



Hindustan Unilever Limited

**September Quarter 2014 Earnings Call of
Hindustan Unilever Limited
27th October 2014**

Speakers: Mr. Sanjiv Mehta, CEO and Managing Director, Mr. P. B. Balaji, CFO



MODERATOR: Good evening, ladies and gentlemen. I am Shareena, the moderator for this call. Welcome to the Hindustan Unilever Limited September 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, Shareena. Good evening, and welcome to the earnings call. We will be covering this evening, results for September quarter 2014. On the HUL end is Sanjiv Mehta, CEO and Managing Director; and P. B. Balaji, CFO.

As is customary, we will start with the presentation with Balaji sharing aspects of our performance for September quarter, and then hand over to Sanjiv for him to share his perspectives on the business performance. We will then get into Q&A.

Before we get started with the presentation, I'd like to draw your attention to the Safe Harbor statement, included up-front in the presentation for good order's sake. With that, over to you, Balaji.

P. B. BALAJI : Thank you, Dinesh. Thanks everybody for joining the call at this late hour. Let me try and spend maybe the next 30 minutes walking you through the results and try to explain some aspects of it, and then Sanjiv will have a quick summary in terms of his



perspective on the business, the way it is, and then we will take the Q&A.

Our agenda, we'll talk about the strategies straightaway. And I'm happy to share with you that the Compass strategy has not changed, and it continues to remain the same, and it's a strategy that is delivering results for us and something that is embedded deeply within the business.

In terms of goals, our goals for the strategy is fundamentally 4G growth, something that we have talked about time and again; consistent growth, competitive growth, profitable growth and responsible growth. And if that was the strategy, this strategy is playing out in a context which it continues to remain challenging, the market growth both volume and value remains soft across categories, and we see small and price point impacts continue to lead this growth.

Input cost from a point of view of consumption continue to remain high for us this quarter, but have started softening towards the end of the quarter. And as far as competitive activity is concerned, it continues to remain high as one would expect in an exciting market like FMCG. And we noticed media intensity picking up on a sequential basis. That is September quarter over June quarter, the media intensity has picked up, albeit, at a significantly lower than what we saw in the same time last year, that is September quarter 2014 versus September quarter 2013. September quarter 2013 is one of the highest ever A&P that we had and that has come off.

As far as input costs are concerned, input costs have softened towards the quarter end. But if you notice – I draw your



attention to some of our key raw materials there, that is PFAD, if you notice. September quarter number in terms of rupee term is still almost 10% higher compared to what was there, the same period last time. But if you notice the October number, this is the kind of reduction that we're seeing in the market, and therefore we need to keep that at the back of our mind.

Exchange rates have been broadly stable, and given the way various developing and emerging market currencies are moved, this was something that is a great news for us and almost a stable currency view. And crude, I'm sure all of you are much more aware of this, and I am, in terms of the magnitude of the drop in crude that you have seen over the last four weeks.

In this challenging context, as far as now I'm talking only September quarter, not about what happened towards the end of the quarter, but if I just look at September quarter in that challenging market and cost situation, we have delivered yet another quarter of competitive and profitable growth. Domestic Consumer business grew by 10%, ahead of the market and was 5% in underlying volume growth terms, which again is ahead of the market.

Operating profit, that's PBIT, grew 14% and margin expanded by 50 bps. I need to take a minute to expand this comment on the 50 bps of margin improvement. In this we notice, cost of goods sold was higher by 150 bps, impacted by a higher consumption cost this quarter, as well as hits on Excise, which I'm calling out towards the end of the slide.

It is also worthwhile to keep in mind that the cost of goods sold in 2013 same time period was probably one of the lowest



that we had at 51%, which is now at 53%, which is probably in line with our long-term average rate. So here we're seeing a multiple impacts coming and hitting on cost of goods sold.

The other element, which is new for this quarter is the additional depreciation charge that we had to take of about INR 9.6 crores, of which INR 4.8 crores for this quarter and another INR 4.8 crores for the June quarter, which is due to the adherence to the new Companies Act, useful life period.

As far as A&P is concerned, we continue to maintain competitive spends across all our segments and A&P at 12.4% of sales, even though it looks lower by about 175 bps over the prior year, it needs to be kept in mind that same period last time was one of the highest A&P spend that we have.

Other expenditures was down 30 bps driven by operating efficiencies. PAT bei at INR 957 crores is up 8% and net profit also is up 8%, and this has fundamentally impacted 14% PBIT improvement, drops to an 8% in PAT net profit level because of the additional tax rates that we have because of units moving out of fiscal zone. We have tried to pull together all the impact of fiscal this time and the impact of lower fiscal benefits has affected our top-line by about 90 bps, which means, if this had not been there, our growth would have been more like 11%. Our margin by 30 bps, which means the PBIT of 50 bps, also absorbs an Excise impact of 30 bps, as well as the depreciation of 13-odd bps which sort of there is so there are some thin numbers coming through there and ETR, of course an impact of about 520 bps. I consciously spent some time on this so that you can understand



our results better, so that on an underlying basis, the delivery has been – you can appreciate the delivery there.

In terms of going into individual segments, we saw broad based growth across all segments: Soaps & Detergents, 11%; Personal Products, 10%; Beverages, 7%, and Packaged Foods at 14%; and the Domestic Consumer business grew by 10%.

Let me get into individual category highlights to give you a flavor of what's happening. The innovation continues to be one of the key thrust for the business, and therefore this quarter again saw a slew of innovations, be it TRESemmé, the new spa range or Lakme, the one on lipstick. We have the pimple clear face wash from Fair & Lovely, we have the Axe Signature launch and of course the new Clove & Salt from Pepsodent, a pretty extensive innovation calendar again this quarter.

As far as these innovations have being landed with impactful 360 activations, and you'd have seen the Kissanpur activation in the PVR cinema hall. I am sure you would have noticed the big impact on the modern trade activation we've around the Independence Day, like big day for instance, and of course the Lakme Fashion Week happening, there was a full-fledged monitoring of real-time social analysis. I mean all social media in order to get an understanding of how consumer are feeling on those buzz of the brand. So a pretty extensive activation happening on this quarter.

And lastly, something that I would leave Sanjiv to talk about it shortly will be the – is the go live of the winning in many India's framework where our new branch in central India has gone live as of 21 of September, and that again has been a very smooth rollout, and just to an interesting titbit there, this is the first time



we have introduced a branch in this company for as long as any of us can remember, we've had new factories, we've had new additional set ups beings done, but never a new branch.

Coming into Skin, the individual categories, Skin Cleansing delivered double-digit growth and the price led growth was driven by Lifebuoy, Lux, and Dove. And Lifebuoy Handwash delivered another quarter of strong performance. The higher consumption cost in the quarter was due to the fact that we do have logistics inventory that we need to work with, and this is – we're seeing it easing towards the latter part of the quarter.

As far as Home Care is concerned, we saw double-digit growth led by the premium segment. Surf sustained its strong volume led growth momentum, and Rin has started accelerating further, and the bars portfolio in particular has have done exceedingly well.

Wheel is a brand that we've been discussing in our earlier calls as well, happy to see it continuing to step up in terms of performance post its re-launch, and Comfort continues to do well fundamentally driven by market development. In Household Care, the growth was led by Vim, driven by robust performance on liquids.

