March Quarter 2017 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. Aasif Malbari, Group Finance Controller and Head of Investor Relations

Moderator

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

Aasif Malbari

Thanks, Urvashi. Good evening and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening results for the quarter ended March 31, 2017. On the call from the HUL end is Mr. Sanjiv Mehta, CEO and Managing Director and Mr. P. B. Balaji, CFO. As is customary, we will start the presentation with Balaji sharing aspects of our performance for the quarter, and then hand over to Sanjiv for him to share his perspectives on the business performance. Before we get started with the presentation, I would like to draw your attention to the safe harbor statement included in the presentation for good order sake. With that, over to you Balaji.

P. B. Balaji

Thanks, Aasif. Firstly, thanks for joining this call all of you. I know for some of you it's a bit late, but thanks for joining. Let me quickly cut the chase in terms of our strategy, no change whatsoever from what we have been consistently following for the last few years, that's delivering us results and therefore we continue to follow the same.

To summarize March quarter, if you recollect in my last update, we did talk about gradual improvement in the market conditions as the liquidity situation improves, and happy to confirm that the market conditions did indeed stabilize in the quarter, and also input cost inflation which had runaway over the last three quarters, starting to moderate as well.
And in this context HUL, we believe we have delivered profitable volume driven growth during this quarter.

Our underlying – our Domestic Consumer growth was at 8% with an underlying volume growth of 4%. EBITDA margins was up 90 bps and hence resulting in an EBITDA growth of about 12%. Out on the 90 bps, we had cost of goods being lower by 20 bps as the inflation moderated, and by ensuring brand communication objectives are met while driving efficiencies through our zero-based budgeting program, we are able to generate efficiencies close to 80 bps on our BMI savings line. On – net profit grew by 6%, while PAT (bei) grew by 8% in the quarter.

Hearteningly I think this growth was well spread out across the various categories. Home Care continued to deliver broad based growth driven by premiumization and very happy to report the growth rebound in both personal products and personal wash during this quarter at 8%. Foods had modest growth, coming out of fundamentally out of a prior period comparative, which I'll talk about. And Refreshment grew – had another solid quarter where they grew 11%, and overall Domestic Consumer business therefore growing at 8%.

The quarter again saw a few of innovations, the big one that you saw in the title slide, which is Fair & Lovely and then of course there's a host of innovations across brands that continued during this quarter as well. And to update you on the Naturals portfolio, we are progressively building up this portfolio. We had Natural variants introduced in existing brands that is both TRESemmé and Clinic Plus. And we also started extending successful interventions into other parts of the business as well. And, so Fair & Lovely ayurvedic care has now started growing into North and Central India. And, as I have said last time, we have launched Lever Ayush in the

Southern part of India, and it is the first quarter of performance for that particular brand, and we are very happy to see the response that is coming through. We're obviously watching it extremely closely, and we will ensure that it meets its objectives as it goes along. So – but very good start for this particular brand.

On Home Care, to go into a bit of detail, we saw broad based growth in Home Care driven by premiumization, and here the fabric wash portfolio, the growth was driven fundamentally by the premium segment, where Surf sustained its strong volume led growth momentum yet again. So, this one brand, which is our biggest brand, continues to motor along exceedingly well. And on Household Care, Vim Liquid sustained its strong performance, and water saw volume led growth delivered in this quarter as well.

Moving on to Personal Care, growth rebounded in both personal products and personal wash, and personal wash it was broad based growth across all brands with input cost starting to get stable, Dove and Pears led the premiumization agenda, and the Lux relaunch as well as the new variant was well received as well. Skin care, the robust growth was driven by the Fair & Lovely relaunch, which has been – which is normally one of the blockbuster relaunches that we do, and very happy to see it land well this quarter. Hair care continued to deliver another quarter of broad based double-digit growth, and it is another category that's motoring along very well. Colour Cosmetics, the Lakmé Absolute Argan Oil Lip Color range was the most exciting launch of this particular category in this quarter. And here, Lakmé delivered strong innovation led growth on this – back of this innovation as well, and doing well. However, the performance has not been up to our expectations on oral care, where it was a subdued performance where despite the subdued performance, we did have Close up getting relaunched during the quarter and Lever Ayush range of oral care was also extremely well-received. In the case of deodorants, Axe delivered strong growth this quarter. And we have – we are quite happy with the way that slowly that category is coming back under control.

In Foods, it is a modest growth as I called out earlier where while our focus continued to remain on market development, and we saw strong growth coming through in the Kissan range with ketchups and jams doing very well. In the case of Knorr, the growth was impacted by a strong competitor in the base year, otherwise we're quite comfortable with the performance coming through on the Foods business.

On Refreshment, it is robust growth was sustained in this quarter as well. Tea continued to motor along well with broad based double-digit growth. And in coffee, Bru Gold continues to drive the premiumization. And ice creams and frozen desserts, again robust innovation-led growth delivered this quarter as well.

So to summarize our results, sales as I said earlier, the turnover growth, you will see is 7%, while the domestic consumer growth is at 8%, the difference coming fundamentally because of the A&D impact that is the acquisition and disposal impact where we had a disposal of the Modern Foods business that's causing the delta there. And the net impact of Modern Foods disposal and Indulekha acquisition is what you see there. EBITDA margin up 90 bps as I called call out earlier. On the other lines below EBITDA, two call outs, one is financial income, there is the other income that you see there where you – because of the interest rates coming down, there is a change coming – there is a lower amount of financial income that we generated. And other exceptional items is fundamentally in the base year was some of the P&L which we registered in Modern Foods. And this year is a very clean base, there is nothing there, hence you see a delta coming through there. This resulted in the PAT bei going up 8%, and net profit going up by 6%.

Coming to the full year performance, a year where we grew 3% as far – despite challenging circumstances, grew 3%, where Domestic Consumer growth was 4%, and underlying volume growth for this period was 1%. And EBITDA margins grew by 38 bps and this is now the sixth consecutive year where we have improved our operating margins.

For our final dividend, the board has approved a final dividend of – at INR 10 per share, this will be finally approved at the AGM that is there is on June 30. And with this, the total dividends for the year is INR 17, again the INR 15 that was there the previous year. And it's a payout ratio of almost 100%.

So moving onto the, probably the most – I'm sure a lot of you will want us to elaborate further on this and hence we put out a clear slide on GST. To put it on record, I think HUL welcomes this reform, this is a long awaited reform and we really are excited by this reform. However, this is a huge reform, a huge change and there would be transitional challenges that we need to address. In the short-term, trade pipelines are likely to thin down, and fundamentally led out of presumptive credit percentage being low and that's a key concern in trade, and is particularly relevant for that trade where we are not able to directly reach. And their closing stock credit is going to be a big concern for them and hence they could down stock, and this impact is likely to vary across channel with the maximum impact being felt by the wholesale channel. There are of course some open items that everybody is eagerly awaiting this weekend once the GST Council meets, and is the final rates for various products, a formal conformational on start date is very, very important because a business of this size requires some degree of clarity on what is the cut over date. Compensation for fiscal benefits, which so far has not been officially clarified, and other operation details where there is a huge list. Just to put out one example, the GST return formats need to get formerly finalized so that we can start coding on it.
We can also confirm that the net benefits on tax rates would be passed on and HUL and our ecosystem would be ready for a timely cut-over on July 1st for this transition. However, for it to be smooth and effective and timely, it requires an early confirmation on the clarification on those open items that we have just called out. So that's the state of play as far as GST is concerned.

So looking ahead in the near-term, consumer sentiment is improving, input costs are stable and GST, it's a welcome reform. However, there are transitional challenges that need to be addressed. And for this our strategy remains unchanged, focus on volume driven growth and improvement in operating margin, while continuing to deliver consistent, competitive, profitable and responsible growth. So with this, let me hand you over to Sanjiv for his comments.

Sanjiv Mehta

Thank you, Balaji. Good evening, everyone. Always a pleasure to speak to you, and thank you for joining us on the call. As you're well aware, the initial part of the quarter still saw some residual impact from demonetization. Given that backdrop, we are delighted with the strong broad based growth of 8% that we have delivered. By driving all the levers of margin, namely, operating efficiency, cost savings, mix, right pricing, we've delivered a margin improvement of 90 bps. This ability to play all the lines of the P&L has helped us deliver both a competitive top line and a healthy bottom line growth impact. It would also be realistic to assume that some portion of this growth came from trade pipeline gradually building up post-demonetization. However, you will appreciate that it is difficult to quantify the same, though we can always make some level of estimates.

Since this is also the financial year-end, let me share my thoughts on the performance for the entire year as well. When I look back at 2016, the year was very challenging from an external market and environment context. The severe droughts in part of our country, high inflationary trends in input costs, overall slowdown in the market growth, especially rural, and the sudden liquidity crunch that we saw in the December quarter, the year certainly was far from normal. In this context, I am happy that the resilience that the business has shown and delivered a healthy focus on USG. I am also very happy to share with you that this was the sixth consecutive year wherein we delivered a positive margin improvement. This has been driven by strong innovation, smart strategic choices and a differentiated category strategy on the back of impressive saving of nearly 6% of our turnover. In order to win in the marketplace and support our brands, we need to further drive value and generate additional sources of cost savings and efficiencies to feed the growth. ZBB is now becoming an additional tool to help us identify opportunities for creating value and strengthening what is called as the owners' mindset in the business. I remain confident of sustaining a market improvement going forward.

Now moving on to the segment-wise performance, Home Care has been a strong story driven by premiumization, while the growth was led by the premium fabric wash segment, it was broad based across the mass, popular and premium range. Surf, our largest brand in our portfolio has delivered consistent double-digit growth throughout the year driven by strong volume. This brand has been leading the category premiumization for the last five years.
Building on sustainability as the key differentiator, this quarter also saw Rin launch its new water saving variant patented with smart foam technology that saves up to two buckets of water in every wash. We believe this innovation plays an important role in not only conserving water, but very importantly reducing the burden for women in carrying water.

