

October 19, 2021

Q2FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	2,930		2,915	
Sales (Rs. m)	5,67,155	6,27,808	5,65,013	6,25,442
% Chng.	0.4	0.4		
EBITDA (Rs. m)	1,45,690	1,67,440	1,45,866	1,67,263
% Chng.	(0.1)	0.1		
EPS (Rs.)	45.3	52.8	45.3	52.8
% Chng.	(0.2)	0.1		

Key Financials - Standalone

Y/e Mar (Rs bn)	FY21	FY22E	FY23E	FY24E
Sales (Rs. bn)	460	511	567	628
EBITDA (Rs. bn)	113	125	146	167
Margin (%)	24.6	24.4	25.7	26.7
PAT (Rs. bn)	82	88	106	124
EPS (Rs.)	34.8	37.6	45.3	52.8
Gr. (%)	8.4	7.9	20.5	16.6
DPS (Rs.)	37.5	33.0	38.0	44.0
Yield (%)	1.5	1.3	1.5	1.7
RoE (%)	29.5	18.4	21.5	24.2
RoCE (%)	37.2	23.6	27.1	30.1
EV/Sales (x)	12.9	11.5	10.3	9.3
EV/EBITDA (x)	52.2	47.3	40.2	34.8
PE (x)	73.2	67.8	56.3	48.2
P/BV (x)	12.6	12.3	11.9	11.4

Key Data

	HLL.BO HUVR IN
52-W High / Low	Rs.2,859 / Rs.2,043
Sensex / Nifty	61,716 / 18,419
Market Cap	Rs.5,984bn/ \$ 79,418m
Shares Outstanding	2,350m
3M Avg. Daily Value	Rs.8366.78m

Shareholding Pattern (%)

Promoter's	61.90
Foreign	15.45
Domestic Institution	10.48
Public & Others	12.17
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.4)	4.5	16.9
Relative	(10.5)	(18.8)	(23.4)

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Inflation and Rural slowdown a near term headwind; Accumulate

Quick Pointers:

- Domestic consumer growth at 11% and underlying volume growth at 4%
- Neilsen Data suggest slowdown in Rural demand, witnessed by HUL in Sept.
- GTM integration for nutrition business at 85% mark

We are cutting FY22/23 EPS by 1.9%/0.2% on the back of 1) Inflationary environment impacting GRMs and 2) Slowdown witnessed in rural demand neutralized partly by uptick in Discretionary segments. Despite the near term inflation challenges, we remain positive on the structural story given that 1) More than 75% of business is gaining share 2) HFD segment is likely to emerge as a key driver of growth with synergies ahead of guidance 3) Rebound in discretionary and OOH expected with improving mobility 4) Launch of D2C platforms for Lakme, Simple, Dermalogica and Love Beauty & Planet 5) distribution gains from strategies like WIMI and SHIKHAR.

We believe HUVR will face margin pressures in the near term however initiatives taken in BPC and Nutrition segments should play out over the medium term offering growth momentum. We expect 10.9% Sales and 15% PAT CAGR over FY22-23 and assign a DCF based target price of Rs 2930 (Rs 2915 earlier). Maintain Accumulate.

Concall Takeaways: 1) Despite pickup in economic activity, Nielsen expect FMCG growth to moderate mainly due to softening in Rural demand. HUL however witnessed robust demand, with slowdown witnessed from Sep21. 2) Palm oil, Crude and derivatives, Packaging and Freight continue to remain inflated, Tea prices softened YoY but remain above FY19 levels. 3) Launched D2C platforms for Lakme, Simple, and Dermalogica. 4) Lakme has the highest Instagram followers with 30% online sales 5) GTM integration for nutrition business completed 85% and effective coverage increased 1.9x. Synergies ahead of guidance. 6) Penetration gains in health food drinks expected to continue going forward. 7) B2B app - Shikhar now available in 650,000 stores. 8) General trade continued its resilient performance while MT recorded a strong comeback.

Volumes up 4%, Revenues up 11.2%: Revenues grew by 11.2% YoY to Rs127.2bn (PLe: Rs128bn). Gross margins contracted by 142bps YoY to 51.6% (PLe:52.3%). EBITDA grew by 9.2% YoY to Rs31.3bn (PLe:Rs31.4bn), EBITDA margins came at 24.6% (PLe:24.5%). A&P Expenses grew by 6.7% YoY to Rs12.2bn. Adj PAT grew by 7.5% YoY to Rs21.9bn (PLe:Rs22.2bn). Home Care revenues grew by 15.7% YoY to Rs38.4bn. EBIT grew by 7.4% YoY to Rs7.3bn, while margins contracted by 147bps YoY to 19%. Personal Care revenues grew by 10.3% YoY to Rs50bn. EBIT grew by 4.7% YoY to Rs13.9bn, while margins contracted by 148bps YoY to 27.8%. Food & Refreshment revenues grew by 7.2% YoY to Rs36.2bn. EBIT grew by 18.8% YoY to Rs6.6bn, while margins expanded by 179bps YoY to 18.3%.

