Hindustan Unilever Limited

"March Quarter & Full Year 2012-13 Conference Call of Hindustan Unilever"

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SPEAKER: Management of Hindustan Unilever Limited.

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Moderator: Good day, ladies and gentlemen. I am Sourodip Sarkar, the moderator of this call. Thank you for standing by and welcome to the Hindustan Unilever Limited March Quarter and full-year 2012 and 2013 Earnings Call. For the duration of presentation, all participants' line will be in the listening-only mode; and we will have a Q&A session after the presentation. I would like to now hand over the conference to Mr. Dinesh Thapar, General Manger, Investor Relations. Over to you, sir.

Dinesh Thapar: Thank you, Sourodip. Good evening and welcome to the March Quarter 2013 Results Conference Call of Hindustan Unilever Limited. As always, we have this evening with us Mr. Nitin Paranjpe, CEO and Mr. R. Sridhar, CFO on the call from the HUL end. As a customary we will start the presentation from Sridhar where he shares aspects of our performance in March Quarter, and then hand over to Nitin for him to share his perspectives on the business performance. Before we start the presentation and I hand over to Sridhar, I would like to draw your attention to the safe harbour statement included in the presentation for good orders sake. With that, thank you. And over to you, Sridhar.

R. Sridhar: Thank you, Dinesh. And welcome everyone to our results call for March Quarter as well as the financial year which ended 31st of March. Before I move forward, just to set the strategy, as you know, the strategy of the company is enshrined in what we call Compass which is the strategic framework. Our business philosophy, business model is outlined in the sustainable living plan, and our goals remain unchanged which is about delivering growth that is Competitive, Consistent, Profitable and Responsive. So no change in our strategy, no change in the goals that we are trying to deliver.

Before we go into the performance of March Quarter, a few words around the business environment in March Quarter. FMCG markets continue to grow in March Quarter; however, we did see moderation in both volume and value growth across several FMCG categories. This was particularly pronounced in the Modern Trade channel as well as in discretionary categories overall. Further, price growth in the Soaps and Detergents categories has been fading in the market. The environment related to input cost was overall fairly benign; however, competitive intensity remained high during the quarter. To give you a flavour of the input cost environment, the four key drivers that are shown in this chart, you will see that while brent crude remained broadly at the same level sequentially versus December Quarter and slightly lower compared to March Quarter, North Indian Tea continued to show an inflationary trend. On the other hand, Palm oil was distinctly weaker and softer both relative to the prior quarter and the prior year. Exchange rates have clearly stabilized though on a one-year basis there seems to be a depreciation of about 8 odd percent. So overall input cost both fairly benign.

In this environment I think we have delivered growth that is consistent, that's broad-based, that's competitive and delivered an improvement in margins. Our Domestic Consumer Business grew by 13% with Underlying Volume growth at about 6%. The reported Underlying Volume growth includes the impact of the up-stocking at end of March in preparation for the transport strike. Stripped off this, the Underlying Volume growth in March Quarter would be around 5.5%. Our Home and Personal Care categories grew at 13% in the quarter, while our Foods and Beverages categories grew by 15%. Operating margin expanded by a further 60 basis points. This is after taking into account a step-up of 90 basis points in our A&P spends. This operating margin improvement is also after absorbing the increase level of royalty cost which kicked in from 1st February. Estimated impact in this quarter is about 30 to 35 basis points. Profit after Tax before exceptional items showed a healthy improvement of 18%.

If you look at the next chart, which is really about the four key segments, I think it is broad-based growth with Soaps and Detergents and Personal Products growing at more or less similar levels. Beverages continues to be the star performer. And we will talk a little bit more in detail later, while Packaged Food growth was modest at 7%. As always, innovations continued to be a key contributor to our growth agenda. You can see on this chart examples of some innovations we brought to market. And you will observe that these are straight across a fair number of categories whether it is Deodorants or Skin Care or Hair Care with the Dove Hair therapy launch or in Oral Care where we expanded our Toothbrush portfolio, and the couple of offerings in our Ice-cream category in preparation for the summer season. Alongside innovation, we also had some impactful activations in this quarter which is worthy to call out. In the case of Lifebuoy, the activation at the '*Kumbh Mela'* which is something that you might have picked up in the external media reminding consumers the importance of washing hand with soap before important activities. So this was quite a big event at the *Kumbh Mela* in 2013. Another example from the same event was the activation which was led by the Close-Up brand of helping people with what is called Human Tags to find young children etc. who might have found themselves somewhat lost in this *Kumbh Mela.*

And now I'll move to give you a flavour of the performance of individual categories and start with Skin Cleansing first, broad-based growth in the quarter led by volumes. In fact, our key brands Lux, Lifebuoy and Dove all delivered double-digit volume growth. As I mentioned earlier, pricing in the quarter was slightly negative. This is really the impact of softening palm oil prices being passed on to consumers. In terms of the segments of tomorrow, we continue to strengthen our Body wash portfolio with the re-launch of Dove body wash during the quarter.

Moving on to Home Care, which delivered double-digit growth across formats, in Laundry, growth was led by the premium segment with both Surf and Rin delivering double-digit volume growth. Surf's performance was led by the Surf Easy Wash re-launch which took place towards the end of 2012. And Rin was led by a strong performance in our Bars business. In the case of Wheel which we had called out last time as an area needing attention, I am happy to say that the performance has improved in the quarter with actions underway to step up further. Household Care continued to deliver strong performance, led by Vim.

