

Company

Consumer

Competition

Economy

Thrusts

2001

Trends

# Hindustan Lever Limited



DSP Merrill Lynch, Cochin  
February 2002

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# the company



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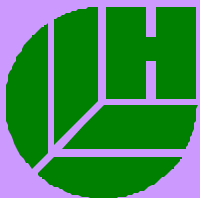
Trends

# Hindustan Lever

## ...leading consumer products company

### Financials - 2001

Turnover	Rs110 bln
Net Profit	Rs16 bln
EPS (Re 1)	Rs7.46
Market Capitalisation	Rs475 bln (Jan 2002)



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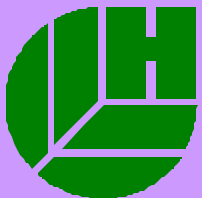
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# our corporate purpose

Our purpose is to meet the  
**everyday needs of people everywhere—**  
to **anticipate** the aspirations of our  
**customers and consumers** and to  
**respond creatively and competitively**  
with **branded products and**  
**services** which raises the quality of life



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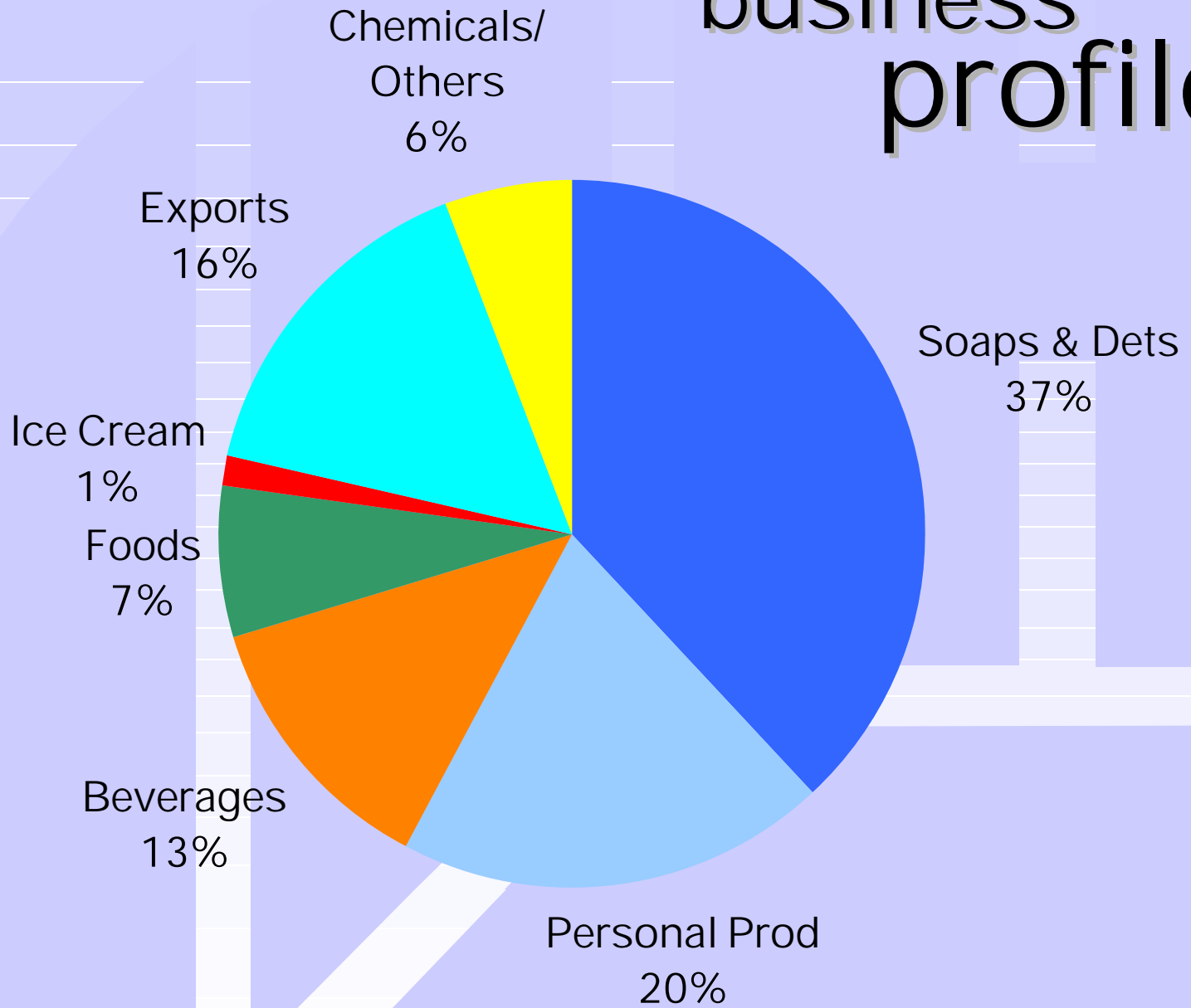
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# business profile



Net Turnover Rs110 bln



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# the indian consumer



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# the emerging face of india

	1999	2001	2006
Population (millions)	846	1,012	1,087
Population < 25 years of age	480	546	565
Urbanisation (%)	26	28	31
Literacy Level (%)	52	65	70

Half the population is below 25 years age...  
...a young country with opportunity



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# changing consumer

- Young age profile – 35% population below 14 years
- Media reach (urban 80%, rural 40%) growing rapidly
- Literacy levels at 65%; female literacy rising

More money; new mindset





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# changing income distribution

Segment	Income Class (PPP\$)	Household mln	
		Current	2005
Destitute	0-3,000	99	99
Aspirants	3,000-6,500	45	47
Climbers	6,500-10,000	18	21
Consuming Class	10,000-13,500	10	19
Rich	13,500+	6	12

- Absolute number of destitute/aspirants projected to be constant till 2005
- Households above \$10,000 projected to double from 16 mln to 31 mln



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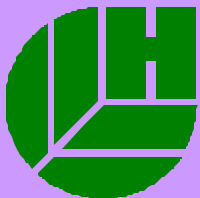
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# growing opportunity

