

CMP: INR 2,379

Rating: ACCUMULATE

Target Price: INR 2,554

Stock Info

BSE	500696
NSE	HINDUNILVR
Bloomberg	HUVR:IN
Reuters	HLL.BO
Sector	Personal Products
Face Value (INR)	1
Equity Capital (INR cr)	235
Mkt Cap (INR cr)	5,58,885
52w H/L (INR)	2,001/ 2,532
Avg Yearly Volume (in 000')	105

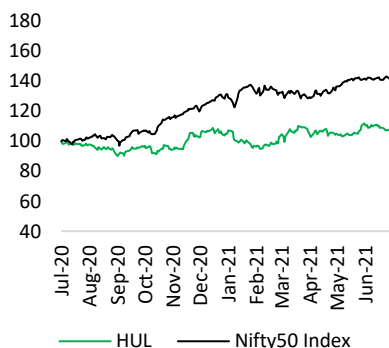
Shareholding Pattern %

(As on June, 2021)

Promoters	61.9
FII	15.1
DII	10.8
Public & Others	12.2

Stock Performance (%)	3m	6m	12m
HUL	2	9	8
Nifty 50	9	14	54

HUL Vs Nifty



Hindustan Unilever (HUL) performance was broadly in-line with our estimates. Its Revenue was slightly lower by 0.9% of our estimates to INR11,915cr. However, with higher RM inflation & A&P cost, the EBITDA/PAT was slightly missed by 4.1%/5.4%, respectively to INR2,847cr/INR2,061cr, respectively.

Reported sales grew by 12.8% with underlying domestic consumer sales growth (USG) of 12% on the back of a 9% underlying volume growth (on a favourable base of negative 7-8% underlying volume growth in Q1FY21) and 3% price-led growth.

Gross Margin at 50.4% was 139bps lower YoY owing to weaker product mix and RM inflation (palm oil, tea and crude which are multi-year high compared to Q1FY21). EBITDA was up by 7.7% YoY and down by 3.7% QoQ. EBITDA Margins at 23.9% (24.7% our estimate) down 114bps led by RM inflation and jump in A&P spends by 105bps. However, lower employee cost and Other expenses supported the fall in EBITDA margin. While RM headwinds would impact profitability in the near term even though it takes price hikes, demand uncertainty causes HUL to prioritize volumes over margins as it looks to gain share; in our view.

Other income declined by 57% YoY due to lower treasury yield, etc. However, lower tax rate led PAT grew by 9.6% YoY.

Key Segment Highlights:

- **Segmental Performance:** Home Care (32% of total sales for Q1FY2) revenues were up 11.9% YoY. Beauty & Personal Care sales (+38% of total sales) were up 13.2% YoY. Food & Refreshment sales (28% of total sales) were up 32.2% YoY (+26% excluding the impact of the GSKCH merger and VWash acquisition).
- **Segmental EBIT margin:** Home Care margins expanded 222bps YoY to 21%. Beauty & Personal Care margins expanded 192bps YoY to 30%. Foods & Refreshments margins declined 168bp YoY to 18%.

Valuation & Outlook: Although, near term headwinds from RM inflation and uncertain demand (sudden and unprecedented rise in COVID exist). However, we believe, over the medium to long term, HUL is poised to deliver a consistent and profitable volume led growth given execution, distribution, and digital capabilities.

We continue to remain constructive on HUL owing to A) 87% of business has been gaining penetration and 82% of the business reported market share gains, B) 80% of the business comprises Health, Hygiene and Nutrition continues to witness healthy growth and recovery, C) As per management, the complete integration with GSK will be over in 1HFY22E providing synergies to flow through into the financials, D) Gains from digitization strategies like WIMI and SHIKHAR (0.5mn outlets, indicating rapid digitization) will drive distribution led gains, E) increasing distribution reach through multiple distribution models, F) chemist channel footprint has expanded post GSK acquisition, G) Restoration of supply chain, and H) pricing power led by product innovation initiatives.

Improving portfolio mix combined with HUL's cost control, price hikes and synergies from GSK takeover should aid EBITDA margin despite inflationary input prices. We expect HUL to be key beneficiary of strong rural demand. In terms of covid-19 impact, we believe the demand situation is dynamic; however, HUL is well placed in terms of its supply chain.