Exhibit 1: Q2FY22 Results (Rs m): Volumes up 4%, EBITDA margins decline 50bps

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY21	YoY gr. (%)
Net Sales	1,27,240	1,14,420	11.2	1,19,150	2,46,390	2,20,020	12.0
Gross Profit	65,660	60,670	8.2	60,100	1,25,760	1,15,400	9.0
<i>% of NS</i>	<i>51.6</i>	<i>53.0</i>	<i>(1.4)</i>	<i>50.4</i>	<i>51.0</i>	<i>52.4</i>	<i>(1.4)</i>
A&P Exp.	12,150	11,390	6.7	10,240	22,390	19,360	15.7
<i>% of NS</i>	<i>9.5</i>	<i>10.0</i>	<i>(0.4)</i>	<i>8.6</i>	<i>9.1</i>	<i>8.8</i>	<i>0.3</i>
EBITDA	31,320	28,690	9.2	28,470	59,790	55,130	8.5
<i>Margins</i>	<i>24.6</i>	<i>25.1</i>	<i>(0.5)</i>	<i>23.9</i>	<i>24.3</i>	<i>25.1</i>	<i>(0.8)</i>
Depreciation	2,650	2,490	6.4	2,440	5,090	4,910	3.7
EBIT	28,670	26,200	9.4	26,030	54,700	50,220	8.9
Interest	260	290	(10.3)	110	370	580	(36.2)
Other Income	1,130	1,510	(25.2)	670	1,800	3,070	(41.4)
PBT	29,540	27,420	7.7	26,590	56,130	52,710	6.5
Tax	7,670	7,070	8.5	6,970	14,640	13,630	7.4
<i>Tax Rate (%)</i>	<i>26.0</i>	<i>25.8</i>	<i>0.2</i>	<i>26.2</i>	<i>26.1</i>	<i>25.9</i>	<i>0.2</i>
Adjusted PAT	21,870	20,350	7.5	19,620	41,490	39,080	6.2
Extraordinary	270	(330)		(900)	(630)	(210)	
Reported Profit	22,140	20,020	10.6	18,720	40,860	38,870	5.1

