MQ 2016 & FY 2015-16 Earnings Call

Hindustan Unilever Limited

9th May 2016

Speakers:
Mr. Sanjiv Mehta, CEO & MD
Mr. P. B. Balaji, CFO
Mr. Dinesh Thapar, Vice President- Finance

Moderator

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

Dinesh Thapar

Thank you, Nidhi. Good evening to all of you on the call and welcome to the conference call of Hindustan Unilever Limited. We'll be covering this evening results for the quarter, and financial year ending 31st March, 2016. On the call from the HUL end is Sanjiv Mehta, CEO and Managing Director and P. B. Balaji, Chief Financial Officer. As is customary we will start with the presentation with Balaji sharing aspects of our performance of March quarter, and a quick roundup of the financial year, and then hand over to Sanjiv to share his perspectives of the performance. We will then get into the Q&A and I will come back and talk about that. But before we get started with the presentation, I would like to draw your attention to the safe harbor statement included in the presentation for good order sake. With that, over to you Balaji.

P. B. Balaji

Thanks Dinesh. Thank you all of you for joining the late evening analysts' call. Let me quickly cut to the chase in terms of what our strategy is- Consistent strategy. No change at all of working with consistent, profitable competitive and responsible growth. That continues to be our strategy. Moving on to the context, the business environment continues to remain challenging. Market growth remains soft particularly in rural. And growth continues to be led by volume, something which we have been referring to for the past many quarters now. Commodity costs are starting to show signs of upturn and competitive activity remains high. And just to give you a sense in terms of numbers, PFAD, which is a vegetable oil which we use in our core business. As we are exiting the year, exiting the quarter, the rates are almost in line with what was there last year same time. And almost a good 50% increase of what we got towards the end of December. As far as exchange rates are concerned it was stable during the quarter, and Brent crude starting to turn in terms of numbers. So commodities are starting to move. In this context we have delivered another quarter of profitable volume led growth, where our reported domestic consumer growth was 4%, underlying volume growth also at 4%. The intrinsic growth after pulling out the impact of the phase out of excise duty benefits and one off credits in the base year which we had called out is more like 5%. Operating profits stood at 1379 crores, up 11% with a margin expansion of 115 bps- primarily led out by cost of goods being sold being lower by 240 bps. And this improvement in margin is despite a 50 bps impact on the phase out of excise benefits and one-off credits, as well as competitive spends in the A&P, which is up by 40 bps. So this comes on the back of these two increases. PAT (bei) at 1031 crores rose up 13% and net profit was up 7% at 1090 crores. The net profit growth was impacted by higher exceptional growth from subsidiary base in the base quarter.

The volume performance was spread across segments. In soaps and detergents, the volume growth was partially offset by the price deflation and showed a reported sales of 2%. Personal Products had a healthy intrinsic growth even though the reported number came in at 2%. And this reported growth was impacted by the phase out of excise benefits and one off credits was one reason, and also the residual impact- realignment of channel spends in the early part of the quarter. It is mostly behind us and therefore we are now on a clean ride as far as the channel spend realignments are concerned. Beverages showed a balanced growth, broad based growth across many quarters now and this quarter has been no exception. Packaged foods delivered another quarter of double digit growth.

Moving on to the category highlights, an intense innovation led quarter where in particular I would draw your attention to the new variants of Signatures that we have introduced, Axe Signature. Pureit classic RO was launched and called out the last time when we spoke. And of course the big one, the launch of the Pureit RO+UV with Oxytube, which has again helped us deliver good from this category this year. And of course something which all of us really like to have is the Magnum Choco Brownie which has also been a very good launch this quarter. So a very intense quarter for innovation.

And all these have also been activated brilliantly. I am sure all of you have heard about the Red Label 6 pack band. And of course Star Wars association has been a very successful activation this quarter and the rest is there for you to see as well. So good solid activation continues.

Moving on to the performance of the categories, in Skin Cleansing, we sustained volume growth this quarter, as Dove, Lifebuoy, Hamam drove the volume growth. Continued price deflation was seen in this category as commodity benefits were passed on to consumers. And at the quarter end, we are starting to see significant uptake in commodity cost, something that I referred to earlier in the presentation.

Moving on to Home Care, the growth was led again by the premium segment where Surf maintained its volume led double digit growth momentum. Wheel- I am happy to see the turnover that is happening consistently post the relaunch. That’s nice to see. And Comfort also maintained its strong growth led by market development.

In Household Care the performance was primarily led by Vim liquids and here we would like to say that even though there was continued price deflation, it is now at a much lower level than what we saw in the early part of the year.

Skin care- healthy intrinsic growth, where in the case of Fair & Lovely, the performance was led by the BB cream. And we also have Ayurvedic care variant which was relaunched this quarter. Pond’s delivered strong growth led by premium skin lightening, and Lakme of course the CC cream and Perfect Radiance portfolios continue to do well. And Vaseline, on the back of a delayed winter registered a robust double digit growth.

Hair care- Dove delivered another quarter of double digit volume growth. It maintained its strong momentum and the conditioners did particularly well as this category ensured that volume led growth was sustained.

Oral care was a subdued performance. Close Up sustained its good underlying performance whereas in the case of Pepsodent, the core was relaunched in the quarter and the ‘Clove and Salt’ variant continues to do well. We are banking on the core relaunch in the subsequent quarters. Let’s see how it plays out.

As far as Colour Cosmetics is concerned, it delivered innovation led double digit growth. This has been a strong portfolio that has done particularly well for us. And this quarter again there is no surprise with some stunning innovations that have landed.

Beverages- pretty consistent, steady growth this year. Both activation and market development played a role here. And we saw broad based growth across brands. Natural Care continues to do well for us. And green tea of course has been maintaining a strong growth momentum and has taken market leadership as well. Bru coffee registered another quarter of double digit growth and again strong performance coming through on coffee.

Packaged foods, there is again a quarter of double digit growth where all three brands, Kissan, Knorr and Kwality Walls have delivered well. And focus on market development continues here. And as we had alluded to you earlier, we are now starting to see innovations coming into the portfolio. We had a premium range of Kissan Jams added, we had a new range of Knorr wraps and rolls mix and my favorite Magnum Chocolate Brownie was launched.

