Hindustan Unilever Limited

# "March Quarter 2014 Earnings Call of Hindustan Unilever"

## April 28th, 2014

**HUL SPEAKERS-**

- Dinesh Thapar, General Manager / Head of Investor Relations - HUL
- R. Sridhar, CFO - HUL
- Sanjiv Mehta, CEO - HUL

**Moderator:** Good evening, Ladies and Gentlemen. I am Sourodip Sarkar, the moderator of this call. Thank you for standing by, and welcome to Hindustan Unilever Limited, March Quarter 2014 and Financial Year 2013-14 Earnings Call. For the duration of presentation, all participants' line will be in listen-only mode. We will have a Q&A session after the presentation.

**Dinesh Thapar:** Thank you, Sourodip. Good evening and welcome to this Conference Call of Hindustan Unilever Limited. We will be covering this evening, results for the quarter and financial year ending 31st March 2014. On the call from the HUL end, is Sanjiv Mehta, CEO and Managing Director and R. Sridhar, CFO. As is customary we will start the presentation with Sridhar sharing aspects of our performance for March quarter and the financial year and then hand over to Sanjiv for him to share his perspectives on the business performance. Before we get started with the presentation, I would like to draw your attention to the Safe Harbour statement included in the presentation for good order sake. With that, over to you, Sridhar.

**R. Sridhar:** Thanks Dinesh. And once again, welcome to everyone for joining us on this call. As you would see and Dinesh drew your attention to it, the Safe Harbour statement is there, and I hope all of you have taken note of it. What we will go through today is a quick reminder of our strategy and then just briefly setting out the context in which the markets operated during the quarter before we go into the details of our performance.

As a reminder, our strategy remained unchanged. The strategic framework which we call the Compass. Our business model which is really the Sustainable Living Plan and the 4G model of growth – consistent, competitive, profitable and responsible growth. All of these remain unchanged which I am sure you are pleased to note.

Now, before coming to the financial results, let me share a couple of words about the business environment during March Quarter. As the headline says, the environment remained challenging. Market growth in FMCG categories which had been slowing down over the past several quarters continued the trend with both volume and value growth being slow. Within this premium segments and discretionary categories were particularly under pressure. Input costs were firm with a sharp rise in palm oil prices. And competitive intensity continued to remain high during the quarter. Just to give you a flavour of the scenario with respect to input costs, you will see on the chart the trend with respect to PFAD which is the key ingredient in our soaps business, and on the right hand side, what is the progress with respect to Crude which is very important from the perspective of both our Detergents business as well as packaging that goes into our products. I think on exchange rate, you have all been seeing the trends which have recently stabilized but March Quarter versus a year ago is clearly an inflationary situation.

Coming to now our financial results, we are pleased that in this challenging environment, we have delivered yet another quarter of competitive and profitable growth. Our Domestic Consumer business grew by 9% ahead of market with reported underlying volume growth at 3%. I will come and talk in the next chart about what has been the intrinsic UVG but let me wait for that for a minute and just comment about our bottomline. You will see that operating margin has expanded by a further 30 basis points to 14.6% with operating profits up 11%. Advertising and promotional spend increased, however, in terms of percentage sales, it was lower than same period last year. Within this, our level of expenditure on advertising has clearly stepped up but this has partly offset by lower level of promotional activities. As far as the bottomline is concerned, PAT which is profit after tax before exceptional items was up 7% while net profit was up 11% in this quarter.

You will see in this chart the trend of volume growth and the thick bars reflect the reported volume growth whereas the short horizontal lines reflect the intrinsic UVG in each of the quarters. As a reminder, March Quarter 2013 benefited from the sales loading gain in advance of the expected transport strike on 1st April 2013. As a result, the reported UVG in March 2013 was inflated and correspondingly suppressed in June Quarter. So when you see, on an intrinsic basis, March Quarter 2014 is also 4% UVG, pretty much the same as what we reported in December Quarter of 2013.

Innovation continued to be a key driver of our growth, and during this quarter also there was an array of innovations. To name a few, the re-launch of Rin powder, a couple of innovations in our Lakme franchise, new variants introduced in our hair portfolio both in Sunsilk as well as in TRESemme, a

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new variant in our Knorr soup business with Sweet Corn Instant soup, and also the extension of Magnum to four cities in this quarter. In our Water business at the absolute premium end, we launched Pureit Ultima RO plus UV, which has also got off to a good start.

Alongside innovation, impactful activation as well as sharp in-market execution are other drivers of growth. You will see that we had a significant level of activation during this quarter, whether it was leveraging the digital platform or whether it was through channels such as radio, print and external events, a lot of activation programmes that ran through the quarter.

Coming now to the broad segmental performance. And, in summary we have had good broad-based growth across our segments which is competitive with packaged foods delivering double digit growth, leveraging both the Kissan and the Ice Creams business, and I will talk about that a bit later.

Let me now dive into the highlights of each of the categories starting first with Skin Cleansing or Soaps business. This category has continued to demonstrate healthy performance with double-digit growth in this quarter. This growth is a mix of volume growth as well as a step-up in price. Dove, Pears, Lifebuoy and Breeze led category growth during this quarter. And in our liquids portfolio, we had another strong quarter led by Lifebuoy Handwash.

Coming to the next segment which is Home Care. Growth was led by the premium segment. In Laundry, Surf was the driver of growth buoyed by the momentum in Surf Easy Wash. Within our Rin business, performance was led by bars with powders getting re-launched during this quarter. I am really pleased to say that our mass market brand Wheel, which we re-launched at the end of 2013, has stepped up its growth performance leveraging the re-launch during this quarter.

Finally in terms of market development, we continue to make very good progress in building the Fabric Conditioner market with our brand Comfort sustaining high levels of growth. In household care, Vim led the growth through impactful activation and in particular, Vim liquids continues to do well and drive development of the market.

Coming now to our Personal Products categories starting with Skin Care, we saw good growth albeit in a soft market. Our flagship brand Fair & Lovely launched two or three quarters ago is yielding positive results. We are driving a focused activation plan and we have introduced a five-rupee pack first time, both of which are driving improved performance. Amongst other brands, Ponds growth was led by top end, while Lakme and Dove skin sustained their robust growth leveraging innovations. In our Facial Cleansing portfolio where we are developing the market, we had broad-based growth led by innovations.

Next, within Personal Products, Hair Care, which has had a series of quarters of very strong performance. This was yet another quarter of double-digit growth led by volumes. In our shampoos portfolio, Dove, Clinic Plus and TRESemme, all of them made good progress. TRESemme is now almost a Rs 100 crore brand. Within the portfolio, within the market, we are seeing that low unit price packs and sachets, as we call them are growing faster than the average. Again, looking at market development, Hair Conditioners continued to gain ground, grow well and we continue our focus to develop this market for the future.

Next in Personal Products, Oral Care. Oral Care is a category which you will recall has had a step up in competitive intensity since about June or July of 2013. Here we have had a mixed performance in the quarter. Close Up grew during the quarter driven by exciting activation. However, Pepsodent growth was impacted by high promotional intensity in the market. Actions are under way to step up performance in this important category.

Finally, within Personal Products, is our Colour Cosmetics business which has now been continuously demonstrating strong innovation-led growth. March Quarter was yet another quarter of strong double-digit performance. Both our brands Lakme and Elle 18 did very well with innovations driving growth.

