

# Q1FY25 Hindustan Unilever Ltd.



# Hindustan Unilever Ltd.

Gradual rural demand drives growth; margins remain stable in the near term

CMP INR 2,707*	Target INR 2,956	Potential Upside 9.2%	Market Cap (INR Mn) 63,68,332	Recommendation <b>ACCUMULATE</b>	Sector <b>Consumer</b>
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### Result highlights

- For Q1FY25 HUVR reported revenue from operations of INR 157,070 Mn (+1.5% YoY) / (+3.3% QoQ), due to the impact of price reductions taken during the year as the company passed on the benefits of lower commodity prices to consumers. HUVR's performance in Q1FY25 in line with our estimates.
- HUVR's Q1FY25 robust performance was primarily due to gradual rural demand, stronger gross margins, and a focus on premiumization across all categories, which contributed significantly to its overall revenue growth and profitability.
- Adj. PAT stood at INR 26,580 Mn, increased by 2.6% YoY (+7.2% QoQ), missed our estimates by 2.2% due to slightly lower than expected operating performance.
- We revise our FY25E/ FY26E Adj. EPS estimates by +2.6%/ +1.3%, respectively, leading to better-than-expected volume growth reported in Q1FY25 and improving product mix. **We assign a raised P/E multiple of 56.0x on FY26E EPS of INR 52.8 to arrive at a target price of INR 2,956 per share, and we maintain ACCUMULATE rating on the shares of Hindustan Unilever Ltd.**

### MARKET DATA

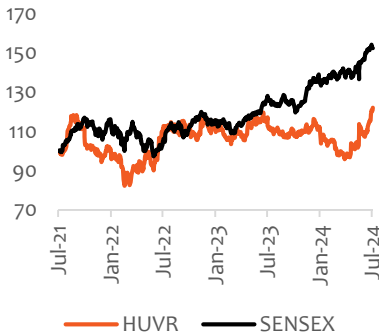
Shares O/S (Mn)	2,350
Net Worth (INR Mn)	5,14,230
Mkt Cap (INR Mn)	63,68,332
52 Wk H/L (INR)	2,811/ 2,172
Volume Avg (3m K)	2,465
Face Value (INR)	1
Bloomberg Code	HUVR IN

### KEY FINANCIALS

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	524,460	605,800	618,960	656,616	718,520
EBITDA	128,570	141,480	146,630	155,776	173,313
PAT	88,790	101,200	102,810	112,119	124,062
Adj PAT	89,230	99,240	102,750	112,599	124,062
EPS (INR)	37.8	43.1	43.7	47.7	52.8
Adj. EPS (INR)	38.0	42.2	43.7	47.9	52.8
EBITDA Margin (%)	24.5%	23.4%	23.7%	23.7%	24.1%
Adj. NPM (%)	17.0%	16.4%	16.6%	17.1%	17.3%

Source: Company, KRChoksey Research

### SHARE PRICE PERFORMANCE



### MARKET INFO

SENSEX	80,040
NIFTY	24,406

### Increased volumes contributed to revenue growth

- HUVR reported revenue of INR 157,070 Mn, which was increased by 1.4% YoY / (+3.3% QoQ) led by higher volume growth but partially offset by adverse price effects. Reported underlying volume growth was 4.0% YoY, driven by strong tonnage growth in the homecare business.
- Home Care (36.1% of sales) revenue grew by 4.6% YoY / (-0.6% QoQ), with volume growth in the high single digits. This was aided by strong laundry business.
- Beauty & Personal Care (36.1% of sales) growth was flat YoY / (+10.6% QoQ) with mid-single-digit growth volumes for beauty and wellbeing driven by strong growth in hair care. However, personal care revenue fell 5.0% YoY due to a negative price impact.
- Foods & Refreshments (24.5% of sales) grew by 1.4% YoY / (-1.5% QoQ) with flat YoY volumes.

