

Hindustan Unilever

BUY

Next 2-3 quarters to face margin pressure

Summary

Hindustan Unilever (HUVR) 4QFY22 result was marginally below our estimates. Flat volume growth was driven by (i) impact of inflation driven price hikes (ii) grammage reduction in popular price point packs (2-3% impact on UVG). Home Care outperformed with strong double digit growth in fabric wash and household care. BPC and F&R grew 4-5% only due to high base and muted growth in skin care, color cosmetics due to COVID-3 led lockdowns. Nutrition business is tracking well; direct reach is now 2x compared to pre-acquisition level. Input cost inflation has been severe (4x vs FY21) and hence gross margin contraction has been steepest at 301bp. HUVR expects inflation to rise in next 2-3 quarters. Hence, we have trimmed our EPS estimate by 5-6% in FY23-24. We maintain BUY with a revised TP of Rs 2,676.

Key Highlights and Investment Rationale

- Pricing led topline growth:** Revenue growth stood at 11%YoY (on a base of 35%YoY), however volume growth remained flat YoY. Sales for Home Care (31% of revenue) and Food and Refreshment (29% of revenue) grew 24%YoY (on a base of 15%YoY) and 5%YoY (on a base of 96%YoY) respectively while Beauty and Personal Care (39% of revenue) grew 4%YoY (on a base of 20%YoY).
- Input cost inflation impacted margins:** Gross margin contracted 301bp YoY (8th consecutive decline) to 49.5% due to inflation in raw material prices. As a consequence, EBITDA margin declined 27bp YoY to 24%. Adjusted Net Profit grew 6.6%YoY to Rs22.7 bn.
- Maintain BUY:** As per revised business outlook we have trimmed our EPS estimate by 5-6%. We have also reduced our valuation multiple to 55x due to rise in cost of capital. We maintain BUY with revised TP to Rs 2,676.

TP **Rs 2,676**

CMP **Rs 2,144**

Potential upside/downside **25%**

Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	9.7	(6.6)	(10.0)
Rel to Sensex	10.7	(5.8)	(26.0)

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	42.2	48.7
Consensus	43.0	49.5
% difference	(1.9)	(1.7)

Key Stock Data

Bloomberg/Reuters	HUVR IN / HLL.BO
Sector	Personal Products
Shares o/s (mn)	2,350
Market cap. (Rs mn)	5,038,111
3-m daily average value (Rs mn)	225.5
52-week high / low	Rs 2,859 / 1,902
Sensex / Nifty	56,819 / 17,038

Shareholding Pattern (%)

Promoters	61.9
FII	13.7
DII	9.3
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	1,39,704	1,60,528
Change (yoy, %)	11	18	10	12	15
EBITDA Margin(%)	24.8	24.6	24.4	24.9	25.8
Adj.PAT	67,380	79,540	88,860	99,127	1,14,354
EPS (Rs)	31.2	33.8	37.8	42.2	48.7
Change (yoy, %)	11.6	8.5	11.7	11.6	15.4
PE(x)	68.7	63.3	56.7	50.8	44.1
Dividend Yield (%)	1.3	1.2	1.5	1.4	1.6
EV/EBITDA (x)	47.7	44.1	40.0	35.5	30.6
RoE (%)	85.9	28.7	18.5	19.7	21.4
RoCE (%)	86.6	30.4	19.8	21.3	23.4