Coming now to our Beverages segment, we had good growth with tea really leading the way. Tea grew in double digits with a step up in volume performance. Amongst our brands, Taj Mahal, Red Label and 3 Roses delivered good double-digit growth in the quarter driven by a strengthened mix as well as a sharper activation in the market. Again, the same theme of market development is also true in tea where we are focusing on developing the market for tea bags. During this quarter, flavoured and green tea bag sales more than doubled. Within coffee, Bru Gold continues to perform well. Overall, when we look at beverages, and as we have shared with you earlier, value growth is slightly moderating as the contribution from price growth fades linked to what's happening with commodity cost.

In Packaged Foods, we had a really good performance as I have mentioned earlier with double-digit growth delivered in March Quarter. Kissan, one of our three flagship brands in our Packaged Foods business, had a robust performance driven by impactful activation around unlocking everyday relevance. Growth accelerated both in Jams and Ketchups. Within our Knorr business, instant soups more than doubled volumes and we are rolling out the Experienced Model in Modern Trade to drive trials of this brand. Our Ice Creams business had good performance both in Kwality Walls and Magnum. During the quarter, Magnum was rolled out to four more cities with good initial response. Across the Ice Creams business, we have stepped up in market execution in advance of the important summer season.

Finally, coming to Pureit, our water business. We continued to strengthen our leadership. However, the market especially for durables has been particularly challenging over the last several quarters. As I have mentioned earlier, we launched Pureit Ultima which is the Reverse Osmosis plus UV device, and this has got off to a good start. In one or two markets, we are also experimenting with an exchange offer which is also seeing some good initial response. In terms of the execution market, we are driving the same Perfect Store programme in our Pureit business similar to that of our FMCG portfolio.

So that was a quick run through of our categories. In financial terms, you would have seen these results already through our advertisements. I won't take too much time. Essentially, our Domestic Consumer business has grown by 9%, Operating Margin is up 30 basis points, and our PAT BEI is up 7%. When you look at the movement from operating profit to net profit, you will see that our financial income has stepped up. We continued to drive our working capital very well, and I will share with you later how much cash we have delivered. However, as far as exceptional items are concerned, this includes a one-off reduction in the provision for retirement benefits arising from a change in actuarial valuation. This relates to our pension benefits and the change is linked to a hardening of interest rates. Overall, tax for the financial year FY14 is about 200 basis points up compared to FY13 and the figures in March Quarter are effectively the balancing figure for the year.

So, in summary, we are really pleased with the results of March Quarter with growth being both comparative as well as profitable. Given that we have also finished our financial year, let me spend a few minutes to talk of the highlights of our 12 months ended March 2014. We have delivered on our goals of being competitive in growth. You will see that we have grown ahead of the market for the financial year as well to deliver consistent growth with good component of UVG and profitable growth with a 40 basis points expansion in operating margin. Particularly, worth calling out is that this margin expansion is after a step up in A&P investment of about nearly 400 crores during the financial year. At the same time, we are making good progress on the fourth element of our growth which is responsible growth in terms of our Sustainable Living Plan. However, I will not speak much today on this because we have a full update scheduled on 6th of May. We would really encourage, as much as you can, to dial in and see for yourself the good progress we have made on our responsible growth agenda.

Very quickly going through our segments for the financial year, I will just talk about the headlines. In Soaps and Detergents, we have delivered a healthy performance in a fairly competitive market during the financial year with growth at 8% driven by underlying volume growth of 5%. Segment margins were up leading to segment profits growing by 11%. If I move to Personal Products, we have again grown well albeit in a very challenging and competitive environment. USG of 9% has a got a good mix of underlying volume growth and price. As I have already mentioned, while talking of the quarter’s performance, there has been a significant step up in intensity in Oral. At the same time, we re-launched our flagship brand, Fair & Lovely which is now showing good results. Within Personal Products, we continued to build the segments for the future as we are doing in other categories.

Coming to Beverages, a really strong performance on Beverages especially on tea with healthy volumes driving strong double-digit growth across all our key brands. Overall, Beverages as a segment has grown 12% with 3% underlying volume growth and segmental profit is up smartly by 22%.

Coming to Packaged Foods, we saw broad-based growth and have delivered double digit growth. Magnum was extended to four more cities. Kissan has seen growth accelerating on both Ketchup and Jams driven by the impactful activation. Overall, our supply chain and operational efficiencies have also significantly improved which have seen segmental profit increase by 65%.

Coming to the financial results summary, topline growth of 9% with UVG or underlying growth of 4%, operating margin as I have said earlier expanding by 40 basis points. A very quick look at cash flows and just in terms of headline, our operational cash flow both from profitability as well as working capital improvement has stepped up to Rs 5000 plus crores. This is compared to Rs 4500 crores a year ago. We continue to drive focus on working capital improvement particularly in terms of stock days on hand. Earlier today, the Board of Directors have proposed a final dividend for the financial year at Rs. 7.5. Together with the interim dividend already declared, this makes the full-year dividend at Rs. 13 which compares with the normal dividend of Rs. 10.50 in the previous financial year. You will recall the previous financial year also had a special dividend of Rs. 8.

So, in summary, the financial year ending March 2014, I would really call it another year of competitive and profitable growth wherein we have invested behind our brands, grown our business ahead of market and at the same time expanded margins. As we look ahead, our strategy remains unchanged which is to continue to manage the business for the long term. We will continue to invest to strengthen the core while at the same time lead development of emerging categories. We are conscious of some near-term concerns but we remain positive on the medium- to long-term outlook for FMCG markets in India. And as HUL, we believe we are well positioned with our superior portfolio of brands, our significantly superior capabilities and talent which is demonstrated by being the Dream Employer for several years now. So we believe we are well positioned to exploit the great, attractive market potential for FMCG in India.

So with that, I am going to now hand you over to our CEO, Sanjiv, for his remarks.

**Sanjiv Mehta:** Thank you, Sridhar, and good evening, everyone, good evening to all of those who are on this call. Let's begin with aspiration. I think it's pretty straight forward, consistent, competitive, profitable and responsible growth. We want our brands and products to be preferred by our consumers and we want to maintain our leading position in the categories in which we operate in our industry. As far as the results for the quarter are concerned, I believe we have delivered a good healthy broad-based performance, more so when you look at it in the context of a market which has continued to slow and remain soft. We have stayed the cost on the strategy, continued to do what is right for the business from a long-term perspective and manage it with a certain discipline and that is pretty much what we have done. We remain focused on the drivers of value creation. We have continued to grow ahead of the market, delivered a healthy intrinsic volume market of 4% after adjusting the base impact, ensured competitive spend behind the brands and expanded margins by 30bps during the quarter despite the headwinds. All in all, I would say another resilient performance in a challenging environment.

Let's now make a few comments on the performance of our segments before I move on to talk to you about Personal Products which I recognize and understand as an aspect of our performance that you may want me to comment upon. In Soaps and Detergents, it has been a consistent performance, competitive and profitable yet again. As a matter of fact, over the last year, the business has looked good. And specifically on Wheel, it is heartening to see growth progressively recover. And while there is a job yet to be done which is to step up its growth even further to a level that we would like to see, I am encouraged by the progress it has made since we relaunched this brand. In Beverages, notwithstanding the fade in the price-growth component, the business is in very good shape. Our performance has been broad-based, volumes were strong, and the brands are even more salient as we make investments behind them.

Kissan continues to do very well in Packaged Foods. And we have some exciting market development activation happening in

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the space, which is yielding very encouraging results. And then on Ice Creams, Sridhar talked about it, we have extended Magnum to four more cities. It's a great product. I love it. And those of you who have not tried it, I would ask you to pause from your hectic life and indulge in Magnum. I can assure you, you will love it as much as I do. The environment continues to remain challenging for the impulse category, but all the actions that we have taken in the market place is helping us grow the business. Overall on Food, I'd say good growth and a continued priority for us as we go forward.

