

Pricing continues to dominate growth...

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

Q2FY23 Results: HUL posted 16% sales growth led by 4% volume jump

- Sales were up 16% YoY driven by pricing & volume growth in home care
- EBITDA was at ₹ 3377 crore, up 7.8% YoY, with margins at 23.3%
- PAT was at ₹ 2616 crore (up 19.6 YoY) driven by one-time tax credit

What should investors do? HUL's share price has gone up by 110% over the past five years (from ₹ 1260 in October 2017 to ₹ 2655 levels in October 2022).

- We expect gross margins to recover sequentially from Q3FY23 onwards given palm oil has sharply dipped from the peak
- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value HUL at ₹ 2800 i.e. 60x P/E on FY24E EPS.

Key triggers for future price performance:

- Strong growth in fabric wash segment to continue through market share gains, premiumisation & innovation. Sticky commodity inflation to sustain pricing growth in the medium term
- Softening of palm oil prices in the last six months led to price cuts and grammage increase in October 2022. This would aid volumes & support margins in the segment
- 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 ₹ 950 with BUY rating

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	58753.6	63771.4	11.6%
EBITDA	9600.0	11324.0	12503.0	15.6	13901.8	15378.5	10.9%
EBITDA Margin %	25.1	25.0	24.8		24.1	24.5	
Net Profit	6738.0	7954.5	8818.0	11.9	9972.5	10934.1	11.4%
EPS (₹)	31.19	33.86	37.53	10.0	42.45	46.54	11.4%
P/E	85.1	78.4	70.7		62.5	57.0	
RoNW %	85.7	17.1	18.1		20.3	22.0	
RoCE (%)	89.5	18.9	20.2		22.8	25.1	

Source: Company, ICICI Direct Research



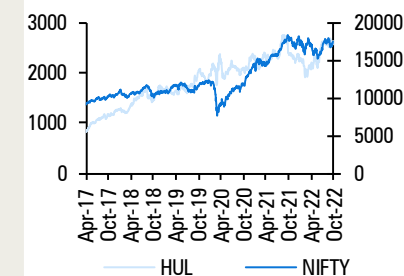
Particulars

Particular (₹ crore)	Amount
Market Capitalization	6,23,765.7
Total Debt (FY22)	0.0
Cash and Investments (FY22)	7,128.0
EV	6,16,637.7
52 week H/L (₹)	2733 / 1901
Equity capital	235.0
Face value	₹ 1

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	61.9	61.9	61.9	61.9
FII	14.7	13.7	13.3	13.7
DII	10.9	11.6	12.2	11.7
Others	12.5	12.8	12.6	12.7

Price Chart



Recent event & key risks

- Price cuts in skin cleanings have been initiated in October 2022
- Key Risk:** (i) Crude, related commodities & adverse currency movement may continue to pressurise margins ii) Revival in rural growth may see faster volume recovery

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Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: three-year volume CAGR at 3% (our estimate)

