March Quarter 2018 Earnings Call of
Hindustan Unilever Limited
14th May 2018

Speakers:

Mr. Sanjiv Mehta, CEO and Managing Director

Mr. Srinivas Phatak, CFO and Executive Director, Finance and IT

Ms. Suman Hegde, Group Finance Controller and Head of Investor Relations

Operator

Good evening, ladies and gentlemen. I'm Karuna, the moderator for this call. Welcome to the Hindustan Unilever Limited March Quarter 2018 Earnings Conference 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. Please note that this conference is being recorded. I now hand over the conference to Ms. Suman Hegde. Thank you and over to you ma'am

Suman Hegde

Good evening and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening the results for the quarter ended 31 March 2018. On the call from the HUL end is Mr. Sanjiv Mehta, CEO and Managing Director; and Mr. Srinivas Phatak, CFO, HUL. As is customary, we will start the presentation with Srinivas 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's sake. With that, over to you, Srinivas.

Srinivas Phatak

Thank you, Suman. Good evening everyone, and welcome to our conference call today. We're going to talk about five aspects and you can absolutely see this on the screen. We'll start with first, our strategy. It's a clear and compelling strategy and which remains unchanged for many years and therefore, is also something which drives our performance and it reflects in the kind of numbers that we have delivered in the quarter. There is a clear strategic framework with USLP at the heart of what we do and a growth model, which really focuses on being consistent, competitive, profitable and responsible.

If I come specifically to March quarter, I think it's important to call out that trade conditions have normalized, and pipelines are now stable. Important to see this in the context of what really happened post GST implementation and we have talked about it in the past. While there was consumer offtake, or the consumer demand was intact, we had seen a bit of recalibration of the stock levels. And happy to note that from a quarter perspective that came back to normal.

From a demand point of view, we are seeing a gradual improvement in demand and that's coming through, whether it is from the rural point of view or from an urban point of view. Input costs continue to inflate in certain categories – in select categories and they're primarily crude led. You've seen that and it's visible in the marketplace and also, we have started to see some pressure from the currency.

Therefore, when you look at our performance, I think March quarter for us has really been a quarter of strong volume-led growth. On a comparable basis, our domestic consumer growth was at 16%, with underlying volume at 11%. Our EBITDA margins have been up by 24%, driven by a strong savings program, which support the reduction of our COGS. From an A&P point of view, we have continued to step up our investment behind innovations and activations and we'll talk about that a bit later in the presentation. Our profit before exceptional at INR 1,409 crores is up 26%. We've had some exceptionals in the current quarter and there is a base effect. Because of that, our net profit goes up by about 14% at INR 1,351 crores.

I think we've talked about comparable and reported numbers and this is a chart that we have used for three quarters and we just wanted to do a very quick recap of that. And there is a clear impact, which comes through both from a top line point of view and a bottom line point of view.

When we look at the top line, our reported sales growth is 3%. To that, we really add back the excise effect and a combined effect of fiscal exemption and refunds and net input taxes, our comparable growth goes to 15% and our domestic consumer growth goes to 16%.

You see the mirror image of this coming through from a profitability point of view. If you were to just go on a reported basis, given the accounting effects, we will report a much higher bps improvement, almost 390 bps, but when you really take off the contra of the same elements to that, our underlying – our comparable margins, I think comparable is the right word, goes up by about 160 basis points. Absolutely, highlight in all of this is, there is no change to the absolute EBITDA, there is no change to the EPS.

If I now look at the segmental performance, I think it's been a quarter of strong comparable growth coming through across all our segments. Home Care has grown upwards of 20%, Personal Care with 13% with double-digits coming from both from Personal Products and Personal Wash point of view. In Refreshments, we have seen robust growth across categories, and Foods growth has really been led by Kissan and Knorr.

If I now move into, I think really talking about innovations and activations, and as we have said, from an FMCG perspective, this is absolutely critical for us, it's a key element of our growth engine. I'm happy to highlight that from a quarter point of view, we had a healthy mix of innovations and activations.

We're giving you some examples, which are coming through the Axe Ticket, which is a new pocket spray, or the Comfort conditioner, which is really building the segment of the future or absolutely, the fabulous range of ice cream innovations, which we have launched going into the season. And I would absolutely encourage all of you to try it out in the season, because that's really the time to have lots of ice creams.

When you really look into the other aspects, which we have talked about, has really been progressively building the naturals portfolio. And I think in the past, we have talked about our approach and the strategy. I think, and the good news is the strategy is working for us. Indulekha, a brand that we acquired some time ago, has continued to deliver very, very strong growth. And I think that is something we are very pleased about. We talked about the expansion, which has happened from a shampoos point of view, and that's working well for us. We've also talked about ayush, and Sanjiv will comment on its performance in due course, but that's also progressing as per our plan. And you also see that we have got a fair range that we do from our own existing co-brand.

A little bit of flavor about Home Care. I think it's been a robust double-digit growth across all key brands. I've talked about the Comfort Pure launch. The Household Care performance was led by Vim. And in the Purifiers, the premium range continued to perform well.

When I look at Personal Care, I think we have had double-digit growth across care and wash. When we look at it from a personal wash point of view, I think the premium range continues to perform remarkably well for us. Growth in the popular segment was relatively muted in the quarter. Skin Care performance was led by strong growth both from a Fair & Lovely and a Pond's point of view. And in Hair, while we had broad-based growth, during the quarter, we also launched our new anti-dandruff range of shampoos under the Pure Derm brand.

Yeah, when you look at Colour Cosmetics, I think this has been one segment where we've sustained a growth momentum for many quarters on the strength of an exciting range of innovations and activations and we are glad to again share that from a quarter point of view, we've again seen a very robust growth being sustained in this category and it's performed well for us. We've also had a new range of Lakmé Nudes, which is a new range which has been really launched from an Indian-skin perspective. Oral Care growth was driven by launch of a new naturals variant. When we look at deodorants, I think the growth has really been led by Axe Ticket, the pocket-based perfume and the national rollout of Rexona anti-perspirants.

In Refreshments, again Tea is a place – I think Tea and Home Care are places, where our WiMI strategy has yielded us good results. Again, there is a big focus on market development, both have worked well for us and has delivered double-digit growth again in the quarter. Coffee has again performed well, and the growth is really volume led. And as I said, Ice Creams and Frozen Desserts, there are two elements to call out. I think absolutely, one is that we've now embarked on a geography expansion plan, which is really working well for us from a growth point of view and the innovations going into the season have both helped the performance.

A quick look at our Foods portfolio, I think there's been good growth both from a Kissan and a Knorr point of view. Kissan growth was really led by strong performance in ketchups. In Knorr, our instant soups have done well. We are also continuing to expand the range of our product portfolio to test markets and select geographies, and where successful, we are expanding them and rolling them out. A couple of examples for us during the quarter, including the Knorr pasta masala and the new range of noodles, which we have now taken to one more geography.

So, when I look at the totality of the quarter results, I think our turnover sits at INR 9,003 crores and our profit before exceptional items is INR 1,409 crores, which is really up 26%.

During the quarter, we have had to take a hit for the contingent consideration for Indulekha. Just to rejig your memories on this, we had bought Indulekha on a consideration, which had a fixed component to it and there was a pay-out coming from the actual sales delivered. Given that the brand has been performing very well for us and we have stepped up our estimate, the growth rate, which will be much higher than what we had originally forecasted, there is a need for us as per the accounting standards to really recognize the liability, which arises from the higher growth. I think this is a clear demonstration that the brand is in a very good space and is growing much faster than our original plan. So, we've taken a hit in the exceptional line on account of Indulekha brand.

This's also a quarter where we talk about the full-year numbers. When we look at it from a financial year 2017-2018, I think we are pleased with how the overall year has performed and I think it's been, as what we would describe, a strong performance.

Our comparable consumer growth was at 12% with an underlying volume of 6%. Our EBITDA is up 20%, PAT before exceptionals 21% and net profit 17%. Our cash generation from operations was also upwards of INR 8,000 crores, which is a 20% increase.

I think just to put some feel, one year is a good enough time to look at some of our growth enablers and drivers, because you recollect we never talk about performance only in the context of a particular quarter. I think what's really working for us are those elements, which we've talked about repeatedly, it's really how do we focus on core, how do we really drive market development. So, there are clear examples of how the core has started to function well for us. When you look at what are the elements that we have dialed up, I think clearly, which are some of the segments of the future and you can see some examples, these have been growing at 2x the HUL average, albeit, again, from a smaller base. When you look at it from innovations and naturals, this portfolio has been growing at 2.5 times HUL average and I think that's really where we are building the segments of future, both from the portfolio on top and naturals. WiMI, I think Sanjiv has spoken in the past on how we've really changed the focus, how we've changed the execution, and I think the example which we really look at, the Central part of the country has been growing at about 1.5x all India average and I think that's where we're really unlocking growth through the gamut of activities. And brands for purpose, I think that's absolutely critical for us, how we run the business and our brands with purpose are actually continuing to perform quite well.

