Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 25.80

Updated Oct 08, 2022

Medium Risk

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

Source: Morningstar

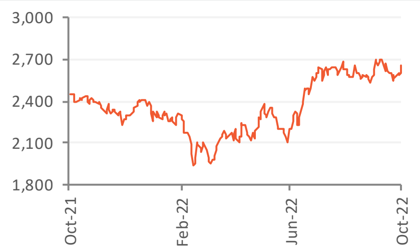
Company details

Market cap:	Rs. 6,23,816 cr
52-week high/low:	Rs. 2,733 / 1,902
NSE volume: (No of shares)	17.6 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	1.2	0.5	24.8	8.6
Relative to Sensex	1.4	-5.2	21.1	11.2

Sharekhan Research, Bloomberg

Hindustan Unilever Ltd

Resilient volume growth; margins to improve sequentially

Consumer Goods	Sharekhan code: HINDUNILVR

Reco/View: Buy ↔	CMP: Rs. 2,655	Price Target: Rs. 3,005 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Stock Update

Result Update

Summary

- Hindustan Unilever's (HUL) revenues and adjusted PAT grew by 16% and 9% in Q2FY2023. Domestic volumes growth stood at 4% versus mid-single digit volume decline for the industry.
- Market share gains in over 75% of portfolio and consistent growth in premium portfolio helped in posting resilient volume growth ahead of industry. Pricing growth will stay ahead of volume growth for a while. Recovery in rural demand will help improve volume growth trajectory.
- Raw material inflation stood at 22% in Q2FY2023 (price increases stood at 12%). Recent correction in palm oil prices, would help moderate raw material inflation and will lead to sequential gross margin improvement.
- Stock trades at 64.2x/54.1x its FY2023E/24E earnings. We maintain our Buy on the stock with a revised price target of Rs. 3,005.

Hindustan Unilever's (HUL) revenues and PAT grew by 16% to Rs. 14,751 crore and 9% to Rs. 2,386 crore, respectively in Q2FY2023. Growth was largely driven by price hikes (of ~12%) to mitigate the raw material price inflation of 22%. The domestic volume growth was steady at 4% (stood at 6% in Q1FY2023) was better than the industry's decline of 4-5% in Q2. The company continues to gain market share in more than 75% of portfolio, which along with sustained strong traction in premium products aided the company to post better sales volume during the quarter. The raw material inflation led to 580 bps y-o-y decline in the gross margins to 45.8% (and 154 bps decline on q-o-q basis), while lower advertisement spends and cost savings curb sharp decline in the OPM to 22.9%. Operating profit and Adjusted PAT grew by 8% and 9% y-o-y, respectively. One-time prior period tax credit of Rs. 258 crore led to 20% growth in the reported PAT.

Key positives

- Sales volume growth stood at 4% vs. industry volume decline of mid-single digit.
- HUL gained market share in over 75% of product portfolio across categories and across key price points.
- Home care business registered growth of 34%; despite of higher pricing in fabric wash segment registered double-digit volume growth.
- EBIT margins of food & refreshment business improved by 150 bps to 19.8% led by a better mix with foods business growth in double digits.

Key negatives

- Raw material inflation led to a 580 bps y-o-y decline in gross margins to 45.8%.

Management Commentary

- Rural market's value growth stood at mid-single digits, lower as compared to the urban market's high single value growth. Rural market volumes fell by 7-8% as compared to mid-single digit decline in urban market. The same stood flat on a three-year CAGR basis. Reduction in prices of broader baskets of commodities helping in cool-off in general inflation, better monsoon resulting in high crop production and improving job opportunities in the tier 1 and metros creating second stream of revenues for rural population will help rural demand to recover in the coming quarters. Urban demand for consumer good products has remained resilient will continue to stay ahead of rural in the near term.
- Management expects pricing growth to stay ahead of volume growth in the near term. Any recovery in the rural demand will give a boost to sales volumes and would help in reversing the trend going ahead.
- The company continues to gain market share in 75% of portfolio. It continued to gain market share in the fabric wash category (especially at the premium end of the portfolio), while it is gaining shares in the branded tea space, which help to achieve mid-single volume growth during the quarter. Management expects market share gains to continue in the coming quarters.
- Raw material inflation (post efficiencies) stood at 22% of Q2FY2023. The company has undertaken calibrated price increase of 12% in the product portfolio. With recent correction in palm oil prices, the company, we expect a moderation in raw material inflation. Hence, it expects gross margins to improve on sequential basis in Q3FY2023. However, it indicated of stepping up the media activities and hence advertisement spends are likely to increase in the second half. Thus, we expect OPM to hover at around 22-23% in the near term. Any fall in the commodity prices from the current might add-on to the margins in the quarters ahead.
- Market development through innovation in key categories, high investment behind brands (especially in low penetrated categories), scaling up sales through channels and distribution expansion remains some of the key drivers in the medium term.

