March Quarter 2019 Earnings Call of
Hindustan Unilever Limited
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Speakers:

Mr. Sanjiv Mehta, Chairman and Managing Director

Mr. Srinivas Phatak, CFO and Executive Director, Finance and IT

Ms. Suman Hegde, Group Finance Controller and Head of Investor Relations

Operator

Ladies and gentlemen, good evening, and welcome to Hindustan Unilever Limited March Quarter 2019 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now hand the conference over to Ms. Suman Hegde.

Thank you, and over to you, ma'am.

Suman Hegde

Thanks, Aman. Hello everyone, and welcome to HUL's earnings call to discuss results of Q4 FY'19 and FY'18-'19. I'm Suman from the Investor Relations team and I have with me today on this call Mr. Sanjiv Mehta, Chairman and Managing Director HUL; and Mr. Srinivas Phatak, CFO HUL. We will start the call with Sanjiv sharing his perspective on how we saw the markets perform during the quarter and then the headlines of our performance and our key drivers of performance during the year. Srinivas will then give details on the performance and our outlook. We will follow through with the Q&A session.

Before I hand over to Sanjiv, I would like to draw your attention to the Safe Harbor statement.

With that, over to you Sanjiv.

Sanjiv Mehta

Hi. Good evening, everyone, and it’s always a pleasure to speak to you.

What we are going to share with you today is the performance of the quarter that has gone by and a perspective of the fiscal year ending March 2019.

We've been sharing our strategy with you and our vision very clearly, is to make sustainable living commonplace. We have three important beliefs in the Company – brands with purpose grow, people with purpose thrive and companies with purpose last. And it manifests itself in consistent, competitive, profitable and responsible growth.

As far as the market is concerned, we have seen a moderation in the growth rates. If we look at how the market has played out, there were a couple of years where the market was soft on the back of stress in the rural markets. We, then had the disruptions, which were linked to demonetization and GST, and then, there was a bounce back. One of the critical indicators which we always monitor is the rural versus urban growth rate, for the simple fact that the rural penetration levels are so low that they should be growing ahead of the market for years to come. This has also oscillated in many ways particularly, during the period when we went through the rural stress. This has come down and was historically operating at a much higher level. It was at its peak of 1.3x to 1.5x urban. Then, it picked up again in the last several quarters. And now, we again see it coming down to near about the same level as the urban growth. Now, you would have also seen that the figure that we are painting has been substantiated by the softening of the GDP growth rates. Today, in the press, the Finance Ministry also came out with a statement on consumption. There is a constant debate on unemployment numbers in the country, liquidity issues on the back of the NBFC crisis and the rural wage rates increasing but albeit at a much lower level. As the elections round up and some of the recent rural subsidy initiatives land within the economy, we should watch for its implications on the markets and the sentiments of the consumers.

Now, if we look at our performance, it has been very satisfying. Our top line has grown by 9%, our underlying volume growth has grown by 7% and our EBITDA margin expansion has been 90 bps. From a full-year perspective, it has again been very heartening. We've had double-digit volume growth. We had domestic consumer comparable growth of 12% and EBITDA improvement of 130 bps, taking our margins to a record level of 23%. In fact, year 2018-2019 has been a year of reaching many milestones. For the first time, we have crossed the bottom line of INR 6,000 crores. We have had eight consecutive years of top line and bottom line growth. We have got 30 out of 31 quarters where the margins have improved. We have also had fabulous acquisitions. We started with Adityaa Milk, which was a small acquisition, but very strategic because of its low-cost operation model and good presence in certain parts of Southern India. And then, of course, there was GSK, which was a fabulous story. We are now focusing on getting the regulatory approvals. Once these regulatory approvals are in the bag, we will then focus on integrating and running with these great brands, which today, are possessed by GSK.

Our strategic stories, which we have been sharing with you are very consistent. When it comes to the categories, we have three thrusts – one is focus on the core, which is about driving the weighted distribution and the penetration of our core categories; second is invest in the nascent categories or the categories of the future which we call as market development and third is driving premiumization through market development. This has been one clear story which we have consistently been deploying over the last several years with a fair degree of success. The second important bit is to look at it from a lens of channels which is about building the capabilities for the channels of the future – e-commerce and modern trade. The third important leg is the fuel for growth which, we have made into a science. We have an overarching Project Symphony where we look at all the non-value-adding costs and remove them using the zero-based budgeting model. We also apply the principles of net revenue management.

When it comes to the future of the Company, in the last few years, under the banner of "Re-imagine HUL", we have been building capabilities, harnessing data, digitization and technology across the value chain. We are very pleased with the results that have emerged and the work that is in progress. So clearly, we are building new moats and we believe that our two biggest assets are people and brands and we would be adding a third one, which will be data.

I'm very excited about the future and the way that the Company has navigated, both ups and downs, the tough and the boom period with huge amount of agility and resilience.

On that note, I'll hand it over to Srinivas to take you through the details of our performance for the quarter and the year.

Srinivas Phatak

Thank you, Sanjiv.

Sanjiv has given you good content on the market context and let me start off with that. When you look at the background of that (market context) from a March quarter 2019 point of view, it's been a quarter of solid sales and margin delivery. Our domestic consumer growth is at about 9% with volumes at 7%, and it's been a broad-based growth across divisions, which we'll talk about in the slides to come. Looking at EBITDA, it is a quarter where we have seen a lot of volatility in crude and commodity. Having said that, in aspects such as veg oil, this continues to be benign – there is no inflation. I think we have managed this well. Combined with elements of mix, savings and turnover leverage, our margins have expanded by 90 basis points and our EBITDA growth is up by 13%. We'll also talk to you a little bit about PAT before exceptional items which is about a 14% increase year-on-year. Suffice to say that this has been a good quarter, both from a top line and bottom line point of view.

I'll now give you a little bit of flavour of the divisional growth. Home Care has again had a very good quarter with 13% growth and a lot of it was volume-led. When I see it from a Beauty & Personal Care point of view, the premium brands have done well. Growth has been at 7% at an aggregate. We will explain more when it comes to our cleansing business, where the story of two halves between the premium and the mass side of the equation come to play. Foods & Refreshment has continued the growth momentum, and we have seen a 9% growth in the quarter. So, all in all, it has been good growth across all the three segments and at the premium end.

Moving on to the next slide, I think this has been a good quarter for us in terms of broad-based innovations and activations. We relaunched Fair & Lovely during the year on attributes of 'glow'. Our brand, Lakmé has been tapping into the emerging segments and benefits, and we saw some more innovations coming in the quarter. What has been particularly exciting, and we'll talk a little bit more about it, are the Ice Cream innovations, where we are leveraging Unilever capabilities and adding on the capabilities which have come to us through the acquisition of

Adityaa Milk. There are some exciting ones – to name a few being, “Aamras” and “Shahi Kulfi” and some of the other flavours. You can also see some pictures of our Kumbh Mela activation, which many of you have observed closely and monitored. It was a very good execution on ground which really improved the salience of our brands and also enabled us to drive demand generation.