Skin Care, actually something that you're very, very keen to understand what's happening. FAL continues to – we saw volume led double-digit growth in both Fair and Lovely and Ponds. And FAL has been – has continuing to build momentum post its re-launch and Ponds growth was again led by premium skin lightening and talc. And in the Men's segment, Pond's Men and FAL Men are doing very well in the Men's segment. And Lakme



performance continues to be driven by innovations and the Perfect Radiance and CC Cream are a case in point.

Facial cleansing portfolio sustained its strong double-digit growth. And the only thing in Skin Care, which to draw your attention to is apart from the strong performance is the impact of Vaseline. This is something that we had called out in our prior year number, where we had a high winter sell-in last time. It was an excellent sell-in that we had last time in the base quarter. And Vaseline's performance this quarter has been impacted by the higher base. And overall, therefore, the performance fundamentally led out of Fair & Lovely and Ponds, as far as this quarter is concerned on Skin Care.

Coming to Hair Care, the volume led double-digit growth story continued this quarter, shampoos delivered another strong performance and here all the brands coming to the party, be it Dove, be it Clinic Plus, TRESemmé and we saw broad-based growth across formats and sachets, but of course, we did see sachets grow faster. And our focus on market

We have tried to pull together all the impact of fiscal this time and the impact of lower fiscal benefits has affected our top-line by about 90 bps, which means, if this had not been there, our growth would have been more like 11%. Our development for conditioners continues.

Coming to Oral Care, we had a subdued performance in this quarter and it's a story of two hearts, where Close Up delivered activation-led growth. We had encouraging initial response to



Diamond Attraction. And here again small packs continue to lead the growth. And in the case of Pepsodent, the performance was muted by a high competitor due to the re-launch that happened in the base quarter in last year same time. This quarter saw a launch of a variant which is Salt and Clove, variant that was launched, and the Gum Care has been re-launched under the Expert Protection range.

Coming to Color Cosmetics, consistent double-digit growth. It is now the tenth successive quarter of double-digit growth in this quarter in this sub-category. And it is innovation led with core, the core range, 9 to 5 range and the eyeconic range doing very well. And Crease-less lip balm is the new innovation that I talked about earlier. And the brand buzz around another successful Lakme Fashion Week was quite exciting. And Elle 18 also went digital with make your own shade activation.

Coming to beverages. It was a volume led growth in tea and coffee. In the case of tea, we delivered healthy volumes and price growth. The fade in price growth is something that we have been signaling for the past few quarters and that continued this quarter. And what is really heartening is that it is driven by strengthened brands and shopper activation, and Red Label and 3 Roses were the ones that actually led the core business there.

And as far as the nascent category Green Tea is concerned, it was another quarter of sales doubling. And we had new flavors like Honey and Lemon and Tulsi that was launched this quarter. And in coffee, Bru Coffee registered double-digit growth and the core range has stepped up.



Coming to Packaged Foods. We saw a double-digit growth in Kissan, Knorr and Kwality Walls. And Kissan sustained its strong activation led growth momentum. There was an Inspiring campaign that we talked about earlier as well, that continues to deliver for us. And in the case of Knorr, we delivered broad based growth, and Instant Soups have doubled this quarter. Kwality Walls and Magnum registered another robust quarter in this quarter.

If I just pause a little bit on Packaged Foods, this is the fourth successive quarter of double-digit growth. And in our interaction, we did talk about how we are driving growth through market development. I am just bringing you back to that same themes that we brought forward in the presentation that we made to you earlier this year. It's all about unlocking everyday relevance, driving adoption and trials, and sharper in-market execution, and that's something that we have been relentlessly doing and the results are starting to show in terms of consistent double-digit growth in this category.

Coming to Pureit, Pureit also delivered double-digit growth this quarter, and the premium innovations that is Pureit Ultima doing particularly well. And our focus on market development particularly in building relevance for this nascent category continues. And happy to see Modern Trade and Pureit Perfect Stores drive growth in this segment.

To summarize the results, net sales up 11%, while Domestic Consumer grew 10%, net sales is up 11%, PBIT is up 14%, PBIT margin are 50 bps, and net profit, PAT bei both grew by 8%.



Just to unpack the PBIT to net profit line, the other income includes sale of non-trade current investments of INR 98 crores this quarter, very similar to what it was last year, and dividend income from trade non-current investments is higher this year compared to last year. And that is just a timing and a phasing issue, there is nothing more to it than that.

There is an additional depreciation charge which I talked about of INR 9.6 crores and this is being taken pursuant to the adoption of the provisions of the new Companies Act. Exceptional items including profit on sale of property was INR 49 crores, last year it was INR 38 crores same time period and effective tax rate for the quarter is 29.5% fundamentally due to the units going out of fiscal.

To summarize the results, I think the competitive and profitable growth story have been sustained. 10% Domestic Consumer growth ahead of market, and 5% underlying volume growth ahead of market. We've maintained competitive spends, albeit they're lower than the exceptionally high base quarter. PBIT margin has expanded by 50 bps, which needs to be seen in the context of higher consumption cost, compared to significantly lower base, additional depreciation, phase out of excise benefit, and these are offset by a lower A&P spend coming off of very high base, and operating efficiency which continue to be driven.

Just to summarize the first half performance. Our strategy is on course. We are continuing to see competitive growth ahead of



market. We are doing it consistently with a steady UVG over the last five quarters of close to around – in and around 5%, and we are expanding margins while investing competitively again consistently.

And the first half result summary is just an addition of two quarters with a net sales of 12%, PBIT of 18% growth, PBIT margin improvement of 90 bps and a net profit improvement of 6%, and the net profit growth of 6% is basically impacted by step up in effective tax rates, which I alluded to earlier as well as higher exceptional items in the base.

And on this basis, the interim dividend for this quarter – an interim dividend for the year has been approved by the board at INR 6 per share, which is resulting in a total dividend outflow including tax of about – close to about INR 1,500 crores.

So looking ahead, market continues to remain soft. We are positive on the medium-term to long-term outlook for FMCG as we always are. Our strategy remains unchanged. We manage the business for long-term growth to ensure consistent, competitive, profitable and responsible growth.

We invest to strengthen the core and lead development of our emerging categories. And in this scenario, HUL is well positioned with its brands, talents and capabilities to leverage from the opportunities offered by our country. And I do draw your attention to our website and our investor app for more details on the results.

With this, I now hand over to Sanjiv.



Sanjiv Mehta: Hi, good evening, everyone, delighted to interact with you once again. And I think first, I ought to wish all of you a very Happy Diwali, and I hope all of you have a fabulous year.

Balaji has talked to you about the performance of the quarter. Let me start by saying that if I look at the performance against the backdrop of a market which has continued to remain soft, I believe we have delivered a good performance. I am very satisfied with the performance. If we look at the market growth, they are the lowest we have seen in the last 10 years, and our growth has been healthy, double-digit, broad-based and importantly, well ahead of the market in both volume and value.

What pleases me immensely is the resilience that we have been demonstrating for some time now, despite the headwind in the environment. Clearly our focus on strengthening the core of a business alongside leaving market development for the nascent categories is yielding good results.

