

December 22, 2021

Company Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	2,930		2,930	
Sales (Rs. m)	567,155	627,808	567,155	627,808
% Chng.	-	-	-	-
EBITDA (Rs. m)	145,670	167,439	145,670	167,439
% Chng.	-	-	-	-
EPS (Rs.)	45.3	52.8	45.3	52.8
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	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 (%)	1.6	1.4	1.7	1.9
RoE (%)	29.5	18.4	21.5	24.2
RoCE (%)	37.2	23.6	27.1	30.1
EV/Sales (x)	11.5	10.3	9.2	8.3
EV/EBITDA (x)	46.7	42.3	35.9	31.1
PE (x)	65.5	60.7	50.4	43.2
P/BV (x)	11.3	11.0	10.7	10.2

Key Data

HLL.BO | HUVR IN

52-W High / Low	Rs.2,859 / Rs.2,104
Sensex / Nifty	56,931 / 16,955
Market Cap	Rs.5,357bn/ \$ 70,906m
Shares Outstanding	2,350m
3M Avg. Daily Value	Rs.4398.84m

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	(4.5)	(8.4)	(1.3)
Relative	(2.0)	(15.4)	(20.3)

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Demand and margin pressures transitory

Quick Pointers:

- Urban Likely to lead growth as rural remains under pressure
- HUL gained share in 75% of product categories, volume share at 10 year high
- High input cost inflation has resulted in price increase/ grammage reduction in key categories, uncertain margin outlook over medium term

HUL's 20% correction from the peak shows twin impacts of 1) slowdown in rural demand due to lower farmgate income and lower remittances from workers and 2) Impact of Inflation, mix changes and base impact in key categories in urban India, partly neutralized by uptick in discretionary segments. We believe that rural slowdown and inflation challenges are transitory and structural story is intact as 1) More than 75% of business is gaining share which is at a decade high 2) HFD segment is likely to emerge as a key driver of growth led by distribution led gains and small packs 4) sustained innovation across categories and launch of D2C platforms for Lakme, Simple, Dermalogica and Love Beauty & Planet and 5) distribution gains from strategies like WIMI and SHIKHAR.

Input cost scenario remains volatile with uncertainty around Omicron covid variant even as we expect HUL's margins to bottom out in 3Q. We expect 10.9% Sales and 15% PAT CAGR over FY21-24 and assign a DCF based target price of Rs 2930 (unchanged). HUL trades at 43.2x FY24 EPS which not only shows impact of near term growth/margin pressures but also sectoral shift in fund allocations. We believe that risk reward is favorable for steady returns from current levels given ~2% dividend yield, although returns might be back ended. Maintain Accumulate.

Key Takeaways:

- Rural demand remains weak:** Slowdown witnessed in rural demand during 2Q has persisted as farmgate prices have not increased in line with costs (fertilizers/ fuel). In addition, labor migration from rural to urban post 2nd wave has not materialized, resulting in lack of remittances. Fertilizers, tractors and 2W demand has seen slowdown.
- Nielsen shows demand pressures –** Nielsen data indicates mid-single digit growth in HUL's categories in Urban India in Oct and Nov while rural demand has been flattish. Soft rural demand is likely to persist in near term.
- Urban markets show improvement:** With improving mobility, opening of stores, malls, pick up in MT stores & e-com momentum has ensured sustained pick up in urban demand. Sale of discretionary products is picking up.
- Inflationary pressures remain elevated:** Inflation in Palmoil and crude oil continues while tea prices have softened a bit. Our channel checks indicate price hikes in Hair oils, Skin care, laundry and home care segments; while there has been grammage reduction in sub Rs10/- packs.

