

# HUL sees no slowdown in consumer goods offtake

'Good balance between rural and urban sales'

**Vinay Kamath**

Chennai, Nov. 3

Mr Nitin Paranjpe says he's always asked this question these days: is there a slowdown in consumer spending given the gloomy economic scenario?

But, the CEO and Managing Director of India's largest consumer goods company, Hindustan Unilever Ltd, is quite gung-ho. "All I can say is we have seen no evidence of reduced consumer spending. In fact, if you were to take published numbers from A.C. Nielsen, in the third quarter, markets have grown in all the categories we operate in at rates faster than they grew in the first or second quarter. That's quite reassuring for us," says Mr Paranjpe.

However, the nature of growth varies a bit, he says, in



an interview to *Business Line*. In categories such as laundry and personal wash (toilet soaps), the bulk of the growth is coming out of increased prices with no volume growth, while in the rest of the categories such as personal care and beverages, there's a good balance between price and volume growth.

"The second thing we are seeing is a balanced growth between urban and rural. After a

very long time, both markets are growing at the same pace across geographies," he says.

The markets, end of June, were growing at about 15 per cent, and a bit faster in the September quarter. Mr D. Sundaram, Vice-Chairman & CFO, HUL, says even internationally, many firms in categories such as basic health, hygiene, foods and nutrition which are very fundamental to people, are showing good growth as people do not want to take risks.

"Unilever too has reported almost 8 per cent growth. The stock market here also seems to be sensing this because we are one company which has gone counter to the market psyche," he says.

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# Why growth rates remain buoyant for consumer goods

More affluent households; long-term trend will see more premium categories emerge

Vinay Kamath  
Chennai, Nov. 3

Hindustan Unilever's CEO and Managing Director, Mr Nitin Paranjpe, says growth for fast moving consumer goods continues to remain buoyant with both rural and urban segments growing at about 15 per cent.

"Normally, one would have expected growth rates to come down in inflationary times. There are a few reasons why we feel growth has held out this far, but what happens in the future as a result of the events of the past few weeks is anybody's guess so I don't want to venture into that space," says Mr Paranjpe in an interview to *Business Line*.

## RURAL ECONOMY

Growth in rural India, where 50 per cent of FMCG sales come from, has been strong. Firstly, he says, a lot of money is being spent in rural India through employment generation schemes, while the loan waiver changes sentiment substantially. The third reason is that the country has



Mr Nitin Paranjpe, CEO and Managing Director, HUL. — Paul Noronha

been blessed with good monsoons and good agricultural production.

Also, with technology, price discovery and transparency has been much better, a result of which the farmer has benefited. "There has been food inflation. While it negatively impacts the urban consumer it benefits the farmers because their realisation increases in inflationary times, especially because their input

costs continue to be subsidised to a large extent," Mr Paranjpe elaborates.

So, if you combine all of this you find that the rural economy has actually been pretty good, he adds.

The affluent urban consumer's demand is inelastic for the goods and services that FMCG companies offer. The real pressure is on the lower middle class urban consumer who feels the pinch

of rising prices, inflation, higher demands on his disposable income, and with interest rates going up, higher EMIs.

"This is the segment we have to watch out for," cautions Mr Paranjpe.

"Almost 70 per cent of India is in rural, where 50 per cent of consumption is, and that's protected. The upper end of consumers, who may constitute top 5 per cent to 8 per cent of the population, may account for 15-20 per cent of consumption. So you are really talking in terms of 25-30 per cent of the consumption where some squeeze may happen," he explains.

Mr Paranjpe says there is another factor which exists today which is often not recognised and has largely to do with how the structure of the country is getting changed. "If you take a 10-year horizon, 2003 to 2013, and we are at the halfway mark, we believe in this period the affluent Indian households will quadruple from 3 million to 12 million," he says.

These households could be spending almost Rs 6 lakh a year on consumer goods. The middle class too, are likely to treble in this period. "So what has happened is that the bottom of the pyramid has shrunk a bit and in that shrinking there are people who weren't even consumers of our products have started becoming consumers," says the HUL chief.

The affluent, who are likely to quadruple, is leading to increasing 'premiumisation' of portfolios and categories in the FMCG industry.

"We have this interesting dynamic happening in this country - there are some people who feel the squeeze and downtrade, equally there are some who have now more money and unlike in the past, today they are comfortable spending it and affordable indulgence is no longer frowned upon.

"So both uptrading and some downtrading co-exist. As a secular trend, if you were to see longer term we will see premiumisation," he explains.