Hindustan Unilever Limited

December Quarter 2018 Earnings Call of

Hindustan Unilever Limited

17th January 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 evening, ladies and gentlemen and a very warm welcome to the Hindustan Unilever Limited December Quarter 2018 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. I now hand the conference over to Ms. Suman Hegde, Group Controller, Hindustan Unilever Limited.

Thank you and over to you, ma'am.

Suman Hegde

Good evening and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening, results for the quarter ended 30th December 2018. On the call from HUL end is Sanjiv Mehta, Chairman and Managing Director and Srinivas Phatak, CFO, HUL. As is customary, we will start the presentation with Srinivas sharing aspects of our performance for the quarter, and then hand over to Sanjiv for him to share his perspective on the business performance.

Before we get started with the presentation, I would like to draw your attention to the Safe Harbour statement included in the presentation for good order's sake.

With that, over to you, Srinivas.

Srinivas Phatak

Thanks Suman. Good evening, everyone. From an agenda point of view, we will be capturing the four things that we're going to talk about – strategy, in quarter performance, year-to-date nine months and a quick view in terms of how we look at the near-term future.

When you see from a strategy point of view, there are two very clear pillars. The first is making sustainable living a common place and putting at the centre of what we do. This is clearly a big thrust and we have been talking about it for a long time. Second pillar is being true to our growth model which is one of driving consistent, competitive, profitable and responsible growth.

Now, let me talk through in terms of the December quarter performance. I'll start it through in terms of where we see the market conditions and then a little bit about our own performance. From a market point of view, demand was stable during the quarter and rural has grown ahead of urban by about 1.3 times. You'd also appreciate that there was significant volatility from a crude and a currency point of view. If you were to see it from September quarter crude was sitting at highs in terms of $70, then we saw it going all the way up till $80, $85 and saw it retrace to $50 and there's been a bounce back. So, there's a fair amount of volatility which becomes an important element as we navigated the business. In context of these two, HUL has delivered a strong volume led growth performance, and we are quite pleased with the results. We had shared earlier that the HUL board has approved the merger of HUL with GSK Consumer Healthcare India, subject to regulatory and shareholders' approvals. We have started our progress in terms of securing that, and we expect this to be completed over the next 9 months to 12 months.

In terms of the results, domestic consumer growth was at 13% with underlying volume of 10%. Our EBITDA margins at INR 2,046 crores was up 22%, reported margins were up by 170 basis points, intrinsic would be about 140 basis points. There is a 30 basis points impact, which has come because of reclassification of fiscal refunds between other income and other operating income, and we'll touch upon that a bit later in the presentation. All-in-all, the volatility in crude and currency was very well managed and mix improvement and operating leverage aided margin expansion. Our PAT (bei) was at INR 1,401 crores was up 17%. Net profit at INR 1,444 crores was up 9%. I will give you a bit of a flavour on the exceptional items in due course. When we talk about all the elements of volatility, and what is coming through today from a macroeconomic point of view, it is important to note that we run this business with speed and agility across the value chain. Therefore, today with all the investments that we've done in capabilities over the last few years are very well poised to manage this and navigate the business. We've called out a few examples, whether it's speed to market, in terms of faster landing of innovations, or our ability by taking inventory down to be more agile and responsive. Similarly, the way we are able to enhance the reach and quality of our distribution is also serving us well. Our saving engine continues to fire giving us enough levers to manage the overall shape, while maintaining our competitiveness in the business.

Now, from a divisional performance point of view, it's been broad-based good growth across all our three divisions. Home Care has grown at 16% with double-digit volumes. Beauty & Personal Care has grown by 12%; premiumization led. Foods & Refreshment has delivered a 9% growth on strong performance in Refreshment. This obviously excludes the turnover that we got from Adityaa acquisition, we're giving a like-to-like comparison. If we were to include that, we will be in double-digit, but on a like-to-like basis, the F&R business has grown at about 9%. Most of you are well aware that innovations and activations continue to be key to how we run the business. We have seen some interesting innovations in Skin Care. We had a good activation from Lux Golden Rose Awards. We've also had some new launches, be it Magnum Hazelnut, or Close Up mouthwash in a few markets and Rexona Men anti-perspirant. Sanjiv will give his perspective when he talks in his opening comments on some of the innovations and activations during the quarter.

Some quick comments about some of the individual divisions. I think for the Home Care, the whole well-oiled machinery has continued to work well for us. In Fabric Wash, the focus on core and premiumization has yielded strong results. In Household Care, the growth momentum continues led by increased category penetration of bars in rural markets and urban upgradation story on liquids. These two have again had a very strong quarter and have driven a lot of the growth for Home Care. In the Purifiers, and we have talked to you in the past that the market has continued to reshape towards the UV and the RO segments and for some period, the gravity business has been slowing down and actually degrowing. In line with the strategy of meeting the consumer needs and getting a viable business proposition, we are focusing our investments into the mid and the top range and we will be gradually phasing out the gravity segment. In our exceptional items, there is about INR 40 crores of restructuring which has been taken into account with respect to the phasing out of gravity segment. While we will phase out the devices over the next couple of quarters, we'll continue to service the existing machines because there are a lot of germ-kill kit machines already in the market and from a servicing point of view, we will keep that growing for the next couple of years to make sure that all our consumer needs are well taken care of.

