

Volume growth to pick up; margins to remain stable...

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) retail outlets with a direct network of more than 3.5 mn outlets
- HUL commands gross margins ~50%, which gives it a leeway to spend 10-12% on advertisement & Promotions

Q3FY23 Results: HUL posted 16.2% sales growth led by 5% volume uptick.

- Sales were up 16.2% YoY driven by strong growth in home care segment
- EBITDA was at ₹ 3537 crore, up 7.9% YoY, with margins at 23.6%
- Consequently, PAT was at ₹ 2505 crore (up 11.7 YoY)

What should investors do? HUL's share price has gone up by 87% over the past five years (from ₹ 1372 in January 2018 to ₹ 2575 levels in January 2023).

- We expect gross margins to move northwards, which would help it in increasing ad-spends to recoup volume growth
- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value HUL at ₹ 2800 i.e. 55x P/E on FY25E EPS.

Key triggers for future price performance:

- Strong growth in fabric wash segment to continue through market share gains, premiumisation and innovation. Pricing cuts and grammage increase in low unit packs (LUPs) to change volume, pricing composition
- Softening of palm oil, crude & related derivatives would result in gross margin expansion. However, increase in royalty payment and expected increase in ad-spends are likely to keep margins in the vicinity of ~24%
- 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 and premiumisation strategy in salt, tea, Sampann and Souful in the Indian market expected to drive sales and margins
- We value the stock at ₹ 950 with BUY rating



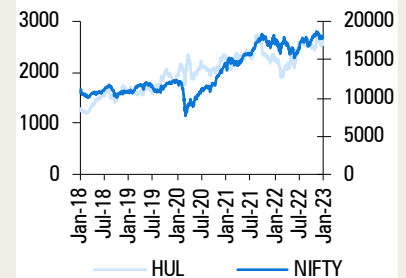
Particulars

Particular (₹ crore)	Amount
Market Capitalization	6,04,970.5
Total Debt (FY22)	0.0
Cash and Investments (FY22)	7,128.0
EV	5,97,842.5
52 week H/L (₹)	2733 / 1901
Equity capital	235.0
Face value	₹ 1

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	61.9	61.9	61.9	61.9
FII	13.7	13.3	13.7	14.0
DII	11.6	12.2	11.7	11.6
Others	12.8	12.6	12.7	12.6

Price Chart



Recent event & key risks

- HUL has raised royalty payment by 0.8% of sales implemented in staggered manner in three years
- Key Risk:** (i) Sharp correction in crude may perk up margin higher than our estimate (ii) Continued dismal rural demand

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Key Financial Summary

Key Financials	FY20	FY21	5 year CAGR			3 Year CAGR		
			FY22	(FY17-22)	FY23E	FY24E	FY25E	(FY22-25E)
Total Operating Income	38785.0	45996.0	51193.0	8.2	59515.4	65190.0	71128.5	11.6%
EBITDA	9600.0	11324.0	12503.0	15.6	13739.2	15414.5	16848.5	10.5%
EBITDA Margin %	25.1	25.0	24.8		23.5	24.0	24.1	
Net Profit	6738.0	7954.5	8818.0	11.9	9878.0	10965.4	12060.8	11.0%
EPS (₹)	31.19	33.86	37.53	10.0	42.04	46.67	51.34	11.0%
P/E	82.5	76.1	68.6		61.2	55.2	50.2	
RoNW %	85.7	17.1	18.1		20.3	22.4	24.5	
RoCE (%)	89.5	18.9	20.2		22.9	25.6	28.0	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Volume grows 5%; margins improve sequentially...

