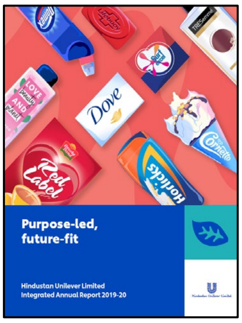
7 June 2022

Annual Report Update | Sector: Consumer

Hindustan Unilever

BSE SENSEX	S&P CNX
55,107	16,416



Stock Info

Bloomberg	HUVR IN
Equity Shares (m)	2,350
M.Cap.(INRb)/(USDb)	5196.1 / 66.9
52-Week Range (INR)	2859 / 1902
1, 6, 12 Rel. Per (%)	2/0/-11
12M Avg Val (INR M)	4255
Free float (%)	38.1

Financials Snapshot (INR b)

Y/E Mar	2022	2023E	2024E
Sales	511.9	566.4	630.1
Sales Gr. (%)	11.3	10.6	11.2
EBITDA	125.0	130.4	149.8
Margins (%)	24.4	23.0	23.8
Adj. PAT	88.5	91.5	105.6
Adj. EPS (INR)	37.7	39.0	44.9
EPS Gr. (%)	9.0	3.4	15.4
BV/Sh.(INR)	207.5	198.9	189.9
Ratios			
RoE (%)	18.4	19.2	23.1
RoCE (%)	24.7	25.9	31.2
Payout (%)	90.3	121.9	120.1
Valuations			
P/E (x)	58.7	56.8	49.2
P/BV (x)	10.7	11.1	11.6
EV/EBITDA (x)	41.2	39.6	34.6
Div. Yield (%)	1.5	2.1	2.4

CMP: INR2,212 TP: INR2,700 (+22%) Buy

Widening its leadership position

Here are some key takeaways from HUVR's FY22 Annual Report:

- **Gaining market share:** HUVR now has 16 brands with over INR10b in annual sales (v/s 14 brands in FY21). In FY22, its gain in market share was the highest in more than a decade.
- **Strengthening its technological backbone:** HUVR continues to evolve as a digitally capable enterprise, catering to emerging consumer needs. The core business continues to use analytics and machine learning to improve efficiency. It is leveraging economies of scale, while remaining nimble. HUVR has always been ahead of its peers in terms of technology adoption and analytics, and continues to widen its lead.
- **Bringing technology to general trade:** HUVR's B2B app – Shikhar – is now present in 800k outlets. The app enables zero-touch online ordering and has helped solve two of the biggest challenges that retailers face - capital (tie-up with SBIN for financing) and space (quicker inventory turnover with a faster fulfillment). Shikhar has been HUVR's response to the increasing prevalence of new-age B2B distribution platforms. Its continued adoption by retailers will only strengthen its GT ecosystem.
- **Winning in Many Indias (WIMI):** HUVR's regionalization strategy continues to focus on delivering relevance across different regions through product design and differentiated marketing. Some of the tangible benefits that this strategy has helped deliver are as follows:
  - In BPC, HUVR designed and introduced region-specific products based on consumer needs. Its market share in **Hair Care** touched a 15-year high in CY21.
  - Even in **Skin Care**, it developed a moisturizer designed to perform in hot and humid weather conditions under Ponds to improve adoption.
  - Customizing of its **Tea** portfolio, to cater to regional tastes, led to a growth in market share.
- **SKB business update:** in FY22, it expanded the reach of the Nutrition business by integrating it with HUVR's sales systems and processes. It is building category relevance by educating consumers on the need for adequate nutrition and driving penetration through market development and access packs.
- **Beauty and Personal Care (BPC):** HUVR has three digital-first brands – Simple, Love Beauty & Planet, and Baby Dove. It is investing in e-commerce ahead of the curve. In the Premium Beauty portfolio, it is driving market development through innovations and extensive sampling. Lakme's D2C websites are seeing 2m customer visits per month and 30% of sales are accruing through the digital channel. Strengthening focus on D2C offerings will potentially help HUVR ward off competition brought about by new age BPC platforms.
- **Home Care:** Liquid detergents and fabric conditioners grew four times in the last five years to become an INR17b business. Surf Excel is now the biggest laundry brand.

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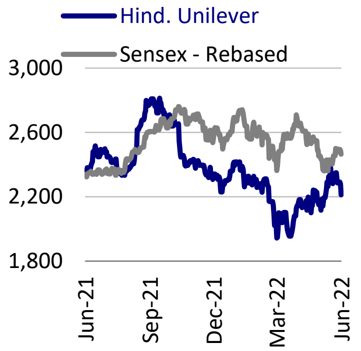
Shareholding pattern (%)

As on	Mar-21	Dec-20	Mar-20
Promoter	61.9	61.9	67.2
DII	10.7	10.7	6.7
FII	15.0	14.9	12.1
Others	12.5	12.5	14.1

FII Includes depository receipts

Stock performance (one-year)



Valuation and view

- HUVR continues to place the building blocks for future growth and has been able to do so ahead of its peers. It continues to display the dexterity shown over the last decade, despite its larger size, even as it continues to grow v/s its peers.
- The company continues to strengthen the key drivers of its success in India over the last decade, including: a) pioneering the use of technology to generate data and facilitate decision making, b) focusing on decentralization and localized strategies based on its WiMI framework; c) recognizing trends and investing in them early on; d) funneling cost savings back into the business; and e) its strong execution ability, which has led to a positive momentum in earnings.
- Its pre-COVID earnings had been extremely strong. It reported ~18% EPS CAGR in the four-years ending FY20, before steeper commodity cost inflation (v/s peers) and the over-indexed discretionary portfolio adversely impacted its earnings in FY21 and FY22. The company's pre-COVID earnings growth was particularly impressive, given the weak mid-single-digit growth posted by its (much smaller) Staples peers over the same period. Once the ongoing high material cost environment abates, we believe HUVR could revert to mid-teens earnings growth.
- HUVR is the best prepared among peers on the technology as well as the e-commerce strategy front to deal with potentially significant disruptions ahead.
- We maintain our **Buy** rating on the stock with a TP of INR2,700.

Highlights from its Annual Report

Widening of its technological moat

- India has ~800m internet users and the highest mobile data consumption per user globally. As rapid digitization has transformed multiple sectors, businesses need to adopt digital capabilities across the value chain to remain competitive, if not relevant.
- HUVR is already the leader in the FMCG space when it comes to digitization and analytics. It continues to invest in these areas and evolve as a digitally capable enterprise catering to emerging consumer needs. The core business continues to use analytics and machine learning to improve efficiency. This enables HUVR to leverage economies of scale, while remaining nimble.
- HUVR's e-B2B app – Shikhar – is now present in over 800k outlets. In an effort to keep the general trade (GT) relevant, Shikhar provides a host of benefits, including its ability to place orders, track stock and shipments, and view prices and promotional offers. It has helped solve two of the biggest challenges that retailers face - capital (tie-up with SBIN for financing) and space (quicker inventory turnover with faster fulfillment).
- Traditional kirana stores, which continue to be the largest ecosystem for consumers to access FMCG brands, are witnessing the evolution of e-B2B and eB2C offerings. At the same time, organized retail is undergoing consolidation and customers are expanding their omnichannel offerings.

