Conference Call Transcript

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PRESENTATION

Namita - Moderator

Good evening ladies and gentleman, I am Namita**,** the moderator for this conference. 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. Present with us on the call today is the senior leadership team of Hindustan Unilever Limited. We propose to commence this call with opening remarks by Mr. S.C. Srinivasan, Vice President Treasury, M&A and Investor Relations of Hindustan Unilever Limited followed by results presentation, after which the floor will be open for the question and answer session. I now hand over the call to Mr. Srinivasan. Thank you and over to you, Mr. Srinivasan.

S.C. Srinivasan – Vice President – Treasury, M&A and Investor Relations – Hindustan Unilever Limited

Thank you Namita and welcome to everyone to our December Quarter results conference call. We have with us Nitin Paranjpe and Sridhar. We will start the presentation on the December Quarter results by Sridhar. Then Nitin will address some of the queries raised by you and also give all of you his perspectives on the market and the performance. We will then follow that with a Q&A session. Over to you, Sridhar.

Sridhar – CFO – Hindustan Unilever Limited

Thank you Srini and let me also say a big welcome to everyone who has joined our December quarter results call. I would draw your attention to the safe harbour statement included in this presentation for the sake of good order. Let me first start with an update of the FMCG markets which will be then followed by highlights of the quarter as well as a detailed discussion on the individual categories. Thereafter we would discuss the financial results and then conclude with an outlook of how we see things going forward.

First in terms of the market context of December quarter, the FMCG market has grown well during the quarter both in urban as well as rural markets. This growth has been driven by good volumes as well as positive growth from price. It is important to emphasize that this growth has been accompanied with high levels of competitive intensity with new players entering the market as well as higher aggressive activity from existing players and this has reflected in pricing as well as brand investment. The input cost inflation has further gone up during the quarter lead by agri commodities and crude. The costs of key inputs are at an upward trend. A good example will be palm oil which has already crossed steep prices observed last in 2008.

In this context, if you look at the December quarter results, the first thing to say would be that underlying volume growth has been sustained in double digits at 13%. This is the fourth consecutive quarter that our domestic consumer business has sustained double digit underlying volume growth. Net sales or turnover has grown by 12% which is ahead of the market in aggregate. Our soaps and detergents business delivered good growth lead by double digit underlying volume growth. Our actions in these segments are yielding results and we have strengthened our leadership positions in both of these segments. Personal products business sustained its strong double digit growth momentum with a good contribution from volume as well as price. Foods and Water both have grown in double digits in December quarter.

As I mentioned a little while ago, input cost inflation has been on the rise in December quarter. This is particularly in the case of soaps and detergents which are commodity sensitive categories. While buying efficiencies and stock covers fully offset the commodity inflation in previous quarters, in this quarter the cost of goods sold has gone up by 220 basis points linked to the cost inflation. We continue to focus on driving buying efficiencies and cost effectiveness program even harder. Brand investment remains at high levels in the context of the significant comparative intensity and also to support our initiatives to build markets in emerging categories. A&P spend increased by about 17% and was 70 bps up in December quarter. As a result operating margins were lower by 320 basis points. Profit after tax and before exceptional items and net profit were both down by about 2% in the quarter.

Just looking at a trend of underlying volume growth and you can see from this chart that this is now the fourth consecutive quarter that we have delivered good volume growth with December quarter coming in at 13%. I should add that this strong growth is almost wide spread across all categories, so it is a broad based underlying volume growth that has been delivered during this quarter.

It is also important to note that this growth has been competitive, ahead of the reported market growth. This is not only the case for December quarter as you can see on the chart, but it is also true for the calendar year of 2010 and the first nine months of the current financial year. So, overall competitive levels of growth.

This growth has been driven by innovation and market development activities. As you can see from the chart, there were several innovations on the core that we brought in the market in December quarter. For example, in Hair, Dove range was relaunched with fiber actives. In Laundry, Active Wheel Bar with the power of lemon and fragrance of Jasmine was relaunched. Similarly in Tea, the Red Label Franchise, which is our largest franchise in tea, was relaunched with health preposition and oral we launched a variant under Closeup, FireFreeze variant, so a lot of innovation driving the growth on our core.

At the same time, consistent with our strategy we also brought to the market several innovations in emerging categories some of which are shown on the chart. If you take Skin Care, we had two entries in the fast growing anti-ageing segment. At the top end we launched Pond's Gold Radiance and at the mass end, we had Fair & Lovely Forever Glow launch. Similarly in Lakme, the fruit moisture range of face wash was launched with very good success in the quarter. If you look at Ice Creams, we had two variants, two new launches; one is Chocolate Disc for cone and the other is Badami launch, so both in core categories and in emerging categories several innovations were brought to market.

As you see this chart, the story with respect to competitive intensity continues to play out in the media space. Competitive intensity is measured by the amount of GRP spent on FMCG categories which continues to be at high levels. This is both on account of increased activities from existing players as well as the entry of new players in the market particularly in Personal Care.

In this context we have sustained our A&P investments to build our brands to ensure that we remain competitive and at the same time invest to build new categories and new segments. In December quarter 2010, our A&P spend were 70 bps higher at 14.8%.

On the cost front, as I mentioned earlier we have seen input cost moving up during the quarter. As you can see from this chart where the numbers are presented in an indexed manner, the main raw materials have seen a significant upward movement. Palm oil prices are now at peak levels of 2008. Crude oil prices are up by about 13% within this quarter. Similarly tea prices are also on the upward trend. So, in most of the key commodities, we are seeing a clear upward trend in the input costs.

In this scenario, our focus on cost competitiveness continues and in fact we are raising the bar in this area. As you can see the index levels of cost effectiveness programs have continued to step up with the current fiscal year as well. In relation to indirect and overheads, we continue to maintain a tight control on costs while at the same time reinvesting some of these savings into building capabilities for future growth.

Let us now discuss the performance of individual segments. When you look at this chart, overall all segments have grown. The sales growth in soaps and detergents is somewhat muted on account of pricing but as I mentioned earlier the underlying volume growth in soaps and detergents also is in double-digits. Growth across all segments was volume led.

Let us now turn to Laundry where during the quarter we had further strengthened our leadership position. We are growing very competitively with both volume and value growth ahead of market growth. Our actions are yielding positive results. RIN, which was relaunched during 2010, is performing extremely well with very strong double-digit sales growth. Surf recorded good volume growth across the product range. In Wheel, we relaunched the Active Wheel Bar with improved formulation and it now provides superior product quality to the consumers. We rolled out our Fabric Conditioner brand Comfort nationally in June quarter and this is performing very well, developing the market and gaining traction.

The other way with which to look at our laundry performance is how we are doing compared to market and as you can see, the competitive growth momentum has been sustained. Both in volume and value we are growing ahead of the market in the quarter. This is in fact the third consecutive quarter where our growth has been ahead of market. As you can see the strong volume growth is across both the powders and the bars portfolio in this category.

Moving now to personal wash, strong growth in Personal Wash continued in this quarter as well. The actions that we have been taking through the last year or so are yielding good results with growth ahead of market driven by volumes. Our premium portfolio sustained its robust growth with Dove continuing to grow in strong double digits. Our soap brands capture the top three positions in modern trade; this is through Dove, Pears and Lux. Lifebuoy has been relaunched in September quarter with better germ protection. Post the relaunch, Lifebuoy is growing in strong double digits and at the same time we continue to develop the market in the emerging segments of liquid soaps and sanitizers.

