June Quarter '09 Financial Results Conference Call

CORPORATE PARTICIPANTS

Mr. Nitin Paranjpe -
Chief Executive Officer - Hindustan Unilever Limited

Mr. R. Sridhar
Chief Financial Officer - Hindustan Unilever Limited

Mr. Srini Srinivasan
Vice President - Investor Relations, Treasury and M&A- Hindustan Unilever Limited

PRESENTATION

Shubha - Moderator

Good evening ladies and gentlemen. I am Shubha the moderator for this conference. Welcome to Hindustan Unilever Limited Investor Conference Call for quarter ended on June 30, 2009, of the full year ending March 31, 2010. For the duration of the presentation all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for the participants on this call. Present with us on the call today is the senior leadership team of the Hindustan Unilever Limited. We propose to commence this call with opening remarks by Mr. Srini Srinivasan, VP - Investor Relations, Treasury & Mergers & Acquisitions of Hindustan Unilever Limited, after which the floor will be opened for the question and answer session. I now hand over the call to Mr. Srini Srinivasan. Thank you and over to you Mr. Srinivasan.

Srini Srinivasan V. P Investor Relations Treasury & Mergers & Acquisitions – Hindustan Unilever Limited

Thank you Shubha. Good evening and welcome to all of you. Welcome to Hindustan Unilever's June quarter result's conference call. We have with us Nitin Paranjpe our Chief Executive Officer and R. Sridhar our Chief Financial Officer. We will start the presentation with June quarter results by Sridhar. Nitin will then address some of the queries, which have been raised by you and then we will have a Q&A session. If you have any questions I would request you to register with the moderator. Please identify your name and organisation before asking the question. For the sake of good order before Sridhar starts the presentation I would like to draw your attention to the Safe Harbour statement included as part of this presentation. Thank you and over to Sridhar.

R. Sridhar – Chief Financial Officer – Hindustan Unilever Limited

Thank you Srini and on my behalf as well a very warm welcome to our June quarter results conference call. Let us take a look at the FMCG market context in June quarter, before we talk about our performance. FMCG markets grew well, a trend that we have been seeing continuing for some quarters. Strong growth was observed in both urban and rural markets. Market growth was broad based across all our key categories, though the mix between price and volume growth has changed compared to March quarter in favor of a little bit more volume and less price. Off take in modern trade improved and we did not observe any significant outlet consolidations in June quarter; however the trend in de-stocking continued as retailers brought down inventory levels. We also witnessed signs of down trading in some categories particularly laundry. This trend indicates faster growth in the mass segment across brands and packs. Focus on consumer value therefore has been a key priority with price reductions and pack weight increases observed across several categories.

Coming now to our results for June quarter, our FMCG business grew by just under 13% some 100-basis points higher than the previous quarter with a distinct improvement in volume growth during June quarter. Our HPC business grew just under 12%, while growth in our foods business was ahead of 17%. In June quarter the volume growth recovered and we achieved positive 2% volume growth, which when compared to the volume decline in March quarter represents a swing of 6.2%. Net sales increased by just under 8% due to a plan reduction in non-core exports. We continued to focus on improving the quality of our brand offerings through innovations and communication. A number of brands especially in personal products and foods were re-launched during this quarter leading to the 26% growth in our A&P spend, an increase of about 180-basis points as a percentage of sales. The operating margin or PBIT margin grew by 12.6%, an expansion of 60-basis points compared to June quarter '08. This improvement in operating margin was delivered after absorbing the higher brand investment of 180-basis points as well as a negative impact of Rs. 32 crores relating to the mark-to-market charge from accounting restatement of Forex exposures at closing rates. This Forex mark-to-market impact during June quarter 2008 was a credit of Rs. 25 crores. Our profit after tax before exceptional items and before the mark-to-market accounting charge at Rs. 559 crores grew by just under 7%, while reported PAT bei at 538 crores was in line with the prior year. Net profit was lower by 2.7% due to the impact of exceptional items. You will recall that during our March quarter results call we had set out some key actions to regain market shares and improve volume growth. These were around strengthening the brands, and our portfolio including deploying our full portfolio continuously improving our mixes and delivering consumer value. We had also had specific time bound action plans for each of our categories. In addition, we also targeted reducing the cycle time of execution while we enhanced the front-end go-to market capability by improving quality of coverage in urban and rural through consolidation and leveraging technology. I am happy to say that all these key actions have progressed well and are on track.

I would now like to share with you the key highlights of our performance in June quarter. Firstly we returned to positive volume growth a 6% swing from March quarter. Personal products and foods categories both witnessed strong volume growth while soaps and detergents faced some residual transition impact during this quarter. The time bound action plans initiated in the last quarter are now underway and some early results are visible in terms of volume growth as well as share gain in our personal product categories. We increased the investment behind our brands during this quarter, a large part of this investment went behind supporting the innovations that were deployed in this quarter as well as making sure that our spends were competitive to further strengthen our brand equities. We have also made significant progress in our urban go-to market initiatives, which is also progressing as per plan. We have delivered an improvement in operating margin of 60-basis points. This improvement has been achieved through a combination of lower input costs including our buying efficiencies, a very tight management of our own costs, our indirect and overheads and improved operating leverage through savings and overheads. Further the operating margin improvement has been achieved after absorbing higher advertising and promotional investments and absorbing the Forex mark-to-market charge of 32 crores relative to a gain of 25 crores in June quarter last year. You will also be aware that arising from the huge volatility in financial markets in December quarter last year we shifted our financial investments into more secure fixed deposits, but with lower yields. Last year during June quarter we had realized profit from sale of double indexation FMPs. Consequently this year the financial income is lower to the tune of about 56 crores, which is largely due to the sale of mutual fund investments in June quarter '08. The effective tax rate has increased to 23%, due to the end of 100% tax holiday in some of our units; these units are now enjoying 30% tax exemption. As a measure of our underlying operational performance our profit after tax excluding the impact of exceptional items and the forex mark-to-market restatement has delivered an increase of 6.7%.

Coming now to sales our FMCG sales growth in the current quarter is just under 13% with a volume growth of 2%, which as I mentioned earlier compared to the March quarter '09, is a swing of 6%. The price growth during June quarter is 10.6%, which is lower than the price growth realised in March quarter '09. This improved volume growth performance has been driven by the actions I mentioned earlier including steps to enhance consumer value. Looking at our sales performance across HPC and foods businesses our growth in home and personal care is just below 12% with very strong volume growth in personal products, but a residual impact of transition in soaps and detergents. Our foods growth at 17.3% has been driven by a strong volume growth in ice creams and processed foods. Driving this growth has been the A&P investment behind our brands, which increased by 35.8% to 12.5% of sales. This is an increase of 180-basis points as percentage of sales and we invested this incremental A&P behind the innovations that were launched across various categories as well as higher media spends to strengthen our brand equities further. The increase in spend levels relative to March quarter is entirely in the area of media spends as we stepped up our investments towards longer term brand building. After absorbing this 180-basis points increase in our A&P investments we have improved the PBIT margins by 60-basis points through the combination of factors that I mentioned before.