Exhibit 1: Enhancement in agility and responsiveness with the aid of technology

Source: Company, MOFSL

Adapting to a changing consumer trends

- Rising affluence, a large working population, growth in nuclear families, urbanization, and rapidly increasing adoption of technology will positively impact the growth of FMCG industry in the country.
- People, especially in urban India, now treat information gathering as an integral part of their shopping experience. A large number of urban consumers check at least two data points (beyond price and discounts) before buying something. Roughly half of such consumers undertake some sort of online research,

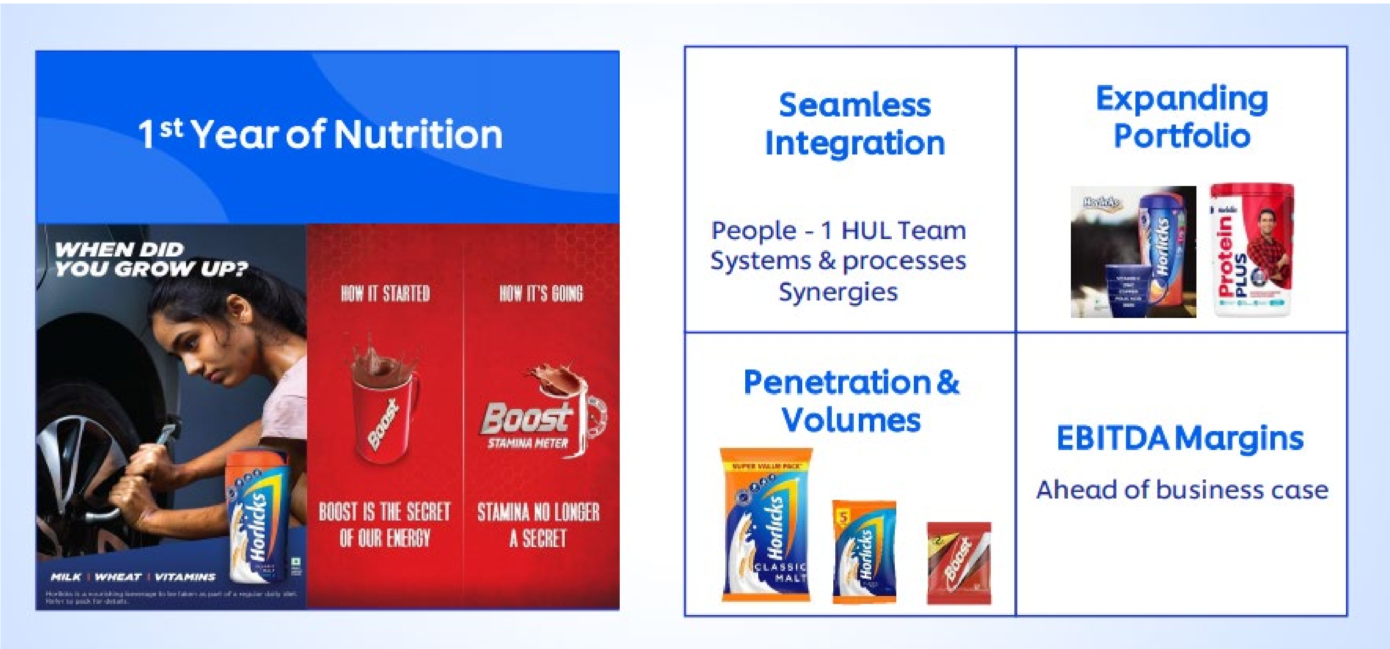
including reading up on product reviews, manufacturing methods, and how a product compares with alternatives in terms of features.

- Despite the gradual easing of restrictions and people spending more time outside their homes, online shopping and the demand for convenience stayed strong. This indicates that e-everything is here to stay.
- Despite being one of the fastest growing markets globally for FMCG products, India's per capita FMCG consumption is still among the lowest in the world. Rural markets account for more than 60% of India's population and contribute ~30% of FMCG consumption, offering significant headroom for growth.

Completes integration of GSK's Health Foods Drinks (HFD) business

- In FY22, HUVR expanded the reach of its Nutrition/HFD business by integrating it with the company's sales systems and processes. The focus is now on building category relevance via campaigns educating consumers on the need for adequate nutrition and driving penetration through market development and access packs.
- To increase accessibility of Horlicks and Boost to consumers, HUVR introduced new pouch packs and INR2 sachets for both these brands in FY21.
- HUVR seamlessly executed one of the largest FMCG acquisitions in India virtually, amid COVID-related lockdowns in the country. Through the merger, the company successfully integrated its large vendor base and on-boarded distributors. Its go-to-market plan has been designed to ensure the combined strengths of the erstwhile SKB and HUVR are leveraged in the marketplace.

Exhibit 2: Smooth integration driving strong performance



Source: Company, MOFSL

Other points

- **Scaling new highs:** One new brand – Kwality Wall's – raked in over INR10b in turnover, taking the total tally to seven brands. Three new brands – Vim, Rin, and Dove – clocked over INR20b in turnover. Surf Excel and Brooke Bond are part of the over INR50b turnover club.
- **Gains market share:** More than 75% of HUVR's portfolio have gained market share in value and volume terms across price segments and regions. In FY22, its market share gain was the highest in more than a decade (Hair Care market share stood at a 15-year high).

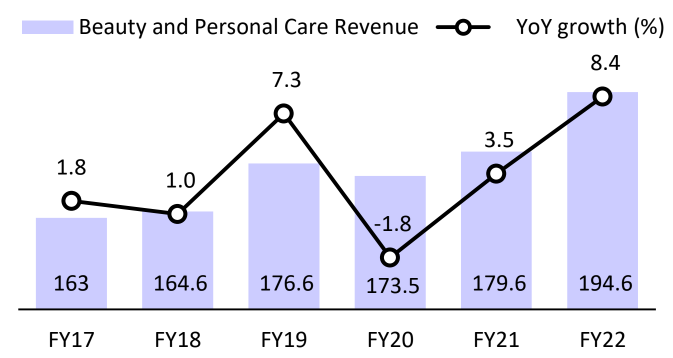
Exhibit 3: Various brands are scaling new highs

