

**Business Report Analysis**  
**Company- Hindustan Unilever Limited**

Date- 3 Feb 2021

## **Qualitative Analysis**

### **History**

Hindustan Unilever Limited was formed in 1956 by merging Hindustan Vanaspati Manufacturing Company, Lever Brothers India Limited and United Traders Limited and offered 10% of its equity to the Indian Public. It was the first foreign subsidiary to do so. Now, Unilever holds 67.25% equity of the company and the rest is distributed among individual shareholders and financial institutions. Unilever acquired Brooke Bond in 1984, Lipton in 1972, etc. and incorporated various companies since then for expansion. In 2002, HUL stepped into Ayurvedic health and beauty category with the Ayush product range and Ayush Therapy Centres. On October 17th 2008, HUL completed 75 years of corporate existence in India. The Unilever Sustainable Living Plan(USLP) was launched officially in India on November 15th, 2010. The 'Winning in Many Indias' operating framework was launched nationally in 2014.

### **Company's Vision**

To be a leader in sustainable business. To demonstrate how company's purpose-led, future-fit model drives superior performance delivering consistent, competitive, profitable and responsible growth.

### **Board of Directors**

- **Sanjiv Mehta**

Mr. Sanjiv Mehta (59) joined the Board of the Company in October, 2013 as the Chief Executive Officer and Managing Director. On June 30th 2018, he was appointed as Chairman and Managing Director of the company. He has been with Unilever for 28 years. He is a Chartered Accountant from the Institute of Chartered Accountants of India and has also completed the Advanced Management Program from Harvard Business School. He is the Vice president of Federation of Indian Chambers of Commerce and Industry (FICCI) and also chairs their FMCG Committee. He is a member of the National Committee of Confederation of Indian Industry's (CII) and chairs their MNC Committee. He was Chairman and Managing Director of Unilever Bangladesh from 2002-2006, Chairman and CEO of Unilever Philippines from 2007-08 and Chairman of Unilever North Africa and Middle East from 2008-13.

- **Srinivas Phatak**

Mr. Srinivas Phatak (48) joined the company in 1999. He was appointed as Executive Director – Finance & Information Technology and Chief Financial Officer of the Company w.e.f. 1st December, 2017. He is also the Vice-President Finance for Unilever, South Asia. He has been with Unilever for 20 years. He is a qualified Chartered Accountant and Cost and Works Accountant. He has been Vice President

Category Finance for Deodorants and Oral Care (2012-2013), Vice President Supply Chain finance Americas (2014-2016) and Head of Financial Shared Services for Unilever (2017).

- **Dev Bajpai**

Mr. Dev Bajpai (54) was appointed as the Executive Director – Legal and Company Secretary and as a Member of the Management Committee of the Company in 2010. He was appointed as an Executive Director on the Board of the Company on 23rd January, 2017. He has 30 plus years of experience in the areas of Legal, Compliance, Tax and Corporate Affairs across diverse industries including Automobiles, FMCG, Hospitality and Private Equity. He holds a law degree from University of Delhi. He has also completed an Executive Programme for Corporate Counsels conducted by Harvard Law School. He is a Fellow Member of the Institute of Company Secretaries of India.

- **Wilhelmus Uijen**

Mr. Wilhelmus Uijen (45) has been appointed as Executive Director, Supply Chain with effect from 1st January, 2020. He started his career at Unilever in 1999 as a Management Trainee in the Netherlands. He holds a Master of Science (M.Sc.) degree in Applied Physics from Eindhoven University in the Netherlands. He has been the Supply Chain Vice President for Unilever, Mexico and the Caribbean (2012-2015), Vice President Home Care SC Latin America based out of Switzerland (2015-2016) and recently headed Unilever's Supply Chain, Home Care division based out of London (2016-2019).

- **Aditya Narayan**

Mr. Aditya Narayan (68) joined the Board of the Company as an Independent Director in 2001. He is a B. Tech. from IIT Kanpur and also has formal qualifications in Law. He was a Fellow in Interdisciplinary Sciences at the University of Rochester, USA. He was a Commonwealth Scholar at the Manchester Business School in 1991 and a Fellow at the Aspen Institute, Colorado, USA in 1998. He served as the Managing Director of ICI India during 1996-2003 and then as its Non-Executive Chairman over 2003-2010. He also served as the President and CEO of BHP Billiton India during 2005-2009.

