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‘We should be patient... need to play the long game’

Hindustan Unilever (HUL) believes recovery is underway and consumption will start correcting given the macroeconomy actions. Managing Director and Chief Executive Officer (MD & CEO) **ROHIT JAWA** speaks to **Sharleen D’Souza** and **Dev Chatterjee,** in Mumbai, on the levers of investments that the company has, trends showing rural resilience, volumes versus margins and more. Edited excerpts:

PHOTO: KAMLESH PEDNEKAR

“THIS IS THE TIME TO TAKE THE BET INTO THE NEAR FUTURE AND MAKE SURE THAT WE HAVE GOT ENOUGH CAPACITY TO INVEST IN OUR BUSINESS”

ROHIT JAWA, Hindustan Unilever MD & CEO

1 **Is there a structural shift in consumption in India, as HUL delivered 2 per cent volume and revenue growth at a time when the economy grew at 6.5 per cent?**

By looking at one quarter or one year alone, we will miss the big picture. Let’s zoom out first. Over the last decade, HUL has grown at about 8 per cent CAGR (compound annual growth rate) and has also improved its profitability. This growth has been driven half by volume and half by price. That’s the long-term track report. ... Currently, the average per capita consumption is $50, with $25 in rural and $100 in urban cities. These figures are one-fifth to one-sixth of those of our neighbouring countries. In the next decade, all our categories will grow many folds.... We’re probably looking at some years with muted consumption. We should be patient, because the market will compound, and we need to play the long game.... The recovery is underway but overall, private consumption should have been higher. This will start correcting, given all the macro-economy actions.... Rural is already showing resilience and is growing at higher rates than urban.... Macro-economic conditions can be favourable, and therefore, we will play to win.

What is HUL’s strategy of chasing volumes over margins? Will you sacrifice margins for volumes?

We have very healthy margins. For the next few quarters, our priority is to invest for growth, even if that means we create headspace for investments.

We believe that with the 22-23 per cent Ebitda guidance, we’re still among the top few firms in the CPG (consumer packaged goods) category, which is healthy. It’s above the Unilever average as well. It’s a good, profitable business that will do well by growing faster. This is the time to take the bet into the near future and make sure that we have got enough capacity to invest in our business.

What plans have you put in place to invest back in the market?

There are multiple levers of investment that generate the top line and the bottom line.... Trade investment, price quality invest-ment and A&P (advertising and promotion) investment are essentially our three levers, and we have to make sure that it all translates to the 22-23 per cent guidance.

‘IT WILL BE A DIGITAL AND CHANNEL FOCUSED FUTURE’ PAGE 10

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'It will be a digital and channel-focused future'

Can you elaborate on the investment levers?
Over the last few quarters, our direct value-weighted distribution availability has gone up 400 basis points. This means we're getting to more and more value-contributing stores directly. This requires investment but leads to more growth.

The second way we are investing is in product quality and the right price-quality equation. Because commodity prices are fluctuating, with increases in categories like tea, palm, coffee, and decreases in categories like home care, we want to make sure that we have the right pricing at the moment. We are never able to pass on price increases in one go. In the case of deflation, we
1 prefer to adjust it in one shot. Both ways, it takes a few quarters to adjust.

We are not going to take our eyes off the right price quality equation. If that means that it impacts the margins in one quarter, that's fine, because eventually it will normalise. The third area of investment is media and A&P (advertising and promotion).

What are the headwinds you are seeing for the consumer market at this point in time? Could the tariff war have an impact on consumption?
At this point, given the knowledge we have, tariffs are not very material to HUL's business, because we are a local-for-local business. If at all, the crude oil softening is beneficial to the economy as a whole, and our consumers.

Consumer income isn't going up. How are you creating more consumers for your mass categories?
We need to see India as not one, but many Indias. Not every consumer is the same. We need to make sure that we understand and respond to different income segments differently. There are the top two segments of India — the affluent and affluent plus. These segments, with incomes of ₹10 lakh and above, have doubled in the last five years and are likely to double again. This segment has got the purchasing power, consumers here have surplus; they're the ones who reside largely in urban areas and big villages. These consumers want to grow their quality of life, and this is a sizeable segment by itself.

We have to disaggregate the Indian consumer opportunity by consumer segments and have a portfolio that serves all markets, and in all conditions.... We have a product for every consumer and are best poised to offer an upgrade opportunity at all price ends. We are investing in market development quite consciously. We've called out several products in our portfolio as market makers.