Pureit you would recollect that we had pointed out last quarter as an area where we are doing a strategy refresh on this and now happy to report back that we are seeing double digit growth in this category. The portfolio has been extended to play in the wider market. Growth was driven by RO devices. Pureit Ultima also launched with Oxytube for cleaning vegetables. And Modern Trade and Pureit Perfect Stores continue to lead the growth and ecommerce is another channel which continues to grow rapidly here.

So to summarize the financials, 3% net sales, domestic consumer growth was of course 4% with an underlying volume growth of 4%. Intrinsic growth was 5% as there was 90 bps impact on top line because of excise benefits and one-off credits, and 50 bps on the bottom line.

The rest of the lines of P&L, other income fundamentally coming out of the interest, dividend and gain on sale of non-trade investments of 75 crore in current quarter, compared to 97 crore last year. And the exceptional items include fundamentally profits recognized so far on the sale of Modern business- about 50 crores in the current quarter. And this is something which I am sure you would want to understand it better. Let me say a little bit about the transaction here. Sale proceeds at an overall level is about 200 crores plus. Against that, we have recognized profits so far about 50 crores because we still have condition subsequents that we need to complete. So as and when those conditions get fulfilled we will be recognizing more in the P&L as we go forward. The tax plan- we have recognized the tax on the full transaction upfront which will explain the tax behavior and the tax numbers are moving around. As far as exceptional items in the prior year is concerned, the profit on sale on subsidiary you will see at about 169 crore in the base quarter. That was not there in this year. So to summarize, a profitable volume led growth has been sustained.

Let me quickly take you through the full financial year. This is the last quarter. As is customary, we do spend a little bit of time talking about the full year. The domestic consumer grew at 4% with 6% UVG. On a full year basis, the UVG is 6%. Intrinsic growth at 5% because of the phase out of excise benefits and one off credits of almost 110 bps impact on an overall level and 50 bps on the bottom line. And this has improved our PBIT margins by 90 bps despite the 50 bps hit on PBIT and despite the 160 bps improvement in A&P spends. That’s pretty strong delivery on the PBIT side. And tax rate for the year in line with the guidance that we gave you. The strong track record of cash generation, another year of 5000 crore plus cash has been generated. And as far as the approval of schemes for the transfer of general reserves is concerned, we now have court approval to call for the shareholder meeting so the court has now given us instructions to call for the shareholder meeting that will happen on 30th of June, where we will seek approval from the Shareholder for transferring the money and then it goes back to the court, once court gives the approval, we do the transaction. And the methodology of how we want to execute the transaction is still being discussed and we will come back to you at an appropriate time on that. This is the financial year cash payout almost 4000 crores of cash has been paid as dividends. And this is up by about 570 crores compared to the previous year. As far as the final dividend is concerned, the board has recommended a final dividend of Rs 9.50 as the final dividend. You would recollect we already paid Rs. 6.50 as the interim dividend. We will be seeking approvals from the shareholders in the AGM around final dividend. And that will be almost a 101% kind of a payout ratio.

So to move the performance across segments, this is the first time that you will be seeing this number so let me just pause a bit for you to digest it. Intrinsic sales growth at 5% as we said earlier. Double digit growth in Personal Products and Packaged Foods. And steady delivery in the beverages side. Soaps and Detergents 2% of the intrinsic sales growth, and an underlying volume growth of almost 6%. This tells you the kind of price deflation that has come through in this particular category. Particularly heartened to see the underlying volume was broad based across all categories, be it Personal Products, be it Packaged Foods, or be it Beverages. And of course profit improvements is seen in all the four categories, beverages being a marginal decline on the profitability side of it. That’s the reason on our 7% intrinsic growth, we have only seen a 6% profit growth. Otherwise very happy to see the improvement in every other category on the profitability.

I am sure we have seen in various quarters, but to pull it all together, the key message in soaps and detergents is volume led growth in a deflationary environment and continued category premiumisation. And anecdote of Surf, our biggest brand is now greater than 3000 crores. On personal products of course healthy double digit intrinsic growth, hair, skin and colours continues to do well. And deos has seen a strong recovery stage on the back of Axe Signature. On beverages, steady performance in a benign commodity context, and a broad based growth across brands. And again another interesting anecdote where Taj now completes 50 years of delighting consumers.

On Packaged Foods, it is now ten successive quarters of double digit growth. Market development continues to deliver strong results for us. And innovations are adding to the portfolio. And we said earlier, this quarter we are have divested Modern.

For a quick update on M&A transactions, in the case of Modern we signed the agreement on 8th September, the transaction has concluded as of end of March 2016. Which means starting from April onwards we will not have

Modern's turnover booked into our books. And it will be shown as an A&D- disposable turnover in the way we will be showing underlying sales growth.

Separately we also have finished the acquisition of Indulekha, where the agreement was signed on 17th December and the transactions have come into our fold on 7th of April 2016. All of Indulekha being sold in the country today is under HUL's name. And the sale of rice brands again agreement signed on 17th March. Transaction is pending fulfillment of certain conditions. We should ideally expect it to close it during this quarter.

Overall basis, I think we are happy to have received results where we are delivering on strategy, ahead of markets, consistent healthy UVG in a soft market, continues to expand profitability, and of course our focus on sustainable priorities continues to be there.

Year in numbers, USG of 4%, intrinsic 5%, 6% UVG, PBIT increased 10%, cash greater than 5000 crores.

So moving on to the near term outlook, market growth improvement largely dependent on rural. We are clearly seeing a pickup in commodity costs. And in this environment we will continue to focus on driving volume led growth with improvement in operating margins. Our strategy will remain unchanged with its consistent, competitive, profitable and responsible growth.

With this, I hand you over to Sanjiv for his views on how the performance has been.

