June Quarter 2016 Earnings Call of

Hindustan Unilever Limited

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Speakers:
Mr. Sanjiv Mehta, CEO and Managing Director
Mr. P.B. Balaji, CFO and Executive Director, Finance and IT
Mr. Dinesh Thapar, Vice President- Finance
Mr. Aasif Malbari, Group Finance Controller and Head of Investor Relations Designate

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

Dinesh Thapar
Thank you, Mahima. Good evening and welcome to the conference call of Hindustan Unilever Limited. We'll be covering this evening result for the quarter ended 30th of June, 2016. On the call from the HUL end is Sanjiv Mehta, CEO and Managing Director, P. B. Balaji, CFO. Also joining us this time around is Aasif Malbari, Group Financial Controller and the Head of Investor Relations Designate. As is customary we will start with the presentation with Balaji sharing aspects of our performance for June quarter, and a then hand over to Sanjiv for his comments. I am also conscious that this time around we have announced results on the basis of IND AS as well as new segments and therefore you will have quite a few questions for us. So we have therefore set aside quite a bit of time for Q&A. Before we get started with the presentation, I would like to draw your attention to the safe harbor statement included upfront in the presentation for good order sake. With that, over to you Balaji.

P. B. Balaji
Thanks Dinesh. Good evening all of you. Thanks for taking the time to attend this session. Let me quickly cut to the chase. As Dinesh announced, the results this time are based on IND AS. We will spend a little bit of time towards the end clarifying the implications of that. But for starters let me start with the basic slide on the strategy. Our strategy there is no change whatsoever. It has been delivering well for us and we continue to follow the same. To summarize the quarter, the June quarter that has just gone by- bit of a challenging business environment. Market growth slowed down further both in volume and value. We did face higher commodity costs and competitive activity continued to remain high. And in this context, business was tracking ahead of market with sustained margin improvements. And to see this a little bit further, domestic consumer growth was at 4% with our underlying volume growth also at 4%. The impact of phase out of excise duty benefits on this number was about 40 bps. Operating profit rose by 7% with a margin expansion of 70 bps. And if we break that up the impact of phase out of excise duty bps was about 15 bps as well. Cost of goods sold was lower by 100 bps driven by both lower commodity costs, input costs as well as savings program. And competitive strength has been maintained across all the segments despite A&P being down by about 60 bps. The A&P number of 11% is as per IND AS. I am sure you would want to understand this. This is not something that you are used to. I will touch upon this at a later point in the presentation.
Employee costs are up 70 bps arising from a provision reversal in the base quarter but as far as the headline employee cost is concerned it is pretty steady this quarter as well. It is only a base quarter issue. PAT (bei) at Rs. 1128 Crore, is up 6% and Net profit was up 10% at 1174 crores. We have covered this earlier in terms of what the new reporting segments are, just for good order sake. The home care segment includes water. This is led by Ms. Priya Nair. The personal care business segment has now personal wash coming into it other than the erstwhile PP category. This is led by Mr. Sandeep Kohli. The foods business has foods and popular foods. This is led by Ms. Geetu Verma. The refreshments business has tea, coffee and ice cream in it and it is led by Mr. Sudhir Sitapati. We have a residual ‘other’ category which has the infant & feminine care, the Kimberly Clark JV is in that which is something we just about announced today that we will be divesting and we will cover that later. And that is a brief of the segment that you see. Going forward all analysis and presentations on operating segments will be as per these four and this is what the chief operating decisions makers see which is our management committee and that is what I am going to talk to you about.
So these segments we saw broad-based growth across these segments in a growing market. In home care the growth was led by healthy volumes and in personal care, a step up in personal products was off-set by a deflation in personal wash; and refreshments continued its steady growth. And foods have healthy underlying growth and impacted by one-off. I will talk about the one-off at a later point in time.
I will draw your attention on focus on innovation continues to be intense as I am sure you have seen the Surf Excel Matic Liquid launch that is now underway and intense launch that it is currently going through. You would have also seen Axe Recharge and we will draw your attention to the Fair & Lovely Powder Cream, this is probably one of

the first times this is happening in this category where we are having a cream in a powder cream format in Fair & Lovely. And same time there is a natural St. Ives launched in the ecommerce as well. And of course the traditional innovators Lakme and Hair continue to have their innovations as well. So a pretty full agenda on innovation, all amplified through impactful 360 activation as well.

Now moving into homecare which contains fabric wash, home care and water, the growth was led by healthy volumes as I said above. In fabric wash the growth was driven by the premium segment where Surf our largest brand maintained its strong momentum. Just to amplify, Wheel is another brand that we were concerned about, grew well as well. So a good story on fabric wash. On household care Vim Liquid continues to do well. And in water the strategic intervention that we pointed out in the early part of the year is now starting to deliver with robust devices growth.

Personal care- a rich portfolio and a large portfolio where the step up in personal products compared to the previous quarter has been off-set by deflation in personal wash. And in personal wash, Lifebuoy, Pears and Dove drove the volume growth. And skincare growth was led by the premium segment with BB cream and CC cream doing very well. In Hair care the volume led growth was sustained and was broad-based across brands. The product category continues to do well. Oral unfortunately has been another quarter of subdued performance. And our focus is on ensuring that the sampling of the Pepsodent core with the 'best ever' flavor is done extensively to ensure that we drive that. That is the focus in the coming quarter as well. In color cosmetics, Lakme delivered strong innovation led growth on premium makeup and in deodorant Axe as well with an aerosol launch happening this quarter. Just to confirm the Indulekha acquisition was completed in quarter and we are very reassured with the performance of the brand in this quarter.

Our refreshment is a combination of tea, coffee and ice creams and frozen desserts, delivered a steady growth, where in tea, green tea and natural care continued to lead growth driven by market development. And coffee maintained a strong competitive position particularly in a deflationary cost environment. And ice creams saw another quarter of robust growth.

Moving on to foods, the growth was healthy on an underlying basis where Kisaan maintained a strong growth momentum on ketchups and jams was impacted by a one-off event on the bread issue that happened. And since it is a sizable part of the portfolio it impacted the overall foods performance this quarter compared to the strong double digit growth we have been calling out in multiple quarters. And Knorr delivered robust growth in instant soups and noodles.
To summarize the results you will see the turnover growth of 4%, PBIT with a margin expansion of 70 bps delivered 7% growth. And PAT (bei) growth was at 6% and the net profit grew by 10%. This net profit impact is basically due to a one time write back of provision for pension benefits due to plan amendments in this quarter amounting to about 115 crores.

So moving on to IND AS, just a clarification on IND AS, as most of you would be aware, as of 5th July SEBI provided us relaxations on announcements under IND AS. And what we are there are multiple levels of relaxations. One was comparatives by quarter. Full year comparatives, limited review for the previous quarter as well as audit for the full year. And you see the details clarifying what are the relaxations available. Happy to report that we have not availed any of the relaxations and you now have all the information that needs to be provided available with you for the new segment, for the prior comparatives for the full year and by quarter available with you, limited reviews as well as audited. So the full piece is available. But I will probably draw your attention to point number 2 which is excise duty treatment that is likely to change by end of the year. As per the SEBI circular dated 30th November if you will recollect in our IND AS days that we had, we had called out that excise duty would be gross in revenue and shown as cost of goods sold. But as per the disclosure that has come from SEBI, as per the circular dated 30th November, we will show net of revenue for June, September and December quarter and for March quarter this will be grossed up in revenue and shown across the goods sold. This is likely to create some confusion so we are more than happy to clarify anything that you may require in this regard.

So to summarize the key impact because of IND AS, number one I would call out – there are two boxes that you see, one is the June quarter 2015 slide and other is June quarter 2016 and you will notice that there is a significant change in the turnover line. Accordingly you will see the PBIT margins moving up in the June quarter 2015 and net profit margins also increasing because of that. And this is basically a portion of the A&P related to trade spends like visibility etc. will be moving into the will be netted off turnover and therefore you are seeing a reduction in the turnover and for the almost same PBIT absolute number you will see the PBIT margins going up. That is what happened in June quarter 2015 on IND AS and all my comparatives I just talked about are vis-à-vis that revised June quarter IND AS number which is what I compared with and I am looking at June quarter 2016. So that is what we have done on this.

