

## Detergent drags volumes; foods grow strongly

HUL reported moderate 4% volume growth in Q3FY21 unlike strong growth for other FMCG companies mainly due to dismal sales in detergent category. The category (contributes ~30% to HUL's sales) has seen a muted sales growth post pandemic as schools & offices are not fully functioning. Further, price hikes in respect to cost inflation in palm oil & tea has been only calibrate & partial. The company has taken two subsequent price hikes of 2.5% in December 2020 & January 2021. Revenue grew by 20.9% to ₹ 11862 crore led by consolidation of acquired nutrition business (Horlicks, Boost). On a like to like basis, sales growth was 7%. Home care segment continue to post muted sales with 1.4% decline. Beauty & Personal care segment witnessed 9.7% revenue growth aided by price hikes taken in personal wash category. Foods category (like to like) witnessed a strong growth of 19% largely driven by price hike in tea & double digit growth in nutrition brands. The company has been able to maintain its gross margin (20 bps contraction) at 54% despite sharp increase (~40% in both) in tea & palm oil prices. It also maintained its advertisement spends at 11.7% which was in line with the sales growth however, overhead spends saw increase of 72 bps (% to sales) during the quarter. Operating profit increased by 16.7% to ₹2853 crore & operating margins contracted by 88 bps to ₹ 24.1%. Led by higher operating profit, net profit grew 18.8% to ₹ 1920 crore.

### Nutrition business to drive food segment growth

The acquired nutrition brands Horlicks, Boost witnessed a double digit growth mainly driven by introduction of affordable pouch pack, national launch of Boost, new communication strategy & driving sachets in semi-urban & rural regions. Further, the company expect to get benefits of its large distribution network (2-3x of GSK existing network). It is also getting traction in chemist channel with the introduction of two new variants (Mother's Profit plus & Women Profit Plus). We believe the category would drive revenues and margins for the company.

### Cost inflation, media spends to restrict margin expansion

Palm Oil & Tea prices have been up 40% compared to last year. Though, crude prices have been 30% lower, it is slowly inching up. The company has taken only partial price hikes in last six months. Further, media spends have increased by 175 bps sequentially due to aggressive new launches. We believe these cost increase would restrict operating margin expansion. We expect 70 bps operating margin expansion to 25.5% by FY23E.

### Valuation & Outlook

Given the strong growth in nutrition business, judicious price hikes & expected revival in detergent business, we estimate 15.2% revenue growth in FY22E & further 7.8% growth in FY23E. We believe synergetic benefits of acquired nutrition brands would reflect in margin expansion going forward. The stock has seen a run-up recently. We change our recommendation from BUY to **HOLD** with a revised target price of ₹ 2600/share (earlier ₹ 2500).

### Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Total Operating Income	38734.0	38785.0	45997.4	52974.9	57132.0	13.8%
EBITDA	9147.0	9600.0	11313.7	13236.6	14597.0	15.0%
EBITDA Margin %	23.6	24.8	24.6	25.0	25.5	
Net Profit	6546.0	6738.0	7900.6	9510.2	10569.7	16.2%
EPS (₹)	30.31	31.19	33.63	40.48	44.99	
P/E	78.9	76.6	71.1	59.0	53.1	
RoNW %	87.6	85.7	19.1	22.5	24.3	
RoCE (%)	90.7	89.5	25.3	29.4	31.7	

Source: Company, ICICI Direct Research



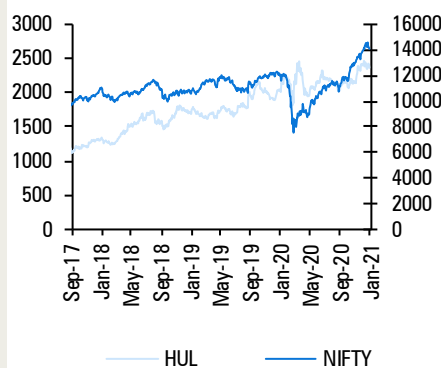
### Particulars

Particular (₹ crore)	Amount
Market Capitalization	561,506.6
Total Debt (FY20)	0.0
Cash and Investments (FY20)	6,265.0
EV	555,241.6
52 week H/L (₹)	2614 / 1756
Equity capital	234.9
Face value	₹ 1

### Key Risk

- With the judicious price hikes, limited cost inflation & strong synergy benefits from acquired business, margin expansion can be larger than expected
- The dismal sales growth trend in detergent segment can remain prolonged & can impact overall growth for the company