Let me now turn to Personal Care, where I'm delighted to see both personal products and personal wash performance rebound, and what has been more comforting to see is that the performance in personal wash has been broad based across the mass, popular and premium range. All our core brands Lux, Lifebuoy, Pears, Liril and Dove have clocked strong numbers. This quarter, we also saw a host of innovations across the category with Fair & Lovely being relaunched, being the biggest. This new product promising to give laser light-like treatment was well received by consumers. Other big innovations this quarter included the launch of TRESemmé Botanique and Clinic Plus Ayurveda in the Naturals segment. And while we are on the subject of Naturals, let me also share with you that we are very happy with the sequential growth we are seeing with the Lever Ayush range that we launched in South India.

Another strong story has been the double-digit growth clocked by tea on the back of sustained market development,
Lipton Green Tea and Natural Care portfolio also registered another quarter of high growth. The WiMI strategy has helped us shape this segment in a very different way and we are confident that the growth trajectory shall only continue further.

I would like to finally conclude by saying that while we have delivered a strong quarter backed by profitability, the wholesale and rural channels are not yet back to the normal levels of growth. While market growths are expected to gradually improve, we need to factor in the assumption that the trade pipelines to the run-up of GST will likely thin down as has been indicated by Balaji. GST, as we have alluded to earlier, is a welcome reform. This will enable the government to widen the tax base, bring about a level playing field and facilitate efficiencies in our industry. As Balaji mentioned, we will be ready to transition on 1st July, but we are waiting clarity on a few critical areas like the final rates, compensation for fiscal benefits, some of the operational things like the GST return formats and also we're hoping that there is a positive outcome of the GSTN test run.

To ensure this smooth and timely transition, we have not only enabled our internal system but have been providing full support to our extended ecosystem. Just like the resilient performance that we have delivered this year despite the challenging external environment, we continue to make our business more agile, resilient, and deliver the 4G growth.

With that, let me now hand the call back to Aasif and I look forward to engaging with you in due course and certainly during the Investor's conference.

Aasif Malbari

Thanks, Sanjiv. Thanks, Balaji. With this, we will now move to the Q&A session. So that it doesn't get really late, I think we'll limit to around 60 minutes so that we can bring the call to a close by around 7:15 PM. Can I request participants who want to ask a question to keep it very tight, so that we can permit as many questions over the next hour. In addition to the audio, as always our participants have an option to post the question through the Web option on the screen. We will encourage you to do that and we will keep the questions up before we end the call.
Before we get started with question, I would remind you that the call and the Q&A session is limited 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 questions, please engage directly with us or the Investor Relations team. With that, I will hand the call back to Urvashi to manage the Q&A session for us. Urvashi over to you.

Q&A Operator
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.Abneesh Roy from Edelweiss, Mumbai. Mr. Roy, your line is open, you may ask your question now.

Abneesh Roy: Sir, congrats on good performance. My first question is, in hair and soaps, your growth is broad based across brands. But in detergent sir, consistently we are seeing premium end of the portfolio grow faster. So in lower end, we had seen a few quarters before also was the issue, last quarter also lower end did not do that well. So, is regional and Patanjali gaining share here? What is the issue here, if you could take us through?

Answer: See, first is, we've had growth in mass, yeah, is popular, as well as in the premium segment. Our stated strategy is to upgrade the consumers to the premium offering, and it's a great price value equation for Surf. So it is going exactly in line with the strategy. Having said that, I'm also very pleased to tell you, that we are also gaining share in the mass segment. While the segment may not be growing at the same rate as the premium, we are gaining shares in the mass segment. So, I think, it's absolutely very satisfying performance as far as fabric cleaning is concerned.

Abneesh Roy: Sir, will it be fair to say that in detergent, the premiumization of the portfolio for the industry is happening more than say hair and soaps? Because you have mentioned broad based growth in hair and soaps, but you have mentioned only the premium in the detergent, you have outlined that, so.

Answer: Premium, yeah, our premiumization as a strategy, Abneesh, we have always called it out and this is a secular trend which is playing across the portfolio, yeah. If you look at skin cleansing, this quarter, our growth has been – while it has been across our brands, Dove and Pears have done exceedingly well, yeah. Similarly, when we look at hair portfolio, again TRESemmé, Dove all have done exceedingly well, so premiumization as a trend is certainly playing out as per our strategy and plan.

Abneesh Roy: Sir, my second question is on Naturals. You took Ayush to five states, if you could update us on the pan-India, when do you plan to take it? And in terms of toothpaste, this is one segment in which last few years you have been losing market share. So is Ayush toothpaste the answer to this declining market share? And so – in FAL ayurvedic also, is there any cannibalization?

Answer: Yeah. Okay. First let me come to Ayush, Lever Ayush, yeah is we are very pleased with the launch of Lever Ayush in the five southern states. And it has met our launch objective, and now we are clearly looking at a plan as to how quickly we can roll it out to rest of the country, yeah. So I would say just watch the space and our endeavor also is to ensure that Lever Ayush is available where Abneesh stays. So that is on Lever Ayush. Then when it comes to, your second question was on...

Abneesh Roy: Toothpaste, is Ayush the answer?

Answer: Yes. Oral Abneesh, very clearly we have much more to do, and we ourselves are not happy with the performance of oral care, yeah, is if we look at it today from a macro category perspective, is the growth is happening primarily in the Naturals segment, and Naturals segment is now nearly a quarter of the market. So for us, it is very important to up our play as far Naturals is concerned, and we have launched three variants with Lever Ayush. And I'm very pleased with, like I said, there's an initial uplift in the Lever Ayush, so that is going to be one big place for us. The fix of course is our big brand Close up. Close up we have recently relaunched with an improved mix, and the initial reaction of the consumers has been satisfying, but we have to watch this space as to how it reacts going forward. So, we are committed to turning around this category. And Abneesh, like you have seen over the years, there have been instances where we have tripped and fallen, where there have been roadblocks, but we have been determined in turning them around, and also remain very confident that we will turn this category around whatever it might take.

Abneesh Roy: Sir, this 25% number which you mentioned, Naturals, what will be the number for Unilever that is for you?

Answer: See, we don't give Naturals separately, segment wise we don't give, yeah. And for instance, Lever Ayush is a brand which cuts across portfolio, and we are now having variants in different brands under the Natural portfolio whether it is Fair & Lovely Ayurvedic, whether it is TRESemmé Botanique, yeah, or whether it is Clinic Plus Ayurveda. The third leg of our strategy is to get specialist brand. We are very happy with Indulekha. And as we speak, we have launched another specialist brand called Citra, you will hear more about it as we go along.

Abneesh Roy: And sir, these are cannibalizing or these are taking share from the competition?

Answer: See, whenever you launch a new brand and if you have a large market share of a category, there would be some element of cannibalization. But always, if it works well the innovation, there is an incremental growth.

Abneesh Roy: Sir, last question. Foods, you had seen 10 quarters of double-digit growth till last year. FY 2017 has been a tough year for most food companies including you with mid- to low-single digits. So sir, what has gone wrong here, if you could take us through? Is the customer cutting down more – most of the food companies we are seeing that the growth numbers are more challenging. What's your take on this?

Answer: See, first is Abneesh, our Kissan brand both ketchup and jams has done very well, yeah. Our main growth has been with Knorr and Knorr essentially the base has been very high in the previous quarter. So there are no fundamental issues we see with Kissan and Knorr, yeah.

Abneesh Roy: But sir four quarters of low-single digit sir?

Answer: See, but you also have to see, what are the factors which impact it. First, was the aftermath of the noodle crisis, then we had a bread scare, yeah, then we had a drought and demonetization. So even the external context has been very challenging, and we are again like for us Foods is very important, and just like we showed in the previous 12 quarters that we could grow well, we are very keen to get back into a normal rhythm as far as Foods is concerned.

Abneesh Roy: Okay, sir. That's all from my side. Thank you.

Answer: Thank you, Abneesh.

Operator: The next question comes from Mr. Manoj Menon from Deutsche Bank, Mumbai. Mr. Menon, your line is open. You may ask your question now.

Manoj Menon: Hi, team. An excellent performance, must say in the market context. I've got two questions. One on the slightly longer-term and the other one probably the shorter one. The first one, Balaji, good to see that the – in the last slide, the strategy is – this is pretty much consistent about what you have been mentioning before. But in the context of the Unilever strategic review, which happened on April 7, is it just that you are relooking at it or is it that, there is absolutely no change or even a thought process changed etc. The context I'm asking this is that, after the Unilever strategic review, one of the key area of investor concern was Unilever Global's comment that, increased efficiency of brand and marketing investments is one of the areas to save cost, and that's probably not something investors would like to hear especially at a time when the LFL growth – I wouldn't say, under pressure, but probably recovering. So just could you throw some light on the strategy, your thought process here?

Answer: Yeah. Thanks, Manoj. Well, let me take it in two steps, I think, number one, with respect to the strategy, and second with respect to the BMI investments. In the strategic review, there were a few key call outs. One, the fact that profitability improvement 20 by 20, that is one call out. And the second one was, the portfolio, especially the spreads portfolio being disposed, Unilever exiting that portfolio, these are two big call outs there.

And from our point of view, the margin improvement journey that we have been on to has been a very good journey, and we are also a growth business as far as Unilever is concerned. And therefore, we continue to stay invested in all the portfolios that we are onto. We do not have a spreads business here in India, so therefore for all practical purposes that part of the announcement actually is not relevant for our part of the business. And the margin improvement journey, we explicitly call that out saying that we continue to focus on volume driven growth as well as improvement in operating margin - that does not change. That's one.

Going on to the BMI side of it, I think BMI even if you look at this quarter, we have actually changed the, our approach to the way we look at BMI. To give you a little bit more flavor of it, earlier we used to have a conversation, the share of voice, the media heat, these are all the base conversations on which you start building media plan. We have moved from that into an effectiveness and efficiency-based plan where our objective – each campaign has an objective and ensure that we are putting money behind to deliver the campaign objectives while having a broad view on what the share of user or voice share of market that we are spending on, that's a big shift in thinking, that's one.

Secondly, to drive efficiency, the number of campaigns we run. Third level is for the duration of the campaign. Third is what kind of saturation levels we are driving at. Fourth is can we actually ensure that we can plan across media platforms and not just sitting in TV or exclusively in digital. So it is actually a comprehensive view of what is the best way to drive effectiveness. Let me absolutely categorical here. There is no way we are going to lose efficiency and effectiveness of media spend as we – I mean, there's no way they're going to lose effectiveness of media spend as we drive efficiency in media spend. And therefore the role of media is to drive salience and the role of media is to drive growth, that does not get compromised as we really juice out efficiencies and we believe given the kind of scale with which we operate, given this kind of quality of information and data analytics that we have and being crystal clear on our brand objectives, campaign objectives, we should be in a position to have our cake and eat it too.

