March Quarter 2021 Earnings Call of

Hindustan Unilever Limited

29th April 2021

Speakers:

Mr. Sanjiv Mehta, Chairman and Managing Director

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

Mr. Amit Sood, Group Finance Controller and Head of Investor Relations

Operator

Ladies and gentlemen, good day, and welcome to Hindustan Unilever Limited conference call for the results first quarter and financial year ended 31st March, 2021. 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 would now like to hand the conference over to Mr. Amit Sood, Group Controller and Head of Investor Relations. Thank you and over to you, sir.

Amit Sood ***Hindustan Unilever Limited - Group Financial Controller & Head of IR***

Thank you, Janice. Good evening everyone, and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening the results for the quarter and financial year ended 31st March, 2021.

On the call with me from HUL end is Mr. Sanjiv Mehta, Chairman and Managing Director; Mr. Srinivas Phatak, Chief Financial Officer; and CFO designate, Mr. Ritesh Tiwari. We hope that you are staying safe and healthy.

As is customary, we will start the presentation with Sanjiv sharing his perspective on the market and an overview how we are navigating the current environment. Then Srinivas will share with you our performance for the quarter and financial year with category highlights and our outlook for the future.

Before we get started with the presentation, I would like to draw your attention to the Safe Harbor statement included in the presentation for good order sake. I request all of you to pay close attention to Sanjiv's and Srinivas's message over the next 30 minutes. We will be addressing upfront a lot of questions which are likely to be top of mind for analysts and investor community.

With that, over to you, Sanjiv.

Sanjiv Mehta ***Hindustan Unilever Limited***

Good evening everyone and thank you for joining us on the call today. I do hope that you and your loved ones are safe and keeping well in these exceptionally trying times. I, on behalf of Hindustan Unilever, would like to express a heartfelt condolences to those who have lost loved ones. We wish a speedy recovery to those who are battling this virus, and immense gratitude to all the people who are standing up against the adversities and are fighting tirelessly to help keep others safe, especially our frontline heroes.

I would also like to thank every member of Hindustan Unilever for their relentless commitment and dedication in these difficult circumstances. Adversity, they say, is the true test of character, and I'm absolutely certain the country will come out stronger.

Turning to our results, It is gratifying to bring down the curtains to full year '21 with a solid set of numbers, both on the top line and the bottom line. Our reported turnover grew by 34% and profit after tax increased by 41%. Health Hygiene and nutrition forming, which is approximately 80% of our business continues to perform well for us and grew in high double digits. Discretionary and the out-of-home portfolio mounted a strong recovery in this quarter. This has enabled the business to accelerate momentum sequentially. Our sharp focus on driving volume-led competitive growth has yielded good results as we are gaining relative penetration 87% of our business. Basis in the Kantar Worldpanel on last 3 months basis, 82% of our business is gaining volume share.

This quarter also wraps up our financial year. As I look back on our performance over the year, I'm very pleased with the results. On a full year basis, we have reported a turnover growth of 18% and profit after tax growth of 18%. It is heartening to note that we have crossed the INR 45,000 crore turnover mark. And once again, I would like to thank my team at HUL for the contribution in achieving this feat.

Merger of HUL and GSK, as I always say, is a marriage made in heaven. This month marks the first anniversary of nutrition integration with HUL and what an incredible work this has been. This is one of the biggest mergers in FMCG industry in India and also in Unilever in recent times. To give you the magnitude, we have onboarded about 3,500 people to create one big HUL family, aligned more than 150 processes, transitioned several applications and move to SAP ERP platform across 40 sites. All these transitions have happened seamlessly during the last 1 year while we were working in a virtual world away from our offices.

On portfolio front, we have expanded our proposition to include the immunity boosting benefits of zinc in Horlicks and have also made strategic intervention into the high sciences category of adult nutrition with a relaunch of plus range from the house of Horlicks. We are putting this proportionate focus behind growing category penetration with the launch of INR 2 sachet and pouch packs, which are 20% cheaper than the earlier packing formats to make our products more accessible. We also expanded Boost footprint nationally.

While we expanded the portfolio offering, we maintained a laser-sharp focus on driving margin synergies through efficient media buying and deployment, savings in overheads and supply chain procurement and from non-material costs. Consequently, our year 1 EBITDA margins at 31.8% are ahead of the acquisition business case. On a like-to-like basis, excluding one-off, we have expanded EBITDA margins for our nutrition business by approximately 370 bps. Since we are driving margins faster, we are reinvesting to grow and recruit new consumers into the category so that we can get on to a virtuous cycle of growth.

At the heart of our compass strategy is the belief that sustainable and purposeful business drives superior long-term performance. That message is more relevant today than ever before. During the year, we responded with speed and agility to protect lives and livelihoods while growing our business. We donated nearly 2 crore soaps and sanitizers to the vulnerable sections of our society and essential workers to help them in the fight against this deadly virus. "Our Virus Ki Kadi Todo" campaign reached out to more than 15 crore households in our country to create awareness and strengthen community response towards COVID-19. Through our initiatives, over 14 lakh individuals were provided with health care and food support. We also donated several much needed medical equipments to hospitals, 75,000 testing kits and assisted in setting up isolation centers.

We are leading a progressive agenda on issues like climate and social inequality. Through, the HUF and its partners, we have created more than 400 billion liters of water conservation potential in the last year. At the exit of 2020, more than 67% of our plastics footprint is now in recyclable form. In 2020, we also collected and processed nearly 58,000 tons of plastics, covering 60% of the total plastics we use and we plan to achieve 100% plastic waste collection in this calendar year. Our water conservation and increased agriculture production initiatives have helped to create over 2 crore additional person days of employment. In 2020, 16,000 more shakti entrepreneurs joined us and we feel privileged that we are getting an opportunity to positively influence their livelihoods. This year has strengthened our commitment to being the leader in sustainable business and showing that a purpose-led future-fit business model indeed delivers superior performance.

Today, more than a year has elapsed since the outbreak of COVID-19 in India, yet the pandemic is far from over. Even as we imagine being done with this crisis, the crisis is surely not done with us. Just when we thought we had sight of the silver lining on the horizon with the vaccination drive, we are faced once again with a resurgence of the virus. In India, we have been clocking over 300,000 cases for several days now and the government and civic bodies are rightfully resorting to micro containments to restrict the spread of the virus. Mobility is dipping in several cities as people confine themselves to their homes. This will result in a period of uncertainty till the time we bring down the infection rate under control.

Last year, the country had to go in for a hard lockdown as it needed time to beef up the health infrastructure. This year, while it has taken some time initially because of the surge in intensity, but now the country is coming together and the health infrastructure is being quickly ramped up as much as possible. Howsoever, I do not want to, in any way, belittle the magnitude of the crisis. We cannot throw caution to the winds. As Lifebuoy has rightfully captured "Protecting India from coronavirus is in your hand, our hands". Every Indian has a role to play. We need to maintain physical distance, follow safe hygiene practices like wearing a mask, wash hands regularly with a soap and get vaccinated. Vaccination, I believe, will be our biggest weapon in the fight against COVID-19. India is driving the world's largest inoculation program. The capacity to manufacture more vaccine is being ramped up and supplemented with imports. I would urge each one of you to get yourself and your family members vaccinated when you become eligible and as soon as you have access to the vaccine.

The pandemic has tested the world in ways few anticipated. They also tested the resilience of our business, character of our people, agility of our operations and the depth of our financial strength. While this has not been an easy year, it has made us a stronger business, which is better prepared for the vagaries of the fast-changing world. Our 5 fundamentals of growth, combined with a clear priority, the 4 clear priorities and the technology muscle that we have built over last few years, positions us very well.

