June Quarter 2021 Earnings Call of

Hindustan Unilever Limited

22nd July 2021

Speakers:

Mr. Sanjiv Mehta, Chairman and Managing Director

Mr. Ritesh Tiwari, Executive Director, Finance and Chief Financial Officer

Mr. A Ravishankar, Group Finance Controller and Head of Investor Relations

Operator
Ladies and gentlemen, good day, and welcome to Hindustan Unilever Limited Conference Call for the results for quarter ended 30th June 2021. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. A Ravishankar, Group Controller and Head of Investor Relations. Thank you and over to you, sir.

A. Ravishankar *Hindustan Unilever Limited*

Thank you, Margaret. Good afternoon, everyone, and welcome to the conference call of Hindustan Unilever Limited. We'll be covering this evening the results for the quarter ended 30th June 2021. On the call with me from our end is Mr. Sanjiv Mehta, Chairman and Managing Director; and Mr. Ritesh Tiwari, Chief Financial Officer, HUL. We hope that all of you are staying safe and healthy. As is customary, we will start the presentation with Sanjiv sharing his perspective on the market and an overview of how we are navigating the current environment. Ritesh will then share with you our performance of the quarter with the category highlights and our outlook for the future.

Before we get started on the presentation, I will draw your attention to the safe harbor statement included in the presentation for good order sake. I request all of you to pay close attention to Sanjiv and Ritesh's message over the next 30 minutes. We'll be addressing upfront a lot of questions, which are likely to be top of mind for you.

With that, over to you, Sanjiv.

Sanjiv Mehta *Hindustan Unilever Limited*
Thank you, Ravi. Good evening, everyone, and thank you for joining us on the call today. I hope that you and your loved ones are safe, keeping well in these exceptionally challenging times. I, on behalf of Hindustan Unilever, would like to express our heartfelt condolences to those who have lost their loved ones. We wish a speedy recovery to those who are battling this virus, and immense gratitude to all the frontline heroes who are standing up against adversities and are fighting timelessly to help keep others safe. I would also like to thank every member of HUL for their relentless commitment and dedication in these difficult circumstances.

I'm delighted to welcome Ritesh, our CFO; and Ravishankar, our Controller and Head of Investor Relations. They're extremely talented individuals and have landed running. I'm sure each one of you will find the experience of engaging with them very enriching.
Now let me take you through the market context and the imperative for navigating through the crisis. You would recall I had mentioned that April had started off on a good note, continuing the strong momentum

from March quarter. Infection rates were largely under control, consumer sentiments were improving and the economy was on the path to recovery, and importantly, vaccination has commenced in the country. However, towards the latter part of April, cases started spiraling up in the country. It was more devastating this time. The intensity of surge in cases put the medical infrastructure under pressure with active case load jumping to 3.7 million at its peak. Mobility got severely impacted in the month of May as cases hit the peak of more than 400,000 a day and authorities rightfully used localized containment measures to control the spread.

With immense efforts of the authorities and the frontline warriors, we saw a sharp decline from the peak to less than 40,000 cases per day now. Mobility also started to improve in June as the restrictions were gradually lifted. Unlike last year, this time, there were localized lockdowns so the back-end supply chain kept functioning, although last mile logistics has seen some impact. Overall, the impact on mobility this year was less severe compared to June quarter 2020.

If you were to look at it through the lens of the FMCG industry, May month was severely impacted as a large part of the country was under localized lockdown. However, as restrictions lifted progressively, June month rebounded to March '21 levels. Unlike last year, we have seen virus spreading into the rural hinterlands this time. Notwithstanding this, rural continues to remain resilient, with a decent start to the monsoon and government support helping the cause. Urban markets that showed signs of recovery in March quarter was impacted more severely and are yet to come back to March '21 levels.

On the commodities front, we continue to witness unprecedented inflation in our 3-key raw materials. Palm oil prices continue to be at record levels. Buoyed by recovery in global economy and supply constraints, Crude has also rallied significantly over the last few months. Tea had seen significant inflation in 2020, and the prices continue to remain firm. These are initial days of the new crop. While we expect to see some softening versus the record levels in 2020, prices are expected to remain higher than the 2019 level. Therefore, the operating environment has remained challenging in this quarter.

COVID wave 2 has brought into sharp focus the volatile and uncertain times we live in. It tested the resilience of our business, character of our people, agility of our operations and the depth of our financial strength. Building on experiences of 2020, we've built innate resilience and agility in our operations. Our 5 growth fundamentals, purposeful brands, improving the penetration, impactful innovations, designing for channel and creating the fuel for growth, combined with the 4 clear priorities of people, supply, demand, cost and cash and the technology muscle that we have built over the last few years helped us to navigate the crisis well and come out stronger.

Our people will always be our biggest asset and ensuring their safety and well-being will remain our topmost priority. We have ramped up our medical infrastructure and manpower. We have a team of 60 doctors, 40% more compared to pre-COVID levels to look after the health of employees. We have tied up with more than 200 hospitals across the country and have 45 fully equipped ambulances to support critical cases.

Central to tackling the pandemic is vaccinating our people. We are facilitating vaccination of employees, their family members and also people who form part of our outer core. As of today, about 90% of all our eligible own employees have been inoculated with at least 1 dose of vaccine. If I look at our ecosystem, excluding, of course, the family members, then more than 88,000 people have received at least 1 dose of vaccination.

Today, our supply chain has become much more agile and resilient, our distributed manufacturing footprint enables us to manufacture goods closer to the market. We have debottlenecked our production lines, made them more flexible to quickly adapt to the changing requirements should there be a surge in demand and have taken our potential capacity to 1.3x pre-COVID levels. We are keeping inventory closer to the consumers to ensure availability of our products.

Despite significant disruption on last mile logistics due to COVID restrictions and limited out-of-store operation, we were able to maintain our direct coverage at healthy levels. We also ensured availability of a wide range of assortment unlike what happened last year.

Demographics in India are changing rapidly, and this is translating into evolving consumer needs and aspirations. At HUL, we are leveraging our global know-how, embellishing it with deep local insights and innovating to meet consumer demand by constantly striving to deliver better experiences.

To make the chore of doing laundry more efficient, 'Surf excel' has launched '3 in 1 Smart Shots', a single use soluble liquid detergent capsule with a unique 3-chamber design that provides advanced stain removal, long-lasting fragrance and care for fabric. On its journey to make beauty products more sustainable, 'Lakmé' has introduced its 'Perfect Radiance Skin Brightening Day Cream' with a recyclable refill jar that reduces plastic usage by up to 85%. 'Kwality Wall's' has launched the 'Cadbury Crackle Tub' in partnership with Mondelez. It's a relishing combination of chocolate swirl on rich chocolate scoop overloaded with Cadbury Crackle magic. If you haven't tried it yet, I would definitely urge you to do so. 'Vaseline' has launched a new range of hydrating lotions and gels that keep you refreshed with hydrated and moisturized skin.

It has never been more relevant for brands to demonstrate a positive contribution to society and address the issues that consumers care about in an authentic way. So we are investing on communications which are explicitly purposeful and consumer relevant. 'Lifebuoy' continued its purposeful journey and launched a public service message communicating the role every Indian has to play in taming the second wave by educating people to become role models in the community by following the COVID-appropriate behavior.

With a strong sense of purpose to offer superior disinfection, 'Domex' responded with agility to the COVID-19 crisis. Mumbai was one of the first cities in India to be gravely infected by the second way of the COVID pandemic. 'Domex' joined hands with the Municipal Corporation of Greater Mumbai to fight against COVID-19 by helping keep public spaces safe and sanitized.

