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INDIA



## Hindustan Unilever

ADD

Maintained

Rs2,484

## Simplicity within complexity

HUL's analyst meet always gives the feeling of it being a complex business (keywords of robotics, data lakes, nanotech, many 4-letter acronyms etc.). However, this analyst walked away with higher visibility and confidence on its simple business model. It is now applying WIMI (winning in many India) at scale, produces high quality products (per its blind tests) in factories with new-tech and has an evolving sales system (Shikhar is a true competitive advantage, in our view). It still is an employer of choice and has potential to accelerate M&A (see reports - [link](#)). Premiumisation continues to be the top agenda; we reckon margin gains will be reinvested for further category development (DCF-accretive). ADD.

- **Premium portfolio** now contributes ~33% of revenues vs ~22% in FY12 with >25% of demand being captured digitally. One of the major drivers for ~1,000bps margin expansion over last 10 years.
- R&D capabilities of the company allow it to have **superior product than competition** in blind tests which is now 2x (number of brands) as compared to pre-covid.
- In **Beauty & Personal Care (BPC)**, HUL aspires to grow ahead of the market for its core with 2x growth in premium segment. In terms of channels, it aspires to grow 2x of the market in Modern Trade, Pharma and Cosmetics channel with 4x growth in e-commerce. Further, HUL plans to move their raw material basket for BPC business to other sustainable alternatives (from crude linked raw materials).
- **Focus in category development** of Light Moisturiser, BB/CC Cream, Sunscreen, Body Wash and Intimate Hygiene categories in BPC division for next decade. These categories have penetration levels in low single digits.
- Reached the **highest shares in Hair Care in last 2 decades** with +400bps market share gains in last 3 years. It is now 3x of its largest competitor.
- **Premium Beauty Business Unit (PBBU)** has launched 5 digital first brands – Simple, Love Beauty and Planet, Baby Dove, AcneSquad and Find Your Happy Place.
- **Premium laundry** now contributes 52% of volumes of Home care division in 2021 vs 31% in 2010. Mass laundry contributes 33% in 2021 vs 58% in 2010. Liquids portfolio is >Rs20bn.
- **Home care division** business of India is the largest in the world for Unilever.
- HUL through its three-pronged strategy has got **clear market leadership with long term market share gains in tea category**.
- **HFD business** has now 3x direct coverage, 1.3x numerical distribution and 11x e-commerce run rate in Sept'22 vs day 1 of acquisition. Category development activities have led to 177bps of penetration gains. Launched Ready Mix Horlicks (with milk added) to solve for convenience as well as price.

Market Cap	Rs5836bn/US\$71.4bn
Reuters/Bloomberg	HLL.BO/HUVR.IN
Shares Outstanding (mn)	2,349.6
52-week Range (Rs)	2702/1944
Free Float (%)	38.1
FII (%)	13.7
Daily Volume (US\$'000)	54,240
Absolute Return 3m (%)	(6.8)
Absolute Return 12m (%)	5.1
Sensex Return 3m (%)	2.5
Sensex Return 12m (%)	4.7

Year to March	FY21	FY22	FY23E	FY24E
Net Revenue (Rs mn)	459,960	511,930	587,448	642,123
Net Profit (Rs mn)	81,810	88,520	97,356	114,553
Dil. EPS (Rs)	34.8	37.7	41.4	48.7
% Chg YoY	8.4	8.2	10.0	17.7
P/E (x)	71.3	65.9	60.0	51.0
CEPS (Rs)	39.1	42.0	45.8	53.5
EV/EBITDA (x)	50.9	46.1	41.9	35.8
Dividend Yield (%)	1.6	1.4	1.5	1.8
RoCE (%)	23.1	14.8	15.7	17.8
RoE (%)	29.5	18.4	19.7	22.4

## Analyst Meet update

## Consumer Staples &amp; Discretionary

Target price Rs2,800

## Shareholding pattern

	Mar '22	Jun '22	Sep '22
Promoters	61.9	61.9	61.9
Institutional investors	25.3	25.5	25.3
MFs and others	3.7	3.6	3.7
Banks, FI's, Insurance co	5.6	8.5	7.9
FII's	16.0	13.4	13.7
Others	12.8	12.6	12.8