When we look at our margin expansions and I think that is something which we've talked again repeatedly how driving the fuel for growth is absolutely a critical engine for driving the profitable growth. I think the model for us, as I really said, is a business model which works, we drive growth, we take the leverage, we invest it behind our brands and drive growth. I think the whole virtuous circle is being at play from a full year point of view. I think the other element is really the whole organizational wide ownership mindset through the whole Symphony program and, and therefore, the subset of it when we look at it from a ZBB or an NRM point of view. The mix and end to end cost focus are clear examples which you can see from the chart. So, when we combine the might of the organization mindset, a very clear program, which looks at how to drive savings integral then, we really get into a virtuous circle of growth. And therefore, when you see on the right-hand side of the chart, and that starts to give you a flavor of how our savings have gone up over the years as a percentage of turnover and, and today, we're at about 1.7x savings where we compare it into 2014.

When we combine all of this and look at it from a full-year results point of view, our reported growth – our turnover is at INR 34,619 crores, where the reported growth is up 2%. Our net profit is INR 5,237 crores, which is up 17%. I think, again, from a full year perspective, it's important to call out the accounting implications of GST. When you really see, I think this is a space where we talked about the effect of fiscal and the effect of fiscal exemptions and excise. Given that this is a three-quarter impact and if you recollect, excise, typically, you would see 8% in the quarter, this is a three-quarter impact and therefore, you will see a lower number and, you will also get a sense of the fiscal exemption and the input taxes, which come through. So, all in all, the consumer growth domestic goes to 12%. Equally important to call out the flip effect on the profitability versus the reported margins of 320 basis points, which again if you don't look at it on a comparable basis, will give you an elevated number, our actual comparable margin expansion is 155 basis points, very clearly, no impact on absolute EBITDA, no impact from an earnings per share point of view.

I think this is where we also talk about the totality of our performance during the year. I think the good news is, all the four of our segments have grown in double digit. I think that also then starts to show how it's been a good year for us from a totality point of view. We're also giving you the margins that we make in each of these businesses, because it's also important to understand that we have a very clear strategy in how we operate these businesses and the full-year performance reflects that we are actually living that strategy.

Important that Home Care, which used to be a few years ago in single-digit margins, today, is at a healthy 14% and therefore, working well for us from a top line point of view and is at a healthy margin profile. Personal Care has always been a profitable business for us with high gross margins and we invest significantly behind our brands and the margins are healthy, close to 25%. Refreshments, with the totality of what we have done, again, we have upped the margins to about 17%. And in Foods, we continue to invest behind the brand. I think this starts to say that look, we are managing the business, given the consumer preferences, the dynamics and we are running it in a right manner.

Given the good performance, I think absolutely, – the board has recognized this and would like to award the shareholders. We're increasing our final dividend, or the proposed dividend is being increased to INR 12 per share, up from INR 10 last year. So, from a full-year perspective, there is an INR 3 increase to the total dividend, which is being proposed and this will be subject to the approvals of the shareholders in the general body meeting.

And in the last chart, before I hand over to Sanjiv, is to give a flavor and a perspective of how we are seeing the near-term future. We absolutely see the gradual improvement in demand to continue, to sustain. Given that today trade has streamlined, the improvement in demand is coming through. We actually see a step-up in competitive intensity and I guess that's very normal given where we are today. Inflationary pressures will continue to remain elevated, you have seen how crude has moved in the last quarter-and-a-half– the crude already has moved up by 20-odd percent, the currency has actually depreciated by 5%-6%. So, this is something that we need to continue to manage. We need to remain agile, we need to remain responsive to really manage the emerging inflationary pressures.

I think our focus on driving volume growth and improvement in operating margins is consistent and we will continue to follow that. And I think the growth model where growth is consistent, competitive, profitable and responsible, will actually continue to hold us in good stead.

On that note, I would now hand over to Sanjiv. Over to you, Sanjiv.

Sanjiv Mehta

Thank you, Srinivas. Good evening, everyone and thank you for joining us on this call today. It has been a very interesting year with the impact of demonetization, then the transition to the GST, then GST 2.0 and now, we have entered a phase where things are much more steady and the normal business environment has emerged. We believed that even during the GST turbulence, the consumer offtake did not get much impacted, but trade conditions were definitely stressed. This is now behind us, the trade pipelines have stabilized and with the consumer and trade back to normal or having done a reset, like in CSD, it is now heartening to see the demand gradually picking up.

We would not like to state that definitely some trends have emerged, I think we have got to wait for a couple of quarters to see that happening, but certainly, there are green shoots and we remain hopeful. While there are some of the positives, Srini has very clearly alluded to input costs continuing to inflate and currency which has begun to weaken. Most of the inflation is crude led and hence, while some parts of the portfolio are seeing headwinds, some other parts are still seeing a deflationary trend. We continue to play the portfolio. We continue to play all the P&L lines, and we will manage the headwinds, as we have done in the past.

Moving to our performance for the quarter, extremely delighted with the current quarter delivery, 16% comparable growth, with 11% underlying volume growth and the volume-led growth has been in tandem with a strong 160 bps improvement in comparable EBITDA margin. The wonderful bit has been that growth has been broad-based and it has been volume led.

Home Care is on a great rhythm, another quarter of double-digit growth. This has been both in Laundry and Household Care. Our focus on premiumization, targeted market development is yielding results. After a strong performance over the last couple of years, Comfort has now been extended to fabric conditioner for baby. We are very optimistic that this variant will also continue to do well. We see that again our thrust on market development has started to reap dividends for us in a pretty significant way.

In the Personal Care segment, both Personal Wash and Personal Products continue to do well. While in Personal Wash, the growth was led by the premium part of the portfolio, Hair Care had another great quarter with broad-based volume-led growth across the key brands. As far as our naturals portfolio is concerned, we had articulated a three-pronged strategy. It is the master brand Lever ayush, where our whole focus has been on driving trials and building the brand equity. The other, our specialist brands like Indulekha, where we are very pleased with the performance and now, we have extended into shampoo and then, of course, there are the variants in many other brands. So together, the natural strategy has been working very well for us. In Hair Care, we have also launched a new anti-dandruff shampoo Pure Derm, early days, but we are very optimistic about the success of this brand. It is clinically proven to not only really remove dandruff, but prevent its recurrence as well. And in case, any of you have not tried it, I would certainly urge you to go and buy. This is a brand, which has been created in India, for India using the best of what Unilever knows globally.

Skin Care has another strong quarter and Colour Cosmetics continue to grow robustly on the base of a very strong innovation funnel. There were many launches in the Personal Products part of the portfolio. In Pond's talc for instance, we have launched a new variant, which has absolutely a great fragrance. Lakmé launched the new Lakmé Nudes range, that has been tailor-made for the Indian skin tones. Lakmé has been a trendsetter and hence, in the last Lakmé Fashion Week, we introduced the trend with a unique Indian touch. Deos, very pleased with the performance, strong growth. It also saw the launch of new Axe Ticket, the compact, no gas body perfume in an attractive sleek and portable pack. This's something I would urge you to keep at the back of your pocket. It's very handy and performs very well.

Apart from Personal Care, Ice Cream and Frozen Desserts saw multiple innovations getting launched this quarter ahead of the summer season. Apart from the new variants that got launched, we were also entering new geographies and hence are seeing benefits of that come through in our growth number. Tea continues to sustain its delivery of double-digit growth for another quarter and coffee delivered strong volume led growth. In Foods, we saw good growth across ketchup and soups. The Instant Soup segment continues to grow strongly. And we also launched the new Knorr red & white pasta masalas in select geographies.

So, in summary, a pleasing quarter. If I pause now and reflect on our performance for the entire year, it is heartening to see that in a year full of turbulence, we have on a comparable basis delivered double-digit growth with half the growth coming from UVG. There has also been impressive improvement in margins.

A few things very clearly stand out. First, our Winning in Many Indias and CCBT structures provide us with a real competitive edge. They have infused huge energy in the business and made our organization much more agile. Second, our focus on strengthening the core, building categories of the future and the relentless focus on eliminating non-value adding cost has accelerated a virtuous cycle of growth to ensure that we are able to deliver strong results across the whole lines of the P&L.

With that, I would like to hand over the call back to Suman.

Suman Hegde

Thanks, Sanjiv. Thanks, Srinivas. With this, we will now move on to the Q&A session. So that it doesn't get very late in the day, I think we'll limit that to about 60 minutes. So, we would like to bring the call to a close by about 7:30 PM India time. Can I request participants who want to ask a question to keep it really tight, so that we can accommodate as many over the next 60 minutes.