Coming to bottom line, it has been another quarter of profitable growth, we have been able to deliver margin improvement despite higher consumption cost by additional depreciation impact and the phasing out of the excise benefits. Again, here what pleases me is how we are finding the ways to manage the P&L in a manner that which we are able to deliver both the competitive top-line and margin improvement and standard.



The agenda on operating efficiencies and cost saving continues to be a key thrust within the business, and the progress that we are making is visible from the results that we have delivered. As for A&P, you are aware that it is a function of innovation, the activation that takes place in the market, and also the competitive intensity.

To us what is important is whether we are investing sufficiently, whether brands are receiving the right level of support to win in the marketplace. So, as long as this is happening, as it has been in this quarter and the earlier quarters, I am fine irrespective of whether the amount moves up or down relative to a particular quarter is really a function of the environment.

And I know that this can keep changing because commodity outlook as it has been in recent quarters. So, overall, I see this as a good quarter in margin as well. And going forward, we will continue to dynamically manage the business, look to be competitive in the marketplace, whether it is on pricing, productive brand investments, and ensure that we are offering the best value for our consumers, and in doing so remain unflinchingly focused on driving efficiencies across the cost line.

Talking about the performance across the segments, Soaps and Detergents, the core of our business continues to do well. Growth have been consistent, broad-based and while price led has a good component of volume growth.



And so Personal Products, it's been a healthy performance in the market which continues to remain challenging. Skin Care has had a good quarter although the overall reported numbers may have been impacted by the high comparator rising out of the higher sell in of winter in the base quarter.

But if I look beyond just the math that's underlying delivery, then overall it has been a good quarter in growth led by strong performance of the non-winter portfolio, especially Fair & Lovely and Pond's. You have heard me talk in the past about the decisive actions that we have taken to restore the momentum on Fair & Lovely, and I'm reassured to see the results that are coming through on this iconic brand and the growth has again been very robust double-digit.

On Hair and Cosmetics, great story. Both categories are on a good momentum. The brand was strong and delivering consistently. And I'm very pleased to see the solid progress that we are making here quarter-after-quarter.

Oral has been a relatively subdued quarter a story of two halves if I may say. Close UP is doing fine whereas Pepsodent performance in the Q1 was muted by strong competitor given the relaunch of Pepsodent core in base quarter. And of course oral is a category which has been seriously been impacted when you look at the impact of the excise duty going up because that benefits spinning off.

Having said this, there is clearly more that we need to do to raise the performance of this category, as well as improve our performance in Deo category. In Deos, with the launch of Signature Axe, I think we've given very clearly our intent that



this is a very important category for us and we will certainly be ramping up our performance in the days to come.

That brings me to Beverage, where I'm conscious that the value growth had been coming off as price fade. This was alluded to very clearly in our last call. But what is important is, that underlines these numbers as a strong portfolio brand, which are gaining equity and consumer franchise and the volume growth has been very robust.

Coming to Packaged Foods, I'm pleased to see the progress that we are making. You've heard me say in the past that we are committed to the segment and you'll see this reflected in the actions that we're taking on market development across the portfolio. We've now delivered a fourth successive quarter of solid double-digit growth with all key brands growing in double-digits.

Clearly the actions that we are taking on building everyday relevance, striving at options, trials, sharpening our marketing execution have started to yield results. And the opportunity and headroom for growth in this segment as all of you are aware is of course immense and therefore when I look at the totality of business and balance as I say that the state of the business is healthy. Our brands are growing well, we continue to make progress on strengthening our leadership position. And if these messages have started sounding very similar it is really a reflection of the consistency of our performance for some time now.

Let me now talk to you about an aspect that has been covered in the media very recently, but I've not had a chance to speak



to you as yet. An action that we have taken to, make our organization future ready and win decisively.

I recognize, this is a quarterly earning call, but I thought, this is an important element, that I need to talk to you in this quarter. I am going to talk to you about winning in many India's. Yes, for many decades, as Balaji just mentioned, we've had four branches. But recognizing, that India has changed and India is changing. Recognizing, that India is not really a homogenous entity, recognizing the development in the country is taking place no longer around the full metropolitan city, but in Tier 2, Tier 3 cities and in the rural areas.

And recognizing that in different parts of the country, the categories are in different stages of evolution, and the competitive context is different, we have now laid down a new framework, wherein we are now organize around 14 consumer clusters, which roll up to seven physical locations and five branches. We have carved out the Central India branch, which essentially is a Hindi Hot line branch, which encompasses the states of Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan, and Chhattisgarh. About 500 million people, where the per capita consumption, and penetration of a category, is relatively much lower to the rest of the country.

Now what this entails for us, this new framework is, a new way of working, from planning to execution, we would be looking at it, from the lens of consumer clusters. So, let me now conclude by saying, that our strategies on cost, and we have delivered another good quarter, a satisfying quarter.



I am reassured by the progress that we are making on winning in the marketplace, and with the consumers. I believe that HUL is well placed to deliver on this goal of consistent, competitive, profitable and responsible growth.

With this, let me now hand the call back to Dinesh, and I look forward of course, to engaging with you in the days ahead.

DINESH THAPAR:

Thanks, Sanjiv and Balaji. With this we'll now move on to the Q&A session. And I recognize again it might be getting a little late in the day, so what we'll do is try and bring this call to a close by 8 PM, which gives us about 60 minutes for Q&A. Can I request participants who want to ask a question to keep it tight, so that we can try and accommodate as many.

In addition to the audio queue, you'll also see a web question option and we will try to send some questions to the web option and we will pick those up in the course of the session.

Before we get started with Q&A, I'd like to remind you that the call is only for institutional investors and analysts and therefore there's anyone else who'd like to ask those questions after investor or analyst, please feel free to reach to us at the Investor Relations team.

With that I'd like to hand the call back to Shareena, who will manage the next session for us. Shareena, over to you.

Thanks Sanjiv and Balaji. With this we now move onto the



Q&A Session and I recognise again that it might be getting a little late in the day so what we will do is we will try and bring the score to close by 8 p.m. which gives us about 60 minutes of Q&A. Can I request participants who want to ask the question to keep it tight so that we can try and accommodate as many. In addition to the audio cue you would also see a web question options and we will try to send questions to web options, we will pick those up in the course of the session. Before we get started with Q&A I would like to remind you that the call is only for institutional investor analysts and therefore if there is anyone else who would like to ask, investors or analysts please feel free to reach out to us in the investor relations field. With that I would like to hand the call back to Sharina who would manage the next session for us. Sharina, over to you.

Moderator:

Thank you very much sir. We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service. Participants who wish to ask questions may please press ``\*” and ``1” on their touchtone enabled telephone keypad. On pressing ``\*” and ``1” participants can get a chance to present their questions. To ask a question participants may please press ``\*” and ``1” now. The first question comes from Ms. Suruchi Jain from Morningstar, Mumbai. Ms. Jain you may ask your question now.

- SURUCHI JAIN - Morningstar, Mumbai

Yeah thanks. I wanted to ask do you think the 15% sort of topline growth that we saw couple of years ago is the thing of the past? And if not then what do you anticipate are the major tailments that can help HUL reached that growth figure, that's my first question?



