

## Stock Info

Symbol	HINDUNILVR
CMP	₹ 2,460.25
P/E Ratio (TTM)	55.84
Enterprise Value	₹ 5,67,542 Cr
Market CAP	₹ 5,73,617 Cr

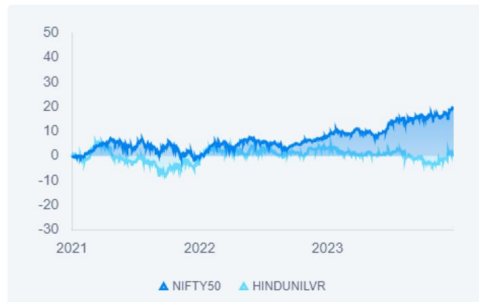
## Financial Ratios

ROE (TTM)	20.07
ROCE (TTM)	24.73
Net Profit Margin (TTM)	16.61
Dividend Yield (TTM)	1.85
Inventory Days (DIO) (TTM)	23.72
ROA (TTM)	13.09

## Shareholding Pattern

PARTICULARS	SEPT 23	DEC 23	MAR 24
Promoters	61.9	61.9	61.9
Share Holding Pledge	0	0	0
FII	13.9	13.65	12.67
Total DII	11.1	12.38	13.27
Public	13.1	12.07	12.15

## Indexed Stock Performance



PARTICULARS	HINDUNILVR	NIFTY50
2022	8.76%	3.21%
2023	4.13%	19.42%
YTD	-8.04%	8.09%
CAGR	-0.66%	14.17%

## Analyst

Amit Suresh Madnani

## ►Company Overview

Based in Mumbai, Maharashtra, Hindustan Unilever Limited (HUL) is a fast-moving consumer goods manufacturer and marketer, owned by Unilever Plc. The company, which has a 90-year history, sells beauty and personal care items, homecare, and packaged foods and drinks. The FMCG company's product portfolio includes powders, liquids, detergent bars, water purifiers, skin care, soaps, cosmetics, nutrition drinks, frozen desserts, and many more.

## ►Investment Rationale

## Increasing Operating Revenues from each segment, attractive Valuations

HUL's operational sales have demonstrated steady growth across all segments, including 'Home Care', 'Beauty & Personal Care', and 'Food & Refreshments'.

Home Care's operating revenue recently increased by almost 3.1% YoY to Rs 21,882 crores in FY24 from Rs 21,223 crores in FY23, Beauty & Personal Care's operating revenue increased by about 2.3% to Rs 22,022 crores from Rs 22,448 crores, and Food & Refreshment's operating revenue increased by 2.8% to Rs 15,291 crores from Rs 14,876 crores.

Furthermore, the FMCG company's price to earnings (P/E) ratio of 55.8x appears to be less expensive than that of its rivals, who have an average P/E ratio of 64.8x.

## Focus on Innovation and Premiumisation

Over the years, HUL has continuously engaged in market expansion and product premiumization initiatives, seeing the trend in the industry. Consequently, its premium sector usage rate is higher than that of other players in the market.

Through a number of innovations and brand extensions into new demand sectors and future forms, HUL has expanded its presence in the market. In order to attract customers, the FMCG company has also kept enhancing its mass customisation, precision marketing, and improved shopper experience skills.

## Management Outlook

By offering the appropriate consumer value, boosting investments in brands and capabilities, and exhibiting excellence in the execution of business operations, HUL produced a resilient performance in FY24.

The management of the company projects above-average monsoons and favourable macroeconomic conditions for the upcoming period, with a steady improvement in FMCG demand.

The management will persist in concentrating on promoting growth across business segments that is competitive and driven by volume, while also pursuing productivity initiatives to create savings. Furthermore, the company will be able to sustain its present EBITDA margins by reinvesting the savings in its brands and long-term strategic competencies.