In addition to the audio, as always, our participants have an option to post the questions through the web option on your screen. We encourage you to do that, and we'll take those questions up just before we end. Before we get started with the session, I would like to remind you that the call and Q&A session are only for institutional investors and analysts. And therefore, if there is anyone else who is not an investor or analyst, but would like to ask us a question or engage with us, please feel free to reach out to the Investor Relations team out here. With that, I would like to hand the call back to you Karuna to manage the next session. Handing it over back to you, Karuna.

Operator

Thank you very much, ma'am. Ladies and gentlemen, we will now begin the question-and-answer interactive session for all the participants who are connected to the audio conference service from Chorus. [Operator Instructions] The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy:

Sir, thanks, and congrats on very good set of numbers. My first question is on WiMI. Sir, three years of very strong growth versus overall average. So, my question is, now, still is a lot of scope left and what was the growth specifically in FY 2018? We have the last three years, what was the growth in FY 2018 in WiMI?

Answer:

See, WiMI is not just for Central India, Abneesh. WiMI is a way of approaching, whereby we do not make strategies on a pan-India basis. We have broken up India into 14 clusters, all our strategies are by each of the clusters and we have also geared up the execution so that we can deliver on the strategies for each of the clusters. We have had to virtually rewire the whole organization based on the WiMI approach. In the WiMI approach, there was a big call that Central India cluster, where the penetration level and our HUL turnover per capita was relatively much lower, needs to see accelerated growth. And I'm very pleased to tell you, Abneesh, that during this last three years, Central India has performed on an average anywhere between 1.3x to 1.5x rest of the country.

Abneesh Roy:
Sir, my second question is on soaps and detergent, you have done really well last two quarters. So how much is it because of GST compliance increasing and thereby, unorganized losing share? And how much is it because customer has bought out because price cuts happened, so which is the more important business?

Answer:
Okay. First is, I think we should thank the government. It was a very prudent step in a high-tax environment to lower the GST on items of everyday consumption. And when companies like ourselves pass on the benefit to the consumer, it has certainly played a role in spurring consumption. So that's point number one. Second is, if you look at our business, we segment it in many ways. One is based on price points. So, there is a mass, which is at a price point less than 80, then there is a popular between 80 and 120 to the average of the market, and then there is a premium. Our growth has been more in the popular and the premium part of the market where it is not that the unorganized players are there. This is where most of the organized players are there. And I think from a compliance perspective, the real impact will be felt in the quarters ahead when the E-way bill impact starts happening. That is when we should start to see a high level of compliance.

Abneesh Roy:
In the popular end – one follow-up here. In the popular end, have you lost market share or is it premiumization? Why I am asking this is number two player has seen very strong growth, 19% in the soaps business and Godrej No. 1 has done well. So, any comments there?

Answer:
So, clearly, our growth – see, first is, we have to break it up into soaps and detergents. As far as detergents is concerned, we have grown across the portfolio, but accelerated growth has been in our premium end, yeah, which you are aware of, is our largest brand and it is growing at a scorching pace. As far as soaps is concerned, our growth has been driven mainly by the premium brands and clearly, we are looking at how do we step up our competitiveness when it comes to the mass end of the portfolio.

Abneesh Roy:
And sir, last one, in ayush, if you could give us a status, especially in oral, you have called out Closeup again, so has ayush done well there? And in naturals, you continue to remain quite positive in the market, because the unlisted player has seen FY 2018 sales flattish on a FY 2017 basis, the main ayurvedic player, so are you still very bullish on that?

Answer:
Absolutely. Let's look at it like this, Abneesh, our strategy first is we have to ensure that there is an immense focus on the core where we always remain competitive that's the first leg. The second is, we have always called out market development or growing the future core. And in future core, there is the premiumization angle, there is also the naturals angle. And in naturals, very importantly, it's a three-pronged strategy. We have the master brand Lever ayush where our whole thrust has been in growing the penetration, getting trials, then there is a specialist brand like Indulekha - we are very pleased with the performance and that is the reason why we have taken an extra charge this quarter, and then there are other variants. Across the naturals portfolio, we have been absolutely pleased to see the performance and it has grown at ~ 2.5x the growth rate of the rest of the company.

Abneesh Roy:
And sir, extra charge in Indulekha is one time, right?

Answer:
Yes, please.

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

Answer:
Thank you, Abneesh.

Operator

Thank you. The next question is from the line of Amit Sinha from Macquarie Capital Securities. Please go ahead.

Amit Sinha:
Yeah. Thanks for the opportunity, sir. My first question is on your volume growth, and clearly, this quarter was a step-up, even if I look at from a two years CAGR basis. However, you are still not kind of calling it a trend and you'll wait for two more quarters. Just wanted to understand, is there any one-off in terms of stock-up, in terms of market stocks, etc. which is leading you to not call it a trend?

Answer:

No, because trend gets established over a couple of quarters, right. Very clearly, you have to understand that the quarter has got benefit from the price reductions that we took in November-December after the GST 2.0, which impacted half our portfolio. Yeah. Now, whether that remains a trend is where we are cautiously optimistic and that is the reason why we are giving a caveat, but there's no one-off stock-up.

Amit Sinha:
Sure. Okay. I mean – okay. Not from the channels perspective, but do you sense a stock-up from the consumer purchase point of...

Answer:
No-No, you know...

Amit Sinha:
Okay, okay.

Answer:
Our kind of products, they are – when you reduce it by 7%-8%, it's not that people will stock up massively. It is only that there is pent-up demand where people feel that now the products are more affordable, so let me start spending and buying them. And very importantly, what it also does is, it makes the premium brands much more affordable. And that is the reason also we have seen good growth in our popular and premium segments.

I think Amit, I also want to encourage you, I think which you guys do well is also to start looking at slightly longer periods of time. When you look at our performance in the context of a year, two years, then it starts to tell you it's a better reflection of the underlying growth and what are the CAGRs which are coming through. Not – I mean, as Sanjiv has categorically said, it's a good quarter, there are no one-offs, but clearly, you see it over a longer period of time, that's one.

Point number two is, GST and post-GST, I think there has been a lot of recalibration, which has happened. And therefore, I think it's only fair to wait for a couple of quarters more before you really say that a clear trend has emerged. But are we optimistic about demand? Absolutely, yes, and that's why we have called that element out.

Yeah. And you would have seen it. One is, you would have picked up the resilience of HUL whether it is a demonetization quarter, whether it is a run-up to the GST, I believe we have performed pretty well considering the context in which we were operating. And the other which you would have also seen that we do not get overtly exuberant when things go well, nor do we get very dismayed when things are a bit tough.

Amit Sinha:

Sir, it's very clear. Sir, my second question is on your employee cost and other expenditure cost. Now fourth quarter is significantly lower in terms of the run rate compared to third quarter. Now, while I understand there are quarterly variations, but just wanted to understand are we seeing basically a step-up in the cost savings program, which is now getting reflected and is fourth quarter numbers are to be kind of extrapolated?

Answer:
So, Amit, I think this is where we tried telling you guys last quarter, because some of you were very concerned saying that it is a slightly higher number, where we tried to tell them listen, there is nothing structural about it. Equally, when you see a quarter number, again, I don't want you to start reading a trend into this quarter's number, because a good, more reflective number would be to take a look at the full year picture. That's one. Second thing is that, from – so what you also need to see is that from a quarter perspective, we have delivered a very good set of numbers. When you also start to see a quarter with about 16-odd percent growth, you also start to see a significant benefit of leverage, which is coming through. And that also, therefore, starts to play into it. I think that's the best way to look at it on why the costs are moving where they are.

Second is, from a ZBB cost – and third will also be a bit of phasing of costs, because let's also be clear that some of these are overheads depending on how some of them get spent, there is a slight phasing effect which comes into. ZBB is a structural program, which is taking costs out everywhere. I don't think there is any reason to read this quarter versus last quarter and calling out anything which is different. I think there is no need to do that. I think that's the best way I will explain the momentum in other costs.

Amit Sinha:

Yeah. Thanks a lot, sir. Thank you very much.

Operator

Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:
Hi, sir. Congrats on a good set of numbers. And sorry for dwelling on the same topic, but just wanted to understand a bit more about the demand scenario and your volume growth numbers. So, there has been a significant uptake and in both on a Y-o-Y basis adjusted for base, as well as Q-o-Q basis, your sort of demand or rather volumes have accelerated, top line has accelerated by about 800 basis points, which is not a small number. So, if you could just – I know that you have said don't take this as a trend as of yet, but what my question is, can you just for this quarter disaggregate this 800 bps acceleration into how much is due to the overall underlying demand picking up, how much is due to acceleration in market share growth or any other factors like up-stocking or any new product launches or entry into new categories or anything else? I mean I just want to disaggregate the acceleration in the growth profile.

