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Dear Sir/Madam,

Sub: Transcript of the Earnings Call for the quarter and half year ended 30th September, 2022

This is further to our letter dated 21st October, 2022, whereby the Company had submitted the link to the audio/video recording of the Earnings Call held post announcement of the Unaudited Financial Results for the quarter and half year ended 30th September, 2022.

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/quarterly-results/september-quarter-2022-results/.

Please take the above information on record.

Thanking You.

Yours faithfully,
For Hindustan Unilever Limited

Dev Bajpai
Executive Director, Legal & Corporate Affairs
and Company Secretary
DIN:00050516 / FCS No: F3354

"September Quarter 2022 Earnings Call of Hindustan Unilever Limited"

October 21, 2022

Speakers:

Mr. Sanjiv Mehta, Chief Executive Officer and Managing Director

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

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

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Moderator: Ladies and gentlemen, good day and welcome to Hindustan Unilever Limited conference call for the results for September quarter 2022.

As a reminder, all the participants' 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 the operator by pressing "*" then "0" on your touch-tone phone. 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: Good evening everyone and welcome to the conference call of Hindustan Unilever Limited. We will be covering this evening the results for the quarter ended 30th September 2022. On the call with me is Sanjiv Mehta, our CEO and Managing Director; and Ritesh Tiwari, our CFO. We will start the presentation with Sanjiv sharing an overview of our performance in the quarter and the operating environment. Then Ritesh will cover our financial results in more detail and share our future outlook.

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, Sanjiv.

Sanjiv Mehta: Good evening everyone. I am delighted to have you all join us for the call. My best wishes to you, your loved ones, everyone in your business and wish all of you a very happy Diwali. Let me first start with a quick summary of our performance for the quarter and then cover the external environment and our strategy, then of course, we will have Ritesh, our CFO, take you through the results and the outlook in detail.

From our lens, it was very clearly another quarter of strong all-around performance. Our top line grew at a solid 16% with an underlying volume growth of 4%. We continue to significantly outperform the market with more than 75% of our business winning value and volume market shares. EBITDA margins at 23.3% remain healthy despite the unprecedented inflation that the industry is witnessing. Our EPS grew 20%, including the benefit that we got

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from one-off prior period tax credits. Profit after tax but before exceptional items grew 9%. A consistent strong performance is reflective of our strategic clarity, strength of our brands, our immense capabilities, our talented people, and the agility to run the business. I am very pleased to report that we have added more than Rs. 4,000 crores to our top line in the first half of the fiscal and had a turnover in excess of Rs. 28,500 crores. Ritesh will, of course, cover the first half performance in much more detail.

Now let me spend some time on the external environment, the inflationary situation and the FMCG market growth. While there has been some easing of commodity prices and supply chain pressures, inflation still continues to be a significant challenge for the industry. Except palm oil, which has seen a meaningful correction from its peak, most commodities remain volatile and elevated. In fact, some commodities such as soda ash, milk powder, barley, and cereals have further inflated during this quarter. The other source of inflation has been the currency. Globally, high levels of inflation have triggered aggressive monetary tightening measures from central banks globally across the world. This has led to a strengthening of US dollars. US dollar-INR rate which was around 74 at the beginning of this fiscal has crossed the 80 rupee mark, hovering around 82, halfway through the year. CPI inflation continues to be above RBI's threshold since January of this year, driven of course by high fuel and energy prices and the food inflation. Within this, rural inflation was higher than urban.

Let me now talk about FMCG market growths with reference to the categories we operate in. In the September quarter, markets grew in mid-single digit. If you compare this versus the last 12 months, value growth has improved marginally driven by higher pricing. Volume continue to decline in both urban and rural markets with a more pronounced drop in rural. Of course, if you look at the last 3-month numbers on a 3-year CAGR basis, both urban and rural markets have grown in mid-single digit, with a marginal decline in volume. It is quite natural for consumers, especially at lower income levels to feel the pinch of increased pressure on the wallets due to the high inflation and they do adjust volumes and prioritize essentials over discretionary to manage their household budgets.

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Hence, to summarize the last 2 slides: the FMCG market context hasn't changed significantly in this quarter and continues to remain challenging.

We have a very clear and compelling strategy and that remains unchanged. The 2 imperatives are: Firstly, we will continue to navigate the short-term challenges with agility and grow our consumer franchise, whilst protecting our business model. For instance, when it comes to pricing - with a meaningful correction that we have seen in the palm oil prices, we are now taking price cuts in big chunks in our skin cleansing portfolio, to pass on the benefits to consumers and maintain the right price value equation. While on the other hand, in Home Care, we have taken further pricing in the September quarter, as we saw more inflation in key input materials.

The second imperative is that we need to continue single-mindedly on our journey to create a purpose-led future-fit HUL and deliver our 4G growth agenda. Growth as all of you are aware, we talk about in terms of consistent, competitive, profitable, and responsible. I am sure you are familiar with the 5 strategic choices. In my next couple of charts, I am going to elaborate a bit more on developing our portfolio and our progress in the sustainability journey.

First, let me bring to life how we are developing our portfolio leveraging the capabilities that we are building under Reimagine HUL. Our premium beauty business unit, which is an incubator of our digital brands and capabilities, has launched two new digital brands – “Acne Squad” and “Find Your Happy Place”. Acne Squad is a specialist brand, co-created with dermatologists and backed by patented technology, that addresses unmet needs of the hyperconnected consumer. It includes a range of 11 skin care products and curated regime kits proven to offer best-in-class acne treatment at each stage of Acne Lifecycle.

Find Your Happy Place has four mood-transforming experiential bath and body ranges that includes moisturizing shower gel, bath scrub, bath salts, candles, body lotions and body butter. These are, again, crafted for hyperconnected digital consumers in an era where the trend and need for self-care is at an all-time high. Each of the fourfragrance families has been specially

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designed to appeal to Indian sensibilities - all of them rekindling a memory of one's favorite place, person, or feeling.

