December Quarter 2017 Earnings Call of Hindustan Unilever Limited
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Speakers:

Mr. Sanjiv Mehta, CEO and Managing Director

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

Mr. Aasif Malbari, Group Finance Controller and Head of Investor Relations

Operator

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

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

Aasif Malbari

Good evening and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening results for the quarter ended December 31, 2017. On the call from our end is Sanjiv Mehta, CEO and Managing Director; and Srinivas Pathak, 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 Harbor statement included in the presentation for good order's sake. With that, over to you Srini.

Srinivas Phatak

Thanks, Aasif and good evening all of you. Thank you for joining our earnings call. Let me quickly give you a quick sense in terms of the market context before we get into the performance. Our strategy remains clear, consistent and compelling and you've seen that. I think we never get tired of repeating it, because there's a beauty in just being very consistent about it, and it's paying dividends for us.

When I look at the market context, trade conditions are normalizing. In September, when we gave an update of our performance, we said that after initial turbulence, we've started things to see become stable, when we now look at it this quarter, we have seen more normalization coming through across channels.

From a demand point of view, we see a gradual improvement in demand and we're seeing it across all our categories. Input costs are continuing to inflate and are primarily crude led. In that context, let me share the headlines of our performance. We have delivered a strong volume led growth in the quarter. Our comparable domestic consumer growth has been 17% with underlying volume growth of 11%. It will be pertinent to highlight here that this is coming off a base quarter December 2016 which was impacted by demonetization where we had delivered a flat growth.

EBITDA at INR 1,680 crores is up 24% and our comparable margins are up 110 basis points. Our strong savings programs have been sustained which support the reduction of our COGS and we've continued to invest behind our brands and therefore, our A&P spends have been stepped up. PAT bei at INR 1,198 crores is up 30% and net profit at INR 1,326 crores is up 28%.

I think it's relevant to really talk about some of the GST and implications. You would recollect seeing a part of this chart in our last quarter as well. There are two clear impacts which we had called out. The first one was really on excise. To just rejig memories, excise which was a cost-in in pre-GST has now been subsumed under GST and therefore, nets off from turnover.

A similar treatment took place in terms of some of the input costs and we had talked about it in detail. I think where we want to highlight is really the right-hand side of this chart and that is with reference to a fiscal exemptions or refunds. We got units in Assam and in Uttaranchal where we have excise exemption, but with the GST scheme coming into effect, this is really being translated into a budgetary support. So, effectively with this change where from an exemption scheme it's really changed into a budgetary support, there has been a change to the way we need to look at it from an accounting point of view. Scheme got released in October, the rules got clarified in November, and which has really meant that this refund is now treated not as turnover but as other operating income. I think it's important to clarify its other operating income is very we take it and not, other income which doesn't come into us segmental performance.

So, when we look at the three impacts, I think therefore it's important to call it out how does this play out in terms of our reported growth. From a reported good point of view, we start with the two, we add the excise of 8%, then we really add the fiscal exemption of 2%, and the input tax credit. So, when we add all of that, our comparable growth, which is reflective of our performance, stands at 17%. Acquisitions and disposals during the quarter was not significant and therefore, when we look at the total number, our domestic consumer growth is at 17-odd percent.

One element to highlight here that the fiscal exemption refund is actually for the period of six months, which is July 1st to December and we have recognized all of it in the December quarter. So, going forward, you're likely to see an impact of only quarter, each quarter coming through, whereas in this quarter, we have seen a half-year impact of that.

When we look at the accounting impact on turnover, we obviously saw the headline numbers coming down. We see actually an opposite or a reverse effect when it comes to margins. Very clear, this is only an accounting impact on GST margins. Because of GST, there is no impact on our absolute EBITDA. Our reported margins are at 350 bps. Eliminating the three effects that you see, our margins are at 110 bps.

So, I think that's really setting the context from an accounting perspective, and what is GST meant for us. I think it's important to now talk about some of the key changes which happened to GST in mid-November, and the actions that we have taken in that respect. The objective for us has been very clear that the whole benefit of rate reduction needs to be passed on to our end consumers without disrupting the trade.

Almost 50% of our portfolio saw changes to the rates, and in most of the cases the rates came down from 28% to 18%. We're very clear and categorical and committed that all of this benefit of rate reduction should be passed on to the consumers. And we took multitude of actions and I want to call out a few of them. The first thing we did is that we actually intimated or advised our modern trade customers to pass on the benefits to the consumers and this took effect very, very quickly. Most of the modern trade customers are large players, are organized players, and it was very easy to effect it through on-ground promotions and operations. Importantly, what we also got is we got our distributors to reach out to more than a million of the retailers, and seeking them to pass on the benefits accruing to them because of the rate reduction. That was all with respect to trade actions and communication.

As far as producing the new products are concerned, it's really initiating the new networks. All of you who track the sector appreciate that there is a pipeline stock. To actually reduce MRPs and print them on the back and in some cases, it really requires us to order new packing material, create cylinders, produce the product and then connect it to the customers. This takes time. What we did was we immediately initiated all these networks and we have been accelerating the networks over the course between November 15 to today as we speak.

More than 800 SKUs have seen either the MRP being reduced or prices being increased where there are price point packs. We're very pleased to tell you or confirm to you that significant part of our networks today have landed in the market and the consumers are actually getting the products at lower MRPs or higher grammage. I'm sure you would have seen the extensive visibility of the coverage that we have done in more than 10 languages and in newspapers, communicating the benefits that we are passing on and attributing it to GST.

On this chart, we're actually giving you a flavor of some of the reductions which we have taken place. We have reduced prices between 7% to 9% across categories. We're giving you a representative sample of the reductions. We have also published the list of key SKUs with MRPs reductions on our website and therefore made it available and transparent for everyone to really see.

I think it's important to now talk about the transition effect. Now what does this mean? I talked to you about the time lag between producing new MRP-based products and landing them in the market, means, we were sitting on benefits which were in our books, meaning rates of GST had come down, but the MRP did not change immediately because the network meant that it would come in a few days' time or in a few weeks' time. So, all this money was really accumulating in our books and therefore what we really did is, we took a series of actions. At the early December we estimated that the effects for between November 15 to end of November was INR 60 crores. So suo motu we approached CBEC, shared the amount of INR 60 crores, made a disclosure and actually wanted to pay the money into a consumer welfare fund and we actually made that offer in early December. Again, in early January, once we finished December month, we estimated this amount and it came to INR 59 crores, because some of the networks already started to land while November was 15-day effect, December was a full month. We then went and actually again offered to pay INR 119 crores to CBEC either into the consumer fund or we even sort guidance to really to say if we could pass it off as a consumer promotion, yeah. So these are actions which were taken by HUL as a progressive step, transparent steps and with the objective of really passing on the benefit to the consumers. Obviously, the CBEC has really commended our actions, has been very appreciative of what HUL has done. But given that there is lack of rules and regulations on this subject, they have actually forwarded this matter to DG Safeguards. And we now await to really hear from DG Safeguards in terms of next steps.

In all of this, we have been very clear that this money doesn't belong to us. We've not recognized it as revenue and we're holding it as a liability in our balance sheet as of 31st December to really pass it on to the consumers in the most appropriate manner.

So, I think that's really talking about GST. Now let's switching gears and coming back to our performance. When we look at it from a category perspective, we've delivered a broad-based volume growth across segments.

Home Care has delivered 20% growth with double digit volume growth across categories. Personal Care has been broad based in both wash as well as in personal products. Refreshments have sustained a robust performance. Important to call out, that even in a base quarter, which was a de-mon quarter, Refreshments had delivered growth of 8%. So, this 13% on top of a strong base is reflective of the resilience of our performance and really the work that we've done in terms of the WiMI strategy and market development. From a Foods point of view, it's again a strong growth which is really led by Kissan. So, across our categories it's being broad based growth and we've had a comparable growth of 17%.

I think this is an important chart and all of you see that innovation and activations continue to be an important and integral to our performance and you'll see some examples on the screen. I think it's also glad to note that now Pureit has really moved into air purifiers and we have launched it in Delhi.

Naturals has again been a key piece of our strategy and Sanjiv has talked about the three pillars through which we do it, within our existing portfolio, a master brand and specialist brands. You've all heard about Indulekha. In the last quarter, we've got accreditation to really use it as an Ayurvedic medicine and we're pleased to inform you that now we've expanded it or extended it into the shampoo's category and that's gone national.

