Hindustan Unilever Limited

September Quarter 2018 Earnings Call of

Hindustan Unilever Limited

12th October 2018

Speakers:

Mr. Sanjiv Mehta, Chairman and Managing Director

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

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

Operator

Good evening, ladies and gentlemen. I'm Ali, the moderator for this call. Welcome to the Hindustan Unilever Limited September Quarter 2018 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. Please note that this conference is being recorded. I now hand the call over to Ms. Suman Hegde.

Thank you and over to you, ma'am.

Suman Hegde

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

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

With that, over to you, Srinivas.

Srinivas Phatak

Thank you, Suman. Good evening, everyone. And what we will do is we shall talk through four key elements of our performance, starting with our strategy. And you'll see this chart, I think it's remained unchanged from many, many years. And I think the current quarter is, again, a good example of the strategy playing through in its totality and we will talk about it more as we go along.

If you look at it from a September quarter, we will start with a bit of a market context before going into HUL's performance. Now, from a market context, demand has sustained, and we are now seeing rural growing ahead of urban. We have had headwinds coming through in crude and currency, but these have also been partially offset by benign vegetable oil prices and lower food prices. In this environment, from an HUL point of view, it's been a strong performance, volume led profitable growth in the quarter.

Now, some key highlights and numbers. Domestic Consumer Growth in the quarter has been 12%, with Underlying volume growth of 10%. Our EBITDA margins at INR 2,019 crores, is up 20%, with EBITDA margins going up by 160 basis points.

We have talked about our strong savings plan, which has been running consistently for many years now. And I think that has really started to come into full play in the quarter. Similarly, as we now see, this is the fourth quarter, where we have had double-digit volume growth and that's completely helping and enabling us to get the benefits of leverage. And these, to a large extent, have mitigated some of the material price increases and helped us also drive up our margins.

Our PAT (bei), at INR 1,522 crores, is up 23% and our net profit, at INR 1,525 crores, up 20%.

Before we get into some of the elements of our performance, it's also important to call out that in this quarter, after a long time, we no longer are getting into comparable numbers. You would realize that with the GST, we went through at least a four-quarter period, where we had to talk about comparable numbers. We are not really doing that from this quarter onwards. Having said that, there is one element, which we would like to call out for the benefit of everyone – our method of accounting for government grants, which is the fiscal refunds we get from some of our units located in Uttaranchal, NESA and others. There has been an accounting impact change, which has come through in the base that used to be reported in the sales. We corrected that in December quarter last year. In the current quarter, that has gone into our other income. Hence, to that extent, our USG will be under reported between 0.8% to 1%. But, I think, in the interest of keeping simple and comparability of numbers, we are not calling that out. So that is an important element, which I would like to highlight as I go through the presentation.

I think the point, which we want to make on this chart is the importance of speed and agility across the value chain, which has served us very well from a quarter point of view. And I think it also puts us in a solid position as we look into the future, given some of the macroeconomic fundamentals and how they're playing out.

Let me touch upon a couple of examples. I think the first one is our ability to land innovations and make price changes faster. If you were to compare it with a few years ago, in terms of our preparedness and the timeliness, it gives us a significant step-up of about 40-odd percent that really starts to show how we have made improvement as an organization.

Effective coverage and assortment gives us an ability to reach more stores, have the right assortment and enable us to position it well in line with our WiMI strategy.

I think third element is an interesting one – inventory. We have taken a lot of excess inventory out of the system. Our OTIF is up, our customer servicing is up with optimum levels of inventory. I think what this is doing for us is, that it's giving us more flexibility, where required, to start going long on some commodities, and in case of volatility, to keep it nimble and agile in others. This is going to be helpful for us in terms of how we navigate the future and they have also helped us from a quarter point of view.

And clearly something we've been talking about has been our savings agenda or savings program. We have continued to see a step-up in our savings agenda. And the fact that we have started to use more of our data and analytical capabilities, which Sanjiv has alluded to previously, is helping us to look at different opportunities to reduce costs.

When you look at it from a quarter point of view, we have had strong growth across the divisions and it has been volume led. So, when you look at our divisions, Home Care has grown at 13%, BPC at about 11% and Foods & Refreshment at 12%.

For Home Care, again, it's been one more strong quarter, where we have seen double digit growth. In BPC, it's across both Personal Products and Personal Wash. I think differentiated communication and activation continues to be important and is core of any FMCG organization. In the quarter, we've had a good mix of activations and innovations, and you will hear Sanjiv talk about some of them when he takes on his views on the overall performance.

Now, giving a little bit of a flavour of our three divisions – from a Home Care point of view, it's been a strong volume led growth which has sustained and that's the important way to look at it. It's been strong performance across the portfolio from both Fabric wash and a Household care point of view. In case of Household care, the big activity that we initiated in the South of the country, especially in Andhra Pradesh, is the Domex Pick up the Brush campaign. This campaign has started to make a difference and has landed well. In purifiers, we are sharpening the portfolio strategy in line with the evolving consumer needs, so, to that extent, the performance was impacted in the quarter, but overall, when we look at Home Care, I think the performance has been really pleasing.

In Beauty & Personal Care, the growth has been broad-based across both Personal Wash and Personal Products. In the Personal Wash category, we have been talking about the premium segments doing well and Dove and Pears have done exceedingly well during the quarter. We are also continuing the market development with the launch of INR 5 accessible hand-wash pack which has gone in the quarter.

For Skin Care, there has been momentum across the brands. Men’s Fair & Lovely relaunch was well received.

I think if I really have a call-out, in this quarter – Hair Care had a very stellar performance with a strong double-digit growth across key brands and TRESemmé was relaunched with superior fragrance and packaging.

Colour cosmetics is truly a jewel in our crown. This has been one more quarter where we have seen strong double-digit growth, which has come through on the back of successful innovations. Kareena Kapoor Khan by Lakmé Absolute was launched during the quarter.

For Oral Care, overall delivery has been below expectations, notwithstanding that, in certain parts of the country namely Central and North, we are seeing both our brands perform well. Deodorants have again delivered an impressive quarter. With Axe Ticket, we are reshaping the category and that has given strong growth for us and it's continuing to build in different geographies.

Foods and Refreshment is a story of robust growth across categories. Beverages – we've had broad-based growth across tea and coffee and our WiMI strategy is coming into full play along with market development initiatives.

Ice Creams and Frozen Desserts reported a strong growth momentum in the quarter. You would also recollect that we had acquired Adityaa Milk, which gives us a play in Karnataka and adjacent geographies. The integration of the same has commenced. Foods performance was led by double-digit growth in ketchup and jams.

So here is where we are calling out or highlighting our segmental performance. You would realize that this is a little different from what we report as USG versus what comes through in the segmental performance. I think the important element you would see is that there has been strong double-digit growth across all the three divisions. And importantly all the three divisions are in a healthy space of profitability as well. Home Care margins, sequentially, are lower, but 16% is a healthy margin from a category point of view.

