

December Quarter 2009 Financial Results Conference Call Transcript

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Presentation

Hina – Moderator

Good evening ladies and gentlemen, I am Hina, the moderator for this conference. Welcome to the Hindustan Unilever Limited Third Quarter ended on December 31, 2009 earnings call. For the duration of the presentation, all participant lines will be in the 'listen-only' mode. After the presentation, the question and answer session will be conducted for all the participants on this call. Present with us on the call today is the senior leadership team of Hindustan Unilever Limited. We propose to commence this call with opening remarks by Mr. Srini Srinivasan, VP Investor Relations, Treasury and Mergers and Acquisitions of Hindustan Unilever Limited. I now hand over the call proceedings to Mr. Srini Srinivasan. Thank you and over to you Mr. Srinivasan

Srini Srinivasan - VP - Investor Relations, Treasury and Mergers and Acquisitions - Hindustan Unilever Limited

Thank you Hina and good evening everyone. Welcome to Hindustan Unilever December Quarter 2009 Results Conference Call. We have with us Nitin Paranjpe our CEO and R.Sridhar our CFO. We will start with the presentation of December Quarter 2009 results by Sridhar. Nitin will then give his perspectives on FMCG market and our performance and he will also address some of the queries already raised by you. We will then have a Q&A session. If you have any query, I would request you to register with the moderator. Please identify your name and organization before asking any question. Please note that the Q&A is open only to institutional investors. Any individual investors may address all their questions to corporate communication and the company secretarial department. Before Mr. Sridhar starts the presentation, I would like to draw your attention to the safe harbour statement included in this presentation for the sake of good order. Over to you Sridhar

R. Sridhar – Chief Financial Officer – Hindustan Unilever Limited

Thank you Srini and good afternoon to everyone. Let me first start with an update of the FMCG markets before we go on to share some details of our performance in December Quarter. I will briefly discuss the key highlights of this quarter and then get into discussion about the performance in our individual categories. We will then discuss our financial results and end with a view on markets going forward. Let me start with a bit of context on the FMCG market. In December Quarter, FMCG markets continued to grow albeit at a slower pace. This slower pace was on account of few factors. One of them being the lower price component in Laundry which is a reflection of the base effect. You will remember the steep increase in commodity costs in the second half of 2008 which then got translated into price increases in our Laundry category.

Secondly, we continue to see consumers downtrading in Laundry moving from the mid segment to the mass segment and below, particularly in bars. We also continue to see downtrading in tea, potentially due to the impact of inflation, where tea commodity costs have also increased substantially. And thirdly the high food inflation that we all have been seeing, we believe, has had some impact on pace of the growth of FMCG market.

Commodity costs, including key raw materials like palm oil, soda ash, tea, LAB are firming up. As far as the competitive environment is concerned, we are clearly seeing that this is intensifying. One, many market players or most of the players in the FMCG market have stepped up the media spend across several categories and we see this in the total FMCG market media spend being at a significantly higher level in December Quarter 2009 compared to December Quarter 2008.

Secondly, we have seen several new brand entries in category entries in the last few months. Both these factors are clearly leading to an intensification of the competitive environment.

Coming now to our performance, let me start with a few highlights. I think the first thing to say is that the volume growth of HUL has accelerated and in DQ we have delivered 5% volume growth. Our turnover growth has also been 5%. Effectively meaning that there has been no contribution from price to the growth in the quarter. In toilet soaps, we have held our market shares in December Quarter. In fact we have had a slight increase of about 10-basis points. This is on the back of the various interventions that we shared with you in the previous meetings. In Laundry, we have seen significant share gain in volume terms both in powders and in bars. Value shares have not yet shown any improvements and this is largely due to the impact of downtrading as well as the lower pricing.

Personal Products business continues to sustain its growth momentum with a growth of nearly 16% led by strong volume growth, particularly in hair and skin care. Underlying operating margins (which is the operating margins without the accounting mark-to-market impact), is up by 10-basis points and this is after absorbing a very significant step up in our brand investments. So good volume growth and in-the-line operating margins improving by 10-basis points.

I will now talk about the results of the quarter in some detail. Our domestic consumer business, which is the FMCG business and our Water business grew by just over 5%, including exports our net sales grew at about 4.6%. The FMCG growth was driven entirely by volume, as I mentioned earlier, with Soaps and Detergents returning to volume growth in the quarter. However, as you would have seen from the segmental results, the turnover growth has not been there in Soaps and Detergents, reflecting the price reduction.

As far as Personal Products is concerned, I have already talked about the strong momentum and our foods business also grew well in the quarter. Our Water business continues to grow very robustly. I have already talked about the underlying operating margin. As far as profit after tax is concerned, the reported PAT (bei) was lower by 2% but on an underlying basis, which is excluding the accounting mark-to-market charge, PAT (bei) was held at previous year levels. Net profit grew by just over 5% benefiting from some of the exceptional items. Before I get into individual segments, some highlights of the segmental performance. Soaps and detergents had a volume led growth with the rejuvenation of our soaps portfolio delivering good growth and recent launches with good consumer response. Actions in our mass Laundry powder's business have yielded positive results and we have seen double-digit growth in volumes. All categories in personal products have delivered volume growth and the overall growth momentum has been maintained in double-digits. Foods has continued to grow well though we are seeing the impact of commodity inflation impacting tea. And as I mentioned earlier, water is building up in scale and brand awareness and extending its reach with robust volume and sales growth.

In this chart here, the specific revenue growths of the different segments are visible on the chart and I am sure you have already seen them in our results. So let me move on.

In the volume growth, you can see on the chart the acceleration that has taken place through 2009 calendar year and of course in the current fiscal year with just under 5% volume growth in the latest quarter. The acceleration in volume growth has been supported by strong investment behind brands with the A&P investment in the latest quarter being at a level of 14%. This is a clear step up in A&P spend levels linked both to lot of innovation activities that we have brought to market, but also the increase in media spends across the FMCG market, which I have referred to earlier. We have during this quarter re-launched several of our brands and earlier rejuvenation of our soaps portfolio have also contributed to the increase in A&P. In addition, re-launches of Sunsilk, Clinic Plus, Pepsodent, the launch of Fair & Lovely Winter Variant etc., have also contributed to a step up in A&P. We continue to drive value from media buying and the scale efficiencies we enjoy. I must emphasize that we have funded our brand investment from the cost effectiveness programs, in order to make sure that we can still maintain operating margins.

Across the last few quarters, we have been taking steps to strengthen our portfolio. In 2009, as I mentioned, Soaps portfolio across all brands Lux, Lifebuoy, Hamam, Rexona and Pears as well as Breeze has been re-launched. Breeze re-launch being the latest one to go into December Quarter. In Laundry, we re-launched the entire Wheel franchise as well as Rin bar. In Hair, Sunsilk, Clinic Plus and Clear were re-launched. And so on across various categories.

Let me now just dwell a little bit into detail on one of the examples of how we are strengthening our portfolio and I am using the Mass Laundry example to illustrate this. In Mass Laundry, we have taken a series of actions across the various levers. Pricing - we took prices down inline with market to make sure that we continue to remain competitive. We have stepped up our investments behind brand and we are committed to make sure that we are competitive as far as media and share of voice is concerned.

We have also significantly stepped up the quality of the bars and powders in Mass Laundry portfolio and the chart on the bottom left gives you an idea of how the qualitative attributes have improved very significantly compared to some months back. And where appropriate, we have also been providing value through consumer promotions which has also helped to improve the sales and turnover of the brand. So it was just an example in terms of the overall actions we have been taking to strengthen the portfolio.

