

CMP: INR 2,144

Rating: Hold

Target Price: INR 2,368

Stock Info

BSE	500696
NSE	HINDUNILVR
Bloomberg	HUVR:IN
Reuters	HLL.BO
Sector	Personal Products
Face Value (INR)	1
Equity Capital (INR cr)	235
Mkt Cap (INR cr)	5,27,319
52w H/L (INR)	2,859/ 1,902
Avg Yearly Volume (in 000')	1,664

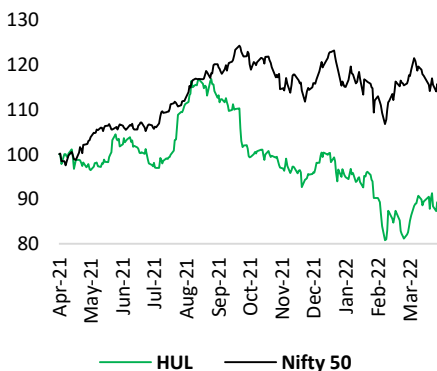
Shareholding Pattern %

(As on March, 2022)

Promoters	61.9
FII	13.7
DII	3.6
Public & Others	20.8

Stock Performance (%)	1m	3m	12m
HUL	13.8	(1.6)	(6.6)
Nifty 50	0.4	1.1	16.4

HUL Vs Nifty 50



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- HUL's Q4FY22 Net Revenue grew by 10.73% YoY to INR 13,767 Cr (2.44% QoQ). This beat our quarterly revenue estimate of INR 13,303 Cr by 3.49%.
- Q4FY22 Gross Margin contracted by 312bps YoY 49% (-667bps QoQ). This is indicative of the notable input cost pressures faced by the company during the quarter.
- Q4FY22 EBITDA grew by 8.48% YoY to INR 3,301 Cr (-3.71% QoQ). EBITDA Margin contracted by 50bps YoY to 24.98% (-134bps QoQ). This beat our quarterly EBITDA estimate of INR 3,193 Cr by 3.38%, and was largely in line with our EBITDA Margin estimate of 24%.
- Q4FY22 Consolidated PAT grew 7.6% YoY to INR 2,364 Cr (1.81% QoQ). PAT Margin contracted by 50bps YoY to 17.17% (-11bps QoQ). This beat our quarterly PAT estimate of INR 2,156 Cr by 9.6%.
- The overall performance of the company was in line with expectations- muted but positive. This is due to the rising commodity price pressures faced by the company. Material costs are at an all-time high, and about a 7% price hike was passed on. Most of the growth was price led as inflation continues to pinch consumers pockets leading to low volume growth for HUL.

Q4FY22 Conference Call Highlights

Price led growth: The growth in Q4 was largely price led, and it will continue to be so for the foreseeable future until commodity prices normalize. Grammages were reduced to protect margins.

Rural demand to improve: On the back of a good Rabi harvest, the rural demand is expected to improve post harvest season in Q1FY23. In Q4 rural demand was lagging behind urban demand due to the high commodity inflation.

Recorded high revenues: This FY, the company has reached the INR 50,000 Cr revenue mark, booted by 16 leading brands having a turnover of over INR 1,000 Cr, and contributing to 75% of the total revenue

Market share gains: HUL has had market share gains across all its segments, as customers are starting to prefer large, trusted brands over small ones. The company has also been undertaking aggressive premiumization initiatives, product development, and market development actions. In FY22 it has also had many successful ad campaigns that encouraged market share gain.

Outlook and Valuation: The current market is looking grim as the prices of essential commodities have skyrocketed YoY with no view of softening any time soon. Despite that, HUL has delivered stable margins and reached record high levels of revenue. We expect the performance for the next two quarters to be under pressure, but HUL's robust financial management system, and agility to adapt to sudden market changes will allow the company to maintain current run rates. We assign a TP of INR 2,368 with an upside of 10.5%, valued at an FY24E EPS of INR 45, and a P/E of 53x. At current levels, we recommend that investors hold the stock.

