

ET INTERVIEW

SANJIV MEHTA

CHAIRMAN, HINDUSTAN UNILEVER

Govt should Keep Watch on Inflation, Demand Trends

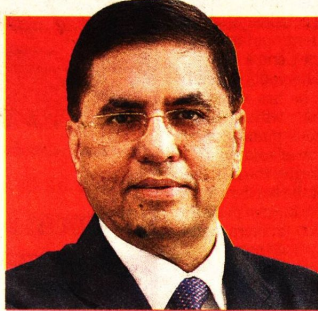
Mehta says vaccination focus will pay dividends, govt's calibrated unlock to restart growth cycle

Sagar Malviya & Chaitali Chakravarty

Mumbai | New Delhi: Hindustan Unilever Ltd (HUL) chairman Sanjiv Mehta said the government should keep a watch on inflation to ensure it doesn't become widespread.

"The government should keep monitoring the key elements of the economy to see whether any pain points are emerging," he told **ET** in an interview, a day after HUL announced quarterly earnings. "First is to ensure inflation doesn't become widespread and second is to keep a finger on the pulse of consumption and the underlying demand."

HUL, India's largest consumer goods company, reported 11% growth in sales and 9% rise in profit in the September quarter from the year earlier, but war-



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ned of margin pressure due to surging commodity costs. In addition, it said rural growth slowed significantly in August-September for the overall market.

More Urban Growth >> 6

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►► From Page 1

This is due to a higher base, while urban growth has picked up with improved mobility. It said the government is focused on opening up the economy in a calibrated manner so more people can get jobs, which will lead to a virtuous cycle of economic growth. "The underlying demand has not faded away, though Nielsen's last few readings do indicate that market growth has slowed down, especially in rural areas," Mehta said. "The big focus of the government on vaccinations will pay dividends. In addition, they should keep monitoring mutations, if any."

VOLUME OVER MARGIN?

HUL's performance is considered a proxy for broader consumer sentiment in India. Volumes grew 4%, below street expectations. Historically, volume accounts for 70% of the company's overall growth.

Besides, the price of inputs such as palm oil, crude-based derivatives, freight and tea have seen an unprecedented surge since last year. Palm oil is now 80% higher than in March last year, while crude and tea prices have increased by more than 50% in the same period. Also, freight costs are five times higher than what they used to be pre-pandemic.

Despite the company increasing

average prices by 7% during the quarter, operating margins contracted 40 basis points to 24.6%. HUL said focus on margins should not be at the cost of volumes and market share.

"When there is hyperinflation in commodities which we use, saying we will still increase the Ebitda margin by 100 bps per annum would not be sensible," said Mehta. "Today,



there are commodities where the cost increases are close to 1.8x of last year. But we are not increasing prices anywhere close to that. We optimise all lines of P&L (profit and loss), look at the science of pricing — where we can take a price increase and where we cannot, keep in perspective the price point packs where you cannot change the price

but adjust volumes."

DIGITAL BOOST

HUL said leveraging data and tech capabilities started a few years ago. But the pandemic accelerated the shift in building capability in terms of handling big data, both in terms of trends as well as consumer insights and new innovations.

For the maker of Rin and Dove, internal online ordering app Shikhar and e-grocers now account for 15%, or nearly \$1 billion, in sales, equaling modern trade for the first time ever. "If we were to monetise it (Shikhar) as a separate company, it would become a unicorn in itself," Mehta said.

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