



Resilient Q1 Performance; OOH Business to Improve Sequentially

Hindustan Unilever (HUVR IN) Q1FY22 topline was in line with our expectations though on all other key bottom-line numbers, the performance was below our expectations. Reported sales stood at Rs 11,915 Cr, registering a growth of 13%, led by an underlying domestic consumer sales growth (USG) of 12%, which in turn, was driven by 9% volume growth (our estimates: 8%). Health, Hygiene, and Nutrition portfolio (contributing 85% of revenues) reported healthy growth. However, the segment 'Out of Home' Consumption (OOH) continued to be impacted, (though it improved QoQ). Beauty and Personal Care (12% of revenues) and OOH products (3% of revenues) improved 39% and 91% on a YoY basis, supported by a lower base in the previous year. EBITDA of Rs 2,847 Cr was 4% below our estimates (Our estimates: Rs 2,979 Cr) while EBITDA Margins declined 110bps YoY to 23.9% (Our estimates: 25%). The decline was on account of inflationary pressure which brought down Gross Margins by 150 bps during the quarter. Recurring PAT stood at Rs 2,061Cr, up 10% on a YoY basis.

HUVR's Q1FY22 performance displayed resilience with improving trajectory across the portfolio, especially in the discretionary products. The management indicated rural growth to continue exhibiting resilience primarily on account of the government's timely intervention through MGNREGA and MSP increases as well as due to good monsoon and reverse migration. Urban demand, on the other hand, continues to be uncertain. **We maintain our FY22/23E Revenue estimates and introduce FY24 estimates. We maintain a BUY rating on the stock and value it at 50x FY24E EPS to arrive at a revised TP of Rs 2,670/share (from earlier Rs 2,650/share).**

Key concall takeaways

- **Rural growth rates to sustain:** While rural is facing heat from the second Covid wave, it is expected to perform well on account of good harvest and monsoon, and the government's proactive interventions through DBT, MGNREGA, and MSP increases, etc.
- **85% of portfolio focused on Health, Hygiene, and Nutrition (HHN):** HUL's Health, Hygiene, and Nutrition portfolio sales grew by 12% YoY with rural driving growth ahead of urban. There has been a clear shift in consumer behavior towards higher usage of health, hygiene, and nutrition-based products such as hand washes, hand sanitizers, floor cleaners, and laundry wash products, etc.
- **COVID-19 provides growth thrust to Skin Cleansing Brands:** HUVR's leading brands in skin cleansing - Lifebuoy and Lux, witnessed a decline in their market shares. However, the COVID-19 outbreak has given a fresh lease of life to these brands and thus growth is expected to revive back. Furthermore, strategic interventions in Lux, including improved quality, superior product positioning, and communications, should enable it to regain some lost market share, moving forward.
- **Tea portfolio to gain share from unorganized players:** Despite a 50-70% inflation seen in Tea (which has not been seen in the last 10 years), HUVR's Tea business delivered a robust double-digit growth as the company undertook judicious price increases to pass on the inflationary pressures. However, Gross Margins could be under pressure in the near term as HUVR strategies to gain market share from the unorganized players.

Our Take

Overall, Q1FY22 performance was healthy on account of a healthy recovery seen in the discretionary portfolio, which was led by good performance in Hair, Oral, and Essentials such as Tea and Coffee (grew in double-digits). Furthermore, we expect growth traction in the OOH business to improve sequentially with progressive lockdown easing and higher movement of people, driving growth in the near term. From a medium-term perspective, we believe HUVR has the right growth attributes such as 1) Broad-based portfolio straddling across the price-value matrix, 2) Focus on cost savings, 3) Growth led by GSK-CH integration, and 4) Superior Execution prowess over its peers. **We maintain a BUY rating and value the stock at 50x FY24E EPS.**

Key Financials

(Rs Cr)	FY21	FY22E	FY23E	FY24E
Net Sales	45,996	54,420	60,455	66,549
EBITDA	11,324	13,508	15,399	16,912
Net Profit	7,954	9,957	11,331	12,530
EPS (Rs)	33.9	42.4	48.2	53.3
PER (x)	68.4	56.2	49.4	44.6
EV/EBITDA (x)	49.0	40.9	35.6	32.1
P/BV (x)	77.2	11.3	10.7	9.9
ROE (%)	113	20	22	22

