

# Hindustan Unilever (HINLEV)

CMP: ₹ 2,483

Target: ₹ 2,800 (13%)

Target Period: 12 months

**HOLD**

November 20, 2022

## Premiumisation, category development key to growth

**About the stock:** Hindustan Unilever (HUL) is the biggest FMCG company in India with more than 50 brands across categories. It is the market leader in fabric wash, personal wash, cosmetics, shampoos and many other categories.

- Presence in 15 categories with more than 50 brands, out of which 16 clock sales of more than ₹ 1000 crore
- The company has a distribution reach of ~9.0 million (mn) outlets out of total 11 mn with a direct network of more than 3.5 mn

**Analyst Meet takeaways:** We attended HUL's analyst meet to get a sense of backroom work behind mammoth scale of marketing, distribution & manufacturing.

- Market leadership in more than 85% of its business; i.e. market leader in eight categories and No. 2 in four categories
- Established 19 new brands in the last 10 years; market development categories contributing ₹ 10,000 crore (20%) to total sales
- Driving premiumisation; contribution up to 33% from 22% in a decade

**What should investors do?** HUL's share price has gone up by 96% over the past five years (from ₹ 1265 in November 2017 to ₹ 2481 levels in November 2022).

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value HUL at ₹ 2800 i.e. 60x P/E on FY24E EPS.

### Key triggers for future price performance:

- Home care categories have grown through premiumisation in the last decade with premium laundry contributing 52% of volumes in 2021 vs. 31% in 2010. The segment has seen market share gains of 500 bps
- Digital demand capture is 25% of total sales with e-commerce contributing 7-8% of sales. The biggest lever in digital demand capture is eB2B app 'Shikhar' utilised by 1 million stores
- In the last one year, HUL has taken a 12% price hike to counter 22% material inflation. It has been able to drive savings to the tune of 7% through cost rationalisation measure. HUL is looking to recoup lost gross margins

**Alternate Stock Idea:** Besides HUL, we like TCPL in our FMCG coverage.

- Strong innovation & premiumisation strategy in salt, tea, Sampann & Souful in the Indian market expected to drive sales & margins
- We value the stock at ₹ 950 with BUY rating



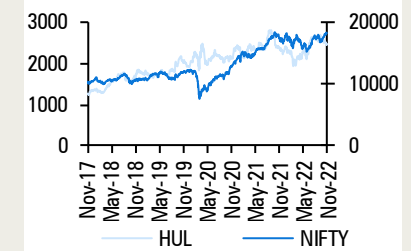
### Particulars

Particular (₹ crore)	Amount
Market Capitalization	5,83,414.8
Total Debt (FY22)	0.0
Cash and Investments (FY22)	7,128.0
EV	5,76,286.8
52 week H/L (₹)	2733 / 1901
Equity capital	235.0
Face value	₹ 1

### Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	61.9	61.9	61.9	61.9
FII	14.7	13.7	13.3	13.7
DII	10.9	11.6	12.2	11.7
Others	12.5	12.8	12.6	12.7

### Price Chart



### Recent event & key risks

- Termination of contract for GSK OTC product distribution from November 2023 (18 months ahead of time)
- **Key Risk:** (i) Higher crude, adverse currency movement may continue to pressurise margins ii) Rural growth revival may see faster volume recovery

### Research Analyst

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### Key Financial Summary

Key Financials	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Total Operating Income	38785.0	45996.0	51193.0	8.2	58753.6	63771.4	11.6%
EBITDA	9600.0	11324.0	12503.0	15.6	13901.8	15378.5	10.9%
EBITDA Margin %	25.1	25.0	24.8		24.1	24.5	
Net Profit	6738.0	7954.5	8818.0	11.9	9972.5	10934.1	11.4%
EPS (₹)	31.19	33.86	37.53	10.0	42.45	46.54	11.4%
P/E	79.6	73.3	66.2		58.5	53.4	
RoNW %	85.7	17.1	18.1		20.3	22.0	
RoCE (%)	89.5	18.9	20.2		22.8	25.1	

