

## Conference Call Transcript

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### **Geetha- Moderator**

Good evening ladies and gentlemen. I am Geetha, the moderator for this conference. Welcome to the Hindustan Unilever Limited December Quarter earnings call. For the duration of the presentation all participation lines will be in the listen only mode. After the presentation the question and answer session will be conducted for all the participants on this call. Present with us on the call today is the Senior Leadership Team of Hindustan Unilever Limited. We propose to commence this call with opening remarks by Mr. Srinivas Phatak, General Manager, Investor Relations of Hindustan Unilever Limited, followed by the result presentation after which the floor will be opened for the question and answer session. I now hand over the call to Mr. Phatak. Thank you and over you Mr. Phatak.

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### **Srinivas Phatak – General Manager Investor Relations- Hindustan Unilever Limited**

Thank you Geetha. Welcome to the Hindustan Unilever December Quarter results conference call. We have with us Mr. Nitin Paranjpe - CEO, and Mr. Sridhar Ramamurthy - CFO. We will start with a presentation on the December Quarter results. Nitin will then share his perspectives on the business performance, which will be followed by the Q&A session. Before I start the presentation I would like to draw your attention for the safe harbour statement included in this presentation for the sake of good order. Over to Sridhar.

**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

Thank you Srinivas and a very good afternoon to everybody on the call. Thank you for joining us for our December Quarter results call. I propose to start with a very brief reminder of our strategy, spend a little while talking about the business environment and FMCG markets in particular and then focus on the performance during December Quarter. At the end I would provide a sense of our outlook looking ahead.

Our business strategy, which is guided by the compass, remains unchanged. Our business goals as we've articulated over the past couple of years are again consistent and unchanged which is to deliver Competitive growth, Profitable growth and Sustainable growth. Let me spend a few minutes talking about the market context and environment in December Quarter. FMCG markets grew in double digits during the quarter but at the pace that was clearly slower than the previous quarters. You can see that on the top chart (5) on the left market growth at around 10% in December Quarter was clearly slower than before.

In Soaps and Detergents we did see further rebalancing in market growth between volume and price. As far as Personal Care and Foods categories were concerned, growth was primarily led by volumes. Competitive pressures continued during the quarter. This is a continuing phenomenon and is something we've spoken about earlier.

Inflationary pressures during the quarter were primarily Rupee lead. Global uncertainty along with some local factors had an adverse impact on the sentiments. In this challenging environment we are quite pleased with the strong performance that we have delivered. Our domestic consumer business grew at 16.5% driven by strong volume growth of 9.1%. Growth was ahead of market in the aggregate and all our FMCG business segments grew in double digits.

From a channel perspective both Modern Trade and rural delivered strong performances, something we will talk about a little later. In our Water business the 'Go To Market' transformation is on track and as indicated earlier, we expect to complete the same before the end of the current financial year.

Operating profit grew by just under 37% with an improvement of 230 basis points in operating margins. Pricing and cost management have been key to managing the inflationary situation as well as the volatility in the quarter. Consequently cost of goods sold has gone up by only 140 basis points during the quarter.

Advertising and Promotional spends at Rs.690 crores or 11.8% of sales were maintained at competitive levels across all segments. Profit after tax and before exceptional items at Rs.762 crores grew by 30% while net profit after exceptional items grew by 18%. This performance confirms that we have delivered on our priorities with Competitive growth, which is growth ahead of market, Profitable growth, which is the improvement in margins, and Sustainable growth i.e. led by volumes.

As you can see from chart 8, the growth momentum has been maintained at about 16.5% in our Domestic Consumer Business and we continue to drive growth through a healthy mix of volume and price. As I indicated earlier all our FMCG segments have grown in double digits for the fourth consecutive quarter.

Soaps and Detergents segment has grown at just under 21% with a fair mix of volumes and price. I think it is fair to say that the contribution of price was higher in the growth of Soaps and Detergents segment with volume growth being in mid single digits.

Personal Products also grew well at 14%. Here the growth was entirely from volumes; in fact the underlying volume growth was in high teens during the quarter. Beverages, which comprise of Tea and Coffee, grew well at 11% and Packaged Foods, which include which Savories, Jams, Ketchup and Ice-Creams, grew at about 14%. In aggregate the FMCG business and our Domestic Consumer Business have grown at about 17% during the quarter.

Innovations continue to play an important role in driving growth during the quarter; our innovations continue to focus on strengthening the core while at the same time leading market development across segments. As you can see in this chart, the key innovations during the quarter across our various segments are represented and we will talk about some of these specific innovations in the category section later in the presentation.

During the quarter media intensity continued to sustain with industry GRPs showing a mixed picture. As you can see from the chart (11) on the top left, in Soaps and Detergents media spends or media GRPs for the industry continued the downward trend reflecting the significant cost inflation in this segment. However, in other segments the GRP spends have remained at the same levels at about first half of this fiscal year. So you can see that on index basis the blue line representing media spends in segments other than Soaps and Detergents continuing to be at high levels.

In this context we have stepped up our spends in Personal Products and you can see that from the chart at the bottom left. Overall as I mentioned earlier A&P spends remain competitive and we have maintained our Share of Voice / Share of Market levels across categories.

Speaking a little bit about channels, Modern Trade growth has further accelerated in the quarter and is growing well ahead of market. Our focus on building win-win partnerships and driving superior customer service is clearly delivering results. The quarter sales also benefited from new store openings and 'Cash and Carry' outlet openings. At the same time our Rural channel also continued to perform strongly with growth ahead of market. Our program of Shakti and Shaktiman is progressing well and we are seeing the benefits of the work and investment done earlier to expand coverage.

Inflationary pressures, as I mentioned earlier, continued in the quarter. Crude on a year-on-year basis was up about 25% though on a sequential basis it has started to moderate. On the currency front, Rupee depreciated by more than 18% in the last six months though we have all seen some softening of the currency in the recent past and the key message on the commodity and currency is that we continue to see volatility.

We continue to drive a lean and agile value chain driving cost savings while also maintaining high levels of customer service. This chart (13) gives you a flavor of how we are trying to drive cost competitiveness. Shown on index basis the cost effectiveness program has further accelerated in the current financial year. Topline growth is also giving us leverage in overheads as you can see in the chart (14) on the right and this benefit is driving through across the value chain including supply chain costs as well as in our A&P spends.

We have previously talked about our program on 'Return and Marketing Investments' to drive efficiency and effectiveness across our Advertising and Proportional spends. As you can see from the chart (15) we have made good progress in advertising effectiveness, which is reflected in the index advertising preview scores. We continue to drive effectiveness of our promotional spends through value creating promotions and reducing the proportion of spends on low ROI promotions. In the area of advertising production and fees we continue to drive efficiency and we are seeing good results. All of these are improving the overall efficiency and effectiveness of our A&P spends whilst allowing us to continue to invest at competitive level behind our plan.

Let me now turn to our individual categories and share with you the highlights of their performance.

Starting first with Laundry, Laundry has delivered strong and competitive growth across all segments during the quarter. As you can see from the top chart (17) on the left the underlying sales growth of the Laundry business continues to be strong over the last three quarters. All our Laundry brands grew in double digits with the premium portfolio delivering really strong growth. Wheel also delivered strong growth supported by micro marketing initiatives. During the quarter Rin Bar was relaunched with superior formulation and packaging. Surf Excel Quickwash was also relaunched with a superior formulation.

