



Hindustan Unilever Limited

**December Quarter 2014 Earnings Call of
Hindustan Unilever Limited
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Speakers:

Mr. Sanjiv Mehta, CEO and Managing Director

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

Mr. Dinesh Thapar, General Manager, Head of Treasury, Investor Relations and M&A



Moderator:

Good evening, ladies and gentlemen. I'm Shareena, the moderator for this call. Welcome to the Hindustan Unilever Limited December Quarter Earnings Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted for all the participants on this call. I now hand over the call to Mr. Dinesh Thapar. Thank you, and over to you, Mr. Thapar.

Dinesh Thapar

Thanks, Shareena. Good evening, and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening, results for December quarter 2014. On the call from the HUL end, as always, is Sanjiv Mehta, CEO and Managing Director; and P. B. Balaji, CFO. As is customary, we will start the presentation with Balaji sharing aspects of our performance for December quarter, and then hand over to Sanjiv for him to share his views on the business performance. We will then run to the Q&A session. Before we get started with the presentation, I'd like to draw your attention to the Safe Harbor statement, included upfront in the presentation for good order's sake. With that, over to you, Balaji.

P. B. Balaji

Thanks, Dinesh. Thanks for all of you to join this call slightly late in the day, but we'll try and cut to the chase and keep it to the bare minimum in terms of timing. What I'll try to cover today is the full agenda will be around this quarter, the strategy of the business, how do we see the business context, flavor of the current quarter performance, also summarize the nine months performance year-to-date, and also looking ahead how



do we see the market going forward. This is the topic that we will talk about.

Coming into the strategy, there is absolutely no change as part of the strategy is concerned. It's a clear and compelling strategy where it diagnose both business growth side of effect as well as sustainability side of effect together. And we have a clear set of goals which is 4G growth, growth that is consistent, competitive, profitable and responsible. And there's absolutely no change in this side.

Coming to the context for December quarter 2014, the business environment has been volatile. Market growth, particularly volume, remains very soft, and there is signs of modest pickup. We see discretionary categories are still under pressure and small and price point pack continue to lead growth.

On the cost side, we see benign input costs led by both crude oil as well as PFAD, which go into some of our key raw materials. And we see stepped up competitive activity in all our commodity-led categories. So that's the broad market context. And to just give you a bit of little flavor in terms of numbers, you would notice that, I draw your attention to both the PFAD and the Brent slide, where in PFAD the 2013 numbers are almost there as far as the December quarter 2014 is concerned, and a very sharp fall coming all the way down from INR 49 to INR 38.

Given that kind of a movement, the exchange rate has been pretty stable with a marginal depreciation. We're now at, what used to be INR 60 odd in June quarter, is now more like INR 62 for December quarter, a marginal depreciation there. And



the Brent crude has, in rupees terms, has come off from INR 6.6 to INR 4.7. And if you notice the December quarter number is more like \$76, which is average for the quarter, but as the quarter did end, it is in and around \$50, if not, lower than that. So that's the broad movement as far as input costs are concerned.

And I'll circle back on the implication of this on market growth towards the end of the presentation, so that we can try understand what does this mean as far as market growths are concerned.

Coming to the December quarter performance, competitive and profitable growth was sustained. Domestic consumer business grew by 8%, ahead of market and had a 3% underlying volume growth also ahead of market.

Operating profit, at INR 1,258 crores, was up 8%, and the margin expanded by 10 bps. Cost of goods sold, due to the lower commodity cost that you saw on the earlier slide as well as savings, came down by 120 bps. And we maintained competitive spends across all segments.

On an absolute level, A&P was up INR 48 crores, but on a bps terms, it is down 30 bps compared to the same period last year. There is a impact of additional depreciation charge due to complying with the Companies Act of about INR 4.8 crores, and the employee costs included a one-time provision of INR 39 crores for select contested matters. PAT, at INR 955 crores, was flat and net profit at INR 1,252 crores was up 18% primarily led by exceptional items on property sale, which I'll cover later.



I would really love to draw your attention to the last line, which is the impact of lower fiscal benefits. As I said earlier as well, fiscal impact is at three levels. There is one, of course, the impact on the turnover line of about 120 bps. There is an impact on the gross margin line, which is, and therefore PBIT, of about 40 bps and there is an impact on the effective tax rate line of 470 bps year-on-year.

If I then go down into the segmental growth performance. We had broad-based growth across segments. Soaps & Detergents grew by 7%, Personal Products by 7%, Beverages 9% and Packaged Foods 13% leading to a domestic consumer business growing at about 8%.

Let me get into individual category highlights. So the first starting point is, continued focus on innovation continues, where we had a slew of brands getting re-launched. Vim powder was re-launched this quarter. Vim had a new SKU coming into its portfolio. And we also have the Lakme lipsticks having an introduction there.

Coming to the Soups portfolio, Knorr had an additional variant in Soups that came in. And I'm sure people in Bombay would have noticed the intensive work that we've done on Brown & Polson, which is a focused effort that we're doing on one geography there. So our focus on innovation is continued. And these innovations are all activated extensively in the market, and what is out there is just a few of activations that I'm sure you would have seen at various points in time.



Moving on to the individual categories in Skin Cleansing, competitive growth was sustained. And the growth was led by Lifebuoy and Lux. Our liquids portfolio, fundamentally Handwash, delivered another strong quarter. And the phase out of excise duty benefits impacted growth this quarter. And this is one of the categories that was impacted significantly.

And during this quarter, given the sharp fall in PFAD prices, we have taken actions to drive competitiveness as the intensity steps up. And this also mend in select cases we had to clear out the pipeline of high price inventory, and therefore stop sales for a few days, this is what we call as a blackout period.

Moving on to Skin Care, we had double-digit growth across Fair & Lovely, Ponds and Lakme. And I'm happy to see Fair & Lovely momentum sustaining this quarter with a double-digit volume-led growth. And Ponds continue to maintain a strong performance led by premium skin lightening and talc. Lakme performance was driven by lotions and CC creams. And the Facial Cleansing portfolio sustained double-digit growth yet again. And the performance of the face care portfolio is very strong. The Hand & Body portfolio was impacted by a delayed winter. And therefore, we did see that portfolio coming under a bit of a stress during the quarter.

Moving on to Home Care, the growth is led by the premium segment. Surf sustained its strong volume double-digit growth momentum. And Rin growth was led by bars, and powders was re-launched. Wheel growth was muted and Comfort continued its robust performance led by market development.



In Household Care, the growth was led by Vim, particularly were strong performance on liquids. And here again, actions have been taken proactively given the sharp oil and crude prices to actually drive competitiveness, and therefore we had taken down pricing in a few of these categories. And here again, the impact of blackout period was felt as well. So that was Home Care.

And moving on to Hair Care, the story continues to be a strong story where volume led double-digit growth was sustained, and shampoos delivered yet another quarter of strong performance led primarily by Dove, while brands like Clinic Plus, Sunsilk and TRESemmé continue to make good progress. And our focus on market development for Conditioners continue, and the phase out of excise duty impacted growth in this category as well.

Coming to Oral. We had a subdued performance this quarter. And the growth was impacted significantly by the phase out of excise duty benefit, and this category was by far the largest hit. It also had to contend with a strong competitor actions in the base as far as Pepsodent is concerned. Close Up small pack continued to lead performance. And the new variant of Pepsodent, Salt and Clove and Gum Care are doing well. Action planned to step up growth in 2015 so that we can able to get back to competitive growth in this category.

Moving to Color Cosmetics, the focus on innovation led growth continued. Lakme led double-digit growth on Core and 9 to 5 ranges, and the launch of 9 to 5 Crease-less Creme Lipstick was also there. Significant activations this quarter, and there were portfolio additions across lip and nail.