Manoj Menon: Got it, got it. That's fairly comprehensive. Just a quick follow-up on this Balaji...

Answer: To add to what Balaji said is ZBB which is based on lot of analytics and data being used, is a journey which we have embarked upon nearly a year back. So, this is not something which is a response that we've had through a strategic review.

Manoj Menon: Okay, okay. Understood, understood. Just one follow-up quickly on this is that, one of the things which Unilever PLC followed up after this comment towards clarifying that efficiency could also come from, let's say, having lower number of, let's say, advertisements, lower number of agencies, etc. The context again is that, the Indian context per that honestly reminds me of the Power Brands strategy, because you actually would have a lower number of, let's say, platforms, etc. So is that the way to think or should I have any concern on this?

Answer: I think if you just rollback a bit Manoj, if you rollback sometime back, we talked about Project Half where we talked about SKU rationalization. You had – a lot of you had similar concerns on that one. I think that – I think we should be very, very clear; we are not going to go for reduction of whatever else, whatever it may be in terms of number of partners, campaigns, etc. as an objective. The objective is growth and effectiveness of media delivery. Towards that, everything else falls in place. So the objective function is to ensure that we are able to grow the business. These are all going to help you grow the business because – let me give you a simple example. If you want to put out there eight campaigns, ten campaigns, this is what will confuse the message, with which the brand lands. You are actually doing a disturbance to growth, and by reducing the number of campaign and keeping it really, really sharp, you'll actually be able to save cost and also at the same time drive effectiveness with which the consumer understands your brand, therefore actually goes up. So, we don't believe this is a compromise, this is actually more beneficial in the long run.

Manoj Menon: Got it, got it. Thank you. Thank you so much for clarifying. And a quick one on the shorter term, one comment which you made was – it is there in the presentation is about the net benefits on GST is intended to be passed on. Is this comment about the revenue line or is it includes the cost savings also?

Answer: The line is actually self-explanatory. Basically, what are the benefits that are there, and the benefits will be passed on – net benefits will be passed on. It relates to the anti-profiteering provisions that are there, and we are very clear that whatever is the net benefit that will be there, will be passed on to the customers and the consumers there.

Manoj Menon: Sorry, I'm just – to be little clear from my side, so if you look, there are two scenarios here. One- that you will actually get hypothetically speaking a lower rate, so that's one bunch of benefits. The second bucket could actually be that there will be a sudden supply chain efficiencies and other SG&A benefits, which you actually earned. So, should I then assume – understand that all the benefits you are looking to pass on, or is it just the rates part?

Answer: There is a line, where we explicitly said net benefits from tax rates will be passed on, supply chain efficiencies, any other internal efficiencies that we drive, because our ability to play GST better, that will be really retained/ reinvested depending on what our business strategy is. The law is referring to the tax rate reduction that is what we will be passing on, at a net level.

Manoj Menon: Perfectly clear. Thank you, Balaji.

Answer: There are a lot of as well that we – that I called out as open point, so it is a net benefit that we're talking about here.

Manoj Menon: Sure, sure, sure. I've got a couple more. I'll come back in the queue. Thank you.

Answer: Thanks, Manoj.

Operator: The next question comes from Mr. Sameer Gupta from India Infoline, Mumbai. Mr. Gupta, your line is open. You may ask your question now.

Percy Panthaki: Hi, sir. This is Percy Panthaki here. Sir, my question is on, again related to what Manoj asked in terms of the strategic review and the 20% margin targets set by Unilever parent. So, just wanted to understand in view of the margin targets set by the parent, does that in any way affect your margin expansion trajectory? I understand your sort of approach has always been to deliver a modest margin expansion every year, but does this strategic review sort of affect that trajectory in terms of, does it accelerate it in any way?

Answer: I think, if I really back a bit Percy, I think over the last five years, if you look at the margin improvement that we have put in place is close to about 500 bps, 100 bps per annum broadly speaking, yeah. And what I always say in every one of our meeting is, hold us to account, when it comes to modest improvements in operating margin. What we will deliver is, of course, this is – our objective is to ensure that that commitment is fully met, but it also reserves the right to ensure that we are able to redeploy, if you are able to deliver on the – any delta money is coming and it gives you multiple degrees of freedom with which to operate. So therefore, there is a difference in the way we want to put out as an ambition, what we want to put out as a delivery there.

Percy Panthaki: Understood, sir. But my question was a little bit different. I am not doubting your ability and your track record of delivering consistent margin expansion. All I'm saying is that the fact that the parent has set an aggressive course in terms of its own margin trajectory, and since you are a contributor in greater or lesser measure to that overall target, do your sort of targets also internally change or do your aspirations of delivering margin also actually sort of increase because of that decision?

Answer: I think there are multiple factors at play here, Percy. I think we shouldn't forget mix in the whole conversation, we shouldn't forget acquisitions disposal in this conversation, if I were at an overall Unilever level. So I think they are very much – we will also have stretch in our ambition that will definitely come our way, that's natural to expect that. But I don't want to boil, I mean directly correlate a 20 back into what will be the HUL number there.

Because, again, I go back, we are a growth business, and we have investment outlays, for example a brand like Ayush being launched, or a brand like Citra being launched. These are all investment outlays that we will do, because that is good for the long-term growth of this business.

Percy Panthaki: Sure.

Answer: So Unilever will also play it as a full portfolio across categories, across clusters, and we will also do the same at our end. But obviously anything that we can push to get a little bit more, we will definitely do it. We are not going to hold back on that. But that's a reason, I'm just trying to – I know that we are – I know we are going with this, but my only going in position is, given the strategic – we are keen to keep that strategic flexibility in terms of what are the commitment and what is the delivery, one. Two, also it gives degrees of freedom for Unilever to decide where it wants to play, how it wants to play to. Three, our own strategic role in Unilever is, we are a large emerging markets play, we are a profit accretive emerging market play for Unilever two, and three, there's a huge opportunity that is
India.

Percy Panthaki: Right, right. Understood, that gives some flavor

Answer: Yeah. Percy, also you have to realize that we are accretive to Unilever on both the top line and the bottom line. So it gives a nice mix impact to Unilever.

Percy Panthaki: Understood sir, understood. Sir secondly my question was on the Home Care margins which have expanded quite handsomely this quarter. So just wanted to understand is this sort of handsome margin expansion just sort of normal quarterly volatility or do we see structurally margins improving for the Home Care category? And if that is so, what are the drivers for this 220 bps margin expansion? I mean approximately how much is coming from
A&P rationalization, how much from mix and how much from price?

Answer: One is that the the Home Care story is a story that is over many years, it is not only in this quarter and it is something that we are clear enough. If I look at the absolute profitability of Home Care compared to the other parts of the portfolio, it is still well behind the overall HUL profitability at an operating profit level. So it's only fair that they take a larger load as they start improving their growth and that's an important strategic imperative and that's absolutely aligned to what Unilever also wants to do. And similar to what the earlier conversation, Unilever is clearly pushing for higher profitability in laundry and therefore we'll also have a role to play in playing that laundry game, number one. Number two, as far as the drivers for the profitability, core of the driver sits in premiumization and of course operational efficiency is that we drive and ensuring that we are playing the leverage as much as we play every other part of the portfolio as well, and any other standard ones like networking realizations, cost – savings program that we drive, productivity that we drive, all that continues as everyone else's, but what is really different compared to what was happening earlier in laundry maybe roll back 10 years versus roll back five years. In the last five years one thing that has really shifted in the laundry business is the premiumization, the premium part of the portfolio is a substantial shift in the ratio compared to the total portfolio. And that...

Percy Panthaki: Right, sir.

Answer: ...because Surf today is my largest brand, is amongst the fastest growing brand brands within my portfolio, which gives you enormous tailwind.

Percy Panthaki: And one last question, if I might just squeeze in quickly. Your GST benefits which were touched upon that you will passed upon – pass back the rates to the consumer, but any sort of efficiencies that you might generate you will retain, would you be able to give some sort of idea on what those efficiencies could be? I mean, just some examples of what is inefficient right now and what changes operationally post GST to give that efficiency? I'm not looking for a number because I know you'll not be able to share that with me, but qualitatively, what are the roadblocks or what are the processes with GST will improve, which are sort of inefficient right now?

Answer: Yeah. Let me, in the areas of the inefficiencies currently exist which we will – we'll have to clean off as we go forward. If you're having a scenario where the manufacturing location you are making only one product and that's how you actually manufactured it so far, GST will then start combining direct dispatchers into my distributors across state boundaries. If I start looking at that, how will you realize that, you can change your sourcing arrangement the way you produce what and which factory, in order to ensure that you are able to maximize the direct dispatches across, that would be one straight area of efficiency that we would very, very closely look at the things, how we deploy Capex starts changing.

Second, we'll look at areas like number of DCs that we would want to operate with, because some of them are suboptimal DCs which may not be required in the world of GST, and therefore similar such engagements or subscale distributors, because they are there because they are across the state boundary, we may then change that piece as well.
So, right now the teams are looking at the entire canvas of efficiency opportunities that are out there. And I'm just giving you samples of it which are the more obvious ones and which would play out over time.

So one thing we must realize that first priority in GST is compliance, priority two is a seamless cutover, and priority three that is ensuring that these savings and these efficiencies are secured, because we shouldn't underestimate the challenge of this cutover, and the compliance that we need to adhere to.

Percy Panthaki: Right, sir. Thanks, that was very helpful.

Answer: Thanks Percy.

Operator: The next question comes from Ms. Latika Chopra from JPMorgan Mumbai. Ms. Chopra, your line is open. You may ask your question now.

Latika Chopra: Yeah. Hi. My first question was on pricing. Given that the raw material inflation is moderating, what are your thoughts on incremental pricing decisions?

