

Hindustan Unilever

BUY

Price/cost agility to address current underperformance

Summary

Hindustan Unilever (HUVR) 3QFY22 result was below our estimates. Volume growth at 2% was soft due to grammage reduction in Rs 1-5-10 price points. Price hike led the double digit growth in topline. Home Care and BPC performed well. Value growth in food segment optically looked moderate due to high base. Highest ever (since last 10 years) gain in market share across price points and categories has been encouraging. Inflationary headwinds have been stronger than expected which led to steepest decline in GM since last 6 quarters. Margins are likely to remain under pressure. However, calibrated price hike and cost saving should aid in achieving normalcy. Accordingly; we have trimmed our EPS estimate for FY22E by 4% factoring lower margin expectations. We maintain BUY with revised TP of Rs 3,098 at 60x FY24E EPS.

Key Highlights and Investment Rationale

■ Home Care and BPC drives topline growth

Domestic consumer growth stood at 11% driven by 2%YoY volume growth. Revenue growth in Home Care and Beauty and Personal stood at; 23%YoY and 7%YoY respectively while Food and Refreshment grew 3%YoY. On 2 year CAGR basis; health, hygiene and nutrition (85% revenue) grew 10% while discretionary (12% revenue) and OOH (3% revenue) reported 5% and 12% value growth respectively.

■ Margins impacted due to inflationary raw material

Gross margin declined 186bp YoY (7th consecutive decline) to 52% due to inflation in raw material prices (c. 30% over last 1 year). However, EBITDA margin expanded 99bp YoY to 25% due to cost savings. Adjusted Net Profit grew 18%YoY.

TP **Rs 3,098**

CMP **Rs 2,262**

Potential upside/downside **37%**

Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.3)	(8.8)	(4.0)
Rel to Sensex	(6.8)	(5.9)	(23.4)

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	38.6	45.0	51.6
Consensus	38.4	44.7	50.7
% difference	0.5	0.6	1.8

Key Stock Data

Bloomberg/Reuters	HUVR IN / HLL.BO
Sector	Personal Products
Shares o/s (mn)	2,350
Market cap. (Rs mn)	5,313,836
3-m daily average value (Rs mn)	214.2
52-week high / low	Rs 2,859 / 2,104
Sensex / Nifty	59,465 / 17,757

Shareholding Pattern (%)

Promoters	61.9
FII	14.7
DII	8.6
Public	14.8

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	3,87,850	4,59,960	5,14,019	5,66,635	6,24,830
Change (yoy, %)	1	19	12	10	10
EBITDA	96,000	1,13,240	1,26,786	1,49,066	1,70,513
Change (yoy, %)	11	18	12	18	14
EBITDA Margin(%)	24.8	24.6	24.7	26.3	27.3
Adj.PAT	67,380	79,540	90,644	1,05,746	1,21,351
EPS (Rs)	31.2	33.8	38.6	45.0	51.6
Change (yoy, %)	11.6	8.5	14.0	16.7	14.8
PE(x)	72.5	66.8	58.6	50.3	43.8
Dividend Yield (%)	1.3	1.2	1.4	1.4	1.6
EV/EBITDA (x)	50.4	46.6	41.4	35.0	30.3
RoE (%)	85.9	28.7	18.8	20.9	22.4
RoCE (%)	86.6	30.4	20.0	22.8	24.7

Source: IDBI Capital Research

Conference call highlights

- Price protection (of Rs 1-2-10 pack; 30% of revenue) through grammage reduction has impacted volume growth by c. 2% in 3QFY22
- Integration with GSK is now c. 90% complete
- Growth in Horlicks impacted due to closure of schools. However; degree of innovation, frequency of communication and market development efforts continue to track well. HUVR aims for big market opportunity in high-science range category through GSK's food portfolio.
- HUVR expect health food drink market to growth at high double digit driven by market development and penetration (currently at 20%).
- Management doesn't expect channel of future (e-commerce, direct to consumer, B2B platforms) to be major challenge for business prospects. They are likely to co-exist. HUVR expects general trade and distributor driven model to stay in-tact at-least for next decade
- HUVR invested in Shikhar app (used by 7 lakh retailers) to connect existing distributors with general trade (instead of taking orders directly from Kirana stores). This is to showcase how much importance the company gives to existing distribution set-up
- Cash and Carry is now 10 year old in India. Their existence helped in supplementing existing distribution channel instead of disruption distributor business.
- Softening of commodity prices and improvement in disposable income should help in recovery of rural growth.
- Management expects inflation to persist. However, cost agility and calibrated price should help in achieving normalcy.
- Company plans to invest Rs300-500 crs under PLI going forward