## Concall Highlights - April 2024

## Business Operations &amp; Future Plans

From a pricing viewpoint, the FMCG company was unable to witness any price growth, and the same is due to higher levels of cumulative inflation and weak monsoons affecting rural demand for its products. In spite of this, the company managed to boost its EBITDA margins YoY from 23% in FY23 to 23.4% in FY24, a gain of about 40 basis points (bps), and the same was made possible by effective sales growth of roughly 2.20%.

In addition to the aforementioned, the return of local and regional competitors who had left the market during the period of peak inflation contributed to an improvement in the company's corporate market share of about 200 basis points from 2021 till present.

## Segment-wise Performance

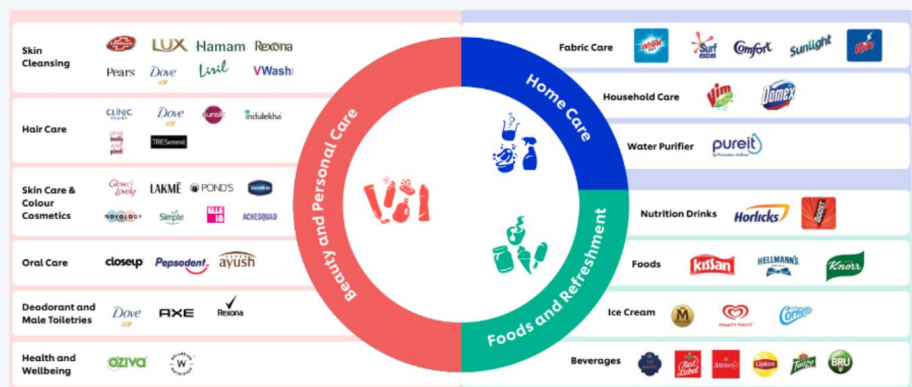
With a premiumization-focused approach, HUL's "Home Care" segment had growth of about 1%. Its powder products saw continuous volume gains, its liquid products saw faster conversion, and its cleaning bar products saw a return to growth. Additionally, the company's "Beauty" division saw growth in single digits overall, but double digits for the segment's premium product range. Conversely, a fall in the mass end of the section portfolio caused the company's "Personal Care" segment to drop by almost 2%. The company aims to maintain its focus on increasing product penetration and consumption in important areas.

## Future Outlook

The management of the company anticipates a single-digit decrease in price growth in the near future. However, over a longer time horizon, specifically the second half of FY25, the company anticipates an increase in product prices as a result of favourable macroeconomic indicators, above-average monsoons, and a gradual improvement in FMCG demand.

With an emphasis on sustaining existing levels in the short term and modestly increasing margins in the medium to long term, the management aims to achieve a 23-24% EBITDA margin band. Maintaining competitive volume-led growth across business areas is still the company's top priority.

## Product Portfolio



(Source: Company Annual Report)

## FMCG Sector in India

As India's fourth-largest industry, fast-moving consumer goods play a major role in driving economic growth by promoting manufacturing, creating jobs, and stimulating consumption. Products in the food and beverage and personal care categories account for about 30% and 20% of the industry's overall FMCG sales in India, respectively. Products in the home and personal care categories account for approximately 50% of sector sales.

The FMCG industry faced a few difficulties in FY24, including unforeseen weather variations that affected consumer attitude and agricultural productivity. The general public's disposable income, particularly in rural areas, has been harmed by the years of persistent inflation prior to FY24. Because of this, the recovery in rural areas is happening more slowly, whereas the urban and premium segments are recovering more quickly.

The Indian FMCG market, estimated at US \$230.14 billion in 2023, is predicted to grow at a compound annual growth rate (CAGR) of almost 28% to US \$1288.52 billion by 2030, notwithstanding the current volume slowdown. Rising consumer brand awareness, changing lifestyles, and the growing youth population are all major factors driving the growth of the Indian FMCG market.