- HUL witnessed revenue growth of 16.2% to ₹ 14986 crore led by 11% pricing growth and 5% volume growth during the quarter
- Home care and beauty & personal care (BPC) segment saw sales growth of 31.6% & 10.5%, respectively. Foods & refreshment segment saw 6.8% growth during the quarter
- Some categories related to mobility like detergent, jams and ketchup are witnessing strong growth given the base was still favourable. Home care & BPC segment margins contracted 138 & 271 bps, respectively. Foods segment margin contracted by 77 bps
- The 31.6% growth in the home care segment was contributed by 12% volume growth and 19% pricing growth. The robust sales growth was driven by double digit growth in fabric wash (detergents) & high-teens growth in the dish washing segment
- The 10.5% growth in the BPC segment was driven by strong growth in skin cleansing (soaps) & hair care categories. Skin cleansing saw double digit sales growth with mid-single digit volume growth. Despite the company taking price cuts in soaps after a sharp fall in palm oil prices, growth was still largely driven by pricing growth
- Hair care segment saw high single digit sales growth led by Clinic-Plus. Skin care segment adversely impacted by delay in winters. However, non-winter portfolio grew in double digits
- The 6.8% growth in foods & refreshment category was driven by jams and ketchups. Tea category saw mid-single digit volume growth but benign tea procurement prices led to a cut in prices, hence impacting value growth. Coffee segment saw double digit growth
- Despite the HFD category being adversely impacted by high inflation in milk & barley, HUL saw mid-single digit growth with strong growth in Boost & Plus range. The company saw market share gains in the category
- Gross margins contracted 463 bps but improved by 170 bps sequentially. Employee, marketing & overhead spends were down by 58 bps, 120 bps & 84 bps, respectively. Operating profit grew 7.9% to ₹ 3537 crore
- Palm oil & crude prices have declined in the last six months but milk, barley & soda ash prices still remained at an elevated level. Palm oil prices are down by 30% in the last one year whereas crude is still up 10% YoY. Soda ash, barley and skimmed milk powder (SMP) prices are up 40%, 35% and 30%, respectively
- Net material inflation (NIM) for the company improved from 22% in the September quarter to 18% in the December quarter, which reflected in both gross margins (up 170 bps) & A&P spends (up 80 bps) sequentially
- Operating margins contracted by 182 bps to 23.6% but improved sequentially by 30 bps. The company incurred ₹ 102 crore of exceptional income related to restructuring and acquisition & disposable related costs. Net profit grew 11.7% to ₹ 2505 crore
- The HUL Board has approved a new royalty agreement with Unilever, which would lead to an increase in royalty and central services fees from 2.65% (FY22) to 3.45% of turnover effected in a staggered manner over a period of three years. The impact on the earning of this royalty increase would be to the tune of 2.5% in FY24E and 3.3% in FY25E

- FMCG market (HUL categories) saw higher value growth of ~8% with ~3% volume decline in December quarter. The growth composition has been improving in the last two quarters. HUL is growing its market share in 35% of its business both in volume and value terms
- The company continued to launch new products with focus on innovations. It launched new brand under soaps category ‘St Ives’ & variants under Lifebuoy, ‘Tresemme’. It also launched variants in tea, coffee and jams & soup segment
- With commodity prices staying at current levels, gross margin trajectory remains upward. The company is likely to increase ad-spends to perk up volume growth in the next few quarters

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
Hindustan Unilever (HINLEV)	2575	2800 Hold	604971	11.3	16.3	9.5	24.8	23.5	24.0	68.6	61.2	55.2	18.1	20.3	22.4	20.2	22.9	25.6
Colgate (COLPAL)	1504	1610 Hold	43,606	5.3	5.4	8.2	30.9	29.3	29.5	37.9	38.9	35.6	62.2	62.9	70.8	77.8	82.6	92.7
Tata Consumer Products (TAT)	741	950 Buy	70169	7.1	10.9	10.4	13.8	13.9	15.0	67.3	53.2	43.3	7.0	8.2	9.7	8.4	9.2	10.8
ITC Limited (ITC)	332	405 Buy	4,29,858	23.1	19.4	6.8	32.0	32.5	35.5	26.8	23.3	19.9	24.5	27.1	29.7	31.4	35.3	38.8

Source: Company, ICICI Direct Research

With the current correction in crude and related commodity costs along with benign palm oil prices, the company is expected to take further price cuts and grammage increase to pass on the benefits. This would help it recouping volume growth in the coming quarters. We also believe HUL would have leeway to spend higher on advertisement & promotions, which would also help it grow volumes. We believe the composition of growth for HUL would change with higher contribution through volumes (6-7%) and relatively lower pricing growth (4-5%) in the next two years. The impact of royalty increase on earnings would be to the tune of 2.5% and 3.3% in FY24E and FY25E, respectively. However, we believe expansion in gross margins would help in absorbing the impact of higher royalty. Though we remain positive on healthy sales growth and sustainability of margins, the stock is fairly valued at current valuation multiples. We maintain our HOLD rating and target price of ₹ 2800 /share on the stock.

