

Hindustan Unilever Ltd.



Hindustan Unilever Ltd.

Subdued topline impacted by muted volumes and negative pricing

CMP INR 2,470	Target INR 2,716	Potential Upside 10.0%	Market Cap (INR Mn) 58,03,490	Recommendation ACCUMULATE	Sector Consumer
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Result highlights

- HUVR reported revenue from operations of INR 1,55,670 Mn, a decline of 0.2% YoY/ 0.4% QoQ. Revenue was 2.3% lower than our estimates as all 3 revenue segments saw muted growth or decline on a YoY basis. Revenue for Home Care (HC) declined by 1.3% YoY while Beauty & Personal Care (BPC)/ Foods & Refreshments (F&R) revenue grew by 0.3%/ 0.9% YoY, respectively. On a 9MFY24 basis, revenue grew by 2.9% YoY to INR 4,66,860 Mn.
- Volume growth for the quarter was 2.0% YoY. On a segmental basis, volumes for HC and BPC grew in the mid-single digits while that for F&R declined in the low single digits.
- EBITDA for Q3FY24 declined by 0.8% YoY/ 3.5% QoQ to INR 36,660 Mn. EBITDA was lower than estimated by 4.8% due to higher pressure on gross margins and higher than estimated other expenses. EBITDA margin contracted by 13 bps YoY/ 75 bps QoQ to 23.5%. For 9MFY24, EBITDA growth was at 5.2% YoY to INR 1,11,280 Mn while EBITDA margin expanded by 52 bps YoY to 23.8%.
- PAT for the quarter was at INR 25,090 Mn, a growth of 1.4% YoY but a decline of 5.5% QoQ. The exceptional item in the quarter was for restructuring expenses of INR 300 Mn. Adjusting for this and exceptional items in comparable periods, Adj. PAT was at INR 25,390 Mn, a decline of 1.5% YoY/ 4.6% QoQ. Adj. PAT was lower than our estimate by 7.7% due to the lower operating performance and ~100 bps higher tax rate in the quarter (27.2% vs. 26.2% in H1FY24). For 9MFY24, PAT grew by 2.6% YoY to INR 77,190 Mn while Adj. PAT grew by 5.2% YoY to INR 77,910 Mn.

MARKET DATA

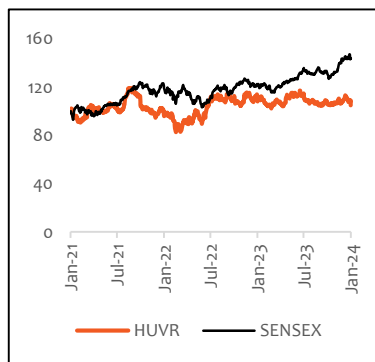
Shares O/S (Mn)	2,350
Mkt Cap (INR Mn)	58,03,490
52 Wk H/L (INR)	2,770/ 2,393
Volume Avg (3m K)	83
Face Value (INR)	1
Bloomberg Code	HUVR IN

KEY FINANCIALS

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	470,280	524,460	605,800	615,743	666,051	738,164
EBITDA	116,260	128,570	141,490	144,746	159,514	179,540
PAT	79,950	88,790	101,200	100,898	113,143	127,664
Adj PAT	82,340	89,230	99,240	101,618	113,143	127,664
EPS (INR)	34.0	37.8	43.1	42.9	48.1	54.3
Adj. EPS (INR)	35.0	38.0	42.2	43.2	48.1	54.3
EBITDA Margin (%)	24.7%	24.5%	23.4%	23.5%	23.9%	24.3%
Adj. NPM (%)	17.5%	17.0%	16.4%	16.5%	17.0%	17.3%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	71,424
NIFTY	21,572

Muted revenue growth due to negative pricing impact

HUVR reported revenue from operations of INR 1,55,670 Mn, a decline of 0.2% YoY/ 0.4% QoQ. Revenue was 2.3% lower than our estimates as all 3 revenue segments saw either a muted growth or decline on a YoY basis. Revenue for Home Care (HC) declined by 1.3% YoY while Beauty & Personal Care (BPC)/ Foods & Refreshments (F&R) revenue grew by 0.3%/ 0.9% YoY, respectively. Volume growth for the quarter was 2.0% YoY. On a segmental basis, volumes for HC and BPC grew in the mid-single digits, due to the passing on of lower commodity prices to the consumers. Volumes for F&R declined in the low single digits due to continued positive pricing growth due to higher prices in commodities like coffee and sugar. Overall revenue growth was negative due to price cuts in commodity-linked categories like personal wash and home care. On a 9MFY24 basis, revenue grew by 2.9% YoY to INR 4,66,860 Mn.

