

Hindustan Unilever Limited



Hindustan Unilever Ltd.

Inflationary pressure to continue in near term putting pressure on margins

CMP INR 2,235	Target INR 2,834	Potential Upside 26.9%	Market Cap (INR Mn) INR 52,74,832	Recommendation BUY	Sector FMCG
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Result Highlights of Q4FY22

- For Q4FY22, HUVR reported revenue growth of 10.7% YoY (2.4% QoQ) to INR 1,37,670 Mn driven by price hikes across categories. Volume remained flat for the quarter. For FY22, revenue stood at INR 5,24,460 Mn, a growth of 11.5% YoY.
- Q4FY22 EBITDA stood at INR 33,010 Mn (+8.5% YoY/-3.2% QoQ). EBITDA margins were 24%, down 49.8 bps YoY (-138.9 bps QoQ). For FY22, EBITDA stood at INR 1,28,570 Mn (+10.2% YoY). EBITDA margins were 24.5%, down by 2.1 bps YoY.
- Net profit stood at INR 23,020 Mn (+5.3% YoY/+0.2 QoQ), while NPM were at 16.7% (-87 bps YoY). For FY22, net profit stood at INR 89,620 Mn (+12.1% YoY) while NPM were 17.1% (+9 bps YoY).
- The Board proposed a final dividend of INR 19 per share. The total dividend for FY22 amounts to INR 34 per share.

MARKET DATA

Shares outs (Mn)	2,350
Mkt Cap (INR Mn)	52,74,832
52 Wk H/L (INR)	2,859/1,902
Volume Avg (3m K)	2,111
Face Value (INR)	1
Bloomberg Code	HUVR IN

KEY FINANCIALS

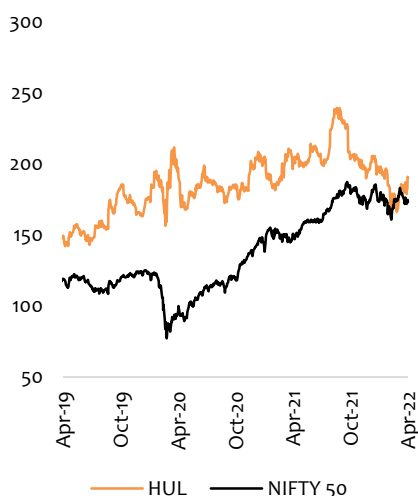
INR Mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	3,97,830	4,70,280	5,24,460	5,94,766	6,78,200
EBITDA	98,610	1,16,260	1,28,570	1,37,867	1,67,380
PAT	67,560	79,950	88,740	95,103	1,15,886
Adj PAT	65,560	77,560	89,180	95,103	1,15,886
EPS (INR)	31.28	34.02	37.76	40.47	49.31
Adj. EPS (INR)	30.35	33.00	37.95	40.47	49.31
EBITDA Margin (%)	24.8%	24.7%	24.5%	23.2%	24.7%
NPM (%)	17.0%	17.0%	16.9%	16.0%	17.1%

Source: Company, KRChoksey Research

Revenue growth aided by price hikes despite flat volumes: For Q4FY22, HUVR reported revenue growth of 10.7% YoY (2.4% QoQ) to INR 1,37,670 Mn. The underlying volumes saw a flattish growth during the quarter. The revenue growth was led by the increase in the prices compared to Q4FY21. The home care segment revenues grew 24% YoY led by fabric wash and household care products. The beauty and personal care segment revenues grew 4% YoY with skin cleansing products like Lux, Dove & Pears delivering double-digit growth with increasing needs for intense summer. The food and refreshments revenues segment grew 5% YoY with Tea, health food & drinks continuing the strong performance. The ice-cream had a very strong quarter delivering double-digit growth. The company launched new range of ice creams ahead of the summer season. For the full year FY22, revenue stood at INR 5,24,460 Mn, a growth of 11.5% YoY, with Home care segment revenues growing 18.7% (32% of revenues), beauty and personal care segment grew 8.5% (37% of revenues) and food and refreshments revenues 6.8% (27% of revenues) as against FY21. HUVR continued to grow significantly ahead of the market, gaining value and volume market shares. It has taken a calibrated price increase across the segments to offset the inflationary pressure.