Now, coming to Personal Products. You've heard Sridhar speak about the fact the PP segment growth was 8% this quarter, lower than what you have been seeing in terms of the historical performance of this segment. But again, there are multiple paths to this. You've heard him talk about the challenging market context in which discretionary categories and premium segments have been under pressure. This is again not new news. We've been speaking about this over the last few quarters and the fact that growth and its quality has been impacted by what's been happening in the environment. Something to be aware of and cognizant of as we look at the performance.

Now, talking specifically about the categories in Personal Products. Hair care, I'm very pleased with the way the category has been performing, not just this quarter but for many quarters now, given the competitive context that all of us are aware of. We have taken a series of actions over time in this category, and as a result we now have a much stronger portfolio which is delivering pretty well. TRESemme, a brand which we launched last year, in its very first full year post launch was just shy of the Rs 100 crore mark. From this, you will get a sense of the solid progress that we have made on TRESemme. Also a fitting example of how we have moved with speed and leveraged global strength of Unilever to win locally. In Oral Care, yes, we've had a soft quarter. This is on the back of an excellent year, excellent few quarters just before this quarter. It has disappointed but we are very clearly committed to investing in it. Here again, there were two stories, Close-Up did very well. On Pepsodent, in terms of phasing of the activities and partially with the heightened promotional intensity in the market place, we had very soft performance. In Skin Care, the good news is that Fair & Lovely has started to look up. We alluded to it in the last quarter's results. I feel very reassured by the actions that we have taken and we are getting the momentum back on this iconic brand. For the rest of Skin, it was business as usual as we continue to invest and strengthening authority and expertise in Beauty. On Color cosmetics, Lakme and Elle 18 continued to do exceedingly well and we have been growing scale over time on the back of series of actions that we have taken to both contemporize as well as premiumize our portfolio. The progress that we have made on Colors in many ways reflects our commitment to invest in categories which we believe has the potential to become much larger in the market as the markets and consumers evolve.

Therefore, when I look at the totality of our PP business, I know we are making good progress to strengthen our position across the portfolio. And although there might be some near-term concerns on market growth, let me reiterate that we see PP as a key growth driver with huge headroom for growth and are committed to investing behind the business.

Coming to full-year performance. Looking at the results, we have delivered another year of what call as Consistent, Competitive, and Profitable Growth. We have grown ahead of the market, expanded operating margins, after having stepped up investment behind our brands and sustained the strong track record of cash generation. The state of our business looks healthy. And we have continued to strengthen the core of our brands while also focusing on driving market development to build the categories of the future. And we have managed the business even more dynamically to deliver on our goals in an increasingly volatile and uncertain operating environment. Very clearly our strategy is working and is on track. Looking forward, our priorities remain unchanged. We remain strongly committed to investing competitively and doing what is right for the long-term growth of our business. Innovations will remain our lifeblood and we have exciting innovations lined up for the rest of the year. Through our impactful advertising and activation, we are creating Brand Love, i.e. making our consumers love our brands. We will drive marketing productivity and effectiveness through an optimized media mix with increased spends on digital mobile and social network platforms. Our very successful mobile radio is being extended from Bihar to other states. There is pressure on cost, especially with the increase in the price of oil and the impact of Rupee depreciation. We are managing the impact of cost increase by driving efficiencies and productivity

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improvements across the value chain and taking selective price increases. I'm delighted, as Sridhar spoke about, that we have retained our position as the Employer of Choice. This enables us to attract the best talent in the country and we then further develop them through a very comprehensive and structured programme. We are investing in developing organizational capabilities to make that distinct and hard to replicate. Recognizing that the world will remain VUCA, we are making our business more agile and resilient so that it adapts quickly to the changing world. We are and will remain committed to winning. That's all from me, and I'll hand it back to Dinesh.

**Dinesh Thapar:** Thanks Sanjiv and Sridhar. With this, we'll now move on to the q-and-a session. I recognize it might be getting a little late in the day. So what we'll do is to try and bring a close to this call by 8 p.m. India time which gives us about 60 minutes for q-and-a. Therefore, can I request participants who want to ask a question to keep it really tight so that we can try and accommodate as many during this period of time. In addition to the audio queue, participants also have an option to post a question through the web option on your screen. And I encourage that you use that as well. We'll pick up those in the course of the session. Before we get started with the session, I'd like to remind you that this call and the q-and-a session is only for institutional investors and analysts, and, therefore, if there is anyone else who's not an investor or analyst but would like to ask us a question, please feel free to reach out to us at the Investor Relations team. With that, I'd like to hand the call back to Sourodip who will manage the next session for us. Sourodip, over to you.

**Moderator:** Thank you so much, sir. With this we are going to start the q-and-a interactive session. So I would request all attendees and the participants, if you wish to ask any question, you may press "0" and "1" on your telephone keypad, please. We have the first question from Mr. Abneesh Roy from Edelweiss. The line is unmuted, you may go ahead and ask your question, sir.

**Abneesh Roy:** Sir, my first question is on the innovation, on the level of promotional activity in this quarter. You have mentioned in Pepsodent there was an impact because competition offered higher promotions. Also what we are seeing in terms of the results of some of the other consumer companies, ad spend has been on the lower side, in your case also we see that. So could you comment on specifically promotion versus mass media. Is there a shift happening? And second is on Pepsodent, do you expect this to be a single-quarter phenomenon ? Why I'm asking this, in the past we have seen in FAL and Wheel, it was more of a three, four quarter issue before the growth came back to the earlier trajectory. So in Pepsodent, when do you see the growth coming back?

**Management:** Thanks Abneesh. I'll take both your questions. First is on Pepsodent. On Pepsodent, last year competitive intensity went up significantly with the new launches that happened with more competitors coming in to the market place. Now, we again ensure that we remain competitive while spending. But then there is a phase when you feel that the heightened competitive intensity will fade down a bit or come down a bit, and that was a call we had taken. But what we saw is that did not happen. And in certain segments of the market, the competitive intensity went up significantly. Now, we are cognizant of it and we are taking corrective actions so that we get Pepsodent back to growth.

Now, when it comes to advertising, as you know, there are two things we look at it. One is ensure that we have appropriate GRPs for the brand so that the brand's saliency remains. And the second thing we look at it that our share of spend and our share of voice does not get diluted. We have a strategic position for each of our brand depending on the share of market, and we ensure that we remain competitive. In a category like skin cleansing where the input cost have gone up significantly, you look at the whole value chain because we don't automatically increase the price of a product to the extent that the input cost have gone up. So we remove and optimize the cost which aren't adding value. In some cases we optimize also the promotional spends, because at the end of the day we look at how do we create more value to the consumers, and then as the last resort, we also look at it whether selectively we can take price increases. Now, that's a game we play very dynamically. It is not a recipe which we use in a similar fashion for all our categories. For different categories we have different nuances. And because also the competitive context and in many cases the consumers are different, we play the game differently.

**Abneesh Roy:** Sir, there is one follow-up on this. On the mass media side, are you calling out this as a trend reversal? In the earlier interactions you have mentioned that the mass media spends are quite high. This time that was missing. And the numbers also it's visible that mass media advertising has come down. So are you calling this as a trend reversal or is it too early?