Source: IDBI Capital Research

Conference call highlights

- Grammage reduction in LUPs (Rs 1-2-5-10 packs, 30% of revenue) impacted underlying volume growth by c. 2-3% in 4QFY22.
- HUVR plans to alter formulations of soap/detergents to mitigate palm oil inflation.
- Company focuses to protect business model, grow market franchise and save costs in all aspects before undertaking price hike.
- In 4QFY22, HUVR witnessed lower value/volume growth compared to MAT growth in urban and rural markets. Management expects rural markets to recover driven by good harvest, better monsoons, rise in agri goods prices (net benefit to farmers) and government spending.
- HUVR's premium portfolio grew 2x compared to rest of the portfolio despite of downtrading (as consumers seeked value).
- For Nutrition business (GSK transition completed), management will focus on market development (cost synergies invested back in business) due to low penetration in India. In Horlicks, company aims to grow 'Plus' range portfolio.
- Digital brand sales grew majorly due to channel shift by consumers.
- HUVR doubled the distribution reach for GSK portfolio compared to pre-acquisition levels.
- Management expects bridge packs (new price point between existing popular price points) to incentivize customers and create value for company.
- HUVR focused to increase share of voice over share of market. However, if media intensity rises company will make further investments in A&P.
- In 4QFY22, Other income was higher due to inclusion of incentives from PLI schemes, OTC income (distribution for GSK) and income earned for hosting global cost centers and capacities of Unilever (Parent).
- Capex increased in FY22 due to investments in capacity expansion, distribution centers, set-up and digitization of Nano factory and addition of ice cream cabinets.
- In coming 2-3 quarters, company expects margins to decline due to inflationary pressures.

Exhibit 1: Standalone Quarterly Snapshot

(INR m)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenues	1,34,620	1,21,320	11.0	1,30,920	2.8	5,11,930	4,59,960	11.3
COGS	67,920	57,560	18.0	62,690	8.3	2,51,240	2,16,770	15.9
Gross profit	66,700	63,760	4.6	68,230	-2.2	2,60,690	2,43,190	7.2
Gross Margin (%)	49.5	52.6	-301bps	52.1	-257bps	50.9	52.9	-195bps
Employee expenses	5,420	5,220	3.8	6,570	-17.5	23,990	22,290	7.6
<i>% of net sales</i>	<i>4.0</i>	<i>4.3</i>	<i>-28bps</i>	<i>5.0</i>	<i>-99bps</i>	<i>4.7</i>	<i>4.8</i>	<i>-16bps</i>
Advertisement expenses	12,900	14,130	-8.7	11,890	8.49	47,180	47,370	-0.4
<i>% of net sales</i>	<i>9.6</i>	<i>11.6</i>	<i>-206bps</i>	<i>9.1</i>	<i>50bps</i>	<i>9.2</i>	<i>10.3</i>	<i>-108bps</i>
Other Expenses	15,930	14,840	7.3	16,980	-6.2	64,490	60,290	7.0
<i>% of net sales</i>	<i>11.8</i>	<i>12.2</i>	<i>-40bps</i>	<i>13.0</i>	<i>-114bps</i>	<i>12.6</i>	<i>13.1</i>	<i>-51bps</i>
EBITDA	32,450	29,570	9.7	32,790	-1.0	1,25,030	1,13,240	10.4
EBITDA Margin (%)	24.1	24.4	-27bps	25.0	-94bps	24.4	24.6	-20bps
Depreciation	2,610	2,490	4.8	2,550	2.4	10,250	10,120	1.3
EBIT	29,840	27,080	10.2	30,240	-1.32	1,14,780	1,03,120	11.3
Other Income	1,220	1,090	11.9	910	34.1	3,930	5,130	-23.4
Interest Expenses	360	90	300.0	250	44.0	980	1,080	-9.3
PBT	30,700	28,080	9.3	30,900	-0.6	1,17,730	1,07,170	9.9
Taxes	8,010	6,790	18.0	7,810	2.6	29,210	25,360	15.2
Adjusted PAT	22,690	21,290	6.6	23,090	-1.7	88,520	81,810	8.2
Extra-ordinary items	580	140	314.3	-660		-340	-2,270	
Reported PAT	23,270	21,430	8.6	22,430	3.7	88,180	79,540	10.9
EPS	9.9	9.1	8.6	9.5	3.7	37.5	33.8	10.9