Coming now to Skin Cleansing. This category delivered strong performance with double-digit growth ahead of the market. Premium portfolio sustained its growth momentum led by Dove. As you can see on the chart (18) on the middle left, the indexed business size of our premium portfolio have been continuously moving up over the last two years. I will just like to draw your attention to the fact the half year periods mentioned in this chart are on the calendar year basis for better comparability. Our liquids portfolio continues to grow strongly and competitively. During the quarter Lux Handwash and Axe Shower Gels were introduced to further expand our liquids portfolio.

Moving on to Skin Care. The growth momentum in Skin Care has been sustained with strong double-digit growth in this quarter. Our flagship brand Fair & Lovely grew strongly, led by the core while lotions contributed to Vaseline growth. We continued to focus on market development. Facewash range continued its strong performance and as is reflected in the chart (19) on the top left (on an indexed basis), At the same time we continued to build hand and body segments. During the quarter we launched Dove Body lotions, the response of which has been encouraging.

In the chart (20) you can see the market development framework that we are using to develop categories and segments for tomorrow. If I take the example of Skin Care in this chart we are trying to drive more usage of Fair & Lovely in the mass skin lightening space. We are building categories and recruiting new users in facial cleansing and lotions and we are providing consumers with more benefits such as Skin Care, anti-ageing etc.

Moving on to Hair. Our Hair business delivered double digit volume led growth, which was ahead of the market. During the quarter the Dove Hair business size doubled. Clinic Plus delivered robust growth and saw the introduction of Clinic Plus conditioners during the quarter. Clear our anti-dandruff shampoo grew in double digits and registered good performance across all formats. The Sunsilk range was expanded with the introduction of Keratinology, a hair care range for salon treated hair. Oral Care registered moderate growth. During the quarter we relaunched Pepsodent G for a stronger play in the advance care segment.

We would like to share with you a similar market development model of Hair care and you can see from the chart (22) we are driving more usage through Clinic Plus especially with our low cost sachets, we are trying to recruit more users into the conditioner formats and we are delivering more benefits to the consumers through new regimes like Dove oil nourishment therapy, serums, Sunsilk Keratinology etc.

Moving on now to Beverages. In December Quarter our Beverages business comprising Tea and Coffee delivered robust performance across segment. Tea delivered broad based double-digit growth with strong performance in the premium segment. We are also driving market development in Tea with the launch of Flavored and Green Tea bags and the Taj. Coffee also delivered strong growth in the traditional Southern markets as well as the rest of India. We continued to focus on driving premiumization with a Modern and contemporary portfolio. During the quarter Bru Gold, a 100% pure coffee was launched.

This chart (24), gives you a sense of the innovation that we have brought into the coffee business over the last few quarters. The premiumization agenda on Bru is clearly helping to enhance the imagery and appeal among the target audience. We now have Bru Lite which is the light tasting classic Mocha flavor coffee, we have Exotica which is the premium coffee with coffee sourced from Colombia, Kilimanjaro and Brazil and the newest edition to our portfolio the 100% coffee Bru Gold.

Coming now to Packaged Foods. This segment delivered a strong double-digit growth. Kissan, which was relaunched in September Quarter, grew strongly in December Quarter with good performance in both Jams and Ketchups. Knorr performance during the quarter however was muted on account of a market slowdown in soups. Knorr Soupy Noodles performed in line with plan. During the quarter 'Cup-a-Soup', an instant soup range for people on-the-go was launched. We also launched two new variants of soups during the quarter. Ice creams continued its growth momentum with strong growth led by innovations and cabinet expansions. Swirls parlors expanded now over 200 with the new outlet introduction averaging one a week.

That covers the categories and I would like to now walk you through a summary of the financial performance. Net sales grew by 16.4%, Profit before Interest and Taxation, which is our operating margin, grew by 37% with Operating Margins up by 230 basis points. PAT (bei) grew by just under 30%, while net profit at Rs.754 Crores was higher by 18%. December Quarter 2011 had a smaller impact of exceptional items primarily from restructuring for which a cost of Rs.12 Crores was incurred in DQ'11.

Just like to share with you the summary of our performance on a cumulative nine months basis. Net sales grew more or less similar to the quarter at 16.5 %, similarly net profit growth at 19% more or less similar to December Quarter. On a cumulative nine months basis our operating margins have expanded by about 110 basis points.

Now you are aware that the FMCG exports business has been de-merged into a 100% own subsidiary. This demerger will be given effect in financial results in our March Quarter and full year results but we would like to just give a sense of the impact of the demerger on the standalone results of HUL. The High Court has sanctioned the demerger of our business which should be accounted with effect from 1<sup>st</sup> January 2012, but the appointed date is 1<sup>st</sup> April, 2011. So as you can see here on a current reported basis net sales have grown by 16.4%, operating margin is at 14.1% for the nine months ended December 2011 and net profit has grown by 19.2%. If you give effect to the demerger the impact on a numbers is shown on the table at the right. Net sales growth is almost identical at 16.4%. PBIT margin is slightly better at 14.3% and net profit growth is also more or less similar at 18%. So the main message being Topline growth is unchanged; operating margin is slightly better by 20 basis points. This chart is only for memo information; the accounting effect will all be given with our full year results ending March 2012.

So in summary, a strong broad based growth ahead of market at 16.5% in what has been a challenging environment. We continue to focus on driving and strengthening our core while leading market development to build segments and categories for the future. Operating margins were up by 230 basis points; however, I must say that this did benefit from a slightly low base in the DQ'10. As I mentioned earlier on a cumulative basis operating margins are up by 110 basis points. Profit after tax before exceptional items at Rs.762 Crores were up by 30% and net profit is up by 18%.

As we look ahead, I'd like to share with you our perspective. I think the first thing to say is that the FMCG markets we believe will continue to grow and to that extent is good for the industry. However, there are a set of headwinds and tailwinds which is similar to what we had shared with you a quarter ago. Starting with the headwinds, the environment we believe will continue to be characterized by competitive intensity, which will remain high. Inflationary pressures, which will be, combined with commodity and currency volatility and finally the uncertainty a result of both global and local factors. However there also some tailwinds, firstly the demand drivers for the FMCG business continue to be good. Growing incomes, rising aspirations all of these are augur well for the FMCG market. HUL we believe is uniquely positioned to win in this context given that we have developed differentiated capabilities for competitive advantage. Our brand equities have been strengthened and we have a portfolio that straddles the pyramid. We have a strong



innovation funnel that focuses on both strengthening the core as well as building segments for the future. Over the last couple of years our 'Go to Market' capabilities have been further strengthened including the deeper rural coverage that we have established and we have the lean and agile value chain, which is responsive and fit for purpose. So with this I would like to now hand over to Nitin for his remarks before we move into the Q&A session.

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**Nitin Paranjpe - Chief Financial Officer- Hindustan Unilever Limited**

Thanks Sridhar and let me use this opportunity to share my perspective on the results that you would have read about yesterday. So first of all we are pleased with the performance that we have delivered, a performance which has meant strong quarter of competitive and profitable growth against the backdrop of a challenging environment. For me the key highlights of this quarter have been four. First, the fact that the consumer domestic business has grown at 16.5%, a strong UVG of 9.1% and the fact that volume led growth continues to be the centre of our strategy. The second, all FMCG segments have grown in double-digit and now have done so consistently for many quarters. The third, we have continued the drive towards premiumizing our portfolio even as we straddle the pyramid, and fourth we have demonstrated a step up in our margins this quarter.

