

Results below expectations; Volume to pickup gradually; Accumulate

QIFY24 Result Update | Sector: FMCG | July 21, 2023

ACCUMULATE

CMP (Rs)	2,703
Target Price (Rs)	3,068
Potential Upside	13.5%
Sensex	67,572
Nifty	19,979

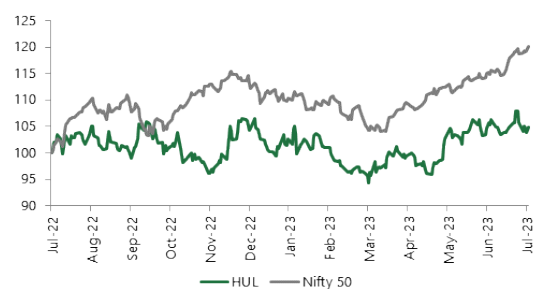
Key Stock data

BSE Code	500696
NSE Code	HINDUNILVR
Bloomberg	HUVR:IN
Shares o/s, Cr (FV 1)	235
Market Cap (Rs Cr)	635,153
3M Avg Volume	1,398,786
52 week H/L	2,770/2,393

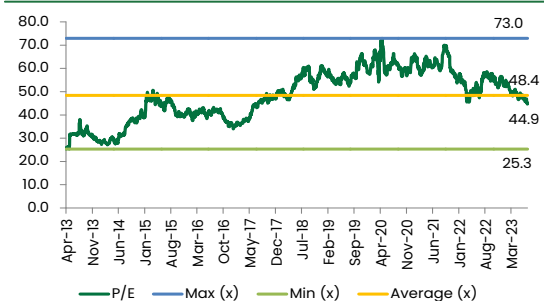
Shareholding Pattern

(%)	Sep-22	Dec-22	Mar-23
Promoter	61.9	61.9	61.9
FII	14.1	14.3	14.4
DII	11.8	11.6	11.6
Others	12.2	12.2	12.1

1 Year relative price performance



PE Forward (x)



Research Analyst

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Revenue below estimates: HUL's revenue was below our estimate at Rs 15,496cr, up by 1.8% QoQ and 6% YoY with the underlying volume growth of 3%. Growth is still price-led and volumes are expected to pick-up gradually as there is sign of recovery from rural. Amongst segments, sequential growth was largely led by the beauty & personal care segment while others remain muted. However comparing YoY numbers all the segments seen decent growth

Mixed margin growth: Gross profit for QIFY24 grew by 4.7% QoQ and 12.3% YoY to Rs 7,817cr and margins improved by 136bps QoQ and 285bps YoY to 50.4%. Easing raw material cost and cost optimization measures aided margin improvement. Further, its EBITDA grew by 2.5% QoQ and 7.7% YoY to Rs 3,665cr and margins improved by 16bps and 39bps to 23.7% due to higher spends on advertisements and higher other expenses. PAT de-grew by 1.8% QoQ and 6.9% YoY to Rs 2,556cr and PAT was at 16.5%, decline by 61bps QoQ and 14bps YoY.

Growth driven by beauty & personal care segment: HUL's beauty & personal care segment contributed highest to its revenue & profits with a share of ~36-37% and 43-44%, respectively in QIFY24. It reported a revenue growth of 7.8% QoQ and 4.8% YoY to Rs 5,668cr while profits from this segment grew by 7.8% QoQ & 3.2% YoY to Rs 1,472cr. Volume growth was in mid-single digit. Amongst portfolio, innovation in hair care, premium portfolio of Skin care, double digit growth in oral care and good traction from body wash drove growth. Further price cuts were taken in its soaps portfolio on the back of easing raw materials prices.

Mixed growth from home care segment: In QIFY24, home care segment contributed ~35% of revenue & 30% of profits. As compared to QIFY23, its revenue and profits saw a growth of 10% and 17%, respectively while sequentially it posted muted growth with revenue down by 3.8% to Rs 5,421cr and profits down by 5.5% to Rs 1,1013cr. Its volumes grew in mid-single digits. Its premium portfolio from fabric was and household care continues to drive growth for the company.

Flat growth QoQ in Foods & refreshment segment: HUL posted flat revenue and profit growth while volumes too were flat for foods segments while compared to last year same quarter its revenue grew by 4.7% to Rs 3,797cr and profits grew by 17.8% to Rs 681cr. This segment contributes ~24-25% of revenue and ~20% of profits. Going ahead, the management plan is to continue to focus on driving growth through innovations and increase in traction from tea, coffee and ice-cream.