Answer: Latika, you know the answer that we will always give for this, because we do play all lines of the P&L. And – but it is fair to assume that this inflation is now starting to moderate, your pricing will also probably is in a stable range at this point in time, but who knows how it plays out a quarter from now when commodities if and when they start moving again. And the current juncture, we see at least for the foreseeable future input costs are remaining reasonably stable, crude has been hovering give or take plus or minus $2 around 50, and vegetable oil prices also seems to from the runaway inflation they have, they've definitely pulled back and more stabilized in a sensible range, but I'll be the last one to say that we know exactly how it's going to play out two quarters from now.

Latika Chopra: And the second one was on, if you could comment on how did you find rural growth rates spanning out, plus I think there was a comment in the initial remarks by Sanjiv around the impact from trade pipeline correction? And I think I heard him on the press conference about 100 to 150 basis points odd, if you could clarify on that bit please?

Answer: Yeah. Thanks, Latika. When we had the demonetization, there was, of course, shrinkage of the pipeline, and in this quarter that would have got corrected. It's never easy to be precise on this number, but our estimate is that the impact would be about 100 bps to 150 bps.

Latika Chopra: So, this is the extent of refilling you felt or the correction that was impact?

Answer: This was correction from the previous.

Latika Chopra: Okay. All right.

Answer: Recent.

Latika Chopra: All right. And any thoughts on how are you seeing trends in the rural side of the business?

Answer: It has picked up, but it is still a shade lower than urban. And looking at the history of FMCG, prior to the previous two years, this was a segment of the geography which was growing at twice the urban rate, but the sheer potential that exists in the headroom for growth in rural. So while it has started growing and we are pleased with it, we would like rural to grow even much faster.

Latika Chopra: Sure. And just lastly, any comments on the performance of Indulekha for you?

Answer: We're pleased it has delivered, it has grown faster than our business case.

Latika Chopra: All right. Thank you.

Answer: Welcome.

Operator: The next question comes from Mr. Arnab Mitra from Credit Suisse, Mumbai. Mr. Mitra, your line is open. You may ask your question now.

Arnab Mitra: Hi. Thanks for taking my question. Just continuing on that wholesale restocking a bit. So, I mean, I wanted to understand, if the wholesale or the general stock levels in the market and your expectation are they back to the pre-demonetization levels? And if that is the case, I think the second half of the year, put together would be like a flat trajectory minus four, last quarter, and plus four this quarter. So in that sense, are you confident that underlying demand is actually recovering in that context?

Answer: See, if you look at the underlying demand, and go back to the previous two quarters. The September quarter was impacted by the full impact of the two consecutive years of drought.

Arnab Mitra: Yeah.

Answer: Then, we were seeing a pick-up in demand happening in October, and then it was the demonetization is back to its Then, when we look at this quarter, of course, there has been an impact of re-monetization, and one is, what consumer confidence also has come back. The other bit is also correction of the pipeline, yeah. But then, we are now getting into GST, and you would have seen from the slide presented by Balaji, that because of very clear factor, one is the uncertainty around the pricing and then it is the presumptive credit that you would be getting on your inventory holding. We expect the pipeline to thin again, while saying that, this again would be a pipeline thinning again, which should get picked up subsequently, and this should not though have an adverse impact on the offtake.

Arnab Mitra: Sure. Just on the other – my second question was on the cost savings front, so the – on this journey on BMI, so thanks Balaji for explaining in detail what exactly is the change, where are you in this journey? Had it just started and hence we will see more such savings come through, through the year. And what about other elements of cost that the parents spoke about including the head count, I mean the staff cost, another kind of areas of cost cutting, is there an incremental acceleration, I mean, you've every year anyways been saving cost but is there an acceleration in that in the other lines of cost also going ahead?

Answer: Arnab, I think the answer is very similar to the one that I've had with Percy as well. End of the day for us these are all source of funds, and we will always will decide how to deploy these funds, subject to an overall framework with which we operate in terms of what kind of margin expectations we want to do, first on is, of course, ensuring the commitment is met, and then of course what else can we actually invest in. So, as long as there is a growth market, as long as we are ensuring that, we are growing ahead of Unilever both profitability as well as on growth, I think we'll be in a good place, so these are all choices we'll make as we go along. Take an example, we've Lever Ayush, our star new brands getting introduced they will have A&P deployment that are going into it. However, I've continued to drive that in Lifebuoy when the campaign is happening that campaign needs to adhere to these principles, so the money needs to come out. That is how we'd love to play this, otherwise it becomes a bit to linear.

Arnab Mitra: Okay. No my question was more that this new way of looking at advertising spend, not looking at share of voice and these other things. Is this a recent initiative in the last one to two quarters or has it – and therefore it continues and – I mean this continues over the next three, four quarters on a Y-o-Y basis is what I'm trying to understand?

Answer: The approach is about three months, four months old, I think we started implementing it from about December of this year and then we started putting it together, and we're watching it closely to ensure that the approach is actually firing on the ground, so right now the jury is out in terms of how it is delivering, and we're happy with what we see on the ground, but we'll watch it extremely closely to ensure that it delivers.

Arnab Mitra: Right. And just one last question if I may squeeze in just wanted the tax rate guidance for FY 2018, and 2019 if possible, and also with the Assam factory now coming on, what kind of excise duty reduction do we expect on the overall top line?

Answer: As far as the fiscal, we'll give you the guidance as we go forward, but as far as the tax rate is concerned, it will be about or at least 50 bps lower which is – if you recollect we had put that slide out last time when we were there 50 basis point, fundamentally because Assam will give you a benefit, but at the same time R&D cess is going out in the future, rules are also changing. So the net impact, you should see a 50 bps of reduction in the tax rate for the following year.

Arnab Mitra: So one has to adjust for the credits and stuff which you have got this year and then take out 50 bps from there, would that be the right way to look at it?

Answer: Why don't you pick it up offline with Aasif, I think we can understand where you are – depending on what you are referring to as a base rate, so let Aasif then engage with you offline.

Arnab Mitra: Sure. Thanks. That's it from my side. All the best.

Answer: Thanks, Arnab.

Operator: The next question comes from Mr. Richard Liu from JM Financial, Mumbai. Mr. Liu, your line is open. You may ask your question now.

Richard Liu: Hi. Good evening. Thank you for taking my question. I'm really impressed with the effectiveness of your gross margin management strategy that has come by in the March quarter. What I mean is that, if I look at it, the gross margin decline was just about 10 bps in MQ, was the 60 bps decline seen in DQ? And despite the fact that the blended pricing growth was the same, just at about 4% in both the quarters, and I guess RM prices would have gone up further in MQ versus DQ. Can you just help me understand the factors driving such an improvement given the backdrop?

Answer: In terms of your specific comment on margin improvement quarter-by-quarter, I would urge you to first look at longer terms on this where there could be ins and outs. One of the biggest things that you would notice is Personal Care coming back in terms of growth delivery, fundamentally improves mix in your favor. Yeah. As well as, when you look at the laundry delivery, the huge step up has happened because of premiumization in terms of delivery. That again gives you mix in your favor. So as much as there is raw material costs going up, these are also fundamentally more profitable types we're selling, it gives you more in your favor. It is one of the key contributors of this and that's something that we are very keen to drive it that way.

Richard Liu: Okay. Can you also help me understand this – how we can look at this 12% Y-on-Y and 5% Q-on-Q decline at staff cost?

Answer: Okay. Staff cost is one – it moves – don't look at staff cost alone by quarter because it's got multiple factors in it, let me give you two reasons. One is, if you remember same period last year, we had the payment of Bonus Act which we needed to do-up for the previous year as well, retrospective effect, can you recollect that?

Richard Liu: Yeah.

Answer: Second is the bonuses get accrued up during this quarter, because – unlike HUL being on a financial year close that ends April it ends March, the Unilever internals work on January to December, therefore the performance of January to December, we assess our performance and we then have our variable pays all fixed alongside that. Last year, for all of us, unfortunately has not been a great year given the demonetization and other impacts that kicked in. So for the bonus for financial year last year was lower than the bonus for the previous year same time. Hence you have a credit coming in because of that. These two big ones are the ones that are moving it, but if you look at it on a full year basis, if you look at the staff costs, it is actually higher than the previous year.

Richard Liu: Sure. And last one, let me just try my luck here, you used to earlier give on a full-year basis the segment wise UVG and USG, any chance of us getting that for this year?

Answer: We'll give that to you, that's a miss on our part we'll give that to you.

Richard Liu: Okay. Thank you, thank you and wish you all the best.

Answer: Thanks.

Operator: The next question comes from Mr. Aditya Soman from Goldman Sachs, Mumbai. Mr. Soman, your line is open, you may ask your question now.

Aditya Soman: Yeah hi, good evening and thanks for your comments. Sir, the first question, I had, is in terms of this wholesale channel impact, can you quantify in anyway what the impact will be because of GST? I know it's obviously that there is a lot of moving parts but just in terms of your exposure, if you can quantify that? And the second question was on the premiumization trend that you are seeing in laundry, what is – I mean how are you driving this premiumization in laundry and how is it different from some of the other categories? I mean, I know you said that even in hair care and soaps, you're seeing some premiumization, but I mean the progress for premiumization in laundry has just been very strong over the past several quarters. So what is different?

Answer: Yeah. Wholesale and GST, and its implications, why there is a stress that is building up there, multiple factors coming through there. One is, closing stock and what gets – what are the amount of presumptive credit that is available for the closing stock, because when you move from the old tax jurisdiction to the new tax jurisdiction, the person is sitting with closing stocks that needs to be where the input tax credit needs to be recognized. These are excise-based stock, these are VAT-based stocks. While in the case of VAT, he already has an invoice, so they get a full credit. In the case of excise, he doesn't have any documents with him to recognize the credit. Therefore, he is allowed to take a 40% of the CGST payable as a credit.

Now, this therefore creates a problem for them, because he is not entitled to the full credit that is payable, and he therefore decides the only way I'm going to manage this is by reducing the amount of stock that I maintain, that is one driver there. While wherever we have direct contacts with the retailer, we can do something about it, where he is indirectly covered, the retailer who's – the rural wholesaler who buys from the urban wholesaler who sells to a rural retailer, all these guys are going to lose that money, and therefore they want to turnaround, and say boss, I'm not going to buy till GST, give me GST paid stock, it's easier for me. That one dynamic that is out there. So, the simplest way to fix this is get a profit neutral kind of a rate that we need to take presumptive credit on and 40% doesn't work in that one.

