Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Hindustan Unilever Ltd

Resilient Q4; sales volumes beat industry

Consumer Goods	Sharekhan code: HINDUNILVR

Reco/View: Buy	↔	CMP: **Rs. 2,144**	Price Target: **Rs. 2,456**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 26.13

Updated Feb 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

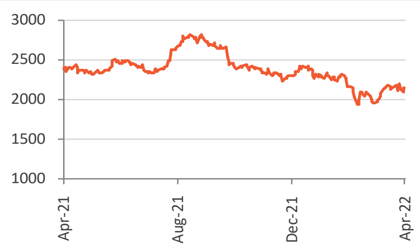
Company details

Market cap:	Rs. 503,811 cr
52-week high/low:	Rs. 2,859/1,902
NSE volume: (No of shares)	17.9 lakh
BSE code:	500696
NSE code:	HINDUNILVR
Free float: (No of shares)	89.5 cr

Shareholding (%)

Promoters	61.9
FII	14.2
DII	11.6
Others	12.27

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.6	-6.6	-10.5	-9.9
Relative to Sensex	9.9	-5.8	-3.5	-26.0

Sharekhan Research, Bloomberg

Summary

- In Q4FY22, HUL posted resilient numbers with revenues growing by 11% y-o-y (with sales volume standing flat) while OPM stood stable at 24% y-o-y despite a 300 bps decline in the gross margins.
- Market share gains across categories and sustained double-digit growth in some of the premium categories helped HUL post higher sales volumes versus the industry (which saw a 7-8% fall in volume).
- Significant raw material inflation would keep margins stressed. However, calibrated price hikes and stringent cost savings across verticals will help OPM to sustain at 23-24% in the near term. Management is confident of rural demand recovery led by expectations of good monsoons and higher agri-incomes that would push demand.
- HUL's stock has underperformed broader indices for the past one year and is currently trading at 52.1x/43.3x its FY2023E/24E EPS. We maintain our Buy on the stock with an unchanged price target of Rs. 2,456.

HUL posted resilient numbers in Q4FY2022 beating our as well as street expectation. Its revenues grew by 11% y-o-y to Rs. 13,462 crore. Sales volume stood flat versus industry's decline of 7-8% in Q4. Around 30% of sales volume comes from lower unit magic packs, which saw volumes fall due to grammage reduction, which affected the underlying volume growth by 2-3%. The company continues to gain market share across key categories, markets and channels helping it to stay ahead of industry growth. Revenues of home care business grew by 24% y-o-y largely a price led growth. Beauty & personal care segments grew by 4% y-o-y with calibrated price increase in soaps portfolio, which registered double-digit growth. Foods business grew by just 5% y-o-y as price cuts in tea affected overall value growth. Despite 300 bps decline in gross margins, OPM stood almost flat y-o-y at 24.1% led by decline in the ad-spends and cost saving initiatives. PAT grew by 7% y-o-y to Rs. 2,284.1 crore. For FY2022, HUL revenues and PAT grew by 11.3% and 8.7% y-o-y (with OPM standing at 24.2% in-line with management guidance).

Key positives

- HUL sales volume stood flat versus industry volume decline of 7-8% (ahead our as well as street expectation of 2-4% volume decline).
- 75% of product portfolio gained market share; winning market shares in all division and across urban/rural in all regions.
- Despite raw material inflation, OPM was almost flat at 24.1% in Q4; For FY2022 the OPM came at 24.2% in-line with management guidance of 24-25% OPM.

Key negatives

- Raw material inflation led to a 301 bps y-o-y decline in the gross margins to 49.5%.
- EBIT margins of home care category and personal care category were down by 138 bps and 129 bps y-o-y, respectively.

Management Commentary

- With inflation remaining high, the rural demand is expected to remain soft due to cut in consumer spending and down trading to low price products in the near term. However, green shoots are visible in the form of 1) better rabi production 2) anticipation normal monsoon for 4th consecutive year and 3) increase in the agri commodity prices aiding to generate higher agri income, which will drive demand in the quarters ahead.
- More than 75% of portfolio is gaining market share. The management is confident to grow topline ahead of industry growth driven by premiumisation, market development and sustained market share gains in key categories.
- Raw material inflation stood at 4.5x of Q1FY2021. The company managed to end FY2022 with OPM of 24.3% on back of calibrated price hike of 7%, cost-saving measures resulting in saving of 7% of revenues and premiumisation strategy. Raw material inflation is expected to remain high in the near term but the company would resort on calibrated pricing actions, buying efficiencies, sweating of assets, alternate packaging and reduce transportation to mitigate with inflation and maintain OPM at 23-24% in FY2023.
- If global uncertainties settle in the coming months and global supply issues resolve, the commodity inflation is expected to gradually cool off in the quarters ahead.