These are completely digital brands launched through our agile innovation platform right from trend spotting through digital and social media listening to use of digital technology to curate mixes in an agile manner. For instance, through our studies, we realized that acne is one of the most common searches on skin care and amongst the top concerns faced by hyperconnected consumers - yet there are very few specialist brands that address this concern. Very quickly, we were able to curate the right mixes providing targeted solutions for every state of the acne life cycle. This agile innovation approach has enabled us to launch new products in half the time it used to take earlier.

Our 3 nano factories give us the flexibility to manufacture closer to demand and in small batch sizes. We now have 14 bespoke D2C platforms to give unique shopping experience to the consumer. We are extensively using digital marketing and influencer campaigns to reach out to our hyperconnected consumers. Digital media contributes to more than 25% of our total media spends. We are leveraging latest digital tools and technologies to create end to end digital journeys for our consumers.

Now let me talk about responsible growth. We are a company of brands and people with a clear purpose - to make sustainable living commonplace. We believe in doing well by doing good.

Dove's purpose is to make beauty a source of confidence and not anxiety. As part of its ‘Self Esteem Project’, Dove is helping young people build positive body confidence and self-esteem. Last year, Dove began a movement “Stop the Beauty Test” to raise voice against beauty biases girls have to face while finding a life partner. In the second leg of this campaign, Dove is breaking stereotypes and urging the society to place emphasis on education instead of seeing girls from the eyes of prospective groom.

Project Shakti, we had launched this in the early part of this millennium with the aim to financially empower and provide livelihood opportunities to women in rural India.

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Today, we have more than 160,000 Shakti entrepreneurs. We are now digitizing the Shakti Ammas through our flagship Shikhar app to bring them to the forefront of the new digital India. Till date, we have onboarded over 50,000 Shakti women on the app who are now able to place orders at their convenience and get HUL products in an easy and reliable way.

Our Dapada Home Care manufacturing site, has added a new feather in the cap. The site has been recognized by World Economic Forum as a Sustainability Lighthouse, first company in India across sectors to achieve this status. The sustainability lighthouse status reflects the use of revolutionary technologies including digitally enabled manufacturing processes that have amplified speed and agility and has lessened environmental impact by reducing energy, water, and material waste. This recognition comes on the back of the unit being accorded the designation of an advanced Fourth Industrial Revolution Lighthouse earlier this year, a fitting example of making HUL purpose-led and future-fit.

With this, let me now hand over to Ritesh, our CFO, to talk about our performance in this quarter and our outlook in much more detail. Ritesh, over to you.

Ritesh Tiwari: Good evening everyone. My greetings to you and your family for the lovely festive season ahead. I will now walk you through our in-quarter performance and our outlook.

We continue to build on our strong growth momentum with the top line growing 16% in the quarter. Despite the high levels of inflation and declining market volumes, we have delivered a robust underlying volume growth of 4%. Our performance has been significantly ahead of the market and more than 75% of our business is winning value and volume market shares.

Moving to the bottom-line, net profit at Rs. 2,616 crores grew 20%. Profit after tax before exceptional items grew 9%. There were one-off prior period tax credits in this quarter and that largely explains the difference in the growth of net profit and profit after tax before exceptional items. Our EBITDA margin was at a healthy 23.3% despite the unprecedented inflation.

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Let me spend a couple of more minutes talking about how we are navigating this challenging environment through dynamic financial management. As we had anticipated and called out earlier, almost all commodities sans palm oil continue to remain at significantly elevated levels. This along with consumption of higher cost inventory has led to a 590 bps year-on-year increase in our cost of goods sold in this quarter. This also includes an impact of 70 bps coming from higher investment in consumer promotions.

Despite this, we have been able to hold EBITDA margins at a healthy 23.3%, which translates to 180 bps year-on-year decline and 10 bps sequential improvement. This was possible due to our clear focus on fundamentals that we have been consistently speaking about and these are to start with:

1) Operating our business with agility and ensuring that we provide the right price value equation to our consumers.

2) Adequately supporting our brands with marketing investments, whilst sharply attributing media spends to growth and maintaining our share of voice ahead of our market shares.

3) Investing in our products and giving better value to the consumers. As we had called out, our product superiority continues to be 2x the pre-COVID levels.

4) And importantly, we continue to drive savings harder and optimize all non-consumer facing costs. Through this frugal mindset and growth leverage, we have delivered a net 160 bps reduction between Other expenses and Employee costs wherein employee costs increased by 20 bps on account of salary inflation and variable pay true-up for the first half performance.

Moving on to performance across our 3 segments; Home Care delivered another stellar performance growing at 34% with double digit volume growth. Beauty and Personal Care grew ahead of the market at 11%. Foods & Refreshment had a steady quarter growing at 4%, led by strong performance in Foods, Coffee, and Ice cream. Despite the significant inflation, our margins in all 3 segments remained at healthy levels, with Home Care at 17%, BPC at 25% and F&R at 20%.

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We will click down to talk about performance within each of the divisions in subsequent slides.

Talking about innovation, this has been a busy quarter for our marketing team as we have launched several products across many of our brands. This is in addition to our 2 new digital brands, ‘Acne Squad’ and ‘Find Your Happy Place’, which Sanjiv talked about.

Let me pick up a few to elaborate. Our digital brand, Simple and Love Beauty and Planet have expanded their portfolio further. Simple has launched a new Vitamin C range for complete skin care regime. Love Beauty and Planet has launched new hair care products. Our iconic beauty brand Lakme launched a new foundation which is infused with goodness of serum that works both as a makeup and skin care. Glow & Lovely launched HydraGlow, a cream enriched with rose serum. Extending our Horlicks franchise, we have seeded a new format ‘Gummies’ and launched two products – Nutri Gummies and Diabetes Gummies – on our digital platforms. Nutri Gummies are specially crafted to fulfill nutritional gaps and is enriched with 12 vitamins and minerals. Diabetes gummies is powered with Mulberry leaf extract, which helps to manage the risk of diabetes in a convenient way.

Kwality Wall's added exciting new flavors such as Nolen Gur, Gulab Jamun, and Milk Cake to add more joy to the festive season.

Surf Excel Matic introduced Power Concentrate, a revolutionary concentrated liquid formulated to give 2x cleaning power with an intense long-lasting fragrance. Expanding the Peanut butter range, Kissan has launched new Hazelnut Choco Peanut spread.