After a delay due to the pandemic, Olympics are nearly here, our purposeful brand 'Rin' in its latest ad campaign 'Time to Shine' is celebrating the inspiring story of grit and determination of India's first Olympics fencer 'Bhavani Devi'. Living its philosophy to encourage young girls to not only dream it, but also achieve it, 'Sunsilk' did the digital video with Priya Malik, popular word artist and poet, to bring this alive beautifully through a poem, 'Sapno Ka Email', inspiring girls to turn their dreams into reality.

In the past, we have talked to you about 'Reimagine HUL', our journey to create a tech-enabled intelligent enterprise where we are leveraging technology to scale up the impact of digital initiatives on our own business. 'Shikhar', our eB2B app is a real game changer for us. We've added another 50,000 stores to take the tally to 5.5 lakh stores. Along with adding new stores, we are driving better adoption and stickiness which is reflected in the contribution of Shikhar turnover, which has gone up by 6x in June quarter versus the same quarter last year.

COVID-19 has, of course, amplified the significance of e-commerce and consumers' preference for e-everything is a clear tailwind for this channel. We believe as the consumers get used to the convenience and assortment of e-commerce, these habits will continue to stick. At HUL, winning in channels of future has been a strategic imperative. In the last quarter, we talked about premium beauty business unit, which will focus on digital-only and digital-first brand. We are excited about this opportunity and have rolled out a range of beauty products under our digital-only brand 'Simple'.

Leveraging our global presence, we are learning from our experience in more developed e-commerce market. "Design for channel," is a key pillar of our 5 growth fundamentals, under which we are designing new products with right pack price architecture exclusively for e-commerce. All of this has enabled us to continue to accelerate our growth momentum in e-commerce and increase the contribution of this business to 2x on a year-on-year basis.
In our endeavor to provide a seamless engagement and shopping experience to consumer, we are exploring new routes to reach them. 'UShop', our multi-brand online direct-to-consumer store, is a step in this right direction. We have started 'UShop' in Mumbai and Delhi will be expanding further.
Our premium brands like 'Lakmé' and 'Indulekha' have their own D2C platform, providing a unique shopping experience to the consumers. 'ICnow' is another initiative where we have tied up with last mile delivery partners like Swiggy, Zomato, Dunzo, to provide home delivery of ice cream.

Today, more than 10% of our demand is captured digitally through these future-ready platforms. This also gives us unique ability to run our demand generation activity in a disruptive way.

As I said earlier, we entered the quarter on a strong momentum before hitting the second COVID wave, which impacted part of April and entire month of May. In this backdrop, we delivered a robust performance with domestic consumer business growing at 12%, led by underlying volume growth of 9%. Our profit after tax grew by 10%. Market development initiatives have yielded strong results and the market development cells continue to grow ahead of overall growth.

Premium portfolio also did well, growing at 2x of the rest of the portfolio. Our business fundamentals remain strong, and we continue to gain penetration in more than 80% of our business on L3M May basis when compared to the same period, not in 2020, which would be an easier thing to deliver, but against 2019.

Against 2020, we are gaining penetration across all of our businesses. We are starting to see Nielsen having better stability and as per the latest June quarter read, we are gaining value shares in more than 3/4 of our business on L3M June basis.

During the second wave, we launched Mission Hope. And as part of this, we airlifted 5,500 oxygen concentrators from across the world into India in a fast-track manner to address the shortage of medical oxygen. This has been deployed in hospitals in 16 states to strengthen the rural infrastructure, and with our partner, Portea Medical, established a free of cost borrow-use-return model in several cities to help people in need.

We also converted our idle nitrogen plant in Pondicherry to an oxygen plant, supporting sustained oxygen supply to a government hospital for chest diseases. We also started free Prabhat telemedicine services in 5 of our factory locations in partnership with Labornet Healthcare. These centers are ensuring safe, affordable and accessible health care services for rural communities where access is a huge problem.

Let me now turn to our newly launched Unilever compass, the strategy that will drive our business and will help us on a journey to becoming a leader in sustainable business. At the heart of the campus is our belief that sustainable and purposeful business drives superior performance. This message is extremely relevant in today's environment than ever before. In a way, we are determined to end the debate, whether there is a trade-off between purpose and performance. We realize that being purpose-led alone will not be enough. To be successful, we also have to be future fit by being fully digitized, more innovative and faster to respond to the many changes shaping people's lives every day.

Bringing focus to the compass are time-bound commitments and actionable goals that we are committing to. We believe that this commitment will help tackle the biggest challenges of our time such as packaging and waste, gender equality, human rights and fair value, plus, of course, climate change, water scarcity and social inclusion. By focusing on building solutions for these challenges through our purposeful brand and actions, we will connect even more closely with the consumers and communities we serve.

The compass chalks out our strategic choices and actions that we believe will help us achieve our purpose and vision. We will do this by developing our portfolio to expand in high-growth segments, leading in the channels of the future, creating purposeful brands, building differentiated capabilities and a future-fit organization culture.

Looking forward, while we are cautiously optimistic about the near-term outlook, we remain confident of mid- to long-term prospects of FMCG industry and India.

We are still not out of the woods as far as the virus is concerned. It is important for all of us to be responsible, follow COVID appropriate behavior and not throw caution to the wind. As 'Lifebuoy' has rightly said, fighting coronavirus is in your hands, our hands.

Let me now hand over to my colleague, Ritesh, as he provides deeper insights into this quarter's performance. Ritesh, over to you.

Ritesh Tiwari ***Hindustan Unilever Limited***

Thank you, Sanjiv. Good evening, everyone. I will now take you through the performance from an in-quarter perspective and also talk about, briefly, the future outlook.

As Sanjiv said, our performance has been robust in a challenging context. Sanjiv elaborated about the impact of second wave on May month and how we have sequential pick up in June. Talking about the numbers, our domestic consumer business grew by 12%, led by strong underlying volume growth of 9%. You would also remember Sanjiv talking about the high inflationary pressure in our input costs. Continuing with our judicious and calibrated pricing approach, we executed another round of price increase in skin cleansing, laundry, and tea portfolio. Our underlying price growth at 3 percentage will optically look lower than March quarter '21. However, this is reflective of the variation in the intensity of trade spends in the base periods of March quarter '20 and June quarter '20.

Growth was broad-based with all 3 divisions growing in double digits. Health, hygiene and nutrition, which forms 85% of our portfolio, continued strong momentum, growing on a relatively high base of JQ'20, whilst discretionary and out-of-home portfolio was impacted due to limited mobility, albeit the impact was lower than wave 1. We will talk more about top line growth when we go into category slides.

Moving to bottom end performance, our net profit after tax grew by 10% to more than 2,000 crores. Our EBITDA margins have declined by 110 bps on year-on-year basis primarily linked to high input cost inflation and increased A&P spend. If you remember, we had the benefit of low media rates in the base period. This is partly offset by turnover leverage on other expenses and employee costs.

On a sequential basis, our EBITDA margins are down 50 bps. This is consistent to how we had approached the business and spoken to you last quarter that we will look to maintain healthy margins while driving competitive volume growth. The sequential drop in margins was driven by high input costs from crude and palm oil, which have inflated at record level, partly offset by pricing actions. We have talked about one-off benefit in employee costs in March quarter'21 linked to true-up of variable pay. A&P spends are sequentially lower as we calibrated our media spends given second wave of COVID and impact to some discretionary categories. We continue to maintain competitiveness of our brand with our share of voice well ahead of our share of market.

Profit after tax before exceptional items was up 5%. The gap of 5% in PAT (bei) and net profit is explained by exceptional costs in base period linked to M&A and integration costs.

