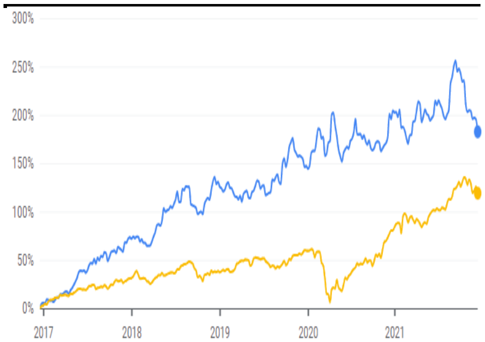
Equity Research Report
19 December 2021
| Sector: FMCG

Hindustan Unilever. (HINDUNILVR)

Glorious FMCG company with a rich DNA

Market Cap (Cr)	Rs. 524,018
Enterprise Value (Cr)	Rs. 520,640
Bloomberg	HUVR IN
Equity Shares (Cr)	2,350

HUL vs. Sensex



Shareholding Pattern

Shareholder	%
Promoters	61.90
Institutional	25.63
Public	12.47
Total	**100.00**

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- We are assuming coverage of HINDUNILVR with an Outperform rating.

- **Thesis:** Industry leader poised to benefit from essential rural demand outlook as the economy moves to pre-covid levels. HUL's well-diversified portfolio, rugged supply chain and well recognized brand to unlock greater growth. Key merger helping fill gaps between segments to allow for an increase in market penetration. HUL is well positioned as a leader to benefit from compelling demand in the future. Strong data analytical capabilities will allow to capture demand as well as contribute to product innovation.

- **Key Debates**: Uncertainties due to the fluctuating raw material prices as well as the resurgence of new covid variants leading to logistics and workforce issues. The surge in raw material prices due to the current market conditions might add on to the input prices causing pressure on operating margins.

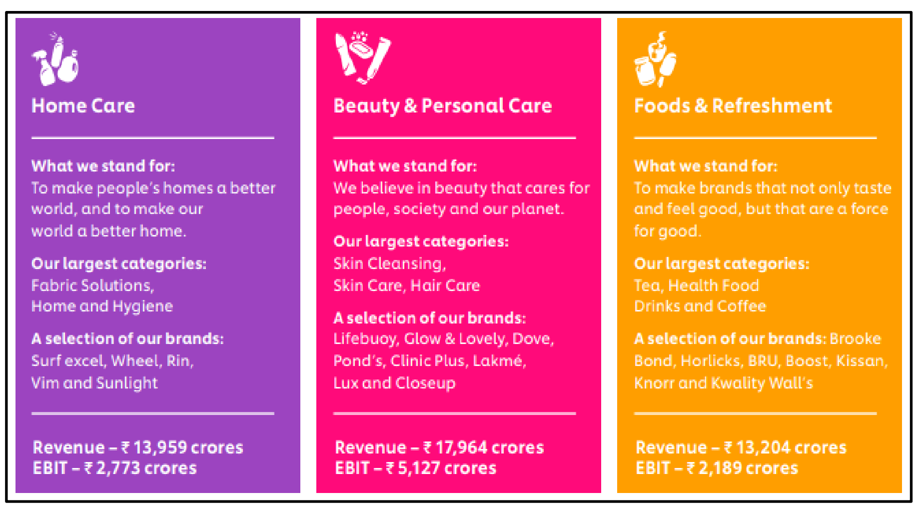
- **Catalysts:** India's consumer preferences and growing consumption creating demand for FMCG products. As consumer shopping preferences shift to e-commerce, HUL is heavily investing in modern trade channels. HUL's strong brand influence serves as a great entry barrier to weaker brands trying to fight to market share. With unlocking of economies and customers preferring leading brands, the company will be able to maximize its potential and continue to be a leader with a rich legacy to back itself.

- **Valuation:** HUL sits at a P/E of 62 which is justified given its impressive track record. However, with the recent inflationary pressure, we can see a slight deviation. Regardless, it remains a market leader expanding its reach to accelerate earnings by mindful mergers with impeccable financials. We see a 28% upside from the CMP of Rs. 2,720 over the next 24 months

Hindustan Unilever – India's Largest FMCG company

HUL is amongst the most zealous fast moving consumer goods company, which has established its position as global leader in the manufacturing of day-to-day consumer goods. It is well diversified, catering to several segments including home care, beauty and personal care, foods and refreshments with globally popular brands like Dove, Lipton, Lifebuoy, Surf Excel, Vaseline, Knorr, Vim, Axe, Lakme etc. The company's immense focus on acquiring market share and aggressive approach to growth in different segments has developed its image as a top choice for consumers. It's investment in R&D and technology to leverage its deep expertise and 85 years old legacy helps it to come up with new products consistently to add to its value chain. The company has grown to become a market leader and currently ranks among the top player globally in the FMCG space with a turnover of Rs.45,000 crores for the year 2020-21, 3x more than when compared to its closest competitor. **With 44+ brands across 14 distinct categories, HUL dominates the FMCG market in India**. 90% of households in India use one or more HUL brands.
HUL's business is segregated into 3 broad segments:

- Beauty & Personal Care (40% of sales)
- Home Care (31% of sales)
- Foods & Refreshments (29%)



Key Highlights & Investment Rationale

• Strong & diverse portfolio across the price matrix

HUL's core competency comes from its aggressive branding across all categories (skincare, soaps, hair care, cosmetics, ice cream etc.) and its ability to offer products at every possible price point, not only to distributors but also directly to the end consumer.

• Efficiency & Adaptability to continue being a market leader

With ~4500 distributors and a robust supply chain to go with it, HUL's operating efficiency has been quite impressive with EBITDA margins doubling from 12% in FY12 to 25% in FY20. We believe its ability to adapt and learn from market conditions like covid, where HUL handled the pandemic rather politely focusing on logistics and tech shows leader class management it has to offer.

• Key mergers & acquisitions to drive purposeful expansion

Shining light on the recent GSK-CH merger, HUL's expertise to acquire the right brands is a key element for further expansion. HUL's F&R segment grew from 19% to 29% as a percentage of sales from September 2019 to September 2021.

Their acquisition of brands like 'Vwash' has helped fill white spots and enter niche categories. HUL is clear about their vision to dominate in every segment and drive volume growth to continue to develop its portfolio.

• Leveraging Tech to stay ahead of the competition

HUL has been building its technology muscle by advanced data analytical prowess to help understand consumer preferences and tastes better. It has helped them deliver data driven solutions. Their shift to serve the e-commerce vertical with their eB2B app 'Shikhar' has been adopted by 5 lakh stores. 'Winning in channels of the future' has been a major objective for HUL and so far, they have kept at it providently and the company is investing significantly in its digital transformation program – 'Reimagine HUL'.

Business Portfolio

HUL has a well-diversified portfolio across multiple segments reducing dependence on individual products helping them steer through business cycles ensuring sustained profits and cash generation. We will be diving a bit deeper into HUL's broad segments:

➢ **Beauty & Personal Care (BPC)**

In this segment, HUL was a widespread portfolio of 900+ SKUs for their self-identified 14 consumer clusters. The BPC category is discretionary in nature and is usually more effected by macro-economic conditions. HUL earns close to 29% margins from this segment which the highest amongst its divisions. With a product portfolio straddling the price-benefit pyramid, HUL is confident in this segment with a healthy long-term potential. Leveraging their 'Winning in Many Indias' strategy they offer products tailored to specific regional preferences for better accessibility and penetration across the country. The main brands and segments associated with this segment are further divided into:

1. Skin Cleansing (Lifebuoy, Dove, Lux, Pears)

This category had been affected a lot due to covid as people stayed at home resulting in decline in demand. HUL quickly pivoted to offer more essential products in the hygiene portfolio, making sure brands like Lifebuoy are accessible widely. HUL intends to scale its premium range of products and enter in fast-growing segments of the future.

2. Oral Care (Pepsodent, Closeup, Lever Ayush)

Strong brands like Pepsodent and Closeup put HUL in a good spot for this segment and the oral care segment usually remains strong throughout the year.