**Management:** No, no, Abneesh, let me please clarify. Thank you for raising this question so that there's an opportunity to clarify. Some others may also have had similar thought. Let's be very clear. Our advertising spend has actually gone up. What has come down is the promotional spend within A&P, that's a very, very important point which I'd like to clarify. The other aspect, to just highlight is, when we talk about promotional spend, promotional spend happens in two places. One is within A&P as a line, but there are also occasions when promotional spend is actually part of our topline because when we do price promotions, for example, on a bar of soap which is, let us say Rs. 21, if you were to do a Re. 1 off or a Rs. 2 off, that gets impacted on the topline in the turnover line. So that's also something just to bear in mind. But to be very, very clear, advertising spend has gone up in the quarter.

**Abneesh Roy:** Sir, my second and last question is in the initial remarks you mentioned premium and discretionary is under pressure. But if you see two-three examples from your own - Knorr Instant Soups' volumes have doubled, Magnum initial response has been good and TRESemme has become a 100-crore brand. So is it lack of innovation which is impacting the other brands because these are also in premium, so if you could clarify that ? And TRESemme, sir, 100 crores is a very good number. Has it taken internally some share or largely the share increase has happened from the other players?

**Management:** First is the TRESemme gains, to a large extent, have been incremental. It's not that it has cannibalised our portfolio. And in Hair Care, we have been strengthening our portfolio and been gaining market share. Now, when what Sridhar was alluding to that there are certain categories where you see low unit price pack growths running at a faster pace than the large price packs, that again does not mean that the premium products in the country has stopped growing. They are still growing. The market overall in value terms in our sector is still growing. And when you come out with a right innovation and create the right value for the consumers, you get resonance for a brand and that's what we have seen. Lakme has been growing, even the Absolute range that we launched last year. This year, we had more extensions on it. It's doing extremely well. Magnum initial

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feedback is excellent. TRESemme, like you rightly said, has been growing. But that does not mean that for all the categories, all our consumers would be behaving in a similar manner. There would be some low-income consumers who would certainly be looking at if they are short on cash, if inflation is eroding the total income that they have on real terms, they would be looking at moving from bottles to sachets. But that does not mean that the bottles have stopped growing. It's only that the sachets have been growing at a pace faster than the bottles.

Just one final build on the very detail feedback or response that Sanjiv gave, I was talking about the market patterns. So when I talked about premium segments not growing as fast as before, that was in the context of the market. So when you look at the market growth by segment in many, many categories we are seeing the premium segment of the market growth rates being slower than what is there before. Whereas, when we talk about Magnum and Knorr etc or indeed TRESemme, we are talking about our performance. So they are two slightly different points.

**Abneesh Roy:** Right, sir. That's all from my side. All the best, sir.

**Management:** Thanks, Abneesh.

**Moderator:** Thank you so much. We have the next question from Percy Panthaki from IIFL. The line is unmuted. You may go ahead and ask your question.

**Percy Panky:** Hi, sir. Congrats on a good set of numbers.

**Management:** Hi, Percy. Thank you.

**Percy Panthaki:** Two-three questions from me. Firstly, if I look at your overheads the employee cost and other expenses has grown faster than what we have seen in the last few quarters. Now I know part of it can be attributed to other higher operating income. But even if I try and adjust for that, it seems that the overheads have grown at a faster rate than what we have seen in recent times. Can you throw some light on this, please?

**Management:** Sure, Percy. So you rightly picked up that in part it is the offset with other operational income. There are really other drivers and these are more sitting in other expenses which is, one, to do with a sourcing pattern change. You will recall that 1st April 2013 we acquired the full shareholding in Aquagel. Prior to that, we had a certain stake in Aquagel and we were purchasing finished goods from them. So that cost used to come and sit in purchases. After it has become a subsidiary, we are now getting our products done under a conversion arrangement and therefore you see that the conversion cost that we pay they come and sit in the other expenses. That is one driver. And second other driver is that in our Personal Products business to support our innovations we have been investing in moulds and we've had a slightly larger proportion of mould cost in 2014 MQ relative to the prior year. So that's been the second driver.

And, finally, on the area of freight, we have seen the impact of the diesel rate hike which has impacted freight cost from a rate perspective, apart from, of course, supporting the volume growth. So, in addition to the one item that you rightly picked up, there are two or three other drivers that have contributed to the other expenses going up.

**Percy Panthaki:** Right sir. Secondly, I have wanted to ask regarding the FAL re-launch. You said that it's been successful albeit in a market scenario which is very slow. So just wanted to track because even in last few quarters you have been inspite of the problems with FAL, and correct me if I am wrong, you have been growing ahead of market. And that was in the past few quarters as well as probably this quarter. So in the situation where you are always beating the market in recent times, how do you really figure out whether your launch has been successful or not? And a sub-question to this is basically are you sort of seeing any kind of initial signs of pick up or bottoming out in demand on skin care?

**Management:** **T**hanks, Percy. I will first take the question on FAL. You know, FAL if you look at it, we re-launched it towards August of last year. And in the quarter ending September and in the quarter ending December, we only alluded to that the initial feedback is positive. Now, we have certainly seen that over the last few months that the penetration level in those parts of the country where it had gone down has again picked up. So those consumers who were after the previous launch were looking at going away from the brand have come back. And the second most important bit of it has been that the growths have come back. So there is a very clear indicator that FAL is on the road to recovery.

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Now, as far as PP is concerned, it's very difficult to say what would be the outlook going ahead because one wouldn't like to hazard, I guess, how the markets would behave. But from our perspective, we are very clear that we would keep investing not only in the core, but also keep investing in growing the categories which are nascent and which we believe are the segments of the future.

**Percy Panthaki:** Right, sir. And last one just housekeeping question. Can you give some guidance on royalty and tax rates for the next year?

**Management:** So as far as royalty is concerned, you would recall that we had in the approval that was done one year ago, we had set out and the Board had approved a framework which would take the royalty from prior change which was 1.4% of turnover to a total of 3.15% of turnover no later than March 2018. As part of that, you will also recall that effective 1st February 2013 an increase of 50 basis points of turnover had been implemented. Effective 1st April 2014, the increase will be another 50 basis points of turn over. So that's the response to your question on royalty. As far as effective tax rate is concerned, then you would have seen that roughly-roughly the effective tax rate is about 26% in FY14 depending on variety of, you know, parameters the tax rate in FY15 we estimate to be around 250 to 300 basis points higher. At this stage, that's the kind of range. Obviously, as we go through the year and we have a better fix than we will come back and update.

**Percy Panthaki:** These numbers are just the tax divided by PBT or this is a tax on the business income only that you are talking about?

**Management:** Yeah. So we are talking about the effective tax rate which is on normal profits. So if you keep aside any exceptional cost or exceptional profits or profits which are before exceptional item, the tax rate which is what I am talking about.

**Percy Panthaki:** Okay. Okay, sir. That's it from me. That's and all the best.

**Management:** Thanks, Percy. Thank you.

**Moderator:** Thank you so much. Moving on to the next question, we have Ms. Latika Chopra from JP Morgan. Your line is unmuted. You may go ahead and ask your question, please.

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**Latika Chopra:** Hi. My first question is on pricing. You made lot of comments on, pressures on raw material inflation, competition. How do you view pricing growth ahead given the current input cost and competitive scenario?

**Management:** You know, you are absolutely right that especially in categories like screen cleansing where the oil prices have gone up significantly in the global commodity market and, of course, for us in India there is an added adverse impact of the currency depreciating. So the way we go about is we look at the whole value chain, we try to optimise the cost and remove cost which are not adding value to the consumers and then we also look at how do we protect the price point of low unit price packs. And then, after having done that, we look at where do we need to selectively take price increases. So, yes, with this, the kind of increase that has happened, there would be price increases, but we would certainly be doing it in a very measured way.