- Revenue grew 16% to ₹ 14514 crore largely led by pricing growth. Volumes have grown at 4% during the quarter. Home care and beauty & personal care (BPC) segment saw sales growth of 34% & 11.2%, respectively. Foods & refreshment segment saw 3.7% growth in Q2
- The 34% growth in home care segment has been contributed by double digit volume growth & ever larger pricing growth. Inflation in crude, soda ash & skimmed milk powder (SMP) still remains high. Moreover, currency depreciation accentuated margin pressure during the quarter. Hence, HUL has taken further price hikes in home care categories
- Home care volumes have grown in double digits during the quarter. We believe fabric wash volumes were sub-par in the base quarter due to some impact of closure of education institutes & WFH
- Premiumisation trend continued in the fabric wash segment with liquids & fabric conditioners outperforming overall product portfolio of fabric wash. Liquid detergent & fabric conditioners are contributing ₹ 2000 crore annual sales, which is more than 10% of the home care segment sales
- Beauty & personal care (BPC) category has grown 11.2% during the quarter, which is almost entirely by pricing growth. Though, premium brands (Lakme & Ponds) of skin care & colour cosmetics witnessed mid-single digit volume growth. Glow & Lovely & Talc saw muted sales due to adverse discretionary consumption
- Skin cleansing (soaps) grew in double digit with Lux, Dove & Pears seeing mid-single digit volume growth. Palm oil declined ~50% in last six months but the company was holding high cost inventory. It initiated price cuts and grammage restoration in skin cleansing brands only in October 2022
- Foods & refreshment segment saw 3.7% growth. In beverages, tea segment saw mid-single digit volume growth with market share gains. However, we believe sharp price cuts in tea brands in the last six to nine months have resulted in value sales de-growth in the tea business. Coffee business saw double digit growth (largely pricing growth)
- Health food drinks (Horlicks & Boost) portfolio saw muted performance due to dismal category growth impacted by inflation in discretionary consumption. The company launched two new products under Horlicks brands 'Horlicks Nutri Gummies' and 'Horlicks Diabetes Gummies' in the nutrition category
- Foods business witnessed strong double digit value growth with mid-teens volume growth led by jams & Unilever Food solution. Jams portfolio benefited from complete re-opening of schools in Q2. Ice creams business saw strong double digit growth on a high base
- Gross margins contracted 580 bps considering the company was holding high cost raw material (palm oil, crude derivatives) inventory. The 580 bps contraction includes 70 bps increase in consumer promotions
- With such a steep gross margin contraction, the company cut advertisement & overhead spends by 249 bps & 163 bps, respectively. Operating profit grew 7.8% to ₹ 3377 crore with operating margin contraction of 176 bps to 23.3%
- Home care & BPC segment margins contracted 168 & 270 bps, respectively. With a sharp reduction in palm oil prices, gross margins would start improving sequentially from Q3 onwards. However, we believe elevated crude, soda ash prices & currency depreciation has somewhat delayed the quantum of margin recovery

- Net profit grew 19.6% to ₹ 2616 crore mainly on account of ₹ 258 crore one-time prior period tax credit during the quarter
- The FMCG market has been growing in mid-single digits in value terms with low single digit volume decline in the last three months. The value growth in urban is high single digit whereas it is low single digit in rural regions. However, volume decline in urban region is in low single digits compared to high single digit decline in rural regions (in the last three months)
- On a three-year CAGR basis, FMCG market value growth is 5% with 1% volume decline with similar trend for both urban & rural markets. We believe HUL's volume growth on a three-year CAGR basis is close to 3%
- The company launched two new brands 'Acnesquad' & 'Find your Happy place' in the skin care segment during the quarter. Innovations during the quarter also remain high with multiple new products, variants & relaunches in skin care, cosmetics, beverages, ice-creams & nutrition portfolio

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	FY24E
Hindustan Unilever (HINLEV)	2655	2800	Hold	623766	11.3	14.8	8.5	24.8	24.1	24.5	70.7	62.5	57.0	18.1	20.3	22.0	20.2	22.8	25.1
Colgate (COLPAL)	1587	1610	Hold	43,606	5.3	5.4	8.2	30.9	29.3	29.5	40.0	41.1	37.5	62.2	62.9	70.8	77.8	82.6	92.7
Zydus Wellness (ZYDWEL)	1702	2100	Buy	10,254	7.6	12.4	10.5	17.2	18.1	19.7	35.1	29.6	24.0	6.4	7.3	8.7	6.1	7.1	8.4
ITC Limited (ITC)	346	405	Buy	4,29,858	23.1	19.4	6.8	32.0	32.5	35.5	27.9	24.3	20.7	24.5	27.1	29.7	31.4	35.3	38.8

