December Quarter 2021 Earnings Call of

Hindustan Unilever Limited

20th January 2022

Speakers:

Mr. Sanjiv Mehta, Chairman and Managing Director

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

Mr. A Ravishankar, Group Finance Controller and Head of Investor Relations

Operator

Ladies and gentlemen, good day, and welcome to Hindustan Unilever Limited conference call for the results for quarter and nine months ended 31st December 2021. Please note that this conference is being recorded.

I now hand the conference over to Mr. A. Ravishankar, Group Controller and Head of Investor Relations. Thank you and over to you sir

A. Ravishankar *Hindustan Unilever Limited*

Thank you, Faizan. Good evening, everyone, and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening the results for the quarter and 9 months ended 31st December 2021. On the call with me from HUL is Mr. Sanjiv Mehta, Chairman and Managing Director; and Mr. Ritesh Tiwari, Chief Financial Officer, HUL. We hope that you are staying safe and healthy. We'll start the presentation with Sanjiv talking about our performance in this quarter, perspective on the operating environment and our outlook for the near term. Ritesh will then share deeper insights into our performance for the quarter with category highlights.

Before we get started, 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, Sanjiv.

Sanjiv Mehta *Hindustan Unilever Limited*

With good health and a lot of happiness, thanks a ton for joining us today. And I do hope not only you, but all your loved ones remain safe and well.

Let me begin by talking about our performance in this quarter and then cover the market environment and the strategy to navigate through the challenges. We have delivered what we certainly believe a strong all-round performance in this quarter. It's a result of our strategic clarity, strength of our brands, operational excellence and dynamic management of our business in an environment which has been changing rapidly. Our domestic consumer business grew 11%, significantly ahead of the market, resulting in handsome market share gains. More importantly, we have been able to build on our momentum and consistently step-up our growths when seen from a 2-year lens. In December quarter'21, our 2-year sales CAGR was 9%, an increase from the 7% we had in September quarter, and the 2% in June quarter'21. I will talk more about it in the subsequent slide. Moving on to profitability. EBITDA margin in the quarter increased by 100 bps compared to December quarter '20, driven by prudent financial management led by increased focus on cost savings and incremental pricing based on the strength of our brands.

Now what we have done here is to unpeel the 2-year CAGR at a category level for a better appreciation of the quality of growth. It is a wonderful sight to see all parts of our portfolio contributing to a robust 2-year CAGR. Starting from the left side of the chart, you can see that our big categories like Fabric Wash, Beverages and Skin Cleansing have delivered a very strong double-digit 2-year CAGR. Household Care and Ice Creams have done exceedingly well and also delivered a robust double-digit 2-year CAGR. So around two-thirds of our portfolio is growing double-digit CAGR. Another 30% of our portfolio, which includes categories like Skin Care, Hair Care, Foods and Oral, have grown in high to mid-single digits. Rest 3% of our portfolio, which includes COVID-impacted categories of Color Cosmetics and Water, had relatively soft performance over the 2-year horizon.

I have said this earlier and cannot stress enough that in times of such high inflation and uncertain operating environment, it is extremely important to look at our business from the lens of competitive growth and whether we are retaining and growing our consumer franchise. In this regard, I'm extremely pleased to see that our consistent strong performance has translated into handsome market share gains. We have seen the highest year-on-year share gains in more than a decade. These gains are broad-based, and we have gained in all our divisions and both in urban and rural markets across all our regions. Share gains have come not only in the mass segment, but also in the premium and popular segment. In fact, our market share gain in the premium segment is at levels similar to our gains in the mass segment. The pandemic, while it has tested us, has made us stronger, more agile and much more resilient as a business. We clearly are cementing our market leadership.

The world has never had a clearer view of the environmental challenges that faced all of us. The need for action has never been greater. We know we have a big role to play. We're a company of brands and people with a clear purpose to make sustainable living commonplace.

One of the biggest challenges that all of us face is that of plastic waste. Plastic is a very versatile packaging medium that helps us get our products to consumers safely and efficiently. It's often the lowest carbon footprint option compared to other materials, yet far too much plastic ends up in our environment. To give you some numbers, India consumes an estimated 16.5 million tonnes of plastic annually. Around 70% of this ends up being discarded and remains in the environment. We need to minimize this plastic waste and create a waste-free future for the next generation.

To achieve this, we have set ambitious targets which would all be attained by 2025.

First, we will help collect from the environmental and process more plastic packaging waste than the plastic we use in the packaging of goods we sell. All our plastic packaging will be fully reusable, recyclable or compostable. And lastly, we will reduce the amount of virgin plastic we use in our packaging through use of recycled materials and other means. We continue to make good progress.

In calendar year 2021, we became plastic neutral, i.e., we have collected and processed more plastic packaging than the plastic we used in the goods we sell. Our program is not limited to a few cities, but we have a pan-India network spanning 160 locations. We are perhaps the only company of this size and scale to do this in every state and union territory of India.

We have a framework called 'Less Plastic, Better Plastic, No Plastic' with which we evaluate our plastic footprint. Let me talk about a few examples. The first is an example of where we have reduced virgin plastic usage by replacing them with post-consumer recycled plastic, what we call as PCR. Bottles used for Vim Dishwash, Surf excel Matic, Surf excel Easy Wash, Rin Matic and Comfort are made with 50% PCR. Our Sunsilk and TRESemmé shampoo bottles, Vaseline Body Lotion bottles also have recycled plastic incorporated.

Last quarter, we spoke about the Smart Fill vending machine, which offers an innovative option to consumer to reuse plastic bottles by refilling their favorite Home Care liquids. We are already seeing encouraging signs from this pilot, and we intend to scale this up in future. We're also transitioning soap wrappers and shampoo sachets to recyclable structures. Another example is Lakmé, where we have created a refillable product, the Lakmé Absolute Perfect Radiance Day Creme. The Combi Pack consists of the main product and the refill pack. Consumers can order a refill pack once the product is consumed and thus save on plastic packaging.

Ritesh will cover our in-quarter performance in more detail in his section. Let me now spend some time talking about the operating environment and our outlook.

After 2 devastating waves of COVID, Indian economy is on the path to recovery. Several sectors of the economy are back to pre-pandemic levels of output. However, the recovery is still in the making with different parts of the economy improving at varying pace. From an FMCG market lens, and here I'm talking about the FMCG categories in which HUL operates, we are seeing a moderation in the market growth. We had cautioned about rural growth in our September quarter earnings call, and we do see the deceleration taking hold. With very high levels of inflation that consumers are witnessing volumes in market have declined, and this decline is more accentuated in the rural markets and in those categories which have been impacted more by the commodity inflation.

Commodity inflation continues to be a significant headwind for the industry. Palm oil remains at historic highs, while crude has rallied by more than 70% in the last year. Packaging feedstocks have also inflated significantly.

Appearance of the Omicron variant even before the economy has completely recovered from the shocks of the previous 2 waves has made the environment more challenging. COVID cases are rising, and it is a reminder for all of us that the pandemic is not yet over. We should definitely not throw caution to the wind, and we should continue to take all the precautions.

In these challenging circumstances, I'm confident that a clear and compelling strategy, together with our growth fundamentals for operational excellence, will hold us in good stead. We remain focused to deliver our 4G growth agenda, growth that is consistent, competitive, profitable and responsible. As seasoned sailors, we will dynamically adjust our sales and navigate through the turbulent external environment.

We are well positioned. The nearly 2 years of pandemic has made us a stronger, better business which is much more resilient and responsive. And what makes us a formidable organization is our people who were and always will remain our #1 priority. A wide and diversified portfolio, more than 50 trusted brands across 15 categories, place us uniquely. Our supply chain has become much more agile and responsive. All this positions us well to do with the uncertainty that we face.

