



Hindustan Unilever Limited

**“September Quarter 2024
Earnings Call of
Hindustan Unilever Limited”**

October 23, 2024

Speakers:

Mr. Rohit Jawa, Chief Executive Officer and Managing Director

Mr. Ritesh Tiwari, CFO, Executive Director, Finance and IT

Mr. Shilpa Kedia, Group Financial Controller & Head Investor Relations

Moderator: Ladies and gentlemen, good day, and welcome to the Hindustan Unilever Limited Conference Call for the Results of September Quarter Ended 30th September 2024. As a reminder, all the participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during this conference, please signal an operator by pressing star then zero on your touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Ms. Shilpa Kedia, Group Financial Controller and Head Investor Relations. Thank you, and over to you, ma'am.

Shilpa Kedia: Thank you, Dorwin. Good evening, everyone, and welcome to the conference call of Hindustan Unilever Limited. This evening, we will be covering the results for the quarter and half-year ended 30th September 2024. On the call with me is Rohit Jawa, CEO and Managing Director, and Ritesh Tiwari, CFO. We will start with the prepared remarks from Ritesh and Rohit. We expect this to take around 30 minutes, leaving us with an hour for the Q&A session. We will look to end the call by 8 p.m.

Before we get started with the presentation, I would like to draw your attention to the Safe Harbour statement included in the presentation for good order sake. With that, over to you, Rohit.

Rohit Jawa: Thank you, Shilpa. Good evening, everyone. Welcome to HUL's earnings call for the quarter ended September 2024. Thank you for joining us on the call today. Let me begin with an update on the operating context, followed by an overview of our performance and some of the key highlights of the quarter. I will then hand over to Ritesh to take you through our results and outlook in detail.

Market volume growth trajectory remained muted in this quarter. At an MAT level, total FMCG volume growth has slowed down slightly in recent months. Since MAT June, urban growth has moderated. While rural growth has become accretive to total growth, its pace of recovery has been gradual though.

Following a prolonged period of benign commodity prices in this quarter, crude palm oil and tea experienced inflation of 10% and 25% year-on-year,

respectively. Given our assessment, that this price increase is here to stay, we are now taking calibrated price increases. While crude oil remained benign during the quarter, there has been recent volatility in prices owing to geopolitical tensions. We remain vigilant and are watchful of any price fluctuations that seem to persist. In this dynamic environment, we continue to remain agile, taking actions to provide a competitive price-value equation to our consumers.

In this context, we've delivered a competitive performance with a turnover of INR15,319 crores, our reported underlying sales growth was 2%, driven by an underlying volume growth of 3%.

In the base quarter, we received a one-off credit from a favourable resolution of an indirect tax litigation. We reported this in September quarter '23, stating its impact in the Beauty & Wellbeing segment on both top line and bottom line. Hence, in this quarter, numbers after excluding this one-off impact will give you a better understanding of our business performance. Intrinsicly, our underlying sales grew by 3%. After three quarters of negative price growth, our underlying price growth is flat this quarter, as anticipated. Moving on to bottom-line performance. Our EBITDA margin continued to remain healthy at 23.8%. On reported basis, profit after tax before exceptional items declined 2%, however intrinsicly, it grew 2%.

We have a strong track record of consistently delivering competitive and profitable growth, investing behind our brands and long-term strategic capabilities to generate healthy cash flows as we build a strong balance sheet. In lieu of this, I'm very pleased to announce that the Board has approved an interim dividend of INR19 per share, along with a special dividend of INR10 per share. Together, this will mean a total payout of INR6,814 crores. This demonstrates our unwavering commitment to provide our shareholders with attractive returns.

Moving on, let me speak to you on our strengthening competitive position over the quarter. We have kept the charts in this slide consistent over the past few quarters to illustrate our progressive improvement both in business winning as well as market shares. I'm very pleased to report that our MAT business winning number has already crossed 60% in September, ahead of our earlier estimate of December '24.

We are also now gaining market shares in the last three months as per the latest Nielsen numbers. While we did lose some inconsequential share during the deflation cycle, we held on to most of the 200 basis points share gain since March 2021, and we are now on the path to further strengthen it.

This progress in our competitive position is a testament to our commitment towards transforming our portfolio to outperform, underpinned by the strength of our brands and distribution prowess. At present, circa 75% of our brands are either gaining or maintaining brand power and our value weighted distribution continues to be more than 95%.

The 4 priorities listed on this slide continue to be the bedrock against which we measure business transformation. We remain committed to drive them and have made significant progress over last year as we transform at scale. Let me share a few examples on the progress made on each of these pillars during the quarter.

Under the Unmissable Brand Superiority framework, we measure our products against 21 metrics across 6 drivers of consumer preference. This enables us to assess our competitive right to win and to take the right strategic decisions to further strengthen our brands.

We have now assessed more than 70% of our portfolio using this framework, and I'm very happy to report that more than 80% of our turnover is unmissably superior when it is compared to competition. Zooming into one of the 6 drivers of consumer preference, Proposition, and specifically on one measure under it, Meaningfulness. Brands become more meaningful when they meet consumer needs and aim to bring about positive changes to issues that are most important to them.

Let me talk to you about 3 brands that have rolled out culture-first, social-first campaigns designed to drive meaningfulness amongst our consumers. Vim for instance, has a legacy spanning over 30 years revolutionizing dishwashing championing for it to be shared responsibility in households. In a refreshing collaboration with pop artist, Ritviz, the brand transformed the routine, dishwashing task into a fun and easy experience leveraging the universal appeal of music.

To further amplify the campaign, Vim collaborated with 200-plus influencers who shared fun moments from their chore routines to inspire families to join the trend. The campaign video has already amassed 25 million-plus views on YouTube and 10 million views on Instagram with coverages of over 20 media publications in the short span of just 1 month.

With the hashtag, #TheBeautyTestStopsWithMe campaign, Dove set out to transform traditional matrimonial profiles into ‘mothermonials’ i.e. narratives crafted by mothers that celebrate their daughter's personalities, achievements and ambitions, challenging the focus on physical appearance. To enable the society to find matches without beauty biases, our first-ever Mothermonials marriage portal was published. This campaign has been very successful with 100 million-plus page views and 33 million plus video views leading to consumer purchase intent recording an increase of 15%. Dove has been very consistent in its messaging over the past many years. With #StopTheBeautyTest campaign in the last 4 years, it has succeeded in significantly increasing brand association.

As a much-loved shampoo across the country, Clinic Plus is uniquely positioned to spark real meaningful change through its efforts. The brand reaches 3 out of 4 Indian households, which enables it to strengthen its purpose of “raising strong daughters”. The brand brought forth a new campaign to this effect. The advertisement which created waves on social media, poignantly captured the resolute voice of a mother rising above all others wishing for a girl child. This real pertinent insight has garnered strong active engagement with a reach of over 100 million.

Through these carefully crafted campaigns with brand purpose and authenticity at the core, our brands have been successful in resonating with the consumers.

We are leading the way in enabling consumers to upgrade their experiences. Our approach involves consistently broadening our portfolio to fulfil the evolving consumer needs by making the right product and formats available.

This is facilitated through our digital capabilities of Agile Innovation Hub that allows us to forecast consumer needs and trends effectively. For example, in this quarter, TRESemme introduced its Lamellar Gloss range to

India. Identifying an unfulfilled consumer need space of salon-like glossy hair at home, we are the first brand to bring this proposition to the country. The product is backed by patented technology, which includes amino-gloss complex, lamellar structure and 360-degree lamination of hair to deliver 8X higher gloss, lasting up to 72 hours, making it smoother and manageable like never before.

Over the past few years, we've been strengthening our adult nutrition drinks portfolio, focusing on driving condition awareness. Within the segment, Diabetes Plus is one of the fastest growing segments, consistently delivering double-digit growth. Doubling down on this portfolio, we have recently introduced zero-added sugar, chocolate flavoured Diabetes Plus solving the dual purpose of blood sugar management without compromising on taste. Our market-winning superior mix is adequately supported by our expert team to ensure it scales up with pace.

As the biggest beauty company in the country, we continue to shape beauty trends. We previously spoke to you about Lakme's MultiSlayer makeup stick and Vitamin C makeup range that was launched in the last 6 months. These products, along with the Lakme Lip Oil and Glaze range launched in the quarter have already raked up a GMV of over INR80 crores combined. Our intent and ability to scale up new launches with speed positions us well to lead market growth in this high-growth category.

In a gradually recovering macroeconomic landscape, we are reshaping our portfolio with agility to pursue high-growth opportunities. Building on our strong innovation pipeline, we've had multiple innovations in these high-growth spaces during the quarter.

Let me share a few examples with you. Backed by proprietary technology, we are foraying into the floor cleaner segment with the country's number one dishwashing brand Vim. For the first time in India, we have introduced a unique Ultra Pro technology combining probiotic and surface modification technology that delivers superior cleaning and superior stain removal leaving behind a long-lasting fragrance. With a distinct proposition and superior product, we are looking to expand our presence in this fast-growing segment.