Per capita consumption

	India	Brazil	USA
Personal Wash (kg)	0.5	1.1	2.0
Fabric Wash (kg)	2.6	7.2	13.1
Toothpaste (ml)	40	358	299
Shampoo (ml)	16	444	1,018

Scope for increasing consumption



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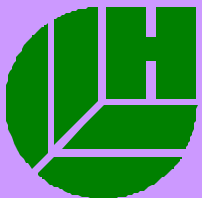
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# growing opportunity

Per capita consumption	India	Pak	USA
Edible Fats (kg)	7.7	12.0	33.0
Ice Cream (lt)	0.98	1.00	22.00
Tea (kg)	0.64	0.95	2.60 (UK)

Scope for increasing consumption



# the competition

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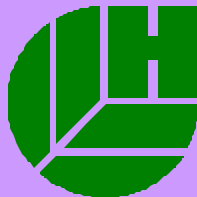
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# active, polarised competition

- Strong local competitors with large scale, low cost structures
- Most major multinationals present
  - P&G, Colgate, L'Oreal, Nestle
- Market responsive to innovation, and demanding of value



# market position

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Market Leader

Strong Number 2

■ Personal Wash	60%	■ Oral	36%
■ Fabric Wash	42%	■ Hair Oils	14%
■ Household Care	62%	■ Instant Coffee	36%
■ Skin Care	53%	■ Ketchup	39%
■ Hair Care	63%		
■ Talcum Powders	65%		
■ Branded Tea	35%		
■ Ice Creams	25%		
■ Jams & Squashes	78%		
■ R&G Coffee	56%		
■ Branded Staples	15%		
■ Branded Salt	18%		
■ Cooking Fats & Oils	29%		



# the economy

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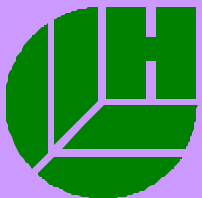
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# indian economy ...snapshot

- GDP 2000 : USD 450 bln; USD 1890 bln in PPP terms
  - 5th in world
  - growth 6% p.a.
- Rising share of services sector (47%)
- Exports contribution still low at 10%
  - software exports still buoyant (+25% p.a.)
- Aggregate fiscal deficit over 10% of GDP
- Infrastructure constraints; power, telecom, roads
- Inflation maintained at single digit

Intellectual capital to leverage 'knowledge' industries





# economics ...implications

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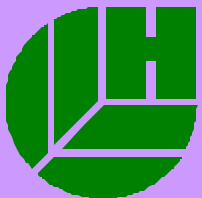
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- As economy opens, key input prices globally determined
- Lowering of tariff barriers - new challenge of low cost imports
- Critical mass of high income consumers - market for
  - higher end products
  - service an opportunity area
- Rural markets: revival following improved production
- Large income disparities, price segmentation important
- Growing regional economic differences and localised competition: appropriate business strategies



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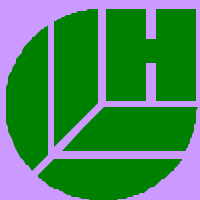
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# economic slowdown continuing

- GDP growth decelerates to 4%
- Fiscal deficit continues to be under pressure; however, inflation continues to slide
- Rupee depreciated by 2.7% in SH '01; FY '01: 3.3%
- Overall markets remain depressed in 2001; demand declines in several FMCG categories
- Economic outlook for 2002 evolving
  - with good monsoon, agricultural production expected to grow
  - softer prices could offset part of the recovery
  - growth also dependent on progress in infrastructural investment



# market growth

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Growth %

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Toilet soaps

6.1

(9.6)

Detergents cake/bars

2.5

(6.0)

Washing powder

8.1

0.8

Toothpaste

10.3

2.0

Shampoo

12.8

11.1

Skin cream

13.1

3.4

Tea

0.3

(6.5)

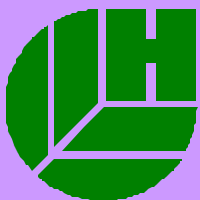
FMCG

6.6

(1.9)

Key categories have declined;  
intense competition for 'share of wallet'

Source: ORG Value



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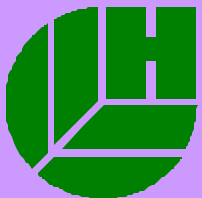
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# strategic objectives & thrusts



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# progress against strategy ...on course

## strategy recap

- Growth through focus on 30 power brands in FMCG
- Improving Foods Profitability
- Securing future of the Non-FMCG businesses



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# power brands lead sales growth

Growth %	MQ	JQ	SQ	DQ	Year
Overall (FMCG)	2.6	3.2	8.0	6.8	5.0
Power Brands	3.3	5.7	10.1	8.2	6.5
HPC	4.8	9.0	11.5	13.3	9.2
Foods	1.0	(3.3)	6.3	(3.3)	0.1



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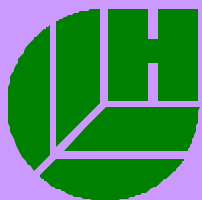
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# ... and outpace market growth in HPC

Growth %	Market Growth	HLL Group	Power Brands
Personal Wash	(9.6)	(2.9)	5.3
Fabric Wash	(2.1)	6.9	9.2
Dishwash	12.4	11.4	13.5
Toothpaste	2.0	6.4	8.0
Shampoo	11.1	15.8	16.5
Skin (excl. Talc)	3.4	21.1	21.6
Talcum Powder	(0.6)	15.0	16.3

Market growth source: ORG Value



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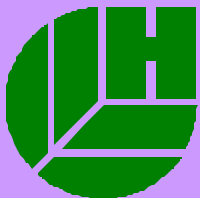
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# ... and in foods

Growth %	Market Growth	HLL Group	Power Brands
Packet Tea	(6.5)	(11.7)	(5.9)
Coffee	(3.3)	14.7	20.6
Vanaspati	(5.1)	11.4	11.4
Culinary Jams	(13.4)	(7.0)	(7.0)
Ketchup	(1.8)	(6.0)	(6.0)
Atta (Branded)	N.A.	(15.4)	(15.4)
Salt	3.7	(5.1)	(5.1)

