



## 3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red
	+ Positive	= Neutral	- Negative

## What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

## ESG Disclosure Score

NEW

## ESG RISK RATING

Updated Jul 08, 2022

25.80

## Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

## Company details

Market cap:	Rs. 5,93,977 cr
52-week high/low:	Rs. 2,859 / 1,902
NSE volume: (No of shares)	18.6 lakh
BSE code:	500696
NSE code:	HINDUNILVR
Free float: (No of shares)	89.5 cr

## Shareholding (%)

Promoters	61.9
FII	13.9
DII	12.2
Others	12.03

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-5.4	20.3	20.8	-8.3
Relative to Sensex	-3.3	5.5	18.9	-8.0

Sharekhan Research, Bloomberg

## Hindustan Unilever Ltd

## Steady leadership in core biz to power earnings

## Consumer Goods

Sharekhan code: HINDUNILVR

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 2,528

Price Target: Rs. 2,850

## Summary

- We maintain a Buy rating on Hindustan Unilever Ltd (HUL) with an unchanged PT of Rs. 2,850. Leadership position in 80% of portfolio, improving growth outlook and a healthy balance sheet with consistent cash flows makes it a best pick in FMCG space. Stock trades at 59.0x/48.9x its FY2023E/24E EPS.
- Driving growth in core categories through premiumisation, market development through new launches, cluster-based approach through WIMI strategy and expansion of distribution network remain key growth drivers. Revenues to clock CAGR of 14% over FY2022-24.
- Consistent fall in key input prices (palm oil prices corrected by 50% from highs) and price hikes will help margins improve from H2FY2023.
- Balance sheet stays strong on steady fall in working capital days (by 12 days in FY2022) and consistent improvement in cash flows and higher dividend payout (90% in FY2022).

Hindustan Unilever (HUL) registered resilient numbers in FY2022 as revenues grew by 11% y-o-y (volumes rose by 3%) and PAT rose by 9% y-o-y despite headwinds such as pandemic-led uncertainties, inflationary effects on rural demand and a surge in input prices in H2FY22. The management is focusing on achieving double-digit earnings growth in the medium to long run led by strategies such as developing the product basket, lead in the channel of future and building differentiated structures and capabilities in the coming years. The Indian consumption market's structural growth story is intact with low per capita consumption and low penetration in most categories and improving rural demand for branded products that offer ample opportunities. HUL is focusing on converting opportunities in growth through growing the core premiumisation, market development and a cluster-based approach. Such a move will also be supported by a healthy balance sheet, consistent improvement in the cash flows that supports core businesses to drive consistent growth.

- Well-defined strategies for each category to drive consistent growth:** HUL is the leader in 80% of its product portfolio with an excellent product development strategy and strong distribution backing. More than 75% of products gained volume and value market share in FY2022. HUL's 16 brands garner revenues of more than Rs. 1,000 crore, while two brands have revenues of above Rs. 5,000 crore. Key business categories have well-defined growth strategies - Beauty & Personal care (BPC) focusing on building differentiated and purposeful products under core brands and playing on naturals, home care (HC) focusing on automation of laundry and large opportunities in surfaces provided by pandemic and food & beverages (F&B) focusing on building a nutrition portfolio to reduce India's protein deficiency and scale up in the North & West. It aided key businesses categories to perform well in the tough environment.
- Aiming for double-digit earnings growth:** Despite tough demand scenario and inflationary headwinds, HUL's PAT grew at CAGR of 13% over FY2020-22 (with revenues growing by ~15%, OPM standing at 24%). The company has maintained its thrust on achieving double-digit earnings growth by achieving sustained volume growth in the core categories of home care and personal care, scaling up the foods & refreshment business and a gradual improvement in OPM. We expect HUL's revenues and PAT to clock a CAGR of 14.5% & 17% over FY2021-24 with expected improvement in the volume growth (from H2FY2023) led by recovery in consumer demand and consistent market share gains in the key portfolio.
- Raw material pressure under control; OPM to be at 25% in FY2024:** Prices of some key inputs such as palm oil and crude oil derivatives (such LAB and packaging material) corrected from its high in past two-three months. Palm oil prices are down by 50% from its high in April 2022, LAB prices are down by ~6-8%, while reduction in the packaging cost is due to fall in the crude oil prices. Raw material inflation stood at 20% in Q1FY2023. With a recent correction in the key input prices, the raw material inflation is expected to cool off from H2FY2023. This will help OPM improve in H2FY2023. We expect OPM to stand at 25% in FY2024 with expected decline in the key input prices and efficiencies through cost-saving initiatives.

## Our Call

**Valuation – Maintain Buy with an unchanged price target of Rs. 2,850:** With a strong portfolio of brands, a formidable team with great focus supported by R&D and agile distribution and supply chain, HUL's management is focusing on enhancing the shareholder's value eventually. Recent correction in the key input prices augurs well for margins and will gradually boost volume growth in the absence of major price hikes in the quarters ahead. The stock is currently trading at 59.0x and 48.9x its FY2023E/24E earnings. Leading position in some high-penetrated categories, thrust on innovation and market development to remain competitive and drive consistent earnings growth makes it good pick from long-term perspective. We maintain a Buy recommendation on the stock with an unchanged price target of Rs. 2,850.

## Key Risks

Sustained slowdown in the rural demand or persistent volatility in key input prices from the current levels would act as a key risk to our earnings in the near term.

## Valuation (standalone)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	46,546	51,693	59,911	67,642
OPM (%)	24.3	24.2	23.7	25.0
Adjusted PAT	8,136	8,845	10,072	12,139
Adjusted EPS (Rs.)	34.6	37.6	42.9	51.7
P/E (x)	73.0	67.2	59.0	48.9
P/B (x)	12.5	12.2	12.0	11.4
EV/EBIDTA (x)	51.9	47.0	41.2	34.4
RoNW (%)	29.3	18.4	20.5	23.9
RoCE (%)	37.1	24.1	27.1	31.8

Source: Company; Sharekhan estimates

### CEO Corner (Sanjiv Mehta – MD and CEO of HUL)

- ◆ In challenging times too, HUL posted robust numbers for FY2022 led by a clear strategy, strength of brands, execution process and supply chain agility.
- ◆ Revenues crossed Rs. 50,000 crore in FY2022; revenue growth stood at 11% with 3% volume growth (ahead of industry growth).
- ◆ More than 75% of portfolio gained volume and value market share; highest the company had in last one decade. Market share in the haircare portfolio touched 15 years high.
- ◆ HUL has 2x more superior products compared with its 2019 portfolio.
- ◆ In Beauty & personal care (BPC) business the focus was on growing core leveraging on Winning In Many India (WIMI) strategy designed products based on specific needs of the consumers across different regions in the country.
- ◆ In the home care business, the purpose-driven brands sustained their strong performance in fabric wash and household care segments on back impactful communications based on social cause.
- ◆ Surf Excel is the biggest laundry brand in India while liquid detergents and fabric conditioners business has grown four times in last five years.
- ◆ Food and Refreshment (F&R) brands continued to attract new consumers through superior products, impactful innovation and purposeful activations.
- ◆ HUL carried out extensive market development activities for our nutrition portfolio, consisting of iconic brands like Horlicks and Boost, and even launched a 'High Science' range of products such as Diabetes Plus, Mother's Plus and more.
- ◆ To remain future fit in an increasingly technology enabled world, the company is employing sophisticated digital tools to identify new innovation partners, monitoring and reviewing quality performance, and tracking logistics and supply risks in real time.
- ◆ The company focused on efficiently working with all its trade partners and attending the consumers changing needs. It is helping traditional channels to embrace technology through Shikhar App that enables zero touch online ordering. The company has 8 lakh stores enrolled to Shikhar App.