Gross margin improvement was set off by higher A&P spending and other expenses

Gross margins for the quarter were higher by 394 bps YoY but declined by 103 bps QoQ to 52.0%. EBITDA for Q3FY24 declined by 0.8% YoY/ 3.5% QoQ to INR 36,660 Mn. EBITDA was lower than estimated by 4.8% due to higher pressure on gross margins and higher than estimated other expenses. A&P spending grew by 34.5% YoY (-6.7% QoQ) in the face of higher competitive intensity. Other expenses grew by 12.1% YoY, growing higher than the topline. As a result, the improvement in gross margins did not translate to an improvement in EBITDA margins. EBITDA margin contracted by 13 bps YoY/ 75 bps QoQ to 23.5%. On a segmental basis, EBIT margin for HC declined by 162 bps YoY while that for BPC and F&R improved by 22 bps and 118 bps YoY, respectively. For 9MFY24, gross margins were higher by 464 bps YoY at 51.8%. For 9MFY24, EBITDA growth was at 5.2% YoY to INR 1,11,280 Mn while EBITDA margin expanded by 52 bps YoY to 23.8%.

Broader demand trends remained stable vs. the previous quarter

HUVR saw a stable operating environment QoQ with rural growth lower than urban, growth in mass portfolio lower than the premium portfolio, and growth in general trade lower than modern trade. Rural growth remained subdued despite the festive season, due to the concerns regarding agriculture yields. However, the FMCG market growth for rural on a 2-year CAGR basis improved from -1.0% in Q2FY24 to +1.0% in Q3FY24. Going forward, the Rabi season crop sowing and yield and Government spending on rural will be key factors determining the rural pace of recovery.

SHARE HOLDING PATTERN (%)

Particulars	Dec-23	Sep-23	Jun-23
Promoters	61.9	61.9	61.9
FIIIs	13.7	13.9	14.5
DIIIs	12.4	12.0	11.6
Others	12	12.2	12
Total	100.0	100.0	100.0

6.8%

Revenue CAGR between FY23 and FY26E

8.8%

Adj. PAT CAGR between FY23 and FY26E

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Conference Call Highlights

- Rural incomes were impacted due to lower Kharif crop output, impacted by uneven monsoon. While rabi crop sowing has recovered recently, it is concerning owing to lower reservoir levels. This has led to subdued rural consumer sentiments. As a result, the festive season was not as buoyant as expected.
- Due to a late and not very strong winter season this year, the winter portfolio is impacted.
- Market duality has persisted. Premium segments have outgrown mass by 2.5x and urban has outgrown rural. In terms of channels, Modern Trade has performed better than General Trade.
- Premium Beauty business unit, the Plus Range within Horlicks, Mayo and Peanut Butter in Foods, and Premium Laundry are growing in strong double-digits.
- The FMCG market saw high single-digit YoY volume growth on a low base of last year when volumes declined in mid-single digits. On a 2-year CAGR basis, market volume growth was subdued at 2.0%. Urban/ rural growth was 3.0%/ 1.0%, respectively.
- HUVR's 2-year CAGR of 4.0% continued to be ahead of the market. As a result, HUVR's market share has strengthened and increased by 200 bps vs FY21. However, the pace of market share gain has slowed down due to the resurgence of local competition in the declining inflation period.
- Market price growth has tailed off from +8.0% in Q2FY24 to marginally negative in Q3FY24. Over 3 years, cumulative pricing growth continued to be high at ~25.0%.
- On a MAT basis, HUVR has continued to gain market share in 60.0% of its business. Management expects this metric to dip below 60.0% for a few quarters as the Company laps the high base. It is likely to bounce back beyond 60.0% in December 2024.
- A&P spending in gMFY24 has increased by 33.0% YoY, due to higher competitive intensity and higher investments in premium portfolio.
- From 1st April 2024, the BPC business will be split into 2 separate business units- Beauty & Wellbeing and Personal Care. The Beauty & Wellbeing unit will include Skin Care, Premium Beauty, Hair Care, Color Cosmetics, and Health & Wellbeing categories, while Personal Care will include Skin Cleansing, Oral Care, and Deodorants. This is being done to bring a high level of specialization and focus in Beauty & Wellbeing.
- HUVR has appointed a Chief Digital Officer, who will steer the next phase of the digital transformation journey.
- HUVR announced a strategic partnership with Brookfield to set up a solar energy park with 45 MW capacity in Rajasthan. This initiative will contribute towards achieving HUVR's net zero goals by increasing green energy consumption in the Company's own and collaborative manufacturing units.
- The quarter did not see the impact of GSK income going away (~INR 3,000 Mn annually) due to the contract being active till November and a termination fee. From Q4FY24E, there will be no income from GSK.
- Management has not seen adverse impact post rolling out a new distributor margin structure to top 100 cities.

