

## Volumes, margins to recover in H2FY23...

**About the stock:** Hindustan Unilever (HUL) is the biggest FMCG company in India with more than 40 brands across categories. It is the market leader in fabric wash, personal wash, cosmetics, shampoos and many other categories.

- The company has a distribution reach of ~8.5 million (mn) outlets with a direct network of more than 3.5 mn
- HUL acquired GSK Consumer Healthcare's business in 2019 and integrated Horlicks and Boost brands with the foods & refreshment segment

**Q1FY23 Results:** HUL's results were better than estimates with 6% volume growth.

- Sales were up 19.5% YoY driven largely by pricing growth
- EBITDA was at ₹ 3247 crore, up 14.0% YoY, with margins at 23.2%
- Consequent PAT was at ₹ 2289 crore (up 11.1% YoY)

**What should investors do?** HUL's share price has gone up by 121% over the past five years (from ₹ 1158 in July 2017 to ₹ 2568 levels in July 2022).

- We expect volume growth & margin to recover in H2FY23 given commodity inflation has started cooling off from the peak
- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value HUL at ₹ 2700 i.e. 60x P/E on FY24E EPS.

### Key triggers for future price performance:

- Synergistic benefits of integration of nutrition business (Horlicks & Boost) to drive cost rationalisation
- Long term premiumisation trend in fabric wash to help sustain margins
- Palm oil has started cooling down in the last one month but other important commodities still remain at an elevated level. Margins to recover in H2FY23
- The company is driving more than 20% of its sales through digital channels like e-commerce, Shikhar app (reach of 8 lakh outlets), D2C, etc

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

- Strong innovation & premiumisation strategy in salt, tea, Sampann & Souful in Indian market expected to drive sales & margins
- We value the stock at ₹ 910 with BUY rating



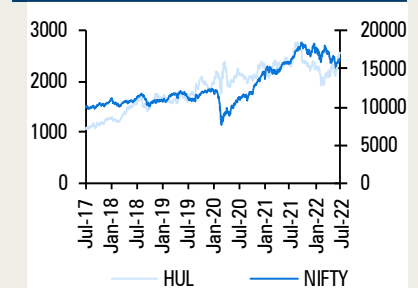
### Particulars

Particular (₹ crore)	Amount
Market Capitalization	6,10,844.0
Total Debt (FY22)	0.0
Cash and Investments (FY22)	7,128.0
EV	6,03,716.0
52 week H/L (₹)	2859 / 1901
Equity capital	235.0
Face value	₹ 1

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	61.9	61.9	61.9	61.9
FII	15.5	14.7	13.7	13.3
DII	10.5	10.9	11.6	12.2
Others	12.1	12.5	12.8	12.6

### Price Chart



### Recent event & key risks

- Market share gains in 75% of business
- Key Risk:** (i) Crude & related commodities continue to remain at elevated levels (ii) Revival in rural growth due to expected strong agricultural growth

### Research Analyst

Sanjay Manyal  
sanjay.manyal@icicisecurities.com

### 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	57405.5	61707.1	9.8%
EBITDA	9600.0	11324.0	12503.0	15.6	13624.4	14843.5	9.0%
EBITDA Margin %	24.8	24.6	24.4		23.7	24.1	
Net Profit	6738.0	7954.5	8818.0	11.9	9607.6	10533.9	9.3%
EPS (₹)	31.19	33.86	37.53	10.0	40.89	44.84	9.3%
P/E	83.3	76.8	69.3		63.6	58.0	
RoNW %	85.7	17.1	18.1		19.7	21.5	
RoCE (%)	89.5	18.9	20.2		22.5	24.6	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY23 Results: Volumes flat on three-year CAGR but gains in market share