Answer:
If we were able to disaggregate in the way you have talked about, it would be pure nirvana. Yeah. It's – if you'll – let me give you a perspective. If you look at Nielsen, Nielsen is saying in the last three months or last 12 weeks, the demand has gone down. Yeah. We don't believe those numbers for the simple reason that there are base issues and we firmly believe that Nielsen operates much better when there is relatively stability in the market.

Yeah. As far as our competitive growth is concerned, you just have to look at the results that are coming out from listed companies and you will get a sense and don't look at this quarter, look at it over the last three-four quarters, you'll get a sense of competitive growth. Yeah. And so, it is very difficult to say how much of my growth is coming out of the consequent to the reduction of the selling price because of GST or how much of it is coming out of competitive growth, I think you'll have to wait for some time, that is the reason we are being circumspect and saying, let us wait for some time, let us see the trends, let us see other numbers like the penetration numbers and all, how they are moving up in the categories and the brands and then we will be in a position to say, yes, indeed, the growths table has moved. But, the worst is behind us, definitely rural has picked up, there's no question about that.

If you recall, we had talked about couple of years back that rural has started growing less than urban. In fact, we were one of the first companies to talk about rural stress as it converted into rural distress and now we are very happy to say that, yes, we are seeing pickup in rural across the country, not consistently everywhere, but in many places, it's growing now faster than urban. Some places, it is growing at par with urban, and in some places, it's still a shade less than urban, but clearly, it has picked up.

Percy Panthaki:
Right, sir. So, would you be able to sort of give an idea as to on a pan-India basis, your rural growth right now is what percentage higher than the urban and how has it changed let's say, versus 12 months or 18 months back?

Answer:
Just look at my numbers. My comparable growth quarter on quarter has very clearly moved up. Yeah. It's an indicator of how things have moved for us.

Percy Panthaki:
Sir, that could be urban doing well as well, right. I just wanted to know the delta between...

Answer:
No, because you guys have to understand, for us, rural is not small. Rural is about 35%- 40% of value, and much higher in terms of volume. We would not have got the kind of volume growth if it had not been the kind of – had rural also not grown in tandem.

Percy Panthaki:
Right, sir. And on price cuts, I mean, would it be fair to assume that since you say there is no one-off up-stocking, whatever benefit you have seen because of price cut should continue till those price cuts anniversarize in maybe November, December, is that a fair assumption?

Answer:
It happens like this, that when the price drops, many times, the consumers switch, and they switch from mass and popular to more premium packs. Yeah. They try it out. Now, the question will be, will they stick to that same kind of thing or will they balance their budget, and spend on something else, and that is the reason why we are again re-emphasizing, we are not making it out to be a trend yet. But certainly...

Percy Panthaki:
All right

Answer:
...when the duty rate, GST rates came down from 28% to 18%, which effectively translated into about 8% reduction on MRP, this would have made an impact on the consumers' ability to buy better brands or consume more, definitely, yes.

Percy Panthaki:
Sir, how much of this volume growth could be attributed to higher fill rates in the price point packs, in November/December since the rate got cut, you would have taken a price cut in most of the SKUs, but in some of the SKUs, you would have taken a fill rate increase...

Answer:
Yes.

Percy Panthaki:
.... which would affect the first purchase cycle. So how much of the volume growth would you attribute to that phenomenon?

Answer:
See, there were some of the packs where the fill rate got adjusted which are the price point packs, there were many packs where the MRP got adjusted. So, you have to look at in with tandem. We are talking about a 16% top line comparable growth.

Percy Panthaki:
Right.

Answer:

Yeah. You wouldn't have got that kind of comparable growth if it was just a fill and it had not resulted in more consumption.

Percy Panthaki:
Absolutely. Right, sir. That answers all my questions. Thanks, and all the best.

Answer:
Thank you.

Operator

Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra:
Yeah. Hi, team, congratulations on a great performance. I just picked up this comment on the outlook slide that you believe competitive intensity may go up. Now, normally, we see that in a rising input cost scenario, it actually plays out probably a little reverse, the ad spends go down and competition relatively goes down. So just wanted to understand this comment and are you also seeing it actually play out in some categories through either higher GRPs or pricing, any kind of discussion on that would be helpful.

Answer:
Yeah, yeah. Arnab, there is also something called the psychology of business. When people start feeling that good days are here, so they start spending more. And we have definitely seen GRPs move up. Second, when it comes to inflation, inflation is hitting mainly today crude oil and the derivative. But there are still many other raw materials where we are not seeing any big inflationary pressure. So, in those categories, clearly, we would see more competitive intensity and certainly, categories which are more impacted by crude oil and the derivative, there, people will start adjusting the different lines of the P&L. But the heartening bit is that even if we take the price increase, it will take a lot of time before it goes back to the pre-GST price level.

Arnab Mitra:
Right. Second question was on the Home Care performance. You had a very strong performance there continuously over the last couple of years. I just wanted to know has there been – has it started getting reflected in actually market share trends move up in detergents and dish wash?

Answer:
Absolutely. In Home Care, we have perhaps the highest market share we have seen in living memory I would say.

Yeah. I think just two elements, I think we'll just clarify it for you. The quantum of beat in Home Care, because as we've also said, Nielsen data has not really been stable, especially when we have gone through the GST and the demonetization effects. Having said that, we also look at the competitive set of numbers, we look at our set of numbers. And I think whichever dimension you look at it, Nielsen, our numbers, consumption panel, the outperformance from Home Care is very clear, very visible, and therefore, we're very comfortable to say that from a market share perspective, we're clearly, clearly winning decisively.

Yeah. And let me give you another example, which will explain what Srini was talking. Take our Tea category, we have been doing exceedingly well for the last several years. And when we looked at the published results, it was very visible that we had taken leadership as far as the values are concerned, but it took Nielsen a couple of years to reflect it in the shares. So, you have to accept that in a country as large as ours, as varied as ours, with 8 million - 9 million outlets, this Nielsen, you cannot take it as a perfect science, it has to be used more as a trend rather than an absolute number.

Arnab Mitra:
Sure. That's very helpful. Just one last question, if I may, on Home Care again. Now that your portfolio is much more skewed towards the premium end, as a company, does it really matter to you whether Wheel is growing, not growing, what the unorganized share players are doing or...

Answer:
Good question. Let me tell you. Our thrust is, we play the portfolio, first. So, I'm being very emphatic in stating we are not vacating the Wheel portfolio. We want to be competitive in the Wheel portfolio, maintain our segment share while upgrading the consumer to Rin and Surf Excel.

Arnab Mitra:
Okay. Thanks so much. That's very helpful and all the best.

Answer:

Thank you.

Operator

Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari:
Hi, good evening. This is Vivek. Apologies, but again the question on volume growth, I mean, when I compare it with your peers, I know all of them are not in the identical categories, but whatever volume growth they have reported, their outlook, I mean, still you are – in terms of size, you're far, far bigger than them. I'm still unable to understand that if there's 11% growth and particularly in highly penetrated categories like soaps and detergents and the base was also quite okay this quarter, first quarter, again, the base is lower. I mean, can we really extrapolate this number, how should we go about forecasting them?

Answer:
Vivek, hi, good evening, sir. Yeah.

Vivek Maheshwari:
Good evening, sir.

Answer:
you know as we don't give guidance.

Vivek Maheshwari:
Right.

Answer:
But like I talked about different variables. The first is you should see our performance, not just in this quarter, but over several quarters during the tough times etc. it's been a pretty resilient performance. Yeah. And the reason why we have been cautiously optimistic for the factors that I laid down for you, there has been GST 2.0, we have passed on the benefits to the consumer. Yeah. So, there would have been a spurt in demand, then there would have been a pent-up demand in rural areas. They would have now started going back hopefully with what the government announced in the last budget of MSP going up, that would translate into the wage rates going up, that would also start spurting. But I would believe that should come into play a bit later.

Vivek Maheshwari:
That's right.

Answer:
And there was also a lot of turbulence in the pipelines etc. wholesale had got choked to an extent. Then it started opening up. And while we believe that the off-take would not have been impacted severely, when the pipeline gets disrupted that does have some impact on the consumer demand in places where the goods have not been able to reach. At the end of the day, you're talking about 9 million -10 million outlets. And a large number of them are serviced through route to market. That is the reason why, as a company, we are being a good circumspect and not saying from the rooftop that everything has changed, and the markets will start growing at a very robust pace.

So, let us wait, we are very pleased with the way the demand has picked up, we are very pleased with the fact that rural has bounced back, but let us wait and see for another couple of quarters to see whether the trend is established. And Vivek, this is something which we had maintained even last quarter if you recall. I was being very circumspect in saying let us wait for a few quarters to say that the trend has been established.

