

'Rural sales value positive; volumes have declined'

QA **SANJIV MEHTA**, chairman and MD of Hindustan Unilever (HUL), considers health, hygiene and wellbeing as the new areas of growth for the fast-moving consumer goods (FMCG) major over the next five years. In an exclusive interview with Sharleen D'Souza and Vishal Chhabria, he shares his expectation of commodity prices cooling off in the second half of 2022 which should lead to the return of volume-led growth. Edited excerpts:

Rural growth was negative, indicating a contraction in demand for the second quarter in a row. What are the key reasons for this demand pressure?

Headline growth or value growth in rural areas is still positive, though it has progressively tapered. The negative growth (in rural) is volume growth. There are a couple of things which I would like to say — first is the fact that the economy is under

recovery. At the end of this fiscal year, the economy will be more or less of the same size as it was two years back. In a country of \$2,000 per capita, there is a large section of the population where absolute consumption is still very low. From a macro perspective, we must remember that the share of private consumption has gone down in the

economy. The second is the unprecedented inflation, which has taken place in some of the big categories — most notably in skin-cleansing or toilet soaps where we have palm oil as a feedstock. Then in the tea category, where from the latter half of 2020 we saw a sharp and large increase in tea prices, and then in fabric cleaning, which is based on crude oil-based derivatives as raw materials. These are some of the big categories where the input cost increase has been exceptionally high.

In rural India, the per capita consumption of FMCG goods is one third that of urban India, and when there is stress on income and or when there is high inflation, consumers titrate the volumes they consume. This impacts the volume growth of categories.

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'Health & hygiene big areas of growth'

In an interview with Sharleen D'Souza and Vishal Chhabria, **SANJIV MEHTA**, chairman and managing director of HUL says the company is targeting 9-10 per cent of turnover as cost savings. Edited excerpts:

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When do you expect volume-led growth to return?

Generally, in our business, we

seek volume-led profitable growth. But when you have this kind of inflation, the imperatives change a bit. We focus on two big things: One is how do we protect the consumer franchise, or in other words, protect the market shares in both volume and value terms. The second is how do we protect the business model. These two then become the important metrics of performance. I believe a lot of the commodity price increases are supply-led, rather than demand-led. The second is, in many areas like crude oil, there has been fewer capital investments in recent years than what should have normally happened and consequently the constraints on supply. The other is also supply-chain movement constraints, which have happened in different parts of the world, linked directly or indirectly to the pandemic. And then, of course,

there is an element of speculation. Inflation is a global phenomenon and is not restricted to our country. From a macro perspective, FMCG volume growth is robust

when there is more money in the hands of more consumers, i.e. inclusive growth, and the inflation is benign.

To what extent are further price hikes expected and to what extent can there be further tightening on the cost side in terms of improving efficiencies so that margins remain at current levels?

It is very difficult to predict commodity prices a few quarters down the road. However, we have good visibility to the March quarter and we

are seeing that the costs are going up further as compared to the December quarter but it is difficult to gauge right now what will happen in the June quarter. We are targeting in the vicinity of 9-10 per cent of our turnover in cost savings.

Which categories will be major growth drivers for HUL over the next five years?

I believe that none of the categories in which we operate have reached a state of maturity. It is not just about increasing category penetration because you can also grow by increasing consumption, upgrading consumers by offering higher order benefits or premiumising the portfolio. For instance, in the laundry category, a big area for development is moving people from the mass end of the market for powders to the mid-tier and premium end. And from liquids to adjacencies. So even in laundry, which is a universally penetrated category, there are massive opportunities to grow.

The other big areas of growth are in the space of health, beauty and hygiene. These are absolutely big areas.

In Q3, discretionary products did well but with the third wave there and some restrictions, could there be a slowdown in discretionary sales in Q4 and Q1, FY23?

We have mapped it and found that there is a clear correlation between discretionary spending and mobility. However, the restrictions in this wave are not as severe. So the impact will be less than previous two waves. We are hoping that by mid-February, we should start seeing the mobility increase.

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