Sanjiv Mehta
Thank you Balaji. Good evening everyone. As always let me start by sharing my thoughts on the quarter that's gone by. You heard Balaji talk about the market context which has continued to be challenging with growth being pretty subdued. Nielsen is reflecting one of the lowest growths in recent times. We have been talking about rural being under pressure for some time now. And therefore I am not going to belabor the point. I am glad the government has recognized this and are taking steps to channel funds in rural.

Against the backdrop of this context I see a performance is consistent and resilient. Our business continues to be in good shape, brands are healthy and well supported in the market place, and as a result the growth is broad based across the categories. Our focus however remains on volume led performance. From a reported lens the drag on price growth has been magnified by the excise duty impact that Balaji has already spoken of. Anyway with excise duty impacts largely in the base, and commodity costs picking up, I believe that some of the noise on the price growth front should start to be behind us. However we continue to remain optimistic and know it is only a question of time when the tide will change and the growth will start improving. Now I am conscious that many of you may have questions on UVG of 4%, and the fact that it is lower than what you might have been used to seeing in recent quarters. Apart from the market context where issues in rural have played out, this has also to do with the residual impact of the channel trend realignment that we undertook and called out last quarter. You will recall that we had mentioned that we had embarked on an exercise to rework our channel spends with a view to aligning them to the channel priority while driving the effectiveness in the market place. We had initiated the change last quarter, and I had said then that I expect that the intervention that we have taken will be completed this quarter. Over the last month or so I can see normalcy coming back. And whilst it may have had an impact on our overall growth and on personal products in particular, in the last couple of quarters, I am not overly concerned since the change looks to be largely behind us and importantly the interventions will equip us well in handling the evolving channel dynamics in the times ahead.

Coming to the bottom line it has been another pleasing performance. I am heartened by the manner in which we continue to dynamically manage the business to deliver a healthy bottom line and competitive top line in tandem. We are driving all levers of margins, operating efficiency, cost savings, mix, and right pricing. We are very conscious that commodity cycles change paths and therefore we want to be lean, agile and efficient at all times, because ours is a business that is again for the long term we have the wherewithal to be able to sustain consistent and adequate investment behind the brands and capabilities. With that in mind we continue to look for further opportunities to drive efficiencies and effectiveness of our spends, be it in the area of materials, supply chain, overheads or marketing. We have all pulled it under our Project Symphony. This work underpinned by a spirit of continuous improvement that enables us to deliver on a goal of consistent improvement in margins, something that we are seeing this quarter as indeed for many quarters now.

What you have been seeing is in effect a classical virtual cycle of growth in action. You have heard us talk about this in the past, driving more volume growth, more efficiency, more investment, all enabling more profitable volume led growth. So overall, to summarize my view on the quarter, I'd say it has been a healthy underlying performance. And the reason I emphasize underlying this time around is due to the number of one offs or drag effects which have impacted our results. But the comforting part is that most of this should be behind us or in the base.

Since this is also the financial year let me take this opportunity to share with you my thoughts on the highlights of the year. When I look at our full year's performance, what pleases me is the fact that through the year we have delivered consistently in the markets that have been subdued for most parts- in a commodity cost market that has witnessed significant deflation in half of our portfolio, and in an environment where competitive intensity has remained intense. In times like this, what is important is that we have our eyes on the volume growth, an important indicator on the health of the business and particular importance during deflationary environment. We sharpened our focus on delivering profitable volume led growth. You have heard us reinforce this time and again. As I look back at the four quarters, I can say that we have delivered spot on in terms of what we set out to do. Despite lower market growth in the preceding year, underlying volume growth stepped up in the year gone by and importantly it did not come from the commodity led category alone, but has been broad based across segments. In fact the commodity led categories are highly penetrated and therefore price reductions do not result in category volume going up significantly. And not correcting price value equation would have resulted in large loss of market share. To me, volume led growth has been important. It means that our consumers have been with us, they prefer and are buying our brands and products across the portfolio. This gives me a lot of pride and satisfaction. And if you look at the trend, our volume growth has increased from 4% to 5% and to 6% this year. In a tough environment, we are very pleased with our performance. I am also pleased by the fact that each of this quarter has been an improvement in operating margins. What is also notable is that this was a year in which we made significant investments in the business on various counts. It is not always that you see an increase of over Rs. 650 crores on advertising and promotion line. We have always maintained that we are focused on the long term and enduring success of the business and what could be a better way to reaffirm than through what we have done. I am convinced that we will reap the benefits of these conscious actions in the times ahead.

From a results perspective therefore, not only has our volume growth stepped up, it has been broad based, our growth has been market beating and profitable – all in tandem. And that in essence, is a reflection of the discipline and rigor with which we are executing our strategy.

Let me now talk about the segments. On Soaps and Detergents, the past year has seen an operating environment very different from what we've been used to seeing given the significant commodity cost deflation. To me what stands out in this segment is how we acted decisively to drive our competitiveness and leadership positions in these categories. Given the experience and learning of 2008-09 in which we saw negative volume growth when we did not proactively respond to the fast changing environment, I am glad to see what we did last year was right for the business and has stood us in good stead given our competitive performance and the healthy volume growth that we sustained through the year.

Coming to personal products, well the reported growth in the year was impacted by the excise duty issue and our decision to realign channel spends on an underlying basis, the business has delivered a healthy performance. Our core brands are becoming bigger driven by exciting innovation and brought to life by what we call 'magic in marketing' linked to the core functionality and social purpose of our brands. At the same time, we have continued to stay strongly focused on investing behind market development and strengthening our capabilities to stay at the forefront as consumers, markets and trends evolve. A key strategic intervention during the year was the acquisition of Indulekha, a premium brand with strong credentials around Ayurveda that will complement our existing portfolio and strengthen our presence in hair care. Having just taken control of the brand, we are excited by the strong equity that the brand enjoys among consumers and are progressing the opportunity in leveraging it's 'naturals' and therapeutic positioning.

Now quickly on the categories, Skin Care, Hair Care and Colour Cosmetics have continued to do well. Pepsodent in oral care has been a disappointment. But we have now relaunched it with a completely new formulation. And our job now is to ensure that the consumers try the new offering.

