

Hindustan Unilever Limited



Hindustan Unilever Ltd.

Cautiously optimistic; margin to remain under pressure

CMP INR 2,479	Target INR 2,834	Potential Upside 14.3%	Market Cap (INR Mn) INR 5,823,814	Recommendation ACCUMULATE	Sector FMCG
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Result Highlights of Q2FY22

- HUL reported revenue growth of 11.7% YoY (+7% QoQ) at INR 130,460 Mn driven by double digit growth in Home Care and Beauty & Personal care segment.
- Gross Margins declined by 140 bps YoY impacting from higher input cost.
- EBITDA stood at INR 32,260 Mn (+10.3% YoY), with EBITDA Margin at 24.7% (-30bps YoY), the contraction in margin was mainly due to higher input cost which was partially offset by cost saving measures and operational efficiency.
- PAT for the quarter was at INR 21,850 Mn (+10.7% YoY), with NPM at 16.7% (-20bps YoY).
- The company has declared an interim dividend of INR 15 per share for FY22.

MARKET DATA

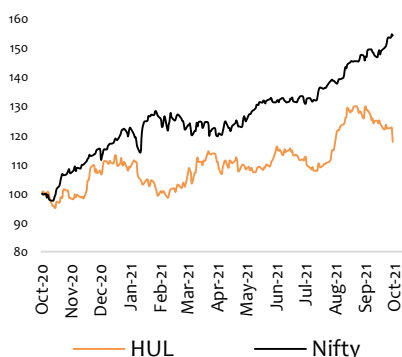
Shares outs (Mn)	2350
Mkt Cap (INR Mn)	5,823,814
52 Wk H/L (INR)	2,859/2,043
Volume Avg (3m K)	1,625
Face Value (INR)	1
Bloomberg Code	HUVR IN

KEY FINANCIALS

INR Mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	397,830	470,280	516,695	576,311	644,273
EBITDA	98,610	116,260	130,649	150,737	178,821
PAT	67,560	79,950	92,570	106,794	122,191
Adj PAT	65,560	77,560	92,570	106,794	122,191
EPS (INR)	31.28	34.02	39.39	45.44	52.00
Adj. EPS (INR)	30.35	33.00	39.39	45.44	52.00
EBITDA Margin (%)	24.8%	24.7%	25.3%	26.2%	27.8%
NPM (%)	17.0%	17.0%	17.9%	18.5%	19.0%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Growth largely driven by price hike: HUL reported revenue growth of 11.7% YoY (+7% QoQ) at INR 130,460 Mn largely driven by 7% price increase while underlying volume growth was 4%. Health, Hygiene and Nutrition portfolio contributing 85% of revenues reported healthy 7% YoY growth. Home Care (~29% of revenue) grew 15.7% driven by high double-digit growth in Fabric Wash. HUL took calibrated price increases across Fabric Wash and Household Care portfolios to partly offset the high inflation in input costs. Beauty & Personal segment (~39% of revenue) grew by 10.5% YoY, with robust performance across categories and strong double-digit growth in skin cleansing, hair and oral care. The skin cleansing performance was led by 'Lifebuoy' and double digit-growth in the premium segment. Foods & Refreshment (~29% of revenue) grew by 7%, a strong performance on a high base. Tea grew on a very strong base and further strengthened its market leadership. Focus on market development in Nutrition is yielding good results. HUL has completed more than 85% integration of GSK portfolio.

Cautiously optimistic in near term : HUL's management remains cautiously optimistic for near term demand and stated that next few months are critical for better understanding of demand. Operational environment remained strong for the company with more than 75% of business gaining market share and penetration. Modern trade come back strongly while general trade continues with its resilient performance. As per Nielsen, FMCG demand saw moderation in August and September however HUL has not seen slowdown in demand for its products in rural markets. Urban market is expected to benefit more due to increased mobility in next few months. HUL continues to focus on delivering growth however there could be some pressure on gross margin going forward due higher commodity prices. The management plans to reduce impact on margin by change in product mix, price hike wherever input costs are higher and tight cost control.

MARKET INFO

SENSEX	61,260
NIFTY	18,267

SHARE HOLDING PATTERN (%)

Particulars	Sep-21	Jun-21	Mar-21
Promoters	61.90	61.90	61.90
FIIIs	15.45	15.11	14.95
DIIIs	10.46	10.74	10.68
Others	12.19	12.25	12.47
Total	100	100	100

