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Hindustan Unilever Limited

30th April, 2024

Stock Code BSE: 500696
NSE: HINDUNILVR
ISIN: INE030A01027

BSE Limited,
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2nd Floor, New Trading Wing,
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National Stock Exchange of India Ltd
Exchange Plaza, 5th Floor,
Plot No. C/1, G Block,
Bandra – Kurla Complex,
Bandra (E),
Mumbai – 400 051

Dear Sir/Madam,

Sub: Transcript of the Earnings Call for the quarter and year ended 31st March, 2024

This is further to our letter dated 25th April, 2024, whereby the Company had submitted the link to the audio/video recording of the Earnings Call held post announcement of Financial Results for the quarter and financial year ended 31st March, 2024.

Pursuant to the Regulation 30(6) read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, please find enclosed the Transcript of the said earnings call, for your information and records.

The transcript of the earnings call is also available on the Company's website at:
https://www.hul.co.in/investor-relations/results-presentations/quarterly-results/march-quarter-2024-results/

Please take the above information on record.

Thanking You.

Yours faithfully,
For Hindustan Unilever Limited

DEVOPAM NARENDRA BAJPAI
Digitally signed by DEVOPAM NARENDRA BAJPAI
Date: 2024.04.30 19:28:38 +05'30'

Dev Bajpai
Executive Director, Legal & Corporate Affairs
and Company Secretary
DIN:00050516 / FCS No: 3354

"March Quarter and Financial Year 2024 Earnings Call of Hindustan Unilever Limited"

April 24, 2024

Speakers:

Mr. Rohit Jawa, Chief Executive Officer and Managing Director

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

Mr. A Ravishankar, VP - Finance

Moderator: Ladies and gentlemen, good day, and welcome to Hindustan Unilever Limited Conference Call for the Results of March Quarter and Financial Year Ended 31st March 2024. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. A. Ravishankar, Vice President, Finance. Thank you, and over to you, sir.

A. Ravishankar: Thank you, Yashashri. Good evening, everyone, and welcome to the conference call of Hindustan Unilever Limited. This evening, we will cover the results of March Quarter and Financial Year Ended 31st March 2024. On the call with me is Rohit Jawa, CEO and Managing Director; and Ritesh Tiwari, CFO. We will start with prepared remarks from Rohit and Ritesh, where we will cover an overview of our performance in the financial year and in March quarter and our future outlook.

We expect this to take around 30 minutes, which will leave us with an hour for the Q&A session. Before we get started with the presentation, I would like to draw your attention to the Safe Harbor Statement included in the presentation for good order sake.

With that, over to you, Rohit.

Rohit Jawa: Thank you, Ravi. Good evening, everyone. Thank you for joining us on the call today. It's always a pleasure to interact with all of you.

Let me first start with an overview of the operating context for financial year '24. With softening in prices of key commodities, especially those with Home Care and Personal Care, we passed on this benefit to consumers. Consequently, there was a nominal to no price growth in the year. Volume recovery remained gradual due to high levels of cumulative inflation over the past few years, coupled with a weak monsoon affecting rural demand. Urban, organized trade and premium portfolio stayed resilient and led growth for FMCG overall.

Given this context, we delivered a resilient performance for the year with an underlying sales growth of 3% and an underlying volume growth of 2%. EBITDA margin was up 40 bps year-on-year. We continue to focus on operational excellence and built back our gross margins, with a substantial part of this being reinvested behind brands and capabilities. Net profit crossed the milestone of 10,000 crores in this fiscal. PAT before exceptional items and EPS grew 4% and 2%, respectively.

Moving on to our competitive performance. It's important to look at corporate market shares and MAT business winning metric over a longer period, to fully appreciate the impact of the inflation, deflation cycle on these metrics. Compared to 2021, we have improved our corporate market share by almost 200 bps. As we said previously, we have seen resurgence of small and regional players, who had vacated the market during peak inflation.

Consequently, in recency, we have seen a marginal dip in our market shares. But it's important to note, we are holding on to almost all of the gains made in 2021 and 2022. Last quarter, we discussed how we expect our MAT business winning metric to be impacted as we lap the high base. While the metric has dipped below 60% this quarter, we are confident that it will come back towards the second half of calendar year 2024.

Our business fundamentals continue to remain strong, as can be evidenced by healthy penetration gains and business with growing or stable brand power as we continue to expand our physical and mental reach.

I had first spoken to you about key thrust areas for HUL in our October Earnings Call. A lot of what we have already been doing has strengthened our business, and we continue to build on it. However, it's equally critical for us to transform our business to serve the changing consumer aspirations to ensure we outperform in the years to come.

Let me delve into the progress we've made against each one of these thrusts during the fiscal. Our first thrust is to grow the core through unmissable brand superiority. This chart is evidence that we are a powerhouse of big purposeful brands. We have a total of 19 brands clocking over INR 1,000 crores each in annual turnover. Put together, these 19 brands account for over 80% of our turnover. Clinics Plus is now an INR 2,000 crores brand for us, having moved up the table in the fiscal. Boost, Sunsilk and Vaseline are the next three brands that are moving towards the INR 1,000 core mark.

Consumers are increasingly discerning and are making well-informed holistic buying decisions. We started on our product superiority journey to provide best-in-class products and over the years have made very good progress in this space. With evolving consumer needs, we are now broadening the way we measure and deliver superiority. Under the framework of unmissable brand superiority, we will measure our products against six tangible and distinct drivers, namely the 6Ps, all of which are proven drivers of consumer preference.

We have already embarked on this journey of making our brand unmissably superior, and I will take you through two examples to bring this concept alive. Starting with Vim liquids. During the year, we have driven multiple initiatives across each of the 6Ps to land an unmissably superior product in the market. From improving formulation to sharpening proposition and modifying the packaging to be more aspirational and ergonomical, specific actions were taken to address each driver of consumer preference. The result of these actions has been promising, Vim liquids has seen a double-digit volume growth in FY '24 with highest penetration gains in over a decade and continued market leadership.

Horlicks is another example of a brand that has pivoted its actions around the 6Ps to deliver an unmissably superior brand. We have sharpened and fortified the proposition of taller, stronger and sharper through precise and focused communications, packaging redesign and promotions. We have dialed up nutrition science information at the face of the pack, providing consumers with crucial information about the product. As a result of these actions, the brand has significantly strengthened its position in the market. Penetration, market share and brand power have all seen improvement year-on-year. We are confident that our journey from product superiority to unmissable brand superiority will take our brands from strength to strength and solidify our market leadership.

Moving on to market making and premiumization. Given the context of increasing affluence and under-indexed FMCG consumption, we have a huge opportunity to build categories of the future through market making and premiumization. We are doing this through persuasive communications via the right medium, innovating in new demand spaces and formats of the future and educating consumers at scale.

During the year, we've used these levers disproportionately to invest in market making and premium cells. For instance, more than 75% of incremental media investment was spent on market making, premium cells. Similarly, more than 70% of our innovation turnover also came from these cells. We continue to lean in on home-to-home connects to drive trial and usage. As a result of the sustained investments in market making and premiumization, we now have a very robust portfolio that is leading growth for us. We have not only seeded categories and formats but have successfully built them to scale. The portfolio you see on the slide contributes to more than 25% of our business and has grown double digits this financial year.

I had previously spoken about the job we have to do to continue transforming parts of our portfolio to on-trend demand spaces, especially in Beauty and Foods. Let me give you an update on the Beauty segment today.

We are the largest beauty company in India with a history of creating categories across skincare, hair care and color cosmetics, making us the distant number one in these segments. In our journey of transforming our Beauty business, we are focusing on, A, contemporizing our current master brands, B, investing behind identified high-growth demand spaces, and C, embedding capabilities across supply chain, mental reach, media models, and thought leadership.

We have led significant transformation across our key master brands, and results of a few are here for you to see. We've revamped our brands by refreshing product, packaging, communication and innovating them into new demand spaces and formats.

