

## Pricing led growth; cost inflation to persist...

**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 ~8.0 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

**Q2FY22 Results:** HUL's numbers were on expected lines for Q2FY22

- Sales were up 11% YoY with muted 4% volume growth
- EBITDA was at ₹ 3132 crore, up 9.2% YoY, with margins at 24.6%
- Consequent PAT was at ₹ 2187 crore (up 8.8% YoY)

**What should investors do?** HUL's share price has gone up by ~3x over the past five years (from ~₹ 850 in October 2016 to ~₹ 2510 levels in October 2021).

- We expect volume growth to remain dismal in the medium term on high base & grammage reduction
- We downgrade our rating from BUY to HOLD on the stock

**Target Price and Valuation:** We value HUL at ₹ 2750 i.e. 56x P/E on FY24E EPS

**Key triggers for future price performance:**

- Synergistic benefits of integration of nutrition business (Horlicks & Boost) to drive cost rationalisation
- Strong visible premiumisation trend, specifically in fabric wash
- Steep commodity inflation to continue driving pricing growth but keep margins under check
- Increased effective coverage, assortment by 1.2x, 1.4x, respectively, in Q2
- Digital initiatives are capturing more than 10% of the business

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

- It is growing at a steady pace in nascent categories with strong presence in health, nutrition space & margin expansion possibilities
- Trading at a significant discount to FMCG peers. BUY with a TP of ₹ 2,800



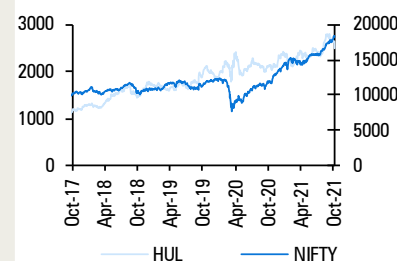
### Particulars

Particular (₹ crore)	Amount
Market Capitalization	582,416.3
Total Debt (FY21)	0.0
Cash and Investments (FY21)	7,004.0
EV	575,412.3
52 week H/L (₹)	2859 / 2043
Equity capital	235.0
Face value	₹ 1

### Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	61.9	61.9	61.9	61.9
FII	14.9	15.0	15.1	15.5
DII	10.7	10.7	10.7	10.5
Others	12.5	12.4	12.3	12.1

### Price Chart



### Recent event & key risks

- Aggressive new launches across categories before festive season
- Key Risk:** (i) Incessant increase in RM costs (ii) slower growth in key categories

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### Key Financial Summary

Key Financials	FY20	FY21	5 year CAGR		FY23E	FY24E	3 Year CAGR
			(FY16-21)	FY22E			
Total Operating Income	38785.0	45996.0	6.5	51912.5	56612.3	61372.5	10.1%
EBITDA	9600.0	11324.0	14.5	13078.2	14597.0	15859.8	11.9%
EBITDA Margin %	24.8	24.6		25.2	25.8	25.8	
Net Profit	6738.0	7954.5	14.0	9243.4	10419.3	11409.1	12.8%
EPS (₹)	31.19	33.86	12.1	39.34	44.35	48.56	12.8%
P/E	79.5	73.2		63.0	55.9	51.0	
RoNW %	85.7	17.1		19.5	21.5	23.0	
RoCE (%)	89.5	18.9		25.0	27.6	29.5	

## Key takeaways of recent quarter & conference call highlights

### Q2FY22 Results: Growth led by pricing; gross margins under pressure

- Home care segment saw growth of 15.7% with recovery in detergents as mobility improved after the second wave. Segment margins contracted 147 bps with steep inflation in crude based commodity prices
- BPC segment witnessed growth of 10.3% led by recovery in discretionary categories like skin care & colour cosmetics. Further pricing growth in soaps also aided sales growth. Segment margins were down 148 bps with sharp increase in palm oil prices
- Foods & refreshment segment sales grew 7.2% led by growth in nutrition business, strong recovery in ice-creams. However, dip in tea prices led to pricing rationalisation impacting sales growth. Also, sales growth in Knorr & Kissan was soft

