

July 20, 2023

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		ACCUMULATE	
Target Price	2,775		2,825	
Sales (Rs. m)	6,28,510	6,94,215	6,39,543	7,04,491
% Chng.	(1.7)	(1.5)		
EBITDA (Rs. m)	1,48,176	1,67,112	1,52,210	1,70,678
% Chng.	(2.7)	(2.1)		
EPS (Rs.)	45.2	50.8	47.7	53.4
% Chng.	(5.3)	(4.8)		

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	512	591	629	694
EBITDA (Rs. bn)	125	136	148	167
Margin (%)	24.4	23.0	23.6	24.1
PAT (Rs. bn)	89	100	106	119
EPS (Rs.)	37.7	42.7	45.2	50.8
Gr. (%)	8.2	13.2	5.9	12.5
DPS (Rs.)	32.0	36.0	42.0	47.0
Yield (%)	1.2	1.3	1.6	1.7
RoE (%)	18.4	20.3	21.0	23.3
RoCE (%)	23.9	25.5	27.1	30.2
EV/Sales (x)	12.3	10.6	10.0	9.0
EV/EBITDA (x)	50.2	46.0	42.3	37.5
PE (x)	71.7	63.3	59.8	53.1
P/BV (x)	13.0	12.6	12.5	12.3

Key Data

HLL.BO | HUVR IN

52-W High / Low	Rs.2,770 / Rs.2,393
Sensex / Nifty	67,572 / 19,979
Market Cap	Rs.6,344bn/ \$ 77,376m
Shares Outstanding	2,350m
3M Avg. Daily Value	Rs.3775.09m

Shareholding Pattern (%)

Promoter's	61.90
Foreign	14.48
Domestic Institution	11.55
Public & Others	12.07
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.9	5.9	3.7
Relative	(5.4)	(5.0)	(15.0)

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Slow volume recovery, EPS cut 5.3/4.8%: Hold

Quick Pointers:

- 1Q24 volumes up 3%, expect gradual recovery amidst rising competition
- Weather variations remain key determinant for near-term growth

We cut our FY24/25 EPS by 5.3%/4.8% and rating to HOLD factoring in 1) tepid volume growth in 1Q in F&R and Personal wash 2) waning impact of pricing as HUL cuts prices to ward off competition from local/regional players and 3) higher tax rates (26% v/s 24.5% earlier). Although 73% of sales (HPC) are growing volumes in mid-single digits, market dynamics & trade and consumer inventory will enable gradual increase in volume growth. Although rural markets appear to have bottomed out, erratic weather conditions can increase inflation in daily use items and impact volume recovery.

Although long term growth story led by lower penetration and superior value proposition remains, near term pressure on growth can't be ruled out. We expect GM/EBITDAM improvement of 460/100bps over FY23-25 as benefits of lower RM will be partly neutralized by higher ad spends, royalty and lower operating income due to closure of marketing agreement with GSK Asia (Eno, Iodex, Crocin and Sensodyne) post Oct23. We estimate 8.7% Sales and 9.3% PAT CAGR over FY23-25 and assign a DCF based target price of Rs2775 (Rs2825 earlier). HUVR trades at 53.1x FY25 EPS. Downgrade to Hold.

1Q Volumes up 3%, sales up 6.1%: Sales grew by 6.1% YoY to Rs151.5bn (PL: Rs155.6bn). Gross margins expanded 256bps YoY/120bps QoQ to 49.9% (PL:50.0%). EBITDA grew 8.4% YoY to Rs35.2bn (PL: Rs36.9bn). A&P Expenses grew 11.5% YoY to Rs14.8bn. Adj PAT grew by 9.2% YoY to Rs25bn (PL: Rs26.7bn). Home Care revenues grew 10% YoY; EBIT grew by 14% YoY; while margins expanded by 64bps YoY to 18.3%. Personal Care revenues grew by 4.4% YoY; EBIT grew by 4.3% YoY; while margins contracted by 2bps YoY to 26.3%. Food & Refreshment revenues grew 4.7% YoY; EBIT grew 17.8% YoY; margins expanded by 200bps YoY to 17.9%. Others revenues declined by 7.1% YoY; EBIT declined by 7% YoY; while margins expanded by 7bps YoY to 36.9%.

Concall Takeaways: 1) Urban growth continues to outperform rural markets 2) Rural markets have bottomed out and volumes have grown by 2% in 1Q 3) Competitive intensity has increased for the industry with many regional players reentering the categories 4) commodity inflation has moderated but remains elevated vs historical levels 5) Volumes to pick up over the course of the year as 2-3 quarters are required to stabilize consumer prices 6) Volumes were also impacted by trade destocking as a result of price corrections 7) Volume & value mix to rebalance at 60:40 as a result 8) Price growth expected to be flat to marginally negative with current commodity prices 9) Ad spends have continued to inch up to 9.8% from 7.1% in 2Q23 10) Management remains confident of HFD portfolio as market development & penetration will lead growth over medium to long term 11) Long term focus would remain on driving profitable volume led growth by innovation and premiumization 12) Tax rates for FY24 expected to be at 26%