On Beverages, there is a continued healthy performance. Tea growth was led by Red Label, Taj and 3 Roses driven by impactful activation and micro marketing initiatives. And Lipton Green Tea had a handsome performance this quarter based on the focus on market development. And coffee registered double-digit growth with Bru Gold doing particularly well.

In Packaged Foods, double-digit growth was seen in Kissan, Knorr and Kwality Walls. And Kissan sustained its activation led growth momentum, and the Art attack activity being well received. Knorr delivered robust volume growth led by Soups, where Instant Soups more than doubled and new variants were introduced. And Kwality Walls and Magnum registered another good quarter driven by sharper in-market execution.

On Packaged Foods, I'm sure the slide we have seen earlier as well. This is the fifth successive quarter of double-digit growth where we're fundamentally driving growth through market development by unlocking everyday relevance everywhere, driving adoption and trials, and sharp in-market execution. And this has been leading to a very strong performance in this particular category for now five quarters in a row.

Coming to Pureit, Pureit continues to strengthen its category leadership, it sustained double-digit growth this quarter. And the premium innovations like Pureit Ultima RO+UV continued to deliver strongly. Our focus on market development by building relevance continues, and Modern Trade and Pureit Stores drive growth as well.



And moving on to the results summary, as I said earlier, net sales up 8%, PBIT up 8%, PBIT margins up 10 bps and net profit up 18% fundamentally based on the exceptional item on sale of property.

So I'm back to the results further. We had an additional – on the depreciation line, you will see an additional INR 4.8 crores taken because to adopt the provision for the new Companies Act. In the employee cost line, you would find a one-off provision of close to INR 39 crores towards select contested matters. The other income line is fundamentally impacted by timing of some of its non-trade investments coming to – when do we sell those non-trade investments. And the exceptional items fundamentally include a sale of property of close to INR 407 crores this quarter.

Coming to the tax rate, tax rate for the quarter was 29.3% compared to a base of 18.9%. So what you'd actually see is a difference of almost 1,000 bps, which the ETR impact, because of fiscal going away is about 470 bps, but the base quarter also included a net write back of excess tax provision amounting to INR 93 crores.

So on a headline basis, the tax line has remained almost constant through this year at about 29% to 30%, and it's a base year that's creating a swing as far as the movement in tax rates are concerned.

To summarize the results, I think an 8% – the competitive volume growth – competitive and profitable growth has been sustained in this quarter as well, with 8% domestic consumer growth and 3% underlying volume growth. Competitive spends



have been maintained, and the PBIT margin expanded by 10 bps, with the impact of one-time provisional employee costs, additional depreciation and phase-out of excise benefit, offset by lower cost of goods sold and A&P.

Summarizing the nine month's performance. Nine-month performance is a strong performance, the net sales grew by 10% and PBIT moved by 15 bps – 15% and PBIT margin improving by 60 bps. All sub-segments grew by – almost by double-digits with Packaged Foods, particularly having a strong performance at 16%; net profit grew by 10% and PAT bei by 8%.

Looking ahead, we see modest pickup in market growth. The operating context change is fast changing with the sharp move in commodity costs and competitive intensity picking up in these categories. As I said earlier, looking ahead, we do see, because of this fall in commodity costs, lower price growth ahead, and we see potential upsides on volumes, as the pricing starts to kick-in.

We continue to remain positive on the medium to long-term outlook for FMCG and HUL, is well positioned in terms of its brands, capabilities and talents to deliver that. Our strategy remains unchanged, which I took you through before. And as far as the immediate context is concerned, we'll continue to manage the business dynamically for 2015 volume-led growth and margin improvement.

With this, let me hand you over to Sanjiv, who will take it from here.



Sanjiv Mehta:

Thanks, Balaji. Good evening everyone on the call in India; and greetings to everyone. I wish you all a very Happy New Year. Let me start by commenting on the quarter's results; and the goals are very clear. We've been talking about it for several quarters now. It is about consistent, competitive, profitable and responsible growth.

We have delivered another quarter of competitive growth. Our growth has been ahead of the market, which on a total basis has continued to remain soft. We have also been agile in taking actions to drive the competitiveness of our brand.

Given the volatility and many moving parts in the market in the last quarter, we took a call to act decisively to readjust the pricing and pipelines in the commodity linked category. It is consistent with what we've been saying in the past, that the foremost priority is to ensure, we remain competitive in the marketplace and these actions should help set us up well as the markets further evolve.

Coming to profitability, it has been another quarter of profitable growth. We have been able to deliver margin improvement despite absorbing a one-off provision for various matters and litigation, the additional depreciation impact and the phasing out of excise benefit.

On an intrinsic basis, the margin delivery was clearly above much higher order, and this is a reflection of how we are finding the ways to manage the P&L in a manner in which we are able to deliver both the competitive top line, and margin improvement in tandem. And this is after continuing to invest sufficiently behind the brands across all our segments.



Recognize that not all of our investments are on A&P alone, but sit under the various lines of the P&L as we look to drive all levers of competitiveness.

Now, given the benign commodity cost outlook, I know many of you in recent times have been watching closely and commenting on the developments on the margin front. You will note that cost of goods sold or gross margin as you see, it was better off by 120 bps in the quarter as it starts to reflect the impact of falling input costs.

Going forward, we can expect to see gains coming through from the commodity, but as far as we are concerned, let me reiterate what I said in the past, we will continue to dynamically manage our business, look to be competitive in the marketplace, whether it is on pricing or on spends, ensure that we are offering the best value to our consumers, and at the same time, remain steadfast on driving efficiency across the line. And that is how we remain committed to our goal of delivering profitable growth with modest improvement in margin.

Let me now share my thoughts on our performance across segments. Soaps & Detergents is a large part of our business, and this is clearly where a lot of action in the marketplace and our interventions have been in the recent quarter. To keep it short, we continue to do well and have sustained another quarter of competitive growth.

Coming to Personal Products, while overall growth has in part been muted by the phasing out of excise duty benefits, and this will continue to be the case for a couple of more quarters till it



comes into the base, it really is a story of multiple parts. Therefore, let me spend a couple of minutes providing you with the perspective.

Skin Care has had a good quarter, although lower than what we would have expected given the delayed onset of winter. But if you kept the winter portfolio aside, which is essentially Hand & Body, then it has been a very good quarter on growth. As for Fair & Lovely, it continues to build on its momentum since the re-launch in the previous year. And I'm pleased to see the decisive actions that we have taken on this iconic brand paying off.

On Hair, the category is on a good momentum. The brands are strong and delivering consistently. And I'm very pleased to see the solid progress that we are making here. Colors is an exciting category and our focus continues to be to strengthen Lakme's leadership position in premium makeup through a mix of contemporary innovations and impactful activation.

As for Oral, while overall growth was impacted by the phase out of excise duty benefit, the one category where the hit was the hardest, there is clearly much more work to be done on Pepsodent, where the performance is still subdued and falling short of our own expectation. There is some work to be done here, but otherwise across the larger PP portfolio, business looks healthy and well poised as and when the market growth starts to look up.

We are absolutely seized of the fact that PP represents a large opportunity and will be a growth driver as markets and consumers evolve, and to that extent, we remain steadfast and



resolute in the actions that we are taking on building this part of our business through a mix of market development as well as strengthening the core.

That then brings me to Beverage, which continues to deliver a healthy performance on the back of a strong portfolio of brands which are gaining equity and consumer franchise.