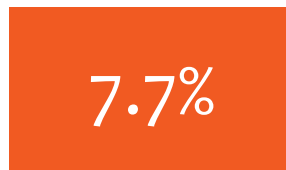
### Margin growth and profitability boost amid challenges

- Gross margins during the quarter increased by 152 bps YoY / (-32 bps QoQ). Improved YoY gross margin due to operational focus, reinvesting in brands and capabilities to enhance profitability and sustainability.
- EBITDA increased by 2.2% YoY / (+5.9% QoQ) to INR 37,440 Mn. EBITDA margin increased by 19 bps YoY / (+60 bps QoQ) to 23.8%. This increase in margin was achieved despite the negative impact on underlying sales growth due to passing on the benefits of low commodity prices to consumers.
- PAT of INR 26,100 Mn increased by 2.2% YoY (+2.0% QoQ). Adj. PAT increased by 7.2% YoY / (+2.6% QoQ). PAT growth was driven by overall operating performance.

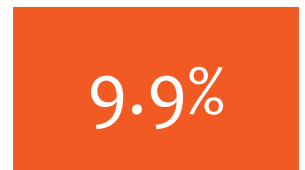
### SHARE HOLDING PATTERN (%)

Particulars	Jun-24	Mar-24	Dec-23
Promoters	61.9	61.9	61.9
FIIIs	11.9	12.7	13.7
DIIIs	14.1	13.3	12.4
Others	12.1	12.1	12.0
Total	100	100	100

\*Based on previous closing



Revenue CAGR between FY24 and FY26E



Adj. PAT CAGR between FY24 and FY26E

## Hindustan Unilever Ltd.

### Conference Call Highlights

#### Update on strategic priorities

- HUVR has retained most of the **~200 bps of market share gains** it had acquired during the high inflation period, though there has been a slight dip in recency.
- The Company's "MAT business winning metric" is expected to return to **60.0% levels by the end of the calendar year, indicating the effectiveness of its strategic actions.**
- The value weighted distribution stood at **95% of the FMCG industry.**
- The Company has a total reach of over **9.0 Mn outlets in the country, making it the FMCG Company with the widest reach.**
- HUVR is leveraging its distribution network and execution capabilities to drive growth and maintain its competitive edge.
- The Company is focused on operational excellence and reinvesting a substantial portion of the margin expansion in its brands and capabilities.

#### Home Care:

- The Homecare segment showed strong performance, with **4.0% underling sales growth (USG) and high-single-digit underling volume growth (UVG), driven by pricing actions.**
- Fabric care volumes grew strongly in high-single digits due to strategic portfolio adjustments in both mass and premium segments.
- Household care volumes increased in mid-single digits, supported by a strong showing in the premium dishwash segment.
- Both fabric and household care segments experienced negative price growth attributed to commodity deflation.

#### Beauty and Personal Care (BPC):

- **Beauty & Wellbeing achieved 3.0% USG and mid-single digit UVG.**
- Hair care volumes grew at a double-digit rate, **fueled by strong performances from Sunsilk, Clinic Plus, and Dove brands.**
- Skin care and color cosmetics saw subdued volume growth, largely due to declines in the mass portfolio.
- Personal care achieved **low-single digit UVG, but USG declined by 5.0%.**
- Skin cleansing experienced low-single digit volume growth, **but revenue declined due to pricing actions implemented.**
- Oral care achieved mid-single digit growth primarily driven by pricing strategies.
- The Oral Care category, featuring brands like Closeup and Pepsodent, witnessed improved performance with the launch of innovative products.
- The Personal Wash segment, comprising brands like Lifebuoy and Lux, **recorded volume growth and market share gains.**

#### Food & Refreshments (F&R):

- **Foods & Refreshment reported 1.0% USG with stable volumes overall.**
- Nutritional drinks and tea were affected by a challenging summer season.
- Coffee achieved **double-digit growth driven by pricing strategies.**
- Foods segment saw **low-single digit volume growth, driven by strong performance in food solutions, mayonnaise, peanut butter, and international sauces.**
- Ice-cream experienced **double-digit volume growth, supported by successful launches during the summer season.**
- The Foods portfolio, including brands like Kissan and Knorr, delivered a steady performance, driven by new product introductions and enhanced distribution.

