September Quarter 2017 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. Aasif Malbari, Group Finance Controller and Head of Investor Relations

Operator

Good evening, ladies and gentlemen. I'm Karuna, the moderator for this conference call. Welcome to the Hindustan Unilever Limited September Quarter Earnings Conference Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, a question-and-answer session will be conducted for all the participants on this call. [Operator Instructions] Please note that this conference is being recorded.

I now hand over the call to Mr. Aasif Malbari. Thank you, and over to you, sir.

Aasif Malbari

Thanks, Karuna. Good evening and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening results for the quarter ended September 30, 2017. On the call from the HUL end is Sanjiv Mehta, CEO and Managing Director, P. B. Balaji, CFO and Srinivas Pathak, who is taking over as CFO from December 1. As is customary, we will start the presentation with Balaji sharing aspects of our performance for the quarter and then hand over to Sanjiv for him to share his perspectives on the business performance.

Before we get started with the presentation, I would like to draw your attention to the Safe Harbor statement included in the presentation for good order's sake. An additional point, this time around, we will not be having the ability to kind of take on questions through the web option on the screen and hence we'll take all the questions through the audio link because of a technical glitch.

With that, over to you Balaji.

P. B. Balaji

Thanks, Aasif. Good evening all of you. Thanks for joining the session, the analyst deck session. Let me quickly give you a sense in terms of where the market context is before, yeah, that's right. The September quarter one is an interesting quarter because that's when we transition to GST and I would also just ask you to circle back on the comments we made in the previous June quarter review as well. And we've talked about HUL's transition to GST being swift and however, we did raise that there were the issues at the earlier part of the quarter in terms of transition where some parts of the trade were affected.

Wholesale and CSD in particular were impacted in the early part of the quarter, I'm happy to report they are now starting to recover. Consumer offtake during all this remained stable, and we're also realizing that input costs are starting to inflate as far as this quarter is concerned. So, this was the market context. And in this outperformance, before I get into, there is – because of GST, the accounting impact of GST is something that is significant and needs to be explained a little bit before I get on to the numbers.

You would recollect that we had talked about this impact in our previous quarter as well and let me just pause a little bit to just explain those two impacts. First impact is related to excise duty, where earlier era, excise duty was treated as a cost and now under GST, it is now getting subsumed in GST and getting netted off turnover and therefore this has had an impact of reducing the turnover for the current quarter and has absolutely no impact whatsoever as far as the absolute EBITDA is concerned.

Just for some people who are also covering Unilever stock at the same time, this has got no implication in the Unilever reported accounts, because under IFRS, the turnover is always reported net of excise, there is no impact on the HUL as consolidated into Unilever is concerned. This is one set of impacts that are there.

Identical to excise, there are other taxes which could be a service tax, which could be an Octroi, which could be an excise duty beyond fiscal units, which are – CENVAT on fiscal units which we are not able to avail. These non-creditable taxes that are sitting in my cost line are also now getting subsumed under GST and therefore that also results in an all identical impact of reducing the absolute turnover for the current year and at the same time having no impact whatsoever on the absolute EBITDA concerned.

So, both these impacts are fundamentally reducing the absolute turnover and are holding the EBITDA constant, which means your EBITDA margins will fundamentally be higher optically because of this accounting impact. This, in a nutshell, is the accounting impact of GST and let me just take you through what is – how is this playing out in our numbers.

First is the impact on growth. You would have noticed that our reported revenue growth has come at minus 2%. If I take the net excise duty number alone, that's another 8% which I need to add to this and the net input taxes that were now sitting – in the earlier era was sitting as cost, but is now getting subsumed in GST and getting netted off turnover is another 3%. Therefore, the comparable revenue growth, which is just an accounting adjustment between reported revenue and the comparable revenue is a 9% number, so this should have been, in the absence of GST coming through, this would have been our comparable revenue growth. And you all know that we take out the impact of A&D, we'll take out the impact of any non-core – but typically, KCL traded turnover and export, we take out, so that to arrive at a comparable domestic consumer growth, that is a 10% comparable domestic revenue growth that you see.

Same impact sitting on the bottom line, if I go to the next slide, the reported margin improvement, looks like 370 bps, because of excise duty, accounting adjustment, we need to knock off 140 bps due to that and because of the net input taxes, we have to knock off another 50 bps due to that and therefore our comparable margin improvement in EBITDA is 180 bps. So, so much for this accounting in this entire GST scenario, let's get to the traditional results review that we do.

So SQ 2017 has been a – once again a quarter of profitable volume-driven growth has been sustained in this quarter. I talked about our comparable domestic consumer growth of 10%. But I also want to call out that if you recollect, we had committed that – HUL is committed that we will pass on the net benefits at a company level based on fair principles is something we've committed that we will pass on. And we had also called out that on from day one onwards, this price drop started landing because of just being well prepared for GST. And this quarter, we have reduced our prices by almost 3% to 4% to pass on the net GST benefits. Our underlying volume growth has been 4% and our EBITDA at INR 1,682 crores is up 20% and we talked about the comparable margin increase of 180 bps. But just tease out this 180 bps a bit, lot of it has come from the high cost of goods sold in the base quarter and – but happy to see that the sequential margins between June quarter and September quarter have actually been sustained due to a very strong savings program that is continuing to plow ahead. A&P spends have been stepped up further this quarter to support the innovations and the big one out there is Lever Ayush going national. And PAT at INR 1,236 crores is up 14% and net profit at INR 1,276 crores is up 16%. So that's in our performance in a summary.

To give you a flavor of the kind of price drops that some of you who are tracking the local markets would have figured out, swathe of price drops happening in Personal Wash. And even in a category like body wash where actually the tax rate has increased to 28%, we've decided to cut prices because it is strategic and it is something that we believe will actually turbo-charge growth in this category as well. So, our deployment of price drops at a company level have also been very similar to what we do normally in a commodity scenario, is highly strategic and not just transactional. So that's on Personal Care. Similar work in homecare, a swathe of products price drops landing as well as at the same time furthering the strategic agenda. And as part of the Foods and Refreshment portfolio, where limited changes are there, that also saw price drops. So, these are the price drops that we took to pass on the benefits of GST.

Now how does this play out in terms of performance of the various segments. And I'll – going forward, I'll only talk about the comparable sales growth numbers that we're all talking with a sensible sense of the background of numbers. Very happy to see a 10% growth at an overall level, but it is also broad-based across all the categories. Home care in particular continues to be a standout category, where robust volume-led growth has been sustained. And Personal Care, very delighted to see broad-based growth across both Personal Products and the Personal Wash portfolio is one – Personal Wash portfolio in particular is now starting to come to the party. And Refreshments, robust growth has been sustained. This is a category that has been delivering strong performance across and that has continued to deliver this quarter. And Foods, the growth has been driven by the Kissan portfolio.

Innovations, our lifeblood, continues to be an intense period of innovations even amidst the changes that GST brought forth. For example, the Lever Ayush range was extended on July 21, 20 days after GST. And the Naturals portfolio is something that we have been building with a lot of care and a lot of intensity. And this quarter, Ayush has gone national with its individual ingredient story being played out and really teased out and also happy to report the performance of Indulekha, which has now got clinical results of actually able to re-grow hair, which is quite a big clinical result for us from that perspective, so delighted with that brand and the way it's progressing.

Home Care, just to give a little bit of flavor on the type of what's happening in the individual small C's there. Fabric Wash has been a standout category within Home Care and it's get delivered broad based double-digit growth across the category, which is a great happening in the mass section and the premium section and Rin – all going through very well. Household Care, the growth has been led by a very strong performance coming through in Vim bar. And Water, we have now started on launching a new range of purifiers, which is an RO 2-in-1, that has also been launched this quarter.

Moving on to Personal Care, the big one is Personal Wash, broad based growth across key brands, particularly Dove and Lux leading the category growth. And in Skin Care, the growth has been driven by a buoyant winter sell-in. And in Hair Care, we talked about Indulekha. This is a brand that's now starting to really move in and of course the segment growth at an overall level was led by Dove.

On the other parts of the Personal Care portfolio of Color Cosmetics another standout category continuing to deliver strong double-digit growth and our performance in Oral Care is the one that leaves us disappointed because the performance continues to remain subdued. And what we have done this quarter has been concerted actions. One is, GST-led price reductions have been landed on time with force in the market. And the Lever Ayush range of toothpastes have been extended nationally. So, we are taking concerted actions to get back to the growth path here and that is something that we are committed to. On Deodorants, the performance has been led by Axe.

Moving on to the Refreshment portfolio, continued strong broad-based growth in this category and Taj Mahal Tea got re-launched here and Ice Creams has been another great category where festival sales have driven robust volume-led growth in this particular quarter.

In Foods, growth has been driven by Kissan, particularly the ketchup side of the business and Knorr saw multiple new variants being launched in Soups as well the international flavor variants in noodles has been launched in select markets. So, we are now working on this portfolio in a very methodical manner.

One question that I keep getting asked is the focus on volume, the focus on savings, how does it all tie it together and how do we play this portfolio? I know we have covered this earlier, but I just want to bring this back into attention here. The virtuous circle of growth is something we truly believe in and the financial growth model allows us to do that. So, this circle starts by focusing on profitable volume growth where our focus is to drive sustainable volumes and also maximize the revenue realization through work like NRM that we are able to juice. And that's delivering profitable volume growth, we are then able to drive both cost savings and operating leverage using that. And here is where the area of Zero Based Budgeting, Project Symphony which is now taking savings rates almost about 7% of turnover now. And ensuring as a company, cost ownership is driven down to every person in the company, that then gives us the savings or the source of funds that we are looking for and that source of funds, when deployed, be it in innovation, be it in marketing investment, capability building, market development, new brands like Citra, Ayush, all these are used to turbo-charge the profitable volume growth that you are looking for. So this is a very simple way in which we run this business and that is what is giving us the results that we are talking about where we deliver volumes, we deliver the turnover as well as deliver modest improvements in operating margin that we stay committed to.

So this is what is overall September quarter results, what does it look like.