INR Cr	FY20	FY21	FY22	FY23E	FY24E
Revenues	38,785	45,996	51,193	54,516	59,373
YoY growth (%)	1.5	18.6	11.3	6.5	8.9
Operating profit	9,600	11,324	12,503	13,738	15,110
OPM (%)	24.8	24.6	24.4	25.2	25.5
Reported PAT	6,763	7,979	8,842	9,543	10,527
YoY growth (%)	11.6	18.0	10.8	7.9	10.3
EPS (Rs)	31.3	34.0	37.6	40.6	44.8
P/E (x)	68.5	63.1	57.0	52.8	47.9
Price/Book (x)	57.7	10.6	10.3	10.0	9.7
EV/EBITDA (x)	47.7	44.1	39.9	36.0	32.6
Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0
RoE (%)	85.9	28.7	18.3	19.2	20.6

Source: Company & Arihant Research

Q4FY22 Conference Call Highlights

Highlights for FY22:

- Reached the INR 50,000 Cr revenue mark.
- Growth ahead of the market- consistently gaining market shares despite the pandemic in both value and volume.
- EBITDA Margins at a healthy 24.8%. PAT and EPS +11% YoY. Indicative of balanced growth and profitability, agility, adaptability, and brand strength.
- Made progress on sustainability agenda- became plastic neutral in CY21.
- A wide and resilient portfolio of 50+ focus brands over 15 FMCG categories- HUL is a market leader in over 50% of them.
- Well balanced price offering made available. HUL is still tapping into new demand trends and undertaking market development & R&D. Portfolio expanded in premium beauty, hair care, food, detergent, dish wash, etc. All of them had good traction with consumers.
- 16 brands have a turnover of INR 1,000+ Cr and make up 75%+ of the topline.
- Surf excel and Brooke bond contribute INR 5,000+ Cr. Surf excel became the largest fabric condition brand in India. Vim, Rin, and Dove joined the INR 2,000 Cr club this year.
- Kwality walls crossed the INR 1,000cr mark. All in all it added INR 5,000cr to the topline this FY. INR 900cr of revenues in FY22 came through innovation in consumer trends.
- They now have 2x more superior products vs 2019. The rest of the products are at a level with the market.
- Created impactful campaigns too. HUL won 31 awards for media campaigns as a big advertiser, and 7 awards at the festival of media.
- HUL has 29 factories, 3500 distributors, and 9mn stores- very strong pan India operations. They remained agile, adaptable, and resilient by undertaking debottlenecking of plants and supply chains, shortening production runs, and smooth changeovers. All products are manufactured 80% SKUs- almost all production happens locally. Manufacturing closer to demand has reduced the distance to travel for products down 8% YoY which has also saved costs.
- Increase in footfall- modern trade is bouncing back.
- NMI- inflation-adjusted for hedging, product design, other saving, etc. was 4.5x over June '20. NMI in Q3 was higher than seen in the last 5 years, still managed to keep margins flat and grow ahead of the market. Seen the highest YoY market share gain in a decade, this year.
- Drove savings harder to save costs this year. 7% of the price hikes were passed on, indicating dynamic financial management. Savings this year were also 7% of turnover.
- Lakme is the leading brand online when it comes to influencer marketing and commerce. It is the #1 beauty brand with 2.3mn followers on Instagram. HUL uses AI to offer an in-shop customer experience for digital shoppers. Online sales are 30% of the Lakme business.
- 800,000+ stores were recorded on Shikhar, and HUL adds 1,000 stores a day on the app. D2C platforms are made to provide shoppers with a unique experience. In March the digitized demand generated was 20% of the total demand captured.
- The Dapada factory is the 1st FMCG factory in India to reach World Economic Forum for its end-to-end digitization across the value chain.
- 3 Nano factories were added this year- they allow the production niche and small packed They encourage greater speed and agility.
- Samadhan automated warehouses continue to drive efficiencies.
- Decarbonizing operations by using alternate sources like wind and solar energy to eliminate the use of coal (was successful this year). Making manufacturing closer to demand has helped reduce emissions. Emissions were down 94% from 2008.
- HUL supports and amplifies solutions for water challenges. Delivered a potential of 1.9mn liters of water- equivalent to India's entire population for a year.
- Launched 7 Suvidha centers, the largest one was launched in Dharavi and has one of the biggest community toilets in India.
- Shakti initiative supports 160,000+ women entrepreneurs.
- Turnover+10% with flat underlying volume growth. 75% of the business grew to value and volume shares.
- Volume growth driven by new price point packs. 30% of the revenues come from INR 1,5,10 price packs. Grammages were reduced this year.
- COGS +300bps YoY. This is because of unprecedented input cost inflation. Savings across P/L, calibrated pricing action, and investing in brands drove strong performance.
- Home care sustained strong double-digit growth momentum of +24%. BPC grew ahead of the market by 4%, and F&R delivered strong positing growing 5% on the back of strong demand.
- **Innovations:** lifebuoy powder hand wash at INR 10 which makes 200ml of hand wash making it the most affordable liquid hand wash in India. Sunsilk launched onion and jojoba oil products. Lakme launched an extensive range of eye pencils. Kwality walls came out with new ice creams like blueberry cheesecake and cassata. Active campaigns in south India for body wash were also launched.
- **Home care:** fabric wash and personal care grew in strong double digits- volumes were healthy. Fabric conditioners had good momentum. Significant input cost inflation across Fabric Wash and Household Care; calibrated pricing action continues.
- **BPC:** Steady performance, growing ahead of the market, stable discretionary spending. 2 digit growth largely price driven- by lux, dove, and pears. Premium portfolio grew double digits. Covid wave 3 affected this segment a lot.
- **F&R:** Strong performance on a high-base comparator with the growth of 5% YoY in FY22. Expanded value and volume market share. Coffee grew double digits- built relevance and penetration. Launched new communications through Horlicks and boost. Foods delivered a high double-digit growth with all segments grow in well in Peanut butter and Mayonnaise.