**Source: HUL annual report; Sharekhan research**

### HUL strategies towards fulfilling purpose and vision

#### Developing portfolio

Growing the Core	Accelerating Market Development	Driving Premiumisation
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#### Win with brands as a force for good, powered by purpose and innovation

Improve the health of the planet	Improve people's health, confidence, and wellbeing	Contribute to a fairer, more socially inclusive world	Win with differentiated science and technology
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#### Lead in the channels of the future

Accelerate pure-play and omni-channel e-Commerce	Strengthen e-B2B presence	Drive category leadership through shopper insight
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#### Build differentiated structures and capabilities

Empowered Business Units	Winning in Many India's (WiMI)	Digital transformation (Reimagine HUL)
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#### Build a purpose-led, future-fit organisation and growth culture

Unlock capacity through agility and digital	Be a beacon for diversity, inclusion, and values-based leadership	Upskill through lifelong learning
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Source: Company; HUL annual report

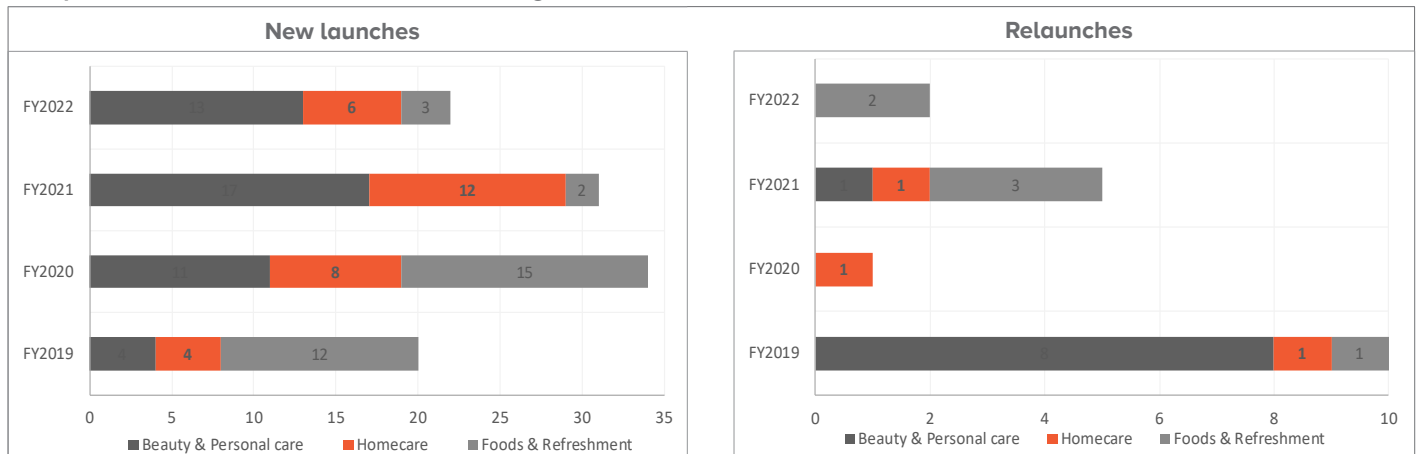
## ♦ **Developing portfolio**

- ♦ **Powering the core:** HUL is growing its core business by investing in purposeful brands and delivering superior products. The company is bringing to life its product philosophy of Designing for India and Winning in Many Indias (WiMI). HUL is also bringing this thought process into Skin Care & Hair Care with products like Pond's Light Moisturiser that is specifically designed to perform in hot and humid weather. HUL continues to strengthen brand equity through consistent, purposeful communication on its iconic brands. Clinic Plus, Dove and Sunsilk were rated as the Top 3 Hair Care brands in the country as per 'Kantar Brand Health Check Report'. Lifebuoy continues to build the habit of handwashing, through the 'H for Handwashing' campaign.
- ♦ **Accelerating market development:** HUL's priority is to drive growth in its five big beauty master-brands, Dove Pond's, TRESemmé, Lakmé and Indulekha, which Ospan across categories. Through compelling communication, the company is addressing key category triggers and barriers, as well as scaling up education-led sampling. The company is also creating new capabilities for driving 'beauty' market development through salons, medical marketing, and online marketing, which serves as a distinct competitive advantage. HUL continues to strengthen its 'naturals' strategy by building specialist brands like Indulekha and Hamam.
- ♦ **Driving premiumisation:** HUL continued its strategy of upgrading consumers and premiumising its portfolio. Premium products outperformed the rest of the portfolio. Through its portfolio which straddles the price-benefit pyramid, HUL continues to actively engage with consumers in their upgradation journey. For instance, Surf Excel has been driving upgradation in detergent powders, led by Surf Excel Easy Wash and Surf Excel Matic. Premiumisation continues to be an important agenda for the dishwash business and with a strong and scalable consumer contact programme, Vim Liquid continues to pioneer premiumisation in the country.

## ♦ **Lead in the channels of the future**

- ♦ **Accelerate pure-play and omni-channel e-Commerce:** Design for Channel has been one of the strategic thrusts for HUL and the company is designing products and organising its business for organised retail by collaborating with its customers and partners. The company is also expanding its digital presence through D2C platforms – HUL now has D2C websites for its premium brands like Lakmé, Indulekha, Simple and a multi-brand platform UShop. HUL has created teams exclusively to focus on niche aspects such as search and discoverability in the omni-channel space, acquiring new capabilities like performance marketing and visibility optimisation across platforms and partners in this fast-growing and highly competitive arena. All these initiatives have now enabled HUL to capture more than 20% of its demand digitally and gives the company a unique ability to run its demand generation and demand fulfilment activities in a disruptive way.
- ♦ **Strengthen e-B2B presence:** HUL is building competitive moats across demand capture, demand fulfilment and generation enabled by digitalisation and data-driven analytics. Shikhar, HUL's e-B2B online ordering solution is a real game-changer for the company which gives retailers the flexibility to order at any point of time without waiting for the salesman to visit the store, providing recommendation for the right assortment, and ensuring reliable service to the retailer. HUL has now scaled Shikhar to cover more than 8 lakh stores.
- ♦ **Drive category leadership through shopper insight:** HUL monitors external market trends and collates consumer, customer, and shopper insights to develop category and brand strategies. HUL invests in markets and segments where the company has built, or is confident to build, competitive advantage.

#### New product launches and relaunches over the years



Source: Company, Sharekhan Research

#### ♦ Build differentiated structures and capabilities

- ♦ **Empowered Business Units:** In early 2021, HUL set up the Premium Beauty Business Unit (PBBU) within the Beauty & Personal Care organisation to strengthen its play in 'Masstige' beauty segment. The unit is now fully operational with three digital-first brands Simple, Love Beauty & Planet and Baby Dove. PBBU is not just about building brands but also about incubating organisation-wide capabilities fit for the fast-changing digital world.
- ♦ **Winning in Many Indias (WiMI):** *Winning in Many Indias* (WiMI) has been a cornerstone of the company's strategy. Looking at the diverse nature of our country HUL has de-averaged India into 15 consumer clusters. This brings the company close to the consumers and allows to capture consumer trends at a granular level. With the help of these rich granular insights, HUL can deploy customised strategies to drive growth. As consumers increasingly become more discerning, HUL's WiMI strategy will continue to keep us future-fit.
- ♦ **Digital transformation (Reimagine HUL):** HUL has been a leader in using big data and analytics as a tool to drive sustainable growth. The company continues to drive organisation-wide digital transformation agenda under the umbrella of 'Reimagine HUL' to capture digital opportunity. Pre-empting the imminent disruption, HUL has established a sharp digitalisation agenda in each function. These include those around core ERP platform using Cloud, AI, and other digital technologies. Each day the company builds new capabilities in Systems, Workforce and Business Models with strong focus on external orientation and partnerships across large IT Companies/Industry Bodies. The company is also invested to make sure that its talent is digitally enabled and future-fit to ride the digital transformation wave.