The EBITDA, we talked about, the only callout I would have in the other remaining lines of the P&L is an exceptional income that is there because of the profit on sale of equity shares in Kimberly-Clark Lever to Kimberly-Clark. And that's about INR 46 crores that is there as an exceptional income that you see in the P&L.

So just to summarize the first half, here we are – it's a bit of mixed items, we are combining with the first half – first quarter was pre- GST, second quarter was post-GST. But if I look at comparable domestic consumer growth over the first half is about 8% and comparable EBITDA margin improvement is about – that is very steady at about 170 bps.

Interim dividend, the board of directors have recommended an interim dividend of INR 8 per share, which is about INR 1 rupee more than the previous year same period interim, and this is a dividend outflow of almost INR 2,084 crores is what will be the – our outflow including dividend distribution tax.

Looking ahead, we expect gradual improvement in rural demand going forward and we also expect to see trade conditions to continue to improve and we also expect to see input costs to inflate further as we look into the near term. And in this context, our strategy for the long term as well as how we handle the immediate is to continue to remain agile in the face of uncertainty and we will focus on volume-driven growth and improvement in operating margin in tandem. And this is how we intend to deliver our strategy of consistent, competitive, profitable and responsible growth.

And let me take this opportunity to invite Srinivas to the team. Delighted to have him onboard here and a phenomenal set of experiences that you see out there. I wish Srinivas all the very best and I also want to thank all of you for the support that you have given me in this role.

With this, let me hand over to Sanjiv.

Sanjiv Mehta

Hi. Good evening everyone and thank you, Balaji. Season's greetings to all of you and I hope you enjoyed the Diwali and the extended weekend. The transition to GST impacted trade in the early part of the quarter, especially channels like wholesale and CSD. However, we believe that the consumer offtake has remained stable. And I would certainly like to take this opportunity to compliment my team, for the manner in which they've been able to ensure that we remain agile in meeting the consumer demand during this turbulent period.

I'm also very pleased with a delivery of 10% comparable growth and the fact that it has been broad-based across the category. Like we had mentioned in our last earning call, our pricing action post-GST had already started to land in the market and through these actions, we have taken a price reduction of about 3% to 4% at an organizational level, in line with our commitment to pass on the net benefits to the consumer. And like you saw in the presentation made by Balaji, these actions we have taken across several categories.

Let me now talk a bit more about the categories and the performance.

Home Care has been a stellar story for the last several quarters. Delighted to share with you that this quarter again, not only our biggest brand Surf has been growing at an amazing double-digit, but also our other core brands like Rin and Wheel have delivered strong double-digit growth. It clearly shows that the strong innovations that we have deployed in the market over the past several quarters are getting the right kind of traction from the consumer.

Coming to Personal Care, the rebound in Personal Wash continues to gain momentum. What is even more reassuring that this growth is broad based across brands. Dove, Lux and Lifebuoy, all our big brands, have grown double digit.

We're also pleased with the initial results of Lever Ayush range of natural personal care products. They went nationally in the last quarter. Now, our whole focus is on strengthening the brand credentials and the equity and what you have seen from Balaji's presentation, Indulekha also, we are very pleased with the performance, it is growing ahead of what we had targeted when we had bought the brand and obviously the clinical validation is going to give a further fillip to the growth of this brand. Dove Hair Care had a strong performance this quarter on the back of the launch of the new environmental defense range, which is the new anti-pollution hair care range that gives both instant as well as long-term nourishment. Lakmé Color Cosmetics have been on a very strong track record for many quarters and this has also been backed by a very impressive innovation funnel. After the successful launch of the Argan Oil Lip Color last season, this quarter saw the Lakme Absolute Argan Oil range of skin care and beauty products being launched.

Oral Care, we still remain very disappointed, the growth has been subdued, and we believe it will take a few more quarters before we turn around the performance. However, if we were to look at the growth rates, yeah, it has – or the running rate, they've started to improve and we certainly believe that on the back of Lever Ayush range of oral care products, we should start to see the momentum come back in this category.

Refreshment, another great story, the brands are strong, delivering consistently and I remain very happy with the progress that we are making in this category. In Tea, we are seeing a core strengthen as we deploy the Winning in Many Indias strategy and build the future core portfolio through a disciplined market development model.

Foods too had a good quarter with multiple innovations landing across soups and noodles. We launched the international soups range across the country ahead of winter and the Knorr Italian range of noodles in Maharashtra. Our thrust remains to drive market development and build this category.

So. on an overall basis, I'm pleased with the performance. We have the right mix of wonderful core, new innovations and right kind of focus behind market development, which is future-proofing our portfolio. We also have been able to balance growth along with sustained margin improvement and this has been on the back of a very strong savings program.

Our relentless focus on efficiencies and effectiveness has enabled us to strengthen the owners' mindset in the business, ensure the value proposition of a brand and deliver strong improvement in margins. While we strive to continue to remain agile in the face of constantly changing environment, our strategy, as has been articulated by Balaji, remains unchanged.

And as the baton gets passed between Balaji and Srinivas, I would like to take this opportunity to thank Balaji for his immense contributions to our business and being a great partner to me. I'm certain he will continue to shine with his new employers and all of us in Hindustan Unilever wish him continued success.

I also take this opportunity to welcome Srinivas Phatak. I'm delighted to have him in our top team and many of you would know him from his Investor Relations days at HUL. He brings immense skills and experience garnered locally and internationally and I'm sure he will help lead the business to newer heights.

With this, I would like to hand it back to Aasif. Over to you my friend.

Aasif Malbari

Thanks, Sanjiv. Thanks, Balaji. With this, we'll move to the Q&A session, so that it doesn't really get very late. We will try to keep the Q&A session for around an hour and complete it by 7:30. As I shared earlier, due to some technical glitch, we are unable to take questions on the webcast and hence we'll take all the questions on audio.

So, it will really help if we keep the questions crisp so that we can cover all of them in time. Before we get started with the Q&A session, I would like to remind you that the call and the Q&A session are only for institutional investors and analysts. And hence if there is anyone else who is not an investor or an analyst, but would like to ask questions, please do feel to directly connect with us at the Investor Relations team.

With that, I will hand the call back to Karuna to manage the Q&A session for us. Karuna, over to you.

Q&A

Operator

Sure, thank you very much, sir. Ladies and gentlemen, we will now begin with a question-and-answer session. [Operator Instructions] First question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, congrats on good set of numbers. My first question is on the ad spend, last few quarters and even this quarter, most FMCG companies are cutting down on ad spend. Surprisingly, your ad spend is quite high maybe because of Ayush launch. My questions are two. One is, has online increased much more versus last year because broadcasters who have reported numbers this quarter, TV broadcasters have shown very limited growth. So, you're showing a 20% growth. Second, is most of this 20% growth going towards Ayush and new products? So – or is it broad based spend behind most of the other brands, so – and what's the reason, if it is broad based? That's the first question.

Answer: First, when we look at BMI, Abneesh, it is based on activities and not as a percentage of the turnover. Whenever we have more innovations, more renovations, more activities in the market, we certainly spend more money. Of, course Lever Ayush going nationally has had an impact. And I think last time you were wondering why are the ads and the hoardings not up for Lever Ayush, now I hope we have not disappointed you.

Abneesh Roy: And sir, on the online, is it much higher versus last year or it's a gradual increase in terms of online?

Answer: So online is about 2% of our turnover now, growing at a very rapid rate, yeah, but still the base is small. I think he is referring to digital advertising. Oh! Digital advertising. So, if – yeah, digital advertising, our television, like I've been telling you guys, a few years back, it used to be over 90%, now it has come back to less than 70% of our total BMI spend. And lot of incremental spends are of course going into digital and mobile.

Abneesh Roy: Sir, a few quarters back also, it was a similar number. So, it's not a big change on a Y-o-Y basis right, TV ad spend?

Answer: See, on quarter-on-quarter basis, it won't change significantly. Yeah, TV still remains a very relevant medium of communication in the country. And certainly, the way we look at it, now we're far better in terms of planning and the mix of channel that we deploy. When you look at reaching a certain percentage of the total consumer base in the country, TV remains the most effective and only when the diminishing returns start, then you look at overlapping it with other communication channels.

Also, just to build on that, Abneesh, I think the original, I mean maybe early on in this kind of journey toward digital to force people and you look at what portion goes into digital. Can you ensure spend of so much percentage can go into digital to get people to learn. And once you've crossed that phase, you then start getting into which brand, what's the campaign, what is the role of digital versus this. Therefore, you're also evolving in the way you think and operate in this entire space. So, both need to be kept in mind.

Abneesh Roy: Sir, my second question is on the Indulekha. You've seen a strong growth. We've seen, in acquisitions done by other companies, especially in hair oil, after acquisition, the growth becomes very challenging. In your case, you're still seeing very good growth in Indulekha even after acquisition. So, my question is, is this growth because you are entering new areas? How is the growth in existing areas of Indulekha, especially was it also very wholesale-led model because lot of these kind of businesses have very high wholesale. So how has that part of the business done in Indulekha?

Answer: Okay. Firstly, I think Indulekha for us, we treat it with a lot of care. This is not a wholesale-driven pipeline filling strategy at all. It is a very carefully positioned product in specific channels with a lot of focus. It drove – goes a lot via pharma as well. So therefore, we do it with a lot of care, number one. Number two, as far as existing markets, the growth is very, very satisfactory and we have quite liked the way this brand is performing. The penetration levels of this category of this segment is extremely low even in markets where it has been there for a long period of time. So, we – that is the reason we bought this brand because we believe it has wings to fly. And now with the clinical results coming in as well, our ability to put in more punchier claims, what you will be seeing is, you've already seen in the ads that are coming out, goes more – even more because now we are able to substantiate claims as well and not just have – just a proposition-based setup.

Abneesh Roy: Okay, sir. I'll come back in the queue. Thank you.

Answer: Thanks, Abneesh.

Operator

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

Manoj Menon: Hi, team. A couple of questions over here. One on the, just understanding the results itself actually. So, when we say comparable growth, does it – is it before the price cuts or after the price cuts?