Source: BSE

## ESG disclosure score

Year	2021	2022	Chg
ESG score	41.7	42.9	1.2
Environment	18.0	18.0	-
Social	20.9	24.5	3.6
Governance	86.1	86.1	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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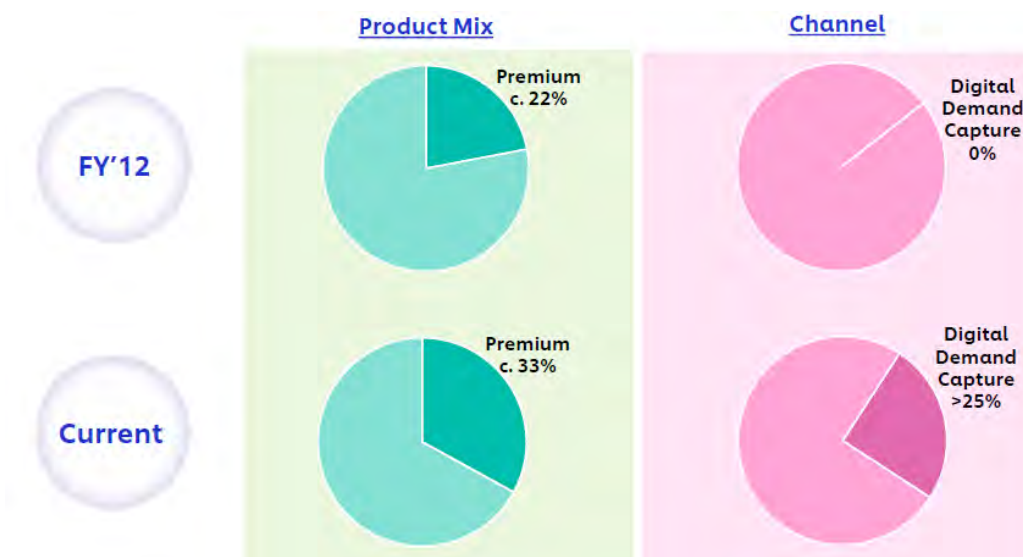
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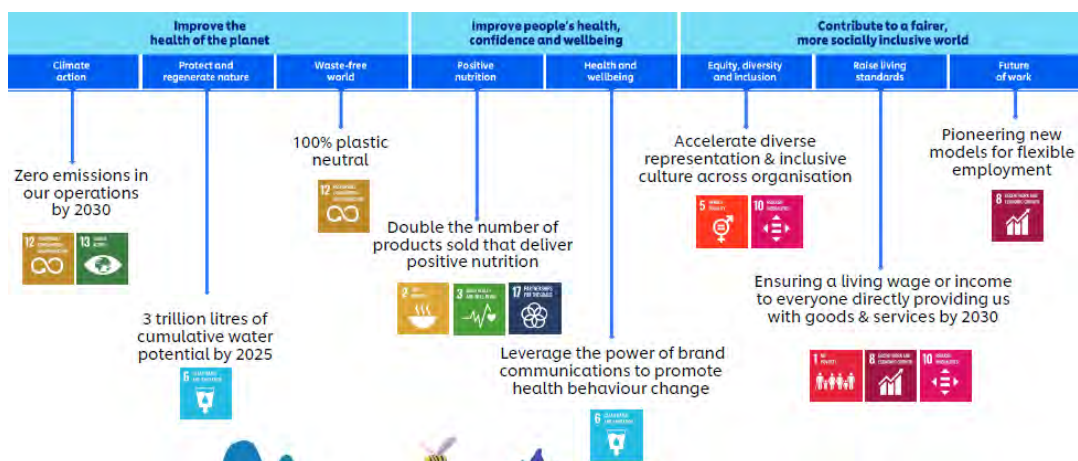
- ▶ **Revamped packaging for 40% of Foods and Refreshment (F&R) division.**
- ▶ **Best in class cost structures** which is lower than businesses in China and any other geographies of Unilever.
- ▶ **HUL is now plastic neutral** (it collects more plastic than it uses in its products). Variable pay of CEO & MD Sanjiv Mehta has linkages to company's ESG Goals.
- ▶ HUL has **44% gender diversity (for managerial workforce)** which is expected to increase to ~50% in next couple of years.
- ▶ **In terms of outlook**, near term focus will be 1) growing ahead of market, 2) build-back gross margins and 3) Stepping up ad-spends. Long term focus will be towards 1) competitive growth ahead of the market (grow the core, 2x growth of core in premium and prudent M&A in future growth spaces), 2) modest margin expansion (better mix from premiumisation and operating leverage) and 3) efficient use of capital (invest in business, growth enhancing M&A and returns to shareholders) leading to double digit EPS growth.
- ▶ **Valuation and risks:** Our earnings estimates are unchanged; modelling revenue / EBITDA / PAT CAGR of 12 / 13 / 14 (%) over FY22-24E. Maintain **ADD** rating with a DCF-based unchanged target price of Rs2,800. Key downside risks are delayed recovery in demand, sustained raw material inflation and irrational competition.

