September Quarter 2016 Earnings Call of

Hindustan Unilever Limited

26th October 2016

Speakers:

Mr. Sanjiv Mehta, CEO and Managing Director

Mr. P.B. Balaji, CFO and Executive Director, Finance and IT

Mr. Aasif Malbari, Group Finance Controller and Head of Investor Relations

Moderator

Good evening, ladies and gentlemen. I am Mahima, the moderator for this conference. Welcome to the Hindustan Unilever Limited September Quarter Earnings Call. For the duration of the presentation all participant lines will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted for all the participants on this call. I now hand over the call to Mr. Aasif Malbari. Thank you, and over to you Sir.

Aasif Malbari

Good evening and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening results for the quarter and half year ended 30th of September, 2016. On the call from the HUL end is Mr. Sanjiv Mehta, CEO and Managing Director and Mr. P. B. Balaji, CFO. As is customary, we will start the presentation with Balaji sharing aspects of our performance for the quarter, and then hand over to Sanjiv for him to share his perspectives on the business performance. 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. With that, over to you Balaji.

P. B. Balaji

Thank you Aasif. Good evening all of you. I know it's been a busy day for all of you but thanks for taking the time to attend this briefing session. Before I get started on the entire presentation, I just wanted to share with you two or three things which we believe are important. One is, you would have noticed that this time we put our results out after market hours and that was based on exclusive feedback that we received from all of you post our investor day where there was a consistent feedback saying that it was better from your point of view that the results come in later, so we have honored that. We also asked a lot of you questions what would you prefer, whenever you ask for what are the analyst expectations, immediately we are getting back EBITDA. So we said let's take a pause and ask for that question and again, the new feedback being that we prefer EBITDA. And lastly of course for the choice between standalone and consolidated, where a lot of you came back saying since bulk of our business is HUL, you prefer standalone on that. So therefore that is what we have now acknowledged and on that basis you will find us moving our announcements post market hours as well as coverage around your data.

Coming to the traditional part of the presentation, there is no change, that's the good news here- clear and compelling strategy. Let me take a minute to just cover the quarter in summary. You would recollect last time in our outlook we talked about concerns on the near term and unfortunately those concerns have played out and therefore we faced a pretty challenging business environment this quarter as well and market growth continued to be soft. Input costs inflated further and in this context the profitable growth was sustained in a challenging market, that's been our performance for this quarter in summary.

To peel this a little bit more, the domestic consumer business grew 2% with an underlying volume growth of -1%. The price increase in Personal Wash impacted our volumes and on the financial side the EBITDA grew 60 bps at 5% that's 1405 crores. Just for this quarter, to ensure comparatives are in place, EBIT margin improved by 40 bps at 4%. Cost of goods sold just to cue that the inflation has been coming through is turned out to be real and cost of goods sold is higher due to rising input costs by about 10 bps on a year on year basis and about 190 bps over June quarter, a substantial swing in costs that you see here. And in this context, competitive spends have maintained across all segments and we continue to focus on driving cost efficiencies and return on marketing investments, as part of ensuring that we stay competitive and only have to do as judicious a price increase as we can as we need to.

At an overall level PAT (bei) was up 9% at 1082 crores and net profit was up 12% at 1096 crores. There is a clarification that we need to issue in terms of the change in the presentation; this is as per the latest SEBI circular that came out where in line with Ind AS, we now start reporting sales gross of excise and excise moves to costs and just to be sure, this does not swing the EBITDA margin substantially. It's just a +/- 5 bps on either side, but henceforth you will now see us reporting gross of excise sales in line with Ind AS.

Moving to the segments, it has been a mixed performance across segments. In Home care we delivered 4% growth with continued momentum in premium laundry. In Personal care there was a two-fold impact – one was the slowing market which impacted personal care growth as well as the price increases that we talked about earlier in Personal Wash impacted Personal wash volumes. In the case of Refreshments, it was a strong growth led by Tea at 8% and Foods, it was a modest growth in a challenging market.

And in this market condition I think our focus on innovations continued. We are not going to stop on that one and it is a slew of innovations across various categories that you see on the screen there and a lot of you I'm sure will be delighted to note that we now have a Magnum Mini as well that has now landed in the market.

I know the biggest concern would be on Personal Wash, so we said let's take a little bit of time to explain what we are doing there. I'm just taking two brands, just for example reasons. We already covered Lifebuoy in the earlier quarters. One of the biggest brands we have is Lux, which been having a tough time, and we now have a full-fledged launch happening on Lux at a premium end and at the same time we are also now activating Lux with film stars at the Golden Rose Awards which should be happening pretty soon and we hope to see you there.

And on the Dove it is a brand which has been on a roll, we are now expanding the offerings of Dove, so there's now a freshness proposition coming in with Dove Pink as well as a new category has been launched under Dove which is a baby products category. This is again a launch that has happened this quarter and something we are very excited about. So that's one question which I'm sure is there in everybody's minds where even though the volumes are not being in line with what we would like to have, we are not sitting idle there and we are ensuring that we are putting all efforts to get the business back into growth.

As far as building naturals in concerned, again an area where most of you will be curious about and therefore I thought I'll pick it up upfront. We are approaching naturals in three angles – one is within the existing portfolio, for example a product like Fair and Lovely Ayurvedic just to call off one. We will look at existing portfolio and have Naturals offering right across the portfolio; that was one. And we are also now extending to new geographies with a brand like Indulekha, where we now got into 4 more markets because we like what we see. Therefore accelerating the role-out of Indulekha well ahead of the business case that we had. And we are on course to building a master brand on Ayush and I'd only say watch this space. Some exciting happenings there as well.

