

## Second wave drags growth; margins under pressure

**About the stock:** Hindustan Unilever (HUL) is the biggest FMCG company in India with more than 40 brands across categories. It is the market leader in fabric wash, personal wash, cosmetics, shampoos and many other categories.

- The company has a distribution reach of ~8.0 million (mn) outlets with a direct network of more than 3.5 mn
- HUL acquired GSK Consumer Healthcare's business in 2019 and integrated Horlicks and Boost brands with the foods & refreshment segment

**Q1FY22 Results:** HUL reported dismal Q1FY22 results.

- Sales were up 12.8% YoY with muted 9% volumes growth on a low base
- EBITDA was at ₹ 2847 crore, up 7.7% YoY, with margins at 23.9%
- Consequent PAT was at ₹ 2061 crore (up 9.6% YoY)

**What should investors do?** HUL's share price has gone up by ~1.5x over the past five years (from ~₹ 922 in July 2016 to ~₹ 2388 levels in July 2021).

- We roll over FY24 numbers given Covid-19 related disruptions have temporarily impacted financials & FY23-FY4 would be a normalised year. We continue to remain positive and retain our BUY rating on the stock

**Target Price and Valuation:** We value HUL at ₹ 2750 i.e. 55x P/E on FY24E EPS

**Key triggers for future price performance:**

- Synergistic benefits of integration of nutrition business (Horlicks & Boost) to drive margin expansion
- Strong visible premiumisation trend, specifically in fabric wash
- Direct distribution reach to get further enhanced, going forward
- Strengthen manufacturing capacity (1.3x of pre-Covid) to tap demand recovery
- Digital initiatives are capturing more than 10% of the business

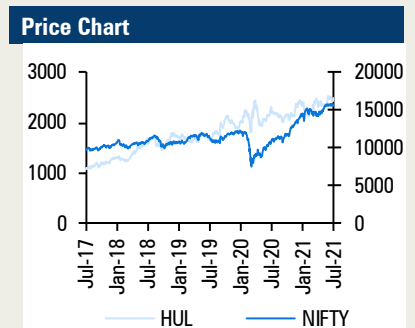
**Alternate Stock Idea:** Besides HUL, we like Zydus Wellness in our FMCG coverage

- It is growing at a steady pace in nascent categories with strong presence in health, nutrition space & margin expansion possibilities
- Trading at significant discount to FMCG peers. BUY with TP of ₹ 2,800



Particulars	
Particular (₹ crore)	Amount
Market Capitalization	561,036.7
Total Debt (FY21)	0.0
Cash and Investments (FY21)	7,004.0
EV	554,032.7
52 week H/L (₹)	2533 / 2000
Equity capital	235.0
Face value	₹ 1

Shareholding pattern				
(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	61.9	61.9	61.9	61.9
FII	14.5	14.9	15.0	15.1
DII	10.8	10.7	10.7	10.7
Others	12.8	12.5	12.4	12.3



- Recent event & key risks**
- Nutrition business Integration of sales, media buying completed.
  - Key Risk:** (i) Incessant increase in RM costs (ii) elongated recovery in discretionary categories

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### Key Financial Summary

Key Financials	FY20	FY21	5 year CAGR		FY23E	FY24E	3 Year CAGR
			(FY16-21)	FY22E			
Total Operating Income	38785.0	45996.0	6.5	53365.2	57541.2	62375.7	10.7%
EBITDA	9600.0	11324.0	14.5	13444.9	14816.2	16276.4	12.9%
EBITDA Margin %	24.8	24.6		25.2	25.7	26.1	
Net Profit	6738.0	7954.5	14.0	9517.7	10583.2	11720.7	13.8%
EPS (₹)	31.19	33.86	12.1	40.51	45.05	49.89	13.8%
P/E	76.6	70.5		58.9	53.0	47.9	
RoNW %	85.7	17.1		20.0	21.6	23.3	
RoCE (%)	89.5	18.9		25.6	27.7	29.8	

## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results: Robust performance continues