## Latest Developments

- In order to improve and revolutionise the washing machine experience for Indian consumers, HUL partnered with Whirlpool of India Limited, a well-known brand in the country, to launch a new marketing campaign for "Surf Excel," one of HUL's top brands. The two home care brands have teamed up to provide homeowners with better cleaning results and ease. By combining cutting-edge technologies from both brands, the companies can improve everyday laundry operations, provide better fabric care, and provide an overall better customer experience.
- Claiming to be a global first, HUL leads the way in slashing the amount of palm oil and its derivatives in soaps by 25%. This is part of a larger plan to lessen the impact on the environment and mitigate commodity price volatility. Parent company Unilever, which counts India as one of its largest soap markets globally, plans to introduce the technology developed by HUL to other nations.

The invention, known as Stratos, took HUL nearly five years to create, according to the company. In addition to the previously announced 25% reduction of palm oil and derivatives, it will replace palm with a proprietary combination of plant-derived polysaccharides, vitamin blends, and natural fatty acids, all of which will help improve the product.

- Unilever intends to split off its "Ice Cream" division by the second half of 2025; more choices and tactics will be announced later. The Parent intends to transform itself into a simpler, high-performing, and more focused company.

## ESG Performance

Regarding the business's operations, scope 1 (direct) and scope 2 (indirect) emissions (Kg per tonne of production) were claimed to have decreased by about 98%. Additionally, the business saw a roughly 58% decrease in the overall amount of waste generated by companies (Kg per tonne of production).

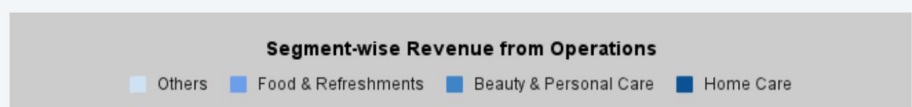
Furthermore, the FMCG company observed that over 97% of the supply chain for palm oil, tea, cocoa, and other products were deforestation-free when viewed from the perspective of the value chain. The business also made a contribution by using plastic packaging that is compostable and reusable.