- Net sales grew 19.5% to ₹ 14016 crore led by aggressive price hikes in home care and beauty & personal care (BPC) segment. The company reported 6% volume growth on a low base impacted by second Covid wave but demand conditions still remain below par owing to aggressive price hikes specifically in BPC segment. Impact of grammage reduction has been 2-3%
- The FMCG market witnessed 5-7% de-growth in volumes in the March and June quarter on a three-year CAGR basis but HUL has seen flat volumes in a similar period. Volume decline in rural regions is more prominent. The company has gained market share in 75% of its business
- Home care segment witnessed growth of 29.9% with high-single digit volume growth. On a three-year CAGR basis, the segment witnessed growth of robust 12.5%. Premiumisation trend continues in fabric wash with most of the brands gaining market share. The company took a price hike to pass on steep inflation in crude & caustic soda
- BPC segment saw 17.3% growth during the quarter. The segment also saw aggressive price hikes given palm fatty acids and packaging costs remain high throughout the quarter. On a three-year CAGR basis, the segment saw growth of 5.3%. The soap category has largely been led by pricing growth. Hair care witnessed double digit growth led by premium portfolio
- Glow & lovely and Talc saw muted growth due to slowdown in discretionary consumption. Thought colour cosmetics saw strong growth on a Covid impacted low base, it still remains below pre-Covid levels
- Food & refreshment category saw 9.3% growth led by strong growth tea, coffee and ice creams. The company had taken a price cut in tea previously due to benign tea procurement prices. Though HUL gained market share in the nutrition segment, the category is still growing at a dismal pace
- Gross margins continue to remain under pressure with 309 bps contraction given both crude & palm oil prices were sharply up in most of the quarter. Though palm oil prices have cooled off significantly in the last one month, other commodities like caustic soda, crude & polyethylene have still remained at an elevated level
- Many commodity prices were at elevated levels in June 2022 compared to June 2021. Crude oil was 60% up, caustic soda was up 125%, palm oil was 50% up whereas polyethylene was up 25%. Though the trend in palm oil is downwards, other commodities need to decline further to bring sustained relief on gross margins. Margins would continue to remain under pressure in Q2 given the company holds 12-14-week raw material inventory. However, it should start improving sequentially from Q3 onwards
- Price cuts/reversal/grammage restoration in view of commodity decline generally takes place with a lag given channel inventory is required to get cleared before price cuts. Generally, the company takes a price hike in smaller proportions and price cuts in a large proportion
- The 12% pricing growth in the quarter is lagging behind raw material costs, which is up 20%. The company expects COGS in the September quarter would be higher compared to June quarter
- The company continues to save costs, which reflected in 100 bps (as percentage of sales) lower employee spends and 145 bps lower (as percentage of sales) overhead spends. Advertisement spend was up 71 bps (as percentage of sales). This resulted in operating profit growth of 14% to ₹ 3247. Operating margins contracted 110 bps to 23.2%. Net profit grew 11.1% to ₹ 2289 crore led by growth in operating profit, which was partially impacted by higher income tax provisioning (base quarter tax write back)

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
Dabur India (DABIND)	558	680 Buy	96,113	13.9	10.2	11.2	20.7	20.5	20.9	55.2	46.3	41.4	20.8	22.7	22.9	24.9	25.3	26.1
Colgate (COLPAL)	1575	1700 Hold	42,593	5.3	7.7	8.2	30.9	30.7	30.6	39.5	37.6	34.8	62.2	64.6	68.8	77.8	84.9	90.2
Tata Consumer (TATGLO)	791	910 Buy	67,201	7.1	9.7	9.7	13.8	15.6	16.1	66.2	48.7	41.7	7.0	8.8	9.8	8.4	10.3	11.3
Hindustan Unilever (HINLEV)	2600	2700 Hold	6,10,844	11.3	12.1	7.5	24.8	24.1	24.5	69.3	63.6	58.0	18.1	19.7	21.5	20.2	22.5	24.6