- Home care segment witnessed growth of 11.9% led by premiumisation trend in VIM & fabric wash segment. Segment margins contracted 134 bps
- BPC segment witnessed growth of 13.1% on a low base. The company took price hikes to pass on palm oil inflation. Segment margins were up 34 bps
- Foods & refreshment segment sales grew 12.2% led by strong growth momentum in ketchup, soups and tea. Ice cream category continued to remain adversely impacted by pandemic induced lockdowns. Segment margin contracted 160 bps
- Health, hygiene & nutrition, which constitutes 85% of the product portfolio, grew 8% whereas discretionary category (12% of the product portfolio) saw growth of 39% of on an extremely low base. Out of home (water, ice creams) witnessed growth of 91% on a low base. Both discretionary and out of home categories are still below pre-Covid levels

### Q1FY22 Earnings Conference Call highlights

- HUL is gaining relative penetration in 80% of its portfolio. The company saw 12% business growth on the back of 9% volume growth during the quarter
- Fabric wash, household care witnessed strong double digit growth led by premiumisation trend. The company took price hikes in fabric wash given crude based raw material prices have increased sharply. Launched Surf-Excel 3 in 1 shots
- Soaps growth momentum continued with premiumisation trend and price hikes to pass on palm oil inflation. Though hair care, skin care and colour cosmetics witnessed strong growth they were still below pre-Covid levels
- Soups, ketchups & tea segment grew at a stronger pace despite high base quarter. Nutrition portfolio witnessed mid-single digit volume growth. The company is trying to grow the brands by enhancing penetrations. HUL launched 'Kwality Wall's Cadbury Crackle' Tub during the quarter
- In nutrition business, 50% of the GTM integration is complete. The company has increased direct coverage by 1.4x
- Rural markets were also impacted by the second wave of the pandemic but recovered faster than urban markets during the quarter. Significant impact of Covid-19 second wave impacted cosmetics, skin care & other urban concentrated categories the most
- Commodity inflation could curtail margin expansion in the near term. However, the company would continue to take judicious price increases to pass on this inflation

## Peer comparison

Sector / Company	CMP		TP Rating	M Cap (₹ Cr)	Sales growth (%)			EBITDA Margins (%)			P/E(x)			RoE (%)			RoCE (%)		
	(₹)	(₹)			FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Dabur India (DABIND)	588	620	Buy	94,540	9.9	13.3	10.1	20.9	21.6	21.8	55.8	48.9	43.8	22.1	22.9	23.2	24.5	26.5	27.1
Colgate (COLPAL)	1789	1900	Buy	42892	7.0	7.6	8.2	31.4	30.9	31.2	41.4	40.4	36.9	88.8	85.1	86.1	106.4	110.4	111.7
Tata Consumer Products (TAT)	764	725	Buy	60,728	20.4	13.3	8.6	13.3	13.7	14.2	65.3	53.1	45.5	6.4	7.6	8.5	8.0	9.1	10.0
Zydus Wellness (ZYDWEL)	2,214	2,800	Buy	13,502	5.8	13.4	9.6	18.4	20.5	21.2	113.7	34.9	29.5	5.5	8.1	9.4	6.2	7.8	9.1

Source: Company, ICICI Direct Research

We believe growth & margin challenges due to pandemic and commodity inflation could impact the performance in the near term. However, we believe commodity prices would cool off in the next few quarters while reduction in Covid-19 cases along with faster vaccination would result in strong demand recovery across categories. We maintain our positive stance on the stock and reiterate our **BUY** recommendation with a target price of ₹ 2750/share (earlier ₹ 2715/ share).

