

Transforming To An Intelligent And Future Fit Organization

Hindustan Unilever (HUVR IN) at its annual investor meet reiterated its strategy of 1) growing the core by building superior and purpose-led brands, 2) capitalizing on the premiumization trend by straddling across the price/value pyramid and introducing access packs across categories, 3) invest in market development thereby growing categories of the future (analytics and market standing enables it to know when to seed a new category and when to support existing category into the next growth orbit and 4) harness strength across the digital ecosystem (consumer, customer and operations) and 5) build on the portfolio and its capabilities to continue to maintain an edge over competition. In addition to this, management also highlighted about how data is one of its biggest competitive edge and an asset alongside people and its brands. Over FY11-20, HUVR has registered an impressive 9% revenue CAGR and 1000bps expansion in EBITDA Margins.

We like HUVR's superior agility and nimbleness despite it being larger than peers in capitalizing on the emerging growth trends and remaining ahead of competition. Management has set a target to achieve modest EBITDA Margin improvement while driving double digit EPS growth over FY21-30. Near term growth drivers like pick up in discretionary portfolio, tailwinds from GSK-CH integration and gains from investments in digitization, distribution are key growth enablers. **We marginally revise our FY23E/24E and maintain BUY with a revised TP of Rs. 3,100 (earlier Rs. 2,670) as we raise our target PE to 56x FY24E EPS (earlier 50x FY24E EPS).**

Key takeaways

- Upbeat about medium term growth:** Management remains upbeat on the growth opportunities to play across the segments it operates in. It aims to drive double digit EPS growth over the coming decade led by modest margin improvement. We note HUVR's prowess in extracting savings across cost lines and remains at the heart of underlying growth agenda. Over FY11-20 it has driven 8%+ cost savings. To deliver on the margin target of 24-25% it aims to focus on premiumizing the portfolio, build on categories of the future (essentially high margin product/segments) and drive penetration and digitization of the business model to derive benefits of scale and operating leverage.
- Leveraging data and technology:** HUVR will focus on transitioning to an inter-connected ecosystem by leveraging its data and technology capabilities thereby making it future-fit. HUVR is taking initiatives across the digital eco-system by focusing on consumer (insights, always on-trend products, agile innovation, faster product launch time etc). On operational sustainability, HUVR is focused on creating a 'people and planet positive' business - across diversity, eco-friendly packaging (lesser, no use of plastic wherever possible), reduction in water spending, etc besides working towards reducing wastages by opportunistically looking at expanding nano-factories. On customer engagement, HUVR's eB2B app Shikhar has received encouraging response (on boarded 0.6million retailers which is 10%+ of total retailer orders). It continues to focus on digitization of the local Kirana stores which are here to stay and continue to be a critical part of the FMCG distribution value chain.
- Strengthen the core, premiumization and market development bedrock principles of growth:** These factors are the backbone for HUVR's superior growth performance versus peers over the medium term. It reiterated its consistent growth strategy of growing the core by launching superior products, relevant innovations/renovations (liquids in laundry, body wash across price points), de-averaging with right pack-price architecture (sachets/access packs), investing behind brands across media and improved distribution.
- Huge headroom for FMCG growth in India:** Per capita consumption of FMCG in India is relatively low compared to 10x in Thailand, 6x in Philippines, 3x in China and 2x in Indonesia. Penetration of Body wash is just at 2%, hair conditioner ~6%, facewash ~19%, Health food drink (~25%) which implies huge headroom for growth. Moreover, ~61% of the population is in rural while its share in consumption is low at ~31%. This suggests tremendous scope for penetration in the hinterland. Favourable demographics, higher disposable income, rise in internet users, changing lifestyles are other long term growth drivers for the FMCG sector with HUVR well positioned to capitalize on this.