Source: Company, ICICI Direct Research

High commodity inflation in most of the quarter resulted in contraction of both gross margins as well as operating margins. Though palm oil prices dipped significantly from the highs in mid-June, most other commodities have still remained at an elevated level. The management has guided at a sequential improvement in margins from the December quarter onwards. Home care segment has witnessed strong growth of 12.5% on a three-year CAGR basis led by strong growth in premium detergent category with market share gains. However, growth in soaps & other personal care categories has remained lacklustre. We believe volume growth will recover in H2FY22 (without any base effect) with price cuts & restoration of grammage in smaller packs. We believe the company would witness healthy volume growth and recovery in operating margins in the second half of FY23. Moreover, the company is expected to be aggressive in terms of innovation (new product launches) during the festive season. We maintain our **HOLD** rating with a revised target price of ₹ 2700/share (earlier: ₹ 2200).

**Exhibit 2: Variance Analysis**

Particulars (₹ crore)	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Net Sales	14,016.0	13,382.7	11,730.0	19.5	13,190.0	6.3	Net sales growth led by 6% volume uptick on the back of low base quarter and 12.5% price hike
Other Operating Income	256.0	228.2	185.0	38.4	272.0	-5.9	
Raw Material Expenses	7,514.0	6,937.0	5,905.0	27.2	6,792.0	10.6	Gross margins contracted by 309 bps given crude based commodities & palm oil remain at an elevated level for most of the quarter
Employee Expenses	597.0	622.3	618.0	-3.4	542.0	10.1	Employee spends down by 100 bps (as percentage of sales)
Marketing Expenses	1,328.0	1,231.2	1,024.0	29.7	1,290.0	2.9	
Other operating expenses	1,586.0	1,605.9	1,521.0	4.3	1,593.0	-0.4	Overhead spend down by 145 bps
EBITDA	3,247.0	3,214.4	2,847.0	14.0	3,245.0	0.1	
EBITDA margin (%)	23.2	23.6	24.3	-110 bps	24.6	-144 bps	Despite cost cutting measures, operating margins contracted by 110 bps
Depreciation	260.0	285.5	244.0	6.6	261.0	-0.4	
Interest	26.0	22.1	11.0	136.4	36.0	N.A.	
Other Income	137.0	110.0	67.0	104.5	122.0	12.3	
PBT	3,098.0	3,016.9	2,659.0	16.5	3,128.0	-1.0	
Exceptional Items	-12.0	0.0	-26.0	N.A.	58.0	N.A.	
Tax Outgo	797.0	760.3	572.0	39.3	801.0	-0.5	Income tax increased by 39.3% given base quarter included tax write back
PAT	2,289.0	2,256.7	2,061.0	11.1	2,327.0	-1.6	
<b>Key Metrics growth YoY (%)</b>							
Home care	29.9	20.2	11.9		23.7		Strong growth in home care largely led by pricing growth
Beauty & Personal care	17.3	5.3	13.2		3.6		Price increase in soaps led to high growth in BPC segment
Food & Refreshments	9.3	12.6	12.2		5.3		The company took price cuts in tea segment but volume growth was in mid-single digit

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	Change	Old	New	change	
Total operating Income	56225.9	57,405.5	2.1	60444.94	61707.1	2.1	We are revising upward our sales estimates owing to strong growth in Q1
EBITDA	13448.9	13624.4	1.3	14714.48	14843.5	0.9	
EBITDA Margin (%)	23.9	23.7	-19 bps	24.3	24.1	-29 bps	
PAT	9280.8	9607.6	3.5	10254.08	10533.9	2.7	We reduce our depreciation provision for FY23E & FY24E
EPS (₹)	39.5	40.9	3.5	43.6	44.8	2.7	

