

# Hindustan Unilever

**HOLD**

In-line; inflation to be the chief concern

## Summary

Hindustan Unilever (HUVR) 1QFY22 result was in line with our estimates. Resiliency in demand for health, hygiene and nutrition portfolio helped HUL to protect decline in revenue growth (compared to 4QFY21) due to impact of 2<sup>nd</sup> wave induced lockdowns. Revenue from discretionary and out of home consumption portfolio impacted significantly. Demand from rural outperformed urban during the quarter. Positively HUL has taken 3% price hike in respective product portfolio to mitigate the impact of inflation. Further, premium portfolio is growing at 2x compared to other products; this should be more margin accretive. Management expects integration with GSK to be 100% complete by Dec'21; this should aid in acceleration of revenue growth in food and refreshment category. However, cost inflation in palm oil, tea and crude oil remains chief concern and is unlikely to abate soon. Consequently, we have marginally trimmed our EPS estimates by 5% in FY22E and 2% in FY23E. Our revised TP stands at Rs 2,567 (vs 2,607 earlier) with HOLD rating.

## Key Highlights and Investment Rationale

### Resiliency in demand for Health, hygiene and nutrition drives topline

On comparable basis revenue grew 12%YoY driven by 9%YoY volume growth and c. 3% price hike in laundry, tea and skin care portfolio. Demand for health, hygiene and nutrition portfolio (c. 85% revenue share) continued to remain healthy and grew at 8%YoY (16% QoQ) while discretionary portfolio (c. 12% revenue share) and OOH (3% revenue share) reported decline of 24% QoQ (+39%YoY) and -40% QoQ (+91%YoY). Revenue from home care and food and refreshment grew 12%YoY respectively while from beauty and personal care grew 13%YoY. Revenue from online channels grew 2x YoY and now contributes > c. 10% to the business.

### Margins impacted due to inflationary raw material

Gross margin declined 33bp YoY to 51.5% due to inflationary pressure of key raw material prices viz; palm oil, tea and crude oil. EBITDA margin contracted 114bp to 23.9% due to lower gross margin and higher ad spends (+105bpYoY as % of revenue). Adjusted PAT grew 4.4%YoY to Rs20bn.

### Trim estimates to factor inflation; HOLD

We have factored in impact of rise in inflationary pressure into our estimate. We have trimmed our EPS estimate for FY22-23E by 5% and 2% respectively. Accordingly, our revised TP stands at Rs 2,567 (55x FY23E EPS) with HOLD rating.

TP **Rs2,567**  
CMP **Rs2,379**

Potential upside / downside **+8%**

### V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	40.9	46.7
Consensus	40.5	46.8
% difference	1.1	(0.2)

### Shareholding Pattern (%)

Promoters	61.9
FII	15.0
DII	7.6
Public	15.5

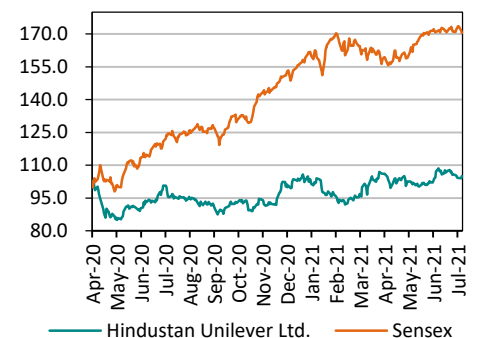
### Price Performance (%)

	-1m	-3m	-12m
Absolute	(5.5)	(0.6)	2.6
Rel to Sensex	(6.0)	(11.4)	(36.7)

### Key Stock Data

Bloomberg / Reuters	HUVR IN / HLL.BO
Sector	Personal Products
Shares o/s (mn)	2,350
Market cap. (Rs mn)	5,588,849
Market cap. (US\$ mn)	75,052
3-m daily average value (Rs mn)	2,227.5
52-week high / low	Rs 2,532 / 2,001
Sensex / Nifty	52,837 / 15,824