Vivek Maheshwari:

Sure, we are also very pleased with your numbers I must say. On that – on the rural side, when you say there is a pick-up, you are adjusting for the fact that there is a low base over there and there is an intrinsic pick-up in rural is what you're saying? Because again your competitors are at least not seeing that, and we will, obviously, take your word surely given the size and the shares that you have.

Answer:
It has certainly picked up, there is no question about that. But then, Vivek, as you know, that the potential in rural is that much bigger. If you look at the categories in which we operate, the total per capita consumption is about $30 whereas in rural it's about $16. Now, there is such a big headroom to grow and that is the reason, well, there were the boom days of FMCG, rural was growing at 1.5 to 1.7x of the urban areas, it has still not reached that level, but two years back when the rural stress happened, rural had declined to less than urban. So that has got better. And hopefully with the measures that the government has taken, rural should pick up even more, that's what we would all hope for.

Vivek Maheshwari:
Sure. I have two more questions if I may. One is on the Personal Care side. When I look at – my number suggests there is a 50 bps margin decline. Is it that A&Ps are a bit more skewed towards Personal Care maybe because of Ayush, Indulekha, I don't know?

Answer:
You're right. Yeah, one is – first is intrinsically Personal Care has much better margin, operating margins. Personal Care is also a segment of the business where the intensity of A&P is much higher. And we've had good results – it is not just the naturals launch. We have also launched Pure Derm, which is big play into the anti-dandruff segment, which has also resulted in clearly us spending more money on innovations.

And again, Vivek, important to understand, all BMI increase is just not about new news, absolutely there is a component which is about new news and Pure Derm was there. But it's also important to understand that they are even in a core part of the portfolio, it is absolutely important while we look at reach, frequency, we also have to maintain a certain level of spends to be competitive in the market with respect to fair share of where we are.

And there are pockets where we're also seeing some select competitors have upped their spends, which also therefore means that it also had an effect on how we have spent our money. So, it's a combination of building core, innovation and maintaining competitive spends to give you a flavor of what has happened in the quarter

Vivek Maheshwari:
Okay.

Answer:
And the other bit Vivek, you know we would – you would have heard it from us very often that whether it is good time or bad time, we keep investing in market development.

Vivek Maheshwari:
Right.

Answer:
Now, we have significantly ramped up our market development capability.

Vivek Maheshwari:
Sure. And last question, Sanjiv, I think, for a while quarter after quarter, you were mentioning in your opening remarks that there is work to be done in case of Oral, this time you have not said so, does that mean that there is positivity – whether because of Ayush or Closeup, I don't know, or Pepsodent, could you elaborate on how do you think about Oral as a category and your play over there? Thank you so much.

Answer:
Vivek, I would like to compliment you on being a very keen observer. Yeah. It was heartening to see Oral back to growth, but if you were to ask me is our work done in Oral? My answer would be not yet. We need to work more to get the category really growing at the pace at what we would like, but it was heartening to see in the quarter that, we saw the growth come back.

Vivek Maheshwari:
All right. Very good to know that. Thank you very much, sir, and wish you all the very best.

Answer:
Thank you.

Operator

Thank you. The next question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon:
Hi, Sanjiv. Hi, Srini, Suman and the team, it's been a brilliant result. Yeah, it had to be. Just a couple of questions actually. One just wanted to seek your comments on the pricing environment in general. Look again I'm not specifically referring to the input inflation and what's the price increase you're going to take in the next quarter like that's not really the objective here. The idea is actually that if I exclude the last one year in which the GST interventions happened, essentially meant that it'd be more price cuts than increases. And if I take even a step back, it has been – we've seen some deflation as well. So, we've actually been seeing almost a three-four year sort

of a cycle in which inflation, which is quite integral to this company has been low. So how do we think about or rather how are you actually thinking about the pricing environment with a medium-term outlook here?

Answer:
Yeah. So, Manoj, what we keep hawk's eye on is the price value equation. The other is also we are obsessive about certain price point packs, because the market is very sensitive to it. The third is, now it is business as usual. The GST is behind us. So, a lot will depend on how the global commodity prices pan out.

And as you know, we do not have a one-to-one correlation between input price and selling price. But what we always do is keeping in perspective the price value equation, we try to optimize all the levers, all the lines in the P&L, and then we try to see how we play the portfolio. And in most of the categories in which we operate, we have multiple brands offering multiple price and multiple benefits. So, we've played that game.

And if you are trying to allude to a question that is the era of 5%-8% price growth back? I really don't know, it will all depend on how the commodity prices pan out, which will – today we are so interlinked with the global economy, will depend a lot on the global economy.

Manoj Menon:
Okay. Sanjiv, just to clarify this actually, so if I take, let's say, the part of the portfolio of HUL, let's say, take the case of some of the Personal Care categories, where – the pricing is not necessarily linked significantly with the commodity movements, where it is more to do with the general inflationary conditions of the economy. So, I was actually referring to that portion also, not just the commodity-linked part of it.

Answer:
I see. It is, we do not say that we have to take pricing of X %. We don't look at it from that perspective. If there is an innovation and it comes with higher order benefits, then we would certainly be looking at taking a commensurate price increase.

Manoj Menon:
Okay. Okay. Okay. It's now very clear. Secondly, after a long time, we did hear the management alluding to competition in the commentary. Now, just questioning quite straightforward, few quarters back, there was a comment that competition is intense, but not irrational. Is that statement still correct?

Answer:
I would think so. Yeah. There are some…

Manoj Menon:

Okay.

Answer:
...bursts of irrationality, but I don't think it is a widespread irrational behavior.

Manoj Menon:
Okay. Understood. And lastly...

Answer:
I think at this stage I think sometimes Sanjiv also gets a little bit paranoid about it. But if I were to see the aggregate picture, if you see, it's getting a little intense in some categories, absolutely. But irrational? No. Clearly no.

Manoj Menon:
Okay. Okay. Thank you. Thank you, Srini. Now, just quickly when I look at the last slide of the presentation, where you talk about the roadmap/ strategy, the last quarter, the words were gradual improvement in demand to sustain. This quarter, when I see, the words to sustain is missing. Am I reading too much into this? Because you're just saying gradual improvement in demand, so that to sustain is missing this time.

Answer:
No, I think we were just trying to be a bit different. We never knew you would read the two presentations, now we'll be extra careful.

Answer:
So, if it helps 'to sustain' did come in one of the drafts, I don't know where it disappeared. In fact, and you know it's clearly, if you look at our body language, if you look at the words that we're choosing, we are clearly saying that the worst is behind us, we are clearly seeing improvement happening, but where we are being just circumspect is to call out that yes the trend has been established.

Manoj Menon:
Yeah. Sure.

Answer:
Yeah, because have been a lot of gains coming from our competitors' market shares, but difficult for us to put our finger on to say conclusively, yes that's what had happened.

Manoj Menon:
Absolutely fair. Absolutely fair. And thank you so much and all the very best.

Answer:

Thank you.

Operator

Thank you. The next question is from the line of Latika Chopra from JPMorgan. Please go ahead.

Latika Chopra:

Hi, team. Congratulations on a great performance.

Answer:

Thank you, Latika.

Latika Chopra:

My first question – thank you. My first question was on your cost optimization journey, you have a slide showing the savings as a percentage of turnover quantum and this seems to have stepped up in 2017. Just trying to understand, where are we now on this journey and would the incremental savings going forward be as much or would they be lower given that some of the low hanging fruit has been kind of taken care of?

Answer:

So, I think, Latika, that's an interesting one. We used to historically do it, and Sanjiv spoke about it, 3% to 4%, at that time it really felt like it was a good number and a stretched number to go after. Then progressively with the whole work that has happened in the organization, we have absolutely moved it up to 6% to 7%. Now, in all of this, it's a very interesting one - which was the low hanging fruit and which was the difficult one. Suffices to say I think look at it this way, clearly where we are today in the savings journey, it is much evolved, and I think the savings rates have seen a significant step up versus where we were.

What has helped us in this, absolutely one is the whole owners mindset philosophy, we have talked about it, the owners' mindset and how we are working about it. We have also spoken about how we reward the totality of the organization for really taking costs out. Third, which has also helped us is the whole initiative of ZBB, where we have benefited with some very clear benchmarks from Unilever, we have also benefited from clear benchmarks from externals.

All of this has culminated enough today being in that 6% to 7%, and yet this is absolutely something which is not very easy. And I think it's easy to say that are we going to see the similar kind of step-up in savings rate? Probably not. But I think this is where the challenge gets interesting for us to say how do we continue to take cost out of the equation and how do we sustain this.