I would now like to move to analysis of our category performance starting first with the top line growth. Soaps and detergents business grew by just under 10% with a residual impact of the transition during this quarter. Personal products business growth was just under 15% with a very large contribution from volume. Our beverages business grew at 18.6% while we saw strong growth largely volume led in both ice creams and processed foods at 23% and 14.7% respectively. In Home and Personal Care all our categories have recorded growth during the quarter. In the next few slides we will discuss the performance in each of our key categories in some detail. Starting first with our Home Care category, we have implemented all the key actions to improve competitiveness in our laundry business; our growth during this quarter was led by Surf and Rin. In Wheel while we have taken action to improve consumer value through gram mage increases there has been some share loss during the transition. As the commodity prices in this category have softened we benefited from lower input cost, which has contributed to improved category margins. In Household Care, Vim continues to perform well with strong volume growth and Vim Dish Wash Liquid continues to grow well. During the quarter we launched Cif Surface Cleaners. Moving on now to soaps and skin care; in soaps the steps that we have taken include pricing actions as well as actions to deploy the fullness of our portfolio. Some effect of these actions can be seen with Breeze showing good volume growth. Lifebuoy and Liril were re-launched during this quarter. Of course it is early days to see the results. Dove continues to grow rapidly. Overall in our soaps category the volume market shares have stabilized during this quarter though value shares remain under pressure. In Skin Care we have launched Pond's Premium Skin Lightening under Pond's White Beauty and Vaseline Healthy White. These have contributed to the premiumization of our portfolio and have received good consumer response. Fair & Lovely continued to do well especially in the core multivitamin offering and drove category growth and volumes. While the MAT market shares in Skin Care are yet to reflect the improved sales performance, we have seen improvement in the monthly Skin Care shares within the months in June quarter.

Next, our Hair and Oral Care category; the Hair Care category had a strong quarter with good volume growth and sequential market share gains compared to March quarter '09. Clinic Plus and Sunsilk showed strong volume growth and Dove doubled sales over June quarter '08. During the quarter, Clinic All Clear was re-launched as Clear. Oral category performed well with volume led growth. Close-Up continues to do well. Both Pepsodent and Close-Up recorded improvement in market shares in June quarter relative to March quarter.

Coming now to foods, all the categories in foods have grown during the quarter. Overall foods grew by 17.3% and in the next few slides we will discuss the individual category performance within foods. Starting with beverages, the beverages growth during the quarter was led by tea. All brands continued to grow well with both the premium and mass range registering good growth. However, tea commodity costs are still ruling firm and this has contributed to some down trading. We have made revisions to the pricing of specific packs during the quarter. We believe this will improve our competitiveness going forward. Coffee growth was led by instant coffee as large packs continue to drive growth. In processed foods, we had an overall good performance with ketchups and jams driving category growth. Salt achieved good volume growth during the quarter. In ice creams too, we delivered strong volume led growth with all segments performing well. Kwality Walls Swirls parlours are now present in 65 locations across 18 cities in the country. Our Pureit water business continues to expand its footprint and has now reached more than two million households across 1500 towns. The business continues to strengthen its distribution capability as well as brand equity through differentiated activation. The business progress is in line with plan.

As far as exports are concerned, exports declined by some 35% due to a plan decline in non-core exports. This decline was primarily in segments like bulk tea, raw coffee, FMCG intermediaries, marine and rice; however, the profitability of the exports business continues to improve, which is seen in the improved operating margins.

Let me now take you through the financial performance of June quarter in some detail. As I have mentioned earlier net sales grew by just under 8% with domestic FMCG businesses growing just under 13%. Other operating income declined by some 68% entirely due to the mark-to-market forex charge on the outstanding exposures, which impacted other operational income by 32 crores during the quarter. When compared to the credit of 25 crores in June quarter 08 this represents a swing of some 57 crores. Cost of goods sold increased by 5.2%, but as percentage of sales it showed a reduction of 110-basis points, which is primarily due to the benefit of lower input cost and cost efficiencies. We are seeing some softening of cost in chemicals, etc., but in area such as tea costs rule firm. Employee cost declined by 1.4%, but on an underlying basis the employee costs are up by 3%, the difference being due to some special incentives in the base. A&P expenditure as mentioned earlier grew by 26%, other expenditure declined by 5.4% driven by tight cost management, reduction in distribution costs and operating leverage as a result of all the above PBIT from operations before exceptional items was up by 12.6%, 60-basis points expansion of margins.

Profit before tax and before exceptional items grew by just under 5% largely due to the impact of lower financial income linked to the sale of investments in the base, which I referred to earlier. Profit after tax, but before exceptional items on a reported basis is flat due to the increase in effective tax rate in the quarter. Net profit declined by 2.7% due to exceptional gains in the base. In order to help understand the underlying progress on bottom line I will shortly share with you an analysis of the net profit during the quarter, but before that just a quick look at the exceptional items during the quarter. As mentioned in the chart the exceptional items during the quarter include gains from asset sales of Rs. 5 crores partly offset by restructuring cost of Rs. 2 crores. Relative to the prior year this is a much lower level of exceptional item credit in June quarter '09.

I would now like to take you through an analysis of our net profit to help you understand the underlying bottom line performance in June quarter. The reported net profit decline of 2.7% includes the impact of exceptional and extraordinary items, which are not in the nature of ordinary business operations. Excluding the impact of these exceptional and extraordinary items the reported profit after tax has remained flat compared to last year; however, the forex mark-to-market charge arising from application of Accounting Standard 11 to restate our forex exposures has a swing of Rs. 37 crores on an after tax basis. On a pre-tax basis as I mentioned the swing is almost about 60 crores. I believe that most of you are aware that we follow a fully hedge policy with respect to our forex exposures. Hence the mark-to-market accounting impact is purely an accounting impact and it does not earn the impact or underlying business economics. Therefore excluding the impact of this mark-to-market charge profit after taxes before exceptional and extraordinary items has grown by 6.7% and this reflects our underlying bottom line performance.

So in summary, we closed June quarter with the healthy FMCG sales growth of just under 13%. The actions that we set out last time are on course and early signs are positive. Driven by strong volume growth in personal products and foods our underlying volume growth of 2% in June quarter reflects a positive swing of 6% compared to March quarter volume performance. We are also starting to see some results in shares with sequential market share gains and key personal product categories of hair and toothpaste. Investment behind brands as well as strengthening of executional capabilities continue, despite increased A&P investment we have expanded operating margin by 60-basis points and excluding the mark-to-market accounting charge, our profit after tax before exceptional items grew by just under 7%. With that let me now hand you over to our CEO Nitin Paranjpe for his comments.

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Good afternoon, good evening, good morning, depending on where you dialed in from. Thank you for joining the results call today and Sridhar has just briefed you on June quarter performance. Before I move on to address the questions that you might have I thought I will just reiterate two or three things. First the fact is that markets remained strong both urban as well as rural. Second as of now, and I highlight as of now, we have not seen any impact on account of a delayed monsoon; however, we will continue to watch this space very carefully so that we are able to respond if any such change is observed. Third, I just wanted to reassure everyone that all the key actions that have been spelt out and shared with you at the end of March will strengthen our competitiveness and our execution capability have progressed well and are on target. We will continue to pursue those and build on our competitiveness even further as we move ahead. You would recollect that these actions were in the space of strengthening of brands and portfolios, a specific time bound action plan for each of the categories where we had issues, strengthening our front end capability and the work, which were initiated to compress execution cycle time. Early results from these are beginning to be visible and Sridhar has just showed you some of that.