Source: Company; IDBI Capital Research

Exhibit 2: Segmental revenue and EBIT break up

(INR m)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Segmental Revenue								
Home Care	47,500	38,400	23.7	41,930	13.3	1,65,780	1,39,590	18.8
Beauty & Personal Care	47,120	45,490	3.6	51,750	-8.9	1,94,600	1,79,640	8.3
Foods & Refreshments	36,980	35,110	5.3	34,660	6.7	1,41,050	1,32,040	6.8
Other operations	3,020	2,320	30.2	2,580	17.1	10,500	8,690	20.8
Segmental EBIT								
Home Care	9,390	8,120	15.6	8,640	8.7	31,930	27,730	15.1
Beauty & Personal Care	12,360	12,520	-1.3	14,410	-14.2	53,540	51,270	4.4
Foods & Refreshments	7,130	5,750	24.0	6,460	10.4	26,230	21,890	19.8
Others (includes OTC business, Chemicals, Water, etc)	960	690	39.1	730	32	3,080	2,230	38.1
Segmental Margin								
Home Care	19.8%	21.1%	-138bps	20.6%	-84bps	19.3%	19.9%	-60bps
Beauty & Personal Care	26.2%	27.5%	-129bps	27.8%	-161bps	27.5%	28.5%	-103bps
Foods & Refreshments	19.3%	16.4%	290bps	18.6%	64bps	18.6%	16.6%	202bps
Others	31.8%	29.7%	205bps	28.3%	349bps	29.3%	25.7%	367bps

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. Estimates

(Rs mn)

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	1,34,620	1,30,693	3.0%
EBITDA	32,450	34,438	-5.8%
Margin (%)	24.1%	26.4%	
PAT	23,270	24,208	-3.9%

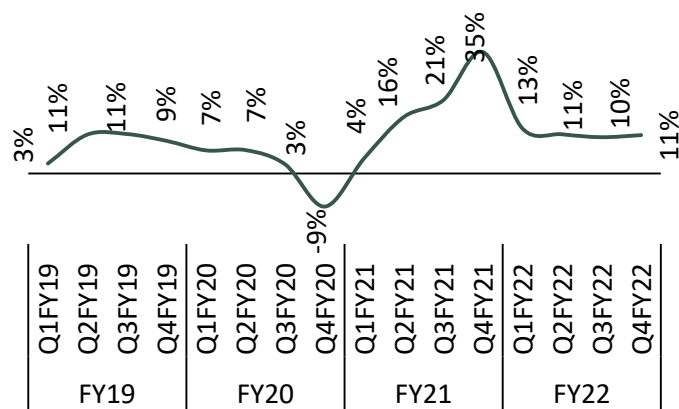
Source: Company; IDBI Capital Research

Exhibit 4: Change in estimates

	FY23E			FY24E		
	New	Old	(%) Chg	New	Old	(%) Chg
Revenue (Rs mn)	5,62,093	5,66,635	-0.8%	6,21,097	6,24,830	-0.6%
EBITDA (Rs mn)	1,39,704	1,49,066	-6.3%	1,60,528	1,70,513	-5.9%
EBITDA margin (%)	24.9%	26.3%		25.8%	27.29%	
Net profit (Rs mn)	99,127	1,05,746	-6.3%	1,14,354	1,21,351	-5.8%
EPS (Rs)	42.2	45.0	-6.3%	48.7	52	-5.8%

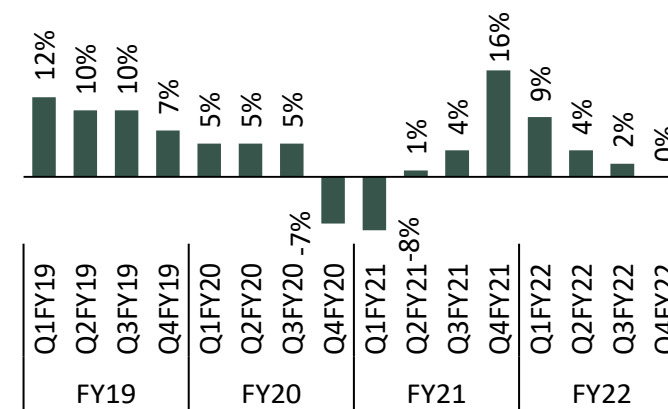
Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth trend (% YoY)