Price increase helped to protect its margins: HUVR has witnessed the highest jump in material costs in Q4FY22. Despite the increase in input cost prices, the company was able to offset the pressure and managed the EBITDA margin at 24.0% (excluding other income) in Q4FY22. HUVR continued to manage its business dynamically, driving savings harder across all lines of P&L and taking calibrated pricing actions using the principles of Net Revenue Management. The company is expected to continue to invest competitively behind its brands. HUVR is confident of the medium to long term prospects of the Indian FMCG sector and remains focused on delivering a consistent, competitive & profitable growth.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	57,061
NIFTY	17,103

SHARE HOLDING PATTERN (%)

Particulars	Mar-22	Dec-21	Sep-21
Promoters	61.9	61.9	61.9
FIIIs	13.7	14.7	15.5
DIIIs	11.6	10.9	10.5
Others	12.8	12.5	12.2
Total	100.0	100.0	100.0

13.0%

Revenue CAGR between FY21 and FY24E

13.2%

PAT CAGR between FY21 and FY24E

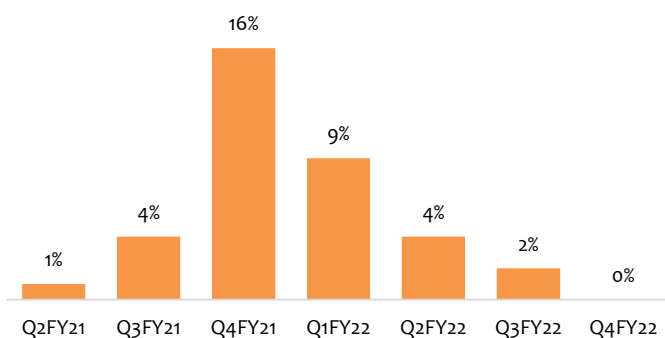
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Key Concall Highlights: (1) The company hit the 50 cr+ turnover mark with PAT growing 11% by the strength of brand and adaptability. (2) HUVR became plastic neutral in FY21. (3) Strong performance due to a wide and resilient portfolio with 50 brands. Different choices in relevant price points. (4) The company has 16 brands that makeup 75% of their top line. (5) Surf became India's most effective washing solution. Kwality walls crossed the INR 1K cr mark. (6) The company has 29 factories and 35 depots and sells to 9 mill stores. (7) The entire production happens locally in India, which has reduced products' distance travelled by 8% YoY. (8) Net material inflation (NMI) on March 22 is 4.5 times that of June quarter 2020. Margins are still flat. (9) The company saw the highest YoY market share gain in more than a decade. (10) HUVR is the leading brand on Instagram with 2.3m followers and making beauty shopping easier by virtual shopping using AI. D2c website has 25m annual visits. Online sales contribute 30% of Lakme's business. (11) It has eliminated the use of coal across manufacturing, reducing Co2 emissions by 94% since the 2008 baseline. (12) The company supports 160K+ women entrepreneurs with the shakti initiative. (13) A calibrated pricing approach has been undertaken with more inflation in fabric growth and household care. (14) The food and refreshments grew by 5% from a high base—market share and volume growth. Coffee grew in double digits. (15) Ice cream saw double-digit growth on the back of strong summer season. (16) Food and kitchen items were prioritized, with consumers focusing on those products in an inflationary environment. (17) Exceptional item in Q4FY22 included a gain from old factory land. (18) With Indonesia stopping palm oil export, it could cause worry. Still, the company reassured Indonesia that palm oil would not be a prolonged issue for them because of the company's alternatives. It is used in products like Soap.