Home Care:

- On a 2-year CAGR basis, HC volume/ value growth was high single-digit/ 14.0%, respectively.
- Volume growth for Fabric wash was in mid-single digits due to the premium portfolio, while it was low-single digits for Household Care.
- The pricing cuts or grammage addition actions in detergents are all done. Going forward, it should be stabilized.

Beauty and Personal Care (BPC):

- New launches in the quarter included range expansion in Simple, hair serums in Sunsilk, Lash Boost mascara in Lakme, and launch of Closeup toothpaste in three different variants.
- Skin cleansing revenue declined YoY due to price cuts. Hair Care saw double-digit growth due to strong volumes led by interventions in premium formats. Skin Care and Colour Cosmetics portfolio was impacted by a weak and late winter while the non-winter premium portfolio performed well. Oral care saw mid-single-digit growth.

Food & Refreshments (F&R):

- New launches included Bru freeze-dried coffee in 3 variants and Knorr Korean noodles.
- HUVR's market share in tea strengthened even as growth was muted due to consumers downgrading. Coffee grew in double digits due to pricing. Growth in Health Food Drinks (HFD) was modest and driven by pricing and the Plus range, while volumes in the base HFD business declined in low single digits due to inflation and the discretionary nature of the product. Ice cream had mid-single-digit growth on a high base. Mayonnaise and peanut butter had strong traction.
- Deflation of tea has led to the downgradation from branded to loose tea. This will likely continue till the next season in August- September.

Outlook:

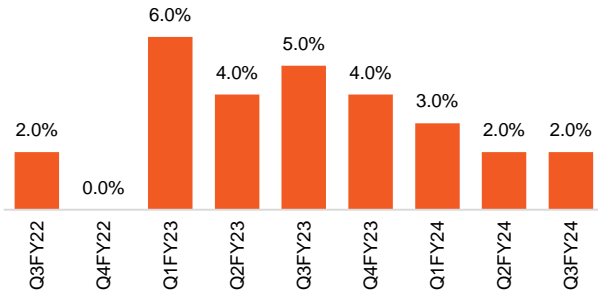
- HUVR will continue to focus on improving gross margins through net revenue management, digital acceleration, cost competitiveness and premiumization. This will help HUVR invest in brand building, innovation, market development and other strategic priorities.
- HUVR expects an effective tax rate of 26.0% for FY24E.
- Management expects a gradual recovery in demand due to increased government spending, recovery in winter crop sowing, and better crop realizations.
- Considering stable commodity prices, HUVR management expects price growth to be marginally negative in Q4FY24E.

