



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	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 Oct 08, 2022

25.8

Medium Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 6,15,522 cr
52-week high/low:	Rs. 2,733 / 1,902
NSE volume: (No of shares)	16.0 lakh
BSE code:	500696
NSE code:	HINDUNILVR
Free float: (No of shares)	89.5 cr

Shareholding (%)

Promoters	61.9
FII	14.6
DII	11.8
Others	11.72

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.0	1.9	14.9	11.8
Relative to Sensex	0.8	-4.4	2.0	2.8

Sharekhan Research, Bloomberg

Hindustan Unilever Ltd

Better growth outlook ahead

Consumer Goods

Sharekhan code: HINDUNILVR

Reco/View: Buy



CMP: Rs. 2,620

Price Target: Rs. 3,005



Upgrade



Maintain



Downgrade

Summary

- We re-iterate a Buy on Hindustan Unilever (HUL) with an unchanged price target (PT) of Rs. 3,005. The stock trades at 53x/45x its FY2024/25E EPS, which is at a discount to its last five-year historical average.
- HUL remains a preferred pick among large consumer goods companies because of its leading position in 85% of the portfolio (helps it take pricing actions in highly penetrated categories), gain in market share (consistent market share improvement despite demand slowdown), expanded distribution reach of 9 million outlets, strong cash flow generation and consistent dividend payouts.
- The company is focusing on premiumisation, market development, distribution expansion and digitalisation to drive consistent double-digit earnings growth in the medium to long run. However, a large focus will be on strong topline growth with moderate expansion in OPM.
- A gradual revival in the rural economy, good traction to winter care portfolio and price cuts post raw material price correction will help posting better volume growth in H2FY2023 compared to H1. Significant decline in prices of key inputs (including palm oil) will help the OPM to improve from Q3FY2023.

Hindustan Unilever (HUL) is one of the leading consumer goods companies in India with portfolio of over 50 purposeful brands having market leadership in 85% of the portfolio. Revenues and PAT grew at a CAGR of 9% and 13% over the last ten years (with OPM rising 1000 bps). The company is a big believer in the India growth story with low penetration, lower per capita consumption versus some of the developing countries and rural consumption much lower compared to urban markets providing large opportunities for consumer goods companies to achieve consistent earnings growth. HUL with distribution reach of 9 million outlets (2.2 million direct reach) and strong growth strategies including 1) market development 2) premiumisation 3) creating portfolio for future 4) developing future fit supply chain network and 5) Digitalisation is poised to achieve consistent double-digit earnings growth over the next 10 years. On the other hand, the company is cautiously optimistic about the near-term outlook with a drop in the key raw material prices while demand is likely to gradually pick up with inflation softening.

- Strategies playing well; to help drive consistent growth over the next decade:** HUL's key growth strategies of market development, premiumisation, distribution expansion and leading with the channels of future are playing well for the company helped it to achieve double digit earnings growth (13% CAGR) with close to double digit revenue growth and 1000 bps expansion in the OPM over FY2012-22. This is despite the major roadblocks such as demonetisation, implementation of GST and two years of COVID-led uncertainties. Market development strategy aided in adding Rs. 10,000 crore in last 10 years, premium product contribution has gone up to 33% from 22% in FY12 and 25% of the order is generated digitally.
- Focus remains on consistent market share gains:** With strong portfolio of purposeful brands and strong presence across key categories, the company has a leading position in 85% of the product portfolio. Prudent strategies aided the company to gain consistent market share in 75% of the portfolio in the recent times. The management focuses on gaining continuous share in some of its underpenetrated categories to drive consistent growth in the coming years.
- Recovery will be gradual in the near term:** Rural slowdown and commodity inflation was a drag on HUL's performance for past three quarters. Drop in consumer inflation and improved agri income would help rural volumes to pick in the coming quarters. We expect rural demand to come back on track from Q4FY2023. Though the prices of key inputs such as palm oil (down by 22% y-o-y and flat q-o-q) and crude oil have corrected from its high, the rupee depreciation will lead to gradual improvement in the margins. Cost-saving initiatives undertaken by the company would help it to post better OPM compared to H1FY2023. However, if the commodity prices consistently correct from the current level, the margin picture would be much better in FY2024. In the medium term, the company is expecting OPM coming back to 24-25%.

