

**CMP: INR 2,548**

**Rating: ACCUMULATE**

**Target Price: INR 2,766**

**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)	5,80,349
52w H/L (INR)	2,741/ 2,100
Avg Yearly Volume (in 000')	1,576

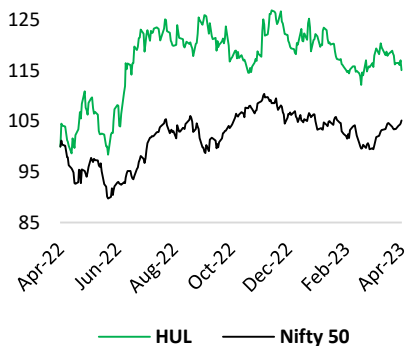
**Shareholding Pattern %**

(As on March 2023)

Promoters	61.9
FII	14.4
DII	11.5
Public & Others	12.2

Stock Performance (%)	1m	3m	12m
HUL	(1.2)	(5.5)	15.1
Nifty 50	5.5	1.8	5.2

**HUL Vs Nifty 50**



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The company reported a mixed performance with low double-digit growth on the top line with slight margin contraction (though they remain in a healthy range), and low double-digit bottom line growth. HUL's Revenue grew by 10.52% YoY to INR 15,215 Cr (-2.45% QoQ). The underlying volume growth was ~4%. Gross Margin contracted by 39bps YoY to 49.08% (+107bps QoQ). EBITDA grew by 8.27% YoY to INR 3,574 Cr (-3.25% QoQ). EBITDA Margin contracted by 49bps YoY to 23.49% (-19bps QoQ). PAT grew 12.89% YoY to INR 2,602 Cr (+4.88% QoQ). The board has recommended a final dividend of INR 22 for FY23. Growth continues to be largely price led on account of premium offerings performing better than the rest of the portfolio. The prices of key commodities remain elevated vs long-term averages, though they have softened significantly compared to last year. A&P spending has stepped up as well.

**Q4FY23 Conference Call Highlights**

**Commodity price softening:** During the year, the FMCG industry faced softening in commodity prices on a high base of the previous year, and sequentially as well. Except for barley, tea, and milk (SMP), all other commodities have witnessed significant correction in their prices. However, they remain elevated compared to the 10-year average. The 2-year NMI is 30%, 18% of which was offset with pricing action.

**Volumes to return in the short-medium term:** Price growth will tail off further in the years to come and the share of volumes will improve as consumption habits tend to revert but with a lag. FMCG volumes have been declining for the past 1.5 years, with rural markets leading this decline. However, as the propensity and willingness to consume returns, rural markets are expected to grow in volumes at a much faster rate compared to urban markets. Further price corrections in commodities will result in increasing grammage which will further aid volumes. In FY23, the overall FMCG market faced an 8% growth with a 4% volume decline, indicating a 12% price growth.

**Market share gain:** The company witnessed a broad-based market share gain across 75% of the product portfolio.

**New product launches and product innovation:** HUL launched previously launched 3 new brands in premium beauty 'Acne Squad', and 'Find Your Happy Place'. 'Novology' was launched this quarter.

**Outlook and Valuation:** We assign a TP of INR 2,766, valued at a P/E multiple of 50x the FY25E EPS of INR 55.3, indicating an upside of 12.7% from the CMP and a 'Accumulate' rating. Commodity inflation has seen some respite in Q4FY23, and the company delivered price-led top-line growth and maintained its margins in a healthy range. A lot of this was attributed to new product developments and marketing activities on the premium end of the portfolio which led to a full-year volume growth of 5% despite shrinking volumes seen across the industry. Key brands like Surf Excel, Vim, Lux, Ponds, Horlicks, and Knorr saw significant growth. The management is cautiously optimistic about near-term growth.

