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ET INTERVIEW **SANJIV MEHTA**
MANAGING DIRECTOR, HINDUSTAN UNILEVER

Volume to Drive HUL Growth; No Price War

1 **Sagar Malviya & Chaitali Chakravarty**

Mumbai | New Delhi: Hindustan Unilever Ltd (HUL) managing director Sanjiv Mehta said the company won't initiate a price war even when commodity prices taper off, expecting volume, or the number of products it sells, to drive most of its growth.

Over the past three decades, the country's biggest consumer goods firm has sparked multiple price wars — especially in soaps and detergents — against rivals such as Procter & Gamble and Godrej Consumer. Now, Reliance's entry has already triggered price wars in a few categories.

A good competitor brings out the best in Hindustan Unilever... While we observe our competitors closely, our obsession is with consumers

Protecting Consumers ▸▸ 4

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'HUL Has Been Protecting Consumers from Inflation'

▸▸ From Page 1

Hindustan Unilever said it has a clear stance — observe competitors closely but obsess about consumers.

"If commodities start softening, we will pass on the benefit to consumers. But we are not going to use the profit pool to start a price war. That would prove to be self-destructive," Mehta told **ET**, adding that the company has not been indulging in profiteering even after hiking prices over the past two years,
1 and has instead protected consumers from the inflation surge.

For instance, when commodity prices are high, mass products take a bigger hit because the cost of goods sold as a percentage of sales is much higher. "We took it on our chin but did not vacate the positions even if our margins get severely hit, because they cater to people at the bottom of the pyramid. Therefore, we took a disproportionate hit when it comes to low price-point packs," said Mehta.

VOLUME OR MARGINS

HUL, the country's consumer goods bellwether, said commodities are coming down from an elevated base, resulting in most companies halting price increases, but they still have not retreated enough to their 10-year median to spur price cuts.

Gross margins contracted by 69 basis points (bps) in the fourth quarter, while earnings before interest, taxes, depreciation, and amortisation (Ebitda) margin fell 89 basis points to 23.7%. A basis point is one-hundredth of a percentage point. HUL had reported a 10% rise in profit and an 11% growth in sales in the March quarter on April 27.

"That classical deflation has not yet happened. The price growth in our business will keep coming down, at least in the foreseeable quarters, unless there is a change in the commodity price dynamics," said Mehta, who retires June 26 after the company's annual general meeting and will be succeeded by Rohit Jawa.

During the fourth quarter, fast-moving consumer goods (FMCG) market volumes remained flat, while rural volumes declined 3%. In FY23, the FMCG market grew 8%, with 12% pricing growth and 4% decline in volumes. Historically, 65-70% of HUL's growth has come from volume and the remaining from price. The maker of Lux and Surf Excel said the trend will reverse as prices start moderating and then reducing. "It has already begun," said Mehta. "In the December quarter, we had 11% price growth, now it is 7%, and in the next quarter, it will go down even more. That's the whole cycle until it reaches a state of equilibrium, where it will again be about 70% volume growth and 30% price growth."

A report by Systematix said it expects HUL's gross margin to see a gradual recovery, with commodity inflation continuing to moderate and premiumisation and scale leverage playing out. "We expect cost savings and scale benefits to offset the impact of the royalty rate increase, and still expect a moderate margin expansion," said the report.

DIGITAL & ONDC

HUL's digitised sales across platforms, including ecommerce channels and internal ordering app Shikhar, account for more than 30% of overall sales. More than 1.2 million stores use the Shikhar app to order.

Within the consumer goods segment, HUL was also one of the first companies to join the Open Network for Digital Commerce (ONDC), a Government of India initiative to develop an ecommerce platform. The company said it's still early days but potentially, this could be a game changer.

"What UPI (Unified Payments Interface) has done to payments, ONDC could potentially do to digital commerce. ONDC constitutes interoperable systems and not the walled garden of the traditional marketplace players. This is where democratisation will happen," said Mehta, adding that buyers and sellers on ONDC will be companies, traders and businessmen. "As a country, you would want smaller stores to prosper and thrive. Why would the government not create an environment which enables them to have a level playing field and compete?"

RELIANCE ENTRY

In the last few months, the FMCG arm of Reliance Retail Ventures has announced entry into soft drinks, beauty soaps, hygiene categories, dishwash bars and liquids, toilet and floor cleaners, besides laundry detergent powder, liquid and bars.