Outlook & Valuation: We believe QIFY24 numbers came in below our expectations. Volume growth is expected to be gradual but rural is seeing signs of recovery which is positive. In the near term, erratic weather conditions and inflation on agri-commodities remains a concern however management seems positive from a medium to long term perspective. Also the new CEO will continue with the same strategy that was driving growth for HUL which are investing behind core, innovating and premiumizing product portfolio, focus on distribution and promotional activity while at the same time maintaining cost. Thus, we maintain our positive view, given HUL's leadership position along with a strong product portfolio, continuous focus on premiumization and cost optimization will aid in growth going ahead. On a financial front, we have estimated its revenue/EBITDA/PAT to grow at 15.5%/18.3%/17.5% CAGR over FY23-25E and recommend **Accumulate** rating with a target price of **Rs 3,068**, assigning a PE multiple of 51x on FY25 EPS.

Financial Summary - consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	52,446	60,580	69,866	80,755
EBITDA	12,857	14,149	16,711	19,800
EBITDAM (%)	24.5	23.4	23.9	24.5
APAT	8,887	10,144	11,826	14,002
APATM (%)	16.9	16.7	16.9	17.3
EPS (Rs)	37.8	43.2	50.3	59.6
PE (x)	71.5	62.6	53.7	45.4
RoE (%)	18.1	20.2	22.0	23.9

Source : RBL Research

Concall Highlights: 1) Volume will recover gradually. 2) Amongst commodities, crude & palm oil prices were lower while agri-related commodities such as coffee, cereals and skimmed milk prices remained higher. 3) Household care grew in the high single digit while laundry was in the mid-single digit. 4) In beauty & personal care, skin care grew in high single digit, hair & oral care grew in mid-single digit and skin cleansing grew in low single digit. 5) Its foods, coffee & ice-cream grew in mid-digit volumes. 6) Innovations continue in surf excel, dove, comfort, Indulekha soaps, Knorr, Vim, Horlicks biscuits and ice-creams in cups, etc. 7) Investment in Advertisements increased to 9.7% in QIFY24 as compared to 8.6% in Q4FY23. 8) Price cut transition from company to consumer takes around 1-2 quarter and consumption to recover by 2-3 quarters 9) Outlook: In the near term, erratic weather and inflation is key monitorables. In the medium to long term, price growth will continue due to higher inflation while volume growth will be gradual. Further, investment behind the brand and focus on gaining better margins will continue.

Revenue grew by 6% YoY driven by 3% volume growth

Gross margins improved due to easing raw material prices

EBITDA improved just by 39bps due to increase in Advertisement and other expenses

P&L Account Quarterly - consolidated

Particulars, Rs cr	QIFY24	QIFY23	Y-o-Y %	Q4FY23	Q-o-Q %
Net Sales	15,496.0	14,624.0	6.0	15,215.0	1.8
Cost of Raw Materials	4,820.0	4,868.0	(1.0)	4,908.0	(1.8)
Purchase of Finished Goods	2,643.0	2,940.0	(10.1)	2,797.0	(5.5)
(Increase) / Decrease In Stocks	216.0	(144.0)	(250.0)	42.0	414.3
Total Raw material cost	7,679.0	7,664.0	0.2	7,747.0	(0.9)
Gross Profit	7,817.0	6,960.0	12.3	7,468.0	4.7
Gross Margins %	50.4	47.6	285bps	49.1	136bps
Employee Cost	705.0	636.0	10.8	738.0	(4.5)
A&P Cost	1,505.0	1,334.0	12.8	1,311.0	14.8
Other Expense	1,942.0	1,588.0	22.3	1,845.0	5.3
Total Expenditure	11,831.0	11,222.0	5.4	11,641.0	1.6
EBITDA	3,665.0	3,402.0	7.7	3,574.0	2.5
EBITDA Margins (%)	23.7	23.3	39bps	23.5	16bps
Depreciation	286.0	281.0	1.8	291.0	(1.7)
EBIT	3,379.0	3,121.0	8.3	3,283.0	2.9
Other Income	183.0	133.0	37.6	160.0	14.4
Interest	50.0	28.0	78.6	29.0	72.4
PBT	3,512.0	3,226.0	8.9	3,414.0	2.9
Exceptional	(38.0)	(12.0)	216.7	79.0	(148.1)
PBT	3,474.0	3,214.0	8.1	3,493.0	(0.5)
Tax	918.0	823.0	11.5	891.0	3.0
PAT	2,556.0	2,391.0	6.9	2,602.0	(1.8)
PAT Margin (%)	16.5	16.3	14bps	17.1	-61bps
EPS	10.9	10.2	6.9	11.1	(1.8)