#### Other Important Highlights

- HUVR has focused on premiumisation by leveraging leading trends, technology, and introducing new formats and benefits.
- Contribution of premium portfolio has increased by **approximately 300 basis points over the past three years.**
- Emphasized growth in high-demand segments such as home care liquids, beauty, bodywash, and international cuisine.
- These portfolios are driving around **20.0% UVG and have shown over 50% growth in e-commerce sales as of June 2024.**
- Implemented proprietary technology over five years with **over 20 patents filed to reduce palm wastage by up to 25.0%, decrease deforestation, and mitigate commodity volatility.**
- Geographic spread: GT (General Trade) – 70.0%, MT (Modern Trade) and E-commerce – 25.0%, Government channel – 5.0%.
- Recently announced sale and divestment of the **water purification business 'Pureit' aligns with the strategic focus on core portfolio strengths.**

#### Outlook:

- The FMCG market is expected to see a gradual recovery in volume growth, with rural growth lagging behind urban growth in the near term. Further, the Company anticipates no price growth in the short term. However, management **expects low single-digit pricing growth in H2FY25.**
- Commodity prices have been volatile, **but in the recent quarter, they have been mostly range-bound, providing some relief.**
- **Employee costs and other expenses are expected to remain at a similar level, as a percentage of sales, in the near term.**
- HUVR'S will continue to focus on driving volume-led growth, strengthening competitiveness, and maintaining healthy margins.
- **EBITDA margins will remain stable in the near term** while the medium to long-term ambition remains to see gradual improvement.
- The tax rate for FY25F is expected to be marginally **higher than 26%.**

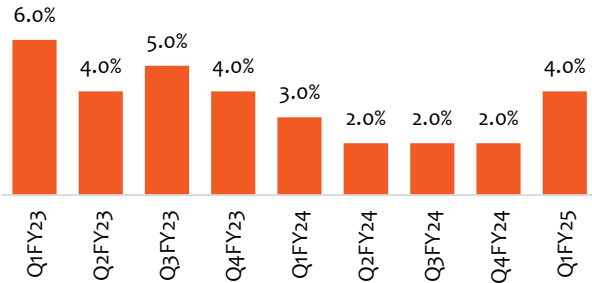
## Hindustan Unilever Ltd.

### Valuation and view

HUVR highlighted strong operational achievements and strategic priorities. The Company continues to focus on improving product superiority, execution, and distribution reach to strengthen its competitive position. While rural recovery has been gradual, the Company sees some green shoots. Looking ahead, HUL remains watchful of factors impacting the pace of recovery, such as monsoons, employment, and inflation. The Company is well-positioned to navigate the evolving FMCG landscape through its strategic priorities.

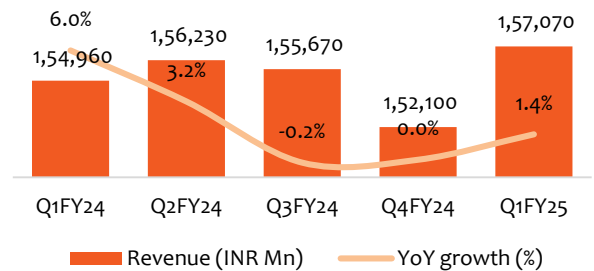
We revise our FY25E/ FY26E Adj. EPS estimates by +2.6%/ +1.3%, respectively, leading to better-than-expected volume growth reported in Q1FY25 and improving product mix. We expect Revenue/EBITDA/Adj. PAT to grow by 7.7%/ 8.7%/ 9.9% CAGR over FY24-26E. HUVR's share price is currently trading at 56.9x/51.5x its FY25E/FY26E EPS. Due to improved rural demand, increased government spending, and stable EBITDA margins, we assign a raised P/E multiple of 56.0x (from 48.5x earlier) on FY26E EPS of INR 52.8 to arrive at a target price of INR 2,956 per share (INR 2,526 per share earlier). Given the 9.2% upside potential, we maintain our 'ACCUMULATE' rating on the shares of Hindustan Unilever Ltd. The stock has appreciated 22.2% since our last result update.

Improvement seen in volume growth due to gradual recovery in rural demand (QoQ)



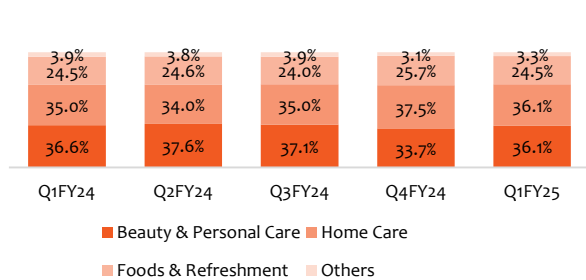
Source: Company, KRChoksey Research

Cascading effects of volume growth improved revenue (QoQ)