We remain positive on HUL's ability to outgrow the market, as well as its pricing power underpinned by distribution expansion, deepening direct reach and product innovation initiatives. Demand shift from the unorganised segment should result in additional gains for the company. The merger of GSK portfolio with HUL has begun to yield revenue delta; we believe the larger story will be innovation and NPDs in HFD and allied categories.

We expect HUL to report Revenue/EBITDA/PAT CAGR of 15.8%/17.2%/17.1%, to INR61,727cr/INR15,555cr/INR10,911cr, respectively over FY21-FY23E. We have revised our TP to INR2,554 valued the company on a PE basis of 55x in FY23E, provides an upside of ~8%. We have an ACCUMULATE rating.

Key Concall takeaways

❑ **85% of a portfolio focused on Health, Hygiene and Nutrition (HHN):** HUL's HHN portfolio sales (including Skin cleansing, hair care, oral care, home care, nutrition, tea, coffee and packaged foods) grew by 8% YoY with rural driving growth ahead of urban. The shift in consumer behaviour towards using more of HHN based products like floor cleaners, laundry wash products, immunity boosters continues. Also, +80% of HULs portfolio has gained market penetration in Q1FY22 as per Kantar World Panel data.

❑ **12% of a portfolio focussed Discretionary:** This portfolio includes Skin Care, Color cosmetics, deos. The segment grew by 39% YoY.

❑ **3% of a portfolio focussed Out of Home:** This portfolio includes water, ice-cream and food solutions. The segment grew by 91% YoY.

❑ **Channel performance:** Among channels, E-commerce and GT continues to grow ahead of urban and MT channels. HULs eB2B Shikhar platform complements the sales force and gives it a distinctive advantage versus peers.

Performance and operating environment

❑ The management was pleased with the performance during the quarter.

❑ Q1FY22 relatively have different profile due to second wave compared to first wave witnessed in Q1FY21.

❑ The reduced mobility led an unfavorable product mix which also impacted the EBITDA margins for the company.

❑ **With increasing mobility, management expects the product mix to improve which will support operating margin expansion going forward.**

❑ The palm oil, tea and crude oil prices are multi-year high, which impacted the GM of the company.

❑ Management believes commodities are cyclical in nature and it has peaked out.

❑ The company took ~3% price hike in tea, laundry and skin cleansing portfolios.

❑ Management took lot of promotional activities which impacted the EBITDA margins for the company.

❑ However, due to promotional campaign, the price hike in June 21' is optically different compared to price hike in March 21'.

❑ **Management expects promotional campaign to normalize in Q2FY22E.**

❑ **Company is working on the cost savings initiative and judiciously & calibrated pricing hike to combat RM inflation going forward.**

❑ **Company will continue to have a competitive volume growth.**

❑ **Management have no intention to divest Tea business. The management is fully committed to grow the business.**

❑ **Discretionary category to improve going forward led by increasing mobility.**

❑ Manufacturing and the supply chain have not been affected.

❑ It now has much more flexibility to change in environment. Superior digital capabilities bring in far better flexibility.

❑ De-bottlenecking the production line.

❑ Demographics changing rapidly.

❑ Part of April and entire month of May got impacted due to lower mobility.

❑ Premium portfolio grew 2x against the core aided by WIMI.

❑ Company is creating purposeful brands.

❑ Urban markets got impacted severely in Q1FY22.

❑ Even Rural witnessed spread of virus.