Exhibit 1: Standalone Quarterly Snapshot

(INR m)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
Revenues	1,30,920	1,18,620	10.4	1,27,240	2.9	3,77,310	3,38,640	11.4
COGS	62,690	54,590	14.8	61,580	1.8	1,83,320	1,59,210	15.1
Gross profit	68,230	64,030	6.6	65,660	3.9	1,93,990	1,79,430	8.1
Gross Margin (%)	52.1	54.0	-186bps	51.6	51bps	51.4	53.0	-157bps
Employee expenses	6,570	5,560	18.2	5,820	12.9	18,570	17,070	8.8
% of net sales	5.0	4.7	33bps	4.6	44bps	4.9	5.0	-12bps
Advertisement expenses	11,890	13,880	-14.3	12,150	-2.14	34,280	33,240	3.1
% of net sales	9.1	11.7	-262bps	9.5	-47bps	9.1	9.8	-73bps
Other Expenses	16,980	16,050	5.8	16,370	3.7	48,560	45,450	6.8
% of net sales	13.0	13.5	-56bps	12.9	10bps	12.9	13.4	-55bps
EBITDA	32,790	28,540	14.9	31,320	4.7	92,580	83,670	10.6
EBITDA Margin (%)	25.0	24.1	99bps	24.6	43bps	24.5	24.7	-17bps
Depreciation	2,550	2,720	-6.3	2,650	-3.8	7,640	7,630	0.1
EBIT	30,240	25,820	17.1	28,670	5.48	84,940	76,040	11.7
Other Income	910	970	-6.2	1,130	-19.5	2,710	4,040	-32.9
Interest Expenses	250	410	-39.0	260	-3.8	620	990	-37.4
PBT	30,900	26,380	17.1	29,540	4.6	87,030	79,090	10.0
Taxes	7,810	6,750	15.7	7,670	1.8	21,200	18,570	
Adjusted PAT	23,090	19,630	17.6	21,870	5.6	65,830	60,520	8.8
Extra-ordinary items	-660	-420	57.1	0		-920	-2,410	
Reported PAT	22,430	19,210	16.8	21,870	2.6	64,910	58,110	11.7
EPS	9.5	8.2	16.8	9.3	2.6	27.6	24.7	11.7

Source: Company; IDBI Capital Research

Exhibit 2: Segmental revenue and EBIT break up

(INR m)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
Segmental Revenue								
Home Care	41,930	34,090	23.0	38,380	9.2	1,18,280	1,01,190	16.9
Beauty & Personal Care	51,750	48,410	6.9	50,000	3.5	1,47,480	1,34,150	9.9
Foods & Refreshments	34,660	33,560	3.3	36,220	-4.3	1,04,070	96,930	7.4
Other operations	2,580	2,560	0.8	2,640	-2.3	7,480	6,370	17.4
Segmental EBIT								
Home Care	8,640	6,460	33.7	7,280	18.7	22,540	19,610	14.9
Beauty & Personal Care	14,410	14,130	2.0	13,900	3.7	41,180	38,750	6.3
Foods & Refreshments	6,460	4,730	36.6	6,640	-2.7	19,100	16,140	18.3
Others (includes OTC business, Chemicals, Water, etc)	730	500	46.0	850	-14	2,120	1,540	37.7
Segmental Margin								
Home Care	20.6%	18.9%	166bps	19.0%	164bps	19.1%	19.4%	-32bps
Beauty & Personal Care	27.8%	29.2%	-134bps	27.8%	5bps	27.9%	28.9%	-96bps
Foods & Refreshments	18.6%	14.1%	454bps	18.3%	31bps	18.4%	16.7%	170bps
Others	28.3%	19.5%	876bps	32.2%	-390bps	28.3%	24.2%	417bps

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. Estimates

(Rs mn)

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	1,30,920	1,32,538	-1.2%
EBITDA	32,790	34,460	-4.8%
Margin (%)	25.0%	26.0%	
PAT	22,430	24,427	-8.2%