Talking about our new marketing campaign, Boost has activated a new film which aims to break stereotypes around girls and sports. Glow & Lovely has a new communication for its Ayurvedic face cream. Hamam was relaunched in this quarter with a new superior product. The relaunch was followed with a campaign around building courageous girls to embrace the outside world.

Moving on to our performance in Home Care, our business delivered yet another stellar quarter at 34% with robust performance both in Fabric Wash

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and Household Care. Despite high pricing, Home Care grew volumes in double digits, reflecting the strength of our brands and portfolio. Fabric Wash delivered high double-digit growth and handsome market share gains led by robust performance across the portfolio. Supported by our strong market development actions, liquid detergents and fabric conditioners continue to outperform and is now more than Rs. 2,000 crores annual business. Household Care grew in high-double digits driven by solid performance in dishwash. Our dishwash brand 'VIM' won the Kantar's Creative Effectiveness Award for its Unstereotype campaign. With more input cost inflation, we have taken calibrated pricing actions both in Fabric Wash and Household Care.

Next, talking about Beauty & Personal Care, the business grew 11% driven by outperformance in the premium portfolio. Skin cleansing delivered broad based strong double-digit growth. Beauty and Premium brands viz. Lux, Dove, and Pears continue to outperform and deliver mid-single-digit volume growth. Lifebuoy soap grew in high teens and continues to be the market leader in this segment. We are now passing on the benefit of lower commodity cost to consumers and taking price cuts in big chunks. Hair Care further strengthened its market leadership with strong broad-based performance.

Our innovation and future formats such as masks and serums continue to gain consumer relevance. As in previous quarters, skin care and color cosmetics performance has been a story of 2 halves. Premium parts of the portfolio such as Lakme and Pond's outperformed delivering double-digit growth. However, inflation impact on discretionary consumption affected the performance of our mass segment such as Glow & Lovely and Talc. Oral Care had a steady quarter led by Closeup.

Let me now turn to Foods & Refreshment. F&R grew 4% led by strong performance in Foods, Coffee, and Ice cream. Tea continued to cement its market leadership and grew volumes in mid-single digit. In-quarter performance was muted as price cut impacted overall value growth. Coffee sustained its strong growth momentum and grew in double digits. In Health Food Drinks, we continued with our market development actions to build category relevance. In this quarter alone, we have reached almost 9 million consumers through our home-to-home connect program and launched new TV

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campaigns. Horlicks Mothers Plus partnered with PharmEasy to build nutrition awareness and drive trials with new mothers. We also seeded new formats and launched Nutri Gummies and Diabetes Gummies on our digital platforms, as I mentioned earlier. All these actions have helped us continue gaining market shares and penetration. Overall category growths have remained subdued due to the impact of inflation on discretionary consumption.

Foods delivered strong double-digit growth with volumes growing in mid-teens. This was led by Jams and Food Solutions business. As we had called out earlier, the reopening of schools has increased the consumption occasion for jams. Our Food Solutions business that provides products for chefs and restaurants continues to scale up and is now almost double of pre-COVID levels. Ice cream had another strong quarter with double-digit growth on a very high base. Our innovations such as Feast Blackforest and Trixy Cheesecake continue to perform well. Ahead of the festive season, we have added more exciting flavors that I mentioned earlier.

Now let me summarize, our performance has been strong in the quarter with 16% sales growth and 20% growth in Net Profits. As I mentioned earlier, we had a one-off tax prior period adjustment in this quarter and including that, our ETR for this fiscal year is expected to be around 24%.

Let me quickly take you through the results for the first half of this fiscal. We delivered a strong performance both on top line and bottom line. We have added more than Rs. 4,000 crores to our top line, growing at 18% and taking our turnover to Rs. 28,530 crores. Despite unprecedented levels of inflation, we have maintained EBITDA margins at a healthy 23.2%. Net profit at Rs. 4,905 crores, grew 15%. Profit after tax and before exceptional items grew 13%.

Taking into account the strong performance of the company, I am pleased to inform you that the Board of Directors have declared an interim dividend of Rs. 17 per share for the year ended March 31, 2023, which is a step up of Rs. 2 as compared to the interim dividend of last fiscal.

Now moving on to our outlook, let me start with giving you some more color on how inflation is panning out. Our September quarter's net material inflation

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is at 22% and this is sequentially higher than June quarter. This is in line with what we had called out earlier during June quarter results. Consequently, our COGS has increased sequentially by 150 bps to 55% in this quarter. You will recall from our earlier slide that Sanjiv covered, most commodities are still at significantly inflated level and are holding firm. Strengthening of the US dollar is also adding to further inflation. However, a few commodities, largely palm oil, have corrected from their highs. With this softening and if other commodities remain at their current elevated levels, we expect our December quarter NMI to be slightly lower than our September quarter numbers, albeit remaining significantly high on a year-on-year basis.This will help us to marginally reduce the price versus cost gap and aid in sequential gross margin improvement.

With the likely increase in media intensity, we will dial-up our brand and marketing investment and continue to ensure our Share of voice remains ahead of our Share of market. Needless to say, we will continue to extensively drive productivity improvement and operate our business with agility to maintain price-value equation for our consumers.

Looking ahead we are cautiously optimistic. In the near term, demand environment remains challenging and growth will be price-led. If commodities were to remain where they are today, we expect the price versus cost gap to marginally narrow leading to a sequential improvement in gross margin in December quarter. With the likely increase in media intensity, we expect a step-up in our A&P investments.

Our 2 clear imperatives remain: First, our priority is to grow our consumer franchise and protect our business model. We will do this by investing competitively behind our brands, ensuring right price-value equation for our consumers and driving savings harder. And second, continue with our journey to create a purpose-led, future-fit HUL and deliver 4G growth, growth that is consistent, competitive, profitable, and responsible.

