

March Quarter 2010 & Financial Year 2009-10 Results Conference Call Transcript

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CORPORATE PARTICIPANTS

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PRESENTATION

Namita - Moderator

Good evening ladies and gentlemen. I am Namita, the moderator for this conference. Welcome to the Hindustan Unilever Limited fourth quarter and Financial Year ended March 31, 2010 earnings call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for all the participants on this call. Present with us on the call today is the senior leadership team of Hindustan Unilever Limited. We propose to commence this call with opening remarks by Mr. S.C. Srinivasan, VP - Treasury, M&A & Investor Relations of Hindustan Unilever Limited followed by results presentation, after which the floor will be open for the question and answer session. Before I hand over the call to Mr. Srinivasan I must remind you that the overview and discussions today may include certain forward looking statements that must be viewed in conjunction with the risks that we face. I now hand over the call to Mr. Srinivasan. Thank you and over to you Mr. Srinivasan.

S C Srinivasan, VP - Treasury, M&A & Investor Relations of Hindustan Unilever Limited

Thank you Namita. Good evening everyone. First of all I would like to apologize for the delayed start. Welcome to Hindustan Unilever March Quarter 2010 results conference call. We have with us our chairman Mr. Harish Manwani, Mr. Nitin Paranjpe – our CEO and Mr.R.Sridhar, our CFO. We will start

the conference call with short opening remarks from Mr. Harish Mannwani followed by the results presentation from Mr. R. Sridhar after which Mr. Nitin Paranjpe will give his perspective on the results and performance and he will also answer some of the 'top-of-mind' queries after which we will take the Q&A session. If you have any questions, I would request you to register with the moderator. Please identify your name and the organization you represent. Before Mr. Sridhar starts, I would like to draw your attention to the safe harbor statement which is included as part of this presentation. Over to you Harish for your opening remarks.

Harish Manwani – Chairman - Hindustan Unilever Limited

Thank you Srin. Just a few short remarks before we start the proceedings of the day. Firstly, of course my welcome to all of you. I am sorry we got delayed because our fax to the stock exchange took a little longer than we thought but anyway good to be here now. If you look at the quarter results, all I wanted to say was that the context in which you must look at these results is that we believe that we need, going forward, continue to do two things, both of them equally well; on one hand, we have to make sure that there is unblinking defense of our strong market positions and at the same time we need to make sure that we continue to lead market development in a large number of new segments that are emerging. I think in many ways Q1 symbolizes what we have done in this respect across the business. So for example, in March quarter what is reflected here is part of the strong comparative response that we have given in categories like laundry on the one hand and equally it reflects some of the really path breaking market development work that we are now doing in categories like personal products and foods. So it is with these comments that I want to hand over to Sridhar and I think hopefully what you will see here is a reflection of a strong focus on innovation, strong focus on speed to market, but at the same time a longer term commitment to deliver competitive growth, consistent growth and profitable growth. So with that Sridhar! Over to you

R Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Thank you Harish. As always, let me just set out what we are going to be covering in this presentation. I would like to start first with an update of the market context in which these results have been delivered before going to talk about our own performance. So if you look at the context in which this quarter has really born out, first of all FMCG markets continued to grow; however, there is a slight slowdown in the pace of the growth, so while the market continued to grow, the pace is a little bit slower than the trend in

the previous part of the financial year. Another important aspect of the market context is that the competitive intensity has gone up substantially in March quarter, in fact not only in March quarter, but through the quarter and I would say even beyond March quarter. We are seeing that reflected through aggressive pricing action in specific categories and at the same time the fact that media spends in FMCG categories overall continues to remain high and much higher than in previous year. Food inflation, which has been an area of concern that we have talked about earlier, continues to be high and therefore that is something that we believe is impacting the consumption in the FMCG categories. So this is the market context. If I now come to our performance highlights for March quarter, our growth has been driven by strong volume growth at 11%, double-digit volume growth that we have delivered in this quarter. Our overall growth has been ahead of market and in most categories this has all been driven by strong volume growth. If I look at specific categories, personal products, foods and water all of them have grown in double digits. We have taken very decisive actions that we have talked about earlier, to strengthen leadership in laundry and in personal wash. Early results of these actions are positive and we are seeing very strong volume growth in our personal wash business. Net sales and our domestic consumer business, both grew at 8% in the quarter. We have also been driving innovation not just in our core categories of today but also the new categories and segments for the future. During March quarter, we have made several new entries. First is very big entry into male grooming segment with the launch of Vaseline Men. In tea, in the mass segment, we launched a nutritional tea fortified with vitamins under Brooke Bond Sehatmand. This will make the Brooke Bond brand more easily accessible to consumers in the mass segment of the tea market. We have expanded our portfolio in foods with the launch of Knorr Soupy Noodles which combines both the health of soup and the taste of noodles. I will talk a little bit more in detail about it in a little while. The other big new entry is the launch of Pureit Compact which is at the mass end, making the Pureit brand, now, much more accessible to consumers at the mass end of this market. Simultaneous with the initiatives on innovation, we have also been strengthening our capabilities, in particular the go-to-market capabilities. These have been significantly strengthened and I will talk a little bit more about them later. We sustained our focus on cost management with cost of goods sold coming down by 80 basis points. These savings and our operating leverage with tight focus on indirect have enabled us to step up our A&P investments by some 320 basis points to 14.5%. With very sound treasury management and very high levels of cash flow, we have managed to maintain our PBT (bei) at 573 Crores. Net profit has increased by 47% aided by exceptional and extraordinary items.

One of the features of our growth in March quarter has been that it has been led by innovations. This is either in existing categories or in building new segments. This chart just gives you a glimpse of the rapid level of innovations that we have brought to market, the rapid speed at which we brought it

whether it is in tea with Brooke Bond Sehatmand, whether it is really building the facial cleansing business with four of our brands now playing there, whether it is in ice creams, where we have launched eight new variants and so on. Leading through innovation is really what we have been doing and exemplified by this chart for March quarter. Now while we have been doing this in our existing categories, we have also been taking some specific steps on building these new categories for the future and I would just like to share with you one example each, first in our HPC business and then one in our foods and there are many other such that we have been doing. As an example here in the chart you can see where we have been expanding our portfolio in the skin care market. In March quarter, we made a big entry in to Vaseline Men and you can see the range of products and offerings with which we have launched Vaseline Men. On the bottom left of the chart, you can see how we have really made a big play in the facial cleansing market with Ponds, with Pears, with Lakme, all of these playing in the facial cleansing market and as a result you can see the results of our skin care sales growth, the growth of our skin care business has been going from strength to strength. Coming now to an example in foods, we have launched a differentiated offering under the Knorr brand name called Knorr Soupy Noodles. This is really the combination of the taste of noodles which children love and the health of soups, which are loved by moms. We have launched it in three flavors; Mast Masala, Tomato Chatpata and Chinese Chow and all the initial results are extremely positive. We indeed are very pleased with the response that Knorr Soupy Noodles is receiving in the market place. I mentioned that alongside innovations, we were also building our capabilities and this is something that we have committed to strengthen into the future.

We talked earlier about Project IQ, which is a technology led initiative to build our capability 'go-to-market' in general trade. During March quarter, we have rolled out the technology initiative under Project IQ nationally across all urban markets. This capability at the back end has extremely sophisticated analysis that allows us to take action, virtually at an outlet-by-outlet or store-by-store level. At the same time, at front end, it is a very simple piece of technology that salesmen can understand and use to execute better in the market place. Through this we believe that we will continue to win in general trade and strengthen our leadership in future. Through the innovations and these capabilities, we have really accelerated the growth in volume growth terms with acceleration to double-digit volume growth in the quarter. This volume growth of just under 11% in March quarter is broad based across categories and builds upon the nearly 5% growth in December quarter. Within this, particularly personal products had very strong volume, which is improving in double digits across all the four quarters of 2009-2010. This growth as I mentioned earlier, is ahead of reported market growth both in terms of volume where we have grown at about 11% as well as in terms of value, which is around 8%. This growth as I said is broad-based and across categories.