Second reason, why he is in trouble which is happening as we speak, and we are getting a lot of messages in the market is that the understanding of Section 269 and challenges around what kind of transaction can happen in cash, what is the frequency at which it can happen, those are creating a bit of confusion in the market, while the rules are very clear, I think people are misunderstanding them, so everybody is finding their level best to clarify that and ensure that this doesn't create further panic there.

And lastly of course is a lot of them need to be – they are probably getting into the tax net for the first time in GST, and therefore they are basically going to have a complete rethink on what kind of business model that they would love to operate in. So these are the reasons why the trade is actually is in stress.

And last probably the nail in the coffin on that is that, if tax rates are going to come down, and companies are going to reduce prices to that extent, then you're going to have a high priced stocks sitting with you right now, and you'll probably be getting a lower price stock later, which means since stocking up doesn't make any sense whatsoever, he is going to be in big trouble thereafter.

So, add this all together wholesale is actually – it will come under stress as far as pipelines are concerned, but as any other customer would do, you wouldn't want to lose consumer. So therefore it is important that – I mean, he will ensure that he runs into the bare minimum that is essential and is in absolutely no mood to actually look for deals or look for piling up or really increasing the pipeline at this point in time, so he will probably reduce stocks from where he is today.

Aditya Soman: Yeah. Thank you. This is very clear sir. Just on the, I think as far as the points go, I mean three of the points clearly suggested that there will be a temporary thing where once you have clarity either on the tax rate or understanding of the section 269 or on the presumptive credit, you should start seeing sort of better growth maybe a month or two down the line once GST is implemented. But just on the part on wholesalers getting on the tax net, would that mean that you would have to sort of increase the wholesale margin to compensate them or how would they continue on the business?

Answer: I think we'll have to see how that plays along going forward because there are various precedence on this, various trades operate on different rate, we need to respect how a trade particularly operates, and therefore it will be too early to comment on what happens in each and every segment. But if somebody has never paid tax and is coming into the tax net, there is no way as a company or any company for that matter will be able to remunerate him for that because you're supposed to pay tax from day one in any case.

Aditya Soman: Correct. Great. Thank you.

Operator: The next question comes from Mr. Mihir Shah from Deutsche Bank Mumbai. Mr. Shah, your line is open. You may ask your question now.

Manoj Menon: Hello, sir. This is Manoj here. So just to clarify if I heard correctly that the actually underlying volume growth for the quarter should actually be seen as 2.5% to 3% and not 4% adjusting for the distributor I think you mentioned?

Answer: I think firstly it is more our estimate, if we had a better number we would have put it out there. And how robust this number is, this is more gut feel that we're working with and how we internally telling our team. So if it had been an accounting number we would have put it out there saying that therefore, please read it as 3%. Since we are not able to do that we are giving what we believe is how we are telling our internal team saying that work on this logic.

Manoj Menon: Understood. And secondly in the last quarter, which is a March quarter, was there a case that there has been price increases taken earlier, let's say in 3Q and during the quarter you actually saw softening input costs and then hence, you actually had a slightly better gross margin performance?

Answer: No, because typically we look at our first – it depends on the category, take something like a Home Care, pricing revisions are done on a weekly cycle, so therefore, we don't – we will neither have a stock profit or a stock loss on that matter. As far as vegetable oils are concerned, they started softening only towards the end of the quarter. So there is nothing there as well.

Manoj Menon: Okay. Got it. So it's largely fixed, okay. And just one technical question, if I may? On the royalty piece – exactly for example, for any hypothetical situation, where let's say, if any changes, is this necessary now related parties, is it absolutely necessary that the majority of minority is needed or are there some provisions which says that if it is under 10% of revenues, you don't really need to take the approval, because the board is pre-decide, which is the right technical situation currently?

Answer: Okay. There is a company's law and there is SEBI, I think split the two, there are two different set up there. And let's look at what's relevant for HUL yeah, rather than – well I'm not the expert in either of them. What's relevant for HUL is there are two big things that need to happen that any transaction needs to be on Arm's Length basis one, and two that needs to be in the ordinary course of business. If these two are there audit committees can approve and then off it goes for the board to approve and off it goes. In the case of royalty, you're right, it'll have to come through the majority of the majority for approval and that is how the royalty increases if at all anything is going to happen.

Manoj Menon: Understood.

Answer: And as part of the earlier contract is concerned, we have now completed the royalty payment to the max of what the contract allows us to, and that is what is currently valid.

Manoj Menon: Very clear. Just to clarify, I ask this question, because Glaxo consumer about six months back reduced the rates between the 100% entity and the listed entity, and this 10% rule was actually applied for the board to decide rather than the – so that's where the question actually came from. Thank you, Balaji for clarifying this. Thanks.

Answer: Thanks, Manoj.

Operator: The next question comes from Mr. Nillai Shah from Morgan, Mumbai. Mr. Shah, your line is open, you may ask your question now.

Nillai Shah: Thank you. Sir the first question is on the volume growth not really talking about this quarter or the previous quarter on account of demonetization, but just generally the trends, I understand the backdrop monsoon, etc. etc. but how are you looking at the underlying volume trends at this point in time? Because in many of these categories, you are by far the category leader and you are deciding what the industry volume trends are looking like, maybe not so in oral care, but in many of the other categories. So how are you looking at these volume growth numbers, and are you happy with some of them and what is HUL doing as a category leader to actually try and improve the growth trends?

Answer: Yeah. You know one are the macro factors, which impacts the category, and the second is, what we as a company are doing to drive business performance. Yeah. Even in the quarter when the demonetization happened, we did not shirk away from investing behind market development and innovations, that has continued unabated. So innovation facilitate also premiumization that we talked about earlier, and market development over the last couple of years we're really scaled it up. And now we're talking about a scenario where we reach about 200 million people engaging them with education, as well as making them experience the brand. So those are the kind of investments we do on the marketing side.
Then when we look at it from a trade perspective, clearly we're looking at how do we drive assortments in our outlet, yeah, how do we improve the quality of distribution and how do we improve the visibility, because these factors also drive category performance as well as off take. So those are the kind of things which we do. And a bump in a quarter, it doesn't take away from the fundamental work that we do to create categories and segments of the future.

Similarly, as far as the core of the business is concerned, we are absolutely driven by penetration and distribution. Those are the two things we closely focus on to ensure that we keep driving up the distribution, and keep driving up the penetration and ensure that even if they're highly distributed, we don't dilute the distribution.

So those are our strategy. Now at the end of the day, our categories for the FMCG industry is not just impacted by the headline GDP numbers. The impact on our FMCG industry happens when there is more inclusive growth or where there is more money in the hands of more people. Now if Mr. Ambani for instance, moves up his wealth from $25 billion to $35 billion, that would not impact our industry. But when you have the rural folks, their income improves by INR 1,000 a month - that makes a significant difference to the FMCG consumption.

Nillai Shah: Right. So in that context, I understand the Compass has worked extremely well for you over the past many years and there is a reason why you're deploying this strategy. But then the kind of margins that we are sitting on is obviously very, very high – record high margins at this point in time. And we are still looking at modest improvement in margins going forward and be it from efficiencies etc. but we still are doing it. So if you were to deploy a larger chunk of these efficiencies into reviving growth, would the elasticity not be high enough to kind of pay for this, is just a thing I was thinking about in context of the margins that you're currently getting at this point?

Answer: See beyond a certain point, an investments starts leading diminishing return, yeah. So we try to see what is the optimum investment which will drive growth because unless there is more money in the hands of people, our investment is not going to yield the desired benefits. So that is what we try to do. But we don't look at investments in market development or premiumization or building capabilities for instance from a short-term lens.

Nillai Shah: Sure, okay. And the second question is again going back to the Unilever strategic review, just to narrow that question on one last point out here is that in the Home Care business in particular, the company spoke about a 600 basis points of operating profit margin expansion, if not mistaken HUL would be contributing about – I don't know about 18% of laundry volumes to Unilever give or take. So clearly, it's a very, very large business coming from India for Unilever. So 600 basis point of margin expansion is pretty large and you also would have got targets on that front. So how should I think about pricing as a lever going forward, and on the efficiencies, there will be product mix improvement, but those have a finite application, so pricing will have to come through. So how do you think about pricing going forward? Is there sufficient pricing power which is there, especially in the lower priced brands at this point in time?

Answer: Okay. Let me take that. I think from a laundry perspective, as I said earlier also, the fundamental driver will continue to remain premiumization and driving operating efficiency. Pricing, there are clear elasticity in these brands, and we need to respect to those elasticity, failing which we will really have hell to pay for. And Indian consumers are highly value conscious, and therefore it is important that we're able to give the right value to the consumer, and that's how you'll drive the premiumization agenda in the country.

And if you look at one of it, let me give you an example. One of the biggest success story for us in the last one year in laundry is the lunch of Matic Liquid, it is absolutely at the premium end of the powder portfolio as well. And therefore, it is margins are great, it's a very different offering and it's an extremely creative offering for the Matic consumer. So somebody who buys a washing machine, her concerns on how to keep that washing machine safe and sound is very different from somebody who is doing a bucket wash. And so that is what we've been able to provide a product that's really topnotch, add that to Comfort which is then a conditioner that we use in the washing machine, the kind of output that you get is of a completely different order of magnitude compared to what you would do in a normal way. If the consumer enjoys it and relishes it, then you'll see growth in those kind of category, for which we need to do a host of market development activities to help them experience it and do it. When that happens, you get growth, that's exactly what is happening. This will be our core strategy with which we will drive profitability in this business, and pricing will always be to ensure that we'll stay competitive nothing more than that.

Nillai Shah: Understood. Very clear. Last question, Balaji how is BMI and the stuff you're talking about today different from the ROMI or the return on marketing investments that you have spoken about a couple of years ago?