Let us now spend a little time on individual categories. Starting first with the Home Care category. Sequential volumes in Home Care have improved both in powders and bars. Powders volume market share grew by 100-basis points and delivered strong volume growth. Our bar portfolio has been strengthened with volume shares increasing by 60 basis points. The various actions that we have taken in mass portfolio, are in our judgment, starting to yield results with double-digit volume growth. Wheel powder registered an increase of 140-basis points in volume market share, while Wheel bars market share improved by 120-basis points. As I mentioned earlier, the overall Laundry value shares are slightly down, which is the impact of price reduction and downtrading. Coming to household care, we have good growth in the quarter driven primarily by Vim bars while Vim Dish Wash Liquid is maintaining rapid growth. The Cif launch, which we brought to markets some months back, is also progressing well.

Moving to soaps, you are aware we have deployed the entire portfolio through a series of re-launches in the last six months. I am very pleased to say that our soaps business has returned to volume growth in December Quarter. Our premium portfolio has delivered strong performance with good volume growth. The Lux relaunch which we brought to market some time towards the end of September Quarter has been successful and is leading category volume growth. As far as Lifebuoy is concerned, we are taking further actions to strengthen the brand. Our overall market share in soaps has been stable, in fact slightly up by 10-basis points, as you can see in the chart.

Coming now to skin care we would like to discuss face care and body care separately. In face care both the key brands Fair & Lovely and Ponds led growth with strong volume increases. With rapid expansion of the premium skin-lightening segment, top end skin portfolio saw a spurt in volumes. Ponds White Beauty which was re-launched in the second quarter of 2009, is doing very well with market activation and introduction of small packs. Fair & Lovely grew well in the quarter with the new winter fairness cream being successfully launched. We are also seeing consumer upgradation to tube format which has a positive mix impact. In hand and body, the hand and body segment has also done well. Vaseline has been the growth driver with the Vaseline Healthy White and petroleum jelly raising the bar. The winter range has also grown in strong double-digits. In the quarter, we have also seen Ponds Talc return to strong growth. We do believe that the strong volume growth will in due course of time translate into market share improvement as well.

Turning the page now to hair, we have had a very good quarter growth in hair driven by volumes. We had innovations in Clinic Plus and Dove, both of them showing good success. Dove is now the number one hair care brand in Modern Trade. Sunsilk was re-launched in November and the brand is continuing to grow well. This apart, we are consistently developing our conditioner's market and our conditioner's shares and the conditioner's market are going from strength to strength. Oral care also saw volume growth. We relaunched Pepsodent and strengthened the Germicheck credentials. We launched Peppermint Splash variant in Close Up. We are committed to strengthening this portfolio and we will be taking further actions.

Coming now to the foods part of our business, starting with beverages. In beverages we have had growth in tea but volume growth has been affected largely due to downtrading linked to the increasing commodity cost. This downtrading has impacted our mid market segment brands consisting of Taaza and Red Label. The premium brand Taj Mahal has done well with tea bags growing rapidly. Market shares in tea have been impacted mainly due to an absence in the discount segment, which is very important in this phenomenon of downtrading. We have now filled this gap with a very recent launch of Brooke Bond Sehatmand, which is a differentiated offering in the discount segment. In coffee, we have delivered good volume growth. This is quite important in the context of a very low level of market growth. Bru Cappuccino has delivered good value as well as good volume growth in the quarter.

Coming now to processed foods, Knorr continues to lead the category and market development in this category. We re-launched Knorr Soups around August of 2009 and we are getting good growth and good consumer response to this relaunch. Kissan has grown well across both Jams and ketchups with innovative packaging driving growth. Annapurna and Modern Foods have also grown well with high double-digit growth in the quarter.

As far as Ice Cream is concerned, while December Quarter is a slightly softer quarter for the category, we have continued to gain momentum in our ice cream business, with Impulse and Take Home format leading growth. Our new variant Litchi Zap was also launched in this quarter. We have shared with you previously our efforts to expand the Swirl's Parlors and that continued in the quarter with 85 Swirl's Parlors in operation as at the end of the year. We have continued to receive very good response to these parlors.

Coming now to our Water business, Pure-it continues to grow strongly and this growth has been driven by expansion into new channels as well as innovations. Our reach has been extended through retail channel where we are now present in approximately 15000 outlets with nearly 40%-50% of the business now coming from the retail channel. We have also launched an innovation in the form of Pure-it Auto Fill, which provides the comfort of automatic fill of water to the consumers. To tap the mass segment opportunity in water, we have very recently launched Pure-it Compact at a price point of Rs. 1000 and you are aware of the product superiority challenge that we launched in the middle of 2009. I am happy to say that the one crore campaign continues to run and we still have no claimants.

While we have gone through our categories I think it is worth spending a minute or two on what has been happening on the cost and margin front. As you can see from this chart, commodity costs, whether it is palm oil or benzene or tea, have been firming up in the last few months. However, with the benefit of our global scale, buying efficiencies and our various cost effectiveness programs, we have driven a significant step up in gross margins in December Quarter. Our cost of goods sold in December Quarter 2009 has come down by 480-basis points compared to December Quarter 2008.

Coming now to our financial highlights, I have talked about improvement and the underlying margins. Operating profit growth was just over 5% which benefited from the improved portfolio mix as well as cost efficiencies and has delivered after absorbing a 530-basis point step up in brand investment. I have already mentioned the profit after tax and net profit figures earlier.

Now look at our detailed financial performance. Net sales grew by just under 5% with domestic sales growing similarly. EBITDA grew by just over 3% and reported PBIT by just under 3%. Profit after tax before exceptional items has grown by negative 2% but as I mentioned earlier, has been held flat excluding mark-to-market. Net profit grew by just over 5%.

Coming to the exceptional items in the quarter, as you can see from the chart it is essentially linked to sale of assets which is primarily properties and restructuring costs. In December Quarter 2009, we have had a positive net exceptional item linked to a higher extent of asset sales. Just to clarify these are a series of assets not any single large asset and assets across various parts of the country. The restructuring costs of Rs.7 crores net includes the cost relating to Sewri factory settlement in the quarter. This is really a small credit on account of the Sewri factory settlement that has been booked in the quarter after finalizing the settlement.

As far as net profit is concerned, you can see on the chart the analysis of the reported net profit to what we define as the underlying profit after tax before exceptional extraordinary items and mark-to-market. Really the adjustment being for two items – the exceptional items and the impact of mark-to-market. I would just like to clarify that we have a policy of near full coverage of our forex exposures and therefore that is not a cause for concern.

Therefore, in summary, the FMCG markets continue to grow albeit at a slower pace. Our actions that we have taken, particularly in Laundry and Soaps, are starting to show positive results and we are back to good levels of volume growth. Soaps market shares are stable; Laundry market volume shares have improved. We do believe that value shares will also improve with course of time. Personal Products and Water maintained growth momentum and Foods continued to grow well. We have leveraged the improvement in gross margins to reinvest behind our brands, at the same time deliver a small improvement in operating margins.

As we look ahead we believe that FMCG market growth was sustained though growth rates in the short term may be lower due to food inflation. However, the overall growth opportunity remains strong. With entry of new players, new brands, new categories entries, A&P spends having gone up, we do believe that the competitive environment has intensified across Laundry, Hair and Skin but potentially in some other categories as well.

Our focus is to deploy a full portfolio and capabilities to secure growth by driving consumption and penetration opportunities and building markets and segments for the future. We are committed to strengthening our market leadership and we will invest appropriately in what is an increasingly competitive environment. Improving execution and speed to market will be key for us, to achieve competitive growth. Our number one priority remains to regain market shares and deliver competitive growth.