SANJIV MEHTA: Thank you Suruchi. I think it is very important to understand the context, 2 years back the markets were growing in pains so it was a very different context. And now when we look at the markets the value growth is up 4% and the volume growth has been negative. So very clearly if the general euphoria in the country gets translated into consumer confidence and more spending and if the growth rates of the country improves I don't see any reason why the category growth should not be going up for the simple reason that the headroom to grow in the market is immense. Whether you look at it from the perspective of penetration or consumption or uptrading, yes that is the very reason why we are very bullish about the mid to launch of Top 6 in FMCG in the country and for HUL. Trust I have been able to answer you Suruchi.

SURUCHI JAIN: Yes, sure. So essentially you think the triggers are very external and not so much determined by what it will of course possibly do internally?

SANJIV MEHTA: It's not that, you know what's our job Suruchi, one is of course to remain competitive, the other is as a leader in the market we also create markets, we are market makers. And that is the reason why if you look at the markets which are growing at some force we uptake the market that we are growing at maybe 2.5 times what the market is growing. The market developments for us remains very important.

SURUCHI JAIN Okay, fair enough. My second question is on the personal care portfolio, do you think margins are sustainable at 25-26% growth levels for the coming 3 years and if so why?

P. B. BALAJI I think from a point of view, Suruchi, Balaji here. From a point of view of sustainability of margins I think at all points in time we will continue to ensure that we are sustainable as far as



margins are concerned, one. Second is as far as the personal products portfolio is concerned it is business model of a high gross margins and a high A&P model. And therefore for us to sustain that margin we do a few things, number one all the innovations that are landing into that particular category, we are very very clear that at every levels their margins are created for the full category, that is one. Second, we will also ensure that we drive mix in everything that we do so the very fact that you have a FOREX portfolio in terms of its numbers which will grow at a levels higher than the rest of the portfolio is something that we actively look at.

If you look at this particular quarter's performance and personal format this is the story that have got few things that are going for it. Number 1, is a fact that we had a winter in our base effect, when you look at our Vaseline sales you would have yet called that out, that is one. Second, as far as the key guys like Fair & Lovely, Ponds, Lakme, these are people who are doing strong double digit growth who has also high gross margin businesses. And the third element which happens in personal products is that effect of excise and that is particularly hit categories which are skin cleansing, hair has got impacted by the excise most disproportionately given the fact that these are manufactured in excise zones. So those are the colorations if you look at why our PP growth rates are the way they are. If I put the three together, the fact that you will continue to ensure that these are high margin businesses that is why are intrinsic business models, we keep innovations running at a level which is higher than what it is. And these one-off issues on growth that we adjust for that we believe we are in a sustainable course as far as margins improvement is concerned which is why we signal our overall operating margin improvement, we are



committed to modest expansion in operating margins on a consistent basis, on a year kind of a time horizon.

SURUCHI JAIN: May I ask one more question?

SANJIV MEHTA: Yes.

SURUCHI JAIN: On the soaps and detergent category do you think that there is a margins improvement here on as well given that you are moving the portfolio tomorrow for liquids in a high margins category?

P. B. BALAJI : See, in the case of Soaps, I particularly look at it at an operating profit level rather than just as a gross margin level, because it's a commodity – it's at – however much we like it updated, it is commodity – is exposed to commodities even more. And therefore we do ensure that we play all lines of P&L, and stay competitive on that front. But here again, the story on how we drive better staging, how do we drive innovations, how margin accretive continues, there is no difference in the story line there.

SURUCHI JAIN: Fair enough, thank you so much.

SANJIV MEHTA: Thank you.

MODERATOR: Thank you Ms. Jain. The next question comes from Mr. Jamshed Dadabhoy from CitiGroup, Singapore. Mr. Dadabhoy, you may ask your question now.

JAMSHED DADABHOY Good evening. Thank you for the opportunity. Just one question on this division into five branches. Could you give us a sense in terms of how much this Central India cluster is ever percent of our topline today and where do you want to really grow this?



SANJIV MEHTA

Hi, Jamshed. Good evening. If we look at the five branches, they are more or less of equal size, given take a few percentage point here and there. More important to us is the potential of 500 million people, where as a total cluster, the per capita consumption and penetration is much lower and that to me is a huge opportunity. And why it is also homogenous, to a large extent it's a media dark area. And that is where again innovative marketing practices like Kan Kajura Tesan and all come into play. That is why, and also if you look at it, there are many states in the region like Madhya Pradesh, like Bihar, which have been having GDP growth rates far in excess of the national growth rates. So this to me is a huge opportunity waiting to be exploited.

JAMSHED DADABHOY

So if you had to rephrase that a bit quantitatively, if you had to say penetration in Western India was 1 per capita, this cluster is like 0.5, 0.6 and that's basically the...?

SANJIV MEHTA

The upper capita Unilever sales at about 50-60% of what is the sales in rest of the country.

JAMSHED DADABHOY

Okay, fantastic. Thank you very much.

MODERATOR:

Thank you Mr. Dadabhoy. The next question comes from Mr. Avnish Roy from Edelweiss, Mumbai. Mr. Roy you may ask you question now.

AVNISH ROY:

Sir, thanks for the opportunity. My first question is on the macro, the recent data places they are at the top in terms of consumer confidence and if you see quite a few categories in the discretionary segment, cars, two wheelers, jewellery those have seen a good recovery. And even in your case if I see premium products many segments have done well. So I wanted to ask do you see FMCG at the greater part of a recovery in the consumption or the discretionary that is the first question sir?



SANJIV MEHTA:

Hi Avnish, let me take you back to the history a bit 2001-2003, those were the days when interest rates dropped dramatically and the economy started picking up steam. And those were the days when people started spending a lot of money on durables, taking EMI, investing in housing. And FMCG growth was virtually negative for a couple of years so consumer behaviour is not very easy to understand. We have had Nielsen to do a correlation study between sentiments in market in our category based on past data which indicates that they normally move either way is with a lag of about 2-3 quarters, that is of course based on historical data. So from a medium term perspective Avnish we are certainly very optimistic that the categories will bounce back, they have to bounce back. And we are also very optimistic that the India growth story will continue to gain traction and momentum but when this will start picking up from a negative volume growth and the low value growth to a much improved market growth, I think it is as much as anybody's guess, your guess or my guess. But as of now we are not seeing a major shift happening.

AVNISH ROY:

Sir, two follow-ups on this if you see rural India programmes of the Central Government those clearly seem to suggest that the best is behind if you see the schemes of NSP, NREGA, all those schemes clearly, those are of the previous government but new government clearly seems to be having different priorities. In that context the fifth branch if you see really more of a rural focus those States will have much more rural population. So I wanted to question the timing of the fifth branch, the last 6-7 years are much better for the rural so why not launch them? So is it a proactive launch because you are seeing the rural areas India slowdown and these are Rs. 50 crores population. So could you comment on that part?



SANJIV MEHTA: Yeah, Avnish you know we have been in the country for 100 years and we want to be in the country for atleast another 100 years. Like I said it is more about getting ready for the future and even today when the rural growth is muted or rural growth is much faster than the urban growth. And that is also because of the infrastructure that we have built in rural, we expanded the distribution significantly. If you will recall we were 1 million outlets a couple of years back now direct coverage is 3 million outlets and the large chunk of that is in the rural areas. And the cold reality is that yes we have to wait and see what happens to the rural economy but 70% of the people still live in rural areas and one of course would be the government's schemes, the other I believe would be if the government spends money on infrastructure which is again a cold thrust area. We should again start seeing the rural consumption moving up.