Valuation and view

HUVR has seen a disappointing quarter in terms of topline and operating performance. Muted rural and mass segments have led to overall volume growth being subdued at low single digits, and negative pricing has led to marginally negative revenue performance on a YoY basis. In the near term, concerns continue for HUVR as rural India is yet to see any meaningful improvement in demand trends. However, HUVR has continued to fare well compared to its comparable FMCG market and has continued to see market share gains. As the macroeconomic condition improves with respect to moderating inflation, stabilizing commodity costs, improved rural incomes, HUVR will be well-placed to see a pick-up in growth. Further, higher growth in the premium segments along with cost optimization, net revenue management and digitization will help boost gross margins, enabling HUVR to further ramp up investments in brand building and market development. We reduce our FY24E/ FY25E Adj. EPS estimates by 5.7%/ 8.1%, respectively to factor in the slower pace of rural recovery and slower expansion in EBITDA margins. We have introduced FY26E estimates. **We expect Revenue/ EBITDA/ Adj. PAT to grow by 6.8%/ 8.3%/ 8.8% CAGR over FY23-26E.** HUVR's share price is currently trading at 57.5x/ 51.3x/ 45.5x its FY24E/ FY25E/ FY26E EPS. **We believe the current valuation prices in the near-term growth and higher competition concerns. We roll over our valuation to FY26E and assign a P/E multiple of 50.0x (from 53.0x on FY25E EPS earlier) to FY26E EPS of INR 54.3 to arrive at a target price of INR 2,716 per share (INR 2,778 per share earlier) with an upside of 10.0%. Accordingly, we maintain an 'ACCUMULATE' rating on the shares of Hindustan Unilever Ltd.**

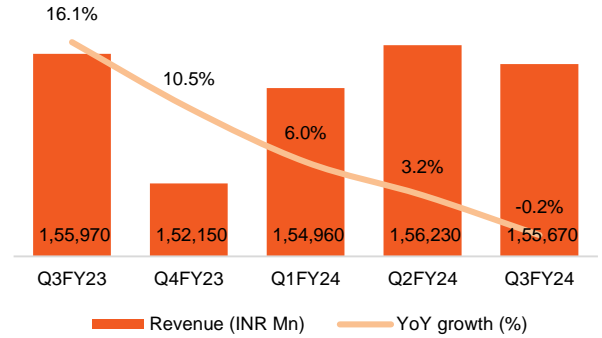
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Volume growth remains muted