With that, I would like to hand over to our CEO Nitin Paranjpe for his perspectives. Over to you Nitin

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Thank you Sridhar and good evening everyone who is on this call. I propose to share with you my perspective on the market and the actions that we have been taking to accelerate competitive growth for our business. You heard Sridhar talk about the fact that FMCG markets in this quarter grew in high single digit as reported by AC Nielsen, although this is at a slightly lower rate compared to the previous quarter. This slower growth is primarily due to the price reduction, which has taken place in a large category like Laundry and slower volume growth that we seen in many other categories. We believe that the high levels of food inflation, witnessed in the last few months, might be a factor that has impacted market growth in December Quarter.

Having said that, we believe that the consumption opportunity in India will remain strong and FMCG growth will sustain. We have shared with you in the past the size of the India opportunity both in terms of per capita consumption and penetration of many of the categories that we are in and the fact that this opportunity is large enough to attract many players. We observe several new entries in emerging segments and this is reflected in the level of media investments that we see and the number of new launches and re-launches that are taking place. There have been a number of competitive moves in cost sectors as well; quite clearly the level of competitive intensity has gone up.

Given the relatively lower levels of penetration and per capita consumption in many of our categories, increase in media investment should help accelerate market growth of these categories in the medium to long-term. It is in this context that we remain focused on strengthening our market leadership and driving competitive growth. We had shared with you in the past the specific actions that we have taken to restore competitiveness of our portfolio and accelerate our active participation in emerging categories and segments. These include rejuvenation of our soaps portfolio, improving consumer value in Laundry, leading development of new opportunities like fabric conditioners, hair conditioners, premium skin lightening, Knorr soups etc. In addition, we continue to drive our out-of-home businesses in beverages and ice creams and of course rapidly expand our Water business. Many of these interventions are doing well. More recently, you heard Sridhar mention that we have made an entry in the discount tea business with the differentiated offering with Brooke Bond Sehatmand.

Now moving on to our performance in DQ. In December Quarter, we stepped up our volume by 5%. Market shares of Soaps have been stable in DQ, in fact have improved 10-basis point over September Quarter. During this quarter our volume shares in Laundry have also moved up both in bars and in powders. And in most of our other categories, our volume growth is equal to or ahead of market volume growth in the quarter. We believe that this will reflect in improved shares going forward.

Our marketing investments have been stepped up substantially during the quarter and are at a level higher than normative level as we continue to support our innovations and re-launches. That apart, the level of media activity within the FMCG industry has gone up significantly with several new entries. Our A&P expenditure going forward will depend on the extent of competitive intensity, in addition to the investment which is required to support the innovation and activation program that we bring to the market. If the current level of competitive intensity continues in the coming quarters, we would expect to see these levels remain at a higher than normative level. We will continue to invest behind our brands and communicate our brand offerings and ensure that our share of voice remains competitive.

Our focus on generating 'Fuel for growth' is relentless. Our buying efficiencies along with our cost effectiveness program and operating leverage through scale has helped us expand our gross margins enabling us to invest behind our brands. Our in-market execution and supply chain capabilities have also improved further in the quarter. We are committed to ensuring our competitive position in the market is further strengthened and we will allocate resources accordingly.

As we move forward FMCG market will continue to grow, possibly with some impact of food inflation in the short-term; however, overall growth prospects remain good. Our strategy to grow the core categories and invest behind new emerging segments remains consistent and competitive growth will be our number one priority. Initial results of the various actions we have taken gives us confidence that we will see further progress both in volume growth and share.

Now, before I take questions from you I thought it might be useful for me to address some of the common queries that have been raised over the last couple of days. Let me begin with the first one, which has been

asked several times since last night, that says the price war in Laundry seems to have started again - what are the implications?

On the context of the growing India opportunity, we have always stated that competitive activity both from existing and new players will increase. As far as we are concerned, we remain absolutely determined to strengthen our leadership position and drive competitive growth. Our actions in Laundry are in line with these objectives. We see our actions bearing fruit and reflected in good volume growth in DQ and some improvement in volume shares in Laundry and overall shares in Soaps. We remain confident that these actions will create value in the medium to long-term though there may be some impact in the short term.

Related to this has been another question, which is around what is the sort of impact this price war is likely to have in terms of our results. Now all I can say is that the impact, if any, is dependent on several factors including how the cost scenario develops, how markets grow, the level of competitive intensity and how it shapes up, all of these will have a role to play in terms of the impact and therefore it is difficult for me to quantify anything more than this or say anything more than this at this stage.

There has been another question, which has been around or a comment really, which is saying that the last time we saw some sort of a price war, we had an impact on our margins which was close to 700-basis points, can we expect similar impact this time?

All I can say is, my answer is really similar to what I said earlier that the impact if any is dependent on several factors both cost scenario, market growth, competitive intensity and it is difficult to make any comment in that space.

There was another question around when we see our market shares likely to improve since competitive growth is the key priority that we are talking about?

I reiterate that market share is our key priority and competitive growth is our key goal. All our actions are focused in driving this agenda and some of which you have already seen in the market place. We feel confident that our interventions will work and we are already beginning to see the results of these being seen in the market place. In addition to that, several actions around speed-to-market and improving execution, improving customer service have also been taken. All of these will help us deliver competitive growth and improve shares. Beyond this I would not want to commit a timeline and a number but we are determined to grow ahead of the market in aggregate.

There was a comment around the overall growth that we have seen and saying that there was an expectation that value growth this quarter could be in the range of 7%-9%, especially since we had spent such a high level of A&P. All I can say is that the value growth needs to be seen in the context of the market growth. It also needs to be seen in the context of the price reduction, which has taken place in Laundry, the downtrading which has happened in Laundry and Tea; and while doing so to bear in mind the fact that our volume growth in this quarter is higher than market reported volume growth in almost all categories.

So, that is all that I thought I would say at this stage and with these comments I hand you back to Srini.

Srini Srinivasan - VP - Investor Relations, Treasury and Mergers and Acquisitions -Hindustan Unilever Limited

Thank you Nitin and Sridhar. Hina, we are now open to take questions. Before you ask questions please identify your name and the institution you represent.

Hina – Moderator

We will now begin the question and answer interactive session for conference participants connected to the audio conference service from Airtel. Participants who wish to ask questions may please press “*” “1” on their touchtone enabled telephone keypad. On pressing “*” “1” participants will get a chance to present their questions on a first-in-line basis. To ask a question participants may please press “*” “1” now.

The first question comes from Ms. Jharna Mazumdar from Ticker Plant Mumbai. Ms. Mazumdar you may ask your question now.

Jharna Mazumdar – Ticker Plant - Mumbai

Hi I am Jharna here, just wanted to know that do you see downtrading in Laundry and Tea to continue?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Once again it is difficult to talk about what is likely to happen other than making two comments. The first is that over a longer period of time we see uptrading likely to happen across most of our categories as India becomes more prosperous, as consumers become more affluent. This is something that we have seen over the last few years. We have seen over the last 9 to 12 months some signs of downtrading; largely on account of the economic conditions and the inflation, especially food inflation that we have seen. A longer-term secular trend is likely to be uptrading.

Jharna Mazumdar – Ticker Plant - Mumbai

Thank you sir.

Hina – Moderator

Thank you, Ms. Mazumdar. Participants who wish to ask questions may please press “*” “1”. The next question comes from Mr. Pritesh Chheda from Emkay Global, Mumbai. Mr. Chheda you may ask your question now.