One of the 6 big bets in beauty and hair care segment is the light moisturizers category. Today, consumers are looking for more than just basic moisturization. They want products that offer superior benefits through pleasant, not sticky sensorial experiences, and we expect this category to continue picking up pace in times to come.

In response, Pond's has launched its Hydra Miracle body gel lotion, an innovation that helps us drive our strategy of de-seasonalizing body care through all year-round benefits and sensories. Enriched with Hyaluronic acid and niacinamide, it delivers 100% visibly hydrated skin. The de-seasonalizing body care segment continues to deliver strong double-digit growth for us, led by innovation.

Our condiments and mini-meals category is leading growth for the food segment. We are boosting our existing offerings in the space while also expanding distribution. After the success of Korean noodles, Knorr has expanded its portfolio to the exciting spicy Korean Kimchi soup, which is sure to justify one's Korean cuisine cravings. We are also expanding Hellmann's Mayonnaise beyond urban and Tier 1 cities by leveraging HUL's distribution strength. Our 85gram access pack is now available in more than 1.5 lakh outlets. This, along with the extension of our international sauces range across the country will enable us to recruit more users into this already fast-growing category.

Given the country's under-indexed spends, FMCG companies have a significant headroom to grow across all channels. With our wide assortment and the ability to curate portfolio for each channel, we're confident to serve different consumer needs across each of the channels, ensuring mutual growth.

Shikhar is one of the levers of our kirana-centric approach, ensuring that the benefits and the growth of the retailer are at the core of our strategy. We firmly believe that when retailers grow, our business will naturally grow as well. We have over 1.37 million stores on-boarded on the platform with more than 70% transacting monthly. Our strategy includes a 'Buy Smarter, Sell More' approach for kirana stores where we support retailers in conducting their business more efficiently by offering better propositions from Shikhar. At the same time, we are trying to facilitate better offtakes for retailers by

enhancing discoverability by creating customized store-level digital content and by running customized shopper activations in-store via the Shikhar app. As a result of these actions, stores in Shikhar are growing faster with better assortment when compared to stores not onboarded on Shikhar.

With a wide portfolio, we continue to be the preferred FMCG partners for both Modern Trade and E-commerce platforms. We're committed to growing categories in the store with unmissable long-term visibility and asserting leadership during tentpole events and regional festivals.

In e-commerce, through customer engagements and joint business planning, we are able to curate product portfolios and pack sizes that best suit the need of consumers using the specific platform. We have stepped up our activations ahead of the festive and the winter season and strengthened our partnerships on e-commerce platforms, specifically in the beauty channels.

As a result of our dedicated efforts in e-commerce and beauty.com channels, we continue to gain healthy market shares. Our focus initiatives in organized trade has led us to continue a double-digit growth trajectory for September quarter 2024.

We remain committed in our efforts as we continue to transform our portfolio with speed to shape the evolving aspirations of the country. I look forward to share more details on our winning strategy in our Capital Markets Day in November.

With this, I now hand over to Ritesh to take you through our results in detail.

Ritesh Tiwari:

Thank you, Rohit, and good evening, everyone. As always, it's a pleasure to talk to all of you. Let me take you through our quarter results in a little more detail, followed by first half update and round it up with our outlook in the near term.

Rohit discussed the overarching FMCG demand growth trend, which was muted in the quarter. In this backdrop, we have delivered a quarter of competitive performance. Our underlying sales grew at 2%, driven by 3% growth in our underlying volumes.

Gross margin at 50.4% declined 150 bps year-on-year, primarily on account of increase in commodity prices. Since we're now certain that this inflation is

persistent, and here to stay, we are taking calibrated pricing actions while ensuring competitive price value equation. Talking about bottom line performance, EBITDA margin remained healthy at 23.8%. Profit after tax before exceptional items and profit after tax declined by 2% and 4%, respectively.

Earlier in the presentation, we touched upon the one-off indirect tax impact in the base quarter. For greater clarity, let me talk you through our performance excluding this one-off in the base. Underlying sales growth was 3% with underlying price growth being flat. EBITDA margin was maintained over last year. PAT before grew 2% while net profit remained stable year-on-year. The difference between PAT before and net profit growth is primarily on account of tax PPA in the base.

Now coming to performance across our 4 segments. Home Care is our largest segment, contributing to 37% of total revenue. Beauty & Wellbeing at 21%, while Personal Care is at 16% of our total business. Foods and Refreshment is quarter of our total business. Margins in all 4 segments remained healthy with Home Care at 19%, Beauty & Wellbeing at 34%, Personal Care at 17% and Foods and Refreshment at 18%.

If we were to double click on our performance, 2 of our segments: Home Care and Beauty & Wellbeing delivered high single-digit growth. These 2 segments put together constitute circa 60 percentage of our total business. While Personal Care is seeing a sequential increase in turnover, it will take a couple of quarters for the actions put in place to reflect in numbers. Performance in Foods & Refreshment has been subdued due to continued downgradation in tea and muted consumption in nutrition drinks. I will cover more details on segment performance in subsequent slides.

Starting with Home Care performance. This segment has seen another strong quarter of growth with our high single-digit volume growth momentum continuing. Underlying sales grew at 8%, driven by strong performance in both Fabric Wash and Household Care. While the volume growth is broad-based across formats, our liquids portfolio is growing in strong double digits.

Notably, the liquids portfolio has grown double sequentially compared to the growth we had in the previous quarter. Embarking on the journey of category

creation on fragrance booster, we have recently launched Comfort Beads. It's an exciting format innovation catering to premium consumers that provides long-lasting fragrance for up to 100 days. Sustained market development actions, expansion of Rin liquid and new launches underpinned by superior brands is bolstering growth for this category.

Talking about Beauty & Wellbeing, the category saw a 7% intrinsic sales growth in the quarter driven by volumes. Given the entire one-off tax benefit in the base is impacting this category, I will take you through the intrinsic performance in the quarter. Hair Care delivered a volume led high-single-digit growth. This was driven by outperformance in Sunsilk, Dove, and TRESemme, which grew in double digits. Post-wash hair treatment formats continued to deliver strong growth as consumer traction in the format of the future increases. Our consistent performance in Hair Care has led us to attain the highest ever market share over the last 3 years in September quarter '24.

Skin Care and Colour Cosmetics delivered a mid-single-digit growth. Premium skin care continued its strong growth trajectory, growing in double digit. Focus on channels and formats of the future continues to yield results with our 6 big bets growing at circa 30% GSV growth across modern trade and e-commerce. We have continued to step up innovation intensity in this segment. Few examples of which have been already discussed earlier in the presentation. Simple's new cleansing jelly oil is another innovation that landed in the quarter. This innovative cleanser features a unique jelly texture that transforms into oil, effectively melting away waterproof makeup and impurities without compromising on skin's natural barrier. As we continue to scale up Simple in general trade, this brand, along with Love Beauty & Planet now moves out of PBBU, our incubation unit and into our skin care business.

Coming to Personal Care performance for the quarter. The segment declined by 5% with low single-digit decline in volumes. Skin cleansing declined due to negative pricing and muted volumes. Body wash has maintained its strong double-digit competitive growth momentum. Our Winning in Many Indias insight revealed that consumer demand for naturals and skin glow is particularly high in South and West, which aligns well with the preference for sandalwood-based products in this region.

Given this need for natural glow, the Lux brand found an opportunity to introduce a sandalwood variant leveraging its established glow credentials. Backed by Stratos technology, this is an unmissable superior product launched in an otherwise white space for us. The Lux Sandalwood bar combines 100% pure sandalwood oil with Vitamin C to help reduce dullness and fade blemishes caused by exposure to external aggressors with the primary benefit being visibly clear, glowing skin.

As mentioned in our last earnings call, we continue to take concrete actions to step-up performance in this segment in the form of continued investments behind technology, innovation and channels of the future. We are seeing early green shoots. However, we will need to stay on course for a couple of more quarters to experience the full impact of these actions.

Oral Care delivered high single-digit competitive growth driven by performance in Close Up.

Moving on to Foods and Refreshment. We continued to strengthen our competitive position in this segment however, revenue declined marginally. USG declined by 2%, with low single-digit decline in UVG.

Tea further strengthened market leadership in this quarter with continued gains in both value and volume. Premium segment led by green and functional tea continued to maintain its growth momentum, while the category UVG remained muted as consumer downgradation to loose tea persisted. With tea commodity witnessing unprecedented inflation in recent months, we expect this trend of downgradation to gradually reverse. Coffee delivered double-digit growth, led by strong performance in organized trade.

While our market development actions in Nutrition Drink segment has resulted in continued market share and penetration gains, there's still work to be done to drive consumption. We are mobilizing our efforts in this direction. For instance, recognizing the preference for sachet format, we're now offering an elevated cup experience for all Horlicks sachet consumers with much higher milk solids in the product. We've also launched new INR10 pack across both Horlicks and Boost brand, which will offer 20% extra product for a richer consumer experience.