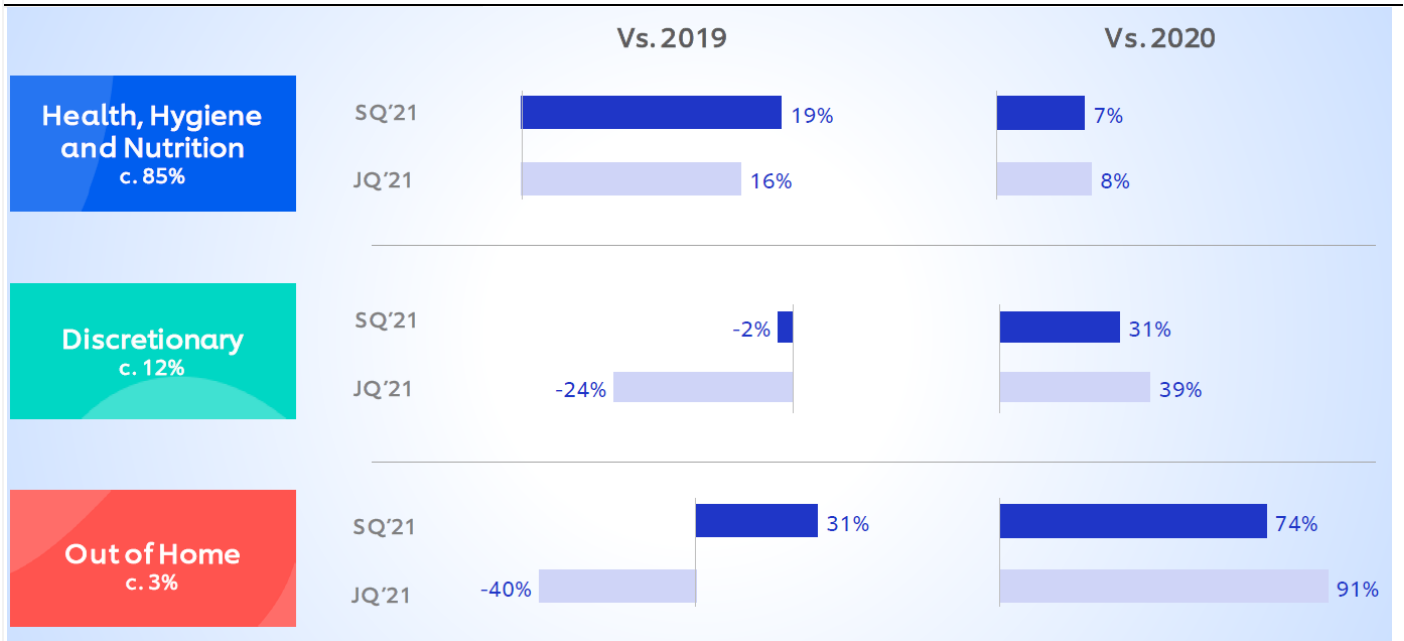
Source: Company, PL

Exhibit 2: 2Q22 performance was driven by 15.7%/10.3% growth in home care/ personal care segment

Quarterly Segmental	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
Net Sales (Rs m)	98,520	98,080	90,110	1,05,600	1,14,420	1,18,620	1,21,320	1,19,150	1,27,240
Home Care	33,710	34,560	33,500	33,920	33,180	34,090	38,400	37,970	38,380
Personal Care	45,430	44,120	38,010	40,390	45,350	48,410	45,490	45,730	50,000
Foods & Refreshment	18,470	18,650	17,880	29,580	33,790	33,560	35,110	33,190	36,220
Others	910	750	720	1,710	2,100	2,560	2,320	2,260	2,640
Sales Growth %	6.7	2.6	(9.4)	4.4	16.1	20.9	34.6	12.8	11.2
Home Care	9.4	9.8	(4.3)	(2.1)	(1.6)	(1.4)	14.6	11.9	15.7
Personal Care	5.3	(2.8)	(13.5)	(12.0)	(0.2)	9.7	19.7	13.2	10.3
Foods & Refreshment	8.4	7.9	(6.7)	51.7	82.9	79.9	96.4	12.2	7.2
Others	(32.1)	(47.6)	(46.3)	55.5	130.8	241.3	222.2	32.2	25.7
EBIT (Rs m)	22,060	22,130	18,100	24,020	26,200	25,820	27,080	26,030	28,670
Home Care	5,950	6,290	6,360	6,370	6,780	6,460	8,120	6,620	7,280
Personal Care	13,150	12,520	9,450	11,340	13,280	14,130	12,520	12,870	13,900
Foods & Refreshment	2,940	3,340	2,250	5,820	5,590	4,730	5,750	6,000	6,640
Others	20	-20	40	490	550	500	690	540	850
EBIT Growth %	16.3	22.5	(17.2)	(1.5)	18.8	16.7	49.6	8.4	9.4
Home Care	20.9	55.7	2.7	(8.9)	13.9	2.7	27.7	3.9	7.4
Personal Care	17.9	7.7	(22.5)	(16.5)	1.0	12.9	32.5	13.5	4.7
Foods & Refreshment	2.1	36.9	(35.0)	53.6	90.1	41.6	155.6	3.1	18.8
Others	0.0	(33.3)	100.0	2,350.0	2,650.0	(2,600.0)	1,625.0	10.2	54.5
EBIT Margin %	22.4	22.6	20.1	22.7	22.9	21.8	22.3	21.8	22.5
Home Care	17.7	18.2	19.0	18.8	20.4	18.9	21.1	17.4	19.0
Personal Care	28.9	28.4	24.9	28.1	29.3	29.2	27.5	28.1	27.8
Foods & Refreshment	15.9	17.9	352.8	16.9	17.8	164.6	18.1	18.1	18.3
Others	2.2	(2.7)	5.6	28.7	26.2	19.5	29.7	23.9	32.2