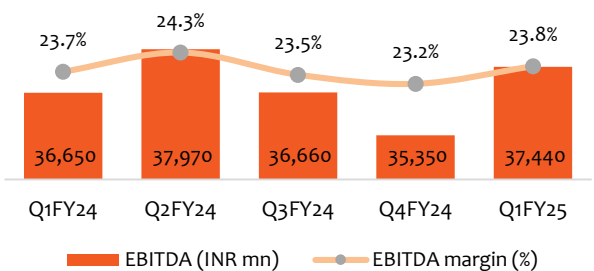
Source: Company, KRChoksey Research

Share of BPC increased sequentially due to demand in beauty products



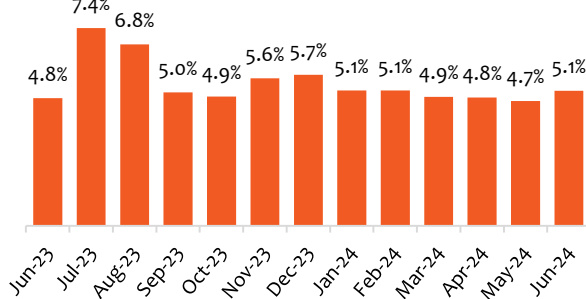
Source: Company, KRChoksey Research

EBITDA margin increased due to cost effectiveness and premiumization (QoQ)



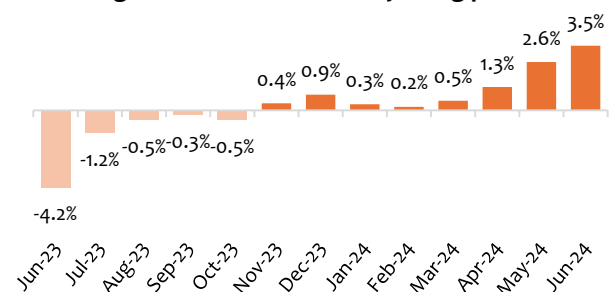
Source: Company, KRChoksey Research

CPI inflation Month-wise



Source: RBI, KRChoksey Research

High WPI inflation driven by rising prices



Source: RBI, KRChoksey Research

## Hindustan Unilever Ltd.

### KEY FINANCIALS

Q1 FY25 Results (INR Mn)	Q1FY25	Q4FY24	Q1FY24	QoQ	YoY
Revenue from Operations	157,070	152,100	154,960	3.3%	1.4%
Total Expenditure	119,630	116,750	118,310	2.5%	1.1%
Cost of Raw Materials	48,740	46,110	48,200	5.7%	1.1%
Purchase of Stock	27,280	25,680	26,430	6.2%	3.2%
Changes in Inventories	-570	780	2,160	173.1%	-126.4%
Employee Cost	6,560	8,320	7,050	-21.2%	-7.0%
Advertising/ Other expenses	37,620	35,860	34,470	4.9%	9.1%
<b>EBITDA</b>	<b>37,440</b>	<b>35,350</b>	<b>36,650</b>	<b>5.9%</b>	<b>2.2%</b>
<b>EBITDA Margin (%)</b>	<b>23.8%</b>	<b>23.2%</b>	<b>23.7%</b>	<b>60 bps</b>	<b>19 bps</b>
Depreciation	3,290	3,200	2,860	2.8%	15.0%
<b>EBIT</b>	<b>34,150</b>	<b>32,150</b>	<b>33,790</b>	<b>6.2%</b>	<b>1.1%</b>
Interest Expense	930	1,050	500	-11.4%	86.0%
Other Income	2,570	2,310	1,830	11.3%	40.4%
<b>PBT</b>	<b>35,790</b>	<b>33,410</b>	<b>35,120</b>	<b>7.1%</b>	<b>1.9%</b>
Exceptional Items	-480	780	-370	161.5%	29.7%
Tax	9,170	8,580	9,180	7%	-0.1%
Minority interest/ discontinued operations	40	30	30	33.3%	33.3%
<b>PAT</b>	<b>26,100</b>	<b>25,580</b>	<b>25,540</b>	<b>2.0%</b>	<b>2.2%</b>
<b>PAT Margin</b>	<b>16.6%</b>	<b>16.8%</b>	<b>16.5%</b>	<b>-20 bps</b>	<b>14 bps</b>
<b>EPS</b>	<b>11.1</b>	<b>10.9</b>	<b>10.9</b>	<b>2.0%</b>	<b>2.2%</b>
<b>Adj. PAT</b>	<b>26,580</b>	<b>24,800</b>	<b>25,910</b>	<b>7.2%</b>	<b>2.6%</b>
<b>Adj. PAT Margin</b>	<b>16.9%</b>	<b>16.3%</b>	<b>16.7%</b>	<b>62 bps</b>	<b>20 bps</b>
<b>Adj. EPS</b>	<b>11.3</b>	<b>10.6</b>	<b>11.0</b>	<b>7.2%</b>	<b>2.6%</b>