Now coming to Skin Care, the category grew robustly across all the brands an ahead of market. Fair & Lovely delivered good growth led by volumes, the Max Fairness cream for men which was launched in June quarter is performing well and as I mentioned earlier we are further premiumizing this brand with the launch of an anti-agent product Fair & Lovely Forever Glow. The Ponds portfolio was expanded with Gold Radiance range in the premium end of anti-ageing. Multibrand strategy in facial cleansing supported by regular stream of innovations is delivering an exceptional growth with facial cleansing sales tripling in December quarter 2010. Good growth in skin care has really been driven by some very-very good innovation. As you can see from the chart, the series of innovations cutting across face wash and other products. On the right hand side, the innovations on anti-ageing made sure that our portfolio straddles the price pyramid of anti-ageing products.

Hair and Oral care categories grew well led by volume during December quarter. Hair grew in double-digit with Dove being the #1 brand in modern trade. As I mentioned earlier, there was relaunch of Dove Hair range with fiber actives during December quarter. Clinic Plus and Sunsilk also grew in double digits. In Oral Care, toothpaste performed well, aided by the launch of Closeup FireFreeze during the quarter.

Coming now to our foods business; Beverages business sustained good growth in December quarter. In Tea, Red Label was relaunched with the health proposition. With double-digit growth in December quarter, Red Label has now delivered four consecutive quarters of double-digit growth. At the bottom of the pyramid, Sehatmand continues to win consumers. Coffee grew well in double digits with price point packs leading the growth. In conventional coffee, we expanded the portfolio with the launch of Bru Select, which is a premium offering in conventional coffee.

On this chart, a glimpse of the Red Label relaunch with the health proposition which promotes the goodness of tea.

December quarter saw a very strong performance in processed foods category as well. Both Kissan and Knorr continued to lead robust growth in the packaged foods business. Knorr grew in double digits with continued strong growth momentum in Soupy Noodles. Knorr Soupy Noodles is now available nationally. Kissan also grew in double digits with the jams growth aided by a strong performance in sachets, Ketchup growth was broad based across all packed sizes.

Our ice cream business continues to grow well with emerging channels like out of home developing well. Ice cream growth was in strong double-digit across various formats and aided by some excellent innovation. Swirls Parlours, which are now above 130 across the country, have won two awards for Franchisor of the year.

Coming now to Water category, Pureit brand of water continues its strong growth momentum underpinned by volume growth. As mentioned before we now have a set of offerings which straddle the price pyramid starting from about Rs.1000 to around Rs.6000. All of these segments are performing well and overall we are pleased with our category performance.

Looking at the financial results that you no doubt have seen but just a quick reminder, sales growth at just under12% and net profit decline of 2%. PBIT margin was down by 320-basis point driven by the inflation in cost of goods particularly in the commodities sensitive segments of soaps and detergents. Our sustained drive on improving working capital and managing our treasury soundly has resulted in financial income nearly doubling during the quarter. This has helped the decline in PAT before exceptional to be just above 2%.

Exceptional items are shown in this chart, sale of assets really the main element within the exceptional items of this quarter.

Looking at now the results for the cumulative nine months to December, net sales have grown by just under 10% while net profit has grown by about 7% in this nine-month period.

So in summary, overall 13% underlying volume growth and 12% turnover growth was ahead of the market. The actions that we have taken in the last two years are yielding positive results and are reflected in our strength in leadership positions. Inflationary trend in key input cost particularly in commodity sensitive categories have impacted margins. Our focus on buying efficiencies and driving CEP will not only continue but we will raise the bar even further.

Looking ahead, our perspective is that the inflation is likely to remain at a high level particularly with respect to commodity cost. At the same time, we believe that competitive environment will remain intense given the attractiveness of the Indian FMCG market. In this context, we will continue to manage the business even more dynamically to ensure that we remain market competitive and cost competitive. We will take pricing actions but these will be judicious and calibrated. Cost management will continue to be a high priority on our agenda. We are committed to defending our leadership positions in our core categories and at the same time leading market development in emerging categories and channels. In other words, winning today and winning tomorrow. So with this brief review I would like to hand over to Nitin for his observation.

Nitin Paranjpe - CEO - Hindustan Unilever Limited

Thank you, Sridhar, I will make some quick comments before Sridhar and I take the questions you might have on our results. First, I would like to say that we have sustained double-digit volume growth now for four quarters in an environment of very high competitive intensity. We have also crossed the 5000 crores turnover mark for the first time this quarter. Our strategy to focus on strengthening our leadership in core categories even as we build markets and segments of the future is working. Our leadership position in core categories including soaps and detergents has strengthened. We continue to bring bigger, better, faster innovations to the market in order to develop categories for the future. Over the last many months we have entered categories like premium skin lightening, male grooming, soupy noodles and have driven things like conditioner, water purifiers etc. very hard.

In earlier quarters, most of the cost inflation was offset through buying efficiencies and cost management. This quarter we saw very sharp increases in input cost inflation especially palm oil, which could not be mitigated through cost efficiencies alone. Price increases need to be calibrated both in the context of the competitive situation that we find ourselves in and the need to take consumers along. So while we have taken some price increases in this quarter, these were not sufficient to fully cover the extent of input cost inflation. In the short-term, we believe cost inflation is expected to remain high and we need to monitor the cost even more closely, as always manage the business dynamically and take judicious pricing action in order to manage the volatility in commodity cost movement.

I want to reiterate that we remain committed to our strategy of doing what is right to winning today and to be preparing ourselves to be winning tomorrow. Now in the context of the results that we have declared a couple of days ago, there have already been a few questions that are obviously top of people’s mind and have been raised formally or informally by some of you with us.

The first question is about our strategic approach, many of you have raised the question of whether we are going to focus on volume or move towards margin improvement as we look ahead. Now in answer to this, I would only say that we remain committed to grow and strengthen our leadership positions in the core categories and at the same time build opportunities for the future. We do this because we believe it is critical that we follow this approach to deliver long-term shareholder value. Now in the context of the high levels of cost inflation, of course we need to find the right balance between volumes and margins and we will continue to manage our business even more dynamically choosing all levers of cost effectiveness, judicious pricing and leveraging our scale in order to do so.

The second area of questioning has been around the pricing actions especially in the context of the competitive intensity and the cost inflation which we find ourselves in. Now, it is obvious that given the cost inflation that we find ourselves in, pricing actions will be necessary. We have taken up prices in several categories in the recent quarter and we will take up further increases in a judicious manner.

The third question that has been on many people's mind is the impact of high inflation and pricing on market growth. Now, obviously high inflation is a concern not just for the business that we are in but also for the economy in general. Having said that in December quarter FMCG markets have continued to grow well both in urban and in rural and we have not seen the impact of consumer inflation on our market as yet. Going forward, we would need to watch this space closely especially the balance between price and volume. In general, however, we believe FMCG markets will continue to grow given the very low levels per capita consumption and penetration in several categories.

The last question which is in many people's mind is on the levels of advertising and promotions that we have in our business. Now our position again is unchanged from what we have been articulating thus far. We will ensure competitive levels of investment behind our brands to grow the core and to build portfolio for the future. The absolute levels of this spend would be determined by the competitive intensity that we find in the period and the specific activities that we got, launches, relaunches etc., in that quarter. However, in the context to the high cost inflation, if we see some tampering of spend level, we will accordingly calibrate our investment.

Those were really some of the comments that I thought I would make and address upfront, some of the key areas of clarification or questions or concerns that some of you had and I thought it would be useful to make observations and comments on that upfront and now may be open it up to all of you for any other questions, comments or clarifications that you may seek on the results that we have declared for the last quarter.