Source: Company

Key segmental highlights

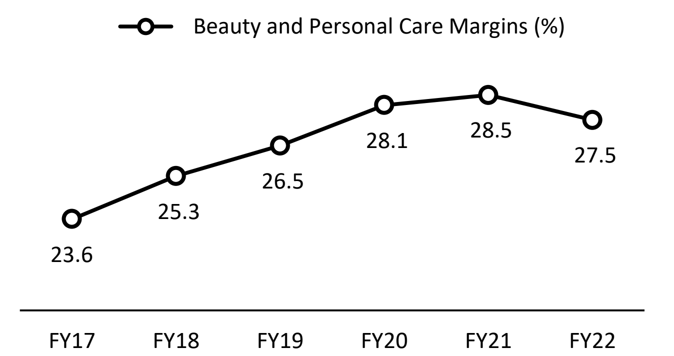
A) BPC: Investing in the core business

Exhibit 4: Revenue from Beauty and Personal Care grew 8.4% YoY…



Source: MOFSL, Company

Exhibit 5: …while margin fell 100bp YoY



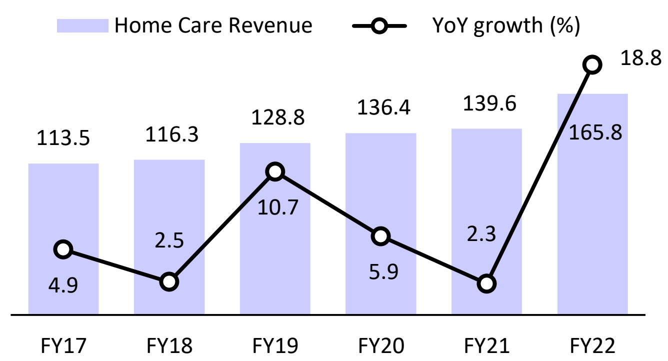
Source: MOFSL, Company

HUVR is growing its core business by investing in purposeful brands and delivering superior products. It now has three digital-first brands: Simple, Love Beauty & Planet, and Baby Dove. It is investing in technology-driven commerce ahead of the curve. In its Premium Beauty portfolio and formats of the future, it is driving market development through innovations and extensive sampling. To achieve HUVR's new positive beauty vision, it is using its scale to create positive change and drive growth through its biggest brands, impactful innovations, and portfolio transformation. It is also investing in technology-driven commerce. Lakme's D2C websites are seeing 2m customer visits per month and 30% of sales are accruing via the digital channel.

1) **Hair Care**: HUVR's market share in Hair Care touched a 15-year high in CY21. Clinic Plus, Dove, and Sunsilk were rated as the top three Hair Care brands in the country, as per 'Kantar Brand Health Check Report'. In FY22, TRESemmé launched Thick and Full Shampoo and Conditioner, with biotin and wheat protein, and expanded its hair mask range.
2) **Premium beauty and market development**: HUVR's priority is to drive growth in its five big beauty master brands – Dove, Pond's, TRESemmé, Lakmé, and Indulekha – via on-trend and relevant innovations, solutions that are designed for consumers and channels of the future, and by driving adoption of key future formats.
3) **The Naturals play**:
   - It expanded its Indulekha franchise into relevant benefit segments like anti-dandruff as well as e-commerce relevant formats like masks and serums.
   - The strategy involves natural variants of its existing brands like Clinic Plus Egg Protein shampoo, TRESemmé Botanique, Glow & Lovely Ayurvedic Care, Lifebuoy Neem and Turmeric, and Pears Naturale.
4) **Launches:** 1) Under TRESemmé, it launched a Thick and Full Shampoo and Conditioner, with biotin and wheat protein; 2) Under Dove, it launched Love & Care, a new range of hand and body moisturizers; 3) Under Pond's, it introduced its gold beauty range, including face wash, serum, a day crème, peel off mask, and a night crème; 4) It expanded its Lakmé cosmetics range, with a volume mascara, highlighter, and liquid concealer.

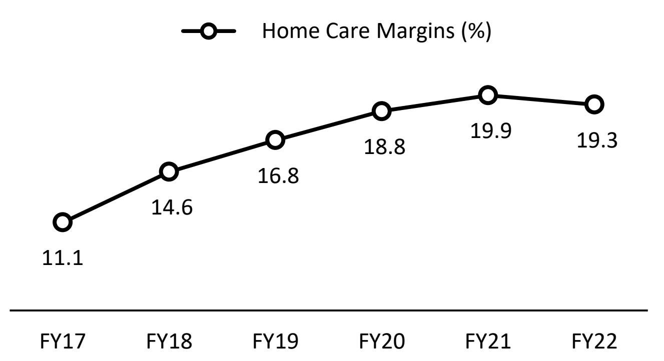
B) Home Care: Increased relevance; delivered strong growth

Exhibit 6: Revenue from Home Care grew at a healthy 18.8% YoY



Source: MOFSL, Company

Exhibit 7: Margin fell 60bp YoY



Source: MOFSL, Company

Relevance of the Home Care business grew 19% in the wake of the COVID-19 pandemic, led by double-digit growth in both Fabric Care and Household Care. Surf Excel is now the biggest laundry brand. In the last five years, even its Liquid Detergents and Fabric Conditioners business have grown four times in revenue terms.

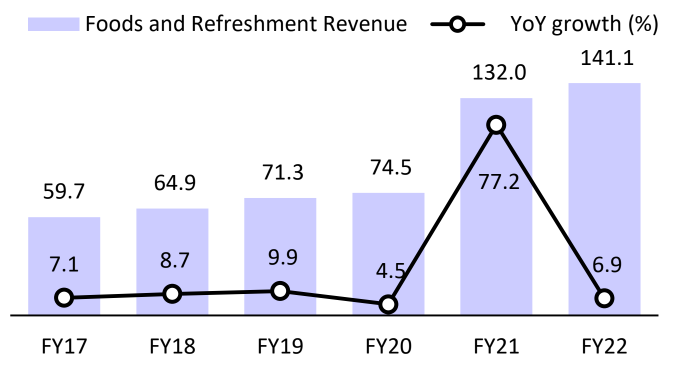
1) **Fabric Wash**: With changing demographics in India, urbanization and nuclear families, the need for more convenient ways for cleaning and laundry continues to develop. In the Fabric Care business, it has developed strong expertise in

seeding and scaling new categories. Led by effective market development, it has been able to drive relevance for liquid detergents, matic liquids, and fabric conditioners. HUVR continues to invest on newer formats like Surf Excel Smart shots and smart sprays for effective Fabric Care. Revenue from Liquid detergents and fabric conditioners has grown four times in the last five years to become an INR17b business.

2) **Dishwashing**: Over FY22, it innovated and launched an anti-bacterial Dish Wash. Premiumization continues to remain important in HUVR's Dish Wash business. Vim liquid continues to pioneer premiumization in India.
3) **Floor cleaners**: A new Domex variant was launched, backed by its breakthrough and patented Fresh Guard technology, which fights malodor in toilets up to 100 flushes.

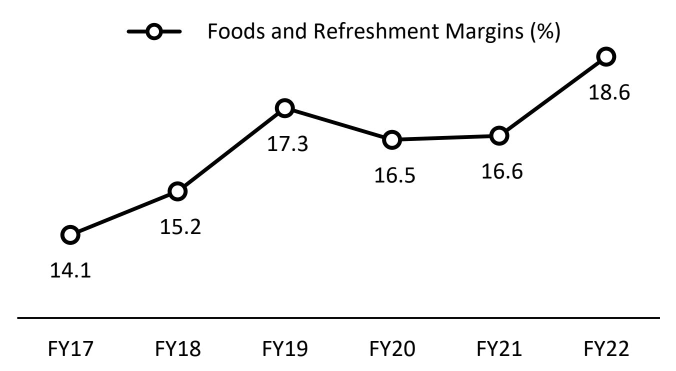
C) Foods and Refreshment: Growth seen in the overall portfolio

Exhibit 8: Revenue from the Foods and Refreshment segment grew 6.9% YoY…



Source: MOFSL, Company

Exhibit 9: …and margin rose 200bp YoY



Source: MOFSL, Company

HUVR aims to provide healthy in-home eating options via its portfolio of brands.