Source: Company, KRChoksey Research

Income Statement (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
<b>Revenues</b>	<b>524,460</b>	<b>605,800</b>	<b>618,960</b>	<b>656,616</b>	<b>718,520</b>
COGS	257,350	317,160	297,600	313,731	341,661
<b>Gross profit</b>	<b>267,110</b>	<b>288,640</b>	<b>321,360</b>	<b>342,884</b>	<b>376,859</b>
Employee cost	25,450	28,540	30,090	30,871	33,235
Other expenses	113,090	118,620	144,640	156,237	170,311
<b>EBITDA</b>	<b>128,570</b>	<b>141,480</b>	<b>146,630</b>	<b>155,776</b>	<b>173,313</b>
<b>EBITDA Margin</b>	<b>24.5%</b>	<b>23.4%</b>	<b>23.7%</b>	<b>23.7%</b>	<b>24.1%</b>
Depreciation & amortization	10,910	11,370	12,160	12,974	13,463
<b>EBIT</b>	<b>117,660</b>	<b>130,110</b>	<b>134,470</b>	<b>142,802</b>	<b>159,849</b>
Interest expense	1,060	1,140	3,340	3,530	3,400
Other income	2,580	5,120	8,110	11,239	11,801
Exceptional items	-440	-640	60	-480	0
<b>PBT</b>	<b>118,740</b>	<b>133,450</b>	<b>139,300</b>	<b>150,031</b>	<b>168,250</b>
Tax	29,870	32,010	36,440	37,850	44,129
Share of associates/ Minority int./ disc. operations	-80	-240	-50	-62	-60
<b>PAT</b>	<b>88,790</b>	<b>101,200</b>	<b>102,810</b>	<b>112,119</b>	<b>124,062</b>
<b>Adj. PAT</b>	<b>89,230</b>	<b>99,240</b>	<b>102,750</b>	<b>112,599</b>	<b>124,062</b>
<b>EPS (INR)</b>	<b>37.8</b>	<b>43.1</b>	<b>43.7</b>	<b>47.7</b>	<b>52.8</b>
<b>Adj. EPS</b>	<b>38.0</b>	<b>42.2</b>	<b>43.7</b>	<b>47.9</b>	<b>52.8</b>

Source: Company, KRChoksey Research

Cash Flow Statement (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Net Cash Generated From Operations	90,480	99,910	154,690	135,531	152,382
Net Cash Flow from/(used in) Investing Activities	(17,276)	(14,940)	(53,240)	(25,574)	(27,043)
Net Cash Flow from Financing Activities	(80,150)	(89,530)	(100,340)	(98,835)	(108,852)
Net Inc/Dec in cash equivalents	(6,946)	(4,560)	1,110	11,122	16,487
Opening Balance	18,420	11,474	7,014	8,254	19,314
adjustments	0	230	130	(62)	0
<b>Closing Balance Cash and Cash Equivalents</b>	<b>11,470</b>	<b>7,140</b>	<b>8,250</b>	<b>19,314</b>	<b>35,800</b>