**Latika Chopra:** Secondly, would you be sharing the salience of the water business and overall sales and profitability for fiscal year FY14?

**Management:** Well, Latika, let me say that our Water business continues to be strengthening its leadership position in the market. And, as far as bottom line is concerned, it's been now bottom line positive for couple of years. As we look ahead, clearly, we are bringing innovations into this category as well just like we have done in our other categories to grow the business. Currently for the last year or so, market conditions for the entire durables category as you are aware has been very, very muted. But, again, this is something that we expect we will pick up. Beyond this at this stage in terms of any further financial information, I don't think we are in a position to share.

**Latika Chopra:** Thank you.

**Management:** Thanks, Latika.

**Moderator:** Thank you so much. Before we move on to the further question, I would like to repeat, attendees, if you wish to ask any question, you may press "0" and "1" on your telephone keypad, please. We have the next question from Mr. Prasad Deshmukh from Banks of America. Your line is unmuted. You may go ahead and ask your question.

**Prasad Deshmukh:** Sir, I have one question on this water business again. I mean, like, three four years back we were talking about certain targets in this business and it was supposed to be a large market potential and in that sense profitable category. However, now, I mean, at this juncture what is the thought process as to why do we want to retain this business, one. And, secondly, what kind of growth numbers are we expecting in the next five years, ten years as to, you know, whether this business can actually grow by whatever growth rate to market potential that you have built into your business plans?

**Management:** So, Prasad, first of all, let me clarify that we have never talked about any numbers. You know we don't give any guidance for the totality of the business, so you know, giving any forward outlook for one of the segments, clearly, we have never talked about any numbers. What we have indeed talked about and you are right about three-four years back is that, you know, we expect to get into breakeven in the bottom line by, you know, FY12-FY13 – I forget when we said that. All I can confirm is therefore the last two years both FY13 and FY14 we are positive on the bottom line. And that's the only set of financial numbers that we, you know, have talked about.

Coming to your questions about the importance of this category, so I think we have talked about in the past that quality of drinking water is and in future will become an even bigger challenge in many countries, certainly in the developing and emerging markets and therefore certainly in India. The product that we have has a very, very unique and differentiated technological advantage in terms of delivering really, really pure water, but without the need for electricity or without the need for running water. So we have got, I think, a great product, great brand. Over the last few years, we've also expanded the portfolio so that we can appeal both to mass market consumers, net price consumers and premium consumers. So we have strengthened the portfolio. We have sort of fine-tuned our operating model which has enabled us to become far more efficient. And now it's about really driving the growth in this category just like any other category.

**Prasad Deshmukh:** So you mean to say that this will remain a core category even going forward?

**Management:** Absolutely. This category is at the very heart of our purpose. So there is no question about reducing our commitment.

**Prasad Deshmukh:** Okay. There are some more questions around it, but I think I will take them offline. Just one more question. The employee cost per se seems to have gone up sharply. So is this because of any wage hikes which have been given or is this something else?

**Management:** So, I think, you know, there was a reference I think in an earlier question from Percy or somebody. Basically, you will see an offset between employee cost and other operating income. So there has not been any special wage hike in this March quarter.

**Prasad Deshmukh:** Okay. Fine. Thanks a lot, sir.

**Management:** Thank you.

**Moderator:** Thank you so much. Moving on to the next question. We have Mr. Balaji Prasad from Barclays. Your line is unmuted. You may go ahead and ask your question.

**Balaji Prasad:** Thank you. Hi. Good evening, everyone, and thanks for taking my question. Firstly, if I could return to your Magnum experience, couple of questions on this. One, how widely would you beyond four cities plan to extend this in fiscal 2015. And, secondly, is there any takeaway from the success of this launch for either new launchers of the discretionary category in itself?

**Management:** You know, we now have Magnum in five cities. We had last year started in Chennai where we were test-marketing and now we have extended it to four cities. We will see how the outcome will be in these four cities before we roll it out to other cities. So it is too early to call out when are we going to extend to other cities. We would first like to grow and strengthen our brand over here. And what comes out of this Magnum experience very clearly, it is not just about the price of a product; it is whether you are creating value for the consumer or not. And, importantly, if you look at our kind of categories in which we operate, these are not categories where you have to spend thousands of bucks to indulge yourself. And if it's a great brand and great product, you can really indulge yourself even when times are a bit tough and still feel very good about it and that's again going to the very core of our purpose where we make people feel good, look good and get more out of life. So that's what Magnum is all about.

**Balaji Prasad:** Thanks. I guess I could extend that question. So are there other categories which you can identify to us where you think such launches or such generations are possible?

**Management:** Take a look at TRESemme. TRESemme is premium to the average of the market. And, again, it is about giving a ramp hair to the women staying at home. So it's a salon kind of experience at home and it has done exceedingly well. I was just talking about it that in the very first year, it has gained market share and it's nearly a hundred-crore brand.

**Balaji Prasad:** Understood. Thank you. So, secondly, on the competitive landscape, can you identify the top two or three categories where you see escalated competitive activities?

**Management:** Balaji, I wish we could say that there were only two or three categories where the competitive intensity was high. I think the reality is that India is such an attractive FMCG market that it is not a surprise that we see competitive intensity being high in all categories. It's just that in some categories the nature of the competition tends to be, let's say, more players which are Indian players, pan India or region focused, whereas, in some categories, you also have large multinational players being competitive.

The second part is the dimensions of competitiveness can be very different. In some categories like in personal care, it is very highly innovation-driven and advertising spend driven. In some other categories like which are more commodity-intensive, it could be more price and promotion-driven. But the bottom line is in all of the categories in a market like India, you should expect to see high levels of competitiveness intensity.

**Balaji Prasad:** Understood. If I could squeeze another question, sir?

**Management:** Can I request, Balaji, just to be fair to other people on the call, why don't we take some others? And if we have some time, we will come back.

**Balaji Prasad:** Thank you.

**Management:** Thank you.

**Moderator:** Thank you so much. We have the next question from Mr. Puneet Jain from Goldman Sachs. The line is unmuted. You may go ahead and ask your question, please.

**Puneet Jain:** Hi. Good evening, everybody. My question is actually with respect to long-term volume growth, like if you look at your trend for the last ten years, your average volume growth has been close to around 7%. While over the last four quarters, possibly is the weakest period in terms of volume growth. So does it mean that actually even the long-term average volume growth we possibly need to come down even the fact that we are just growing at a very slow pace and possibly in the near future also, the consumer trend remains on a weaker footing?

**Management:** So, Puneet, firstly, I think it's important to set the context of when we talk about competitive growth and which is our clear stated goal, it's always in relation to market growth. So when you talk about 2011 or 2010 or whichever year when we talk about 6-7% UVG, Underlying Volume Growth, that's in a context of markets which were growing volumes at maybe, you know, 4 or 5% underlying volumes. If you look at March quarter of 2014, then the market volume growth is actually flat to slightly negative. So first of all, I think, we need to look at it in the context of what's happening in the market and only then we can conclude, whether you know, is it competitive growth or not. I think your second question which is about, you know, what is the prognosis for the future, well, we don't give any guidance and as I said I think in my presentation we believe that the outlook for FMCG markets in India in the medium to long-term is very positive. This is driven by the fact that per capita consumption across categories, levels of penetration across many categories are still quite low when we compare with the average in, you know, South East Asia or North Asia. So we believe the potential is very positive, is very attractive and that's really our perspective. What will happen in the next couple of quarters really that's not something we will comment on.