1) **Foods**: It witnessed high double-digit growth, led by ketchup, jams, and soups. Kissan strengthened its market leadership in ketchups and introduced new pack sizes, offering more convenience and value to its consumers. Building on its credentials of 'restaurant-like-food' at home, Knorr activated its campaigns on soups and Chinese gravy mixes.
2) **Refreshments:** The Tea business delivered a strong performance, strengthening its value and volume market leadership, and leveraged its WiMI strategy to deliver superior products, which are tailor made for varied consumer tastes. The Coffee segment delivered double-digit growth. It also launched BRU Beaten Coffee (specifically designed for North and West India).
3) **Out-of-Home portfolio:** In FY22, the Ice Cream and Frozen Desserts business recovered strongly and was significantly ahead of pre-pandemic levels.
4) **Nutrition:** In FY22, it witnessed market share and penetration gains on the back of focused market development actions and new communications. It expanded its Nutrition business by integrating it with HUVR's sales system and processes. HUVR is now focusing on building its category relevance and driving penetration through market development. It has also expanded its Horlicks portfolio with a high science range such as Diabetes Plus and Mother's Plus.

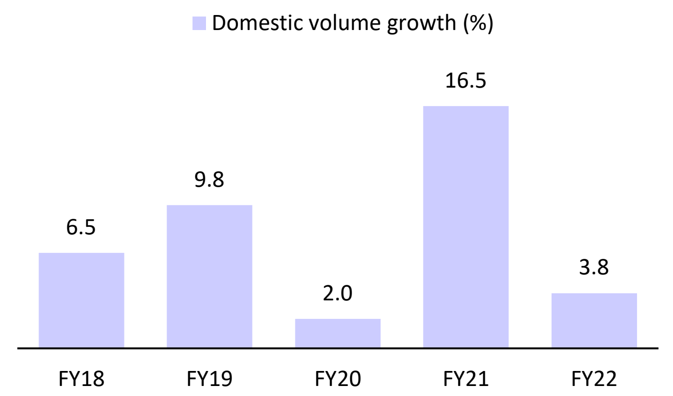
Exhibit 10: Segmental Analysis

Particulars (INR b)	FY18	FY19	FY20	FY21	FY22
Beauty and Personal Care					
Revenue	**164.6**	**176.6**	**173.5**	**179.6**	**194.6**
YoY growth (%)	1.0	7.3	-1.8	3.5	8.4
Contribution to total turnover (%)	46.8	46.2	44.7	39.1	39.0
EBIT	**41.6**	**46.9**	**48.7**	**51.3**	**53.5**
YoY growth (%)	8.1	12.7	3.8	5.3	4.4
Margin (%)	25.3	26.5	28.1	28.5	27.5
Contribution of Beauty and Personal Care to total EBIT (%)	60.9	58.0	56.2	49.7	50.0
Home Care					
Revenue	**116.3**	**128.8**	**136.4**	**139.6**	**165.8**
YoY growth (%)	2.5	10.7	5.9	2.3	18.8
Contribution to total turnover (%)	33.0	33.7	35.2	30.3	30.0
EBIT	**17.0**	**21.6**	**25.6**	**27.7**	**31.9**
YoY growth (%)	34.9	27.1	18.5	8.2	15.3
Margin (%)	14.6	16.8	18.8	19.9	19.3
Contribution of Home Care to total EBIT (%)	24.8	26.8	26.6	26.9	27.0
Foods and Refreshment					
Revenue	**64.9**	**71.3**	**74.5**	**132.0**	**141.1**
YoY growth (%)	8.7	9.9	4.5	77.2	6.9
Contribution to total turnover (%)	18.4	18.7	19.2	28.7	29.0
EBIT	**9.9**	**12.4**	**12.3**	**21.9**	**26.2**
YoY growth (%)	17.9	25.3	-0.8	78.0	19.8
Margin (%)	15.2	17.3	16.5	16.6	18.6
Contribution of Foods and Refreshment to total EBIT (%)	14.4	15.3	14.2	21.2	21.0

Overall financial performance

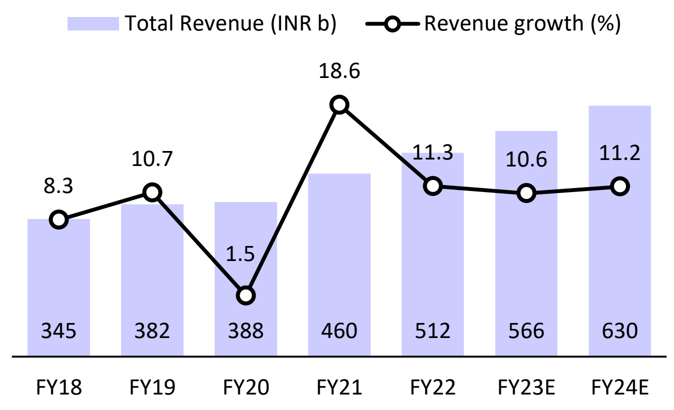
- Revenue grew 11.3% YoY in FY22, while volume growth was subdued at 3.8%.
- Gross margin was impacted in FY22 on elevated commodity costs. However, the decline in EBITDA margin was limited on account of cost optimization.
- PAT rose 12% to INR88.1b (two-year CAGR of 14.4%). Cash flow from operations (after taxes) was flat at INR89.6b (two-year CAGR of 10.8%).
- FCF grew 64% YoY (base year impacted by the SKB acquisition), while two-year CAGR stood at 11.6%.