### Relative to Sensex (%)



### Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	382,240	387,850	459,960	519,301	572,603
EBITDA	86,370	96,000	113,240	137,178	156,048
EBITDA (%)	22.6	24.8	24.6	26.4	27.3
Adj. PAT	60,360	67,380	79,540	96,125	109,667
EPS (Rs)	27.9	31.2	33.8	40.9	46.7
EPS Growth (%)	15.3	11.6	8.5	20.9	14.1
PE (x)	86.2	77.2	71.2	60.5	53.0
Dividend Yield (%)	0.9	1.2	1.1	1.2	1.3
EV/EBITDA (x)	59.8	53.7	49.6	41.8	36.5
RoE (%)	81.9	85.9	28.7	19.8	21.3
RoCE (%)	90.0	86.6	30.4	21.4	23.3

Source: Company; IDBI Capital Research

**Exhibit 1: Standalone Quarterly Snapshot**

(INR m)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Revenues</b>	<b>119,150</b>	<b>105,600</b>	<b>12.8</b>	<b>121,320</b>	<b>-1.8</b>	<b>459,960</b>	<b>387,850</b>	<b>18.6</b>
COGS	59,050	50,870	16.1	57,560	2.6	216,770	177,930	21.8
Gross profit	60,100	54,730	9.8	63,760	-5.7	243,190	209,920	15.8
<b>Gross Margin (%)</b>	<b>50.4</b>	<b>51.8</b>	<b>-139 bps</b>	<b>52.6</b>	<b>-211 bps</b>	<b>52.9</b>	<b>54.1</b>	<b>-125 bps</b>
Employee expenses	6,180	5,920	4.4	5,220	18.4	22,290	16,910	31.8
<i>% of net sales</i>	<i>5.2</i>	<i>5.6</i>	<i>-42 bps</i>	<i>4.3</i>	<i>88 bps</i>	<i>4.8</i>	<i>4.4</i>	<i>49 bps</i>
Advertisement expenses	10240.0	7970	28.5	14130	-27.53	47370	46860	1.1
<i>% of net sales</i>	<i>8.6</i>	<i>7.5</i>	<i>105 bps</i>	<i>11.6</i>	<i>-305 bps</i>	<i>10.3</i>	<i>12.1</i>	<i>-178 bps</i>
Other Expenses	15,210	14,400	5.6	14,840	2.5	60,290	50,150	20.2
<i>% of net sales</i>	<i>12.8</i>	<i>13.6</i>	<i>-87 bps</i>	<i>12.2</i>	<i>53 bps</i>	<i>13.1</i>	<i>12.9</i>	<i>18 bps</i>
<b>EBITDA</b>	<b>28,470</b>	<b>26,440</b>	<b>7.7</b>	<b>29,570</b>	<b>-3.7</b>	<b>113,240</b>	<b>96,000</b>	<b>18.0</b>
<b>EBITDA Margin (%)</b>	<b>23.9</b>	<b>25.0</b>	<b>-114 bps</b>	<b>24.4</b>	<b>-48 bps</b>	<b>24.6</b>	<b>24.8</b>	<b>-13 bps</b>
Depreciation	2,440	2,420	0.8	2,490	-2.0	10,120	9,380	7.9
EBIT	26,030	24,020	8.4	27,080	-3.88	103,120	86,620	19.0
Other Income	670	1,560	-57.1	1,090	-38.5	5,130	7,330	-30.0
Interest Expenses	110	290	-62.1	90	22.2	1,080	1,060	1.9
<b>PBT</b>	<b>26,590</b>	<b>25,290</b>	<b>5.1</b>	<b>28,080</b>	<b>-5.3</b>	<b>107,170</b>	<b>92,890</b>	<b>15.4</b>
Taxes	5,720	5,300	7.9	6,790	-15.8	25,360	23,540	
<b>Adjusted PAT</b>	<b>20,870</b>	<b>19,990</b>	<b>4.4</b>	<b>21,290</b>	<b>-2.0</b>	<b>81,810</b>	<b>69,350</b>	<b>18.0</b>
Extra-ordinary items	-260	-1,180	-78.0	140		-2,270	-1,970	
Reported PAT	20,610	18,810	9.6	21,430	-3.8	79,540	67,380	18.0
<b>EPS</b>	<b>8.8</b>	<b>8.0</b>	<b>9.6</b>	<b>9.1</b>	<b>-3.8</b>	<b>33.8</b>	<b>31.2</b>	<b>8.5</b>