Coming to Packaged Foods, I'm pleased to see the progress that we're making. You have heard me say in the past and let me say again that we're committed to this segment and you will see this reflected in the actions that we're taking on market development across the portfolio. We have now delivered a fifth successive quarter of double-digit growth with all key brands growing in double-digit. Clearly, the actions that we're taking on building everyday relevance, driving adoption trials and sharpening our end market execution are yielding results.

Therefore to summarize the quarter, I'd say it's been a healthy performance in the soft market. We continue to deliver on our goals and importantly are taking actions to drive competitiveness in a fast changing operating context.

I'd now like to talk very briefly about the market. The market on an overall basis still remains soft with pretty much flattish volume growth if you look at the totality of the market. Nielsen still indicates the volumes are negative in skin cleansing, urban, modern trade, large packs and in the popular segment of the market. Having said this, the market appears to be showing some signs of a pickup in recent months as reported by Nielsen across several categories, but more so in rural than in urban.



The Personal Products market and Modern Trade channel though have still not shown any pickup. Therefore, we will need to still watch this for some more time before one can call it out as a sustained recovery. The fact is that for many categories, it does represent a directional shift in the trend line compared to what we have seen in the previous quarter.

And while we have maintained that FMCG growth typically recovers with a few quarters lag compared to the broader economy, the fact is that improving macroeconomic indicators like falling inflation, improving sentiment augurs well, and keep us optimistic and positive about the outlook of our sector, as indeed a lot of you are.

So let me conclude by saying, we will continue to dynamically manage the business in a fast changing and increasingly VUCA context with a view to delivering volume led growth and margin improvement. I believe our strategy is on course and that HUL is well placed to deliver on this goal of consistent, competitive, profitable and responsible growth.

With this, I would now like to hand the call back to Dinesh Thapar, and look forward to meeting with you in the days ahead.

Dinesh Thapar:

Thanks, Sanjiv and Balaji. With this, we now move on to the question-and-answer session, and I recognize it might be a little late in the day again. So, what we'll do is to try and bring the call to a close by about 7:30 which gives us about 60 minutes time for Q&A. Can I request participants who want to ask question therefore keep it really tight, so that we can try and accommodate as many during this period of time.



In addition to the audio queue, as always, we also have the option of the web question, so please feel free to use the web question. We'll pick those questions up in the course of the session.

Before we get started, I'd like to remind you that this call 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, please feel free to reach out to us at the Investor Relations team at HUL.

With that, I'd like to hand the call back to Shareena, who will manage the next session for us. Shareena, over to you.

Moderator:

Thank you very much, sir. We will now begin the question-and-answer interactive session for all the participants who are connected to the audio conference service from Airtel.

The first question comes from Mr. Naveen Kulkarni from Phillip Capital, Mumbai. Mr. Kulkarni, you may ask your question now.

NAVEEN KULKARNI:

Yes, I would like to understand on the blackout period in the quarter, what impact it has had on the revenues. And also could you give us some indication on the secondary off-take for the quarter if that is possible?

And my second question is on the advertising spend. So, while advertising spend has gone up, but it is still down as a percentage of sales in spite of the benefits coming on account of raw material? So, how do we see this moving ahead? What is the strategy with regards to that?



SANJIV MEHTA:

Thanks, Naveen. As far as the growth rates, secondary versus primary is concerned, I can confirm that secondary is higher than primary. And as far as the blackout period itself is concerned, just to elaborate, in certain cases we have higher price inventory in the trade. And by stopping primary sales, we actually flush that inventory out through the system before we plan the new price in the market. And that's a blackout period.

And in a way to say – put it differently, take the impact of all the guys together, that is the blackout period impact, the winter growth impact and tie it altogether, we believe our volumes would have been broadly in line with what we have been seeing through the many quarters. So, that's the broad comment on primary versus secondary, as well as growth rates.

And on A&P, A&P, we have decided, as I said even earlier when we referred to it, we play all lines of the P&L, and we have been competitive on every category that we have operated in. And what we basically do is to ensure that we track spends and then accordingly stay competitive there.

So, this particular 12.9% of turnover which you see as A&P is INR 48-odd crores increase in an absolute term, but it comes up as a 30% decrease. But even on an absolute level at 12.9% is a pretty healthy amount of A&P, that is out there is, is the way I would conjecture. And we will ensure that we stay competitive there.



NAVEEN KULKARNI: Yeah, just on that bit on the volume growth, so do you mean to say the annual average would be in the range of 5% for this quarter also or is there any way else to look at it?

SANJIV MEHTA: So, I think we are following broad trends there. So, I think without quoting a number, I would say that if you adjust for these things, we'd be broadly in line with what we've been delivering so far.

NAVEEN KULKARNI: Okay. Thanks.

SANJIV MEHTA: Thanks.

Moderator: Thank you, Mr. Kulkarni. The next question comes from Mr. Arnab Mitra from Credit Suisse, Mumbai. Mr. Mitra, you may ask your question now.

ARNAB MITRA: Yeah. Good evening. Thanks for taking my question. First question is on the comparative scenario. You have been proactive in taking price cuts or promotions. I just wanted to know how is the overall landscape compared to the past – have you been the first actually among the organized players to lead the market here? And are you facing lot of competition of unorganized in terms of the price cuts here? And how do we see this in context of the muted A&P, something that the previous person asked, but why have we not seen that also reflect in higher A&P in the market?

SANJIV MEHTA: Arnab, I don't want to conjecture in terms of whether we are the first or the second – I won't go there. But I think we have, given the sharpness & speed of the crude drop, have moved in quickly. I would say that this is one of the fastest that we have done in our – I would more look at our internal metric there. So we have moved in as soon as we had indications on this, and



that is to ensure that we retain the consumer franchise there. And as far as the A&P is concerned, we play these on every line of the P&L, be it pricing, be it TTS, be it A&P. We go right through and then decide what is the right way to do it.

It also depends on what is the kind of activity plans we have this year versus what we had last year. So, there are multiple moving parts on that front, the only thing which I would leave you with is that rest assured, that we will stay competitive come what may, and the very fact that we have moved in proactively with pricing in the market, this goes to underscore our fact that we put our money where our mouth is.

ARNAB MITRA:

The second question is on the pricing growth that you mentioned looking ahead that price growth will be lower. Is there given that crude is now at around 50 versus say 76 as an average, is that not a reasonable chance that price growth is actually negative going ahead? And in that scenario, will you be happy with a good UVG number or is USG also something that you would look at in terms of delivery next year?

SANJIV MEHTA:

I think it's a fair assumption that in certain pockets of our portfolio, you could see a negative price, that's quite realistic assumption to me. But as long as the way we are saying it is that – there is a market value growth, there is a market volume growth, we will stay competitive on each one of those, and we need to ensure that we play this. The very fact that we have a portfolio that travels a full pyramid, gives us much more degrees of freedom to play this game.

And let's not forget, this is also a great opportunity to drive upgradation. It's a great opportunity to make brands more



accessible. So therefore we would be leveraging into the field, it's not just a linear price versus cost game, it's actually, what are the fundamental strategic position we want to take on the portfolio, and how do you want to drive it and can we get some disproportionate gains on this. It's the way we're looking at it. Hope that helps.

ARNAB MITRA: Sure. And just one last question on excise duty, you have quantified this impact 120 bps top-line, 40 bps on the EBIT, so why is this difference? Is it, because of the input credit, on that you get on those facilities, why is that number actually different?

SANJIV MEHTA: Yes, there is – obviously the input credits will be there in that.

ARNAB MITRA: So this does not take into account any pricing increases you would have taken to offset excise?