3. Hair Care (Tresemme, Dove, Indulekha)

HUL has major brands like Tresemme and Dove already in this hyper-competitive environment but their goal to build specialized brands like Indulekha and Hamam to offer more choice and a wider range to customers. They have also introduced a premium brand, Love, Beauty and Planet in India which has seen great traction within the young demographic.

4. Skin Care (Glow & Lovely, Pond's, Vaseline, Lakme)

HUL consistently focused on advertising and re-branding. The iconic Fair & Lovely brand was changed to Glow & Lovely showing their commitment towards purposeful brands. Glow & Lovely continues to be dominant brand and gain penetration to this day. Pond's and Lakme also have become household names contributing solid numbers to support BPC segment.

➢ **Home Care (HC)**

HUL's focus here remains to benefit from a multidimensional portfolio with strong brand presence across premium segments.

The HC segment contributes to 31% of sales generating close to Rs. 14000 crores in revenue. With essential products, the Home Care segment is volume driven. The main brands and segments can be further divided into:

1. Household Care (Vim, Domex, Sunlight, Nature Protekt)

The dishwashing portfolio benefitted majorly due to covid. The premiumization opportunity in this segment remains high and brands like Vim liquid pioneered here. In floor cleaners, Domex rolled out surface spray cleaner.

2. Fabric Wash (Comfort, Wheel, Rin, Surf Excel)

Fabric cleaning became less frequent during the year due to reduced mobility. Reverse migration and drop in income levels caused downtrading. HUL's biggest brand Surf Excel launched 'Surf Excel Active Hygiene'. Premium portfolio of liquid detergents and fabric conditioners have delivered strong performance throughout the years. HUL is keen on driving their premiumization journey further.

3. Purifiers (Pureit)

During the second half of the year water purifier business picked up momentum to win consumers through value-added innovations and channel differentiating products in e-Commerce. Pureit Copper+ inspired by the old-age tradition of storing water in copper vessels, continues to gain market share.

➢ **Foods & Refreshments (F&R)**

HUL has various food products like coffee, tea, soups, ice-creams, etc. under this segment. Coupled with a focus to innovate and leverage its WiMi strategy to ramp up sales. It contributes to 29% of the total sales.

1. Foods (Kissan, Knorr, Hellmann's)

Consists of ketchups, soups, noodles, etc. riding on in-hope consumption trends. Hellmann's mayonnaise, a source of good fats was launched nationally. HUL also launched Kissan Peanut Butter which is made from 100% real peanuts and serves as an excellent source of protein and zinc.

2. Refreshments (Taj Mahal, Taaza, Bru, Brooke Bond Red Label)

HUL's refreshments business has gained major traction over the years and its portfolio comprising of iconic brands like Taj Mahal, Brooke Bond Red Label, Lipton, Bru serve as customer favorites.
The tea business delivered robust, volume-led growth as all key brands continued to grow and delight millions of customers. However, the year saw unprecedented inflation on account of loss of tea crop led by Covid-19 induced lockdowns and a natural calamity in the country's eastern region. HUL took 'judicious' price increases to partly offset this inflation while making sure they sustain their competitive market share.

3. Out-Of-Home Portfolio (Kwality Walls, Adityaa Milk)

Category comprises of ice-creams and the Unilever Food Solutions professional business. The category saw a tough time in 2020 due to nation-wide lockdowns. HUL successfully collaborated with last-mile delivery partners such as Swiggy and Zomato to provide home delivery solutions for ice-creams. Sequential recovery in Out-of-home categories was seen in the second half of the year and is well poised for the coming year.

4. Nutrition (Horlicks, Boost)

HUL's acquisition with GSKCH offers major opportunities and potential for growth. The category has low penetration levels and HUL is focused on improving accessibility and reach by landing impactful innovations, increasing profitability through synergies, and investing behind brands to drive growth. HUL launched Rs. 2 sachets for Horlicks and Boost. It launched Horlicks with added zinc, which is known to boost immunity. It relaunched the "Plus" range under the Horlicks brand, marking its entry into the High Sciences space in the nutrition category.

Exhibit 1: HUL's brand highlights

Exhibit 2: Key mergers and acquisitions to fill white spaces

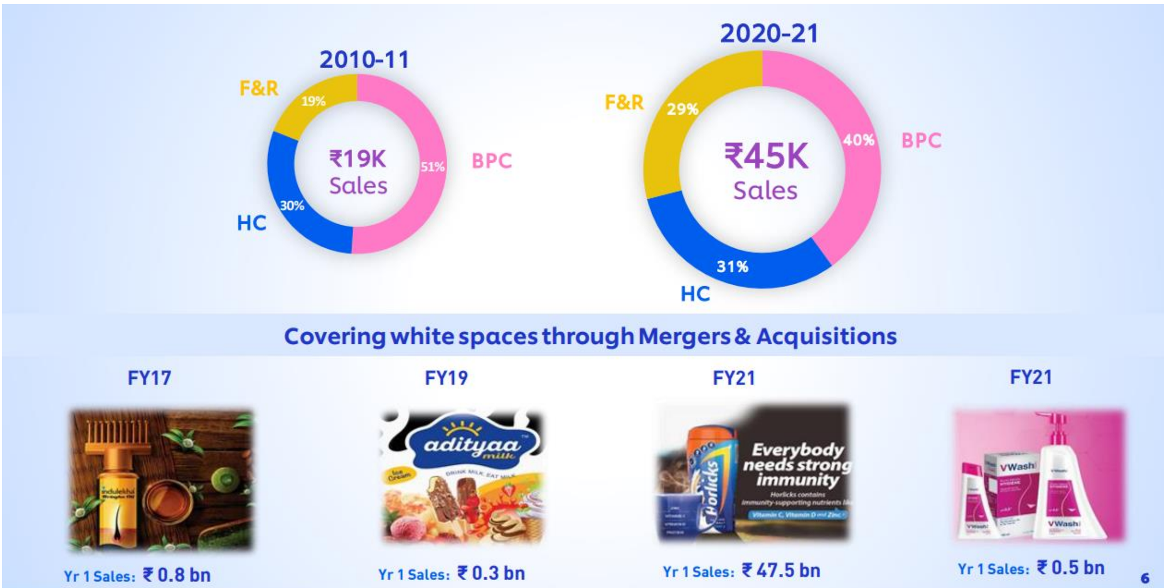
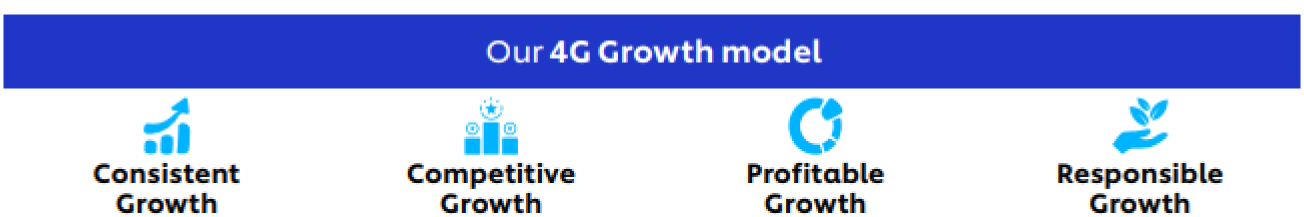


