



Hindustan Unilever Limited

June Quarter 2015 Earnings Call of

Hindustan Unilever Limited

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Speakers:

Mr. P. B. Balaji, CFO

Mr. Dinesh Thapar



Moderator

Good evening, ladies and gentlemen. I am Palak, the moderator for this call. Welcome to Hindustan Unilever Limited June quarter earnings call. For the duration of the presentation all participant lines will be in the listen-only mode. After the presentation, the question-and-answer session will be conducted for all the participants on this call. I now hand over the call to Mr. Dinesh Thapar. Thank you, and over to you Mr. Thapar.

Dinesh Thapar

Thank you, Palak. Good evening and welcome to the conference call of Hindustan Unilever Limited. We'll be covering this evening results for the quarter ended 30 June, 2015. On the call from the HUL end this evening is P. B. Balaji, CFO. Our CEO and Managing Director Sanjiv Mehta will not be on the call this evening since he had to step out on a personal exigency which means that we will really start with the presentation with Balaji sharing aspects of our performance for the June quarter, and then he will talk through comments which Sanjiv would have otherwise delivered, so Balaji will cover that portion and then we'll get into the Q&A session right after that. Before we start with the presentation, I'd like to draw your attention to the Safe Harbor statement included upfront in the presentation for good order's sake. With that over to you, Balaji.

P. B. Balaji

Thanks, Dinesh. Once again Sanjiv wanted me to convey his apologies for having had to step out on the last minute due to a situation beyond his control, so sorry about that guys. We will try and do our best to answer all your questions as the call progresses. Let me quickly cut to the chase and talk to you of what we will be covering today and just a sense for in terms of the strategy as we all know is maintained, absolutely no change and that's a good news and the goal of consistent, competitive, profitable and responsible growth remains. Moving on to the context, the business environment remains challenging. Market recoveries are yet to stabilize, particularly in rural, and the deflationary trend in input cost is impacting price growth and competitive activity continues to remain high. It is in this context that we have delivered this quarter and just to give you a bit of a flavor of what the numbers are like, as you would know the key raw materials like PFAD which goes into manufacturing of soap down by almost 20%. Brent crude which feeds into LAB almost down by about 40 odd percent. Exchange rates compared to last quarter same time last year marginally inching up, but given the kind of movement that we've seen in other emerging market currencies it will be fair to say that rupee has been very stable and performing well there.

In terms of our performance, profitable, volume led growth has been sustained this quarter as well. Domestic consumer reported growth, what you would see in the published results, is up 5%, but if you adjust for the phase out of excise duty benefits of almost 170 bps then the domestic consumer business is up 7%. This 7% comes from the back of 6% underlying volume growth and the good news is this volume growth is broad based across all our segments. And the negative price growth that you've seen reported growth are arising fundamentally from then lower input costs primarily in the commodities-led categories like soap and detergent and the phase-out of excise duty benefits which basically impacted the soaps business and the personal products business.

Operating profit at INR 1,432 crores was up 15% with the margin expanding – operating margin expanding by 140 bps. And if I just ease out the individual elements of it, the most obvious one is the impact of excise duty benefits which adversely impacted PBIT by 65 bps, cost of goods sold lower by 380 bps, basically reflecting the lower commodity costs as I alluded to earlier, and the strong savings delivery that continues to grow at a good pace.

Competitive spends have been maintained and A&P was up INR 209 crores or 22% and 14.5% of sales, which is almost 200 bps higher compared to the same period last year, and other expenditure was lower fundamentally delivered through operational efficiencies.

PAT (bei) at INR 1,053 crores was up 3% and net profit flat at INR 1,059 crores, basically due to the growth. If I see in PBIT of 15% does not fall all the way to the net profit line, fundamentally due to the one-time profit on the sale of investment of INR 106 crore in the base quarter same period last year and the corporate tax rate which was filed, it's something that we have been signaling, and the 31.7% growth that you see there is in line with what we have been guiding you. And if I move one level further into the respective segmental performance, we've tried to give this time on popular demand the underlying growth rate after adjustment of impact of excise duty benefit for each of the sub



segment. Soaps and detergents were flat, but if I adjust for the excise duty it was up 2%, and here basically the healthy underlying volume growth has been offset almost entirely by the price de growth.

Personal products reported at 12%, underlying at 15%, it now makes it one of its strongest quarters on personal products for some time now and beverages running at, clocking at healthy 9% growth and packaged foods, a very pleased to see it delivering the seventh successive quarter of double-digit growth in this quarter as well despite challenges in some segments of that market. Moving deeper into the category highlights, the innovation pipeline continues to be rich and intense and I am sure you'd have seen some of these hoardings in the market as you move around. With Dove, Lakme, Fair & Lovely BB Cream, Dove shampoo, Pond's spot removals, Lakme Absolute, Kissan Twist, a significant pipeline of innovation all big and rich. All of them are activated quite extensively, be it on Fair & Lovely getting women online, digital amplification of offline activations like the Lakme Absolute Sculpt, and of course the Clinic Plus or the tie up with ABCD 2, strong activation pipeline and that's continued which is what we have been trying to do with a host of content providers and that's what we had at the Content Day, and we had a whole host of be it television, be it radio, digital, film production, popular culture people, production houses coming together and there are 39 content partners who landed up – who worked on 11 different brands to generate 300 plus ideas in the first half, which we are now down selecting into a few ideas that we want to really build. So therefore building a full ecosystem around the way we want to activate our brands in the marketplace. So a strong work happening on that front. Moving into the respective category performance, skin cleansing was a volume-led growth where the category performance was led by premium soap, and we see our performance in the mass segment was slowing down. Dove delivered double-digit growth with the new hybrid variant introduced, and Liril as you are aware with the re-launch of the fresh is back proposition, and there are clear actions being taken to simulate the mass segment growth which you would see in the coming months. Liquids clocked double-digit growth led by Lifebuoy handwash and there are further price deflation in the quarter due to the two reasons that I alluded to earlier.

On Home Care, that growth was led again by the premium segment where the laundry Surf continues to deliver broad based double digit growth with strong volume and Rin growth led by bars with the overall bars portfolio doing pretty well. Wheel's performance was subdued and it was aggravated by a slowing mass market, and Comfort registered another robust quarter based fundamentally on market development which continues to grow strong. Household care, happy to see Vim deliver a double-digit growth, volume led growth, driven by the tubs and liquid formats, and liquids in particular is again a market development story that's playing on quite nicely, and a further price deflation in the quarter given the benign commodity context.

Moving on to the Skin Care, which was volume led double-digit growth playing on in Skin Care, where all the big brands, Fair & Lovely, Pond's, Lakme, Vaseline all delivered double-digit growth. FAL continued to do well and both on the core as well as the new innovations that are landing, I am sure you have seen the BB Cream launch, and that has received encouraging response. Pond's growth was led by premium skin lightening and facial cleansing, again strong performance there, and Lakme buoyed on the success of various innovations continues to do well. And Vaseline performance is something that we were not too happy earlier, has stepped up this quarter and delivered across the lotions portfolio, in particularly creditable given some more variants that is getting activated. And the call-out on skin care is that it delivered a strong performance despite the phasing out of an excise duty benefit and which goes with the story of all the work that's happening on this space seems to be bearing fruit.