When I come to Beauty & Personal Care, it was a premiumization-led growth across our various segments. In Personal Wash we have seen growth from the premium segment for one more quarter and the differentiated proposition on freshness and naturals. Lifebuoy was relaunched towards the end of the quarter with renewed communication. Skin Care had a very good quarter with strong double-digit growth. There was a robust growth in the winter portfolio. Across our portfolio we launched many INR 10 variants and tubs formats. Hair Care, again, had a strong growth. Dove was relaunched with new formulation, variants and communication. Colour Cosmetics, has been the case for many quarters now, continues to drive strong volume lead growth. We've seen the trend in the quarter, and I think the brand is doing a fabulous job in terms of meeting the aspirations of women across the country. Oral Care growth was decent on the back of good performance in north and central (markets). Close Up mouthwash was launched in south. Deodorants had another quarter of double-digit growth, and we have launched Men Rexona anti-perspirants in markets of Tamil Nadu and Bangalore city.

Foods & Refreshment performance was led by Refreshment. Opportunity at the bottom end with Taaza and premiumization through green tea has been the growth drivers when it comes to Beverages. Ice creams, we've continued to sustain the growth momentum and delivered a quarter where we've done well. In Foods, we have maintained a steady growth trajectory and the market development continues to be the big opportunity to unlock penetration there.

I'll now talk a little bit about segmental performance, and it's important to understand these (divisional performance & segmental performance) are not exactly comparable when you see it from a USG and EBIT point of view because in segmental results we also factor in the restructuring expenses. While on the P&L face, it (restructuring expenses) comes in EBIT as an exceptional item, when it comes to segmental (margin), these expenses are split into the respective divisions. So, when you see from a Home Care point of view, it's important to appreciate that the core margins in terms of Home Care and FHC have been very healthy. I've already talked about the restructuring impact of approximately INR 40 crores in the quarter on water business, which has come through in the margin. Moving on to Beauty & Personal Care, the whole model of driving growth through premiumization and market development is yielding good results, and we've maintained healthy margins. In case of Foods & Refreshment, we've started to book some mergers and acquisition cost related to Adityaa and GSK under exception items. So, some of these costs have come through. Important to appreciate this, because as we progress into the next few quarters, we will continue to see some cost relating to integration as we take next steps, and they will get reflected in the segmental margin. This an important element for all of you to understand. You will see strong growth numbers on the core part of the business, but some numbers reported under exceptional line for the two reasons I mentioned earlier. As we go through our supply chain restructuring, given some of the plans that we have over the next four to six quarters, we will continue to see some exceptional items coming through which obviously aid the overall financial growth model.

So, when I see December quarter summary of business performance, our domestic consumer growth has been at 13% with EBITDA margin improvement of 170 basis points. We've already talked about the respective lines. I will now spend a little time in terms of fiscal refunds and government grants. I think this has been a topic which has been moving lines and to that extent it's been a little confusing. We appreciate that this is not our preferred position. If you see that fiscal refunds had been classified into the other operating income in June and earlier quarters. In September quarter, pursuant to certain clarifications from the Institute, these have been moved into other income. Having said that, with further engagement and deliberations, these are now being rightly reflected as other operating income. I think the right place for them to belong is other operating income because they come primarily from our operations. These are fiscal refunds for our units in Assam and others where we have to first pay GST and then claim it back. So, this has had an impact of about 30 basis points on our margin, and therefore our EBITDA improvement for the quarter is 140 basis points. From a 9 months business point of view, our domestic consumer growth is around 14% and comparable EBITDA margins are at 140 basis points.

Looking ahead into the near-term, we expect demand to be stable. Having said that, the macroeconomic environment continues to be a key watch out, whether they are international factors or a consumer confidence from domestic factors, given the various variables at play. We are getting into national elections and next few months are going to be critical. And I think therefore, it will be important to keep an eye on the consumer sentiments. And both these elements could have an implication on both cost side as well as demand side. Having said that, it's important to be clear that today we see demand conditions to be stable. And our strategy remains unchanged. It is focused on volume driven growth and improving operating margins, and our model which is one of driving consistent, competitive, profitable and responsible growth.

And I'll hand it over to Sanjiv for his perspectives on the business performance.

Sanjiv Mehta

Thanks, Srinivas.

Compliments of the season and wish all of you a very happy and prosperous New Year.

The last couple of quarters have seen demand stabilize and the same sustained this quarter, and we were happy to see rural leading urban growth. There has also been significant volatility in crude and currency rates which has kept us watchful on the market developments. For HUL, the big news of course, was the proposed merger of GSK Consumer Health with HUL, paving the way for HUL to be one of the largest F&R businesses in the country. We believe this is a very strategic and transformative deal which will create significant shareholder value through both revenue growth and cost synergy. From a quarter performance point of view, I'm pleased to report, a current quarter performance of 13% domestic consumer growth, backed by 10% underlying volume growth. We've also had robust bottom line delivery and another quarter of EBITDA margin improving.

Now, moving onto the segment wise performance, Home Care continues its strong growth momentum. I think fabric cleaning or laundry is a great example of how our focus on strengthening our core, market development and premiumization have all combined on the back of some great purpose driven communication, which has resulted in truly superior performance. Through focus actions in parts of central and north market, we are driving premiumization in rural areas, which has become a key driver of growth for the category. The opportunity for growths in liquids, be it in fabric conditioner or in detergents is massive, and we are seeing sustained momentum building in the segments as we continue to drive penetration. The Household Care category has been delivering strong performance in the last few quarters, with penetration of bars increasing in rural markets as consumers move out of proxies and unbranded dish wash bars. This is another category where we are seeing a very strong premiumization trend with a move towards dishwash liquids. The Domex liquid relaunch has performed well and we are seeing sustained progress on the same. In the quarter, we have also launched the INR 2 sachet of Domex powder in Tamil Nadu and AP. To underline the importance of hygiene in our homes, we launched, what we believe, the largest repository of cleaning hacks for Indian audiences on a brand agnostic website called cleanipedia.com. It offers over 500 articles and videos in English and Hindi on topics ranging from laundry, bathroom cleaning and enhancing sustainability at a household level. I would urge you to check it out, and I'm certain you will find something useful. We had also communicated in the last quarter earning call that we are realigning our strategy on Water Purifier segment. We've now decided to keep our focus on the premium part of the portfolio and phase out gravity purifiers. Given the immense need and potential of water purifiers in the country, we are committed to cater to the evolving needs of the consumer in this segment.