As we look ahead we do see a situation of the result of all the pricing actions, which we have taken and indeed many other players in the market have taken as we look ahead the balance of growth between price and volume is likely to undergo a change. Now over the last 24 hours there have been a few key themes or questions that have been raised by several of you and could be of interest to many of you. So I propose to address those questions first before responding to any specific queries that any of you may have. Now let me begin with the first question or theme that has come up and this has been around the fact that we have seen improvement in volume growth in this quarter and a question whether we are likely to see a similar improvement in volume in the coming quarters. Now you all know that there are many factors that impact growth external as well as internal factor. You also know that we do not give guidance. Having said that, I can say that we have taken all necessary steps and remain committed to delivering competitive growth. We also expect as we move forward price growths to come down and volumes to improve as we move forward. There is a question on which people have raised in the performance of the soaps and detergents business. Even in the March call I had stated that in soaps we are determined to recoup the losses, which we had seen in our shares. We have seen a stabilisation of our volume shares, but we continue the need to grow more in order to see the reversal in our value shares. We had said we would deploy the totality of our portfolio to cover all price and benefit positions to compete effectively not just with the large players, but also with the small regional players. Though it is early days we would have noted that Lifebuoy and Liril have been re-launched and we will see ongoing interventions as appropriate over the coming months to address other brands in the portfolio and strengthen them even more. Making sure that our consumer value propositions are absolutely right is key and central to what we do. We have taken actions of the discount end as well and we have strengthened Breeze and Breeze has done well through the quarter. We will continue all action that is required to achieve what we have called competitive growth and profitable growth in this business. As far as Laundry is concerned it is a story of two halves. You have seen Surf Excel and Rin perform very well. Having said that we did see residual transitionary issues in Wheel. The actions of correct pricing be it in Wheel bar or in powder have been taken. We expect these actions to bring fruit as we move forward. This category has grown very well over the last couple of years and we have grown shares last year and the year before that. We feel confident that with the appropriate intervention we will revert and return to the strong growth that we used to see in this category.

As regard to profitability is concerned you would have noticed that the segment margins have improved by 390-basis points over the last five quarters. Now there was a question, which was around the fact that our segment margins in PP are lower and there were people who wanted to understand the reason for the same. Now the first fact is that our entire PP portfolio was very well supported and has resulted in broad based growth driven by all brands including brands like Sunsilk, Clinic Plus, Close-Up and FAL and Dove. In addition to this we have three key launches, Pond's White Beauty, Vaseline Healthy White and Clear. Investments behind these three launches and supporting the PP portfolio meant higher ad spends in this category, which is reflected in the PP margins. A related question to this has been the fact that A&P 12% is amongst the highest in recent times. Is this a reflection of the step-up, which we are likely to see during the entire year? All of you are aware that our spends are solely a function of the level of activity which we see in the marketplace, the level of competitive spends which are there and really the level of activity which we have in terms of all launches and re-launches. That meant the investment, which we saw in this quarter. How it pans out in the future would really be dependent on the competitive intensity and our re-launch agenda which we have in that quarter and it would not be appropriate to take this quarter as a basis. It could be higher-end lower base or lower based on the plans that we have in that quarter. There is a question around our portfolio competitiveness in the context of the results that we have declared. We have always stated that our goal is to deliver competitive profitable and sustainable growth. We have always stated that we run this business not from a quarter-to-quarter, but we would take the steps which are required in order to deliver this in the longer term. We feel confident that the actions that we are taking are strategically the right action, which will help us improve the competitiveness on this business and thereby contribute to the long-term value creation of this business. We feel excited about the opportunities that exist in the FMCG space and we are confident and we feel good about the brands and the portfolio that we have, which will help us maximize this opportunity. We will focus not just in market share, but will also focus on building categories and growing markets. We have said before and I am going to repeat it that the health of this business would be determined by us making sure that we are winning with the consumers of tomorrow and the channels of tomorrow and in the segments of tomorrow even if they are small. Those are the actions, which are required and investments will be made to build strong positions out there, which will help us in the long-term.

There has been a question around operating expenses like employee cost and other expenses, which have come down. Are these sustainable? Now in the last quarter, we talked of an approach, which is business usual on growth and unusual on cost. These are tough in challenging times and we are determined to make sure that we are tight on that cost and bring down the structural cost of this business to a level, which makes us very competitive. It gives us the fuel to invest behind our brands and the fuel to make sure that we get competitive growth. We have taken those actions; we have been consciously reducing our overheads. These have yielded results. We will continue to focus on reducing the fixed cost base of this company.

There is a question around effective tax rate of 23%, what does this mean for us and is the company aware of the fact that the sunset clause comes into is applicable for March 2010. Sridhar has explained this that some of our manufacturing units in the North have moved from 100% to 30% and that has been responsible for the movement of effective tax rate to 23%. That is our view of what the tax rate is likely to be for this fiscal year, which we have got. Of course we were aware of this sunset clause and we will continue to explore opportunities as appropriate and sensible with the view to maximize fiscal benefits.

There is a question around is the management focused on EPS growth? As we have consistently communicated we remain focussed in competitive profitability and sustainable growth to ensure long-term value creation. This of course is reflected to EPS growth in the short-term. All of you understand this and I do not therefore want to elaborate it. There are many drivers to improving EPS and these would include business drivers like top line growth and operating margin at the same time include financial drivers like investment deals and the effective tax rate. We remain committed to focusing on all key drivers to drive the value creation agenda.

Lastly, I think there was a question, which was asked around whether management targets have been aligned to EPS growth? All our targets are aligned to the value creation agenda, which includes top line growth, profitability and cash. In addition to this middle and senior management also has stock as an integral part of the remuneration package. These were the sorts of questions or themes, which had come up over the last 24 hours, which I thought I would take up front and share our response with you for the benefit of every one who has joined in. I now would like to hand it back to Srini and who will share with you the balance part of this call.

Srini Srinivasan V. P Investor Relations Treasury & Mergers & Acquisitions – Hindustan Unilever Limited

Thank you Sridhar and Nitin. Shubha we are now open for questions.

Shubha – Moderator

Thank you Sir. We will now begin the question and answer interactive session for the conference participants connected to audio conference service from Airtel. Participants who wish to ask questions may please press "*" "1" on their touchtone enable telephone keypad. On pressing "*" "1" participants will get a chance to present their question on a first-in line basis. To ask a question, please press "*" "1" now. First question comes from Mr. Abneesh Roy from Edelweiss Capital, Mumbai. Mr. Roy you may please ask your question now.

Abneesh Roy - Edelweiss Capital – Mumbai

Sir congratulations on the encouraging set of numbers on the core business. You have answered most of the questions. I had just two questions. First one was, you said there is some residual impact of transition in soaps and detergents and particularly in some brands you mentioned like Wheel, I wanted to understand whether this is related to raw material inventory or is it related to lag effect of price cuts?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Yes, hi Avnish, this is not related to any raw material, it is related to the long pipeline that we have and the pipeline gets longer when we deal with mass brands which go down into small rural markets and that is the pipeline in the transition which we have experienced through June quarter.