Our people will always be our biggest asset and ensuring the safety and well-being will always remain our most important priority. We are running our factories and sales operation with tiered-operating protocols following strict safety and hygiene standards. All of our office-based employees have gone back to work from home. As of today, over 90% of all our eligible employees had been administered at least one dose of vaccine. We will facilitate and where required, pay for the vaccination of not only employees and the family members, but very importantly, the 300,000 people who are part of our ecosystem and constitute what we call as the outer core. We pivoted to flexible working models last year, ensuring our people flow to the most value-generating work. Within 3 months, we had moved 3,500 people from business areas that were slowing, such as out-of-home food business to teams experiencing high demand like those producing personal and home hygiene products or from roles that were not needed during the lockdown, for example, merchandisers and in-store promoters, to order taking and order fulfillment role. Through our flexible working approach, we will adapt to the evolving situation. Our robust talent practices and purposeful founded business model has enabled us to continue to attract the best talent and we remain the #1 employer of the choice now for 12 years in a row.

The last 1 year has been a paradigm shift in the way we operate. It has highlighted agility and resilience of our supply chain. We have debottlenecked our production line, made them more flexible to quickly adapt to the changing requirements, should there be a demand first and have also added new manufacturing partners taking our potential capacity to 1.3x of pre-COVID levels. Our strength in distribution got further enhanced with the innovative model like hub and spoke, direct store delivery,etc. Shikhar, our e-B2B app has proven to be a real game changer for us. During lockdowns when a salesman couldn't message retailers to collect orders, the retailers were still able to place the order through Shikhar. In the last Fiscal Year itself, we have added 350,000 Shikhar outlets at the rate of more than 1,000 outlets per day, taking our total count to over 5 lakh outlets. Contribution to our turnover from Shikhar outlet has increased by 6x in March quarter '21 versus the same quarter in the previous year.

E-commerce has become the channel of choice for many consumers. A strong focus on building a portfolio fit for this channel, building capabilities and driving everyday great execution resulted in doubling of the growth rate and contribution from this channel on a year-on-year basis. General trade has become more relevant in the current context considering its proximity and we continue to increase our assortments and coverage. Expansive network of nearly 136,000 Shakti entrepreneurs covering 18 states provides us a distinctive advantage of massive rural reach. With all these strengths in the fold, we are confident of ensuring continuity of supplies for the full range of our portfolio.

We have built capabilities to sense consumer demand signals through digital means. This helps us in responding to changing consumer behavior patterns with speed and agility. Based on this signal, we launched more than 150 SKUs in the last 1 year to meet changing demand of consumers.

Another key strength we have is our big purposeful brands. When there is a crisis, consumers turn towards big brands which have deep foundations built on decades of trust. We saw this in full year '21, where the growth rate of our big brands accelerated. This gives us confidence that the strong growth momentum will continue this year. Despite the economic stress due to pandemic, there is a section of the society which is willing to try new products. Our "Winning in Many Indias" strategy is helping us de-average India and target such sections of consumers thereby driving premiumization and growing our market development cells as 2x versus rest of the business. We have setup a Premium Beauty Business unit within our Beauty & Personal Care organization to strengthen our play in the masstige and e-commerce Beauty segment. Our Health Hygiene and nutrition portfolio, which forms 80% of our business, has performed very well by growing at double digit, 12% in the last financial year. This portfolio continues to remain extremely relevant and through innovation we'll further enhance it to drive growth.

At HUL, we pride ourselves in running a cost-efficient business model. For the last several years, we've had a very aggressive savings agenda and our ambition this year is to drive savings upwards of 8%. We are looking at all lines of P&L, variablizing cost structures and eliminating costs which do not offer much value to the consumers to generate more fuel for growth. We will continue to take judicious and calibrated pricing actions and ride on the science of pricing to drive net revenue management. Our R&D capabilities provide us the armor to flex formulations and create innovative opportunities to reduce costs. While balancing cost and cash, we will continue to look for growth opportunities and invest in the right ROI model. This will enable us to grow the business and strengthen the moats of competitiveness.

The true strength of Hindustan Unilever's prowess in technology and data-driven decision making came to the fore during the pandemic, when digital journeys managed to mitigate many of the challenges faced due to physical restrictions amidst strict lockdowns across India. Through our digital transformation journey "Re-imagining HUL" we are building integrated ecosystems across consumer, customer and operations. In the scenario where traditional consumer surveys were not possible, our people data center continued to stay connected with the consumers through social listening and digital interaction and picked up the demand trends. Our agile innovation hub processed these inputs to build superior experiences and products for consumers. Under the customer ecosystem, Shikhar, our ordering app enabled hundreds of thousands of retailers to place contactless orders safely and provided them visibility to the fulfillment of these orders through logistics tie-ups and intuitive interfaces. Operations ecosystem is an ecosystem across the Supply Chain verticals of Plan, Source, Make and Deliver. We have digitized the factories and are building automated warehouses, which unlock capacities for us and provide the agility we require in running operations. All of this is powered by intelligent data and analytics ensuring smooth and optimized operations.

Our strategy remains consistent and fit for purpose. We continue to progress the purpose-led future-fit agenda and remain focused on delivering consistent, competitive, profitable and responsible growth enabled by excellence in executing the 5 fundamentals of growth.

I now have a very pleasant task of talking about my colleagues. Amit Sood who worked very closely with me over the years and is our Controller and Head of Investor Relations, leaves us to join Myntra as their Vice President Finance. He did a great job for us and goes with a best wishes. Amit will be succeeded by

Ravi Shankar, who comes with huge experience and I'm certain he will take the function to new heights. Thank you, Amit and welcome Ravi.

This is the last quarterly call of my colleague, friend and counsellor Srinivas Phatak. He's been an outstanding CFO and a pillar of strength for the business. He goes on to a very important role at Unilever's corporate center. I would like to acknowledge his immense contributions to our business, and I'm sure all of you would join me in wishing him the best. I'm also absolutely delighted to welcome another of our stars, Ritesh Tiwari. He's a quality product of HUL. And after extremely successful stints in Singapore and London takes over this critical role as CFO of HUL. Welcome Ritesh.

Before I hand over to Srini to share with you deeper insight around our in-quarter performance, I would like to say that in this fight against the virus, our resolve remains absolute, our spirit unassailable. We will do whatever it takes to ensure our nation triumphs over this adversity. Together we will prevail, together we will come out stronger. We stand with the nation.

With this over to you, my friend, Srini.

Srinivas Phatak ***Hindustan Unilever Limited***

Thank you, Sanjiv and good evening everyone. I'll now walk you through the performance from an in-quarter perspective and talk you through some elements in terms of what's worked for us, some elements of P&L and the future outlook.

Start with the growth and the growth story as we've said has been competitive and profitable. More than 87% of our business is gaining relative penetration and upwards 82% of our business is winning shares as per the Kantar panel. Our reported growth stood at 34% including the nutrition business and acquisition of V-Wash. We are pleased with the performance in both Nutrition and V-Wash. On a like-for-like basis, excluding the impact of M&A, our domestic consumer business grew at 21% with a UVG of 16%. We continue to see a sequential pickup in momentum.

Growth was broad-based across all the 3 divisions; all of them have grown in double digits. And Health, Hygiene & Nutrition, which forms 80% of our business continued strong momentum and picked up growth. We also saw a big build back in terms of discretionary and in out-of-home segments. We'll talk more about the growth when I get into the category slides.

Net profit after tax grew by 41% to INR 2,143 crores. A few callouts here. First, EBITDA margins were up Y-o-Y by 150 basis points, but we all recognize that March quarter of the base year was impacted by COVID and a lot of lockdown in the last 10 days. So, our EBITDA margins at 24.75% are up 150 bps and up 43%. As I said previously, Y-o-Y comparisons are difficult because of COVID implications and the base quarter also does not include nutrition. Sequential is a good way of thinking about our business. And on a sequential basis our EBITDA margins are up 32 basis points. This is consistent to how we had spoken to you in the last quarter. Our effective tax rate for the quarter was 24.1% given certain prior period items. And therefore, you have seen the flow-through of all these elements are from EBITDA to PAT level.

If I give you a flavor of the performance on the divisions, Home Care grew at 15%, enabled by strong recovery in fabric wash and on the back of improved mobility. Beauty and personal care grew at 20% and there was good performance across the various categories. And foods and refreshments sustained a high-growth momentum and led the growth for us by growing over 36%.