Revision in estimates – We have slightly reduced our earnings estimates for FY2023 and FY2024 to factor in little lower than earlier expect OPM. We have introduced FY2025E earnings estimates through this note.

Our Call

View – Retain Buy with a revised price target of Rs. 3,005: HUL is focusing on premiumisation, market development to improve penetration in key categories and digitalisation to drive consistent double-digit earnings growth in the medium to long term. Strategy is also help it post consistent improvement in market share (in 75% of the product portfolio). HUL is currently trading at 64x/54x 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 a long-term perspective. Any uptick in rural demand might help company improve the volume growth in the quarters ahead. We maintain a Buy on the stock with a revised price target of Rs. 3,005 (rolling it over October 2024 earnings).

Key Risks

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

Valuation (standalone) Rs cr

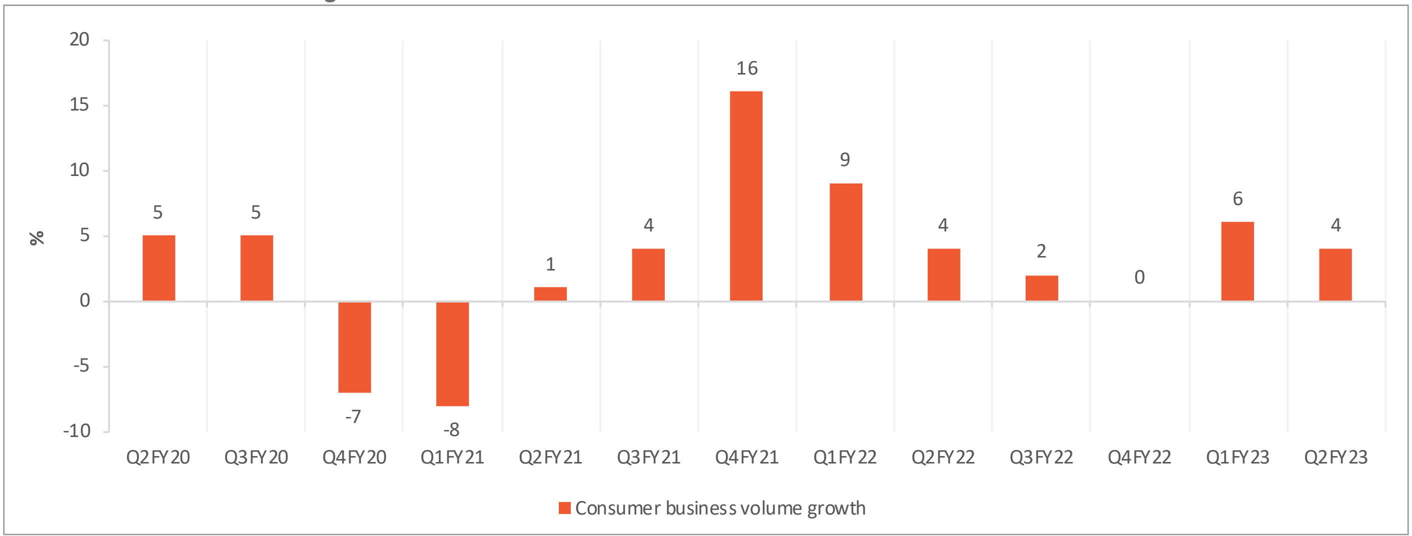
Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	46,546	51,693	60,064	67,679	77,108
OPM (%)	24.3	24.2	22.8	23.8	24.5
Adjusted PAT	8,136	8,845	9,719	11,540	13,682
Adjusted EPS (Rs.)	34.6	37.6	41.4	49.1	58.2
P/E (x)	76.7	70.5	64.2	54.1	45.6
P/B (x)	13.1	12.8	12.7	12.2	11.2
EV/EBIDTA (x)	54.5	49.4	44.8	38.0	32.1
RoNW (%)	29.3	18.4	19.9	23.0	25.6
RoCE (%)	37.1	24.1	26.3	30.6	34.1