Now, let me go a bit into the divisions and give you a bit of a flavour of what's been the underlying performance. If you see from a Home Care point of view, the business continues to show strong volume-led growth trajectory both in laundry and Household Care categories. In laundry, there has been strong growth momentum in liquids and fabric conditioners, and they are all being underpinned by the premiumization trend. In line with this and our strategy of building liquids, we have taken Surf Excel Easy Wash liquid national and that has gone well. We're also happy to highlight that Sunlight, which is a heritage brand in the eastern part of the country, has now joined our industrious list of 500 crore-plus brands for the financial year 2018-2019. Our “*Surf Rang Laaye Sang*” campaign is celebrating the true spirit of Holi that brings communities together. It was also a great example of keeping purpose at the heart of our brands. Household Care extended its strong performance both with brands Vim and Domex. The category has led market development by increasing the penetration of bars in rural and upgrading urban consumers to the dishwash liquid format. We are happy with the early reads on Domex relaunch, which has happened in the middle of the year. The “*Pick up the Brush*” campaign, which was running in Andhra Pradesh, has shown good uplift to consumer equity and growth momentum. In Water Purifiers category, as per our strategy, which was previously called out, we are focusing on the premium part of the portfolio. We have launched Pureit Copper RO this quarter, an innovation which is inspired by the age-old tradition of storing water in copper vessels. The go-to-market restructuring which we talked about is progressing and is on track.

Moving on to the Beauty & Personal Care business. As I called out earlier, the personal products segment has seen good delivery, while we have seen a bit of muted performance in Personal Wash. If you see in Personal Wash, the premium parts of the portfolio have done well. Whether it's with a focus on Dove and Pears with naturals or our freshness segment, using Hamam and Liril. All these brands have done well. Lifebuoy and Lux growths have been muted. They were also impacted to the extent of some of the slowdown which Sanjiv talked about in the rural markets. These are again brands with high levels of penetration and as we have seen a bit of slowdown in rural, we have also seen that the performance has slightly been below our expectations. We have relaunched Lifebuoy with a new proposition in December quarter 2018. We also had fresh communication which is went out on Lux in March quarter 2019. Given that commodities have been benign, we have also made some price/value corrections, which means we have taken down prices in certain parts to give value back to the consumers. These are two strong brands with strong consumer salience. And there is work in progress to pick up the growth trajectory on these brands going forward.

The Personal products part of the portfolio continues to leverage premiumization and is influencing consumer choices. Skin Care had very good growth in the quarter. There was double-digit growth and the growth was also broad-based led by premium skin lightening, talc and mass skin. We've had a few launches during the quarter, including Pond's Sun Protect. Another key innovation during the quarter was Pond's Starlight Talc with enhanced proposition of long-lasting fragrance, which helps you stay fresh. At the back end of last year and at the beginning of this year, we brought in the Simple brand from UK with its unique simple philosophy of being kind to the skin, even the most sensitive. It has been launched in selective e-commerce channels. We will learn, and we will modify the model and we'll take it beyond. We are quite excited with this brand coming into India.

Hair Care registered strong growth across the portfolio. We also had some innovations / extensions. This includes Dove Nourishing and extending Brylcreem beyond the e-commerce channel. In Colour Cosmetics, as you recall, this has been a business which has been growing consistently well for us, consistently growing at double digits and focusing on the emerging trends. We have continued that momentum during the quarter. Lakmé Absolute Matte Ultimate with Argan Oil was rolled out nationally. Oral Care had a good quarter. The momentum on Close Up and Ayush is helping us build growth and build a momentum. In Deodorants, we continue to focus on market development. Having said that, the market is highly competitive here, through various launches and a lot of action on price points. We are continuing to build and lead market development here. Axe Signature Dark Temptation was launched nationally.

If I now look at Foods & Refreshment. Our Foods & Refreshment division delivered robust growth during the quarter. Tea is a good reflection of how our WiMI strategy is catering to specific consumer palates in each cluster, and this has worked well. Red Label continued it’s “*Swad Apnepan Ka*” series with new communication that challenges the vegetarian non-vegetarian divide over a cup of tea, which further strengthened its purpose of making India more inclusive. In Coffee, we have refreshed our communication of Bru Instant in South, embodying freshly roasted coffee beans with stronger aroma to give the best coffee experience. Ice Creams and Frozen Desserts have had good volume-led growth across all geographies. We're quite excited with the possibilities as we move into season. We've had a range of innovations, which I talked about of leveraging both the global portfolio, as well as Adityaa. Some of the examples include Orange bar at INR5, Choco Cone, season specials such as Aamras and Shahi Kulfi. And there is a series of innovations which have come in from the kids' portfolio. We urge you to try out all of these because we're quite excited with the range of ice creams that we have launched. In Foods, we continue to focus on our core portfolio with good performance in the Kissan range.

When you see it from a segmental margins point of view, the underlying operating margins are healthy across all these segments. Important to highlight one change that we have made here, taking into account the feedback that many of you gave us. We have had certain exceptional items in the past, be it restructuring or, for example, in Indulekha, we have had a true-up of contingent consideration. We have now taken them out of the underlying operating margin, and we are reporting them separately. This gives you a very clear sense of what are the underlying operating margins of the business. We will explain to you later some of the exceptional items in terms of what they mean and how the benefits translate into the business. In all, it's good and healthy margin across all the three divisions.

Now, this chart is a quick summary of the March quarter performance. You would have already seen the numbers. The only element that I will highlight here is the exceptional charges. We have talked about INR71 crores of exceptional costs, out of which there is a true-up on account of Indulekha. For some of you, just to make a quick recap. We had a base consideration which we had paid at the time of acquisition, and there is a 10% that we continue to pay on sales. Once a year, we do a forward projection of the business growth and its momentum. Based on that and as per the accounting requirements, if we see that the business is overdelivering, we will have to take a charge for the consideration that we need to pay. This is a very happy space to be in. Glad to report that the brand is continuing to perform well ahead of our expectations and therefore, we've had to take INR57 crores charge in the quarter to reflect the contingent consideration is stable on this brand.

Now, let me quickly jump to our full-year performance. Full-year comparable growth is 12% with underlying volumes of 10%. We've had attractive margin expansion of 130 basis points at an EBITDA level during the quarter, and our EPS is up 15%. Our cash from operations is in excess of INR8,400 crores, reflective of a good performance across top line, bottom line and cash generation.

Moving on to give you a very quick flavour of the segmental performance. You'll see that growth has been broad-based and double-digit across all our three divisions. Segmental margins continue to be very healthy, which is therefore giving us the ammunition to continue to invest behind our brands and lead market development.