Another equally strong success story is the Hair Care where strong volume-led double-digit growth momentum was sustained and this was broad based across brand and formats, be it Dove, be it Sunsilk, Clinic Plus on the back of the re-launch, and TRESemme continues to be more prolonged. So here again there has been a strong performance despite the phase out of the excise duty benefits. Moving on to the Oral Care, the growth was led by Close Up, where Close Up delivered double digit growth driven by impactful activation on micro marketing and its variants continued to do well. In terms of Pepsodent, work is underway, and as of now the growth is led by Gum Care, and Clove and Salt variants and this has been extended out nationally. The phase out of excise duty benefits has impacted this category significantly this quarter and that's something that you should see going forward move out whether this quarter onwards. On Color Cosmetics, continues to deliver innovation-led double digit growth. And both the brands, that is Lakme as well as launches in Elle 18 with strong innovation pipeline and growth was broad



based in the case of Lakme both in the core as well as Absolute and 9 to 5 range, all of them growing double-digits. And the new one which is Absolute Sculpt range has really done very well. And it was an exciting launch of Lakme Absolute Vinyl Eyeliner, Shade Matt Lipstick range, so a strong innovation pipeline coming to the support of this particular category.

Moving on to beverages, this was broad based growth across brands where tea delivered double-digit growth with healthy volumes and be it Red Label, Natural Care, and of course a continued strong performance in Green Tea, all of it doing coming to the party here. And coffee, the growth was led by Bru Gold which more than doubled sales this quarter as well. Packaged Foods, as I called out, seventh successive quarter of double digit growth and Kissan delivered one of its strongest quarters with the growth accelerating across both ketchups and jams and two new ketchup variants launched under the Twist names with some activation with Pizza Hut which you would have seen. And Knorr grew despite a sharp slowdown in the market post the noodles issue and it was led by instant soups and the new variants that have been launched in this portfolio. And Kwality Walls and Magnum registered another good quarter driven by distribution expansion and in-market activation and both these brands continued to work along. As far as Packaged Foods is concerned, the story is pretty unchanged, there where we are focused to drive on everyday relevance, driving adoption and sharper in-market execution. We had shared it with you when we went through the investor meet and that's exactly what's playing out in our numbers as well.

As far as Pureit is concerned, we continue to strengthen the category leadership but the market has slowed down quite significantly. In fact it's a negative growth this quarter and Pureit grew ahead of the market, and led primarily by premium innovations that's driving growth. So summarizing the results, the net sales of 5%, there's a PBIT improvement of almost 140 bps representing in a PBIT growth of 15%, net profit flat due to the base issues on both the exceptional items being lower and property sales being lower, higher tax as well as higher financial income in the base year. That's probably what I covered. Let me go through it again, just leave it for a minute. I think the effective tax rate in the quarter was 31.7%, which is broadly in line with what we had guided you when we met last time. So to summarize, the results have been profitable, volume growth sustained in a challenging quarter, where reported consumer business grew by 5% with an underlying at 7%. Volume growth healthy at 6%, broad based across segments, investments, up almost 200 bps, A&P up 22% and despite the PBIT margin expanded by 140 bps because of lower cost of goods sold and good operating efficiencies partially offset by the phase out of excise duty benefits. So that's the broad story for the quarter. Looking ahead, in the near term, improved market growth has largely dependent on rural and the soft commodity costs are expected to remain in the coming quarter resulting in a deflation in select categories, particularly soaps and detergents. And the impact of the phase out of fiscal benefits is likely to continue for another couple of more quarters. It is likely to come down from the current quarter to a much lower level as the quarters progress but another two more quarters that remain. And in this context HUL will focus on sustaining profitable volume-led growth. That's our near-term goal. As far as the mid to long-term goal you have heard me say multiple times our outlook on FMCG continues to remain positive given the penetration rate, given the kind of consumption levels of the country of FMCG products and therefore our strategy remains unchanged of consistent competitive profitable and responsible growth. And this is just a call to our website and the investor app which I am sure you would have accessed.

So what I would probably do is since Sanjiv had already prepared his speech and kept it ready, let me just read you through it in his words, how he sees the business so that you are have least heard his views as well.

Here, I am now quoting from Sanjiv.

Let me start by saying that I believe that we have delivered a healthy performance especially given the context of the markets in the last quarter. Market growth have yet to stabilize. There have been quite a few moving parts, especially on commodity led category and in rural and this has meant that trends are not readily discernible from the data that we are seeing. Having said this what I am pleased about is the fact that we have sustained another quarter of profitable volume-led growth. Our volumes have been healthy across the business. They've continued to drive efficiencies in our operations, invest competitively behind brands and deliver a strong improvement in operating margins. This really is what our business model is all about, driving the virtuous circle of growth, more volume growth, more efficiencies, more investment behind capabilities and brands all leading back to more profitable



volume-led growth. Now in the quarter domestic consumer businesses has delivered 5%. If I exclude the impact of phase out of excise duty benefits, the number is 7%. I'm conscious that this is lower than what we might have seen in the past, but the way I see it there are two parts to it. The first part is price growth. The fact that the contribution of price growth in our overall growth profile has continued to fade isn't really new news. You've seen it happen in the recent quarters.

Apart from the impact of the phase-out of excise duty benefits, which we have been talking to you about, the negative price growth is fundamentally because of a conscious decision we took to pass on the benefits of lower commodity costs in our soaps and detergent segment back to the consumer. So when I am conscious of the deflation of the fading price growth component, it does not overly concern me because I know that this part of the growth will come and go. Its contribution to growth will differ across brands depending upon the commodity prices. But both you and I know that from past experience that what you would see today could be very different tomorrow on the monetary front. Having said that, in times like this what is important is that we have our eyes on volume growth and that's actually important at all points in times, particularly towards this time. This is an important indicator of health of the business and I think particularly important during the deflationary environment. It tells you whether your consumers are with you, whether they are buying you, whether they prefer you as they make their choices. This then brings me to the second part of our growth, which is underlying volume growth. Our underlying volume growth in the quarter has been good, consistent and broad-based across segments, which means that consumers are choosing our products and that gives me a lot of satisfaction. Now coming to a segment when I look at Soaps & Detergents, it has been quite a volatile environment in the recent quarters. Our growth has been led by volume, which is a heartening sight. We have continued to take decisive actions to drive our competitiveness and leadership positions in these categories. And although it has meant price inflation in the quarter has offset healthy volume growth, we are continuing to grow profitably as we dynamically manage the business while improving value for you consumers. To me what is also important is that the experience and learning of 2008 and 2009 in which we saw negative volume growth when we did not proactively respond to a fast-changing environment, I believe what we are doing now is right for the business and will stand us in good step for a period of time, not just the near term. Let me state upfront that staying competitive is clearly a non-negotiable. We are already starting to see the effect of our actions reflected in the current volume growth. And I'm convinced that once the rural markets, which contribute significantly to the segment, come to the party, you will see a full effect of the actions play out.

Moving onto Personal Products, I would say that this has been one of the strongest quarters, notwithstanding the phase-out of fiscal benefits which has peaked this quarter. This part of the business has grown in momentum and for those of you who were with us in the Annual Investor Meet last month, you will know our ambition and exciting plans for this segment. Looking at the categories, in skin care all our key brands are doing well, Fair & Lovely, Pond's, Lakme and Vaseline, have all delivered double-digit growth in the quarter. Importantly, our flagship brand Fair & Lovely continues to perform well and now takes another step ahead on the premiumisation front with the launch of the new BB Cream which has received an encouraging initial response from consumers.

On Hair Care, I am very pleased with how this category has been performing. We've been seeing broad based growth across all brands, Dove, Clinic Plus, Sunsilk, TRESemme and in both bottles and sachets. Our brands are becoming stronger and delivering consistently. And I am satisfied to see the solid progress we are making here quarter after quarter. As far as oral is concerned, Close Up is on track on the back of impactful activation in the marketplace. As far as Pepsodent is concerned, the growth has been still relatively subdued given our expectation and clearly we need to do more to step up its performance. With the work in progress, we are positive on bringing this category back to its competitive growth. Talking about color cosmetics business under Lakme, the business has sustained its momentum driven by actions that we have taken over a period of time to premiumize the portfolio. The digital activations in the space have been doing really well for us, the latest being the Lakme Pro App. This is a classical example of the work we are doing to build a relatively nascent category and in setting and shaping contemporary actions and beauty trends through an emerging iconic brand like Lakme. So overall in personal products business looks good and apart from overall web actions are underway our performance are strong. That then brings me to Beverages which continues to deliver healthy broad based growth across brands. The consistent performance in our tea category is a reflection of the actions that we have taken over time to strengthen the



marketing mix, sharpening our activation and drive marketplace executions we're aiming at. As a result, our brands have continued to gain both equity and consumer franchise. I am sure many of you have seen the latest communication on Red Label which is connected well with its audience leading to accelerated growth for the brand.

