

**BUY**

TP: Rs 3,069 | ▲ 13%

**HINDUSTAN UNILEVER**

Consumer Staples

05 June 2023

## Annual report analysis: Weathering the storm

- Growth momentum continues with 16% YoY topline growth in FY23 and market share gains in >75% of the portfolio
- Premiumisation and market development in focus; the latter added Rs 100bn to turnover for the year, per management
- Expect above-industry growth to continue; maintain BUY with an unchanged TP of Rs 3,069

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**Steady growth momentum with market share gains:** HUVR reported 16% YoY revenue growth in FY23 to Rs 581.5bn, backed by volume growth of 5%. Despite persisting macroeconomic challenges, including tepid market growth, high commodity inflation and geopolitical uncertainties, the company continued to gain market share in more than 75% of its portfolio. It indicated that consumers prioritised essentials over discretionary spends due to the high inflation.

**Market development and innovation remain core:** HUVR sees a large opportunity to accelerate market development and premiumisation across the face wash, hair post-wash, body lotion, body wash, mask, and serum segments. With a strong portfolio of brands including *Lakmé*, *Dove*, *Pond's* and *TRESemmé*, the company is tapping into emerging demand through new launches such as Dove Hair Fall Therapy shampoo, Lakmé Vitamin C facewash, Pond's Light Hydration moisturiser, Lakmé Sunscreen, and TRESemmé Pro Pure shampoo. Market development activities added Rs 100bn to the company's turnover in FY23, per the annual report.

**Strong distribution network and resilient supply chain:** HUVR has a footprint in ~9mn retail outlets out of the 11mn outlets present in the country. The company reaches over 2mn of these directly through its network of 3,500+ traditional distributors. Its 'Shikhar' app is used by 1.2mn retail outlets, allowing them to place orders directly with distributors. HUVR has also strengthened its D2C platform to 16 websites serving 19,000 pin codes in the country. It has an extensive supply chain network of 29 owned factories and 50+ manufacturing partners, producing over 65bn units during the year.

**Maintain BUY, TP Rs 3,069:** HUVR continues to grow ahead of the market and to gain market share despite persisting macro challenges. We expect investments in brand building and innovation to lend further impetus to growth. The stock is trading at 53.5x/46.4x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 52.5x FY25E EPS, in line with the long-term mean, for an unchanged TP of Rs 3,069.

## Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HUVR IN/Rs 2,717
Market cap	US\$ 77.7bn
Free float	38%
3M ADV	US\$ 44.6mn
52wk high/low	Rs 2,742/Rs 2,100
Promoter/FPI/DII	62%/14%/24%

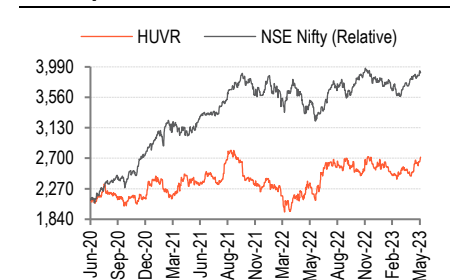
Source: NSE | Price as of 2 Jun 2023

## Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	6,05,800	6,68,526	7,39,348
EBITDA (Rs mn)	1,41,490	1,68,452	1,93,787
Adj. net profit (Rs mn)	1,01,600	1,19,321	1,37,436
Adj. EPS (Rs)	43.2	50.8	58.5
Consensus EPS (Rs)	43.2	50.1	56.9
Adj. ROAE (%)	20.4	23.3	26.2
Adj. P/E (x)	62.8	53.5	46.5
EV/EBITDA (x)	45.1	37.9	32.9
Adj. EPS growth (%)	14.1	17.9	15.2

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



## Annual report takeaways

### Key highlights

#### Broad-based growth across categories

HUVR displayed a strong performance in a year marked by unprecedented inflation and significant slowdown in market growth. Revenue increased 16% YoY to Rs 581.5bn and PAT grew 14% YoY to Rs 99.6bn in FY23 aided by adequate pricing and a 5% YoY growth in volumes. The company remains the leader in 85% of its product portfolio and continues to gain market share in more than 75% of its portfolio.

