

# Hindustan Unilever Limited



# Hindustan Unilever Ltd.

**Revenue growth shrinks, margins improve**

CMP <b>INR 2,606</b>	Target <b>INR 3,109</b>	Potential Upside <b>19.4%</b>	Market Cap (INR Mn) <b>INR 61,22,800</b>	Recommendation <b>BUY</b>	Sector <b>FMCG</b>
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## Result Highlights of Q1FY24

- HUVR reported revenue from operations of INR 1,54,960 mn in Q1FY24, delivering a 6.0% YoY/ 1.8% QoQ growth. Revenue from the Home Care segment grew by 10.0% YoY but declined by 3.8% sequentially. Beauty & Personal care segment revenue grew by 4.8% YoY/ 7.8% QoQ. Food & Refreshment segment revenue grew by 4.7% YoY and was flat QoQ.
- EBITDA for the quarter was at INR 36,650 mn, a growth of 7.7% YoY/ 2.5% QoQ. EBITDA margin expanded by 39 bps YoY/ 16 bps QoQ to 23.7%.
- Net profit was at INR 25,540 mn, a growth of 7.3% YoY but a decline of 1.8% QoQ. Adj. Net Profit grew by 8.3% YoY/ 2.8% QoQ to INR 25,910 mn.

## MARKET DATA

Shares outs (Mn)	2,350
Mkt Cap (INR Mn)	61,22,800
52 Wk H/L (INR)	2,770/ 2,393
Volume Avg (3m K)	1,447
Face Value (INR)	1
Bloomberg Code	HUVR IN

## KEY FINANCIALS

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Revenue	4,70,280	5,24,460	6,05,800	6,51,413	7,22,014
EBITDA	1,16,260	1,28,570	1,41,490	1,57,574	1,80,320
PAT	79,960	88,740	1,01,210	1,10,479	1,27,995
Adj PAT	82,340	89,230	99,240	1,10,849	1,27,995
EPS (INR)	34.0	37.8	43.1	47.0	54.5
Adj. EPS (INR)	35.0	38.0	42.2	47.2	54.5
EBITDA Margin (%)	24.7%	24.5%	23.4%	24.2%	25.0%
NPM (%)	17.5%	17.0%	16.4%	17.0%	17.7%

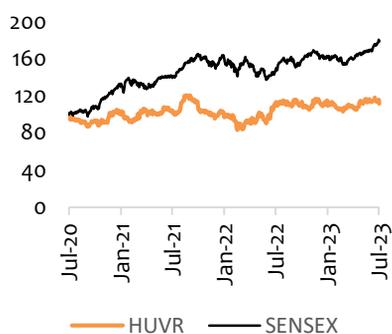
Source: Company, KRChoksey Research

**Revenue growth shrinks due to diminishing pricing growth:** HUVR reported revenue from operations of INR 1,54,960 mn in Q1FY24, delivering a 6.0% YoY/ 1.8% QoQ growth. The revenue growth has declined compared to 16.1%/ 16.1%/ 10.5% YoY in Q2FY23/ Q3FY23/ Q4FY23, respectively. The underlying volume growth was at 3% YoY vs. 6% in Q1FY23 and 4% in Q4FY23. Revenue from the Home Care (HC) segment grew by 10.0% YoY (-3.8% QoQ), with YoY volume growth in the mid-single digit. Beauty & Personal Care (BPC) segment revenue grew by 4.8% YoY/ 7.8% QoQ and YoY volume growth in the mid-single digits. Food & Refreshment (F&R) segment revenue grew by 4.7% YoY and was flat QoQ, with volumes being near flat YoY. HUVR has continued to gain market share in more than 75% of its portfolio, with higher gains in the premium portfolio.