❑ **Rural continues to be the growth engine led by better monsoon and supportive government policies**

Segmental, key product launches & pricing highlights

- ❑ **Household Care:** High teens growth on a strong base, led by Vim. Premiumization continues to yield strong results
- ❑ **Foods:** Soups and Ketchups continue their strong momentum and grew on a high base in Q1FY21
- ❑ **Beverages:** Tea continues to gain share, grows high double-digit on a very strong base. Coffee had a soft quarter on the back of high teens growth in the base
- ❑ **Nutrition:** GTM integration progressing well, HFD grew volumes in mid-single digit. Gaining penetration sequentially
- ❑ **Ice Cream, Food Solutions & Vending:** YOY growth on a weak base, performance in the quarter adversely impacted due to limited mobility
 - Launched 'Kwality Wall's Cadbury Crackle' Tub
- ❑ **Purifiers:** Continues to improve sequentially led by acceleration in eCommerce
- ❑ **Hair Care:** Strong double-digit growth led by contextual communications and healthy market share gains
- ❑ **Skin Care:** High double-digit growth as mobility improved vs Q1FY21. Steady performance in Glow & Lovely with sequential penetration gains
- ❑ **Color Cosmetics:** Strong YoY recovery as mobility improved vs Q1FY21
- ❑ **Oral Care:** Closeup continues to do well
 - Launched 'Pepsodent' Coronavirus fighting mouthwash
- ❑ **Skin Cleansing:** Soaps delivered another strong quarter of growth. Premium portfolio performed well and grew sequentially. Hand hygiene declined on an exceptionally high base. VWash continued its strong momentum
 - Inflationary pressures remain elevated; calibrated pricing actions continue
- ❑ **Fabric Wash:** Double-digit growth led by strong performance in premium portfolio
 - 'Surf excel 3 in 1 Smart Shots'
 - Significant input cost inflation; calibrated pricing actions to continue
- ❑ **Glaxo business update:**
 - Management is pleased with the seamless integration of GSKCH in a challenging environment.
 - Penetration and volume growth are the key focus. Volume growth was in the high teens in the GSKCH business, with UVG growth (which includes the mix) in the early double digits.
 - 50% GTM integration is completed
 - Management expects 80-90% GTM completion by September and balance by December end.
 - 1.4x increasing direct coverage.
 - 0.5mn contacts
 - It would see benefit of ongoing distribution expansion in subsequent years.
- ❑ **Demand outlook:** Although demand momentum saw a healthy pick up in March the same has moderated in Q1FY22 owing to COVID's second wave. Management remains hopeful of rural growth ahead of urban as the virus spread is contained from further spreading in the rural regions.
 - ❑ As people's mobility improves driven by vaccination its OOH, skincare and premium portfolio are likely to do better going ahead.
 - ❑ HUL will continue to invest behind its brands, drive consumer-centric innovations, market development, digital transformations and build on its capabilities to deliver profitable volume led growth.
 - ❑ 'Re-imagining HUL' to drive competitive volume led growth.
 - ❑ Management believes EBITDA Margins of 24-25% are healthy and can be sustained in this band-aided by its proven execution capabilities of managing net revenues, judicious pricing actions and cost savings.

Quarterly Result
Q1FY22 Result Analysis

Y/E March (Rscr)	Q1FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Net sales	10,560	12,132	11,915	12.8	(1.8)
Net raw material & Purchase of finished goods	5,087	5,756	5,905	16.1	2.6
% of sales	48.2	47.4	49.6		
Employee expenses	592	522	618	4.4	18.4
% of sales	5.6	4.3	5.2		
Advertisement Expenses	797	1,413	1,024	28.5	(27.5)
% of sales	7.5	11.6	8.6		
Other expenses	1,440	1,484	1,521	5.6	2.5
% of sales	13.6	12.2	12.8		
Total expenditure	7,916	9,175	9,068	14.6	(1.2)
Operating Profit	2,644	2,957	2,847	7.7	(3.7)
OPM(%)	25.0	24.4	23.9		
Interest	29	9	11	(62.1)	22.2
PBDT	2,615	2,948	2,836	8.5	(3.8)
Depreciation	242	249	244	0.8	(2.0)
Other income	156	109	67	(57.1)	(38.5)
Exceptional item	(118)	14	(26)	(78.0)	(285.7)
PBT	2,411	2,822	2,633	9.2	(6.7)
Tax	530	679	572	7.9	(15.8)
Effective tax rate (%)	16.8	20.8	24.4		
Reported PAT	1,881	2,143	2,061	9.6	(3.8)
Comprehensive income	4	7	9		-
Adjusted PAT	1,885	2,150	2,070	9.8	(3.7)
NPM(%)	17.9	17.7	17.4		
EPS (Rs.)	8.0	9.1	8.8	9.8	(3.7)
Equity	235	235	235	-	-

