Hindustan Unilever Ltd

Soft Q2

Consumer Goods	Sharekhan code: HINDUNILVR

Reco/View: Buy	↔	CMP: Rs. 2,658	Price Target: Rs. 3,079	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- HUL's Q2FY2025 performance was slight miss on expectations with revenues growing by 1.5% y-o-y while PAT declined by ~4% y-o-y; underlying volumes grew by 3%, lagging street expectations of 4-5%.
- Rural demand is recovering, while urban demand is moderating resulting in no major uplift in the overall demand. Management expects low-single digit price-led growth in H2FY2025 due to input cost inflation. OPM to remain at ~23% in the near term.
- Board has decided to separate ice cream business to sharpen focus on core business. Ice cream business contributes ~3% of overall India business and this move is unlikely to have any impact on HUL's earnings performance.
- Stock has corrected by 13% from its recent high and trades at 59x, 54x and 49x its FY25E, FY26E and FY27E EPS, respectively. We retain a Buy on the stock with a revised PT of Rs. 3,079.

HUL's Q2FY2025 performance was slightly miss on expectations, with revenues coming lower than expectation by ~2%. Revenues grew by 1.5% y-o-y to Rs. 15,508 crore with underlying volumes rising 3% (lower than our as well street expectation of 4-5%). Homecare revenues grew by 8% y-o-y (high single-digit volume growth), beauty & well-being revenues grew by 1.5% y-o-y (mid-single digit volume growth), personal care revenue declined by 5% y-o-y (low single-digit volume decline), while foods & refreshments revenue declined by 2% y-o-y (low single-digit volume decline). Input cost inflation (especially palm oil and raw tea prices) led to a 169 bps y-o-y decline in the gross margins to 51.0%. Reduction in ad-spends resulted in just 68 bps y-o-y decline in OPM to 23.5% (in-line with our expectation of 23.3%). This along with higher interest & depreciation cost led to 3.7% y-o-y decline in the adjusted PAT to Rs. 2,621 crore. For H1FY2025, revenues grew by 1.4% y-o-y to Rs. 30,847 crore and adjusted PAT stood flat y-o-y at Rs. 5,194 crore with OPM standing at 23.5%.

Key positives

- ~60% of HUL's product portfolio registered high single-digit revenue growth.
- Fabric wash & household care registered high single-digit volume growth.

Key negatives

- Gross margins declined by 169 bps y-o-y to 51% due to input cost inflation.
- Personal care segment registered 5% y-o-y decline in revenues due to pricing action taken in skin cleansing portfolio.

Management Commentary

- Management indicated that overall market volume growth stood muted in Q2 as urban growth saw a moderation, while rural growth is recovering. Further, premium segment continued to grow faster compared to other segments and management expects the trend to continue.
- Prices of key commodities for HUL were volatile in Q2. If commodity prices remain at current levels, HUL expects low single-digit price growth in H2. Management expects OPM to remain at current level of ~23% in near term with stringent cost management.
- To sharpen its focus on the core business and further strengthen its play in trending demand spaces such as Beauty, Foods, Health and Wellbeing, the company's board has announced separation of HUL's ice-cream business.
- Management indicated that HUL has strengthened its value and volume market share in the tea category. With sharp increase in raw tea prices, the company has already started taking price increases and will also see some price hikes in Q3.
- Tea volume growth will recover post narrowing of pricing premium between branded and loose tea products in the domestic market in the quarters ahead.
- Required correction in mass personal wash portfolio, encouraging response to change in formulation, good growth in premium categories such as body wash and improving penetration on key channels will help good recovery in the volume growth of personal wash category.
- In HFD category, more work needs to be done on consumption. Since acquisition of the Horlicks business, HUL has seen 250 bps rise in market share and 700 bps rise in penetration levels.
- Within the beauty category, premium end is doing well with ponds registering high double-digit growth, while growth in the mass-end is muted. HUL would focus on improving growth of fair & lovely brand (mass-end).

