D Sundaram, director, finance, Hindustan Unilever, provides an insight into the company's financial and future prospects in a free-wheeling chat with Kiran Kabtta

Opportunities Galore

CFO SPEAK

While the Sensex has posted a return of 45 %, Hindustan Unilever's (HUL's) scrip has remained flat for the year ended December '07. Does this underperformance concern you?
In '04, we decided to defend the category of detergents unblinkingly and we took a hit on profits. This led to the stock market giving us a thumbs-down, so much so that HUL's share price plummeted to Rs 110. However, we stood vindicated when we not only gained market share, but also increased revenues. If one were to take that as a starting point, then our share price has doubled since then. Fluctuations in HUL's share price do not worry us as long as the company excels in its performance. I can't comment on when investors should decide to enter or exit. For every seller, there's a corresponding buyer.

The FMCG sector has not grown the way other sectors have during the current economic boom. What reasons do you attribute for this?
The FMCG industry in India went through a lean patch from '00-04. As the economy went through a transition, new avenues of spending, like mobile phones, emerged. The low equated monthly instalment (EMI) regime triggered due to low interest rates led to an expenditure shift. However, it was a transitory phenomenon, which is likely to correct itself. We believe there's tremendous opportunity in the FMCG sector due to three reasons. Firstly, penetration levels are low. Secondly, India's per capita consumption is well below that of developed countries as well as Thailand and Malaysia. Lastly, there's a huge opportunity in terms of upgradation by consumers.

Is there a certain per capita income level that India needs to hit for the FMCG sector to see a quantum jump in growth?
There is a positive correlation between per capita income level and consumption of certain products like personal care. However, there's no specific cut-off level of per capita income. In market terms, our per capita income is $980. But as the prosperity in the country increases, we should see consumption increasing significantly.

The market perception is that some of the acquisitions made by HUL have failed to deliver? Are you happy with all your acquisitions?
It's a mixed bag. We have had great success with some acquisitions, while others have not done as well. We have divested those in which we have not been successful. For instance, we divested our plantations and marine units. On the other hand, Kissan, a brand that we acquired, is doing very well. Similarly, Knorr, which was the result of the international acquisition of International Business Foods, is performing well. It is one of the largest brands owned by Unilever globally. The turnaround of Modern Foods has been commendable. It was bleeding when we acquired it, and now it is generating positive operating margins.

As per past fiscal years' data, the company has cash reserves in excess of Rs 2,500 crore. What does the company intend to do with these reserves?
We are a cash-generating company and have judiciously utilised our cash reserves. Given the nature of our business, we do not have huge capex, but advertising and promotion expenses tend to be high. We recently utilised Rs 630 crore from our cash reserves for a successful buyback of shares. We also declared an additional special platinum jubilee dividend of Rs 3 per share, leading to an outlay of over Rs 700 crore.

Going forward, where does the company see its growth coming from?
We believe that both HPC (health & personal care) and foods continue to offer excellent opportunities. We are looking at leveraging consumption and upgradation opportunities. Towards this, we have developed the brand management into brand development and brand activation. For some products, we hold the market share, while in others, we want to increase the share. Advertisement and promotion spends have been stepped up to stay ahead of the market.

Do you worry about an economic slowdown?
No, our growth has remained pretty much the same. Opportunities are very high as Indian per capita income is nearly half that in China.

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(For the complete interview, log on to www.etintelligence.com)