Key Financials

(Rs. Cr)	FY21	FY22E	FY23E	FY24E
Net Sales	45,996	52,173	58,035	63,929
EBITDA	11,324	12,935	15,218	17,437
Net Profit	7,954	9,505	11,278	12,936
EPS (Rs.)	33.9	40.5	48.0	55.1
PER (x)	80.6	69.4	58.5	51.0
EV/EBITDA (x)	57.9	50.6	43.1	37.1
P/BV (x)	13.9	12.0	12.8	11.5
ROE (%)	17	17	22	23

Source: Company, Axis Research

(CMP as of Sept 13, 2021)

CMP (Rs)	2,784
Upside /Downside (%)	11%
High/Low (Rs)	2,531/2,001
Market cap (Cr)	6,54,291
Avg. daily vol. (6m) Shrs.	17,55,325
No. of shares (Cr)	235

Shareholding (%)

	Dec-20	Mar-21	Jun-21
Promoter	61.9	61.9	61.9
FIIs	14.9	15.0	15.1
MFs / UTI	3.5	3.3	3.2
Banks / FIs	0.0	0.0	0.0
Others	19.6	19.8	19.8

Financial & Valuations

Y/E Mar (Rs. bn)	2022E	2023E	2024E
Net Sales	521.7	580.4	639.3
EBITDA	129.3	152.2	174.4
Net Profit	95.0	112.8	129.4
EPS (Rs.)	40.5	48.0	55.1
PER (x)	69.4	58.5	51.0
EV/EBITDA (x)	50.6	43.1	37.1
P/BV (x)	12.0	12.8	11.5
ROE (%)	17.2	21.9	22.6

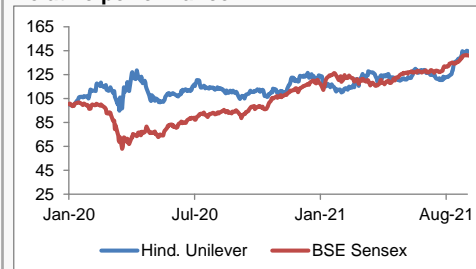
ESG disclosure Score**

Particulars	Score
Environmental	17.8
Social	38.6
Governance	60.7
Total ESG Disclosure Score	32.6

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

Suvarna Joshi

Sr. Research Analyst

email: suvarna.joshi@axissecurities.in

Other Takeaways:

- 1) **Near Term outlook:** Management indicated it remains hopeful of rural continuing to report healthy growth despite disruptions caused by COVID 2.0. Factors driving growth in rural are government led interventions, stable monsoon (now picking up pace), acceleration in vaccinations, higher MSPs etc. It also highlighted a strong recovery in Modern Trade (MT) channel on the back of improved mobility and sustained pick up in General Trade (GT) channel despite the surge in e-commerce channel sales in post pandemic period. E-commerce contributes to ~8-9% of total sales revenues for the company now.
- 2) **RM outlook:** Nearly half of the business has been impacted owing to rise in price of 3 key inputs namely crude oil, palm oil and tea which remain elevated (albeit has stabilized as no further rise is reported QoQ, tea prices are seeing a moderate decline). HUVR has taken judicious and calibrated price increases of 5-14% across the 3 categories of laundry, tea and skin cleansing. Besides this, it would continue to drive on high quality cost savings. HUVR remains hopeful of maintaining 24-25% margins over the next few quarters.
- 3) **On ecommerce/D2C surge:** Management highlighted that e-commerce does provide a strong platform to reach premium/affluent consumers and also provides leading trends. It is building dedicated portfolio for e-commerce channel. On D2C threat, it sees it as a welcome competition and is confident of its portfolio and capabilities to benefit from this evolution and take its innovations to scale.
- 4) **On emerging consumer trends:** HUVR's management did highlight some emerging consumer trends like 1) moving away from stereo type, 2) growing preference for natural, herbal, authentic products, 3) increasingly seeing consumers wanting customized/personalized products, 4) digital adoption at a rapid pace, 5) focus on holistic health and 6) environment/sustainability.
- 5) **Local Kirana stores and relevance to continue:** HUVR re-iterated on the relevance of the local grocers ('kirana' shops) and their importance to be continued as the largest distribution channel over the coming decade as well. The pandemic has highlighted the proximity-benefit which local grocers offer. Moreover, there are also large number of livelihoods (100mn+) that are dependent on these local small-businesses. These are important areas to monitor given the multiple efforts on several fronts to re-shape the FMCG distribution landscape. These initiatives, if successful, could have far-reaching ramifications on the profitability and return profile of traditional consumer brands going forward. HUVR is enabling digitization of Kiranas through Shikhar App; the endeavor is (1) to leverage technology for convenience, ease-of-ordering and customization of assortment across Kiranas, (2) provide Kiranas with easy access to credit at a reasonable cost and in a paperless fashion. HUVR hopes that its partnership with SBI will help it achieve scale on this front. At a broad level, HUVR expects tech-savvy entrepreneurs/digitized Kiranas to co-exist for the foreseeable future.
- 6) **Distribution channel and growth:** We note that India has about 9 mn retail outlets. HUVR reaches 2.5 mn retail outlets directly and about 6 mn outlets indirectly (these outlets procure HUVR products through other route-to-market). e-B2B channel emerged and gained relevance and importance post the outbreak of the pandemic. HUVR's arrangement with Jiomart B2B has led to a protest from its traditional distributors who are at risk of losing market share to e-B2B platforms such as Jiomart/Udaan; the management dismissed this issue stating that its arrangement with Jiomart B2B is non-exclusive in nature and traditional distributors should focus on directly covered GT outlets (direct reach) and e-B2B is largely focusing on indirectly covered retail outlets.
- 7) **Technological capabilities:** HUVR is working towards and inter-connected ecosystem and its technology model straddles across the consumer, customer and operations eco-systems that come together to enable agile innovation, drive digitization of the distribution network and reduce wastages in operations and also make it agile and nimble (nano factories) to respond to market requirements.
 - ✓ Consumer: Agile innovation hub allows gathering customer insights and translating it to meaningful opportunities, create rapid prototyping leveraging AI and ML capabilities, get feedback from consumers and improve the product. Lakme Vitamin C and Pond's super light gel innovations were launched leveraging the agile innovation model in ~50% lower time as against a traditional launch timeline.
 - ✓ Customer: With live tracking of trucks, route optimization, enabling sales person build the right assortment with the retailer, digitization of traditional retail with Shikhar app, MyKirana program and access to credit. Shikhar app has seen rapid scale up with ~600,000 on boarded retailers, ~10%+ of total retailer orders and increased adoption in smaller outlets.
 - ✓ Operations: Sourcing from local supply touchpoints, connected multi-category factories lowering time to customer, mega