S.C. Srinivasan – Vice President – Treasury, M&A and Investor Relations – Hindustan Unilever Limited

Thank you Nitin. Namita, we are now open for questions. Please note that this question and answer session is open only for institutional investors.

Namita - Moderator

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

Abneesh Roy – Edelweiss - Mumbai

Sir congrats on the market share expansion in both segments and 13% volume growth; my first question is on the innovations/ relaunches which you have done. We have relaunched and innovated almost 90% of portfolio, is it fair to assume that the second year after such a heavy calendar is normally a period of consolidation and second sub-question to this would be, is it possible to quantify what percentage of the 13% growth that we are getting this from new products and brand extension. I am knocking off the relaunched part and just asking for the innovation and the brand extension?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

"Are we likely to see a period of lull in 2011?" It was to translate what you said. The answer is no, I think the level of competitive intensity that we find ourselves in will require us to constantly keep refurbishing our portfolio from time-to-time. The frequency with which brands need to be refurbished varies across categories and based on the new news that we have got to bring to the market. So saying that we had strong calendar of activity in 2010 and therefore 2011 will be a weak calendar or a relatively weak calendar of activity, I think that would be misleading.

As far as the second question you asked in terms of the impact that these have had, I could give you broad idea in terms of what happened. I do not have the breakup in the manner you have asked, may be separately we will try and see whether we will be able to give you some idea. On an average we had in this year about 65-70 activities across brands, variants, either launched, relaunched, new things being introduced or old things being renovated. On an aggregate we would have about close to 20% of our turnover, which comes from such activities, which would have gone through the significant amount of innovation as we move forward. How much of that is completely new introduction etc., I would not have it at the moment and we could get a feel subsequently.

Sridhar – CFO – Hindustan Unilever Limited

Abneesh, just to add that when you look at our portfolio, the growth we had is fairly broad-based across categories. What that means is that the core categories have also grown well as have the emerging categories and therefore it is a combination. In fact in one sense it is a little bit difficult to say how much of growth is attributable entirely to innovation given that there are many other levers that are in force in terms of getting the growth, whether it is things to do in go-to market, activation, distribution, advertising, so it is not the straightforward, but the growth is being fairly broad-based across categories and brands.

Abneesh Roy - Edelweiss – Mumbai

Thanks for this. My second question is we are seeing raw material inflation which is impacting not just you but the regional players also. In such high inflation, does this put you in advantage because of your global sourcing because price hike needs to be taken by everyone and a consumer changes his brand behavior from unbranded to branded in a very high inflationary condition as per the historical data?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

I think, in the end the consumer would be driven by choices which he makes best on who provides a better value and at all points of time we must be obsessed with our consumer then obsessed in making sure that our brands offer superior value. Some of that has to do with pricing but not all of it has to do with pricing. There are many other aspects of creating value and I think across our portfolio we find that we would not just be thinking of pricing. Of course pricing is important but there are many other aspects through which you create value. The other aspect in terms of do we have advantage of the global size and scale etc.? Of course, we do and that advantage is there. That advantage is there at all point of time, the fact that we have the scale gives us the advantage to buy whether it is in time when entire costs are growing up or at times which are not so volatile, scale always gives us the advantage and in some way you would have seen the benefits of that. If you would have seen in the last two quarters, cost of goods had been comparable and actually we did not see the impact of the inflation which was around and much of this benefit which you saw in the last two quarters was on account of the global scale, global buying, the efficiencies and the cost effectiveness program that we were driving.

Abneesh Roy - Edelweiss – Mumbai

My last question is on the rural distribution, in the analyst meet which was held earlier, you had pointed out deeper rural distribution. Six months have gone there, where are we in terms of that and any advantage we have already seem because of that or it is coming in the future.

Nitin Paranjpe - CEO - Hindustan Unilever Limited

I would say at this stage we are absolutely on track in terms of the plan that we had shared with you. So rest assured, we are absolutely on track and all the work which we are doing which is in terms of seeing what sort of benefits we should be getting out of this expansion are on course.

Abneesh Roy - Edelweiss – Mumbai

Okay sir thanks a lot. I will come back if I have any other question.

Nitin Paranjpe - CEO - Hindustan Unilever Limited

Thank you Abneesh.

Namita - Moderator

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

Nikhil V - IDFC - Mumbai

Hi, this is Nikhil here, couple of questions, one was, I have heard management comments which suggest that we are looking at a period which is quite similar to 2007-08 where downtrading started to happen in the market and so on. I am slightly puzzled with that, if you can just throw some light on that.

Nitin Paranjpe - CEO - Hindustan Unilever Limited

First, let me make a comment that the quote which was attributed and the report which you are talking about are factually incorrect. Well, I cannot comment in terms of how anyone chooses to interpret the conversation that they had with us, I think we can safely say that the specific quotes which have been attributed basis which this conclusion has been drawn, is absolutely incorrect and we are doing what is required in order to make sure that we bring this to their attention.

Nikhil V - IDFC – Mumbai

Fair point. Thanks for that. Second was on the detergents' portfolio if we look at the broad sketch, I am presuming that the revenue growth would be significantly higher than the brands' growth within that category, but is this a margin which is sustainable for the industry in general for a business which is fairly well penetrated in some sense. Should not they be on normative stage margin, which would start to get reflected in this portfolio?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

In theory what you talk about Nikhil, I cannot disagree with and no business for a long period of time can run with these levels of margins which, you wrote in your mail which you have sent, are sub-optimal and not meeting basic economic return. The timeframe in which this can happen I cannot comment and whether it happens in two quarters, two years, frankly I cannot comment but the broad principle that you talk about is absolutely true. The reasonable margins have to come to categories, especially categories which are relatively well penetrated etc.

Nikhil V - IDFC – Mumbai

What would be your sense of the extent till which players will want to continue at the current level of economic crisis?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

I wish I could answer this question. I can't comment on how other people see it and what they wish to do. From our perspective, we remain committed to the long-term. We will make sure that we will do things which are right for the long-term even when sometimes it has an impact in the short-term because we are convinced that these are the right actions to create long term shareholders' value.

Nikhil V - IDFC – Mumbai

Lastly on the entity funnel if you can just throw some light on which of the product line are starting to look relevant from the scale of opportunity that you had framed say a couple of years back?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

We have said that we want to drive beauty, in beauty premium skin we wanted to drive, within categories like hair things like conditioner and I think all of these are now getting into a stage where they will start becoming material. In other categories like foods etc., it is early days but we find the introduction that we made more recently through Soupy Noodles very-very promising and has the potential to give the significant scale and lastly in water, we are present in water, we have been around for a while but I think over a period of time we have now got to a stage where water soon will start becoming material and make a significant contribution to this business.

Nikhil V - IDFC – Mumbai

I presume that the brand itself rather than the category?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

Yes, the brand Pureit

Nikhil V - IDFC – Mumbai

Thank you sir.

