St. Xavier's College (Autonomous), Kolkata
XAVIER'S FINANCE COMMUNITY

EQUITY
RESEARCH REPORT

CONTENT

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EXECUTIVE SUMMARY

Hindustan Unilever Limited is India's largest Fast Moving Consumer Goods (FMCG) Company with a 90-year heritage in the country.

In 1931, Unilever established its first Indian subsidiary, Hindustan Vanaspati Manufacturing Company, followed by Lever Brothers India Limited (1933) and United Traders Limited (1935). These three companies merged to form HUL in November 1956.

The company has a wide and resilient portfolio of 50+ brands, spanning 16 FMCG which are a part of the everyday life of millions of consumers across India.

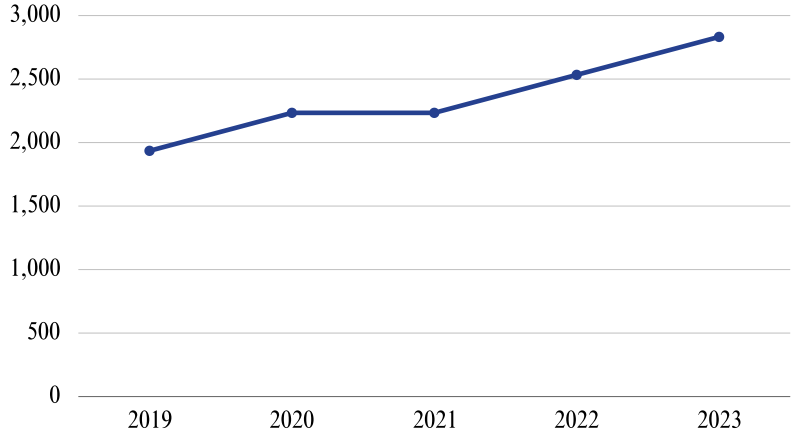
They manufacture over 65 billion units annually, that are made available to our consumers through nine million retail outlets and many digital commerce platforms. Nine out of ten Indian households use one or more of our brands to look good, feel good, and get more out of life.

As part of the global Unilever group, HUL benefits from international resources and expertise, allowing it to adapt and thrive in a rapidly changing market environment. Its emphasis on environmental sustainability and community well-being aligns with contemporary expectations for responsible business practices.

The company aims to Equip 1.5 million youth with essential skills by 2030, Pioneer new employment models and provide access to flexible working practices to their employees by 2030, and Re-skill or upskill their employees with future-ready skills by 2025.

Talking about its achievements, the company received the Best Company award in ESG practices in the Consumer Products sector on all three facets of E, S, & G at the KPMG India ESG Excellence Awards 2023. It was the Overall winner across Asia in the 'Best Supply Chain Solution' category at the Adam Smith Treasury Award.

HUL's executive summary highlights its strong market position, financial resilience, and commitment to positively impacting the Indian consumer goods sector while embracing global integration and innovation.



COMPANY OVERVIEW

History - HUL was founded in 1931 as Lever Brothers India Limited (LBIL) by the Lever Brothers, a British soap manufacturer. On 17th October 1933, the Company was incorporated in India and has traveled the past nine decades alongside the country, working towards creating a better future every day, helping people look good, feel good, and get more out of life. The company's first factory was set up in Sewri, Mumbai, and it initially produced soap and other household products**.**

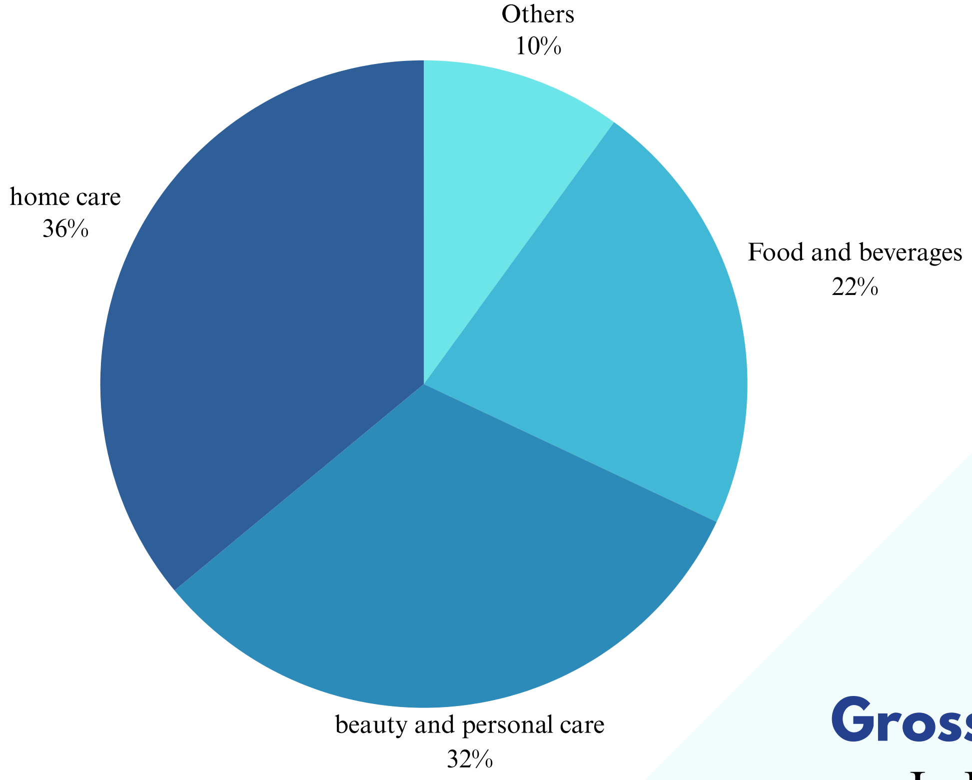
Vision- HUL’s vision is to deliver winning performance by being the leader in sustainable business. The company will demonstrate how its purpose-led, future-fit business model drives superior performance delivering consistent, competitive, profitable, and responsible growth.

Mission- HUL’s mission includes:

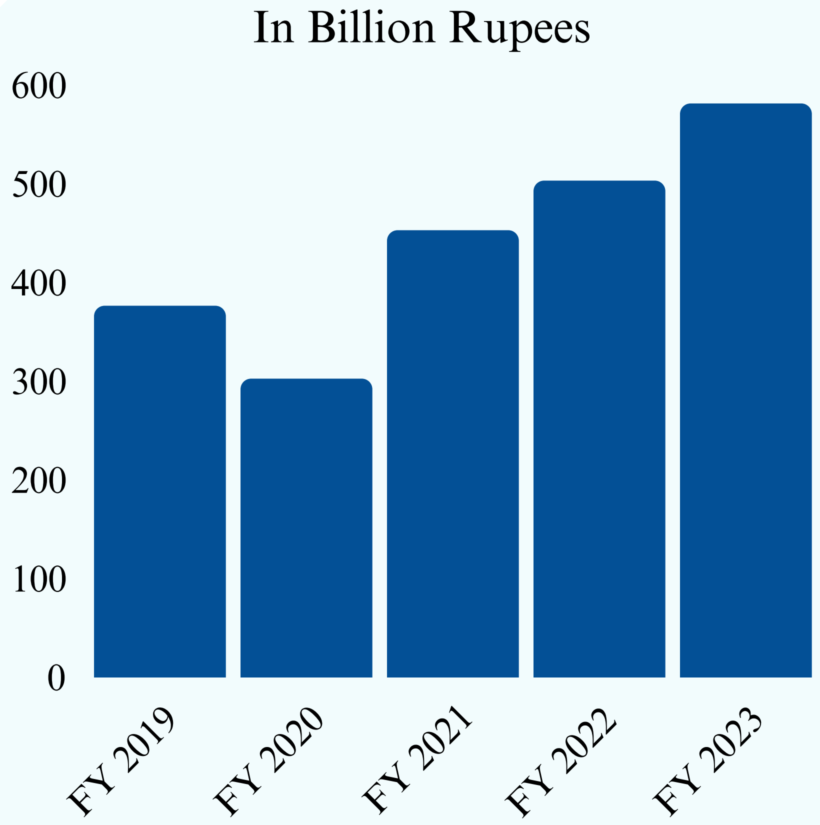
- Improving people's health, confidence, and well-being: HUL's brands play a vital role in improving the lives of millions of Indians by providing products that help people look good, feel good, and get more out of life. The company also invests in programs that promote hygiene, sanitation, and nutrition, and it supports initiatives that empower women and help them achieve their full potential.
- Improving the health of the planet: HUL is committed to reducing its environmental impact and playing its part in protecting the planet for future generations.
- Contributing to a fairer and more inclusive world: The company supports initiatives that promote diversity and inclusion, and it works to address social issues such as gender inequality and poverty. HUL is also a strong advocate for responsible business practices, and it is committed to ensuring that its operations have a positive impact on the communities where it operates.

Business Segment- HUL belongs to the FMCG (Fast Moving Consumer Goods) Industry. The industry encompasses the production, distribution, and sale of everyday consumer products. The FMCG industry is characterized by high-volume sales, quick inventory turnover, and relatively low profit margins.

Revenue Percentage



Gross Sales Value



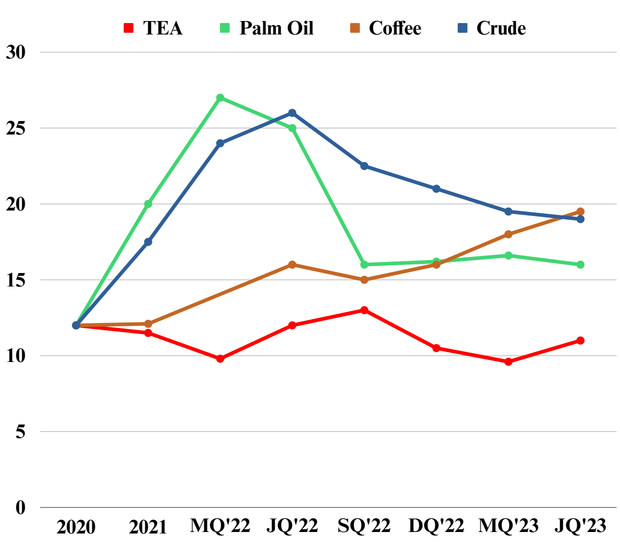
INDUSTRY ANALYSIS

WHY IS FMCG A DEFENCE INDUSTRY:

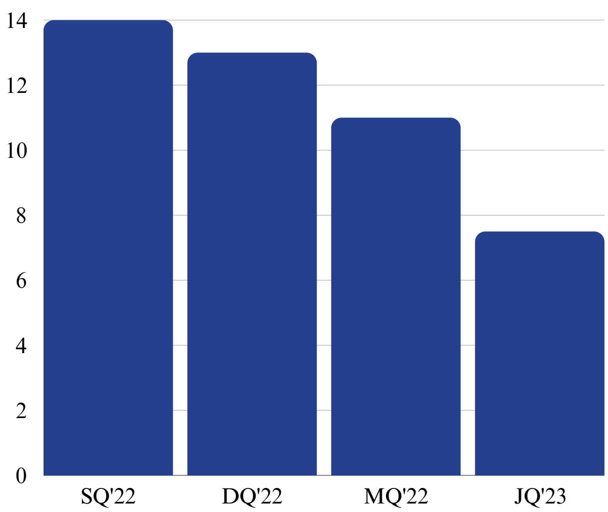
The FMCG sector has remained a relative haven for investors. The reason is apparent - in the FMCG sector, there is no cyclicity involved. FMCG scrips rarely soar, but they do not fall steeply either. (The same is true of pharmaceutical stocks.) The demand for these goods may not be entirely immune to market-moving factors like GDP growth, inflation, or interest rates, but it is not wholly dependent on them either. People will keep buying soap and toothpaste, for instance, or medicines, even if the prices shoot up. Thus FMCG and pharma stocks are termed 'defensive stocks.