Source: ICICI Direct Research

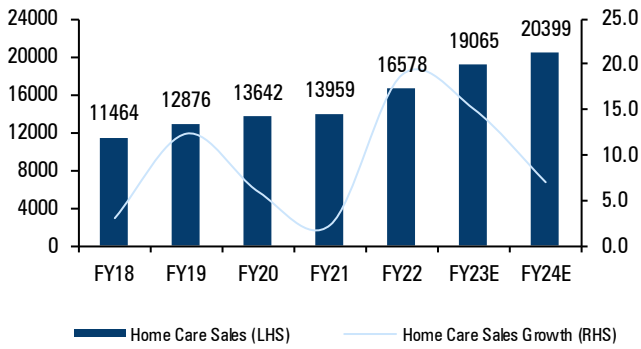
**Exhibit 4: Assumptions**

(₹ crore)	Current				Earlier			Comments
	FY20	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Home care	13,642.0	13,959.0	16,578.0	19,064.7	20,399.2	17,904.2	19,157.5	We change our home care segment sales growth upward given price growth would continue to contribute to sales for rest of FY23
Personal care	17,345.0	17,964.0	19,460.0	21,406.0	23,332.5	21,406.0	23,332.5	
Food & Refreshments	7,450.0	13,204.0	14,105.0	14,951.3	15,848.4	14,951.3	15,848.4	

Source: ICICI Direct Research

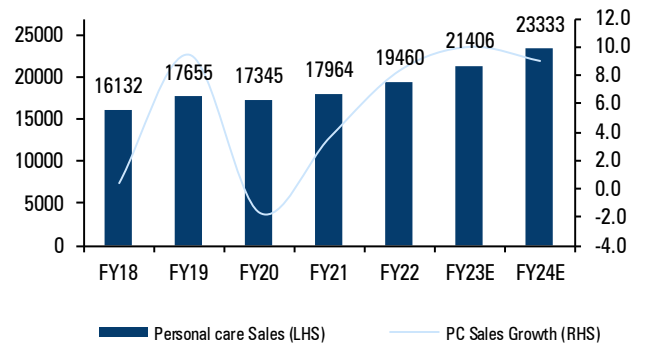
### Key Metrics

Exhibit 5: Home care revenue (₹ crore) and YoY growth (%)