Answer: Okay. That is – the minus 2% contains all the implications that we'd done on price cuts, everything else. After that, there is just accounting adjustments that need to be taken, which is being corrected in the base period. The current year numbers are all after price cuts, everything else, there is no change in the current year numbers. We've just taken – if you were to take excise duty, you can calculate for yourself, Manoj, what is the excise duty that was there in my base period and net it off the turnover there, that is the excise adjustment that you will be seeing there.

And since you will not have direct access to some of the other taxes that are booked as cost, we have done that piece as well because that is also is an accounting adjustment because it is netting off GST turnover. So, all the price cuts and everything we are cutting there is sitting in the minus 2% reported revenue growth. But keep in mind, the price cuts are also having a compensation in the other side in terms of tax rate reductions. So therefore, the net impact of price cuts is just to pass through all the tax benefits that you have gotten, which means that an impact is very, very – at a total level, is marginal.

Manoj Menon: Very clear. Balaji, when you refer to the excise in the base, it's essentially at INR 638 crores, which is there actually in the results, right, that's the number?

Answer: That is right, that is the first element, INR 638 crores, which corresponds to the 8% number of the excise correction that you have, then the next correction of 3% is and all the input taxes that are not excise, it could be an Octroi, it could be a service tax, it could be excise CENVAT on fiscal units that are foregone and booked at cost, all those are sitting as a input cost, which are now sitting as GST and netted off turnover.

Manoj Menon: Clear. So, when I try to calculate the price growth for the quarter, would it be fair to say that the difference between 10% and 4% is the price growth number?

Answer: That is right and you would recollect, that is almost the same as what was there in the previous quarter as well. So, all the price, which is just the – the price growth is basically what was there in the – taken in the previous quarters.

Manoj Menon: Okay.

Answer: And taken forward from there, yeah.

Manoj Menon: Understood. The reason I ask this specifically on price growth is because if I look at the 'Looking Ahead' slide, as of the June quarter and look at the one for the current one, there is a small change or there actually is a big change actually in terms of the comment on inputs. You had expected in July to be stable, inputs to be stable, now it's inflation. So, I know that obviously input costs are very volatile, but we are talking about a period in which the opening, I mean, at the beginning of the period, at least, it was expected input to stable and you still have a 6% price growth, that's what it's coming from. So, does it basically mean that the price growth actually could be significantly higher incrementally?

Answer: I think this is the way the numbers play out. I think it is the – it's – the commodity cycle which had peeked as far as mid-September quarter of 2016 is concerned, came down thereafter and now we're starting to, we were expecting it to remain stable thereafter, but now that is now starting to turn again, we are seeing that coming from, maybe from about August, September, this number started to turn. And that is what we are signaling on the ground. But as far as pricing itself is concerned, we go back to what we've always maintained. This is a cost challenge for us to deal with. First port of call savings, drive that harder, second port of call, mix, third port of call, operating leverage. Just juice that to the limits, operating efficiencies in BMI line, take through every piece of it and then come back and see what is it that we are able to manage and what judicious price increases we need to take thereafter. So that play we have – we have seen – you have seen us demonstrate over many, many quarters and no change as far as that is concerned. This GST price reduction that you have there, it's a reset of the price line because of the tax benefits that have come in and at a net company level, you have passed that on and now it is therefore business as usual from here onwards.

Manoj Menon: Understood. Understood. One question and then I will come back in the queue. When I look at the 4% UVG what we have, are there any adjustments which you would help us with? For example, let's say, is there any impact of CSD? I know you will not have exact numbers, but I'm saying even an approximation would do. Do I, let's say, need to add back a certain number to say what is the underlying trend including CSD, for example? Or you know how much of, let's say, an up-stocking which you have seen in the current quarter versus a corresponding down-stocking in the last quarter. So, I'm just trying to see what is the real underlying, actually, consumption? Also throw in maybe some bit of higher volumes, etc., you would have provided to the consumers in terms of passing on the benefits, so that kind of maybe I need to take that number out actually. So just trying to actually get to the real underlying growth versus the reported 4%?

Answer: It is, as you rightly said, there are up elevators and down elevators on this. Because up elevators is very clearly the restocking impact of that and the down elevators would be the CSD number there. What we're seeing is, this is broadly canceling each other out. So, the 4% number that is out there is probably, broadly – restocking is a really issue, same with CSD, not picking up for 15, 20 days is another issue as well, so they're broadly canceling each other off.

Manoj Menon: And anything on, you know, the higher volumes or pantry up stocking or anything of that sort, anything material there?

Answer: So, that's what I am saying. That is offsetting the CSD impact. So, both are canceling each other out broadly.

Manoj Menon: Okay. Actually, I was referring to the consumer pantry up stocking, actually not the trade one.

Answer: Consumers, we have called it out as stable, and neither is it up stocking or down stocking, it's pretty stable actually.

Manoj Menon: Okay, understood. Thank you. Thank you, Balaji, all the best.

Answer: Yeah. Thanks, Manoj.

Operator

Thank you. Next question is from the line of Avi Mehta from IIFL. Please go ahead.

Percy Panthaki: Hi, sir. This is Percy Panthaki here. Sir, my first question is on gross profits. Your gross profit, that is sales minus COGS, has grown by 14% on a Y-o-Y basis and your volumes are up 4%. So, gross profit per ton is up around 10% on a Y-o-Y basis, which is like a really huge number. So, can you just help us understand what has led to this really big expansion in the gross profit per ton?

Answer: I think the key one in this is – let me tease it out at different levels. One is, there is a base period if you take a look at the numbers on September Quarter 2016. The comparator was extremely unfavorable. Therefore, that is what you are now seeing as a big favorable benefit coming through in your cost of goods line, that is one.

Percy Panthaki: That's what I saw in last quarter – I mean last year, on a Y-o-Y basis, your gross margin was almost flat, it was just 20 basis points down.

Answer: Let me complete, let me complete.

Percy Panthaki: Sure, sure.

Answer: Yeah. So, one is the base number. Second, if you look at sequential between June quarter and September quarter, the numbers are pretty much similar in terms of percentages that you see, which means that that part of it is to be taken as well. And lastly, that your input taxes that I'm now grossing up and putting it up above, that's on a comparable basis. But on a reported basis, you will see that credit of input taxes sitting there as well. So those three factors are playing out to explain why our gross margin is showing a spike, as you called out.

Percy Panthaki: Sir, the third one, can you just repeat, I didn't fully understand.

Answer: Okay. On a reported basis, if you recollect my first – when I explained the accounting impact earlier.

Percy Panthaki: Yeah.

Answer: I'd talked about excise, we all understand it is a very commonly discussed item in the press these days. Yeah.

Percy Panthaki: Yeah.

Answer: Now similar to excise, there are costs, like an octroi, CST, service tax. Service tax may not be in the material. I'm just talking only about the material. There is CENVAT on fiscal units, which I was not able to claim. All these guys were sitting as a material cost.

Percy Panthaki: Yeah.

Answer: Yeah. Now in GST, it has gone out of material cost sitting in the turnover line because it's now knocking off turnover.

Percy Panthaki: Okay.

Answer: You have got two impacts. You've got the absolute material cost coming down, one. Second, the turnover dropping which means you're going to see a double impact on the gross margin line of these two. Absolute coming down, turnover going down.

Percy Panthaki: Yeah.

Answer: That is what is the third impact that is there. The minute you move that to comparable, that number will move away as well. On a reported basis, this number will be looking very high because of this reason.

Percy Panthaki: Understood, sir. I know the margins are going to be tricky and that's why I was looking at the absolute gross profit per ton, probably I'll take this offline because otherwise it will become too elongated. Secondly, just wanted a clarification on the price cuts. I mean in the press conference, you said that the price cuts are around 3.5%. And on slide 7 of your presentation where you have explained how to calculate the comparable sales growth, you have said about 300 basis points is the extra input credit that you've received, which you've passed on in terms of prices to the consumer. So that means that only 0.5% of the price cuts on – are on account of changes in the output rates of GST. Is that understanding correct?

Answer: No. Okay, let me let explain that. I'd say it's a great question because it does confuse matters there. Look at your output taxes, what are the things sitting in the output taxes, those three categories where tax rates came down, yeah. And all other categories, particularly Personal Care, the tax rate went up from where my average was, number one.

Percy Panthaki: Okay.

Answer: Same, second go to fiscal. In fiscal, we were earlier getting 100% of excise benefits, yeah.

Percy Panthaki: Yeah. Yeah.

Answer: And that has now reduced to 58% of the CGST payable on value addition.

Percy Panthaki: Yeah.

Answer: That is a down elevator. So, the output taxes, first, I will need to net off this fiscal losses compared to what I had earlier. And the two, when you add it together, that is your net output just on output taxes, this is the net number that you see prior to what was there before. Then come add the input tax credits that was earlier not available, that is available to you, add that. Once you put this whole lot together, take it at a company level because these are all available all over the place, some of the service tax credits are available for central services, not available at a brand level, put it at a company level. That is what we have passed on as price reductions within 3% to 4% by category that you see.

Percy Panthaki: Okay. Okay. Understood. And my last question, sir, is on volume growth. 4% volume growth on a base of minus 1%, that's like a two-year CAGR of just about 1.5% volume growth. So, I mean these numbers are really weak. So, what's the reason behind these numbers being so weak and how can we be confident that things are turning around from here?

Answer: I think two comments there. Number one, you're right. The base from a volume growth perspective, the base had a minus 1% on this, this 4% is there. The key point here is that we've called about a recovery that is gradual. We've gone through a turbulent period. You've got about 15 days of CSD not buying, wholesale not buying for a long period of time. In this turbulence is what we're trying to deal with at this point in time. And we've also signaled, if you recollect last time, we did talk about a gradual recovery that is likely to happen. So we've been consistent in our messaging that we should not get go ahead of ourselves in trying to read the market coming back. And hence, therefore we've called out a gradual recovery. And if you could recollect – if you see our own fallout looking ahead, we're still maintaining as a gradual recovery going forward because we are very clear there is also a base effect to be considered before you come back and say you get buoyant on the absolute number – headline number for this quarter. That then corresponds to the callout on the gradual recovery that we've put there.