Exhibit 3: HUL's framework

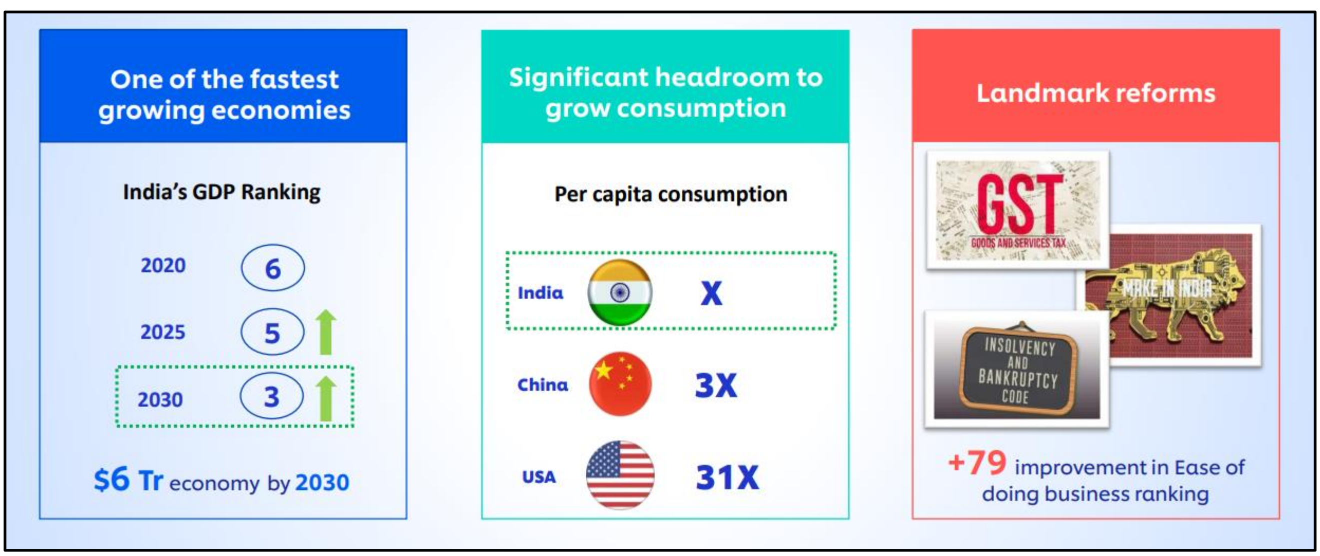
Exhibit 4: 4-G Growth Model



Industry Outlook & Key Catalysts

- The FMCG market in India is expected to increase at a CAGR of 14.9% to reach US$ 220 billion by 2025, from US$ 110 billion in 2020.
- Indian packaged food market is expected to double to US$ 70 billion by 2025.
- The Indian processed food market is projected to expand to US$ 470 billion by 2025 from US$ 263 billion in 2019-20.
- Increase in disposable income in rural India and low penetration levels in rural market offers room for growth.
- Investment approval of up to 100% foreign equity in single brand retail from 51% in multi-brand retail.
- The union government's production-linked incentive (PLI) scheme gives companies a major opportunity to boost exports.
- The Union Cabinet approved PLI schemes for the food processing industry to boost investments.
- Investment in the FMCG sector attracts investors as FMCG products have demand throughout the year.
- The sector witnessed healthy inflow of US$ 18.59 billion from April 2000 to June 2021.
- Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector.

Exhibit 5: Huge headroom for growth in the FMCG sector

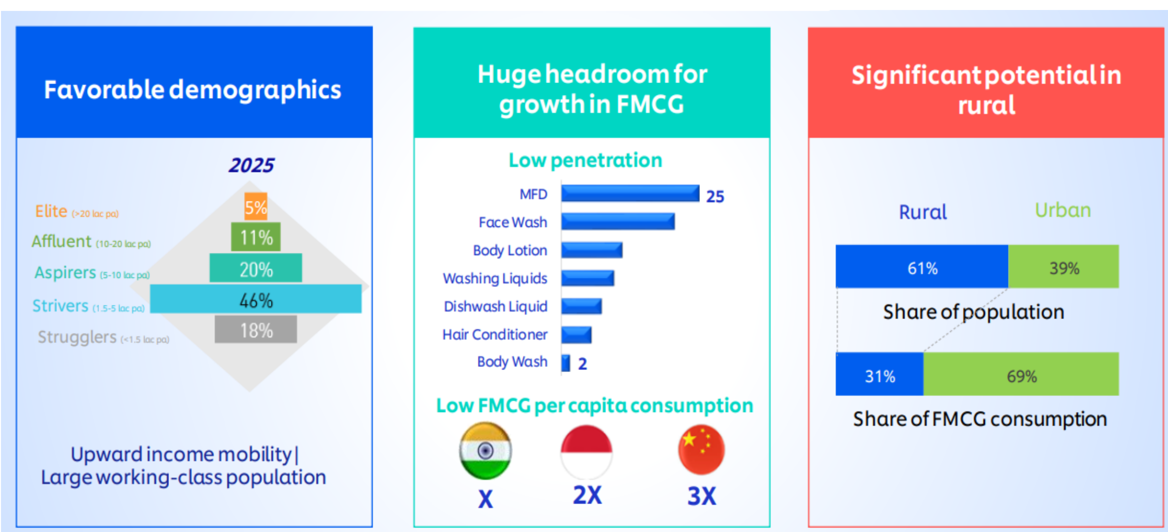


- The urban segment (accounts for a revenue share of around 55%) is the largest contributor to the overall revenue generated by the FMCG sector in India.
- However, in the last few years, the FMCG market has grown at a faster pace in rural India compared to urban India. Semi-urban and rural segments are growing at a rapid pace and FMCG products account for 50% of the total rural spending.
- As per Kearney Research, India's retail industry is projected to grow at a slower pace of 9% over 2019-2030, from US$ 779 billion in 2019 to US$ 1,407 billion by 2026 and more than US$ 1.8 trillion by 2030.

The Government of India has taken various initiatives to improve the retail industry in India. Some of them are listed below:

- Government of India has allowed 100% FDI in online retail of goods and services through the automatic route, thereby providing clarity on the existing businesses of E-commerce companies operating in India.
- The government's focus to improve digital infrastructure in Tier 2 and Tier 3 markets would be favorable to the sector.
- In July 2021, the Andhra Pradesh government announced retail parks policy 2021-26, anticipating targeted retail investment of Rs. 5,000 crore (US$ 674.89 million) in the next five years.

Exhibit 6: Favorable demographics and rural demand to aid growth



- The Minister of MSME announced inclusion of retail and wholesale trades as MSMEs. Retail and wholesale trade will now get the benefit of priority sector lending under the RBI guidelines.

Rural Demand

Despite being one of the fastest growing markets globally for FMCG products in recent times, the per capita FMCG consumption spend in India is amongst the lowest in the world, giving the industry a long runway for growth. Matching up to Indonesian levels would grow the market by 2X and to China levels by 4X.

Segment-Wise Analysis

Household and Personal Care is the leading segment, accounting for 50 % of the overall market. Healthcare (31%) and Food & Beverages (19%) comes next in terms of market share.

Household Care

Fabric wash (laundry soaps and synthetic detergents); Household cleaners (dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners, insecticides and mosquito repellents, metal polish and furniture polish) The fabric wash market and household cleaner market are well in excess of US$1.2billion. Fabric Wash 76% (>US$1billion) and Household Cleaners 24% (>US$239miilion). Traditionally, the fabric wash market has driven the majority of India's total household care sales. Household care segment is featured by intense competition and high level of penetration. The detergents segment is growing at an annual growth rate of 10 to 11 per cent during the past five years.

Personal Care

Personal care segment includes personal wash products, hair care products, oral care products, skin care, personal wash (soaps); cosmetics and toiletries; deodorants; perfumes; feminine hygiene; paper products. The coconut oil market accounts for 72 per cent share in the hair oil market. The hair care market can be segmented into hair oils, shampoos, hair colorants & conditioners, and hair gels. Traditionally, personal wash and hair care products, the basics personal hygiene, dominated the personal care segment with excess of USD$1.8 million. Demand for skin and cosmetic care products, compared to other personal care product categories, has been relatively low.

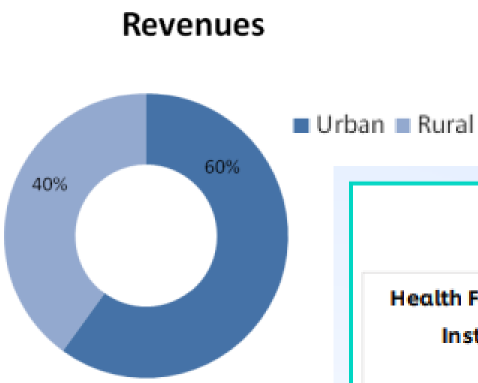
Food & Beverage

This segment comprises of the food processing industry, health beverage industry, bread and biscuits, chocolates & confectionery, Mineral Water, and ice creams. The three largest consumed categories of packaged foods and packed tea, biscuits, and soft drinks. Indian hot beverage market is a tea dominant market. The size of the food processing industry exceeds US$65.6 billion. The size of the semi-processed/ready-to-eat food segment is over $1.1 billion Of the food processing industry, Bread and biscuits sales exceeds US$1.7 billion; Health beverage sales exceeds US$ 230 million; Ice cream exceeds US$188 million. Chocolate's sales exceed US$73 million, in the hot beverage market, tea rather than coffee dominates. Coffee is consumed largely in the southern states. In 2015, biscuits market is estimated to be around USD4.1 billion.