As for Deos, I am reassured to see the progress that we have made in the last year on recovering ground led by our very distinct and differentiated Axe Signature range of body perfumes –amongst our most successful innovations in recent times. So overall, I'd say our Personal Products business is in good shape and it gives me the confidence that we are fit to win, apart from Oral, where we know what the issues are, and actions are underway. On Oral I am also pleased with the performance we've had with Close Up. Close Up- the activation that we have done has resonated very well and that has contributed to the brand growing decently well.

That brings me to Beverage which has continued to deliver steady and broad based growth for some time now. The work that we are doing to strengthen the mix, improve our brand equity, coupled with some sharp in market execution is yielding good results.

Packaged foods- it has been a delightful story but now I'd like to believe we would like you will recognize our commitment to growing our packaged foods business since you will see it reflected in our actions and corroborated by our results for some time now. The business has delivered ten successive quarters of double digit growth with all our key brands performing well. Clearly the actions that we are taking on building relevance, driving adoption/trials, and sharpening in-market execution are landing well. And now we are adding innovation as the lever of growth to the segment for the future. What also pleases me is to see the business not only deliver topline but also solid improvements in profitability, which will help provide fuel for further investment behind our categories. This segment is shaping up well and we are excited about the headroom for opportunity in this space.

Therefore if you look at the totality of what we have done, it essentially revolves around two key pillars- strengthening the core and leading market development of nascent categories. We have taken decisive actions during the year to grow the core of our business competitively and sustain its volume growth momentum – you have seen this in categories like Soaps, Laundry and Tea. On the other hand our sustained focus on market development has led to good robust growth in some of the emerging segments namely hand wash, fabric conditioners, dish wash liquids, hair conditioners, green tea, premium coffee and the foods business. And while these segments are fast scaling up, there are clearly large opportunities that we continue to see. Both these pillars continue to be very integral to our strategy.

So let me now end with a few key messages that I want to leave you with.

Challenging environment but our performance has been consistent and resilient. We have dynamically managed our business and our relentless focus on cost efficiencies and driving all the levers of margins has enabled us to deliver strong improvement in operating margins in tandem with competitive underlying growth. Our priority will always be the long term health and enduring success of our business, and it pleases us, and at the same time reassures me to see the portfolio shaping up as we continue to invest competitively behind strengthening the core while bridging the white spaces and driving market development of asset category. Our thrust on strengthening our organization capability coupled with strategic interventions that we are taking will keep us well positioned to deliver on our goals of consistent, competitive, profitable and responsible growth. Finally, I'd say our strategy is on track and delivering.

With that let me now hand the call back to Dinesh and of course I look forward to engaging with you in the days ahead. Over to you Dinesh.

Dinesh Thapar
Thanks Sanjiv, thanks Balaji. With this I think we will now move on to the Q&A session so that it doesn't get really late in the day. I think we will limit that to about 60 minutes so we would like to bring the call to a close by about 7:30 pm India time. Can I request participants who want to ask a question to keep it really tight and accommodate as many over the next 60 minutes. In addition to the audio, as always, our participants have an option to post the questions through the web option on your screen and we encourage you to do that and we will take those questions up just before we end. Before we get started with the session I would like to remind you that the call and Q&A session are only for institutional investors and analysts, and therefore if there is anyone else who is not an investor or analyst but would like to ask us a question or engage with us, please feel free to reach out to the Investor Relations team out here. With that I would like to hand the call back to you Nidhi to manage the next session for us. Go ahead Nidhi, over to you.

Moderator
Thank you very much, sir. The first question comes from Mr. Manoj Menon from Deutsche Bank. Mr. Menon, you may please ask your question now.

Manoj Menon
Thank you. Hi team. Just a couple of questions. On the S&D segment I am looking at it on a full year basis where I am actually seeing a low single digit revenue growth and a profit growth. Whereas I fully understand the deflationary conditions in the market and the necessity to be competitive in the market but I thought that largely applies to the mid and the mass segment. So to that extent the absolute profit improvement that you would have seen in the premium products I would have assumed that it would have flown to the EBIT.

Answer
Okay understood the question. The key point if you remember when we talked about the whole correction in pricing that we did, we said that we treated it as source of funds and use of funds. And the source of funds you are right, you get source of funds across the board. Wherever the raw material prices went down, you get the money. And use of funds we have gone right across. Let me give you an example. Take the detergent bar for instance. The price cut actually happened in the premium segment because it is a great way to actually drive premiumisation. And therefore we have taken this opportunity to actually drive premiumisation quite extensively. And therefore it is not fair to say that the discount was not passed on in the premium segment- that is one. Secondly we also used this opportunity to actually drive market development in a host of categories. Take something like a household liquid or a Comfort liquid, take body washes, hand washes. We have gone across the board in terms of feeding the market development opportunities and driving it even harder. And therefore though typically take something like a Comfort will be a part of the premium part of the portfolio only, but it's a great way to actually turbo charge the growth in this or drive something in this.

You know our volume growth has been pretty robust here. It's about 6% in soaps and detergents. And when it comes to pricing, we also try to maintain a relative price index, because if you don't do it then your ability to upgrade consumers comes down. And one of the things which Balaji said really stands out during a deflationary environment- you make your premium products more accessible and then convert the consumers and upgrade them to premium products. And I think that we have done exceedingly well.

Manoj Menon
Understood, very clear. Just two small questions. One, any regional differences in terms of growth which you are finding? And secondly I know it's marginal, but any comments on the marginal increase in the receivable number of days?

Answer
Yes indeed. You know one is regional growth and we are so glad we went in for Winning in Many India strategy. Because we don't apply the same plans, the same strategy across the country. If you look at Maharashtra, it is under stress because of the rural market and the drought in the region. Similarly parts of Andhra Pradesh, parts of

Karnataka, whereas we have seen very robust growth in Central India. So growth has been very different across. It is not reflecting one India, it is reflecting many Indias.
Now talking about debtor days, nothing of concern there. It is just that last year, we had the CSD debtors coming in much earlier than anticipated. This year it is slightly delayed and that normally is the noise that happens in one quarter into another quarter, particularly March quarter, which is the financial year ending.