Namita - Moderator

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

Percy Panthaki - HSBC - Mumbai

Hi Srini, Sridhar, and Nitin. My question is firstly on the soaps category. In your view, do you think that price competitiveness in soaps has overtaken detergents. We have seen a 50% plus cost inflation and industry wide the price increases on this category have been very meager. This to my mind is no less price competitive than dropping prices on major detergent brands by 20% or 30%, so what is your comment?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

I think if you put it this way, it would appear to be so, having said that I think there are one or two differences between the two markets that we look at and those differences are to do with covers etc., which can be held in these two categories. In the personal wash or soaps market, companies are likely to have longer cover and without getting into the specific of what our cover policy is etc, it is safe to say that there are longer covers out there and therefore in the short term, the spot price increases that you see which we talk about 50% increases will not necessarily get reflected in terms of consumer price increases which people have been asked to take. I think we now need to see how things move forward. That is point number one. Point number two, in any market that you operate in if prices suddenly go up 50%, even if you wish to taking prices up to offset all that cost in short term immediately is not a very wise thing to do. Price increases inevitably will have to be little more calibrated even if overnight in a month or two you find costs have been gone up by 50%. It is critical to take your consumers along with you and that might mean in the short-term some impact on the margin but it is something that would be right as we move forward. So, there will be more action in this space and these are possibly the two reasons why you would see differences between these two categories, but other than that I do not think this category is more competitive than the laundry category at this moment.

Percy Panthaki - HSBC - Mumbai

Okay sir. Secondly, on detergents if I see what has happened in the last year or so, the entire price table has moved down across the industry and that obviously has put the USP of the small regional players at base, they were mainly competing on price, now they do not have that USP any longer and that is why, I am not saying that is the only reason but one of the reasons, Hindustan Lever has been able to grow volumes handsomely to take share from the smaller player. Now as you said you do not know when remunerative pricing will come back but if it does come back and prices increase and again there is a gap between the small commoditized players, so to say, and Levers**,** do you think there is enough consumer stickiness, so that the players who are now with Levers who have switched from these smaller or unbranded players, they will stick through even when pricing sanity returns and Levers again starts trading at a substantial or decent premium to these regional players?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

I would really say, consumers will choose brands as long as they offer them good value and when you say that pricing sanity returns, obviously you do not mean insanity in pricing where prices will move up in a manner where fundamental consumer value is eroded and if people act in that manner, consumers will switch.

Percy Panthaki - HSBC - Mumbai

Do you think that was the reason why two years back Levers was not doing as well in detergents as it is today?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

I would correct that statement from “the last three or four years in detergents category” to “six to nine months period” when the costs came down and we saw volatility and prices were coming down. Laundry business has been consistently growing shares over the last three or four years. So it is not that over a longish period of time we were not growing in consumer franchise. There was a period of 2009 where we see an erosion in franchise as I have explained in many of the calls earlier, we struggled to rapidly bring down prices in the context of cost having come off and local and other players which had lower covers, lower pipelines etc., managed to do that faster and therefore there was a task on hand in correcting the consumer value. Simply to put, irrespective of the context that we find ourselves in and even as the cost pressure eases etc., we will always have to be very-very smart in balancing volumes and margins. Volume and volume growth will be the heart and lung of this business going forward, in the end the health of our business will be measured and will be reflected when we have more consumers wanting to buy more of our products giving us a strong amount of leverage as we see through the entire P&L and helping us improve and start reflecting all of that in our bottomline.

Percy Panthaki - HSBC - Mumbai

Right sir and my last question is on your volume base effect. Going into March quarter you will be faced with a high base effect on volume of 11%. Do you think that is going to be any cause of concern in terms of your YOY growths on volume that we go ahead?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

So again we cannot comment in terms of what could happen in March quarter but that fact is not escaped us as well that we have March quarter where we have >10% growth last year.

Percy Panthaki - HSBC - Mumbai

And lastly sir just one suggestion, I mean this has been brought up earlier in this call also, but over the last couple of years you have become much more proactive in terms of developing the market, launching new products and introducing new variants and my humble suggestion is that investors do need some quantification of what this is bringing to the table, so henceforth if you could actually share some amount of data in terms of turnover or as a percent either or absolute value of turnover coming through launches of new products or new variants in the last 24 months that would really be helpful and I do not think this will be competitive in any sense because it will be an aggregation across different categories and products.

Nitin Paranjpe - CEO - Hindustan Unilever Limited

Thanks Percy, we will reflect on your suggestions and see how to deal with it.

Percy Panthaki - HSBC - Mumbai

Okay sir, that is all from my side. Thank you very much.

Namita - Moderator

Thank you sir. The next question comes from Mr. Amnish Agarwal from Motilal Oswal, Mumbai. Sir you may ask your question now.

Amnish Agarwal - Motilal Oswal - Mumbai

Good evening sir, I have a couple of questions. My first question is on the raw material front where we have seen very sharp increase in the input prices related to palm oil and even lab prices and some of the other polymer prices are inching up. What I would like you to reflect upon is that to what extent this quarter's margins or costs would have already factored in the kind of inflation we have seen in the raw material prices in the past particularly one quarter or so and in which categories do you think there is still scope for the prices to go up before any impact on the consumer demand could be there?

Sridhar – CFO – Hindustan Unilever Limited

Just to be clear, your question is about March quarter 2011?

Amnish Agarwal - Motilal Oswal - Mumbai

Yes.

Sridhar – CFO – Hindustan Unilever Limited

So, Amnish, the March quarter 2011 question effectively means we would have to talk about what our covers are which is something that we normally do not do and you will appreciate that for competitive reasons. What we can certainly say is that the outlook on commodity cost continues to be one in inflationary situation. What our covers are and therefore what is the impact on margins that is not something that we would be in a position to specify.

Amnish Agarwal - Motilal Oswal - Mumbai

Okay. Because one of the comments, I think Nikhil asked earlier, which was there in one of the media, it was reflecting as pricing will not mitigate the cost inflation due to high competitive intensity. So my question was in relation to that comments which were there?

Sridhar – CFO – Hindustan Unilever Limited

Okay, let me just clarify what we have said that in December quarter the cost inflation on inputs has been so steep that even a combination of cost effectiveness programs and pricing action that we took have not managed to mitigate it and therefore the gross margin was down, cost of goods sold as a percentage of turnover was higher. So the comment we have made was more in terms of reviewing DQ 2010 performance and not any forward-looking kind of statement.

Amnish Agarwal - Motilal Oswal - Mumbai

Okay, but sir actually the will word was used that is why…?

Sridhar – CFO – Hindustan Unilever Limited

This is to clarify that was in relation to DQ, what we also said is that and Nitin mentioned in his observation that given these high levels of inflation we will need to take judicious pricing action and we will do so.

Amnish Agarwal - Motilal Oswal - Mumbai

But sir what is your overall take on the consumer demand as of now; have you come across any segments or any categories where there is some sort of downtrading, where the consumers have actually started switching back their hands from spending?

Sridhar – CFO – Hindustan Unilever Limited

This was covered in the opening remarks that when you look at December quarter which is the most recent quarter of information available, we have not seen any evidence of downtrading, we see that FMCG market growth is good, both in urban and in rural. Going forward of course we cannot predict we will have to wait and watch.

Amnish Agarwal - Motilal Oswal - Mumbai

My second question is on water business. Can you give us some more data points or what is your thought process and where we have reached in terms of topline or in terms of profitability and what is the outlook on this business in your view in the coming couple of years?

Sridhar – CFO – Hindustan Unilever Limited

My comment in this matter is directional rather than specific number, our water business has now for the last more than a couple of years continuing to grow very robustly, strong double-digit growth in every quarter, led by volumes. We now have a portfolio of offerings that really can deliver value across a range of price points with the same level of water quality, so the purity of water is not differentiated, the different products offer consumers a different series of benefits and conveniences and in terms of the overall shape of the business, it is progressing in line with our business plan and we are quite pleased with the progress. We will see whether at the end of the financial year, which is after March, if we can share some more details with you.