Accounting for a revenue share of around 60%, Urban segment is the largest contributor to the overall revenue generated by the FMCG sector in India and recorded a market size of around USD29.4 billion in 2016 Semiurban and rural segments are growing at a rapid pace; and accounted for a revenue share of 40% in the overall revenues recorded by FMCG sector in India in the last few years, the FMCG market has grown at a faster pace in rural India compared with urban India. FMCG products account for 50% of total rural spending.

Exhibit 7: Segmental performance for the decade

Exhibit 8: Headroom for FMCG



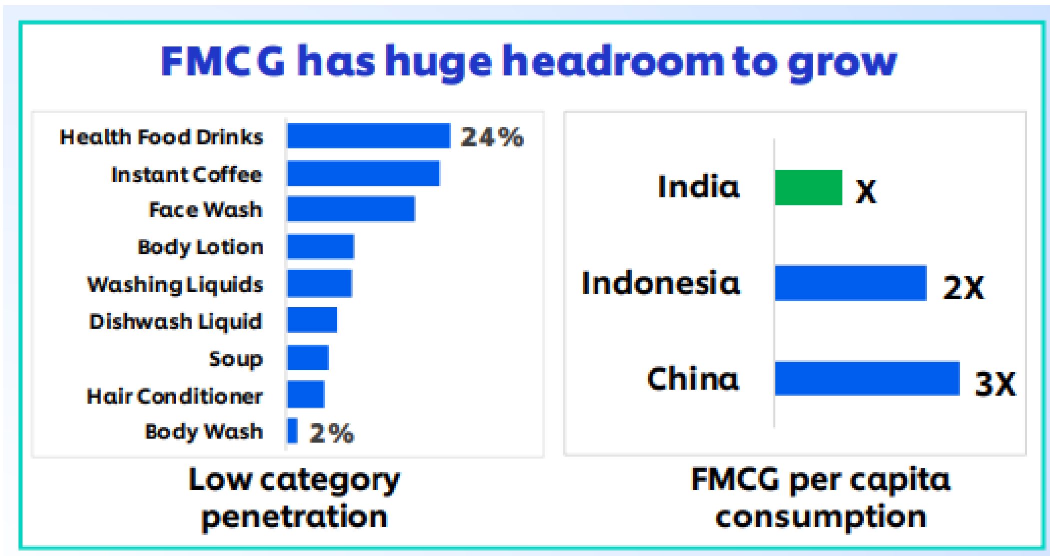


Exhibit 9: HUL is a market leader in 90% of its businesses

Drivers of Growth

Demographic Transition

Rising incomes, the growing middle class and educated young population are increasing the interest of multinationals in the emerging Indian market. India has strikingly young population, especially compared to other emerging market. The sheer size of India's youth combined with improved education pave the way for sustained growth in purchasing power and makes India's consumer story one of the world's most compelling for the coming decade.

Rising Income

Incomes have risen at a brisk pace in India and will India 's nominal per capita income (USD) continue rising given the country's strong economic growth prospects. According to IMF, nominal per capita income is estimated to grow at a CAGR of 4.94% during 2010-19F an important consequence of rising incomes is growing appetite for premium products, primarily in the urban segment. Moreover, The Indian government has been supporting the rural population with higher MSPs, loan waivers, and disbursements through the NREGA programme and other Government initiatives like Pradhan Mantri Jan Dhan Yojana These schemes have empowered the rural masses and increased their purchasing power, thus boosting FMCG consumption.

Growing Middle Class

The rise of India's consumer market‖, Indian households have been classified into five groups based on annual disposable income: They are:

- **Globals:** having an annual disposable income of over USD 22065.3. This constitutes the richest people in the country and can afford a luxurious lifestyle. Politicians, large business owners, senior executives of corporate belong to this category.
- **Strivers:** Their annual disposable income is between USD 11032.7-22065.3 p.a. per household. This group consists of successful people in

cities, professionals, businessmen and people in villages having established sources of income and substantial savings.

• **Seekers:** Their disposable income falls in the range of USD 4413.1-11032.7 per annum per household. This group consists of white-collar employees, mid-level government officials, medium scale businessmen and those fresh from colleges.

• **Aspirers:** Their disposable income falls between 1985.9-4413.1 p.a. per household. This group consists of small shop keepers and farmers and low skilled workers in industries and services. These people spend nearly 50% of their income in satisfying their basic needs.

• **Deprived:** This group consists of people whose annual disposable income is less than 1985.9 p.a. per household. They are the poorest in the country and meet both ends by doing highly unskilled or low-skilled jobs. They find it really hard to make out a living.

The number of middle-class households (earning between USD3603.01and USD17933.18 per annum). is estimated to increase more than fourfold to 148 million by 2030 from 32 million in 2010, India has 23.6 million adults, who has qualified as middleclass, Increasing Spread of Wealth will lead to a growing middle class in India, impacting consumption and growth of FMCG sector.

Exhibit 10: Growing middle class to help industry

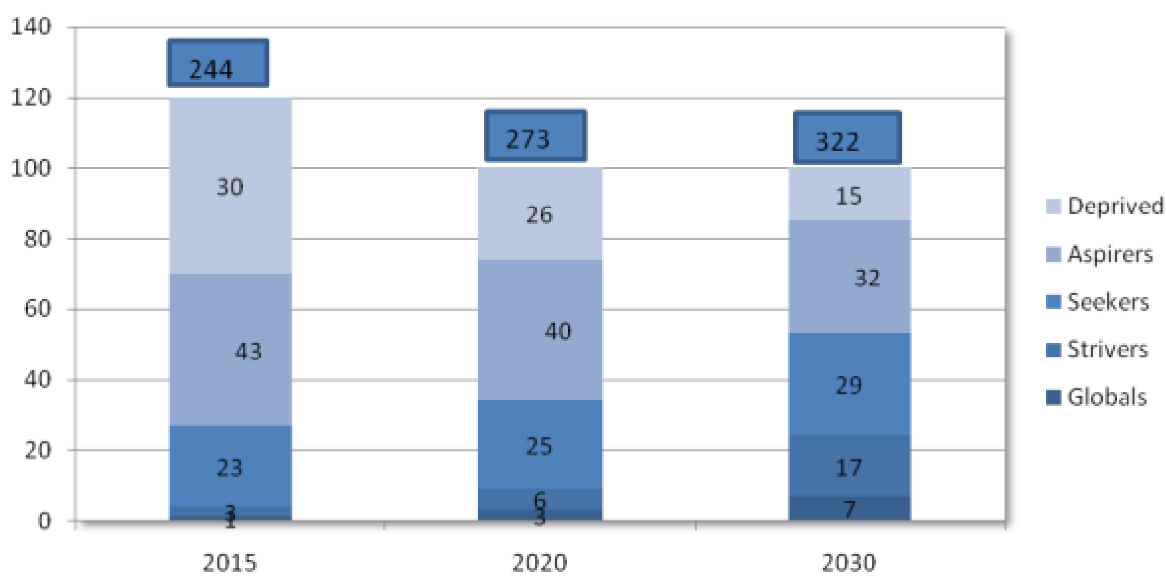
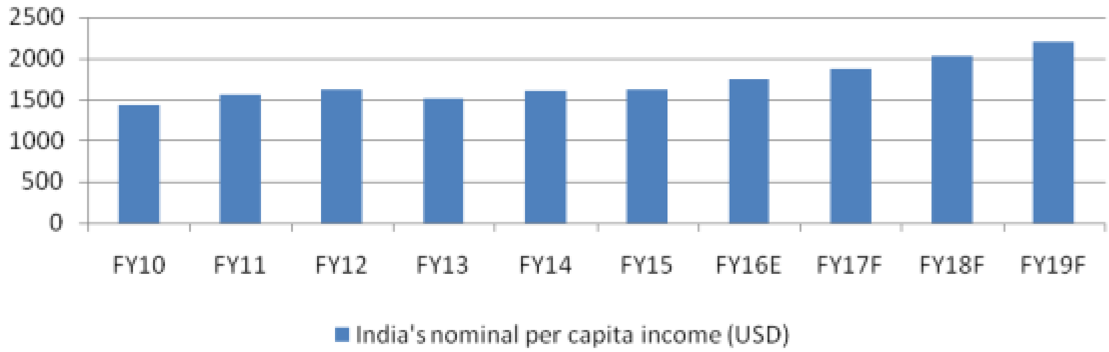