Market growth source: ORG Value





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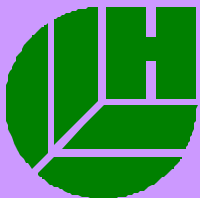
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# foods profit doubles

- Operating profit doubles
- Gross margin up 500 basis points
- Further cost reduction planned through
  - supply chain reconfiguration
  - restructuring initiatives
- Potential for value added products



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# new homes for non-core

- Divestments completed
  - AFS
  - Quest
  - Nickel Catalyst
  - Adhesives
- Transfer of Seeds, Leather, Mushroom to subsidiaries for potential JV/divestment



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# growth in new channels

- New consumption opportunities for Tea, Coffee, Ice Cream
- Out-of-Home business unit in Bangalore to lead activity
- Dedicated resources to grow institutional business in 3 regions
- Aggressive expansion in our 100 crore Food Service business
- Wholesale channel opportunity



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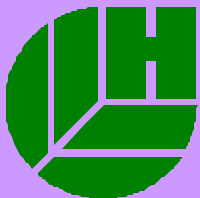
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# total system cost

- Investments in IT drive our supply costs down even further
- Media scale and efficiency benefits further optimised
- Expanding Shared Services
- Tight control on overheads including Corporate Centre costs



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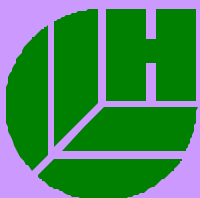
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# the new culture

- A pro-active, flexible, fast moving organisation
- 7 smaller Category Business Units allows empowerment & freedom to get on with delivery
- Attractive reward for actual Performance through Variable Pay bonuses & Stock-related schemes



# results 2001

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# highlights of 2001

- Power Brands grow by 6.5% in the year to deliver company topline growth of 3.5%



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# highlights of 2001

- Power Brands grow by 6.5% in the year to deliver company topline growth of 3.5%
- Operating margin for the year improves from 14.8% to 16.1% and Foods profit doubles





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- Power Brands grow by 6.5% in the year to deliver company topline growth of 3.5%
- Operating margin for the year improves from 14.8% to 16.1% and Foods profit doubles
- PAT growth 17.6% for the year



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- PAT growth 17.6% for the year
  
- Exceptional income: Rs1 bln (net)



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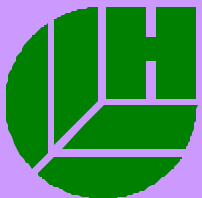
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- Exceptional income: Rs1 bln (net)
- EPS Rs7.46 per share of Re1 (+25.2%)



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# highlights of 2001

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- PAT growth 17.6% for the year
- Exceptional income: Rs1 bln (net)
- EPS Rs7.46 per share of Re 1 (+25.2%)
- Final dividend of Rs2.50 per share; total Rs5.00 per share (PY: Rs3.50 per share)



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# results for 2001

Rs bln	FY 2001	FY 2000	Growth%
Net Sales	109.72	106.04	3.5
Other Income	3.82	3.45	10.6
Costs <sup>1</sup>	(94.11)	(92.84)	1.4
PBT	19.43	16.65	16.7
Tax (incl. Deferred Tax)	(4.02)	(3.55)	13.2
PAT	15.41	13.10	17.6
Exceptional Items (net)	1.00	–	
Net Profit	16.41	13.10	25.3

<sup>1</sup>incl restructuring cost of Rs0.48 bln (PY: Rs1.09 bln)



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# like-to-like comparison

■ IN

- Lakme Lever
- Lipton Exports
- Bestfoods
- Aviance

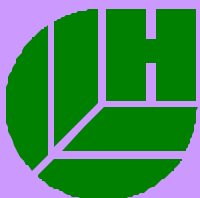
■ OUT

- Quest
- Animal Feeds
- Nickel Catalyst
- Adhesives

% Growth

2001

	Published	Comparable
Net Sales	3.5	2.8
PAT	17.6	21.0



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# shareholder will be delighted

Rs	2001	2000
Interim	2.50	1.50
Final (Proposed)	2.50	2.00
Total	5.00	3.50

Dividend per share of Re1

2001 dividend includes distribution from exceptional income



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# a strong balance sheet

Rs bln	Dec 2001	Dec 2000
Share Capital	2.20	2.20
Reserves	28.23	22.68
Loan Funds	0.84	1.12
Total	31.27	26.00
Fixed Assets	13.20	12.03
Investments & Deposits	23.25	21.43
Other Current Assets (net)	(7.64)	(7.46)
Deferred Tax	2.46	–
Total	31.27	26.00





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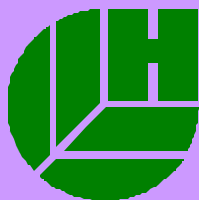
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# ...and high profitability continues

Rs bln	FY 2001	FY 2000	Growth%
Net Sales	109.72	106.04	3.5
Operating Profit	17.61	15.67	12.4
Operating Margin %	16.1	14.8	

	2001	2000
Return on Net Worth %	53.9	52.6
ROCE %	62.4	64.5



# exceptional items

Rs bln

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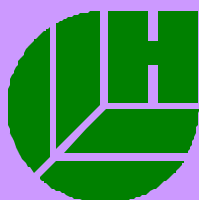
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Profit on disposal of Quest & AFS business		1.42
Profit on disposal of Nickel Catalyst/ Adhesive Businesses		0.17
One time reduction in tax liability arising from amalgamation of IBL		0.29
Less		
Provision for estimated costs for discontinuance of thermometer operations	(0.11)	
Provision for fixed asset write-off and estimated related costs: Ice Cream	(0.43)	
Provision for fixed asset write-off: Culinary	(0.19)	
Additional liability for retirement benefits arising from fall in interest rates	(0.63)	
	(1.36)	
Deferred tax credit	0.48	(0.88)
Exceptional Items (net)		1.00



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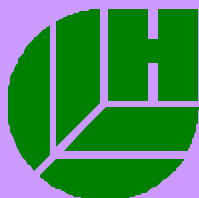
2001