You've said there's been a 200 bps move from core to future core and market makers. Will this move accelerate going forward?
It's difficult to give you an exact number. Our strategy is to allocate resources. Our core portfolio is growing in line with the market. Our future core portfolio where we have a large segment of businesses is growing at 20 per cent faster, and our market makers, which is around ₹7,000 crore, are growing even faster. We are allocating resources in this direction. For the year that's gone by, it's 200 basis points, and it will depend on year after year whether it's in the same range, lower or higher, but that's the secular direction of the market and our investment.

Q&A
ROHIT JAWA
MD & CEO, Hindustan Unilever

Which are the other categories that you are looking to enter?
Across all our four business units, we have white spaces and opportunities to go in to. For instance, beauty and wellbeing has a huge opportunity, especially in the more premium end and with new formats. In the recent few months, we've launched Nexxus and Liquid IV — global brands that we've brought into the Indian market.

What is the current status of the ice cream business?
We expect the ice cream business to be demerged and listed by the end of the financial year. It will be an independent entity that will chart out its own future.

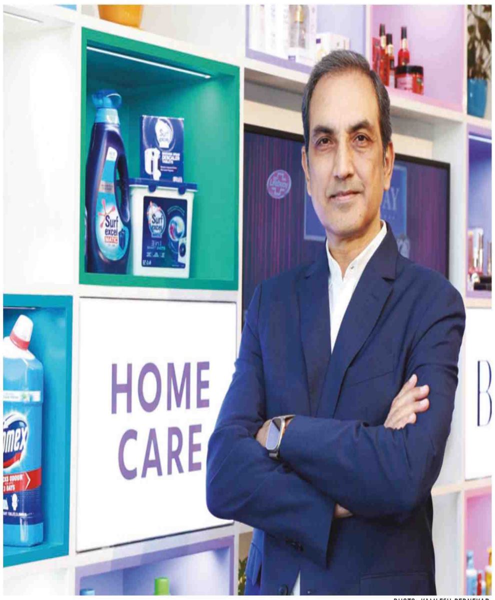

PHOTO: KAMLESH PEDNEKAR

"AT THIS POINT, TARIFFS ARE NOT VERY MATERIAL TO HUL'S BUSINESS, BECAUSE WE ARE A LOCAL-FOR-LOCAL BUSINESS"
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Will you look at revamping other brands after Lifebuoy and Glow & Lovely?
We are working on addressing Horlicks and that's an unfinished job. But if you remove that, all of our big core brands have been revamped. Our focus continues to remain to protect our core and keep it contemporary. We will invest and go where growth is, which is in the future core, premium segments and new segments, market development, and create new segments for the future.

Why is it difficult to drive consumption in the nutrition category?
The category consumption has remained flattish. The reason is that at one level, it is a discretionary category and any compression on urban demand impacts this category. Moreover, over the years, there are other alternatives that kids have like, nuts or breakfast cereals or foods, which may not be as healthy but tastier. It is a category that is still extremely relevant. What we have to do better is to essentially revitalise that, make it more contemporary and relevant.

How are distribution channels changing?
Within organised channels like modern trade, e-commerce, we can see how quick commerce is increasing because they are still in the early stages of growth in penetration. Modern trade is going to lower-tier cities, quick commerce is going to other cities, and e-commerce is expanding as well. There are rural e-commerce options coming in, but it is important to state that general trade in India is still vast. Even today with all these changes, it is close to 70 per cent of our business and it remains the heart of our business. Therefore, a distributor-inclusive *kirana*-centric model is our priority to serve our shoppers who go into *kirana* stores to shop.

We must have appropriate themes and capabilities to grow categories in modern trade, because that consumer has the money. She has a surplus and she wants to upgrade. A lot of the category development happens in modern trade, in partnership with our modern trade customers.

Then you've got ecommerce and quick commerce — there it's about making sure we have the right design for the channel. Beauty.com requires a very different shopping environment. It is content-heavy and requires premium products.

On the other hand, quick commerce requires more products of convenience, products that people can buy anytime like food, ice cream and quick-use items, even in the beauty portfolio. That's more customisation in ecommerce to make sure we have the right kind of portfolio, investment, and front-facing experience for the shopper....

Essentially, it will be an increasingly digital and channel-focussed future, and we'll have to learn to do all of these things at the same time.