Exhibit 1: Variance Analysis

Particulars (₹ crore)	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Net Sales	11,730.0	12,599.7	10,406.0	12.7	11,947.0	-1.8	Net sales witnessed growth of 12.7%, led by 9% volume growth on the back of low base. The growth numbers have been muted given the quarter has been impacted by the second wave of the pandemic
Other Operating Income	185.0	207.9	154.0	20.1	185.0	0.0	
Raw Material Expenses	5,905.0	6,055.8	5,087.0	16.1	5,756.0	2.6	With elevated commodity costs, gross margins contracted 140 bps
Employee Expenses	618.0	630.0	592.0	4.4	522.0	18.4	
Marketing Expenses	1,024.0	1,360.8	797.0	28.5	1,413.0	-27.5	Marketing spends declined sequentially, largely to safeguard significant cut in operating margins
Other operating expenses	1,521.0	201.6	1,440.0	5.6	1,484.0	2.5	
EBITDA	2,847.0	2,984.5	2,644.0	7.7	2,957.0	-3.7	
EBITDA margin (%)	23.9	23.3	25.0	-114 bps	24.4	-48 bps	Operating margins contracted by 114 bps, adversely impacted by gross margins
Depreciation	244.0	241.5	242.0	0.8	249.0	-2.0	
Interest	11.0	25.7	29.0	-62.1	9.0	N.A.	
Other Income	67.0	137.9	156.0	-57.1	109.0	-38.5	
PBT	2,659.0	2,855.3	2,529.0	5.1	2,822.0	-5.8	
Exceptional Items	-26.0	-56.6	-118.0	N.A.	14.0	N.A.	
Tax Outgo	572.0	705.3	530.0	7.9	679.0	-15.8	Lower tax provisioning due to certain prior period write-backs
PAT	2,061.0	2,093.4	1,881.0	9.6	2,143.0	-3.8	Net profit increased 9.6%
<b>Key Metrics growth YoY (%)</b>							
Home care	11.9		-2.1		14.6		Home care segment witnessed stronger growth on the back of robust growth in premium fabric wash product portfolio
		3.7					
Beauty & Personal care	13.2		-12.0		19.7		Cosmetics, skin care products saw dismal growth largely impacted by second Covid-19 wave
		29.9					
Food & Refreshments	12.2		51.7		96.4		Ice cream segment adversely impacted by second wave
		22.0					

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY22E			FY23E			FY24E		Comments
	Old	New	% Change	Old	New	% Change	New		
Sales	52,499.0	52,499.0	0.0	56607.2	56,607.2	0.0	61363.2	We are introducing FY24 numbers	
EBITDA	13,444.9	13,444.9	0.0	14816.2	14816.2	0.0	16276.4		
EBITDA Margin (%)	25.2	25.2	0 bps	26.2	26.2	0 bps	26.5		
PAT	9,517.7	9,517.7	0.0	10583.2	10583.2	0.0	11720.7		
EPS (₹)	40.5	40.5	0.0	45.0	45.0	0.0	50.6		

Source: ICICI Direct Research

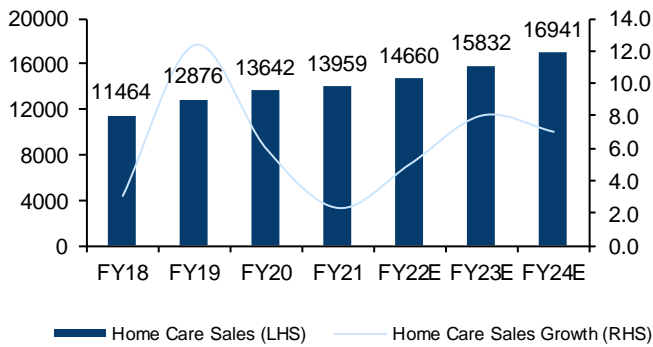
Exhibit 3: Assumptions

₹ crore)	Current						Earlier			Comments
	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E		
Home care	12,876.0	13,642.0	13,959.0	14,659.7	15,832.5	16,940.7	14,659.7	15832.47	No change in our estimates	
Personal care	17,655.0	17,345.0	17,964.0	21,854.7	23,821.6	26,442.0	21,854.7	23,821.6		
Food & Refreshments	7,133.0	7,450.0	13,204.0	15,037.1	15,939.3	16,895.7	15,037.1	15,939.3		