Source: Company; Sharekhan estimates

Standalone revenue growth at 15.9% y-o-y; volume growth stood at 4%

Revenues grew by 15.9% y-o-y and 3.4% q-o-q in Q2FY2023 to Rs. 14,751 crore led by domestic sales volume growth of 4% y-o-y in-line with our expectation and ahead of industry volume decline of 4-5%. Around 75% of product portfolio continued to gain in value/volume market share. Revenues of the Home Care segment, personal care segment and foods business grew by 34%, 11.2% and 3.7% y-o-y, respectively. Gross margins contracted by 580 bps y-o-y to 45.8% mainly on account of higher input prices. Operating profit grew by 7.8% y-o-y to Rs. 3,377 crore. OPM declined by 172 bps y-o-y to 22.9% as impact of higher raw material prices was mitigated with lower advertisement expenses (down by 14.3% y-o-y). Tax adjustment of Rs. 258 crore for the previous year led to 20% y-o-y growth in the reported PAT. Profit after Tax before exceptional items (PAT BEI) grew by 9.1% y-o-y. The Board of Directors has declared an interim dividend of Rs. 17 per share for FY2023.

Consumer business' volume growth

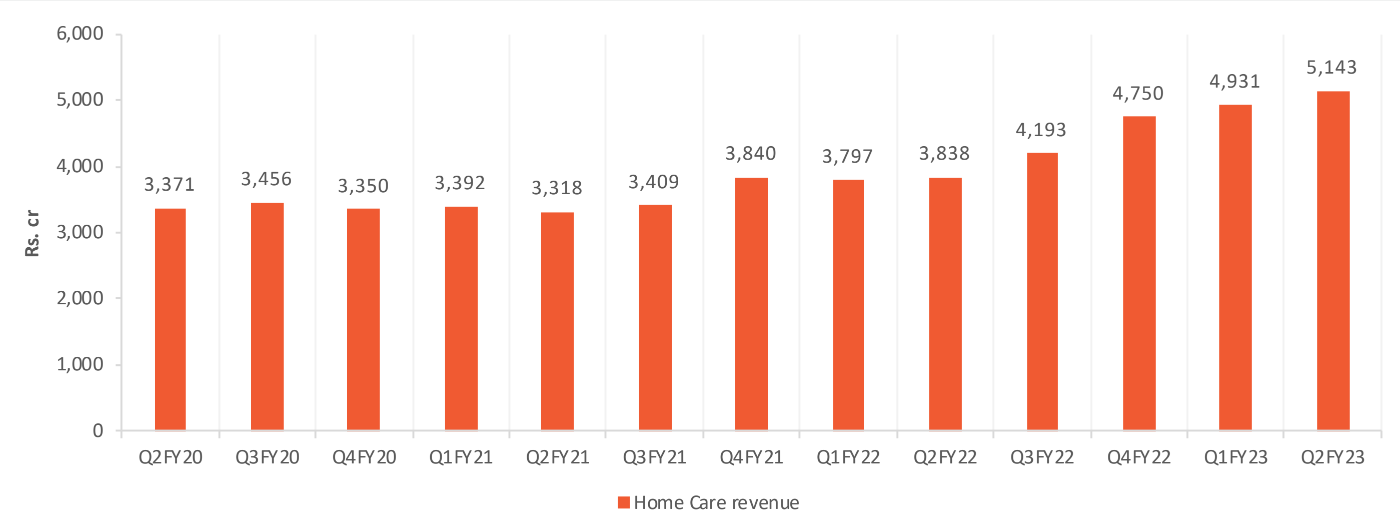


Source: Company, Sharekhan Research

Home Care – Revenue growth at 34% y-o-y supported by double-digit volume growth

The Home Care segment delivered a 34% y-o-y and 4.3% q-o-q growth in Q2FY2023 to Rs. 5,143 crore driven by strong double-digit volume growth. Both Fabric Wash and Household Care grew in high double-digits with all parts of the portfolio performing well. Fabric Wash registered high double-digit growth driven by premiumisation, market development actions and strong market share gains. Liquid Detergents and