

Nutrition to aid margins amid cost inflation pressures

HUL posted strong set of results with 34.6% revenue growth led by 16% volume growth. Though the growth was aided by the low base quarter & consolidation of foods business, discretionary categories also saw a sharp recovery in Q4FY21. Home care and beauty & personal care (BPC) segments witnessed growth of 14.6% & 19.7%, respectively. Detergent category, which was adversely impacted in 9MFY21 saw strong recovery in Q4 due to increase in out of home activity. The growth in BPC category was also driven by volume as well as calibrated price hikes in the soaps category. Foods business grew 96% due to consolidation of nutrition business but on a like-to-like basis, the segment growth was 36%. Gross margins contracted 117 bps mainly on account of a sharp increase in palm oil, tea & crude based raw material prices. However, the company was able to pass on the increase in raw material cost partially in the last six months. Marketing spends & other overhead spends were down 127 bps & 172 bps, respectively. This helped the company grow its operating profit by 43.2% to ₹ 2957 crore. Operating margins improved 146 bps to 24.4%. Led by strong operating profit growth, PAT witnessed growth of 41.1% to ₹ 2143 crore. The company declared a final dividend of ₹ 17/share.

Nutrition business to drive operating margins

HUL is looking to grow Horlicks & Boost through penetration in rural regions. The company has launched smaller SKU of ₹ 2 to drive penetration in the category. With the full integration, savings to the tune of 800-1000 bps are likely to be achieved for the nutrition business. The company already saw 370 bps operating margins improvement in the said business. We believe these savings would drive overall margins for the company. However, a sharp increase in palm oil prices & continued high tea prices could pressurise margins in the near term. We expect operating margins of 25.2% & 25.7% for FY22E & FY23E, respectively (110 bps improvement over FY21).

Health, hygiene & essentials continue to witness strong growth

Though HUL saw strong growth momentum till the second week of April, second wave of Covid-19 started to impact discretionary categories again after localised lockdowns. We believe soaps, sanitisers & foods categories would continue to see robust growth in FY22E also with heightened hygiene preferences & increase in at-home consumption. Detergent, cosmetics & skin care products would be impacted by regional & localised lockdowns.

Valuation & Outlook

Given strong growth in nutrition business, judicious price hikes and continued strong growth in hygiene & foods business, we estimate 11.8% revenue growth in FY21-23E. We believe synergetic benefits of acquired nutrition brands would reflect in margin expansion, going forward, and expect earnings CAGR of 15.3% in FY21-23E. We change our rating from HOLD to **BUY** with a revised TP of ₹ 2715/share (earlier ₹ 2600).



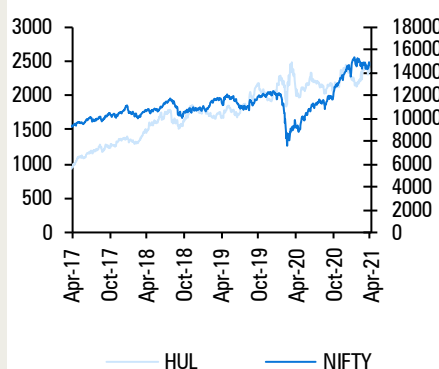
Particulars

Particular (₹ crore)	Amount
Market Capitalization	554,458.4
Total Debt (FY21)	0.0
Cash and Investments (FY21)	7,004.0
EV	547,454.4
52 week H/L (₹)	2505 / 1902
Equity capital	235.0
Face value	₹ 1

Key Risk

- Sustained increase in some of the commodity cost like palm oil could impact margins adversely
- Any national lockdown due to second wave of Covid-19 could impact distribution & demand for discretionary categories in the medium term

Key Highlights



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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Total Operating Income	38734.0	38785.0	45996.0	53365.2	57541.2	11.8%
EBITDA	9147.0	9600.0	11324.0	13444.9	14816.2	14.4%
EBITDA Margin %	23.6	24.8	24.6	25.2	25.7	
Net Profit	6546.0	6738.0	7954.5	9517.7	10583.2	15.3%
EPS (₹)	30.31	31.19	33.86	40.51	45.05	15.3%
P/E	77.9	75.7	69.7	58.3	52.4	
RoNW %	87.6	0.0	17.1	20.0	21.6	
RoCE (%)	90.7	89.5	18.9	25.6	27.7	