Pritesh Chheda – Emkay Global – Mumbai

Hello Sir. This is Pritesh, I have two questions. One we have taken a lot of brand relaunches during the current year, is it possible to quantify the incremental impact on the ad spends on account of brand re-launch, what is the program next year? Do we have other set of brand re-launches to be done?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

I think all I can say is launches and re-launches are a part of the rhythm of this organization. As the competitive intensity increases, as we take efforts to drive market development and strengthen our leadership position, the level of innovation is going to remain high as we move forward. Each innovation and the amount, which we spend on it depends on the nature of the entry, nature of the category which we are in and the nature of the competitive context that we have. So it is difficult for me to talk certainly in terms of what is likely to happen going forward but like I said earlier if the levels of competitive intensity remain high over the immediate future our levels of A&P are likely to be a little higher than the normative levels that we have seen.

Pritesh Chheda – Emkay Global – Mumbai

Okay. And what is the impact say in the first nine months in terms of the brand re-launches on the total ad spends that we have taken, what I see about 13% odd?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Pritesh, we have said before that one of the reasons for the step up in our level of A&P spend is very clearly linked to the brand activities that we bring to the market place. In previous calls we have talked about the complete rejuvenation of the soaps portfolio. For example there we have re-launched virtually all the brands in the span of about three to four months. Clearly that has a contribution in terms of the level of A&P spend because obviously we want to make sure that the re-launches and the benefits that we are now offering to the consumers are properly communicated. It is of course difficult to quantify and segregate in sort of very precise mathematical terms what is the contribution or what is the specific impact on A&P only linked to re-launches. We also have A&P increases or A&P spends linked to communicating to consumers any significant promotional activity. For example if we run any consumer promotions, we also advertise so that consumers at large are made aware of these benefits and these consumer value propositions. Important to say that there is obviously a FMCG Company, A&P spend is important for us to keep on strengthening our brands, which is our key asset. This definitely contributes to growth and in addition we do have a very clear methodology by which we from time to time assess the effectiveness of our marketing spend and look at what returns we are getting from them.

Pritesh Chheda – Emkay Global – Mumbai

Second question is your gross margins are the highest in the Q3, now we are seeing lot of the commodity prices moving up. What kind of forward covers on the key materials do you have and at least up to what time you are hedged. Is it possible to know that?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Pritesh it is a very good question, but you will appreciate from a competitive standpoint it would not be prudent for us to be talking about the extent of our covers. Suffice to say that we do have a policy of covering some of the key commodities and we keep reviewing the levels of that cover from time to time but it would be very imprudent to talk specifics.

Pritesh Chheda – Emkay Global – Mumbai

It will come with a lag but cannot come immediately that is what I understand from the answer?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Well it varies across commodities and this one I will have to stop short of saying anything further.

Pritesh Chheda – Emkay Global – Mumbai

Okay no problem, all the best to you.

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Thank you Pritesh, I would just like to take a question, which has come up from the web meeting which is from Ajay Thakur, a question about the recent price cut in detergents and the question being asked is “Are they too soon considering the commodity prices are rising?” I think as Nitin just mentioned in his remarks, we are absolutely focused on competitive growth which means market share improvement. At the same time, we will aggressively drive cost efficiencies. I think you would have seen that in 2009 we have managed to step up the level of our cost savings as a percentage of our turnover quite significantly, through a systemic program and we will be continuing to drive this even further in 2010 and beyond. So, as far as activities in the market are concerned we will make sure that we are focused to drive competitive growth but at the same time we will be very, very aggressive in managing our costs.

Hina you can take the next question now.

Hina - Moderator

Right Sir. The next question comes from Mr. Percy Panthaki from HSBC, Mumbai. Mr. Panthaki you may ask your question now.

Percy Panthaki - HSBC - Mumbai

Hi Sridhar, Hi Nitin. My question is on the competitive intensity that you are seeing increasing and therefore your price cuts and I was just trying to draw parallels with 2004. What I see as one of the main difference is that in 2004 the price cut was sort of forced upon you whereas now it has been a bit more proactive. It seems that there has been a lot of thought and some kind of a well planned strategy with which you are approaching this. So just wanted to understand, basically I know you have in broad terms mentioned what has been the thought process - there has been down trading, you want to retain value proposition, etc. - but can you dwell a bit deeper and tell me what is the exact sort of strategy with which you are going forward with this?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Well, I think there is nothing more deep than the fact that we are committed to actually drive strengthen our leadership position and drive competitive growth. As we respond to certain interventions which we see in the market place, we take appropriate action. In addition, I think it must be borne in mind that some of the

actions that we have taken now will in fact help drive the uptrading of the market as the attractiveness of consumers moving from the discount segment to the mid price segment will actually go up. Beyond this, for obvious reasons, I would not want to say anything more at this stage.

Percy Panthaki - HSBC - Mumbai

But when you say mid price segment you probably are talking about Rin which has been cut to 50, which is now in line with the upper end of your mass market. So even if the uptrading happens, is that actually going to benefit you in any way because you are getting it at almost the same price point you were getting earlier?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Again, the only comment I would make is that what we have at Rs.50 Rin is a promotion that you would see in the marketplace, and that is what we have put into the market at this stage and nothing more than that.

Percy Panthaki - HSBC - Mumbai

Sorry I did not understand you.

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

What you see in the marketplace at this stage is the price promotion that we are running on Rin wherein Rin is currently available at a price of Rs.50 per kilo.

Percy Panthaki - HSBC - Mumbai

Okay so when you say promotion, it is like limited period offering kind of thing?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Again like I said, going forward I do not want to make any comments about this.

Percy Panthaki - HSBC - Mumbai

Understood, my second question is: your other categories like detergents have seen a lot of competition. In order of priority which other category would you say is the next in terms of the intensity of competition after Rin?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

I think it is not about which other category. I would really say competitive intensity is increasing across the board and as a company which has leadership position we are determined to make sure that we take steps proactively across categories to drive market development and to hold on to our leadership position as we move forward. As we do so it will mean investment behind our brand and significantly stepping up the rate of innovation that we have got. Equally, we will be absolutely relentless in our efforts to drive down costs, both fixed costs, discretionary expenses and the regular systemic process that we have got in this organization of cost effectiveness program across all spheres, that we will keep doing. It is this that will help us generate the funds, which are required in order to invest behind our brands and deal with the competitive intensity, which is increasing across categories.

Percy Panthaki - HSBC - Mumbai

Okay. My last question here is, of course it is a bit hypothetical in nature but to the extent that you can answer it, to what extent and how maturely do you think the industry will behave in a price war and to what extent you will go on for cutting price and gaining market share?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

I certainly do not want to comment in terms of what happens in the industry. I also do not want to comment in terms of what you call a price war or not a price war. We see recent moves which indicate increased competitive intensity. As far as we are concerned, we will respond to these with a view of making sure that

our brands continue to offer our consumers attractive value proposition and therefore remain preferred brands as far as they are concerned.

Percy Panthaki - HSBC - Mumbai

Okay and in case competition needs your price level to go down, in that case really will you still remain competitive?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

I think you know Percy it is also fair to say that at this stage you know getting into the sphere of a lot of hypothetical situation we will perhaps not really add us value. We will see how the market unfolds.

Percy Panthaki - HSBC - Mumbai

Okay. I take your point Sir.

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

So different scenarios that could happen.

Percy Panthaki - HSBC - Mumbai

I take your point. Thanks very much.

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Thanks Percy.

Hina - Moderator

Thank you, Mr. Panthaki. The next question comes from Mr. Hemant Patel from Enam Securities, Mumbai. Mr. Patel you may ask your question now.

