



Hindustan Unilever Limited

**June Quarter 2020 Earnings Call of
Hindustan Unilever Limited
30th June 2020**

Speakers:

Mr. Sanjiv Mehta, Chairman and Managing Director

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

Mr. Amit Sood, Group Finance Controller and Head of Investor Relations

Operator



Ladies and gentlemen, good day and welcome to the Hindustan Unilever Limited Conference Call for June Quarter 2020. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Sood, Group Controller and Head of Investor Relations. Thank you, and over to you, sir.

Amit Sood

Thank you, Stanford. Good evening, and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening the results for the quarter ended 30th June 2020.

On the call from HUL end is Mr. Sanjiv Mehta, Chairman and Managing Director; and Mr. Srinivas Phatak, Chief Financial Officer, HUL. We hope that you are staying safe and keeping healthy in these uncertain times. Given the exceptional circumstances created by COVID-19 outbreak, we are presenting results from our respective homes, so please bear with us if things are not as smooth as usual. As is customary, we will start the presentation with Sanjiv sharing his perspective on market, and an overview on how we are managing business through the impact of COVID-19. Then Srinivas will share with you aspects of our performance for the quarter and our outlook for the future. 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, Sanjiv.

Sanjiv Mehta

Thank you, Amit. Good evening, everyone, and thank you for joining us on the call today. I do hope that you and your loved ones are staying safe and keeping well in these uncertain times.

This is a society crisis threatening lives and the well-being of our society, with the potential to fundamentally reshape the world. On behalf of everyone at HUL, we extend our deepest sympathies to all those who are struggling to cope with the crisis, and equally we express our gratitude to all the frontline heroes in managing and helping us manage this pandemic.

One of the unusual features of this crisis is how it seems like the world is at a standstill, yet things are also changing at such incredible speed. It is in this context of rapid and unpredictable change that we are discovering true responsiveness of HUL and the value of our closeness to consumer. As a company, we are privileged to be serving the everyday needs of consumers. We hail our own frontline heroes in factories and in stores, who have been working tirelessly, even during the peak of the lockdown, with the higher purpose of ensuring availability of essentials like Lifebuoy soaps and sanitizers, Domex disinfectant to fight the virus, and a good cup of Red Label Natural Care Tea or Horlicks to boost our immunity.

Now, let me take you through the market context and our imperatives from navigating through this crisis in detail.

The economic fallout of the crisis is inevitable. In India, the economy has slowed down even before COVID-19. With the pandemic and ensuing nationwide lockdown, the immediate impact was severe supply chain constraints. As the businesses pulled down shutters, it manifested in empty shelves and shrinking pipeline. From a demand perspective, the fear of loss of jobs, dwindling earnings and eroding investments have made people circumspect with the expense. Progressively as the country started opening up the lopsided concentration of cases implied a shift from absolute lockdown to more localized lockdown, the vertical lockdown. And as you can see in the chart, the number of cases continue to raise, the macroeconomic environment is becoming more challenging with slowing GDP growth rate.

We should be absolutely clear that no one can predict with a high degree of accuracy of what is going to happen. A lot will depend on the trajectory of the virus, what happens to the economy, to what extent is the demand postponed or impaired, the unemployment trend, etc. So, there are various variables at play. I would not want to hazard or guess, but I do hope that by the end of this year or early next year,



we'll see the economy picking up and the demand coming back. Right now, the challenge for us is to get the supply lines going. It is difficult to gauge the end consumer level demand. Once supply is normalised and trade pipeline fill up, we will get to understand the underlying demand trend, hopefully in the September quarter.

Steps taken by the government, such as increasing daily wage rate under MGNREGA, increasing the budget allocation are all positive and should boost rural consumption. We're also delighted that the harvest has been good. Similarly, the steps taken to provide liquidity by underwriting loans to MSMEs is also a step in the right direction. We are hopeful that the government will take necessary steps to stimulate demand. We are a consumption driven economy and it is vital to get the consumption going, so that the economy gets into a virtuous spiral.

Crude and currency continue to be volatile due to geo-political imperatives, unprecedented swings in global economic cycles and trade dynamics. We are also witnessing inflationary trend in select commodities such as vegetable oils, tea, SMP, tomato paste.

Our strategy is serving us well. Our strategic agenda remains unchanged. We continue to dynamically manage our business to deliver consistent, competitive, profitable, and responsible growth. Our five growth fundamentals are the key levers for driving growth across the category. These are, as you know, purposeful brands, improve penetration, impactful innovations, designed for channel and fuel for growth. We continue to progress our purpose-led and future-fit agenda which is even more critical during this time and 'Re-imagining HUL' is critical to drive digital transformation in all aspects of our operations.

I believe we have made good progress in our focus areas. Last quarter, we had called out five imperatives, which draw strength from our values and enable us to navigate through these difficult circumstances. Let me share with you the snapshot of our progress in all these five workstreams of People, Supply, Demand, Community and Cost & Cash.

The most important priority for us is and will remain the safety of our people. Not just people who are on our rolls but the entire ecosystem that works for us. Based on the global best practices, the WHO guidelines and the government requirements, we have setup and implemented tiered SOP for health and safety in our operations accompanied with training and readiness drill to ensure that we minimize the risk of transmission across our value chain from suppliers to customers. We've set up contactless operation at the interfaces where risk of virus ingress is highest. We also set up a supply chain to deliver more than 5 million PPE items within our ecosystem to support 100% compliance to world-class health and safety standards. We were one of the first companies to provide insurance to our distributor sales team. There is no debate on cost, when it comes to people safety. This has and will always be the philosophy of the organization. Despite all the precautions we may take, there will be instances, like in our Haridwar factory, when the infection spread amongst our people, and more so because people are asymptomatic. In all such instances, our first focus is to get all our people tested and look after our people who have tested positive, decontaminate the premises and restart the operations only with the people who tested negative. We are also clear that we will not be in a rush to open our offices. These are also times to innovate across all dimensions of work. For example, we have implemented the entire internship program virtually. This is also an opportunity to train and retrain our people. We in fact have seen a huge spike in the usage of our learning portal.

The second important aspect has been to keep the supply lines going. I'm extremely proud of my team for the way they have risen to the occasion and have adopted new and innovative practices. We were able to restore operations with alacrity after the precipitous drop in operating level with nationwide lockdown. We sharpened the entire planning to execution cycle to a daily horizon and ensured a dynamic response to an everyday changing environment. Over 100 instances of critical material supply disruptions were handled with speed by on-boarding dozens of new suppliers. HUL trucking capacity was restored at twice the rate of national trucking recovery, thereby eliminating key logistic bottlenecks from operational loss tree. Our supply chain today is well positioned both on 'just-in-time' and 'just-in-



case' requirements. In June, we were also able to build back our distributor stock pipeline, which had reduced significantly towards the end of March due to the lockdown.

The third important area for us has been to keep a pulse on our consumers, their behaviour, perception, their unmet need, so that we can adjust our innovation and communication agenda. To address the critical needs in the space of health, hygiene and nutrition, we have been able to assess the demands for our people – for our categories. We have also accelerated our innovation pipeline in the health and hygiene category. And this quarter we launched Lifebuoy Germ Kill Spray and Domex Disinfectant Spray and Lifebuoy Cloth Sanitizer.

Fourth and most important asset is helping the community. This is a crisis where business, civil society and citizens must join hand with the government. As you will recall us saying, it is our purpose to go beyond the business and ensure that we use our scale and brand as a force of good for the society. As a responsible company, we stand united with the nation in this fight against the virus.

Last but not the least, there has been a heightened focus on cost and cash. Even though we are one of the most valuable companies in the country, we pride ourselves in being a frugal organization with a middleclass mindset. Our balance sheet strength will be a source of competitive advantage. We are driving cost agility, judiciously reviewing cash flows and reallocating spends with rigorous discipline. And Srini will throw more light on our deft P&L management in the latter part of this presentation.

We have taken significant steps to reduce complexity in operations. We have reduced complexity by nearly 80% our SKUs during the start of the national lockdown. As the country started to open up gradually, we increased our SKU assortments and we are currently operating at about 50% of our pre-COVID level. Every crisis, we believe, while posing a danger also provides opportunity. We are leveraging this opportunity to reduce the complexity in operations, and we believe that even as we go forward, we will bring down the SKUs to about 80% of our pre-COVID level. There is a clear financial case for this in terms of cost, cash and organization's bandwidth. These measures will enable us to respond with speed and agility in the evolving environment.

We also responded with agility to major shift in consumer demand and as an illustration, the production of sanitizers was ramped up by a factor of 100X and handwash by 5X. The golden triangle of procurement, quality and R&D enabled us to qualify and adapt scores of new pack design, new material, new formulations, and prototype. We launched over 50 new products and pack innovations to cater to the rapid changes in demand in hygiene and sanitization products. We also formed tactical sourcing alliances to utilize spare capacity for addressing the categories of Health, Hygiene & Nutrition that are seeing demand upsurge.

Several innovative disaggregation models of distribution are also tested and launched to ensure the supplies reach the farthest corners of the country. More importantly, the moats we have been building under our 'Reimagining HUL' digital agenda have been our clear competitive advantage during the crisis. Our B2B app Shikhar is now available in more than 150,000 stores and our retail offering My Kirana is also available across many pockets of six cities. This has been a clear competitive advantage for us with Shikhar tracking almost doubled the average order value and the line items per order compared to pre-COVID level.

The merger of GSK Consumer Health nutrition business with us has brought great brands, built on proven scientific credentials, with great purpose into our fold. This merger could not have come at a better time. We are privileged to address the nutrition and immunity needs of consumers in the midst of COVID-19 pandemic. A merger of this scale requires sharp focus, and our team has delivered seamless cut off. Despite the lockdown, we were able to successfully close and consummate the merger on the appointed date of 1st April, with all activities, including the legal transfers and IT systems transition, orchestrated virtually and flowing seamlessly.