Revision in estimates - We have reduced our earnings estimates for FY2025E and FY2026E by 3% and 5% respectively to factor in lower than earlier expected revenue growth with volatility in volume growth is expected to remain in the near term. We have introduced FY2027E estimates through this note.

Our Call

View - Maintain Buy with a revised PT of Rs. 3,079: HUL's Q2 performance was slight miss on expectation with volume growth coming in lower than expectation. Though rural demand is recovering, slowing demand in the urban market has impacted the pace of overall recovery in the near term. The management is optimistic about the medium-term outlook focusing on premiumisation, targeting high growth spaces through new launches, growing core and leading channels of the future. The stock has corrected by 13% from its recent and high and any further correction will provide a good entry opportunity. The stock currently trades at 59x, 54x and 49x its FY25E, FY26E and FY27E EPS, respectively. We retain a Buy on the stock with a revised PT of Rs. 3,079.

Key Risks

Sustained slowdown in rural demand or persistent volatility in key input prices from current levels would act as a key risk to our earnings in the near term.

Valuation (standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	59,144	60,469	62,659	68,093	74,358
OPM (%)	23.0	23.0	23.1	23.1	23.4
Adjusted PAT	10,024	9,900	10,541	11,485	12,813
Adjusted EPS (Rs.)	42.7	42.1	44.9	48.9	54.5
P/E (x)	62.3	63.1	59.3	54.4	48.8
P/B (x)	12.4	12.3	12.0	11.8	11.3
EV/EBIDTA (x)	45.4	44.3	42.3	38.7	34.9
RoNW (%)	20.3	19.6	20.5	21.8	23.7
RoCE (%)	25.6	25.9	26.9	29.2	31.6

Source: Company; Sharekhan estimates

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Company details

Market cap:	Rs. 6,24,521 cr
52-week high/low:	Rs. 3,035/2,170
NSE volume: (No of shares)	20.5 lakh
BSE code:	500696
NSE code:	HINDUNILVR
Free float: (No of shares)	89.5 cr

Shareholding (%)

Promoters	61.9
FII	12.9
DII	14.2
Others	11.1

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-12.2	-3.9	17.5	7.0
Relative to Sensex	-6.5	-3.5	8.9	-17.0

Sharekhan Research, Bloomberg

Soft Q2

HUL's revenues marginally grew by 1.5% y-o-y in Q2FY2025 to Rs. 15,508 crore, slightly lower than our and average street expectation of Rs. 15,794 crore and Rs. 15,775 crore, respectively. Homecare revenues grew by 8.0% y-o-y, beauty & wellbeing segment revenue grew by 1.5% y-o-y, while foods & refreshment and personal care segments registered a 1.2% and 4.9% y-o-y decline. Domestic sales volumes grew by 3% y-o-y, largely in line with our as well as street expectation of 3-5% volume growth. Gross margins declined by 169 bps y-o-y to 51.0% due to higher input prices. However, OPM fell by 68 bps y-o-y to 23.5% aided by lower advertisement spends (lower by ~15% y-o-y). OPM came in at par with ours and average street expectation of 23.3% and 23.5%, respectively. Operating profit and adjusted PAT declined by 1.4% and 3.7% y-o-y to Rs. 3,644 crore and Rs. 2,609 crore, respectively. PAT came in lower than our expectation of Rs. 2,713 crore and the street's average expectation of Rs. 2,674 crore. In H1FY2025, revenue grew by 1.4% y-o-y to Rs. 30,847 crore, OPM slightly fell by 21 bps y-o-y to 23.5% and adjusted PAT stood largely flat y-o-y at Rs. 5,194 crore. The board has declared a total interim dividend of Rs. 29 per share (which includes a regular interim dividend of Rs. 19 and special dividend of Rs. 10 per share).