Before we move to Q&A, let me summarize what we covered till now. We continue to build on our strong growth momentum and delivered 16% top line growth with 4% underlying volume growth. In the first half of this fiscal, we

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have added more than Rs. 4,000 crores to our top line growing at 18%. Our growth was significantly ahead of the market with more than 75% of our business winning both value and volume shares. Despite the unprecedented level of inflation, our EBITDA margins remain healthy. Considering the strong performance, Board of Directors have declared an interim dividend of Rs. 17 per share. We are cautiously optimistic about the near-term demand environment with growth being price-led. We expect our December quarter NMI to be marginally lower than September quarter, albeit remaining significantly high on a year-on-year basis. Consequently, gross margin in DQ is expected to improve sequentially along with a step-up in A&P investments.

With this, let me hand over to Ravi to commence our Q&A session.

A. Ravishankar: We will now move on to the Q&A. As usual, we would request you to restrict your questions to maximum of 2 at a time. In case there are further questions, you are always welcome to join the queue again. In addition to the audio, our participants have an option to post the questions through the web option on your screen. We will take these questions just before we end. With that, I would like to hand the call back to Tanvi to manage the next session for us.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: My first question is, in categories where deflation has started, is HUL playing a different template? Why I am asking this is in tea, there is around 7% to 8% price correction at the consumer level. Against that, your 5% volume growth looks impressive given the other large player has reported negative volume and Nielsen overall FMCG is negative volume in both urban and rural. So, unlike earlier times, when deflation happened, regional players used to come back. This time, it seems you have gained market share in tea from regional and clearly the other large players. Could you help us understand that and similar template can it be followed in skin cleansing also because there also deflation has started?

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Sanjiv Mehta: Before I hand it over to Ritesh, Abneesh, we launched Nolen Gur ice cream for you. I hope you have tasted it.

Abneesh Roy: Yes, sir, it was very good. I like that.

Sanjiv Mehta: Wonderful.

Ritesh Tiwari: Abneesh, there are pockets, and exactly called out tea and skin cleansing are the 2 categories which have seen commodity costs coming off. It was tea commodity earlier and then vegetable oil later on. Outside these 2 categories and commodities, there is significant year-on-year inflation across the board, which impacts all other categories. On tea, our strategy has been consistent. It's a portfolio play. It's a play where our Winning in Many Indias strategy is brought alive excellently well with our products, with our innovation and the way we manage our formulation and pricing across the country.

And with our portfolio in tea, the focus has always been, as I mentioned, that whenever inflation has come and impacted us, our strategy is very clear: grow the consumer franchise and protect our business model. And that's exactly what we have done with the tea category as well. We cemented our market leadership, as we called out, we have grown volumes, and we have also passed on the benefit of price reduction through price cuts to the consumers.

And our pricing strategy which is very similar to what we had spoken earlier. If in the market inflation happens, we take price increases in small bites so that we are able to land those prices effectively and ensure that we are able to hold and keep growing consumer franchise. But conversely, whenever market commodities come off to some extent in select places, we take larger bite decreases. And one has to do that; otherwise, inventories in the trade will get caught in between price points. That's exactly what we have done in tea.

And to your point, very similar we have recently done in skin cleansing as well, where there is a meaningful correction in palm oil prices. Of course, in the last week or 10 days' time, you have seen a further 15% to 20% increase in palm oil prices have happened, but our strategy will exactly remain consistent, which is keep growing the consumer franchise and protect the business model. While doing that, our entire focus is on driving savings hard across lines of P&L and

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challenging every non consumer-facing cost, that continues and we are running our business with agility and in the meantime, we will move prices up and down as required to ensure competitiveness and to ensure that the price-value equation remains and gets maintained with the consumers. That strategy will continue depending upon which way commodity pans out for different categories that we deal in.

Abneesh Roy: My second and last question is on Food. Nestle also reported very strong growth, and they pointed out quick commerce really helping them. In your case, Ice cream saw a great first quarter because of hard summer. Q2 also has been very good. If you could elaborate how much help you are getting from quick commerce? Any numbers you can put in any of your food categories, especially Ice cream? And second one on foods is, how much is the addressable market in terms of Nutri Gummies and Diabetes Gummies? Now, further milk inflation has happened. Quarter on quarter, more milk inflation has happened. So, on the core part of Horlicks, are things getting even more tougher because milk prices clearly matter in that consumption?

Ritesh Tiwari: There are 3-4 different questions. Let me pick them one by one, Abneesh. First, you talk about foods growth. Within Foods & Refreshment as a division, our Foods business has grown double digit and as I alluded earlier, Ice cream, Food within that Coffee; these are the businesses within Foods and Refreshment; have seen good double-digit growth across the business. And we have absolutely taken benefit of quick commerce. Today, IC Now as we call it, our ice cream business where it gets distributed through quick commerce and such digital chain. Now more than 10 percentage of our ice cream business is today generated using this medium of distribution.

Talking about Horlicks and Nutri Gummies, we have expanded our format of what we sell in Horlicks, and you have seen our launch of 2 gummies, one is with 12 different vitamins and minerals, Nutri Gummies, and second is to manage diabetes better, Diabetes Gummies. These formats now we have launched online on our D2C platform. And as relevant, we have already extended one of the two into online pure play as well as we speak. At this point in time, these got seeded in the market, and of course, we will learn more in

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this format and from consumers' reaction we get for these products. That's for Gummies.

As far as core Horlicks is concerned, no change in strategy, exactly what we had mentioned to all of you that market development is the job to be done in this area. Having done full job of integration of Horlicks, which has happened very well, realizing savings of supply chain integration and other overhead integration fully realized, our focus is now to continue to build penetration and consumption in the category.

This quarter alone, we have done more than 9 million home-to-home connects. We have launched a new advertisement campaign to bring alive our portfolio. That effort across the portfolio has also started to yield results. For example, our penetration is building, we are gaining penetration. We are also seeing our market share improving, and this, as I had mentioned earlier, is a job that we have done in medium term. We will be working towards developing this category and segment, and we should start seeing traction with this continued effort of staying consistent with our market development strategy with Horlicks.

Moderator: We will move to the next question which is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: On the commodity inflation, you highlighted that commodity inflation has been broadly along the expectation even though this increase is happening in this quarter. In that backdrop, would you retain your comment that you made in the first quarter that 3Q should see the benefit of commodity moderation in palm oil versus the margin that we saw in the first quarter?