Let me now conclude with the outlook we have. In the near term, the operating environment remains challenging. Whilst the rising cases in COVID wave 3 are a concern, we expect a limited impact due to a robust vaccination program and the health and safety measures taken by the authorities.

FMCG market growths are moderating and consumers are titrating volumes owing to the significant inflation that they are witnessing. Further, the inflationary conditions that I spoke about earlier are likely to persist in the near term. In fact, we expect to see sequentially more inflation in March quarter compared to December quarter. These commodities affect large parts of our business and hence margins are likely to remain under pressure.

Strength of our people and our brands, a clear strategy and resilience of our business positions as well. We will continue to manage our business with agility, take all steps required to protect our business model and expand the consumer franchise whilst maintaining our margins in a healthy range. We remain confident and our focused to deliver a 4G growth agenda, growths like that we say is consistent, competitive, profitable and responsible.

With this, let me now hand over to Ritesh as he provides deeper insight into this quarter's performance. Ritesh, over to you

Ritesh Tiwari ***Hindustan Unilever Limited***

Thank you, Sanjiv. Good evening, everyone. I hope that you and your loved ones are safe and keeping well in these difficult times.

Let me talk you through our December quarter performance in more detail. We had a very strong delivery in December quarter. Domestic consumer business grew 11%, reported turnover growth was 10%. The difference between the reported growth and domestic consumer growth is largely our export sales which had declined of a high base where we had some one-offs. This has been a strong, competitive and broad-based growth.

Underlying volume growth in the quarter was 2% and significantly ahead of market volume growth. Let me give you further insight into this. Almost 30% of our business comes from packs that operate at magic price points, like INR 1, INR 5 or INR 10. In these packs, our preferred mode of taking pricing is by reducing grammage. As a result, even the same number of units sold leads to volume decline. This had a circa 2% impact on our volumes.

Talking about our bottom-line performance, EBITDA margin was healthy at 25.4%. In the backdrop of continued input cost inflation, I am pleased that we have dynamically managed the business to deliver margins in a healthy range, as we had indicated earlier. Our focus on taking calibrated price increases using net revenue management principles, coupled with a laser sharp focus on savings, whilst investing behind our brands competitively has helped us improve profitability. On a year-on-year basis, EBITDA margins improved 100 bps. Profit after tax, but before exceptional items, was up 17%. Our net profit at INR 2,243 crores increased 17% versus DQ '20.

Let me now give you a breakdown of the growth across the 3 divisions. Home Care sustained its very strong double-digit growth momentum growing at 23%. Beauty & Personal Care grew 7% led by Skin Cleansing, Skin Care and Color Cosmetics. Foods & Refreshments delivered a steady performance growing at 3% on the back of high teens growth [in the base]. We will click down to talk about performance within each of the divisions in subsequent slides.

Talking about innovations, we've continued with the momentum we had and let me call out some of them. Simple, our clean beauty digital-first brand, has launched a new range of no perfume serums which are naturally derived and suitable for sensitive skin. Dove has launched Love & Care, a new range of hand and body moisturizers. Lakmé has expanded its cosmetic range with volume mascaras, liquid concealers and highlighters. Bru has launched a new product, Bru Beaten Coffee on e-commerce channel. We have also launched a new toothpaste, Sensitive Mineral Active, by Pepsodent for sensitivity relief. This has been launched in Tamil Nadu in select channels.

Moving on to the activations in this quarter, and let me talk about a few. Kwality Wall's activated Ice Cream gift packs and reached consumers off-line as well as through digital channels to bring cheer during the festive season. Surf excel had a new ad campaign on Matic liquid for semi-automatic washing machines. Clinic Plus created WiMI films in South India building on its proposition of long and strong hair. The new TVC of Dove Beauty Bathing Bar is talking about its moisturizing cream formula that provides moisturization like a cream while it washes away germs like a soap.

Home Care had another strong quarter of double-digit growth, enabled by robust performance in Fabric Wash and Household Care. Household Care grew in high teens with a strong performance both in Vim Dishwash and Domex surface cleaners. Fabric Wash grew strong double digits with all parts of the portfolio performing well. The business also grew volumes in high single digits, reflecting the strength of our brand to price up in inflationary conditions. Liquids and fabric conditioners continued its exceptional momentum and grew handsomely. With the significant inflation persisting in crude and its derivatives, we have continued with our calibrated pricing actions in both Fabric Wash and Household Care.

Moving on to Beauty & Personal Care. BPC grew 7%, led by Skin Cleansing, Skin Care and Color Cosmetics. Skin Cleansing had a strong quarter with double-digit growth driven by pricing. The Beauty & Premium soaps portfolio comprising of Lux, Dove and Pears grew in high teens. Hair Care had a steady quarter, enabled by strong performance in premium portfolio. During the quarter, we further strengthened our competitiveness with our market share being at a 15-year high. Our brands, Clinic

Plus, Dove and Sunsilk were rated as the top 3 Hair Care brands in the country as per Kantar Brand Health Check report. A calibrated approach towards price increase in Skin Cleansing and Hair Care has helped protect our business model, even as vegetable oils continue to inflate at record levels. Together, Skin Care and Color Cosmetics delivered double-digit growth and are above pre-COVID levels. Winter portfolio performed well, growing on a very high base. You will recall that we had low winter sell-in during SQ'20 due to muted trade sentiments at that point in time, and hence, we were lapping a higher DQ in the base. Oral Care had a soft quarter lapping a high base comparator of DQ'20.

Let me now turn to Foods & Refreshment. F&R had another strong quarter in DQ '21. The growth at 3% came on a very high base, resulting in a healthy 2-year CAGR of 11%. Tea continued its robust performance and grew competitively on a strong prior year comparator, delivering high teens 2-year CAGR. We further expanded our value and volume market shares in the quarter. Coffee continued to perform well and grew in high single digits. During the quarter, we launched Bru Beaten Coffee. We have spoken about extensive market development actions, including home-to-home sampling that we're doing in nutrition. This, along with A&P investments behind Horlicks and Boost, have helped us improve our market shares substantially and gain penetration. We had a soft quarter due to a high base, slowing market growth and pockets of disruption in sales integration. Ambitious market development actions have been planned to enhance category relevance and grow the market. However, with wave 3, it is likely this might have to be scaled down in near term.

Foods grew on a strong base led by jams and ketchup. We are very pleased to see that our recent foods innovation, Kissan Peanut Butter and Hellman's Mayonnaise, are gaining traction with consumers. Ice creams had a very strong quarter, delivering 2-year CAGR in high teens. This has come on the back of some very impactful innovations, like our Kwality Wall's Trixy Cup and Cadbury Crackle Tub and effective activation around the festive season.

Let me now give you a snapshot of our performance from our portfolio lens. As you can see, all parts of the portfolio have performed strongly. Health, hygiene and nutrition, which is 85% of the business, continues to grow at a very healthy pace with a double-digit 2-year CAGR. With the resumption in mobility in the quarter, discretionary and out-of-home categories have rebounded strongly and are above pre-pandemic levels.

As you heard from Sanjiv, inflationary headwinds sustained in this quarter. Palm oil and its derivatives, which is used in our Skin Cleansing and Hair Care categories, have seen prices climbing further. Our expectation is for global prices to remain supportive in the near term. Crude and its derivatives are key inputs for our Laundry and Household Care category. As you know, Brent Crude has been firm at $80 plus levels, an inflation of over 70% versus same period last year. Packaging materials, both plastic and paper and board continue to be at very high levels. We have spoken earlier about freight inflation and impact from supply chain disruptions, which have impacted certain raw materials.