factory leveraging scale benefits along with fungible nano factories for low throughput SKUs (premium SKUs for e-commerce channel), and improved automated planning leveraging technology.

- 8) **Nutrition segment:** HUVR did mention that pandemic has caused a drag on the overall integration of the GSK-CH acquisition and also stifled market development opportunities (reaching out to consumers, sampling and experiential marketing). However, the business case/synergies haven't been impacted. The company continues to believe the nutrition portfolio has scope for double-digit growth. It continues to improve on accessibility of Horlicks and drive chocolate campaign via re-energized Boost to unlock true market potential for this portfolio. On the margins guidance, the company continues to believe that a further 300-400bps expansion is possible from the synergies that will drive expansion. It highlighted that it remains ahead of the internal targets.

HUVRs long term story in charts

Exhibit 1: Huge Headroom for growth of FMCG in India






Source: Company, Axis Securities

Exhibit 2: Key drivers for growth in FMCG sector






Source: Company, Axis Securities

Exhibit 3: Bedrock of HUVRs growth strategy

<p>Growing the Core</p>  <p>Superior Products</p>	<p>Market Development</p>  <p>More users More usage More Benefits</p>	<p>Premiumization</p>  <p>Upgrading consumers to higher order benefits</p>
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Source: Company, Axis Securities

Exhibit 4: ...while focussing on channels of the future to drive growth

<p>Digitising General Trade</p> 	<p>Design for Channel</p> 	<p>New routes to consumers</p> 
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Source: Company, Axis Securities

Exhibit 5: Beauty & Personal Care (BPC) huge headroom to premiumize and develop the market