**Chart 1: Market leading positions across categories**

Source: Company data, I-Sec research

**Chart 2: Portfolio transformation**

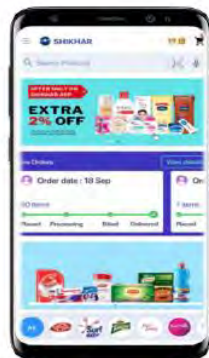
Source: Company data, I-Sec research

**Chart 3: ESG Goals**

Source: Company data, I-Sec research

Chart 4: Lead in channels of the future

**Digitising General Trade**  
1 million Shikhar stores



**Design for Channel**  
50% packs D4C ready



**New routes to consumers**  
14 D2C platforms



Source: Company data, I-Sec research

Chart 5: Leading premiumization through market development



Source: Company data, I-Sec research

Chart 6: HUL's growth opportunity in laundry business



Source: Company data, I-Sec research

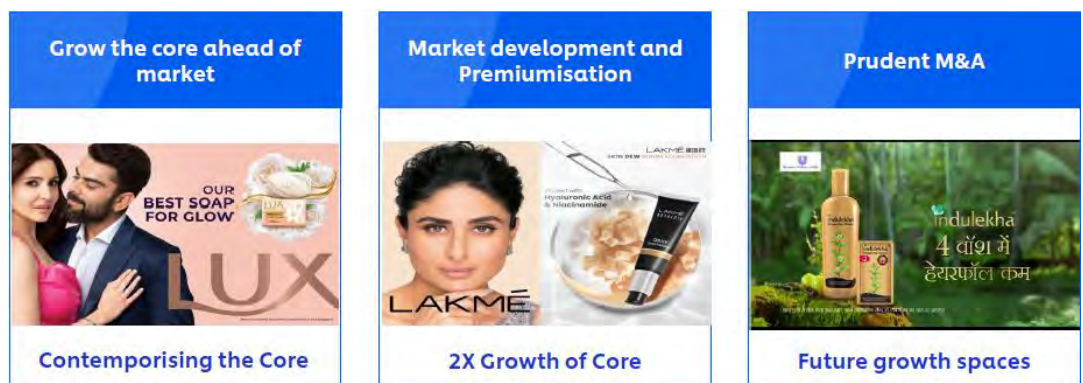


**Chart 7: Market leadership in tea category**

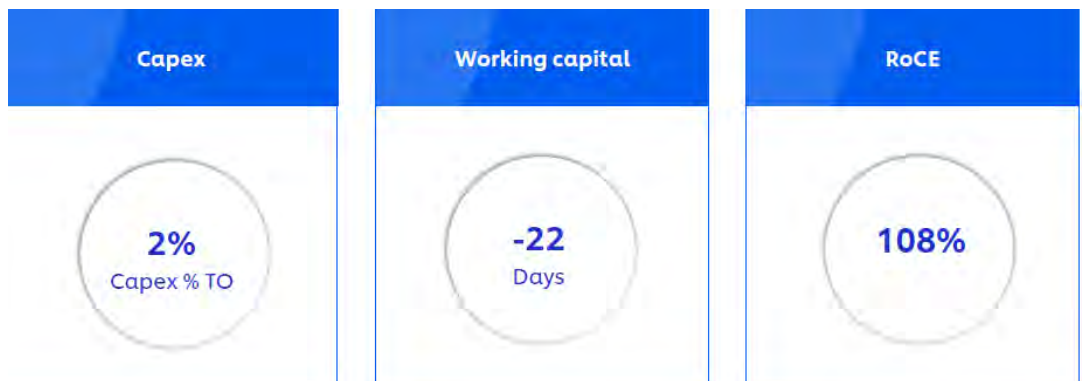