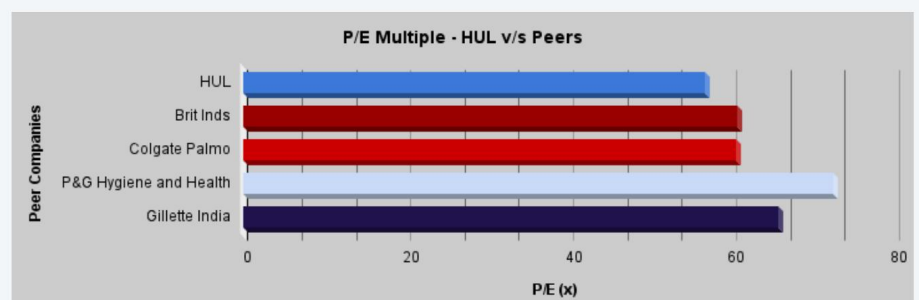
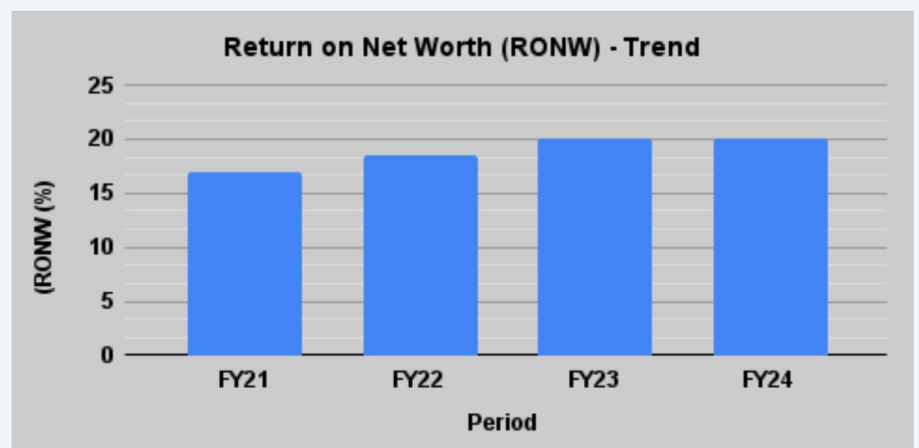
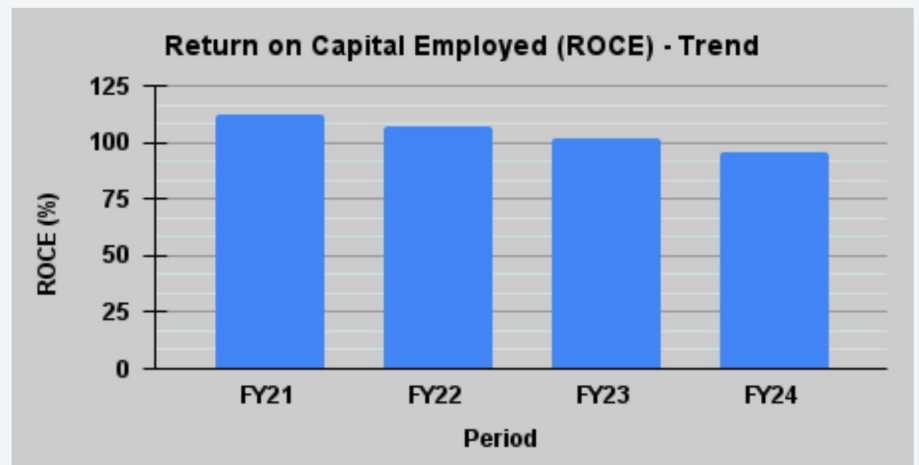
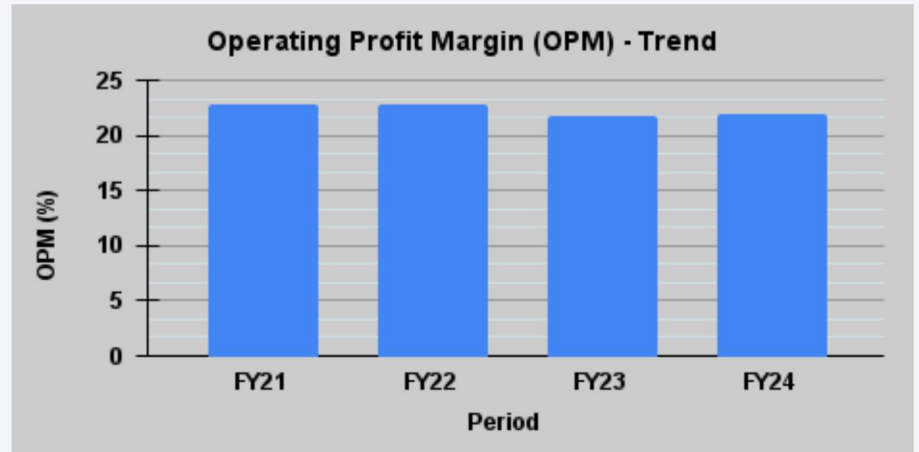
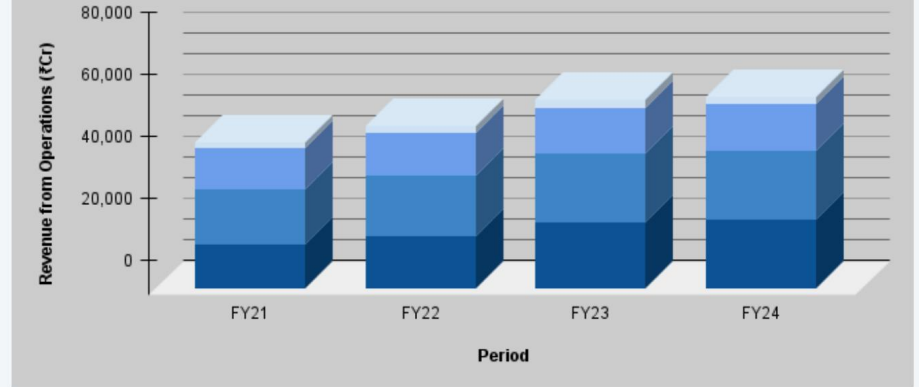
## Top ESG rated FMCG Company in India