This chart gives you a quick reflection of our total performance. Our total sales are now at INR37,660 crores, and net profit has crossed INR6,000 crores for the first time. Our EBITDA margins at about 23% for the full year are very healthy. Taking into account the strong performance of the top, bottom line and cash generation, the Board of Directors have proposed a final dividend of INR13 per share subject to the approval of shareholders in the Annual General Meeting. Our total dividend for the year of INR22 per share is 10% higher than what we did last year, and I think this is an apt way of really rewarding our long-term shareholders.

I come to the final chart. As we look ahead into the future, from a near-term point of view, we have seen growth moderation, given macroeconomic indicators. Sanjiv explained to you at the beginning of the presentation some of those elements, and we expect them to play out for a bit more. Commodity and currency will continue to be volatile. In this context, driving profitable volume growth absolutely remains at the heart of our strategy. The Company is extremely well positioned to manage the emerging macroeconomic environment or the changing consumer preferences. We are better positioned than anyone else in the marketplace, given the significant investment in our capabilities that we have done over a period of time. Our growth model has been consistent. We will be focusing on growth which is consistent, competitive, profitable and responsible.

So, this is all about the results of March quarter and the full year. We are now happy to take on any questions.

Operator

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question, participants may press * and 1 on your phone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking your questions. The first question is from the line of Amit Sinha from Macquarie. Please go ahead.

<Q – Amit Sinha>
Yeah, hi. Thanks for the opportunity. My first question is on your commentary on moderation playing out a bit more. Now, the context is some of the other FMCG companies have highlighted that they expect recovery post-elections and -- because of various reasons, including liquidity issues getting sorted out. You don't have any such kind of a time line, or you were not highlighting any such kind of a time line for recovery.

<A – Sanjiv Mehta>
First is, it's very difficult to pinpoint as to when the buoyancy of the past will come back, but we are always hopeful. We are a very optimist bunch of people, and we will expect that the growth rates of the past will come back. But as we see the numbers and as you see our competitors' results, it is very apparent that the moderation has come in. And rural, which is so important for us and where the runway for growth is very long because the penetration levels are so low, the growth rates have now come down to more or less at the same level as urban. So I think we'll have to wait and see, but there is clearly a merit that with a stable government in place, with the elections over, they would take all the necessary steps to ensure that the virtuous cycle of growth comes back again.

<A-Srinivas Phatak>
So I think the point is right, Amit. Within the right levels of interventions and a monsoon, things should pick up. But to be honest, at this stage, we will have to see when that comes in because it will take a little bit of time.

<A – Sanjiv Mehta>
It is difficult to predict.

<A – Srinivas Phatak>
The medium-term story of FMCG growth for the various factors, which Sanjiv has spoken about earlier, continues to be attractive.

<A – Sanjiv Mehta>
Yeah. And what I would urge you guys is to always look at a bit longer-term story. If you look at the last 10 years' story of HUL, we have had a CAGR growth of 10%, and we've gone through different economic cycles. If you look at the recent eight years, both the top line and the bottom line growing 30 out of 31 quarters, the margin has expanded, and we've gone through a period where rural went through huge stress. Then there were disruptions because of GST and demonetization. So, what you need to see is the inbuilt agility and nimbleness that is there in the Company to go through different economic cycles. And economics, like any other thing in the world, never moves in a linear fashion.

<Q – Amit Sinha>
Sure. Thanks. And secondly, on the margin. If I look at your last two years of margin expansion, probably it is the highest margin expansion for any two consecutive years in the last 15 years. And you have been highlighting that cost savings was a big reason for the margin expansion, especially in the last two years in the delta which we saw, and the cost savings was like seriously significant. My question is that; one, are you giving any cost savings target for FY'20, any number which you want to highlight? And second, can we see a similar kind of delta going forward in terms of cost savings, or the best is behind us?

<A – Srinivas Phatak>
Interesting question for multiple reasons, because if you ask Sanjiv our boss, he will continue to say –

<A – Sanjiv Mehta>
There's unlimited juice in the lemon.

<A – Srinivas Phatak>
He said it himself. So, cost savings and the whole program is the way that this Company operates. We've continued to clock around 7% (savings), and we've been able to do it fast. This has also given us a lot of ammunition to drive, to invest behind our brands and to help our bottom line. Having said that, the environment continues to become more difficult as we take a lot of costs out. While our ambition will continue to be to push for it, it will be very difficult at this stage to say how much that will be. Having said that, we also don't give you a prediction of this number. But Sanjiv is very clear that we need to continue to drive this agenda much harder.

<A – Sanjiv Mehta>
We look at things from a different lens. You must understand that what was not possible two or three years back, with technology and all, it becomes within the realm of possibility today. The second important bit, which we should not miss out is that, this is also driven by a very clear thrust on market development and premiumization. This helps us improve the mix. It is not that our margin expansion has been on the back of unsustainable pricing. Our pricing growth, as you would have seen, has been very modest. So, where we have fundamentally changed the economics of the business, that's how we have driven the margins.

<A – Srinivas Phatak>
And maybe just last element to add, Amit, because we've also talked about GST and the enabling environment and what it allowed us to do. We have talked about how we're consolidating our distribution centres and how we are relooking at some of the manufacturing footprint. We have always said that some of these benefits will continue to come in and they will come in. Some of them will also come with some restructuring costs. In all, we will continue to drive the savings. But we need to think about margins which will be modest expansion from hereon because at 23% and given the divisional construct, we are in a very healthy state. We need to now maintain a right top line and bottom line equation. Therefore, without getting into guidance, it would be good to reiterate a message of a modest margin expansion as we look forward.

<Q – Amit Sinha>
Thanks a lot. That's all from my side, and all the best. Thank you.

Operator

Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

<Q – Percy Panthaki>
Hi, team. Good evening. My first question is on the seasonality in your business. So, if I look at FY'16 and, let's say, four to five years before that, the sequential growth in Q4 versus Q3 used to be either flat or marginally down. In FY'17, it went up, but there was a very clear reason of demonetisation depressing Q3. In FY'18, also it went up, but there was again a very clear reason of the GST rate cut. But in FY '19, again I see that it has gone up 5%. And there can be only two reasons for this – either the consumer has changed his consuming behaviour, which I don't see any reason for happening because your product portfolio hasn't changed that materially; or there is a change in the inventory holding by either the retailer or wholesaler because obviously you will not change the distributor days. So, would that understanding be correct that there is a change in pipeline inventory in the retailer or wholesaler, due to which there is a 5% growth sequentially which never used to happen in the past?

<A – Sanjiv Mehta>
First is, we are very clear about it. There has been no material change in the trade inventory. We monitor both the trade stocks, as well as the wholesale stocks, and there has been no material change at all. Now, there are many things which go into play and what was the denominator. 2018 was a scenario which was playing out with the GST 2.0. In December, the GST 2.0 had come in. So, that was a very different scenario. And if you compare those growth rates with the previous year's growth rates, then that was a time when the demonetization has played out. So, different levers have been playing out, and it is not a simple mathematical exercise to conclude that either the seasonality has changed, or the trade inventory has changed.