#### ♦ Build purpose-led, future-fit organisation and growth culture

- ♦ **Unlock capacity through agility and digital:** The company has introduced more flexible and agile ways of working that unlock capacity and help individuals find a meaningful and balanced way of working. HUL's AI-powered internal talent marketplace allows the company to match people with specific skills to projects that require them. This helped assign resources to over 500 business critical projects when teams faced capacity constraints.
- ♦ **Be a beacon for diversity, inclusion, and values-based leadership:** HUL has identified its equity, diversity, and inclusion priorities – gender, people with disabilities and LGBTQI+ communities. The company is building the capabilities of its business leaders and HR practitioners to support equity advocacy, diversity awareness and psychological safety in their teams. HUL continues to make

progress in its commitment to be gender balanced across its managerial levels within the next few years. In 2021, the company improved gender balance from 42% to 44% at managerial levels. Another step in our diversity journey has been the introduction of 250+ women in its extended sales ecosystem and the addition of 186 women on our shopfloor. In 2021, the company also launched the HUL ProUd network as an employee resource group for LGBTQI+ employees and allies.

- ♦ **Upskill through lifelong learning:** HUL continues to build organisational capabilities with a clear focus on functional learning to enable its people to upskill and reskill for their roles and help them prepare for the changing landscape of work. In its latest employee survey, 87% of people in offices and 94% of people in factories believe that the company provides opportunities for skill development.

#### Risk management at HUL

Type of Risk	Risk Description	Management of Risk
Brand preference	The company's success depends on value and relevance of brands and products to the consumers and on the company's ability to innovate and remain competitive. Consumer tastes, preferences and behaviours are changing more rapidly than ever before. The company sees a growing trend for consumers preferring brands which both meet their functional needs and have an explicit social or environmental purpose.	The company monitors external market trends and collates consumer, customer, and shopper insights to develop category and brand strategies as well as invest in markets and segments where they have built, or are confident that they can build, competitive advantage. The company's R&D function actively identifies ways to translate trends in consumer preferences into modern technologies for incorporation in future products. The innovation management process converts category strategies into projects which deliver new products to market as well as develop product ideas both in-house and with selected partners to enable the company's consumer trends with speed.
Supply chain	The business depends on purchasing materials, efficient manufacturing, and the timely distribution of products to customers. Cost of products can be significantly affected by cost of the underlying commodities and materials from which they are made. Fluctuations in these costs may negatively impact business especially if such movements are not effectively managed.	Commodity price risk is actively managed through forward buying of traded commodities, other hedging mechanisms, and product pricing. Trends are monitored and modelled regularly and integrated into forecasting process. The company has contingency plans designed to secure alternative key material supplies at short notice, to transfer or share production between manufacturing sites and to use substitute materials in product formulations and recipes.
Business transformation	Successful execution of business transformation projects is key to delivering intended business benefits and avoiding disruption to other business activities. HUL is continually engaged in major change projects, including acquisitions, disposals, and organizational transformation, to drive continuous improvement in the business and to strengthen their portfolio and capabilities. The company has an extensive program of transformation projects.	All acquisitions, disposals and transformation projects have steering groups in place led by senior leadership teams. Sound project discipline is followed in all transformation projects and these projects are resourced by dedicated and appropriately qualified personnel. All such projects are monitored through strong governance and reviewed by the board for delivery of maximum synergies.
Quality and safety	The quality and safety of products are of paramount importance for the company's brands and reputation. The risk that raw materials are accidentally or maliciously contaminated throughout the supply chain or that other product defects occur due to human error, equipment failure or other factors cannot be excluded. Labelling errors can have potentially profound consequences for both consumer safety and brand reputation.	The company's product quality processes and controls are comprehensive, from product design to customer shelf. The internal safety and quality norms are constantly reviewed to ensure that the products meet the most stringent norms. HUL has a robust quality inspection process in all manufacturing and warehousing locations to avoid and detect quality and safety issues. The key suppliers are externally certified, and the quality of material received is regularly monitored to ensure that it meets the rigorous quality standards that the products require. The company has processes in place to ensure that the data used to generate on-pack labelling is compliant with applicable regulations and HUL labelling policies to provide the clarity and transparency needed for consumers.

Source: Company; Sharekhan Research

#### Change in brand positioning over the years

	5,000+ crore brands	2,000+ crore brands	1,000+ crore brands	500+ crore brands
Sep-15	-	Surf Excel, Brooke Bond, Fair and Lovely, Active Wheel, Lifebuoy, Rin	Dove, Vim, Lux, Clinic Plus, Ponds	Lakme, Bru, Kissan, Closeup, Vaseline, Pears
Jun-17	-	Surf Excel, Brooke Bond, Fair and Lovely, Active Wheel, Lifebuoy, Rin	Dove, Vim, Lux, Clinic Plus, Ponds	Lakme, Bru, Kissan, Closeup, Vaseline, Pears, <b>Kwality Walls, Sunsilk</b>
FY19 & FY20	-	Surf Excel, Brooke Bond, Fair and Lovely, Active Wheel, Lifebuoy	<b>Rin</b> , Dove, Vim, Lux, Clinic Plus, Ponds, <b>Lakme</b>	Bru, Kissan, Closeup, Vaseline, Pears, Kwality Walls, Sunsilk, <b>Sunlight</b>
FY21 & FY22	<b>Surf Excel, Brooke Bond</b>	Glow and Lovely, Active Wheel, Lifebuoy, <b>Rin, Dove, Horlicks, Vim</b>	Lux, Clinic Plus, Ponds, Lakme, <b>Bru, Kissan, Kwality Walls</b>	Closeup, Vaseline, Pears, Sunsilk, Sunlight, <b>Boost, Comfort</b>

Source: Company; Sharekhan Research; **Green indicates moved position up; Red indicates moved position down**