Source: Company & Arihant Research

Result declared vs Our estimates

Y/E Mar (Rscr)	Q1FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)	Arihant Capital estimates	Variation (%)
Net Sales	10,560	12,132	11,915	12.8	(1.8)	12,020	(0.9)
EBITDA	2,644	2,957	2,847	7.7	(3.7)	2,969	(4.1)
EBITDA (%)	25.0	24.4	23.9	(114)bps	(48)bps	24.7	(81)bps
Reported PAT	1,881	2,143	2,061	9.6	(3.8)	2,179	(5.4)

Source: Company & Arihant Research

Quarterly Result

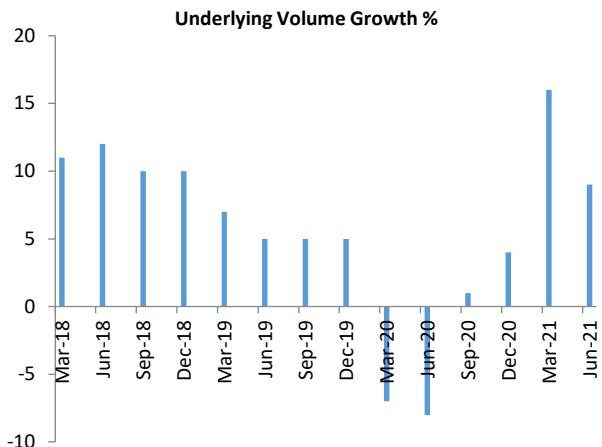
Segmental Break-up

Y/E Mar (Rscr)	Q1FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Sales					
Home Care	3,392	3,840	3,797	11.9	(1.1)
Beauty & Personal Care	4,039	4,549	4,573	13.2	0.5
Foods & Refreshments	2,958	3,511	3,319	12.2	(5.5)
Others	171	232	226	32.2	(2.6)
Total	10,560	12,132	11,915	12.8	(1.8)
% of Sales Contribution					
Home Care	32.1	31.7	31.9	(25)bps	22bps
Beauty & Personal Care	38.2	37.5	38.4	13bps	88bps
Foods & Refreshments	28.0	28.9	27.9	(16)bps	(108)bps
Others	1.6	1.9	1.9	28bps	(2)bps
EBIT					
Home Care	637	812	662.0	3.9	(18.5)
Beauty & Personal Care	1,134	1,252	1,287.0	13.5	2.8
Foods & Refreshments	582	575	600.0	3.1	4.3
Others	49	69	54.0	10.2	(21.7)
Total	2,402	2,708	2,603	8.4	(3.9)
EBIT (%)					
Home Care	18.8	21.1	17.4	(134)bps	(371)bps
Beauty & Personal Care	28.1	27.5	28.1	7bps	62bps
Foods & Refreshments	19.7	16.4	18.1	(160)bps	170bps
Others	28.7	29.7	23.9	(476)bps	(585)bps
Total	22.7	22.3	21.8	(90)bps	(47)bps

Source: Company & Arian Research

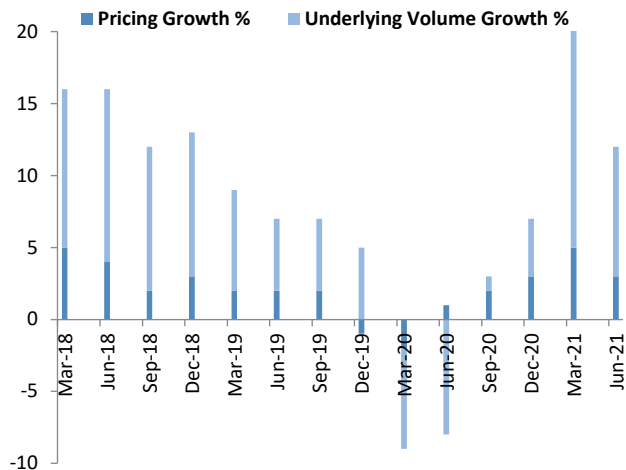
Quarter Result

HUL registered 9% volume growth driven by favourable base (negative 8%)

