



EQUITY RESEARCH REPORT
HINDUSTAN UNILEVER LIMITED

ANALYSIS BY NIRAJ MOHITE





HINDUSTAN UNILEVER LTD

COMPANY PROFILE

HUL is India's largest fast-moving consumer goods company. HUL has over 85 years of presence in India. It is subsidiary of British Company Unilever Ltd. HUL was formed in 1956 as the merger of 3 constituent groups - Hindustan Vanaspati Manufacturing Co., Lever Brothers India Ltd., and United trade Ltd. took place. It is one of the first listed companies in Indian stock markets.

With 44 brands spanning 14 distinct categories such as fabric solutions, home and hygiene, life essentials, skin cleansing, skincare, hair care, colour cosmetics, oral care, deodorants, tea, coffee, ice cream & frozen desserts, foods and health food drinks, the Company is a part of the everyday life of millions of consumers across India. Its portfolio includes leading household brands such as Lux, Lifebuoy, Surf excel, Rin, Wheel, Glow & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, Pepsodent, Closeup, Axe, Brooke Bond, Bru, Knorr, Kissan, Kwality Wall's, Horlicks and Pureit.

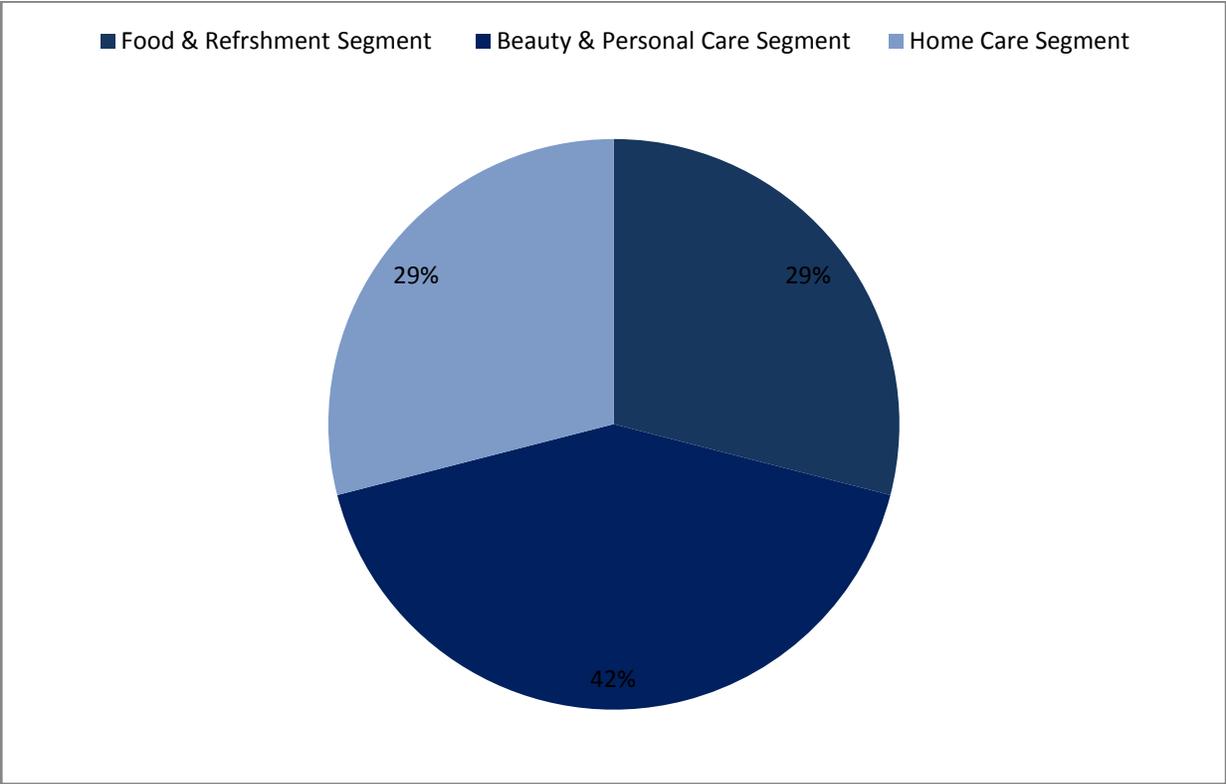
The Company has about 21,000 employees and has sales of INR 45,311 crores (financial year 2020-21). HUL is a subsidiary of Unilever, one of the world's leading suppliers of Food, Home Care, Personal Care and Refreshment products with sales in over 190 countries and an annual sales turnover of €51 billion in 2020.