Hemant Patel - Enam Securities - Mumbai

Hi Nitin. Couple of questions. First one being on the face care segment. I did notice a steep decline in the value shares and you did mention that there are four things that you are trying to do in order to actually pull up the value shares in the market. Now are we likely to see a sharp pricing intervention or anything else that might be of a case to draw back some market share over there?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

I think the first comment I would make in terms of face share is that we are seeing sequential improvement in face care shares every quarter over the last four quarters. That is point number one. When I say sequential improvement, I mean, sorry sequential improvement is wrong. It is quarter-on-quarter improvement if you were to see, we are beginning to see improvements. So DQ over DQ, SQ over SQ, JQ over JQ we are seeing an improvement. It becomes difficult to compare skin care sequentially simply because of the seasonality impact which we have, a significant impact in winter, which is a different mix itself then. So the right way to actually compare this is when you look at equivalent quarters every year. The numbers which we would have shown you would be MAT numbers which are there for 12 months, rolling numbers, and therefore would not make visible so easily the improvement which you are seeing when you look at quarter-to-quarter numbers as we move forward.

Hemant Patel - Enam Securities - Mumbai

Sir, you are saying that on a MAT number on a December quarter vis-à-vis December quarter last year there is an improvement, but it is not actually showing over here, because over here it is actually indicated something like a 400 basis points fall?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Let me clarify. The gap between the corresponding quarters is rapidly narrowing over the last four quarters. That is what I am saying.

R. Sridhar – Chief Financial Officer – Hindustan Unilever Limited

Also I think just as to add, even in face care category the volume growth that we have delivered in December Quarter is ahead of the volume growth that the market has reported by Nielsen. Therefore, that gives us a little bit of confidence that we should start to see the translation of that into shares as we move forward.

Hemant Patel - Enam Securities - Mumbai

Okay and these volume growths, that you are getting, are predominantly from the mass markets or from the rural market?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

You know it is across the board.

Hemant Patel - Enam Securities - Mumbai

Across the board?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

It is across; it is distinct as a mixed benefit also. We talked earlier about some of the premium interventions doing well. Tubes. We said that in Fair & Lovely for example, the shift has happened in December Quarter towards tubes, which is another sign of some amount of uptrading. So it is across the portfolio and across the geography.

Hemant Patel - Enam Securities - Mumbai

Okay. And a broader question on the comment you made in terms of food inflation and impact on volumes, and clearly Nielsen numbers are showing that there is a slowdown. But I wanted your take on this as to how pronounced this impact is in the rural market and in the urban markets. How are you seeing it vis-à-vis the top end versus the bottom end?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Again I think here the only comment I would make is in the last two-three months that we have seen have slowed down in volumes as reported by Nielsen. Our own volume growths have actually accelerated over the last few quarters. We should watch this space a little more closely. That food inflation in general has added impact I think would be a fair thing to say. How pronounced it is and how sustained it will be I think time will tell. We are hoping that the forecast of a good rabi crop which people are talking about should make sure that this is not very prolonged.

Hemant Patel - Enam Securities - Mumbai

Okay. Fair point. Thanks a lot.

Hina - Moderator

Thank you, Mr. Patel.

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Hina, just while we are waiting for the callers in the line. Let me just pick up one other question that has been raised through the net. This is from Mahesh of CLSA. I think, Mahesh you have asked for some details regarding the price cuts that we have done in Soaps and in Laundry. My suggestion would be that perhaps some of the details you could pick up with Srini. But when you look at Laundry in particular it is really about the adjustment of pricing linked to how the commodity costs have changed over a period of

time. And as far as Soaps is concerned, any of the pricing adjustments would have been in specific brand in SKUs. So I suggest you could please connect with Srini later on if you would like to get some details.

Hina - Moderator

All the participants are also requested to ask maximum two questions at a time. Thank you. The next question comes from Mr. Abneesh Roy from Edelweiss Capital, Mumbai. Mr. Roy, you may ask your question now.

Abneesh Roy - Edelweiss Capital - Mumbai

Sir, good volume growth; my first question is on your new product offering in the tea business - discounted tea business segment, Brooke Bond Sehatmand. Could you share some details on the current positioning pricing as well as differentiation with earlier offerings? And how does it compete with the regional players?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

I think we have recently entered. So it is not in December Quarter, but it has just gone in. So as we speak the product has been shipped out. This is an offering which is playing at the upper end of discount, and it is a differentiated offering which is really a fortified tea, a tea which is enriched with vitamins and we believe that for consumers at the bottom of the pyramid this is a very relevant proposition. It gives along with a daily cup of tea they get nutritional supplement and therefore we expect this to start doing well. We have introduced it in UP, in MP, and in Bihar.

Abneesh Roy - Edelweiss Capital - Mumbai

Okay and Sir, my last question would be in foods. There was some news that we are entering some new segment, where exactly we are on that. Noodles for example, there was some news that you are entering that?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Abneesh you know that while we are intensely working on many things in foods and we will see things in 2010, 2011 and 2012. For obvious reasons we cannot talk about any specific entries that are planned for the future. So I cannot comment on what you are saying.

Abneesh Roy - Edelweiss Capital - Mumbai

Okay. All the best. Thanks.

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Thank you, Abneesh.

Hina - Moderator

Thank you, Mr. Roy. The next question comes from Mr. Bhushan Gajaria from IDFC-SSKI, Mumbai. Mr. Gajaria, you may ask your question now.

Bhushan Gajaria - IDFCSSKI - Mumbai

I think my questions have been answered. Thank you.

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Thank you, Bhushan.

Hina - Moderator

Thank you, Mr. Gajaria. The next question comes from Mr. Abhijit Kundu from Antique Stock Broking, Mumbai. Mr. Kundu, you may ask your question now.

Abhijit Kundu - Antique Stock Broking - Mumbai

Sir, I just had one question. With some kind of improvement in demand seen in the urban markets, which more or less can be linked to the better retail demand, what would be your view going ahead in case you have seen any kind of arrest in down trading in your urban markets?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Firstly, we have seen a slight slowdown in growth across both urban and rural traffic as reported by Nielsen. That is point number one. As far as we are concerned we do believe that longer term FMCG markets will continue to grow. Both urban and rural markets and will offer significant growth opportunities. Whereas we are concerned, our actions are designed to drive and enhance and accelerate the volume growth that we are getting which will help us lead competitive growth and restore the market shares as we move forward.

Abhijit Kundu - Antique Stock Broking - Mumbai

Okay Sir.

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Thank you.

Hina - Moderator

Thank you, Mr. Kundu. The next question comes from Mr. Ashit Desai from B&K Securities, Mumbai. Mr. Desai, you may ask your question now.

Ashit Desai – B&K Securities - Mumbai

Good evening Sir. Just one question. Besides Laundry, where we have taken some price cuts over the last few quarters, which are the other categories that we see and need to take pricing actions in order to make them more competitive and regain our market shares?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

I think whatever actions we needed to take we have taken. If the context changes and evolves as we move forward we will evaluate what we need to do in that changed context. We have said this frequently and we are determined to make sure that at all points in time we are competitive in the market. But as things stand we have taken the actions which are required for us to be competitive.

Ashit Desai - BNK Securities - Mumbai

So currently across Soaps and Laundry portfolio brands, the pricing that we have is partly competitive with the competitors?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Yes, but this a dynamic world that we live in and for anyone to say that it is all over and no other change will ever happen in the future that is incorrect. There are times when prices are taken up. If commodity costs were to move rapidly in the other direction then there may be a case for prices to move up. Equally if they were to move in the opposite direction then there may be a case for prices to move down. So our action and pricing is guided both by what is happening in from a thought scenario and of course what is happening in the competitive context and both of these are very volatile and unpredictable and will change overtime and we will base our actions based on how the future evolves.