Let me give you a bit of a flavor about some of the few interesting innovations and activations that we have done in the quarter. Starting with Home Care, in a bid to ensure safety of our citizens, Domex, our clinical disinfection, brand did a month long disinfection campaign across key stations in Mumbai. The campaign aimed at creating awareness around disinfection and hygiene. Surf Excel's Holi campaign address the reality of avoiding gatherings and practicing social distancing. Surf also partnered with Dunzo to bring to life by enabling consumers to send specially curated Holi excel hampers to their loved ones.

In case of BPC, we launched quite a few products across the portfolio. Dove has launched a new Care and Protect range which brings together germ kill and long-lasting moisturization. Another innovation from Dove comes in the hair category through the Dove Intense Damage Repair hair mask. Close-Up launched Red Hot Mouth spray infused with clove to fight germs and provide instant freshness. Celebrating international women's day, Clinic Plus launched a film under its "Meri Beti Strong" campaign, encouraging mothers to speak up against domestic violence. Furthering our commitment towards promoting inclusion, Dove, through its #StopTheBeautyTest campaign is challenging the stereotypes and urging people to adopt a more inclusive lens of beauty for women.

In foods and refreshments, our strategy to unlock growth in HFD portfolio is to drive category penetration. To this extent, we have doubled on our actions to improve accessibility in the HFD through the sachet portfolio. We launched the INR 2 sachet in Horlicks and Boost. We have also increased the grammages in INR 5 sachet. As we enter the summer season, ice cream had series of mouthwatering range of innovations such as Cornetto Chokissimo, Trixy Cup and Desi Kulfi. Building on the proposition of restaurant-like food at home, Knorr has launched its new ad campaign on Knorr pizza and pasta sauce.

If I were to give you a bit of a flavor on the Home Care performance, strong performance in HHC continued and Fabric Wash had a rebound. Our HHC had another quarter of delivering strong double-digit growth led by Vim. Fabric wash definitely picked up and picked up significantly, aided by increased mobility. Continuing the premiumization journey in fabric wash, our liquid and premium portfolios grew ahead of the category. Purifiers improved sequentially, led by acceleration in e-com.

In Beauty & Personal Care, we saw good performance across the categories. In Skin Cleansing, the performance was led by high double-digit growth in Lifebuoy and in premium segments. Lux performance was stable. Our VWash, which is again the third quarter of post-acquisition is actually driving relevance through contextual communications, and growth momentum is indeed picking up. In Skin Cleansing, inflationary pressures continue to remain high. We have taken a few rounds of pricing in December quarter and March quarter and we will take up further prices in the current quarter, and I'll talk a little bit about this later in the presentation.

Oral Care continues to do well and sustains growth momentum with strong results in CloseUp. We're continuing to gain shares.

Hair had a stellar quarter growing in high double digits. Consumer-focused innovations and communications are yielding good results for us. Again in this segment, we say that our growth will be significantly ahead of the market.

Skin care performed well with growth in Vaseline, Face Cleansing and Talc. GAL picked up the momentum sequentially coupled with penetration gains and this is an important one for us. Quarter-on-Quarter we have now started to see a good pickup in absolute turnover and penetration gains which in due course will translate into healthy growth rates. Colour Cosmetics, while demand continued to improve sequentially, there is a possibility of some of this getting impacted by, again the onset of COVID. But structurally, this is a very attractive category and we continue to be very hopeful about it into the medium term.

Coming to Foods and Refreshments, this business has been on a good growth trajectory and we have sustained the momentum for another quarter. In Foods, both Ketchups and Soups grew in double digits on the back of strong consumer traction. Tea continued its stellar performance with all the brands growing in double digits and well ahead of the market. We've also taken up further pricing in Tea, and now we get a good mix of price and volume.

As Sanjiv highlighted, we have completed 1 year integration and made very good progress in the nutrition business. As Sanjiv called out, I think it's important to say that the focus for us is to driving volumes, getting new users into the category. Therefore, penetration and volume growth become the lead indicators for us. And if we manage it well, then you'll start to see the USG come through.

I think a couple of data points, our absolute volume growth was in high teens. And because we talk of UVG, UVG in the combination of mix and volume. Our UBG was a bit lower in double digits. And that actually is an important one for us.

Again, from a penetration perspective, we are gaining more users, especially through the sachet portfolio and now as we have gone and introduced the rupee 2 sachet. Given that we are delivering healthy margin expansion and like we said, about 370 basis points over where we were a year ago, we are taking those synergies and investing back into price, product quality and distribution.

This quarter, we also got the nutrition business onto SAP, and now we have started to run more of a tech stack that is applicable to HUL. We have also started a bit of the initial integration of the go-to-market systems and we expect to complete more of that in the coming quarter and like we said, between June and July. This did have some impact for us especially in a few markets which are covered by sub-distributors. There was a little bit of market disruption and we are taking steps to address them in the coming quarters as we complete the integration. In ice creams, we have seen a strong recovery in the quarter. And the innovations are quite exciting and we definitely urge you to really try them because these are again some fascinating products from Kwality Walls.

Sanjiv touched upon it. Therefore, I will make a very brief mention. Our Health, Hygiene & Nutrition has continued to be very strong through the year. And clearly, we have seen a big step-up in momentum in March quarter. Our discretionary has come back and out-of-home has performed well, predominantly led by ice creams.

If I come to the P&L, I think it's important to understand the quantum of inflation because a few times I think you will all have questions on what's happened to BPC margins or what's happened to F&R margins. And therefore, indulge me by really paying attention to what I'm going to say. On skin cleansing, we have seen significant inflation in palm oil. Palm prices are upwards to 40% to 50% Y-o-Y and even sequentially have gone up significantly from December quarter to March quarter. The industry will actually need to take up prices somewhere in the middle of 10% to 13% just to cover the cost. And if you actually have to cover the margins, you can simply do the math, the price increases tend to be much higher into high teens. And therefore, you have seen a pricing action from us and therefore, you've also seen pricing action from many of our peers. We have taken up prices in a calibrated manner in every few weeks. And by the end of April, we would have priced somewhere in the range of 7% to 8%. We are leading prices. And if the competitiveness holds, we will take up further pricing. But obviously, this has a good impact on the BPC margins. But it is absolutely the right strategy in the current context where soap is a very critical product for many consumers and I think we need to manage this in a sensible manner. But I think it's also important to reiterate that we'll not be shy of taking up prices and lead pricing.

On tea, we have talked about inflation. And if you see in the prior quarter, in December, tea had again sizable inflation between September quarter and December quarter. And therefore, in a sense our December quarter margins were impacted by a calibrated approach in tea. It was not possible to trip out all of that inflation. As it's been our practice, we have continued to take prices in small lots and frequently. As a consequence of this we have also seen further pricing which has gone in tea and that's also enabling us to improve margins of foods and refreshments at an aggregate level.

In case of Home Care, we have actually reversed some of the price drops as crude has continued to inflate. In fact, where it was feasible for us we have actually gone in a bit early with our pricing. The commodity covers give us some benefit. And a consequence of it, you will see that our margins expanded quite handsomely in March quarter. But again the way we manage it is that in some cases, we are able to capture some of the benefits early and the costs follow and the others, it works vice versa.

So, that I believe starts to give you a good sense in terms of how we've looked at the 3 commodity categories. And therefore, at an aggregate if you see, our sequential pricing is up by 2%. We continue to drive savings and our EBITDA margins at 24.8% are quite healthy.

If I also give you some more elements to this and a consequence of everything that I've explained to you, our COGS as a percentage of turnover is up 145 basis points, I am talking sequential, and therefore you start to get a good sense from Skin Cleansing, Laundry and Tea. We continue to invest behind our brands. If you see our absolute BMI spends are up INR 25 crores sequential and we maintained our competitiveness. Even on a Y-o-Y basis, our investments have gone up significantly both in our non-nutrition portfolio as well as nutrition. But given the robust turnover growth, we have had a leverage impact or a benefit in a percentage of turnover basis.