<Q – Percy Panthaki>
These levers were there in 2017 or 2018, which I completely agree and understand. I am saying in FY'19, there was no reason for a Q3 versus Q4. Please understand I'm not saying Y-o-Y, I'm talking sequential. There was no reason for the sequential growth to be 5% when your long-term history has been flat or negative.

<Q – Sanjiv Mehta>
See, 2017, that's what I was explaining to you, right? In 2017, in December, there was a GST 2.0, the impact of which was felt in the last quarter of FY'18. So, the base was very different. At the end of the day, you also must look at how one quarter after the other impacts in a sequential way and not just a year-on-year. The other fact also has been that we have had good sales of our Skin Care products, et cetera, which were driven by the winter. And this year, the winter in certain parts of the country has been more prolonged than what we anticipated.

<Q – Srinivas Phatak>
So, I think, Percy, the element you also need to see is that the business is in a different shape today, for example, look at our Home Care business. That's why sometimes some of these mathematical equations simply don't work. If you see today, for many quarters, our Home Care business has been consistently growing at significant double digits. Our premium parts of the portfolio, the whole work that we have done with Surf has unlocked a whole new set of consumption, and we are gaining from unbranded and others. That's one example of how the growth trajectory has changed. Therefore, it is not necessarily an old sequential gain. Many other elements have changed – distribution and go-to-market has changed, E-commerce has evolved. So, one needs to look at all these elements. Why are we comfortable? Because when we look at our baselines and how we look at our business, we get a good read of how we see it. And that's why Sanjiv is very clear and categorical. We don't see any change to the inventory.

<Q – Percy Panthaki>
Understood. So basically, you are saying that 5% sequential growth in Q4 is more or less like a new normal? Of course, there will be a normal volatility around this 5%.

<A – Srinivas Phatak>
I have not said a new normal. I'm only saying that when we looked at this growth, we are comfortable that it is consumer demand and offtake. That's all I'm saying. I have not agreed to your hypothesis four years ago. I will not give out a hypothesis now saying 5% is a new normal.

<Q – Percy Panthaki>
Okay. So basically, you are saying that the consumer -- consumption patterns itself have changed?

<A – Srinivas Phatak>
I think I have explained that, Percy. So maybe if you hear my explanation back, that may be helpful.

<Q – Percy Panthaki>
Okay. So, second question is the slowdown which we have seen. Is that sort of an accelerating slowdown? So, have you seen like March being a little worse than February and February being a little worse than January? Or have you seen it slowing down and then stabilize at the current level?

<A – Sanjiv Mehta>
See, it was more accentuated towards February and March, if you look at the quarter that we are analysing, than the latter part of the quarter.

<Q – Percy Panthaki>
Okay. So, there is a possibility that the slowdown, in the coming quarter for the industry and not for you, might be a little bit more pronounced than what we have seen in this quarter. There's a possibility.

<A – Srinivas Phatak>
Yeah. So, if you look at the outlook that we have said, we have clearly said that there is some more moderation that we would expect as a segment. And I think that's a fair comment.

<Q – Percy Panthaki>
Okay, sir. That's all from me. Thanks, and all the best.

Operator
Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

<Q – Arnab Mitra>
Yeah, good evening. Thanks for taking the question. In the context of this slowdown, two questions. First is, in the past, whenever we've seen moderation in growth, one possibility is the increase in competitive intensity. Any sign of that you're seeing in any of the categories? And more specifically when you called out for Lux and Lifebuoy possibly taking price down. So, is that competitive activity-led, or is it your own initiative of giving back value because the growths have slowed down and that could help revive some volume growth?

<A – Srinivas Phatak>
When you look at it from a slowdown point of view, I will not call out the competitive intensity being any differential, from where it was about three months ago. The way we see it is that, given the macroeconomic fundamentals, rural has seen slowdown for various reasons, which Sanjiv has explained. Growth rates today are back to urban levels. So, on a differential basis, I don't think competitive intensity has changed. Now, coming specifically to your question on Lux and Lifebuoy, there are a couple of elements to note. First is that the commodities have been benign. As a matter of fact, if you see for some time now, veg oil prices have been at their historic low. And you look at various levers. At some point in time, there was a step-up in BMI investments. In some parts of our geographies and portfolio, we thought it is prudent to pass on some of the benefits to the consumers. We've also talked about in the earlier calls that Lux and Lifebuoy have been requiring some work. We have also talked about a new product. We have also talked about a new communication. And therefore, to spur some of the growth, intervention in price is also a meaningful intervention. So that's how I would explain it. I think it's got very little to do with competition and more to do with how we want to run these brands and in a healthy manner to get back to a growth model.

<Q – Arnab Mitra>
Sure. Thanks for that. And one couple of small bookkeeping questions. Any guidance for tax rate for FY20? And any change in the time line for GSK when the number start getting merged? What would -- in terms of your expectation there?

<A – Srinivas Phatak>
It's a tough one on the first part because I'm expecting, and it's also linked to what you want to say on the second part of your question. As you know that the regulatory approvals are in various stages for GSK merger. We've got the approval from Competition Commission and the clearance of stock exchange. And we are now working to get the court convened shareholders' approval. If things go according to plan, we expect all approvals by the third quarter or December quarter. This will have an implication because once we go through the merger, it will have a very different implication to the tax rates. So, I can't really give a point of view on that because we are still in the process of working through various aspects of the merger. If I were to look at standalone HUL, potentially we could see tax rates moving up by about 100 basis points into the next financial year because we'll have some of our factories which come out of the fiscal. But honestly, a lot of this will change once we're able to pull together the merger because there will be many other aspects which will come into play.

<Q - Arnab Mitra>
Okay. Thanks so much, and all the best.

Operator
Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

<Q -Vivek Maheshwari>
Hi, good evening, everyone. My first question is on the advertisement cost, which is up 3%. I know the base is high, but in a couple of your competitors' case, we have seen a change or a higher focus on BTL. Has there been any change or higher promotions in your case which is getting knocked off against revenues?

<A - Srinivas Phatak>
There has been some step-up in the trade spends. It is also a function of how people react to various elements of the P&L. For example, in Home Care, and especially in modern trade channel, we've seen a bit of step-up by other people. Basis our P&L, in some cases, we have matched this step-up, while in other cases, we have gone through the advertising route. Cleansing is another interesting case where, given the benign inflation or, to be honest, deflation, people have taken routes to pass on this value. In some case, it is in the form of trade spends. So, there are a couple of these categories where we have seen trade spends, which knock off our revenue go up.

<Q - Vivek Maheshwari>
Okay. And second, we hear a lot less about Patanjali nowadays, but parallel to that, your presentation also talks a lot less about Naturals Ayurveda. Do you think that after whatever the slowdown at Patanjali, in general, the consumers are not or whatever the market is again shifting back away from Naturals or the growth rate in Naturals Ayurveda is far slower than where it was in the past?