Now, moving to Beauty & Personal Care, BPC saw double-digit growth this quarter led by premiumization. In Personal Wash Lifebuoy was relaunched with a refreshed mix, and Lux celebrated its 90 years anniversary. Coinciding this, we hosted the third edition of Lux Golden Rose Awards to celebrate the women superstars in Bollywood, graced by some of the biggest male and female stars of Bollywood. LGRA was the highest rated award show of 2018 and will help us in strengthening the equity of Lux with consumers as the beauty soap of the stars. Winter, as you know, is a key season for the skin category, and it has been an excellent quarter of growth for the business across moisturizers and body lotions. All the innovations launched during the quarter, be it the INR 10 moisturizer range in Ponds, Vaseline, VPJ or Lakmé Lip Love, have done well. Hair Care too saw strong performance this quarter. Dove was relaunched with an enhanced formulation and new communication which carries the “No digital distortion mark”, re-affirming the brand's commitment to portrayal of real beauty. In Colour Cosmetics, Lakmé continues to build on its innovation funnel and delivering excellent results. The premium Absolute range of Lakmé products is performing well, and so is the entry brand of Elle 18. The e-com channel is emerging as a key growth driver for the category, and in the quarter, we have also launched our own direct-to-consumer platform. In Oral Care, Close Up launched the #FreeToLove campaign to promote closeness across the society. The campaign which features the stories of real couples, who have broken through the barriers of age, of caste, or gender, received positive word of mouth on social media, and is yet another example of purpose driven, differentiated and socially relevant marketing campaigns. Deodorants had a strong performance with both Axe and Rexona doing well. We continue to focus on market development in the anti-perspirant segment through the Rexona Confidence Academy. And we've reached out to a few lakh students in West Bengal, training them to be ready for the all-important job interviews.

Foods & Refreshment division delivered good growth across categories in the quarter. In Foods, we continued to grow steadily in our core portfolio of jams and ketchup, while investing in market development to drive penetration. In Refreshment, our portfolio strategy of making differentiated products, straddling the price pyramid in tea, and catering to the palate as for the Winning in Many Indias is doing well, and all the key brands have delivered strong results. Red Label further this key purpose of promoting inclusiveness by having a special performance of 6-Pack Band 2.0 in the popular show Kaun Banega Crorepati. Coffee delivered good growth in modern trade, and we continue to invest in market development in the south through home-to-home outreach. Ice Cream & Frozen Desserts had a robust delivery across geography. We launched Magnum Hazelnut in West Bengal. The integration of Adityaa Milk portfolio is progressing well.

In summary, a strong quarter to end the calendar year, the YTD performance for the fiscal year has also been very robust. As we step into 2019, I'm confident that we have the right mix of strong core, consumer relevant innovations, a strong innovation funnel, and the thrust on market development initiatives will continue to drive growth. Our continued focus on building digital capabilities across the value chain in line with our ‘Reimagining HUL’ vision makes us confident of delivering on a strategy of consistent, competitive, profitable and responsible growth.

With that, I would like to hand over the call back to Mrs. Hegde.

Suman Hegde

Thanks, Sanjiv. Thanks, Srinivas.

With this, we will now move on to the Q&A session. In addition to the audio, as always, our participants have an option to post the questions through the web option on your screen. 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's anyone else, who is not an investor or an 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 hand over the call back to Ali. Ali, over to you.

Q&A

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 Sameer Gupta from India Infoline.

Please go ahead.

<Q - Percy Panthaki>:
Hi, sir. This is Percy here. Congrats on a good set of numbers. Sir, my first question is on your supply chain logistics arrangements post GST. Understanding was that earlier we needed to have warehouses in each state to avoid inter-state taxes. Now, the entire network can be optimized because this constraint has gone away. It's been about 18 months since GST has been implemented, so just wanted to get an update as to where we are in the journey. If you could share any kind of, either data or at least a flavour, on where we are, how many warehouses have we cut down, what kind of savings have we generated and how far are we in this journey of reorganizing our network.

<A - Srinivas Phatak>:
Thanks, Percy. Sometimes I get confused as you come up with a different company name– so did you get the right company from where you came from, I just got little confused. Coming back to your question, (the journey of reorganizing Supply Chain is) progressing well. If you remember we had called out saying that it's going to be a medium-term journey. We had started from distribution centres, being at about 40 and our long-term destination was to come down to half, closer to 20. As we speak today, we have restructured or closed some 12 of them and we sit at 28. There is a clear plan, which takes us forward. So, I think, that's clearly progressing well. It has also given us a lot of opportunities in terms of working with our own supply chain partners. It's not only on the logistics warehouse side but also a lot of work which is happening on the material side and the procurement side of the equation. As people are again reworking their own supply chains at the back end, we're able to work all of that through to take costs off. All-in-all it has been progressing well, and that's something we will continue to look at because now this starts to give us newer opportunities. From a savings point of view, we will not call out separately the impact of this. Having said that, there's also an enabler for us of around 6% to 7% of savings that we have been talking about is also integral to that.