Source: Company, Axis Securities

Exhibit 6: Scope for premiumization alongside driving core in BPC



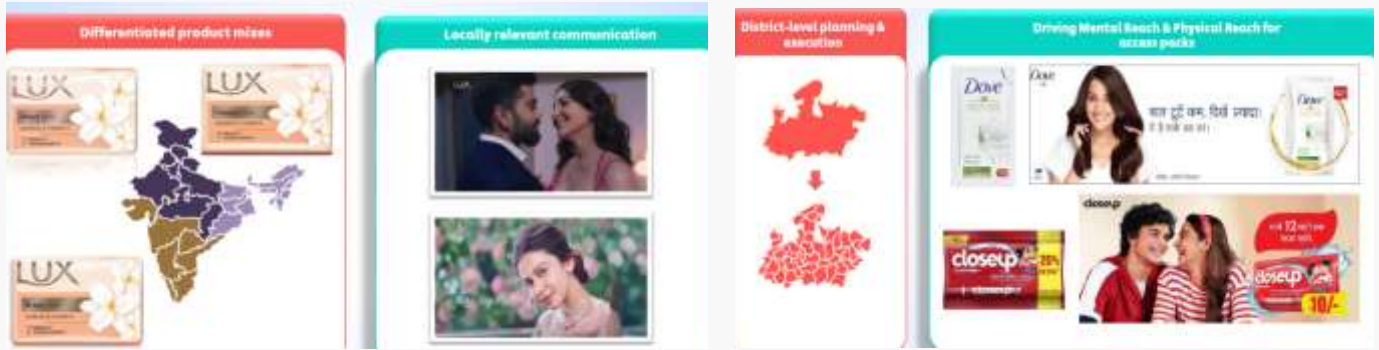
Source: Company, Axis Securities

Exhibit 7: Driving core by building purposeful brands and delivering superior products



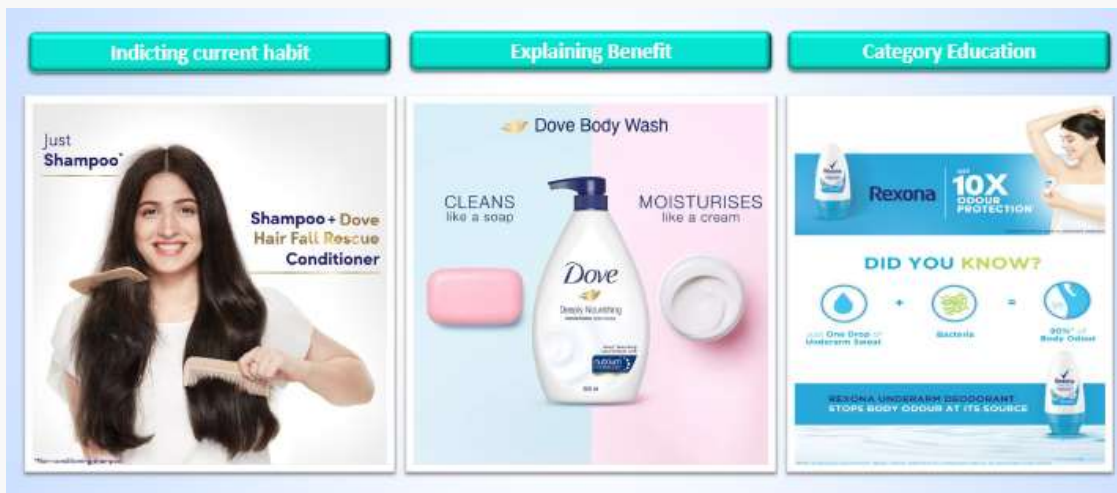
Source: Company, Axis Securities

Exhibit 8: Leveraging Winning in Many India (WIMI) strategy



Source: Company, Axis Securities

Exhibit 9: Market Development through differentiated and relevant communication



Source: Company, Axis Securities

Exhibit 10: Democratizing key trends, building new formats and benefits



Source: Company, Axis Securities

Exhibit 11:building on the Naturals portfolio on priority...



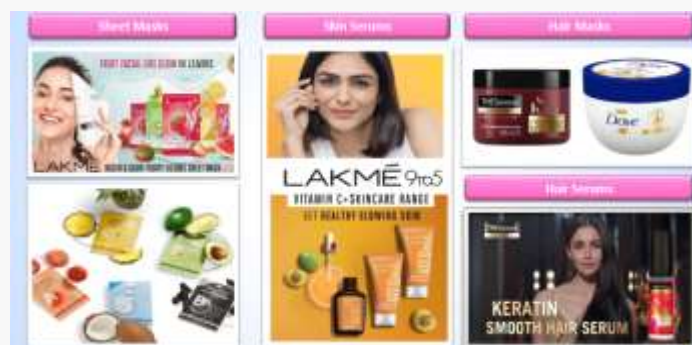
Source: Company, Axis Securities

Exhibit 12: ...by driving agility in innovation and setting up premium beauty business unit



Source: Company, Axis Securities

Exhibit 13: Designing products for emerging channels (e-commerce)