HUVR continues to focus on building a future-fit portfolio by strengthening core products, promoting premiumisation, and creating newer categories through market development. During the year, the company divested its non-core wheat flour (*atta*) and salt businesses under the *Annapurna* and *Captain Cook* brands to focus on the packaged food business.

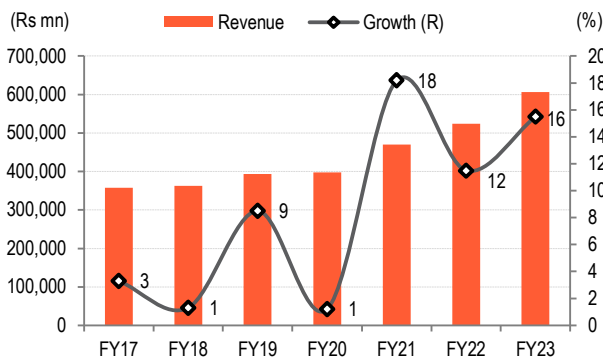
#### Royalty fees raised

During FY23, HUVR reviewed its royalty and central services agreement with parent Unilever and increased the royalty rate from 2.6% to 3.45% of turnover, staggered over a period of three years. Despite the increase, the company remains committed to its mid-to-long-term guidance of double-digit EPS growth. The new contract ensures continued benefits from Unilever in terms of a steady stream of innovations, superior products and technology, domain expertise and enhanced services.

#### Healthy mid-to-long-term outlook

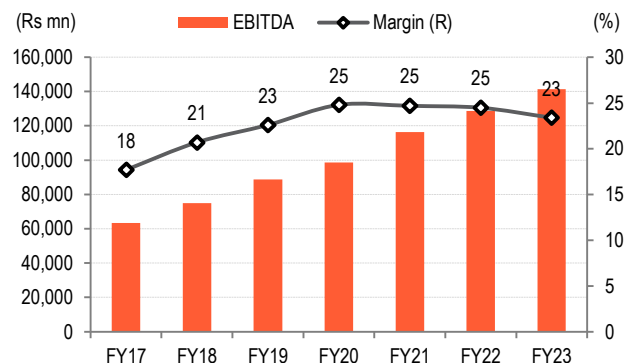
In the near term, the company believes the operating environment will remain volatile with global slowdown risks and weather-related uncertainty. While inflation has moderated, commodity prices remain elevated as compared to longer-term averages. Going forward, HUVR expects that price-to-volume growth will rebalance. Price growth is likely to taper off due to a higher base and a sequential easing of inflation. Market volumes are expected to recover gradually as consumption habits readjust with a lag. HUVR remains confident of the medium-to-long-term potential of the Indian FMCG sector and of its ability to deliver consistent and profitable growth.

