Hindustan Unilever Q3 2014 Earnings Call 29 Jan'14

Operator

Very good evening, ladies and gentlemen. I am Souradeep Sarkar, the moderator of this call. Thank you for standing by and welcome to Hindustan Unilever Limited December Quarter 2013 Earnings Conference Call. For the duration of presentation, all participants' line will be in listen-only mode and post that, we will have a Q&A session. So now, without further delay I would like to hand over the proceedings to our first panelist, Mr. Dinesh Thapar. Thank you and over to you, sir.

Dinesh Thapar

Thank you, Souradeep. Good evening and welcome to the December quarter 2013 results conference call of Hindustan Unilever Limited. We have this evening with us Mr. Sanjiv Mehta, CEO and Managing Director; and Mr. R. Sridhar, CFO of the call from the HUL end. As is customary, we will start the presentation with Sridhar sharing aspects of our performance in December quarter, and then hand over to Sanjiv for him to share his perspectives on the business performance.

Before we get started with the presentation and handover to Sridhar, I'd like to draw your attention to the Safe Harbor statement included in the presentation for good orders' sake. With that, over to you, Sridhar.

Sridhar Ramamurthy

Thank you, Dinesh, and welcome to everyone who joined our call. As you know, this is the results for our third quarter of the current financial year, and I will quickly take you through the key messages and highlights from our performance.

Firstly, in terms of the flow, I just want to remind all of you of the strategy before then getting into the operating environment followed by the performance. The strategic context and the strategic framework remains unchanged, what we call the Compass, and the philosophy of running the business which is enshrined in the Sustainable Living Plan also remains unchanged. Equally, our strategic goals which is to deliver the 4Gs as we call it, consistent, competitive, profitable and responsible growth, also remain unchanged.

Coming now to the context and a few words about the operating environment during the quarter. Market growth of FMCG categories continued to be slow across categories during December quarter. This is a continuation of the trend that we've seen through 2013. Input costs were firm this time principally led by the depreciation of the rupee that took place in the third quarter of the calendar year 2013. Competitive intensity remained high, and on the media front, the quarter saw fair amount of uncertainty with respect to the regulations around the number of minutes of advertising time in every hour.

Just to go through a little bit of detail on what's been the situation as regard to input costs. And I talked about the rupee depreciation being the primary factor. You can see on the chart, the three key components which drive our input costs, PFAD, which is the principal oil that we use for our soap making, on the left hand side. On the extreme right, Brent Crude which determines the cost of our surfactants in our Laundry business, and in the center, the movement in exchange rate. And as you can see, there's clearly been a very sharp depreciation of the rupee that impacted the input costs on oils, on PFAD, as well as on crude.

Coming now to the summary of our December quarter performance. I think we are very pleased to have delivered yet another quarter of competitive and profitable growth. Our Domestic Consumer business grew by 10% ahead of market with 4% underlying volume growth. Both value growth and volume growth were ahead of market reported growth. Operating margin grew by 13%, driven by an expansion in operating margin of 50 basis points. This in turn was driven by a lower cost of goods sold managed through a combination of judicious pricing, weaning off of some of the promotional activities that were in place in the previous quarter and also aggressively driving cost savings.

The other [indiscernible] (04:16) operating margin improving clearly was a better mix, which I'll come and talk about in a minute. At the same time, we continued to invest behind our brands with competitive level of spends in advertising and promotion, absolute value of which increased by just over INR100 crores. Underlying profit after tax, which is PAT (bei) went up by 9% and net profit at INR1,062 crores was up 22% aided by exceptional items. Again, we'll talk about that a little later.

Just to also give you a little bit of trend of how our underlying volume growth has played out over time, this chart goes back as far back as December quarter 2012 and you can see from the chart that between December quarter 2012 and September quarter 2013, our intrinsic UVG was around 5% in each of the quarters. You see a higher reported number in March quarter and lower reported number in June quarter of 2013 linked to the up-stocking in advance of the expected transport strike at the end of March. Relative to that, the UVG in December quarter at 4% is certainly a tad lower but entirely reflects the slowing growth in the market place.

A key driver of our growth as you know is innovation, which alongside with activation and in-market execution really determines how well we grow our business. I am really pleased to share with you that in the quarter ended December 31, we had a series of innovations that we brought to market entirely consistent with our growth driver strategy. Just to call out a few from this chart, the re-launch of our Pears soap, the re-launch of Wheel laundry powder, a brand that we've talked about earlier, a series of innovations under our Lakmé master brand, both in Skin Care as well as in color cosmetics; and in tea, innovations in Lipton, Lipton Clear Green.

Alongside these innovations, we also had a series of activation programs that came into the quarter and you see a variety of these, a collage of these shown in the chart whether it's in the case of Close Up, the tie-up with a Tamil movie, or in the case of Lifebuoy driving a Hilton hygiene agenda; the partnerships with channel programs, in the case of Ponds activation programs with college students and so on.

On the next chart, you will similarly see some more examples of activation this time in our foods and refreshments portfolio across Nature Care in Red Label, generating trials of Bru Gold and in terms of our instant soup portfolio within Knorr. So both innovation and activation programs really, really being sustained during the quarter.

As you move forward and look at these categories, let me just give you the headline of our growth in each of our four product segments. Just to remind everyone on the call, this is the sales growth, not segmental growth that you see in the reported results because the segment results include the recovery of our other income related to work that is carried out on behalf of Unilever and in response to feedback from some of you from the quarter, I think the previous quarter, we have started sharing the real sales growth or turnover growth for the respective segments. All of the four segments have grown well in the quarter ahead of market, and in particular Personal Products and Packaged Foods both stepped up during the quarter.

With that overview, let me now get into the highlights of each of the segments and categories. And let me start first with Skin Cleansing, which has delivered yet another quarter of a healthy volume led growth performance. Pears, Dove, Breeze and Lifebuoy led the category growth with Pears seeing an innovation through a re-launch during the quarter.

Within Skin Cleansing, the liquids part is really what we call the segments of tomorrow, which we have been building over a period of time and this delivered a strong quarter in December quarter led by Lifebuoy hand wash. We also had a significant challenge in our Soaps and Detergents business in terms of the cost inflation, which as I mentioned earlier was managed through judicious pricing, unwinding of promotions and driving hard the cost effectiveness agenda.

Moving on to Home Care, which is a composition of Laundry and Household Care. In Laundry, we had strong growth in both Surf as well as our Rin franchise. During the quarter, in fact, towards the end of the quarter, we re-launched Wheel laundry powder which was one of the parts of our portfolio that had not been meeting our expectations until September quarter, and I'm pleased to say that with the re-launch, we are starting to see an improvement in performance. Comfort, which is our fabric conditioner business, delivered yet another quarter of very strong performance.

In Household Care, where we've been having many successive quarters of double-digit performance, the same was sustained in this quarter as well both in Vim as well as in Domex.

Moving now to our Personal Product segment and starting first with Skin Care. Skin Care as a market has continued to remain slow. In fact the market trends have been slowing through 2013. In this context, we've delivered good growth with broad-based growth across brands. Fair & Lovely, which we re-launched around August-September of 2013 is on track, driven by the superior product as well as a very focused communication plan. During December quarter we also launched an access pack at INR5 in order to get back some of the previous last users.

Lakmé is another brand that's been growing very strongly and this sustained its innovation-led growth momentum in December quarter as well. Facial cleansing, which is one of the other segments of the future where we have offerings across a series of brands in our skin portfolio has also done very well in the quarter.