Our employee costs are lower sequentially. Obviously, there is an element of BPA bonus payouts which gets stood up in March quarter. Given the COVID impact the bonus payouts have been a bit lower for us this year. I mean other expenses have been lower sequentially by 130 basis points. So, we've had absolute costs which are lower and we've also had a turnover leverage. As we have explained to you, this is a large bucket and continues to have many elements including investment in future-fit capabilities, many elements of overheads, supply chain costs, non-supply chain costs and the savings of nutrition. So, at the end of a financial year, we do true-up or true-down some of our estimates and provisions, which also means that we have got some credits in the current quarter. Hopefully, that starts to give you a bit of a flavor of other expenses. And there are many aspects to it which are fixed variable and semi-variable. And therefore, the quarter-on-quarter picture always is a bit difficult to predict. But if you see an aggregate on a full year basis, our other expenses tend to be around 13% of our turnover mark.

Therefore, I think this is a very good way to segway into our segmental performance. All the segments have performed well and grown in double digits. You've seen the growth numbers. And therefore, from a margin perspective, in Home Care we have seen a sequential improvement. In F&R, we have again seen a sequential improvement. But for the reasons that I called out of skin cleansing elevated inflation and overall mix not really coming through at a pack and a subcategory level, we have seen some dilution sequentially. But I think the important aspect is even BPC margins at around 28% are extremely healthy and I think that's really the right navigation strategy for us as we look forward.

So, this is really a quick flavor of the P&L. And as we have talked about most of the elements, there are a couple of callouts, which I would like to do here. In the income tax line, we have got a INR 30 crores credit of a prior period adjustment as we have got some orders from the authorities. So, we have seen a benefit of INR 30 crores in the tax line. And we also had a benefit of about INR 56 crores in the interest line. Because of these credits and the truing up of tax, our ETR for the quarter was about 24.1% and for the full year at about 24.2%. On an ongoing basis, I think it will be good to look at ETR in the range of about 25.9% to 26% and this will get finalized in due course.

The other important element is we also had property sales of INR 91 crores in the quarter. We had sold off an old factory of ours which had the impact of reducing the restructuring costs and the integration costs.

Our supply chain restructuring, therefore, is on track and is poised to bring in more agility into the network and drive savings.

The full year picture, I think it makes a good summary in the context of a challenging year and we have seen how sequentially the business has picked up. Our sales has grown to about INR 45,000 crore with 18% improvement to our PAT and net profit.

Again, this chart gives you a quick flavor of our segmental performance on a full year basis. And you get to see a step-up of growth as it has come through and the overall segmental margins continuing to be extremely healthy across 3 of our divisions.

You would have seen from the announcement taking into account the strong performance the company has delivered, the Board of Directors have proposed a final dividend of INR 17 per share which makes the total dividend at 31. In addition, you will also recollect that we had paid out a special dividend of INR 9.50 per share. If we add up all the 3, the total dividend payout for us during the year will be about INR 9,516 crore.

Important as we really look at the situation going forward, COVID surge has really been unprecedented and what we've realized is in last 3 or 4 weeks we've seen a dramatic shift. Early March, we were on a strong momentum in the COVID cases for less than 10,000. And now we have seen a very different and a drastic outlook in terms of cases which is also impacting mobility. Therefore, in a situation of this kind it's difficult to estimate the demand or difficult to really have a predicted demand. As Sanjiv has spoken comprehensively about our agility and responsiveness in the value chain and the new muscles that we have built and therefore, I think this positions us significantly better than where we were last year as well as pre-COVID.

Inflationary pressures are elevated and especially in large categories. I think I've spoken adequately about it. There will be voracious pricing action combined with cost savings. We will lead pricing and we will do everything which is really required to protect our business model.

I think the important element for us is to really deliver on volume-led competitive growth. It's exactly in line with what we had called out earlier. When we have our EBITDA margins in the range of about 24% to 25%, I think they are healthy. So, important is if we are able to ensure continuity of our business supplies, manage some of the on-costs which will come not only from inflation, but also from COVID on-cost and adverse mix, we will have a very good navigation strategy. Therefore, as I explained in the last quarter, we will continue to put a premium on volume growth, we will continue to manage our margins slightly. And by doing that, we'll actually be able to lead and deliver on our 4G growth model, where growth is actually competitive, profitable, consistent and responsible.

Within this construct, we will continue to double up on our consumer-centric innovations, market development and using digital transformation as a key lever. Of course, from a channel perspective E-commerce, General Trade and Rural continue to be really key priorities.

I'll now hand over back to Amit to commence our Q&A.

Amit Sood *Hindustan Unilever Limited*
Thank you, Sanjiv. Thank you, Srinivas. With this, we will now move to Q&A. In addition to the audio, as always, our participants have an option to post questions through the web option on your screen. We will take those questions just before we end. With that, I would like to hand the call back to you, Janice, for managing our next session on Q&A. Go ahead, Janice, back to you.

QUESTIONS AND ANSWERS

Operator
Thank you very much. The first question is from the line of Manoj Menon from ICICI Securities.

Manoj Menon, *ICICI Securities Limited*
Hi Team, that's been a very useful and a very comprehensive 40-minute presentation, thanks for that. A lot of the questions actually got answered. I just have only 2 left, the one on the nutrition portfolio, the second is on the innovation pipeline.

On the nutrition portfolio, given the new price points of price cuts or rather as you put it, the new SKU, the pouch pack, which is 20% lower than carton pack, etc. Just trying to understand the original aspiration of at least 100 bps of EBITDA by operating margin expansion in the medium term. Is that still relevant? Or some of it is being funded by that? So that's one.

Just a subplot to that question is on the INR 2 price point, just being curious as a consumer. Historic understanding tells me that the INR 5 price point was necessary because of having a certain grammage to fill up a cup. So, is there anything else which has changed so that INR 2 is also kind of feasible from a consumer point of view? So that's the question number one which has got 2 parts to it.

The second is straightforward question. You had done 150 new SKUs in the last 2 quarter, which is very commendable given the constraints we have faced in placing these products in the market. You have done Nature Protect sometime in Q3 as well. Just trying to understand, when I look at HUL, Nestlé, Colgate, P&G in MNC basket or even if I include Loreal or Nivea excluding Mondelez versus the Indian basket of companies, It does appear to me that the Indian basket has been a little more aggressive in newer launches versus the MNC basket. You may agree or disagree, but I just want to get your perspective on your innovation pipeline over the next 1 year.

Sanjiv Mehta ***Hindustan Unilever Limited***
Srini, you take the first one, I'll take the second?

Srinivas Phatak ***Hindustan Unilever Limited***
Yes. So, 2 sets to the equation, Manoj, good questions. Clearly, the need is to bring in more users into the category and drive market penetration and therefore, lead market development. The way we're positioning INR 2 is because there is a large set and this is some of the learnings that we have taken from the coffee category. If you're able to give the right grammage to give one cup of Horlicks, then INR 2 becomes a right entry point for that. The INR 5 is actually from a grammage perspective, is for 2 cups of Horlicks. So, there is no compromising on what it really constitutes to have a quality cup of Horlicks. It's really the right grammage. It therefore, gives us an opportunity to start to recruit new users into the category.

The strategy is actually on 3 pronged. In one manner, you still need to drive your jars. And therefore, that's a very different consumer set and we'll continue to do that. Sachet is really trying to go rural, go deep and get new users into the category, which actually then starts to play as you start to get an upgrading story. This is in addition to what you do in terms of your plus range and the high sciences.

Now as far as the margins are concerned, what we had called out for the markets when we made the acquisition case was an expansion between 700 to 1,000 basis points, which we subsequently said, 800 to 1,000 basis points. Obviously, when you add up and if you also remember, there was a question from Percy, I think I don't know what was the previous quarter or the quarter prior to that, our ability to generate gross savings are obviously higher than the range that we have called out. The strategy has always been consistent that we will invest back many of that savings, therefore, get into a virtuous cycle of growth. So, this is actually having higher gross savings, reinvested into product price, and therefore, drive market development and drive growth. So, to that extent, we are not making any change or shift to that. I think it's also important and that's why we called out saying that even in year 1, if you were on a like-for-like basis, we have actually expanded margins at about 370 basis points. So that in a manner actually is the total story when you see from a Horlicks perspective.

