June Quarter 2019 Earnings Call of

Hindustan Unilever Limited

23rd July 2019

Speakers:

Mr. Sanjiv Mehta, Chairman and Managing Director

Mr. Srinivas Phatak, CFO and Executive Director, Finance and IT

Ms. Suman Hegde, Group Finance Controller and Head of Investor Relations

Operator

Good day, ladies and gentlemen, and a very warm welcome to the Hindustan Unilever Limited June Quarter 2019 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now hand the conference over to Ms. Suman Hegde, Group Controller and Head Investor Relations at Hindustan Unilever Limited.
Thank you and over to you, ma'am.

Suman Hegde

Thanks, Ali.
Good evening, and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening the results for the quarter ended 30th June 2019. On the call from HUL, we have Sanjiv Mehta, Chairman and Managing Director; and Srinivas Phatak, CFO, HUL. We will start the presentation with Sanjiv sharing aspects of our performance for the quarter, and then hand over to Srinivas, who will take you through some of the details of the quarter 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. With that, I hand over to you, Sanjiv.

Sanjiv Mehta

Thank you, Suman.
Good evening, everyone, and thanks again for joining us. It's always a pleasure to have you guys on the call.
We are talking about a clear and compelling strategy. At HUL, we are committed to build a purpose-led future-fit organization, deliver growth, which is consistent, competitive, profitable and responsible. In line with our vision of reimagining HUL, we are choreographing changes across the value chain using data analytics and digital. Our focus is also to ensure speed and responsiveness in the organization, and this positions us well in the current scenario of moderation in the market growth.

Now talking about the market context, let's take a look at how the markets have performed. Year 2019 so far has witnessed softening of growth rates from the highs of 2018. Rural growth rates are now nearly at par with urban growth rates. Crude and currency continue to be volatile. With Union Budget 2019-20 emphasizing on "Gaon, Garib aur Kisan", we do expect a positive impact on the lives of our rural brethren, which will spur the overall rural consumption. The subsidy to marginal farmers, water-to-all, electricity to every willing household, upgrade of 125,000 kilometres of rural road and millions of houses to be constructed should give a boost to rural income. We also agree with government's focus on MSMEs, be it loans interest subvention and corporate tax reduction. In addition, the focus on investments and infrastructure capital infusion, bank's reduction in rates by 75 bps over the last six months by the monetary policy committee and the movement of the stance from neutral to accommodative should provide an impetus to the overall economy and pick-up of demand. The important thing now is the start of the virtuous cycle in terms of pick-up in investments, savings, exports, creation of more employment opportunities and finally, more income in the hands of consumers. We also do hope that the country receives adequate rains and the gods are kind to us. The right policy measures and its execution should also result in sentiments improving and consumer confidence going up. We believe that improvement in demand is more likely to happen in the second half of this fiscal.

Now looking at the quarter's performance, we have delivered resilient domestic consumer growth of 7% on the back of 5% underlying volume growth and a strong EBITDA margin expansion of 150 bps on comparable basis. It continues to demonstrate our strength and agility in the given market context. In this quarter, we held a Tribunal Convened Meeting of Equity Shareholders and Unsecured Creditors on 29th of June for seeking approval of the scheme of amalgamation between HUL and GSK Consumer Health in India. I'm very pleased to say that the equity shareholders and unsecured creditors have approved the scheme of amalgamation with the` requisite majority. We have now filed the requisite company scheme petition seeking sanction of NCLT and remain on track for necessary statutory approval for the GSK CH merger. I'm also very happy to share that we are on track with our plastic commitments and we have made good progress in this quarter. Across the value chain, we are working with several organizations and NGOs, including UNDP for waste collection and disposal. We are working with global and regional players in the area of making our materials recyclable as well as in increasing the use of post-consumer recycled resins. All our sourced cartons are now 100% plastic-free. Our blister packaging for Lakmé Eyeconic, Lip Love and Vaseline Lip Care now uses 80% recycled content. We have launched TRESemmé shampoo black bottle variant this quarter in markets with 25% recycled content. We've also developed a curriculum on waste segregation and benefits of plastic recycling to drive behaviour change in schools and collaboration with our partners. Additionally, we continue to focus on water as part of our sustainability agenda, especially because most of the categories that we operate in consume water. Delighted to tell you that over the last eight years, we have created water potential of over 700 billion litres, working in over 4,000 villages. We continue this work through HUF, which is Hindustan Unilever Foundation, as enthusiastically as ever, because it's even more important in the current scenario where water shortage is emerging as a key concern across several parts of the country. We remain committed to reducing our environmental footprint and at the same time, creating a positive social impact through our brands.

The resilient delivery is a testament to our relentless focus on four key strategic drivers. Strengthening our core portfolio by constantly innovating and renovating, putting purpose at the heart of our brands, deepening our reach and acting on local trends. Second is building a portfolio that straddles the pyramid, driving market development and premiumization by increasing consumer connects, launching access packs, expanding brands across subcategories and offering higher order benefits. Our continued focus on innovation and experimentation to lead new business models and channels of future. And last but not least, remaining sharply focused on flawless execution and fuelling the virtuous cycle of growth by capturing savings opportunities across all P&L lines and investing behind our brands.

Looking ahead, we remain optimistic about the medium to long-term prospects. Despite being one of the fastest growing markets globally for FMCG products, the per capita consumption in India is still amongst the lowest in the world, giving us a huge runway for growth. At HUL, we are reimagining ourselves from the lens of portfolio, organization capabilities and culture. We have an end-to-end digital transformation program that will redefine the way we work in the future. And we believe we are well placed to capitalize the India FMCG growth opportunity, and I remain optimistic about what the future holds for our country and for Hindustan Unilever.

Srinivas Phatak

Thanks, Sanjiv.
Sanjiv has given a detailed picture of the macroeconomic environment and our strategy. And therefore, let me now go straight into the numbers.