Source: Company; IDBI Capital Research

**Exhibit 2: Segmental revenue and EBIT break up**

(INR m)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Segmental Revenue</b>								
Home Care	37,970	33,920	11.9	38,400	-1.1	139,590	136,420	2.3
Beauty & Personal Care	45,730	40,390	13.2	45,490	0.5	179,640	173,450	3.6
Foods & Refreshments	33,190	29,580	12.2	35,110	-5.5	132,040	74,500	77.2
Other operations	2,260	1,710	32.2	2,320	-2.6	8,690	3,480	149.7
<b>Segmental EBIT</b>								
Home Care	6,620	6,370	3.9	8,120	-18.5	27,730	25,590	8.4
Beauty & Personal Care	12,870	11,340	13.5	12,520	2.8	51,270	48,700	5.3
Foods & Refreshments	6,000	5,820	3.1	5,750	4.3	21,890	12,320	77.7
Others (includes OTC business, Chemicals, Water, etc)	540	490	10.2	690	-22	2,230	60	
<b>Segmental Margin</b>								
Home Care	17.4%	18.8%	-134 bps	21.1%	-371 bps	19.9%	18.8%	111 bps
Beauty & Personal Care	28.1%	28.1%	7 bps	27.5%	62 bps	28.5%	28.1%	46 bps
Foods & Refreshments	18.1%	19.7%	-160 bps	16.4%	170 bps	16.6%	16.5%	4 bps
Others	23.9%	28.7%	-476 bps	29.7%	-585 bps	25.7%	1.7%	2394 bps

Source: Company; IDBI Capital Research

**Exhibit 3: Actual vs. Estimates**

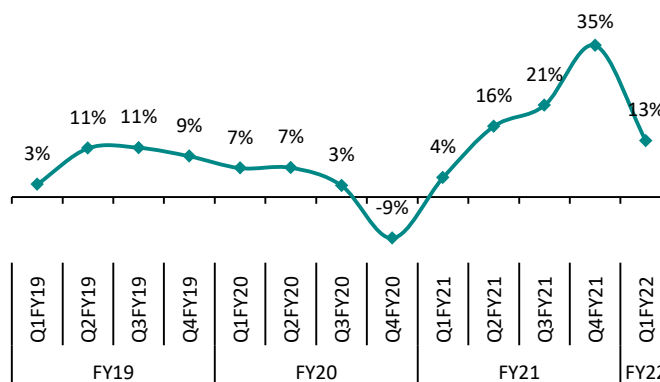
Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	119,150	125,463	-5.0
EBITDA	28,470	30,488	-6.6
Margin (%)	23.9	24.3	
PAT	20,610	21,415	-3.8