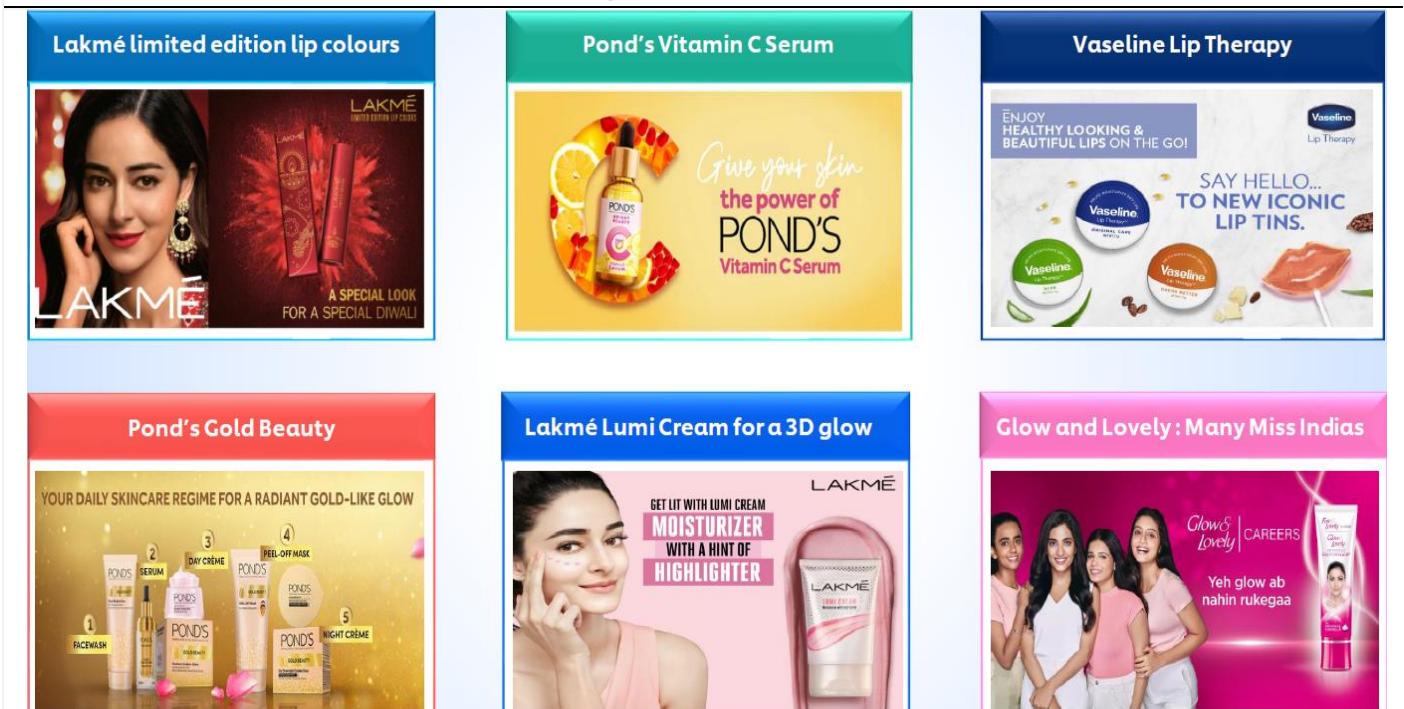
Source: Company, PL

Exhibit 3: Discretionary remains below 2019 levels while OOH has rebounded strongly






Source: Company, PL

Exhibit 4: Innovations and Activations in the BPC segments



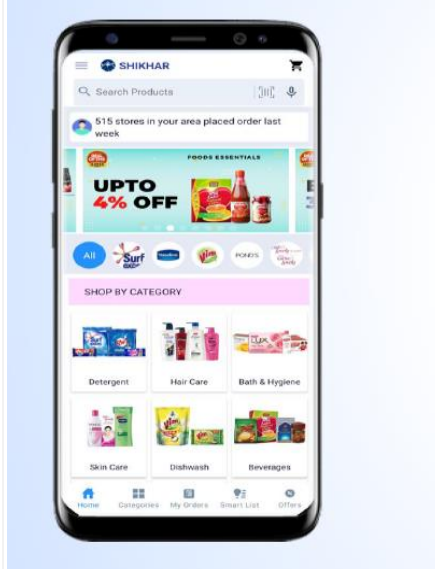
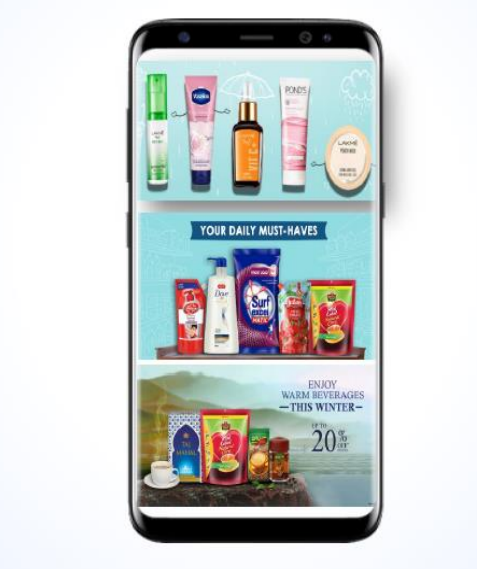
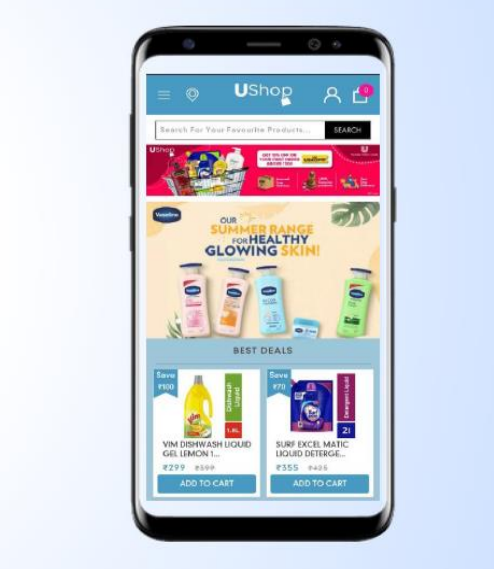
Source: Company, PL