Fabric Sensations continued to outperform driven by effective market development actions (have crossed Rs. 2,000 crore revenues). Prices were hiked in a calibrated manner across Fabric Wash and Household Care portfolios as input cost continue to inflate at significantly high levels. During the quarter, Surf Excel Matic Power Concentrate and Comfort Sweet Dreams were launched. Household Care grew in high double-digit driven by dishwash. PBIT margins of the homecare business declined by 168 bps y-o-y to 17.3% due to sustained input cost inflation.

Home Care - Quarterly trend in revenue growth

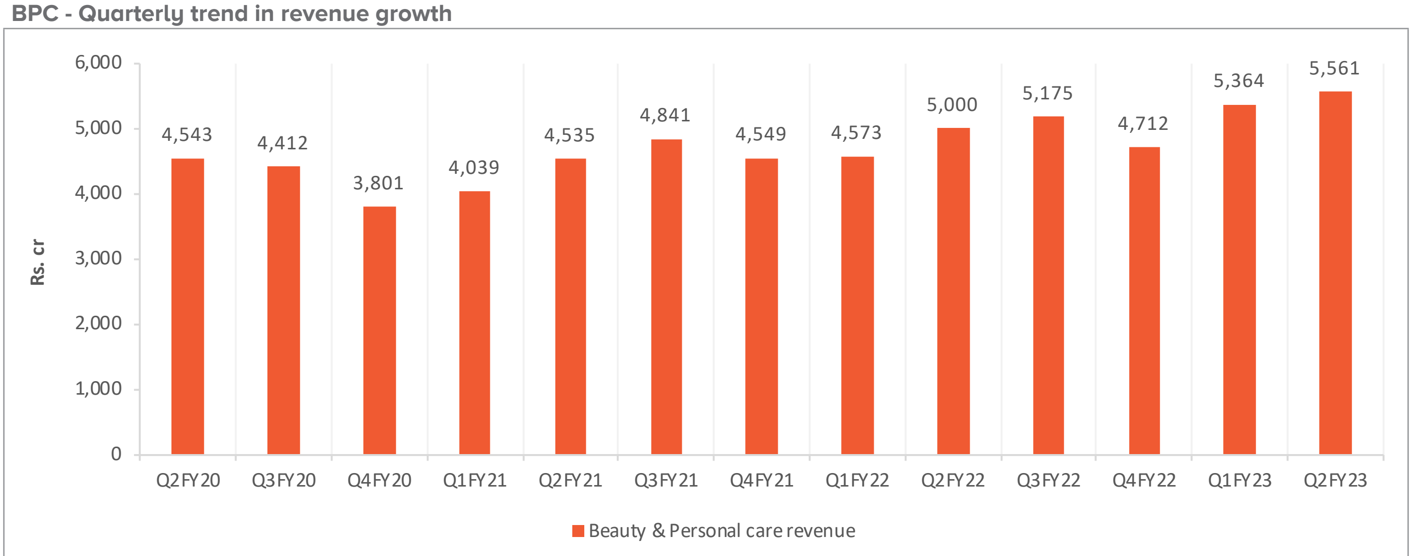


Source: Company, Sharekhan Research

Beauty and personal care (BPC) – Strong double-digit growth across categories

The beauty & personal care segment grew by 11.2% y-o-y and 3.7% q-o-q to Rs. 5,561 crore in Q2FY2023 aided by broad based growth across premium portfolio. Skin Cleansing delivered strong double-digit growth led by Beauty and Premium brands viz. Lux, Dove and Pears. Hair Care further strengthened its market leadership with strong broad-based performance. In Skin Care and Color Cosmetics, the premium portfolio outperformed, delivering double-digit growth. Premium Beauty Business unit, our incubator for digital brands, launched two new brands 'Acne Squad' and 'Find Your Happy Place'. Further, Simple's new Vitamin C range, Love Beauty & Planet's new range of bath and hair care products and Lakme Serum Foundation and Liquid Lip Color were launched. Oral Care delivered steady performance driven by Closeup. The PBIT margin of the BPC business declined by 270 bps y-o-y to 25.1% due to high input cost inflation.

