Rating Rationale

February 25, 2022 | Mumbai

Hindustan Unilever Limited

Rating Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.1000 Crore**
Long Term Rating	**CRISIL AAA/Stable (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable' rating on the long-term bank facility of Hindustan Unilever Limited (HUL).

Operating performance of HUL is expected to remain healthy supported by strong market position across product segments, market share gains and calibrated price hikes. Operating revenue grew 11.8% year on-year in the first nine months of fiscal 2022 driven by strong growth in home care and modest growth in personal care and food and refreshment segments. Increasing inflationary pressure, rising Covid-19 cases and subdued rural demand are likely to impact volume growth of the industry in the near term. The strong product portfolio, distribution channel and market share gains should support HUL to sustain its industry leading performance in the medium term. Furthermore, operating margin—at 24.71% in the first nine months of the current fiscal—is expected to remain healthy despite inflation in raw material costs due to price hikes, and cost saving programme.

HUL is the largest fast moving consumer goods (FMCG) company in India with strong brands across categories and price points. The brands have high visibility and have sustained their market leadership in more than 80% of its business, backed by an extensive distribution network and strong advertising and marketing support.

CRISIL Ratings believes HUL will sustain its healthy business and financial risk profiles because of its focused effort on brand strengthening, increased advertising, product innovation, distribution expansion and focus on building premium offerings. The business risk profile is also backed by strong distribution network, healthy product mix with over 50 brands and strong supply chain efficiencies.

The rating continues to reflect the company's market leadership across segments in the FMCG industry, strong brands, robust financial risk profile, and high operating efficiency. These strengths are partially offset by the intensifying competition in the FMCG industry.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of HUL and its subsidiaries.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Leading market position across categories in the FMCG industry**: HUL is the largest FMCG company in India with market leadership across product segments. The company has 14 brands with over Rs 1,000 crore in annual sales. In terms of market share, its brands hold the top two spots in most categories it has presence in. The product portfolio includes home care (31% revenue contribution in fiscal 2021), beauty and personal care products (40%) and foods and refreshments (29%). The brands of HUL have high visibility and have sustained their leadership over decades, backed by an extensive distribution network and strong advertising and marketing support. HUL has been leveraging its distribution strengths to adapt its channel strategy for its products and market segments.

  The synergies from GlaxoSmithKline Consumer Healthcare Ltd (GSK CH) merger (assets of the Horlicks brand and intellectual property rights of brands such as Boost, Maltova and Viva) will enhance the market position of HUL in the foods and refreshment segment and will increase revenue diversity in the medium term. The company plans to increase the penetration of Boost and Horlicks in rural regions, for which it has launched smaller stock-keeping units.

Strong innovation and premiumisation strategy of HUL along with benefit of integration of nutrition business will drive healthy growth and sustenance of market position in the medium term.

- **Robust financial risk profile:** On a consolidated basis, financial risk profile is supported by strong operating cash accrual of Rs 261 crore in fiscal 2021 and nil gearing as on March 31, 2021. Net cash accrual was lower than the previous fiscal due to higher dividend payout of Rs. 8812 crore in fiscal 2021 as compared to Rs 6266 crore in fiscal 2020. Liquidity is ample with cash and bank balance and investments of Rs 7,178 crore as on March 31, 2021. The company has considerable financial flexibility because of nil debt and largely unutilised bank lines as well as healthy market capital of Rs 5.6 lakh crore as on March 31, 2021. The dividend payout policy is aggressive. In fiscal 2021, the company paid dividend of 110% of its profit after tax (PAT; 93% in fiscal 2020). However, the company has funded capital expenditure (capex) and debt obligation through internal accrual.

- **Healthy operating efficiency**: HUL has high operating efficiency because of its strong distribution network, geographically diversified production facilities and strong linkages with the parent, Unilever Plc (Unilever; rated 'A+/Stable/A-1' by S&P Global Ratings). Owing to a healthy mix of owned factories and outsourced production facilities across the country, HUL saves significantly on freight cost. The supply chain has been strengthened by cost saving and inventory management using artificial intelligence and other digital initiatives. The company has handheld-based selling systems across distributors.