All of these put together impact two-thirds of our portfolio. After factoring in all buying efficiencies, which we deliver to our procurement capabilities, our material cost per tonne has still inflated more than 30% compared to the levels we had in financial year '20. This was also up sequentially compared to SQ '21.

In the face of such unprecedented and widespread inflation, our dynamic financial management has held us in good stead. If you look at our EBITDA margins across the past 4, 5 quarters, we have kept it in a very healthy range. There are a few key elements in our model to manage this. The first is keeping a hawk-eyed scrutiny on the price versus cost equation. We continue to step up pricing through calibrated actions using net revenue management or the science of pricing, as we call it. This is also reflective of the strength of our brands. We drive savings harder across all lines of the P&L with an intent to reduce costs that don't benefit our consumers and customers. Through these actions and with an improving mix, we have been able to optimize our COGS percentage and bring it back to below 50%.

We have always maintained that advertising and promotion is a much-needed investment for the long-term health of our brands. We continue to ensure competitive levels of A&P is put behind our brands with our share of voice ahead of our share of market. I would also want to make it clear that this does not mean that we put in same levels of A&P spend every quarter. But what we're doing is to dynamically manage and optimize the spend to ensure competitive levels of investment whilst maximizing returns. In times of such high inflation, it is imperative to look at growth from the lens of competitiveness. Here, we're doing a fantastic job, and Sanjiv has already spoken in much detail about the progress we have made on expanding our competitiveness. The key point I want to add is that we have got this balance very nicely stitched up, where we have expanded our competitiveness, whilst ensuring margins remain healthy. Looking forward, I don't see an immediate respite from commodity headwinds. In fact, we are witnessing sequentially more inflation in MQ compared to DQ. Hence, we will continue to dynamically manage the business on the same principles that I spoke of.

Now from a segment lens, all 3 segments have performed well. Our operating margins in all 3 segments are very healthy, and we have stepped up gross margin sequentially in all 3 segments.

In summary, our performance has been strong, both on top line and bottom line. I've already covered most of the lines in detail, let me pick up a couple of more things to elaborate. The first is our employee expenses in the quarter where you see a 30 bps year-on-year adverse impact. We have trued up our defined benefit pension liabilities with the actual estimates due to a change in pension rules. We also have impact of true-ups and true-downs of variable pay. This is normally done in December quarter basis full calendar year performance and has therefore one-off impact in both base and current quarter. The second is on our effective tax rate. Our ETR for the quarter was 26%, which is at a similar level as previous quarter. Including the prior period adjustments, we received in June quarter '21, we expect our financial year ETR to be around 25%.

This slide gives you a quick snapshot of the 3 quarter performance of FY'22. Our reported turnover grew 11% to INR 37,146 crores, with a broad-based growth across all 3 divisions. EBITDA margins at

25% remained very healthy. Net profit was INR 6,491 crores. PAT and EPS grew 12% year-on-year.

I also wanted to take this opportunity to update you regarding the approvals we have received under the production-linked incentive scheme of the Government of India. We have received this approval in 2 segments, ready-to-cook, ready-to-eat and processed fruits and vegetables. For us, these include categories like ice cream, jams, ketchups, soups, mayonnaise, etc. The scheme, which is for 6 years, is subject to meeting certain committed investments and defined incremental sales threshold. We will be reporting this in other operating income. There is no impact in this quarter. I would also like to be clear that we intend to use these incentives to further grow these categories at a swift pace by investing in our business and in creating capabilities.

Now let me summarize the key messages from what we have presented in the last 30-odd minutes.

We had a solid quarter with double-digit growth and significantly ahead of the market. You have seen that our 2-year growths are also very robust, with sequential step-up versus earlier quarters.

Our dynamic financial management has enabled us to deliver EBITDA margins in a very healthy range, whilst we have continued to invest towards the long-term health of our brands.

We have further strengthened our leadership position and our market share gains are highest in the decade.

Looking forward, the operating conditions remain challenging in the near term, and there's further sequential commodity inflation in March quarter '22. The strength of our brand, a very clear strategy and our execution progress gives confidence that we will be able to manage our business with agility, delivering competitive growth and maintain margins in a healthy range. With this, we complete our prepared remarks. And let me now hand over to Ravi to commence our Q&A session.

A. Ravishankar ***Hindustan Unilever Limited***

Thank you, Sanjiv. Thank you, Ritesh. With this, we will now move on to the Q&A session. I would like to hand over the call back to Faizan to manage the next session for us. Faizan, over to you, please.

QUESTIONS AND ANSWERS

Operator

The first question is from the line of Avi Mehta from Macquarie.

Avi Mehta ***Macquarie***

Just had 2 questions. You have talked extensively about rising input cost inflation. Could you share if you've taken any further price hikes which would flow through in MQ and offset this in sequential rise?

Sanjiv Mehta ***Hindustan Unilever Limited***

If we look at it the way we have been playing the game, whenever there is a commodity price inflation, the kind of which we have been seeing in the last few quarters, we always look at first optimizing all the lines and seeing that where can we drive further scale benefit, further productivity benefits. And over the last couple of years, we have got a good rhythm of cost savings and the cost savings have been to the tune of 7%-8% of the turnover. And at times, it has also reached 10% of turnover. That's the first thing we do. The second is we try to protect the price point pack as far as possible. And then we look at it from a WiMI lens, and we try to see that where there is much more flexibility for us to take a price increase. Our primary objective, Avi, under these circumstances are twofold. One is to ensure that we continue to gain market shares, both volume and value. And the second is we protect our business model so that our margins remain within a certain range. And the reality is we are seeing that in the March quarter also, there will be further commodity price increase. So we will keep doing calibrated price increase based on the principles that I've articulated.

Avi Mehta *Macquarie*

Okay. Maybe I'm clear on this part. What I was trying to appreciate or understand, would it be that a lot of the load of offsetting these pressures would fall on playing the lines of the P&L? Or would it -- would we have some pricing buffer still in. That is what I was trying to kind of appreciate or understand.

Sanjiv Mehta *Hindustan Unilever Limited*

The first is, if I look at the brand power, just to give you a perspective, our brand power has been absolutely sterling. Our brands have never been stronger and the other very important bit is product superiority. In half our portfolio, we have got very clear product superiority. And that gives you even much more strength to take the kind of decision we have to take when it comes to pricing. So we are cognizant about India, about the population we have and the brands, which kind of population it caters to. And where there is flexibility to take price increase, we don't hesitate, we lead the price increase.

Avi Mehta *Macquarie*

Okay. Perfect. Just the second bit, Sanjiv, is just wanted to kind of get your thoughts on when do you expect to start changing the playbook from the competitive kind of focus in growth to more volume growth? Would it be fair to expect this from the second half of a certain degree?

Sanjiv Mehta *Hindustan Unilever Limited*

That's a good question. One is, of course, when do the commodity prices start tapering. If we have to without doing crystal ball gazing, but looking at some of the fundamental, I think the factors which have gone into this kind of price increase are more supply led than demand led. And the second important bit is in certain areas, certainly like crude oil and all, that in recent times, there has not been as much capital investment as they ought to be. Now whenever the demand surges, the capital comes back and people try to ramp up the capacities, etc. And these are all cyclical products. Our feel is that in the second half of the calendar year, we should start seeing first the flattening of the curve, then the tapering of the curve. And the other important variable is the money in the hands of consumers. We hope that the government continues with the relief that they've given to the stressed in rural area. And if they can, extend it to urban areas and outlays like MGNREGA and all should not only be continued into 2022, but perhaps even the outlay should go up. And those are the 2 factors which will start driving more money in the hands of more people, as we often say. And softening of the commodity price inflation, that is where we will start making a switch back to volume-led profitable growth. But under these circumstances, market shares and protecting the business model remains the 2 most important imperatives.