- **O.P. Bhatt**

Mr. O. P. Bhatt (69) was appointed as an Independent Director on the Board of the Company in December, 2011. He holds a Graduate degree in Physics and a Postgraduate degree in English literature (Gold Medal). He was Chairman of the Indian Banks' Association. He has also been a part of India's eco-diplomacy as Member of the Indo - US, Indo - Russia and Indo-French CEO's Forum.

- **Sanjiv Misra**

Dr. Sanjiv Misra (72) was appointed as an Independent Director on the Board of the Company in April, 2013. He graduated in Economics from St. Stephen's College, Delhi. He has a Master's degree in Economics from the Delhi School of Economics, a Master's degree in Public Administration from John F Kennedy School of Government, Harvard University, USA and a Ph.D. from the Jawaharlal Nehru University, New Delhi. He was designated as Lucius N Littauer Fellow of 1987 at Harvard University. He is a retired Indian Administrative Services (IAS) officer and has served in a wide range of key positions in the Federal and State Governments. He served as a Secretary in the Ministry of Finance till his superannuation.

- **Kalpana Morparia**

Ms. Kalpana Morparia (70) was appointed as an Independent Director on the Board of the Company with effect from 9th October, 2014. She is a graduate in law from Bombay University. She is Chairman of J. P. Morgan, South and Southeast Asia. She has also been recognised by several International & National media for her role as one of the leading women professionals.

- **Leo Puri**

Mr. Leo Puri (59) was appointed as an Independent Director on the Board of the Company with effect from 12th October, 2018. He has a Masters degree in P.P.E. from University of Oxford and a Masters degree in Law from University of Cambridge. He has previously worked as Director with Mckinsey & Company and as Managing Director with Warburg Pincus. He has held Non-Executive Board positions at Infosys, Bennett Coleman & Co., Max New York Life and Max Bupa Health Insurance.