Exhibit 1: Variance Analysis

Particulars (₹ crore)	Q4FY21	Q4FY21E	Q3FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Net Sales	11,947.0	11,770.5	8,885.0	34.5	11,682.0	2.3	Net sales witnessed growth of 34.5% mainly on account of low base quarter & strong recovery in discretionary category due to increased out of home activity
Other Operating Income	185.0	184.5	126.0	46.8	180.0	2.8	
Raw Material Expenses	5,756.0	5,629.5	4,170.0	38.0	5,459.0	5.4	Gross margins contracted 117 bps largely due to a sharp increase in palm oil & tea prices
Employee Expenses	522.0	529.1	355.0	47.0	556.0	-6.1	
Marketing Expenses	1,413.0	1,353.6	1,164.0	21.4	1,388.0	1.8	
Other operating expenses	1,484.0	1,615.7	1,257.0	18.1	1,605.0	-7.5	
EBITDA	2,957.0	2,829.3	2,065.0	43.2	2,854.0	3.6	
EBITDA margin (%)	24.4	23.7	22.9	146 bps	24.1	31 bps	Operating margin improved due to a cut in marketing & overhead spends
Depreciation	249.0	249.5	255.0	-2.4	272.0	-8.5	
Interest	9.0	38.8	26.0	N.A.	41.0	N.A.	
Other Income	109.0	109.1	266.0	-59.0	97.0	12.4	
PBT	2,808.0	2,650.1	2,050.0	37.0	2,596.0	8.2	
Exceptional Items	14.0	0.0	-58.0	N.A.	-42.0	N.A.	
Tax Outgo	679.0	887.8	473.0	43.6	675.0	0.6	
PAT	2,143.0	2,002.8	1,519.0	41.1	1,921.0	11.6	Net profit grew 41.4% on account of strong growth in operating profit
Key Metrics growth YoY (%)							
Home care	14.6	3.1	-13.5		-1.4		Detergent category recovered well due to increase in out of home activity in Q4
Beauty & Personal care	19.7	26.2	-6.7		9.7		BPC segment growth led by strong volumes & price hikes in soaps during the quarter
Food & Refreshments	96.4	82.9	-6.7		79.9		The growth in F&R was on account of consolidation of acquired businesses

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Sales	52,115.0	52,499.0	0.7	56,204.0	56,607.2	0.7	No major change in our estimates
EBITDA	13,236.6	13,444.9	1.6	14,597.0	14,816.2	1.5	
EBITDA Margin (%)	25.4	25.2	-20 bps	26.0	26.2	20 bps	
PAT	9,510.2	9,517.7	0.1	10,569.7	10,583.2	0.1	
EPS (₹)	40.5	40.5	0.0	45.0	45.0	0.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

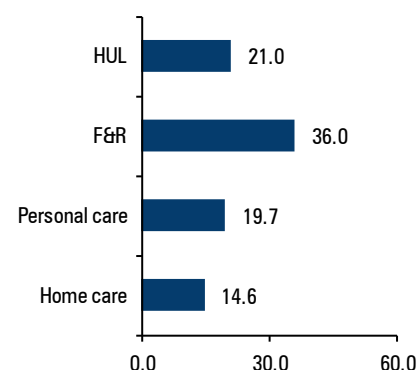
(₹ crore)	Current					Earlier		Comments
	FY19	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Home care	12,876.0	13,642.0	13,959.0	14,659.7	15,832.5	14,880.7	16,071.1	No major change in our estimates
Personal care	17,655.0	17,345.0	17,964.0	21,854.7	23,821.6	21,854.7	23,821.6	
Food & Refreshments	7,133.0	7,450.0	13,204.0	15,037.1	15,939.3	14,432.1	15,298.1	