And of course on Lipton Green Tea, we have been investing in the growing nascent categories and have been seeing some very encouraging results. In coffee it's good to see Bru Gold continue to drive the premiumisation in the category. Again, I would say I am pleased to see our beverages segment deliver good steady and balanced performance for some time now. On Packaged Foods it's been a delightful story. With a seven successful quarter of double-digit growth, I am sure you are seeing the growth story that we have been talking to you about for some time actually play out. To reiterate, we are excited about the space and continue to believe there is improvement opportunity for much growth in these categories and have committed to stay in the course on investing behind market development. At some point, innovation will act as narrative as industry develops again. In terms of brands, Kissan has been growing in momentum, an example of unlocking growth by building relevance. Knorr growth has been muted by the noodles issues in the market this quarter, has much potential and we are focused on driving adoption and trials here to build demand. Ice creams at both Kwality Walls and Magnum continues to show profit and do well and in fact in the last quarter delivering double-digit growth despite inclement weather from unseasonal rain. Overall you'd agree with me that given the performance of some quarters now Packaged Foods as a segment is shaping up well and pretty much in line with our strategic intent.

Lastly let me talk about water where we have grown in a challenging consumer durables market. Our premium innovations continue to drive growth for us in this category. Also I'd like to share with you that Pureit has won the Reader's Digest award for The Most Trusted Brand in 2015, a fitting recognition for a brand that's delighted consumers by combining the best of technology with a larger social purpose of making clean drinking water accessible.

Let me end by saying that when I look at the totality of our business on balance I would say that the state of business looks healthy, our brands are growing well and we continue to make progress on strengthening our leadership position. We will remain competitive in our core categories while building segments and categories for the future alongside. Our priority will always be the long-term health and enduring success of our business and although in the near term there are concerns on market growth and the prospect of benign commodity prices, we remain focused on dynamically managing our business to sustain profitable volume-led growth. As markets and consumer evolve over the mid to long term, we are well positioned to continue to deliver on our goals of consistent competitive profitable and responsible growth.

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

Dinesh Thapar

Thanks, Balaji. We will now move to Q&A session. We'd like to try and bring the call to a close by about 7:30, which essentially gives us about 60 minutes for Q&A. Can I therefore request participants who want to ask questions to keep it really tight so that we can try and accommodate as many during this period of time. In addition to the audio queue, participants also have an option to post a question through the web option on your screen like you can see coming up and therefore I encourage you to use that as well. We'll pick those up in the course of the session. Before we get started with Q&A, I'd like to remind you that this call and the Q&A session is only for institutional investors and analysts and therefore if there is anyone else who is not an investor or an analyst but would like to ask a question please feel free to reach out to us at the Investor Relations team. With that I'd like to hand the call back to Palak who'll manage the next session for us. Palak, over to you.

Moderator

Thank you very much, sir. We will now begin the question-and-answer interactive session for the all the participants who are connected to the audio conference service from Airtel. [Operator Instructions]. The first question comes from Mr. Percy Panthaki from IIFL. Mr. Panthaki you may ask your question now.



Percy Panthaki

Hi good evening everyone. My question is on the ad spend. Just wanted to understand, 200 bps increase in A&P on a base which was not artificially low or anything of that sort, seems to be a very high level of A&P. So can you just help me understand, first of all, is there any phasing issue in this, where it is bunched up this quarter? That is point one. Point two is, if you can tell me Q1 FY '16 versus Q1 FY '15, is there a change in the split between the A&P components of this line?

P. B. Balaji

Hi Percy. As far the A&P expense is concerned, the decision on the magnitude of A&P to be spend, as you are well aware, is a combination of what is the competitive intensity in the marketplace, what are the innovation pipelines, there is a pretty healthy innovation pipeline that we've had in this particular quarter, as well as, as you rightly said, a split between the A and the P lines as well. So therefore as far as the A&P line is concerned, the 200 bps increase that you see, there is a fair amount of P as well as A that is. So it's fair to assume that both have increased broadly 50-50, you can assume that.

But as far as the reason for the increase, some of it is obviously price led, the P part of it is price led and the A part of it was more linked to the kind of innovation pipeline that we've had as well as competitive intensity. And also fair to assume that this proportionate increase is also coming from the soaps and detergents portfolio as we are witnessing intensity because of the kitty of money available for all players in this market.

Percy Panthaki

Right. So if I understand you correctly, between Q1 of last year and Q1 of this year, the split between A and P has not changed materially?

P. B. Balaji

Materially it has not changed. Increase has happened on both lines.

Percy Panthaki

Okay, fair enough. And also that the increase is on a Y-o-Y basis, segment wise is the highest in the soaps and detergents segment?

P. B. Balaji

That's right.

Percy Panthaki

Also, sir, just wanted to understand on Wheel, basically if you look at it within that segment of whatever, INR 45-50 a kilo, in that price segment, are we holding, gaining, or losing market share?

P. B. Balaji

For a start-up, let me say this, we would have loved to see Wheel performance to be better. That will be my opening statement there. We called out Wheel performance is subdued in the quarter. Yes, there are market, rural, given it's more over indexed on rural, there is a pressure coming from that side, that's well acceptable and I would also say that we are not too happy with the way we have performed in this particular brand. Therefore work is underway on that particular front to make sure that we get back our competitiveness. Consider as far as the overall, as we've been keep saying all the time that we always look at portfolio further looking at category performance. And the performance of Surf and Rin have been absolutely very, very prompt and therefore it has put the Wheel performance in a bit of relief from that perspective. But as a portfolio we are comfortable with where we are. We need to ensure that we are setting up our act as far as Wheel is concerned.



Percy Panthaki

But, sir, if I look back at the last four to six quarters of your con call transcripts, the story broadly is the same that Surf and Rin are doing very well, Wheel is lagging behind and each time there is a statement of intent saying that there are actions being taken to improve the performance and we hope to see the performance improve. So if you can just elaborate as to, what exactly are the actions which have been taken in the last one year, what are the reasons why they haven't worked and what are the new actions you are putting in place for this?

P. B. Balaji

Getting into individual ones will not be the perfect thing in an external call, Percy. But I will just draw our attention to the commitments that we've made on various categories. We had an issue on Fair & Lovely, we fixed it. We had an issue on oral, we have now fixed Close Up, we are working on the Pepsodent piece. We had an issue on deos there and we have now fixed deos and are now doing well. So we have an issue on – there are two outstanding issues that our business has. One is Pepsodent the other is Wheel. These I would put out, call out as two issues that we need to fix. A business of this type has its issue and we are well aware of those issues, it is just that it's getting, it's requiring more time to fix it, because keep in mind, that we did go deep down into rural regions and when you have a mix of an issue like this, it takes that much more time because we need to go all the way down to the consumer and be able to communicate and it's not the best place for us to communicate as well given the interior rural. So that's the challenge we are facing with. I can only assure you that leave it with us. We are well aware of our responsibility to ensure that we need to fix them.

Percy Panthaki

Sure, sir. I absolutely appreciate that no business will have all its brands doing well at any given point of time, but I would really appreciate if you could give a flavor as to what exactly are the challenges, why is it not working out. If we get some understanding on that, then that can really help.

