

January 19, 2023

Q3FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	2,800		2,798	
Sales (Rs. m)	6,66,104	7,33,414	6,66,937	7,34,333
% Chng.	(0.1)	(0.1)		
EBITDA (Rs. m)	1,70,717	1,86,620	1,72,980	1,91,559
% Chng.	(1.3)	(2.6)		
EPS (Rs.)	53.3	58.7	53.8	60.2
% Chng.	(1.0)	(2.5)		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	520	596	666	733
EBITDA (Rs. bn)	134	138	171	187
Margin (%)	25.7	23.1	25.6	25.4
PAT (Rs. bn)	97	100	125	138
EPS (Rs.)	41.3	42.8	53.3	58.7
Gr. (%)	9.5	3.5	24.7	10.1
DPS (Rs.)	32.0	36.0	42.0	48.0
Yield (%)	1.2	1.4	1.6	1.8
RoE (%)	20.2	20.2	24.1	25.3
RoCE (%)	25.6	25.6	30.7	32.0
EV/Sales (x)	11.8	10.3	9.2	8.3
EV/EBITDA (x)	46.1	44.5	35.7	32.5
PE (x)	64.1	62.0	49.7	45.2
P/BV (x)	12.8	12.3	11.7	11.2

Key Data

HLL.BO | HUVR IN

52-W High / Low	Rs.2,742 / Rs.1,902
Sensex / Nifty	60,858 / 18,108
Market Cap	Rs.6,226bn/ \$ 76,522m
Shares Outstanding	2,350m
3M Avg. Daily Value	Rs.3731.57m

Shareholding Pattern (%)

Promoter's	61.90
Foreign	14.33
Domestic Institution	11.55
Public & Others	12.22
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.5)	3.2	14.7
Relative	(1.0)	(7.1)	13.3

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Royalty increase overshadows steady outlook

Quick Pointers:

- Domestic consumer growth at 16% with 5% volume growth
- Near term growth to be price led; RM stabilising, Gross margins to improve QoQ

We change FY23/24/FY25 EPS by 1.3%/-1.0%/-2.5% factoring 1) staggered 80bps increase in royalty rates beginning Feb23 2) 50bps cut in ad spends and 3) increase in other income. HUL continues to guide for QoQ GM/EBITDAM improvement in 4Q23 with stabilizing inflation, narrowing cost price gap and calibrated price hikes/cuts. 3Q23 saw another quarter of mid-single volumes led by double digit volume growth in Home Care, mid-single digit volume growth in Tea & high-teens volume growth in Foods.

While HUL gained 10ppt margins between 2013 to 2023, however given current margin band of 23-25%, 80bps royalty rate increase over 3 years will curtail margin expansion. In the absence of meaningful margin expansion beyond FY24, sales and PAT growth will move in tandem which will prevent meaningful re-rating of the stock. We estimate 12.9% Sales and 15.7% PAT CAGR over FY22-25 and assign a DCF based target price of Rs2800 (Rs2798 earlier). We expect moderate returns in near term given valuations of 45.2x FY25 EPS. Accumulate on declines.

Volumes up 5%, Revenues up 16.3%: Revenues grew by 16.3% YoY to Rs152.3bn (PLe: Rs150.6bn), volumes grew 5%. Gross margins contracted 463bps YoY to 47.5% (PLe:47.5%). EBITDA grew by 7.9% YoY to Rs35.4bn (PLe: Rs36.1bn). A&P Expenses grew by 0.9% YoY to Rs12bn. Adj PAT grew by 12.6% YoY to Rs25.8bn (PLe: Rs26.4bn). Home Care revenues grew by 31.6% YoY; EBIT grew by 22.8% YoY; while margins contracted by 138bps YoY to 19.2%. Personal Care revenues grew by 10.5% YoY; EBIT declined by 0.3% YoY; while margins contracted by 271bps YoY to 25.1%. Food & Refreshment revenues grew by 6.8% YoY; EBIT grew by 2.3% YoY; while margins contracted by 77bps YoY to 17.9%. Others revenues grew by 13.2% YoY; EBIT grew by 61.6% YoY; while margins expanded by 1212bps YoY to 40.4%.