Foods delivered low single-digit volume growth. Food solutions, mayonnaise, international sauces and cuisines maintained the strong double-digit volume growth trajectory. We have now expanded our international sauces range across the country while also launching new variants in our ready-to-eat format as we continue to scale up our presence in this high-growth space. Ice cream volumes remained flat. The performance was impacted by prolonged rainfall in some parts of the country.

Moving on, let me quickly summarize our performance in the first half of financial year 2025. We have disclosed both reported and intrinsic numbers for better clarity on our performance. Talking about intrinsic numbers, underlying sales growth was 2% with an underlying volume growth of 3%. Gross margin at 50.7%, was up 40 bps while EBITDA margin at 23.8%, was up 10 bps year-on-year. PAT before and PAT grew 3% and 2%, respectively. Effective tax rate after PPA for the first half was 26.1%, and we expect our full year ETR to be marginally above 26%.

Coming to our near-term outlook, we expect demand trends to be stable with no further acceleration in pace of growth. We continue to be watchful of various macroeconomic indicators that could impact the pace of recovery, such as real rural wage growth, food inflation and employment levels.

In this context, our focus remains on driving competitive volume led growth across our business by transforming our portfolio in high growth spaces while maintaining investments behind our brands and strategic priorities. If commodity prices remain where they are, we expect a low single-digit price growth in the near term. We will continue to manage our business dynamically to drive savings through our productivity program and provide the right price value equation to our consumers while maintaining EBITDA at its current healthy levels.

With this, we conclude our prepared remarks. And now let me hand it back to Shilpa to commence the Q&A session.

Shilpa Kedia: Thank you, Rohit and Ritesh. With this, we will now move to the Q&A session. With that, I would like to hand the call back to you, Dorwin, to manage the next session for us.

Moderator: The first question is from the line of Abneesh Roy from Nuvama.

Abneesh Roy:

My first question is on the separation of the ice cream business. So similar exercise was done for tea a few years back. And in that instance, HUL decided to retain that. Now if I see tea versus ice cream, ice cream has a much stronger growth. And tea, in fact, the past few quarters has been especially challenging. So, I wanted to understand why not retain the ice cream business also.

If I see the logic which has been put, for example, investment into the cold chain. Now cold chain investment has been done for the past few decades. So, from here on, it has been incremental investment. Similarly, if I see in terms of R&D, again, HUL's local R&D is extremely strong. So how it is so difficult to do R&D from the local unit plus 3% of the business goes away.

And the synergy benefits, for example, ice cream sells in a lot of differentiated outlets also. So now if this goes away, how does this impact your exiting business? So, if you could answer these questions.

Ritesh Tiwari:

Thanks, Abneesh. No, as you rightly have captured ice cream is roughly 3% of HUL's turnover. It's a high growth, but equally high investment and low margin business for us. And you did call out the distinct nature of ice cream with a separate go-to-market be it supply chain or point of sales. And which is because of that, we have always seen limited synergies with the rest of the business. Even for a typical kirana store, our grocery business that we have, is always distinct compared to the footprint of what we have in terms of ice cream cabinet.

For ice cream, Abneesh, overall, both the brand and tech is owned by Unilever. Of course, we have a royalty contract because of which we have access to the brand and technology in the country. Globally, Unilever had announced separation of the business. And with that -- and because of that, if at all, we have to continue running the business locally, we will have to develop local capabilities to run the business.

When you mentioned about we have strong R&D, answer is yes, but we have strong R&D as Unilever. As you know, all our R&D resources are essentially from Unilever across categories, which is why we have a contract of R&D, with Unilever and that's why we end up paying royalty on tech as well IPR to Unilever. So which is why the board then after detailed evaluation came to a

conclusion that supported, of course, by the independent committee, which looked at it very detailed – the review that they conducted and went through all these parameters. The Board came to conclusion that we need to separate the business.

Now this portfolio restructuring, it will enable ice cream business to operate with greater flexibility and for HUL to sharpen focus on core business and then of course, further strengthen our play in trending demand spaces such as Beauty, Foods and Health and Wellbeing. So that was Abneesh, summary the rationale why this time the decision for ice cream was different compared to what we did when it pertained to tea.

Abneesh Roy:

So, wanted to follow up in the outlets where the ice cream adds synergy to distribution once ice cream goes away. Then what happens to those existing portfolio? And second, does separation means that eventually HUL will have zero stake in the ice cream? Is that a right understanding?

Ritesh Tiwari:

Yes. So for a typical kirana store and the scale of HUL will not get impacted just because 3 percentage of the business will get separated. And seeing the kind of growth that we have, that's the amount of accretion much more than that, we end up -- typically end up adding to overall scale up Hindustan Unilever. So, for typical kirana store, it does not change anywhere materially - the scale at which we operate in the kirana store, it does not impact to start with.

So that's where it is. And in terms of the mode of separation -- to your question. There are typical 2 standard ways of separating the business. Either we could sell the business, or we could demerge and list the business. And of course, the key objective that the independent committee and hence, Board going forward, will end up making a decision on is -what's the best route in which we can maximize shareholder value and minimize business disruption. That's the mode of separation we end up doing.

Our idea is, by end of the year, we will come to a conclusion what route we want to take. And the way we have done -- last quarter we communicated where we were in the process after Unilever globally announced its decision to separate. And this quarter, we further gave an update, and we will keep doing that. As and when we end up making progress by independent

committee, which will then inform the Board and then we end up sharing with all of you as to where our mind is at this point in time and way forward.

Abneesh Roy:

My second and last question will be on Personal Wash and Tea. So in both the segments, there is currently sharp inflation, which I think provides good opportunity to gain market share. In the past, you have also said that you're looking at as a strategy, profitable volume growth, so if you could tell us currently the way things are, how do you look at market share gains and also containing the margin pressure? How do you see both of those?

Second, some update on the Personal Wash, the disruption which you are doing. Initial days, we know that, but if you could share some anecdotal evidence how it's working because you have been saying it will take 2 quarters, but now 2, 3 months have gone. So how are the initial signs of the disruption?

Ritesh Tiwari:

Yes. So 3 different questions. Let me just pick, Abneesh, one by one all 3 of them. In terms of commodity impact, I called out crude is benign, 3 commodities are impacting Hindustan Unilever by and large. Crude oil, crude palm oil, and tea. In this instance, crude palm oil by roughly 10%, tea by almost 25% have inflated.

Now what we will do is net of the savings that we generate in the business, which is what we have always done. Of course, the total amount of commodity inflation, we don't pass on to consumers. We always drive savings very hard across all lines of the P&L. Net of the savings, net inflation is what we will end up pricing going forward. And this is what you'll end up seeing in December quarter.

We are always very calibrated the way we take price increases to ensure that the focus always remains on driving competitive volume growth and maintaining competitive price value equation. This is exactly what we will end up doing for both Tea and Skin Cleansing. But you will see some pricing action. And this is why we also called out that against declining UPG for the last few quarters, if I exclude the one-off impact of flat UPG current quarter, we will end up seeing low single-digit increase in underlying price growth in next quarter.

So that's on pricing and our decision in terms of what we will end up doing for Personal Wash and Tea. In terms of overall Personal Wash and Tea, of course, the business model is very important. There are 4 things we had to do for Personal Wash. Number one, the job was to ensure that we are upgrading our products superiority across the board, and which is why the Stratos technology leverage we have deployed across Lux and Lifebuoy in the marketplace.

It's been a few months, a couple of months, we have products in the market, good early sign of consumer traction, but very important that we should stay course and see for a few quarters before we end up concluding. Sequentially, in September quarter, our business is higher compared to what we did in June quarter, but we would want to watch the signal for a couple of quarters before we conclude on that trend.

Second job that we had to do in Skin Cleansing was correct, if you remember, the price point at March end, which we had corrected and is already in play, which is why also the year-on-year price in the quarter has been negative. The third big job that we had to do was innovation. And you heard across narrative between Rohit and me, be it the Dove sensitive range of the last quarter or Lux Sandalwood range in the current quarter. As we speak, we've just launched in the market, Dove Serum new range, serum body wash, and serum soap range - serum shower range in the market. So there is a continuous step-up of innovation that we're doing in the space of Personal Wash. And last but not least, the fourth action we mentioned will end up doing for Personal Wash was upping our game in organized trade. That's exactly what we have done in the last few months' time. So we will see how these 4 actions pan out in terms of impact.

Now as far as Tea is concerned, we continue to strengthen our market leadership across value and volume. I remember 7 years ago; we took leadership, and we have maintained that leadership through. So it's strong business. Overall market growth has been muted because of downgradation. But now that overall, the climate of business is very different with 25% inflation, we got to see how the market overall table pans out in times to come. But we will exactly do what we have done, which is we'll keep investing in the category and then keep growing our business as much as we can in spite of the downgradation which is happening in the business.