In Beauty & Personal Care, the important piece for us is that the gross margins continue to improve, and we are investing competitively behind our brands. Our gross margins in Foods & Refreshment are in a good space and we are playing the benefits of full portfolio.

I think the only elements to call out and clarify here is that gross margin needs to be seen in the total context of supply chain cost, which is a combination of material and the other supply chain-related expenses such as production, distribution and others. When we report results externally, given that we do it according to accounting standards, materials come as one line and the other expenses get combined with the rest of the overheads that we have in the P&L.

So, therefore when I look at it from a September quarter results summary, the numbers are very clear. Sales growth of 11%, net profit up of 20% with our Domestic Consumer Growth at 12%. One element to clarify here is that in the other income, we have had some benefits of an interest coming through on some prior period tax assessments. This is a one-off item, which has come under our other income line and the same is having an effect between PAT bei and net profit.

It's also a first half for us, therefore when we look at it from a first half point of view, the comparable Domestic Growth sits at about 14% and comparable EBITDA margins are up by 130 basis points.

Reflecting the strong performance in the first half, the Board of Directors have proposed INR 1 increase in the dividend payout and hence, proposed dividend sits at about INR 9 per share versus INR 8, in the previous year.

And now, let me talk a little bit about looking ahead. When we see from a near-term perspective, we expect the demand outlook to remain stable. Given the volatility and inflation, crude and currency will continue to be key watch-outs. I think the key element for us is the whole piece on agility and responsiveness. We have invested significantly both from a supply chain as well as customer development point of view. These are expected to augur well for us and will give us the confidence to navigate some of the turbulence, which are likely to come through.

Furthermore, the investments that we've done in data driven digital capabilities will also help us serve the consumer needs better and manage the business in line with our strategy. And it's a nice segue to say that our strategy continues to be focussed on volume-driven growth and improvement in operating margins. Our model of consistent, competitive, profitable and responsible growth remains intact.

I'll now hand over to Sanjiv for him to share his perspective on the quarter and broader business.

Sanjiv Mehta

Thanks, Srinivas.

Hi. Good evening, everyone and thank you for joining us. Also, I would like to wish all of you a very happy Navaratri. And just a caveat, I'll be here till 6:30, but Srinivas and Suman will be here to field your questions.

So, talking about the quarter that has just gone by, this was one of the quarters, where the quarter was comparable to the base quarter. So, from a market perspective, as Srinivas just mentioned, the demand has sustained. The heartening news of course is that the rural growth continues to grow ahead of its urban counterparts. So, we certainly believe that it has the potential to grow much faster.

Monsoon started very well but ended with some normal rainfall in parts of the country. We will have to wait and watch as to how the demand drivers play out in light of this below-normal rainfall in parts of the country. As you all know, there have been headwinds in the recent past with crude inflation and the sharp currency depreciation. We also had disruptions in the quarter in the form of the transport strike and Kerala floods, both of which were navigated well by our teams, thus neutralizing any business impact.

So, a heartening performance of 12% Domestic Consumer Growth based on a 10% UVG. Also, it is good to see fourth consecutive quarter of double-digit volume growth and a robust bottom line delivery with EBITDA margin expanding by 160 bps to mark another quarter of volume-led profitable growth.

Now talking about the divisions, Home Care continues to shine in both laundry and Household care. Laundry, in many ways, is a very good reflection of our thrust on premiumization, consumer relevant innovation, a big thrust on market development and fabulous communication. Rin bar furthered its water conservation efforts by raising awareness in Tamil Nadu in integration with the popular Big Boss show. Kamal Haasan, the show's host led the water conservation pledge during the show and encouraged everyone to join the Rin water conservation campaign.

The Household care category delivered another strong performance in the quarter with the focused market development activities on Vim yielding good results across all the clusters. Domex had a good quarter post its relaunch in South India. This quarter also saw the launch of the Domex Pick up the Brush campaign with some of the leading superstars in South India, urging everyone to banish the shame and taboo of cleaning toilets.

In the purifiers segment, we are sharpening the portfolio strategy in line with evolving consumer needs. We remain committed to water purifier category given the immense need and potential for water purifiers in India.

Moving now to our biggest business, the Beauty & Personal Care division. This division saw broad growth across Personal Wash and Personal Products. In Personal Wash, the premium part of the portfolio continued to deliver strong performance. We introduced Lifebuoy hand-wash in access packs, Rs. 5, which, we believe, could be the key to drive penetration in the category. We also had a new campaign on Dove, which questions the pre-conceived idea of beauty that is unconsciously but deeply ingrained in young minds. Skin Care registered another stellar quarter with continuous growth momentum across the portfolio. The relaunch of Men's Fair & Lovely with better pack appeal and enhanced proposition was also very well received.

Hair Care grew handsomely this quarter across key brands with our MT channel registering strong growth. TRESemmé, on its five-years anniversary in India, was relaunched with new packaging and a more fragrant formulation. It was also the official Hair Partner at Lakmé Fashion Week, re-establishing its credential as the choice for hair professional and beyond.

In colour cosmetics, Lakmé continued to deliver strong growth with another set of exciting innovation being rolled out. We also held the prestigious Lakmé Fashion Week showcasing the latest industry trends. It is undeniably a marquee event in the fashion industry and one of the most digitally followed fashion event. The Kareena Kapoor Khan collection, which Srinivas talked about, is a bold and beautiful premium range of makeup curated by Kareena herself.

Deos did well with recent innovation leading the growth. Axe Ticket, which is our pocket size perfume pack has done extremely well and continues to build its consumer franchise. Rexona's focus on building the antiperspirant market is paying off and we will continue to focus on market development activities in this important category.

Foods & Refreshment delivered robust growth across categories in this quarter. Our brand Kissan, with its portfolio of jams and ketchup, registered strong growth. Kissan Tiffin Timetable, a campaign to strengthen Kissan's connect with mothers, has delivered Kissan as an active ingredient in healthy and tasty lunchbox recipes – that's gone well. The campaign’s 70 videos on its YouTube channel has garnered millions of views, making this property a big success.

In Refreshments, our WiMI strategy on tea continues to deliver strong results. Red Label continued to build on its principles of promoting inclusiveness. I'm sure many of you must have seen the heart-warming communication during Ganpati festival. Red Label also got together cricketers Aamir Sohail and Venkatesh Prasad over a cup of tea to relive their famous encounter in the World Cup of 1996 and experience the taste of togetherness. The coffee category also had a good quarter with a differentiated action in the Southern states yielding strong results and growth in non-South markets also accelerating.

Ice Cream and Frozen Desserts had a robust quarter with all our geographic footprints performing well. We launched variants of Ice Cream and Frozen Desserts in new access packs. Popular flavours like Orange Mahabar, Kulfi and Vanilla Cup are now available for as little as Rs. 5. I would certainly encourage you all to try this, and if not, please continue eating Magnum. As you may know, we also have acquired Adityaa Milk this quarter, which will further strengthen our portfolio in the Southern states where the brand currently operates in.