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# cash flow 2001

Rs bln

Business Operations	18.33
Disposal of business	1.12
Treasury Income	2.60
Cash Generated	22.05
Capital Expenditure	2.89
Working Capital Increase	0.18
Dividend Payment	9.90
Profit/Div Tax Payment	5.47
Surplus invested	3.61
Cash Deployed	22.05



# business performance

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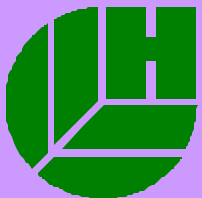
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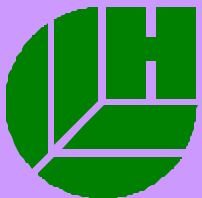
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# soaps and detergents



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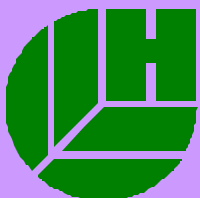
# ...growth rate improves in SH

Growth %	FH 2001	SH 2001	FY 2001
Personal Wash	(4.8)	(1.4)	(2.9)
Fabric Wash	5.2	8.8	6.9
Household Care	15.3	7.3	11.4

Category Sales Growth

Market Share %	Dec 2000	Jun 2001	Dec 2001
Toilet Soaps	59.2	59.0	60.6
Detergents (Powder + Bar)	41.5	42.1	42.5
Dishwash	62.9	61.2	62.7

ORG value share (urban+rural)



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# mass market brands lead growth in soaps and detergents

- Group sales up 3%
- Fabric Wash sales up 7%; share gain in detergent bars;
  - Wheel relaunched; gains market leadership
  - Surf franchise relaunched
- Personal wash sales down 3%, although market share up
  - Lifebuoy decline arrested; Active variant launched
  - Fair & Lovely launched
  - Lux franchise relaunched and expanded
- Mass market portfolio (Breeze +57% and Wheel +15%) crosses Rs10 bln mark; strategy to contain low price competition working



# personal products

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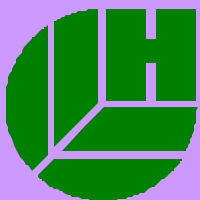
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# record growth in all categories

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Growth %	FH 2001	SH 2001	FY 2001
Oral Care	(3.7)	16.5	6.0
Hair Care	2.3	20.9	10.3
Skin (excl. Talc)	22.1	19.0	21.1
Talcum Powder	10.4	21.2	15.0

Category Sales Growth

Market Share %	Dec 2000	Jun 2001	Dec 2001
Toothpaste	35.4	35.9	36.7
Shampoo	65.9	64.6	62.3
Skin (excl. Talc)	56.0	53.9	52.9
Talcum Powder	63.6	65.8	64.9

ORG value share (urban+rural)



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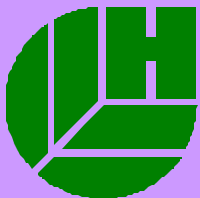
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# power brands lead growth

- Group sales up 14%
- Skin care category leads growth (+21%)
  - Fair & Lovely franchise expanded; registers strong growth
- Shampoo continues healthy growth trend (+16%); Clinic, Sunsilk and Lux register double digit growth
- Toothpaste sales back on growth track (+6%); SH growth 20%
  - Pepsodent relaunched; grows 13% (24% in SH)
  - Close-Up grows 5% (26% in SH)



# beverages

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# portfolio rationalisation impacts tea sales; strong growth in coffee

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Growth %	FH 2001	SH 2001	FY 2001
Packet Tea	(14.5)	(8.6)	(11.7)
Coffee	10.1	18.6	14.7

Category Sales Growth

tea market  
remain bearish

Market Share %	Dec 2000	Jun 2001	Dec 2001
Packet Tea	36.4	36.2	35.3
Coffee	38.2	44.1	40.5

ORG value share (urban+rural)



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# step change in beverages profitability

- Focus on profitability; Gross margin up 850 basis points
- Taj grows in the face of all round downtrading
- Bru grows 20% in a market which declined by 3%



# foods

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# foods sales growth led by modern and dalda

Growth %	FH 2001	SH 2001	FY 2001
Culinary	(7.1)	1.5	(3.3)
Oils & Fats	16.1	18.5	17.5
Modern	94.7	47.2	65.6
Branded Staples	(13.0)	(10.3)	(11.6)

Category Sales Growth

- Group sales up 14%
- Margins up 100 basis points



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# continuing thrust on innovation



- Dalda Activ
- Ready to eat Chapati
- Knorr rice@ease
- Flavoured Spreads





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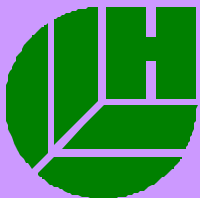
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# ice cream business to be repositioned

- Group sales down 4%; losses continue
- Focus strategy for business turnaround
  - comprehensive plan to cover:
    - distribution width
    - product portfolio rationalisation
    - supply chain and sourcing arrangements
  - fixed cost base being significantly reduced



# other business

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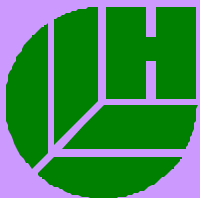
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# HPC products lead export thrust

- Continued thrust on exports opportunities in core categories; manufactured exports up 11%
- HPC exports up 36%
- Tea exports volumes up but value down 2% due to decline in commodity prices
- Marine (+57%) and Leather (+43%) exports record strong growth; Thermometer operations closed
- Traded exports significantly rationalised due to unviability

'Golden Superstar Trading House' status conferred



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# confectionery venture takes off



- 'Max' range of confectionery test market successful
- National roll out started in DQ
- No1 position in the segment within 6 months in Tamil Nadu



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# major initiatives in manufacturing and IT

- Fast track implementation of Manufacturing Strategy
  - 7 Units commissioned with an investment of Rs1.62 bln in record time
  - partially makes up for loss of tax holiday which ends in sites set up earlier
- Enhanced connectivity in HPC Supply Chain
  - RS Net covers 600 stockists accounting for 40% sales; 80% coverage by Jun '02
- 'Feel the Pulse' initiative launched
  - 10,000 retailers, 4,000 consumers and 800 supplier contacts by Company managers across all functions
- 3 factories receive 'TPM Excellence Award' from JIPM, Japan



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# in summary...