Exhibit 11: Volume growth (including SKB) at 3.8% in FY22…



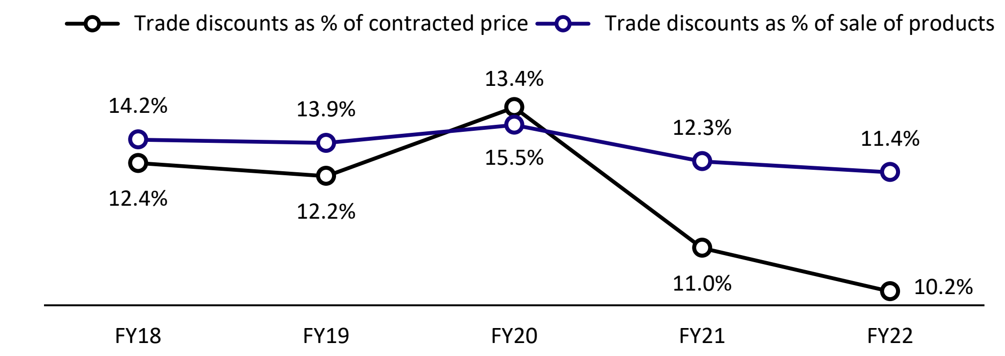
Source: Company, MOFSL

Exhibit 12: …while revenue grew in double-digits



Source: Company, MOFSL

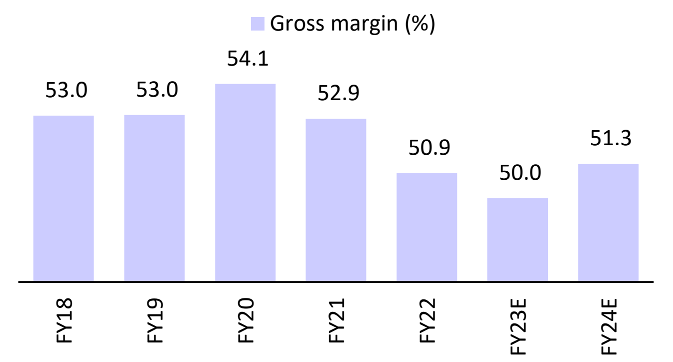
Exhibit 13: Declining trend in trade discounts



Source: MOFSL, Company

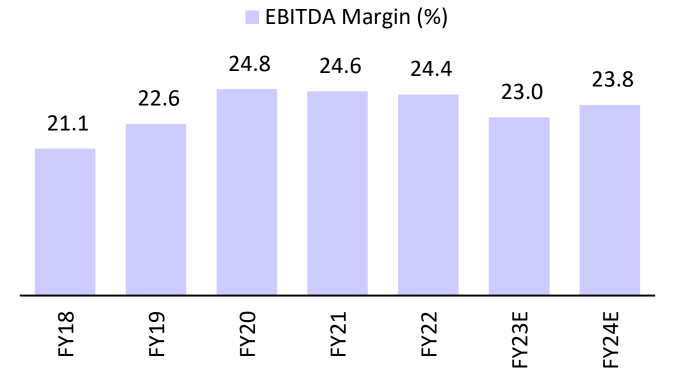
- Despite a 200bp contraction in HUVR's gross margin, EBITDA margin contraction was just 20bp YoY at 24.4%. The margin performance was a result of a strong savings agenda, mix impact, improvement in the EBIT margin of the Nutrition business. Other expenses, as percentage of sales, remains moderate for HUVR as compared to its peers. For a few quarters, margin will decline as the price v/s cost gap increases.

Exhibit 14: Gross margin lower in FY22 on steep RM inflation



Source: Company, MOFSL

Exhibit 15: Efficient cost management helps maintain operating margin



Source: Company, MOFSL

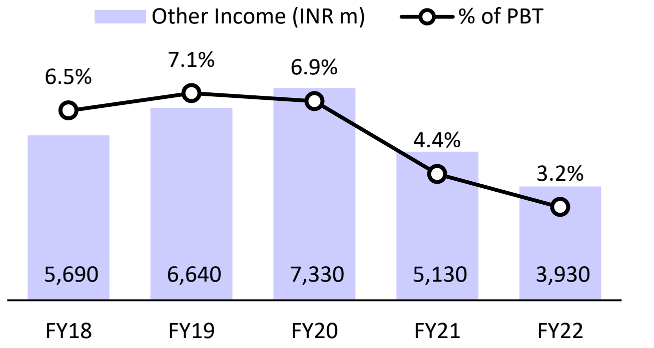
Exhibit 16: Trend in other expenses (including A&P) to sales over the past five years

Companies	FY18	FY19	FY20	FY21	FY22
HUL	**26.9**	**25.8**	**25**	**23.4**	**21.8**
Britannia	19.2	21	20.2	18.8	18.6
Colgate	30.6	30.7	31.3	29.3	29.0
Dabur	19.3	18.2	18.4	18.2	17.6
Emami	29.5	28.4	28	26.4	26.4
GCPL	24.9	24.7	25.1	23.5	21.1
ITC	14.7	15	15.7	16.7	14.4
Marico	22	21.1	22.2	20.1	19.0
Nestle	24	24.8	23.9	22.1	22.1
P&G Hygiene and Healthcare	31.1	32.9	37	39.4	35.9

Source: Company, MOFSL

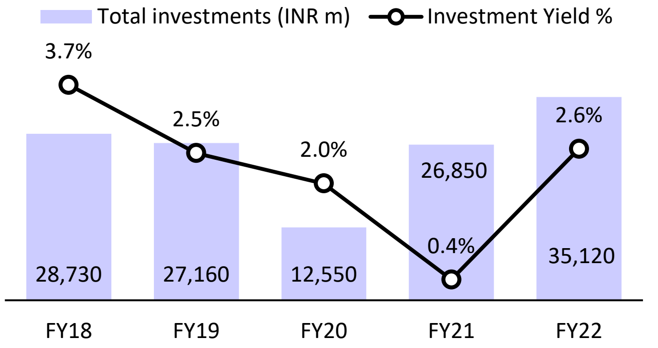
- Other income fell to INR3,930m in FY22 v/s INR5,130 in FY21. As a percentage of PBT, other income has been on a declining trend in the past three years. Investment yield rose to 2.6% in FY22 v/s 0.4% in FY21.

Exhibit 17: Other income declines as a percentage of PBT



Source: MOFSL, Company

Exhibit 18: Investment yield grew to 2.6% in FY22



Source: MOFSL, Company

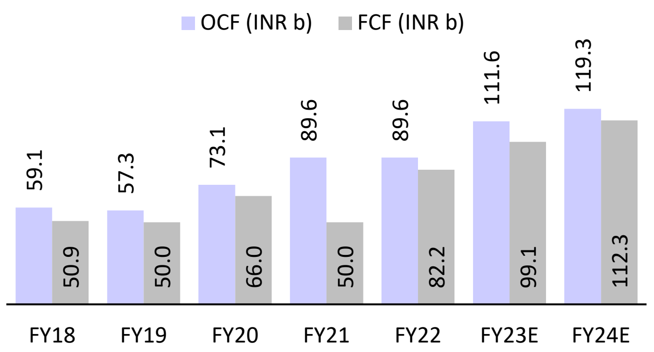
- Working capital deteriorated by seven days YoY (on a year-end basis) and stood at a negative 22 days. This was majorly on account of a decline in creditor days by five days.
- RoE saw a drop of 10.9 percentage points to 18.4% in FY22 due to lower asset turnover (at 1.1x v/s 1.7x in FY21). This was on account of the SKB-related goodwill and cost of brand rights, which inflated HUVR's net worth. Conversion of FCF to PAT remains strong and rose to 92.9% v/s 61.6% in FY21.