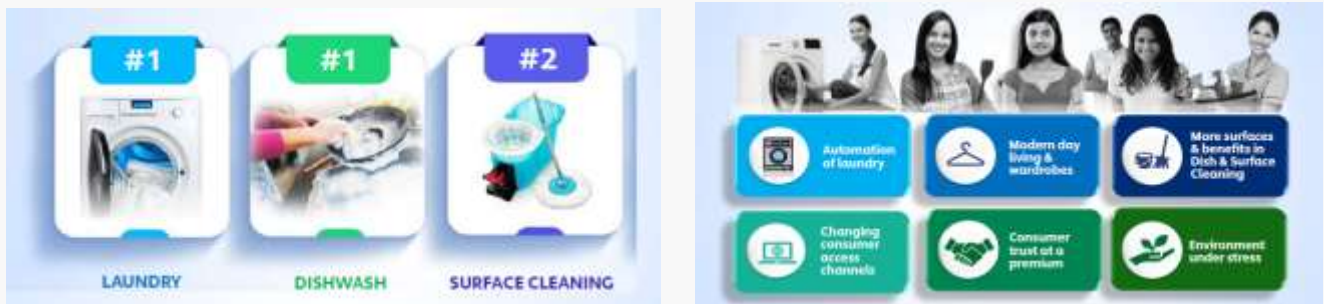
Source: Company, Axis Securities

Exhibit 14: Healthy performance over FY11-20 with strong right to win in BPC which has huge headroom for growth



Source: Company, Axis Securities

Exhibit 15: HUVR continues to enjoy a dominant position in Home Care with further room to grow



Source: Company, Axis Securities

Exhibit 16:huge headroom for growth in Core Laundry segment with WIMI a critical driver



Source: Company, Axis Securities

Exhibit 17: Market development of future categories in Home Care



Source: Company, Axis Securities

Exhibit 18: Food & Refreshments – strong market position alongside low penetration in some categories and formats



Source: Company, Axis Securities

Exhibit 19: Unbalanced Nutrition in India offers humongous potential for growth through core Horlicks and mass end products



Source: Company, Axis Securities

Exhibit 20: ...along with focus on high science based premium offerings



Source: Company, Axis Securities

Exhibit 21: Unstereotype Core Categories to continue its strong position in tea aided further by WIMI strategy