Fig 1 – Revenue growth



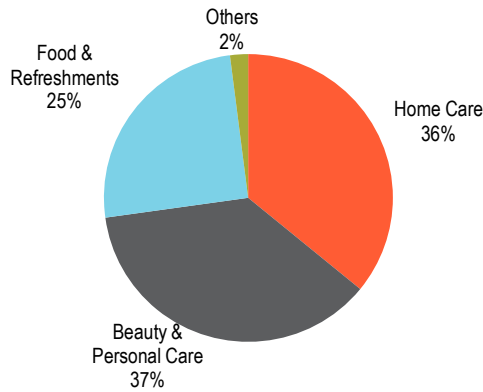
Source: Company, BOBCAPS Research

Fig 2 – EBITDA and margin trajectory



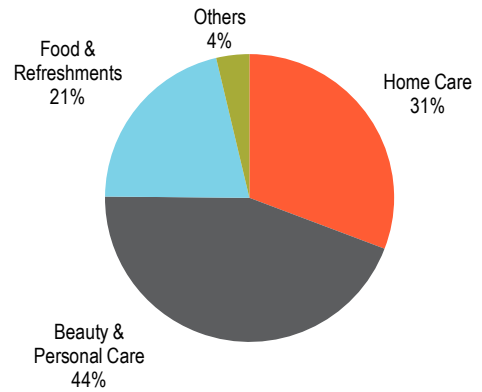
Source: Company, BOBCAPS Research

**Fig 3 – Segment revenue contribution**



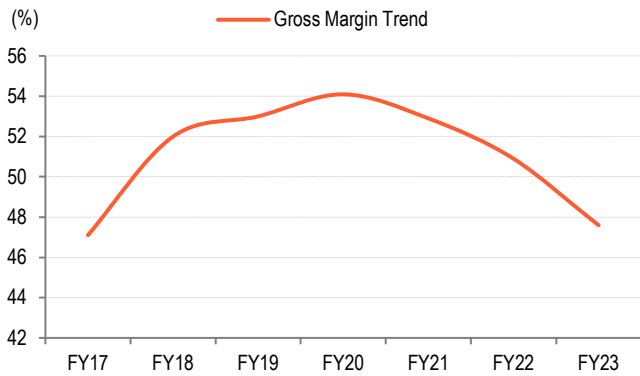
Source: Company, BOBCAPS Research

**Fig 4 – Segment EBIT contribution**



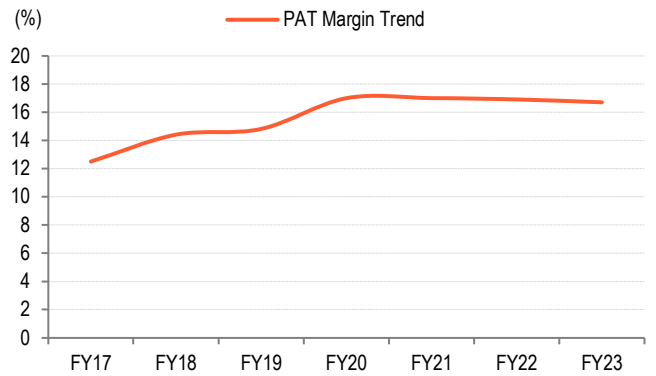
Source: Company, BOBCAPS Research

**Fig 5 – Gross margin trend**



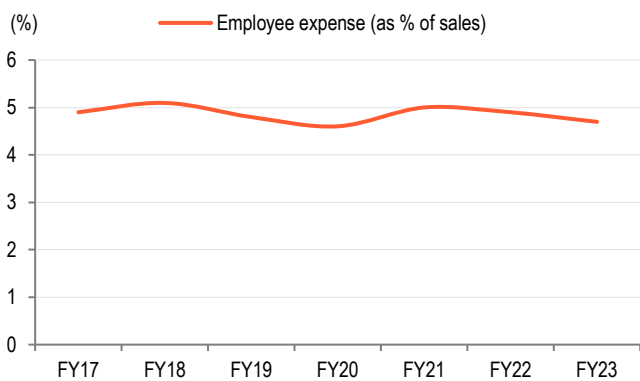
Source: Company, BOBCAPS Research

**Fig 6 – PAT margin trend**



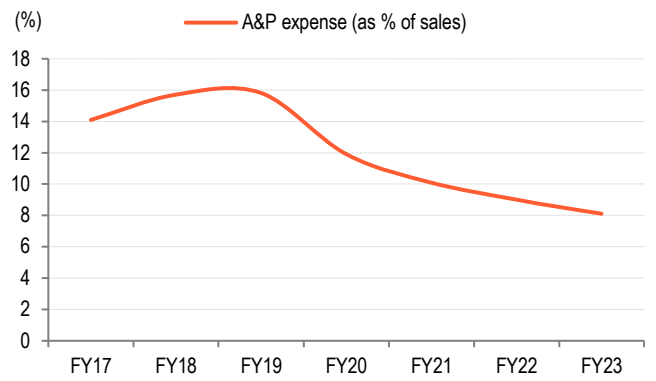
Source: Company, BOBCAPS Research

**Fig 7 – Employee expense trend**



Source: Company, BOBCAPS Research

**Fig 8 – Advertisement and promotion expense trend**



Source: Company, BOBCAPS Research