- **Sustained market share gains:** HUL continues to improve its competitiveness across categories and has seen its market share improve in 75% of its product categories. HUL's volume share stands at its decadal high.
- **GTM integration of nutrition business remains on track:** HUL Continued to increase market penetration of nutrition business. Boost and Horlicks have seen market share gains, however teething troubles in system integration will impact reported numbers.
- **HUL qualifies for PLI scheme:** HUL has qualified for PLI scheme in RTE and RTC segments in Ice Creams, Soups, Mayonnaise and ketchup etc. the company will receive incentives in a 6-year scheme on achieving the requisite targets.

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

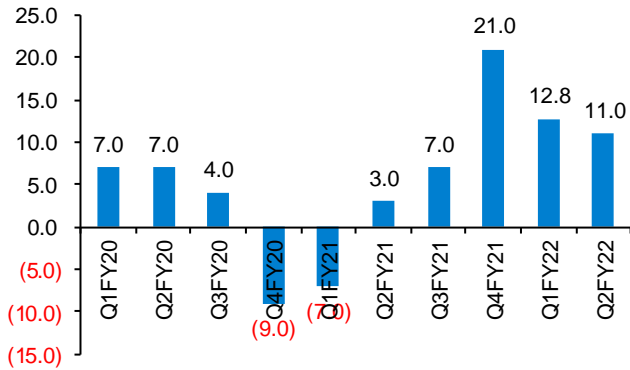
Source: Company, PL

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

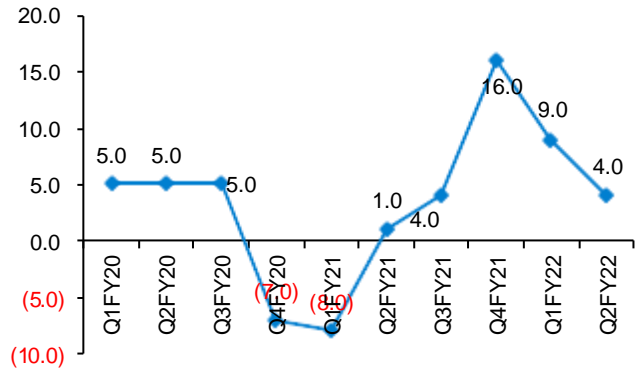
Source: Company, PL

Exhibit 3: Comparable Domestic FMCG sales grew 11.8%



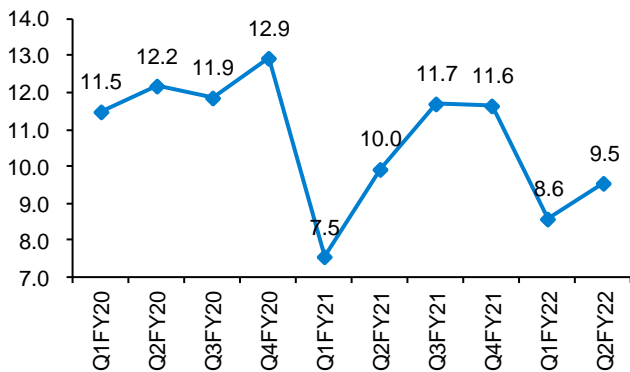
Source: Company, PL

Exhibit 4: Volumes increased 4% in 2Q



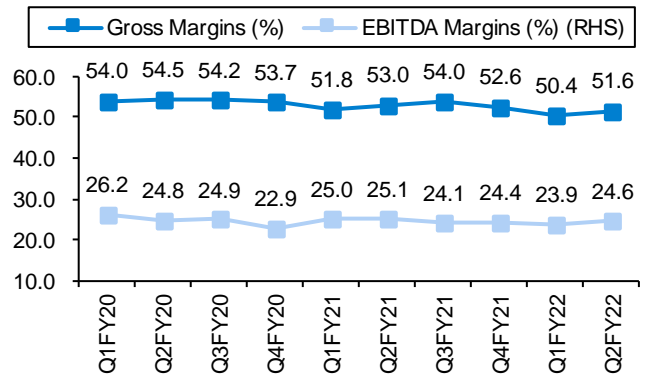
Source: Company, PL

Exhibit 5: Ad-spends remain lower by 50 YoY



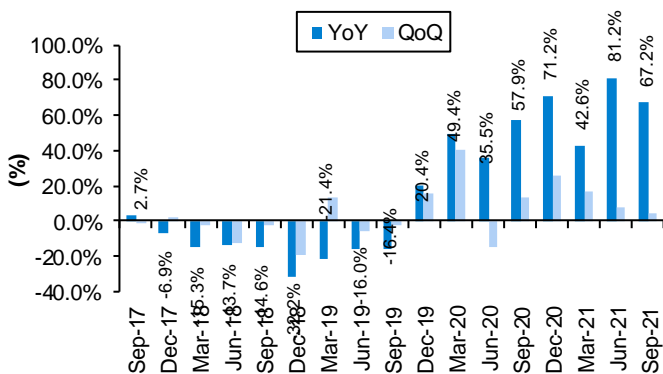
Source: Company, PL

Exhibit 6: GM down 140bps, EBITDA margin down 50bps



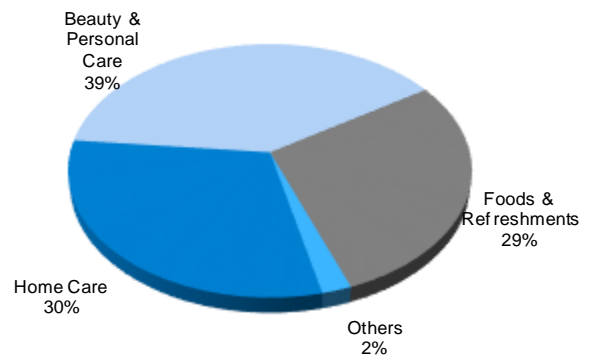
Source: Company, PL

Exhibit 7: PFAD prices up 67.2% YoY and 4.6% QoQ



Source: Company, PL

Exhibit 8: 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	459,960	511,194	567,155	627,808
YoY gr. (%)	18.6	11.1	10.9	10.7
Cost of Goods Sold	216,770	246,962	265,924	289,153
Gross Profit	243,190	264,232	301,231	338,655
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	113,240	124,507	145,670	167,439
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	103,120	113,464	133,827	154,626
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	107,170	117,683	140,358	163,658