Revision in estimates – We have fine-tuned our FY2023 estimates to factor-in better than expected performance while we have broadly maintained earnings estimates for FY2024.

Our Call

View – Retain Buy with an unchanged PT of Rs. 2,456: HUL posted resilient numbers in Q4FY2022 aided by a strong portfolio of brands across price points helping it to gain market share in the key categories and across markets. The company is focusing on premiumisation, market development to improve penetration in key categories and digitalisation to drive consistent earnings growth in the medium to long term. HUL's stock price has corrected by 11% in last six months (and 7% in last three months) factoring the near term uncertainties. The stock is currently trading at 52.1x/43.3x its FY2023E/24E earnings, which is at discount to its last five average multiple of 55x. We maintain a Buy recommendation on the stock with an unchanged price target of Rs. 2,456.

Key Risks

Sustained slowdown in the rural demand or significant increase in key input prices from the current levels would act as a key risk to our earnings in the near term.

Valuation (standalone) Rs cr

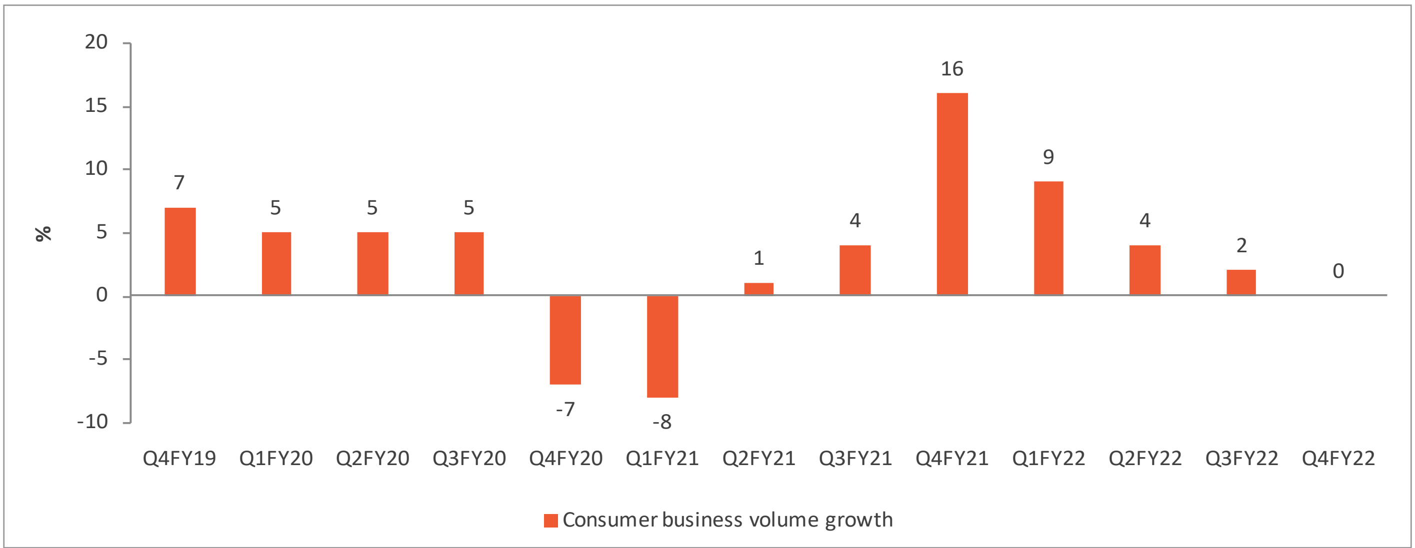
Particulars	FY21	FY22E	FY23E	FY24E
Revenue	46,546	51,693	57,942	65,551
OPM (%)	24.3	24.2	23.5	24.8
Adjusted PAT	8,136	8,845	9,674	11,635
Adjusted EPS (Rs.)	34.6	37.6	41.2	49.5
P/E (x)	61.9	57.0	52.1	43.3
P/B (x)	10.6	10.3	10.3	9.8
EV/EBIDTA (x)	44.0	39.8	36.5	30.3
RoNW (%)	29.3	18.4	19.8	23.2
RoCE (%)	36.5	23.8	26.2	30.8