Source: Company, ICICI Direct Research

HUL has taken price cuts in October 2022 mainly to pass on the benefit of dip in palm oil prices. However, other commodities like crude, soda ash, milk and barley still remains elevated. Moreover, currency depreciation has accentuated margin pressure. Though gross margins are likely to improve sequentially, it would still be lower YoY in the next few quarters. However, the company's cost savings programme and tweaking of marketing spends would help it maintain higher operating margins. We believe volume growth would be the single biggest important factor in coming quarters. Though rural income levels and festive season demand are showing favourable signs for volume growth, long term sustainable volumes would define future performance. We believe similar to palm oil decline, other commodities would also cool off in the next few quarters, which would eventually help the company to increase advertisement & promotions activity for volume growth. We remain positive on growth prospects as well as margin expansion possibility in the long run. At current valuation multiples, most positives are discounted. We maintain our HOLD rating with a revised target price of ₹ 2800/share (earlier: ₹ 2700).

Exhibit 2: Variance Analysis

Particulars (₹ crore)	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Net Sales	14,514.0	14,203.5	12,516.0	16.0	14,016.0	3.6	Revenues witnessed largely price led growth during the quarter. Volume growth was 4%
Other Operating Income	237.0	233.0	208.0	13.9	256.0	-7.4	
Raw Material Expenses	7,994.0	7,347.0	6,158.0	29.8	7,514.0	6.4	Gross margin contracted sharply 580 bps. It has 70 bps component of higher promotions
Employee Expenses	709.0	649.4	582.0	21.8	597.0	18.8	
Marketing Expenses	1,041.0	1,357.0	1,215.0	-14.3	1,328.0	-21.6	Advertisement spends were cut by 249 bps to safeguard operating profit
Other operating expenses	1,630.0	1,616.9	1,637.0	-0.4	1,586.0	2.8	
EBITDA	3,377.0	3,466.1	3,132.0	7.8	3,247.0	4.0	
EBITDA margin (%)	23.3	24.4	25.0	-176 bps	23.2	10 bps	Operating margins contracted by 176 bps
Depreciation	248.0	274.5	265.0	-6.4	260.0	-4.6	
Interest	25.0	22.1	26.0	-3.8	26.0	-3.8	
Other Income	115.0	110.0	113.0	1.8	137.0	-16.1	
PBT	3,219.0	3,279.6	2,954.0	9.0	3,086.0	4.3	
Exceptional Items	-28.0	-8.5	0.0	N.A.	-12.0	133.3	
Tax Outgo	575.0	824.3	767.0	-25.0	797.0	-27.9	Tax provisioning was down due to one time prior period tax credit of ₹258 crore
PAT	2,616.0	2,446.8	2,187.0	19.6	2,289.0	14.3	
Key Metrics growth YoY (%)							
Home care	34.0	26.3	15.7		29.9		Home care segment continue to grow strongly with large price hike in last one year & double digit volume growth
Beauty & Personal care	11.2	6.9	10.3		17.3		BPC segments saw 11.2% growth entirely led by pricing growth
Food & Refreshments	3.7	4.2	7.2		9.3		

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% change	
Total operating Income	57405.5	58753.6	2.3	61707.1	63771.4	3.3	We slightly raise our estimate given price cuts have been slower than our estimates given commodity inflation is still sticky at many fronts
EBITDA	13624.4	13901.8	2.0	14843.5	15378.5	3.6	
EBITDA Margin (%)	24.1	24.1	-7 bps	24.5	24.5	6 bps	We believe company would be able to maintain its margins by tweaking advertisement & overhead spends
PAT	9607.6	9972.5	3.8	10533.9	10934.1	3.8	Earnings estimate change incorporate lower tax provisioning due to tax credit in FY23
EPS (₹)	40.9	42.4	3.8	44.8	46.5	3.8	