Avi Mehta *Macquarie*

Perfectly clear. Sanjiv, just a bookkeeping if I may, just on the GSK or the nutrition business. Could you give us a sense on what is the level of sales integration, is that more or less done?

Sanjiv Mehta *Hindustan Unilever Limited*

A large portion of the integration has been done, above 90%. So that integration is done. The good bit is that we have started to see now penetration and market share gains come back into HFD. And now it is all about the market development. Market development with the right kind of environment, and we should start to see good growth coming back. But the good bit is penetration and market shares are up.

Operator
The next question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy *Edelweiss Securities Limited*

So Sanjiv, firstly, congrats on good set of numbers. My first question is on market share. So decadal high market share expansion. Now decadal high inflation is also there. And this is always there in FMCG, whenever sharp inflation happens, the leader gains market share. So the question is, is the sharpest gain in products where raw material was the most inflated? For example, is it in soaps and tea? And second follow up is in Tea after sharp inflation, sharp deflation is happening and what we are picking up at the lower end, smaller players, the regional players are getting extremely aggressive. So how are you playing that in the lower end?

Sanjiv Mehta *Hindustan Unilever Limited*

First is when we are talking about market share gains, and this is the year-on-year gains that we are talking about, this is the highest we have seen in more than a decade, not even a decade, more than a decade. And this is across our portfolio. Across the 3 divisions, across mass, popular and premium. And that gives us comfort that these are not something which is just because it is more organized players out there, so that's the reason we are gaining or as there is more formalization of the economy and that's the reason we are gaining. Even at the mass end, we are gaining market shares. I think a lot of the market shares, we must understand, is based on the strength of our brands, the brand power, what we call as. And like I was explaining to Avi a while back, it is also backed by a huge amount of product superiority. We have been investing to gain product superiority. And all this when the times are tough, the consumers veer towards trusted brands, and you cannot afford a brand which doesn't live up to the promise that is made to the consumers. So from that perspective, again, it is something that we remain very proud of. And once we gain market share, we are very clear that we will retain them and not be losing them again.

Abneesh Roy ***Edelweiss Securities Limited***

And in Tea, any clarification on the lower end?

Sanjiv Mehta ***Hindustan Unilever Limited***

Lower end, that's what I'm saying. Even at the mass end, we are gaining market share.

Abneesh Roy ***Edelweiss Securities Limited***

Right. Second, follow-up there is essentially in Hair Care, your market share is at 15 year high and very sharp gain versus the #2 player on a YoY basis. And all the top 3 brands are yours only as per Kantar. So any learnings from Hair Care which can be taken to other categories? Or is it unique to this category where you have a right to win?

Sanjiv Mehta ***Hindustan Unilever Limited***

Thank you, Abneesh, for this question. It is not related just to Hair Care. We look at Hair Care, we look at Laundry, Fabric Cleansing, it is the biggest category. And what a fabulous performance it has been over years, and we have been galloping our market shares and strengthening our brands across the pyramid. Look at tea. We not only took leadership on value, then we took a leadership on volume, and now we keep increasing our lead. So, it is across a large part of our portfolio that we have strengthened our market position over the last few years.

Abneesh Roy ***Edelweiss Securities Limited***

And Sanjiv, these market shares, are they factoring in the impact of the B2C start-ups? Why I'm asking this is you are servicing 15% of your demand digitally, 7% to 8% coming from e-commerce. But when I see, for example, Mamaearth, WOW, SUGAR Cosmetics, everyone is claiming anywhere from, say, INR 100 crores to INR 700 crores run rate kind of numbers. So where is that coming from? Because in retail, we saw a huge disruption by start-ups.

Sanjiv Mehta ***Hindustan Unilever Limited***

Come to think of it, if you look at the total industry, FMCG industry, direct to consumers is still a very small part of the total mix. The biggest part is still non-online, which is the biggest part of the deal. Now you must understand that we have a INR 50,000 crore business. And if we grow at 10% on a per annum basis, we are adding INR 5,000 crores. You always look at INR 100 crores, INR 200 crores, INR 300 crores. In a year, we are adding INR 5,000 crore.

Abneesh Roy ***Edelweiss Securities Limited***

Right. But any learnings or any disruptions can happen here because these are PE funded, so they can take losses also.

Sanjiv Mehta ***Hindustan Unilever Limited***

See, the way it is we anticipate disruption, but let me give you my perspective of things. First is, across the world, the big brands are growing and growing fast. It is not that the world has veered away from the big brands. The second is, yes, there are e-commerce players, digital-first brands who have done a great job. And that is the reason why also we have set up things like Premium Beauty Business Unit to compete in that area. And Premium Beauty Business Unit is giving us absolutely brilliant traction. Wehave great talent over there. We are building capabilities. And the other is, you would recall that we started investing in e-commerce capability much ahead before it reached the point of inflection. I think we are ready for it.

Abneesh Roy ***Edelweiss Securities Limited***

Sure. Last question on the 2% impact on volume because of grammage cut. Consumer behavior wise, when the product is over at home, in the past, don't we increase the frequency of purchase. Now diesel prices have been cut, so now disposal income will increase. So will you see recovery there?

Sanjiv Mehta ***Hindustan Unilever Limited***

Yes, absolutely. What we do, Abneesh, when it comes to price point packs is when there is hyperinflation, we titrate the volumes in those packs because we try to protect the price point as far as possible. And when the commodity prices go down, we restore the fill, we improve the grammage. And we have to understand a bit about the dynamics of India where average income is $2,000. But if you look at the bottom 50% of the population has only 10%-15% of the total consumption. So these are people who would be very conscious about the money outlay and they would be titrating the volume to protect their wallet because their wallet is so small and so limited. Whereas why we are saying also at the same breadth that premiumization continues to happen because there are many consumers in India, mainly consumers of premium products, for whom FMCG is a small share of their wallet. So even when there is a price increase, it does not impact the volume to that extent. So the growth keeps happening over there.

Operator

The next question is from the line of Arnab Mitra from Crédit Suisse.

Arnab Mitra ***Crédit Suisse***

My first question was on the nutrition business. So now that the GTM integration is complete and you've also done the price point intervention, the growth still looks a little anaemic here compared to your overall growth. So, do you see a lot more interventions required from your side to get this growth, let's say, to HUL's average growth rate? Or would you think in the next 1 year at some stage, all the interventions you've already done would start getting you into the double-digit kind of ambition that you have?

Sanjiv Mehta ***Hindustan Unilever Limited***

That's a good question, Arnab. And you're absolutely right. Our ambition remains completely unchanged. And I think in the last 20-odd months, we have done very good interventions. First is the integration that happened, then it was the CD integration. Perhaps has there been no COVID, the CD integration could have happened about 6-9 months earlier than what it happened. The third is if you look at the fundamentals of our marketing, we have strengthened our brands, the communication has changed. We have increased the intensity of our communication. Our innovations have been very good, and the plus range is getting good traction. Now there is also an environment under which we are operating. Our schools have been opening intermittently. One of the big consumers of some of our variants of Horlicks are the school kids. And when kids don't go to school, there is very clear evidence we have that the consumption of Horlicks doesn't go as much as it is when the kids go to school? And while they are home, because the mothers have other options rather than just giving Horlicks. For us, the most critical bit is going to be market development. And in market development, we have the prowess. We know that we have the expertise, and we know how to develop the market. It may take a few quarters here and there, but I'm very confident that we will get the rhythm. And the good bit, Arnab, is that the penetration is back and the market shares are back.

Arnab Mitra ***Crédit Suisse***

Okay. just a follow-up on this, in terms of market development, is it like a long-term haul or it's something which you would expect you are targeting results over the next 12 to 18 months also?

