

Hindustan Unilever

HOLD

Strong performance; inflation pressure continues to persist

Summary

Hindustan Unilever (HUVR) 1QFY23 result was above our estimates. Overall 6% volume growth is impressive. Home care and BPC segments outperformed. High kitchen inflation impacted discretionary consumption. However, revenue growth in premium segment (of BPC and Home Care) remains resilient due to high disposable income customers. Inflation in Food and Refreshment category has been steep (50% in Horlicks) which impacted revenue growth. Once inflation subsides (likely by 3QFY23E), HUL expects growth in HFD to bounce back. Positively, HUVR is gaining market share in >75% of its portfolio. Inflation has been steep during 1QFY23 and is likely to be so during 2QFY23E. Accordingly, we have adjusted our EPS estimates downwards by c. 4% during FY23-24E. Our revised rating stands at HOLD with a TP of Rs 2,567.

Key Highlights and Investment Rationale

- High double digit growth in Home Care and BPC:** Revenue growth stood at 20%YoY (on a base of 13%) driven by 6% volume growth. Revenue growth in Home Care and Beauty & Personal Care (BPC) stood at 30% and 17% YoY respectively. Revenue from Food and refreshments grew 9%YoY. Premium skin care and ice cream segment sales surpassed pre-covid level. More than 75% of the portfolio gained market share during 1QFY23.
- Input cost inflation impacted margins:** Gross margin contracted 309bp YoY (9th consecutive decline) to 47.4% due to inflation in raw material prices. As a consequence, EBITDA margin declined 114bp YoY to 22.8%. Adjusted Net Profit grew 10%YoY to Rs23 bn.
- HOLD:** As per revised business outlook we have trimmed our EPS estimate by c. 4% during FY23-24E. At current price, our revised rating stands at HOLD with a TP of Rs 2,567. We value HUL at 55x FY24E EPS.

TP **Rs 2,567**

CMP **Rs 2,566**

Potential upside/downside 0%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	21.5	21.3	6.5
Rel to Sensex	14.8	24.3	2.2

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	40.4	46.7
Consensus	40.7	47.5
% difference	(0.8)	(1.6)

Key Stock Data

Bloomberg/Reuters	HUVR IN / HLL.BO
Sector	Personal Products
Shares o/s (mn)	2,350
Market cap. (Rs mn)	6,029,051
3-m daily average value (Rs mn)	300.4
52-week high / low	Rs 2,859 / 1,902
Sensex / Nifty	54,768 / 16,341

Shareholding Pattern (%)

Promoters	61.9
FII	13.3
DII	9.7
Public	15.1

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	3,87,850	4,59,960	5,11,930	5,62,093	6,21,097
Change (yoy, %)	1	19	11	10	10
EBITDA	96,000	1,13,240	1,25,030	1,36,439	1,56,804
Change (yoy, %)	11	18	10	9	15
EBITDA Margin(%)	24.8	24.6	24.4	24.3	25.2
Adj.PAT	67,380	79,540	88,860	94,986	1,09,698
EPS (Rs)	31.2	33.8	37.8	40.4	46.7
Change (yoy, %)	11.6	8.5	11.7	6.9	15.5
PE(x)	82.3	75.8	67.9	63.5	55.0
Dividend Yield (%)	1.1	1.0	1.2	1.1	1.3
EV/EBITDA (x)	57.2	52.9	47.9	43.6	37.7
RoE (%)	85.9	28.7	18.5	18.9	20.6
RoCE (%)	86.6	30.4	19.8	20.8	22.9

Source: IDBI Capital Research

Conference call highlights

- During 1QFY23 FMCG industry grew in mid single digits driven by pricing. Rural volumes declined by 3% while urban fell by 7%. In last 3 years volume growth remained flat across markets. Soaps witnessed highest inflation and has been major contributor to volume decline for FMCG industry while tea prices declined YoY.
- HUVR witnessed 20% inflation (NMI) during 1QFY23. Company took price hike of 12% during the quarter. Grammage reduction impacted volumes by 2-3% in 1QFY23. Company mitigated inflationary impact through cost savings, price increase and operating leverage.
- Management expects 2QFY23E margins to be impacted due to inflationary pressures. However, margins are likely to improve sequentially from 3QFY23E with decline in RM prices. Company is likely to pass on benefits from reduction in RM prices to consumers.
- In Beauty and Personal care, Dove, Tresseme, Indulekha, Ponds witnessed healthy growth. Hair care (50% market share) and skin care (10-20% category penetration) are fastest growing brands in beauty and well-being category. These segments being under penetrated are likely to grow at higher rate going forward.
- HFD category (20% penetrated) was impacted due to lower discretionary spends by consumers. For Horlicks, company has streamlined the portfolio post acquisition, bought in plus range and has more innovations in pipeline.
- Company gained high market share in detergents due to product superiority and investments in liquid detergents segment for market development.
- F&R margins declined 200 bps YoY during 1QFY23 due to high A&P spends to drive competitiveness and product mix impact (high growth in low margin ice-cream business).
- D2C format to be focused on websites compared to apps.
- WiMi strategy has led to HUVR gaining leadership position in laundry and tea categories.
- Shikhar app has been adopted by 9.5 lakh retail outlets (20% digitized demand captured).
- Effective tax rate to be 26% for FY23E.