Answer: Okay. One, as far as the earlier return on marketing – and first of all the media strategy itself has undergone a change because of this. How we deploy, evaluate and how do you actually look at the deployment of media is what we have changed right now, and that's something which is based on a lot of work happening on that space, and a lot of experiences across the world is how this has come through. So, this is actually a change of strategy itself and not just the better return that is being managed there. The earlier return on marketing investments, a lot of them are more driving just, supposing let's take a– we put through a consumer promotion either off take higher than what we had originally planned and what is the delta that would have generated - it's a very linear kind of a thought process that you'll always adopt in those kind of areas, that is just one of that. And this just takes into a whole new level, because we're now changing the strategy with which we operate. And with this we're one of the largest spenders in this market, we are changing our approach. It would also mean that the way we look at media heat the way we look at – we're just going to say that fine, let's do our job and just have a watching brief on media heat rather than living and dying by that. That's a very big shift in our thinking as well.

Nillai Shah: Understood. Perfect. Thank you very much.

Operator: The next question comes from Mr. Bhavesh Shah from CLSA Mumbai. Mr. Shah, your line is open. You may ask your question now.

Vivek Maheshwari: Hi. Good evening. This is Vivek. First question, just on GST. Balaji, you mentioned about wholesale, correct me if I'm wrong, but my understanding was GST will have an inventory impact right from your supplier to your own warehouse to your distributor to wholesaler, perhaps retailer may stock up or may stock down depending on how he sees the disruption, and how comfortable he is. Is that understanding correct or not?

Answer: I think my supplier to me, me to my warehouse, and my warehouse to my distributor, I don't see any problem whatsoever, because these are directly controlled. We should be in a position to actually ensure that these things are stocked, well if whether there is somebody incurring a loss, we'll be able to compensate that. No problem there at all. It is only when you go from the distributor onto the trade, the direct covered outlets, we can try and do something there. But the indirect covered outlets after a point in time will simply turn down, say that, boss, I'm incurring a loss, and nobody is going to compensate me, I would rather then stock down.

Vivek Maheshwari: Okay. That's interesting. So basically, you're saying, even if there are some issues that cut over, and excise duty paid goods, you're happy to compensate in case if there is an issue and then perhaps your competition will think other way?

Answer: I don't think I'm going to worry too much about competition on this. At the end of the day, these are our customers, we need to be fair with them, that's something which we will have to take care, because at the end of the day there are our partners there.

Vivek Maheshwari: Correct. My only reason of asking you this was, because I was a little unsure about the excise duty that is paid and VAT that is paid, will you get a credit in the new regime or can there be an issue from an input, output – input credit mechanism as you head into GST from that perspective?

Answer: Yeah. So let me clarify that. Let's take a distributor today, the distributor will have a VAT invoice from me, and therefore you're eligible for full credit, if he is able to audit the stock. So the invoice is uploaded in the portal, and then you get full credit for that, no problem there. The problem comes on excise duty, because my invoice does not carry an excise duty on it. My invoice just has a VAT on it. So which means, he is going to go into presumptive credit, but however there is no problem there, because at the end of the day we will be able to in the worst case – we will be able to compensate that, if you are able to do it, because that's the lesser of the issue. The real problem comes thereafter, because those people have first point sales tax maybe the they gave them an invoice, and if that paper – their storage of paper also is not great, in which case, you are seriously going to have a situation even on the VAT part it, if they're not able to keep their invoices. But even if you keep the invoice, but the presumptive credit is a substantial chunk that they will lose, if they don't have the records there, so that's a concern.

Vivek Maheshwari: Okay. And sorry for one more bit over here. You don't see any issue from a VAT to a GST platform, because the platforms are totally, totally different, right. So, VAT input credit can easily be taken in – under GST on 1st of July, assuming the roll-out being 1st of July. That you don't see as a problem?

Answer: From a system perspective, I don't see a problem for that. No trouble there.

Vivek Maheshwari: Okay, okay. Second, on the balance sheet, I have a very basic question, which is your total net worth is INR 64 billion as against, let's say, INR 37 billion. So, what is the change in the IND AS? I'm unable to reconcile the difference.

Answer: Okay. Net worth is – if you recollect, we had the dividend part of it – earlier, we used to take it out of net worth and show that as a payable till the AGM approves it

Vivek Maheshwari: Right.

Answer: In the current IND AS, you don't take it out of equity. You keep it there in equity. And once the AGM approves, you take it out of equity and straightaway pay it. Therefore, immediately your net worth shoots us, so does capital employed shoot up. Every denominator metric will get affected because of this change that is coming through. You remember we had called this out when we took you through the IND AS impact.

Vivek Maheshwari: Right, right. So, basically from a cash flow perspective, nothing changes. From a return ratio, then everything will go for a – basically will not be comparable because of this issue then?

Answer: Yes. It'll set down and then hold on there.

Vivek Maheshwari: Right. Sure. Sure. And last bit on demonetization, last – third quarter end, you mentioned that Southern India, Western India quite okay. North and Central was where the trouble was. Do you think that now everything is back on track except for a bit of wholesale pressure or you're still seeing that Central and North India is quite a bit even now, given that it's dominated by wholesale quite a bit?

Answer: I think the only concern that – I won't say concern. But still the laggard I would say is rural wholesale, particularly rural large wholesale is where the laggard is, and all other places coming back. We don't see trouble there. Early part of the quarter, yes, definitely the impact was there and slowly coming back. As we are speaking now, the bigger concerns are more around cash dealings, etc. Section 269, etc., but not from a demonetization perspective.

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

Answer: Thank you.

Operator: The next question comes from Mr. Prasad Deshmukh from Bank of America Mumbai. Mr. Deshmukh, your line is open. You may ask your question now.

Prasad Deshmukh: Hello?

Answer: Hi, Prasad.

Prasad Deshmukh: Yeah. Sir, two questions. Firstly, what are your plans about this newly – new brand that you talked about in the herbal/natural space and what is the potential there?

Answer: I think we shouldn't steal the thunder of the lot. There is a teaser which Sanjiv has – he didn't even tell any of us that he's going to say that. But probably it's a teaser from Sanjiv rightly so, and just wait for the mix, it is a fabulous mix.

Prasad Deshmukh: Is it the same Indonesia brand that Unilever has?

Answer: Sir, wait for the mix sir

Prasad Deshmukh: Okay. Second question on, just now that you discussed on wholesale and then retail channel under GST, how their behavior will be. Given most of the wholesalers in a way are noncompliant with any taxation system, why should they bother about the tax credits and so on, even if they are under the GST regime?

Answer: I think it'll be unfair to paint all of them with the same brush. I'm sure there will be people who are as compliant as anyone else is. So, therefore I wouldn't want to warrant that comment. But what we are trying to read is, this is how logically it'll play out to varying extents. So, that is the reason we are not able to put a finger on it, saying this is the magnitude of the impact. Otherwise, we would have done that. Since it is likely to move from various sites, there are various levels of compliance that people have. And even for them today, they have – there are VAT papers that are going in. So, they have a good tax department. There's a good tax department has a good record of these people in there. So, it'll not be fair to paint them all with the same brush.

Prasad Deshmukh: Okay. And last question on distribution. You said, under GST, there will be some rationalization of number of – rationalization in terms of the distributors that you have, mainly for say industry transfer and so on. So, next year or say the next couple of years, how should we look at distribution per se? Is the parameter that the number of distributors has gone up or gone down, that will be important? Or is there something else that we should be looking out for, as far as the expansion in distribution is concerned?

Answer: We shouldn't be too hung up on a particular metric. What will really matter is what has been the level of outlet that we cover, what's the kind of assortment that we put in that market, how are we ensuring that we are maintaining effective coverage in a cost-effective manner, and what is your cost to serve. I think those fundamental sales metrics are not going to change because of GST. GST gives you more – one more degree of freedom to play that strategy with, where you're saying that sub-scale distributors who are not able to manage the business, you can find a more cleverer way to handle it. But if a distributor is strong and is able to grow, why would we ever change it. So, it is never – the objective is not about number of distributors. The objective is effective coverage.

Prasad Deshmukh: Okay. Okay, thanks a lot, sir, and congrats on the good set of numbers.

Answer: Thanks.

Operator: The next question comes from Mr. Amit Purohit from Emkay Global Mumbai. Mr. Purohit, your line is open. You may ask your question now.

Amit Purohit: Yeah. Congratulation, sirs, and thank you for the opportunity. Sir, just two questions, one on the outlook that you have indicated, wherein you kind of called out that consumer sentiments are improving. And if you go back to your Q2 FY 2017 outlook, wherein you said sales growth will be positively impacted by recovery in markets. I know you've touched up on it. But I'm just trying to understand that, are you saying that you haven't seen a recovery to make this statement or – for this statement to come back in your presentation and probably you're waiting for some more time or clarity? Just want your outlook on that.

Answer: Yeah. Talking about consumer sentiment improving...

Amit Purohit: Yeah.

Answer: We've seen that in the September quarter last year, we had the whole impact of drought, yeah, and then we saw the pick-up in the market happening. Then, in the December quarter with demonetization, again, the market felt the heat. Now, we have seen a pick-up happening very clearly. And going forward, one will be the turbulence associated with very clearly the demonetization. But this would be, we believe, more of a pipeline issue rather than an off-take issue. And if we have a good monsoon, which I believe is the prediction, then clearly the sentiments, which have improved, should hold on, if not move in the right direction.

Amit Purohit: Sure, okay. Sir, second one on the Laundry segment. So, we've been talking about Surf doing extremely well for us. I just want to understand qualitatively – the growth for the full-year in the Home Care space has been about 5% or so. And Surf, you've been talking about a very strong performance. Has the growth been largely driven by the premium segment within Surf rather than the Easy or the growth rates have been driven by more on the premium side, which you talked about, liquid, or Matic or so? Just a qualitative...

Answer: I think just from a – see, it's a very large brand and the innovations that we are adding are coming on top and they will take time before they become huge. So, for a brand to grow double-digit, you need to fire – all cylinders have to fire, and we are happy with every part of the portfolio on Surf Excel firing, be it bar, be it powder, be it liquid, be it Easy Wash as well.

Amit Purohit: And would it be okay if you could share whether Surf Excel was a double-digit or a high single-digit growth for this year – for full-year? I am not looking for the quarter. Would it be possible?

Answer: Strong double-digit growth for the year as well.