Exhibit 19: Cash conversion cycle worsens in FY22

Cash conversion cycle	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Days (average)										
Debtors	9	11	11	11	13	13	11	13	13	13
Inventory	32	30	28	25	23	24	24	26	26	26
Creditors	66	65	68	69	67	68	64	62	63	66
Average days	**-24**	**-24**	**-28**	**-33**	**-31**	**-31**	**-29**	**-24**	**-24**	**-27**
Days (year-end)										
Debtors	9	13	11	12	16	10	13	14	14	14
Inventory	31	30	27	25	23	25	27	28	28	28
Creditors	63	69	69	74	68	70	68	63	69	70
Total days	**-23**	**-26**	**-31**	**-37**	**-28**	**-35**	**-29**	**-22**	**-28**	**-29**

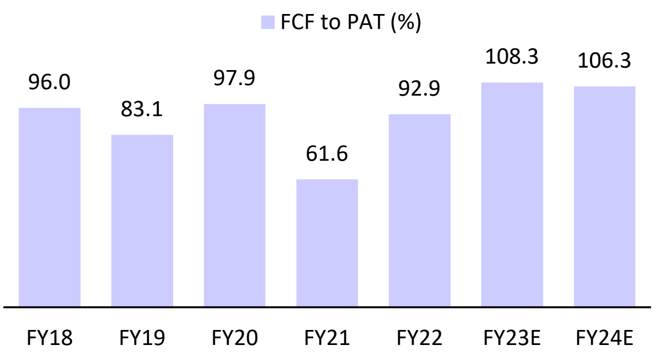
Source: Company, MOFSL

Exhibit 20: Consistent OCF and FCF generation



Source: Company, MOFSL

Exhibit 21: Acquisition of brand rights in FY21 led to lower FCF and a FCF-to-PAT ratio



Source: Company, MOFSL

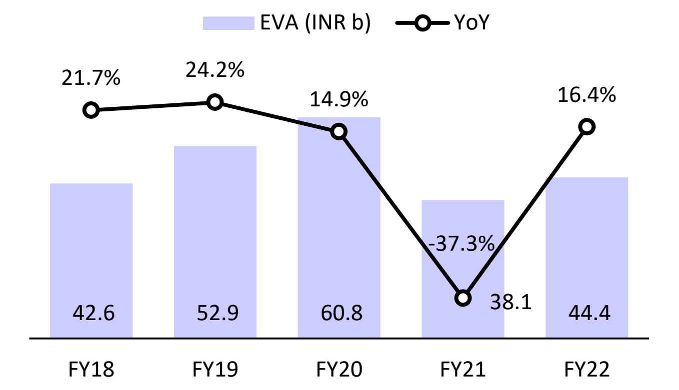
Exhibit 22: DuPont Analysis

Particulars	FY18	FY19	FY20	FY21	FY22
PAT margin (PAT/net sales)	15.3	15.8	17.4	17.7	17.3
Asset turnover (net sales/average assets)	5.1	5.2	4.9	1.7	1.1
Leverage factor (average assets/average equity)	1.0	1.0	1.0	1.0	1.0
RoE	78.1	81.7	86.0	29.3	18.4

Source: MOFSL, Company

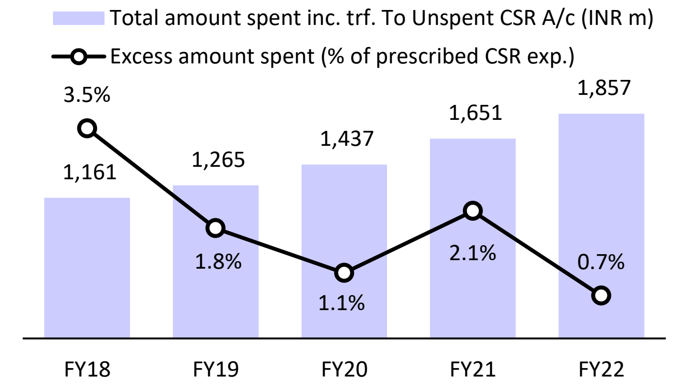
- Economic value-added grew 16.4% YoY to INR44.4b. HUVR has consistently improved its EVA over FY12-20. The same dipped in FY21 due to the COVID-19 pandemic, but has resumed its improvement journey from FY22.
- Over the past five years, HUVR has been consistently spending more than the 2% prescribed on CSR. Some of the areas where it is spending on CSR include COVID-19 relief work, water conservation programs, and community hygiene centers.

Exhibit 23: EVA grew 16.4% YoY in FY22



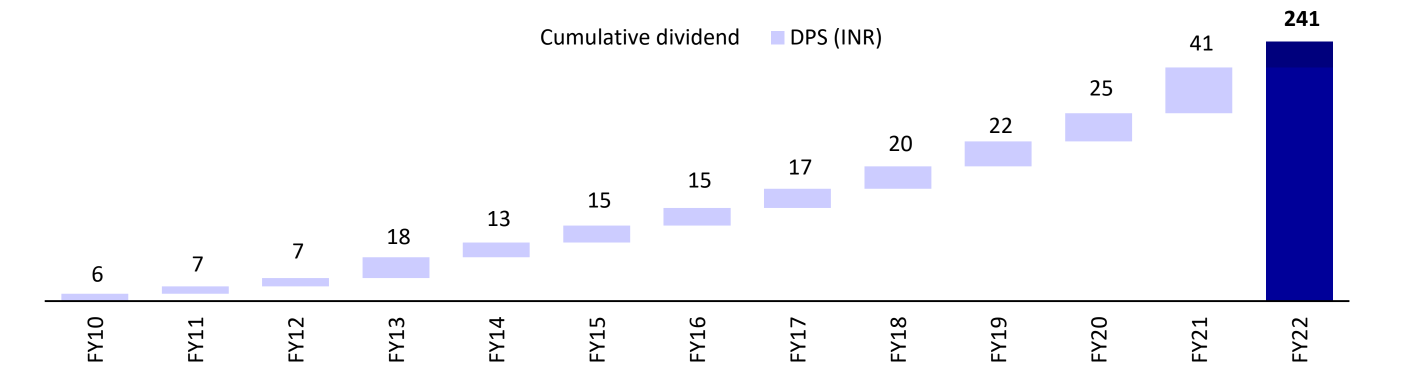
Source: MOFSL, Company

Exhibit 24: Spending more than the prescribed CSR expense



Source: MOFSL, Company

Exhibit 25: Cumulative yield of over 100% on CMP of INR237 (1st Apr'09)



Source: Company, MOFSL

- Total managerial remuneration rose 35.7% YoY. In the base year, it remained flat YoY. Two-year CAGR stood at 14%.