Exhibit 1: Standalone Quarterly Snapshot

(INR m)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	YTD FY23	YTD FY22	YoY (%)
Revenues	1,42,720	1,19,150	19.8	1,34,620	6.0	1,42,720	1,19,150	19.8
COGS	75,140	59,050	27.2	67,920	10.6	75,140	59,050	27.2
Gross profit	67,580	60,100	12.4	66,700	1.3	67,580	60,100	12.4
Gross Margin (%)	47.4	50.4	-309bps	49.5	-220bps	47.4	50.4	-309bps
Employee expenses	5,970	6,180	-3.4	5,420	10.1	5,970	6,180	-3.4
<i>% of net sales</i>	<i>4.2</i>	<i>5.2</i>	<i>-100bps</i>	<i>4.0</i>	<i>16bps</i>	<i>4.2</i>	<i>5.2</i>	<i>-100bps</i>
Advertisement expenses	13,280	10,240	29.7	12,900	2.95	13,280	10,240	29.7
<i>% of net sales</i>	<i>9.3</i>	<i>8.6</i>	<i>71bps</i>	<i>9.6</i>	<i>-28bps</i>	<i>9.3</i>	<i>8.6</i>	<i>71bps</i>
Other Expenses	15,860	15,210	4.3	15,930	-0.4	15,860	15,210	4.3
<i>% of net sales</i>	<i>11.1</i>	<i>12.8</i>	<i>-165bps</i>	<i>11.8</i>	<i>-72bps</i>	<i>11.1</i>	<i>12.8</i>	<i>-165bps</i>
EBITDA	32,470	28,470	14.0	32,450	0.1	32,470	28,470	14.0
EBITDA Margin (%)	22.8	23.9	-114bps	24.1	-135bps	22.8	23.9	-114bps
Depreciation	2,600	2,440	6.6	2,610	-0.4	2,600	2,440	6.6
EBIT	29,870	26,030	14.8	29,840	0.10	29,870	26,030	14.8
Other Income	1,370	670	104.5	1,220	12.3	1,370	670	104.5
Interest Expenses	260	110	136.4	360	-27.8	260	110	136.4
PBT	30,980	26,590	16.5	30,700	0.9	30,980	26,590	16.5
Taxes	7,970	5,720	39.3	8,010	-0.5	7,970	5,720	39.3
Adjusted PAT	23,010	20,870	10.3	22,690	1.4	23,010	20,870	10.3
Extra-ordinary items	-120	-260		580		-120	-260	
Reported PAT	22,890	20,610	11.1	23,270	-1.6	22,890	20,610	11.1
EPS	9.7	8.8	11.1	9.9	-1.6	9.7	8.8	11.1

Source: Company; IDBI Capital Research

Exhibit 2: Segmental revenue and EBIT break up

(INR m)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	YTFY23	YTFY22	YoY (%)
Segmental Revenue								
Home Care	49,310	37,970	29.9	47,500	3.8	49,310	37,970	29.9
Beauty & Personal Care	53,640	45,730	17.3	47,120	13.8	53,640	45,730	17.3
Foods & Refreshments	36,270	33,190	9.3	36,980	-1.9	36,270	33,190	9.3
Other operations	3,500	2,260	54.9	3,020	15.9	3,500	2,260	54.9
Segmental EBIT								
Home Care	8,690	6,620	31.3	9,390	-7.5	8,690	6,620	31.3
Beauty & Personal Care	14,110	12,870	9.6	12,360	14.2	14,110	12,870	9.6
Foods & Refreshments	5,780	6,000	-3.7	7,130	-18.9	5,780	6,000	-3.7
Others (includes OTC business, Chemicals, Water, etc)	1,290	540	138.9	960	34	1,290	540	138.9
Segmental Margin								
Home Care	17.6%	17.4%	19bps	19.8%	-215bps	17.6%	17.4%	19bps
Beauty & Personal Care	26.3%	28.1%	-184bps	26.2%	7bps	26.3%	28.1%	-184bps
Foods & Refreshments	15.9%	18.1%	-214bps	19.3%	-334bps	15.9%	18.1%	-214bps
Others	36.9%	23.9%	1296bps	31.8%	507bps	36.9%	23.9%	1296bps