The nutrition business is off to a good start with domestic business delivering a robust 5% growth in the quarter and tracking well ahead of market on back of volume share gain. Within a few weeks of GSK merger, we reformulated the full Horlicks portfolio with a higher level of zinc, updated the packs and communicated the benefit of immunity supporting nutrients like Vitamin C, D and zinc. We also launched



pouch packs in Horlicks and Boost to drive consumer value and build access. The structural growth and margin opportunities of this merger remain impact and we continue to make good progress against our milestones.

This pandemic can have a lasting impact on human behaviour. One clear trend, of course, is a heightened awareness of hygiene. The pandemic has clearly raised the need for clean living, protection, immunity and wellness. With iconic trusted brands such as Lifebuoy, Domex, Horlicks, Red Label, Surf Excel, around 80% of our portfolio addresses the space of health, hygiene & nutrition needs of consumer. We have seen in India and in many other global markets that consumers at this time do gravitate towards large and trusted brand, and there is no other company in India, which has built many such brands over the years that deliver strong functional benefits and instil trust and confidence in consumers.

Right now, people are grappling with the sense of fear of getting infected and hence, they will remain wary of going out for some time. This gives the fillip to in-home consumption categories and we are well placed with our in-home portfolio of ketchup, jams, soups, tea, coffee and atta.

With the incomes under pressure and economic uncertainty, consumers will gravitate towards conscious consumption and search for value in each purchase occasion. Our portfolio across categories straddles the pyramid and caters to different price points and benefits segments. And even in this difficult time, we as a business are placed to meet all needs of consumers, even if they were to downgrade and downgrade.

The crisis is also a massive opportunity for e-everything. As spoken earlier, the Shikhar app has been useful in taking the digital orders directly from retail outlets given the social distancing norms, mobility restriction, and say for manpower issue. My Kirana is currently, like I said, in more than six cities and proven very helpful. In light of the current environment, we pivoted to a complete digital marketing and home delivery-led model. With SmartPick, we're resorting to new ways of driving market development through targeted digital sampling. SmartPick delivers a sample box of HUL brands, specially curated through algorithm and is targeted to the consumers through a digitally enabled end-to-end experience not just traditional e-commerce, but it could also be the possible 'renaissance of the humble grocer'. Consumer have realized the benefit of proximity. The Connected Stores Program under our 'Re-imagining HUL' agenda, we are empowering the grocer with the technology. Connected Stores provides a brand agnostic platform for the stores to go digital, capture online orders, digitize its billing and offer adoption of digital payments to shoppers.

Against the challenging market backdrop, we believe we have delivered a resilient and competitive performance in the quarter. Our reported turnover growth stood that 4% including the impact of merger of GSK Consumer Health. Excluding for this nutrition business, our domestic consumer growth declined by 7%. With the headwind on costs, we saw 110 bps decline in EBITDA margin. Nonetheless, our EBITDA margins are healthy at 25%. Our performance is a reflection of the strength of brands, execution prowess and rigor and discipline in implementing a consistent strategy.

While we continue to focus on delivering consistent, competitive, profitable, and responsible growth, our compass is calibrated by a sense of purpose. When COVID-19 hit India, we immediately earmarked INR100 crores to help the country fight this crisis, and we are spending the money in a systematic way. We are helping augment the capacity of healthcare infrastructure by donating several ventilators and about 75,000 RT-PCR test kits to hospitals. We are utilizing our pan-India reach to distribute food and sanitation kits to needy people both in urban and rural areas. The first 150,000 packs of Horlicks with higher zinc were donated to hospitals across the nation for the benefit of medical care professions taking care of the COVID patients. We also donated 2 crore soaps across India to hospitals and vulnerable communities. We've also partnered with Apollo Hospital to set up isolation facilities. Finally, we are a marketing company and have expertise in changing consumer behaviour. We are utilizing our marketing prowess in partnership with UNICEF to come out with mass communication with campaigns which featured memorable and positive messages that were the need of the hour, reaching over 100 million houses.



Looking forward while the near-term market outlook is extremely uncertain, we are confident of the medium to long-term growth prospects of the FMCG sector. Our strength of agility and responsiveness gives us confidence to navigate the current challenges as well as capture the structural opportunity in medium to long term.

With that, let me hand it over to my colleague Sriniv to cover the details of our quarter's performance. Over to you Sriniv.

Srinivas Phatak

Thank you, Sanjiv and Good Evening everyone. So, this quarter for us, I think, has been business most unusual both on growth and costs and the end results are indeed satisfying given the current context and the environment. As Sanjiv explained, agility and responsiveness across the value chain has enabled us to stabilize the operations and deliver a competitive performance. Our reported turnover growth stood at 4% including nutrition business which came on board with GSK CH merger. On a like-for-like basis, excluding the impact of the merger, our domestic consumer growth declined by about 7% and the UVG decline was about 8%. Competitiveness is key and, in this regard, 86% of our business is winning share on volume in the last three months basis, as per the Kantar Worldpanel. As you would be all be aware that given the challenges and the limitations, the restrictions, Nielsen data is not available and likely to be so for the next couple of months. And to that extent, therefore the consumer panel becomes an important indicator for us to look at our competitiveness. Even on value terms, around 80% of our business is gaining share in the last three months. It's important to understand the construct of growth. About 80% of our business addresses the health, hygiene and nutrition needs of the consumers. And this has grown at about 6%. However, with the out-of-home consumption being impacted and disproportionate impact on discretionary categories, the remaining 20% saw an adverse impact dragging the overall growth down to a negative 7%. I will talk more about this, when we come to the later slides in the presentation. In terms of month-wise progression, April was at about 70% from an operational perspective due to the lockdown restrictions and our manufacturing being limited. We saw a relative better performance in May and in June, our growth was in the mid-single digit growth as we recovered the lost distribution inventory. We also benefited from rationalizing trade spends and this has enabled top line growth. Now, in September quarter, with the trade pipelines normalizing, which is our distributor pipelines that we're referring to here, we need to get a better sense of the underlying demand and that becomes critical.

Let me give you a bit of a flavour on the bottom line.

From an EBITDA perspective, we delivered about INR2,644 crores. And now let me split the EBITDA margins, and these are some sections, where I will ask you to just focus because I'm going to call out some important elements. So, when you look at our EBITDA margin decline, on our base business the decline was about 170 basis points, and we got a benefit of about 60 basis points coming in from the nutrition business, which, therefore, translates to about 110 basis points decline on an overall basis. So, this chart, what you see is all these numbers that are on reported basis. From growth perspective, we have called out what is the reported growth and what is the growth excluding the M&A. From net profit perspective, at INR1,881 crores, we are up by about 7%. Important to highlight two one-offs or exceptional items here. We have received a benefit of some prior period assessments in the tax line, approximating to about INR96 crores, and you would also see an increase in the exceptional cost due to M&A, which is predominantly related to the stamp duty costs for the GSK acquisition and for VWash and there are also integration costs, which are included in there.

This gives you a very good snapshot picture across the three divisions. And here, the headline message is that Health, Hygiene and Nutrition performed well. Having said that, the headline numbers do not do a full justice to the story, and we will unpeel this to give you a better flavour, when we talk from the divisional perspective.



Let me first start with Home Care. Home Care has delivered a solid performance across Household Care and Fabric Wash. Household Care delivered strong performance in the Home and Hygiene portfolio driven by penetration gains. This has been a key one and it has delivered good growth. Domex is staying true to its purpose. It is spreading awareness about the importance of home hygiene and its credentials are resonating well with the consumers. Fabric wash registered a steady performance across the mass and the premium portfolio. Our laundry portfolio straddling the price pyramid benefit holds us in good stead and enables us to activate the relevant parts to match the consumer needs. For example, our Surf Excel brand continued to remain consumer relevant with access packs offering value and a contextual messaging through Daag Ghar Pe Rahenge campaign. Purifiers due to its consumer durables nature and given the restrictions in terms of many of the stores being shut was severely impacted in the quarter pulling down the overall growth rate.

When I talk about from a Beauty & Personal Care point of view, Skin Cleansing was clearly an outperformer and we had a stellar performance given the heightened awareness around hand hygiene. Growth was led by our purpose-led brand such as Lifebuoy and Hamam. Lifebuoy grew in strong double digits and across all the formats. Oral Care had good growth delivery during the quarter with accelerated momentum on CloseUp. Hair category was initially impacted primarily because we couldn't manufacture in the month of April. And we also saw some bit of pressure in Hair Care in terms of large bottles. But we started to see the demand pickup in the latter half of the quarter. We are also confident about this category as it forms a part of consumers' consideration set for hygiene needs in the current context. Skin, Color Cosmetics and Deodorants were adversely impacted both on account of supply constraints and muted consumer demand in the discretionary categories. Having said that, we have started to see some green shoots in Skin Care.

Now, coming to Foods & Refreshments, clearly, the consumer trends of In-home wellness and immunity augur well for our Foods & Refreshments business. Important to highlight here that our Foods business delivered broad based double-digit growth, driven by consumption shifting to In-home. Our tea and coffee portfolio also registered strong double-digit growth. Red Label extended its long-running 'taste of togetherness' campaign through a simple yet contemporary message of 'we can be socially connected, even when they are physically distant'. As Sanjiv already called out, our nutrition business performed well with mid-single digit top-line growth. Our immunity boosting Horlicks added with zinc was launched in the quarter. Having said that, our out-of-home business which includes Ice Creams, Food Solutions and Vending was adversely impacted given the out of- home consumption.

It's also important to clarify that when we say that Horlicks or GSK portfolio domestic consumer growth has been about 5%. To give a perspective, there is no base because the whole business comes in and gets added into our financials only from 1st of April. What we've done is used the June quarter numbers reported by GSK in the prior year and compared it with the current set of numbers to give you a flavour and that's the definition of a 5% growth. I hope that clarifies for you when you think about it in the overall context.