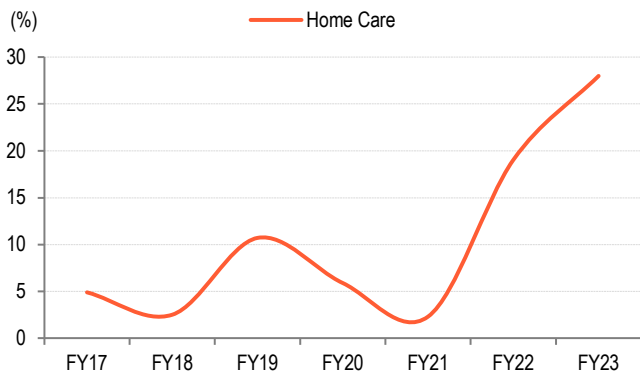
## Segmental performance

### Home care (HC)

HC registered strong 28% YoY revenue growth to Rs 212bn in FY23 and contributed 36% of HUVR’s total revenue. EBIT for the segment stood at Rs 39bn (30% share). The HC portfolio continued to grow well ahead of the market, leading to value and volume market share gains. Robust growth across brands and formats resulted in high double-digit growth in both fabric care and household care. The water purifier business also grew in double-digits.

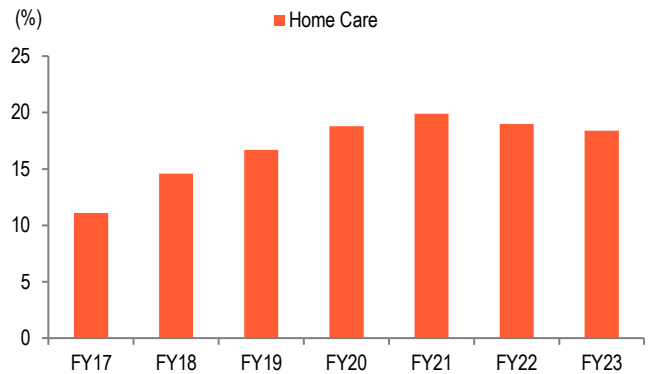
The HC business saw unprecedented inflation in the prices of key raw materials such as crude oil, soda ash, caustic soda, and packaging materials. HUVR took adequate price hikes and focused on cost rationalisation initiatives, which aided growth and safeguarded margins.