P. B. Balaji

As far as the root cause from a consumer preference perspective, that's where the issue lies, and that's something that we've fixed already. It is just that the time it is taking for us to be able to land it with conviction in the marketplace and to just make matters a bit more complicated for us the price volatility in the market makes it a bit more difficult to move it at the pace that we wanted to and the fact that our inability to communicate even a bulk of it is rural reach, ability to communicate in the market is more challenging which is what we're working towards. But the core issue has been fixed. We are just having to execute this in a methodical manner and we'd expect in the three to six months we should start turning it on.

Percy Panthaki

Right, sir. One last question if I might, basically you've called out in your presentation that uptick in growth would depend on rural recovery from here on. So just wanted to understand why rural is more of a concern to you than urban. Do you think urban is already doing well and rural is not doing that well and it needs to pick up or is there some other reason why you are more focused or why you're more concerned about rural recovery rather than urban recovery?

P. B. Balaji

Three reasons for that. One of course is rural has always grown faster than urban and the tailwind for an FMCG market growth has always come from rural and rural used to grow almost 1.5 to 2 times depending on the – if we take a quarter, there is always a tailwind to grow that everybody loves. So that's the first reason. Second part of it almost 35% to 40% of our portfolio is coming from rural. So if that is something which is not giving this tailwind, it just puts more pressure on the rest of the business to pick up. As far as urban itself is concerned, today rural growth and urban growth are broadly similar and as far as urban itself is concerned we believe that given the portfolio with which we are operating if you look at our performance on the premium segment if I look at personal products, if I look at packaged foods, beverages we believe we have a good story that is going there. The complication of the price volatility that we've seen in the rural side of the for the mass side of the



portfolio, particularly related to our soaps and detergents makes it even more critical for us to ensure that there is a bit of a tailwind coming from rural. That's the reason why the plan is positioned that way.

Percy Panthaki

Right, sir. That's all from me. Thanks and all the best.

Moderator

The next question comes from Mr. Abneesh Roy from Edelweiss Capital. Mr. Roy you may please ask the question now.

Abneesh Roy

Sir, my first question is on phasing out of excise benefit. Sir, oral care if you see both number one and number two players are facing the same issue, and oral care if you see, gross margins have not really expanded a lot. So in such a scenario why price hike – sufficient price hike is not happening?

P. B. Balaji

Thank you Abneesh. I think the key question Abneesh is are we able to secure sustainable volume growth and that's where it comes in. Let's also accept that oral has also got a pretty large footprint of rural that is sitting in it. Therefore the ability to price up all our excise duty benefit in one shot is difficult. You need to do it in a methodical manner. You need to do it in a steps of – in an incremental steps and obviously as we did whenever there are cost challenges that are there, we play all lines of the P&L, we would want to drive efficiencies first, we would want to ensure the mix is firing in our favor and not just blindly price up because then we lose the consumer completely. So that's the way we are navigating oral. First, for us in HUL I think we have got a good story on Close Up with double-digit growth coming back. Pepsodent is something as we have said earlier itself, it's something we are working on and we should start seeing the action from starting to come through in the coming quarters.

Abneesh Roy

Sir, my next question is, are you losing share to the smaller unorganized players in soaps/detergent. Why I am asking this is you said soaps mass is slowing down. Wheel has been a problem for many quarters. This time it seems Rin detergent powder also seems to have seen a slower growth. So if you can elaborate on that part? This is in spite of not taking much of a price hike, in fact passing on most of the gross margin in this. So what is the reason, if at all, you are losing share?

P. B. Balaji

I think to start up, if I look at the way we define the competitive growth, we look at different metrics and Nielsen is one of them. We look at also the household panel data, we look at external results of other competitors, so that's how we triangulate and try to arrive at what we believe is the market growth level. If I look at six-month kind of a time horizon or one-year kind of rolling time horizon absolutely the answer is categorically, yes, as far as competitive growth is concerned. If I look at the immediate proceeding three months what we find a bit odd in the data that is coming our way, which is the reason why we talked about stability of market data is that both in the soaps and the detergents segment some of the market research that is coming out is talking about significant price growth. Given our share position, we being a significant player in this market and seeing the kind of commodities deflation that we see we are personally looking at a price de-growth and that disconnect has become bit too much. I'm expecting in the coming three to six months this will start more correcting itself in the market and we need to analyze across time. It is taking almost six to nine months for people to start capturing the price de-growth in this market and therefore has been one of the reasons why we explicitly call out competitive growth for this particular quarter. But the fact that we are focused on competitiveness, the fact that we are winning on a match basis or on a six month basis, we are winning convincingly, that's been absolutely there. What we have in Wheel is a very specific issue which is brand mix which we have fixed and it is now keeping through in terms of landing it in the marketplace.



Abneesh Roy

That's helpful. My follow-up is when I see Rin detergent versus other large branded player, I see Rin being at a reasonably high discount. So in that context, why and if at all is the Rin detergent seeing a slower growth. So, if both the players are not seeing growth because you're at a lower price, then who is seeing growth? That is the question. And similarly in soaps my question is not on Nielsen market share, my question is why soaps market will slowdown. See consumption cutting down because of the issues in macro I understand, but is there some organized, unorganized players the price, the gap has again increased a lot if you could elaborate on the price gap with unorganized small players.

P. B. Balaji

Let me give a bit of context on this, Abneesh, this could help you appreciate the point that we are trying to make better. If we go back to 2008 and 2009 and look at what happened in the market at that point in time and our performance at that point in time, we went into a deep negative volume growth when we did not take up price or take down price on time. Basically the way this market operates is that when there is a fall in prices of commodities, you will see a host of mushrooming players, and if you are not able to protect your consumer franchise, you will lose significant share in a very short period of time. The fact that we were able to grow volume and the fact that we were able to protect our competitive position has ensured that, yes, there were more mushrooming player, but we are not losing in this market, so that's the first point. Second point, as far as your comment on Rin is concerned, Rin is growing volume handsomely and these in the bar format or these in a powder format, both are growing handsomely. The premium detergent portfolio is growing double-digit and again convincingly. So there is no, absolutely no concern whatsoever as far as Rin is concerned or as far as Surf is concerned. Both are doing exactly their job of premiumizing this category and such commodity price drops are fantastic opportunity to get consumers the sample of products and there is a fair chance they will stick to us. The fact that we have a portfolio helps us, as I explained last time, when you were there as well, when we did the price drop, we have not done it mindlessly across the portfolio, we have done it very specifically in penetration packs so that we are able to land at very attractive price with our consumers and we hope that's going to get them to experience high-quality products and make them stick on to it. So that's the way we see this game being played and we believe that's going to help us in the long run compared and we were learning from what happened in 2008 and 2009.

Abneesh Roy

I asked on the Rin because the PPT mentioned the Rin growth led by bar, overall bars portfolio doing well. There is no mention of Rin powder. So you are saying even Rin powder has done well, so is that a correct understanding?

P. B. Balaji

Absolutely. Just that there is a very significant number on bars, while Rin powder follows also with a very handsome volume. Let me be clear on it, in the soaps and detergents portfolio overall volumes are extremely healthy, it's just that they have been offering something different.

Abneesh Roy

Sir in Liril a re-launch is happening after a very long time. So my question is why it's happening after such a long time and what is the opportunity here from where do you expect Liril to gain market share.

P. B. Balaji

See the point is, Liril is an iconic brand, it's a brand that all of us love. It's a brand that's made -it's a great premium soap brand and we're working on a proposition that is absolutely unique in some fresheners. Therefore we believe that we have all the right to resurrect it and get it to grow and it makes handsome margins and there is a segment of consumers who just love it and that's the reason we re-launched it. We want to be relevant to all consumers who love all our brands.



Abneesh Roy

Okay, sir, that's all from my side. Thanks a lot.