In summary, both the quarter and the half-year has been very pleasing. Few things very clearly stand out – our focus on strengthening the core, driving premiumization, investing in market development are yielding growth. Second, our relentless drive on execution at the front, focusing on effective coverage and assortment, and at the back-end identifying savings opportunity across the value chain and then investing them behind our brands is fuelling the virtuous cycle of growth. Lastly, we continue to build our digital capabilities across the value chain, in line with our ‘Reimagining HUL’ vision. We're confident of leading the change in these exciting times.

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

Suman Hegde

Thanks, Sanjiv. Thanks, Srinivas.

With this, we will now move on to the Q&A session. Can I request participants who want to ask a question to keep it really tight so that we can accommodate as many questions over the next 60 minutes? In addition to the audio, as always, our participants have an option to post the questions through the web option on your screen. We encourage you to do that, and we will take those questions up just before we end. Before we get started with the session, I would like to remind you that the call and Q&A session are only for institutional investors and analysts, and therefore, if there's anyone else, who is not an investor or an analyst, but would like to ask us a question or engage with us, please feel free to reach out to the Investor Relations team out here.

With that, I would like to hand the call back to you, Ali, to manage the next session for us. Go ahead, Ali.

Q&A

Operator

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer interactive session for all the participants who are connected to the audio conference service from Chorus. To ask a question, participants may press * and 1 now. The first question is from the line of Abneesh Roy from Edelweiss.

Please go ahead.

<Q - Abneesh Roy>:
Sir, congrats on a very good set of numbers. My first question is on F&B. You've done well across all the segments. What's the contribution of Adityaa? What was the thought process behind acquiring this? Is it because Indulekha did well? Any plans to take it to North India also? And have you acquired because you want to increase aggression at the lower end?

<A - Srinivas Phatak>:
Thank you Abneesh for your compliments. So, let me clarify. Adityaa is an interesting play for us in Southern states of Karnataka and adjoining (areas). Ice Creams is an attractive category growing in double digits, and our original strategy was really a citadel strategy focused on key markets. I think clearly there's an opportunity to go beyond. There is an opportunity to look at a very differentiated business model by working with Adityaa. Therefore, the acquisition has been key for us from a different business model, distribution, assets point of view and to go wider and beyond the citadel strategy. I think that is where we would like to first focus on, grow the business and hit our deliverables before we talk about expanding anywhere. We will also be doing work in terms of using the Adityaa brand in conjunction with Kwality Wall's, and that is something which is going to be our focus over the next few quarters.

<Q - Abneesh Roy>:
One follow-up on the F&B was, Sanjiv sir said even coffee has done well, although there was no mention in the presentation. The other player also claims leadership here. So, what is the status here? Is it an equal kind of a market share in this?

<A - Srinivas Phatak>:
So, look, from our point of view, coffee has done well, and given the nature of our business, it always becomes difficult as to what we should call out and what we should not, especially in a quarter where you see it's been broad-based performance everywhere. So, to that extent, yes, we may not have specifically called out, that's why we said Beverages has done well.

<A - Sanjiv Mehta>:
But it's a double-digit growth, Abneesh.

<A - Srinivas Phatak>:
Correct.

<Q - Abneesh Roy>:
And sir, second question on Oral Care, your commentary in first quarter and second quarter is completely opposite. So, in first quarter you said another quarter of growth and Closeup did better than Pepsodent. This time you have said delivery below expectation and you have said both brands did well, and Central and North have done well. So, why suddenly things have changed in there?

<A - Srinivas Phatak>:
So, let me clarify. Overall, if you see, we have said that Oral Care has been below our expectations. While the brands have done well in two select geographies, at an aggregate, our performance has not been where we would like it to be. And, obviously, this is one part of the portfolio, where there is more work to be done. As the market is completely reshaping and a few dynamics are playing through, we've not seen the results that we

would like to. So, to that extent, our previous quarter was a bit better for us, however, this quarter has been a bit subdued for us.

<Q - Abneesh Roy>:
No, but you have always been saying Pepsodent has been kind of lagging Closeup and this quarter you said both did well.

<A - Srinivas Phatak>:
I'll clarify again. In the geographies, they were all right; but at an aggregate, the performance was below plans or below expectations.

<A - Sanjiv Mehta>:
Abneesh, the cold reality is that, we must do more work in Oral Care. As we have had a couple of quarters where the growth was a bit decent, not where we would like it to be, and this time it was below our expectations, which is a very clear signal to us that we need to do more work. It is not that it has not been doing well throughout the country, there are clusters where it has done well, which Srinivas talked about, but on overall basis, we still need to improve the performance of Oral Care.

<Q - Abneesh Roy>:
And sir, one last follow-up. Ayush, the pricing is very aggressive in Oral Care and your advertising and brand ambassador, everything right there, what is the learnings here and what else is required? Because whatever you could have done, everything has been done. So, what's the comment on Ayush and what's the improvement required?

<A - Sanjiv Mehta>:
Thanks, Abneesh, for asking this question. India is a very big country. And with Ayush, we have gone national.

Now, what has come out is that it is doing reasonably well in South India, where we are very satisfied with its performance and it is tracking well, but we need to tweak the mix when it comes to the rest of the country. So, we are bringing in the lessons of why it has worked well in some parts and not as much as we would have liked to in other parts. And like you know in FMCG there was some good statistics which came up, I think in HBR, a couple of years back, that most of the innovations become successful, only after they tweak the mix. So, yeah, in some places it has gone well, for some places it has not. We are bringing in the learnings, but we are determined to make it successful.

<Q - Abneesh Roy>:
Okay, sir. That's all from my side. Thanks a lot, sir.

<A - Sanjiv Mehta>:
Thank you, Abneesh.

Operator

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

<Q - Percy Panthaki>:
Hi, sir. This is Percy here. Sir, I have three questions.

Firstly, on the supply chain responsiveness and agility, you have some charts in your presentation showing how some of the parameters have changed 1.3x, 1.4x. Now, these are output parameters, as in they are measuring the results. If you could please elaborate on the inputs or what are the actions you have taken and what are the things you have changed in your supply chain, that would be very useful. That's question number one.

Question number two is, on slide 19 you have mentioned that crude and currency are things to watch out. Just a clarification needed here that, is this in context of any further up-moves in crude or currency, or do you think that even if the current levels sustain, it will still be an issue in terms of achieving your internal targets?

And the third is on the price increase, your sales growth is 12% Domestic and volume growth is 10%. So, it's a 2% derived price growth, which is average for the quarter. Could you just tell me what is the derived price growth exit the quarter? So, these are my three questions, sir.

<A - Srinivas Phatak>:
Okay. Percy, let me take them in the sequence,

So, first to give you an example on the input metrics and parameters. Today, we are able to start doing online coding of price changes. There is a significant investment that we have done to make that happen. Similarly, our ability to keep cylinders ready, some of the packing material suppliers are ready to make changes if you need to change grammages or packaging, is an important parameter.