Source: ICICI Direct Research

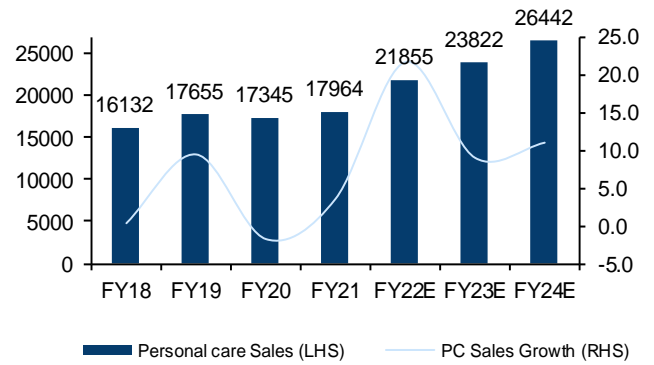
## Key Metrics

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



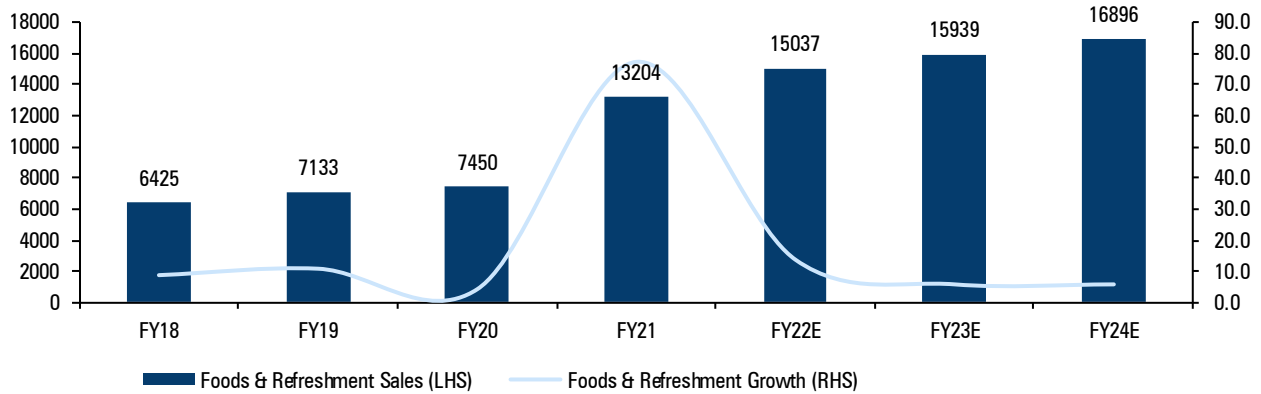
Source: ICICI Direct Research, Company

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



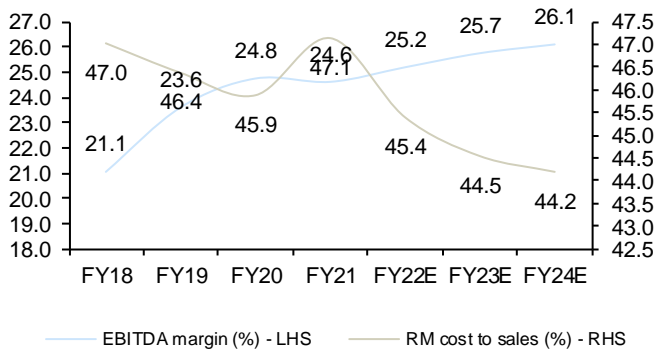
Source: ICICI Direct Research, Company

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



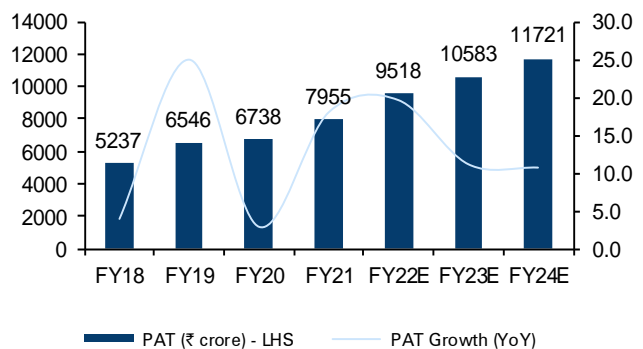
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin and raw material trend