### Q2FY22 Earnings Conference Call highlights

- HUL witnessed 4% volume growth & 7% pricing growth during the quarter with more than 75% of product portfolio gaining market share and penetration. The company has introduced various products across categories before the festive season
- In home care, premium brands like Surf Excel is growing at a faster pace. Purifiers have seen double digit growth due to acceleration in ecommerce channel
- In BPC, soaps grew on a high base whereas sanitisers declined with covid-19 cases coming down. The company has taken staggered price hikes to pass on sharp commodity inflation. Hair care, oral care saw strong traction
- Urban growth is growing faster due to the increase in mobility whereas rural growth has been impacted by high base, steep inflation & lower income. Total 85% of the GTM integration of acquired nutrition business is completed while effective coverage is 1.9x of pre-integration
- Discretionary categories i.e. skin care & colour cosmetics are closer to the pre-2019 sales. Lakme is the biggest cosmetic brand followed on social media platform and derives 30% of sales through online channels. Total digital demand capture is now closer to 15% of sales through Shikhar, ecommerce & direct to consumer segments
- Total 85% of the product portfolio, which consists of health, hygiene & wellness products, grew a strong 7% YoY and 19% on Q2FY20 levels. Discretionary products (12% of the product portfolio) grew 31% YoY (lack of mobility in H1FY21) but still down 2% on Q2FY20 basis. Out of home categories (3% of sales) saw a strong re-bounce with 74% growth from low base of last year and even 31% growth from normalised base of Q2FY20 levels

### 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		
Dabur India (DABIND)	593	740 Buy	104,789	13.6	10.1	11.2	20.8	21.5	21.8	56.1	49.5	44.3	22.3	23.1	23.1	25.8	27.1	27.7
Colgate (COLPAL)	1614	2000 Buy	43,899	7.6	8.2	9.8	31.1	31.2	31.5	41.2	37.9	33.9	85.1	85.8	86.2	110.9	111.9	112.4
Tata Consumer (TATGLO)	827	900 Buy	76,209	13.3	8.1	9.5	13.7	14.1	14.5	66.6	57.9	50.2	7.6	8.4	9.3	9.1	9.9	10.8
Zydus Wellness (ZYDWEL)	2,226	2,800 Buy	14,164	13.4	9.6	10.5	19.7	20.7	21.0	38.5	32.6	28.6	7.7	9.0	10.0	7.5	8.7	9.6
Hindustan Unilever (HINLEV)	2479	2750 Hold	582,416	12.9	9.1	8.4	25.6	26.2	26.3	63.0	55.9	51.0	19.5	21.5	23.0	25.0	27.6	29.5

Source: Company, ICICI Direct Research

The company witnessed strong sales growth across categories but growth was largely led by pricing rather than volumes. HUL is focusing on innovation and channel penetration to propel volume growth, going forward. We await its impact on the volume trajectory in coming quarters. Further, persistent cost inflation would continue to put pressure on margins in the near future. We maintain our target price of ₹ 2750 /share on the stock with HOLD rating (from BUY earlier).