11.1%

Revenue CAGR between FY21 and FY24E

15.2%

PAT CAGR between FY21 and FY24E

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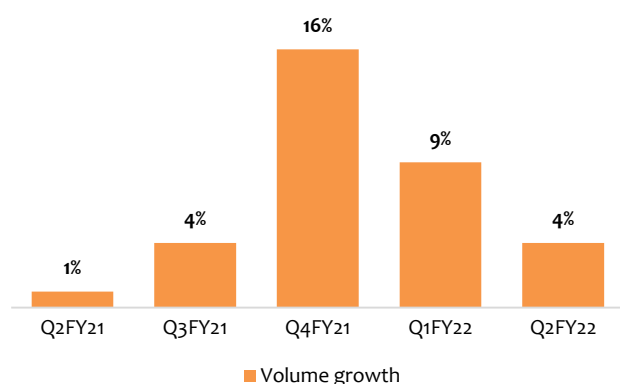
Key Concall Highlights : (i) The volume growth witnessed a sequential improvement; it grew by 4% on the base of 1% volume growth in Q2FY21. (ii) Discretionary, which reported just a 2% decline v/s 2QFY20 levels, is nearly back at pre-COVID levels. Out-of-Home (OOH) category is well ahead of 2QFY20 levels. (iii) The e-commerce portfolio is growing sharply with digitally native customers. (iv) Four beauty brands now have direct-to-customer (D2C) portals. The Lakmé portal sees 2m monthly visitors, with 30% of the brand's e-commerce sales coming from its own portal. (v) E-commerce and D2C now account for over 10% of sales. (vi) The digital demand capture now stands at 15% (v/s 10% in Jun'21). The Shikhar app is now available at 650,000 outlets. (vii) The company continued to gain penetration across all the categories and gained value share in more than 3/4th of the business as of now. (viii) Double-digit volume growth is seen in HFD. Sachets (INR2 sachets now launched across South India) and access packs are doing very well. The benefits of higher penetration would be observed over the longer term. (ix) The company launched Kwaliti Wall's Cadbury Crackle' Tub in collaboration with Mondelez. (x) The total contribution from health, hygiene and nutrition business has gone up to 85% during the quarter vs 80% previously. (xi) Tea prices have softened but remain higher v/s 2019 levels. Crude and palm oil costs remain high. (xii) High RMs may continue to pressure gross margins. HUL aims to partially offset this through cost savings and a better sales mix.

Valuation and view

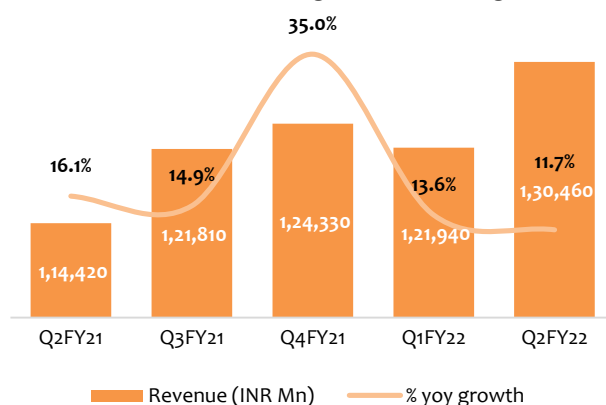
We expect improvement in demand as the economy is recovering from the impact of second wave of Covid-19. The industry is witnessing initial sign of recovery in out of home consumption and discretionary spend driven by improved mobility. HUL has delivered decent numbers in H1FY22 however the margins contracted due to higher input cost. We expect input cost to remain elevated in near term, however, the management is taking prudent measures to reduce the impact on profitability. We would remain watchful on demand scenario in the rural market. The recent digital initiatives taken by the company will help in increasing penetration and improving distribution.

Since our last recommendation, the stock price of HUL has achieved our target price of INR 2,805 by touching a 52-week high of INR 2,859 on 21st Sep 2021; later the stock has corrected by ~13% from the 52-week high. We expect Revenue/PAT to grow by 11%/15.2% CAGR over FY21-24E, respectively. We assign a P/E multiple of 54.5x (earlier 62x) to the FY24E EPS of INR 52 (earlier FY23E EPS of INR 44.5) to arrive at a target price of INR 2,834 per share, an upside of 14.3%. We maintain our positive outlook on HUL and assign 'ACCUMULATE' rating to the stock.