Homecare – High-single digit volume growth; margins flat y-o-y

- Revenues grew by 8.0% y-o-y to Rs. 5,737 crore, with volume growth in high-single digits.
- Growth was broad based with both Fabric Wash and Household care growing volumes in high-single digit.
- Liquids portfolio, with a strong double-digit volume growth, continued to outperform. HUL continued to strengthen its liquids segment with the expansion of Rin liquid and forayed into the floor cleaner market with a superior product under the Vim brand.
- Market development journey in fabric enhancers was bolstered with the launch of Comfort beads.
- PBIT margin of the segment stood largely flat y-o-y at 18.9%.

Beauty and wellbeing (Beauty) – Mid-single digit volume growth; margins lower y-o-y

- Reported revenues grew by 1.5% y-o-y to Rs. 3,233 crore (grew by 7% y-o-y excluding impact of one-off tax credit in the base), with volume growth in mid-single digit.
- Hair Care continued its growth momentum and grew in high-single digit led by outperformance in Sunsilk, Dove and Tresemme.
- Skin care and Colour cosmetics delivered a mid-single digit growth. Premium Skin portfolio maintained its double-digit growth trajectory.
- In Q2FY2025, Tresemme's Lamellar Gloss range, Ponds' Hydra Miracle Body Gel Lotion, Glow and Lovely's Niacinamide Serum and Lakme's on-trend collection of Lip Oil and Lip Glaze to name a few, were launched.
- PBIT margins contracted by 63 bps y-o-y to 33.7%.

Personal care (PC) – Mid-single digit volume decline; margins lower y-o-y

- Revenue fell by 4.9% y-o-y to Rs. 2,412 crore, with volumes declining in low-single digits.
- Skin cleansing declined primarily on account of pricing actions taken during the year.
- Premium portfolio grew ahead of the segment and within that bodywash continued to strengthen its market leadership with high double-digit growth.
- Oral Care delivered a competitive high-single digit growth led by Closeup.
- Lux introduced a superior range of Sandalwood soap and bodywash during the quarter.
- PBIT margins came in lower by 136 bps y-o-y to 16.6%.

Foods and Refreshments (F&R) – Low single-digit volume decline; margins down y-o-y

- Revenues declined by 1.2% y-o-y to Rs. 3,803 crore, with volumes remaining declining in low-single digits.
- Tea continued to cement market leadership through value and volume share gains. Green and Functional tea maintained their strong volume growth however overall category volumes remained subdued. Coffee grew in double digits.
- Nutrition drinks continued to gain market share, while consumption remained subdued.
- Foods grew volumes in low-single digit. Strong volume growth in Food Solutions, Mayonnaise, Peanut Butter, and International sauces continued on the back of market development actions, range extensions and distribution expansion.
- Ice-cream maintained its volume y-o-y. Horlicks Rs. 10 sachet, Diabetes Plus chocolate flavour, Knorr's Korean Kimchi Soup and Kissan's 100% Fruit based spread were launched in Q2.
- PBIT margin fell by 55 bps y-o-y to 18.1%.

Key business updates and concall highlights

- **Separation of ice-cream business:** The board has announced its decision to separate the Ice Cream business with an aim to sharpen its focus on the core business and further strengthen its play in trending demand spaces such as Beauty, Foods, Health and Wellbeing. Ice cream, which contributes ~3% to HUL's turnover, is a high-growth category that needs significant investments to realise its full potential. Given that Unilever owns the trademarks and know-how and has announced the separation of its Ice Cream business, local capabilities will need to be developed to continue running the business. Since Ice Cream has a different operating model including cold chain infrastructure, and a distinct channel landscape, it limits synergies with rest of HUL. With the aim of maximising value for all shareholders, the Board will determine the mode of separation by the end of this year.
- **Green shoots in rural market; urban growth moderating:** Management indicated that urban growth is declining for past few quarters, while rural growth is recovering. Growth in big cities is trending down.
- **Commodity prices volatile; eyes price-led growth in H2:** Prices of key commodities for HUL were volatile in Q2, with tea and palm oil seeing sharp increase of 25% and 10% y-o-y respectively, while crude oil was down by 10% y-o-y. If commodity prices remain stable, HUL expects low single-digit price growth in H2.
- **OPM to stay stable in near term:** Management expects OPM to remain at current level of ~23% in near term. HUL aims to increase gross margin and continue to invest on advertisement spends in the near term leading to OPM remaining stable.
- **Expect price increases in Tea:** Management indicated that HUL has strengthened its value and volume market share in the tea category. With sharp increase in raw tea prices, the company has already started taking price increases and will also see some price hikes in Q3.
- **Skin cleansing will come back:** Required correction in the mass personal wash portfolio, encouraging response to change in formulation, good growth in premium categories such as body wash and improving penetration on key channels will help good recovery in the volume growth of personal wash category.