Growth % FY 2001

Sales

Company 3.5

FMCG 6.2

Power Brands 6.5

PAT 17.6

EPS 7.46



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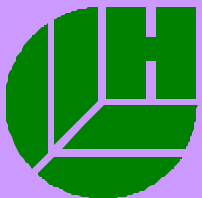
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# trends



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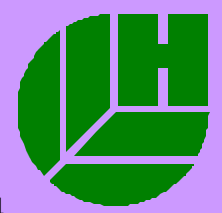
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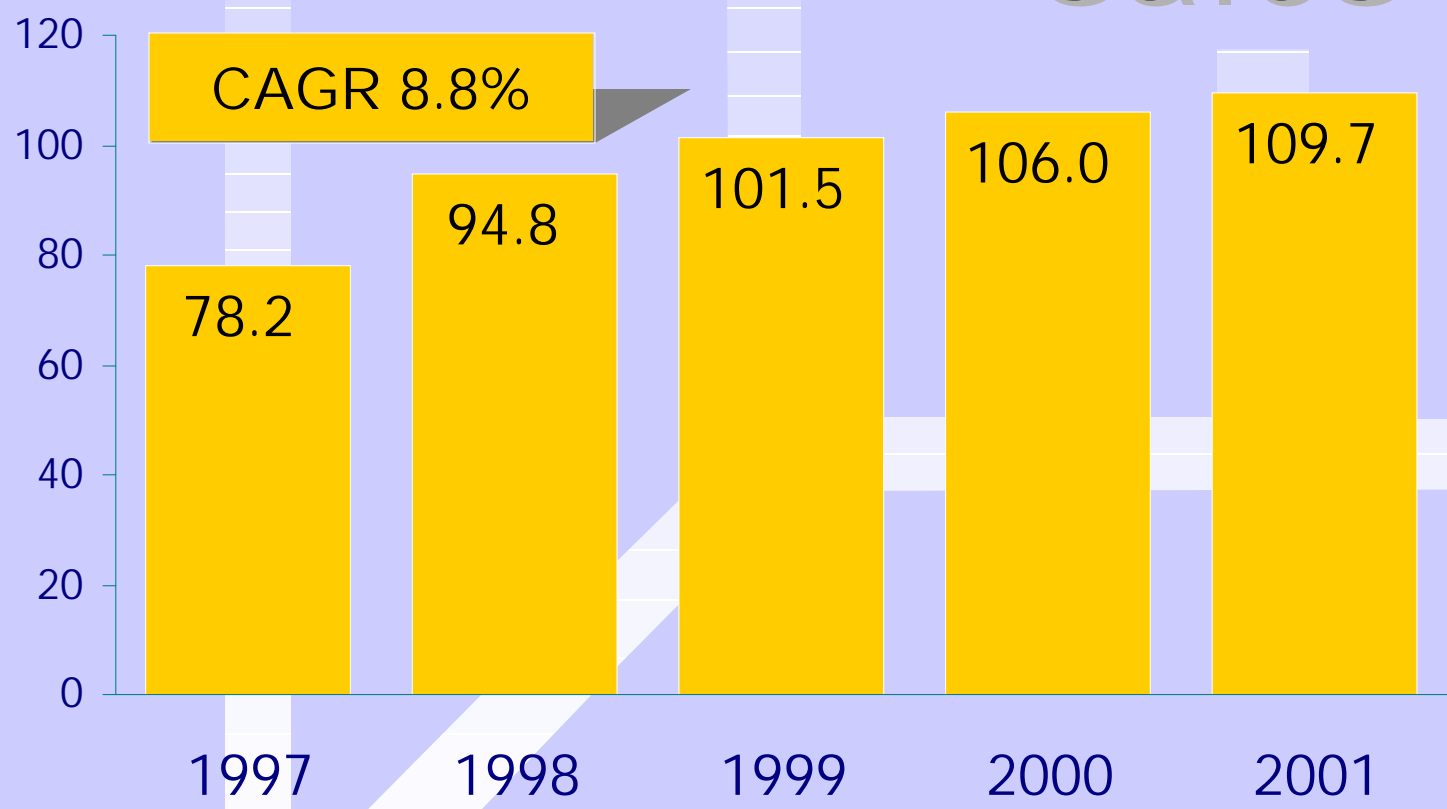
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# net sales