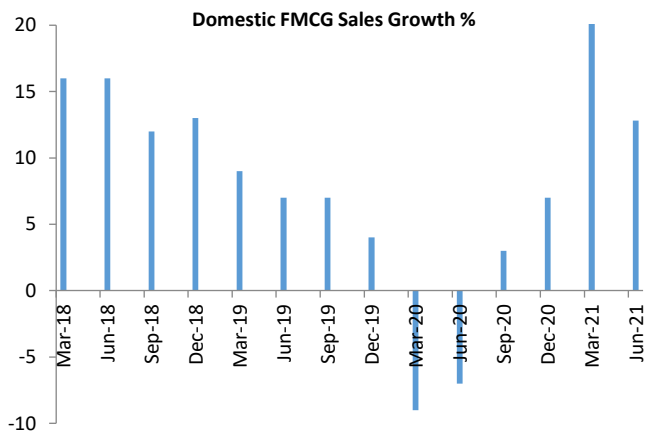


Source: Company & Arihant Research

Realization growth of 3% in Q1FY22



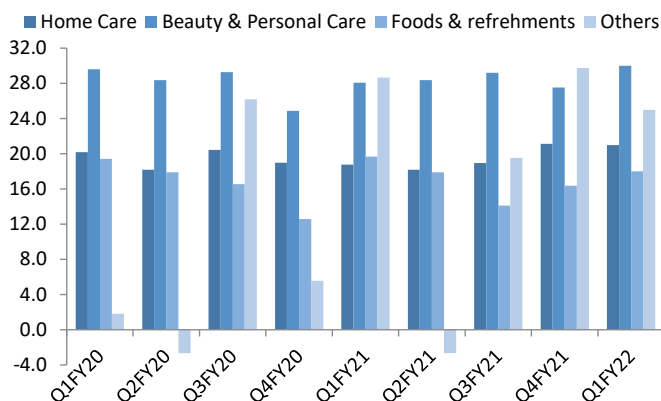
Source: Company & Arihant Research



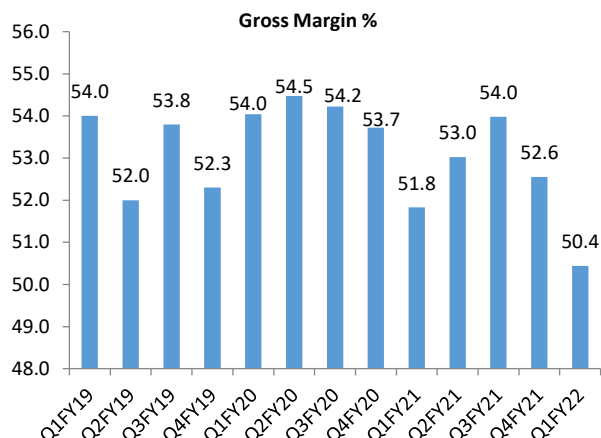
Source: Company & Arihant Research

Quarterly Result

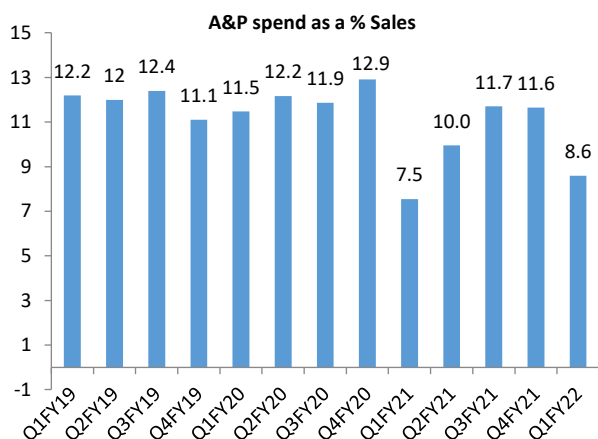
Segmental EBIT Margin %



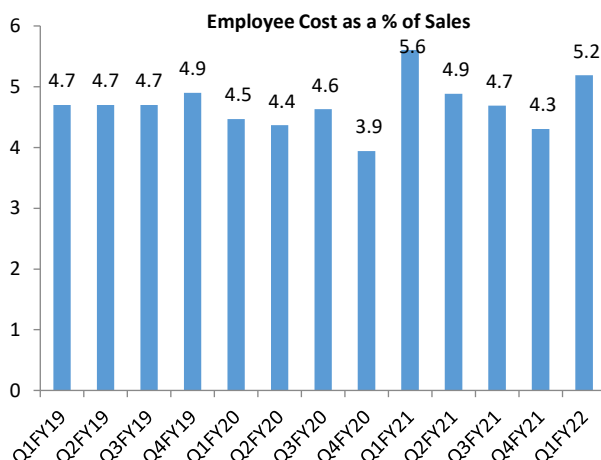
Gross Margin declined by 139bps to 50.4%



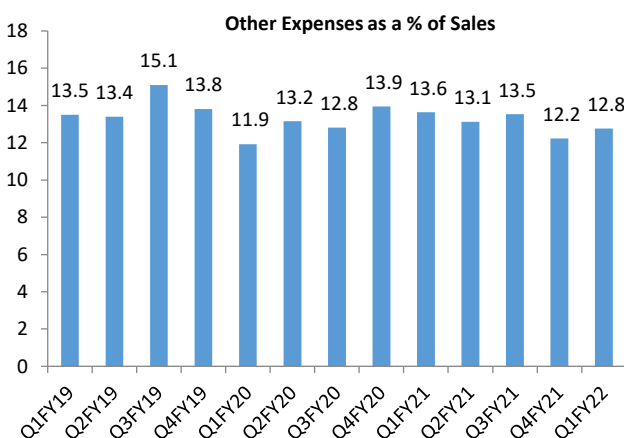
A&P increased by 105bps YoY



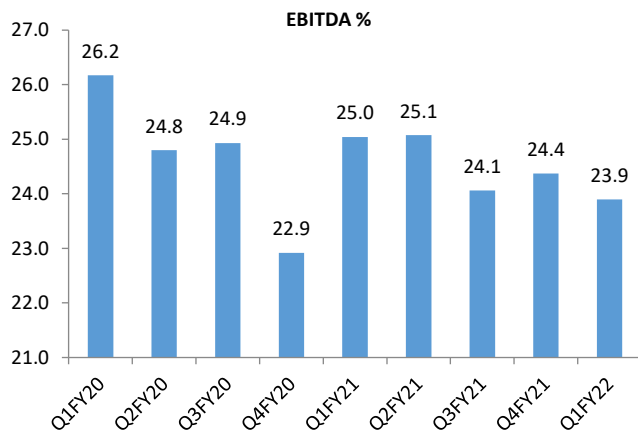
Employee cost was lower by 42bps YoY



Other expenses declined by 87bps YoY



EBITDA Margin declined by 114bps to 23.9% due to higher RM & A&P cost



Source: Company & Arianth Research

Quarterly Result

Impactful Innovations Meeting Consumer Demand



Source: Company Presentation & Aриhant Research

Communications Driving Salience



Source: Company Presentation & Aриhant Research

Income statement

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Revenue	38,224	38,785	45,996	53,215	61,727
Net Raw Materials	17,960	17,793	21,677	25,277	29,166
Advt & Promotion	4,552	4,686	4,737	5,321	6,173
Employee Cost	1,747	1,691	2,229	2,448	2,839
Other Expenses	5,328	5,015	6,029	7,024	7,994
Total Expenses	29,587	29,185	34,672	40,071	46,172
EBITDA	8,637	9,600	11,324	13,144	15,555
EBITDA margin	22.6	24.8	24.6	24.7	25.2
Depreciation	(524)	(938)	(1,012)	(1,303)	(1,534)
Interest expense	(28)	(106)	(108)	(112)	(110)
Other income	664	733	513	563	638
Exceptional items	(227)	(197)	(227)	-	-
Profit before tax	8,545	9,117	10,515	12,316	14,574
Taxes	(2,486)	(2,354)	(2,536)	(3,073)	(3,637)
Reported Net profit	6,059	6,763	7,979	9,243	10,937
EPS	27.9	31.2	33.8	39.2	46.4