Source: Company, Axis Research

(CMP as of Jul, 22, 2021)

CMP (Rs)	2,380
Upside /Downside (%)	12%
High/Low (Rs)	2,531/2,001
Market cap (Cr)	5,71,866
Avg. daily vol. (6m) Shrs.	11,02,163
No. of shares (Cr)	234.9

Shareholding (%)

	Dec-20	Mar-21	Jun-21
Promoter	61.9	61.9	61.9
FIs	14.5	14.5	15.1
MFs / UTI	3.5	3.3	3.2
Banks / Fls	0.4	0.4	0.04
Others	19.6	19.8	19.7

Financial & Valuations

Y/E Mar (Rs. bn)	2022E	2023E	2024E
Net Sales	544.2	604.6	665.5
EBITDA	135.1	154.0	169.1
Net Profit	99.6	113.3	125.3
EPS (Rs.)	42.4	48.2	53.3
PER (x)	56.2	49.4	44.6
EV/EBITDA (x)	40.9	35.6	32.1
P/BV (x)	11.3	10.7	9.9
ROE (%)	20.1	21.6	22.2

Growth (%)

Y/E Mar	FY22E	FY23E	FY24E
Sales	18.3	11.1	10.1
EBITDA	19.3	14.0	9.8
PAT	21.7	13.8	10.6

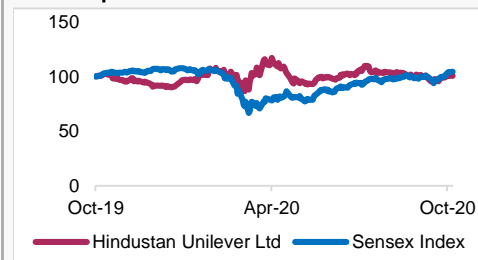
ESG disclosure Score**

Particulars	Score
Environmental	51.9
Social	43.3
Governance	64.3
Total ESG Disclosure Score	52.9

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

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Q1FY22 Financial Highlights (Standalone)

(Rs Cr)	Q1FY22	Axis Sec Estimate	Axis Sec Var (%)	Q4FY21	QoQ growth %	Q1FY21	YoY growth %
Volume growth (% yoy)	9.0	8.0	-100 bps	16	-700 bps	-8.0	-
Net Sales	11,915	11,850	0.5	12,132	(2)	10,560	13
Gross Profits	5,825	6,119	(5)	6,191	(6)	5,319	10
Gross Margin (%)	48.9	51.6	-275 bps	51.0	-214 bps	50.4	-148 bps
Staff costs	618	515	20	522	18	592	4
Ad spends	1,024	1,425	(28)	1,413	(28)	797	28
Other operating expenses	1,521	1,385	10	1,484	2	1,440	6
EBITDA	2,847	2,979	(4)	2,957	(4)	2,644	8
EBITDA Margin (%)	23.9	25.1	-125 bps	24	-48 bps	25.0	-114 bps
Depreciation	244	245	(0)	249	(2)	242	3
EBIT	2,603	2,734	(5)	2,708	(4)	2,402	13
Other Income	67	105	(36)	109	(39)	156	(30)
Interest Expenses	11	9	22	9	22	29	(69)
PBT	2,633	2,845	(7)	2,822	(7)	2,411	9
Tax rate (%)	21.7	23.9	-214 bps	24	-234 bps	22	-26 bps
PAT	2,061	2,166	(5)	2,143	(4)	1,881	9.6
EPS (Rs.)	8.8	10.0	(12)	9.1	(4)	8.0	9.6

Source: Company; Axis Securities

Segmental Performance (Standalone)