Moving on to Home Care, we've had a robust growth with continued momentum on premium laundry. Surf, our largest brand continues to maintain a very strong growth momentum and all of it is volume-led which is really exciting. I am pleased with the premiumisation agenda which we talked to you about in our analyst meet, and that continues to do exceedingly well. In Household care, Vim liquid does well on back of sustained market development. For Water, all the strategic interventions that we talked earlier are working well and we are seeing strong growth on RO-UV devices which the same strategy we had called out.

Moving to Personal care – I'd said earlier, growth has been impacted by slowing markets and Personal Wash volumes. Moving on, Skin care – the growth has been driven by BB & CC creams, the premium end of it. And in Hair, Dove and TREsemme continued to sustain robust growth. And Indulekha doing exceedingly well and extending to 4 new states as I said earlier. On Oral care – it has been a subdued performance, but the good news is that Pepsodent has now started to recover post its re-launch and we are therefore getting quite confident about the brand and how it is shaping up. Colour cosmetics, I think broad based innovation led growth is what we've seen for many many quarters and continues here in this quarter as well. And in Deodorants, Axe Signature continues to gain ground.

On the Refreshment category, Tea has been a stand-out category for us. It's been a broad based growth across brands with green tea and natural care sustaining their growth momentum. And in Coffee, Bru Gold continues to lead category premiumisation. Ice cream and frozen desserts, we are excited to see the launch of Magnum Minis which was introduced during this quarter. Moving on to foods, it has been a modest growth, I'm afraid to say in a challenging market. While we continued to focus on market development, the softening of the market did impact this category a bit. And Kissan with its premium range of Jams has been gaining traction with the consumers. And Knorr, the growth was driven by Instant Soups.

So to summarize the results for the quarter, you would notice the sales of 1.5% which translates to a domestic consumer growth of 2%. EBITDA at 5% growth and PAT (bei) at 9% and net profit at 12%. That's the broad space. Just to peel off a little bit, the exceptional items that you see there, compared to last year which was a cost, is the credit this time and that's coming out of the sales of the rice business as well as other income where there is financial income coming from dividend from subsidiaries. It has been a swing this quarter.

So to summarize the first half, it has been a 3% growth for the first half with EBITDA margins improving again and overall EBITDA growth of 6.7 % and a net profit of about 11%. So, a strong profitable growth continues even in the first half.

Interim dividend: the Board of Directors has recommended an interim dividend of Rs. 7 per share, an increase of 50 paisa over last year and this is in line with the previous years' increases as well.

Looking ahead, probably the most important charts, if you guys are keen about is what do we see. As far as the near term outlook is concerned, we see a gradual improvement which we expect in the market growth based on primarily on the good monsoon that we had and therefore sales growth will be positively impacted by recovery in these markets. There is also a rising trend in input costs that we see and therefore that will likely lead to a rebalance in the Price- Volume equation dynamics. As far as the strategy is concerned, that remains unchanged. We will continue to focus on volume growth and an improvement in operating margin and therefore our Consistent, Competitive, Profitable, Responsible, i.e. the 4G growth agenda is unchanged. With this, let me hand you over to Sanjiv for his perspectives on how he sees the results for the quarter.

Sanjiv Mehta

Thanks Balaji, Good evening everyone, thank you for joining us. We're into the festive season so I take this opportunity to wish all of you a very Happy Diwali. And of course, to all of you guys in the call, thank you for being there despite the excitement in the city. I know you guys want to hear me speak on our performance but let me start with the overall market scenario during the quarter gone by and as we had mentioned to you in the last quarter as well, market growth has remained slow over the past several quarters in both value and volume terms. However, we do expect conditions to improve over the next couple of quarters at the back of a good monsoon. We're already seeing this playing out in the consumer durables and automotive industry and we expect to see a revival in our markets as well as the coming days.

Talking about our performance, our domestic consumer business delivered 2% growth for the quarter. Let me be clear, that from a top line perspective this is below our expectations and I will give you my perspectives on it. I must highlight that we have been delivering consistently on our profitability improvement plans, quarter after quarter. While the levers of margin improvement will change with the revised commodity outlook, we are confident of maintaining our commitment to modest improvement in operating margin, while ensuring that we invest behind the brands competitively and keep winning in the market. Also you will be happy to know that we have recently concluded an extensive review of the business under our zero based budgeting project or ZBB as we call it popularly, and I've some exciting plans to drive more operating efficiencies in the future.

Now moving onto the segment-wise performance, it has been a mixed performance across the various categories we play in. As far as Home care is concerned, the business has been in good shape. We have delivered yet another quarter of resilient growth as we continue to premiumise the market and I'm extremely pleased by the progress this category has been making over the last several quarters. In Refreshments, we've had another strong quarter. Our performance has been broad based, volumes have been strong, and brands even more salient as we make investments behind them. The winning in many India strategy has been working wonderfully well for the category which truly witnesses different consumer pallets in different parts of the country. As for Foods, we continue to grow our soups, jams and ketchups albeit a level lower than what we've been seeing in the past. However we continue to remain focused on growing this business and as the markets start to turn, we should see this category bounce back from the continued market development efforts that we have been investing in.

Let me now turn to one aspect of our performance which we are not happy about – the Personal care growth. Balaji spoke about the fact that this segment clocked -1% this quarter. You would recollect in our July briefing, we had raised concerns on near term growth and particularly the volume growth. We've been talking of our markets slowing down which continues to be the case in this quarter also. Additionally, another key factor leading to this disappointing performance has been the significant inflation in the input costs for Personal Wash. As the deflationary trend in commodity costs ends and input costs go up significantly, we have reduced the promotions in the category. Also whenever there is a turn in the input costs cycle, things do take time to get back to normal. Though this re-balancing in the price-volume equation has impacted our performance in the short term, we do expect things to start improving in the coming quarters.

Having spoken to you on the Personal Wash part of the portfolio, let me speak to you on the Personal Products portfolio. Hair care, I'm very happy with the progress that this category has been making for the last many quarters. This quarter was also good and the premium brands Dove and TREsemme continued to lead the way for the category. We have remained ahead of the curve and recently launched the beautiful variant under TREsemme which works on a unique reverse conditioning technology. This has been another step towards the endeavor to continuously work towards the truly understanding consumer needs and launching products most relevant to them.