#### ♦ Win with brands as a force for good, powered by purpose and innovation

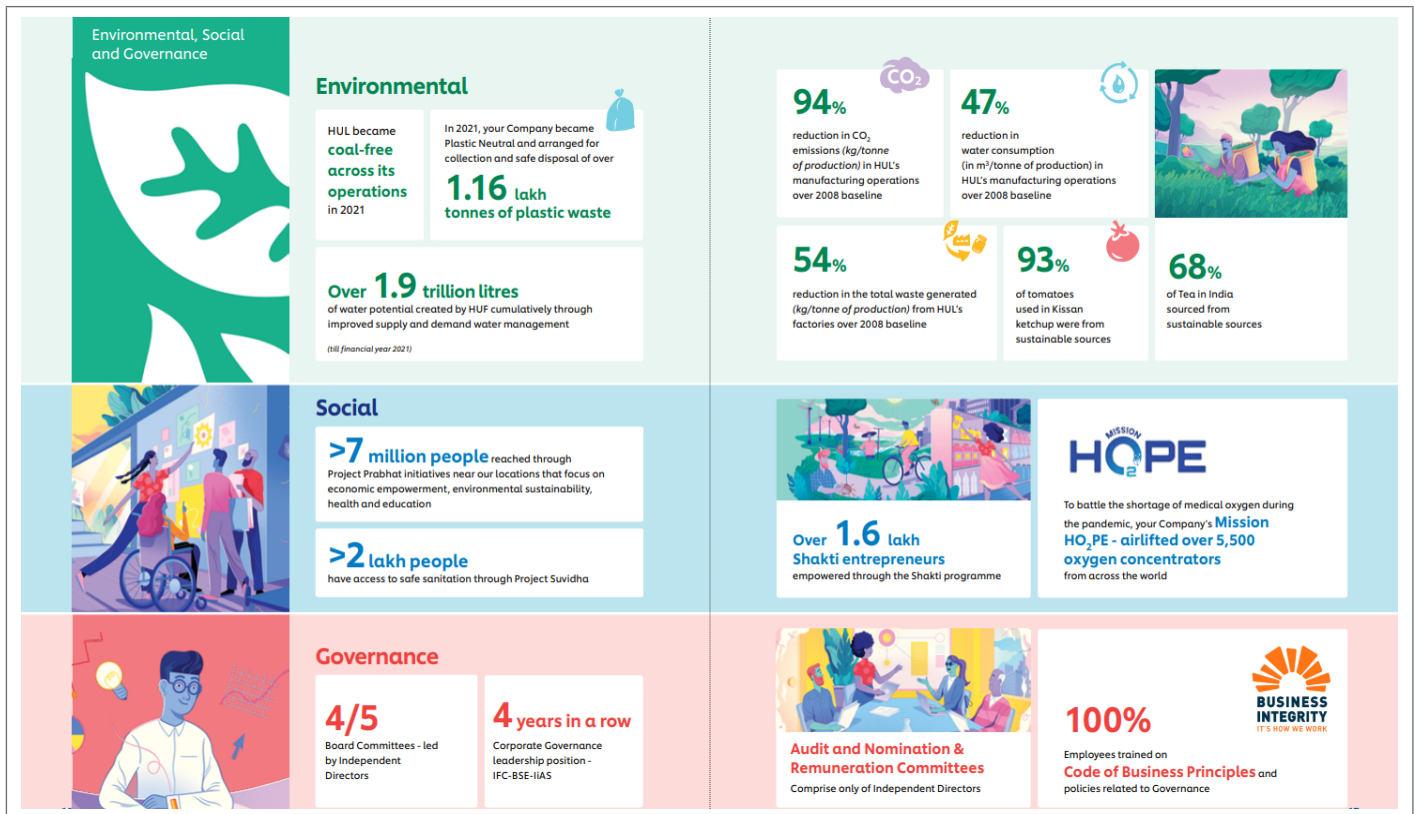
HUL has certain strategies in place towards the Environmental, Social and Governance (ESG) responsibilities.

Environmental	Social	Governance
Net zero emissions for all the company's products from sourcing to point of sale by 2039	Double the number of products sold that deliver positive nutrition by 2025	Ensure that everyone who directly provides goods and services to HUL will earn at least a living wage or income by 2030
Zero emissions in the company's operations by 2030	95% of packaged ice cream to contain no more than 22g total sugar per serving by 2025	Help equip 1.5 million young people with essential skills by 2030
Deforestation-free supply chain in palm oil, paper and board, tea, soy, and cocoa by 2023	85% of the Foods portfolio to help consumers reduce their salt intake to no more than 5g per day by 2022	Accelerate diverse representation at all levels of leadership
Halve food waste in the company's operations by 2025		5% of the workforce to be made up of people with disabilities by 2025
FY21 & FY22	Lux, Clinic Plus, Ponds, Lakme, Bru, Kissan, Kwality Walls	Closeup, Vaseline, Pears, Sunsilk, Sunlight, Boost, Comfort

Source: Company; Sharekhan Research;



## FY2022 – Performance of ESG factors



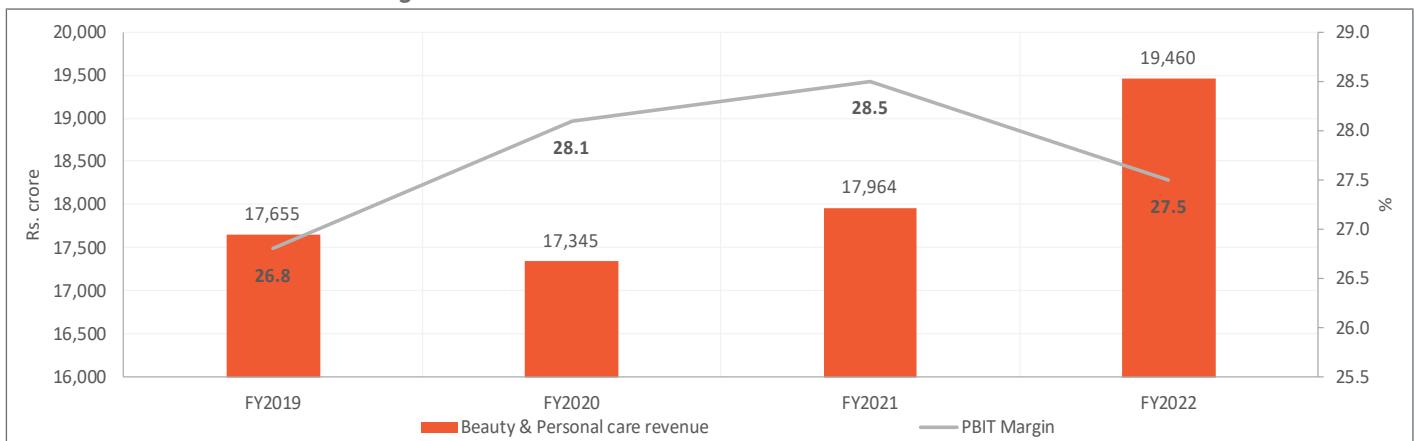
Source: HUL annual report

## Segment wise performance for FY2022

### Beauty & Personal Care (BPC)

The BPC segment contributed 39% to the company's revenue and grew by 8% y-o-y to Rs. 19,460 crore in FY2022 with PBIT margin at 28%. To achieve its new Positive Beauty vision, HUL is using its scale to create positive change and drive growth through big brands, impactful innovation, and portfolio transformation. In its Skin Cleansing portfolio, HUL's brands Lifebuoy and Lux have introduced winning products by regions with consumer centricity at the heart of the product design philosophy. In Skin Care, Dove launched Love & Care, a new range of hand and body moisturisers while Pond's introduced its gold beauty range including Facewash, Serum, Day Crème, Peel off Mask, and a Night Crème. Lakmé expanded its cosmetics range with volume mascara, highlighter, and liquid concealer.