I think this is an important chart, given what's really happening in the marketplace. And to give a better understanding and appreciation of consumers, we have split our portfolio into three different segments. Health and hygiene is what consumers are looking for and this has grown at about 6% while addressing the critical needs of our consumers. Now, on the other hand, 15% of our business comes from discretionary segments such as Skin, Color and Deodorants and this registered a decline of 45%. A big part of this was also due to lack of supply, especially in April and parts of May. There is also some adverse impact on demand as people have remained at home. We are confident that Skin will soon see a step-up. Colors and Deodorants are likely to remain a bit muted for some more time. Our out-of-home categories such as Water, Ice Cream, Food Solutions and Vending business contribute only about 5% to our business and were disproportionately impacted due to consumption loss and saw a decline of 69%. The recovery in this part of the segment will be linked to what happens to the overall spread of the virus.



Let me now shift focus to the P&L and talk about some important aspects here. We have had many headwinds on cost be it adverse mix both from a category perspective and as well as pack. We operated with what is a consumer relevant pack, which has meant that making different choices in different parts of the country. We had fixed cost de-leverage and increased cost of operations because of ensuring supply resilience as well as safety. In order to navigate these headwinds, we stepped up our cost agility and we have taken various steps to stretch and dial-up our savings. And Sanjiv has spoken about the methodology and the philosophy that we operate with when we look at this area. We have indeed calibrated our BMI expenses. So, if you see in the month of April, we had taken a big reduction. However, we continued to invest back as the country started to open up. And in doing all of this we've maintained competitiveness on a throughout basis. So, when you look at it on a year-on-year basis, our share of spend and share of voice is higher than what it was in June quarter 2019. I'm also very happy to share that the synergy benefits from the nutrition business are ahead of the business case.

When it comes to understanding the costs at a line level, we need to understand that the margins this quarter will be a bit complicated as it will not fit into the normal trend lines which you would input into your models and extrapolate. And let me give you a little bit of a nature of what happened. And here I request your indulgence because this is an important point. If you don't catch this, we will have lots of questions, and I really want to take this head on. Let me first talk about our base business, which is excluding nutrition, and it has got lots of elements and moving parts even on a normal basis. We talked about adverse mix, we talked about deleverage, we talked a lot about the COVID on-cost. We also had commodity headwinds in vegetables oils and tea. We did not see the full benefit of lower crude given some of our stock positions and inventory. And I also talked about the re-phasing of some of our BMI expenses and calibrating our expenses. There was also a bit of a step-up and phasing in terms of our CSR spends, as we looked at it from a point of view of HUL standing united in the fight against COVID. So that starts to give you a bit of a flavour of many ins and outs from the perspective of our base business, which is excluding nutrition. The nutrition business also had certain adverse impact coming from mix and inflation. There were significant on-cost in key items such as SMP. However, we were able to take out a lot of savings in BMI and overheads. The benefits of scale and the benefits of HUL media buying started to come in right from day one. There are no royalty payouts given that we had bought the Horlicks brand effective from 1st April, and this helped us handle the higher cost of transition services. We are paying for IT and some of the transition services to GSK till we switchover to SAP. So, this will continue for a period of one year. In addition, we've also had changes to our OTC service income. While the net margins were maintained, there was a little bit of reduction in the gross amounts. And the last piece is our exports which has got reclassified into our subsidiary. So it starts to give you a flavour that both in our base business as well as in the nutrition business, there were lot of elements which are unique to a quarter and there also some of them that are structural. So now what I will therefore do is rather than trying to reconcile this at a line level, I will give you a bit of a flavour at a headline level, and the likely impact nutrition has on each of our lines. Before I do that, to recap, our base business EBITDA was lower by 170 basis points; Nutrition gave us a positive 60 basis points, therefore making it at about 110 basis points decline.

Now, I will talk about some of the key elements and the first one being material cost. On a reported basis, you would see that reported material costs are higher by about 234 basis points. Here we had a positive impact from nutrition. That means if we did not have nutrition added into the numbers, you would have seen a higher material cost when you compare it on a bps basis. When you look at other operating income, on a reported basis, we will see an improvement of 18 basis points. Here the nutrition business brings us a positive impact due to the service income related to the OTC portfolio. On reported employee costs, you will see about 117 basis points drag. When I look at it from a nutrition perspective, we took a lot of cost out from the nutrition business from overhead on a Y-o-Y basis. Therefore, that was beneficial there. But having said that, given that the employee costs are high in nutrition business, it has an adverse impact on HUL. And when you look at BMI and other expenses, now this is a combination including nutrition, and as a percentage of turnover, this does not have a material



difference. So, hopefully, it gives you a bit of a picture to understand some of these moving numbers. It is indeed complicated. So that gives you a better sense on it. What we're also doing is tomorrow we will be setting up some time to give you a broader update on the nutrition business and to talk through some key elements in terms of the growth and the margin potential. In that context, this gives you a good sense in terms of growth, as well as margins.

I think the important point to call out and Sanjiv also made it was that if you look at a segmental level, our margins are very healthy. Home Care is at about 19%, Beauty & Personal Care is at about 28% and Foods & Refreshments about 20% demonstrate the strength of our business and financial model. This is a quick summary therefore in terms of the overall results and we have covered most of these elements in fair amount of detail, including exceptional items which I started with. This is an important aspect. If you look at it, our business operations are well funded, and our financial model continues to be strong.

If you remember in 2016, we had actually formalized the scheme of arrangement for transferring the balance which was sitting in general reserve into the P&L account. This was approved by the shareholders and subsequently, we had obtained the approvals of the national tribunal (NCLT) in 2018. Immediately thereafter, we went into a GSK merger which therefore meant that we could not have distributed these reserves to the shareholders at that particular point in time. With the merger now having been completed, our business operations being well funded, our financial model continuing to be strong and given our confidence in our overall business model, the Board has approved the distribution of reserves to the shareholders by means of a special dividend of INR 9.5. This will entail a total payout of about INR 2,232 crores.

And if I now come to my last slide, I think it's gives a perspective about looking ahead. The outbreak of COVID has disrupted the business massively in the short term. And it is about the road to new normal likely being uncertain and Sanjiv spoke in detail about some of these aspects. In these unprecedented times, therefore, it is a little difficult to have a demand prognosis at this stage. What's clear is liquidity pressures remain elevated and there is volatility in cost. There are two important dimensions here which we need to be cognizant of. The first is that we are continuing to see many more lockdowns in the month of July. There are vertical lockdowns, localized lockdowns. This is indeed putting a lot of pressure on the operations. The second part, I think that Sanjiv started by talking about was the pipelines with respect to our distributors. In the month of March, we had lost a lot of our distributor pipeline, which we gained back in the month of June. But given the uncertainties, I think what we should not do is to take the June performance and extrapolate it going forward. I think the important aspect when you look ahead is to focus on demand generation. And in this regard, we have the right portfolio and we have the right execution capabilities. And to that extent, HUL is positioned better than anyone else to capture the opportunity in this market context. Our organizational strengths are very clearly articulated and you're well aware of these. They will enable us to drive our model, which is future fit and purpose driven. And we will focus on a competitive volume growth and protect our financial model by looking at absolute profits as well as focusing on cash delivery. So, therefore, that gives you a bit of a flavour in terms of the overall performance from a strategy perspective and the financial numbers. And now, I'll hand it over to Amit to begin our Q&A.

Amit Sood

Thank you, Sanjiv and thank you, Srinivas. With this, we'll now move to the Q&A section. In addition to the audio, as always, our participants will have an option to post questions through the web option on your screen. We'll take up those question just before the end. Before we get started with the session, I would like to remind you that the call and the Q&A session are only for institutional and investors and analysts. And therefore, if there is anybody else who is neither an institutional investor or an analyst, but would like to ask us a question or engage with us, please feel free to reach out to the Investor



Relations team. With that, I would like to hand back to Stanford to manage the next session for us. Go ahead, Stanford. Over to you.

Questions & Answers

Operator

Thank you very much sir. The first question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

Q - Manoj Menon

Hi, good evening. First of all, a very, very comprehensive and useful couple of slides actually and importantly this has been very good presentation. I have four questions. I'll ask two and then I'll come back later for the other two. The first is, understood that some of the categories like hygiene et cetera would have actually got a boost and possibly there is a fundamental reshaping into the medium term. What I'm interested to hear is some thoughts from Sanjiv and Sriniv on any such similar opportunity that exists for pack size reconsideration also. The example that I had in my mind is, let's say, something like a shampoo. This is the opportunity where consumers are buying large packs, et cetera. I know that it's a bit of a crystal ball gazing, but is there an opportunity to fundamentally reshape the pack size which can have significant impact on the profit pace into the medium term? That's the question number one.

A - Sanjiv Mehta

Okay. So, what you were talking about, is whether there are opportunities like in shampoo to basically scale up the reach and accessibility of new category. We will take sanitizer for instance. We have launched sanitizers in sachets also. But sanitizers, during the peak of the pandemic, of course, people are clamouring for it and it's a new habit and it has really gone through the roof in terms of demand. But I don't think this demand will sustain once the vaccine comes into the market. Of course, it is not going to go back to the pre-COVID level. It will remain at a high level. But it will not be like today. Today, I would believe it's at an obsessive level, right. Any surface you touch, you want to clean your hands after that. Any packet that comes from outside, you want to sanitize it, and use the sanitizer for disinfecting your hands. So that is not going to remain at this heightened level, but certainly the practice of people carrying sanitizers, I believe, will remain. The big shift I would certainly see is in hand washing. We have been investing huge sums of money over the year and cultivating the right behaviours in people. I think this market development work would have been done by pandemic. And people will certainly transform and realize that washing your hands with soap, which can cost you just 10 paise if you use the Lifebuoy, can do wonders for your health. So, this is again something as a practice will remain. The other would be a shift towards liquids. I would believe, India has been very slow in adopting liquid and this (current environment) will give a big fillip to this. The fourth would be the entire range of disinfectants. We have a lot of surface cleaners, toilet cleaners, et cetera. There would be a heightened need. So, these are the areas where clearly one should see the market developing and the habits sustaining. That would be my pitch.