In India too, FMCG scrips appeared relatively sluggish when the markets were booming from late 2006 to early 2008. But, all through the financial crisis and even thereafter, FMCG scrips have either performed better than or been neck and neck with, the broader BSE Sensex.

COMMODITIES REMAIN STABLE



MARKET PRICE GROWTH TRAILING OFF



Trade destocking

Consumers consuming high price inventory

ECONOMIC FACTORS OF FMCG: INFLATION

1) The industry has faced a decline in gross margin due to unprecedented inflation and volatility in input costs across commodity baskets.
2) Raw material inflation has been unprecedented across raw material baskets of agricultural commodities, commodities linked to crude, and palm oil.
3) While some commodities have recently experienced a correction, others had already begun to do so earlier this year, which is anticipated to lead to an increase in operating profit for FMCG.

RURAL DEMAND

In the first quarter of FY24, there were signs of improvement in rural demand. However, due to very low rainfall in August (at a 100-year low), rural demand has weakened again. Rural growth, which turned positive in Q1 of 2023, came in at 6.4% in the July- September quarter, as against a 4% growth last quarter and a decline of 3.6% in the same quarter last year. Meanwhile, urban markets maintained a stable rate of consumption growth with the same volume growth of 10.2% as last quarter as well.
There have been persistent efforts made by major players to gain the rural market share by introducing smaller packs of most of the products to overcome the demand-supply gap.

There has also been a tremendous increase in D2C FMCG brands in India, and the number is expected to grow to 200,000 by 2025.
A combination of rising income and stronger aspirations has led to an increase in rural consumption. In rural India, there is a rising desire for branded goods. On the other hand, with the unorganized market's share in the FMCG sector declining, the growth of the organized sector is anticipated to increase with higher levels of brand consciousness, strengthened by the expansion of contemporary retail.

PENETRATION VOLUME AND VALUE GROWTH AND MARKET SIZE:

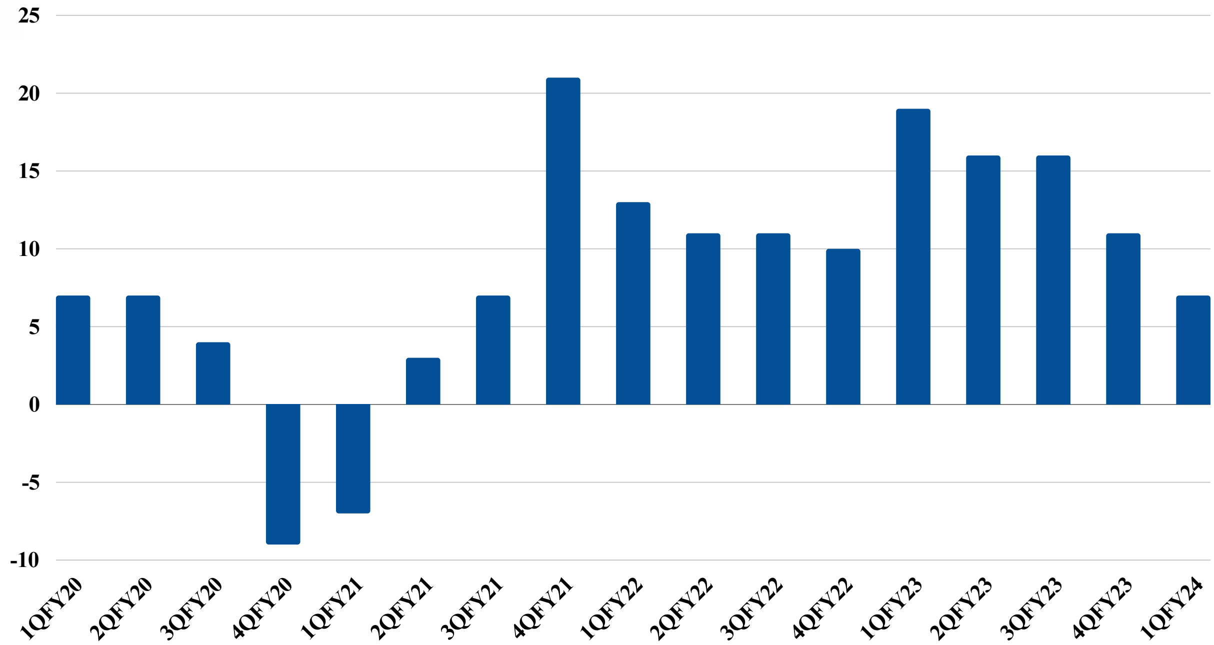
The FMCG market reached US$ 56.8 billion as of December 2022. Total revenue of the FMCG market is expected to grow at a CAGR of 27.9% through 2021-27, reaching nearly US$ 615.87 billion. In 2022, the urban segment contributed 65% whereas rural India contributed more than 35% to the overall annual FMCG sales. Good harvest, government spending expected to aid rural demand recovery in FY24. The sector had grown 8.5% in revenues and 2.5% in volumes last fiscal year. In the January-June period of 2022, the sector witnessed value growth of about 8.4% on account of price hikes due to inflationary pressures.

The market has grown exponentially over the past five years due to the surge in internet and smartphone users, improved policy reforms, and an increase in disposable income. Mobile wallets, Internet banking, and debit/credit cards have become popular among customers for making transactions on e-commerce platforms. As of 2021, there were 1.2 million daily e-commerce transactions. The total value of digital transactions stood at US$ 300 billion in 2021 and is projected to reach US$ 1 trillion by 2026.

Indian food processing market size reached US$ 307.2 trillion in 2022 and is expected to reach US$ 547.3 trillion by 2028, exhibiting a growth rate (CAGR) of 9.5% during 2023-28. The Union government approved a new PLI scheme for the food processing sector, with a budget outlay of Rs. 109 billion (US$ 1.46 billion). Incentives under the scheme will be disbursed for six years to 2026-27.

The India online grocery market size has been projected to grow from US$ 4,540 million in 2022 to US$ 76,761.0 million by 2032, at a CAGR of 32.7% through 2032.

MCG giants such as Johnson & Johnson, Himalaya, Hindustan Unilever, ITC, Lakmé, and other companies (that have dominated the Indian market for decades) are now competing with D2C-focused start-ups such as Mamaearth, The Moms Co., Bey Bee, Azah, Nua and Pee Safe. Market giants such as Revlon and Lotus took ~20 years to reach the Rs. 100 crore (US$ 13.4 million) revenue mark, while new-age D2C brands such as Mamaearth and Sugar took four and eight years, respectively, to achieve that milestone.



INDUSTRY BANALYSIS-VOLUME GROWTH OF THE FMCG COMPANY

TREND OF PREMIUMIZATION:

Premiumization is a business strategy that aims to enhance the perceived value of a brand, product, or service to justify a higher price. Premiumization is a challenging avenue for growth in FMCG given the focus on low prices in the marketing communication of both retailers and manufacturers. However, the companies in FMCG are still making considerable efforts towards sharpening their premiumization play with Indian consumers willing to spend more on value-added propositions. Companies have stepped up on launches of premium products while continuing to straddle popular price points for higher household penetration. Overall, premiumization is starting to become a significant trend in the FMCG industry. Companies that can successfully navigate the challenges of premiumization can reap significant benefits, such as higher margins, increased brand loyalty, and an enhanced brand image. Certain examples of premiumization in the FMCG industry are premium coffee, premium chocolate, premium skincare, etc.

FUTURE GROWTH PROTECTIONS WITH REASONS:

The FMCG industry is expected to grow consistently in the future. Rural consumption has increased, led by a combination of increasing income and higher aspiration levels. There is an increased demand for branded products in rural India. On the other hand, with the share of the unorganized market in the FMCG sector falling, the organized sector growth is expected to rise with an increased level of brand consciousness, augmented by the growth in modern retail. Another major factor propelling the demand for food services in India is the growing youth population, primarily in urban regions. India has a large base of young consumers who form most of the workforce, and due to time constraints, barely get time for cooking. Online portals are expected to play a key role for companies trying to enter the hinterlands.

The Internet has contributed in a big way, facilitating a cheaper and more convenient mode to increase a company's reach. The number of internet users in India is likely to reach 1 billion by 2025. It is estimated that 40% of all FMCG consumption in India will be made online by 2020. E-commerce share of total FMCG sales is expected to increase by 11% by 2030. It is estimated that India will gain US$ 15 billion a year by implementing GST. GST and demonetization are expected to drive demand, both in the rural and urban areas, and economic growth in a structured manner in the long term and improve the performance of companies within the sector.

The factors that might drive this growth are:

Rising disposable incomes: As disposable incomes rise, consumers are willing to spend more on food, personal care products, and other FMCG industry products.
Increasing urbanization: As more people move to cities, they are more likely to purchase FMCG products.
Changing consumer preferences: Consumers are increasingly demanding healthier, more convenient, and more sustainable FMCGs.
Growth of e-commerce: E-commerce is making it easier for consumers to purchase FMCGs, and this trend is expected to continue to grow in the future.

GOVERNMENT SPENDING

• The Union Budget 2023–2024 offers incentives for advances in food infrastructure research & and development, and innovation, which is extremely encouraging for the FMCG sector's modest growth.
• The Union government approved a new PLI scheme for the food processing sector, with a budget outlay of Rs. 109 billion (US$ 1.46 billion). Incentives under the scheme will be disbursed for six years to 2026-27.
• In 2022, the Government announced that the food processing industry has invested Rs. 4,900 crore (US$ 593 million) so far under the PLI scheme, which was approved in.

March 2021, with a budget outlay of Rs. 10,900 crore (US$ 1.3 billion), likely to increase sales and exports of food products.
• An amount of Rs. 1,000 crores (US$ 120.7 million) is being set up initially in NITI Aayog for SETU for setting up incubation centers and enhancing skill development to facilitate the startup ecosystem in the country while improving the ease of doing business.

As per the Union Budget 2022-23:
• Rs. 1,725 crore (US$ 222.19 million) has been allocated to the Department of Consumer Affairs
• Rs. 215,960 crore (US$ 27.82 billion) has been allocated to the Department of Food and Public Distribution.

- In 2021-22, the government approved the Production Linked Incentive Scheme for Food Processing Industry (PLISFPI) with an outlay of Rs. 10,900 crore (US$ 1.4 billion) to help Indian brands of food products in the international markets.
- The Goods and Services Tax (GST) is beneficial for the FMCG industry as many of the FMCG products such as soap, toothpaste, and hair oil now come under the 18% tax bracket against the previous rate of 23-24%. Also, GST on food products and hygiene products has been reduced to 0-5% and 12-18% respectively.