Sanjiv Mehta ***Hindustan Unilever Limited***

Well, absolutely. You look at the categories that we have been focusing on, conditioners, for instance, or the premium skin, for instance, or the liquids. You should look at the way in which our liquid business has been growing in Home Care, for instance. This is all based on the market development efforts that we have or the way we grew green tea. Green tea, we were a small player a few years back till we started the market development activity. Not have we grown, but we have become clearly #1 leaders with Lipton. Market development we know it and it is not a 1-year phenomenon. We have been growing categories where the penetration is near universal, and HFD is the category where the penetration is in mid-20s. So the runway is there and market development you know not just me. My successor's successors will also keep talking about market development in HFD. This is going to continue for a long period of time and that is how we are going to build this category into a real big category. At the end of the day in a country like India, nutrition is a big issue, malnutrition is a big issue. Many people do not have the micronutrients they need. Vitamins is the issue. So, this category is going to play a big part. The high science is another thing where we are going to play in a very big way.

Arnab Mitra ***Crédit Suisse***

And my next question was just related to the previous answer you gave on e-commerce. My point is that the turnovers of these B2C brands are quite small compared to the HUL turnover, but they are all in those categories which you consider categories of the future and a lot of the incremental turnover in those categories is going to come through the e-commerce platforms. So, is it at all a concern that your premium range growing in line, let's say, 40% GMV growth that ecom platforms would have? Or would you need to have a lot more interventions to have your fair share in that incremental pie?

Sanjiv Mehta *Hindustan Unilever Limited*

First is I would be wrong in saying that at the premium end or at the masstige end, we have stitched all our portfolio. No, we have work to be done, and that is the reason why we set up this Premium Beauty Business unit. And in the last 1 year, since it's been in operation, we are seeing absolutely good traction. But let me give you another lens. We talk about market development, and these are all mainly in the premium end of the portfolio. And this is about 20% of our portfolio. And this is a portfolio which is growing at an average of 1.5 to 1.7x the normal growth rate of the company. So, even 20% of our portfolio of INR 50,000 crores is a pretty large portfolio. And there, we are getting good clipped growth rates. And let's also understand that a large part of the growth that is coming to many of the e-commerce players are not consumer growth. They are channel shift growth.

Operator
The next question is from the line of Alok from Ambit Capital.

Alok Shah *AMBIT Capital*

I had 2 questions. Sir, firstly, in terms of the distribution side, while a lot has been reported, just wanted to hear your views on why this sort of general conflict? And what is it that the companies like yours will gain by (inaudible) more on this channel? And any internal threshold that you would have as a company in your mind to not have an exposure to a single channel intermediary or a particular percentage? And what will be the terms of trade, if you can elaborate a bit more on this?

Sanjiv Mehta *Hindustan Unilever Limited*

Look, first is, from our lens, it was much ado about nothing. There was a lot of news items. And this was not a distributor stand off as it has been made out to be. We have got over 3,000 distributors, and we have a very long-standing relationship with them. And they have most of our distributors in the state of Maharashtra, which was alluded to in the press, they overwhelmingly conveyed to us that they would continue to meet the needs of our shoppers and consumers in an uninterrupted manner. You have to understand that many of our distributors are third-generation distributors. And for us, we treat them as partners, integral to the company. And any issues that we have with them, we discuss it and address it bilaterally. For us, it is very important to ensure that our distributors are strengthened. And importantly, the return on investment, which we have committed to them, we ensure that they earn because that's how they remain in the business. Now there is this federation of distributors, where all the news came, the noise came in the press. Now our representatives, they wanted to engage with us. And we were very happy to engage with them. And when we engage with them, we have been talking about things which are macro issues. These are not the bilateral issues. Issues about technology, issues about manpower, issues about credit in the market, those are the things which we talked with the distributors association. And I think it's good that the distributors have an association because they also need to bring very clearly aligned interests together. But as far as our distributors are concerned, this is all about bilateral issues, which we keep sorting now. Let me give you 1 example why we remain so committed to our distributor. Take Shikhar for instance. We have got now over 7 lakh retailers who have adopted Shikhar. And every month, the sales from Shikhar keeps going up. Now this sale is not serviced directly by us. This sale is serviced by the distributors. So, we have been investing in technology to help our distributor. We are not circumventing the distributor, and that is the reason why the distributors were very clear in telling us they are completely with us. So, if you were to ask me that is this a big issue for us? Certainly not, the way we have been looking after protecting the interest of our distributors. And to our distributors, the game is not about margin, the game is about return on investment. And then return on investment, there is a numerator and the denominator. You could be playing on both to ensure they get a fair return.

Alok Shah *AMBIT Capital*

Got it. Fair. And just a follow-up to that because it is somewhat given that the share is only going to go up. So would you be kind enough to tell us how the terms of trade would be different because when you see what will happen is that today the distributor share could be X, but maybe potentially, if you will, down the line that would be 0.9x, the way our market is playing out.

Sanjiv Mehta *Hindustan Unilever Limited*

Let me give you, Alok, a perspective. This is very similar to when Cash & Carry came into India about a decade back, because they also service the retailers. And we were very clear that Cash & Carry is going to supplement our existing distribution setup. It is not about either/or. For us, it is 'and'. At the end of the day, there are 10 million outlets. We would be having the largest coverage of directly covered outlet, but still there is a large number of outlets, which are serviced through wholesale. Now there could be better ways of servicing them and serving them better. And that's the kind of role which Cash & Carry played. But we ensured that importantly, the business runs in a manner that we protect the paramountcy of the general trade and the distribution business. They are still our largest channel. And even in 10 years from now, they would still remain the dominant channel. And that's the reason we are investing in technology for them.

Alok Shah *AMBIT Capital*

Right. Yes. But lastly, on terms of trade, if at all, any comment that you can make.

Sanjiv Mehta *Hindustan Unilever Limited*

Again, Alok, very similar to the modern trade. When modern trade came in, people were alluding to the same thing. Now we must understand that the kind of shoppers go there are different than what would go to a general trade. That also implies that the assortment we sell over there are different than what we sell over here. So, from our perspective, we will always endeavor to ensure that there is a right return on investment. There was a time when all the salesmen were directly on the payroll of the distributor. Now to ensure that we get better salesmen over there, we had another agency on whose payroll the salesmen been moved. Now that does not mean that we have eliminated the distributor. That cost has come out from the distributor, but we are still seeing that the return on investment remains constant. So, there will be areas where we will bring in productivity and efficiency and there will be areas where we will invest more to ensure they get the fair return on investment.

Alok Shah *AMBIT Capital*

My second question, you previously touched upon B2C and do very clearly talking about this premium division that you have set up. Are we looking at more disruptive innovations and because some of the innovations that we have been discussing, I mean, to me sorry but to me seems more adjacency rather than any disruptive innovations, which can counter B2C. So what can we expect? And specifically in which category would it be B2C or your views on the same.

Sanjiv Mehta *Hindustan Unilever Limited*

See, now when you look at innovation and when you look at it from a perspective of disruptive, disruptive innovations could be in any way. It could be in products. It could be in business model. And whether it is a route to market or whether it is any other way or it could be disruptive in processes that give you a massive savings. Now as a company, which is high on innovation, we look at it from all lens. And now you may find some time that certain trends are captured by some company before us. So be it. Not all the trends would be captured first always by us. But look at the way we have grown the liquids business in Home Care, it's been absolutely fabulous. Look at the way we are now growing our hair conditioner business, it has absolutely been fabulous. Or look at the way we have over the years grown the color cosmetics business. So we do innovate, sometimes we are not first, but so be it, we could come second and still be better.