A - Srinivas Phatak

If I can add, Manoj, I think, you were referring to also hair and trying to see if there was a big portfolio shift towards bigger bottles, and therefore a better value creation or a better profit. I think two parts. One is if you see from a rural perspective - it is important to understand India in a disaggregated basis. If you see rural, the focus still continues to be a lot more on sachets, and even in tier-two and tier-three towns. Wherever there is an income stress, this (sachets) still continues to be relevant. Having said that, we've also seen in some of the urban areas, large packs and large value consumption items have come into play. But it's an important aspect to see whether it was people buying in because there was a scarcity mindset or there is a fundamental shift to demand. So, the important aspect here is we have a very good sense of what's happening in different parts of the country. At this stage, it's difficult to call



whether we will see a big shift on those dynamics. I think Sanjiv explained well what is visible to us, but we'll continue to keep an eye on some of these trends and capture the value.

Q - Manoj Menon

Got it. Got it. Thank you Sanjiv and Srini. The second question is on the GSK CH portfolio's 5% growth in the quarter. I understand that one dog doesn't really make a lion. So, it's just a very small sample size. The only context of asking this question is, so how do I think about this 5% number? Is it good, neutral, not so good, the way you're looking at actually. The reason I'm again asking is because there was a great enabling environment for this category in the last 3 months and possibly it continues as well. It is just a question of the immunity and those repositioning messaging probably happened in May and June and the adult target audience, et cetera. So, the thought process -- what I'm trying to understand is these tailwinds of the immunity plus the good-for-you proposition of the product versus Horlicks or MFD being discretionary within the staples sort of a headwind. How do we look at the next year for this?

A - Sanjiv Mehta

That's a good question, Manoj. Our immediate task was to ensure that the baton did not fall. And from the numbers, you would realize that indeed it did not fall. The second big task for us is to grow the market. And we have started with pouch pack. We have started with innovation, and you will see more about it as we go about developing the market. I'm very optimistic that this is a category which we have acquired at absolutely the right time.

Q - Manoj Menon

Okay. Yeah. Sure.

A - Sanjiv Mehta

It would take some time -- we are able to get the benefit of distribution, et cetera.

Q - Manoj Menon

Got it. Got it. So, this is really not an underlying sort of the situation. Okay. But just if I may push a little bit on what's your initial thoughts on this discretionary within staples construct of the business? I mean without COVID actually?

A - Sanjiv Mehta

What's the construct of the business? Yeah?

Q - Manoj Menon

Maybe I'll ask this question tomorrow, Sanjiv, so I think you have this Horlicks GSK call tomorrow. I'll come back in the queue. So, I'll ask this tomorrow.

A - Sanjiv Mehta

Okay.

Operator

Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Q – Abneesh Roy

Sir, firstly, congrats on good set of numbers in a very tough quarter. So last three-four years, you have closed the portfolio gap in a very good manner: the premium hair oil, nutrition, feminine hygiene, regional Ice cream et cetera. If you can see last four months, the two categories, which have seen one of the highest growths are Noodles and Biscuits. Your presence there is very notional either through own or through the acquisition. Now, Biscuits in Horlicks did not succeed even after multiple intervention. Similarly, with Knorr Noodles also, you have tried a lot of stuff, but in most consumers' mindset, it is not there in their consideration set. It's the top two brands only. So, what could be required here? Because we are seeing definitely -- even IT companies are saying that four-five years down the line also, most employees for them and a lot of other sectors will remain work from home. So, in that



context, what is the strategy, because these are very large categories. Biscuits, in fact, is the largest category. So, what would be the strategy here? It will be mainly through the inorganic only? This is possible, because you or GSK has tried earlier, but we haven't seen really any meaningful success.

A - Sanjiv Mehta

You know, Abneesh, first is, not every company can be good at everything. We have to accept that. And Biscuits is not a category, where we have any heightened focus. And you're right that Noodles, we tried with it, but I don't think we've got accepted, you are absolutely right. I would still believe that we have a portfolio, which to a large extent, is recession resilient. And we should not get carried away by the inherent demand looking at one quarter. We have a portfolio where our tea and coffee is on a great rhythm. Our soups, our ketchup, they are on a fabulous rhythm. We have massive opportunity to grow our Horlicks business, where the penetration is just at a 25%, and then, we have the entire portfolio of cleaning, and from a hygiene perspective, whether it is in a laundry, whether it is in household cleaning, whether it is in skin cleansing, we have a good solid portfolio. So, I remain very confident that we have a portfolio which is good not only from a long-term perspective and also from medium term perspective or short term perspective, yeah? And let's not – I believe there's no person in the world who doesn't like to feel good of himself. So, let's not, in way feel that Beauty doesn't have the potential. There will be a massive bounce back in the beauty category.

Q – Abneesh Roy

Right. Sir, one follow-up here. So, this quarter, in fact, coming back to biscuits, breads has done better than biscuits, in fact. So, have you seen in the adjacencies to bread, for example, jams and sauces, have you seen similar sharp pickup? Or is it more modest pickup similar to the overall food category?

A - Sanjiv Mehta

Jams, ketchup, they are growing at a very robust pace. And it is quite natural, where people are cocooned in homes, these categories, with kids all locked up in home, there would be demand for these products. It is very natural that there would be a big burst of demand for these products.

Q – Abneesh Roy

Sir, my second question is on the hygiene and sanitizers. You mentioned a good point that after vaccination, we would need to be realistic. Now, you have scaled up the capacity here by 100x. I think it will be mostly outsourcing. My question is, if you see paint companies are entering here, liquor companies are entering, every personal home care company has entered here, so even after the vaccination, this will remain a much larger category than what it was in FY '20. So how do you see the construct of the market share? Will it be similar to the deodorant wherein there's no sticky market share for any player and it will be driven by trade spends and ad spends? Or it will reflect the personal wash kind of market share? What's your perception, sir?

A - Sanjiv Mehta

I would believe it will be more like the personal wash market, yes, where there would be some brands with credibility on hygiene, which will have a larger part of the market. And today, because of the pandemic and because of the heightened need, I think more the merrier. Let more players come in, and let them grow the market.

Q – Abneesh Roy

And sir, this 100x capacity is obviously outsourced, right? So that's not the problem?

A - Sanjiv Mehta

No. We have -- first is there is outsourced. There is also internal. But our internal capacity is fluid. We can shift it between different liquids.

Q – Abneesh Roy

Right. And sir one last on distributor pipeline. You mentioned in June, there has been a benefit because of that, is it possible to quantify that?

A - Sanjiv Mehta

You remember, during the March quarter, we had said we had destocked by 6%. Yes? So, what we have destocked in the March quarter, we have up-stocked in the June quarter.



Q – Abneesh Roy

Okay, sir. That's all from me. Thanks a lot. Thank you.

A - Sanjiv Mehta

One question for you, Abneesh.

Q – Abneesh Roy

Yes, sir.

A - Sanjiv Mehta

Why have you decided to come down in your batting order?

Q – Abneesh Roy

Sir, I tried but didn't succeed.

A - Sanjiv Mehta

But one down also is a great batting spot. You know that?

Operator

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

Q – Percy Panthaki

Hi. Good evening, team, and congrats on a good set of numbers in the current environment. Sir, I'll just start off where Abneesh left off in terms of the pipeline restoration. So, last quarter you had mentioned that there is a total 12 percentage point swing because of pipeline, maybe 6% distributor and 6% retailers. So that 6 percentage points of distributor you are saying has been regained. Any idea on where we stand in terms of the 6 percentage points of retailer pipeline? Have we regained any part of it or not?

A - Sanjiv Mehta

Yes. If you remember, what we had said is, there is about a 12%, out of which 6% is the impact of distributor. The balance 6% we had said that some is trade stock, and some is underlying demand, which would have come off because of the shutdowns that have happened. Yes? So, you can safely assume that the estimate would be about 3%, 4% would be the trade stock. Trade stocks, it is very difficult to gauge at this stage because we are not getting Nielsen data. And a lot of stores remained closed during this period. Yes? Even towards the end of June, about 20% of the outlets, which we were serving were closed. So, I think you will have to wait for some more time to see whether the trade pipeline has completely filled up.

Q – Percy Panthaki

Right.

A – Srinivas Phatak

And the other aspect to add, Percy, is, let's say, even in the quarter in certain categories such as ice creams in out-of-home consumption, it will be fair to assume that, that's not going to come back because summer was a big season from an ice creams perspective or, let's say, some of the food solutions, which was supplying to restaurants. So, some of those elements, we have definitely lost. And therefore, it will take us a bit more time to get a good handle on the total picture.

Q – Percy Panthaki

Sure. And Sriniv, did you mention during your initial comments that the June sales growth is somewhere in the region of mid-single digit?

A – Srinivas Phatak

Yes, I did that.

Q – Percy Panthaki

Okay. So, would it be fair to sort of assume that after accounting for the pipeline refill, the sort of secondary sales growth is approximately flat in the month of June?

A – Srinivas Phatak



Don't have that number straight away. But definitely, if I see from a quarter perspective secondaries are lagging the primaries. And that's only natural, because first you just get the distributor pipeline going. And then in due course you will start to see the secondaries.

Q – Percy Panthaki

Sure. Sir, second question is on gross margins. You did allude to it in your opening comments. So I'll not go into too much details on the moving parts. But as you said, it's a 230bps contraction. And if I include the GSK mix effect, it would be somewhere in the region of 350 to 400 bps on an organic basis. So just wanted to understand, one, is there any COVID-related costs in these, which would go away as the COVID impact fades? And secondly, if there is no COVID-related costs in this line item, then out of such a big swing of 350 to 400 bps Y-o-Y, how much do you think is a very short-term thing? And how much do you think can really continue for a few quarters more?