Coming to Skin care, it has been business as usual as we continue to invest behind our brands and we further keep strengthening our expertise in beauty. Oral care has remained a challenge but the heartening news is that Pepsodent has started to pick up and we are hopeful that the brand will get back to the same momentum that it had been growing like it did in the past. We're committed, the team is committed, and I think the steps on this brand are in the right direction.

Talking about the colour cosmetics business under Lakme, again the business has been doing well as we continue to contemporize and premiumise the portfolio. The results are visible in the market. This category in many ways reflects our commitment to invest in categories which we believe have the potential to grow much larger than the consumers evolve.

We are also happy with the innovation that has taken place in the quarter. Baby Dove, as all of you are aware of, we have launched it and we are very pleased with the initial progress that we have made in Dove. The other bit has been what Balaji alluded to is the Magnum Minis. Magnum I think has been from our perspective a good success and bringing in Minis at the right time after we have strengthened the brand will make it much more accessible and to those of you who have been shying away from Magnum because of the calorie content, you can now start indulging in it.

As far as the results for the quarter are concerned, we have delivered a performance lower than what we ourselves expect but we have to be cognizant of the challenging market conditions we're playing in and we will find ways and means to tide over it and come out stronger. We believe that the worst is behind us and expect a gradual improvement in the markets in the near term and we remain very positive about the medium to long term prospects for our industry. Do recognize that this is not the first time that we've seen challenges in the environment but I know our team, we have the ability to continue to deliver on our 4G growth agenda.

I’ve said this number of times and would want to reiterate here that we do not run the business for a quarter. We remain strongly committed to investing competitively and doing what is right for the long term growth of our business. Also, recognizing the world is going to remain uncertain, we continue to make our business more agile and resilient so that it adapts quickly to the changing world. We are and we remain committed to winning. With this let me hand it back to Aasif. Thank you for being here and look forward to engaging with you.

Aasif Malbari

Thanks Sanjiv. Thanks Balaji. With this we will move to the Q&A session. So that it doesn’t get really late, I think we’ll try to limit it to 60mins so we can bring this to a close by around 7:30 India time. Can I request participants who want to ask the questions to keep the questions tight so that we can accommodate as many questions over the next one hour. In addition to the audio option, as always our participants have an option to post questions through the web option on your screen. We encourage you to do that and we will take all those questions before we end. Before we get started with the session, I would like to remind you that the call and the Q&A session is only for institutional investors and analysts. And therefore if there is anyone else who is not an investor or an analyst but would like to ask us a question or engage with us, please feel free to reach out to us at the Investor Relations team. With that I will hand over the call to Mahima to manage the next session for us. Mahima, please go ahead.

Moderator

First question comes from Mr. Manoj Menon from Deutsche Bank. Mr. Menon, you may speak now.

Manoj Menon

Hi team, a very Happy Diwali to all of you. Just a couple of questions. One, on the Personal Wash performance, I’m not sure if you alluded to this point, are we seeing a significant adverse price elasticity in the market at this point in time in the category?

Answer

The answer to that is no. I think there are pipeline issues that happen when there are changes in pricing and you would notice that Sanjiv did allude to it that in the early part of the quarter is when we saw the pressure coming through here and therefore it is not so much of price elasticity. The way price elasticities work is when relative prices change in the market, and with an inflating environment, you would expect to see all players getting back to their normative price levels. And therefore, one should not expect to see a price elasticity issue because of this. But having said that, a moderation in volumes is something that is expected in the short term and this starts as the prices work through the entire system.

Also we have to accept that as a market leader, we took the lead in price increase- just like when the commodity price had softened, we had taken the lead in bringing down the prices.

Manoj Menon

Understood. The context in which I was asking this was we have had a similar experience with let's say under a company Marico, in Parachute a price increase in July was met with a significant change in trajectory for volumes. Otherwise something which is growing at 8% and then suddenly went down to low single digit. So the question was essentially that is this transition going to be more rocky across categories because given the input costs inflation was probably being witnessed currently, it's just a matter of time in which Home care will have to go through this pipeline once again?

Answer

One thing Manoj is that the price change in the vegetable oils has been rather dramatic. So the extent of change in this category for the input prices has been much more severe. The other is which I think I should take the pains to explain, is that when we look at the volume growth, in skin cleansing you have price points. And you don't reduce the price, you increase the grammage. You reduce the grammage when you take the price increase and so the number of tablets often does not change. But the volume growth does get computed the way it does, because you've shaved off the absolute volume and that is the reason it changes. So it doesn't necessarily result in, in the short term, consumers getting away from your franchise.

Manoj Menon

Understood. I'll probably take this offline. The second question here is I'm referring to the slide 26 in the presentation, the couple of lines which talks about a likely recovery. Is it more of a macro comment here or something micro specific to HUL also in-built into that thought process of those two lines there?

Answer

You can notice it's more of an outlook slide Manoj, two comments are there in that. The first one refers to the market where we are specifically calling out that we expect a gradual recovery in our markets on the basis of a good monsoon. The second comment is more attributed to us where we say that sales growth will be positively impacted by the recovery. So there are two exclusive comments we are making there.

Manoj Menon

Thank you thank you so much I'll come back in the queue.

Moderator

Thank you very much Sir. Next question comes from Mr. Percy Panthaki from India Infoline.

Percy Panthaki

Wanted to understand your volumes a little better. See in the first quarter you reported a 4% volume growth and in the second you're now -1. Even if I adjust for one-off in the base that we had in Q2 FY 16, it will be -0.5, so that's a 4.5% point swing between Q1 and Q2 and you've mainly called out soaps as the reason, which is 20-25% of your sales. So has the soap volume growth actually swung by 18-20% kind of a number between Q1 and Q2?