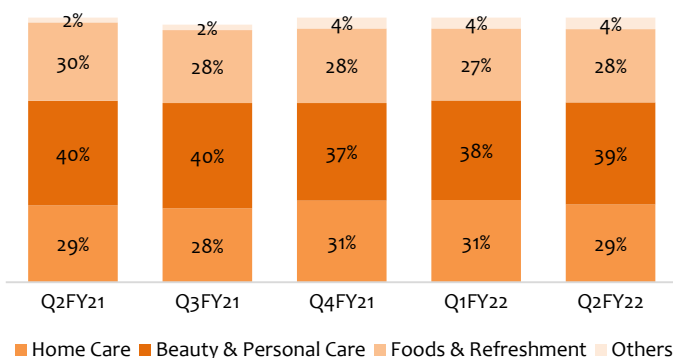
Volume growth improving sequentially



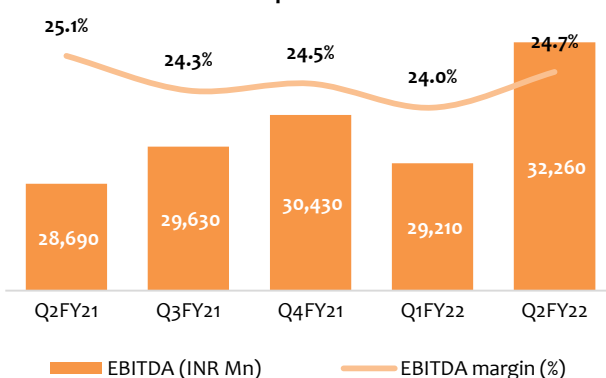
Revenue continues to grow in double digit



Growth witnessed across all segments



Growth in premium segment led to steady margin expansion



Source: Company, KRChoksey Research

Hindustan Unilever Ltd.

KEY FINANCIALS

Income Statement (INR Mn)	Q2FY22	Q1FY22	Q2FY21	QoQ	YoY	H1FY22	H1FY21	YoY
Revenue from Operations	130,460	121,940	116,830	7.0%	11.7%	252,400	224,140	12.6%
Total Expenditure	98,200	92,730	88,170	5.9%	11.4%	190,930	167,940	13.7%
Cost of Raw Materials	42,420	36,800	43,340	15.3%	-2.1%	79,220	79,640	-0.5%
Purchase of Stock	22,390	22,320	14,250	0.3%	57.1%	44,710	30,940	44.5%
Changes in Inventories	-1,600	1,330	-2,280	-220.3%	-29.8%	-270	-4,020	-93.3%
Employee Cost	6,200	6,540	6,040	-5.2%	2.6%	12,740	12,120	5.1%
Advertising/ Other expenses	28,790	25,740	26,820	11.8%	7.3%	54,530	49,260	10.7%
EBITDA	32,260	29,210	28,660	10.4%	12.6%	61,470	56,200	9.4%
EBITDA Margin (%)	24.7%	24.0%	24.5%	77 bps	20bps	24.4%	25.1%	-72 bps
Depreciation	2,810	2,600	2,700	8.1%	4.1%	5,410	5,220	3.6%
EBIT	29,450	26,610	25,960	10.7%	13.4%	56,060	50,980	10.0%
Interest Expense	280	130	320	115.4%	-12.5%	410	620	-33.9%
Other Income	530	660	920	-19.7%	-42.4%	1,190	2,470	-51.8%
PBT	29,700	27,140	26,560	9.4%	11.8%	56,840	52,830	7.6%
Exceptional Items	-50	-270	-840	-81.5%	-94.0%	-320	-2,020	-84.2%
Tax	7,830	5,870	6,760	33%	15.8%	13,700	12,100	13.2%
Share in P&L / MI	70	30	0	133.3%	NA	100	0	NA
PAT	21,750	20,970	18,960	3.7%	14.7%	42,720	38,710	10.4%
PAT Margin	16.7%	17.2%	16.2%	-53 bps	44bps	16.9%	17.3%	-34 bps
EPS	9.3	8.9	8.8	4.0%	5.7%	18.2	17.9	1.6%

Income Statement INR Mn	FY20	FY21	FY22E	FY23E	FY24E
Revenues	397,830	470,280	516,695	576,311	644,273
COGS	182,590	221,480	238,788	261,325	281,834
Gross profit	215,240	248,800	277,907	314,986	362,439
Employee cost	18,200	23,580	23,251	25,934	28,992
Other expenses	98,430	108,960	124,007	138,315	154,626
EBITDA	98,610	116,260	130,649	150,737	178,821
EBITDA Margin	24.8%	24.7%	25.3%	26.2%	27.8%
Depreciation & amortization	10,020	10,740	13,014	14,515	16,227
EBIT	88,590	105,520	117,635	136,222	162,594
Interest expense	1,180	1,170	600	600	600
Other income	6,320	4,100	5,689	5,960	5,960
Exceptional items	-2,000	-2,390	0	0	0
PBT	91,730	106,060	122,725	141,582	161,994
Tax	24,090	26,060	30,155	34,788	39,804
Minority interest	80	50	50	50	50
PAT	65,560	77,560	92,570	106,794	122,191
EPS (INR)	30.35	33.00	39.39	45.44	52.00

Cash Flow Statement INR Mn	FY20	FY21	FY22E	FY23E	FY24E
Net Cash Generated From Operations	76,230	91,630	119,257	129,913	153,517
Net Cash Flow from/(used in) Investing Activities	17,910	(12,280)	11,104	(15,623)	(17,505)
Net Cash Flow from Financing Activities	(68,190)	(93,090)	(83,913)	(96,714)	(110,572)
Net Inc/Dec in cash equivalents	25,950	(13,740)	46,448	17,576	25,441
Opening Balance	6,210	32,160	18,420	64,868	82,444
Closing Balance Cash and Cash Equivalents	32,160	18,420	64,868	82,444	107,884

Source: Company, KRChoksey Research

Hindustan Unilever Ltd.