**Fig 9 – HC – Revenue growth trend**



Source: Company, BOBCAPS Research

**Fig 10 – HC – EBIT margin profile**

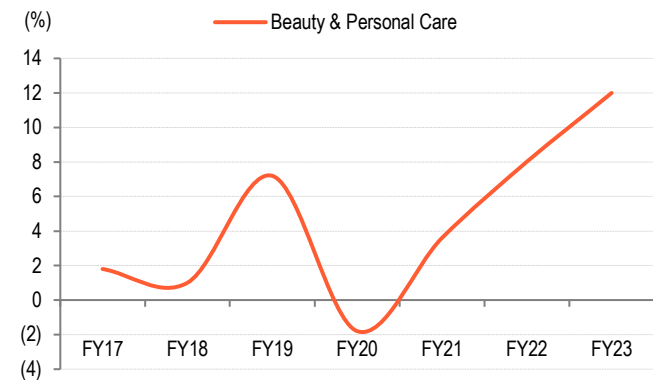


Source: Company, BOBCAPS Research

### Beauty and personal care (BPC)

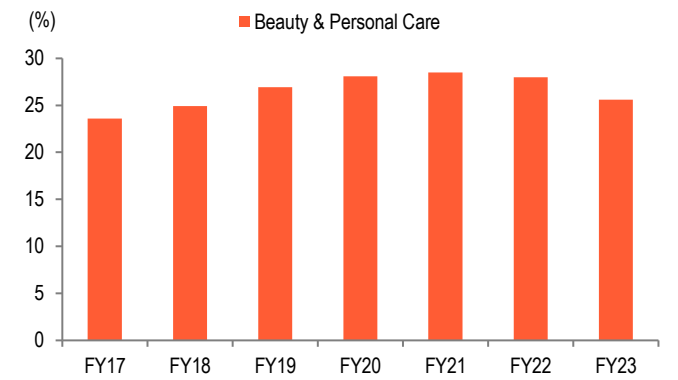
BPC reported revenue growth of 12.5% YoY to Rs 220bn in FY23 (36% of total revenue), led by broad-based growth across categories. EBIT for the segment stood at Rs 56bn (43% share). In the wake of a challenging operating environment, HUVR strove to strengthen the product portfolio via premium-segment innovation and sustained investment in skin care, hair care and color cosmetic brands. HUVR leveraged its Winning in Many Indias (WiMI) strategy to deaverage India and get closer to the consumers. The company also worked to fortify its brand equity which helped five BPC brands reach Rs 20bn in annual turnover during FY23.

**Fig 11 – BPC – Revenue growth trend**



Source: Company, BOBCAPS Research

**Fig 12 – BPC – EBIT margin trend**

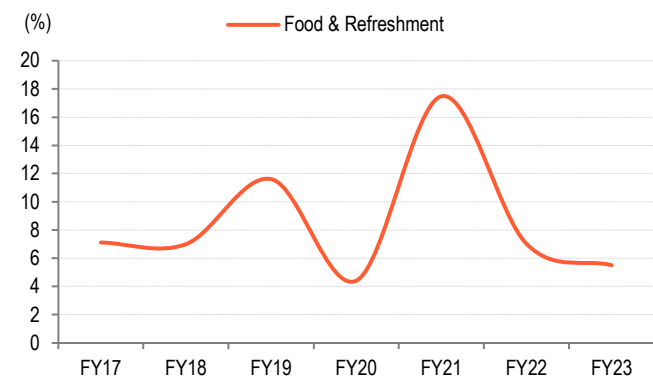


Source: Company, BOBCAPS Research

**Food and refreshment**

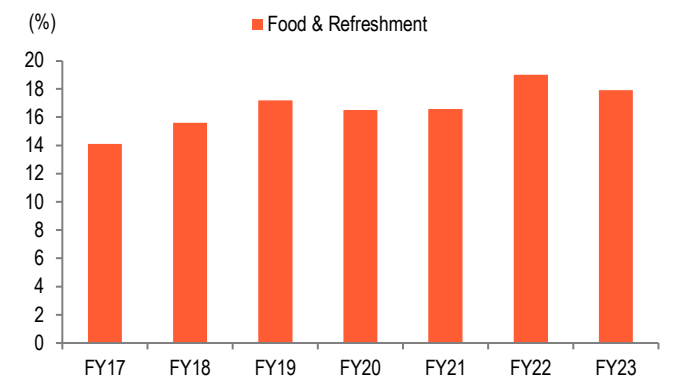
The food and refreshment business reported revenue growth of 5.5% YoY to Rs 149bn in FY23 and contributed 25% of HUVR's total revenue. EBIT for the segment stood at Rs 27bn (23% share). Growth was supported by a strong performance in ice creams, foods, and coffee. HUVR remained the market leader in tea and widened the gap with its nearest competitor in both value and volume terms. Health food drinks (HFD) gained market share and penetration backed by market development activities. The food solution business and ice cream portfolio registered double-digit growth in FY23.