Rs bln





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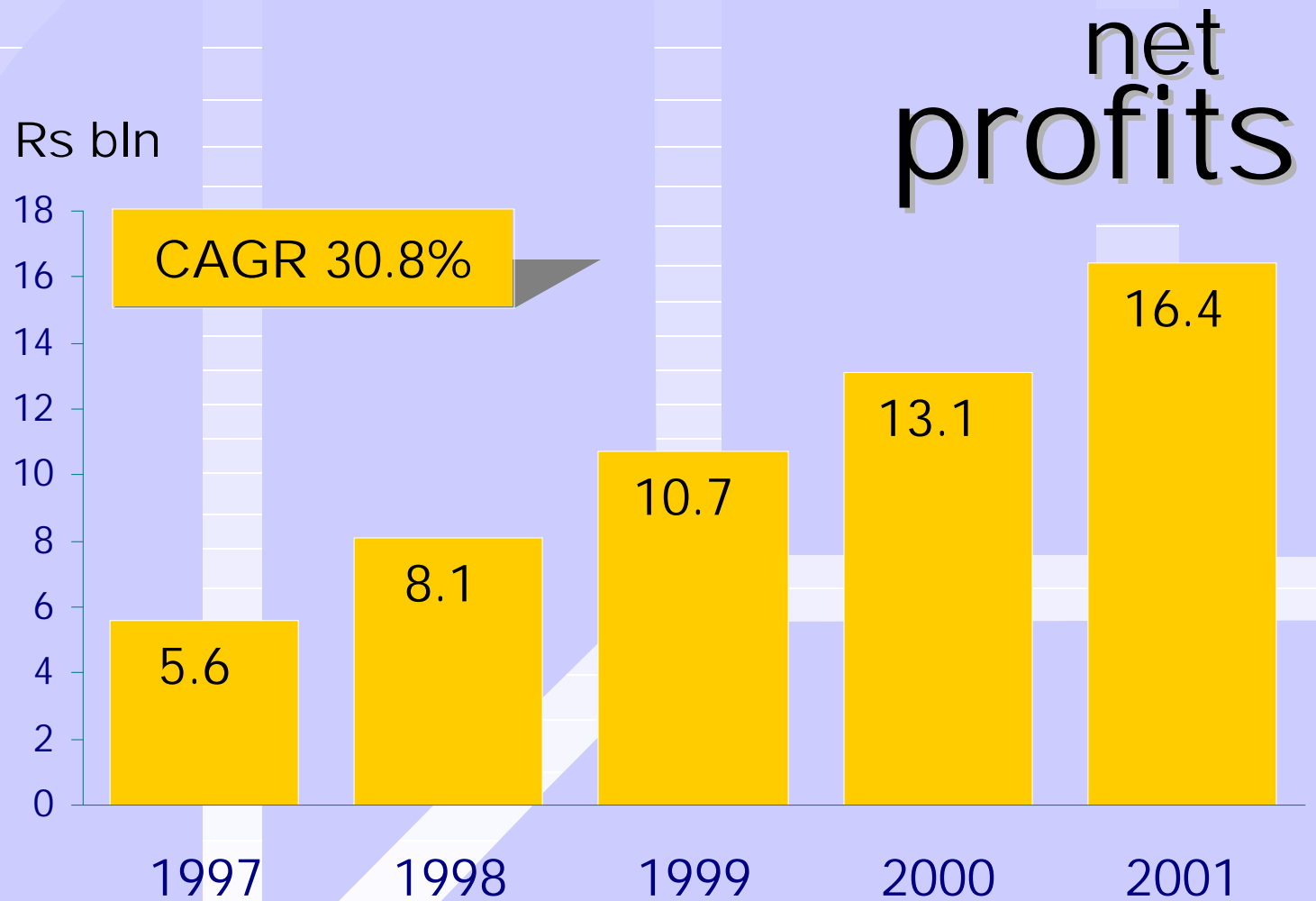
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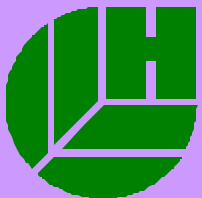
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after exceptional items



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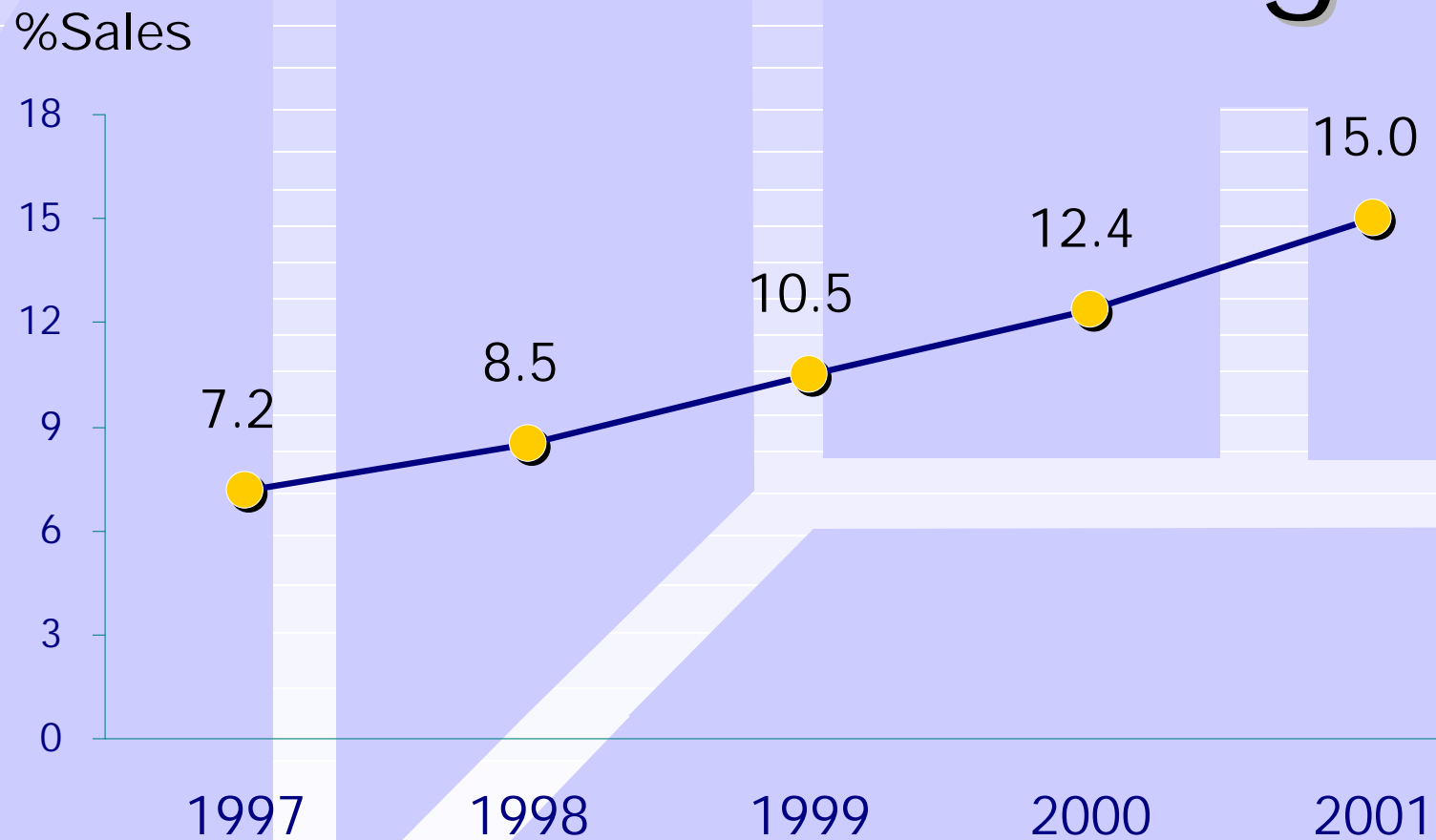
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# net margins