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. Estimates

(Rs mn)

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	1,42,720	1,32,916	7.4%
EBITDA	32,470	31,235	4.0%
Margin (%)	22.8%	23.5%	
PAT	22,890	21,909	4.5%

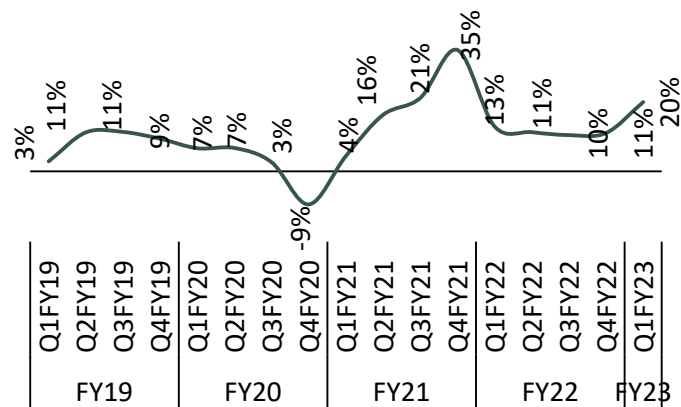
Source: Company; IDBI Capital Research

Exhibit 4: Change in estimates

	FY23E			FY24E		
	New	Old	(%) Chg	New	Old	(%) Chg
Revenue (Rs mn)	5,62,093	5,62,093	0.0%	6,21,097	6,21,097	0.0%
EBITDA (Rs mn)	1,36,439	1,39,704	-2.3%	1,56,804	1,60,528	-2.3%
EBITDA margin (%)	24.3%	24.9%		25.2%	25.85%	
Net profit (Rs mn)	94,986	99,127	-4.2%	1,09,698	1,14,354	-4.1%
EPS (Rs)	40.4	42.2	-4.2%	46.7	49	-4.1%

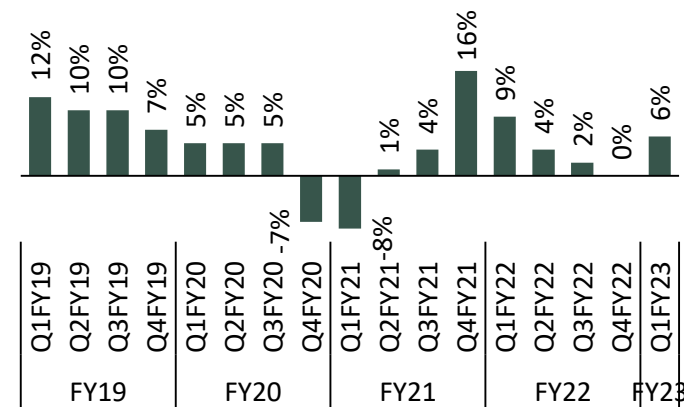
Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth trend (% YoY)



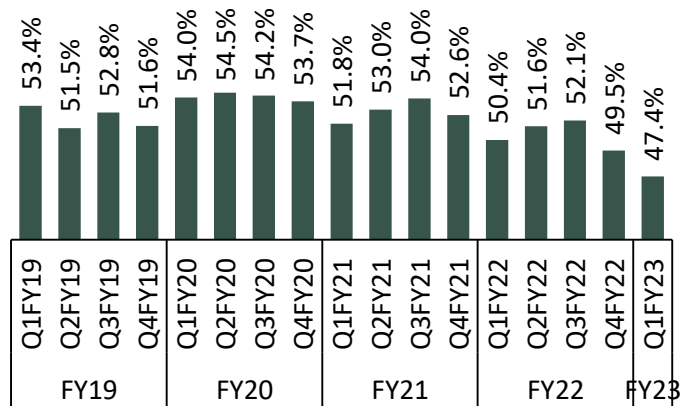
Source: Company, IDBI Capital Research

Exhibit 6: Volume growth trend (%)