Answer

If you notice that we've actually called out two things. One is market; the other is Personal Wash pricing. Both are there in the equation there. So we do see the volumes in the market as far as second quarter is concerned, to have got impacted. And the second is the pricing in the Personal Wash. Two factors are there.

Percy Panthaki

I see, so Q2 volumes across the board also are slightly lower than Q1 volumes. Is that understanding correct not just for soaps but across the board?

Answer

Yes, that is right. Just to give you an example there, take a look at laundry, total growth is at 4% which also means that there is an overall market number which is what my first slide calls out in terms of continued softness in the market. And we did call it out in the July outlook as well saying that we are concerned about volumes in the near term. So three things are triangulating if you know what I mean.

Percy Panthaki

Right Sir. In this context just wanted to know that since your Palm Oil has inflated really sharply and you're still taking price increases, I mean is there going to be a period of a few quarters in the interim where your gross margins might actually be sort of impacted to the extent that the price increases you take might not fully offset the cost increase or you are confident of actually taking a price increase which would off-set the cost increase?

Answer

I think this is a question you come at me from multiple directions. So, we hold ourselves accountable for delivering EBITDA margins. And we will play all lines to the P&L. and that's what we have consistently demonstrated for now 20 + quarters in a row, so we've seen the up-cycle inflation, we've seen the down-cycle multiple times, and we believe we have an operating model that is able to tweak the various drivers for the P&L and we deliver modest improvements in operating margins on a consistent basis. So that's what we would like to believe and you should hold us to account on that one. And therefore that's how we would like to play it Percy.

Percy Panthaki

Understood. And my last question is on tax rate, given the Assam factory now is almost very likely to come up by March. Would you be able to give us what to build in as a tax rate for FY 18 and FY 19?

Answer

We will definitely at an appropriate time will come back to you Percy and we will take you through the numbers. Just multiple moving parts in that, I don't want to give a number which we will not be holding ourselves accountable to. So therefore just give us some time, we'll definitely come back to you.

Moderator

Thank you very much Sir. Next question comes from Mr. Abneesh Roy from Edelweiss.

Abneesh Roy

Sir my first question is on Foods. We're seeing two quarters of low single digit numbers and further slowdown versus previous quarters of 4.7% growth, only 2% growth. You had said Jam slowdown was a one-off so if you could comment in terms of market share in different food brands, have you lost some market share?

Answer

No I think Jam, in fact talking specifically of me, we've gained market share. Markets after the bread scare has still not come back to the growth rates what we used to see in the past. But I would believe it should start to normalize. And we also launched the premium Jams, for which the initial reaction has been pretty good in the market. I think where the growth rate slowed down where the biggest impact to us was on the popular food side, which is our salt business and the Annapurna Atta brand, and salt was impacted essentially in the month of July to a large extent by the heavy rains and floods which took place in many parts of the country and overall that took the quarter down.

Abneesh Roy

So when do you see the growth coming back obviously flood issue was there and previous quarter the jam, bread issue was there, so but still you were growing at 10%.

Answer

The overall market itself, if you look at these categories which we have are Ketchup, Jam and Soups- they have slowed down. Again like even in the HPC categories compared to that, they have also slowed down. But we still believe that Knorr and Kissan brands; they are doing very well and it should not take long I would believe for the business to start coming back to the kind of growth we have seen in the last 3 years in Foods.

Abneesh Roy

Sir why I'm asking this is your premium laundry is going faster, modern trade for most companies is doing better than general trade. So, in that context is premium products doing better and modern trade is doing better.

Answer

Yes Abneesh, but if you really look at the total market, modern trade is still a very small part of the business and the total market. If you look at it, value growth has been in the range of 2-3%. So it has not picked up but we believe now with sentiments around monsoon, there should be much more confidence in spending and if the rural wages go up and hopefully the increase in volume of food grains should also get translated into more money in the hands of farmers, their MSP should remain firm, if not get better. Then it should start getting into the virtuous of spiral growth for FMCG.

Abneesh Roy

Sir, the second question is promotions- if you see in soaps came down drastically for you and the industry. One more company which came out with the results today; they said that almost 50-60% of their portfolio has promotions currently. So, are we seeing that the consumer is now buying only if there is some promotion that's why it's become extremely dangerous to cut back promotion?

Answer

Abneesh, I think these are temporary situations, depends on what the price situation in the market is. Promotion is a way of managing the price transmission to the consumer and everything normalizes in terms of how things would work from here onwards. So therefore when input costs goes up, then you start making choices- what is the right way actually, what are the right investments to make, is it on A&P, is it on TTS, is it on price, that's how each category will take its own call depending on what is best for the category from a volume elasticity point of view. And I don't see if it's fair to generalize this point, if you know what I mean.

Abneesh Roy

Sir, one small one on Magnum, earlier price was Rs 85 then it became Rs 75 and now Mini. Ofcourse the grammage is lower but is there some issue in terms of pricing a Magnum? It's a great product but clearly there are similar looking products at least at Rs 35-45 also, so is pricing an issue in Magnum?

Answer

No, see this was a very conscious strategy we have. When we brought in, we wanted it to be really made aspirational. We want early people to adopt it and once we saw the traction behind it, then we want to widen the base and that's when we lowered the price. Once we got the initial penetration in, then we said it's the time for us to get the mini. People who have tasted it but feel that maybe it's a bit expensive and for a household of 5, it indeed does get expensive. So that's the reason we have brought in Minis with multi pack. So it has been a very conscious strategy on that.

Abneesh Roy

So Mini multi pack, is that the only option currently, is there any plan to offer even one if someone wants, just one piece?

Answer

Our first idea is to get the Mini packs, we'll see how the response has been before we look at bringing in single to Minis.

Moderator

Thank you very much sir, next question comes from Mr. Arnab Mitra, from Credit Suisse.