Our Call

View: Retain Buy with an unchanged PT of Rs. 3,005 – With strategies in place, HUL is focusing achieving consistent double digit revenue growth with modest expansion in the OPM in the medium to long term. We expect HUL's revenues and PAT to grow at CAGR of 14% and 16% respectively over FY2022-25E. HUL remains preferred pick in the consumer good space because of its leading position in 85% of the portfolio (help taking pricing actions in highly penetrated categories), gain in market share (consistent market share improvement despite demand slowdown), expanded distribution reach of 9 million outlets, strong cash flow generation and consistent dividend payout. The stock is trading at 53x/45x its FY2024/25E EPS, which is at discount to its last five-year historical average. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 3,005.

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)

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)	75.6	69.6	63.3	53.3	45.0
P/B (x)	13.0	12.6	12.5	12.0	11.1
EV/EBIDTA (x)	53.8	48.7	44.2	37.5	31.6
RoNW (%)	29.3	18.4	19.9	23.0	25.6
RoCE (%)	37.1	24.1	26.3	30.6	34.1

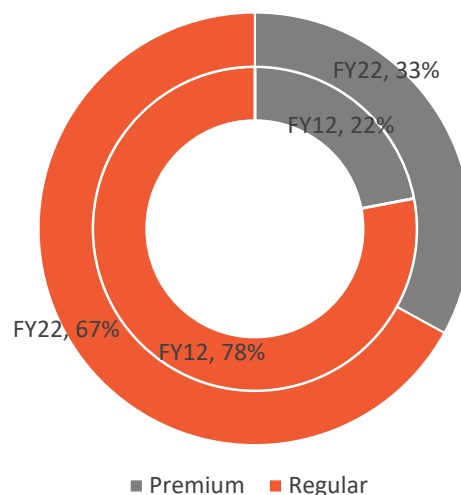
Source: Company; Sharekhan estimates

Strategies playing well; to help drive consistent growth over the next decade

HUL's key growth strategies of market development, premiumisation, expansion of distribution reach and leading with the channels of future are playing well for the company and helped it to achieve double digit earnings growth (13% CAGR) with close to double digit revenue growth and 1000 bps expansion in the OPM over FY2012 to FY2022. This is despite the major roadblocks such as demonetisation, implementation of GST and two years of COVID-led uncertainties. Market development strategy aided in adding Rs. 10,000 crore in last 10 years, premium product contribution has gone up to 33% from 22% in FY12 and 25% of the order is generated digitally.