**Gross margin gains ploughed into marketing spends:** Gross margin for Q1FY24 expanded by 285 bps YoY/ 136 bps QoQ. Commodities for HC and BPC segments were benign while those for F&R such as coffee, cereals, and skimmed milk powder were higher YoY. Part of the gross margin improvement was utilized to increase marketing spending. Advertising and Promotion expenses as a % of revenue increased to 9.7% in Q1FY24, up from 8.6% in Q4FY23 and 9.1% in Q1FY23. EBITDA for the quarter was at INR 36,650 mn, a growth of 7.7% YoY/ 2.5% QoQ. EBITDA margin expanded by 39 bps YoY/ 16 bps QoQ to 23.7%.

**Revenue growth to remain suppressed in the coming quarters:** Revenue growth is likely to remain subdued over the next few quarters as the volume growth recovery will come in with a lag. Pricing will be near flattish or marginally negative if commodities sustain current levels. Volume improvement is expected to commence in 2 to 3 quarters post all the price moderations are implemented. The lag is due to higher cost inventory at the distributors and retail customer levels. In the short term, the FMCG market is in transition. In the medium term the price: volume growth balance will return to the long-term averages of 1/3<sup>rd</sup>:2/3<sup>rd</sup>. Distributors have now started to moderate inventory levels in anticipation of price cuts. Amidst higher competitive intensity due to receding inflation, HUVR will focus on driving gross margin gains and routing them to higher A&P intensity.

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	66,684
NIFTY	19,745

## SHARE HOLDING PATTERN (%)

Particulars	Jun-23	Mar-23	Dec-22
Promoters	61.9	61.9	61.9
FIIIs	14.5	14.4	14.0
DIIIs	11.6	11.6	11.9
Others	12.1	12.2	12.2
Total	100.0	100.0	100.0



Revenue CAGR between FY23 and FY25E



Adj. PAT CAGR between FY23 and FY25E

# Hindustan Unilever Ltd.

## Key Concall Highlights

**Market growth and HUVR's market share:** (1) The market for HUVR's relevant categories is seeing a gradual volume recovery and growth was in the mid-single digits in Q1FY24. The growth continues to be led by urban while rural has just turned positive in this quarter. (2) On a 2-year CAGR basis, total market volumes were flat in the quarter while rural volumes were lower by 4%. 2-year industry price growth was 22% leading to flat volume CAGR. Against this, HUVR's volumes on a 2-year CAGR basis were higher by 5%, meaning HUVR has gained a significant market share. (3) Premium portfolio now constitutes 1/3<sup>rd</sup> of the total for HUVR and is growing at a 50% higher level than the base. (4) Reducing inflation has led to smaller players coming back in some categories and price points, and higher competitive intensity. In 3 months ending May-23, small players in tea grew 1.6x of large players and small players in detergent grew 3x of large players.

**Home Care (HC):** (1) In the HC portfolio, HUVR's volume growth was led by Household Care growing in double digits while Fabric wash and care grew in mid-single digits. (2) HUVR continued to gain market share in Fabric care. The premium portfolio outperformed in terms of growth. (3) Dishwash outperformed in the Household care portfolio.

**Beauty & Personal Care:** (1) In BPC, volumes for Skin Care & Cosmetics grew in the high single digits, oral care and hair care in the mid-single digits and skin cleansing in the low single digits. (2) The oral care portfolio saw high double-digit revenue growth led by a close-up. (3) In Skin Cleansing, HUVR took price cuts in soaps (4) HUVR has seen share erosion in Skin Cleansing over a long-term period of ~15 years due to some portfolio choices like vacating the portfolio at the lower end as profit was lower. Now, HUVR has deployed strategies like product superiority and Winning in Many Indias (WIMI) differentiated products. In the short term, the focus is on maintaining a competitive price-value equation, dial-up market development, and growth opportunities in WIMI. Over the medium to long term, consumption will grow in volume and value due to under-penetration.

**Foods & Refreshment (F&R):** (1) In F&R, volumes of foods and tea were in the low single digit while that of coffee, ice creams and Health Food Drinks (HFD) declined. (2) Unseasonal rains impacted sales of ice creams. High pricing impacted volumes for coffee. (3) In the HFD portfolio, HUVR is driving consumption through education and access via lower price packs. The premium HFD portfolio is doing well while the mass segment is impacted due to inflation.

