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

# Volume Drops Point to Stress on Demand: Mehta

Says high commodity inflation key reason for volume decline, wants govt to handle interest rates deftly

Sagar Malviya & Chaitali Chakravarty

**Mumbai | New Delhi:** Consistent volume declines, especially in rural areas, are causing stress and inflation has exacerbated that, Hindustan Unilever (HUL) managing director Sanjiv Mehta said, urging the authorities to manage interest rates without stifling growth.

“We have not seen volume declines of this level. There have been times when there was stress on volumes, for example when there was a

**Volume drops** for a long time point to stress on consumer demand

**Optimistic** of volume growth if commodity prices decline



**Good monsoon** may revive rural consumption

**Greenshoots** for rural market visible, paced by fertilizer subsidies, free food initiatives and better crop yield

rural slowdown,” Mehta told ET in an exclusive interaction. “However, market volumes on a negative basis, consistently over a long period, definitely (point to) stress on demand. High commodity inflation is the primary reason for the market volume decline.”

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## 'Prices would Continue to Rise'

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Mehta added that increases in interest rates are inevitable if the US Federal Reserve raises the cost of borrowing in the world's biggest economy, and the challenge is to restrain inflation in India without stifling growth.

"The government has to handle interest rates deftly because if you raise interest rates sharply, it will constrict the growth of the economy," Mehta said. "If you are slow in raising interest rates, there will be an outflow of capital, putting more pressure on the rupee."

Citing data from market research firm Nielsen, HUL said the FMCG market expanded 7% in value and fell 5% in volumes in the June quarter. HUL, the country's biggest consumer goods company, posted 19% growth in sales, largely driven by price increases and not demand, as volumes—or the products consumers actually buy—expanded 6%.

During the June quarter, the maker of Dove and Rin increased prices by 12% compared with the year-ago period, and warned prices would continue to rise amid record inflation in the West. For instance, the prices of crude oil had risen 60% and palm oil by 50% year on year. Despite price revisions, the company's earnings

margin before interest, taxes, depreciation and amortisation (Ebitda) fell 1.1 percentage point in the past quarter to 23.2%.

HUL, Asia's biggest consumer goods maker by market capitalisation, said inflation is not a homegrown phenomenon and is linked to three main factors - supply chain disruptions during the pandemic, fiscal stimulus by the developed countries, and geopolitical issues triggered by the Russia-Ukraine war.

"If the commodity prices start coming down then I am optimistic of volume growth in our sector coming back," Mehta added.

### NEW STRATEGY

Nearly eight years ago, HUL had launched 'Winning in Many Indias,' or WIMI, with the objective to transform the company from a four-branch structure at the front end into 14 distinct consumer clusters. This resulted in consistent market share gains and deeper reach, especially in central India. Now, the company has initiated another initiative within WIMI to target non-metro states and understand consumption habits in these markets.

"We have now started an initiative called 'Bharat Ke Sheher' for non-metropolitan cities such as Madurai, Gorakhpur, Visakhapatnam, and many others; it is a significant thrust area for us. The strategy entails a deeper understanding of what consumers need over

there and how we can customise our offering to meet their needs," Mehta said.

The outcome of the exercise might involve HUL launching a slew of products and bespoke execution strategies for these markets, and the company said growth rates in these towns have been strong since it started the pilot a few months ago.

### RURAL DISTRESS

In the past year, sales volumes in rural areas have been falling, with declines exceeding 9% and 7%, respectively, during the Jan-March and April-June quarters.

While the heartland has reported rainfall deficiencies, the annual monsoon rains are expected to revive in those states, potentially boosting crop yields and post-harvest consumption demand. The company said green shoots for the rural market are visible, paced by fertiliser subsidies, the government's free food initiatives and better crop yield. "The government has taken several measures from a fiscal standpoint—fuel excise cut together with cuts in fuel taxes by states, additional fertiliser subsidies, extension of the scheme of providing free grains, and effective power subsidies as power tariffs have remained largely unchanged even as input prices have gone up. All these measures put together would be about \$70 billion," added Mehta.