So to summarize the outlook for the quarter, the near term market growth is likely to remain muted and we are concerned on the recent volume trend. And we are optimistic about the medium term impact on the monsoon and the 7th Pay commission pay outs. And it is quite likely that the commodity costs have bottomed out and therefore higher input costs are likely. And in this context we continue to focus on driving volume led growth with improvements in operating margins. And to do so our strategy remains unchanged which is consistent, competitive, profitable, responsible 4G growth.

We have two additional updates to give. One is the new capital investment in Assam. You will be aware that we have a presence in upper Assam. There is in Tinsukhia district above that which is in Doom Dooma. This is a factory which was commissioned in 2001. And we are now planning a new unit next to that particular factory. Obviously the investment is subject to the receipt of requisite approval. We are in advanced stages of discussion with the government on that. And we intend to commission the unit in early 2017. Once we receive the approval, we will be in a position to share further details. And this of course reiterates our commitment on Make in India which we have always been doing, and invest in growth of personal care category that has been doing very well for us.

The second update is our intention to divest our stake in the Kimberly Clarke Lever JV. You would recollect it is a 50-50 JV formed in 1995. And in itself has adorable brands like Huggies and Kotex. We are now decided to divest that 50% stake in favor of our JV partner Kimberly Clarke. We had a great relationship with JV running over many, many years. And this is basically, the decision is in line with our objective to focus on the core business and in the coming days both HUL and KC will work together to define the terms as well as the future operating model for the business. And in the meanwhile of course business operations continues as usual.

So with this let me now hand it over to Sanjiv and then we will get into questions.

Sanjiv Mehta

Hi good evening everyone and thank you Balaji. Today I am not going to spend a lot of time talking about the business since many of you will be joining us tomorrow for the Annual Investors' Meet where we will be covering in detail the progress that we are making across the business, our strategy and the capabilities that we are building. Having said this I am conscious that you would want to hear my thoughts on the state of markets. You have heard Balaji mention that market growth has come off in the last quarter on both volume and value terms. To put this in perspective, overall market value growth in the quarter is down to half the levels that we saw in the previous quarter and down to a fourth of the level that we saw same time last year. These are levels that we haven't seen for some time now and I have to say that the recent trends are being disconcerting particularly on volume. The slowdown has been entirely on the general trade front across both urban and rural. You are familiar with the context in rural and know that the on the ground conditions have been tough in many parts of the country, particularly in the areas which are severely water stressed. The continued pressure on those markets are manifest from the fact that our rural growth have lagged urban for another quarter again something that we are not used to seeing over a long term horizon. But we know that for rural these are not normal times and while this is a transient phase that we must navigate the attractiveness and opportunity in rural remains absolutely beyond doubt.

It is heartening that modern trade has been coming back and our own growth in the channel has been very clean. Looking at the quality of growth what is encouraging is the fact that premium segment continues to grow ahead of rest of our portfolio, a trend that is mirrored in our performance, both for the market as well as in our performance. We have always maintained that we see an opportunity in premiumisation and you know that we have been actively leading the agenda across our category. It is comforting to see it has continued to play even as the quantum of growth slows down. If I were to look ahead the outlook on near term growth does look a tad uncertain given recent trends. We continue to however remain optimists for the medium to long term. There are certainly silver linings in

the horizon. The monsoon is progressing well thus far. Crop sowing has picked up. The 7th Pay Commission pay outs are in the offing. And the government is cognizant of the stress in rural and the need to channelize funds to that part of the economy. And from a commodity perspective, it does seem that a deflation cycle may have bottomed out. All of this augurs well for the future. I know many of you will ask when I see the impact of this come through in the markets. Frankly for the business that is for the long term. It is not a question that we spend too much time on- which quarter, how long will it take to turn around. What is important is that our confidence in the larger opportunity remains intact and we know it is only a question of time when this tide will change and the growth will start to improve. And I say this, this is not to suggest that we are not anticipative. We certainly are. But what's more important to me is that in times like this as indeed in all times, we stay strongly focused on the strategy and delivering everyday great execution across the breadth of operations so that we keep resonating with the consumers and the customers in the market of today and tomorrow.
For a quick comment on the quarter, it is against the backdrop of the challenging market environment that I have just spoken of that I see a performance consistent and resilient. The business has been tracking ahead of the market. We have held on to the UVG despite a clear slowdown in the market volume growth. And overall the price growth has moved to flattish levels. With broad based growth across categories I would say the business continues to be in good shape. We have remained steadfast in strengthening our core portfolio, leading market development in nascent categories, and sharpening our capabilities across the end to end value chain. To me this is what will keep us well positioned and ensure the long term health and enduring success of our business. As for bottom line it has been another heartening performance as we continue to dynamically manage the business. Our relentless focus on operating efficiencies and driving all the levers of margins has enabled us to deliver another quarter of profit improvements in tandem with competitive top line growth. All in all I can say that the strategy was to put together is in action and delivering the results.
Before I close let me also mention that in this quarter we have two noteworthy changes relating to the preparation of our results. Balaji has spoken about it. The first is that it has been prepared on the basis of Indian accounting standards. The second change is related to the reorganization of the business that we announced during the quarter into 4 categories: Home Care, Personal Care, Foods and Refreshments. Our segmental results for the quarter have been reported based on this new segment. Now both of these changes are significant and Balaji and his team have done a fantastic job on building preparedness and ensuring a smooth transition to the new context. The team has exceeded the brief and worked on providing you with information that goes well beyond our requirements, consistent with our commitment on maintaining the highest standards on governance and financial disclosure. Between the information that we have published and the multiple forums, the analysts meet held in December last year on IND AS, today's ensuing Q&A session and another session tomorrow at the investors' meet that we have set aside to discuss this, I hope that all of you, especially the analysts, find it useful to gain a good understanding of our results in the changed context.

Today we have also announced a change in the constitution of our management committee. We have Mr. Punit Misra who was our Customer Development Director. He has resigned and he moves on to another opportunity. And in his place we have appointed Srinandan Sundaram aka Tan, you will hear that very often. He comes in, he is a blue blooded Unilever man. He's been with us for 16-17 years, worked across marketing and customer development. His last role was as Vice President of skin care where he was responsible for the turnaround of Fair & Lovely and making Lakme into one of the fastest growing brands in the country. And we are absolutely delighted to have him join the management committee. With that let me hand the call back to Dinesh and I look forward to engaging with you in due course.

Dinesh Thapar
Thanks Sanjiv and Balaji. With this we now move to the Q&A session. Like I said we anticipate that you may have a few questions. Not sure if all of them will come in this evening. So feel free to reach out to us at the IR team in case you don't have any for us this evening. But what we have also chosen to do is to extend the call up to 8:30 pm in case you need to ask us those questions. But can I request the participants who want to ask us those questions to really keep it tight so that we can accommodate as many during this period of time. In addition to the audio cue you also have an option to use the web option and I would strongly encourage our participants to use that option so that we can take in as many questions. And we will pick that up as we go along. Before we get started with the session I

would like to remind you that the call and the Q&A session is only for institutional investors and analysts. And therefore if there is anyone else who is not an investor or an analyst but would like to ask us a question, please feel free to reach out to us and the investor relations team. With that I would like to hand the call back to Mahima who will manage the next session for us. Mahima over to you.

Moderator:
Thank you very much sir. We will now begin the question and answer interactive session. First question comes from Mr. Menon from Deutsche Bank Mumbai.

Mr. Manoj Menon:
Hi just a couple of questions. One, you spoke about the likely bottoming out of the deflationary trends. So fairly clear. But looking forward, I know that you don't give guidance, but a general comment on the possibility of any timing mismatches recurring or rather happening. And secondly is there any change in competitive scenario which can actually result in that?

Answer:
Manoj you are absolutely right, we don't give guidance on this. But it is fair to say that the commodity cycle has bottomed out at least on this to some extent. It is volatile but it is likely to stay there. And therefore higher input costs are likely. And our response remains, in fact not just response, this is what we do all the time is we do play all lines of the P&L and ensure that we stay competitive while also ensuring that we are able to generate the value that is required. So it will be done in an integrated manner.

Mr. Manoj Menon:
Understood, that's very clear. But just simply focusing on the price line, you know in the net revenue, given the feeble demand what is there in the market currently, that is what I am just wondering is there actually let's say high levels of confidence to actually push through prices at the net revenue level?