Source: Company, ICICI Direct Research

## Analyst meet key takeaways

### Analyst Meet: Market development categories contributing 20% of sales

- HUL has grown revenues at 9% CAGR with 5% volume CAGR in the last decade. It has seen 1000 bps operating margin improvement driven by premiumisation trend largely in fabric care and market development of margin accretive categories with large growth potential
- The company has introduced and established 19 new brands (including brand extensions & acquisitions) across brands in the last 10 years present. These include five digital first brands ('Simple', 'Baby-Dove', 'Love Beauty And Planet', 'ACNESQUAD' & 'Find Your Happy Place')
- Market development of many categories such as liquid fabric wash, matic detergent, hand & body wash, green tea, spice tea, spread & dressings, premium skin care, premium hair care and premium colour cosmetics, are now contributing ₹ 10,000 crore to sales
- Overall premium products are contributing 33% to sales in FY22 vs. 22% in FY12. Moreover, digital demand capture is close to 25% vs. nil a decade ago
- In beauty & personal care (BPC) segment, the company has seven ₹ 1000 crore turnover brands. i.e. 'Glow & Lovely', 'Lifebuoy', 'Dove', 'Ponds', 'Lux', 'Clinic-Plus' and 'Lakme'
- The company has adopted the strategy of Winning in Many India (WIMI), leveraging digital capabilities and innovations (new product & category launches) to grow ahead of market
- HUL is driving premiumisation in skin cleansing through accelerating liquid format adoption in hand & body wash. Moreover, continuing focus on shift from core (Lux, Lifebuoy) to premium (Dove) in bars
- Hair care (largely shampoos) category market share is highest in two decades. The company has gained 400 bps market share in the last three years. HUL is 3x its largest competitors in the category
- The company is developing market in skin cleansing, body lotions & hair conditions given penetration levels are merely 22%, 14% & 7%, respectively, with the opportunity of growing penetration to 2x in future
- The company is focusing on some nascent categories like light moisturisers, BB/CC creams, Sunscreen, body wash & intimate hygiene in the next decade. The penetration levels in these categories are in low single digit
- Home care category sales & profits have grown 2.6x & 7.3x in the last decade with 500 bps market share gains. The company saw 1000 bps improvement in segment margin in the last six years largely through premiumisation
- In home care, HUL's volume contribution from premium laundry has done up from 31% in 2010 to 52% in 2021 whereas mass laundry volume contribution has come down from 58% in 2010 to 33% in 2021. Dish wash volume has gone up from 11% to 15% in a similar period
- Pricing index in fabric wash is ranging from 0.8x to 2x. Surf Excel is poised to become a US\$1 bn brand. Fabric wash liquid (Surf excel & Rin) business is more than ₹ 2000 crore
- In the fabric wash category, 68% of overall market volume constitutes the mass segment whereas mid-price & premium category constitutes 18% & 14%, respectively. HUL's market share in the premium segment (Surf-Excel) is 3.5x of mass segment (Wheel) & 1.7x of mid-priced category (Rin)
- Foods & refreshment category growth has been at 8.5% CAGR in the last nine years whereas segment margin has improved from 720 bps in the similar period. It has seen market share gains of 450 bps in Brook Bond Tea, 350 bps in Kissan ketchup, 100 bps in Kwality Walls in the last six years. Horlicks & Boost brand have seen market share gains of 150 bps in the last one year

- The growth strategy in F&R remains similar to other categories. It is focusing on market development of new categories spreads (Mayonnaise, Peanut butter, Gummies, Green Tea and Coffee)
- In the last six years, HUL has gained significant market share in the tea segment becoming No. 1 in the segment in value market share. The company is driving growth in 'Taaza' brand by converting loose consumption to branded. Loose tea constitutes 30% of the total tea market
- In foods, Kissan & Knorr brands have been extended to adjacencies like peanut butter, Scheszwan Sauce, Pizza & Pasta Sauce. The company has been holding more than 10% market share in modern trade in mayonnaise and more than 15% market share in Peanut butter in South India
- HFD category has seen 200 bps volume market share gain since acquisition. HUL is driving penetration with 200 bps increase to 21.8% since acquisition. Direct coverage has increased by 3x, with e-commerce run rate up 11x and numeric distribution has increased to 1.3x. However, HFD category growth was adversely impacted by high inflation in the last three quarters. The company is driving penetration through ₹ 5 & ₹10 price point smaller packs
- HUL has terminated OTC product distribution contract of GSK brands (Crocic, ENO, Iodex, Otrivin & Sensodyne) from November 8, 2023 (1.5 years ahead of contract duration). The company generates ₹ 300 crore of gross income from these products along with some distribution expense. This would adversely impact earnings in FY24
- Commodity inflation in the last one year was unprecedented and many of these RMs are still closer to 10 years high. Palm oil & tea prices have softened from the peak. However, crude, soda ash, barley, milk & other key raw material prices remain at elevated levels
- HUL has been using Jarvis model to understand impact on volumes with price hikes and the company has been able to optimise price-volume equation with this data driven model
- The company is looking to build back gross margin, which is 600 bps below Septmeber-2021 level by bridging the price cost gap. It would scale up advertisement for core category growth, market development