Source : RBL Research

Revenue & profit growth in Q1FY24 driven by personal and beauty care segment

Segmental Revenue

Particulars (Rs cr)	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Home care	5,421	4,930	10.0	5,637	(3.8)
% of net sales	35.0	33.7	127bps	37.0	-207bps
Beauty & Personal Care	5,668	5,406	4.8	5,257	7.8
% of net sales	36.6	37.0	-39bps	34.6	203bps
Foods & Refreshment	3,797	3,627	4.7	3,794	0.1
% of net sales	24.5	24.8	-30bps	24.9	-43bps
Others	610	661	(7.7)	527	15.7
% of net sales	3.9	4.5	-58bps	3.5	47bps
	15,496	14,624	6.0	15,215	1.8

Source : RBL Research

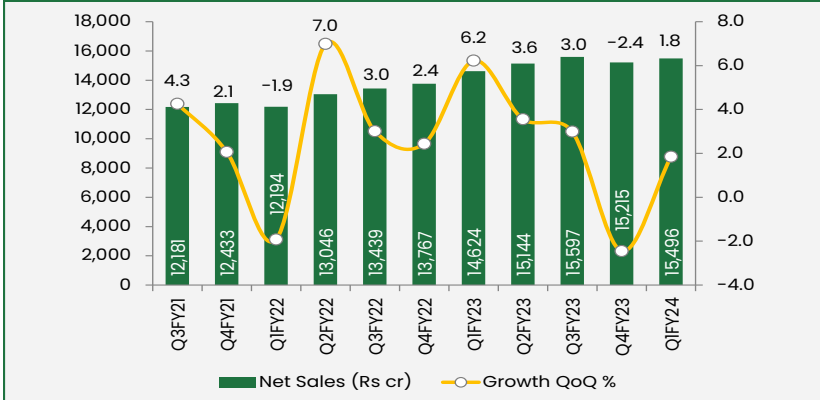
Segmental profits

Particulars (Rs cr)	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Home care	1,013	865	17.1	1,072	(5.5)
% of net sales	30.0	27.7	226bps	32.7	-267bps
Beauty & Personal Care	1,472	1,427	3.2	1,365	7.8
% of net sales	43.6	45.7	-216bps	41.6	199bps
Foods & Refreshment	681	578	17.8	679	0.3
% of net sales	20.2	18.5	163bps	20.7	-53bps
Others	213	251	(15.1)	167	27.5
% of net sales	6.3	8.0	-174bps	5.1	122bps
EBIT	3,379	3,121	8.3	3,283	2.9