Source: Company; Sharekhan estimates

Standalone revenue growth at 11% y-o-y; OPM maintained at 24%

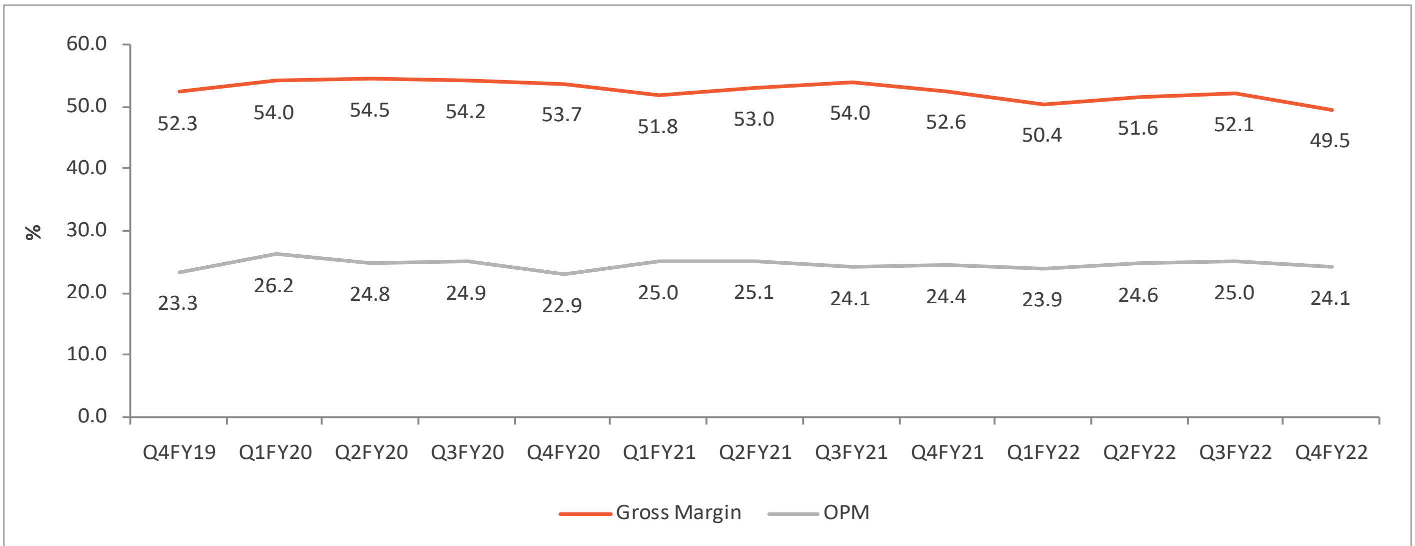
Revenue grew by 11.0% y-o-y and 2.8% q-o-q in Q4FY22 to Rs. 13,462 crore. Domestic sales volume stood flat y-o-y as against our as well as street expectation of 3-4% volume decline. Revenue of the home care segment, personal care segment and foods business grew by 23.7%, 3.6% and 5.3% y-o-y, respectively. Gross margins contracted by 301 bps y-o-y to 49.5% mainly on account of higher input prices (including sharp increase in the palm oil, LAB and packaging cost). Operating profit grew by 9.7% y-o-y to Rs. 3,245 crore. OPM stayed at 24% aided by lower advertising spends (down by 200 bps y-o-y basis) and cost saving measures. Adjusted PAT grew by 7.4% y-o-y to Rs. 2,284 crore. Reported PAT grew by 8.9% to Rs. 2,327 crore. For full year FY22, revenue grew by 11.3% y-o-y to Rs. 51,193 crore. Gross margins contracted by 195 bps y-o-y to 52.9% as input prices remained elevated. Operating profit grew by 10.4% y-o-y to Rs. 12,503 crore. OPM was maintained at 24% as higher input costs were offset by curtailing ad-spends (Ad-spends remained flat y-o-y). Adjusted PAT grew by 8.7% y-o-y to Rs. 8,845 crore. Reported PAT grew by 10.9% to Rs. 8,818 crore. The Board of Directors have proposed a final dividend of Rs. 19 per share. Together with interim dividend of Rs. 15 per share, the total dividend for FY2022 amounts to Rs. 34 per share.