(Source: Company Annual Report)

## Segment-wise Operating Revenue and Margins





►Risks and concerns



Quality and Safety Procedures

It is impossible to completely rule out the possibility that raw materials will be unintentionally or purposefully contaminated throughout the supply chain or that further product problems will result from mishandling, broken equipment, or other causes.

Climate change

Climate change may have a variety of effects on the FMCG company, including higher expenses and slower growth and profitability. Risks related to the physical environment, like a lack of water, could have an influence on its business operations, lower consumer demand for the products that need water to operate, or lower sales because of lower product efficacy as a result of the water shortage.

Uncertainty in the timing and severity of summer, winter, and monsoon seasons may influence the seasonal swings the company witnesses in its mixtures.

Workforce

There's a chance that the company's workforce lacks the skills needed for the new environment because of how quickly work and skills are changing.

►Outlook and & Valuation

Profit and Loss Statement - Extract

(Rs crores)					
Particulars	FY22	FY23	FY24	FY25E	FY26E
Revenue from operations	52,446	60,580	61,896	64,991	66,941
Other income	258	512	811	852	877
Total income	52,704	61,092	62,707	65,842	67,818
Cost of materials consumed	16,446	20,212	19,257	21,183	22,242
Employee benefit expenses	2,545	2,854	3,009	3,912	4,694
Finance costs	106	114	334	501	651
Depreciation and amortization expenses	1,091	1,137	1,216	1,398	1,538
Total expenses	40,786	47,683	48,783	51,222	52,759
Profit before exception items, tax, and share of equity accounted investee	11,918	13,409	13,924	14,620	15,059
Share of profit/(loss) of equity accounted for investee (net of tax)	-	(1)	(4)	(4)	(4)
Profit before exception items and tax	11,918	13,408	13,920	14,616	15,055
Exceptional items (net)	(44)	(64)	6	-	-
Profit before tax	11,874	13,344	13,926	14,616	15,055
Total tax expenses	2,987	3,201	3,644	4,008	4,409
Profit for the year	8,887	10,143	10,282	10,608	10,646
Profit attributable to the owners of the company	8,874	10,121	10,277	10,580	10,600
Weighted average number of equity shares outstanding during the year (in crs)	234.96	234.96	234.96	234.96	234.96
Earnings per share (EPS)	37.77	43.08	43.74	45.02	45.11

(Source: Company Data, Tradebrains Research)

Balance Sheet - Extract

(Rs crores)					
Particulars	FY22	FY23	FY24	FY25E	FY26E
Non-current assets					
Property, Plant, and equipment	6,160	6,040	8,031	9,236	10,150