Ritesh Tiwari: Absolutely right, in the last quarter we had announced the June quarter results, our net material inflation was 20%. And I had alluded at that point in time that we expect to see sequentially more inflation in the next quarter. And that's exactly what we have now also shared with you that our inflation this quarter is 22% net material inflation. So, it has panned out the way we had anticipated. Our outlook for the quarter starting the December quarter we should see slight reduction in the net material inflation for December quarter. And the large component of that reduction basically is vegetable oil, and that should lead to

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slight reduction. And the reason I am using the word slight reduction is because every single commodity outside vegetable oil remains elevated. Crude oil: It is still firm at 90+ and with US dollar strengthening, rupee at 83, that impact almost makes crude equivalent to US$100 plus what we had some time back. So is milk, cereals, soda ash. Across the board, many commodities remain elevated on a year-on-year basis.

Now with this some amount of cooling off of vegetable oil, we should see, slight improvement in the net material inflation and hence we should see sequential gross margin improvement in the next quarter. As that happens, I am also very mindful that media intensity might increase as there is some cool-off in certain pockets of commodities that will happen, and with media intensity increasing, we will continue to do what we have done, which is maintain our share of voice ahead of the share of market. So, I also expect advertising and sales promotion intensity to go up and hence our investment in A&P to go up next quarter. I anticipate that will be ultimately an outcome of amount of impact we will end up seeing on commodity and hence NMI and hence gross margin and the amount of media intensity, which will calibrate our A&P investments. And that will ultimately determine the outcome of EBITDA. But those are the few variables which will be played looking ahead for the second half of this financial year.

Avi Mehta: Sorry, Ritesh, let me rephrase. What I meant is, while I kind of take your point that you have seen some input, seen inflation in the second quarter, but when you were kind of going into that slide, you mentioned that this increase was broadly in line with what we were expecting. So, from an inflation perspective, it seems that nothing has surprised you on the negatives, as inflation has not come ahead of what you were expecting. That is the backdrop and hence, I was kind of looking at from the lens that I was in or when we were looking in the first quarter whatever margins we were expecting in the second half is the margin that we will still expect to be in the second half. Is that understanding correct is what I was trying to allude to. That is what I wanted to kind of appreciate. Is it fair that that is what is the case?

Ritesh Tiwari: Avi, our read of a) Commodity b) FMCG has not changed in the last 3 months' time. It is very consistent to what we spoke last quarter. Be it the outlook of

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commodity, we had mentioned and as you reiterated of seeing the peak in September quarter and some cool off after that, and we had mentioned that it is largely led out of vegetable oil. It is indeed the case. Our read on FMCG market overall – the impact of consumption, impact of rural and hence volumes – again remains very consistent. So, yes, at this point in time, you are right, there is no different read that we have in second half of the year and margins for second half of the financial year. It's a very similar read, a consistent read, and which is what I gave a little more granular data points to you that we will see, .Sequential gross margin improvement and media intensity, of course, is what we will see as to what pans out. But yes, very similar read.

Avi Mehta: Got it, Ritesh. It gives me a sense on the sequential increase as well because one sees the comparison. Fair point. The second question was on the rural recovery. Just wanted to get your sense on how do you feel about rural right now? Are you feeling more constructive versus what you felt last quarter? Or any comments on that? That's all from my side.

Ritesh Tiwari: Rural as we had called out, and let me just use some data points out here. And if I look at a 3-year CAGR, rural and urban both for the FMCG market, is growing at mid-single digit. And again on 3-year CAGR, urban and rural both are flat – near flat – on volume. If I look at a near-term period, latest 12-week or a MAT basis, urban is clearly outpacing rural, where urban growths are stronger than rural and also volume decline in rural is more steeper compared to urban. So, the read that we had that inflation is biting in rural more compared to urban, that is indeed the outcome that we are seeing. And that inflation impact is seen in volume decline in the market in rural and hence overall value growth of rural continues to be muted. So, that spins out. Of course, as far as Hindustan Unilever is concerned, we have gained comprehensively market share both in urban and rural, but overall, growth will be determined by what happens in terms of the market.

Now, coming to outlook, I do believe the single biggest factor which will determine rural outcome as far as FMCG is concerned is the impact of commodity. If at all we see a broader basket of commodities cooling off the way vegetable oil has, that should help prices to come down. And if that helps the prices to come down, that will augur well as far as consumption is

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concerned – volume – and hence FMCG growth. This is when I look at FMCG. Of course, there are macro factors at play.

The good news is urban employment is increasing, which would mean that rural migration and nonfarm income will increase and hence giving money back to the rural area and hence having more money in the pockets in rural economy - that augurs well.

Monsoon has been normal. And the reason I say that it was good rain, but we all know that spatial coverage has been volatile and also the timing of monsoon in certain places basically has a mixed outcome. We are yet to see how that pans out in terms of the crop going forward. That's one element which is there in the mix.

Government is clearly leaning in; the news that we had of earlier fertilizer subsidy, the fuel duty cuts that is helping. The recent decision of the government also to extend the food grain subsidy till the end of the year will also augur well. So, there are definitely macro factors and including what we all know, the Rs. 7.5 lakh crore CapEx investment which the government has committed as part of this budget. All of that should augur well for the rural economy, but we have to see more data points to be comfortable. When I look at this latest quarter, the data points for the September quarter are not very different than the read that we had for the last few quarters. So, the read remains consistent, and there are macro factors which are helping, and we do hope that in times to come, we see an outcome which is better compared to what we have seen today.

Moderator: The next question is from the line of Harit Kapoor from Investec India. Please proceed with your question.

Harit Kapoor: I just had two questions. Firstly, I just wanted to get your sense on the A&P spend number, at about 7-odd percent at a multiyear low for a quarter. You did mention that media intensity is increasing, but for the quarter specifically, would you say that share of voice has largely been maintained? And is the significant reduction only on account of lower volume or lower rates as well?