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	106,391	124,053
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	81,810	88,263	106,391	124,053
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	106,891	124,553
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	106,691	124,353
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	368,760	387,098	396,428	406,719
Tangibles	88,640	106,978	116,308	126,599
Intangibles	280,120	280,120	280,120	280,120
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	337,110	344,405	341,893	339,369
Tangibles	57,860	65,405	63,143	60,869
Intangibles	279,250	279,000	278,750	278,500
Capital Work In Progress	6,230	2,800	2,800	2,800
Goodwill	173,160	173,160	173,160	173,160
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	681,160	711,852	743,224	782,096
Equity				
Equity Share Capital	2,350	2,350	2,350	2,350
Other Equity	471,990	483,066	500,519	521,533
Total Network	474,340	485,416	502,869	523,883
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	104,184	113,285
Other current liabilities	22,140	23,343	25,215	27,283
Total Equity & Liabilities	681,160	711,852	743,224	782,096

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	107,170	117,683	140,357	163,658
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	111,660	124,742	147,975	171,837
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	164,480	105,094	118,507	139,375
Capital expenditures	(467,360)	(2,142)	(5,903)	(6,177)
Interest / Dividend Income	-	-	-	-
Others	(35,660)	(1,108)	(14,088)	(21,359)
Net Cash from Inv. activities	(503,020)	(3,250)	(19,991)	(27,536)
Issue of share cap. / premium	402,045	53	54	55
Debt changes	3,140	4,299	2,891	3,269
Dividend paid	(88,110)	(77,540)	(89,290)	(103,390)
Interest paid	-	-	-	-
Others	346	(8,481)	1,096	818
Net cash from Fin. activities	317,421	(81,670)	(85,249)	(99,247)
Net change in cash	(21,120)	20,175	13,266	12,592
Free Cash Flow	(302,880)	102,952	112,603	133,198