Now giving you a bit of a flavor of our category performances or the segment performance. Home Care has been double-digit volume growth across categories. Fabric Wash, we have seen robust growth and double-digit across key brands. Household Care, the growth was really led by strong performance in Vim. And purifiers, as I talked about it, has really now, Pureit has gone into the air purifier space.

Personal Care, again, it's a broad-based growth against the wash and the products. In Personal wash, there has been robust growth across key brands. Dove and Pears have led the category growth and have delivered a stellar performance. Skin's growths have really been driven by a strong performance in Fair & Lovely. You would recall that we had a relaunch which happened in March quarter of last year and thereafter the brand has really been on a good traction. And in case of hair, it's again been a broad-based volume-led growth.

When we look at it from a color cosmetics, now this has been a category which has been clocking consistent good strong growth for us for many quarters. Happy to say that again from a December quarter perspective, it's again delivered a strong growth for us and the momentum has been sustained. Oral care, we've had activations which have aided growth in the quarter and the performance in deodorants is really led by Axe.

Refreshments, I talked about the base effect and I talked about the strong performance. When we really look at it, tea continues to deliver a strong double-digit growth. The WiMI strategy and our market development of focusing on green tea, tea bags, natural care is continuing to pay us rich dividends. Coffee performance was strong and ice cream momentum continues. Foods has again been a good quarter of strong growth and the growth has been predominately been led by Kissan.

So that's really giving you a flavor of our category performance. A&P is something which is critical to us and we continue to invest behind our brands and we've talked about it over a period of time in terms of how we have made our approach of focus and more effective and we thought we will use this call to give you a bit more flavor of the kind of work that we have been doing.

Absolutely, with the ZBB initiative coming in, we've really looked at the best way to spend. We moved away from some of the traditional measures of SOV and focused on reach and frequency, but that's really about deployment. But when you really look at it, it comes down to the heart of the content we create, whether it's really Be Beautiful or when you talk about the Lux Golden Rose Awards or even the expansion into the Kissan, which is a comprehensive program, we've invested significantly in terms of creating quality content.

And then when you look at it from a data and profiling, we sit on large databases, be it through our Lakmé Salons or through our Pureit or through KKT, we sit on large consumer profiles which starts to give us a high-quality database. And by using data and analytics, we are able to target our consumers better and make our communication much effective. And all-in-all, there is also the whole space around brand experiences from digital to direct-to-home, to consumers. There are multiple models that we use to enhance brand experiences and therefore that continues to be integral to what we do.

So therefore, when you look at it from a quarter perspective, we have invested behind our brands. We've also continued to invest behind some of our innovations, such as Ayush, which we've spent in September quarter, we continue to support it in December quarter and therefore, if you really see, our A&P step up is in line with our strategy of investing really behind our brands.

And talking about savings and I think this is something that we talked extensively in the last quarter, we have a strong savings agenda, which is really aids our year-to-date margins. It is integrated into our culture. It's really about owner's mindset. It's really about challenging every cost, which is not adding value to the consumer. It's an end-to-end program. It's got zero-based budgeting. It's got blue-sky thinking and it's really enhancing our competitiveness. So, we continue to clock 6%-7% savings and we have seen the benefit of that in the quarter.

Having said that and I think we're really calling out is that the inflationary pressures are now building up, crude led. You would see the graph on the right side. In mid-October, where the crude was around the $57 levels, it's closer today to the $69-$70 levels and that's really, that's the kind of inflation we have seen. And I think therefore it becomes important for us to really be agile, be responsive and continue to manage our portfolio and therefore drive our performance.

And when we really look at the summary of our DQ results, the headline growth is 2%, but the comparable domestic consumer growth is 17% and that's the key highlights. When you look at from the other income point of view, we had dividend income which is coming in from a subsidiary which actually came in December quarter this year which was actually in September quarter last year. That's a bit of a timing phasing effect and that's what you see in the P&L here.

Exceptional items had a profit of sale of properties in the base which is not there and therefore you would see that as an year-on-year therefore that goes down. And you're also seeing a large movement in the tax, that's really coming up from a reversal of the tax provisions of an earlier year. All in all, therefore when you look at it from a PAT bei perspective we are up 30% and from a net profit point of view we are up 28%.

And, again, when we now look at our nine months performance, while from a reported perspective it is at 2%, our comparable domestic growth is at 11% and out EBITDA margins are up by 150 basis points. And I think this is where we now bring it to a summary in terms of what does this mean for our business looking ahead.

Our near-term expectations are that the gradual improvement in demand is likely to sustain, and that's what we see. Further inflation in input cost is a watch out for us, which we need to keep a close track on. Our strategy will continue to be remain agile in the face of uncertainty, focus on volume-driven growth and improvement in operating margins. And I think, at the heart of what we do is really about, consistent, competitive, profitable and responsible growth. I think that's a quick summary in terms of our headline results.

And now, I would hand over to Sanjiv for him to share his perspectives on our overall performance.

Sanjiv Mehta

Thanks, Srini. Good evening to all of you and wish all of you a very happy new year, and thanks once again for being on the call. The times have been very interesting. 2016- Same quarter we have the demonetization then the run up to GST. Now the last quarter, which we are reviewing today, has all been about smoothly landing GST 2.0. While it's not been a usual year from a market or trade perspective, I've been delighted with the way HUL has shown resilience and agility in these uncertain periods.

I'm sure all of you would agree that as a company we've handled the changes and turbulence pretty well, demonstrating the inherent strength of the business. The trade, as Srini mentioned, is getting back to normalcy. Consumer demand has also seen a gradual improvement from the trend line that we were seeing some time back. But, it's still very early days to say that a definitive trend has emerged. And while there are positive signs, of course, the input costs have continued to inflate and causing the headwinds for a category.

Our strong savings agenda helps us to neutralize a large part of the inflationary increase, and we keep a hawk's eye focus in ensuring that the consumers price-value equation remains. And as all of you know, that whenever there is inflation, we look at all the lines in the P&L and only as a last resort we look at if we have to take a price increase. But we also ensure that we are never off from a strategic price or the competitive price.

Now talking about the performance for the quarter, as Srini alluded to, of course, there was a soft base and just so that you can recall, we had a flat top line growth and a minus 4% percent UVG. Against that, 17% comparable top line and 11% UVG is pleasing and it has been broad based across all the categories that we operate in. Srini also mentioned that the results do not include an amount of about INR 119 crores, which is a transition value arising from selling SKUs with old MRPs and grammage at lower GST.

He has of course explained the details, but let me for your benefit explain the philosophy. First is, as a company, we have remained committed to ensuring that the benefit of GST reduction gets passed on to consumers. Second, we believe that as a large company, we have to partner with the government and we have to do it in a very transparent manner. And this is the reason why we have without any prompt by the government suo motu gone to the government and said that during the transition period the pipeline stocks, which we, when we sell at old MRP or grammage and at lower GST, here is the amount and we want to pay it to you.

We have done it for the month of November, and we have done it for the December. This is the amount of INR 119-odd crores, which we have offered to pay it to the government, and the government I'm sure, will come back soon, and tell us as to in which account we need to deposit the money.

Now talking about the highlights of our category performance. Home Care continues to deliver a stellar performance on the top line as well as improvement in the margins. And this has been across laundry, household care and the purifier category. In laundry, while Surf, our largest brand continues to motor along strongly, our mass and popular brands have also done very well delivering double-digit growth. Pureit, as Srini indicated, has entered the air purifier business and looking at the quality of air in many cities in the country, I think, the time is opportune, and we are very confident that this business too will do well.

The turnaround that we saw in personal wash a few quarters back continues to gain momentum; and while the growth led by Dove and Pears, the performance was broad based across key brands including Lux and Lifebuoy. Hair care has had another strong performance with strong volume led growth across key brands. Indulekha, we are very pleased with the performance. In fact, it's done much better than what we had envisaged when we acquired the brand. And we've now extended it to shampoos, and every bottle contains the goodness of nine full Bringhraj plant extracts. And just like the hair oil, we are very confident that this too will do well. Skin care and color cosmetics had a strong quarter, and in oral care we are clearly seeing green shoots of recovery, early days, but we are certainly seeing, and we are pleased with the growth that has happened in the quarter and YTD the growth is positive.