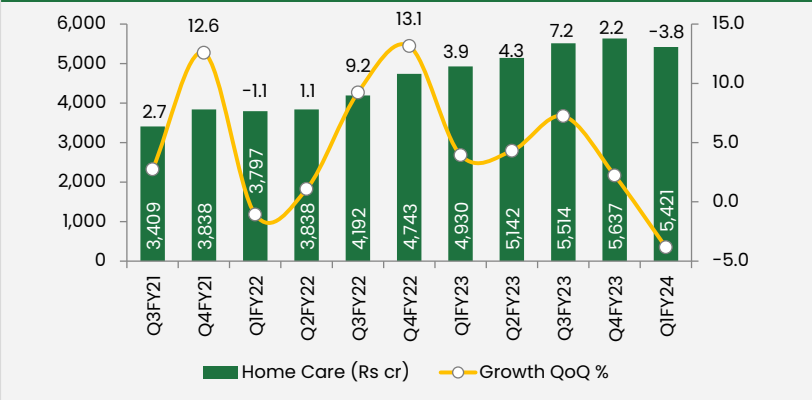
Source : RBL Research

Story in charts

Net Sales grew by 1.8% QoQ and 6.0% YoY

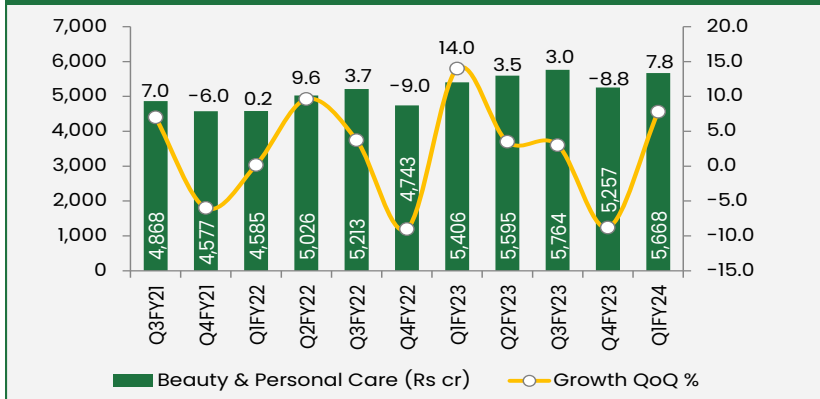


Home Care segment de-grew by 3.8% QoQ but grew by 10% YoY

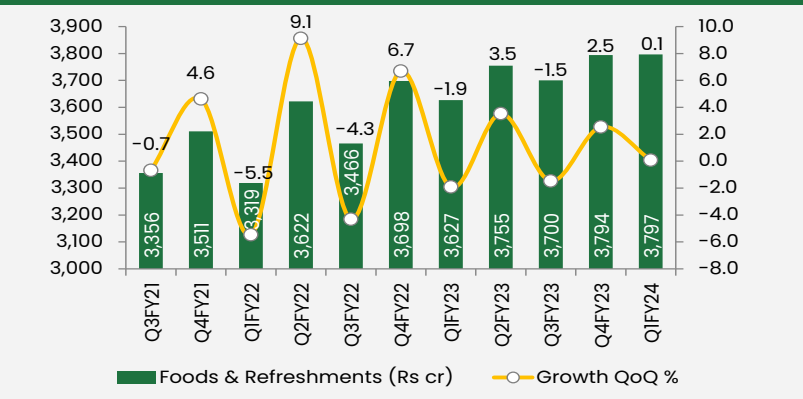


Source : RBL Research

Beauty & Personal Care segment grew by 7.8% QoQ and 4.8% YoY

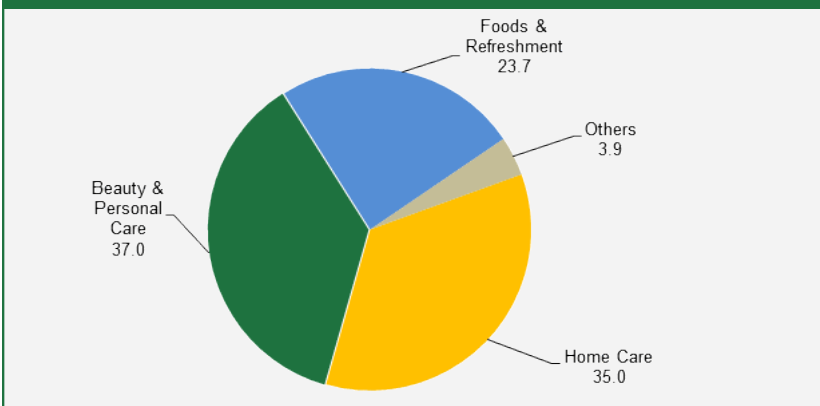


Food segment saw flat growth sequentially while grew by 4.7% YoY

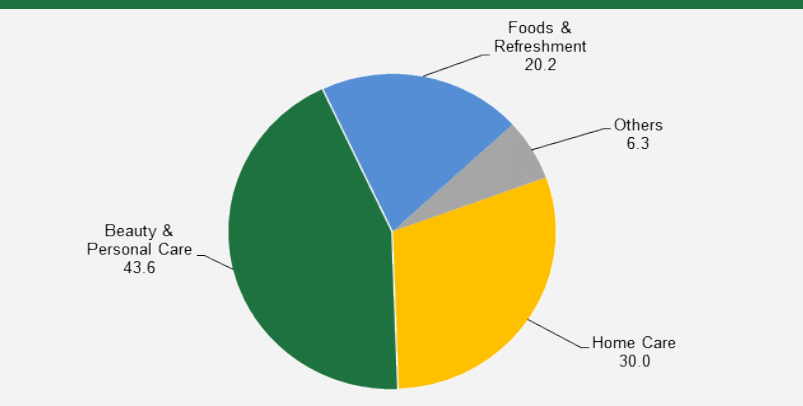


Source : RBL Research

Revenue Share by Segments in Q1FY24 (%)

