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India's **Best CEOs**

TOP PERFORMERS DELIVER THE HIGHEST RETURN ON CAPITAL
IN FORTUNE INDIA-EY STUDY

FROM LEFT: RATAN JINDAL, SANJIV MEHTA, N. CHANDRASEKARAN, T.V. NARENDHAN AND SATYANARAYANA CHAVA

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India's
Best CEOs

CLOCKWISE FROM TOP LEFT: SANJIV MEHTA, N. CHANDRASEKARAN, T.V. NARENDHAN, SATYANARAYANA CHAVA AND RATAN JINDAL



OVERVIEW

The C-Suite Extraordinaire

Fortune India-EY study reveals that India's Best CEOs across diverse sectors have one thing in common — high return ratios. **BY V. KESHAVDEV**

WHAT IS THE HALLMARK OF A GREAT CEO?

While the checklist, in this day and age, can be an exhaustive one, the one attribute that will rank among the top three is being a good capital allocator.

Yet, as Warren Buffett observed, very few CEOs make the cut when it comes to efficient deployment of capital. In his annual letter to Berkshire Hathaway shareholders in 1987,

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BEST CEOs 2022

N. Chandrasekaran	Tata Sons	Super CEO 2022
	Company	Category
T.V. Narendran	Tata Steel	Super-large
Sanjiv Mehta	Hindustan Unilever	Large
Ratan Jindal	Jindal Stainless	Mid-size
Satyanarayana Chava	Laurus Labs	Emerging
	Company	Sector
Rajiv Bajaj	Bajaj Auto	Automobiles
Sanjay Koul	Timken India	Auto Ancillaries
Sandeep Bakhshi	ICICI Bank	Banking
Pramod Chaudhari	Praj Industries	Capital Goods
Yogesh M. Kothari	Alkyl Amines Chemicals	Chemicals
Anil Rai Gupta	Havells India	Consumer Durables & Ancillaries
Suresh Narayanan	Nestle India	FMCG
S.N. Subrahmanyam	Larsen & Toubro	Infrastructure
Salil Parekh	Infosys	IT
Suresh Mangani	Adani Total Gas	Oil & Gas
Murali K. Divi	Divis Laboratories	Pharma
Sumit Deb	NMDC	PSU
Sajjan Jindal	JSW Steel	Steel

LARGE — HUL

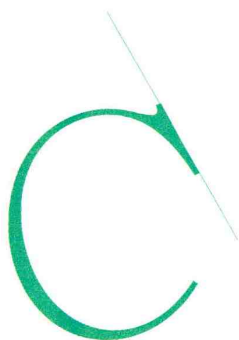
SANJIV MEHTA, CEO & MD

HUL's Crisis Manager

Having successfully battled Covid blues, Sanjiv Mehta now rides on the twin engines of digitisation and growth to steer India's largest FMCG company.

BY AJITA SHASHIDHAR

PHOTOGRAPH BY SANJAY RAWAT



CRISIS SELDOM OVERWHELMS Sanjiv Mehta, the 62-year-old CEO and managing director of the ₹51,193-crore fast-moving consumer goods giant, Hindustan Unilever (HUL). "I am battle hardened. I never get overawed by crisis," he says. He was just 24, the youngest member





HOW THE COMPANY FARED

Net Sales (FY22)

₹51,193 crore

3-Year CAGR

10.23%

PAT (FY22)

₹8,818 crore

3-Year CAGR

13.47%

3-Year Average TSR*

12.56%

3-Year Average ROCE**

49.58%

* total shareholder return;

** return on capital employed

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of Union Carbide's disaster management committee that was entrusted to battle the Bhopal gas tragedy in 1984. In fact, throughout his career, Mehta has had an uncanny knack of ending up in turbulent markets, and eventually turning around some of them. While heading North Africa and West Asia for Unilever, he had to deal with the Arab Spring, and as the chairman of Unilever Bangladesh he had to face the angst of the locals against western companies. A decade-long stint in India has been eventful as well. When he took over the reins in 2013, the country was battling an economic slowdown, followed by demonetisation, leading all the way up to the Covid-19 pandemic and the highest-ever commodity inflation.

"During the Covid second wave, I would spend two-three hours every day with my medical officers, HR team, just overseeing the relief we were offering to the entire ecosystem. I used to sometimes feel as if I am acting as the chief health officer of the country. But we have come out stronger as a business," says a proud Mehta. In the last nine years, HUL has doubled its profits, tripled its EBITDA (Earnings before interest, taxes, depreciation, and amortisation) and quadrupled its market cap (₹6.01 lakh crore as on September 16, 2022). In FY22, the company posted a profit of ₹8,818 crore on net sales of ₹51,193 crore — a CAGR of 13.47% and 10.23%, respectively, since FY19. Return on capital employed saw a 49.58% growth.

"Of course, due to hyper-inflation we have not been able to manage EBITDA margins of 25% which we did pre-Covid, but our reduction of EBITDA margins is significantly lower than competitors. We have ensured that together with growth we have a decent earning machine," he says.

