

Hindustan Unilever

Soft volume performance; recovery to be gradual

HUL's revenue growth of 6% YoY was below our expectations (HSIE: 9%), as inventory de-stocking by trade (1-3 days) in anticipation of price cuts led to a 3% volume growth (2% four-year CAGR, HSIE 6%). Home care & BPC saw mid-single-digit volume growth while F&R volumes were flat. Benefits of GM expansion (+255bps YoY) were largely offset by (1) higher A&P spends; (2) capability building (restructuring in HFD portfolio); and (3) an increase in royalty rate which limited EBITDAM expansion to 55bps. In the near term, in a stable commodity scenario, growth will largely be volume led with pricing remaining flattish to slightly negative. With the resurgence of small players given softening RM inflation, HUL will continue to focus on (1) rebalancing price and volume growth; (2) building back gross margins; (3) stepping up A&P investments; and (4) defending market share. We model a gradual recovery in demand given the 2-3 quarter lag seen between price cuts and demand upticks. We cut our FY24 estimates by 2% to reflect near-term pressure. We value the stock on 47x P/E on Jun-25E EPS to derive a TP of INR 2,550. Maintain REDUCE.

- Soft UVG led miss in revenue:** Revenue grew 6% YoY (20% in Q1FY23 and 11% in Q4FY23), with home care/BPC/F&R growing 10/4/5% YoY. Domestic volume growth, at 3%, was below our estimate (HSIE: 6%), a 2% four-year CAGR. We note volume growth was impacted as trade reduced stock levels (1-3 days) in lieu of price cuts. In home care, fabric wash grew in double digits, led by the premium portfolio while household care too grew in double digits (volume-led), driven by outperformance in dishwasher. In BPC, skin cleansing saw modest volume-led growth, led by Lux and Hamam. Further price reduction taken in soaps. Hair care registered mid-single digit volume-led growth, while skincare/oral care grew in double digits. In F&R, beverages saw modest growth as within the category, tea remained impacted by down trading from 'premium' to 'loose' tea due to high inflation. HFD portfolio saw pricing-led growth with both Horlicks and Boost performing well. We model mid-high single-digit volume growth in FY24/FY25.
- Margins remain steady sequentially:** With softening commodity inflation, GM expanded by 255bps/120bps YoY/QoQ to 50%. Employee/A&P was up by 9/12% YoY, while other expenses were up 20% due to (1) capability building spends; (2) higher royalty; (3) restructuring in the HFD portfolio; and (4) one-off benefit in the base quarter. EBITDA margin expanded by 55bps YoY to 23.2% (HSIE 23.4%). EBITDA grew by 8% vs. HSIE 12%. We model 100bps EBITDA margin expansion during FY23-26 to 24.3% in FY26.
- Con call takeaways:** (1) FMCG market volumes grew in mid-single digit, led by urban. Rural volume growth turned positive. (2) On 2-year CAGR, market volume was flat and rural volumes were down 4%. (3) Operating environment in the near term is volatile. El Nino has set in early. Impact of inflation and rural demand to be monitored. (4) HUL's premium mix stands at 1/3rd which is growing 50% faster. (5) Softening RM inflation has led to a resurgence of small players, leading to some market share loss.

Quarterly/annual financial summary

(INR mn)	Q1FY24	Q1FY23	YoY(%)	Q4FY23	QoQ(%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	1,51,480	1,42,720	6.1	1,48,930	1.7	5,24,460	6,05,800	6,55,061	7,20,591	7,86,139
EBITDA	35,210	32,470	8.4	34,710	1.4	1,28,570	1,41,490	1,55,818	1,74,373	1,90,982
APAT	24,992	22,890	9.2	24,924	0.3	89,200	1,01,898	1,10,390	1,23,750	1,35,260
EPS (INR)	10.6	9.7	9.1	10.6	0.2	38.0	43.4	47.0	52.7	57.6
P/E (x)						71.1	62.3	57.5	51.3	46.9
EV / EBITDA (x)						48.8	44.3	40.2	35.8	32.5
Core RoCE (%)						17.0	18.9	19.9	21.4	22.3

Source: Company, HSIE Research

REDUCE

CMP (as on 20 Jul 2023)	INR 2,703
Target Price	INR 2,550
NIFTY	19,979

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,550	INR 2,550
EPS %	FY24E	FY25E
	-2%	0%

KEY STOCK DATA

Bloomberg code	HUVR IN
No. of Shares (mn)	2,350
MCap (INR bn) / (\$ mn)	6,352/77,665
6m avg traded value (INR mn)	3,811
52 Week high / low	INR 2,770/2,393

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.5	6.1	3.8
Relative (%)	(4.9)	(5.4)	(18.2)

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	61.90	61.90
FIs & Local MFs	11.58	11.55
FPIs	14.36	14.48
Public & Others	12.16	12.07
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Varun Lohchab

varun.lohchab@hdfcsec.com
+91-22-6171-7334

Naveen Trivedi

naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Paarth Gala

paarth.gala@hdfcsec.com
+91-22-6171-7336

Riddhi Shah

riddhi.shah@hdfcsec.com
+91-22-6171-7359

Disclosure:

Authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL please refer the website.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com