Answer:
See if you look at our price growth across quarters you will see that actually creeping up. In fact it is almost flat this quarter. So where possible we do take a look at it. But the prerogative is volume led growth and ensuring that we deliver modest improvements in operating margins while doing so. That doesn't change. How we will go about doing it will obviously depend on market context, competitive situations that is there, and category. And I am looking at mix as one of the key levers in delivering this as well.

Mr. Manoj Menon:
Got it. Fairly clear. Secondly the channel reorganization which you are implementing earlier, anything to call out on that? Is it completely over?

Answer:
Mostly stabilized. Nothing of significance there. Obviously things will continue to keep evolving there. But mostly stabilized and under the belt.

Mr. Manoj Menon:
Understood. And lastly if you could talk about the demand trends in general at a market level region wise. I am not really saying south, west etc. specifically. But I am just saying is there any region which is significantly underperforming or any region which is significantly out performing?

Answer:
I think you know one thing which has been very clear is more water stressed parts. We clearly see that the demand has softened. And very visible in parts of Maharashtra, in parts of Andhra and parts of Karnataka. We clearly see where the demand has softened and we hope that now with a bounce in full rainfall in another few months we should start seeing some corrections beginning to happen. But the biggest slowdown has been in general trade. General

trade mass market that is where the biggest impact has been. Modern trade we have seen a recovery, premiumisation is happening. Albeit at a lower level but it hasn't slowed down altogether. And we have been pleased Manoj that with our thrust on market development that our nascent segments have been growing at a pretty good pace despite the general slowdown.

Moderator:
Thank you very much Mr. Menon. Next participant is Mr. Roy from Edelweiss Mumbai.

Mr. Abneesh Roy:
Sir thanks for the opportunity. Sir my first question is on the personal care. You have seen 2% kind of growth for the past 3 quarters. If you could explain when do you see recovery here and what is slowing down. And here if you see skin care you have been highlighting for the past 2 quarters that premium part is doing well. So what's happening in the mass end and how is Ayurvedic Fair & Lovely done? And if you could speak on the competitive intensity on the mass end of FAL. That is the first question.

Answer:
Abneesh, let me take it in three steps. First the Fair & Lovely story and that is the easier piece, very happy with the performance. It continues to do well. And Fair & Lovely Ayurvedic has been relaunched and it has done very well. So very comfortable on the Fair & Lovely side. As far as the growth itself is concerned – if you look at the last two quarters we called out personal products last quarter. This quarter is personal care. So there is a difference. Let me talk through each of those. The previous two quarters we did talk about some of the impact coming from the channel spend realignments that we talked about earlier. And this quarter that is well behind us. And if you see the call out that we have done on personal care, we have clearly stepped up growth in personal products compared to the previous quarter. But that was impacted by the – it is offset by the deflation that we see in personal wash which has gone into the personal care segment and that is the erstwhile soaps part of the portfolio. And the soaps part of the portfolio the deflation has also reduced compared to the previous quarters. So it is more to do with the way the mass is playing out rather than the intrinsic performance. Both these categories on growth level are better than what they have done the previous quarter.

Mr. Abneesh Roy:
So to understand you are saying in FAL mass end there is no big problem? Because in your PPT you have mentioned BB and CC and premium are doing well. So are you saying in mass end the growth is still reasonably close to the overall FAL growth?

Answer:
Yes we are saying, what we are seeing under the current conditions of market context we don't see stress in FAL. What we did call out is the performance if I look at the various portfolios that are sitting in FAL, these are the premium side of it has done particularly well. So we have called out instead of giving a full statement we have just called out the stuff that stands out for us.

Mr. Abneesh Roy:
And sir this step up when I see the channel spend which you said the realignment is now behind, I see the step up around 60 bps quarter on quarter. So it is not a big step up right? I am seeing like to like personal care this year.

Answer:
From the previous quarter it is stepped up. We should also keep in mind the market conditions on which we are talking about. So we have stepped up the growth compared to previous quarters- yes. But also in a market context which has actually sharply come off. So both have to be seen in tandem. So from a competitive growth perspective we are comfortable with what we see. That is why what we are trying to do is have a broader thematic that we have called out on market growth which we have called out as a concern, particularly volumes which seem to have sharply come down this quarter. That we have called out across the board. And it is under that context we are referring the performance of the various categories. Hope that helps.

Mr. Abneesh Roy:
And the volume slowdown that you are saying, is largely in the rural. I am referring to both Q1, Q2 slowdown, both in terms of the Neilsen number and your own, so is this in terms of the rural largely quarter on quarter or the urban also has slowed down quarter?

Answer:
Volume slowdown has happened across the board in rural and urban both.

Mr. Abneesh Roy:
My second question is on foods and refreshments, so you had said that because of the bread issue, the jam got largely impacted. The category growth that used to be around 10 to 13% in foods has come down to 4.7 %. So can the bread issue be so big, that the jam has been impacted category which also includes the other products, almost half. Similarly refreshments also there is a marked slowdown. So again are you referring largely to the urban slowdown that is happening?

Answer:
Again, there is a market slowdown in food as well. Particularly in jams, is a one of impact that you see. Fall of a sizeable section of a portfolio and in that when you see growth slowdown, then obviously it does impact the overall business as well. But also keep in mind that food as an overall level the total numbers are small so even small hits in percentage growth perspective can be sizeable.

Mr. Abneesh Roy:
And similarly, refreshments also, is there a slowdown?

Answer:
Refreshments, the tea business is doing pretty well. There is no trouble there. What we have called out is a price growth coming through in coffee, because there is a deflation in the coffee performance. That is what you see there and ice creams has done very well once again.

Mr. Abneesh Roy:
One follow up here, if you see the coffee prices have gone up internationally quite high. So quarter on quarter, there is a big slowdown in your refreshment business. So, what is the mismatch here?

Answer:
You are saying about a deflation, coffee there is a deflation we are seeing a deflation of almost about 10%.

Mr. Abneesh Roy:
Quarter on quarter…that could be otherwise right?

Answer:
I am talking year on year.

Mr. Abneesh Roy:
Yeah, but if you see growth has come down from 9.2% in previous quarter to about 5.4%, so there is tea plus coffee plus ice creams.

Answer:
Right.

Mr. Abneesh Roy:
So you had said that it is deflationary, but then if you see, actually deflation has been there for both quarters. Why has the growth come down?

Answer:
See, it also depends on what is the base on which we are working with and again on the comparison with that. The math of it we can explain it offline if need be.

Mr. Abneesh Roy:
Okay, sir I will come back. Thank you.

Moderator:
Thank you very much Mr. Roy. Next question comes from Mr. Panthaki, from IISL, Mumbai.

Mr. Percy Panthaki:
Hi sir. Just one very conceptual question given your sort of strategic outlook towards how you look at P&L. So you have said that you will look at top line growth ahead of the industry and modest margin expansion. So does that mean that your bottom line growth will actually accelerate when there is input cost inflation?

Answer:
The way I look at it is that, we have committed to modest improvement in operating margins. That is what we stay committed to. And, one is able to take volume growth going through, turnover growth comes through thereafter.

Mr. Percy Panthaki:
So in times of inflation, your net sales growth should be sort of higher, and your modest operating margin expansion, would be there irrespective whether the topline margin is high or low. So when there is a higher topline growth, your bottom line growth should accelerate. So is that, understanding correct?

Answer:
So that is the right understanding from that perspective.

Mr. Percy Panthaki:
Right. Secondly, wanted to understand, personal care products had 2% growth, I understand that soaps is pulling it down. But would you be able to give a flavor on how the other, 3 segments that is hair, skin and oral are doing? Like just a broad guidance on what growths are and I know that you cannot exact numbers.

Answer:
Let me call out the individual segments and performances of them. Clearly very happy with the way hair is performing. Not very happy with the way oral is performing. Clearly happy with the way deos has come back. Lakme continues to be strong. Skin continues to do its steady performance on this, led by premium. So that is the broad story that we see in the rest of the categories there, other than the soaps part of it.

Mr. Percy Panthaki:
And last thing, on soaps there has been something surprising happening. At the time when input costs are picking up, we are seeing increase in promotional intensities. Is that correct?

Answer:
Growth in soaps has actually come off, so definitely we are improving there and are starting to get closer to that. So promotional tendency is coming off and I would expect that trend to continue in that.