**Fig 13 – Food & Refreshment – Revenue growth trend**



Source: Company, BOBCAPS Research

**Fig 14 – Food & Refreshment – EBIT margin trend**



Source: Company, BOBCAPS Research

**Premiumisation at core of growth strategy**

Premiumisation remains at the heart of HUVR's business strategy given demand tailwinds from urbanisation, the spread of nuclear families and rising affluence. The company's HC liquid portfolio that includes fabric conditioner, liquid detergent, and dishwash has doubled in the last three years, crossing Rs 30bn in annual turnover. *Surf Excel* continued to lead premiumisation and crossed US\$ 1bn in turnover during FY23, becoming the first home and personal care (HPC) brand in India to reach this milestone.

HUVR continues to invest in category creation, expanding its fabric conditioner portfolio via *Comfort Delicates* designed for delicate fabrics and *Comfort Sweet Dreams* for bed

linen. In detergents, it introduced *Surf Excel Matic Power Concentrate*, a liquid concentrate with 2x cleaning power. In skin cleansing, the company drove premiumisation from soap bars to bodywash through a consistent focus on market development, and also launched two new brands in the premium beauty space, *Acne Squad* and *Find Your Happy Place*, to expand offerings in the segment.

### New launches augmented the portfolio

During FY23, the company forayed into the fast-growing areas of health and wellbeing through strategic partnerships with OZiva and Wellbeing Nutrition. HUVR now has five brands in the digital-first premium beauty business unit.

- In hair care, TRESemmé launched its *Pro Pure* range in the clean beauty space, while Indulekha launched a hair serum and mask.
- In ice cream, the company launched exclusive products such as *Nolen Gur* cup and *gulab jamun* ice cream.
- Three premium offerings were rolled out under *Bru*, comprising beaten coffee, freeze dried coffee, and decoction.
- A new variant of *Kissan Peanut Butter* was introduced in hazelnut choco flavour.
- Masstige beauty brand *Novology* was rolled out in the growing segment of derma therapeutic care.

## Valuation methodology

HUVR continues to grow ahead of the market and to gain market share despite persisting macro challenges. Increased investment in brand building and innovation is expected to lend further impetus to growth. We also like the company's continued strategic initiatives aimed at driving portfolio transformation and premiumisation.

The stock is trading at 53.5x/46.4x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 52.5x FY25E EPS, in line with the long-term mean, for an unchanged TP of Rs 3,069.

## Key risks

Key downside risks to our estimates are:

- a decline in volume growth, and
- delayed rural recovery.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	13.6	4,654	5,623	BUY
Dabur India	DABUR IN	12.0	557	628	BUY
Godrej Consumer Products	GCPL IN	13.2	1,061	1,159	BUY
Hindustan Unilever	HUVR IN	77.7	2,717	3,069	BUY
ITC	ITC IN	67.1	443	486	BUY
Marico	MRCO IN	8.6	549	629	BUY
Nestle India	NEST IN	25.9	22,047	24,670	BUY
Tata Consumer Products	TATACONS IN	9.0	796	924	BUY
Zydus Wellness	ZYWL IN	1.1	1,477	1,631	HOLD