Now coming to margin, all puts and takes put together, the bottom-line conversation that we did as part of the outlook, we want to maintain our EBITDA margin at the current healthy levels. As you know, we're at 23.8% margin. And those are the levels at which we want to maintain the margin, some bps up and down, but this is where our mind is at this point in time to maintain margins.

Within that, you will see continued focus on driving gross margin and you will see continued focus on stepping up on A&P investments in the business to ensure that we're able to drive competitive volume growth home.

Moderator: The next question is from the line of Vivek M from Jefferies.

Vivek M: First question is on the overall FMCG market, and you have covered some part in your outlook. But has the pace of moderation in urban surprised you? And what are the key reasons? And any outlook when do you think, let's say, flat -- the curve flattens from where we are?

Rohit Jawa: Vivek, if I may take this one. I think we've now looked at consistently from all angles and the pattern is quite clear that urban growth has trended down in the recent quarters or recent quarter. And while rural has continued to grow gradually and has now for the past few quarters has been ahead of urban, and also continues to be ahead of urban this time.

We see the growth in big cities trending down, although in smaller cities and in rural the growth continues to be good. So this is a trend that we observed. Now as far as we are concerned, while we can try and explain this, and there's of course, we must not forget that in the recent quarters, urban was doing the heavy lifting, and now it's rural that's coming back slowly. There could be a certain degree of base effect. There could be macro factors that are impacting the near-term trend rate of the urban markets.

But as far as we're concerned, we are focused on what we can control, which is - we are focused on going where the growth is because even in this large market, while overall growth may be a couple of percentages down, it is a big market with lots of pockets of growth. So we are focused on allocating resources to where we have investable assets, chasing growth segments.

Number two, we want to look beyond just the near quarter and make sure that we're investing behind our brands, strengthening their brand power, which we have, in fact, happy to report, see a very strong trend in our brand power growth, which is reflecting in our market shares, and make sure that we consistently invest behind the market development bets because those are multiyear and they compound. We don't want to take our eyes off that and build capacity.

And number 3 is to be laser focused on volume led competitive growth. And we have increased our distance from our competitors this quarter. We want to basically get stronger in all market conditions. So really, we are focused on what we can control. And then longer term, we do expect the market to trend to mean with a few percentage points of price. As you know, we flattened price this quarter, likely price growth will come back in the quarters to follow as the inflation in some of our categories takes shape and the volumes will trend in the natural organic levels of 3%, 4% that we've observed over the longer term as well.

So we do expect over some time the growth to revert to mean, but the larger point is that in a more longer-term view, the market remains exciting. It's a place where per capita consumptions are low. As we've spoken many times and our job, effectively is to focus -- stay focused on the medium-term and long-term opportunity in the market and not get swayed by 1 quarter or 2.

Vivek M:

And Rohit, in the context of how urban is shaping up and how rural is, do you think that the portfolio level for you as a company, is there a possibility that the premiumization has been a secular trend long term, all that I totally appreciate, but do you think in the interim, urban slows and rural picks up, there is a possibility that the portfolio premiumization actually may not play out or there may actually be a bit of a mix deterioration. Do you think that's a possibility?

Rohit Jawa:

We actually looked under the bonnet. And even when you peel the surface, you find that the premium segments, popular segments, mass segments, the rank order of hierarchy of growth is the same as observed in other quarters, although the numbers are slightly lower. And premium continues to grow 30-odd percent or thereabouts faster than the other segments. And we see the trend of upgradation remaining consistent and secular because even rural

areas, for instance, somebody moves from and we've seen that observed, we go to shop and check a Re.1 sachet Clinic Plus user moves on to a Rs. 2 Dove, that's an upgradation as far as we're concerned because it's doubling the cost of wash or doubling quality of wash.

So the upgradation trend, including our new categories, finding penetration opportunities in rural - the Surf Excel INR10 sachet, which is a premium product used for select occasions, that story of making aspirations accessible, of good quality experiences at scale is still live and deep, and we do not see that trend changing. So the upgradation and premiumization trend even in this quarter has sustained and we don't think that would change. And our job is to continue to drive our portfolio more and more towards where the growth is.

Moderator: The next question is from the line of Manoj Menon from ICICI Securities.

Manoj Menon: I have only couple of questions. The one is on the soaps formulation change, which you implemented in June. It's been almost 5 months now. I just want to hear from you on the region-specific feedback, which you may have picked up on the ground on what's the consumer feedback in terms of the formulation change affecting their lives actually, that's one.

Second, in soaps, as I understand this change, while you may have done for multiple reasons, one of the benefits is also far better gross margins. So when I look at the overall performance, I am unsure whether probably it was an up elevator, probably there are down elevators, which kind of neutralized it.

Ritesh Tiwari: Yes. So let me pick up and Rohit can add to it. So on overall, soap, it's been a few months now, Manoj that we've had the revised formulation products fully distributed in the market. Our early read is encouraging as we see purchases, as we see the people -- consumer feedback and all of our listening channels that we get feedback from. So it is encouraging feedback that we have. But we would wait for a couple of quarters before fully, let me say, coming to conclusion how business landed, but we are encouraged by what we hear, already in first couple of months' time.

And this feedback is across the geographies where we have changed. And as you know, Lux and Lifebuoy both are national brands. And so across geographies we have across WIMI cluster segments, we have a similar

amount of feedback that we have picked up, which is positive. So as of now, no concern, but only good news as far as early signals are concerned. But we will watch for a couple of quarters before we come to any conclusion on that. And we will share as we get more. And hopefully, by end of next quarter, we'll have more deterministic, let me say, information and data to share.

Now coming to gross margin, remember I had mentioned earlier as well that the formulation change overall, we have invested more. Everything else being equal, we've invested more in the formulation which is superior and landed in the market. So there is no, let me say, increase in gross margin, which has happened because we went to Stratos technology. In fact, we invested more in the market to start with.

And of course, now we have also invested more to land the innovation, including the innovation intensity which has gone in the market. Now going forward, with commodity price, crude palm oil changing and with pluses and minuses happening in other ingredients which go and make a soap, we have taken and we will end up taking calibrated price increases over the course of the quarter to negate to some extent. The net impact. Net of savings of the inflation we will then pass on to consumers in a calibrated manner, being mindful of the competitive price value equation.

So this is where we are in terms of overall impact, which is more investment and hence not increasing gross margin but more investment, but we are very mindful of the overall play across P&L we want to do to drive the financial growth model, which is volume growth driven at this point in time for Skin Cleaning and hence Personal Care.

Manoj Menon:

Pretty clear, Ritesh. Just 2 follow-ups, if I may. Given that around 40% of the bathing segment, soaps is actually -- is price pointed packs, let's say, INR10. I would presume that the frequency, let's say, for example, a INR10 consumer would be replenishing every week, right? I mean so which means you have enough data till now. So why is that, let's say, is it just that you're kind of playing safe saying that we need a couple of quarters? Or is just that you have enough data already?

Rohit Jawa:

Look, because we know the context of this, we took a long time, tested it thoroughly before we went to the market. We had a very, very rigorous

change management because we're talking of a very big business, 2 brands impacted Lux and Lifebuoy. We put tracking studies post launch as well across the regions, picking up data with the consumers and channel, both first-time feedback and what consumers and shoppers are saying.

What we see and because it's a pipeline with old and new stocks as the brands start to take full place, we will have more information as we go more in this quarter. But early signals, take, for instance, the product does improve the feel, the skin feel, the fragrance delivery, the colour and our ability to make claims because we can now incorporate much more skincare since we have more formulation space. All of that, for instance, seems to be helping. To take an example, concretely is Lux, it's a very big brand and we can see that, that is finding good reception. Our early entrance into the sandal segment, which is a very, very big segment in South and West, where we didn't have a strong play is, anecdotally, is receiving very good feedback because we're able to offer both Skin Care benefits and sandal superior perfume on the chassis that we couldn't do on other chassis in the past. So we are hopeful for that to work as well.

So at this point, we feel that move is good. But of course, it's a big change. So we want to have more concrete quantitative data before we come back and confirm what are the opportunities for us to take it further, what we need to strengthen, what needs to improve. But we feel positive at this point.

Not to forget, we do have very strong play in Dove and Pears, and liquids. That's really where the growth in the market is. Liquids, we are gaining share. We're growing handsomely across our brands. Dove and Pears, both are strong, and they, of course, are not affected by this technology one way or the other, and they are, of course, remaining a very high priority for us as well. So we are committed to a multiyear improvement in our Personal Care -- Personal Wash business. This is a home business, and we intend to make sure we have structurally very, very sound business going forward.

Manoj Menon:

Loud and clear, Rohit and Ritesh, and in fact, this sandalwood variant launch was very, very pleasing to note and very super good luck for that. Just one statement, if I make as a -- let's say, statement of assertion of hypothesis, is that I mean, am I -- are we to think -- are we to assume that, let's say, the change in soap formulation was because you mentioned that it's actually

higher cost for you, let's say, Ceteris paribus versus the previous let's say bill of material, is to assume that, let's say, from a super long-term point of view, you just want to reduce the dependence on palm.