Exhibit 1: 1QFY24 Results (Rs mn): Volumes up 3%; Gross margins improves by 120bps QoQ to 49.9%

Y/e March	1QFY24	1QFY23	YoY gr. (%)	4QFY23	FY23	FY22	YoY gr. (%)
Net Sales	151,480	142,720	6.1	148,930	5,91,440	5,11,930	15.5
Gross Profit	75,600	67,580	11.9	72,540	2,80,000	2,60,690	7.4
<i>% of NS</i>	<i>49.9</i>	<i>47.4</i>	<i>2.6</i>	<i>48.7</i>	<i>47.3</i>	<i>50.9</i>	<i>(3.6)</i>
A&P Exp.	14,810	13,280	11.5	12,900	48,590	47,180	3.0
<i>% of NS</i>	<i>9.8</i>	<i>9.3</i>	<i>0.47</i>	<i>8.7</i>	<i>8.2</i>	<i>9.2</i>	<i>(1.0)</i>
EBITDA	35,210	32,470	8.4	34,710	1,36,320	1,25,030	9.0
<i>Margins</i>	<i>23.2</i>	<i>22.8</i>	<i>0.49</i>	<i>23.3</i>	<i>23.0</i>	<i>24.4</i>	<i>(1.4)</i>
Depreciation	2,570	2,600	(1.2)	2,620	10,300	10,250	0.5
EBIT	32,640	29,870	9.3	32,090	1,26,020	1,14,780	9.8
Interest	470	260	80.8	240	1,010	980	3.1
Other Income	1,850	1,370	35.0	1,600	6,400	3,930	62.8
PBT	34,020	30,980	9.8	33,450	1,31,410	1,17,730	11.6
Tax	9,020	8,090	11.5	8,740	31,630	30,490	3.7
<i>Tax Rate (%)</i>	<i>26.5</i>	<i>26.1</i>	<i>0.4</i>	<i>26.1</i>	<i>24.1</i>	<i>25.9</i>	<i>(1.8)</i>
Adjusted PAT	25,000	22,890	9.2	24,710	99,780	87,240	14.4
Extraordinary	(160)	350		420	(420)	2,090	
Reported Profit	24,840	23,240	6.9	25,130	99,360	89,330	11.2