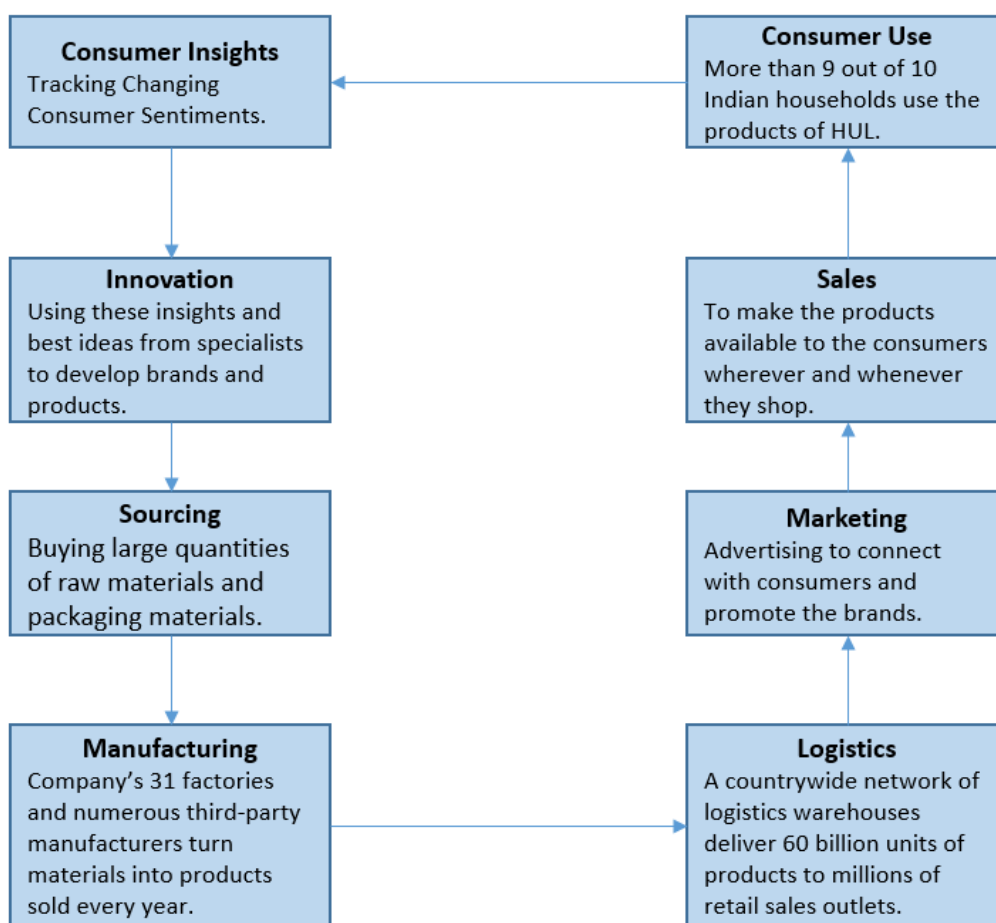
- **Ashish Gupta**

Dr. Ashish Gupta (53) was appointed as an Independent Director on the Board of the Company with effect from 31st January, 2020. He holds a Ph.D. in Computer Science from Stanford University, and a Bachelor's degree from the Indian Institute of Technology (IIT), Kanpur. He is an entrepreneur, advisor and strategic angel investor. He co-founded Helion Advisors in 2006. He also serves on the Boards of several firms including Infoedge, Simplilearn and Workspot. Some of his other investments include redBus, Mu Sigma, Daksh (IBM), Upwork (UPWK), MakeMyTrip, and Flipkart.

### **Leading Brands**

Surf excel, Rin, Wheel, Sunlight, Vim, Pureit, Lux, Lifebuoy, Dove, Fair & Lovely, Pond's, Vaseline, Clinic Plus, Sunsilk, Indulekha, Lakmé, Pepsodent, Closeup, Axe, Brooke Bond, Lipton, BRU, Kwality Wall's, Knorr and Kissan.

### **Business/ Value Creation Model**



### **Distribution Network**

The company has around 21,000 employees working across 31 company-owned factories and 15 offices. More than 1,150 suppliers and several third-party manufacturers work with the Company's supply chain. The products are stocked in warehouses dotted across the country and delivered to over 4,500 distributors. The Company also creates employment opportunities for thousands more across its value chain – from smallholder farmers to the distribution partners.

### **Subsidiaries**

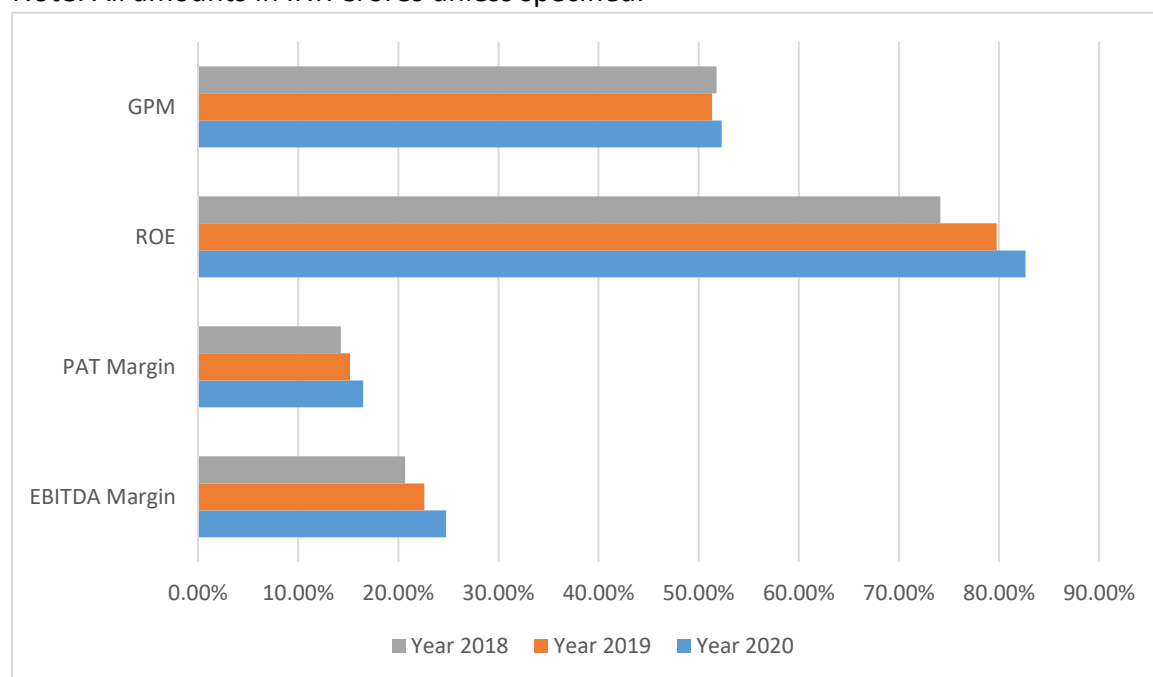
Unilever India Exports Limited, Lakme Lever Private Limited, Hindustan Unilever Foundation, Unilever Nepal Limited, Pond's Exports Limited, Bhavishya Alliance Child Nutrition Initiatives, Daverashola Estates Private Limited, Jamnagar Properties Private Limited, Levers Associated Trust Limited, Levindra Trust Limited and Hindlever Trust Limited.