COMPANY DETAILS

CMP	Rs. 2,778
MARKET CAP	Rs. 6,52,893
HIGH/LOW	Rs. 2,825/2,000
STOCK P/E	78.7
BOOK VALUE	Rs. 203
FACEVALUE	Rs. 1.00
DIVIDEND YIELD	1.11%
ROCE	39.2%
ROE	29.2%

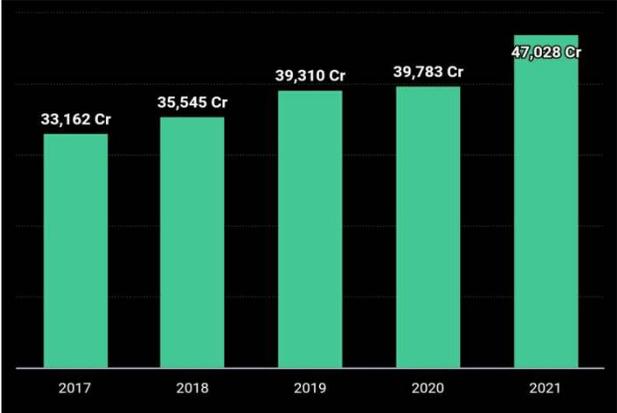
The company has a Current Market Price of Rs 2,778. The total Market Cap of the company is Rs 6, 52,893 cr. which is huge, highest than any of its peers in the market justifying its leadership in the sector. The company has seen its all time high in this month touching Rs 2,825 and a low of Rs 2,000 during the pandemic. The stock PE is higher when compared to the Industry PE but is justified due to its increasing demand for the stock. Book value again is high but still not a concern. ROCE AND ROE are very good.

Product Category Classification

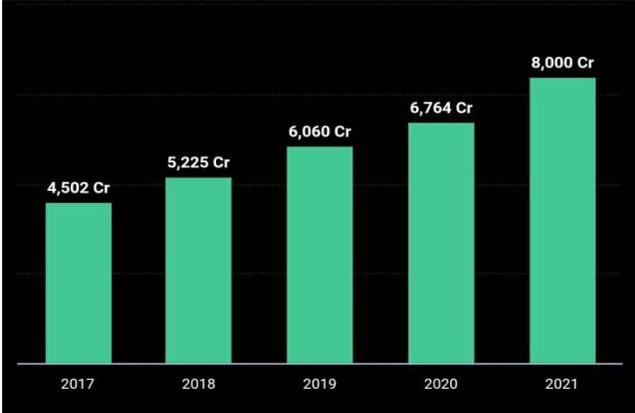


The beauty & personal care segment accounts to 42% of the company's products which includes skin cleansing, oral care, hair care, skin care, & colour cosmetics. Then the food & refreshment segment covers 29% including foods, beverages, nutrition & ice cream. The Home Care Segment too comprises of 29% which consist of household care, purifiers, & fabric wash.