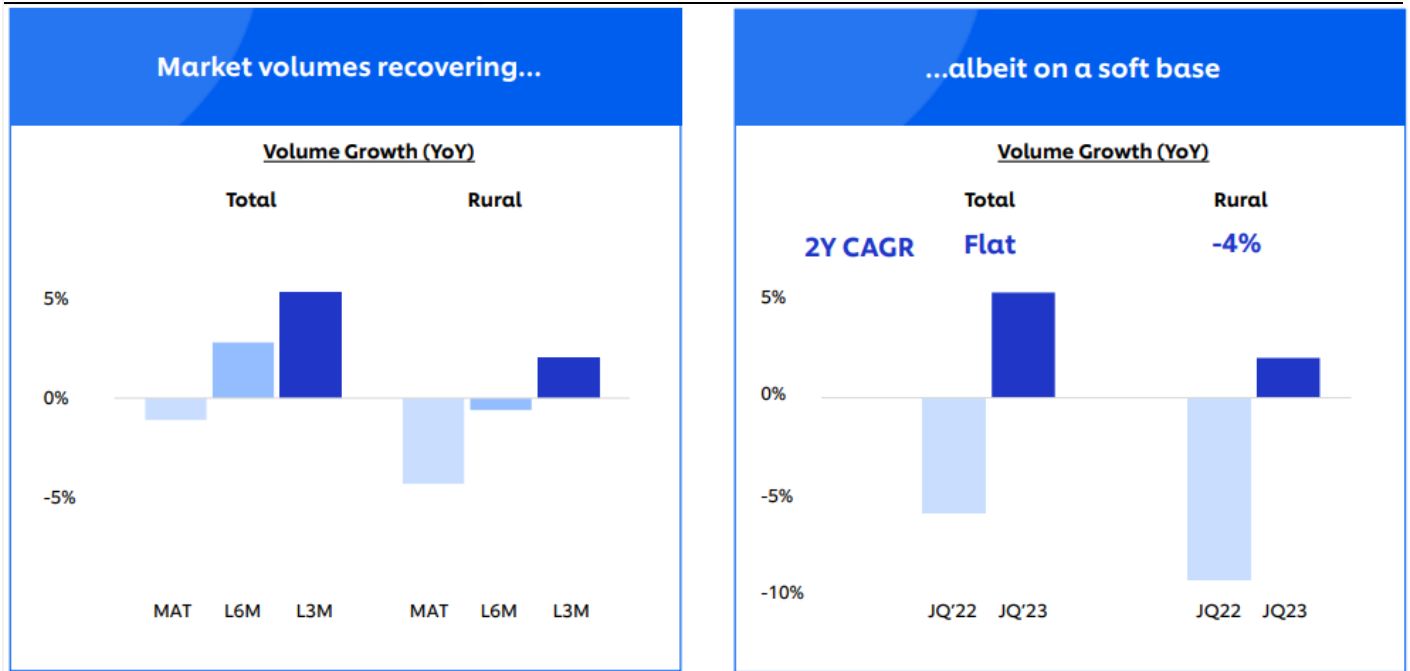
Source: Company, PL

Exhibit 2: 1Q24 performance was driven by 10% sales growth in Home Care segment

Quarterly Segmental	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Net Sales (Rs m)	1,21,320	1,19,150	1,27,240	1,30,920	1,34,620	1,42,720	1,47,510	152,280	1,48,930	151,480
Home Care	38,400	37970	38,380	41,930	47,500	49,310	51,430	55,180	56,380	54,250
Personal Care	45,490	45730	50,000	51,750	47,120	53,640	55,610	57,180	51,880	56,010
Foods & Refreshment	35,110	33190	36,220	34,660	36,980	36,270	37,550	37,000	37,940	37,970
Others	2,320	2260	2,640	2,580	3,020	3,500	2,920	2,920	2,730	3,250
Sales Growth %	34.6	12.8	11.2	10.4	11.0	19.8	15.9	16.3	10.6	6.1
Home Care	14.6	11.9	15.7	23.0	23.7	29.9	34.0	31.6	18.7	10.0
Personal Care	19.7	13.2	10.3	6.9	3.6	17.3	11.2	10.5	10.1	4.4
Foods & Refreshment	96.4	12.2	7.2	3.3	5.3	9.3	3.7	6.8	2.6	4.7
Others	222.2	32.2	25.7	0.8	30.2	54.9	10.6	13.2	(9.6)	(7.1)
EBIT (Rs m)	27,080	26,030	28,670	30,240	29,840	29,870	31,290	32,770	32,090	32,640
Home Care	8,120	6620	7,280	8,640	9,390	8,690	8,890	10,610	10,560	9,910
Personal Care	12,520	12870	13,900	14,410	12,360	14,110	13,960	14,370	13,530	14,720
Foods & Refreshment	5,750	6000	6,640	6,460	7,130	5,780	7,440	6,610	6,790	6,810
Others	690	540	850	730	960	1,290	1,000	1,180	1,210	1,200
EBIT Growth %	49.6	8.4	9.4	17.1	10.2	14.8	9.1	8.4	7.5	9.3
Home Care	27.7	3.9	7.4	33.7	15.6	31.3	22.1	22.8	12.5	14.0
Personal Care	32.5	13.5	4.7	2.0	(1.3)	9.6	0.4	(0.3)	9.5	4.3
Foods & Refreshment	155.6	3.1	18.8	36.6	24.0	(3.7)	12.0	2.3	(4.8)	17.8
Others	1,625.0	10.2	54.5	46.0	39.1	138.9	17.6	61.6	26.0	(7.0)
EBIT Margin %	22.3	21.8	22.5	23.1	22.2	20.9	21.2	21.5	21.5	21.5
Home Care	21.1	17.4	19.0	20.6	19.8	17.6	17.3	19.2	18.7	18.3
Personal Care	27.5	28.1	27.8	27.8	26.2	26.3	25.1	25.1	26.1	26.3
Foods & Refreshment	18.1	18.1	18.3	18.6	19.3	15.9	19.8	17.9	17.9	17.9
Others	29.7	23.9	32.2	28.3	31.8	36.9	34.2	40.4	44.3	36.9