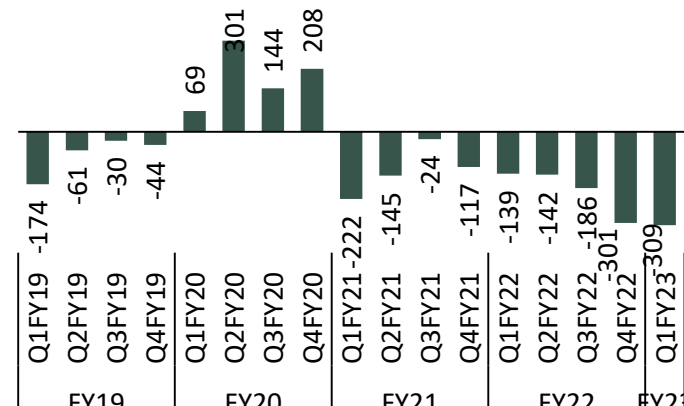
Source: Company, IDBI Capital Research

Exhibit 7: Gross Margin (%)



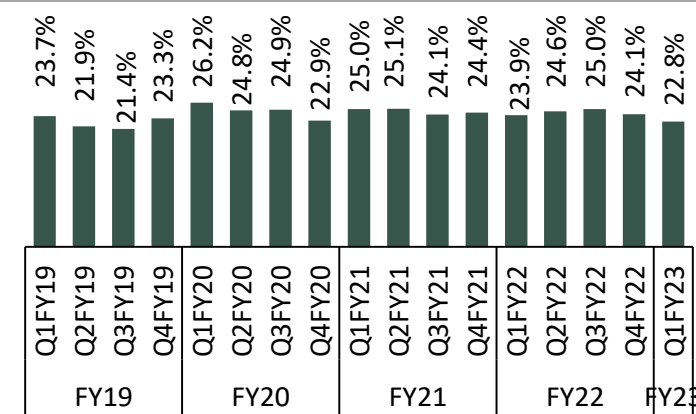
Source: Company, IDBI Capital Research

Exhibit 8: Gross Margin (YoY in bp)