A – Srinivas Phatak

So, let me split that up. There are definitely COVID related on costs. As there are COVID related on costs both in the materials line, for sure, there are also COVID related costs in our conversion costs. And there are also COVID-related costs in some of the other expenses, just given the nature of what's happening. Some of that, we hope to take it out because supply resilience has come back, but some of it is also something which is likely to continue on an ongoing basis. Because the overall management of safety, PPE equipment, taking care of your outer core are inherently higher. I think the other important aspect is that we also had a big negative mix in the quarter. We had a negative mix because of the BPC part of the business, let's say, the skin and some of the others having muted or negative growths. Given that we operated with a very tight SKU mix, which also meant that it was attuned to what the consumers were buying. So, we found adverse mix there. So, I think it's difficult at this stage to put a pen on all of them. But going forward, we definitely expect some of the mix to improve, for sure. Some of the COVID on-cost, we hope, will not be at the same intensity, but we'll have to see how the lockdowns will happen. And this is something we just need to be watchful, Percy, that in the next couple of quarters, we'll have to be very dynamic with all of these things. And that's what we will do. I think important to get that volume growth construct going well. And if you get that going, margin restoration is not going to be difficult. But again, having said that, we also start from very, very healthy margins. While we'll all get to a lot of these bps calculations Y-o-Y, even if you look at on a sequential basis and if you look at each of our divisions, I think, the margins are very, very healthy.

Q – Percy Panthaki

Sure. And last question, if I may, the core hygiene categories, that is the hand wash and hand sanitizer, and maybe include Domex brand also, just these three. I mean some companies have been sort of saying that these core hygiene categories on our low base have grown like 3x or 4x also. So, what is your experience? Could you give some kind of ballpark idea what percentage sales contribution do they have this quarter? And what was it in the base quarter 12 months ago?

A – Srinivas Phatak

So, Percy, I don't think at this stage we are splitting all of this at that level. It suffices to say, for example, hand wash, hand sanitizer, Cif or Domex or Vim for that matter, have all actually registered very good growth. And I think the potential is immense. One is what has happened in the quarter, where you're also reacting in some cases to demand where you're leading demand in some cases. But there is a bigger picture which we will start to see in September quarter and December quarter because some of these are going to be sustainable over the next 6 to 9 months before there is a structural solution or a cure to the pandemic.

Q – Percy Panthaki

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

Operator

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



Q - Vivek Maheshwari

Hi. Good evening, everyone.

A – Sanjiv Mehta

Hi, Vivek.

Q - Vivek Maheshwari

My first question is last quarter, there was quite a bit of debate about -- I know these are still early days, but to the extent you have intelligence on organized versus unorganized and some reports talking about unorganized being more agile and gaining share, whereas your point was that it's ultimately the organized guys who will benefit and brands will be favoured. Any update since the last time that we spoke on this issue?

A – Sanjiv Mehta

Yes. As you know, Vivek, what Srini indicated, that we are gaining share in over 80% of our turnover. And in many of this, they are very handsome share. So, I wouldn't be worried about it. I think the important bit is it's not about organized and unorganized. There are 2 things which stand out. One is which is a company that's agile and can manoeuvre or manage the disturbances or handicaps that come on the way. And the second, it is very clear that during these times, people do gravitate towards trusted brand. That would be my text to you.

Q - Vivek Maheshwari

Sure, sure. And second, I know there is a GSK call planned tomorrow, but this 5% growth what you mentioned -- is it possible just to, given that you know April must have been a tough one, comment on the exit rate in the month of June?

A – Srinivas Phatak

June has also actually started to pick up in the same context. I think the degrees will vary. But if we compare from an April, May and June point of view, we have seen an improved trajectory but again, Vivek, it's important not to, as I have said that, we shouldn't take June and start extrapolating because this is a fairly uncertain environment and a fairly volatile environment given the supply chain constraints that we are having. Having said that, the momentum has been positive as the months have progressed, and that will remain our objective to see how do we continue to have that going.

Q - Vivek Maheshwari

Sure. Okay and Srini one another thing, the others, just a bookkeeping one, others in segmental this INR49 crores EBIT, what does that number represent?

A – Srinivas Phatak

Amit, can you just clarify that, please, if you can?

A – Amit Sood

You wanted to understand what is the other segment, right, Vivek?

Q - Vivek Maheshwari

Right, I mean from a run rate of let's say plus, minus INR2 crores, that number has jumped up to INR50 crores. So, is it GSK, BAI or can you just clarify what is the quantum?

A – Amit Sood

Sure. Sure. So first of all, what comprises of the other segment, that is important to understand. Then obviously, EBIT is a follow-through of that. So traditionally, our exports business is whatever we sell related to exports is housed there. Now in addition to that, we are also exporting the GSK portfolio, right? So, we'll sell it to our subsidiary and then that exports it out. So that is one business which is housed there. And also, the GSK OTC OH business is housed there. So, these are the three primary things, which comprises of the other segment. And hence, the margins to these three businesses are reflected in the EBIT margins of others.

Q - Vivek Maheshwari



Got it. That is useful. And lastly, Sanjiv, is it possible if you can give your views about Glow and Lovely and the fact that can this create a bit of a disturbance in the transitioning phase?

A – Sanjiv Mehta

Yes. I'm glad, Vivek, you raised that. Why I'll say I'm very confident about Glow & Lovely is, First important bit is that this is a work which has been on for the last few years. I'll recap a bit of the history. The second is, we first started with the communication. Then after a lot of research, we went in for a major relaunch last year when we changed the proposition and went away from fairness to HD glow. And since the relaunch, our penetration and market share have been unprecedented, which gave us immense confidence that the last lap was the move towards changing the name. So, I am very confident that Glow & Lovely will not only take with it the franchise and the consumer base of Fair & Lovely but it will also add consumers who are not with Fair & Lovely. That's my very clear feeling based on the work that has been done, the results that we have achieved and the plans that we have put together. But it's a big relaunch and let's see the results. I'm very confident.

Q - Vivek Maheshwari

Right, right. Thank you. And wishing you and the team, all the very best.

A – Sanjiv Mehta

Thank you.

Operator

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

Q - Arnab Mitra

Hi, good evening. Given the big income effect on consumers, and now it's been three-four months into the situation, are you seeing the lower or the mass end of the portfolio for you in many categories, either growing faster than the overall category or the gap between that growth and the premium growth narrowing? And is it like a broad-based trend or is it specific to certain categories, if you could throw a bit of light on that?

A – Sanjiv Mehta

I'll give you some structural answer because as yet, we don't have all the information. First is, yes, the frequency of purchase has gone up. So, there are more trips to the grocers now. Second is, we are seeing many consumers gravitate towards low price point packs. That's also a very clear phenomenon. Is it from a perspective of moving to lower price brand, that is yet to become completely discerning. In some pockets, we see it, but it's not a very big trend as yet. That is at this stage, but if the economy continues at this pace and if it doesn't pick up, then it could become more discernible. And from our perspective, Arnab, the critical bit is that in most of the categories, we have the brand or the portfolio straddling the price benefits for consumers. So, if there is a move, then we have a brand like whether you look at laundry, whether you look at skin cleansing, whether you look at hair, whether you look at tea, we have the brand, which can cater to the consumers. So, we have to be a bit more watchful to see how trends shape up. But we are keeping a very close watch on it.

Q - Arnab Mitra

Sure. Thanks. That's helpful. And the second question was - Sridhar specifically mentioned three commodities: SMP, tea and veg oils, where you've had inflation. So, my question was that are the trends currently improving in terms of the commodity costs going down or up? And secondly, any thoughts on pricing in some of these categories in the current macro environment?

A – Sanjiv Mehta

Sridhar would you (take this question)?

A – Srinivas Phatak



Yes, I'll do that, Sanjiv. Look at different commodities and the picture varies, Arnab. Clearly, when you see tea, it is a new crop coming through. Given that there was scarcity in the month of early season, we have seen significant inflation come through in tea and now it is broad-based, not only from the premium point of view. So, that's something which is playing out. Second, if you see SMP, clearly, going forward, we have seen a lot of softening in the prices of SMP, given where they were earlier and sometime back. So, that augurs well from category point of view. If you look at veg oils, and again, it's year-on-year. We had seen a big dip last year and subsequently we had seen increases. So, to that extent, we have seen an increase in veg oils and the trend is slightly upwards as we speak. But again, this is a situation which continues to be a bit dynamic given some of the international developments and the read on demand and supply.

Specifically, in your question with regard to pricing and how we are approaching this, in tea, we are taking some judicious price increases in parts of our portfolio. Some of it has already landed and some of it will land in due course because the quantum of inflation is a lot. And also, we'll do it in parts of the portfolio where it makes sense. When we look at from a home care or a laundry point of view, while crude has picked up on a Y-o-Y basis, it is much lower. And there, we are looking to pass some benefits to the consumers by reducing prices, and parts of it will now start to land. So that's the case of where we are looking at price reductions.

Q - Arnab Mitra

Sure. That's very clear. And just one last question, if I may, which is on the soap portfolio. So, this is one category where you had been losing market share, relatively doing worse than the industry in the last couple of years. Now have you seen, while your growths are very good, any sense on how you have been able to turn the needle on market share significantly given that Lifebuoy is one of the few germ protection equity brands, and any sense on market share movement in that category?

A – Sanjiv Mehta

We have stopped the losses and are now gaining volume shares in the entire skin cleansing portfolio, soaps as well as liquid. And I do hope, Arnab, you also use Lifebuoy.

Q - Arnab Mitra

Yeah. Absolutely. Thanks so much. All the best.

A – Sanjiv Mehta

Thank you.