Coming now to Hair Care, which has been seeing many successive quarters of strong double-digit growth performance, I'm really pleased to say this has been sustained with volume-led double-digit growth. Dove stepped up growth during the quarter, while Sunsilk, Clinic Plus and TRESemmé continued to do well. During the quarter, we also expanded our portfolio with the launch of Clinic Plus Vita Oil to make one other offering in the oil segment.

In Oral Care, which as you know has seen a very, very significant increase in competitive intensity, we are quite pleased that our growth has accelerated during the quarter with both Close Up and Pepsodent growing in double-digits.

Pepsodent as you know was re-launched in the previous quarter on the core GermiCheck platform and that's continued to perform well, while Close Up saw a very exciting activation in the quarter that contributed to its double-digit growth. At the same time, we

have stepped up our A&P investment in this category to ensure that we sustain our competitive position.
Final segment is the Personal Products, which is Color Cosmetics and here it's sustained its story of innovation-led strong growth momentum. Lakmé accelerated the volume led growth in the quarter with the premium range of Absolute & 9 to 5 sales more than doubling in the quarter.

We also had some new exciting offerings under the Stylist range that were added to the portfolio. Elle18, the other brand in our Color Cosmetics business also stepped up growth on the back of some impactful activation in this quarter.

Moving now to our third segment Beverages. This is a quarter which saw double-digit growth led by tea – sorry, the tea delivering double-digit growth in the quarter and the good news is this growth was sustained across all the brands in the tea portfolio.

At the same time our focus on market development also continues with respect to tea bags, with flavored and green tea bags more than doubling sales in the quarter. We also launched some innovations under our Lipton Clear Green range during this quarter.

In coffee, Bru continues to drive category premiumization led by Bru Gold albeit in a market where growths have been very slow. Overall across tea and coffee, we are seeing value growth in the market coming off as commodity costs have been relatively benign.

Finally, in Packaged Foods, it's been a quarter where growth has stepped up with the three key brands, Knorr, Kissan and Kwality Walls, all delivering double-digit growth during the quarter. In Kissan, the growth stepped up through the impactful market development, what we've been doing to inspire consumers to use the ketchup and jam in various different forms. Knorr growth was led by a very strong performance on instant soups, while Kwality Walls grew well on the back of good end market execution.

Finally our water purifier business, Pureit, has continued to perform well, strengthening its leadership in a challenging environment. In the Brand Equity's 2013 trusted brand survey, Pureit was ranked as the most trusted brand in water purifiers. The work that we've been doing to expand the portfolio and now have a full range from mass to premium has delivered well for us with the premium parcel portfolio delivering good growth.

Reverse Osmosis range, the UV range and the Advanced devices, have all grown good volumes in this quarter. At the same time, alongside innovation, we've always been focused on driving execution with the launch of the Pureit Perfect Stores program.

Just a quick run through of the segments. In summary therefore the financial results really reflect what I've been talking about. Domestic Consumer business growing at 10%, operating margin expanding 50 basis points and PAT (bei) up 9%.

Just to talk you through the movement between our operating profit growth of 13% and our net profit increase. You see that the lines of other income and finance costs are more or less similar to the previous time except that in the finance costs there is the impact of interest related to income tax that is charged during the quarter.

As far as the tax plan is concerned, we benefited from an exceptional item which is a reversal of tax provisions that arose from completion of assessments. The other elements of exceptional items which relate to property sales as well as restructuring cost are not very dissimilar, although restructuring cost has been at a lower level in this quarter.

So overall, it's a P&L shape that good top-line growth and a healthy bottom line growth. And as the chart captured, I won't repeat the points, but, as I said, we're really pleased we had one yet another quarter of competitive and profitable growth.

A quick look at the performance for the nine months, and this is more or less similar to the quarter with around 9% top line growth, 50 basis points improvement in EBITDA margin, and 7% growth in PAT (bei).

Net profit is more or less at similar levels as the nine months of the previous financial year albeit with a huge property sale from the Gulita property in the financial year ending March 2013.
As we look ahead, I was hoping to say is that our strategy which is outlined in the Compass remains unchanged, and our focus remains to manage the business for long-term growth to deliver on our strategic objectives of consistent, competitive, profitable and responsible growth. We will do this by both investing to strengthen our core and at the same time investing to lead development of emerging categories.

We are conscious of near-term concerns related to uncertainties in the macroenvironment as well as volatility in the external environment. While these short-term concerns are true, we remain positive on the medium to long-term outlook for the FMCG industry in India. And in order to leverage this positive opportunity, we believe that HUL is well-positioned with strong brand portfolio, very strong and superior capabilities, and a powerhouse of talent.

So with that, I'm going to hand you over to – in fact, I'm going to pass on to our CEO, Sanjiv Mehta, who is there on the call with us. And I'm sure he'd like to share his perspectives. Sanjiv, over to you.

Sanjiv Mehta

Thank you, Sridhar. Good evening, everyone. I am extremely pleased to join this evening's call and talk to you about my first quarter in this business. And before we get into talking about the business, let me wish all of you a very happy New Year, and I hope it will be rewarding and healthy one.

Let me start with my perspectives of this quarter. I will summarize it as another good quarter for HUL, consistent, competitive and profitable growth. We delivered against the priorities. We grew ahead of our markets with the Domestic Consumer business growing at 10% and with underlying volume growth at 4%. We also improved our PBIT margin by 50 bps. The quality of our growth has been good. We increased our A&P spends by 40 bps.

So these results reflect a consistent track record of investing competitively for growth as well as expanding the margin. Context, however, remains challenging with the country and the world at large, continuing to face series of political, economic, social and environmental uncertainties. Weak economic conditions and sentiments have resulted in market growth continuing to be under pressure, a sharp slowdown from a year ago. Against this backdrop, our performance has been reassuring and resilient.

Coming to the segments, I'm particularly pleased by the performance of Personal Products and Packaged Foods where growth has stepped up in the current quarter. Both the segments offer huge headroom for growth and are very clear growth priorities for us.

On Soaps and Detergents, we have a large business and it is good to see a sustained competitive growth whilst finding the ways to manage the sudden inflation led by the depreciation of rupee, again, a reflection of how we are dynamically managing the business in an increasingly [indiscernible] (19:39) context.

That then brings me to Beverage, but I'm conscious that value growth, which had received a fillip in the previous quarters, driven by the commodity inflation, has started to come off given the benign input costs in this season.

But what is important is that underlying this numbers is a strong portfolio of brands, which are in good shape, giving me the confidence that the business is well-placed. Therefore, when I look at the totality of our business and balance, I'd say that the state of the business looks healthy. Our brands are growing well. We have enormous talent in the business and we continue to make our organization more efficient and effective.

Let me now very briefly touch upon my views on the market. There is no doubt at all that the market context has continued to remain challenging. Consumer inflation, which has been at high level for some time now, and weak sentiment has taken a toll on both the rate and quality of growth across the categories we operate in. Overall sentiment still remains weak and the macroenvironment increasingly uncertain. It will take some time for this to change.

Having said this, I'd like to reiterate that at HUL, whilst we are conscious of the near-term concerns and like every strong business, we will find the ways to [ph] tie it (21:08) over it and come out stronger. We remain confident and positive about the mid-to-long-term outlook for the FMCG sector in India and HUL's growth prospects. There is absolutely no doubt or change in this view.

Let me conclude by making a couple of important points. Our focus will remain on the long-term health and enduring success of our business. We will remain competitive in our core categories and build segments and categories of the future, so what we in HUL call as market development.