Abneesh Roy - Edelweiss Capital – Mumbai

Sir second question is in modern trade we have seen some kind of revival so what would be the outlook, have you seen growth pick up in these kind of channels and if you can elaborate it on modern trade?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Yes, we have seen growths improved in modern trade in June quarter. We have also seen shares actually pick up in modern trade. I have mentioned that our goal is to make sure that our shares in emerging channels, segments and consumers is in line or ahead of general trade, modern trade has reached the goal and continues to strengthen its position.

Abneesh Roy - Edelweiss Capital – Mumbai

Sir, last you have launched a new product Cif in the surface cleaner category, I think it has been test marketed in some of the states only. Would you share - has it met some internal benchmarks?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Firstly, Cif is very new. Cif is a very large and a strong brand, which Unilever has. It is a very distinctive product offering that we have got. We believe it will address the cleaning of small surface in a unique differentiated manner. We have introduced it here, but it is a category and a brand which we will have to build, it will take time and is not something where you can see instant results tomorrow.

Abneesh Roy - Edelweiss Capital – Mumbai

Sir, how big is that market, overall?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

It is a very small market today and it is introduced in the context of market development and market creation because we feel it will be a market which would be a substantial in the fullness of time.

Abneesh Roy - Edelweiss Capital – Mumbai

Okay sir, that is all from my side.

Shubha – Moderator

Thank you, Mr. Roy. The next question comes from Mr. Hemant Patel from ENAM Securities, Mumbai. Mr. Patel you may please ask your question now.

Hemant Patel - ENAM Securities - Mumbai

Hello sir, I just have two questions. The first one being at the discount end, the pricing differential between Hindustan Unilever products especially for categories like laundry soaps and skin. I think differential between competitions narrowed or below, could you give us an idea of where it is and we need to take further pricing corrections?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Hi Hemant, again this is a very broad question that you asked and it would vary from brand, category and the nature of regional competition that we have. However, the point that I would like to stress, is that we are actively tracking what we call relative price index and strategic pricing. Each of our brands has a strategic price and that might be at a premium to somebody else, it might be at a parity to someone else, it could be a discount to someone else. Towards the end of last year our prices had relative price index and our strategic pricing had gone under a little loss and through the early part of year this we have taken steps to correct it. It has taken some time to land but we are seeing the benefits of that and we are seeing most of our brands come down to the level pricing which we have seen is right for them to compete. Whether will it be more actions required in the future only time will tell because relative pricing by its very definition is relative, it is a function of what somebody else has done and therefore making sure our brands are competitive and therefore I cannot comment in terms of whether anything else is required. What I can say is we remain determined to make sure that our brands are competitive and so we will take the actions which are appropriate.

Hemant Patel - ENAM Securities - Mumbai

Just on the relative bases at least in laundries and soaps how are we this quarter, versus last quarter same time, sequential quarter meaning March?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

How do you mean?

Hemant Patel - ENAM Securities - Mumbai

Is the pricing differential still wide or narrowed out where are we at the moment? That is what I want to know actually.

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

When we say that the actions are bearing fruit, it means that we are coming closer and closer to the relative price index and strategic price that we want to be at.

Hemant Patel - ENAM Securities - Mumbai

Another question I had was on the capital employed, just noticed that especially in soaps, detergents and personal products there has been a sharp reduction. I wanted to understand where, I mean obviously a large part of it is to do with inventory, really wanted to understand how this is playing out in the P&L front?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

I am going to ask Sridhar to answer this question.

R. Sridhar - Chief Executive Officer - Hindustan Unilever Limited

So Hemant I think as you have rightly observed capital employed has shown a very significant improvement during this quarter and I think you also picked up that it is driven by inventories so essentially the entire area of working capital which as you know that is an area of continuous focus in HUL, we made some very good improvements in our working capital productivity across stock, debtors and creditors, so inventory is one piece, but we have a very focused plan on continuously improving our working capital productivity which is what has happened during this quarter and this is one of the main drivers of the reduction in capital employed. In addition, there is also from time-to-time different levels of inventory that we hold depending on what is our view in terms of strategic stocking, etc., those will play out differentially and as far as our finished goods which is sort of the days on hand measure that we have that have shown substantial improvement during this quarter. So it is you know mix of all these factors that have contributed to a very good improvement in capital employed in the specific business segment.

Hemant Patel - ENAM Securities - Mumbai

I guess an additional question to that was this a high cost inventory which ran through this particular P&L this quarter?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Not necessarily, it is a point that I think I mentioned while talking about what contributed to our operating margin, I talked about that there was a mix in certain specific commodities we have seen some softening of cost in some other commodities like tea, you have seen hardening of cost so that is quite a mixed picture.

Hemant Patel - ENAM Securities - Mumbai

And again a broader question in terms of a cost index where are we as on date is it still moving downwards or because of the current revival in palm oil prices how do we look at it?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

You if pick on individual items the story is different. As I mentioned during the call you know tea for example is ruling firm, whereas some of the chemicals are softening, so overall I would say it is sort of flattish, it seems to be broadly benign would be the overall comment.

Hemant Patel - ENAM Securities - Mumbai

All right, thanks a lot.

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Thank you.

Shubha – Moderator

Thank you Mr. Patel. The next question comes from Mr. Percy Panthaki from HSBC, Mumbai. Mr. Panthaki you may please ask your question now.

Percy Panthaki - HSBC - Mumbai

Hi, Sir, congrats on a good set of numbers. My question is regarding trade margin, has there been any change in the trade margins that is offered to the distributors or the retailers in order to incentivize them to push the product?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Hi Percy, firstly our trade margin structure for the retailers has remained unchanged, that is point number one. The way we think in terms of incentives and programs is largely based on brands which are there and those are really a part of from quarter-to-quarter different brands at different times will get - might be for most they could be trade incentives, but that is an ongoing story. Structurally we have not altered anything between March quarter and June quarter as far as the trade margins are concerned.

Percy Panthaki - HSBC - Mumbai

These one-off incentives that you gave, have they increased structurally or rather even cyclically have they increased?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Nothing material or significant to report in terms of increases or decreases, as are there, wherever we have take an action, we take an action in terms of pricing and if we have seen some correction which has gone to the trade, it is more in the nature of addressing the price differential which might have existed and to make sure that we are competitive.

Percy Panthaki - HSBC - Mumbai

If increase in A&Ps mostly in A and lesser in P.

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

That is correct. We have substantially increased the investment behind A to make sure that our share of voice is very competitive. This has been a period where we have seen the seats in certain categories have gone up and we were determined to make sure that our brands got the right levels of support, both from the share of voice perspective and based on the innovations which we had to be fully funded.

Percy Panthaki - HSBC - Mumbai

Sir, my question is on the 30-day, 60-day plans that you had drawn up and obviously there you are showing results, personal products has shown a good volume growth in this quarter. Just wanted to ask you and share according to your plan, in which quarter do you expect the soap and the detergents turnaround in terms of volume?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Look Percy, much as I would want or even if I could I cannot share with you because you are aware as to the number of different factors, which come into the picture. All I can say is we have taken steps, we have taken the interventions, we see no reasons why we should not see sequential improvement as we see the times going ahead and it should happen in soaps and detergents as well. At what rate that improvement is only time will tell. I am possibly more impatient then anyone else when it comes to this.

Percy Panthaki - HSBC - Mumbai

But Sir you would have some target build in?

Nitin Paranjpe – Chief Executive Officer - Hindustan Unilever Limited

Of course we do, but that if I share those with you, it would be in the line of giving you some guidance.