Source: Company data, I-Sec research

**Chart 8: Long term value creation**

Source: Company data, I-Sec research

**Chart 9: Growth strategy**

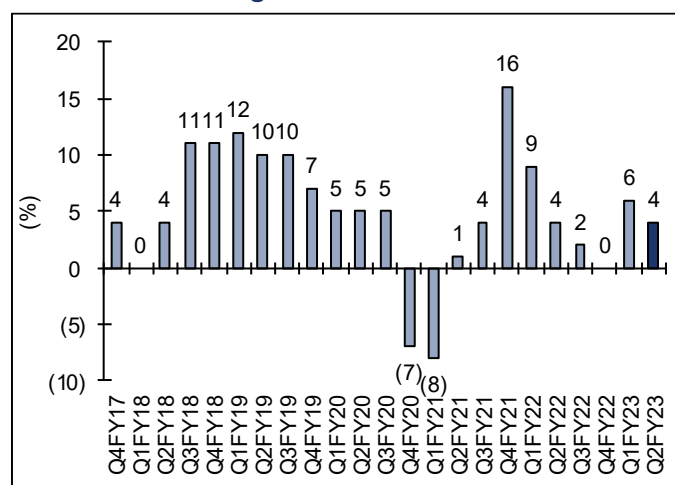
Source: Company data, I-Sec research

**Chart 10: Capital discipline**

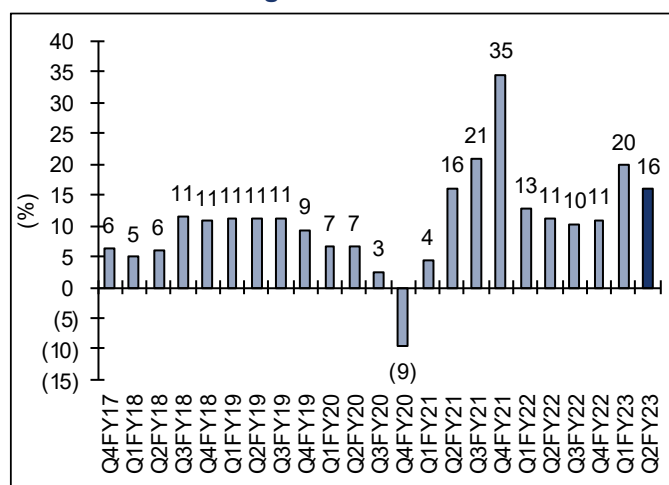
Source: Company data, I-Sec research

**Chart 11: Capital allocation principles**

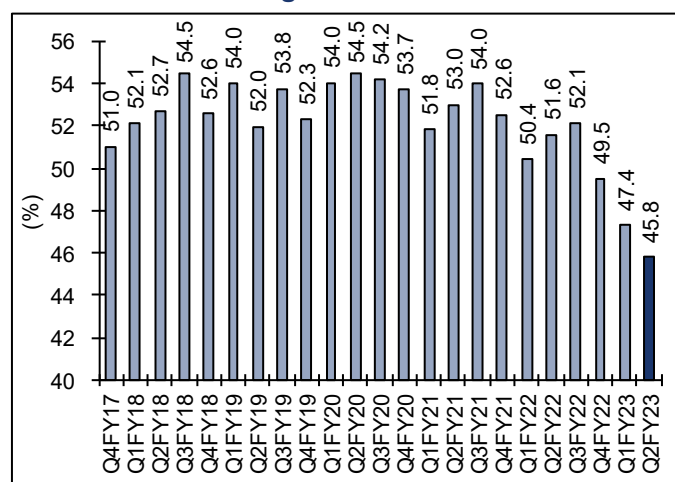
Source: Company data, I-Sec research

**Chart 12: Volume growth**

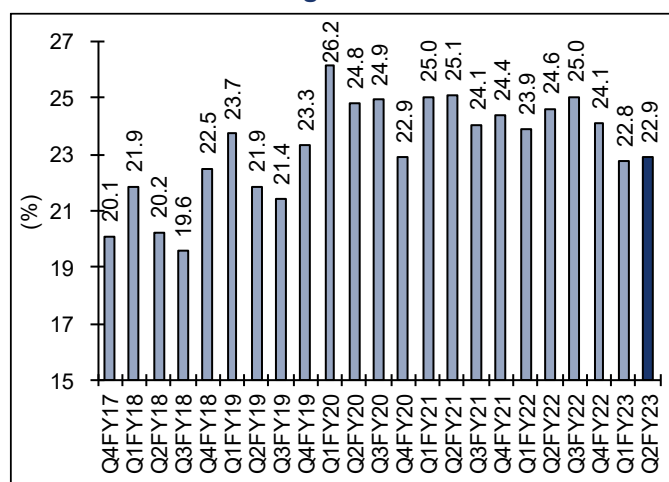
Source: Company data, I-Sec research

**Chart 13: Revenue growth**

Source: Company data, I-Sec research

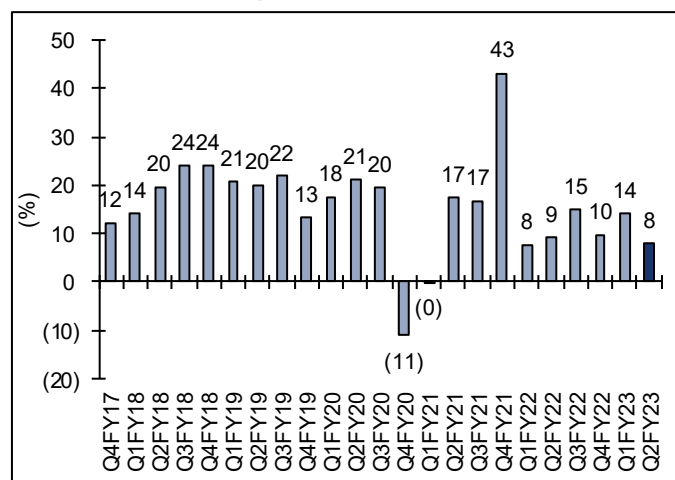
**Chart 14: Gross margin**

Source: Company data, I-Sec research