Our growth has been broad based with all of our 3 divisions growing in double digits. Home Care growth at 12% was enabled by strong performance in fabric wash and household care. Beauty & Personal Care growth at 13% was led by hair care and skin care. Foods and Refreshments grew at 12%, led by continued momentum of in-home portfolio.

Let me now shift gears to performance within each of the divisions, and let me start with Home Care. Household Care continues to perform well, delivering high teens growth on a strong base, led by Vim. Premium dishwashing portfolio continues to do well. Fabric Wash grew in double digits, driven by our premium portfolio of Surf, liquids and fabric conditioners. We continue to take calibrated pricing in laundry considering the significant input cost inflation. Purifiers continued to improve sequentially, led by acceleration in e-commerce.

Moving to Beauty & Personal Care, soaps delivered another strong quarter of growth. Premium portfolio of soaps continued to perform well growing sequentially. Hand hygiene portfolio comprising sanitizers and hand wash declined on an exceptionally high base of JQ'20 when we saw people stocking up these products. Palm oil continues to be at record levels, these are multi year high, and we have been taking prices in a calibrated manner to protect our business model while maintaining competitiveness.

In Oral Care, Close Up continues to do well. Pepsodent launched its coronavirus fighting mouthwash with CPC technology that reduces 99.9% COVID-19 virus after 30 seconds of rinsing.

Hair care continues its stellar performance, growing in high double digits as we continue to gain market shares. Our innovations and communications are finding relevance with consumers and yielding good results. Skin care and color cosmetics recovered strongly on a year-on-year basis as mobility improved versus JQ'20, though not back to pre-COVID levels yet. These are structurally very attractive businesses and have delivered strong performance for us. We believe that as mobility further improves, these categories will see increased consumption.

Talking about Foods & Refreshment, business continues to grow in double digit, led by in-home portfolio. In Foods, ketchup and soup continued their strong momentum and grew on a higher base in JQ '20. Tea delivered another strong quarter with all our key brands growing in double digits on a very strong base in the prior year as we continue to gain share. Go-to-market integration in nutrition business is progressing well. Health food drinks gained penetration sequentially and grew volumes in mid-single digits. You would recall GSK used to operate with a sub-distributor model, which we are now changing to direct coverage in line with HUL's distribution practices. As a result, there was an adverse impact linked to pipeline correction, when we integrated these distributors. I will speak in more detail about nutrition business and progress on integration a little later in the presentation.

Ice cream recovered and grew year-on-year from a weak base, although performance in the quarter was impacted by limited mobility. In partnership with Mondelez International, we launched Kwality Wall's Cadbury Crackle frozen dessert, and it is doing well.

We have been talking to you about our portfolio from a COVID impact lens, and if you would notice the health, hygiene and nutrition, which used to be 80% of our portfolio, has now gone up to 85%, reflecting the differential growth of the 3 portfolios. This chart provides a quick snapshot of how the 3 portfolios performed in this quarter. Health, hygiene and nutrition continued its momentum, growing at 8% on a relatively strong base. Discretionary and out-of-home business, which includes categories like skin care, color cosmetics and ice creams, were relatively less impacted in this quarter compared to same period last year. They grew in high double digits, albeit not yet back to pre-COVID levels.

Now I will talk more about nutrition business which I'm sure is an area of interest to many of you. As we told you in April, we completed SAP migration in March quarter and had started off with go-to-market integration which was the next logical step. GSK had nearly 800 distributors who had become part of HUL distribution network post-merger. We have designed our go-to-market structure to ensure that the combined strength of both GSK and HUL are leveraged in the marketplace. We are progressing well on our plans and have nearly integrated almost half of the business despite the COVID challenges. We have also expanded our direct coverage in nutrition by 1.4x compared to April of last year.

As we said in the past, health food drinks is a highly underpenetrated category in India with all India penetration levels at c.25 %, and in rural areas, this is even lower. Quite naturally, our most important job is to develop the market and grow penetration in this category. One of the important market development activity is consumer connect to recruit consumers into the category. This quarter, we made 0.5 million contacts and are looking to drive this further as COVID restrictions are lifted.

Another critical aspect of integration is to continue on the journey of generating cost synergies, and consistent of our past commentary, we are progressing ahead of our plans. We will continue to invest part of the synergies back in growing penetration and developing the portfolio further to keep business on a virtuous cycle of growth.

Talking about segmental performance, now from our segment lines, all 3 segments have performed well with growth in double digits. We are also seeing the impact of inclusion of nutrition business numbers in the base for Foods & Refreshment. Our margins in all 3 divisions are healthy, and we continue to manage them dynamically. If you recollect, Foods & Refreshment margins in December quarter were at 14%. And from there, we have been able to bring the margins up to 18% in just a couple of quarters while still growing the business at a high pace. As we have always said, margins will follow if you are able to get growth equation and competitiveness right. And that's exactly what we have been able to do well in our Foods & Refreshment business.

In summary, our performance has been strong, both on top line and bottom line. I have already covered most of the lines in detail. Let me pick up a couple of items and elaborate more. The first is a drop in other income, which is on account of lower treasury yield and one-off credit in base from interest on tax prior period adjustment.

The other one is on effective tax rate. Our ETR for the quarter was 21.7% given certain prior period items. Excluding prior period items, we expect our ETR for the year to be around 26%.

Coming to my last chart for the day, looking forward, we are cautiously optimistic. With mobility improving, we believe that demand for FMCG products will go up, especially for discretionary categories. The strength of our portfolio and our capabilities will hold us in good stead. Notwithstanding this, possible surge in infection rates may cause uncertainty to demand. Rural has been a growth engine for FMCG for the last few quarters, and it continues to be resilient. Hopefully, we see a good monsoon. This will augur well for the rural economy and for our business.

Three of our biggest input materials remain volatile and at elevated levels, and we will continue to look for all levers like savings, judicious and calibrated pricing whilst maintaining right growth equation to protect our business model. Our focus remains on driving volume-led competitive growth with right balance on pricing. We will continue to dynamically manage our EBITDA margins broadly in the existing range.

With this, we complete our prepared remarks, and let me hand over to Ravi to commence our Q&A session.

A. Ravishankar ***Hindustan Unilever Limited***
Thank you, Sanjiv. Thank you, Ritesh. With this, we will now move on to the Q&A section. In addition to the audio, as always, our participants have an option to post the questions through the web option on your screen. We will take these questions just before we end.

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

QUESTIONS AND ANSWERS

Operator
The first question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy ***Edelweiss Securities Limited***

My first question is on tea business. In the FY '21 annual report, in tea you have mentioned a significant market share gain. And you mentioned even in Q1 commentary, market share gains continue. So my question is, is this coming from the regional players essentially or even the other large pan-India player? And second, is it happening because of the sharp inflation market leader gain or even the WiMI strategy and your healthy variants, those are also healthy.

Ritesh Tiwari ***Hindustan Unilever Limited***

Yes, Abneesh, thanks so much. On tea yes, we have gained market share. Our strategy was always to drive competitive growth as we saw pretty steep inflation of tea commodity, as you know, which happened last year, and it remained elevated even now as we speak. In tea our strategy was to ensure that we drive competitive volume growth, which is exactly what we did. We drove incremental market share on volume and which also then translated into value market share as well. So we have gained on tea volume and value market share from both.

And our growth, to your question, has been across the board. It's a pretty robust growth across the geographies that we play against various price segments that we play.

The WiMI strategy, which you spoke about, that has been extremely carefully navigated in the quarter. As you know, it was a pretty tough period for the country as infections started to spiral in the later part of April and was at very different heights in the month of May. During this period, we very calibratedly managed our different geographies wherein we were able to play our portfolio in a very different manner with full capability of our customer development teams and our supply chain teams to drive growth across different parts of the country. And of course, different mixes for different geographies have always been one of the hallmarks of our portfolio, which is pretty broad from a price perspective and also from a different taste perspective.