**Other updates:** (1) Innovations in the quarter included Surf Excel matic liquid new pack, Comfort line extension, Dove men+ care shampoo plus conditioner, Indulekha soap, Horlicks millet-based biscuit, etc. (2) Media spends have reached 95% of pre-covid levels for the industry (3) HUVR's Other expenses were higher YoY due to higher royalty fees and one-off benefit in the base quarter. (4) In the inflationary period, HUVR lost 600 bps in gross margins. Of that, 400 bps have been recovered over the last 3 quarters, of which 300 bps have been invested back in advertising & promotion. (5) HC has been the star performing category in the last decade, but there is a huge opportunity for growth in the BPC and F&R categories. (6) The Effective tax for FY24E should come down slightly vs. Q1FY24 levels. (7) Weather has remained erratic with unseasonal rains, harsh heat waves, delayed monsoons, and early setting in of El Nino which could impact monsoons later. Rice and pulses could see an impact. (8) Rural growth has tailwinds in the form of moderating inflation, maintenance of heightened rural expenditure by the Government, and investments leading to higher non-farm incomes. The only headwind is in the form of uncertainty brought about by the erratic weather patterns.

## Valuation and view

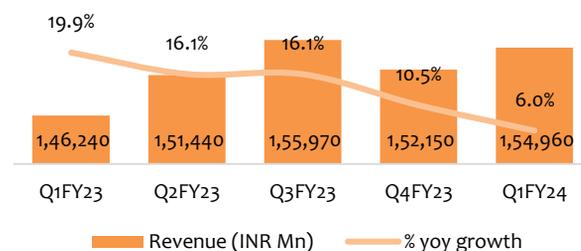
HUVR's moderation in revenue growth rates on the back of diminished pricing growth and lag in volume growth was along expected lines. This will be faced by the broader FMCG industry. However, the situation seems to be improving in terms of market growth, especially in rural and the movement is in the right direction. We continue to like HUVR's strength in consistent market share gains over the last 2 years. With a step up in marketing investments, innovations and differentiated product portfolio under the WIMI strategy, the higher share is likely to be protected. As inflation recedes, categories such as discretionary foods, Health Food Drinks, and the core portfolio demand will start to see an uptick. The growth in the premium portfolio has been superior which will continue to be a key driver for growth and profitability. While the short-term growth may be near mid-single digits, the medium to long-term growth prospects look promising. We reduce our FY24E/ FY25E Adj. EPS estimate by 4.9%/ 2.6%, respectively to factor in a slower ramp-up in topline growth in FY24E and some contraction in our EBITDA margin estimate to factor in the higher competitive intensity. **We expect Revenue/EBITDA/Adj. PAT to grow by 9.2%/ 12.9%/ 13.6% CAGR over FY23-25E. We assign a P/E multiple of 57x to the FY25E EPS of INR 54.5 to arrive at a target price of INR 3,109 per share (unchanged) with an upside of 19.4%. We maintain our rating 'BUY' rating on the stock.**

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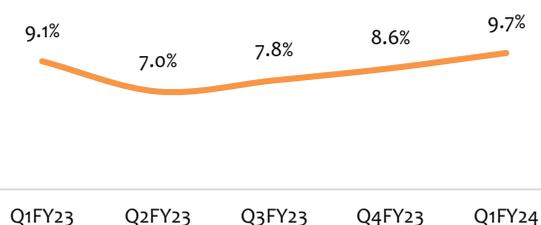
## Volume growth in low single digit



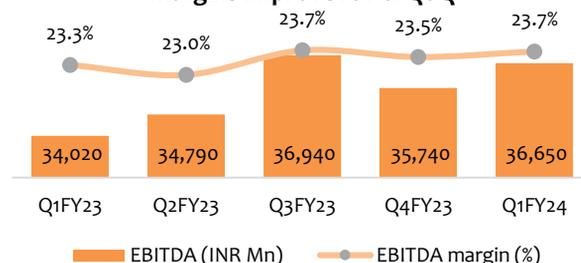
## Revenue growth rate dips to mid single-digit