BPC - Quarterly trend in revenue growth

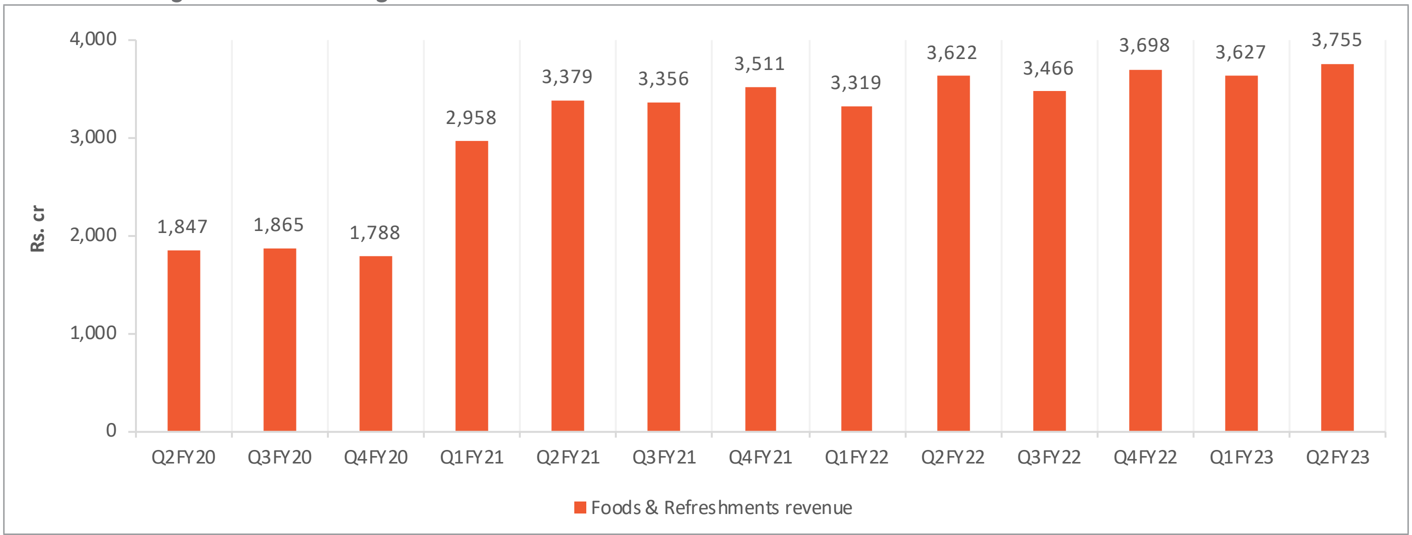


Source: Company, Sharekhan Research

Foods & Refreshments (F&R) – Steady performance with 3.7% y-o-y growth

Foods & Refreshment grew by 3.7% y-o-y to Rs. 3,755 crore driven by solid performance in Ice-cream, coffee and food solutions. Foods delivered strong double-digit growth with volumes growing in mid-teens, led by jams and Unilever Food Solutions business. Ice cream had another strong quarter with double-digit growth on a very high base led by robust performance across brands and formats. Tea cemented its market leadership and grew volumes in mid-single digits, while turnover declined marginally due to price cuts. Coffee continues to perform well delivering double-digit growth. Health Food Drinks continued to gain market share and penetration on the back of focused market development actions. Horlicks seeded new formats 'Nutri Gummies' and 'Diabetes Gummies', Kwality Wall's launched new flavours and Kissan launched Hazelnut Choco Peanut butter. The F&R segment's EBIT margins improved by 148 bps y-o-y to 19.8% led by better operating efficiencies.