Consumer business' volume growth



Source: Company; Sharekhan Research

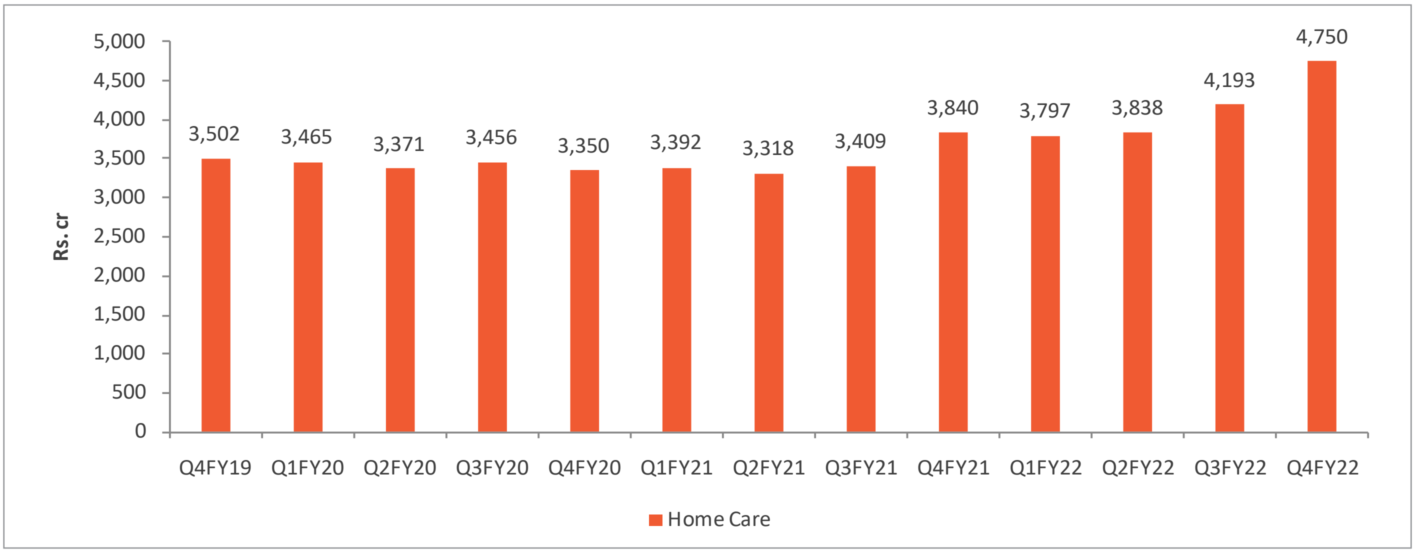
Trend in margins



Source: Company; Sharekhan Research

Home Care – Strong double-digit growth across categories: Homecare segment reported y-o-y growth of 23.7% to Rs. 4,750 crore aided by strong performance in both Fabric Wash and Household Care. Fabric wash grew in strong double-digits with robust performance across the portfolio and volume growth registered at mid-single digits. The household care category reported high double-digit growth with both dishwash and surface cleaners performing well. Calibrated price increases were taken across fabric wash and household care portfolios to partly offset the significant inflation in input costs. PBIT margins of the homecare business declined by 138 bps y-o-y to 19.8% due to the high input cost inflation. In FY2022, Homecare segment grew by 19% y-o-y to Rs. 16,578 crore, contributing 31% to the total revenue. PBIT margin for FY2022 came in at 19%.

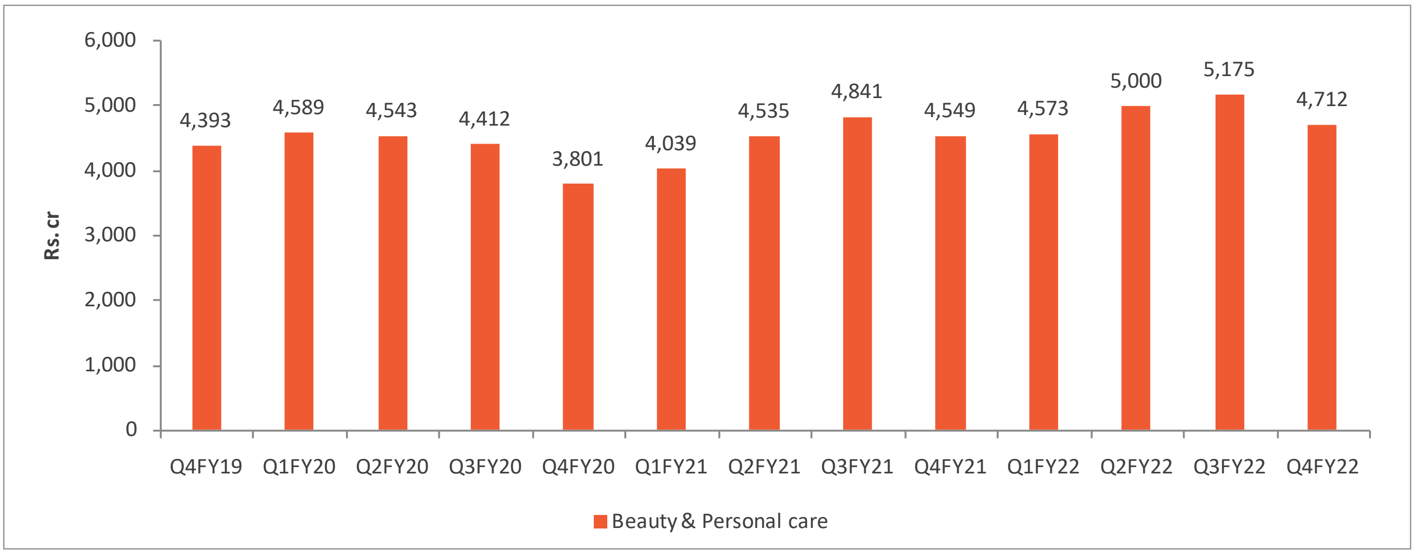
Home Care - Quarterly trend in revenue growth