Source: ICICI Direct Research

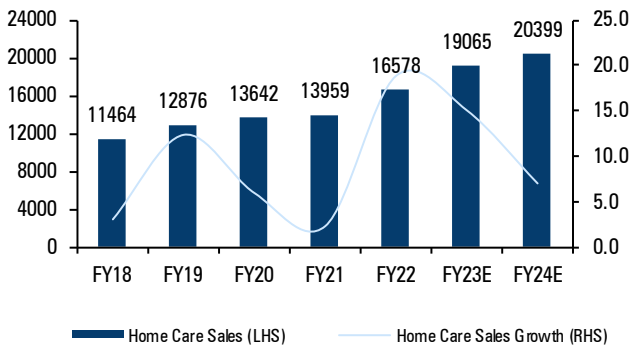
Exhibit 4: Assumptions

(₹ crore)	Current					Earlier		Comments
	FY20	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Home care	13,642.0	13,959.0	16,578.0	20,390.9	22,430.0	19,064.7	20,399.2	We increase our home care revenue estimate as company has not yet cut any prices in the segment
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

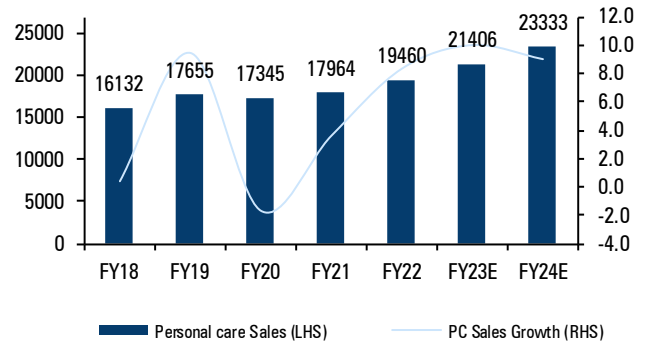
Key Metrics

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



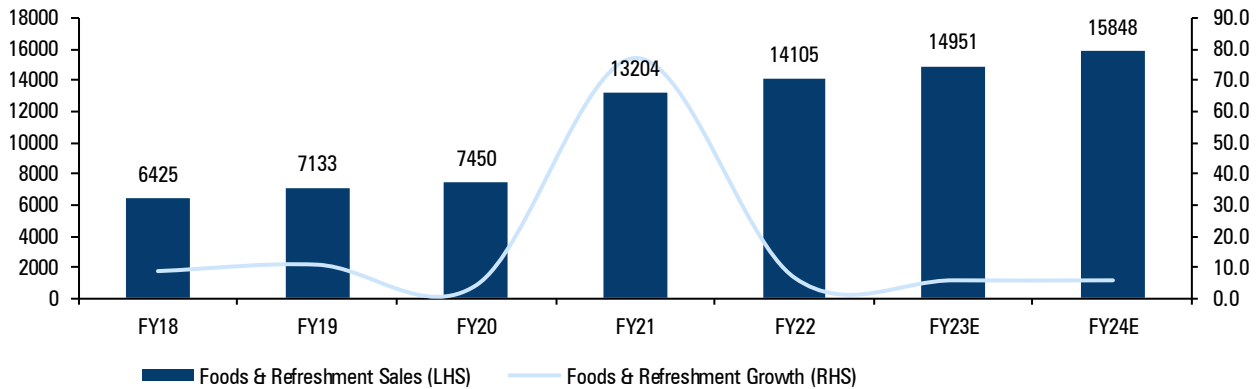
Source: ICICI Direct Research, Company

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



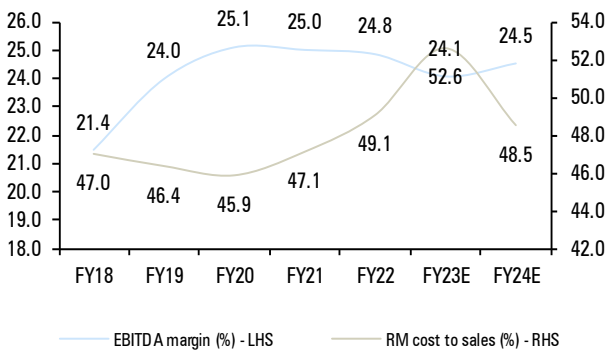
Source: ICICI Direct Research, Company

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



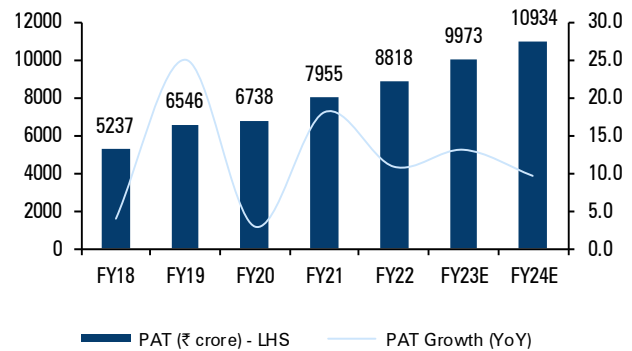
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA margin and raw material trend



Source: Company, ICICI Direct Research

Exhibit 9: PAT to grow at CAGR of 11.4% in FY22-24E



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	45,996.0	51,193.0	58,753.6	63,771.4
Growth (%)	18.6	11.3	14.8	8.5
Raw Material Expenses	21,677.0	25,124.0	30,922.1	30,952.3
Employee Expenses	2,229.0	2,399.0	2,543.2	3,074.1
Marketing Expenses	4,737.0	4,718.0	4,913.0	6,461.8
Administrative Expenses	0.0	0.0	2,427.6	3,011.3
Other expenses	6,029.0	6,449.0	4,046.0	4,893.4
Total Operating Expenditure	34,672.0	38,690.0	44,851.9	48,392.9
EBITDA	11,324.0	12,503.0	13,901.8	15,378.5
Growth (%)	18.0	10.4	11.2	10.6
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	13,121.7	14,617.8
Total Tax	2,536.0	2,921.0	3,149.2	3,683.7
PAT	7,954.5	8,818.0	9,972.5	10,934.1
Growth (%)	18.1	10.9	13.1	9.6
EPS (₹)	33.9	37.5	42.4	46.5