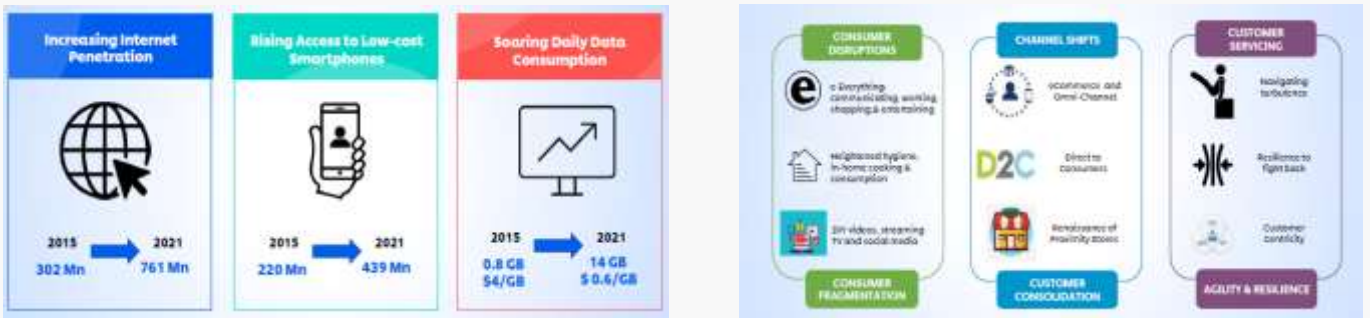
Source: Company, Axis Securities

Exhibit 22: Portfolio Transformation through On-Trend Innovations



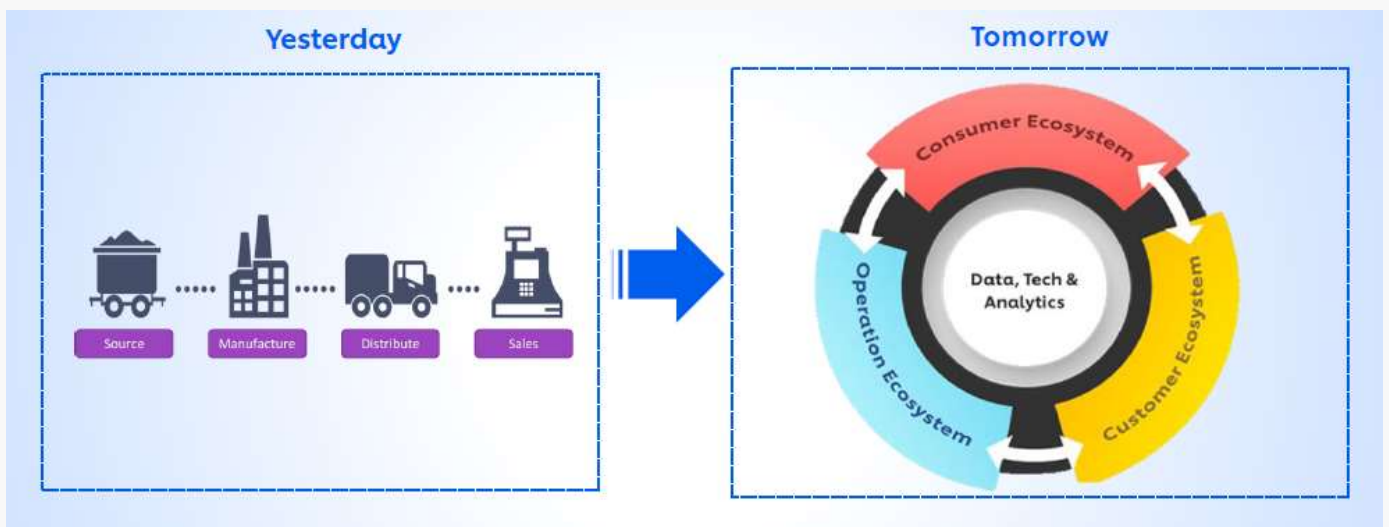
Source: Company, Axis Securities

Exhibit 23: Journey to becoming an Intelligent Enterprise with FMCG sector in context



Source: Company, Axis Securities

Exhibit 24: From Traditional Linear Value Chain to Non-Linear and Interconnected Eco-systems



Source: Company, Axis Securities

Exhibit 25: Connected Consumer Eco-System



Source: Company, Axis Securities

Exhibit 26: Connected Customer Eco-System with Intelligent Sales Operations



Source: Company, Axis Securities

Exhibit 27: HUVR's Shikhar app seeing healthy adoption levels



Source: Company, Axis Securities

Exhibit 28: Building An Agile & Resilient Supply Chain



Source: Company, Axis Securities

Exhibit 29: HUVR's Growth Construct For The Next Decade


Source: Company, Axis Securities

Exhibit 30: Cost-Savings Agenda Continues to Be an Organization Wide Focus Area


Source: Company, Axis Securities

Exhibit 31: Financial Growth Model For Long Term Value Creation


Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs cr	FY21	FY22E	FY23E	FY24E
Net sales	45,996	52,173	58,035	63,929
Growth, %	18.6	13.4	11.2	10.2
Other income	513	944	1,086	1,140
Total income	4,651	5,312	5,912	6,507
Raw material expenses	-21,677	-24,495	-26,945	-29,370
Employee expenses	-2,229	-2,363	-2,505	-2,680
Other Operating expenses	-32,281	-36,553	-39,873	-43,287
EBITDA (Core)	11,324	12,935	15,218	17,437
Growth, %	18.0	14.2	17.6	14.6
Margin, %	24.6	24.8	26.2	27.3
Depreciation	-1,012	-1,063	-1,116	-1,172
EBIT	10,312	11,872	14,102	16,266
Growth, %	19.0	15.1	18.8	15.3
Margin, %	22.4	22.8	24.3	25.4
Interest paid	-108	-109	-110	-111
Pre-tax profit	10,490	12,707	15,077	17,294
Tax provided	-2,536	-3,202	-3,799	-4,358
Profit after tax	7,954	9,505	11,278	12,936
Net Profit	7,954	9,505	11,278	12,936
Growth, %	18.0	16.2	18.7	14.7
Net Profit (adjusted)	795	950	1,128	1,294
Unadj. shares (m)	235	235	235	235