Arnab Mitra

Hi, thanks for taking my question, so firstly you called out two things- one was Personal Wash issue and secondly the overall market. So on the Personal Wash issue, this adjustment period in your past experience, is it a few months kind of a situation or does it take a few quarters for the adjustment of the credit channels plus consumer, where the normalcy comes back into the market when promotions are taken off. And secondly, on the overall market growth recovery, that you've called out for that you're hoping for, is it still largely dependent on hope that logically monsoons are good, so there should be a pick up or have you actually seen something in the trends during the quarter or in October which makes you slightly more confident that a pick up might actually happen?

Answer

Arnab, as far as the second question is concerned, I think what we did see as far as our performance, how we saw the performance I think the toughest month for the market we thought was more like June-July this year and then thereafter, August-September things have started turning and that seems to be a common commentary from a lot of other players in the market as well, what we read in the papers. So I think from that perspective we seem to be in sync with that and hence I won't call this hope, as you have used the word hope and specifically calling it as expected. Gradual improvement expected in market growth is what we have called out so we believe that that's the space we are in.

Arnab Mitra

And on the Personal Wash adjustment period that I wanted to check, whether you think it's a few months or it takes much longer than that?

Answer

I think we should start seeing the turnaround from now onwards. How fast will it bounce back also depends on what are the levels to which the market grows at an overall level. Because we shouldn't forget that the overall market growths are on multi-year lows and therefore that also needs to play in the factor. I think what we can definitely see is that competitive volume growth is something we should start coming back to sooner rather than later but where does it go from there also depends on where the market actually goes to as well and also what happens to the commodity drivers.

Arnab Mitra

Sure, and just one question that you know from the financial numbers that you reported, if I add the segmental EBITs of the 5 segments, the total sum growth is about 9% but at a company level it's about a 4% or 5 % on EBIT or EBITDA. I've seen historically these numbers are pretty close to each other so any reason why there's such a big gap this time?

Answer

Sure, so I think one thing which happens here is that some elements which are in the exceptional lines go on into the segmental results. So the segmental margin don't really reflect EBIT but they reflect elements of exceptional income and exceptional cost also. So when you have some prior-period costs in the base year and in this year, they get impacted there.

Arnab Mitra

Sure. Thanks and just one last small question on tax rate. This quarter's tax rate is slightly lower at around 30.5%. So is this year's tax rate still going to be around 31.5% or does that guidance hold?

Answer

I think what you should expect is a marginally lower tax rate compared to what we had last year. I think that's something which is fair. Typically for tax, you calculate for the full year and work backwards to do the phasing. So therefore you're right in saying that it is likely to be marginally lower than last year. But ya, but that's for me it's more about; for example – what's our productivity plan that we've done in some of our residual fiscal factories that's what is leading to this number.

Moderator

Thank you very much sir, next question comes from Mr. Vivek Maheshwari, from CLSA.

Vivek Maheshwari

Hi, good evening. Couple of questions; first on A&P spends which are down 8% YOY, sorry I missed if you would have mentioned anything on the presentation slide, but what exactly would be the reason? Is it that essentially demand is soft and no point in investing as much behind advertising specifically and do it via promotions?

Answer

We did call out that competitive spends have been maintained Vivek and the way this works out is when you do see inflationary times, the media heat does come off, and you notice some of the results that have come out today also called it out saying that the overall we do see a softening of the media spends in the market. Also an A&P has got two elements – an A element and the P element. And the P element is something obviously we will be rationalizing as input costs keep coming up and that's what the first one that you should see. Second; you should see also is media heat coming off and third; of course is innovation intensity in a particular quarter. So directionally, it is fair to expect in a rising commodity environment, A&Ps will get tweaked downwards as the media heat comes off. We are very clear that we will maintain competitive spends. The other piece which Sanjiv alluded to in his speech is on Zero Based Budgeting. We've called it out on the basis of return on market investments in the first slide as well, where we will be looking very very closely as part of our zero based budgeting project on some of the media strategies that we deploy in order to ensure that they are most optimally done for effective deployment and that is something that we have started kicking off and you will see more of it in the coming days.

Vivek Maheshwari

Ok. Second, on the comment about August-September being better than June-July, does that also mean that second quarter will mark the bottom of this in terms of volume growth or this pain of volume decline may continue for some more time?

Answer

I think two elements play here, one is if we're looking at the statement that we have put out, we are exclusively calling out the sales growth which will be positively impacted by recovery markets which is an overall comment that is there. The second dynamic that is playing out is with the rise in input costs, price volume will re-balance. So we need to keep both these in line and where it will finally land up is something we'll have to wait and see. What we are committing to, this is the reason we have called it out explicitly is that our focus will continue to remain on volume growth and improvement in operating margin. But I am in no position to predict which way it will finally fall in a particular quarter, but you should see these two dynamics play out simultaneously along with our strategy of focusing on volume growth. Hope that helps.

Vivek Maheshwari

Sure it does. And lastly one of the competitors mentioned about the industry that monsoon is an important thing but it is just one of the factors; another factor being government side stimulus which can help. Would you also believe in that, given that you're a market leader I just want to ask one important point over here but to begin with would you agree with that comment?

Answer

You know the factors that go into the FMCG are when there is more money in the hands of more people. That's a reality. And more money in the hands of more people comes from various things. When private sector investment goes up, when government investment goes up, when the wages go up, there is more money in the hands of farmers; so all these factors do end in contributing. Our past experience has been that when arrears are rolled out, they go more into things like buying consumer durables, or in getting the house painted, those are the factors which go into. When on a consistent basis your income goes up, it does result in increased consumption of FMCG products.

Vivek Maheshwari

Ok but the point was basically 4-5 years back, the government was giving lot of freebies to rural India, stimuli, etc. if those don't come back then FMCG sector growth rate may not come back in a hurry. Would that factor worry you as well?