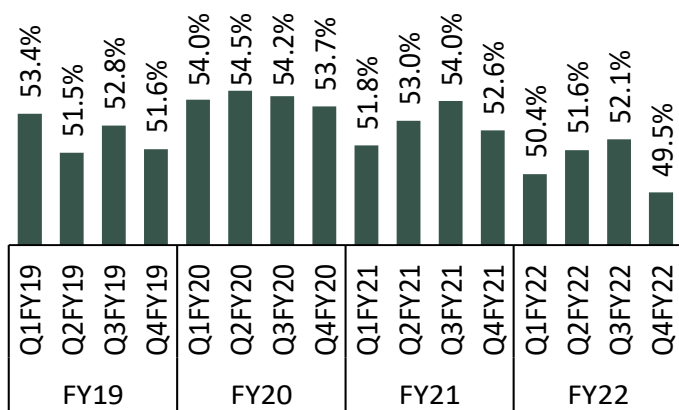
Source: Company, IDBI Capital Research

Exhibit 6: Volume growth trend (%)



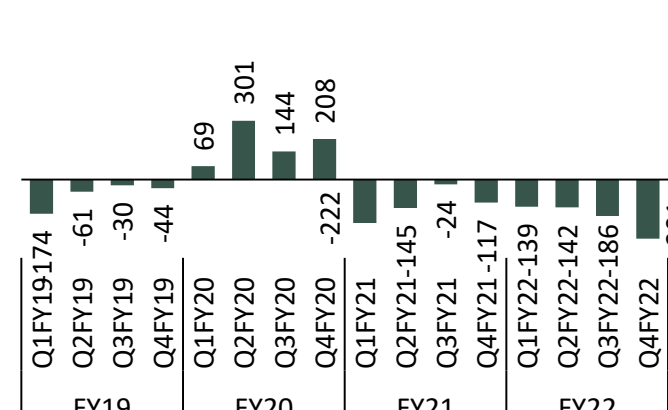
Source: Company, IDBI Capital Research

Exhibit 7: Gross Margin (%)



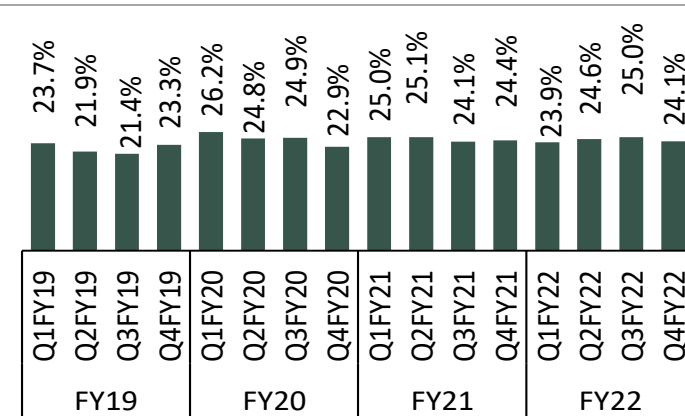
Source: Company, IDBI Capital Research

Exhibit 8: Gross Margin (YoY in bp)