Concall Takeaways: 1) FMCG market value growth for rural and urban remains in mid-single digits with urban growth ahead of rural 2) Net material inflation softened QoQ with moderation in commodity prices but remains elevated YoY 3) Sequential gross margin improvement in 4Q due to narrowing of price-cost gap 4) Price hikes/cuts taken in Fabric Wash & Household Care/Soap 5) Ad spends to see an increase with RM basket cooling off 6) Royalty rate revised to ~3.45% (+80bps spread over 3 years) for the next 5 years 7) HUL receives access to world class brand, technology and services from parent which helps meet customer needs & bring superior products 8) Rural markets have started to show signs of improvement QoQ 9) Other income was higher due increased treasury yield & dividend from subsidiaries 9) Tax rate for FY23 at 24% 10) Long term focus would remain on driving profitable volume led growth by innovation and premiumisation.

Exhibit 1: 3QFY23 Results (Rs m): Volumes up 5%; Gross margins declined by 463bps YoY, Ad spend decreased 120bps

Y/e March	3QFY23	3QFY22	YoY gr. (%)	2QFY23	9MFY23	9MFY22	YoY gr. (%)
Net Sales	152,280	130,920	16.3	147,510	442,510	377,310	17.3
Gross Profit	72,310	68,230	6.0	67,570	207,460	193,990	6.9
<i>% of NS</i>	<i>47.5</i>	<i>52.1</i>	<i>(4.6)</i>	<i>45.8</i>	<i>46.9</i>	<i>51.4</i>	<i>(4.5)</i>
A&P Exp.	12,000	11,890	0.9	10,410	35,690	34,280	4.1
<i>% of NS</i>	<i>7.9</i>	<i>9.1</i>	<i>(1.2)</i>	<i>7.1</i>	<i>8.1</i>	<i>9.1</i>	<i>(1.0)</i>
EBITDA	35,370	32,790	7.9	33,770	101,610	92,580	9.8
<i>Margins (%)</i>	<i>23.2</i>	<i>25.0</i>	<i>(1.8)</i>	<i>22.9</i>	<i>23.0</i>	<i>24.5</i>	<i>(1.6)</i>
Depreciation	2,600	2,550	2.0	2,480	7,680	7,640	0.5
EBIT	32,770	30,240	8.4	31,290	93,930	84,940	10.6
Interest	260	250	4.0	250	770	620	24.2
Other Income	2,280	910	150.5	1,150	4,800	2,710	77.1
PBT	34,790	30,900	12.6	32,190	97,960	87,030	12.6
Tax	8,980	7,980	12.5	8,400	25,470	22,620	12.6
<i>Tax Rate (%)</i>	<i>25.8</i>	<i>25.8</i>	<i>(0.0)</i>	<i>26.1</i>	<i>26.0</i>	<i>26.0</i>	<i>0.0</i>
Adjusted PAT	25,810	22,920	12.6	23,790	72,490	64,410	12.5
Extraordinary	(450)	(270)		1,840	1,740	1,080	
Reported Profit	25,360	22,650	12.0	25,630	74,230	65,490	13.3

Source: Company, PL

Exhibit 2: 3Q23 performance was driven by 32%/11% sales growth in Home Care & Personal Care segments