Between April 2000 and March 2022, the sector attracted healthy FDI inflows of US$20.11 billion. The Department of Consumer Affairs has been allocated Rs. 1,725 crores (US$222.19 million), while the Department of Food and Public Distribution has been allocated Rs. 215,960 crores (US$27.82 billion) in the Union Budget 2022- 23. To help Indian food product brands expand in international markets, the government approved the Production Linked Incentive Scheme for the Food Processing Industry (PLISFPI) with an outlay of Rs. 10,900 crore (US$1.4 billion) in FY 2021-22.

BCG MATRIX


BCGMatrix/ Growthsharematrix
HIGH
LOW
HIGH
LOW
MARKETGROWTHRATE
RELATIVE MARKETSHARE
Degree
Surf excel
BRU
Pepsodent
WALL'S
closeup
Knorr
LUX
Pears
Lipton
Taaza
3Roses
TAJ MAHAL
Red Label

The BCG Matrix, also popularly known as the Growth-Share Matrix is a portfolio management framework that helps companies decide how to prioritize their different businesses or product lines. It contains 4 quadrants, each represented by a different symbol, depicting different categories which the product line falls under. The criteria upon which the product lines are categorized are- Market Growth Rate and Relative Market Share.

The first quadrant represents "Question Marks", which are businesses with high growth potential, but a low relative market share. Companies should invest in or discard these "question marks" depending on their chances of becoming stars.

The second quadrant represents "Stars" which have high market growth rates in the future and the company has a good relative market share over that. These should be invested heavily in as they provide the company with good returns.

The third quadrant represents "Cash Cows" which does not have a high market growth potential, but the company does have market leadership in this product line. Cash Cows should be exploited as much and for as long as they can be.

The fourth quadrant represents "Dogs" which are product lines that neither have a good market growth rate nor is the company a market leader in this segment. The companies should divest or liquidate these "Dogs".

BCG MATRIX ANALYSIS OF HUL

ASSUMPTIONS: i)The Terminal Growth in the FMCG industry is assumed to be 6% which is the same as the inflation rate. This means that growth in any product line over this rate can be accredited as a high growth rate and vice-versa.
ii) The Benchmark Relative Market Share has been taken as 1.0 which is the default rate, indicating anything above this value makes the company a market leader and anything below this indicates that the company is not a market leader.

STARS(High Growth, High Share): As per the figures, Deodorant, Detergent, and Coffee are three 'star' product lines of HUL, as they show high growth potential for the future and HUL enjoys a major market share in these product lines. These are the product lines that HUL should market as they are the product lines generating the most amount of revenue and have a promising future ahead.

CASH COWS (Low Growth, High Share): Soap and Soup are two product lines that qualify as 'cash cows' because they do not show the highest amounts of future return guarantee due to minimal growth in the market of these products, but as HUL enjoys majority share in these markets, they can take advantage of this to generate huge amounts of revenue from this category of goods.

QUESTION MARK(High Growth, Low Share): When it comes to Ice cream, HUL has a very iconic brand name attached to this, it being Kwality Walls, but the fact that Amul is still the top brand in this market, which shows promising growth in the future, and HUL has a meager 13% market share, almost 1/3rd of Amul's indicated ice cream being a 'Question mark' category for HUL. Apart from that, Toothpaste is another segment wherein HUL, despite having multiple brands, is lagging and qualifies as a 'Question Mark'.

DOGS (Low Growth, Low Share): The only product line qualifying as 'dogs' will be Tea, since tea shows a slow pace of growth in the future, and HUL does not have a big piece of this sector with it.

After analyzing HUL using the BCG Matrix, it can be concluded that many of HUL's product lines qualify as 'stars', which is a positive sign for the company as it will ensure consistent sales for the company and will help the company sustain itself in the future. The presence of 'Cash Cows' will also enable the company to accumulate hefty amounts of cash to use on the 'Question mark' product lines, or further market the 'Stars'. Finally, the 'Dogs' can be divested to ensure that the resources of the company are used optimally.

FINANCIAL STATEMENT ANALYSIS

CASH FLOW ANALYSIS

Operating Activities

From 2021 to 2023, the company demonstrated robust growth in its operating cash flow, increasing from 9,163 crore in March 2021 to 9,991 crore in March 2023. This substantial upward trajectory reflects the organization's effective generation of cash from its day-to-day operations. Concurrently, profitability witnessed a notable surge, with profit from operations rising from 11,672 crore in March 2021 to 14,089 crore in March 2023, indicating a strong correlation between increased profitability and operating cash flow. However, the period also saw challenges in working capital management, particularly evidenced by significant negative changes in working capital in March 2022 and 2023. These fluctuations highlight difficulties in effectively managing short-term assets and liabilities during this timeframe. Moreover, the company faced an uptick in direct taxes from 2,407 crores in March 2021 to 3,138 crores in March 2023. In conclusion, the positive trends in operating cash flow and profitability underscore the company's resilience, while the challenges in working capital management and strategic tax planning considerations highlight areas for continued focus and refinement in navigating the evolving financial landscape.

Investing Activities

The investing activities from 2021 to 2023 depict a consistent net outflow, culminating in -1,484 crores in March 2023. Notably, the purchase of fixed assets was predominant, peaking at -4,163 crores in 2021, suggesting significant capital expenditures. Investments, both purchased and sold, reflect substantial transactions, with a noteworthy decrease in purchased investments in March 2023. The receipt of interest and dividends remained relatively stable. While there were no substantial investments in or loans to subsidiaries. However, the acquisition of companies in March 2023 led to a significant outflow.

Financial Activities

In the financial activities from 2021 to 2023, the company's cash flow exhibited a dynamic trajectory. The net cash flow from financing activities experienced consistent outflows, culminating at -8,953 crores in March 2023. Pertinently, proceeds from shares were minimal, emphasizing limited equity financing during this period. Notable inflows came from borrowings, particularly in 2021 and 2022, showcasing the company's strategic use of debt for capital infusion. Repayments of borrowings were observed, aligning with responsible debt management. Interest paid on financing activities, while fluctuating, remained relatively manageable. Dividends paid out, however, constituted a substantial outflow, reflective of the company's commitment to shareholder returns. The overall net cash flow, despite fluctuations, stood at -446 crores in March 2023, indicating a nuanced financial stance shaped by strategic decisions in financing activities.

BALANCE SHEET ANALYSIS OF HUL:

INTANGIBLE ASSETS- The intangible assets of HUL have been more or less stable since 2012 but a sudden increase in intangible assets has been observed since 2021. This is due to the acquisition of GSK Consumer Healthcare India and VWash Personal Care. These acquisitions brought with them a significant amount of goodwill that represents the excess cost of an acquisition over the fair value of the acquired assets.

INVENTORIES- HUL's inventory has been gradually increasing over the last 10 years indicating a decline in the inventory turnover ratio. This means that the company is taking longer to sell its inventory. This is a cause for concern, as it suggests that the company may be overstocked. This also indicates that the company is producing more than what is being demanded.

TRADE RECEIVABLES- The trade receivables of HUL have also been showing an upward trend over the past years. One of the reasons for this is an increase in sales. However, this also means that the company has been offering products to the customers on credit easily and this is leading to increased risks and reduced profitability.

TRADE PAYABLES- The trade payables of HUL have also been increasing indicating an increase in purchases of raw materials. It was also seen that the goodwill of the company in the market has seen a significant increase due to which HUL has built trust among its suppliers and hence the company is getting credit on easy terms.

MATERIAL COSTS- Material costs comprise of around 46% of all expenses that HUL has to incur. There have been a lot of fluctuations as to the percentage of expense that material cost comprises, with it increasing gradually for the past few years from 39.19% for FY'20 to 46.8% for FY'23. The reason behind this could be the rise in the prices of raw materials, and it is not a phenomenon exclusive just to HUL as it affects other FMCG companies as well. A rise in the price of raw materials causes a company to increase the price of its products which leads to the company losing its market share, and to mitigate this, HUL may take advantage of cost variation by seamlessly changing product formulations without any difference in the end-use experience through value–engineering which is enabled through its supreme capacity of research and innovation.

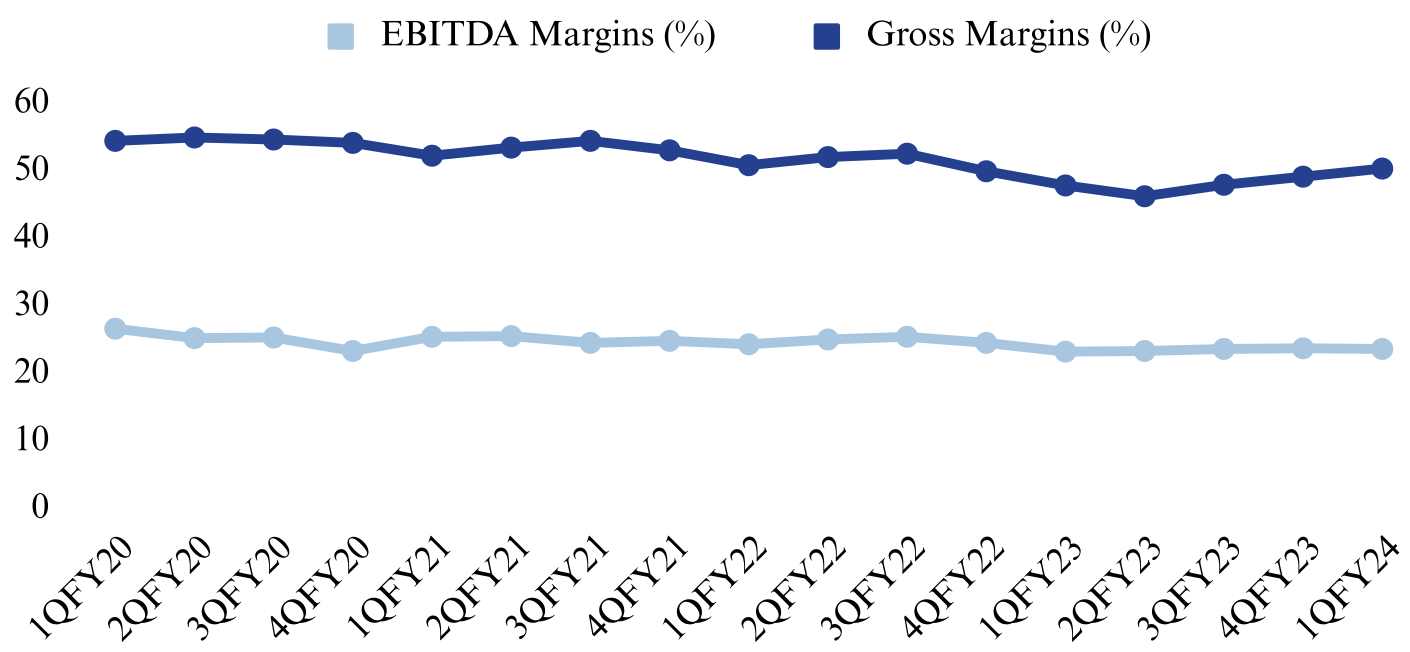
LEASE LIABILITIES- HUL's lease liabilities suddenly increased in 2021. This is due to:
1. Acquisition of Beauty & Personal Care Business of Vini Cosmetics in 2021: This acquisition brought with it additional lease obligations associated with Vini Cosmetics' assets, including manufacturing facilities, warehouses, and retail outlets.
2. Adoption of IFRS 16 Lease Accounting Standard: In 2020, HUL adopted the new IFRS 16 lease accounting standard, which requires companies to recognize lease liabilities and corresponding lease assets on their balance sheets. This resulted in the recognition of previously off-balance sheet lease obligations, contributing to the increase in HUL's lease liabilities.