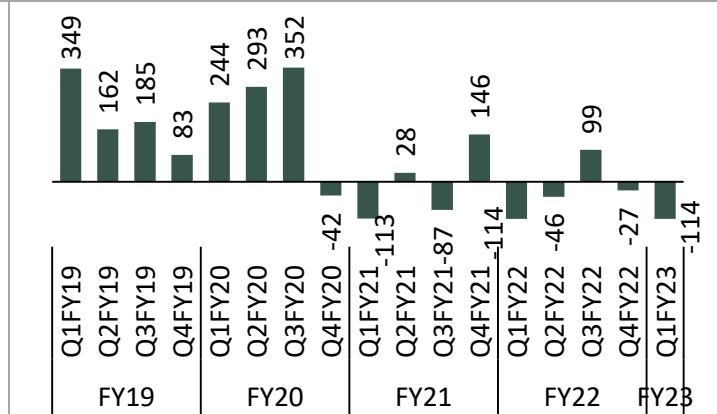
Source: Company, IDBI Capital Research

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	FY22	FY23E	FY24E
Net sales	3,82,240	3,87,850	4,59,960	5,11,930	5,62,093	6,21,097
<i>Change (yoy, %)</i>	9	1	19	11	10	10
Operating expenses	(2,95,870)	(2,91,850)	(3,46,720)	(3,86,900)	(4,25,654)	(4,64,293)
EBITDA	86,370	96,000	1,13,240	1,25,030	1,36,439	1,56,804
<i>Change (yoy, %)</i>	18.7	11.1	18.0	10.4	9.1	14.9
<i>Margin (%)</i>	22.6	24.8	24.6	24.4	24.3	25.2
Depreciation	(5,240)	(9,380)	(10,120)	(10,250)	(11,055)	(11,979)
EBIT	81,130	86,620	1,03,120	1,14,780	1,25,384	1,44,825
Interest paid	(280)	(1,060)	(1,080)	(980)	(1,073)	(1,038)
Other income	6,640	7,330	5,130	3,930	4,048	4,453
Pre-tax profit	87,490	92,890	1,07,170	1,17,730	1,28,359	1,48,240
Tax	(24,860)	(23,540)	(25,360)	(29,210)	(33,373)	(38,542)
<i>Effective tax rate (%)</i>	28.4	25.3	23.7	24.8	26.0	26.0
Minority Interest	-	-	-	-	-	-
Net profit	62,630	69,350	81,810	88,520	94,986	1,09,698
Exceptional items	2,270	1,970	2,270	(340)	-	-
Adjusted net profit	60,360	67,380	79,540	88,860	94,986	1,09,698
<i>Change (yoy, %)</i>	15	12	18	12	7	15
EPS	27.9	31.2	33.8	37.8	40.4	46.7
Dividend per sh	21.0	28.9	26.6	32.0	28.3	32.7
<i>Dividend Payout %</i>	75.3	92.7	78.6	84.6	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	4,87,600	5,16,096	5,49,005
Share capital	2,160	2,160	2,350	2,350	2,350	2,350
Reserves & surplus	74,430	78,150	4,71,990	4,85,250	5,13,746	5,46,655
Total Debt	-	-	-	-	-	-
Other liabilities	18,530	24,670	98,410	1,00,330	1,00,330	1,00,330
Curr Liab & prov	83,530	91,040	1,08,410	1,09,440	1,26,226	1,37,293
Current liabilities	78,520	86,860	1,03,500	1,06,100	1,22,886	1,33,953
Provisions	5,010	4,180	4,910	3,340	3,340	3,340
Total liabilities	1,02,060	1,15,710	2,06,820	2,09,770	2,26,556	2,37,623
Total equity & liabilities	1,78,650	1,96,020	6,81,160	6,97,370	7,42,652	7,86,628
Net fixed assets	47,200	55,870	5,16,670	5,19,350	5,13,652	5,11,082
Investments	2,560	2,520	3,120	6,120	6,120	6,120
Other non-curr assets	15,190	18,730	25,140	25,430	25,430	25,430
Current assets	1,13,700	1,18,900	1,36,230	1,46,470	1,97,450	2,43,996
Inventories	24,220	26,360	33,830	38,900	41,342	45,682
Sundry Debtors	16,730	10,460	16,480	19,320	20,139	22,253
Cash and Bank	36,880	50,170	43,210	36,180	83,899	1,23,991
Loans and advances	-	-	-	-	-	-
Total assets	1,78,650	1,96,020	6,81,160	6,97,370	7,42,652	7,86,628

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	85,220	90,920	1,04,900	1,17,390	1,28,359	1,48,240
Depreciation	5,240	9,380	10,690	10,400	11,055	11,979
Tax paid	(26,850)	(24,650)	(23,670)	(27,200)	(33,373)	(38,542)
Chg in working capital	(2,920)	(380)	3,380	(5,320)	13,525	4,613
Other operating activities	(3,410)	(2,220)	(5,730)	(5,630)	1,073	1,038
Cash flow from operations (a)	57,280	73,050	89,570	89,640	1,20,638	1,27,327
Capital expenditure	(6,620)	(7,540)	(6,290)	(9,160)	(5,357)	(9,408)
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)	(9,160)	(5,357)	(9,408)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	(45,460)	(62,440)	(62,510)	(75,190)	(66,490)	(76,788)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(9,160)	(4,320)	(30,290)	(4,650)	(1,073)	(1,038)
Cash flow from financing (c)	(54,620)	(66,760)	(92,800)	(79,840)	(67,563)	(77,826)
Net chg in cash (a+b+c)	20	25,550	(16,900)	640	47,719	40,093

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	35	37	202	207	220	234
Adj EPS (Rs)	27.9	31.2	33.8	37.8	40.4	46.7
Adj EPS growth (%)	15.3	11.6	8.5	11.7	6.9	15.5
EBITDA margin (%)	22.6	24.8	24.6	24.4	24.3	25.2
Pre-tax margin (%)	22.9	23.9	23.3	23.0	22.8	23.9
Net Debt/Equity (x)	(0.5)	(0.6)	(0.1)	(0.1)	(0.2)	(0.2)
ROCE (%)	90.0	86.6	30.4	19.8	20.8	22.9
ROE (%)	81.9	85.9	28.7	18.5	18.9	20.6

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	17.4	16.9	17.7

Working Capital & Liquidity ratio

Inventory days	23	25	27	28	27	27
Receivable days	16	10	13	14	13	13
Payable days	87	93	91	84	90	92

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	91.8	82.3	75.8	67.9	63.5	55.0
Price/Book value (x)	72.4	69.0	12.7	12.4	11.7	11.0
EV/Net sales (x)	14.4	14.2	13.0	11.7	10.6	9.5
EV/EBITDA (x)	64	57	53	48	44	38
Dividend Yield (%)	0.8	1.1	1.0	1.2	1.1	1.3

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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