INR Cr	FY22	FY23	FY24E	FY25E	FY26E
Revenues	51,193	59,144	65,161	72,234	80,310
YoY growth (%)	11.3	15.5	10.2	10.9	11.2
Operating profit	12,503	13,632	15,704	17,914	20,479
OPM (%)	24.4	23.0	24.1	24.8	25.5
Reported PAT	8,818	9,962	11,454	12,999	14,802
YoY growth (%)	10.9	13.0	15.0	13.5	13.9
EPS (Rs)	37.5	42.4	48.7	55.3	63.0
P/E (x)	65.4	57.9	50.4	44.4	39.0
Price/Book (x)	11.8	11.5	11.2	10.7	10.3
EV/EBITDA (x)	45.8	41.9	36.3	31.8	27.7
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
RoE (%)	18.3	20.1	22.6	24.7	26.9
RoCE (%)	18.2	19.9	22.2	24.3	26.5

Source: Company & Arihant Research

**Quarterly Result**

INR Cr (consolidated)	Q4FY23	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>15,215</b>	<b>15,597</b>	<b>13,767</b>	<b>-2.45%</b>	<b>10.52%</b>
Raw Material Costs	7,747	8,108	6,956	-4.45%	11.37%
Gross Profit	7,468	7,489	6,811	-0.28%	9.65%
Gross Margin	49.08%	48.02%	49.47%	107bps	-39bps
Employee costs	738	722	579	2.22%	27.46%
Advertising and Promotion Expenses	1,311	1,209	1,296	8.44%	1.16%
Other Expenses	1,845	1,864	1,635	-1.02%	12.84%
<b>EBITDA</b>	<b>3,574</b>	<b>3,694</b>	<b>3,301</b>	<b>-3.25%</b>	<b>8.27%</b>
EBITDA margin %	23.49%	23.68%	23.98%	-19bps	-49bps
Depreciation	291	293	278	-0.68%	4.68%
<b>EBIT</b>	<b>3,283</b>	<b>3,401</b>	<b>3,023</b>	<b>-3.47%</b>	<b>8.60%</b>
Finance costs	29	29	38	0.00%	-24%
Exceptional Items	80	-103	55	-177.67%	45%
Share of loss of equity accounted investee, net of tax	-1	-	-	-	-
Other Income	160	110	79	45.45%	102.53%
<b>PBT</b>	<b>3,493</b>	<b>3,379</b>	<b>3,119</b>	<b>3.37%</b>	<b>11.99%</b>
Tax Expense	891	898	814	-0.78%	9%
Effective tax rate %	26%	27%	26%	-107bps	-59bps
<b>PAT</b>	<b>2,602</b>	<b>2,481</b>	<b>2,305</b>	<b>4.88%</b>	<b>12.89%</b>
Add: Other Comprehensive Income	-39	31	57	-225.81%	-45.61%
<b>Consolidated PAT</b>	<b>2,563</b>	<b>2,512</b>	<b>2,362</b>	<b>2.03%</b>	<b>8.51%</b>
PAT margin %	16.85%	16.11%	17.16%	74bps	-31bps
<b>EPS (Rs)</b>	<b>11.06</b>	<b>10.53</b>	<b>9.81</b>	<b>5.03%</b>	<b>12.74%</b>

INR Cr (consolidated)	Q4FY23	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
<b>Segment Revenue</b>					
Home Care	5,637	5,514	4,743	2.23%	18.85%
Beauty & Personal Care	5,257	5,764	4,743	-8.80%	10.84%
Foods & Refreshment	3,794	3,700	3,698	2.54%	2.60%
Others (includes Exports, Consignment, etc.)	527	619	583	-14.86%	-9.61%
<b>Total Segment Revenue</b>	<b>15,215</b>	<b>15,597</b>	<b>13,767</b>	<b>-2.45%</b>	<b>10.52%</b>
<b>Segment Results (EBIT)</b>					
Home Care	1,072	1,091	932	-1.74%	15.02%
Beauty & Personal Care	1,365	1,448	1,252	-5.73%	9.03%
Foods & Refreshment	679	661	713	2.72%	-4.77%
Others (includes Exports, Consignment, etc.)	167	201	126	-16.92%	32.54%
<b>Total Segment EBIT</b>	<b>3,283</b>	<b>3,401</b>	<b>3,023</b>	<b>-3.47%</b>	<b>8.60%</b>
<b>Segment EBIT Margin</b>					
Home Care	19.02%	19.79%	19.65%	-77bps	-63bps
Beauty & Personal Care	25.97%	25.12%	26.40%	84bps	-43bps
Foods & Refreshment	17.90%	17.86%	19.28%	3bps	-138bps
Others (includes Exports, Consignment, etc.)	31.69%	32.47%	21.61%	-78bps	1008bps
<b>EBIT Margin</b>	<b>21.58%</b>	<b>21.81%</b>	<b>21.96%</b>	<b>-23bps</b>	<b>-38bps</b>