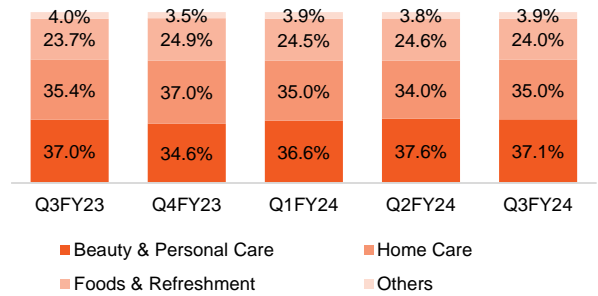
Source: Company, KRChoksey Research

Revenue growth turns negative



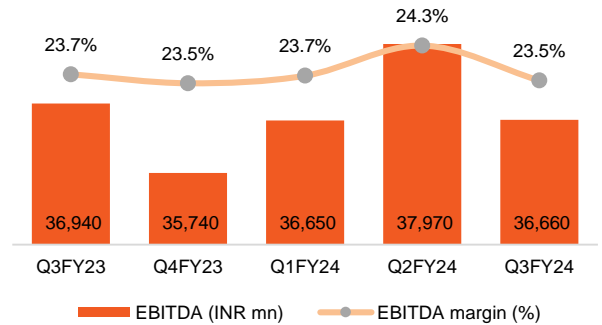
Source: Company, KRChoksey Research

Shares of business segments broadly stable



Source: Company, KRChoksey Research

EBITDA margin dips sequentially



Source: Company, KRChoksey Research

KEY FINANCIALS

Particulars (INR Mn)	Q3FY24	Q2FY24	Q1FY23	QoQ	YoY	9MFY24	9MFY23	YoY
Revenue from Operations	155,670	156,230	155,970	-0.4%	-0.2%	466,860	453,650	2.9%
Total Expenditure	119,010	118,260	119,030	0.6%	0.0%	355,580	347,900	2.2%
Cost of Raw Materials	50,270	47,990	50,000	4.8%	0.5%	146,460	153,040	-4.3%
Purchase of Stock	26,670	26,360	27,420	1.2%	-2.7%	79,460	87,820	-9.5%
Changes in Inventories	-2,150	-900	3,660	-138.9%	-158.7%	-890	-1,170	23.9%
Employee Cost	7,060	7,660	7,220	-7.8%	-2.2%	21,770	21,160	2.9%
Advertising/ Other expenses	37,160	37,150	30,730	0.0%	20.9%	108,780	87,050	25.0%
EBITDA	36,660	37,970	36,940	-3.5%	-0.8%	111,280	105,750	5.2%
EBITDA Margin (%)	23.5%	24.3%	23.7%	-75 bps	-13 bps	23.8%	23.3%	52 bps
Depreciation	3,130	2,970	2,930	5.4%	6.8%	8,960	8,460	5.9%
EBIT	33,530	35,000	34,010	-4.2%	-1.4%	102,320	97,290	5.2%
Interest Expense	910	880	290	3.4%	213.8%	2,290	850	169.4%
Other Income	2,140	1,830	1,100	16.9%	94.5%	5,800	3,520	64.8%
PBT	34,760	35,950	34,820	-3.3%	-0.2%	105,830	99,960	5.9%
Exceptional Items	-300	-50	-1,030	-500.0%	70.9%	-720	-1,440	50.0%
Tax	9,370	9,310	8,980	1%	4.3%	27,860	23,100	20.6%
Minority interest/ discontinued operations	0	30	70	-100.0%	-100.0%	60	220	-72.7%
PAT	25,090	26,560	24,740	-5.5%	1.4%	77,190	75,200	2.6%
PAT Margin	16.1%	17.0%	15.9%	-88 bps	26 bps	16.5%	16.6%	-4 bps
EPS	10.7	11.3	10.5	-5.5%	1.4%	32.8	32.0	2.6%
Adj. PAT	25,390	26,610	25,770	-4.6%	-1.5%	77,910	74,040	5.2%
Adj. PAT Margin	16.3%	17.0%	16.5%	-72 bps	-21 bps	16.7%	16.3%	37 bps
Adj. EPS	10.8	11.3	11.0	-4.6%	-1.5%	33.2	31.5	5.2%

Source: Company, KRChoksey Research

Hindustan Unilever Ltd.

KEY FINANCIALS

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	524,460	605,800	615,743	666,051	738,164
COGS	257,350	317,160	296,559	318,018	349,881
Gross profit	267,110	288,640	319,184	348,032	388,284
Employee cost	25,450	28,540	29,065	29,821	33,050
Other expenses	113,090	118,610	145,372	158,697	175,694
EBITDA	128,570	141,490	144,746	159,514	179,540
EBITDA Margin	24.5%	23.4%	23.5%	23.9%	24.3%
Depreciation & amortization	10,910	11,370	12,041	12,888	14,110
EBIT	117,660	130,120	132,705	146,626	165,430
Interest expense	1,060	1,140	3,190	3,600	3,400
Other income	2,580	5,120	7,880	8,274	8,688
Exceptional items	-440	-640	-720	0	0
PBT	118,740	133,460	136,675	151,300	170,718
Tax	29,870	32,010	35,751	38,128	43,021
Share of associates/ Minority interest/ discontinued operations	-80	-250	-26	-29	-33
PAT	88,790	101,200	100,898	113,143	127,664
Adj. PAT	89,230	99,240	101,618	113,143	127,664
EPS (INR)	37.8	43.1	42.9	48.1	54.3
Adj. EPS	38.0	42.2	43.2	48.1	54.3

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Cash Generated From Operations	90,480	99,910	113,103	137,290	156,328
Net Cash Flow from/(used in) Investing Activities	(17,276)	(14,940)	(21,084)	(21,991)	(23,289)
Net Cash Flow from Financing Activities	(80,150)	(89,530)	(97,194)	(99,772)	(111,914)
Net Inc/Dec in cash equivalents	(6,946)	(4,560)	(5,174)	15,527	21,124
Opening Balance	18,420	11,474	7,144	1,970	17,497
adjustments	0	230	0	0	0
Closing Balance Cash and Cash Equivalents	11,474	7,144	1,970	17,497	38,621