During the March quarter, I talked about the intense competitive environment and you can see on this chart the level of media investment made by the complete FMCG category, not just Hindustan Unilever but the whole FMCG category, how the competitive intensity has gone up in the second half of calendar year 2009 and now sustained in March quarter 2010. Obviously, we are making sure that we are remaining competitive. In the next chart you will see the investments that we have done, which is essentially to make sure that we remain competitive, we defend our leadership and at the same time we support the investments that go behind the new innovations and new entries. We are seeing positive results of these brand investments in terms of the accelerated volume growth. In this context of the current market environment and the competitive intensity that we see, we believe that we will continue to invest appropriately behind the brands, behind the investment on A&P as well as other measures of our brands.

How have we managed to invest behind our brands at an accelerated level - One of the things that we have been doing for a long time is managing our cost quite tightly. Here in this chart you will see the volatility with which commodity costs have been moving across the last fiscal year and the mixed trends that we are seeing. For the benefit of buying efficiencies as well as the benefits of Unilever scale, we have managed our commodity cost very tightly and very well, which has improved our cost of goods sold and thereby our gross margins. Cost of goods sold has come down by 80 basis points. This is despite the pricing actions that we have taken to remain competitive and in fact strengthen our competitiveness in the laundry category.

We shared with you earlier that we are driving not just the commodity end of our cost but all aspects of our cost whether it is manufacturing cost, whether it is distribution cost or indeed our indirect cost. You see on this chart, the cost efficiency programmes have stepped up even further, during March quarter. At the same time as far as our indirect costs are concerned we continue to drive leverage both through a very tight management of our cost and of course through the growth leverage. So on both dimensions of cost, we are continuing to make progress.

I would now like to move to the category section. Just to give you an overview in terms of our category revenue growth, overall we have grown ahead of the market with all categories growing strongly in volumes. While soaps and detergents declined in value terms by 1.9%, even this category has grown very well in volumes. The value decline is really a function of the pricing reduction in the laundry category linked to how the commodity prices have moved. Personal products grew strongly at 19%,

beverages over 15% and processed foods in excess of 20% along with ice cream, also in excess of 20%. Large part of our growth was led by volume.

The first category that I would like to talk about is laundry and I know this may be top of mind to many of you and you are all aware of the competitive battle that is going on in laundry, so we will take a few minutes to talk about what has been going on, what we have done, and what are the results. The market really is having three clear price segments in terms of mass, mid-priced and premium. We, at Hindustan Unilever, are uniquely positioned that we straddle the pyramid, we have got brands and offerings in each of the price points as well as in the formats whether it is bars or powders. We have got Surf Excel at the premium end of the market and we are clearly the leaders there, we have Wheel at the mass end and then we have Rin in the popular or the mid-priced segment. In the recent past, competitive intensity has gone up quite significantly. In terms of media investments, there is 77% increase in the amount of GRPs that have been invested by the overall market, all players put together in laundry. At the same time we have seen aggressive pricing actions in both powders and in bars, particularly in the mid priced and the mass segment, so this is clearly a very significant step up in the competitive intensity.

We have taken decisive action, firstly as far as Rin is concerned we have priced Rin powder at Rs. 50 a kilo, which is a very-very competitive price, but that is not all. We believe that our product is clearly superior vis-à-vis the other brands operating in this price segment. We have, therefore, advertised our product superiority and invested behind communicating the fact that Rin powder is superior in product terms vis-à-vis competitors in the same price segment. This advertising and this communication is backed up by independent verification from laboratories that reassure that what we are saying is correct.

Coming to the mass end of the portfolio in Wheel, we have substantially improved the formulation. We relaunched in this March quarter, a very-very superior formulation and certainly in its price segment superior by far compared to other competitors. And as far as media investments are concerned, we have stepped up our brand investment with stepping up the share of voice relative to the last couple of quarters. So that has been our response. We are quite pleased with the initial results. As far as Rin is concerned, the volumes of Rin powder have increased pretty significantly from an index of 100 in 2009 to nearly 150 in March quarter with March month being 185. Rin is showing strong double-digit volume growth. Overall in the powders market, our volume shares have consistently and sequentially been on an upward trend as a result of the actions we have taken.

Coming now to the second large category, which is personal wash. Through last year, we talked to you about the steps we had taken to rejuvenate our personal wash portfolio. I am pleased to say that this category has returned to strong growth led by volumes with both value and volume growth ahead of the market. Sequential shares have been maintained in this category. If you look at our portfolio again, we are present across all the three segments premium, mid-priced and mass. In the premium portfolio, we have seen a broad-based growth. This includes brands like Dove, Pears and Liril. In the mid price segment, we have launched the purple variant innovation behind Lux and that is doing well. At the mass end, we strengthened our Lifebuoy brand with a very strong germ kill proposition and Lifebuoy has also grown during the quarter. So overall straddling the pyramid across various price points and having rejuvenated the portfolio, we are seeing the benefits of strong growth in this category.

Let me now move to skin care where our role is really to lead the development of this market, given that the per-capita consumptions are relatively small in this category in India. Our skin care business has grown in double-digit ahead of the market driven by volumes. We have gained shares sequentially both in anti-ageing and in premium skin lightening. We are leading the development of market across various segments whether it is in facial cleansing with the multi-brand approach or the entry into the male grooming through Vaseline Menz. Just to talk about Vaseline Menz, you can see here the range of offerings we have introduced as part of this launch whether it is in the oil-control range, whether it is face washes, body lotions, shower gels, a complete set of solutions for the male grooming need to be at his presentable best. Obviously, the launch and the innovation are accompanied by strong activation and on-the-ground programs and we are again seeing very - very good results.

Moving now to hair and oral categories, these have also grown ahead of the market. Our hair business has grown significantly ahead of the market with shampoo shares sequentially up, more importantly our market share leadership with our next competitor has widened and has increased in the quarter. Our conditioner business also continues to grow very strongly and shares are continuing to improve. During the quarter, we have made renewed thrust in the anti-dandruff segment with the launch of Dove Dandruff Therapy and strengthening of the superior anti-dandruff credentials of the brand 'Clear'. In toothpaste, we have grown ahead of the market led by robust volume growth. Volume shares have stabilized in this category.

I also want to spend a little time talking about hair because that is the other category where the competitive intensity has increased substantially along with laundry. If you look at our portfolio again, we are, like in other categories, very well represented across price points and across formats. We have Clinic Plus at the mass end, Sunsilk in mid priced segment and then at the premium end Dove and we

also have Clear, our anti-dandruff shampoo. We are also there in conditioners in addition to shampoo. So, strong brand portfolio straddling the price pyramid. In the recent past, the competitive intensity has gone up substantially. The market heat, in terms of media investments, has increased by about 50% in a year's time. We are also seeing some very aggressive promotional offers in the market, so this is how we can see the competitive intensity having increased. We have strengthened our leadership but this has been through specific actions. If you look at the range of innovations during the quarter, we launched the Dandruff Therapy Range in Dove and strengthened the credentials of Clear. We have leveraged further the second half 2009 innovations, the re-launch of Sunsilk and the re-launch of Clinic Plus. We have also stepped up our media investments and you can see that reflected in the increased share of voice in March quarter. As a result both in Shampoo and in conditioners, we are seeing growth ahead of the market and shares on an upward trend.