Abneesh Roy ***Edelweiss Securities Limited***

Right. So a follow-up on this. One is, you mentioned in your opening remarks that in tea crop, these are early days for the fresh crop, but you did mention some correction from last year. But from a 2-year basis, it will be inflationary. So my question is, when I link up your 400 bps expansion in F&R margins from a 2-quarter perspective, is the pricing in tea either up or down largely done, taking into view some correction? And second, your Unilever parent has said today that the operational separation of the tea business is largely done. They have said $2 billion revenue excludes tea business in India and Indonesia. So does it mean India, the tea business will not be part of this and so it will continue as part of HUL?

Ritesh Tiwari ***Hindustan Unilever Limited***

Yes, so let me take up the tea question first. So tea is an extremely strong business for HUL. We are fully committed. We're running very strongly. And as I just covered and mentioned that it is growing very well, gaining both volume and value share. Tea remains an integral part of our business. All numbers for HUL that you see includes tea in the base and of course, in the current quarter. We are fully committed in this category, which is growing pretty well for us.

Ritesh Tiwari ***Hindustan Unilever Limited***

Any other questions you have Abneesh?

Abneesh Roy ***Edelweiss Securities Limited***

Yes, on the parent tea business.

Sanjiv Mehta ***Hindustan Unilever Limited***
Yes. I'll just -- Ritesh, I'll just take that question.

Ritesh Tiwari ***Hindustan Unilever Limited***
Sure.

Sanjiv Mehta ***Hindustan Unilever Limited***
Abneesh, let me be very emphatic. We keep strengthening our leadership in the tea business. We have got a fabulous tea business, and we have no intention whatsoever to divest this business. This business will remain an integral part of HUL.

Abneesh Roy ***Edelweiss Securities Limited***
Sure, that's helpful. My second and last question is on sequential penetration gains in Glow & Lovely and your nutrition business. That was something surprising given the pandemic rate, too. So if you could explain what is the reason for this. And how is the INR 2 sachet doing in nutrition business?

Ritesh Tiwari ***Hindustan Unilever Limited***
Yes, Abneesh, both in Nutrition and in the portfolio, as you mentioned, we have gained, in Glow & Lovely, sequential penetration. During the quarter, as we have run the business, market development actions have continued. You also heard me speaking earlier that we did 0.5 million consumer connects in the quarter. And hopefully, as the situation further improves, we are able to further accelerate it.

During the quarter, all our jobs that we have to do in terms of developing market has continued to happen, which is why you have seen the impact of that in Glow & Lovely and in Nutrition, as you mentioned, about sequential penetration gain. I also covered it, overall, 80% plus business across Hindustan Unilever has gained penetration over 2019. And more than 3 quarters of our business has gained share as well, including skin cleansing.
And within that, to the point which you mentioned on the sachets, yes, both the INR 2 and INR 5 sachets, they are very critical for us to gain penetration. I mentioned earlier that the penetration of category of health food drinks is more like c. 25%, and it is lower in rural areas. There's a big job to be done for us, hence, the

role of INR 2, INR 5 sachet in enrolling new consumers with more trials is extremely critical, and we are exactly focusing on that. Including the plus range, to extend the benefit platform, we have activated that and there's so much under the route to drive market development.

In summary, if I just probably may touch upon one more element of nutrition, as I mentioned earlier, the go-to-market integration. It has enabled us to get 1.4x direct reach as we have delayered our distribution system. Once we complete, in next 3 to 4 months' time, our entire go-to-market integration, we hope to have at least twice the amount of direct outlet coverage, what we had in April last year. So put together, we are confident that we should be able to keep developing market and penetrating more with the category.

And just last to pick up, Abneesh, your question on tea inflation and tea market index. Tea, we are in the middle of the season. We will know as to how the crop has come out. Too early days to have a full view at this point in time. But tea, overall, remain inflated compared to what it was. We have taken sequential price increase, 1 more round in June quarter. And overall, our margins in F&R, as I just spoke earlier, 18 percentage is very healthy, and we have been able to improve F&R margin across the board and which you see, from 14 percentage now we've been -- we have taken that to 18 percentage. But while doing that, there has been no compromise on our competitiveness and our ability to drive volume growth in the business.

Abneesh Roy ***Edelweiss Securities Limited***
One last follow-up, a small follow-up on Nutrition. So I understand integration is still underway, and I also understand the impact of pandemic, etc.

But when I see growth rates of 5% in this category where direct reach has improved significantly and INR 2, INR 5 sachet has come, that is lower than your overall growth rate and double-digit growth rate in all the 3 subsegments in which you report. When do we see Nutrition business growing faster than the company average? Will we have to wait for the full integration to happen, because you said half of the integration has happened?

Ritesh Tiwari ***Hindustan Unilever Limited***
Yes. So the integration journey, we are almost half mark here at this point in time. In June quarter, we completed roughly 50 percentage of integration. By end of September, we should be having 80 to 90 percentage of integration completed.

Within the quarter, one of the elements I had called out that we delayered the earlier system that we had. So GSK had distributors and sub-distributors. With HUL go-to-market integration, what we have done is we have delayered the distribution system wherein now we do direct servicing, as I mentioned earlier, to larger rural outlet, and we have taken the mid-layer of sub-distributor. This would also mean pipeline correction in our distribution system and hence had impact in the June quarter.

Overall, long term, we are very, very clear that the market development potential is pretty strong for Nutrition business. As I mentioned, the penetration is low at 25%. There's enough and more to be done, be it using more INR 2 to INR 5 route to reach more consumers or be it expanding our plus range. Put together, we have pretty good headroom to keep driving consumption of nutrition.

Sanjiv, I don't know if you'd build something on this further?

And just to also mention, Abneesh, of course, overall market development, our impact in the quarter did get limited because of COVID-19. We hope to pick up further pace on that. Though we did a pretty good job across the portfolio, I must say that in the quarter, it got limited, to some extent, in the month of peak, May, as I mentioned earlier, where mobility was severely restricted and it did impact.

But as we come in the month of June, as mobility has improved with infection rates coming down, we are full bat swing on, on our initiatives on market development that is enroute to grow. Given the penetration and levels of consumption for FMCG in India, this will continue to remain a focus area and a growth driver.

Sanjiv Mehta ***Hindustan Unilever Limited***
Yes, Abneesh, let me embellish what Ritesh had said. From HFD or the Nutrition business, our first priority was people integration and be able to retain all the best talent, which we have been able to do. Second was the system integration, which we have completed to a large extent. The third was the GTM integration, the go-to-market, which Ritesh has explained, is in place and will be completed definitely by end of the year. Then the core of the marketing was market development and getting into new segments.

Now obviously, with all the disruptions that have happened, the market development has not gone off with the kind of pace we normally do. So we are not much worried about that. The market development entails a massive amount of effort, it requires, not just communication, but it also requires us to make people experience the brands. And that, together with accessibility and higher distribution, gets into a virtuous cycle.

So yes, the environment has been a bit vitiated, I think, but very importantly, also, we have ensured that synergies, cost synergies, which is much more under our control, we have been able to deliver ahead of plan. So I'm not really much worried about HFD. We will get into the rhythm what we had sought to do when we purchased this property.

Operator
The next question is from the line of Percy Panthaki from IIFL Securities.