Source: Company; IDBI Capital Research

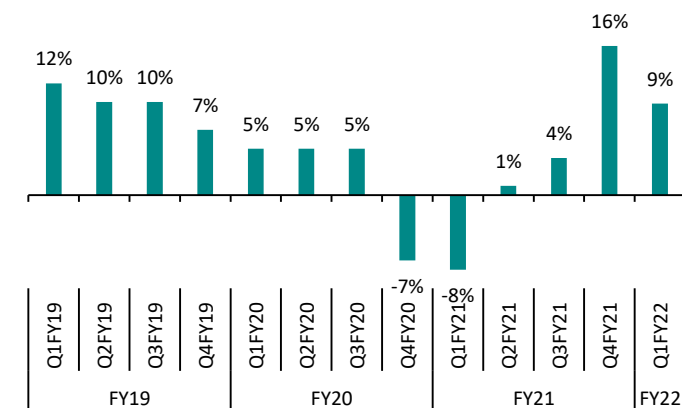
**Exhibit 4: Change in estimates**

	FY22E			FY23E		
	New	Old	(%) Chg	New	Old	(%) Chg
Revenue (Rs mn)	519,301	519,301	0.0	572,603	572,603	0.0
EBITDA (Rs mn)	137,178	143,685	-4.5	156,048	158,430	-1.5
EBITDA margin (%)	26.4	27.7		27.3	27.7	
Net profit (Rs mn)	96,125	100,929	-4.8	109,667	111,391	-1.5
EPS (Rs)	40.9	42.9	-4.8	46.7	47.4	-1.5

Source: Company; IDBI Capital Research

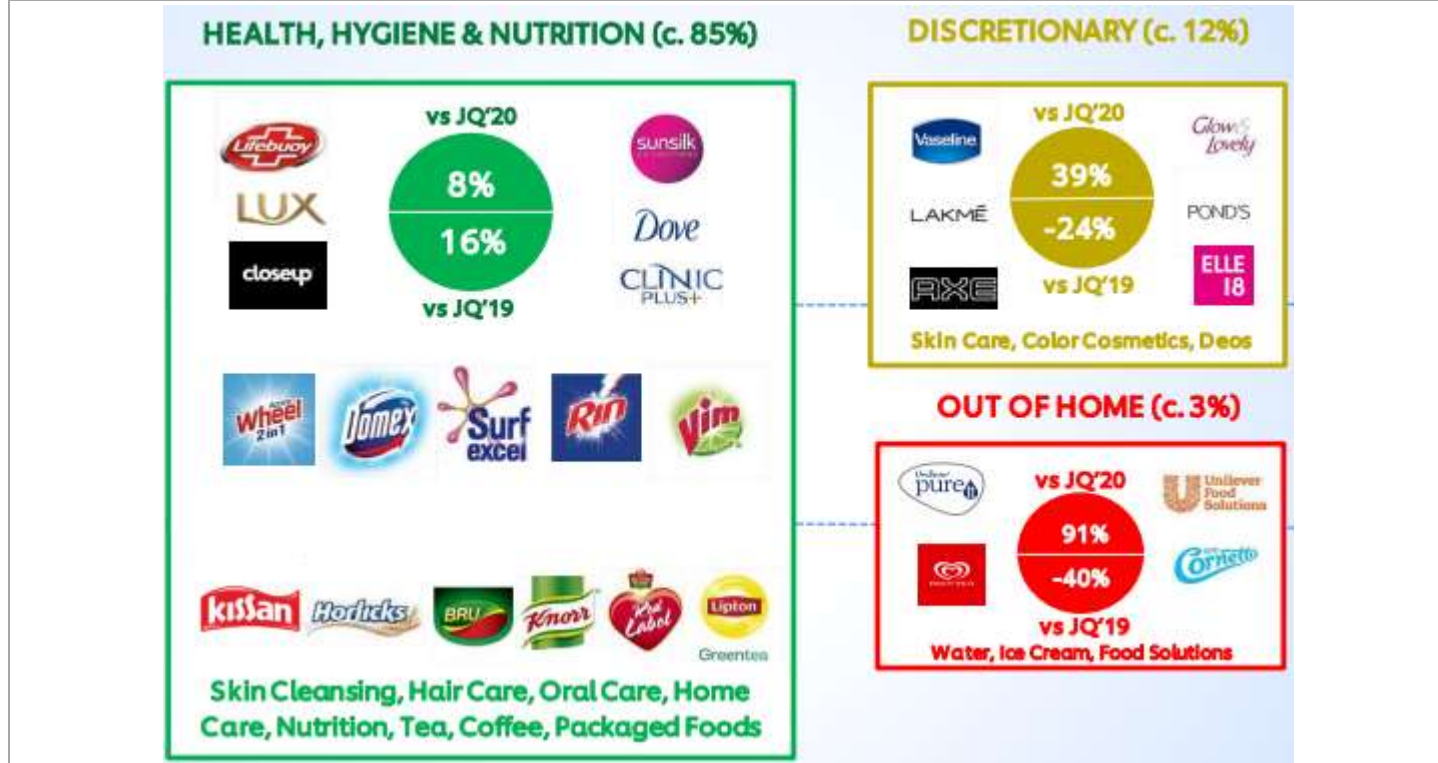
**Exhibit 5: Revenue growth trend (% YoY)**