Our quarter performance has really been resilient and profitable, and that's the key message that we want to land with all of you. Our domestic consumer business grew at 7%, with underlying volumes of 5%. Our EBITDA at INR 2,647 crores was up 13%. On a reported basis, our EBITDA margins were up 250 basis points. After the adjustment for the accounting impact of Ind AS 116, our comparable margin or like-for-like EBITDA margin was up 150 basis points. Our profit after tax before exceptional items grew by 12%, and our net profit at INR1,755 crores was up 15%. Our margin expansion was driven by mix improvement, leverage in advertising and other expenses, and we will give you a better flavour of that in the coming charts.

If I were to talk from a lens of our divisional performance, at the headline level, Home Care and Foods & Refreshment have delivered good growth in the quarter. Home Care grew at 10%, led by robust volume growth. Foods & Refreshment grew at 8%, with secular delivery across the portfolio. BPC grew at 4%, but again, this has been a story of two halves. Within BPC, personal products performed well, while Personal Wash was soft.

Activations and innovations continue to be key to the way we deliver on our FMCG business and the quarter saw a slew of launches and relaunches and engaging activations across the portfolio. In Home Care, we launched Sunlight liquid in West Bengal and Kerala and relaunched the brand Rin nationally. This was also a particularly innovation-heavy quarter for Beauty & Personal Care. We launched natural variants in Sunsilk, Lux Botanicals, Pears, and we also launched Fair & Lovely soap. Lever Ayush Bhringraj hair oil and a number of shades across

Lakmé eye and lip portfolio were also launched during the quarter. In Foods & Refreshment, Lipton Matcha Green Tea was launched on the e-commerce channel. In summary, our focus on building a strong innovation funnel remains unhinged, despite market conditions.

Now let me talk to you for a little bit in terms of detail in the divisional performance. The Home Care business continues to deliver robust volume-led growth, both in Fabric Wash and in Household Care. In Fabric Wash, we continue to benefit from a large portfolio that straddles the economic pyramid with strong presence of brands across popular and premium. In this quarter, as I talked about, we launched Sunlight liquid detergent in select geographies, in line with our strategy of building the portfolio of liquid detergents that straddle the pyramid. Household Care delivered another quarter of strong performance led by central and southern markets. We will continue to focus on innovation and renovation to build momentum in this category. In purifiers, we remain focused on the premium portfolio as per the strategic agenda that we had called out. We had undertaken a complete redesign of our go-to-market model, and now that's been broadly completed.

For Beauty & Personal Care, I already gave you the headlines, and I think it’s good to talk a little bit about Personal Wash. As I said, Personal Wash had an overall subdued quarter, while the premium continues to be stable. Commodity costs have been benign in this category for some period. And therefore, we, as well as the industry, has been progressively passing some of these benefits to the consumers, but we have not seen a meaningful uptick in the volume for those activities. We have been working on various aspects, the whole six P’s, including product, price, promotion over the last few quarters. Considering the benign commodity scenario, the recent changes to the budget, we have now started to take certain decisive actions. In the quarter, we have launched Lux Botanicals and Pears Naturale range to help us drive the naturals momentum. Another highlight in the quarter was Fair & Lovely soap launch in a few geographies. Lifebuoy has also been partnering with Swiggy in two cities to communicate with customers at the Moment of Truth to remind them to clean their hands before eating a meal.

Post the quarter, I think you will also pick up some of this in the marketplace, we have taken some clear actions. I talked about looking at the future outlook of commodities and given the budget changes, we have taken certain decisive actions from a pricing point of view. You will see that in July, both in Lux and Lifebuoy. We have taken price reductions across-the-board in the range of about 4% to 6%, whereas in case of certain packs, you will also see a steep reduction in price. That's passing on the right value equation given that the commodity is expected to remain benign for a certain period of time. And it's only rightful to pass on some of these benefits to the consumers to spur growth. From a product point of view, Lifebuoy was relaunched earlier in the year with an enhanced product, and you'll also, in the next few weeks, start to see some actions addressing the proposition. Similarly, in Lux, there will be actions coming through over the next few weeks, addressing both the product and the proposition. With a combination of these activities, we should be well set up to drive growth back in this category for the future.

In Skin Care, delivery was broad-based across both brands and segments. I talked about Fair & Lovely soap. During the quarter, we introduced Fair & Lovely Ayurvedic face wash and also entered into facial kits segment with Fair & Lovely. We also relaunched the Pond's men's range, and there are a whole host of innovations which are helping us to drive growth in Skin Care. Hair had good growth across the portfolio. We've launched some variants in Sunsilk shampoo, which are paraben-free and contains natural ingredients like coconut oil, aloe vera, etc. This will help us build momentum on the naturals wave in Hair Care. Lever Ayush Bhringaraj hair oil was launched with a clinical claim to thicken the hair in just four weeks. If I move on to Colour Cosmetics, this category has sustained its double-digit growth trajectory. Lakmé got to market new shades in lipsticks and eyeliners, while Elle 18 Lasting Glow compact was launched nationally. The slew of shade expansions in line with emerging trends has helped Lakmé gain increased online and offline traffic. Oral care delivered a good quarter, with momentum further strengthening in Close Up and Lever Ayush. In Deodorants, we continue to focus on market development, both from an antiperspirant point of view as well as from perfumes through Axe.

If I look at Foods & Refreshment, beverages have delivered a reasonable quarter driven by a consistent strategy across brands and markets. I already talked about the launch of Lipton Matcha Green Tea – this was done in the e-commerce channel to capture the growing benefits of health and wellness. June quarter, being summer, is an important quarter for us from an ice cream category point of view, and we are delighted to share with you that the category has delivered very good growth in the quarter, driven by consumer-focused innovations such as Kulfi, Oreo tubs and Aamras. We continue to leverage the capabilities of the innovations and the products R&D that we have gained from Aditya Milk's integration, and that's helping us rollout new products to meet consumer requirements. In Foods, the core segments have performed well. Market development continues to be key for this category.