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Ritesh Tiwari: For us, our brands along the people are the 2 most valuable assets. And hence, we continue to invest behind our brands to build long-term memory structure. We do what is right from a strategic point of view that is essentially long-term sanctity of the business model. And the point you mentioned about A&P, of course, the number in the quarter, Harit, will always get determined by the media intensity which is there. Given the broad-based inflation which FMCG industry is facing, the overall amount of media investment in the industry has come down. And because of that, the absolute amount of levels of investment are determined basis what media heat is in the system.

If I look at our own A&P percentage turnover, there are 2 factors. In fact, half of that is the volume/growth leverage that we have. Since our business has grown at 16 percentage, everything else being equal, the A&P percent turnover looks better. Half of that is basically the market heat which is lower in a high inflationary atmosphere and hence absolute amount of reduction on that count in terms of media investment.

Suffice to say, our share of voice is ahead of our share of market. We maintain competitive levels of spends both from a salience and reach perspective. But at the same time, we do drive a very sharp media attribution to growth. Hence, also media efficiency, the way we deploy our investments, is very well measured. But we will not blink. Time and again, we have reiterated our share of voice will continue to remain ahead of our share of market.

Harit Kapoor: My second question is on fabric wash. The growth rates over the last few quarters have been extremely strong. I just wanted to get a sense of how much of this is being driven by actual category growth and how much of this is by your market share gains. The reason I ask is, once there is a normalization of base where you had some COVID-led impact as well, category growth should start to normalize to probably historical level. So, I just wanted to get a sense of how much of this accelerated growth is category-led, how much of it is market share led in whichever way you can help us.

Ritesh Tiwari: On fabric wash, there are a few variables out here. First of all, one of the points I was mentioning was product superiority. The kind of work that we have done in that space has started seeing results across the board for us and which is why

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in fabric wash, of course, is the market growth, but we have grown ahead of the market and also have handsome market share gains in fabric wash. So our performance is ahead of the market where it is. This is also the outcome of building the portfolio over the last several years. You know the way we have built our portfolio from mass to popular, popular to premium, premium to liquids, and that benefit is what you see also in our growth momentum as you see. I was giving you an example earlier of our liquids portfolio which is both liquid detergent and fabric conditioner liquids. Put together, that is more than Rs. 2,000 crores annualized business that we run today. There are many more elements apart from pricing – your point is right – which, of course, is also helping to drive growth. But at the same time, the product superiority, a strong portfolio, and right amount of consumer price-value equation has also made us grow volumes. And as I mentioned earlier, in this quarter, we also have driven very strong volumes in Home Care. So, it's a pretty all-round performance as far as fabric wash is concerned.

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

Percy Panthaki: My first question is on the 2 digital brands that you have launched. Are these something completely new? Or are they sort of taken from the global portfolio?

Ritesh Tiwari: Percy, both these brands that you see, Acne Squad and Find Your Happy Place, these are mixes that we have crafted. Acne Squad is crafted completely locally for India. If you look at the skin overall as a category need state, acne comes as one of the top need state, and which is why we crafted this portfolio working with dermatologists, and we launched all the 4 different platforms within Acne Squad which are for the different life cycle of acne that impact. It's a mix which is crafted in India and launched in India. Find Your Happy Place has been launched in one part of the world by Unilever and the second market in the world is India where we do believe it has far more relevance and hence we brought that brand and we launched that mix in India. Both of these, as you picked up, are launched digitally. They have been launched on our D2C website, and they also have been launched on Pure Play.

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Percy Panthaki: Just I wanted to know basically what is the thought process or decision-making framework for launching new brands in the D2C space versus trying to address sort of needs through existing brand variants, etc. And do you think under this framework, there would be more brand launches in the future as well?

Ritesh Tiwari: Percy, as you know that we already had launched 3 brands in the prior periods, be it Simple, be it Love Beauty and Planet, or for that matter may be Baby Dove which are all our 3 direct-to-consumer brands. And we saw demand spaces that we could activate and then we could start playing and which is why we then said in acne space, which is becoming a good important need space, we need a portfolio in that space. The way we worked and one of the examples we had quoted earlier as part of our capability, we have our own Agile Innovation Hub where we scrub all the trends which are emerging with consumers across the country. And then depending upon what relevant trends we pickup, our first decision is does our existing portfolio cater to those trends. If yes, of course, our portfolio is activated and we serve those needs, and we have large brands across our portfolio in FMCG, it does the job. But if there are demand spaces which are developing and they are becoming relevant at this point in time, in which case, then we choose them to deploy our portfolio in that demand space. Acne is a classic example of that demand space or for that matter a bath indulgence is a fabulous demand space. The very fact these are niche and which is why it makes sense to go digital rather than do an offline launch at this point in time. You have to build awareness before you can start talking offline, and which is why exactly the thought process and the business model out here has been that look at the trends which are relevant. Where we think a portfolio launch will make business sense, then we will launch those mixes. And our capability to launch digital just gives us that power of experimentation before we scale up in any other format or any other channel. That's the business models which are behind it. Now, is this the first and the last of it? The answer, of course, is no. We have done 3 before, we have done 2 now. We will keep looking at trends. And the moment we find a trend, a demand space which is substantial and it makes relevant to invest with a product portfolio, we will innovate and we will launch products in that portfolio in that space.

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Percy Panthaki: My second question is on the market shares, where you mentioned that 75% of your portfolio is growing market share. Could you throw some light on what are the parts – the 25% where you are not – which are those categories? And you mentioned this over the last 2-3 quarters. Is this 25% the same over the last few quarters or is there a rotation there also that this quarter it has gained but next quarter it falls into the losing bucket, etc.?

Ritesh Tiwari: First of all, Percy, our narrative is very clear. Our market share performance and our competitive performance is very robust. More than 75 percentage of our business is winning. And that was the narrative we had in the previous few quarters as well, where more than 75 percentage of our portfolio has been winning. And this win is pretty comprehensive. This win is across the geography in the country, this win is across channels, be it traditional trade channels, general trades, be it the modern channels of trade. These are gains in urban, this is in rural, and all this ultimately has also translated into corporate market share gain as well. So, this is what we also do in our business. We keep looking at a different segmentation of our business and in every segment how competitive our performance is, and which is why, as I mentioned, it is a pretty comprehensive performance and when more than 75% of our business is gaining share.

Percy Panthaki: Any clarity you can give on what are those categories which are not gaining market share?