Moving to Skin Care. Skin Care as we had mentioned last time is one of the categories clearly where market growths have seen slowdown as discretionary consumption has been impacted. Notwithstanding the significant slowdown in the market, we have seen strong double-digit performance from two of our large brands Pond's and Lakme. Pond's led by Age Miracle which sustains the strong growth momentum and Lakme led by Perfect Radiance. Fair & Lovely is holding share, its very, very high share, in a segment of the market which is the mass skin lightening segment. It is clearly showing very slow levels of growth. The Facewash portfolio was expanded further with new offerings in both Lakme and Pond's.

Hair Care continued a good momentum of growth with strong volume led double-digit growth. Sunsilk, Clinic Plus and Dove grew very strongly led by bottles. In Clinic Plus clearly the re-launch the second half of 2012 is continuing to deliver strong results, whereas Sunsilk growth was stepped up on the back of impactful activations. Dove saw the range being strengthened with a split ends variant being launched in the quarter. TRESemme which we launched in September quarter last year continues to perform well and gain grounds, while conditioners had one more successful quarter. Dove Elixir Hair oils which we have launched to a gain of 2012 continues to show good performance with the response from consumers being positive. Overall Hair, therefore, very strong quarter.

Moving on to Oral Care, we have seen broad-based growth across the portfolio, across both Close-Up and Pepsodent with the core parts of Pepsodent, Close-Up stepping up their growth performance. In Toothbrushes, while in one hand we rationalized the portfolio, we also launched a premium offering of Pepsodent Expert protection toothbrushes.

Moving on to the Foods and Beverages section. In Beverages you have seen good work momentum over the last couple of quarters. And this has been sustained in March Quarter as well. Tea sustained strong growths with broad base growth across brands, all of the brands grew in double digits and Taza in particular performed very well on the back of a strong marketing mix. Coffee maintained its double-digit growth momentum.

Coming now to Packaged Foods, the growth was led by Kissan and Knorr. Kissan, in particular, Kissan ketchup

Hindustan Unilever Limited

grew very strongly with the new inspire campaign resonating with consumers. In Knorr, we saw further acceleration in growth in the Soups portfolio. Knorr Soupy noodles which we re-launched at the end of December Quarter has received encouraging response from consumers.

In our Ice-cream business, Kwality Walls registered a modest growth. This is a continuation of December Quarter last year and it's clearly reflecting the slowdown in the market place. Nevertheless, we have got ready a series of exciting innovations some of which were launched at the end of March Quarter and some of which goes into the market in April to leverage the onset of the summer season.

Finally, Pureit continues to grow, but in a slowing Durables market. In this market Pureit strengthened its market position and innovations are clearly a key driver with the recent Pureit UV launch being well received. Our service standards are actually the differentiator that are helping the brand through what we call the Pureit promise. And our focus in market execution continues to progress well.

So that's a quick summary of each of the categories. Looking at the financial performance, which I am sure you have seen the results are already, very strong performance in our Domestic Consumer Business both in terms of top line as well as in margins.

To give you a sense of how our operating margins place through to net profit, you can see the various line items on the chart and essentially it's reasonably a good story all across with financial income stepping up aided by dividends from our subsidiaries. Exceptional items in this quarter was modest. And tax rates have gone up from what was 21.5% in March quarter last year to 22.8% for this quarter. Just to say that the overall tax rate for financial year ending March 2013 was 24%.

So in summary if you look at March quarter, we would call it out as being a quarter which was once again demonstrated broad based growth and profit improvement with 6% UVG underpinning 13% growth in Domestic Business and margins improving by 60 basis points after absorbing a step up in the A&P and the new royalty arrangements.

I would like to just spend a couple of minutes on the highlights for the financial year. If you look at the summary highlights, it's another year that has delivered on the Key Goals we called out. Our Domestic Consumer Business grew by 16% with a strong underline volume growth of 7%. In absolute terms, the incremental turnover that our Consumer Business has added in the financial year is a very substantial 3300 crores. The growths have also been very profitable with operating margins now just shy of 15%. These results are yet one more confirmation that our strategy is on track and is delivering.

A quick run through of the four segments. Our Soaps and Detergents segment grew by 19% at the good mix of UVG and price growth. And as you can see in the chart, all of the segments and formats grew in double digits. We continue to drive category premiumization, and this along with a strong cost management resulted in our segmental profits being ahead of top line growth.

Personal Products has shown a healthy growth in a fairly challenging competitive environment. In the financial year Personal Products grew at 13% with a broadly equal split of Underlying Volume Growth and Price. All of the three large categories Skin, Hair and Oral Care grew in double digits with the Skin growth clearly showing a slowing trend in the latter half due to the reasons we already talked about. Our focus on market development in Personal Products continues. Segments of the future in Personal Products now contribute more than 1000 cores turnover to the company. Segmental profit growth is slightly below top-line growth and we have invested in additional brand support to drive growth.

Third category, Beverages, has been a strong performance in the year with good volumes and an overall 13% topline growth which is pretty healthy and competitive. This growth has been broad-based across both Tea and Coffee. And we have continued to drive not just the core, but also the future segments. Profit growth has been quite strong despite the environment of firm cost particularly in the later part of the year.

Last segment, Packaged Foods, has grown by 10%, a growth that has been led by the core. I talked earlier about Kissan Ketchup showing strong growth in March Quarter. This is now the third consecutive year of double-digit growth in Kissan Ketchup. Knorr growth has been led by Soups. And having re-launched Soupy Noodles towards the end of last year we now look forward to continuing to build momentum. Growth in Kwality Walls is a tale of two parts of the year. The first half being a very strong performance and the second half clearly showing much lower level of growth impacted by the slowdown in the market.