Amit Purohit: Okay. And sir, last thing on the GST part, I want to understand would the – while you're talking about the complications with respect with the wholesale channel in terms of compliance and all. Would it be of concern that you – are you more concerned like a de-stocking scenario, which happened in the de-mon period or you would have taken some preventive action to make sure that the de-stocking or something doesn't happen and get repeated, just from your preparedness in terms of the GST?

Answer: There is a difference between demonetization and GST, because in demonetization, it was sudden and then the impact was felt thereafter.

Amit Purohit: Yeah.

Answer: Here, people know that the cut-over is going to happen. So, our only submission is that, better the clarity on what is going to happen, better are the chances people will be prepared for it. Else, fear of the unknown will result in panic. And therefore, it is so important that crystal clear clarity is given, and people will then be able to use the clarity to then provide – to create mitigating action, in the absence of which fear of – in fear, people will panic.

Amit Purohit: Okay, okay.

Answer: Pray to rumors rather than facts.

Amit Purohit: Okay, thank you. That's very useful. Thank you.

Answer: Yeah.

Operator: The next question comes from Mr. Harit Kapoor from IDFC Securities Mumbai. Mr. Kapoor, your line is open. You may ask your question now.

Harit Kapoor: Yeah. Good evening, sir. Just two questions. So, firstly on the direct reach. So, post demonetization, you've said that you're now focused on expanding the direct reach, which was a little over 3 billion outlets already. But I just wanted an update on how that's gone, as well as your outlook going forward, either qualitatively or quantitatively on the expansion.

Answer: Yeah. I think firstly, our focus on coverage, as I said earlier also, is sustainable coverage, where we want coverage that is going to be repeated on a sustainable basis. That's the starting point of any coverage expansion. And therefore, that again is something that we have really tweaked well, and we now have a model that we believe we'll be able to really replicate on a sustainable basis, number one. Number two, I think the plans that we put out post demonetization in terms of coverage improvement are doing very well for us, and we quite like the speed with which we put that plan together, and more importantly, that they are rapidly moving towards sustainability. That's the second piece there. And third, I think this is a model that we will now want to see the sustainability of it, and nothing stops us from putting it back again, if we feel the need on this. So, there is going to be a methodical way in which we are going to do it, wherein these coverage expansions then become a business as a usual strategy rather than drives that we take at regular intervals.

Harit Kapoor: Understood. Understood. The second question was, we have seen now three or four core brands that you have launched natural variants in, that's FAL, Clinic, TRESemmé. Just wanted your sense on how those launches have gone. My question comes from the thought that, have they been able to arrest probably – or at least arrest some of the movement of the consumer from your brand to another brand? So – and if that's true, if it has been able to arrest it, then what's – do we expect more of the same on the other core brands as well?

Answer: So, I think firstly, natural is a trend, which means it is the consumer who's interested in approaching that brand through a natural variant. So, wouldn't want to look at this as arresting share loss. It's not a zero-sum game that we're talking about here. And therefore, in that context, our objective is to make our brands aspirational and accessible in all forms, and is one of the forms for that just like prices or any other pieces. So, therefore, we're quite happy with the way – one of the reasons, take the slide that I've called out, Fair & Lovely Ayurvedic has done very well for us in the South. So, therefore, we said now it's time for us to roll it out national as well. And this is a brand that existed sometime back. We had a natural variant. We pulled it back and didn't push it too hard, because at that point in time, it had run its course. And now, we're finding a renewed interest, and therefore, we're able to put it back again. And therefore, we're quite happy with the way these variants are – natural variants are landing in the market.

Harit Kapoor: So, do we expect our other core brands also to see the option going forward? Is that a possibility?

Answer: Where relevant, we will continue to keep looking at it.

Harit Kapoor: Okay. That's it for me. Thanks.

Answer: Thank you.

Operator: The next question comes from Mr. Sanjay Singh from Axis Capital Mumbai. Mr. Singh, your line is open. You may ask your question now.

Sanjay Singh: Yeah. Hi. Just wanted to know, in detergents, the price increases at least in the premium end of Surf Excel has been not there for the last three, four years. Any thoughts on that? Is it because of competitive reasons? Is it because of driving the premiumization agenda or how do we look into it, where like now for almost three years there have been no price increase in the premium part at least?

Answer: I think for starters, if you noticed, the bulk of the three years was in deflation coming out of crude, and therefore, we had just, as I said earlier, source of fund, use of fund. It's an area where we invested to drive up the premiumization agenda. And it seems to have delivered good results for us. We're quite happy with how the results have delivered. And as long as we run it as a portfolio and able to deploy moneys across, I think we'll be flexible about it.

Sanjay Singh: Okay, okay. So, today, the Home Care margins that are least in the overall basket, and even if I look at historically, almost maybe 10, 12, 14 years back before the P&G war started, the Home Care margin used to be pretty high, if I divide the S&D margin into Personal Wash and Home Care. So, is there a possibility that margins can look up there or is it something that the competitive dynamics have changed and laundry is a different segment altogether today than it was many years back?

Answer: The country does evolve to some extent, because I don't think that you should take it as granted. Having said that, I think this is a category that is absolutely core to us. And as I said earlier in the earlier Investor Day as well, we will invest in this category, we will be competitive in this category, and for us, we will do everything it takes to win in this category on a consistent basis. So, that's how we would love to see this category. It's too important for us.

Sanjay Singh: Okay. And on demand, this is a little public thing. When we hear the commentary – and not only from you, I mean from various players that the penetration rates in India are low or per capita consumption rates are low, and it's an emerging market opportunity and stuff like that. But when I look at simple numbers – and because HUL is representative of the FMCG market being in almost many categories except foods. But there, if I look at last five years, volume growth at some 4.5%. If you look at last 10 years at 5.5%. So, if I look at 15 years, it will be lower because of the P&G war. So, somehow it's always been below even one-time GDP. Now, I understand that inclusive growth part of it. But for the last 15 years, there has been inclusive growth. So, if one looks at what – and forget the market for a moment, how does HUL grow even one-time GDP volume growth or more than that, because it's not happening for now many years?

Answer: Yeah. That's true. The market is not growing at that rate. But you have to understand that 50% of the country's population has a 10% share of the consumption, yeah.

Sanjay Singh: Can you repeat that? I'm sorry, can you repeat that?

Answer: 50% population of the country has 10% share of the consumption.

Sanjay Singh: Okay.

Answer: Yeah, that tells you the story.

Sanjay Singh: But – that's fine. But do we see any scenario where if we just look at greater numbers that if this happens, we will see volume growth of LEVER's more than one-time GDP or equal to one-time GDP? Is there any macroeconomic data points which you can think of that when per capita GDP goes more than this or if GDP goes more than this, we will grow more than, is there any kind of sensitivity involved? I know it's difficult to say, but how do you think about that? Because there will always be some data point which really look good, but ultimately doesn't play out in the overall scheme of things.

Answer: Yeah. If you see, it is not a simple math. At the end of the day, it is not just volume, because the money which comes from the consumer is the value, yeah. Now if you look at it, HUL itself has delivered close to double-digit growth for the last five years. And even if you look at from a hard volume basis, in a scenario in the world where the volume growths have been nearly flat, yeah, is South Asia and India have delivered good robust volume growth, not just we are talking about the quarter which has gone by, but over the last five years. And so when it looks at from the perspective of a consumer from his wallet, it's the value that goes out from his wallet, and not just the volume.

Sanjay Singh: Okay. Can you share, sir – I mean a few points data points which you might have come across in places like Indonesia and Brazil or even I mean China is little limited for probably Unilever, but at least Indonesia and Brazil where Unilever has done very well, was the previous period where the volume growth was significantly ahead of the GDP growth for Unilever?

Answer: We don't know off hand, yeah, but the context is also different. If you look at Brazil, the per capita income is $10,000, which is very different scenario to $1,600 per capita income. And – but that is the promise of India. If India keeps growing at this rate, you are talking about lifting people from the poverty trap. And even when we talk about on our large base growing at 8%, 9%, 10% over the last so many years, it is because we have lifted people up from the poverty trap, yeah, 20% have come out from the bottom of the pyramid to the lower middle class in the last 20 years.

Sanjay Singh: Okay. Okay. Lastly, Balaji, what is the tax rate assumption for next couple of years?

Answer: Tax rate?

Sanjay Singh: Yeah.

Answer: We said about, this year we going to underlying tax rate is about 31%, and you would – if I remove for tax on exceptional items – we remove the underlying business tax rate is...

Sanjay Singh: No, no, next year, next year.

Answer: Yeah, yeah. That will be lower by 50 bps is the call that – we had clarified at the last call.

Sanjay Singh: Okay, okay. And that would be similar for FY 2019 also or you've not worked out the numbers yet on that?

Answer: I think I will wait for the budget. One year at a time we gave it simply because there is also a promise of a reduction in the corporate tax rate of 25% which the finance minister had called out in the budget. But obviously they will update it with every budget, and therefore, that's the reason we gave it one year at a time.

Sanjay Singh: Okay. I mean have you done any calculation on how much working capital will increase because one of GST and second is because excise now will be paid and then probably got back us credit purchase, so any working capital changes on how GST impact working capital?

Answer: Not going to be material.

Sanjay Singh: Okay, okay. Thank you very much. All the best.

Answer: Okay.

Operator: The next question comes from Mr. Abhijeet Kundu from Antique Stock Broking, Mumbai. Mr. Kundu your line is open. You may ask your question now.

Abhijeet Kundu: Yeah, hi. Thanks for the opportunity. Firstly, I want to know what would be the differential growth between rural and urban markets for you. I mean, is that there is not much of difference now, what's the scenario there?

Answer: Okay. I think this is something which Sanjiv had clarified earlier, I think earlier rural was almost twice the rate of urban, and that's now come down substantially. And in the recent past it has been lower than urban.

Abhijeet Kundu: Okay. So it's almost in line now with urban, that's what specifically I wanted to know?

Answer: In line or slightly lower at this point in time.

Abhijeet Kundu: Okay. And in fabric wash and laundry, what has – how important has been the rural markets were premiumization, because what I understand is you have driven a lot of premiumization in the rural markets through Surf low unit packs. So has there been any – has that contribution from rural market continue during the quarter over the quarters, what's the scenario there?

Answer: It continues, even if you look at where the opportunity still continues is – still there because the penetration level of Surf Excel way below the category penetration. And both in rural as well as urban.