Sanjiv, over to you on the innovations, please.

Sanjiv Mehta ***Hindustan Unilever Limited***
Yes. Manoj, we will disagree with you that there could be companies who have launched more SKUs than us. It is not just about launching SKUs. We'll just tell you a philosophy. When we launch new SKUs, we also look at culling old SKUs because the space in a retail outlet is very limited. When we look at innovation, we look at it from a lens of what is the distinctive proposition and whether we have superiority from a product perspective, then we launch it. So, I don't mind people having many. Just like if you look at sanitizer, when it was a fad, every company was into sanitizers, right? But you need to assess 2 years down the road, how many have survived. That's what makes a difference. And, the other important bit,

Manoj, you need not necessarily be first to the market. You can be second and be better. So that's a philosophy when it comes to innovation.

Manoj Menon ***ICICI Securities Limited***
Honestly, I could not have agreed with you more on this because one of the things which I've picked up from my friends in the industry actually, largely has been that it's not about placing, It's actually about consumer having an opportunity to interact with the brand and pick it up.

But what I'm just trying to understand from you and Srini is how you're looking at for the next 12 months looks, let's say, versus the last 12 months.

Sanjiv Mehta ***Hindustan Unilever Limited***
So, Manoj, last 12 months, we need to break it up into 2 parts: the first half of the year and the second half of the year. First half of the year had severe physical constraints. And then physical constraints manifested in lack of mobility, not just for the supply chain but also for the people, which affected some of the discretionary categories where we have very strong market position, like ice cream for instance, but it is mainly out-of-home. It is impulse buying. So, it got impacted. But as the mobility started, the business started coming back.

So, the last 12 months, the balance part of the months were very different. And the best we saw was the momentum coming back in March. And even during the last 12 months, if you look at the lens, our health, Hygiene & Nutrition portfolio, which is 80% of our business, despite the fact that there were period – long period when our laundry business was impacted because of lack of mobility of people, it still grew double digit for the entire year.

So, when I’m looking forward, Manoj, first is I think India has done the right thing of not gone in for a blanket lockdown because that would have resulted in another crisis on the economic front. So I think going in for micro containment, localized lockdowns are the right things. And the impact on the physical movement of goods for the supply chain is not going to be like we felt it in the June quarter last year, but the demand will be impacted whenever there is mobility impact. So, to that extent, we have to monitor. Our first 2 weeks of April we had the same momentum as the March quarter. The second 2 weeks, it has been impacted but not to the same extent as it was in the June quarter. So that's what my assessment would be June quarter of previous year.

Manoj Menon ***ICICI Securities Limited, Research Division - Research Analyst***
Sure. Loud and clear. And Srini, very best on your promotion and the new role. Good luck, sir.

Srinivas Phatak ***Hindustan Unilever Limited - Executive Director of Finance & IT, CFO & Executive Director***
Thanks a lot, Manoj.

Operator
The next question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy ***Edelweiss Securities Limited***
My question is on the premium Beauty business. What is the thought process behind this as currently wave 2 happening and work from home again, so is this the right time to do this?

And second, anyway, you had a focused team for e-commerce and other new channels of distribution. So why have specifically for Beauty business and that too premium Beauty business, what is the pet audience here?

Sanjiv Mehta ***Hindustan Unilever Limited***
Yes. Good point. The e-commerce business, the capabilities that we have built is now a very strong business because e-commerce business also now is very strong for us across, if you look at omnichannel, pure play, etc, now it's a very large part of our business. But those capabilities are mainly built towards performance marketing and the sales primarily. Whereas this premium beauty business is essentially for crafting propositions which are fit for e-commerce to start with. So, e-commerce only play, e-commerce first play. So, they would be looking at it more from the marketing perspective.

The other important bit, Abneesh, is we don't play for the short term, right? We play for the long term. And even during this last 1 year, we have seen that our market development SKUs or the segments have grown faster than rest of the business. So, there are parts of India which even during pandemic are willing to get into categories of the future.

So, we are bullish on India. India is definitely going to come out of it. India will start growing again. And the premium or the masstige end, today, masstige is a small part of the business in India. This is not about premium at 120 index, but masstige would be, say, 300 average to the index. That is the segment we want to explore.

Abneesh Roy ***Edelweiss Securities Limited***
Right. That's useful. My second question is in Wave 2, we are seeing kirana shops the hours are very restricted while chemist shops are open for longer hours, is that an advantage for you versus smaller regional players especially given GSK has come into the fold?

Sanjiv Mehta ***Hindustan Unilever Limited***
Yes, exactly. Few things which are coming in very handy. One is of course Shikhar; that comes in

extremely handy. The second one is for rural India, we have a Shakti Amma, they come in very handy. The third is you're absolutely right after we acquired GSK, our footprint in the Chemist channel has significantly strengthened. I believe that this localized lockdown which are the right thing because you need to minimize the number of hours that outlets are open, but they still result in the offtake happening. It's not that what people try to do is pick up the stuff, do their shopping, not any time during the day, but during the time when it is allowed for the retailers to open.

Abneesh Roy ***Edelweiss Securities Limited***
Right. My last question Sanjiv is on Nutrition. You have done quite well, but my question is on health and hygiene. You mentioned LIFEBUOY has done well.

Sanjiv Mehta ***Hindustan Unilever Limited***
Absolutely. I am very pleased to tell you Abneesh, that we have strengthened our market leadership.

Abneesh Roy ***Edelweiss Securities Limited***
And how has Domex done? Because you have been taking it to new areas and versus the other multinationals there?

Sanjiv Mehta ***Hindustan Unilever Limited***
Domex is a much smaller player compared to other market leader brand in the category, but we are determined. It is gaining traction in the pockets where we are playing with.

Abneesh Roy ***Edelweiss Securities Limited***
And in the new products which you have done in health and hygiene, which are the SKUs, which are doing really well, which you see good potential for medium, long term?

Sanjiv Mehta ***Hindustan Unilever Limited***
I believe that in the medium to long term, Nature Protect for its proposition should be doing well. Initially, there is a fad because there was so much of focus on everything related fetish for hygiene and cleaning. But one thing stand, we are going to invest behind this brand and make it become big because I believe that nature and cleaning that does and the properties of the Neem are very much understood by the consumers very strongly across the country.

Operator
The next question is from the line of Aditya Soman from Goldman Sachs.

Aditya Soman ***Goldman Sachs Group, Inc.***

My first question is on Shikhar. You've added 350,000 outlets, which is quite remarkable for a single year and you indicated contribution has grown 6x. But can you give us a sense of where these outlets are? Are you in the larger cities? Are you spread across the country? Is it limited to a few states?

And secondly, in terms of the absolute or contribution to your business, how much would that be at this point?

Sanjiv Mehta ***Hindustan Unilever Limited***

See, we don't want to give the figure of what the absolute turnover is, but let me tell you, it is substantive. And the second important thing we have to understand, today Shikhar is being used to complement our existing system. It is not replacing, It is not that we have pulled back the salesman. But between the 2 visits of a salesman, if a retailer finds that he is out of stock, he can place the order. It's no longer linked to the beat of a salesman or during the pandemic when a salesman can't visit, they can place an order. So, it is complementing our existing system, and it is spread throughout India now.

Srinivas Phatak ***Hindustan Unilever Limited***

Yes. So, many cities, just to complement what Sanjiv said, I think 2 sets are important. First is the numerical expansion. The second is the number of times that they use and the order values which are coming through. I think both are important for us and I think there is good progress happening on both those elements. And I think the important aspect is, it's a complementary channel, It's not a replacement. And therefore, we are pushing both. And in due course, digitization will really take its own course. But I think it's a combination which is super important, physical as well as giving Shikhar as a capability.