So, and simply put, what you saw over the four-year trend, in the near-term I don't see that kind of an expansion coming through. But absolutely the 6% to 7% savings that we are going after is something that we would continue to go after, for some time.

Latika Chopra:
All right. The second…

Answer:
Latika, my philosophy is there is unlimited juice in the lemon, Srini may not agree with this, but that's my opinion– that's the interesting part. If you're Sanjiv then, obviously, you will not agree.

Latika Chopra:
That's good to know. The second one was on GST, it's over three quarters GST has been in place. Any updates on kind of work or kind of savings or kind of changes that you're seeing on your supply chain distribution, warehousing front that you have gone through?

Answer:
Yeah. So Latika, we have drawn up our whole plan of how do we optimize our distribution centers. And what we were looking at obviously is, first, GST to stabilize, yeah, a lot of intensity goes, yet in filing of returns, completing the paperwork, then we have had GST 2.0, then the e-way bill has come in, so this is where our first focus is. We have a complete blueprint ready of how we are going to optimize, and I think if everything is stable in the next few months, we will start the process of optimizing.

Latika Chopra:
All right. And just lastly, we have seen the premiumization journey going really well for the company over the years. Now on a full year basis, would you be able to share what is the share of your premium products in the overall portfolio?

Answer:
See, if I just give you a broad figure, it is one-fourth of our total portfolio.

Latika Chopra:
All right. Thank you.

Operator

Thank you. The next question is from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva:
Hi. Good evening. And congratulations on an excellent set of results. So, sir, my questions have been answered, but just one small thing if I may stretch. On the Personal Care portfolio and not just this quarter, but if you look at last seven, eight quarters, we have seen a [Technical Difficulty]

Operator

Excuse me. This is the operator. Mr. Sachdeva, your voice is fluctuating. If you can...

Amit Sachdeva:

Okay. Let me just try and change my location. Just one second. Is this better now?

Operator

Yes. Better, sir. Thank you.

Amit Sachdeva:

Yeah. So what I was saying was, congratulations on excellent set of results. My question had been answered, but just one thing I want to ask. On the Personal Care portfolio, when you observe that obviously this A&P spend has stepped up because of the new products and margins are a bit lower and margins may not be the only thing that you want to look at, but last eight quarters, if I see, it's about a single-digit kind of growth, maybe because part of the portfolio was not going well and some was going well. But if you could perhaps give us a roadmap of Skin Care kind of portfolio and what the brand architecture should be and what it is right now. I know Hair Care is very tight, but I see Skin Care still is sort of contingent on the FAL and Ponds, and little bit of here and there other things too. And would Lakmé step up to fill some Skin Care gaps, how the structural growth in this segment would accelerate?

Answer:

First thing, I would like to dispel, Skin Care has been doing very well. It's been wonderful double-digit growth. Yeah. And there was a couple of years back, when we had issues on FAL, and since then we have very clearly recovered, and FAL is doing well, Lakmé has been doing well, Pond's has been doing well, both at the premium end as well as at the mass end with the talc powder that we have. And important it is that FAL has been doing well, not just with Multivitamin but very importantly with the premium end of the portfolio, the BB creams, the ayurvedic creams. That is where the – anti marks – that's where it has done much better. And the whole idea is that while we maintain our share and keep driving the penetration of the mass end, we are upgrading the consumers to the premium end, that's where all the innovations are coming in.

Amit Sachdeva:

Got it. But are you sort of not moving to the very premium end, is it like space is...

Answer:

Are you talking about prestige?

Amit Sachdeva:

Prestige, yeah, prestige and above.

Answer:
Okay. Prestige, we have still really not got into the foray yet. Yeah, Unilever has acquired some good prestige brands and we are looking at an opportune moment to get into the prestige category in the country, yeah, we are very cognizant of that space. But at the end of the day, you very clearly prioritize how do you want to develop the market. So right now, our whole focus is on developing the BB creams, the CC creams, that's where our focus is on, the higher order benefits rather than getting into, at the prestige end.

Amit Sachdeva:
Okay**,** great, thanks so much, Sanjiv. That's very helpful.

Operator

Thank you. The next question is from the line of Nitin Gosar from Invesco. Please go ahead.

Nitin Gosar:
Hi, Sir. Entire team, congratulations for a good set of numbers. My first question was with regards to the detergent business performance. Would it be possible for you to..

Answer:
What was the question, we missed the last line of yours

Nitin Gosar:
Yeah. The question is pertaining to the detergent business performance, would it be possible to dissect it, what kind of numbers we are seeing from the market share gain versus the demand growth?

Answer:
See, like I just alluded to that market share from a Nielsen perspective, all the turbulence that has happened in the last two years, it is not giving us a correct indicator. But what I would urge you is just to look at our growth numbers for the last several quarters – for the last few years. Look at a competitor growth. Yeah, and these are big competitors in this segment. And it will give you a good sense of the competitive growth that are coming in. Yeah.

Nitin Gosar:
Got it, got it.

Answer:
But on an overall basis it's been a fantastic performance by our Home Care business. It is not just that we had a strong comparable USG even our volume growth were in mid-teens.

Nitin Gosar:
Okay. Perfect, sir, and anything to ponder about on this segment from unorganized market. How are they coping up with GST – post GST regime and are we gaining some significant share from them?

Answer:
Yeah, unorganized, I just mentioned that. We look at segmentation from a price perspective: mass, popular and premium. And we have had very impressive gains in the popular and the premium segment, where the unorganized sector does not operate. Yeah. And so for us, I think it is still early to see gains from the unorganized sector, because without the e-way bill, it would not have been possible to ensure big compliance by the government and that too the e-way bill, the way it has been implemented now there is a good deal of tolerance that has been left. Once e-way bill is implemented, the way the government had intended, that is where I would believe that the non-tax payers will find it difficult to operate without paying taxes.

Nitin Gosar:
Got it. Sir, my second question is with regard to Personal Wash, the presentation slides talked about growth in popular segment was muted versus premium segment where the growth was reasonably good. What could be the reason or any trends to pick from here?

Answer:
Yeah. It is many times what happens is you suffer from your own growth story. If a popular segment has grown very well for the last several years, then there reaches a point where it may start showing a certain fatigue, and then you have to reinvent the brand, and then you have to look at your entire 6P to see what do to reinvent, and how do you get the growth going again. I'm not overtly concerned about that.

We have in Personal Wash, as in many other categories, a portfolio which straddles the price-benefit pyramid. We have – our premium brands like Dove, like Liril, Hamam, all have been doing exceedingly well. So, there is a bit of softness in the market in terms of portfolio. It is also due to some conscious actions that we had taken at the mass end, and now we are looking at this entire mix to see even on the mass end how do we become competitive.

Nitin Gosar:
Okay. Okay, sure. And one last question is with regard to, on slide number 28, there is mention of step up in competitive intensity anticipated. And I think during the opening commentary you added up by saying intensity anticipated, basis where it stands today. There's more to do with the gross margin indication or this is more to do with the profitability of the overall sector is enjoying, what was this indicating?

Answer:

So, let's look at it this way. I think, you just need to understand the flow. And I think, let me try again. Overall, we've said that look today trade is stable, pipelines are stable. In one manner, we are also saying demand is going to pick up and absolutely in one lens, if any player in FMCG sector would also start to say that look, we're now getting back into space and the sector is looking good. So clearly from that point of view, it will be very normal and natural to then start to expect that people will want to take a bigger share of the pie. I think that's – let's say a simple way to look at the sector.

Second element I think we have also talked about we have already seen in some of the parts of the sector, step up in GRP, step up in media and that has started to play out in a few cases and understandably so. I think when you marry the macroeconomic fundamentals, the state of FMCG sector, some of the aspects of competitive intensity that you see, I think it's very natural to say that look that is something that we need to be very watchful about, that's something which we need to keep an eye on, and that's exactly what we are calling out. This is not a call out on the top or a gross margin or a BMI line, but clearly how we are seeing the near-term pan out. Obviously, depending on how intense it is, where it comes from, we will act, we will act with speed, we will act with agility. I mean that's the best way to read it at this stage.

Nitin Gosar:

Okay. Thanks, sir. Thank you.

Operator

Thank you. The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.

Amnish Aggarwal:
Yeah. Hi, sir. Congrats on good set of number. I have a couple of questions. Hello, am I audible?

Answer:
Yes. Can you just be a little loud, that will help.

Amnish Aggarwal:
Yeah. Yeah. First it is again the – it is on the competitive intensity, and you're saying that there is likely to be step up in competition, from where you're expecting it to be from the large organized players or some sort of unorganized sector coming up. Can you throw some light on this?