Mr. Percy Panthaki:
So the promotional intensity through net pricing or promotions, that is coming off on a YoY basis. Is that just on a base effect or on a sequential base also, you are seeing some improvement in pricing or reductions?

Answer:
On pricing we will look at all the levers of the P&L and play from that perspective. But you just can't leave it to base.

Moderator:
Thank you sir, next question comes from Mr. Sanjay Singh, Axis Capital Mumbai.

Mr. Sanjay Singh:
I wanted to know the A&P spends as over the new IND AS and if that has gone down marginally, in the current quarter. Anything to look out for, in that?

Answer:
Two points there Sanjay. One is it depends on the innovation and the intensity. One is to look out for in the previous quarter and the current quarter. Second, if you recollect, June quarter was one of our quarters where we had our highest ever A&P levels in the base. As far as this quarter, also keep in mind that A&P, the P element, promotional element is also is there. So when we look at A&P, so the starting point is to ensure that we stay competitive. And to expect that commodities start increasing, the heat in the market does come down and you are able to see that lower expenditures and it is a combination of all these factors that are there. What we are paranoid about, is that we want to ensure on our A&P spent. And to ensure that we do the right amount of spend for that business. We don't want to overheat the market as well.

Mr. Sanjay Singh:
No but in the current time of advertising, there is no trade promotions or anything. Is it a right assumption?

Answer:
No. the trade promotions won't be there, but the consumer promotion items like the third party gifts will surely be there.

Mr. Sanjay Singh:
Yes, but that would be very very small proportion right?

Answer:
Relatively yes, but I am trying to give you all facets of it.

Mr. Sanjay Singh:
So can you please explain the staff cost increase, I did not understand, something in the base issue was there, I did not understand the same.

Answer:
Yes, the staff cost in the current year if you look at the percentage of it, if we just map the numbers you will notice the numbers are pretty steady across time. So in that scenario, what we need to do is that, first of all when we do a first point, when we do a bonus true up. When we do a bonus true up, that happens in the June quarter. Then we take a decision in the June quarter. So consistently we have been doing this in the June quarter. So that is one element of it that changed and there was one off provisions of it that were there, which were reversed in the prior period. The headline number you will find that it is pretty consistent.

Mr. Sanjay Singh:
Okay, and while talking that costs have gone up and RM costs have gone up or are moving up. I know sequential comparison is not the best thing to do. But, sequentially RM costs have been gone down a bit. So, is it because of the trade promotion play out of IND AS or something else?

Answer:
On the costs of goods sold line, there is no IND AS impact and all. What we are signaling, is that input costs have started rising, which for me is the replacement price. What we see as the booking that happens in the cost of goods sold is that current consumption cost, adjusted for inventory and adjusted for various matters. So what we are clearly signaling is that, we are seeing commodity cost bottoming out and starting to see input cost started to increase going in forward. It is also reflected enough by buying price.

Mr. Sanjay Singh
So, is it fair to assume that, this is the best quarter in terms of RM costs, gross margins etc?

Answer:
We are committed to modest improvement in operating margins. That is the starting point and how it plays out, is a different piece together and we are not committing anything to it. We will see as it comes.

Mr. Sanjay Singh:
Okay, thank you very much.

Moderator:
Thank you sir, the next question is from Mr. Shah from Morgan Stanley Mumbai.

Mr. Shah:
Thanks. My first question is on soap pricing, have you put in any pricing from the market in the last 2 weeks?

Answer:
2 weeks, I will not say, but definitely this quarter.

Mr. Nillai Shah:
Okay. And the same for detergents too, that happened in the last quarter?

Answer:
Yes.

Mr. Nillai Shah:
So can you quantify what is the price increase in soaps, recently?

Answer:
We don’t comment on individual price numbers Nillai, you know that very well.

Mr. Nillai Shah:
The second question is on tooth paste, you have been fairly confident on Pepsodent. It has not happened, I know it is a slightly longer drawn strategy. But what is now really going wrong? You have launched it the last quarter and a half, so what is it that you see at this point?

Answer:
I think they key thing in Pepsodent is that, yes you are right, it is taking longer than we would have liked ourselves. So, you are right there. The entire focus is that we get the product in front of the people and get them to taste it and ensure that we, because it is the best ever flavour that is acclaimed and we stand by it and now we need to ensure

that our, sampling plans are aggressive enough done to ensure that people taste the new product and try new product. That is what is happening right now, is it taking longer than expected, then the answer is yes. Are we committed to it, the answer is yes. Are we confident that this will pull through, again the answer is yes.

Mr. Nillai Shah:
So the final question is on margin, so if I adjust for the staff cost based impact the margins have gone up by ~150 basis points. So this question is against the fact that you have got a pretty decent product and spend pipeline going through for the last few quarters. So just wanted to understand, is the competitive intensity in the market, which is what drives your share of voice also, at probably the lowest level that you have seen in the recent times?

Answer:
Would not say that Nillai. All we are saying is that, we track it religiously. And we ensure that we stay competitive at all points in time. Again, keep in mind that the previous years, same time, there is a highest ever A&P spent and you are referring to high base. 11% is probably giving you the feeling that there is not much A&P going through, but there is an IND AS adjustment sitting there. See therefore, the point I am trying to make is that, even in current level, pretty significant of A&P is going through and we are very confident that we are competitive at this level of spend.

Mr. Nillai Shah:
So does that mean that the margin expansion as you go through the next few quarters and given that you have already taken the pricing fees in the soap segment, detergent happened last quarter. So, are you being overly conservative on the margins, or F17? I know your given policy, but you can revise that given the state of the market at this given point of time.

Answer:
We stay by that policy, we like that policy. We believe it has helped us pretty well and therefore, we stick to the policy.

Moderator:
Thank you sir! The next question is from Mr. Prakash Deshmukh, from Bank of America, Mumbai.

Mr. Prakash Deshmukh:
Good evening sir! With the new investment that you are planning, will there be any impact of this on the tax rate ?

Answer:
See the intention is to commission this in the early 2017, that is what we are seeking approvals for and as you rightly called out, if it gets commissioned before March 31st, then there will be an income tax benefit. If you are not able to commission that before March-April 2017, then there will not be an income tax benefit on that. All efforts in that direction. But keep in mind it is first of all a growth capex. And if we can secure the income tax benefit as well, then well and good. It is a new unit, so we are doing our best form a secured income tax benefit point of view. But let us get the approval, let us get the factory up and running for the priorities, within budget within early 2017.

Mr. Prakash Deshmukh:
So without building this into the numbers you still stand by this tax rate for the current year.

Answer:
We normally give a guidance on income tax. What I will do is- let me first secure the approvals. It is fair that we first get our approvals on hand and our, risk assessment on the project in terms of timelines. If we believe that we are able to meet the deadlines then, I shall be the first one to tell you that this is what the guidance on the income tax rate will be.

Mr. Prakash Deshmukh:
Or are they any exercise benefits also, or no indirect tax also.

Answer:
Both excise and income tax benefit will be there. Since, the grand fathering provision confirmed in December last year that is when we have pressed the buttons on this and that's the reason I have been sharing this with you. So let me get the approvals and then we can confirm on the income tax implication.

Mr. Prakash Deshmukh:
So second question is about the water shortage that was being talked about in the media in the last quarter. So was there any impact on HUL factories because of water shortage, and if at all there is, is there any one-off the cost linked to that?

Answer:
No water shortage factory implications, in terms of factory operations. But keep in mind that our factories are zero discharges, our factories do a lot of work to ensure that water reaches the surface. But in some places, there was a tough time in terms of ensuring we keep the production on, but no impact as far on cost, and no impact on production getting impacted.

Mr. Prakash Deshmukh:
Okay, so could you specify your plans for the online portal, the Humara shop?

Answer:
The humarashop.com is now open in Delhi and in Mumbai and the pilots have been going along. And, at an appropriate time, once we are comfortable with the kind of business case deliverables and with the kind of assumptions that we have, in terms of targets that are there, we shall be looking at the scaling. And again rest assured, we would definitely share with you, when we can share something concrete.

Mr. Prakash Deshmukh:
Sir, you mentioned that raw material costs have slightly bottomed out now at the same time, you are maintaining that margin that you still want to improve the margins from here. One lever would be obviously premiumisation, so what are the rest that you are building in here?