Percy Panthaki: Okay. That's it from me and all the best, Balaji, in your future endeavors.

Answer: Thanks, Percy.

Operator

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

Amit Sinha: Yeah, thanks. My first question is on the Fabric Cleaning segment and I wanted to refer to Unilever's management commentary in the recent call where they mentioned that they want to maintain a balance between growth and margin. Now, I understand that across all the brands, we have done very well. However, just wanted to understand from the management that from the HUL perspective, are we sacrificing any kind of volume at the lower level basically to get the margin up there?

Answer: Boss, that's why I put a slide out there which talks about the virtuous – our levers for growth, where I explicitly have called out profitable volume growth as a starting point. We've also put it explicit saying that we will focus on volume-driven growth and improvement in margin and we have demonstrated consistently that we could do both. So as far as our strategy is concerned, no change at all, number one. Number two, we will definitely ensure that the focus on volumes continues because that is the long-term route to success as far as this market is concerned. Point number three, we are volume, profit and growth-accretive to Unilever. And therefore, the more we grow, the better it is for Unilever across the portfolio. So therefore, for us, we just need to keep doing what we're doing.

Amit Sinha: Sure. So, is it fair to assume that in terms of volume market share, we are gaining from others?

Answer: Laundry has been on a good track record as far as share gain is concerned. And that is something that we will continue to pursue.

Amit Sinha: Okay. My second question is on Personal Wash. And is it fair to assume that the segment has grown significantly ahead of the overall Personal Care segment?

Answer: Segment – sorry, just repeat your question again, I missed your question.

Amit Sinha: Personal Wash, so basically Soaps – has the growth been significantly ahead of the 8% growth which we have seen in Personal Care?

Answer: No. We have specifically called it out as broad-based growth in both the categories, so broadly similar.

Amit Sinha: Sure. And the growth in Soaps, is it driven by pricing or volume?

Answer: More the price increases that you have taken from the previous quarter, but we don't specifically comment on the price/volume mix by small c. But what I am very happy about is the Personal Wash portfolio also coming to the party. Because keep in mind in this one, the kind of inflation that happened in the early part of – from September last year onwards, you will have UVG impact immediately because shaving of grammage. So, that is what the problem which will have to annualize as well.

Amit Sinha: Sure. Lastly on the A&P spend, and clearly, there has been a step-up there. Just wanted to understand, should we expect a similar kind of run rate for the remaining quarters of this financial year?

Answer: I think, Sanjiv called that out, but I think it's totally dependent on the activity that we have. Keep in mind that we also have a ZBB program that is flying as well to ensure that we are having campaign objectives rather than SOV/SOM, second point. Third point, I think, we always manage the P&L overall. So, we are committed to that modest improvement in operating margin because these are all source and use of fund, that's the reason we put that levers of growth, to say that depending on what is the demand that we have for the activation plan, we will invest if required. And otherwise, we will see how to play that.

Amit Sinha: Yeah, but just on Ayush, I mean, the initial spend would have been significantly higher. Do you think a similar kind of a spend will be there on that particular brand? I mean, I understand it's very dynamic, but...

Answer: No. First of all it's also competitive, so therefore, wouldn't want to comment on media plans.

Amit Sinha: Okay. Thank you so much. Thanks, that's all.

Operator

Thank you. Next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: Thank you. Sir, the first question is, again, on the 10% number. You said that 10% minus 4%, so 6% roughly is what the pricing growth is. How should I look at this price cut then? So, does this then imply that as you entered this quarter, you were sitting on about 9%-10% pricing effectively?

Answer: If you look at June quarter, the comparable number is a 6% number there. So, we are...

Nillai Shah: Yeah, yeah.

Answer: ...our price growth is basically carry-forward of what was there from the previous year and that will annualize, number one. Number two, as I explained earlier, the minus 2% reported revenue growth contains all the price drops that are sitting in it, as well as the input tax credits, output tax reductions that have happened. That is broadly knocking off each other. Therefore, what I got from the tax reductions in the turnover line is what I'm passing on as pricing, which means on the turnover, there is netting each other off and the number is zero. That is what pricing to pass on the net benefits from GST is all about.

Nillai Shah: Okay. So, it will be 6% minus 3% or 3%, 3.5%, whatever that is and that is the effective pricing.

Answer: No, no, no, no. 6% minus – let's for at least argument's sake, assume that the benefits is 3% and the pricing is 3%. Therefore, the way it will work is, I had a carry-forward of about plus 6%.

Nillai Shah: Yeah.

Answer: ...Then I got an all tax rate reduction of plus 3%, because I got 3% tax rate reduction...

Nillai Shah: Okay.

Answer: ...cost on pricing minus 3% number is 6% again.

Nillai Shah: Got it, okay.

Answer: 6% plus 3%, minus 3% equal to 6%.

Nillai Shah: Got it, sir. Second question is again on the volume growth. The stack two-year CAGR, as Percy said, is about 1% or so. When you talk about gradual improvement, is this going to be more of – and the actual problem is basically in the Personal Products space more than Home Care, right. So, what all will be the levers for this growth acceleration going forward in your view, broad market based growth or market share gains for us?

Answer: No, I think we should be very, very clear there. The business in FMCG grows when there's more money in hands of more people, which is why rural growth stepping, coming back on track and going ahead is a very key driver for this. And the reason we've called out why we see gradual improvement in rural, number one, good monsoon, more importantly monsoon in areas which are really water-starved last time, which means that's going to be a good pick-up there.

Yesterday evening' news of minimum support price reduction is – on minimum support price increase on wheat is a big one. Investments in rural, which is being called out, there is a lot of intervention happening to get the rural economy up again. That is the one that is going to help us where more money goes in the hands of more people because that helps the FMCG markets come back again and rural is a right place to take the charge and lead that growth because that has got the maximum headroom to grow.

Nillai Shah: Got it. And last question against this backdrop of all this uncertainty that we've had over the last, say, two years or so, do you think the elasticity of price cuts has actually reduced on volumes in the industry as a whole? Is that what you're seeing on the ground or not really?

Answer: See, India is a highly value-conscious market, and just look at the numbers for this quarter itself. If you look at Home Care, it's grown about 13%, if you see the comparable numbers there. That kind of growths happen only if there is price elasticity of the price cuts that have been taken, while it may have, at a turnover level, the impact may be zero per ton of price cut that you take, the fact that it drives elasticity in terms of volumes coming through is a very important one.

Nillai Shah: Sure.

Answer: So, price is a very big variable in this market.

Nillai Shah: Sir, sorry I'm just repeating this once more, but I get your – the virtual circle and that's well understood. But given that we've got then 5%-6% pricing out here and we are getting pretty strong margin expansion at this point in time, why can't we trade off one against the other given that our focus to start off with is profitable volume growth?

Answer: Absolutely. We are not shying away from that at all. But everything also requires tailwind. We can unfurl our sales, be ready to cash the tailwind. But the tailwind needs to come through, which is rural growth coming through. I think we are going through a lot of turbulence in market, channels are turbulent. GST has been a big interventions on the tax line. So, it is just you need to give it a bit of time for us to be ready. What we can do from our end is to keep our brands healthy, keep our investments. You will see the kind of A&P step-ups that we're doing, pricing interventions that we are making. All of it, we will do and keep ready. But you also need the tailwind of market growth to kick in so that you can then use that to drive it harder. So that's what we are absolutely ready for. And hence the very clear callout in our looking ahead is to remain agile because we don't know where the next growth will come from because various markets will react differently as they come out of monsoon, they get ready for GST, festival season, everything. So, we have demonstrated resilience in catching those growths in various pockets and we will continue to remain nimble and agile, that's what we can do. How it will play out will totally depend on how the market is reacting in those areas.

Nillai Shah: I got it. That's very clear. Last question, tax rate for FY 2018?

Answer: 30% is what, we will be in and around 30%. Give or take about 30, 40 bps on either side.

Nillai Shah: Got it. Thank you very much. And all the very best.

Answer: Thanks.

Operator

Thank you. Next question is from the Latika Chopra from JPMorgan. Please go ahead.

Latika Chopra: Yeah. Hi. My first question is on market shares. If you could provide some sense on how market share trends are behaving. You used to talk about a certain percentage of your portfolio witnessing stable to improving market shares. Has there been any change in that front?

Answer: Our market shares look very robust. If you look at all our big categories, yeah, is laundry, you know the story. Tea, you know the story, yeah. We have taken market leadership now. Hair has been on a wonderful journey for the last several years. So, it's a very strong and we are certainly looking at a scenario where the only challenge we are really facing as far as market shares is concerned is in the Oral Care category.

Latika Chopra: All right. And secondly on GST, what proportion of the wholesale channel would have normalized in your view and are you witnessing any kind of consolidation in this channel? And a related question is, any – are you sensing any changes in the stock levels in the retail channel post-GST?

Answer: First is, the modern trade has been growing at a much faster pace. Part of that, we could attribute to the wholesale channel, basically lumbering along post the GST. So, there would be some element of re-shift. The other, which we've still not seen to a large extent, but that ought to happen is that the formal wholesale, which is Cash & Carry, should start growing at a much faster pace. Yeah, that is the kind of shift we ought to see happening in the future.

And as far as the trade level stocks are concerned, we will still have to wait to get the statistics, yeah, because right now, because of so much turbulence, first, the demonetization, then the GST, the data that we are getting from external services that we get the data from are not fully stable. So, wait for a couple of more months before we can see what is happening to the stock level.

Latika Chopra: Sure. Thank you.

Operator

Thank you. Next question is from the line of Anubhav Sahu from MC Research. Please go ahead.

Anubhav Sahu: Hello. Hello?

Answer: Yeah.

Answer: Yeah, please carry on.