Now, if I look at some of the segmental performance. There's been a good step up in profitability across our three divisions. And if I were to give you a flavour from our Home Care category point of view, we have not seen a significant or a sizable increase in its gross margins. You will appreciate that a lot of the commodity cost increase in the crude-led inflation was faced by Home Care. So, our gross margin expansion in this category has been muted. Having said that there was a step down or a bit of a lower spend in our BMI, primarily arising from two events – one is the overall competitive intensity in the sector, given the macroeconomic conditions, has been lower. We continue to get more bang for our buck and continue to maintain our reach and frequency. The other factor also has been that, given our innovation intensity, which is lower in the quarter in Home Care, some of the spends in BMI has also been lower. When I look at Beauty & Personal Care, this is a story of us getting a lot of benefits in gross margins, strong mix, strong savings, strong premiumization. And here, we have continued to invest behind our overall innovations. I think our primary gross margin expansion has enabled us to significantly step up our profitability in Beauty & Personal Care.

This is a summary of the results, which we have already seen. The domestic consumer growth grew at 7% and our comparable EBITDA margin grew at 13% and EBITDA margins was up by 150 basis points.

Looking ahead, we expect near-term demand to remain subdued given macroeconomic conditions. Commodities and currency will continue to be volatile, but I think that has been the case for the past few quarters, and we don't expect that to change in the near-term. Our strategy is consistent. I think we are very well-positioned. Our strategy remains unchanged, and we continue to believe that given all the investments that we have done in our capabilities, we are well-positioned to deliver on our growth model, which is all about consistent, competitive, profitable and responsible growth.

That concludes the summary in terms of numbers. Now I hand it over to Suman for us to take on Q&A.

Suman Hegde

Thanks, Sanjiv. Thanks, Srinivas. With this, we now move on to Q&A. In addition to the audio, as you all well know, you also have an option to post the question through the web option on your screen. Before we get started with the session, I would like to remind you that the call and the Q&A session are only for institutional investors and analysts. And therefore, if there's anyone else on the call who's not an investor or analyst but would still like to ask a question or engage with us, please feel free to reach out to the Investor Relations team out here.

Ali, with that, can you open the line for questions, please.

Operator

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question, participants may press * and 1 on your phone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking your questions. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead

<Q – Abneesh Roy>
Congrats on a decent set of growth numbers. So, my first question is in Oral Care, if you could elaborate more. Now this is one more quarter wherein you're elaborating and pointing out towards a good momentum on Close Up and Lever Ayush. So, if you could give more granular data? Still, Lever Ayush, is it only South India where you're seeing a good performance? If plans are there for rest of India, if you could share that? And on Pepsodent, what is required? If you can make two brands work in Oral Care, why not in Pepsodent?

<A – Sanjiv Mehta>

Hi Abneesh. Good that you remain an opening batsman. You're talking about Oral Care, what we said last quarter has sustained. Close Up and Lever Ayush continues to do well. And of course, at an appropriate time, we would look at how do we expand Lever Ayush, not just Oral Care but the entire portfolio beyond South India. We are very happy with the way that Close Up has recovered as well as the way Lever Ayush has been performing. On Pepsodent, it's work in progress. We are on the drawing board. We are looking at several options. Some are underway, some more have to be done, but it is still to reach a stage where we can say with clarity that Pepsodent also is on the same path as Close Up is today.

<Q – Abneesh Roy>
That was helpful. My second question is now this new brand in detergent, essentially the Love Home and Planet. So, what's the thought process here? You're launching this very quickly to some of your big global markets, so that again shows the importance of India, but my question is this is quite premium pricing, and do you really need one more brand or you see this as a very long-term strategy? This is not going to be much in the medium-term.

<A – Sanjiv Mehta>
First, Abneesh, we are not launching Love Home and Planet. There's another brand which is coming in and watch the space. It would be a bit premature for me to talk about it till you have seen the mix. And once you have seen the mix, then we would be very happy to engage with you.

<Q – Abneesh Roy>
Okay, sir. That's all from my side. Thank you.

<A – Sanjiv Mehta>
Thank you, Abneesh.

Operator
Thank you. The next question is from the line of Vishal Gutka from Phillip Capital. Please go ahead.

<Q – Vishal Gutka>
Hi, sir. Congrats on a good set of numbers. Sir, I have a question on the detergent segment. Recently, we have seen a good amount of competitive intensity coming in from a lot of private labels that have entered in. And your competitors are launching new products. My second question is related to the liquid portfolio. Recently, we have seen a lot of launches happening on the liquid side. What are you trying to do to drive the liquid portfolio per se, and what are the challenges in driving the adoption of liquid?

<A – Srinivas Phatak>
So, look, the category continues to be attractive. And it's only natural that it will attract a lot of others coming in. But if you look at it from our point of view, whether it's from brands or from price and benefits segments, I think we are very well established in detergents. And therefore, we're fairly confident in terms of our ability to continue to drive this business in a holistic manner, top line and bottom line. So, to that extent, while there are many other competitors who keep coming into it, we're confident in terms of our own product portfolio. As you said, Liquids is a key market development opportunity. Today, it's a very small segment, but if you look at any advanced markets, any developed markets, if you look at, let's say, the urbanization and premiumization and if you even look at some of the washing habits, liquids continue to be important, whether it is a hand-wash liquid or a machine-wash liquid. And therefore, as a market leader, it's imperative that we continue to build that segment and we are doing so. The good part is, it is a great consumer experience. It has a better mix and accretive to us from a margin point of view and as we continue to build this segment, it is also going to be growth accretive. The challenges are very similar to challenges of a new market development activity where you need to give the consumer the right proposition, the right reason to buy, and I think that is the journey that we are all on. Once I think consumers get it and typically as it happens, they will first try, then they will adopt. Then you'll get consumption and you get upgrading. But this is a cycle of market development, and that's where we are currently engaged on.