**Chart 15: EBITDA margin**

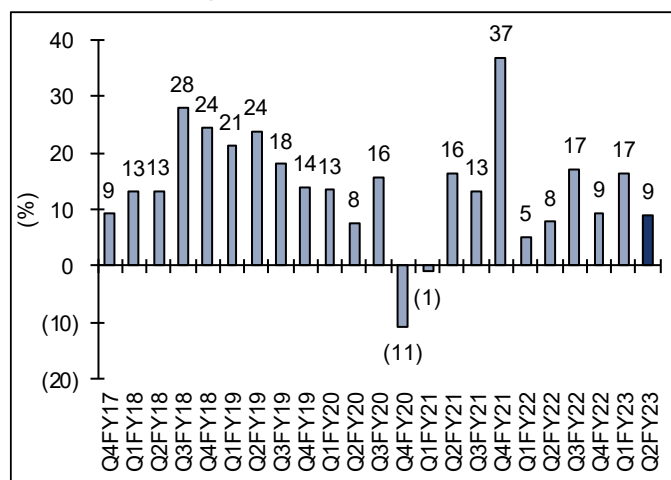
Source: Company data, I-Sec research

Chart 16: EBITDA growth



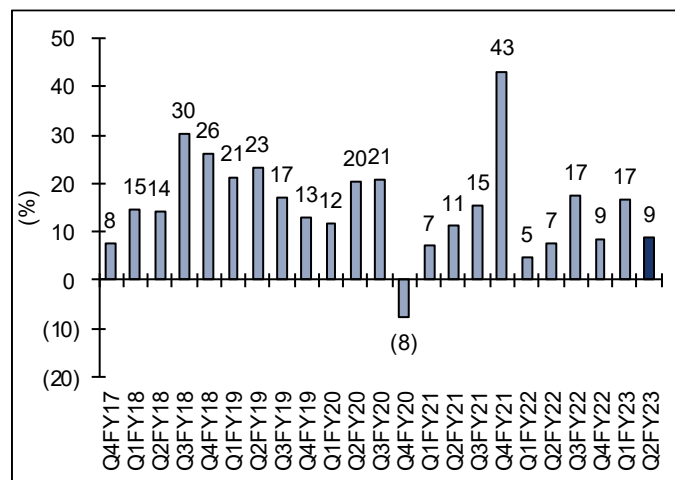
Source: Company data, I-Sec research

Chart 17: PBT growth



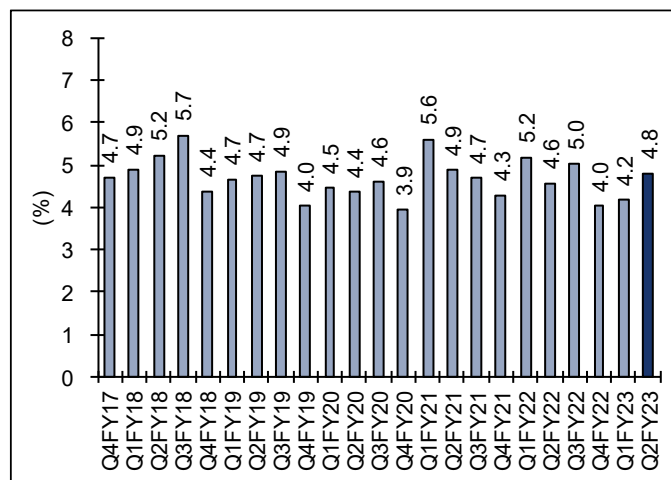
Source: Company data, I-Sec research

Chart 18: Recurring PAT growth



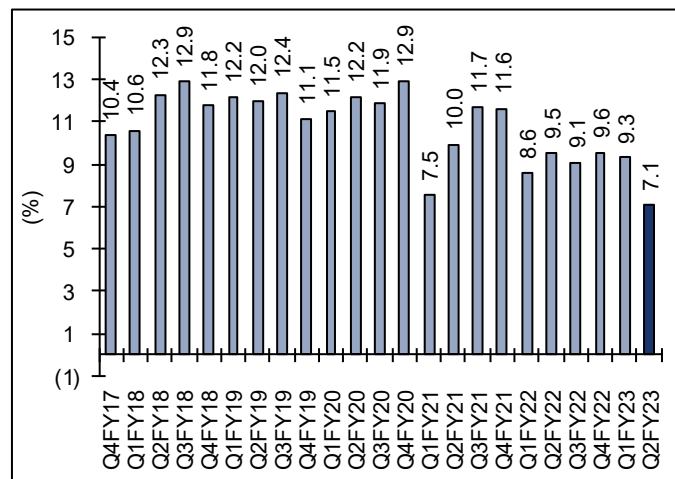
Source: Company data, I-Sec research

Chart 19: Staff costs as a % of sales



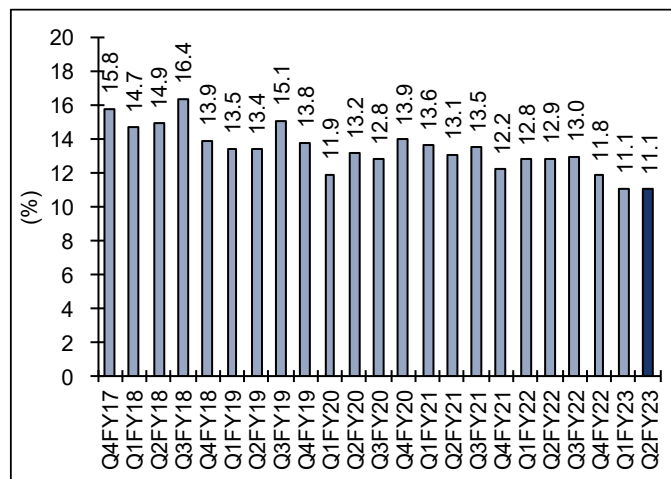
Source: Company data, I-Sec research

Chart 20: Ad-spends as a % of sales

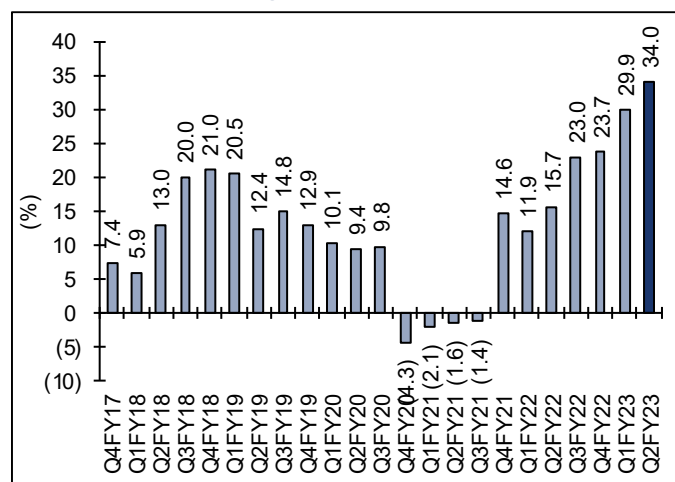


Source: Company data, I-Sec research

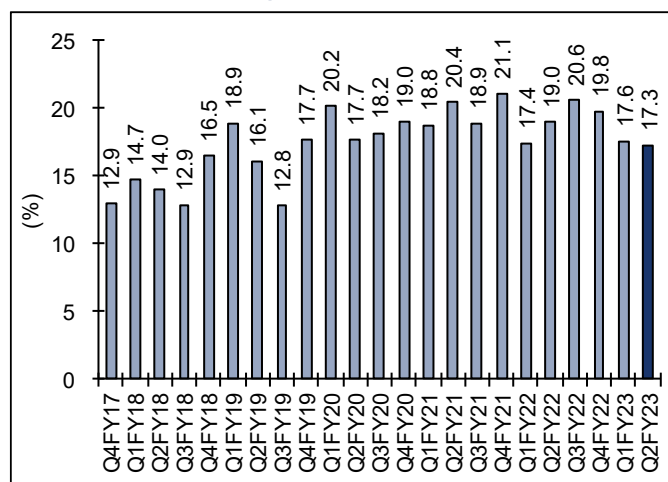
Chart 21: Other opex as a % of sales



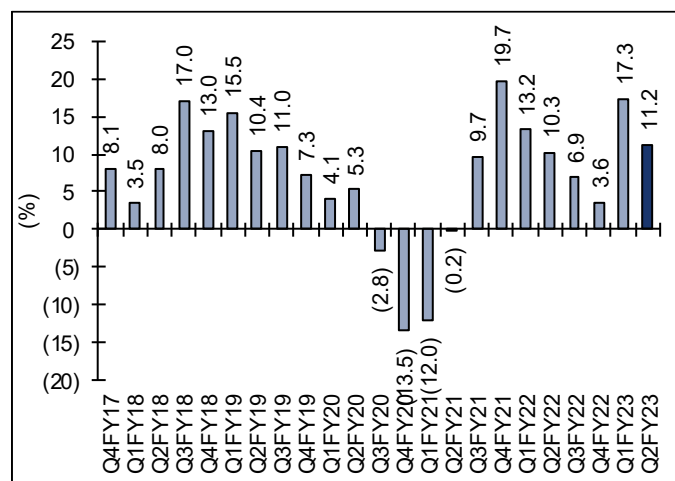