Exhibit 5: Nutrition Integration on track, small packs launched, 1.4x direct coverage

<h3>Persuasive communication</h3> 	<h3>Consumer connects (>5mln households)</h3> 	<h3>Driving physical reach</h3> <ul style="list-style-type: none"> GTM Integration  >85% complete Effective Coverage  1.9X vs Pre-integration (GTM)
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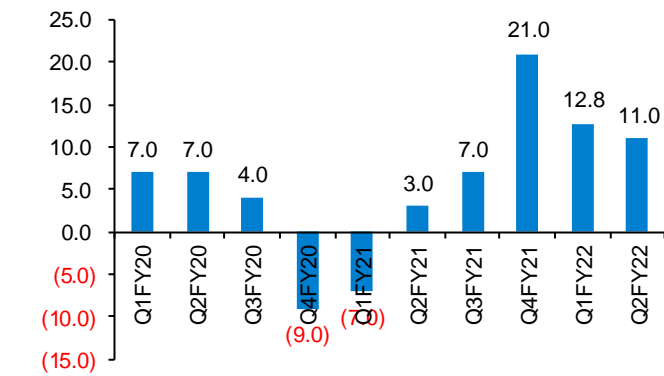
Source: Company, PL

Exhibit 6: Digital Initiatives capture 15% of sales

<h3>eRTM - Shikhar</h3> 	<h3>Accelerating eCommerce</h3> 	<h3>Direct to Consumer</h3> 
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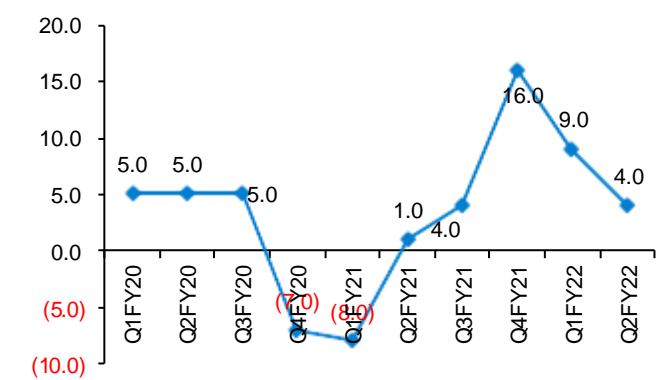
Source: Company, PL