SANJIV MEHTA: No. It is like-to-like, very simply removed excise. It does not include – one of the savings program you will notice is we will be driving the way we rejig our supply chain to get the benefits out of it because we can produce closer to market. We have not considered any of those benefits, it's the pure play. If there is an excise duty benefit goes away, you will get a [ph] more accurate (30:06) what are the net impacts of that.

ARNAB MITRA: Right, right. Thanks so much. I'll come back if I have any other questions.



SANJIV MEHTA: Thanks Arnab.

Moderator: Thank you Mr. Mitra. The next question comes from Abneesh Roy from Edelweiss, Mumbai. Mr. Abneesh Roy, you may ask your question now.

ABNEESH ROY Hi, Sir. This is Abneesh here. Thanks for the opportunity. Sir, my first question is on the Soaps & Detergent sales growth has become half. Sir, some of the other soap players are saying that the sales growth in this quarter is going to be very good. So wanted to understand from a market share perspective, where are we in both Soaps & Detergent? And sir, why has the growth in Wheel been muted? Could you point out specific reasons for that?

SANJIV MEHTA Yes. Hi, let me take this question. When you look at the Skin Cleansing market, the market as per Nielsen is – the volumes are still negative. And the value growth, though it has picked up from max basis, we're still talking about under 3%. So it is still a very subdued market growth. And in that context, if you view our performance, our performance has clearly been much ahead of the market. Yeah. So that's question on Skin Cleansing is concerned.

As far as Wheel is concerned, yes, the Wheel growth has been soft. But that is, as you know it's a mass product and it is also a brand where we have taken a price adjustment, taken it downwards. And that's the reason also, you know what Balaji explained a while back, that we had a dry-out period as well and that has impacted the overall growth of Wheel Powder.



And one more thing that I would like to point out, when you look at Soaps products, Soaps is another category which was impacted by the fiscal benefits weaning away. So if you look at it from a perspective, you have to take growth of the fiscal benefit to look at what has been from a consumer value market growth perspective.

ABNEESH ROY

So coming back to Soaps, the differential sales growth for you and the other players in this quarter if at all. So could that be because your blackout period was first and their blackout period is coming later, so they can get impacted in the subsequent quarter. Can that be one reason, sir?

SANJIV MEHTA

Yes, I wouldn't like to comment on that, because if we don't have that full facts before us, it would be wrong on us to hypothesize on that.

ABNEESH ROY

Sir, one more thing, if you see the raw material scenario has been progressively – it's getting better. So in that context, the price cuts or promotions which are happening in Soaps & Detergents, sir that will also be possessive, right? So in Q4 also and maybe even Q1, can we see more blackout period impact?

ABNEESH ROY

Sir, my second question is, in Packaged Foods, you have done quite well for the last few quarters. You said in PP, Modern Trade has not seen any pick up. So in Foods, how things have been in Modern Trade? Is there any divergent trend in Modern Trade between Foods and PP?



SANJIV MEHTA

See, Packaged Foods is still a very small category in the country and its penetration levels are very small, very small, yeah. Whereas, if you look at a category like Shampoos, you have a household penetration which reaches an 80%. If you look at Skin Cleansing and Laundry, it reaches an upwards of high 90%. So those are very different dynamics. And in Packaged Foods what we have been doing is investing in market development which is growing the market. We've had some stellar results with the kind of marketing campaigns and activations we have done, Take Kissan for instance and those have started giving us very clear dividends. So these are not really comparable categories from a growth perspective.

ABNEESH ROY

Sir, my next question is, in the opening remarks you said, signs of pick up are there. So, is this comment based only on Nielsen number because your own volume growth is lower than the last few quarters? And you're saying discretionary under pressure, small packs doing better. So is it largely based on only Nielsen because, sir, what we see is, in rural areas wages are coming off and SP prices increased those are coming also – what is your comment based on?

SANJIV MEHTA

Market, we will at Nielsen, yes, because that is the published data we get. And we also look at sometimes the household panel that we have both put together and then we come to a conclusion and while we see that in many categories it has bottomed out, the decline or the negative growth. I don't think we have come to a conclusion that the recovery you can pronounce that as a sustained recovery, not yet. I think, we'll



have to see the next couple of quarter's growth to see how the trends are emerging and how the patterns are coming out.

ABNEESH ROY

Sir, my last question is on EBIT growth, if you see Personal Products, EBIT growth as far I mean falling off, it is 27% in Q4, 21% in Q1, 17% in Q2 and 3% in Q3. So, why has it progressively deteriorated, and similarly in Beverage side, the comment is EBIT growth is very volatile; one quarter, it's good and one quarter, it's bad. So what's happening there in these two?

SANJIV MEHTA

Okay. Let me talk about Personal products, I think there are two levels here. One of course is, if we look at the full nine months so far, Personal Products profitability is actually improved. And I'll talk EBIT margins and that has actually improved. And the reason why we find some of the numbers moving the way they do is also explained by the fiscal benefits going away.

So, that's one of the category, the Personal Care category does get affected by that. And that's one of the reasons why you'll find EBIT moving the way it does. But having said that, it also depends on how activity phasing is happening in terms of A&P, and we have higher activity in one particular quarter versus another quarter. So don't read too much from one quarter to another quarter. Apart from the excise benefits going away, there is nothing structural as far as that category is concerned from a profitability perspective.



Coming to Tea, Tea again has been a – if you follow – Tea has an interesting performance this quarter, because Tea actually is hit by inflation. You had North Indian Tea, which actually inflating pretty significantly, and South Indian Tea is deflating. And we are more heavily skewed towards North Indian Teas, and therefore we had a bigger hit of it, and that was the reason why we found competition actually coming in. We are rejigging the portfolio as we speak, and therefore, commodity linked category has that additional trends as well as – as far as Tea is concerned.

ABNEESH ROY Okay. Okay, sir. Thanks a lot. I'll come back later.

SANJIV MEHTA Thanks, Abneesh.

Moderator: Thank you, Mr. Roy. The next question comes from Mr. Puneet Jain from Goldman Sachs, Mumbai. Mr. Prakash, you may ask your question now.

PUNEET JAIN: Hi. Good evening, everybody. This is Puneet Jain. I've got couple of questions. My first question is actually with respect to – you have mentioned that Dove and Surf have done well, while Wheel hasn't done well. While you also mentioned that urban has done – not done so well, while rural has done better. So how do these two equations match up, where more premium products seems to be doing better?

SANJIV MEHTA: See, there are two different things. One is, we were talking about the market; and the other is, we were talking about our brand, yeah. So when I was talking about urban and rural, when I was talking about NP and GP, when I was talking about large packs and small packs, I was deconstructing the market for you.



Whereas when we look at Surf, it is all with relation to our growth rate. And in that context, we were explaining that, how the Surf, the Rin, the Comfort journey continues unabated, whereas the Wheel growth was relatively muted in the December quarter.

PUNEET JAIN:

Could it be also because the competitive intensity is increasing more in lower price points than in higher price point?

SANJIV MEHTA:

Absolutely. Whenever there is a price drop; whenever there is a softening of prices, there is more intensity in the bottom of the market, yeah. Many mushroom players mushroom-up, and then the context changes. And also you have to appreciate that, to protect our competitive position, we have to take the price reduction that Balaji talked about in brands like Wheel.

PUNEET JAIN:

And my second question is, actually with respect to – you've been maintaining very high cash balances for very long. And cash balances even right now are quite large. So is there some thought process about inorganic growth, and about this cash utilizations?

P. B. BALAJI:

The cash balances in terms of increases in cash balances with the kind profitability improvement that is a big source of growth. Let me just deconstruct the source and use of cash.