Source: Company data, I-Sec research

**Chart 22: Revenue growth - Home care**

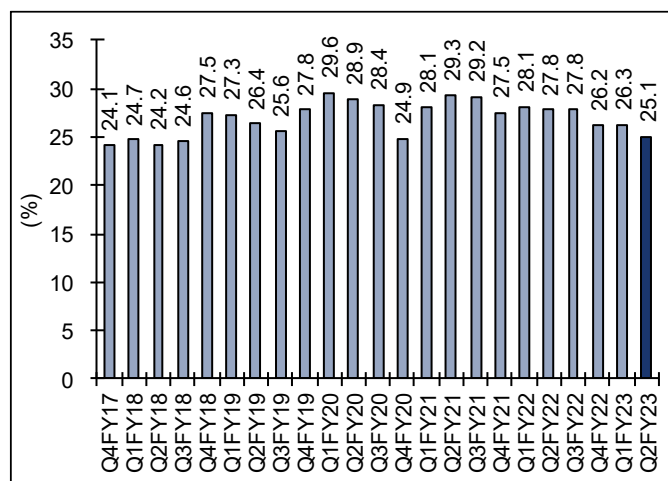
Source: Company data, I-Sec research

**Chart 23: EBIT margin – Home care**

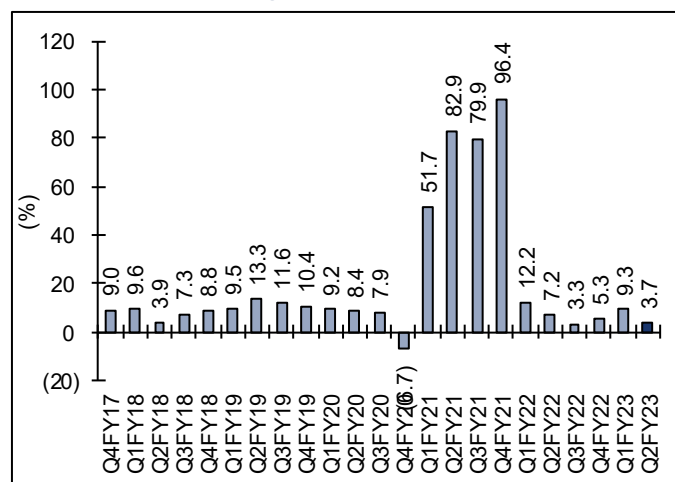
Source: Company data, I-Sec research

**Chart 24: Revenue growth - Beauty & Personal Care**

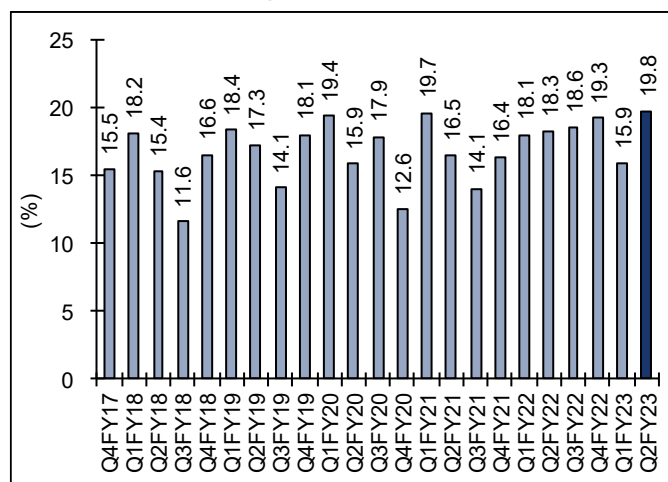
Source: Company data, I-Sec research

**Chart 25: EBIT margin – Beauty & Personal Care**

Source: Company data, I-Sec research

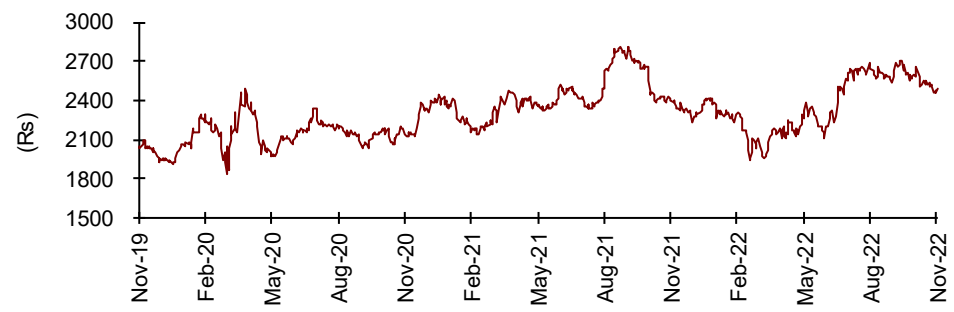
**Chart 26: Revenue growth - Foods & Refreshments**

Source: Company data, I-Sec research

**Chart 27: EBIT margin – Foods & Refreshments**

Source: Company data, I-Sec research



**Price chart**

Source: Bloomberg

## Financial summary

**Table 1: Profit & Loss statement**

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>459,960</b>	<b>511,930</b>	<b>587,448</b>	<b>642,123</b>
<b>Operating Expenses</b>	<b>346,720</b>	<b>386,900</b>	<b>449,682</b>	<b>481,242</b>
<b>EBITDA</b>	<b>113,240</b>	<b>125,030</b>	<b>137,766</b>	<b>160,881</b>
% margins	25	24	23	25
Depreciation & Amortisation	10,120	10,250	10,338	11,212
Gross Interest	1,080	980	1,063	1,154
Other Income	5,130	3,930	5,197	6,286
<b>Recurring PBT</b>	<b>107,170</b>	<b>117,730</b>	<b>131,562</b>	<b>154,801</b>
Less: Taxes	25,360	29,210	34,206	40,248
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>79,540</b>	<b>88,180</b>	<b>97,356</b>	<b>114,553</b>
Extraordinaries (Net)	(2,270)	(340)	-	-
<b>Recurring Net Income</b>	<b>81,810</b>	<b>88,520</b>	<b>97,356</b>	<b>114,553</b>