Exhibit 11: India's historical nominal per capita income



Rural Consumption

Rural areas are expected to be the major driver for FMCG, as growth continues to be high in these regions till some years ago. Rural India is estimated to account for more than 700 million consumers or 70 percent of the Indian population and 40 percent of the total FMCG market. The Fast-Moving Consumer Goods (FMCG) sector in rural and semi-urban India is estimated to cross USD100 billion by 2025.The rural FMCG market is anticipated to expand at a CAGR of 17.41% to USD100 billion during 2009– 25.in 2015 More than 80% of FMCG products posted faster growth in rural markets as compared to urban ones.

Premiumization

The rising income of customers has accelerated the trend towards 'premiumization' in India. The trend can be observed significantly in the top three income groups, the global's, strivers and seekers. The global's are keen to satisfy their exclusive feel and emotional value with premium products and their behavior is near to consumers of developed economies. They are well-informed for various products, and willing to purchase products which suit their style. The strivers and seekers wish to parallel the rich and do up-trading lavish products which offer better functional benefits and experience relative to products offered for mass consumption.

Shift in Lifestyle

It is difficult to ignore lifestyle trends that are today impacting upon consumer purchasing decisions. For the FMCG Sector, these trends are positive and encouraging innovation. Consumer lifestyle is continuously evolving. Companies are tailoring their product with features that suit the lifestyle of their target segment. On the other hand, consumers are buying products which match up with their living standard, class and which are acceptable in the culture. Opportunities in the health and wellness space- Growing concerns over lifestyle related health issues like obesity, diabetes, hypertension, and chronic heart disease are pushing consumers to make a shift in their food preferences. It has been witnessed in the recent past, that, consumers have consciously made a preference shift towards healthy, fat-free, and no-sugar options in processed foods. According to industry estimates, the diet-related food and beverages market in India is witnessing double digit growth. This growing market for healthy and nutritious food is proving to be an opportunity for several food and beverage manufacturers, which are aligning their strategies in line with the changing consumer preferences.

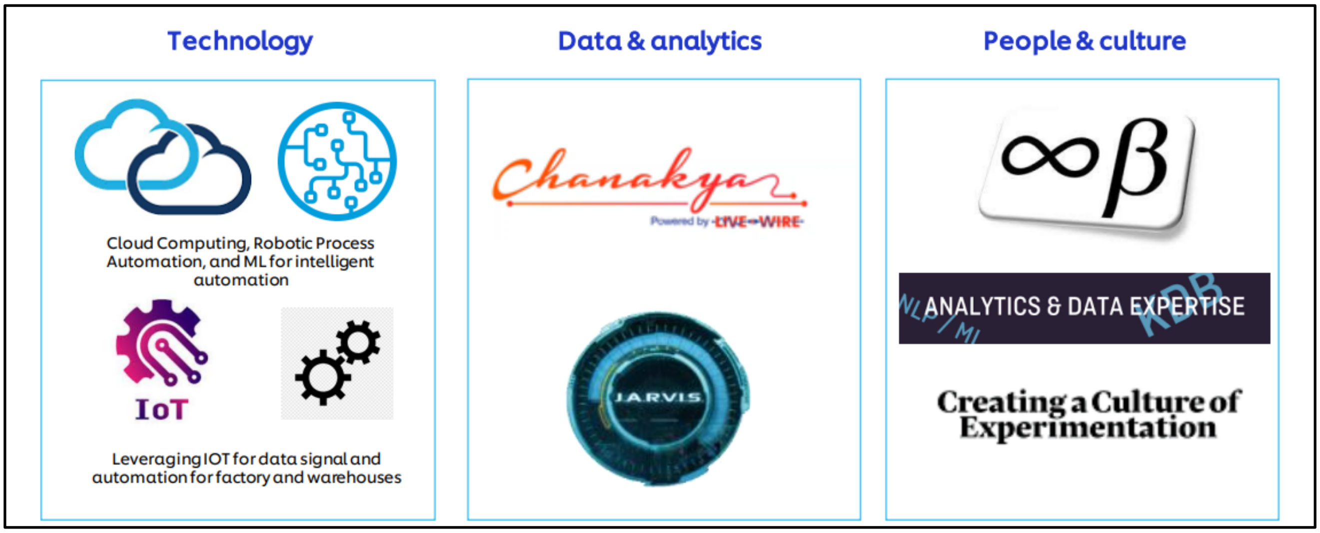
Availability & Accessibility

It is the biggest driver of FMCG sales. Availability of products has become way easier as internet and different channels of sales has made the accessibility of desired product to customers more convenient at required time and place online grocery stores and online retail.

India is the one of the major producers of livestock, milk, sugarcane, coconut, spices, and cashew and is the second largest producer of rice, wheat and fruits & vegetables. Similarly, India has an abundant supply of caustic soda and soda ash, the chief raw materials required in the production of soaps and detergents, which enables the household section of the industry to excel and grow. The accessibility of these raw materials gives India the vocational advantage.

HUL’s Competitive Advantage

Exhibit 12: Leveraging tech to stay ahead of competition



- **Banking on the Tech & Digital revolution**

HUL was been investing heavily in technology over the past years. With their programme ‘Reimagine HUL’, they are transitioning from the traditional linear value chain to non-linear and inter-connected ecosystems. Enhanced Artificial Intelligence (AI), robotics and the Internet of Things (IoT) are reshaping the tech-landscape. HUL is looking at data and technology to help them make a paradigm shift in serving customers and consumers. HUL’s eB2B app, ‘Shikhar’, has enabled its retailer partners to place contactless orders conveniently, with over 500k retailers ordering through the app. HUL is looking to scale up the app, while continuing to work at the backend to build next-day delivery systems. The company has partnered with the State Bank of India to resolve the liquidity issues of small retailers, thus helping build stronger channel relationships. Online sales have emerged as a key growth channel, and this growth is likely to sustain post the pandemic as well. E-Commerce-focused innovations include smart packaging solutions and the right pack price architecture to suit last-mile logistics.

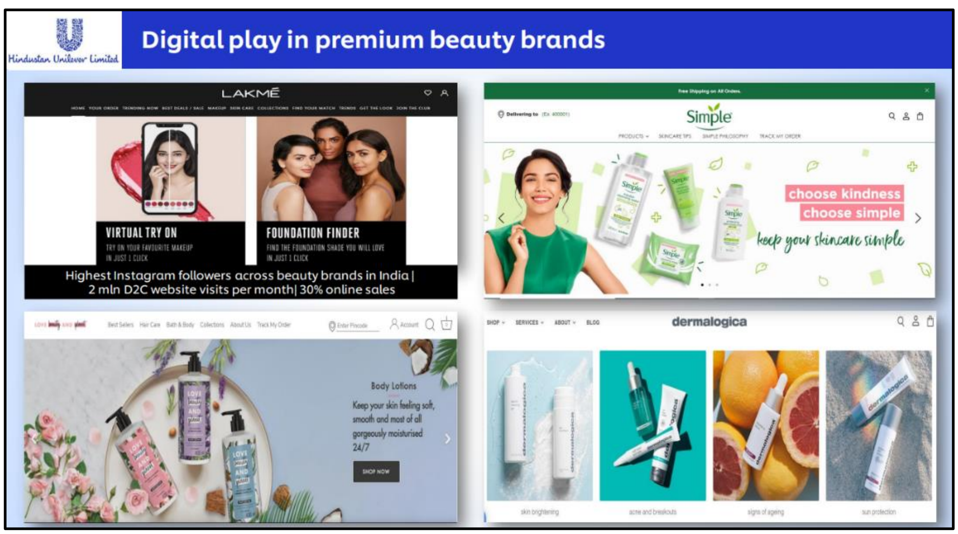
More than **15% of demand is captured digitally**, with **Shikhar - eB2B.** HUL continues to invest in the power of knowledge and big data to enhance impact and effectiveness of execution.