### **CSR Initiatives**

Water Conservation Project(s), Swachh Aadat Swachh Bharat, Project Shakti, Handwashing Behaviour Change Programme, Plastic Waste Management, Project Prabhat, Domex Toilet Academy, Asha Daan, Sanjeevani, Ankur, COVID-19 Relief Work.

## **Quantitative Analysis**

Note: All amounts in INR Crores unless specified.



## **Profitability Ratios**

### **1. EBITDA Margin**

EBITDA = Operating Revenue – Operating Expense

Operating Revenue = Total Revenue – Other Income

Operating Expense = Total Expense – Finance Cost – Depreciation and Amortization

EBITDA Margin = (EBITDA/Operating Revenue) \*100

	Year 2020	Year 2019	Year 2018
Operating Revenue	39,783	39,310	36,238
Operating Expense	29,922	30,430	28,739
EBITDA	9,861	8,880	7,499
EBITDA Margin	24.787%	22.59%	20.694%

EBITDA CAGR Growth = 9.557%

### **2. PAT Margin**

PAT = Total Comprehensive Income

PAT Margin = (PAT/Total Revenue) \*100

	Year 2020	Year 2019	Year 2018
PAT	6,667	6,056	5,216
PAT Margin	16.496%	15.19%	14.243%

PAT CAGR Growth = 8.525%

### 3. Return On Equity(ROE)

ROE = (Net Profit/ Avg. Equity) \*100

	Year 2020	Year 2019	Year 2018
Avg. Equity	8,065.5	7,593	7,033.5
ROE	82.66%	79.76%	74.15%

ROE = 74.15%

### 4. Return On Assets(ROA)

ROA = [PAT + Finance Cost\*(1 – Tax Rate)]/Avg. Total Assets

Tax Rate = Tax/PBT

PBT = Profit Before Tax

	Year 2020	Year 2019	Year 2018
Tax Rate	26.3%	29.6%	28.5%
Avg. Total Assets	19,391	18,245.5	16,784
ROA	34.83%	33.32%	31.19%

### 5. Return On Capital Employed(ROCE)

ROCE = (Profit Before Interest and Taxes)/Overall Capital Employed

Overall Capital Employed = Debt + Equity

	Year 2020	Year 2019	Year 2018
Overall Capital Employed	8,246	7,984	7,301
ROCE	111.24%	107.76%	100.04%

## Leverage Ratios

### 1. Interest Coverage Ratio(R1)

EBIT = EBITDA – Depreciation and Amortization

$R1 = \text{EBIT} / \text{Finance Costs}$

	Year 2020	Year 2019	Year 2018
EBIT	8,859	8,315	6,979
R1	75.076	251.97	268.423

## 2. Debt to Equity Ratio(R2)

$R2 = \text{Total Debt} / \text{Total Equity}$

	Year 2020	Year 2019	Year 2018
R2	0	0.01255	0

## 3. Debt to Asset Ratio(R3)

$R3 = \text{Total Debt} / \text{Total Assets}$

	Year 2020	Year 2019	Year 2018
R3	0	0.0053	0

## 4. Financial Leverage Ratio(R4)

$R4 = \text{Avg. Total Assets} / \text{Avg. Total Equity}$

	Year 2020	Year 2019	Year 2018
R4	2.404	2.403	2.386

## Valuation Ratios (Year 2020)

### 1. Price to Sales(P/S) Ratio

$\text{P/S Ratio} = \text{Current Share Price} / \text{Sales Per Share}$

$\text{Sales Per Share (SPS)} = \text{Total Revenue} / \text{Total Number of Shares}$