The Indian beauty market is rapidly shifting with changing lifestyles, increased disposable income, exposure to global trends and a growing emphasis on self-care and wellness. We've identified six key demand spaces, big bets, which we believe will grow disproportionately over the next few years. We already have a strong INR 2,000 crores portfolio across these big bets, and we continue to invest to scale them up. This portfolio delivered a double-digit growth in this fiscal with a c. 50% growth in e-commerce.

To build and bring our vision of creating a world-class beauty company to life, we are embedding core capabilities into our present processes. Let's talk about three critical capabilities: make for beauty. Our focus is to enhance desirability of products using superior technology, premium packaging solutions and formats. To continue to innovate with speed, we will invest and expand our footprint of nano factories and the supply chain for smalls. Reach for beauty. Consumer journeys have increasingly become non-linear and on digital mediums.

And hence, we are pivoting our mental reach model towards more digital media and influencer marketing.

Authority for beauty. Building on our 20-plus years of experience in creating India's most iconic beauty moments through the Lakme Fashion Week, we are creating a beauty council with key opinion leaders from the fashion and the beauty Industry. In January this year, we unveiled our first addition of the beauty collective, through which we aim to strengthen Beauty partnerships with e-commerce and modern trade customers.

Through these actions, we aim to build a future-fit portfolio and capabilities that will enable us to meet the evolving needs of Indian beauty consumers.

Our fourth thrust of leadership in Channels of the future is about brilliant execution and curating a tailored portfolio and leveraging our design for channel approach.

In general trade, we are focusing on expanding and fortifying our distribution moat. Our effective coverage and assortment both have seen a steady rise, standing at 1.2x and 1.25x of FY'20 levels respectively. Our e-B2B app, Shikhar, continues to be a strong point of differentiation for us, and we have successfully onboarded 1.3 million stores in Shikhar till now. We have enhanced Shikhar's functionalities to include loyalty programs, innovative marketing campaigns, and best-in-class app features. These are yielding good results for us. For instance, stores onboarded on Shikhar are growing faster than the other stores.

We have elevated our execution excellence by amplifying our in-store activation through strong partnerships with customers in modern trade and e-commerce. As a result of our focussed actions, we have increased our on-shelf availability by 200 bps in modern trade and online availability by 500 bpsin e-commerce.

These strategic thrusts are underpinned by our distinctive capabilities that we continue to strengthen. Let me speak briefly on each. Winning in many India's is a capability that we continue to embed deeply across our organization, allowing us to cater to differentiated needs of Indian consumers. Our net productivity program is crucial for generating fuel for growth to invest behind our brand and capabilities. We will continue to generate efficiency across all lines of the P&L through this program. Re-imagine HUL has given us a head start in our digital transformation agenda. Shikhar is a tangible example of the success of this program. We are now focusing our digital agenda of superior consumer and customer experience with an objective to sell more, save more, and manage better.

Speaking about sustainability, sustainability can future-proof the company and create new opportunities. It safeguards our operations, de-risks our supply chain, helps us attract and retain great talent, and shapes our response to the most pressing and relevant global challenges we face.

Going forward, we will accelerate our sustainable agenda around four key priorities that have the biggest material impact on the business, notably climate, nature, plastics, and livelihood. By focusing our efforts and resources, we will make stronger, tangible progress on these complex challenges while creating opportunities for our business.

Our distinctive and meritocratic culture has helped us attract and retain the best talent in the country. During the year, we've invested in building a future-ready organization. We have separated beauty and personal care into two segments, appointed a Chief Digital Officer and a Chief Sustainability Officer to bring greater focus and speed and execution in these areas. We've also set up a customer strategy vertical for each business unit to operationalize and execute business unit relevant actions across channels.

I am a big believer of the India story and the FMCG opportunity. Our journey of transform to outperform will take HUL to the next phase of growth by enabling us to continue serving the evolving aspiration of Indian consumers and win in the market. Now let me hand over to Ritesh, who will cover our results in detail.

Ritesh, over to you

Ritesh Tiwari: Thank you, Rohit, and good evening, everyone. I will now walk you through our in-quarter and financial year performance in more detail and also then cover our outlook. In the quarter, demand trends remained broadly similar to what we have seen in DQ'23. In this context, we delivered a resilient performance with underlying volume growth of 2%. Pricing remained marginally negative, leading to an underlying sales growth of 1%.

Moving on to bottom line performance, EBITDA margin remained healthy at 23.4%. I will cover EBITDA construct in more detail later in the presentation. Profit after tax before exceptional items and profit after tax declined by 3% and 6%, respectively. The difference between PAT (bei) and PAT is primarily on account of lapping higher exceptional income in the base period.

Let me now move to performance across our three segments. Home Care and Beauty and Personal Care segments continue to see negative UPG in the quarter. Home Care grew 1% with mid-single-digit volume growth. BPC USG declined by 2%, with volumes remaining flat. Foods and Refreshment, on the other hand, had positive pricing and delivered mid-single-digit USG with flat volumes.

We continue to see positive volume growth across most of our business. Overall, 75% of our business is growing volumes. In fact, 50% of our total business is growing volumes in mid- to high single digits. Margins in all three segments remain healthy, with Home Care and Foods and Refreshment at 19% and Beauty and Personal Care at 26%.

I will now click down to talk about performance within each of the segments.

Starting with innovations and activations in Home Care, Comfort Crease Ease Spray is a format innovation that refreshes you clothes on the go. It helps release wrinkles while giving your fabric a refreshing fragrance. In Surf Excel liquid, we launched a new winning proposition of ‘removes tough dried stains first time in the machine’.

Moving on to Home Care performance in the quarter. Volumes in both Fabric Wash and Household Care grew in mid-single digit. Premium portfolio continued to lead growth. On a 2-year CAGR basis, Home Care delivered double-digit revenue growth.

Let's look at key innovations in BPC. With summer rolling in, we have launched a range of sun care products catering to different consumer needs. One of these is the Invisible Sunstick by Lakme, a revolutionary sunscreen that is 100% invisible on all skin tones, yet effective with SPF 50+. Dove sensitive care range of body wash and soap, which helps repair skin's weakened barrier was launched. Lakme recently launched Multislayer Face Stick at Lakme Fashion Week. Available in two variants, these sticks replace a multistep makeup routine with a single product.

Moving on to performance in Beauty and Personal Care. It has been a story of two halves this quarter with divergent trends in Beauty & Wellbeing and Personal Care. To give you more clarity on this, we have disclosed the underlying sales growth for the two segments this time. As communicated earlier, we will begin detailed financial reporting for the two segments from June quarter onwards.

Beauty & Wellbeing delivered a volume-driven mid-single-digit growth, whereas Personal Care witnessed a 10% decline. Talking about Beauty & Wellbeing, Hair Care delivered high single-digit growth, driven by volumes. This was led by outperformance in premium brands, including Dove and TRESemmé. The post-wash hair treatment segment continues to gain consumer traction and clock strong growth. Volumes for Skin Care and Color Cosmetics grew at low single digit. If you were to split the performance by price tiers, mass skin portfolio, including talc, declined on account of muted demand. However, premium skin continued to outperform, growing in double digits.

Oral Care delivered a broad-based double-digit growth, driven by pricing. Skin cleansing has declined on the back of price cuts taken, coupled with reduction in volumes led out of mass portfolio. We are not satisfied with this performance of skin cleansing. Let me share an overview of the actions we are taking to improve the business.

These are focused around four key pillars of pricing, product, innovation and channels of the future. We have adjusted pricing across relevant packs in the mass and popular segment to ensure we provide our consumers with the right price-value equation. With respect to products, we are contemporizing our brands and improving formulations in our core portfolio. We are stepping up innovation intensity in fast-growing demand spaces, especially in premium portfolio. Bodywash has been clocking strong growth over the last several quarters, and we will further lean into this format. The Dove Sensitive range and Hamam Turmeric variant are some of the other examples of recent innovations in premium space.

We're also stepping up assortment in modern trade and e-commerce to ensure we win in these high-growth channels. Whilst we expect to start seeing a change in the category's performance trajectory, it is likely to take a few quarters before the full benefit is felt.