## Uptick in Advertising & promotion spend as % of sales



## Margins improve YoY & QoQ



Source: Company, KRChoksey Research

## KEY FINANCIALS

Particulars (INR Mn)	Q1FY24	Q4FY23	Q1FY23	QoQ	YoY
<b>Revenue from Operations</b>	<b>1,54,960</b>	<b>1,52,150</b>	<b>1,46,240</b>	<b>1.8%</b>	<b>6.0%</b>
<b>Total Expenditure</b>	<b>1,18,310</b>	<b>1,16,410</b>	<b>1,12,220</b>	<b>1.6%</b>	<b>5.4%</b>
Cost of Raw Materials	48,200	49,080	48,680	-1.8%	-1.0%
Purchase of Stock	26,430	27,970	29,400	-5.5%	-10.1%
Changes in Inventories	2,160	420	-1,440	414.3%	250.0%
Employee Cost	7,050	7,380	6,360	-4.5%	10.8%
Advertising/ Other expenses	34,470	31,560	29,220	9.2%	18.0%
<b>EBITDA</b>	<b>36,650</b>	<b>35,740</b>	<b>34,020</b>	<b>2.5%</b>	<b>7.7%</b>
<b>EBITDA Margin (%)</b>	<b>23.7%</b>	<b>23.5%</b>	<b>23.3%</b>	<b>16 bps</b>	<b>39 bps</b>
Depreciation	2,860	2,910	2,810	-1.7%	1.8%
<b>EBIT</b>	<b>33,790</b>	<b>32,830</b>	<b>31,210</b>	<b>2.9%</b>	<b>8.3%</b>
Interest Expense	500	290	280	72.4%	78.6%
Other Income	1,830	1,600	1,330	14.4%	37.6%
<b>PBT</b>	<b>35,120</b>	<b>34,140</b>	<b>32,260</b>	<b>2.9%</b>	<b>8.9%</b>
Exceptional Items	-370	800	-120	-146.3%	208.3%
Tax	9,180	8,910	8,230	3%	11.5%
Share in P&L / MI	30	30	100	0.0%	-70.0%
<b>PAT</b>	<b>25,540</b>	<b>26,000</b>	<b>23,810</b>	<b>-1.8%</b>	<b>7.3%</b>
<b>PAT Margin</b>	<b>16.5%</b>	<b>17.1%</b>	<b>16.3%</b>	<b>-61 bps</b>	<b>20 bps</b>
<b>EPS</b>	<b>10.9</b>	<b>11.1</b>	<b>10.1</b>	<b>-1.8%</b>	<b>7.3%</b>
<b>Adj. PAT</b>	<b>25,910</b>	<b>25,200</b>	<b>23,930</b>	<b>2.8%</b>	<b>8.3%</b>
<b>Adj. PAT Margin</b>	<b>16.7%</b>	<b>16.6%</b>	<b>16.4%</b>	<b>16 bps</b>	<b>36 bps</b>
<b>Adj. EPS</b>	<b>11.0</b>	<b>10.7</b>	<b>10.2</b>	<b>2.8%</b>	<b>8.3%</b>