### Trend in BPC revenue and PBIT margin

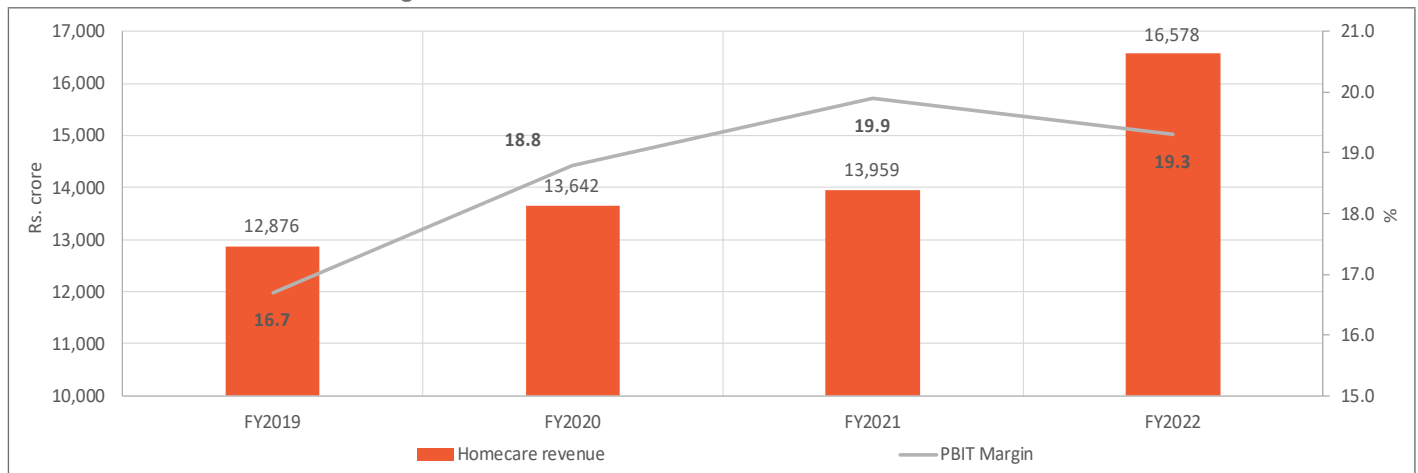


Source: Company, Sharekhan Research

## Homecare (HC)

This segment contributed 31% to the company's revenue and grew by 19% y-o-y to Rs. 16,578 crore in FY2022 with PBIT margins of 19%. HUL's dishwash portfolio continued its resilient performance. Vim with its well-defined purpose of 'change your outlook, move beyond dishes' focussed on breaking the societal stereotype that dishwashing is solely a woman's responsibility. Based on a clear consumer need, HUL's home hygiene brand Domex launched a superior product backed by a breakthrough patented Fresh Guard technology which fights malodour in toilets for 100 flushes.

### Trend in BPC revenue and PBIT margin

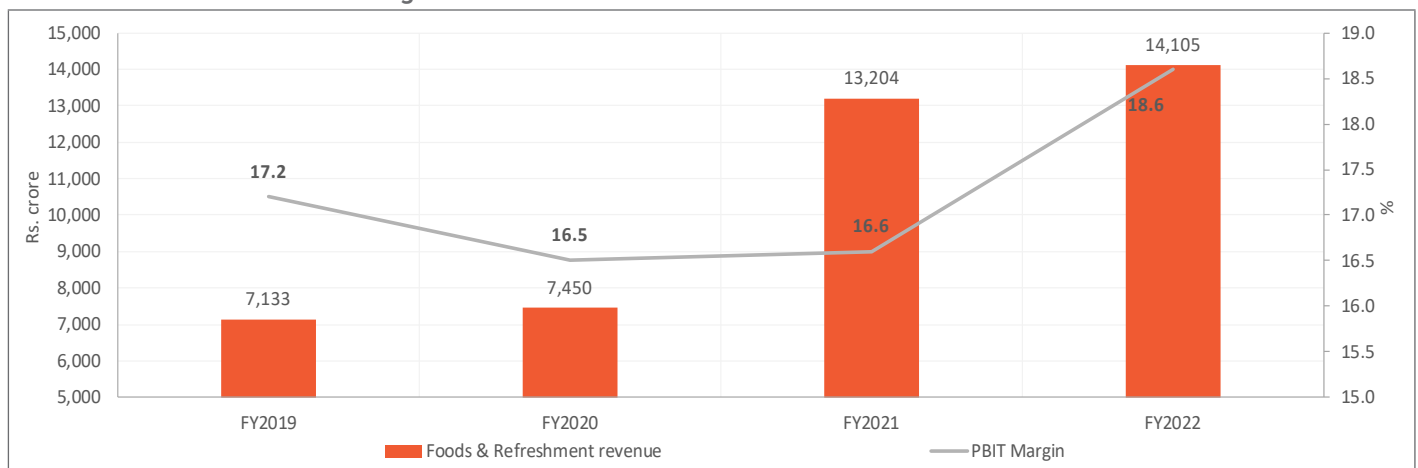


Source: Company, Sharekhan Research

## Foods & Refreshment (F&R)

The F&R segment contributed 29% to the company's revenue and grew by 7% y-o-y to Rs. 14,105 crore in FY2022 with PBIT margin at 19%. HUL's brands continue to provide great-tasting, nutritious and sustainable foods for consumers – using its world-class innovation and brand purpose to inspire change. During the year, the Ice Cream and Frozen Desserts business recovered strongly and was significantly ahead of pre-pandemic levels. HUL scaled up its in-home consumption portfolio through innovative, delicious products like the Kwality Wall's Cadbury Crackle tub and the Trixy cup. Offering sweet delicacies to consumers during festive season, Kwality Wall's activated integrated campaigns to reach consumers offline as well as online. To address nutrition needs at various stages of life the company has expanded the Horlicks portfolio with the high sciences range such as Diabetes Plus, Mother's Plus, etc.

### Trend in BPC revenue and PBIT margin



Source: Company, Sharekhan Research



## Performance of Subsidiaries

### 1. Unilever India Exports Limited

Unilever India Exports Limited is a wholly owned subsidiary of the company and is engaged in FMCG exports business. The focus of the FMCG exports operation is two-fold: to develop overseas markets by driving distribution of brands, such as Vaseline, Dove, Pears, BRU, Red Label, Lakmé, Horlicks, Boost and to effectively provide cross-border sourcing of FMCG products to other Unilever companies across the world. The topline growth of the company was driven by robust growth in Personal Wash, Personal care, and culinary products portfolio. Brands like Dove, Vaseline, Lakmé, Glow & Lovely, Horlicks, Lifebuoy, Knorr and Kissan have registered healthy growth in the focused markets.

### 2. Lakme Lever Private Limited

Lakme Lever Private Limited is a wholly owned subsidiary of the company engaged in Salon's business and operates a manufacturing unit at Gandhidham, which carries out job work operations for the company by manufacturing toilet soaps, bathing bars and detergent bars. The company delivered robust topline and bottom-line growth led by recovery in the salon business which was impacted by Covid-19 during FY2021. With focus on safety, quality of operations, expert treatments and prudent cost optimization, the salon business continues to perform well in the beauty services category. Job work business continues its strong topline and bottomline growth momentum. It has over 400 owned/managed and franchisee salons. Innovations like Free Spirits – vibrant colors, Beautysutra facials and manicure/pedicure treatments and Tresplex hair treatments added excitement to the comprehensive Runway Secrets portfolio. Thematic campaigns – Good Hair Day, Happy New You and Hair Tech helped gain new clients and sustain existing ones. Lakmé Salon was awarded several awards notable amongst which are Best Franchisor – Beauty and Wellness at the Franchise India Summit and Best National Salon Chain at the Salon Congress.

### 3. Hindustan Unilever Foundation

Hindustan Unilever Foundation (HUF) is a not-for-profit company that anchors water management related community development and sustainability initiatives of Hindustan Unilever Limited. The company operates the 'Water for Public Good' program, with a specific focus on water conservation, building local community institutions to govern water resources and enhancing farm-based livelihoods through adoption of judicious water practices. HUF's programs currently reach over 10,000 villages in 46 Districts in eight states and two union territories across India in partnership through 15 NGO partners and multiple co-founders. The Company also supports several knowledge initiatives in water conservation, governance, and behavior change.

### 4. Unilever Nepal Limited

Unilever Nepal Limited (UNL) manufactures, markets and sells detergents, foods and refreshment products, toilet soaps, personal products, and laundry soaps in Nepal. Transformation programs such as Distributor Management System and SAP migration are helping in faster decision-making, localized and swifter innovation delivery and increased speed-to market.

### 5. Unilever India Limited

Unilever India Limited is a wholly owned subsidiary of the company that had been incorporated to leverage the growth opportunities in a fast-changing business environment. Presently, it is setting up its manufacturing facility at Sumerpur, Uttar Pradesh. It is proposed to manufacture detergent powder at this facility. This company is on-track to commission its factory and start commercial production in FY2023.