Coming to innovations and activations in Foods & Refreshment. Brooke Bond Red Label Tea has always stood for bringing people together. Our "Swad Apnepan Ka" campaign embodies this ethos with the latest rendition that attempts an un-stereotypical portrayal of differently abled people. Ice Cream had multiple innovations, landing in the market before summer season kicks in. We took our very successful partnership with Cadbury forward by launching a product which gives our consumers the best of Cadbury Crackle Chocolate and Feast. Mango Duet is a winning combination of vanilla and mango that offers a superior multilayer experience at INR10.

Moving on to performance in F&R. Tea further strengthened market leadership in this quarter with strong gains in both value and volume. Business had a muted performance year-on-year as we continued to witness consumers downgrading. Green Tea and functional tea continued to perform well. Coffee delivered double-digit growth, driven by pricing. Functional nutrition drinks, which includes Horlicks and Boost, delivered high single-digit growth, led by outperformance in the Plus range. This category continued to witness market share and penetration gains during the quarter.

Foods delivered mid-single-digit growth, led by soups, Food Solution, mayonnaise and peanut butter. Ice Cream had volume led double-digit growth. We have had exciting launches in Ice Creams this quarter in lieu of upcoming season, a couple of which I spoke about in the previous slide.

Let me now spend a few minutes explaining the components influencing EBITDA margin.

At 23.4%, EBITDA has declined 30 bps year-on-year. Gross margin at 51.3% has improved by 350 bps year-on-year. We continue to focus on building back our gross margin through improved price coverage, mix and net productivity initiatives.

Advertisement and promotion investments at 10.8% is up 200 bps year-on-year. Our absolute A&P investment was almost INR 300 crores higher than last year as we continue to invest competitively behind our brands and maintain share of voice ahead of share of market. We have also stepped up our digital media investments significantly as we rework our mental reach and media models with the reshaping of our portfolio.

Employee benefits and other expenses at 18% is up 120 bps year-on-year. This includes an impact of 30 bps on account of staggered rate increase in royalty. The rest of the increase can be attributed to investments made in future-fit capabilities and lack of price leverage.

On a full-year basis, other expenses and employee benefits expenses at circa 13% and circa 5% of turnover, respectively, are in line with our long-term trends. The termination of consignment selling agreement with GSK will have an impact of 60 bps starting this quarter. Hence, between this and increased royalty there isan impact of 90 bps on the EBITDA in the quarter.

Moving on, a summary of our performance for this quarter. I've already taken you through most of the lines in detail, pausing a few seconds on this slide for you to read through. Coming to financial year results, Rohit has already shared the headline performance at the beginning of the presentation. Let me quickly recap the numbers.

Underlying sales growth for the year was 3%, EBITDA margins remained healthy at 23.8%, up by 40 bps year-on-year. PAT bei and PAT grew by 4% and 2%, respectively. Effective tax rate for the year was 26% after taking into consideration prior-period tax adjustment.

Moving to segmental performance for the financial year, this year has witnessed a transition from high commodity inflation to deflation in 75% of our portfolio. In this context, we have had an underlying sales growth of 3% in Home Care and 2% in Beauty & Personal Care, led by volumes. In Foods & Refreshment, commodity prices remained inflationary during the year. Consequently, we delivered a mid-single-digit USG, driven by pricing. Margins in all three segments remained healthy, with Home Care at 18%, Beauty & Personal Care at 26% and Foods & Refreshment at 19%.

Let me now talk about the progress made in rebuilding gross margin. As you are aware, we took a hit to our gross margin during the period of high inflation as we did not price to the full extent of commodity price increase. This ensured that we have the right balance between competitive growth and margins.

With more benign commodity situation this year, we focused on building back gross margin through our net productivity program by bridging the price versus cost cap and improved mix. We remain focused in further stepping up gross margin as this serves as a crucial source of funds for investments behind brands and capabilities.

Considering our performance in the year, the board of directors have proposed a final dividend of ₹24 per share. Along with interim dividend of ₹18 per share, the total dividend for this year is ₹42 per share, with an 8% year-on-year increase.

Let me now turn to outlook. We expect FMCG demand to continue improving gradually, forecast of above-normal monsoons and improving macro-economic indicators augur well. We expect our price growth to be low single digit decline in near term. If commodity prices remain where they are, we envisage price growth to plateau in midterm and become positive in low single digits by end of this financial year. In this context, our focus remains on driving competitive volume-led growth across our business.

As I spoke earlier on skin cleansing, actions are underway to address performance in this segment, and we expect to see an improvement over the midterm. We will continue to generate savings through our productivity program and reinvest ut behind our brands and long-term strategic capabilities while maintaining EBITDA margin at the current levels.

While we expect near-term demand to recover gradually, we remain very confident of mid- to long-term opportunity in Indian FMCG. India's booming economy, expanding affluent population, accelerating digital transformation, coupled with under-indexed FMCG spend will spur premiumization and provide companies with a strong runway for growth. With our distinctive capabilities and our strategic thrust of transform to outperform, HUL is well placed to capture this opportunity.

With this, we conclude our prepared remarks, and we will now hand it back to Ravi to take Q&A.

A. Ravishankar: Thank you, Rohit. Thank you, Ritesh. We'll now move to the Q&A session. As always, we request you to kindly keep the questions to a maximum of two, so that we get to take as many questions as possible. In case you have any further questions, please feel free to join the queue again. In addition to audio, participants also have an option to post the questions on web, if there are any unanswered, we will take them at the end.

With that, I'll hand over the call back to Yashashri to manage the Q&A session for us.

Moderator: Thank you very much, sir. We'll take our first question from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Thanks. My first question is on the liquids across your categories. So in dishwash liquid, you are seeing double-digit volume growth. I wanted to understand in dishwash liquids, what is the salience of liquids in the overall portfolio? And if I take it parallelly to a Personal Wash and Fabric Wash, what is the salience of liquids there? Is there any learnings which you can translate from dishwash to these categories? I'm asking this because upfront, you have highlighted dishwash liquids as a big success.

A related question here itself on fabric dishwash liquid -- fabric liquid wash. So we have one of your competitors come out with an INR99 disruptive pricing. So what are your thoughts on that?

And one related question here will be in terms of disruptive pricing in liquids, we have seen HUL being more of a follower. Earlier, we did see competitor launching hand wash and body wash ahead of you. So is there a thought process that we can be ahead in terms of innovation in terms of liquid, in body wash and hand wash?

Rohit Jawa: How are you doing? Thank you very much for the question. I think there probably first, I should try and clarify a few things because in your question, you stated so much facts, and I just want to make sure that we get those right. Is that okay?

Abneesh Roy: Sure.

Rohit Jawa: So broadly there is a macro secular trend of consumers moving towards liquids across categories. Second, we have a total liquids business in Home Care liquids of close to, and I'm talking of fabric conditioners, fabric wash and dishwashing included, to well in excess of INR3,500 crores. So that's huge. And we've been the pioneers in fabric conditioner liquids, in fabric wash liquids and dish wash liquids which is the reason why we are where we are. So that's the first fact just to clarify that we are not followers, but we are leaders and it's not now, but it's been at least 8 years, 9 years of building these categories they haven't happened overnight.

Second that in so far as specifically Vim is concerned in dish wash it's already 25% of the dish wash sales which is sizable. We have a very strong share. And the reason we showed that was we are very proud of what we have done there and we believe that is, of course, a huge runway of growth because consumers are upgrading to liquids as I mentioned in the beginning generally across categories.

On body wash liquids which is more in the personal care space we were again -- and I'm not speaking from facts so we might have -- I'm very confident we were pioneers many years ago and we have now multi-brand portfolio in shelf. Not only this, we are market leaders in body wash liquids globally and are gaining shares handsomely in India as well.

And the growth rates are in 50% - 60% and beyond and we do see because the penetration of liquids -- body wash liquids is quite small it's under 2-odd percent that there is a large runway of growth in body wash liquids and we have a full portfolio at play and technology which is on shelf and in the pipeline whether it's through Dove, Pears or Lux or Lifebuoy which is another brand we have to play specifically in hand wash.