P/L STATEMENT ANALYSIS OF HUL:

SALES GROWTH- There has been consistent growth in the sales of the company over the past decade, the sales growth in the last fiscal year being 15.51%, moving from 52,446 crores to 60,580 crores. This growth in sales can be attributed to the rise in the volume of goods sold by the company in the Personal Products sector, which was 5% for the past fiscal year, which is higher than the sector growth of 4%. The majority of HUL's business comes from 3 segments- Home Care, Beauty and Personal Care (BPC), and Food and Refreshments. Growth in these segments individually has also incurred the growth of HUL's sales. The CAGR (Compound Annual Growth Rate) for the Home Care segment is 8.5%, and for BPC it is 10% for the upcoming 5 financial years which is a green flag for the company to intensify its operations to increase the sales to an optimal level.

PROFIT BEFORE TAX- The PBT (Profit Before Tax) of HUL has been gradually increasing in the past decade it is moving from 6,467 crores for FY'17 to 7,306 crores for FY'18 and reaching 13,344 crores for FY'23 from 11,879 crores in FY'22. The reason behind this is the gradually increasing revenue of HUL throughout the years.

EBITDA- Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA) is a very important indicator for ascertaining the growth of an FMCG company due to its capital-intensive nature, as the Net Profit may be misleading because depreciation has a major effect on the calculation of Net Profit. The EBITDA of HUL has been consistently increasing over the past few years, wherein, it was 11,324 crores for FY'21, it moved up to 12,503 crores in FY'22, and it continued its uptrend to reach 13,632 crores for FY'23. This uptrend in the EBIDTA is a positive sign, showing that the company has been growing consistently in a sustainable manner.



BALANCE SHEET

Report Date	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Equity Share Capital	216	216	235	235	235
Reserves	7651	8013	47439	48826	50069
Borrowings	99		1009	1043	1219
Other Liabilities	10663	11924	20057	20402	21554
Total	18629	20153	68740	70506	73077
Net Block	4715	5479	51443	51473	52678
Capital Work in Progress	406	597	745	1313	1132
Investments	2716	1255	2709	3521	2882
Other Assets	10792	12822	13843	14199	16385
Total	18629	20153	68740	70506	73077
Receivables	1816	1149	1758	2236	3079
Inventory	2574	2767	3579	4096	4251
Cash & Bank	3757	5113	4471	3846	4678
No. of Equity Shares	2164704405	2164704405	2349567819	2349591262	2349591262
New Bonus Shares					
Face value	1	1	1	1	1

CASH FLOW

Report Date	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Cash from Operating Activity	5800	7623	9163	9048	9991
Cash from Investing Activity	-438	1791	-1228	-1728	-1484
Cash from Financing Activity	-5390	-6819	-9309	-8015	-8953
Net Cash Flow	-28	2595	-1374	-695	-446

PROFIT & LOSS

Report Date	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Sales	39310	39783	47028	52446	60580
Raw Material Cost	15845	15697	20141	22871	28427
Change in inventory	-12	108	405	22	75
Power and Fuel	308	299	339	218	384
Other Mfr. Expenses	3041	2906	2868	3354	3791
Employee Cost	1875	1820	2358	2545	2854
Selling and admin	7796	7620	7898	8164	8785
Other expenses	1553	1696	2203	2359	2266
Other Income	322	432	170	219	447
Depreciation	565	1002	1074	1091	1137
Interest	33	118	117	106	114
Profit before tax	8604	9165	10605	11879	13344
Tax	2544	2409	2606	2987	3201
Net Profit	6054	6748	7995	8879	10120
Dividend Amount	4752	5400	9517.5	7990	9165

RATIO ANALYSIS

Years	Mar-20	Mar-21	Mar-22	Mar-23	Mean	Median
Sales Growth	1.20%	18.21%	11.52%	15.51%	8.59%	9.37%
EBITDA Growth	10.96%	17.99%	10.59%	10.04%	12.94%	10.96%
EBT Growth	5.45%	19.49%	11.74%	10.61%	12.75%	11.74%
Net Profit Growth	10.21%	23.80%	10.78%	11.80%	13.54%	11.80%
Dividend Growth	13.63%	62.39%	-16.05%	14.71%	14.49%	13.63%
Gross Margin	48.18%	46.20%	44.58%	41.60%	44.54%	44.13%
EBITDA Margin	24.77%	24.72%	24.51%	23.35%	21.71%	21.84%
EBIT Margin	22.25%	22.44%	22.43%	21.48%	20.04%	20.39%
EBT Margin	21.95%	22.19%	22.23%	21.29%	19.89%	20.31%
Net Profit Margin	15.90%	16.65%	16.54%	16.01%	14.03%	14.15%
SalesExpenses%Sales	23.42%	21.48%	20.06%	18.24%	22.83%	24.02%
Depreciation%Sales	2.52%	2.28%	2.08%	1.88%	1.67%	1.45%
OperatingIncome%Sales	22.25%	22.44%	22.43%	21.48%	20.04%	20.39%
Return on Capital Employed	107.56%	21.67%	23.48%	25.25%	74.39%	89.91%
Retained Earnings%	14.61%	0.00%	7.88%	5.48%	7.52%	6.79%
Return on Equity%	76.85%	16.42%	17.68%	19.27%	51.24%	62.27%
Self Sustained Growth Rate	11.23%	0.00%	1.39%	1.06%	4.46%	3.16%
Interest Coverage Ratio	75.01x	90.19x	111.00x	114.13x	188.18x	141.29x

Debtor Turnover Ratio	34.62x	26.75x	23.46x	19.68x	26.77x	26.94x
Creditor Turnover Ratio	3.34x	2.34x	2.57x	2.81x	3.22x	3.21x
Inventory Turnover Ratio	14.38x	13.14x	12.80x	14.25x	13.34x	13.10x
Fixed Asset Turnover Ratio	7.26x	0.91x	1.02x	1.15x	6.14x	7.68x
(in days)						
Capital Turnover Ratio	4.83x	0.99x	1.07x	1.20x	3.97x	4.89x
Debtor Days	11	14	16	19	14.1	13.5
Payable Days	176	163	145	123	159.6	163.5
Inventory Days	65	66	65	55	68	65.5
Cash Conversion Cycle	-100	-83	-64	-49	-77.5	-77
Working Capital Days	-31	-29	-20	-13	-32.1	-30

The relevant figures of Mean and Median are calculated using data from the past 10 years.

Total Liabilities	₹ 13,753.9	₹ 14,429.5	₹ 14,793.0	₹ 15,706.0	₹ 17,862.0	₹ 18,629.0	₹ 20,153.0	₹ 68,740.0	₹ 70,506.0	₹ 73,077.0
Fixed Assets Net Block	₹ 2,746.2	₹ 2,821.0	₹ 3,258.0	₹ 4,419.0	₹ 4,528.0	₹ 4,715.0	₹ 5,479.0	₹ 51,443.0	₹ 51,473.0	₹ 52,678.0
Capital Work in Progress	₹ 372.6	₹ 516.3	₹ 408.0	₹ 229.0	₹ 461.0	₹ 406.0	₹ 597.0	₹ 745.0	₹ 1,313.0	₹ 1,132.0
Investments	₹ 2,838.1	₹ 3,025.1	₹ 2,592.0	₹ 3,794.0	₹ 2,873.0	₹ 2,716.0	₹ 1,255.0	₹ 2,709.0	₹ 3,521.0	₹ 2,882.0
Other Assets	₹ 1,324.2	₹ 1,518.6	₹ 1,536.0	₹ 1,810.0	₹ 2,692.0	₹ 2,645.0	₹ 3,793.0	₹ 4,035.0	₹ 4,021.0	₹ 4,377.0
Total Non-Current Assets	₹ 7,281.2	₹ 7,881.0	₹ 7,794.0	₹ 10,252.0	₹ 10,554.0	₹ 10,482.0	₹ 11,124.0	₹ 58,932.0	₹ 60,328.0	₹ 61,069.0
Receivables	₹ 1,016.8	₹ 1,010.3	₹ 1,264.0	₹ 1,085.0	₹ 1,310.0	₹ 1,816.0	₹ 1,149.0	₹ 1,758.0	₹ 2,236.0	₹ 3,079.0
Inventory	₹ 2,939.8	₹ 2,848.8	₹ 2,726.0	₹ 2,541.0	₹ 2,513.0	₹ 2,574.0	₹ 2,767.0	₹ 3,579.0	₹ 4,096.0	₹ 4,251.0
Cash & Bank	₹ 2,516.0	₹ 2,689.5	₹ 3,009.0	₹ 1,828.0	₹ 3,485.0	₹ 3,757.0	₹ 5,113.0	₹ 4,471.0	₹ 3,846.0	₹ 4,678.0
Total Current Assets	₹ 6,472.7	₹ 6,548.6	₹ 6,999.0	₹ 5,454.0	₹ 7,308.0	₹ 8,147.0	₹ 9,029.0	₹ 9,808.0	₹ 10,178.0	₹ 12,008.0
Total Assets	₹ 13,753.9	₹ 14,429.5	₹ 14,793.0	₹ 15,706.0	₹ 17,862.0	₹ 18,629.0	₹ 20,153.0	₹ 68,740.0	₹ 70,506.0	₹ 73,077.0
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
# Cash Flow Statement										
Cash from Operating Activity	₹ 3,818.2	₹ 3,291.9	₹ 4,171.0	₹ 5,185.0	₹ 6,059.0	₹ 5,800.0	₹ 7,623.0	₹ 9,163.0	₹ 9,048.0	₹ 9,991.0
Cash from Investing Activity	(₹ 475.0)	₹ 138.0	(₹ 282.0)	(₹ 1,173.0)	(₹ 1,063.0)	(₹ 438.0)	₹ 1,791.0	(₹ 1,228.0)	(₹ 1,728.0)	(₹ 1,484.0)
Cash from Financing Activity	(₹ 2,960.3)	(₹ 3,462.4)	(₹ 3,864.0)	(₹ 4,214.0)	(₹ 4,975.0)	(₹ 5,390.0)	(₹ 6,819.0)	(₹ 9,309.0)	(₹ 8,015.0)	(₹ 8,953.0)
Net Cash Flow	₹ 382.9	(₹ 32.5)	₹ 25.0	(₹ 202.0)	₹ 21.0	(₹ 28.0)	₹ 2,595.0	(₹ 1,374.0)	(₹ 695.0)	(₹ 446.0)

Ratio Analysis - HINDUSTAN UNILEVER LTD

Years	Mar-20	Mar-21	Mar-22	Mar-23	Mean	Median
Sales Growth	1.20%	18.21%	11.52%	15.51%	8.59%	9.37%
EBITDA Growth	10.96%	17.99%	10.59%	10.04%	12.94%	10.96%
EBT Growth	5.45%	19.49%	11.74%	10.61%	12.75%	11.74%
Net Profit Growth	10.21%	23.80%	10.78%	11.80%	13.54%	11.80%
Dividend Growth	13.63%	62.39%	-16.05%	14.71%	14.49%	13.63%
Gross Margin	48.18%	46.20%	44.58%	41.60%	44.54%	44.13%
EBITDA Margin	24.77%	24.72%	24.51%	23.35%	21.71%	21.84%
EBIT Margin	22.25%	22.44%	22.43%	21.48%	20.04%	20.39%
EBT Margin	21.95%	22.19%	22.23%	21.29%	19.89%	20.31%
Net Profit Margin	15.90%	16.65%	16.54%	16.01%	14.03%	14.15%

SalesExpenses%Sales	23.42%	21.48%	20.06%	18.24%	22.83%	24.02%
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Return on Capital Employed	107.56%	21.67%	23.48%	25.25%	74.39%	89.91%
Retained Earnings%	14.61%	0.00%	7.88%	5.48%	7.52%	6.79%
Return on Equity%	76.85%	16.42%	17.68%	19.27%	51.24%	62.27%
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Cash Conversion Cycle	-100	-83	-64	-49	-77.5	-77
Working Capital Days	-31	-29	-20	-13	-32.1	-30

In FY23, the company recorded a sales growth of 15.51% YoY, while volume growth was subdued at 4.8%.