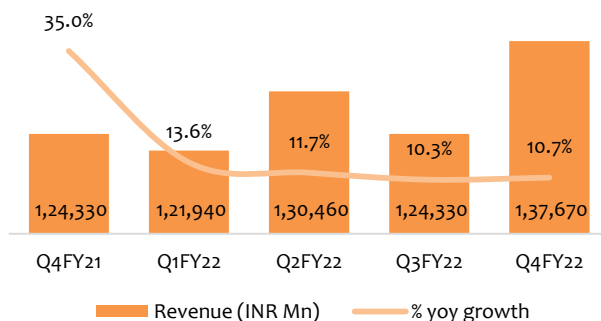
Valuation and view

In Q4FY22, HUVR witnessed revenue growth led by the price hikes despite flat volumes. The company has been putting efforts to mitigate the risk of rising input costs and expects pressure on margins in the short term as net material inflation (NMI) continues to rise sharply. The commodities prices (palm oil, crude oil and polyethene) are likely to remain high in the coming quarters. We expect calibrated price hikes to continue, and the company will continue with cost saving measures to keep the margins relatively stable. We expect HUVR to outperform the industry and continue to gain market share led by product innovation & launches, a strong brand franchise, and an increasing focus on digital initiatives. We maintain our positive outlook on HUVR, driven by the strong competitive positioning of its products across all its core categories, aided by pricing power and a healthy product pipeline. We believe the structural growth story for the FMCG market in India (due to changing demographics and increase in income & savings of the households) remains intact, and HUVR also has strong levers for growth and margin expansion. **We maintain our rating on the stock as 'BUY'. We expect Revenue/PAT to grow by 13.0%/13.2% CAGR over FY21-24E. We assign a P/E multiple of 57.5x to the FY24E EPS of INR 49.3 to arrive at a target price of INR 2,836 per share (unchanged) with an upside of 26.9%.**

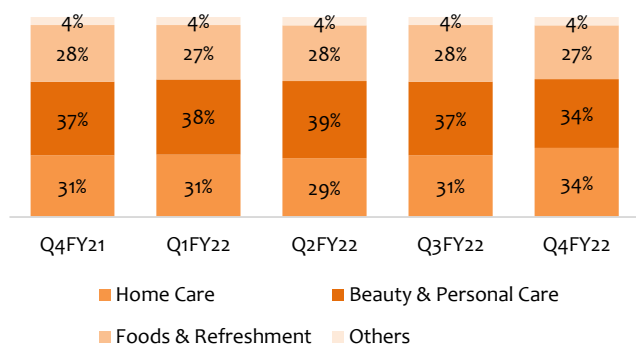
Q4FY22 witnessed flat volumes



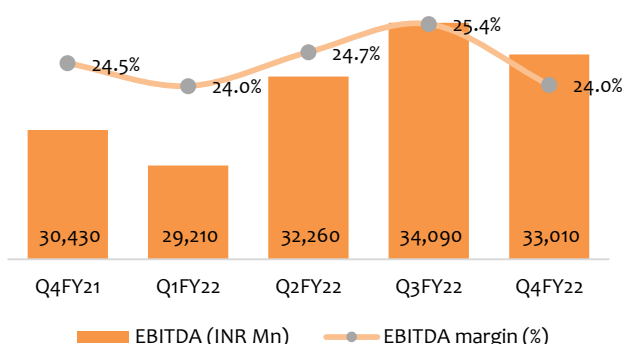
Stable growth rate on YoY basis



Growth witnessed across all segments



Margins held even with inflationary pressure



Source: Company, KRChoksey Research

Hindustan Unilever Ltd.