Percy Panthaki - HSBC - Mumbai

Okay, thanks a lot, all the best.

Shubha – Moderator

Thank you Mr. Panthaki. In the interest of time we would request the participants to limit their questions to two. Participants can rejoin the question and answer queue by pressing "*" "1". I repeat in the interest of time we would request the participants to limit their questions to two. Participants can rejoin the question and answer queue by pressing "*" "1". The next question comes from Mr. Nikhil Vora from IDFCSSKI, Mumbai. Mr. Vora you may please ask your question now.

Nikhil Vora – IDFC-SSKI - Mumbai

Thanks. Hi, Nitin. Nitin a couple of things. One was just to look at the volume growth, de-growth that are reported during the quarter, this is obviously the adjusted weighted price volume decline that we are looking at. Does it mean that specifically for the soaps and detergents category, does it mean that Lux and Lifebuoy de-growth is far more shorter, though that Dove has doubled its franchise and I presume that these activation would have also worked in terms of volume growth there. So can you just give a broad sense about the de-growth for Lux and Lifebuoy?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Yes, you are aware that we do not get into brand wise volume out here, soaps has reflected a flat UVG. We have talked about Dove, which has done extremely well doubling its turnover but the reality is that the Dove's business is a part of the overall business is quite small.

Nikhil Vora – IDFCSSKI - Mumbai

But would it mean that Lux and Lifebuoy de-growth of this is fairly sharp?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

No it could not mean that the de-growth is fairly sharp, not at all.

Nikhil Vora – IDFCSSKI - Mumbai

Okay, second was looking at other categories which include water that has seen a 45%-odd decline, again what should one really takeaway, is more to do with the fact that Pureit system sale are starting to taper off?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Nikhil Pureit has continued to go in line with our business plans. No problem at all and Sridhar will give you an explanation as to what the source of decline is.

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Nikhil as I mentioned Pureit is doing very well, it is on plan and it continues to record very strong growth, but as you rightly picked up the other segment has shown a decline because that comprises not only Pureit but some other categories like Noodles, etc., intermediary products, soap, noodles etc., which are something that have declined a in fact consciously we have been phasing out, so it is a tale of two stories the core of which is Pureit water continues to grow very strongly.

Nikhil Vohra – IDFCSSKI - Mumbai

Okay, and just lastly if I can, on personal products margin decline how is it more to do with skin segment not really shaping up as much as the product mix changing significantly within the PP category?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

I think it is primarily, firstly if there is nothing to do with skin not shaping up. Skin has performed well.

Nikhil Vohra – IDFCSSKI - Mumbai.

In terms of margins I was talking about, Nitin.

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

It has done well and the primary reason for the personal products margin being low is the higher levels of A&P which we have seen in this quarter.

Nikhil Vohra – IDFCSSKI - Mumbai.

And that would still get reflected on the top line growth?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Yes you have seen the numbers.

Nikhil Vohra – IDFCSSKI - Mumbai

Okay thanks for this Nitin

Shubha – Moderator

Thank you Mr. Vohra. The next question comes from Mr. Jamshed Dadabhoy from Citigroup, Mumbai. Mr. Dadabhoy you may please ask your question now.

Jamshed Dadabhoy - Citigroup - Mumbai

Just a quick question on your employee cost and SG&A, I have noted that you have managed to cut them down quite well. Can you shed some light on how we are all doing this and how sustainable it is to cut down these cost heads, both employee and SG&A?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Hi Jamshed, as far as the employee costs are concerned, I think you alluded earlier that the underlying employee costs have gone up by from 3%. The reported costs are lower because of some special incentives, which were in the base. As far as the other costs are concerned, those indeed reflect the results of a lot of actions we have been taking in terms of very tight control on indirect, significant reduction in overhead costs, as well as some improved efficiencies in terms of our distribution cost. Now, these are partly, you know, under the complete internal control of the company to that extent they are sustainable, but partly things like distribution or utilities, power, fuel are of course dependent on some external factors as well.

Jamshed Dadabhoy – Citigroup – Mumbai

Okay. Thank you.

Shubha – Moderator

Thank you Mr. Dabhoy. Next question comes from Mr. Hozefa Topiwala from Morgan Stanley, Mumbai. Mr. Topiwala you may please ask your question now.

Hozefa Topiwala - Morgan Stanley- Mumbai

Thank you. I have three questions, first is you mentioned there are initial signs that make you confident that your strategy is working. Apart from Breeze, can you highlight any such initial green shoots that you can see, which makes you confident that the strategy currently is working?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Yes, I think the first thing, which is to do with the fact that we are seeing reversal in shares and growth in sequential shares across PP. The fact that all our personal product categories are performing quite well, we have seen the strong reversal to growth, and we have seen it reflected in market shares on a sequential basis in oral as well as in hair and as far as Skin Care is concerned we have seen improvement within the quarter within April, May, and June, every month we have seen an improvement. While we report MAT numbers and it will take a while given the decline which has happened over previous many months, a 12-months MAT will take time to reflect the improvement, which is taking place as we see the monthly progress we feel good about the shares and the improvement, which is taking place, and all of these are a function of the actions, which we have taken. Some of the actions are about pricing, but the actions are also about making sure that we provided competitive levels of spends and investments and the launches and re-aunches, which are taking place. As far as laundry is concerned, we feel very good about the fact that both Surf as well as Rin continue to grow strongly although not reflected in shares in this quarter, but sometimes have a lag and have many other factors. We are growing in these two brands well ahead of the reported market growths and the issue, which we have currently, is Wheel, which admittedly is still undergoing a challenge through the quarter, which we faced. We have taken bold actions and corrected the pricing as appropriate, but we are facing competition there, but we see no reason structurally why Wheel will not get back to growth. Fantastic last couple of years and as we correct the issues which we are just facing Wheel will revert to growth. As far as soaps are concerned, we have talked about the fact that we would deploy our full portfolio, you would have seen it is not just about Breeze, for example Breeze is about pricing and we have corrected for that and we are beginning to see growth. We had a re-launch of Liril, Liril has gone in as a genuinely improved product, improve packaging, fundamentally new communication and proposition, and again while it is small we are seeing the benefits of that coming through. Dove is more than doubling as far as in hair and we are seeing the benefits of that as well. We have re-launched Clear and in modern trade again the focus is on making sure that we are growing in channels, which are the emerging channels of tomorrow, which is a focus for us, and we are seeing results in modern trade across our portfolio where our shares are moved up and on an aggregate now we are ahead of general trade. We have seen shares improved both in foods as well as in HPC in modern trade. So again, there are several things and as far as skin cleansing, which has been a very significant issue as far as we are concerned over not just the last one quarter, but over the last few quarters you have seen actions which have taken place on two fronts, which is Lifebuoy and Liril in the form of re-launching, but while Lifebuoy has not seen the result in terms of market shares, we feel confident that it will see things moving ahead, and there are series of actions that we have got going forward. The other aspect of the way we could think in terms of green shoots as far as skin cleansing is concerned is that while value shares may have come down but for the first time after a few quarters, we have seen a stabilization in terms of volume share so our volume share is across the quarter and now it is stable and that gives us the confidence that some of the action that we have initiated even on skin cleansing are bearing fruit, so as the volume shares stabilize now we will look towards growing the volume shares and that will eventually lead to value shares also moving in the right direction.