Source: Company, ICICI Direct Research

Conference Call Highlights

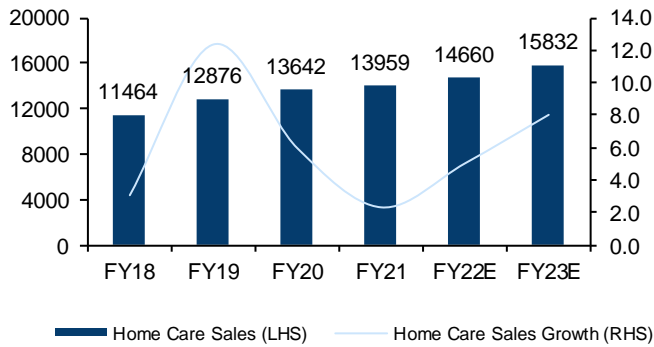
- HUL reported 34.6% revenue growth with 16% volume growth in Q4FY21E. Home care segment saw 14.6% growth whereas BPC segment witnessed 19.7% growth. Foods business grew 96.4% on the back of consolidation of acquired businesses. On a like to like basis, the segment grew 36%
- The growth in the home care segment was aided by a strong recovery in detergent due to increased out of home activity and robust double digit growth in Vim. Liquid & premium detergent portfolio is growing ahead of category. Purifiers, which have been most impacted by the pandemic, have been growing through the e-commerce channel
- In BPC, soaps witnessed robust growth with double digit growth in Lifebuoy. The company has taken certain price hikes in the last six months and would be taking a few more price hikes to pass on the sharp inflation in input cost. In oral care, Close-up continues to deliver strong growth. There was a sequential growth in colour cosmetics
- Within foods & refreshment segment, soups & ketchups grew high double digit but increased mobility resulted in softening demand conditions. In tea category, the company gained market share with high double digit growth across brands. HUL saw strong recovery in ice creams. It has launched Cornetto, Chokissimo & Trixy Cup and premium Kulfis
- The company is focusing on volume led growth in the nutrition portfolio (Horlicks & Boost). It would be looking to drive growth by increasing penetration in rural regions. The company has launched smaller SKUs in Horlicks at the ₹ 2 price point. Boost has been launched on a pan-India basis. In terms of bringing synergistic benefits, the company has completed ERP integration in current quarter & sales system integration is expected to be completed by Q2
- The management has said that 87% of the business is gaining penetration & 82% of the business is gaining volume share. The company has launched 150 SKUs in the last one year for the changing consumer needs. Growth rate of big brands has accelerated
- Health, Hygiene & Nutrition portfolio has seen growth of 12% in FY21. Whereas discretionary & out of home category saw de-growth of 15% & 26%, respectively
- Palm oil prices have seen an increase of 40-45% in the last one year. The company needs to take a price hike of ~12% to pass on the entire cost. It has taken 7-8% price hike in Q4 and is looking to take another price hike in Q1FY22
- Gross margins contracted 117 bps in Q4 mainly on account of a sharp increase in palm oil, tea & crude based RM cost. However, with lower overhead & marketing spends, the company was able to increase operating margins by 146 bps to 24.4%. HUL saw a 370 bps improvement in nutrition business margins with partial integration
- Rural markets have grown faster than urban markets. During second wave of Covid, rural markets are expected to grow faster than urban markets. Sikhar App has been used by 5 lakh outlets, which is helping retailers to place orders through the app

Sales growth (like to like) on YoY basis (%)



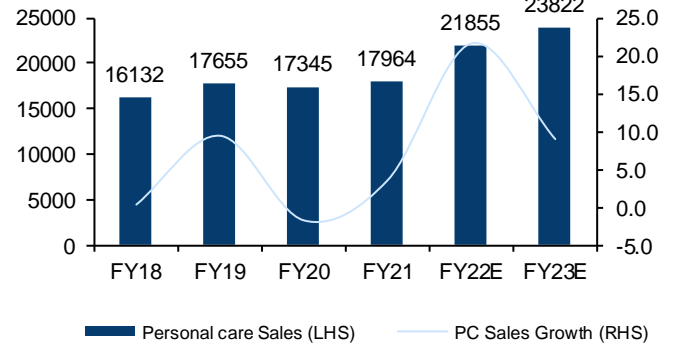
Key Metrics

Exhibit 4: Home care revenue (₹ crore) and YoY growth (%)