Coming now to the foods part of our businesses. Let me start with the beverages category, again a category in which we have got a very strong portfolio of Brands which straddles the pyramid during the quarter. We had robust volume growth across tea and coffee in our beverages business. Our tea portfolio has been strengthened with a strong entry at the mass end with Brooke Bond Sehatmand. This is a nutritional tea with vitamins for the mass consumers. We have re-launched our heritage brand Ruby in Karnataka and earlier results are showing good share gain. We have also launched Red Label Dust in select markets of the country. Coming to coffee, coffee has delivered double-digit growth led by volumes. So, again a very good performance of the beverages category during this quarter. A little bit detail on the Sehatmand entry; this shows the detail in terms of the launch which is both in leaf and dust form. We have launched it as Brooke Bond Sehatmand in the North and as Brooke Bond Arogya in the South. We are now present in thirteen states.

Now moving on to our processed foods category where really our task was to accelerate market development and one of the key actions has been to expand the portfolio. During March quarter we have launched Knorr Soupy Noodles nationally in modern trade and across channels in south. Response that we have got from the market is extremely positive and we are pretty confident about this product category. Knorr Soups and Meal Makers have continued to grow strongly. As far as our Kissan Jams and Ketchups are concerned, we have achieved double-digit growth during the quarter and in Annapurna, we have seen good growth primarily through Atta. Modern foods have also grown well in the quarter, growing in double-digit.

The ice cream category has performed very well, strong double-digit growth driven by volumes. Impulse and take home segments really lead the growth for us. We are present at all the competitive

price points and during the quarter we had eight new launches in three different formats going into the market. We are driving increased consumption of ice cream through greater availability and visibility. We have deployed many more cabinets to drive growth and we have brought to the market a lot of innovations for the summer season. As far as, Swirls parlor initiative is concerned this is going from strength-to-strength and I am pleased to say that we now have our 100th parlour into operation. The photograph that you see is the 100th parlour in Kolkata.

Coming now to the water business, our Pureit brand. In Pureit, until six months past we had one offering in the mid priced segment. In the last six months we have launched the auto fill which is the premium variant and particularly in the last quarter we have launched Pureit Compact at Rs.1000 whereby this does not compromise on Pureit's world class safety credentials. So we now have the full pyramid straddled with our Pureit brand. During the quarter, we have also launched a much stronger and more persuasive communication about Pureit which can kill one crore viruses in one litre of unsafe water. So, to sum up the categories, the innovations have really led the growth across categories and across segments in March quarter and that is something that you will also see into the future.

Coming now to the financial results for March quarter. Net sales grew by 8.2%, while gross margin after cost of goods sold improved by 80 basis points. Competitive pricing in Laundry and the 320 bps increase in A&P to support our competitive actions as well as our innovations and new launches resulted in our operating margin coming down by some 130 basis points. Overall our EBITDA has remained same at about 595 crores while our profit before interest and tax is down by some 1.8%. Profit before tax and exceptional items has been maintained at 573 crores and this has really been done by some very good management of our treasury and strong cash flow delivery, which has contributed to our treasury income. Profit after tax and before exceptional items is down by some 7.5% entirely due to the increase in tax rate. Net Profit grew by 47 due to exceptional and extraordinary items, which I will talk about in the next part.

When we look at the exceptional items during the quarter, the two big items that we had were sale of long-term investment which is the divestment of the balance 49% stake in Capgemini that is 91 crores of gain. In addition, due to the increase in interest rates we had to reassess the actuarial liability and actuarial valuation on the retirement benefits and that has resulted in reduction in provision of about some 53 crores. Restructuring cost during the quarter was some 7 crores and the sale of assets was about 5 crores. So overall exceptional items were 143 crores. As far as extraordinary item is concerned we have just one item, which is due to the merger of Bon Limited into HUL.

The next chart gives you an analysis of net profit, which essentially is the 47% net profit growth. On underlying basis, PAT(bei) declined by 7.5% to 8% and this is, as I said, entirely due to the increase in tax rates.

So in summary, if we look at March quarter's performance, there is a strong volume growth at 11% and overall growth ahead of the market. Personal Products, Foods and Water all grew in double-digit. We have taken decisive actions to strengthen our leadership in Laundry and Personal Wash. Net sales and domestic consumer sales grew by 8%. We are continuing to drive innovation to build the categories and segments for the future. Alongside this, our 'go-to market capabilities' have also been significantly strengthened, sustained focus on cost management and improved cost effectiveness programs have resulted in our cost of good sold coming down by 80 basis points. A&P investment, we have stepped up by 320 base points. At the bottom line we have maintained PBT (bei) at 573 crores. Our net profit has gone up by 47% aided by exceptional and extraordinary items.

Coming now to our full year financial year because financial year now ends in March. Performance highlights - the improved growth momentum continued through the year and we exited at 11% volume growth in the last quarter of the year. We had strong double-digit growth in personal products in all the four quarters of the year led by innovation. Foods and water grew in double-digit in the year driven by portfolio expansion and innovation. Soaps and Detergents grew at about 1.5%. This lower value growth essentially reflects the pricing in Laundry both on account of commodity cost movement as well as the competitive scenario. During the year, we have made several new entries into new categories and new segments. Operating margins, despite a very significant step-up in A&P investment in the year, have improved by about 15 basis points and this has really been driven by superior cost management that is a continuing feature of our performance. Profit after tax before exceptional items was maintained at about 2060 crores and net profit grew by some 4%. As I mentioned earlier, innovation has been a hallmark of our performance and you can see on this chart the various innovative entries we have made in our home and personal care category and in the next chart in our foods category. So we have innovated behind all categories and across the various price points in the pyramid.

Coming now to our financial results for the fiscal year ended March, nNet sales at 17,500 crores grew by some 6.5%. EBITDA grew by 7.6% with the operating margin or PBIT margin up by some 10 basis points. As far as PAT(bei) is concerned, it was maintained more or less maintained about 2060 crores and then net profit, aided by exceptional and extraordinary items, grew by 4%. At the board meeting earlier today, the Board of Directors have recommended a final dividend of Rs.3.50. Taken along with

the interim dividend of Rs.3, the total dividend therefore will come to Rs.6.50, which of course is subject to approval by shareholders at the AGM. You will recall that last year was a 15 month year wherein we had paid a total dividend of Rs.7.50. On a twelve-month basis this is Rs.6 and therefore in this financial year the recommended final dividend will step it up by 50 paise or about 8%. The total payout you can see on the chart including dividend distribution tax will be about 1656 crores. So that is the financial year performance and the dividend.

Just a few words on looking ahead before I hand over to Nitin. We clearly believe that from our perspective the growth opportunity of India means that the competitive intensity will intensify much more in the coming quarters. We will absolutely depend on our strong market leadership in an unblinking passion. We are absolutely committed to this. Given this, our focus remains to continuously strengthen the competitiveness of our portfolio and our brands; we will deliver bigger and better innovations which would be brought to market in a much speedier manner. At the same time we will be leading market development by entering in to new categories and segments to build them for the future. We will also strengthen our overall organization capabilities to continuously improve the quality of execution and speed the market. So with these comments, I would now like to hand over to Nitin for his perspective on our performance.

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Thanks Sridhar. Let me quickly make some general comments on what happened this quarter and the context to which this quarter has been looked. All of you would recollect that over the last two quarters, the volatility in commodity cost and issues relating to pricing had impacted the competitiveness for some of our brands. In earlier communication with you, we had shared with you the steps that we have taken to the restore the competitiveness and strengthen our brands and portfolio. These actions involve the combination of ensuring that we drive innovation and right pricing and do both of these to ensure that we deliver superior consumer value. We were also focused on compressing execution cycle time and substantially improving our front-end capabilities by leveraging scale and technology to improve the quality of our coverage. I am pleased to say that these actions have been implemented and are beginning to yield results. I am pleased to share with you that the results that we have delivered in March quarter which is a double-digit volume growth is ahead of the market. Going forward, we will remain focused on building consumer and customers centricity at the heart of our business and improving the competitiveness of our portfolio and our execution capability even further.