Manoj Menon
So no policy change here – we have been hearing for a while in the last year particularly about lot of liquidity stress for the distributors. So there is no issue on the general trade?

Answer
No policy change, let me add an additional dimension here. Because if you look at the way the year ended you had almost 5-6 days of continuous bank holidays that happened from Holi onwards. So there is a bit of delta credit which we had to leave it in the market. The RSs were not able to collect it from the trade as the market was shut. That one there is more a temporary one rather than anything substantial. But the big one is CSD.

Manoj Menon
Understood. Thank you so much. I have a few more. I will come back in the queue. All the best.

Moderator
Thank you sir. The next question comes from Mr. Percy Panthaki from IIFL. Mr. Panthaki you may please ask your question now.

Percy Panthaki
Congrats to you all for decent results in this trying times of demand slowdown. My question is on your volume growth. For the last several quarters you've reported volume growth in the region of about 5 to 6%. This quarter it was 4% and if I adjust for the leap year and the extra number of days it would be more or less at around 3%. So would just want to understand if this is just a quarterly blip which we should ignore and there is no change in the trend. Or would you say that things are getting incrementally difficult and that 5-6% band which you so sort of consistently maintained, that may look a little more difficult to maintain in the future.

Answer
I think we had just called it out in our deck as well. Two reasons that I would definitely call out in terms of why this quarter the volume growth is below what we would normally be satisfied with. One is market slowdown at an overall level, which Sanjiv alluded to and we also called it out here. And second, the residual impacts of the channel correction which we had taken which is done in the months of October-November, peaked in December-January, and then slowly from February onwards we are seeing restoring normalcy on that one. It's more of one off issue that is there. With respect to the leap year, wouldn't allude to it too much because it more depends on the number of working days in which it happens which goes around here or there. So wouldn't be too concerned about that. So as we end this quarter what we do see is our internal corrections what we have done is all behind us and sorted. That leaves the market slowdown as something that we are still contending with. And then of course one does look forward to what happens to the monsoon, what happens to the 7th Pay Commission and all such things that you are well aware of. That is what we will have to look through.

Percy Panthaki
This channel correction adjusted for this 4% growth to become how much, 4.5 or 5? Any sort of flavor you can give us?

Answer
Percy I have always maintained that when you quote a number you should be in a position to defend it. I will be in no position to defend what is the impact of the correction. This is absolutely the right thing to do when multiple

channels are evolving. That is the reason why we took the bull by its horns and nailed it. But wouldn't want to put a number to it. It would not be appropriate.

Percy Panthaki
Right sir. My second question is on the pricing front. As you said there are some commodities which have seen upward creep in prices. So given the weak demand environment, what is your sense on the industry's ability to take price increases? Will there be a substantial 2-3 quarter lag between the commodity going up and the price increase going up? Do you see any risk at all to your margins because of this? Or do you think this is a normal phenomena that input costs go up so immediately the pricing will also follow through?

Answer
Okay something that we have mentioned time and again, for a long, long time we have been saying that, the first thing that we look for is agility in pricing. More importantly I think we are interested in playing all lines of the P&L. Therefore we would want to go the traditional way where we would definitely be looking at easing costs, looking at effectiveness, prioritizing our strengths. And when we complete all that there will definitely be ease where there is additional ask for pricing. We will look at pricing. Then we will start looking at what is the right portfolio to price. Because we play the full portfolio. We don't play individual categories alone. And then decide what's the right brand to take the price, how much to take the price, what are the elasticities. It is a full-fledged process of analysis that we go through and that's what we put through how we start managing our costs. And that's the reason I keep saying again and again, we are committed to modest improvements in operating margins and we will not manage it line by line. That is how we will look at it. As we do that, there are two things we keep in mind when we do the pricing. One is our competitiveness in the market place; and second what's the price value equation the consumer is willing to pay. Because volume led growth is what our main strategy is. I have called it out explicitly that we are not going to do this at the cost of volume.

Percy Panthaki
Right. And my last question is do you think A&P spends as a percentage of sales has peaked out?

Answer
I wouldn't make any comments on that. I am only saying I am committed to modest improvements in operating margins. We will play all lines of the P&L. Depends on what is the media heat that one sees and how do you stay competitive there. And it also depends on the kind of activity plan we have. Let me give you a very small example just so that you get a sense of where we are coming from. Take something like an Indulekha. It is a high GM, high A&P model. That's how it will be sold. And therefore here, is my A&P is going to go up- yes, but there is also GM against it to take care of it. Hence my paranoia of not talking line by line and category by category. Full portfolio, modest improvement in operating margins, that is what we are committed to. Another point which I wanted to make to you is, when you look at A&P, you have to understand that when the commodity prices dropped, we had more money at our disposal and we used it prudently to invest behind market development of nascent categories where we raised the ante significantly. So that's the different levers we play, again, keeping in perspective the volume growth, and modest improvement in margin.

Percy Panthaki
Right, right sir. Understood.

Moderator
Thank you sir. The next question comes from Mr. Abneesh Roy from Edelweiss. Mr. Roy you may please ask your question now.

Abneesh Roy
Sir you have done well in most of the categories. My question is on deos, lower end of detergents and to an extent water purifies. Versus the industry in the last 2-3 quarters how has been your growth?

Answer
As far as the deos business is concerned I think we are very happy with the way Axe Signature relaunch has come through. The overall category growth has come off substantially in the case of deos business compared to what it used to be a few years back. Against that, we are quite happy with the performance of Axe Signature. We still have a job to do as far as the Axe original body sprays are concerned which is the aerosol format. We are not seeing full traction the way that we'd want to. Thirdly we also launched the Rexona deodorant into the market and we are quite happy with what we see as a performance there. So that's the deos business.
As far as water is concerned the performance in this quarter we have come back quite strongly compared to what we were having before. And the big one has been the change in the portfolio where you know we are starting to have accessible, affordable, low end RO purifiers which was a gap in the portfolio. And having fixed this, we are quite happy with the performance that we're seeing there. And as far as whether it's competitive or not, I think there is a huge market as far as the water side is concerned. So I am not in a position to comment on the competiveness of it. But more importantly we do see intense competitive action which I think is great for the category.