Innovation will continue to be an important pillar of our competitive growth. We will also keep investing in product quality to ensure that our formulations are superior or at least equal to our competitors.

Our trust on operating excellence, which calls for brilliant basics day-in and day-out, will continue unabated. We will keep building organizational capabilities and be at the cutting edge of leadership and management development. Our goal of 4G, which is consistent, competitive, profitable and responsible growth, remains unchanged.

With this, I would like to now hand the call back to Dinesh, and I look forward to engaging with you in the days ahead.

Dinesh Thapar

Thanks, Sanjiv and Sridhar. With this, we'll now move on to the Q&A session. Recognizing it might be getting late for most of you, so what we'd like to do is try and bring this call to a close no later than 08:00 PM India time. Therefore, can I request participants who want to ask a question could really keep it tight so that we can accommodate as many during this period of time.

Before we get started, I'd like to remind you that this call is only for institutional investors and analysts. And therefore if there's anyone else on the call who wants to ask us a question, please feel free to reach out to us at the Investor Relations team.

What I'd now like to do is to hand you back to Souradeep, who will manage the next session for us. Souradeep, over to you.

Q&A

Operator

Thank you so much, sir. With this, we're now going to start the Q&A interactive session. [] And we have the first question from Mr. Abneesh Roy from Edelweiss. Your line is unmuted. You may go ahead and ask your question please.

<Q - Abneesh Roy>: Thanks sir and congrats on the numbers. Sir, my first question is in Q2 we are told that there was higher stocking for the winter products, and in Q3, we have seen winters being late, although it has picked up in the later part. Sir, if you could tell us how the winter products have done, and how you are seeing the impact in Q4 because of the harsh winter?

<A - Sridhar Ramamurthy>: Well Abneesh, thanks for the question. Yes, you are right. We had talked about stocking up at the end of September for the winter season, and as you know winter was delayed, so relatively speaking it would not have been as strong as we'd have liked, yeah. But overall portfolio as we said, when you look at our Skin Care, within our overall Personal Products business, that's one of the segments of our Personal Products business that has not grown in double-digits, whereas Health Care, Oral Care and Color Cosmetics have grown in double-digits, so to that extent you also see it in the Skin Care growth numbers.

<Q - Abneesh Roy>: Sir, one follow-up on this, on FAL you said now the re-launch seems to be on track, last year when you had done the re-launch, one of the goals was to graduate the customer from INR7 price point to INR8 price point. Now I see you launch INR5 pack. So what had been the learning from this, and how does a customer who has moved from say INR7 or INR8, if he moves to the INR5 pack, how does it impact your profitability and are you ensuring on the distribution part that such a customer doesn't down-trade?

<A - Sridhar Ramamurthy>: See one of the things about HUL's point of view, we've talked about it earlier, that our core part of our strategy is a portfolio of product and offering that straddle the pyramid. This is as much true in terms of having different brands that top two different consumers in the economic pyramid as it is true about different pack formats and different price points.

Now in the case of Fair & Lovely, you're right, we had taken up the price of our sachet from INR7 to INR8, and one of the things as we looked in the current context was an opportunity to make Fair & Lovely accessible to users who wanted to have a slightly lower putdown price. And therefore, this provides them an opportunity to experience the Fair & Lovely product, but at a putdown price that is at INR5, rather than at INR8.

So this is quite consistent with the portfolio strategy of straddling the pyramid. The reason we've said of course the re-launch is on track is, this is very, very big brand and it's now been three to four months in the market. As of now, it's moving in line with what we had expected and the INR5 pack is just one element of the overall portfolio of Fair & Lovely.

<Q - Abneesh Roy>: Sir, so customers won't down-trade INR7, INR8 to INR5?

<A - Sridhar Ramamurthy>: Not necessarily. It depends if the customer wants to have a lower price point, this is an opportunity. That way we also have 25 gram tube, 50 gram tube, 80 gram tube. The fact that we've got a 25 gram tube does not mean a 50 gram tube consumer goes on to 25 gram. It's targeted at different people, so I don't think that's an issue. And look at it positively that it allows access to people who want to have a lower putdown price.

<Q - Abneesh Roy>: And my second question is on the Food and Beverage business. If I see, there has been good growth in quite a few segments there. Tea, Kissan, Knorr and Kwality Walls all double-digit, but coffee clearly seems to be having an issue. So what's the market growth in coffee and if you could talk about the competitive growth there?

<A - Sridhar Ramamurthy>: So if you look at Nielsen reported market growth for coffee, it's actually negative, right. We have grown our business in modest single digits in coffee. So the reality is that, when you look – and this is the comment we've been making, when you look across categories and you just take a slightly longer-term perspective, so look at 2013 versus 2012, all of the categories have slowed in terms of market growth and coffee is no exception. So coffee markets are declining; we've grown modestly and of course our endeavor would be to accelerate growth of coffee as we move forward.

<Q - Abneesh Roy>: But sir you are not sharing why coffee is facing the brunt, whilst most other F&B at least for you seems to be doing far better. So in terms of [ph] discretionary (28:40) why coffee is facing the brunt?

<A - Sridhar Ramamurthy>: So if your question is, why is coffee facing the brunt rather than Kissan or something else, then of course different product categories, the footprint of these categories in different parts of the country is quite different. Tea of course is a far more nationally-consumed beverage as you know, coffee is not and therefore the new users that are trying to come into coffee, that's where a little bit of discussion perhaps is playing out.

Last point I would make is, I don't think and we said this consistently, one quarter's performance whether it is strong or whether it is less strong is not really the basis to come to any conclusion. And we have consistently said to look at slightly more longer term of trends to draw any conclusion. So I would not spend too much time on coffee beyond to say the growth in coffee even in this quarter is competitive.

<Q - Abneesh Roy>: Sir that's all from myself; I'll come back if I have more. Thanks.

<A - Sridhar Ramamurthy>: Thank you, Abneesh.

Operator

Thank you so much. We have the next question from Percy Panth (sic) [Panthaki] (29:55) from IIFL. The line is unmuted. You may go ahead and ask your question.
<Q - Percy Panthaki>: Hi, sir. Congrats on a good set of results. I have a couple of....

<A - Sridhar Ramamurthy>: Thanks, Percy.

<Q - Percy Panthaki>: One is on Wheel, the growth rate has been a bit of concern since a few quarters now and in the past also you had mentioned that there have been actions taken on Wheel and we should see the impact of that coming through. For whatever reason, Wheel – the growth has in spite of that continued to be a cause for concern. So just wanted to understand what are you doing differently this time around and why you would be confident that this time the growth pace will pick-up?

<A - Sridhar Ramamurthy>: Right. So, Percy, you said you had two questions. You want to just also cover off the second question or respond to both.

<Q - Percy Panthaki>: Sure. So my other question is your Packaged Goods sales growth has ramped up quite well. So I was just trying to sort of understand whether the same applies to the overall industry or it's just something that you have been able to do and the industry also still remains lackluster?

<A - Sridhar Ramamurthy>: Okay. Okay, Percy. So let me address the two questions. Firstly, as far as Wheel powder is concerned, what we have done I think we called it out in the innovation chart is we've re-launched Wheel laundry powder with a improved formulation in December quarter, in fact towards the end of the quarter and from the work that we've done in terms of looking at the product and the competing products in the segment, we believe that we've now got a better product and it should do well.

The performance even within the quarter, just to say, has been better than the previous couple of quarters. So even in December quarter, the growth of Wheel has been better than in the prior two quarters. As we look ahead, we expect that the re-launch having gone in and the way we're executing in the market, we would expect to see the growth further pick up, yeah that's on Wheel.