- **Winning in Many Indias' strategy (WiMi)**

HUL's WiMi strategy first introduced in 2016, involves cluster de-averaging which enables HUL to derive differentiated consumer insights, which are used to do precise targeting through multi-media mix. It continues to strengthen core portfolios, improve innovation and increase penetration. By also leveraging macro-economic data and insights of local fairs and festivals, HUL has been able to improve physical and mental reach measures across categories and population strata. This coupled with HUL's developing tech-muscle, is game-changing. The access to customer insights at such a complex level clearly give HUL an edge over its competitors.

- **Superior product innovation and premiumization**

Exhibit 13: HUL's transition into the premium segments



HUL is an expert when it comes to market development given the various categories they have developed and scaled. It reaches millions of consumers every year, educates them and helps them experience its brands, with an aim to unlock the potential of nascent categories. Key mergers to fill white spaces and enter niche spaces can lead to further growth. It's thrust on premiumization also comes from market development. Their focus on premiumization and building a strong innovation pipeline is an on-going process and we already see launches like Love, Beauty & Planet, a premium brand across segments in Beauty & Personal Care. India's rising income compounds extremely well with premiumization and the scope it offers. HUL is well-placed to take advantage of this by focusing on their premium portfolio as well as making timely innovations to continue developing their wide-arrayed portfolio

Exhibit 14: WiMi strategy to cater to the masses

Exhibit 15: HUL's e-commerce applications contributing 15% of total revenues

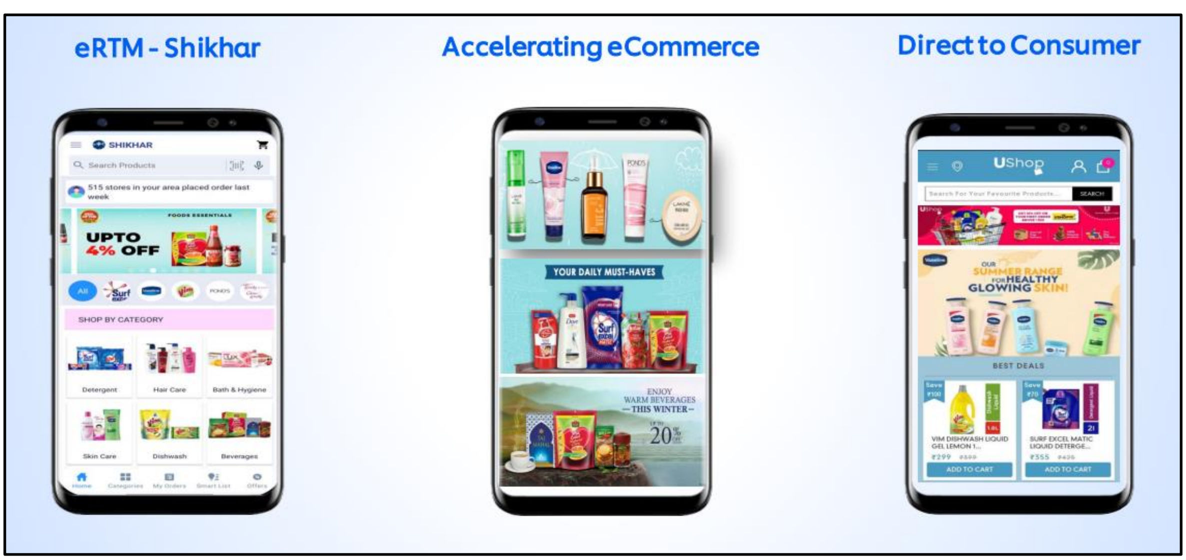


Exhibit 16: Connected business model at every stage to achieve maximum efficiency

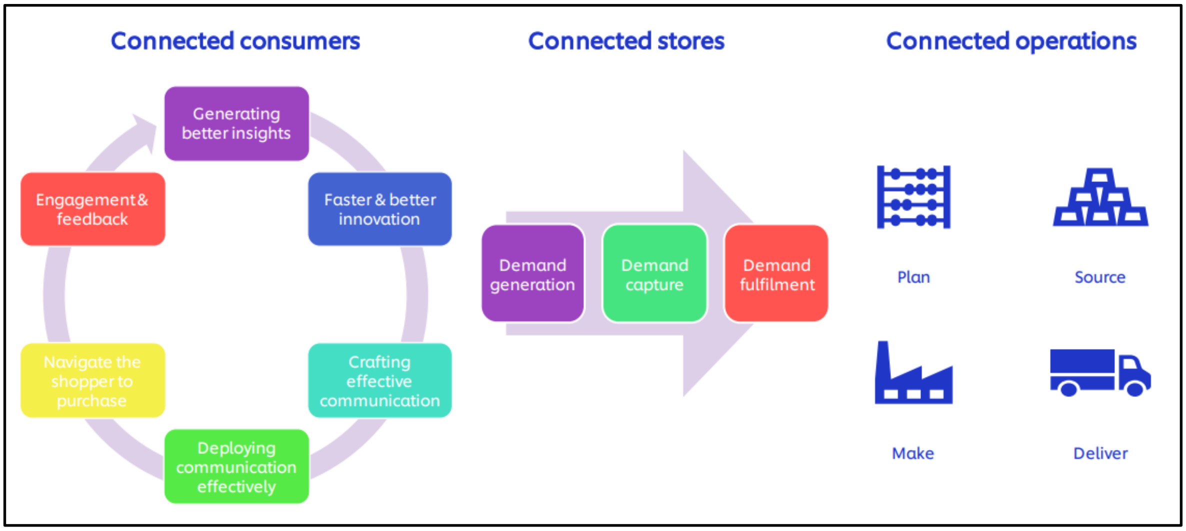
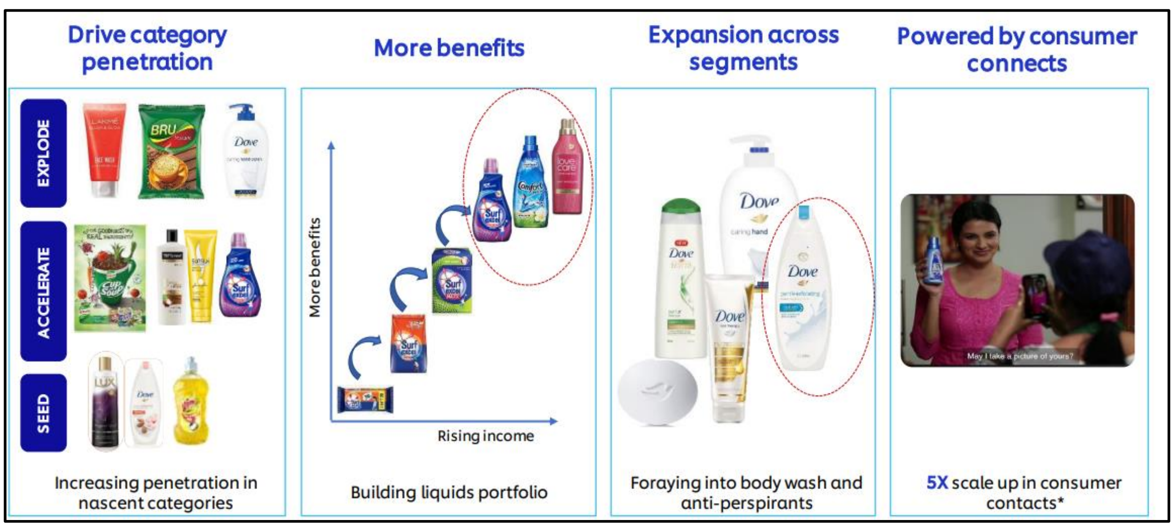
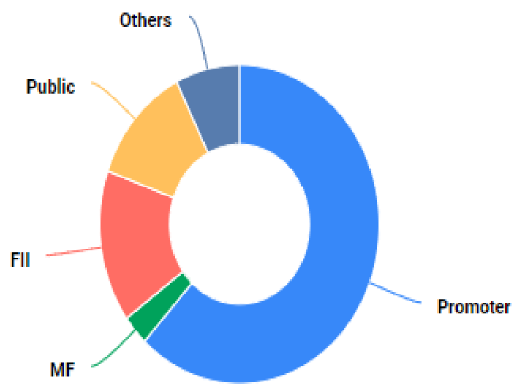