Aditya Soman ***Goldman Sachs Group, Inc.***

I understand very clear, Srinivas. Just to add to that question, as you clearly mentioned it's complementary, but is there a completely different supply chain as well or does it just use the existing supply?

Sanjiv Mehta ***Hindustan Unilever Limited***

See, the back end is very different because you must understand that in the old system your fulfillment was synchronized with the beat of the salesmen. Now, it has to be very different because whenever our outlet place, you have to deliver the order. So, your backend has been completely changed and that's where the high level of automation is helping us.

Aditya Soman ***Goldman Sachs Group, Inc.***

Understood. Very clear. And just last question on this. Would you then have it for a same store or a same SKU or a same product? Would it still be on both systems or would it then a store will get divided by products and SKU?

Sanjiv Mehta ***Hindustan Unilever Limited***
No, no. Today, our whole portfolio is over there. And what we can do is, increasingly, we are able to customize the proposition for a store so that they pick up what is the most relevant SKU for them.

Srinivas Phatak ***Hindustan Unilever Limited***
You're not cutting stores, the Shikhar stores and not Shikhar stores. The salesmen still go, but the store has the opportunity at a time that they want looking at the demand pattern and their liquidity. They can order separately and we will service it within a time frame, which is a very sharply defined time frame. Because service is also an important one as we digitize and perhaps in some cases such as lockdowns and others, in some cases, it could also become a lead option if the retailer so chooses.

Aditya Soman ***Goldman Sachs Group, Inc., Research Division***
And how are you managing the pricing conflict? Or you don't think that is the case?

Sanjiv Mehta ***Hindustan Unilever Limited***
There's no conflict.

Srinivas Phatak ***Hindustan Unilever Limited***
No, there's no conflict. See, as far as the salesperson is concerned today, we are taking into account what they sell by the normal ordering process in Shikhar. Because to us, it's actually building the capability and the complementarity, not about either/or. So absolutely, there's no conflict.

Operator
The next question is from the line of Percy Panthaki from IIFL.

Percy Panthaki ***IIFL Research***
My first question is on the demand scenario. Now obviously, you said it's difficult to sort of give an outlook and I completely understand that. But I just wanted to understand what's your take on the current scenario, current as in the January to March quarter because your Y-o-Y growth really doesn't make sense to look at because the base was very poor. So, I'm looking at a 2-year CAGR and the 2-year sales CAGR organic is coming to around 4.5%. And this is a quarter where almost everything was normal. Maybe there was some amount of headwind on some out-of-home categories, etc, but there's also tailwind on hygiene, soaps, et cetera. So, at the overall level, I would say that March quarter was almost a normal quarter. And in a normal quarter, the sales CAGR is 4.5%. So, this seems to be quite a weak

demand environment. So, I just like your take on that.

Sanjiv Mehta ***Hindustan Unilever Limited***
First is, I think that's a very classical spreadsheet model of looking at things. If we go back to the March quarter of 2020, I explained to you guys, that was the time when the demand was really soft and when we had a minus 9% growth, we had said the normative growth would be about 2%-3%. And the rest of the growth was linked to about the pipeline changes and the offtake impact because last time, the impact was mainly in the month of March, the last 10 days of the month of March. So, it would have been about 2%-3% growth because the rural was that time virtually stagnating. In fact, the growth rates have gone into the negative territory.

So, if you compare with that, and you don't put it together. This is not all the pipeline shift that has happened that you have sucked out stock one quarter and put back the stock another quarter that you can make it additive. So, this is not about additive. If you look at it from that perspective, sequentially, how the demand is growing and the 21% growth and even if you remove the 12%, you are still talking about a 10% kind of consumption growth. In a country like India, when the GDP has still been soft, is a very good consumption story.

Percy Panthaki ***IIFL Research***
Right. Understood, sir. That's very clear. Secondly, again on Shikhar, I completely understand the use case during COVID times salesmen are not able to go, etc. And post COVID, you mentioned that it can be a complement, I mean when some SKUs run out, between the 2 visits, he can order. But that second use case that between 2 visits ordering, don't you think that's a very small use case? Because anyways, you would be visiting the shop, let's say, twice a week and you have so much of data analysis to make sure that you're placing the right product during your beat so that just in a 3-day period, it doesn't run out of it. So, wouldn't this be a one-off kind of case after COVID disruption is normalized?

Sanjiv Mehta ***Hindustan Unilever Limited***
No, really. Percy, if you look at it, what does the retailer seek? Retailer seeks, first and foremost, speed of supply because anytime he is out of stock, he is losing sales. Because no consumer is going to wait until he restocks and then come back to him. They go to the next store and pick it up from there.

The other thing what we are doing linked to this is speed of supply replenishment. If you look at, say 2, 3 years back, in most cases we would collect the order on day x and supply the order on day 3 or day 4. Now with Shikhar in place and the focus over the last couple of years, now we do most of the deliveries is in plus one. You take the order today, deliver the goods tomorrow. That's the focus we are bringing in into the business.

And also, you must remember that a retailer, he doesn't follow scientific inventory model. He looks at placing an order based on feel and sight. That's how he places. And that's the reason if you go to a store, why your out of stock is a pretty high level. And also, you must remember that his inventory pattern and the SKU stores, there is little science behind it. There's more a feel around it. So, what this does is that brings in the science of retailing to him. And there are patterns, this prompts him, he looks at it and he doesn't have to worry about that if he misses, he's going to wait for another 4, 5 days before the stock comes in. So, it's going to change the game tremendously from retailers' way of looking at the business.

The other thing, remember something, if you have a certainty of supplying to him and he knows it that irrespective of a salesman he can place an order, then he would have bigger assortment and lower inventory of those SKUS, which will result in better turns and better sales. And that's the kind of science of retailing we are trying to bring to a retailer. In many ways, what a modern trade bit to increase the turns and look at return per cubic feet of space. That's the concept we have to bring it to a humble grocer.

Percy Panthaki *IIFL Research*
Understood. Understood, Sanjiv. Srini, one quick question on margins. If I look at the segment margins on a sequential basis, Q3 versus Q4, the Home Care margins have sort of expanded despite inflation in crude related commodities. And the personal care margins have contracted despite maybe skin care coming back after the lockdown and also the fact that, historically speaking, your Q4 margins are higher than Q3. This has gone in the reverse direction. So, any kind of insight you can give on these 2 points, please?

Srinivas Phatak *Hindustan Unilever Limited*
Yes. Let's take BPC and the big drag is really on, let's say, skin cleansing costs. So, if you see some of the numbers which I quoted, I said even to cover costs, one would have to price between 11% to 13%. If you need to price some margins, it goes into high teens. What we've been able to land because we've been taking prices every few weeks and sequentially are taking them up, you're still not in the stage where you completely been able to price out costs.

The other important element is that Palm increases have continued to happen even on a sequential basis. So I think what you're seeing there is the impact of skin cleansing, which is coming through and skin cleansing is a large category for us. But from a strategic perspective, it's absolutely the right one because if you take prices more frequently in small chunks, you actually gain quite well from a volume perspective. Then over a period of time, you'll be able to build it back and then get into a margin expansion space. So that really, to a large extent, explains in BPC.

In Home Care, and I think it is what I was trying to tell you that in cases while you lag, in some cases, it gives you an opportunity that you can get quickly into replacement pricing. And in the case of the commodities going up, you can better benefit of stock. So, for what's really happened in Home Care is that we've seen some of the benefits come earlier where some of the costs will come back in due course in June quarter.

It's a combination of that, which then starts to explain what's really happening to individual categories. But I think the best way to look at these kind of times is use the total portfolio, manage it in a manner which is sensible. Therefore, I think we can well our first focus is to try and manage within the division. But given the advantage that we have having 3 large divisions in a large HUL, we actually use our portfolio to play to balance it out, protect the business model, but continue to drive growth. Hopefully, that gives you a bit of a flavor on both divisions that you've asked a question.

Operator
The next question is from the line of Shirish Pardeshi from Centrum Capital.