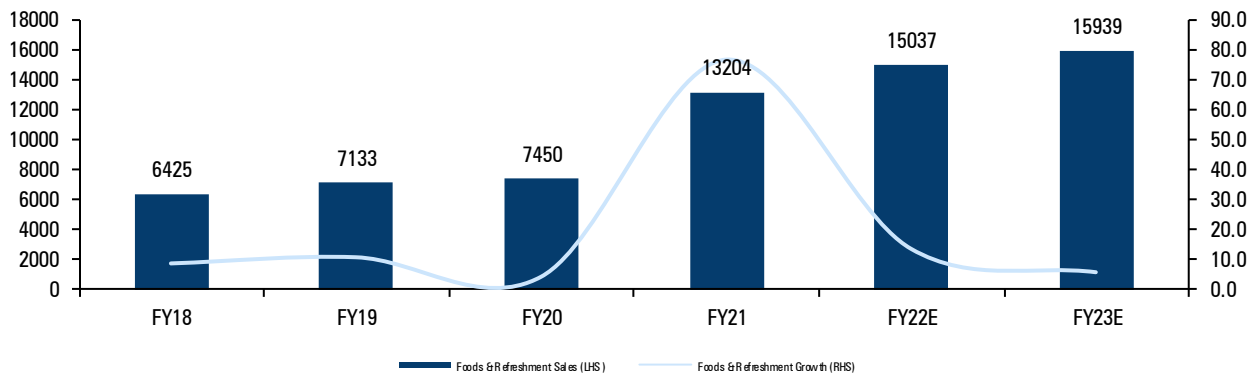
Source: ICICI Direct Research, Company

Exhibit 5: Personal care revenue (₹ crore) & growth (%) trend



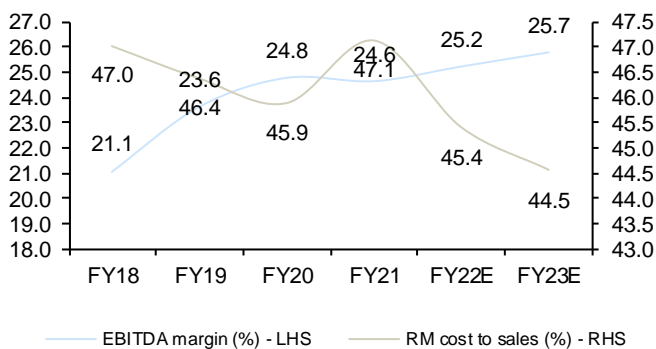
Source: ICICI Direct Research, Company

Exhibit 6: Foods & refreshment revenue (₹ crore) and growth (%) trend



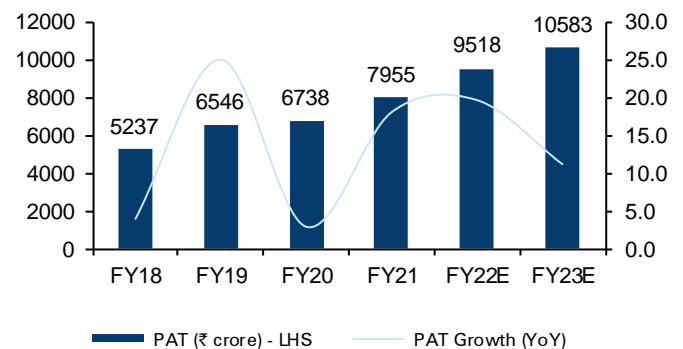
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin and raw material trend