after exceptional items



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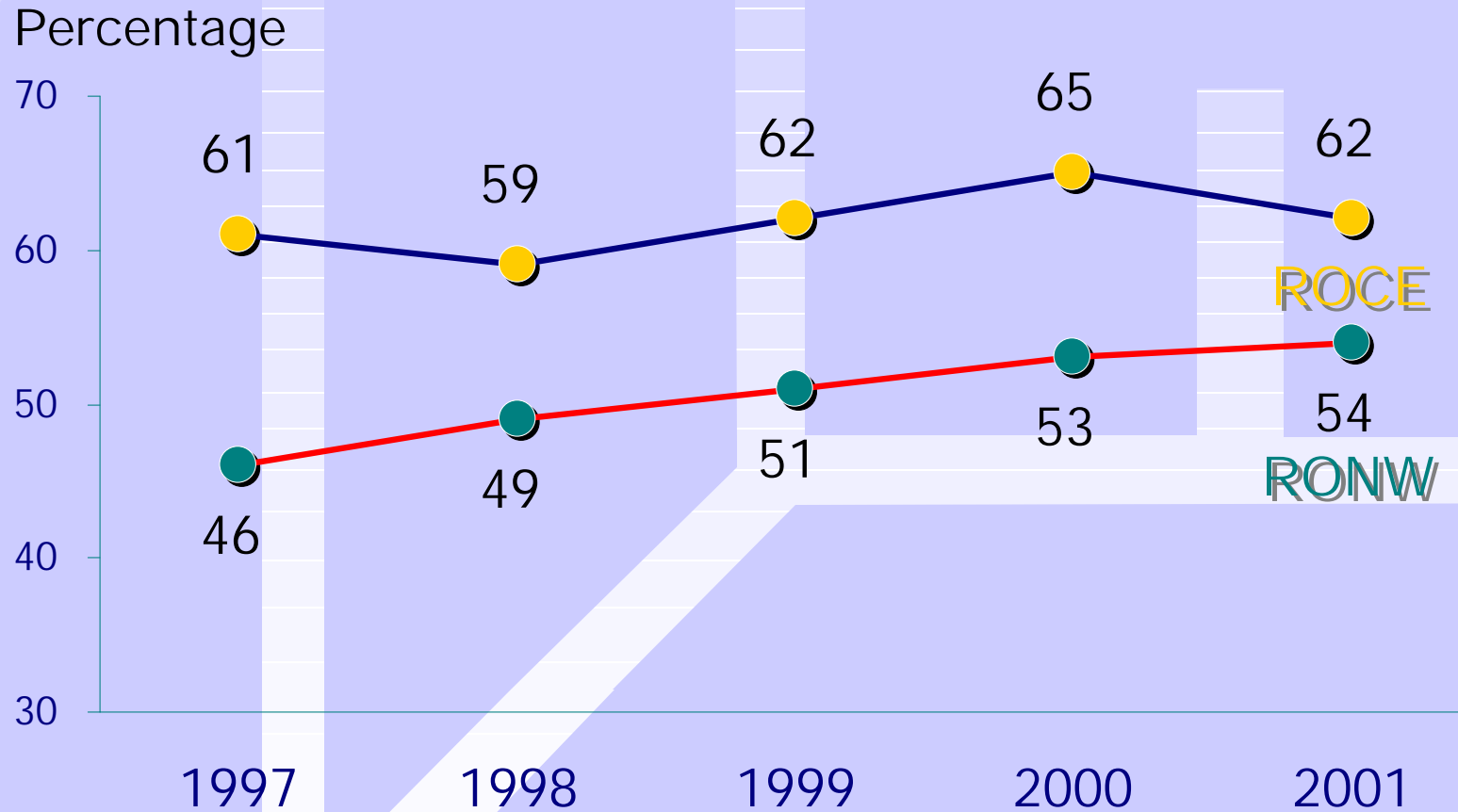
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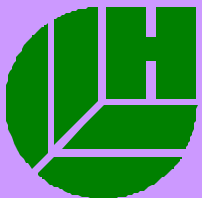
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# returns... ROCE & RONW



RONW based on PAT (bei)