Shirish Pardeshi ***Centrum Broking Limited***
It was a very good volume-led performance, and I was quite impressed. I have 2 questions. One question is basically on the nutrition portfolio of Glaxo. A year before we heard you saying that there are some plans and what we have executed and we have seen the challenging time, would you be able to share what are the hits and misses, particularly from the Glaxo portfolio?

Sanjiv Mehta ***Hindustan Unilever Limited***
See, if you look at the GSK portfolio that we have got, one is within that the HFD portfolio and then there is the biscuits etc. Now biscuits etc, we are still trying to put our arms around what do we do with that in the long term. How do we make it into something which is much more nourishing, which is complementing our thrust on providing nutrients, minerals and vitamins to the consumers. So that still we are grappling with it. It had a big spike last year same period, but this year, of course, it has come down significantly. So that, I would say, is still a work in progress and we have to determine strategically and from an innovation perspective, what do we do.

The other big plus, I would say is, what we are crafting is the high science portfolio which we are bringing it all under an umbrella of plus, which would be for women, which would be for lactating mothers or which would be for people having osteoporosis, those kind of things. That is the high science one, which I would say there would be a lot of thrust in the days to come, the full range.

Then there is long-term investment which is market development. And if you would recall, the penetration of HFD in India is in 25%-26% range as opposed to skin cleansing category or tea category or laundry category which is near universal in the country. So, there is a headroom to grow. And again, the strong pockets of business for us are east and south of India.

So for us, we have to do many things. One is geographical expansion, which we have started doing, like we have rolled out Boost nationally. The second bit is how do we drive penetration like the way we have created categories in shampoos or in conditioners now we are doing. So, with a similar thrust, we want to make it more accessible, but with the same nutrients that a person who would buy a jar gets it. And that is where our thrust is coming in from a perspective of going in for sachet or going in for flexible packs to make it much more cheaper and accessible.

Now market development, you don't get the results immediately. That takes some time, but we are committed to the investment because that is what will give us growth in the long term. And as far as margins are concerned, you have seen it. I think we've moved with speed. We are running ahead of plan, and that also then gives us the fire power to invest behind market development.

Shirish Pardeshi ***Centrum Broking Limited***
Got it. Just one follow-up on this. If you look at the market development what you have done over the last 6 months with a more agile speed, would you be able to quantify your reach in terms of when you acquired the business, and now what would be the reach for the HFD portfolio?

Sanjiv Mehta ***Hindustan Unilever Limited***

Sorry, there is one more angle I wanted to cover with you is the sales integration. Now the sales integration is still underway, and the benefit of significant scale-up of outlets we are yet to see. And market development also, while we are placing it, going home to home like we normally do. And just to give you an idea that as a market development process, across different brands putting it together, we cover nearly 100 million touch points every year, more than 100 million. So that has got a bit hampered because of physical constraints. But as soon as things open up, we will recommence. And we had already started this until you get pulled back because of the second wave. But as soon as this settles down, we'll recommence. So, market development takes place, you have to reach, you first seed it, before it reaches a point of inflection. So too early to give those numbers today as to how much is it resulting in conversion, how much is repeat by, it's still too early to do that.

Shirish Pardeshi ***Centrum Broking Limited***

Okay. My second question on the inflationary part. That's for Srinivas. Would you be able to quantify what is the inflation basket in terms of overall cost inflation we have seen at this time? And how much price increases we would need to take to mitigate that cost?

Srinivas Phatak ***Hindustan Unilever Limited***
Look, Shirish, I'm not quantifying in each of the categories and at an absolute number because it is too granular, we don't do that. I have given you a clear indication from, let's say, cleansing perspective, I think that's a good number. I think I've given you the inflation, I've talked about what one needs to price for cost and margin, and I've also explained to you where we are and our approach to it. I think that's a good way to look at it.

From a tea point of view, I think it will be fair to say that, look, now we have got a few months away from the new crop. So, whatever we are priced in, I think we need to take up prices, I think you need to wait and watch and really start to put our head around what will be the new crop, which will come and the crop will come in about a few months' time.

Crude is a moving picture. So let's see how that evolves. We've started to see $5-$6 moves continuously. But if it starts to sit around $65 odd, then there is more pricing coming through. But at this stage, we're not quantifying in the other categories and an aggregate in terms of rupees crores.

Shirish Pardeshi *Centrum Broking Limited*
But would you be able to quantify how much price increases as the company overall portfolio?

Srinivas Phatak *Hindustan Unilever Limited*
We can do all of that, but we're not doing that right now because I think the focus right now is not to price up for margins where we are, Shirish. As I've said right now, given the state of the economy and the condition, it's important to continue to get your supplies, important to get your volumes and protect your margins in a healthy range. Therefore, our focus for now will be maintaining a healthy range rather than trying to price up for margins given the inflation.

Shirish Pardeshi *Centrum Broking Limited*
Srini, all the best to your future assignments. We will miss you.

Operator
The next question is from the line of Varun Singh from IDBI Capital.

Varun Singh *IDBI Capital Markets & Securities Ltd.*
Just 2 questions. One is I just wanted to understand your view on de-premiumization. So I mean if we look at the regions or geographies wherein lockdown has been imposed. So these are also regions where we kind of post more of our premium products. For example, these would be regions wherein more number of washing machines, etc. would be used. So of course, your execution has been done extremely, extremely well, but there has been absence of personal income, especially people who are self-employed. And therefore, how do you look at these de-premiumization trend to be impacting the business as well as margin, sir, at least for next couple of quarters, 1 or 2 quarters?

Sanjiv Mehta *Hindustan Unilever Limited*
Yes. Thank you for that question. Let me explain a bit of when we talk of premiumization today in India, what is it. Yes, we talk about premiumization as products which are sold at an average index of 120 and

above. This is not masstige or not prestige products, so this is a higher order benefit. That's what we look at. And generally in India, the higher order benefit products are consumed by consumers of higher living standards, who are more insulated from the vagaries that impact a common man in India. So that's the reason they remain pretty resilient, so long as the supply chain and the distribution works. And that's been also very clearly what we have seen. That's been the picture. So it's not that the relative premium brands have stopped selling. No, that's not been the case. But yes, when you see the bulk of the consumers in India who are at mid- to lower tier, they try to go for more value when the times are tough, and that may happen. But I think if the second wave does not spread deep into rural, then the rural consumption story with the resurgence for reasons that we know have been strong should continue this year also.

Varun Singh *IDBI Capital Markets & Securities Ltd.*

Yes, sir, absolutely, sir. And just last question, sir, just wanted to understand brand positioning regarding Domex brand. So I have observed, we have a lot of advertisement which says don't just clean but disinfect, and we are promoting Domex as a brand for surface that is infected. But don't you think that Domex is a brand which stood for toilet cleaning and now we are kind of pushing this product for cleaning high prestige areas, kind of living room or other places. So a brand which stands for a toilet cleaning, I mean don't you think this is a classic case of violation of so-called off-line extension in marketing? I mean how should we I mean just curious to understand your views around this.

Sanjiv Mehta *Hindustan Unilever Limited*

See, Domex is one of the biggest brands in the world, and it has very strong market positions in several countries. And yes, is what we are looking at, not to restrict it to just the toilet cleaning, but we are also looking at it cleaning other surfaces. And it has a very strong proposition of germ and virus kill, and that is what we are looking at to harness during this period, and that is how we have also been trying to make the brand come alive. The work that we have done in various railway stations in India is towards killing the virus, and that's how you strengthen the proposition of the brand through this kind of activation. So yes, it is never easy to build a brand or extend a brand. But if you were to ask me with its strong functionality, is this a brand which can go beyond toilet? I believe it can do so.

Srinivas Phatak *Hindustan Unilever Limited*

Sanjiv, if it's okay with you, Sanjiv and Amit, I'll now take some of the questions which are on the web, conscious of time, so that we want to get the call done at 7:00.

The first question has come from [Saithina Chaudhry] from [Kredent Info Edge]. The question is, what is the contribution of GSK CH to top line and margins? How much contribution from Chemist channel and going forward is the management contemplating to increase the share in Chemist or any near-term CapEx or acquisition?