Hozefa Topiwala - Morgan Stanley- Mumbai

Perfect. The other question I had is on, you know, the key focus on tomorrow's markets and tomorrow's product category and tomorrow's consumers, which of course clearly is the right focus, but particularly in the next couple of quarters, how do you balance the overall investments between tomorrow's products, tomorrow's markets, with the existing categories, and clearly at least in the last couple of quarters that balance seems to have had some disruption, so what is your overall part on balance in long term with the short term?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Look I think that is our own and that is really why we are there to exercise on our judgment in terms of what is appropriate now and a company of our size will always have the staff for managing the short term and the long term, the portfolio for today and the portfolio for tomorrow, and we will be prudent as we do this. Our capacity to actually shift the portfolio for tomorrow is very squarely dependent on having the strong and a robust score, so we will of course be taking all steps, which are required to make sure that our core brands and our core categories are strong and are strengthened first before we are able to actually and before we have the right and the luxury of making substantial play in categories of tomorrow.

Hozefa Topiwala - Morgan Stanley- Mumbai

Last question is on Oral Care. You mentioned in the last conference call that you are taking two or three very strategic measures to get back volume market share in Oral Care. One of them is it seems to be implemented at least Rs. 5 and the Rs. 10 price point packs, what are the other initiatives that you have taken at the low price point in the Oral Care segment to get back market shares?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Firstly, I think these strategic initiatives was about strengthening Pepsodent as a brand and you will see more of that in terms of specific interventions to bring it back to the brand at which it was and getting it back to growth so that is I think point #1. The Rs. 5 and Rs. 10 SKUs have been introduced. The Rs. 10 rupee SKU and both of these have been doing very well for us and in the four states where it has been present for a few months we have seen a significant improvement in each of those four states on Pepsodent shares as well so that is the second thing. We are rolling out the Rs. 10 SKU and the Rs. 5 SKU across the country at this stage and we feel confident about the impact that that will have. As far as our third brand is concerned, which you might, as you have asked in the past whether we have any plans to enter the discount segment on Oral, the answer to that at this moment is no, and this clearly even if we did it is not something that I can talk about in a call like this because it is obviously something of competitive relevance of a very significant order.

Hozefa Topiwala - Morgan Stanley- Mumbai

Can I just ask one more housekeeping question?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Sure.

Hozefa Topiwala - Morgan Stanley- Mumbai

Last quarter you had some supply chain disruption because of the price cuts that would have resulted in some inventory drawn around as you rightly mentioned at that time. Would this quarter's revenue growth include some kind of pipeline refilling because of the inventory dry up in the last quarter?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

No in the June quarter we have not had any growth, which is on account of fill back of inventory, you heard in modern trade, the retailers have actually continued to de-stock further in these tight times we started over something like 60-odd days modern trade used to operate at, last quarter they had come down to close to 45 to 47 days and I think they are looking now in the high 30s somewhere in the 30s in terms of the inventory. What has happened with modern trade has also happened with general trade. General trace is also getting wiser and I think having seen some of the inventories come off and having seen the cost of inventory I think none of them would want those inventories to go back to the levels of the past. We are all faced with the challenge of an increasing number of SKUs, which are being introducing by companies, increasing number of companies coming there. The capital is quite limited and therefore even general trade is beginning to be quite conscious of the inventory that they want to keep.

Hozefa Topiwala - Morgan Stanley- Mumbai

Thank you very much sir.

Shubha - Moderator

Thanks Mr. Topiwala. Next question comes from Mr. Mahesh Nandurkar from CLSA Mumbai. Mr. Nandurkar you may please ask your question now.

Mahesh Nandurkar - CLSA - Mumbai

Hi. My question pertains to the trend in the A&P expenditure since there has been a big step up on YOY basis in this quarter. How do you think you have faired vis-à-vis share of voice, you think you have gained share of voice or maintained it and what is the strategy there?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

No, we have gained share of voice across almost every category and one where we are holding it at last year's level and in one we are marginally behind. Our share of voice is an outcome of what we do and what others do and therefore it is not always possible to make sure that we would be ahead, so one category we are marginally behind, one category we are at parity and everywhere else our share of voice is ahead. These are sorts of share of voice levels that we believe are required for us to actually get the competitive growth going, and we do believe that it will help us in the fullness of time. As far as, A&P spends are concerned and brand building is concerned it is not always easy to link the investments in one quarter with the return in the same quarter, but we have modelling work, which we have carried out, the marketing mixed modelling, which enables us to determine what is the right level of investment, which we need to make and how should we balance our investment between advertising and other elements of the marketing mix. We take that into account and we come to the conclusion that these levels of spend were appropriate for us in this quarter.

Mahesh Nandurkar - CLSA - Mumbai

Okay thanks. My second question pertains to the market share trend and while you had a good point about improvement in the market share, Skin, Hair, and the other PP categories, but laundry and personal wash clearly continued to be more stubborn categories, so my question pertains to, you know, if you were to analyze over the last one year the kind of market share loss that we have seen in these two categories, what would you primarily attribute this to, would you attribute this more to the difference in the relative pricing or maybe lack of innovation or you know like something else?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

I would attribute it to really two factors; one is the relative price index, which is the competitiveness of our offerings and two more so at the lower end of the market and at the mass end of the market where we have seen as a result of all the changes and of the economic context that we have seen around I think we saw some signs of down trading, which took place. As a result of which when down trading took place, market shifted to the lower price segments, and in those segments some of our brands were not as price competitive for a certain period of time and we lost share. So, the volatility in commodity costs resulting in the volatility in our prices, and as market leaders we were leading the prices while others were following and as we had to bring them down as I had explained the last time from others that less unwind while we had more unwinding to do at that stage. It meant that there was a period of uncompetitive ness, which was there in the market and has contributed to the erosion of shares. I remind you again that Surf and Rin, which are our premium equities, which have had less impacted by this, continued to be very strong, and continued to grow. Even in terms of our shares, if you to see in personal wash, you would see a bulk of the erosion, which has happened between the last quarter has been on Lifebuoy and not on anything else, and if you take a longer period of time on Breeze. The good news in both these categories is that our volume shares in June quarter compared to the March share are broadly flat. So we are beginning to see the stabilization in volume shares although it is fair to say that our value shares have come down and we would work towards make sure that improves over the coming month.

Mahesh Nadurkar - CLSA – Mumbai

And my last question pertains to your new distribution set up where you said with us the last time that you are running up a pilot project in Mumbai and you may talk to the other parts of the country so what is the progress on that?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Based on the pilot project in Mumbai, there were a series of changes which we made this was about our combination of three or four things, consolidation of distributors, better quality distributors, leveraging of technology as we go ahead in order to make sure that we start winning at the point of purchase. That experiments in terms of strengthening the quality of our coverage is the front end and key urban markets is complete and in rural markets we have made the progress in line with the plans that we had. The one key project, which I had referred to, which was what we call, how do we leverage technology in the manner which is fundamentally unique and will give us an advantage by enabling us to combine scale and give us focus and enable us to almost develop a business plan for every individual outlet is something, which we started off in one town, which is what I shared with you last time, based on the results of that, we have now extended across half a state and the pilot is just started. We will observe that over the next three or four months take the learning out of that and based on what comes out look towards rolling it out next year.

