‘Aim to beat India clock speed’

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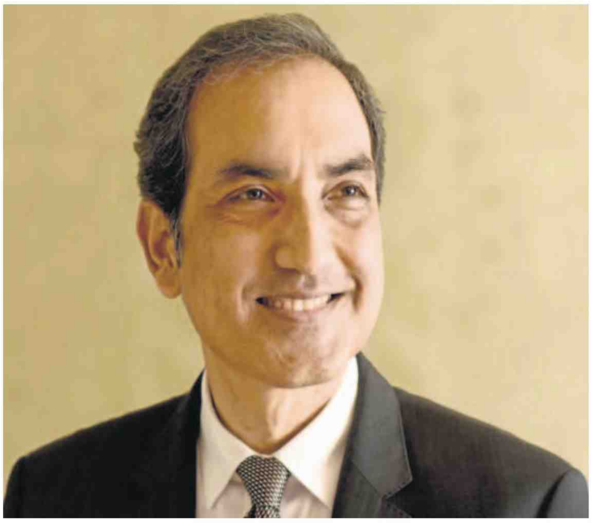

Nine months into the role of CEO and MD of Hindustan Unilever Ltd (HUL), Rohit Jawa is clear about the job at hand, which is to nudge India’s largest consumer goods company to move “faster than the clock speed of India”. In an interview a day after HUL announced its March quarter earnings, Jawa expressed surprise at the pace of change in India. Comparing his stint in China—where he was Unilever chairman for five years —with India, Jawa said, “Quick commerce is an example of how quickly the channels change. When I was in China, these changes happened like one big event a year. But here, they’re almost all happening at the same time.”

These are early days for Jawa in India, who described his challenge thus: “How do we become more agile and stay big? How can we atomize our organization, because we are now a very big company?” Atomizing a very big company may sound like an oxymoron, but HUL will constantly be looking for targets that make a “strategic fit”. On the ice-cream business, which parent Unilever plans to hive off, its Indian subsidiary will look for cues before deciding on the next course of action. Till then, HUL will take advantage of the hot summer to sell more Magnum ice-cream in India. Edited excerpts:

INTERVIEW

What is your projection of mid- to long-term volume growth for HUL?

We should disaggregate our performance in the last quarter where we delivered about 2% volume growth. We had a miss in skin cleansing, which dragged volumes down. However, you need to keep in mind that 75% of our business grew volumes, and half of our business grew mid-single digits. On the whole, there is inherently higher volume growth in the business when you disaggregate the portfolio.

If you look back more as a trend rate, we were growing volumes around 4% and price at about 3-4%, excluding M&A. So, that’s been generally the norm because consumers also upgrade in value terms; volume is not the only way to grow the market. But it’s a good indicator at this point because prices have been negative to flat.

So, volume is a good thing to chase at this time. It is the most virtuous thing to do to get more consumers, more consumption, and premiumizing them through product mix. That strive is making our company stronger. We are focused at this stage on what we can really control, which is to drive more volume and go to fast-growth spaces. Growth is, however, unevenly distributed. It’s somewhat slower in the rural markets, although they’ve come back. It’s higher in the premium end of the market and organized trade.

Basically, we’re moving our funds, resources and innovations into spaces with tailwinds. Overall, I do expect volumes to improve as we go forward. If the monsoons are good, that will also give us another bump on the agri side and clearly help the rural markets.

Investors appear to be dissatisfied with the results, and despite being a heavyweight in the index, HUL has barely moved during the recent market rally. However, you seem quite optimistic. Can you please explain what investors might be overlooking?

I’m optimistic about the consumer goods industry. I can speak on that first, but I cannot speak on the larger investment thesis—where the money is going, small caps, mid caps, and large caps. I think that’s not an area of my expertise. We are focused on serving our shareholders, and the best way we can serve them is by doing them right in the long term, which is by being multi-stakeholder and remaining true to our belief—what is good for India is good for HUL. So, as India grows, we will grow. The second is that the per capita consumption of all the categories we play in consumer goods is one-fourth to one-sixth compared to that of countries such as Indonesia and Thailand. They are all going to inflect. They have done so in the last 10 years; they will do for the next 10 years. Because growth is not smooth and straightforward, it is lumpy.

We, as the largest consumer goods company in this country with the deepest distribution and brand reach, with the highest capacity of R&D and supply chain, in what can be quite a complex market to navigate, with deep roots in communities, and a Unilever parent with a lot of brands and technology to transfer, are very well poised to play this game. There is clearly a new India that’s emerging, of course there are many Indias, I’m conscious of that, but there’s a new India that is emerging. We’ve got to be where the growth is. We have to transform our portfolio, our channel salience, our capability and our culture to be right for the future. So, I see us being a very good investment, and people who are long-term investors probably think like that, too. Now, what happens in the ebbs and flows of overall asset management funds is they are moved by every factor, not just HUL.

HUL is also a generous dividend payer. But the other way of looking at it is that you don’t have much to invest in, and that’s the reason you are paying out more dividends.

We have very strong accumulated cash balances and we do pay well in excess of 90%, because we do have a retail asset base of our investors who are looking for that dividend stream. If we get any good, attractive investment opportunity, we do have the funds and access to short-term and long-term financing for that. I don’t see that as an issue. If we hadn’t been committed to investment, we would not have done the largest M&A of consumer packaged goods (CPG) in this country (with the GSK acquisition). That was the largest M&A for HUL and for Unilever globally. There is definitely a high commitment, and we have funds to invest.

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>
> **Rohit Jawa**
> CEO & MD
> Hindustan Unilever

Are there any missing pieces in your portfolio?

We’re always looking at targets that meet a strategic fit to that question. The preferred spaces are in beauty care and, perhaps, food. We have already made a big acquisition in foods with GSK. This must be a target with strong commercial logic, and it must offer us a niche segment or a capability we don’t have. So, we have very strict guidelines, and much rigour is done. We are always on the lookout, and when something is appropriate, we have invested—our small investments in health and well-being recently or previously with Indulekha, which is now five to six times the size when we acquired it and, of course, GSK. So, we keep investing programmatically over the years. When a good target arrives and fits these criteria, then we will look at an acquisition. We have many of our own brands, along with a stable of iconic Unilever brands. Our first port of call is to take 19 of our ₹1,000 crore-plus brands and look at extending them. The highest probability of success is to take our iconic brands and extend them into new spaces.

What do you plan to do with the ice cream business?

Globally, we have decided to split that as a separate company. Exactly what constitution it forms is still under evaluation at Unilever. We, as HUL, have an independent board, and with the independent board, plus us the management, we are discussing options for what would be good for HUL. At some point in the future, when we have more clarity and we have decided where to go with it, we will then share that more publicly. At this point, it is truly under evaluation.

But if it is no longer part of Unilever’s portfolio, would it make sense to have it in HUL’s portfolio?

This is exactly what we are discussing. What form Unilever takes is still to be clear because they are evaluating various options. What is quite clear is it will have a separate entity and what form that entity takes is under consideration at Unilever. At the same time, we are also evaluating options of what would be the best way forward for our shareholders. Then we will go through the process, consultation, agreement and, if required, approval from the shareholders. So, there is some path to cover here. It’s too early and too premature. At this stage, we focus on selling (more ice creams) this summer and growing the business.

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