So to round up all of this I just want to say that we have been pioneers in the liquids category in India across segments in home care and personal care. We've built a business short of INR4,000 crores which is not small by any circumstances. And yes, there is more competition now especially in fabric wash liquids in what we call Tier 2.

And speaking of Tier 2 or now that the market is fragmenting and opening up there are many players not just one which have entered the market given the market is now quite sizable whether it's global players or local players. We do have a portfolio play as we have in many of the categories we play in.

We have Rin which is in the market and at a Tier 2 price with a great product and unbeatable value for the consumer and you should and will see a lot more action on the front of both Surf Excel liquid and Rin liquid when it comes to fabric wash. So I hope it gives you a sense of sentiment and commitment and decisiveness around this space.

Abneesh Roy: Just one follow-up in terms of the fabric wash what will be the salience on liquids? And my comment on the follower was only based on the disruptive pricing absolutely on your size, etcetera, liquids and the first entry, I think, clearly you have done a commendable job. So if you could give clarity on the salience in terms of Fabric, what's the liquid?

Rohit Jawa: On Fabrics just help me with the numbers 20% within that sort of range and I -- don't hold me exactly to that number, but in that sort of range but growing at 20%. So fast growth part of our portfolio, but we still do, of course, have a larger business in bars and powders. But we're talking of I mean of massive category. So therefore -- and the growth is in liquids and as you mentioned there's also now Tier 2 INR99 or thereabouts other brands from other players across the industry.

And we will therefore see more growth coming here because the conversion is becoming easier since cost of washes are quite accessible for more customers and we have a very large share in the segment we intend to fight the hardest to keep it.

Abneesh Roy: My second and last question will be on the outlook. So you have mentioned that there is a gradual improvement in FMCG demand in terms of outlook and you have mentioned the reasons will be essentially partly monsoon, partly improving macro. My question here is last 2 years we have also seen rural customer spend more on education, more on the medical needs because he's getting a lot of free food, freebies, etcetera. So he is going for better life for his kids in terms of better education, more on the medical etcetera.

Now the issue is post elections very clearly telecom charges will increase 10% to 20%. That is the correct expectation and that's again a big component for the lower end of rural customers. So how do you see that kind of impact. Is monsoon enough to overcome this kind of issue because for the lower end 10% to 20% hike in some of the cost component can be quite severe?

Rohit Jawa: You're right, Abneesh. There is clearly a chance, as consumers are evolving their monthly consumption from based on the surveys that came up recently, but we are a very small part of the consumption basket as FMCG. There's so many more categories there. And indeed over the last few years because the inflation or price increases are quite sizable, they had an impact on rural especially as it came through COVID and inflation shocks, but I think we are seeing gradual recovery, we are hopeful of a better monsoon and monsoon does have an impact as we all know.

It might not be the only impact, but it has an impact on the agri economy and therefore rural consumption. And I think in that sense, most likely, the worst is past us and from here onwards we do see gradual recovery in rural consumption and of course as we said the urban consumption has been more resilient especially at the premium end.

Abneesh Roy: Sure thanks. That's all from my side.

Rohit Jawa: Thanks Abneesh.

Moderator: Thank you. The next question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: Just one question on both laundry and HFD the growth what you've delivered and what should be the outlook we should be thinking about and secondly on beauty which I will come after this. On laundry, in general, if you could help us understand how do we think about the medium term because there seems to be a deceleration in the overall volume growth. So what I'm trying to understand is the heavy lifting for laundry growth has been delivered by premiumization.

I understand the solid to liquid or powder to liquid conversion, but if you could talk about the premiumization otherwise which is happening in the powders, etcetera, which is an integral element to the, let's say, pushing us to double digits that's one. Second, it's heartening to note that in HFD there is a high single-digit growth. Again, if you could help us with the drivers of growth and sustainability and one specific comment would be helpful, are we back to 2019 volumes in HFD?

Rohit Jawa: I can take up.

Manoj Menon: The second part was HHC or HFD?

Rohit Jawa: HFD. So I think you are talking about Horlicks?

Manoj Menon: Health food drinks, actually.

Rohit Jawa: Nutrition – functional nutrition. So I can speak to laundry first, it's – I carry it close to my heart again as I used to be in this for a long time. I think we are -- our business in laundry and fabric wash and conditioner is very robust. We are growing, powders continue to grow in volume. The recovery -- and liquids as I mentioned before are ahead of this because the conversion is fast there. And of course, there's more competitive heat there.

In so far as bars are concerned, they're now returning back as we have corrected prices. So some of the volume improvement will come on account of the bars going back to growth and powder sustaining and liquids continue growing ahead. And so I think we feel confident that secularly this category will continue to sort of clock volume growth. It's also showing quite level durability through all the cycles if you look back quarter-to-quarter.

And here the job remains that of premiumization. We have to upgrade consumers to high convenience and performance and that's what we're doing with high-performance liquids now with Rin and the fabric conditioners and other formats that are in the pipeline. So I think that path to growth including Surf Excel Easy Wash upgrading rural consumers is still -- the engine is very much vibrant and relevant. So that I hope it addresses your question of the Home Care business. On nutrition, functional nutrition I'll just probably request Ritesh to answer.

Ritesh Tiwari: So Manoj, on functional nutrition our business grew in high single digit and the growth was driven both by some amount of pricing and volume growth. So it is a good mix of volume growth and price growth that drove high single-digit overall growth for our functional nutrition business.

And if I just give a little more color within that as you know we have a Plus range which is high science backed portfolio, be it protein, be it diabetes or for that matter Women's Horlicks. This part of the business has seen more acceleration, it's more premium and more acceleration in terms of growth. So it's a pretty good outcome and we have spoken in the past as well that our trajectory of building penetration has yielded results continuously. We continue to build penetration improvement for the category for us and for the industry, number one.

Number two, we've also seen further improvement in our market share both value and volume market share. And one of the key areas we've spoken in the last call especially we've spoken about driving consumption in HFD because that's what had taken a beating in the high inflationary period. And milk was one of the, let me say, limiting factor, which was impacting consumption.

Good news is you have seen, as you know, fresh milk prices have tapered off, they are more benign now. There's no further inflation happening. And overall commodities which go into making HFD has also seen some amount of deflation. So all put together, the pricing and the cost element is now going to help us in terms of driving further consumption build, and we are seeing initial results of consumption build coming in.

The job of doing home to home and ensuring that we're able to get the product pretty well established and known to consumers, that effort continues. And I'm assuming that between that effort and overall macro improving in terms of our commodity costs in the Foods area, it is helping us now to start seeing the results that we always wanted to see in this space. So yes, so that's a little bit about HFD in terms of the top line. In terms of bottom line, the job of doing margin improvement has been very successful, as we called out. And going forward, the focus singularly for us remains keep building consumption.

Manoj Menon: Just quickly a follow-up here. Are we back to 2018, 2019 sort of indexed volumes in the nutrition business?

Rohit Jawa: The volumes are back. They're growing. And as I mentioned, the key job for us is to ensure that we start to keep building the consumption as penetrations have improved already. So number of units have improved, we will start seeing consumption improving, and that is a focus area for us.

Manoj Menon: Fair enough. And lastly, I just want to make a statement of hypothesis and just stress test whether it's a right way of thinking. When I look at calendar year 2023, we have seen, let's say, the start-up funding has declined 70% in 1Q, the number what I saw is another 30%, etcetera. It does appear that it's a great enabling environment for a large company like HUL with all the capabilities to outperform in Beauty. Is that the right statement or hypothesis, let's say, can I make for the next 24 months, assuming the ceteris paribus template, the one we see currently in the market remains?

Ritesh Tiwari: Yes, for the Beauty segment, correct?

Manoj Menon: Yes, that's right.

Ritesh Tiwari: Yes. See Beauty, as we mentioned as part of the prepared remarks and if you unpack the category growth in current year, Beauty has grown mid-single digit. And if I see that in terms of further impact, the premium part of the portfolio has grown in double digits. And it's a mass part of the portfolio, which has declined and given the conversation we had in rural macros, etcetera.