<Q – Vishal Gutka>
Okay. Sir my second question is on tea. How do you assess the opportunity out over there? Because on the competitors, the financial position has significantly weakened for them although, they are more of a plantation kind of player, but how do you see the opportunity in the tea side?

<A – Srinivas Phatak>
Look, tea as a business for us has been performing well for us from a considerable period of time, and I think Sanjiv has spoken in the past that we continue to be market leaders. Again, we've got a strong portfolio of brands across the full price pyramid. We have picked up some news in terms of some stress from a financial position of some plantations, that's true. There is also some news about potentially how the crops will come through. Now these are the vagaries, or these are the nuances of what happens to any agri-based commodity business. I think we just need to see the impact that it will have in terms of price and availability and quality, and we will deal with that, but if we step back and see, from an opportunity point of view, while there is a premiumization opportunity with tea bags and higher benefits through natural care, there is also a sizable opportunity of converting people from loose to packaged tea and that is where I think brands such as Taaza are doing a fabulous job for us. Overall, we continue to believe it is a very attractive market with a lot of potential for growth. And I think we have got enough in our market development activities and focus on core to drive that.

<Q – Vishal Gutka>
Okay, thank you so much, sir.

<A – Srinivas Phatak>
Thank you, Vishal.

Operator
Thank you. The next question is from the line of Amit Sinha from Macquarie. Please go ahead.

<Q – Amit Sinha>
Yeah, hi. Thanks. My first question is on HUL's growth compared to the overall market's growth and the majority part of the last two years; you had outperformed the market. Now just wanted to understand how the trend has been in the last two quarters.

<A – Srinivas Phatak>
At an aggregate, our growth continues to be competitive, Amit. So, whether it was the prior quarter or now, at an aggregate, we continue to be competitive. Meaning, ahead of the market.

<Q – Amit Sinha>
Okay. Okay. And secondly, you indicated for recovery in 2H. Now basically, I wanted to understand what gives you confidence on the timeline of recovery?

<A – Srinivas Phatak>
So that's a good question. Can we all say it with confidence? Of course not, but step back and see all the interventions which have been made. I think Sanjiv spoke elaborately about what has come through from our budget. Some of the structural interventions, which are going into the rural in terms of infrastructure, health, insurance, direct benefit transfer. There is a whole host of activities which have been undertaken by the government. Similarly, if you were to see, even from a liquidity and a monetary easing point of view, we have seen some actions, and it's only reasonable to expect that the Government will do more because the issues are well known and well understood across. Monsoon is another thing, as things stand today, we are, I think behind some 15% to 20%, but if you were to look at where we stand today versus end of June, there has been a significant step up in the monsoon spread. So, all these elements will start to have a bit of a pass-through into the market. So that's clear. The quantum and how much of that will come through is something which we all need to wait and watch. Therefore, I think we can say with reasonable confidence that some of these interventions will start to have an impact. Quantum, we need to see, and that's the reason if you've seen we have called certain parts of the market in the near-term demand is expected to be subdued, and it's only fair to expect that we'll start to see some bit of a pickup in the second half.

<Q – Amit Sinha>
Sure, sure. And just very quickly on this A&P spend, and when you say there is a leverage in the advertisement spend, did you mean basically the lower spending in the Home Care business? Or was there any other kind of explanation to this?

<A – Srinivas Phatak>
Well, there are about two or three things. There is always a piece about how are we getting value from our buying initiatives, how are we getting value from our digital initiatives and we continue to unlock a lot of savings there, whether it's channel mix, digital versus traditional views and the various other outdoor modes. So, there is that set of value accretion which we continue to drive and that again has continued a strong delivery into the quarter. Second piece, which I also called out, is that the overall competitive intensity has started to come down. We started seeing a little bit of that in March quarter, but clearly from a June quarter point of view, the intensity has come down, which means that you can still meet your reach and you can meet your reach objectives by spending less. The third element is from a Home Care point of view. Given the phasing of our activities and innovations, we didn't have to spend the amounts that we have done earlier. A combination of the three explains the advertising spends. We simplified it by summarizing it – we got leverage across A&P and other expenses.

<Q – Amit Sinha>
Sorry, but just to follow up. This competitive intensity you meant is less only in Home Care or across the space?

<A – Srinivas Phatak>
Across. Let me give you a picture. And good to clarify. From an A&P standpoint, when you see overall the intensity or the pressure which was there in the market has come down. And so, that's what we see from an A&P at a totality of the market. Having said that, competitive intensity has been slightly different in one channel for us, which is modern trade, that's got nothing to do with advertising. A lot of that goes into the trade expense. We have seen that there has been a little bit of a step up in some categories. I think given the nature of what is happening to the market with some moderation, people have started to step up a little bit of an expenditure there. So, it's a different ball game that's being played out. Overall, A&P, competitive intensity has come down. Pockets of modern trade and certain competition in modern trade have taken up spends in modern trade.

<Q – Amit Sinha>
Sure. And just -- actually, sorry to harp again on this because I believe this is very important, but the competitive intensity coming down, is it a function of a slowdown in the market or some of the peers facing financial distress?

<A – Srinivas Phatak>
Amit, as much as I would like to give you that answer, I really don't know. All that I see is that, look, the competitive intensity has come down. I would like to believe that it's a bit of what is happening to the market, overall economic environment and demand. To say that liquidity has started to impact some of the organized players, I don't believe so. Is it possible that some of the unorganized are feeling a little bit of pinch? Possible. But they're not necessarily, the big media spenders. That's an intensity, you will see more in terms of lower pricing promotions in markets. That's not so much of a media phenomenon.