<A - Sanjiv Mehta>
Hi, Vivek. First is, you people used to talk more about our competitor rather than us talking about. Why we don't speak about natural? Because it's become an integral part of our strategy. Natural is not a trend which will be there only for a year or two. I think that's something which is an underlying trend, which will shift the industry for many years to come. So, our focus on natural has not gotten diluted at all. And our three-pronged strategy, we believe has been working very well for us. We are growing at a rate much faster than the average growth rate of the Company. And this is a thrust for us, which will continue unabated.

<Q - Vivek Maheshwari>
Sure, Sanjiv. And as a follow-up to that, I mean, Ayush, you mentioned in Oral, how has been the response in other segments, let's say, soaps, shampoos?

<A - Sanjiv Mehta>
We are focusing mainly in the southern part of the country, where the affinity towards Ayurvedic products is much stronger, and our whole focus is to build the brand over there before we extend it on a national platform. And we are very pleased with the performance of Lever Ayush. The second bit is, if we look at natural strategy, Indulekha has been doing exceptionally well, and we are very pleased with the acquisition. And one of the things you will see in the P&L is also the cost associated because the performance of Indulekha has been far better than what we had envisaged earlier. The third is the variants, which in many cases, have done well. In some cases, they have not performed as well, but then that's part of the game as far as innovation is concerned in FMCG. But on an overall basis, our natural strategy is working very decently for us.

<Q - Vivek Maheshwari>
Sure. I have one more follow-up to this, Sanjiv. You did extend, let's say, Ayush to other parts of the country. In your assessment, what did not go right in case of Ayush when you extended it to other parts of the country?

<A - Sanjiv Mehta>
See, there were two things to this. One we expanded very rapidly, it was a very new brand. And then there was a very clear realization that we don't want to dissipate our resources. We needed to clearly focus on some geographies and prove the mix on a sustainable basis before we should have gone on a national level. So, rather than that, then we pulled it back. The second one also was the mix. Very clearly, the mix was performing better in southern India than in northern India. So, when we go back to northern India or the central India, we would have tweaks of mix. And that is the reason we did what I would call as a tactical retreat from the central and the northern plains. And then at the right moment, we'll find ways and means of again extending it.

<Q - Vivek Maheshwari>
Sure. And last small question for Srinivas. In this quarter, if I look at your working capital, your receivables have gone up by like 45% or four days Y-o-Y. And creditors or payables have gone down quite a bit. So net working capital is down nearly eight, nine days, or rather it has increased. What is the reason for that? Anything in receivable and payables?

<A - Srinivas Phatak>
Payables is not so much of a differentiated story. But on receivables, we have had debtors spiking, or let's say, we've had monies receivable from CSD. Clearly, for March quarter, our receivables from CSD were at some elevated levels, in fact, higher than what we've had for many quarters. But having said that, we've started to get some of the monies in the month of April, and that situation is now getting much better.

<Q - Vivek Maheshwari>
Perfect. Thank you very much, and all the best.

Operator
Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

<Q - Abneesh Roy>
Yeah. Hi, sir. Congrats on a good show in the past quarter. My first question is on Oral Care. You have said momentum on Close Up and Ayush continues to build up. Could you put some numbers to that? Is it now beating the category growth?

<A - Srinivas Phatak>
Yeah. So broadly, these two brands are doing well and absolutely beating the category growth. Having said that, Pepsodent for us, let me give you that total picture to it, is not performing at the levels we would expect. But from a Close Up and an Ayush point of view, the answer is yes.

<Q - Abneesh Roy>
And would you call this momentum build-up in these two brands as sustainable? And what I hear is, in these two brands' promotional intensity and the pricing, you have been a bit more aggressive than the past. So how would the margins compare with the historical peak and with the category leader currently? Is this sustainable strategy? That's the question eventually.

<A - Srinivas Phatak>
We believe so. It's a very well thought through strategy with granular state level plans and clear interventions. Given all the work which has happened, I think our profitability is quite healthy. And this will allow us to continue to do the right thing for these brands in these geographies. It's again a very focused plan, and I think we're comfortable with our performance.

<A - Sanjiv Mehta>
Yeah. In Oral Care, we are playing the WiMI game very well. We are not going everywhere and doing the same thing. The second important bit is in Oral Care, our communication has changed, which is now resonating much better. We've also introduced the right packs for the right markets, which has also worked very well for us. So, I believe that Close Up and Lever Ayush should continue to do well.

<Q - Abneesh Roy>
My second question is, recently there was this lot of discussion in the media about two of your ads Surf Excel and Close Up. And it seems the performance of these two brands has been quite good. You have mentioned the laundry premium has done well and Close Up clearly. So, will it be fair to say that the ads have contributed to the success and any learnings from that?

<A - Sanjiv Mehta>
Yeah. So, Abneesh, thank you for asking this question. If you look at the history of these two brands, like many of our brands, these are very purpose-driven brands. The "*Daag Ache Hain*" campaign is not a new story, but it manifests itself in different ways. Similarly, Brooke Bond's "*Swad Apnepan Ka*", the purpose and whether it is bringing together transgenders or Hindu/Muslims or live-in relationships. This has been a journey of a few years. We certainly come from a belief that purpose-driven brands do better. And while there were some people who did not like that, they were an overwhelming lot of people who loved that. We got massive amount of support from people who wrote to us – e-mails, who put it in different forums in social media, as well as lot of journalists came

out massively in support of these ads. Now, there would be a small section who would have been displeased. We're not worried about that. So, a purpose-driven quest is not going to abate.

<Q - Abneesh Roy>
My next question is for two of your key and large businesses, Fabric Wash and Personal Wash. Premium has grown faster than the economy. Now, is that also true for the market? And second, is the growth slower in the economy because of winter and rural? So, is it more of this quarter specific? Or is there some competitive intensity which has gone up? In the past, we have seen in laundry clearly Ghari being one of the issues. So, in Personal Wash also, is that a similar development?

<A - Sanjiv Mehta>
See, premiumization, for us, has not just worked on these two categories, but across the portfolio. And the premium part of our portfolio today is much larger than the market. This is a fact and a reality. Now, clearly, when it comes to Lifebuoy and Lux, we are not happy with the performance, and we could have done, I believe, much better. Yes, to an extent, it has been impacted by first – the rural slowdown, because the channels which have been most impacted are GT and wholesale and these are big rural brands. And second is, there would be pockets where the pre-summer pickup started a bit late because of a bit of prolonged winter.

<Q - Abneesh Roy>
One question here, more a follow-up. So, you said you're not that happy with Lifebuoy and Lux. And this question is not on specific this quarter. So, in the past, we have heard Santoor is doing well and gaining market share. Just like Ayush is doing well for you in Oral Care, do you need to do something extra in terms of naturals in soap? Is that the main reason why Lifebuoy and Lux are suffering?

