

# Nestlé India chief anticipates commodity headwinds in '22

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**N**estlé India may face commodity headwinds in 2022 due to rising global coffee prices and higher milk prices in India, said Suresh Narayanan, chairman and managing director, Nestlé, on Monday.

The packaged foods company will try to mitigate inflationary pressures and remain “judicious” about passing on costs to consumers as it chases volume-led growth, he added.

Nestlé, which owns brands such as Nescafe and Nestlé a+ Nourish milk relies on a range of commodities such as liquid milk, skimmed milk powder, sugar, wheat, oil and coffee to manufacture chocolates, noodles, curd and milk.

In a presentation on 26 February, Nestlé had said commodity prices, especially that of milk, skimmed milk powder and wheat, have risen compared to 2016.

“Going forward, 2022 clearly promises to be a difficult year. There is clearly an uptick as far as milk prices are concerned. The disruption by the pandemic and the kind of non-replacement of the milch herd across the country has really led to a depleted supply base. With the opening up of the economy, and out-of-home (consumption) clearly some of the detractors of demand that were earlier there during the pandemic are now going to come back and, therefore, there is going to be an escalation as far as milk prices are concerned,” Narayanan said.

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**Covid has led to disruptions in global prices of coffee, cocoa and oil, which are key to the company's product portfolio**



Nestlé will remain judicious about passing on costs to consumers as it chases volume-led growth, said CMD Suresh Narayanan. MINT

cocoa and oil, which are key to Nestlé's product portfolio. “So, there is going to be the spectre of food inflation that will be staring at us,” he said. “In India, this will definitely have an impact and it is an area Nestlé is watching out.”

For some categories, Nestlé has already taken “modest” 1-3% price increases, he said.

Globally, companies are facing significant price pressures.

This is especially true for palm oil, which is used to make a range of products such as chocolates, soaps and cosmetics. Besides, the cost of packaging has also increased. As economic activity

picks up and demand for goods shores up, increased demand for raw material will further strain supply chains.

Nestlé is trying to ward off the surge in commodity prices by ensuring efficient sourcing.

“There are no immediate reactions that we have, except for ensuring that our pencils are sharpened as far as coverage of commodities and locking in positions are concerned to ensure best prices are brought to the table with sus-

tainable sourcing practices. Also, to ensure that we are able to bring in heft of our economies of scale—being a large player in the industry and to be able to mitigate some of the cost escalations,” he said.

Countering the high inflationary environment is also a strong monsoon that is bound to lift demand, especially in rural areas. “Looks like the rabi crop will be decent because the monsoons have been fairly robust across India. With a better monsoon, we see a more robust kind of turn of events as far as the agri sector is concerned, and there might be some mitigation as far as inflation is concerned,” he added.

Nestlé's rural sales have grown faster than urban sales for the last couple of quarters, accounting for 20-25% of its domestic business at present.

Nestlé expects demand to grow, especially in the festive season.

“There are still mixed signals to the market, it is not that there is an unleashing of exuberance that is happening. The last festive season was muted for many of the players. Going forward there is a strong expectation that this Diwali will be definitely much better than the last,” he said.