<Q – Amit Sinha>
Thanks a lot, Srini, thanks a lot for the detailed answer. Thank you.

Operator
Thank you. The next question is from the line of Sameer Gupta from IIFL. Please go ahead.

<Q – Percy Panthaki>
This is Percy here. Sir, my first question is just to gauge a little bit more on the demand trends. So recently, Nielsen has called out that the June quarter has been slower than March. And even within the June quarter, as the months progressed, the slowdown has sort of intensified. So, do you see, within June quarter, the same kind of trend in your sales as well?

<A – Srinivas Phatak>
So, Percy, overall for us, we haven't seen any kind of a sharper deceleration in June month, if that's your question. It has been an overall moderation versus prior quarters. We have not seen anything specific only for June month.

<Q – Percy Panthaki>
Okay. So -- I mean in your best estimate, do you think that the underlying demand, as you have seen in the June quarter, is what it stabilizes at or do you think there could be a further slowdown going ahead?

<A – Srinivas Phatak>
Smart one, Percy, because there has been a moderation in June quarter versus March. We have not seen any trend emerging to say, June month is sharper and lower, but that's something we'll have to wait and watch. At this stage, I don't see any reason to get too worried about where the market is headed, but equally, we have to wait and watch because there are no near-term triggers for an immediate turnaround.

<Q – Percy Panthaki>
Okay. Secondly, on pricing. This quarter, this difference between your volume and price was about 2%, and you mentioned that after that, there has been some price cuts in soaps. So, at a portfolio level, is there something that will offset this price cut in soaps? Or do we see the aggregate company level pricing further sort of come down versus what we have seen this quarter?

<A – Srinivas Phatak>
So, look, part of the price is also linked to commodity outlook. To that extent, it's only right and the best way to be competitive and pass it on to the consumers. The way to look at it is to ask that by doing this are we creating the right value for consumers and therefore, is it going to start giving you volumes, because after a point in time, there's no point really chasing just the price – you need to chase the aggregate turnover. Having said that, in categories such as Home Care and in some of our other segments of BPC, there are pricing opportunities, and there is a need. We are looking at all those levers. You know that very well, we don't give any guidance to it. But I think we have given a very nice descriptor of how we are looking at managing the business.

<Q – Percy Panthaki>
Sure. Understood. And in soaps, I was just a little confused as to the reason for the price cut because you also mentioned that in conjunction with the budget, and I recall in budget, the customs duty on palm oil went up. So, a little bit confused on that point.

<A – Srinivas Phatak>
So good catch, Percy. I think that's a valid point. When you look at overall commodity, let's say if you compare palm about half a year ago or a year ago to where it is now, we have seen palm almost come off about 15% to 20% depending on where the starting point of comparable is. There are multiple ways to deploy what has happened. Some of the money went into pricing. Some of the money went into step up in terms of your advertising expenses. There was a certain way we deployed that. There's a certain way in which the rest of the markets or the competition has deployed that. We are making certain decisive interventions, whether it is on products, whether it's on proposition or on price. So, when we have looked at all these levers, we have taken a view of what is the outlook for the commodity. We have taken the potential on-cost, which is coming from what has happened in the budget. Factoring all of those into account, we are still in a position to actually take down the pricing, give the right value equation to the consumer and drive growth. That's exactly what we are doing from July. You have seen, just to amplify, we have made some product interventions on Lifebuoy at the beginning of the year. There will be some more changes that you will see from Lux and Lifebuoy in the next few weeks and months, and we will be in a position to talk about it once they come into the market.

<Q – Percy Panthaki>
Understood. And in the popular soaps where basically you are saying that you have not performed well. I just wanted to understand is it that the overall popular soap segment has been slow? Or is it that within that popular soap segments, you have lost market share?

<A – Srinivas Phatak>
So overall popular segment has been slow. You would have seen that in other industry players who published results even in the previous quarter and you also heard us talk about it, so definitely from a segment point of view, there is a slowdown. But having said that, we have also talked for a couple of quarters in terms of making some structural changes and taking decisive actions on our part of the portfolio, which is what we have talked about. So, it's a combination of both. There's an overall demand moderation/slowdown and there are certain things that we had to address, which we are addressing.

<Q – Percy Panthaki>

All right. So, my last question is on the margins this quarter. We have seen a very handsome 150 bps kind of EBITDA margin expansion, which is higher than what we have seen in the last couple of quarters. So, I just want to understand how you look at it. Is the margin expansion higher this quarter because that was necessary to deliver a certain level of profit growth that you thought was decent? And in the absence of sales growth, that kind of margin expansion was necessary. I mean, how do I look at the margin expansion? Do you target an absolute profit growth, or do you target a margin expansion in your plans?

<A – Srinivas Phatak>
First, Percy, you'll have to see that it is a 7% top line growth with a 5% UVG. I would only describe this as a healthy top line growth and not absence of growth. So that's point number one. Point number two is, when I was talking about the margin drivers from a Home Care point of view and for Beauty & Personal Care, I gave you an explanation in terms of how those margins have come through. We have also talked to you a lot about how we look at the savings plan. We have also explained many a time that, look, we continue to run the business for a medium-term, which means that we do not manage it for a quarter. Look, for example, I've told you in Home Care, because of my phasing of activities, apart from everything else, I didn't have to spend BMIs, but in September quarter, if required, we will increase it, we will double it, and we will do the right things for the business. I think now we have all known each other for a fairly long period of time to know that we don't operate with certain numbers to deliver those numbers. We do what is fundamentally right for our business.

<Q – Percy Panthaki>
Great, sir. That's explains it. Thanks, and all the best.

Operator
Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

<Q – Vivek Maheshwari>
Hi good evening. My first question is -- you have given Ind AS 116 at an overall P&L level, but is it possible to get either like-for-like margins for like-for-like EBIT growth for the top three segments?