AVNISH ROY: On the urban consumption you had expanded distribution, the last 1 million largely in urban space from 2 to 3.1 million, the bulk of that 1.1 million was in the urban space. But you still seeing that urban is still growing fairly much slower than rural. So why is that 1.1 million not translating into higher sales growth?

SANJIV MEHTA: Again you have to understand that we are outpacing the market both in urban and in rural and infact across the channels. Modern Trade, GP, rural GP we are outpacing them. Now if you look at the rural markets the decline in the rural market have been with the lag as compared and if we see the last quarter that has gone by the sales in rural has been, the market growth has been, the pickup has been better than, shade better than urban. So that also helped us translate that into gains and



we had one million outlets, additional ones not just in urban areas, a large part of that went into rural India.

AVNISH ROY:

Last small question we have been doing a lot of activation in the past few months. You are also being those the Kissan, Lakme Fashion Week, the Modern Trade, Big Day etc. So my question was we have seen huge cuts in the A&Ps, if you could give us a split of the A&P there and how do you really decide which brand or which product has to see higher activation. So some insights there will be very helpful sir.

SANJIV MEHTA:

Okay, let me take the first part of the question and then handover the second part to Sanjiv. As far as the A&P itself is concerned the first is I would draw your attention to the extremely high base that was there in the previous year. The second angle in that to be taken is the, it coordinates to also your gross margins, your cost of goods sold which is one of its lowest in the same period last time. So if you see them both together then actually the story is pretty consistent. Second point of the story that as far as A&P is concerned there are multiple aspects to it, one is that 'A' part of it and other is 'P' part of it and we are seeing savings in both, 'P' has also come off and 'A' has also come off. As far as we are concerned we do both TV and non TV. And as far as non-TV as well as non working media it is more about production of films etc. Where we have driven return on marketing investments quite extensively on that front. So in terms of choices that we have exercised where our starting point is to ensure that all our innovations are fully funded, all our activations are fully funded which are all strategic in nature. And thereafter we ensure that we maintain competitive spends in each of the categories that



we operate in and then the resultant will remain the numbers that we have.

So that's our starting point of this and as far as the splits of A&P is concerned, the savings is concerned, talking about 65-70% came from 'A' and 35% came from 'P'. And this is in terms of the spends that we do, there is nothing, this spend of 70%, 30% is no different in this quarter as compared to any other quarter that we have seen. It is just the intensity of it compared to last year, the highest that we have. And interestingly we just look at some of the spends that you if you see, if you remove last year and take a look at this year numbers, this is the second highest that we have seen as far as the year is concerned. So it is pretty highly competitively intense quarter as far as this quarter is concerned.

P. B. BALAJI

Coming to the second part of your question as to how do we decide what to do activation? If we just pause and reflect our job is to build great brands and when we talk about building great brands it is not just about the functional benefits, it is also about emotional benefits. We want to occupy the emotional space in the minds of a consumer as well as coming from the perspective of purpose led business is also impacting the society. So really the activation flows in from the jobs to be done and say a brand like Lifebuoy, our whole thrust is in the hand washing campaign. In the hand washing campaign we not only positively impact the society but also build a brand saliency of Lifebuoy. But when it comes to brand like Lakme or a brand like TRESemme, here what we are looking at is the beauty quotient of the brand. So it is all about fashion and how well we do it so that not only we have a great activation but we also have an ability to amplify the activation. So Lakme



Fashion Week is not just for the few hundred people who look at what is happening on the ramp but the real benefit comes when we are able to amplify it and show it to millions of people on the box. So depending on what the job to be done is we look at very clearly how we activate the brand.

AVNISH ROY : Thanks. All right, that's quite useful. I'll come back later

MODERATOR: Thank you Mr. Roy. The next question comes from Mr. Percy Panthaky from India Infoline, Mumbai. Mr. Panthaky you may ask your question now.

PERCY PANTHAKY: Hi, good evening. My first question is on the rural demand in context of the rainfall deficit that we have seen. I mean it might be little early because rainfall season has just ended in September but are you seeing any initial signs of demand slowdown on account of the deficient monsoon in rural?

SANJIV MEHTA: I think that's a good question, same time at the end of the quarter I think we would be able to look back and say what kind of impact is there of the rain on the rural demand. As of now it is a bit early because we have, very clearly there is a pipeline and you really get to know the offtake after a lag of a few...

PERCY PANTHAKY: But what's your sense, I mean the default for most people is to say that there will not be an impact because of the 2009 experience. But the 2009 had a huge fiscal stimulus in terms of farm loan waivers, introduction of NREGA, six pay commission, high excise duty cuts etc. which are not there this time around so what's your judgement call if you were to make one the impact this time around.



- SANJIV MEHTA:** The only factor which certainly would go in the favour of rural demand picking up is the whole element of consumer confidence. Whether this consumer confidence will play not only urban but also in the rural areas. And of course once the investments in the economy starts picking up and all of those would then have an impact. And also the big element that we have to understand on rural demands is inflation in the country. If we are able to contend inflation, if the infrastructure development kicks off and the consumer confidence remains strong then there might be clearly a turnaround of the demand. It is difficult to fathom at this stage honestly.
- PERCY PANTHAKY:** Right. Sir, my second question is on competition in context of input prices. In the last few weeks we have seen input prices coming down while that is beneficial to the margins what happened sometimes in couple of quarters is that a dormant competition becomes more active, price cuts starts happening. There is a disruption in pipeline inventories as dealers postpone their purchases and hopes of price cuts etc. So what's your entire take on this input prices coming down and what are the learnings if any from past experiences that you can draw in order to benefit from the positive impacts and avoid the negative impacts of the same?
- P. B. BALAJI:** Percy, I think what you are raising is an absolutely valid point and it is something that we are very closely monitoring. And one thing I can commit to you is that we have learnt lessons as far as 2009-10 are concerned and therefore you would hopefully feel reacting better compared to what was earlier. But one system we definitely put in place in working to our benefit is the whole management of the business on a generic basis where the way we manage the business when prices go up or



when prices go down has changed radically now compared to what it used to be before. And that's the reason I always urge you to start looking at don't measure us on individual line levels and it needs to be managed as a totality, as a portfolio. And we will play all lines of the P&L. We will be competitive on all lines of the P&L and we will ensure that we stay competitive as a full portfolio. So that's the way we are managing it and it won't be a 2-3 quarter that much I can tell you in terms of waking up to the fact that there is a commodity prices have come off...

PERCY PANTHAKY: But net net are you happy or unhappy that commodity prices are coming down?

P. B. BALAJI: I don't think whether about happiness or not, I think it is just a question of that is the lay of the land and you deal with the lay of the land as it comes....

PERCY PANTHAKY: Let me rephrase that question, are you as a company more benefitted when commodity prices come down net net everything considered or you are more benefitted when commodity prices go up?

P. B. BALAJI : It depends on what you heard by the word benefit, I know I am not answering your question directly but something it is a very difficult question to answer. The word benefit is an interesting one because if commodity prices come off, inflation comes off and volumes shoots up, I am delighted. The end game in all this is that what is finally happening towards the overall business and not necessarily whether the commodity prices goes up or goes down. And at the same time if it is benign inflation of 2 % - 3% then it's a very what we call lazy management of the business where you automatically get the benefit of all your



inefficiencies. When there is deflation and the commodity comes off it really gives up with some very very interesting dynamics in the business. And we look forward to it as much as we look forward to any inflation there.