Moving on to Foods, we saw strong growth across ketchup, jams and soups. This quarter also saw some good activations, be it the Real Togetherness with grandparent’s campaign or which really focus on the various elements of human connect and highlighted the need for people to come close to nature and also to mark the occasions of the World Food Day, Knorr gave food lovers the opportunity to turn a virtual food post, share it and give a real meal to someone in need. The share the meal post was shared or re-tweeted on Facebook and Twitter. And we donated the equivalent of one meal to the World Food Program, up to 1.5 million meals and Knorr India donated 50,000 meals via Akshaya Patra. Now this was important because all of you know that there are still millions of Indians who go to bed hungry and it was one way of Knorr giving it back to the society.

Refreshment continues its sustained performance. Now when you look at the quarter and you see 13% growth, it fades when you compare it with the growth in the other quarter, but you must remember that even in the demonetization quarter, Refreshment had a very robust growth. And hence, we are very pleased with the way some of our categories continue to perform, be it rain or shine, be it Surf Excel in laundry or a tea category, they have done very well whether it's run up to the GST or demonetization.

Hence, we are very satisfied with the overall result and we have a very strong financial growth model and I'm certain we will continue to deliver consistent competitive profitable and responsible growth. If we look at the nine months of the year, the first three quarters of the year with 11% top line growth, comparable growth and 5% UVG and 150 bps mprovement in EBITDA margin, I think we can certainly conclude that results have been satisfactory.

So, thank you, and it's been a pleasure as always, and we now look forward to taking your questions. Over to you, Aasif.

Aasif Malbari

Thanks, Sanjiv. Thanks, Srini. With this, we'll move to the Q&A session. The way we will do it as always is that we request participants to ask questions on the call and also use the Q&A tab on the web link. Please keep the questions as light as possible so that we can accommodate as many questions over the next hour or so. We will encourage this call is only for institutional investors and analysts and hence if anyone else who is not an institutional analyst or an investor, please refrain from asking questions and you can directly engage with us in the Investor Relations team here.

With this, I'll hand the call back to Karuna to manage the session for us.

Operator

Thank you very much, sir. We will now begin the question-and-answer interactive session. [Operator Instructions] The first question is from the line of Abneesh Roy from Edelweiss Securities. Please go ahead.

Abneesh Roy: Sir, congrats on strong performance. Sir, my first question is on Indulekha. You mentioned it is much better than the initial expectation and you have rolled it over to shampoo also. So, two questions there, one, apart from shampoo, would you look at long-term more such forays? And second, is it doing better than expectation in existing strong geographies Indulekha or even new markets?

Answer: Thank you, Abneesh. And I was expecting you will open the innings. So first is, it has done better than what we had anticipated when we purchased the brand. And when we purchased the brand, we had worked out that we will extend it beyond the existing markets and it is doing well across the country. So very pleasing. The second question that you alluded to will we go beyond shampoos? First, let us land shampoos and then certainly we will look at that what is the space which it can occupy beyond the hair category.

Abneesh Roy: Sir, you've done quite well in terms of volume growth. The base quarter had a 4% dip. So, if you take two years, it's a 7% growth, which means around 3%-3.5% CAGR in terms of volume growth. Now that's a good number in the current context. My question was, two years back, Ayush, Citra and Indulekha were not there. So, if we take this off, then what's the impact? Second, because of GST, there were some rate cuts and price cuts therefore, so that would also lead to consumer behavior of buying more in terms of volume, right. Any sense you have if we take these two items then what's the kind of growth, two years?

Answer: See, first is, I would not like to give the numbers of Lever Ayush or Indulekha, yeah. But important to ask us a question that how is Lever Ayush doing. I've spoken about Indulekha, yeah. We are very pleased with that in most geographies it has done well. And certainly, some categories in some markets have done better than the other, whereas in some other markets, some other categories have done better. But on an overall basis, I think it's been a very pleasing performance of Indulekha as well as Lever Ayush. They still constitute a very small portion of our business, yeah. So, they would not dramatically impact the results of a INR 35,000 crore business from that lens.

From your math, you have done the math calculations absolutely right. And that is the reason why also I looked at, let's look at the YTD figure. Now you have to just pause and reflect as how was the market was growing, yeah? The market if we look at 2013 to 2016, the markets grew volume at about 2.5% to 3% on an average when the GDP was growing at about 6%-7%, so it was nearly half from a UVG perspective, underlying volume growth perspective.

And then of course, we had the turbulence of demonetization and GST. And it is not an automatic thing that what you give up in one quarter after a year you will pick up automatically. It doesn't happen, business doesn't happen like that, yeah. The good bit has been that what we lost we have recovered. That's the good redeeming feature.

And from a perspective of even sequential growth, I think it's moving in the right direction. That does not mean in any way that the underlying volume growths are back to high growth levels. It's too early and we are very clearly saying that it's too early to make out a trend. Wait for another couple of quarters to see how the consumer off-take happens. So, you know our philosophy, Abneesh, we don't become very euphoric when the quarter is good, similarly we don't get too dismayed when it is a modest quarter.

Abneesh Roy: Sir, that's quite useful, just two small follow-ups there. One, are you calling out the better category products within Ayush? And secondly sir, TRESemmé I remember became successful very quickly. Do you share the same optimism of TRESemmé say on Ayush and Citra also?

Answer: I'm more optimistic about Ayush about Ayush than about Citra. Citra is only in one, which is basically in facial cleansing, yeah. So, we have a more job to be done to see it. And when I talked about Ayush, yeah, for instance, oral care is doing better than rest of the categories in some part of the geography. In some part of the geography, the skin cleansing is doing better. In some part of the geography, it is the facial cleansing is doing better.

So, it is different parts is coming well, but very importantly, where it is now one year the business as well, which is southern part of the country where the business is now much more stable. In month-on-month, the growth rate keeps improving, that's a good sign. And very importantly rather than being taken in by just the growth numbers, we look at the penetration numbers and the penetration numbers also give us confidence that we are on to something, which will turn out to be a very good launch.

Abneesh Roy: Right, sir. That's quite useful, sir. Thanks a lot.

Operator

Thank you. We have the next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Yeah. Hi. Thanks for taking my question. Firstly, on the volume growth, I wanted to get a sense because you said the channels have now nearly normalized. Do you have a sense that has there been any sort of re-stocking cycle in this quarter either in wholesale or in retail and has that helped the volume growth a little bit?

And secondly, this revenue growth being 17% versus the reported growth, is that the right way to see it in the sense that at a consumer level, the pricing growth will be almost negligible right now. So, the consumer spends on your sales, the growth in pricing would be very low. So, should we look at that as a better metric for revenue growth, consumer offtake growth in that sense?

Answer: So, Arnab, thank you for both the questions and I think let me take the first one. Channels, I think what are the best way to define is that I think channels are stabilizing and we are actually seeing a good performance across them. And this is not something which we said has started now. If you recollect when we talked about our September, we said while there was some initial disruption, we started to see some stability at that point itself.

If you look at it from most of the channels, if you see modern trade, I think it was never an issue. I think there was a consistency there. There was a little bit of wholesale really picking up, which happened in towards the end of last quarter. And therefore, when I look at the aggregate numbers and when I look at a channel performance - primaries and secondaries, we don't really have to call out any up-stocking effect, which is coming through in any of them. Yeah.

Arnab Mitra: Sure.

Answer: One needs to be careful. Obviously, it's a large country and a complex country and there could be some parts which we could be there, but broadly we don't see that. Now, coming back and looking at our comparable growth, I think it's a difficult one given the multitude of changes that GST has brought about, and these are sizeable changes. But I think there are a couple of good ways to look at it. I think what we have done is really reflective, because that excise is a pure accounting side of the equation, yeah? You can actually look at the excise cost line in our P&L and you can do the math and it's a very straightforward calculation to say, that 8% bears out on its own.

If you then look at the other element, which is our fiscal exemption or refund, that is also pretty much a straightforward calculation because now we know exactly what is the amount of refund and therefore it's easy to do the math. The only place I think where it becomes a little important to understand and dissect is the movement of the input cost of what we call as the input cost, because it has come through in many lines- octroi, service tax and many others. And there's also a combination of some of the pricing that we have passed through in the GST round one. So when you put all of that, I think it's a very reasonable way of looking at our growth.

We also looked it from another lens and we said fine. We look at a volume and a price split and what is our own understanding of these two levers. We had taken pricing in the beginning of the year. I think this is where we need to take you back towards the backend of last year and beginning of the year with the inflationary pressures which started to come through, we had taken pricing actions. Obviously, there will be a few quarters before it anniversaries so therefore you get that benefit.