Source: Company; Sharekhan Research

Beauty and personal care (BPC) – Mixed performance across categories: The BPC segment grew by 3.6% y-o-y to Rs. 4,712 crore led by double-digit growth in Skin Cleansing and Skin Care segments. Skin Cleansing reported a strong quarter driven by pricing, with beauty and premium soaps continuing to perform well. Hair Care delivered strong competitive performance aided by market share gains across brands. Premium portfolio under Skin Care grew by double-digits while Glow & Lovely and Talc were affected by a market slowdown. Color Cosmetics witnessed a soft quarter impacted by COVID Wave-3 and market slowdown in discretionary categories. Oral Care reported a soft quarter, albeit on a high base of Q4FY2021. The PBIT margin of the BPC business declined by 129 bps y-o-y to 26.2%. Innovations during the quarter include Sunsilk Onion & Jojoba Oil, New Dove Therapy, Lakme Liquid Eyeshadow Duos, etc. The BPC segment grew by 8% y-o-y to Rs. 19,460 crore in FY2022, contributing 39% to the total revenue. PBIT margin for FY2022 came in at 28%.

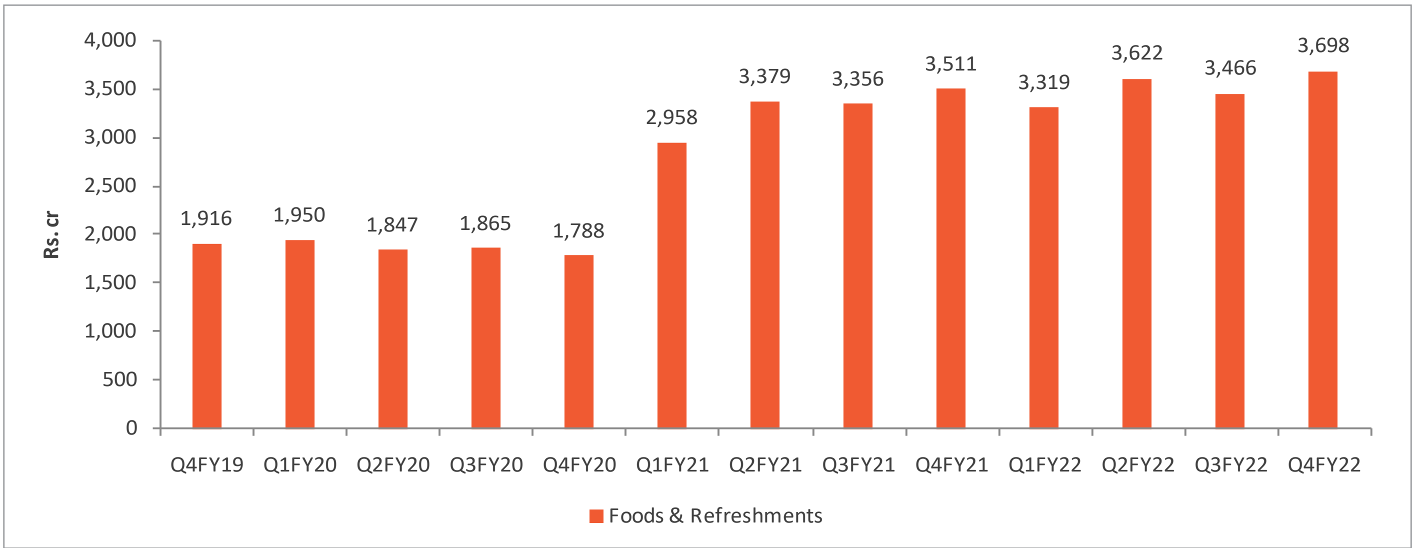
BPC - Quarterly trend in revenue growth



Source: Company; Sharekhan Research

Foods & Refreshments (F&R) – Robust performance on a high base: F&R segment grew by 5.3% y-o-y to Rs. 3,698 crore on a high base of Q4FY2021 driven by solid performance in Tea and Ice-creams. Tea continued its strong outperformance growing on an exceptionally high base. Coffee delivered double-digit growth. Market share and penetration gains continued in the health food drinks portfolio on the back of focused market development actions and new communications. Foods portfolio registered high double-digit growth led by ketchup, jams and soups. Ice Creams delivered broad based (across brands and formats) high double-digit growth. New ice-cream flavours were introduced under the Quality Walls in Q4 ahead of the Summer season. The F&R segment's EBIT margin expanded by 290 bps y-o-y to 19.3% led by decline in raw tea prices. In FY2022, F&R segment reported growth of 7% y-o-y to Rs. 14,105 crore, contributing 29% to total revenue. PBIT margin for FY2022 came in at 19%.