PERCY PANTHAKY:

Fair enough. So my last question is on segmental growth rates. Over the last 10 years, if I look at your CAGR, the Soaps & Detergents segment has grown revenues around 11% to 12%; and Personal Products have grown about 12% to 13%. That's the difference between the two segments of just about 100 bps to 200 bps, not more than that. So there are two sub-questions to this. One is, do you think in the next three years to five years, the difference between S&D and PP growth rates could widen substantially. And I'm giving a longer timeframe because on a five year timeframe, I don't think commodity movements would matter much. We just assume sort of more or less self correcting commodity cycle with a nominal inflation, that's one part. Second part is, apart from this differential, do you see the actual numbers itself these 13% or 12% on personal care that being ratcheted up to 15% or higher?

P. B. BALAJI:

Yeah, Percy a good question. I will give you a very simple indicator, if you look at the penetration, two categories which has the highest level of penetration in the country are soaps and detergents. And when you look at from another lens the headroom to grow in personal care, its far higher than what is there in soaps and detergents because the penetration levels are low and relatively the per capita consumption is also low.

PERCY PANTHAKY:

But that's now how it has played out in the last 10 years or so, I mean they have grown more or less similar.



SANJIV MEHTA: No, its very interesting if you have to do a global study Percy, a personal care category will reach a point of inflection which can be correlated with the per capita income of the country. And you can do this very easily, look at South East Asia, look at Middle East how they reach the inflection point and certainly in the medium term, as the country grows, I have no reason to believe that strong brands in personal care will certainly stand to gain advantage, and the growth will be much higher.

PERCY PANTHAKY: Okay so you think that this differential between soaps and detergents versus personal products can actually go up versus historical trend?

SANJIV MEHTA It should, it should.

PERCY PANTHAKY: Right sir, that's all from me, thanks and all the best.

MODERATOR : Thank you Mr. Panthaky. The next question comes from Amit Sachdeva from HDFC Securities Mumbai. Mr. Sachdeva, you may ask your question now.

AMIT SACHDEVA: Hi, good evening everybody. And thank you for taking my questions. So first question is on Oral Care category. What will take Pepsodent, first of all, what is the problem with Pepsodent and it has been a good brand and has been subjected to lot of innovation as well last year and also A&P spend and things. So what will take it to sort of come to a level where you are competing head-to-head with say market leader, and what is the gap? I mean, help me understand clearly.

And second question is on – is general question around how you think through the PP category as such, which is high margin, high A&P spend, and obviously you have larger scale. So two key advantages, which gives you is A&P spend and



distribution. But in a world which is decade is online and also for example, the digital is also breaking some barriers.

So two key barriers are being actually broken in the next decade. One is, I can actually reach out to consumer without using traditional media and I can distribute my product, which is a high margin product without using traditional distribution channel. So in this environment, do you see some risk and if you do what you prepare? How do you prepare for it?

SANJIV MEHTA:

Yeah let me take the second part of the question first which is talking about personal products and the new channel and new media. Yeah we have taken a very conscious decision that we will be spending a large part of our incremental spend which also translates into about 25% of our total media spends. Now on television media which is digital, which is into mobile and so forth; and some of the work that we have done. If we look at Tresseemme, the launch of Tresseemme, it was the great work was done primarily on the digital space. If you look at the video launch, if you look at Be Beautiful, if you look at Bollywood backstage, some fantastic work done on the digital space. So from our perspective we are not lagging behind when it comes to our capabilities in digital marketing. Yeah?

Second comes e-commerce. We are absolutely clear that whatever channel the consumers are in, he should have a fair share. Be it in pharmacies, be it in modern trade, be it in emerging e-commerce. A few years back this was a story which was unfolding on modern trade. Today when we look at it, our shares in modern trade are higher than the rest of the channels. And we are absolutely clear that when it comes to e-commerce, we will retain our fair share if not higher share. So we are partnering, we are global capability development center. Lot of



work is being done in India. We are experimenting with different models, with different parties. And I am very confident that we will maintain our fair share as far as e-commerce is concerned.

AMIT SACHDEVA:

Yeah, sir my question actually is, I totally agree with you and I see that you are the leading-edge of digital as well and also in these campaigns, but what my question is for new entrant, the P&L of your Personal Products designed to make those spends in traditional economics, but now the thing have changed for a new entrant, who doesn't have to face those cost. And it can drastically reduce those cost and make some smart entries.

What I'm saying is that, doesn't it change the game for a new entrant, who doesn't have to really spend? It can only pass on all the consumer surplus to consumers directly and engage with them.

SANJIV MEHTA:

You know the reason I was giving you the modern trade story was because a few years back similar kinds of questions were coming up. That when modern trade opens up they will not need - new entrants won't need the muscle of general trade. Then they will also be the deal alone brands and they won't have to spend the kind of money which you do to promote and advertise your products. But at the end of the day it is all about branding and marketing. And I believe that a brand equity if we make it relevant to our consumers, if we ensure that the price value equation remains very strong, I see no reason at all why we should not be succeeding as we have done in the past. Of course you need new scales, you need new capabilities and that is the reason why we focus a huge amount on capability development. So there will always be new competitive context as well as an agile company as a company which adapts. I think



we will have to keep responding to the changes. And we remain very conscious. That's the reason why we invest so much on capability building.

Now coming to your next question that is on Pepsodent. If you look at the market construct today, we are talking about 22%, out of which Close-Up is about 14-15%, Pepsodent is about 7-8%. That's the market. So Pepsodent relatively is a much smaller brand. It gets fragmented because we are into different segments. We are into the therapeutic segment, skincare, we are into gum care. So one of the things what we are doing now in the strategy is pausing and asking ourselves that – which is the basic of every strategy is where do we compete and how do we compete. It is a big question that we are asking ourselves. And there might be some course correction as we go forward. Yeah? And the other of course has been that if you look at the total oral care portfolio, is Close-Up is still a very strong equity. It has a very distinctive positioning catering to the youth. And we want to ramp up activations that we do on Close-Up so that we make it even more relevant to the young consumer. So we will be playing the portfolio deal, but you're absolutely right that we need to up our game as far as Pepsodent is concerned.

AMIT SACHDEVA: My question is how do we differentiate? What's the point of really you know putting together a product which stands out on its own?

SANJIV MEHTA: The product is excellent, there's no question about that. But our trend gets fragmented over different segments.

AMIT SACHDEVA: Correct.

SANJIV MEHTA: So we will have to make some conscious choices of where we compete and how we compete. And one of the benefit of



our relief framework will be that we need not now apply a nation wood formula to all the clusters.

AMIT SACHDEVA: Sure.

SANJIV MEHTA: So we might have a very specific that in the core or basic care we'll compete only in the heartland. With the therapeutic segment, the experts protection, we will operate in the big city.

AMIT SACHDEVA: Sure.

SANJIV MEHTA : And in the modern trade channel.

AMIT SACHDEVA: Sure.