- Continue to invest consistently in A&P- Brands are well supported.
- INR 11,700cr of cash generated. Proposed a final dividend INR 19, and interim INR 15. Total dividends are INR 7989 cr.
- Ads from now are not expected to target children below the age of 16.

Plam oil situation: The management does not believe that the current situation with the halting of Indonesian palm oil exports will much affect the company as it is a major export of the country, also, since HUL is looking at alternatives and new efficiencies for the manufacturing of soaps, they do not expect it to be a long term issue. However, they do expect price volatility to persist for a while.

BPC Digital-first segment: Growing the core and premium portfolios+ doing market development is critical. Digital-first brands launched for B2C with the goal to build a portfolio of digital-first brands and build capabilities to drive them through subsequent performance marketing, analytics, etc. As a result >20% of HUL demand is digitally captured. It is a good indicator of success. Near-term focus is to grow the core through whatever means possible. The premium portfolio has grown at 2x the rest of the portfolio. Market development is hard as it implies initial low penetration and realization but it is important and has been done since COVID.

Direct coverage target for nutrition: It is a fully integrated business across all elements. The biggest leg for growth here is market development which is a good category but with low penetration. However, it is necessary to be done.

Pricing actions to reduce grammage: This has been done wherever possible. Like the smaller packs of lifebuoy- consumers get the benefit of unit economics as is seen with bridge packs. It will be implemented wherever possible.

Rural Demand and Harvests:

- The last 3 months both value and volume in urban and rural has been low. Before, the rural growth was ahead of urban growth due to movements being curtailed. Then in H2 urban growth picked up. The Rabi harvest will allow good results. Agri prices are moving up this will be beneficial to farmers. If there is a net benefit to farmers it will be good for the company and for overall rural demand. Farmers are now selling more to open markets than to the government.
- Rabi harvest is expected to be good. Rainfalls should also be decent.

Market shares across e-commerce as a notable leg of growth: It is growing in urban and rural markets, on volume and value, across large, mid, and small packs, across geographies, and across the rest of the offering. The growth is great from a width and depth perspective. Management is very pleased with the progress of ecommerce so far.