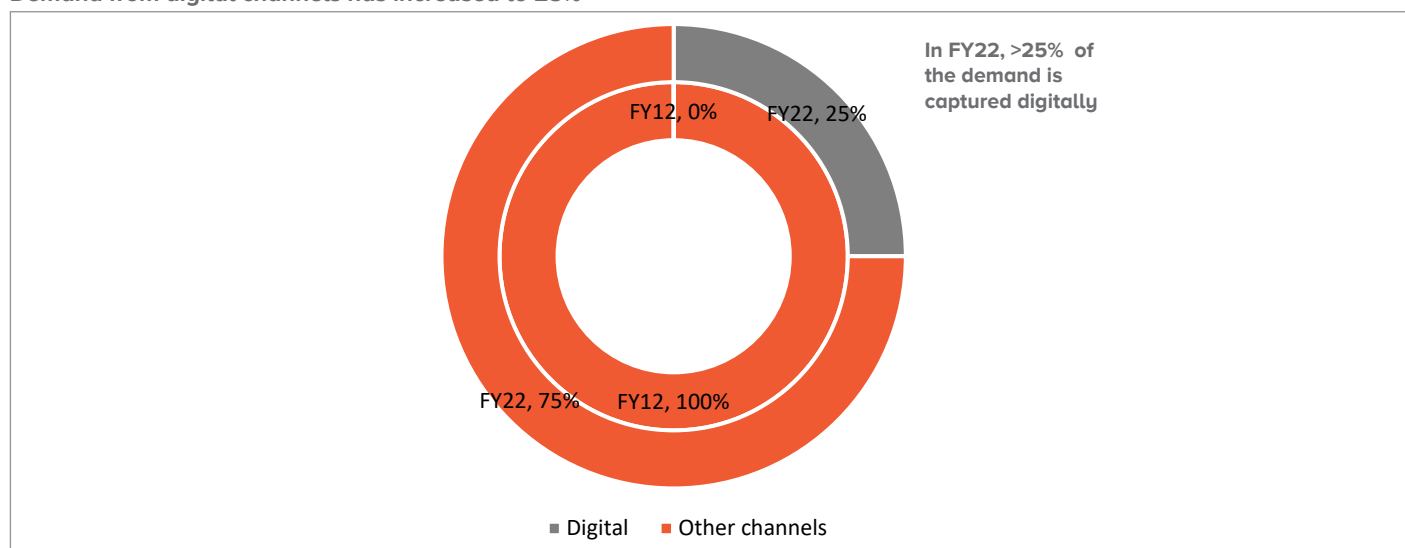
- ♦ **Market development strategy performing well:** Model of seeding categories, providing access packs, enhancing physical reach, persuasive communication and large consume connect. The strategy aided in contributing Rs. 10,000 crore to its turnover in last 10 years.
- ♦ **Premiumisation:** Premium product contribution has increased to 33% in FY2022 from 22% in FY2012. Growing 2x ahead of the market in its newer & premium portfolio led by premiumisation & market development.
- ♦ **Channel mix; demand through digital platform increasing:** The company is generating 25% of its demand digitally - ~7% through e-com and large chunk through B2B (Shikhar app); Shikhar App has seen over 1 million retailer downloads; 50% packs D4C ready; 14 D2C platforms new route to consumers. Newer age channels are growing at 2-4x the overall growth.
- ♦ **Developing future product portfolio:** Growing the core – Adding superior products with purposeful communications (core is growing ahead of market); Market Development – Creating products which will help in adding more users focusing on giving more benefits and more usage; Premiumisation – upgrading consumers to higher order benefits (growing 2x ahead of mkt).
- ♦ **Creating new competitive moats** – Developing future-fit supply chain network which is closer to demand, cost efficient, more agile and digital and adding to the growth. The company has 29 own factories and 50+ outsourcing units. Premium categories will be manufactured in-house while mass categories will be outsourced; 6 - Nano factories will produce products serving to e-commerce channel and innovations; nano-factories manufacture over 250 SKUs.