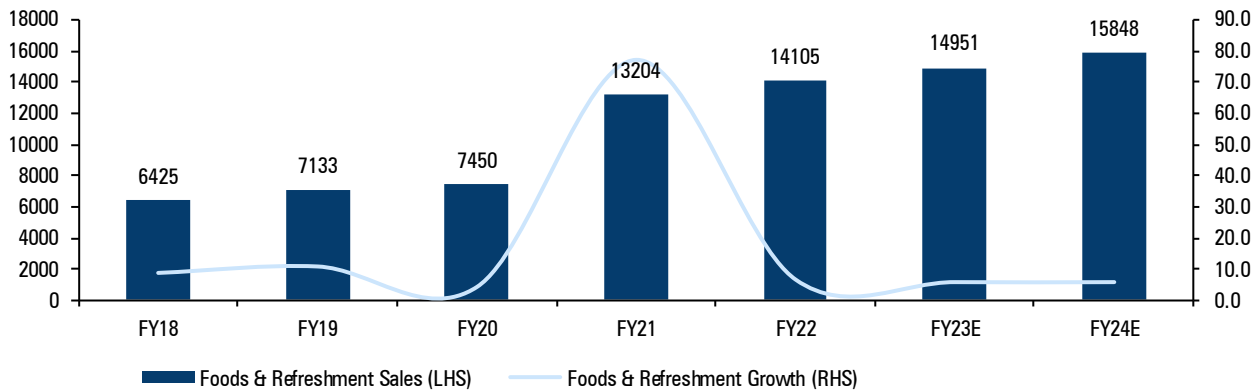
Source: ICICI Direct Research, Company

Exhibit 6: Personal care revenue (₹ crore) & growth (%) trend



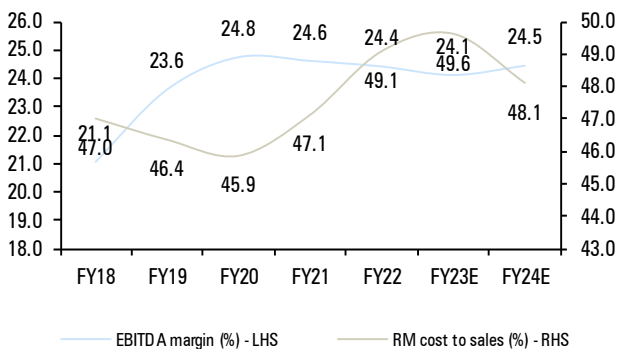
Source: ICICI Direct Research, Company

Exhibit 7: Foods & refreshment revenue (₹ crore) and growth (%) trend



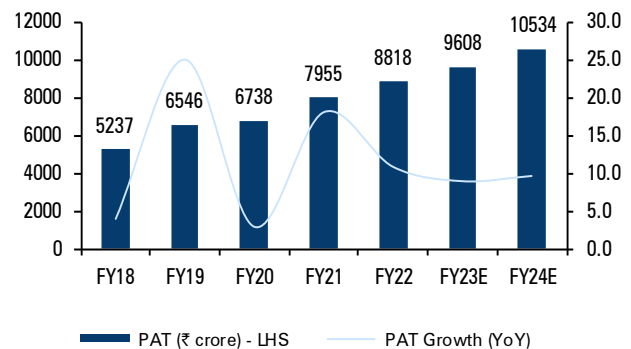
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA margin and raw material trend



Source: Company, ICICI Direct Research

Exhibit 9: PAT to grow at CAGR of 9.3% in FY22-24E



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: 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>57,405.5</b>	<b>61,707.1</b>
Growth (%)	18.6	11.3	12.1	7.5
Raw Material Expenses	21,677.0	25,124.0	28,476.8	29,684.0
Employee Expenses	2,229.0	2,399.0	2,823.7	3,035.3
Marketing Expenses	4,737.0	4,718.0	5,365.0	6,192.0
Administrative Expenses	0.0	0.0	2,597.8	2,913.9
Other expenses	6,029.0	6,449.0	4,517.9	5,038.6
Total Operating Expenditure	34,672.0	38,690.0	43,781.2	46,863.7
<b>EBITDA</b>	<b>11,324.0</b>	<b>12,503.0</b>	<b>13,624.4</b>	<b>14,843.5</b>
Growth (%)	18.0	10.4	9.0	8.9
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	12,844.3	14,082.8
Total Tax	2,536.0	2,921.0	3,236.8	3,548.9
<b>PAT</b>	<b>7,954.5</b>	<b>8,818.0</b>	<b>9,607.6</b>	<b>10,533.9</b>
Growth (%)	18.1	10.9	9.0	9.6
EPS (₹)	33.9	37.5	40.9	44.8

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	8,123.0	9,019.0	9,607.6	10,533.9
Add: Depreciation	1,069.0	1,040.0	1,098.0	1,140.3
(Inc)/dec in Current Assets	-866.0	-992.0	-1,194.1	248.3
Inc/(dec) in CL and Provisions	810.0	203.0	969.6	1,890.6
<b>CF from operating activities</b>	<b>8,957.0</b>	<b>8,964.0</b>	<b>10,481.1</b>	<b>13,813.1</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	-116.5	23.9
<b>CF from investing activities</b>	<b>(1,367.0)</b>	<b>(1,732.0)</b>	<b>(1,338.5)</b>	<b>(1,241.4)</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	-257.4	2,231.7
Opening Cash	3,130.0	1,740.0	988.0	730.6
<b>Closing Cash*</b>	<b>4,321.0</b>	<b>3,618.0</b>	<b>3,360.6</b>	<b>5,592.3</b>