In the context of clearly intensifying competitive environment, we will defend our leadership position even as we take steps to build new categories and segments of the future and hopefully both of these would have been evident to you even in the results which have been shared for March quarter. Now before I handover to you, there are two or three areas which I thought you might have questions on, which could be at the top of your mind and I thought it would be useful for me to address those before opening it up.

The first is likely to be in the context of market growth. It is true that during March quarter 2010, FMCG market had grown at a pace which is slower than earlier quarters. This is partly due to the impact of laundry price reduction which you are all aware of, and due to the lower volume growth that we have seen in a few personal product categories. However, we believe that the medium term outlook for the FMCG market continues to be very strong and there may be a few temporary aberrations due to multiple factors whether it is food inflation, monsoon etc., the overall prospects for the FMCG markets in the country like India, remain strong. As a result, we believe the growth opportunity is large and we will remain focused on driving consumption and penetration across all segments and improving the quality and speed of our execution. We will continue to lead market development by expanding our portfolio while building capabilities to maximize the India consumption opportunity. Competitive growth will remain our number one priority.

The second thing that I thought I would talk to you about is on A.C.Nielsen market share. Some of you would have noticed that we have not included a detailed market share in our presentation. Some of you would already heard directly from Nielsen the significant step that they are taking to improve the quality of the retail panel, to more accurately reflect market growth and shares. This is in the context to a dynamic market and a very rapidly changing consumer and retail landscape. These steps will be taken over in next 12 months to have a better representation for the emerging challenge and geographic segments. Nielsen is working very closely with a client advisory council of which we are active members. So during this period in addition to using Nielsen data directionally we continue to assess our competitive performance using other sources which are the household panel data and published information from other competitors to the extent that information is available on segmental performance from them.

The last comment that I thought I would make is to give you a perspective of the competitive context and what is likely to happen as we look ahead. Over the last few quarters we have witnessed a very significant step up in competitive intensity across categories, much more in laundry and more recently in hair. Our view is that the competitive intensity is likely to remain high, given the very significant

market opportunity that exists. In laundry, you are aware and Sridhar shared with you the new entries which have taken place in the notch market and a very significant price reduction that has happened in the mid priced segment. Now this is not new, we have faced such battles in the past and our responses have been decisive. We are beginning to see positive results of these actions. Hair portfolio continues to yield excellent results and we are growing share and widening our leadership gap. Now some of these competitive actions around pricing, especially in laundry, will have a significant impact for industry profitability. However we will defend our market position in an unblinking manner whilst we continue to build our portfolio and capabilities for the future. This, we believe, is consistent with our intention of creating long-term value in this market. So, these were some of the comments and observations I had of this stage and may be it is time now for us to throw it open to you for any question that you may have on our results and we will be happy to answer it.

S C Srinivasan, VP - Treasury, M&A & Investor Relations of Hindustan Unilever Limited

Namita we are now open for questions.

Namita - Moderator

Thank you very much sir. We will now begin the question and answer interactive session for all the participants who are connected to audio conference service from Airtel. Participants who wish to ask questions may please press "*" "1" on their touchtone enabled telephone keypad. On pressing "*" "1" participants will get a chance to present their questions on a first-in-line basis and we request every participant to please limit the number of questions to two. To ask a question, participants may please press "*" "1" now. The first question comes from Mr. Percy Panthaki from HSBC Mumbai. Mr. Panthaki, you may ask your question now.

Percy Panthaki - HSBC - Mumbai

Hi, congrats on a good set of numbers. My question is: I just wanted to look at your categories in line with the BCG metrics. I assume that categories which have become mature, there would be mix of profits and the ones which are less penetrated and faster growing, there the focus would be growth. Now if I look at your detergents category, do you think that you have considered the probability that

even if you lose market shares there, given that you are a dominant player, would it make more sense to manage that category for profits rather than for growth?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Thanks Percy! First the comment which you have, “If a category is very mature then you manage it for profit” may be a reasonable comment to make. However, we do believe that in a market like India there are no mature categories, even categories like detergent and personal wash continue to have a very significant growth opportunities going forward. It is not just about penetration, it is about consumption and it is about up trading consumers for better benefits going forward. The consumption opportunity that we have got, is significant when you look at many dimensions, forget comparing ourselves with market in the rest of the world, the consumption per capita consumption of laundry continues to be at levels just about 60% of the consumption which is taking place in a market even like China and even lower when you compare it with other markets in South East Asia. So the growth opportunities that we have are very-very significant in laundry. Besides that we are taking actions within laundry to premiumize this. For example fabric conditioner is a market category, which is going to take place; liquid, over period of time, will start building. So I think the comment is – “These categories are not mature.” The task that we have will therefore continue to be is – “To drive consumption in categories which have been relatively well penetrated even as we create markets and build categories which will come up for the future the one which is called nascent.” So we have to do both.

Percy Panthaki - HSBC - Mumbai

My next question is I know you don't give future guidance but this is just to get an idea in terms of your exposure to the relatively, I again say relatively, more mature categories of soaps and detergents. Can you give me an idea that these categories let us say today contribute about 47% to 50% of your top line. Over the next five years what contribution do you think soaps and detergents have to their top line. It would probably drop to some number, which is less than the current number?

R Sridhar - Chief Financial Officer - Hindustan Unilever Limited

I think that is an easy guidance for us, relatively speaking, to give. Firstly, the fact is that you know categories such as personal products or foods are even more nascent in India and therefore we do expect them to grow faster but I am assuming you are not looking for a specific percentage guidance of the portfolio contribution of soaps and detergents.

Percy Panthaki - HSBC - Mumbai

Sir, I was looking at a specific percentage guidance over the next five years and not something coming into next year?

R Sridhar - Chief Financial Officer - Hindustan Unilever Limited

You can already see it, even in the current financial year that personal products production and foods are growing faster, and for long-term basis that trend will continue then it is a function of exact market growth that takes place year-on-year and it sort of arithmetically determines the outcome.

Harish Manwani – Chairman – Hindustan Unilever Limited

Clearly for internal purposes we have experienced from other markets and we do track how these markets develop. So from that point of view it is not that we do not have our own guidance internally but we do not give any external guidance in the way markets will grow.

Percy Panthaki - HSBC - Mumbai

My last question is for the March quarter will you be able to tell me which categories have grown faster than the market in volume terms?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

If I have to talk almost every category has grown faster than the market in volume terms; skin cleansing, face care, hand and body care, hair wash, oral, if you were to look at our reported growth which we have got in March quarter and compare it with Nielson reported market growth our growths are higher in all these categories.

Percy Panthaki - HSBC - Mumbai

But sir, if you compare the Nielsen reported HUL growth with the Nielsen reported market growth in that case what is the result?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

I shared with you earlier that for a variety of reasons Nielsen has been looking at ways by which it is taking steps to improve the quality of its coverage and indicated to us that till such time over the next 12 months if these actions are completed we should look at these numbers in a directional basis rather than in absolute terms.

Percy Panthaki - HSBC - Mumbai

Okay sir, does that mean for the next three or four quarters you will not be including your category wise market shares number in the presentations?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

I think we will be sharing it. I mentioned to you that over the next few quarters we would be looking at a range of measures. We will continue to look at Nielsen in terms of what it does in terms of big picture overall and we will continue to look at two other measures because accepting our performance in a competitive context remains very important for us. There are other sources information like the household Panel and the published data and we will have look at all of these three to get a better feel of

our performance. Finally, everything that I have talked about in terms of our growth was in comparison with the Nielsen reported market growth.