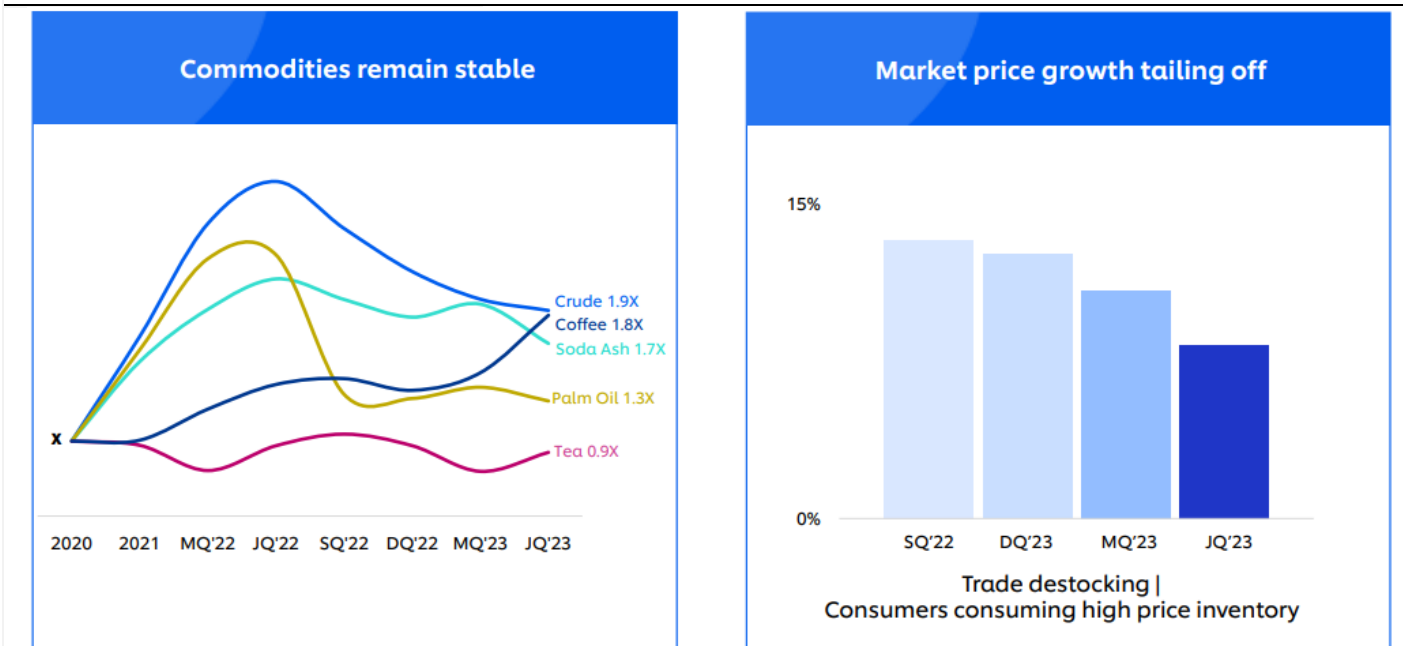
Source: Company, PL

Exhibit 3: Market volumes in Rural India turn positive on low base



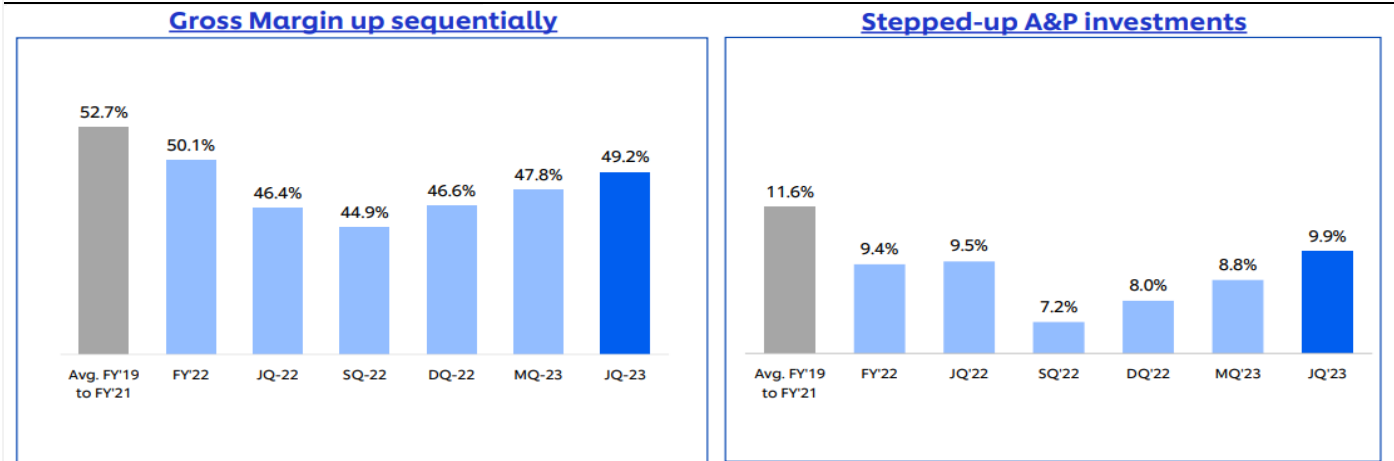
Source: Company, PL

Exhibit 4: Commodities (ex-tea) remain elevated



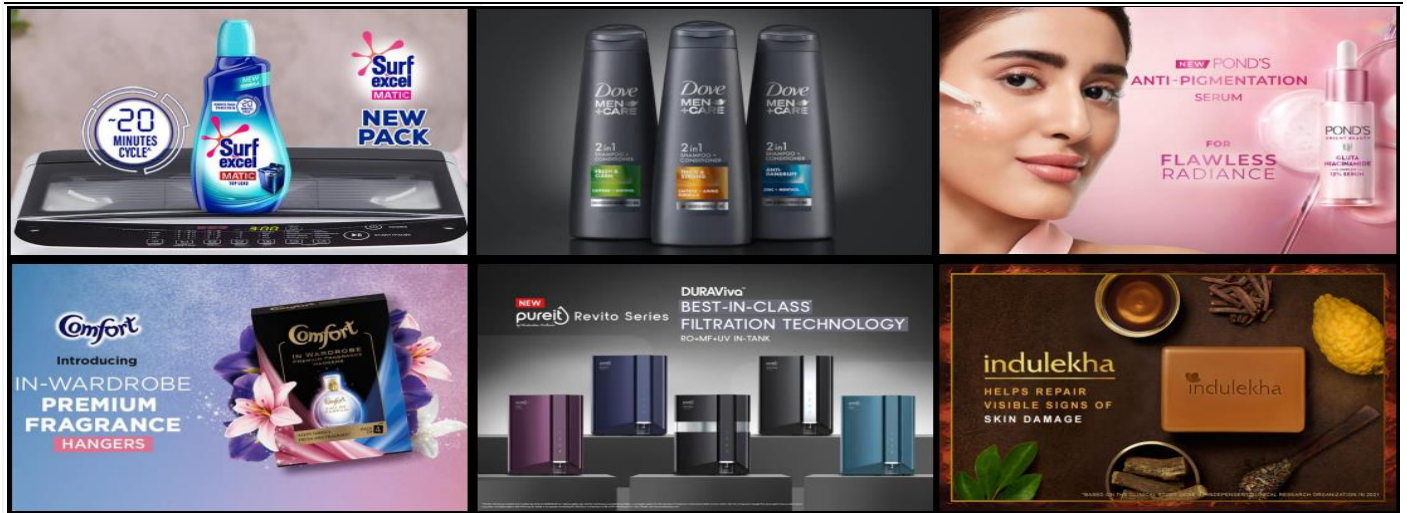
Source: Company, PL