The second piece, if you see it from an input point of view, is our ability to plan innovations, do an end-to-end S&OP planning to move network and our ability to finalize communication with discipline and execution has seen a significant step up. So, that comes down to end-to-end planning and what used to take much longer earlier is a clear input metric on how needle has moved on that. Similarly, from an assortment point of view, while it's very simple and easy to do numerical distribution, there are very clear parameters on what is the range, what is the assortment, what is the average bill value and that is how we track our coverage. Therefore, again, that is something which gives us a plus in terms of how we landed. So, those are some examples and we have a plethora of such metrics across the value chain.

Coming to the second question on slide number 19, where we talk about crude and currency, I think there are a couple of elements one needs to watch for. If you see three days ago, we were seeing crude at $85-plus. Yesterday, crude was at $80, I haven't really tracked where it is today. So, there is one element of volatility, which interestingly then starts to play what happens to our own currency. It could easily start to move into a space, where you could be a couple of bucks here and there.

And I think at this stage, it's important to get a better fix on that, and not get caught up in saying even at the current levels what does that mean for margins. We are always running the business for a forward view of life. This is not a secular depreciation or the secular move in both elements. So, I think there will be a need to continue to keep a close tab on it and take it from there. And you have heard us say many times in future and we will reiterate that once again that there is no one-to-one correlation between some of these moves and pricing and margins. It's a combination of the levers that we play between mix, savings, price and we will continue to do that.

<Q - Percy Panthaki>:
Sir, just one clarification here what I just wanted to understand is, that at the current crude and currency levels, will you be able to meet the targets you had at the beginning of the year in terms of rupees million profits that you wanted to deliver? I'm not interested in what those targets are. I'm just interested in knowing whether at this level they are deliverable or not?

<A - Srinivas Phatak>:
So, I think, Percy, let me put it this way. I will not get into a discussion on targets and where we perform. It's as good as saying that look we don't give any guidance. Clearly, our principles are about driving growth, which is competitive, profitable, sustainable, we are well on track to do that. Yeah. I think that's the best way to look at it.

<Q - Percy Panthaki>:
Okay.

<A - Srinivas Phatak>:
Coming to the last piece on price increases, I think I clarified something at the beginning.

Maybe I don't know whether it's completely came through and let me just make one more attempt. There is also a bit of an accounting impact, which is still sitting in the base. If you look at some of our fiscal refunds in the base quarter of September, they're sitting in sales. Subsequently, because of the accounting change, it went into other operating income and now consequent to clarification, it's gone into other income. So, if you simply look at it, September quarter versus September base quarter, you'll see a 1% lower effect coming from this. We had a choice of doing a bit of a comparable story, in which case, you would have seen closer to a 3% price increase. We chose not to, because it's important to bring simplicity and sanity to numbers. You will see this bump up coming in September quarter and it will go away in December quarter. So, in interest of keeping it simple, we have focused to not to go there. I think at an aggregate, when you look at the volume growth with the USG, and margin expansion, I think it will be nice to summarize that it has been a good set of numbers from a quarter point to view.

<Q - Percy Panthaki>:
Sir, my question was in the context that some of your price increases might have happened at the end of the quarter and therefore the price increases might not show up correctly in the reporting of this quarter. So therefore, I was asking on the exit Q2 basis, what are the price increases. I mean it's 3% adjusting for the accounting changes for the average of the quarter. So, adjusting for accounting changes, it could be higher than 3% for exit quarter, if you can just give that number?

<A - Srinivas Phatak>:
So, it will be higher. I would prefer not to talk about the number. It will be higher.

<Q - Percy Panthaki>:
Okay. Okay, sir. Thanks.

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

<Q - Amit Sinha>:
Thanks, and congratulations on a great result. Sir, firstly, in an inflationary scenario, will it be fair to assume that the market share gain will be a priority over the gross margin expansion, effectively what I mean to ask is, if in this scenario if there is a market share gain opportunity, will your pricing lag the inflation?

<A - Srinivas Phatak>:
So, Amit, we have always said that we need to get competitive growth, which is profitable. And I don't think that strategy changes in a deflationary or a stable or an inflationary environment. Having said that, historically, when there is an inflationary environment and you will all recognize this well, companies such as ours are well-positioned to capture it on multiple fronts. One, because of the reasons I explained in terms of the work that we have done in speed, agility, responsiveness et cetera. Depending on the levels, it also starts to create a bit of a cash pressures from some of the unorganized sector and that will be an opportunity for us to play. Where we will be very focused on this is that, look, if we're driving some of this growth these have to be sustainable growth for us and not opportunistic short-term volume improvements. If we see a route to value creation, we will go for it by all means.

<Q - Amit Sinha>:
Just an extension to that, in the last quarter’s PPT you had mentioned that you anticipate a pickup in the competitive intensity. However, you have not mentioned that in this quarter’s PPT. So, has there been a kind of muteness in the competitive intensity in the market?

<A - Srinivas Phatak>:
So, I think there are two things, Amit. First is that some sort of competitive intensity will always be present in this market, given the attractiveness of the sector. And it's important to go back and say look, if we are seeing demand stability and if we are seeing growth moving up across for everyone, there is a certain level of intensity, which continues. It plays out differently in different categories and different segments at a different time horizon. Having said that, with some of the inflationary pressures which are coming through from macroeconomic fundamentals, we do believe that there is likely to be some round of calibration. Yes, competitive intensity is intense in some, but there's nothing irrational. And therefore, when we look at it in totality, what becomes more important is when you look from a near-term point of view. We talked about demand being stable and currency and crude becoming the key watch outs and to us, these factors are important in the pecking order and that's why we have called out these two.

<Q - Amit Sinha>:
I mean incrementally – so I'm so sorry for harping on this again. But incrementally, I mean, when you mentioned in the last quarter that you anticipate competition intensity to go up, you would have seen something in the market to kind of make one of your main commentary. However, this quarter you have not made that. So just wanted to understand incrementally in the last three months has there something changed yeah.

<A - Srinivas Phatak>:
It's fair to say that we have not seen the same levels what we saw about three, four months ago. We have seen some of it come off in BMI. We are not seeing people spending so aggressively. We saw a little bit of intensity in modern trade, around the big day. But beyond that, we have seen a bit of ease off happening. Now how this will play out, let's see. But, yes, on a relative context three to four months, we have seen a bit of it coming off.

<Q - Amit Sinha>:
Sure. Sir, second on F&R segment in one of the commentaries which you have made is, that the benefit of full portfolio play is helping. Just want to understand this a bit.

<A - Srinivas Phatak>:
So, tea is a good example of that; in fact, tea and ice creams both could become very good examples in the staple portfolio. If you were to see from a tea point of view, brands like Taaza plays at the bottom end and as we have now taken Taaza into some of the geographies such as Punjab and Rajasthan, we are able to capture a full up-gradation story, which is happening from moving into these markets. If you move into the top end towards green tea which is one of our market development cell, we are seeing significant growth. And in between, you have seen strong performances coming from other brands namely Red Label, Taj Mahal and 3 Roses. That's a good example of how we are playing our full portfolio and the benefit that's coming through.