Source: Company, ICICI Direct Research

Exhibit 8: PAT to grow at CAGR of 13.8% in FY20-24E



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Total operating Income</b>	<b>45,996.0</b>	<b>53,365.2</b>	<b>57,541.2</b>	<b>62,375.7</b>
Growth (%)	18.6	16.0	7.8	8.4
Raw Material Expenses	21,677.0	24,223.1	25,629.7	27,567.6
Employee Expenses	2,229.0	2,624.9	2,830.4	3,068.2
Marketing Expenses	4,737.0	5,669.9	6,226.8	6,749.9
Administrative Expenses	0.0	2,939.9	3,283.2	3,559.1
Other expenses	6,029.0	4,462.4	4,755.0	5,154.5
Total Operating Expenditure	34,672.0	39,920.3	42,725.1	46,099.2
<b>EBITDA</b>	<b>11,324.0</b>	<b>13,444.9</b>	<b>14,816.2</b>	<b>16,276.4</b>
Growth (%)	18.0	18.7	10.2	9.9
Depreciation	1,012.0	966.2	992.2	1,018.2
Interest	108.0	102.6	92.3	83.1
Other Income	513.0	574.6	643.5	720.7
Exceptional Income	-226.5	-226.5	-226.5	-226.5
PBT	10,490.5	12,724.2	14,148.7	15,669.4
Total Tax	2,536.0	3,206.5	3,565.5	3,948.7
<b>PAT</b>	<b>7,954.5</b>	<b>9,517.7</b>	<b>10,583.2</b>	<b>11,720.7</b>
Growth (%)	18.1	19.7	11.2	10.7
EPS (₹)	33.9	40.5	45.0	49.9

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	8,123.0	9,517.7	10,583.2	11,720.7
Add: Depreciation	1,069.0	966.2	992.2	1,018.2
(Inc)/dec in Current Assets	-866.0	-1,324.6	-832.9	-964.2
Inc/(dec) in CL and Provisions	810.0	-341.2	821.6	951.2
<b>CF from operating activities</b>	<b>8,957.0</b>	<b>8,818.0</b>	<b>11,564.1</b>	<b>12,725.8</b>
(Inc)/dec in Investments	-1,467.0	-100.0	-100.0	-100.0
(Inc)/dec in loans & advances	-532.0	-25.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	0.0	2,396.0	-1,192.2	-1,218.2
Others	632.0	-6,012.1	17.4	17.1
<b>CF from investing activities</b>	<b>(1,367.0)</b>	<b>(3,741.1)</b>	<b>(1,299.7)</b>	<b>(1,326.1)</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-8,811.0	-8,460.0	-9,400.0	-10,340.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-469.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>(9,280.0)</b>	<b>(8,460.0)</b>	<b>(9,400.0)</b>	<b>(10,340.0)</b>
Net Cash flow	-1,390.0	-3,383.1	864.4	1,059.7
Opening Cash	3,130.0	1,740.0	-1,643.1	-778.7
<b>Closing Cash*</b>	<b>4,321.0</b>	<b>937.9</b>	<b>1,802.3</b>	<b>2,862.0</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY21E	FY22E	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	235.0	235.0	235.0	235.0
Reserve and Surplus	47,199.0	48,256.7	49,439.9	50,820.6
Total Shareholders funds	47,434.0	48,491.7	49,674.9	51,055.6
Other Non Current Liabilities	2,304.0	2,304.0	2,304.0	2,304.0
Long Term Provisions	1551.0	145.3	161.3	178.4
<b>Total Liabilities</b>	<b>57,275.0</b>	<b>50,941.0</b>	<b>52,140.2</b>	<b>53,538.0</b>
<b>Assets</b>				
Gross Block	7,332.0	7,532.0	7,732.0	7,932.0
Less: Acc Depreciation	3,519.0	4,485.2	4,485.2	4,485.2
Net Block	5,786.0	3,046.8	3,246.8	3,446.8
Capital WIP	623.0	0.0	0.0	0.0
Total Fixed Assets	6,409.0	3,046.8	3,246.8	3,446.8
Goodwill on Consolidation	17316	17316	17316	17316
Net Intangible Assets	27,925.0	27,925.0	27,925.0	27,925.0
Other Investments	312.0	412.0	512.0	612.0
Inventory	3,383.0	3,595.8	3,877.2	4,203.0
Debtors	1,648.0	1,869.8	2,016.1	2,185.5
Loans and Advances	0.0	287.7	310.2	336.2
Investments & Other CA	1,605.0	1,438.3	1,550.9	1,681.2
Cash	4,321.0	937.9	1,802.3	2,862.0
Total Current Assets	13,640.0	11,581.5	13,278.8	15,302.8
Creditors	8,627.0	8,630.0	9,305.3	10,087.1
Provisions & other CL	2,214.0	1,869.8	2,016.1	2,185.5
Total Current Liabilities	10,841.0	10,499.8	11,321.4	12,272.6
Net Current Assets	2,799.0	1,081.7	1,957.4	3,030.1
Others Non-Current Assets	1,133.0	1,158.0	1,183.0	1,208.0
<b>Application of Funds</b>	<b>57,275.0</b>	<b>50,941.0</b>	<b>52,140.2</b>	<b>53,538.0</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	33.9	40.5	45.0	49.9
Cash EPS	38.2	44.6	49.3	54.2
BV	201.9	206.4	211.4	217.3
DPS	27.0	36.0	40.0	44.0
Cash Per Share	18.4	4.0	7.7	12.2
<b>Operating Ratios (%)</b>				
EBITDA/Total Operating Income	24.6	25.2	25.7	26.1
PBT Margin	23.3	24.3	25.0	25.5
PAT Margin	17.3	17.8	18.4	18.8
Inventory days	27	25	25	25
Debtor days	13	13	13	13
Creditor days	69	60	60	60
<b>Return Ratios (%)</b>				
RoE	17.1	20.0	21.6	23.3
RoCE	18.9	25.6	27.7	29.8
<b>Valuation Ratios (x)</b>				
P/E	70.5	58.9	53.0	47.9
EV / EBITDA	49.2	41.7	37.7	34.3
EV / Net Sales	12.3	10.7	9.9	9.1
Market Cap / Sales	12.4	10.7	9.9	9.1
Price to Book Value	11.8	11.6	11.3	11.0
<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	0.9	1.0	1.0	1.0
<b>Quick Ratio</b>	<b>0.5</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>