**Puneet Jain:** So I understand that like you mentioned that your 7% volume growth over the last 10-year period is the function of both market growth as well as the competitive growth, you know, not potentially the market growth potentially, maybe, in the short-

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term given the fact that what is happening in the economy and that can bring down the long-term growth averages.

**Management:** I don't want to comment, you know, beyond the point what will to the mathematics of it is a different topic. But the important thing is we have been a company that has been around for 80 years. We look at our business to manage it from a medium and long-term perspective. And in that perspective, we see a very attractive opportunity in the FMCG market space in India.

**Puneet Jain:** Okay. And, generally, what is the green shoots we could look for possibly over the next few quarters to identify whether we are seeing some turnaround in consumer space?

**Management:** When you mean green shoots, are you wanting to look at lead indicators?

**Puneet Jain:** Yes.

**Management:** Well, you know, if you look at the product categories that we are in, they are about, as Sanjiv said, really products that are aimed to help people feel good, you know, get more out of life, look good, feel good and get more out of life. Certainly things like low levels of inflation are positive. Economic growth is a good thing because then disposable income goes up in the hands of our consumers. Consumer sentiment is another positive thing. So there are these things that, you know, just normal stuff that you can figure out. And in any case, because the levels of per capita consumption and penetration are relatively low. There is a very significant potential for, you know, higher growth in the medium to long-term.

**Puneet Jain:** Okay. Thanks a lot.

**Management:** Thank you.

**Moderator:** Thank you so much, Mr. Jain. We have the next question from Mr. Nillai Shah from Morgan Stanley. The line is unmuted. You may go ahead and ask your question, please.

**Nillai Shah:** Thank you. Sir, first question is basically on the mass market brands. You know, over the last 12 to 18 months you've had issues with certain brands like Breeze and Wheel, FAL and now Pepsodent. Looking back over this period, what exactly has gone wrong with some of these mass market brands? And you are performing exceedingly well in some of the more premium brands, you know, the new launches etc. But the mass market is where there has been a little bit of a problem, you know, just going back. What's the reason that has gone wrong on these brands?

**Management:** First, I think it's wrong to generalize. If you look at many of our brands which are operating at the mass market, they are doing exceedingly well. Lifebuoy is doing exceedingly well. Clinic is doing exceedingly well. Even when we look at FAL and Pepsodent, Pepsodent had a remarkable year last year. It grew double-digit. And even in Pepsodent, you know, we have different tiering of Pepsodent. We straddle the entire price benefit pyramid. So I would not like to generalize it all. The only thing I would say is that we are a resilient company. If we find any issues, we quickly fix it and then plod along and run faster. That's what I would give you as a perspective.

**Nillai Shah:** So in the case of Pepsodent now specifically, you know, this competitive issue has been known for the past four plus quarters. You know, nothing is changed on that part and you over the last four quarters have mentioned it, you have said that we are increasing our spends for competitive growth etc. But now, what's really gone wrong then in Pepsodent specifically?

**Management:** You know, first is you must realize that before this quarter we had excellent growth on Pepsodent. And after the last re-launch that we did, the brand performed brilliantly. And you should never look at the fortunes of a brand from the length of a quarter. That would be a cardinal sin. So, yes, we have been very upfront and we have said that in this quarter Pepsodent hasn't grown and we know the reason. And we are taking corrective actions so that the brand will come back to growth.

**Nillai Shah:** Can you share this reason, sir, just one brand and for one quarter?

**Management:** I think, you know, in the presentation we spoke about it that as far as the Pepsodent brand was concerned in this quarter, we talked about the level of promotional intensity in the quarter was much higher and that's really been the key factor. I covered it during the presentation when we talk about the individual category segments in Personal Products.

**Nillai Shah:** Okay. Got that, sir. Thank you very much.

**Management:** Thank you.

**Moderator:** Thank you so much, Mr. Shah. Before we move on to further question, I would like to repeat, attendees if you wish to ask any question, you may press "0" and "1" on your telephone keypad, please.

We have the next question from Mr. Arnab Mitra from Credit Suisse. Your line is unmuted. You may go ahead and ask your question.

**Arnab Mitra:** Hi. Just a couple of questions. One not particularly about your growth but at the market level. Do you see, you know, if you could just give us the different trends in the different channels like modern trade, rural and urban general trade, whether you are seeing divergent trends, differential growth and others - if the slowdown is similar across the board or there is something different across these three?

**Management:** So, Arnab, by and large, as a sort of overall comment I would say the slowdown is fairly broad-based whether it is rural-urban or whether it is individual channels. Maybe, specifically, in modern trades a little bit sharper because the portfolio of brands that are there in modern trade tend to be more mid-prize and premium. Mass is really not much present in modern trade as you know. So to a little bit of extent, that might be a little bit slower. But, overall comment is it is a fairly broad-based across geographies, channels, etc.

**Arnab Mitra:** Right. My last question is on distribution, I mean, three years back you did that tripling of rural distribution which was a very big expansion. How do you look at distribution expansion in the midst of the slowdown? Is it a time to expand distribution or how do you really look at distribution expansion from here on?

**Management:** You know, distribution is we kept increasing a distribution. Even in 2013, we have increased our distribution and the important bit is it is in many ways like capital investment. You do it in phases, then you consolidate and then you ensure that you get more leverage out of the infrastructure that you have created. So right now, our focus is very clear - how do we ensure that we have more brands and more categories being sold consistently through the outlets that we have brought into our direct distribution. So that is the focus we have.

**Arnab Mitra:** Okay. Thanks so much.

**Management:** Thank you.

**Moderator:** Thank you so much. Thank you Mr. Mitra. We have the next question from Mr. Sanjay Singh. Your line is unmuted. You may go ahead and ask your question.

**Sanjay Singh:** Hello.

**Management:** Hi, Sanjay. Go ahead.

**Sanjay Singh:** I think the question that I have is, you know, related to Personal Products. Sir, if you see last seven years, you know, since 2007, we have been seeing albeit very moderately margins in Personal Products going down by a few bps every year, so we have now come down from 28.5% to around 25.5%. So it's been seven years of consistent, you know, marginal decline in profitability and probably rightly so to ensure competitive growth, you know, you have to do that and margins in Personal Product is significantly higher than mean margins, you know, in the sector. So I know you wouldn't like to give any guidance, but is it fair to assume that to ensure competitive growth in the long-term and given the heightened level of competitive activity and more so in Personal Products, this EBIT margin level in Personal Product should go down, maybe, marginally, maybe, slowly but the direction will be down over a longer period of time?

**Management:** I am afraid, Sanjay, that, you know, the answer to this already. You know, we don't give guidance even at overall, so, you know, getting into segment levels to talk about direction. But I think the more important point is that we are saying very clearly that our goal is to deliver competitive and profitable growth, which means taking the portfolio as a whole we want to make sure that year-on-year we are delivering improvement in our operating margins. Within that, we will play the portfolio as appropriate for the individual year. In certain years, you know, it will mean all of the segments will improve for operating margin in some years, it might be that one or two of the segments improve margin, one or two go back. So we would not like to get in to talking about each of the segments and, you know, what is the outlook for the future, but just reconfirm our intent to keep growing the operating margins for the portfolio as a whole.

**Sanjay Singh:** Okay. Let me put it in a different way. Forget the future, but, you know, we are seeing – if one looks back for seven years and sees that, you know, margins have gone down 300 bps and almost every year you cannot attribute it to either accommodating an increase or something else or something else. There has to be, you know, a larger picture. So would you attribute it to competition or mix or what would you like to attribute to what has happened in the past seven years? Forget the future for a moment.