Operator

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

Q - Latika Chopra

Hi, good to see our resilient performance in the current macro. Just one bit from my side. You did mention that you saw rural growing slightly better than urban. But given the localized lockdowns that you're seeing now, do you see that it could challenge, or this could put at risk the more resilient, small town rural performance? And the second part is, on distribution channel. As you exited June, it seemed that in skin care, you mentioned, you've started to see green shoots emerging. How have the channel behaviour on modern trade and e-commerce panned out for you?

A – Sanjiv Mehta

Yes. Okay. First, hi, Latika. Good to have you on the call. The rural and the small town, to a large extent, depend on whether the infection spreads. At first, the focus in the initial period has been on some of the big cities like Mumbai, Delhi and Ahmedabad, Pune, where the infection rates were very high. As you see, settling it down over here, now they're spereadinging to Tier 2, Tier 3 towns. So, what you ask would really depend on whether we can contain the infection rate, or it does spread. And difficult to visualize what would be, to what extent and for what period would there be vertical lockdowns? Yes, I hope not, because it would be sad when you're seeing some rural pickup that we should not further see



constriction of the economy because of physical lockdowns. I hope not, but we'll have to wait and see. And your second question, Latika, please, if you could again just repeat it?

A – Srinivas Phatak

The channels construct, Sanjiv...

A – Sanjiv Mehta

On the channels construct.

A – Srinivas Phatak

Yes, and how are we seeing modern trade, e-commerce?

A – Sanjiv Mehta

Yes. There are two channels which have stood out during this period. One is e-commerce, albeit on a small base. The second is the humble grocer. These two have done very well. Humble grocer for the proximity and e-commerce for the reasons we all know. And modern trade has suffered because the stores were shut. While they have tried to move towards omnichannel, they've not been able to pick up to the same extent as the stores that were closed out. And so, for us, the biggest impact of the modern trade stores not opening has been less in skin care, but more on categories like Color cosmetics where large quantum of sales used to go through beauty stores and through modern trade stores where we had beauty counters.

Q - Latika Chopra

All right. Thank you, Sanjiv.

A – Sanjiv Mehta

You're welcome.

Operator

Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Q – Tejas Shah

Hi, thanks for the opportunity. Sanjiv, in FY'20, you were the first to call out deceleration in rural demand. But in recent months, the noise of rural revival is getting much more secular and way across sectors now. So just wanted to hear your current read on the rural demand and is it sustainable in your opinion?

A – Sanjiv Mehta

Yes. So, thanks for that question. Until the crisis hit us, till say, February, we were still seeing rural being soft. The rural had picked up. And it is only in recent times - after the crisis - that we have seen that a lot of noise, and we must accept that the noise has been because, one, the harvest has been good. So, you're clearly seeing an uptick in sales of categories like tractors and mobiles. And the second is government's proactive intervention. Yes. We were, in fact, clamouring that the MGNREGA rates and the MGNREGA outlay should have gone up in the last budget. But nevertheless, they have gone up, which is absolutely right. The direct transfer also during this period has been right. So, in the last Q&A like I said, we have seen that the growth rate of rural has been not less than the urban growth rate. But when you also look at it from another lens, that urban has been impacted much more by the physical lockdowns and the closure of modern trade stores and the economic activity in urban area completely hampered because of people staying at home and small and medium stores, self-employed people, their earnings have been impacted. So, I would not say with certainty that the rural economy has picked up on a sustained fashion and is on a path to recovery. I would say there are clear green shoots but let us wait for a couple of more quarters to see whether the trend becomes more discerning.

Q – Tejas Shah

Sure. So just a follow-up on that, so last analyst presentation you had shared this data that we are 1.3 times over indexed in premium portfolio versus rest of the market. So, is it that we will be the last or one



of the, I would say, later people to experience that revival in rural because of much more premium end of the portfolio exposure that we have?

A – Sanjiv Mehta

No. It is this way. I'm glad. Again, it's a very good question. You have to accept that in India is not one India. You have about 10% of the household whose purchasing power would be comparable to the developed world. And for them, the premium that we talk about is not prestige premium. It's just a relative premium. And they would never give up the higher order benefits coming from slightly more expensive brands because of the value that we create. So, they won't be impacted. And then what we have done is that for people who cannot afford, we have also made our premium brands accessible to them through lower price point packs. Yes. So that's the story.

But if times become tough, then you would like to even ration your outlay and even in these products, people may go in for a lower unit price packs, but which will give you more ml or more gram. So that could happen, but we have a portfolio which will cater to it. And also, we must remember, for instance, that the bottle consumers are very different from sachet consumer. If you're used to using a bottle of shampoo, you will not very easily move towards sachet. You will stay with bottle. So that is the reason we always say that the FMCG categories in which we operate are recession resistant. They're not recession proof, but they are definitely resistant.

Q – Tejas Shah

Sure. And last question, Sanjiv, this calendar year has been very remarkable on other account also that the first half itself, we are seeing many deep-pocketed global and even national brands are trying to disturb the GT channel or rather reinvent the GT channel by owing kiranas to dial up on digital network. Now amidst this change, where do we see our edge considering that we have brands also and we have our own digital distribution ambitions as well. So where do we position ourselves in this?

A – Sanjiv Mehta

First is, I firmly believe that bringing in technology and the science of retailing is the right thing for the country and for the channel. We want the GT channel to survive and thrive because 100 million lives, they get dinner on the table because of this channel. So it's very important for us. Now our strength is because we are the trustworthy partners of this channel over decades and we have great relationship, and we are also bringing in technology to them, while I've spoken about Shikhar, even the back end, we are completely, in many cases, reinventing the business model so that we can serve them with speed. And then we have also brought in initiatives like MyKirana, which will give them the benefit of e-commerce without significantly changing the business model, yes. So we are extremely happy with technology being brought in. We will partner with companies so that it will help the grocery channel to survive and thrive.

Q – Tejas Shah

Thanks. That's all from my side.

Operator

Thank you. The next question is from the line of Shirish Pardeshi from Centrum. Please go ahead.

Q - Shirish Pardeshi

Congratulations for a good set of numbers. My two questions here. One is on the category growth. If I say and if I understand correctly, you said on the core portfolio, excluding GSK, revenue decline was 7% and volume decline was 8%. So, would you be able to give what would be the volume number including GSK?

A – Sanjiv Mehta

Srini, do you want to build on that?

A – Srinivas Phatak



Yes. Yes, so, look, we've said, the point in GSK is there is no base comparator because the whole business comes into effect from 1st of April. And therefore, the 5% growth that we have given you, in a manner, has got a combination of volume and price. So, it's a positive on both. So, the picture gets a little better. But at an aggregate, if you see, the GSK portfolio is less than 10% of the totality. If we want to do on a comparable basis, the picture may not be very, very different.

Q - Shirish Pardeshi

So, what I was trying to understand, if we have three segments, that 8% decline, which segment has shown the sharpest? I mean I would assume Beauty and Personal Care would be there, but if you can...

A - Srinivas Phatak

It is quite natural. And I think the Beauty & Personal Care indeed is a big component. Within that, you will have skin coming as a clear component because we also talked about how we couldn't supply in the initial parts and it started only later on. We talked about ice creams and if you looked at some of the drops that we've had in ice creams and what we called in the discretionary, 5% of the (out-of-home) business went down by about 69% and 15% of the (discretionary) business went down by about 45%. So, there are large components sitting there as well. And remember, we keep talking about UVG. It's not absolute volumes. So, it's a combination of volume and mix. So, both of them come into play to have an impact.

Q - Shirish Pardeshi

I do understand. And my last question, on the new product launches, somewhere I gathered we have significantly launched about 40-50 new products. So, if you can elaborate what kind of segmental opportunity in health and hygiene? Or what are the categories we are now trying to get into in the market? And if you can say what is the new product contribution in the quarter?

A - Sanjiv Mehta

You know, first, I just want to clarify to you so that we get a bit of perspective of the business. Srinu also alluded to that 80% of the portfolio was growing at 6% and that is the bigger impact. So, don't look at it from a lens of division, look at it from the three buckets that we spoke about. The first is the categories, which will still remain relevant during this time. Then, on the other extreme, there is 5% which are mainly out-of-home, where it is not that ice cream has not become relevant, but people don't have access because they don't go out. Similarly, UFS because the restaurants are closed. And then there are the categories which are a bit more discretionary in nature and which were impacted by supply. So, look at it with that lens. It will give you a better picture rather than looking at it from a division lens for this purpose.

Q - Shirish Pardeshi

I got it. Thanks, Sanjiv. My question was on the new products. What we are now...

A - Sanjiv Mehta

New products. It's still too early to give you what is the impact it will have. But where our main focus has been, like we said, on nutrition, we went in with new packs, we went in with added zinc formulation. Similarly, we are looking at Domex and we have marketed a spray which can kill the virus within 60 seconds. Then we have gone in with Lifebuoy on the detergent side. Then we have just launched Vim bar with bacteria kill properties. So, our entire focus has been, in the initial space, all those products that we have launched. A lot of sanitizers, Lifebuoy spray, sanitizers in different formats for institutions, right up to the sachets. So, when we talked about the 50 products, there were brands, variants and pack size combination. And the real benefit of these would be seen as we go along, because many of them were launched during the latter part of the quarter. In the first month in April, we were battling to restart the operations while innovation teams were working on it, but most of them were brought in towards the latter half of June.

Q - Shirish Pardeshi

Okay. All right. Thank you and all the best.

A - Sanjiv Mehta

Thank you.



Operator

Thank you. The next question is from the line of Sanjay Manyal from ICICIDirect. Please go ahead.

Q - Sanjay Manyal

Hello sir. Most of my questions have been answered, but just one - if you can elaborate on tea prices. What I understand probably is tea prices are almost 40%-50% up on a year-on-year basis and the price hikes taken as per what I understand is probably in a single digit. So, the gross margin would be impacted going forward?