F&R - Quarterly trend in revenue growth



Source: Company; Sharekhan Research

Key conference call and press meet highlights

- **Volume growth stood flat:** HUL's sales volume stood flat against our as well as street expectation of 2-4% decline for the quarter. The same was much better than the industry volume decline of 7-8% in Q4. Market share gains across categories, across price points and across key markets and sustenance of strong double-digit growth in some of the premium categories aided the company to post better sales volume ahead of industry.
- **Rural demand remains sluggish; recovery is anticipated:** Rural sales volume declined in Q4 as high inflationary pressures led to a decline in consumption and consumers downtraded to low price points. Rural sales volumes are expected to remain under pressure in the near term. However, green shoots are visible in the form of 1) better Rabi crop 2) anticipated normal monsoon for 4th consecutive year and 3) increase in the agri-commodity prices aiding to generate higher agri income, which will push the demand in the quarters ahead.
- **Premium segment continues to perform well:** Premium products are performing well in some of the key markets. Further, brand conscious consumers have shifted to large packs in some of the highly competitive categories to gain higher value. Out-of-home categories, which took a setback in January-February 2022 due to Omicron, posted a strong recovery in March. The momentum in the discretionary out-of-home category sustains.
- **Inflation will continue to put pressure on the margins in the near term:** HUL's gross margins decreased by 301 bps y-o-y to 49.5% in Q4. The Net Material Inflation (Market Inflation post impacts of buying efficiencies, hedging, product design to value, etc.) came in at 4.5x of Q1FY2021. Two categories - Skin cleansing (soaps) and detergents - saw highest raw material inflation, thereby affecting the overall profitability. In Q4, the company has undertaken slew of price hikes in its portfolio. Cumulative price hikes stood at around 10-11%. The management has hinted at calibrated price hikes if raw material prices continue to firm up from

the current levels. However, if global uncertainties settle in the coming months and global supply issues resolve, the commodity inflation is expected to gradually cool off in the quarters ahead.

- **Innovation & premiumisation remain key growth drivers:** In FY2022, out of the overall revenues, Rs. 900 crore of revenue was generated from innovation. Premium categories grew 2x y-o-y, ahead of overall revenue growth of the company.
- **Improved supply chain and coverage:** HUL reduced the distance travelled of its products by 8% YoY and increased its coverage and assortment by 1.15x as compared to pre-COVID levels.
- **Focus on cost and manufacturing efficiencies:** HUL's gross savings for FY2022 stood at 7% of the total turnover. The company's nano factories enable fast production and help in further improving the supply chain.
- **E-commerce continues to perform well:** Despite improving footfalls in the modern trade, the management is confident that the e-commerce channel will continue to perform well due to convenience and consumers becoming more brand conscious. General trade will be key channel of growth. HUL is generating 20% of general trade orders through its digital platform - Shikhar app.
- **Dividend for FY22 at Rs. 34 per share:** The Board of Directors have proposed a final dividend of Rs. 19 per share. Together with interim dividend of Rs. 15 per share, the total dividend for FY2022 amounts to Rs. 34 per share. In FY2021, the company's dividend per share stood at Rs. 40.5 per share comprising of interim dividend of Rs. 14 per share, special dividend of Rs. 9.5 per share and final dividend of Rs. 17 per share.

Results (standalone) Rs cr

Particulars	Q4FY22	Q4FY21	y-o-y (%)	Q3FY22	q-o-q (%)
Net revenue	13,462.0	12,132.0	11.0	13,092.0	2.8
Total Raw Material	6,792.0	5,756.0	18.0	6,269.0	8.3
Employee Expenses	542.0	522.0	3.8	657.0	-17.5
Advertising and promotions	1,290.0	1,413.0	-8.7	1,189.0	8.5
Other Expenses	1,593.0	1,484.0	7.3	1,698.0	-6.2
Total expenditure	10,217.0	9,175.0	11.4	9,813.0	4.1
Operating Profit	**3,245.0**	**2,957.0**	**9.7**	**3,279.0**	**-1.0**
Other income	122.0	109.0	11.9	91.0	34.1
EBITDA	3,367.0	3,066.0	9.8	3,370.0	-0.1
Interest	36.0	9.0	300.0	25.0	44.0
PBDT	3,331.0	3,057.0	9.0	3,345.0	-0.4
Depreciation	261.0	249.0	4.8	255.0	2.4
PBT	**3,070.0**	**2,808.0**	**9.3**	**3,090.0**	**-0.6**
Tax	785.9	681.8	15.3	798.2	-1.5
Adjusted PAT	**2,284.1**	**2,126.2**	**7.4**	**2,291.8**	**-0.3**
Extra-ordinary items	-42.9	-11.2	283.2	48.8	-187.9
Reported PAT	**2,327.0**	**2,137.4**	**8.9**	**2,243.0**	**3.7**
Adjusted EPS (Rs.)	9.7	9.0	7.4	9.8	-0.3
			Bps		**bps**
GPM (%)	49.5	52.6	-301	52.1	-257
OPM (%)	24.1	24.4	-27	25.0	-94
NPM (%)	17.0	17.5	-56	17.5	-54
Tax rate (%)	25.6	24.3	132	25.8	-23