As I have said in the past, I believe it is the consistency with which we are executing our strategy that is helping us to deliver these results. We are leveraging the compass and it is helping us win comprehensively in the market place. I now want to share with you my thoughts on two or three aspects of our performance, which will address some of the question that have been asked since we have announced our results yesterday.

First has been on sales on Soaps and Detergents growth and our outlook. We have delivered a strong growth with a good mix of volumes and price. Our volume growth has been in the mid single digits. Our growth has been robust both in urban and in rural areas and we have not seen any slowdown or downtrading in these segments. Enhancing product quality, right consumer value and micro marketing have helped us drive growth. Driving efficiencies in the value chain along with judicious pricing has helped us restore profitability. I believe that if we continue to execute our strategy consistently we will deliver on our goals both in terms of growth and profitability in this segment.

Moving on to the second area that I wanted to talk about, which is Personal Products growth and our margins. Now PP as we call Personal Products has delivered a strong growth with volume

growth level similar to those we have delivered in our previous quarters, which are in the high teens. As you have heard from Sridhar, Skin and Hair have performed very well and many of our brands have grown in double-digits. However, our Oral Care performance has been modest and we are taking action so address this. In December quarter we have relaunched Pep G in the fast growing advance care segment and we will continue to address this in the quarters to come.

It is also important for me to remind you of how we run our business and the need to run it with the bifocal lens, which will ensure that we are winning today, and winning tomorrow. , We need to get the right balance between investing for the future and delivering margins and we are doing just that. Our year-to-date margins are comparable to the previous years and continue to be healthy. Finally we continue to invest appropriately in Personal Products and are leading market development.

My last comments are around the FMCG growth and a view looking ahead. At one level there has been really no significant change in the business environment in comparison to what we shared at the end of September Quarter. We continue to have some headwinds and some tailwinds and Sridhar referred to both.

As a result as we look ahead we expect FMCG market continues to show good growth. The demand drivers for FMCG continue to be strong. The rising income rising aspiration or the increase in consumption and leading market development therefore will be a significant growth driver for us. We believe we are well positioned to benefit from this opportunity due to several reasons. First the strength of our brand equity and the fact that we have a portfolio straddling the pyramid, second a strong innovation funnel, third our go to market capabilities including deep rural coverage something that we've worked on for the last couple of years and finally a lean and agile value chain.

Overall I would say that we remain confident that the consistent deployment of our strategy will help us deliver on our goals that are delivering competitive, profitable and sustainable growth. That is all that I have to say and over to Srini.

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**Srinivas Phatak – General Manager Investor Relations- Hindustan Unilever Limited**

Thank you Nitin, We will now have the Q&A session. Before we start I would like to highlight that this is only open for institutional investors. If any other investor has a question or a query you may

get in touch with us the Investor Relations Department. Now I will transfer you to Geetha to commence the Q&A session. Geetha over to you.

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**Geetha – Moderator**

Thank you very much sir. We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Participants who wish to ask questions may press “\*” “1” on their touchtone enabled telephone keypad. On pressing “\*1” participants will get a chance to present their questions on a first in-line basis. To ask a question participant may please press “\*1” now.

The first question comes from Mr. Pritish Chadha Mumbai, Emkay Global.

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**Pritish Chadha - Emkay Global - Mumbai**

Thank you for the opportunity and congratulations on a good set of numbers. First question on the slide gone through premiumization action happening in more or less all these segments if you could dissect the price growth which we have shared in terms of how much of the growth will be premiumization led since last three to four quarters since that could be a more sustainable number. That is the first question. Second in the tailwinds we talked about strong FMCG market per se, from the demand driver perspective just wanted to understand have the demand drivers on the rural side weakened and do you sense if that is happening. And lastly on the QoQ gross margins, if you see that there is hardly any shift in the revenue mix however the QoQ gross margins have expanded so if you could throw a more light there if there is anything that we have missed?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

Thank you for the question. We will address them between Sridhar and myself. Let me just talk about your second question which you had which was about market growth. I refer to the fact that we believe that the drivers of demand continue to be robust and those are on account of the rising incomes, increasing aspirations and relatively low per capita consumptions which exist in this country compared to the other countries. Then as incomes rise we said it before consumptions will increase and we are seeing those consumption increases over a period of

time. The reported market growth from Nielsen be what they are you've see in our growths you've also seen some of our competitors in terms of the results and we feel in the medium to long-term we will continue to see good growths for the FMCG market.

You asked the second question around rural and whether we have seen any kind of slowing down in rural. As far as we are concerned we have not seen any slowing down in Rural markets. Rural markets continue to give us good growth and are a significant contributor to our growth going forward, in the current quarter and should do so going forward as well.

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

Now let me pick up on the balance two. I think the question you had asked me was on the quarter-on-quarter gross margin expanding when the mix is the same. You might recall that when we had talked earlier about the significant cost inflation that we were managing, we were managing it through a mix of judicious price increases and of course ratcheting up the cost saving program. So what you see in the quarter is a cumulative effect of actions that we have been taking over a past six seven months it is not just all in one quarter. Some of the price increases that we have been taking in the previous quarters and the price increase in the current quarter have obviously cumulatively helped us in managing the cost. Having said that I think there is still a little bit of difference that does take place in mix across quarters when we look at let say September Quarter, December Quarter, but the main point being it is a cumulative effect of actions that we took. Your first question in terms of the price growth and dissecting the price growth how and much of it is premiumization. Typically if it is just premiumization within the existing portfolio then that really gets captured under underlying volume growth. It is only when we introduce a new brand, which might be at a premium level that has an impact on price as well. A large part of the price growth in the quarter is really as I mentioned earlier in our Soaps and Detergent portfolio where it is the direct result of what has been happening on the commodity cost front and of course to some extent the exchange rates also which sharply went up between September Quarter and December Quarter.

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**Pritish Chadha - Emkay Global - Mumbai**

Okay, and lastly if I can ask is there any one off in the PP in the segment performance, segment PBIT?

**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

You should look at margins over a longer period of time. A particular quarter is always caught up with timing issues of some kinds. For example when we do investments of certain innovation projects, expenditure for example on moulds etc., we have never evenly phased across quarters. So my main point is that do not look at margins across individual quarters quarter-to-quarter there can be ups and downs when you look at a cumulative the nine-months to December if you look at the PP margin it was more or less in the same level at the margin that we had in the prior year in FY'11. So I would not focus too much on a single quarter across any segment whether it is PP or whether it is Soaps and Detergents that does have some issues of phasing.

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**Pritish Chadha - Emkay Global - Mumbai**

Many thanks to you and all the best to you sir.

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**Geetha- Moderator**

Sir shall I take the next question. The next question comes from Mr. Vivek Maheshwari, CLSA Mumbai.

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**Vivek Maheshwari – CLSA - Mumbai**

Hello, thanks for taking my question. Three questions; the first one is which Nitin has answered but I just wanted to understand in the first opening slides you have mentioned that FMCG growth rates are kind of slowing down as per AC Nielsen but you are fairly optimistic so does that mean that again there is a data issue or there is a reason to worry so that is point number one. Second again on personal care EBIT margin contraction of 3% point is quite a bit so, if you can give some details about whether it is commodity led, A&P led or whatever maybe the reason and the third thing is Nitin you have mentioned on headwinds competition as a concern. Do you think that remark is for personal care because Soaps and Detergents we are seeing good margins now and you have taken fair amount of price hikes.