Moderator

The next question comes from Mr. Nillai Shah from Morgan Stanley. Mr. Shah you may please ask the question now.

Nillai Shah

Thank you. A quick question from me. In terms of the PP margins, obviously you have very, very strong gain out there. How long can this continue, especially when I look at PP margins of your parent, they are obviously much lower. So is there some formula wherein effectively over a period of time these margins tend to trend lower or is this just an EM phenomena where margins in this categories can be higher for longer?

P. B. Balaji

Nillai, it's a combination of factors. Number one let's look at the – maybe you peel it out into different elements. The fact that you are able to grow your premium mixes, be it Fair & Lovely, be it Pond's, be it Lakme, gives you inherent mix advantage to your benefits and something that is going to really help you. So even within TRESemme these are great margin brands, one. Second, as far as the more you grow this business, take something like a Lakme, bulk of the A&P is actually fixed A&P in that and therefore if you are able to grow this significantly higher you start getting leverage benefits. That's the second reason there. Third, they don't allude to it as commodities, packaging forms are very significant portion of this cost. And in a scenario where crude has come off and therefore you are able to see benefits in your packaging costs that also comes through to the bottom line. These will be your three broad lines on which why you believe there is a number coming soon.

Nillai Shah

Any you always guided for modest margin expansion over the long term which then means that near term given the extent of commodity tailwind that you have, you can operate with much higher margins than you would probably like to do.

P. B. Balaji

Nillai, as I always keep saying I refuse to walk into this trap. We are committed to modest improvements in operating margin, what we are committed to. What plays out on a quarter-on-quarter basis, we just need to ensure that we follow prudent accounting policies and ensure that we are in sync with that and lasting. But what we are committed to as a business to drive which means if tomorrow there is a sudden change in plans etc, we will decide how we want to operate on that. What we'll be committed to is those modest improvement in operating margin which would then give us a good mix. And also from a portfolio perspective, keep in mind, we always operate as HUL. When you say modest improvement in operating margin, I don't talk of segments, I talk as HUL. And today commodities may have moved this way. We know what happened about a year back, we knew what happened in five years back. So, all of us have been long for quite some time around to see these volatilities go up and down, what we stay committed is on the modest improvement.

Nillai Shah

Any price cuts after the December ones?

P. B. Balaji

Yes of course and that's coming more you see as a promotional intensity in some categories and that will obviously be impacting price.

Nillai Shah

Can you quantify that on a weighted average portfolio basis?



P. B. Balaji

Roughly you can take about 2% of price.

Nillai Shah

Effective this quarter?

P. B. Balaji

Yes

Nillai Shah

Okay, all right. And finally in terms of PP volumes, would it be safe to assume that you've done double-digit volume growth for PP this quarter?

P. B. Balaji

I can only say healthy volumes, Nillai.

Nillai Shah

Okay, fine. And last question, coffee market share, can you share if you've gained market share, maintained market share in that segment on a Y-o-Y basis for this quarter?

P. B. Balaji

Coffee, we've delivered competitive growth in the retail segment and we are quite happy with the performance of the category as far as retail is concerned. In terms of number, if you look at the way we've delivered well. Bru Gold etc, those are all firing on all cylinders. So the retail part of the portfolio has done very well and some of the wholesales portfolio of this, typically things like hot tea shops could have done a better job.

Moderator

The next question comes from Mr. Manoj Menon from Deutsche Bank. Mr. Menon you may please ask your question now.

Manoj Menon

It was an excellent personal products performance given the market conditions. Three questions, the first one, largely a variant of what my friend Percy asked a little earlier. Again, I was quite curious to find this mention about rural and not urban in terms of your commentary in the outlook. But I was not really clear honestly while I listened to what you were saying, if you could help me understand actually why that was? The context, to at least what I understood, was that urban is more easy except for the tailwind actually happens, you will anyway benefit because you've got the portfolio, and rural being a market leader et cetera, you actually have much more work to do there. Is that the right message which you are giving in that?

P. B. Balaji

In terms of urban, you are absolutely right. I think as you have seen, the market growth have been steady there and our portfolio is working well and therefore we believe we will have a better performance there is our expectation. As far as rural is concerned, two things which are there which is the reason I am paraphrasing it. One of course is a 35% or 37% of my portfolio and therefore it is important that we continue to get a tailwind of urban – of rural into the overall growth mix. So you see if rural tend to grow at 15%, urban grows at 8%, adjust for the weighted average composition, it is then automatically mixed in term, it is mixed accretive from a growth perspective. And when that is also comes in line with urban, you lose unnecessary momentum, that's one part of it. Second part of it, portfolio with the price deflation that has come through in the quarter, one would have normally



expected to see a significant pickup in volumes. And with trends in rural it is the reason why that volume is not firing to the extent we would have loved it to. But the fact is it is a pretty healthy volume growth despite that. So therefore that's the nuance we want to queue.

Manoj Menon

Fair enough. So that was actually my second question that the near to zero price elasticity benefit so as to speak either which you are actually seeing in the commodity sensitive categories or rather segments, particularly in the mass market. So is it fair to say that a lot of the stress is already playing out, so not necessarily it's an incremental stress as far as rural is concerned?

P. B. Balaji

Yes. That will be a fair assessment. We are probably in the midst of a stress in rural.

Manoj Menon

Sure, understood. And the spinoff of that is while Wheel is obviously an impacted brand because of this macro issue, but then what exactly is the issue in Wheel, I mean, let's say over a period of time, because Wheel issue is not really a six-month issue?

P. B. Balaji

That's the reason I explicitly said there could be macro issues, but I first want to look internal and look in the mirror there, I think on Wheel we had a specific issue with respect to the consumer franchise and the kind of products that we are going to the consumer with and that is something that while we have a quality big time across many, many years we needed to ensure that that is something that we are specifically fixing, and that is a work that is already happening and completed. While the product has been fixed, the time – these pipelines run very deep and therefore we need to ensure that we are able to place – we need to get the consumer to experience the new product that is there, that is one. And second, we also be able to convince the consumer from a mainstream perspective that Wheel – there is a new Wheel that is there. And at the same time when a commodity price comes down, local brands are – will mushroom whether or not they get price, so therefore the local brands are – definitely that is the reality it's such that we don't lose to the extent that we have done last time. And therefore from our point of view, two things we are trying to do, certainly we took challenges that is there, use our WiMi framework to actually land this message more locally in the most effective manner, and secondly as far as all six Ps are being looked at, on the price, promotion, the way we put packaging, where do we put the place, kind of distribution which they need to correct all that is being looked at. So it's a comprehensive analysis of Wheel that is happening as we speak, and not an analysis actually and intervention that is happening as we speak. And therefore I am expecting to see come back with better results in three to six months. I can only assume to the fact that wherever we have committed to deliver, we have delivered on that. In Wheel given the pipeline it's just a bit more complex than the rest of it. We are clear that we will have to win on this place and we will stay committed to that.

Manoj Menon

Absolutely. Thank you. Sir, one last question if I may, while there is a lot of references about the March 2009 quarter, which I heard through call, just one comment would be very helpful from you, will it be fair to say that largely the gross margin improvement, because EBITDA is also a function of the ad spend, so I am not looking at EBITDA part of it, so largely the GM improvement is because of the mix which you are actually seeing whether it's category or brand, or let me rephrase it, will it be fair to say that in most of the commodity sensitive brands you're actually at parity or better than competition?

P. B. Balaji

I think that there are three drivers on gross margin, Manoj. I think one is price versus cost, second is mix, and the third is the supply chain cost. And it is fair to say as far as the way the cost of goods sold has been played out this time include the savings which goes right into the cost line across the board. It's fair to say bulk of the drivers of



gross margin is coming from price versus cost that means there is still an ability to drop prices further, but we are doing it prudently to ensure that we are able drive the right variable at the right place.