Percy Panthaki - HSBC - Mumbai

Right sir, any of these measures either Nielsen or the Household Panel or any other ones, which you mentioned, which you plan to share with investors and analysts ongoing basis?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

I think we will continue to share information along the line that we shared just now and you will hear a little more about this possibly directly from Nielsen in terms of plans that they have got over the next few months. So I will reserve some of my comments on this till you hear a little more from Nielsen.

Harish Manwani – Chairman - Hindustan Unilever Limited

By the way, Percy it is now very clear, we will continue to use the aggregated market growth numbers of Nielsen, because in terms of statistical significance there is more reliability on the aggregates. So we will use the market growth, all the market growth numbers we are sharing with you will be from Nielsen and then we will compare that with our own growth so that you are able to get a picture in terms of saying how are we growing versus market growth.

Percy Panthaki - HSBC - Mumbai

Okay sir, that's all from me thanks very much and all the best.

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Thank you.

Pritesh Chheda - Emkay Global - Mumbai

Congratulations for the good set of numbers. My first question is with respect to the opening comment that you all had about the FMCG market growing lower than the general trend in March quarter. Do you think the competitive activities straight fall out of this development which is there in consumers space or the reason is something else. That is the first question. Second on the competitive intensity side; what other categories or segments do you think or anticipate competitive activities spilling over?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

So I think as far as the first one in terms of market growth; part of the lower growth, we had explained, was on account of negative pricing that we are still experiencing in laundry. Some of it was because of the actions that had taken place in terms of correcting prices, in the context of commodity cost correction, which took place from levels which were quite high and the second set of corrections on laundry that happened on account of price corrections given the competitive changes that have taken place in the market recently.

There are various hypothesis as far as why markets may not have grown as fast in this quarter which Sridhar shared with you in his opening chart, which may have to do something, possibly with the very high levels of food inflation that we had for two or three quarters. But again, I want you to look at this in a certain perspective and not just overtly influenced by market growth, which are there in the quarter. As I said earlier, the overall opportunity in a country like India will continue to be significant. Markets will grow notwithstanding what you might see in one or two quarters here or there, may be because of monsoon, may be because of food inflation etc.

As far as competitive intensity is concerned, the reality is it is high even today across virtually every category. It has become at a completely different level in the categories like laundries where we have seen actions and pricing which in the short term will substantially impact industry profitability, which we have talked about. Competitive intensity is already very high in categories like hair, competitive intensity is high in categories like skin and you would have seen that the overall level of advertising spend, which is one measure to assess the level of competitive intensity has grown up and grown from level index

level of about 118 months ago to levels of about 150 at this moment. That should give you the sense of how widespread the competitive intensity has become.

Pritesh Chheda – Emkay Global - Mumbai

About the second question the spill over elsewhere in other categories that you anticipate or do you think that that can happen in consumer space?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Like I said, it is already having most categories at this moment. The competitors may be different in different categories. It is high in laundry because of 'A' competitor, it is high in personal wash because of another competitor, in hair for a different reason so I think we have a range of competitors the combination of multinational and local players and it is very high. Whether it will get into a price-based competition in a few other categories that is difficult to comment at this stage.

Pritesh Chheda – Emkay Global - Mumbai

On the personal margin side we have seen some reduction in this year versus last and even in quarter versus the last quarter. What would we attribute to, is there some one off adjustments on account of say new products launch being done in the mail grooming segment or what should be?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

It is not about one off adjustments, it is just the significantly higher levels of A&P spends we have to support our existing portfolio and the innovation which you have got and to build new categories which we are building as a result of which there is some slightly lower operating margin that we have talked in personal products. However, considering the overall levels of growth that you are getting, I think we are very satisfied with the progress that personal products has made both in terms of top line and in terms of margin and these are just investments, which we are making to build new categories and defend a strong position in categories like health and cosmetics. Gross margins continue to be strong.

Pritesh Chheda – Emkay Global - Mumbai

My last question is that if you could tell us the blended volume growth for the FY'10. This is giving for Q4 for all four quarters what would be the volume?

R. Sridhar - Chief Financial Officer - Hindustan Unilever Limited

I would give the aggregate volume. We have talked about ending March quarter with 11%. It is about 4.6% for the financial year, which is April-March-2010.

Pritesh Chheda – Emkay Global - Mumbai

Okay. Thank you and all the best to you.

Namita - Moderator

Thank you sir. The next question comes from Harrish Zaveri from Mumbai. Mr. Zaveri you may ask your question now.

Harrish Zaveri - Deutsche Bank - Mumbai

How do you account for promotions in couple of cases where you give say a 20% extra on every product or say you give a one plus one free? In case you give a discount and in case you give either your own product with another product or you give say any other product I mean a silver coin with a Lux. How do you account for in these five cases?

R Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Harrish, you know, obviously we follow the accounting standards and the accounting rules. So let me not go through all the five but very simply, if we were to buy a third party product let us say a gold coin or a silver coin and we were to give that as a promotion, the cost of that gold coin or silver coin would be part of our advertising and promotional spend. On the other hand, if we were to just increase our fill level or indeed we were going to reduce the price; so we were selling something for 100 and we were to reduce the price by 20% for a promotional offering, that would be reflected as a lower turnover because that would be impacting the price of realization.

Harrish Zaveri - Deutsche Bank - Mumbai

On the royalty part itself, would there be a royalty element, which would be included in your other sales or other expenditure in this quarter and how much would that be?

R Sridhar - Chief Financial Officer - Hindustan Unilever Limited

That would be a continuing thing, the royalty payments that we have are continuing.

Harrish Zaveri - Deutsche Bank - Mumbai

This I believe is the first quarter when it would have come so.

R Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Just to clarify we have had a royalty arrangement since 1999, but effective 1st January there were some changes that the Board had agreed in December, which have come into effect from 1st January.

Harrish Zaveri - Deutsche Bank - Mumbai

Absolutely, that is what I meant. Would you be willing to give out that percentage?

R Sridhar - Chief Financial Officer - Hindustan Unilever Limited

I think we had mentioned in the last call that roughly speaking about 60 basis points of margin will be the impact of the increased royalty.

Harrish Zaveri - Deutsche Bank - Mumbai

Fair enough, thank you very much.

Namita - Moderator

Thank you sir. This is to remind the participants to please limit the number of questions to two. The next question comes from Mr. Richard Liu from JM Financial, Mumbai. Mr. Liu you may ask your question now.

Richard Liu - JM Financial - Mumbai

Hi, good evening everybody, thanks for taking my question. I actually joined a little late so I am not sure whether you commented of this but I just wanted to pick your brain on the down trading phenomenon that we have been taking about over the past couple of quarters. Any development on that front? I mean, do you see some improvements there?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

No, I think we did comment in terms of this aspect. We saw growths in March quarter, which were a little lower than the growth that we have seen earlier and part of that reason has been on account of continuing down trading that we have seen in a few categories like tea at this moment. The hypothesis for some of this is the relatively high cost, which has been there in categories like tea and of course the

generally high food inflation that has been around for the last few quarters. If you were to keep a few quarters aside, we have maintained in the past and we continue to maintain that the medium to longer term trend in India will continue to be a trend of up trading and that is what we would like to see because of increased affluence, changing attitudes towards consumptions, people will move towards better and better offerings and there will be new people who will come into the consumption basket. Categories like laundry for many years we saw up trading, there have been a couple of quarters in between where we saw downtrading in the recent past but again the longer term trend will continue to the one of up trading.