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**Nitin Paranjpe – CEO - Hindustan Unilever Limited**

Let me again try and give you a perspective on this. We have shared with you, as we said we would, a sense in terms of what Nielsen has reported market growths to be and factually that number is lower than what was in September quarter and therefore that is really what we shared with you. Having said that, we have also said to you that we have not seen that impact in the market place and I leave it for you to judge based on what you have heard from some of the other players and whether sort of slowdown is what you have seen. As far as we are concerned, we feel confident when we look at the fundamentals which are involved. Going forward all I can say is that we have not seen in December Quarter at this stage any slowing down and we feel quite confident that things could move as we move forward.

As far as competition is concerned which is your second question again the comment has been not about saying the competition was more intense or less intense. I think we live in the competitive environment and I think the reality is that this will be the same as we move forward. So the chances are that you will hear me and make this comment every single quarter in terms of the intense competitive environment that which we operate in. From quarter-to-quarter sometimes there will be a slightly higher intensity in one category and sometime in some other categories and now again my purpose is neither to draw your attention to competition on Personal Products or in terms of Soaps and Detergents, within the general competitive intensity that is around. While I refer to this I would also want you to recognize that the improvement in margins in Soaps and Detergents should not read into it to mean that there is no competitive intensity It exists in Soaps and Detergents and we just have to find the way to manage it because this is the new normal that we find ourselves in.

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

Vivek I think I did refer but nevertheless since you raised the question about the segment operating margin in Personal Products contraction, just to stress the point I made earlier in response to a similar question which is looking at these things on a quarter-to-quarter basis and reading too much of it will sometimes result in an incorrect conclusion. Firstly let me say that the fundamental health of our Personal Product business continues to remain strong. It is a business that from the market context has got obviously great opportunity for growth. We continue to drive growth in this segment. Over the last three quarters we have had similar levels of underlying volume growths, which is in the high teens. All the growth is entirely from volume. Within quarters there are some pricing issues of certain costs innovation project, mould cost etc., that do not happen in sync or in a time phased manner they happen when they happen. So there will be

some ups and downs. If I look at it cumulatively as I said in the year-to-date of December which is the nine-months of December and we look at cumulatively last year the segment margins are more or less with the same levels and as far as investments are concerned I have also mentioned earlier that our PP is a category that we have continue to step up our investment we have talked about that when we were giving you an analysis of our A&P expenditure.

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**Vivek Maheshwari – CLSA - Mumbai:**

Okay this is helpful. Thanks and all the best.

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**Geetha- Moderator**

The next question comes from Mr. Nikhil Vora, IDFC Mumbai.

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**Nikhil Vora – IDFC - Mumbai**

Hi, Nitin I have a couple of things. One is if you can just comment on the recent exits of a couple of your colleagues and how should one really read into this or look at it as moving forward specially in the context of it happening possibly to close to each other. Second was on the growth rates and more and importantly structurally are we looking at the consumer business in India starting to really escalate growth rates from here on in the context of per capita reaching cusp level and maybe normative growth becomes 8-10% that we are looking at as of now that seems to be the order for most consumer names right now. Last one Soaps and Detergents which we have talked about earlier but do you see the return of basic economic margins in Soaps and Detergents at the current level and should that be what one should look at for the next year or so?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

Let me try and take these questions and I will comment on them briefly. I do not want to get into the specifics of any of the individuals involved. The timing in terms of what you have described as some coming close to each other is purely coincidental. The good news and the positive news is that as a company we have a very healthy pipeline of talent and we are in the position to make

sure that the right people get into it or from the business continuity point of view we are well protected.

The second questions which you asked is about growth, and have we in India reached the tipping point if I understand your question right where we could start seeing new levels of growth. I think it would vary from category-to-category. I would say that there are certain segments which have now started growing. In Personal Products for example absolutely we have hit the tipping point. I think this segment virtually did not exist. Facial washes for example is just one segment of category. It virtually did not exist, just a couple of years ago and has seen explosive growth and saw the penetration and consumption which goes well beyond it being something that the affluent consumer would be using and it is penetrating down the line. Things like conditioners etc., are also now reaching a state where they are no longer remaining small and niche, but will soon start having material impact on the overall business. So it will vary from segment-to-segment and category-to-category but I think consumerism is here to stay. I think there is a generation of consumers who are born after the 1980s and 1990s who are very different from a generation earlier and the combination of rising incomes and the changing aspirations mean that consumption levels will grow both in urban and rural. So to that extent it is a positive medium-to-long-term story. There will as always in any market be a couple of quarters when sentiment get impacted and things of that sort, that is a different matter and we do not run the business for that and I am sure you do not look at us in that manner. But overall I think we will see growth in the certain segments and categories at higher levels as we have seen before. Simultaneously you would see a slight tapering of growth in certain categories which might at become fully penetrated and requires us to then drive consumption and do the market development of a different order. But on the whole positive on the outlook of the FMCG sector going forward.

The third aspect which you asked in terms of margins and really you have seen our business for long enough and therefore for anyone to say that you've got this margin and is it here to stay it is a difficult question for me to answer not because I do not want to answer it but because I simply cannot. What we can say is that we have committed to a certain set of principles. The principles which will make sure that our brands are always competitive, that we have the right product quality, we have winning products, right priced, and we invest as appropriate behind them and we will always push towards a volume driven growth strategy, which will ensure that we continue to get scale, we will continue to get leverage and the benefits of that leverage will flow in. All of that when we follow will help us get to the economic levels of margins that we expect, there may be periods when they are low but otherwise in the long-term I think that should serve us in good state. So that is really I do not know whether Sridhar wants to add anything on this.



**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

No I think the point obviously is that it is pleasing to see the Soaps and Detergents margins comeback, of a low base, but comeback into this level as we've I think mentioned before that a lot of it is done not just by pricing, but a lot of action in terms of driving the portfolio obviously premiumizing the portfolio helps and driving our cost agenda. The last part I would just add is that alongside base Nikhil when you talk from an economic margin perspective, is also what is the capital employed and how we are driving the capital employed in the business both across efficiencies on fixed assets but also in driving the working capital. In over a many years as the business has had negative working capital, it has helped in being a very value creating business for us.

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**Nikhil Vohra – IDFC - Mumbai**

Sir just one more thing consumers by and large seem to not like our brands Pepsodent and Close-up will anything happen there? And it has now been few years in the making where we have not been able to revitalize this category. Thoughts on that and way forward?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

So I think our performance this quarter is certainly not been in line it what would you wanted. I think the previous few quarters we were all right and we were doing well but this quarter has been a problem and I do not want to be in denial or suggest anything otherwise. We have a challenge, the market is premiumizing very rapidly in this segment the advance care segment is growing very fast. Our presence there needs to be strengthened and we have taken one step. I do not want to make it appear as if this step is all that needs to be done. We will have to work towards this and restore healthy levels of growth and competitive growth in this category. We remain committed to this category, it is an important category for us for our future and by no stretch of imagination should you deduce that either our interest or our ability to win in this is under question. But we have had disappointing quarter we will redouble our efforts over the next few quarters.

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**Nikhil Vora – IDFC - Mumbai**

Okay, good. Best of luck Nitin.

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

Thanks.

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**Geetha- Moderator**

The next question comes from Mr. Gagan Borana ICICI Securities, Mumbai.