Balance Sheet INR Mn	FY20	FY21	FY22E	FY23E	FY24E
Non-current assets					
Property, plant and equipment	49,600	61,160	49,416	48,732	47,967
Capital work-in-progress	5,970	7,450	7,450	7,450	7,450
Intangible assets (inc. Goodwill)	4,137	296,616	296,616	296,616	296,616
Financial assets					
Investments	20	24	26	29	32
Loans	2,380	2,510	2,273	2,305	2,706
Other financial assets	30	6,170	6,779	7,561	8,453
Deferred tax assets (Net)	2,840	170	2,480	5,187	5,154
Non-current tax assets (Net)	10,830	12,460	13,690	15,269	17,070
Other non-current assets	1,460	2,190	2,406	2,684	3,000
Total non-current assets	78,320	545,404	536,980	541,677	544,293
Current assets					
Inventories	27,670	35,790	38,587	42,229	45,543
Financial assets					
Investments	12,530	27,070	15,501	17,289	19,328
Trade receivables	11,490	17,580	19,315	21,544	24,084
Cash and cash equivalents	32,160	18,420	64,868	82,444	107,884
Other Balances with Banks	18,970	26,290	26,290	26,290	26,290
Loans	0	0	0	0	0
Other financial assets	14,200	11,880	18,084	20,171	22,550
Assets classified as Held for Sale	180	170	170	170	170
Other current assets	6,010	4,970	5,461	6,091	6,809
Total current assets	123,210	142,170	188,275	216,227	252,658
TOTAL ASSETS	201,530	687,574	725,255	757,904	796,951
EQUITY AND LIABILITIES					
Equity					
Equity share capital	2,160	2,350	2,350	2,350	2,350
Other equity	80,130	474,390	483,647	494,326	506,545
Equity attributable to the equity shareholders	82,290	476,740	485,997	496,676	508,895
Non-controlling interests	170	200	200	200	200
Total equity	82,460	476,940	486,197	496,876	509,095
LIABILITIES					
Non-current liabilities					
Financial liabilities					
Other financial liabilities	9,390	10,270	11,284	12,586	14,070
Provisions	12,270	15,780	17,337	19,338	21,618
Non current tax liabilities	4,240	13,670	15,019	16,752	18,728
Other non-current liabilities	0	59,880	65,790	73,381	82,034
Total non-current liabilities	25,900	99,600	109,430	122,056	136,450
Current liabilities					
Financial liabilities					
Borrowings	0	0	0	0	0
Trade payables	75,350	88,020	94,898	100,234	108,101
Other financial liabilities	9,320	12,060	13,250	14,779	16,522
Other current liabilities	4,280	5,880	6,460	7,206	8,055
Provisions	4,220	5,070	15,019	16,752	18,728
Total current liabilities	93,170	111,034	129,628	138,971	151,406
Total liabilities	119,070	210,634	239,058	261,028	287,856
TOTAL EQUITY AND LIABILITIES	201,530	687,574	725,255	757,904	796,951

Key Ratio	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin (%)	24.8%	24.7%	25.3%	26.2%	27.8%
Tax rate (%)	26.3%	24.6%	24.6%	24.6%	24.6%
Net Profit Margin (%)	17.0%	17.0%	17.9%	18.5%	19.0%
RoE (%)	81.3%	27.7%	19.2%	21.7%	24.3%
RoCE (%)	62.5%	23.2%	15.1%	16.9%	19.4%
EPS (INR)	31.28	34.02	39.39	45.44	52.00

Source: Company, KRChoksey Research

Hindustan Unilever Ltd.

Hindustan Unilever Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
21-Oct-21	2,479	2,830	ACCUMULATE	Buy	More than 15%
27-Jul-21	2,349	2,805	BUY		
30-Jun-21	2,493	2,805	ACCUMULATE	Accumulate	5% – 15%
05-May-21	2,395	2,805	BUY		
17-Mar-21	2,244	2,719	BUY	Hold	0 – 5%
15-Dec-20	2,375	2,556	ACCUMULATE		
22-Oct-20	2,179	2,556	BUY	Reduce	-5% – 0
04-Sep-20	2,125	2,556	BUY		
04-May-20	2,083	2,540	BUY	Sell	Less than – 5%
15-Apr-20	2,351	2,708	BUY		

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