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'Our bolt-on value-accretive M&A strategy will be deployed'

Hindustan Unilever (HUL) expects volume recovery both for the company and the fast-moving consumer goods industry, says **RITESH TIWARI**, chief financial officer at HUL.
1 In an interview with **Sharleen D'Souza** in Mumbai, he talks about the firm's plan to bring more Unilever brands to India. Edited excerpts:

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How will you drive volume growth from here?

Our objective is to put growth on the table. We go where the consumer, growth, and money are. Premium is one of the growth opportunities, and we are doubling down on premium. Rural is another growth opportunity. Although currently, urban areas contribute more to growth than rural, there is no reason why rural areas should not contribute to FMCG consumption. In the past quarter, we have seen signs of recovery with rural areas growing, albeit on a declining base from the same period last year. Growth on a two-year compound annual growth rate basis is positive. Our brands are strong, our product quality is superior, and the price point needs to reflect the quality. Staying true to our business model is paying off.

What is going to be the main focus for HUL: premium share gain or reviving the mass end of the market?

One-third of HUL's business is in the premium space, a little more than one-third is in the mass segment, and a little less than one-third is in the middle segment.

In the short run, we will not see high growth from the mass segment. However, as rural areas recover, the mass segment will also recover. Nevertheless, the premium segment and urban markets have led to recent growth.

We are not changing our position in the mass segment. It's just that the growth expectation from there will be lower compared to the expectation of growth from the premium segment for the next few quarters as this equilibrium starts to establish. Our plan is to win in many Indias. We are now optimising our investments where there is more return on investment for growth. That includes modern trade, e-commerce, and the premium part of the portfolio.

'Dialling up our portfolio is a priority for HUL'

Q&A

RITESH TIWARI
Chief Financial Officer, HUL

How do you expect new channels to grow?
In modern trade, our market shares are higher than in general trade. Besides improving our execution, which involves increasing stock availability, we are also introducing more innovations in modern trade, thereby enhancing the assortment we sell in modern trade and e-commerce.

Our premium portfolio is also over-indexed in modern trade and e-commerce. Now, regarding quick commerce, it is a fabulous new channel of convenience for consumers for top-up purchases. We still see that the bulk of grocery purchases happen through modern trade or general trade. However, the top-up purchase behaviour has started to shift towards quick commerce.

How do you expect modern trade revenue share to grow for Hindustan Unilever (HUL)?
Macro trends indicate high growth coming from modern trade and e-commerce. These channels will continue to grow faster than general trade. Hence, our own growth will increasingly come from organised trade, which includes modern trade and e-commerce. Combined, these channels already contribute close to 30 per cent.

However, it's equally important to recognise that general trade will remain the biggest channel for years to come. In the foreseeable future, I believe it will be more than 50 per cent. Given the importance of general trade, we must ensure that general trade execution and distribution are equally strong. Hence, the continuous focus on building general trade capabilities.

How do we see margins moving from here?
We have three focus areas to navigate the business in the overall macro situation: volume growth, expanding gross margins, and further dialling up competitiveness.

Expanding gross margins will enable us to invest in our brands, capabilities, market research, and digital transformation.

In the near term, we will maintain Ebitda margins at the current healthy levels of 23-24 per cent. This is after having taken a hit due to the loss of GSK's consignment sales distribution business, which we have discontinued. In the medium to long term, we will aim for modest Ebitda margin improvement.

Which categories will you focus on to make further acquisitions?
Dialling up our portfolio is a priority for HUL.

In the beauty space, we will take three approaches to improve and further expand our portfolio: We will extend our current brands into

more formats and demand spaces. You will see a high intensity of launches and innovations in this space. We will also introduce brands from the Unilever stable that are not yet available in India but are relevant to the Indian market.

India has an overall $50 per capita fast-moving consumer goods (FMCG) consumption, and it will continue to increase as gross domestic product rises.

We have observed specific take-offs when this happens. Staples in packaged foods, in which we do not currently operate much, will grow. We have seen the top-tier consumers consume beauty products that are not very different from those in the US and Australia, and that cohort of consumers will continue to grow. Therefore, we believe that the beauty sector, initially staples in packaged foods, will drive FMCG's overall growth. We are doubling down on the beauty space.

We will also explore bolt-on acquisitions wherever they are value-accretive.

We will continue to focus on value-added food products that are differentiated and not staples. Our bolt-on, value-accretive merger and acquisition strategy for portfolio expansion will be deployed across the board.

Will the new government norms have an impact on your functional nutrition business?
The overall Indian food palate is heavy on carbohydrates and deficient in micronutrients. This need is being addressed by Horlicks and Boost. We are very aware and have crafted our products accordingly. Our entire Plus range has no added sugar, and Horlicks Lite also has no sugar. The plus range of Horlicks is doing extremely well for us, and it is growing at a rate faster than overall Horlicks. It is growing faster in e-commerce and modern trade. We do believe that the category is relevant, and the way we crafted our portfolio, we see very good growth opportunities.

Even in the quarter which just went by, we grew in high single digits in our functional nutrition portfolio. We are confident that we will continue to increase penetration and build consumption of functional nutrition.