Quarterly Segmental	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Net Sales (Rs m)	1,14,420	1,18,620	1,21,320	1,19,150	1,27,240	1,30,920	1,34,620	1,42,720	1,47,510	152,280
Home Care	33,180	34,090	38,400	37,970	38,380	41,930	47,500	49,310	51,430	55,180
Personal Care	45,350	48,410	45,490	45,730	50,000	51,750	47,120	53,640	55,610	57,180
Foods & Refreshment	33,790	33,560	35,110	33,190	36,220	34,660	36,980	36,270	37,550	37,000
Others	2,100	2,560	2,320	2,260	2,640	2,580	3,020	3,500	2,920	2,920
Sales Growth %	16.1	20.9	34.6	12.8	11.2	10.4	11.0	19.8	15.9	16.3
Home Care	(1.6)	(1.4)	14.6	11.9	15.7	23.0	23.7	29.9	34.0	31.6
Personal Care	(0.2)	9.7	19.7	13.2	10.3	6.9	3.6	17.3	11.2	10.5
Foods & Refreshment	82.9	79.9	96.4	12.2	7.2	3.3	5.3	9.3	3.7	6.8
Others	130.8	241.3	222.2	32.2	25.7	0.8	30.2	54.9	10.6	13.2
EBIT (Rs m)	26,200	25,820	27,080	26,030	28,670	30,240	29,840	29,870	31,290	32,770
Home Care	6,780	6,460	8,120	6,620	7,280	8,640	9,390	8,690	8,890	10,610
Personal Care	13,280	14,130	12,520	12,870	13,900	14,410	12,360	14,110	13,960	14,370
Foods & Refreshment	5,590	4,730	5,750	6,000	6,640	6,460	7,130	5,780	7,440	6,610
Others	550	500	690	540	850	730	960	1,290	1,000	1,180
EBIT Growth %	18.8	16.7	49.6	8.4	9.4	17.1	10.2	14.8	9.1	8.4
Home Care	13.9	2.7	27.7	3.9	7.4	33.7	15.6	31.3	22.1	22.8
Personal Care	1.0	12.9	32.5	13.5	4.7	2.0	(1.3)	9.6	0.4	(0.3)
Foods & Refreshment	90.1	41.6	155.6	3.1	18.8	36.6	24.0	(3.7)	12.0	2.3
Others	2,650.0	(2,600.0)	1,625.0	10.2	54.5	46.0	39.1	138.9	17.6	61.6
EBIT Margin %	22.9	21.8	22.3	21.8	22.5	23.1	22.2	20.9	21.2	21.5
Home Care	20.4	18.9	21.1	17.4	19.0	20.6	19.8	17.6	17.3	19.2
Personal Care	29.3	29.2	27.5	28.1	27.8	27.8	26.2	26.3	25.1	25.1
Foods & Refreshment	17.8	164.6	18.1	18.1	18.3	18.6	19.3	15.9	19.8	17.9
Others	26.2	19.5	29.7	23.9	32.2	28.3	31.8	36.9	34.2	40.4

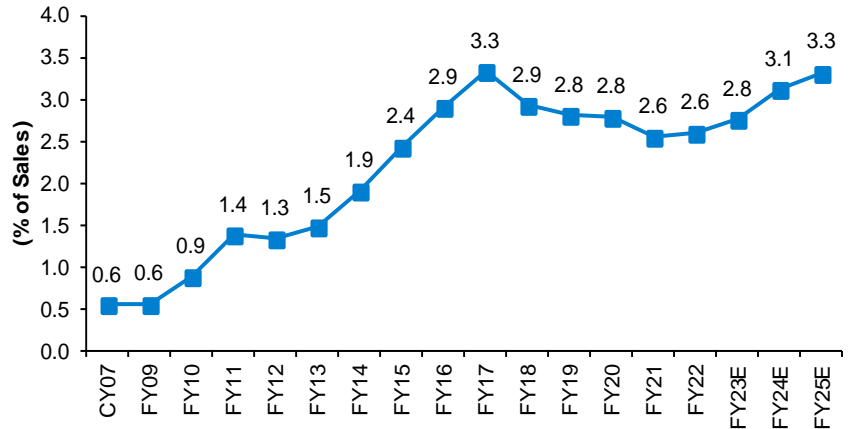
Source: Company, PL

HUL royalty will impact EPS by Rs1.1 and Rs1.7 for FY24/25

HUL's royalty rate still remains lower than Nestle at 5% and Colgate at 5.8% of sales in CY21/FY22

HUL has home grown brands like Rin, Wheel, Vwash, Indulekha, Kissan, Lakme, Taaza, Glow and Lovely, Hamam etc which don't qualify for Royalty by Unilever