Premium contribution has gone up to 33% in FY2022



Source: Company; Sharekhan Research

Demand from digital channels has increased to 25%

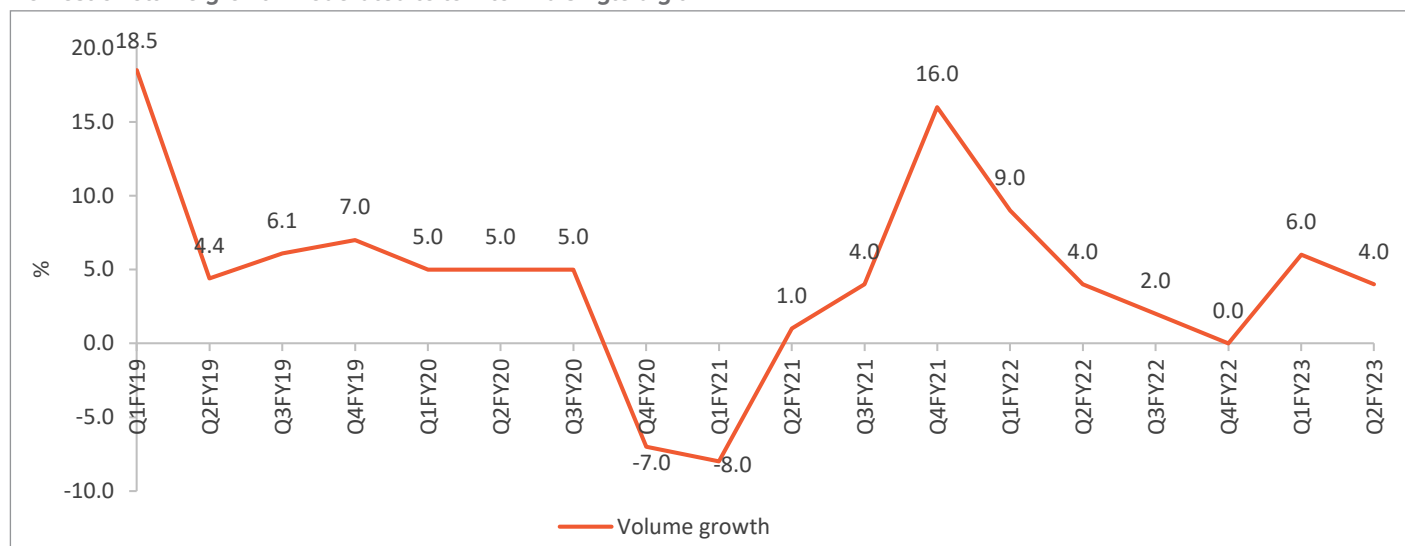


Source: Company; Sharekhan Research

Recovery will be gradual in the near term

Rural slowdown and commodity inflation was a drag on HUL's performance for the past three quarters. HUL's domestic volume growth moderated to low-to-mid single digit in past 4-5 quarters. This was mainly on account of slowdown in the rural markets with consumers shifting to low price products or cutting down the grammage during the quarter. A drop in consumer inflation and improved agri income would help rural volumes to pick in the coming quarters. We expect rural demand to come back on track from Q4FY2023. This will help in uptick of overall volume growth in the coming years.

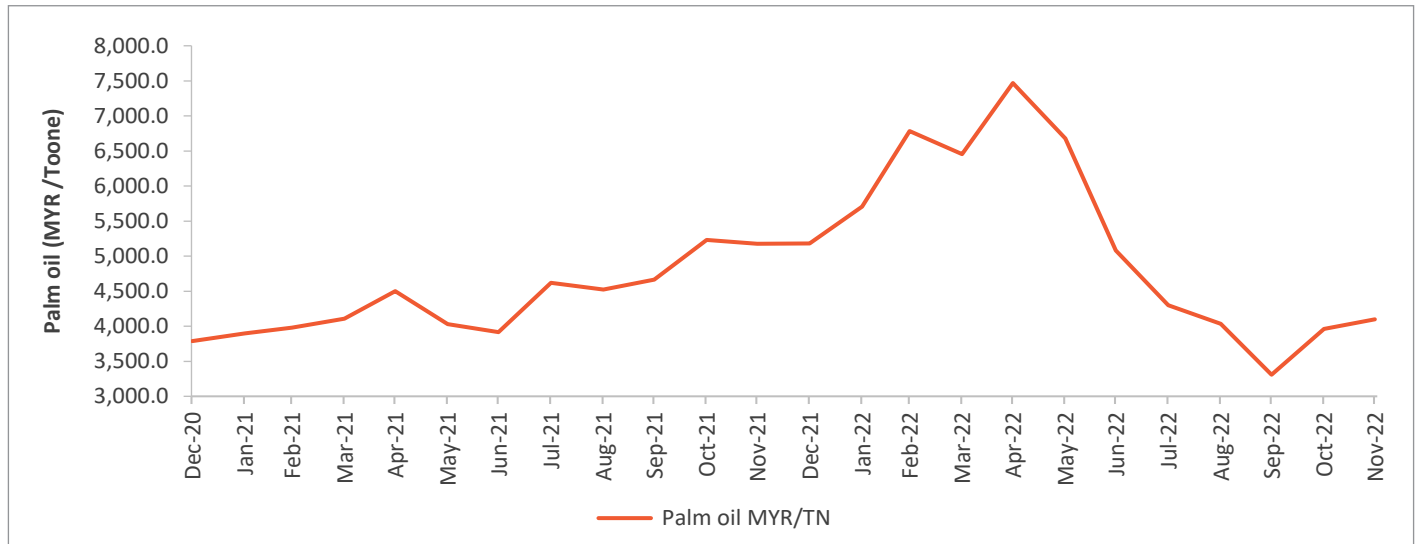
Domestic volume growth moderated to low-to-mid single digit