**Exhibit 2: Variance Analysis**

Particulars (₹ crore)	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Net Sales	12,516.0	12,915.7	11,276.0	11.0	11,730.0	6.7	Net sales up 11% led by strong growth in home care & sharp recovery in BPC segments. Growth was largely led by price hikes. Volume growth was muted at 4%
Other Operating Income	208.0	216.6	166.0	25.3	185.0	12.4	
Raw Material Expenses	6,158.0	6,298.0	5,375.0	14.6	5,905.0	4.3	Gross margins continued to remain under pressure with contraction of 142 bps. Palm oil & crude based packaging cost was up ~60%
Employee Expenses	582.0	656.2	559.0	4.1	618.0	-5.8	
Marketing Expenses	1,215.0	1,420.7	1,139.0	6.7	1,024.0	18.7	Marketing spends remain low at 9.6% of sales against 12% of sales in pre-Covid-19 period
Other operating expenses	1,637.0	1,627.4	1,500.0	9.1	1,521.0	7.6	
EBITDA	3,132.0	3,129.9	2,869.0	9.2	2,847.0	10.0	
EBITDA margin (%)	24.6	23.8	25.1	-46 bps	23.9	72 bps	The company was able to protect its operating margins at 24.6% with savings from marketing spends
Depreciation	265.0	241.5	249.0	6.4	244.0	8.6	
Interest	26.0	20.5	29.0	-10.3	11.0	N.A.	
Other Income	113.0	143.6	151.0	-25.2	67.0	68.7	
PBT	2,954.0	3,011.5	2,742.0	7.7	2,633.0	12.2	
Exceptional Items	0.0	-56.6	-80.5	N.A.	-26.0	N.A.	
Tax Outgo	767.0	744.6	652.0	17.6	572.0	34.1	
PAT	2,187.0	2,210.2	2,009.5	8.8	2,061.0	6.1	Net profit grew 8.8% to ₹ 2187 crore
<b>Key Metrics growth YoY (%)</b>							
Home care	15.7	10.5	-1.6		11.9		Home care sales largely driven by price hikes with steep increase in crude based input costs
Beauty & Personal care	10.3	15.7	-0.2		13.2		Growth was led by price hikes in soaps & strong recovery in skin care & colour cosmetics
Food & Refreshments	7.2	11.3	82.9		12.2		The segment reported strong growth in nutrition, steep recovery in ice-creams. However, impacted by pricing dip in tea & soft quarters for foods

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

	FY22E			FY23E			FY24E			Comments
	(₹)	Old	New Change	Old	New Change	Old	New change			
Sales	52,499.0	51,069.8	-2.7	56607.2	55,693.3	-1.6	61363.2	60376.26	-1.6	Marginal change in our estimates on expectation of lower volume growth in the medium term
EBITDA	13,444.9	13,078.2	-2.7	14816.2	14597.0	-1.5	16276.4	15859.8	-2.6	
EBITDA Margin	25.2	25.2	0 bps	26.2	26.2	4 bps	26.5	26.3	-26 bps	We maintain our margins estimates given the company has curtailed its marketing spends
PAT	9,517.7	9,243.4	-2.9	10583.2	10419.3	-1.5	11720.7	11409.07	-2.7	
EPS (₹)	40.5	39.3	-2.9	45.0	44.3	-1.5	50.6	49.3	-2.6	

Source: ICICI Direct Research

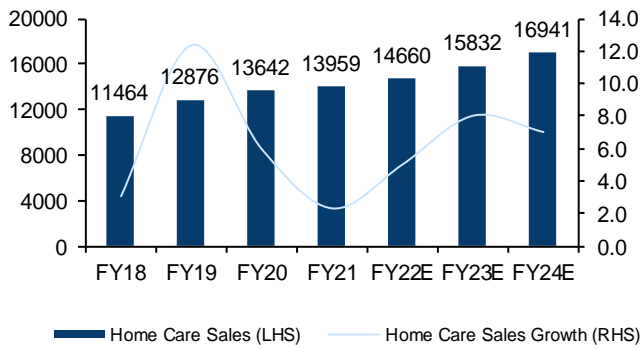
**Exhibit 4: Assumptions**

(₹ crore)	Current						Earlier			Comments
	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
Home care	12,876.0	13,642.0	13,959.0	14,659.7	15,832.5	16,940.7	14,659.7	15832.47	16940.7	No change in our estimates
Personal care	17,655.0	17,345.0	17,964.0	20,944.1	23,457.4	26,037.7	21,854.7	23,821.6	26,442.0	We marginally change our estimates downwards with lower than expected volume growth
Food & Refreshments	7,133.0	7,450.0	13,204.0	14,518.6	15,389.7	16,313.1	15,037.1	15,939.3	16,895.7	