Anubhav Sahu: Yes, sir. First of all, congratulations for a good set of number and a good set of comparable growth you have reported. Sir, my question is with respect to raw material cost – first of all – firstly, is it possible to get a comparable Y-o-Y growth in raw material costs you feel, maybe because you said that the reported raw material costs would be a little lower because of subsuming of taxes in the GST. As well as, I wanted your thoughts on how – your thoughts on how the raw material costs are going to be in the near future. I mean, if you'd provide some color on that, what part of that could be crude derivative related and so on?

Answer: See hear your question, I think the question why would we not want to tie ourselves up into a number on each of this and comparable number line level, is that you must also appreciate that there are allocations running up and down. So, we've done our best estimate of trying to put a number on some of these areas. So, to try and get an individual line level item with just, after a point, it gets a bit, we need to be careful there.

Anubhav Sahu: Right.

Answer: One way we could do that to help all of you is we'll probably take it offline and maybe Aasif, you can run a session with all of them, just to help them to understand because most of it, you can use the excise duty and then use an extrapolation from there at an overall level for you to get to each of this line item because basically one turnover number is sitting and then the numbers can move around on that, which could then, you can then back work, whatever number that you want to. Obviously, it won't be absolutely accurate, but objective here is not accurate, but direction also, we can – we can run an example for you of – on a spreadsheet or something and then take you, run you through it. And if that's helpful to all of you, then give us maybe two, three days for us to get our act together, then we are happy to then run a session with you on that one, which Aasif can run it, yeah. With respect to....

Yeah, and with respect to the future, this one, we specifically called out that we expect input costs to inflate further and you know it better than I do in terms of see how crude is currently moving or see how vegetable oils are currently moving. There was one view at a point in time where we expect it to be a bit stable and you add rupee to the mix as well, there's lots happening or could happen on the rupee, so we're just saying our call could be that we need to be mentally prepared for a bit of inflation coming through is what our current call is. But obviously, all this will be reevaluated, reappraised every week as we go forward. And as I said earlier, our objective is to remain seriously nimble and agile and then let the volatility play out.

Anubhav Sahu: Right, sir. So wanted to understand what mix of raw material is the crude oil derivatives-related, I mean if you can provide some approx.. number so that it's easier to tab on?

Answer: See, crude hits multiple lines of – multiple types of raw materials. One of course is a LAB which is a direct one. But through fuel, it hits distribution costs, it improved the input distribution and output distribution. Through fuel oil it hits into energy cost and utility cost. Through packaging material, because see, carbon chain runs through packaging material as well. So it's got a pretty widespread impact more to direct and indirect across the chain. But the key thing is the lag effects of how long it takes contract that we get into, etc. So, I think it's much more complicated than just giving a number to you, but it is a pretty significant portion for us is probably where I'll leave it.

Anubhav Sahu: Okay, sir. Okay. Sir, my second question is regarding the market share of couple of the categories, if you have the numbers ready. One is with respect to the category – the subcategory which Indulekha is operating. And secondly on the Oral Care, if you can provide where do you lie as far as the market share is concerned?

Answer: If you recollect, we don't share individual market share by categories. We do have them but we don't share it is what we've been consistent about. And as Sanjiv earlier alluded to that our performance in Oral category has not been up to the mark and – but yes, we are committed to it and we're doing everything that we can to get it back to the place where you wanted it to be. So, we are at it.

Anubhav Sahu: Okay. Okay. No – no issues, sir. Sir, just wanted, what is the initial reaction to the Ayush Lever, oral care product on the market, what kind of feedback you're getting?

Answer: The products are absolutely excellent products. The response has been very good as well.

Anubhav Sahu: Okay. Okay. Okay, sir. That's all from my side. All the best. Thank you.

Operator

Thank you. Next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please, go ahead.

Pulkit Singhal: Yeah. Thank you for taking my question and congrats on a good set of numbers. So, my first question is primarily on Home Care and EBIT margins out there. Now if I look at the last two-and-a-half years odd, so you had 9.7% EBIT margin in 2016. This went to 11.1% and now we are tracking 14%, which is fairly commendable. So, I'm just trying to understand the reason for it. I do understand that there is premiumization happening, which helps and operating leverage as well, but can you throw light on competition intensity out here?

Answer: I think the competitive intensity in all our categories, not just laundry, it's an intensely competitive market. And the only thing I can definitely confirm it's not irrational, but it is definitely intense.

Pulkit Singhal: So, where I'm coming from is some of the data points that we've come across in our research over the last two years is that P&G is more focused on margins going ahead. And to that extent, it seems that intensity in the categories they're present in, seems to have come down. Is that something you're noticing in the marketplace?

Answer: Wouldn't want to comment on competition in this call, other than saying that competition continues to be intense. And it is not just one player. We compete against a raft of players across the extreme price pyramid portfolio that we operate with. So, for us, it is business as usual with respect to competition.

Pulkit Singhal: Sure, sir. And on a very similar line, but for a much longer timeframe, if I look at, so you used to provide soaps and detergents as your earlier category. So, if I look at 2002, 2003, etc. it used to be a 25%, 26% kind of EBIT margin business, Soaps and Detergents, which subsequently obviously came down, but which has been gradually improving in the last four to five years and we are probably around 14%-15% range. What is your view in going back to that kind of level? Is that even a possibility or how do you look at it?

Answer: No, I think, I think we'll definitely use history to learn our lessons and ensure that we don't repeat the bitter lessons that we have learnt there. And we do not operate on, it's a very different market that we're dealing with. It's just not fair to go and compare this with the 2002 or 2003 market or whatever else is the situation there at that time. All I can say is that we will have to ensure that we will be remaining competitive in this market and ensure that we continue to serve the consumers of today whose aspiration levels are very, very different than people were at that point in time. And more importantly, it is a portfolio that is extremely rich and a portfolio that is very, very strong. And we just need to ensure that we continue to retain that competitiveness and the – and the quality of this portfolio.

Pulkit Singhal: Got it.

Answer: I think that is our brief and we do not work on any absolute margin targets for a particular category, because we are committed to consistent improvements, but modest improvements in operating margins every year. That's our base strategy; that doesn't change at all.

Pulkit Singhal: Got. My last question is on premiumization. So, one of the ways to premiumize is clearly providing a premium brand at an affordable price point, like maybe say a Surf Excel at a INR 10 one. How far are we in our entire portfolio in terms of doing the same? I mean, is there much more headroom or if you give, can you throw some light on that?

Answer: Our premium portfolio is just one-fourth of our total business.

Pulkit Singhal: Right.

Answer: Yeah, and as the country evolves, people would certainly be wanting higher order benefits and that is where we remain so confident that the secular trend of premiumization will keep continuing for a long time.

Pulkit Singhal: Sir, one is that premiumization could be demand-led, but one could be supply-led as well. What I mean is if you provide the same premium brand at a INR 10 or INR 5 price point, it becomes more of a supply-led kind of premiumization?

Answer: Yeah. There is something called which we always talk about is market development. We don't think premiumization happens on its own. As a marketing company, we have to facilitate and help the journey towards premiumization.

Pulkit Singhal: Right. So, would you say that I mean, a large chunk of your portfolio is already there in those affordable price points? I mean any sense on that.

Answer: See, like what we try to do very clearly is we straddle the pyramid both from a benefit perspective and the price point perspective. Now that does not mean that in a country like India, only premium brands will be sold. I think there is something called a need state and then you move from a desire to a want state. And so clearly this would be a journey and we keep bringing in the right brands at the right time to fill in any gaps that we might see. If you look at a hair portfolio and you look at the journey, in the last say 10 years, we first brought in Dove. Then we brought in TRESemmé. Now we have brought in – last year, we brought in Indulekha. So clearly, this is a journey that we embark on.

And just to, one thing if you recollect our Analyst Day discussions on how we do market development and at what stage do you bring in an access pack to explore the market, I think those are very, very – there is a clear method in this to ensure that we move in at the right time, because we also need to build distribution at the right time. We need to build the brand to begin with so that there is a bit of aspiration built into it. So, there is a very clear roadmap that we do and that is what we methodically follow and which is why we keep harping on market development again and again and again because that is our – core of growth strategy. So, somebody else asked the question, which I think we didn't answer earlier is where is the growth going to come from? Is it a market development option or is it a market share story and the answer is categorical, the bulk of our growth will come from market development.

Pulkit Singhal: Got it sir. Thank you.

Answer: Yeah. Thanks.

Operator

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

Richard Liu: Hi, thanks for taking my question. Can you help me understand this apparent disconnect between the growth in total segment EBIT of 11%? I'm referring to the figure of INR 1,556 crores in the segment result, which was I think INR 1,398 crores last year. This growth figure is quite different from the 20% growth in recorded EBIT, which is there in the P&L. Can you just help me understand the difference, please?

Answer: Richard, can we do one thing? Can I just get Aasif to call you offline and explain the...?

Richard Liu: Sure. That will be useful.

Answer: Yeah. Because we just – we just need to – not prepared for this right away, we just need to do a little bit of work on what you're saying, we need to understand your question better. Let's call you back.

Richard Liu: Sure. Done.

Answer: We'll call you today itself.

Richard Liu: Okay. Okay, Balaji. Thank you.

Answer: Thanks, Richard.

Operator

Thank you. Next question is from the line of Bhavesh from CLSA. Please go ahead.

Vivek Maheshwari: Hi, good evening. This is Vivek. My couple of questions, first on the Personal Care, I have this line item for last six quarters. When I look at, take the average basically in the last six quarters, your average growth has been around 2% as against Home Care, where the growth has been around 23%. If you take a two to three-year view, what kind of growth will you expect from Personal Care and Home Care? I mean, is there an upside to the margin in this segment or you think that this will only be driven by top line? All this while, Home Care has seen strong growth also because margin potential was – or expansion potential was there. How do you think about Personal Care with a, let's say, two-three year view?

Answer: Okay. I must admit, Vivek, I'm not able to relate your number of 23%, let me not react to the numbers part, but I think your larger question you are asking is, how do you see the future of Personal Care growth in this market? Can I answer that question?