(Rs Cr)	Q1FY22	Q4FY21	QoQ growth (%)	Q1FY21	YoY growth %
Segment Revenues					
Home Care	3,797	3,392	11.9	3,840	(1.1)
Personal Care	4,573	4,039	13.2	4,549	0.5
Foods & Refreshment	3,319	2,958	12.2	3,511	(5.5)
Others (includes Exports, Infant, Feminine Care)	226	171	32.2	232	(2.6)
Total segment revenue	11,915	10,560	12.8	12,132	(1.8)
Segment EBIT					
Home Care	662	637	3.9	812	(18.5)
Personal Care	1,287	1,134	13.5	1,252	2.8
Foods & Refreshments	600	582	3.1	575	4.3
Others (includes Exports, Infant, Feminine Care)	54	49	10.2	109	(50.5)
Total segment results	2,603	2,402	8.4	2,748	(5.3)
Segment Margins (%)					
Home Care	17.4	18.8	-134 bps	21.1	-371 bps
Personal Care	28.1	28.1	7 bps	27.5	62 bps
Foods & Refreshment	18.1	19.7	-160 bps	16.4	170 bps
Others (includes Exports, Infant, Feminine Care)	23.9	28.7	-476 bps	47.0	-2309 bps
Total Segment Margins	21.8	22.7	-90 bps	22.7	-80 bps

Source: Company; Axis Securities

Other Key Concall Takeaways:

- 1) **Health, Hygiene, Nutrition (HHN) portfolio delivers strong growth:** HHN contributes 85% of sales and grew at a strong note which was largely led by volume growth. However, OOH (5% of sales) was down by 25% YoY (declined 69% in Q1FY21), and discretionary Personal Care portfolio constituting 15% of the portfolio (deos, color cosmetics, etc) was down 25% YoY (-45% in Q1FY21). This was on account of lower consumer off-takes. Nutrition portfolio challenges due to supply disruption and industrial-related challenges at its Rajahmundry and Nabha plants have now been resolved and should see recovery in business in Q3FY22 and Q4FY22, though growth is expected to be flat in Q2FY22. HHN reported 10% growth YoY with higher growth witnessed in rural while urban growth currently lags that of rural.
- 2) **Gross Margins and Operating profitability:** Near-term headwinds on Gross Margins are likely on account of raw material inflation, down trading in the core portfolio, and inflationary pressure in tea, PFAD, and SMP prices. Furthermore, the management indicated that to gain market share and cause a shift in consumption from unorganized to organized players, it will continue its competitive stance in the Tea portfolio, which may add **pressure on GMs in the near term**. On EBITDA Margins, which de-grew 110bps YoY, was mainly on account of lower Gross Margins during the quarter.
- 3) **A&P Spend:** The company reported Rs 1,024 Cr advertising spend in Q1FY22, lower QoQ, partly due to efforts in migration of brand from Fair & Lovely to Glow & Lovely. The management indicated that the brand has reached penetration across the country.
- 4) **RM outlook:** In Q1FY22, unprecedented inflation was witnessed in three key raw materials. Palm oil prices continue to be at record levels, buoyed by a recovery in the global economy and supply constraints. Crude rallied significantly over the last few months and Tea, too, witnessed significant inflation in 2020. The management expects some softening against 2020 levels but believes prices to remain higher than the 2019 levels.
- 5) **Distribution channel and growth:** The management highlighted that it has seen healthy traction in General Trade (GT) and robust growth in E-commerce channels. Growth in the GT channel has been on account of rising frequency (in trips) to nearby Kirana Stores especially across geographies with a preference for larger value packs in urban areas and lower value packs in the rural areas. E-commerce, a dominant future channel, witnessed a robust growth at 2x its pre-COVID growth rate. This significant growth has led HUVR to gain market share in almost all categories.
- 6) **Segmental Performance**
 - ✓ **Home Care (33% revenues):** Within Home Care, Household Care reported a double-digit growth and in Fabric Care, liquids market development initiatives yielded good results. Segment revenues stood at Rs 3,797 Cr, up 11.9% YoY, while segment Q1FY22 EBIT Margin came in at 17.4%. EBIT grew 3.9% to Rs 662 Cr.
 - i. **Household Care** recorded high-teens growth across the portfolio with penetration-led gains. Growth was largely led by Vim. Premiumisation continues to yield strong results.
 - ii. **Fabric Care** Double-digit growth was led by a strong performance in the premium portfolio. The company launched 'Surf excel 3 in 1 Smart Shots'. Significant input cost inflation was observed and calibrated pricing actions are expected to continue, moving forward.
 - iii. **Purifiers** witnessed recovery, led by the e-commerce segment.
 - ✓ **Beauty & Personal Care (39% of revenues):** reported a growth of 13.2% to Rs 4,573 Cr with 13.5% EBIT growth at Rs 1,287 Cr and EBIT Margin of 28.1% in Q1FY22. Within the BPC category:
 - i. **Skin cleansing** reported strong growth across formats led by Lifebuoy and Lux. Premium portfolio performed well and grew sequentially. Hand hygiene declined on an exceptionally high base while V-Wash continued its strong momentum.
 - ii. **Oral Care** reported good growth on account of strengthening the CloseUp franchise.
 - iii. **Hair Care** demand pick-up was strong with double-digit growth and was broad-based across brands. To build salience, HUVR re-purposed its relevance.
 - iv. **Deos, Color, Cosmetics, and Skin:** Witnessed high double-digit growth as mobility improved vs. JQ'20. Steady performance in Glow & Lovely with sequential penetration with sentiment improving and liquidity constraints easing off.