PUNEET JAIN:

Yes.

P. B. BALAJI:

There's one source of cash. Second is, working capital performance has been improving consistently from where we have improved it further this year. So business process efficiencies continue, we keep a very tight control on CapEx. Yes, CapEx flow is indeed negative, but if you do have a CapEx every year, but it is well managed and kept very, very



tight. So from overall cash position, those are the main interventions we make from a cash perspective.

PUNEET JAIN: Yes.

P. B. BALAJI: As far as the use of funds is concerned, we do look at all options in front of us, starting from whether we want to tighten credit periods, whether we want to look at organic, inorganic opportunities for growth, those are the full portfolio of options that's available in front of us. And at various point in time, we will take prudent calls on that. And as and when the timing is appropriate, we will definitely get back to you once we've made up our mind on that.

PUNEET JAIN: Even though, the fact that the market has been slow for the – in the recent past. Have you seen an increase in inorganic chances of growth or are there more brands available?

P. B. BALAJI: I wouldn't want to comment on specific transactions, Puneet. But having said that, we will always be looking at it, and whenever there are right opportunities, we will go for it.

PUNEET JAIN: Okay. Okay, thanks a lot.

P. B. BALAJI: Thank you.

Moderator Thank you very much, Mr. Jain. The next question comes from Mr. Richard Liu from JM Financial, Mumbai. Mr. Liu, you may ask your question now.

RICHARD Hi. This is Richard here. Thanks for taking my questions. Between the last time you had such a scenario, namely sharp fall in commodity costs, do you reckon, there's been any



change in the behavioral pattern with respect to the unorganized peers, whether in their own behavior per se or in the way consumers look at the brands from such peers?

P. B. BALAJI:

Too early to make that out, yeah, we're just into the game. And the price drops and all have just landed into the market. But the difference has been that we have been much swifter and agile this time around than compared to what happened in 2008 and 2009.

RICHARD

And the way you perceive how consumers used to look at lower-priced brands earlier and whether they've become far more brand conscious this time around, such that price cut may not really attract them to those brands?

P. B. BALAJI:

I think one thing for certain is that our brands today are much stronger than what they were then. We've also invested significant amount in upgrading the quality of Wheel. So I would tend to believe that the impact would be less, but there would certainly be impact, no question about that.

RICHARD

Okay. My second question is how will you look at pricing once the first two quarters in the lower commodity cost cycle are over? I guess there would be no reason to take up prices then, which if this trend of lower commodity costs remain, which means that your revenue growth will need to be entirely volume driven. Is this sufficient to really drive the kind of mid-teens revenue growth that you've been used to clocking or do you really need the help of some pricing to achieve that?

P. B. BALAJI:

Richard, I think there's two levels to it. One of course, as I've signaled earlier, that it is fair to expect that pricing is likely to be weak as far as the market is concerned, and there is likely to be an upside in terms of volumes. So that's a clear one there.



I think the key question that we need to be answering is what would likely be the overall market value growth impact of this. We'll have to play it as it comes, and as long as we stay competitive on both the value side and the volume side, we are very clear that we will be ahead of the market on both these counts. And that's how we'd like to see it.

Yes, we would love to see a mid-teens growth if possible, but it totally depends on how the market takes off. And what we are currently saying is that, having taken a point of view that this is how the market is likely to move, we are positioning our portfolio on that basis. And then, we'll have to see how it plays out going forward.

But it would be hard for me to speculate how much will be the market value growth and how much will we be able to meet it. We'll wait and see.

RICHARD

Sure. And lastly, I also noticed the conspicuous absence of Dove in your commentary regarding soaps growth, and also something mentioned regarding small packs driving the growth of Close Up. Is there anything more than meets the eye that we should read from this with respect to maybe down trading et cetera?

P. B. BALAJI:

Not really. Just do reflect on the fact that Dove from a – given its moisturizing position does get impacted by winter, and we did call out the impact of winter as well. So I would – Dove has been a strong performer for us this year, and it's just that it has not led growth this quarter, that's the reason why we've not called it out explicitly. But I would go ahead and say that I'd



probably put it down to the delayed onset of winter as one of the key reasons on Dove, but we will be keeping a close watch on it.

RICHARD

All right. Got it. Thanks a lot and wish you all the best.

P. B. BALAJI:

Thanks Richard

Moderator

Thank you, sir. The next question comes from Mr. Manoj Menon from Deutsche Bank, Mumbai. Mr. Menon, you may ask your question now.

MANOJ MENON:

Hi, team. Congratulations on a very good performance, and wish you a wonderful 2015. My first question is regarding market shares, where we stand at this point in time. Look, we have been hearing for the last maybe couple of years that HUL has been competitively performing well, if you could kind of talk a little more in terms of numbers, let's say, even at an aggregated level, will it be fair to say that you're gaining shares in, I don't know, 70%, 80%, let's say, of your categories?

P. B. BALAJI:

You're absolutely right. In fact, if you were to look on a MAT basis, yeah, we have grown ahead of the market in nearly 90% of our turnover.

MANOJ MENON:

Okay. Okay. If you allow me to ask, what would be that 10% there?

P. B. BALAJI:

See, very clearly, no question about that, Oral Care.

MANOJ MENON:

Okay.

P. B. BALAJI:

We had, yeah – and I spoke about that. Deos is another category where we have had issues. But the good bit is, we are seeing the resurgence after the last launch of Axe success. And



I hope you have tried that brand. And the Signature, yeah, is – and that we're starting to see a pickup happening very clearly. And we're determined to turning around both those categories in 2015.

MANOJ MENON:

Perfect. Sir, second question on the price cuts. I know it has been discussed a bit earlier, but my context is slightly different. Two questions to the price cuts happening currently. Is it realistic on my side to let's even think that HUL is actually now starting a price war in the market, because historically that's not necessarily is the case. That's one part of the question. Am I being kind of too aggressive in saying those words? That's one.

Second is that, considering the investments which you've done in capability of brands, and also you spoke about formulation improvements in the last few years, so in that context, definitely your brand equity index would have gone up. So is it not there is an opportunity for you to actually structurally expand margins when you come out of this, let's say, volatility in inputs?

P. B. BALAJI:

Okay. Manoj, let me take that. I think there are two questions that you're asking. Whether are we starting a price war, I think that I would be the last one to agree with you on that particular front. I think where we are looking at it is, there is a price value equation in the market, and we need to ensure that we stay competitive on that front.

We've learnt our lessons from 2008 and 2009 very well, and that's the reason why we are moving in very, very fast on this particular front. And we learned – we know the perils of not acting fast on this, and that's what we have done. So to call this



a price war, I think may not be the right characterization that I would use.

MANOJ MENON:

Sure.

P. B. BALAJI:

Yeah. Coming to the element of restructuring, does it – is it going to help us improve our margin? Commodity cost and margins, I would de-link the two. The strength of our brands will decide the kind of price premiums we can charge on the brand, and finally, it's a value equation that the consumer is after. As long as we're able to provide value, consumer will pay for it, and we'll need to structurally alter our cost inputs into it so that we can manage it.

I wouldn't use commodities as a way to do it. I would use fundamental brand strength to actually drive sustainable margins. So our focus on capabilities, as you rightly put it, is the place where I will go look for margins, not necessarily in the commodities gain. If you try and get a bit too greedy on the commodities side, then we will end up paying much more than what we have actually gained out of it.

But having said that, what does this commodity fall let us do? It helps us decide how we want to accelerate the premiumization of the category, accelerate the trials of the brands, because aspirational brands become also accessible. Hence they are in a position to get that conversation going with the consumer, and we hope to pray that at least some of it sticks, because once the consumer does experiment or play with a better brand, chances are that he or she may stick with it, and that's what we are hoping for. Even if we're able to get a marginal improvement in our upgradation game, then I think we are in a good place.