Operator

Excuse me, this is the operator. I'm sorry to interrupt, Mr. Manyal, your voice is breaking.

Q - Sanjay Manyal

Hello. Can you hear me? Hello?

A - Amit Sood

Yes, Sanjay. Go ahead. Go ahead. We can hear you.

Q - Sanjay Manyal

Yes. So, my question is specifically on the tea prices that tea prices are almost 40% to 50% up year-on-year basis. And probably the price hikes you have taken still would be in single digit, if I'm not wrong. And how it would impact the gross margins? And what would have been the impact on gross margins in this quarter? And will you be able to really fill the gap if the prices sustain for the entire year?

A - Srinivas Phatak

So, two or three things. You're right that the inflation is trending to be quite high. And it's important how the crop comes through between July and going forward. Because effectively, June was the first month that you started to see sizable crop coming through. And inflation has been significant. I think we have a simple and well tested playbook in this for many, many years. When you see this kind of inflation, you always need to be calibrated in terms of how you take up pricing. You will take price increases in smaller quantities and if required, you will do that at a certain frequency. You would never try and take up prices at a big clip because that's when you start to lose consumers. As far as gross margins are concerned, yes and we have said that we have multiple levers to manage the overall P&L. While gross margin is important and is reflective of the long-term health of the business, when you see this kind of inflation, I think you would rather manage your overall P&L at a UOM (Underlying Operating Margin) level or a net profit level. And it's also important that we can manage it at a portfolio level and also at an HUL level. I think if we do that sensibly and again, we also have many levers in terms of our savings agenda, our leverage in terms of what we drive. So many of them will come into play to enable us to manage the sensibly because if you do it well actually, in categories such as Tea, the inflation is a good thing, and it gives us an opportunity for us to gain both on a volume basis as well as on a value basis. We have seen some inflation in the quarter, especially in the month of June. But at an aggregate level, you've seen that our F&R margins are overall extremely healthy. And therefore, that's not been a big impact for us in June quarter.

Q - Sanjay Manyal

Right. Just one a bit more. If you can quantify the distributor pipeline by the end of June quarter?

A - Srinivas Phatak

I think Sanjiv already spoke about that, we had lost about 6% odd in March quarter. We have gained that distribution pipeline back, that's really the headline on this one.

Q - Sanjay Manyal

Okay. And just one last one. You mentioned there would have been supply disruption probably starting July. And one of your plants in Haridwar is going to be shut down now. So, is there any other plant which has also been shut down because of the lockdown? Or what could have been the supply disruption in terms of the capacity?



A – Sanjiv Mehta

Yes. We have over 40 plants. And then we have many 2P and 3P plants dedicated to us. Right now, there are 3 plants where we have factories which we have to shut down because of rising cases of infection. And there is pipeline stock. So we are confident that we will be able to restart this operation soon. And then also remember that it is not that we have 100% capacity utilization everywhere. And we shift capacities if need be. And I'm very confident that all the 3 facilities will be -- we will be able to restart soon.

A – Srinivas Phatak

So, in my view, I think right now what we are experiencing is difficulty in distribution because of localized lockdowns. It's not a manufacturing constraint. We have the stocks. It's just that many parts of the country are going into lockdowns of different degrees and different timelines. And that's restricting a lot of movements of goods. I think that is a bigger concern for now and not manufacturing. On Manufacturing, I think Sanjiv has explained clearly where we stand.

Q - Sanjay Manyal

Okay. Thank you and all the best for the future.

Operator

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

Q - Aditya Soman

Hi, good evening. Just following up on that previous reply. In terms of distribution, has the rural distribution got impacted in the previous quarter? Or has it normalized again? I was assuming that you would have prioritized some amount of urban distribution given the potentially higher value in order?

A – Sanjiv Mehta

Sorry, what was the question?

A – Srinivas Phatak

The question is what's the status of our distribution in rural and urban? And Aditya was wondering whether if we have prioritized urban distribution versus rural?

A – Sanjiv Mehta

No, it is not that we are prioritizing urban over rural. We are a national company and we have big rural footprints. So, we would like to distribute our goods as far as possible and as wide as possible. We get sometimes constricted by the restrictions. But as far as priority is concerned, we would reach wherever our consumers are, and our consumers are national.

A – Srinivas Phatak

And again, to give you a flavour, our Shakti channel, which is an important deep rural channel, is quite resilient and working quite well. So, I think it also gives you a flavour saying that it's important. We are national, and all channels are relevant. And Shakti is a good example of how rural distribution is still continuing to work well for us.

Q - Aditya Soman

Fair enough. Thank you. And secondly, you mentioned sort of mixed deterioration overall, and part of it coming because of the higher value segments like perhaps the skin didn't soar, but did you see any improvement in pack size or increase in pack size in Home Care given that consumers are less certain about availability.

A – Sanjiv Mehta

Sorry, say that again, I couldn't (follow)

Q - Aditya Soman

Yes. Just given that consumers are less certain about availability for detergents in April and May, was there any increase in pack sizes in detergents or Home care?

A – Sanjiv Mehta



Okay. Okay. See what we were doing is, when there was significant supply constraint and we were having only a few factories running, then our focus was primarily on large packs. Yes, because we were trying to maximize the throughput. But as things started to stabilize, then we went across the packs. In the initial period, the entire pitch was how do you maximize, and the only way you would do that is by having larger packs.

Q - Aditya Soman

Fair enough. So, there is no sort of significant mix improvement that you would call out say in Home Care compared with that of mix deterioration overall?

A – Sanjiv Mehta

Again, very difficult to say because this June quarter has been a quarter where we have filled up the pipeline. There have been various kind of supply disruptions. We don't even know whether the trade pipeline has been filled in or whether the trade stocks have come down. It's very difficult to discern a trend, whether what is happening for a pack size movement. But some of the things which is not based on quantitative research, but it is based more on qualitative. Like I said, the number of shopper trips have increased. That means they're buying it more frequently. That would also mean that they are conscious about the outlay in the retail. And then the second is, we are seeing a shift happening towards small packs.

Q - Aditya Soman

Fair enough. Very clear. And just lastly, a housekeeping question. In terms of the sort of lower decline in sales relative to volume growth, was this because of price increases that you took in the Tea in the previous quarter?

A – Srinivas Phatak

No. So it's not about price increases. We had also looked at a lot of rationalization of our trade spends. Yes, so, and that actually helps us from a point of view of positive pricing. So, it's not really a lot of pricing. I don't think there was much of price increase per se in the quarter from a consumer level.

Q - Aditya Soman

Thanks.

Operator

Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Q - Kunal Vora

First question is - like in your presentation, you mentioned that you're still operating at only half the pre-COVID SKUs. And you mentioned that in June, sales are already back to growth trajectory. Can you help us understand better? Are all these SKUs, which you're not currently producing, insignificant in terms of contribution or consumers are buying whatever SKU is available, like -- and the 20% SKUs, which you're looking to permanently cut, will they be completely insignificant in terms of sales? Or you think consumers will move to the alternative packs?

A – Sanjiv Mehta

Yes, you're absolutely right. In your question, there is an answer. In FMCG, there is always a very long tail, and at periodic intervals, we do take a call to prune the tail. And we thought this is a great moment for us to prune the tail. And during the period, like I was explaining to the previous person, when you have capacity constraints, when you have physical constraints, then the best is to maximize your throughput. So, we got in those 50% of the SKUs where the throughput is maximum. And you're absolutely right also in the thinking when during times when your distributions are constrained, then consumers would go for a brand, but if they don't get their pack size, they would go for the pack size nearest to their old pack size. The ones they go with vary. And when we look at pruning, we are not



looking at losing anything. We are looking at consumers, which is a small portion of the sales because the tail is long, migrating to the other pack within the brand repertoire.

Q - Kunal Vora

Sure. That's helpful. The second and last one, which involves CapEx and tax rate. You recently set up a new wholly owned subsidiary. Can you talk about the aggregate CapEx plan and the investment plan in the newly set up subsidiary? And how would both of these, let's say, the new subsidiary as well as GSK acquisition, impact your tax rate in the near term and the medium term?

A – Srinivas Phatak

So, look, the new subsidiary is just taking shape and it will be some time before we actually set up some of those facilities and start to see production come through. So, we are some good 6-9-12 months away from that. So, if I take the next 12 months horizon, I don't think that's going to be a big change. On GSK, we also mentioned last time that at an ETR level, it's not going to make any difference because it's going to be a move between current tax and deferred tax. And we will talk about it tomorrow when we give an update on GSK. For all practical purposes, it will be good to assume around 26% as an ETR for our business and operate with that over the next 1 year horizon.

Q - Kunal Vora

Understood. And that's it from my side. Thank you.

Operator

Thank you.

A – Srinivas Phatak

Can we do one last question from the phone because we have a few on the web and we want to make sure that we wind up the call by 8:00 please.

Operator

Sure, sir. We take the next question from the line of Prasad Deshmukh from Bank of America. Please go ahead.

Q - Prasad Deshmukh

Good evening. So, first question. Post lockdown, are there any accelerated efforts to negotiate contracts like those related to depos, support services, leases, et cetera, especially given your focus on zero-based budgeting?

A – Sanjiv Mehta

Our focus has been right now that any cost which doesn't add value we are questioning it. And other, what we are looking at is more about moving cost from fixed to variable, so that we create optionality. Sriniv, you may want to add?

A - Srinivas Phatak

No, no, I think that is a fair summary. We do look at opportunities and we use the scale, we use our capabilities. But equally, we also honour contracts. And it's important to get that balance right. I think that is a piece of hard negotiation. But there is also a hard fact of first principles. And we do it within that balance. And the bigger opportunity is also to look at many costs which are fixed in nature and try and link them to sales and link them to growth. And if you do that, we generate structural solutions because some of these negotiations tend to be transitional, tend to give you short-term impact. But if you're able to get your focus in terms of making some of these costs variable, and that's a sustainable solution. Between the two, our focus is on getting some of these costs to be more variable.