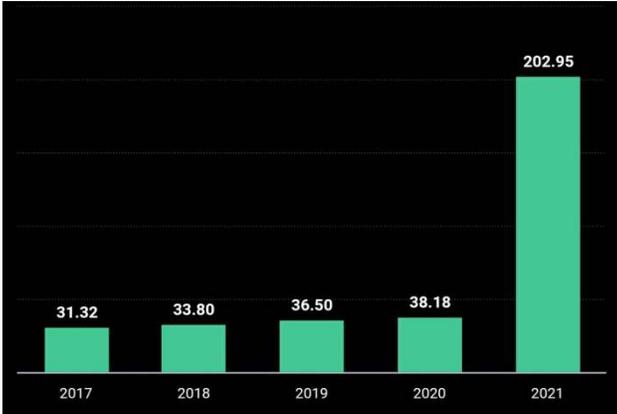
FINANCIAL OVERVIEW



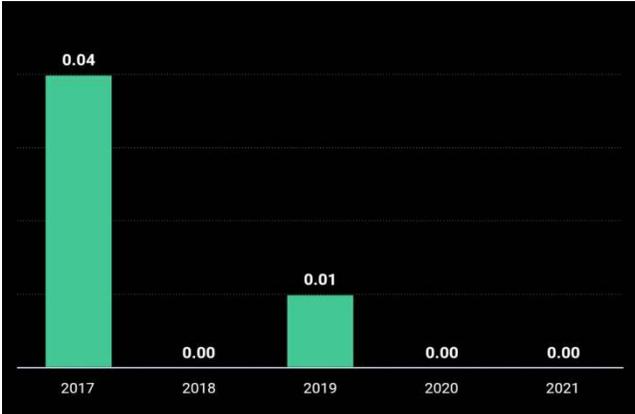
REVENUE



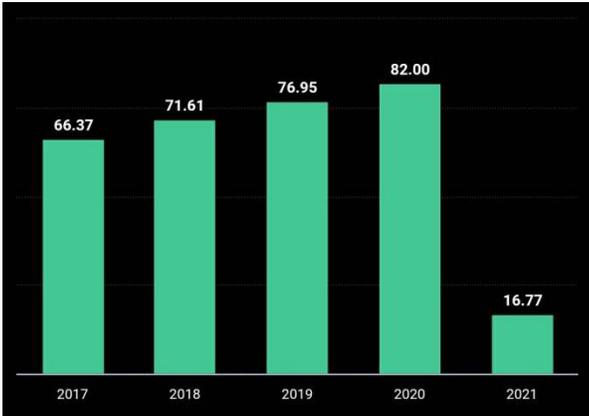
NET REVENUE



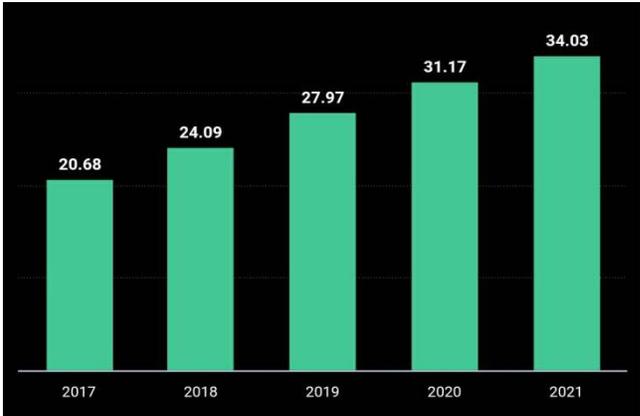
BVPS



DEBT TO EQUITY



ROE



EPS

FINANCIAL ANALYSIS

INCOME STATEMENT

HINDUSTAN UNILEVER LTD					
Narration	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
Sales	47,028.00	39,783.00	39,310.00	35,545.00	33,162.00
Expenses	35,403.00	29,930.00	30,430.00	28,046.00	26,834.00
Operating Profit	11,625.00	9,853.00	8,880.00	7,499.00	6,328.00
Other Income	171.00	432.00	322.00	353.00	606.00
Depreciation	1,074.00	1,002.00	565.00	520.00	432.00
Interest	117.00	118.00	33.00	26.00	35.00
Profit before tax	10,605.00	9,165.00	8,604.00	7,306.00	6,467.00
Tax	2,606.00	2,409.00	2,544.00	2,079.00	1,977.00
Net profit	7,995.00	6,748.00	6,054.00	5,214.00	4,476.00
EPS	34.03	31.17	27.97	24.09	20.68
Price to earning	71.46	73.74	61.03	55.35	44.09
Price	2,431.50	2,298.50	1,706.80	1,333.35	911.75
RATIOS:					
Dividend Payout	119.04%	80.02%	78.49%	82.85%	82.04%
OPM	24.72%	24.77%	22.59%	21.10%	19.08%

The above is the income statement of HUL for the last five years. Let's go through it:

Sales: We can see a consistent rise in sale over the past five years. Sales are climbing in an upward direction; from 2017 to 2020 the profits went from Rs 33,162 cr. to Rs 39,783 in 2020. In 2021, the company saw a significant boost of Rs 7,000 cr. in sales. The sales numbers are strong. On one hand, the pandemic severely affected the companies, but HUL is an exception. It performed exceptionally well during Covid-19.

Operating Profit: The jump in sale has result in an increase in operating profit from Rs 9,853 cr. in 2020 to Rs 11,625 in 2021.

Other income: The other income has also decreased over the years which is a good sign as company is not dependent upon its other sources, rather has a good amount of business cash which can be deployed back into business.

Interest: Increase in interest is a good thing suggesting that the company is planning something new.

PBT: Profit before tax has also reflected the operating profits. The growth can be seen in the past years in a very consistent way.

Net Profit: Net profit has also shown consistent growth in profits over the past 5 years. Overall, the income statement is excellent!