But I'll circle back to what we always been saying, whether commodities go up or commodities go down, we are committed to modest improvements in operating margin and we will be reinvesting the gains of it or we'll be managing the P&L appropriately to ensure that P&L is managed. Hope that helped.

MANOJ MENON:

Perfect. Balaji, one follow up on that. The context of that question was essentially on your, let's say, if I take the Skin Care and if I look at the packing material savings there, or if I take the premium part of your portfolio, the question is not necessarily at the Wheels and the places of the world, it is inclined to other side of the portfolio also. Again I'll go back to that, is there a case that once we come out of this at least the margins for the – because for example for a Surf it's not necessarily that you may actually have to reinvest everything because there is a threshold up to which you will do it and the rest, I mean, may not be productive to invest, let's say, on a bunched up basis.

P. B. BALAJI:

You're right. If you're telling me, will cost of goods sold improve across the portfolio, absolutely yes? But will it translate into EBIT margin improvement that we'll have to wait and see, because it depends on how we play the game and how competitors are reacting on this because just like I have a packaging intensity, my competitors also do have the same competitor packaging intensity. How they intend to deploy, how we intend to deploy, all that comes together. But fact remains that the very fact that you're having a higher source of gross margin coming from this will help you deploy the gross margin better.



MANOJ MENON: Perfect. Balaji, one last question, which Arnab asked earlier in terms of the excise quantification. First of all thanks for that 120 bps and 40 bps. Is that 120 bps to 40 bps, is it only MODVAT is or for example is there a freight element also taken into that, because that's a PBIT part?

P. B. BALAJI: No, no, no, no. We're not doing – all those are kept outside that we are quantifying in savings rather than excise impact.

MANOJ MENON: No. So which means technically net off excise right there is actually no excise impact, I mean there's no excise negative impact.

P. B. BALAJI: Sorry, I didn't get you there, Manoj.

MANOJ MENON: Okay. So the sales impact is minus 120 bps, the PBIT impact is minus 40 bps. If I understood you correctly, the difference between 120 bps and 40 bps is MODVAT?

P. B. BALAJI: Correct.

MANOJ MENON: Okay. Now which means, let's say, if you rejig your manufacturing, let's say, you don't produce in Assam, but you actually produce, let's say, somewhere in south India close to the market, you'll actually save on the freight cost as well both inward and outward, and right? I mean, so which means net of that, because that's a saving right relative to what it was in the base, which means is it fair to say that the net of that excise impact is actually zero?

P. B. BALAJI: Let me articulate it differently. Look at our nine months performance where our operating margins have improved about close to about 60 bps odd, yeah. And that is after considering all the excise debts, after considering all the increases, let's say,



for example in royalties that is there, all that has been absorbed and then we're delivering a 60 bps over a nine-month period. So even the 10 bps is also after considering all those numbers. So savings will be there, and that is what we are driving for. So there's modest improvement in operating margin we refer to, again goes back to that point. That is an additional source of funds that we will have.

SANJIV MEHTA:

I think the question, Balaji, was, Manoj, if I get you right, you were alluding to that 40 bps adverse impact because of excise, will it get neutralized by distribution savings, yeah. First is, 40 bps would be too difficult to remove immediately. Over a period of time, it may get neutralized but the fact is that yes it has been, but then on the other hand as Balaji indicated, we have taken several other steps to bring about more cost competitiveness in the business.

MANOJ MENON:

Okay. Okay. I'll take it offline. Thank you so much, and all the best for 2015.

DINESH THAPAR:

Thanks Manoj.

Moderator

Thank you, Mr. Menon. The next question comes from Mr. Percy Panthaki from IIFL, Mumbai. Mr. Panthaki, you may ask your question now.

PERCY PANTHAKI:

Yeah. Sir, can you help me understand on the Soaps and the Detergents category, what are the price cuts which have happened as of now as in on a weighted average basis for that particular category? How much price cut has happened?

P. B. BALAJI:

See, on an overall portfolio level, it's close to about 5%, Percy, and specific as deals can go down to even 10%.



PERCY PANTHAKI: So when you say overall portfolio, it is overall portfolio within the S&D top line right?

P. B. BALAJI: That's right. That's right.

PERCY PANTHAKI: Right. And also wanted to know, I mean, not necessarily till now but even in future, this price cuts are they going to be restricted to the lower end of the pyramid like the Wheels and the Breeze and the Lifebuoy, or do you think that price cuts will happen even in premium brands like Surf or Dove and all that?

SANJIV MEHTA I think it is totally dependent on what the strategy that we would like to implement. For example, this time we've also cut prices in Rin for instance. We have cut prices on the Surf Blue portfolio as well. That's all there already in the market. So therefore, not necessarily it'll be done only in the discount side, it totally depends on the strategy of premiumization that we want to drive, and also it depends on the price elasticity of that particular category.

If a particular category is not priced elastic, cutting prices there may not necessarily help, and we will therefore want to play this dynamically. And beyond a point, I wouldn't want to comment too much on this given the competitive dynamics on this.

PERCY PANTHAKI: Understood, sir. Next question is on operating leverage. I mean in the last two years, you've done a really commendable job on the entire overheads part that is a staff cost plus the other expenses. Both these have been like maintained at around 10% growth in spite of the royalty increase et cetera, so actually if I



see the other expenses, if I remove royalty increase it's actually just a 5% kind of an increase YOY.

So is it that the last two years were a little difficult in terms of profit delivery, and therefore the belts were really tightened and when the input cost scenario improves and you have a little bit extra money, these costs will return back to more a normal growth which maybe higher than what we've seen in the last four quarters to six quarters. Just wanted some clarity on that.

SANJIV MEHTA

I think Harish puts it very, very succinctly when he says there is always business as usual on growth and business unusual on cost, that's what we normally follow. So the belt-tightening is there to stay. And that is important because it just ensures the process efficiencies kick in, and we're able to not duplicate each other's work. So therefore the pressure on overheads will continue and we have internal targets on that independent of what happens to our growth number whether commodities growth go down independent of that is a conversation on overheads.

PERCY PANTHAKI:

Right, sir. And one more on excise also, a lot has been talked about that my question is slightly different. So the last quarter that is Q2 was the first time you called out this increase in excise duty, and therefore Q2 of FY 2016 should see an anniversarization. But is it that your factories would come out of tax holiday gradually over the next two-year, three-year period and therefore in spite of the anniversarization happening, you would still see this drag on account of fiscal benefits going away because that is how the timing of your factories are, or is it just going to be like after Q2 FY 2016 this thing will go away in terms of incremental drag?



P. B. BALAJI:

I think what we have done, Percy, is that there's this significant impactors this year. It has moved EPS significantly, it has moved margins. That's the reason why we have called out. And even when we are calling it out, we are still maintaining that we'll continue to have modest improvement in operating margins despite that. So therefore, the big impact is, this year, as you rightly say from June till June next year, sorry, June last year because we're already in 2015, June last year to June this year. And that is a significant impact where we had a set of critical factories of us that moved out of the excise zone, but it won't be of this magnitude going forward.

PERCY PANTHAKI:

Right. And lastly, sir, the PFAD prices in the last few weeks have seen an up move. So just wanted what is your view there? What is, according to your intelligence, driving that move? Is it just seasonal or is there some structural change happening on this which is effecting the PFAD prices in terms of demand, supply, anything you've heard in the global context which could be causing this move?