Answer:
So I think you have hit the nail on the head. The first one is indeed premiumisation. And we will be looking at other areas. Savings is another area. So we have stepped up our savings, and we would have covered this in a fair amount of detail in terms of the company, and the savings programme there. So we will be looking to build on that and extend out as a value chain, and alongside we shall also be looking at the whole zero based budget area. So it is a full agenda, and you recollect, Sanjiv did talk about it. So it will be an intense period of cost saving and we have intense inflationary cycle as well.

Mr. Prakash Deshmukh:
Thanks a lot!

Moderator:
Thankyou sir, the next question is from Mr. Rohit Kadam, Credit Suisse Mumbai.

Mr. Rohit Kadam:
Hi, just carrying on the question on Assam facility, so 1000 crore, seems like a very large capital for PP. It seems like it is 20% of your total gross block across all businesses. So, what is the quantum of capacity that you are actually adding on the PP side with this facility.

Answer:
I can tell you that all costs there are scrutinized thread bear; they are kept with future in mind. It is also ensuring that it provides business continuity. From multiple angles we look at rather than looking at the free lines in this place. And it will provide for multiple product categories simultaneously. Once the approvals are in place, we will be in a better position to share the entirety of it. The minute it is approved by the board, we can share it with you. And we are fundamentally looking at creams, lotions, shampoos, all are categories of high growth for us. And we will therefore be looking at that perspective.

Mr. Rohit Kadam:
So the existing factory in Assam, does it still have exemption, and when do they expire?

PB Balaji:
They do have exemptions and they go on till about 2023. So, that is very much on, currently the exemption is on for that factory.

Mr. Rohit Kadam:
Will you be in a position to share the PAT, before exceptional items for FY16 for the full year under IND AS? Or is there a change from the reported numbers?

Answer:
The fact PAT bei for FY 16, under IGAAP what we have reported is 13%. And under IND AS it is 13.5%. So there is 50 bps improvements coming because of the IND AS adoption.

Mr. Rohit Kadam:
And this is largely on account of the other income being restated because until the EBITDA line the numbers are the same, just wanted to understand what has driven the higher number.

Answer:
So, if you look at last year, if you look at the previous while numbers and we have given you the quarter wise numbers, if you look at the line of exceptional income expense. Then the net number for the whole year is a very small number, it is a 30 crore. Hence you actually have, the tax implication even on that, if you have to give an average rate of taxation. Then you would be able to kind of look and work through. That is the PAT bei number for each of the quarter. Are you with me? The tax number will not have any significant impact, because the exceptional income itself is very very low.

Mr. Rohit Kadam:
Thanks a lot. Just one last, are there any categories other than oral, where you are facing a market share loss? If you were to take a trailing 12 month or whichever way you want to look at it.

Answer:
We don’t talk of market shares on this, but in terms of performance, I think the biggest call out is overall growth situation is what we are calling out on. For me, what the primary focus is on that. From competitiveness perspective while there will be small pegs, they will be under pressure, given the size of the business, that is not my main concern. My main concern remains overall market growth.

Mr. Rohit Kadam:
Okay, thanks a lot and all the best.

Moderator:
Thank you sir. The next question is from Mr. Amit Sachdeva, from HSBC Mumbai.

Mr. Amit Sachdeva:
Good evening everyone, so just pointing to what comments Sanjiv made on modern trade growth and general trade slowdown. So just wanted to understand it from your point of view on what does it tell about market environment, which you are obviously tracking in greater intensity? But what I also want to understand that is there an offsetting effect because modern trade would also mean some cash and carry percentage, would that mean that it has started impacting general trade, and not as cash and carry. Some color to it or something else that we can read into it.

Answer:
See just wanted to clarify, in modern trade we do not include cash and carry in that, because that is not the root of the market, we don't call it equivalent to the whole thing. And, when we talk of categories the demand patterns that you see, under market growth, Mass is under more stress than mid-priced is more stressed than premium.
So small packed prices more stress than medium packed priced is more stressed than premium. So clearly the stress on rural is sizeable and significant. And bulk of the general trade is all rural. And that is what is probably playing out. Modern trade in the overall retail perspective is not what it was doing in the heydays of what it was doing in the past, but is surely better than what we are seeing in the market.

Mr. Amit Sachdeva:
Balaji, you made a comment that, you see underlying growth in PC excluding personal wash, the trend is better than the last quarter. And last quarter if I recollect correctly, the underlying growth was about 7%. So is it fair to say that the same or better growth in trend has continued in rest of the personal care other personal wash, and price deflation that has caused a bit of low single digit number overall. And is this the correct way to see it?

PB Balaji:
Let me clarify. We are positioning our entire communication vis a vis the market performance that is there. Relative to the market context we are not experiencing the improvement compared to what is there in the previous quarter. That is an absolutely right statement to make. There is an absolute levels in the market, have come off so sharply, something that you may see. That is one part of it. Second part of it is modelling the picture on personal products and soaps combo.

Moderator:
Thank you very much Mr. Sachdeva, next question comes from Mr. Vivek from CLSA Mumbai.

Mr. Vivek Maheshwari:
Hi good evening sir! My first question is on the personal care bit, and it looks like it is primarily lead by soaps, so does that mean that soap EBIT is declining in the quarter?

Answer:
You are right in saying that soaps EBIT is declining in the quarter. There is a tale of two parts, where PP EBIT has stepped up and soaps have declined. Net them all being declined. And that as fundamentally, commodity pricing has been pick up, your pricing also lags back and you catch up there after. So that is the trend that you would see on that.

Mr. Vivek Maheshwari:
Okay and I know the indices would be different for soaps versus detergents but if I look at the overall home care 7% revenue growth and 23% EBIT growth, two things over here, one when you have been highlighting quarter after quarter the competitive intensity is quite high and despite that and I don't have the previous four quarters for detergents, I just have this quarter from a growth perspective but if your bottom line is growing faster than top line, is competitive intensity is really that much of a worry, if you are able to expand margins for say detergents for example or it is just, or we have not seen those days which we have seen in the past possibly because one of the large competitor is not as aggressive as it had been say around 2008-2009.

Answer:
A lot of questions rolled into one cart, let me try and ease it out. I think from a detergent perspective we've shared with you home care numbers across the last four quarters of last year and you would notice the performance against that and you'll also notice that the margins have actually improved across time in that and detergents is mostly home care, that's the bulk of it and what are coming into it, that is one. Second, I've always maintained that we see intense competitive activity but we do not see irrational competitive activity. I've maintained that in all my interactions. In that scenario when you're having a premiumizing category which is the fundamental of what we're trying to do on the home care business- to drive premiumization, and tomorrow when you're there, Priya will talk about it as to what they managed to pull through on that one. If you're tracking home care itself over many years, you will notice that our portfolio has changed fundamentally to what it was compared to 2011 and then last four-five years and maybe tomorrow that could be a great time to first listen to Priya and of course ask her that question as to what is the strategy to drive this even further. Secondly if we look at the innovations that we're landing, we're continuing to have intense innovations landing on the premium and on home care, which is one more reason why we want to drive the profitability of the business. So therefore we're very, very clear that we will keep improving the profitability but at the same time we're very, very clear that our market shares will be defended at all costs.

Mr. Vivek Maheshwari
Okay and in that context if I can ask you one more question- suppose from today, if the deflation cycle was beginning for the next say four, six, eight quarters, if you had to think about or at least I would have thought about detergents and soaps behaving pretty much quite similarly on growth, competitive intensity as well as the kind of down trading or premiumization, but it looks like the detergents have done much better for you at least compared to soap, is that something that has surprised you one, and second is there something from a market perspective that you have done much better in detergents versus soaps?

Answer:
The question, I think from a point of view of, there is clearly a difference in the way pricing has reacted in soaps and pricing has reacted in detergents, keep in mind both are highly penetrated categories, it needs to be seen in that context. What we're seeing in detergents is a significant premiumization that is driving through and the fact that we have a strong portfolio of brands sitting on it means that we are able to ride that premiumization, we are able to trigger it, we're able to drive it. Unfortunately I'm not seeing the same level of premiumization in the case of personal wash which is probably one of the reasons why you will notice that the way the things have played out are different. That I think goes for consumer behavior that happens on this because some of the performance criteria parameters between mass detergent to a premium detergent there's a significant performance difference while it is not of the same kind of performance difference between a mass bar and a premium bar, they're all together in a very similar kind of price zone, about anywhere between 80, 90, 100, versus a laundry that goes all the way from 50 rupees a kilo to almost 220 rupees or 250 rupees a kilo, that's a huge price difference that is there which one is able to drive far better compared to a very narrow range on which soaps is operating. So there's a very different category dynamics, great spot.