<Q - Percy Panthaki>:
Right, sir. Any sort of guidance you can give as to how many more quarters till this journey is completed or you refrain from that as well?

<A - Srinivas Phatak>:

As I said, from a supply chain distribution network point-of-view, there could be three to four quarters. Having said that, we're also now looking at some of our broader supply chain networks, whether it's our third parties, or our own units, and that is something which is going to an ongoing process. If you recollect, we have said that even in previous quarter or the quarter earlier to that, we will start seeing some restructuring costs which will also come in exceptional items, because this is a journey which will go beyond just the pure distribution setup.

<Q - Percy Panthaki>:
Okay. Understood. Sir, next question just on how to read your seasonality going ahead, if I look at your longer-term trends, generally the Q4 sequential growth is anywhere between 0% to 2%. Last year, was an aberration where your sequential growth was 8%, so just wanted to understand was there any particular reason for the seasonality to change last year, and is that a reason which will sustain into the future?

<A - Srinivas Phatak>:
The way we look at the business is underlying demand factors and a very robust S&OP system, Percy. And it's very difficult for us to now start reading sequentially, as you're right, because last year it was a different phenomenon playing out. But when we see it from a simple S&OP point-of-view and underlying demand factors, this is the right reflection. Going forward, it's becoming a little difficult to call for the reasons. There are two aspects to this; on one side there was a bit of a benefit which all of us got, and I believe we got a bit more as we came out of demonetization, from GST. We did a flawless execution and the right thing by passing on benefits to the consumers. So, I think we all got a lot of benefit of that and to that extent, such increment may not be there going forward. Second is leading market development and doing the right things. We are focused on that and we are doing it well. Further, for some of the reasons, that I called out, we need to watch out on some of these external factors as they play out from a macroeconomic environment point of view. So, at this stage I think it's going to be little difficult to call out sequential numbers or how we see the growth trajectory.

<Q - Percy Panthaki>:
Right, sir. And one last question if I might squeeze in. How do you look at the competitive environment going ahead? About six months back, we've seen a slight increase in the competitive environment in premium detergents. Also, we were doing some surveys on the ground. We have seen that players who have either lost market share or are more aggressive in the marketplace, they have been sort of taking price cuts, while the general trend has been to take a price increase. So, what we've picked up for example is that Godrej No.1 versus Lux, the premium is sort of changing, and Godrej No.1 is sort of becoming relatively cheaper. We have seen that in Parle versus Britannia as well. So, do you think there is any risk going ahead that there is a little more pressure in terms of being more competitive on the pricing front, and if so, does that sort of change the trajectory of margin expansion going ahead?

<A - Srinivas Phatak>:
So, a couple of things to note. From a competitive intensity view point, and if you see the last couple of quarters, has there been any overall big shift or big change, no, there hasn't been. There are times where we see some players being active in a few categories and segments. People looking at us will find that we have also been aggressive and intense in some of the categories. So therefore, this is one element, and I don't think at an aggregate, there has been any big change which has come through. This is going to be the nature of the game – if there is a good growth opportunity, and if there is good value creation as the FMCG sector has demonstrated, it's only fair that everyone will play. The other element to watch out is that as we go through some of this volatility in commodity cycles, it also becomes a tricky piece to call out a trend in the short-term and December quarter was a very interesting one. Where would you really price? Would you assume that crude is at INR 60 and price it, or INR 65 and price or INR 55 and price. This would also mean that each one is executing a certain strategy. We will see a clearer picture emerging, provided there is less volatility and a bit of stability there. So, I think that's an important aspect to keep in mind. But at an aggregate level, I think that we're in there or thereabouts and I don't think there is any need to call out any step up in competitive intensity at an aggregate level.

<Q - Percy Panthaki>:
Understood, sir. That's all from me. Thanks, and all the best.

<A - Srinivas Phatak>:
Thank you, Percy.

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

<Q - Amit Sinha>:
Yeah. Hi, sir. Thanks for the opportunity. My first question is on your INR 10 SKUs across various brands, especially in the Beauty & Personal Care segment. So, the question is, are these launches region-specific with more focus towards rural markets or this is across India? And secondly, while the growth impact is very clear and has to be positive, but can they have an impact on the margin profile in the medium term, especially in the context that last two quarter's gross margin of yours have contracted?

<A - Srinivas Phatak>:
They (INR 10 SKUs) have a role to play, and I think many of these packs start to become very good packs to read market development and they also drive a lot of penetration. Therefore, it's important in category such as Skin Care to get a lot more people into the category, and then you can in due course start to play the upgradation story. So, to answer the first question, yes, we have launched many of this and they will be national. Second is that, when you look at our portfolio, there is a clear play in terms of different packs and different margin structures, and therefore the important piece is the holistic category margin and from that point of view, we are comfortable. Further, when you look at Beauty & Personal Care, by definition this is high operating margin business. So, when we grow these segments faster, we also start to get an overall mix benefit, if not anything else. So, to answer the question, these INR 10 packs drive market penetration, we are happy with the gross margins that these packs make, they fit in very well with the overall category of brand margins, and that's a right way to really drive our growth model.

<A - Sanjiv Mehta>:
Yeah. And if I just add to what Srinivas is saying, we never look at our margins from an SKU basis. We always look at it from a portfolio perspective. There are many packs we launched to drive penetration, there are some packs we launched to drive premiumization, and they have a strategic role to play. And then also you have to remember we now have a Winning in Many Indias strategy when we focus on certain geographies and clusters where it is more relevant.

<Q - Amit Sinha>:
Sure. Sir, secondly, I just missed the operating income and the other income accounting part and the adjustment which you mentioned during your commentary. Can you please repeat that?