Vivek Maheshwari: Right. More from an EBIT perspective, which means that revenue versus margins as we, look, not the next two quarters, but over a three-, four-year period, let's say.

Answer: Okay. Let me take it slightly different, and you let me know whether that is answering your question because I think we have a better way of doing it. As far as Personal Care growths are concerned, I think you would notice that in the previous two, three years, we were coming off a deflationary cycle in Soaps and that is now clear – that was the one that was pulling the growth down as far as that category is concerned. Thereafter and we keep, if you recollect the conversations of those days, there are very clearly two parts of the portfolio, the Personal Products side continued to rock it on in terms of overall growth, Personal Wash is a portfolio where while volume growth was coming through, we had trouble as far as pricing growth coming through because of deflation and that pulled the overall numbers down.

The second piece as far as the margin improvement is concerned, the margin improvements is happening in both Personal Care as well as Laundry. It is just that Laundry from its brief is also to step up profitability substantially more. And in the case of Personal Care, the brief was simple, continued to expand out into all the need states, wherever else we need to expand out to ensure the portfolio continues to be rich and the innovations continue to fire away, which is why you will see a slew of launches happening in Personal Care, Personal Products in particular that is happening.

One of the things if you recollect, I have specifically called out this quarter is the fact that Personal Wash is coming into the growth cycle and contributing to the overall growth part of the business and therefore we expect to see this trend starting to pick up from now onwards. And that is how I see this game. And in the Home Care, I don't even want to compare, that's on its own role and let it continue deliver whatever it is supposed to deliver in that market.

Vivek Maheshwari: Sure. But on the margin side, do you think there is an upside in that portfolio or it will be difficult given the margins are already at 24%, 25%?

Answer: I think the internal brief -I'll split the problem into two. As far as the internal briefs are concerned, they have a gross margin improvement mandate as much as laundry is concerned because the stronger the brands, better the gross margin, therefore you need to be strengthening brands better, therefore better gross margins.

That for them, they are no different from anyone else. The savings program work everywhere. However, we reserve the right to deploy the source of money that they are generating into it, so they may not have as much as a PBO target as we will or what we call as – if we take out gross margin and remove out advertising expenditure, there brief is very simple, keep the gross margin up, invest whatever you need to do, your brief is not PBO, your brief is gross margin, while for the Laundry business or the Home Care business, the brief is PBO.

Vivek Maheshwari: Okay. Okay. Very clear. Second, on GST, a couple of more things. One, when I look at 20% growth in advertising, you have explained about input credits impacting the top line, but is 20% a like-for-like number or the adjusted number will be different from what the reported numbers are?

Answer: It won't be to the extent of input tax credits that are there. Your A&P will a different feel.

Vivek Maheshwari: So, can we know the adjusted number what it is like-for-like?

Answer: This is I think the point I made earlier as well. What we will try and do is run a small session where we probably take a theoretical example and just you help you explain based on the numbers that you have in front of you, what could be a reasonable estimate. If I can do accurate estimate, I would have given a number myself because these are numbers that I – that need to be absolutely validated from all sides, but nothing stops you from extrapolating from the information that you already have. We'll try and do this ASAP and after this conversation, let me agree with Aasif – when is the earliest we can do that session. Yeah.

Vivek Maheshwari: Sure. And on the fiscal benefit side, 58% of GST, is it that done deal or is there a possibility of getting 100% of it, which was the case in the earlier regime?

Answer: Right now, what the law of the land states where there is, what I would call as, a clear statement from the government is that 58% of the CGST payable on value addition. There is a very clear notification that's come out and it has got some significant amount of paperwork and processes to be followed to get that validation, checking, vetting, everything is going to happen on the 58%. There is absolutely no conversation on the 42%. We are speaking to the states and the authorities on this. And I think, at this point in time, my sense on that is this is not their priority as far as their thinking is concerned, but we will have to wait and see how it plays out.

Vivek Maheshwari: And this 58% number, Balaji, is adjusted from revenue line itself, right, although it's a refund?

Answer: No. It's a refund.

Vivek Maheshwari: So, whether the revenues that you show are adjusted for that, which means, if suppose, is it like 100% minus 2% and therefore 98% being reported as revenues or is it 100%, which is...

Answer: We are in accrual accounting. So, therefore whatever is supposed to come to us, we have accrued for it. It is just that it is a cash flow issue because cash is not coming because they have not cleared the modalities on which you have to file the fiscal refunds. So, it's a cash flow issue and not a P&L issue.

Vivek Maheshwari: Got it. And just two small bits, if I may. One is on Assam factory, is it like fully ramped up, whatever is supposed to come on fiscal side, it's already there getting reflected in ETR and on the GST bit?

Answer: No, what I'd – if you recollect what I had said is, we have planned a ramp-up in that. We are delighted with the ramp-up that's happening there, in fact we're well ahead of their plans, the way they're currently ramping up and that is something which will continue as the year progresses as well.

So, what we do on ETR in particular is, every year, we give you what is likely to be the ETR for the year and we try and stick to that. That's what we do because you will not have the, rightly so, you will not have the wherewithal to understand ramp up, etc. on that and which is what we are now calling out for the year, at about 30% plus/minus. And next year, we'll come back to you again in April.

Vivek Maheshwari: Okay. Got it. And last bit on other income, there is a 20% drop in other income? Anything specific over there?

Answer: This is just a phasing issue as well as some of the incurred costs versus what we are charging out, it's a contra from that side.

Vivek Maheshwari: Okay. Got it. Thank you very much and wish you all the best, Balaji.

Answer: Yeah. Thanks, Vivek.

Operator

Thank you. Next question is from the line of Biswarup Mohapatra from Future Generali. Please go ahead.

Chinmay G: Yeah. This is Chinmay sir. Thank you for taking my question and congratulation on a good set of numbers. Sir, with respect to Ayush, on a broader sense, like over three to five-year horizon, I mean, what kind of value number are we aspirationally looking for the portfolio?

Answer: First of all, we don't give a guidance, definitely not guidance at an individual brand level. All I will say is that it's a key part of our portfolio, Naturals we're calling out as a secular trend, and therefore we will stay fully invested in this, be it on A&P, be it on innovations, be it on resourcing.

Chinmay G: Okay. Thank you. That's it from my side.

Answer: Yeah. Thank you.

Operator

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

Aditya Soman: Hi good evening. So, my first question, you mentioned on the rural growth and your expectation that there is a gradual pickup. The question here is over the past – so are you saying that today rural and urban are broadly similar, let's say, sort of in volumes at around 4% and that rural grows faster leading to an acceleration in sales growth or is it that rural is growing a lot slower than the urban today and one should see an acceleration?

Answer: Today rural is broadly in line with urban, and what we are calling out as it is look at a gradual improvement, it will have to start stepping up further because that is where the maximum headroom to grow is given their penetration and consumption level, so it's a natural to expect that that is the one that has to take the lead in terms of driving the growth agenda.

Aditya Soman: Got it. And conversely then, is it to say that urban is running at full steam here at say 4% or 5% maybe plus or minus, a little bit here or there?

Answer: Full steam or not, I think time will have to tell, but we're just looking at it on a relative position of where it stands. But I think that's a broad – broader economic question that needs to be asked in terms of what is the GDP growth of the country likely to come from, which I think is a – there are people far more erudite than me who can comment on that.

Aditya Soman: Understand. Fair enough. And secondly, you mentioned that modern trade is growing much faster for you. Is there any specific number for total modern trade you'd like to call out or one that you'd expect once things stabilize with wholesale and CSD?

Answer: Modern trade today for us is roughly about 12-odd percent of our turnover and given the differential growth rate, it's fair to assume that that'll start increasing.

Aditya Soman: All right. And do you expect this to be – lead to any significant changes with regard to your business or the way you conduct business, say, with regard to sort of working capital requirements or with regard to the returns that you see?

Answer: I think the overall piece on modern trade is something which I have shared earlier as well is our market share, growth and profitability of ecommerce greater than modern trade greater than general trade. That's our typical – it's a – it's a great shape to be in as the tailwinds of growth kick in. And as far as the working capital piece is concerned, that's not a material impact in the broader scheme of things.

Aditya Soman: Understand. Very clear. Thanks a lot.

Answer: Yeah. Thank you.

Operator

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

Prasad Deshmukh: Yes, sir. Good evening and couple of questions. Firstly, on Indulekha, what is the business implication of having this clinical validation? I mean other than advertising it like that, what is the business implication. How does the on-the-ground situation changes?

Answer: No, I think it just gives you multiple dimensionalities on which to build a brand and multiple positions on which we can take because that is what a brand is all about, Prasad.

Prasad Deshmukh: So, does it open, I mean will you aggressively target chemist channel in that case or it's nothing like that?

Answer: That for me is strategy, leave it, watch the space will be my only request on that one, but the very fact that there is a clinical win happening on an Ayurvedic product itself is quite a significant development and we internally are super-excited by that.

Prasad Deshmukh: Okay. And second question, what is the status of that special dividend?

Answer: Sorry, special – status of special dividend?

Prasad Deshmukh: Special dividend, yeah.

Answer: No. There is no special dividend in that. It is a – I think you're referring to the general reserves, non-distributable reserves being taken to P&L.

Prasad Deshmukh: Correct, correct.

Answer: Yeah. That is still waiting...

Prasad Deshmukh: At NCLT.

Answer: ...a decision at the NCLT and I think we are in queue there.

Prasad Deshmukh: Okay. So, there is no reason why it is taking so long, I mean generally it takes so long, okay.

Answer: No, no. I think my sense is they're flooded with post all the insolvency issues, they're quite flooded with, on the need for time.

Prasad Deshmukh: Got it, got it.

Answer: Yeah.

Prasad Deshmukh: Thanks, thanks.

Operator

Thank you. Next question is from the line of Naveen Kulkarni from Phillip Capital India. Please go ahead.

Naveen Kulkarni: Yeah. Thanks for taking my question. Could you indicate what is the contribution of the Naturals category in the overall portfolio, a ballpark number would be good? Second is if the management can indicate some bit on what are the new products are contributing to the overall growth. So, these are my two questions.