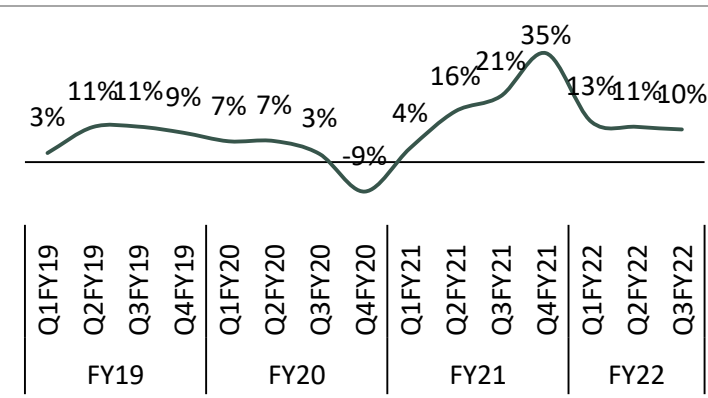
Source: Company; IDBI Capital Research

Exhibit 4: Change in estimates

	FY22E			FY23E			FY24E		
	New	Old	(%) Chg	New	Old	(%) Chg	New	Old	(%) Chg
Revenue (Rs mn)	5,14,019	5,19,301	-1.0%	5,66,635	5,72,603	-1.0%	6,24,830	631574	-1.1%
EBITDA (Rs mn)	1,26,786	1,30,455	-2.8%	1,49,066	1,50,329	-0.8%	1,70,513	172076	-0.9%
EBITDA margin (%)	24.7%	25.1%		26.3%	26.3%		27.3%	27.25%	
Net profit (Rs mn)	88,804	92,226	-3.7%	1,05,746	1,06,700	-0.9%	1,21,351	122536	-1.0%
EPS (Rs)	37.8	39.2	-3.7%	45.0	45.4	-0.9%	51.6	52	-1.0%

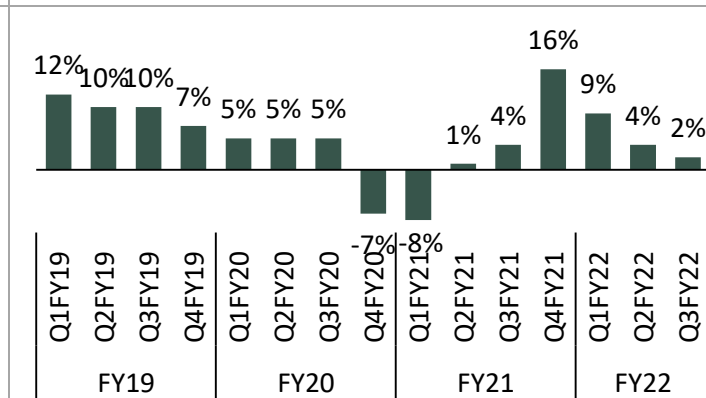
Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth trend (% YoY)



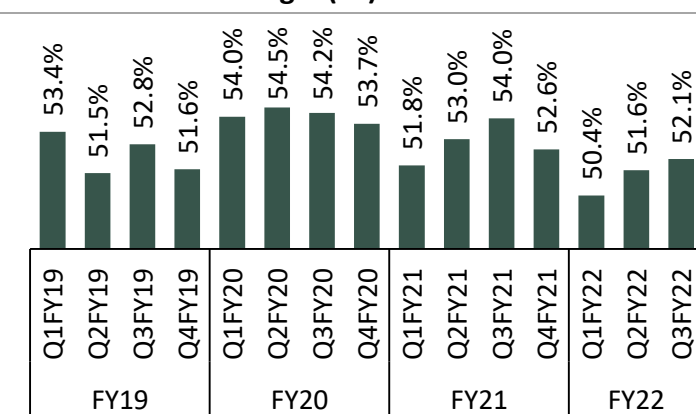
Source: Company, IDBI Capital Research

Exhibit 6: Volume growth trend (%)



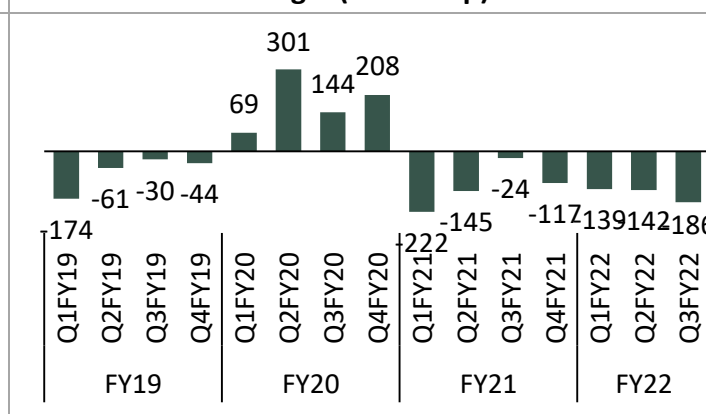
Source: Company, IDBI Capital Research

Exhibit 7: Gross Margin (%)