Source: Company, ICICI Direct Research

Exhibit 12: 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	48,732.6	48,926.5
Total Shareholders funds	47,434.0	48,760.0	48,967.6	49,161.5
Other Non Current Liabilities	2,304.0	2,339.0	2,339.0	2,339.0
Long Term Provisions	1551.0	1553.0	144.5	158.4
<b>Total Liabilities</b>	<b>57,275.0</b>	<b>58,793.0</b>	<b>57,602.1</b>	<b>57,819.9</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	4,641.7	4,157.9
Debtors	1,648.0	1,932.0	2,320.8	2,162.1
Loans and Advances	0.0	0.0	0.0	0.0
Investments & Other CA	1,605.0	1,697.0	1,547.2	1,663.2
Cash	4,321.0	3,618.0	3,360.6	5,592.3
Total Current Assets	13,640.0	14,647.0	15,583.7	17,567.1
Creditors	8,627.0	8,864.0	9,902.2	11,642.1
Provisions & other CL	2,214.0	2,080.0	2,011.4	2,162.1
Total Current Liabilities	10,841.0	10,944.0	11,913.6	13,804.3
Net Current Assets	2,799.0	3,703.0	3,670.1	3,762.9
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>57,602.1</b>	<b>57,819.9</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	33.9	37.5	40.9	44.8
Cash EPS	38.2	41.9	45.6	49.7
BV	201.9	207.5	208.4	209.3
DPS	27.0	34.0	40.0	44.0
Cash Per Share	18.4	15.4	14.3	23.8
<b>Operating Ratios (%)</b>				
EBITDA/Total Operating Income	24.6	24.4	24.1	24.5
PBT Margin	23.3	23.0	22.4	22.9
PAT Margin	17.3	17.2	16.7	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	19.7	21.5
RoCE	18.9	20.2	22.5	24.6
<b>Valuation Ratios (x)</b>				
P/E	76.8	69.3	63.6	58.0
EV / EBITDA	53.6	48.6	44.6	40.8
EV / Net Sales	13.4	12.1	10.8	10.0
Market Cap / Sales	13.5	12.1	10.8	10.1
Price to Book Value	12.9	12.5	12.5	12.4
<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 14: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Colgate (COLPAL)	1,575	1,700	Hold	42,593	39.6	41.6	45.1	39.7	37.8	35.0	8.4	7.8	7.2	77.8	84.9	90.2	62.2	64.6	68.8
Dabur India (DABIND)	558	680	Buy	96,113	9.9	11.7	13.1	56.6	47.5	42.5	8.8	8.0	7.2	24.9	25.3	26.1	20.8	22.7	22.9
Hindustan Unilever (HINLEV)	2,600	2,700	Hold	6,10,844	37.5	40.9	44.8	69.3	63.6	58.0	12.1	10.8	10.1	20.2	22.5	24.6	18.1	19.7	21.5
ITC Limited (ITC)	298	310	Buy	3,60,223	12.4	14.0	15.5	24.0	21.3	19.2	6.1	5.6	5.1	31.4	34.9	36.6	24.5	26.7	28.1
Jyothy Lab (JYOLAB)	175	145	Hold	6,077	4.3	5.6	6.4	41.2	31.3	27.5	2.8	2.5	2.3	18.7	24.2	27.7	16.6	21.2	23.8
Marico (MARLIM)	511	530	Hold	64,929	9.7	10.6	11.7	52.5	48.3	43.6	6.8	6.3	5.8	41.2	46.8	52.9	37.5	41.4	47.4
Nestle (NESIND)	18,570	19,050	Hold	1,75,243	222.4	252.9	291.6	83.5	73.4	63.7	12.0	10.8	9.8	58.7	58.8	62.9	111.3	110.4	111.8
Tata Consumer Products (TAT)	791	910	Buy	71,514	11.0	15.0	17.5	71.8	52.8	45.3	5.8	5.2	4.8	8.4	10.3	11.3	7.0	8.8	9.8
VST Industries (VSTIND)	3,171	3,425	Hold	4,986	229.3	252.9	290.5	13.8	12.5	10.9	4.2	3.9	3.6	39.2	44.6	50.6	30.0	33.4	37.8
Varun Beverage (VARBEV)	883	900	Buy	55,179	17.2	17.3	20.2	51.3	51.2	43.7	6.3	5.1	4.5	17.1	25.6	29.7	18.3	22.8	23.0

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)



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