Exhibit 3: HUL royalty inching up steadily



Source: Company, PL

Exhibit 4: Rural continues to lag overall FMCG volumes



Source: Company, PL

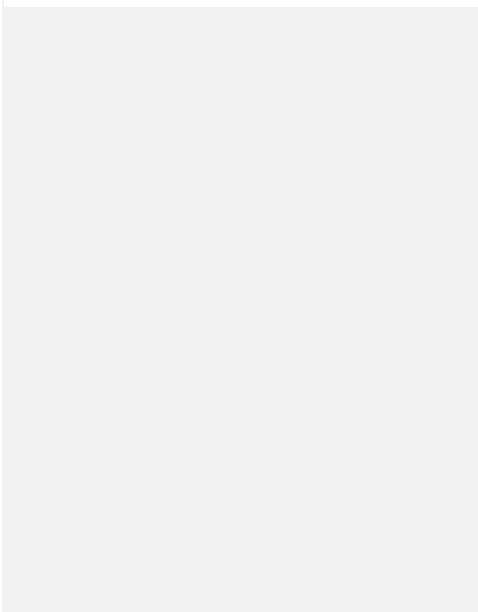
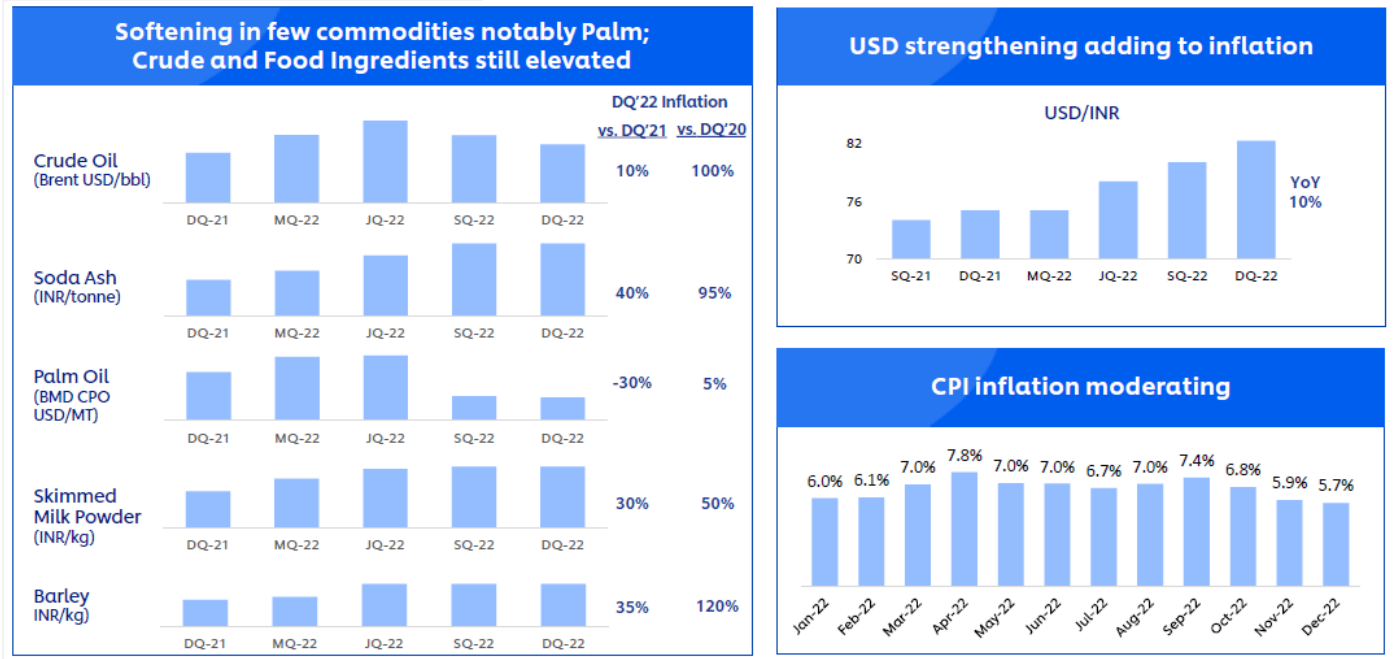
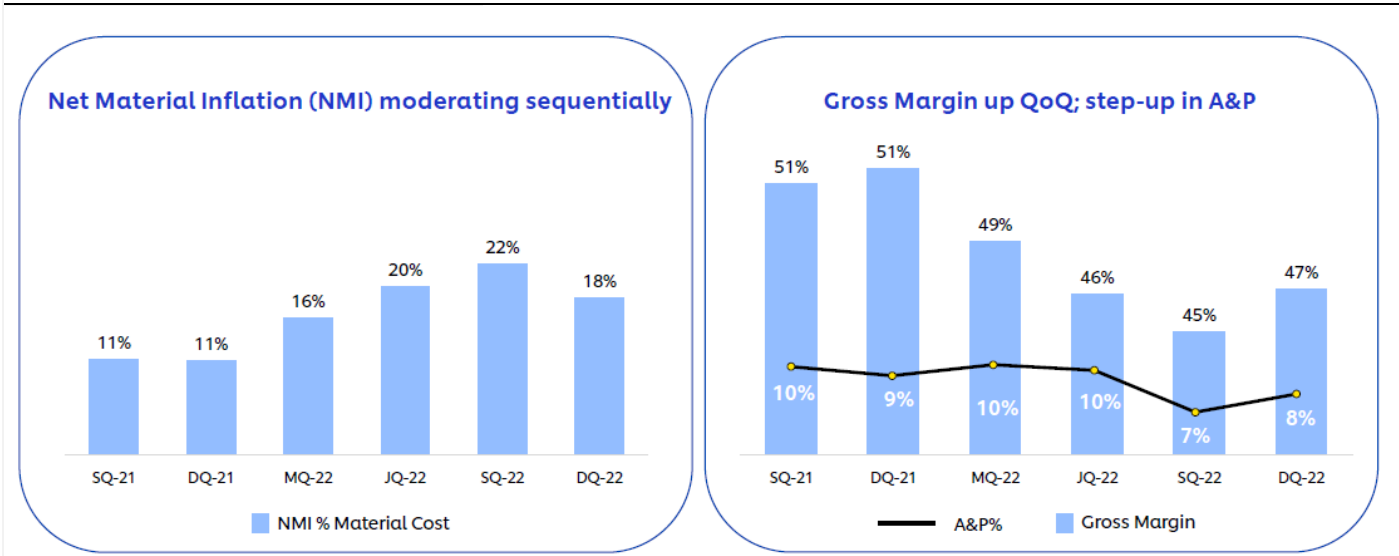