BALANCE SHEET

HINDUSTAN UNILEVER LTD					
Narration	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
Equity Share Capital	235.00	216.00	216.00	216.00	216.00
Reserves	47,439.00	8,013.00	7,651.00	7,065.00	6,528.00
Borrowings	-	-	99.00	-	277.00
Other Liabilities	21,066.00	11,924.00	10,663.00	10,581.00	8,685.00
Total	68,740.00	20,153.00	18,629.00	17,862.00	15,706.00
Net Block	51,443.00	5,479.00	4,715.00	4,528.00	4,419.00
Capital Work in Progress	745.00	597.00	406.00	461.00	229.00
Investments	2,709.00	1,255.00	2,716.00	2,873.00	3,794.00
Other Assets	13,843.00	12,822.00	10,792.00	10,000.00	7,264.00
Total	68,740.00	20,153.00	18,629.00	17,862.00	15,706.00

The above is the Balance Sheet of HUL for the last five years. Let's go through it:

Equity share capital : The share capital has shown a sudden increase in the year 2021, this is to be considered as a good sign, as the company might be planning to go bigger and for that maybe the reason they are retaining their equity holding.

Reserves & Surplus: As we can see that the company has a lot of reserves which indicates that the business of the company is strong, apart from this they have also have low borrowings, which also reduces the interest cost and gives the shareholder more returns.

Liability: Increase in Liability might be a alarming signal for other companies, but for this cash rich company it creates a good opportunities for future.

Assets: There has been a considerable growth in the assets of the company which is a good sign. The Balance Sheet also shows good figures!

CASH FLOW STATEMENT

HINDUSTAN UNILEVER LTD					
Narration	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
Cash from Operating Activity	9,163.00	7,623.00	5,800.00	6,059.00	5,185.00
Cash from Investing Activity	-1,228.00	1,791.00	-438.00	-1,063.00	-1,173.00
Cash from Financing Activity	-9,309.00	-6,819.00	-5,390.00	-4,975.00	-4,214.00
Net Cash Flow	-1,374.00	2,595.00	-28.00	21.00	-202.00

The above is the cash flow statement of HUL for the last five years. Let's go through it:

Cash from operating activity: There has been a consistently great amount of cash inflows from operating activities over past 5 years.

Cash from Investing Activity: The company is investing its money in various investment avenues due to which mostly all 5 years indicate a cash outflow, except for the year 2020.

Cash from Financing Activity: There has been a consistent cash outflow due to the financing activity.

Net Cash Flow: Overall cash flow is negative for all years except 2020, which suggests that there is more outflow than inflow. But as there has been a consistent growth in sales, profit and other growth indicators, cash flow statement here is not much of a concern.