Source: BOBCAPS Research, NSE | Price as of 2 Jun 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>4,70,280</b>	<b>5,24,460</b>	<b>6,05,800</b>	<b>6,68,526</b>	<b>7,39,348</b>
EBITDA	1,16,260	1,28,570	1,41,490	1,68,452	1,93,787
Depreciation	10,740	10,910	11,370	12,899	14,626
EBIT	1,05,520	1,17,660	1,30,120	1,55,553	1,79,161
Net interest inc./(exp.)	1,170	1,060	1,140	1,040	1,020
Other inc./(exp.)	4,100	2,580	5,120	5,330	5,596
Exceptional items	(2,390)	(440)	(640)	0	0
EBT	1,06,060	1,18,740	1,33,460	1,59,843	1,83,738
Income taxes	26,060	29,870	32,010	40,280	46,302
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	40	130	230	242	254
<b>Reported net profit</b>	<b>79,960</b>	<b>88,740</b>	<b>1,01,220</b>	<b>1,19,321</b>	<b>1,37,436</b>
Adjustments	(2,390)	(440)	(640)	0	0
<b>Adjusted net profit</b>	<b>82,350</b>	<b>89,180</b>	<b>1,01,600</b>	<b>1,19,321</b>	<b>1,37,436</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	88,020	90,680	95,740	1,00,765	1,08,726
Other current liabilities	5,880	6,650	7,640	8,431	9,324
Provisions	20,850	19,260	17,520	18,931	20,525
Debt funds	0	0	980	980	980
Other liabilities	95,880	94,690	1,00,630	1,11,049	1,22,814
Equity capital	2,350	2,350	2,350	2,350	2,350
Reserves & surplus	4,74,590	4,88,520	5,02,870	5,15,044	5,28,787
Shareholders' fund	4,76,940	4,90,870	5,05,220	5,17,394	5,31,137
<b>Total liab. and equities</b>	<b>6,87,570</b>	<b>7,05,170</b>	<b>7,30,870</b>	<b>7,60,691</b>	<b>7,96,646</b>
Cash and cash eq.	44,710	38,460	46,780	56,559	80,522
Accounts receivables	17,580	22,360	30,790	33,978	37,578
Inventories	35,790	40,960	42,510	44,741	48,276
Other current assets	17,020	17,900	21,430	23,636	26,128
Investments	27,090	35,210	28,820	38,894	38,977
Net fixed assets	61,160	61,690	69,490	69,547	69,249
CWIP	7,450	13,130	11,320	11,320	11,320
Intangible assets	2,79,300	2,79,070	2,82,630	2,82,630	2,82,630
Deferred tax assets, net	170	110	100	110	122
Other assets	1,91,130	1,88,640	1,89,390	1,90,915	1,92,637
<b>Total assets</b>	<b>6,87,570</b>	<b>7,05,170</b>	<b>7,30,870</b>	<b>7,60,691</b>	<b>7,96,646</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>91,630</b>	<b>90,480</b>	<b>99,910</b>	<b>1,41,367</b>	<b>1,63,086</b>
Capital expenditures	(7,410)	(12,250)	(11,740)	(12,956)	(14,328)
Change in investments	39,600	(7,910)	(3,670)	(10,000)	0
Other investing cash flows	3,000	1,580	2,600	0	0
<b>Cash flow from investing</b>	<b>(12,280)</b>	<b>(17,280)</b>	<b>(14,940)</b>	<b>(23,029)</b>	<b>(14,411)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,940)	0	780	0	0
Interest expenses	(860)	(820)	(880)	(1,040)	(1,020)
Dividends paid	(88,110)	(75,260)	(84,740)	(1,07,389)	(1,23,692)
Other financing cash flows	(4,060)	(4,070)	(4,690)	0	0
<b>Cash flow from financing</b>	<b>(93,090)</b>	<b>(80,150)</b>	<b>(89,530)</b>	<b>(1,08,429)</b>	<b>(1,24,712)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(13,740)</b>	<b>(6,950)</b>	<b>(4,560)</b>	<b>9,909</b>	<b>23,963</b>
<b>Closing cash &amp; cash eq.</b>	<b>18,420</b>	<b>11,470</b>	<b>7,010</b>	<b>16,919</b>	<b>40,882</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	34.0	37.8	43.1	50.8	58.5
Adjusted EPS	35.0	37.9	43.2	50.8	58.5
Dividend per share	37.5	32.0	36.0	45.7	52.6
Book value per share	203.0	208.9	215.0	220.2	226.0