Exhibit 5: Commodities (ex-palm oil) remain elevated YoY



Source: Company, PL

Exhibit 6: Margin pressure eased in 3Q23



Source: Company, PL

Exhibit 7: New Innovations launched in 3Q23 (1/2)



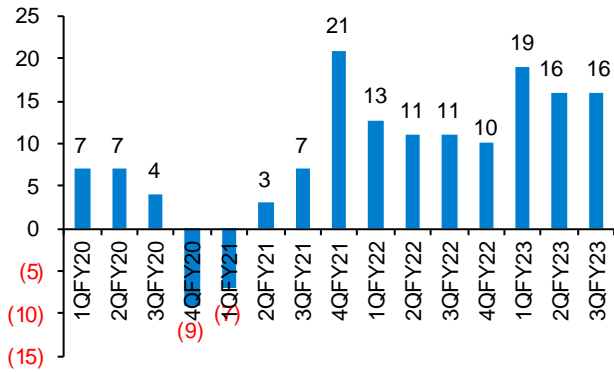
Source: Company, PL

Exhibit 8: New Innovations launched in 3Q23 (2/2)



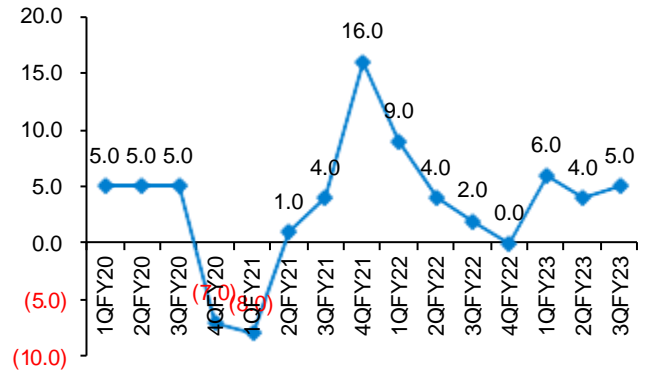
Source: Company, PL

Exhibit 9: Comparable Domestic FMCG sales grew 16%



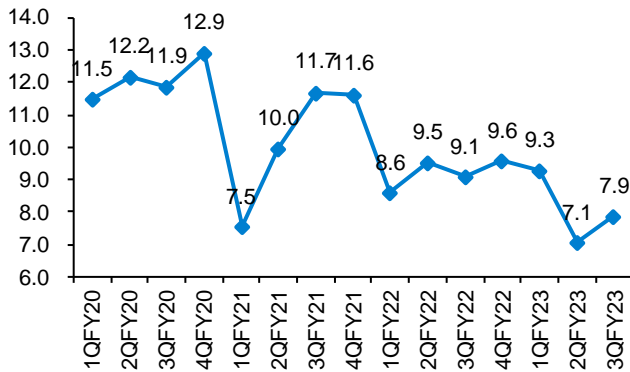
Source: Company, PL

Exhibit 10: Volumes grew 5%



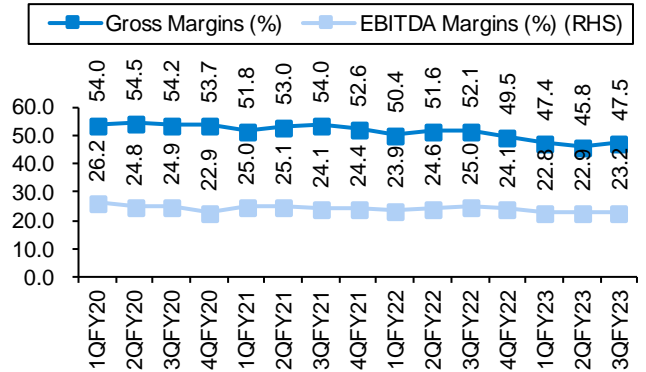
Source: Company, PL

Exhibit 11: Ad-spends down by 120bps YoY



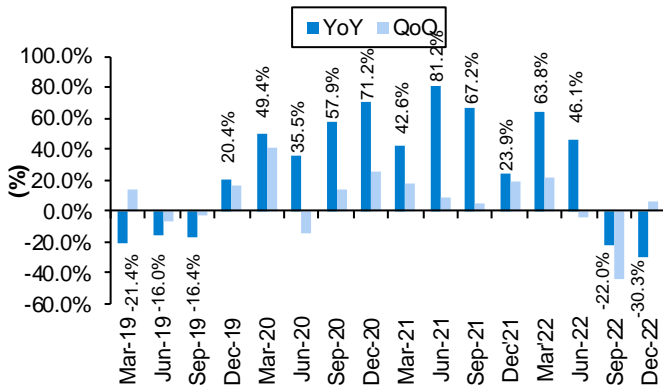
Source: Company, PL

Exhibit 12: GM down 463bps, EBITDA margin down 182bps



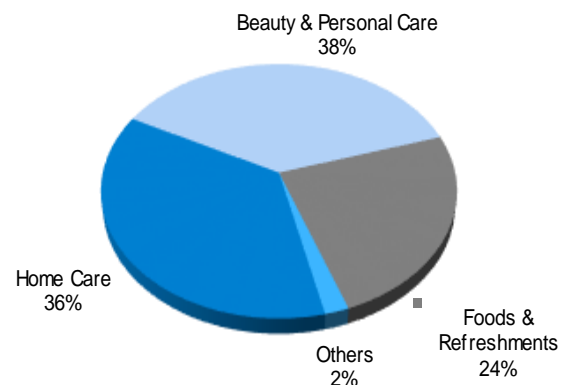
Source: Company, PL

Exhibit 13: PFAD prices down 30.3% YoY and up 5.9% QoQ



Source: Company, PL

Exhibit 14: GSK-merger leads to rise in F&R contribution



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	5,20,500	5,95,910	6,66,104	7,33,414
YoY gr. (%)	11.5	14.5	11.8	10.1
Cost of Goods Sold	2,51,240	3,11,963	3,21,097	3,50,878
Gross Profit	2,69,260	2,83,947	3,45,007	3,82,536
Margin (%)	51.7	47.6	51.8	52.2
Employee Cost	23,990	26,417	29,565	32,577
Other Expenses	-	-	-	-
EBITDA	1,33,600	1,37,711	1,70,717	1,86,620
YoY gr. (%)	11.2	3.1	24.0	9.3
Margin (%)	25.7	23.1	25.6	25.4
Depreciation and Amortization	10,250	10,483	11,281	12,094
EBIT	1,23,350	1,27,228	1,59,436	1,74,526
Margin (%)	23.7	21.4	23.9	23.8
Net Interest	980	1,030	1,055	1,108
Other Income	3,930	6,004	7,546	9,244
Profit Before Tax	1,26,300	1,32,202	1,65,928	1,82,662
Margin (%)	24.3	22.2	24.9	24.9
Total Tax	29,210	31,729	40,652	44,752
Effective tax rate (%)	23.1	24.0	24.5	24.5
Profit after tax	97,090	1,00,474	1,25,275	1,37,910
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	97,090	1,00,474	1,25,275	1,37,910
YoY gr. (%)	9.5	3.5	24.7	10.1
Margin (%)	18.7	16.9	18.8	18.8
Extra Ord. Income / (Exp)	(340)	2,000	500	500
Reported PAT	96,750	1,02,474	1,25,775	1,38,410
YoY gr. (%)	12.0	5.9	22.7	10.0
Margin (%)	18.6	17.2	18.9	18.9
Other Comprehensive Income	1,150	(200)	(200)	(200)
Total Comprehensive Income	97,900	1,02,274	1,25,575	1,38,210
Equity Shares O/s (m)	2,350	2,350	2,350	2,350
EPS (Rs)	41.3	42.8	53.3	58.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	3,74,830	3,95,415	4,06,674	4,19,098