### Price Chart



### Research Analyst

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Exhibit 1: Variance Analysis

Particulars (₹ crore)	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Net Sales	11,682.0	11,162.5	9,696.0	20.5	11,276.0	3.6	Net sales grew by 20.5% mainly on account of consolidatation of acquired businesses. The Beauty & Personal care categories witnessed 9% & 19% led by price hikes taken in Soaps & Tea categories
Other Operating Income	180.0	159.8	112.0	60.7	166.0	8.4	
Raw Material Expenses	5,459.0	5,345.5	4,490.0	21.6	5,375.0	1.6	Despite, sharp rise (40%) increase in Palm Oil & Tea Prices, the company has been able to maintain gross margins
Employee Expenses	556.0	585.8	454.0	22.5	559.0	-0.5	
Marketing Expenses	1,388.0	1,133.3	1,163.0	19.3	1,139.0	21.9	Media spends increased sequentially with increased brand building amid new launches & ad-rates coming back to pre-covid levels
Other operating expenses	1,605.0	1,508.8	1,256.0	27.8	1,500.0	7.0	
EBITDA	2,853.2	2,748.8	2,445.0	16.7	2,868.2	-0.5	
EBITDA margin (%)	24.1	24.3	24.9	-88 bps	25.1	-101 bps	Operating margins contracted by 88 bps mainly on account of increased overhead spends given cost related to supply chain, distribution enhancement restored to pre-covid levels
Depreciation	272.0	244.4	232.0	17.2	249.0	9.2	
Interest	41.0	23.9	25.0	N.A.	29.0	N.A.	
Other Income	97.0	123.1	140.0	-30.7	151.0	-35.8	
PBT	2,637.2	2,603.7	2,328.0	13.3	2,660.7	-0.9	
Exceptional Items	-42.0	0.0	-99.0	N.A.	-80.5	N.A.	
Tax Outgo	675.0	690.0	613.0	10.1	652.0	3.5	
PAT	1,920.2	1,913.7	1,616.0	18.8	2,008.7	-4.4	Net profit increased by 18.8% to ₹ 1920 crore
<b>Key Metrics growth YoY (%)</b>							
Home care	-1.4	3.0	9.8		-1.6		Home care segment saw muted growth mainly on account of subdued sales of detergent given offices, schools are still not fully operational
Beauty & Personal care	9.7	5.0	-2.8		-0.2		With the increase in soaps prices (2.5% in december) & higher tea prices, the segment saw strong 9.7% growth. The winter portfolio of skin care also saw strong growth
Food & Refreshments	79.9	48.0	7.9		82.9		Food business witnessed strong growth on the back of increase in tea prices & double digit growth in acquired nutrition business

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Sales	42,606.0	45,317.7	6.4	48,908.9	52,115.0	6.6	52744.4	56,204.6	6.6	We increase our revenue estimate largely on the back of price hikes taken in two major segments & strong growth in nutrition business
EBITDA	10,879.4	11,313.7	4.0	12,749.6	13,236.6	3.8	14093.4	14597.0	3.6	
EBITDA Margin (%)	25.2	24.6	-56 bps	25.6	25.0	-66 bps	26.7	26.0	-75 bps	With increase in media spends & raw material inflationary pressure, we change our margin estimates downwards
PAT	7,609.9	7,900.6	3.8	9,114.6	9,510.2	4.3	10151.4	10569.7	4.1	
EPS (₹)	32.4	33.6	3.8	38.8	40.5	4.3	43.2	45.0	4.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

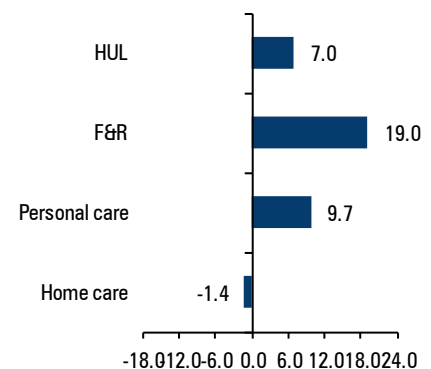
(₹ crore)	Current					Earlier			Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
Home care	12,876.0	13,642.0	13,778.4	14,880.7	16,071.1	13,914.8	15,028.0	16230.27	
Personal care	17,655.0	17,345.0	18,212.3	21,854.7	23,821.6	16,477.8	19,773.3	21,552.9	We change our estimate upwards due to price hikes taken by company
Food & Refreshments	7,133.0	7,450.0	12,441.5	14,432.1	15,298.1	11,547.5	13,395.1	14,198.8	In light of the price hike in tea & expected double digit growth in nutrition portfolio, we change our estimates upwards