Answer: I think Naturals today for us – as we put it is a three-pronged strategy and I wouldn't want to commit a number or refer a number at this point in time. It's early days for us. Let this strategy play itself out, then we will be in a better position to talk about it at that point in time. The fact is that we are getting in and with all seriousness with the full portfolio, with a full bang plan is all that I would love to call out at this time. Let it stabilize, then I think we will be in a better position to talk about it.

Naveen Kulkarni: Okay, okay. And what about the new product launches that have happened in the last one year, what would be the contribution of that to the overall growth in this year or probably the first half or this quarter?

Answer: I think the bulk of the growth this year has come from the core and the core is something which will – is something that we also refer to the innovations that are happening on the core. Because if a Lux is re-launched, that's a big one. Because the fact that Lux is coming back to the growth, its ability to deliver growth is much more than a new product which will come and deliver. And all the future areas that we are currently working on for typically about 25% to 30% of our total portfolio, which is what we work with at this point in time.

Naveen Kulkarni: Okay. Okay, thanks a lot.

Operator

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

Harit Kapoor: Yeah, good evening. This is Harit from IDFC. Just two or three questions. Firstly, on the ad spend, so ex the spend on Lever Ayush, would it be fair to assume that we would have spent ahead of market across categories?

Answer: As I said earlier, I think this is a key point, if you look at our Zero Based Budgeting approach, it is not an ahead-of-market conversation that we would love to do. We have reset the way we work. There are campaign objectives and we spend whatever is needed to maintain those campaign objectives, while at the same time having a guardrail around ensuring we don't lose competitiveness if something goes wrong in the way we have planned it. But it is more about what the campaign requires rather than trying to do it as competitive spending.

Harit Kapoor: Okay, okay. And on the Personal Care margins, so on a Y-o-Y basis, there's been a slight drop, so just wanted to get your sense on whether this is higher ad spend in the category been the reason as well as probably Soaps now coming back to growth, so that mix playing out as well?

Answer: This is fundamentally higher ad spend.

Harit Kapoor: All right. And last thing was on Lever Ayush, so as we speak, would the rollout have happened across channels, across categories?

Answer: Urban is where it is focused. And in urban, it is across channels.

Harit Kapoor: Okay, okay. That's it from me. Thanks.

Answer: Yeah.

Operator

Thank you. Next question is from the line of Amit from Emkay. Please go ahead.

Amit Golchha: Yeah. Thank you for the opportunity, sir. Sir, just wanted to get some perspective on our WiMI strategy post this GST and how are we, I mean I know it's in initial days, but generally the regional players, are we going to change or get more aggressive on the WiMI strategy post-GST?

Answer: CD strategy you talked about?

Amit Golchha: WiMI WiMI.

Answer: WiMI strategy? Sorry, Okay, I heard you wrong. WiMI strategy is a core of our strategy because our ability to therefore intervene at a geography level, in line with the opportunities that are there, the consumers in an individual geography just gives us enormous capability and flexibility to execute strategy at an individual WiMI cluster level.

And if it means competitiveness in a particular market, of course that will also be factored in our mix as we look at how to do it. Which is why I called out specifically, maybe the line doesn't do justice to the flexibility that we have. The fact that we've called out agility in the face of volatility, WiMI is also an integral part of how you can execute in an agile manner, as much as we do a supply chain planning, production, distribution, portfolio, as well as what do we do in the front-end in terms of channels, WiMI, geography all that pieces there.

Amit Golchha: Yeah. No, what I wanted to understand is actually post-GST because it's been, I mean it's expected that or probably the unorganized or large players would tend to gain and over unorganized players or regional players. So, I mean, are we going to change or have you seen seeing some kind of, if you can share some anecdotal evidence or something?

Answer: It's too early to comment at this point in time, too early.

Amit Golchha: Okay, okay.

Answer: Yeah.

Amit Golchha: Okay. And sir, second when we talk about rural and urban growing at a similar pace, we are talking about as a market as a whole or we are calling out more from our perspective?

Answer: It's more a sense on what we see as market as a whole.

Amit Golchha: Okay. So, there is a possibility that for us it could be different, because we are gaining market share, so is that?

Answer: No, at this point in time, using our numbers to read it may not be right, because there is also channel corrections happening, wholesale restocking versus the destocking happening earlier, so that's a bit too much. As far as consumer offtakes are concerned, looks like both rural and urban seems to be growing together on and very similarly, similar levels.

Amit Golchha: Okay, fair. Thank you so much.

Operator

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

Kunal Vora: Yeah. Thanks for the opportunity, sir. First question on digital ad spends, like if I'm not mistaken, you'd mentioned three years back that digital is about 25% of your ad spends and it seems like the number has not changed much considering even now, TV is 70%. Digital video content consumption is almost like – it's increased essentially in last one year. Why are we not seeing much higher focus on digital advertisement, that's question number one?

Answer: First guys, three years back it wasn't 25% at all, you know...

Kunal Vora: Okay, okay.

Answer: Yeah, there is a difference between TV and non-TV. Non-TV has things like outdoors, things like print, things like mobile and things like digital. Just to give you a perspective, a large quantum of the incremental spends are going in digital and mobile.

Kunal Vora: Okay. Okay. Okay. So, over the last one year, has it changed dramatically because at least video content consumption has increased dramatically?

Answer: Absolutely, Yeah. Like I said, a large part of our delta goes into digital and mobile.

Kunal Vora: Sure. Okay. Okay. Second question, sir, on GST. While you haven't seen any meaningful adverse impact, I'm sure that your competition would have faced issues. Can you highlight any categories in which you believe you see any accelerated market share gains because of demonetization followed by GST?

Answer: One will have to really wait for a couple of quarters because what you will see, we did not have a large amount of de-stocking even in the previous quarter, yeah, but many of our competitors had a much more deeper impact on the top line. And now, you will see in this quarter a lot of refill happening. So, wait for a couple of more quarters to see how that trends because lot of data which is coming out post-demonetization and post-GST is still going through a very turbulent phase and it's very difficult to decipher the trends which are happening.

Kunal Vora: Understood. Okay. Thank you, sir.

Operator

Thank you. Next question is from the line of Amit Kumar from Investec Capital. Please go ahead.

Amit Kumar: Yeah. Thank you so much for the opportunity, sir. Just to begin with the underlying volume growth, it always has an element of mix and like core volume, core tonnage growth, so to speak. Anything sort of possible there? I mean, basically just trying to understand that does that premiumization trend sort of remain intact on a year-on-year basis given the kind of disruptions that we've seen across demonetization, across GST? Any sort of color there would be helpful.

Answer: Yes. Yes. The premiumization trend even we had seen post the demonetization, had not stopped, yeah, and that is a trend which we believe, because still the premium part of the portfolio within FMCG is still a very small part of the portfolio. So that trend, we still see keeping – shaping up for the next few years, it should continue in that direction.

Amit Kumar: All right. My second question was with respect to CSD, now our understanding was that in June, already CSD was not really buying anything and the shelf sort of started to go empty. Wouldn't that – I mean I'm just coming from a consumer demand perspective, wouldn't consumers demand I mean, wouldn't the Army jawan's demand essentially shift to general trade channels and get captured there? So, I mean would – does CSD actually have any sort of a significant impact in this quarter?

Answer: CSD for us is a big channel. But you're absolutely right in saying that the entire shortfall of CSD would not be a loss of offtake because the consumers, jawans and all, would have shifted and bought from outside CSD if they don't find it in CSD.

Amit Kumar: Sir, I'm just basically saying that that should not sort of factor into our calculation too much from here on because it's already happened in the previous quarter?

Answer: That's right. I mean, it won't be to the same extent, but we have obviously a much higher share in CSD. And whenever you have a stocking and destocking to that extent, there would be an impact. But from an offtake perspective, it will not have a bigger impact.

Amit Kumar: All right. And what is the current trend in CSD? I mean, has it, in the months of either at the exit of the quarter or in the current quarter, has it sort of gone back to its normal buying pattern or it sort of still remains...

Answer: It has come up to about 85%- 90% of the normal buying pattern.

Amit Kumar: All right. That's it from my end. Thank you so much.

Answer: Welcome.

Operator

Thank you. We have next question from the line Manish Poddar from Renaissance. Please go ahead.

Manish Poddar: Hi, sir. I just had one question. Could you explain the increase in the unallocated amount Y-o-Y in the capital employed?

Answer: Okay. So, basically, again, to answer a question, which came in earlier in terms of segmental results and in terms of unallocated. There are multiple expenditures, which we incure, which are, again, some of them are exceptional in nature, could be restructuring in nature, etc. And those we kind of take it down and allocate it to the extent possible in categories. Again, there are various corporate costs which get incurred depending on projects, etc. and we kind of try our best to kind of allocate them if possible, else we kind of leave it as un allocable. So, these kind of shift from quarter to quarter and that's the reason why the number of un allocable and allocable changes and that also explains the reason why segmental PBTs will not exactly tie up with the overall EBITDA growth.

Manish Poddar: Okay. Nothing major to call off, right?

Answer: That's right.

Manish Poddar: Okay. Thanks.

Operator

Thank you. Next question is from the line of Rohit Chordia from Kotak. Please go ahead.

Rohit Chordia: Hi. Good evening. One quick question for you, Balaji. You've been talking about this modest margin improvement as a target. Now if I look at, let's say, last five years or six years, it's sort of, going by empirical evidence, while you have never called what modest means, going by empirical evidence over the last five or six years what you've delivered, we have come to understand that is something in the range of 40 to 80 basis points. This is what you've delivered on an annual basis. If I look at the last three quarters, you're running at, March was around 110 bps, last two quarters, adjusted, has been around 180-odd bps, so is there a change in definition of modest that we should be cognizant of here, that's really the question?

Answer: No, there's no changing definition of modest. The only thing that I think maybe I could have clarified better in my earlier communications is what we are staying committed to, what you can hold us to account is that modest improvement in operating margins on a yearly basis. That's what you would definitely hold us to account of.

