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COMPANIES P2

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Q&A HUL WILL CONTINUE TO SPEND ON INNOVATIONS: SANJIV MEHTA, CMD

GOOD GOING

HUL Q1 profit rises 19% as sales grow

VIVEAT SUSAN PINTO
Mumbai, 16 July

The country's largest consumer goods company, Hindustan Unilever (HUL), reported a 19.17 per cent year-on-year increase in net profit on Monday for the April-June 2018 quarter (Q1 FY19), as double-digit sales volume growth continued for the third straight quarter, aided by a lower year-ago base.

Net profit at ₹15.29 billion was in line with *Bloomberg* consensus estimates, which came in at ₹15.40 billion. Revenue, which is net sales plus other operational income, missed Street estimates, however, growing 11.2 per cent year over year to ₹94.87 billion. *Bloomberg* consensus estimates had pegged revenue at ₹96.69 billion for the June quarter. Net sales for the June quarter came in at ₹93.56 billion, growing 11.37 per cent year over year.

After adjusting for exceptional items, June quarter profit rose 22.5 per cent year over year to ₹15.88 billion (from ₹12.96 billion last year), with the stock touching a new high of ₹1,770 on Monday on the BSE, before settling at ₹1,753.85, up 0.73 per cent over Friday's close.

June quarter volume growth at 12 per cent was in line with Street estimates, though it was marginally ahead of 11 per cent posted by the company in December 2017 and March 2018 quarters, respectively.

Kaustubh Pawaskar, senior research analyst at Mumbai-based brokerage Sharekhan, said, "The double-digit volume growth (for the June quarter) is certainly the big highlight and can be attributed to uptick in rural demand as well as strong traction for launches. With rural consumption improving, we expect volume growth momentum to sustain in the coming quarters."

According to HUL, there would be a gradual improvement in demand, especially in the rural areas. The company said it would continue to focus on innovations and market development. "Crude volatility and currency-led inflation are key factors to watch out for though we will continue to manage our business dynamically," Sanjiv Mehta, chairman and managing director, HUL, said during a post results press conference.

On the operational front, HUL's earnings before interest, tax, depreciation and amortisation (Ebitda) rose 21 per cent to ₹22.51 billion (from ₹18.66 billion last year), while operating margins expanded 183 basis points to 23.73 per cent from 21.9 per cent last year. HUL said the increase in cost of goods sold (up 6.9 per cent year-on-year to ₹43.64 billion in the June quarter) was not significant (despite inflationary pressures) due to a good product mix, judicious pricing and a strong saving programme.

This ensured gross margins expanded 197 basis points year-on-year in the June quarter, which analysts said was a good sign and could be likely used by the company (as a device to manage input costs) in the coming quarters.

Advertising and sales promotion (ASP) expenditure, however, was stepped up to ₹11. 53 billion in the June quarter from ₹9.05 billion a year ago (an increase of 27.4 per cent) to support innovations and brand launches.

Mehta said he saw ASP at competitive levels in the future in keeping with the market environment.

REPORT CARD

	Net sales (₹ bn)	YoY growth (%)	PBIDT (₹ bn)	YoY growth (%)	Net profit (₹ bn)	YoY growth (%)
Jun '17	84.01	5.18	19.66	8.38	12.83	9.28
Sep '17	81.99	6.52	19.22	14.68	12.76	16.42
Dec '17	83.23	10.80	18.11	13.83	13.26	27.75
Mar '18	90.03	11.15	20.84	20.25	13.51	14.20
Jun '18	**93.56**	**11.37**	**22.51**	**14.50**	**15.29**	**19.17**

Compiled by BS Research Bureau

Source: Capitaline

'Will continue to spend on innovation, activation'

Hindustan Unilever (HUL) reported good numbers for the quarter ended June. HUL's Chairman and Managing Director **SANJIV MEHTA** responded to questions by **Viveat Susan Pinto** at a post-results conference on what led to the in-line performance in the first quarter. Edited excerpts:

KAMLESH PEDNEKAR

Give us a sense of market growth in the June quarter. You have said rural is ahead of urban in terms of growth rates. Please specify.

If you look at the last 12 weeks, urban growth is at 6 per cent and rural growth is at 7.5 per cent for the (domestic) fast-moving consumer goods (FMCG) market. These are Nielsen numbers and looking at the way rural is going, it should continue to stay ahead of urban. The triggers are there; monsoon, minimum support price announced for crops recently, this should impact the market positively. Per-capita consumption of FMCG in rural is just $16 versus the national average of $30. There is scope for growth, provided there is more money in the hands of our rural brethren. Whether it is building infrastructure, creating employment in rural areas, improving effective realisation of agricultural produce or giving wages to farm hands, it is a combination of factors that can improve spending power in rural areas. In my view, it is not absolute GDP that impacts FMCG, it is when the spoils of the GDP are shared over a larger population that FMCG categories move up.

But the progress of the south-west monsoons has been patchy with some regions receiving deficient rains. Do you see this impeding rural growth?

It is early days to say anything. The monsoons are advancing and could gather momentum.

Do you see pricing power improving as inflationary pressures kick in? What would be your strategy on volume growth then?

When prices go up, we ask ourselves how do we optimise our lines. That is how we have done it and will continue to do. What you are seeing now is inflationary pressures linked to crude, but vegetable oils have not seen a spike yet. Our strategy is to take judicious price hikes. Since, we have a portfolio of brands, we don't do it on an equivalent basis across pack sizes. We look at it from an overall point of view, keep in mind the price-value equation and then take hikes if needed.

But with input cost pressures growing, will it be easy to maintain high advertising and promotional spends?

We look at all areas of cost when inflationary pressures grow. Advertising and sales promotion (ASP) expenditure is a factor of competitive intensity, our market strategy and development. So, how it moves is based on these factors and we have never shied away from spending on ASP even when times were tough, including the demonetisation quarter. We invested behind our brands then and we will continue to spend on innovation and activation now and back all our market-related activities.

You have launched an e-commerce-only male-grooming line in the June quarter. Please elaborate

We experiment with our products on a regular basis. We have been trying to resurrect the Brylcreem brand for a few years now with a number of innovations. In the latest instance, we have been tied up with Amazon to launch a range of male-grooming products, some targeted at the hair, beard etc. It is a collaboration and for the time being, it will be on e-commerce; on Amazon to be precise.