Source: Company, ICICI Direct Research

## Conference Call Highlights

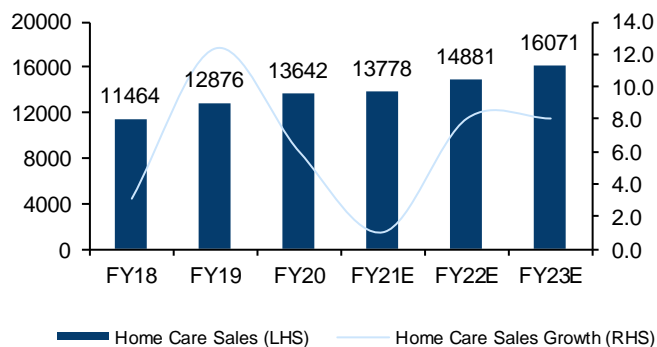
- HUL reported 7% like to like growth with 4% volume growth in Q3FY21. Home care segment witnessed a sales decline of 1.4% given detergent segment is yet to witness revival from the pandemic impact. Given schools & offices are yet to fully functional, the category witness a slow & delayed recovery. Beauty & Personal care segment saw 9.7% growth during the quarter with winter portfolio saw strong growth & price hikes in soaps also aided the growth. Foods & refreshment category witness a 19% growth in Q3 led by price hike in tea segment & strong double digit growth in acquired nutrition business (Horlicks & Boost).
- The company has taken price hikes in tea category earlier mainly due to sharp rise in tea procurement prices. Further, Palm oil prices also witnessed cost inflation during the quarter. Both the commodities are higher by 40% YoY basis. Though, crude is down by 30% on YoY basis, it is gradually going up, which is likely to pressurise margins in medium term. The company has taken 2.5% price hike in soaps in December 2020 & subsequent 2.5% price hike in January 2021.
- Within Home care segment, household care (Vim, Domex) witnessed a double digit growth led by penetration gains. Detergent witnessed dismal numbers with still considerable lower out of home activity (Schools & Offices are yet to fully functional). Further, Purifiers saw better traction through e-commerce channel.
- The company launched range of disinfectant products under the Brand 'Nature Protect' in South India & through Ecommerce channel. It has also launched laundry sanitizers, disinfectant spray and wet wipes under Lifebuoy. Further in dish-wash category, it launched Vim-Matic dishwash. Fabric stain remover under Surf Excel brand.
- In Beauty & Personal care segment, the company has seen strong growth Lifebuoy, Dove, Peers aided by price hikes. Lux growth momentum also sustained during the quarter. Within Oral care segment, Close-up saw double digit growth whereas Pepsodent is yet see consumer traction. Skin Care segment (which is discretionary) saw pick-up in demand aided by winter product portfolio. Colour Cosmetics witnessed recovery with some pent up demand
- Foods & Refreshment segment saw strong double digit growth in Ketchups & Soups. Tea also grew in double digit with price hikes taken in previous quarters. Acquired Nutrition business also saw double digit growth with restoration of disrupted supply chain.
- The company launched Bru Veda in Coffee segment in South India. It also launched Kisaan Peanut Butter & Knoor Chicken cube to leverage the trend of 'at-home' consumption
- Within Nutrition segment, the company re-launched Horlicks Mother's Plus & Women Plus in Q3. Further, the company has been leveraging its distribution network to grow these brands.
- Within the health, hygiene & Nutrition brands which contributes 80% of the company's portfolio saw 10% growth whereas discretionary brands which contributes 15% of the sales witnessed 1% decline (Q2 was 25% decline). The out of home brands contributes 5% of the sales still struggle to revive back of pre-covid levels with 15% decline in sales.
- The distribution reach have been restored fully to the pre-covid levels whereas SKUs has gone up by 10% compared to the pre-covid levels. Ecommerce sales has been up by 100% in Q3.