Answer

That's not the only factor. You know what really impacted rural growth was a combination of many things. MSP being very low, then the two consecutive years of drought, then the infrastructure spending had come down, the wage growth was not happening, all those factors combined to bring down the growth rate in rural India. So hopefully, and you remember something, if India has to grow, it has to be inclusive growth in the country. Then only India will be able to say that we can sustain our economic growth rate.

Moderator

Thank you very much sir, next question comes from Mr. Amit Sinha, from Macquarie Securities.

Amit Sinha

Thanks Sir for giving the opportunity. Sir my first question is on the Oral care segment. Now in this quarter you have mentioned that the performance was subdued. Given the increasing market share of the natural variant across the category and even the market leader launched their natural variant last quarter. I understand we have a variant in Pepsodent, but is there a broader strategy to solidify the natural segment in this category overall?

Answer

Yes of course, you know the way we have seen it is natural segment has been doing well not only in India but also abroad and we have a very clear play of strengthening our game in natural. And the first forays that we have done, is we've seen strengthening clearly in our existing brand bringing in natural variants. We've done it with Fair & Lovely Ayurvedic, we have brought it back. You're right in Pepsodent. We have more plans for other brands. We have got Indulekha, we have expanded it from 4 states to another 4 states and then we also have more plans. So my only bit to you would be just watch this space and we'll strengthen our play in natural.

Amit Sinha

Sure, Sir my second question is on the Personal Wash again. So you have very specifically mentioned that it was a combination of both market going down and you also not doing specifically well, so have we lost some market share in the second quarter?

Answer:

You know market share you look at it from a volume and value perspective. When you lead the price, there will be moments when your volume share will come down but your value share will remain robust. But you should always look at shares from a long term perspective especially when you're doing the changes or leading the changes. Just to build on it, when the commodity prices went down, we took the same lead in taking down prices and at that time we did run the risk in terms of losing value shares but we have to keep up our consumer franchise. I think it's a question of us being committed to long term growth of the business, that's what we would do all the time.

Amit Sinha

Great Sir last question from my side is on the other income, so it has in this quarter it has gone up significantly can you just broadly give the break up between the subsidiary dividend and the financial income.

Answer

I think the delta increases as you would notice is the subsidiary income. As far as the interest income is concerned, the interest rate has obviously come down and the markets. To that extent, you could see a reduction in the financial income. But as far as the other income, the increase that you see is primarily coming out of subsidiary dividend. Few of it is a phasing issue and there is a better delivery of the business in the UIEL business while the Nepal lever one of our phasing issue from one quarter to another.

Moderator

Thank you very much sir, next question comes from Ms. Latika Chopra from JP Morgan.

Latika Chopra

Hi actually this is just an extension of the previous question but more on a broader portfolio basis. If you could comment on the market share trends over the last six months across your key segments of Laundry, Skin, Hair Care.

Answer

Laundry we've been absolutely pleased with our performance. The very fact that we've been premiumising and growing much ahead of the market- it is one of our very strong periods of performance where we've gained market share and not only gained market share, we've continued to improve our margins in this segment. Hair has been another fantastic story- across the portfolio we've been growing shares and not only growing shares but we have been expanding the market in conditioner, where we dominate the market. Again Skin care – performance has been very good, premium skin care, Lakme, all the new variants- we've been growing ahead of the market, developing the market and growing ahead of the market. For us the issue has been Oral care, where we are yet to reach a stage where we can comprehensively say that now we have started to outpace the market. And the other has been in the short term when we've taken the price increase in skin cleansing and volumes. Tea has been another wonderful story.

Latika Chopra

Alright, and on the pricing side, we've seen significant increases in Personal Wash but besides that, any other categories where you see inflation coming through? And also any specific comments on the Shampoos space in terms of pricing, going forward?

Answer

I think what you will notice Latika is that at an overall level, pricing growth is about 3% for this quarer. That's what you see there and it is fair to say that it is pretty broad based in terms of inflation coming through in most of it. If we look at Hair, SLES prices is something which I will worry about. If we look at laundry, for instance, it is the crude oil, LAB prices we are going to be worried about. So I think it is something, it is going pretty common across.

Moderator

Thank you very much Mam, next question comes from Mr. Manoj Menon from Deutsche Bank.

Manoj Menon

Hi Balaji, just one comment if you may, on the difference between the tonnage growth and the UVG. I know that you don't really track it that way, but trying to get a sense in terms of the rate of premiumisation, how it has moved in the last year or so, versus let's say the year before.

Answer

If I re-phrase it in my words, tell me if I understood your question right, you're trying to understand what is the impact of mix, is that what you're looking at Manoj?

Manoj Menon

I was actually trying to look at a slightly more big picture in terms of some of the core businesses, let's say if you look at your Lux in the soaps network or Rin in laundry. I was just trying to look at the fact that yes the mix improvement is probably masking some of the issues otherwise in the larger businesses which actually contributes lots to the company's tonnage.

Answer

Let me take an example of laundry and then I'll explain the case and then we can decide whether that answers your question. If I take a look at laundry, it is premiumizing and premiumizing very aggressively. And if I look at the performance of the mass portfolio there, actually the segment itself is starting to come down and the premium portfolio that is growing well. So therefore it is both, a mix of it. It's a market dynamics that's playing out on the premiumization. It's not the right way to look at it to say we are losing consumer franchise in mass, the market itself is changing. So a way to look at it in our internal parlance is what we call as the segmental share. Segment Share of Wheel is pretty good, it is actually doing pretty well there. But the overall portfolio of the segment itself is something that's coming under threat, because the market is premiumising in an aggressive manner, which is why Surf, which is the largest brand, we're not calling it out again and again, it is also the fastest growing brand yet again.

