

Hindustan Unilever Limited (HUL), the country's leading manufacturer of fast-moving consumer products, marks its 9-decade legacy in India. HUL boasts an extensive distribution network in India, encompassing over 3,500 distributors and registering its presence in more than 9 mn outlets across the country. Hindustan Unilever, which includes 60+ brands across 15+ categories, including personal care and household needs, has a market valuation of ~ \$75bn as of April 2023.

Industry Analysis

The global FMCG market is expected to grow from \$10.7 tn in 2020 to \$13.91 tn by 2025 at a 5.4% CAGR. In comparison, the Indian FMCG market is predicted to grow at a 14.9% CAGR, reaching \$220 bn by 2025, up from \$110 bn in 2020.

Owing to the growing disposable income and consumer brand awareness coupled with a young population, the Indian FMCG sector became the fourth largest sector expanding at a healthy rate over time. Apart from these changing lifestyles and intense e-commerce penetration are some of the other opportunities in the Indian FMCG business.

In India, household and personal care products account for 50% of FMCG sales, making this a significant sector of the country's economy. The sector also accounts for ~5% of the total factory employment in the country.

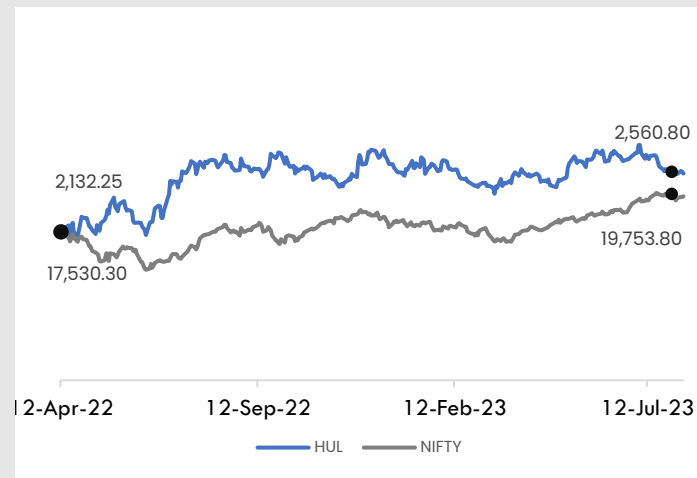
The urban sector in India accounts for 55% of sales, but during the past few years, the rural section has grown faster than the urban segment.

FMCG products are sold in India through a variety of channels, including hypermarkets, supermarkets, convenience stores, and online marketplaces, to name a few.

However, the industry faces several hurdles, including growing ingredient costs, fierce competition, and shifting consumer tastes. The sector is highly competitive, with companies constantly innovating, investing in marketing and advertising, and expanding their product portfolios to meet consumers' evolving needs and preferences. Being a defensive sector, the products are primarily of daily need.

To survive in such a competitive market, HUL tailors its products to the tastes and preferences of local consumers, including clients from various socioeconomic groupings, and provides value to consumers in terms of price and quality.

HUL Vs. NIFTY 50

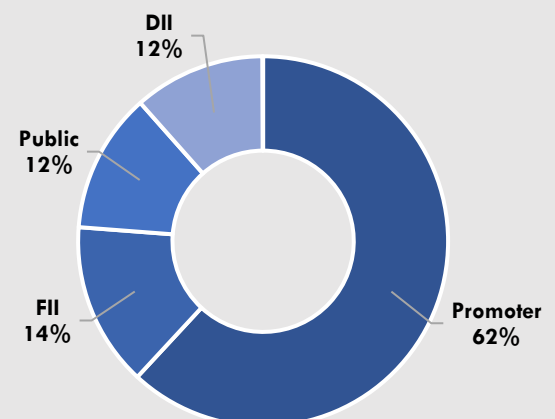


Source: Leveraged Growth

CMP	₹2,500
Stock P/E	59.45
Dividend Yield	1.49%
Market Capitalization	₹5.96 tn
Enterprise Value	₹5.89 tn
EPS	₹43.07
Book Value per share	₹214.09
52 Week High	₹2,741.60
52 Week Low	₹2,038.40

As on 11th August, 2023

Shareholding Pattern



Source: Leveraged Growth

Business Model

HUL mainly has three categories:

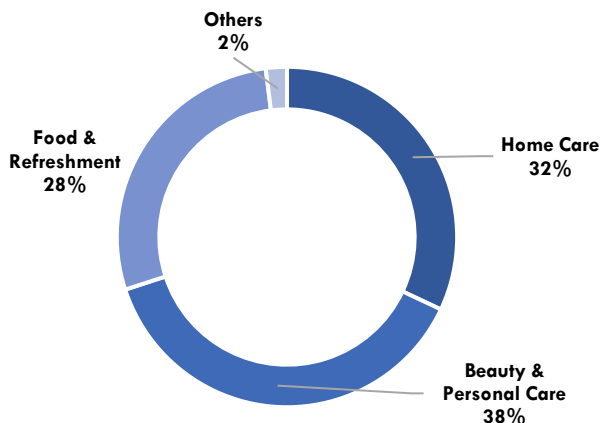
- Home Care
- Beauty and Personal Care
- Food and Refreshment

Hindustan Unilever has established a pervasive presence throughout India, with over 90% of Indian households utilizing at least one HUL brand. It operates mainly on a B2C model. The conglomerate currently has a portfolio of 63 brands across various categories.