Source: Company; Sharekhan Research

Though prices of key inputs such as palm oil (down by 22% y-o-y and flat q-o-q) and crude oil have corrected from its high, the rupee depreciation will lead to gradual improvement in the margins. Cost-saving initiatives undertaken by the company would help it to post better OPM compared to H1FY2023. However, if commodity prices consistently correct from current levels, the margin picture would be much better in FY2024. In the medium term, the company is expecting OPM coming back to 24-25%.

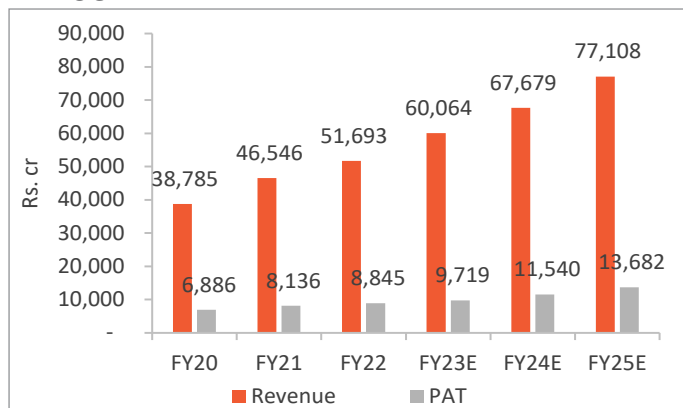
Palm oil prices decreased by 45% from its high