Manoj Menon

Ok, understood. My only context of asking this question was it would've been easier to recruit a new consumer into a Wheel in a difficult time like this rather than a consumer into a Surf right? I mean so that's what I was trying to get it at. While premiumisation is the right screw from the longer term possibility, is it not that there are times like these which you're going through, where it would be prudent to also look at the mass market portfolio practically.

Answer

You know Manoj, the way we look at it is the segment share. We do not want to lose our share of the mass segment- that we have been ensuring. And Wheel after the last re-launch has done well and it has been gaining shares in the mass segment. But the important bit is when we premiumize we lift consumers from those who were using Wheel and bring them up to a brand with a higher end offering and there it is not one to one correspondence of tonnage. And just to add to that, take Surf Excel itself to answer your question, in trying times, the way we want to premiumize is to provide access to a premium equity called Surf Excel by a Rs 10 price point that is actually done exceedingly well for us. So, you actually premiumize and you get the consumer into a premium equity but the put down price that the consumer is actually paying to get it is this. What then happens is the consumer then brings Surf Excel into her repertoire of various products she uses. That is how this market slowly starts premiumizing. Starts with one pack, then moves to 2 packs and then accordingly the market starts picking up. If you were to go back to the comment we made earlier when the commodity prices came down, one of the most aggressive interventions we made was to premiumize the laundry business. And I did say at that point that we hope some of it sticks. And what we are glad to see is that when the pricing had started to change, some of it is indeed sticking which means the strategy that we called out and we played out with conviction seems to be bearing fruit in terms of post when the price increases are starting to happen.

Manoj Menon

Understood. And then secondly one question on GST, if you could just comment about based on your interactions with the GST experts or consultants on let's say you know what's likely to happen to the exempted areas of benefits, actually the backward area benefits. Because of late, I've heard from some of the experts about some confusion in terms of you know how that's likely to get a pan out.

Answer

I think for us, at HUL we really welcome GST, because it's really a progressive tax. It stops cascading incidents, reduces inflation, reduces fiscal deficit, brings a level playing field, and I can keep going on and on; on that. As far as your specific question on what happens to the fiscal benefit zones, they have not yet explicitly clarified the exact mechanism they're going to use but they've given enough and more indication that it will move to a refund kind of a mechanism where you pay and then claim a refund so that the tax chain does not break. And all our conversations with the authorities are indeed confirming and in fact even the GST act has been basically talked about on how to handle the fiscal zones.

Manoj Menon

My question was actually about the Central Benefit which is likely to come from the central kitty. So that's your understanding right?

Answer

Yes. For us, the state kitty is almost non-existent.

Moderator

Thank you very much, next question comes from Mr. Jubil Jain from Philip Capital, Mumbai.

Jubil Jain

Thanks a lot for the opportunity Sir. I have two questions. First question one is on the soaps category, can you throw some more light on which were the brands which were impacted because of the price rise, and also can you give some more flavor as to how has been the growth dynamics for the 4 key soap brands over the past one year?

Answer

Ok, in terms of soap brands impacted, all the brands we did take a price correction so it's something which did come under impact. And one of the reasons why Dove did very well, it's a premium equity where we didn't have to do much on the pricing side, it's been pretty stable in terms of pricing, that's why it's done exceedingly well. Therefore the impact is quite across the board, wherever you've taken a price increase which is the reason we have called it out. And as far as the movement over the last year is concerned I think we've been very happy with the performance of Lifebuoy, Dove. We believe we can do much better in Lux compared to where we are today which is why we called it out in terms of the interventions we are making on Lux and re-activating Lux big time. So those would be the key brands that are there in this quarter.

Jubil Jain

Ok Sir my second question is on Detergents. Are you seeing a similar input cost trend in the detergent category due to which you will have to start taking significant price rise?

Answer

See the runaway increase that you saw in palm oil is not what we're seeing in detergents. It's more a gradual increase so the price increase is also far more sedate and more importantly we believe we can manage it also bit of it through cost optimization that we do. But in the case of personal wash, particularly the veg oil side of the portfolio has gone up pretty fast and hence the need for slightly more aggressive corrections we had to do.

Jubil Jain

So what would be the cost inflations index which you will be seeing in the detergents category?

Answer

I think benchmark to crude will be a good proxy for laundry.

Moderator

Next question comes from Mr. Abneesh Roy from Edelweiss.

Abneesh Roy

Sir Indulekha 4 new states, which are these and what are the PAN India expansion plan?

Answer

Indulekha- we have gone into Delhi, Punjab, Haryana as well as Gujarat

Abneesh Roy

And what is the thought process for this because in these at least are North market it's not that well known, right?

Answer

Yeah, yeah, but I'm sure, Abneesh, even we will want to grow there as well.

Abneesh Roy

Sir, my question was rest of the markets also you will definitely gradually enter, right?

Answer

I think the national rollout is part of the plan and we will go through that gradually.

Abneesh Roy

Sir, second question is on St. Ives. In the previous con call you had said strategy is still is being worked upon, so now further any clarity on how – what's the way forward on this?

Answer

No further update on this. Work-in-progress, Abneesh.

Abneesh Roy

Sir, Kimberly-Clark JV divestment, any update on that?

Answer

Work in progress, we'll keep you updated when it reaches a sensible conclusion.

Abneesh Roy

And sir, on Dove Baby, globally is it large enough in India, what's the plan? There are existing players, which are quite dominant there. So, how do you see the potential in this from a five year timeframe?

Answer

Abneesh, you and me, both know there are lot of babies in the country. You have been tracking Dove, we first came out with skin cleansing, we strengthened our position over there, then we came in with hair, we strengthened further the brand, and people recognize that Dove as a brand, which is all about care. And now it was the most appropriate time for us to get into the baby segment, because for mothers there is nothing more important than the baby and nothing like a brand which is proven to care. Now, whenever we get into categories, Abneesh, we come in with a long-term perspective, so we will build it up slowly, but surely.