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**Chirag – ICICI Securities - Mumbai**

Hi this is Chirag here. Thanks for taking my question three questions really. First one on the Personal Product side you indicated volume growth to be in the high to mid teens kind of levels that just about the overall revenue growth. Are you suggesting margins have dipped despite no price action?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

Chirag we said our volumes are in the high teens and not high to mid teens and by conclusion it would mean but we have not had pricing it at all there is some marginal negative pricing in this quarter.

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**Chirag – ICICI Securities – Mumbai**

Sir any clarity on which particular sub segment.

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

No, so Chirag if you look at the overall PP portfolio one is that the negative pricing is also in part due to price promotion. So in this quarter we have had a higher level of price promotion which obviously then gets netted off from turnover so at one level if you look at it there is always an interplay in terms of some level of promotional spend which gets accounted as part of the revenue growth or as a deduction from revenue growth and some other forms of promotion spend get accounted along with A&P. So in this quarter we have had a higher level of price promotional activity, which then gets netted off from revenue growth and as a corollary, you might have a lesser amount of spend in the A&P line. Alongside that there is some impact of newly introduced low unit price packs which are new categories the new product that we have launched during the quarter. There was also from a growth reflection perspective a mix between UVG and a little bit of lower price growth. So the two factors combined have meant a slightly negative price growth in the PP segment overall during the quarter with high teens of volume growth.

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**Chirag – ICICI Securities – Mumbai**

Okay so as for as the sustainability of the business is concerned I mean there is no question mark really on the growth momentum per se?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

No, as I said earlier we feel very good about our Personal Products business. It is in a good shape its having demonstrated growth momentum that has been a double digit growth momentum largely volume led now over quite many quarters. And we feel good about it looking ahead.

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**Chirag – ICICI Securities – Mumbai**

Okay, sir two other questions one was on the advertising spends in the Soaps and Detergents segment. Now that margins have perked up do we see ad spends going up in the Soaps and Detergents segment?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

So I think it is good that the situation has arisen where we are commenting from the other side. I remember a few quarters ago the question, which was asked so far was that your A&P levels keep on rising and is this sustainable, where will it end and will it go up even higher and at all points we said were that our principles of what level of expenditure we have will be a function of our intensity of activity and the competitive intensity and we would want to make sure that our share of spend with relationship to our share of market is within a narrow band which we believe is appropriate. The spends have come off in this segment and therefore our A&P level that also come off. I do not want to be in the position to predict what will happen. We watch this carefully as we move forward we track it at least every fortnight if not every week in terms of what is happening to industry spend levels and will be geared to respond as appropriate either in terms of increasing the level of spend if needed or in terms of tempering or reducing it in categories in where higher level of spend is not justified. Our criteria will always remain the same and you must feel confident about it that we will invest behind our brands as is appropriate that required because we are here for the long-term and not for managing any quarter.

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**Chirag – ICICI Securities – Mumbai**

Okay, that is comforting and lastly on the gross margins given whatever is happened to the Rupee in January would we see gross margins improve in this quarter?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

So, you are asking Chirag for specific guidance which as a company policy we do not give guidance in on any aspect and I am afraid we cannot respond to be answered to the question.

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**Chirag – ICICI Securities – Mumbai**

But, the direction should broadly be it right I mean largely it should benefit you?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

See, one of the things Chirag is that in addition to not providing guidance, the thing that we would like to focus on is the strategy and the long-term direction of the business, key drivers of performance. Coming into very specific in this quarter what will happen to gross margin as I said I am afraid we cannot respond and you have the information as best as we have provided beyond that not like to comment.

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**Chirag – ICICI Securities – Mumbai**

Thank you sir and all the best.

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**Geetha- Moderator**

The next question comes from Mr. Sanjay Singh, Standard Chartered, Mumbai.

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**Sanjay Singh – Standard Chartered – Mumbai**

Hi, sir I just wanted to understand in Soaps and Detergents margins while we know that you do not provide guidance etc., but the point is in the last ten quarters the margins have moved from 17% plus to 7.5% and back to 13.5% now this gives a very wide margin for somebody to understand how things would play out in the future. Now I understand your principles of competitiveness but given that the current intensity remains as it is, given status quo, do we expect margins to go back to the normal levels of 15 - 16%? Is that a probability in the near-term or in the medium-term if things remain as they are.

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

Sanjay let me comment of the first part of your question/observations, which is about the variance that took place over the last eight or ten quarters on the level of segment margins in Soaps and Detergents. So there are really two principle factors I just want to reiterate. One is the competitive intensity, but second is equally true that the volatility in commodity cost that we have seen over the last couple of years certainly the last five six quarters both lead by the commodities itself and

to an extent also impacted by currencies has been quite substantial. The impact of that on the Soaps and Detergents category has been the highest because relatively speaking the cost of goods sold is the highest in Soaps and Detergents category. Consequently you have seen the outcome of what have been on the segment margin because our approach has been to take pricing in a calibrated and judicious manner while continuing to drive cost saving so that all points of time we are able to give the right consumer value. Now the second part of your question which is about what can we expect going forward can we expect the segment margin to be at this level or not, it is very difficult to say because it is a function of what happens on the commodity cost front what happens on the currency front and what happens on the competitiveness front. So apart from that I cannot throw any further light on it.

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**Sanjay Singh – Standard Chartered – Mumbai**

Okay let me put it in the different way if it helps. At what level of margin, given that I understand all the three factors which spoke about is not in your hand, but given the intent of management where would it be comfortable in terms of margin pricing because it is the right level of economic margins to make in this segment?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

Sanjay one of the things which would I think is a very big positive for a company like Hindustan Unilever is the fact that we have a very diverse portfolio of products and categories that we operate in and as we've said our strategic goal is to deliver growth that is competitive which means ahead of market, is profitable which means our operating margins in the aggregate are in line with or ahead of the rate of growth of topline and sustainable. So the approach that we have is to manage the portfolio in its aggregate and not really to get particularly fixated on individual categories and segments on a quarter-by-quarter basis. Obviously on a long-term basis there are some strategic goals and we have certain shape of business that we would like to have but we have the advantage of portfolio and then that is really what is something that you should look at.

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**Sanjay Singh – Standard Chartered – Mumbai**

Okay, sir lastly on the Personal Products front you have mentioned that there was a negative pricing which has been there volume percentage higher than the growth but is it fair to presume

that it is mainly because of the Hair Care segment. Because that is where the massive price erosion has happened?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

As I have clarified in response to a previous question really two factors for the small negative growth in pricing, one which is the price promotion so this obviously in certain quarters our promotional activities take different shapes and forms. If it is price promotion it comes as a negative price growth if it is some other form of promotional activity comes in the A&P line and that is something you can't predict, it changes quarter-to-quarter depending on what activities we run. The second as I said is a bit of an impact from some newly launched packs which are more targeted at the low unit price packs and therefore that had be effect of coming in with an average price which is lower and therefore a negative price growth.

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**Sanjay Singh – Standard Chartered – Mumbai**

So is it more to do with the hair care segment?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

I would not like to get into any specific category, sub-segments within PP this is something that explains the overall PP performance. In any case it is a couple of percentage points here or there so it is not a big deal.

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**Sanjay Singh – Standard Chartered – Mumbai:**

Okay, thank you very much all the best for future.

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**Geetha- Moderator**

The next question comes from Mr. Hemant Patel, Enam Securities. Mumbai.

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**Hemant Patel – Enam Securities – Mumbai**

Hello sir I just had one question. In a particular slide you mentioned that you have managed to lower the production and media fees and at the same time drive media effectiveness. Just wanted to understand have we maxed out on these benefits as so we speak and are we likely to see going ahead given the competitive environment, the brand investments to move along side, in line with in growth and sales.