<A - Srinivas Phatak>:
In interest of time, what I'll simply say is that, at a PBT level there was no issue. There was an impact of about 30 basis points. So, our reported EBITDA is at 170 basis points, you can read it as 140 basis points, cumulative YTD no issue. We had a bit of a re-classification in September which has gone back to its original position in December quarter. So, 30 basis points for the quarter, YTD no issue, and overall healthy.

<Q - Amit Sinha>:
Sure. The base quarter had an adjustment. That is the question.

<A - Srinivas Phatak>:
Why don't you just pick it up with Suman, you can reach here separately, and if there are further questions and people are not here, I'm happy to clarify, but otherwise you can pick it up with Suman, please.

<Q - Amit Sinha>:
Yeah. Thanks a lot, sir. Thank you.

Operator
Thank you. The next question is from the line of Alok Shah from Edelweiss. Please go ahead.

<Q - Abneesh Roy>:
Thanks sir. This is Abneesh here and congrats on great sort of numbers. On coffee again, no comment, so Taaza is mentioned, green tea is mentioned, why no comment on coffee?

<A - Srinivas Phatak>:
It's been a reasonable performance from a coffee point of view. But when you see on a relation to some of the rest of the Beverages portfolio, there is a clear call out in terms of something which has been a stand out, unless Sanjiv has got a different perspective.

<A - Sanjiv Mehta>:
No, you are absolutely right, Srinivas.

<A - Srinivas Phatak>:
Overall happy how it's performed. Do we want it to be better? Of course, we want it to be better.

<A - Sanjiv Mehta>:
So, it's just like you Abneesh, I also love our coffee brand.

<Q - Abneesh Roy>:
That was useful. Second sir, if I see winter started quite late and then it picked up significantly. You have seen very good growth here, while some of the peers have said this has impacted Q3 demand. So, what has gone right? One is inventory days for you is down 20% versus historical. Has that helped you to come back in the market stronger, or is it the tubs format or the INR 10 variant, what has worked?

<A - Sanjiv Mehta>:
Our Skin Care strategy has been working well for the last several quarters, Abneesh. It is very focused on identifying the consumer needs and specific to each cluster, and it is not a performance which has just shown in December quarter. Skin Care has done remarkably well in this entire last year, and what you see now is a culmination of that.

<Q - Abneesh Roy>:
But sir, earlier delayed winter used to impact most companies. Will it be fair to say now that this is no more an issue that delayed winter still because your market intervention is faster that's no more too much of an hindrance?

<A - Sanjiv Mehta>:
No, we have planned for the winter very well. And while there are pockets where it got delayed, but the winter also, if you remember, came with a pretty high intensity.

<Q - Abneesh Roy>:
And sir, cost related to merger – you highlighted in initial comment that there can be some cost in the coming quarters also. So, when the GSK acquisition happened, there was a confidence that 800 bps to 1,000 bps improvement over the longer term could be the improvement in margins for GSK. Any change to that because now some more time has happened, and you highlighted that there could be some cost related to merger in coming quarters?

<A - Srinivas Phatak>:
So, there are two pieces, that's how you all get the operating benefits from an operating line. As you go into large M&A integration, you'll start with a lot of costs which are truly exceptional in nature. To begin with, we'll have a lot of legal fees, stamp duty, integration teams. So, you will need to put these costs into play to create the bandwidth, the organization and the capability. And therefore, they will all come in as one-off cost. And structurally, when you look at an operating margin increase you will see a big margin increase. There's no change to the 800 basis points to 1,000 basis points that we've called out. Having said that, merger will involve a lot of costs, and they will continue to come through as we get closer to the journey and after. But the overall business case factors in all of this, and it's still a transformative acquisition.

<Q - Abneesh Roy>:
Sir, last question on FDI regulation, it's becoming quite stringent with cash back and discounts becoming quite difficult from February. Now, this has been growing exponentially for you and most other FMCG companies. Do you expect that growth will become a much tougher in the scenario, or you see customers seeing this, irrespective of discount, irrespective of cash back, so the growth should continue in spite of the change?

<A - Srinivas Phatak>:
Let's see how that thing emerges, Abneesh. At this stage, yes, there have been a certain set of regulations and the impacted players are some of the e-com guys, and they are working it through. It's best for us to now wait and see how that comes through, and how it pans out over the next few weeks and quarters before we comment on the overall impact to us. Overall, consumer demand is stable, the channel may vary a bit, but let's see what the regulation is and how it comes.

<A - Sanjiv Mehta>:
And the underlying benefit of e-commerce, which is convenience and wider assortment. That benefit does not go away. And, one has to understand that the entire sales you do on e-commerce is not incremental. It cannibalizes other channels as well.

<Q - Abneesh Roy>:
And one small follow-up on the Fabric Wash, you highlighted premiumization. Now, on the competition side, Tide’s new variant has come up, which is still at a premium to your product, but the premium has reduced. So, you highlighted premiumization, but any impact for the competitive intensity in terms of, say, market share?

<A - Sanjiv Mehta>:
See, Abneesh, this was a question which was also raised last time. Our Surf Excel is such a powerful brand and consumers have seen massive value in it, and that is the reason why our largest brand keeps growing at a scorching pace.

<Q - Abneesh Roy>:
Okay. Sir, that's all from my side. Thank you.

Operator

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

<Q - Vivek Maheshwari>:
Hi. Good evening everyone. My first question is on the Home Care business. After long we have seen, let's say, slightly lower or let's say almost flattish margins, whereas the margin expansion had been quite impressive in the last seven, eight quarters. And Srinivas you have mentioned in the past, today also you have repeated this fact that volatility on commodity side does impact decision-making. So how should we think about company margins as well as detergent margins specifically?