Source: Company, ICICI Direct Research

Exhibit 8: PAT to grow at CAGR of 15.3% in FY21-23E



Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	38273.0	0.3	31.2	2.9	75.7	57.2	85.7	89.5
FY21	45311.0	18.4	33.9	8.5	69.7	48.6	17.1	18.9
FY22E	52499.0	15.9	40.5	19.7	58.3	41.2	20.0	25.6
FY23E	56607.2	7.8	45.0	11.2	52.4	37.3	21.6	27.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	38,785.0	45,996.0	53,365.2	57,541.2
Growth (%)	0.1	18.6	16.0	7.8
Raw Material Expenses	17,793.0	21,677.0	24,223.1	25,629.7
Employee Expenses	1,691.0	2,229.0	2,624.9	2,830.4
Marketing Expenses	4,686.0	4,737.0	5,669.9	6,226.8
Administrative Expenses	2,047.0	0.0	2,939.9	3,283.2
Other expenses	2,968.0	6,029.0	4,462.4	4,755.0
Total Operating Expenditure	29,185.0	34,672.0	39,920.3	42,725.1
EBITDA	9,600.0	11,324.0	13,444.9	14,816.2
Growth (%)	5.0	18.0	18.7	10.2
Depreciation	938.0	1,012.0	966.2	992.2
Interest	106.0	108.0	102.6	92.3
Other Income	733.0	513.0	574.6	643.5
Exceptional Income	-197.0	-226.5	-226.5	-226.5
PBT	9,092.0	10,490.5	12,724.2	14,148.7
Total Tax	2,354.0	2,536.0	3,206.5	3,565.5
PAT	6,738.0	7,954.5	9,517.7	10,583.2
Growth (%)	2.9	18.1	19.7	11.2
EPS (₹)	31.2	33.9	40.5	45.0

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	6,627.0	8,123.0	9,517.7	10,583.2
Add: Depreciation	938.0	1,069.0	966.2	992.2
(Inc)/dec in Current Assets	-34.0	-866.0	-1,324.6	-832.9
Inc/(dec) in CL and Provisions	331.0	810.0	-341.2	821.6
CF from operating activities	7,305.0	8,957.0	8,818.0	11,564.1
(Inc)/dec in Investments	2,249.0	-1,467.0	-100.0	-100.0
(Inc)/dec in loans & advances	-35.0	-532.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	-713.0	0.0	2,396.0	-1,192.2
Others	425.0	632.0	-6,012.1	17.4
CF from investing activities	1926.0	-1367.0	-3741.1	-1299.7
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-426.0	0.0	0.0	0.0
Dividend paid & dividend tax	-6,244.0	-8,811.0	-8,460.0	-9,400.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-6.0	-469.0	0.0	0.0
CF from financing activities	-6,676.0	-9,280.0	-8,460.0	-9,400.0
Net Cash flow	2,555.0	-1,390.0	-3,383.1	864.4
Opening Cash	575.0	3,130.0	1,740.0	-1,643.1
Closing Cash*	5,017.0	4,321.0	937.9	1,802.3

Source: Company, ICICI Direct Research *includes cash in bank

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	216.0	235.0	235.0	235.0
Reserve and Surplus	7,815.0	47,199.0	48,256.7	49,439.9
Total Shareholders funds	8,031.0	47,434.0	48,491.7	49,674.9
Other Non Current Liabilities	1,269.0	2,304.0	2,304.0	2,304.0
Long Term Provisions	1198.0	1551.0	145.3	161.3
Total Liabilities	10,498.0	57,275.0	50,941.0	52,140.2
Assets				
Gross Block	7,132.0	7,332.0	7,532.0	7,732.0
Less: Acc Depreciation	2,507.0	3,519.0	4,485.2	4,485.2
Net Block	4,625.0	5,786.0	3,046.8	3,246.8
Capital WIP	513.0	623.0	0.0	0.0
Total Fixed Assets	5,138.0	6,409.0	3,046.8	3,246.8
Goodwill on Consolidation	36	17316	17316	17316
Net Intangible Assets	395.0	27,925.0	27,925.0	27,925.0
Other Investments	252.0	312.0	412.0	512.0
Inventory	2,636.0	3,383.0	3,595.8	3,877.2
Debtors	1,046.0	1,648.0	1,869.8	2,016.1
Loans and Advances	0.0	0.0	287.7	310.2
Investments & Other CA	1,961.0	1,605.0	1,438.3	1,550.9
Cash	5,017.0	4,321.0	937.9	1,802.3
Total Current Assets	11,908.0	13,640.0	11,581.5	13,278.8
Creditors	7,399.0	8,627.0	8,630.0	9,305.3
Provisions & other CL	1,705.0	2,214.0	1,869.8	2,016.1
Total Current Liabilities	9,104.0	10,841.0	10,499.8	11,321.4
Net Current Assets	2,804.0	2,799.0	1,081.7	1,957.4
Others Non-Current Assets	717.0	1,133.0	1,158.0	1,183.0
Application of Funds	10,498.0	57,275.0	50,941.0	52,140.2