Shubha – Moderator

Are you through with you question, Mr. Nandurkar? Next question comes from Mr. Amnish Agarwal from Motilal Oswal, Mumbai. Mr. Agarwal you may please ask your question now.

Amnish Agarwal - Motilal Oswal - Mumbai

Yes, I still have a couple of questions. My first question is regarding the soaps and detergent segment where we have lost market share over a period of time. What I wanted to know about was that particularly in these categories you have mentioned several times in your call about the resurgence of regional players so what has been the change in the competitive landscape in the past couple of years so much so that these players have again started emerging as a key player like HUL?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Yes, I think the significant change firstly regional and local competitors have always been around so it is not the fact that they have come out for the first time. I think however, what has happened is when costs had moved up very sharply, commodity costs had moved up very sharply and money supply was tight some of these spheres would have found it difficult to operate. When you feel a dramatic softening of commodity costs and when large players and the large parts of the industry were sitting with higher prices there was resurgence and an emergence of very small unorganized players many of them not even tracked by the individual names and companies into the news and reports started focusing because the short term opportunities were coming in and filling the gap as larger players who were bringing things out, as a result of which across laundry and skin cleansing you would find that many of the larger players have lost some shares and new, smaller players have emerged. We feel absolutely confident, that the actions are taken, and as prices stabilize, and we become competitive again, we should be able to restore our business because let us not forget and the end of the day that we are in the business of selling brand, and consumers are buying brands and not just products at the given price point. Once you correct for this the strength of the brand, which you built over a period of time should hold good and we should start getting back to business that is one. #2, there are some things that we enjoy but others do not enjoy apart from the brand equity of our brand that is scale benefit, which we have, but if we move forward the combination of these two should help us compete more effectively, but we will have to be very, very vigilant and recognize that we are dealing not with one India but with many India's, so there will be different competitors and different geography some of them only at a district level, not even at a state level, and the manner in which we are able to tackle and address that and deal or a mix of that will determine the success of players like us.

Amnish Agarwal - Motilal Oswal - Mumbai

Okay, sir, but if we look at say in this context then with the commodity prices now having bottomed out, so the smaller players automatically should be at the regions where they should automatically be at the receiving end now?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Look, I do not know what bottomed out actually means, we have seen so much of volatility over the last year, year-and-a-half. It is difficult to say whether this is the bottom or the peak so I do not want to get into that space. All I want to say is that as we start making sure that our brands reflects its fair and accurate pricing in the market then the benefits of the fund that we are filling and the benefits of our scale will come to help us become more competitive and it will require us to recognize that competition will not be one but there will be different competitors in different geographies and we will have to acknowledge that fact and respond appropriately.

Amnish Agarwal - Motilal Oswal - Mumbai

Okay, sir my second question is regarding the distribution, what steps are being initiated by you in addition to your earlier initiatives like project Shakti to expand distribution further entire to cities and rural areas?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Yes, I think we continue to look at ways to expand our distribution reach. Shakti is one intervention that we have talked about, we are moving ahead at this moment with alternative models to substantially improve our rural and urban distribution coverage as we move forward. So, over the next many months we will continue to do this. This is an ongoing exercise and it will continue with the intent of making sure that the gap which we enjoyed to the competitors continues to be maintained because it is not enough to stay still, others will be catching up. We are also finding a way to strengthen our direct linkage with the small markets and are establishing a wider footprint or what we call are IDC operations rather than having a large part of rural India covered through what were called star sellers through which there was a certain coverage of large number of rural markets where we did not have sufficient visibility in terms of what was going on in those markets, so we are converting a large number of our markets from star sellers to our IDC centers, where our RSS will be going there personally and we will have visibility at an outlet level in terms of what is happening? How is growth taking place, etc?

Amnish Agarwal - Motilal Oswal - Mumbai

Thanks a lot.

Shubha – Moderator

Thank you Mr. Agarwal. Next question comes from Mr. Anirudhha Joshi from Anand Rathi, Mumbai. Mr. Joshi you may please ask your question now.

Anirudhha Joshi – Anand Rathi - Mumbai

Hello Sir, congratulations for excellent results, just wanted to know at what, probably point of market shares we would start again looking at profitability, last year the focus was more on profits than market shares and now it has shifted to market shares than profitability. So where do we …?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Anirudh sorry to have interrupted but do you want to complete the question? Go ahead.

Anirudhha Joshi – Anand Rathi – Mumbai

No, that is my entire question. Where do we see the focus, probably that, we will stop putting, investing aggressively behind advertising or price cuts or gram mage increase etc., and will we look at more of profit?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Okay. I think, I just want you to know that this is not about, we reach a certain level of market share and then we focus on profits then we get a certain level of profitability and sacrifice market shares, this is not how things are. And this certainly is not how things are being managed. Sometimes when you look at the past the outcome might be the outcome that has happened. If you saw through last year we lost shares in a couple of categories. And I must again say I want to remind everyone that through the year 2008, we grew our top line at a rate which was faster than the news on the reported market growth rate, so on an aggregate we did not lose shares. There were a few categories where we lost shares last year, which I acknowledged last time. So the attempt last year was not to actually get profitability at the cost of market share. In any management team you make choices and you make decisions and you work in a context of what other people are doing as well. There may be a situation where the calls which you have made and our beliefs in terms of what is required might not have been absolutely right and there may have been a certain outcome, that does not mean that we are driving the business one year for profit and one year for market share, that would be a very wrong conclusion to draw. We will run the business for the long term. There will be periods when there may be particular focus given the crisis or a situation or the impending requirements which are there at that moment. And at all stages we will remain determined to actually make sure that we get competitive growth going because the surest and the only way to sustain long-term profitability of this business is to make sure we continue to get competitive growth.

Let me just also Anirudh add, that when you look at our June quarter results you will see that our operating margin, which is really the reflection of the operating profitability of the business has actually expanded by 60-basis points and this has expanded by 60-basis points after taking to account the increased level of A&P investment linked to the activities in the quarter as well as the mark-to-market charge that I talked about. Despite this we have seen an expansion of our operating margins and the second point to make is that we remain committed to long-term value creation through competitive and profitable growth. As you know, I think and everybody else does in the call, as far as value creation is concerned both growth as well as margin along with you know capital efficiency etc., are drivers, so this is not as if there is only one driver to create value there are four or five drivers and we focus on all these drivers and as far as specific profitability is concerned I just wanted to reemphasize the operating margin improvement during the June quarter.

Anirudhha Joshi – Anand Rathi - Mumbai

Sir, what could be probably the margins we would be comfortable in a range because historically we have also enjoyed 18%, 19% EBITDA margins but we are far lower than that. So what would be probably the margin range, which we would be looking at, maybe like 13% to 16% or kind of, if you can just help please?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

Anirudh, obviously you are looking for some specific guidance but you know our stated position of not giving guidance. All we can say is that we remain committed to drive competitive and profitable growth, it is not either/or and therefore…

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

We come through a combination of levers of which margin is one of them.

Anirudhha Joshi – Anand Rathi - Mumbai

Okay, fine, just two questions? Other income has come down pretty significantly; sorry if I have missed the part but I guess it is the lowest in last 30 quarters?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Are you talking about other operational income or other financial income?

Anirudhha Joshi – Anand Rathi - Mumbai

Other financial income.