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

So I think the numbers, which we saw there was to see how we reviewed the percentage cost of production etc. The cost with the percentage of media and not the absolute cost that is point number one. The second point I would make is that as a company we strongly believe in the principle of continuous improvement and as long as cost is being incurred there is some opportunity to say this and therefore I do not think it will be a end of anything.

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**Hemant Patel – Enam Securities – Mumbai**

All right sir. Thanks a lot.

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

Thanks Hemant.

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**Geetha- Moderator**

The next question comes from Mr. Varun Lohchab, Religare Mumbai.

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**Varun Lohchab – Religare – Mumbai**

Yes, thanks for taking my question. I just had two or three questions. First of all on the distribution side if you could throw some light on what are the initiatives being taken on the rural distribution



front like last couple of years we have really worked hard on increasing our direct reach into rural India and met those targets like next two or three years what are the kind of steps we are taking and on the distribution side both on rural and a bit on more on trade if you can comment on that that was the first question.

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

Okay, so if I was to answer this question it would be as follows: a couple of years ago we took a big drive towards increasing reach we also put in place a technology which will help us improve the quality of coverage when we go to an outlet, over the next couple of years our big drive will be about driving perfection in a store or delivery we call a 'perfect store' program. So now that we got a larger and expanded reach whether it is in urban or in rural our focus would be to try and convert more and more proportion of outlets to meet the standards of what we call a perfect stores standard. Because when a store becomes perfect it means that the availability improves, assortment increases, out of stock comes down, visibility goes up and there is evidence for us to show that drive growth and offtake. So we want larger and larger proportion of the stores to meet the criterion that I just described to you and that's what we are driving as far as distribution is concerned.

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**Varun Lohchab – Religare – Mumbai**

Yes, and my second question was on Modern Trade now given the strong performance that we have seen out there our market shares are typically probably higher than national average and would you say that, are you seeing that gap increasing further within that sort of distribution environment of Modern Trade that you are continuing to gain market share especially in that because I think out there it might be a easier metric to track.

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

So, the answer is yes we are gaining share and if our shares with Modern Trade ahead of General Trade and it is consistent with our strategy. We've said it before that we want to be winning with segment, consumers and channels of the future. Modern Trade is the channel of the future and therefore our share there must be higher than General Trade and yes we have grown share in Modern Trade as well this year.

**Varun Lohchab – Religare – Mumbai**

Right and sir my last question was on the slide that you had put out in the industry GRPs it seems that even for the non-SND categories it seems to be stabilizing a bit atleast on a quarter-on-quarter basis in last two or three quarters like will it be fair to assume that obviously the competitive intensity remains high but it is starting to stabilize a bit at those higher levels. Will it be a fair statement? Along with that when we see that you have continued to up your A&P spends in the non- S&D category which means that probably your share of voice would have increased further in those categories?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

In the area that we talk about which means the Personal Products or let me put it differently the non Soaps and Detergents categories, we have seen plateauing, in a couple of quarters where we've seen the levels not having increased, and I think we should just wait for a while and see what happens out there but you are right to pickup that this quarter it has had an increase over the earlier quarter which is at much higher level from where we started off. Our share of voice yes, we have increase our spends this quarter in Personal Product would have meant a marginal increase in our share of voice.

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**Varun Lohchab – Religare – Mumbai**

Perfect thanks a lot and all the best.

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**Geetha- Moderator**

The next question comes from Mr. Shirish Pardesi, Anand Rathi, Mumbai.

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**Shirish Pardesi – Anand Rathi – Mumbai**

Hi good evening Nitin and Sridhar thanks for the opportunity. Just a couple of questions. You have mentioned that the Oral Care was not up to the expectation. What exactly is the problem

that you guys are facing? Is the product proportion or positioning is not right or is it that the market really premiumizing faster?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

So I think I explained a little while ago the growth that the Oral Care market has seen the development of the advance care segment and strong growth out there .Our presence and the competitiveness of our offering with that segment has been not up to the mark we have just relaunch Pepsodent G and we will have to continue to be take steps in order to become competitive in the context that we find ourselves in.

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**Shirish Pardesi – Anand Rathi – Mumbai**

But, is that the growth is shifting from a popular to a premium because I still find close-up this still relevant into the category?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

Yes absolutely relevant so when I talk in terms of growth that we hire in the market like India that is true but it is also true it will still straddle at the pyramid and we have to be present in the middle and bottom and those are relevant as well. Having said that there was a faster growth, which is happening in certain segments, and we need to be appropriately represented.

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**Shirish Pardesi – Anand Rathi – Mumbai**

Okay my next question is that in the A&P spends you maintain saying that you are competitive in terms of spends and you have already shown as the GRP chart. The point of discussion is that would you be able to let us know if the direct ATL activity has shifted to BTL or where is the money going right now?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

I think I do not know what you mean by where it is going. I am saying that is some of it which is above the line and some of it is below the line. We have often talked about in the past in terms of broad indication as bulk of our money goes behind advertising and media. Much smaller proportion of it goes behind promotion, which is consumer promotion and an even smaller amount of money goes behind trade and incentivizing the trade as we move forward. In terms of accounting some of it is accounted or rather a bulk of it is accounted in the advertising and promotions line and some of it is accounted for in the form of promotion, which gets netted off against the turnover of the business.

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**Shirish Pardesi – Anand Rathi – Mumbai**

Okay, just last one question. Will you be able to share your STR for Soaps and Detergents versus your personal care for last quarter?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

STR for the quarter well so firstly I do not have these numbers here to share them but I am not sure if there is some insight that you get out of that even I would like to know what is that.

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**Shirish Pardesi – Anand Rathi – Mumbai**

No, I am just saying that we have seen the higher growth in Soaps and Detergents and the lower growth in personal care.

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited:**

No, if the concern is that there is some loading in Soaps and Detergents which has led to the higher growth? We run a very strict replenishment run system continuous replenishment approach we have normed this every distributor in terms of what we would keep and the distributors make the choice in terms of what the orders in line with the norms and movement of

goods can only happen keeping that replenishment principle in mind. So it is very, very unlikely that something like this could have happened.

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**Shirish Pardesi – Anand Rathi – Mumbai**

Thank you and best of luck.

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

Thank you.

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**Geetha- Moderator**

The next question comes from Mr. Nillai Shah, Morgan Stanley Mumbai.

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**Nillai Shah – Morgan Stanley – Mumbai**

Thank you. Sir your nearest competitors across categories seem to be growing faster than you. Is that a cause of concern for the management as a whole? The second question is really on the foods business are you really happy or are you disappointed with the foods performance not just this quarter but let say over the last four to six quarters?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

No, I think without wanting to get into what a given competitor does, we would be disappointed if our growth was not in line with the market or behind market. As long as we have defined a way to serve the interests and to serve the needs of the consumer in such a manner that we sell more products, our market shares improve, because that is a measure of us being more relevant to the consumer as we move forward. So on an aggregate we remain pleased and I do not want to get into what a given competitors has done in a specific quarter. As far as Foods is concerned I have said it before we are committed to building a strong Food business going forward. There are things in areas where we could have done a better job, there are areas which we feel good about

and there are areas where we feel impatient about and would like to keep this in our radar and strengthen our plans going forward.