Alok Shah *AMBIT Capital*

Got it. Lastly, if I can just squeeze in 1 more. The whole concern on the rural while you were forced to call out in the previous quarter, somewhere that has now started to get reported very slowly but there are talks on construction pickup infra pickup. So where in this whole curve of rural distress or softening of rural market where you think we are in, by when potentially you think we could be talking about more of a revival.

Sanjiv Mehta *Hindustan Unilever Limited*

Thank you for that question. What also has happened that there are certain sectors during the COVID period have been impacted severely. If you look at restaurants, we do the Unilever Food Solutions services restaurants, about 30% of the restaurants across the country have shut down. If you look at tourism, hotel industry, that has been impacted severely. A lot of people have gone back to their hometowns in rural areas. And that is the reason why the utilization of MGNREGA is higher than the pre-COVID level. And the benefit and what I believe, Alok, that during the intervening period before the private capital investment kick start, which in turn would depend on private consumption moving at a much higher rate, government will have to play a big part. And that is the reason we believe that in this budget, the Government of India should not be radically bringing down the fiscal deficit. They will have to play that big part and investments play a big part because it has a multiplier effect over many industries, creates jobs and it results then in the growth coming back. So, they would have to play a part. I think the government should also increase the outlay on MGNREGA. It has touched about close INR 1 lakh crores, perhaps it could be higher getting into the new year. And also the benefits that they provided to the rural stressed and rural poor perhaps should continue for more time until the economy completely stabilizes. Because think of it, Alok, at the end of this fiscal year, the economy would be at the same size as 2019, 2 years back. So, we have virtually, as a country, lost the normative growth rate for 2 years. So, it's a recovery underway, recovery has not yet fully happened.

Alok Shah *AMBIT Capital*

Got it. Absolutely clear. And I just hope that the state government also bulk up their spending.

Sanjiv Mehta *Hindustan Unilever Limited*

Yes, absolutely.

Operator

The next question is from the line of Vivek Maheshwari from Jefferies.

Vivek Maheshwari *Jefferies*

A few questions. Just continuing with the earlier ones. So one of the slides in your presentation where you have given Nielsen market growth in volume terms, of course, rural is negative. During this period, is it that urban is also not growing to actually being negative?

Sanjiv Mehta *Hindustan Unilever Limited*

Urban volume growth is about flat if you look at the last 3 months. And again, urban is not a homogenous entity because there are also urban low-end consumers. And there are the high-end consumers, which are much more resilient from a pricing perspective. But the impact on rural is much more than compared to the urban volume growth numbers.

Vivek Maheshwari *Jefferies*

Got it. And while you have explained right at the beginning as well as to the previous participant, but as I heard you, it looks like that rural may still take time to recover. Will that be a fair conclusion?

Sanjiv Mehta *Hindustan Unilever Limited*

Rural, in our country, depends on many factors. One is, of course, the harvest has to be good. But thankfully, the sowing has been good. So I see no reason why the harvest should not be good. The second is also the role that is played by MSPs, etc. because over the years, the wage rate inflation has been pretty low in rural area. And the third is in one aspect we should not forget that in rural, while the volume growth are negative, the value growth are still positive. It's not reached the stage. And if you look at the 2-year CAGR basis, then the value growth in rural would be looking even a bit better, but albeit '19 was a soft year for rural area. So a lot of dynamics are at play, but the consumption is not something which changes overnight. If you were to ask me, Vivek, will February month result in the consumption changing, it doesn't happen. It slows down also over a period of months, and it picks up also over a period of months. I think in many ways, the volume growth would be linked to the softening of the commodity prices and the other variable is money in the hands of rural consumers. So, these are the two things which will play when you start seeing the volume growth come back. And that's the reason during this period, our focus is on ensuring that we keep growing our market share and keep protecting our business model. Now this is unprecedented. We have not seen this kind of inflation in multiple commodities all coming together. So that's the deck of hands we have got and important bit is how do we adapt to this deck of hands and still play a game and come out as winners.

Vivek Maheshwari ***Jefferies***

Sure. Got it. And Sanjiv, you made a comment that March quarter inflation on a sequential basis, it's going to be still higher. But if I let's say, marry this with the price hikes that you are taking, does that still mean that margins on a sequential basis, maybe let's say, flattish to plus/minus here and there? Or do you think that because the portfolio is continuing to see price hike, and I'm guessing with this kind of inflation, you will have to still take up prices. So from a margin standpoint, it should still be, let's say, stable, give or take?

Ritesh Tiwari ***Hindustan Unilever Limited***

Thanks for the question. See, what we have called out are very clearly two elements. In times like this, when inflation is very firm, and as you mentioned that in March quarter'22, we do expect sequential inflation further than that happened in December quarter, that happened in September quarter. Our decisions will be very similar, and our actions will be very similar to what we articulated which are two. Number one priority is to ensure that we're able to grow our consumer franchise. And hence, competitiveness and market share remains first port of call in terms of KPI that we want to deliver. The second area is, of course, to protect the business model, which means we want to ensure that, as inflation further picks up, we want to maintain our EBITDA margins in healthy range. You've seen the last 4 or 5 quarters, we've seen inflation of a very high order. And we did that every time we had very consistent narrative that when inflation happens, we will drive very hard savings, we will maintain competitiveness, and we will maintain our margins in a healthy EBITDA range. This is what exactly what we want to do is to gain consumer franchise and keep protecting the business model.

Vivek Maheshwari ***Jefferies***

Got it. And 1 related question. I was just reading in the last couple of days, Indonesia is talking about, in some ways, tightening exports of palm. Do you have any views on its implication either from a pricing standpoint or supply standpoint for Hindustan Unilever?

Ritesh Tiwari ***Hindustan Unilever Limited***

Indonesia is the largest market where palm is produced and sold along with Malaysia. We have not seen as yet any amount of implications on supplies of palm, which comes in. And of course, a lot of palm comes in the country. As you know, we use PFAD, which is a product which comes out in the processing and refining of the oil which happens, there's enough amount of supply of PFAD in the country. So we don't see as we speak now, we don't see an impact of supply issues with palm. Now of course, these commodities are cyclical in nature. We do expect it to further come up in March quarter and the prices will remain supported. But as you get into season and depending upon how the production takes place and you also know what happened at the peak of COVID when there were labor issues, availability of labor in palm plantations in Indonesia, production took a beating. It was not the agriculture output, which was an issue but labor was an issue. We do hope that with world coming out much better with far better vaccination and infection being not as severe as you've seen in earlier waves, we should expect to see very good labor availability. And hence, hopefully, the season is good, we should see good palm production. So now those variables we'll only know as we get into season. But as we speak now, we don't see any stress in terms of volume availability, but yes, prices are supported in short term and hence, we do see prices will remain supported in March quarter. And of course, the second variable is crude for us, which impacts our home care business, it impacts plastics. And as you've seen at 80-plus levels, crude has remained supported. That brings in dynamics of price inflation across home care and across personal care as well, personal care because of the impact on plastics. Now the strategy will remain exactly, as I mentioned earlier, which is to keep balancing competitiveness and keep protecting the business model. And we will do that consistently.

Sanjiv Mehta *Hindustan Unilever Limited*

Vivek, I find this a bit counter-intuitive Indonesia curtailing supplies because look at it from this lens that Indonesia, it's not that they're going through a great economic cycle. They're going through tough times as well, and palm is one of the big export commodities. In fact, they would try to maximize the exports and help the economy rather than curtailing supplies.

Vivek Maheshwari *Jefferies*

Sure, Sanjiv. And last question, if I may, which is a small one, but you have already spoken about Horlicks, Sanjiv. Horlicks is a powerful brand, but any plans to make it a platform or an umbrella brand and get into newer categories because you only spoke about HFD but if you take a 3-5 year view, do you think Horlicks extending into newer segments?