<A - Sanjiv Mehta>
For us, Hamam has done very well.

<Q - Abneesh Roy>
But that's not large enough, right?

<A - Sanjiv Mehta>
But that has done well mainly in south of India. And it is not that a non-natural brand can't do well. If you look at our portfolio, there are many non-natural things which are doing remarkably well. But, of course, it is a bit of concern for us, and we are going back to the drawing board and looking at the entire 6Ps. Lifebuoy, we have come out with a new proposition in communication which has gone on air, and we feel it should do better. And we are working on how to turn around Lux. I think it's still a very big brand. It has still a great equity. So, we will have to do a bit more work in understanding what are the part of the mixes that we need to tweak around it.

<Q - Abneesh Roy>
And the last question. Adityaa – it's been two quarters, any further discussion there on what's the scale-up opportunity? What are the learnings? And on Indulekha versus where we acquired, what would be the current size 4x, 5x?

<A - Sanjiv Mehta>
Yeah. It is running at 4x, Indulekha.

<Q - Abneesh Roy>
And Adityaa?

<A - Sanjiv Mehta>
Adityaa is a good business. We brought it for two things – one is strengthening our presence in those markets; second is learning from them. They have a fabulous low-cost business model and some great innovations. Have you tried the Aamras variant of Kwality Wall's?

<Q - Abneesh Roy>
No, I haven't.

<A - Sanjiv Mehta>
So, Abneesh, you should try it. I love it. And the consumers also love it. That has been inspired by Adityaa Milk.

<Q - Abneesh Roy>
Okay, sir. That's all from my side. It was quite useful. Thank you.

<A - Sanjiv Mehta>
Thank you.

Operator
Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal. Please go ahead.

<Q - Pulkit Singhal>
Yeah, thank you. This is from the Asset Management team. Congrats on a good set of numbers relative to your peers. Just in the context of domestic consumption relative slowdown. I mean, it just seems that this kind of coincides with the post-GST 2.0 scenario. So, would it be fair to say that the market would have been probably propped up a bit post-GST 2.0, and now it's just come back to normal once that one-year has passed?

<A - Sanjiv Mehta>
See, you're absolutely right in alluding to the fact that the GST 2.0, we cut down the price. And when you cut down the price, it did fuel the consumption. There is no question about that.

<A - Srinivas Phatak>
It's also consistent with what we have spoken about. If you reflect last year when we used to say that the two-year average will start to give you a good sense of where the market is. For sure, we have had some benefits but there's also been a lot of market development. But yeah, definitely, there has been some benefit of post-GST implementation.

<Q - Pulkit Singhal>
Sure. Sir, my second question is, I mean, in the same context of slowdown, Home Care is a very highly penetrated category. And one does not see that kind of reduction in growth rates in that category per se, which would reflect the broader consumption slowdown. So, is it more so because the industry growth itself in Home Care is high, or is it more so because you're gaining share quite rapidly in that segment?

<A - Sanjiv Mehta>
I think you should have been able to give a better answer of where we are. This is a fabulous story of where we are expanding the market, getting into new segments and growing across the portfolio. The wonderful bit is, that we have a very powerful portfolio in Home Care where we straddle the price benefit pyramid. We are doing massive amount of market development. And this is a story which has been sustaining well over the last few years, both on the top line and bottom line.

<Q - Pulkit Singhal>
Yeah. Of course, absolutely. It's been a great story. I'm just wondering how much is the market share gain versus industry growth?

<A - Sanjiv Mehta>
We are a large part of the market. And our focus has been on growing that market. So, whether you see the way we have brought in the right price points, then you would have seen our focus on getting into liquids which has paid huge dividends. Now, we have taken liquids into hand wash as well. We have constantly upgraded the products. Our communication has been very purposeful, whether it is Rin, whether it is Surf Excel. So, all that has contributed to sustained superior performance.

<Q - Pulkit Singhal>
Right. And lastly, just quickly on Beauty & Personal Care, I mean, still your growth rate is 10% and the exit growth rate is 7%-odd. I mean, would it be fair to say that you kind of lost market share in certain segments out there?

<A - Sanjiv Mehta>
You look at the growth rates of the competitors who have presented the results and then you will see that the growth rates have not been non-competitive. In fact, if you take away skin cleansing, we are talking about again a double-digit growth in this quarter.

<Q - Pulkit Singhal>
Got it, sir. Perfect. Thank you for the answers. All the best.

Operator
Thank you. The next question is from the line of Naveen Kulkarni from Reliance Securities. Please go ahead.

<Q - Naveen Kulkarni>
Yeah. Thanks for taking my question. I have two questions. My first question is on the pricing growth for this quarter and for this year. What would be the contribution of change of mix? We've seen a significant amount of premiumization happening through the years. What could be the actual price hikes that the Company would have taken and what could be the mix improvement? And my second question is on Fair & Lovely brand. We have seen that probably the brand's growth rate has not been that great over the last two to three years. And with the relaunch how do you see this brand growing in the next couple of years? And what are your aspirations with the brand in the forthcoming years?

<A - Srinivas Phatak>
Yeah. So, Naveen, just to clarify, in our case, mix effect comes into UVG. When we talk about UVG, it's a combination of volume and mix. So therefore, when we talk about a full year number of 12% USG, with 10% UVG, 2% would be the pure price element to it. That's number one. Now, when I look at your second question in terms of Fair & Lovely. Fair & Lovely has done well for many quarters and a couple of years. So, I'm not sure about the comment of it's not having done well in the past. It's done quite well. And from time to time, we go through a relaunch. We have done that relaunch in the current quarter, and now we need to see how it tends to pick up. Interestingly, Fair & Lovely is also a brand which has got reasonable rural size. As we look at the overall rural picture emerge, we need to keep a close watch on it. But in terms of doing the right things from a brand's communication, whether it is driving persuasiveness or driving the mind measures, we've done all of them well. It continues to be a very critical brand for us and is doing very well and we will continue to do market development. So, we expect the brand to continue to do well into the future.

<Q - Naveen Kulkarni>
Okay. So, what I was referring to was in terms of market share, do you believe that Fair & Lovely would have gained market share over the last three years? Or would the market share be stable?

<A - Srinivas Phatak>
I think Skin care is a different market. There is mass, where Fair & Lovely plays and Fair & Lovely is the most dominant. There we have every reason to believe that growths are ahead of the market in that segment. There is also premium segment of skin where there are many players. This is a small but an emerging segment. Of course, there we don't have the same levels of market share that we have in Mass, but that's also a bit of a contested market where we do well with Pond's. We have now brought in Simple. That's the space which is fast-growing. There, we don't have the same shares as Fair & Lovely. But in the segments where Fair & Lovely plays, it is absolutely gaining share. Yeah, maybe we can always do more in the premium end through the multiple brands, and that's an emerging segment. There we don't enjoy the same shares as Fair & Lovely does.