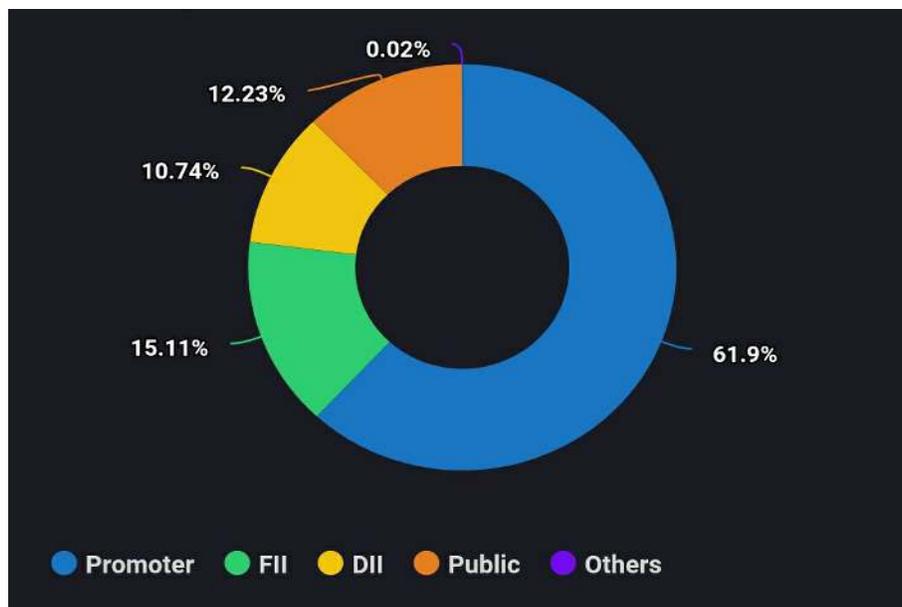
QUARTERLY RESULTS

Quarters								
Report Date	Jun-21	Mar-21	Dec-20	Sep-20	Jun-20	Mar-20	Dec-19	Sep-19
Sales	12,194.00	12,433.00	12,181.00	11,683.00	10,731.00	9,211.00	10,103.00	10,105.00
Expenses	9,273.00	9,391.00	9,218.00	8,758.00	8,036.00	7,119.00	7,574.00	7,597.00
Other Income	39.00	123.00	3.00	10.00	35.00	205.00	5.00	70.00
Depreciation	260.00	266.00	286.00	265.00	257.00	271.00	248.00	254.00
Interest	13.00	11.00	44.00	31.00	31.00	30.00	27.00	34.00
Profit before tax	2,687.00	2,888.00	2,636.00	2,639.00	2,442.00	1,996.00	2,259.00	2,290.00
Tax	587.00	698.00	698.00	665.00	545.00	484.00	628.00	472.00
Net profit	2,097.00	2,186.00	1,937.00	1,974.00	1,898.00	1,515.00	1,627.00	1,814.00
Operating Profit	2,921.00	3,042.00	2,963.00	2,925.00	2,695.00	2,092.00	2,529.00	2,508.00

The above is the quarterly of HUL for the last five years. Let's go through it:

There has been a consistent and steady growth in sales and profit over the past quarters except for this recent June 21 quarter. This quarter, the company has performed less than its past quarters. This may be due to second wave of Covid-19, which affected rural areas more, thereby affecting the raw material supplies to the company.

SHAREHOLDING



The promoters hold majority of its shares, which means they have a good control over decision making. The promoters hold 61.9% of the company's shares, whereas FII, DII, Public and Others hold the shares in the percentages of 15.11, 10.74, 12.33 and 0.22 respectively.

PROS AND CONS

Pros:

- Company is almost debt free.
- Company has a good return on equity (ROE) track record:
3 Years ROE 48.81%
- Company has been maintaining a healthy dividend payout of 92.52%

Cons:

- Stock is trading at 13.69 times its book value
- The company has delivered a poor sales growth of 7.88% over past five years.
- Promoter holding has decreased over last 3 years: -5.29%

IMPACT OF SECOND WAVE

Hindustan Unilever Ltd's (HUL's) June-quarter results (Q1FY22) were discouraging for investors, which is obvious from the more than 2% drop in its shares post-results. HUL shares are less than 4% higher compared to pre-covid highs, and lags behind the Nifty FMCG index, which is 15% higher.

As it turns out, volumes of India's largest fast-moving consumer goods (FMCG) firm were back at pre-covid levels. Analysts now typically look at the two-year average annual

growth number to negate the impact of last year's low base. By this measure, HUL's volumes were flat, as like-for-like growth stood at 9% in Q1FY22 and -8% in the year-ago period.

FUTURE PROSPECTS

After the second wave, HUL is watchful of the situation. But according to company Chairman and Managing Director Sanjiv Mehta, HUL is confident about the medium to long-term growth prospects of the sector. The company is encouraging developments as it said in its annual report for 2020-21, but as the country was witnessing the second wave of Covid-19, the trajectory of the pandemic still remains 'unpredictable' .

Mr. Mehta said that HUL's main focus would be meeting the demand of arising out of consumer needs. While discussing about third wave possibilities, he also said that the company would continue to ensure uninterrupted supplies of Covid relevant portfolio.

As consumer shopping behaviour is changing towards e-commerce, the company is investing in building capabilities for e-commerce and modern trade channels. The company is scaling up the adoption of Shikhar app. This app is a eB2B app to create a digitally wired customer ecosystem. This will help in optimising space and speed up restocking.

With the predictions of third wave, the company's main priority is to ensure the health and well-being of its employees. HUL will continue to focus on caring for the communities in which it operates, and protecting its business model.

With its strong trusted brands of portfolio, industry leading capabilities, resilient workforce and a clear compass strategy, the company is confident to deliver competitive, profitable, and responsible growth.

TECHNICAL CHARTS



Looking at the weekly time frame, we can see a steady uptrend. If we connect the lower shadows we can spot a trendline which indicates a systematic uptrend



On monthly time frame, we can see a steady increase and its trading it's all time high.

CONCLUSION/REPORT CALL

Looking at the company's strong financials, recent rally, and future prospects, I recommend buying the stock and holding it for a period of 3-4 years with a target of 3500-4000. As the stock has rallied and is trading near its all time high, it may fall a little or continue to remain stable. Investors can also buy and hold this stock for long term as the company has potential to generate wealth. Every 9/10 households use HUL products and therefore the company will continue to grow and generate wealth over long term.

REFERENCES

The above charts, financials, and data is taken from the company's website www.hul.co.in, annual report and other websites www.moneycontrol.com and screener.in .

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