Exhibit 5: Sequential GM improvement reinvested behind A&P in 1Q24



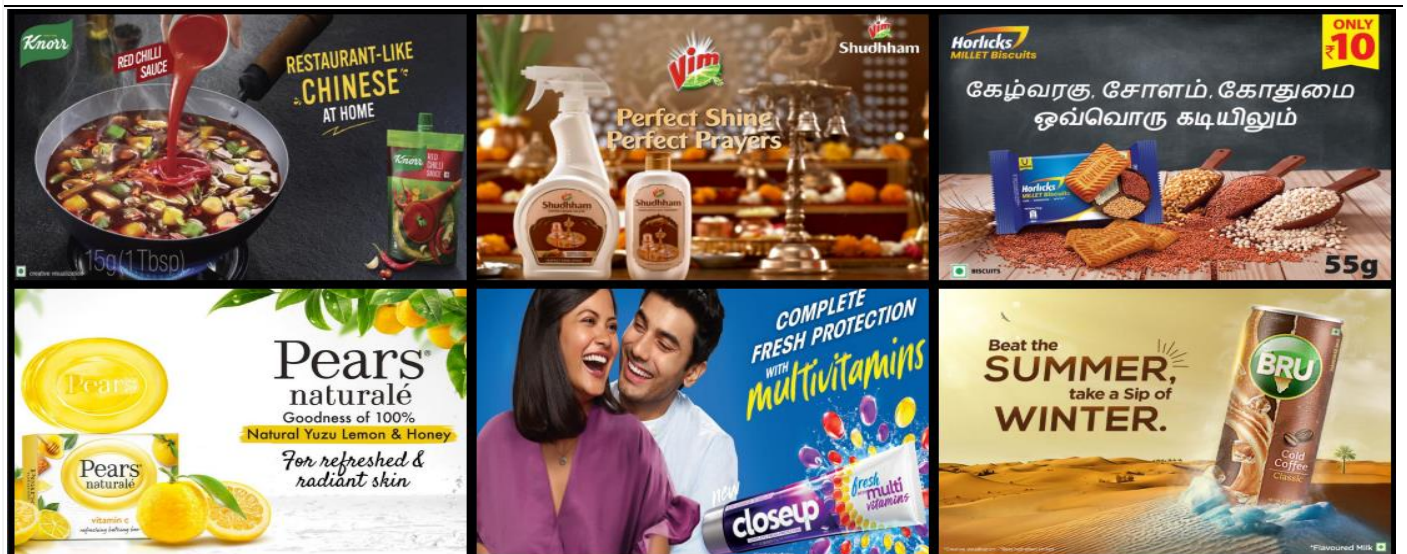
Source: Company, PL

Exhibit 6: New Innovations launched in 1Q24 (1/2)



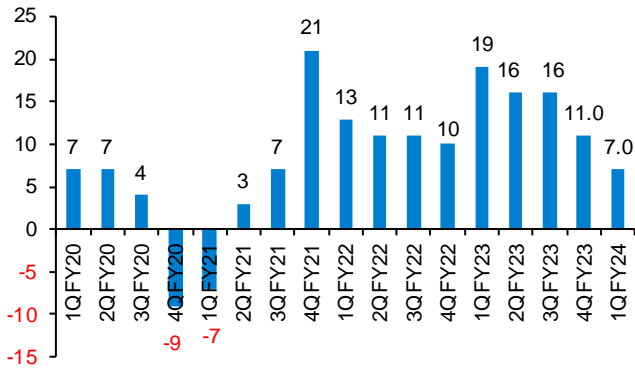
Source: Company, PL

Exhibit 7: New Innovations launched in 1Q24 (2/2)