- ✓ **Food & Refreshment (28% of revenues):** Reported 3% YoY growth in revenues at Rs 3,319 Cr. EBIT of Rs 600 Cr was higher 3% YoY and EBIT Margin was at 18.1%. The growth was driven by a strong double-digit performance in the Foods; Beverages (Tea & Coffee) portfolio supported by 'in-home consumption' tailwinds and increased consumer interest around wellness and immunity, Jams and Ketchups under Kissan brand and Knorr products also reported healthy growth.
- 7) **On Cost Management:** The management believes the company's strong Balance Sheet offers it a competitive advantage and it will focus on reallocating spends with rigorous discipline. The company is looking at moving cost that does not add value from fixed to variable while continuing to honor existing contracts.

Valuation & Outlook

With uncertainty around the COVID-19 spread and COVID 2.0 fears continuing, we believe lockdown relaxations, as well as restoration of production and distribution across the business, will support HUVR in delivering satisfactory growth in H2FY22. Also, Gross Margins are expected to be suppressed in the near term owing to adverse product mix (discretionary portfolio has higher margins) and hyper-inflation in tea (strategic direction of gaining market share from unorganized players majorly in Tea). However, with the sustenance of rural growth on the back of a good monsoon and harvest as well as due to an increase in direct distribution, we expect earnings to pick up in H2FY22. Further, we continue to lay our confidence in the management's ability to 1) Emerge strong in challenging macro conditions like in the past (GST, Demonetization), 2) Robust and cash-rich balance sheet, and 3) GSK-CH integration led gains and thus improvement in the margins. As a result of the improved outlook, we maintain our FY22/23 estimates for Revenue/EBITDA/PAT and introduce FY24E, resulting in an upward revision in our TP to Rs 2,670/share (earlier Rs 2,650/share). We maintain BUY on the stock and to value it at 50x FY24E EPS. Key risks to our call – a) Sharp deceleration in discretionary consumption even beyond H1FY22, b) Significant volatility in RM prices, c) Re-introduction of local and vertical lockdowns to contain the spread of subsequent waves of the pandemic.

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY21	FY22E	FY23E	FY24E
Net sales	45,996	54,420	60,455	66,549
Growth, %	18.6	18.3	11.1	10.1
Other income	0	0	0	0
Total income	4,600	5,442	6,046	6,655
Raw material expenses	-21,677	-25,427	-28,021	-30,879
Employee expenses	-2,229	-2,630	-2,867	-3,125
Other Operating expenses	-32,281	-38,106	-41,968	-46,237
EBITDA (Core)	11,324	13,508	15,399	16,912
Growth, %	18.0	19.3	14.0	9.8
Margin, %	24.6	24.8	25.5	25.4
Depreciation	-1,012	-1,063	-1,116	-1,171
EBIT	10,312	12,445	14,283	15,741
Growth, %	19.0	20.7	14.8	10.2
Margin, %	22.4	22.9	23.6	23.7
Interest paid	-108	-113	-119	-125
Pre-tax profit	10,490	13,276	15,250	16,864
Tax provided	-2,536	-3,319	-3,919	-4,334
Profit after tax	7,954	9,957	11,331	12,530
Net Profit	7,954	9,957	11,331	12,530
Growth, %	18.0	21.7	13.8	10.6
Net Profit (adjusted)	7,954	9,957	11,331	12,530
Unadj. shares (m)	235	235	235	235