Sales growth on YoY basis (%)



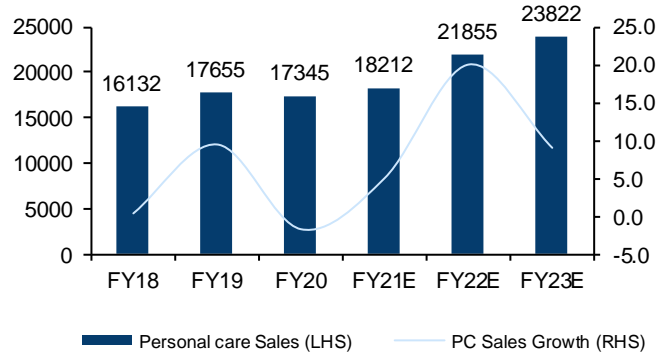
## Key Metrics

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



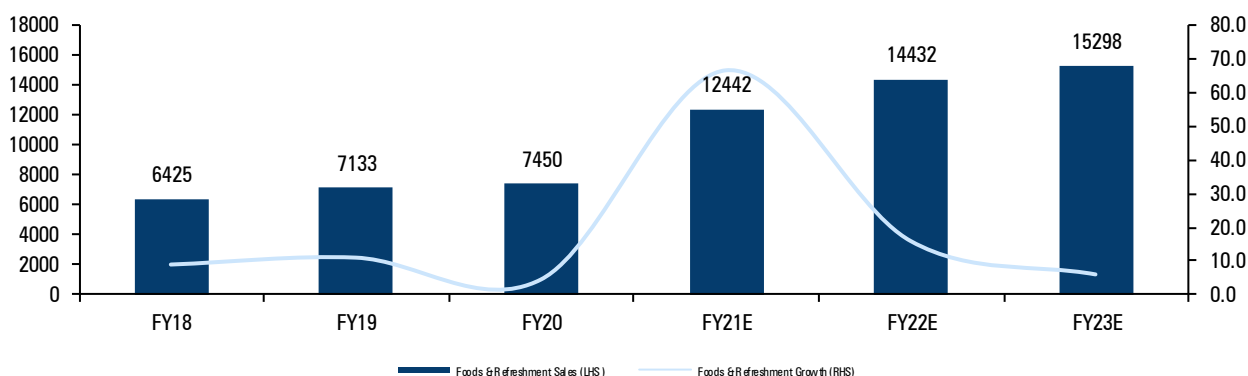
Source: ICICI Direct Research, Company

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



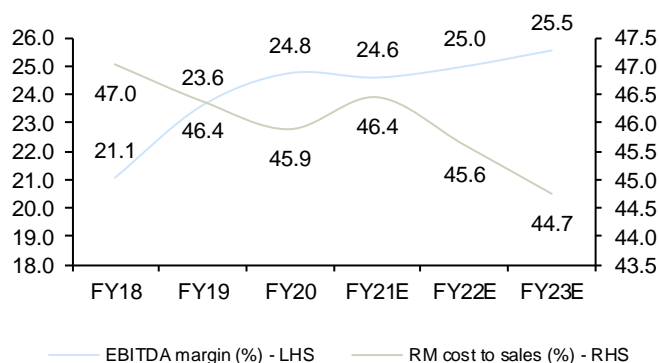
Source: ICICI Direct Research, Company

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



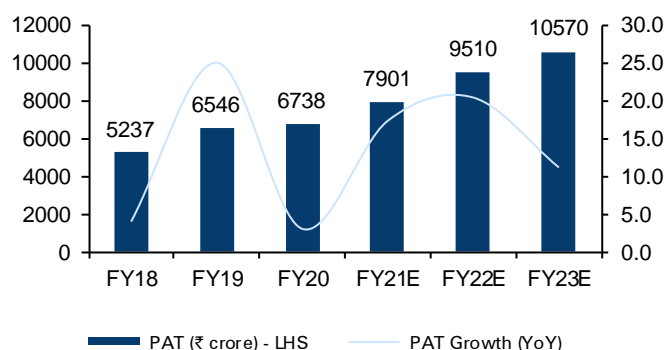
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin and raw material trend



Source: Company, ICICI Direct Research

Exhibit 8: PAT to grow at CAGR of 22.7% in FY20-23E



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	76.6	58.0	85.7	89.5
FY21E	45317.7	18.4	33.6	7.8	71.1	49.1	19.1	25.3
FY22E	52115.0	15.0	40.5	20.4	59.0	41.9	22.5	29.4
FY23E	56204.6	7.8	45.0	11.1	53.1	37.9	24.3	31.7