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	9,972.5	10,934.1
Add: Depreciation	1,069.0	1,040.0	1,098.0	1,140.3
(Inc)/dec in Current Assets	-866.0	-992.0	-1,481.1	134.8
Inc/(dec) in CL and Provisions	810.0	203.0	1,249.4	2,072.6
CF from operating activities	8,957.0	8,964.0	10,838.8	14,281.8
(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	-111.0	24.4
CF from investing activities	(1,367.0)	(1,732.0)	(1,333.0)	(1,240.9)
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
CF from financing activities	(9,280.0)	(7,984.0)	(9,400.0)	(10,340.0)
Net Cash flow	-1,390.0	-752.0	105.8	2,700.9
Opening Cash	3,130.0	1,740.0	988.0	1,093.8
Closing Cash	4,321.0	3,618.0	3,723.8	6,424.7

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21E	FY22	FY23E	FY24E
Liabilities				
Equity Capital	235.0	235.0	235.0	235.0
Reserve and Surplus	47,199.0	48,525.0	49,097.5	49,691.6
Total Shareholders funds	47,434.0	48,760.0	49,332.5	49,926.6
Other Non Current Liabilities	2,304.0	2,339.0	2,339.0	2,339.0
Long Term Provisions	1551.0	1553.0	150.0	164.4
Total Liabilities	57,275.0	58,793.0	57,972.5	58,591.0
Assets				
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	4,750.7	4,297.0
Debtors	1,648.0	1,932.0	2,375.3	2,234.4
Loans and Advances	0.0	0.0	0.0	0.0
Investments & Other CA	1,605.0	1,697.0	1,583.6	1,718.8
Cash	4,321.0	3,618.0	3,723.8	6,424.7
Total Current Assets	13,640.0	14,647.0	16,233.9	18,800.1
Creditors	8,627.0	8,864.0	10,134.8	12,031.6
Provisions & other CL	2,214.0	2,080.0	2,058.6	2,234.4
Total Current Liabilities	10,841.0	10,944.0	12,193.4	14,266.1
Net Current Assets	2,799.0	3,703.0	4,040.5	4,534.0
Others Non-Current Assets	1,133.0	1,261.0	1,286.0	1,311.0
Application of Funds	57,275.0	58,793.0	57,972.5	58,591.0