Exhibit 7: Comparable Domestic FMCG sales grew 11.8%



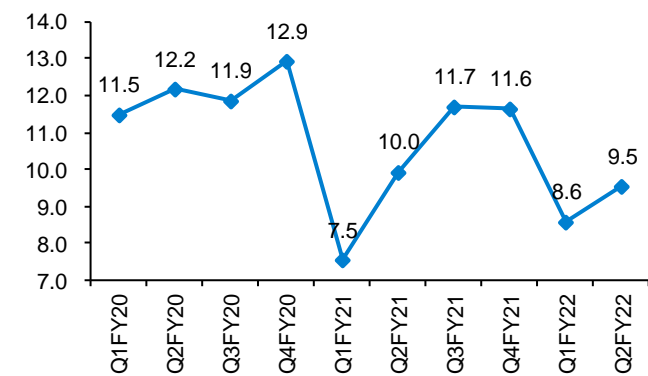
Source: Company, PL

Exhibit 8: Volumes increased 4% in 2Q



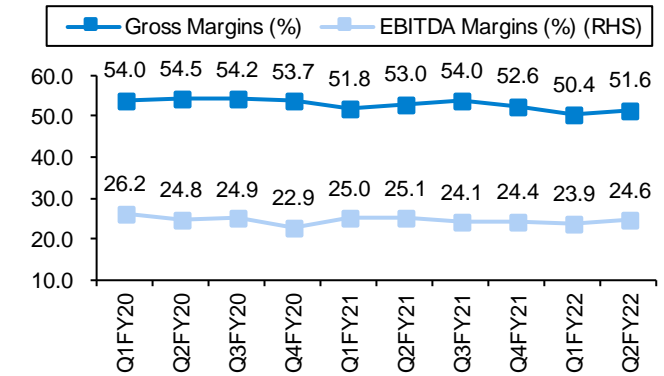
Source: Company, PL

Exhibit 9: Ad-spends remain lower by 50 YoY



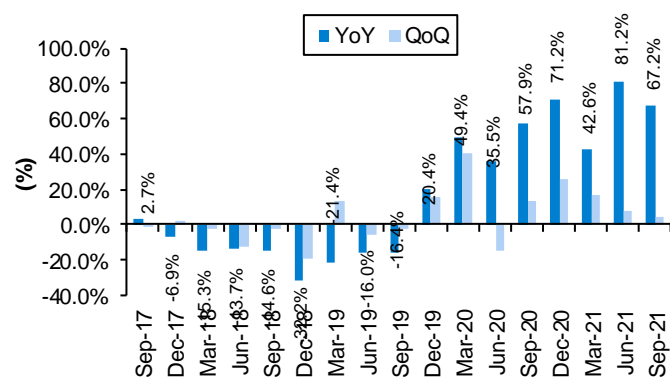
Source: Company, PL

Exhibit 10: GM down 140bps, EBITDA margin down 50bps



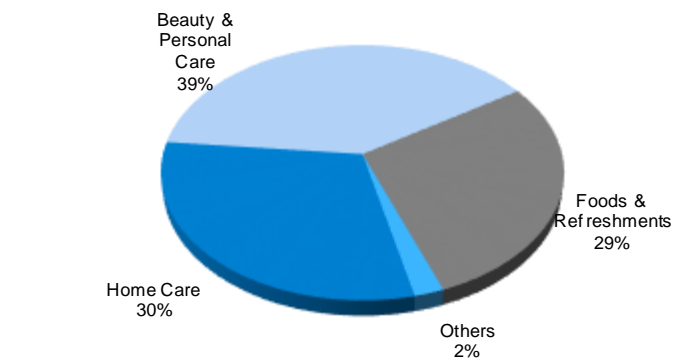
Source: Company, PL

Exhibit 11: PFAD prices up 67.2% YoY and 4.6% QoQ



Source: Company, PL

Exhibit 12: GSK-merger leads to rise in FR contribution



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	4,59,960	5,11,194	5,67,155	6,27,808
YoY gr. (%)	18.6	11.1	10.9	10.7
Cost of Goods Sold	2,16,770	2,46,962	2,65,924	2,89,153
Gross Profit	2,43,190	2,64,232	3,01,231	3,38,655
Margin (%)	52.9	51.7	53.1	53.9
Employee Cost	22,290	23,835	25,768	29,232
Other Expenses	70	252	279	309
EBITDA	1,13,240	1,24,507	1,45,670	1,67,439
YoY gr. (%)	18.0	10.0	17.0	14.9
Margin (%)	24.6	24.4	25.7	26.7
Depreciation and Amortization	10,120	11,043	11,843	12,814
EBIT	1,03,120	1,13,464	1,33,827	1,54,626
Margin (%)	22.4	22.2	23.6	24.6
Net Interest	1,080	1,227	1,505	1,725
Other Income	5,130	5,446	8,035	10,758
Profit Before Tax	1,07,170	1,17,683	1,40,358	1,63,658
Margin (%)	23.3	23.0	24.7	26.1
Total Tax	25,360	29,421	33,966	39,605
Effective tax rate (%)	23.7	25.0	24.2	24.2
Profit after tax	81,810	88,263	1,06,391	1,24,053
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	81,810	88,263	1,06,391	1,24,053
YoY gr. (%)	18.0	7.9	20.5	16.6
Margin (%)	17.8	17.3	18.8	19.8
Extra Ord. Income / (Exp)	(2,270)	500	500	500
Reported PAT	79,540	88,763	1,06,891	1,24,553
YoY gr. (%)	18.0	11.6	20.4	16.5
Margin (%)	17.3	17.4	18.8	19.8
Other Comprehensive Income	210	(200)	(200)	(200)
Total Comprehensive Income	79,750	88,563	1,06,691	1,24,353
Equity Shares O/s (m)	2,350	2,350	2,350	2,350
EPS (Rs)	34.8	37.6	45.3	52.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	3,68,760	3,87,098	3,96,428	4,06,719
Tangibles	88,640	1,06,978	1,16,308	1,26,599
Intangibles	2,80,120	2,80,120	2,80,120	2,80,120
Acc: Dep / Amortization	31,650	42,693	54,536	67,349
Tangibles	30,780	41,573	53,166	65,729