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## KEY FINANCIALS

Income Statement INR Mn	FY21	FY22	FY23	FY24E	FY25E
<b>Revenues</b>	<b>4,70,280</b>	<b>5,24,460</b>	<b>6,05,800</b>	<b>6,51,413</b>	<b>7,22,014</b>
COGS	2,21,480	2,57,350	3,17,160	3,19,717	3,46,508
<b>Gross profit</b>	<b>2,48,800</b>	<b>2,67,110</b>	<b>2,88,640</b>	<b>3,31,695</b>	<b>3,75,506</b>
Employee cost	23,580	25,450	28,540	29,725	32,330
Other expenses	1,08,960	1,13,090	1,18,610	1,44,397	1,62,856
<b>EBITDA</b>	<b>1,16,260</b>	<b>1,28,570</b>	<b>1,41,490</b>	<b>1,57,574</b>	<b>1,80,320</b>
<b>EBITDA Margin</b>	<b>24.7%</b>	<b>24.5%</b>	<b>23.4%</b>	<b>24.2%</b>	<b>25.0%</b>
Depreciation & amortization	10,740	10,910	11,370	12,230	13,465
<b>EBIT</b>	<b>1,05,520</b>	<b>1,17,660</b>	<b>1,30,120</b>	<b>1,45,344</b>	<b>1,66,855</b>
Interest expense	1,170	1,060	1,140	1,900	1,600
Other income	4,100	2,580	5,120	5,810	6,100
Exceptional items	-2,390	-440	-640	-370	0
<b>PBT</b>	<b>1,06,060</b>	<b>1,18,740</b>	<b>1,33,460</b>	<b>1,48,883</b>	<b>1,71,355</b>
Tax	26,060	29,870	32,010	38,234	43,182
Minority interest	40	130	230	170	179
<b>PAT</b>	<b>79,960</b>	<b>88,740</b>	<b>1,01,210</b>	<b>1,10,479</b>	<b>1,27,995</b>
<b>Adj. PAT</b>	<b>82,340</b>	<b>89,230</b>	<b>99,240</b>	<b>1,10,849</b>	<b>1,27,995</b>
<b>EPS (INR)</b>	<b>34.0</b>	<b>37.8</b>	<b>43.1</b>	<b>47.0</b>	<b>54.5</b>
<b>Adj. EPS</b>	<b>35.0</b>	<b>38.0</b>	<b>42.2</b>	<b>47.2</b>	<b>54.5</b>

Note: \*FY23 Adj. PAT is adjusted for exceptional items and a one-time tax credit of INR 2,600 mn in Q2FY23.

Cash Flow Statement INR Mn	FY21	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	91,630	90,480	99,910	1,24,453	1,47,169
Net Cash Flow from/(used in) Investing Activities	(12,280)	(17,276)	(14,940)	(21,727)	(22,999)
Net Cash Flow from Financing Activities	(93,090)	(80,150)	(89,530)	(95,811)	(1,10,396)
Net Inc/Dec in cash equivalents	(13,740)	(6,946)	(4,560)	6,915	13,775
Opening Balance	32,160	18,420	11,474	7,014	13,929
<b>Closing Balance Cash and Cash Equivalents</b>	<b>18,420</b>	<b>11,474</b>	<b>6,914</b>	<b>13,929</b>	<b>27,704</b>

Key Ratio	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin (%)	24.7%	24.5%	23.4%	24.2%	25.0%
Tax rate (%)	24.6%	25.2%	24.0%	25.7%	25.2%
Net Profit Margin (%)	17.0%	16.9%	16.7%	17.0%	17.7%
RoE (%)	29.4%	18.4%	19.9%	21.6%	24.1%
RoCE (%)	23.2%	15.1%	16.4%	17.4%	19.4%
EPS (INR)	34.0	37.8	43.1	47.0	54.5
PE	76.5x	69.0x	60.5x	55.4x	47.8x