BPC - Quarterly trend in revenue growth



Source: Company, Sharekhan Research

Results (standalone) Rs cr

Particulars	Q2FY23	Q2FY22	y-o-y (%)	Q1FY23	q-o-q (%)
Net revenue	**14,751.0**	**12,724.0**	**15.9**	**14,272.0**	**3.4**
Total Raw Material	7,994.0	6,158.0	29.8	7,514.0	6.4
Employee Expenses	709.0	582.0	21.8	597.0	18.8
Advertising and promotions	1,041.0	1,215.0	-14.3	1,328.0	-21.6
Other Expenses	1,630.0	1,637.0	-0.4	1,586.0	2.8
Total expenditure	11,374.0	9,592.0	18.6	11,025.0	3.2
Operating Profit	**3,377.0**	**3,132.0**	**7.8**	**3,247.0**	**4.0**
Other income	115.0	113.0	1.8	137.0	-16.1
EBITDA	3,492.0	3,245.0	7.6	3,384.0	3.2
Interest	25.0	26.0	-3.8	26.0	-3.8
PBDT	3,467.0	3,219.0	7.7	3,358.0	3.2
Depreciation	248.0	265.0	-6.4	260.0	-4.6
PBT	**3,219.0**	**2,954.0**	**9.0**	**3,098.0**	**3.9**
Tax	833.0	767.0	8.6	800.2	4.1
Adjusted PAT	**2,386.0**	**2,187.0**	**9.1**	**2,297.8**	**3.8**
Extra-ordinary items	-230.0	0.0	-	8.8	-
Reported PAT	**2,616.0**	**2,187.0**	**19.6**	**2,289.0**	**14.3**
Adjusted EPS (Rs.)	10.2	9.3	9.1	9.8	3.8
			bps		**bps**
GPM (%)	45.8	51.6	-580	47.4	-154
OPM (%)	22.9	24.6	-172	22.8	14
NPM (%)	16.2	17.2	-101	16.1	8
Tax rate (%)	25.9	26.0	-9	25.8	5

Source: Company, Sharekhan Research

Segmental performance Rs cr

Particulars	Q2FY23	Q2FY22	y-o-y (%)	Q1FY23	q-o-q (%)
Revenue					
Home Care	5,143.0	3,838.0	34.0	4,931.0	4.3
Beauty & Personal Care	5,561.0	5,000.0	11.2	5,364.0	3.7
Food & Refreshments	3,755.0	3,622.0	3.7	3,627.0	3.5
Total	**14,459**	**12,460**	**16.0**	**13,922**	**3.9**
PBIT					
Home Care	889.0	728.0	22.1	869.0	2.3
Beauty & Personal Care	1,396.0	1,390.0	0.4	1,411.0	-1.1
Food & Refreshments	744.0	664.0	12.0	578.0	28.7
Total	**3,029**	**2,782**	**8.9**	**2,858**	**6.0**
PBIT margins (%)					
Home Care	17.3	19.0	-168	17.6	-34
Beauty & Personal Care	25.1	27.8	-270	26.3	-120
Food & Refreshments	19.8	18.3	148	15.9	388
Total	**20.9**	**22.3**	**-138**	**20.5**	**42**

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – H2FY2023 to be relatively better compared to H1

Consumer goods companies would start seeing the benefit of correction in key input prices from Q3FY2023. Recent sharp correction in some key input prices helped companies to pass on benefits to the customer in the form of price cuts in highly-penetrated categories (such as soaps). This along with good monsoon in most parts of the country (except for some parts in the North and East) will help in good recovery in sales volumes in the coming quarters. A decline in commodity prices has also helped inflationary pressures to ease out boosting the consumer sentiments. Hence, some tailwinds are building up for the sector to improve its growth in the coming quarters. Overall, we expect H2FY2023 will be much better compared to H1FY2023 with expected recovery in sales volumes and OPM is also expected to improve from Q3FY2023. Low penetration 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.