<A – Srinivas Phatak>
So Vivek, we have not split that up. And to be honest, it's not going to be materially different between Home Care and BPC. It will be similar, that would be a good summary.

<A – Suman Hegde>
So Vivek, I think at an EBIT level, as we explained, the major movement has happened in the depreciation lines of the EBITDA, but at EBIT level, it's very marginal. If you recall the numbers that we have shown at that time also was from 10 bps to 15 bps movement at an EBIT level. So, really not material from a category, segment-wise, breakup.

<A – Srinivas Phatak>
If you want to call it out, you will see a bit of a bigger impact in BPC and Home Care and very less in Food & Refreshments.

<Q – Vivek Maheshwari>
Okay. Got it. And the second thing is, again, this question has been asked on the demand bit, but my specific question is about the liquidity issues. So, let's say that for you, are you seeing, your wholesale – I mean, the wholesalers who buy from your distributors, are you seeing them under stress? Because this liquidity issue is something we are hearing recently, so what has triggered this? Is it the NBFC crisis? Or is that -- is it something more -- something which can, let's say, continue for a slightly longer period?

<A – Srinivas Phatak>
So Vivek, to answer your first question, we have some of the distributors seeing liquidity issues. And we also started to see some of the unorganized players struggle because of similar issues. It's a combination, and it's not something which has happened overnight. If you see progressively what has happened to the whole monetary system and the NBFC crisis. Overall liquidity has been impacted. At one point in time, NBFCs were compensating. Then we have had series of events, which also meant that the quantum of liquidity available has started to dry up and everybody is a bit wary about credit risk today and recovery of their money rather than the

interest on their earnings. Obviously, some of the measures which the government has taken -- should start to land, but we will have to see how fast and how quickly will the transmission come through. But at an aggregate, is there pressure in the distribution chain from liquidity? I think the answer would be yes.

<Q – Vivek Maheshwari>
Okay, thank you. And one last bit on the margin expansion. At the time of analyst meet, you had specifically mentioned that the margin expansion probably will be more moderate from here. And I know this question was just asked, but 150 basis points this quarter – that's definitely not moderate. So, FY '20, when we look at -- what is moderate as per you? And what will be the definition of moderate for you?

<A – Srinivas Phatak>
So yeah. 150bps definitely is not moderate. That I can say. Now we haven't really started to define what is moderate, but 150 definitely is not moderate. So, to be fair, the focus has always been on how you continue to drive competitive growth. But having said that, you're also not going to start wasting money in this market trying to pursue growth. And that, I think, one should never do. For example, we have seen that some people have stepped up competitive intensity through promotions route. To us, fundamentally that is not a value-enhancing proposition because all that it does is that it varies your demand pattern, but it doesn't do much to your consumer off-take. So, in some of these, we will continue to invest. For example, Sanjiv has said watch for some action, which is going to come into the future, not getting into what that action is because Sanjiv hasn't shared and neither will I. When we do something like that, we will continue to invest behind these brands. If we have opportunities, we will not shy away from investing in them. If it's market development, we will continue to do. So, we will have to take it as it comes along, but definitely, to be very clear, 150 is not a modest expansion.

<Q – Vivek Maheshwari>
All right. And last question if I may, which is on the popular Personal Wash, which you have elaborated already, but that opening comment Srini that you have made, that gives some bit of a sense that perhaps there was a miss on your part in this category. Although you have said again the market shares have not moved, its more that the category itself has slowed down, but when you say product intervention or what you have already done in Lifebuoy, or it's just about to hit the market, Lux, we will see. The impression is that something perhaps was a miss on your part. Is my reading correct or there is something more to it?

<A – Srinivas Phatak>
Vivek, there is nothing new that we have been talking about. If you go back to our previous quarter or to a quarter earlier to that, we have been talking quite a bit about personal wash not delivering, and let's be specific, not Personal Wash but Lux and Lifebuoy not delivering to our expectations. So, to that extent, clearly there are a series of activities and actions we had to take, which we have taken. In fact, however, if you also look at the market construct and what is happening – there is a sharp slowdown in the category growth. So, what we are really saying is both, there is a category slowdown, which is real and there are series of actions which we have been wanting to take for some time. We have now taken some. That's the best way to explain what's really happening.

<Q – Vivek Maheshwari>
Sure. And a follow-up to that. Lifebuoy, Lux, no market share loss?

<A – Srinivas Phatak>
You know I don't specifically comment on market share. You're well aware of it. Nice try, but I'm not commenting on that.

<Q – Vivek Maheshwari>
All right. Thank you and wish you all the best.

<A – Srinivas Phatak>
Thank you, Vivek.

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

<Q – Aditya Soman>
Hi, good evening. My first question, you mentioned that modern trade is seeing increased competitive activity, and you mentioned in passing that this is largely promotions, so is this largely from private label players or other FMCG players and any categories that you'll want to highlight where you're seeing this increase in competition?

<A – Srinivas Phatak>
So, look, mostly it's a combination of both. Clearly, you have seen some of the established sides do that. You have also seen some of the private labels, and part of it is I think intuitive and understandable, so there has been some moderation to growth. Modern trade is also a channel which is urban, which is a bit more affluent and it's not unreasonable to expect people to try and capture that. So, it's a bit of combination of both which is happening.

<Q – Aditya Soman>
Fair enough. And this modern trade channel is still growing significantly faster than, I'm assuming, than general trade for you.

<A – Srinivas Phatak>
Overall there's been a moderation. I think it's important to understand that. Overall, there's been a moderation in urban and there's been a moderation in rural, but in the context of where we are, modern trade continues to grow faster than all the other channels.

<Q – Aditya Soman>
And what would be the share here now as a contribution from modern trade?

<A – Srinivas Phatak>
I think we have indicated something around the 15% to 17% range, quarter-on-quarter, it will vary a little bit here and there, but that's where it will be.

