

CMP: INR 2,655

Rating: Hold

Target Price: INR 2,962

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)	6,22,642
52w H/L (INR)	2,733/ 1,902
Avg Yearly Volume (in 000')	1,768

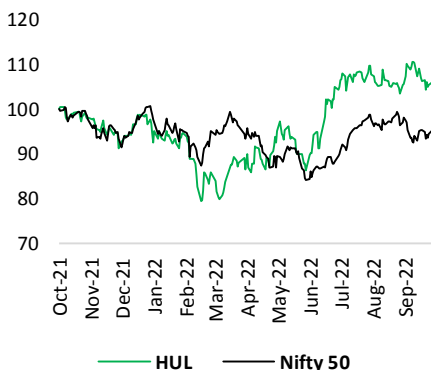
Shareholding Pattern %

(As on June, 2022)

Promoters	61.9
FII	13.3
DII	3.6
Public & Others	21.2

Stock Performance (%)	1m	3m	12m
HUL	1.2	1.8	8.5
Nifty 50	(0.4)	6.3	(2.9)

HUL Vs Nifty 50



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- **Hindustan Unilever Ltd (HUL)** Q2FY23 Net Revenue grew by 16.08% YoY to INR 15,144 Cr (+3.56% QoQ). This beat our quarterly revenue estimate of INR 14,612 Cr by 3.64% on account of stable demand.
- Q2FY23 Gross Margin contracted by 568bps YoY 45.87% (-172bps QoQ). This is indicative of the notable input cost pressures faced by the company during the quarter.
- Q2FY23 EBITDA grew by 7.84% YoY to INR 3,479 Cr (+2.26% QoQ). EBITDA Margin contracted by 176bps YoY to 22.97% (-29bps QoQ). This was largely in line with our quarterly EBITDA estimate of INR 3,434 Cr, beating it by 130bps, but failed to meet out our EBITDA Margin estimate of 23.5%.
- Q2FY23 Consolidated PAT grew 18.31% YoY to INR 2,617 Cr (+7.87% QoQ). PAT Margin expanded by 33bps YoY to 17.28% (+69bps QoQ). This beat our quarterly PAT estimate of INR 2,317 Cr by 12.94%. EPS +20% YoY.
- The overall performance of the company beat out expectations by a sliver. Demand remained relatively strong and margins were on the lower end of the healthy range as inflationary headwinds made worse by the strengthening USD, continue to persist. As commodity prices soften further, this is expected to improve.

Q2FY23 Conference Call Highlights

Urban vs Rural Demand: Rural demand was weaker and volumes were muted compared to Urban demand in Q2 due to the high inflation. However, rural demand is expected to pick up with a good monsoon and harvest season. The government is also providing subsidies to increase wealth in rural areas. This will be good for consumer demand.

Some commodity deflation was visible in Q2: Palm oil and Tea saw notable commodity deflation in Q2. This led to price cuts being passed on though Tea and Skin Cleansing.

Q3 Expectations: NIM (Net Material Cost) in Q3 is expected to be slightly lower, led by vegetable oil, however other commodities like milk, barley, soda ash, and crude are expected to remain elevated. Gross margins are also expected to improve sequentially. Growth is still expected to be price led.

New digital Brands: The premium beauty unit launched 2 new brands in Indian markets- 'Acne Squad' and 'Find your Happy Place' as a targeted solutions for every stage of acne care, and bath works respectively available on 14 D2C platforms.

Outlook and Valuation: Commodity inflation continues to plague the FMCG industry, and HUL has felt its effect. It has delivered a strong rounded performance and gained market shares across 75% of its portfolio despite that, and has also clocked in a healthy volume growth of 4% YoY (+16% Standalone revenues YoY). We assign a TP of INR 2,962 with an upside of 11.6%, valued at an FY24E EPS of INR 52, and a P/E of 57x. We maintain our Hold rating on the stock.

INR Cr	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Revenues	45,996	51,193	59,561	68,033	78,176	90,474
YoY growth (%)	18.6	11.3	16.3	14.2	14.9	15.7
Operating profit	11,324	12,503	14,801	17,110	19,935	23,270
OPM (%)	24.6	24.4	24.9	25.2	25.5	25.7
Reported PAT	7,954	8,818	10,557	12,211	14,225	16,797
YoY growth (%)	18.0	10.9	19.7	15.7	16.5	18.1
EPS (Rs)	33.8	37.5	44.9	52.0	60.5	71.5
P/E (x)	78.4	70.8	59.1	51.1	43.9	37.1
Price/Book (x)	13.2	12.8	12.4	12.0	11.5	11.0
EV/EBITDA (x)	54.7	49.5	41.8	36.0	30.8	26.4
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
RoE (%)	28.7	18.3	21.3	23.8	26.7	30.2
RoCE (%)	28.7	18.2	21.0	23.5	26.4	29.9