And we did call out on one of the slides, the six big bets that we want to take in Beauty segment going forward. We named them in the slides being sun care, face cleansing, masstige, serums and stuff like that. These segments put together is INR2,000 crores business for us, growing at strong double digit. And within that, the e-commerce of this footprint of this business is growing at 50% plus.

So the way we see going forward in the Beauty space, two or three clear callouts. The market will keep fragmenting, the market will keep getting more premiumized and more demand spaces – sub-demand spaces will keep opening up. Six are the ones which we have called out that we are going to lean in, and this is where you'll end up seeing more amount of actions.

In terms of portfolio brand, all three jobs to be done. Number one, extending the current brands into more demand spaces. So be it Pond's getting into more serums and sun care, I'm seeing examples like that or Lakme for that matter or b, bringing brands to capture new demand spaces. A classic example of that was Simple Beauty in the Clean Beauty space or for that matter, Novology. And those brands will be needed to ensure that the upcoming demand spaces we are able to address and start making business with.

And third, goes without saying that we have mentioned and called out earlier as well that we are always active in the space in terms of any inorganic opportunity that we need to do. And if at all, something comes across which is the right value, we will lean into that as well.

So all three elements of making our own brand, leveraging brands of Unilever, of course, leveraging technology globally and ensuring that the demand spaces that we called out is what we keep focusing on, and we are seeing those results coming in, as I called out in quoted numbers for the current quarter on those segments. So we will go behind where there is growth in this space.

Moderator: We have our next question from the line of Arnab Mitra from Goldman Sachs. Please go ahead.

Arnab Mitra: My first question was on the soaps business. So there has obviously been a very sharp duration in the performance here. And in the context of my understanding that some of your competitors are doing better, could you just take a minute to make us understand what exactly has gone wrong here in terms of value equation that you mentioned?

Is it driven by competitive intensity spike? Or is it that the brand equities have worsened and therefore, you need to invest back? If you could just help unpack what exactly is the problem here and how much time do you think it could take?

Rohit Jawa: Sure. Absolutely. We very much would like to because first of all, so we don't take this lightly. And particularly in this quarter, we've seen an inferior performance, and we have addressed it, and let me just unpack for you really the causality and really what we have done.

On the whole, as you know, it's a sizable business for us. We have a strong portfolio. We have increased the level of A&P investments since middle of last year after we had space to invest as the commodities softened. We have improved the product formulations of all of our key brands, lifebuoy, Lux, Dove, Pears, and Hamam. And they are now -- the superiority levels in products is strong.

I'm heartened to say that the brand power -- in fact, recently I was reading, it is strengthening. So I think at a brand level, we are moving in the right direction. So the real issue of this decline in volume was essentially because price effectively is -- because we're lapping a price decrease base and therefore, that is I think generally true for the industry. But volume, which has dipped materially this quarter, is the one that -- is what we are addressing. And that is largely because of the mass end of the portfolio.

So Lifebuoy and Lux, especially Lifebuoy, where we saw -- in past, we sell at low unit price, we were off the value equation more recently in the last few `quarters, and we have addressed that quite quickly this quarter, and now the new price stock is in the market, and we are seeing early signals. And we expect that to come back in the next quarter or two because we've seen the same happening with NSD bars. And in this case, I think we took a bit longer than we should have on addressing the low unit price value equation and which we have done now.

Now as we do that, let's not forget that the market is also upgrading. And our premium brands, Dove and Pears, are doing well. And basically there, we are doubling down on innovation, on product quality and on formats. So as I mentioned previously in the call, our work on the bathing shower liquids is paying dividends. We see that becoming a sizable category like in other big categories we play in. So we are investing in innovation, new benefit segments and liquids.

At the same time, making sure that our mass portfolio remains very much in the sweet spot of price and quality. And we're working, of course, at the same time, upgrading also the formulation in the mass segment to take it even to the next level with some proprietary technologies that we will talk when it's appropriate. So we do think this is really limited to the mass end of the portfolio. And we have taken the actions that we needed to take, and it should recover back in the next quarter or two.

Arnab Mitra: Thanks for the detailed explanation. Just one thing on pricing, again, from Ritesh's comments that you expect pricing to remain negative in the near term. Now we've seen a little bit of bounce in palm oil, crude prices. Given that you're anyways lapping a deflation year, normally one would have expected HUL or most people in the industry to start putting in some pricing growth now. Why is that not the case this time? Is there anything different that you see in terms of pricing increases from here on?

Ritesh Tiwari: Yes. So Arnab, let me just pick up your pricing question. So year-on-year, the total commodity basket for Home Care, for Personal Care, there is deflation. So there is no case for us to take price increases. Crude at $85 is still range bound. It goes up a little bit, given various amount of elements of geopolitical, which are influencing it in the short term. But as you've seen, it then recedes back to $85. CP also is firm at $850. We are in season now. We'll come to know how the season pans out. And then we'll come to know what the, if at all, the trajectory of that $850 changes materially.

Typically, what we don't do is we don't react to short-term variation and volatility in commodities. The moment we have a read that there's a deterministic change in direction up or down, which is then when we start adjusting to the price so that we don't, let me say, react to short-term changes in the market. So as of now, given where the commodity prices are, is a total deflation on the two categories. There's no case for us to change in terms of take price increases.

The only exception of our entire portfolio is coffee, where coffee, as you know, has remained firm and keeps inflating as a commodity and where we have taken price increases. But have we finished the job of passing on whatever we had to pass on with all commodity deflation? The answer is yes. The last element which was left out, as Rohit called out, was in the area of mass skin cleansing, especially the low unit price point packs, even that correction, as we speak, has happened.

So I believe that where we are today, if commodity prices remain, in near term, short term, we will end up seeing marginal decline in UPG. In midterm, we should see that pricing plateaued out.

The second half of financial year, we will be able to keep leveraging our NRM and take some calculated price increases. And, we expect to see a positive low single digit price increase in second half of this financial year. This again, as I call out, is everything else being equal in terms of commodity market.

But to your point, if at all we do see CPO running from $850 to $1000 plus, or crude running $95 plus, of course, we do operate with mindful level of inventories. And our supply chain is extremely resilient. And if at all we have to react and take price increases, we will do that. And for that matter, if at all we have to further titrate price decreases where we need to, we'll do that. So we are on the ball. And it is a high volatile period. And we are closely monitoring it.

Arnab Mitra: Okay. Thanks so much, Rohit and Ritesh. All the best.

Ritesh Tiwari: Yes. Thank you. Appreciate it.

Moderator: Thank you. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Hello team. Thanks for the opportunity. I wanted to kind of just understand the EBITDA margin, given our earlier comment of targeting 23% to 24% band. As a concept, what do you think is required for us to start looking at moving from the bottom end of the band towards more at the mid and at the top end? Is this more a volume recovery? Or is there anything else that you would want -- is this more external, internal? I would love to hear your comments on that.

Ritesh Tiwari: Yes. No, thanks for the question, Avi. So a few things on EBITDA. Exactly as you mentioned that at 23.4%, where we are, we would want to maintain at current levels in short term, our EBITDA margins. Medium to long term, we have always called out that our stated ambition is to do modest margin improvement. But if I just bring it back now for next some quarters, this is a level that we want to maintain the margin.

Now what are the puts and takes out here. First, within this, we want to continue driving gross margin improvement. Even in this quarter, when we delivered a 23.4% EBITDA, you saw a very strong 350 bps gross margin improvement. A large part of that got invested into A&P. We continue to operate SOV ahead of SOM. And we further invested in capabilities so that our ability to bring innovation and for that matter improve execution in the marketplace is installed and keeps increasing.

So hence, if commodity prices remain where they are, and those are the factors which have impacted. And again, remember, in this quarter, when we delivered 23.4% margin, this is after taking impact of 60 bps for the business of GSK - we used distribute their products, and we used to end up making margin from that. And now that margin we no longer make. So for next 4 quarters, you will end up seeing that 50 to 60 bps impact coming in from that business, which now we have discontinued. So that impact comes in.