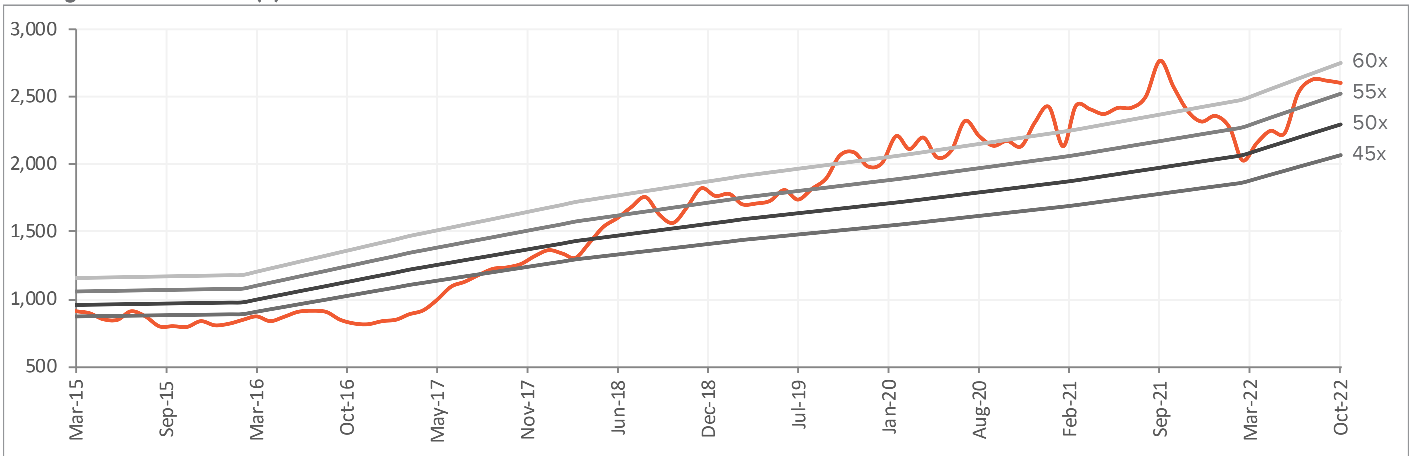
■ Company Outlook – Focus remains on achieving competitive volume growth

With a leadership position of over 80% of the portfolio and presence in more than 8 million stores, HUL is well poised to achieve good growth in the coming years. Recovery in 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. The management is targeting moderate margin improvement every year.

■ Valuation – Maintain Buy with a revised PT of Rs. 3,005

HUL is focusing on premiumisation, market development to improve penetration in key categories and digitalisation to drive consistent double-digit earnings growth in the medium to long term. Strategy is also help it post consistent improvement in market share (in 75% of the product portfolio). HUL is currently trading at 64x/54x 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 a long-term perspective. Any uptick in rural demand might help company improve the volume growth in the quarters ahead. We maintain a Buy on the stock with a revised price target of Rs. 3,005 (rolling it over October 2024 earnings).

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Nestle India*	84.3	77.3	63.3	54.3	51.1	42.6	138.3	129.4	125.8
ITC	28.0	23.8	20.6	21.2	17.0	15.0	27.1	32.6	35.3
Godrej Consumer Products	46.8	41.4	35.4	34.3	30.7	26.5	17.3	17.9	19.3
HUL	70.5	64.2	54.1	49.4	44.8	38.0	24.1	26.3	30.6

*Source: Company, Sharekhan estimates; *Values for Nestle India are for CY21, CY22E and CY23E*

About company

HUL is India's largest FMCG company with a presence of nearly 90 years in the country and a strong portfolio in the homecare and beauty and personal care categories. The company is a subsidiary of Unilever Plc (that holds a 62% stake in HUL), the world's largest consumer goods company present across 190 countries. With over 50 brands spanning 15 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 highly penetrated 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. Addition of GSK Consumer's HFD business will make HUL a formidable play in the HFD segment and will enhance the growth prospects of its relatively 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

Nitin Paranjpe	Chairman
Sanjiv Mehta	CEO and Managing Director
Ritesh Tiwari	Executive Director, Finance and IT and Chief Financial Officer
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	5.11
2	Blackrock Inc	1.32
3	SBI Funds Management	1.29
4	Vanguard Group Inc	1.29
5	JP Morgan and Chase	0.80
6	ICICI Prudential Life Insurance Co.	0.50
7	UTI Asset Management Co Ltd	0.42
8	abrdn plc	0.36
9	Norges Bank	0.31
10	UBS AG	0.30

Source: Bloomberg

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 detoriating 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

Sharekhan

by BNP PARIBAS

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