Exhibit 17: Building portfolios across the price-matrix



Shareholding Pattern

Exhibit 18: Shareholding Pattern



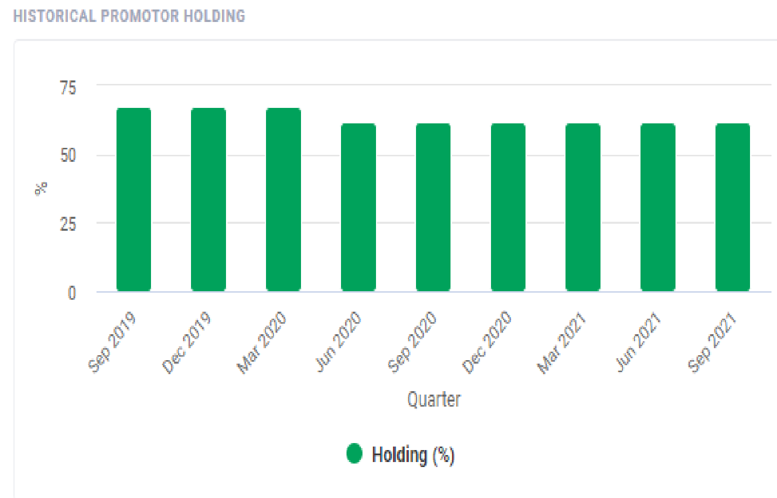
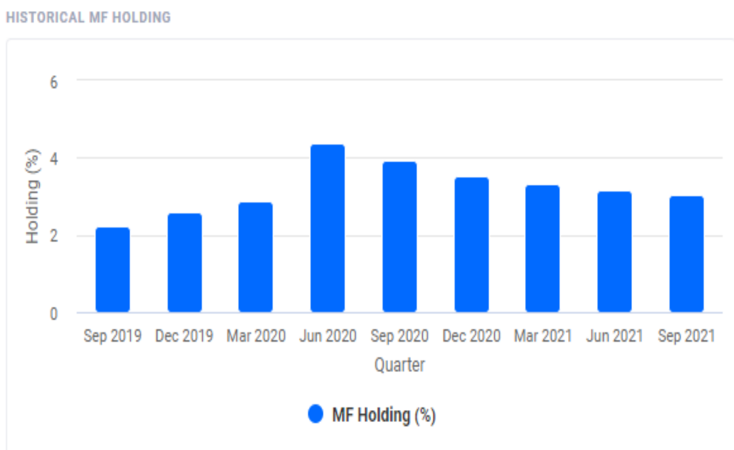


Exhibit 19: MF and FII holding



Promotor holding has dropped from 67.18% to 61.9% within the last year. However, FII's have significantly increased their holding from 12.4% in September 2019 to 15.45% in 2021. Mutual fund holding has fluctuated in the past but usually ranges between 2-3%. Unilever Plc, the parent company holds 61.90% of HUL. HUL's management has been key to the company's success over the decades. The decision-making and strategy formulated by the top-level management is what separates HUL from its competitors. Their know-how also helps them to make better decisions.

Management Overview

In the Q3 2021 conference call, HUL's Chairman & Managing Director, Sanjiv Mehta along with CFO, Ritesh Tiwari gave a confident quarterly result backed by broad based growth across all the divisions. However, management is quite concerned with the increase in raw material prices. Prices of palm oil, crude oil and even other costs like packaging and freight will have an impact in the near term and take a slight hit on HUL's margins. They are 'cautiously optimistic' in the near term. Normalization of economic activities, onset and intensity of winter and impact of inflation are critical. Commodity prices on the other hand, are expected to remain under pressure. Their focus continues to be delivering consistent, competitive, profitable, and responsible growth.

Sanjiv Mehta – Chairman & Managing Director

Sanjiv has been with Unilever for 28 years and for the last 19 years he has led businesses in different parts of the world. He has been Chairman and Managing Director of Unilever Bangladesh Limited (2002 – 2006), Chairman and CEO of Unilever Philippines Inc. (2007 – 2008), Chairman of Unilever - North Africa and Middle East (2008 – 2013) and from October 2013 he assumed his responsibilities of heading Unilever's business in India and South Asia. During his seven years at Hindustan Unilever Limited, the market capitalization of the Company has increased from $17 billion to over $70 billion making HUL one of the most valuable company in the country.

We believe the expertise of Sanjiv Mehta has led HUL to emerge as such an impactful organization. He has successfully transformed HUL from a mere traditional FMCG company to a tech-enabled giant which is smart and innovative.

Exhibit 20: HUL CEO's modern approach

HUL's size and ability to influence market developments and trigger trends shows us that it holds a huge baggage of responsibility about the environment and the future. Their campaigns to promote sustainable growth and their contributions towards ESG helps them truly create an impact.

Competitors

HUL's main competitors are ITC, Dabur, Nestle and Godrej Consumer Products.

Exhibit 21: Share price comparison between competitors

However, most of HUL's competitors are focused into a particular segment within the broad industry. Meanwhile, HUL has 90% market share in most of its segments which shows the dynamic and market penetration ability. Their superior brand does act as a threat to other business segments which they may expand too. In terms of financial performance, HUL has always been consistent with strong numbers to back its stock price growth over the years. It also has a low beta and a 'recession proof' stock as the share price has not seen massive fluctuations. Being an essential business that is crucial to the economy it provides good stability in one's portfolio. When compared to competitors HUL spends close to 10% on advertisement and promotions (as a % of sales) which is the highest in the industry. Even the management compensation is 0.10% (as a % of sales) which is lowest amongst its competitors.

Exhibit 22: HUL's market share in key segments

55.00% (as of Mar 18)

Dishwashing Detergents Market Share

54.00% (as of Mar 18)

Skin Care Segment Market Share

12.00% (as of Mar 18)

Tea Segment Market Share

17.00% (as of Mar 18)

Toothpaste - Market Share

47.00% (as of Mar 18)

Shampoo - Market Share

37.00% (as of Mar 18)

Personal Care Segment Market Share

Financial Outlook

• **Rising Operating Efficiency** - HUL's operating profit margins over the last decade has grown from 13% to 24%. With the 10-year average OPM being 20%. This has been extremely consistent. The case remains the same for net profit margin too. From around 10% in FY10 to 17% in FY21.