What happens in reality is a different discussion because just – it's a – there are multiple moving parts on it and therefore sometimes you're able to – you can't just land in a number, sometimes we may over-shoot sometimes we may under-shoot, but the point remains that on a yearly basis, that modest improvement we will definitely stay committed to and it also means we start planning our resources and deployment of resources also in that particular manner. So, it is a – it's the difference between how we go and commit to you externally versus what we strive differently. So that is the difference that I'm trying to tease out here.

Rohit Chordia: So, should we look at modest...

Answer: For example, in a quarter, we come back into 40 bps or whatever is the number that you – in your mind you believe is modest, then I would simply say that – that's what we are committed to. So, the track record of whatever is the number the last two quarters, something has happened, we are not – we're not committed to that number, it is just that's what we've landed up.

Rohit Chordia: Now I arrived at that 40 bps to 80 bps looking at the data for the last five years, which I think is a reasonable set of data points. So, should we look at modest as more of a floor in some sense that you can deliver more, but we should hold you to account on...

Answer: Yeah. That's exactly right. It is a floor, it is something that you should hold us to account for unless there is absolutely irrational price competition that has landed up in the market, which we, in that case, we are very, very clear. We will – it will be unblinking defense from our end.

Rohit Chordia: Sure. Okay.

Answer: And that is only if it's irrational, but if it's the intensive, still you should hold us to account for that modest improvements on a year-on-year basis.

Rohit Chordia: Sounds good. Quick – second question, while the unorganized to organized shift is expected and while it's early days and I understand you don't want to comment on that right now, my question is more about shares within organized. Do you think your investments in direct distribution where you've been significantly ahead of competition, places you in a good position to even gain share within organized as your competitors go through this supply chain turbulence, the wholesale dependence and all of those things being higher for some of the other guys? You have a higher degree of control on direct distribution in that sense so – is it an advantage that can play out over the next 6 to 12 months?

Answer: It's our – obviously it's our endeavor to ensure that we drive competitive advantage in every element of our business that we operate in, that's what each one of us are briefed to do and that's what we end up doing. That doesn't mean competition will also be sitting quiet, watching us take advantage, so it won't be fair to assume all of it will just lead to a competitor, but we need to be on the ball there. So, I wouldn't comment on whether does this, the fact that if you are going to do so much direct distribution, will it be more competitive than someone else? If we need to do it, we will do it, and we believe that is good for the business in the long run and will place us better and we would love to compete fair and square on that. And that is how we see this gain.

Rohit Chordia: Excellent. Thank you. Appreciate it. All the best, Balaji. Thanks.

Answer: Yeah. Thank you.

Operator

Thank you. Next question is from the line of Sunita Sachdev from UBS. Please go ahead.

Sunita Sachdev: Hi, Balaji. Just a short question here. Within Ayush, are there early signs of any particular category winning more than the other?

Answer: Clearly, there are different preferences in various parts of the market, which is – interesting learning for us and we – we quite are observing this very closely to get a better read of it. So, South, there are clearly patterns starting to emerge. North is too early to call out. But, there is clearly differences and preferences that we're seeing and we will observe it very, very closely, Sunita.

Sunita Sachdev: Are there any call out, any particular category or?

Answer: No, it's too early – it's too early for.

Sunita Sachdev: And on that, any reason why pricing on Soaps within Ayush is so out of the ballpark?

Answer: So, out of?

Sunita Sachdev: Meaning in terms of the...

Answer: RPI, relative prices?

Sunita Sachdev: Yes. Relative pricing.

Answer: Not really. We're quite comfortable with the pricing that we have put up in Soaps in each of the categories. So, nothing that is of any concern to us. That's also a category that's doing quite well actually.

Sunita Sachdev: Okay. Second one was the central market – the central of India market that you had clearly carved out a couple of years ago in WiMI, any sense of how big is that as a percentage of rural India and how it's tracking in terms of growth rates?

Answer: It is about 20% of our total Indian market and it is growing at 1.5x the rest of the country on a consolidated basis.

Sunita Sachdev: Thank you. Thank you so much, Sanjiv. And lastly, just looking forward to the simulation exercise, Aasif is going to host it, please include and a very warm welcome to Mr. Phathak. Thank you, Balaji.

Answer: Yeah. Thanks, Sunita.

Answer: Thank you.

Operator

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

Tejas Shah: Hi. Thanks for the opportunity. Just couple of questions. If you can help us understand, was there any divergence between primarily sales and retail offtake Q-o-Q, so basically pre-GST and post-GST, has the divergence narrowed down or expanded?

Answer: Primary, okay. We can – it's natural to expect divergence because of – if you recollect consumer offtakes stable right through, pipeline corrections going between pre-GST, wholesale destocking to this one. Primary, with respect to our distributor, the day – the cover days that we have been maintaining with them are extremely stable. So we do about nine-odd days of cover with our stockists and that has been almost unchanged, give or take, a day here or there depending on how the holidays fall, but nothing which is different, but that's on a continuous replenishment, systems kick in and they move.

Tejas Shah: So, is it a fair assumption that our growth rate is broadly an indicator of retail offtake also for us at least?

Answer: So, there is primary, there is secondary and then there is tertiary and offtake. So, we are doing multiple jumps to arrive at, to correlate the two. So, primary definitely will, from our point of view, it is automated and it goes that way. Offtake, we are calling out on basis our understanding of this household panel needs and triangulating we believe it is stable. Internal between primary to offtake, lot of turbulence because of GST and wholesale, CSD all that that we talked about.

Tejas Shah: Okay. I believe you subscribe to data also of offtake, so you can see the divergence in your data and primary data and the data which market surveys are throwing...

Answer: Yeah. But the primary could be – the days could be fine, but the secondary, if it is volatile, that will feed through into primary because of pipeline connections happening there. And offtake is – there is so much of, the stock turnover ratios of most of the products will be anywhere between 30 to 50 days depending on what category you look at. And therefore, there is quite a bit of stock for it to be consumed and taken out. So, there is buffering happening there, so we just can't correlate it is my point.

Tejas Shah: Sure, sure. And second question is on, you said that rural growth is broadly matching urban growth and if we decipher from your numbers, premiumization trend seems to be much stronger than before. So, is it fair to assume that rural is also participating in premiumization trend or perhaps more than urban at this stage?

Answer: Absolutely, right to say premiumization is across both rural and urban, it is not just an urban phenomenon.

Tejas Shah: So, when we correlate this with macro indicators in rural where all the data points are suggesting that still rural is under tremendous pressure and that, along with such a strong trend of premiumization, we are not able to bridge the two, so are you seeing any early signs of revival which are not captured in data yet?

Answer: Let me give you an example, take something like a Surf Excel INR 10 pack, yeah. It's a premium portfolio that is there. Nothing stops a rural household which is buying, let's for argument sake, let's assume it's a household buying Wheel, to suddenly say that one of the – since it's now available at INR 10 and it's a fabulous brand available to me, I will use it maybe instead of zero earlier, I'll probably buy it once a month. That is a penetration point increase of one straightaway. And therefore, that is how you'll find affordability leading to premiumization, access, availability will lead to premiumization. So that is how this premiumization journey starts, that is exactly what market development is all about.

And also, while premiumization is happening in rural area, it is happening from a much lower base, so that delta is there. But you shouldn't be comparing the absolute level of premiumization in urban and rural.

Tejas Shah: Sure, sure. Got it. That's it from my side and all the best, Balaji, for your future assignment.

Answer: Yeah. Thank you.

Operator

Thank you. We have follow-up question from the line of Avi Mehta. Please go ahead.

Percy Panthaki: Hi, sir. This is Percy nere, my questions have been answered. Thanks.

Operator

Thank you.

Answer: Thanks, Percy.

Operator

We have the last question from the line of Anubhav Sahu from MC Research. Please go ahead.

Anubhav Sahu: Hi, sir. Balaji, I had one follow-up question on CSD channel. Sir, you mentioned that sales are pretty normalizing, it's up to 85% now. Just a bit surprising in the sense that what we have been hearing in recent past is that there is supposed to be structural change happening on the CSD channel itself, wherein we have been hearing the government is trying to plug in the loopholes of – that the sales for the CSD channels for the intended people only, that the people in the cantonment. So, what is what is your take on that, sir? And what kind of feedback you're getting from the government?

Answer: I think for us, I wouldn't want to comment on other industries because they will not better than I do in terms of what their internal challenges are. I'm only commenting on what we are observing here. And that could – you may well be right, it would be a combination of stock pipelines coming back to correction and offtake slowing down, both possibilities are there.

At this point in time, what we are confirming is that CSD seems to be hitting about 85%-90% of what it used to do and we will just keep watching this space. But the other point is also equally valid, and it got discussed earlier that consumption will have to go somewhere. So that consumption will be picked up by other channels.

Anubhav Sahu: Right.

Answer: So, therefore beyond a point, we should just be worried about ensuring that we are agile and picking up demand wherever it comes from.

Anubhav Sahu: Okay, sir. And sir, how much CSD constitute as far as the sales – total sales of HUL?

Answer: Let's take about 7.5% – 7%-odd.

Anubhav Sahu: 7%. Okay.

Answer: 7%.

Anubhav Sahu: 7%, okay. Okay. Okay, sir that's all from my side. Thank you. Thank you and all the best for you.

Answer: Yeah. Thank you.

Operator

Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you, sir.

Aasif Malbari

Thanks, Karuna for seeing us through. With that, we now have come to the end of the Q&A session. Before we end the call, let me remind you that the replay of the event and the transcript will be available on the Investor Relations website in a short while and you can go back and refer to it. A copy of the results and the presentation, if not already with you, is available on the website and you can go and back and refer to that. If there are any further questions, please do feel free to connect to us and we will take them offline. With that, thank you all for your participation and have a great evening. Bye.

Operator

Thank you very much, sir. Ladies and gentlemen, this concludes the earnings call for Hindustan Unilever Limited. You may now disconnect your lines. Thank you for connecting to audio conferencing services from Chorus. Thank you.