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# Can't be Complacent Yet: HUL's Mehta

ET INTERVIEW

**SANJIV MEHTA**
CHAIRMAN, HINDUSTAN UNILEVER

## Consumer goods co shifts focus to 'absolute profit' from just growing value and margins

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**Mumbai | New Delhi:** Hindustan Unilever Ltd (HUL) chairman Sanjiv Mehta said the country's biggest consumer goods company cannot "be complacent" despite a strong recovery in the last quarter and has shifted focus to "absolute profit" and volume share rather than just growing value and margins.

"It could still be a marathon and there might be many air pockets before we can say that the pandemic is over," Mehta said in an interview. "So, it is very clear that one doesn't want to be complacent and one doesn't want to declare victory at this time."

HUL's performance is considered a proxy for broader consumer sentiment in India. It reported 16% growth in sales in the September quarter, helped by the acquisition of GSK Consumer. Excluding the integration, revenue rose 3%, boosted by the relaxation of curbs on manufacturing and distribution. That's a sharp recovery from a 7% decline in sales for the April-June period.

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The maker of Rin detergent and Dove shampoo also saw volume rise 1% during the period, against a 7% decline over the past two quarters. Volume indicates the number of products that customers put in their shopping carts.

"During normal situations, our primary focus is on value share," he said. "But there is very clear evidence from past crises that if you strengthen your volume shares, you get more consumers entering your franchise, and that translates into higher value shares in the period to come. Earlier, because we are a healthy business, we always used to look at percentage margins. Now, it is not just about margin but also about absolute profit."

The company gained volume share in about 90% of the business, he said.

Analysts said HUL's new push could be driven by its strategy to gain consumers in its core categories in the downturn and further widen its competitive lead over peers. However, margins are already under pressure.

"HUL's reported gross margin fell 150 basis points year-on-year but the compression is even steeper if one looks at the combined financials," said a recent JM Financial report. "Adding GSK's financials for second quarter last year to HUL's, the combined gross margin for the merged business seems to have compressed 320 bps." A basis point is one-hundredth of a percentage point.

Health, hygiene and nutrition now account for 80% of its portfolio and expanded 10% but the remaining business--mainly beauty and personal care, not considered essentials, as well as out-of-home segments such as vending and ice-cream retail--fell 25% each. The company said that 80% of the portfolio that expanded in double digits is many times bigger than that of any other fastmoving consumer goods (FMCG) company in India.

The slowdown was largely due to people being confined to living quarters, especially in urban areas, which could see a recovery as restrictions are progressively eased and economic activities get back on track. .

"We would want the demand and volumes to go back to pre-Covid levels and many of the categories have reached there," said Mehta. "The very fact that rural has bounced back is a good sign. The steps that the government has taken, whether it is a direct transfer of money or improving MSP rate or MGNREGA, helped bolster the income in the hands of rural consumers, and consequently, it gave a fillip to consumption."