As far as Packaged Foods are concerned, this is a very, very nascent category and multiple times we've called out as a fairly nascent category. And it's less to do about market share, et cetera stuff; it's more about the opportunity to build the market to build habits of consumption.

I think what is pleasing in this quarter is that all the three of our key strategic brands, Knorr, Kissan and Kwality Walls have grown well; all of them have grown in double-digits. And I think it's just about continuing to invest in developing the market, building these categories with an appropriate mix of both innovation and activation that will give us the results.

<Q - Percy Panthaki>: Sir, my question was not to get an idea about market share, it was more to get an idea about whether there has been an improvement in the overall Packaged Foods market or not? That's the thing I was trying to...

<A - Sridhar Ramamurthy>: No, I think first of all, in terms of ice-cream, I think there is no real great pan national data, which is, you can take and give trends on ice-cream, it's not available. I think the overall picture as far as market growth on things like soups or things like jams and ketchup, the trend follows the other categories which is second half 2013 being slower than first half 2013. It is not that these categories standout very differentially in terms of market growth trends.

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

<A - Sridhar Ramamurthy>: Thanks, Percy.

Operator

Thank you so much, Mr. Panth (sic) [Panthaki] (33:31). The next question is from Mr. Jamshed Dadabhoy from Citi. The line is unmuted. You may go ahead and ask your question please.

<A - Sridhar Ramamurthy>: Hi, Jamshed.
<Q - Jamshed Dadabhoy>: Yes. Thank you. Hi, Hi how are you guys?

<A - Sridhar Ramamurthy>: Very well, thank you.

<Q - Jamshed Dadabhoy>: Okay. Thanks for the – Hello. Yeah, thank you for the opportunity. So just a couple of quick questions. If you take a step back about two quarters ago, we were anticipating or expecting that second half growth would be fairly buoyant driven by rural and the growth in rural was expected to come from stronger rain and good monsoons. So what is your read in terms of why there has been a slowdown in rural, and can you give some qualitative insights on whether you are seeing a broad-based slowdown across all categories on the rural side? So that's my first question.

<A - Sridhar Ramamurthy>: Okay. Okay. So do you want to ask your next question also, let me respond together.

<Q - Jamshed Dadabhoy>: Yeah. Sure. So if the fixed cost base, do you think you can going forward or [indiscernible] (34:36) without operating leverage benefit if volume growth remains in the 4%, 5% range for say the next 18 months or so?

<A - Sridhar Ramamurthy>: Okay. So let me just, first question....

<Q - Jamshed Dadabhoy>: [indiscernible] (34:49). Yeah.

<A - Sridhar Ramamurthy>: So let me just clarify, in fact to the contrary, I don't think we were saying six months back that we expect second half growth to be buoyant. On the contrary, we were saying that the sort of overall economic environment was such that it was possible to continue. We had of course said that good monsoons could be, it could provide a flip as a positive driver, but we had also said that for a few quarters, it is possible that the market growth would remain low linked to high levels of inflation, if you recall, we've called out and many other uncertainties in the environment.

So in some ways, while yes, we have seen reports of good monsoon, the fact is that market growths have continued to be slow. And even as we stand today, it is possible that it could happen, it is a scenario to play out for a few more quarters. So that's just I think the first point.

As far as fixed cost base and operating leverage in the context of low volume growth, I think, Jamshed you are aware that we in Hindustan Unilever have a very well embedded process of what we call, cost effectiveness programs that are very well embedded over many, many years, if not decades.

And therefore, the team is continuously looking to see how do we raise the bar on cost efficiency, whether it is in terms of savings in across in materials and procurement, by further leveraging our global synergies through the power of Unilever's procurement or indeed it is in our supply chain, manufacturing and distribution that we are able to get better throughputs with same level of fixed costs.

So I'd like to believe that this is a continuing agenda which will sort of happen year-after-year. Of course, it's more helpful when there are greater volumes, and therefore to the extent that the volume throughput is lesser, it just makes the job more challenging. But we would like to continue to drive operating leverage, both in supply chain as well as in our general overheads.

<Q - Jamshed Dadabhoy>: Okay. Thank you. And just coming back to the first question, qualitatively across categories, are you all seeing a slowdown on the rural side?

<A - Sridhar Ramamurthy>: Yeah. If I look at...

<Q - Jamshed Dadabhoy>: Of anything like...

<A - Sridhar Ramamurthy>: Yeah, yeah. I'll show you, fine. I mean I'd just say, let's not pick one quarter at a time, just take a slightly medium-term, so either you take 2013 versus 2012 or you could look at first half 2013 and second half 2013, I think it is fair to say that, I think pretty much all categories are reflecting a slower pace of growth, yeah. So that is I think a fairly accurate statement.

<Q - Jamshed Dadabhoy>: All right. Thank you very much.

<A - Sridhar Ramamurthy>: Thank you, Jamshed.

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

<Q - Jamshed Dadabhoy>: Thank you.

Operator

Thank you, Jamshed. We have the next question from Mr. Arnab Mitra from Credit Suisse. Your line is unmuted. You may go ahead and ask your question please.

<Q - Arnab Mitra>: Yeah, hi. Thanks for taking my question. Couple of questions, one is just on Unilever's global strategy, which includes SKU rationalization as an important element and the numbers being talked about is something like 30% SKUs being rationalized or reduced. Just wanted to get a sense how this could impact Hindustan Unilever. And does this in any way mean some hits on growth at least in the near-term?

And the second question was more on the media inflation side, with the change in the structure of the ways ad spends are done. Has that already impacted your costs or do you think things can really change next year or going ahead for you on the ad spend side?

<A - Sridhar Ramamurthy>: Okay. So, Arnab, [audio skip] (38:32) question let me just take your second question on media inflation, and then I'll pass to Sanjiv to comment on your question regarding the Unilever global strategy on SKUs, et cetera, yeah?

So as far as media inflation is concerned, I think we're starting to – already started to see the impact of that, because of the total time restrictions, et cetera, that we've discussed on previous calls, so some of that have already started to happen.

From our perspective, media just like materials or overheads is another line of cost that we need to look at in terms of efficiency and productivity in the same manner as the other line of cost and that's what we're doing with media and the entirety of advertising and promotional spend. So the marketing teams have got similar productivity goals in this area as the supply chain team has for example in manufacturing and so on.

So this is something that will continue to be under focus. We have previously talked to you about our Return on Marketing Investments program, that has worked well for us over the last couple of years, and the team therefore will continue to look at how can we become more efficient in this space, without, and I must emphasize this, without comprising on the competitiveness of our media spend, yeah.

Let me pass on to Sanjiv for your first question.

<A - Sanjiv Mehta>: Hi, in our industry operating excellence as you know is as important as innovation. That really calls for brilliant basics day-in and day-out, which then becomes a competitive advantage, be it in supply chain or an in-store execution. Now, we always look at a portfolio of SKUs and what happens is often with the innovations and renovations that happen, say you have a proliferation of SKUs and then you see that you have a long tail. So we always look at it and start pruning the tail.

Now, what is happening is, this year we have a concerted global program to look at how we can bring about more agility in the business, and prune the non-performing SKUs. Now certainly this is not going to impact our growth in any manner whatsoever, yeah, because these are the tail SKUs, and very clearly in fact it should help us get better growth for the simple reason they would be better focused, and that is how it will bring about more agility in the business. So rest assured, it won't impact growth.