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	33.9	37.5	42.4	46.5
Cash EPS	38.2	41.9	47.1	51.4
BV	201.9	207.5	210.0	212.5
DPS	27.0	34.0	40.0	44.0
Cash Per Share	18.4	15.4	15.8	27.3
Operating Ratios (%)				
EBITDA/Total Operating Income	25.0	24.8	24.1	24.5
PBT Margin	23.3	23.0	22.4	23.0
PAT Margin	17.3	17.2	17.0	17.1
Inventory days	27	28	30	25
Debtor days	13	14	15	13
Creditor days	69	64	64	70
Return Ratios (%)				
RoE	17.1	18.1	20.3	22.0
RoCE	18.9	20.2	22.8	25.1
Valuation Ratios (x)				
P/E	78.4	70.7	62.5	57.0
EV / EBITDA	54.7	49.6	44.6	40.1
EV / Net Sales	13.7	12.3	10.7	9.8
Market Cap / Sales	13.8	12.4	10.8	9.9
Price to Book Value	13.2	12.8	12.6	12.5
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	0.9
Quick Ratio	0.5	0.7	0.6	0.6

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)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Colgate (COLPAL)	1,587	1,610	Hold	43,606	39.6	38.6	42.3	40.0	41.1	37.5	8.6	8.2	7.5	77.8	82.6	92.7	62.2	62.9	70.8
Dabur India (DABIND)	538	700	Buy	1,01,458	9.9	11.2	12.8	54.6	48.1	41.9	9.3	8.3	7.5	24.9	25.2	26.7	20.8	21.9	22.7
Hindustan Unilever (HINLEV)	2,655	2,800	Hold	6,23,766	37.5	42.4	46.5	70.7	62.5	57.0	12.4	10.8	9.9	20.2	22.8	25.1	18.1	20.3	22.0
ITC Limited (ITC)	346	405	Buy	4,29,858	12.4	14.2	16.7	27.9	24.3	20.7	7.3	6.1	5.7	31.4	35.3	38.8	24.5	27.1	29.7
Jyothy Lab (JYOLAB)	197	145	Hold	6,077	4.3	5.6	6.4	46.3	35.2	31.0	2.8	2.5	2.3	18.7	24.2	27.7	16.6	21.2	23.8
Marico (MARLIM)	519	515	Hold	67,645	9.7	10.3	11.4	53.4	50.4	45.5	7.1	7.0	6.4	41.2	43.8	47.0	37.5	38.5	41.2
Nestle (NESIND)	20,295	22,400	Hold	1,90,912	222.4	255.8	301.1	91.2	79.3	67.4	13.0	11.4	10.3	58.7	57.1	63.0	111.3	103.6	110.3
Patanjali Foods (RUCSOY)	1,421	1,750	Buy	50,721	27.3	30.9	43.5	52.1	46.0	32.7	2.1	1.7	1.5	13.2	15.6	17.3	13.1	11.3	14.2
Tata Consumer Products (TAT)	761	950	Buy	70,169	11.0	13.9	17.1	69.1	54.7	44.5	5.6	5.1	4.6	8.4	9.2	10.8	7.0	8.2	9.7
Varun Beverage (VARBEV)	1,013	1,100	Buy	60,171	17.2	20.6	23.4	58.8	49.2	43.4	6.8	4.9	4.3	17.1	28.1	30.8	18.3	26.3	25.3
VST Industries (VSTIND)	3,563	3,425	Hold	4,937	207.4	229.3	252.9	17.2	15.5	14.1	4.2	3.8	3.5	39.2	44.6	50.6	30.0	33.4	37.8
Zydus Wellness (ZYDWEL)	1,702	2,100	Buy	10,254	48.5	57.5	71.0	35.1	29.6	24.0	5.1	4.5	4.1	6.1	7.1	8.4	6.4	7.3	8.7

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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