Ritesh Tiwari:

Two things, Manoj out here. And let me spend a little bit of time answering this. Overall, when you look at the soap formulation, we mentioned last time as well it's a non-soluble component of palm is what we have reduced. That typically only is used as a structurant and gets washed down the drain in the bathing process and adds to environmental load.

The moment you do that, you then increase the space in the formulation to add ingredients, which will lead to more benefit delivery. That is the central reason why we have done what we have done. Now be it Lux Sandalwood, be it serum, be it other ingredients, we are able to now create space for adding all of that to the formulation. So the central reason of doing that is our ability to upgrade and deliver more functional benefits going forward. That's the reason we have gone and done.

And we are mindful that when we are changing creating space, of course, the overall commodity volatility is linked, of course, the cost reduces. But of course, as we add more goodies and more functional ingredients, benefit-leading ingredients, the formulation costs will go up. So it was a very calculated call by us to step up the quality of formulation. And in summary, proof of the pudding is -- will consumers see, perceive this as a product, which is superior compared to what our existing superior products were or compared to competition.

We saw that in our various studies that this is a superior formulation. Of course, now we are in the market early good signs. So we are encouraged, and we will, in times to come, come to conclusion as to how overall it has gone. So that's the space and that's the reason why we have gone and done it, let me say.

Manoj Menon:

I have one follow-up, but I'll come back in the queue. But just 1 question on the soap specific thing. Is there an IPR involved in this change which you have done?

Ritesh Tiwari:

Sorry, come again?

Manoj Menon: Is there an Intellectual Property Rights sort of situation where you do have a genuine competitive advantage for a very long period of time?

Ritesh Tiwari: Yes, we have applied for more than 20 patents, and these are all kind of patents, design patents, material patents, of course, formulation. And we do believe that, with that we will have basically a formulation, which will be very tight in terms of its development and in terms of proprietary nature of that. And we mentioned Manoj last time that its taken for us 5 years to develop and get this formulation, and we protected it very strongly with multiple patents. So yes, so we feel very confident about it.

And as far as margins are concerned, probably the question behind your question. And ultimately, if the products are superior, our ability to command a right price point gets more enhanced. We are also exposed a little lesser to commodity variation, which happens. So ultimately, it all comes together in a high commodity volatile atmosphere for palm, we'll be better insulated. So it will all play out in times to come. But the single biggest factor, if I just, again repeat, is the increasing possibility of adding more innovative materials in the product.

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

Avi Mehta: Just picking up on where the earlier participant left, with the superior formulation in soap of much competitive pricing and early signs of healthy consumer traction, could you give us a sense on by when do you see these Stratos essentially translating into volume market share gains in soaps? Is that the right way to look at this? And would love to hear your thoughts on by when do you see it translating into these outcomes?

Ritesh Tiwari: Yes. See, we had mentioned, Avi, that we would want to watch it couple of quarters. So this is a large-scale change across multiple consumer segments, and we want to have a good read before we come to conclusion, and we don't want to jump to conclusion. Initial trends are good. Sequentially, we sold more in September quarter compared to what we sold in June quarter. There is initial early signs of volume market share improving.

But as I mentioned, we would want to watch it couple of quarters before we start concluding on it because there's a lot of detailing that goes behind assessment before you conclude on some headline numbers. So wouldn't

want to jump to conclusions. Are we worried? Answer is absolutely not. We are encouraged and we are positive about the change, which is landed, and early signs are good.

Rohit Jawa: I just want to give a corollary to this, which is that we must not forget that the market is tending towards more premium in Personal Wash, Liquids. Dove, Pears we have very strong equities there, and they have very, very big head space. So our focus is to sustain middle of the market with Lifebuoy, Lux, Hamam, but at the same time, also premiumize and grow our consumers to adopt Dove, Pears and Liquids as a format.

Avi Mehta: Clear. Perfectly clear on that. Just on that Rohit, if I may just a second bit on the industry. I heard your comments about the fact that we are ensuring that our performance is less linked to the industry. But what in your view is the reasons why urban has weakened? And by when do you see this turnaround? I wasn't able to kind of get a clear understanding of that, if you had any thoughts on that, that will be great.

Rohit Jawa: In full transparency, it would be very difficult to forecast very far out in the future. I can give you a historical trend rate, and we can judge this collectively and give you more a near-term view. Historically, the market has grown roughly half price, half volume. At this point, the price was negative to zero, that's coming back, that's a few percentage points of growth that was missing in the market, certainly in the markets we play in.

So I would say that that is going to gradually come back. We've been missing that for the last 5, 6 quarters. We enjoyed it when there was inflation, but it's not been in the last 4 or 5 quarters. That is a missing part of the growth equation. Second, on premiumization, that adds growth as well through the element of mix. I think the premiumization trend is secular. That's why we will try and bend more and more of our portfolio towards investing in consumption value increase. And that is also there in as one of the second parts of the growth equation. Third is that the volume tends to grow between 3%, 4%, give or take a year, then give or take a quarter on the average. It dipped down this quarter on account of not that much growth in the big cities, although the smaller cities are growing on the composite. But it could well come back when the macro conditions or the stimulus is more positive.

But I would not be able to make great forecast on specifically what this will be. What we can say with some degree of certainty is near term that demand trends tend we feel are stable going into the quarter we are in. But what we can do is to stay focused on what we can control, which is the 3 things that are going where the growth is, focusing on the long term, investing in our capacity and our brands. And finally, making sure that we are gaining in competitiveness by executing with superiority across all of our 6 P elements, which will give us a position of strength as market conditions change for the better.

Moderator: We have the next question from the line of Latika Chopra from JPMorgan.

Latika Chopra: I think a lot has been discussed. I have some follow-ups. I'll start with Personal Care. In June quarter, you talked about a positive low single-digit volume growth. This quarter, it seems it's in the negative territory, you've said soaps have increased sequentially for you. And it seems Oral Care has also probably done better. So just trying to understand what has led to this moderation in volume growth in this category. Is there some base effect or something very specific to call out?

Ritesh Tiwari: Yes. Latika. Let me put it into 2 different perspectives. First of all, we have grown well in Oral Care, you saw in our prepared remarks as well. The growth is competitive, Close Up is doing very well. So Oral Care is doing good. Coming to Personal Care within that Skin Cleansing in particular, as part of Personal Care. This quarter, the decline is both on account of pricing and volume.

The price changes that we have done early in the year we are having that price decrease in our September quarter, and we're lapping the price which was very different in the base. So year-on-year, there's a price decline, which is part of the reason why the revenue has declined, number one.

Number two, it's also the base in the phasing of sales across quarters. The point I was making earlier sequentially, though year-on-year, we have declined from a low-single digit in volumes in Skin Cleansing. But sequentially, September quarter over June quarter, for example, we have sold more amount of turnover. So that's how I would want you to see. And as I

mentioned that we would see how this pace of recovery improves from here into the quarters ahead.

Latika Chopra:

This is clear because it's good actually because I think June is a better season for Personal Wash. We've done better in September. The second bit was on Food and Refreshment, again, there's a shift, an adverse shift in volume narrative. And is it all linked to ice creams or tea also has kind of deteriorated a bit more due to the whole downtrading pressure? One is Horlicks.

Ritesh Tiwari:

Yes. So the Foods and Refreshment, Latika, 2/3 of our business sits between Tea and HFD. Ice cream overall 3 percentage of the business. And of course, it's a little larger than that proportion for Foods and Refreshment. Ice cream has overall you've seen the comments, we've been holding on to the scale of the business. And the season sales that we did, got impacted to some extent by rains, etcetera.

But the larger conversation comes from both Tea and HFD, which is 2/3 of the business. Now overall for Foods, at foods and beverage level, we have increased competitiveness. So we've gained shares. In Tea, we have gained shares and our market leadership, both volume and value remains strong. HFD, we further improved our competitiveness, and we've gained share.

So from a competitive perspective, our entire Foods and Refreshment business has gained share and is stronger. Now what has happened within that absolute amount of sales turnover growth for Tea we have seen marginal decline there. And the reason we called out that the downgradation which has happened for Tea in the deflationary period has continued to happen.

Now the signals are changing as we speak now. We now have a deterministic signal that this season is an inflationary season. A quarter before, we were not very sure - early data was coming in. But now that we are well into the season of commodity tea, we know it's inflationary season because of the lower produce.

25% is the scale of tea commodity inflation, which has happened. So going forward, of course, we'll end up taking price increases, which we have done, started taking price increases in December quarter, and you will see how it pans out. So there's no concern in terms of Tea and HFD, as far as

competitiveness is concerned. But of course, tea volumes have got impacted because of downgradation.

And for HFD, we have more job to be done on consumption. So where is our focus on HFD in terms of driving growth - Plus range doing good, idea is to ensure that we're able to more premiumize and more specialize the portfolio. Our job is to ensure that we are able to drive more amount of penetration gain. Since we acquired the business, 250 bps improvement in corporate market share of nutrition drink.