The firm has a significant presence with 21,000 employees, 31 manufacturing units, over 1,150 suppliers, and its products being sold in 8 mn outlets in India and 190+ countries. Some of its brands are a major hit globally, like TRESemmé, Dove, and Ponds.

The revenue contribution by division is shown below.

Revenue Distribution



Source: Leveraged Growth

Porter's 5 Forces Analysis

Threat of New Entrants

Entry barriers are low in the FMCG sector. The industry relies significantly on brand recognition, which can be established through effective advertisements and marketing strategies. Additionally, the sector's widespread presence and diverse distribution mechanism further reduce barriers to entry.

Bargaining Power of Suppliers

The bargaining power of suppliers ranges from low to moderate. Companies in the FMCG industry, like HUL, have long-standing relationships with their suppliers, which facilitates pricing negotiations. Also, there are many suppliers, which reduces their ability to negotiate.

Bargaining Power of Buyers

Customers' negotiating power is increased by the abundance of businesses offering comparable items along with the low switching costs.

Competitive Rivalry

The competitive rivalry is high in the FMCG industry. Quality and advertising hold great importance in this sector. Low switching cost for consumers intensifies competition.

Threat of Substitution

The threat is highly dependent on the product type. For instance, handmade organic dentifrice is more difficult to get than Colgate toothpaste at a neighbourhood store. On the other hand, Sunsilk shampoo's replacement product is conveniently accessible.



Key Risks

Brand Preference: Constantly developing new products to meet changing consumer preferences and behaviours while maintaining strong brand communication through effective advertising is crucial to survive.

Legal & Regulatory: A critical component of HUL's business operations is compliance with laws and the instability of regulatory policies, which could negatively affect its expansion and profitability. In 2001, HUL faced litigation related to the disposal of mercury waste from its thermometer factory, which was then settled by compensating the workers and undertaking remedial actions.

Environmental Concern: The use of non-recyclable materials is another concern for the company. They must reduce virgin plastic use, increase recycling, and improve packaging recyclability to address environmental concerns and regulations. However, finding alternative materials can be costly and risky. Non-compliance with regulations may lead to higher costs and reputational damage.

Quality & Safety: The items' quality and safety are of utmost significance for the company's reputation. HUL has faced litigations in the past related to consumer complaints, product quality, safety concerns, and product recalls.

Q1 FY24 Update

HUL demonstrated strong growth across segments:

1. Total sales stood at **₹15,267 cr**, growing by **6%** during the quarter
2. The EPS for the quarter was **₹10.87**
3. EBITDA for the quarter stood at **₹3,665 cr**, growing by **8%**
4. Profit after tax witnessed a growth of **7%** at **₹2,556 cr.** for the quarter
5. The Beauty and Personal Care segment contributed to **36.5%** of the total revenue

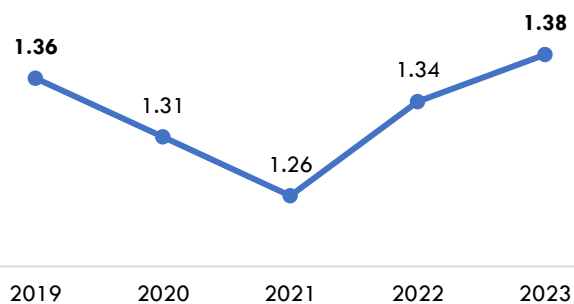
Financial Analysis

FY23 witnessed an increase of **15.5%** in revenue from operations, reaching **₹60,580 cr.** The profit margins Y-o-Y experienced a minor decline in FY23, earning a net profit of **16.6%** compared to **16.9%** last year.

The rise in the cost of materials, continuous demand disruptions in major segments, as well as continuous product innovations from new-age premium brands affected the company's financials.

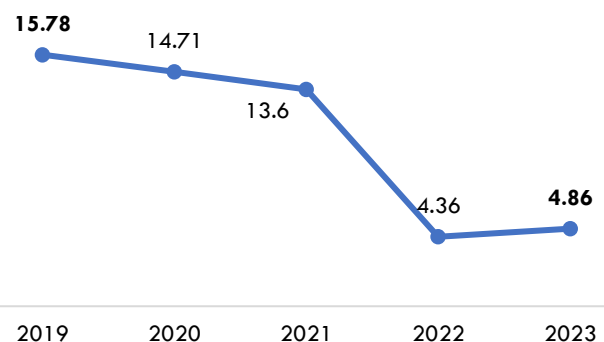
HUL's cost of materials surged by **21%** for the year. As a result, its gross margin was affected. The current ratio and the earnings retention ratio have risen in FY23, which means the company's liquidity scenario has relatively improved.

Current Ratio



Source: Leveraged Growth

Inventory Turnover Ratio(%)



Source: Leveraged Growth

101.9% was the Return on Capital Employed (ROCE) for Hindustan Unilever Ltd. in FY23.

143.9 was HUL's interest coverage ratio for FY23, with a 11.3% Y-o-Y increase. The company can cover the interest payments for its debts easily.

₹42.4 per share is what HUL earned in FY23, representing a Y-o-Y increase of ~ 13% and a 5-year CAGR of 13.6%

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