Mr. Vivek Maheshwari
I see- although I would have imagined that the gap in detergents is so high that premiumization would have been tougher at this time compared to soap if at all, if that trend would have continued

Answer:
You're absolutely right- in normal course, it won't be that easy but in a deflationary environment, that is exactly what our strategy was. If we are able to make that product accessible, that you're able to drive up premiumization very high and I remember calling it out many times saying that the strategy we've played out is really working for us in terms of making aspirational brands, affordable and accessible, that's our strategy.

Mr. Vivek Maheshwari:
Sure, sure and a small question on, I mean Indulekha is there on your presentation I think a couple of slides but we

don’t see Ayush over there, how has been the progress on Ayush and are you moving it from just e-commerce to more modern trade or select general trade.

Answer:
We’ve put out Indulekha because it’s an acquisition as shareholders they’re paid, I’m sure you guys will be keen to understand what we will we do and what we paid them, hence we called it out. Ayush- so far our progress has been good, we’re now closely working on the product, just watch the space would be my only request, not in a position to share anything further at the time being but we’re very clear Ayush will be a play that goes, it will not be restricted to e-commerce, it will go across the country.

Mr. Vivek Maheshwari:
Understood, alright, all the very best and thank you.

Moderator:
Next question comes from Mr. Richard Liu from JM Financial, Mumbai.

Mr. Richard Liu:
Hi, thanks for taking my question, good evening everyone. Firstly many thanks for fantastic levels of disclosures made to help us understand all these various stages that were there. My question relates to net realization growth, if I recall correctly it was the number of small 60 bps in MQ and that seems to now have flattened to round about NIL this quarter, I’m talking about the difference between value, sales growth reported and volume growth, I presume that this quarter versus last, prices could have only moved up; so can you help explain this please, this seems to suggest that prima facie some issue on mix, while I know that you already referred to premiumization following through well, but if you can just help me understand this scale?

Answer:
See if you look at the price growth at an overall level what used to be deflationary in the previous quarter has now become almost parity, there is a marginal 40 odd bps that has improved because of the fiscal number that is there, that’s the marginal one there and therefore when you’re looking at, if you’re looking at an absolute turnover growth there’s also an angle of disposal sitting in it because modern has been disposed, but we look at domestic consumer and growth that we’ve called out that is correcting for all those.

Mr. Richard Liu:
I’m actually just referring to the absolute growth number, basically the volume growth versus domestic consumer growth and if I recall correctly these two elements gave rise to a 60 bps realization growth in MQ. The question is that if one would look at pricing movements sequentially, pricing would have only gone up whereas the net realization growth seems to have gone the other way?

Answer:
Well overall between the two quarters you’ll notice, I should see almost a percentage swing in terms of my price growth from March quarter to June quarter, that’s what we should be seeing and Richard if there’s anything further details that you’re, maybe I’m not able to understand your question correctly, this, what we have reported is almost a 1% swing in our price growth number between last quarter and this quarter, but happy to take it offline if need be.

Mr. Richard Liu:
Okay I’ll do that and second question is how come the excise phase out impact is still there, I thought that would have been done with in March quarter?

Answer:
Mostly done with 40 bps but if you just compared to the kind of 150 bps that we had earlier and it comes down further. By December quarter, it will be zero.

Mr. Richard Liu:
Okay and I know some people have asked this in different ways before but is there any chance you can share with us, what is the PC growth ex soaps, that is PP as we knew it before?

Answer:
I think Richard in this, now the new categories and my request to you will be that let's move on with the new categories else we'll be very nostalgic about the old categories and we'll keep reconciling back- left, right and center. These are the new categories and this is also very interesting. This is the same category that Unilever also has, which means that your narrative and strategy, all of that will be pretty aligned to that and it is operating under one head. So there will be benefits of looking at this together, my request to you would be if you could move on to that, that will only help all of us.

Mr. Richard Liu:
Okay I just wanted to try and make out that this whole channel spend, the alignment thing that was there in the last two quarters which you called out has gone away this time round, I would just want to make out what is differential on account of that? I know there's also the element of probably the market having worsened between last and now but we're just trying to decipher that element here.

Answer:
I think we've done an internal calculation and we're trying to get a sense of that and what we believe, right now I don't think it will be visible on a Year on Year basis because the previous year base have the channel spends in the normal way but on a sequential basis we believe at least a percentage of growth is sitting because of that, because of the kind of assortments we're driving, the kind of changes we're able to put through because of the incentive, incentivizing of that particular channel has changed. But broadly you can take about a percentage is what we managed to land MQ, DQ over MQ.

Mr. Richard Liu:
Should not that have been better because, okay so I think the percentage point is probably the sustainable increase in growth that you think you can perhaps achieve because of the better assortment etc. But given the fact that DQ and MQ's growth were so called affected because of this impact being there, I mean should not JQ have had two positive impacts, one is this adverse impact not being there plus the positive impact from the mix and assortment thing that this whole exercise was about?

Answer:
That's a great question Richard. I think just keep in mind that when the channel spends run it also builds momentum this time and that is what we consciously did. I've not attributed anything to the channel spends issue because there's a larger market issue and we're seeing the kind of targets that we want them to stick, is something that is happening and hence we said there's no point calling out if the issue is behind us and in the bay. So as we go forward you're right, people want to see the benefit of this flowing through and it will keep building momentum with time.

Mr. Richard Liu:
Okay got it, alright thank you, wish you all the best.

Moderator:
Thank you very much sir. Next question comes from Mr. Abhishek Banerjee from UBS India. Mr. Banerjee you may ask your question now.

Mr. Abhishek Banerjee:
I just had a question regarding interest costs, it seems like post restatements the interest costs are higher for the previous quarter, am I correct in that? Could you please throw some light on that?

Answer:
Okay so there are two elements under IND AS which kind of come in- firstly as you know that we, are debt free company. We don't really have borrowings, so going by that logic, we should not have any interest costs. But under IND AS, actually when you have long term liabilities, it largely needs to be recognized in the books of accounts with a discounting, depending on when you expect the payment to happen annually, and in every quarter you need to kind of recognize the discounting element as you keep coming closer to the payment date. So that's been an IND AS impact whether you can recognize the notional rediscounting of those liabilities as an interest cost. So to put it, the unwind of the discount factor goes to the interest cost. So for example if you're going to pay let's say 100, let's say two years from now you will recognize let's say for arguments sake you will recognize 90, over the two years, 5 rupees will be first as an interest cost, then another 5 another interest cost and that's how the 100 gets created when the payout actually happens.

Moderator:
Next question comes from Mr. Abneesh Roy from Edelweiss Mumbai.

Mr. Abneesh Roy:
A few follow up questions, one is in your PPT you've given St. Ives, so this is also from Alberto Culver, so could you take us through how in terms of product the pricing etc. and positioning will happen and is this one more foray and strengthening of the natural?

Answer:
Good spot Abneesh. See, naturals is a global trend and you would have heard me talk about it many times and when it gives you creative ways to approach naturals from different directions, so we have an angle coming from St. Ives, we have an angle coming from Indulekha, we have an angle now coming in from FAL ayurvedic, from the traditional brands getting into ayurvedic, as well as now there is a very different phase of naturals- of indulgent naturals that is there. It's a fantastic brand, excellent equity in India and therefore it is now launched in e-com. Similar to Ayush, we will take a very close look at it because we'd love to understand what the consumer is speaking about it, what kind of comments we're getting and then we'll fine tune the mix and you'll slowly realize that e-com is in, and tomorrow we're going to talk about how we're looking at the digital world. It gives me interesting ways to experiment with brands and fine tune the proposition and then land it with scale. So it is the next one that we're looking at after Ayush which is an exclusive e-com, but who knows where it goes, it depends on what the consumer wants and how he or she wants to take it.

Mr. Abneesh Roy:
And will St. Ives be in the premium and which segments of PP will you be focusing at least from a 2-3 years perspective?