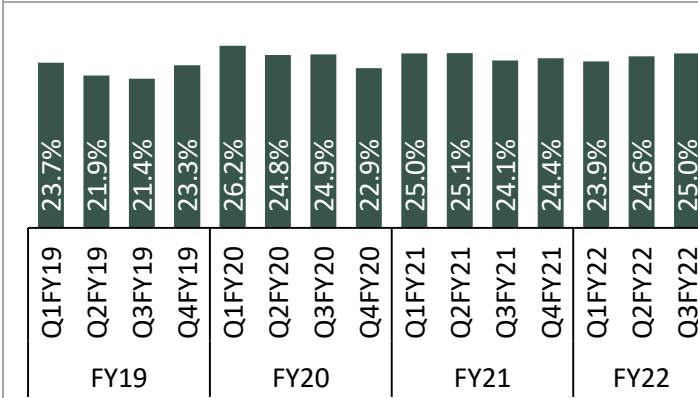
Source: Company, IDBI Capital Research

Exhibit 8: Gross Margin (YoY in bp)



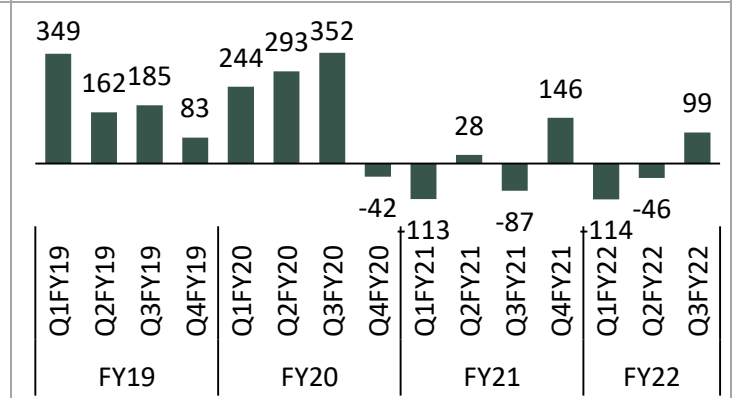
Source: Company, IDBI Capital Research

Exhibit 9: EBITDA Margin (%)



Source: Company, IDBI Capital Research

Exhibit 10: EBITDA Margin (YoY in bp)



Source: Company, IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	3,82,240	3,87,850	4,59,960	5,14,019	5,66,635	6,24,830
<i>Change (yoy, %)</i>	9	1	19	12	10	10
Operating expenses	(2,95,870)	(2,91,850)	(3,46,720)	(3,87,233)	(4,17,570)	(4,54,317)
EBITDA	86,370	96,000	1,13,240	1,26,786	1,49,066	1,70,513
<i>Change (yoy, %)</i>	18.7	11.1	18.0	12.0	17.6	14.4
<i>Margin (%)</i>	22.6	24.8	24.6	24.7	26.3	27.3
Depreciation	(5,240)	(9,380)	(10,120)	(10,432)	(11,317)	(12,343)
EBIT	81,130	86,620	1,03,120	1,16,354	1,37,748	1,58,170
Interest paid	(280)	(1,060)	(1,080)	(876)	(985)	(1,025)
Other income	6,640	7,330	5,130	3,848	4,232	4,655
Pre-tax profit	87,490	92,890	1,07,170	1,19,325	1,40,995	1,61,801
Tax	(24,860)	(23,540)	(25,360)	(29,601)	(35,249)	(40,450)
<i>Effective tax rate (%)</i>	28.4	25.3	23.7	24.8	25.0	25.0
Minority Interest	-	-	-	-	-	-
Net profit	62,630	69,350	81,810	89,724	1,05,746	1,21,351
Exceptional items	2,270	1,970	2,270	(920)	-	-
Adjusted net profit	60,360	67,380	79,540	90,644	1,05,746	1,21,351
<i>Change (yoy, %)</i>	15	12	18	14	17	15
EPS	27.9	31.2	33.8	38.6	45.0	51.6
Dividend per sh	21.0	28.9	26.6	30.8	31.5	36.1
<i>Dividend Payout %</i>	75.3	92.7	78.6	79.9	70.0	70.0