I think, you can see from our reported numbers, we have said that the total reported growth is 34%, whereas we said, excluding the impact of M&A, which is predominantly GSK and a little bit of VWash, it's 21. So if you look at the numbers, you will be able to actually calculate what is the GSK contribution to top line. And it was also published company, you also had that information. If you go back to some of our previous investor presentations, we've given you the annual numbers.

From a margin perspective, we are not specifically calling out the impact of GSK CH, but you can do some math. What we've said on a like-for-like basis, margins have expanded, and they've gone up by 370 basis points. Clearly, nutrition is margin accretive to us at a bottom line level.

On the Chemist channel question, we've had a conversation and Sanjiv has answered that. How we are looking at the chemist channel and how we are approaching it with the complementarity of the portfolio. I think that covers your question adequately.

Your question on CapEx and acquisition. Look, we continue to invest in terms of what's really required. We continue to be open to M&A, but that's not something that we will discuss in an investor call. At the right target and the right price and the right timing, we will talk about it.

The next question is from Akash from a company called JCB. I think it's a question where they're saying about the crude chart and the indexation. I think Akash, I will request you to get in touch with our Investor Relations team. It's really what you take as a base and how you index that really changes. I think the periods have been changed to make it more contemporary. But our IR team will be more than happy to clarify that for you.

The third question is coming from Rakesh Roy from IndSec Securities and Finance. The question one was on how was the rural and urban growth during the quarter? And can you share the rural urban volume in Q4 and for the full year? We are happy to talk about the market trends with respect to rural and urban growth targets. We don't step out our performance in that granularity. Rural has been growing well. Rural has grown in double digits even in March quarter, continuing the trend of December. Urban, we did see that had come into positive territory, up into low single digit, low to mid-single digit, whereas the December quarter, it was much lower. So I think that starts to give you a directional shift what happened in the quarter. Obviously, we'll have to see what comes next with the pandemic really moving at the pace that it is.

There are some questions from Arth Bhatia at Arth Bhatia is an Individual. Arth, we basically focus these calls for institutional investors. I do encourage you to please reach out to our Investor Relations team if you have any questions, and they'll do their best to answer your questions.

The next question is from Sanjay Singh from PineBridge Investments. I think -- I think Sanjay has got some good suggestions for us. He says we are very confident that the company is doing best-in-class work on the environmental front. However, he feels that there is improvement for our data disclosure.

And he has also gone on to give certain suggestions such as SFDR norms coming into force in European Union, etc.

Sanjiv, do you want to give a bit of a flavor on our commitments, whether it's climate or social? And obviously, the disclosures will come through in due course.

Sanjiv Mehta *Hindustan Unilever Limited*

Yes, certainly. As Unilever, we have made some very aggressive agenda around what are commitments that we have done, and we have done it in the new, what we call as the compass. And the commitments that we have done are zero emissions in operations by 2030, then it is net zero emissions in our value chain by 2039. Then the third big commitment we have done is replace fossil fuel derived carbon with renewable or recycled carbon in all our cleaning and laundry products by 2030. Then we have also made some bold commitment in plastic, halving our virgin plastic footprint by 2025, help collect and process more plastic packaging waste than we use in packaging our finished products, and very importantly, ensuring that 100% of our plastic is reusable, recyclable or compostable by 2025. So these are on the environment side. We have very clear commitments, and we are progressing as Unilever reasonably well.

And as the largest volume-based company of Unilever, for Unilever to deliver, India has to deliver. So in India, we are very committed to all these targets that we have taken. The other ones are big commitments we have done on the social side, yes. What we are talking about is no longer in all our entire ecosystem, not just paying minimum wages, but paying living wages. That's a big one we are talking about. Then the other big we are saying is that we will reskill with employable skills and provide skill to 10 million youth, and a large number of them we'll focus on in India. And in India, we are very clear that we have created a water potential in the last 8 years of 1.3 trillion liters, working in thousands of villages. And by 2025, we'll add another 1 trillion liters to this.

So very clear commitments that we have made. And at some stage, when we have the next investor conference, we will share that with you in much more detail. Is that fair, Srini?

Srinivas Phatak *Hindustan Unilever Limited*

Yes, absolutely. Thank you for response on the actions and we'll definitely start to publish more information and data, investor conference and an ongoing basis in light of commitments that we have made.

Very quickly, I'll just take the last couple of questions. Latika, you had a question on the e-commerce channel. Broadly, it's in the range of between 5% to 6% for us in terms of our contribution. And the profitability of this channel continues to be high. E-commerce is the highest profitable one, more profitable than modern trade and which in turn is also more profitable than our general trade. On Shikhar, I think we briefly touched upon it. We talked about there's a large footprint. We also talked about the numerical stores. And I also called out that it's important to talk about adoption. We have started to see that where we have gone in early with these sources, we have started to see good adoption that means people are ordering more than 4x or 5x and 6x and 8x in a month. I think for 4x is actually a good cutoff, and we are monitoring that closely. We do believe that there's going to be a dramatic shift over the next few months, and we could talk about this in future. I think overall, the complementarity works well for us, and that's the important piece. And intuitively, you see that when people start to order through the app, and if done well, you also start to see better assortment, and that helps from a growth perspective and a mix perspective.

I'm just trying to see if there's anything else which is important here. We've spoken about the nutrition, there are a couple of questions. We have spoken about nutrition. We have spoken about SAP implementation. And I'm picking up a question from Nomura from Mihir.

We've also talked about the CD systems, which will go live in the next few months, 3 to 4 to 5 months. A combination of that is when we really start to enable us to unlock the full capacity, which is -- or the full potential, which is coming through from a point of view of our go to market.

And maybe I'll take the last question here, and I'm sorry, we'll not be able to do justice to all. The last question here is from Binoy Jariwala from Sunidhi Securities. There's a question about we had taken -- we have put up a subsidiary with an authorized capital of 20 billion, what is the status? I think the company has been incorporated as Unilever India Limited. We are investing significant capital into it, and we are actually putting up a new blown powder plant, which is coming under this subsidiary, which actually will be very, very relevant for us because today, we are actually having to import blown powder given the demand. So that's one of the big CapEx which is getting housed in this company, and the project is progressing well.

Broadly, that brings -- I know there are a few questions, but that broadly brings the call to a close for us. Before I hand it back to Amit, I think I want to thank Amit for the stellar job that he's done in the company across various roles. He's been a quality talent for us in finance. I thoroughly enjoyed working with him in the past couple of years, and I wish him the very best. And I also wish Ritesh the very best as he steps into this role, and he makes it his own from the first of May.

Last one, I want to thank all of you. I think I continue to say that you are our partners. You gave us a lot of external perspective, you support us, you challenge us, all of which gets us to be in a better place. So I want to thank all of you and wish you the best. Please be safe. Take care. Wash your hands, use any soap. I don't mind if you do use Lifebuoy.

On that count, over to you, Amit. Thank you.

Amit Sood *Hindustan Unilever Limited*

Thank you, Srini. With that, we have now come to the end of the Q&A section. Before we end, let me remind you again, the transcript of this event will be available on our Investor Relations website in a short while. You can go back and refer to it. Copy of the results and presentation, if not with you, is already on the website, and you can go back and refer to that as well.

Before we conclude, I would like to extend a very warm welcome to Ravi, who takes over from me as the Group Financial Controller and Head of Investor Relations at HUL. I would like to thank Sanjiv and Srini for their guidance support all along.

Lastly, I would also like to thank all of you on the call today. I have thoroughly enjoyed interacting with you.

With that, we would like to draw this call to a close. Stay safe. Stay well. Thank you.

Operator

Thank you very much. On behalf of Hindustan Unilever Limited, that concludes this conference. Thank you all for joining. You may now disconnect your lines.

Disclaimer: This transcript has been edited to remove and / or correct any grammatical inaccuracies or inconsistencies of English language that might have occurred inadvertently while speaking.