Abneesh Roy
Sir coming to lower end detergents, you have said definitely traction is building up. Now if I see the number two player has said globally that clearly lower end detergent they feel is commoditized. And then you have those herbal players also increasing intensity. So how is the overall performance in the lower end? If you could give us some more clarity. And second, is there ability to take your mid-end brand slightly to higher pricing because the number two players want to reduce the focus a bit and higher focus on profitability?

Answer
Okay, first let me keep competition out of the equation because it refers to the consumer and portfolio angle here. We are very clear that we will straddle the pyramid we are offering in all levels in the portfolio because India is a huge market on detergents and therefore it is crucial that we play all parts of the categories-we will have product offerings there. And we will operate in it as one portfolio. That is one. Second we are very clear there is long term bet in premiumisation. And while we will definitely play in all segments of the portfolio, we would want the premium segments to grow faster than the rest of the segments, and that is how our investment will be layered. Thirdly as far as profitability improvement agenda for that particular category is concerned, mix is definitely one of the levers but not the only lever because the respective portfolios needs to start improving the profitability at its own rate. That is how we see it playing out going forward. And then let the market dynamics take them over.

Abneesh Roy
Sir, my second question is on the overall herbal strategy. You have relaunched FAL Ayurvedic cream and Indulekha almost one and half months you have been running. So give us in terms of Indulekha distribution scale up- how much is the potential, because it's a fairly unknown brand name in many states. It was in a few states. So could you talk about that?

Answer
I think first of all it is too premature to talk about Indulekha. So all we can say is that we are delighted with what we have. Yes, we are pretty happy with the way the start has been. And we will ensure that we will do full justice to the brand. And the challenge that Sanjiv has given us is if we will be in a position to beat our internal business case for it. That's the brief the team is working towards.

Abneesh Roy
Just a follow up on this, Ayush-almost 8-9 months have gone by, which is I think a fair bit of time. So how do you rate the hair, skin and face management products which were launched. In 8-9 months you would have got some clarity what are the requirements of consumers, how is the growth etc?

Answer
I think we have first of all having put it in the market place and having a hard look at the kind of consumer conversations that have happened around Ayush, I think we are happy with the brand, we are happy with the way it

is currently positioned. Currently the work that is underway is actually bolstering the brand from all sides, which is what we are currently working on. I would only say we are seriously committed to it. We will be in a position to come back to you with more news in the coming months. Right now, Ayush has only been primarily in E commerce. Clearly it's a fantastic brand and it was dormant for many years. And we are absolutely delighted that we have brought it alive again.

Abneesh Roy
Sir one last follow up on the overall demand scenario, in the previous quarter you had said for the industry, FY17 is looking slightly better here in terms of demand, and then in this quarter you have said rural challenges are there. So are you still expecting full year demand to be better in terms of volume? Second is urban, modern trade and online, how are these sir? Because this has not been elaborated.

Answer
Abneesh, you know first is we don't give guidance. So clearly we don't want to indicate how the demand is going to be for the full year for the industry as well. But I think what you need to look at is from the quarter that has gone by, volume growth for the industry are half the rate at which they were in the same quarter previous year. And this is primarily coming out from we believe, the stress in rural. Rural clearly has exacerbated in recent quarters. That's the scenario on the demand today from the market perspective. As far as modern trade is concerned it's been a good run for us. We are growing far ahead of general trade. We are gaining shares. And similarly, ecommerce we are very pleased with the performance. Last two years we have invested significant amount in building capabilities. And we are winning. Be it in the market place, be it in grocery.com, I think we have had wonderful results.

Abneesh Roy
Okay sir that's all from my side, I will come back in the queue. Thank you.

Moderator
Thank you Sir. The next question comes from Mr. Arnab Mitra from Credit Suisse. Mr. Mitra you may please ask your question now.

Arnab Mitra
Yeah, my first question I just wanted to understand a little bit about this channel promotion realignment. So if you could just help us understand what have we actually done, which channels have got impacted and why is that PP is seeing a bigger impact of this. And secondly is the larger part of the UVG slowdown in PP than in S&D which could help explain if this is a big factor or not?

Answer
Okay Arnab, if you remember we did talk about this in length in the last quarter as well. And basic thing that is happening here is that a lot of channels are evolving, and there is clear reason or purpose of each of these channels from our perspective. Which channel do we go for depth, where do you go for width, where do you go for visibility, as various what I would call as strategic imperatives for that particular channel. What we have to do was to ensure that the spend into the channel, and the portfolio we run on the channel are aligned to the strategic intent we have against it. Which means we have to do a bit of course-correction in some of the spends that we do in specific channels, which is what we have undertaken. And you are right, this is proportionately higher in personal products channel which is where the maximum evolution of the channel is also happening in various levels. And hence we have taken the correction last quarter. But as I said in my earlier conversation as well, it is well behind us. We are now through with the correction that we have taken. Therefore going forward there will not be an impact because of this. It is needed early on in this game so that we ensure that all channels grow or have the ability to grow on their own.

Arnab Mitra
And does this not in any way impact your relative competitive position in those channels where your trend is going down?

Answer
No. that is the reason why it needed a bit of clever maneuvering. Talking about volume growth, PP has had a good volume growth. If you look at the full year basis, it has maintained 6% volume growth which is in line with the company. And if you look at for the quarter, it has delivered healthy volume growth which is again in line with company.

Arnab Mitra
Sure. And just one question on the same thing. So essentially would you say that the volume slowdown has been more PP led if this is a factor? Or has it been across S&D and PP, the slowdown from 6% to 4%?

Answer
Both S&D and PP. And that's the reason why we have called it out more as a market rather than a category issue.

Arnab Mitra
Sure understood. And just one last question on the shampoo price cut. It's been some time since the bottle price cuts happened. So how has the category evolved? Has the volume growth seen any uptake, any sachet to bottle movement? How have seen things move up since the bottle prices got cut?