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**Nillai Shah – Morgan Stanley – Mumbai**

Is that got to do more with new product introductions or within the existing portfolio just invigorating the existing portfolio?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

No, I think it is again a combination of both. I think there is enough opportunity to grow our core, whether it is in Tea, or whether it is in Coffee, whether it is in Packaged Food business. The brands like Kissan and Knorr what we have got, the penetration levels are exceptionally low and therefore there is huge opportunity for us to grow there. Equally there is a need and an opportunity for us to bring in new formats, new benefits within this foods portfolio which is in the area of innovation which will be also something that we are looking at. The Knorr Soupy Noodles was one such thing, which happened last year.

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**Nillai Shah – Morgan Stanley – Mumbai**

Thank you very much sir.

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**Geetha- Moderator**

The next question comes from Mr. Sumant Kumar, Elara Capital Mumbai.

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**Himani – Elara Capital – Mumbai**

Hi, this is Himani. Many congratulations for a profitable growth sir. My question is regarding the Personal Care category and the Foods category although both the categories have grown in double digits. I wanted to know how has been the market growth in these categories and are we ahead of the market and are we satisfied with the mid-teens growth numbers?

**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

So I think we have talked about Personal Products in considerable detail wherein we have said that we are pleased with the sort of growth that we have got and I think for the combination of categories and overall portfolio that we have, we believe it's a strong performance, we believe that in both of Skin and Hair our performance is very good and in line and we are ahead of the market. We are not pleased with our performance in the Oral where the growth has been modest. So it is a mixed picture along the lines that I described.

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**Himani – Elara Capital – Mumbai**

Sir, how has market growth been in the Hair and the Skin creams category?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

Suffice to say that the growth that we have got has been in line or ahead of the market.

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**Himani – Elara Capital – Mumbai**

And in case of Foods sir.

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

In Foods it is a combination of many small categories but by and large we are alright, it does not mean they are fully pleased with the growth. We would like to grow even faster.

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**Himani – Elara Capital – Mumbai**

Sure and sir what has been the case with the Knorr Soups for this quarter and what are our plans for future?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

This is something that we are trying to understand ourselves. The winter is usually a period when we see increased demand for soups. This winter for some reason we found that the market did not grow in line with what it has, in terms of the growth it has been showing in the past. So we would be looking into it closely to understand what the reasons could be but at this movement I do not have any insight to tell you why Knorr Soups is the category has one grown this winter like it has done in the past.

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**Himani – Elara Capital – Mumbai**

Thank you sir and all the best for future. Thank you.

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**Geetha- Moderator**

The next question comes from Mr. Percy Panthanki, Daiwa Capital, Mumbai.

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**Percy Panthanki - Daiwa Capital – Mumbai**

Good evening everyone and congrats on a good set of numbers. Sir my question is just taking from a couple of questions earlier. The share of voice on the Personal Products for this quarter seems to have gone up. My question is, is this just a phasing issue or is this conscious decision on your part that for next few quarters you will spend higher in terms of share of voice to share of market.

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

So, the first thing I would like to say is that this change in share of voice which is an increase is marginal and it is not a dramatic shift. Point number two as you execute plans, you have put in your plan for a certain investment based on certain assumptions as to how the other peoples will spend and therefore in the outcome which you get you know your exact share of voice only after the period is over and then you know the exact amount of what somebody else has spent. So I would not read too much into a little increased share of voice so there is marginally lower share of



voice and therefore we say we want to be in the certain band which is appropriate where it is which is the right level of investment and we are in that band.

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**Percy Panthanki - Daiwa Capital – Mumbai**

Fair enough. Also in the same slide you have a chart, which shows a brand investment spends in Personal Products two green lines, two blue lines. My question is does that include only advertisement or does that include promotion as well?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

Firstly in the chart we are trying to bring out the differing levels of media intensity but the media expenditure not the promotions.

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**Percy Panthanki - Daiwa Capital – Mumbai**

Okay, this chart where on top you have the GRP spends and at the bottom you have chart called brand spends in PP that brand spends in PP refer only to advertising. Is that what you are saying?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

No, so the top chart which is the GRPs are as you say the market media spends in GRP terms. The bottom part where we are talking about the step up in PP spends are increase in levels of PP spends that is the total A&P investments in our PP category.

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**Percy Panthanki - Daiwa Capital – Mumbai**

Total advertisement and promotion, okay, so is it that for the industry overall in Personal Products while the ad spends as reflected by the GRPs may not have gone up substantially have you seen in the last one or two quarter that the promotional spends for the industry has gone up?

**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

So in some of the categories I would not say one of the quarter if you go back to the last 3-4 quarters when we have reviewed the performance, in specific quarters and at specific points of time there has been an increase in competitive intensity through the promotional lines, in terms of the categories which happen through the media lines I do not think there is anything that you can draw at this specific trend or conclusion that there is a one way trend of increased levels of spends on promotions in specific categories for quarter to quarters things change.

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**Percy Panthanki - Daiwa Capital – Mumbai**

I am just coming from the point of view of that if at all there is some amount of higher competitive intensity verses let us say couple of quarters back creeping in, it might not be visible immediately in the initial part people might think that these are just price promotions for limited period of time and then if they continue for a longer period of time you will actually realize that there is some sort of price competitiveness coming in not as much as but to the in similar extent as it happened in Detergents are you at all concerned about this particular thing?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

I think that is the very insightful observation and it's something that we keep an eye on. At this moment there is nothing to report which indicates what you have suggested but it is an absolutely wonderful good point that you make and it is something that we keep a track of.

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**Percy Panthanki - Daiwa Capital – Mumbai**

Right sir, my next question is on the Water business and also related to that the segment sales that you have reported in the Others segment. That segment sales have gone down so it is that there is some issue with Water business? Can you throw some light on the overall Water business and it has been there now for 4-5 years, so any idea when you will start reporting some granularity in terms sales and margins and possible break even horizon or something of that sort?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

So Percy, first of all, the segment which is Others so to speak, you are absolutely right that Water is the most significant part of that segment. We have shared I think a couple of quarters back that at this point of time in 2011, we undertook a transformation of the 'go to market' model for our Pureit business. Until 2009 - 2010 the business was primarily on a 'door to door' calling basis, demonstrations by visiting consumer homes and that was the go to market model. In the later half 2011 we have undertaken a transformation of that model to a retail consumer durable outlet focused model. This is primarily done for two reasons. Number one from having a single SKU in our portfolio a couple of years back when we had only the Pureit Classic we now have a portfolio that straddles the pyramid in our Water business from Pureit Compact through right up to Pureit Marvella, Reverse Osmosis which is Rs 13,500 SKU. So we have got a far broader product portfolio and therefore the home to home again we model is not going to be an effective way of exploiting our portfolio.

Secondly in many urban towns, urban cities the ability to access to consumer homes or particularly in higher income groups is becoming increasingly more challenging in because of concerns related to security etc. So for a combination of these two reasons we undertook a transformation of the model to move into a destination model that would be more appropriate to our new enhanced portfolio and would also at the same time improve the business model for Water. So this transformation I think have mentioned in the chart we are on course to completing it by the end of the current financial year and therefore this is the period of 3-4 quarters where we are consciously doing a bit of recalibration of the business so that it is fit for the future. Intrinsicly we are pleased with our Water business it has built up a very strong brand equity it got now a very diverse and rich portfolio so we feel pretty pleased with the fundamentals of our Water business.