The company has recorded a decline in its margins since March 21 after witnessing an uptrend till the said period. This slump in the margin can be attributed to COVID-19 and geopolitical uncertainty across the globe that has challenged and continues to challenge the resilience and continuity of the supply chain.

In FY23, while inflation has moderated, commodity prices remain elevated vis-à-vis longer-term averages. Thus, broadly affecting the Gross margins. Steep raw material costs pushed the direct cost to rise, causing the gross margin to fall despite increasing sales growth.

Gross margin contracted to 41.60% and EBITDA margin declined 140bp YoY to 23.35%.

The margin performance was further affected by an increase in A&P spending, employee benefits, and other expenses.

Working capital days deteriorated by 7 days since Mar-22 and stood at negative 13 days. This was due to a decline in creditor days by 22 days and an increase in debtor days by 3 days. This shows that the company has to pay its creditors more quickly as compared to the previous financial year, while the flexibility for the debtor's pay back has gone up.

On the contrary, Inventory days declined to 55 days which points to the fact that the company has become more efficient in terms of utilising its inventory to generate sales.

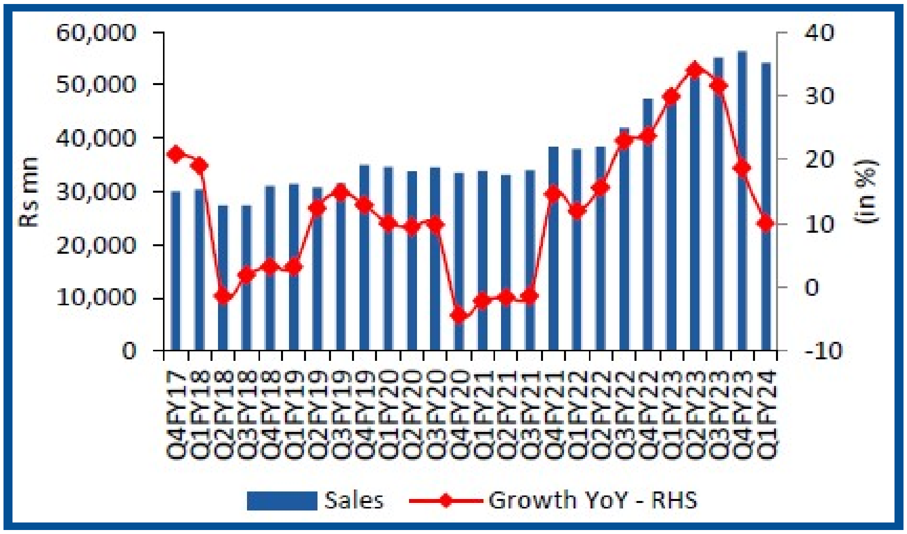
However, an increasing cash conversion cycle is indicative of the fact that the company has to work towards accelerating accounts receivable collection, and effectively managing accounts payable. In Mar-23the cash conversion cycle has gone up to negative 49 days.

COMPETITIVE LANDSCAPE

HOME CARE SALES AND GROWTH TREND

For the first quarter of the year '23 Home Care delivered another quarter of solid performance with 19% revenue growth. Both Fabric Wash and Household Care grew in strong double digits. Premium portfolio continued to outperform driven by effective market development actions.

In the June quarter of 23, Home Care delivered another quarter of strong performance with 10% revenue growth and mid-single digit UVG. Both Fabric Wash and Household Care grew double-digit led by focused market development actions and premiumisation. Comfort In Wardrobe Premium Fragrance Hangers, Vim Shudhham Cleaning Spray, and Gel were launched.

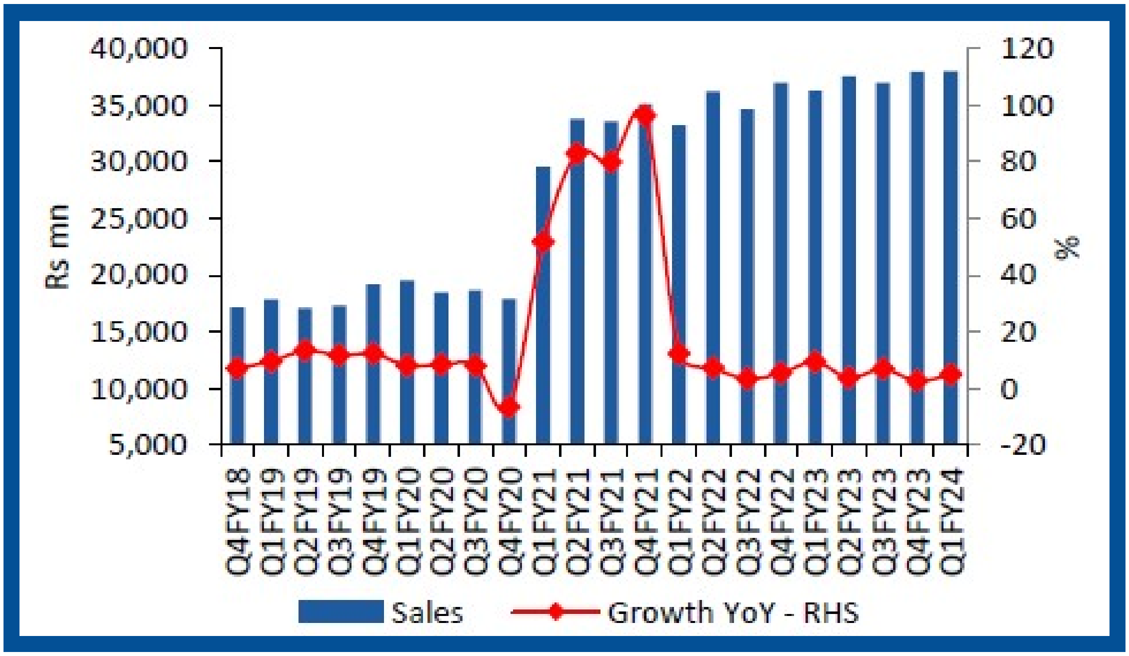


THE FOOD AND REFRESHMENTS SEGMENT

The food and refreshments segment contributes to around 25% of all revenues earned by HUL, which includes all kinds of products ranging from ice cream, tea, and coffee, to other packaged eatables, spreads, etc. The ‘Winning in Many Indias’ strategies, continue to craft unique tea blends to meet the tastes and preferences of the consumer base. There has been a handsome market share and penetration gains in Health Food Drinks of HUL. Major competitors of HUL in this segment are-:

- Amul- Amul, an esteemed dairy cooperative in India, excels in producing a wide array of dairy products, showcasing quality and affordability at its core. With a robust cooperative model, it supports local farmers, ensuring fair practices and sustainability. Competing against Hindustan Unilever Limited (HUL), Amul's specialization in dairy allows it to concentrate on local production and distribution, tailoring its offerings to meet the specific demands of Indian consumers. Emphasizing freshness, purity, and competitive pricing, Amul remains a favored choice among consumers in the dairy segment.

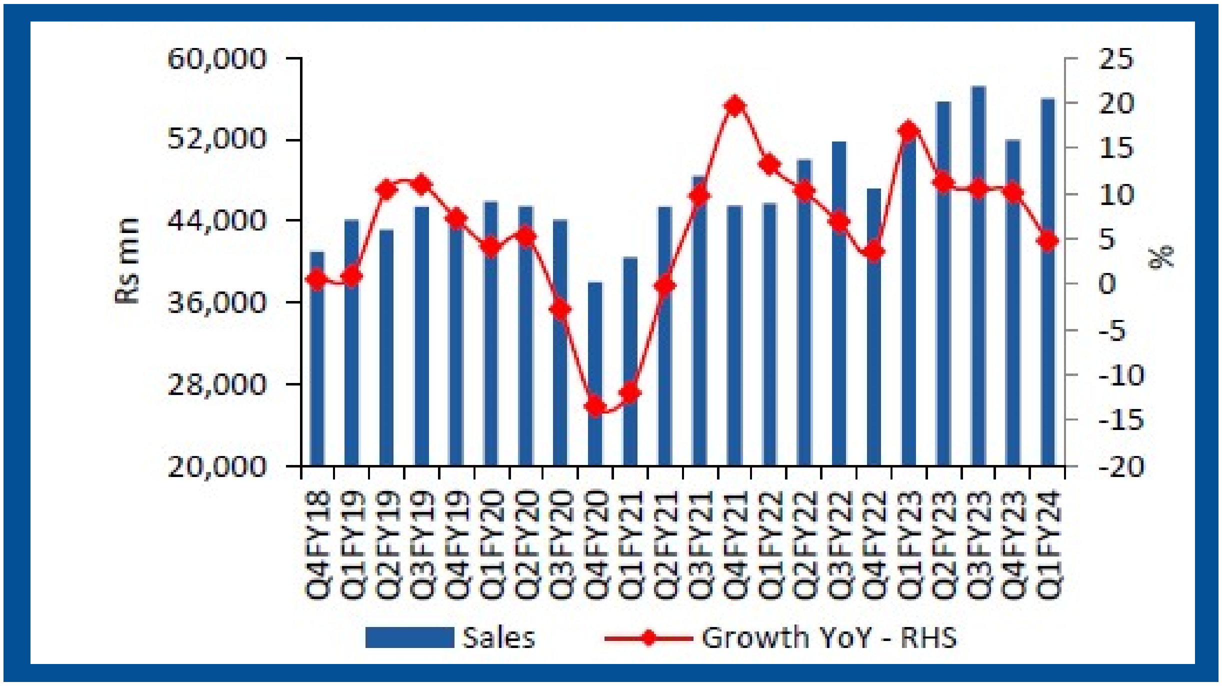
- ITC- ITC Limited, a diversified conglomerate in India, operates across various sectors including FMCG, hotels, agri-business, and more, known for its commitment to quality and innovation. In the food and beverages segment, ITC competes with Hindustan Unilever Limited (HUL) by specializing in packaged foods and beverages, focusing on indigenous flavors, innovative product offerings, and a robust distribution network to carve a niche amidst HUL's expansive portfolio and market presence in similar segments.