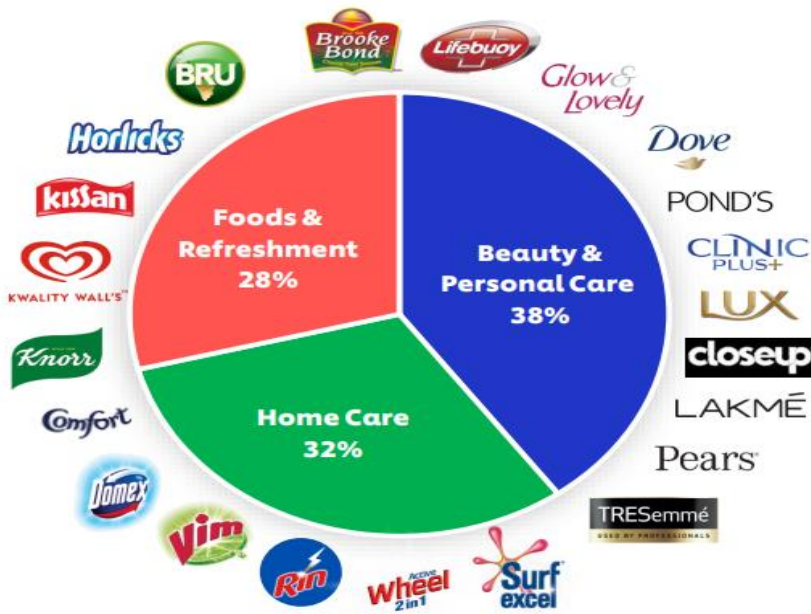
**Exhibit 1: Peer Comparison**

Sector / Company	CMP	TP	M Cap	Sales growth (%)			EBITDA Margins (%)			P/E(x)			RoE (%)			RoCE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Hindustan Unilever (HINLEV)	2483	2800	Hold	583415	11.3	14.8	8.5	24.8	24.1	24.5	66.2	58.5	53.4	18.1	20.3	22.0	20.2	22.8	25.1
Colgate (COLPAL)	1583	1610	Hold	43,606	5.3	5.4	8.2	30.9	29.3	29.5	39.9	41.0	37.4	62.2	62.9	70.8	77.8	82.6	92.7
Tata Consumer Products (TAT)	776	950	Buy	70169	7.1	10.9	10.4	13.8	13.9	15.0	70.4	55.7	45.3	7.0	8.2	9.7	8.4	9.2	10.8
ITC Limited (ITC)	341	405	Buy	4,29,858	23.1	19.4	6.8	32.0	32.5	35.5	27.5	23.9	20.5	24.5	27.1	29.7	31.4	35.3	38.8

Source: Company, ICICI Direct Research

HUL has seen mid-single digit volume growth along with similar pricing growth over the years. The biggest reason for its outperformance in the last decade has been 1000 bps margin expansion by driving premiumisation trend in fabric care, skin cleanings, hair care & foods. The company has also established many nascent categories with low penetration and high opportunity size. HUL would be driving growth over the next decade through these categories. Though acquisition of nutrition portfolio has not seen any major gains in the last three years, the company is looking to drive penetration led growth in this segment through smaller packs. We believe HUL would be able to leverage Horlicks, boost brands by extending these in other related products in health food space. With the softening of some commodity prices and expected cool off in other commodities, the company would be able to build back gross margins in the next few quarters and increase spending towards advertisement & promotions in future. We believe HUL is poised to leverage its brands, mammoth distribution network & digital capabilities to drive growth & improve margin. We maintain our HOLD rating and target price of ₹ 2800/share

Exhibit 1: Segment revenue contribution & major brands



Source: Company, ICICI Direct Research

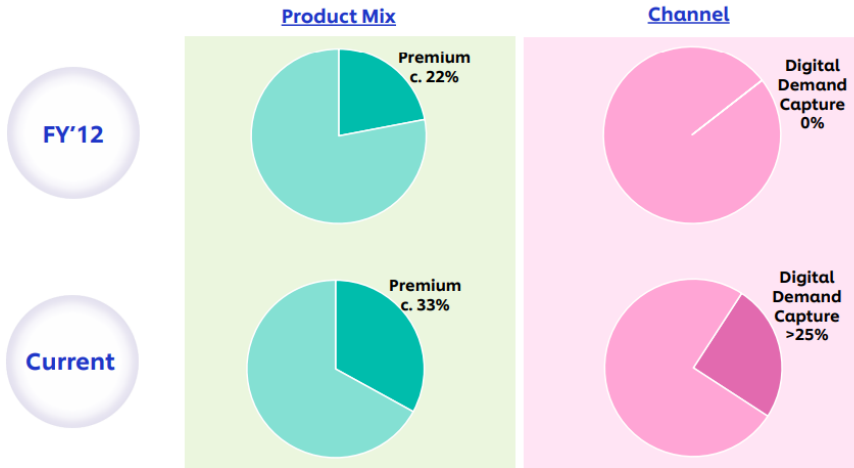
Exhibit 2: Develops 19 new brands in last 10 years including five digital first brands

### 19 New brands in last 10 years



Source: Company, ICICI Direct Research

Exhibit 3: Premiumisation results in 1000 bps margin expansion in last decade



Source: Company, ICICI Direct Research

Exhibit 4: Market development categories contributing ₹10,000 crore of HUL's sales