Ashit Desai - BNK Securities - Mumbai

Okay Sir. Thanks a lot.

Hina - Moderator

Thank you, Mr. Desai. The next question comes from Mr. Shirish Pardesi from Anand Rathi Financial Services, Mumbai. Mr. Pardesi, you may ask your question now.

Shirish Pardesi - Anand Rathi Financial Services - Mumbai

Good evening Nitin, good evening Sridhar. Just a couple of questions. In the last conference call you mentioned that whatever action is required in terms of oral care and household care we have taken. Now we are seeing some pricing actions. Do you think that these pricing actions would, I mean the internal management is confident that it will really drive the volume what we are now looking for or is there is a trade off we have chosen against the margin expansion than the market share?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Like I said both in Oral as well as in HSE we have taken certain actions in December quarter. We have seen both our oral brands actually grow in volumes. They have not reflected in terms of market share in this quarter. We continue to watch this space as we move forward and will take actions as are required to restore competitive growth in this category as well. We are absolutely committed to this category.

Shirish Pardesi - Anand Rathi Financial Services - Mumbai

My last question for the next calendar year January-December 2010 what are the top three objectives for the senior management review?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

I think the number one objective we have talked about is to make sure that we strengthen our leadership position and start delivering competitive growth.

Shirish Pardesi - Anand Rathi Financial Services - Mumbai

Okay. Thankyou.

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Thank you.

Hina - Moderator

Thank you, Mr. Pardesi. The next question comes from Mr. Hozefa Topiwalla from Morgan Stanley, Mumbai. Mr. Topiwalla you may ask your question now.

Hozefa Topiwalla - Morgan Stanley - Mumbai

Thank you, very much. Good evening everyone. Just two questions from my side, the first is a very basic question. In the context of market segmentation and as consumers are maturing in India and of course heightened competitive intensity, why do you think Nitin that market share led growth at any cost is the best strategy for Hindustan Unilever both from a long-term and short-term perspective?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Hozefa thank you for that question. The only comment that I would make is, market share is an important measure but for a leading player like us market share is not the only thing that we do and not the only thing that we chase . Market development is just as important a criteria. And as India evolves, progresses and prospers, I think there is a responsibility that we have in terms of driving market growth. We have done that in many categories which are seen to be large today many decades ago. And we continue to invest today in many new emerging segments which I talked about - whether it is fabric conditioners, hair conditioners, in categories in Foods like soups, in premium skin-lightening etc. - where the game is not about market share, the game is about expanding markets and creating markets and categories. That is one.

Number two, we look at share and we look at market development not in isolation, but in the context of long-term value creation and we continue to be focused on that and we believe that at this point in time, it is important for us to restore competitive growth in the context and the actions which we are taking in our judgment are the right actions for value creation in the medium to long-term.

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

I think Hozefa, if I could just add that as you are well aware the value creation lever is outside of growth, also profitability, also capital efficiency. And while we are stepping up our efforts to grow the business we have also achieved a lot of progress in terms of our efforts to improve the cash delivery particularly through a further improvement of our working capital and certainly in 2009 we have achieved significant progress on this and have released a significant amount of cash from our working capital. So we are addressing all the levers of value creation.

Hozefa Topiwalla - Morgan Stanley - Mumbai

Okay, I completely hear your point. The only fear that I had was that when the market segments which they are segmenting in India right now, the income fund typically has to lose market share. Then for Levers to chase market share at the moment, the way they are doing in the last six to nine months at any cost, I am just trying to understand why should that be?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

So I think Hozefa, first of all the phrase that you use - chasing market share at any cost - I think is perhaps not appropriate. Certainly if you look at the last whatever you said, two to three quarters - if you look at our operating margins over the last three quarters they have expanded and even in December quarter where our volume growth has improved, our operating margin has been held, or you could say expanded by 10-basis points. So that is the first point. The second point I think is a time dimension perhaps of what you are looking at. When we look at this the time dimension you know we have been as a company around for 75 years and certainly intend to be around for some more 75 more years and beyond, so from a long-term perspective the competitiveness of our portfolio is absolutely crucial which is why I think Nitin made the point that competitive growth is our top priority but at the same time we also continue to invest in many of the emerging segments and you have seen some examples of that even in 2009.

Hozefa Topiwalla - Morgan Stanley - Mumbai

Perfect. My other question is exactly on that point on the new markets that Hindustan Unilever is trying to create in the premium hair and premium skin category. Is it possible for you to share some data in terms of what kind of growth you achieved in the premium skin and premium hair categories, what kind of shares you achieved there? How do you really assess the success or failure of the premium category in India?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

I think we could give. I do not have the detailed numbers. But if I was to take just the two segments that you talk about. Premium skin lightening - we are delighted with the progress that Ponds White Beauty and other introductions that we have made in that space. How it has performed. It is doing well, it continues to do well and it has expanded the market and it has uptraded consumers and people are moving up. We have introduced a new range of Vaseline – a range which has gone in and which is again uptrading consumers. And Vaseline Healthy White which we introduced, once again is creating a new segment in hand and body and we are pleased with its progress.

If you take Dove, which was our entry into hair, it is already the number one brand in Modern Trade. It has got leadership in many cities that we have gone to and clearly the fastest growing shampoo brand that is around. If you take hair conditioners, from a relatively small base we have been growing very rapidly and are growing shares. But again this is not a segment where you should be looking at shares, it is a case of how we are growing the market.

So the actual fact and the specific numbers I do not have with me for each one of these but all four of them are examples of how we have been building new segments. Take the last case which is fabric conditioners. For the last two years we were in the south. We started with one state, we expanded it into a few others and I think we have seen excellent results in terms of adoption, consumer delight and repeat buy grades

which are very, very healthy, which has encouraged us to actually expand and take this brand across the country soon.

Hozefa Topiwalla - Morgan Stanley - Mumbai

If you just assess the market potential of the premium categories in India and not comparing with China, say country like Indonesia where are we in terms of percentage contribution of premium skin and hair compared to country like Indonesia?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Currently much lower. If you were to take countries like Indonesia and China our premium segments are much lower and I think we are only beginning to see the development of the premium categories in the existing premium segments in the existing categories that we operate in. It is this that gives us the confidence that as India prospers and there are more affluent Indian consumers and attitudes change a new generation comes in and gets into the consuming class. These segments will see exclusive growth in the years to come. Today, they are growing. They are growing fast but of a very small base and therefore are not material in the context of the overall change, but over a period of time we will be and companies like ours have to continue to manage the existing portfolio and build a portfolio for tomorrow.

Hozefa Topiwalla - Morgan Stanley - Mumbai

Thank you, very much.

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Thanks, Hozefa.

Hina - Moderator

Thank you, Mr. Topiwalla. The next question comes from Mr. Richard Liu from JM Financial, Mumbai. Mr. Liu, you may ask your question now.

Richard Liu - JM Financials - Mumbai

Thanks for taking my question and good evening everyone. In the context of the downtrading phenomenon that you mentioned about Laundry and again Tea, just wanted to understand what is your reading of why has this phenomenon occurred only in these two categories alone. First in Laundry and then now in Tea and why have the other categories been left untouched. And if you were to look at it dispassionately, what in your reading could be the next in line, considering the trend if there is any analysis you have done on that? I have another one. I will take it after you answer.