<Q - Arnab Mitra>: Okay. Thanks so much.
<A - Sridhar Ramamurthy>: Thanks, Arnab.

Operator

Thank you so much, Mr. Mitra. We have the next question from Mr. Richard Liu from JM Financial. Your line is unmuted. You may go ahead and ask your question.

<Q - Richard Liu>: Hi.

<A - Sridhar Ramamurthy>: Hi, Richard.

<Q - Richard Liu>: Good evening, everyone, and thanks for taking my question. I have two questions; both relate to PP. Number one is on FAL, is there any further development or prognosis of what's happening there? You had mentioned about INR7 to INR8 being a possible issue sometime back and there was the white to pink problem. Now post the re-launch, we are still not yet seen a consistent double-digit growth in Skin there. Any new insight worth sharing on this aspect?

<A - Sridhar Ramamurthy>: Okay. Richard, great. Do you have a second question? I'll deal with both.

<Q - Richard Liu>: Okay. So if I look back a little longer there was a time when you used to consistently make 30% plus EBIT margin in all the December quarters in PP. I guess there haven't been substantial price wars in PP barring maybe the shampoo episodes in between. Margin, however, again has been sub-30% now in DQ of, if I recall correctly the last four years consecutively.

What has really happened here? Is higher E&P the sole responsible factor or is there something else at play? I think at the same time there's no real clear evidence also to suggest that this kind of a margin investment has actually led to growth ramp up in PP in any significant manner, if you can throw some light on this please. Thanks.

<A - Sridhar Ramamurthy>: Okay. Thanks, Richard. So let me take both your questions. First of all, as far as Fair & Lovely is concerned, we re-launched this in August or September. You are aware of the details. And obviously being such an important re-launch, we've got a very, very, if I may use the word forensic way of tracking various parameters, qualitative and quantitative parameters, to reassure ourselves whether it's on track or not, going into geography level information, so it's just not all India.

And as we called out in the presentation, I think we are pleased that the re-launch is on track both in terms of qualitative measures and quantitative measures. We of course -- this is a big brand and we'll continue to track it closely over the coming quarters as well.

As far as your comments off on double-digit growth in Skin Care not being there, I'd just like to draw your attention to the fact that the Skin Care market growths have been very, very slow. They continue to be slow in December quarter and I think we'd referenced earlier that being one of the areas of discretionary consumption, it's in a manner understandable when you see that market growths have slowed significantly.

I think we're pleased that we've grown well. And over the medium to long-term, the potential obviously in Skin Care is good double-digit growth, because the levels of per capita consumptions are low. So, so far on track and we continue to watch Fair & Lovely closely.

As far as the second point about – at any point of time, the December quarter margin being 30% plus in PP and what's going on, I think first of all, overtime, the entire shape of the market, the competitive intensity, the number of players, all of that have changed.

And more importantly for us, it's not just the percentage margin, but the size of our business and the absolute value that we create. And clearly Personal Products today is a much larger business in terms of the volume that goes through when you look at compared to five years back.
The fact also is that one or two segments have seen significant competitive intensity, more recently in Oral Care as we called out in our September quarter results as well as in December quarter. All of these categories of course are core and strategic for us. So we will invest and we are investing what is necessary to ensure that our competitive position does not get undermined.

So we are I think quite comfortable and one of the big things of the HUL business is of course the portfolio. And we look to see how can we leverage the totality of the portfolio to deliver on our goals of growing competitively and profitably. And in some quarters, it might be that we need additional investment in a particular category; in some other quarters, it might be some other category. As long as we are able to bring to bear the totality of the portfolio to work for us, I think we are pleased with how it progresses.

So that's how I would look at how this is evolving, and again, this has been a quarter also where we've delivered competitive top line growth as well as, I would say, a decent improvement in operating margin.

<Q - Richard Liu>: Thanks for your time. Wish you all the best.

<A - Sridhar Ramamurthy>: Thanks, Richard.

Operator

Thank you so much. We have the next question from Mr. Harit Kapoor from IDFC Securities. Your line is unmuted. You may go ahead and ask your question please.

<Q - Harit Kapoor>: Yeah. Good evening, sir. Just two questions. Firstly on soaps, just wanted to understand, over the last four quarters in our press release, you've mentioned that you've seen a double-digit volume growth. This time you haven't mentioned that. I just wanted to understand, one reason could be the promotional intensity coming off, but is there anything else to read into this? That's my first question.

Second one is on A&P spend; though A&P on an absolute basis has been higher as a percentage of sales it's been little lower as compared to Q2 which is the base quarter. With competitive intensity remaining high, I just wanted your senses on, is there any category that we've seen a lower level of competitive intensity and hence we've had to invest more – or invest less, I mean?

<A - Sridhar Ramamurthy>: Okay. Okay, Harit. Thanks for the two questions. Let me just respond to them in reverse order. We've said also earlier that the level of A&P investment that we make in any period is a function of two things:

One, the level of competitive intensity in the market and in particularly the A&P intensity that we see, and number two, the innovation programs that we bring to the market and the need to communicate what's new to the consumers. And therefore, all I can say is that including in December quarter, we maintained competitiveness of our A&P spend.

The sequential sort of tracking that you referred to frankly is not going to be very, very meaningful for two reasons: Number one, when you look at the mix of the product that go through in different periods that's sometimes different. Second, the innovation activity that we bring in; we saw, obviously we had a big re-launch of Fair & Lovely in our September quarter and in a quarter that you have a big re-launch you typically would have a big burst of advertising spend to communicate the re-launch, so different factors at play. I think the most important point is, it remains competitive and compared to December quarter 2012, it is 5 basis points additional investment.

As far as the comment or the question on soaps that we talked about in terms of double-digit volume growth, I think the fact is any of our growth comparisons, we always look at how are we performing relative to the market, and including in this quarter our growths are competitive. We have grown ahead of the market in soaps as well. It is true in soaps also that the volume growths have been coming down in the market.

Also in this quarter, as we've seen the impact of cost inflation going up principally driven by the foreign exchange, but also thereafter on the hardening of the palm oil prices, we have unwound some of our promotional activity which were volume based promotions. We've unwound them and therefore the mix of volume and price in December quarter is slightly different with a little bit more of price, a little bit less of volume compared to the previous quarter.

<Q - Harit Kapoor>: All right. That's it from me, sir. Thank you very much.

<A - Sridhar Ramamurthy>: Thank you, Harit.

Operator

Thank you, Mr. Kapoor. [] Moving on to the next question, we have Mr. Puneet Jain from Goldman Sachs. Your line is unmuted. You may go ahead and ask your question, please.

<Q - Puneet Jain>: Hi. Good evening, everybody. Thanks for taking my questions. My question is actually with respect to volume growth in the quarter is 4%. Now, if I look at on a Y-o-Y basis, third quarter last year was a quarter where volume growth went to 5% after large number of quarters. So this year somehow even low base is not helping the company post slightly better volume growth.

<A - Sridhar Ramamurthy>: Right.

<Q - Puneet Jain>: Will you have any thoughts on this?

<A - Sridhar Ramamurthy>: Yeah, yeah.

<Q - Puneet Jain>: And second thing, so volume growth will be that – could it be a reflection of some down trading, which is happening in the consumer space? And when do you really think will urban sentiments bottom out?