Intangibles	870	1,120	1,370	1,620
Net fixed assets	3,37,110	3,44,405	3,41,893	3,39,369
Tangibles	57,860	65,405	63,143	60,869
Intangibles	2,79,250	2,79,000	2,78,750	2,78,500
Capital Work In Progress	6,230	2,800	2,800	2,800
Goodwill	1,73,160	1,73,160	1,73,160	1,73,160
Non-Current Investments	13,400	7,528	7,745	7,974
Net Deferred tax assets	(59,860)	(60,684)	(61,666)	(62,812)
Other Non-Current Assets	13,810	15,228	16,838	18,576
Current Assets				
Investments	43,020	50,000	63,870	85,000
Inventories	33,830	35,887	38,264	41,357
Trade receivables	16,480	17,254	18,367	19,492
Cash & Bank Balance	27,020	47,195	60,461	73,052
Other Current Assets	5,430	6,134	6,806	7,534
Total Assets	6,81,160	7,11,852	7,43,224	7,82,096
Equity				
Equity Share Capital	2,350	2,350	2,350	2,350
Other Equity	4,71,990	4,83,066	5,00,519	5,21,533
Total Network	4,74,340	4,85,416	5,02,869	5,23,883
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	15,510	16,459	17,627	19,589
Other non current liabilities	1,870	2,010	2,161	2,323
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	86,270	97,432	1,04,184	1,13,285
Other current liabilities	22,140	23,343	25,215	27,283
Total Equity & Liabilities	6,81,160	7,11,852	7,43,224	7,82,096

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	1,07,170	1,17,683	1,40,357	1,63,658
Add. Depreciation	6,550	6,759	7,319	7,879
Add. Interest	-	-	-	-
Less Financial Other Income	-	-	-	-
Add. Other	(2,060)	300	300	300
Op. profit before WC changes	1,11,660	1,24,742	1,47,975	1,71,837
Net Changes-WC	78,180	9,772	4,498	7,143
Direct tax	(25,360)	(29,421)	(33,966)	(39,605)
Net cash from Op. activities	1,64,480	1,05,094	1,18,507	1,39,375
Capital expenditures	(4,67,360)	(2,142)	(5,903)	(6,177)
Interest / Dividend Income	-	-	-	-
Others	(35,660)	(1,108)	(14,088)	(21,359)
Net Cash from Inv. activities	(5,03,020)	(3,250)	(19,991)	(27,536)
Issue of share cap. / premium	4,02,045	53	54	55
Debt changes	3,140	4,299	2,891	3,269
Dividend paid	(88,110)	(77,540)	(89,290)	(1,03,390)
Interest paid	-	-	-	-
Others	346	(8,481)	1,096	818
Net cash from Fin. activities	3,17,421	(81,670)	(85,249)	(99,247)
Net change in cash	(21,120)	20,175	13,266	12,592
Free Cash Flow	(3,02,880)	1,02,952	1,12,603	1,33,198