Source: ICICI Direct Research

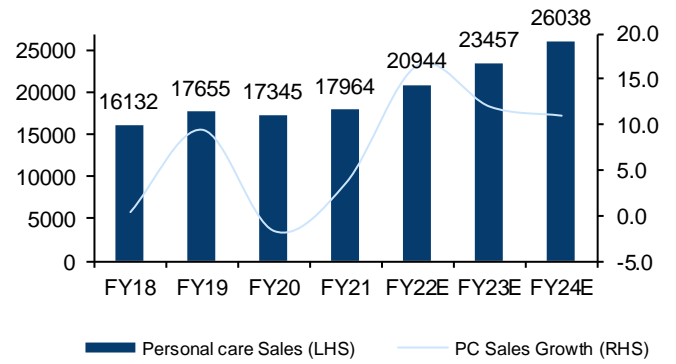
### Key Metrics

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



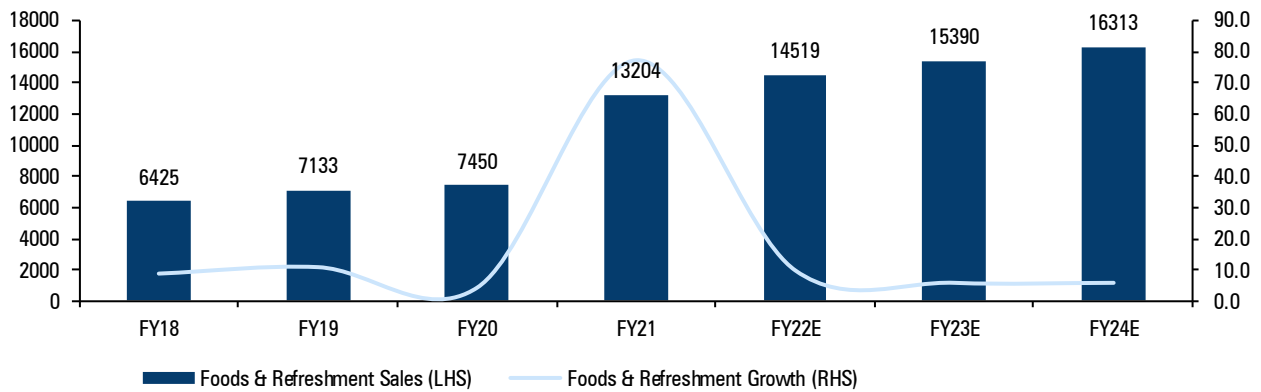
Source: ICICI Direct Research, Company

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



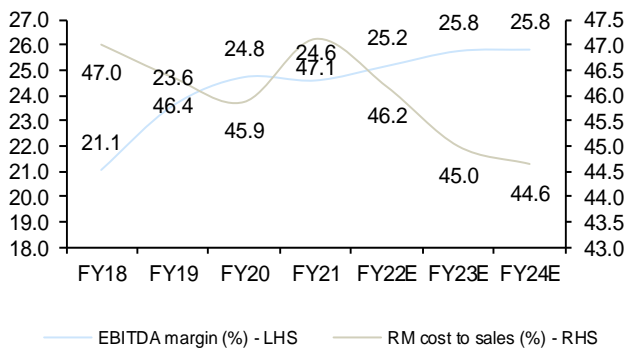
Source: ICICI Direct Research, Company

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



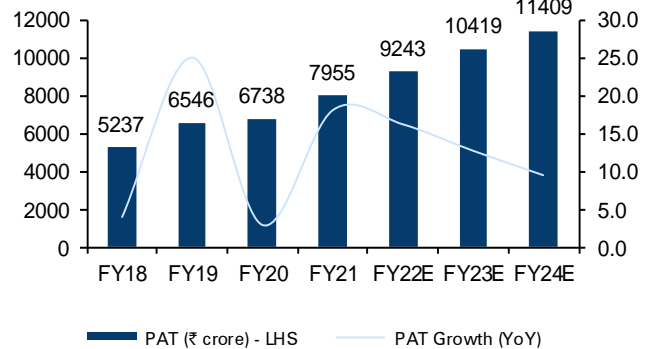
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA margin and raw material trend