<Q - Naveen Kulkarni>
Okay, great. Thanks a lot for answering my questions.

Operator
Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.

<Q - Harit Kapoor>
Yeah. Hi, good evening. Just three questions from my end. Firstly, how would you look at seasonality in this quarter? So, you'd have seen a positive benefit on skin, probably even tea, coffee, because of the extended winter and a negative impact probably a little bit on Personal Wash, as well as Ice Creams as well. So, would you say that seasonality has had a net benefit for you in Q4?

<A - Srinivas Phatak>
Yes, there have been parts to it. But I would not want to call out at an aggregate level, whether it's really made a material difference to our performance.

<Q - Harit Kapoor>
Understood. The second question was on pricing. For FY'19 pricing growth is at 200 bps in an environment where volume growth is fairly good and input cost was benign. Now, input cost environment continues to be fairly benign. In an environment where overall growth is slowing, how do you view pricing? Do you think the opportunities to take up pricing would be probably far lesser than have been in the past, at least in the near term?

<A - Srinivas Phatak>
We need to again break this up in a slightly disaggregated manner. If I were to look at Home Care, commodity, whether be it crude or currency, clearly, you have inflation. So therefore, on a year-on-year basis, it has picked up. And you will have a better sense that even sequentially crude has gone up – it's been volatile. While there is no one-to-one correlation and our execution engine works with savings, mix, leverage, et cetera. There will be, and we will have to take opportunities to price in Home Care to cover some parts of the inflation. Obviously, we will be prudent about it. We will maintain our price competitiveness, but you will see. And even in the quarter, there has been a bit more price in Home Care. When I look at it from a BPC point of view, inflation is benign. But to be honest, the reasons to leverage price in that category are less inflation. It's more about giving the consumers the reason to premiumize, giving the consumers the benefits so that they can pay. And that typically links in with a lot of the innovation that we tried. So that is something we will look at. In tea, again, we will have to see, because it's a little early to call. You will get a real sense of the inflation in tea by about July, when you start to get a better sense of what's likely to come from a crop point of view. Also, bear in mind, we just did a post-GST 2.0 which took down the prices in many cases and significantly. And we've got the benefit of that. It's not necessary that in all the categories, inflation has been so much that we have gone back to pre-GST scenario. If you see therefore the medium term is a very good indicator. If you were to look at our performance over a medium term, you will see that there is always a healthy combination between price and volume, and that will come into picture. It could be a little slower in a quarter, it could be a little more in a quarter. But over the medium term, I think that the question will still come back. So, in near term, you will have some more opportunities in Home Care on a price lens, a little less so when it comes to BPC.

<Q - Harit Kapoor>
Very helpful, sir. The third question was more bookkeeping in nature. So, you said that part of the rationalization is in the exceptional items. I just wanted to understand, last quarter, you had an impact of the purifier rationalization in the Home Care EBIT. Would it be there in this quarter as well, or would you have taken that out of the margin?

<A - Srinivas Phatak>
I want to clarify this because as we're going into a post-GST scenario, we're able to reconfigure a lot of the parts of our business. And all of these (reconfigurations) come up with very clear proposals, those which are value-enhancing we move them into exceptional items. And therefore, over the next few quarters, as said earlier, you will see (them). For the current quarter in question, if you see, there are two big components to it. One is the Indulekha, contingent consideration, which is about INR57-odd crores, because the brand is performing very well and ahead of our business case – we will have to do a true-up as the accounting rules require us to do so. There is some bit of cost which is related to the proposed merger. Because as we are now getting ready for the GSK part of the business, we need to spend a lot of cost. We will continue to spend some of this, and you have still some

effect of this. The Water transition, there has been an impact in the quarter, but there would be some amounts which could come back closer to the actual activity happening, but nothing in the quarter.

<A - Suman Hegde>
Just to add on that. I think, like Srinivas mentioned during his presentation, all exceptional items have now been removed from the segmental margins. And hence, you would not see any impact of any exceptional in any of the category margins that you see.

<Q - Harit Kapoor>
Very clear. Very clear. Thanks, and all the best.

<A - Srinivas Phatak>
Thank you.

Operator
Thank you. The next question is from the line of Shubham Jain from SAMCO Securities. Please go ahead.

<Q - Shubham Jain>
Hi. Congratulations on the good set of numbers despite the economic slowdown. I have two questions. One, that being in the FMCG industry, it is inevitable to incur like huge waste. So, could you please throw some light if you have any major ongoing plans or projects for waste management, which may improve the margins on the bottom line? And the second question is that given the volatility in the oil market, how well HUL is hedged against that?

<A - Srinivas Phatak>
So, on business waste, this has been an area of focus for us for many years. As we have also stepped up the whole game on savings from 3%, 4%, 5% to upwards of 6 -7% Every aspect of cost has been under scrutiny. So, to that extent, we have got a very robust way of looking at business waste, and very clear plans from an S&OP point of view, how we drive innovations. And therefore, it's almost an approach of war on waste as an acronym, which was used for many years, has helped us to get to some of these numbers. So, I don't believe there is any incrementality just on that line sitting where we are. Of course, and I think that Sanjiv will say that there is always more that you can do. So that's on point one. Second, from an oils point of view, we have a lot of expertise in looking at some of these commodities because it's our bread and butter business for many years. We've got very clear points of view on how we look at sourcing, how we look at hedging. Whether it is about physical or paper. There is a fair amount of sophistication which goes in. And I believe we are well positioned to handle some of the volatility. Yes, volatility isn't helpful, because if you start to see crude at $75 and then you start to see crude at $70 in a short period of time. It is extremely tough. But in such constraints, I still think we are very well positioned than many others to handle it.

<Q - Shubham Jain>
Okay. So, could you please throw some light on the number that business waste that has been generating the previous quarter of the same year?

<A - Srinivas Phatak>
So, Shubham, I don't have them offhand. And perhaps, when we will do our annual reports, you may get a bit more visibility on some of these annual numbers because I think there is a need to disclose some of them there. I won't remember offhand these numbers. And I'm not sure that I would want to even comment on these numbers on a quarterly basis.

<Q - Shubham Jain>
Okay. No problem. Thanks.

Operator
Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

<Q - Kunal Vora>
Thanks for the opportunity. First is how big is the e-commerce channel now? And can you share your thoughts on e-commerce-only brands? You did hint at one. How do you see the potential in next three to five years?