Source: Company & Arian Research

**Q4FY23 Conference Call Highlights**
**Home Care:**

- FY23 had a 28% revenue growth with double-digit volume growth. The premium portfolio grew ahead of the rest of the portfolio. Surf Excel became the first Home & Personal Care brand in India to cross USD 1 bn in turnover owing to the engagement campaign 'daag acche hai'. Home care liquids crossed INR 3,000 Cr in revenue.
- Q4FY23 had a 19% revenue growth. Fabric Wash witnessed strong double-digit growth led by a premium portfolio and had handsome market share gains that continued both value and volume. Household Care faced a strong double-digit value and volume growth driven by outperformance in Dishwash.

**BPC:**

- FY23 had a 12% revenue growth with volume growth in the low single digit despite the decline in FMCG market volumes. 'Lux' & 'Pond's' crossed the INR 2000 cr mark each. There are now 5 BPC brands in the INR 2,000 cr club. They continue with their portfolio through innovations and new entrants into fast-growing demand spaces. The premium segment grew significantly ahead of the rest of the portfolio.

**Q4FY23 Conference Call Highlights****BPC:**

- Q4FY23 had a 10% revenue growth. Skin Cleansing had double-digit growth led by 'Lux'. There were price reductions taken during the quarter across the soap portfolio. Market development actions in body wash continue. Hair Care continued its market leadership and delivered volume growth in the mid-single-digits. Skin Care and Color Cosmetics had double-digit growth led by strong performance in the premium portfolio, cemented by a launch of the new specialist Skin Care brand 'Novology' in the masstige beauty segment. Oral Care delivered high single-digit growth and close-up continues to do well.

**F&R:**

- FY23 had a 5% revenue growth led by Ice Cream, Coffee, and Foods while volumes grew in the low single digit. HFD continues to gain consumer traction and increased penetration driven by market development activities. As a value and volume market leader in Tea, they widened the gap vs the nearest competition. There were key innovations with 'Horlicks Millets', 'Kissan Hazelnut Choco Peanut Butter', and 'Knorr Korean Meal Pots'. They are currently working toward de-seasonalising Ice Cream through innovations and activations. They have divested the non-core businesses of Salt & Atta to heighten the focus on packaged foods.
- Q4FY23 had a 3% revenue growth. They strengthened their market leadership in Tea despite higher inflation in premium teas vs loose tea leading to consumers downgrading- they are aiming to skew the market more toward premium packaged tea. Coffee performed well delivering double-digit growth. Health Food Drinks had a Mid-single digit growth across the portfolio accompanied by share and penetration gains. The HFD market remains subdued due to the inflation impact (milk) on consumption. Foods had a mid-single-digit growth led by strong performance in Ketchup and Food Solutions. Hellman's Mayonnaise and Kissan Peanut Butter continued to gain consumer traction. Ice Cream delivered mid-single-digit growth on a high base last year. Unseasonal rains impacted consumption. Volumes in ice cream will return as peak season approaches.