BEAUTY AND PERSONAL CARE(BPC)

HUL's business in BPC is organized across seven key categories viz. Skin Cleansing, Hair Care, Skin Care, Color Cosmetics, Oral Care, Deodorants, and Health and Wellbeing. In FY'23, BPC accelerated its growth momentum and grew competitively at 12% led by strong broad-based performance across the categories.
HUL reached its highest-ever market share in hair care and recorded a double-digit growth in the BPC segment. Hul's portfolio consists of many iconic brands including Lifebuoy, LUX, Sunsilk, Clinic Plus, Dove, Lakme, Pond's, and Closeup. Main competitor-

- ITC- ITC, within its portfolio, offers a select range of beauty and personal care products, including skincare essentials and hygiene items, known for their quality and value proposition. Competing in this segment against established players like Hindustan Unilever Limited (HUL) and other market leaders, ITC emphasizes indigenous formulations, natural ingredients, and targeted marketing strategies to carve its niche in the competitive beauty and personal care market. While not as expansive as some competitors, ITC's commitment to innovation and quality within its beauty and personal care offerings reflects its dedication to meeting evolving consumer preferences and needs.



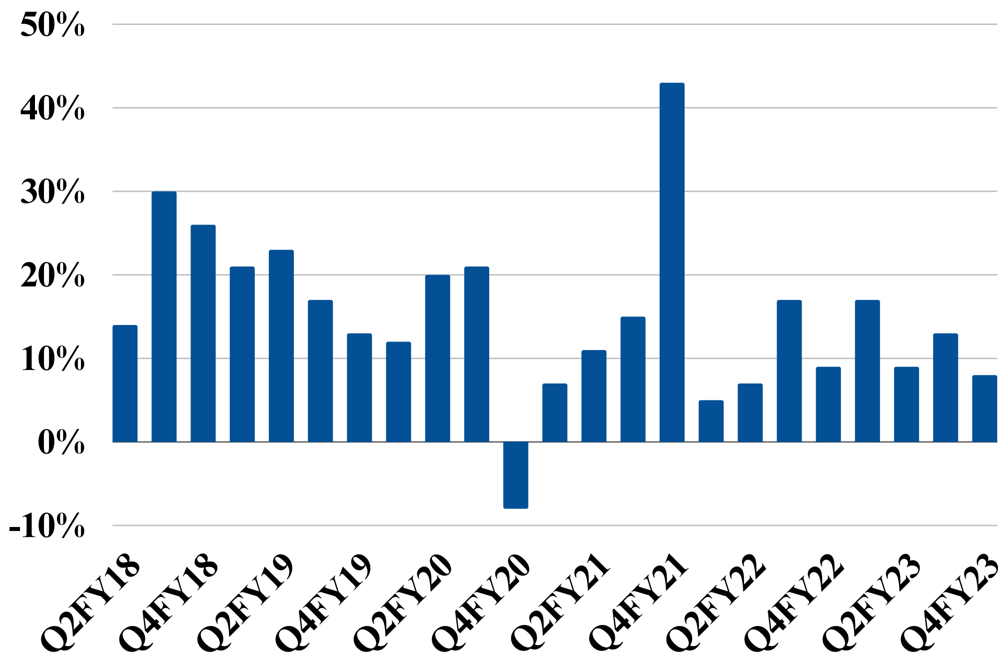
PAT ANALYSIS

The Profit After Taxation (PAT) for Hindustan Unilever Limited (HUL) has demonstrated a consistent upward trend over the period from 2012-13 to 2022-23. Starting at 3,797 crores in 2012-13, the PAT has steadily increased, reaching 9,962 crores in the latest fiscal year. This growth suggests a robust financial performance and sustained profitability for HUL.

Noteworthy fluctuations in PAT are observed in specific years, such as a dip to 4,082 crores in 2015-16, followed by a subsequent recovery and substantial growth in the subsequent years. Overall, the positive trajectory in PAT reflects the company's ability to generate increasing net earnings after taxes, showcasing financial stability and effective management.

The highest PAT recorded in 2022-23 indicates that HUL has not only recovered from any temporary setbacks but has also achieved a new peak in profitability. This upward movement in PAT aligns with the company's overall financial health and success in delivering value to its shareholders.

While its competitor ITC Over the course of the last five fiscal years, ITC has consistently increased its Profit After Tax (PAT), showcasing a robust financial performance. Starting at Rs. 12,464 crores in March 2019, the PAT has witnessed substantial growth, reaching Rs. 18,753.31 crores in March 2023. This marks a noteworthy ascent, demonstrating the company's ability to enhance its net earnings after taxes. The progression from Rs. 13,031.68 crores in March 2021 to the current figure underscores a consistent positive trend in ITC's profitability. The financial data reveals that the company has not only sustained but significantly augmented its PAT, reflecting effective strategic management and reinforcing its financial stability.

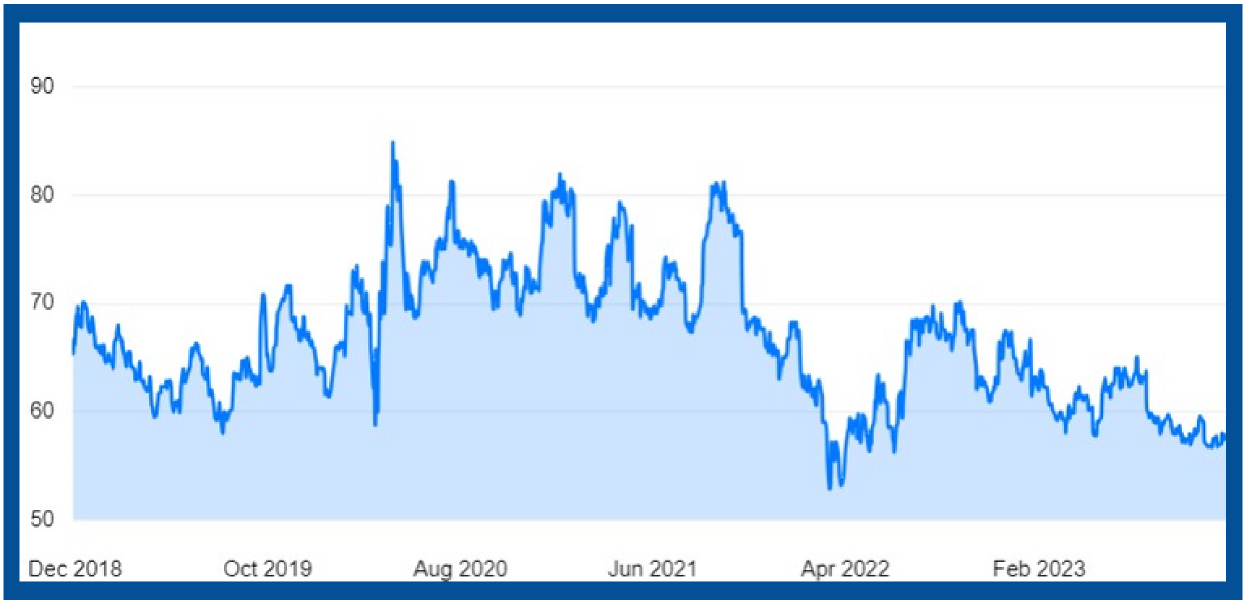


P/E ANALYSIS

Hindustan Unilever Limited's (HUL) P/E ratio trajectory over the past four years reveals intriguing market dynamics. In 2020, the P/E ratio stood at 75.5, indicating a robust market perception of the company's earnings potential. The subsequent year, 2021, witnessed a decline to 63.3, marking a 16.19% decrease and possibly reflecting a temporary adjustment in investor sentiment. In 2022, the P/E ratio further decreased to 61.2, suggesting a continued cautious stance among investors. The latest available data for 2023 shows a P/E ratio of 56.5, indicating a potential undervaluation or a more conservative market outlook. A lower P/E ratio can be perceived as favourable for a company, as it suggests that investors are willing to pay less for each unit of earnings, which could be indicative of better value or expectations of future growth.

ITC's P/E ratio trends over the past three years reveal intriguing dynamics. In 2020, the P/E ratio was 19.4, indicating a reasonable market perception of the company's earnings. The subsequent year, 2021, witnessed a decrease to 17.5, marking a 9.65% decline and suggesting a shift in investor sentiment. In 2022, the P/E ratio increased to 22.5, showcasing a 28.62% growth, possibly indicating renewed confidence in ITC's earnings potential. The latest data for 2023 reflects a P/E ratio of 26.6, reaffirming positive investor sentiment. It's noteworthy that a lower P/E ratio in the earlier years is not necessarily unfavourable, as it might suggest an undervaluation, while the recent increase could indicate growing confidence in the company.

HUL boasts a higher P/E ratio of 56.5 in 2023, suggesting a potentially richer valuation compared to ITC's more conservative P/E ratio of 26.6 in the same period. It's essential to note that the gap in P/E ratios can be influenced not only by differences in earnings but also by variations in share prices between the two companies.



MARKET PENETRATION OF HUL

SEGMENT WISE :

BEAUTY AND PERSONAL CARE:

Their portfolio of iconic and purpose-driven brands straddles the price-benefit pyramid, making their products accessible and aspirational for all consumers across the country. They are bringing alive their philosophy of 'Winning in Many Indias' through superior products and marketing strategies that serve the regional preferences of their consumers. Their brands Lifebuoy and LUX have winning products by region that put consumer centricity at the heart of product design.

During 2021-22, Lifebuoy further strengthened its position as India's No.1 soap brand. Clinic Plus, Dove, and Sunsilk were rated as the top 3 Hair Care brands in the country as per 'Kantar Brand Health Check Report'.

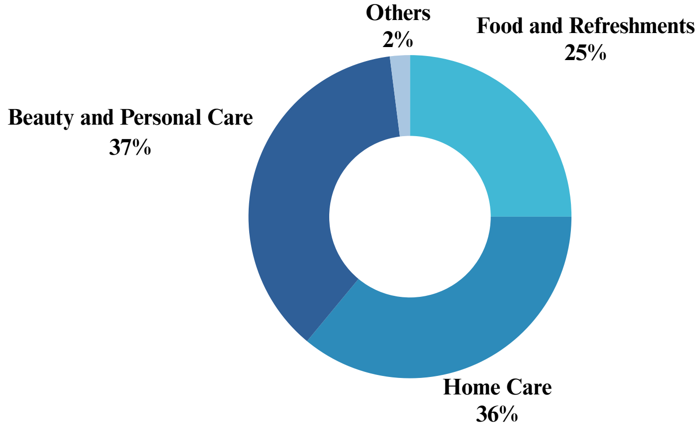
HOME CARE :

They are upgrading their consumers' experience through their premium offerings such as Surf Excel Easy Wash Surf Excel Matic in detergent powders, and Vim liquid for dishwashers. They are also creating new future formats such as Vim Matic for dishwashers and Surf Excel 3 1 Smart Shots for effective and convenient cleaning. Their brands continue to drive salience with consumers by putting purpose at the heart of every action and communication. Sunlight, through its campaign 'Tantir Rong', supports the handloom weavers of Bengal, while Vim's 'Change your outlook, move beyond dishes' campaign attempts to break social stereotypes. They are also leading the industry towards a cleaner future through the power of science and innovation.

FOODS AND REFRESHMENTS:

To make brands that not only taste and feel good but that are a force for good

Their innovations in the Foods portfolio - Hellmann's Mayonnaise and Kissan Peanut Butter are gaining traction with consumers. They have launched the Bru Beaten Coffee, designed to cater to the tastes and preferences of coffee lovers in the North and West of India. In Health Food Drinks, they are building category relevance and driving penetration through market development. Through their media campaigns and extensive sampling programs, they are reaching out to millions of consumers. They have further expanded their product offerings in Horlicks portfolio with the high sciences range such as Diabetes Plus, Mother's Plus, etc.