Exhibit 2: Variance Analysis

Particulars (₹ crore)	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Net Sales	14,986.0	14,504.8	12,900.0	16.2	14,514.0	3.3	Sales growth of 16.2% was led by 5% volume growth & 11% pricing growth
Other Operating Income	242.0	238.4	192.0	26.0	237.0	2.1	
Raw Material Expenses	7,997.0	7,637.8	6,269.0	27.6	7,994.0	0.0	Gross margin contracted by 463 bps but improved sequentially by 170 bps
Employee Expenses	676.0	707.7	657.0	2.9	709.0	-4.7	
Marketing Expenses	1,200.0	1,179.5	1,189.0	0.9	1,041.0	15.3	Marketing spends were down by 120 bps
Other operating expenses	1,818.0	1,650.8	1,698.0	7.1	1,630.0	11.5	Overhead spends were down by 84 bps
EBITDA	3,537.0	3,567.6	3,279.0	7.9	3,377.0	4.7	
EBITDA margin (%)	23.6	24.6	25.4	-182 bps	23.3	33 bps	Operating margins contracted by 182 bps but improved 30 bps sequentially
Depreciation	260.0	274.5	255.0	2.0	248.0	4.8	
Interest	26.0	44.1	25.0	4.0	25.0	4.0	
Other Income	228.0	110.0	91.0	150.5	115.0	98.3	
PBT	3,479.0	3,359.0	3,090.0	12.6	3,191.0	9.0	
Exceptional Items	-102.0	0.0	-66.0	N.A.	-28.0	264.3	Exceptional item including restructuring costs
Tax Outgo	872.0	839.7	781.0	11.7	575.0	51.7	
PAT	2,505.0	2,519.2	2,243.0	11.7	2,616.0	-4.2	Net profit grew by 11.7%
Key Metrics growth YoY (%)							
Home care	31.6	23.0	23.0		34.0		Detergent continues to see stellar double digit volume growth along with price hikes
Beauty & Personal care	10.5	5.3	6.9		11.2		BPC segment saw volume & price led growth
Food & Refreshments	6.8	4.8	3.3		3.7		

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E		Comments
	Old	New	% Change	Old	New	% change	New		
Total operating Income	58753.6	59515.4	1.3	63771.4	65190.0	2.2	69974.0	We slightly change our sales estimate with expected uptick in volumes. We introduce FY25E numbers	
EBITDA	13901.8	13739.2	-1.2	15378.5	15414.5	0.2	16848.5	We keep operating profit estimate similar despite higher sales due to impact of higher royalty	
EBITDA Margin (%)	24.1	23.5	-58 bps	24.5	24.0	-48 bps	24.1		
PAT	9972.5	9878.0	-0.9	10934.1	10965.4	0.3	12060.8		
EPS (₹)	42.4	42.0	-0.9	46.5	46.7	0.3	51.8		

Source: ICICI Direct Research

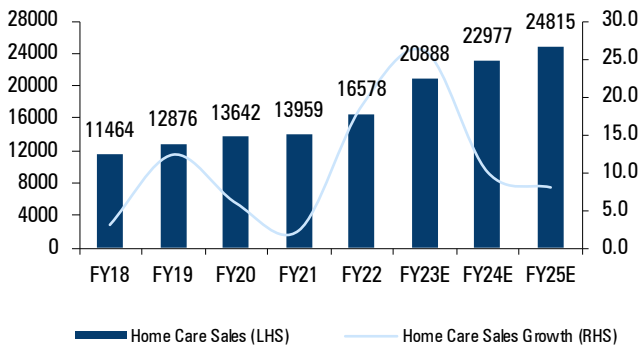
Exhibit 4: Assumptions

(₹ crore)	Current						Earlier		
	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	
Home care	13,642.0	13,959.0	16,578.0	20,888.3	22,977.1	24,815.3	20,390.9	22,430.0	We raise our home care segment estimate
Personal care	17,345.0	17,964.0	19,460.0	22,184.4	24,181.0	27,082.7	21,406.0	23,332.5	We slightly raise our estimate for BPC segment given grammage increase in smaller SKUs would reflect in volumes
Food & Refreshments	7,450.0	13,204.0	14,105.0	14,951.3	15,848.4	16,894.4	14,951.3	15,848.4	