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**Percy Panthanki - Daiwa Capital – Mumbai**

Right Sir, any kind of clarity on what is the time horizon you are looking at for sharing a bit more detail in terms of sale, margins, break even horizon etc.?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

So you know we'd obviously feel very pleased for the Water business to become of a size where we are then required to share the details of it. At this point of time it is below the threshold levels, so now we are having the specific segments that we are currently sharing when the Water business scales up to obviously a much larger level then of course we will share more granular details.

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**Percy Panthanki - Daiwa Capital – Mumbai**

Right Sir that is all, thank you.

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**Geetha - Moderator**

The next question comes from Mr. Manoj Menon, Kotak Securities Mumbai.

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**Manoj Menon – Kotak Securities - Mumbai**

Hello Sir, congratulations on a very good performance. It is question related to what my good friend Percy asked just now. We are just trying to tie up a few data points out here. The slow down in Knorr, the slow down in Close-Up within HLL and obviously couple of data points outside these categories Sugar-free also had some issues in last months, Nestle for its own reasons from the industry point of view if you had lower than it is own volume growth, I am just trying to wonder that is there something which I need to worry about on urban consumption per se or anything which you are picking up, that is one. Second is a linked question here in terms of the price promotions being higher in Personal Products. Is it essentially in the newer categories or it is old categories. For example as a consumer when I walk through the aisle of the Modern retail what I am finding is let us say there is a one plus one offer in a face wash which I would presume that is essentially for consumer recruitment so just two things?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

So firstly Manoj, on your first question is there something to worry about I will say clearly no. The slowdown that we talked in Knorr was in the soups part, which is obviously a pretty small part of our portfolio but in the aggregate from our business point I think Nitin spent some time differentiating between what is reported by Nielsen as market growth which is a data point but more importantly what we are experiencing in the business across urban and rural. I have just to re-emphasize the point we made that we have seen good growth in December quarter market across categories and that we are picking up any concern. On Close-Up Nitin has addressed that and said that our performance has been below our expectations and we are building plans so that we can increase the momentum of growth of our Oral Care business.

On your second question about the price promotion in PP being higher in this quarter as I said, this changes from time to time, quarter-to-quarter depending on the nature of the activity. Some of the activity from accounting point of view gets classified as A&P, while some other gets classified in price promotions get netted off in turnover. It so happened that in this quarter there was a higher level of price promotion. It is really across many categories so I would not like to single out by one specific segment or category.

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**Manoj Menon – Kotak Securities - Mumbai**

But would you still like to help us understand that if it is broadly put in to a large bucket as in to the let say the categories launched in the last three years or would it include the extent businesses of let say the older categories within Personal Products?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

It could be broad based, it could include the new categories and it could include also the old categories so it not something that is one large lumpy thing in one place.

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**Manoj Menon – Kotak Securities - Mumbai**

Okay understood, just a quick question on Oral Care I know that I am repeating possibly but is the issue in Close Up? I am just wondering that what suddenly went wrong in one quarter. Is it

anything which you have picked up because the story has been that Close-Up has been outperforming Pepsodent has been continuing for a fairly long period of time what kind of changed, I mean because I am not sure whether premiumization is the only reason?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

Manoj from what we see advance care, sensitive teeth etc are premium segments of Oral Care and are growing much faster than the rest of the Oral Care market and our presence there really needs to be strengthened. The first step that we have taken is to relaunch Pepsodent-G, which is our gum care offering within Pepsodent and we are drawing our plans to have a more effective participation in that part of the market which is growing faster.

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

I think Manoj, something like this requires fairly detailed analysis and I do not think we can do justice to this question in this call at this moment. Suffice to say that a lot of work is going on to understand what is required to be done and to restore a competitive growth for us in this category it remains the category which is important to us and we will take the steps the which are required in order to get back to the first of growth and competitiveness

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**Manoj Menon – Kotak Securities - Mumbai**

Understood. Thanks so much and on personal care margins just one quick which I could sneak in, you know how much you would attribute to be you know under performance in Oral Care which is essentially a mix negative from a sales point of view. Is it also a contributory reason for the margin being lower? Is that the single largest reason?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

No I think Manoj, we've spent quite some time earlier on in the call to clarify about the margins, why don't you pick it up offline because we would be repeating the things that we have already said before.

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**Manoj Menon – Kotak Securities - Mumbai**

Congrats and all the best.

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

Thank you, Manoj.

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**Geetha - Moderator**

The next question comes from Mr. Abhijeet Kundu, Antique Finance, Mumbai.

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**Abhijeet Kundu – Antique Finance - Mumbai**

Thanks for taking my questions. Very good set of results. Just had one question was more on Skin Care business. Could we see any benefits coming in from the extended winter or the most it is already factored in the current sales we can say in building up inventories. Because winter has come in late and it has been relatively intense in this year?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

No I think Abhijeet, I think it is really all part of December Quarter because obviously we sell in a little bit in advance of when actual consumer offtake takes place so I would say it is largely all there in December Quarter.

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

And I think the retailer is, when the winter is extended, a little reluctant to start buying in January and February, which is closer to the end of winter. So you should not bank too much on the benefits of an extended winter, it's just the nature of the game.

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**Abhijeet Kundu – Antique Finance - Mumbai**

Ok sir, thanks a lot.

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**Geetha - Moderator**

The next question comes from Mr. Ashish, Spa Capital, Chennai.

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**Ashish – Spa Capital - Chennai**

Just wanted to know, whether any signals to suggest that may be the momentum in soaps and Detergents that we have been seeing that might taper a bit. Anything on the ground that would have noticed like that.

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

No, like I said we have not seen anything that would either suggest a slowdown or downtrading at this moment and we feel good about our business at this stage. Yes indeed the markets are qualified in the dynamics. We will keep watching it but there is nothing to report at this moment which would suggest a cause of concern.

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**Ashish – Spark Capital - Chennai**

And how are you reading the raw material scenario panning out for the next week 2-3 quarters, how is that looking for you?

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**R. Sridhar – Chief Financial Officer - Hindustan Unilever Limited**

Ashish it is very difficult to give a view into the future. Your view is as good as ours or anybody else's. I think it is suffice to say that this is an area that we have seen in the past and perhaps prepared to continue to see volatility both on commodity front and potentially on the currency front



and we just got to make sure that our systems and processes are dynamic enough to manage them.

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

As we have said in the past we get people together and review this every week and start forming a point of view in terms of what is happening and to see whether we need to cost correct in some of the decisions that we have taken to manage what will inevitably be a volatile situation as we move forward.

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**Ashish – Spark Capital - Chennai**

Lastly on Oral Care there have been answers from your side but there would be loss of market share other than momentum of the category going down for you.

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

I guess if you grow slower than the market this is the inevitable outcome. So we just hope that this is a one quarter problem and we have to fix it quickly and get back to competitive growth.

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**Ashish – Spark Capital - Chennai**

But nothing to suggest that Oral Care category growth rate might be coming down?

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**Nitin Paranjpe – CEO – Hindustan Unilever Limited**

No there is nothing to suggest that the category's growth so that would not be trying to say, it is our growth, which has been behind market growth as far as Oral is concerned.

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**Ashish – Spark Capital - Chennai**

Okay Sir thanks a lot.

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**Srinivas Phatak – General Manager Investor Relations- Hindustan Unilever Limited**

Geetha, thanks for coordinating the call. Can you request the participants that we would now like to bring the call to a close and we thank all of them.

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**Geetha - Moderator**

Thank you very much Sir. Ladies and gentlemen this concludes the earnings call .You may now disconnect your line. Thank you for connecting to audio conference service from Airtel and have a pleasant evening. Thank you.