Source: Company & Arihant Research

Quarterly Result

INR Cr (consolidated)	Q2FY23	Q1FY23	Q2FY22	Q-o-Q	Y-o-Y
Net Revenue	15144	14624	13046	3.56%	16.08%
Raw Material Costs	8197	7664	6321	6.95%	29.68%
Gross Profit	6,947	6,960	6,725	-0.19%	3.30%
Gross Margin	45.87%	47.59%	51.55%	-172bps	-568bps
Employee costs	758	636	620	19.18%	22.26%
Advertising and Promotion Expenses	1053	1334	1226	-21.06%	-14.11%
Other Expenses	1657	1588	1653	4.35%	0.24%
EBITDA	3,479	3,402	3,226	2.26%	7.84%
EBITDA margin %	22.97%	23.26%	24.73%	-29bps	-176bps
Other Income	109	133	53	-18.05%	105.66%
Depreciation	272	281	281	-3.20%	-3.20%
EBIT	3,316	3,254	2,998	1.91%	10.61%
Finance costs	28	28	28	0.00%	0%
Exceptional Items	-29	-12	-5	141.67%	480%
PBT	3,259	3,214	2,965	1.40%	9.92%
Tax Expense	589	823	783	-28.43%	-25%
Effective tax rate %	18%	26%	26%	-753bps	-834bps
PAT	2,670	2,391	2,182	11.67%	22.36%
Profit/Loss from Discontinued Operations	-	-	3	-	-100%
Profit for the Period	2,670	2,391	2,185	11.67%	22.20%
Add: Other Comprehensive Income	-53	35	27	-251.43%	29.63%
Consolidated PAT	2,617	2,426	2,212	7.87%	18.31%
PAT margin %	17.28%	16.59%	16.96%	69bps	33bps

Segment Wise Standalone (INR Cr)	Q2FY23	Q1FY23	Q2FY22	Q-o-Q	Y-o-Y
Segment Revenue					
Home Care	5142	4930	3838	4.30%	33.98%
Beauty & Personal Care	5595	5406	5026	3.50%	11.32%
Foods & Refreshment	3755	3621	3622	3.70%	3.67%
Others (includes Exports, Consignment, etc.)	652	661	560	-1.36%	16.43%
Total Segment Revenue	15144	14618	13046	3.60%	16.08%
Segment Results					
Home Care	885	865	728	2.31%	21.57%
Beauty & Personal Care	1407	1427	1399	-1.40%	0.57%
Foods & Refreshment	744	578	664	28.72%	12.05%
Others (includes Exports, Consignment, etc.)	171	251	154	-31.87%	11.04%
Total Segment Results	3207	3121	2945	2.76%	8.90%

Source: Company & Arianth Research

Q2FY23 Conference Call Highlights

Inflation Concerns: Stemming from commodities, as well as the strengthening Dollar continue to pressurize margins. Palm oil has seen meaningful correction. CPI Inflation remains above the threshold affecting rural demand.

FMCG Market: Overall has faced a 5% value and (-1%) volume growth with urban driving value growth, and rural pushing down volumes. The market faces broad based inflation.

COGS very high this quarter: This is due to an increased consumption of high cost inventories leading to higher COGS.

Ad and Promo (A&P): Spends on consumer promotions increased this quarter, and will remain high in Q3 as well. Investment in brands remains high as they drive Share of Value (SOV) > Share of Market (SOM) through product superiority.

YoY growth for segments:

- Home Care (HC) +34%. The segment had 2 digit volume growth driven by liquid and fabric conditioner, and dish wash.
- Beauty & Personal Care (BPC) +11%. A strong 2 digit growth ahead of the market driven by skin cleansing and premium skincare.
- Foods & Refreshment (F&R) +4%. Tea displayed volume leadership, and health drinks gained respectable market shares led by market development.

Segmental Margins for Q2: Home Care (HC) 17%; Beauty & Personal Care (BPC) 25%; Foods & Refreshment (F&R) 20%.

Product innovations: Were undertaken across the board in existing brands as well. A new line of Health Gummies were also launched.

Market Development: Is key for HUL as it grows the consumer franchise and protects the business model.