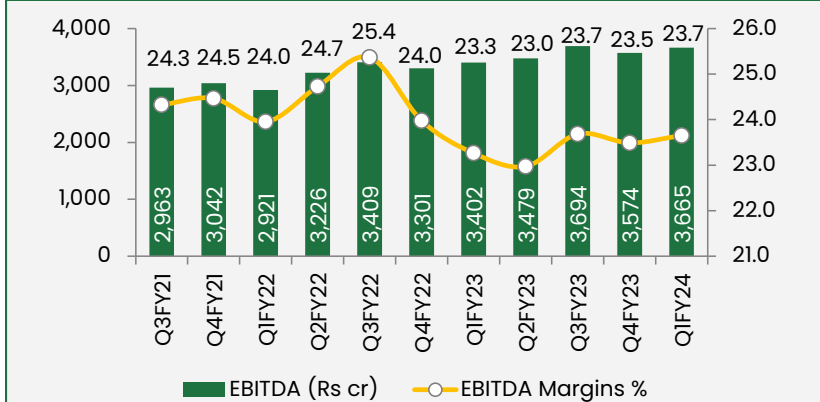


Profit Share by Segments in Q1FY24 (%)

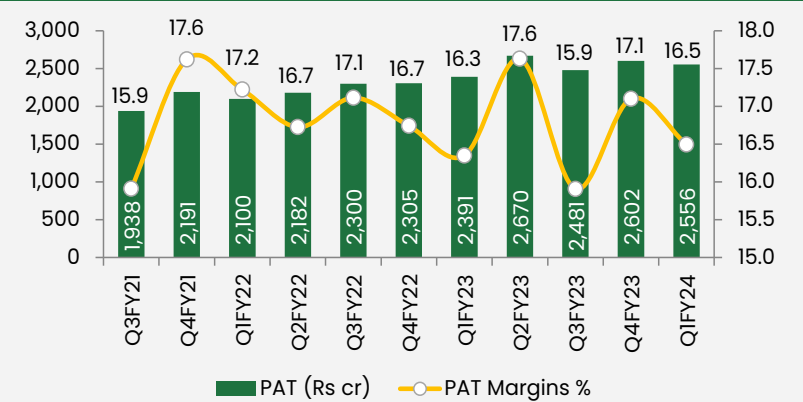


Source : RBL Research

EBITDA grew by 2.5% QoQ and margins improved by 16bps QoQ



Reported PAT de-grew by 1.8% QoQ and margins declined by 61bps QoQ



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net sales	52,446	60,580	69,866	80,755
Expenditure				
Cost of materials	16,446	20,212	23,056	26,326
Purchase of stock in trade	9,311	11,579	13,275	15,343
(Increase) / Decrease In Stocks	(22)	(75)	(21)	(24)
Total raw materials	25,735	31,716	36,310	41,645
Gross Profit	26,711	28,864	33,557	39,110
Gross Margins %	50.9	47.6	48.0	48.4
Employee cost	2,545	2,854	3,291	3,804
A&P Cost	4,744	4,907	5,659	6,541
Other expenses	449	6,954	7,895	8,964
Total expenditure	39,589	46,431	53,155	60,955
EBITDA	12,857	14,149	16,711	19,800
EBITDAM (%)	24.5	23.4	23.9	24.5
Depreciation	1,091	1,137	1,327	1,534
PBIT	11,766	13,012	15,384	18,266
Other income	258	512	419	565
Interest expenses	106	114	140	162
PBT	11,918	13,410	15,663	18,670
Tax	2,987	3,201	3,837	4,667
Reported PAT	8,931	10,209	11,826	14,002
Exceptional Income / Expenses	(44)	(65)	-	-
PAT (after Exceptional)	8,887	10,144	11,826	14,002
PAT Margin %	16.9	16.7	16.9	17.3
EPS	37.8	43.2	50.3	59.6