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Richard, I think, the distinction I would make is as follows; when categories have relatively high penetration, as consumers try and deal with the economic pressure the impact results in downtrading. When categories have relatively low penetration then the impact that you would immediately see is the rate of penetrations build up and it comes down. It does not immediately lead to downtrading. That is one.

Number two across many areas you find the downtrading happens a little less in personal care categories where the levels of involvement and consumer involvement is significantly higher than in some of the other areas.

And the third case specifically if I was to look at Tea, in the context of loose tea and the commodity nature of loose tea and packaged tea and the shift which is taking place, as prices of the commodity went up very sharply there was a tendency for some uptrading from loose to package that reduced and some people might have slipped back into this space. So that is really what I would say.

Richard Liu - JM Financials - Mumbai

Okay if I had to take your penetration remark, would it be fair to assume that the next in line would be soaps if this phenomenon would have to continue?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Firstly, again I do not want to speculate in terms of what the next in line would be. I would basically make one other observation which is that yes we have seen down trading over the last six to nine months. But over the previous few years we have seen secular uptrading that has taken place. If you take the large set of trends that we are seeing in the country; which is rising incomes, increased urbanization, dual income families, changing attitudes towards convenience, changing attitudes towards personal consumption, whether it is urban and in fact changing attitudes even in rural; there is no reason to believe that the larger trends that this country will see will be a trend towards uptrading and there may be periods in between three months, six months, nine months which are there which may see uptrading or downtrading. That is one.

Number two, the other aspect I would say is in some ways a company like ours which has consistently believed in trying to straddle the pyramid with a portfolio of brands which are across various price points etc., in some ways it is insulated from these effects and in areas where we felt that our representation was not strong enough like in discount tea we have taken the steps which are required to participate in the segment.

Richard Liu - JM Financials - Mumbai

Sure. I take your point and that is precisely what I was referring to because at a time when we thought that the economic activity is improving and you know let us say business and consumer confidence is improving, we are seeing this phenomenon of down trading accelerating beyond one category. That is why if you were to let us say place fastest finger first on any one of the next category and considering your analysis that could have been done, what according to you could get impacted next?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Again this is likely to be speculative and I do not want to actually speculate in terms of which category is likely to be. Other than saying one thing, I do not think consumers like to downtrade. They do not do it out of choice. All consumers, all human beings want to move up. They want to move up in everything that they do, they want to see progress. This period of downtrading that we have seen has got forced as a result of several economic and environmental conditions which have been around, which are unlikely to remain with the same intensity as we move forward and we should see the situation improving. If it does not, thankfully we have our portfolio of brands, we straddle the pyramid and can benefit whether there is sometimes downtrading and sometimes there is uptrading.

Richard Liu - JM Financials - Mumbai

Okay I appreciate that. My second question is with respect to - you have this 5% underlying volume growth and I guess there would be a lot of calculations that all of us outside the company are trying to do as to how much of this has happened because of the base quarter not being a quarter where the UVG was only around 2%. If I were to look at it let us say sequentially and if I were to ask you what is the underlying volume growth of December versus September and how has this trend been in the past many years, you know December versus September underlying volume growth?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

I think I would not be able to give you the trend over the previous many years, September over December. I would just make one observation that this growth of 5% that we have got has resulted in a situation wherein almost every category. Our growth in volume in December quarter is ahead of market reported volume growth in those categories, ahead or equal to in virtually all categories. That is point number one I would make, which has not always been the case in the previous two or three quarters. So if you want to get a sense in terms of how this volume growth compares, how competitive it is that is one measure to assess this. We hope and we expect that this in the fullness of time will start translating into improved shares. We have started seeing that in volume shares in Laundry already in this quarter and we have seen that already translated in value shares in our Soaps business this quarter and we are determined to keep strengthening and improving our volume growth as we move forward in the quarter to come.

Richard Liu - JM Financials - Mumbai

Okay, if I can just push in one more. In accounting terms if I would have to say that if A&P was not a P&L item but a balance sheet item, how much of this 600 odd crores that you spend during the quarter is a front ended investment. In other words, how much of this is going to be sustainable going forward or will the amount come down or will it be in the same momentum?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

I think we have mentioned a little while ago in our observation that our level of spend has been higher than normative levels, but that has been doubled more as a result of the levels of innovation that we have seen in this quarter and the increased level of competitive intensity, as you would notice based on the overall levels of media heat measured by the aggregate to the FMCG industry on television, just being one yardstick to judge the increased level of competitive intensity. Our assessment is that as we move forward, if this intensity were to continue, our A&P spends will be higher than the levels that you have seen in the past. How much it will be will vary from quarter-to-quarter and how the competitive context changes. We are determined to make sure that we drive our effectiveness of this spend through things like measuring return on marketing investments, doing our modeling exercises, finding out whether we should be spending on media, whether we should be spending on promotions, is the money better spent through a pricing correction, etc., all of that we will continue to do. We will continue to drive cost effectiveness, we will continue to leverage our skill to generate the funds which are required to help us remain competitive and invest behind our brands. But the exact percentage I would not want comment because we would not know.

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Also I think, Richard if I could just add that to your point about if these were not charged off if this was in the balance sheet. First of all of course you are aware these costs are all charged to the P&L. But having said that we do also recognize and we all know as far as advertising spends are concerned, they do provide you the basis to strengthen your main assets which are your brands over the longer term. The contribution that it makes to your brands which are your key assets is sustained over a period of time with sustained investment in advertising. Therefore in a sense, the benefits of that you are right to say it is not all accruing in the same quarter, it accrues over a period of time. So if that is the point you are making then that is correct. All I would say is, in the December Quarter the step up which is there, the step up is more in the advertising side relatively compared to the promotion side. So the A part of our advertising has stepped up quite significantly.

Richard Liu - JM Financials - Mumbai

Sure that was very helpful. Thanks and all the best.

Hina - Moderator

Thank you, Mr. Liu. The next question comes from Mr. Manoj Menon from Kotak Securities, Mumbai.

Manoj Menon - Kotak Securities - Mumbai

Hi, couple of my questions have been already addressed to; just have a couple more. One on the spate of launches/re-launches what we have seen over the last six months in particular. If you have to address it on a scale of 1-10, any matrix which you would have, could you just help us understand, which of them have exceeded your expectations, met expectations or some sort of colour on that?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

I think most of the changes that we have made across our soaps portfolio have worked and we are beginning to see results. The actions that we have taken in our skin portfolio have worked. I mentioned some of the ones, which are entries into the new segment, the new categories which we are very pleased about and I have talked about those. Again there have been so many of them that it is not my intent to go through brand by brand. Each one of them has been launched and introduced at a different point in time and we keep tracking them over a period as we move forward and I would say, I think we are pleased with the actions that we have taken and on some brands where further action is required we would take them. The final measure of seeing whether these actions are working or not is based on the fact whether we are

able to increase and accelerate the growth that we are seeing in the market and over a period of time seeing how our shares start getting restored. That is the acid test finally.

Manoj Menon - Kotak Securities - Mumbai

Understood. Thanks. Just a takeaway from this. In one of the competitors under a concall couple of days back there was a reference to the shampoo market, specifically decelerated over the last may be four to five months or so. It is nothing to do with any specific company who give the reference to the shampoo market per se. First of all would you agree that is it right to understand that the shampoo market has decelerated? If yes some idea on why did it suddenly, specifically one category in personal care?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

If you recollect, Manoj, the comment which I made, that we have seen across categories volume growth as reported by AC Nielsen in December Quarter is substantially lower than the January-September period, which they were reporting. So that is, I think, point number one. Shampoos is one such category, which has reflected. So I can confirm that the market growth reported by Nielsen is indeed lower in December Quarter as compared to the previous quarter but it is not the only category. There are other categories as well. As far as we are concerned we continue to see a strong volume growth in the shampoo category through December Quarter.