Source: ICICI Direct Research

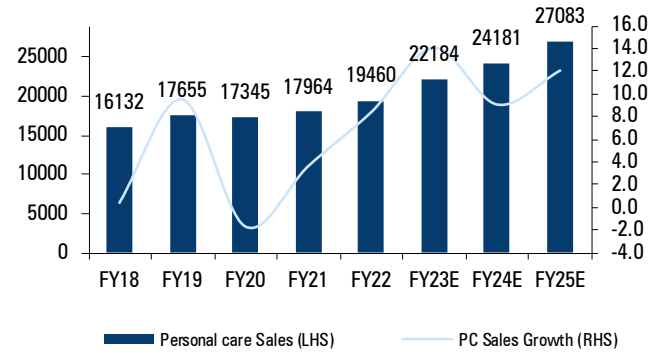
Key Metrics

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



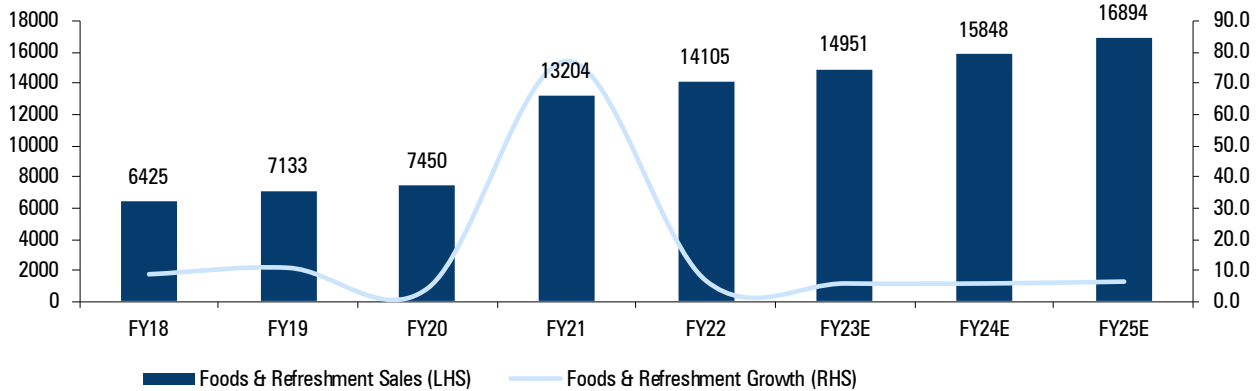
Source: ICICI Direct Research, Company

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



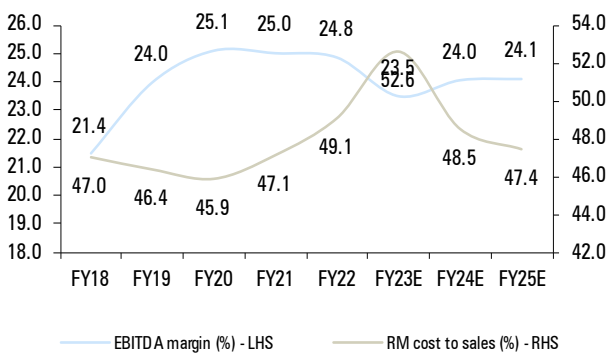
Source: ICICI Direct Research, Company

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



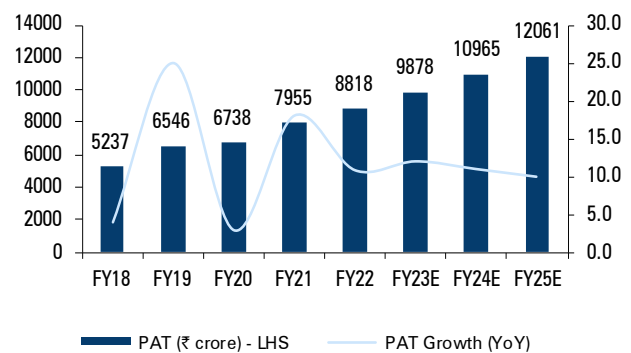
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA margin and raw material trend