Ratio analysis

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	8.5	1.5	18.6	15.7	16.0
EBITDA growth	18.7	11.1	18.0	16.1	18.3
EBIT growth	19.1	7.0	15.2	14.6	18.2
Net profit growth	12.6	11.6	18.0	15.9	18.3
Profitability ratios (%)					
EBITDA margin	22.6	24.8	24.6	24.7	25.2
EBIT margin	23.0	24.2	23.5	23.3	23.7
Net profit margin	15.9	17.4	17.3	17.4	17.7
RoCE	80.9	82.4	28.7	19.0	21.7
RoNW	81.9	85.9	28.7	19.2	22.0
RoA	71.3	72.5	14.3	16.1	18.6
Per share ratios					
Dividend per share	22.0	25.0	40.5	33.3	39.5
Cash EPS	30.5	35.7	38.3	44.9	53.1
Book value per share	35.5	37.2	201.8	207.7	214.7
Valuation ratios					
P/E	84.8	76.0	70.0	60.5	51.1
P/B	67.1	64.0	11.8	11.5	11.1
EV/EBIDTA	59.0	53.0	48.9	42.1	35.5
Liquidity ratios					
Debtor days	15.8	9.7	12.9	13.0	13.0
Inventory days	48.5	53.3	56.2	56.0	55.0
Creditor days	86.0	91.3	89.6	90.0	90.0

Balance sheet

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	216	216	235	235	235
Reserves	7,443	7,815	47,199	48,582	50,219
Net worth	7,659	8,031	47,434	48,817	50,454
Debt	360	853	945	925	910
Deferred tax liab (net)	444	416	7,345	7,345	7,345
Total liabilities	8,463	9,300	55,724	57,087	58,709
Fixed assets	3,880	3,825	4,795	5,365	5,482
Capital Work In Progress	373	513	623	652	767
Other Intangible assets	427	1,195	28,916	28,916	28,916
Goodwill	36	36	17,316	17,316	17,316
Investments	663	708	1,445	1,330	1,543
Other non current assets	1,112	1,417	1,381	1,589	1,843
Inventories	2,422	2,636	3,383	3,932	4,456
Sundry debtors	1,673	1,046	1,648	1,922	2,229
Loans & Advances	0	0	0	0	0
Other current assets	355	551	455	532	617
Sundry creditors	(7,070)	(7,399)	(8,627)	(10,018)	(11,543)
Other current liabilities & Prov	(2,332)	(2,903)	(3,765)	(4,334)	(5,027)
Cash	3,688	5,017	4,321	5,450	6,965
Other Financial Assets	3,236	2,658	3,833	4,435	5,144
Miscellaneous Exp	0	0	0	0	0
Total assets	8,463	9,300	55,724	57,087	58,709

Cashflow summary

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	8,545	9,117	10,515	12,316	14,574
Depreciation	524	938	1,012	1,303	1,534
Tax paid	(2,486)	(2,354)	(2,536)	(3,073)	(3,637)
Working capital Δ	(374)	1,117	837	1,060	1,302
Change in Goodwill	(36)	-	(17,280)	-	-
Operating cashflow	6,173	8,818	(7,452)	11,607	13,773
Capital expenditure	(571)	(1,023)	(2,092)	(1,902)	(1,767)
Free cash flow	5,602	7,795	(9,544)	9,705	12,006
Equity raised	(722)	(990)	40,942	(25)	(25)
Investments	3	(45)	(737)	115	(213)
Others	47	(495)	(28,860)	(810)	(964)
Debt financing/disposal	78	493	92	(20)	(15)
Dividends paid	(4,752)	(5,400)	(9,518)	(7,836)	(9,275)
Equity Buy back	-	-	-	-	-
Capital subsidy	-	-	-	-	-
Other items	60	(28)	6,929	-	-
Net Δ in cash	315	1,329	(696)	1,129	1,515
Opening Cash Flow	3,373	3,688	5,017	4,321	5,450
Closing Cash Flow	3,688	5,017	4,321	5,450	6,965

Source: Company & Arianth Research

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880