Sanjiv Mehta *Hindustan Unilever Limited*

Yes. We are working on a huge number of innovations. And our first objective is to do the integration, set the fundamentals of the brand right, get the growth going in the core of the HFD and then we would be looking at adjacencies. But you're right, this category, this brand and the technology behind it is giving us huge room to look at it in many different ways. So I would say watch this space, Vivek.

Operator

The next question is from the line of Vishal Punmiya from Nirmal Bang.

Vishal Punmiya *Nirmal Bang*

My question is on the volume growth. Similar to the domestic consumer sales where you have mentioned the 2-year CAGR, excluding the acquisitions, if you can also help with the UVG on a 2-year CAGR basis and also for the same number for the previous quarter to basically understand the trend of UVG on a 2-year CAGR excluding the acquisitions.

Sanjiv Mehta ***Hindustan Unilever Limited***

Vishal, Ritesh would give a more nuanced answer. But in principle, if I may tell you, that if you look at it, whether from a market lens, whether you look at from an own company lens, the categories which are most impacted on volumes are those which have raw material input prices going up much more. So these would be categories like fabric cleaning, this would be a category like skin cleansing. And if you look at a 2-year period, tea where the price has gone up significantly. These are where the volume for retails that we have explained have been impacted, whether it's the market or whether it is our business. Ritesh, anything else you would like to add?

Ritesh Tiwari ***Hindustan Unilever Limited***

You captured it pretty well.

Vishal Punmiya ***Nirmal Bang***

So would that trend be similar for 2Q and 3Q in terms of a 2-year CAGR number? Or would it be declining or slightly higher in nature?

Ritesh Tiwari ***Hindustan Unilever Limited***

See what has happened, one of the things which we called out earlier that the composition of growth typically, in the past, if you would have a composition where two-third growth would come from volume and one-third would come from price. That equation has evolved with significant inflation that we have seen, and we're talking from serious levels of inflation. One of the charts we talked about that the total material cost against the baseline of FY'20 is 30 percentage increase. This is for all materials put together at a total HUL level. 30% inflation is a scale that we have not experienced in the past. So, what has happened in last few quarters that the equation has changed where the growth is more price-led and volume, as you've seen, as we have reported last quarter, we talked about UVG of 4%, current quarter, we talked about UVG of 2%, that has got impacted. So, the balance has been more towards price compared to volume. But which is also the case of the market, as you saw in the market chart where volumes in the market have taken more impact. Plus, do remember what we called out earlier, the impact of the price point packs, where we take price increases on a INR 1, INR 2, INR 10 by reducing grammages that impacts our volumes. So, we called out in this quarter, for example, circa 2% was the volume impact because of the price that we've done by reducing grammages in that part of the portfolio. So that should give you a little flavor between how the evolution is happening between price and volume. But anything specific my suggestion is can you just pick it up with investor relations team later offline.

Operator

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

Percy Panthaki ***IIFL***

My question is on the demand front. While the volume growth and the demand scenario has remained lackluster in Q3, I think at least the Nielsen data suggests that within Q3, sort of December has been sort of decelerating trend. So just wanted to understand if you think we've seen the bottom as far as demand is concerned or sort of Q4 can see even further pressure compared to what we saw in Q3?

Sanjiv Mehta *Hindustan Unilever Limited*

Percy, in fact, the December numbers of market growth are not very different from the last 3 months of Nielsen reading.

Percy Panthaki *IIFL*

Okay. I see. I see, my mistake then. So basically, there is no reason to believe that there is a further deceleration in demand scenario versus what we've seen in Q3 going ahead?

Sanjiv Mehta *Hindustan Unilever Limited*

Yes, as the data shows.

Percy Panthaki *IIFL*

Okay. Okay. Secondly, I just wanted to ask your take on this. Are you concerned about the loss of wallet share of FMCG in the overall consumer spend? Because what I see is non-FMCG companies' results as they are getting reported be it more niche companies like, let's say, Titan or a Jubilant where the number of customers it serves are lesser. But even, let's say, something like paints where it serves a huge number of customers even at the low income level, etc. The top line growth reported by the non-FMCG segment seems pretty robust. And in that sense, it seems that FMCG overall is losing wallet share with the consumers. So is that a cause for concern? And in your view, what is the reason behind this phenomenon?

Sanjiv Mehta *Hindustan Unilever Limited*

First is, I don't think so. These are very different consumer occasions, very different consumer choices. And in many of those cases, there would also be the pent-up demand phenomenon. There would be a period, during the COVID period, where people would have spent less. They would have deferred the house painting and now they would have been doing the painting, but the clash would not be there. I don't think this is a concern. I don't think from a mid- to long-term basis, there should be any concern about the robustness of the market of FMCG in the country.

Percy Panthaki *IIFL*

Okay. Because I look at all these companies, and obviously, I'm adjusting for the pent-up demand angle, and I still see that the demand there is much stronger compared to FMCG. So while within FMCG, you're doing well, you're gaining market share, the overall FMCG industry itself not doing as well compared to other areas of consumption spend was a little bit of a concern I had.

Sanjiv Mehta *Hindustan Unilever Limited*

Percy, if you really look at it, even during the worst period of COVID, FMCG still grew. There was a quarter or so where because of supply chain constraints it did not, the demand did not disappear. Discretionary took a hit because people were not going out or there will be items which would be impacted because the school children are not stepping out, those would be there. But fundamentally, I don't think there has been any reshaping of FMCG from mid- to long-term basis. Even now the value is still there. Even when you look at 6%, 7% value growth happening in the market, it is still there, even during this tough situation. So, we should not get clouded by volume because volume gets titrated when the costs go up when the prices go up significantly.

Percy Panthaki *IIFL*

Right. And just one hygiene question in terms of methodology. When AC Nielsen gives out market share and calculates market share, does it consider digital or e-commerce sales in the market share calculation?

Sanjiv Mehta *Hindustan Unilever Limited*

Ritesh, now they have started picking up, right?

Ritesh Tiwari *Hindustan Unilever Limited*

Yes. That's right.

Sanjiv Mehta *Hindustan Unilever Limited*

They have started picking up. Not every D2C they can capture?

Ritesh Tiwari *Hindustan Unilever Limited*

Yes. So, the pickup is there across channels now. It is still thin outside General Trade, but the pickups have started improving with trade gaining more scale in other channels.

Operator

The next question is from the line of Latika Chopra from JP Morgan.

Latika Chopra *JP Morgan*

I just had 2 quick clarifications on comments that you made earlier. One was this 2% impact on volume in the quarter. What was a similar kind of impact in Q2? Or was this 2% an incremental impact on volume sequentially?

Ritesh Tiwari *Hindustan Unilever Limited*

Latika, yes, you're right. We called out that in current quarter, we had 2% impact of the price point pack It was a very similar range, a little lesser, but in a similar range in the previous quarter as well.

Latika Chopra ***JP Morgan***

All right. And second question, Sanjiv, I heard your comments on the B2C space. But as a leader in this Beauty & Personal care category, I just want to hear your thoughts. Do you think of evaluating, introducing India-specific brands, new brands with differentiated positioning could help cater to the new segments better versus introducing variants under your very well-owned established brands or bringing some of the global brands here? And also in this regard, would you want to participate here incrementally only organically via your premium business unit that you talked about? Or would you be open to consider an M&A route a little more actively here as well?