Source: Company, ICICI Direct Research

Exhibit 5: Seven ₹ 1000 crore turnover brands in BPC segment

**7 Iconic Brands with Turnover > 1000 Cr**

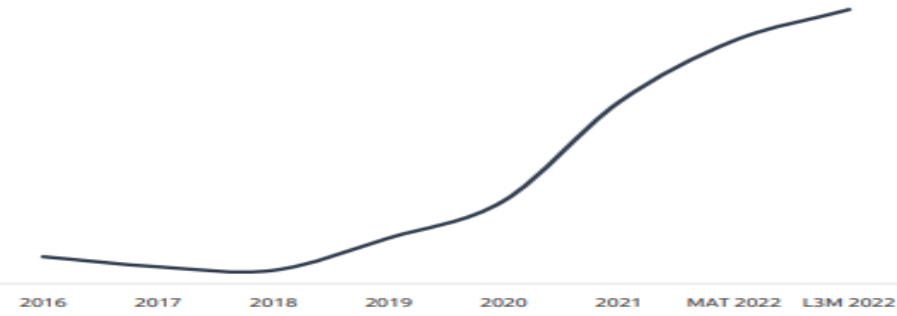


Source: Company, ICICI Direct Research



Exhibit 6: Hair care 400 bps market share gain in last three years

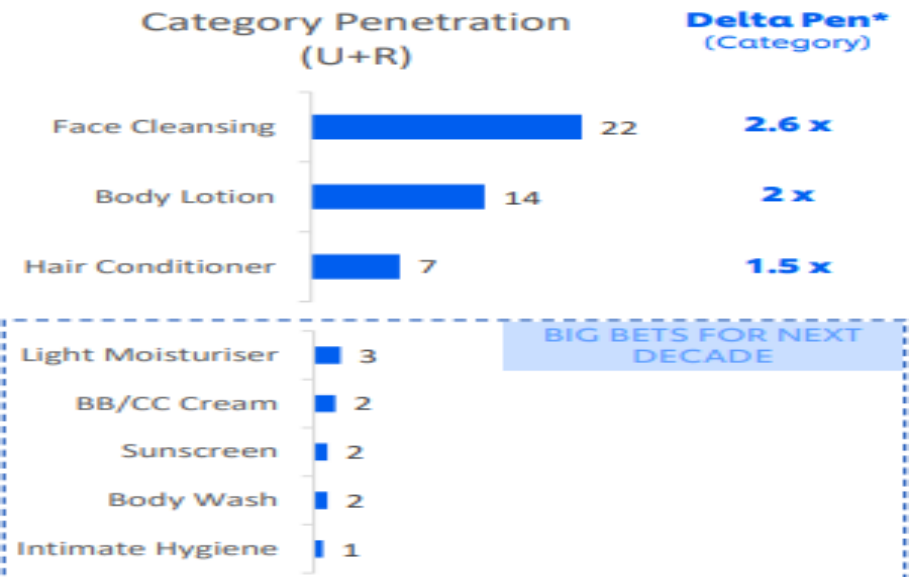
**Highest Share in Hair Care in 2 Decades  
+400 bps in 3 years**



**We are 3x of our Largest Competitors**

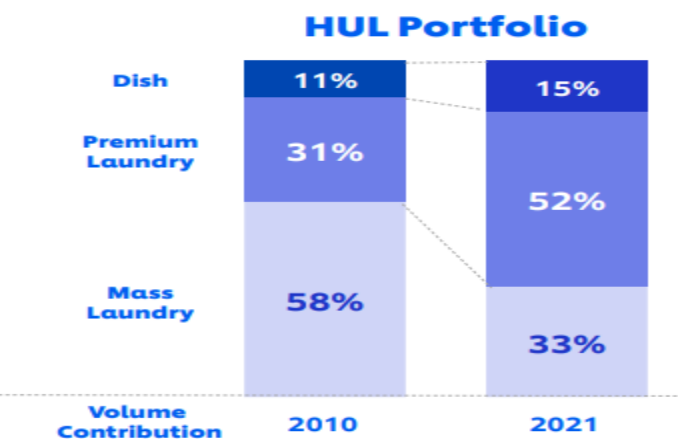
Source: Company, ICICI Direct Research

Exhibit 7: Establishing categories for future; most have low penetration & high opportunity size



Source: Company, ICICI Direct Research

Exhibit 8: Premiumisation in home care scales up segment margins by 1000 bps in last six years



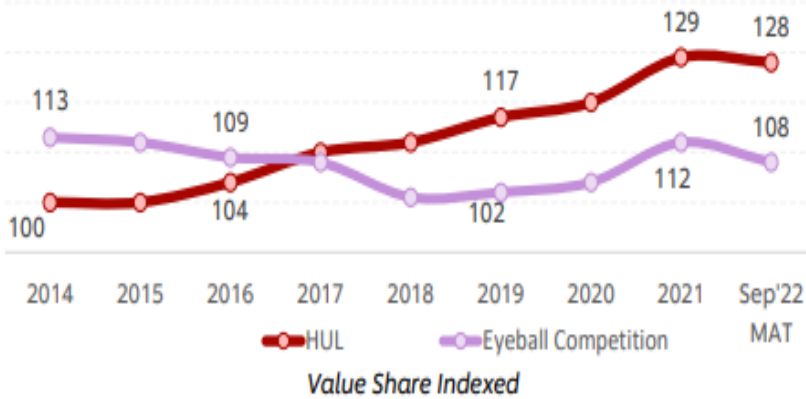
Source: Company, ICICI Direct Research

Exhibit 9: Premium fabric care market still low in volumes with high growth potential ; liquid detergents contributing ₹ 2000 crore to sales