**Management:** Right. So I think when you look at over such a long period of time, you need to recognize I think two things. First of all, we have called out that in Personal Products in several categories there is a job to be done to develop markets in emerging segments. Let me give an example. Let me take hair conditioners within our hair portfolio. Clear job to be done for us to build conditioners as a market. Let me take skin care. Again, clear job to be done that we have been building facial cleansing as a segment within skin care and so on I could just go on. So our key job is not just to be looking at margins, but looking at the overall value that we create where there are segments that require market to be developed there will clearly be investment to be made and as market leaders, most of the time we take the lead in developing the market. That's point number one and the most important point.

And the second thing is, of course, with compared to 2007 and look at 2014, I think Sanjay you will agree that the competitive environment is very different whether it is the emergence of some newer multinational players in specific segments or whether it is the overall competitive intensity in the market place. That certainly is very different. That's not the environment of 2014 - is not the same as 2007. I think suffice to say that when you look at overall, Personal Products is usually accretive to our overall margins. Building the segment isn't just for growth and driving growth, it's the right thing to do to create value for the long-term and that's really our strategy. Percentage margin is important, but more important is what is the total value that we create.

**Sanjay Singh:** Yeah. I got it. That was very helpful, sir. I think, you know, margins coming down can be broken up into two parts – investment in new sub-categories and competition. Competition is not going to change. But some of the new sub-categories like deodorant, conditioners you've mentioned have become a recently fairly large or fairly matured so that they do not require any great amount of investments. So that part into new sub-categories etc is that part going to be less drain in the future or do you think that there are more things will come in the future and so the drain from new sub-categories will continue?

**Management:** Sanjay, none of these categories have reached the stage of maturity. In fact, if you take the entire Personal Products portfolio, there are no segments which you can say have reached the stage of maturity. So there would be a huge investment going on in market development even in a category like shampoo, leave aside what hair conditioner Sridhar was talking about. So there is certainly going to be more investments when it comes to market development. And as far as competitive context is concerned, we are going to spend competitively to ensure that we maintain the strength of our portfolio and we maintain the market positions in this category. But the good bit has been that during the period that you are referring to, we have had solid growth in Personal Care.

**Sanjay Singh:** Thank you very much, sir. I got. Thank you.

**Management:** Thanks, Sanjay.

**Moderator:** Thank you very much. We have the next question from Mr. Manoj Menon from Deutsche Bank. The line is unmuted. You may go ahead and ask your question.

**Manoj Menon:** Hi team. Congratulations for a good competitive performance. Basically, only one question. I have heard HUL talking about, if I remember correctly, down trading the quarter before or the one before, you know, at least initial signs of down trading. Just want to hear from you, you know, what you are seeing in the market currently. I am asking this question in the context of another comment which you made about your low unit packs, you know, outperforming possibly some of the other price points, maybe, in some of the segments. So technically in Excel sheet, it can be considered as down trading, you know, from a realization point of view. So just your comment on this.

**Management:** So you are right, Manoj. We did comment on in some of the categories we have seen low unit price point packs like sachets, etc, growing faster than the category average and therefore to our extent, yes, not just on Excel sheet, but yes even in real terms there is a bit of down trading. Having said that, if your reference is, you know, 2009 when we had seen very significant down trading in categories like laundry, categories like tea, what we are seeing this time around is nowhere as severe. But, yes, there are some signs of the mass end of the portfolio in the market sense growing faster than the average.

**Manoj Menon:** Okay. Sir, actually the context of mentioning the Excel sheet was that, you know, in your analysis have you found, let's say, a 1:1 correlation within a segment of small pack actually outperforming in certain geographies or in certain channels at the cost of, let's say, some other pack actually to come to this conclusion?

**Management** So you see, Manoj, it's not a question of cost. At the end of the day, the consumers that are getting into our categories will start consuming the products that we offer. The proportion that drop out is very low. Once they start consuming it, they like the product, they stay with the category. What is happening is that the normal pace of new consumers coming into the category and starting to consume has been slower. And within the existing set of consumers who – I will just give you an example of shampoo. If they are buying, you know, 100 ml bottles, some of them would be switching to buy sachets just to minimize the put-down price. At this stage, the trend is not something which is very severe and therefore I am not so sure I would say it is at the cost of something else; it's just that the pace of growth of some of these premium categories has slowed compared to the average of the portfolio.

**Manoj Menon:** Sure, sir. Sir, does it also explain in some part the Personal Products margin movement, like, one participant asked earlier?

**Management:** I don't think that's really the case. So when you look at personal products margin MQ on MQ it's about 75-80 bps of a movement. And primarily it is to do with the competitive intensity step-up in Oral that we had talked about. In addition, I think I also mentioned that during this quarter, we've had extra investment behind moulds to support the innovations in Personal Products.

**Manoj Menon:** Sure. Sir, my last question. You know, page 29 of the presentation, you know, you had given some numbers about Rs. 1250 crores in the segments of the future and also called out, you know, four segments for it. Just to clarify, so these segments in my understanding is launched in the last six-seven years. So essentially it is like from near 0 to 1250 crores, you know, it is not that there is any more segment; there is no extra that just that I can read this 1250 into these four segments.

**Management:** It is correct. Your interpretation is exactly right. Some of these will be six-seven years, some of these may be four-five years ago. These are still nascent and, as you heard Sanjiv respond to previous question, if you look at penetration levels of these segments, they are still far from maturity and therefore offer a good potential for scaling up in the future.

**Manoj Menon:** Sure. Thank you so much and all the best.

**Management:** Thanks.

**Moderator:** Thank you so much, sir. So we have the next question from Mr. Harit Kapoor from IDFC Securities. Your line is unmuted. You may go ahead and ask your question.

**Harit Kapoor:** My question is answered. Thank you.

**Moderator:** Thank you so much. We have the next question from Mr. Vijay Chugh from BNP Paribas. The line is unmuted. You may go ahead and ask your question.

**Vijay Chugh:** Thank you so much. You said that there is an inflationary environment on the input side. How would you characterize the environment on the media side actually in terms of media buying and costs?

**Management:** Right. So, you know, as far as media is concerned, I think you are all familiar with the developments that took place in the second half of last year in terms of the regulatory changes which restricted the amount of advertising time per programming hour. So that has certainly had some inflationary impact. I will not be in a position to share with you what is the specific level of inflation; suffice to say there is an inflation in the media line as well, but I can't give any details beyond that.

**Vijay Chugh:** Okay. Thank you.

**Moderator:** Thank you so much. We have the next question from Mr. Varun Lochhab from CIMB. The line is unmuted. You may go ahead and ask your question, please.

**Varun Lochhab:** Thank you, sir, for the opportunity. Sir, my question was on the soaps and detergent segment now like both are fairly well penetrated categories. Just wanted to understand if we are seeing any sort of divergence of performance in terms of, say, underlying volume growth in these two segments more at a, you know, say, market level or portfolio level which could be a function of, say, different competitive intensity in the two segments?

**Management:** No. I think if we talk about volume growth, nothing. We are quite pleased that in both soaps as well as in laundry we've had a good growth during the quarter which is a combination of underlying volume growth as well as price growth. But if I just step back at a longer-term trend, it's possible that there may be some divergence depending on if palm oil, for example, follows a very different trajectory to crude. Then it is possible that the price component of soaps might be very different from the price component in laundry. But in this particular quarter, we've not seen any dramatic divergence.

**Varun Lochhab:** Or, say, in the last three-four quarters when the slowdown has set in, have you seen any sort of different response in terms of the growth rate in the two categories or like the slowdown is almost similar in that too?