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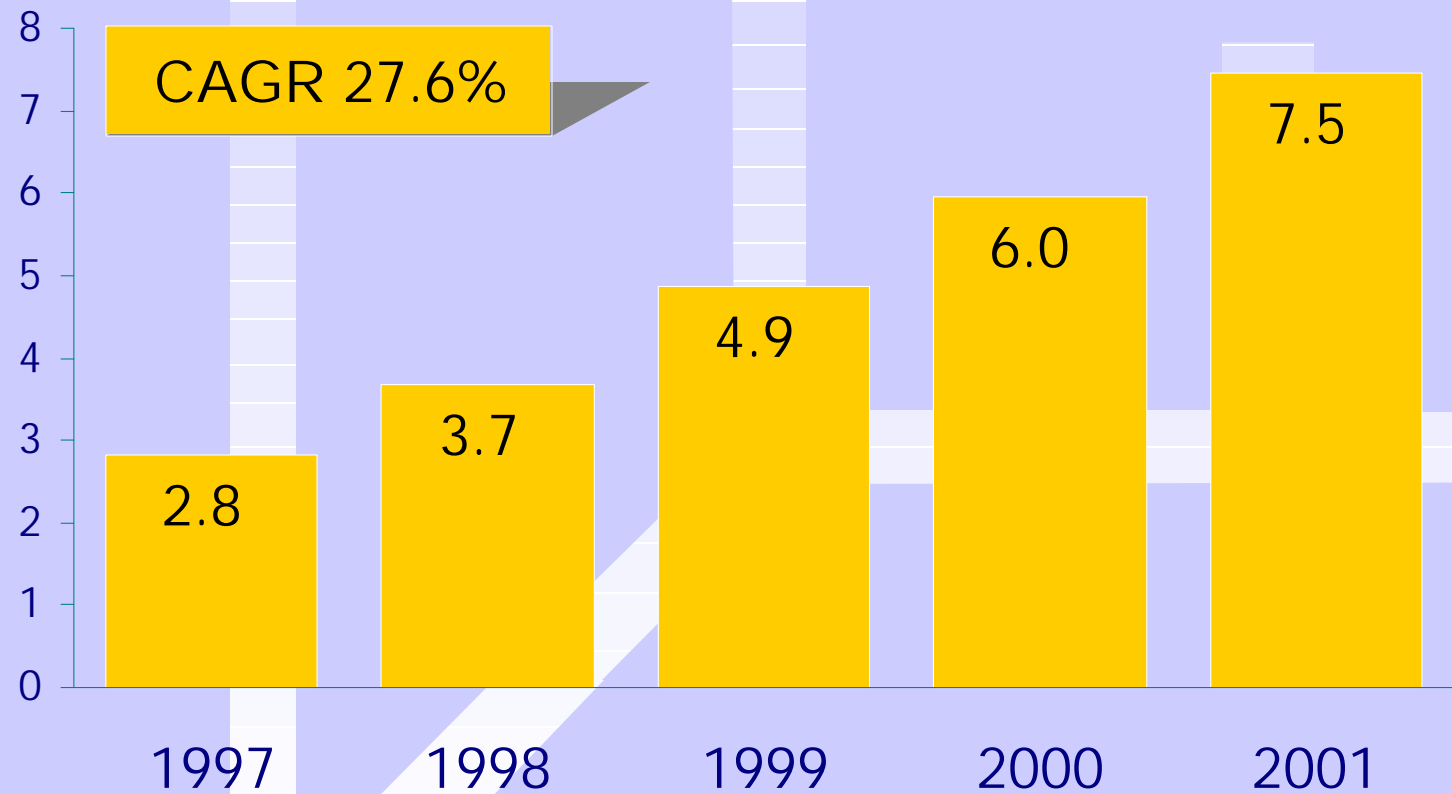
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# earning trends

Rupees per Share



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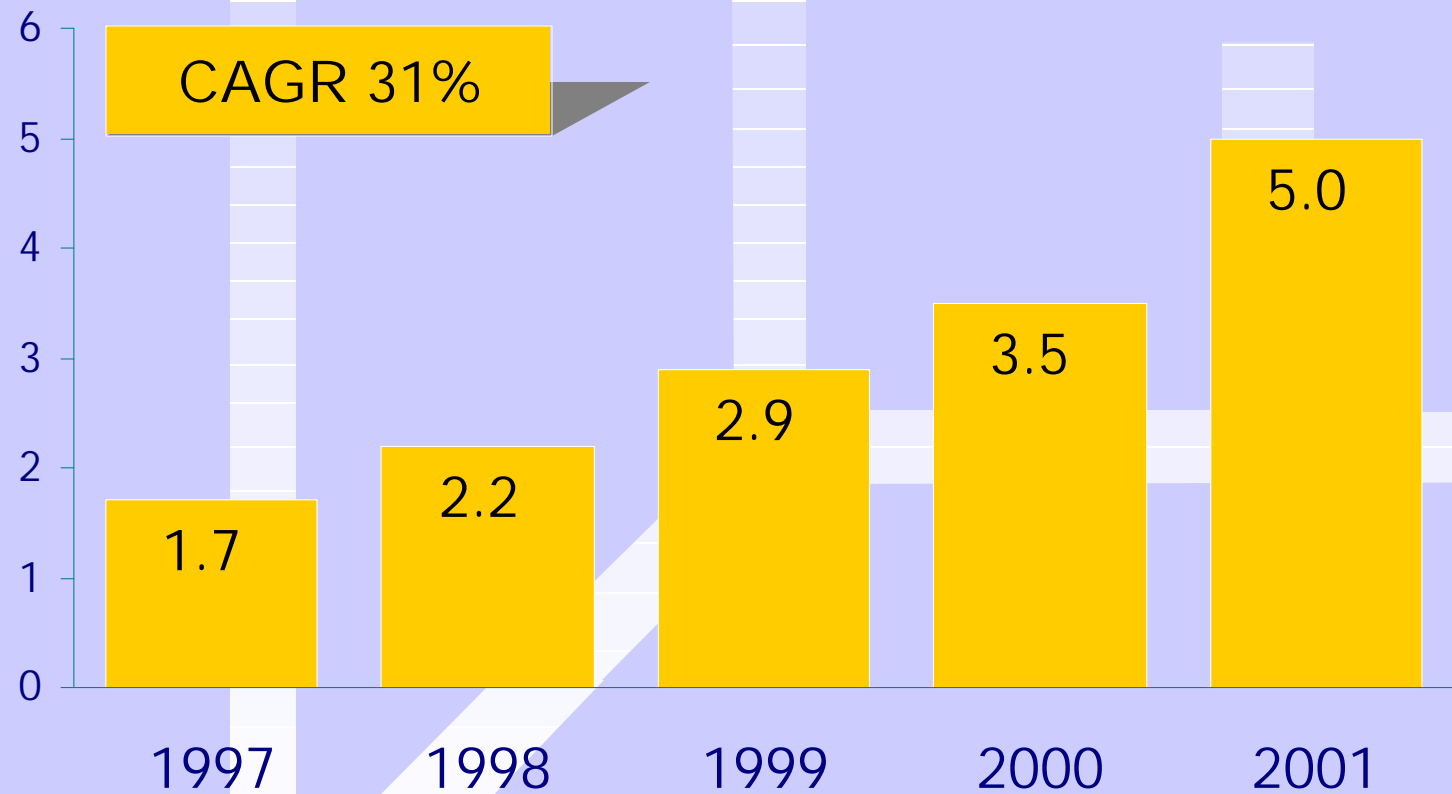
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# dividend trends

Rupees per Share



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thank  
you



DSP Merrill Lynch, Cochin  
February 2002

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