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

As at 31st Mar, Rs cr	FY21	FY22E	FY23E	FY24E
Cash & bank	4,321	5,647	3,927	11,978
Debtors	1,648	1,820	1,982	2,146
Inventory	3,383	3,433	3,488	3,548
Loans & advances	520	520	520	520
Other current assets	1,605	1,605	1,605	1,605
Total current assets	11,477	13,025	11,523	19,797
Investments	2,995	2,995	2,995	2,995
Gross fixed assets	36,876	37,876	38,876	39,876
Less: Depreciation	-3,165	-4,228	-5,343	-6,515
Add: Capital WIP	623	623	623	623
Net fixed assets	34,334	34,271	34,156	33,984
Non-current assets	19,310	19,310	19,310	19,310
Total assets	68,116	69,602	67,984	76,086
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Current liabilities	18,640	12,277	14,118	16,236
Provisions	2,042	2,136	2,350	2,585
Total current liabilities	2,068	1,441	1,647	1,882
Total liabilities	20,682	14,413	16,468	18,821
Paid-up capital	235	235	235	235
Reserves & surplus	47,199	54,954	51,281	57,030
Shareholders' equity	47,434	55,189	51,516	57,265
Total equity & liabilities	68,116	69,602	67,984	76,086

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E Mar, Rs. Cr	FY21	FY22E	FY23E	FY24E
Pre-tax profit	10,490	12,707	15,077	17,294
Depreciation	1,012	1,063	1,116	1,172
Chg in working capital	-9,419	-6,585	1,624	1,895
Total tax paid	-412	-3,108	-3,586	-4,123
Cash flow from operating activities	1,671	4,076	14,231	16,237
Capital expenditure	-29,777	-1,000	-1,000	-1,000
Cash flow from investing activities	-31,254	-1,000	-1,000	-1,000
Free cash flow	-29,583	3,076	13,231	15,237
Equity raised/(repaid)	40,298	6,164	-6,491	1,838
Dividend (incl. tax)	-11,409	-7,896	-8,460	-9,024
Cash flow from financing activities	28,889	-1,732	-14,951	-7,186
Net Change in Cash	-694	1,344	-1,720	8,051

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E Mar	FY21	FY22E	FY23E	FY24E
Per Share data				
EPS (INR)	33.9	40.5	48.0	55.1
Growth, %	8.4	16.2	18.7	14.7
Book NAV/share (INR)	201.9	234.9	219.3	243.7
FDEPS (INR)	34.8	40.5	48.0	55.1
CEPS (INR)	40.1	45.0	52.7	60.0
CFPS (INR)	80.7	13.3	55.9	64.3
DPS (INR)	37.5	28.0	30.0	32.0
Return ratios				
Return on assets (%)	18.3	13.9	16.5	18.0
Return on equity (%)	17.2	17.2	21.9	22.6
Return on capital employed (%)	28.9	18.6	21.3	23.9
Turnover ratios				
Asset turnover (x)	13.1	12.7	12.5	12.3
Sales/Total assets (x)	26.8	24.0	21.9	20.3
Sales/Net FA (x)	90.8	82.0	82.7	83.0
Working capital/Sales (x)	(107.3)	(49.2)	(55.8)	(62.8)
Liquidity ratios				
Current ratio (x)	0.6	0.9	0.7	1.1
Quick ratio (x)	0.4	0.7	0.5	0.9
Interest cover (x)	95.5	108.8	128.0	146.2
Net debt/Equity (%)	(9.1)	(10.2)	(7.6)	(20.9)
Valuation				
PER (x)	80.6	69.4	58.5	51.0
Price/Book (x)	13.9	12.0	12.8	11.5
EV/Net sales (x)	14.2	12.5	11.3	10.1
EV/EBITDA (x)	57.9	50.6	43.1	37.1
EV/EBIT (x)	63.6	55.1	46.5	39.8

Source: Company, Axis Securities

Hindustan Unilever Price Chart and Recommendation History



Date	Reco	TP	Research
06-Jan-20	BUY	2,175	Pick of the week
04-Feb-20	HOLD	2,324	Result Update
09-Apr-20	HOLD	2,324	Event Update
04-May-20	HOLD	2,171	Result Update
22-Jul-20	HOLD	2,200	Result Update
21-Oct-20	BUY	2,455	Result Update
28-Jan-21	BUY	2,636	Result Update
22-Mar-21	BUY	2,550	Pick of the week
30-Apr-21	BUY	2,650	Result Update
22-Jul-21	BUY	2,670	Result Update
13-Sep-21	BUY	3,100	Company Update

Source: Axis Securities

About the analyst**Analyst:** Suvarna Joshi**Contact Details:** suvarna.joshi@axissecurities.in**Sector:** FMCG, Consumption sector, Sp. Chemicals, Mid-Caps**Analyst Bio:** Suvarna Joshi is MBA (Finance) from Mumbai University with about 10years of experience in Equity market and research.**Disclosures:**

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Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

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