Answer
As expected it has made an insignificant impact on the movement from sachet to bottles. Shampoo category on a year basis has seen decent growth. We have grown far ahead in the market in hair care.

Arnab Mitra
Okay thanks. That's it from my side.

Moderator
Thank you sir. The next question comes from Mr. Vivek Maheshwari from CLSA. Mr. Maheshwari, you may please ask your question now.

Vivek Maheshwari
Hi good evening everyone. My first question is- you mentioned input prices are moving up. Now fiscal 2016, despite moderate volume growth and almost no price hike, you still managed to grow double digit in your EBITDA primarily because of margin expansion. Now ideally if fiscal 2017 sees inflation, and there is demand buoyancy then it is obviously best of both worlds. So fiscal 2016- great growth, fiscal 2017 led by inflation. But I think your commentary is still quite cautious about rural and there are a few things which we obviously don't know particularly the monsoon front. How do you think fiscal 2017 will play out for industry, if there is not much confidence on demand? Does that mean that the overall bottom line can suffer because of this?

Answer
Vivek you are aware that we don't normally give guidance. So the only thing which we have given is an outlook in terms of market situation saying that the recovery for it to actually sustain will have to depend on rural. And therefore as we said in our press interview where Harish had mentioned saying that we continue to do our piece of the work that we need to do, be it market development, be it investments, ensuring that we drive execution of our strategy. That is going to happen independent of what happens to the market. Let us just say, you just have to wait and see.

Vivek Maheshwari
Okay. And I remember Balaji this was in the last few quarters, perhaps 4 quarters back you had highlighted to one of the questions that rural had bottomed out and you don't see further stress. As you look back do you think that comment was correct or you have seen deterioration in the last 4 quarters since the time you made that comment?

Answer
I think if you look at the current set of growth numbers coming in, rural seems to have gone under further stress from there onwards. So therefore this quarter has been pretty slow from a rural market growth perspective. You know, you should not connect dots in the future. You can always connect dots in the past. So from say four quarters back, what you must give us credit for that we picked up rural much before the rest of the industry did. And you are seeing most of the players talking about slow rural. And rural was the growth engine in many ways because for many years it was growing nearly at 1.5- 1.7x of urban growth. And that has now decelerated.

Vivek Maheshwari
Sure, sure. Second question and pardon me for asking this direct question, but I mean for the last 4-5 years that I have been covering HUL, quarter after quarter you talk about launch and relaunch in oral particularly Pepsodent, but it just doesn't seem to be working. How confident are you this time around?

Answer
You know one is I am glad that Close Up is working. But when you have a large portfolio of many brands, there will always be one or two brands which will give you more stress than the others. But yes Pepsodent, you're absolutely right, it hasn't fired the way we would like it to be. But I believe we have understood what the issue was and the new Pepsodent. We have seen the formulation and we believe that people who have tried it are liking the new flavor. So the challenge for us now is to make people try the new Pepsodent. That's where the challenge is. So we are doing extensive sampling this quarter to make people try the new Pepsodent and hopefully then get converted to the brand.

Vivek Maheshwari
Sure, sure. And last question Balaji, I think Manoj had asked you about receivables. If I look at your capital employed number overall, the capital employed number is highest in the last several, several quarters that I can see. At least in the last 28 quarters it is the highest number. Is it just because of the holidays that you alluded to?

Answer
No, no, no. The big one there is the creditors' number. If you noticed the creditors' number have come off and that is basically because we have unwound a lot of bill discounting creditors. Because it doesn't make an economic sense there which is the reason why your total capital employed is showing a correction. And the other one will be the traditional capex which is the normal one. But if I look at the changes that is there, the big one that would have moved is the creditors' number, and it is a conscious call to unwind creditors given the unviability of some of the numbers.

Vivek Maheshwari
Okay I will probably take this offline. Thank you so much and all the best.

Moderator
Thank you sir. The next question comes from Mr. Manoj Menon from Deutsche Bank. Mr. Menon, you may please ask your question now.

Manoj Menon
Sir just an observation. I was actually going through the presentation once again, so actually apologies if I am thinking about it too much. So basically I don't find Lux, Rin, FAL core, Clinic, Clinic All Clear, Sunsilk. I understand that there is a portfolio play out here. But you know the commonality what I find is that these are the core and there is a lot of discussion about the other brands. So is there anything to do with the performance of the core versus non-core? I mean I can't call them non-core but the old brands and the relatively new ones?

Answer
So I think nothing to read between the lines on this Manoj. We pick out the brands which we believe we want to call out in this particular quarter. Either they are news led or they are stand out performance led. That's how we pick out the brands that we want to call out. But if I look at the brands which you have taken now like Dove, or a Lifebuoy or

a Surf we are calling out the core brands. There is nothing like a core/non-core conversation here. We just pick out the ones that are stand out performance and do expect the brands will have base impact, what happened in the base. Take a brand like Wheel for instance. Wheel for example, the base number was humongous number on the back of the price cut that happened. You see turnover pickup right through. Hence you will find us nuancing that messaging. But nothing else on that piece there.

Manoj Menon
Fair enough. Now the reason I asked this is because some of these brand like a Lux or a FAL core are much, much bigger. So to that extent when we are talking about a trajectory change if at all, from a 6% to a 4%, even though it's for the quarter, it kind of becomes material. I mean that is only context in which I was asking this.

Answer
No, no I fully appreciate it. It is our job to highlight anything that is a concern there. You will find us doing that meticulously where there is some of the things call out. If there is no additional call out in a brand, we remove it. Given the number of brands, we don't want to draw your attention to the ones that are moving on both side. Ones that are on what is their normal performance we don't normally call out.

Manoj Menon
Okay fine. Thank you. All the best.

Moderator
Thank you sir. The next question comes from Mr. Harit Kapoor from IDFC Securities. Mr. Kapoor you may please ask your question now.

Harit Kapoor
Yeah good evening sir, just had a few questions. You know the first one was if you could just call out in the FY 16 S&D volume growth, what would be roughly the offer led growth in this volume growth if any? And would it be substantially different from FY 16? Just to get a sense of you know how the offers have actually moved.