## FY2022 – Double digit revenue growth (price-led); OPM remained stable

- Standalone revenue from operations grew by 11.1% y-o-y to Rs. 51,693 crore. The revenue growth was price-led while domestic volume growth stood at 3% (ahead of industry growth).
- A sharp increase in the palm oil prices and other key input prices led to 200 bps y-o-y decline in gross margins to 51.4%. This is despite 7-8% increase in the price hikes.
- Despite a decline in gross margins, OPM stood flat at 24.2% on account of 110 bps decrease in the advertisement spends percentage to sales and 50 bps decline in the other expenses as percentage to sales on back of operating efficiencies.
- Other income stood at Rs. 393 crore in FY2022 lower than Rs. 513 crore in FY2021. Lower other income was on account of Rs. 118 crore decline in the interest on bank deposits to Rs. 95 crore and interest on others (including interest on income tax refunds) decreased by Rs. 100 crore to Rs. 32 crore.
- Adjusted PAT grew by 8.7% y-o-y to Rs. 8,845.2 crore lower than the revenue growth on account of lower other income.
- Revenue and PAT grew by 15% and 13% respectively on two-year CAGR basis.

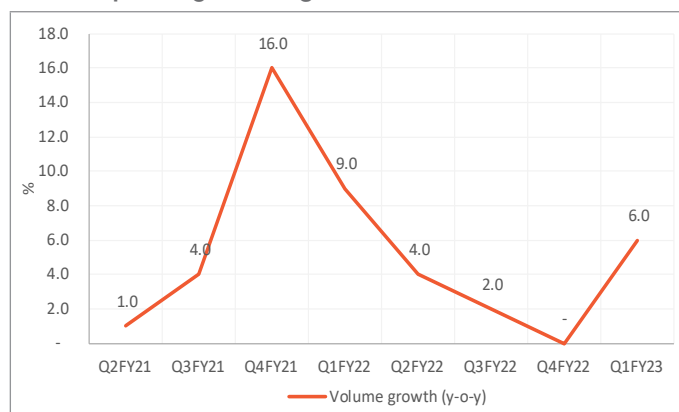
## Balance sheet – Stable operating cash flows; investment and yield on investments increased

- Working capital days decreased by 10 days to 68 days in FY2022 from 81 days on account of 10 days decline in the creditor days. Inventory days remained stable at 28 days.
- Cash from operations (pre-tax) stood stable at Rs. 11,684 crore in FY2022 vs. Rs. 11,324 crore in FY2021.
- Investments on books increased to Rs. 3,512 crore from Rs. 2,685 crore in FY2021 (and from Rs. 1,250 crore in FY2020). Yield on investments improved to 2.3% in FY2022 from 0.2% in FY2021.
- Asset turnover ratio stood at 1.3x in FY2022 vs. 1.2x in FY2021.
- The company paid dividend of Rs. 34 per share in FY2022 (dividend payout stood at 90.3%) as against Rs. 40.5 per share in FY2021 (dividend payout stood at 115.5%).
- RoE decreased to 18.4% in FY2022 from 29.3% in FY2021 due to acquisition led increase in the equity. RoCE stood at 24.1% in FY2022 as against 37.1% in FY2021.

## HUL's domestic volume growth to improve from Q3FY2023

HUL's registered resilient volume growth of 6% in Q1FY2023 driven by sustained strong demand in the urban demand while rural demand remained muted due to higher inflationary pressure. Market share gains across categories, across price points and across key markets and sustenance of robust growth in some of the premium categories aided the company to post better sales volume ahead of industry. Rural sales volumes are expected to remain under pressure in Q2FY2023. However, green shoots are visible - 1) Anticipation of normal monsoon for the fourth consecutive year, 2) better kharif production 3) higher fertiliser subsidy by the government and 4) a rise in the agri-commodity prices aiding to generate higher agri-incomes, which will push the demand in the quarters ahead. Further with limited price hikes in the core portfolio after recent fall in the key input prices would help in improving the demand for the products in the key markets.