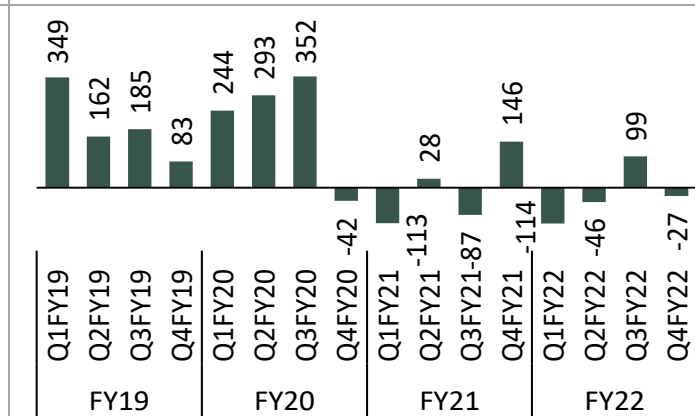
Source: Company, IDBI Capital Research

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)	(4,22,389)	(4,60,569)
EBITDA	86,370	96,000	1,13,240	1,25,030	1,39,704	1,60,528
<i>Change (yoy, %)</i>	18.7	11.1	18.0	10.4	11.7	14.9
<i>Margin (%)</i>	22.6	24.8	24.6	24.4	24.9	25.8
Depreciation	(5,240)	(9,380)	(10,120)	(10,250)	(11,065)	(12,011)
EBIT	81,130	86,620	1,03,120	1,14,780	1,28,638	1,48,517
Interest paid	(280)	(1,060)	(1,080)	(980)	(998)	(1,038)
Other income	6,640	7,330	5,130	3,930	4,323	4,755
Pre-tax profit	87,490	92,890	1,07,170	1,17,730	1,31,963	1,52,235
Tax	(24,860)	(23,540)	(25,360)	(29,210)	(32,836)	(37,880)
<i>Effective tax rate (%)</i>	28.4	25.3	23.7	24.8	24.9	24.9
Minority Interest	-	-	-	-	-	-
Net profit	62,630	69,350	81,810	88,520	99,127	1,14,354
Exceptional items	2,270	1,970	2,270	(340)	-	-
Adjusted net profit	60,360	67,380	79,540	88,860	99,127	1,14,354
<i>Change (yoy, %)</i>	15	12	18	12	12	15
EPS	27.9	31.2	33.8	37.8	42.2	48.7
Dividend per sh	21.0	28.9	26.6	32.0	29.5	34.1
<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	5,17,338	5,51,644
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	5,14,988	5,49,294
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	7,43,894	7,89,267
Net fixed assets	47,200	55,870	5,16,670	5,19,350	5,13,838	5,11,458
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	1,98,507	2,46,259
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	84,955	1,26,254
Loans and advances	-	-	-	-	-	-
Total assets	1,78,650	1,96,020	6,81,160	6,97,370	7,43,894	7,89,267

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	1,31,963	1,52,235
Depreciation	5,240	9,380	10,690	10,400	11,065	12,011
Tax paid	(26,850)	(24,650)	(23,670)	(27,200)	(32,836)	(37,880)
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)	998	1,038
Cash flow from operations (a)	57,280	73,050	89,570	89,640	1,24,715	1,32,016
Capital expenditure	(6,620)	(7,540)	(6,290)	(9,160)	(5,553)	(9,632)
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)	(5,553)	(9,632)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	(45,460)	(62,440)	(62,510)	(75,190)	(69,389)	(80,048)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(9,160)	(4,320)	(30,290)	(4,650)	(998)	(1,038)
Cash flow from financing (c)	(54,620)	(66,760)	(92,800)	(79,840)	(70,387)	(81,086)
Net chg in cash (a+b+c)	20	25,550	(16,900)	640	48,775	41,298

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	35	37	202	207	220	235
Adj EPS (Rs)	27.9	31.2	33.8	37.8	42.2	48.7
Adj EPS growth (%)	15.3	11.6	8.5	11.7	11.6	15.4
EBITDA margin (%)	22.6	24.8	24.6	24.4	24.9	25.8
Pre-tax margin (%)	22.9	23.9	23.3	23.0	23.5	24.5
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	21.3	23.4
ROE (%)	81.9	85.9	28.7	18.5	19.7	21.4

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	17.4	17.6	18.4

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	91	92

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	76.7	68.7	63.3	56.7	50.8	44.1
Price/Book value (x)	60.5	57.7	10.6	10.3	9.7	9.1
EV/Net sales (x)	12.0	11.8	10.9	9.8	8.8	7.9
EV/EBITDA (x)	53	48	44	40	35	31
Dividend Yield (%)	1.0	1.3	1.2	1.5	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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