= ₹ 141.81

$\text{P/S Ratio} = 15.68$

### 2. Price to Book Value(P/BV) Ratio

$\text{P/BV Ratio} = \text{Current Share Price} / \text{BV}$

$\text{BV} = [\text{Share Capital} + \text{Reserves (excluding revaluation reserves)}] / \text{Total Number of Shares}$

= ₹ 28.93

$\text{P/BV Ratio} = 76.87$

### 3. Price to Earning(P/E) Ratio

$P/E \text{ Ratio} = \text{Current Share Price} / \text{EPS}$

$\text{Earnings Per Share (EPS)} = \text{PAT} / \text{Total Number of Shares}$

$= ₹ 23.393$

$P/E \text{ Ratio} = 95.06$

Note: Current Share Price recorded on 3 Feb 2021, 7:48 PM from NSE website.

**Operating ratios** (Year 2020)

**1. Fixed Assets Turnover(R5)**

$R5 = \text{Operating Revenue} / \text{Avg. Total Fixed Assets}$

$= 5.4696$

**2. Working Capital Turnover(R6)**

$R6 = \text{Operating Revenue} / \text{Avg. Working Capital}$

$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$

$R6 = 12.73$

**3. Total Assets Turnover(R7)**

$R7 = \text{Operating Revenue} / \text{Avg. Total Assets}$

$= 2.052$

**4. Inventory Turnover Ratio(R8)**

$R8 = \text{Cost of Goods Sold} / \text{Avg. Inventory}$

$= 6.99$

**5. Inventory Number of Days(R9)**

$R9 = 365 / (\text{Inventory Turnover Ratio})$

$= 52.217$

**6. Accounts Receivable Turnover Ratio(R10)**

$R10 = \text{Operating Revenue} / \text{Avg. Receivables}$

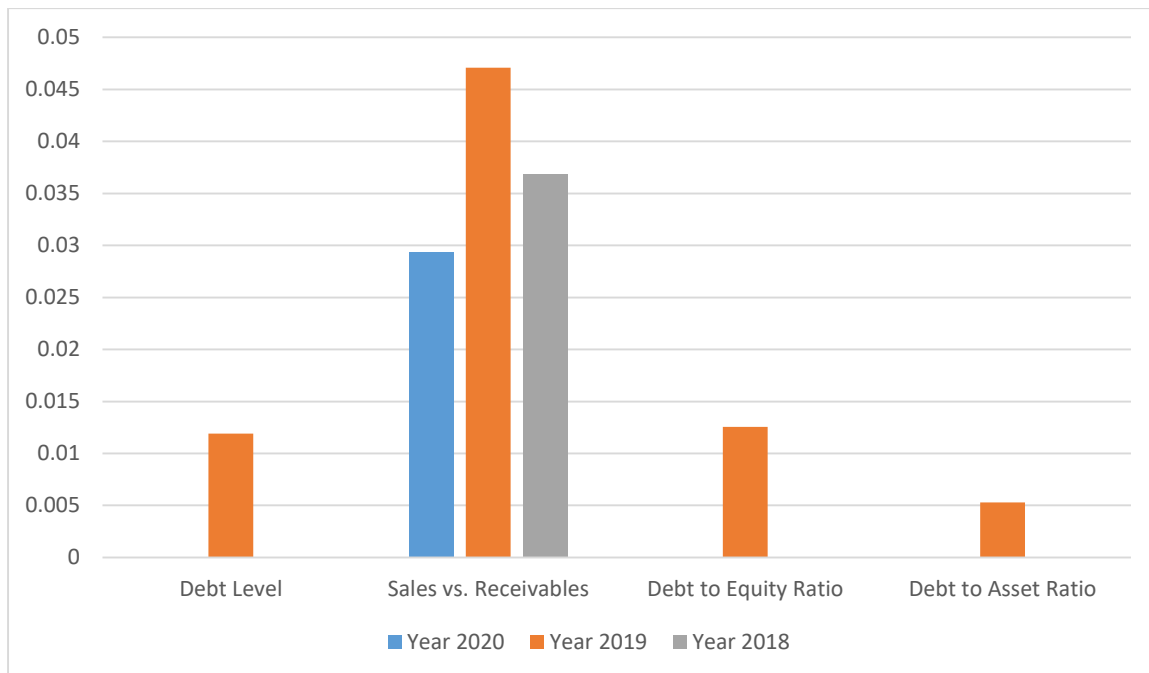
$= 26.835$

**7. Day Sales Outstanding(R11)**

$R11 = 365 / \text{Receivable Turnover Ratio}$

$= 13.602$





## **Equity Research**

### **Gross Profit Margin(GPM)**

GPM = Gross Profits/Net Sales

Gross Profits = Net Sales – Cost of goods sold

	Year 2020	Year 2019	Year 2018
GPM	52.3%	51.35%	51.8%

### **Debt Level**

	Year 2020	Year 2019	Year 2018
Debt	0	99	0
EBIT	8,857	8,315	6,979
Debt/EBIT	0	1.19%	0

### **Cash Flow from Operations**

	Year 2020	Year 2019	Year 2018
Cash Flow from Operations	7,623	5,800	6,059

### Sales vs. Receivables

	Year 2020	Year 2019	Year 2018
Net Sales	39,136	38,579	35,474
Receivables	1,149	1,816	1,310
Receivables as a part of Net Sales	2.94%	4.71%	3.69%

### Inventory Check

	Year 2020	Year 2019	Year 2018
Inventory (₹ Crores)	2,670.5	2,543.5	2,527
Inventory Number of Days	6.99	7.38	6.76
PAT	6,667	6,056	5,216