Source: Company, ICICI Direct Research

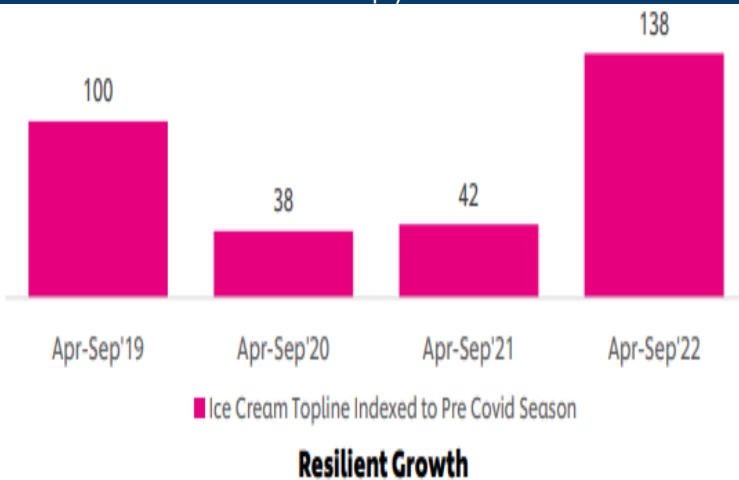
Exhibit 10: Gains market share & leadership in tea segment in last six years



**Clear Market Leadership with Long Term Share Gains**

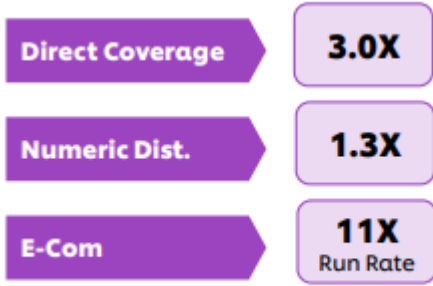
Source: Company, ICICI Direct Research

Exhibit 11: Ice cream sales recover sharply from Covid lows



Source: Company, ICICI Direct Research

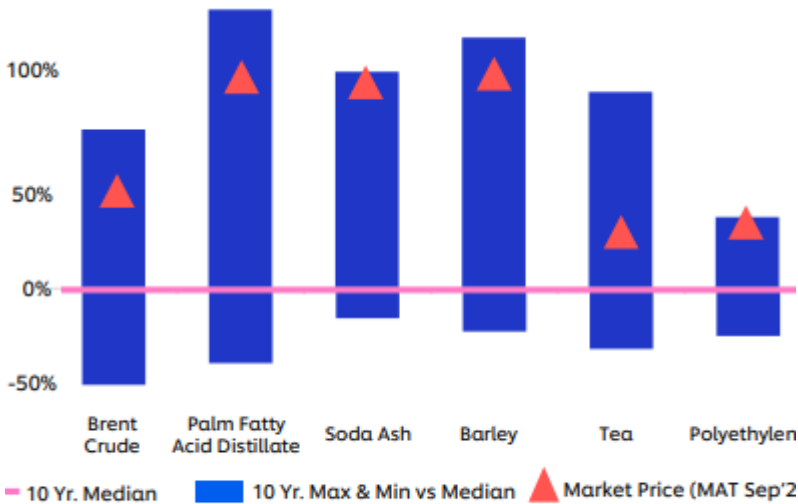
Exhibit 12: HFD category distribution enhances post acquisition



Sep'22 vs. pre day 1

Source: Company, ICICI Direct Research

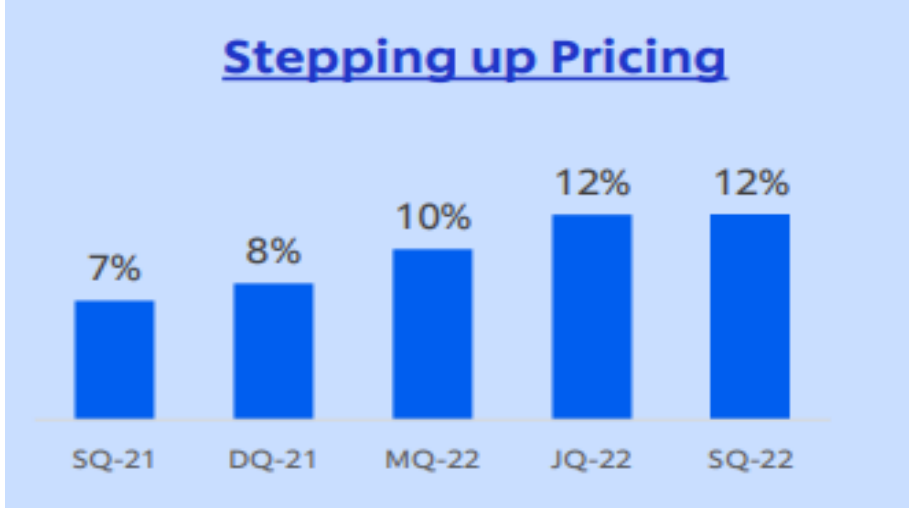
Exhibit 13: Most commodities still remain at elevated levels