Trend in quarterly volume growth

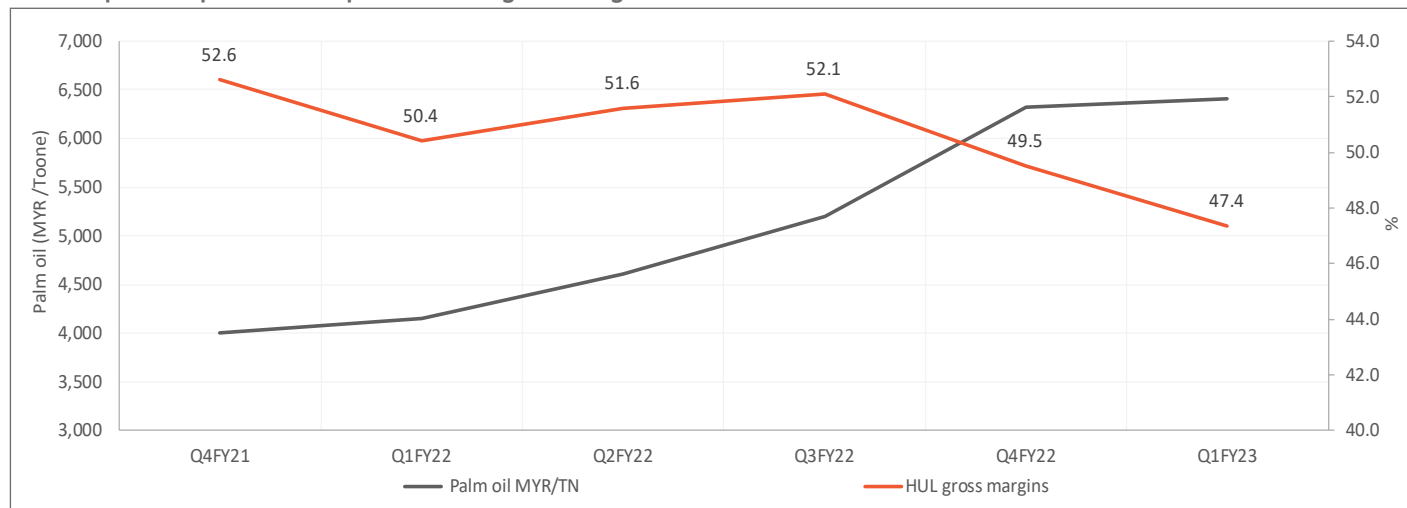


Source: Company, Sharekhan Research

## Decline in the palm oil prices and other key input prices would ease out margin pressure

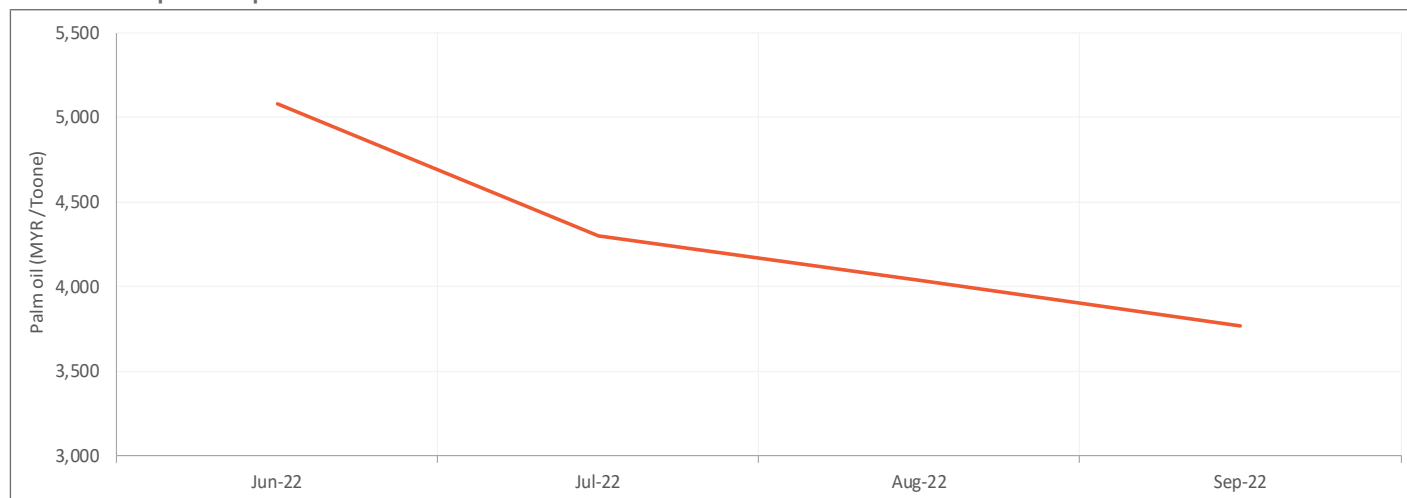
Prices of some key inputs such as palm oil and crude derivatives (such LAB and packaging material) corrected from its high in past 2-3 months. Palm oil prices are down by 50% from its high in April, 2022, LAB prices down by ~6-8% and reduction in the packaging cost due to fall in the crude oil prices. Raw material inflation stood at 20% in Q1FY2023. With recent correction in the key input prices, the raw material inflation is expected to cool off from H2FY2023. This will help OPM to be much better in H2FY2023. We expect OPM to stand at 25% in FY2024 with expected decline in the key input prices and efficiencies through cost saving initiatives.

### Trend in palm oil prices and impact on HUL's gross margins



Source: Company, Sharekhan Research

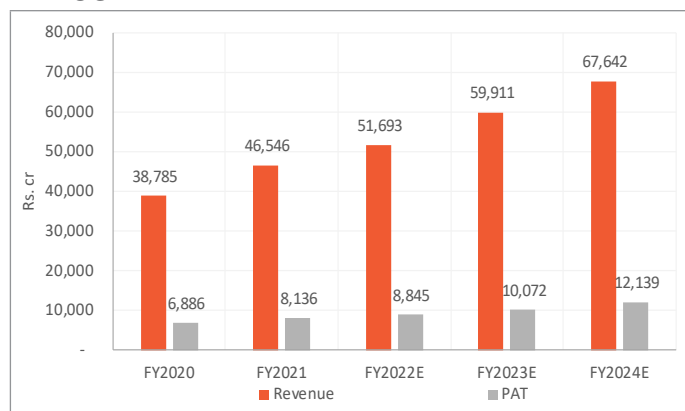
### Correction in palm oil prices in the last four months



Source: Company, Sharekhan Research

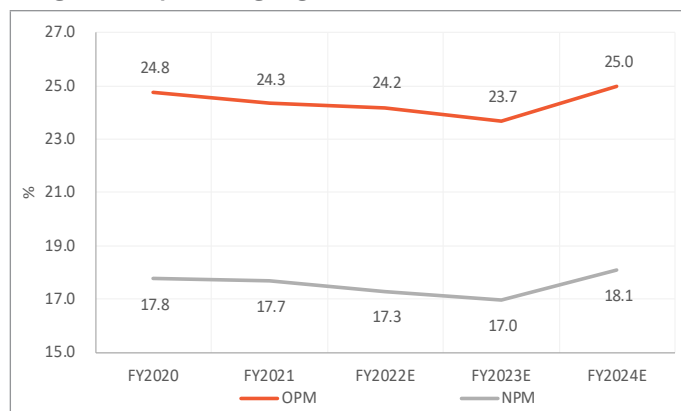
## Financials in charts

### Steady growth in revenue and PAT



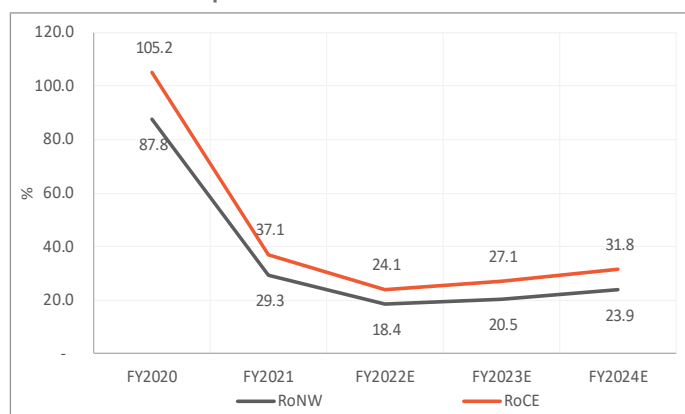
Source: Company, Sharekhan Research

### Margins to improve slightly



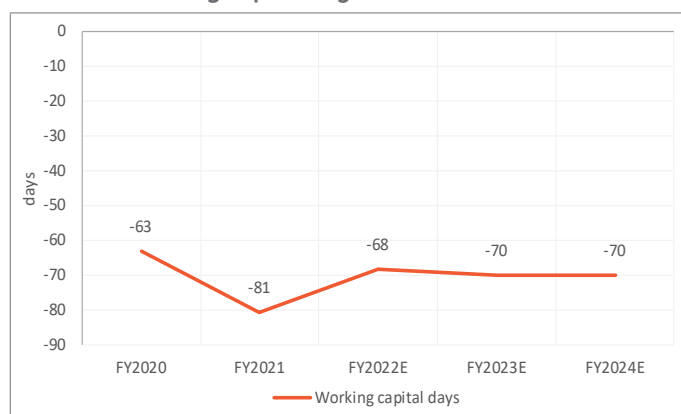
Source: Company, Sharekhan Research

### Return ratios to improve



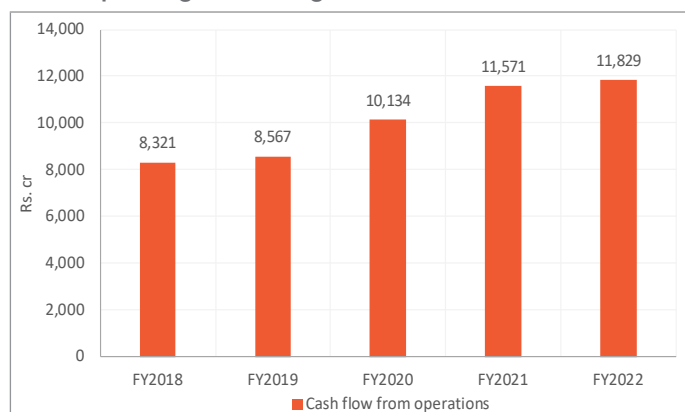
Source: Company, Sharekhan Research

### Consistent working capital days



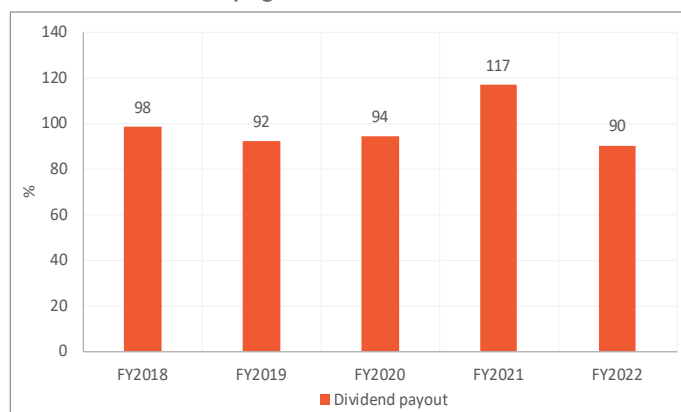
Source: Company, Sharekhan Research

### Stable operating cash flow generation



Source: Company, Sharekhan Research

### Consistent dividend payout



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – Deflating commodity prices augurs well; good monsoon key for rural demand

High consumer inflation and slowdown in the rural demand will keep pressure on the sales volumes in the near term. However, a normal monsoon, cool-off in the commodity prices and improved consumer sentiments will help volume growth to recover in H2FY2023. Consumer goods companies' margins were lower in Q1FY2023 with raw material prices remaining higher. However, the scenario has changed in last one and half months with commodity prices cooling from its high providing some breather for consumer goods companies. Companies are expected to see expansion in margins from H2FY2023. Overall, we expect H2FY2023 to be much better as compared to H1FY2023 with expected recovery in the volume growth and expansion in the margins in Q3/Q4FY2023. Low penetration levels in key categories (especially in rural India), lower per capita consumption compared to other countries, a large shift to branded products, and emergence of new channels such as e-Commerce/D2C provide several opportunities for achieving sustainable growth in the medium to long run.

