HLL's SALES UP 7%; EPS GROWS BY 20.5%

Mumbai, October 16 : Hindustan Lever's sales turnover (net of excise) grew by 7 % in September quarter 2001 to Rs.2635.22 crores. Profit After Tax of Rs.377.65 crores reflected an improvement of 14% over the corresponding quarter of 2000. After including a one-time exceptional income (net) of Rs.21.51 crores, the net profit was Rs.399.16 crores, leading to an EPS increase of 20.5%.

For the 9 month period ended 30th September 2001, Net Sales were Rs.8208.98 crores (+3.2%). Profit After Tax was Rs.1030.97 crores (+ 18.2%), while Net Profit was Rs.1204.93 crores (+ 36.8%).

On a like to like basis, after netting off the impact of business transfers, the sales growth works out to 5.8% for the quarter and 2.5% for the 9 month period. Similarly, the Profit After Tax growth amounts to 19.8% for the quarter and 19.7% for the 9 month period ended 30th September 2001.

Announcing the results, Mr.M.S.Banga, Chairman, said, "Market conditions continued to be very challenging with intense competition coupled with a slowdown and decline in several categories. In this situation, the company relentlessly pursued its strategy of growth through focus on its Power Brands. We have invested a significant amount (c. Rs.70 crores during the year) in upgrading the quality of our products, especially in Personal Wash to enhance competitiveness. Advertising support was stepped up by about 30% in the current quarter, mainly on Power Brands."

This has resulted in the growth rate of our FMCG portfolio improving from 2.6% in March Quarter and 3.2% in June Quarter to 10.5% (8% after netting off impact of business transfers) in the current quarter. The growth was led by several re-launches as well as appropriate consumer related activities. Growth in Power Brands was even higher at 10% during this quarter.

Cost management initiatives in the Beverages & Foods business and portfolio rationalization of unviable products even at the cost of some top-line growth, has yielded a 470 basis point improvement in gross margin some of which has been reinvested.

Mr. Banga further stated, "Overall Growth prospects for the coming quarters will depend upon rural market growth – a clear picture on this will emerge only in coming months - as well as the impact of recent global developments on the economy. The company will continue to follow its strategy of driving the growth of its Power Brands. We will also continue to invest a part of the profits from exceptional income during the year to strengthen the core business portfolio while ensuring that our shareholders continue to receive healthy returns."

REVIEW OF BUSINESSES

Net Sales of the Company grew by 7%. Domestic FMCG products reported a sales growth of 10.5%. The operating margins were maintained at a healthy level (approx. 15%). The group (comprising HLL and its subsidiaries) sales recorded a 5.6 % growth with FMCG products growing by 8%. The individual business performance (on a group basis) is detailed below:

The SOAPS & DETERGENTS grew by 8.3%. A declining trend was arrested in the Personal Wash category, which grew by 1%. With a successful repositioning of the portfolio, Lifebuoy franchise recorded growth after declining in the previous six quarters. Breeze continued to post a spectacular growth in excess of 50%. The Fabric Wash portfolio grew by 10% led by Surf and Wheel franchises, both achieving growth of around 14%.

The PERSONAL PRODUCTS business grew by 12.8% in the quarter. Clinic and Lux, were successfully re-launched and led a healthy 24% growth in shampoo sales. Substantial growth in the Pepsodent franchise helped the Oral category once again reverse a declining trend and record 4% growth. Skin category grew by 6%.

Power Brands in the BEVERAGES business recorded a marginal growth, even though overall sales declined by 3.6% due to portfolio rationalization as well as depressed commodity prices and market conditions. In line with the strategy to improve profitability, gross margins continued to improve significantly. A substantial portion of this was reinvested behind improved quality and advertising support for the Power Brands.

The FOODS sales were up 7%, with all-round growth in Oils and Fats (+ 8%), Culinary Products (+ 7%) and Branded Staples (+ 4%). Gross margins rose by 160 basis points during the year. Overall results for the Quarter have been adversely impacted by the merger of the Best Foods business.

ICE CREAM sales declined by 7% in the face of stiff competition from low price players and a flat market.

The EXPORTS of HPC products registered a strong growth of 34 % while Foods and Beverages exports grew by 1 %. Other exports declined by 17% mainly due to a planned phasing out of unviable traded exports.

Other income grew from Rs.91.87 crores to Rs.113.36 crores reflecting efficient treasury management of surplus funds in a market where interest rates have been coming down sharply.

The results include a business restructuring cost of Rs.11.25 crores in the quarter compared to Rs.22.50 crores in September quarter 2000 (Rs.33.75 crores in the 9 month period compared to Rs.82.50 crores in the corresponding period last year). In line with the past practice, this is based on the estimated annual costs. Actual expenditure on restructuring amounted to Rs.1.31 crores in September quarter 2001 and Rs.3.64 crores in the 9 month period ended 30th September 2001 (Previous year Rs.14.81 crores and Rs.108.86 crores respectively).

In line with the amendments to the Listing Agreement as directed by the Securities and Exchange Board of India, the Company has adopted the Accounting Standard on Accounting for Taxes on Income effective 1st January 2001, during the current quarter. Consequently, the company has recorded the cumulative net deferred tax credit of Rs.185.54 crores upto 31st December 2000, as an addition to the general reserves as on 1st January 2001. A deferred tax charge of Rs. 1.24 crores for the quarter and Rs.1.60 crores for the 9 month period ended 30th September 2001 in respect of the current year has been included in the provision for taxation. As approved by the shareholders at the AGM held in June 2001, the company has issued Share Options for 2475100 shares to its management employees as a part of the Employee Stock Option Scheme.

<u>M&A</u>

The Mumbai High Court has approved the amalgamation of International Best Foods Limited as well as Aviance Limited with the company with effect from 1st July 2001. The results of the quarter include impact of this and other business transfers including transfer of personal products business of Lakme Lever Limited into HLL as well as transfer of Quest Flavours and Fragrances business to a Joint Venture with the ICI group with effect from 1st April 2001.

Restructuring of General Reserves

The Board of Directors have, at the meeting held on 16th October 2001, decided to seek approvals, pursuant to Sections 391 and 394 of the Companies Act, 1956, from the members and the Mumbai High Court to restructure the general reserves of the company by issue of bonus debentures in the ratio of 1 bonus debenture of Rs.6/- for every Re.1 share held in HLL. These debentures would be redeemed on the second and third anniversary following the issue and would carry 9% interest.