Source: Company, Sharekhan Research

Segmental performance Rs cr

Particulars	Q4FY22	Q4FY21	y-o-y (%)	Q3FY22	q-o-q (%)
Revenue					
Home Care	4,750.0	3,840.0	23.7	4,193.0	13.3
Beauty & Personal Care	4,712.0	4,549.0	3.6	5,175.0	-8.9
Food & Refreshments	3,698.0	3,511.0	5.3	3,466.0	6.7
Total	**13,160**	**11,900**	**10.6**	**12,834**	**2.5**
PBIT					
Home Care	939.0	812.0	15.6	864.0	8.7
Beauty & Personal Care	1,236.0	1,252.0	-1.3	1,441.0	-14.2
Food & Refreshments	713.0	575.0	24.0	646.0	10.4
Total	**2,888**	**2,639**	**9.4**	**2,951**	**-2.1**
PBIT margins (%)					
Home Care	19.8	21.1	-138	20.6	-84
Beauty & Personal Care	26.2	27.5	-129	27.8	-161
Food & Refreshments	19.3	16.4	290	18.6	64
Total	**21.9**	**22.2**	**-23**	**23.0**	**-105**

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Despite near-term weakness; long-term growth prospects intact

Slowdown in rural demand, consumer inflation and weakness in overall consumer sentiments will continue to affect overall consumption in the coming quarters. Intense summer season might push demand for summer products during the quarter. However, overall demand would remain subdued. Revenue growth will be largely driven by price hikes in the respective portfolios to mitigate input cost inflation for the next two to three quarters. Global uncertainties will lead to volatile commodity prices. Commodity inflation is expected to settle in the next six to eight months. Thus, margin pressure is likely to sustain in the near term. Better monsoon will play a major role in regaining momentum in rural demand and help in cooling off agri-commodity inflation. Though near-term headwinds will have a toll on the performance of consumer goods companies, long-term growth prospects remain intact. Low penetration levels in key categories (especially in rural India), lower per capita consumption compared to other countries, a large shift to branded products, and emergence of new channels such as e-commerce/D2C provide a number of opportunities for achieving sustainable growth in the medium to long run.

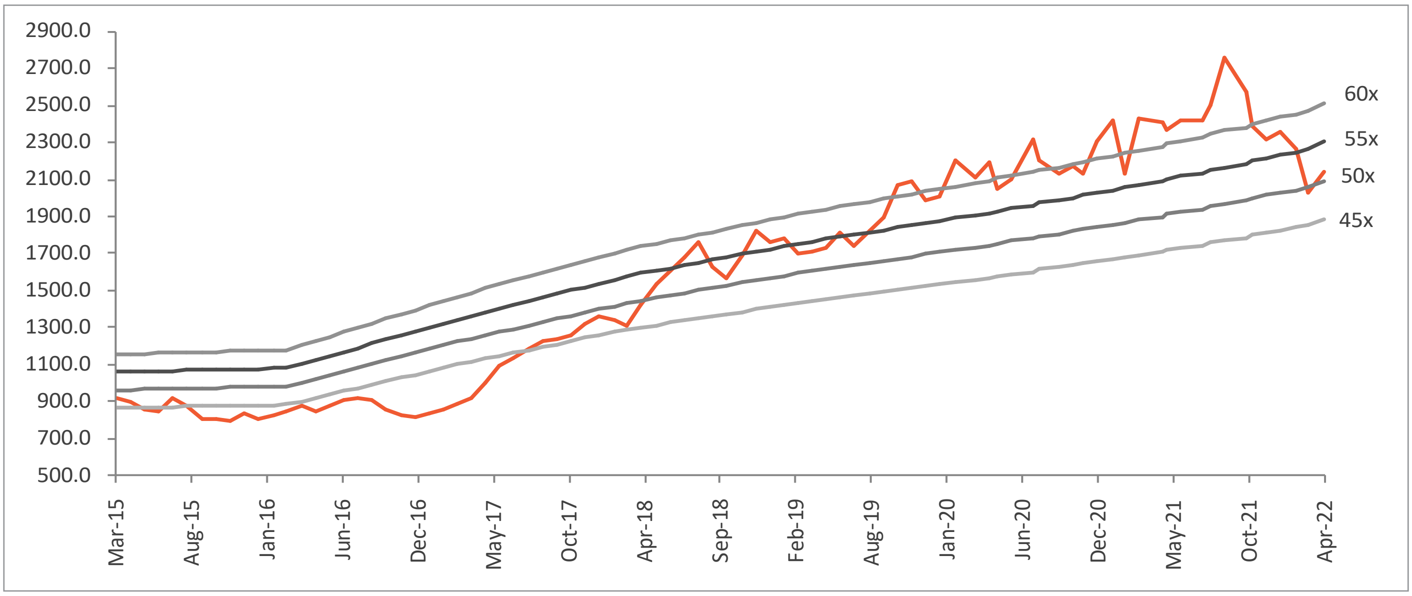
■ Company outlook - Focus remains on achieving competitive volume growth in the long run