Source: Company; IDBI Capital Research

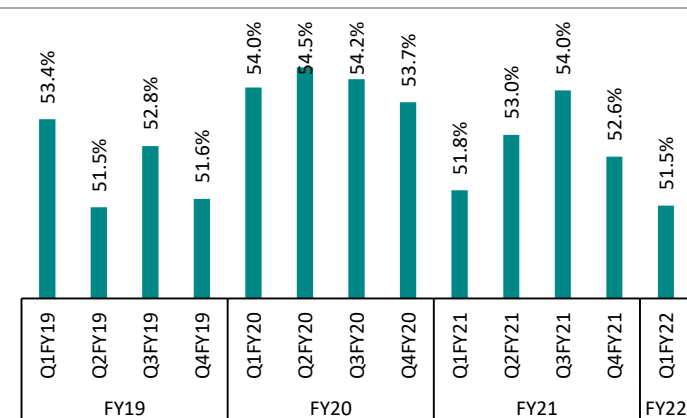
**Exhibit 6: Volume growth trend (%)**


Source: Company; IDBI Capital Research

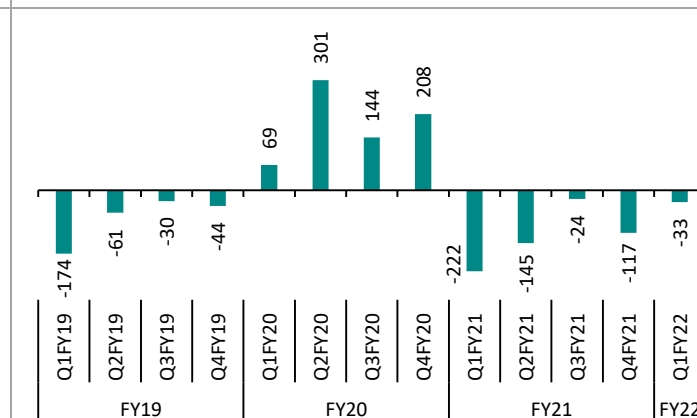
Exhibit 7: Healthy, hygiene and nutrition (85% of revenue) grew at 8% YoY