Answer:
It's a pretty rich range and we will be looking at face scrub, face mask, body lotions, it goes the whole range on it. We'll definitely recommend all of you to try it out and the Apricot face scrub is one of the all-time great products that is there from St. Ives. It is premium priced absolutely, and we would love to understand the consumer speak on this better before we formulate our strategy comprehensively.

Mr. Abneesh Roy:
Sir, next question is, in the lower end of detergent and dish wash, we're seeing a lot of competition from the herbal players and even regional players and you've not mentioned any of these brands in your discussion, so is it fair to say that Wheel and Vim are suffering from market share loss to these players?

Answer:
Wheel you'll be happy to know it's grown there. You must keep in mind that there's also a significant market pressure we're talking about in rural and the mass segment across the board have been affected by that. So that's something we said we'll call it out and across, it's an overall call out rather than individual specific sector call out.

As far as Vim bar is concerned, Vim bar has just been re-launched and it's a fabulous product, the product investment that has gone in and Vim liquid continues to do well for us and it's a significant player in that market and we see no reason why we should be worried on this category.

Mr. Abneesh Roy:
And sir finally Indulekha, two questions, one is I'm not asking on how Indulekha has done in Q1, these are initial days but in terms of distribution based on your current assessment, how much is still there in terms of white spaces and second is we had seen that in acquisition, lot of channel stuffing happens. We had seen that earlier in another acquisition by another company in the premium hair oil, so in this case are you seeing any channel stuffing issues or in terms of inventory it's fine so growth will be there versus last year?

Answer:
There are absolutely no channel stuffing issues, Mosons, from whom we bought it-we know them very well and high levels of integrity with them and we've mutually agreed the way we've launched that brand and it is being done as a coalition. Keep in mind that they're continued to give percentage of the turnover as remuneration as well as to keep their interest in them, they ensure that we learn everything from them, it is their brand, they've created it and they love it completely even today. So channel stuffing is the last thing that they would recommend in a premium product like Indulekha. There's no way they will do it, neither will be our own due diligence, our control systems will not allow that to happen. So the off take that we see is genuine and therefore we're quite happy with the way the brand is performing so far.

Mr. Abneesh Roy:
Okay sir that's all from my side, thank you.

Moderator:
Thank you very much Mr. Roy. Next question comes from Mr. Aditya Soman from Goldman Sachs Mumbai.

Mr. Aditya Soman:
Hi, thanks for the time and good evening. My questions are largely on detergents. Firstly you mentioned that you've seen significant premiumization in detergents as compared with soaps. Is that one of the reasons that consumers are shifting to washing machines and this is not the benefit that you probably see in something like soaps and as say costs of labor go up people will use more premium detergents and use more washing machines.

Answer:
To some extent I'll say you're right but just keep in mind and maybe Priya would be a good person to ask the question tomorrow. Washing machine penetration is still a bit small in this country. So there is clearly an opportunity of higher penetration in washing machine zone, but what we noticed is once there is a washing machine in the house, very clearly the kind of products people use in it. Because they've invested quite a bit in the washing machine, they're not going to use a low end detergent to clean it for the fear of spoiling the machine. So that's clearly a trend that is there and we from our side what we do is, the machine manufacturer's recommendation, we have almost all the washing machine manufacturers, almost all recommending us and that is something, it's a crucial program that these are and that's how we drive penetration in the washing machine household.

Mr. Aditya Soman:
I understand and just to follow up, the other point you mentioned was that there's a big price gap between a basic detergent say at 30 or 40 or 50 rupees and a premium one you said at 220 rupees a kilo, would it be safe to assume that the gross margins also rise significantly going from the basic product to the premium product?

Answer:
I'm sure they'll take care of it, but you're right in making that assumption- margins are higher and one is the margins and other is the gross profit also, because the turnover per ton is higher therefore the GP per ton also

becomes higher naturally. So that's how you get the mix that that sector of that particular higher margin also kicking in.

Mr. Aditya Soman:
Correct and just to follow up, if you have say increased competition on the premium end, say somebody were to launch a machine detergent at a much lower price, then that could be a significant impact in your margin for that?

Answer:
I think it is always available as an option for anybody to launch a premium product. It's not that people have not tried, people have tried it multiple times, but that is where the brand comes into play, and what the level of brand equity that is involved is, and that's something that we're very, very paranoid about and we watch out for brand equity trends.

Mr. Aditya Soman:
I understand that was just very useful. Thank you

Moderator:
Thank you very much Mr. Soman. Next question comes from Mr. Kunal Vora from BNP Paribas Mumbai.

Mr. Kunal Vora:
Yeah thanks for the opportunity, just a couple of questions. First is I wanted to hear your thoughts on Indulekha, that's currently got a premium positioning with almost four times pricing compared to competitor products, now would you go mass market or you're happy with the current positioning for the product? That's one, if you can answer this I'll go for the next one.

Answer:
We're very happy with the current positioning and we intend to keep it that way.

Mr. Kunal Vohra:
Okay great, second one is royalty has been increasing on annual basis, where do we expect it to stabilize?

Answer:
I think the contract is now valid till 2023, the last of the increases have gone in this financial year and with this, we've now fulfilled the full contract and this contract will be valid all the way till 2023 and then we will have to see then.

Mr. Kunal Vora:
Great, one last question, can you share your distribution expansion plans for fiscal 17 and which are the categories in which you see largest scope for the distribution expansion?

Answer:
If you see, there are opportunities in every category because the way we look at it is, what are the benchmarks available for distribution and how do you want to increase that? So that's an ongoing effort and we do not have a thing to say it's being matched out anywhere, what we're doing now is- instead of just out let increases we're now focusing squarely on ensuring that the throughput per outlet increases- that's something that they've called out over the last two years and that is something that we're focusing on. We're realizing that for throughput to increase, assortments need to increase. So clearly focusing on assortment increase in the various outlets, so that we're able to service the outlet on a sustainable basis. That is the current crux of the strategy.

Mr. Kunal Vora:
Okay just one last question, have there been any changes in distributor commissions? We heard that there have been some cuts, is that the case there?

Answer:
When I talked about channel payouts, those channel payouts are linked to retail outlets, as far as the distributor payouts are concerned, at an overall level there is no change in the distributor payout plan.

Mr. Kunal Vora:
Great, thank you sir, that’s it from my side.

Moderator:
Thank you very much Mr. Vora. Next question comes from Mr. Manish Poddar from Religare Capital Market Mumbai.

Mr. Manish Poddar:
Hi sir I just wanted to understand when you mentioned growth has slowed down, is it in value terms or in volume terms?

Answer:
Volume and value.

Mr. Manish Poddar:
And which would be sharper?

Answer:
The concern is coming from the fact that volume has slowed down sharply. If you recollect previous quarters, I haven’t signaled this. Because we said yes, we understand market value growth coming down because there is a price deflation in the market, therefore we’re comfortable with the value growth coming down, that is understandable. Why we’ve called it out as a disconcerting trend is- volumes coming off. But hopefully with monsoon and 7th pay commission etc. coming through, there’s likely to be a turn and that’s what we want to hope for from our perspective.

Mr. Manish Poddar:
Okay just in continuation to the question a gentleman asked previously. You’ve alerted this, but this is for the industry at large. You’ve alerted that FMCG growth has slowed down in the rural parts, but has there been any pickups in terms of let’s say growth in terms of new product introductions, or the rate of distribution expansion in the recent period?

Answer:
See innovation, I think all players are continuing to innovate and put through new innovations intensively. And that is how we’re trying to fight the market slow-down that one has seen. But as I said earlier as well, I think we can put in all the efforts, it’s always good to have some tail wind of market growth along with it, else you’re fighting with one hand tied behind your back.

Mr. Manish Poddar:
No but these innovations are primarily at the premium end and whichever we come to know about. Has there been innovations happening at the mass side also when you’re looking at it?

Answer:
For example the re-launch of Wheel I would call was completely on a mass end. Lifebuoy has been re-launched with active silver in the down south, which is called as mass as far as that market is concerned. Also Clinic Plus having re-launched is a mass end of hair. So there is a fair number of brands and from our side, we will actively innovate across the portfolio, not only premium.

Moderator:
Thank you very much Mr. Poddar, next question comes from Mr. Mehul Desai from IDFC Mumbai.