Percy Panthaki ***IIFL Research***
My first question is on the pricing. With your domestic consumer sales growth at 12% and volume at 9%, the derived pricing is about 3% there, versus in March quarter. Your difference between the volume and value was about 5 percentage points. So I just wanted to understand why this has come down to 3 percentage

now, especially given that in the last 3-4 months you would have taken price increases only, not price decline. And is it a big anniversarization which was there in Q1, which has happened? Or is it that in the first wave, basically, all the companies had pulled back on promotions and discounts? And versus that, this quarter, you would have a normal promotions and discounts, and that is what is pressuring the sort of price growth?

Ritesh Tiwari ***Hindustan Unilever Limited***
Hi, Percy, yes, this quarter, as you've seen, again, within the 12% domestic consumer growth, we had 9% underlying volume growth and 3% UPG pricing. Pricing last quarter, March '21, was 5 percentage.

As I explained in my opening remarks by talking about pricing, there is an impact of promotion phasing in the base. If I adjust for that, the March quarter pricing was more like 3 percentage. And in the current quarter, June quarter, we have more like 4-ish percentage pricing. We have taken sequential pricing within June quarter across laundry, tea, skin cleansing, which have got impacted because of pretty high -- multiyear high commodity inflation. So yes, there is sequential pricing. Pricing in June quarter is ahead of what you saw in March quarter. But optically, you see the numbers differently because what happened in the base last year between March quarter and June quarter in terms of promotion.

March quarter, one of the elements Sanjiv had called out in the last quarter's call, the difference between primary and secondary where we were not able to do pipeline filling primary at the end of the quarter. So yes, because of those periods, it was a very different level of promotions, which was in the base.

And equal in June quarter 2020, given the peak of COVID, which way in wave 1, it was a very different profile of investment that we did in trade spends, vis-à-vis now where things have more opened up, much better managed wave 2 as a country, which allowed us to do our expenditure on trade promotions. So hence, overall, in summary, June quarter pricing is ahead of what you saw in March quarter because we had to take sequential pricing in our commodity impacted categories.

Percy Panthaki ***IIFL Research***
Very clear. As we go ahead into September quarter, how is the base on promotions there? So September quarter last year, would you say it was a normal promotional intensity? And therefore, as we look at September quarter this year, the Y-o-Y change in the promotions would not be much and the actual pricing growth would really reflect through? Would that be a fair assessment?

Ritesh Tiwari ***Hindustan Unilever Limited***
That's a fair assessment. The September quarter, we should see normal levels of base comparator. It was more of the disruptive nature of what happened in June quarter last year, especially last -- and also last 2 weeks of what happened in March quarter last year. So March quarter and June quarter had a disruptive

base, but from September quarter onwards, it is normalized in the base.

Percy Panthaki *IIFL Research*
And also, would it be fair to say that the gross margin pressure on a Y-o-Y basis that you are seeing this quarter is also affected by this Y-o-Y pricing being lower because of the phasing of the promotion? And as we go ahead, even the gross margin will recover as the pricing recovers?

Ritesh Tiwari *Hindustan Unilever Limited*
So the key impact that you saw in our cost of goods sold, both sequential and year-on-year there is an inflation in three key commodities. Crude at the same time, Percy, last year in June quarter, crude was a multiyear low compared to where it is now at elevated levels.

Equally, we are seeing palm at multiyear highs where we are in June quarter. Tea, it remains elevated. So with all 3 categories put together, we have a pretty high amount of commodity inflation affecting 3 of our large categories. Given that, that is the impact which you saw on gross margin as cost of goods sold has increased.

Now commodities are, of course, cyclical in nature. We are at the peak of the commodity. We are also in the thick of the season both for tea and for palm, depending upon what kind of production and inventory levels the season leaves will determine the next rounds of commodity price levels in September and December quarter. But in my mind, commodities are cyclical.

The way I see, we have a strength in our portfolio, and we have leadership position across our categories and which is why we've been able to lead price increases. Important element for us out here is to get the growth equation right and protect the business model. This is what our cornerstone of strategy has been.

The point I made earlier for Foods & Refreshment from a low of 14 percentage in December quarter, we are at 18% segmental margin for Foods & Refreshment. And the way it happened was in times that we've been able to first drive savings, we continue to drive more than 8 percentage savings to our turnover, number one. Number two, as required, we did take both calibrated and judicious pricing sequentially in the quarter. And that put together if the value equation for consumers remain, we should be able to drive competitive volume growth. And then hence, the virtuous circle of growth should kick in, in terms of driving growth and hence, driving profitability. So we are very confident that what we have done for F&R is what we will end up doing across the portfolio as we are up against multiyear highs in commodity cycle. Sorry, a long answer to your question. I just wanted to address it from multiple angles.

Percy Panthaki *IIFL Research*
Yes, so derivative of this, I mean, each year, I've been listening to your calls in several years, and each year, we have reiterated that we will deliver modest EBITDA margin expansion. Now obviously, last year was an

exceptional year, and therefore, you could not. But this year, barring any third wave of COVID, would you reiterate that kind of guidance that we would deliver sort of modest EBITDA margin expansion on a full year basis?

Ritesh Tiwari ***Hindustan Unilever Limited***
No we don't give guidance on future quarters, but let me still add the point out here. Our margins today at 24.3% EBITDA is at healthy levels.

One of the elements which we had called out in the last quarter as well that we would want to ensure that we are able to protect the business model. In the last 10 years, we have driven 1,000 bps expansion of our EBITDA margins. So business does have capability to drive competitive, profitable, consistent and responsible growth and which is what we have always spoken about our 4G growth model.

Given where we are at a multiyear high elevated commodity level, we will have to be sensible for a couple of quarters to manage the business model very carefully so that we don't lose consumer franchise. And the cost price value equation remains intact so that we are able to enroll, continuously, more consumers into our portfolio. And that virtuous circle of growth that I mentioned for Foods & Refreshment is a classic example is what we would want to keep driving in our business. We are at a healthy margin level, and we would want to maintain healthy margin levels.

Operator
The next question is from the line of Avi Mehta from Macquarie.

Avi Mehta ***Macquarie Research***
Sir, I just wanted to follow up on the last question. You have clearly spelled out that you would like to maintain margins at this current range is what I heard you. Does that suggest that the gross margin inflation or the input cost inflation is what is going to weigh down on the ability to expand margins from the current level? And hence, you would look at, broadly, doing a similar margin as the last year? Or is this commentary more for a newer next quarter perspective that you're looking at it?

Ritesh Tiwari ***Hindustan Unilever Limited***
See, the way we manage our P&L is across all the lines of the P&L. Then, of course, lines of cost inflation, which is impacting cost of goods sold. Equally, we are doing, as I mentioned earlier, the overall savings agenda that we have, which is more than 8% of turnover that we do. That savings agenda is across the portfolio, the way we use our materials, the way we run up our factories very efficiently, the way we drive ROI from our media investment, the way we tighten our overhead costs as you see that in other expenses, cost structure.

So across all the lines of the P&L, we play above P&L to ensure that we are able to get value from every line. This is what really gives us the ability to keep maintaining healthy margins. As I mentioned, next couple of quarters is what we have to ensure that will sensibly manage this navigation, where we are up against multiyear highs. We have not seen these levels where 3 of large category, at the same time, will have commodity inflation, which had multiyear levels. And which is why we had mentioned in the last quarter and I repeat again, we need to manage this next couple of quarters very sensibly not to lose the volume growth competitiveness.

We are taking pricing, as I mentioned to you, sequentially, to ensure that the price versus cost equation remains in a manner, measured and calibrated all in service of competitive growth. Put together, we are confident that we should be able to do what we have done, which is keep driving healthy margins in our business. But also equally important, as I mentioned, first priority, driving competitive volume growth.