Q - Prasad Deshmukh

Got it. Second, last question, advertising costs you mentioned that you know, there is some efficiency being driven there. So just wanted to confirm, this decline is mainly because the unit price for ad space



has gone down, and it's not that there is any lower number of ads that were on air? Just wanted to confirm.

A - Srinivas Phatak

So, look, in the month of April, when a lot of product itself was not available given constraints of supply, it did not make a lot of sense in advertising. And therefore, we did reduce our absolute spends in the month of April. And that is true of us, and that is true of many others and the overall industry. Second aspect is also -- as the country started to open up, we did step up our spend. So, May was more than April and June was higher than May. It's important to invest behind your brands. We did that. The other element in all of this, given our scale and size, we have enjoyed some benefits of good buying. That's also flown in. The most important criteria, because after a point in time, it's not the absolute spend, it's relative spends on where you are. We have done everything to get to our reach objectives. More importantly, our share of spends in June quarter has been competitive. And our share of spends, which is in relation to the market, in June quarter'20 was higher than where it was a year ago. So therefore, we were spending more than our relative shares and reaching our consumers.

Q - Prasad Deshmukh

Got it. Go it. Thanks, Srini and thanks Sanjiv.

Operator

Thank you. Sir you may go ahead.

Srinivas Phatak

Yes. Yes. Perfect. So, what I will do is, there are about 8 or 9 questions on the web. I will call out the name and the question and give a short answer. And if it's already been answered, I will clarify that.

The first question is from Anshul Bhargav from AB Corp, asking how much of price hike contributes to profits? I clarified this. There was no material price increases during the quarter. And therefore, there is nothing in specific to call out there.

There's a question from Bala Murali wanting to know about the outlook of the industry and the growth prospects for HUL. I think we have covered this in detail, and also covered how we see the near term. So, I trust this has really been answered.

Vikas has got a question of saying he wanted to check the quarterly results. Please do so. It's available on our website. And hopefully, in this call, you've got all the details.

Meher has got a comment of earnings and special dividends, not entirely clear, but we have talked in detail about both earnings and the strategic rationale for the special dividend. Hopefully, Meher, you have your answers.

Vikas Maheshwari is an individual investor. Ideally, I wouldn't answer because this is a call for institutional investors and analysts. But I will give a quick answer to it. Our share of Horlicks. If you look at the reported published results, you will realize that GSK CH was about 10% of our overall business. And we have spoken in detail about Beauty segment, advertising and the performance in July. So that's already been covered.

Rohit has asked a question about what would growth be including distribution and exports business? So, the question is we wouldn't really talk about the OTC income. It's always other operating income, and I wouldn't talk about it from a growth perspective. The important aspect there is that the net margins are protected. On the exports business, we have had a muted growth and that's more because of



transitional issues. The first objective for us was to manage the domestic business, and that's been done well. And in anticipation of the transition, there was some stock build up, which had already happened in the exports customers. And that was also an important thing to do, not to cause disruptions during the transition. We will now be focusing on the exports business to streamline and the structural opportunity of what it means is completely intact there. Hopefully, that gives you a bit of a flavour, Rohit, in terms of distribution as well as exports business.

Question from Akash Rungta on our guidance on volumes. Akash, we don't give any guidance on volumes, and we've been consistent with that.

The next question is from Jayesh Shah. Do we expect TV spends to settle down at a lower level? Look, I think this is an evolving picture. TV still continues to be a very important medium, especially if you go beyond the top metros. And even within the top metros, there is a certain select audience who's very dedicated to TV. And our actual spends will follow wherever consumers are, and TV does tend to have a very important role. And therefore, we will continue to advertise on that.

Alok Shah from Edelweiss has asked a question. Our website says that Fair & Lovely has not been changed to Glow & Lovely. By when is the relaunch under Glow & Lovely expected? We shall have it very soon. We have already commenced production of Glow & Handsome and others will follow very, very quickly. And I think Sanjiv has spoken about the strategic rationale and how we see that coming into the quarter.

The second question saying with respect to the special dividend. The INR 22 billion belong to the erstwhile shareholders and why partake it with GSK shareholders? It's important, Alok, to go back and look at the merger because when we did the swap ratio, we took into account all the aspects of the balance sheet of both the companies. If I were to use your analogy, and I don't think that would be right. We've also had access to the cash from GSK, which was over INR 4,000 crores. We also had the benefit of the payouts that used to be lower from a dividend perspective. The best way to look at it is it's an integrated one company done on a share swap, and from a valuation perspective, that evens out everything.

The next question is from Raja Mohan. So, there's congratulations on a solid quarter. Thank you for that. And the question is, god forbid if the virus were to spread more rapidly into Tier 2 and Tier 3 areas, would it lead to a material repression? Or are tailwinds of Kharif very strong to overwhelm this concern? In this regard, are the tailwinds otherwise strong enough to give an impetus to your performance? It will be a difficult one to call in terms of what kind of virus spread are we looking at because that's the big unknown. But from a portfolio perspective, from our execution capabilities point of view, we have given you a good flavour of how well we are positioned. The spread of virus and the consequent lockdowns, vertical or localized, is going to be something very difficult for us to predict, and we'll have to handle it with agility and be very responsive in the value chain.

The next question is from Ajay Thakur from Alder Capital, asking us if we could throw some light on the urban versus rural growth and outlook for rural momentum. Is the spread of COVID into hinterland arrest our rural growth momentum? Ajay, this has been discussed in the call, and we have answered this. So hopefully, you would have already got that response.

Sirish has had a question in terms of hand wash penetration and are we witnessing a big opportunity in rural going forward? Sirish, we do not quote specific penetration numbers. But definitely, there has been a step-up to penetrations. And that's also the reason you see that we have also expanded capacity by 5x in case of hand wash and about 100x in terms of hand sanitizers. Even into the rural areas, we do



see hand wash being an opportunity because the awareness of hand wash and hand sanitizers has taken off in a big manner, whether it is urban areas or rural areas.

The next question from Amit is in terms of is it possible to quantify the price cuts that you're planning to take in laundry to pass on the crude deflation? Amit, I think this is a bit of work in progress. We are continuing to work through this, and it will land in phases. Some parts have happened and more to follow.

The next question has come from Richard. Richard said, can you help me understand the monthly progression of skin, cosmetics and deo? How does that minus 45% break up into April and May and June give that April-June also had manufacturing issues, et cetera? Richard, we are not breaking it up at this particular point in time. I'm not sure it entirely serves the purpose. Having said that, I did talk about skin starting to see green shoots and traction. So obviously, once we had some of those supply issues sorted out, skin has definitely picked up in the month of May and June. Cosmetics and deodorants have been challenging. One aspect has been in terms of manufacturing. But the demand also has been muted given that a lot of consumers have remained in-house. So, I don't think there will be a material pickup that we would see in terms of cosmetics and deo with the progress of months.

The next question is from Tejas Shah from Spark Capital on guidance on tax rates. I've already clarified that earlier in the call.

The next question is also from Tejas. Any COVID cost-saving initiatives which stay with us as structural advantage? Any thoughts on room for margin potential ahead? We have discussed this in detail, Tejas. The important aspect right now is to get competitive volume-led growth, look at absolute profits and manage cash.

Operator

Excuse me. This the operator. Participants, the line for Mr. Srinivas Phatak has dropped. Please stay connected while we reconnect Mr. Phatak.

Mr. Phatak is reconnected.

Srinivas Phatak

Yes, I'm sorry. I'm back. I lost the line there. So, I've talked about the business model, Tejas. Hopefully, that answered your question.

The next question is from Vishal from Nirmal Bang. What is the current direct reach for us? And was it impacted in the March-April period? Other income for the quarter looks low, any exceptional items here? On the first part, yes, the direct reach was impacted in the month of March and April. But definitely, we have picked up in the month of May, June, and it's getting better as we speak. We already spoke about the other income earlier in the call. And if you have any specific questions, do reach out to Amit and our IR team and they will clarify on that one.

The next question is, would you like to comment on the lawsuit with Emami? I don't think we comment on a competition. Our position is very clear, and you would have also seen some of the statements from HUL. And we are very clear, and we are progressing with our actions, both on Glow & Lovely and Glow & Handsome, and we are quite excited with the change and the opportunity to make a big difference to our consumers.

Sirish seems to have lots of questions. So, one more question from Sirish. Have you rationalized employee cost, cut employee strength in quarter 1 and quarter 2? Sirish, we have not rationalized any



employees. We have also explained that in the previous quarter. People, whether it's in our own business or out of core, are crucial to us. We did take some steps in terms of pausing increments and promotions. We are very clear that we want to protect our people, take care of them, and we also want to make sure that they get paid. It's also important that we create a lot of capabilities, which I think, if you take a short-term view of life, will get impacted, and we do not do that. And we're hoping that the business will pick up and things will come into normalcy, but we just have to work it through.

Ayush has got a question on cut-off date for special dividend. In the press release, we have already indicated the date. Amit, would you know what is the effective date for dividend?

Amit Sood

31st July, Srini, is the record date.

Srinivas Phatak

31st July will be the record date, and they should get paid out in the month of August.

So, I think we've covered all the questions which are on the web. Amit, over to you to bring the call to a close.

Amit Sood

Okay. So, with that, we will bring this Q&A session to end. And let me just remind you that replay of this event as well as the transcript will be available on our Investor Relations website in a short while and you can go back and refer to same. Similarly, a copy of our results and presentation is also available on our website for your reference. And with that, I would thank everyone on the call, and we can draw this call to conclusion. Stay safe and stay well. Thank you.

Operator

Thank you very much, sir. Ladies and gentlemen, on behalf of Hindustan Unilever Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Disclaimer: This transcript has been edited to remove and / or correct any grammatical inaccuracies or inconsistencies of English language that might have occurred inadvertently while speaking.