<A - Sridhar Ramamurthy>: Right. Okay. So Puneet, at the cost of slight bit of reputation, let me just remind everyone that market growths have slowed very significantly if you look at 2012 and 2013. In fact, even if you look at first half of calendar 2013 and second half of calendar 2013, market growths have further slowed. So whenever we look at growth, from our perspective, we look at growth in a context of competitive growth, how are we growing relative to markets. And obviously when market growths slow very significantly, then our growth also has a corresponding impact.

Volume growth, you're right in this quarter's 4%, which is a tad lower than the 5% that we've been intrinsically delivering in the prior three quarters. And it's really a function of two things; one, of course, the market growth further slowing as I talked about, but more importantly, the mix in our very, very large segment, Soaps and Detergents. The mix of price and volume growth in December quarter has been more price and less volume in December quarter. And that's really the principal reason for the UVG being about a percent lower on a sequential basis in this quarter.

<Q - Puneet Jain>: But, Sridhar, sort of [indiscernible] (51:53) quarters, your volume growth of 5% was also into a higher base of volume growth of 7% in the corresponding years?

<A - Sridhar Ramamurthy>: Yeah. So...

<Q - Puneet Jain>: While in this quarter, volume growth is 4% on a 5% growth.

<A - Sridhar Ramamurthy>: So which is why Puneet I drew your attention to what happened to the market because we obviously operate in a market. Just to give you a flavor in 2012, market growths in total value term were double-digits, yeah? In 2013 they are in single-digit, and within that second half year 2013 is slower than first half. So all of the things when you talk about growth is in a certain context of the market we operate in. Yeah?

The second point I think you were talking about down-trading. I think, at this point of time I would not say that there is any significant trend of down-trading that's visible. We normally look at things like down-trading over a slightly longer period of time, look at it for maybe two, three or four quarters before drawing conclusions. I think we need to just wait for some time, but I would not call out down-trading as a particularly something that stands out. I don't think I would say that.

If you look at our own performance, yeah, if you look at our own performance and just take two categories to make the point. Let's just look at a Personal Products category like Hair Care and look at the Beverages category like tea. In tea, all our brands, whether it is the premium or the midmarket or the mass market, all the three have grown in double-digits, yeah. Similarly, if you look at Hair Care, Dove has grown in double-digits as has Sunsilk, as has Clinic Plus.

So if you look at just two categories to take an example, whether it is premium or midmarket or mass, we've seen good performance in all parts of our portfolio. So I don't think there's any conclusion at this stage to say there is a very, very clear trend of down-trading.

<Q - Puneet Jain>: Okay. And my final question was about urban sentiment. When do you think it's in bottom-out and start improving because it is already quite low, and does it mean low on quarter-on-quarter?

<A - Sridhar Ramamurthy>: I would not say in urban or rural. I'd say overall, in terms of market growth, it's possible that we may have a few more quarters where we will see market growth being slow. But more important as competitors being around for 80 years, we tend to take us more medium-term to long-term perspective of the market, and on that there is no change in our view that we remain very positive about the growth prospects of FMCG in India.

<Q - Puneet Jain>: Okay. Thanks a lot.

<A - Sridhar Ramamurthy>: Thanks, Puneet.

Operator

Thank you so much. We have Mr. Abneesh Roy from Edelweiss for the follow-up questions. Mr. Roy, your line unmuted. You may go ahead and ask your question, please.

<Q - Abneesh Roy>: Sir, there're just one or two follow-up questions. We have launched hair oil now under two brands, and now the new product price is also much more marked. So what's the thought process we have and this question is to Sanjiv sir. What's the thought process we have in hair oil because we sold hair oil a few years back and now we're entering. And why I'm asking this is we had launched a fabric whitener also a few quarters back. So this is just to support the adjacent category and after the brand extension, or we want to be the market leader just like we are in almost every other segment.

<A - Sridhar Ramamurthy>: Okay. So Abneesh, let me just comment on hair oil and as you made a couple of observations about a second offering. You've made an observation about price point being much lower at mass end. So let me first state that in the last let's say 12 months to 15 months, we have made two entries into the sort of value added hair oil segment. One was about a year ago with Dove which is very clearly the very very premium offering, offering the benefits of overnight oiling without the mess of overnight oiling. So that was on a very differentiated proposition, differentiated platform with natural flower extract et cetera added. So very, very differentiated.

What we have launched in this quarter is Clinic, under the Clinic brand name and it's positioned very very differently with the sort of almond benefits, et cetera. So it's a very very different product offering a very different proposition and therefore the comparison of price points between what is Dove and what is Clinic Plus is frankly not appropriate because they are having two different propositions catering to two different segments, yeah. You had a question more in terms of strategy and I'm going to pass on to Sanjiv to give his thoughts.

<A - Sanjiv Mehta>: You know, in India when you look at the hair category and the conditioning habit, use of hair oil is very pervasive. Now, we are a big player in the Hair Care market. Now that is one segment where we want to be in. Now, the way we look at it, this is absolutely right what Sridhar said. We're talking about very different positioning with Dove and with Clinic Plus which we recently launched. Again, going back is – our strategy is to straddle the price benefit pyramid. So when we are talking about being in Hair Care, we would come to meet the different needs of the consumers and at different price points. So these are very clear two distinct brands, with distinct positioning, with distinct prices and they are there to meet the requirement of the consumers.

<Q - Abneesh Roy>: Sir, I understand the price straddling part. My question is do we plan to be aggressive in these? So, will your hair oil ad spend match the number one player, or we want to build this more as a support to the overall brand in terms of growth, maybe a few percentage points?

<A - Sanjiv Mehta>: If your question is are we going to be aggressive on the commodity side of the business? The answer is no. We will build distinct brands and that is where this comes in. Now, if you look at the Hair Care market in India today, is even the shampoo, the per capita consumption is very low, but if you really look at the regimen use in certainly things like conditioner, it is extremely low. So we have a job to play as the leaders to build the nascent categories and this is what we are doing. And one of the conditioning habits is oil so, we would certainly get in but we'll get in value added play.

<Q - Abneesh Roy>: Right, sir. Sir, one book keeping question, the staff cost has dipped quarter-on-quarter and Y-o-Y, it's almost flattish. Is this the number we need to factor in in coming quarter or is that a one-off here?

<A - Sridhar Ramamurthy>: No, no. So I think, Abneesh, we had called out at the beginning of the year that some of the teams that were housed within HUL and operating to global programs, which is what we call the Enterprise Support operation based out of Bangalore, they've from January 2013 moved into a separate entity. Therefore, you will see the other operational income going down and you see the staff cost also going down because these are now being incurred strictly. So you see those both in the revenue line as well as in the cost line. That will pan out in the next quarter or so, and then this will not be a reconciling item.

<Q - Abneesh Roy>: Sir, one last follow-up if I can. Basmati rice, again if you can – if Sanjiv sir can share the thought process. And do we have any such more products which can come, which we are exporting currently to other parts of Unilever, which can be potentially launched, if some thought process can be shared?

<A - Sanjiv Mehta>: Yeah. When it comes to basmati, yeah, we have been exporting basmati in different parts of the world for many years. So this is just a selective opportunity which is there in the trade, which we have tried to play with. And certainly, our intent is not to look at commodities, yeah. Our focus is going to be in branded packaged goods and that's where our efforts will be.

<Q - Abneesh Roy>: Right, sir. Thanks. That is all from my side. All the best, sir.

<A - Sridhar Ramamurthy>: Thanks, Abneesh.

Operator

Thank you, Mr. Roy. We have the next question from Mr. Manoj Menon from Bosch Securities. The line is unmuted. You may go ahead and ask your question please.