As you look at the P&L for the full financial year, the year with the turnover of 25200 crores, operating margin just shy of 15% and a net profit growth of 41%. PAT(bei) which is really the underlying profit growth grew by 28% the difference being some significant disposal of properties.

Just to give you also a sense of another important dimension of performance which is the cash generation I am really pleased to say that our operating cash both from profits, another from Working Capital movements have stepped up almost thousand crores between FY12 and FY13. So we continue to deliver strong generation of cash from operating profits as well as driving Working Capital for greater efficiency.

In terms of Dividends you would have seen the press release where the board has proposed a final dividend of Rs. 6 per share. So the interim plus final dividend totals to Rs. 10.50 which is a 40% increase on financial year ending March 2012. Including the special dividend, the total dividend translates to Rs.18.50.

Therefore, in summary it’s another year of Competitive and Profitable growth, a performance that is broad-based led by good UVG, good improvement in operating margin and as I said earlier a reconfirmation that our strategies are on track and delivering. The cash delivery has also been strong at about 4500 crores which has enabled the company to declare a healthy dividend including the special dividends of Rs. 8.

As we look ahead, the positive outlook for FMCG categories for medium to long-term is something that we would clearly reaffirm. We believe that with our strong portfolio of brands and our superior capabilities, we are well positioned to deliver to our strategic goals, which is Consistent, Competitive, Profitable and Responsible growth. In the near term, however, we do see a concern around moderation in market growth rates as well as the inflationary pressures on consumer wallets. In particular, this will impact discretionary categories and it is our role to make sure that we remain competitive and give value to our consumers through this period. Over the future, as I said earlier, we remain committed to our strategy. And with that, I would like to close this presentation and pass over to Nitin for his observations.

Nitin Paranjpe: Thank you, Sridhar. And welcome to all of you on this call. You have just heard Sridhar talk about the performance in this quarter. Let me start by saying that I too believe that we have delivered another quarter of consistent broad-based performance particularly when you look at in the context of the current business environment. We have grown competitively, delivered healthy volumes against the backdrop of our market which has seen some slowdown. We have also continued to grow our margins even after making significant investments behind our brands and our capabilities.

Now, the current slowdown in the market in my judgement is partly on account of the weakening consumer sentiment due to the stubborn consumer price inflation and partly on account of the Modern Trade channels where growth rates have come up sharply due to the significant rationalization of stores and far fewer new store openings. In addition to this, the lower price growth component is also impacting the overall value growths in the market. The fact that there are these near term headwinds is not new news, but it is the context that we need to be conscious of for the next few quarters. We believe this is a transient phase and does not alter our view of the fundamental drivers of consumer demand in an evolving India. We remain confident of the medium on long-term outlook for the FMCG business and also believe that well positioned as markets and opportunities evolved and hence remain committed to our strategy. You heard me say this before and I am going to repeat it that we don't run this business from a quarter-to-quarter basis, and hence I am not typically concerned on what would happen in the next quarter or so. What is important for us is to continue doing the thing that will enable us to win with our consumers both today and tomorrow.

Let me spend a few minutes on our Personal Products performance, an area which normally draws your attention. Our Personal Products growth during the quarter was 12% in a market which as Sridhar has said has shown significantly lower growth. This has been most pronounced in Skin Care. And consequently has had a significant impact on Fair & Lovely. Having said that, the good news is that Fair & Lovely continues to hold its share in the segment. As far as the rest of the Skin portfolio is concerned, the sustained performance in Pond's is really encouraging. Pond's has now become a thousand-crore brand this year. And it gives me confidence of the progress that we are making on building authority, an expertise on the beauty business in which Pond's participates. I am also particularly pleased with the performance of our Hair & Oral business, both of which have seen stepped up performance. The growth on Hair has been broad-based driven both by activation as well as innovation, while Clinic Plus, Sunsilk, and Dove have done well, TRESemme continues to gain ground. And as a matter of fact within the first six months of its launch, it is among the leading brand of conditioners in Modern Trade. A great example to how we can leverage the global Unilever scale to win locally. Dove is another addition this quarter to the thousand crore club and exemplifies how we have leveraged the equity of a brand by taking it across categories to build a winning portfolio. As far as Oral is concerned I am heartened to see the progress that we have made. Our performance has improved over the last year with each passing quarter. Therefore, when I look at the totality of our PP business, I know we are making good progress to further strengthen our position across the portfolio. And hence, although there are near term concerns in the market growth given the relatively discretionary nature of the PP categories, let me reiterate that we see PP or Personal Products as a key focus area and will continue to invest behind this business as you will see reflected in our results.

Coming now to the Full Year performance. As I look at our results, I can see that it is another year that we have delivered Consistent, Competitive and Profitable growth. The state of the Business looks healthy and we continue to invest behind innovation and capability building while driving the execution in the year even harder. With over 3300 crores of incremental turnover added to our Domestic Business, and a 7% UVG, a 16% USG and 80 basis points of operating margin or EBIT margin expansion in the last 12 months, I believe, our strategy is well on track and is delivery. In addition to this, we have made good progress in our Sustainable Living Plan agenda. Looking forward, our priorities therefore remains unchanged. We want to win into marketplace and deliver growth which is Consistent, Competitive, Profitable, and Responsible. That's all from me.

Dinesh Thapar: Thanks Nitin, thanks, Sridhar. With this we now move on to the question and answer session. May I remind you that this call is only for Institutional Investors and Analysts, and therefore, if anyone has from this call have a question, you might like to get in touch with us at Investor Relations. What I now like to do is to hand you back to Souradip who will the moderate the next sections of questions. Over to you, Souradip.