Sanjiv Mehta ***Hindustan Unilever Limited***
Ritesh, if I may, just give one more flavor because there are a lot of questions coming in for margin. Friends, we also have to consider the mix. We have a fabulous portfolio, which is now being tabled under discretionary, where we have very strong market positions, and we have very healthy margins like skin care, color cosmetics all this.

Now obviously, because of lack of mobility, these categories have been impacted, and we have still not gone back to the pre-COVID level. Just to explain to you, if June quarter '19 was 100%, June quarter '20, we came down to 50%. And now we have gone to 75%, but we are not yet at 100%. So as mobility improves, the mix will impact, and we will have even better margins coming from these categories.

Avi Mehta ***Macquarie Research***
No, Sanjiv, if I may, sorry, just to -- sorry to belabor a point to some extent, but I wanted to just get this clear, what you're essentially -- what I'm trying to understand - is input cost inflation, mix more of a yearly worry for now as what you are looking at it? Or is this more...

Sanjiv Mehta ***Hindustan Unilever Limited***
No, no, no. At the end of the day, this impacts your gross margin, right?

Avi Mehta ***Macquarie Research***
Yes.

Sanjiv Mehta ***Hindustan Unilever Limited***
So that's what the picture, I'm telling you. And this is not a structural issue. This is just an issue which is linked to lack of mobility.

Avi Mehta ***Macquarie Research***
So you're -- okay. So you're saying that as the mix improves, that is what we should kind of bear in mind, which is worth it. Okay. And hence, the range comment is also in consideration of that and not kind of factoring the mix change.

Sanjiv Mehta ***Hindustan Unilever Limited***
Yes.

Avi Mehta ***Macquarie Research***
Perfect. My second question was, again, on the inflation aspect. Would you be able to share what is the price increase or price hikes that we've already taken through the quarter? And how much would we still need to carry out as we go forward across personal wash, tea and laundry categories, please? That's all from my side.

Ritesh Tiwari ***Hindustan Unilever Limited***
Yes, as I mentioned earlier that in this quarter, across all the 3 commodity-driven categories, we have taken sequential in-quarter pricing of close to 3 percentage across skin cleansing portfolio, our tea portfolio and laundry portfolio.

We will have to, of course, very clearly monitor the inflation levels across all the commodities. I mentioned for 2 of the key commodities, we are in thick of the season now for palm and for tea. The kind of production that we'll have for these commodities will then will also inform us either quality of tea, which is getting produced, the volume, which is getting produced and for the matter, palm production, which happens.

The kind of inventory these large categories with the large commodities will end up giving at the end of the peak seasonal production will end up determining the commodity view going forward. Commodities, as I mentioned, are cyclical in nature, and it just happens that we are multi-high across all 3 of them.

So we will have to keep in tandem our pricing actions as we keep seeing commodity inflation. If commodity inflation remains, of course, we will have to keep working, as we are doing already, very hard on our savings agenda. But equally, as I mentioned, lead price increases as category leaders with strong brand and strong portfolio, we believe pricing is required to protect the business model. So far, as the consumer value equation remains good and is able to drive competitive volume growth, so rightly I do that, but balance that competitive volume growth with right pricing, given the kind of cyclical commodity highs that we are in this point in time.

Avi Mehta ***Macquarie Research***
So sir, as of now, we would have passed on, say, 50% of the inflation, 60% of the inflation. Any range that you could kind of give us. I understand the volatility aspect that you've highlighted, but just to get a sense

on where we are in that journey.

Ritesh Tiwari ***Hindustan Unilever Limited***
So I won't get into details of that, but more than happy if you could pick it up with us off-line. But at this stage, I would have remained with high-level comment, as I mentioned, where we are rather than getting into specifics of portfolio.

Operator
The next question is from the line of Aditya Soman from Goldman Sachs.

Aditya Soman ***Goldman Sachs Group, Inc.***
So first question on rural demand. I mean, obviously, you've indicated that the impact on rural India at this time around is somewhat bigger. However, for you, I mean, rural continues to lead growth. Have you seen any changes in consumer preferences, whether it's through smaller packs or spending less at single shopping trips or anything of that frame. Anything qualitative that you can add?

Ritesh Tiwari ***Hindustan Unilever Limited***
Yes, so rural has been resilient. I was mentioning earlier that as we are operating March, June and July, the overall dip that we saw in the -- from end of April and May of both rural and urban, we have now seen consumption in FMCG coming back to the levels that we saw in March '21. Within that, rural has led the come back strongly. And rural is ahead in terms of growth and trajectory compared to urban.

Our portfolio in rural remains robust across all brands and our categories. We have a portfolio which straddles across the price pyramid. And our penetration pack, our access pack that we have, they continue to keep doing business and gain sequential penetration.

The point I made earlier that 80 percentage of our business today is gaining sequential penetration over 2019, that is across urban and rural. So we have been able to gain penetration in rural. And overall, 3/4 of our business is gaining market share as well.

A linked one Aditya, I also mentioned about premium portfolio. During this entire pandemic of wave 2 in June quarter, we continue to drive up our premium portfolio extremely well. Where the premium part of the business has grown at twice the speed compared to the rest of the portfolio, that, again, remains a very strong priority for us at this point in time. And as I mentioned, what Sanjiv alluded earlier, we would hope to see mobility further improving as the infection levels are receding and mobility coming back, which would then further help us to drive consumption of our discretionary categories. So it is different ways in which you to look at this area.

Sanjiv Mehta ***Hindustan Unilever Limited***

Yes, gentlemen, if you were alluding to, are we seeing significant down-trading? Are we seeing more frequent trips but smaller basket size? We are not seeing that happen. Yes, and as far as rural is concerned, this is something which we saw at the beginning of the pandemic last year. But since then, we saw the rural pickup and rural has remained resilient, the disruptions this time are more because of either the wholesale mandi is closing down or because a distributor in rural area has fallen sick, those kind of disruptions. But we have not seen any discernible shift in consumer behavior.

Aditya Soman ***Goldman Sachs Group, Inc.***

That's very clear. I think the second question, just in terms of direct-to-consumer, I think you alluded to premium growing much faster. Now when you think of UShop, is there a disproportionate sort of sell-through for premium on direct-to-consumer? Or you're seeing universal growth across most of your brands from mass to premium?

Ritesh Tiwari ***Hindustan Unilever Limited***

So if I talk about e-commerce channel overall, the direct-to-consumer, including elements of eB2B and of course, eB2C, all put together, we are seeing, as I mentioned earlier, our business today has doubled from the e-commerce channel. We've seen pretty strong growth as assortment has increased online, consumers are leveraging that possibility of buying into that assortment.

Put together, if I add our direct-to-consumer channels, our e-commerce, both eB2B and eB2C and Shikhar, all put together, we now have more than 10 percentage of our business, which is digitized in terms of sales demand capture and this very clearly opens up, in a very disruptive way, our ability to drive demand generation. So this future-ready sales platform now are more than 10 percentage of our total sales.

Aditya Soman ***Goldman Sachs Group, Inc.***

Fair enough. That's clear. Just -- my question was more on the premium. Are you seeing a disproportionate sales flow of premium products on these platforms? Or that wouldn't be a fair comment?

Ritesh Tiwari ***Hindustan Unilever Limited***

So our D2C branch, if I talk about our the 2 premium brands, both Lakmé and Indulekha, we've seen pretty good traction on both these brands online as we approach consumers and they've liked this website, the product, and we're seeing a good amount of growth in both of them.

And UShop, of course, is up today, but as I mentioned earlier, UShop is something which we have across the portfolio. So it is not focused only to the premium portfolio. It is across the portfolio.. But the point I mentioned a little earlier, overall, premium portfolio has grown at twice the pace compared to the rest of the portfolio in June quarter. This is across segments, and premium as defined is higher order benefits at 120 price index. That portion of the portfolio is what has grown extremely well even in such times as we saw in quarter 1 FY'21 with COVID in the country.