And again, the other element is when we have looked at our savings and when we looked at our savings program, the Symphony program. We've looked at all elements of cost and there was a concerted effort towards being more efficient and effective on even on our trade spends. So, when we have done that we've again seen the benefit of that come through from a top line. So, we've looked at it from multiple angles and I think this is the reasonable way of really looking at our comparable growth and we are very comfortable with that.

Arnab Mitra: Sure. Thanks, that's pretty clear. And just last question on margins, you obviously had a very strong ZBB globally running in Unilever last year, I mean 2017. Most likely Unilever would have over delivered its targets. So, as you go ahead while cost saving is inherent in your culture, will it be fair to say that the pace of cost saving maybe could come down given that you've probably plucked a lot of the initial benefits would have been larger in quantum?

Answer: So, I think I'll take you back, I think to what, Sanjiv, I think, nicely summarized it at the end of last quarter, yeah? We used to be at 3%, 3.5% growth and for a company like that that used to be a stronger and aggressive number. But when we've really put this total thing as a philosophy embedded into our culture and hold it together with an owner's mindset, we've really unlocked the next set of savings. So today, for us it is not a small initiative, it's an integrated initiative. So to that extent, the simple way to describe our philosophy is that any cost which is not serving the consumer is up for challenge, is up for zero basing and it's up for rebasing. So we will continue to be aggressive and take all costs out and the results will be for us to see. This year we have done 6% to 7% and we will continue to drive it further. I would not want to call out a number going forward. Sanjiv, some perspectives from your side.

Answer: Yeah. Because one of the things which you'll need to understand that the price growth, which Srini talked about, which approximates about 6% for the quarter as well as for the first nine months of the year, also comes from optimizing the trade spends, yeah, which gets reflected under the price rates.

So, we look at all the lines, we've brought in a owner's mindset. We get hundreds of ideas every year and then we have a very robust system of taking it from ideas to implementation. So, this is a machine which has been working on cost saving agenda. For the last three years, we have delivered savings upwards of 6% of our turnover. And every year we get new ideas, new creative ideas and that is the fun of business, yaar. The lemon has unlimited juice.

Arnab Mitra: Sure, thanks. That's very helpful and all the best.

Answer: Thank you.

Operator

Arnab Mitra, you're done with your question?

Arnab Mitra: Yeah, sure.

Operator

Thank you. We have the next question from the line of Amit Sinha from Macquarie Capital Securities. Please go ahead.

Amit Sinha: Yeah. Thanks! and congratulations on very good numbers. My first question is on rural growth. Till last quarter, the commentary was that the rural growth is tracking lower than the urban, so how did it play out this quarter and what is the commentary on the outlook for the rural?

Answer: Okay. The rural growth this quarter was better than urban. But I don't want you to jump to conclusions because in the base quarter rural had been impacted more severely because wholesale channel had got impacted. And rural, we cater through our Shakti channel, our direct distribution and also through wholesale, yeah. So, I would say that, yes, the growth has been there, and we are pretty happy with it, but we don't want to call out a very definitive trend. So, wait for another couple of quarters before we can conclude that yes, the trend of rural growing faster than urban is there to stay.

Amit Sinha: Sure. On the personal wash segment, in the last two quarters there has been a very strong growth trend. Just wanted to understand is there a share gain scenario also from the unorganized space after the GST rate cuts?

Answer: You know the share gain from unorganized, again, you know people don't just immediately close the business and run away because this is a big occupation and they would do their best to survive till it becomes extremely difficult. So, I would say again we had also indicated last time that we will have to give it a year to see whether the real trend is shaping up whereby unorganized players who were not hither to paying taxes are now finding it difficult to survive.

The important bit I think from a perspective of our personal wash business is that, one, is we have helped the premiumization by bringing in Dove at INR 10, Pears at INR 10, so making it more accessible. The second is we have had some fabulous activation, yeah, like the Lux, the Gold Style Awards, the Lux the Rose Awards. That has gone very well, strengthened the brand equity. Lux has grown extremely well; Hamam with a fabulous activation that we have done in the south that has gained well. So it has been growing based on fundamental improvements that we have done in the category.

Amit Sinha: Sure. See, the reason behind the question was that even the other player is growing very, very robustly and the entire organized play on the soap segment particularly has been very strong. I mean, compared to the last five years or even let's say, 10 years, this is the first time when we are seeing such a robust volume growth. So...

Answer: But it’s very early, saying this is a death knell of local small players, I think it's a bit early. I would say that don't write any obituary at this stage.

Amit Sinha: Got it. Sir, my last and final question is on your A&P spend. As a percentage of sales, we have seen the spend at least in the last two quarters has been multiyear high. So, my question is whether the incremental spend in this quarter and the last quarter has been mainly on the new products or you have also kind of increased your spend on the existing set of portfolio products?

Answer: You know we have – first is, we don't like we always clarify that spends on A&P, we don't run it based on fixing it as a percentage of turnover. We do it based on activities and we spend behind the new brand of course. But very importantly we have spent huge money behind market development, yeah. I have been mentioning it, a large part of our growth also comes from the categories of the future where we are investing, and we have scaled it up to nearly 200 million consumer brand interactions every year. And this is not just sampling, but this is experiential sampling where we educate the consumers. So, all this thus contribute to the BMI spends going up.

Amit Sinha: So, will it further tick up as a percentage of sales going forward or I mean?

Answer: We will put in the right kind of money. You know, what do we tell you guys, and you would have seen how we play the game in the last 21, 22 quarters where we have grown in 21 out of 22 quarters even on the bottom line. Our whole focus has been to maintain a rhythm, yeah play the portfolio, play different lines of P&L, so that we have competitive growth. We build the categories of the future and still giving, give, keep giving an improvement in the margin.

Amit Sinha: Sure, sir. That's helpful. Thank you.

Operator

Thank you. We have the next question from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu: Hi, good evening, everyone. Thanks for taking my question. I think the earlier caller alluded to this topic. But we just heard from one of these manufacturers of HPC fragrance that demand for the products from all categories of their customers have come back with a bang this quarter. And this includes demand from these smalltime consumer goods manufacturers namely the unorganized guys who are I guess severely shaken around the time when GST was just implemented. From what you are seeing on the ground, is there a return of this unorganized phenomenon? And taking on from this, what according to you is then your take on the famed unorganized one or to organized conversion story under the GST regime?

Answer: So, I think Richard, Sanjiv has tried to articulate it just a bit ago. It's not that these unorganized guys will either disappear or reappear. People will look at the ways to manage the business. I think if you ask me when the demonetization happened, I think there was a bit of a squeeze. With the GST, people may have taken a bit of time to stabilize or streamline, maybe possible. But when we look at our own data, when we look at our own sense, we haven't seen anything which we would call out as normal or outside of normal, so it'll be very difficult for us to say if we've really seen it. Our numbers across categories, channels show that there is a steady stabilization or normalization of trade and pick up in the consumer demand.

Richard Liu: So, de-mon has happened, GST has happened. So, what has to happen now to really boost this whole unorganized to come to organized thing? I mean is it simply execution and better monitoring on the ground by the government?

Answer: So, Richard I'm afraid I don't follow your question. So, could, could you be more specific?

Richard Liu: What I am saying is that, see, I mean demonetization has happened and now GST is also implemented, and yet you don't seem to be very sanguine about this whole unorganized to organize conversion story happening, at least not immediately. Now with these two big events having taken place and you know and yet you don't seem to be very, very optimistic about this unorganized to organized thing happening in a short period of time. My question was that what more do you think needs to happen to really spur this whole unorganized to organized thing?

Answer: So, I think, Richard, let's clarify. I think what we are really seeing is that look, the question was have we seen that happen now and has that made a big impact. We said no its early days. It'll not be right to conclude with a quarter or two quarters performance to say that either a big switch has happened from unorganized to organized. When we look at it logically, intuitively, its simplified tax regime and simplified governance regime, some of the unorganized players could have difficulties to continue to compete in a sustainable manner. So, to that extent should it benefit some of us, definitely Hindustan Unilever given our brand strength and positions, the answer is yes. All that we are saying is that let's wait for a quarter or two to see if that's fully playing out. I don't think it's a question of making any interventions at this stage from anyone.

Richard Liu: Okay. Philosophically, is it actually correct to add back this 3 to 4 percentage point figure relating to input taxes, while looking at domestic consumer growth? Come to think of it, would not your volumes have been higher because you've cut prices to the extent of the input tax credit available and hence counting this effect again on top of the higher volume growth that this price cut may have spurred, would it not be sort of double counting of growth?