<A - Srinivas Phatak>
E-commerce, in the latest context, is in about 3% - 4% of our total business. Maybe a little lower than that. Maybe at a little around 3% or slightly lower. But it's something which is registering very healthy growth. For many quarters now, this channel has grown significantly well. Also enabled by the fact that there is a lot of work that we have put in. We've got dedicated teams. We've got very clear cadence on product portfolio, how we're driving innovation. So, they continue to drive well. Some of the e-commerce-only brands also have a role to play. It's an interesting space. Some of these brands, you can start with e-commerce, learn a lot, fine-tune the model and at an appropriate stage, you can also go wide. For example, Brylcreem was one such thing, so we did e-commerce-only close to maybe nine months to a year. Now we are seeing traction, and we are taking it beyond. For example, we have brought in Simple. Simple we have brought in towards end of December / early January. It was only with Nykaa for a certain period and will remain so. After that, we will look to expand it into further e-commerce platforms. And then we will take it from there. But over the next few years, I think these are channels which are very interesting. You need to have a differentiated portfolio, you need to have differentiated pricing. I'm not sure whether an e-comm-only brand is the answer, but we will have to work that through. But equally important to understand, there are some very clear cadence and rules on what you do with e-comm and not. You can't be selling Mass on e-comm. You'll have to give a reason of a very different portfolio. You'll have to give very different packaging. And I think given our Unilever experience of China, US, Europe, I think again we are very well positioned to leverage the strength.

<Q - Kunal Vora>
Okay. At least in the premium products, do you see this as the way to compete against niche brands which are coming in?

<A - Srinivas Phatak>
I think I would see this as a wonderful way to do market development and play the premiumization space. And if we do it well, we can lead some of these trends and not necessarily see it as only competing with some of the niche brands.

<Q - Kunal Vora>
Sure. And second one, does the lower advertisement spend have anything to do with the TRAI tariff order which might have resulted in some uncertainty in the viewership?

<A - Srinivas Phatak>
No. If you see our advertising spends are higher on a year-on-year basis. Yes, the whole TRAI order has given a little bit of difficulty in terms of being able to measure what is happening in terms of consumer reach frequency. But in the absence of the data, I think we still need to continue to do the right things and invest behind it. And we will get some clarity in due course in terms of how we measure some of the reach frequency. But I don't believe that's been a constraint today in terms of our investing behind that.

<Q - Kunal Vora>
Okay. And is digital advertisement becoming much larger for you now? Is the mix changing?

<A - Srinivas Phatak>
It is changing, and it will continue to change. But to be honest, a change at an aggregate level will take some time because our traditional spends are sizeable. But sure, digital spends are increasing and increasing at a reasonable clip.

Kunal Vora, Analyst
Sure. That's all from my side. Thank you.

<A - Srinivas Phatak>
Thank you, Kunal.

Operator
Thank you. Ladies and gentlemen, we will now take the questions from the webcast. For which I will now hand the conference over to Ms. Suman Hegde.

Over to you, ma'am.

Suman Hegde
Thanks, Aman. We have the first question coming in from Naveen Trivedi from HDFC Securities.

<Q->
When you compare rural with urban, are you comparing only GT? As urban growth is largely driven by modern trade, is urban outpacing on an overall basis?

<A - Srinivas Phatak>
So, modern trade is growing fast. But even if you look at other elements of urban, they're also growing. So even at an aggregate basis, rural growth has slowed down and has come back to urban levels. But to be honest, the modern trade is growing and, I've not seen a similar kind of slowdown in GT urban.

<A - Suman Hegde>
Adding to that, within urban modern trade is still a smaller proportion of the overall market, so I think we should keep that in context.

<Q - >
The second question is from Tejas Shah from Spark Capital. The question being, there must be multiple stakeholders in this margin improvement journey of HUL employees, vendors, business partners, et cetera. So now after so many quarters of continuous margin improvement, are you witnessing increasing challenges in taking these stakeholders along in this journey ahead?

<A - Srinivas Phatak>
I think Sanjiv spoke about some of this earlier. As we said, there are many other opportunities today which possibly, were not there a couple of years ago because of changing business models, changing regulatory environment, their ability to use data and technology and ability to work with many partners. If you're only looking at a very traditional cost model and cost cut, yes, there is a certain place when you will run out of more juice. But we believe there are more opportunities to go after and we're looking at all of them. Some of the cost changing is also not just about vendor and vendor negotiations. We have talked about how, in a post-GST scenario, we are able to do a lot of structural changes to our supply chain operations which is enabling us to take costs out. And even if you look at overhead, given the new business models and data and technology which is coming in, it has given us an ability to control even our routine administrative spends – something as mundane as travel to something more sophisticated. So, I think there are many avenues which have opened. And of course, there will be a certain point in time that there will always be a healthy challenge when you're trying to take costs out. But that's a very healthy and welcome challenge.

<Q - >
Moving on, the next question has come from Shirish Pardeshi from Centrum Broking Limited. Hi, Sanjiv, Srinivas, Good evening. If you could share premium product contribution Fabric Wash, Personal Wash, Skin and Hair?

<A – Suman Hegde>
I wouldn't really want to comment on specific categories and their premium shares. Overall, as we've said in the past, the FMCG market premium segment is about 28% to 30% contribution.

<A - Srinivas Phatak>
But from a market point of view, I think we will be slightly over index.

<A - Suman Hegde>
And we are over-indexed on premium at an overall category level.

<Q - >
Moving on to the next question from Shirish. Could you please share on the aspect of rural slowing down? Can you share if the district has villages with population less than 50,000?

<A - Srinivas Phatak>
So, Shirish, look it's an early read of where we are seeing some moderation to demand in the rural area. At this stage, I think we need to see some more before we can start to dissect it to those levels. But on an aggregate level, we are seeing a bit of a slowdown. I think we'll need some more time before we can comment on whether it is less than 50,000, more than 50,000. Having said that, there are many other different ways to look at it. If population is one such thing, income levels could be very different, the level of investment in infrastructure could be very different, the profile of consumers could be very different. So, there are many other factors. But I would say it's a bit early to get down to that kind of granularity.

<Q - >
And the next question from Shirish – How does rural and urban sales mix move over FY'18 and FY'19?

<A – Suman Hegde>
I think we spoke specifically about the indexation of rural growth between 2019 and 2018.

<Q - >
Moving to the question from Nitin Gupta now from SBI Capital Securities. How does HUL define or measure rural market?

<A – Suman Hegde>
Basically, how we measure rural is in terms of the census data which is about pop class and segmentation of the population strata. We have the greater than 10 lakh population cities. We also look at the Tier 2, Tier 3, and what gets defined as rural by the national census, and that's what we triangulate back to. As we have said in the past, rural population is about 60% of the overall market. And that's what we comment on, when we comment on growth between urban and rural.

Suman Hegde
I think that was the last question on the web queue. So, with that, we now come to the end of the Q&A session. Before we end, let me again remind you the transcript will be available in the Investor Relations website in a short while, and you can go back and refer to it. A copy of the results and presentation, if it's not already with you, it's already on the website, and you can go back and refer to that as well. With that, we would like to draw the call to a close now.

Thank you, everyone, for your participation, and have a great evening.

Srinivas Phatak
Thanks a lot. Thank you, Suman.

Operator
Thank you very much. Ladies and gentlemen, on behalf of Hindustan Unilever Limited, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.