  CRISIL Ratings believes strong pricing power, cost saving programme, significant focus on newer distribution channel, digitalisation strategy along with asset light business model will support sustaining industry leading operating margin and return on capital employed in the medium term.

Weakness:
- **Susceptibility to intense competition:** The FMCG industry in India has organised as well as unorganised players across segments and products. HUL continues to face intense competition with the entry of players, including multinationals, in segments such as soaps and detergents, personal care products and packaged foods.

Liquidity: Superior
Net operating cash accrual was healthy at Rs 261 crore in fiscal 2021 owing to high dividend paid during the fiscal. Net cash annual is expected to remain healthy in the absence of any debt obligation. Bank limit remained unutilised, and the company had liquid funds of Rs 7,178 crore in mutual funds, bank deposits, bonds and debentures as on March 31, 2021.

Outlook: Stable
HUL will maintain its strong financial risk profile and leading position in the domestic FMCG industry. Its cash flow is sufficient to fund the capex.

Rating Sensitivity factors
Downward factors
- Significant erosion in the market share of HUL by 10% in key product segments and decline in the operating margin to below 15%
- Any large, debt-funded capex/acquisition

About the Company
HUL is India's largest FMCG company and has a diverse product portfolio, including soaps and detergents, personal care products and food and beverages. The company has owned factories and many outsourced production facilities across the country.

In the 1990s, HUL opted for growth through acquisitions. In 1998, group company Pond's India Ltd was merged with HUL. The company also acquired the Lakme brand, its factories and 50% stake of Lakme Ltd in Lakme Lever Ltd in 2008. In April 2016, HUL acquired Kerala-based hair oil brand, Indulekha, for Rs 330 crore. Indulekha has a strong presence in Kerala, Tamil Nadu, Karnataka and Maharashtra. HUL has bridged the gap in its product portfolio through a series of acquisitions in the past, such as Aditya Milk (2018), GSKCH (2020), and VWash (2020).

Over the nine months ended December 2021, HUL reported a PAT of Rs 6,585 crore on operating income of Rs 38,679 crore as against Rs 5,809 crore on Rs 34,595 crore, respectively, for the corresponding period of the previous fiscal.

Key Financial Indicators (based on consolidated financials)

As on / for the period ended March 31		2021	2020
Operating income	Rs crore	47028	39783
Reported PAT	Rs crore	7999	6756
PAT margin	%	17.0	16.9
Adjusted debt/adjusted networth	Times	0.00	0.00
Adj. Interest coverage	Times	102.78	89.31

Any other information: Not applicable

Note on complexity levels of the rated instrument:
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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity Level	Rating assigned with outlook
NA	Proposed Fund-Based Bank Limits^	NA	NA	NA	1000	NA	CRISIL AAA/Stable

^HUL is authorised by its board to borrow up to Rs 1,000 crore under a multiple banking arrangement, and this amount is interchangeable with overdraft, export packing credit, pre-shipment credit, letter of credit and bank guarantee

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Unilever India Exports Ltd	Subsidiary	100%
Pond's Exports Ltd	Subsidiary	90%
Lakme Lever Pvt Ltd	Subsidiary	100%
Unilever Nepal Ltd	Subsidiary	80%
Daverashola Estates Pvt Ltd	Subsidiary	100%
Jamnagar Properties Pvt Ltd	Subsidiary	100%
Levers Associated Trust Ltd	Subsidiary	100%
Levindra Trust Ltd	Subsidiary	100%
Hindlever Trust Ltd	Subsidiary	100%
Hindustan Unilever Foundation	Subsidiary	76%
Bhavishya Alliance Child Nutrition Initiatives	Subsidiary	100%
Unilever India Ltd	Subsidiary	100%

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	1000.0	CRISIL AAA/Stable		--		--	04-11-20	CRISIL AAA/Stable	26-08-19	CRISIL AAA/Stable	CRISIL AAA/Stable

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Proposed Fund-Based Bank Limits^	**1000**	**CRISIL AAA/Stable**

^HUL is authorised by its board to borrow up to Rs 1,000 crore under a multiple banking arrangement, and this amount is interchangeable with overdraft, export packing credit, pre-shipment credit, letter of credit and bank guarantee

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Fast Moving Consumer Goods Industry
CRISILs Criteria for Consolidation

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