Answer: So, to me it wouldn't because, look, your underlying performance is influenced by many factors, market growth being one, performance of rural being the other, different channels and how they're playing out, it is premiumization. There are multitude of factors. I think the simplest way to look at this is that this input cost, what is it? It's again an accounting way of looking at it. Earlier a lot of these were sitting in our cost line. Today what is really happening is that under GST regime they've come up and they're getting netted off from a turnover. How we've managed the totality of – and it goes back to how we have managed the total effects of the net benefits is a separate question. We have taken in some categories it went up, some it went down, we got the prices, we took the pool, cut prices in some and invested in the others. So, to me this is a pure accounting way of looking at this 3% to 4% and I'm fairly comfortable with that. I don't think it's really a case of any kind of double counting.

Richard Liu: Okay. One last one if I may. It's been a long time since we've seen a 13% to 14% Q-on-Q growth in this, other expenses line, which has been there in DQ versus SQ. Any insights into this cost and what's driving this kind of a growth in costs given all the focus on cost savings program, etc.?

Answer: I think there are two things. I think, the other expenses has got a component which is linked to variable expenses. There are distribution costs and others which sit in that line. So, there is definitely an element which comes through as we get higher volume growths, the cost will go up. The second is also a bit of an issue, which is coming from the way reported turnover and the underlying turnover happens. So, if you were to really look at a comparable turnover growth, we are actually getting a positive leverage in bps terms. But because of, again, our absolute turnover going down, it's indicating it looks like a percentage basis is going up. So, suffice to say, variable cost gone up with reference to volumes but on a comparable turnover basis, we're actually seeing a benefit in the other cost line.

Richard Liu: Okay. I was referring more to the absolute figures of about INR 1,400 crores is about a run rate of INR 1,250 crores in JQ and SQ?

Answer: Yeah. So, a large portion is volume linked, yeah, so you have things like distribution cost, the more the tons you sell the more the cost that you're incurring.

Richard Liu: Okay. Aasif, I'll take that offline with you. Thank you very much and wish you all the best.

Answer: Thank you, Richard.

Operator

Thank you. We have the next question from the line of the Tejash Shah from Spark Capital. Please go ahead.

Tejas Shah: Hi, thanks for the opportunity. Sir, the first question pertains to our Home Care segment. So, if you see the highlight for the last two quarters has been strong revival of volume growth in Home Care segment. Is there any reading here for rural recovery?

Answer: In the Home Care?

Tejas Shah: Yeah.

Answer: So, I think the point, Tejash, is that look, Tejash, is that we have seen good performance in our Home Care and has been broad based both from a brand point of view and it's also been from a channel point of view. So, to that extent, it's a holistic performance. I think what's really driving is fundamentally if you really see that the Home Care business is on a good rhythm. We are covering all benefits segments. We are covering the whole pyramid in terms of price points. And therefore, I think the whole piece which has happened around the portfolio, the capabilities and execution has meant that the brands and the category is in good shape. With demand picking up, and trades normalizing, we have absolutely gained. So, we have gained, again, it's continued to grow well from a rural point of view and it's also grown well from an urban point of view.

Tejas Shah: Sure. Sir, second question is for last year or so, quarter-on-quarter we are seeing that the Naturals portfolio is becoming a major part of our growth narrative going forward. And now, as we understand mass Ayurveda itself is an oxymoron because it brings its own sourcing challenges. So, unlike the current portfolio where sourcing is never an issue, Ayurveda or Naturals portfolio by definition you need a backend sourcing which is much more natural oriented. So, just wanted to understand if we are pegging a very high growth run rate over here, what are we doing on the sourcing part to support that kind of growth run rate?

Answer: Yeah. We are – you're absolutely right. Yeah, there are the challenges and we are developing backend capabilities to ensure that we have a continuous feed of the raw material.

Tejas Shah: Sure. That's helpful. And sir lastly, if you can explain the current quarter's performance from the lens of the WiMI strategy that we implemented a year back? Or if you can help us to understand have any notable divergence in growth rate across regions?

Answer: First, is we are very pleased with WiMI. I don't think, we would have been able to navigate demonetization or the run up to GST as well as we did if we did not have WiMI. The other very important bit is besides the turbulence that came in, from a perspective of consumer lens, it has been absolutely the right thing to be done. Today, we have products where we focus only on certain clusters, we have pricing at times different, we have activations which are different. So, this entire strategy that we make has been different for different parts of our consumer clusters. So, we don't have any more a pan-India strategy which we implement everywhere. We have strategy by clusters, and that's how the execution happens. I think this has also brought in speed and it has also taken us much, closer to consumers.

Tejas Shah: Sure. That's helpful. Thanks! and all the best, sir.

Operator

Thank you. We have the next question from the line of Aditya Seth from Investec Capital. Please go ahead.

Aditya Sheth: Thank you for taking my question. Sir, I just wanted to understand the fiscal exemption accounting impact, so why there will be no change in the EBITDA, the absolute EBITDA if you can just explain that?

Answer: Yeah. So, I'd start really saying that look, we have units in Uttaranchal and NESA and other, while which was typically a scheme in the nature of exemption, the modality has also meant that in some of these, we were claiming it as a refund. That was all a part of excise duty pre-GST, and it was very simple, it went into the cost line, didn't have any impact on the revenue.

Now what's really happened is now with the change to the rules, now it is being treated as a budgetary support. It's important to understand fundamentally nothing has changed apart from the fact that, yes, we only get 58% of the value addition. The fact of the matter is today it is given out as a budgetary support and it is really handled through the DIPP. So when you really look at a budgetary support and when you look at that it is a refund claimed through that, it comes into the nature what it – it cannot be treated as sales.

So earlier what used to be – what – sorry, what used to be a part of excise and INR 145 crores sitting there today is treated as other operating income, so nothing has changed. It's moved lines of the P&L from excise duty into other operating income. So therefore, what's really happened is from a P&L point of view, the absolute amount remains the same. It's still a credit, it has changed lines. Yeah?

Aditya Sheth: Okay. So, which cost line item?

Answer: It sits in other operating income in our P&L, if you look at our published accounts, there is a separate line where we call out as other operating income. It's not been netted off from any other cost, it is sitting in the other operating income. But in our segmental results, it gets reflected into the right category.

Aditya Sheth: Okay. Okay. I will take it offline if I have more questions. Thank you so much.

Answer: All right. Perfect.

Aditya Sheth: Thank you.

Operator

Thank you. We have the next question from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Hi, good evening. Actually, my question is on Q-on-Q growth. So historically and by historically, I mean, for fiscal 2015, we used to have very strong Q-o-Q growth in the December quarter over the September quarter. And over the past three years or so, this has been weaker obviously last year because of demonetization, it was significantly weaker. But it's still about 1.5% top line growth Q-on-Q. One, on a long-term basis, why has this change happened? And I see this is largely in Personal Care. So, can you just throw some more light on that?

Answer: So, look, I think it's important to understand, I think looking at historical data and some of the numbers is only useful to a certain extent, yeah, and because, yes, the last few years have been turbulent and where we are. When we look at it even from a sequential perspective and we went back to the historical levels, I think where we see our performance in the current year has been comparable or slightly better than what we have seen in 2014 or 2015. But that to me is one part of the story.

I think if you really focus back on the fundamentals, I think it's important to understand where are we really coming from. In the middle of the year, we had a significant GST impact, and this is where I think we need to be careful and not get carried away because memories can be very short. When we actually went into GST in June quarter, there was still transition. That got navigated well. September quarter, we started to see more stability around trade. December quarter, we're now continuing to see normalization and a pickup in demand. I don't think we are again in a fully in a space where we can start to draw all these trend lines. Having said that, if you were to compare it, I think we're in a good space Q-o-Q.

Aditya Soman: Understand. And so overall, I mean, there would be some impact in the previous quarter because of refill in the channel. So, overall do you think that the performance has been sort of satisfactory on a Q-o-Q basis?

Answer: Yeah. It has been. In fact, if you recollect our September quarter performance, we talked about some potential refill. We also talked about CSD not buying, yeah. And I think Balaji had clarified that in the September quarter results. So, that's where we saw some of those effects. But as far as from a December quarter, I think it's been a normal quarter in that sense, and I think we're reasonably pleased with the Q-o-Q performance.

You also need to add the fiscal refund adjustment because since that's moved from the sales from operation to other operating income in this quarter, when you see Q-o-Q December quarter over September quarter, you have to make that adjustment.

Aditya Soman: Understand. So that will be 100 basis points, right. It was about 200 basis points for six months, so that's 100 basis points approximately?