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating Income</b>	<b>38,785.0</b>	<b>45,997.4</b>	<b>52,974.9</b>	<b>57,132.0</b>
Growth (%)	0.1	18.6	15.2	7.8
Raw Material Expenses	17,793.0	21,360.4	24,155.9	25,561.2
Employee Expenses	1,691.0	2,220.6	2,605.8	2,810.2
Marketing Expenses	4,686.0	4,214.5	5,628.4	6,182.5
Administrative Expenses	2,047.0	2,537.8	2,918.4	3,259.9
Other expenses	2,968.0	4,350.5	4,429.8	4,721.2
Total Operating Expenditure	29,185.0	34,683.8	39,738.3	42,535.1
<b>EBITDA</b>	<b>9,600.0</b>	<b>11,313.7</b>	<b>13,236.6</b>	<b>14,597.0</b>
Growth (%)	5.0	17.9	17.0	10.3
Depreciation	938.0	1,012.5	966.2	992.2
Interest	106.0	137.8	130.9	117.8
Other Income	733.0	513.1	574.7	643.6
Exceptional Income	-197.0	0.0	0.0	0.0
PBT	9,092.0	10,676.5	12,714.2	14,130.6
Total Tax	2,354.0	2,775.9	3,204.0	3,560.9
<b>PAT</b>	<b>6,738.0</b>	<b>7,900.6</b>	<b>9,510.2</b>	<b>10,569.7</b>
Growth (%)	2.9	17.3	20.4	11.1
EPS (₹)	31.2	33.6	40.5	45.0

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	6,627.0	7,900.6	9,510.2	10,569.7
Add: Depreciation	938.0	1,012.5	966.2	992.2
(Inc)/dec in Current Assets	-34.0	-2,048.4	-1,626.4	-829.1
Inc/(dec) in CL and Provisions	331.0	-40.5	1,359.5	817.9
<b>CF from operating activities</b>	<b>7,305.0</b>	<b>6,824.2</b>	<b>10,209.5</b>	<b>11,550.7</b>
(Inc)/dec in Investments	2,249.0	-100.0	-100.0	-100.0
(Inc)/dec in loans & advances	-35.0	-25.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	-713.0	313.0	-200.0	-1,192.2
Others	425.0	75.3	24.0	17.3
<b>CF from investing activities</b>	<b>1926.0</b>	<b>263.3</b>	<b>-301.0</b>	<b>-1299.8</b>
Issue/(Buy back) of Equity	0.0	18.9	0.0	0.0
Inc/(dec) in loan funds	-426.0	0.0	0.0	0.0
Dividend paid & dividend tax	-6,244.0	-6,343.4	-8,457.8	-9,397.6
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-6.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-6,676.0</b>	<b>-6,324.4</b>	<b>-8,457.8</b>	<b>-9,397.6</b>
Net Cash flow	2,555.0	763.1	1,450.6	853.2
Opening Cash	575.0	3,130.0	3,893.1	5,343.6
Closing Cash*	5,017.0	5,780.1	7,230.6	8,083.9

