

‘Govt must keep tabs on inflation and underlying consumption’

Shuchi Bansal & Suneera Tandon

NEW DELHI

Hindustan Unilever Ltd (HUL) will seek to maintain its operating margin within a band of 24-25% through a mix of cost savings and calibrated product price increases to offset spiralling raw material costs, chairman and managing director Sanjiv Mehta said, terming the current input price inflation as unprecedented.

In an interview, Mehta said the company is closely monitoring rural demand because market researcher Nielsen’s indicators showed that it has slowed down. However, the company

itself hasn’t seen a noticeable slowdown till the September quarter, he added.

A rebound in demand after the pandemic’s second wave



HUL chairman and managing director Sanjiv Mehta. MINT

helped the consumer goods company raise prices to offset higher input costs. However, a demand slowdown may make it tougher for companies to effect price increases.

Edited excerpts:

What do you attribute the lower-than-expected volume

growth to?

First, I wasn’t saying that it was lower-than-expected volume growth. But let me give you a perspective. Historically, if you look at a long-term average, out of our total top-line growth, about 60-70% comes from volume, on an average, and 30-35% comes from price growth. Whenever the price growth accelerates, the volume growth comes down. The price growth that we take, we do it in two ways. One is, we increase the headline price, which is the MRP (maximum retail price). The second is we keep MRP consistent, but we reduce the grammage.

And we do this whenever there are price-point packs, say, those at ₹10 or ₹5—then you can’t change it to ₹5.50. So, you keep it and then reduce the grammage. Even when you reduce grammage, the con-

INTERVIEW

TURN TO PAGE 6

Govt must keep watch on inflation, consumption: HUL's Mehta

FROM PAGE 1

sumer generally titrates his personal consumption based on the number of packs they buy (and not on grammage). So, if they were buying 10 (packs), they will buy 10. So, the volume growth goes down, but the price growth goes up.

Now, if you look on a sequential basis, last quarter (that is, Q1FY22), our volume growth was 9%. One must understand that in the base quarter, the volume growth declined 8% (June quarter FY21). If you look at it over a two-year period, you are doing a 1% volume growth. So, this quarter, our headline volume growth was 4%, but the base quarter was 1%. That's the reason I said I'm not dissatisfied with volume growth. There's a sequential improvement. One has to also take into account the base period growth.

How has inflation impacted

the business?

If inflation in key commodities like palm oil, crude oil-based derivatives that we use in freight and the tea business was about 100 in 2020-2021, we are now talking about 1.6 to 1.8X. This is not normal inflation. In some of the commodities, inflation has been pretty much unprecedented. When you have this kind of inflation, then our endeavour always is that we should first protect the consumer franchise. We don't want to lose consumers. The second important bit is, we look at all the lines of the P&L (profit and loss statement) to see where we can optimize cost or leverage more savings. Then we take the price increase in a calibrated manner and try to keep the price-value equation intact. And the third is, we keep the business model intact. Our Ebitda margin is very healthy at

25%, and our endeavour is to ensure they're within 24-25%.

You keep referring to being 'cautiously optimistic' about rural.

If we look at pre-covid, rural growth had really slowed. Then during the covid period, rural became very resilient. Our hypothesis is that the government intervention also played a part—higher MNREGA, direct transfer of money, free foodgrain and MSP going up; all that played a part. Rural per-capita consumption is one-third that of urban. So, if India grows well economically, then rural should be growing faster than urban for many years to come—it's such a small base.

But if rural stumbles, then it

is a sign of a problem in the rural economy. So, we monitor it very closely. But are we jumping to a conclusion? No. Are we raising a signal? Yes. Have we come to a conclusion? We say that wait and watch for a few more months what is happening to the rural economy

Our internal growth has been as good as in the previous quarters. So, we have not had till the Sep quarter, a noticeable slowdown

because Nielsen indicators are indicating that it has slowed down.

But if you look at a two-year period between urban growth and rural growth, that is, 2019-to-2021, rural growth is not less than urban. But if you look at headline growth numbers between 2021 and 2020—then rural slowed down, which was very resilient till a couple of months back.

Did HUL's rural growth

mirror Nielsen numbers in the September quarter?

For us, our internal growth has been as good as in the previous quarters. So, we have not had till the September quarter, a noticeable slowdown. But more important is what we are picking up from Nielsen that is not for us, but for the market. **As economic activity resumes, what can the government do to lift consumption?**

The best thing that happens for the economy is the virtuous cycle of growth. There is consumption, which spurs capacity investment, which then spurs more employment, and that spurs more money in the hands of consumers, it spurs more consumption, and that's how the cycle goes. That's the kind of cycle we, as a country, need. So, I'm very pleased when the government talks about more investment in infrastructure

because that has a multiplier effect, and that results in consumption moving up.

The things the government should closely watch are two—one is inflation, and the second is the underlying consumption. If you look at it from a macro perspective, we are in a position where we are saying that the economy this year will get back to the size of the economy of fiscal year 2019-20. Now, we will be one of the few large economies, which can say that we have gone back to 2019-20 levels, which is a very good sign. If this converts into momentum, and the economy keeps growing in real time at 6% to 8%, then we will be in a very good position. That's the kind of growth we are seeking, and that's the kind of growth the country needs. I'm still very optimistic that this will be our country's decade.