Mr. Mehul Desai:
Just have three questions- firstly you said there's an impact of 40 basis points in terms of the overall impact on excise duty and typically PP had a higher impact in that historically, so just wanted to know is that the case in this quarter also and if so how much?

Answer:
There is almost no impact on PP as far as fiscal is concerned, all the fiscal impact is fundamentally on the home care side.

Mr. Mehul Desai:
Okay. On the jams one-off part, so just wanted to get your sense- is that over now and are we going to see a normalized Q2?

Answer:
The temporary blip is a sizeable part of the portfolio in foods, in a relatively smaller part of the business, and also came at a time which is a pretty crucial time of getting nearer to schools start up. So just a combination of the two that caused the problem but it is behind as of now.

Mr. Mehul Desai:
Okay and third question was again on the market demand part. You said obviously there is a volume slowdown. I just wanted to understand if that has progressively gotten worse in Q1, which means May was worse than April and June was worse than May. The context of that is that if that is the case, then I will have to probably also take that much more time to turn around in spite of the external triggers like the pay commission and the good monsoons. I just wanted to understand on that front.

Answer:
It will be unfair to keep reading month level numbers on that. It just makes it too noisy. What we look at is what are the moving average trends that are on a yearly basis and what are the last 12 weeks' trends on the moving average basis. And that is what is the reason when the last 12 weeks' numbers were significantly lower than the previous quarter, on almost nearing zero, is when we said okay it is time to signal this that this is a sharp slowdown that we haven't seen for quite a while as far as volumes are concerned.

Mr. Mehul Desai:
Sure. Just a last thing on that is that in the base quarter possibly would have been the quarter with the highest promotional intensity or say a 20% plus offers which were there in the system. With that coming off, would that also have had an impact on the overall market volume context?

Answer:
There is only soaps and detergents I would have probably gone with and we would probably have not have signaled it. It is just when we see across the various categories whether they are promoted not promoted, when it is slowing down, and you will also notice it is across channels, it is across GT lower than MT. Mass lower than mid-price lower than premium. When you see a pattern where you see everything mass, everything rural, everything where there is stress in which we are realizing the market. Then you need to respect the fact that there is more to it than just a promotional swing. It is not the mirage that happened, let me put it that way.

Mr. Mehul Desai:
Understood got it. Thanks and all the best.

Moderator:
Thank you very much Mr. Desai. At this moment there are no further questions from participants from the audio line. I would now handover the call proceedings to Mr. Dinesh Thapar for the web questions. Thank you and over to you sir.

Dinesh Thapar:
Alright thanks Mahima for seeing that through. Let's quickly run through the web questions and we will avoid touching upon the questions that we have already taken. There is a question from Latika, JP Morgan, what's the timeline for the new Assam unit to become operational.

Answer:
Latika you just heard Balaji mention subject to receipt of approvals, it is our intention to have this unit commissioned by 31st of March 2017. But that is of course subject to receipt of the approvals.

Dinesh Thapar:
Balaji there is a question from Jamshed from Citi Group. Both Home Care and Personal wash have been fairly big mass segments. But there appeared to be some variation in growth rates between the categories in the quarter. Can you give some color on why this is happening?

Answer:
I explained when I was responding to Vivek. I will just cover this in terms of the difference in dynamics that we have seen in soaps versus detergents. Hopefully that is the same question coming from a different lens. Unless Jamshed has a different point.

Mr. Dinesh Thapar:
Okay Jamshed's question has also got to do with any trends between hair care and soaps and any divergence on growth trends.

Answer:
I don't recollect forming a mental map between hair care and soaps or any divergence in growth trends. What we see in hair care is broad based growth that goes across. And second on hair, is not so much commodity led. It's a pretty brand led category that is there. In soaps yes, we do have strong brands, but it needs to be linked into a commodity price. And second, in soaps, what we have seen is also significant deflation and inability of the deflation to trigger the volumes that we are looking for, unlike detergents, where the deflation actually helped trigger volumes and drive premiumisation. Hair care doesn't have any deflation thing. It is just a traditional market upgradation. So it is a very traditional marketing story that is being played out in hair versus what we have seen in soaps. If your point on hair care is more about the price cuts on bottles that got taken, the bottles is a small portion of the total portfolio. And given the strength of the portfolio that we are running with, we have seen that we are quite comfortable with the performance there.

Dinesh Thapar:
Okay Jamshed. The next question is: any updates on colour cosmetics.

Answer:
As you would have seen from the results commentary, clearly Lakme has continued its strong momentum on premium makeup led by the Absolute and 9 to 5 ranges, as they continue to set trends through a range of contemporary innovations. So premium doing pretty well with Lakme.

Dinesh Thapar:
Coming to questions put up by Amit Kumar from Investec- would it be possible to quantity reversal of provisions on employee cost line item in the base quarter.

Answer:
Yes Amit we did roll that out, we quantified it. It's 70 bps in terms of an impact on margin. In absolute terms, it translates to about 48 crores.

Dinesh Thapar:
Abneesh Roy's question from Edelweiss. The current quarter employee cost we considered more sustainable. There is nothing exceptional in the rest of the employee cost in terms of that extent. You can continue that to be a sustainable number.

Abneesh's question from Edelweiss on Ayush and how is it done on modern trade.

Answer:
Abneesh we just touched upon this. It has met with a good encouraging response on ecommerce. Ayush was not on modern trade, it was on ecommerce. And we have limited to the channels really encouraging response with learnings which we will look to incorporate as we develop the mix to make it larger.

Dinesh Thapar:
Coming back to another question from Amit Kumar from Investec, any impact of excise duty that you would wish to call out from the current quarter?

Answer:
Amit we did call this out. It's 40 bps on top line. It is 15 on margins. And by the time we exit this year in December that number would have gone down to nil.

Dinesh Thapar:
Latika's question from JPM- would be helpful if you could disclose the share of premium brands in personal care and home care portfolio. Overall broad numbers will be helpful.

Answer:
Latika just to give you a broad sense of direction, in value terms premium would be about 25% of these between home care and personal care.

Dinesh Thapar:
Latika's question on ecommerce, how ecommerce channel is ramping up for HUL. Which product categories are you seeing better traction. It would be meaningful to call out in terms of contribution from the channels.

Answer:
Latika you remember we had spoken about this in terms of being important strategic priority for the business and we therefore went ahead and built capabilities ahead of the curve on ecommerce and that is yielding well. We are currently running at a rate of about 1% on business in terms of ecommerce and clearly growth rates have been exponential across categories. A fair amount of the business on ecommerce is coming in through personal care. But there is also premium laundry and refreshment which is starting to do well. So clearly broad based across some of the categories that currently participate on ecommerce.

Dinesh Thapar:
Ajay Thakur from Anand Rathi Securities, Balaji will answer this to you- with over one month of monsoon behind us, have you seen any signs of uptake especially in the water stressed markets?

Answer:
Too early to call out. Just give it a bit of time. That is the reason we have called it because we are optimistic in the medium term on the impact of this. Monsoon needs to translate into crops and crops into harvest and into money. So

give it a little bit of time and we will be able to call this better, you will be able to call it better actually, better than us.

Dinesh Thapar:
Okay. And I think the last question again Amit Kumar from Investec: Would it be possible to break A&P into add trends and consumer promotions.

Answer:
Amit basis the IND AS accounting, this number would be in the range of between 85:15 and 80:20. Recognise that there is a fair amount of promotional activity that was earlier sitting under A&P, under IND AS gets reclassified as a part of revenue reduction. But in the current accounting, I still think the number would be in the range between 80:20 and 85:15, 80 being really the ad spend.

Alright. I think with that we've come to an end of all questions. Let me again remind you that all of the contents- we've put out a fair amount of data this time to try and give you comparatives ahead of the quarters. We've given you IND AS results and the comparatives. You will get all of that on the website. Or feel free to reach out to us if you are not able to access it. A copy of all that we've presented in this event, the transcript will be available on the investor relations website in a couple of hours. So you could therefore go there and refer to it. And also we said it is a quarter of significant change from a reporting standpoint and therefore please feel free to reach out to one of us at the investor relations team to be able to address your concerns or questions, when it comes to understanding the change. We will also have a session for those of you who are joining us tomorrow to talk through about it a little bit more in detail. Alright with that I would like to mark off this call to a close. Thank you everyone for your participation and have a good night.