Manoj Menon

Thank you and all the best.

Moderator

The next question comes from Mr. Arnab Mitra, Credit Suisse. You may please ask your question now.

Arnab Mitra

Yeah hi, Good Evening. So, first question is on the PP growth. So, last four quarters there is a clear distinct improvement in your PP growth. Now, one way to read it is that you had a Fair & Lovely issue, you had a deodorant issue which is sorted out and that's why growth has come back, or would one read into it that actually the category growth has started recovering, premiumization is coming back, urban which is much larger here is actually seeing the recovery not just stability. So how would you split it between these two aspects, one is your own issues and the other is actually broader trends coming back in this category?

P. B. Balaji

As far as it's not just fixing own issues, if I draw your attention to a category like hair for instance, hair has continued to do well across many, many quarters now and we continue to build share as well in that category. So I think for us the PP story is much more than just the internal story. I think it's also a story about how to drive penetration in this market, how do you actually do market development, how do you innovate, how do you actually land propositions in this market. So I think the story is more broad based than just the fixing old problems.

Arnab Mitra

And just on a category rule perspective as you said the Nielsen data on S&D is quite confusing, but on PP, is the category growth also starting to look up as reported by Nielsen on a trend basis?

P. B. Balaji

Definitely starting to improve compared to what it was in the previous quarter and that's something which is heartening as far as the issue is concerned.

Arnab Mitra

Right. The second question is on the competitive intensity, while obviously from the local players it would have gone up, just wanted to understand the national large players in soaps and detergents, have they actually followed you in the quantum of price cuts that you've taken because initially your price cuts were early and they were higher than what others took? So now that some time has played out, have they followed all your price cuts or are you actually more competitive on price than you were six months back versus the larger competitors?

P. B. Balaji

The people have chosen to play it in different ways, some people have cut price in some markets. Some people have used trade spends, some people have set up A&P or a combination of these three. So I don't think it's fair to say that only one way they've approached it. But fair enough, I would summarize that we are probably pretty competitive as far as the way we are pricing it in this market.

Arnab Mitra

So this is, so you would have used the pricing lever probably more than the others while there would have been a combination of other things used by everybody else?

P. B. Balaji

Consumer price is one part of it, the way we land consumer price be it as promotion, be it as



Operating efficiencies, we are aiming to drive penetration of nascent categories, that actually have – I would suspect we are pretty competitive. And as far as A&P and other things are concerned, we monitor our SOV positions or share of spend position vis-à-vis market and decide how to operate in order to say competitive.

Arnab Mitra

And just lastly on the excise phase, that the impact of this excise hike, would it kind of very sharply fade off in 2Q, 3Q or it's a gradual fade-off, and is there any excise increase in FY '17 which happens over 2016?

P. B. Balaji

What I think I can understand that this is something that all you guys have been grappling with so therefore what we did see here last time, there is a peak of the excise phase out that happened this quarter, that is 170 odd bps. You can broadly assume about 50 bps reduction every quarter, starting now or maybe another couple of quarters, and therefore we will be fine thereafter.

Arnab Mitra

Sure. And then anything specifically in FY '17 or there is nothing majorly happening on excise there?

P. B. Balaji

First of it is over the market, and hopefully then, might not be big enough for us to call it out.

Arnab Mitra

Thanks so much and all the best.

Moderator

The next question comes from Mr. Vivek Maheshwari from CLSA. Mr. Maheshwari, you may please ask the question now.

Vivek Maheshwari

Hi, good evening. My first question is your reported revenue growth is 5% whereas underlying is 7% and volume is of course 6%. At the portfolio level, if 170 basis point is the impact of excise, why are you calling out negative price growth impacting because at the portfolio level across all categories put together, the price size should be positive and not negative, right, based on this math or am I missing something?

P. B. Balaji

There are two impacts on price, one is excise the other is actual price correction that we have done. So, when you are doing a price adjusted to 7% the deep fall-off that we are taking excise to be impact is about 170 odd bps so 5.3, 1.7 excise impact, makes it 7% underlying, definitely there is also a price deflation, price de-growth happening in soaps and detergents category. When the other categories do see a price increase there is obviously everything is not volume, so there is an element of pricing in that as well.

Vivek Maheshwari

So, at the company level, 7% is the underlying revenue growth adjusting for excise and 6% is volumes so the net impact is still positive and not negative while it may be negative in case of soaps and detergent and then overall level it is still positive, right?

P. B. Balaji

If you adjust for this number, but the point is the excise also goes in the price line only.

Vivek Maheshwari

Sure, I understand. But the fact that underlying revenue growth is 7% and 6% is volume, it means still a positive price hike from that perspective.



P. B. Balaji

Absolutely, you are right.

Vivek Maheshwari

Got it. And what was the point I missed, Balaji, on 2% price cuts that you have taken in this quarter? Is this something related only to soaps and detergent portfolio or is it across all categories?

P. B. Balaji

The 2% price cuts is fundamentally in the soaps and detergents category overall.

Vivek Maheshwari

Weighted average at the company level?

P. B. Balaji

2% in soaps and detergents.

Vivek Maheshwari

And this has been captured already in this quarter or this is partially effective in this quarter and there will be a flow-through impact in next quarter?

P. B. Balaji

I would suspect the majority is caught in the quarter. I think just be careful here in crude there is a collapse further or if PFAD really were to come down further, then of course we will have a different scenario to talk about sequentially.

Vivek Maheshwari

Sure, sure, I understand sure. Second on the P&L side other expenses just 4% up, could you indicate if there is any one-off or this is like a sustainable level that we should be looking at as you go ahead?

P. B. Balaji

If I look at bulk of my savings programs, actually work on the three lines, which is material line, on the other expenses line as well as from portions of what I'll call as return on marketing investment which is the A&P line, that's how our savings interventions are happening. So what you see as other expenses is actually if I look at from this perspective showing a credit, that's fundamentally because those costs currently offsetting the royalty increases that we've seen in this quarter. So that's how you'll see the other expenses play out. Is it broadly in line with what we expect to see for the year, give or take 10-20 bps here or there, we should be in this zone. And the gains are fundamentally coming as you see from the supply chain costs.

Vivek Maheshwari

Okay, got it. And financial other income which has declined quite a bit, is there, is there anything specific and how should we model it for the next for the rest of the year?

P. B. Balaji

I'm also aware this is something that has caught a few of you by surprise. So the only thing I would say that when we look at, I would first draw your attention to our notes to the account which we published. That has got a very clear explanation on which of this is one-off and which of this is not one-off so we first do that Vivek. As far as this particular quarter, there are actually a 15% EBIT growth, dropping down to a flat PAT. There are three things that are moving which you should be aware of. One is almost INR106 odd crores that is there in the base because of a financial income of sale of some of our share investments that we had, one.

Second was a tax increase of almost 280 odd bps corporate tax and that we had have guided you at about 31.5% is what we see as a corporate tax rate definitely landing at 31.7%. That is the second. Third, there's an exceptional item



of item, which is basically property sales in this quarter being lower than last year. And that is always called out as an exceptional item that the timing of it – okay, as I go by the first one, the first one is then. The second one, we guide you. The third one, property sales is first of all, the inventory has to be there. Second of all, it needs to be – the timing needs to be clear for us to be able to effect a sale in a sensible manner. I will not be able to guide you at all on that. Even we'll not be in a position to do it. That is precisely the reason we call it an exceptional item, it should not be used to assess our business performance.

Vivek Maheshwari

Sure. And lastly very basic question, when you say 30% to 35% rural do you only refer to your direct reach and indirect will be much higher or it is what you think the consumers in rural India would be buying your products?

P. B. Balaji

I think the portfolio is sitting at about 35% to 37%. This is what our portfolio composes of. If I look at the impact, a chunk of it is direct, that number is based on direct coverage.