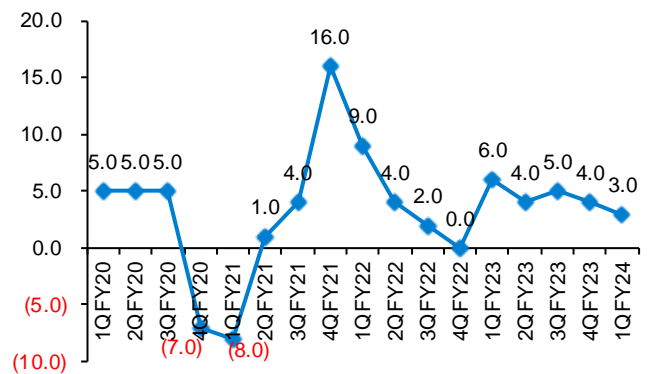
Source: Company, PL

Exhibit 8: Comparable Domestic FMCG sales grew 7%



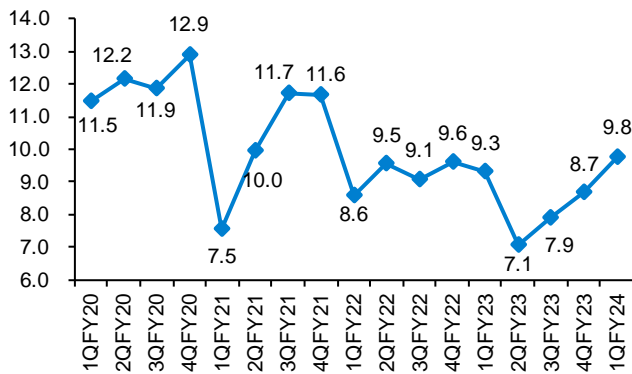
Source: Company, PL

Exhibit 9: Volumes grew 3%



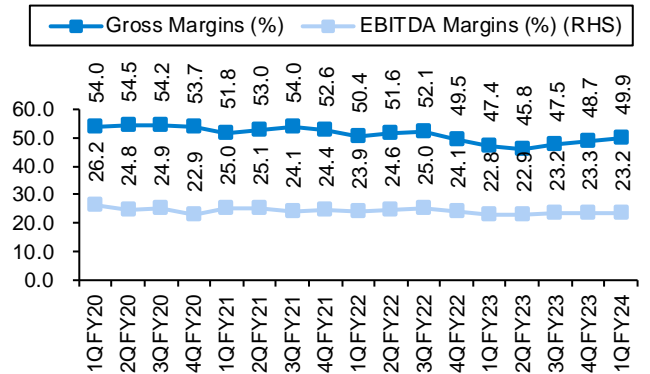
Source: Company, PL

Exhibit 10: Ad-spends down by 47bps YoY



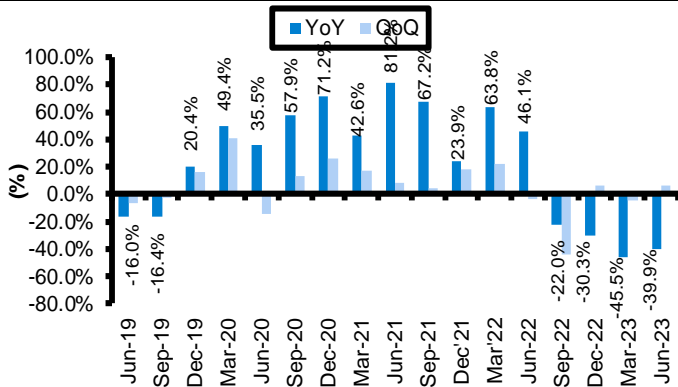
Source: Company, PL

Exhibit 11: GM up 256bps, EBITDA margin up 49bps



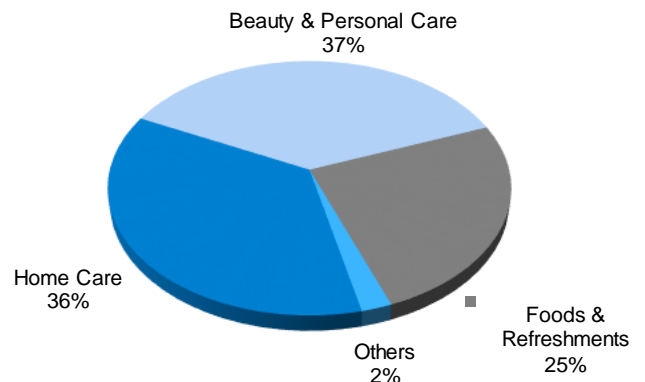
Source: Company, PL

Exhibit 12: PFAD prices down 39.9% YoY but up 6.5% QoQ



Source: Company, PL

Exhibit 13: 73% of business sustains strong growth



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	5,11,930	5,91,440	6,28,510	6,94,215
YoY gr. (%)	11.3	15.5	6.3	10.5
Cost of Goods Sold	2,51,240	3,11,440	3,09,584	3,33,409
Gross Profit	2,60,690	2,80,000	3,18,926	3,60,806
Margin (%)	50.9	47.3	50.7	52.0
Employee Cost	23,990	26,650	29,105	32,276
Other Expenses	-	-	-	-
EBITDA	1,25,030	1,36,320	1,48,176	1,67,112
YoY gr. (%)	10.4	9.0	8.7	12.8
Margin (%)	24.4	23.0	23.6	24.1
Depreciation and Amortization	10,250	10,300	11,260	12,271
EBIT	1,14,780	1,26,020	1,36,916	1,54,840
Margin (%)	22.4	21.3	21.8	22.3
Net Interest	980	1,010	1,087	1,084
Other Income	3,930	6,400	7,565	7,617
Profit Before Tax	1,17,730	1,31,410	1,43,394	1,61,373
Margin (%)	23.0	22.2	22.8	23.2
Total Tax	29,210	31,170	37,282	41,957
Effective tax rate (%)	24.8	23.7	26.0	26.0
Profit after tax	88,520	1,00,240	1,06,112	1,19,416
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	88,520	1,00,240	1,06,112	1,19,416
YoY gr. (%)	8.2	13.2	5.9	12.5
Margin (%)	17.3	16.9	16.9	17.2
Extra Ord. Income / (Exp)	(340)	(620)	(500)	(500)
Reported PAT	88,180	99,620	1,05,612	1,18,916
YoY gr. (%)	10.9	13.0	6.0	12.6
Margin (%)	17.2	16.8	16.8	17.1
Other Comprehensive Income	1,150	(260)	(200)	(200)
Total Comprehensive Income	89,330	99,360	1,05,412	1,18,716
Equity Shares O/s (m)	2,350	2,350	2,350	2,350
EPS (Rs)	37.7	42.7	45.2	50.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	3,74,830	3,85,480	4,07,629	4,19,587
Tangibles	94,730	1,05,200	1,27,349	1,39,307
Intangibles	2,80,100	2,80,280	2,80,280	2,80,280
Acc: Dep / Amortization	37,650	44,590	53,850	64,121
Tangibles	36,600	43,310	52,340	62,381