Property, Plant, and equipment	8,169	8,949	8,031	9,236	10,139
Capital work-in-progress	1,313	1,132	1,025	1,128	1,240
Goodwill	17,316	17,466	17,466	17,466	17,466
Other non-current assets	194	211	292	409	531
Total non-current assets (A)	54,995	56,089	57,175	58,890	60,657
Current assets					
Inventories	4,096	4,251	4,022	4,223	4,434
Trade receivables	2,236	3,079	2,997	3,596	3,956
Cash and cash equivalents	1,144	714	825	949	1,091
Other current assets	688	745	713	749	786
Total current assets (B)	15,522	16,998	21,324	23,210	23,543
Total assets (A+B)	70,517	73,087	78,499	82,100	84,200
Non-current liabilities					
Lease liabilities (long-term)	741	807	1,106	1,383	1,659
Provisions	1,580	1,363	1,576	1,812	1,994
Deferred tax liabilities	6,141	6,421	6,557	6,688	6,822
Total non-current liabilities (C)	10,150	10,537	14,200	16,590	17,458
Current liabilities					
Borrowings	-	98	13	30	50
Lease liabilities (short-term)	302	314	365	420	462
Trade payables	9,068	9,574	10,486	11,535	12,688
Other current liabilities	665	764	807	847	890
Total current liabilities (D)	11,280	12,028	12,876	13,572	14,284
Equity share capital	235	235	235	235	235
Other equity	48,826	50,069	50,983	51,493	52,008
Non-controlling interests	26	218	205	210	215
Total equity (E)	49,087	50,522	51,423	51,938	52,458
Total liabilities and equity (C+D+E)	70,517	73,087	78,499	82,100	84,200

(Source: Company Data, Tradebrains Research)

#### Cash Flow Statement - Extract

(Rs crores)

Particulars	FY22	FY23	FY24	FY25E	FY26E
Cash flow from operating activities					
Profit before tax	11,874	13,345	13,926	14,616	15,055
Adjustments (exhibit)					
Depreciation and amortization expenses	1106	1152	1216	1398	1538

Depreciation and amortization expenses	1,183	1,162	1,213	1,553	1,553
<b>Dividend income</b>	(1)	(2)	(3)	(3)	(4)
<b>Interest expenses</b>	106	114	317	444	577
<b>Cash generated from operations before working capital changes</b>	12,829	14,089	14,537	15,500	16,550
<b>Working capital changes</b>	(1,000)	(960)	1,313	(1,010)	(1,100)
<b>Cash generated from operations</b>	11,829	13,129	15,850	14,490	15,450
<b>Tax paid (net of refunds)</b>	(2,784)	(3,138)	(381)	(400)	(420)
<b>Net cash flow generated from operating activities (A)</b>	<b>9,045</b>	<b>9,991</b>	<b>15,469</b>	<b>14,090</b>	<b>15,030</b>
<b>Cash flow from investing activities</b>					
<b>Purchase of property, plant, and equipment</b>	(1,225)	(1,174)	(1,468)	(1,908)	(2,386)
<b>Purchase of intangible assets</b>	(3)	(18)	(9)	(10)	(11)
<b>Sale proceeds of intangible assets (brand rights)</b>	29	60	-	-	-
<b>Net cash flow generated from investing activities (B)</b>	<b>(1,728)</b>	<b>(1,494)</b>	<b>(5,324)</b>	<b>(7,986)</b>	<b>(4,960)</b>
<b>Cash flow from financing activities</b>					
<b>Dividends paid</b>	(7,526)	(8,474)	(9,416)	(10,828)	(11,911)
<b>Borrowings repaid</b>	-	(7)	-	-	-
<b>Interest paid on lease liabilities</b>	(80)	(84)	(106)	(133)	(159)
<b>Net cash flow generated from financing activities (C)</b>	<b>(8,015)</b>	<b>(8,953)</b>	<b>(10,034)</b>	<b>(5,954)</b>	<b>(9,928)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	(698)	(456)	111	150	142
<b>Cash and cash equivalents at the beginning of the year</b>	1,842	1,144	688	799	949
<b>Cash and cash equivalents at the end of the year</b>	1,144	688	799	949	1,091

**(Source: Company Data, Tradebrains Research)**

#### ►Summary

We reiterate BUY call on Hindustan Unilever Limited and provided a target price of Rs 2,910 (the target period being 12 months) since the FMCG company has successfully been able to generate average levels of revenues despite going through a tough phase of inflationary periods within the country.

Moreover, the company's prime focus on innovations and premiumisation tactics, being high revenue-generating segments, and the recent initiatives taken reflects its urge to grow its footprint within as well as outside India.

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