Amnish Agarwal - Motilal Oswal - Mumbai

Okay sir, thanks a lot.

Namita - Moderator

Thank you sir. The next question comes from Pritesh Chhedha from Emkay Global Mumbai. Sir you may ask your question now.

Pritesh Chhedha - MK Global - Mumbai

Thank you for taking my question. A couple of questions, last four quarters have been extremely action packed in terms of product line extensions, innnovations, relaunches. Is it possible to share the quantum of this contribution to the overall volume growth? Does that actually influence Q4 onwards where we tend to see base effects of Q4 last year? That is the first question. Second on the cost optimization programme, you know we had done a lot and benefits had flowed in for about four to six quarters before these immediate two quarters, but if you see for the last two quarters, other overheads have started moving up. If you could shed some light in terms of which are these overheads because the increase is sharp especially in the last two quarters.

Sridhar – CFO – Hindustan Unilever Limited

Let me first deal with your second question, which is about the cost effectiveness program and overheads, cost effectiveness programs continue to deliver strongly for us and in fact as a percentage of turnover that is actually increasing in proportion. I think we shared it in one of the charts. Similarly when we look at the productivity of overheads or indirect cost, they continue to improve. What perhaps you may be referring to is other expenses in our result advertisement, that other expenses includes some variable cost particularly carriage and freight cost which you will appreciate both are linked with the topline volume increase as well as any inflation, particularly in fuel prices, so the other expenses is not a reflection of our overheads, it has a mix of overhead and variable cost. I can reassure you that our overhead cost continues to be managed very tightly and in fact we are seeing a continuous improvement. As far as your first question is concerned on contribution of innovation, that was a point also made earlier in the call and we will see to what extent we can give some better understanding in terms of the impact of the innovations particularly in the new segment on the overall portfolio. For example when you look at personal product which has grown by some 20%, obviously it had a very strong contribution from innovations, both on our existing brands as well as some of the new segments that we have entered more recently, the segments like skin lightening, segments like conditioner, face wash etc., those have obviously contributed to the accelerated growth of 20%.

Pritesh Chhedha - MK Global, Mumbai

Lastly for Hindustan Unilever, we have seen in the history, increase in material cost impacts Levers not immediately but with the lag effect. This time, it has impacted immediately, so has there been a strategy change or have we gone wrong anywhere, if you could throw light or is the increase in product price is so sharp that one could not manage?

Sridhar – CFO – Hindustan Unilever Limited

When we look at the trend of cost increase of goods, that has been growing on for some time now, indeed it was much sharper in December quarter, but even in the previous quarters, for example even if we look at September quarter we had a significant rise in input cost; however, at the gross margin level, we virtually had no adverse impact and that is a reflection of both our cost saving programs as well as how we have been managing some of our covers, etc. The fact is that in December quarter, the increases have been much sharper and while cost savings have continued, some amount of pricing action has also gone in, the severity of the cost increase has been very substantial reflecting in margin, so I really do not think that there is any issue with strategy or any issue in terms of getting things wrong.

Pritesh Chhedha - MK Global, Mumbai

Lastly could you share the pricing action in the soaps and detergents at the blended level in Q3 in the January month?

Sridhar – CFO – Hindustan Unilever Limited

If you look at sequentially between Q3 and let us say now, roughly it would be about 4% to 5% that would be the kind of blended impact for pricing, obviously this has gone at different points of time in the period and therefore it would not be reflected all in quarter. Very broadly, it will be about 4%-5%.

Pritesh Chhedha - MK Global, Mumbai

That is the price increase taken between Q 3 and January month?

Sridhar – CFO – Hindustan Unilever Limited

Q3 and now, in soaps broadly speaking that will be the range. It will be different across different parts of the portfolio.

Pritesh Chhedha - MK Global, Mumbai

Many thanks and all the best to you sir.

Sridhar – CFO – Hindustan Unilever Limited

Thank you.

Namita - Moderator

Thank you, sir. The next question comes from the Sunita Sachdeva from UBS Mumbai. Madam you may ask the question now.

Sunita Sachdeva - UBS - Mumbai

Good evening sir. I appreciate Hindustan Unilever is now growing faster than the industry, very rapid in terms of the volumes that you have generated. I just wanted broader idea from you about what generally is happening overall in the FMCG market in terms of volumes and values for the sector and for the overall industry and not commenting for yourself, given the input cost inflation what your sense about what should happen in next 12 months?

Nitin Paranjpe- CEO - Hindustan Unilever Limited

The first thing I would say is the consumer markets continue to be strong; they have performed well and through 2010 have shown a good balance between volumes and value, growth has been volume-led with a lower amount of price. The second aspect is that the growth has come through both urban and rural markets and therefore the growth has been very broad-based. The growth has also been geographically very well balanced across the country. The fourth comment I would make is that we are seeing a substantially stronger growth in the segments which are segments of tomorrow, where premiumization is happening in categories like hair, deodorants, premium skin lightening, anti-aging, facial cleansing etc and these new segments are seeing significantly faster growth. This is consistent with the trend that we have talked about in the past, where consumers who are becoming more affluent have the desire to spend and have the money to spend and also the companies like us and many others are making sure that there are offerings in the market place to spend that money. As we get in to a period of high cost inflation, based on experiences of the past, you have to be careful and watch out for two or three things. You have to be careful about the rate at which prices start moving up, you have to be careful about the risks of downtrading, if any, which happens in certain types of categories and you have to watch the balance between volume and price as you move forward. In periods when costs move up, absolute volume or value of the market usually does not come down, it is usually the mix between volume and value which undergoes the change and as we grow through 2011, we would like to watch this carefully and make sure that we have our eye on volumes as much as we have our eye on pricing. In longer term, the FMCG market continues to be very attractive for a variety of reasons that we talked about in the past, one is the low levels of consumption that exist here, the several new categories which have extremely low levels of penetration and the fact that the headroom for growth with penetration, consumption and the introduction of new category remains very high and factors like what is happening to the trade, factors like the demographic profile which is changing, all of them augur very well for the growth of this market in the years to come.

Sunita Sachdeva - UBS - Mumbai

Thank you sir.

Namita - Moderator

Thank you madam. The next question comes from Mr. Aniruddha Joshi from Anand Rathi, Mumbai. Sir, you may ask the question now.

Aniruddha Doshi - Anand Rathi - Mumbai

Hello sir, congrats for market share gains. I just wanted to know, in your initial speech you said that inflation is increasing and is expected to stay at higher levels, so what is your internal target for the inflation?

Sridhar – CFO – Hindustan Unilever Limited

Just to clarify, when we said that the inflation is expected to stay at high level, it was in the context of commodity cost and input cost; we were not making any outlook statement on general inflation; we were talking about commodity cost and that is just based on the firm trends we have seen in many of the commodities, we showed you long term trends of two or three of those categories. That is the current view, obviously you know some of these are certainly dictated by international factors whether it is palm oil, whether it is crude and therefore you know we cannot make any more precise forecast other than what we have already said.

Aniruddha Doshi - Anand Rathi - Mumbai

Okay. Now just wanted to know one more thing what is our contribution of sales from the products at MRP of Rs.10 and below to the overall sales?

Sridhar – CFO – Hindustan Unilever Limited

Aniruddha, I do not have the precise number in hand, but suffice to say that in most of our categories, be it laundry, soaps, tea, shampoos, mass skin lightening, we have a portfolio of SKUs that has what we call access packs. So for consumers to come in and try our products and experience the products, we have access packs that would typically be Rs.10 and lower.