**Other highlights:**

- Shikhar became the widest-adopted B2B app.
- 30% of all sales are digitally captured.
- Launched 60 SKUs last year. A- Class SKUs contribute to the top 80% of turnover, and have a DBNR (Days before the next run) of 3.5 days.
- Plastic neutrality has been maintained since CY2020. They created an ESG committee on the board this year.
- Urban market-led growth was seen across the FMCG industry with some signs of improvement in the rural market sequentially.
- Volume declines in the market are lower sequentially.
- Unprecedented inflation reduced GM, but media intensity was maintained. The goal is to step up A&P investments and maintain GMs in the coming quarters as well.

Standalone Financials

Income Statement (INR Cr)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>51,193</b>	<b>59,144</b>	<b>65,161</b>	<b>72,234</b>	<b>80,310</b>
Net Raw Materials	25,124	31,144	33,232	36,117	39,352
Advt & Promotion	4,718	4,859	5,213	5,851	6,585
Employee Cost	2,399	2,665	2,932	3,323	3,775
Other Expenses	6,449	6,844	8,080	9,029	10,119
Total Expenses	38,690	45,512	49,457	54,320	59,831
<b>EBITDA</b>	<b>12,503</b>	<b>13,632</b>	<b>15,704</b>	<b>17,914</b>	<b>20,479</b>
<b>EBITDA margin</b>	<b>24.4</b>	<b>23.0</b>	<b>24.1</b>	<b>24.8</b>	<b>25.5</b>
Depreciation	(1,025)	(1,030)	(1,183)	(1,401)	(1,641)
Interest expense	(98)	(101)	(110)	(113)	(117)
Other income	393	640	720	795	885
Exceptional items	(34)	(62)	-	-	-
<b>Profit before tax</b>	<b>11,739</b>	<b>13,079</b>	<b>15,131</b>	<b>17,194</b>	<b>19,605</b>
Taxes	(2,921)	(3,117)	(3,677)	(4,195)	(4,803)
<b>Net profit</b>	<b>8,818</b>	<b>9,962</b>	<b>11,454</b>	<b>12,999</b>	<b>14,802</b>
<b>EPS</b>	<b>37.5</b>	<b>42.4</b>	<b>48.7</b>	<b>55.3</b>	<b>63.0</b>

Balance Sheet (INR Cr)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	235	235	235	235	235
Reserves	48,525	49,986	51,131	53,731	55,951
<b>Net worth</b>	<b>48,760</b>	<b>50,221</b>	<b>51,366</b>	<b>53,966</b>	<b>56,186</b>
Debt	1,015	1,241	1,201	1,181	1,166
Deferred tax liab (net)	7,465	7,401	7,598	7,838	8,133
<b>Total liabilities</b>	<b>57,240</b>	<b>58,863</b>	<b>60,165</b>	<b>62,986</b>	<b>65,485</b>
Fixed assets	4,810	6,189	6,518	7,300	8,060
Capital Work In Progress	901	1,020	1,183	1,401	1,641
Other Intangible assets	28,908	27,900	27,900	27,900	27,900
Goodwill	17,316	17,316	17,316	17,316	17,316
Investments	1,873	2,037	2,606	3,251	4,015
Other non current assets	1,282	1,314	471	602	647
<b>Net working capital</b>	<b>-6,082</b>	<b>-5,572</b>	<b>-5,760</b>	<b>-6,457</b>	<b>-7,126</b>
Inventories	3,890	4,031	4,431	5,016	5,466
Sundry debtors	1,932	2,735	2,715	3,210	3,569
Other current assets	593	624	724	823	937
Sundry creditors	(8,864)	(9,391)	(10,578)	(12,071)	(13,462)
Other current liabilities & Prov	(3,633)	(3,571)	(3,052)	(3,435)	(3,636)
Cash	3,618	4,422	4,863	5,654	6,339
Other Financial Assets	4,614	4,237	5,068	6,019	6,692
<b>Total assets</b>	<b>57,240</b>	<b>58,863</b>	<b>60,165</b>	<b>62,986</b>	<b>65,485</b>