Ritesh Tiwari: I will not get, Percy, into detailed categories which are growing shares and which are not growing shares. As I mentioned earlier, at the end of the day, we deal in the market which is extremely competitive. There will be ups and downs in the portfolio. In the long term if we are maintaining the strength of business winning at more than 75 percentage, it will translate into corporate market share gain. And that's the exact reason why, in our mind, we keep looking at our business winning of more than 75 percentage and we have delivered that quarter after quarter. And we have seen that exactly leading us also translating into corporate market share gain as well.

In a quarter, if we have few bps up and few bps down, of course, that portfolio in that quarter might be not winning and it might be the reason why not at 100

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percentage. But then, it's a matter of time. I am saying as we see some sense in certain categories and then we of course lean in more in that space. So, it's always a mix of that. But the fact is when you have more than 75% portfolio which you are winning, it's a comprehensive business performance, and this is where we basically angle ourselves into.

Moderator: The next question is from the line of Arnab Mitra from Goldman Sachs. Please go ahead.

Arnab Mitra: My first question was actually also on the laundry business where despite putting more pricing, the volume growth has actually accelerated. The last time when such high price increases were put, maybe 10 years back in the category, there was definitely some pressure on down trading. Just wanted to check, are there any trends of that sort? And your acceleration in the face of increasing pricing, is it largely to do with market share gains accelerating in these last 2 quarters?

Ritesh Tiwari: There are a few elements out here, Arnab. First of all, you are absolutely right. I think in the last one decade the way HUL has transformed the portfolio of Home Care and the point I was making earlier of liquid part of the portfolio, be it liquid detergent, be it liquid conditioner, which is now a more than Rs. 2,000 crore business. So: a) portfolio development; b) product superiority - those are the elements and of course, the strength of our brands that we have, popular brands from Surf Excel to Wheel to Rin, and the strength of our brands have also allowed us: a) to take pricing; b) to maintain price value equation; and c) to hold and keep growing our consumer franchise. So, it's a pretty all-round performance the way the portfolio has panned out. But your point on as to down grading/down trading, what we have seen in times of very high inflation, consumers seek more value. In certain portions and certain parts of the portfolio, more value comes from price point packs. There might be low price point packs of Rs. 1 sachet or a Rs. 2 pack or a Rs. 5 Horlicks sachet. In certain parts of the portfolio, especially laundry, the large packs, as you know, offer better value. And hence, consumers by default go to a pack which offers them higher value. In this case, larger packs in laundry. We have seen a mix of that as well, and we have played our portfolio very well across price points and across the portfolio. The premium part of the portfolio, and this I am talking

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largely overall as Hindustan Unilever, has grown at twice the pace than the rest of the portfolio. So, we have seen in laundry as well, as you know, we have premiumized our portfolio. And that overall behavior that we have seen: a) of consumers; and b) the strength of our brand and portfolio, we have seen their benefit in our growth as well, where the premium part of the business is growing at twice the pace; so, be it premium brand like Surf Excel laundry in case. Those are 4 or 5, I would say, strong reasons why our performance is so robust not only from a value growth perspective but also from a volume growth perspective and absolutely also from a competitiveness perspective, as I mentioned, we have one of the best market share at this point in time in fabric wash.

Arnab Mitra: And my last question is on Horlicks. This launch of gummies, when the brand was with GSK, they had made multiple attempts to use the brand outside of the MFD. Do you think from here on, HUL would also look to do that, and this is a starting point or we should not see too much into this launch of the new format?

Ritesh Tiwari: As we acquired the business of Horlicks – and let me talk brand, then let me talk format, and let me then get into demand status. 1) From a brand perspective, we have spoken about as we acquired the business, we activated Boost across the country. Now we have Boost present along with Horlicks across the nation at this point in time. That was the first job we did in terms of portfolio maximization from the Horlicks portfolio and from the GSK what we acquired. 2) We also then activated the plus range. And we mentioned that this is when we deployed our high science range, be it diabetes plus, be it Horlicks for bones, be it for women, be it for lactating mothers, and that part of the portfolio also had seen good traction as we have activated. And then after having done the job with Horlicks and Boost, after having done the job with plus, the third area that now we have seeded is gummies. And as I mentioned, this is more of a seeding than a launch full fledged. This is more in D2C, of the 2 products that we launched, both the Nutri Gummies and Diabetes Gummies, one of the two we launched earlier, as you know, Nutri Gummies which we launched D2C, then we have taken them now to also Pure Play. Then we launched after that the portfolio of gummies for diabetes. That we launched on our D2C website, and we will see consumer traction how we get for these

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products and how we are able to develop these products. That's the whole intention of launching and seeding this business as well alongside the portfolio of the 2 brands and our portfolio that we activated in the plus range. This entire attempt of looking at what are different ways we are able to serve consumer needs in functional nutrition is what our attempt will always be. At the cornerstone of all of that is one singular insight that India as a nation overall, we do have micronutrient deficiency. Our diet is very high on carbohydrates. And hence, this becomes a fabulous need for us to use our functional nutrition portfolio and to play to the demand space where people might be eating enough calories but might not be having right micronutrients as part of their food pallet. And this is where the portfolio makes sense, and we will keep looking for such opportunities within the portfolio.

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

Latika Chopra: I have a few small follow-ups to comments that you made earlier. The first one was a check on Beauty and Personal Care premium segment doing well. Is there an element of festive prebuying in the channel for premium skin care that could have helped the quarter? Is that salience material?

Sanjiv Mehta: Latika, are you saying whether the premium has been impacted by any activity during the quarter? Is that the question?

Latika Chopra: Yes. Has that been positively impacted from pre-festive buying through the channels?

Sanjiv Mehta: Latika, premium has been growing consistently over this period. And that is a very clear trend. As you would recall, we are over-indexed on the premium segment. The premium segment, we are over indexed and it continues to do well. Even if you look at it from a lens of market, premium is growing faster than popular, popular is growing faster than mass. This is a very clear trend and it is, in many ways, intuitive because people who have more money are a bit more resistant to inflation than people at the bottom of pyramid.