Answer:
So look, it is going to be a bit broad-based, that's why I said I think in the previous question, it was exactly what I was talking about from a competitive intensity perspective. Today, we are seeing it in some segments. Absolutely we are seeing it from some of the established players, which is coming through. But equally, there is good enough reason to say that even some of the smaller

players will continue to step it up more coming from the macroeconomic story and how the demand is coming through. I don't have any particular ones to call out at this stage, not that we do that anyway, but we continue to be watchful both from the large players as well as the unorganized.

Amnish Aggarwal:
Sir, if we look at the past history then it used to be that when the input cost usually go up, the smaller players are at a disadvantage. So, in the current economy context of how the things are so – are some of those players, who were likely to get hurt by GST, some how they are managing to get things done and somehow and are coming back into the system?

Answer:
I think Sanjiv explained that earlier in the call and let me clarify. First, from an inflation point of view, anything to do with crude and derivative, clearly a big step up, but that is not necessarily the case when you look at some of the other commodities. They are either flat, there is marginal inflation or softening, I think important to read that.

Second, I think Sanjiv has also clarified saying that look at the full effect of GST and the implications on unorganized, more importantly the non-compliance will only get played out when you've fully embedded the e-way bill, and done a complete lock-in. We haven't seen any reasons at this stage for us to to call out saying that some of the unorganized have either vacated the market or are not being competitive. So, I think that is where it fits.

So, to me, I think – again the third point which I think we also talked about it from a call point of view. Even though there is inflation and there is a bit of potential price rises, at least in our context we know that the rate reductions we have taken post-GST are much larger. So somewhere you need to marry the three, and when you marry the three I still believe that the competitive intensity is likely to go up, and that we will counter that with speed and agility.

Amnish Aggarwal:
Okay sir. My next question is on Pure Derm, the anti-dandruffs range we have launched. If I refer to the slide 14, on the Personal Care side, there is no mention of Clear. So how are we positioning this? Is it going to replace Clear or how we are going to play out in the entire anti-dandruff segment?

Answer:
So, look, this is a very clear and I think Sanjiv explained in the beginning in his opening comments, a very clear articulation of how the mix has been crafted how the formulation has been crafted, how it is really bringing significant global technology for benefits from an Indian point of view. I think in our portfolio, there is a role for different brands, they play into different segments, and the different benefit platforms. But at this stage, our focus would rather be on how do we get Pure Derm to first launch, how do we execute it well and grow well. At this stage, I don't think

there's any reason for us to be having a conversation about this versus that and I think the bigger opportunity is to really see how do we make it grow, and grow competitively.

Amnish Aggarwal:
It means Clear will continue to progress with Pure Derm?

Answer:
Yes, there are no plans at this case to really pull out any of it.

Amnish Aggarwal:

Okay, sir. Thanks a lot.

Operator

Thank you. The next question is from the line of Mehul Desai from IDFC Securities. Please go ahead.

Harit Kapoor:
Yeah. Hi. This is Harit from IDFC. I just had two questions. First was on the FY 2019, how you look forward on the operating margin side. In your outlook operating margins, I just wanted to understand given that you are expecting a competitive intensity step up as well as there is commodity cost inflation, what levers do you expect to use to improve this operating margin going forward? Would this be more cost saving-led, or would it be price increase, will it be a function of both, just wanted your sense on that?

Answer:
Yeah, Harit, I think important to contextualize it. That's why if you really look at this, it also comes through in Harish's comments today. This is a seventh successful year that this company has actually improved its operating margins. In some cases, a little less and some cases a little more, but that is how we operate our business driving a volume-driven growth on improvement in margins is something that we're committed to.

Now, the answer as we really explained is going to be a combination of all of that, yeah. There is going to be synergies from growth, there is going to be synergies from costs, there is going to be an opportunity with pricing. And based on the totality of equation, we will play all levers. On pricing, I think we have clearly said, and in fact which is actually something we have been boringly consistent about, it is that when required, if required we'll take up pricing, but clearly, we will be judicious with pricing. And we will make sure that we do not compromise on our market competitiveness.

Clearly, will be all the levers that we've exercised in the past, and you've also heard the healthy tension that we see that Sanjiv believes that there is always enough juice in the lemon, and that's a healthy tension with which we'll continue to operate the business.

Harit Kapoor:
Understood. Just the second one was more bookkeeping-led, given that you had a reduction in the tax rate because of the new plant. Just wanted to understand what the guidance on the tax rate side is for FY 2019? Is it closer to the exit FY 2018 rate?

Answer:
I think the numbers to work with from a next year's perspective - 30.4 is the number that we would call out

Harit Kapoor:
Okay. That's it for me. Thanks and all the best.

Answer:
Thank you.

Operator

Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman:
Hi. Good evening, and great results, and congratulations on wonderful execution here. So just first question again on competition, especially in the Home Care segment now, when we did our own check we noticed that Surf is basically available in a lot of outlets where you wouldn't have expected it to be. Is this a function of some of your competition just lagging behind in getting consumers to premiumize or is there something else that we can read into why say Surf has done better than competitive brands from P&G or whatnot?

Answer:
So, I think, this is really what Sanjiv talks with a lot of passion about market development, premiumization making, some of the premium brands more affordable. Because I think point is very simple, aspiration, I think, when you can get the right combination on making it to the right price value equation, you will absolutely see that the penetration goes up, the consumption goes up and it also results in sales growth.

So, as I think here I would actually give credit to HUL for taking the lead and driving that upgradation story, premiumization story, market development story. And I guess there is nothing to really talk about competition here, what they have done or what they haven't done.

Aditya Soman:
Understand. And is there any other categories still there where you could expect a similar kind of delta where you're clear market leaders where you could see meaningful premiumization in the near-term or medium-term, that you will want to call out.

Answer:
So, I think it's something, which we have spoken about many times and there is no change to it. Premiumization is a secular trend, premiumization is available absolutely in all the categories, even in a category such as Tea and I think depend on how you want to call it, look at some of the green tea, some of the Natural Care segments, absolutely these are segment contribution, these are also similar segments which we will continue to premiumize. So, look, absolute opportunities are available in all the categories.

Aditya Soman:
Thanks. And just one last question, in terms of Patanjali have you seen further competition from them specifically just ease off meaningfully or do you think they're still a very strong competitor.

Answer:
So, look, we never comment about any specific individual competitor, as far as we are concerned it is very clear, we talk about our performance, good quarter, we've talked about how we see future, we absolutely anticipate competitive intensity to go up and we will react with speed and agility.

Aditya Soman:
All right, thanks a lot.

Operator
Thank you. The next question is from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu:
Hi. Good evening to you all. I'm not sure whether how you will answer this question. And the reason I ask is that, I don't recall ever seeing an 8% sequential jump in revenue between DQ and MQ. So I'm really curious to know if this growth of 11/16 volume and comparable revenue growth was a surprise to you all? Or was it par for the course? If it did outdo the assumptions in your base business plan, what is your prognosis of what were the main reasons for this delta?

Answer:
So, Richard now, how do you – you started by saying you're not sure how you will expect us to answer and I'm still thinking how to answer the question. So, listen, simple, I think, Sanjiv spoke about it. So, first of all, do we look at various factors in terms of how we do our demand forecasting? Absolutely, we do. Is there an art and science to it? Absolutely, we do.

If you look at the totality of the numbers - is it a big surprise for us? probably not. If you live and breathe this business day-in, day-out as we do, and that's the job of running the business. So absolutely, we keep a tab on everything which happens, and we keep dynamically adjusting. So, depending on how you were to be and how closely you read the business, no, it's not a surprise to us.

I think Sanjiv has spent enough time explaining the full background on where he sees the performance, what are some of the levers, how is interpretation of this growth and why he's asking us to wait for a couple of quarters to really see before a clear trend or a pattern emerges. I think that's a good and a comprehensive response, which I think we have provided.

Richard Liu:
Okay. My second question is a little bit more boring than that. Can you help me understand the shortfall in operating other income? Has it again to do with group company services?

Answer:
Yeah. Pretty much.

Richard Liu:
And you continue to provide for that area-based budgetary support that's still being accrued?

Answer:
Yeah, yeah. That's being accrued, yes. So, I'll remind you that the GST 2.0 some of the rates, which is the whole GST rates have come down and therefore some of the total amount which is available to you as the government grant comes down. So that's also something at play.

Richard Liu:
Okay. All right. Thank you. Wish you all the best.

Answer:
Thank you, Richard.

Operator

Thank you. The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal Securities. Please go ahead.

Krishnan Sambamoorthy:
Congratulations on a good set of numbers, and particularly pleased with the performance on the herbal segment. Last year, if I seem to remember, you said there were four prongs. And one of this was Citra and now has the performance of these been suboptimal and have you dropped this prong or is it something that you would have subsequently?

