

## Rating Rationale

July 05, 2024 | 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)

*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*

*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 facilities 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 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 at modest levels of ~2% on-year in fiscal 2024, driven by growth in the home care and food & refreshment segments. Beauty and personal care segment saw an impact of price cuts undertaken in fiscal 2024, while premium portfolio saw high volume growth, mass segments witnessed subdued volumes. In fiscal 2025, growth to be led by volumes with expected recovery in rural demand while pricing growth will remain modest given easing inflation. Strong product portfolio, distribution channel and market share gains should help HUL sustain its industry leading performance over the medium term. Gross margins improved by over ~400 basis points (bps) in fiscal 2024, on the back of moderating commodity prices and strong demand witnessed for premium category products. Operating margin was 23.7% in fiscal 2024 and is expected to see modest expansion in the mid-long term, resulting in healthy net cash accruals (post dividend payout) of over Rs 2,000 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 arising from the mergers or 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 19 brands with over Rs 1,000 crore in annual sales with three brands moving close to the annual Rs 1,000 crore sales mark. In terms of market share, its brands hold the top two spots in most categories where they have presence. The product portfolio includes home care (35% revenue contribution in fiscal 2024), beauty and personal care products (36%), foods and refreshments (25%) and others (4%). 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. Furthermore, to bring more focus to its portfolio in the beauty and personal care business, the company has transitioned to two separate businesses – beauty & wellbeing and personal care from April 1, 2024.

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 network. Liquidity is ample with cash and bank balance and investments of over Rs 12,150 crore as on March 31, 2024. Dividend payout has typically been over ~90% of profit in the last three years. 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 costs. 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: Superior**

Liquidity should remain robust, supported by a cash surplus of over Rs 12,150 crore as on March 31, 2024, 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 over Rs 2000 crore annually.

**ESG Profile**

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

The FMCG sector has 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:**

- HUL has set a target to achieve net-zero greenhouse gas (GHG) emissions in its operations by 2030 and net-zero GHG emissions for all its products (from sourcing to the point of sale) by 2039. In this context, the company has achieved a 98% reduction in GHG emissions per tonne of production in its operations compared with its 2008 baseline.
- Also, the company achieved a 45% reduction in total energy consumption, 58% reduction in total waste generated, and 47% reduction in total water consumption intensities (calculated on per tonne of production from its factories) in fiscal 2024 compared with its 2008 baseline.
- HUL's share of female employees (at ~29%) was higher than peers and its total attrition rate (~17%) was below peers in fiscal 2024.
- The company has also set a target to achieve 100% sustainable sourcing for its key agricultural inputs. In 2023, ~48% of its key agricultural inputs were sourced sustainably, an increase of ~500 percentage points from 2022.
- Its governance structure is characterised by ~67% of its board comprising of independent directors, ~38% of independent directors being woman directors, board split in position of chairperson and CEO, and extensive financial disclosures.

There is growing importance of ESG among investors and lenders. HUL's commitment to ESG will play a key role in enhancing stakeholder confidence, given the high shareholding by foreign portfolio investors and 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 in the past, such as Aditya Milk (2018), GSKCH (2020), and VWash (2020). In January 2023, HUL acquired 51% stake (on a fully diluted basis) of Zywie Ventures (OZiva) and 19.8% stake (on a fully diluted basis) in Nutritionalab (Wellbeing Nutrition) to enter the health and wellbeing direct to consumer (D2C) space. In January 2024, HUL entered transaction documents to acquire 27.73% stake in Transition Sustainable Energy Services One Pvt Ltd (SPV) incorporated by Brookfield to enhance renewable based power consumption and meet the net zero emissions commitment by 2030.

### **Key financial indicators (based on consolidated financials)^**

As on / for the period ended March 31		2024	2023
Operating income	Rs crore	61,896	60,580
Reported profit after tax (PAT)	Rs crore	10,282	10,143
PAT margin	%	16.6	16.7
Debt/tangible networkth	Times	--	0.02
Adjusted interest coverage*	Times	46.04	128.54

<sup>^</sup>Reported numbers

<sup>\*</sup>CRISIL Ratings adjusted numbers

**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](http://www.crisilratings.com). Users may also call the Customer Service Helpdesk with queries on specific instruments.

### **Annexure - Details of Instrument(s)**

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Fund-Based Facilities <sup>^</sup>	NA	NA	NA	674.52	Simple	CRISIL AAA/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	325.48	Simple	CRISIL AAA/Stable

<sup>^</sup>HUL is authorised by its board to borrow up to Rs 4,500 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	100%	Subsidiary
Lakme Lever Pvt Ltd	100%	Subsidiary
Unilever India Ltd	100%	Subsidiary
Zywie Ventures Pvt Ltd	53.34%	Subsidiary
Unilever Nepal Ltd	80%	Subsidiary
Daverashola Estates Pvt Ltd	100%	Subsidiary
Levindra Trust Ltd	100%	Subsidiary
Hindlever Trust Ltd	100%	Subsidiary
Levers Associated Trust Ltd	100%	Subsidiary
Hindustan Unilever Foundation	100%	Subsidiary

## Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	1000.0	CRISIL AAA/Stable		--	25-04-23	CRISIL AAA/Stable	25-02-22	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 <sup>&amp;</sup>	232	Citi Bank	CRISIL AAA/Stable
Fund-Based Facilities <sup>&amp;</sup>	100	Deutsche Bank	CRISIL AAA/Stable
Fund-Based Facilities <sup>&amp;</sup>	217	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AAA/Stable
Fund-Based Facilities <sup>&amp;</sup>	5	HDFC Bank Limited	CRISIL AAA/Stable
Fund-Based Facilities <sup>&amp;</sup>	5	State Bank of India	CRISIL AAA/Stable
Fund-Based Facilities <sup>&amp;</sup>	0.01	ICICI Bank Limited	CRISIL AAA/Stable
Fund-Based Facilities <sup>&amp;</sup>	0.01	Axis Bank Limited	CRISIL AAA/Stable
Fund-Based Facilities <sup>&amp;</sup>	1	JP Morgan Chase Bank N.A.	CRISIL AAA/Stable
Fund-Based Facilities <sup>&amp;</sup>	114.5	Standard Chartered Bank Limited	CRISIL AAA/Stable
Proposed Fund-Based Bank Limits	325.48	Not Applicable	CRISIL AAA/Stable

& - HUL is authorised by its board to borrow up to Rs 4,500 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
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating Criteria for Fast Moving Consumer Goods Industry</a>
<a href="#">CRISILs Criteria for Consolidation</a>

Media Relations	Analytical Contacts	Customer Service Helpdesk
<b>Aveek Datta</b> Media Relations <b>CRISIL Limited</b> M: +91 99204 93912 B: +91 22 3342 3000 <a href="mailto:AVEEK.DATTA@crisil.com">AVEEK.DATTA@crisil.com</a>	Anuj Sethi Senior Director <b>CRISIL Ratings Limited</b> B: +91 44 6656 3100 <a href="mailto:anuj.sethi@crisil.com">anuj.sethi@crisil.com</a>	Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301  For a copy of Rationales / Rating Reports: <a href="mailto:CRISILratingdesk@crisil.com">CRISILratingdesk@crisil.com</a>
<b>Prakruti Jani</b> Media Relations <b>CRISIL Limited</b> M: +91 98678 68976 B: +91 22 3342 3000 <a href="mailto:PRAKRUTI.JANI@crisil.com">PRAKRUTI.JANI@crisil.com</a>	Aditya Jhaver Director <b>CRISIL Ratings Limited</b> B: +91 22 3342 3000 <a href="mailto:aditya.jhaver@crisil.com">aditya.jhaver@crisil.com</a>	For Analytical queries: <a href="mailto:ratingsinvestordesk@crisil.com">ratingsinvestordesk@crisil.com</a>
<b>Rutuja Gaikwad</b> Media Relations <b>CRISIL Limited</b> B: +91 22 3342 3000 <a href="mailto:Rutuja.Gaikwad@ext-crisil.com">Rutuja.Gaikwad@ext-crisil.com</a>	Anuj Kabra Rating Analyst <b>CRISIL Ratings Limited</b> B: +91 22 3342 3000 <a href="mailto:ANUJ.KABRA@crisil.com">ANUJ.KABRA@crisil.com</a>	

--	--	--	--



**Note for Media:**

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings. However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites and portals.

**About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)**

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit [www.crisilratings.com](http://www.crisilratings.com)

**About CRISIL Limited**

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit [www.crisil.com](http://www.crisil.com)

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

---

**CRISIL PRIVACY NOTICE**

CRISIL respects your privacy. We may use your contact information, such as your name, address and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit [www.crisil.com](http://www.crisil.com).

**DISCLAIMER**

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') that is provided by CRISIL Ratings Limited ('CRISIL Ratings'). To avoid doubt, the term 'report' includes the information, ratings and other content forming part of the report. The report is intended for the jurisdiction of India only. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings providing or intending to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CRISIL Ratings and the user.

We are not aware that any user intends to rely on the report or of the manner in which a user intends to use the report. In preparing our report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the report is not intended to and does not constitute an investment advice. The report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. The report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in



the US).

Ratings from CRISIL Ratings are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL Ratings assumes no obligation to update its opinions following publication in any form or format although CRISIL Ratings may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. CRISIL Ratings or its associates may have other commercial transactions with the entity to which the report pertains.

Neither CRISIL Ratings nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively, 'CRISIL Ratings Parties') guarantee the accuracy, completeness or adequacy of the report, and no CRISIL Ratings Party shall have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. EACH CRISIL RATINGS PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Ratings Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. Public ratings and analysis by CRISIL Ratings, as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any), are made available on its website, [www.crisilratings.com](http://www.crisilratings.com) (free of charge). Reports with more detail and additional information may be available for subscription at a fee - more details about ratings by CRISIL Ratings are available here: [www.crisilratings.com](http://www.crisilratings.com).

CRISIL Ratings and its affiliates do not act as a fiduciary. While CRISIL Ratings has obtained information from sources it believes to be reliable, CRISIL Ratings does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/or relies on in its reports. CRISIL Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL Ratings has in place a ratings code of conduct and policies for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>.

Rating criteria by CRISIL Ratings are generally available without charge to the public on the CRISIL Ratings public website, [www.crisilratings.com](http://www.crisilratings.com). For latest rating information on any instrument of any company rated by CRISIL Ratings, you may contact the CRISIL Ratings desk at [crisilratingdesk@crisil.com](mailto:crisilratingdesk@crisil.com), or at (0091) 1800 267 1301.

This report should not be reproduced or redistributed to any other person or in any form without prior written consent from CRISIL Ratings.

All rights reserved @ CRISIL Ratings Limited. CRISIL Ratings is a wholly owned subsidiary of CRISIL Limited.

CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: <https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html>