SANJIV MEHTA : That's the kind of fine-tuning of the strategy which we are doing. We are very happy with the product. In fact just today morning itself we had a consumer of Pepsodent who was raving about it. He had just switched from Colgate to Pepsodent and he was raving about the product. So we are not much concerned about the product, it's a great product. And important for us is how do we play the game, considering it's a much smaller brand.

AMIT SACHDEVA: Sure.

MODERATOR : Thank you Mr. Sachdeva.

AMIT SACHDEVA: Thank you.

MODERATOR : Participants who wish to ask questions may please * and 1. The next question comes from Mr. Sanjay Singh from Standard Chartered Mumbai. Mr. Singh, you may ask your question now.



SANJAY SINGH:

Yeah. Hi, sir. I just wanted to know that your excise duty that you're talking about that the excise duty has been a headwind including some of the factories getting – completing their tax exemption limits. Now over the next year or so, next, I mean, probably in FY 2016 itself, you have a couple of large factories, which get over 10 years. And hence your excise duty, which is currently around 5% to 5.5%, should typically go to 9% or so as far as my numbers are concerned. So how do you see this managing this headwind or because you cannot – taking that full pricing increases, so how do you see this as a headwind going forward?

P. B. BALAJI :

I think it's a good time to pause on this particular point and understand this in a slightly greater detail. The reason why we called this out, and if you noticed we would not have called this out unlike the ETR benefit. In the case of effective tax rate, we had to guide you guys for that because it's not something you can manage. It's something that you need to just take it on as though your factories pays out, you need to just take that charge. Excise is slightly different. We're only clarifying the result, that when you put this line in we are only clarifying that the result needs to be seen in this context. As far as our longer term commitment on operating margin increase is concerned, this excise hit is as much a cost as any other line in the P&L. I will not be in a position to price for it if I believe that my competitors are continuing to enjoy the benefits. Therefore I need to manage this within my entire P&L. That is the reason why we have not any forward views given on this, nor that is something signalled. So this clarification on excise issued is, number one it's happening in a significant way for the first time. And number 2 it is more about confirming the underlying quality of the results that we have delivered after the seats have been taken. But going forward whatever excise comes our way



will be part of the fact that this is the cost pool, and we need to do modest improvements in operating margins over and above that.

SANJAY SINGH: But will all your excise benefits go away by say FY16? Is it a fair assumption?

P. B. BALAJI : No, we do have factories going all the way - If you look at the units in NESO for instance, they go all the way into 2022-2024.

SANJAY SINGH: Okay, that's helpful. Secondly you have been over a last few quarters talking about market growth a lot which we understand market growth has come off quite a bit. And we can't operate outside the markets and hence our growth rates will be in line with or ahead of the market by some percentage points. What seems surprising to me is that the overall market growth number which you quote, which is of course from Nielsen, is of course significantly lower than what we see when we see listed companies' growth. So for example when I see the last 6 quarters growth rate of the top 10 consumer staple companies and that doesn't include tobacco companies, then I think Levers is ahead only in one quarter which was Q1 FY15, which was last quarter. So in this context, you know is this right to look at market growth which probably what Nielsen is reporting? First do you think it's a wrong number? And if it is not, then does that mean that many of them have understood that smaller companies are de-growing or are growing at a very, very slow pace? So how do we look into it?

SANJIV MEHTA: I think it's a great question. We need to look at it in three lights. When you talk about the growth of – when we say market growth slowing down we look at Nielsen. We also look at household panel data coming from IMRB. And also we do take



into consideration the like for like category growths coming from listed companies. Some of our listed companies do have - our portfolios don't exactly match off in terms of numbers. So therefore for correct data, look at IMRB panel data and also look at Nielsen data together. That is the basis on which we are confirming whether markets are slowing down or whatever the position of the market is. That's one. Second, the way we look at it ourselves is we need to ensure that we are able to put up quite a distance between these numbers so that we can confirm that we are ahead of the market. Not just that we are saying that we need to be ahead of the market, and we are marginally ahead of it or not. We just give ourselves a quiet bit of slack on this because we do understand that sometimes when the statistics play out they may not pick out numbers completely there. So we take both these angles before we confirm that we have a satisfactory plan in our hands.

SANJAY SINGH:

Okay. But are you also seeing that – I am saying that if the listed companies' numbers have been good, and your numbers have been ahead of market, are you also seeing that is there a trend that maybe the smaller brands or you know local brands, regional brands, unlisted companies, they are going at a much slower – they are declining very rapidly? Is that a trend which you are seeing?

SANJIV MEHTA:

It depends on the specific category. In few categories we do notice them going quite out. For example hair as a category we can definitely talk about. It is a category where we do see a lot of low cost operators or regional operators under pressure. And but it maybe by category.

SANJAY SINGH:

Okay. That's it from my side, thank you very much.



MODERATOR : Thank you Mr. Singh. The next question comes from Mr. Jamshed Dadabhoy, CitiGroup Singapore. Mr. Dadabhoy you may ask your question now.

JAMSHED DADABHOY: Yeah, thank you again. So just one question. If we were to hypothetically sort of go back to a scenario where we had a price war on the detergent space a few years ago. Given that prices come off to that same extent, what is the margin reduction that we might see on the S&D side, or would we be better insulated given we've been – they're moving a lot of costs on the supply chain. The reason why I'm asking this question is, because, if you see P&G has made this intent to sell its Duracell portfolio, and it is probably going to become much sharper and more focused on the new market side. So that's really something that I'm trying to understand

SANJIV MEHTA: I think it is such a hypothetical question. I would rather – these are things which you just play it when it happens and you have your plan As and plan Bs ready. But don't necessarily conjecture on that. I would keep the conjecture on this point.

JAMSHED DADABHOY: Could you give us a sense in terms of what amount of cost reduction that has happened so far, over the last 4-5 years in the detergent space?

SANJIV MEHTA: At the end if you look at the soaps and detergents portfolio operating profit increase, I think that's something that's available in the public domain and you should be able to see the trends that are happening on that front. And suffices to say that from a long view perspective we continue to drive next, and the fact that we're calling out performance of Surf and performance of Rin, this will tell you that it's a portfolio



premiumisation strategy that we're adopting, and something that is coming through.

JAMSHED DADABHOY: Okay I'll take it off there. Thank you.

SANJIV MEHTA: Okay thank you.

MODERATOR : Thank you Mr. Dadabhoy. Participants who wish to ask questions may please press * and 1. Participants who wish to ask questions may please press * and 1. The next question comes from Mr. Akshat Gandhi from Aviva Life Insurance Mumbai. Mr. Gandhi, you may ask your question now.

AKSHAT GANDHI: Hi sir. If you look at your entrance cost lines on a quarter on quarter basis, if we adjust the pension credit basis which was turned in last quarter, then I see that the employee cost has increased around 12% quarter on quarter. So any reasons for that? And what kind of growth should we look at this employee cost item on an annual basis?

P. B. BALAJI : I think in terms of drivers for it there are three items which I would call out. One of course the inflation, which is normative country inflation that you have. Then of course head count and work level which you have within the business in terms of grades etc. And one element of course which you have a contrast sitting on the operating income line which is the cost that we incur on behalf of Unilever and we charge out. So therefore the lines need to be seen as an operating income line, which is in contrast to this particular line. As far as future increases are concerned, we don't lay down future costs and again I'll guide you to the fact that operating margin increases on a steady but modest basis is what we are committed to, including this line.