P. B. BALAJI:

Wouldn't want to comment on short-term moves, Percy, but where we are positioning our portfolio is that ensure that we are well prepared for a steep fall while at the same time be prepared for if things start moving, start building back pricing into the markets. So therefore, we will be looking at it very, very closely. Wouldn't want to hazard a guess or hypothesize why we believe oil is going this way or that. I'm not the expert. You guys are better placed than me to do that. But our job is to ensure that the business is agile enough as Sanjiv put it to operate both ways.

PERCY PANTHAKI:

Right, sir. That's all from me. Thanks and all the best.



DINESH THAPAR

Thanks, Percy.

Moderator

Thank you, Mr. Panthaki. The next question comes from Ms. Suruchi Jain from Morningstar, Mumbai. Ms. Jain, you may ask your question now.

SURUCHI JAIN:

Yeah. Hi. Thanks. I had a question, if there is a pricing war, what percentage of the Soaps & Detergents portfolio will you have to match competitor pricing? And what percentage can you continue to maintain at say a premium pricing? So essentially just a split between say the premium portfolio where you think you have brand strength to maintain prices.

SANJIV MEHTA

Hi, Suruchi. I think first of all it's a very hypothetical question. If there were a high price war, I wouldn't want to comment on that. It totally depends on what portfolio, what is getting hit, we can't generalize this one. So I must admit that I'm not in a position to answer your question directly, however, which I'd love to.

SURUCHI JAIN:

Okay. So you wouldn't even be able to just split it up say premium versus the low end just in terms of percentage?

P. B. BALAJI:

No, Suruchi, it doesn't work like that. You have to look at the price, strategic pricing of your portfolio vis-à-vis competitor. You also have to look at relative price index of your brands within your portfolio and that is when you come to a pricing decision. So in absence of what will happen into the market context hypothesizing will not pay any dividend.

SURUCHI JAIN:

Okay. Fair enough. And my other question was, what percentage of the Soap & Detergents EBIT margins would the PFAD and the crude related inputs account for at a total, if 100% will be EBIT margin?



P. B. BALAJI: Cost of goods sold at an overall, I wouldn't want to comment on individual categories. The cost of goods sold at an overall level is about 51% this quarter. And that has come off from close to about 52% same time last year, and about 53% in September. That just tells you almost 2% deduction between September quarter and December quarter in terms of cost of goods sold as a percentage of turnover.

SURUCHI JAIN: Okay. So you wouldn't want to comment on category wise?

P. B. BALAJI: We don't do that.

SURUCHI JAIN: Okay. And in terms of overall contribution from Personal Products, do you see that changing significantly, say in the next five years, given the strong growth that you witnessed in this product category?

SANJIV MEHTA Yeah. Very simple, Suruchi, that the headroom to grow in Personal Products is much more than the relatively more matured Soaps & Detergent category. And from that context, it would be fair to assume that the Personal Products contribution in our portfolio will keep growing.

SURUCHI JAIN: Okay. Perfect. And just to elaborate a little more on what you said on the small packs versus the large packs. I understand you were talking about the market, but in terms of HUL, are the small packs better margin, because from what I remember over the last year, rural sales have been better and these were some of the smaller SKUs that you were selling. So essentially there is low on volume, but in terms of both pack, the pricing might work out a little better. So is it fair to say that small packs were better margin in general for HUL?



P. B. BALAJI: I think within our brand, Suruchi, it'll not be the case. But if I'm able to sell more small packs of a premium brand, then I'm better off compared to selling some of the larger packs discount brands for instance. So therefore, it is the mix moves at three levels. There is a mix at a category level, a brand level and mix at an SKU level. And when you sell more small packs, the mix at an SKU level does come down naturally. But the mix at a brand level could be positive.

SURUCHI JAIN: Okay. So as I would summarize that, you're saying that if you sell a premium brand with a smaller SKU that might be higher margin, but a smaller SKU in a non-premium brand might not be lead to higher margins. Is that correct?

P. B. BALAJI: Yeah. That's right.

SURUCHI JAIN: Okay. Perfect. Thank you so much.

DINESH THAPAR Thanks, Suruchi.

Moderator Thank you, Ms. Jain. [Operator Instructions] The next question comes from Mr. Prasad Deshmukh from Bank of America, Mumbai. Mr. Deshmukh, you may ask your question now?

PRASAD DESHMUKH: Yeah. Sir, question is about Personal Care. So I mean, it's understood that category penetrations are low and so on. However, in the current scenario, what can you do to accelerate growth here versus what you can't do in Soaps & Detergent, but you can do it in Personal Care?

SANJIV MEHTA: Yeah, absolutely. What we described as market developments, and that is what we have been doing. If you look at the Personal Care market, has been growing at about 5% value over the last one year. And our growth has clearly outpaced this market and



a lot of that has been done because we've kept investing in market development, which is growing the market, which is increasing penetration, in some cases upgrading, in some cases increasing the consumption of a product. Yeah, so that's what we do. The market maker mindset, that's what we require in Personal Products.

PRASAD DESHMUKH: So generally on the ground, how does it work? I mean, similar thing you can probably do in Soaps & Detergents as well, right? I mean to move consumers from a mass brands to premium brands?

SANJIV MEHTA: No, there is a difference, right? When there is a category which is highly penetrated, you find the products in the houses. Whereas if you look at, say, take Deo for instance, which is very low penetrated category, I'm just giving you an example. They don't have it. So they have to experience the brand, yeah, only then, then they start buying. So it is very different market development, and Soaps & Detergents would be up-trading, whereas in a PC category, still there is a lot of headroom, take Conditioners, yeah, it is not about, it's very totally different, marketing is totally different from what it would be for Skin Cleansing.

PRASAD DESHMUKH: Got it. So in falling raw material kind of scenario, where would the efforts be focused in Personal Care, like advertising, promotion, investments and distribution, what would be main focus?

SANJIV MEHTA: See, it is, we played the entire game. At the end of the day, you have to ensure there is physical reach of a product. You also had to ensure there is a mental reach of a product. And you also have to ensure that the brand value remains through effective



communication and advertising. And it is not just about remaining competitive within the category, we also have to ensure there are certain minimal absolute GRP, so that you retain the focus for that particular brand or category.

PRASAD DESHMUKH: Okay. Got it. Thanks a lot, sir. That was the only question I had.

Moderator Thank you, Mr. Deshmukh. The next question comes from Mr. Harit Kapoor from IDFC Securities, Mumbai. Mr. Kapoor, you may ask your question now.

HARIT KAPOOR: Yeah. Hi. My first question, you've spoken about price cuts and being at the lower end of the portfolio, regional competition, et cetera. I just wanted to understand, there will be gross margin gains at the premium portfolio as well. And how is that really panning out? Is competitive intensity in terms of advertising already stepped up in the premium portfolio? How are you seeing that in the market right now?

SANJIV MEHTA: As I said earlier, I think the full element of – so I just view it as a source of funds, use of funds kind of a conversation. Source of funds is right across the entire portfolio and use of funds we will deploy it selectively to drive our strategy forward. And the very fact that you're seeing cost of goods sold coming off at about close to 120 bps, this tells you that how the portfolio is likely to play out or how it has played out in December quarter. And as far as how will the deployment of those funds happen at across time, clearly we'll be looking at all lines of the P&L, be it create promotions, be it pricing, be it A&P to ensure that we stay competitive on all lines.

HARIT KAPOOR: No, I understand that. My question was more specific. Actually I just wanted to understand - you said you have had price cuts



at the mass end, et cetera, but as you said that the crude price impact would be across portfolio. So have the premium competition also started to take up advertising spend or spend ahead of GRPs et cetera? I just wanted to understand that. I just think they're already in the market.