Operator
The next question is from the line of Tejash Shah from Spark Capital.

Tejash Shah ***Spark Capital Advisors (India) Private Limited***
My question also pertains to margins, and I'm sorry to drag this point. But margins in GSK portfolio last year, we exited the year with 31.8% margin. And our guidance has been 500 to 700 basis point range improvement. And then you just spoke about that we are -- in terms of people integration and process, integration, we are almost done. So when you secured a large part of the integration process on the back end side. But in terms of margin expansion, you have just managed 15% of the lower range of the target. So just wanted your thoughts on the same.

Ritesh Tiwari ***Hindustan Unilever Limited***
I'm not sure what your question is when you refer numbers. Are you talking total Hindustan Unilever or are you trying to speak to…

Tejash Shah ***Spark Capital Advisors (India) Private Limited***
No, GSK portfolio. Because you shared that number in your annual report, so I'm referring to that.

Ritesh Tiwari ***Hindustan Unilever Limited***
Sorry, which portfolio?

Tejash Shah ***Spark Capital Advisors (India) Private Limited, Research Division***
GSK portfolio, the nutrition portfolio.

Ritesh Tiwari ***Hindustan Unilever Limited***
Yes, yes. So GSK, yes, one of the elements that we have done pretty well is our cost synergies in Nutrition portfolio. We had a very clear business case, and we are, as we speak, is ahead of the business case in terms of driving cost synergies from the portfolio.

Gross synergy numbers is what we have quoted when we had spoken earlier, but the clear job for us would be to ensure that we are able to invest back those synergies to drive penetration, to drive market development and to drive consumption increases.

Where we are in our journey, we are pretty much ahead in the journey of realizing cost synergies with GSK. We still have some more jobs to be done, and we have clear line of sight for that. At this point in time, as I mentioned, we are ahead in driving cost synergy. And our focus is to ensure that this extra growth that we have with our cost synergies, we are able to invest it back in the business to drive penetration, to drive consumption.

Sanjiv Mehta ***Hindustan Unilever Limited***
Let me just clarify a bit. When we say the integration is getting completed in different phases, that does not mean that the synergies have all been realized. Yes, we yet have to realize the synergies on the manufacturing side. What we have been able to do is on the procurement side. What we've been able to do is on media buying. The CD side, it will be linked to the integration and manufacturing is yet to be done. So we are very well poised. We are ahead of the plan when it comes to realizing the synergy from the GSK acquisition.

Tejash Shah ***Spark Capital Advisors (India) Private Limited***
So Sanjiv, based on reconciling our commentary with the numbers that we have shared should we believe that, that 500 to 700 basis point guidance itself needs to be revisited in line of what has happened last year on COVID? Or you believe that the large part of that saving is yet to show up on numbers? And what we have done is largely the back-end part of the process? And the last part of the process will come up as we go along in this journey?

Sanjiv Mehta ***Hindustan Unilever Limited***
See, I'll have Ravi sit with you to clarify I hope you're not mixing the F&R margins with the GSK margins. They are 2 different things.

Tejash Shah ***Spark Capital Advisors (India) Private Limited***
Notes to accounts we have shared are GSK Nutrition business margins separately. So I was referring to that only.

Sanjiv Mehta ***Hindustan Unilever Limited***
Yes, but this quarter, we have not given you any Nutrition margin.

Tejash Shah ***Spark Capital Advisors (India) Private Limited***
Yes, this quarter is okay, but I was just thinking on a Y-o-Y basis, we still 80% of the journey left in terms of margin expansion in that portfolio.

Sanjiv Mehta ***Hindustan Unilever Limited***
On that margin, let me assure you, we will realize what was there in the business case and perhaps more.

Tejash Shah ***Spark Capital Advisors (India) Private Limited***
And just staying with the nutrition portfolio. We have done a lot of interventions in terms of distribution. We have got that business on a distribution platform that we have, which is almost 2x or 3x more size than the initial portfolio had. But the growth is still very disappointing in terms of versus our overall -- yes.

Sanjiv Mehta ***Hindustan Unilever Limited***
No, no, no. You have to look at it. We have never said that we have completed the distribution, yes. The distribution integration will be completed by end of the year. So it's not happened. And you should also understand the premise on which were built were based on market development and new innovation. And both for market development, we have not been able to do the market development activities, which we had planned to do because of the disruption. So I would say that as far as the GSK acquisition is concerned, it remains significantly attractive for us. We are pleased with the traction. And we are very confident that we will achieve what we have set out to do.

There may be because of the disruptions, the phasing of it and -- but we are confident that we'll get the rhythm back.

Operator
The next question is from the line of Shirish Pardeshi from Centrum Capital.

Shirish Pardeshi ***Centrum Broking Limited***
I have a continued question on GSK. On your comment that you mentioned that 800-odd distributors has come formally and you have cut 1 layer. So there is some pipeline inventory correction you did mention. Is it largely done? Or there is some more part, which is left, which can come up in the latter part of this year? That's the first question. And a follow-up on that in terms of our journey when we have now cut 1 layer, so, obviously, the distribution touch point would have gone up. Are we benchmarking this distribution against any of our products, say, tea or maybe -- Lifebuoy may not be the right consideration, but maybe Fair & Lovely is a consideration. Is that the benchmark which you can expect down the line, maybe a year from now?

Ritesh Tiwari ***Hindustan Unilever Limited***
Yes, Shirish. So as I mentioned earlier, that within June quarter, we completed half the job almost, where almost 50 percentage of the go-to-market transition we have completed. Over September quarter and up to end of the year, we will complete the transition. I expect by end of September quarter, we would have done 80 to 90 percentage and then some elements left will get done in December quarter. So that's the pace at which we are progressing on GTM integration. As I mentioned, in spite of the challenges we had in the quarter of COVID, we still managed to do almost close to 50 percentage of the GTM integration. That's number one.

And yes, as I mentioned earlier that as part of this, as we have delayered, we have been able to increase the direct reach. The number of outlets that we're serving directly has also gone up. So as we speak, we already have 1.4x outlets that we're directly reaching. And we intend, by end of the year, as we finish the integration, we would have doubled the amount of our number of outlets that we reach directly compared to what we had in April of last year.

It should also benefit, for example, from the pharma channel strength of GSK. We watched, for example, the entire detailing of VWash was done using nutrition detailing. So those are also the benefits that we have, apart from expanding the direct outlet reach, but also leveraging the pharma capability that we have in GSK. So those are the elements Sanjiv alluded to earlier in terms of (a) driving market development; and (b) also then leveraging our go-to-market capability very differently in times to come.

Sanjiv Mehta ***Hindustan Unilever Limited***
Yes, and you're absolutely right. We would be benchmarking the distribution with the relevant category. That's where our strength comes. And that's what we would be leveraging.

Shirish Pardeshi ***Centrum Broking Limited***
Yes, exactly, Sanjiv. I'm banking on it and I'm with you. Just one follow-up since you touched upon. I just wanted to understand. I mean, exactly a year before on first of April 2020, we had a very long conversation and chat, the opportunity and all. And when we look back, we have lost Mr. Sitapati, and now we look back the further integration challenges. I missed your candid answer that what is it that we planned and we have delivered and what is it that we can expect? I'm not saying we have faltered. I think the pandemic has behaved differently. But I think what is it we can expect further on the risk in nutrition portfolio?