Richard Liu - JM Financial - Mumbai

Sure, thanks for that. I just wanted to double check, I mean there is no further spread of this phenomenon to other categories other than laundry and tea, right?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Not in any significant level.

Richard Liu - JM Financial - Mumbai

Okay, but you are seeing signs of that in some other category?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

No, I think not other than what we have commented on. In countries like India and the market which is as significant as this, in most categories you see a little bit of up trading and down trading which keeps happening all the time. So there is nothing more significant to report other than the couple of categories which we referred to, where we have seen over a few quarters this trend.

Richard Liu - JM Financial - Mumbai

Okay. Other brands and competitors you have mentioned about several times in your presentation. You do not think this is structurally negative trend in consumption otherwise?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Not at all. In fact structurally, we believe consumption will keep rising and that is what I keep saying the opportunities for consumption growth in the market like India continue to be high even in seemingly penetrated mature categories, which we referred to earlier, which is like laundry and personal wash, etc.

Richard Liu - JM Financial - Mumbai

Thanks and wish you all the best.

Namita - Moderator

Thank you sir. The next question comes from Mr. Abneesh Roy from Mumbai Edelweiss Capital. Mr.Roy, you may ask your question now.

Abneesh Roy - Edelweiss Capital - Mumbai

Congrats on the good volume growth. My first question is on the Pureit. Recently we heard that Unilever will be taking it to other countries, so how does it benefit us, do we get royalty in case if this is manufactured by the local R&D unit, some colour on that?

R Sridhar - Chief Financial Officer - Hindustan Unilever Limited

As far as this is concerned the news that you are referring to is about potentially other countries of Unilever launching Pureit. The development of Pureit was done jointly, it was done both by a resource

of team from India as well as by Unilever and in the whole process Unilever was very actively involved in developing the Pureit brand and the technology that goes behind Pureit, therefore outside of India in other countries the license and patents etc., are held by Unilever.

Abneesh Roy - Edelweiss Capital - Mumbai

My second question is on the Vaseline Men. We are seeing lot of ads currently, so in terms of positioning I sense this is more at the premium end and we are not seeing lot of advertisement of Fair and Lovely Menz Active, so what is the strategy? Are we kind of defocusing on the mass end of this segment?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

No, I think in a country like India we have the task of having to place the top end, middle and the bottom, so there is no attempt or intention to de-prioritize the mass end of any category.

Abneesh Roy - Edelweiss Capital - Mumbai

Okay, and lastly we have been hearing about the Perfect Store, which is a go to market, so in this do we need to make some investment in terms of CapEx for the store? How does it really work? If you could give us some colour?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

I think the whole idea of a perfect store is to make sure that in every single store you have the perfect assortment to begin with; an assortment which is tailored to the shopper profile which is there in that given store. The second element of a Perfect Store is to make sure that you have perfect visibility, perfect aides, which are available in that given store and then you carry your merchandising kits, your DSM, and shelves and everything that you do with the visibility, which is required out there. We have certain sale fundamentals to recall them and for each outlet they are defined in terms of five

fundamentals depending on the quality of that outlet and for a store to be called perfect it must meet each of those sales fundamentals, which are appropriate to that outlet.

Abneesh Roy - Edelweiss Capital - Mumbai

Just to get it cleared, does the company need to invest in terms of look and feel of the store or who bears the cost for that?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

What happen in the store is borne by the retailer. If there are some fixtures that we wish to put in for the display of our product like in a modern trade store, we may have a certain specific unit that we have put in place to display something that is of course ours; but we are not in the business of altering or redesigning any of the current stores which are there. One of the things, that is most challenging is – given the relatively small size of the stores that we have got and the fact that we are converting them to perfect stores, is very complex and we are bringing technology to be able to assess, first execute this, and then to measure the execution that is available. So we have got a set of people who at the end of making a call are in the position to take photograph of each one of these stores and someone sitting is actually assessing the compliance of these outlets versus a planogram, which would have been designed for that store.

Abneesh Roy - Edelweiss Capital - Mumbai

Okay. In Oral segment, we have appointed Shah Rukh Khan as the brand ambassador, on the other hand we also keep hearing that some of the brands may not be the focus in oral, you might even think of selling that, so where do we stand in oral categories?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

I think this is an easy question to answer, oral category is an important category for us and I do know where these questions or concerns about not being interested and defocusing have come from. There is no such interest at all. We are determined to actually grow this business.

Abneesh Roy - Edelweiss Capital - Mumbai

All the brands sir?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Yes.

Abneesh Roy - Edelweiss Capital - Mumbai

Okay sir, all the best and thanks a lot.

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Thank you, Abneesh.

Namita - Moderator

Thank you sir. The next question comes from Mr. Ashit Desai from B&K Securities, Mumbai. Mr. Desai, you may ask your question now.

Ashit Desai - B&K Securities - Mumbai

Firstly of the water business if you could discuss the performance of that segment this quarter. If I see the revenues are more or less flat this quarter for the other segments in PC. Secondly, if you could also give us some colour on the growth in your mass and premium categories. We are saying that the

growths are much ahead of the industry levels but where is the growth coming from, mainly from the mass categories or premium categories?

R Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Ashit, let me first pickup the question you raised on water. First of all to reassure and clarify that our water business is continuing to maintain a strong growth momentum. I think when you look at the specific line in our segmental results called others, water is only one of the components and there are some other components of that, which include noodles and glycerin, etc, which are therefore not giving the right picture but when we went through the presentation we very specifically talked about water, it is growing very well. In the last two quarters we have in fact expanded the portfolio with an entry at the premium end, Pureit Auto Fill and an entry at the mass end Pureit Compact, so it is growing very well and tracking in line with our plan. As far as the second question you asked about whether the growth is in the mass or the premium, I think we said the growth is broad based, it is across category, it is across sector so it is not that it is only or the other.

Ashit Desai - B&K Securities - Mumbai

Okay. Sir, the reason for me asking this growth in mass and premium was, besides detergents, which are the categories where we see a scope for down trading and where pricing corrections might be required because you have been saying that food inflation has impacted growth overall this quarter across categories. So going forward, which are the categories where we see some pressure in term of down trading and some pricing action that needs to be taken?

R Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Ashit, the comment that we made on food inflation was in the context of slower than previous growth rate levels of the market that we had seen in March quarter but we also said and I think Nitin mentioned this that when you look into the future for the market like India with its demographics there is a very huge consumption opportunity and over the long-term, both in terms of consumption levels as well as in terms of premiumization and up trading we see huge potential. On a long-term secular basis, we really do not see an issue or a concern at this stage on down trading.

Ashit Desai - B&K Securities - Mumbai

Thanks a lot sir.

Namita - Moderator

Thank you sir. The next question comes to Mr. Hozefa Topiwalla from Morgan Stanley, Mumbai. Mr. Topiwalla, you may ask your question now.

Hozefa Topiwalla - Morgan Stanley - Mumbai

Good evening everyone. Just two questions from my side, one on growth profit margin, secondly on trade inventory pipelines. On the trade inventory pipeline you mentioned in the March quarter last year that part of the reason why the growth was impacted was because the inventory in the trade dropped dramatically, so this year where we are today in the trade inventory and second one is on gross profit margin. I think you have done a very good job at managing that numbers but can you share with us what is the split between the cost element and actual input cost savings that you have implemented. Thank you.