Source: Company, ICICI Direct Research

Exhibit 9: PAT to grow at CAGR of 11.0% in FY22-25E



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total operating income	51,193.0	59,515.4	65,190.0	71,128.5
Growth (%)	11.3	16.3	9.5	9.1
Raw Material Expenses	25,124.0	31,302.7	31,626.1	33,742.7
Employee Expenses	2,399.0	2,717.5	3,142.5	3,428.7
Marketing Expenses	4,718.0	4,844.2	6,605.6	7,557.2
Administrative Expenses	0.0	2,599.3	3,078.3	3,428.7
Other expenses	6,449.0	4,312.5	5,322.9	6,122.7
Total Operating Expenditure	38,690.0	45,776.2	49,775.4	54,280.0
EBITDA	12,503.0	13,739.2	15,414.5	16,848.5
Growth (%)	10.4	9.9	12.2	9.3
Depreciation	1,025.0	1,066.6	1,156.3	1,209.8
Interest	98.0	88.2	79.4	71.4
Other Income	393.0	565.9	633.8	709.9
Exceptional Income	-34.0	-153.0	-153.0	-153.0
PBT	11,739.0	12,997.3	14,659.6	16,124.1
Total Tax	2,921.0	3,119.4	3,694.2	4,063.3
PAT	8,818.0	9,878.0	10,965.4	12,060.8
Growth (%)	10.9	12.0	11.0	10.0
EPS (₹)	37.5	42.0	46.7	51.3

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	9,019.0	9,878.0	10,965.4	12,060.8
Add: Depreciation	1,040.0	1,066.6	1,156.3	1,209.8
(Inc)/dec in Current Assets	-992.0	-1,641.5	-1,385.8	-1,088.8
Inc/(dec) in CL and Provisions	203.0	1,405.7	1,355.2	1,248.5
CF from operating activities	8,964.0	10,708.8	12,091.1	13,430.4
(Inc)/dec in Investments	-1,096.0	-100.0	-100.0	-100.0
(Inc)/dec in loans & advances	-770.0	-25.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	0.0	-1,065.6	-1,456.3	-1,709.8
Others	134.0	-111.1	26.3	26.4
CF from investing activities	(1,732.0)	(1,301.7)	(1,555.1)	(1,808.4)
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	-7,519.0	-9,400.0	-10,810.0	-11,750.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-465.0	0.0	0.0	0.0
CF from financing activities	(7,984.0)	(9,400.0)	(10,810.0)	(11,750.0)
Net Cash flow	-752.0	7.1	-273.9	-128.1
Opening Cash	1,740.0	988.0	995.1	721.2
Closing Cash	3,618.0	3,625.1	3,351.2	3,223.1

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	235.0	235.0	235.0	235.0
Reserve and Surplus	48,525.0	49,003.0	49,158.4	49,469.2
Total Shareholders funds	48,760.0	49,238.0	49,393.4	49,704.2
Other Non Current Liabilities	2,339.0	2,339.0	2,339.0	2,339.0
Long Term Provisions	1553.0	149.9	166.2	182.6
Total Liabilities	58,793.0	57,877.9	58,059.6	58,396.8
Assets				
Gross Block	10,357.0	10,557.0	11,057.0	11,557.0
Less: Acc Depreciation	4,544.0	4,544.0	4,544.0	4,544.0
Net Block	5,813.0	6,013.0	6,513.0	7,013.0
Capital WIP	901.0	700.0	500.0	500.0
Total Fixed Assets	6,714.0	6,713.0	7,013.0	7,513.0
Goodwill on Consolidation	17316	17316	17316	17316
Net Intangible Assets	27,905.0	27,905.0	27,905.0	27,905.0
Other Investments	612.0	712.0	812.0	912.0
Inventory	3,890.0	4,811.6	5,271.1	5,751.3
Debtors	1,932.0	2,405.8	2,811.3	2,875.6
Loans and Advances	0.0	0.0	0.0	0.0
Investments & Other CA	1,697.0	1,603.9	1,757.0	1,917.1
Cash	3,618.0	3,625.1	3,351.2	3,223.1
Total Current Assets	14,647.0	16,295.6	17,407.5	18,368.2
Creditors	8,864.0	10,264.7	11,420.7	12,461.1
Provisions & other CL	2,080.0	2,085.0	2,284.1	2,492.2
Total Current Liabilities	10,944.0	12,349.7	13,704.9	14,953.3
Net Current Assets	3,703.0	3,945.9	3,702.6	3,414.8
Others Non-Current Assets	1,261.0	1,286.0	1,311.0	1,336.0
Application of Funds	58,793.0	57,877.9	58,059.6	58,396.8