Abneesh Roy

And obviously you'd look at creating this as a – as in being one of the leaders here, longer-term?

Answer

I think absolutely, we're staying committed to that, the reason we've launched it under the mega brand called Dove.

Abneesh Roy

Sir, one last one, Unilever globally acquired Dollar Shave, do you see potential for these kind of, obviously there are already Dollar Shave examples in India. But HUL or Unilever doing it in India, do you see that happening in the near-term, in the medium term?

Answer

At an appropriate time.

Moderator

Thank you very much, sir. Next question comes from Mr. Amit Purohit from Emkay Global Private Limited, Mumbai.

Amit Purohit

Yeah. Good evening. Thank you for the opportunity, sir. Just to understand the dynamics of the market. So, one question I had, has any of the categories for us, you have witnessed any down trading during this last couple of quarters, wherein the overall market has been weak.

Answer

I think the overall market growth as we said earlier has definitely slowed down, and that we have called it out time and again. As far as the premiumization agenda is concerned, that remains intact and that has fundamentally led out the rising aspirations for the country as well as far as our market development work that we have done. We're committed to and we'll stay invested on that one. So, could the pace of premiumization have been better, of course yes, but I don't think we're calling any down trading of any significance.

Amit Purohit

What I was trying to understand, is the pace of premiumization what we have probably seen in the last three years, four years, would it be faster now or I mean what the history has been for the industry as a whole, what's your sense on that?

Answer

If I look at the brands for us that are doing pretty well, all of them are in the premium segments and therefore they continue to do well. It's doing well, given the kind of investments we are putting into it and the drive we are putting into it. So, that's how we would like to characterize it.

Amit Purohit

Right. And on this segmental assets, in Personal Care, there is a significant increase that is largely driven by the soap segment wherein now if I look at the segmental asset has gone up, and it's not a negative number if I minus – the asset minus liability. So, about INR 495 crores is what I get. So, just want to understand what would be the inventory level of – which has gone up in the Soap segment?

Answer

Sure. So, I think there are two things playing out there. Firstly the business from a ROI perspective remains extremely healthy. Also, one-time payment which is the acquisition of the brand cost by Indulekha is what has gone in as a segmental asset, because it was acquired in the Personal Care category, and that has been the biggest impact in terms of taking the segmental asset up. Apart from that is really phasing issue.

Moderator

At this moment there are no further questions from participant from the audio line. I would now hand over the call proceedings to Mr. Aasif Malbari for the web questions.

Aasif Malbari

Thanks, Mahima for seeing this through. So, I'll now go on to the web questions. I will not be repeating those questions which have already been taken on. We have a question from Sagarika from Antique. The question reads 'what is the effective price increase after removing the promotion offer in the Personal Wash category?'

Answer

The typical price increase that you are seeing is about of 3% odd that I referred to earlier, and that for a category like cleansing can be significant given where it came from.

Aasif Malbari

The second part of the question is, which category continues to have a deflation currently?

Answer

None of the material categories or significant categories have any deflation in there. If you notice, in our entire press release and the coverage, the word deflation is not there at all.

Aasif Malbari

Okay. So I'll now move on to the question, which Tanmay had posted from Edelweiss. How has been the growth in Close-Up, competitor has talked about likely launching toothpaste and herbal positioning, do you think, you also need a new brand under Naturals, probably under Ayush?

Answer

Yeah, I think we are quite happy with the performance Close-Up as we've been calling over multiple quarters, and we continue to invest heavily behind it. It's got a very loyal customer base, and so we quite like what we have on Close-Up. As far the natural space is concerned, you've seen Sanjiv talk about, watch the space.

Aasif Malbari

Okay. Question from Abneesh in terms of how Patanjali done in soaps and detergents?

Answer

We don't comment on individual competitors.

Aasif Malbari

Question from Amit, Investec. 'Why does the lower promotions and effective pricing increases impact have large differential between Personal Wash and Homecare category. Any structural difference you would like to call out?

Answer

I think one of the things that we've alluded to is the timing of the price increases- we have led the pricing. So therefore, we could probably have had a challenge from that perspective, but we still need to do what is right for the market and that's what we've done. And as we go forward, let us see how it plays off. In personal wash, we reduce grammage as promotions are pulled off, which has an impact on volumes, which is not the case in terms of powders business as in laundry, where it's a more rupee conversation and in that case, volume continue to get protected there. So there is a difference in the way pricing gets executed, but that's more technical rather than underlying consumer franchise.

Aasif Malbari

And the last question from Varun from Religare Capital Markets. There are two questions there- Has Skin Care segment growth also slowed down significantly within Personal Care?

Answer

I think we did call that out saying that the market slowdown is pretty universal, it's happening across, and Personal Care including Personal Wash did face significant slowdown, and that's the reason we called that out even in our segmental performance, we talked about mix performance in Personal Care, we alluded to slowing market as well as Personal Wash volume, there are two effects that are there.

Aasif Malbari

And the second question is do you think there is a shift within consumers from beauty soaps to hygiene-based soaps?

Answer

I think from a point of view of hygiene soaps, so let me talk about Lifebuoy, it continues to do well for us where we quite like what is happening in Lifebuoy and particularly with the re-launch that we have done with the Active Silver, that is doing pretty well for us. At the same time, beauty is also, Dove is sitting on the top, that's also doing pretty well for us. And we did call out that Lux is an area where there's still work happening and we believe there is an exciting plan that is coming up in Lux and with the new communication, we're quite seeing traction coming back in Lux as well. So, we'll continue to stay invested in this space.

Aasif Malbari

Okay. So, that's all we had in the web queue. With that we have come to the close of the Q&A session. Before we end, let me remind you that the replay of the event and the transcript will be available on the Investor Relations website in a short while and you can go back and refer to it. A copy of the results and the presentation, if not with you is 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. Thank you everyone for participation. Have a great evening and a Happy Diwali.