SANJIV MEHTA:

Yeah. Specific categories we do see A&Ps picking up, but I won't say it is happening across the board as yet, but that does not mean it won't happen going forward.

HARIT KAPOOR:

Understood. My second question is, you had made a mention on rural growths and said that you had seen some pickup in rural growths. But I just wanted to understand, is this looking more sustainable or you think this is just a fact that there have been price cuts and regional competition has gotten more active? So just want your thoughts on how you see rural growth.

SANJIV MEHTA:

This is difficult to predict and that is the reason we have been saying we will have to look at another quarter or two to really come to a conclusion whether the upliftment in the growth in rural markets is sustainable or not.

HARIT KAPOOR:

Understood. And my last question, I just wanted your view on the impact of the winter. So I understand that a delayed winter cannot really compensate or a harsher winter cannot really compensate for a delay, which you see in third quarter normally. But I just wanted to get your sense on, with the winter being harsh now and what's the market scenario that you're seeing currently is, and what really happens there, is it that the distributor doesn't take your stock in Q4 or the consumer buys a smaller pack in Q4? What's the kind of consumer behavior that you're seeing?



SANJIV MEHTA:

Yeah. Distributors are mainly on replenishment, yeah. So all that depends – what we feed the distributors depends on what is his secondary sales in the market. Once there is a delayed start, then what you lose in the quarter of course you don't regain it. But having said that, you must appreciate that Skin Care for us has been a great story that on an overall basis is still a double-digit growth story on an underlying basis. So we have our Hair story, our Skin Care story. The whole Personal Care story despite the context of the slow market has been a great story, much ahead of the market.

HARIT KAPOOR:

Okay. So do you think this time that as compared to earlier times, the impact of a delayed winter has been lesser for you, given that Skin Care has actually grown quite well?

SANJIV MEHTA:

See, what our growth has come from a perspective that if you look at Fair & Lovely, yeah, that's been a wonderful recovery that we have had and that continues. Then we also have face washes, that's been doing very well. We have Ponds. They have been doing very well. What we were trying to differentiate was between Hand & Body, which is basically the Vaseline brand, yeah, which is impacted by delayed winter. But as far as face is concerned, it's been – which is a bigger part of the portfolio, the growth journey continues.

HARIT KAPOOR:

Understood. Okay. That's all from me. Thanks a lot.

Moderator:

Thank you, Mr. Kapoor. At this moment, there are no further questions from participants on the audio line. I would now hand over the call proceedings to Mr. Dinesh Thapar for the web questions.



DINESH THAPAR: All right. Thanks, Shareena. We have a couple of questions actually on the web. So the first is from Nillai, from Morgan Stanley. Nillai's question is that the volume growth in some of the popular segment brands has been patchy over the past few quarters, Breeze and Wheel in particular. What's the reason for the same, and what are we doing to drive consistent growth here?

SANJIV MEHTA: Yeah. If I really look at Wheel, you have to understand that on a [ph] mac (1:12:37) basis, our growth in Wheel is very comparable to the market, yeah. And that's as per our strategy, because the focus has been on upgrading the consumers to Rin and Surf and that's worked wonderfully there. I think we also have to appreciate and [that?] prior to a year, we were having a bit of loss of traction in Wheel. And consequent to the re-launch that we had at the beginning of the year when we came out with an improved formulation in Wheel, we did see clearly the growth picking up. The question is in the quarter that has gone by, for reasons that we have explained, the growth on Wheel has been softer compared to the other brands in the portfolio.

DINESH THAPAR: We have a question from Latika from JPMorgan. If you could elaborate on the performance of rural, has there been a lagged impact from deficient rainfall and lower government stocks? How is your sales growth behaving on an incremental basis across both urban and rural?

SANJIV MEHTA: See, Latika, this was a question I had answered is, I'll talk to you from a market construct perspective. From a market construct perspective, yeah, one-third of the market is in rural and two-third in urban, broadly speaking. And what we have seen in recent times is a pickup happening in the last quarter in



rural at a rate much faster than urban. And is it going to be sustainable? We don't know. Our analysis is based on Nielsen and other consumer research that we do. And we will have to see for a couple of quarters to understand whether the growth in rural is sustained or not.

DINESH THAPAR:

Sagarika from SBICAP Securities. Question is, how much the price cut was taken in S&D and PP? We've answered that, but her follow-through question is, has the full effect come in 3Q or will it flow through in the next quarter?

P. B. BALAJI:

As far as the pricing is concerned, it is in the process of landing, so that will be a huge – could be landing on either side of the quarter. But the interventions have been done on the landings have already happened.

DINESH THAPAR:

Okay. A question from Ritesh from Ambit Capital, which says although the Soaps & Detergent portfolio was impacted by price cuts and fiscal benefits, how were you able to deliver EBIT margin expansion on a year-on-year basis? How will you manage price cuts and will you use them to drive premiumization?

P. B. BALAJI:

I think I commented on the premiumization agenda, therefore I don't want to go through it again. But as far as delivery of EBIT margin, I think he's referring to the nine months case of about 50 bps improvement in EBIT margin. We've had a very strong savings program that has been running through. We also have a pretty good traction on our, what we call as non-material supply chain costs where we had significant savings coming through the year. And of course, we had reductions on the – the very fact that you have an excise benefit, it also helps us to rejig the supply chain to ensure that we deliver better – get



closer to market and deliver. And of course, wherever necessary, we also have the A&P being done in a competitive manner. So we maintain competitiveness, but we pull back spend. So it's a combination of factors is what I would call in terms of delivery of EBIT.

DINESH THAPAR:

Okay. Sunder has a question from Spark Capital. Will the price reduction be in the form of discounts or price cuts? So essentially he is asking about, it's a promotional route or whether it'll be price cut and the impact of volatile pricing from a long-term brand perspective.

SANJIV MEHTA:

I think that is a very, very big question in terms of impact of volatile pricing that's something we want to stay away from, which is a reason why we have a point of view and we go ahead with the point of it. As far as the form in which the price cut takes, I think it would take a form of fill backs and so in some of the price point pack, it would be where the pull down price is large and we may wanted to do a price cut like what we're doing in Rin powder for instance. So it is dependent on what is the strategy that we're driving. And one thing which you definitely would not want to do is have a yo-yoing of price, because it is a brand, it's not a commodity and we need to respect that fact.

DINESH THAPAR:

Okay. We have one more question, and this is from Abneesh, whose question is to do with the provision in the employee cost line, and whether this will impact results going forward.

P. B. BALAJI:

As it called out, it is a one-off provision on few contested matters, and that's what the provision is for. And it will not impact in terms of – the provision itself will not come through going forward and we will pay as it comes.



DINESH THAPAR: Okay. And our last question that I see on the web screen here is from Jubil from PhillipCapital. And his question is, what was the blackout period duration in days for Soaps & Detergents?

P. B. BALAJI: It's very difficult for me to quantify for a full category. There are specific interventions, specific brands in specific markets. So I must admit, I haven't done the exercise of quantifying that on an weighted average basis, what are the days impact.

DINESH THAPAR: Okay. So I think that's pretty much it on the web questions. I think with that, we've now come to end of the question-and-answer session. Before we end, let me again remind you that the replay of the event and the transcript will be available on the Investor Relations website and you can clearly go back and refer to it. A copy of the results and the presentation, I'm conscious that all of you may already have it. But for those of you who haven't, it's already loaded onto the IR website, you can access it through the HUL Investor App as well.

With that, I'd now like to draw the call to a close. Thank you, everyone, for your participation, and have a very good evening. Thank you.

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