Since we acquired the business, 700 bps improvement in penetration levels. So those all-consumer metrics are looking strong. But what now we got to do is to convert the strong consumer metrics into headline growth and hence, consumption becomes the single biggest focus for us. This is where we are putting our head down, and we're working hard to ensure we're able to turn that around as far as consumption is concerned.

Long term, we all know that India is micronutrient deficient in terms of the food plate, carbohydrate heavy, this is the right demand space to be in. But we just have to ensure that we keep focusing on and keep driving consumption. So this is where we are. But we are also mindful - there are 6 demand spaces within Foods and Refreshment that we want to continue to ensure we're working on, Tea, Coffee, Nutrition Drink, Mini-Meals and cooking aid, condiments and UFS. These are 6 different demand spaces where we want to double down on our Foods portfolio.

And we will share more about what we want to do in terms of new demand spaces when we speak at the Capital Markets Day. But we are very encouraged to know that there's a good amount of benefit of foods in the country, packaged food overall should only end up driving growth for FMCG, and we want to participate in these 6 segments. And through that, we want to grow our own proportion of the food business in the country.

Latika Chopra:

And just one last bit. I heard your comments on urban growth. I just wanted to check, is there any geographical disparity? And also larger cities, is there anything to read from channel distribution, channel shift more towards online, which could have in any way, any impact on growth trajectory? Anything to call out on both these aspects? That was the last question.

Ritesh Tiwari: Thanks, Latika. Latika, overall in terms of urban, it's across the country. It's not that there's a dramatic difference in one part of the country as compared to the other part of the country. We track our WIMI clusters very closely. So I would say this trend is across the country. It's not one portion and part of the country only.

Coming to channel, the secular trend of increasing e-commerce proportion of the business, increasing modern trade component of the business, that secular trend has continued. We still are GT-dominant business. 70% of our business comes from general trade, roughly 20 percentage comes from modern trade, 6% to 7% from e-commerce and 3-odd percentage from other channels. And this secular trend of moving more towards organized trade has continued to happen this quarter as well.

No dramatic move in the last couple of quarters, but same secular trend continues. And the point we mentioned that our portfolio is distinct in organized trade. We continue to do good work in terms of bringing very distinctive and channel-specific portfolio, and we are gaining share in organized trade as well. So that's very important in terms of competitiveness.

Moderator: The next question is from the line of Aditya Soman from CLSA.

Aditya Soman: Just following up on Latika's question actually on e-commerce and the impact, particularly of quick commerce. I find it a bit disingenuous that both - - I mean, you and one other large multinational called this out that large cities are growing slower when we are seeing growth in some of these channels being well over 100%.

If I look at even growth for businesses like Nykaa in the Beauty segment and even if I compare your sort of adjusted beauty growth, the absolute increase in turnover for Nykaa was actually larger. I understand they are a retailer and then also sell your products, but than what it seems to be for Beauty and Wellbeing for HUL. So I just wanted to get a sense, I mean, is it that when we are saying we are gaining market share, are we looking at a different set of data? Or am I just missing something?

Rohit Jawa: I didn't fully understand the disingenuous comment and what's the motive behind that before I respond. You said disingenuous and what does it exactly mean?

Aditya Soman: No, no. I'm just saying that on one hand, we've got these companies growing, I mean, e-commerce or businesses like Nykaa, which obviously are beauty focused and the beauty business growing very fast. And on the other hand, obviously, HUL's growth in beauty has -- or remains relatively...

Rohit Jawa: So I don't know what the other peers are saying. I'm just responding to the business we are in, the categories we play in, and we're looking at the trend from, say Kantar or Nielsen, that Kantar, for instance is the consumption data, right? It doesn't matter which channel consumers buy from. That and Nielsen, which is more of a retail audit, that may not include e-commerce. We look at it separately.

So when you look at all data points, what we do see in this quarter is -- and the comment is based on a composite number, not on a number that's excluded this, including that, that there is a trending down on the urban growth, and that's more marked in the 1 to 10 lakhs in bigger cities remaining flattish and not so much in the lower-tier cities. That's just a nuance of trying to deconstruct this growth. And there's nothing more to that.

So I don't understand how that would not be anything less than transparent and the data is visible and accessible to all market participants, including yourself so you can look at that yourself as well. So that's really where this comment is coming from.

Aditya Soman: No, understand. Very clear. No, no, I'm not -- I mean I'm not questioning the data that you're seeing, obviously you're seeing the right data. I'm just trying to understand, are these panels missing something in a sense that as you mentioned, I mean, Nielsen probably just tracks retail and with Kantar could they be missing smaller competitors or something of that sort? Is that even a possibility is what I'm trying to understand.

Rohit Jawa: Like I said, for us, so for a minute, I assume that there is noise in this information. We can try and explain or understand the macro as we do to be transparent. We're also asking these questions in our market visits or when we speak to external participants.

But at the end of the day, our organizational focus is to control what we can control. And the greatest measure of that is are we competitively growing in the market we find ourselves in. And we look at channels across modern

trade, we measure the shares there discretely by banners and also by segments.

We look at e-commerce. We measure our shares by pods. So we call them pods. These are beauty.com players or marketplace.com players and so on and so forth. And you look at general trade by tiers of the cities and urban and rural. We are increasing the shares in aggregate, led by volume in MAT and increasingly led by the last 3 months data movement. So that is what we have to stay focused on.

If we do that, as market tends to come back to shape or comes back in a certain way, we'll also tend to gain. And we allocate the sources to where the growth is the highest modern trade, for instance, or premium areas, premium segments across different geographical segments or e-commerce where, of course, as we said, the growth is in multiples of high -- very, very high double digits.

So yes -- so that's the thing. The real focus, therefore, we have is to go where the growth is and consistently invest behind the longer term, both brands and market development efforts and focus on improving our competitive strength so that we gain share in all market conditions.

Aditya Soman:

And then would it also be possible to explain the profitability differences in the channel? Maybe I understand, obviously, for you, e-commerce is growing faster than modern trade and faster than traditional. But would there be a difference in profitability across channels or nothing to call out?

Ritesh Tiwari:

No, definitely different channels offer different profitability. The portfolio that we sell is different. So typically, organized trade, you end up making better margins compared to general trade and that emanates from the fact that the portfolio that you sell in organized trade is different than what we sell in general trade. The price point packs essentially sachets, or the mass segment of the business is not present, as you know, in a big way in organized trade. So because of that, when you look at even sans the investment, you end up making better margins in organized trade. But more than that, I wouldn't want to share at this point in time.

Moderator:

The next question is from the line of Jitendra Arora from ICICI Prudential Life Insurance Company Limited.

Jitendra Arora: Yes. Actually, Aditya just asked my question. I just wanted to understand the profitability across channels.

Moderator: We will move to the next question, which is from the line of Vishal Punmiya from Yes Securities.

Vishal Punmiya: Yes. Firstly, just a clarification in terms of -- you mentioned about the tea price hike. Is that already into the market? Or do you expect that to come in, in the next couple of months?

Ritesh Tiwari: We've started taking it, Vishal. So obviously the first signals are already getting into the market as we speak. But you end up taking across multiple price points in multiple geographies. So the overall change in price will land over the course of the quarter, December quarter. But the first set of packs started to get invoiced already.

Vishal Punmiya: And that won't be able to offset the entire inflation, right, because then it would be a very sharp price hike?

Ritesh Tiwari: Correct. What we always do is, Vishal, that when we look at the price increase, especially happens in tea, such is life, it's a season that ends up telling you where the price momentum is unlike, let me say, palm or crude. So I would say what we always do is to look at the gross inflation we see what kind of savings we can net off. And then the net hurt of inflation that we have is what then we end up taking calibrated price increase.

Our learning always has been when you take price increases take in smaller chunks. And when you drop prices drop in larger chunks, so that you don't end up getting saddled with trade pipe line inventory. That's exactly what we'll end up doing now as well, both with tea or for that matter Skin Cleansing as well.

Vishal Punmiya: And secondly, on your A&P spend for the quarter. So there seems to be a sharp cut, any particular category that we have decided to cut spends? Or is it some postponement of spends that we've seen in this quarter?

Ritesh Tiwari: Yes. So a couple of perspectives there, Vishal. First of all, of course, the same period last year was our highest amount of A&P spend in the last 3 years. So you then also lapping that, and you look at year-on-year percentages. But if I just talk about absolute percentage, we are roughly little

over 9.5% A&P spends in the quarter. And if you look at our average for last year, typically 10.5% what we do. So we have, let me say, 100 bps lower compared to a typical trend of spends in this quarter.

Now there are 3 different things which end up driving the absolute level of expenditure. Of course, the first and foremost is competitive spends. Looking at the competitive media heat, our first objective always is share of voice ahead of share of market. This quarter as well our share of voice is ahead of share of market. So we have spent competitively, number one.