Similar examples come through in ice cream, in terms of its formats and how we operate. At the top end we have Magnums of the world, while at the bottom end, we will also have INR 5, INR 10 and the various packs.

<Q - Amit Sinha>:
Okay. There are no synergy benefits coming out on account of Foods & Refreshment segments coming together?

<A - Srinivas Phatak>:
It’s important to get the context right. How you get the strategy for growth going is the bigger learning for us. And that's why I was taking two categories such as ice cream and tea, what we call as our flywheel model of playing the full portfolio across the benefit segments. To me, the biggest joy and biggest juice of how we can take these learnings to go across is a big value unlock opportunity. In the short-term, as we bring organizations together and run common systems, common processes, there are also synergies that we see from a cost point of view, and they are coming through. But to us, the bigger opportunity is, how do we take a successful flywheel, which works well in our Beverages portfolio, and use the market development learnings in some of our other categories and there's a bigger value unlock there.

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

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

Operator

Thank you. The next question is from the line of Mehul Desai from IDFC Securities. Please go ahead.

<Q - Harit Kapoor>:
Hi, sir. This is Harit from IDFC. Just two questions. Firstly, I just wanted to understand, you have taken these pricing actions over the last month or two. I just wanted to get your sense on, given the fact that the consumer really hasn't seen too much of MRP-led increase over the last two, two-and-a-half years. What's your thought process on how conducive the market has been to take this pricing, and have you seen any initial impact in terms of volume et cetera on the same?

<A - Srinivas Phatak>:
So, couple of elements, let me just clarify this price question, because it's come up a few times. Let's see the quarter. If you see the quarter, it's only towards the end of it that we have seen the rupee depreciate significantly. If you were to start seeing the first two months of the quarter, we had a certain rupee level. Obviously in the last four to six weeks, it's moved up. So that's important to contextualize some of the price increases that we have taken and how we are managing it.

Second piece is, if you have seen, with the GST rate reductions, we took down prices across our portfolio ranging between 7% to 9%. So, till now, even as we are putting back some of the prices, we have not fully reached the levels where we were pre-GST. So, to that extent, the price increases have gone through and gone through well. Again, important to understand that there is a clear science and art on how we take up price increases and we have talked about it in the past. We look at SPI, competitive packs, our brand format, strength and pricing, and then pricing is done differentially in different parts of the country. We continue to manage all these levers. And in our experience, we have seen that some of our competitors are also moving up prices in select categories and geographies given the macroeconomic environment. I think what will be good to say is that while there is no one-to-one correlation between a cost increase and a price increase for the various reasons that I explained, we will continue to be judicious in our price increases. We will be equally comfortable that in some cases, we as the market leaders, will have to lead pricing, wherever required, within the precincts of the methodology I described. So far, all has landed well, and this is something that we will continue to keep a close watch on as we move forward.

<Q - Harit Kapoor>:
Very clear, sir. Very clear. My second and last question was on the Home Care category. You mentioned in your comments that though the margins in Home Care have contracted 300 bps, sequentially, 16% is still a very, very healthy margin to have. Obviously, I completely agree with you on this front. But if you could just help me understand that do you believe that Q1 was obviously exceptional, because of still low cost being in that base. And given the current competitive environment, given the cost environment, do you believe a range of this margin that you are now at is something which is still more sustainable on Home Care side?

<A - Srinivas Phatak>:
We have said that, as you play the various levers of the P&L and including some of our stock covers and Forex covers, we do benefit from time-to-time. It insulates us from some of the cost increases, so to that extent (will) there be a benefit in quarter one, the answer is, yes. We do not give guidance on the margins, Harit, and you are aware of that.

<Q - Harit Kapoor>:
Yeah.

<A - Srinivas Phatak>:
We will continue to keep a close watch on all these elements. I think it's important, in the sequence of order, that we need to drive profitable volume growth and with healthy margins. This is something that we are committed to and we will continue to run the business. At this stage, we don't give guidance on this margin. But, equally, we are committed to run all our three divisions and they must be competitive, profitable and sustainable in their own rights. This is a principle as to how we run our business, but – yeah go on.

<Q - Harit Kapoor>:
No, no. Very, very clear, sir. Very clear. Thank you...

<A - Srinivas Phatak>:
All right. Thanks, Harit.

Operator
Thank you. The next question is from the line of Gaurav Mohnot from Ventura Securities. Please go ahead.

<Q – Gaurav Mohnot>:
Hello. Good evening.

<A - Srinivas Phatak>:
Good evening, Gaurav

<Q – Gaurav Mohnot>:
Yeah. Rural consumption growth is 1% more than the urban consumption growth. So, on the back of rising MSPs and government's ambition to double the farm income by 2022, what is your outlook on that? Do you expect this gap of 1 percentage point to expand further?

<A - Srinivas Phatak>:
We have seen in our numbers that rural is growing at about 1.2 to 1.25 of urban. We would like rural to grow faster, given that from even the per capita expenditure which happens if total India is ($)29; rural is much lower. The various initiatives proposed by the government, if those do lead to an income transfer into the rural areas, will augur well. Given the opportunity which is available, we hope that this will continue to be a big growth driver and will happen. We will have to see the pace, timing and the size of it. Some time ago rural was growing at about 1.5, then it did not, today its back at 1.25. Let's see how that plays out. It will augur well for the FMCG industry and for us if we were to see those growths going up.

<Q - Gaurav Mohnot>:
Okay. One more question. The performance of Pureit water purifiers has been subdued in the last few quarters, so what went wrong and what will be your strategy going forward?

<A - Srinivas Phatak>:
So, from a Pureit point of view, there has been a significant reshaping of the market. We have always had a strong gravity focused business, whereas there has been a fundamental shift towards RO and more electronic devices. So, this has meant that while we're participating in the emerging segments, and we are getting growth, our gravity business has not been performing well. Hence, we are relooking at the category in terms of the overall strategy and that's what we have called out – the overall portfolio strategy is under review and based on this, we will make interventions. As Sanjiv clarified, we are absolutely committed to the category and with the changes, we are hopeful of bringing the business back on its growth trajectory.

<Q - Gaurav Mohnot>:
Okay. So, you expect it to remain subdued in the coming quarter?

<A - Srinivas Phatak>:
It could. It will take time. As we are now relooking at the strategy, this will mean portfolio choices, it'll also mean reshaping our cost structures in the business. So, you are right that it will take us a quarter or two to get this into the place that we would really want it to be.

<Q - Gaurav Mohnot>:
Okay. One, one last question. You have contracts with INOX and Carnival Cinemas for supplying Kissan and Knorr products, respectively. I just want to know the tenure of these contracts?

<A - Srinivas Phatak>:
I think, Gaurav, it's a very minute question. Suffices to say that in the overall scheme of things, these are small initiatives, market development initiatives. To be honest, I wouldn't even know the specific details and I'm not sure whether in the overall materiality, they matter. But there are interesting programs which help us build our brands in these urban areas.

<Q - Gaurav Mohnot>:
So, when you do enter into this contract, so what kind of tenure – the timeframe you have in mind?