Source: Company, KRChoksey Research

# Hindustan Unilever Ltd.

Balance Sheet INR Mn	FY21	FY22	FY23	FY24E	FY25E
<b>Non-current assets</b>					
Property, plant and equipment	61,160	61,690	69,490	68,986	68,517
Capital work-in-progress	7,450	13,130	11,320	11,320	11,320
Intangible assets (inc. Goodwill)	4,53,270	4,53,040	4,57,290	4,57,290	4,57,290
Investments accounted for using the equity method	0	0	690	690	690
Investments	24	20	20	22	24
Loans	2,510	1,150	980	1,054	1,168
Other financial assets	6,170	7,290	7,250	7,796	8,641
Deferred tax assets (Net)	170	110	100	108	119
Non-current tax assets (Net)	12,460	11,580	11,640	11,640	11,640
Other non-current assets	2,190	1,940	2,110	2,269	2,515
<b>Total non-current assets</b>	<b>5,45,404</b>	<b>5,49,950</b>	<b>5,60,890</b>	<b>5,61,173</b>	<b>5,61,924</b>
<b>Current assets</b>					
Inventories	35,790	40,960	42,510	42,853	46,444
Financial assets					
Investments	27,070	35,190	28,110	38,110	48,110
Trade receivables	17,580	22,360	30,790	33,108	36,697
Cash and cash equivalents	18,420	11,470	7,140	14,059	27,834
Other Balances with Banks	26,290	26,990	39,640	39,640	39,640
Loans	0	350	360	360	360
Other financial assets	11,880	10,890	13,860	14,904	16,519
Assets classified as Held for Sale	170	130	120	120	120
Other current assets	4,970	6,880	7,450	8,011	8,879
<b>Total current assets</b>	<b>1,42,170</b>	<b>1,55,220</b>	<b>1,69,980</b>	<b>1,91,164</b>	<b>2,24,602</b>
<b>TOTAL ASSETS</b>	<b>6,87,574</b>	<b>7,05,170</b>	<b>7,30,870</b>	<b>7,52,338</b>	<b>7,86,526</b>
<b>Equity</b>					
Equity share capital	2,350	2,350	2,350	2,350	2,350
Other equity	4,74,390	4,88,260	5,00,690	5,17,432	5,36,810
<b>Equity attributable to the equity shareholders</b>	<b>4,76,740</b>	<b>4,90,610</b>	<b>5,03,040</b>	<b>5,19,782</b>	<b>5,39,160</b>
Non-controlling interests	200	260	2,180	2,180	2,180
<b>Total equity</b>	<b>4,76,940</b>	<b>4,90,870</b>	<b>5,05,220</b>	<b>5,21,962</b>	<b>5,41,340</b>
<b>Non-current liabilities</b>					
Financial liabilities					
Other financial liabilities	10,270	10,980	16,670	17,925	19,868
Provisions	15,780	15,800	13,630	14,656	16,245
Non current tax liabilities	13,670	61,410	64,210	64,210	64,210
Other non-current liabilities	59,880	13,310	10,860	11,678	12,943
<b>Total non-current liabilities</b>	<b>99,600</b>	<b>1,01,500</b>	<b>1,05,370</b>	<b>1,08,469</b>	<b>1,13,266</b>
<b>Current liabilities</b>					
Financial liabilities					
Borrowings	0	0	980	980	980
Lease liabilities	0	3,020	3,140	3,140	3,140
Trade payables	88,020	90,680	95,740	96,512	1,04,599
Other financial liabilities	12,060	8,990	8,890	9,559	10,595
Other current liabilities	5,880	6,650	7,640	8,215	9,106
Provisions	5,070	3,460	3,890	3,500	3,500
<b>Total current liabilities</b>	<b>1,11,034</b>	<b>1,12,800</b>	<b>1,20,280</b>	<b>1,21,907</b>	<b>1,31,920</b>
<b>Total liabilities</b>	<b>2,10,634</b>	<b>2,14,300</b>	<b>2,25,650</b>	<b>2,30,376</b>	<b>2,45,186</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>6,87,574</b>	<b>7,05,170</b>	<b>7,30,870</b>	<b>7,52,338</b>	<b>7,86,526</b>

Source: Company, KRChoksey Research

# Hindustan Unilever Ltd.

Hindustan Unilever Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
21-Jul-23	2,604	3,109	BUY	<b>Buy</b>	More than 15%
02-May-23	2,451	3,109	BUY		
20-Jan-23	2,596	3,109	BUY	<b>Accumulate</b>	5% – 15%
28-Oct-22	2,519	3,043	BUY	<b>Hold</b>	0 – 5%
21-Jul-22	2,610	3,043	BUY	<b>Reduce</b>	-5% – 0
29-Apr-22	2,235	2,836	BUY	<b>Sell</b>	Less than – 5%

**ANALYST CERTIFICATION:**

I, Abhishek Agarwal (CA, CFA L3 cleared), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I 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.

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