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	37.5	42.0	46.7	51.3
Cash EPS	41.9	46.6	51.6	56.5
BV	207.5	209.6	210.2	211.6
DPS	34.0	40.0	46.0	50.0
Cash Per Share	15.4	15.4	14.3	13.7
Operating Ratios (%)				
EBITDA/Total Operating Income	24.8	23.5	24.0	24.1
PBT Margin	23.0	22.1	22.7	22.9
PAT Margin	17.2	16.6	16.8	17.0
Inventory days	28	30	30	30
Debtor days	14	15	16	15
Creditor days	64	64	65	65
Return Ratios (%)				
RoE	18.1	20.3	22.4	24.5
RoCE	20.2	22.9	25.6	28.0
Valuation Ratios (x)				
P/E	68.6	61.2	55.2	50.2
EV / EBITDA	48.1	43.8	39.0	35.7
EV / Net Sales	11.9	10.3	9.4	8.6
Market Cap / Sales	12.0	10.3	9.4	8.6
Price to Book Value	12.4	12.3	12.2	12.2
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.0	1.0	1.0	1.0
Quick Ratio	0.7	0.6	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)	1,504	1,610	Hold	43,606	39.6	38.6	42.3	37.9	38.9	35.6	8.6	8.2	7.5	77.8	82.6	92.7	62.2	62.9	70.8
Dabur India (DABIND)	568	700	Buy	97,076	9.9	10.9	12.7	57.6	52.2	44.8	8.9	8.2	7.2	24.9	24.6	26.5	20.8	21.4	22.6
Hindustan Unilever (HINLEV)	2,575	2,800	Hold	6,04,971	37.5	42.0	46.7	68.6	61.2	55.2	12.0	10.3	9.4	20.2	22.9	25.6	18.1	20.3	22.4
ITC Limited (ITC)	332	405	Buy	4,29,858	12.4	14.2	16.7	26.8	23.3	19.9	7.3	6.1	5.7	31.4	35.3	38.8	24.5	27.1	29.7
Jyothy Lab (JYOLAB)	204	205	Hold	7,076	4.3	6.2	7.8	48.0	32.7	26.3	3.3	2.9	2.6	18.7	26.2	31.3	16.6	23.0	26.8
Marico (MARLIM)	502	560	Hold	69,587	9.7	10.2	11.2	51.6	49.2	44.6	7.3	7.1	6.5	41.2	43.6	46.7	37.5	38.3	41.0
Nestle (NESIND)	19,320	22,400	Hold	1,90,912	222.4	255.8	301.1	86.9	75.5	64.2	13.0	11.4	10.3	58.7	57.1	63.0	111.3	103.6	110.3
Patanjali Foods (RUCSOY)	1,206	1,750	Buy	50,721	27.3	30.9	43.5	44.2	39.0	27.8	2.1	1.7	1.5	13.2	15.6	17.3	13.1	11.3	14.2
Tata Consumer Products (TAT)	741	950	Buy	70,169	11.0	13.9	17.1	67.3	53.2	43.3	5.6	5.1	4.6	8.4	9.2	10.8	7.0	8.2	9.7
Varun Beverage (VARBEV)	1,233	1,235	Hold	71,889	17.2	23.2	26.8	71.6	53.1	46.0	8.1	5.6	5.0	17.1	30.3	33.5	18.3	29.0	29.4
VST Industries (VSTIND)	3,164	3,725	Hold	5,615	207.4	228.7	248.3	15.3	13.8	12.7	4.8	4.4	4.0	39.2	43.7	49.9	30.0	33.3	37.5
Zydus Wellness (ZYDWEL)	1,464	2,100	Buy	10,308	48.5	56.5	70.3	30.2	25.9	20.8	5.1	4.5	4.1	6.1	7.0	8.3	6.4	7.2	8.6

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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