Intangibles	1,050	1,280	1,510	1,740
Net fixed assets	3,37,180	3,40,890	3,53,780	3,55,466
Tangibles	58,130	61,890	75,010	76,926
Intangibles	2,79,050	2,79,000	2,78,770	2,78,540
Capital Work In Progress	9,010	10,200	10,710	11,246
Goodwill	1,73,160	1,73,160	1,73,160	1,73,160
Non-Current Investments	18,730	20,370	20,590	20,821
Net Deferred tax assets	(61,410)	(63,250)	(64,684)	(66,298)
Other Non-Current Assets	12,820	13,140	13,986	15,448
Current Assets				
Investments	35,100	28,110	28,110	32,327
Inventories	38,900	40,310	42,427	47,990
Trade receivables	19,320	27,350	28,002	30,112
Cash & Bank Balance	36,180	44,220	42,681	51,297
Other Current Assets	5,800	6,120	6,914	7,289
Total Assets	6,97,370	7,18,250	7,34,307	7,60,548
Equity				
Equity Share Capital	2,350	2,350	2,350	2,350
Other Equity	4,85,250	4,99,860	5,06,631	5,14,954
Total Network	4,87,600	5,02,210	5,08,981	5,17,304
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	15,530	13,350	14,918	15,856
Other non current liabilities	3,290	4,950	5,321	5,720
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	88,640	93,910	97,540	1,09,614
Other current liabilities	20,800	22,360	23,082	24,217
Total Equity & Liabilities	6,97,370	7,18,250	7,34,307	7,60,548

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	1,17,730	1,31,410	1,43,394	1,61,373
Add. Depreciation	10,250	10,300	11,260	12,271
Add. Interest	-	-	-	-
Less Financial Other Income	-	-	-	-
Add. Other	(3,030)	(6,160)	(4,124)	(5,045)
Op. profit before WC changes	1,24,950	1,35,550	1,50,530	1,68,599
Net Changes-WC	(8,330)	(18,210)	85	(451)
Direct tax	(29,210)	(31,170)	(37,282)	(41,957)
Net cash from Op. activities	87,410	86,170	1,13,332	1,26,191
Capital expenditures	(16,100)	(18,910)	(24,659)	(14,493)
Interest / Dividend Income	-	-	-	-
Others	(4,340)	13,390	7,565	3,400
Net Cash from Inv. activities	(20,440)	(5,520)	(17,094)	(11,093)
Issue of share cap. / premium	1,420	(680)	(351)	(343)
Debt changes	(720)	600	127	145
Dividend paid	(75,190)	(84,590)	(98,690)	(1,10,450)
Interest paid	-	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(74,490)	(84,670)	(98,914)	(1,10,648)
Net change in cash	(7,520)	(4,020)	(2,676)	4,450
Free Cash Flow	71,310	67,260	88,673	1,11,698