Answer:
So, look as we continue to say I think the three-pronged strategy was always there. Citra and St. Ives were some of the brands within that three-prong strategy. So, I don't think the strategy itself has changed.

Second is that look, I think we also have to get used to it. From time-to-time, we will bring in new brands. From time-to-time, we will launch them in select geographies. Some of them will meet our action standards in which case we then expand them, roll them out, make them large.

Some of them don't meet our expected standards, in which case we will fine-tune it, rework it and come back. I think therefore when you really see it, and I think today also we clarified when we met the press and in the media, clearly, naturals is a trend we will play, there is no worthy change to our three-prong strategy. And in some of these cases we need to fine tune our mixes and communication, we will do that and come back.

Krishnan Sambamoorthy:
Sure. And on Lever Ayush, how are you in terms of distribution across states and how much time will it take to reach the regular level of distribution?

Answer:
So, look again on the distribution plan, I think one needs to understand – it's a brand being launched here. It's not like one more variant which is being put into the market.

Krishnan Sambamoorthy:
Yeah.

Answer:
From a south perspective, I think it's tracking well and I think we have been in the market for a year and I think we continue to see a step up in our distribution, which is actually linked to penetration and consumption.

In the north and the rest of the country, we've gone in only a few months and it takes time building a brand and I think we are very clear, we do not want to get into a push model, we never do. I think there is a sell-in, there is an off take and based on that we will then scale up or scale down our distribution depending on the consumer demand. And I think for that we will have to give it a few more quarters for us to see how the brand is performing there and then we'll talk about some of the distribution metrics.

Krishnan Sambamoorthy:
Okay. Sure. Thanks a lot.

Operator

Thank you. The next question is from the line of Aditya Seth from Investec Capital. Please go ahead.

Aditya Sheth:

Hi, team. Thank you for taking my question. Sir, what has changed on the ground in rural India because of which you are witnessing a pickup? Couple of examples, and your perspective would be very helpful

Answer:

So, if you don't mind, I think this question we have answered about four or five times in the course of the call. And honestly, there's no point in really being repetitive about it. I would really appreciate if you are able to go through some of the synopsis which you should get at the end of the call and they'll answer it more than adequately.

Aditya Sheth:

Okay, fine. The second one was on ayush. So, there was a sharp price cut in ayush. So, maybe from mass premium to popular if I may say, how do we read this?

Answer:

So, look some of these were really the benefits of GST being pass through, I think that's the easiest way to read it and some of it will really be where we see the brands and how we want to operate, I think that's the only other way I can look at it.

Aditya Sheth:

Okay. And then last question would be on CSD channel, is there any sales growth for HUL in this quarter, what was the sales growth?

Answer:

I think Sanjiv also answered it earlier in the call. CSD has been a bit - what I would call is that more into a stabilized or a normative level of sales, which is not really back to where we used to see it about six months ago. So, to that extent if you see, is the channel really growing – perhaps not, if you see on a standalone basis. But honestly the demand would actually come through if it doesn't go from the CSD perspective, consumers still buy and we believe that we are seeing it in the other channels, so in aggregate I think we are seeing the growth.

Aditya Sheth:

Okay. Thank you very much.

Operator

Thank you. The next question is from the line of Himanshu Nayyar from Systematix Shares & Stocks. Please go ahead.

Himanshu Nayyar:

Hi, sir. Thanks for taking my questions. Firstly, just the medium-term question on our Foods and the Refreshment segments, I mean given that the penetration for both these categories is quite low compared to our other categories, when do we think we can see sustained much higher growth rates in these two segments.

Answer:

So, I think first point is that if you really look at the core products of Foods portfolio, whether it's jams, ketchups, we continue to grow well, and I think we continue to grow penetration consumption and the growth rate are also healthy. If you see even in this quarter, performance has really come through from there.

If you really look at some of the categories of Knorr it's really all about instant soup. It's about some of the pasta variants, it's really about some of the noodles. These are again nascent opportunities for us. Soups is something we continue to build and grow. The other two are really something we are testing out in few geographies before we scale it up. That is one element. And clearly, there is a plan to continue to look at different mixes, different opportunities which we will come through and launch in due course to really grow the Foods business, is it integral to us? – absolutely. Is it a strategic imperative for us to grow Foods? - absolutely.

Himanshu Nayyar:

Okay. But you don't think we can reach anywhere closer to the share that Foods and Refreshments contribute to the – our global parent's revenue, right?

Answer:

Look, realistically today Foods is still a INR 1,200 crore to INR 1,300 crore business for us. So obviously it's going to take time if we want to really say – we're absolutely keen to take off and we will build it. I think - it's not something going to happen in the next few quarters.

Himanshu Nayyar:

Got it. Got it. Sir second question was on the margin side. As you have just said that this is the seventh consecutive year, when we see margin improvement, so what do you think in the current environment in a market like India, could structurally be a peak margin level for us given that it should not start impacting our growth or market share increase agenda?

Answer:

So, listen, I don't think we – again let me talk about our own experience, and that's why if you see the chart that we've actually put out, clearly talks about our four business segments, and the levels of margins that we're operating in each of those segments. Absolutely, you need to give the right reasons to really be able to price your products and command premiums and that's also a generator for growth, as well as margins.

So, suffices to say, that gives you a bit of a flavor of how we run the business, how we've progressed, and then, any future margin expansions are all going to be a function of how are we going to drive costs, how are we going to get mix, how are we going to drive pricing, absolutely without losing competitiveness. So – and again even at these levels, we're clearly committed. We're committed to volume growth. We're clearly committed to improving operating cost.

Himanshu Nayyar:
Got it sir. Thanks.

Operator

Thank you. The next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh:
Thanks for taking the question, and my questions have been answered. Thanks.

Answer:
Thanks, Prasad.

Operator

Thank you. Ladies and gentlemen, this was the last question on the audio call for now. I hand over the conference to Suman Hegde for the web questions please.

Suman Hegde:
Thanks, Karuna. We have got some questions on the web option. I will not be repeating the ones that we've already taken. So, let me just go through, I'll read out the question and if Srinivas or Sanjiv have already responded to it, we'll just get to the next question.

Question:
So, the first question that we have on the web link is from Manish from Nirmal Bang. The question being in terms of demand growth, could you explain volume growth in rural market and urban market, are you seeing upgrading in rural market in some of the product categories? Secondly, in case of the sharp rise in input cost, will the company be able to pass on or see pressure on operating margin? I think both these questions have been responded in the earlier queries raised by some of the analysts.

Moving on I think Himanshu Nayyar from Systematix. Himanshu, I believe you've asked both your questions on the call itself and Srinivas has already responded to the same.

So, I'll move on to the next query, which comes in from Mr. Sameer Gupta from India Infoline. The question being macro factors such as agri inflation, rural agri GDP growth are actually in the negative territory. So, apart from the GST rate price cut, what is actually driving this pickup in rural? Srini, would you want to?

Answer:
I think I discussed this in detail, Sanjiv just spent a paramount of time talking through how is the rural demand. I think clearly, we are seeing a couple of things, which have already happened and more importantly when you look at some of the MSP increases, when we look at the forecast of a good monsoon, I think there are still reasons to believe that rural is coming through, and we believe it's going to give everyone chance.

Question:
We have two questions from Tejas Shah from Spark Capital. The first one being, one of the most important components of our cost rationalization exercise was increasing efficiency of our marketing spends, where do we stand on that journey, and how much more room is still left on that count to aid margin expansion?

Answer:
So continue to remain focused, continue to remain committed, I think we talked about how we are looking at media spends through the lens of reach frequency, absolutely there's something going on, and we continue to look at all opportunities whether it is in the media space, more importantly in the non-media space, how much it goes with, is a million-dollar question, Sanjiv believes there is always juice in the lemon, and that is a challenge - we are up for it, and we will continue to drive efficiency not only in this line, but on all lines of cost.

Question:
The second question from Tejas is, we had ventured into baby care segment with Baby Dove few quarters back. Any update on the same? We are yet to see a campaign around the launch.

Answer:
So, I think it's an important piece of an innovation we put into the market, we continue to look at facts and progress, and in due course fine tune the mix. We'll continue to build and invest behind that opportunity.

Suman Hegde

Thank you, Srini. That's all we have on the web queue. With that, we have now come to the end of the Q&A session. Before we end, let me again remind you that the replay of the event and transcript will be available on the Investor Relations website in a short while. You can go back and refer to it. A copy of the results and presentation if not with you, it's already on the website, and you can go back and refer to that as well.

With that, we would like to draw this call to a close. So, thank you everyone for your participation. Have a great evening.

Operator

Thank you very much, ma'am. Ladies and gentlemen, this concludes the earnings call for Hindustan Unilever Limited.

You may now disconnect your lines. Thank you for connecting to the audio conference services from Chorus. Thank you.