Exhibit 26: Managerial remuneration rose 36% YoY (two-year CAGR: 14%)

Remuneration (INR m)	FY18	FY19	FY20	FY21	FY22
CEO and MD	194	189	194	154	221
YoY (%)		-2.6	2.6	-20.6	43.3
CFO	42	49	51	71	74
YoY (%)		16.7	4.1	39.2	3.9
ED supply chain	55	59	75	81	115
YoY (%)		7.3	27.1	8.0	42.3
ED legal and corporate	60	68	55	55	80
YoY (%)		13.3	-19.1	0.0	45.5
Total remuneration	351	365	375	361	490
YoY (%)		4.0	2.7	-3.7	35.7
Remuneration as a percentage of staff cost	2.2	2.1	2.1	2.1	2.2
Remuneration as a percentage of EBITDA	0.5	0.4	0.4	0.3	0.4
Remuneration as a percentage of PAT	0.7	0.6	0.6	0.5	0.6

Source: Company, MOFSL

Sustainability

- HUVR's parent Unilever plans to globally incur EUR1b over the next 10 years on newer technologies to reduce its carbon footprint, plastic waste, and water use. It will increase the number of biodegradable and sustainable ingredients associated with its products.
- It is committed to Unilever's global Compass strategy to create a movement in which its suppliers, customers, and consumers will all be part of building a better future. It will build and drive actionable programs to tackle the most critical issues of the time, harnessing the full scale and impact of its brands, and going further and faster to drive positive change.
- Few targets:
  - Zero-emission in its operations globally by CY30;
  - All of Unilever's ingredients will be bio-degradable by CY30;
  - To recycle 25% of its plastic packaging by CY25 globally;
  - Around 5% of Unilever's workforce to be made up of people with disabilities by CY25; and
  - Help five million SMEs grow their business by CY25 globally.

Exhibit 27: HUVR's delivery on its sustainability plan

Particulars	CY18	CY21	CY22
Reduction in CO_2 emissions (kg/t of production) in manufacturing operations as compared with the CY08 baseline	59%	91%	94%
Reduction in water consumption (m3/t of production) in manufacturing operations as compared with the CY08 baseline	55%	54%	47%
Reduction in total waste (kg/t of production) generated from factories as compared with the CY08 baseline	58%	59%	54%
Better livelihoods – Shakti entrepreneurs empowered (in m)*	0.11	0.14	0.16
Sustainable sourcing – Tea sourced from sustainable sources for Unilever brands	65%	67%	68%

Source: MOFSL, Company

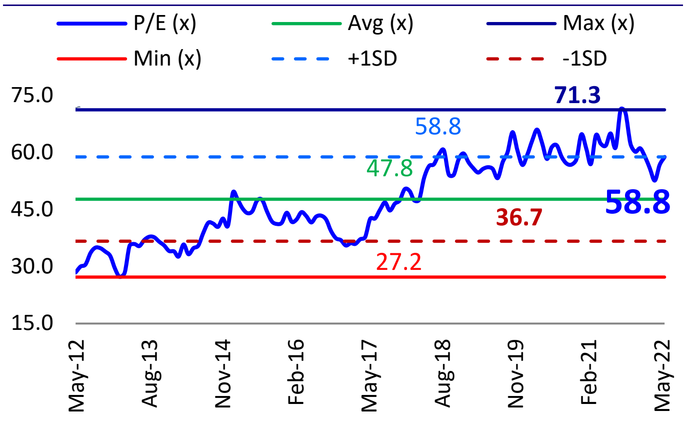
Exhibit 28: Highlights of various sustainability initiatives

Source: Company

Valuation and view

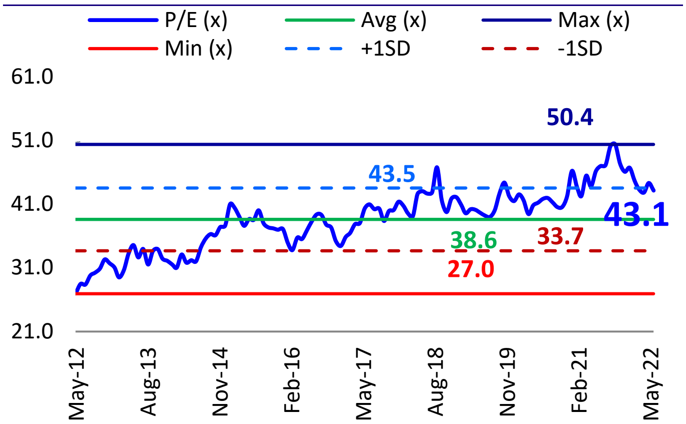
- HUVR continues to place the building blocks for future growth and has been able to do so ahead of its peers. It continues to display the dexterity shown over the last decade, despite its larger size, even as it continues to grow v/s its peers.
- It continues to strengthen the key drivers of its success in India over the last decade, including: a) pioneering the use of technology to generate data and facilitate decision making; b) focusing on decentralization and localized strategies based on its WiMI strategy; c) recognizing trends and investing in them early on; d) funneling cost savings back into the business, and e) its strong execution ability, which led to a positive momentum in earnings.
- HUVR's pre-COVID earnings had been extremely strong. It reported ~18% EPS CAGR in the four years ending FY20, before a steeper commodity cost inflation (v/s peers), and the over-indexed discretionary portfolio adversely impacted its earnings in FY21 and FY22. The company's pre-COVID earnings growth was particularly impressive, given the weak mid-single-digit growth posted by its (much smaller) Staples peers over the same period.
- HUVR is the best prepared among peers on the technology as well as the e-commerce strategy front to deal with potentially significant disruptions ahead.
- We maintain our **Buy** rating on the stock with a TP of INR2,700.

Exhibit 29: P/E ratio (x) for HUVR



Source: Bloomberg, Company, MOFSL

Exhibit 30: Consumer sector P/E ratio (x)



Source: Bloomberg, Company, MOFSL

Financials and valuations

Income Statement							(INR b)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Net Sales	**339.3**	**376.6**	**382.7**	**453.1**	**503.4**	**557.4**	**620.7**
Other Oper. Income	6.0	5.6	5.1	6.9	8.6	9.0	9.4
Total Revenue	**345.3**	**382.2**	**387.9**	**460.0**	**511.9**	**566.4**	**630.1**
Change (%)	*8.3*	*10.7*	*1.5*	*18.6*	*11.3*	*10.6*	*11.2*
COGS	162.3	179.6	177.9	216.8	251.2	283.1	307.2
Gross Profit	**182.9**	**202.6**	**209.9**	**243.2**	**260.7**	**283.3**	**322.9**
Gross Margin (%)	*53.0*	*53.0*	*54.1*	*52.9*	*50.9*	*50.0*	*51.3*
Operating Exp.	110.2	116.3	113.9	130.0	135.7	153.0	173.1
As a percentage of sales	*31.9*	*30.4*	*29.4*	*28.3*	*26.5*	*27.0*	*27.5*
EBITDA	**72.8**	**86.4**	**96.0**	**113.2**	**125.0**	**130.4**	**149.8**
Change (%)	*20.3*	*18.7*	*11.1*	*18.0*	*10.4*	*4.3*	*14.9*
Margin (%)	*21.1*	*22.6*	*24.8*	*24.6*	*24.4*	*23.0*	*23.8*
Depreciation	4.8	5.8	9.4	10.7	10.3	11.5	11.8
Int. and Fin. Charges	0.2	0.3	1.1	1.1	1.0	1.2	1.4
Other Income – Recurring	5.7	6.6	7.3	5.1	3.9	4.7	4.6
Profit before Taxes	**73.5**	**86.9**	**92.9**	**106.6**	**117.7**	**122.3**	**141.2**
Change (%)	*19.4*	*18.3*	*6.9*	*14.8*	*10.4*	*3.9*	*15.4*
Margin (%)	*21.7*	*23.1*	*24.3*	*23.5*	*23.4*	*21.9*	*22.7*
Tax	21.5	27.5	23.9	24.6	27.8	30.8	35.5
Deferred Tax	-1.0	-0.8	1.5	0.8	1.4	0.0	0.0
Tax Rate (%)	*27.9*	*30.7*	*27.4*	*23.8*	*24.8*	*25.2*	*25.2*
Profit after Taxes	**53.0**	**60.2**	**67.4**	**81.2**	**88.5**	**91.5**	**105.6**
Change (%)	*24.7*	*13.6*	*12.0*	*20.5*	*9.0*	*3.4*	*15.4*
Margin (%)	*15.6*	*16.0*	*17.6*	*17.9*	*17.6*	*16.4*	*17.0*
Non-rec. (Exp.)/Income	-0.6	-0.4	-0.1	-2.3	-0.3	0.0	0.0
Reported PAT	**52.4**	**59.8**	**67.4**	**79.0**	**88.2**	**91.5**	**105.6**