Vivek Maheshwari

So, would know by any chance or if you include ballpark indirect how much will be rural as a percentage of you sales, would it be like around half?

P. B. Balaji

It will be in the range of 40% to 45% is what that will be and keep in mind that PP is also being growing disproportionately higher than the packaged foods, have been growing disproportionately higher compared to rest of soaps and detergents across the lines they go a long term averages. So, 40%, 45% is fair enough statement of our estimates but your guess is as much mine. As a wholesaler in an urban market, I have no way of picking out where is the actual sales to a retailer is happening, who comes and buys from them.

Vivek Maheshwari

Sure. I'm sure, your guess will be certainly better than mine. Thanks a lot.

Moderator

The next question comes from Mr. Puneet Jain from Goldman Sachs. Mr. Jain, you may please ask your question now.

Puneet Jain

Hi, good evening. So my question is actually with respect to what will drive delta in rural growth that you have mentioned that there is fair amount of rural stress and this year both monsoon has been uneven plus also the price increases on the agriculture side has been more muted. So what do you think can relieve this stress on the rural side?

P. B. Balaji

I think a few things can definitely help. The fact that commodity is deflating means more money at least from a consumer of rural, but is that something point of view of lower palm prices then that may not that actually become a rural money as such. But it was coming because the soap prices have come off then there is a first definite money in the rural consumers' hand would be my first direct one there. And one would have to then look at for example, there is a very clear collaboration happening on how these put back investments in rural, how they drive NREGA and rural, how do you look at support prices in a sensible way. I think all those can definitely relieve the stress. And monsoon if it becomes a good monsoon earlier, all of us the kharif crop the acreage and the coverage has gone up substantially, in fact as delivered then there is more better sentiment in the market, it is also about sentiment, it's not just about real cash in the market. I am hoping I think what is going to happen, I would way into the rural environment, the unseasonal rain is definitely a big sentiment, it has reduced some of the cash in people's hands but it a bit sentiment and I think that a combination of these can actually unlock the rural growth and sentiment.



Puneet Jain

So like could there be a scenario where the growth may actually be driven by urban growth and so rural growth may remain at these levels and towards end of this financial year urban growth may start exceeding rural growth?

P. B. Balaji

I think your guess is as much as mine. I go by very simple premise that, the absolute base of rural is still so small and therefore, and the number of people who are -some instance of the population almost is there, but it's fair to expect that on a sustainable basis rural should grow faster than urban, but your guess is as much as mine what will happen to the near term.

Puneet Jain

Okay. And second question will be towards pricing, so like if you look at this quarter so the cost at the exit quarter possibly should be lower than the quarter average given that PFAD prices as well as crude fell further during this quarter, will that be a correct assessment?

P. B. Balaji

Yes, I think what we believe is that that's the reason why we are talking about benign commodity cost outlook going forward and hence the potential to have further de-growth in price in specific commodity led category, that's the reason we called it out.

Puneet Jain

Okay. And just one clarification, you had said that around 2% of price is promotional activity. So did I hear it correct? So does it get added to volume in that scenario?

P. B. Balaji

Yes, it's a combination of both consumer promos – actually three things, consumer promotion, price reduction and trade spends all three go and affect price.

Puneet Jain

Okay. So all this cumulative is 2%.

P. B. Balaji

Yes

Moderator

The next question comes from Mr. Ashish Urganlawar from Elara Capital. Mr. Urganlawar you may please ask a question now.

Ashish Urganlawar

Sir, I just wanted to understand, we've been talking about price cuts. So essentially we've been little price cuts or price offs is the context in which we are talking mostly here.

P. B. Balaji

Both the price offs as well as price reduction both, if you look at say something like revenue you'd find a very clear thing saying that what was the price X is now price Y.

Ashish Urganlawar

Yes. But generally, it would be preferable to go with price-offs if we are going to return to the earlier MRP just in case things turn up on the raw material, so just wanted to understand on that front. Is it price-off the bigger proportion of the price cut that you are mentioning as a reduction?



P. B. Balaji

I think it is a question of what we believe is appropriate for a particular brand because we believe that a brand should not be carrying a price-off flat and we might even cut prices and straight away finish it off, that could be one way of doing it. Another way of doing it where you hold the price, a price point pack like the Lifebuoy 10, you hold the price point and increase the cost. In which case I get a percentage extra, that's another way of communicating it. I think I will leave it to the brand guru's to figure out what is the right way to do that and they normally do a pretty decent job of it.

Ashish Uganlawar

Okay. Sir also in this context wanted to understand, I mean the pass-on of RM benefits, how much of the total would be in terms of extra volumes going on? Will it be significant and hence contributing to some percentage of this 6% volume growth that we are referring to here?

P. B. Balaji

Yes, some portion of it could be there. But keep in mind that consumer buys units and therefore there is an element of when do the consumer come back to buy again, because you are not talking about longer term, so we are not talking a full three months that is there, so much of product would have got, what pack and price since the purchase pattern also changes because of that. So, yes there is an element of it, very, very difficult to quantify which portion of the 6% was because of price impact.

Ashish Uganlawar

Okay. So it may not be maybe a 2% out of the 6% on a rough cut basis, I mean if at all possible for you to tell us?

P. B. Balaji

No, if it had been material, we would have got a hand to it.

Ashish Uganlawar

Sure. A couple of questions on the books, basically the staff cost even if I adjust for the one-time game that we had on the staff cost last year same quarter, it seems to be kind of flattish y-o-y, so what is the trajectory here that this cost item is catching? Can it be expected to remain similar on a Y-o-Y basis?

P. B. Balaji

See, there are various moving part on it. That's the reason we guide you in terms of look out for modest improvement in operating margin because this individual lines are volatile, individual lines can move up and down, there are phasing issues on that. So therefore I wouldn't want to get drawn into what other individual line likely to behave going forward.

Ashish Uganlawar

Okay, okay. And Sir, finally, you mentioned that, probably if I got you correct, that despite RM correction, which we are kind of passing on to consumers, the competition has not been that aggressive or has not reacted in time for that, is that correct?

P. B. Balaji

No, no, I didn't say that all. All I am saying is that we see competitions reacting in various rates. We see competition cutting price, we see competition doing substantially stepped up trade spend or substantial A&P or new innovations. So I think they see the market as much as exactly like what we do and therefore they are also operating all lines of the P&L. What I am saying is that, I believe we are pretty competitive and don't see the need for further competitiveness in this market at this juncture. We believe the competition is rational and behaving in line with what their P&L, each of their respective P&Ls is giving them flexibility to move around, that's what I said.

Ashish Uganlawar



Okay, thank you so much. Thanks.

Moderator

The next question comes from Mr. Umesh Patel from Sharekhan. Mr. Patel, you may please ask the question now.

Umesh Patel

Yeah, thanks for giving the opportunity Sir. A couple of questions from my side. Just wanted to know your advertisement expenses as a percentage of sales was significantly higher during the quarter. So do we expect it to sustain at that level or it was a one-off quarter?

P. B. Balaji

As we've been saying, Umesh, the key point we make is when we look at A&P, it's a combination of different factors. One is, what is the media is in this context and therefore are you being competitive on that front, one. Second is activity lift where the renovation intensity is high, independent of what the market reaches, we need to communicate our innovations and therefore we will be communicating technical difficulty, that's the second piece. Third element of it, will always remain on the kind of promotions we are running with more advertising and promotions. In a low commodity inflation category there will be more promotions as well, so that's also a factor to be kept in mind. All three combinations is what leads to the A&P number that you see.

Umesh Patel

All right. So, I mean it was a one-off quarter, right, you mean to say?

