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'Negative volume growth indicates stress in the economy'

HUL's Sanjiv Mehta on how the company is navigating through stress in the market

**AYUSHI KAR
THOMAS K THOMAS**
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Despite inflationary headwinds and declining volume growth, FMCG major Hindustan Unilever Ltd reported a 13 per cent growth in profit in the first quarter of this fiscal. *BusinessLine* met Sanjiv Mehta, CEO and Managing Director, HUL, to understand how the company is navigating through the stress in the market. Excerpts:

How are you navigating the company through high inflation? And what is your take on the overall management of inflation versus economic growth?

The imperatives for companies like ours during this period of hyperinflation and slowing down of growth rates is how do we protect consumer franchise, which gets translated into value and volume share. The second is how you protect your business model. In this scenario,

in a country like India, the imperatives would be how to contain inflation—because inflation hurts the poor—and we are still a developing country. And while containing inflation you ensure that you do not contract growth. That is the Catch-22 situation. Some companies will say that to grow market share, I will let my margins fall, similarly to contain inflation, you will say let me give up growth. For a company like HUL—a year down the road, if for instance the crisis is over, and we can look back and say we have gained volume and market share—and we protected our business model—then we will be very satisfied.

Similarly, as a country if we are able to contain inflation, and continue to grow the economy, you can look back and say we have managed it, but this requires very deft management. When there is a huge tailwind even turkeys can fly but when there is no wind you can determine who

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CEO and Managing Director, HUL



is the eagle and who is not.

What is your sense on consumption demand?

The good bit is that our country is still growing, the IMF forecast predicts that India will continue to grow at 7 per cent and it will be one of the fastest growing economies. When you look at the total FMCG growth category, we are talking about value growth which is 7 per cent, and volume growth is minus 5 per cent, which means there is price growth of 12 per cent. In a country like India, negative volume growth indicates stress in the economy. The per

capita consumption of FMCG in India is only \$45. In Indonesia it is double that of India, in China it is triple, the Philippines is four times that of India.

The volume growth compared to 2019 seems to be flat. So do you see the volume growth bouncing back in the long term?

This period (after 2019) has been a period of stress for us. In the fiscal year ending March 2021, our economy degrew, then in the fiscal year 2022 we recovered, but we lost two years of growth rate. India was in the process of re-

covering then inflation came in. But the good bit is that the economy now is much bigger than what it was in 2008, secondly we have nearly \$600 billion in forex reserves. One should also give credit to the RBI on how it managed the Covid crisis. While there are some economists who criticise that RBI was slow in taking interest rates up, people forget that for us it was imperative to grow the economy. You can't stifle the growth.

HUL has had a lull period in terms M&A over the last two years. What is the reason?

We are always exploring options for M&A but we have to look at a candidate and see whether it makes a strategic fit, second is the success of that, is it a flash in the bang or is it sustainable. I would not like to buy a brand because it is fashionable.

How would you appraise the D2C ecosystem?

We started building our e-commerce many years back. Demand generated by digital is over 20 per cent, that is ₹10,000 crore in revenue. In this quarter alone, we had over ₹2,000 crore delta

turnover. Many of the D2C brands put together won't reach that amount for the full year. For the full year, my delta turnover was ₹5,000 crore. So always seek opportunity, but one doesn't go into it because it is fashionable, but it has to make strategic sense with long-term returns.

You had spoke about setting up nano factories....

Generally, we make factories to scale, which gives you huge economies of scale. But then you need facilities to manufacture small niches, which will not be mass selling but niche. But making it in a large factory will be a very costly process. So we have created nano factories for that purpose. In many ways it complements setting up the premium business, which is all digital-first brands. We are reconfiguring our entire supply chain, including fulfillment centres which were more than 40 and are now 20 odd. We are setting up multi-category factories rather than a few categories, we are bringing factories closer to consumers, and in this scheme of things nano factories have a very important role to play.