Latika Chopra: The second question that I had was on price reductions for soaps. Just wanted to clarify, is it pure MRP cuts that you have undertaken? Or is there a kind of

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a grammage increase also at low price packs that the company has deployed? And are there any reductions in the laundry portfolio also that you have considered?

Ritesh Tiwari: Let me just probably come back, Latika, a little more comprehensively. As I was talking earlier, tea and skin cleansing are the 2 portfolios where we have seen commodity coming off. Earlier, it was tea and then the latest has been vegetable oil. And we have reacted, and the point I was making earlier, when prices went up, in small bites we took price increases. And when we have seen a meaningful commodity correction, we have taken in large chunks price decreases as well, be it tea or be it skin cleansing.

The inflation impact in home care has continued. And you have seen that crude has remained firm at $90+ and now with US dollar strengthening, if I just look at the data point today and a year ago, it's a 12% impact on Indian rupee, and that impacts overall commodity costs because either the commodities are international markets or at least they are sold and bought at International port parity. So, crude, the point I was making, though it is $90+ firm, but if I add the impact of currency, it is almost $100+ equivalent in Indian rupee. So, we are seeing more inflation and because of that in the September quarter, we did take sequential price increases in home care, laundry portfolio. And within laundry, Latika, also we had called out soda ash has seen a meaningful amount of inflation, again, coming from energy and overall demand supply of the commodity. Depending upon which commodity basket impacts which category of ours, we will keep being very agile and nimble on this front. And if at all, we do see commodities coming off, we will go with price decreases, as I mentioned, in big chunks. And where we do see commodity remaining firm as required to protect the business model, we will take price increases.

If I look at the latest September quarter, the point I was quoting earlier with a 22% net material inflation and a 12% price, we have a pretty substantial 10% price versus cost gap. I do believe that with crude oil remaining firm, as I mentioned to you, because of the currency, but with some cooling off happening to some extent in vegetable oils, there should be slight improvement in price versus cost gap in the next quarter. But we will have to see this quarter after quarter, month after month, and depending upon which commodity and

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which category gets impacted, but we will be very agile and nimble with our decision-making and with the speed at which we are doing. And the kind of reflex muscles we have developed with our science of pricing, that is something which has been a pretty strong competitive edge for us during such difficult times of high inflation across the portfolio or for that matter commodity volatility that we have seen across the portfolio.

Latika Chopra: Ritesh, I was just checking because there were certain media articles which reported price reductions for laundry as well. And I was just trying to confirm that reductions are so far only in the soaps portfolio and probably also checking there could be some grammage increases at price points, not just MRP cuts. The other bit that I wanted to check was on increase in employee cost of nearly 20% sequentially and YoY. Any specific reason here?

Ritesh Tiwari: There are 3 different variables. Overall, the employee costs have gone up by 20 bps, we have seen in terms of percentage turnover. There are 3 reasons out here: a) the overall inflation of wage inflation in the country and which is why there is a salary inflation, which is there and part of the mix. b) We also had a VPA true-up as part of our first half performance, which is pretty robust, as you have seen with our results. So, we have upped our provision for our variable pay as part of that, and that has also impacted the numbers in the quarter. And there is also a component of our overall cost, which is shares of Unilever, which employees get. And depending upon the movement of share price of Unilever and GBP vis-a-vis INR which has seen in this quarter an uptick. Those are the 3 reasons put together you have seen overall the employee cost being higher compared to where our top line growth has increased. There is always some amount of variability you will see, Latika, in terms of employee costs. But if I look at overall, let me say, at trailing 12 months or a 12-month view, we will always be efficient where our overhead cost we keep getting leverage. a) because we have a very frugal mindset goes across all lines of overheads; and b) growth leverage that we have because of a stellar growth performance that we have. Put together, overall cost will always see leverage, but there will be some volatility like this on quarter on quarter.

Moderator: I now hand it over to Mr. Ravishankar for further proceedings.

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A. Ravishankar: We have one question on the web from Richard Liu. Richard asks whether we can give some perspective on how exit trend has been as far as growth is concerned, especially from a rural perspective. Given that August and September base months last year would have had slower rural growth built-in, is the market number starting to look better relative to other months, at least on headline basis? And how would you read this data?

Ritesh Tiwari: Richard, if I break up the September quarter FMCG market growth into 2 parts, July and August put together as 1 bucket and September as other bucket, definitely, month September has been better than July and August put together. The factor which has come out is, 1) Essential demand generation which we have seen more in modern trade channel. 2) There is also that this time the phasing of festival season a little different than last year where Diwali and Dussehra both are a couple of weeks ahead of what it was last year. In my mind, there is some impact of that as well in September month but clearly September month has been better than July and August put together, which is also the reason why, as you would see that the overall FMCG market in the latest 3 months in this September quarter is ahead of the MAT. MAT is more at mid-single digit, and September quarter is more at 6.6 to 7 percentage. So, we have seen September month a little better.

How this pans out in the next 3 months' time? In my mind, the single biggest variable will be commodity inflation and what happens to currency and hence impact of currency on commodities. That will ultimately determine the consumption levels in rural and overall consumption levels in FMCG. And that, in my mind, will be the single biggest determinant of what we should expect going forward.

I spoke earlier about rural in terms of macro. There are elements of rural macro which are in favor. And hopefully, they pan out as the government's intention has been and as government's intervention has been, and that should help both farm and nonfarm income. And if that happens, it should augur well for the rural economy. And hence, in turn, if commodities, we see a broad-based impact. And if at all the rural economy just pan out basis government intervention, we should see a better outlook. But as I mentioned earlier, we would want to see for a few more months before we start signaling a trajectory

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change at this point in time. And we have been measured with our commentary. And the latest quarter, 3-month number of September quarter, has only borne out of what we have been giving our narrative on outlook even in the prior quarters.

A. Ravishankar: With that, we will draw the Q&A session to an end. I know we haven't been able to take all the questions. If there is anything still unanswered, please feel free to reach out to any of us in the IR team.

Before we end, let me also remind that the playback of this event will be available on our website in a short while from now. Once again, our greetings to you and your families for the festive season. Thank you, and best wishes.

Moderator: 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.*

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