Aniruddha Doshi - Anand Rathi - Mumbai

Okay, and the growth which we are seeing in terms of volumes, whether it is coming at this low-price points, LUPs or we are seeing volume growth in higher level price points?

Sridhar – CFO – Hindustan Unilever Limited

Aniruddha, it is quite broad based growth that we have seen in December quarter, so it is not restricted to any single price segment, it is fairly broad based.

Aniruddha Doshi - Anand Rathi - Mumbai

Okay. Regarding the price hike last time, when the company was looking at a price hike, it was mainly looking at cutting the weight because the raw material prices were going up. So at this time what would be the outlook, whether we will look at increasing MRPs or we will again look at cutting the weight or grammage?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

Again it would be judged on a case-to-case basis. There are examples where we have increased prices. For example, recently in this quarter, the LUX price has gone up from Rs.16 to Rs.17. The Dove price has gone up from Rs.35 to Rs.36. The Pears price has gone up from Rs.40 to Rs.42. Equally, there are examples where we have reduced the grammage. The grammage reduction is usually on unit price packs like the Re.1, Rs.2, Rs.5, and Rs.10, where holding on to that price point is quite critical from a consumer standpoint and coinage standpoint, where the approach usually is through grammage elsewhere we explore the opportunity of increasing the price and holding the grammage.

Aniruddha Doshi - Anand Rathi - Mumbai

Okay, so it will be on case-to-case basis.

Nitin Paranjpe - CEO - Hindustan Unilever Limited

Correct, and using this broad principle that I articulated.

Aniruddha Doshi - Anand Rathi - Mumbai

Okay, just two questions. What is the media inflation which we are seeing apart from the raw material price inflation?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

Again, the media inflation that we have, like in raw materials and other areas, we have significant advantages in terms of buying and given the fact that this information is competitive, I would not like to talk about the media inflation, but we expect increase going forward.

Aniruddha Doshi - Anand Rathi - Mumbai

Okay. My very last question, last year around similar concall in January you had given the tax rate for FY'11, so probably can you guide something about this on tax rate in FY'12?

Sridhar – CFO – Hindustan Unilever Limited

What we will do, Aniruddha, is that when we come to the end of this year, in a concall we will give you a sense, but given the phasing of our tax gift units and looking at when they were established and when the time period expires, the tax rate we expect to go up in FY'12 compared to FY'11, we will give a better indication when we come to the end of this year.

Aniruddha Doshi - Anand Rathi - Mumbai

Okay. Regarding the royalty payment, I guess December quarter was the last quarter when the royalty payments were on a YOY basis were higher.

Sridhar – CFO – Hindustan Unilever Limited

That is correct. If you are talking about looking at the new royalty agreements that came into force on January 1, 2010, so yes, going forward it is in the base.

Aniruddha Doshi - Anand Rathi - Mumbai

Okay. Thanks a lot.

Sridhar – CFO – Hindustan Unilever Limited

Thank you

Namita - Moderator

Thank you Sir. The next question comes from Mr. Krish P from Anand Rathi, Mumbai. Mr. Krish, you may ask your question now. Mr. Krish if you have muted the line from your side I request you to please unmute the same. Due to lack of response from Mr. Krish's side, we will take the next question. The next question comes from Mr. Percy Panthaki from HSBC, Mumbai. Sir, you may ask your question now.

Percy Panthaki - HSBC - Mumbai

My question has been answered. Thanks very much.

Namita – Moderator

Thank you Sir. The next question comes from Mr. Venkatesan Jairao from Sundaram Mutual Funds, Chennai. Sir, you may ask your question now.

Venkatesan Jairao - Sundaram Mutual Funds - Chennai

Sir, we just wanted to understand a couple of issues. One is in the terms of the buyback as to whether you are planning to go ahead with the buyback and the second thing that we wanted to understand is with the EBIT coming more from personal care rather than the HPC detergents and soaps, whether one can expect a faster growth rate, higher growth rate into the future because of this transition which has taken place over the past three to four quarters?

Sridhar – CFO – Hindustan Unilever Limited

Okay, Venkatesan, I think let me take the second question first. As far as, personal products that you are talking about, of course it is our intention to grow it very fast for two reasons, one is the reason that you talked about that it has a better margin profile, but I think two, from a consumer perspective, the penetration levels and the per capita consumption levels in personal products are obviously much lower than categories like soaps and detergents. Therefore, yes, our objective would be to grow these categories but not only this, even our soaps and detergents and other core categories, to grow them hard. As far as buyback is concerned, based on the approval that we have got from the shareholders, the share buyback will be open till around July which is one year period and that is the situation as of now.

Venkatesan Jairao - Sundaram Mutual Funds – Chennai

Other aspect that we wanted to understand is that when you say that you want to grow personal care faster, like you did the low units packs schemes for the soaps and detergents which helped to expand the market, is there anything that you would do in premium products so that it is affordable and people can trade up?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

So, I think we already have. So, across, even in personal products, whether it is in skin, you will find Fair & Lovely low unit price pack, if you go into hair, you will find low unit price shampoo sachets, starting from 0.50p or Re.1 into the market. As you go into more premium offering, which are into conditioners, which are into premium skin lightening, etc., even in those areas, you would see that we have already started making these very aspirational offerings accessible to consumers by having lower unit price offerings. Of course these cannot be Rs.1 and 0.50p, but are significantly lower and are leveraging the same understanding of bringing things in sachets, etc., for consumer in this area.

Venkatesan Jairao - Sundaram Mutual Funds – Chennai

Would it be right in concluding that this strategy of higher advertising and higher value for the customer would help you gain higher in market volume growth for some time to come and you would rather live with lower margins and push harder for market shares for the next foreseeable future?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

No, I said right in the beginning that our approach has to be to find a balanced way by which we deal with the topline and the bottomline. We believe such a balanced approach is possible and will help us create long-term value. In the short-term from quarter-to-quarter you might have different positions that might emerge as we take the right calls to run this business to create long-term consumer value and shareholder value.

Venkatesan Jairao - Sundaram Mutual Funds – Chennai

In the premium products are you seeing an intense competition from people like L 'Oreal and other people coming in and how do Lever's products compare and match in terms of market shares?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

We see competition in all segments, in all categories, different types of competition and that is not new, we see at the bottom end with some local players, we see at the higher end with some of the international players which you talk about. As far as we are concerned, success in those segments, in those areas will be based on our ability to be close to the consumer, understand the requirements of this consumer and leverage the incredible know-how, innovation machine that Unilever has, the brands that Unilever has and bring them into this market. At the higher end of the market, consumers want truly high quality aspirational offerings often international offerings, etc., which are there and I think we benefit from leveraging Unilever's scale and bringing them into this country rapidly and you would have seen over the last couple of years how we have premiumized our the portfolio across many-many categories of our business.

Venkatesan Jairao - Sundaram Mutual Funds - Chennai

Could you tell us something briefly about the food products as well?

Sridhar – CFO – Hindustan Unilever Limited

Venkatesan, let me deal with it. Foods, I think we have shown briefly across beverages, packaged foods, ice cream, etc., have seen a very good growth. We talked about some of the innovations that are driving this growth and in particular the emerging categories, which is packaged foods and ice cream, we are pleased that we are seeing strong growth underpinned by innovations and we are quite pleased with the progress.

Venkatesan Jairao from Sundaram Mutual Funds, Chennai.

Thank you sir.

Sridhar – CFO – Hindustan Unilever Limited

Thank you.