Unilever's Business-Level Strategy

The business-level strategy helps an organization achieve core competencies and keep its focus on satisfying customer needs and preferences to achieve economies of scale and profit above average. It also dictates the actions that need to be taken to provide value to customers and gain a competitive position in the industry by outperforming its rivals and competitors and also by fully utilizing its core competencies in a particular, individual product or service.

The foundation of any business-level strategy is the customers of an organization. What they need, what services they want, and they can be ultimately satisfied, all these matters are concerned with the upper-level management and thus the importance of business-level strategy is also very crucial for these factors.

The business level strategy of Unilever is a very important determinant of its overall performance and market performance. It takes care of its customers by focusing on demographics, geography, lifestyle choices, tastes and values, personality traits, consumption patterns, and brand loyalty.

Competitive strategy adopted by HUL as per Porter's Generic Competitive Strategies-:

Cost Leadership

Unilever competes for a wide range of customers based on price. Its product Prices are based on internal efficiency to obtain a margin that allows it to sustain its business above average profit or returns and cost to the customers. Based on this cost and return analysis that determine the price, make customers purchase a particular product. This strategy works well when the product or service is standardized, has generic qualities, fulfils customer needs, and offers the lowest price with the best quality. To become a cost leader a business should keep an eye on the price strategy followed by its competitors and its continuous efforts to keep its prices low relative to its competitors.

This can include:

- Lower cost products with best quality Building efficient production facilities
- Maintain tight control over production and overhead costs.
- Minimize the cost of sales, R&D, and service
- Focusing on primary and support activities to reduce costs related to these activities.
- Configuring the value chain

DCF ANALYSIS

To view the DCF Analysis, click here.

ASSUMPTIONS

The Tax Rate is the Effective Tax Rate paid by the company.
The Growth Rate of Free Cash Flows has been taken based on the estimated growth rate of the FMCG sector.
The Terminal Growth Rate is based upon the long-term GDP growth rate of the economy as estimated by the RBI.
We have considered a 5-year forecast period as any period less than that would not be sufficient to base our case upon. Alternatively, a longer period may lead to illogical assumptions and bias in rates.
We have taken a mid-year convention to even out the cash flows accrued in the year as otherwise, it would indicate the cash flows have been accrued at the end of the respective period.

METHODOLOGY

Step-1 Initially we have calculated the Reinvestment as the sum of Net capex and Change in Working Capital for the historical period. Further, the reinvestment rate was calculated upon the EBIT less the Effective tax rate.

Step-2 Following this, we deducted the Reinvestment Rate from the 'EBIT less Effective tax rate', to derive the Free Cash Flows to the company.

Step-3 Then we have calculated the WACC. To determine the Cost of Equity, we have used the Capital Asset Pricing Model. The Cost of Debt was calculated by dividing the interest expense by the total of long-term and short-term debt.

Step-4 The Free Cash Flow obtained in Step-2 was forecasted over the next 5 years using the estimated growth rate of the FMCG sector.

Step-5 We then used the Mid-year Convention to discount the Free Cash Flows to their Present Value by using WACC as calculated in Step-3.

Step-6 Further, we have used Gordon's Growth Model to calculate the Terminal Value which was further discounted to get the Present Value.

Step-7 Now, the sum of the Present Value of Future Cash Flows and the Present Value of the Terminal Value(as obtained in Step-6) gave us the Value of Operating Assets.

Step-8 With the Value of Operating Assets, we add Cash and cash Equivalents and subtract Debt(the sum of long-term and short-term borrowings) to get the Value of Equity.

Step-9 The Value of Equity is divided by the number of shares to determine the Equity Value per share.

MANAGEMENT AND GOVERNANCE

Manangement Profiling- Board of Directors			
Name	Designation	About	Education
Mr Nitin Paranjpe	Non Executive Chairman	Joined Hindustan Lever Limited in 1987. Has climbed the corporate ladder and occupied his current poisiton after serving at various roles. Has been a member of the Unilever Leadership Executive since October 2013.	Mechanical Engineerig, MBA in Marketing
Mr. Sanjiv Mehta	Chief Executive Officer and Managing Director	Joined Unilever in October 1992. He has led several Unilever businesses across South Asia, South East Asia and Middle East. He joined the Board of the Company in October 2013 as the Chief Executive Officer and Managing Director.	Commerce Graduate and a Chartered Accountant. Completed Management Program from Harvard Business School
Mr Rohit Jawa	Whole-time Director and CEO-designate	Started his career with HUL as a management trainee in 1988. He has a proven track record of sustained business results across India, Southeast Asia, and North Asia.	Commerce Graduate and an MBA from the Faculty of Management Studies. An alumnus of IMD Business School, Lausanne. Completed the Advanced Management Program from Harvard Business School in 2022.
Mr. Ritesh Tiwari	Executive Director, Finance & IT and Chief Financial Officer	Joined Unilever as a management trainee in 1999 and held roles across core finance, demand planning and procurement within India and South Asia early in his career.	Completed a Bachelor in Accounting and Finance at Narsee Monjee College of Commerce and Economics.
Mr Dev Bajpai	Executive Director, Legal & Corporate Affairs and Company Secretary	Has been a member of the Management Committee of HUL since May 2010 and was inducted on the Board of Directors of HUL as a Whole Time Director with effect from January 2017.	A law degree from the University of Delhi. Completed an Executive Program for Corporate Counsels at Harvard conducted by Harvard Law School.
Mr O.P. Bhatt	Independent Director	Appointed as an Independent Director on the Board of Hindustan Unilever Limited in December 2011. He is a Member of the Audit Committee, Environmental, Social and Governance Committee and Nomination & Remuneration Committee of the Company. He is the Chairperson of the Stakeholders Relationship Committee and Corporate Social Responsibility Committee of the Company.	Graduate degree in Physics and a Post Graduate degree in English literature.
Dr Sanjiv Mishra	Independent Director	Appointed as an Independent Director on the Board of Hindustan Unilever Limited in April, 2013. He is the Chairperson of the Nomination & Remuneration Committee and a Member of the Audit Committee and Corporate Social Responsibility Committee of the Company.	Ecinomics Graduate, Master's degree in Economics from Delhi School of Economics. Master's degree in Public Administration from Harvard University, USA and a PhD from the Jawaharlal Nehru University..

Name of Director	Leadership experience of running large enterprise	Experience of crafting Business Strategies	Understanding of Customer insights in diverse environments	Finance and Accounting Experience	Experience in overseeing large and complex Supply Chain	Understanding use of Digital/Information technology across supply chain	Experience of large companies and understanding of the changing regulatory landscape
Nitin Paranjape	✓	✓	✓		✓	✓	✓
Sanjiv Mehta	✓	✓	✓	✓	✓	✓	✓
Rohit Jawa	✓	✓	✓	✓	✓	✓	✓
Ritesh Tiwari		✓	✓	✓		✓	
Dev Bapai			✓				✓
O.P Bhatt	✓	✓	✓	✓			✓
Sanjiv Mishra	✓	✓	✓	✓			✓
Kalpana Morparia	✓			✓			✓
Leo Puri	✓	✓	✓	✓		✓	✓
Ashish Gupta		✓	✓			✓	
Ashu Suyash	✓	✓		✓			✓
Ranjat Gulati		✓	✓				

Notes

1. Mr Rohit Jawa was appointed as Whole-Time Director of the Company effective 1st April 2023 till 26th June 2023 and as the Managing Director and Chief Executive Officer of the Company effective 27th June 2023 till 26th June 2028. The appointments were approved by the Shareholders at the 90th Annual general meeting of the
2. Mr Leo Puri was re-appointed as an Independent Director of the Company with effect from 12th October 2023 till 11th October 2028 by the Shareholders vide Postal Ballot dated 7th September 2023.
3. Ms Neelam Dhawan was appointed as an Independent Director of the Company with effect from 1st August 2023 till 31st July 2028. The appointment was approved by the Shareholders vide Postal Ballot dated 7th September 2023.
4. Dr Ashish Gupta, has tendered his resignation as the Independent Director of the Company, with effect from close of business hours on 26th June 2023, citing pre-occupation and other personal commitments. Consequently, he shall also cease to be a Member of the Audit Committee, Risk Management Committee and Environmental, Social and Governance Committee of the Company.
5. Mr Sanjiv Mehta, has tendered his resignation as the Chief Executive Officer & Managing Director of the Company, with effect from close of business hours on 26th June 2023, under retirement from Hindustan Unilever Limited. Consequently, he shall also cease to be a Chairman of the Risk Management Committee and Member of the Stakeholders Relationship, Corporate Social Responsibility and Environmental, Social and Governance Committee(s) of the Company.

Management Qualitative Rating 8/9

Key Aspects of Corp Governance

Political Connections

Unilever companies are prohibited from supporting or contributing to political parties or candidates. Employees can only offer support and contributions to political groups in a personal capacity as per the Code Policy

No political connections of the company as well as executive members of the management committee

Zero promoter pledging

Promoter shareholding is at 61.90% which is by the Minimum Public Shareholding Rule

Corporate Governance Structure

HUL's corporate governance framework is underpinned by core values of Integrity, Responsibility, Respect, and Pioneering.

The company has a multi-tiered governance structure comprising the Board of Directors, Board Committees, the Chief Executive Officer & Managing Director (CEO & MD), and the Management Committee

Board Composition

The Board is responsible for and committed to sound principles of Corporate Governance in the Company. The Board plays a crucial role in overseeing how the management serves the short- and long-term interests of shareholders and other stakeholders.

The Board comprises Directors with the appropriate balance of skills, experience, diversity, independence, and knowledge about the Company that enables it to discharge its duties and responsibilities effectively. It comprises highly experienced persons of repute, and eminence and has a good and diverse mix of Executive and Non-Executive Directors with the majority of the Board members comprising Independent Directors including Independent Women Directors.

The Board composition conforms with the applicable provisions of the Companies Act, 2013 (the Act) and the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) as amended from time to time.

As of the date of the Integrated Annual Report 2023, the Board consisted of twelve Directors comprising one Non-Executive and Non-Independent Director designated as the Chairman, seven Independent Directors including two Women Directors, one Whole-time Director and three Executive Directors including CEO & MD.

The majority of the Board members are in the age group of 50-69 years.

Board Committee

The Board Committees play a crucial role in the Governance Structure of the Company and have been constituted to deal with specific areas/activities as mandated by applicable regulations, which concern the Company and need a closer review. The Board Committees are set up under the formal approval of the Board to carry out clearly defined roles which are considered to be performed by Members of the Board, as part of good governance practices. The Chairperson of the respective Committee informs the Board about the summary of the discussions held in the Committee Meetings.

5/6 committees have seen 100% attendance. The audit committee recorded an attendance of 93.33%

100% Independent Audit Committee and Nomination and Remuneration Committee

>50% of members are Independent directors in the constituent committees

CEO & MD and Management Committee

Audit Committee

- Kalpana Morparia
- O.P.Bhatt
- Sanjiv Mishra
- Ashish Gupta
- Ashu Suyash

Nomination and Renumeration Committee

- Sanjiv Mishra
- O.P.Bhatt
- Kalpana Morparia
- Ashu Suyash

Corporate Social Responsibility Committee

- O.P. Bhatt
- Sanjiv Mishra
- Kalpana Morparia
- Leo Puri
- Sanjiv Mehta
- Ritesh Tiwari

Shareholders Relationship Committee

- O.P Bhatt
- Leo Puri
- Sanjiv Mehta
- Ritesh Tiwari

Risk Management Committee

- Sanjiv Mehta
- Ritesh Tiwari
- Dev Bajpai
- Ashish Gupta
- Ashu Suyash
- Ravishankar A.