Sanjiv Mehta ***Hindustan Unilever Limited***
Let me give you a perspective. Last year, we were also disrupted because we had some factory issues. If you recall, we had shared that with you, one of our bigger factories. One was impacted severely with the COVID first wave. The second was impacted with some industrial relations problem. Now those are behind us.
What was the premise of the growth that we had put in? That, one, the penetration of these categories is in the 20s. The second is that the distribution of this, there is a huge run rate yet to increase. And the third one was bringing in innovations which are relevant and linked to all this was bringing in purpose-driven communication.

So one, we have been able to get now massive insight into what propels the category growth. So the communication and all that we are now coming out with are very relevant to persuading the consumers to consume more. The second has been that Pandemic has impacted 2-key levers of our plans. One is the CD integration. The second is market development.

Had the pandemic not been there, we would have been far ahead when it comes to seeding market development and income of CD integration. So these are the 2 things where we have been behind schedule. But when it comes to margins, we are ahead of plan. So looking at the gravity of the pandemic, I am not much perturbed with that. The premise of growth remains and our ability to harness it I remain very confident of that.

When you look at such a big acquisition and such fabulous brands, a couple of quarters here and there should not worry you. And then as a businessman, I'm ensuring that the cash generation is not lower than what we had forecasted when we made the business case.

Shirish Pardeshi ***Centrum Broking Limited***
Wonderful. That's very helpful. My second and last question, it's just an observation, and I'm very hopeful that you harped on the out-of-home consumption, the offices will come back to normalcy. While during our visits, what we found that modern trade is one of the key factors driving our discretionary portfolio.

Generally, my experience in the industry suggests that the consumer tends to buy large pack on the e-commerce and also on the modern trade in a huge way. And this disruption has impacted our numbers in BPC portfolio. Do you think -- or rather, I'm asking your confidence, trying to borrow the confidence, that if the management is very hopeful that once this modern trade comes to a normalcy, I think we will see the kind of growth and the profitability, which we do...

Sanjiv Mehta ***Hindustan Unilever Limited***
Absolutely. These are directly linked to the 2 things. One is mobility, mobility linked to shoppers and mobility linked to consumers. When women aren't stepping out to go to work, they aren't applying makeup the way they normally do. So once they start stepping out, going back to work, etc, and the entertainment starts, shopping starts, then color cosmetics and all will get back to its rhythm.

But you're absolutely right. that the discretionary categories, the market development categories lend itself much more to modern trade than to general trade.

Operator
The next question is from the line of Harit Kapoor from Investec.

Harit Kapoor ***Investec Bank plc, Research Division***
I just had 2 questions. Firstly, I wanted to get your perspective on the 3 categories within soaps, laundry. and tea that are seeing the maximum inflation. These are also categories which have a large regional brand or unbranded presence. I just wanted a to get your sense of how the competition, which is the smaller regional/un-branded competition has reacted. I mean, have they taken up prices much faster than you have, is the competitive intensity in terms of media in regional markets much lower than what it was because

those guys are not able to have the cash to invest. So I just wanted to get a perspective on that. That's my first question.

The second question was on the e-commerce side. While you did mention that B2B, B2C together is over 10% of the business. It would be very helpful if you could give a sense of what the pure B2C part is now as a percentage of sales for the company, which basically includes UShop and all the other online portals.

Ritesh Tiwari ***Hindustan Unilever Limited***

Yes, on your first question about the 3 categories, let me start by saying that all 3 categories, skin cleansing, laundry and tea, we have had competitive growth and we gained market share in all 3 of them. You're right in terms of inflation. There's a pretty steep inflation in all 3 categories, but we have been able to drive our growth, not only across the portfolio, but also premium portfolio within these categories. And we remain competitive and we continue to gain share in this categories.

Coming to your second question on B2B, B2C, so as I mentioned earlier, that if I look at all the digital platforms where we do our business, Shikhar, where we are now reaching to the outlets directly, number one. Number two, of course, the B2B platforms, B2C platforms and direct-to-consumer platforms all put together, the future-ready platforms, we have now more than 10 percentage of our sales, which is digitized. It will give us both ability to capture demand more smartly and also to generate demand very differently. So I wouldn't, at this stage, get into giving a split of numbers, etc. but would request you to engage with Ravi offline to give him a flavor of that.

Thanks so much. So now let me move on to some web questions. And if I go to a web online question, the first question is from Pramod, How much raw material prices performing compared to pre-quarter -- pre-COVID quarter, and how much of that can be transitionary in the nature, given competitive scenario?

As I mentioned, compared to pre-COVID levels, all the 3-key commodities I referred to, the crude was at a multiyear high, for example, in June quarter, but even if you compare with pre-COVID levels, all 3 commodities are at elevated levels. As I mentioned, these are cyclical in nature. We need to watch out as to where this settles down in times to come, including post lockdown.

Then I move into a question which we have from Karan from BT Capital. In Home Care segment, we've seen cost inflation. How is the cost behaving in other segments?

As I mentioned, there are 3 different categories where we're seeing heightened cost inflation Karan. One is laundry, second is tea and third is skin cleansing. I would say put together, these 3 are the ones which have really seen elevated cost inflation. amongst the portfolio that we sell.

Moving on to questions from Nitin from CLSA. What is the mix of LUPs, in our portfolio in soap and tea, what is the quantum of price hike undertaken to pass inflation? I mentioned earlier, that across the 3 categories which have got heavily impacted with commodity, we have sequentially taken approximately 3 percentage price inflation in quarter. As I mentioned, the mix of LUPs is there but across soaps and tea, we have a pretty strong price pyramid. And we straddle the consumer pyramid of different portfolio and price points, and we've been able to do business across that.

Then yes, I think that by and large cover, there are questions on margins, which we have already answered on pricing, which had already answered, so I won't repeat those conversations. With that, I don't see any further questions. Ravi, back to you.

A Ravishankar ***Hindustan Unilever Limited***

Okay, so maybe we can take 1 more question on the audio line, if there is one, and then we'll call to wrap up late.

Sanjiv Mehta ***Hindustan Unilever Limited***

Ravi, If I may just take a minute to -- because there have been a lot of questions on margins, etc, is let me lay down, for the benefit of all our friends here, what is the philosophy on which we work.

Over the last many years that you all have been engaging with me, we've had a fantastic rhythm of improving the margins. And we have grown, we have grown at a CAGR of 9% in the last decade. And 60%, 65% of that growth has come from volume growth. Now we have reached a level of very healthy margins. And even during the period when there has been significant disruption, we have continued to invest in our brands much ahead of our market share, which indicates there is a commitment from a long-term perspective, to keep growing our market share and to keep ensuring that the consumers remain within our franchise. So we have been very aggressive in ensuring that our competitive growth remains.

Now when you have very healthy margins and when you have unprecedented inflation, then you would always try to play the different levers of business in a manner that you keep growing your business, keep growing competitively while ensuring that your business model remains intact. And that's the game we have been playing. So if you were to ask me, what is going to be my margin. I'll tell you that I'll ensure that my business model remains intact. But don't worry from a medium-term basis, our commitment to modest improvement in margins still remains intact.

Ravi, over to you.

A Ravishankar ***Hindustan Unilever Limited***

Thank you, Sanjiv.

With that, we will close this session now. Before we end, I'd like to remind that the playback of this event will be available on the Investor Relations website in a short while, and you will be able to go back and refer to it. A copy of the results and presentation, if not already with you, is on the website, and again, you can refer to that as well.

With this, we'd like to draw this call to a close. Thank you for your participation, and have a great evening. Stay safe and stay well. Thank you.

Operator
Thank you. On behalf of Hindustan Unilever Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Disclaimer: This transcript has been edited to remove and / or correct any grammatical inaccuracies or inconsistencies of English language that might have occurred inadvertently while speaking.