<Q - Manoj Menon>: Hello, sir. Good evening. Couple of questions here. One, when I briefly commented about the competitive intensity and also the other comment about the unbinding of three promotions. Essentially, how do I rate this to form a view on key price environment – or rather the price growth environment in the market today, that's one?

Secondly, the inventory levels which have gone up in September, is that corrected in December or still remains the same?

<A - Sridhar Ramamurthy>: Okay. So let me take the first one – let me look at the first question. When we talk of competitive intensities trying to give a sense in terms of what's happening in the overall market as we see all the levers whether that is pricing, whether that is advertising investment, whether that is innovation activity and that's the sense that we have when we see what's happening in December quarter, it remains high. There was of course a step up in September quarter as you know with some significant competitive entry into Oral Care as we've talked about. And that overall level of competitive intensity remains high.

When we talked about the unwinding of promotions that was specific to our Soaps and Detergents category and in soaps in particular, which has taken place as the cost inflation has started to come through. So that's a very, very focused commenter on soaps whereas the competitive intensity point is a far more broad based one about what's been happening in the FMCG markets.

<Q - Manoj Menon>: Sure. So the question on the inventory bit between September and December?

<A - Sridhar Ramamurthy>: That's what I just want to clarify. You see, it's not about inventory build-up. Whenever there is a season, and depending on our assessment of when the season is likely to break, particularly when we talk about winter and similar sometimes could hold true about summer with respect to talcum powder product, there is a pipeline that we need to start filling in to be ready for the winter. And what we said is that at the end of September quarter this time, I think we've got done a good job in terms of filling in the pipeline, or obviously with the delay in the winter that took some time to work itself through. So I wouldn't call it as inventory buildup. It's more about preparing in advance of a season so that our products are there on the shelf before our competition is there and gives the opportunity for us with consumers. But this time around obviously winter being delayed, that meant that that took some time to work its way through. There is no issue as far as inventory levels are concerned.

<Q - Manoj Menon>: Understood. Sir, one quickly on urban. I think there was a question previously. Essentially, just one thing from you would be very helpful would be that any green shoots or the way you look at let's say urban consumption or let's say [ph] in FY 2014 (01:03:27) would it be – just a competitive comment on can it be potentially better than 2013? I mean, are you finding anything on the ground to be optimistic?

<A - Sridhar Ramamurthy>: I think Manoj, you're right. Somebody earlier also had asked this question. First of all, I think just to remind everybody when you look at market data, the universe of stores that's part of the panel is 40,000 stores in a country which is 7 million, yeah. So we are talking about less than 1% being delivered, and therefore, what we have to see is directional data rather than precise, because margin of error 200 basis points, 300 basis points can very, very easily happen.

At this stage, based on what we've seen I think it is not something that we're able to call out either way, that there's a dramatic uptick or there's a dramatic downtick in urban separately or rural. The trend in both urban and rural, if I look at second half 2013 versus first half 2013, broadly speaking is similar. But we have to wait for one or two more quarters to have a point of view of the specific question you are raising.

<Q - Manoj Menon>: Sure. Sir, one last question, generally on the industry, so there is nothing specific to HUL. There is a generalized understanding that election spending helps consumption. Just want to understand from you about, let's say, the quarter went by in the states in which elections happened. Interestingly, many of them were contiguous states. Have you seen anything as a trend in terms of anything like that which has kind of supported consumption?

<A - Sridhar Ramamurthy>: Yeah. Manoj, you can imagine that this is again a topic in which we get asked questions. You're talking about the past. People ask about, okay, what do we expect to happen to FMCG categories post-elections? Firstly, as you may have heard us sometimes say, we are a company that sells soaps and soups. So it's not pretty dramatic. It's really daily use consumption but obviously with great potential because of low per capita consumption. So I really don't know whether election has had or does not have any effect. If you talk about have we seen anything in the state that saw state elections, I don't think we saw anything significant.

<Q - Manoj Menon>: Sure. Thank you so much, sir, and all the best.

<A - Sridhar Ramamurthy>: Thanks, Manoj.

Operator

Thank you so much. We have the next question from Mr. Vivek Maheshwari from CLSA. The line is unmuted. You may go ahead and ask your question, please.

<Q - Vivek Maheshwari>: Hi. Good evening, everyone. Two quick questions; one on other expenses. The growth quarter-after-quarter in other expenses is trailing the revenue growth which is driving operating leverage benefit. Till when do you expect this – because the base is already kind of – has all the savings perhaps that you've spoke about several quarters back despite which you have seen less than revenue growth. So one is that.

Second, could you remind again on fiscal 2015 tax rate that you expect and if you have visibility on fiscal 2016 as well?

<A - Sridhar Ramamurthy>: Okay. So first of all, Vivek, thanks for joining the call and your couple of questions. As far as other expenses are concerned, I think there're two parts to it. Firstly, in terms of philosophy, we look to drive leverage from all elements of cost and that's absolutely true with the items of cost setting into other expenses. But there is another part which relates to the point I just responded earlier, which is that you look at staff costs and you look at other expenses, the portion of costs that we were incurring which related to the activities of our Enterprise Support Group that shifted out to a separate entity, and therefore you see three line items moving. You will see staff costs getting a so-called benefit. You will see other costs getting a so-called benefit, offset by a reduction in the other operating income. So that part will more or less play itself out, I think, in the December quarter or March quarter when it'll fully play itself out. And so therefore, that clarifies your first question.

As far as your tax rate question is concerned of FY 2015, I think we would expect that to be in range of about 300 basis points to 400 basis points of increase. Obviously, there are many factors at play, as you know, the mix of products, et cetera. So broadly speaking, 300 basis points to 400 basis points.

I don't want to hazard a guess on FY 2016 now because I think with whatever comes in the next budget, there will be some changes. So let's talk about that once we have at least clarity on terms of the budget proposals.

<Q - Vivek Maheshwari>: Perfect. Thank you, sir, and all the best.

<A - Sridhar Ramamurthy>: Thanks, Vivek.

Operator

Thank you so much. We have the next question now from Mr. Prasad Deshmukh. Your line is unmuted. You may go ahead and ask your question.

<Q - Prasad Deshmukh>: I have just one question. How has been the modern trade growth for you this quarter? And are you seeing any sustainable improvement in the growth that modern trade has been witnessing in the past few quarters?

<A - Sridhar Ramamurthy>: Right. So I think you're obviously asking the question because in the past we had talked about modern trade store openings not being there, store closure, et cetera. Sorry. So I think we [ph] are at least (1:08:48) no longer seeing any store closures. In modern trade, in fact if it all net there's a slight increase in the number of stores. And we've been seeing I think decent growth in modern trade overall. So nothing specific to call out.

<Q - Prasad Deshmukh>: Okay. And can you just put a number to how the modern trade business has grown year-on-year for you in December quarter?

<A - Sridhar Ramamurthy>: I think if you look at December quarter, modern trade overall would have grown ahead of our overall reported growth. So I don't want to talk about specific numbers, but it's grown faster than our overall growth. And if you talk about sustainability, I think if you take a medium-term outlook, then clearly modern trade is poised to become a bigger share of the trade environment in India. I'm talking about medium-term to long-term. And therefore, we'd expect that to have -- to reflect in also higher growth.

<Q - Prasad Deshmukh>: Okay. Just one small follow-up to that, then. Can we assume – I mean modern trade, given it's an urban centric channel -- can we assume that this is also an indication of urban markets having started to do better versus what they were doing last four quarters, five quarters?