Exhibit 23: HUL's rising OPM

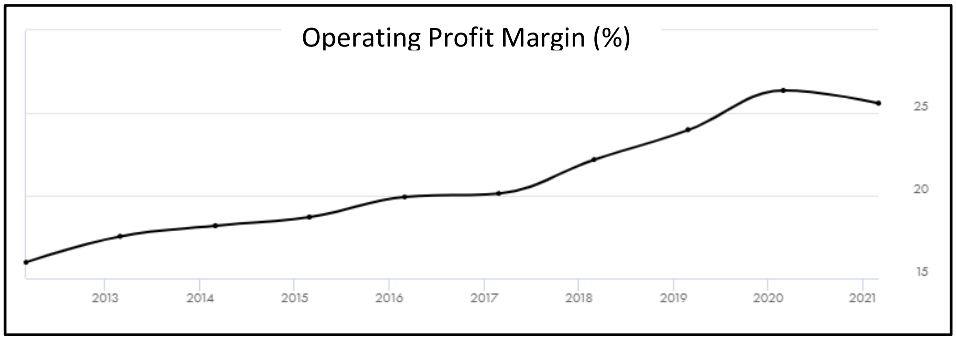
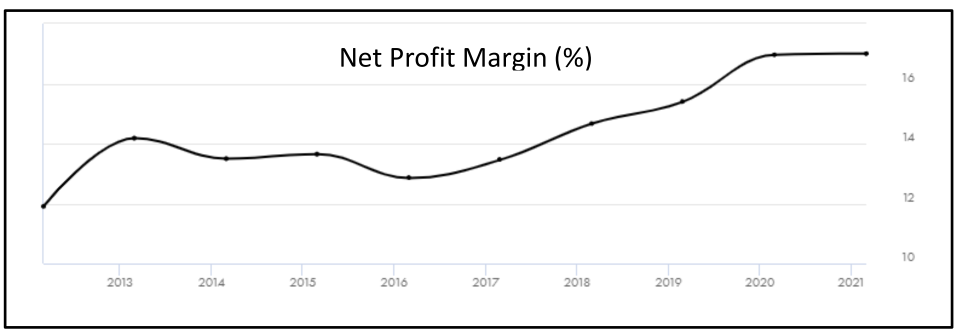


Exhibit 24: HUL's NPM



• **Robust ROCE & ROE** – HUL's return on capital employed and return on equity have always been at an extremely attractive level. With 5-year average ROCE being close to 75% and ROE at 53% coupled with the ability to have a consistent sales growth gives HUL an upper-hand when compared to competitors. The recent decrease in these ratios is largely due to the GSK acquisition and strong capex in the Foods & Refreshments segments.

Exhibit 25: HUL's ROCE

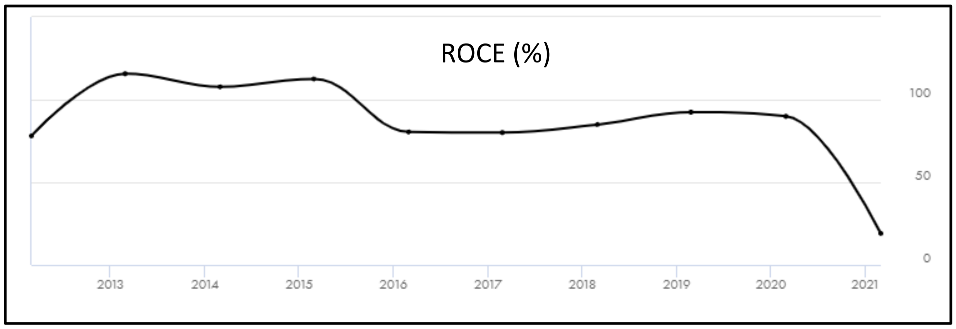
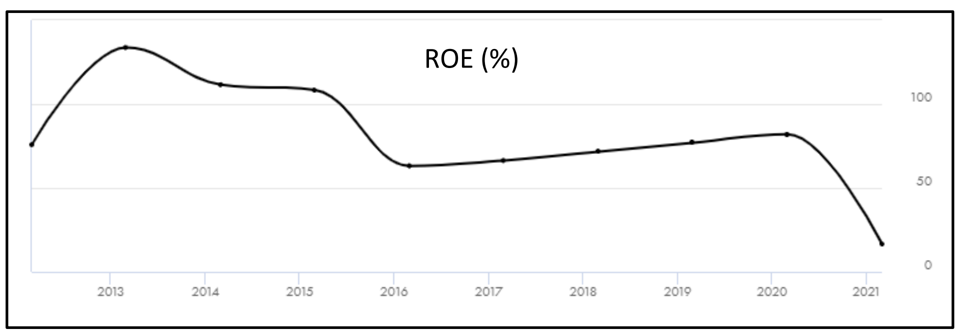


Exhibit 26: HUL's ROE



• **Debt-Free** – HUL has always been a low debt FMCG company and is driven by great organic performance without requiring large amounts of capital.

• **Dividend Payout** – HUL has a high dividend yield. A payout ratio of close to 120%.

Con-Call Highlights Q3FY22

- HUL witnessed 4% volume growth YoY. Health, hygiene, and nutrition (85% of revenue), discretionary (12% of revenue) and Out-Of-Home (3% of revenue) segments grew by 7%YoY, 34%YoY and 74%YoY, respectively.

- Prices of palm oil, crude oil, packaging, and freight continue to face a multi-year hike. Margins to remain under pressure. Judicious pricing actions coupled with cost agility and savings programmes to continue.

- 85% Go-To-Market integration completed for the nutrition business with improvement in effective coverage by 1.9x.

- GSK synergies and cash generation are ahead of schedule.

- High penetration in health, food & drinks (HFD) expected in the future as volumes grew at double digits.

- Launch of D2C platforms for Lakme, Simple, Dermalogica and Love Beauty & Planet.

- HUL's B2B app, Shikhar now available in 6.5 lakh stores. E-commerce now captures 15% of total revenue.

- Management remains cautiously optimistic in the near team. Measuring next few months for understanding of a) Normalization of economic activities b) Onset and intensity of winter c) Impact of inflation.

Valuations

Income Statement	2020	2021	2022	2023
Reveneue	**387,850**	**459,960**	**528,954**	**608,297**
Operating Expenses	291,850	346,720	398,378	458,135
EBITDA	**96,000**	**113,240**	**130,576**	**150,162**
Depreciation	(9,380)	(10,120)	(11,950)	(13,024)
Interest	(1,060)	(1,080)	(1,147)	(1,232)
Other Income	7,330	5,130	5,643	6,207
Earnings Before Tax	**92,890**	**107,170**	**123,122**	**142,113**
Taxes	23,540	25,360	31,889	36,807
Tax Rate %	25.3%	23.7%	25.9%	25.9%
Net Earnings	**69,350**	**81,810**	**91,233**	**105,306**

Balance Sheet	2020	2021	2022	2023
Net Fixed Assets	55,870	516,670	512,951	509,289
Investments	2,520	3,120	3,120	3,120
Other Non-Current Assets	18,730	25,140	25,140	25,140
Current Assets	118,900	136,230	174,824	221,383
Inventories	26,360	33,830	38,194	42,115
Accounts Receivable	10,460	16,480	18,606	20,156
Cash & Bank	50,170	43,210	75,313	116,042
Loans & Advances	-	-	-	-
Total Assets	**196,020**	**681,160**	**716,035**	**758,932**
Current Liabilities	86,860	103,500	114,630	124,627
Provisions	4,180	4,910	4,910	4,910
Other Liabilities	24,670	98,410	98,410	98,410
Total Liabilities	**115,710**	**206,820**	**217,950**	**227,947**
Shareholder's Equity				
Equity Capital	2,160	2,350	2,350	2,350
Reserves & Surplus	78,150	471,990	495,735	528,635
Shareholder's Equity	**80,310**	**474,340**	**498,085**	**530,985**
Total Liabilities & Shareholder's Equity	**196,020**	**681,160**	**716,035**	**758,932**
Check	*0.000*	*0.000*	*0.000*	*0.000*

Cash Flow Statement	2020	2021	2022	2023
Operating Cash Flow				
PBT	90,920	104,900	136,207	150,325
Depreciation & Amortization	(9,380)	(10,690)	(11,974)	(13,081)
Changes in Working Capital	(380)	3,380	4,639	4,167
Other Operating Activites	(2,220)	(5,730)	1,147	1,232
Tax Paid	(24,650)	(23,670)	(35,278)	(38,934)
Cash from Operations	**73,050**	**89,570**	**118,689**	**129,871**
Investing Cash Flow				
Capital Expenditure	(7,540)	(6,290)	(8,621)	(9,506)
Change in Investments	22,250	-	-	-
Other Investing Activities	4,550	(7,380)	-	-
Cash from Investing	**19,260**	**(13,670)**	**(8,621)**	**(9,506)**
Financing Cash Flow				
Equity Raised	-	-	-	-
Debt Raised	-	-	-	-
Dividends	(62,440)	(62,510)	(72,380)	(77,973)
Other Financing Activities	(4,320)	(30,290)	(1,147)	(1,232)
Cash from Financing	**(66,760)**	**(92,800)**	**(73,527)**	**(79,205)**
Net Increase (decrease) in Cash	**25,550**	**(16,900)**	**36,541**	**41,160**