<A - Srinivas Phatak>:

It doesn't matter on some of these, Gaurav. I think that more importantly there are jobs to be done – how many consumers are you reaching, what is the frequency of connect. And in some of these programs there is a very clear evaluation and we keep monitoring whether it's meeting those standards. If they're not meeting those standards, we will walk away even if it means that we have to pay some cost for exit. It depends on the contracts' contours – some contracts have lock-in periods and some do not. None of these are onerous enough that you need to continue, nevertheless, there is enough flexibility that if you want to expand them, in case they're working well, they're all built-in. Specifically, on this one, I wouldn't remember.

<Q - Gaurav Mohnot>:
Okay, thank you. That's it from my side.

Operator

Thank you. The next question is from the line of Shruti Dhumal from NVS Brokerage. Please go ahead.

<Q - Shruti Dhumal>:
Hello. Good evening, sir. I had questions regarding the acquisition of Adityaa Milk. Firstly, how much will be the cost of acquisition? And how much stake HUL will hold in Adityaa Milk? And after the acquisition, how much market share of HUL will grow in Ice Creams and Frozen Dessert segment?

<A - Srinivas Phatak>:
Yeah. So, three things. Firstly, we are not disclosing the acquisition price of this asset. When we will publish our Annual Report April next year, we will have to make adequate disclosures and at that stage we will do so.

<Q - Shruti Dhumal>:
Okay.

<A - Srinivas Phatak>:
The strategic rationale for this acquisition, as I explained earlier, is that it's an interesting brand and a different business model, which we can leverage in states of Karnataka, bit of Maharashtra, Goa and Kerala. There is a distribution channel, there is an opportunity to look at a different business model and we are also seeing sizeable growths, which are coming through in Tier 2 and Tier 3 cities. So, this acquisition was done to cater to that. We have not bought the company, we had just bought the full Ice Cream business. So, 100% of their Ice Cream business is something that we are acquiring. They will continue to have a Dairy Milk business, which they will run independently.

<Q - Shruti Dhumal>:
Okay.

<A - Srinivas Phatak>:
We are also getting into a strategic agreement for sourcing with them, which is not a part of the acquisition, but a separate contract. It also gives us access to the supply chain capability, which will help us serve these markets.

<Q - Shruti Dhumal>:
Okay.

<A - Srinivas Phatak>:
At this stage it shouldn't get into market share and others. And one last comment is, with the acquisition, we will work through our portfolio well into these markets and wherever required, some of it will migrate into Kwality Wall's, and where it makes sense, we will continue to use that brand, but this is going to be work in progress over the next few quarters.

<Q - Shruti Dhumal>:
Okay.

<A - Srinivas Phatak>:

The integration is just underway. We brought it into the books only the last three, four days of the quarter, so it's not material from a quarter point of view and we'll take it going forward.

<Q - Shruti Dhumal>:
Okay. I also wanted to know that last quarter, you gave the cost reduction target of 6%. So, next quarter also will you like to give some cost reduction target?

<A - Srinivas Phatak>:
So, Shruti, I don't think we gave any target for cost reduction. Sanjiv Mehta would have loved that question, but he had to step out. He keeps giving us a lot of aggressive cost reduction targets, but that's more so from a full year point of view. What we've said is that we have got a big program, we've got a big agenda, we've stepped up our savings program. When we say that our savings is in the range of 6% to 7%, it is a year view, it is not necessarily every quarter. We continue to drive savings in the 6% to 7% range, but please don't start reading it for every quarter. In some you would have less, in some you would have more. It's also how they start to land some of the projects.

<Q - Shruti Dhumal>:
Okay.

<A - Srinivas Phatak>:
But as a program, we are working towards 6% to 7% number.

<Q - Shruti Dhumal>:
Okay. That's it from my side.

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

Operator

Thank you. The next question is from the line of Harsh Dhanuka from Ncubate Capital. Please go ahead.

<Q – Harsh Dhanuka>:
Yeah, hi. Wanted to understand on the purifiers side like in terms of how is the strategy of getting – you also come on the air side and [ph] in terms of that (00:55:05) you're saying it could have an impact on the overall Home Care [ph] division (00:55:08). What kind of impact do you see and what kind of revenue do you see coming from this particular sub-segment within the Home Care?

<A - Srinivas Phatak>:
So, let's break this up into two or three questions there. As I said, if we talk from a water and water purification point of view, the market has reshaped and therefore we are relooking at the portfolio to come back with the right strategy, and that will happen over the next few quarters.

As far as air is concerned, it's a small play that we have today in a couple of markets. We will learn, we will understand more, we will fine-tune the model before we expand and take it forward. Important to note that water, in this total scheme of things from a Home Care point of view, is an important business, but it's not such a large business to have a big impact on our total portfolio. We will continue to balance this change and transformation in a sensible manner, because at the end of the day, there is still demand for Gravity, but the segment is not growing. Whereas, some of the segments, which are growing, are in the RO and the electronics.

So, we will have to do more work to get the strategy right, get the portfolio right and we will have to move our resources into that space. This is all work in progress. And in due course, when we progress in that journey, we will be able to share more with all of you. At this stage, I think this is the best explanation that I can give you in terms of how we are taking this forward.

<Q - Harsh Dhanuka>:
Okay. And just one thing – within the purifier piece also, as you're saying that in terms of strategy, it's like we have seen a lot of aggression on the kind of lower end of the market within the RO piece in terms of communication and all. So, does that remain a kind of strategy to touch the market per se or it's more from a premiumization of the products that you want to enter the market?

<A - Srinivas Phatak>:
If you look at the way we run the business, we play in all parts of the portfolio. It's not very different, it's a consistent strategy we have. There is always big opportunity in a market like India at the popular, mid and at the premium ends. We will continue to be interested in all the elements. But, as I said, we are now relooking at the full strategy, so, it's only fair that you give us some time to finalize that, and then we're very happy to have conversations on what is the strategy and how do we want to position it.

<Q - Harsh Dhanuka>:
Okay, thanks. Thank you.

Operator

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

<Q - Kunal D. Vora>:
Good evening and congrats for a strong quarter. My first question is on e-commerce. Is there any difference in pricing for the e-commerce channel compared to, let's say, a general trade? And how do you see, the potential for 'e-commerce-only' brands or 'e-commerce-only' products. Would you look to, launch something, which is only available on e-commerce? That's first question.

<A - Srinivas Phatak>:
Yeah, so from an e-commerce point of view, you need to have a differentiated portfolio backed formats, which you make available for e-commerce channel only. We have a clear architecture and rules and guidelines that we follow for that channel. What we make available in e-commerce must be differentiated to that extent. So, to a large extent, you will not find comparable products selling in e-commerce.