<Q – Aditya Soman>
I understand. And my second question is on the timing of the GSK deal. Any update on that?

<A – Srinivas Phatak>
We had our shareholders and creditors meeting last month and we've got their approval. I'm thankful to our creditors and shareholders for the approvals that they have given. Now we are back with the NCLT, and we have a hearing scheduled for first week of September. We hope to present to them, and they should pass orders. If all goes well and on plan, and that's at least from our side, similarly there are actions happening from GSK. They have got their shareholder's approval, but their NCLT is still not finalized. We are hopeful that some of them will fall into place in the next few weeks. And if all goes well, we should still be hopeful to get the proposed merger done within the calendar year.

<Q – Aditya Soman>
I understand. That's very clear. And if GSK were to sell their shares, is there any chance that HUVR will consider buying back the stock? Or that -- you don't think that's a possibility at this point?

<A – Srinivas Phatak>
Again, I can't comment on that. I think it would be a hypothetical at this stage.

<Q – Aditya Soman>
All right. Thank you.

Operator
Thank you. Our next question is from the line of Amit Sachdeva from HSBC. Please go ahead.

<Q – Amit Sachdeva>
Hi good evening everyone. Thank you for taking my question. So, my question is basically on the aspect, which is already discussed from one, but I think, do you envisage a scenario, where years of market development by you is thwarted by a look-alike private label across categories at a much lower price? And then you need to fight back with a low-price guerrilla brand of yours or engage your one main brand which probably you won't do, because

you play the price pyramid. But do you see the structure of the consumer value proposition is somewhat changing with this quest of value-seeking consumer and value retailing with modern trade? And are you sort of worried about this brand which is proliferating across categories? And how are you preparing for this?

<A – Sanjiv Mehta>
You know, in simple terms, my friend, you're asking a question is the era of brands over? The answer is no. What you're saying is not something which is playing out today. This has been playing out over several years in the country. There are, across the country, several regional brands, or dealer owned brands, regional competitors – they play on the price points. At the end of the day, a brand stands for trust, a brand stands for consistency. And when you build a great brand, and especially purpose-driven brands like we have been focusing on, it is not just the functional benefits, but it is the product truth plus the purpose. That's what we have been building on. So, we remain very confident that the era of brands will only get further impetus once you embark on the pathway to making it distinctive from a purpose perspective as well.

<Q – Amit Sachdeva>
Sure. As I understand from your answer, Sanjiv, is that you are particularly not worried about it. And you know how to handle it.

<A – Sanjiv Mehta>
We always would be cautious. We always remain paranoid, but we are very confident about our brand path.

<Q – Amit Sachdeva>
Understood. That's very helpful Sanjiv. And second question, quickly if I may, is just to understand the slowdown a bit better. It seems that obviously, soaps is giving you bother and oral has been weak on the Pepsodent side. Can you give us a bit of break-up of growth of non-personal wash portfolio within the personal care space and overall growth of the oral side just as an indicator? If you can share.

<A – Srinivas Phatak>
We don't split that at a BPC level. We have never done that, and in this case, we are not going to do that. But I think it suffices to say that personal products has done well and personal wash is soft.

<Q – Amit Sachdeva>
But don't you then think, Srini, this is probably not a slowdown issue? It's more like a structural issue when input prices are sort of soft and there's a price competition, especially in the value category like this which tends to escalate?

<A – Srinivas Phatak>
Just don't mind, sorry for interrupting you. If you step back, when we talk about this growth moderation, that is not a comment only from a BPC perspective. When I talked about a moderation of growth, it was at an aggregate HUL point of view, if you were to compare to where we were in the March quarter, where we were at 9%. If you were to look at the three or four quarters earlier, where we were growing in double digits, from that perspective if you were to compare to the 7%, it's a moderation. Similarly, if you look at Nielsen and if you were to look at the aggregate market growth, you would see that, although we never comment on specific numbers of Nielsen, but Nielsen is also reporting at least a 300 basis points for market growth slowing down sequentially during the last quarter until now. And on Personal Wash, I think to an earlier question, I clearly explained to you what is happening to the market. And I've also called out clearly what are some of our actions that we need to do to fix parts of our business, brand and portfolio, I think I made that distinction quite clear.

<Q – Amit Sachdeva>
Understood. Thanks Srini, it's helpful. Thanks a lot guys.

Operator
Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.

<Q – Harit Kapoor>

Hi, good evening. Just two questions. Firstly, on the raw material and the personal product portfolio. So, if I look at the margins in this quarter in personal products, would they reflect the full impact of the lower cost of raw material for soaps?

<A – Srinivas Phatak>
So Harit, I don't know where you picked it. Look, if I'm talking about the July interventions, which I talked about correction in the range of 4% to 6%. That's an intervention done in July. It's not going to be in the quarter.

<Q – Harit Kapoor>
No, I was just trying to understand from the point of view of the raw material, which was lower for soaps. Would the higher gross margin have fully reflected the impact of a lower raw material in Q1? The context of the question is could you see a slightly lower segmental margin going forward as you start to pass on these benefits. That's the question.

<A – Srinivas Phatak>
So, look, it's also a function of outlook of where the commodity is going. Commodity continues to be benign. But because I don't give guidance, I won't get into specifics. Good to say that, I'm not seeing any inflation, potentially some deflation. That is a benefit that you will get, and you need to pass it on. And second is there are multiple levers. In this case, we are investing behind the product. We are investing behind the brand. So simply put, to that extent, am I happy to take some lower margins in my Personal Wash? The answer is yes. It's still healthy, but then, when I look at it as a portfolio, and Sanjiv talked to you about how we play the portfolio and how we play the overall category, I think we still have enough ammunition to continue to invest behind it and do the right things at a BPC level.