AKSHAT GANDHI: Okay. Also on the other income if we could understand how you have parked your entire cash equivalent in the current investments. just to understand what type of leads can we expect on that side?

SANJIV MEHTA: I think from another investments perspective, things like investments is steady across both the quarters, I would say, INR 98 crores, INR 96 crores, if my memory serves me right in other numbers, both have ballpark in the same range. The only difference here is the phasing of the dividends from our subsidiaries coming into us and that's the only thing that we have phased in earlier this year compared to last year. Other than that, there's no news in that particular line.

AKSHAT GANDHI: Okay fine. That's it. Thank you.

MODERATOR : Thank you very much Mr. Gandhi. The next question comes from Mr. Kulbhushan Kalia from HSBC Life Insurance, Gurgaon. Mr. Kalia, you may ask your question now. Mr. Kalia, you may ask your question now. Mr. Kalia your line is open, you may ask your question now.

KULBHUSHAN KALIA: Hi can you hear me now, am I audible?

MODERATOR : You are audible sir.

KULBHUSHAN KALIA: Hi, so if I look at the gross margins on a year on year basis we have seen a very sharp decline about 150 bits in this quarter, could you throw a bit of light on the same.

P. B. BALAJI : Yah, I think there are two factors on this which actually three factors for which to keep in mind. Number one is the consumption cost, we did fall out in terms of being higher with



what was compared to last year and as you see commodity cost inflation to coming down towards the end of the quarter, this is the number we expect to see going away in the near future. That's one, second is the excise duty impact which is the second element of it and the third element of it is if you go back to last year same time your cause of the percentage of turnover was one of the lowest over the last, even if you track all the way from 2012 onwards you will realize this number is probably one of the lowest that is there 51 odd percent and the average for that entire time period 12 all the way now till roughly about 53% and this quarter was also about 53%. So what you are actually seeing is a base effect and just see that in the contrast of the AMT line where you're seeing last year on a highest ever. So it just shows that everybody is playing all lines of the P & L together and individual lines on their own do not give the full story.

KULBHUSHAN KALIA: Right fair enough. Is it possible to quantify how much is the impact given the excise duty?

P. B. BALAJI : Because of that the margin impact is roughly about 30 bits, so when you see the PCST improvement of 50 bits, it absorbs the 30 bits hit because of excise duty on the margins.

KULBHUSHAN KALIA: And is it possible to set the line as to how this is likely to move excise duty impact over the year?

P. B. BALAJI : If you see the answer to my previous question is the same answer I will give you, the reason why we called out excise now and did not give any guidance on that is excise is as much a cost as anything else and we're trying to manage it as we deliver the modest improvements in operating margins, so that we are committed to; no debate there.



KULBHUSHAN KALIA: Alright fair enough

P. B. BALAJI : Even EPR we guided you because it is something that was beyond our control as somewhat the tax rates will go up, I cannot do anything about it. But this is not like that, this is something we need to manage as a part of the business and we're being disciplined enough to ensure that we don't hide under this.

KULBHUSHAN KALIA: Alright, fair enough. Thanks a lot. That's all from my side

MODERATOR : Thank you Mr. Kalia, the next question comes from Mr. Vijay Chugh from BNP Paribas Mumbai, Mr. Chugh, you may ask your question.

VIJAY CHUGH: Thank you for taking my question. This is related to what your company is doing on the distribution side in terms of setting up a new branch, any efforts on the premiumization side that the company can call out for us to understand how it is driving the premiumization agenda much higher besides innovation.

SANJIV MEHTA : Yeah. First, I would just like to clarify, TRESemmé framework is not a distribution framework, yeah? It's an entire operation framework from planning to execution. Okay, let's that aside and now getting into premiumisation, if we just take a look at the success or the growth of our brands like TRESemmé, such as Magnum, or the success of Dove, clearly, brands which have been operating and it's that we have to play entirely. The premiumisation especially in personal products certainly remains the area of big focus. If I look at it from a home care perspective its about upgrading the consumer. A large part of



the growth has been coming from our brands Surf and Rin, so which is again a premiumisation that we are doing and I see the category as laundry powders.

VIJAY CHUGH:

Okay thank you

MODERATOR:

Thank you Mr. Chugh. 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:

Thanks Serena, we've got a couple of questions here, we will avoid the ones which we've already taken. A follow up question from Mr. Abneesh, what's the status on laggards, like Pepsodent, Axe, are you seeing any signs of improvement?

SANJIV MEHTA:

Okay Pepsodent we've spoken in pretty much detail, on Axe you would have seen Abneesh that launch of Success and Signature and I would certainly urge you to try that on, it is a fabulous product with great fragrance and so clearly as far as the Deo category is concerned we've started on the journey to rebuild this category and this was the first stalwart from our side. Clear- there is much more work to be done as far as the anti-dandruff segment is concerned we are a small player into it and that to me is a huge opportunity. So I would say that watch the space. So Clear, that's what it is Clear.

DINESH THAPAR:

Our next question from Abneesh again is- has modern trade growth stabilized?



- SANJIV MEHTA :** Modern trade growth from our perspective, yes it has stabilized for us but we are certainly not seeing the kind of growth in that channel like what we have seen in the past.
- DINESH THAPAR:** We've got a question from Ritesh from Ambit Capital and I'll take the first one, this is of gross margin and we've spoken about that but the second question is despite of sequential increase in media intensity AMP spends have come up sharply, what is your strategy for AMP spends going ahead?
- SANJIV MEHTA:** Yes, in terms of AMP I think the points that I have made earlier in the day is we are managing the business dynamically and we will ensure that we stay competitive on all lines of the P & L including the AMP Line and we will maintain our competitive share of voids in each of the category and continue to invest and all our innovations will be fully funded. So therefore our strategy for AMP does not change though the numbers may move around depending on what is happening in the market.
- DINESH THAPAR:** Alright we have a question from Sandeep from Fundsmith, for Sanjeev, what are the keys concerns you currently have about the business other than market growth coming back?
- SANJIV MEHTA :** You know Sandeep, I sleep very well, so I don't really carry many concerns at all, but if you were to look at my business, we have great plans and our whole focus has been on strengthening the brand equities, second is we have an amazing pull of talent and we keep focusing on strengthening our employers brand so that we can keep attracting a great pull of talent and the whole focus is get great talent and make them better and the third important dimension is building capability,



yah, our focus is on building capabilities which are distinctive and hard to replicate which our competitors will find it difficult to or much harder to replicate. So that's been our focus as far as the business is concerned and that will continue getting into the future, yah, we have strategic clarity and we have a huge focus on operational excellence or what I would call as every day great execution.

DINESH THAPAR:

Alright, so I think those are all the questions we have on the web. So I think we now come to the end of the Q & A session. Before we end let me remind you that a replay of this event and the transcript will be available on the investor relations web site tomorrow and you can always go back and refer to it. Also a copy of the results and the presentation we've just made is already loaded on to the IR web site and can be accessed through the HUL investor app as well. I'd now like to draw this call to a close, thank you everyone for your participation and have a great night, thank you, bye, bye.

MODERATOR :

Ladies and Gentlemen, this concludes the Earnings Call; you may now disconnect your line, thank you for connecting to audio conference service from Airtel and have a pleasant evening.