<A - Srinivas Phatak>:
Overall, there's been no change to the way we've been talking either about a company margin or from a Home Care point of view. I think we are now in a range of healthy margins when you see Home Care, and it doesn't matter whether we are talking about a 14% or 16%. Overall, you need to be prudent on how you manage or don't manage it for a quarter-on-quarter, but you do fundamentally the right thing. So overall, we are happy with the way the whole financial growth model is working through all the three divisions, more so in case of Home Care. We continue to be committed to driving top line growth and increasing operating margins. No change to that picture at all.

<Q - Vivek Maheshwari>:
So, in the context of whatever volatility that we have seen in the crude prices, let's say, volatility even in currency, you still hold on to your modest margin guidance basically.

<A - Srinivas Phatak>:
Yeah.

<Q - Vivek Maheshwari>:
Okay. That's good to know. Second, on other expenses also, it has been – I don't know for how many quarters, but you have been in that tight band leaving aside the seasonality bit. Do you still think that there is – should we be, let's say, building in expansion in this head, or there is still juice left here and the growth can be, or the

expansion can be slower than, let's say, the top line growth or whatever, I'm sure fixed expenses will still see an increase, right?

<A - Srinivas Phatak>:
That's a lovely question. Again, without getting into the guidance side of the equation, yes, there are a couple of elements to it. In some manners we will have to invest for the future, because it's just not about taking costs out as we are investing on our 'Reimagining HUL' agenda. There is clearly increase that we are doing in some of those costs. Having said that, the whole savings program and the engine is continuing to give us benefits, the whole data in digital strategy will continue to give us benefits. What we can tell you is that we will keep a very tight rein on our costs, both from an efficiency and driving effectiveness point of view. And then let's see how it goes, because anything beyond that will start to get into giving specific guidance on lines of the P&L and which you guys are aware that we don't do.

<Q - Vivek Maheshwari>:
Okay. And lastly, on the EBIT growth in Foods and Refreshment, is it just a function of the margins in the base or there is something more it, the 40% EBIT increase that we have seen in this quarter?

<A - Srinivas Phatak>:
It's a base issue. If you really see from a sequential point of view, I think it will be more of a reflective impact, but if you see December quarter last year, you're coming off a slower low base in terms of margin impact.

<Q - Vivek Maheshwari>:
Got it. Thank you and wish you all the best.

<A - Srinivas Phatak>:
Thank you.

Operator

Thank you. The next question is from the line of Sanjay Manyal from ICICI Direct. Please go ahead.

<Q - Sanjay Manyal>:
Hello, sir. Congratulation on good set of numbers. Just one question. We have seen five consecutive quarters of double-digit growth now, I think, some of the quarters obviously because of the base was low. But I think this quarter the growth has been on a high base itself. So, do you really think that mainly because the rural growth is coming because of a lot of aggressive government spend before elections. And what would you think that – will this really change after election and the government spend also in the rural sector can come down and then probably that indirectly impact our growth also?

<A - Srinivas Phatak>:
So, look, I think, there is step up in growth has been happening over a few quarters, and I can't really attribute it to pre-election spending or any differentiated factor. If you see some time ago, rural was growing below urban. For the past few quarters we have seen rural now grow faster than urban, and that's helpful. The other thing also is that there is an ability of an organization like HUL to really lead market development and get a bigger size of the opportunity, that's also been a big factor in terms of some of the growth numbers that you've seen. It's not a simple story of markets recovery and therefore you've got growth. There is also that ability of what you do as an organization and we've talked about it. It's been good so far; all our divisions have been broad based and are comfortable there. Today the demand outlook is stable. But we've also called out that there is a lot happening in the macroeconomic environment and potentially how consumer confidence plays out. I think these two become important elements for us to see as we go forward. For now, I think demand is stable and we are pleased with the performance.

<Q - Sanjay Manyal>:
Okay. And if you also can quantify what would be the contribution of a rural sector, say in our revenue what will it be.

<A - Srinivas Phatak>:

We haven't shared a specific number in the public domain in terms of specific in urban and rural.

<Q - Sanjay Manyal>:
Okay. Perfect. Thank you.

Operator

Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Securities Limited. Please go ahead.

<Q - Pulkit Singhal>:
Hi, thanks. This is from the Asset Management Team. Congrats on a good set of numbers. When you mentioned about reach and quality of distribution is helping, can you please elaborate a bit on that, and what would be the strategy on this front for the next one or two years?

<A - Sanjiv Mehta>:
All right. When we look at quality of distribution and reach – one is a continuous thrust on having a quality direct distribution. So, we keep looking at what are the outlets with the higher potential where we need to service them directly. The second important bit is, it is not just about reaching there, but we also need to increase our assortment in the stores, and as far as possible bring in technology so that we have the right assortment in each store. So, that is the focus that goes in, in terms of improving the quality of distribution, and that will continue unabated, because general trade, while the growth rate in that channel may be lower than modern trade and e-commerce, will still remain the largest channel for years to come.

<Q - Pulkit Singhal>:
In terms of reach, I mean, do you see enough scope for expansion in the next couple of years, because I mean, you're already at a highest level.

<A - Sanjiv Mehta>:
Yeah. That's a very constant journey. In a country like India, you have 8 million, 9 million stores, then there is also a lot of stores which close and new stores open. So, there is a constant journey of identifying the right outlets which need to be covered. And increasingly our focus has been on driving assortment in that store, and also building a brand inside the store.