Source: Company, ICICI Direct Research

**Exhibit 13: ICICI Direct coverage universe (FMCG)**

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
Colgate (COLPAL)	1,789	1,900	Buy	42,892	38.1	39.1	42.7	47.0	45.8	41.9	8.9	8.3	7.7	106.4	110.4	111.7	88.8	85.1	86.1
Dabur India (DABIND)	588	620	Buy	94,540	9.6	10.9	12.2	61.4	53.8	48.2	9.9	8.7	7.9	24.5	26.5	27.1	22.1	22.9	23.2
Hindustan Unilever (HINLEV)	2,378	2,750	Buy	561,037	33.9	40.5	45.0	70.2	58.7	52.8	12.4	10.7	9.9	18.9	25.6	27.7	17.1	20.0	21.6
ITC Limited (ITC)	207	240	Hold	258,136	10.7	12.5	13.9	19.3	16.6	14.8	5.4	4.9	4.5	28.7	32.9	34.8	22.5	25.4	26.8
Jyothy Lab (JYOLAB)	174	160	Hold	5,324	5.2	6.3	7.1	33.6	27.6	24.5	2.8	2.6	2.4	26.0	27.2	28.5	20.4	22.7	23.7
Marico (MARLIM)	529	490	Buy	53,027	9.3	9.6	10.7	56.9	55.0	49.5	6.6	5.9	5.3	40.3	42.5	45.5	37.0	37.4	39.7
Nestle (NESIND)	17,994	19,300	Hold	164,840	216.0	254.8	283.8	83.3	70.6	63.4	12.4	11.2	10.2	54.6	62.7	69.1	103.1	124.2	142.1
Tata Consumer Products (TAT)	764	725	Buy	57,963	10.1	12.4	14.5	75.7	61.5	52.7	5.0	4.4	4.1	8.0	9.1	10.0	6.4	7.6	8.5
VST Industries (VSTIND)	3,460	3,600	Hold	5,090	201.3	218.8	234.9	17.2	15.8	14.7	4.6	4.2	3.9	43.4	45.6	48.2	33.0	33.9	36.1
Varun Beverage (VARBEV)	759	800	Buy	33,343	8.4	14.1	20.7	90.8	53.6	36.6	5.2	4.2	3.6	10.9	17.4	23.4	10.3	15.4	19.1
Zydus Wellness (ZYDWEL)	2,214	2,800	Buy	13,502	18.7	60.8	72.0	118.7	36.4	30.8	7.2	6.4	5.8	6.2	7.8	9.1	5.5	8.1	9.4

Source: Bloomberg, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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