KEY FINANCIALS

Particulars (INR Mn)	Q4FY22	Q3FY22	Q4FY21	QoQ	YoY	FY22	FY21	YoY
Revenue from Operations	1,37,670	1,34,390	1,24,330	2.4%	10.7%	5,24,460	4,70,280	11.5%
Total Expenditure	1,04,660	1,00,300	93,900	4.3%	11.5%	3,95,890	3,54,020	11.8%
Cost of Raw Materials	45,010	40,230	38,120	11.9%	18.1%	1,64,460	1,54,320	6.6%
Purchase of Stock	25,050	23,350	22,240	7.3%	12.6%	93,110	71,210	30.8%
Changes in Inventories	-500	550	-1,420	-190.9%	-64.8%	-220	-4,050	-94.6%
Employee Cost	5,790	6,920	5,550	-16.3%	4.3%	25,450	23,580	7.9%
Advertising/ Other expenses	29,310	29,250	29,410	0.2%	-0.3%	1,13,090	1,08,960	3.8%
EBITDA	33,010	34,090	30,430	-3.2%	8.5%	1,28,570	1,16,260	10.6%
EBITDA Margin (%)	24.0%	25.4%	24.5%	-139 bps	-50bps	24.5%	24.7%	-21 bps
Depreciation	2,780	2,720	2,660	2.2%	4.5%	10,910	10,740	1.6%
EBIT	30,230	31,370	27,770	-3.6%	8.9%	1,17,660	1,05,520	11.5%
Interest Expense	380	270	110	40.7%	245.5%	1,060	1,170	-9.4%
Other Income	790	600	1,090	31.7%	-27.5%	2,580	4,100	-37.1%
PBT	30,640	31,700	28,750	-3.3%	6.6%	1,19,180	1,08,450	9.9%
Exceptional Items	550	-670	140	-182.1%	292.9%	440	-2,390	-118.4%
Tax	8,140	8,030	6,980	1%	16.6%	29,870	26,060	14.6%
Share in P&L / MI	30	30	40	0.0%	-25.0%	130	50	160.0%
PAT	23,020	22,970	21,870	0.2%	5.3%	89,620	79,950	12.1%
PAT Margin	16.7%	17.1%	17.6%	-37 bps	-87bps	17.1%	17.0%	9 bps
EPS	9.8	9.8	9.3	0.2%	5.3%	37.8	34.0	11.0%

Income Statement INR Mn	FY20	FY21	FY22	FY23E	FY24E
Revenues	3,97,830	4,70,280	5,24,460	5,94,766	6,78,200
COGS	1,82,590	2,21,480	2,57,350	2,97,204	3,28,723
Gross profit	2,15,240	2,48,800	2,67,110	2,97,561	3,49,476
Employee cost	18,200	23,580	25,450	28,846	32,893
Other expenses	98,430	1,08,960	1,13,090	1,30,848	1,49,204
EBITDA	98,610	1,16,260	1,28,570	1,37,867	1,67,380
EBITDA Margin	24.8%	24.7%	24.5%	23.2%	24.7%
Depreciation & amortization	10,020	10,740	10,910	12,373	14,108
EBIT	88,590	1,05,520	1,17,660	1,25,494	1,53,272
Interest expense	1,180	1,170	1,060	1,190	1,356
Other income	6,320	4,100	2,580	2,500	2,600
Exceptional items	-2,000	-2,390	440	0	0
PBT	91,730	1,06,060	1,18,740	1,26,805	1,54,515
Tax	24,090	26,060	29,870	31,701	38,629
Minority interest	80	50	130	100	100
PAT	67,560	79,950	88,740	95,103	1,15,886
EPS (INR)	31.28	34.02	37.76	40.47	49.31

Cash Flow Statement INR Mn	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	76,230	91,630	90,480	1,26,257	1,38,022
Net Cash Flow from/(used in) Investing Activities	17,910	(12,280)	(17,276)	(35,454)	(40,154)
Net Cash Flow from Financing Activities	(68,190)	(93,090)	(80,150)	(73,490)	(1,05,654)
Net Inc/Dec in cash equivalents	25,950	(13,740)	(6,946)	17,313	(7,786)
Opening Balance	6,210	32,160	18,420	11,474	28,787
Closing Balance Cash and Cash Equivalents	32,160	18,420	11,474	28,787	21,001

Source: Company, KRChoksey Research

Hindustan Unilever Ltd.

