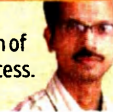


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MARK TO MARKET

Ravi Ananthanarayanan
analyses the combination of
factors behind HUL's success.
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HUL's results vindicate its strategy

Investors are interpreting the results of Hindustan Unilever Ltd (HUL) to mean that the company's recovery is no flash in the pan. It was vintage HUL on display, as sales and profits in two key business segments—soaps and detergents, and personal care products—grew convincingly.

A combination of volume growth, restrained advertising and promotional spends, price hikes, cost-cutting, and better operating efficiency contributed to HUL's success.

Sales rose by 18% year-on-year to ₹5,522 crore, with volumes rising by 9.8% and price hikes accounting for the rest.

But this should not be mistaken for a return of pricing power. The company's cost of goods sold actually rose by 26%, or a good 9 percentage points over the sales growth. Both advertising and promotional spends, and other expenditure rose by a small margin. Employee costs rose by 17%.

Normally, muted advertising expenditure—visible for some quarters now—is a recipe for slower growth. But HUL has conserved its media budget in the soaps and detergents segment, where commodity inflation is severe. Soaps and detergents saw sales rise by 21.7% and margins improve by 65 basis points. One basis point is one-hundredth of a percentage point.

In personal care products, where HUL has better pricing power, sales rose by 18%, and margins improved by 143 basis points. In the beverages segment, sales growth was healthy, but margins were hit by rising tea and coffee prices. Processed foods, too, saw sales growth rise at a faster rate than profit did.

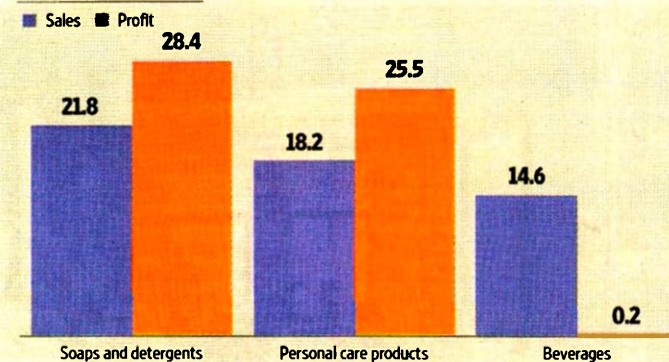
Overall, operating profit margin rose by 135 basis points compared with the year-ago period and by 123 basis points sequentially. Profit before exceptional items and tax rose by 26.7% to ₹847 crore.

The company has used scale benefits to the hilt, squeezing out cost-savings in material procurement and operations, and playing a clever game in the market. It should be able to

EARNINGS LEVERAGE

Hindustan Unilever's two main segments fired on all cylinders in the September quarter.

Year-on-year growth (%)



Source: Company

GRAPHICS BY YOGESH KUMAR/MINT

maintain this momentum for a few more quarters.

The risk with a situation of continually rising product prices, especially in an inflationary environment, is that it may bite into consumer demand at some point of time. HUL will then be faced with the choice of using its remaining lever—advertising and promotional spends—to pump up sales growth.

The alternative is to cut prices to revive demand, or hike prices to compensate for slower volume growth. The first option will threaten margins, and the second, sales growth.

But this scenario is not visible yet, which explains the euphoric 7.4% jump in its share price after the results were announced on Monday.