Answer: Since the adjustment has happened as 200 bps of this quarter, it's will actually be 200 bps.

Aditya Soman: Okay, yeah.

Answer: I'll pick it up. So absolutely, Aasif, can clarify because again an open invitation to all of you, these have been very – in the past two quarters, we've seen that with GST there's been a lot of accounting numbers, the numbers have moved up and down. As always, absolutely we're happy to set out some time and Aasif will walk you through some of the calculations and the workings like he did after the previous quarter.

Aditya Soman: Understand. That's very useful. Thanks, a lot.

Operator

Thank you. We have the next question from the line of Naveen Trivedi from HDFC. Please go ahead.

Naveen Trivedi: Yeah, hi. Good evening to everyone. Sir, my question first question is on the personal products side, our like-to-like revenue growth is around 17% while the EBIT growth is around 9% on Y-o-Y basis. So, anything to read about the slower EBIT growth in personal products despite the – we had a very healthy top line growth?

Answer: So, I think, Naveen, I think the important. I think this is where I think we take pains to explain that look PC important part of our business, getting and driving growth is absolutely critical. And for that, we will continue to invest behind our brands. And especially in Personal Products, we have continued to invest. Some of our innovations, again, it's important to understand that you don't spend A&P only in the quarter of the innovation, which you launch you also continue to sustain and support them. So effectively when you see even from an Ayush perspective, we have spent. We have continued to spend on the core, and therefore, we have sustained those investments.

When I look at it from a gross margin lens, I think we're all right. When I see from an investment levels, we're comfortable. And even when you look at our margin percentages in Personal Care, on a comparable basis, I think they're healthy. Even if you look at our historical trends, they are in a healthy shape. So overall, we are very comfortable with the quality of numbers in Personal Care from a quarter point of view.

Naveen Trivedi: Fair point. So, the understanding is that all the new launches as of now it's more at the initial stage and we consume more of our investment on those brands?

Answer: That is one element. Again, I want to make it absolutely clear, it's not only about new launches, yes, new launches absolutely one clear element. Sanjiv also talked about significant step up from a market development perspective and that comes through in very different ways from how we connect with the consumers to how you do rural marketing. That is also an absolutely important space. So it is about innovations, it's about core, it's about market development all components are there.

Naveen Trivedi: Fair point. In the same context, if you can also explain about the Food EBIT which although is very small in terms of our total EBIT. But anything to readout from that aspect or anything, any similar brand investments are also happening on that segment?

Answer: So, I think we've talked about in this past and I think good to rejig. Small business, important to continue to invest behind the business, to grow the business, to accelerate the business and the important job for us to get in to expand the portfolio. And to that extent, we will continue to invest, and I don't think one should read too much into a quarter number here or there. Most of our categories and more so in Foods.

Naveen Trivedi: Fair point. The last question is on the corporate tax rate side. This quarter the rates have significantly gone down. So, anything to read this quarter or maybe if you can give some effective tax rate for the year kind of guidance.

Answer: So, basically two things here. On the first one, if you see, the PAT bei and the PAT, there is an element of tax which is actually falling as exceptional, yeah, and the number we're talking about is close to INR 150 crores, so it's exceptional in nature and hence to that extent it's taken the effective tax rates down but not the effective tax rate on before exceptional item. So, I think, that's the first one.

Second one, on the effective tax rate pre-PPA and exceptional items, we'd given a guidance in the beginning part of the year that this would be at 30.5%. It's looking more like 30%, yeah, so it's moving more towards 30%. And we'll give you a guidance for next year when we come to March quarter.

Naveen Trivedi: Yeah. Thank you so much for all. That's all from my side.

Answer: Thank you, Aasif.

Operator

Thank you. We have the next question from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: Thank you. Just a few questions from me, just to clarify a few things. Did you say that there was an opportunity for channel refills to continue at some point time in the future or would you say it's pretty much done and dusted?

Answer: We've said it's pretty much done and dusted. We haven't said anything about future.

Nillai Shah: Okay. And in terms of the fiscal refund, could you give me the number for this quarter per se, given that this quarter?

Answer: Look, we don't want to split it up into quarters and numbers. I think they've called out that the effect for the second half is approximately 2%. You can do the broad math but at this stage we don't want to split that between the quarters.

Nillai Shah: Okay. And the final question is, in the case where grammage moves up for a particular price point SKUs would that be considered as volume increases, or would you be considering it as one case of a bigger product sold?

Answer: That'll come into volume increases.

Nillai Shah: It'll come into volume increases.

Answer: But that's been consistent the way we have done it for many years. It works both ways. When we cut grammages, we lose volume, when we put fill backs we've gained volumes.

Nillai Shah: I was asking about the price point SKUs. Because you would look at underlying volume growth by comparing it with pricing in the base number. But where pricing has remained constant, would come into...?

Answer: Yeah. It will. It will.

Nillai Shah: It will. Okay. Perfect. Thank you very much.

Operator

Thank you. We have the next question from the line of Harit Kapoor from IDFC Securities. Please, go ahead.

Harit Kapoor: Yeah, hi good evening. Just two questions. Firstly, the growth between the mass categories, mass brands and the mid-end brands. Now, post demonetization and GST, one would have thought that even in the medium-term brands like maybe, Lifebuoy, Lux, or even for example Wheel, would have probably done a little better in the premium brands taking share from the smaller brands at unorganized market. Consistently Surf has performed better, and Dove and Pears you've called out has led category growth in personal wash. Do you see in an environment where probably there is some pressure on unorganized, that this could change a little bit to the favor of mass end brands especially, because you've cut prices as well? Or do you see that the premium branch should continue growing faster over a period of time?

Answer: See, some of our premium brands have always done well and I think, Sanjiv, gives an example of even in a demonetization quarter a brand like Surf did very well. So, I think that's one context. Second is in today I think it's important to understand demand is picking up, demand is picking up across categories. And as we sit today, we haven't seen any different trends playing out between mid-mass and premium. I think that's a second data point. Third, I think is important to think, why premiumization is a secular trend and we continue to see about 1%-1.5% up-trading in the overall categories. That is again something which will play out. Having said that, there is always going to be a role for the mid and the mass given the size and the scale of opportunity of India, given the penetration opportunity or the consumption opportunity or given the rural demographics. So, I don't think at this stage we would want to call out anything different. Let's continue to see the next few quarters to see how demand plays out and then whether we're able to pick up any trends from there.

Harit Kapoor: Okay, okay. Just the second question was on distribution. Now it's been 12 months since demonetization. We also had GST now for two quarters. How has the channel mix changed for us? And if you could also give a sense on increase in direct distribution et cetera if that's possible?

Answer: So, on the distribution side, I think we don't publicly share numbers in terms of numerical distribution. Yes, that's direct distribution is an important element for us and therefore even when demonetization disruptions happened, we were able to sustain growths because of that capability. But important that today, in addition to the numerical distribution, it's the assortment and the quality of distribution which we continue to focus on and therefore that I think is the key enabler for us. So that's how let's say the distribution piece is playing out. Sorry, you'd asked me another question.

Harit Kapoor: Channel mix, on the channel mix.

Answer: So, on the channel mix, again, there is nothing which we would call out very differently. From a quarter perspective, we've seen good growth across channel and that's something which is there. And I think, Sanjiv talked about, rural has picked up. It's not gone back to its historical levels when it used to be 1.5% of – 1.5 times urban, it's not gone there. But having said that, definitely we've seen a rural pick-up. Overall channel mix and contribution, that there has not been any big variation for us to call. And that's how it's continuing.

Harit Kapoor: Okay. Thank you. Thank you very much for this.

Operator

Thank you. We have the next question from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.

Jamshed Dadabhoy: Yeah. Good evening. So just to carry on, where I think, one of the participants asked on your, how you'll calculate UVG? So, if you look at these 72-odd SKUs for which you all have detailed the price changes. On the wherever they are grammage increases, it works out to an average of about 10% or so. So, would it be fair to say that there's been an uplift in volumes to the extent of 2% to 3% on an overall basis, which will sort of carry forward for the next two, three quarters before these anniversaries?

Answer: So, look, it represented – first, I think, two or three things, first is, it's a representative sample of some of the key SKUs to give a flavor of the changes to the grammages, yeah. So, it's not the totality and therefore, I wouldn't start to do that math straight away, yeah. And I think, that's the easiest way to explain that, Jamshed, yeah. Don't start extrapolating all of that, yeah. So, to the extent...