Manoj Menon - Kotak Securities - Mumbai

Okay. In the context of price reductions over the last year or so and probably continuing for some more time, it should basically mean that in another six months time we would have been in a situation where 18 months of either declining prices or flat prices in the environment of the overall economy getting inflationary, where do you think the industry stands? Is it possible to refer to some categories in terms of pricing power at an industry level?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Again, what happens over the next six months, time will tell. There will be many factors. Factors in terms of what happens to the commodity cost scenario and what happens in the competitive cost environment and that will determine whether the prices move south or the prices moves north. I do not think it is a given at this stage that they will only move in one direction.

Manoj Menon - Kotak Securities - Mumbai

Okay. Thanks.

Hina - Moderator

Thank you, Mr. Menon. The next question comes from Mr. Anirudh Joshi from Anand Rathi, Mumbai. Mr. Joshi, you may ask your question now.

Anirudh Joshi - Anand Rathi Securities - Mumbai

Hello Sir. Just one month away probably we may have budget and last time when the Stimulus Package cut excise duties by almost 600 bps, we reduced the prices of some of the products. Assuming excise duty goes up by around 400 bps, do you see that Hindustan Unilever may decide to increase prices of its products?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Let us wait for the budget and we will act accordingly. I am saying there is plenty of speculation going out in terms of what is going to happen, I do not want to add and fuel that speculation. Let us wait for it and then we will act.

Anirudh Joshi - Anand Rathi Securities - Mumbai

Okay. Sir, one more question on royalty. What would be the net impact of increasing royalty to the parent?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

The first, I think, is for all of us to bear in mind that this royalty is applicable only to Unilever's specific breadth and Unilever's own brand. That is I think point number one. Point number two is, it is very clear that the benefits that we get on account of Unileverage, on account of using their brand, the equity, the innovation, the knowledge and technology far outweigh the costs that is incurred and what we would be getting. For example, in recent, has benefited enormously from their know-how and technology in launching Dove which is now the largest Modern Trade brand, Ponds Premium, Axe, Knorr, etc. And our effort will therefore be to continue to benefit from this and create value for our business and for our shareholders. The exact impact that you talk about, firstly, the impact will depend on the sales of the very specific brand and therefore cannot be generalized, but it could be in the range of about 60-70 basis points of turnover.

Anirudh Joshi - Anand Rathi Securities - Mumbai

Okay and that will start from January 1, 2010?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Yes it has started from January 1, 2010.

Anirudh Joshi - Anand Rathi Securities - Mumbai

Okay Sir, and very lastly on ad spend. Most of the competitors have indicated that with the rising competition the ad spend may remain around 13% to 14% instead of going back to around 10%-11% despite various re-launches which are one-time in nature. So do you see that probably the ad spend to sales for the Hindustan Unilever also may dip as the brand re-launches may not be there probably going forward? So whether can there be some savings of around 100 to 200 bps or we will again see as per the remaining around 13% to 14%?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

I think Anirudh if the question is, will the ad spends go back to 10%-11% kind of range. I think that the probability of that is fairly low for the reasons that I think we have talked about earlier. As far as what is the level it will be, will it be at the level of 14% which is the case in December Quarter, that will depend on two factors. It will depend on the activities or both innovations and activations that we bring to market which differ first quarter-to-quarter and secondly it will depend on the competitive intensity. We have seen clearly in December Quarter a significant step up in the overall competitive intensity and the level of spend by the FMCG market in aggregate. If that high level of spend by the FMCG market were to continue then clearly the A&P spend levels that we will be seeing will be well ahead of normative levels. The specific level will be dependant upon, as I said, on the factors. So it is quite difficult to put a specific number at this stage.

Anirudh Joshi - Anand Rathi Securities - Mumbai

Okay. Sir, and very lastly can you share in percentage terms the BTL spend that must have been done by Hindustan Unilever and how it has increased compared to December Quarter last year?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

I think while our overall spends have come down, the proportion of promotions has come down over sequentially and over previous quarter and I think the details you can talk about later.

Anirudh Joshi - Anand Rathi Securities - Mumbai

Okay Sir. Thank you, very much.

Hina - Moderator

Thank you, Mr. Joshi. The next question comes from Mr. Sanjay Singh from ICICI Securities, Mumbai. Mr. Singh, you may ask your question now.

Sanjay Singh - ICICI Securities - Mumbai

Hi, Sir. This is Sanjay here from ICICI Securities. Very good evening to all of you; just a small observation in the call that we have been speaking on competitive growth and the emphasis on competitive growth. Whereas if I recall, couple of quarters earlier or some time earlier the whole focus was on profitable competitive growth. So has the focus of the management in the short-term changed more towards competitive growth and now I think competitive growth rather than managing profitable growth?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

So I think if you reconnect we remain committed to create value creation in the medium term to long-term. We remain committed to making sure that we deliver competitive and profitable growth. We also said right in the beginning that the increased level of competitive intensity might mean that the actions that we have taken could result in some impact in the short term.

Sanjay Singh - ICICI Securities - Mumbai

Okay. That is where in terms of you know we have seen the market share loss in the past one year. But it has not been a very new phenomenon. The market share losses have been happening over the years, but this kind of spend would have been a very, very first time. So any thoughts on that? Basically any changes in overall management guidance in terms of what they are exactly looking for?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

I think the first point is, I want to just correct that in 2008 we grew at a rate which was faster than the aggregate. We grew at 20% in a market which actually grew at 17%. So, it is not as if the observation that you made in terms of what has happened in 2008 as well. It is true that in 2009 there has been some share loss that we have seen across our categories and we have taken the actions, which are required in order to sustain and strengthen the leadership position that we have got. We are beginning to see results and we look forward and we believe that as we move into 2010 we should see these actions bearing fruit, not just in volume growth, but in terms of market shares as we move forward.

Sanjay Singh - ICICI Securities - Mumbai

Okay and just a maintenance question which I forgot to ask earlier. Exports margins were pretty lower this quarter. Is there any particular reason for it?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

No Sanjay it is just a mix of our Exports portfolio wherein in this quarter the mix is different and therefore the margin profile is different. But in the individual segments there is no real erosion in margins. Plus there has been one off spend on moulds for packaging related to exports, which get charged off in the same quarter but obviously are used for exports over a period of time. So this is underlying as far as the margins of each of our export segment is concerned. In fact over a period of time, they have slightly improved.

Sanjay Singh - ICICI Securities - Mumbai

Correct. So this quarter margin is not reflective of the actual margins in exports.

R. Sridhar – Chief Financial Officer – Hindustan Unilever Limited

Correct.

Sanjay Singh - ICICI Securities - Mumbai

Okay, thank you very much for the answer to the question. Thanks.

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Thanks.

Hina - Moderator

Thank you, Mr. Singh. At this moment due to time constraints, we will not be able to entertain any further questions. This brings us to the end of the question and answer session. With this I now hand over the call proceedings to Mr. Srinu Srinivasan. Thank you and over to you sir

**Srinu Srinivasan - VP - Investor Relations, Treasury and Mergers and Acquisitions -
Hindustan Unilever Limited**

Okay, Just wanted to say, thank you to everybody and if you have any specific questions you could send me an email or give me a call. Thank you very much and that brings us to the close of this investor conference call. Thank you.

***** END OF TRANSCRIPT*****