Going forward, improving mix, number one, which is what we want to see; further volume growth, number two; number three, price growth. Ultimately, there's always a pretty robust operating leverage, Avi, that works in the P&L. When you have a deflationary scenario and you don't have a price growth, you end up missing that operating leverage, which then drops into the P&L.

So those are the conditions which need to be existing for us to then start going towards a higher band or for that matter going beyond 24%, which is A- trajectory of overall market recovery, which is gradual, should continue to improve. Macro is looking better, number one. Number two, we should start seeing some recovery of overall pricing in the segment and hence, the operating leverage coming in. And the job of continuously improving mix is already there in the mix happening. So those are, I would say, 3 drivers which will help us to start inching margins further up.

Avi Mehta: Got it. Ritesh. Thanks a lot for that. And Ritesh the other bit I just wanted to clarify. See, we understand what is happening in skin cleansing and the correction that we've done. Would you be all -- would you give us some sense on what is happening in the mass skin care? Is that a demand issue or a competitive issue, where you need to also revisit pricing equation?

Ritesh Tiwari: Yes. Mass, skin, simple answer. It's a demand issue. No competitors challenge. Products, distribution, all in place.

Avi Mehta: Okay, perfect. Thank you very much. That's all from my side.

Moderator: Thank you. The next question is from the line of Vivek Maheshwari from Jefferies. Please go ahead.

Vivek Maheshwari: Hi, good evening, team. My first question still is on the soap's bit. The volume decline looks quite surprising. Do you think it's a product formulation issue? Let's say, the TFM content versus some of the competition, is that what is the chief problem in your view?

Rohit Jawa: No. We are quite certain it's not quality. In fact, quality is better. It is the few grammage short of the benchmark in INR10 price points in 2 very specific price-sensitive regions, where we sell a lot. And that once corrected, we will see response in volumes. We already see some early shoots, but that is -- so when you narrow down the volume loss in the last 3, 4, 5 months, it was primarily in that space. We are growing volumes in other parts, in the South. We are growing in modern trade.

We are growing -- we are also now growing volume share in -- as a total, but this is basically the issue that we had to address, which we have done. But again, we will not be not taking it lightly. We are also strengthening quality more as a proactive measure because we do have some access to proprietary technologies that we bring in the market. And we're strengthening, of course, as I mentioned, the overall A&P investment, salience. And brand powers are picking up.

Vivek Maheshwari: Got it. And just a follow-up, in terms of whatever corrective or preemptive measures that you have to take, is everything there in place right now? And it's just more about these hitting the markets and therefore, automatically things start to move or there are more interventions that you think you still need to take?

Rohit Jawa: It's pretty much the former. We have been working on this and addressing this. We have a programmatic set of events. And you will see them. You already start to see some of them in the market, innovations, our investment on liquids. But you will see them, the events flowing in the market programmatically through the period ahead.

Vivek Maheshwari: And Rohit, second is a big-picture question. I don't know how much you can address this. But over the last few years, government has been very focused on capex buildup, investment side of things. A lot of investors have been asking this question that there are a lot of data points which are like -- which have been very, very good. And there is probably one of the very few spaces where things have not been very good, is the consumption on -- particularly on the staple side.

If the growth agenda of the government continues, the investment bit continues after June, what will it take for all of that to percolate down to the bottom and the consumption bit picking up? What needs to happen from that point of time? Because as it appears, it doesn't look like that this government is going to boost consumption on its own, which means that it will follow the investment bit. So how does it percolate down basically?

Rohit Jawa: It's a difficult question to be precise about from my end. I can give you my -- our thesis, if that's acceptable.

Vivek Maheshwari: Sure, please, would love to know that.

Rohit Jawa: No. We do think that the -- because we are -- 60% sale is urban, about 40% is rural. And so far as urban is concerned, the growth has been resilient. And in the top end of the urban, it's been strong. And that is not changing. I believe that trend is somewhat secular. So I think when it comes to premium end and more upgradation, all of those things will continue.

The GDP growth is driven a lot by government capex, but also -- and that trickle down effect will take time. But if we -- if all of those jobs and livelihoods that get created, there is -- I mean that money should end up going back to the households more in the mass end, and that should democratize consumption. And we should, in my view, start to see that. And how long it takes? I do not have the ability to forecast, but I think we do see gradual recovery in rural, and perhaps some of this could be that as well.

As you know, rural has got 3 sources of income, the agri income, the income from repatriation, the income from labor. So the labor is going to get affected through the investments in capex. When it comes to repatriation from urban areas, that, I think so, post-COVID has been repairing that should start to click up. And then finally, on agri, is a lot more weather dependent. And all of us are hoping for a good monsoon. And if that does happen, then we should see that also coming.

So there's a cyclical effect of consumption. I believe now that we've had some years a negative, perhaps the positive end of the cycle is coming in. But in all honesty, we -- I just want to close by saying that while all of us are discussing and speculating on this or perhaps making some good judgment, we at HUL are not waiting for the macro to shift one way or the other. We are going to do what we can do, which is we are focusing on transforming our business to go where the growth is, to go where the people are, go where the money is.

So that is why you see very clearly laid out an agenda since September of pivoting our business to where the growth is because it's unevenly distributed. So we are investing in innovation, market development, in shaping portfolio in high-growth spaces, in channels of the future. We are deliberately going where the growth is, so that when macro does get better, it will also lift our boat.

But we're not going to wait for that to happen. We'll start to focus on we are focusing on things that we believe we can impact. So that's why I just want to make the emphasis of this point that, that is the energy of the company, is to transform ourselves to be a business that is shaped for where the growth is, and is shaped for the new India, and that is going to be a source of outperformance as quarters go by.

I hope that gives you some sense of really what we are trying to do inside the company while we wait for the macros to change.

Vivek Maheshwari: Absolutely. Thank you and wishing you all the best.

Management: Thanks, Vivek.

Moderator: Thank you. The next question is from the line of Percy from IIFL. Please go ahead.

Percy Panthaki: Hi everyone. Good evening. I have two questions. Firstly, on Horlicks. So I saw your slide on all the actions you have taken and you've grown penetration, market share, etcetera. However, the category growth is a little sort of subdued.

Now in the past, you have said that there are inflation issues with milk, etcetera. But apart from that, don't you think there is an issue of perception, especially in the last few quarters or months, there has been a lot of noise on social media that health food drinks are not actually very healthy and they have sugar content in them. So what are you doing in terms of correcting that perception issue is point one of that question.

And point two of the first question is that packaged beverages is a very fast-growing sort of segment in India. We have seen multiple companies reporting good growth in this segment. I think it's sort of an inflection point or it's a lifestyle sort of change or whatever you might call it -- so don't you think that you can play the packaged beverages space through Horlicks launching RTD Horlicks, it used to be there.

I think I don't know if you have discontinued or if it's still there, but like focusing much more on that part. Yes. So this is my first question, two parts to it, please?

Rohit Jawa: Okay. Let me just -- so functional nutritional drinks -- function nutrition. I think the -- let's just the category serves an important community need of fulfilling the carbohydrate, protein and micronutrient deficiency of the average Indian, men and women, poor or rich. It's a pan-India opportunity, and therefore, this category has a real meaning in the lives of people that it improves their functional health and that's the purpose of this category.

Secondly, it's underpenetrated, mainly in the South and East and somewhat lower and under 30%-odd and on the average 20%-odd. So there's a huge opportunity for us to get this category to grow, and we have got great templates in Southeast Asia, for instance, where the category is much bigger.

So what are we trying to do about that? One is to get more users, it's a check against that because our penetration continues to grow. Second is to build a strong premium end where we're seeing quite a good traction with the adult portfolio or the adult science portfolio where we see we already have under INR600 crores of business that is growing strong double digits and is more profitable. And we still have more share and more market growth to feed on and that part, whether it's serving diabetes, or women's health, those sort of needs, those are being served or lite such drinks without sugar and so on and so forth.