Jamshed Dadabhoy: Fair enough. But indicatively, there would be some uplift, right?

Answer: Of course. There will be. But if you put up some of the grammages we've taken up, that will come through as volume, absolutely. But I'm not quantifying it and I'm not asking you to just extrapolate 75 SKUs for the totality of HUL portfolio.

Jamshed Dadabhoy: Yeah, yeah, sure. All right. Thank you.

Operator

Thank you. We have the next question from the line of Abhijeet Kundu from Antique Stock Broking Limited. Please go ahead.

Abhijeet Kundu: Hi, sir. Thanks for the opportunity. My questions were bookkeeping ones. I mean, staff costs during the quarter has gone up by about 20% year-on-year.

Answer: Yeah.

Abhijeet Kundu: If we look at the previous quarters, generally our staff cost has, in the last few years, has grown at a lower rate. So, anything specific to read into that for this particular quarter or? Yeah, so that was my first question.

Answer: So, I think the best way to look at some of these line items would be to look at the staff cost typically would be to look at a full year view. That's normally the best way and the most indicative way. Having said that from a December quarter perspective, there are a couple of elements. One is that we have done – we do a true-up of our variable pay because a lot of our incentive schemes are also linked on share based schemes. And given the performance of HUL and Unilever, there is a certain true-up which comes through from a December quarter perspective. So that's one important element.

Second is also there is an inflation impact when we compare year-on-year, that also comes through. These would be, let's say, couple of elements to call out. But the best way to look at it would be on the totality year-to-date – I'm sorry, full year numbers. And I don't think there is anything structural that we will call out from that perspective.

Abhijeet Kundu: Okay. And other income during quarter has also gone up quite substantially. I mean, is it purely due to a low base or I mean INR 152 crores against INR 83 crores?

Answer: So that's really a function of – so can you hear me?

Abhijeet Kundu: Yeah, yeah, I can hear you.

Answer: That's really a function of the dividend income which we have received from one of our subsidiaries. It's a phasing issue. In the previous quarter, we had actually called that that it was a drop because the money didn't come through in September quarter, it's come through in the December quarter and, therefore, that's the increase which is coming from that. It's more a timing issue.

Abhijeet Kundu: Okay, got it. And just my last question was, when we look at your fabric wash portfolio...

Answer: Yeah.

Abhijeet Kundu: ...you know during the last two quarters, the commentary has been that, the overall growth has been broad-based – double-digit growth has been broad based...

Answer: Yeah.

Abhijeet Kundu: ...from Wheels perspective, you have seen a – according to my reading, we have seen a good amount of improvement in Wheel during these quarters. So, what has really driven that? Because Surf and Rin, they were doing well. Surf was really leading the growth in fabric wash. But Wheel was somewhere a bit lagging but there has been a good amount of double-digit growth is really something which has been good for Wheel, I think, so just need your view on that?

Answer: So, I'm not going to comment on some of the volume or double digit or not, but suffices to say that, look, its overall portfolio has been in good space. From a Winning in Many Indias perspective, I think, it's been one of the beneficiaries for us has been the Home Care category. Yeah. And I think it's also enabled us to manage a brand like Wheel in a very cell approach. Our 14 clusters WiMI has meant that our activations are close to the market, they're relevant. And they've also done some fundamental work on the brand actually, for a couple of years. If we go back in history and maybe look at 2016 and 2015, we've really done a lot of fundamental work in terms of product quality formulation and we've also started to see the benefits of that. So, all in all, I think fabric wash, all brands and the category is in a good space and we're continuing to see the benefits of that.

Abhijeet Kundu: How has been the growth in Central India, because Central India has been one of your focused growth geographies, which had really driven growth? Post-demonetization and GST implementation, wholesale impact, how does the Central India growth look now, I mean, it has come back.

Answer: So, it's looking good and I think that was I think – at the heart of – one of the key elements of our WiMI strategy was really focus on Central India. And we always said that it should go at least 1.5 times on national average and we are seeing that actually now play out.

Abhijeet Kundu: Okay. That's it from my side. Thanks a lot.

Answer: Thank you.

Operator

Thank you. We have the next question from the line of Kunal Bhatia from Dalal & Broacha Stock Broking Limited. Please go ahead.

Kunal Bhatia: Yeah, sir. Thanks for the opportunity and congratulations on a great set of numbers.

Answer: Yeah.

Kunal Bhatia: Sir, just wanted to get the sense from you in terms of because of this GST and the price cuts which we have taken, would you be able to share any sense on how much of our premium products become – come down to a more affordable kind of range and what could be the – what kind of growths have we seen in those products?

Answer: So, I think to give a perspective, we've taken price reduction or pass-throughs, let me call it this way, because what we have done is when the rates came down from 28% to 18%, actually we have done is really reduce the prices. This reduction between 28% to 18% translates between 7% and 9%, and that is what we have passed on and we passed on across, some of it has been more towards products of mass consumption. It's not as if we've done a straight 7% to 9% cut everywhere. So that will be my first take. So, it's not as if we've completely shifted the table and made some of the premium come down a tier. Yeah, they become more affordable and which is not a bad thing at all, because it starts to give an impetus to spur growth.

Again, let's be honest, realistic, the 28% to 18% really happened in November. We're still working that one. It's not even been in a long period of time, let's see how that plays out. But overall, we are absolutely delighted with the 28% to 18% reduction. And actually, we thank the government for that because actually it starts to make FMCG products more affordable for the consumers. And I have no doubt that its definite across our segments, whether it's premium, mass or the mid segment. But, again, too early to call that out because these changes are recent.

Kunal Bhatia: Oh, but you are looking to do some of those changes and bringing more of these, say, a little bit higher premium product to the affordable range.

Answer: So, the whole table also shifts down. I think the good part of a rate reduction like this. Look at it, when the powder's – let's say, rates have got cut from 28% to 18%, why only premium, we can make the whole table you know – the whole range of products can come down. Yeah, to that extent an aspirational brand...

Kunal Bhatia: Yeah, that's what.

Answer: ...is available to you at a cheaper price, absolutely.

Kunal Bhatia: Okay. Okay. Fine, sir. Thank you so much.

Answer: Thank you, Kunal.

Operator

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

Kunal Vora: Yeah. Thanks for the opportunity, sir. Couple of questions. First is on advertisement spends which you've increased by 24%, 25%. Is that a like-to-like number or there is some input tax credit adjustment which is required?

Answer: So, there would be some, definitely there will be, because as we've got some of the input tax benefit, some of it would definitely sit in the A&P line, you're absolutely right.

Kunal Vora: Okay. Okay. But difficult to quantify right now.

Answer: The best way to do it Kunal is, you just take it as a percentage of overall spend. So, you have a material spend, you have a A&P spend, you have other expenses. Take the 4% value as a percentage of the spend and you'll get some number which will be a close estimate.

Kunal Vora: Sure. Second question sir on the likely introduction of e-way bill, would it have any impact on your supply chain? And also, over the last one year have you – like say, post GST implementation, have you seen any meaningful savings on logistics cost? Have you made any changes?

Answer: So, two sets of questions and let's break them into those two. The first question was really on the e-way bill effect. It starts to come into effect on 1st of February with interstate transactions. I think the portal would have only opened yesterday. I haven't had a chance to really review whether it's open. And they're giving us a period of couple of weeks to really test it out, try it out. Let's see how that goes. And I think we'll work it through. I think the good part is, we have some time to test it out, which is really welcome. And if there are any teething issues, I'm sure the government is going to be pragmatic, and we are working on a plan A and a plan B to really see how do we manage that. So that's as far as the e-way bill is concerned.

Coming back to your question on the logistics reorganization, absolutely, our focus so far on GST has been really been on landing the networks, making the products available, getting the compliances in order. We have built a roadmap of some of the warehouse and distribution consolidation. And we have a roadmap. I think today we have something of upwards of 40. Our final roadmap starts to look at them somewhere in the range of 23-24. But that is something which we will now start to plan and execute, and they will come through – the consolidation will come through over a period of time.

Kunal Vora: Understood. And the last question, sir on your – if you can share your Capex plan for fiscal 2018 and 2019, how much you will be spending?

Answer: We don't give guidance on Capex and its again two things. It's again a function of what we are investing behind and that's the easiest way to describe it. You can look at some of our historical numbers but there's no point in really giving the guidance on Capex for the next couple of years.

Kunal Vora: Okay, great. That's it from my side. Thank you.

Operator

Thank you. The next question is from the line of Manish Poddar from Renaissance Investments. Please go ahead.