Source: Company Data, PL Research

Key Financial Metrics

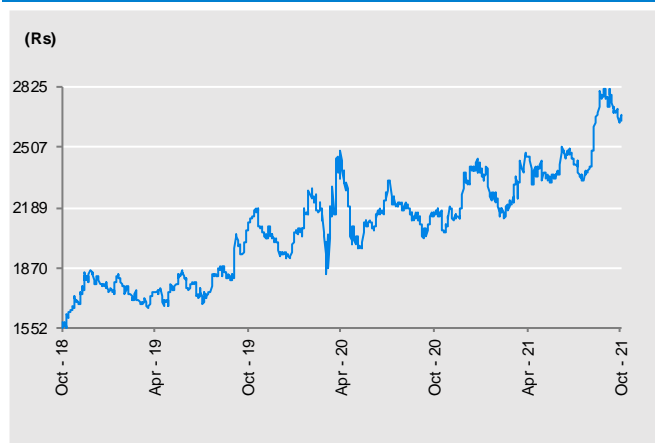
Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	34.8	37.6	45.3	52.8
CEPS	39.1	42.3	50.3	58.2
BVPS	201.8	206.6	214.0	222.9
FCF	(128.9)	43.8	47.9	56.7
DPS	37.5	33.0	38.0	44.0
Return Ratio(%)				
RoCE	37.2	23.6	27.1	30.1
ROIC	38.0	22.2	27.4	33.0
RoE	29.5	18.4	21.5	24.2
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	(29)	(32)	(31)	(30)
Valuation(x)				
PER	73.2	67.8	56.3	48.2
P/B	12.6	12.3	11.9	11.4
P/CEPS	65.1	60.3	50.6	43.7
EV/EBITDA	52.2	47.3	40.2	34.8
EV/Sales	12.9	11.5	10.3	9.3
Dividend Yield (%)	1.5	1.3	1.5	1.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	1,18,620	1,21,320	1,19,150	1,27,240
YoY gr. (%)	20.9	34.6	12.8	11.2
Raw Material Expenses	54,590	57,560	59,050	61,580
Gross Profit	64,030	63,760	60,100	65,660
Margin (%)	54.0	52.6	50.4	51.6
EBITDA	28,540	29,570	28,470	31,320
YoY gr. (%)	16.7	43.2	7.7	9.2
Margin (%)	24.1	24.4	23.9	24.6
Depreciation / Depletion	2,720	2,490	2,440	2,650
EBIT	25,820	27,080	26,030	28,670
Margin (%)	21.8	22.3	21.8	22.5
Net Interest	410	90	110	260
Other Income	970	1,090	670	1,130
Profit before Tax	26,380	28,080	26,590	29,540
Margin (%)	22.2	23.1	22.3	23.2
Total Tax	6,870	7,050	6,970	7,670
Effective tax rate (%)	26.0	25.1	26.2	26.0
Profit after Tax	19,510	21,030	19,620	21,870
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	19,510	21,030	19,620	21,870
YoY gr. (%)	15.4	43.2	4.8	7.5
Margin (%)	16.4	17.3	16.5	17.2
Extra Ord. Income / (Exp)	(420)	400	(990)	-
Reported PAT	19,090	21,430	18,630	21,870
YoY gr. (%)	18.1	41.1	(1.0)	8.9
Margin (%)	16.1	17.7	15.6	17.2
Other Comprehensive Income	170	70	90	270
Total Comprehensive Income	19,260	21,500	18,720	22,140
Avg. Shares O/s (m)	2,164	2,164	2,350	-
EPS (Rs)	9.0	9.7	8.3	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-21	Accumulate	2,915	2,686
2	22-Sep-21	Accumulate	2,915	2,785
3	13-Sep-21	Accumulate	2,915	2,811
4	22-Jul-21	Accumulate	2,535	2,378
5	05-Jul-21	BUY	2,562	2,487
6	30-Apr-21	BUY	2,562	2,408
7	07-Apr-21	BUY	2,509	2,400
8	27-Jan-21	BUY	2,502	2,391
9	07-Jan-21	BUY	2,502	2,417
10	20-Oct-20	BUY	2,502	2,173

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,507	3,212
2	Avenue Supermarts	Accumulate	5,359	5,324
3	Bajaj Electricals	Hold	1,246	1,284
4	Britannia Industries	Accumulate	4,260	3,939
5	Burger King India	BUY	251	159
6	Colgate Palmolive	Accumulate	1,846	1,680
7	Crompton Greaves Consumer Electricals	BUY	518	486
8	Dabur India	Hold	647	615
9	Emami	Accumulate	624	545
10	Havells India	Accumulate	1,414	1,390
11	Hindustan Unilever	Accumulate	2,915	2,686
12	ITC	BUY	271	231
13	Jubilant FoodWorks	Accumulate	4,135	3,934
14	Kansai Nerolac Paints	Accumulate	661	646
15	Marico	Hold	532	564
16	Mold-tek Packaging	BUY	669	666
17	Nestle India	Accumulate	19,717	19,104
18	Pidilite Industries	Reduce	2,221	2,416
19	Titan Company	BUY	2,554	2,148
20	Titan Company	BUY	2,554	2,148
21	Voltas	UR	-	1,250
22	Westlife Development	BUY	605	554

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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