So that's a segment that's growing. We do need to do more in the area of relevance. And there, we believe we have found the right proposition in 'Taller, Stronger, Sharper'. And the moms in south and the east of India do swear by this product, and have seen this being used over generations. And if you can keep reminding them that this is good for their families, then they do use it as long as we speak to their language and they're using seasons like exams, monsoons, etcetera, to make sure the relevancy of this category stays high, and we are seeing very good traction. Our market shares are improving and were also stronger, not just in GT, but also in modern trade.

So we will stay the course of reinforcing the relevance because obviously, if you don't remind consumers, then they do not know that this option exists for them to improve their functional health. When it comes to the issue of sugar, we have less than one teaspoon full of added sugar to these drinks. And in our adult portfolio, we have no added sugar.

So in the kids portfolio, you do need a little bit to improve the palatability for the kids to like to drink it. And effectively, what we have done there is that we make sure that we fit, of course, not just the local regulations, but also the Unilever standards and our added sugar is less than teaspoon full for so one 200ml cup we have less than one teaspoon full of added sugars.

So our sugar levels are just adequate to create it, make the drink palatable. And we have reduced them by the way over years in the past, so we continue being on that journey. So that is really...

Percy Panthaki: It has become more relevant in the past few months? Are you communicating on this platform is what my question was. On the lack -- I mean on the fact that the sugar is not a big issue?

Rohit Jawa: No, the controversy or the discussion you're referring to perhaps is in the infant space, and we don't have infant -- we don't serve kids in that age bracket. Our portfolio starts with kids onwards. And there, we meet the nutritional standards and we are fully compliant. And I don't think there is any more work that we need to do proactively apart from making sure that formulations continue to sort of remain within the bounds of Unilever Nutrition Standards and we're well below that in so far sugar is concerned.

Percy Panthaki: Right. And on the RTD part?

Rohit Jawa: Yes, sorry, RTD, broadly speaking, on the food space, there is clearly our brand like Boost, Horlicks, Knorr, Kissan, Hellmann's that have a brand equity that can stretch more broadly. We are working on a strategy where we can make some choiceful decisions around where we can invest. We have in the past tried a few things. And we found some of those have succeeded. We're scaling them.

We have -- before also RTD, we have, for instance, already a scalable investable mix in Hellmann's mayo, we have an investable mix in Knorr Korean noodles, the peanut butter from Kissan, these are sort of things that we've tried and we've seen them working well and now they're scaling.

Similarly, we have got a very small test on Boost RTD, but it's very early. We are just sort of dipping our toes to see how it does in the South. But we'll, in all full transparency, be more coherent around the food business, our packaged food and drink business in a few more months than we have made up our mind and where we actually feel we have the right to win, and how we would like to grow that business. So we are working on it. And like we did for Beauty today, we're very clear on the agenda there. We will come back to you once we have more clarity on the food side.

Percy Panthaki: Yes. And my second question is on the beauty space. So we have seen over the past few years, many companies launching new brands like recently, we saw this news of Dermaco getting a INR500 crores ARR, it's about a three year-old brand or four year-old brand. So just wanted to know, in light of that, you have also taken some initiatives like Simple and Acnesquad, if you can give us some idea on what your experience has been over the last couple of years and these couple of brands, two or three brands that you have launched, what is the ARR or what kind of traction they are getting in the market?

Rohit Jawa: Yes. I think you have to look at the beauty business as a portfolio because it's not -- so let me just give you a couple of data points. So we have a business that's well over INR12000-odd crores in scale. We are number one in many categories, as we mentioned in the presentation. Already in the last couple of years, we've been focusing on multiyear bets. On six specific segments, these are a combination of demand space and formats like sun care, like facial cleansing, like weather resilient body lotions or things like masstige products such as Simple, Love Beauty & Planet, between this lot, we've already built a business of INR2,000 crores.

And this is annually, the last year, financial year, and is growing quite fast. And to give you an example of that, it's growing at 50% in e-commerce. So just to give you the scale of -- and not all of this is new brands, it's also extensions of our brands like Ponds, Lakme. So our first port of call is to stretch our existing brands, and they, of course, cannot stretch all the way, but there is a limit. But we do find the first thing for us to do is to stretch those master brands, we've done that, revamp them.

Then, of course, we are building specific equities that these brands cannot address like in facial cleansing, we do have a successful equity now with Simple. We think it's got a good future. And now we are going to -- we're working on scaling it. And Love Beauty & Planet is also showing traction. And both of these have got strong pull in e-commerce channels. Between the two, they are in about excess of INR100 crores ARR, but that's just a starting point. We will like to see them go much bigger and we are working on investing in that sort of ambition.

Yes, that's basically where we are. We, of course, have wellbeing brands like OZiva, where we have also crossed INR100 crores ARR well above that. So we are quietly building the specific brands, but please note we play the full portfolio of our existing strong equities and the new brands, not just the new brands at HUL.

Moderator: Next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: First question is on distributors. So regarding the change in distributor margin last quarter, can you tell us how it impacted your distributor payout in the current quarter? And did they make higher or lower margins in aggregate?

Rohit Jawa: The margins have gone up and the service levels are going up. We will watch that more carefully in the top 100 cities that they've gone in and it's yielding the results we were looking for. It's a win-win, both for our distributor and the company. And now we'll watch it closely and that's where we are at this point and make sure that all people concerned, the customer, most importantly, in this case, the retailer, the distributor, and the company, all of us benefit by this extra investment that we're making in this space.

Kunal Vora: Understood. And continuing on this, like you've heard from -- heard concerns from some distributors in smaller towns, there is some dumping happening, supplies coming from larger cities are cheaper compared to the price at which you might be providing to them. And like some of them also mentioned like this impacted viability. Are you facing any such issues with retaining smaller city distributors? Any comments on this?

Rohit Jawa: No, we are not. In fact, we watch both attrition and the ROI of our distributors programmatically. And our attrition levels have actually, if I remember correctly, I haven't -- I had looked at this figure a few weeks back. I'm not 100% exact number, but the trend was, in fact, improving this year. And we don't -- we haven't picked up anything that you anecdotally may have of any scale or pattern. So I don't know. I can't comment on it because it's -- the number or the indicators, ROI trending and its healthy levels, up or down, and the attrition levels are headed, in fact, in the right direction. We watch these numbers quite carefully.

Kunal Vora: Understood. Okay. Second and last question is the proportion of business winning share seems to have moved after dipping for a few months. Which are the categories in which you have redeemed market share gains and which besides which are the categories in which the market share is still declining?

Rohit Jawa: On the whole, we're doing much better on volume shares because that is what our focus was initially, and now pricing, therefore, we know where to sort of make it catch up. And as we said that if you look '21 to '23 end, we have held the massive share gains that we made during the inflation period which is not typical of other cycles we've had, where we've actually donated back the shares. In this case, we've held and we lost a little bit marginal share and 10, 20 basis points, but we're still holding pretty much by largely holding share. And where we had lost share, which is in mass end of detergent bars, we have seen a recovery in volumes almost like a U-turn after we corrected in the market.

And the second on mass skin cleansing, we had to go one more level because we had corrected prices. And we will see how that turns around in the next few quarters. But those are the two categories where we had to -- where we lost more material shares, but those are coming back. And then otherwise, it's a constant focus from our end to -- we look at this competitiveness is basically the only strong metric of success, because the rest of it -- this is what is in our hands. And the way we are now dealing with it is to basically go where the growth is and make sure that we're leaning on in fast growth areas and we grow faster there and not lose in the mass areas by just being absolutely sweet spot-on price and quality.

Kunal Vora: And what's happening in the Oral Care market?

Rohit Jawa: We are gaining market share.

Moderator: The next question is from the line of Latika Chopra from JPMorgan. Please go ahead.

Latika Chopra: Just one question. If you could share the channel salience for FY'24 across general trade model, brick and mortar and e-commerce and is it possible for you to share any comments and thoughts on the fast growth of quick-commerce at least in large metro catchment areas. And furthermore, how should one think about these channel moves influencing margin profile of the company over midterm. I understand you end up selling higher premium mix in this channel, but somewhere would driving share of these modern channels limit margin improvement capacity for the company? Thank you so much.