USD strengthening adding to inflation

Source: Company, ICICI Direct Research

Exhibit 14: Price hikes taken in last one year to counter RM inflation

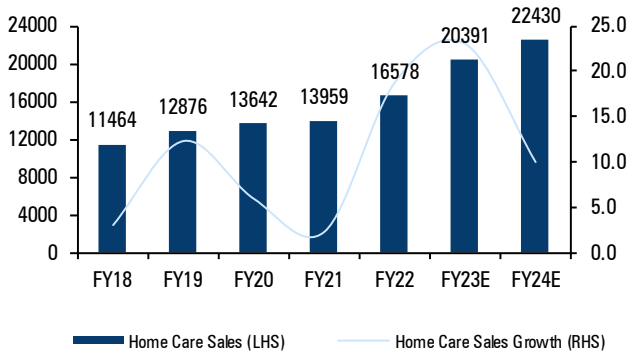


Source: Company, ICICI Direct Research



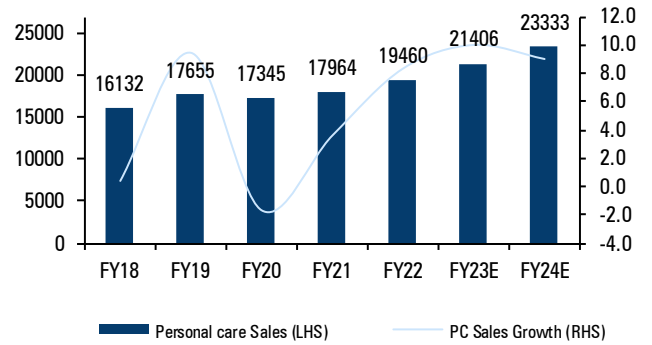
### Key Metrics

**Exhibit 15: Home care revenue (₹ crore), YoY growth (%)**



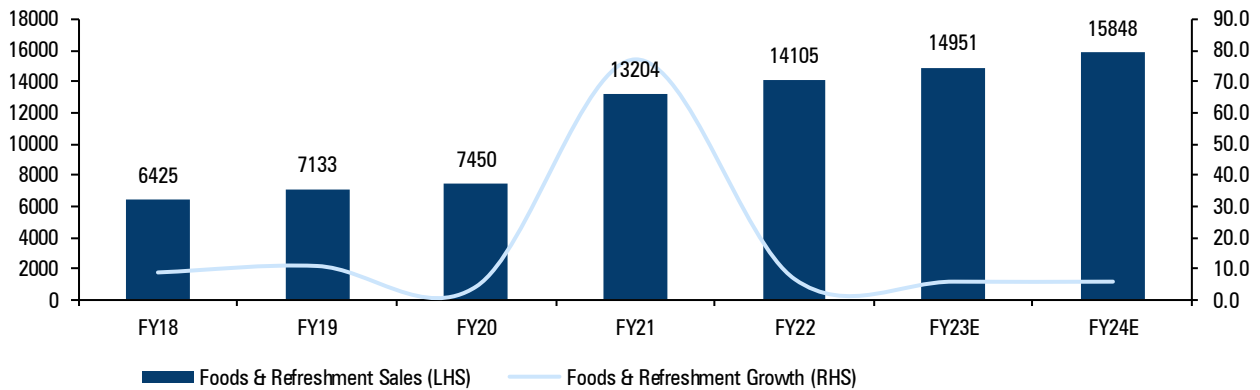
Source: ICICI Direct Research, Company

**Exhibit 16: Personal care revenue (₹ crore) & growth (%) trend**



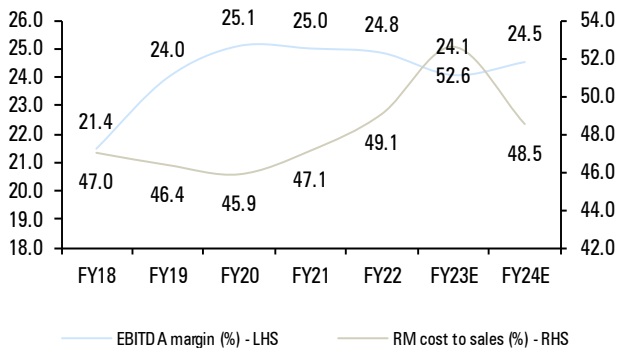
Source: ICICI Direct Research, Company

**Exhibit 17: Foods & refreshment revenue (₹ crore) and growth (%) trend**



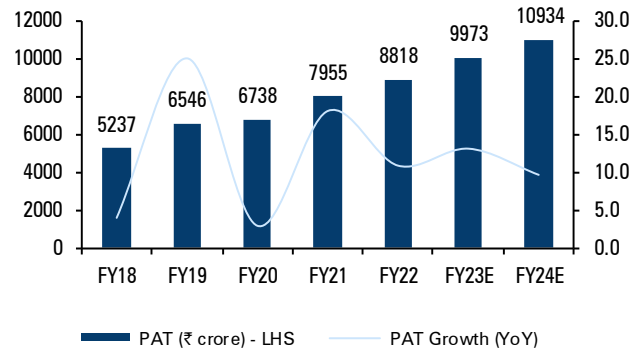
Source: Company, ICICI Direct Research

**Exhibit 18: EBITDA margin and raw material trend**



Source: Company, ICICI Direct Research

**Exhibit 19: PAT to grow at CAGR of 11.4% in FY22-24E**



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 20: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total operating Income</b>	<b>45,996.0</b>	<b>51,193.0</b>	<b>58,753.6</b>	<b>63,771.4</b>
Growth (%)	18.6	11.3	14.8	8.5
Raw Material Expenses	21,677.0	25,124.0	30,922.1	30,952.3
Employee Expenses	2,229.0	2,399.0	2,543.2	3,074.1
Marketing Expenses	4,737.0	4,718.0	4,913.0	6,461.8
Administrative Expenses	0.0	0.0	2,427.6	3,011.3
Other expenses	6,029.0	6,449.0	4,046.0	4,893.4
Total Operating Expenditure	34,672.0	38,690.0	44,851.9	48,392.9
<b>EBITDA</b>	<b>11,324.0</b>	<b>12,503.0</b>	<b>13,901.8</b>	<b>15,378.5</b>
Growth (%)	18.0	10.4	11.2	10.6
Depreciation	1,012.0	1,025.0	1,098.0	1,140.3
Interest	108.0	98.0	88.2	79.4
Other Income	513.0	393.0	440.2	493.0
Exceptional Income	-226.5	-34.0	-34.0	-34.0
PBT	10,490.5	11,739.0	13,121.7	14,617.8
Total Tax	2,536.0	2,921.0	3,149.2	3,683.7
<b>PAT</b>	<b>7,954.5</b>	<b>8,818.0</b>	<b>9,972.5</b>	<b>10,934.1</b>
Growth (%)	18.1	10.9	13.1	9.6
EPS (₹)	33.9	37.5	42.4	46.5

Source: Company, ICICI Direct Research

Exhibit 21: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	8,123.0	9,019.0	9,972.5	10,934.1
Add: Depreciation	1,069.0	1,040.0	1,098.0	1,140.3
(Inc)/dec in Current Assets	-866.0	-992.0	-1,481.1	134.8
Inc/(dec) in CL and Provisions	810.0	203.0	1,249.4	2,072.6
<b>CF from operating activities</b>	<b>8,957.0</b>	<b>8,964.0</b>	<b>10,838.8</b>	<b>14,281.8</b>