Down trading: The overall trend of down trading is extremely significant with inflation and decreased wallet sizes. But still, the premium portfolio has grown at 2x the rest of the portfolio which means there is traction there. HUL is looking at where prices can be discriminated with value-seeking behavior.

Quarterly Result

INR Cr (consolidated)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Net Revenue	13767	13439	12433	2.44%	10.73%
Raw Material Costs	6956	5894	5894	18.02%	18.02%
Gross Profit	6,811	7,545	6,539	-9.73%	4.16%
Gross Margin	49%	56%	53%	-667bps	-312bps
Employee costs	579	692	555	-16.33%	4.32%
Advertising and Promotion Expenses	1296	1193	1418	8.63%	-8.60%
Other Expenses	1635	1732	1523	-5.60%	7.35%
EBITDA	3,301	3,928	3,043	-15.96%	8.48%
<i>EBITDA margin %</i>	<i>24%</i>	<i>29%</i>	<i>24%</i>	<i>-525bps</i>	<i>-50bps</i>
Other Income	79	60	109	31.67%	-27.52%
Depreciation	278	272	266	2.21%	4.51%
EBIT	3,102	3,716	2,886	-16.52%	7.48%
Finance costs	38	27	11	40.74%	245%
Exceptional Items	55	-67	14	-182.09%	293%
PBT	3,119	3,622	2,889	-13.89%	7.96%
Tax Expense	814	803	698	1.37%	17%
Effective tax rate %	26%	22%	24%	393bps	194bps
PAT	2,305	2,819	2,191	-18.23%	5.20%
Profit/Loss from Discontinued Operations	2	-	-1	-	-300%
Profit for the Period	2,307	2,819	2,190	-18.16%	5.34%
Add: Other Comprehensive Income	57	22	7	159.09%	214.29%
Consolidated PAT	2,364	2,841	2,197	-16.79%	7.60%
<i>PAT margin %</i>	<i>17%</i>	<i>21%</i>	<i>18%</i>	<i>-397bps</i>	<i>-50bps</i>
EPS (Rs)	10	10	9	0.31%	5.37%

Segment Wise Standalone (INR Cr)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Segment Revenue					
Home Care	4750	4193	4193	13.28%	13.28%
Beauty & Personal Care	4712	5175	5175	-8.95%	-8.95%
Foods & Refreshment	3698	3466	3466	6.69%	6.69%
Others (includes Exports, Consignment, etc.)	302	258	258	17.05%	17.05%
Total Segment Revenue	13462	13092	13092	2.83%	2.83%
Segment Results					
Home Care	939	864	812	8.68%	15.64%
Beauty & Personal Care	1236	1441	1441	-14.23%	-14.23%
Foods & Refreshment	713	646	646	10.37%	10.37%
Others (includes Exports, Consignment, etc.)	96	73	73	31.51%	31.51%
Total Segment Results	2984	3024	2972	-1.32%	0.40%

Source: Company & Arianth Research

Standalone Financials

Income Statement (INR Cr)	FY20	FY21	FY22	FY23E	FY24E
Revenue	38,785	45,996	51,193	54,516	59,373
Net Raw Materials	17,793	21,677	25,124	25,759	28,054
Advt & Promotion	4,686	4,737	4,718	5,452	5,937
Employee Cost	1,691	2,229	2,399	2,508	2,731
Other Expenses	5,015	6,029	6,449	7,060	7,540
Total Expenses	29,185	34,672	38,690	40,778	44,262
EBITDA	9,600	11,324	12,503	13,738	15,110
EBITDA margin	24.8	24.6	24.4	25.2	25.5
Depreciation	(938)	(1,012)	(1,025)	(1,394)	(1,562)
Interest expense	(106)	(108)	(98)	(121)	(114)
Other income	733	513	393	468	568
Exceptional items	(197)	(227)	(34)	-	-
Profit before tax	9,117	10,515	11,763	12,716	14,028
Taxes	(2,354)	(2,536)	(2,921)	(3,173)	(3,501)
Minorities and other	-	-	-	-	-
Reported Net profit	6,763	7,979	8,842	9,543	10,527
EPS	31.2	33.8	37.5	40.5	44.7