Statement of Cash Flows (INR Cr)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	11,739	13,079	15,131	17,194	19,605
Depreciation	1,025	1,030	1,183	1,401	1,641
Tax paid	(2,921)	(3,117)	(3,677)	(4,195)	(4,803)
Working capital Δ	(824)	(510)	188	697	670
Change in Goodwill	-	-	-	-	-
<b>Operating cashflow</b>	<b>9,019</b>	<b>10,482</b>	<b>12,825</b>	<b>15,097</b>	<b>17,113</b>
Capital expenditure	(1,318)	(2,528)	(1,675)	(2,401)	(2,641)
<b>Free cash flow</b>	<b>7,701</b>	<b>7,954</b>	<b>11,150</b>	<b>12,696</b>	<b>14,471</b>
Equity raised	498	756	(0)	-	-
Investments	(428)	(164)	(569)	(644)	(765)
Others	(674)	1,353	12	(1,083)	(718)
Debt financing/disposal	70	226	(40)	(20)	(15)
Dividends paid	(7,990)	(9,257)	(10,309)	(10,399)	(12,582)
Other items	120	(64)	197	241	294
<b>Net Δ in cash</b>	<b>(703)</b>	<b>804</b>	<b>441</b>	<b>791</b>	<b>686</b>
<b>Opening Cash Flow</b>	<b>4,321</b>	<b>3,618</b>	<b>4,422</b>	<b>4,863</b>	<b>5,654</b>
<b>Closing Cash Flow</b>	<b>3,618</b>	<b>4,422</b>	<b>4,863</b>	<b>5,654</b>	<b>6,339</b>

Source: Company & Arihant Research

Standalone Financials

Ratio analysis	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	11.3	15.5	10.2	10.9	11.2
EBITDA growth	10.4	9.0	15.2	14.1	14.3
EBIT growth	9.7	11.5	15.1	13.6	14.0
Net profit growth	10.9	13.0	15.0	13.5	13.9
<b>Profitability ratios (%)</b>					
EBITDA margin	24.4	23.0	24.1	24.8	25.5
EBIT margin	23.2	22.4	23.4	24.0	24.6
Net profit margin	17.2	16.8	17.6	18.0	18.4
RoCE	18.2	19.9	22.2	24.3	26.5
RoNW	18.3	20.1	22.6	24.7	26.9
RoA	15.4	16.9	19.0	20.6	22.6
<b>Per share ratios</b>					
EPS	37.5	42.4	48.7	55.3	63.0
Dividend per share	34.0	39.0	43.9	44.3	53.5
Cash EPS	41.9	46.8	53.8	61.3	70.0
Book value per share	207.5	213.7	218.6	229.6	239.1
<b>Valuation ratios</b>					
P/E	65.4	57.9	50.4	44.4	39.0
P/CEPS	58.6	52.5	45.6	40.1	35.1
P/B	11.8	11.5	11.2	10.7	10.3
EV/EBIDTA	45.8	41.9	36.3	31.8	27.7
<b>Payout (%)</b>					
Dividend payout	90.6	92.9	90.0	80.0	85.0
Tax payout	24.9	23.8	24.3	24.4	24.5
<b>Liquidity ratios</b>					
Debtor days	13.6	16.6	15.0	16.0	16.0
Inventory days	55.7	46.6	48.0	50.0	50.0
Creditor days	82.5	74.3	77.0	80.0	81.0
<b>Cash Conversion Cycle</b>	<b>(13.2)</b>	<b>(11.0)</b>	<b>(14.0)</b>	<b>(14.0)</b>	<b>(15.0)</b>
<b>Leverage ratios</b>					
Interest coverage	121.1	131.1	138.7	153.0	168.1
Net debt / equity	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Net debt / op. profit	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)
<b>Du-Pont Analysis</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
EBIT margin (x)	0.2	0.2	0.2	0.2	0.2
Asset turnover (x)	3.0	3.1	3.0	2.9	2.8
Financial leverage (x)	0.4	0.4	0.4	0.5	0.5
<b>RoE (%)</b>	<b>18.3</b>	<b>20.1</b>	<b>22.6</b>	<b>24.7</b>	<b>26.9</b>

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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