Source: Company; Sharekhan Research

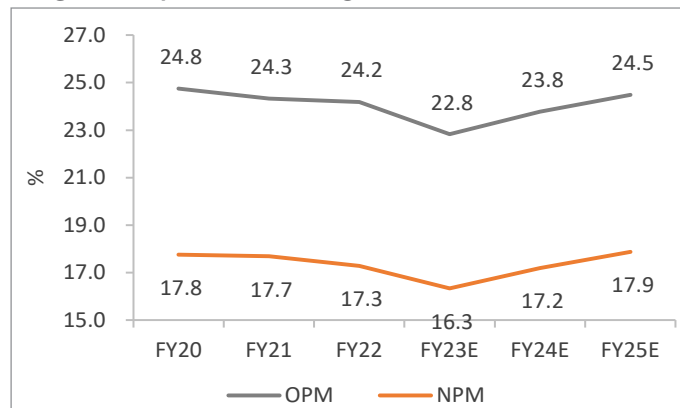
Financials in charts

Steady growth in revenue and PAT



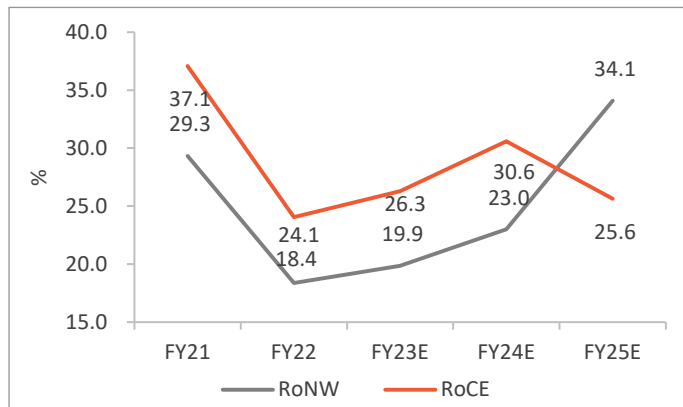
Source: Company, Sharekhan Research

Margins to improve moderately



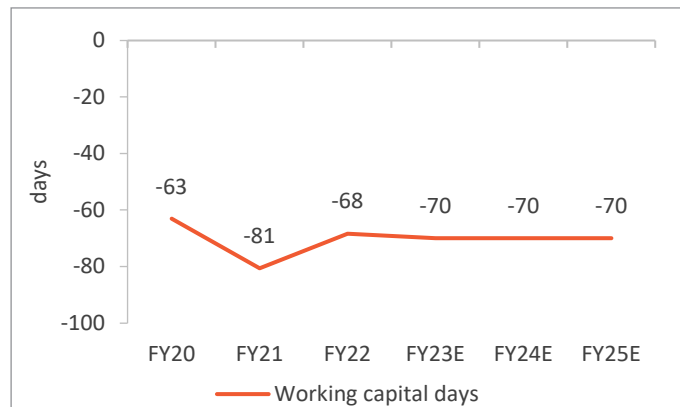
Source: Company, Sharekhan Research

Trend in return ratios



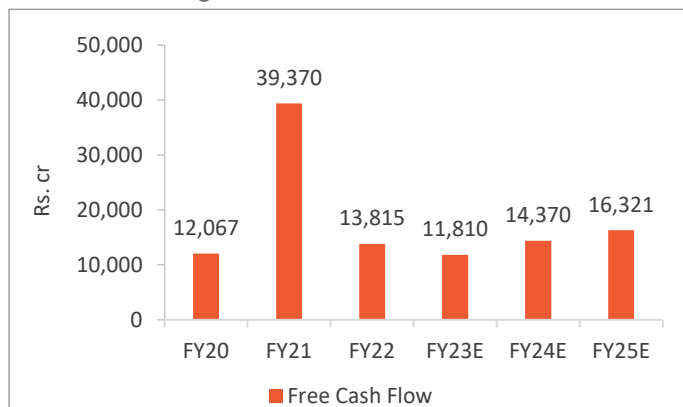
Source: Company, Sharekhan Research

Consistent working capital days



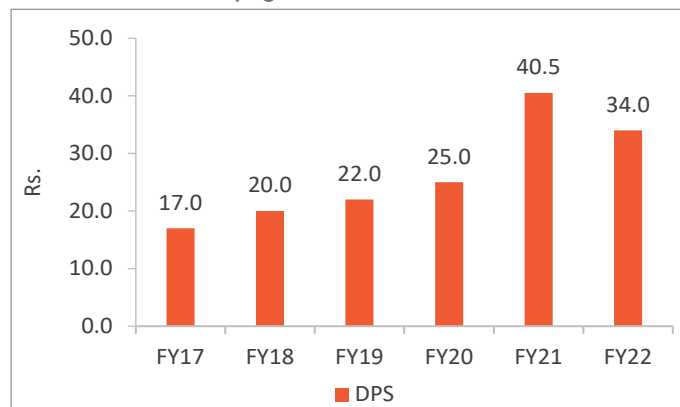
Source: Company, Sharekhan Research

Stable cash flow generation



Source: Company, Sharekhan Research

Consistent dividend payout



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 as 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.