**Management:** I would say, broadly speaking, similar. There is nothing so material to make a big comment about it.

**Varun Lochhab:** Okay. And, sir, in terms of, you know, the competitive intensity especially from regional players like we are seeing greater activity in these categories which are, say, more prone to that sort of competition or is it pretty stable?

**Management:** No. In this context, when we talk about regional players, India is such a large - it is grouped together as one country, but such a large set of diverse geographies. And regional players are, as you know, geography-specific. They continue to be active. I can't call out and say that there has been a dramatic shift in their competitive interest either in soaps or detergents. So when we look at competition we've called it out before in soaps and in detergents, it's both looking at pan-India players, but also regional players. Nothing significant has changed on that front in the last few quarters.

**Varun Lochhab:** Okay. Thanks a lot, sir.

**Management:** Thank you.

**Moderator:** Thank you very much, Mr. Varun. With this, I would like to hand it over back to Mr. Thapar for any questions over the web.

**Dinesh Thapar:** Thanks, Sourodip. What I will do is I now will take questions on the web, you know, in the interest of time will avoid taking on any questions that we've already answered. We have a question from Hemant Patel from Axis Capital who says "In an environment of demand slowdown and rise in commodity prices, what operating levers does the management have to deliver growth and profitability ahead of revenue growth?"

**Management:** This is a classical question. Thank you for that, Hemant. This is all about playing the game dynamically. And here again we play the different levers of the business and the different levers could be different for different categories. First we ensure that we don't shy away from investing behind our brands. We maintain our competitive spend. The other is we also ensure that we keep investing behind categories of the future because those are some of the segments where you get accelerated growth. The second thing is we look at our value chain across the products and see where can we take out cost which are not adding value for the consumer. Once having done that, then we look at the strength of the brand and also the nature of the category; we look at it from a perspective of how price sensitive it is. We also look at it from a perspective of whether it is a low unit price pack, etc, where sometimes you have to maintain the magical price points and then we take a selective price increase. So different categories call for different actions to be taken, but across it, we look at a business from lens that we would be examining everything but not ensuring that a competitiveness in any way gets eroded.

**Dinesh Thapar:** Our next question is from Jamshed Dadabhoy from Citibank. Jamshed's questions on PP UVG which is at 4% versus 6% last year. And a few years ago was in double-digit to mid-teens. The question is "Can you split this deceleration into FAL-related issues versus macro-related slowdown?"

**Management:** So, Jamshed, when you look at our PP growth of about 8% in this quarter at the aggregate, it is growing ahead of market. So at one level I could very simply say that it's really linked to what's been happening in the market where clearly market growth rates in PP which has, you know, has many discretionary categories within it is really the biggest driver. Having said that, you know, in the quarter we also called out that one category where our performance clearly needs to be stepped up is oral care. We spent quite some time talking about the details of it. So oral care is a category that we are looking to step up performance and that's really something that would make a positive difference as we go forward. But in the aggregate, it's primarily a function of the market.

**Dinesh Thapar:** We have a question from Suruchi Jain from Morning Star. "In terms of S&D growth, do you think 2-3% kind of revenue growth is possible in the coming two to three years as competition further intensifies and economic growth does not pick up significantly? Just want to understand the scenarios that an investor should be ready for."

**Management:** So I am not sure Suruchi whether you are talking about revenue growth because if it is revenue growth, then I don't know why the number would be so low. If you look at our performance even in this quarter, our revenue growth is high single-digits 8-9% revenue growth in soaps and detergents with a mix of volume and price. So I am not sure why you are looking at a scenario of 2-3%. Maybe, we could discuss offline with our Investor Relations team so that we can understand, you know what's driving your question.

**Dinesh Thapar:** Our next question is from Amnish Aggarwal from Prabhudas Lilladhar. "What has been the contribution of the prolonged winter?" Second question is "Is beverages, is margins of 18-19% sustainable?" And the third is "Laundry growth has been led by the aggressive pricing in Surf Excel Easy Wash. What is the category outlook in the medium-term?"

**Management:** Okay. So let me just give you a quick sense in terms of the first two questions on winter and margins and then I will hand over to Sanjiv to talk about laundry and his perspective on laundry. Firstly, you know, the prolonged winter that you talked about that's a phenomenon now we are seeing this is the second year running that the winter has played into the first few weeks of March quarter which is quite similar to what we saw a year ago. So in that sense when you look at year-on-year, there is not that dramatic an impact. To your point on beverages and, you know, the high margins that we are making, yes, indeed the margins are quite healthy. Obviously, we would like to continue driving competitive growth as well as profitable growth. We did benefit from an advantageous position with respect to commodity cost. As you know, the season in Tea starts around June, buying season starts around June. So when you really look at it, our focus, just to be very clear, we will continue to drive competitive and profitable growth. At this stage, I can't comment on whether it will be 18 or 19% whether that will be the margin in the future or not, I can't comment on that.

When it comes to laundry in mid-tier and top-end, we have been doing exceedingly well. And last year, the only issue that we had was the mass market and there also we are very happy to note that Wheel has started growing. As far as your question about pricing of Surf Excel is concerned, I can tell you what we are doing is right pricing.

**Dinesh Thapar:** Our next question is from Kaustabh from Sharekhan whose question is that "There are growing concerns about a below normal monsoon which is likely to affect the rural economy. What steps is HUL planning to mitigate the impact of below normal monsoon?"

**Management:** So, Kaustabh, I don't want to comment whether monsoon will be below normal or not, but I think Sanjiv just briefly spoke about it in the same vein although the question was addressed differently about the levers of performance that can be driven. He talked about continuing to focus on supporting our core. He talked about continuing to focus on building markets in categories of the future where accelerated growth opportunities exist and continuing to focus on the entire value chain in terms of cost and efficiency. So, overall, I think his response captured, you know, your question although it was addressed to a slightly different question.

**Dinesh Thapar:** Our next one is from Abneesh Roy from Edelweiss who has a follow up question which says, "Both the top two players in soaps have claimed to have grown ahead of the industry, but the industry is seeing a decline. Is there a data issue and when will soap growth come back?"

**Management:** So, Abneesh, as far as HUL is concerned, I don't want to comment on competition. As far as HUL is concerned in this quarter, we have grown top line, we have grown top line both through growing volumes and through price growth. So that's our position. I cannot comment on any other player that you are referring to.

**Dinesh Thapar:** Okay. There have been a couple of other questions which have come in on urban versus rural and whether we think there are any green shoots in urban. I think we've touched upon those, so I won't repeat them. I think, with that, we've now come to the end of the Q&A session. We have in the Annual Investor Meet scheduled for the 1st of July and that will be another opportunity to engage with us. So at this point of time lock down the date. Invites will follow in due course. Just before we end off, let me hand back to Sanjiv.

**Sanjiv Mehta:** You know, our very abled CFO, Sridhar, this is going to be his last time he will be on this call. And I am sure all of you would join me first in thanking him for doing a wonderful job for our business and sharing with you his thoughts and ideas for many years. And, more importantly, wishing him the best as he goes across the ocean to handle a very important job for Unilever. On that note, thank you very much. Good evening and have a pleasant evening.

**R. Sridhar:** Thanks, Sanjiv.

**Moderator:** Thank you, Mr. Thapar. Thank you all the panellists. Thank you investors for joining us. Hope you all spent a useful time. With this, we conclude the conference call for today. Wish you all a great day ahead. Thank you so much.

**Dinesh Thapar:** Thank you.