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

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	216.0	234.9	234.9	234.9
Reserve and Surplus	7,815.0	41,053.2	42,105.6	43,277.7
Total Shareholders funds	8,031.0	41,288.2	42,340.6	43,512.7
Other Non Current Liabilities	1,269.0	1,269.0	1,269.0	1,269.0
Long Term Provisions	1198.0	118.5	142.7	158.5
<b>Total Liabilities</b>	<b>10,498.0</b>	<b>42,675.7</b>	<b>43,752.2</b>	<b>44,940.2</b>
<b>Assets</b>				
Gross Block	7,132.0	7,332.0	7,532.0	7,732.0
Less: Acc Depreciation	2,507.0	3,519.5	4,485.6	4,485.6
Net Block	4,625.0	3,812.5	3,046.4	3,246.4
Capital WIP	513.0	0.0	0.0	0.0
Total Fixed Assets	5,138.0	3,812.5	3,046.4	3,246.4
Goodwill on Consolidation	36	31717	31717	31717
Net Intangible Assets	395.0	395.0	395.0	395.0
Other Investments	252.0	352.0	452.0	552.0
Inventory	2,636.0	3,104.0	3,569.5	3,849.6
Debtors	1,046.0	1,862.4	1,856.2	2,001.8
Loans and Advances	0.0	248.3	285.6	308.0
Investments & Other CA	1,961.0	1,241.6	1,427.8	1,539.9
Cash	5,017.0	5,780.1	7,230.6	8,083.9
Total Current Assets	11,908.0	14,719.4	17,796.4	19,478.8
Creditors	7,399.0	7,449.5	8,566.9	9,239.1
Provisions & other CL	1,705.0	1,614.1	1,856.2	2,001.8
Total Current Liabilities	9,104.0	9,063.5	10,423.0	11,240.9
Net Current Assets	2,804.0	5,655.9	7,373.4	8,237.8
Others Non-Current Assets	717.0	742.0	767.0	792.0
<b>Application of Funds</b>	<b>10,498.0</b>	<b>42,675.7</b>	<b>43,752.2</b>	<b>44,940.2</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	31.2	33.6	40.5	45.0
Cash EPS	35.5	37.9	44.6	49.2
BV	37.2	175.7	180.2	185.2
DPS	24.1	27.0	36.0	40.0
Cash Per Share	23.2	24.6	30.8	34.4
<b>Operating Ratios (%)</b>				
EBITDA/Total Operating Income	24.8	24.6	25.0	25.5
PBT Margin	23.9	23.2	24.0	24.7
PAT Margin	17.4	17.2	18.0	18.5
Inventory days	25	25	25	25
Debtor days	10	15	13	13
Creditor days	71	60	60	60
<b>Return Ratios (%)</b>				
RoE	85.7	19.1	22.5	24.3
RoCE	89.5	25.3	29.4	31.7
<b>Valuation Ratios (x)</b>				
P/E	76.6	71.1	59.0	53.1
EV / EBITDA	58.0	49.1	41.9	37.9
EV / Net Sales	14.5	12.3	10.6	9.8
Market Cap / Sales	14.7	12.4	10.8	10.0
Price to Book Value	64.3	13.6	13.3	12.9
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.8	1.0	1.0	1.0
Quick Ratio	0.5	0.6	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)	1,545	1,700	Buy	38,812	33.4	35.4	37.8	46.3	43.7	40.8	8.4	7.7	7.2	83.5	100.8	123.9	64.2	78.0	96.5
Dabur India (DABIND)	528	595	Buy	90,864	9.6	10.7	11.8	55.1	49.2	44.8	9.5	8.6	7.8	25.9	26.7	27.1	22.3	22.7	22.9
Hindustan Unilever (HINLEV)	2,390	2,600	Hold	561,507	33.6	40.5	45.0	71.1	59.0	53.1	12.4	10.8	10.0	25.3	29.4	31.7	19.1	22.5	24.3
ITC Limited (ITC)	211	225	Buy	213,884	11.2	12.0	13.4	18.8	17.5	15.7	4.7	4.2	3.8	27.2	30.5	35.7	20.9	23.4	27.5
Jyothy Lab (JYOLAB)	152	150	Hold	4,957	5.8	6.1	6.7	26.4	24.9	22.6	2.7	2.5	2.3	31.1	30.9	31.5	25.7	25.1	25.6
Marico (MARLIM)	412	440	Buy	46,834	8.8	9.5	9.9	46.9	43.3	41.8	6.2	5.6	5.4	42.3	45.1	46.0	36.3	38.5	39.3
Nestle (NESIND)	17,538	18,000	Hold	152,970	223.4	253.4	284.2	78.5	69.2	61.7	11.5	10.4	9.5	59.9	66.6	73.7	119.1	139.2	160.6
Tata Consumer Products (TATGLO)	573	605	Buy	52,158	12.0	13.5	15.1	47.7	42.4	37.9	4.8	4.4	4.1	9.8	10.5	11.1	7.8	8.6	9.3
VST Industries (VSTIND)	3,544	4,200	Hold	5,809	202.4	218.7	235.2	17.5	16.2	15.1	5.1	4.7	4.3	44.7	47.4	52.8	33.2	35.2	39.0
Varun Beverage (VARBEV)	901	730	Hold	19,429	11.3	21.7	26.6	79.6	41.5	33.9	3.0	2.5	2.3	12.3	18.6	20.7	10.1	16.7	17.6
Zydus Wellness (ZYDWEL)	1,935	2,300	Buy	11,359	27.8	65.7	71.7	69.7	29.4	27.0	6.1	5.4	5.0	6.9	8.3	8.9	5.9	8.6	9.2

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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