Moderator: Thank you so much, sir. With this we are going to start with the Q&A interactive session. So I would request all the attendees and the participants, if you wish to ask any question, kindly press "0" and "1" on your telephone keypad and wait for your name to be announced. I repeat, attendees, if you wish to ask any question, kindly press "0" and "1" on your telephone keypad and wait for your name to be announced.

And the first question is from Mr. Abneesh Roy from Edelweiss Capital. The line has been unmuted, you can go ahead and ask your questions, please.

AbneeshRoy: Hi sir, congrats on the very good set of numbers. My first question is the Detergent business. In Q4, we have seen the promotional activity and the price cuts also, both by the competition and by Levers also increase remarkably. So in the raw material side, we have not seen the commence rate cooling off. So does this really reflect the competitive intensity has gone up and if you could tell us the reasons behind that?

Management: I think we have always maintained -- this category has been competitive. At different times, the analysts have been of the view that it is reducing or not. We have always believed that the Laundry category has been competitive with intensity both from local and regional players as well as global players in this marketplace. We don't see any change in that. We do see some differences that as when commodity costs starts dropping a bit, advertising and promotion intensity goes up. We are beginning to see that in the Laundry category. You would recollect that a few quarters ago, when commodity cost were high in this space, we used to say that the advertising and promotion intensity in the Soaps & Detergents space have come down. We are seeing a reversal of that. Overall, it really means that players manage the totality of the P&L between different line items. And therefore, I am not very surprised when I am seeing some of that going up. Contrary to what you said, that commodity cost have not moved. I think commodity costs are a little softer than what they were a year ago. And therefore, there is a benefit that we have got. Of course, the reduction in commodity cost is not the same as you would see in our Soaps business as Palm oil is corrected far more sharply than you would see in the area of crude and the consequent impact on raw materials that we use in our business. As far as our competitiveness is concerned, our approach has not changed. We will do what it takes to make sure that our brands remain competitive both in terms of product quality and in terms of setting a strategic price. Performance is generally good. Some actions that were taken on Wheel towards the end of last quarter which we talked about. They are beginning to see results. We believe more can be done and we are doing more of that in order to step up our performance at the lower end of the market which can do with some improvements. At the middle and the top end of the market, our performance has been very good and we hope to sustain that as we move forward.

AbneeshRoy: Sir, my second question is on the Fair & Lovely business. In that in the last two quarters we have seen, first, an increase in the price and then I think there was again a opposite action of increase in the volumes. So one is why such change in strategy within three months of price hike and when do we see stabilisation happening there?

Management: So the last bid is I can't be certain in terms of what has happened. But I think we need to see the Fair & Lovely performance in the context of the overall market. In the overall PP market that we talked about, the most significant impact in terms of growth rate as reported is in Skin Care is most specifically in Face Care. That's where Fair & Lovely operate. And it is more pronounced in the mass skin lightening space. The overall face market has slowed down, more pronounced in mass skin lightening where essentially the market is made up of Fair & Lovely which has a very large share. The share of Fair & Lovely in the market has been maintained. So that's the positive story. It is not that we are losing to someone else. However, given the overall context that we find ourselves in growth rates that have come off for the market and consequently for Fair & Lovely as well. We are keen to try and do things to step up market growths and drive this harder. And what you have seen from time-to-time is nothing but some actions which have been taken so whether it is higher fill level which has been given on the sachet in the recent past has really been to incentivise people to try and buy this, who might have found the price increase in the short-term to be resulting in a situation where people were wondering whether to buy it or not and this was really to incentivise more people to come in and reward some of our loyal users. Every time we have moved price in the sachet, and I remember this for the last several years when we moved from 5 to 6, or from 6 to 7, now from 7 to 8. We do see several months of adjustment and it takes time before the volumes start getting back. That's what we are experiencing now. I hope it corrects and stabilises quickly, but I will be hard pressed to give you timeline in terms of when that would happen.

AbneeshRoy: Sir, one small follow-up on that. Fair & Lovely if you see, you said market share has not been lost, but the entire category in that segment, there is a slowdown. And also in the presentation you said, in the shampoo, the bottle segment has done well and there was no mention of sachet. So how has sachet done and in the context of higher volumes being given there as promotions was that impacting the overall growth in sachet? My overall conclusion in this is, is the lower end of the consumption suffering more compared to say the mid end, premium ended obviously suffering, but compared to mid end is the lower end suffering more?

Management: Not really Abneesh. The reason is sachet have also grown. We just try to call out something that stands out. When you look at our portfolio, even if you look at the comment we made on shampoo, so Clinic Plus has also grown very well which has operation in the mass end. Similarly, if you look at, for example, Tea, we have had good growth on Taaza which is on a mass end as we have had good performance in 3 Roses, and Red Label and so on. So similarly in Soaps, while we have had good performance in Lux and Dove, we also have good performance in Lifebuoy. So I don't think there is any such distinction. We just try and specifically call out the few items that are in that particular quarter standing out. Abneesh, I think, we will have to now move to the next person so that the people get the chance to ask question. If there is a follow-up, you can pick up later.

Abneesh Roy: Sure, sure. Thanks a lot.

Management: Thank you Abneesh.

Moderator: The next question is from Percy Panthaki from IIFL. The line has been unmuted, you can go ahead and ask your questions please.

Percy Panthaki: Hi, sir. Good evening and congrats on a good set of numbers.

Management: Thank you.

Percy Panthaki: Couple of questions. Firstly, on the segmental margins, the couple of segments which stand out, Beverages & Personal

Products. On Beverages if my understanding is correct, the commodity prices are holding firm or are inflating, plus you also have certain promos like Rs. 10 off on Brooke Bond. So just wondering what is the reason for the margin expansion in Beverages. And similarly, in Personal Products is the margin contraction a result of higher ad spend or it is because of a mix effect where the skincare is growing slower?