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	31.2	33.9	40.5	45.0
Cash EPS	35.5	38.2	44.6	49.3
BV	37.2	201.9	206.4	211.4
DPS	24.1	27.0	36.0	40.0
Cash Per Share	23.2	18.4	4.0	7.7
Operating Ratios (%)				
EBITDA/Total Operating Income	24.8	24.6	25.2	25.7
PBT Margin	23.9	23.3	24.3	25.0
PAT Margin	17.4	17.3	17.8	18.4
Inventory days	25	27	25	25
Debtor days	10	13	13	13
Creditor days	71	69	60	60
Return Ratios (%)				
RoE	85.7	17.1	20.0	21.6
RoCE	89.5	18.9	25.6	27.7
Valuation Ratios (x)				
P/E	75.7	69.7	58.3	52.4
EV / EBITDA	57.2	48.6	41.2	37.3
EV / Net Sales	14.4	12.1	10.5	9.8
Market Cap / Sales	14.5	12.2	10.6	9.8
Price to Book Value	63.5	11.7	11.4	11.2
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.8	0.9	1.0	1.0
Quick Ratio	0.5	0.5	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
Colgate (COLPAL)	1,482	1,860	Buy	43,654	35.0	37.8	40.5	42.3	39.2	36.6	9.3	8.5	8.0	76.7	80.2	83.7	58.7	61.5	64.3
Dabur India (DABIND)	538	620	Buy	91,067	9.9	11.0	12.3	54.3	48.9	43.9	9.4	8.5	7.7	26.5	27.0	27.4	22.9	23.0	23.3
Hindustan Unilever (HINLEV)	2,354	2,715	Buy	554,458	33.9	40.5	45.0	69.5	58.1	52.3	12.2	10.6	9.8	18.9	25.6	27.7	17.1	20.0	21.6
ITC Limited (ITC)	203	245	Hold	267,970	10.7	12.8	14.1	18.9	15.9	14.4	5.8	5.1	4.7	26.3	31.0	33.1	20.1	23.7	25.3
Jyothy Lab (JYOLAB)	146	175	Hold	5,728	5.9	6.4	7.1	25.0	22.9	20.6	3.1	2.8	2.6	30.6	31.1	31.6	26.0	25.9	26.3
Marico (MARLIM)	411	490	Buy	53,285	9.1	9.8	10.9	45.2	42.1	37.6	6.8	6.2	5.5	42.9	45.4	48.2	37.1	38.6	40.9
Nestle (NESIND)	16,309	19,300	Hold	164,840	216.0	254.8	283.8	75.5	64.0	57.5	12.4	11.2	10.2	54.6	62.7	69.1	103.1	124.2	142.1
Tata Consumer Products (TAT)	670	700	Buy	53,448	11.0	12.5	14.1	60.7	53.6	47.4	4.6	4.3	4.0	8.9	9.8	10.5	7.2	8.1	8.8
VST Industries (VSTIND)	3,230	3,600	Hold	5,090	201.3	218.8	234.9	16.0	14.8	13.7	4.6	4.2	3.9	43.4	45.6	48.2	33.0	33.9	36.1
Varun Beverage (VARBEV)	951	965	Hold	26,011	12.5	21.0	26.5	75.8	45.4	35.9	4.0	3.4	3.1	10.9	17.2	20.1	10.3	15.1	16.5
Zydus Wellness (ZYDWEL)	2,097	2,500	Buy	12,343	19.0	60.3	71.3	110.5	34.8	29.4	6.6	5.8	5.3	6.2	7.8	9.0	5.5	8.0	9.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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