Key Ratio	FY22	FY23	FY24E	FY25E	FY26E
EBITDA Margin (%)	24.5%	23.4%	23.5%	23.9%	24.3%
Tax rate (%)	25.2%	24.0%	26.2%	25.2%	25.2%
Net Profit Margin (%)	16.9%	16.7%	16.4%	17.0%	17.3%
RoE (%)	18.4%	19.9%	20.0%	21.7%	23.7%
RoCE (%)	15.1%	16.4%	15.9%	17.3%	18.7%
EPS (INR)	37.8	43.1	42.9	48.1	54.3
PE	65.4x	57.4x	57.5x	51.3x	45.5x

Source: Company, KRChoksey Research

Hindustan Unilever Ltd.

Balance Sheet (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Property, plant and equipment	61,690	69,490	68,533	67,634	66,811
Capital work-in-progress	13,130	11,320	11,320	11,320	11,320
Intangible assets (inc. Goodwill)	453,040	457,290	457,290	457,290	457,290
Investments accounted for using the equity method	0	690	690	690	690
Investments	20	20	20	22	24
Loans	1,150	980	996	1,077	1,194
Other financial assets	7,290	7,250	7,369	7,971	8,834
Deferred tax assets (Net)	110	100	102	110	122
Non-current tax assets (Net)	11,580	11,640	11,640	11,640	11,640
Other non-current assets	1,940	2,110	2,145	2,320	2,571
Total non-current assets	549,950	560,890	560,104	560,074	560,496
Inventories	40,960	42,510	39,749	42,625	46,896
Financial assets					
Investments	35,190	28,110	38,110	48,110	58,110
Trade receivables	22,360	30,790	31,295	33,852	37,517
Cash and cash equivalents	11,470	7,140	1,970	17,497	38,621
Other Balances with Banks	26,990	39,640	39,640	39,640	39,640
Loans	350	360	360	360	360
Other financial assets	10,890	13,860	14,087	15,238	16,888
Assets classified as Held for Sale	130	120	120	120	120
Other current assets	6,880	7,450	7,572	8,191	9,078
Total current assets	155,220	169,980	172,903	205,633	247,230
TOTAL ASSETS	705,170	730,870	733,008	765,708	807,726
Equity share capital	2,350	2,350	2,350	2,350	2,350
Other equity	488,260	500,690	507,614	524,615	543,797
Equity attributable to the equity shareholders	490,610	503,040	509,964	526,965	546,147
Non-controlling interests	260	2,180	2,180	2,180	2,180
Total equity	490,870	505,220	512,144	529,145	548,327
Other financial liabilities	10,980	16,670	16,944	18,328	20,312
Provisions	15,800	13,630	13,854	14,986	16,608
Non current tax liabilities	13,310	10,860	10,860	10,860	10,860
Other non-current liabilities	61,410	64,210	65,264	70,596	78,240
Total non-current liabilities	101,500	105,370	106,921	114,770	126,020
Borrowings	0	980	980	980	980
Lease liabilities	3,020	3,140	3,140	3,140	3,140
Trade payables	90,680	95,740	89,521	95,999	105,617
Other financial liabilities	8,990	8,890	9,036	9,774	10,832
Other current liabilities	6,650	7,640	7,765	8,400	9,309
Provisions	3,460	3,890	3,500	3,500	3,500
Total current liabilities	112,800	120,280	113,943	121,793	133,379
Total liabilities	214,300	225,650	220,864	236,563	259,399
TOTAL EQUITY AND LIABILITIES	705,170	730,870	733,008	765,708	807,726

Source: Company, KRChoksey Research

Hindustan Unilever Ltd.

Hindustan Unilever Ltd.			
Date	CMP (INR)	TP(INR)	Recommendation
22-Jan-24	2,470	2,716	ACCUMULATE
23-Oct-23	2,501	2,778	ACCUMULATE
21-Jul-23	2,604	3,109	BUY
02-May-23	2,451	3,109	BUY
20-Jan-23	2,596	3,109	BUY
28-Oct-22	2,519	3,043	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

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