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	13.6	12.2	10.5	9.5	8.6
EV/EBITDA	54.9	49.7	45.1	37.9	32.9
Adjusted P/E	77.5	71.6	62.8	53.5	46.5
P/BV	13.4	13.0	12.6	12.3	12.0

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	75.4	74.7	75.8	74.6	74.8
Interest burden (PBT/EBIT)	100.5	100.9	102.6	102.8	102.6
EBIT margin (EBIT/Revenue)	22.4	22.4	21.5	23.3	24.2
Asset turnover (Rev./Avg TA)	68.4	74.4	82.9	87.9	92.8
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.5	1.5
Adjusted ROAE	16.8	18.1	20.0	23.1	25.9

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	18.2	11.5	15.5	10.4	10.6
EBITDA	17.9	10.6	10.0	19.1	15.0
Adjusted EPS	9.0	11.0	14.1	17.9	15.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	24.7	24.5	23.4	25.2	26.2
EBIT margin	22.4	22.4	21.5	23.3	24.2
Adjusted profit margin	17.5	17.0	16.8	17.8	18.6
Adjusted ROAE	29.4	18.4	20.4	23.3	26.2
ROCE	23.2	15.1	16.4	18.7	20.7
<b>Working capital days (days)</b>					
Receivables	11	14	16	18	18
Inventory	52	54	48	48	47
Payables	135	127	107	107	106
<b>Ratios (x)</b>					
Gross asset turnover	0.7	0.7	0.8	0.8	0.8
Current ratio	1.3	1.4	1.4	1.6	1.7
Net interest coverage ratio	90.2	111.0	114.1	149.6	175.6
Adjusted debt/equity	0.0	0.0	0.2	0.2	0.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets



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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

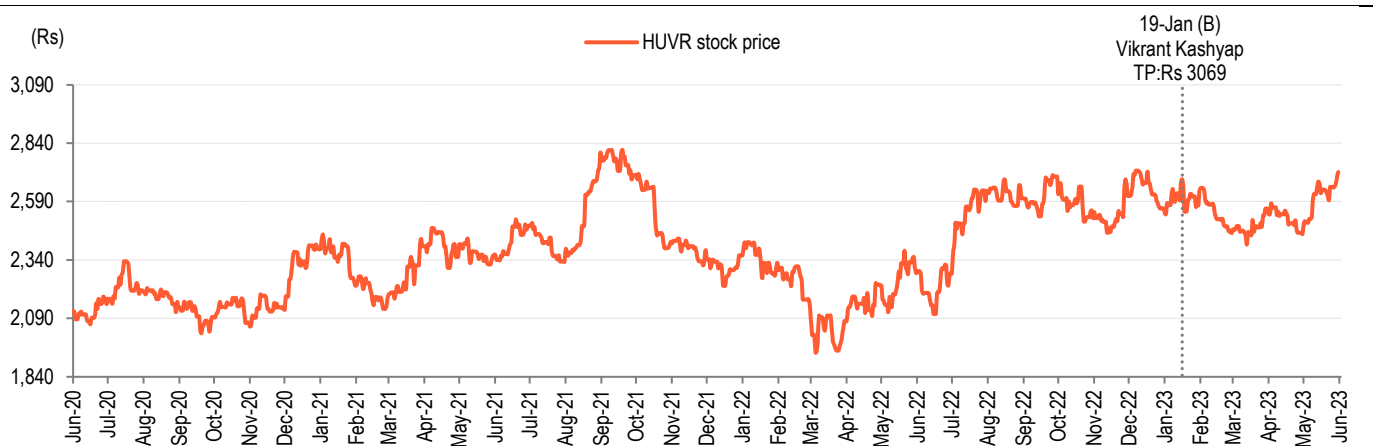
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): HINDUSTAN UNILEVER (HUVR IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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