(Inc)/dec in Investments	-1,467.0	-1,096.0	-100.0	-100.0
(Inc)/dec in loans & advances	-532.0	-770.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	0.0	0.0	-1,097.0	-1,140.3
Others	632.0	134.0	-111.0	24.4
<b>CF from investing activities</b>	<b>(1,367.0)</b>	<b>(1,732.0)</b>	<b>(1,333.0)</b>	<b>(1,240.9)</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-8,811.0	-7,519.0	-9,400.0	-10,340.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-469.0	-465.0	0.0	0.0
<b>CF from financing activities</b>	<b>(9,280.0)</b>	<b>(7,984.0)</b>	<b>(9,400.0)</b>	<b>(10,340.0)</b>
Net Cash flow	-1,390.0	-752.0	105.8	2,700.9
Opening Cash	3,130.0	1,740.0	988.0	1,093.8
<b>Closing Cash</b>	<b>4,321.0</b>	<b>3,618.0</b>	<b>3,723.8</b>	<b>6,424.7</b>

Source: Company, ICICI Direct Research

Exhibit 22: Balance Sheet				
	₹ crore			
(Year-end March)	FY21E	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	235.0	235.0	235.0	235.0
Reserve and Surplus	47,199.0	48,525.0	49,097.5	49,691.6
Total Shareholders funds	47,434.0	48,760.0	49,332.5	49,926.6
Other Non Current Liabilities	2,304.0	2,339.0	2,339.0	2,339.0
Long Term Provisions	1551.0	1553.0	150.0	164.4
<b>Total Liabilities</b>	<b>57,275.0</b>	<b>58,793.0</b>	<b>57,972.5</b>	<b>58,591.0</b>
<b>Assets</b>				
Gross Block	9,305.0	10,357.0	10,557.0	10,757.0
Less: Acc Depreciation	3,519.0	4,544.0	4,544.0	4,544.0
Net Block	5,786.0	5,813.0	6,013.0	6,213.0
Capital WIP	623.0	901.0	700.0	500.0
Total Fixed Assets	6,409.0	6,714.0	6,713.0	6,713.0
Goodwill on Consolidation	17316	17316	17316	17316
Net Intangible Assets	27,925.0	27,905.0	27,905.0	27,905.0
Other Investments	312.0	612.0	712.0	812.0
Inventory	3,383.0	3,890.0	4,750.7	4,297.0
Debtors	1,648.0	1,932.0	2,375.3	2,234.4
Loans and Advances	0.0	0.0	0.0	0.0
Investments & Other CA	1,605.0	1,697.0	1,583.6	1,718.8
Cash	4,321.0	3,618.0	3,723.8	6,424.7
Total Current Assets	13,640.0	14,647.0	16,233.9	18,800.1
Creditors	8,627.0	8,864.0	10,134.8	12,031.6
Provisions & other CL	2,214.0	2,080.0	2,058.6	2,234.4
Total Current Liabilities	10,841.0	10,944.0	12,193.4	14,266.1
Net Current Assets	2,799.0	3,703.0	4,040.5	4,534.0
Others Non-Current Assets	1,133.0	1,261.0	1,286.0	1,311.0
<b>Application of Funds</b>	<b>57,275.0</b>	<b>58,793.0</b>	<b>57,972.5</b>	<b>58,591.0</b>