Source: Company, KRChoksey Research

## Hindustan Unilever Ltd.

Balance Sheet (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Property, plant and equipment	61,690	69,490	80,310	82,971	86,549
Capital work-in-progress	13,130	11,320	10,250	10,250	10,250
Intangible assets (inc. Goodwill)	453,040	457,290	457,130	457,130	457,130
Investments accounted for using the equity method	0	690	650	650	650
Investments	20	20	20	21	23
Loans	1,150	980	1,020	1,082	1,184
Other financial assets	7,290	7,250	7,600	8,062	8,822
Deferred tax assets (Net)	110	100	100	106	116
Non-current tax assets (Net)	11,580	11,640	11,750	11,750	11,750
Other non-current assets	1,940	2,110	2,920	3,098	3,390
<b>Total non-current assets</b>	<b>549,950</b>	<b>560,890</b>	<b>571,750</b>	<b>575,121</b>	<b>579,865</b>
Inventories	40,960	42,510	40,220	42,400	46,175
Financial assets					
Investments	35,190	28,110	45,580	55,580	65,580
Trade receivables	22,360	30,790	29,970	31,793	34,791
Cash and cash equivalents	11,470	7,140	8,250	19,314	35,800
Other Balances with Banks	26,990	39,640	67,340	67,340	67,340
Loans	350	360	380	380	380
Other financial assets	10,890	13,860	14,250	15,117	16,542
Assets classified as Held for Sale	130	120	120	120	120
Other current assets	6,880	7,450	7,130	7,564	8,277
<b>Total current assets</b>	<b>155,220</b>	<b>169,980</b>	<b>213,240</b>	<b>239,608</b>	<b>275,004</b>
<b>TOTAL ASSETS</b>	<b>705,170</b>	<b>730,870</b>	<b>784,990</b>	<b>814,728</b>	<b>854,869</b>
Equity share capital	2,350	2,350	2,350	2,350	2,350
Other equity	488,260	500,690	509,830	526,710	545,379
<b>Equity attributable to the equity shareholders</b>	<b>490,610</b>	<b>503,040</b>	<b>512,180</b>	<b>529,060</b>	<b>547,729</b>
Non-controlling interests	260	2,180	2,050	2,050	2,050
<b>Total equity</b>	<b>490,870</b>	<b>505,220</b>	<b>514,230</b>	<b>531,110</b>	<b>549,779</b>
Other financial liabilities	10,980	16,670	18,240	19,350	21,174
Provisions	15,800	13,630	15,760	16,719	18,295
Non-current tax liabilities	13,310	10,860	42,430	42,430	42,430
Other non-current liabilities	61,410	64,210	65,570	69,559	76,117
<b>Total non-current liabilities</b>	<b>101,500</b>	<b>105,370</b>	<b>142,000</b>	<b>148,058</b>	<b>158,016</b>
Borrowings	0	980	130	130	130
Lease liabilities	3,020	3,140	3,650	3,650	3,650
Trade payables	90,680	95,740	104,860	110,544	120,385
Other financial liabilities	8,990	8,890	8,650	9,176	10,041
Other current liabilities	6,650	7,640	8,070	8,561	9,368
Provisions	3,460	3,890	3,400	3,500	3,500
<b>Total current liabilities</b>	<b>112,800</b>	<b>120,280</b>	<b>128,760</b>	<b>135,561</b>	<b>147,074</b>
<b>Total liabilities</b>	<b>214,300</b>	<b>225,650</b>	<b>270,760</b>	<b>283,619</b>	<b>305,090</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>705,170</b>	<b>730,870</b>	<b>784,990</b>	<b>814,728</b>	<b>854,869</b>

Source: Company, KRChoksey Research

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
EBITDA Margin (%)	24.5%	23.4%	23.7%	23.7%	24.1%
Tax rate (%)	25.2%	24.0%	26.2%	25.2%	26.2%
Net Profit Margin (%)	16.9%	16.7%	16.6%	17.1%	17.3%
RoE (%)	18.4%	19.9%	20.2%	21.5%	23.0%
RoCE (%)	15.1%	16.4%	15.7%	16.0%	17.0%
EPS (INR)	37.8	43.1	43.7	47.7	52.8
PE	58.9x	51.6x	50.8x	56.9x	51.5x

Source: Company, KRChoksey Research

## Hindustan Unilever Ltd.

Hindustan Unilever Ltd.			
Date	CMP (INR)	TP(INR)	Recommendation
26-Jul-24	2,707	2,956	ACCUMULATE
27-Apr-24	2,223	2,526	ACCUMULATE
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

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:

I, Unnati Jadhav (MMS, Finance ), 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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KRChoksey Shares and Securities Pvt. Ltd.

CIN-U67120MH1997PTC108958

Registered Office: 1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6633 5000; Fax: 91-22-6633 8060

Corporate Office: 701-702, DLH Plaza, Opp Shoppers Stop, S V Road, Andheri (W), Mumbai 400 058

Phone: 91-22-66535000

Compliance Officer: Varsha Shinde

Email: [varsha.shinde@krchoksey.com](mailto:varsha.shinde@krchoksey.com)