Environmental, Social and Governance Committee

- Ashu Suyash
- O.P.Bhatt
- Sanjiv Mehta
- Ashish Gupta

Chairperson Board Member

Key Policies guiding ethical policy
Corporate Governance Code
Whistleblower Policy
Related Party Transaction Policy
Partner Policy
Gender-Neutral POSH Policy
Affirmative Action Policy
Share Dealing Code
Safety and Health Policy
Environment Policy

Targets

Annual Reports
In the annual report, the company sets out its outlook for the succeeding financial year. HUL has met its previous target through expansion in margins and disciplined use of capital.
Concalls
In the concalls, the company answers questions posed by investors. HUL has been consistent with conducting conferences which adds transparency to its operations and helps foster positive investor relationships.
Overall
HUL delivered a resilient performance, crossing the Rs.15,000 crore quarterly turnover mark for the first time. Underlying Sales Growth was 4% with underlying Volume Growth of about 2.5%.
EBITDA margin improved by 130 basis points year-on-year.
The company's financial results for the quarter showed growth in all segments and improved margins.
The company expects volume recovery to remain gradual and will focus on driving competitive volume growth and maintaining healthy EBITDA margins. Despite the headwinds, the company expects to deliver Consistent, Competitive, Profitable and Responsible growth in the future.
Fraudulent Cases
The company has not reported any fraudulent cases in the reported year.

Parameters
Quality and Skills of Governance Independence of Committee Promoter Pledging
Fraudulent Cases Political Connections Key Policies
Targets Remuneration Shareholding Pattern

Management Quality Rating **8/9**

Independent Director Remuneration		*(₹ in lakhs)*
Name	**Sitting Fees**	**Commission**
O. P. Bhatt	7.2	33.53
Dr Sanjiv Mishra	6.3	30.3
Ms Kalpana Morparia	6.3	30.41
Mr Leo Puri	3.6	25.60
Dr Ashish Gupta	4.8	26.58
Ms Ashu Suyash	6.3	29.53
Average	5.75	29.325

Comps Analysis (3comps)			*(₹ in lakhs)*
Name	**Sitting Fees**	**Commission**	**Ratio**
Nestle India Ltd	8.2	17.85	74.33
Varun Beverages Ltd	9.75		147.51
Britannia Industries Ltd	8.68	79.15	91.64
Average	8.88	48.50	104.49

Ratio of Director remuneration to median remuneration of employees			
Name of Director(s)/ KMP	**Designation**	**Ratio**	**% increase**
Sanjiv Mehta	Chief Executive Officer and Managing Director	164.07	
Ritesh Tiwari	Executive Director, Finance & IT and Chief Financia	54.99	
Dev Bajpai	Executive Director, Legal & CorporateAffairs and Co	69.44	
Average		96.17	

The remuneration paid during the year is as per the Remuneration Policy of the Company

The independent director's remuneration is marginally less than the industry average (top 3 peers based on market cap).

The average ratio of director remuneration to the median remuneration of employees is 96.17 as compared to the peer average of 104.49.

The percentage increase in the median remuneration of employees for the Financial Year was 10.73%.

INVESTMENT THESIS

- **Overall and Segment Performance:** HUL's revenue improved 3.6% YoY to Rs. 15,276cr in Q2FY24, owing to underlying volume growth of 2%. Segmental performance stood as follows; Home Care segment (HC) revenue improved 3.3% YoY. The Beauty & Personal Care (BPC) segment grew 4.5% Yō. In the Foods & Refreshment (F&R) segment, revenue rose 2.6% YoY.

- **Low Input costs aid Margins:** Gross profit was up 19.2% YoY. Gross margin expanded 692bps YoY in Q2FY24, owing to a drop in raw material prices. A significant increase in selling and distribution expenses (up 65.2% YoY) and an increase in other expenses (up 18.6% YoY) subdued the increase in EBITDA to 9.4% YoY, with margin expansion by ~130bps YoY in Q2FY24. Despite the increase in finance costs to Rs 72cr in Q2FY24 from Rs 25cr in Q2FY23, net profit increased 3.9% YoY to Rs 2,717cr.

- HUL reported a decent performance in Q2FY24 with both topline and volumes improving. Despite intense competition, recovery in volumes and continued improvement in market share are expected to support performance in the future. Further, a fall in raw material prices will aid in volume growth.

- The resurgence of small, regional players in key categories and price segments has led to intense competition in the FMCG market.

- HUL has gained value market share in 60% of its business and volume market share in 75% of its business. HUL has seen a dip in the value share due to a loss of share in certain mass–end portfolios.

- Overall FMCG market (categories relevant to HUVR) saw a similar operating environment to the previous quarter. Market volumes grew in high-single digits YoY on a low base, while they grew by 1.0% on a 2-year CAGR basis. Growth was led by urban, modern trade and large packs while rural growth remained impacted. The 2-year volume CAGR in the urban market was at 3.0% while rural markets saw a decline of 1.0%. On a YoY basis, rural volumes grew by 7.0% YoY on a low base.

- The FMCG market has seen a cumulative price growth of 25% in the last 3 years. However, the YoY price growth has seen a steady decline in the last 2 quarters.

- Management remains cautiously optimistic in the near term due to the upcoming festive season and reducing inflation while being watchful of higher competitive intensity, global commodity prices, and the impact of an uneven monsoon on crop output.

- Based on the Discounted Cash Flow Analysis, the estimated equity value per share of Hindustan Unilever Ltd is Rs 625.82. Compared to the current market price is Rs2529, the stock is overvalued by 75.25%. This exposes the investors to a greater risk of correction and makes investments more vulnerable to market fluctuations.

RISK AND CHALLENGES

- **Brand Preference-** Consumer preferences and behaviours are evolving at an unprecedented pace, and the heightened competition from new market entrants is likely to accelerate this transformation. There is a noticeable surge in consumer-friendly brands that not only fulfil their practical requirements but also demonstrate a clear commitment to social and environmental causes. HUL's capacity to develop innovative products that consistently cater to consumer demands and effectively convey their message through content and medium is vital for sustaining the robustness of our brands.

- **Legal and Regulatory-** The expansion or modifications in regulations concerning the imposition of direct/indirect taxes, corporate governance, adherence to food standards, labour laws, consumer communications and advertising, imports, and other related areas, could potentially result in unfavourable effects on both growth and profitability. This may also heighten HUL's susceptibility to civil and/or criminal actions, potentially leading to penalties, fines, and legal repercussions against either the organization or its employees, which could, in turn, impact its corporate reputation. Alterations in laws and regulations have the potential to significantly influence the costs of our business.

- **Supply Chain Disruptions-** The supply chain network faces the possibility of encountering unfavourable events, such as physical interruptions, environmental and industrial mishaps, labour disputes, trade constraints, or disruptions at a crucial supplier. These occurrences have the potential to disrupt our capacity to fulfil customer orders. Additionally, the pricing of products is substantially influenced by the expenses associated with the essential commodities and materials used in their production. Variations in these costs could have a detrimental impact on the business, particularly if we do not adeptly handle such fluctuations.

- **Plastic Packaging-** The changing consumer and customer attitudes towards the environmental consequences of plastic waste, along with emerging government regulations aiming to impose taxes or bans on specific plastics, necessitate HUL to seek solutions for reducing their plastic usage. The challenge not only lies in finding suitable alternative materials, given their high demand but also in the potential for a substantial rise in the cost of recycled plastic or other alternative packaging materials shortly, which could hurt the profitability. Moreover, the failure to adhere to plastic regulations could expose HUL to increased expenses in the form of taxes or fines, once again affecting both profitability and reputation.

- Business transformation- HUL consistently works on significant changes, including buying and selling, and revamping its organization. These efforts aim to improve the business and strengthen its offerings and capabilities. The company has a broad range of transformation projects. Ineffective execution of these strategic transformations could result in missed benefits and opportunities, negatively impacting the company's value. Continuing to digitize business operations and improve data management is crucial in this process.

RECENT DEVELOPMENTS

- Launch of 5 new Suvidha Centers in Mumbai: These centres provide clean sanitation, drinking water, showers, and laundry facilities to over 3,00,000 people every year.
- Launch of Project Ahilya: This project is focused on creating equal opportunities for women in sales roles.
- Progress on gender parity: HUL is nearing its goal of achieving gender parity by 2025.
- Recognition for sustainability: HUL has been recognized as one of the most sustainable companies in the world.
- Strengthening its Foods and Refreshment Portfolio: HUL has been actively expanding its Foods and Refreshment portfolio to cater to evolving consumer demands. In 2022, the company launched a range of new products, including Knorr Real Veg Soups, Horlicks Protein and Kwality Wall's Velvet Ice Cream.
- Enhancing its Beauty and Personal Care Offerings: HUL has continued to strengthen its position in the Beauty and Personal Care market with innovative product introductions and brand extensions.

Enhancing Digital Transformation: HUL has been actively embracing digital technologies to enhance its business operations and customer engagement. The company has implemented several initiatives, including e-commerce expansion, data analytics, and digital marketing.

Source: hul.co.on

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GLOSSARY

1) PLI Scheme- Production Linked Incentive Scheme (PLI)
As per the PLI scheme, the government encouraged domestic companies and establishments to set up or expand manufacturing units to increase production, to which the government provides incentives for incremental sales

2) CAGR- Compound Annual Growth Rate or CAGR is the annual growth of your investments over a specific period.

3) Premiumization- the action or process of attempting to make a brand or product appeal to consumers by emphasizing its superior quality and exclusivity.

4) IFRS 16- IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value.

5) FMCG- FMCG refers to fast-moving consumer goods, encompassing everyday items with quick turnovers, such as toiletries, food, beverages, and household products, crucial for daily life.

6) ESG- ESG stands for Environmental, Social, and Governance factors, representing criteria used to evaluate a company's sustainability and ethical impact, influencing investment decisions and corporate practices worldwide.

7) Inflation- Rise in the general price level of goods and services in the economy.

8) Terminal Growth- Terminal growth rate refers to the sustainable long-term growth rate of a company.

9) Working Capital- Working capital is the difference between a company's current assets and current liabilities, reflecting its operational liquidity and short-term financial health.

10) Operating Cash Flow- Operating cash flow represents the amount of cash generated or used by a company's core business activities, excluding financing and investing activities.

11) Effective Tax Rate- The effective tax rate refers to the actual percentage of a company's profits paid in taxes, calculated by dividing total tax expense by the company's earnings before taxes.

12) Dividend Payout Ratio- The dividend payout ratio measures the proportion of earnings a company pays out to shareholders as dividends. It's calculated by dividing dividends per share by earnings.

13) P/E Ratio- The Price-to-Earnings (P/E) ratio is a financial metric used to assess a company's valuation by comparing its current share price to its earnings per share (EPS), indicating how much investors are willing to pay per rupee of earnings.

14) Cost leadership strategy- Cost leadership strategy is a business approach where a company aims to become the lowest-cost producer in its industry by efficiently managing costs at every stage of production, allowing it to offer competitive pricing and gain market share.

15) R&D- abbreviates to Research and Development.