Tangibles	94,730	1,15,315	1,26,574	1,38,998
Intangibles	2,80,100	2,80,100	2,80,100	2,80,100
Acc: Dep / Amortization	37,650	46,133	55,414	65,508
Tangibles	36,600	44,833	53,864	63,708
Intangibles	1,050	1,300	1,550	1,800
Net fixed assets	3,37,180	3,49,282	3,51,260	3,53,590
Tangibles	58,130	70,482	72,710	75,290
Intangibles	2,79,050	2,78,800	2,78,550	2,78,300
Capital Work In Progress	9,010	9,461	9,934	10,430
Goodwill	1,73,160	1,73,160	1,73,160	1,73,160
Non-Current Investments	18,730	19,050	19,385	19,737
Net Deferred tax assets	(61,410)	(62,732)	(64,391)	(66,218)
Other Non-Current Assets	12,820	14,581	16,165	17,799
Current Assets				
Investments	35,100	52,650	52,650	60,548
Inventories	38,900	45,034	48,600	52,560
Trade receivables	19,320	21,713	23,850	25,784
Cash & Bank Balance	36,180	44,954	71,384	97,317
Other Current Assets	5,800	6,555	7,327	8,068
Total Assets	6,97,370	7,50,274	7,88,299	8,35,050
Equity				
Equity Share Capital	2,350	2,350	2,350	2,350
Other Equity	4,85,250	5,03,037	5,29,973	5,55,441
Total Network	4,87,600	5,05,387	5,32,323	5,57,791
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	15,530	18,541	19,437	21,055
Other non current liabilities	3,010	3,236	3,478	3,739
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	88,640	1,15,383	1,20,521	1,34,583
Other current liabilities	20,800	23,785	25,159	26,499
Total Equity & Liabilities	6,97,370	7,50,274	7,88,299	8,35,050

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	1,26,300	1,32,202	1,65,928	1,82,662
Add. Depreciation	10,250	10,483	11,281	12,094
Add. Interest	-	-	-	-
Less Financial Other Income	-	-	-	-
Add. Other	620	6,001	3,237	4,247
Op. profit before WC changes	1,37,170	1,48,686	1,80,445	1,99,002
Net Changes-WC	(8,330)	11,853	(23,447)	(12,659)
Direct tax	(29,210)	(31,729)	(40,652)	(44,752)
Net cash from Op. activities	99,630	1,28,811	1,16,346	1,41,591
Capital expenditures	(16,100)	(23,036)	(13,732)	(14,920)
Interest / Dividend Income	-	-	-	-
Others	(4,340)	(11,546)	7,546	1,346
Net Cash from Inv. activities	(20,440)	(34,581)	(6,186)	(13,574)
Issue of share cap. / premium	(7,150)	(297)	(349)	(342)
Debt changes	(440)	(493)	121	347
Dividend paid	(75,190)	(84,590)	(98,690)	(1,12,800)
Interest paid	-	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(82,780)	(85,379)	(98,918)	(1,12,795)
Net change in cash	(3,590)	8,850	11,241	15,222
Free Cash Flow	83,530	1,05,775	1,02,614	1,26,670

