CRISIL
Ratings

Rating Rationale

April 25, 2023 | Mumbai

Hindustan Unilever Limited

Rating reaffirmed at 'CRISIL AAA / Stable'

Rating Action

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

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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 Ltd (HUL).

The rating continues to reflect the market leadership of HUL across segments in the fast-moving consumer goods (FMCG) industry, and its diversified revenue profile, supported by an extensive distribution network. The financial risk profile remains healthy supported by strong cash accrual, negligible/nil debt and strong liquidity. These strengths are partially offset by intensifying competition and susceptibility to volatility in raw material prices in the FMCG industry.

HUL should sustain its healthy operating performance supported by strong market position across product segments and market share gains supported by performance across the core domestic portfolios. Operating revenue grew 17.2% year-on-year in the first nine months of fiscal 2023, driven by strong growth in the home care and personal care segments, along with modest growth in the food and refreshment segment. The strong product portfolio, distribution channel and market share gains should help HUL sustain its industry leading performance over the medium term. Operating margin, at 23.3% in the first nine months of fiscal 2023, is expected to remain healthy, resulting in healthy net cash accrual (post dividend payout) of Rs 1,500-2,200 crore annually.

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

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of HUL and all its direct and wholly owned subsidiaries, collectively referred to as HUL, as they are all involved in the same business. CRISIL Ratings has also amortised the goodwill and other intangible assets on the acquisitions made in fiscal 2021 over a period of 10 fiscals starting fiscal 2021.

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 16 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 (32% revenue contribution in fiscal 2022), beauty and personal care products (38%), foods and refreshments (28%) and others (2%). The brands have high visibility and have maintained 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 the GlaxoSmithKline Consumer Healthcare Ltd (GSKCH) 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 over the medium term. HUL 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, along with benefit of integration of nutrition business, will drive healthy growth and sustenance of market position over the medium term.

- **Robust financial risk profile**: On a consolidated basis, the financial risk profile is robust, supported by strong operating cash flow, nil gearing, largely unutilised bank lines and strong networth. Liquidity is ample with cash and bank balance and investments of over Rs 7,400 crore as on September 30, 2022. Dividend payout has typically been ~90% of profit in the past three years (except fiscal 2021 when the payout was significantly higher at ~140%). Any substantial payout remains a key monitorable.

- **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 through 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, significant focus on new distribution channel, digitalisation and asset-light business model will help HUL sustain its industry-leading operating margin and return on capital employed over 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: Strong
Liquidity should remain robust, supported by cash surplus of over Rs 7,400 crore as on September 30, 2022, in the form of cash in hand/bank and investments in mutual funds, bank deposits and T-bills, and negligibly utilised bank limits. Net cash accrual (post dividend payout) is expected to be healthy at Rs 1,500-2,200 crore annually.

ESG Profile
CRISIL Ratings believes HUL's ESG profile supports its strong credit risk profile.

The FMCG sector has a moderate environmental and social impact, driven by its raw material sourcing strategies, waste-intensive process, and direct impact on the health and wellbeing of its customers. HUL has continuously focused on mitigating its environmental and social risks.

Key ESG highlights:
- In calendar years 2021 and 2022, HUL arranged for collection and safe disposal of over 100,000 tonnes of plastic waste.
- Till fiscal 2021, HUL with its partners cumulatively created over 1.9 trillion litres of water potential through improved supply and water demand management.
- HUL has achieved 94% reduction in CO2 emissions (kg/tonne of production), 47% reduction in water consumption (in m3/tonne of production), 54% reduction in total waste generated (kg/tonne of production) compared with the 2008 baseline across its manufacturing locations.
- Nearly 7 million people near the company's locations were reached through Project Prabhat initiatives that focus on economic empowerment, environmental sustainability, health and education and nearly 2 lakh people got safe access to safe sanitation facility through HUL's Project Suvidha community centres.
- Company's governance structure is characterized with 55% of its board comprising independent directors and extensive disclosures.

There is growing importance of ESG among investors and lenders. HUL's commitment to ESG principles will play a key role in enhancing stakeholder confidence, given its access to both domestic and foreign capital markets.

Outlook Stable
CRISIL Ratings believes HUL will maintain its leading market position in various product categories and healthy operating efficiencies. The financial risk profile should remain healthy, supported by adequate cash flow and healthy capital structure.

Rating Sensitivity factors
Downwards factors
• Erosion in market share by 10% in key product segments and decline in the operating margin to below 15%
• Large, debt-funded capital expenditure or acquisition weakening the financial risk profile

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 owns factories and has 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, which 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 inthe past, such as Aditya Milk (2018), GSKCH (2020), and VWash (2020). In January 2023, HUL acquired 51% stake of Zywie Ventures (OZiva) and 19.8% stake in Nutrionalab (Wellbeing Nutrition) to enter the health and wellbeing D2C space.

Over the nine months ended December 2022, HUL reported profit after tax of Rs 7,542 crore and operating income of Rs 45,365 crore as against Rs 6,582 crore and Rs 38,679 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		2022	2021
Operating income	Rs crore	52,446	47,028
Reported PAT#	Rs crore	8,892	7,999
Adjusted PAT*	Rs crore	4,436	3,510
PAT margin	%	8.5	7.5
Adjusted debt/adjusted networth	Times	0.00	0.00
Adjusted Interest coverage	Times	123.2	102.3

#As reported by HUL as per the Indian Accounting Standards (Ind AS), as notified under section 133 of the Companies Act 2013
**Adjusted for amortisation of goodwill and other intangible assets for 10 years starting fiscal 2021, arising out of acquisition by HUL undertaken in fiscal 2021*

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

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	Fund-based limits*	NA	NA	NA	642.03	NA	CRISIL AAA/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	357.97	NA	CRISIL AAA/Stable

**HUL is authorised by its board to borrow up to Rs 3,000 crore under a multiple banking arrangement, and the 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 of 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%

**HUL indirectly holds remaining percentage of the equity share capital through a subsidiary (Unilever India Exports Ltd)*

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	1000.0	CRISIL AAA/Stable		--	25-02-22	CRISIL AAA/Stable		--	04-11-20	CRISIL AAA/Stable	CRISIL AAA/Stable

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Fund-Based Facilities*	217	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AAA/Stable
Fund-Based Facilities*	100	Deutsche Bank	CRISIL AAA/Stable
Fund-Based Facilities*	232	Citi Bank	CRISIL AAA/Stable
Fund-Based Facilities*	5	HDFC Bank Limited	CRISIL AAA/Stable
Fund-Based Facilities*	5	State Bank of India	CRISIL AAA/Stable
Fund-Based Facilities*	0.01	ICICI Bank Limited	CRISIL AAA/Stable
Fund-Based Facilities*	0.01	Bank of America N.A.	CRISIL AAA/Stable

Fund-Based Facilities*	**0.01**	**Axis Bank Limited**	**CRISIL AAA/Stable**
Fund-Based Facilities*	**1**	**JP Morgan Chase Bank N.A.**	**CRISIL AAA/Stable**
Fund-Based Facilities*	**82**	**Standard Chartered Bank Limited**	**CRISIL AAA/Stable**
Proposed Fund-Based Bank Limits	**357.97**	**Not Applicable**	**CRISIL AAA/Stable**

This Annexure has been updated on 25-Apr-2023 in line with the lender-wise facility details as on 28-Mar-2023 received from the rated entity.

**HUL is authorised by its board to borrow up to Rs 3,000 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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