<A - Sridhar Ramamurthy>: See, when you talk about urban, the typical connotation is that top six, eight cities, whereas I think modern trade has also been growing to Tier 2 cities and so on. So it all depends on what we mean by urban. At this stage, as I said, when you just look at market growths of urban and rural, in a band of plus or minus 200 basis points, they seem to be fairly similar. So it's too early to call out if there is a distinct trend because that's also one of the questions that was asked earlier and I gave similar response.

<Q - Prasad Deshmukh>: Got it. Okay. Thanks a lot for taking my questions, sir.

<A - Sridhar Ramamurthy>: Thanks, Prasad.

Operator

Thank you so much. Sir, at this time there are no more questions in [indiscernible] (01:10:39). So I would like to hand it over to Mr. Thapar for any questions over there.

<A - Dinesh Thapar>: Right. Thanks, Souradeep. Yes, indeed, we do have a couple of questions, which have come in on the Web. So let me take the first one. It's a follow-up question from Richard Liu. Richard's question is what was the reason for the year-on-year EBIT decline in Beverages despite the double-digit growth in tea and benign commodity costs?

<A - Sridhar Ramamurthy>: So primarily, Richard, this is obviously a function of how our advertising and promotional investment fans out in different quarters. In this particular quarter, we did have an elevated level of advertising and promotion spend, and that frankly is something that we are comfortable with because we don't really look to manage a segment margin in every quarter. But just to be clear and respond to your specific question, it's the level of A&P investment compared to the same period a year ago.

<A - Dinesh Thapar>: All right. Our next question is from Nitin Mathur from Espirito Santo. Nitin's question is this is the fifth quarter of low to mid single-digit volume growth at the cost of significantly higher A&P though gross margins are holding up. I am concerned if this falling away from the virtuous cycle of growth strategy envisaged by the Unilever leadership in 2009?

<A - Sridhar Ramamurthy>: Yeah. So Nitin, let me first of all reiterate very very clearly that our approach is to deliver volume-led competitive [ph] growth (01:12:01) and there's absolutely no change in that emphasis. When you look at and compare trends on volume growth as indeed value growth, it's very important to compare that with what's happening in the market, and I think more than on one occasion in this call today, I did clarify that we've seen market growth continue to be slow.

If at all the one thing to call out, if at all the one thing to call out in this quarter on UVD is really in the Soaps and Detergents segment where the mix of volume and price growth has been more price and less volume relative to let's say the September quarter. And that's really a function of the inflationary trends that we've been seeing. But even in the Soaps and Detergents segment, we are comfortable and we see that we've grown ahead of the market. So I hope that sort of clarifies and both reassures that our emphasis on driving volume-led competitive growth remains unchanged.

<A - Dinesh Thapar>: Okay. We have a follow-up question from Abneesh Roy, again from Edelweiss who asks how does India compare to Africa in terms of growth competition and strategy for Sanjiv?

<A - Sanjiv Mehta>: Hi, Abneesh. When you talk about Africa I would believe you would be talking with reference to my previous job, which was looking after North Africa and Middle East. And if I compare versus that North Africa, Middle East were essentially two halves. One was the rich Middle East where the per capita incomes are very high, where the trade is very evolved, where it is about 75%, 80% modern trade and where the penetration and consumption levels are of a very high order, yeah. So there you have a very different game and where we had very strong market positions and very strong brand. And then we had, the more developing part of Middle East and North Africa, which were countries like Egypt, for instance, which in many ways are very similar to India where the trade is essentially general trade and where the per capita, the penetration levels are low and the per capita consumptions are very low. And they are the classical D&E markets, the developing and emerging markets.
Now of course a strategy has to suit the requirement, but the basic philosophy that we go with is very clear, that we straddle the

price benefit pyramid, yeah. Wherever we play, we want to win. And wherever there are strong DT markets, our distributive trade is very strong in terms of reach and also in terms of quality of coverage. And the markets where we have modern trade, we have very strong customer marketing and where our huge focus is building brands in stores.

So if I look at India, there is – the India which is growing rapidly in urban cities, which is more of a modern – which is growing rapidly when it comes to modern trade. And so here, certainly I would be bringing my experience of the more evolved those countries into play. And where it has been – where it is more a rural dominated, I'll certainly bring in the experience of my working in countries like Egypt into play.

So from that perspective, the nuance is very clear, but the strategy and the competitive pressures vary from country-to-country. And we certainly in Unilever – in Hindustan Unilever, we have clarity of strategy – absolute clarity of strategy and we are continuing with the strategy, yeah. We are staying on course as we have amazing talent, we have a very strong pipeline of innovation, and focus on execution again like I was saying earlier remains unabated.

<A - Dinesh Thapar>: All right. Our next question is from [ph] Ashish (01:16:25) from Elara Capital. And [ph] Ashish's (1:016:26) question is does the global business restructuring by Unilever have the effect of staff rationalizing and decision making becoming more global than regional in terms of products, marketing and advertising? If yes, then how does it impact the way of functioning at HUL and how much cost saving impact does the restructuring bring to HUL and in what timeframe?

<A - Sanjiv Mehta>: See at a global level we continuously do our benchmarking with the peers and best-in-class, yeah. Now, when we look at, we have what we call as a marketing fit to win. And this initiative is certainly going to be for the benefit of company like HUL. In the marketing fit to win, what we are essentially doing is de-layering the regional brand development organization. And for a company like ours, there is going to be direct docking with all the global brands.

So instead of going through the regional organization, they would be coming directly to HUL and that will be certainly for our benefit, because there are going to be fewer touch points and direct billing with the global brands, so we'll be much more quicker to the market which is very vital for a fast moving consumer goods business like ours. So if I clearly look at marketing fit to win, it would be bringing in more agility, it would be bringing in more speed, it would be bringing in more focus and it would be for the benefit of HUL.

<A - Dinesh Thapar>: Right. Thanks. That brings us to the last question from Abneesh. And Abneesh's question is HUL has been aggressively promoting detergents. How far has these discounts contributed to share gains, and has HUL withdrawn these discounts or they're still in force?

<A - Sridhar Ramamurthy>: Okay. So I think Abneesh, one of the things that we always look at in terms of deploying our strategy is how best we leverage the portfolio that we have, portfolio of brands and within every brand, the portfolio of offerings in terms of products. So as far as promotions are concerned, these are part of our strategy, they need not necessarily be national. Some of these might be in specific geographies where we look to see how best to strengthen our competitive position.

I think in your question, you've talked about also some price-off on Wheel. That's a promotion that we were doing at a point of time. I don't think that's any longer the case with the re-launch that we brought into the market. In fact, the re-launch has come in with higher price points of Wheel detergents. So these are things that happened and operate dynamically. This is not something that is the casting spoon at a permanent thing. And as we move forward, we will continue to look at how best we leverage our portfolio to deliver on our goal of bidding competitively as well as profitably.

Dinesh Thapar

Okay. All right. I noticed a lot of you have actually sent in questions on urban versus rural. I think we've sufficiently answered those in the portion of the call. So in the interest of time we want to give those a pass.

I think with that we've now come to the end of the Q&A session. Just before we end, let me remind you that a replay of this event will be available on the Investor Relations website. You can always go back and refer to it. Also a copy of the results and the presentation that we just made will be available on the IR website as well as the HUL investor app.

With that, I'd now like to draw the call to a close. Thank you everyone for your participation and have a good night. Thank you.

Operator

Thank you so much. Thank you all the panelists. Thank you investors for joining us. Hope you all have spent some useful time. With this we conclude the conference for today. I wish you all a great evening ahead. Have a great day ahead.