<Q - Pulkit Singhal>:
Sure. And in terms of the right price point, I mean, so you introduced lot of the products at INR 5, INR 10, and now, I mean even INR 2 price range. So where are we in that journey? I mean, you have lot of products out there. So is there...

<A - Sanjiv Mehta>:
We have to. We don't look at it from a perspective that we have a large number of products. We look at the role the pack has to play in a brand. Many times, you use a low price point pack to drive penetration and they often does the job of a sampling. Rather than giving a free sample, you have a low unit price pack which drive penetration. Many times, you have a large pack which drives consumption. So, it must be based on the jobs to be done. And these are not packs which we introduced everywhere in the country. It is very specific to a WiMI strategy.

<Q - Pulkit Singhal>:
On the Foods and Beverage side, I mean, obviously it has been very clear, I mean, high intensity of action with the GSK acquisition, Adityaa and others. Is it purely incidental that a large part of your food and beverage category has milk-related or milk additives kind of brands, is that deliberate, or is it purely incidental?

<A - Sanjiv Mehta>:
No, ice cream has always been our focus strategy. And over the years we have brought in innovation, we have improved our margins, so we now have the right to grow the ice cream category, and Adityaa Milk gives us some very distinctive capability in that part of the country. As far as the acquisition of GSK Consumer Health is

concerned, that is once in a lifetime opportunity. And that's not an asset which is easily available and getting into HFD is very strategic and transformative for the company.

<Q - Pulkit Singhal>:
Got it. Thank you and all the best.

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

<Q - Prasad Deshmukh>:
Hey. Good evening and congrats on a good set of numbers. Just two questions; firstly, could you tell us about the performance of overall naturals portfolio, plus any update on Lever Ayush, specifically in packaged food and toothpaste?

<A - Srinivas Phatak>:
So, overall naturals have done well in the quarter, Prasad. It's been a consistent strategy and we've talked about a three-pronged strategy, a lot of naturals within our existing co-brands, especially, the brands such as Indulekha have performed well. If you see on a medium-term trend, the naturals have been growing about 2 – 2.5 times the company average and in some quarters as high as 3. In this quarter end, it had a good performance and in the same range of about 2 – 2.5 times. So that's done well. Now, to your question on Lever Ayush, it's important to break it up into two clear markets. South is where we had gone in earlier and we extended into parts of north. We're pleased with the way it's performing in south. It's been a good performance across the portfolio from a south point-of-view. In the Hindi heartland and parts of north, we have not seen that traction. So, we have pulled out of many of those markets and we are reworking the mix to see what we can do there, while continuing to invest and accelerate from a Southern states point-of-view.

<Q - Prasad Deshmukh>:
Yeah. Specifically, in foods and toothpaste, even in Southern India?

<A - Srinivas Phatak>:
So, toothpaste is doing all right. If you were to see from the Foods point of view, it was a launch in one city which we did with some breakfast cereals to see how that comes through. And by nature, it was an experiment to see, do we get traction. Not met our standards in terms of where it's gone in Chennai. So, we're also relooking at the same in terms of what could be a differentiated proposition. And it is important to highlight here that some of these will be experiments rather than doing the theoretical boardroom experiments, they will be in-market experiments. We see the attractiveness of the opportunity but there's more work to be done there.

<A - Sanjiv Mehta>:
Just adding to what Srinivas said, the good bit is that our natural strategy has been working pretty well. We have been growing at 2x or even more, in some quarters on a total company growth rate. And so, our three-pronged strategy of natural has been a pretty satisfying journey.

<Q - Prasad Deshmukh>:
Okay. Second question on this NCLT approval that we have received, is this the same one that we had spoken about like 3 years back where you wanted to give this back to shareholders. So, does the purpose remain the same yet or there can be some flexibility at your end?

<A - Srinivas Phatak>:
The purpose is the same because end of the day this become our distributable results, and we need to give them back to the shareholders. The timing and the mode of doing it will be at the discretion of the board of directors of the company, but the objective remains unchanged.

<Q - Prasad Deshmukh>:
Okay. That time I think you guys were mentioning that maybe in another year or so was the timing. So now the timing is uncertain.

<A - Srinivas Phatak>:
No, at that point in time we didn't get the approvals to do it.

<Q - Prasad Deshmukh>:
Correct. But right now, the timing is flexible. There is no...

<A - Srinivas Phatak>:
Yes. Right now, the time is flexible and now obviously subject to the discretion of the board.

<Q - Prasad Deshmukh>:
Okay. Perfect. Thanks a lot.

Operator

Thank you. The next question is from the line of Chinmay Gandre from Future Generali. Please go ahead.

<Q - Chinmay Gandre>:
Yeah. Thank you for taking my questions, sir. Sir how are you reading few macro data points which are coming out like rural wage growth being near 3%, which has been lower for a while and food inflation is also lower, and also, reservoir levels been lower in few geographies like Western and Eastern. And overall farm distress is being portrayed by media. So how are you reading these kind of data points because your growth doesn't reflect all these factors?

<A – Srinivas Phatak>:
Sir, see, you're right, some of these data points are important and we continue to monitor them, because in a manner these are also some of the lead indicators and the best possible data which is available. In addition to what you've talked about there is also bit of slowdown that we have seen in automobiles. You're right that today the demand is stable and we're not seeing any impact from our point of view as a FMCG, but these are some of the data points, we all will continue to keep a close watch on, in addition to, some of the emerging macroeconomic environments that I spoke about. But again, our demand outlook is stable. But all these elements become important as we navigate the business into the future.

<Q - Chinmay Gandre>:
Or if I put other way round, like what is your assessment like why have these not being reflected in FMCG consumptions?