Namita - Moderator

Thank you Sir. The next question comes from Ms. Amrita Basu from Kotak, Mumbai. Madam, you may ask your question now.

Amrita Basu – Kotak – Mumbai

Hi I just had one question which is regarding seasonality in margins. When I look at it historically, typically March quarter margin has been a little lower than the rest of the year. Would you be looking at similar number let say for this number as well?

Sridhar – CFO – Hindustan Unilever Limited

Hi Amrita, you know you are asking us to give you some kind of guidance on March quarter margins which clearly we do not do, the fact is correct, your observation was absolutely correct that there is seasonality, particularly if you look at December quarter where products which are relevant for winter, these products have a higher proportion of sale, but we do not talk about what is the margin outlook for March quarter.

Amrita Basu – Kotak – Mumbai

Okay sir just one minute, if you just could hold on for a second, my colleague will ask a question.

Manoj Menon - Kotak Institutional Equities - Mumbai

Sir hi. Manoj Menon here. Just couple of questions. One on the market shares, it is more of a request rather than a question, while the company has been giving the aggregated market share for the last nine months while it looks actually good in terms of the company growing ahead of the market, actually from an analysis point of view, the different categories have got different characteristics which I think in my humble view, it is pretty important to understand what is happening in the market shares in the relevant categories, what is the thought in terms of when you would be able to provide or rather go back to the situation where we will get the category wise market share again?

Sridhar – CFO – Hindustan Unilever Limited

Manoj, around May, we talked about the issues that were concerning the stability of the data and you will appreciate that in fact it would not at all be helpful to be using data where there were significant questions around stability, what we have been doing over the last three quarters is trying to give a sense and we do that in individual categories as to what is the relative position of our growth vis-à-vis the market and while it may not be a sort of complete inventory, I think in the last category we do make a mention and that is the case even this time when you see the presentation which will later be on the site you will be able to get a sense in most of the categories how we are talking about and in terms of our performance vis-à-vis market growth. Market share number per se as I explained there were significant issues of stability and therefore, it is not something that we are specifically talking about.

Manoj Menon - Kotak Institutional Equities - Mumbai

Okay understood. But sir how long you would expect for this corrective action to be completed and by when it, I am not obviously ask for a guidance in terms of, whether it is two quarters, one year in terms of and how long you expect?

Sridhar – CFO – Hindustan Unilever Limited

I think Manoj, the more important question is how we are growing and what is the pace of our growth and I think we are very pleased that last four quarters we have got four consecutive quarters of underlying volume growth which is in double digits and as Nitin outlined our strategic focus remains the same of doing everything in the core categories to strengthen our leadership and drive growth and at the same time continue to build in developing and segments of future, I think that could be the focus rather than looking at the timing of when certain data issues will get resolved, I would rather focus the conversation around how we are trying to grow the business.

Manoj Menon - Kotak Institutional Equities - Mumbai

Understood. Sir just one question on the soaps and detergents rather both the categories, if you see the last year or so you have seen unprecedented discounting particularly the consumer end not just HUL probably at an industry level now the context is that this was also a period with reasonable buoyancy in consumer demands, which is little kind of normally does not both do not go together probably, the context what I am trying to ask is, are you finding any indications of in anything in terms of consumer habits because when the consumer is willing to pay actually the industry was giving a lot of promotions in terms of very heightened, anything in that sense in terms of anything on the brand equity part of it any needle movers?

Sridhar – CFO – Hindustan Unilever Limited

Manoj, two comments - first is as far as the markets are concerned including soaps and detergents, we have seen them grow, obviously in detergents, because they have the anniversary effect of pricing action of the previous years, there will be some difference between volume and value growth, but we are seeing growth continue even this quarter. As far as our own growth is concerned, I think when we talked about the individual categories, we said that both in laundry as well as in soaps, we said that growth are the ahead of the market and therefore from our perspective it is a good performance, we do see in soaps we particularly talked about those rapid growth of our premium portfolio, we talked about Dove and what is happening there, so that would give you reasonably good flavor of what is happening across the different segments of the market.

Manoj Menon - Kotak Institutional Equities - Mumbai

Okay understood. Sir very last question on foods, when I look at the sequential growth in the food segment, it is about a percent, while I would assume that many of the new innovations particularly Knorr, etc., would have gone national should have rather added to the growth. Is there anything just changed with the mix etc., which used to happen in the past wherein you have discontinued some of those; basically 1% sequentially looks a little?

Sridhar – CFO – Hindustan Unilever Limited

Manoj. I think you certainly would remember it from your previous days that in this industry sequential growth frankly is less appropriate to look at performance even when we talk about even processed foods, it is a mix of many elements, there are jams, there are ketchup, there are soups, the soupy noodles, there are many elements in that. The better way to look at growth would be quarter-on-quarter; sequential would not be an appropriate way to look at the growth of the business.

Manoj Menon - Kotak Institutional Equities

Understood sir just could you for my understanding could me help me out within foods, which are the seasonal businesses?

Sridhar – CFO – Hindustan Unilever Limited

There will be some seasonality if you look at for example, tea and coffee there will be some seasonality linked to winters, similarly there could be some seasonality linked to soups, on the other hand, squashes which is there in the Kissan clearly has a seasonality linked to summer and non-summer, so there is seasonality in some parts of the foods portfolio as well.

Manoj Menon - Kotak Institutional Equities

Okay. Thanks and all the best.

Sridhar – CFO – Hindustan Unilever Limited

Thank you Manoj.

Namita - Moderator

Thank you sir. The next question comes from Mr. Anshul Mishra from ING Mutual Funds, Mumbai. Mr. Mishra you may ask question now.

Anshul Mishra - ING Mutual Funds – Mumbai

Hi sir, my question was regarding the beverage segment. Basically EBIT margin showed an improvement, so just wanting to understand, you mentioned that tea prices are moving up and seeing a pressure and stuff, so is it economies because of the volume growth that have benefited or have you lowered the A&P spend on this particular segment?

Sridhar – CFO – Hindustan Unilever Limited

The beverages margin increase that we look at and the comments that you know you referred to that we made earlier, first of all to say the beverages margin obviously is the HUL margin, but the comments that we talked on commodities whether it is on tea or whether it is on palm oil or crude those comments were in the context of market prices. Now, similarly in beverages whether it is tea or coffee or whatever we have referred to is in the context of what is happening in the market. In the case of tea, our purchase price are up, consuming prices are obviously determined based on what our cover strategy was, how we have bought in the market relative to competition and the fact if the margin was expanded, it means that we have done a good job in managing a cost and our purchases.

Anshul Mishra - ING Mutual Funds – Mumbai

So, you basically mean to say there could be a gross margin improvement as well in this particular segment.

Sridhar – CFO – Hindustan Unilever Limited

Ya.

Anshul Mishra - ING Mutual Funds – Mumbai

Secondly, some more details on the other operational income and other income part, if you can please give the details as to what these are roughly and the breakups?

Sridhar – CFO – Hindustan Unilever Limited

Other income is essentially financial income. We referred to earlier both in terms of improved levels of working capital and therefore cash available and good management by the treasury team that has really contributed to increase in the financial income which has reflected as other income. When we look at other operational income that is really a series of things one of the thing is the recoveries of cost that we incur on some innovation programs, etc., that has been done on a wider footprint than only in India, which are recovered from Unilever and that is part of the our other operational income and that really depends on the levels of activity that take place in different quarters. So, the cost related to that would also be there under the cost line.