<Q – Harit Kapoor>
That's very clear. The second question was on the overall market. So, in any of phase of moderation of growth, you do see an element of down trading. Just wanted to understand from your sense, that how you've seen it in this quarter. Are the consumers down trading either into the smaller size SKUs or even at a brand level? So, just wanted your overall sense of that, even from a market perspective.

<A – Srinivas Phatak>
It's still early days and at this stage, we haven't seen anything to specifically call out. We'll continue to monitor it. To be honest, we haven't seen it, but it's important for us to keep a close eye on that. For the quarter ended June, we haven't seen it.

<Q – Harit Kapoor>
Okay, that's it from me. Thanks, and all the best.

Operator
Thank you.

Suman Hegde

So, if we don't have any more questions on the audio line, there are some questions on the web option. Some of these in some form have already been answered and hence, we will not repeat the answer to the same. Just going on to the web option questions now.

<Q – Manish Ostwal>
The first question comes from Manish Ostwal from Nirmal Bang Securities. There is a feedback on the comment the company has given. And the question is, in your assessment, when do you see the demand in market again starting to improve?

<A – Suman Hegde>
I think this has already been answered, Manish, earlier by Sanjiv and Srini.

<Q – Manish Ostwal>

Then the second question is outlook for operating margins and levers for improvement.

<A – Suman Hegde>
Again, we don't give an outlook for margin going forward. I think we have explained the levers for improvement as well in the earlier question.

<Q – Rakesh Roy>
The next question is from Rakesh Roy from Asit C. Mehta Investment Intermediates. The question is, can you give us the rural and urban volume growth during the quarter?

<A – Suman Hegde>
We don't specifically call out the breakup of the rural and urban volume growth. We have indicated, from trend line perspective, the overall market has moderated, and the rural growths are now in line with urban in the last three-month cycle that we've been seeing.

<Q – Shirish Pardeshi>
The next question is from Shirish Pardeshi from Centrum Capital. If I consider Nielsen commentary, have you seen sharp demand deceleration in North specifically in Home and Personal Care? This is the first question. Srini, would you like to take that?

<A – Srinivas Phatak>
So, overall if you see from North point of view, we've had good growth in UP and Bihar which are two critical markets for us. So, there is nothing to comment about any sharp demand deceleration in these markets. What we are seeing is a moderation across, but nothing specifically to call out and I've given you an example of a couple of states.

<Q – Shirish Pardeshi>
Second question being, how much is the North-sales contribution to overall sales?

<A – Srinivas Phatak>
Shirish, I believe we don’t split up and give out the details of that granularity into the public domain.

<A – Suman Hegde>
I think sales contribution of modern trade has already been answered. E-commerce is about 2% to 3%. Any colour on CSD business, Srini?

<A – Srinivas Phatak>
So, I think that's an interesting question. And what we have seen now is that it's been a bit of an erratic demand pickup from the CSD channel. That's because, as you all are aware, a lot of changes have happened to the model, and we still haven't come to a predictable pattern. We do see some quarters or some months where there are orders. We again see some months where they don't order. Having said that, from a June quarter perspective, they have ordered, and we've had reasonable growth from the channel. But there's also a little pressure of receivables which is building up. While we had some pressure in the month of March, we got collections in the month of April and May, and towards the later part of June, again we have started to see a bit of slowdown in the money coming through or debtors being realized. So, suffice to say that it’s a little bit erratic, but we continue to be agile to satisfy the consumer demand, and also, keeping a close eye on receivables.

Suman Hegde
The next question is from Anubhav Sahu from Investment and Research.

<Q – Anubhav Sahu>
In case of Oral Care, are we seeing some incremental market share gain? And if so, can you please elaborate where are we seeing better demand? Is it in the southern markets? Or is it more of a hinterland given the superior distribution reach which has helped during current macro slowdown?

<A – Srinivas Phatak>
I think roughly we have talked about the oral care business. Ayush is predominantly in south and that's done well. Close Up is spread across various geographies. I think with the right price-product portfolio architecture, communication and distribution, we have started to see good traction there. I think the proposition on Close Up is very clear. That's helping us. And possibly, as Sanjiv alluded to, I think we need to sharpen our proposition on Pepsodent, and that is work in progress.

Suman Hegde
The next one is from Arnab from Credit Suisse.

<Q – Arnab Mitra>
Has there been any impact of slowdown on the rate of premiumization in any category?

<A – Suman Hegde>
I think, Arnab, it was taken earlier in the down trading question that Srini has answered.

<Q – Arnab Mitra>
Is there down trading in any particular category either in brands or pack sizes?

<A – Suman Hegde>
I think this again has been responded to in the earlier questions.

<Q – Naveen Trivedi>
Moving on, the next question is from Naveen Trivedi from HDFC Securities. With growth moderating, how are you seeing LUP performance across categories.

<A – Srinivas Phatak>
So, there's no discernible trend that you can draw from, whether it's LUPs, mid pack or large pack at this stage. There's been an overall moderation, and we have seen different levels of it in different geographies and different parts of our portfolio. But at this stage, there's no discernible pattern that you could draw and talk about it in any specific pack.

Suman Hegde
Thanks, Srini. One more question from Shirish Pardeshi from Centrum Capital.

<Q – Shirish Pardeshi>
How much is rural contribution in quarter one?

<A – Suman Hegde>
Shirish, the rural contribution could differ quarter-on-quarter, of course. Anywhere between 30% to 35% of our portfolio comes from rural.

Suman Hegde
I think there are no more questions on the web option for today evening. So that's all we have. With that, we now come to the end of the Q&A session. Before we end, let me remind you that you can have 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 the presentation is also going to be there on the website, and you can refer to that as well. Thank you very much for your participation today evening and have a great day. Thank you.

Sanjiv Mehta
Thank you.

Operator

Thank you very much. Ladies and gentlemen, on behalf of Hindustan Unilever Limited, that concludes this conference call for today. Thank you for joining us, and you may now disconnect your lines.