Number two, of course, is reach objective. Every brand has different communication campaigns we end up running. And those reach objectives tell us as to what's the quantum of expenditure we want to do. And of course, third is then the innovation phasing. These 3 elements end up determining the absolute levels of media expenditure that we have to do in the quarter.

Along with that, there's also a dramatic shift happening in terms of the components of media. We have now roughly 45 percentage of our working media being spent in digital, so that also then ends up determining the level of expenditure in the quarter. So which is more of a phasing. There is no dramatic pull up or pull down if I ignore what's happening in the base and we typically operate at 10.5 percentage-ish in terms of A&P expenditure and you should expect that levels for us unless media heat dramatically changes, or innovation phasing and we do something very different in the quarter.

Vishal Punmiya: Right. Understood. Just, lastly, a data point, if you can share, what would be the mix of ice cream business from the Q-commerce channel?

Ritesh Tiwari: So in Q-commerce, ice cream is roughly more than 10 percentage.

Moderator: The next question is from the line of Percy Panthaki from IIFL.

Percy Panthaki: A couple of questions from my side. So firstly, on Tea business, just wanted to understand the volume sort of weakness here and you're not alone even Tata Consumer reported a negative for volume. See, generally, when there is a tea cost inflation, and this time, it was quite steep like close to 20%, 25% kind of Y-o-Y inflation.

What happens is that the small and unorganized peers pass it on immediately because they operate on very thin margins, so they cannot afford to hold the

price line. And the larger guys like you and Tata have not taken much of a price increase and your premium to these guys would have shrunk materially.

So therefore, I would expect that both you and Tata should have reported very strong volume growth. We see similar kind of phenomenon happening in, for example, coconut oil also Parachute gains when there is a big price inflation because unorganized cannot keep up. So this has not happened in Tea. So any reason why this has not happened? That's my first question.

Ritesh Tiwari:

Yes. So Percy, if I just go a quarter back, when we started seeing the first early signals of an inflationary year for tea, it was too early for us to make a judgment and decision as to where the whole season will pan out. And for that matter, the level of inflation the season will end up offering. So typically, what you do is we just wait first to ensure that we have very strong signals both, a, direction of inflation, and b, the quantity of inflation.

As we speak in the last few months' time, that is much clearer now that this is indeed a season where we end up seeing inflation. And a material inflation, the number I was quoting earlier 25 percentage. Second thing which you also check before you end up responding in terms of action is what is happening to inflation between plainers and premium tea and here I'm referring to commodity.

And you know that we have spoken about last couple of years, that we decoupled where premium tea saw more inflation and plainer tea did not see inflation. And when the deflation happened, the deflation happened more in plainer as compared to premium. And which is why the price gap between premium tea to an extent became broader and larger compared to plainer tea. That's what played out and hence, overall value growth in the category came down.

Now typically, with inflation, this time, the inflation signals are very similar, both for premium tea and for plainer, a couple of percent differences, but not material. And now that we have that, let me say, read over last few month's time, is when we have decided to act with the price. So the change which you are expecting should start kicking in as Hindustan Unilever is concerned from December quarter onwards, that's exactly what we have done.

We have seen in the past when the price table starts to stabilize, the downgradation, we are hoping will stop to happen. But I would want to wait for December quarter to play out. We have done all the actions that we have to do, and we are very clear what plan we'll be executing in the quarter, and I'm hoping that the market price table stabilizes in terms of downgradation and there's a different outcome in terms of growth we'll end up expecting in December quarter. But we will report, of course, how that all goes through when we speak in January.

Percy Panthaki:

I'm still a little confused. I'm talking about September quarter. September quarter, you have not taken any price increase or very little price increase. The inflation is huge, and therefore, the small and unorganized would have already taken a very big price increase and therefore, your premium to them would have shrunk. So why is it that there is no sort of market share gain? Let's say, you were at, for example, just hypothetically 30% premium to the small and unorganized. Now your premium would have come down to, let's say, 15%, 20%. Shouldn't that have benefited your volume in September quarter itself? And why has that not happened?

Ritesh Tiwari:

See, first of all, before I answer specific, we have further gained market share. So our market share gain, both volume and value is very competitive. So that goes without saying that we have grown ahead of the market, number one. Number two, I don't believe the data that we have seen, there is no dramatic price level change, which has already happened in terms of price of the product in the market in September quarter.

The point I was making that, at least in our case, we have waited before we end up deciding what we have to do in December quarter, but we have not seen material change in the price levels in the market in September quarter. So I would wait for a quarter more before starting to conclude which way the markets are stabilizing. We have seen continued downgradation. A, there is players; b, there's commodity; and c, there is consumer. All 3 have to come together to determine the fate of the category or for that matter the growth of the players in the market. All 3 put together, we have seen the sign of downgradation continue to happen in September quarter. So as I mentioned, but now with these signals being very different, very clearly, we know what we need to do. We have taken our actions. Hopefully, we'll have a different outcome for December quarter.

Percy Panthaki: My second question is on soaps. So I know this has been asked multiple times, but still just wanted to understand, see, you have changed the pricing, and you are happy with the pricing you're operating at right now. Earlier, you were at a premium, which you felt was a little higher than what you could justify. So that has happened 3, 4 months ago, and you have changed the formulation and made it superior.

And still, the volume growth on a Y-o-Y basis is negative. So although sequentially, it has improved Y-o-Y, it is negative. So what else we need for the Y-o-Y growth to turn positive? Is it just a base effect, which will catch up? Or is it something else? And is there a confidence that in Q3, with the momentum that you are seeing the Y-o-Y volume growth in soaps will turn positive?

Ritesh Tiwari: So Percy, I captured a little while ago, but yes, I'm happy to repeat. There are 4 different actions we said we have to do. A, on pricing, exactly, as you mentioned a few months ago, we did that early in the year, we had already executed; b, on product superiority, you heard on Stratos; c, on innovation intensity. I quoted example, Rohit quoted examples, what we have done, and d, in terms of play in channels of the future; organized trade.

All those 4 set of actions we have already deployed. And we did mention both in our prepared remarks and also when I answered earlier that we do believe it will take a couple of quarters before we see the full impact of what we have done. Typically, when you end up doing such large scale changes, it takes some time before you end up seeing change. Early signs, I mentioned we have seen, both in terms of sequential business being higher in September quarter compared to June quarter.

We have seen, as I mentioned, early signs of volume growth in the latest quarter when I say volume, volume market share growth. But I would wait for a couple of quarters before we end up giving a view as to how all the 4 actions put together have panned out. But early signs are encouraging is the point I mentioned earlier as well.

Percy Panthaki: Just one quick question. If you can give me even a one-line answer. It will be okay. So in beauty, you've done quite well. It's a 7% growth. And the segment, which was really lagging is the mass Skin Care till now. I mean --

so has that problem been sort of solved? And is that back on track in terms of growth this quarter?

Rohit Jawa:

Yes. So I think I'll take this one. So on beauty business, as you saw, intrinsically, we are in 7-odd percent. We are happy with the progress we see on the premium end. Ponds is a great example of where we're seeing high -- very high double-digit growth. I also wanted to comment before we go to the mass end and specifically give you an update on that.

That just purely for what we call digital-first type masstige, more premium formats in segments we've called out the 6 segments we are focused on, more premium and more long-term market development nature, like sunscreens, de-seasonalizing body care, for instance, and some brands like Simple and Love Beauty and Planet.

This entire portfolio is already about the scale of almost INR2,000 crores and is growing in very high double digits, has a very high e-commerce and modern trade contribution almost 60-odd percent. And we are seeing very high growth in e-commerce as well. So it mirrors a typical premium digital first type of portfolio. And we now have a very strong capacity, whether it's through innovation, tracking, through trend matching, through formulating, producing, marketing with the whole influencer ecosystem, dedicated teams to sell beauty in e-commerce and modern trade and a dedicated channel for premium beauty outlets. So we feel confident to be able to incubate, build with scale premium beauty portfolio. This is where the exciting growth is.

Insofar as mass is concerned, we still have work to do. We are focused on improving, our big brand here is Glow & Lovely that needs to come back to momentum. We are focused on modernizing the core. We're focused on making its proposition stronger, improving its presence in more value-added segments close to the core or core plus with new benefits and sensorial formats and participating in high-growth segments, some of which we already have launched.

We have clear set of activities. They're in motion. We will see them going into the market in this quarter and the next quarter, and we are all very much laser-focused to basically get Glow & Lovely back on track. And with that done, I think that would then give us a complete portfolio. And of course, the

growth will always be more high in the premium segments and e-commerce channels, etcetera, which we have first started with, but we need the entire portfolio to basically be robust. But we're happy with the progress so far, a good quarter. But again, this is one of the many quarters that we have to stay focused in growing this business.

Moderator: The next question is from the line of Jay Doshi from Kotak.

Jay Doshi: Just a quick follow-up on tea. Usually, when -- this time, you have delayed price increases and overall demand for the industry has been weak for the past 2, 3 quarters. So usually ahead of price increases, channel tends to stock up. This time around, why have you not seen that trend at all? And do you see a risk that going forward, demand could weaken further once price increases are taken?