Anshul Mishra - ING Mutual Funds – Mumbai

The last question is on the A&P spends. If you can give an idea where exactly the A&P spends in terms of the categories roughly?

Sridhar – CFO – Hindustan Unilever Limited

Are you asking about specific category level A&P spends?

Anshul Mishra - ING Mutual Funds – Mumbai

Roughly your A&P spends, what is the breakup among various categories?

Sridhar – CFO – Hindustan Unilever Limited

Sorry, we do not talk about externally the A&P spend in our individual category.

Anshul Mishra - ING Mutual Funds – Mumbai

Okay thank you.

Sridhar – CFO – Hindustan Unilever Limited

Thank you very much.

Namita - Moderator

Thank you sir. The next question comes from Gautam G from ICICI, Mumbai. Sir you may ask your question now.

Gautam G – ICICI - Mumbai

This is Gagan here. Sir my question is in terms of brand loyalty and price elasticity, how do we see the two markets urban and the rural market and secondly can you just give us a rough breakup of revenue breakup of urban and rural markets?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

Your first question is very-very broad, it is far too general to start making comments in terms of rural markets versus urban markets in terms of either brand loyalty or price elasticity. It varies across categories and it varies across people, etc., so I would not go there. Second question, the mix of business that we have is different from what we sell. I would broadly says half and half in aggregate in terms of consumption of our products that are likely to be happening in rural versus urban India. This varies significantly across categories it is little less than half in some personal products and personal care categories and it is little more than half in soaps and detergents in that space, but in aggregates it is about half.

Namita – Moderator

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

Shirish – Anand Rathi - Mumbai

Hi, good evening Nitin and Sridhar. Just couple of observations, we feel that the A&P spends has taken a benchmark of more than 13%-14% and we have seen the consistent and probably the industries now trying to be in line with more than 10% A&P spends. Where we do we see actually, what I am trying to understand is that, this A&P spends are crucial, but how long this kind of spends would continue in developing the categories?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

I would say that if you look at the FMCG market anywhere in the world, these levels of spends are not out of line is what happens in many other part of the world and let alone the developed part of the world, but also in other developing parts like in other parts of South East Asia. Levels of 15% is quite normative, in many areas could be even higher than this. The part of our spend that has gone up over the last two years, part of it is on account of the fact that competitive intensity has gone up and where levels of spends were quite low, those have increased, the other part of the spend which we will see increasing is simply as the mix of our business undergoes a change. The categories like personal products, which tend to have higher gross margins with higher levels of investment in A&P to build the brand. There are categories like soaps and detergents where they tend to have slightly lower gross margins and lower levels of spends. As the mix of this business changes, the amount of the A&P which we spend, automatically, even if you were to hold the spend in every categories, will go up. So, the level of 13%-14%-15%, that are there cannot be out of line, you do not expect them to go well beyond this in the immediate future, equally we do not expect them to come below. This is sort of main range, specifically from quarter-to-quarter they depend on the activities that we have got planned in that quarter, the base effect which might be involved, the growth and competitive action that we would see there, but 13-15 range is the sort of range you would likely to be in the immediate future.

Shirish - Anand Rathi – Mumbai

Nitin thanks for your comment, but my quick observation is, if I compare last two decades in Indian FMCG market, the A&P spends is practically doubled or more than that; however, if you look at the penetration term wise, the category penetration has not drastically changed, there may be half a growth which has come up? My point is that the entire industry is in a catch situation that every year you increase the A&P spends thinking that if I reduce probably my volumes would be under ski. I understand there is no full stop, but how long this kind of spends would continue and India still is an emerging market, not a developed market.

Nitin Paranjpe - CEO - Hindustan Unilever Limited

So firstly your observation in penetrations is not factually correct, over the last decade or two, several categories which virtually were nonexistent have been developed in this period and over the last two decades that you talked about, personal products was almost nonexistent and from that situation to get to where we got to is a huge role that penetration building has played and that has actually happened. The second aspect is, it is true that the levels of A&P has gone up and those levels of A&P have gone up, partly to do with market development activity which has happened, partly to do is to reflect a higher degree of competitive intensity that has taken place in this market and partly to do with the mixed changes that have happened in the portfolio as we move forward. How long will it continue, I have just shared with you an assessment which I had that I do not see them coming off the levels which we currently are in, unless something abnormal happens in term of competitive activity, I also do not see this going beyond the 13-15 range in the immediate future. You take other markets in South East Asia, etc., which you are looking at, you would find A&P levels which would vary but somewhere in this ballpark and depends on the mix of business that you have got in that particular market and of course all of this is balanced with the gross margins that you are making as a business in order to generate a fair return to the shareholders.

Sridhar – CFO – Hindustan Unilever Limited

If I could just add one point to what Nitin said, the last couple of years in fact if you look at 2010, the pace of growth of our personal products business has been obviously much faster than the average and I think we have mentioned earlier the model of the personal products business, the business model has a higher gross margin and a higher level of A&P spends, so as our personal products business continues to grow faster than the average, just numerically there will be an upward bias. Obviously from our prospective our initiatives to drive a better return on marketing investment, our ROMI program that is something that we are going to be pushing harder so that we make sure that we are getting the best bank for our buck.

Shirish - Anand Rathi – Mumbai

Quickly just let me push you again which Manoj tried, to get some market share. Is there any category you would be able to share, in last five quarters we have got highest market share from the competition?

Sridhar – CFO – Hindustan Unilever Limited

You know on this one, it is something that we had articulating very clearly and explained in May why and explained the issue of instability with the shared data. We had also then talked about how we are within the business assessing whether our growth is competitive where we look at multiple streams of data including the market growth, which is reported by Nielsen including the growth that is reported by some of our listed competitors who talk about specific segments and we look at these and other sources to get ourselves an internal assessment of whether our growth is competitive or not and I would say as far as December quarter is concerned, I think our growth levels have been fairly competitive when we look that Nielsen reported market growth. We are of course now in the season when still some of our competitors have not yet declared their results. As and when they declare the results we will also get a sense across categories whether our growth has been faster or slower.

Shirish - Anand Rathi – Mumbai

Very lastly, you have launched Pepsodent super salt with calcium. I just wanted to know is it a tactical brand or it is a full hog low price point entry or how it is going to be forward what is the oral care strategy basically with this launch?

Sridhar – CFO – Hindustan Unilever Limited

No, I think we do look at different brand offerings that we can bring to market which might meet a consumer requirement, so the innovation that you referred to is one such innovation that we have brought, we have other offerings also under the Pepsodent including Pepsodent three-in-one, Pepsodent germs. So, we have got many variants in many of our brands and the super salt variant in Pepsodent is one such initiative.

Shirish - Anand Rathi – Mumbai

Which all places you have launched or is it a test launch right now?

Nitin Paranjpe - CEO - Hindustan Unilever Limited

I think it is in the few geographies at this moment, but it is going to get national.

Shirish - Anand Rathi – Mumbai

Thanks Nitin, Thanks Sridhar.

Namita - moderator

At this moment, we do not have any further questions, so I hand over the call proceedings back to Mr. Srini Srinivasan for the final remarks.

S.C. Srinivasan – Vice President – Treasury, M&A and Investor Relations – Hindustan Unilever Limited

Thank you very much, I think that brings us to the end of this conference call. If there are any specific questions you can write to us. Thank you all.

Namita - Moderator

Ladies and gentlemen, this concludes the earnings call. You may now disconnect your line. Thank you for connecting to audio conference service from Airtel and have a pleasant day.