Source: Company, ICICI Direct Research

Exhibit 23: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	33.9	37.5	42.4	46.5
Cash EPS	38.2	41.9	47.1	51.4
BV	201.9	207.5	210.0	212.5
DPS	27.0	34.0	40.0	44.0
Cash Per Share	18.4	15.4	15.8	27.3
<b>Operating Ratios (%)</b>				
EBITDA/Total Operating Income	25.0	24.8	24.1	24.5
PBT Margin	23.3	23.0	22.4	23.0
PAT Margin	17.3	17.2	17.0	17.1
Inventory days	27	28	30	25
Debtor days	13	14	15	13
Creditor days	69	64	64	70
<b>Return Ratios (%)</b>				
RoE	17.1	18.1	20.3	22.0
RoCE	18.9	20.2	22.8	25.1
<b>Valuation Ratios (x)</b>				
P/E	73.3	66.2	58.5	53.4
EV / EBITDA	51.1	46.4	41.7	37.5
EV / Net Sales	12.8	11.5	10.0	9.2
Market Cap / Sales	12.9	11.6	10.1	9.3
Price to Book Value	12.3	12.0	11.8	11.7
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	1.0	1.0	0.9
<b>Quick Ratio</b>	<b>0.5</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>

Source: Company, ICICI Direct Research

Exhibit 24: ICICI Direct coverage universe (FMCG)

	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Colgate (COLPAL)	1,583	1,610	Hold	43,606	39.6	38.6	42.3	39.9	41.0	37.4	8.6	8.2	7.5	77.8	82.6	92.7	62.2	62.9	70.8
Dabur India (DABIND)	549	700	Buy	97,076	9.9	10.9	12.7	55.7	50.5	43.3	8.9	8.2	7.2	24.9	24.6	26.5	20.8	21.4	22.6
Hindustan Unilever (HINLEV)	2,483	2,800	Hold	5,83,415	37.5	42.4	46.5	66.2	58.5	53.4	11.6	10.1	9.3	20.2	22.8	25.1	18.1	20.3	22.0
ITC Limited (ITC)	341	405	Buy	4,29,858	12.4	14.2	16.7	27.5	23.9	20.5	7.3	6.1	5.7	31.4	35.3	38.8	24.5	27.1	29.7
Jyothy Lab (JYOLAB)	192	205	Hold	7,076	4.3	6.2	7.8	45.1	30.7	24.7	3.3	2.9	2.6	18.7	26.2	31.3	16.6	23.0	26.8
Marico (MARLIM)	486	560	Hold	69,587	9.7	10.2	11.2	50.0	47.6	43.2	7.3	7.1	6.5	41.2	43.6	46.7	37.5	38.3	41.0
Nestle (NESIND)	19,925	22,400	Hold	1,90,912	222.4	255.8	301.1	89.6	77.9	66.2	13.0	11.4	10.3	58.7	57.1	63.0	111.3	103.6	110.3
Patanjali Foods (RUCSOY)	1,228	1,750	Buy	50,721	27.3	30.9	43.5	45.0	39.7	28.3	2.1	1.7	1.5	13.2	15.6	17.3	13.1	11.3	14.2
Tata Consumer Products (TAT)	776	950	Buy	70,169	11.0	13.9	17.1	70.4	55.7	45.3	5.6	5.1	4.6	8.4	9.2	10.8	7.0	8.2	9.7
Varun Beverage (VARBEV)	1,144	1,235	Hold	71,889	17.2	23.2	26.8	66.4	49.2	42.7	8.1	5.6	5.0	17.1	30.3	33.5	18.3	29.0	29.4
VST Industries (VSTIND)	3,541	3,725	Hold	5,615	207.4	228.7	248.3	17.1	15.5	14.3	4.8	4.4	4.0	39.2	43.7	49.9	30.0	33.3	37.5
Zydus Wellness (ZYDWEL)	1,558	2,100	Buy	10,308	48.5	56.5	70.3	32.1	27.6	22.2	5.1	4.5	4.1	6.1	7.0	8.3	6.4	7.2	8.6

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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