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

So, the financial income, yes, indeed in the early part of our presentation I had touched upon it that you may recall that due to the financial volatility, the volatility in the financial markets in the second half of last year, in December quarter we had moved significant part of our investments which were in fixed maturity products, we had moved them to secure fixed deposits albeit with a lower yield so when you compare June quarter last year with June quarter this year the June quarter 2008, included about 50-odd crores of profits from this FMP investments which is not there in June quarter this year and I think that you know, a phrase that I would like to use which our previously CFO Mr. Sundaram would have used with some of you, in volatile times it is important that the focus of management is on return of capital rather than return on capital and you know from that strategy in mind, that is the change we did around December quarter of last year.

Anirudhha Joshi – Anand Rathi - Mumbai

Okay Sir, still we are in return of capital mode, means are we willing to invest in?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

This Anirudhha is obviously very dynamic. We look at all times and this is something we review on a continuous basis to have our investments made in an optimal manner which look at the drivers of safety, drivers of liquidity, and drivers of return, so SLR are the three sort of mid picks on which we assess our investment.

Anirudhha Joshi – Anand Rathi - Mumbai

Okay, fine, lastly our tax rate has moved to 23% despite removal of FBT so where do you see whether the tax rate will remain at around these levels or…?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Anirudhha, again, this is something we explained in the early part of the call that effective April 1, 2009, some of our manufacturing locations particularly in the north which were enjoying 100% tax exemption have moved to 30% tax exemption and I think Nitin also mentioned that the 23% effective tax rate is our current view of the effective tax rate for the current fiscal year.

Anirudhha Joshi – Anand Rathi - Mumbai

Okay Sir, thank you very much.

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Thank you.

Shubha - Moderator

Thank you, Mr. Joshi. Next question comes from Mr. Rohan Soares from ICICI Prudential, Mumbai. Mr. Soares you may please ask your question now.

Rohan Soares – ICICI Prudential - Mumbai

I have only one question this is on the raw material front. In the last one year or so we have seen a massive decline in many of our raw materials and we have seen the effects in higher growth margins I think across the boards of companies in this particular sector; however, if I look at your gross margin there has been just a 50 bids improvement quarter-on-quarter and about a 150 bids improvement year-on-year despite the fact that the raw materials have declined much more and crude-linked products have also declined more than 50% to 60%. Optically obviously the yearly averages are different but they are considerably lower than what the gross margins have shown. Have you priced down your products to eat away the gross margin completely due to competitive pressure?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

So Rohan, I think it would be best to start with the last part of your observation about in pricing down. As far as our pricing strategy is concerned as Nitin mentioned, our strategy is to make sure that our entire mix is a competitive offering; pricing is just one element of it. Clearly at the mass end of some of our categories in which we operate pricing as a lever plays a bigger role but in totality we look at the different drivers of the mix of our products and therefore, I would not say that you know we have priced down or priced up our products. We have maintained and we always try to maintain the appropriate pricing of our products in the market. As far as the margin question and the cost question that you asked, I think I have mentioned earlier in response to another question that we have seen a mixed picture. We have seen cost coming down in some of the chemicals for example, and you can also see that in the margin improvement in our soaps and detergents category over the last four or five quarters it is almost 400-basis points of segment margin, so not gross margin but segment margin after absorbing the additional investments on the A&P that we have been able to achieve.

Rohan Soares – ICICI Prudential - Mumbai

You mentioned about the beverages side of…?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

On the other hand in tea, you are absolutely right, commodity costs continue to stay firm.

Rohan Soares – ICICI Prudential - Mumbai

I mean if we look at 66% of sales which would be having raw materials linked to crude and to LAB, and to soda ash, and to palm oil, etc., etc., the lion's share of your net sales actually comes from, you know, commodities, which have seen a pretty substantial fall, have you all gone wrong somewhere in your purchasing?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

I do not think so, the whole idea of purchasing or buying of commodities, we have got a certain approach and a certain strategy that we follow and while the past records show that more often than not we have been on the right side and actually our decisions have paid off. In terms of certain of the commodities that you have talked about for example if you have talk about palm oil then I am sure that as you track it you have been seeing recent trends which are actually far more volatile, for a period of time indeed the curve was going in one direction but there has been much more volatility in that, so when you look at the different component parts the picture is more mixed as we see it and not in a one-dimensional way.

Rohan Soares – ICICI Prudential - Mumbai

Okay, thank you.

Shubha - Moderator

Thank you Mr. Soares. Due to time constraints I would request the participants to limit their number of questions to one. I repeat, due to time constraints I would request the participants to limit their number of questions to one. Thank you. Next question comes from Mr. Shishir Pardesi from Anand Rathi, Mumbai. Mr. Pardesi you may please ask your question now.

Shishir Pardesi – Anand Rathi - Mumbai

Good evening Nitin, and Sridhar, and Srini. Just quickly one question. We have heard in last one week various competitions reporting their numbers especially soaps and detergents and everybody has recorded a highest volume growth not a price increase; however, things are different for us. Would you be able to share with us what is the category growth, which we have seen in last one quarter in spite of AC Nielsen where we took the initiative in saying that you need to revise the panel and with the revision in panel the numbers for us is not encouraging. Where one can read if the situation is bright for us or if the competitive pressure is still strong?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

I think firstly, let us not confuse the issue with AC Nielsen and the expanded panel. I think we just have to acknowledge and recognize that and accept the fact that the growth which we have delivered in skin cleansing through the quarter has not been competitive and; therefore, the share loss which is there is a legitimate reflection of what has happened. So I do not want to deflect this issue. Having said that and; therefore, some other people have reported better numbers. I am saying I cannot comment on those, you have gone, you have heard those, I have read about those, etc., all I can say is that we recognize what we need to do to bring this business back and start giving growth. It is taking time, we have taken the steps, which are required and we are seeing that there are early signs where we are able to see like I said stability in volume shares etc., which we are beginning to see and that gives us the confidence that the direction that we are on is working and should start yielding better results as we move forward. If more needs to be done or if different things need to be done as we move forward we will do those as required to start restoring competitiveness.

Shishir Pardesi – Anand Rathi - Mumbai

Okay, just lastly, quickly if you can touch base what is the improvement on what is happening on Kissan Amaze launch, which we did some five quarters before?

Nitin Paranjpe - Chief Executive Officer - Hindustan Unilever Limited

I think you will just have to be patient maybe for a little longer. All I can say is we have seen, it is in the test market, there were two or three areas which we are still waiting for, we have seen some improvement in one or two of these measures but like I have said we are patient, we want to build it for the long term and we will wait till all the metrics which we are tracking meet the criteria which we have got before we take the next step.

Shishir Pardesi – Anand Rathi - Mumbai

Okay, thanks from my side.

Shubha - Moderator

Thank you, Mr. Pardesi. Ladies and gentlemen, due to constraints of time we are not able to entertain any further questions. This brings us to the end to this question and answer session. I would now hand over the call proceedings to Mr. Srini Srinivasan for the final remarks. Thank you and over to you Mr. Srinivasan.

Srini Srinivasan V. P Investor Relations Treasury & Mergers & Acquisitions – Hindustan Unilever Limited

Thank you everyone. That was the end of this conference call. If there are any specific questions that you may on our results or any other matter you could either contact me or send us an e-mail. Thank you very much and thank you to Nitin and Sridhar as well.

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Thank you all for joining.

Shubha - Moderator

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

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