Sanjiv Mehta ***Hindustan Unilever Limited***

Certainly. Let me answer it in many ways. First is, when we hear a lot of column inch being given to disruptors, we often forget the power of the big brands. So, one should never forget that the incumbent power through big brands is a very powerful force. The second important bit is, you are absolutely right, when we look at the premium business unit, it's not just the existing brands. We have brought in Love Beauty and Planet. We have brought in Simple and those are doing exceedingly well. And you're absolutely right also that there are Indian brands which have a great space to be extended. And one of the brands we are looking at very clearly is Indulekha, for instance. So watch this space, what happens on Indulekha going forward. And you have seen over the years, we are never averse to M&A. And we always look at M&A from a lens of strategy, the value that we can create and the timing at which we would like to get in. Just when we would also not like to go in and acquire a proposition which has not been proven in and it has just got sales by throwing in a lot of money behind consumer acquisition. And if there is not a distinctive property, then we also know it will not sustain in the long run. So, we are very circumspect, but we are looking at all options and we are very clear we are the market leader in Personal Care, and we are not going to give up this space.

Operator

The next question is from the line of Jaykumar Doshi from Kotak.

Jaykumar Doshi ***Kotak Securities***

My question just got answered. So I have just 1 request. Would it be possible for you to share some data points starting FY '23 that allows us to assess your progress in the B2C space or progress of premium beauty business unit, some data point, maybe market share, maybe growth or the scale as a percentage of revenues, maybe starting FY '23?

Ritesh Tiwari ***Hindustan Unilever Limited***

So, what we have done is, Jaykumar, as you saw that as we had activities and innovation, we started covering the digital space and digital first brands in our conversations. And we will continue to do that as more action keeps happening in that space. So, you will get from us regular updates on our business progress of digital first brands. And for that matter, the way we are evolving our digital sales through multiple channels of eB2B, eB2C. So given the progress that we have done on digital sales, we will keep getting updates from us.

Operator

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

Mihir P. Shah *Nomura Securities*

So just wanted to understand ad spends a bit better. While they have seen moderation this quarter on an absolute and a percentage of sales, the share of voice has been maintained versus share of market. Now would this be because the market spends have moderated? And if so, would higher sales from digital be a key reason as we understand sales from digital may not require a similar quantum of ad spend versus other channels.

Ritesh Tiwari *Hindustan Unilever Limited*

So Mihir, what we do for our advertising and sales promotion, there are 2 or 3 parameters which determines the amount of investment we do in the quarter. Of course, the amount of innovations and activations we have that determines the lead as to how much we want to invest in a quarter. The second important element is the competitiveness. Ultimately, what we do, as you saw also in the chart that we spoke about, that our share of voice, which means the amount of money we spent in relation to the industry has been more than our share of market. We have maintained that in this quarter as well. Now of course, what has happened given very high amount of cost inflation and cost versus price equation across FMCG industry, we have seen different levels of A&P investment across categories. But our very clear strategy has been to ensure that we maintain healthy investments across our brands and keep driving market development across the portfolio. So, we have not pulled back on any of those. The absolute amount of money then gets, of course, determined by the total amount of investment that happens in the category and in the industry with very clear call out, as I mentioned, that our share of voice has remained above our share of market.

Mihir P. Shah *Nomura Securities*

Understood. Okay. I will have another follow-up on this, but I'll take it off-line. Second question, I wanted to check with you, Ritesh, was the detergents that has seen higher single-digit volume growth this time after quite some time, quite a few quarters. I believe it was flat all along the entire last year. Safe to assume this is because of improving mobility? And would it be a reasonable assumption that other impacted categories, which were impacted by mobility can see a similar pickup in trend?

Sanjiv Mehta *Hindustan Unilever Limited*

Absolutely Mihir, you would have seen, Ritesh gives a cut by more discretionary items and the health, nutrition and hygiene portfolio. And clearly, the more discretionary items, as the mobility improved, the sales went up.

Operator

The next question is from the line of Kunal Vora from BNP Paribas.

Kunal Vora *BNP Paribas*

Just 2 questions. First is, if you can help us understand the financial impact of PLI scheme. What should we expect over 5 or 6 years? What will be the investment needed from your side and what are the benefits we are expecting? Second, I also wanted to take on coffee. International prices have really shot up while in India, we not really see any major increase in prices from especially in the consumer end. And also, if I look at your sales, it's only about high single digits. So can you help us understand how the procurement work? What is the cost inflation which you are seeing and have you passed on the same.

Ritesh Tiwari *Hindustan Unilever Limited*

So, on PLI, there are 2 clear conditions, (a) is investment conditions and (b) is the growth that we bring in these categories. And over the next 6 years, the way we are able to invest in these categories and the kind of growth we will end up garnering will determine the absolute amount of incentives we will end up getting. But if we still help you with the ballpark number, it will be INR 300 crores to INR 500 crores over the next 6 years, including, as you know, from current financial year, the scheme starts. So, it be INR 300 crores to INR 500 crores range. Let me also call out in the same breath that our intention is to use these resources to invest in these categories to drive market development and to drive capabilities so that we're able to grow at clip pace in these categories.

Kunal Vora *BNP Paribas*

So just a follow-up on that. Will this come uniformly or is it be back ended?

Ritesh Tiwari *Hindustan Unilever Limited*

No, as I mentioned it will be linked. The way it will get panned out will be the rhythm of investment and rhythm of growth. So, I will not be able to give a phasing year-wise but suffice to say, it'd be in a ballpark of 300 to 500 crores. This will be reported in other operating income, that's the line in which this incentive will get reported. We will bring to speed as we keep reporting our information year-on-year, we will give more amount of insight into numbers.

Can you just repeat the second question? I had a little bit of stack.

Kunal Vora *BNP Paribas*

So, the question was that the international coffee prices have moved up sharply. I think maybe highest in the decade. While in India, we have not really seen any major increase in MRPs of coffee. And also your own growth is in high single digits, which implies that there is not really much of an element of pricing or volume growth there. So if you can help us understand how your procurement or what kind of cost increase you have seen in coffee and whether you passed on the same to the consumer.

Ritesh Tiwari *Hindustan Unilever Limited*

On coffee, we are seeing inflation in commodity in India as well. And but not of a scale which we have seen anywhere near to what kind of inflation which has happened to tea. So, it's in a smaller narrow range compared to what we've seen in other commodities. So I would not say something very substantial for us to talk about, but it will be important for us to see in quarters ahead, how that pans out. But I will note it's something substantial for us to call out.

Kunal Vora *BNP Paribas*

But is there a complete disconnect within Indian price and the international price because international price has moved up sharply.

Ritesh Tiwari *Hindustan Unilever Limited*

It is not that. Sometimes there's a lag between how different geographies react. But commodities, the way we have seen, coffee also the global commodity, it will catch up to international price trends. There might be lag a quarter or so, but won't be more than that in my mind.

Sanjiv Mehta *Hindustan Unilever Limited*

Kunal, just to your question, if you look at the tea industry, for instance. It does not always move in tandem with the prices in Kenya or Sri Lanka or global price. Because these are many times, tea for instance, we are one of the largest producer, but we are also the largest consumer. So, it is not much of interactions when you don't import large amounts of coffee or export them, then at many times, it does not move at the same wavelength.

Operator

Ladies and gentlemen, that was the last question for today. I'd now like to hand the conference over to Mr. A. Ravishankar for closing comments.

Ravi Shankar *Hindustan Unilever Limited*

Thank you, Faizan. With that, we have now come to the end of the Q&A session. If there are still unanswered questions, please feel free to reach out to any of us at the IR team here, and we'll be happy to answer that. Before I end, let me also remind you that the playback of this event will be available on the Investor Relations website in a short while from now, and you can go back and refer to it. A copy of the results and the presentation, if not already with you, is on the website, and you can go back and refer to that as well. With that, we would like to draw this call to a close. Thank you, everyone, for your participation, and have a great evening ahead. Stay safe. Stay well. Thank you.

Operator Ladies and gentlemen, on behalf of Hindustan Unilever Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.

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