Rohit Jawa: Thanks, Latika. I think I'll give it a shot and then if Ritesh, he wants to add. I think the -- so high-level salience and I'm giving you rounded numbers. We are about under 70% on general trade. We are under 20% or thereabouts on modern trade organized, modern trade retail, and we are around 6%, 7% on e-commerce. Clearly, e-commerce is growing the fastest, followed by modern trade then followed by general trade. And that's the high-level shape of the market as well.

Quick commerce is increasing. It is about a quarter to a third of our e-commerce sales at the moment, but growing much faster. And we are gaining share in quick commerce and in e-commerce. And that is really what's -- that's the relative position we have. And of course, we have to do more there because this channel is showing signs of continued growth. This is not one channel but subsegments like q-commerce, beauty commerce and marketplace are the three main platforms within the e-commerce segment, and they are also growing. All of them are growing, and we expect the e-commerce growth to continue and it is sustained. That is the view on channel salience and trends.

To your point about margins, at this stage, I think the structural point is that -- generally speaking, we do sell different portfolios in these channels. And therefore, what we must look at is basically the net operating margin based on the mix we sell in these channels, and that basically means more value dense portfolio in e-commerce, somewhat more stable portfolio in modern trade, which is actually not a new channel and general trade basically more around access packs.

And I think the only place we have to now watch this is in e-commerce where, frankly, the industry is all focused-on growth right now. And we haven't quite settled to any equilibrium, where we can have a very informed discussion on margins. And right now, everybody is trying to do is to basically grow. And I think we are generally growing very high margin portfolio in quick commerce, beauty commerce and in marketplace.

Moderator: The next question is from Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Just two quick questions. On Slide 12, you have given 6 Ps and what efforts we have taken on Horlicks and especially on HFD. I've been seeing the last three years, we have been doing a lot of sampling and home to home. Do you think this category turn will happen, and this is very slow turn and maybe another two years, we will have to continue these efforts? Or do you think the efforts what we have done and will start showing the numbers and the volume growth in second half?

Rohit Jawa: Our indicators are brand power, market share, penetration, our profitability, all strong. We have two brands, Horlicks and Boost. And the future of this category may not just be the core, it might be a lot more to do with functional science and what we can do with the adult space, and that's our focus right now. That's about 10%, 15%-odd percent of the portfolio growing quite fast. And we haven't even looked at the white spaces. So there are many levers of growth for this business. The first what we have do is to just do the basics and make sure that we stay focused on 'Taller, Stronger, Sharper' and make sure the core becomes robust.

And I think on Boost, is already responsive even before this conversation we are having today, but for some years now. And Horlicks is now strong, stable. And if you walk the stores in, South, you'll start to see the power of this category in modern trade, for instance. And the single minded clarity with which we are now category managing this with our modern trade customers with Boost and Horlicks. So these are two pillar categories. We just have to stay the course and do the right things with more users, more usage and more benefits.

Shirish Pardeshi: I got that. The reason I'm asking is the time 5 years we've been tracking this, the recovery will happen. So I'm more curious that we have done this door-to-door sampling. What kind of sampling till date would have done? Or maybe suffice to say if the pace can say that how much promotions and ad spends or activities we have done over the last 5 years since the time of acquisition?

Ritesh Tiwari: So, Shirish, around 40 million to 50 million is what we did, as you remember, we have shared the number as well of home-to-home. And the way we had tracked, I had mentioned to you that we did not go and give products for free. We do have a learning that when you give these products for free, people don't end up using it. So you end up giving them at a discount, then that encourages them to start consuming it. The outcome that we were seeking from this entire job of home-to-home was improving penetration. And to Rohit's point, we have seen penetration build up year after year for the last 3.5 years as we have owned the business in 4 years coming to it, number one.

Number two, consumption, remember, we had mentioned, is linked to not only what we end up doing in terms of building penetration, but overall macro, it was COVID first and high inflation and food inflation -- so the a, macro and of course, B, very clearly the overall benefits that we end up selling as part of the portfolio. The good news is on a macro front, food commodities have started now to taper out, milk inflation, which was very high inflation, fresh milk, which has also come down sequentially and we are seeing benefit coming in. This quarter, we grew at high single digit. The point I was making earlier. We got the sales was due in both the volume and some amount of price that we have taken. So we are seeing results which are encouraging -- and within that, of course, the key job for us was to keep building a plus range, which is more premium part of the portfolio. So our investments have gone into product in terms of making the packs more accessible, which is bringing down the average price point pack -- that is in it penetration. Investments went in terms of building more salience of the brand and which is why we have started to see market share improving. And of course, investments have gone into developing portfolio into more broader wider species. And there is where we have also seen incremental growth coming in.

So all the three investments are paying off. And of course, the job continues -- these categories are multiyear jobs to do in terms of building penetration, consumption. And where they are today roughly 30% odd, there's a big runway for growth for us to keep building penetration and consumption, and we will be at it.

Shirish Pardeshi: Thank you Ritesh. My second question is on Beauty and Personal Care. Quickly, you have given the split between beauty and wellbeing, which has grown 4%, and Personal Care has declined 10%. I was more curious if I compare on a Y-o-Y basis, what kind of mix towards premium would have happened in Personal Care and Beauty and Well-being?

Ritesh Tiwari: So we did articulate Shirish earlier that when you look at within beauty and wellbeing to start with, the way the premium portfolio has grown much stronger at double digit and it's the mass portfolio, which has seen more impact on the demand coming in. Rohit did call out that the issue in Personal care was more at the mass end of the business, not the premium end of the business. So overall, between the two, Beauty and Wellbeing is more on an average, more profitable business that we have compared to Personal Care. And of course, within the Beauty and Wellbeing there are different price points at which we end up doing the business. I hope that helps for you to get some amount of understanding.

Shirish Pardeshi: Yes. The reason why I was asking that if the mix is towards premium, we will be able to defend the margin in these two segments?

Ritesh Tiwari: See, overall Beauty and Wellbeing the point we're making that this is where the growth are at the premium end, and this is where also we are investing and Beauty and Well-being a) is above average margin business for Hindustan Unilever. So the moment to start driving growth in spite of investing and in spite of probably taking some margin down in beauty and wellbeing, it will be overall mix accretive to Hindustan Unilever. And which is the point we mentioned that our job will be to ensure that the Beauty and Wellbeing we end up driving growth ahead of overall average of Hindustan Unilever.

Shirish Pardeshi: Okay. And just last, quickly, if you can touch on Unilever's existing ice cream business. So any thoughts here in India, what is our strategy or what -- if there is an outcome, which is visible?

Ritesh Tiwari: Yes. So you've seen the announcement by Unilever. The idea is to separate the business given the business model, and they will end up doing this entire job by second half of next year, calendar next year, 2025. The Board of HUL and working with the management of Unilever, we will work through the implications and the actions we will end up taking in India pertaining to that. At this stage, we are in peak season of ice cream. Our job is to put our head down and do a good job in terms of executing in the marketplace. And as and when we come to any conclusion, we will, of course, come and share with all of you.

Shirish Pardeshi: All right, thank you and all the best.

Ritesh Tiwari: Thank you, Shirish

Moderator: Thank you. The next question is from the line of Jitendra Arora from ICICI Prudential Life Insurance. Please go ahead.

Jitendra Arora: Thank you. Actually my question has been answered. It was about the ice-cream separation.

Moderator: Thank you sir.

Ritesh Tiwari: Hi Jitendra. So yes, we have covered the ice cream question Thank you.

Moderator: We'll take that as a last question for today. I would now like to hand the conference over to Mr. A. Ravishankar for closing comments. Over to you, sir.

A. Ravishankar: Thank you, Yashashri. With that, we come to the end of the session. If there are any further questions, feel free to reach out to any of us at IR team. Playback of this event will be available on our website in a short while. Before we conclude, I'd like to take a moment to extend a warm welcome to Shilpa, who takes over as Controller and Head of Investor Relations and also take a moment to thank all of you for the wonderful engagement over the past 3 years that I was in the role. Thank you again and have a great evening.

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

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