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

As of Mar, Rs Cr	FY21	FY22E	FY23E	FY24E
Cash & bank	4,321	6,146	10,879	17,160
Debtors	1,648	2,299	2,466	2,634
Inventory	3,383	2,672	2,713	2,758
Loans & advances	520	520	520	520
Other current assets	1,605	1,605	1,605	1,605
Total current assets	11,477	13,241	18,183	24,677
Investments	2,995	2,995	2,995	2,995
Gross fixed assets	37,042	38,142	39,242	40,342
Less: Depreciation	-3,331	-4,394	-5,509	-6,681
Add: Capital WIP	623	623	623	623
Net fixed assets	34,334	34,371	34,356	34,284
Non-current assets	19,310	19,310	19,310	19,310
Total assets	62,130	63,932	68,857	75,280
	0	0	0	0
Current liabilities	12,654	9,502	11,090	13,310
Provisions	2,042	4,911	5,378	5,511
Total current liabilities	1,470	1,441	1,647	1,882
Total liabilities	14,696	14,413	16,468	18,821
Paid-up capital	235	235	235	235
Reserves & surplus	47,199	49,284	52,154	56,225
Shareholders' equity	47,434	49,519	52,389	56,460
Total equity & liabilities	62,130	63,932	68,857	75,280

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E Mar, Rs Cr	FY21	FY22E	FY23E	FY24E
Pre-tax profit	10,490	13,276	15,250	16,864
Depreciation	1,012	1,063	1,116	1,171
Chg in working capital	-15,405	-3,092	1,380	2,007
Total tax paid	5,574	-3,740	-3,687	-4,201
Cash flow from operating activities	1,671	7,507	14,058	15,841
Capital expenditure	-29,777	-1,100	-1,100	-1,100
Cash flow from investing activities	-31,254	-1,100	-1,100	-1,100
Free cash flow	-29,583	6,407	12,958	14,741
Equity raised/(repaid)	40,298	24	0	0
Dividend (incl. tax)	-11,409	-4,606	-8,225	-8,460
Cash flow from financing activities	28,889	-4,582	-8,225	-8,460
Opening cash balance	5,017	4,321	6,146	10,879
Closing cash balance	4,321	6,146	10,879	17,160

Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E Mar	FY21	FY22E	FY23E	FY24E
Per Share data				
EPS (INR)	33.9	42.4	48.2	53.3
Growth, %	8.4	21.7	13.8	10.6
Book NAV/share (INR)	201.9	210.8	223.0	240.3
FDEPS (INR)	34.8	42.4	48.2	53.3
CEPS (INR)	40.1	46.9	53.0	58.3
CFPS (INR)	80.7	27.9	55.2	62.1
DPS (INR)	37.5	28.0	30.0	30.0
Return ratios				
Return on assets (%)	19.6	15.9	17.2	17.5
Return on equity (%)	17.2	20.1	21.6	22.2
Return on capital employed (%)	28.9	20.7	22.4	23.2
Turnover ratios				
Asset turnover (x)	2.9	1.8	1.9	2.3
Sales/Total assets (x)	1.1	0.9	0.9	0.9
Sales/Net FA (x)	2.3	1.6	1.8	1.9
Working capital/Sales (x)	(0.2)	(0.1)	(0.2)	(0.2)
Liquidity ratios				
Current ratio (x)	0.8	0.9	1.1	1.3
Quick ratio (x)	0.6	0.7	0.9	1.2
Interest cover (x)	95.5	109.7	120.0	125.9
Net debt/Equity (%)	(9.1)	(12.4)	(20.8)	(30.4)
Valuation				
PER (x)	68.4	56.2	49.4	44.6
Price/Book (x)	11.8	11.3	10.7	9.9
EV/Net sales (x)	12.1	10.2	9.1	8.1
EV/EBITDA (x)	49.0	40.9	35.6	32.1
EV/EBIT (x)	53.8	44.4	38.4	34.4

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
23-Jul-21	BUY	2,670	Result Update

Source: Axis Securities

About the analyst

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HOLD	Between 10% and -10%
SELL	Less than -10%
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UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
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