Ritesh Tiwari: Typically, Jay, there are a couple of categories which are more sensitive to price in FMCG, Tea and Soaps (Skin Cleansing), are those categories which are very sensitive to price change. So there is always a higher elasticity of demand consumption vis-a-vis price. But we've got to see how it all pans out in times to come.

The change in price, as I mentioned, at least as far as we are concerned, we are leaning into the price now in the market there is a large consumer franchise as a market leader we have, and that the consumer franchise will end up experiencing the price change. And we're very mindful of the amount of price changes we end up doing net of inflation, we will net it off against the savings that we end up doing.

So we'll have to see as to how that overall pans out. There's never a pantry-loading which happens. We have not seen that. Overall, not only HUL, but looking at the category STR, the stock levels in the industry. We have not seen a big uptick. In fact, overall, there's a little bit of pluses and minuses across categories, but there's no material change we have seen.

Rohit Jawa: If I may just, complement, because if you disaggregate our tea business, so there are certain parts of our business, the Lipton brand, the Taj brand that are somewhat less price sensitive. They, and including functional tea like the supplement tea we have on the Brooke Bond. They are continuing to grow in volume, in the current markets, and we're quite pleased with that trend, and

we would like to keep investing in growing that premium functional value-added segment of our tea business.

The part that is sensitive to price that operates more in the middle of the market, 3 Roses, Taaza, Red Label, the more larger part of the business, indeed reacts to commodity, which is the nature of this beast. And we have been -- we are in this business for a long time, so we know how these cycles turn. And generally speaking, an inflationary market has been historically favourable to brands like Taaza and Brook Bond and 3 Roses, when for the reasons mentioned by one of our colleagues there is pressure on the loose tea in the commodity. and people tend to then upgrade to brands like ours because they become more -- their premium sort of starts to shrink. We should basically expect to see the trend come back to this natural order. We should, therefore, be very mindful of not getting caught with in-quarter noises, pipeline and effects as such. And therefore, we should allow this quarter or 2 to sort of settle down. The price increase has been quite steep.

Bulk of the commodity is bought June onwards. So I think until June, people may have not even established the real price trend now that it's established that it's increasing. I guess the real market impact of pricing would be felt as we speak at this point. For instance, we are increasing prices as we speak as well. So I think we need to give it some time to settle down to go back to what we've observed historically in this category.

Moderator: The next question is from the line of Mihir Shah from Nomura.

Mihir Shah: Can you talk a bit on the quick-commerce channel? How is your market share in quick commerce versus general trade and modern trade that you have? Do you see this channel giving opportunity to new niche brands which are targeting the affluent consumer and can pressure premiumization trend for us and maybe lead to lower than market growth?

And a part B to that is, given the strong growth in quick commerce that you're seeing in the market, does this trigger any recalibration in the GT-channel inventory? Have you already lowered it vis-a-vis the past orders or past trends? So that's question one.

Rohit Jawa: Can I just go one by one. So I'll take your first question first. I just want to use the opportunity to clarify and give you a bit of context so that we don't

overread what we read, etcetera, in the press and apply uniformly to our market conditions. So first of all, channel structure. 2/3 of our business is in general trade. Therefore, heart of Hindustan Unilever business is with our kirana merchants, distributor inclusive is our priority number one.

We invest behind this because we want our shoppers to be able to shop through kirana and then to be digitally capable. And our Shikhar app is an example of a long-term investment in making this particular segment of our channel strong and robust. And we continue to be focused on the general trade kirana distributor-served segment, which is a majority of our business. Modern trade is increasing as is e-commerce, which is the nature and order of all countries as they evolve and develop. And it's about under 20% of our business.

We are growing consistently double digits. We're gaining share in modern trade. We have an advantaged share position in modern trade, and we intend to keep it like that and are investing to make sure we grow the categories. There are modern trade customers because they're interested in partners who grow the category value. So liquid, in laundry or the higher added bathing liquids in Personal Wash, for example, and so on and so forth.

E-commerce is about 7-odd percent, 6-odd percent of our business is clearly growing faster, and that is to be expected. We're gaining share on the whole, off course, led by Beauty where we are leaning in more specifically. Quick commerce is only a very small part of our e-commerce business. It is important to the extent that we have to serve all shopper missions.

The reason why quick commerce is doing well is because it serves a certain consumer and shopper need - convenience, sometimes they want very bulky items to be brought home. And we have by design segregated portfolio without any significant overlap with modern trade or general trade particularly that we sell in quick commerce, and it's by design meant to not overlap. The duplication is quite limited. It's to serve basically the occasions of convenience or of instant need. And we see that basically serving that need. So it's higher in ice cream which we already mentioned or for some kitchen items that people need or very, very bulky packs that basically people may not want to buy on their own, and they may require last minute. So I think for us, quick commerce is one small part of e-commerce and an

important part, nevertheless. And as part of the whole where we are trying to serve this omnichannel consumer for all of their shopping needs with such a broad range portfolio of business we have.

So therefore, I would say that, just explained to you the role of quick commerce in our business. Our market shares in quick commerce mirror, roughly a grocery market share, so they are roughly in line with the general trade market share. And our intention, of course, is that in every segment of the market, where there is growth, we increase the market share, and we have basically designed our portfolio and our promotional incentives to ensure that we stay competitive in quick commerce as well, even though it's a small part of our total e-commerce business, we want to win in every corner of the market.

Mihir Shah:

Sir, the other question that I had asked on the -- do you see this channel giving opportunity to niche new brands which can ideally target the affluent consumer and pressure premiumization trend. Given the Nielsen numbers, and all the aggregators are not capturing the slowness, but there is some growth out there in the market. Do you see this can be a possibility.

Rohit Jawa:

For us, yes, firstly, the notion of quick commerce or e-commerce of infinite shelf, low barriers of entry, etcetera, is all well. But at the end of the day, people scroll through. And we know that we have to drive online availability, we have to drive share of search. We have to pop up in the first few pages. We have to have the right promotions, we have to participate in festivals.

So we have a playbook for winning in different channels and within e-commerce in different what you call pods. And for us, the way to not worry about what Nielsen picks up or not is essentially to stay focused on market shares within each channel. We're measuring all of these channels through a fairly robust method. So we are tracking our market shares in these channels. And as long as we can keep growing them and if they go down, we then look at what reasons there are and keep optimizing is how we sustain. It's no different from playing in e-commerce in other pods or in modern trade, which arguably also has a similar opportunity for brands to enter, get listed. At the end of the day, may the best brand and mix win and consumers will prefer what's more superior and has better value. For us, therefore, competitiveness driven through unmissable superiority across all our 6P is really the mantra,

and we measure all of our brands, especially the big ones across the 6Ps and keep correcting and optimizing and that is a discipline we're embedding deeply in the business and it's something that is going to stand us in good stead. It doesn't matter which channel or which shopper mission.

Mihir Shah:

Sir, my second question is quickly on the OZiva and Wellness. I know that you've not taken majority stake yet. Maybe an update if you can share on the business. Have you validated or has Unilever validated the critical claims that those brands make? And any plans you can share on how to scale those business up. They seem to be very interesting products, which the new age consumer may want to have? And any plans on higher A&P, distribution backing that Unilever brand, equity that you can bring a quick update on that maybe will be helpful, sir.

Ritesh Tiwari:

Yes. I'm conscious of time. So sorry, I have to be a little brief, but I will answer your question in summary. So both the businesses, and we have -- as you know, we have a majority stake in OZiva, we have minority stake in Wellbeing, both businesses are doing very well. And we are seeing more growth, we're seeing more traction. And these categories, as you know, are at a very budding stage of getting embedded in the consumer ecosystem. There are good signals of that continuing to happen.

The entire focus on health and wellbeing, which has got elevated is helping these categories and businesses to do better. With OZiva, we already have our very clear contract in place as that at the end of 3-year period with an agreed pre-formula will end up acquiring the balance business that will happen by the end of next year, end of next calendar year.

And with Wellbeing Nutrition, we'll end up having, again, a conversation at appropriate time to do what we need to do next. So good news is both the business are doing good, strong brands are gaining very well share and we are investing more importantly in this format and this category demand spaces, because they will keep offering more value in times to come.

In the health and wellbeing space, the last point I wanted to make, this is the beginning. This space will only get more traction, and more sub formatted and sub segmented demand spaces. So as relevant, we have a strong set of

global brands and positions globally and in Unilever as relevant will bring more brands in India in health and wellbeing space.

Moderator: Ladies and gentlemen, we will take that as our last question for today. I would now like to hand the conference over to Ms. Shilpa Kedia for any closing comments. Over to you, ma'am.

Shilpa Kedia: Thank you, Dorwin. With that, we now come to the end of the Q&A session. Before we end, let me remind you that the playback of this event will be available on the Investor Relations website in a short while. Thank you, everyone, for your participation. Have a great evening.

Moderator: Thank you. On behalf of Hindustan Unilever Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.

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