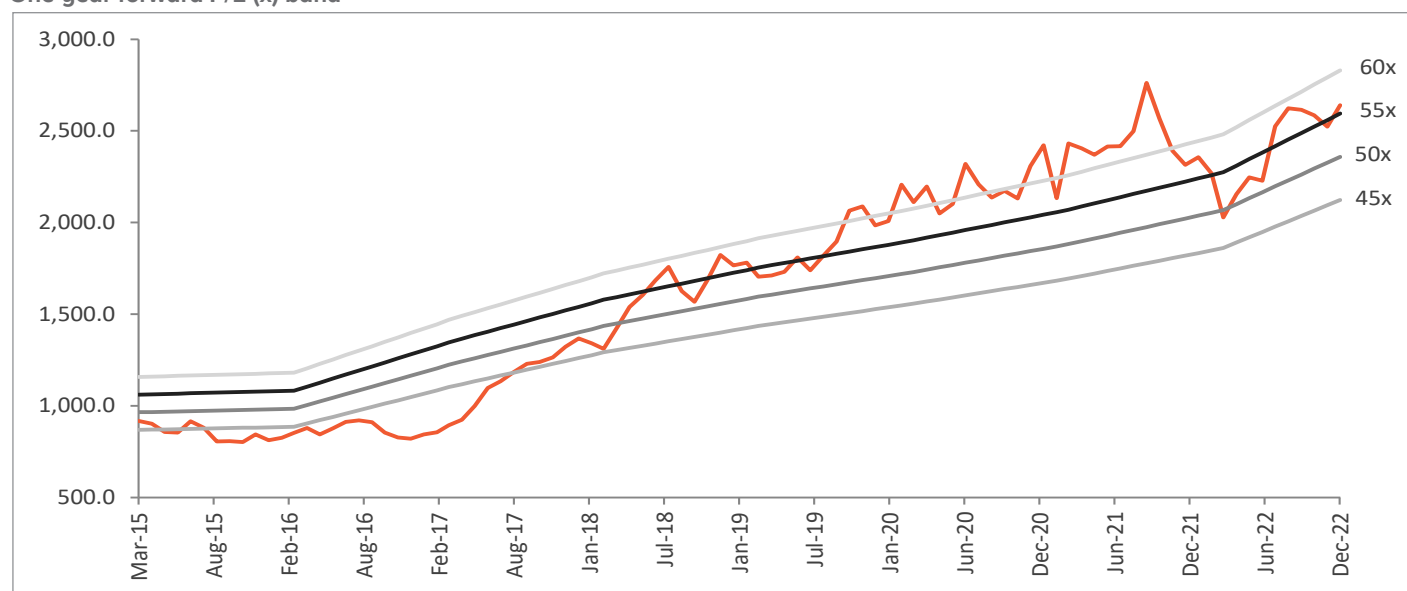
■ Company outlook - Focus remains on achieving competitive volume growth

With a leadership position in 85% of the portfolio and presence in more than 9 million stores, HUL is well poised to achieve good growth in the coming years. A 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 and integration benefits would help margins to improve in the medium term. The management is targeting moderate margin improvement every year.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 3,005

With strategies in place, HUL is focusing achieving consistent double digit revenue growth with modest expansion in the OPM in the medium to long term. We expect HUL's revenues and PAT to grow at CAGR of 14% and 16% respectively over FY2022-25E. HUL remains preferred pick in the consumer good space because of its leading position in 85% of the portfolio (help taking pricing actions in highly penetrated categories), gain in market share (consistent market share improvement despite demand slowdown), expanded distribution reach of 9 million outlets, strong cash flow generation and consistent dividend payout. The stock is trading at 53x/45x its FY2024/25E EPS, which is at discount to its last five-year historical average. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 3,005.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Nestle India*	82.2	75.4	61.7	52.9	49.8	41.6	138.3	129.4	125.8
ITC	27.3	23.2	20.1	20.6	16.5	14.5	27.1	32.6	35.3
Godrej Consumer Products	50.3	51.5	40.5	36.8	38.1	30.4	17.3	15.6	18.5
HUL	69.6	63.3	53.3	48.7	44.2	37.5	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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.78
2	Blackrock Inc	1.40
3	SBI Funds Management	1.31
4	Vanguard Group Inc	1.30
5	JP Morgan and Chase	0.70
6	UTI Asset Management Co Ltd	0.43
7	Norges Bank	0.31
8	UBS AG	0.31
9	Veritas Asset Management LLP	0.30
10	abrdn plc	0.30

Source: Bloomberg

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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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