Management: So let me take the second question first. You are right, the reduction in margin in Personal Products is primarily a function of increased investment in A&P. There is also a contributory factor of the Skin Care contribution being lower, but the primary factor is the A&P spend levels. As far as Beverages are concerned, yes, the margins have improved. I think we are seeing good growths coming to, so we get leverage. When we have good growth, we get good leverage. Plus we have been taking some actions within our supply chain to improve the cost efficiencies in our supply chain, and we have seen that also delivering benefits for us in the quarter.

Percy Panthaki: Right sir. Secondly, on the environment on pricing and cost. So on pricing, one very simple question, I don't know whether you will be answer it, do you think that the current market environment is conducive to taking price increase? And this is in conjunction of how costs have also moved. So for March quarter, apart from Palm Oil, and correct me if I am wrong, apart from Palm Oil, I don't think that there has been any significant cost deflation in of your other inputs. So in absence of any cost push inflation will consumers be willing to accept price increase on your product portfolio in the next three to six months.

Management: I think from our perspective, our focus is always to make sure that we are on the one hand competitive and on the other hand giving consumers good value. That is the primary lens with which we look at things. It is not that we take price increase for the sake of taking price increase. You are absolutely correct that Palm Oil has been the key commodity which has shown a very significant reduction in the input cost. That is not the case in the others. So I have to say, in other segments, there is a lot more stability while there may not be inflation, there is stability, Therefore, if its cost environment which is benign then frankly there is no real need for us to be taking price increase. We want to make sure we continue to give value to consumer, and we drive our margins through both volumes, the leverage from volumes, through mix and further cost efficiencies through the value chain.

Percy Panthaki: Right sir. Just if I may a corollary to this question. I mean, in recent quarters we have not noticed any negative correlation between price growths and volume growths. So it is not as if the price growth increases, there is volume back lash. So in that context, if the pricing growth reduces, do you think that overall sales growth could also reduce because the volume growth might not bounce and pick up the slack of price growth?

Management: Let me make it very straightforward, the pricing component of topline growth clearly is going to be lesser from the information we know today, because the price increases we took last year are either already or will soon anniversary. Second, there is a cost situation which is benign. So both of these factors mean that pricing to manage cost is going to be a much smaller contributor going forward. Now, what will happen to volume growth, how much it will pickup, etc, frankly is not something that we would want to get into. In any case we don't give any guidance at all that will really depend on various other economic factors and we will have to wait and see how Consumer demand progresses.

Percy Panthaki: Right sir. That's all from me thanks and all the best.

Management: Thank you.

Moderator: Thank you sir. The next question is from Mr. Prasad Deshmukh from DSP Merrill Lynch. The line has been un-muted you can go ahead and ask your question, please.

Prasad Deshmukh: Good evening, sir. I have to two questions. Firstly, what is your inventory practice in the Beverages business, especially given tea as such is a seasonal crop?

Management: Yeah. I am afraid, you know, that's something that's sort of getting into the area where it becomes competitively sensitive. So I would not want to comment on any detail except to say something perhaps you already know which is that tea is sourced from within the country and there are specific seasons when tea is available. It is not something that's available 365 days a year. There is obviously a strategy around holding the right levels of inventory but I cannot give you any more specific answers.

Prasad Deshmukh: All right. Second question is now that we are seeing softening of raw material cost. Will it be possible to just give some historical precedence in terms of how the smaller players behave versus, say, larger players who usually focus on increasing spends on advertising and promotions.

Management: So Prasad, yes, one can look certainly at history and history will give you enough examples that when commodity cost softens, some of the local players become more active. But having said that, you know, India is so changing fairly dynamically and I am not sure to what extent. The past will necessarily be a guide to the future.

Prasad Deshmukh: All right. Thanks a lot, sir.

Management: Thank you, Prasad.

Moderator: Thank you, Mr. Deshmukh. The next question is from Mr. Pritesh from MK Global. The line has been un-muted; you can go ahead and ask your questions, please.

Pritesh: Sir, more comments on the Oral Care side of the business in terms of the double digit volume growth, if you could also give some thoughts on the market and market shares there.

Management: Pritesh, we are quite pleased with our Oral Care performance. And from whatever we can see is our growth is pretty Competitive, it is ahead of the market. Other than that, I think we are doing all the right things in terms of making sure we participate in all parts of the category. So we are quite pleased with our performance.

Pritesh: Okay. Second sir, if you could quantify the pricing actions if any in the Soaps and Detergents segment in the last quarter in terms of the blended

Management: I don't have an immediate number hand, except to say that price basically was a deflating factor in the quarter for Soaps.

Pritesh: Okay. And how about for Detergents?

Management : Detergents, there would have been some pricing, some contribution from price, but clearly the anniversary effect is taking place because there is no further sort of huge inflation we are seeing. If at all we are seeing some slight trending down in input cost of ingredients that go into the Laundry. So the price contribution is reducing in the Detergents.

Pritesh: Okay. Thank you, sir.

Management: Thank you.

Moderator: Thank you so much. The next question is form Mr. Nillai Shah from Morgan Stanley. Your line has been un-muted, you can go ahead and ask your question.

Nillai Shah: Thank you so much. First question is basically on the product trends. Your mid segment seems to be doing better than the segment in the bottom end. You really aren't seeing any signs of consumer downtrading last two years. Why do you think that is the case at this point in time?