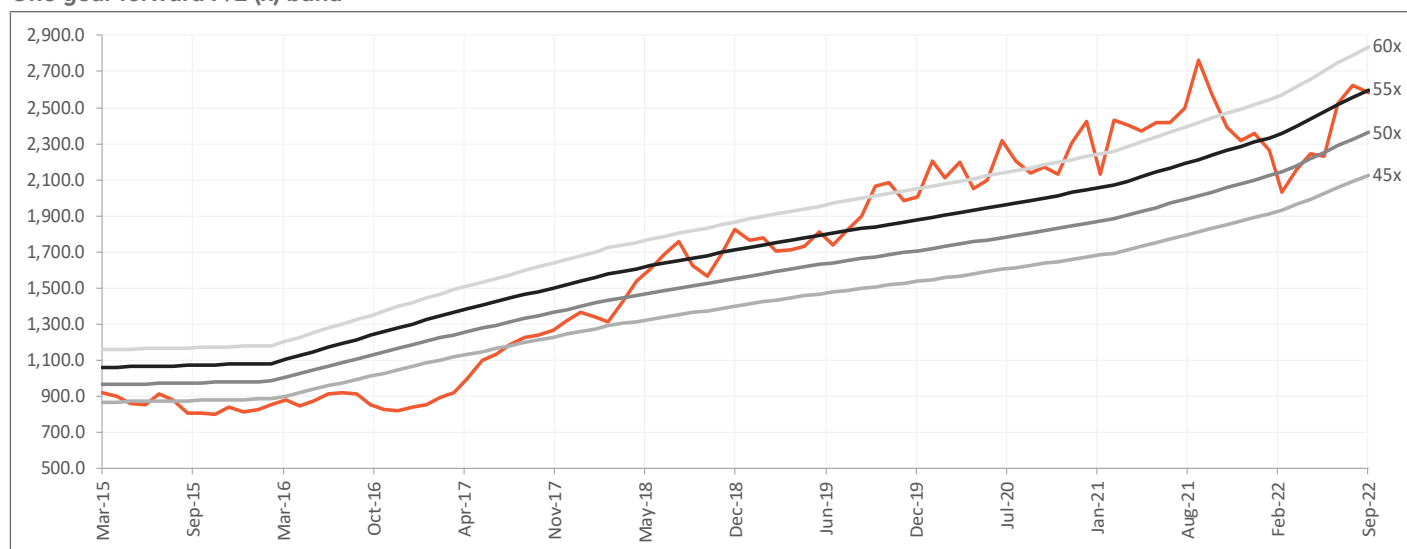
### ■ Company Outlook – Focus remains on achieving competitive volume growth

With a leadership position in over 80% of the portfolio and presence in more than 8 million stores, HUL is well poised to achieve healthy growth in the coming years. Recovery in the rural demand, improvement in demand for out-of-home categories with an improvement in mobility, addition of relevant products in portfolio, and sustained improvement in the penetration of key categories remain key growth drivers in the near term. The company continues to focus on achieving competitive volume growth with strategies in place in the near to medium term. Better product mix with a recovery in discretionary categories, calibrated price hikes, and operational efficiencies along with integration benefits would help margins to improve in the medium term. Management is targeting moderate margin improvement every year.

### ■ Valuation – Maintain Buy with an unchanged PT of Rs. 2,850

With a strong portfolio of brands, a formidable team with great focus supported by R&D and agile distribution and supply chain, HUL's management is focusing on enhancing the shareholder's value eventually. Recent correction in the key input prices augurs well for margins and will gradually boost volume growth in the absence of major price hikes in the quarters ahead. The stock is currently trading at 59.0x and 48.9x its FY2023E/24E earnings. Leading position in some high-penetrated categories, thrust on innovation and market development to remain competitive and drive consistent earnings growth makes it good pick from long-term perspective. We maintain a Buy recommendation on the stock with an unchanged price target of Rs. 2,850.

#### One-year forward P/E (x) band



Source: Company, Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Nestle India*	85.3	76.6	72.1	55.0	49.3	47.5	136.4	138.3	127.8
ITC	26.8	22.6	19.6	20.2	16.1	14.2	27.1	32.7	35.4
Godrej Consumer Products	51.1	45.3	38.7	37.4	33.5	29.0	17.3	17.9	19.3
HUL	67.2	59.0	48.9	47.0	41.2	34.4	24.1	27.1	31.8

Source: Company, Sharekhan estimates; \*Nestle is a calendar year ending company

## About company

HUL is India's largest FMCG company with a strong presence in the homecare and beauty and personal care categories. The company is a subsidiary of Unilever Plc (that holds a 67% stake in HUL), the world's largest consumer goods company present across 190 countries. With over 40 brands spanning 12 distinct categories such as personal wash, fabric wash, skin care, hair care, oral care, deodorants, colour cosmetics, beverages, ice creams, frozen desserts, and water purifiers, HUL is part of the everyday life of millions of consumers across India. The company's portfolio includes leading brands such as *Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, and Axe*.

## Investment theme

HUL has a leadership position in highlypenetrated categories such as soaps, detergents, and shampoos in India. Sustaining product innovation, entering into new categories, premiumisation, and increased distribution network remain some of the key revenue drivers for the company. The merger of GSK Consumer's HFD business will make HUL a formidable play in the HFD segment and will enhance the growth prospects of its small food business. A strong financial background, robust cash-generation ability, and leadership position in some key categories give HUL an edge over other companies and, hence, justify the stock's premium valuation.

## Key Risks

- ♦ **Slowdown in the demand environment:** Any slowdown in demand (especially in rural India) would affect sales of key categories, resulting in moderation of sales volume growth.
- ♦ **Increased input prices:** Palm oil and crude derivatives such as linear alkyl benzene are some of the key raw materials used by HUL. Any significant increase in the prices of some of these raw materials would affect profitability and earnings growth.
- ♦ **Increased competition in highly penetrated categories:** Increased competition in highly penetrated categories such as soaps and detergents would act as a threat to revenue growth.

## Additional Data

### Key management personnel

Sanjiv Mehta	Chairman and Managing Director
Ritesh Tiwari	Executive Director, Finance & IT and Chief Financial Officer
Willem Uijen	Executive Director, Supply Chain
Dev Bajpai	Executive Director, Legal and Corporate Affairs and Company Secretary

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.46
2	Blackrock Inc	1.33
3	Vanguard Group Inc	1.27
4	SBI Funds Management	1.12
5	JP Morgan and Chase	0.58
6	ICICI Prudential Life Insurance Co.	0.58
7	UTI Asset Management Co Ltd	0.40
8	Abrdn PLC	0.37
9	Norges Bank	0.31
10	ICICI Prudential Asset Management Co.	0.29

Source: Bloomberg (Old data)

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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by BNP PARIBAS

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