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Okay, so let me first try and answer the first part of your question and Sridhar will address the second part. If the comment that you have about trade pipelines is really to assess what is the base effect which is there, which we need to factor in as we start looking at this growth that we have got in March quarters. The answer is there is some effect, which is there. Last year we had a transport strike, which took place in the month of January, which impacted us and through the quarter we were struggling to actually get business back and then this whole task of bringing prices down had impacted us. As we stand today, we measure the amount of trade pipelines in two ways. We measure our primary and we measure our secondary in order to make sure and we also carry out an exercise of assessing the stock, which is available at some of our key wholesalers to reassure ourselves that these stocks are not

reaching very high levels. At the end of March quarter, there is no signal which suggests that these were any higher than what we had in the previous few quarters. I would not be able to give you an off-hand number in terms of what the difference might have been vis-à-vis what it was on 31st March last year versus now, but it would be fair to say that some impact of the strike and the performance, which we had in March quarter should be taken into account as you look at this quarter's performance.

R Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Hozefa your question around gross margin, so essentially I briefly mentioned that the gross margin has improved. First of all, this has been done after taking into account the impact of pricing, particularly in laundry where we have talked about the competitive battle that is going on. But at the same time, mix of buying and saving that we delivered through our own buying efficiencies and leveraging universe scale as well as a step up in the area of cost savings and cost effectiveness programs, which again we shared in form of indexed information in the presentation, both of these have contributed. I do not have off-hand split, what is pricing and what is cost savings; we normally never give that information but suffice to say that our cost saving program the momentum of it continues and in fact has built further in the quarter.

Hozefa Topiwalla - Morgan Stanley - Mumbai

Okay, just to take that question a bit further on cost saving and pricing, did you have any input cost element in this quarter and is that element petering out in the June quarter or how should you look at that?

R Sridhar - Chief Financial Officer - Hindustan Unilever Limited

So, from an overall market context, we picked up two or three of the relevant important commodities where, we just shared with you from a market context how the prices have moved and you are right, there is mixed trend; there has been some which have firmed up but some which have been slightly benign. For competitive reasons obviously, we would not prefer to disclose what our stock or cover was and therefore to what extent it benefited. Looking ahead, I think this is quite a dynamic situation; we see some commodities being ruling quite firm. So for example, if you look at palm oil and soapery oils

they are ruling firm, tea as you know it is early, the main season as far as North India will start after sometime, South Indian teas have been a bit benign, and crude which is an important one, has been extremely dynamic, extremely volatile, so difficult to give a sort of overall prognosis, we can only look at individual elements.

Hozefa Topiwalla - Morgan Stanley - Mumbai

Can I ask one more question with your permission.

S C Srinivasan, VP - Treasury, M&A & Investor Relation of Hindustan Unilever Limited

Okay please go ahead.

Hozefa Topiwalla - Morgan Stanley - Mumbai

Just a very broad and general question on the industry that the overall ad spend to sales ratio for the entire industry, as you mentioned appropriately, has grown up dramatically in the last one year yet the market growth has slowed down; it is quite a huge investment and the market does not seem to be responding, of course you can say it is because of inflation pressure etc., but how would you really explain this phenomenon of huge market investment and consumers not really reacting?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Hozefa, all I can say is that we should not get overtly coloured by what happen in terms of market growth in a quarter or two, many of these investments, which are being made, are made to build brands and categories for the long-term and we remain absolutely confident that the investments which are being made will start getting reflected into longer term growth and consumption as we see going forward and in this longer-term journey there may be a quarter or two or smaller periods of time when other factors may come in and influence the growth rates which are there.

Hozefa Topiwalla - Morgan Stanley - Mumbai

Sure, thank you very much. Best of luck.

Namita – Moderator

Thank you sir. The next question comes from Mr. Hemant Patel from Enam Securities, Mumbai. Mr.Patel, you may ask your question now.

Hemant Patel – Enam Securities – Mumbai

Hello sir. Just one question; on pricing aggression that we have actually taken in the last couple of quarters, some of the key players in the industry have indicated that they would like to relook at pricing environment going into the second half of this fiscal year largely based on the cost inflation which they are expecting. Where do we stand in this context? Would we be keen on taking the prices, I mean are we in a situation where the cost is actually going up?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Firstly, we do not want to comment on what other people have been saying. And as far as our own pricing actions are concerned, for obvious reasons, we cannot comment and share what and when we would be looking at pricing action and when they will go up. Our pricing actions will be governed by a combination of facts, which includes what is happening in the competitive context and competitive prices and what is happening to commodity task and looking at all of this we would make our move.

Hemant Patel – Enam Securities – Mumbai

All right sir, that is it from my end.

Namita - Moderator

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

Vivek Maheshwari – CLSA India - Mumbai

Hi, thanks for taking my question. Two questions; one, are you seeing any divergence in rural and urban growth for you or for the industry. Second is the A&P, you talked about competitive pressures and intensity, we are already at 14.5% on A&P in Q4; do you think that the A&P have peaked at the current level or there is a probability of these going up in the coming quarter? Thanks.

S C Srinivasan, VP - Treasury, M&A & Investor Relation of Hindustan Unilever Limited

Maheshwari, I would answer the second question at this moment because I do not know what is going to happen over the next few quarters in terms of the market but it is safe to say that over a long period of time, investments will increase from where they were in the past. This quarter has been a big jump for a combination of reasons like the number of new activities that we had and the competitive battle that we faced. So no real guidance as far as where this could reach. As far as growth rates are concerned it is interesting that growth rates across urban and rural has been broadly similar you would see across volume and value urban and rural growth are within a very close range, in fact rural is growing a little faster than urban but not substantially fast.

Vivek Maheshwari – CLSA India - Mumbai

Okay, all right sir, thanks.

Namita - Moderator

Thank you, sir. The next question comes from Ms.Rajasa K. from Credit Suisse, Mumbai. Ms.Rajasa, you may ask your question now.

Govind – Credit Suisse - Mumbai

Hi, this is Govind here. One follow-up question to the previous one; in many categories especially outside the staples we have seen a massive acceleration in rural spends be it motorcycle, cycles, televisions, you know, across all companies that we speak to, in the last three years we have seen a massive acceleration, it has somewhat broken away from urban growth. We have not seen that in staples, so could you give me your thoughts on that?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

I think my observation, in the context of March quarter, is that we have seen where rural growth has been a little ahead of urban growth but we have also seen urban market continuing to grow. In the longer term are we likely to see faster rural growth? The answer is yes; exactly like in other categories as rural prosperity increases, the affluence goes up we will continue to see faster growth. In order to drive that there are many actions that we can be taking and one of the action that we are taking now is to dramatically increase the reach and the presence that we have got in rural market. You are aware of the fact that even today we are among the deepest and widest rural distribution network and we want to take action over the next couple of years that can dramatically alter that. We are looking at almost trebling the rural reach that we currently have and I think when we go to the level that this will take us, you will begin to see how, it would not just be about providing access, distribution will almost be a brand building initiative and it will create categories and not just make categories available out there. So I think the task that we have got to do in order to fuel growth in the markets such that the increased money, which is going into rural market will find the right products for them to consume and buy.

Harish Manwani – Chairman - Hindustan Unilever Limited

This is Harish Manwani. This is a really important question that you asked. This company, as you know, was built around creating distribution where even media never used to reach and therefore we did a lot of our brand building work through our distribution system and I think in the next couple of years initiatives that the team here is taking is to my mind the next generation of breakthrough because what we are proposing to do is to actually increase our rural coverage, both quality and quantity of rural coverage to the extent that we have done in the last 25 years we want to do it in the next two years. This is a big - big leap and to my mind will be a huge driver of future growth. Once again, there is no

direct relation, you are not going to get the benefit in year but I think over the course of the next year we will create what I call the next gap between us and our competition because it is all about trying to keep creating gaps and while competitors are closing gaps we have to continuously create new gaps, so I think this is a big area for us now.

Govind – Credit Suisse - Mumbai

Just a follow up, my understanding was that your reach is already quite phenomenal going down deep to villages with very little population, so what incrementally can you do qualitatively; what is that you propose to do to treble the rural reach.