Source: Company data, I-Sec research

**Table 2: Balance sheet**

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	136,400	146,470	164,738	200,307
of which cash & cash eqv.	70,040	71,280	77,218	104,979
Total Current Liabilities & Provisions	105,770	106,590	109,004	123,646
<b>Net Current Assets</b>	<b>30,630</b>	<b>39,880</b>	<b>55,734</b>	<b>76,661</b>
Investments	28,260	31,550	35,169	37,645
Net Fixed Assets	510,270	510,340	510,513	510,790
Capital Work-in-Progress	6,230	9,010	9,010	9,010
<b>Total Assets</b>	<b>575,390</b>	<b>590,780</b>	<b>610,426</b>	<b>634,106</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>41,190</b>	<b>41,770</b>	<b>47,714</b>	<b>51,782</b>
<b>Deferred Tax Liability</b>	<b>59,860</b>	<b>61,410</b>	<b>61,410</b>	<b>61,410</b>
Minority Interest	-	-	-	-
Equity Share Capital	2,350	2,350	2,350	2,350
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	471,990	485,250	498,952	518,564
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>474,340</b>	<b>487,600</b>	<b>501,302</b>	<b>520,914</b>
<b>Total Liabilities</b>	<b>575,390</b>	<b>590,780</b>	<b>610,426</b>	<b>634,106</b>

Source: Company data, I-Sec research

**Table 3: Quarterly trends**

(Rs mn, year ending March 31)

	Dec 21	Mar 22	Jun 22	Sep 22
<b>Net sales</b>	<b>130,920</b>	<b>134,620</b>	<b>142,720</b>	<b>147,510</b>
% growth (YoY)	10	10	19	16
<b>EBITDA</b>	<b>32,790</b>	<b>32,450</b>	<b>32,470</b>	<b>33,770</b>
Margin (%)	25.0	24.1	22.8	22.9
Other income	910	1,220	1,370	1,150
Extraordinaries (Net)	(490)	440	-	2,370
<b>Net profit</b>	<b>22,920</b>	<b>22,830</b>	<b>22,890</b>	<b>23,790</b>

Source: Company data, I-Sec research

**Table 4: Cashflow statement**

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Operating Cashflow</b>	<b>90,130</b>	<b>97,530</b>	<b>103,560</b>	<b>120,633</b>
Working Capital Changes	(560)	(7,890)	(7,591)	8,426
Capital Commitments	(40,510)	(9,160)	(10,511)	(11,490)
<b>Free Cashflow</b>	<b>49,060</b>	<b>80,480</b>	<b>85,458</b>	<b>117,570</b>
<b>Cashflow from Investing Activities</b>	<b>(13,670)</b>	<b>(17,320)</b>	<b>(5,314)</b>	<b>(5,204)</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(4,690)	(4,650)	(1,063)	(1,154)
Dividend paid	(88,110)	(75,190)	(83,654)	(94,940)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(16,900)</b>	<b>(7,520)</b>	<b>5,938</b>	<b>27,762</b>
Closing cash & balance	17,400	9,880	15,818	43,579

Source: Company data, I-Sec research

**Table 5: Key ratios**

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS	34.8	37.7	41.4	48.7
Cash EPS	39.1	42.0	45.8	53.5
Dividend per share (DPS)	40.5	34.0	38.0	44.0
Book Value per share (BV)	201.8	207.5	213.3	221.7
<b>Growth (%)</b>				
Net Sales	6.8	11.1	14.2	8.5
EBITDA	2.2	10.4	10.2	16.8
PAT	18.0	8.2	10.0	17.7
DPS	62.0	(16.0)	11.8	15.8
<b>Valuation Ratios (x)</b>				
P/E	71.3	65.9	60.0	51.0
P/CEPS	63.5	59.1	54.2	46.4
P/BV	12.3	12.0	11.6	11.2
EV / EBITDA	50.9	46.1	41.9	35.8
EV / Sales	12.7	11.5	10.0	9.2
<b>Operating Ratios</b>				
Raw Material / Sales (%)	47.1	49.1	51.8	49.5
Employee cost / Sales (%)	4.8	4.7	4.5	4.4
Other exps / Sales (%)	23.4	21.8	20.3	21.0
Other Income / PBT (%)	4.8	3.3	4.0	4.1
Effective Tax Rate (%)	23.7	24.8	26.0	26.0
Working Capital (days)	(44.0)	(34.0)	(24.9)	(27.6)
Inventory Turnover (days)	26.8	27.7	27.6	27.5
Receivables (days)	13.1	13.8	13.7	13.6
Payables (days)	68.5	63.2	63.1	63.0
Net D/E (x)	(0.1)	(0.1)	(0.2)	(0.2)
<b>Profitability Ratios (%)</b>				
Net Income Margins	17.8	17.3	16.6	17.8
RoACE	23.1	14.8	15.7	17.8
RoAE	29.5	18.4	19.7	22.4
Dividend Payout	119.6	90.6	91.7	90.3
Dividend Yield	1.6	1.4	1.5	1.8
EBITDA Margins	24.6	24.4	23.5	25.1

Source: Company data, I-Sec research

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*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)*

**BUY:** >15% return; **ADD:** 5% to 15% return; **HOLD:** Negative 5% to Positive 5% return; **REDUCE:** Negative 5% to Negative 15% return; **SELL:** < negative 15% return

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