Source: Company, ICICI Direct Research

Exhibit 9: PAT to grow at CAGR of 12.8% in FY20-24E



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Total operating income</b>	<b>45,996.0</b>	<b>51,912.5</b>	<b>56,612.3</b>	<b>61,372.5</b>
Growth (%)	18.6	12.9	9.1	8.4
Raw Material Expenses	21,677.0	23,973.0	25,474.3	27,399.8
Employee Expenses	2,229.0	2,553.5	2,784.7	3,018.8
Marketing Expenses	4,737.0	5,107.0	5,847.8	6,520.6
Administrative Expenses	0.0	2,859.9	3,230.2	3,501.8
Other expenses	6,029.0	4,340.9	4,678.2	5,071.6
Total Operating Expenditure	34,672.0	38,834.3	42,015.2	45,512.7
<b>EBITDA</b>	<b>11,324.0</b>	<b>13,078.2</b>	<b>14,597.0</b>	<b>15,859.8</b>
Growth (%)	18.0	15.5	11.6	8.7
Depreciation	1,012.0	966.2	992.2	1,018.2
Interest	108.0	102.6	92.3	83.1
Other Income	513.0	574.6	643.5	720.7
Exceptional Income	-226.5	-226.5	-226.5	-226.5
PBT	10,490.5	12,357.5	13,929.5	15,252.8
Total Tax	2,536.0	3,114.1	3,510.2	3,843.7
<b>PAT</b>	<b>7,954.5</b>	<b>9,243.4</b>	<b>10,419.3</b>	<b>11,409.1</b>
Growth (%)	18.1	16.2	12.7	9.5
EPS (₹)	33.9	39.3	44.3	48.6

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	8,123.0	9,243.4	10,419.3	11,409.1
Add: Depreciation	1,069.0	966.2	992.2	1,018.2
(Inc)/dec in Current Assets	-866.0	-1,034.9	-937.4	-949.4
Inc/(dec) in CL and Provisions	810.0	-627.0	924.7	936.6
<b>CF from operating activities</b>	<b>8,957.0</b>	<b>8,547.6</b>	<b>11,398.8</b>	<b>12,414.4</b>
(Inc)/dec in Investments	-1,467.0	-100.0	-100.0	-100.0
(Inc)/dec in loans & advances	-532.0	-25.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	0.0	2,396.0	-1,192.2	-1,218.2
Others	632.0	-6,016.2	19.0	14.8
<b>CF from investing activities</b>	<b>(1,367.0)</b>	<b>(3,745.2)</b>	<b>(1,298.1)</b>	<b>(1,328.3)</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	-8,460.0	-9,400.0	-10,340.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-469.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>(9,280.0)</b>	<b>(8,460.0)</b>	<b>(9,400.0)</b>	<b>(10,340.0)</b>
Net Cash flow	-1,390.0	-3,657.6	700.7	746.1
Opening Cash	3,130.0	1,740.0	-1,917.6	-1,216.9
<b>Closing Cash*</b>	<b>4,321.0</b>	<b>663.4</b>	<b>1,364.1</b>	<b>2,110.2</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21E	FY22E	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	235.0	235.0	235.0	235.0
Reserve and Surplus	47,199.0	47,982.4	49,001.7	50,070.7
Total Shareholders funds	47,434.0	48,217.4	49,236.7	50,305.7
Other Non Current Liabilities	2,304.0	2,304.0	2,304.0	2,304.0
Long Term Provisions	1551.0	141.2	158.8	173.7
<b>Total Liabilities</b>	<b>57,275.0</b>	<b>50,662.6</b>	<b>51,699.5</b>	<b>52,783.4</b>
<b>Assets</b>				
Gross Block	7,332.0	7,532.0	7,732.0	7,932.0
Less: Acc Depreciation	3,519.0	4,485.2	4,485.2	4,485.2
Net Block	5,786.0	3,046.8	3,246.8	3,446.8
Capital WIP	623.0	0.0	0.0	0.0
Total Fixed Assets	6,409.0	3,046.8	3,246.8	3,446.8
Goodwill on Consolidation	17316	17316	17316	17316
Net Intangible Assets	27,925.0	27,925.0	27,925.0	27,925.0
Other Investments	312.0	412.0	512.0	612.0
Inventory	3,383.0	3,497.9	3,814.6	4,135.4
Debtors	1,648.0	1,818.9	1,983.6	2,150.4
Loans and Advances	0.0	279.8	305.2	330.8
Investments & Other CA	1,605.0	1,399.2	1,525.8	1,654.1
Cash	4,321.0	663.4	1,364.1	2,110.2
Total Current Assets	13,640.0	11,017.3	12,655.3	14,350.8
Creditors	8,627.0	8,395.0	9,155.1	9,924.9
Provisions & other CL	2,214.0	1,818.9	1,983.6	2,150.4
Total Current Liabilities	10,841.0	10,214.0	11,138.7	12,075.3
Net Current Assets	2,799.0	803.3	1,516.7	2,275.6
Others Non-Current Assets	1,133.0	1,158.0	1,183.0	1,208.0
<b>Application of Funds</b>	<b>57,275.0</b>	<b>50,662.6</b>	<b>51,699.5</b>	<b>52,783.4</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	33.9	39.3	44.3	48.6
Cash EPS	38.2	43.5	48.6	52.9
BV	201.9	205.2	209.6	214.1
DPS	27.0	36.0	40.0	44.0
Cash Per Share	18.4	2.8	5.8	9.0
Operating Ratios (%)				
EBITDA/Total Operating Income	24.6	25.2	25.8	25.8
PBT Margin	23.3	24.2	25.0	25.2
PAT Margin	17.3	17.8	18.4	18.6
Inventory days	27	25	25	25
Debtor days	13	13	13	13
Creditor days	69	60	60	60
Return Ratios (%)				
RoE	17.1	19.5	21.5	23.0
RoCE	18.9	25.0	27.6	29.5
Valuation Ratios (x)				
P/E	73.2	63.0	55.9	51.0
EV / EBITDA	51.1	44.5	39.8	36.6
EV / Net Sales	12.8	11.4	10.4	9.6
Market Cap / Sales	12.9	11.4	10.5	9.6
Price to Book Value	12.3	12.1	11.8	11.6
Solvency Ratios				
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	1.0
<b>Quick Ratio</b>	<b>0.5</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>