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	76,590	80,310	4,74,340	4,90,764	5,22,488	5,58,893
Share capital	2,160	2,160	2,350	2,350	2,350	2,350
Reserves & surplus	74,430	78,150	4,71,990	4,88,414	5,20,138	5,56,543
Total Debt	-	-	-	-	-	-
Other liabilities	18,530	24,670	98,410	98,410	98,410	98,410
Curr Liab & prov	83,530	91,040	1,08,410	1,18,549	1,28,418	1,39,333
Current liabilities	78,520	86,860	1,03,500	1,13,639	1,23,508	1,34,423
Provisions	5,010	4,180	4,910	4,910	4,910	4,910
Total liabilities	1,02,060	1,15,710	2,06,820	2,16,959	2,26,828	2,37,743
Total equity & liabilities	1,78,650	1,96,020	6,81,160	7,07,723	7,49,316	7,96,636
Net fixed assets	47,200	55,870	5,16,670	5,13,845	5,11,472	5,09,360
Investments	2,560	2,520	3,120	3,120	3,120	3,120
Other non-curr assets	15,190	18,730	25,140	25,140	25,140	25,140
Current assets	1,13,700	1,18,900	1,36,230	1,65,618	2,09,584	2,59,016
Inventories	24,220	26,360	33,830	37,806	41,676	45,956
Sundry Debtors	16,730	10,460	16,480	18,417	20,302	22,387
Cash and Bank	36,880	50,170	43,210	66,685	1,04,896	1,47,963
Loans and advances	-	-	-	-	-	-
Total assets	1,78,650	1,96,020	6,81,160	7,07,723	7,49,316	7,96,636

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	85,220	90,920	1,04,900	1,18,405	1,40,995	1,61,801
Depreciation	5,240	9,380	10,690	10,432	11,317	12,343
Tax paid	(26,850)	(24,650)	(23,670)	(29,601)	(35,249)	(40,450)
Chg in working capital	(2,920)	(380)	3,380	4,226	4,114	4,550
Other operating activities	(3,410)	(2,220)	(5,730)	876	985	1,025
Cash flow from operations (a)	57,280	73,050	89,570	1,04,338	1,22,163	1,39,268
Capital expenditure	(6,620)	(7,540)	(6,290)	(7,607)	(8,944)	(10,231)
Chg in investments	(130)	22,250	-	-	-	-
Other investing activities	4,110	4,550	(7,380)	-	-	-
Cash flow from investing (b)	(2,640)	19,260	(13,670)	(7,607)	(8,944)	(10,231)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	(45,460)	(62,440)	(62,510)	(72,380)	(74,023)	(84,945)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(9,160)	(4,320)	(30,290)	(876)	(985)	(1,025)
Cash flow from financing (c)	(54,620)	(66,760)	(92,800)	(73,256)	(75,008)	(85,970)
Net chg in cash (a+b+c)	20	25,550	(16,900)	23,475	38,211	43,067

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	35	37	202	209	222	238
Adj EPS (Rs)	27.9	31.2	33.8	38.6	45.0	51.6
Adj EPS growth (%)	15.3	11.6	8.5	14.0	16.7	14.8
EBITDA margin (%)	22.6	24.8	24.6	24.7	26.3	27.3
Pre-tax margin (%)	22.9	23.9	23.3	23.2	24.9	25.9
Net Debt/Equity (x)	(0.5)	(0.6)	(0.1)	(0.1)	(0.2)	(0.3)
ROCE (%)	90.0	86.6	30.4	20.0	22.8	24.7
ROE (%)	81.9	85.9	28.7	18.8	20.9	22.4
DuPont Analysis						
Asset turnover (x)	2.2	2.1	1.0	0.7	0.8	0.8
Leverage factor (x)	2.4	2.4	1.6	1.4	1.4	1.4
Net margin (%)	15.8	17.4	17.3	17.6	18.7	19.4
Working Capital & Liquidity ratio						
Inventory days	23	25	27	27	27	27
Receivable days	16	10	13	13	13	13
Payable days	87	93	91	91	93	94

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	80.9	72.5	66.8	58.6	50.3	43.8
Price/Book value (x)	63.8	60.8	11.2	10.8	10.2	9.5
EV/Net sales (x)	12.7	12.5	11.5	10.2	9.2	8.3
EV/EBITDA (x)	56	50	47	41	35	30
Dividend Yield (%)	0.9	1.3	1.2	1.4	1.4	1.6

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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