Manish Poddar: Hi, sir. Just wanted to get your thought, how should one look at pricing, let's say in the FY 2019. Given the raw material pressure and the GST anti-profiteering, how should one look at?

Answer: So, we don't, again, give any guidance on pricing. As I think Sanjiv explained, we look at all levers of savings. There's a strong savings program, there is mix, there is leverage. And after that we actually and if required, where required, we will be judicious on pricing, yeah. But, we don't give a forward view on our price growth.

Manish Poddar: Okay. And at the time of GST, I believe you all had doled out additional margin to the trade, you know. So, have you all reversed any of these margins in this quarter and can you all do that, let's say under the GST purview?

Answer: So, we'd not doled out any money. I think there were some cost increases which had come through at the round of GST 1 and to the extent we had compensated the trade. So, I don't think there was anything else to dole out or reverse.

Manish Poddar: Okay, great. Thanks.

Operator

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

Chinmay Gandre: Yeah. Thanks for taking my question, sir and congratulations on good set of numbers. Sir, with respect to the crude, while the crude is now around $70, sir, what percentage of our overall portfolio anyways like crude or crude derivatives would be a materially large portion of the raw material cost?

Answer: So, is the question saying that how much of our portfolio is impacted by crude is the question?

Chinmay Gandre: Yeah

Answer: So, look, we don't quantify numbers on this. There is a large component of crudes hits us in multiple ways. One is direct impact which comes – more than three ways actually, one is a direct impact in terms of some of the direct chemicals such as LAB, that's a direct impact. The secondary impact will come through in terms of packaging. And the third impact will come through in terms of logistics cost. Suffices to say it is sizeable, but I'm not quantifying an impact of a dollar for external purposes.

Chinmay Gandre: So, the derivatives and the second derivatives would have increased largely to a certain extent with crude?

Answer: Sorry, sorry, say that question again, could you repeat the question?

Chinmay Gandre: So, I mean, how is the sensitivity of the derivatives with the crude so far, at least the raw material that you consume?

Answer: So, look, it's a function of how the market moves and it's a separate function of how it impacts us, and it's very difficult, we can't really put a direct correlation to it. Because if you really look at distribution cost today, one is the crude factor, the second is what do the oil companies really pass through in the domestic context. However, in some of the commodities, it's a very direct impact because if your crude goes up, the impact on LAB tends to be much faster. Packaging is slightly delayed and I'm really talking about market here.

Chinmay Gandre: Yeah.

Answer: For HUL, it'll be very different given our strategy in terms of how we cover, how we manage our physical stocks, the impacts will be different. So, I think that's the easiest way to look at it, but we're not calling it out for external purposes in terms of any correlations on how it impacts our balance sheet or P&L.

Chinmay Gandre: Okay. Thanks, sir.

Operator

Thank you. The next question is from the line of Rimika Mittal from Antique. Please go ahead.

Rimika Mittal: Yeah. Hi. Thanks for taking my question. Sir, just a bit of clarification on of A&P spends. Whether this 25% increase in A&P is net of service tax benefit?

Answer: So, there are credits which have come into the A&P line, yes, to that extent, service tax would be one of the components. So, to explain it in the base spend, the value has been accounted after service tax spend, which means the base spend included a cost of service tax. Currently, it is basically under the GST regime where the full amount of tax is creditable hence it is without tax. So, to conclude, if the spend is showing a 25% increase, in reality the increase is much more.

Answer: Correct.

Rimika Mittal: Okay, okay. That's useful. Thanks.

Operator

Thank you. [Operator Instructions]

Aasif Malbari

Okay. So, Karuna, we can take the questions from the webpage.

Operator

Sure, sir. You may go ahead, please.

Question: Great. Okay. So, the first question is from Tanmay Sharma from Jefferies. It's basically three questions there. How has been the growth in sachets compared to other SKUs? Is there a possibility of consumer up-stocking just after price cuts due to GST and can that impact volumes in the coming quarters, similar to what we had seen in soaps a few quarters back? The third one is any category apart from oral care where we are losing market share?

Answer: So, I'd say growth for us in the sachets portfolio have again been – again from a quarter perspective, we are reasonably satisfied with the growth that we have seen. I think let me start there. I cannot really comment on the possibility of some of the consumers up-stocking. That's a bit hypothetical for me. In fact, in some of the cases, we are actually landing some of these networks that have only landed in the last four to six weeks in some sachets with higher volumes. And nothing for us to say some of the off take has been out of the normal. Yeah. So normally, typically what happens is that trade tends to destock when we tend to reduce prices. That is second part.

Third part is that I don't think, we have commented anything on market shares, and we definitely haven't commented on oral care losing shares. I think, if you look at our performance, historically, we've not been very happy with the way oral care has performed. I think we made many interventions including extending Ayush into oral care. And I think, we've started to see a bit of stability but it's again, early to call. We've started to see some green shoots, not stability, I think some green shoots. Let's really see how this progresses over the next few quarters.

Question: Okay. The next question is from Bhavesh Shah from CLSA. Again, there are two questions here. The first one is the run rate for fiscal exemptions/refunds would be close to INR 70 crores to INR 75 crores from Q4, given that the current quarter has an impact for two quarters. The second question is any commentary on the recent notice received from the DG Safeguards on anti-profiteering?

Answer: So, I think, the first part I said in the earlier part of the call is that I'm not quantifying the amount and I'm not splitting into a quarter perspective. Yeah, so it has been a 2% impact, and that's for half year. And I think, you guys can work through whatever would be those approximate number, that's point number one.

Second is that on I think, we have in the earlier part of the call we have clearly laid out and explained the series of actions that we have taken in terms of GST. We have talked extensively about how we are dealing with the INR 119 crores and how we've made suo motu, reached out to the government and made a representation. We've also talked about how the CBEC Chairman has commended the proactive approach of HUL and given that there are no rules and regulations they have forwarded it to the DG Safeguards. That's the bigger picture and the important picture. Yes, we have received a notice on the 16th and we are looking into it to ascertain the details as to what this notice really pertains to. We don't have full information, so that's where we stand today.

Question: The next question is from Richard. For comparability purpose, is it possible to give an idea as to what is amount of budget we support relating to SQ should we want to adjust the same from the profit of this quarter to get an idea what was the DQ EBITDA without prior period items?

Answer: So I think we've... Sorry. Richard, this one is slightly different, because you're talking about profit. I just wanted to share that there is no impact on the profit for the quarter. The adjustment was just a moment from sale of goods to other operating income. The EBITDA has not been impacted at all.

Answer: I think that's a very important point which Aasif makes and I think I want to make it clear for all the participants on the call, yeah, so the way to look at it is from an EBITDA perspective, there is no change. The cumulative impact is that it's moved from sales to other operating income. So, I think that needs to be absolutely – we want to make it absolutely clear.

Question: The next question is from Amit Kumar from Investec. We do not see Surf brand in the GST communication. I checked in e-com, do not indicate any significant price cuts here. Is this part of the portfolio price cuts, more cuts in a week?

Answer: I think, let's make this question offline. I think in a manner we have published a list of 75 odd SKUs on to our website. And if there is any specific question, we are happy to clarify offline on this one.

Question: The next one again is from Amit. In the previous call, the company had noted that Symphony savings program had been scaled to 7% of revenue from 6% of revenue in FY 2017. We are seeing 300 bps expansion in GM in an inflationary environment. Has the savings program been scaled up further?

Answer: No. I don't think we're really calling an increase in the savings program. I think one needs to look at it again from a holistic kind of slightly longer-term perspective not from a quarter-to-quarter. Absolutely from a Symphony perspective, we're continuing to target 6% to 7% of savings and we have seen a good savings, a quantum of savings land from a quarter and that's the way we will really run. We've also seen benefits of mix which has come through, I think that is also something which is there in the quarter with a good volume growth we've also seen benefits of leverage which has come into the quarter. But overall, I think we continue to say that our program is delivering between 6% to 7% for us and we're reasonably happy with the way it's landed.

Aasif Malbari

Okay. So, with that we come to the end of the questions on the web queue. And hence we'll end the Q&A session here. Before we end, let me remind you that the replay of the event and the transcript will be available on the Investor Relations website in a short while and you can go back and refer to it. A copy of the results and the presentation, if not already with you, is available on the website and you can go and refer to that as well. If there are any further questions, please feel free to contact us and we can clarify that offline. So, thank you, everybody for participating in the call. Have a great evening. Thanks a lot.

Operator

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