Abhijeet Kundu: Right. So during the quarter has there been, have you seen premiumization of detergents even in the rural markets, though the challenging environment has continued.

Answer: Absolutely. And that's the reason why – again a brand of this size will not be in a position to grow if it doesn't grow in...

Abhijeet Kundu: Exactly.

Answer: ...big markets like this, therefore it has done well there as well.

Abhijeet Kundu: Okay, sir. Thanks.

Operator: The next question comes from Mr. Kuldeep Gangwar from HSBC Mumbai. Mr. Gangwar, you may ask your question now.

Kuldeep Gangwar: Yeah. Thanks for the opportunity. So my question is that, apart from oral care, is there any category in your experience where premiumization has halted or has come down materially because of the increased competitive intensity from Patanjali.

Answer: I think from a premiumization perspective, I think this fundamental trend of premiumization we're seeing it is across category, and therefore it won't be restricted anywhere. Particularly on oral, as Sanjiv had called out, we're not happy with our performance at this point in time. But like anything else, I think we will – it's a category that's core to us and we will ensure that we get back to our winning ways there.

Kuldeep Gangwar: And second think like in soaps business where the market share dynamics have changed particularly at the mass end?

Answer: We don't comment on shares. So you are aware of that, and having said that, the fact that we've delivered broad-based growth across brands, we are quite comfortable there.

Kuldeep Gangwar: One last bit, like what was the Capex for FY 2017 and what is the guidance for FY 2018?

Answer: Okay. As far as Capex this year was at a higher end of the range, because of the various projects in Assam, another other project, because of the growth coming through there. And some of the Assam Capex, the residual Capex will overflow into next year as well, and we should get back to our normal day levels in the following financial year.

Kuldeep Gangwar: So, any absolute number or?

Answer: You can use our long-term trends on Capex that should be what you should factor in for the following financial year.

Kuldeep Gangwar: Okay. Thanks. Thanks a lot.

Operator: The next question comes from Mr. Abhisek Banerjee from UBS, Mumbai. Mr. Banerjee your line is open, you may ask your question now.

Sunita Sachdev: Hi, Balaji, Sunita here. Just wanted to link the 600 basis points of margin expansion being targeted at the parent level in homecare, to our own enthusiasm and dream run that we've had in detergents. How do I read this with respect to FY 2018 and FY 2019 in terms of fabric wash growth expectations? I mean, I know you said, Surf is probably expected to continue its double-digit growth. But given the overall context – overall low growth that we've seen in the last two, three years, how do we think of this segment into the next two, three years, given this context of margin and volume?

Answer: Okay. So, just to clarify Sunita, I did not make any statement on future volume growth estimates or the growth estimate of Surf so that we're abundantly clear. All I have pointed out was the opportunities that exist there. Yeah. That's for the record.

Answer: As, far as profit ambition of laundry, you'll notice that, even our operating margin of the laundry business is still significantly below the overall portfolio margin. So it's only fair that it takes the largest amount of the load in terms of moving the margin perfectly going forward. So that's a fair expectation, I agree with that. Second, as far as the growth agenda there is still continues, because the opportunity is humongous there. And hence, we will definitely balance growth and margin improvement together, because if your fundamental growth agenda is premiumization, that also delivers both margin as well as growth. And as long as we're competitive on the other lines of the P&L, we will play that dynamically. And the root to margins there, it won't be price, it will be premiumization and cost efficiencies, operating leverage and juicing out asset turns, that is a root initiative and we will take that.

Sunita Sachdev: So, that's pretty clear, but, I wanting to – juice what you're trying to say, as is we will go for volume and we will also go for margin. It sounds good, but in the context, are we more sure of the growth in laundry or within the very low penetration, Personal Care business? I mean how do I think of these two drivers in your mind in the next two years?

Answer: We will take it one level higher, end of the day we are responsive for delivering HUL's margin, so we will play this portfolio dynamically across Home Care, Personal Care, Foods and Refreshment. I think that's your starting point. Having said that, the role for laundry in that game is, you will improve your profitability as you start growing. You will not compromise profitability in the alter of growth, that's where strategic call out with as Unilever has done that's exactly the same for us. And we believe the road to do that is to ensure that you're able to grow volumes, you're able to premiumize and ensure you drive productivity. So it's a very clear strategy that has laid out there.

Sunita Sachdev: All right, thanks. Thanks, Balaji.

Answer: Thanks, Sunita.

Operator: At this moment, there are no further questions from participants on the audio line. I would now handover the call proceedings to Mr. Aasif Malbari for the web questions.

Aasif Malbari: Thanks, Urvashi. I move on to the web questions as we kind of answer it in terms of the questions which had not already been answered. The first question is from Tanmay Sharma from Edelweiss. The question is in the internal budgeting, how do you see Ayush for allocation for each category for Naturals advertisement?

Answer: Ayush needs to tie up both ways. You are almost asking the question as my boss, which I appreciate, it goes both ways. We need to ensure that the overall business case for Ayush is held together because it is a master brand, so it will have advertising that runs of cost. At the same time, it's portfolio role needs to be aligned to what the particular category dynamic are as well. So it is a two-way connect that will be there.

Aasif Malbari: The next question is from Tejas Shal from Spark Capital. Two questions there, what were the business insight on the inefficiency of earlier strategy of media spend, which led with the revisit? How would the savings that accruing from driving media efficiency be allowed to trickle down to the margins or would that be passed on to the consumers in the value proposition?

Answer: I think it's a great question, because the earlier inefficiency was coming from SOVs. We're actually landing up and putting your ads in the not so effective campaigns. And also there is starting to become a circular logic of people chasing each other's sales and therefore generating media heat which is unnecessary. And therefore, we said we need to focus on what is right for us rather than be paranoid about what is the competitiveness at every week level kind of setup. But, it will – we'll definitely ensure that the guardrails of SOVs are not breached because they – but, you can definitely play with the ranges there. That's a biggest learning for us.

Aasif Malbari: Another question from Prashant Kutty from Sundaram Mutual Funds. Two questions there as well. First one, in line with the strategy of improvement of operating margins, what could be the quantifying factor of premiumization in gross margins, especially with input costs stable and sentiments improving in PC and Home Care? The second one being growth seems to be back, apart from re-launch on a low base, have the sentiment picked up in Skin Care?

Answer: I think wouldn't want to get into – you've gone three levels below. We have said in operating margin, for operating margin, gross margin, for gross margin, what is mix, and in mix, what is premiumization? I think, there's no way we're going to be able to respond to it. Having said that, that is exactly how we'll look at the business. And we'll need to ensure that at every level of P&L, people think through mix, people think through premiumization, and people are able to juice every ounce of it.

As far as trial is concerned, I think the launch has been excellent, and we were – obviously this is a compared to the earlier launch we had so many learnings from that launch and therefore we are very, very touchy so to say to ensure that we do it right. And we are happy with the rate as landed. And overall Skin Care, I think it's a category that has been done – doing well for us in the past, it had a bit of a wobble in last year because of various challenges in the rural market that we talked about, but otherwise it's a great category and there is no long-term issues that are there. The brands are in a pretty good place, all the brands.

Aasif Malbari: The next question from Amit Kumar from Investec. There are four questions here, I'll take each at a time. The first one is, could you please explain higher excise duty rate despite Assam factory launch, did any factory also go off from fiscal benefits?

Answer: Yeah. For starters Assam started on March 8 or 10, so therefore the impact of Assam there's a factory that is started and then slowly ramp up and go forward, therefore the impact of that is limited in this quarter. And second, the most obvious one is the mix because – and you will have differences in mix coming through depending on which category grew faster than the other.

Aasif Malbari: The second question is on within that scale of operations of HUL and the size of business in each state, can manufacturing and logistics gain be significant in GST, barring in Northeast and UTs ?

Answer: I'm struggling to understand the question, but I'm assuming you're saying that the efficiency gains, will there be significant, yes or no, that's how I've decode it. I can only say it's obviously a highly strategic call out and the way we play that will be very, very significant in terms of how we go about approaching it. And therefore, I wouldn't want to quantify anything at this stage because it is obviously confidential and competitive.

Aasif Malbari: The next question is on Tea. Given the superlative performance also a category with high share of unorganized, how you're seeing a structural share gains here?

Answer: I think it's a great question because we are a very small portion, if you look at the organized, unorganized on Tea, we are now, HUL share of volume will be only about 10%, 11%, that's about it, given the total size of this market. So I think there's a lot of room for upgrading this category. And that is what our agenda is. And you heard Sudhir talk about it in his last Investor Day, and I'm sure in the coming Investor Day, that's coming up on June 2nd, you will again hear from him, and you should definitely ask him this question as to how easy is that. Particularly – that is clearly an opportunity in this category going forward, particularly with GST also coming in, and a level playing field getting created in this category.

Aasif Malbari: The last question from Amit Kumar was that the company has talked about higher direct distribution in the previous quarter, and can you please talk about...

Answer: We covered direct coverage.

Aasif Malbari: That has been covered. So I'll move on to the next question which again comes from Tanmay Sharma from Edelweiss. What percentage of our total portfolio would have gained market share?

Answer: Close to about 60% of our portfolio is gaining share, and that's something that we would continue to keep a close focus on.

Aasif Malbari: So I'll move on to the last question on the web call that is from Naveen Trivedi from HDFC Securities. How much lower consumer promotion has helped the revenue growth for the quarter?

Answer: Wouldn't want to share actual numbers, but having said that, clearly, we have dialed down consumer promotion this year. And that is something that has two impacts. One, it gives you a better price growth realization, but it also has a detrimental in the volume growth side, because immediately you are able to – you will lose volume wherever grammage spills have happened. So the – it's a double impact, the plus and minus.

Aasif Malbari:
Great. So that's all that we had on the web queue. With that, we come to end of the Q&A session. Before we end, let me remind you that the replay of the event and the transcript will be available on the Investor Relations website in a short while. And you can go back and refer to it. A copy of the results and the presentation, if not

with you already is also available on the website and you can go back and refer to it. With this, we will draw the call to a close.

Let me also remind you that we are holding the annual investor event on 2nd of June, the invites would have already reached you. In case for some technical reason it's not done so, please get in touch with us. Thank you for your participation and have a great day.

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