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	235	235	235	235
Reserves & Surplus	48,826	50,069	53,421	58,258
Total Shareholder's	49,061	50,304	53,656	58,493
Minority Interest	26	218	218	218
Short term borrowing	-	98	-	-
Total Debt	-	98	-	-
Deferred tax liabilities	7,472	7,507	7,685	7,752
Long term provision	1,580	1,363	1,467	1,615
Other long term	1,098	1,667	1,747	2,019
Total	10,150	10,537	10,899	11,386
Current Liabilities				
Trade payables	9,068	9,574	10,719	11,505
Short term provisions	346	389	449	404
Other current liabilities	1,866	1,967	2,096	2,261
Total	11,280	11,930	13,264	14,170
Total liabilities	70,517	73,087	78,037	84,267
Application of Assets				
Net Block	34,076	35,281	36,544	38,366
Current work in process	1,313	1,132	1,132	1,132
Goodwill on	17,397	17,466	17,466	17,466
Non current investment	2	2	2	3
Tax assets	1,169	1,174	1,354	1,565
Long term loans and	115	98	140	162
Other non-current assets	923	936	1,079	1,248
Total	54,995	56,089	57,718	59,941
Current Assets				
Current investments	3,519	2,811	3,493	4,038
Inventories	4,096	4,251	4,903	5,667
Trade receivables	2,236	3,079	3,551	4,104
Cash & Bank balance	3,846	4,678	5,859	7,613
Short term loans and	35	36	42	48
Other current assets	1,790	2,143	2,472	2,857
Total	15,522	16,998	20,319	24,326
Total assets	70,517	73,087	78,037	84,267

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Profit before tax	11,874	13,346	15,663	18,670
Add: Depreciation	1,106	1,152	1,327	1,534
Add: Interest cost	106	114	140	162
Less: Other Income /Interest	(198)	(411)	(419)	(565)
Less: Dividend Income	(1)	(2)	(2)	(2)
Others	(58)	(110)	-	-
Operating profit before	12,829	14,089	16,709	19,798
Changes in working capital	(1,000)	(958)	(127)	(717)
Cash from Operations	11,829	13,131	16,582	19,081
Less: Taxes	(2,781)	(3,140)	(3,837)	(4,667)
Cash flow from Operations	9,048	9,991	12,745	14,414
Net cash used in Investing				
Purchase of fixed assets	(1,228)	(1,192)	(2,591)	(3,356)
Purchase of investments	(52,234)	(26,693)	(683)	(545)
Sales of fixed assets	175	26,131	-	-
Sales of investments	51,442	(1)	-	-
Dividend Income//Interest	162	261	417	563
Others	(45)	-	-	-
Cash flow from investing	(1,728)	(1,494)	(2,856)	(3,338)
Cash flow from Financing				
Proceeds of borrowings	55	286	(98)	-
Sales of borrowings	(55)	(208)	-	-
Dividend (Incl dividend tax)	(7,526)	(8,474)	(8,474)	(9,165)
Interest cost	(82)	(88)	(140)	(162)
Others	(407)	(469)	-	-
Cash flow from Financing	(8,015)	(8,953)	(8,712)	(9,327)
Net cash Inflow/Outflow	(695)	(456)	1,177	1,750
Opening cash	1,842	1,147	714	1,891
Closing cash	1,147	714	1,891	3,641
Bank balance	2,699	3,964	3,968	3,972
Closing Cash & Bank	3,846	4,678	5,859	7,613

Source : RBL Research

Key ratios – consolidated

Particulars	FY22	FY23	FY24E	FY25E
Per share Data				
EPS (Rs)	37.8	43.2	50.3	59.6
Book value per share (Rs)	208.8	214.1	228.3	248.9
Dividend per share (Rs)	32.0	36.1	36.1	39.0
Dividend Yield (%)	1.2	1.3	1.3	1.4
Dividend Payout (%)	84.8	83.5	71.7	65.5
Profitability Ratios				
EBITDAM(%)	24.5	23.4	23.9	24.5
PBTM (%)	22.7	22.1	22.4	23.1
NPM (%)	16.9	16.7	16.9	17.3
RoE (%)	18.1	20.2	22.0	23.9
RoCE (%)	24.0	25.8	28.7	31.2
Efficiency Data				
Debt-Equity Ratio	0.0	0.0	0.0	0.0
Interest Cover Ratio	111.0	114.1	110.1	113.1
Fixed Asset Ratio	0.6	0.6	0.5	0.5
Debtors (Days)	15.6	18.6	18.6	18.6
Inventory (Days)	28.5	25.6	25.6	25.6
Payable (Days)	63.1	57.7	56.0	52.0
WC (Days)	-19.0	-13.5	-11.8	-7.8
Valuation				
P/E (x)	71.5	62.6	53.7	45.4
P/BV	12.9	12.6	11.8	10.9
EV/EBITDA	49.3	44.9	37.9	31.9
EV/Sales	12.1	10.5	9.1	7.8

Source : RBL Research

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Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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