Answer
I think what is more important is for you to look at what has been the price de-growth. That's important. So if your question is what was the underlying price growth, then as we spoke about for S&D it was about minus 4% price growth in the full year.

Harit Kapoor
Right. So this volume growth that you gave the UVG even for soaps it would include the volume and the mix right?

Answer
That's right.

Harit Kapoor
Second thing I wanted to check is you know can you give a sense of broadly on the larger categories, or soaps and detergents, personal products- what is the FY16 versus FY 15, how the market shares have moved- because it's been a highly competitive year with raw material prices coming off significantly. So anything that you would be happy or concerned about in terms of share gains or losses? I don't want actual numbers but if you can just give a flavor?

Answer
I think from an overall competitive growth perspective for the full corporate, I think given the market growth scenario I think we believe we have delivered competitive growth. Market share – we have gained corporate share as well. Specific categories like oral is a cause for concern which we are going ahead and fixing it.

Harit Kapoor
Okay on the upside anything that you would like to call out.

Answer
So upside which really stands out for me is detergents where we do see substantial premiumisation leading to share gains there.

Harit Kapoor
And one specific question was on tax rate. From 30.5% in FY 16, can you call out what the number could look like in FY 17?

Answer
We expect broadly similar kind of tax rates, give us 20-30 bps because of mixed related ones. But nothing structural or fundamental is coming through as far as tax rates are concerned.

Harit Kapoor
Okay that’s it from me, thanks.

Moderator
Thank you sir. At this moment there are no further questions from participants on the audio line. I would now hand over the call proceedings to Mr. Dinesh Thapar for the web questions.

Dinesh Thapar
Thanks Nidhi for seeing us through. We’ve got a couple of questions on the web option. I am not going to repeat those that we have already taken.

A question from Prashant Kutty from Emkay Global, what would be the drivers of price led growth in FY 17? Have we reached a stage where all the gains of input cost has completely receded? And what would be the gross margin levers if we look at improving operating margins?

Answer
Drivers for price led growth- I think clearly commodity cost is one input to it. But as I explained earlier as well, we do look at all lines of the P&L before we come to price. And here we will again think through what is the right way to price, depending on what kind of elasticity we see in the product category. So that is how we will operate that. As far as commodity gain input is concerned, I think inflation and the ability to actually manage inflation and manage the margin delivery on that is something that we believe we have a good track record of. And on a full yearly cycle basis, we could definitely be comfortable handling the inflation that we are seeing there. But we will see all aspects of the levers of gross margins, be it operating margin, be it A&P effectiveness, be it pricing, be it savings deliveries that we continue to push very, very hard on, and also operating leverage. We can’t forget that when we are able to take turnover growth you start getting operating leverages as well. So those will be the levers that we will be looking at. But next will of course be a crucial lever as it does operating leverage.

Dinesh Thapar
So the second question from Prashant is saying given the strong traction of Ayurvedic and natural brands in oral care, how do we foresee the performance on Pepsodent, and wouldn’t we focus on naturals or freshness given that’s a better leverage in the category?

Answer
You know first is I am an optimist person. We would not have launched Pepsodent if we did not think it will succeed. So we are very hopeful that indeed Pepsodent will succeed and it’s a great mix. And I am confident that it will pick up traction. As far as naturals is concerned, there is nothing like one natural here. If you look at naturals we have been doing a lot of work to understand natural. Natural means different to different people. If you look at

Pepsodent we have a variant called 'Clove and Salt' which is again within the ambit of what you are talking about that is natural. And the other important bit you have to understand, the whole country is not speaking about natural. Natural is one trend and a very important trend which has been picking up, and we are seeing how we will strengthen our position in different categories wherever relevant in the natural arena. But that does not clearly mean that the other brands do not have a role to play. You also have to understand that a brand can't be everything to everyone. So we are very clear there is a very distinct positioning of Pepsodent and the core of the brand, we have strengthened it, we have relaunched it. So we are optimistic that it will get back.

Dinesh Thapar
Okay the question from Kunal Bhatia in Dalal and Broacha is about the realignment of channel spends, I think we have taken that. There is a question from Kaushik from Sharekhan which is though raw material prices are moving, we might be having inventory of low cost raw materials which will provide benefits for another quarter or two?

Answer
I think different raw materials have different kinds of stock covers in that and we do look at replacement pricing. But that apart wouldn't want to comment on what kind of inventories we hold on various raw materials for obvious reasons.

Dinesh Thapar
Okay. Abneesh we've taken a few of the questions on the voice over. So I will limit to those we haven't. There is a question from Abneesh, Edelweiss- We have seen a lot of companies are saying that general trade in urban has slowed down. Is it true for you? And is it because of the competition from herbal players?

Answer
See urban general trade, a discernible trend is not yet coming out. So we are not yet in a position to say that a trend has been established.

Dinesh Thapar
Okay. We will come to a question from Arnav Mitra from Credit Suisse, a follow up question that he has. We have answered the one on tax rate. Will other financial incomes see any impact with IND AS, as you will accrue gains on long term investments like in 3 years FMPs?

Answer
Absolutely. I think that is something which moves in the world of IND AS. Growth funds- we will be able to accrue income. So you will see the impact of that when we talk about the next quarter and analyze the results.

Dinesh Thapar
Manish Poddar from Religare Capital Markets has a question, he wants to know what is the split between advertising and promotional spends during FY 16 and in the current quarter and what is the outlook for FY 17?

Answer
We don't normally split this, but having said that the increase in advertising and promotion has been broadly similar to both levels. Keep in mind the promotions that we are referring to here a lot of it also has got to do with the aggressive sampling and experiential models that we are currently driving.

Dinesh Thapar
Alright. I think that's all that we have on the web queue. With that, we have now come to the end of the Q&A session. Before we end let me again remind you that the replay of the event and 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 presentation I am guessing if not with you, is already on the website and you can go back and refer to that as well. With that we would like to draw this call to a close. So thank you everyone for your participation and have a great evening. Thank you.