Standalone Financials

Income Statement (INR Cr)	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Revenue	45,996	51,193	59,561	68,033	78,176	90,474
Net Raw Materials	21,677	25,124	28,143	32,146	37,720	44,559
Advt & Promotion	4,737	4,718	5,599	6,191	7,114	8,143
Employee Cost	2,229	2,399	2,919	3,130	3,635	4,189
Other Expenses	6,029	6,449	8,100	9,457	9,772	10,314
Total Expenses	34,672	38,690	44,760	50,923	58,241	67,204
EBITDA	11,324	12,503	14,801	17,110	19,935	23,270
EBITDA margin	24.6	24.4	24.9	25.2	25.5	25.7
Depreciation	(1,012)	(1,025)	(1,079)	(1,119)	(1,153)	(1,167)
Interest expense	(108)	(98)	(101)	(108)	(102)	(112)
Other income	513	393	493	573	648	738
Exceptional items	(227)	(34)	-	-	-	-
Profit before tax	10,490	11,739	14,114	16,456	19,328	22,729
Taxes	(2,536)	(2,921)	(3,557)	(4,246)	(5,103)	(5,932)
Net profit	7,954	8,818	10,557	12,211	14,225	16,797
EPS	33.8	37.5	44.9	52.0	60.5	71.5
Balance Sheet (INR Cr)	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Equity capital	235	235	235	235	235	235
Reserves	47,199	48,525	50,109	51,940	54,074	56,593
Net worth	47,434	48,760	50,344	52,175	54,309	56,828
Debt	945	1,015	1,000	960	980	965
Deferred tax liab (net)	7,345	7,465	7,634	7,848	8,119	8,460
Total liabilities	55,724	57,240	58,978	60,983	63,408	66,253
Fixed assets	4,795	4,810	5,632	5,896	6,362	6,975
Capital Work In Progress	623	901	883	1,119	1,281	1,459
Other Intangible assets	28,916	28,908	28,908	28,908	28,908	28,908
Goodwill	17,316	17,316	17,316	17,316	17,316	17,316
Investments	1,445	1,873	2,263	2,721	3,518	4,524
Other non current assets	1,381	1,282	447	491	651	729
Net working capital	-6,906	-6,082	-5,635	-6,525	-7,847	-8,265
Inventories	3,383	3,890	4,378	5,000	5,868	6,931
Sundry debtors	1,648	1,932	1,985	2,268	2,606	3,016
Other current assets	455	593	662	850	825	1,005
Sundry creditors	(8,627)	(8,864)	(9,947)	(11,458)	(13,428)	(15,121)
Other current liabilities & Prov	(3,765)	(3,633)	(2,713)	(3,186)	(3,718)	(4,096)
Cash	4,321	3,618	4,201	5,388	6,704	7,067
Other Financial Assets	3,833	4,614	4,963	5,669	6,515	7,540
Total assets	55,724	57,240	58,978	60,983	63,408	66,253
Statement of Cash Flows (INR Cr)	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Profit before tax	10,490	11,739	14,114	16,456	19,328	22,729
Depreciation	1,012	1,025	1,079	1,119	1,153	1,167
Tax paid	(2,536)	(2,921)	(3,557)	(4,246)	(5,103)	(5,932)
Working capital Δ	837	(824)	(447)	890	1,322	418
Change in Goodwill	(17,280)	-	-	-	-	-
Operating cashflow	(7,477)	9,019	11,190	14,220	16,700	18,382
Capital expenditure	(2,092)	(1,318)	(1,883)	(1,619)	(1,781)	(1,959)
Free cash flow	(9,569)	7,701	9,307	12,601	14,919	16,423
Equity raised	40,967	498	-	-	-	-
Investments	(737)	(428)	(390)	(458)	(797)	(1,006)
Others	(28,860)	(674)	486	(751)	(1,005)	(1,102)
Debt financing/disposal	92	70	(15)	(40)	20	(15)
Dividends paid	(9,518)	(7,990)	(8,974)	(10,379)	(12,092)	(14,277)
Other items	6,929	120	169	214	271	341
Net Δ in cash	(696)	(703)	583	1,187	1,316	364
Opening Cash Flow	5,017	4,321	3,618	4,201	5,388	6,704
Closing Cash Flow	4,321	3,618	4,201	5,388	6,704	7,067

Source: Company & Arianth Research

Standalone Financials

Ratio analysis	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Growth matrix (%)						
Revenue growth	18.6	11.3	16.3	14.2	14.9	15.7
EBITDA growth	18.0	10.4	18.4	15.6	16.5	16.7
EBIT growth	15.2	9.7	19.7	16.5	17.3	17.6
Net profit growth	18.0	10.9	19.7	15.7	16.5	18.1
Profitability ratios (%)						
EBITDA margin	24.6	24.4	24.9	25.2	25.5	25.7
EBIT margin	23.5	23.2	23.9	24.3	24.9	25.2
Net profit margin	17.3	17.2	17.7	17.9	18.2	18.6
RoCE	28.7	18.2	21.0	23.5	26.4	29.9
RoNW	28.7	18.3	21.3	23.8	26.7	30.2
RoA	14.3	15.4	17.9	20.0	22.4	25.4
Per share ratios						
EPS	33.8	37.5	44.9	52.0	60.5	71.5
Dividend per share	40.5	34.0	38.2	44.2	51.5	60.8
Cash EPS	38.2	41.9	49.5	56.7	65.4	76.4
Book value per share	201.8	207.5	214.2	222.0	231.1	241.8
Valuation ratios						
P/E	78.4	70.8	59.1	51.1	43.9	37.1
P/CEPS	69.6	63.4	53.6	46.8	40.6	34.7
P/B	13.2	12.8	12.4	12.0	11.5	11.0
EV/EBIDTA	54.7	49.5	41.8	36.0	30.8	26.4
Payout (%)						
Dividend payout	119.7	90.6	85.0	85.0	85.0	85.0
Tax payout	24.2	24.9	25.2	25.8	26.4	26.1
Liquidity ratios						
Debtor days	12.9	13.6	12.0	12.0	12.0	12.0
Inventory days	56.2	55.7	56.0	56.0	56.0	56.0
Creditor days	89.6	82.5	80.0	81.0	83.0	81.0

Source: Company & Arianth Research

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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%

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