<A – Srinivas Phatak>:
I wish we had the econometrics or who have a pulse on everything which is happening in the country. Having said that, the demands from a FMCG continues to be resilient because these are products of day-to-day consumption. You will never see a lead impact in FMCG. Thera are some key packs in FMCG of day-to-day consumption which become very good indicators to see if there is a change in the scenario. At this stage we have not seen that, and therefore we are saying outlook is stable, but we'll need to keep a watch on some of these data points as they come through into the future.

<Q - Chinmay Gandre>:
Okay. Thank you, sir.

Operator

Thank you. As there are no further questions, I now hand the conference over to Ms. Suman Hegde to take questions from the webcast.

Suman Hegde

Thanks Ali. We've got three questions on the web option. I will not repeat those, which have already been taken on the audio. The first question comes from Pranav Bhasker, ASA Capital Management.

<Q->:
Hi, can you share urban versus rural volume growth breakup and trend in premiumization in rural areas? Which products or categories are seeing tractions for premiumization in rural areas, and how well is the naturals portfolio accepted in rural areas.

<A - Srinivas Phatak>:
I think, part of this came up in terms of urban and the rural growth. We have said that rural has been growing faster than urban and is about 1.3x. Rural is between 35% to 40%. But if you see, premiumization is a secular trend, whether it is urban or rural. It's just that some of our most exciting brands, when you put them in an affordable format, you also see traction in rural areas. So, we are seeing secular premiumization, which is coming through in urban and in rural. Naturals is again a pan India phenomenon, but it comes through different. For example, when you take one of our soap brands, a brand like Hamam, when we put in some of the natural cues to it, it starts to do very well, be it urban or rural. In aggregate, both these elements are playing out in both urban and rural. Second question is on what is the HUL Reimagining program and we talked about it in the context of other expenses. Here, I will urge you to go back to the Annual Investor Presentation that we had done on the annual Investor Day. There is a whole program which is in progress in terms of 'Reimagining HUL' for future. Clearly with data and technology lead at the core, it is touching all functions whether it is Customer Development (CD), supply chain or marketing. In that context, as we are looking at building the HUL of the future, we are making investments. We talked about a few experiments including CD. All of this will require making investments, and therefore, we will incur costs towards time. The pronged approach is really about investing for the future in terms of these ability, while continuing to extract juice out of some of our existing expenses. Please do take a look at the annual investor deck and you will get a very good flavour in terms of what we're talking about.

<Q>:
The next question is from Nitin Gupta, SBICAP. Reason for decline in the other operating and non-operating income?

<A - Srinivas Phatak>:
It is a bit of a reclassification in the quarter between what's happened in other income and other operating income when you compare it from a year-on-year point of view. From other operating income point of view, some of it is optics. We have got certain cost recovery which we do from Unilever. So, how does it work is that there are certain teams which are based here, and we charge out this cost to Unilever. Although it hasn't got any margin impact there is a small mark up on this. As Unilever look at its own organization, some of the base cost themselves have come down. And as the costs have come down, what we have charged out is also lower. So, for other operating income, year-on-year comparison is about INR 50 – 60 crores lower. A lot of that is explained by this RIC, or the recovery of cost from Unilever. Now from other income point of view, we have had bit of lower dividend income, and in the base, we had some interest which came from some income tax refunds. Sorry, my mistake, lower other income is a function of the dividend income being lower, while the income tax refund is a sequential effect and not a year-on-year effect. So, when you compare year-over-year, the lower amount is coming through from a dividend point of view.

<Q>:
I think the last question we have is from Shirish Pardesi. What is the impact from Centrum Broking? What is the impact of change in regulation for packing materials, use of plastics of certain grade.

<A - Srinivas Phatak>:
There is a comprehensive program that we have embarked on this tradition. We have talked about it a few times, and it's also available in the public domain. There is a lot of regulation which is happening in terms of EPR. In one manner, HUL is playing a role in terms of formulating the right EPR and having the strategy which is meaningful to manage for everyone. We are also working with many agencies in terms of collection of packing materials and doing the right things in terms of their disposal. There is also a cheer up program and a clear commitment in terms of how we are reducing plastic in our products. We have some clear standards in terms of how we are handling the multi-layer and how we are looking at recycling. So, there is a clear program which is covering all these aspects, and HUL is taking lead in many of this both from our point of view as well as from an industry standpoint. If you have any specifics on this please connect with our Investor Relation team and we are happy to clarify it.

<Q>:
We have one more question which has just come on the line from Binoy Jariwala from Sunidhi Securities & Finance Limited. If you could kindly share your thoughts on the size of opportunity available in Food Solutions business and our plans with regards to it now that we are one of the largest F&R businesses in India.

<A - Srinivas Phatak>:
Food Solutions is an attractive business proposition. Unilever has got significant capabilities in this space globally. Even in India, there is a good fitment that we see in terms of how we run Food Solutions here. If you see a few quarters ago, we had brought the Food Solutions team and integrated it with F&R team. We are continuing to work on enhancing the portfolio. We are giving value-added solutions to the chefs, and we are building that business by investing behind it. During the quarter, Food Solutions has delivered good performance, and there is a bigger opportunity to tap into. As we bring in some of these newer acquisitions and as we expand the footprint it will give us further lever. All-in-all, it's an important piece, it is strategic and we are keen to grow this into a meaningful business proposition.

Suman Hegde

Thanks Srinivas. That's all we have on the web queue. With that, we now come to the end of the Q&A session. Before we end let me 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 result and presentation is already on the website, and you can go back and refer to that as well. With that, we bring the call to a close. Thank you everyone and have a good evening.

Operator

Thank you. 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.