Management: I can just give you some hypothesis but not necessarily a statement of fact. So I think in 2009 when we saw a lot of downtrading that was in an environment -- First of all we saw downtrading in Detergents and Tea at that time. It was not that we saw down trading in Personal Care. And this time around we seeing reasonably good growths in all segment and downtrading is phenomenon that to be honest seems to be seen over slightly longer periods. So you need to see over two, three, four quarters and not a single quarter. You could have many hypotheses, but one of the certain differential factors between 2009 and today is that in 2009 there was also very significant concern about job security amongst the large number of population. That is an additional factor which is not coming through when we are talking to consumers though inflationary pressures are certainly being felt by consumers.

Nillai: Okay. Second question is basically on the volume growth, you know, you laid a lot of emphasis on saying that the volume growth indeed has been ahead of industry growth as a whole for the categories. But, you know, is there any chance that your ad spends, promotions, price offs may actually accelerate going forward because 6% is not really the kind of number that you want to be at or 5.5% is not really the number that you want to be at ex Skin

Management*:* No. So if you are asking, do we are want to see higher levels of growth driven by volumes, answer is of course yes. You know, there are different levers. Ad spends is one lever. You talked about the P&L lever which is ads spends or pricing but I think more importantly these are the operational levers of innovation of driving execution even better in the market place, etc. So for sure you will be driving all these levers hard to make sure that we grow our business strongly but we are also to see our growth in the context of the market we'll be operating. And the fact is that the market growth as I mentioned earlier on in the presentation has clearly moderated as you seen in the quarter. And you have to wait and see that in the near term we might see a little bit more period of moderate market growth before things pick up. In medium to longer term, we remain very positive.

Nillai: So in the category like FAL for instance wouldn't you be making the market as such?

Management: So I think in terms of the whole Skin Care of which FAL is one component, Pond’s is another, Lakme is another from the HUL stable and then of-course you got competition. We have seen slowing market growth in Skin Care as a whole. So it is not just Fair & Lovely, Skin Care as whole we have seen slowing rate of growth. And that is clearly the factor of discretionary consumption slowing down that's playing through. So it is an overall phenomenon. On our part, we are making sure that our brands remain strong. They get refreshed and rejuvenated from time to time and we put the appropriate investments in order to drive competitive growth.

Nillai: Okay, thank you very much, and that's it from me.

Management: Thank you, Nillai.

Moderator: Thank you so much, Mr. Shah**.** The next question is from Mr. Richard Liu from JM Financial. The line has been unmuted.

Richard: Hi, thanks for taking my question. So with respect to comment on slowing discretionary spends. Would not the higher end Pond’s and Lakme be a bit more discretionary than FAL? Or is your reading that the discretionary spend issues more prominent amongst a certain class/section of consumers?

Management: Richard the hypothesis that there is obviously an interplay between what is discretionary for one group of consumer may not necessarily be discretionary for another group of consumers. So there is some interplay there. But when you just step back and see overall, there is certainly, an element of slowing growth that we have seen in the market, so I am talking about market reported growth, that is very clearly something we have seen. For example, one of the things we called out in our Skin Care chart was we talked about the fact that Pond’s growth was led by very solid performance in anti-aging. Now, I think you can infer that the anti-aging product at this point of time is more likely to be consumed by a section of consumers for whom may be the budget pressure are not as severe today or maybe their non-existent today. And therefore, for them it is really about, you know, what are the products and regimes that they want to consume. So a long answer to your question that yes, there is some differentiation across consumers.

Richard: The other point related to this also, if one were really so stressed for budget, should not one have actually seen some bit of a downtrading especially in Beverages, especially Tea, we spoke about that some time back. The result obviously doesn't suggest anything like that. I mean, short question is that do you think there is any there issue in Skin other than just people cringing back on discretionary or so called discretionary items?

Management: So I think Richard in this situation is that the way consumer dynamics are, it is not so straightforward to be able to make some of these conclusions. We don't see those patterns layout exactly the same way as we would hypothesise. And yes, is there possibility that there could be something beyond just slowing down of market for Skin Care? Maybe there could and these are the sort of things that we keep asking but I would be honest to say that we don't have a watertight answer for all of these things. We observe some things which are there, our job, what we can do, we can't answer all of these perfectly but what we can do is to make sure that all of our brands in all our categories at all point in time remain competitive in the context that we find ourselves in. And because we have a portfolio, portfolio at the top, middle and bottom, we are that much better placed to address different scenarios as they emerge, sometimes consistently across the categories, sometimes seemingly inconsistent in terms of behaviour across the categories.

Richard: Sure. I have another question on PP margin. Now that has become really volatile these days. On the adverse impact due to lower Skin Care growth, I think the same issue was there in DQ as well but I remember PP margin had expanded that quarter. If you could just throw some light on this one, please.

Management: I think, Richard, the reason you see this being volatile I am afraid is because I think you all pay a lot of importance to quarterly margins. And I think we have said on multiple occasions that you want to look at performance whether it is growth, whether it is margin - particularly segment margin, looking at it quarter to quarter is likely to mislead rather than give more clarity. In terms of this quarter, I think I called out that a large proportion of the margin being lower was due to increase in investment in A&P. In our few previous quarters, we have also made references, for example, to the timing at which moulds for re-launches, moulds for innovations come into the business and get charged off. So these are things therefore when you look at a quarter's numbers there is may be too much noise. I really suggest that you take a slightly longer term picture.

Richard: All right. Thanks a ton for that and wish you all the best.

Management: Thank you, Richard.

Moderator: Thank you so much. The question is from Mr. Sanjay Singh from Standard Chartered. Mr. Singh, your line has been un-muted, you can go ahead and ask your questions, please.