A couple of guiding principles, which work well for us – our share in e-commerce is greater than our share in modern trade, which in turn is greater than general trade. Similarly, our profitability also has to follow the same equation, meaning we should have higher profitability in e-commerce to modern trade to general trade. Therefore, if we are able to offer a very different portfolio with a very different consumer set and consumer needs, we are also able to price it differently and we are able to hold both these equations. Now, as far as looking at e-commerce only, we have an interesting opportunity and we have talked about it in the last quarter when we looked at Brylcreem as a portfolio. We brought it in as an 'e-commerce-only' play with the men's range. Going forward, without getting into specifics, we will look at further such opportunities, where there will only be e-commerce range. This will also give us a lot of learnings in terms of how to manage some of it and then we will proceed from there. But keeping to your question, yes, we are doing it and we'll continue to do more of it.

<Q - Kunal D. Vora>:
Yeah. But is the competition more aggressive? Like, do you see higher discounting from your competition there or the competition is similar to what you see in business otherwise?

<A - Srinivas Phatak>:
There are different players, different ways they do it, different price, different products, different portfolio. So, to that extent, the range you get in e-commerce, you get a similar range in modern trade. To me, the bigger question or the bigger opportunity is that how we are making a portfolio, which is distinguished with benefit and pricing and how are we handling it differently. The game there is not going to be won on price alone. If we are going to start playing only price alone, then e-commerce's not the place, because then we can get it in modern trade or sometimes, we'll get it cheaper in general trade. E-commerce has to be something which is differentiated and that is where it is long-term sustainable.

<Q - Kunal D. Vora>:
Great. Second question, how has been the initial response to Lifebuoy INR 5 access pack? And have you launched it Pan-India? Also, would you look to do something similar for say other categories like shower Gel, do you see such opportunities?

<A - Srinivas Phatak>:
We never talk about a big performance, bad or good in the first quarter of launch. Given our execution capabilities, you're already able to see a sell-in. The key piece is to understand how the off-takes are and how are the repeats – that is the critical piece. So just give me one sec. I was just asking Suman for a clarification. Yes, it is Pan-India*. Access packs are important for us from a market development point of view, and we continue to look at it in many spaces. It's just not only about some of these newer opportunities. Our experience is that when we took something like a Surf and brought it into a Rs. 10 price point, it has led to exponential growth because we are now offering an aspirational brand at an affordable price point.

So, to that extent, one needs to be thoughtful, otherwise we might simply start launching everything in Rs. 5 and Rs.10. So it is a clear thought process strategy, and, in this case, we thought it's an appropriate one to do. Therefore, we've launched and gone national.

**<Please refer to clarification stated on page number 21.>*

<Q - Kunal D. Vora>:
Thanks. And the last, bookkeeping question, on other income, can you quantify the impact of prior period tax assessment order, like, how much was the contribution?

<A - Srinivas Phatak>:
We are not calling it out, but I think what I can help you is that start looking at an ETR to get a better sense of it. ETR, we called out last time, was around 30.4%. This is something you can use for modelling point of view.

<Q - Kunal D. Vora>:
Sure. That's very helpful. Thank you.

Operator

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

<Q - Vivek Maheshwari>:
Hi, Srinivas.

<A - Srinivas Phatak>:
Hi, Vivek.

<Q - Vivek Maheshwari>:
My first question is you mentioned about the impact of fiscal benefits, which are included in other income and you have called out this one as 1%. Now, there will not be any associated expense related to it, so this 1% essentially means your EBITDA growth is not 20% but 25%, is that fair?

<A - Srinivas Phatak>:
So, I haven't done the math of it, but yeah, there will be an EBITDA impact of that, the answer is, yes. The important piece, Vivek, is to note that whatever happens in September quarter will get offset in December quarter. Therefore, when you start to run it on its totality of the year, it will all nullify.

<Q - Vivek Maheshwari>:
Okay. Okay. Can you explain this part?

<A - Srinivas Phatak>:

If you see the accounting change and I request you to go back to our December quarter numbers last year. Till September quarter, this fiscal benefit was sitting in sales. In December quarter, we had taken a cumulative correction. Therefore, you will have a different base effect in September, and a different effect in December. So, in September, if we had restated, we would have taken a growth which we did not, so growth is less, margins are more. On the contrary, you will see a different effect of that playing in December quarter. But when you project this on a full year basis, all of this will start to offset each other and that's how we look at the business. Some of this doesn't matter, if directionally we are talking about our growth model and therefore, we are comfortable enough to call these out specifically.

<Q - Vivek Maheshwari>:
Okay. Okay. Maybe for the explanation I'll maybe liaison with Suman and understand this offline. Second is on the margins, I know you...

<A - Srinivas Phatak>:
Yeah. Please do.

<Q - Vivek Maheshwari>:
Sure.

<A - Srinivas Phatak>:
My only point is that it's important to get the directional flow of where we are and therefore we are comfortable with it, but please do engage with Suman.

<Q - Vivek Maheshwari>:
Sure. The only thing – I mean, whatever you just said if I can make one more attempt, what I did not understand was why will it nullify because this benefit that you have, it's just moving from revenues to financial other income, but it's an incentive that you will keep getting or the...

<A - Srinivas Phatak>:
PBT doesn't change.

<Q - Vivek Maheshwari>:
That is right, yes, yes.

<A - Srinivas Phatak>:
It may change your sales, it will change your EBITDA, because what has happened in this transaction – it was first in sales, then it went into other operating income, and now finally, with the clarification from the Institute, it has come into other income. So, from an absolute Rs. crores PBT, it doesn't matter. It matters in terms of USG percentage and EBITDA percentage. That's the only thing which I said will change.

<Q - Vivek Maheshwari>:
Yeah, yeah, sure, that was what I was wondering. So basically, PBT I understood, it doesn't change anything, but at an EBITDA level, it is deflating EBITDA by 5% this quarter.

<A - Srinivas Phatak>:
Whatever that number is, yeah.

<Q - Vivek Maheshwari>:
Okay.

<A - Srinivas Phatak>:
Suman can clarify the math of it, yeah. It will be whatever it is.

<Q - Vivek Maheshwari>:
Sure. Sure. Second bit on – Srinivas, you said, you don't give guidance on margins, but you had maintained in the past about your, let's say, guidance of modest expansion in margins. With where the input prices are, do you think there is a risk to this modest expansion in margin guidance at least in the foreseeable future?

<A - Srinivas Phatak>:
So, look, Vivek, 26 out of 27 or 28 quarters, I think, is what Sanjiv explained that we've had this machine and engine running. And at this stage I don't see any reason for us to say anything differently. If we continue to drive a competitive volume-led growth strategy, and as we have perfected the execution machinery and we are running through our savings agenda, continuing to run a model with a modest margin improvement stays intact.

<Q - Vivek Maheshwari>:
Sure. And last one, anything specific to call out in other expenses and staff cost both of which are near flat, other than the cost saving bit, which you have already spoken about, any one-off anything to be aware of?

<A - Srinivas Phatak>:
There may be some cost in our routine course of business. In fact, it has become difficult to categorise what is one-off depending on the periodic and timing that some cost could land. Could we have had some GST costs in the base? Possibly they are there. Could they have come out now? Of course, yes.