P. B. Balaji

I understand the challenge you guys face because how they model it going forward I know sometimes, I may sound like a broken tape recorder. I want to ask you the factor then modest improvement in operating margin as the commitment of us, and you should leave it to us to play all lines of the P&L as we inspect in that particular market condition. And that's how we would love to position this, and otherwise you just it is just too complex for us try to play this particular line and move in this direction this way.

Umesh Patel

Okay, okay. Thank you very much and thank you.

Moderator

The next question comes from Mr. Amnish Aggarwal from Prabhudas Liladher. Mr. Aggarwal, you may please ask the question now.

Amnish Aggarwal

Yeah, Hi. I have a couple of questions. My first question is regarding the soaps and detergents category where you have indicated that another 2% price cut has been taken in this quarter. So what I first want to understand is that is the price cut more a phenomena in the detergents category rather than in the soaps. And secondly, as we are now having deflation in this category so if you look at in the past two, three quarters has there been some acceleration in the volume growth for us in these categories?

P. B. Balaji

I think both the categories, the mass categories the price cuts have been implemented. As promotion are more intense, creates trends in that particular market that's what we have done. And your second question was – can you repeat your second question, I must say I missed that.

Amnish Aggarwal

Sir, my second question was that as the price cuts have been implemented in the past two three quarters, have you seen any acceleration in the volume growth happening for HUL in these categories?



P. B. Balaji

The volume growths are very healthy and it's just that the volume growth has been almost entirely offset by price.

Amnish Aggarwal

But has there been any acceleration in volume growths?

P. B. Balaji

Absolutely, compared to what we were delivering before, absolutely.

Amnish Aggarwal

Okay. And the second is that we are banking a lot on the pick-up in the rural demand which has not happened so far. So have you seen any incremental pressure in rural demand in 1Q due to the crop failure which happened earlier during the year or some of the other you can say sentimental factors which are playing out?

P. B. Balaji

Yes, it's a fair assumption and that's what we called out. And when we looked at the context, we see we did call out that the market recovery and the stability of the market growth is largely dependent on rural, that's the reason why we called it out. And the causes could be many and there is enough and more literature on which I am sure you guys are all over it rather we see. And from our side what we do see is that our mass portfolio is the one we see the pressure coming from rural, and that's the portfolio that's most exposed to rural and therefore that's how we are correlating the two.

Amnish Aggarwal

Okay. And the final question is regarding the other income a financial other income which has seen a sharp decline in this quarter, so was there any one-off item in this or how is it likely to play out for the rest of the year?

P. B. Balaji

As I said earlier as well I think I do draw your attention to the notes to the account that we normally put out which gives you the clarity on where you need to look at to understand the one-off item and that's just for – so that you are pretty clear on what is one-off, what is underlying. To answer your question for this time, last year, there was a sale of investments that we had in one of the companies which we had sold out- sale of Tata Chemicals share that we had in our book coming from the merger, there is a long history of that. The last of the lot of shares got sold last year same time and that is a gain that we don't see in the – that's the reason why you see base year issue again.

Amnish Aggarwal

What was the quantum of that one-time gain?

P. B. Balaji

INR106 crores and again do draw your attention to the notes to the account which covers the piece.

Moderator

The next question comes from Ritesh Vaidya, Ambit Capital. Mr. Vaidya you may please ask the question now.

Ritesh Vaidy

Hi. Just a few questions from my end. Wanted to know is it possible for you to share the amount of rural sales, particularly for the soaps and detergents segment, is it higher than the company average or significantly higher than the company average?

P. B. Balaji

Yes, it is higher than the company average. Soaps and detergents typically clocks at about 44% or 45% you take for all the numbers, compared to a 35%-odd for the whole company as a whole.



Ritesh Vaidya

And this is again the direct reach that you're talking about?

P. B. Balaji

That's right. This is almost impossible to do the impact of indirect reach.

Ritesh Vaidya

Okay. And also is it possible to say that from 3Q FY '15 onwards we will actually be lapping the lower crude prices, so is it fair to say that from 3Q or 4Q the pricing part should at least not be negative, but say flat to 1% kinds or from when can you see pricing growth coming back?

P. B. Balaji

Yeah, actually there are two things we should watch out for what are the lapping of price growth as you rightly point out which started in December, so Q4 of this year it will lap completely, you're absolutely right there, but yes of course, commodities don't come off further, one. And second also the fiscal benefits, a phase out of excise duty benefits will also lap by end of this year. So a couple of more quarters is what we've called out as an impact. So both these you should start seeing the impact of going forward.

Ritesh Vaidya

Okay. And sir, on the soap portfolio, I wanted to understand how was the performance of Lux and Lifebuoy been, because there is no mention of that in the presentation, so just wanted to get a sense.

P. B. Balaji

We have called out explicitly saying the mass portfolio premium is what is leading and the mass portfolio has not done to the extent that we would have loved it to and that's where Lifebuoy and Lux fits.

Ritesh Vaidya

So any kind of market share trends that you can share, gain, loss possible for this.

P. B. Balaji

As I said earlier on market shares, I think if I look at an overall six-month kind of a time horizon we are very clearly ahead of the market in terms of growth. As part of the immediate term is concerned the price growth component, we are not yet seeing market pickup, because even though we have cut prices in December. The market is still – all the market share reports are still showing a new league of office price HUL which simply doesn't make sense especially when you are in the scenario of price cuts. So therefore we believe that the data is not yet stable and hence we didn't want to explicitly commit on the competitiveness on this. Give it another quarter and I think it should start reading through.

Ritesh Vaidya

Okay, okay. Thank you. That all from my side.

P. B. Balaji

Okay thanks.

Moderator

At this moment, there are no further questions from participants on the audio line. I would now hand over the call proceedings to Mr. Dinesh Thapar for the web questions.

Dinesh Thapar

Okay we have got a couple of questions, not in the questions that we have already answered. The question is from



Hemang Kapasi, from Canara Robeco Asset Management. The question is are we see down trading in any of our categories in the background in the mass segment slowing?

P. B. Balaji

I won't use the word down trading. All I can say is that we do see from our own performance perspective, the premium categories have done well and especially we see in the mass segment. But within mass segment are there lower pack prices that are doing better than that? The answer is clearly yes because we do see the price point packs doing well. We do see some of the pipelines, say for instance the Surf INR 10 doing exceedingly well. But whether it's due to down trading or is it due to the fact that we are able to afford premium products in a different way, I think I'd rather be careful in reading that as down trading. And if somebody has got 10 bucks, and is using a surf, I would rather call it penetration increase of premium products rather than a down trading, but I think it's too early to call down trading that.

Dinesh Thapar

Okay. And Sagarika Mukherjee from Antique Stock Broking has a question about the volume growth in the S&D category this quarter.

P. B. Balaji

We don't comment on individual volume growth. All I can say is that it is a very healthy volume growth and that's the reason we've specifically called it out even in our deck.

Dinesh Thapar

Okay. The last web question is from Abneesh from Edelweiss. When would we pass on the impact of the Baddi issue to the end consumer. I am guessing Abneesh was referring to the phasing out of the fiscal benefits?

P. B. Balaji

I think first fiscal impact of fiscal is also a cost and which is the right way to manage the cost is something we will play to and as long as we stay committed to delivering the modest improvement on operating margin, we will find different ways to get to that number. And obviously we will want to ensure that we stay competitive as we take those decisions.

Dinesh Thapar

Okay. So that's pretty much it. I think with that we will now come to the end of the Q&A session. A copy or replay of this event and a transcript will be available on the Investor Relations website, so you can really go back and refer to it. Copy of the results and the presentation that we've just made have already loaded onto the website and can be accessed through the IR app as well. I think with this, I'd now like to draw the call to a close. Thank you everyone for your participation and have a great night. Thank you.

Moderator

Ladies and gentleman, this concludes the earnings call. You may now disconnect your lines. Thank you for connecting to audio conference service from Airtel.