Sanjay: Hi. I just wanted to know that your volume growth this 6% or 5.5% this quarter. Now does it get helped by anyway in the changes in the Weight and Measures Act because some of the 90 grams Soaps would have become 100 grams?

Management: Well, when I take an aggregate from businesses as whole not really - there will be some up, there will be some downs. And you know, frankly I must say, I have not tried to really look at from that dimension. It's I don't think a major factor. There will both positive and negative. It's possible that on aggregate the weights might actually slightly down. So no not really.

Sanjay: Okay, just another clarification I wanted in terms of volume calculation, if there is, you know, gramage-free as a promotion, does it come into the volume growth calculation? So if 100 grams plus 25 gram free, does it mean 25% growth in volumes?

Management: Yeah sure. If you are giving more volumes to the consumer, whether it is as a promotion or whether it is selling the higher pack size or whatever it is, if it is the volume that we are selling to the consumer, it would come into our volume growth; that's correct.

Sanjay: Okay. Now, I think just somebody asked on the Personal Products margins. I mean, I understand short term movements, but overall, even last four-five years we have seen it trending down albeit very marginally. So from, if I remember FY'08 used be some 27% or 28% and we are now at 24-25% kind of levels. So is it something because where we see competitive intensity high in this segment or where FAL keeps on growing slower than the overall PP growth and hence margins would come off few bps or here and here there every year *per se*?

Management: I think, I have said this also earlier, Personal Products as a segment or a set of category, has got a very strong potential to grow. Part of the work we have to do is to really develop the market. And for that we need to invest behind the developing the market. The Personal Products while it is grouped together as one group obviously has a variety of categories from Skin Care to Hair to Oral and so on. And obviously each of these operate at different margins. And the most important point is that this is very exciting space, got great growth potential. And broadly speaking the segment margins are about 900 to l000 basis points higher than the company average. So our task is really to keep driving superior growth and then it becomes really accretive to the business whether the margin percentages came off 20 basis point here or there is to my mind the lesser of the issue. The more important priority is to drive growth.

Sanjay: Okay. That's it from my side. Thank you.

Management: Thank you Sanjay.

Moderator: Thank you so much, Mr. Singh. The next question is from Mr. Vivek Maheshwari form CLSA. The line has been un-muted, you can go ahead and ask your question.

Vivek Mahaeshwari: Hi. One more question on Personal Care margins. The 215 basis point decline of that, would it be possible to quantify royalty impact because my sense is royalty will have disproportionately higher saliance in case of Personal Care. Is that a fair assumption?

Management: Not really. I talked about you know royalty being about 30 to 35 basis point overall impact for quarter and it would not be dramatically dissimilar for Personal Products. So the bigger driver is clearly the step-up spend in the A&P and then of course we have got, you know, a variey of other factors.

Vivek Mahaeshwari: Okay. The reason I asked this is because in case of Soaps and Detergents, there will the salience of Hindustan

Unilever brands will be much higher than compared to, you know what it would be for Personal Care. Is that a fair assumption?

Management: Well, that is possible. All I am just saying is if you look the 250 basis point that you are trying to quantify, Vivek, and try to get - with the priority of driver, the biggest driver by far, more than half, is A&P.

Vivek Mahaeshwari: Okay, understood. The second one is, the royalty would hitting other expenses, right, in the main P&L?

Management: That is correct.

Vivek Mahaeshwari: I mean, other expenses as a proportion of revenues are down, say, 60 basis point. If I adjust this 30-35 basis point there is 95 basis point saving in the other expenses. Could you indicate broadly which heads would have seen such kind of saving?

Management: There are a variety of things that is go into the other expenses. For example, our entire area of distribution costs, logistic costs. They are entirely part of other expenses. When you look at all of the overhead costs of running the establishment other than the people, are all in other expenses, royalty as you pointed in other expenses. And as we've said, our task and our focus is really to make sure we manage our cost very, very tightly. One part is on the supply chain and the other part is all the other costs, whether it is marketing spends, whether it is overheads, whether it is distribution cost. So it will be across the board. And this is not necessarily a new phenomenon. One of things that we talked about earlier is our approach in managing costs, is a holistic end-to-end approach. So across the whole value chain whether it is on cost to do with materials, whether it is cost to do with conversion, whether it is on cost to do with our marketing spend or indeed cost to do with overheads. So across the whole value chain we try and manage our costs tightly and keep generating new saving, ideas and programmes.

Vivek Mahaeshwari: Okay. And finally on financial other income, the 50% increase you talked about dividend, so is this coming in from the unit that - the export business that you had hived off?

Management: That is correct.

Vivek Mahaeshwari: Okay. And sorry, finally one last bit. The impact of transporter-led stocking is 50 basis point. Is that correct?

Management: Actually if you see the UVG that we've talked about in the charges rounded off at 6%. The real number is closer to 6.3 or so. So that's the sort of if you take to the one decimal point number. And stripped off number would be around 5.5%.

Vivek Mahaeshwari: 5.5%. So you are saying 80 basis point roughly the impact is.

Management: Yeah. I mean, 6.3 minus 5.5 is 80 basis points. That's correct.

Vivek Mahaeshwari: All right. Thank you very much and all the best.

Management: Thank you.

Moderator: Thank you, Mr. Mahaeshwari. Before we move to further questions, I would like to repeat once again to all attendees. If you wish to ask any question kindly press "0" and "1" on your telephone keypad and wait for your name to be announced. It is "0" and "1" to ask questions. The next question is from Mr. Rahul Thakur from ICICI Bank. The line has been unmuted, you can go ahead and ask your question, Mr. Thakur.