Mehta's value creation model has been about growth, a tight control on margins and costs, and ensuring capital velocity. In FY22, HUL was among the few FMCG companies which reported a flat growth in volumes and a profit of 6%, while many peers reported negative growth. It added ₹5,000 crore in additional revenue, with an EBITDA margin of 24.6% during the period. This was the time when commodity inflation hit unprecedented levels and the company had to hike product prices by 10% and reduce grammage to counter the same.

Mehta says net material inflation was 4.5 times higher and the company couldn't pass on the increase in costs entirely to the consumer. It, therefore, mitigated cost inflation through savings. Be it supply chain, distribution or manufacturing, it reduced overhead costs and expenses

related to promotional activities.

It also activated Project Symphony — an 8-year-old cost-saving initiative for employees across functions, instead of limiting it to finance and supply chain.

"We outsourced ideas and made cost saving as fashionable as launching a new brand. Earlier cost saving was just 3-4% of our turnover, during Covid we were able to take it to 9-10%," says Mehta.

The company also turned several fixed costs into variables to keep the bottomline healthy. "If we had a 2-year contract, we said let's have a contract where we will pay you a little more but it will be based not on a fixed contract but on output every month. We made trade spends variable and a host of other costs as we didn't know how long the disruption would last. Today I run my performance management committee meeting in two buckets — the growth management committee meeting where we focus on growth, and the margin management committee where the stress is on costs."

When the going was tough, Mehta decided to go aggressive on the company's premiumisation strategy. "We took a calculated bet to continue investing in market development for the simple reason that early adopters of a new category are generally people with more disposable income. Our premium portfolio has proven to be much more resilient. It has held us in good stead when it comes to driving our revenues," explains Mehta.

In 2022, the company launched several D2C brands such as Dove Baby, Love Beauty and Planet, Simple and Dermalogica. In fact, out of the ₹5,000 crore incremental growth in 2022, ₹900 crore came from such innovations.

But the most significant outcome of the pandemic has been digitisation. Since 2017, the company has been putting together its 'Reimagine HUL' strategy on the back of a strong digital

base. "It was all about how one brings data and technology centre-stage. We want to be the most intelligent consumer goods enterprise," says Mehta.

A key element of this is the Shikhar app for retailers, which helps them order merchandise any time of the day. Back in 2018, Mehta planned giving *kirana* stores a digital facelift. But most of it remained mere rhetoric as the trade refused to embrace digitisation until the outbreak of the pandemic. When sales staff couldn't reach the stores to take orders during the first lockdown, retailers were forced

WHY HE MATTERS

- Accelerated HUL's premiumisation strategy during Covid when popular brands showed zero growth
- Introduced online B2B ordering platform 'Shikhar' in FY19, enabling anytime ordering for retailers
- Expanded digitisation, which now contributes 25% of overall revenue
- Set up nano factories to speed up innovation, enable faster product rollouts in 2022
- Stressed on localised sourcing to reduce import dependency and cut down costs

to order through the app. Today, HUL has 1 million outlets on Shikhar. "We would normally have a beat where a salesman would go to the retailer to collect the order and then we would deliver. If an outlet is going to place an order anytime you need to have a backend system to deliver anytime, we brought in technology of setting up a big fulfillment centre (*Samadhan*), which is highly automated and robotised," explains Mehta.

While the first fulfillment centre has come up in Chennai, the company is in the process of replicating the model across the country. "What used to be a

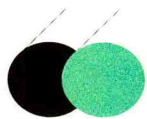
historically linear value chain where you plan, source, make and deliver, we are now creating ecosystems. There is a consumer ecosystem, a customer ecosystem and an operations ecosystem intertwined with data and technology at the centre," says Mehta.

The FMCG major has also set up an artificial intelligence (AI) hub on its campus in Mumbai, where it is able to capture trends from across the world real time. "We get to know what is happening, what duration it will take to come here and who is adopting it. We convert that data into mixes, we have a library of perfumes, we have 3D machines which make prototypes and more importantly we do testing virtually which has crashed the lead time dramatically." An outcome of the AI hub is the slew of recent innovations that the company has rolled out, especially in the direct-to-consumer (D2C) space, including Dove Baby, Love Beauty, among others. With this, Mehta hopes to push back not just large competitors, but also start-ups eating into its shares with their differentiated product portfolio.

In order to compete with the start-up ecosystem, a large organisation has to bring in agility and speed. Speed and agility, says Mehta, need to be looked at from three angles. "First is how quick you are in identifying an opportunity or challenge. Second, once you have identified an opportunity or challenge how quick you are in taking a decision. And third, once you have made a decision how quick you are in executing it. That's what will bring in speed and agility. It's not about an activity I used to do in 8 hours and now I am doing it in 6 hours. That's a limited definition."

However, no matter how many predictive or analytical tools are at your disposal, it is impossible to predict crises and risks. Mehta's recipe to steer through uncertainty and volatility is marrying efficiency and resilience. "You have to be ready for turbulence and for that you need resilience. If you look at the last two decades, all companies have been driving towards productivity and efficiency. But the important bit is where you will drive for efficiency and where you will drive for resilience. So, efficiency and resilience have to go together."

Mehta, meanwhile, is doing exactly that. ■



We made cost saving as fashionable as launching a new brand. During Covid, cost saving was 9-10% of our turnover, from 3-4% earlier."