Source: Company, ICICI Direct Research

**Exhibit 14: ICICI Direct coverage universe (FMCG)**

	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Colgate (COLPAL)	1,614	2,000	Buy	43,899	39.2	42.6	47.6	41.2	37.9	33.9	8.5	7.8	7.1	110.9	111.9	112.4	85.1	85.8	86.2
Dabur India (DABIND)	593	740	Buy	104,789	10.6	12.0	13.4	56.1	49.5	44.3	9.7	8.8	7.9	25.8	27.1	27.7	22.3	23.1	23.1
Hindustan Unilever (HINLEV)	2,479	2,750	Hold	582,416	39.3	44.3	48.6	63.0	55.9	51.0	11.4	10.5	9.6	25.0	27.6	29.5	19.5	21.5	23.0
ITC Limited (ITC)	247	240	Hold	261,086	12.0	13.5	15.1	20.5	18.3	16.4	5.0	4.6	4.1	31.3	33.6	35.6	24.2	25.9	27.4
Jyothy Lab (JYOLAB)	161	180	Hold	6,248	5.7	6.5	7.1	28.1	24.8	22.6	3.0	2.8	2.6	25.2	27.0	28.5	21.0	22.6	23.9
Marico (MARLIM)	561	630	Buy	70,503	10.4	11.5	12.5	54.1	48.7	44.7	7.6	7.0	6.6	42.8	46.6	48.3	38.4	40.4	41.7
Nestle (NESIND)	19,278	20,450	Hold	185,686	249.9	279.6	314.2	77.1	69.0	61.4	12.6	11.5	10.4	54.9	56.4	57.5	87.8	86.3	83.1
Tata Consumer Products (TAT)	827	900	Buy	76,209	12.4	14.3	16.5	66.6	57.9	50.2	5.8	5.4	4.9	9.1	9.9	10.8	7.6	8.4	9.3
VST Industries (VSTIND)	3,599	3,850	Hold	5,384	231.1	255.2	272.6	15.6	14.1	13.2	4.4	4.1	3.8	45.0	48.2	54.5	33.4	36.0	40.8
Varun Beverage (VARBEV)	851	950	Buy	34,166	14.2	19.3	22.4	59.8	44.1	38.0	4.3	3.8	3.4	17.5	22.9	26.6	15.5	17.9	17.9
Zydus Wellness (ZYDWEL)	2,226	2,800	Buy	14,164	57.8	68.3	77.7	38.5	32.6	28.6	6.7	6.1	5.5	7.5	8.7	9.6	7.7	9.0	10.0

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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