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

It is true that our reach today is higher than what other companies have got in rural markets but India has over 6 lakh villages and many of them till very recently were not even motorable. We are coming up with new models of accessing some of these markets which will become economically viable but viable only for a company of our size and scale and not something which is easy for somebody else to actually carry out. We have also got models, which show that it is not just about making your brands available, many of our brands may be available in each of these six lakh villages, which are there but they are flowing through the distribution channel. When you start reaching these markets yourself, which you get direct reach the quality of that reach is substantially superior than when products are just flown in because then you get preferential presence, you can carry out communication activity, you can do things in the outlet to actually bring alive your brands out there and in the process, impact overall category growth and of course preferentially the growth of your brands in those markets.

Govind – Credit Suisse - Mumbai

Essentially you are talking about enhancing direct reach?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Direct reach to levels, which are substantially higher, so this is not about 10%, 20%, 30% increases. We are looking at finding a way to go to three times as many outlets in rural India directly as we were going to today and even today we are ahead of many other companies or moreover every other company in terms of rural reach.

Harish Manwani – Chairman - Hindustan Unilever Limited

And by the way, also looking at unique models that have been created by this company over the last four five years in terms of not only going direct to retail but also going direct to consumer. So models like Project Shakti is now being extended in a manner that is very innovative and therefore this is not about just repeating more of the same but creating a really the business model that will help us build brands in the rural market.

Govind – Credit Suisse - Mumbai

My second question was by way of clarification. Is it fair to understand that royalty on a recurring basis would be 60 basis points higher than what it has been on the past, is that what you meant?

R Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Essentially, with the changes that the Board approved, coming into effect from 1st January, roughly speaking the incremental margin impact would be about 60-basis points going forward.

Govind – Credit Suisse - Mumbai

Which would roughly, going by your past numbers is doubling of royalty payment?

R Sridhar - Chief Financial Officer - Hindustan Unilever Limited

Obviously, the actual numbers will depend on what eventually the brand wise turnovers and the mix is there because just to remind everyone that there are two components, one is the technology agreement and then there is the brand trademark licensing. the brand trademark licensing agreement only applies to those brands that are owned by Unilever and therefore the exact numbers will depend on the mix of sales that we generate.

Namita – Moderator

The next question comes from Mr. Sanjay Singh from ICICI Securities, Mumbai. Mr. Singh you may ask your question now.

Sanjay Singh – ICICI Securities – Mumbai

Good evening everybody. Just wanted to take this market growth question a little bit further, while I completely agree that India will continue to grow in consumer staple but the question is more on the pace of growth. If I see probably the growth in FY 2010 the volume growth of say the top 15 to 20 categories, a blended volume growth is much lower than compared to FY 2007 or FY 2008. Now is it because of any particular markets rural urban or is it because across you are seeing penetration levels have increased very much, categories like shampoos penetration has increased from less than 55% to almost 80% plus now. The pace of volume growth is lower compared to FY 2006, 2007 and 2008. Can you throw some light on that?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

All I can say is that financial year 2010 has been a year, which is marked with considerable volatility in terms of prices etc., which has taken place. So prices started off very high, started coming off, those high prices had an impact in terms of volumes and the consumption, which was taking place. We have seen an acceleration in some of the categories especially like laundries where volume growths were very low in the early part of the financial year as prices have come up and into March quarter volume growth has gone back quite strongly. So I won't read more than you need to at this stage. I think we should wait for a couple of quarters to see whether the strength continues in that manner before we get more concerned about it because there is nothing to take away from the longer term story that we are

talking about. There was a period when the economy went through a little bit of pressure, food inflation was high, many of those issues are correcting themselves, the overall sentiment is improving, if we have a good monsoon food inflation comes under control a lot of it could come back, but this is all in the realm of speculation in the near term, longer term I think it is pretty certain that is going to happen.

Sanjay Singh – ICICI Securities – Mumbai

And just in terms of trebling your number of outlets rural reach, now what exactly will change operationally. You already have rural distributors in less than 50K towns. You already have your vans going across the place, so what exactly will change operationally I am saying?

Nitin Paranjpe – Chief Executive Officer – Hindustan Unilever Limited

Firstly, the scale at which we are carrying out these rural operations will undergo a change. We will get to more villages. Second, we will start covering more outlets in the villages that we are going and reach saturation level coverage. Third, in villages, which were currently relatively uneconomic to go and distribute, we will find new models of accessing those villages to make it economically viable for us to go there and we will be able to go there both because of a new model that we will design and because of the scale that we have as a company and it is this combination, which will make it possible for us to reach there economically but not so easy for anyone else to replicate what we have done and thereby this will be a source of competitive advantage for a reasonably long period of time.

Namita – Moderator

The next question comes from Mr. Ajay Thakur from Alchemy Stocks & Share Broker, Mumbai. Mr. Thakur you may ask your question now.

Ajay Thakur - Alchemy Stocks & Share Broker – Mumbai

Good evening everybody. Good volume growth for the quarter and congrats on the same. My question relates to what would be the grammage increase that we have taken during the past year. What will be the contribution of that to the volume growth?

R Sridhar - Chief Financial Officer - Hindustan Unilever Limited

The volume growth that we have talked about at 11% is broad based across categories. The issue of grammage that you are talking about is perhaps only relevant to one of the categories and that too only in the mass section, mass end of the laundry portfolio. When you look at the other aspects whether it is the mid price or premium end of the laundry portfolio or indeed you look at personal products or foods I don't believe that there is any grammage change and therefore, in the overall context it is not a material item.

Ajay Thakur - Alchemy Stocks & Share Broker – Mumbai

Secondly, my question was on organized retail. Since the outlook has improved and we are expecting better urban growth, so what kind of organized retail sales have actually contributed. Has it gone at a faster pace than the overall industry growth or how has the trend been?

S C Srinivasan, VP - Treasury, M&A & Investor Relation of Hindustan Unilever Limited

Organized retail is growing faster than the overall market growth. Currently for a business like ours it is quite small, it is in single digit 7% to 8% is the contribution of organized retail for us. We do believe that this will increase. We have said consistently that over the next 10 or 15 years this could get to between 20% and 25% of the market level, which means that over that sort of period organized retail will grow faster than the overall market. We, for precisely this reason, have taken several steps in the past and continue to take in order to strengthen our capability and build the skills which are required to deal with modern trade. We have focussed on this. We have resourced for this in advance. We have got into a special tie-up with a company which will provide excellence in execution at the front end, which is the company called Smollens which has got experience in many markets across the world and I think it is this combination which positions us very well to win in this channel, which will be a challenge, which will grow in competition. The other thing that we track is to make sure that our present shares continue to be stronger in this channel and at this moment our performance in 2009 and the early part of the year

show that we are growing shares and improving our contribution in the modern trade channel and our market share in modern trade is now a little higher than the market share that we have in general trade, which is a good position to be because the contribution of this channel will keep rising as we move forward.

Ajay Thakur - Alchemy Stocks & Share Broker – Mumbai

Thank you sir. That is all from my side.

Namita – Moderator

Due to time constraints, I would now hand over the call proceedings to Mr. S C Srinivasan for the final remarks.

S C Srinivasan, VP - Treasury, M&A & Investor Relation of Hindustan Unilever Limited

Thank you very much everybody for joining on this conference call and we look forward to meeting you tomorrow for our analyst meet and I think then we will have more time for interactions. Thank you very much.

Namita – Moderator

Thank you sir. Ladies and gentlemen this concludes the conference call. You may now disconnect your lines. Thank you for connecting to Audio conference service from Airtel and have a pleasant day.