Source: Company Data, PL Research

Key Financial Metrics

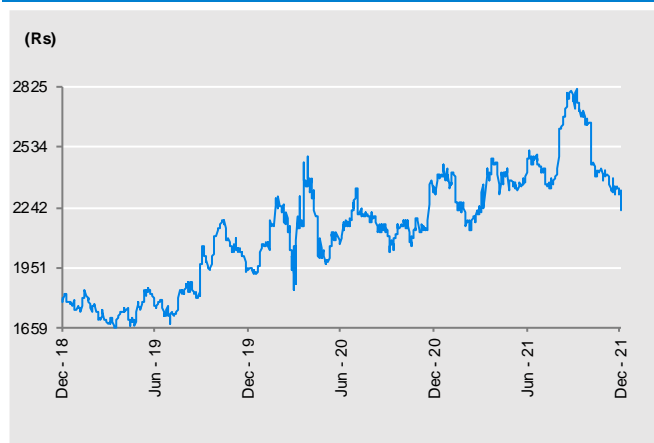
Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	34.8	37.6	45.3	52.8
CEPS	39.1	42.3	50.3	58.2
BVPS	201.8	206.6	214.0	222.9
FCF	(128.9)	43.8	47.9	56.7
DPS	37.5	33.0	38.0	44.0
Return Ratio(%)				
RoCE	37.2	23.6	27.1	30.1
ROIC	38.0	22.2	27.4	33.0
RoE	29.5	18.4	21.5	24.2
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	(29)	(32)	(31)	(30)
Valuation(x)				
PER	65.5	60.7	50.4	43.2
P/B	11.3	11.0	10.7	10.2
P/CEPS	58.3	54.0	45.3	39.1
EV/EBITDA	46.7	42.3	35.9	31.1
EV/Sales	11.5	10.3	9.2	8.3
Dividend Yield (%)	1.6	1.4	1.7	1.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	118,620	121,320	119,150	127,240
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	19-Oct-21	Accumulate	2,930	2,547
2	6-Oct-21	Accumulate	2,915	2,686
3	22-Sep-21	Accumulate	2,915	2,785
4	13-Sep-21	Accumulate	2,915	2,811
5	22-Jul-21	Accumulate	2,535	2,378
6	5-Jul-21	BUY	2,562	2,487
7	30-Apr-21	BUY	2,562	2,408
8	7-Apr-21	BUY	2,509	2,400
9	27-Jan-21	BUY	2,502	2,391
10	7-Jan-21	BUY	2,502	2,417

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,675	3,002
2	Avenue Supermarts	Accumulate	5,359	5,324
3	Bajaj Electricals	Accumulate	1,230	1,092
4	Britannia Industries	Accumulate	4,093	3,622
5	Burger King India	BUY	242	163
6	Colgate Palmolive	Accumulate	1,852	1,532
7	Crompton Greaves Consumer Electricals	BUY	530	451
8	Dabur India	Accumulate	647	598
9	Emami	Accumulate	624	536
10	Havells India	Accumulate	1,400	1,286
11	Hindustan Unilever	Accumulate	2,930	2,547
12	ITC	BUY	270	229
13	Jubilant FoodWorks	Accumulate	4,111	3,965
14	Kansai Nerolac Paints	BUY	707	597
15	Marico	Hold	544	564
16	Mold-tek Packaging	BUY	725	669
17	Nestle India	Accumulate	19,501	18,965
18	Pidilite Industries	Hold	2,491	2,474
19	Titan Company	BUY	2,651	2,460
20	Voltas	Hold	1,200	1,245
21	Westlife Development	Accumulate	603	574

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



ANALYST CERTIFICATION

(Indian Clients)

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