### Free Cash Flow(FCF)

FCF = Cash Flow from Operating Activities – Capital Expenditures

	Year 2020	Year 2019	Year 2018
FCF	6,773	5,105	5,171

Avg. FCF = 5,883

-> Considering Growth Rate of 15% for first 5 years then, 10% for next 5 years.

S. No.	Year	Growth Rate	Future Cash Flow
1	2020-21	15%	6,765.45
2	2021-22	15%	7,780.27
3	2022-23	15%	8,947.31
4	2023-24	15%	10,289.40
5	2024-25	15%	11,832.81
6	2025-26	10%	13,016.09
7	2026-27	10%	14,317.70
8	2027-28	10%	15,749.47
9	2028-29	10%	17,324.42
10	2029-30	10%	19,056.86

Considering Terminal Growth Rate of 3.5% and Discount rate of 9%.

Terminal Value = 3,58,615.46

### Net Present Value(NPV)

Assuming a Discount Rate of 9%.

S. No.	Year	Future Cash Flow	Present value
1	2020-21	6,765.45	6,206.83
2	2021-22	7,780.27	6,548.50
3	2022-23	8,947.31	6,908.96
4	2023-24	10,289.40	7,289.27
5	2024-25	11,832.81	7,690.51
6	2025-26	13,016.09	7,761.07
7	2026-27	14,317.70	7,832.27
8	2027-28	15,749.47	7,904.13
9	2028-29	17,324.42	7,976.64
10	2029-30	19,056.86	8,049.82

Present Value of Terminal Value = 1,51,483.05

Total PV = 2,25,651.05

Net Debt = Current Year Total Debt – Cash & Cash Balance

= -3,216

NPV = Total PV – Net Debt

= 2,28,867.05

Intrinsic Value of the Share = INR 803.04

Lower Intrinsic Value = INR 481.82

Upper Intrinsic Value = INR 883.34

### **Conclusion**

- From the Profitability and Operating Ratios, it can be concluded that the management of the company is efficient and competitive, and company is performing well in terms of generating profits.
- Leverage Ratios and Debt Level implies the complete is sustainable in long run.
- Valuation Ratios and Intrinsic Value of the Share implies that the share price is overvalued.
- Gross Profit Margin > 20%. This implies that HUL enjoys a premium spot in the market and reflects good operational efficiency. The Company generates cash from its operations.
- Inventory is growing along with PAT; a very small part of sales is backed by receivables. This implies that the company is growing.

### **References:**

<https://zerodha.com/varsity/module/fundamental-analysis/>

<https://www.investopedia.com/>

<https://www.hul.co.in/>

HUL Annual Report 2019-20

HUL Annual Report 2018-19

HUL Annual Report 2017-18

**Mentors:**

1. Hemant Karanjkar
2. Naman Mathur.