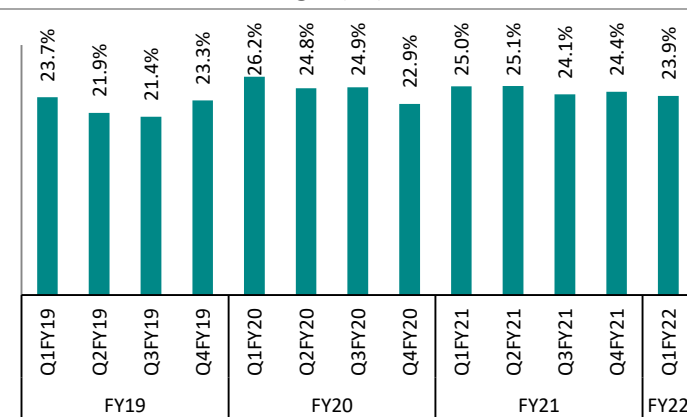
Source: Company; IDBI Capital Research

**Exhibit 8: Gross Margin (%)**


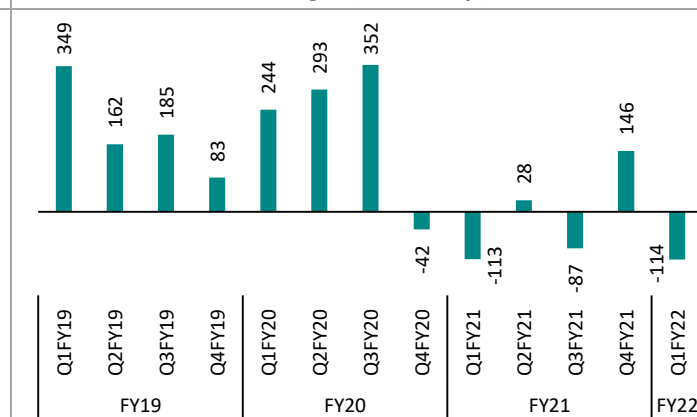
Source: Company, IDBI Capital Research

**Exhibit 9: Gross Margin (YoY in bp)**


Source: Company, IDBI Capital Research

**Exhibit 10: EBITDA Margin (%)**


Source: Company, IDBI Capital Research

**Exhibit 11: EBITDA Margin (YoY in bp)**


Source: Company, IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>387,850</b>	<b>459,960</b>	<b>519,301</b>	<b>572,603</b>
<i>Growth (%)</i>	<i>1.5</i>	<i>18.6</i>	<i>12.9</i>	<i>10.3</i>
Operating expenses	(291,850)	(346,720)	(382,123)	(416,555)
<b>EBITDA</b>	<b>96,000</b>	<b>113,240</b>	<b>137,178</b>	<b>156,048</b>
<i>Growth (%)</i>	<i>11.1</i>	<i>18.0</i>	<i>21.1</i>	<i>13.8</i>
Depreciation	(9,380)	(10,120)	(11,950)	(13,024)
<b>EBIT</b>	<b>86,620</b>	<b>103,120</b>	<b>125,228</b>	<b>143,023</b>
Interest paid	(1,060)	(1,080)	(1,147)	(1,232)
Other income	7,330	5,130	5,643	6,207
<b>Pre-tax profit</b>	<b>92,890</b>	<b>107,170</b>	<b>129,724</b>	<b>147,999</b>
Tax	(23,540)	(25,360)	(33,598)	(38,332)
<i>Effective tax rate (%)</i>	<i>25.3</i>	<i>23.7</i>	<i>25.9</i>	<i>25.9</i>
Minority Interest	-	-	-	-
<b>Net profit</b>	<b>69,350</b>	<b>81,810</b>	<b>96,125</b>	<b>109,667</b>
Exceptional items	1,970	2,270	-	-
<b>Adjusted net profit</b>	<b>67,380</b>	<b>79,540</b>	<b>96,125</b>	<b>109,667</b>
<i>Growth (%)</i>	<i>11.6</i>	<i>18.0</i>	<i>20.9</i>	<i>14.1</i>
<i>Shares o/s (mn nos)</i>	<i>2,160</i>	<i>2,350</i>	<i>2,350</i>	<i>2,350</i>

### Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	90,920	104,900	136,207	150,325
Depreciation	9,380	10,690	11,974	13,081
Tax paid	(24,650)	(23,670)	(35,278)	(38,934)
Chg in working capital	(380)	3,380	4,639	4,167
Other operating activities	(2,220)	(5,730)	1,147	1,232
<b>Cash flow from operations (a)</b>	<b>73,050</b>	<b>89,570</b>	<b>118,689</b>	<b>129,870</b>
Capital expenditure	(7,540)	(6,290)	(8,621)	(9,506)
Chg in investments	22,250	-	-	-
Other investing activities	4,550	(7,380)	-	-
<b>Cash flow from investing (b)</b>	<b>19,260</b>	<b>(13,670)</b>	<b>(8,621)</b>	<b>(9,506)</b>
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	-	-	-	-
Dividend (incl. tax)	(62,440)	(62,510)	(72,380)	(77,973)
Chg in minorities	-	-	-	-
Other financing activities	(4,320)	(30,290)	(1,147)	(1,232)
<b>Cash flow from financing (c)</b>	<b>(66,760)</b>	<b>(92,800)</b>	<b>(73,527)</b>	<b>(79,205)</b>
<b>Net chg in cash (a+b+c)</b>	<b>25,550</b>	<b>(16,900)</b>	<b>36,541</b>	<b>41,159</b>

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	55,870	516,670	512,951	509,289
Investments	2,520	3,120	3,120	3,120
Other non-curr assets	18,730	25,140	25,140	25,140
<b>Current assets</b>	<b>118,900</b>	<b>136,230</b>	<b>174,824</b>	<b>221,383</b>
Inventories	26,360	33,830	38,194	42,115
Sundry Debtors	10,460	16,480	18,606	20,516
Cash and Bank	50,170	43,210	75,313	116,042
Marketable Securities	-	-	-	-
Loans and advances	-	-	-	-
<b>Total assets</b>	<b>196,020</b>	<b>681,160</b>	<b>716,035</b>	<b>758,933</b>
<b>Shareholders' funds</b>	<b>80,310</b>	<b>474,340</b>	<b>498,085</b>	<b>530,985</b>
Share capital	2,160	2,350	2,350	2,350
Reserves & surplus	78,150	471,990	495,735	528,635
<b>Total Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Secured loans	-	-	-	-
Unsecured loans	-	-	-	-
Other liabilities	24,670	98,410	98,410	98,410
<b>Curr Liab &amp; prov</b>	<b>91,040</b>	<b>108,410</b>	<b>119,540</b>	<b>129,537</b>
Current liabilities	86,860	103,500	114,630	124,627
Provisions	4,180	4,910	4,910	4,910
<b>Total liabilities</b>	<b>115,710</b>	<b>206,820</b>	<b>217,950</b>	<b>227,947</b>
<b>Total equity &amp; liabilities</b>	<b>196,020</b>	<b>681,160</b>	<b>716,035</b>	<b>758,933</b>
<b>Book Value (Rs)</b>	<b>37</b>	<b>202</b>	<b>212</b>	<b>226</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	31.2	33.8	40.9	46.7
Adj. EPS growth (%)	11.6	8.5	20.9	14.1
EBITDA margin (%)	24.8	24.6	26.4	27.3
Pre-tax margin (%)	23.9	23.3	25.0	25.8
ROE (%)	85.9	28.7	19.8	21.3
ROCE (%)	86.6	30.4	21.4	23.3
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	2.1	1.0	0.7	0.8
Leverage factor (x)	2.4	1.6	1.4	1.4
Net margin (%)	17.4	17.3	18.5	19.2
Net Debt/Equity (x)	(0.6)	(0.1)	(0.2)	(0.2)
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	25	27	27	27
Receivable days	10	13	13	13
Payable days	93	91	93	94

**Valuation**

Year-end: March	FY20	FY21E	FY22E	FY23E
P/E (x)	79.3	73.1	60.5	53.0
Price / Book value (x)	66.5	12.3	11.7	10.9
PCE (x)	69.6	64.8	53.8	47.4
EV / Net sales (x)	13.6	12.5	11.0	9.9
EV / EBITDA (x)	55.1	50.9	41.8	36.5
Dividend Yield (%)	1.2	1.1	1.2	1.3





# Notes

Dealing

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**Key to Ratings Stocks:**
**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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