But I think directionally if I look at it, and that's why I said there are also multiple elements, it's not like a simple overhead. The difference, which I was trying to call out in the beginning – we split out from a local accounts point of view materials cost and then there is all the other costs whether it is supply chain, factory, marketing, general overhead, there's a big pot. So, there are lot of moving parts, but if I were to look at directionally in terms of how these numbers are progressing, they are progressing in the right direction. While there is a year-on-year number, I think sequential is also good sense of how these numbers are progressing.

<Q - Vivek Maheshwari>:
Okay, sure. In that context, if I may, one more bit, the way in which you report your gross margin number. If I calculate your gross margins, this is the first quarter after, I think, six, seven quarters that your gross margins have gone down. Gross margin being revenues minus COGS. Any thoughts on that or the price hike that you've taken would take care of it in the second half of the year?

<A - Srinivas Phatak>:
I think there's only small difference the way we run our business. Vivek, it is important to always look at it in its holistic sense. If you go back to the traditional accounting, the way we would look at it is the whole of supply chain cost, because sometimes depending on how we are reorganizing some of our third-parties, 2Ps to 3Ps, the material cost, in itself, is not fully reflective but that's the only information, which is available to you externally.

Yes, sales minus material cost is an important variable and we will keep a close tab on it, equally the total gross margin is a better indicator for us because that's the only way you can keep the total model working. So, when I look at it from a gross margin point of view, we're still in a good space in terms of how the gross margin has expanded. Clearly from a Home Care perspective, costs have started to come through, pricing has started in the quarter and that is something that we will keep a close eye on.

<Q - Vivek Maheshwari>:
All right. Wish you all the very best.

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

Operator

Thank you. The next question is from the line of Latika Chopra from JPMorgan. Please go ahead.

<Q - Latika Chopra>:
Hi, Srini. Congratulations on a good performance. I just wanted to check with you on some more insights into two categories, which you dominate, one is soaps or Personal Wash and the other is Skin Care. Would it be

possible for you to share some insights into how the growth rates are panning out or the market shares are panning out? We understand the premium part of the portfolio seems to be doing well in Personal Wash, but how should we look at the rest of the portfolio? Are there any challenges which the company is facing there?

<A - Srinivas Phatak>:
Thank you, Latika. Let me start with Skin Care. Skin Care has been a very, very strong performance and it has been so, for a few quarters now. While there are many other components of it, but at an aggregate, that's continuing to be a very strong competitive performance with its segments and sub-segments playing out quite well.

On Personal Wash, we explained even in the last quarter that, the premium side is doing very well. When it comes to our two main brands, Lux and Lifebuoy, while they are growing, we believe that there is a further opportunity to take the growth trajectory up. To that extent, there is a lot of work, which is happening. We also have our flagship event, the Lux Golden Rose Awards, some of it is towards enhancing the communication and the proposition. Equally, we are continuing to look at some of our innovations and mixes, and there is a lot, which is going to come through in the pipeline. So, today, at an aggregate, if you see Skin Cleansing, premium is doing very well, while a bit more opportunity lies from a Lux and a Lifebuoy point of view.

<Q - Latika Chopra>:
And when you say Skin Care, it's a competitive growth, is it right to understand that your market share performance in Skin Care is improving?

<A - Srinivas Phatak>:
So, let me put it this way, Latika. At an aggregate, I will say yes, because when I compare our numbers, we look at our understanding and appreciation of some of these numbers. When we look at some of our peer set performance, when we look at Nielsen or when we look at household panel, because end of the day, we have to look at three or four or five sources. When I look at all of them, the answer is yes. We have talked about it, Nielsen has been a bit of a struggle for us in terms of being able to clearly draw inferences and that's been challenging. But when I look at the totality of the various data sources from a Skin Care point of view, we are growing competitively.

<Q - Latika Chopra>:
Thank you.

Operator

Thank you. At this moment there are no further questions from the participants on the audio line. I would now hand over the call proceedings to Ms. Suman Hegde, for the web questions.

Suman Hegde

Thanks, Ali. We've got a couple of questions on the web option. I will not repeat if there is any that has already been taken.

<**Q**>:
The first question comes from Tejas Shah from Spark Capital. The question being, in the beginning of this financial year, there were some indications that the best of the cost efficiencies delta accruing from ZBB and Symphony projects are behind us, any change of stance here?

<A - Srinivas Phatak>:
I do not recollect really saying that they're all behind us. I think where Sanjiv was explaining, he was saying is that look from a 3% to 4% point of view, we moved it up to about 6% to 7%. The programs continue to be intact and in place. I also explained earlier that as we are now using some of our data and analytical capabilities, it is giving us a better and a fresh way to look at some of these opportunities and we will continue to push them. If

the question is that from a 3% to 4% to 6% to 7% was a big step-up – is it possible to do a similar step-up? I think that will be challenging but continuing to run this engine in the growth of the savings agenda of about 6% to 7% is something that we are doing now, and we'll continue to keep our efforts on it.

<Q>:
Next part of the question from Tejas is earlier this year, you've called out some cost savings accruing from GST led supply chain alterations? Any update to share?

<A - Srinivas Phatak>:
So, this is where, I want to, reiterate what I called out last quarter. With the GST, it's giving us the full opportunity to relook at our total value chain whether it is on the supply chain side or on the customer development side. We had also shared a couple of examples. When you're looking at our distribution centres, we started at a journey of 40 with a direction to go up to 20. This will come with a restructuring of our operations and restructuring costs.

Along with that, we are also looking at our industrial footprint, our third parties, our 2P arrangements and our own factories. This will mean that in some cases, we will bring products in, in some cases, we will take products out and in some cases we could even look at shutting down some of these operations. That's why we said that over the next four to six quarters, we had also talked about us seeing some exceptional items coming through with some of the restructuring costs. To that extent, we saw small amount of restructuring expense come through in the quarter, which we have booked for some supply chain reorganization. So, this is a program, which will now continue to run over the next four to six quarters.

<*Clarification regarding question on page number 17*>
Sorry, I think there was one question, probably, we just got a clarification. I think, there was a question on Lifebuoy INR 5. I think by mistake we had called about it as an all-India launch. I think we stand corrected on that. I understand it's only a launch in West Bengal and some of the markets of Western India, Maharashtra, Gujarat, Lifebuoy INR 5, it is not a national launch. I think, we stand corrected on that, it is launched in two markets, yeah, apologies for that.

Suman Hegde

We have no further questions on the web queue. So, with that, we now come to the end of the Q&A session.

Before we sign off, let me remind you that the replay of the event and transcript will be available on the Investor Relations website in a short while and you can go back and refer to it. A copy of the results and presentation, if not already with you, is on the website and you can go back and refer to that as well.

With that, we would like to draw this call to a close. Thank you, everyone, for your participation, and have a great evening.

Srinivas Phatak

Thanks a lot. Bye-bye.

Operator

Thank you very much. Ladies and gentlemen. This concludes the earnings call for Hindustan Unilever Limited. You may now disconnect your lines. Thank you for connecting on Audio Conference Service from Chorus.