Rahul Thakur: Hello. Sir, I just wanted to ask one question. If we look at the segmental capital employed then we see a significant increase in the Soaps and Detergent segment. Is there any particular reason for that or is it just seasonality or something?

Management: If you look at variety of things, there is one of things especially there is an impact on the seasonality. The second is that when you look at capital employed, there is also an element of both the capital expenditure that we are putting in, plus any strategic talking from time to time, which we do, which is different from time to time. So there is no - I think the way to look at I would say the capital employed is really to look at on annual basis. When we publish the balance sheet, you will see and we gave you little bit of flavour in our cash-flow statement that overall working capital has continued to show good improvement and it has been primarily lead by a further improvement in our stock based on hand.

Rahul Thakur: Okay. Thanks a lot.

Moderator: Thank you so much, Mr. Thakur. The next question is from Jamshed from Citigroup. The line has been un-muted you can go ahead and ask your question, please.

Jamshed: Thank you for the opportunity. Sir, my question pertains basically till some consumer insight on Fair & Lovely, if you all could provide it. FAL has been struggling for three quarters or so now. And my understanding about the product is that it has to be applied fairly regularly in order to maintain the lightening impact or the lightening effect. So are we saying that current consumers have actually started using the product less and less or are you saying that new consumer acquisition has come off dramatically over the last three quarter?

Management: I wish I could give you a simple answer. But you can be sure that a lot of thinking and a lot data crunching is going on within the business. The reality is that it is bit of both. There is some consumption which is the coming off as people are trying in the early days to extend what was buying a big nose sachet for Rs. 7 and now they are buying it for Rs. 8. And therefore one tends to stretch it a little longer. That's part of it. And the second part is the net impact in terms of addition, because some people continue to move up to other brands while there are new people coming in. That balance has been a little lower in the last two or three quarters than it was in the earlier period. So it is a combination of these two which are here. Our earlier experience shows that whenever you take a price increase, there is a period of adjustment which takes place. But consumer minds are such that over a period of time you get adjusted to the new reality of a Rs. 8 price point and have it get back to what they were. But it takes time. We hope we are closer to the end of that period rather than the beginning. But it is not abnormal. It is taking time and we would like it to get over soon.

Jamshed: Is there any thought that the consumption has come off because the efficacy of the product has improved, have the active ingredients like Niacinamide or something has been increased?

Management: No, I think I would like to believe that the product has become much better. But the result of that should not be people using less but more people wanting to use more. But no, there no such understanding.

Jamshed: Okay, fair enough. Second and quick, this is the house-keeping question. What is your total reach today direct and indirect?

Management: We shared the picture a year ago and we do not want to talk about what our reach is. We talk about adding a million outlets over the couple of years, getting to a range of about two million outlets. And that's really all that we would want to talk about.

Jamshed: Okay thank you.

Management: Thank you.

Moderator: Thank you so much, Mr. Jamshed. So at this time there are no more questions in audio. So I will hand it over back to the Management. If there are any questions over the web.

Management: Sure. Thanks Sauradeep. Yes, we do have a couple of questions on the web. So there is one from Nikhil Vora that's coming in which says, hi Nitin, three questions: 1) Water has it now become relevant to call for separate profit and loss statement. Meaning if they are adequate scale or profits that is now measurable. The second question on TRESemme, just your sense, is the cost of entry or a later entry now cost us lot more or it is not changing too much? And third internal management responsiveness to change; believe you are re-learning the digital word. Can you throw more light on actual changeovers within the top management?

Management: So, let me just take the last one in terms of our overall responsiveness to change. There are many things that we need to do both structural in terms of our processes and ways of working and in terms of building capability. We talked a couple of years ago how we systematically looked at our business to see what proportion of our business had the capacity to make changes to pricing, to pack sizes, etc to respond to the changes which the market place might require. We have very good progress on that. But it is not just about making hardware changes and technology changes in the factories. It has to be about finding a way as to reduce the decision-making time and execution time. And therefore we have in place internal processes which get cross functional teams to meet every Monday to assess the situation in terms of cost, competitive action and determining our responses. So essentially our planning cycles as well as our execution cycles are getting tighter. We have made lots of progress. But again this is an area where we would like to continue in making progress. We also wanting to reduce the amount of finished goods that we have in our business. Because you can do all of this but if you are finished goods which you carry are significant, it just delays the action that you will be willing to take. So apart for releasing cash in the business as we reduced inventory, it also improve the agility and responsiveness of our business.

I think as far as water is concerned, no, it is still well below the threshold, you know, that are required for calling it out as a separate segment. And therefore at this point of time that is not relevant. I think as far as TRESemme is concerned I am not sure what you mean by the cost of entry or later entry. Now cost a lot more, etc. I think we look at it as a strategic addition to our portfolio where we had a great brand that has come newly in to the Unilever stable with a very differentiated offering of giving a Salon-like experience to consumers and therefore we felt it is right time for us to bring it into the Indian market.

And indeed, I think the timing was right as in the performance and Modern Trade we have seen around for a while has been very, very good. Like you heard us earlier in the conditioner segment we got the leadership position, strong presence in conditioners, building a strong presence already in shampoos. So it was clearly a brand and a proposition which was right for the market at this point in time.

All right. I think with that, we will like to now bring the call to a close. Just before that, as you know an audio-visual replay of this event will be available on the investor relations website and you can always go back and refer to it. With that, I would like to bring the call to a close. Thank you everyone for your participation, and have a great evening. Bye.

Moderator: Thank you so much, sir. With this, we conclude the conference for today. Wish you all a great evening ahead. You all can disconnect your line. Thank you so much.