on. So, I think that is quite self-evident, reducing wastages in our manufacturing processes would be one example.

Second would be refining our networks with the help of our IT systems and finding ways to reduce distribution cost would be another example. In the area of return on marketing investment I talked about the very rigorous evaluation of our promotional spends both prior to going ahead which we call a pre-evaluation and then after about one or two months of the promotions having been run which we call a post evaluation and really taking those learnings as we formulate our future promotion plans. So those really are examples in the area of driving savings. If you look at the earlier chart on customer service, you are right, this is about the customer service of our distributors that we talked about, which is measured in terms of "Case Fill On Time". So if the customer orders 20 line items and different levels of quantity, it is about really how do we deliver and we get a scope right only if the exact quantity of the exact line item was delivered, but now we are going a step beyond and also starting to look at how do we measure the service at the retailer level that is something we have recently started. Obviously it is far more complex because we have got several million outlets in the country, but that the next phase of our focus on customer service.

Mahesh Nandurkar – CLSA - Mumbai

If I may just have a followup, if I remember the numbers right on your slides, you mentioned that the cost efficiency has improved from 100 to 125, over the period of last two years and correct me if I am wrong. When we talk about this 25% improvement in cost efficiency, over the same period what would that have contributed to the margins, so that it becomes more tangible for people like us. Would that mean a 25 bps or 15 bps or 10 bps or something like that in terms of EBITDA margins?

R. Sridhar – Chief Financial Officer – Hindustan Unilever Limited

Mahesh, I understand that from your perspective and obviously you would like to get a very specific number that can be used for modeling but the reason why we use it and share it with an index is really to share with you and all the investors, stake holders, the progress we are making but obviously for competitive reasons we do not want to get into specific percentages of cost or specific percentages of margin. 100 to 125 was quoted in the context of customer service, but had it been in the context of cost it would really mean that if we were saving let us say 4% of turnover as cost savings, 125% would mean that over the last x number of years we have now moved it up to 5% of turnover that we are saving. The implication on margins of course is dependent on what is happening on commodity costs. So that is completely separate line.

Mahesh Nandurkar – CLSA - Mumbai

That answers my question. Thanks.

Namita – Moderator

Thank you, very much Sir. At this moment there are no further questions from participants. I would now hand over the call proceedings to Mr. Srinivas Phatak for the final remarks.

Srinivas Phatak – Hindustan Unilever Limited

Thank you. Given that we do not have any further questions, we will bring the call to a close. Thank you for dialing in and participating in the call and we look forward to engage with you in the future. Thank you.

Namita – Moderator

Thank you, very much Sir. Ladies and gentlemen this concludes the conference call. You may now disconnect your lines.