Source: Company Data, PL Research

Quarterly Financials (Rs m)

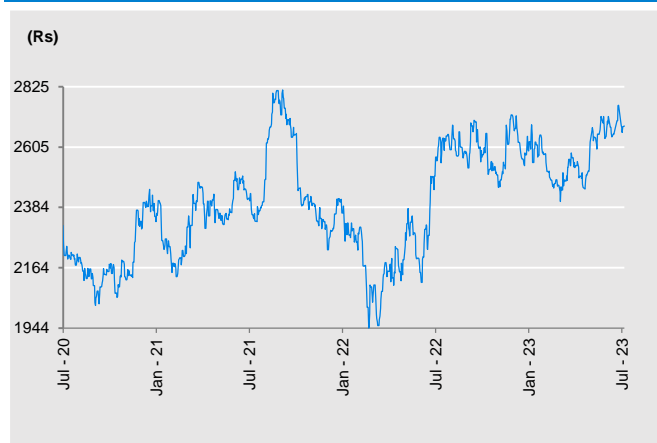
Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	1,47,510	1,52,280	1,48,930	1,51,480
YoY gr. (%)	15.9	16.3	10.6	6.1
Raw Material Expenses	79,940	79,970	76,390	75,880
Gross Profit	67,570	72,310	72,540	75,600
Margin (%)	45.8	47.5	48.7	49.9
EBITDA	33,770	35,370	34,710	35,210
YoY gr. (%)	7.8	7.9	7.0	8.4
Margin (%)	22.9	23.2	23.3	23.2
Depreciation / Depletion	2,480	2,600	2,620	2,570
EBIT	31,290	32,770	32,090	32,640
Margin (%)	21.2	21.5	21.5	21.5
Net Interest	250	260	240	470
Other Income	1,150	2,280	1,600	1,850
Profit before Tax	32,190	34,790	33,450	34,020
Margin (%)	21.8	22.8	22.5	22.5
Total Tax	5,820	8,980	8,740	9,020
Effective tax rate (%)	18.1	25.8	26.1	26.5
Profit after Tax	26,370	25,810	24,710	25,000
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	26,370	25,810	24,710	25,000
YoY gr. (%)	20.6	12.6	8.9	9.2
Margin (%)	17.9	16.9	16.6	16.5
Extra Ord. Income / (Exp)	(210)	(760)	810	(280)
Reported PAT	26,160	25,050	25,520	24,720
YoY gr. (%)	19.6	11.7	9.7	8.0
Margin (%)	17.7	16.4	17.1	16.3
Other Comprehensive Income	(530)	310	(390)	120
Total Comprehensive Income	25,630	25,360	25,130	24,840
Avg. Shares O/s (m)	2,350	2,350	2,350	2,350
EPS (Rs)	11.2	11.0	10.5	10.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	37.7	42.7	45.2	50.8
CEPS	42.0	47.0	49.9	56.0
BVPS	207.5	213.7	216.6	220.1
FCF	30.3	28.6	37.7	47.5
DPS	32.0	36.0	42.0	47.0
Return Ratio(%)				
RoCE	23.9	25.5	27.1	30.2
ROIC	21.1	22.7	23.3	26.7
RoE	18.4	20.3	21.0	23.3
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	(22)	(16)	(16)	(17)
Valuation(x)				
PER	71.7	63.3	59.8	53.1
P/B	13.0	12.6	12.5	12.3
P/CEPS	64.2	57.4	54.1	48.2
EV/EBITDA	50.2	46.0	42.3	37.5
EV/Sales	12.3	10.6	10.0	9.0
Dividend Yield (%)	1.2	1.3	1.6	1.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	Accumulate	2,825	2,757
2	27-Apr-23	Accumulate	2,785	2,469
3	11-Apr-23	Accumulate	2,800	2,532
4	19-Jan-23	Accumulate	2,800	2,650
5	06-Jan-23	Accumulate	2,798	2,580
6	08-Dec-22	Accumulate	2,798	2,705
7	18-Nov-22	Accumulate	2,798	2,484
8	21-Oct-22	Accumulate	2,798	2,654
9	04-Oct-22	Accumulate	2,827	2,623

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,360	3,399
2	Avenue Supermarts	BUY	4,587	3,840
3	Britannia Industries	Hold	4,800	5,174
4	Colgate Palmolive	Hold	1,636	1,780
5	Dabur India	Accumulate	590	592
6	Emami	Accumulate	517	427
7	Hindustan Unilever	Accumulate	2,825	2,757
8	ITC	Accumulate	455	474
9	Jubilant FoodWorks	Accumulate	515	492
10	Kansai Nerolac Paints	Accumulate	328	320
11	Marico	Accumulate	550	528
12	Mold-tek Packaging	Hold	968	1,074
13	Nestle India	Accumulate	22,600	23,099
14	Pidilite Industries	Hold	2,664	2,649
15	Restaurant Brands Asia	Accumulate	146	112
16	Titan Company	Accumulate	3,242	3,088
17	Westlife Foodworld	Accumulate	800	864

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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