Balance Sheet							(INR b)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**	**FY24E**
Share Capital	2.2	2.2	2.2	2.4	2.4	2.4	2.4
Reserves	68.6	74.4	78.2	472.0	485.3	465.2	443.9
Net Worth	**70.8**	**76.6**	**80.3**	**474.3**	**487.6**	**467.5**	**446.2**
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Employed	**70.8**	**76.6**	**80.3**	**474.3**	**487.6**	**467.5**	**446.2**
Gross Block	71.8	59.2	73.4	541.6	547.6	560.1	567.1
Less: Accum. Depn.	-30.4	-15.8	-22.8	-31.3	-37.3	-48.8	-60.7
Net Fixed Assets incl. Goodwill	**41.4**	**43.4**	**50.6**	**510.3**	**510.3**	**511.3**	**506.5**
Capital WIP	4.3	3.7	5.1	6.2	9.0	9.0	9.0
Investment in Subsidiaries	2.5	2.5	2.5	3.1	6.1	6.1	6.1
Current Investments	28.6	27.0	12.5	26.9	35.1	39.1	40.1
Deferred Charges	2.6	3.4	2.6	-59.9	-61.4	-61.4	-61.4
Curr. Assets, L&A	**92.1**	**98.6**	**122.7**	**134.7**	**136.8**	**133.8**	**133.0**
Inventory	23.6	24.2	26.4	33.8	38.9	42.9	47.7
Account Receivables	11.5	16.7	10.5	16.5	19.3	21.4	23.8
Cash and Bank Balance	33.7	36.9	50.2	43.2	36.2	23.2	10.8
Others	23.3	20.8	35.7	41.2	42.4	46.3	50.7
Curr. Liab. and Prov.	**100.7**	**102.1**	**115.7**	**147.0**	**148.4**	**170.4**	**187.0**
Account Payables	70.1	70.7	74.0	86.3	88.6	107.6	121.1
Other Liabilities	16.4	15.9	25.6	40.3	40.9	42.9	45.0
Provisions	14.2	15.5	16.2	20.4	18.9	19.9	20.9
Net Current Assets	**-8.6**	**-3.4**	**7.0**	**-12.3**	**-11.6**	**-36.6**	**-54.0**
Application of Funds	**70.8**	**76.6**	**80.3**	**474.3**	**487.6**	**467.5**	**446.2**

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)							
EPS	**24.5**	**27.8**	**31.2**	**34.6**	**37.7**	**39.0**	**44.9**
Cash EPS	26.7	30.5	35.6	39.1	42.0	43.9	50.0
BV/Share	32.7	35.4	37.2	201.8	207.5	198.9	189.9
DPS	20.0	22.0	25.0	40.5	34.0	47.5	54.0
Payout (%)	98.9	95.7	96.2	117.2	90.3	121.9	120.1
Valuation (x)							
P/E	90.3	79.5	70.8	64.0	58.7	56.8	49.2
Cash P/E	82.9	72.5	62.2	56.5	52.6	50.4	44.2
EV/Sales	14.0	12.6	12.3	11.4	10.2	9.3	8.3
EV/EBITDA	65.3	55.0	49.2	45.5	41.2	39.6	34.6
P/BV	67.6	62.5	59.5	11.0	10.7	11.1	11.6
Dividend Yield (%)	0.9	1.0	1.1	1.8	1.5	2.1	2.4
Return Ratios (%)							
RoE incl. Goodwill	78.1	81.7	86.0	29.3	18.4	19.2	23.1
RoCE incl. Goodwill	108.6	118.3	119.8	38.8	24.7	25.9	31.2
Working Capital Ratios							
Debtor (Days)	12.3	16.2	10.0	13.3	14.0	14.0	14.0
Asset Turnover (x)	4.8	4.9	4.8	1.0	1.0	1.2	1.4
Leverage Ratio							
Debt/Equity ratio (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement (INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(loss) before Tax	72.9	85.2	90.9	104.9	117.4	122.3	141.2
Financial other income	-2.8	-0.8	-1.6	0.6	-2.0	-4.7	-4.6
Depreciation	4.8	5.2	9.4	10.7	10.4	11.5	11.8
Net Interest Paid	-2.5	-3.0	-3.9	-2.4	-1.1	1.2	1.4
Direct Taxes Paid	-21.9	-26.9	-24.7	-23.7	-27.2	-30.8	-35.5
(Incr.)/Decr. in WC	8.6	-2.6	3.0	-0.6	-7.9	12.1	5.0
CF from Operations	**59.1**	**57.3**	**73.1**	**89.6**	**89.6**	**111.6**	**119.3**
Other Items	4.9	4.5	-8.5	11.9	-1.5	7.4	7.1
(Incr.)/Decr. in FA	-8.3	-7.2	-7.0	-39.5	-7.4	-12.5	-7.0
Free Cash Flow	**50.9**	**50.0**	**66.0**	**50.0**	**82.2**	**99.1**	**112.3**
(Pur.)/Sale of Investments	7.8	3.3	22.5	23.9	-7.9	-4.0	-1.0
CF from Invest.	**4.4**	**0.5**	**7.0**	**-3.7**	**-16.8**	**-9.1**	**-0.9**
Dividend Paid	-39.0	-45.5	-62.4	-88.1	-75.2	-111.6	-126.9
Others	-7.6	-9.2	-4.3	-4.7	-4.7	-3.9	-3.9
CF from Fin. Activity	**-46.5**	**-54.6**	**-66.8**	**-92.8**	**-79.8**	**-115.5**	**-130.8**
Incr./Decr. in Cash	**17.0**	**3.2**	**13.3**	**-7.0**	**-7.0**	**-13.0**	**-12.4**
Add: Opening Balance	16.7	33.7	36.9	50.2	43.2	36.2	23.2
Closing Balance	**33.7**	**36.9**	**50.2**	**43.2**	**36.2**	**23.2**	**10.8**

E: MOFSL estimates

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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