Source: Company Data, PL Research

Key Financial Metrics

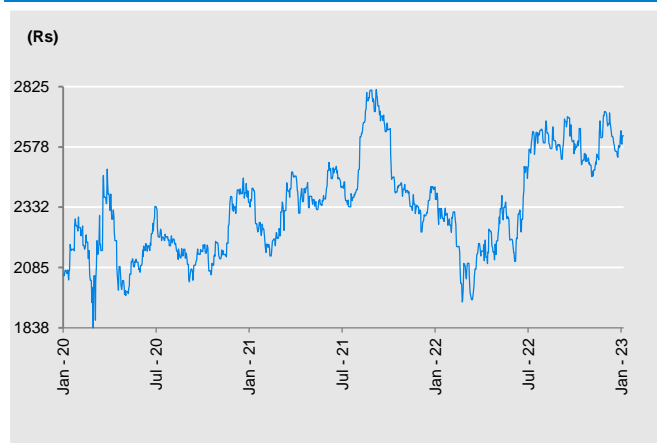
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	41.3	42.8	53.3	58.7
CEPS	45.7	47.2	58.1	63.8
BVPS	207.5	215.1	226.5	237.4
FCF	35.5	45.0	43.7	53.9
DPS	32.0	36.0	42.0	48.0
Return Ratio(%)				
RoCE	25.6	25.6	30.7	32.0
ROIC	23.1	24.2	30.5	34.0
RoE	20.2	20.2	24.1	25.3
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	(21)	(30)	(26)	(28)
Valuation(x)				
PER	64.1	62.0	49.7	45.2
P/B	12.8	12.3	11.7	11.2
P/CEPS	58.0	56.1	45.6	41.5
EV/EBITDA	46.1	44.5	35.7	32.5
EV/Sales	11.8	10.3	9.2	8.3
Dividend Yield (%)	1.2	1.4	1.6	1.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	1,34,620	1,42,720	1,47,510	1,52,280
YoY gr. (%)	11.0	19.8	15.9	16.3
Raw Material Expenses	67,920	75,140	79,940	79,970
Gross Profit	66,700	67,580	67,570	72,310
Margin (%)	49.5	47.4	45.8	47.5
EBITDA	32,450	32,470	33,770	35,370
YoY gr. (%)	9.7	14.0	7.8	7.9
Margin (%)	24.1	22.8	22.9	23.2
Depreciation / Depletion	2,610	2,600	2,480	2,600
EBIT	29,840	29,870	31,290	32,770
Margin (%)	22.2	20.9	21.2	21.5
Net Interest	360	260	250	260
Other Income	1,220	1,370	1,150	2,280
Profit before Tax	30,700	30,980	32,190	34,790
Margin (%)	22.8	21.7	21.8	22.8
Total Tax	8,010	8,090	8,400	8,980
Effective tax rate (%)	26.1	26.1	26.1	25.8
Profit after Tax	22,690	22,890	23,790	25,810
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	22,690	22,890	23,790	25,810
YoY gr. (%)	7.9	16.7	8.8	12.6
Margin (%)	16.9	16.0	16.1	16.9
Extra Ord. Income / (Exp)	580	-	2,370	(760)
Reported PAT	23,270	22,890	26,160	25,050
YoY gr. (%)	8.6	22.9	19.6	11.7
Margin (%)	17.3	16.0	17.7	16.4
Other Comprehensive Income	570	350	(530)	310
Total Comprehensive Income	23,840	23,240	25,630	25,360
Avg. Shares O/s (m)	2,350	2,350	2,350	2,350
EPS (Rs)	9.7	9.7	10.1	11.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	Accumulate	2,798	2,580
2	08-Dec-22	Accumulate	2,798	2,705
3	18-Nov-22	Accumulate	2,798	2,484
4	21-Oct-22	Accumulate	2,798	2,654
5	04-Oct-22	Accumulate	2,827	2,623
6	19-Jul-22	Accumulate	2,699	2,568
7	07-Jul-22	UR	-	2,473
8	27-Apr-22	BUY	2,384	2,145
9	08-Apr-22	BUY	2,356	2,183
10	21-Mar-22	BUY	2,356	2,051

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,326	2,978
2	Avenue Supermarts	BUY	4,675	3,864
3	Britannia Industries	Hold	4,297	4,359
4	Colgate Palmolive	Hold	1,639	1,517
5	Dabur India	Accumulate	609	553
6	Emami	Accumulate	521	420
7	Hindustan Unilever	Accumulate	2,798	2,580
8	ITC	Accumulate	365	335
9	Jubilant FoodWorks	BUY	610	504
10	Kansai Nerolac Paints	Accumulate	563	419
11	Marico	Hold	531	513
12	Mold-tek Packaging	Hold	940	983
13	Nestle India	Accumulate	20,201	19,890
14	Pidilite Industries	Hold	2,679	2,522
15	Restaurant Brands Asia	Accumulate	156	111
16	Titan Company	Accumulate	2,875	2,538
17	Westlife Foodworld	BUY	854	769

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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