Balance Sheet INR Mn	FY20	FY21	FY22	FY23E	FY24E
Non-current assets					
Property, plant and equipment	49,600	61,160	61,690	53,484	56,331
Capital work-in-progress	5,970	7,450	13,130	13,130	13,130
Intangible assets (inc. Goodwill)	4,137	2,96,616	2,96,386	3,06,386	3,16,386
Financial assets					
Investments	20	24	20	23	26
Loans	2,380	2,510	1,150	2,379	2,848
Other financial assets	30	6,170	7,290	8,267	9,427
Deferred tax assets (Net)	2,840	170	110	297	5,426
Non-current tax assets (Net)	10,830	12,460	11,580	13,132	14,975
Other non-current assets	1,460	2,190	1,940	2,200	2,509
Total non-current assets	78,320	5,45,404	5,49,950	5,55,143	5,76,901
Current assets					
Inventories	27,670	35,790	40,960	47,303	52,320
Financial assets					
Investments	12,530	27,070	35,190	43,988	57,184
Trade receivables	11,490	17,580	22,360	25,357	28,915
Cash and cash equivalents	32,160	18,420	11,470	28,787	21,001
Other Balances with Banks	18,970	26,290	26,990	26,990	26,990
Loans	0	0	350	350	350
Other financial assets	14,200	11,880	10,890	14,869	20,346
Assets classified as Held for Sale	180	170	130	130	130
Other current assets	6,010	4,970	6,880	7,802	8,897
Total current assets	1,23,210	1,42,170	1,55,220	1,95,576	2,16,132
TOTAL ASSETS	2,01,530	6,87,574	7,05,170	7,50,720	7,93,033
EQUITY AND LIABILITIES					
Equity					
Equity share capital	2,160	2,350	2,350	2,350	2,350
Other equity	80,130	4,74,390	4,88,260	4,97,770	5,09,359
Equity attributable to the equity shareholders	82,290	4,76,740	4,90,610	5,00,120	5,11,709
Non-controlling interests	170	200	260	260	260
Total equity	82,460	4,76,940	4,90,870	5,00,380	5,11,969
LIABILITIES					
Non-current liabilities					
Financial liabilities					
Other financial liabilities	9,390	10,270	10,980	12,452	14,199
Provisions	12,270	15,780	15,800	17,918	20,432
Non current tax liabilities	4,240	13,670	61,410	69,642	79,412
Other non-current liabilities	0	59,880	13,310	15,094	17,212
Total non-current liabilities	25,900	99,600	1,01,500	1,15,106	1,31,254
Current liabilities					
Financial liabilities					
Borrowings	0	0	0	0	0
Trade payables	75,350	88,020	93,700	1,13,996	1,26,086
Other financial liabilities	9,320	12,060	8,990	10,195	11,625
Other current liabilities	4,280	5,880	6,650	7,541	8,599
Provisions	4,220	5,070	3,460	3,500	3,500
Total current liabilities	93,170	1,11,034	1,12,800	1,35,233	1,49,810
Total liabilities	1,19,070	2,10,634	2,14,300	2,50,339	2,81,064
TOTAL EQUITY AND LIABILITIES	2,01,530	6,87,574	7,05,170	7,50,720	7,93,033

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin (%)	24.8%	24.7%	24.5%	23.2%	24.7%
Tax rate (%)	26.3%	24.6%	25.2%	25.0%	25.0%
Net Profit Margin (%)	17.0%	17.0%	16.9%	16.0%	17.1%
RoE (%)	81.3%	27.7%	18.4%	19.2%	22.9%
RoCE (%)	62.5%	23.2%	15.1%	15.6%	18.3%
EPS (INR)	31.28	34.02	37.76	40.47	49.31

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
30-Apr-22	2,235	2,836	BUY	Buy	More than 15%
24-Jan-22	2,322	2,836	BUY		
20-Oct-21	2,479	3,000	BUY	Accumulate	5% – 15%
27-Jul-21	2,349	2,805	BUY		
30-Jun-21	2,493	2,805	ACCUMULATE	Hold	0 – 5%
05-May-21	2,395	2,805	BUY		
17-Mar-21	2,244	2,719	BUY	Reduce	-5% – 0
15-Dec-20	2,375	2,556	ACCUMULATE		
22-Oct-20	2,179	2,556	BUY	Sell	Less than – 5%
04-Sep-20	2,125	2,556	BUY		

ANALYST CERTIFICATION:

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