Balance Sheet (INR Cr)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	216	235	235	235	235
Reserves	7,815	47,199	48,525	49,953	51,528
Net worth	8,031	47,434	48,760	50,188	51,763
Debt	853	945	1,015	1,000	900
Deferred tax liab (net)	416	7,345	7,465	7,465	7,465
Total liabilities	9,300	55,724	57,240	58,653	60,128
Fixed assets	3,825	4,795	5,813	4,900	4,535
Capital Work In Progress	513	623	901	697	781
Other Intangible assets	1,195	28,916	27,905	27,905	27,905
Goodwill	36	17,316	17,316	17,316	17,316
Investments	708	1,445	1,873	1,363	1,484
Other non current assets	1,417	1,381	1,282	1,628	1,773
Inventories	2,636	3,383	3,890	3,935	4,286
Sundry debtors	1,046	1,648	1,932	1,969	2,144
Other current assets	551	455	593	545	594
Sundry creditors	(7,399)	(8,627)	(8,864)	(10,194)	(11,066)
Other current liabilities & Provisions	(2,903)	(3,765)	(3,633)	(4,440)	(4,836)
Cash	5,017	4,321	3,618	8,486	10,264
Other Financial Assets	2,658	3,833	4,614	4,543	4,948
Total assets	9,300	55,724	57,240	58,653	60,128

Statement of Cash Flows (INR Cr)	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	9,117	10,515	11,763	12,716	14,028
Depreciation	938	1,012	1,025	1,394	1,562
Tax paid	(2,354)	(2,536)	(2,921)	(3,173)	(3,501)
Working capital Δ	1,117	837	(824)	2,103	692
Change in Goodwill	-	(17,280)	-	-	-
Operating cashflow	8,818	(7,452)	9,043	13,041	12,781
Capital expenditure	(1,023)	(2,092)	(2,321)	(277)	(1,281)
Free cash flow	7,795	(9,544)	6,722	12,764	11,500
Equity raised	(990)	40,942	474	(25)	(25)
Investments	(45)	(737)	(428)	510	(121)
Others	(495)	(28,860)	329	(275)	(550)
Debt financing/disposal	493	92	70	(15)	(100)
Dividends paid	(5,400)	(9,518)	(7,990)	(8,090)	(8,926)
Other items	(28)	6,929	120	-	-
Net Δ in cash	1,329	(696)	(703)	4,868	1,777
Opening Cash Flow	3,688	5,017	4,321	3,618	8,486
Closing Cash Flow	5,017	4,321	3,618	8,486	10,264

Standalone Financials

Ratio analysis	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Revenue growth	1.5	18.6	11.3	6.5	8.9
EBITDA growth	11.1	18.0	10.4	9.9	10.0
EBIT growth	7.0	15.2	9.7	7.9	10.2
Net profit growth	11.6	18.0	10.8	7.9	10.3
Profitability ratios (%)					
EBITDA margin	24.8	24.6	24.4	25.2	25.5
EBIT margin	24.2	23.5	23.2	23.5	23.8
Net profit margin	17.4	17.3	17.3	17.5	17.7
RoCE	82.4	28.7	18.2	19.0	20.4
RoNW	85.9	28.7	18.3	19.2	20.6
RoA	72.5	14.3	15.4	16.2	17.5
Per share ratios					
Dividend per share	25.0	40.5	34.0	34.4	38.0
Cash EPS	35.7	38.3	42.0	46.5	51.4
Book value per share	37.2	201.8	207.5	213.6	220.3
Valuation ratios					
P/E	68.5	63.1	57.0	52.8	47.9
P/B	57.7	10.6	10.3	10.0	9.7
EV/EBIDTA	47.7	44.1	39.9	36.0	32.6
Liquidity ratios					
Debtor days	9.7	12.9	13.6	13.0	13.0
Inventory days	53.3	56.2	55.7	55.0	55.0
Creditor days	91.3	89.6	82.5	90.0	90.0

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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