The third wave of COVID-19 in January/February 2022 impacted demand albeit to some extent. With slowdown in rural demand and cut in discretionary spends, sales volumes are expected to be muted in the coming quarters. We believe HUL is well-poised to achieve good growth in the near to medium term with a leadership position in more than 80% of the portfolio, presence in more than 8 million stores, and focus on achieving competitive volume growth with strategies in place. A better product mix with recovery in discretionary categories, calibrated price hikes, and operational efficiencies and integration benefits would help margins to improve in the medium term.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 2,456

HUL posted resilient numbers in Q4FY2022 aided by a strong portfolio of brands across price points helping it to gain market share in the key categories and across markets. The company is focusing on premiumisation, market development to improve penetration in key categories and digitalisation to drive consistent earnings growth in the medium to long term. HUL's stock price has corrected by 11% in last six months (and 7% in last three months) factoring the near term uncertainties. The stock is currently trading at 52.1x/43.3x its FY2023E/24E earnings, which is at discount to its last five average multiple of 55x. We maintain a Buy recommendation on the stock with an unchanged price target of Rs. 2,456.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Nestle India*	75.7	69.6	57.6	48.8	46.0	38.7	138.3	129.2	125.3
ITC	21.7	18.4	16.5	15.4	13.2	11.7	27.1	31.1	33.5
Godrej Consumer Products	41.6	39.8	33.8	32.0	29.8	25.5	20.2	19.6	21.1
HUL	57.0	52.1	43.3	39.8	36.5	30.3	23.8	26.2	30.8

Source: Company, Sharekhan estimates;
**Values for Nestle India are for CY21, CY22E and CY23E*

About company

HUL is India's largest FMCG company with a strong presence in the homecare and beauty and personal care categories. The company is a subsidiary of Unilever Plc (that holds a 67% stake in HUL), the world's largest consumer goods company present across 190 countries. With over 40 brands spanning 12 distinct categories such as personal wash, fabric wash, skin care, hair care, oral care, deodorants, colour cosmetics, beverages, ice creams, frozen desserts, and water purifiers, HUL is part of the everyday life of millions of consumers across India. The company's portfolio includes leading brands such as Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, and Axe.

Investment theme

HUL has a leadership position in highlypenetrated categories such as soaps, detergents, and shampoos in India. Sustaining product innovation, entering into new categories, premiumisation, and increased distribution network remain some of the key revenue drivers for the company. The merger of GSK Consumer's HFD business will make HUL a formidable play in the HFD segment and will enhance the growth prospects of its relatively small food business. A strong financial background, robust cash-generation ability, and leadership position in some key categories give HUL an edge over other companies and, hence, justify the stock's premium valuation.

Key Risks

- **Slowdown in the demand environment:** Any slowdown in demand (especially in rural India) would affect sales of key categories, resulting in moderation of sales volume growth.
- **Increased input prices:** Palm oil and crude derivatives such as linear alkyl benzene are some of the key raw materials used by HUL. Any significant increase in the prices of some of these raw materials would affect profitability and earnings growth.
- **Increased competition in highly penetrated categories:** Increased competition in highly penetrated categories such as soaps and detergents would act as a threat to revenue growth

Additional Data

Key management personnel

Sanjiv Mehta	Chairman and Managing Director
Ritesh Tiwari	Executive Director, Finance & IT and Chief Financial Officer
Willem Uijen	Executive Director, Supply Chain
Dev Bajpai	Executive Director, Legal and Corporate Affairs and Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.46
2	Blackrock Inc	1.33
3	Vanguard Group Inc	1.27
4	SBI Funds Management	1.12
5	JP Morgan and Chase	0.58
6	ICICI Prudential Life Insurance Co.	0.58
7	UTI Asset Management Co Ltd	0.40
8	Abrdn PLC	0.37
9	Norges Bank	0.31
10	ICICI Prudential Asset Management Co.	0.29

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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