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How will Unilever make India its No.1 market?

Firm may have to alter how its business operates globally to push India's contribution

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MUMBAI

Unilever NV, the world's fourth largest consumer goods firm, has joined a chorus of foreign consumer packaged goods firms betting on India becoming their largest market in the coming years.

India could become Unilever's biggest market, Paul Polman, chief executive of the company, said in an interview with the *Economic Times* on Monday but did not specify a timeline. India contributes 9% to Unilever's total sales of €4.5 billion, as per the newspaper report.

"I am not giving guidance but the assumption that we double (in India) in the next 10 years or seven-eight years is a no-brainer," the newspaper quoted Polman as saying. "Because US is not going to double."

Chief executives of several other global consumer goods firms have earlier identified India as the next big market. Coca-Cola Co. chief executive officer James Quincey said earlier this month that India has the potential to become the company's third largest market, from the sixth largest currently, *Mint* reported on 2 September.

However, like Coca-Cola, Unilever may have to change the way its business operates globally to push India's contribution to its global revenues.

"While brand Coca-Cola will be the heart and soul of the company, the company needs to become bigger than the world's best brand, Coca-Cola," Quincey said at a press conference, *Mint* reported on 2 September.

The maker of carbonated drinks is looking to grow via a portfolio of healthier, non-aerated drink products, including dairy brand Vio, coconut water Zico, and mango drink Maaza. Coca-Cola has also announced that it is launching Beverage Plus, a "whipped frozen foods snack" by the end of this year, *Mint* reported on 21 August.

Unilever chief executive Paul Polman. Unlike in the US, home and personal care remains the chunk of Unilever's business in India, making up 88% of Hindustan Unilever's total revenue in financial year 2016-17. BLOOMBERG

Unilever faces a similar challenge in that the segmental breakup of its revenues in India is very different from that in the US, its major market. Unlike in the US, home and personal care remains the chunk of Unilever's business in India, making up 88% of Hindustan Unilever's total revenue in financial year 2016-17.

In contrast, only about 57% of Unilever's business globally comes from these two categories, as per data from its annual report for calendar year 2016. In India, personal care is squarely pushing HUL's growth as the segment's contribution to the company's revenues grew from 28% to 38% from 2008 to 2016, as per a February investor presentation on the company's website.

In fact, growth in HUL's food portfolio – that includes Kissan and Knorr—has been a mere 2% and 4% in the past two quarters respectively, as per the investor presentation. The food segment contributed 3% to the company's revenue for FY16-17. HUL has consistently pointed to the home care segment, particularly the premium end with brands like Surf Excel, which are spearheading its growth with higher margins, *Mint* reported on 18 May.

Meanwhile, large FMCG firms globally have identified India for its challenging growth environment in the past three quarters, first following the government's demonetization exercise on 8 November last year, and more recently during the roll-out of the goods and services tax regime.

"I think, there was some softness in Asia. We would have liked to see Asia come in better. I would call out obviously the slight disruption in India from GST which obviously affected us in the back-end of the quarter," Quincey said in an investor call on 26 July. "As I said in the opening remarks, we think that's good for the country, but it did obviously make some impact in Q2." He added that while China "bounced back" and Japan continues to grow, the "softness" in Asia was "really about India and Asean".

Reckitt Benckiser Plc chief executive Rakesh Kapoor said India's GST implementation reduced sales of the personal care giant's India arm "materially", especially affecting its flagship brand Dettol.

In an investor call on 24 July, Kapoor also spoke of volatility in product pricing in India.

"And clearly, in emerging markets where, again, you would normally expect a material inflation in pricing, you are seeing that markets like Brazil and India, for very different reasons, actually, are also very volatile," he said in the call. "So, I would say that when you add it all together, the pricing environment is tougher, we see it much tougher than even six months ago and that's what we have to navigate through as we go along."

Finally, Unilever in India must contend with the growing influence of Baba Ramdev-led Patanjali Ayurved Ltd, that has doubled its revenue over the last financial year from Rs5,000 crore to Rs10,000 crore, while promising Rs20,000-25,000 crore in sales for FY17-18, *Mint* reported on 4 May.

According to a report by global consumer research firm Kantar Worldpanel, there is an emerging "sect" of nearly 100 million households in India that swear by Patanjali products which dominate the personal care space, HUL's cash cow segment in the country.

"If India, at €4.5 billion (of sales) grows at roughly 10% CAGR (compounded annual growth rate), then during the same period (of 8-10 years) it can be potentially close to 20%, then there is a chance in the next 10 years that India can become the biggest market for Unilever," said an analyst tracking HUL for a domestic equities brokerage firm, requesting anonymity.

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