Results (Standalone) Rs cr

Particulars	Q2FY25	Q2FY24	y-o-y (%)	Q1FY25	q-o-q (%)
Net revenue	**15,508.0**	**15,276.0**	**1.5**	**15,339.0**	**1.1**
Total Raw Material	7,593.0	7,221.0	5.2	7,448.0	1.9
Employee Expenses	765.0	708.0	8.1	602.0	27.1
Advertising and promotions	1,467.0	1,720.0	-14.7	1,644.0	-10.8
Other Expenses	2,039.0	1,933.0	5.5	2,039.0	0.0
Total expenditure	11,864.0	11,582.0	2.4	11,733.0	1.1
Operating Profit	**3,644.0**	**3,694.0**	**-1.4**	**3,606.0**	**1.1**
Other income	309.0	283.0	9.2	257.0	20.2
Interest	99.0	72.0	37.5	85.0	16.5
Depreciation	305.0	269.0	13.4	298.0	2.3
PBT	**3,549.0**	**3,636.0**	**-2.4**	**3,480.0**	**2.0**
Tax	928.3	914.0	1.6	907.0	2.4
Adjusted PAT	**2,620.7**	**2,722.0**	**-3.7**	**2,573.0**	**1.9**
Extra-ordinary items	11.7	5.0	-	35.0	-66.7
Reported PAT	**2,609.0**	**2,717.0**	**-4.0**	**2,538.0**	**2.8**
Adjusted EPS (Rs.)	11.2	11.6	-3.7	11.0	1.9
			bps		**bps**
GPM (%)	51.0	52.7	-169	51.4	-41
OPM (%)	23.5	24.2	-68	23.5	-1
NPM (%)	16.9	17.8	-92	16.8	12
Tax rate (%)	26.2	25.1	102	26.1	10

Source: Company, Sharekhan Research

Segmental performance Rs cr

Particulars	Q2FY25	Q2FY24	y-o-y (%)	Q1FY25	q-o-q (%)
Revenue					
Home Care	5,737.0	5,312.0	8.0	5,675.0	1.1
Beauty & Wellbeing	3,323.0	3,274.0	1.5	3,199.0	3.9
Personal Care	2,412.0	2,535.0	-4.9	2,386.0	1.1
Food & Refreshments	3,803.0	3,851.0	-1.2	3,850.0	-1.2
Others	233.0	304.0	-23.4	229.0	1.7
Total	**15,508**	**15,276**	**1.5**	**15,339**	**1.1**
PBIT margins (%)					
Home Care	18.9	18.7	22	19.5	-59
Beauty & Wellbeing	33.7	34.4	-63	31.4	229
Personal Care	16.6	18.0	-136	17.5	-89
Food & Refreshments	18.1	18.7	-55	19.1	-97

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - H2FY2025 will be better as compared to H1

Monsoons were above normal and well spread out, which will help agri production to be better in the current year. This will not only boost rural consumption but will also help agri inflation to stabilise in the near term. Management of some consumer goods companies have indicated double-digit revenue growth in H2FY2025 driven by mix of volume and price-led growth. Global uncertainties will lead to volatility in the raw material prices and currency movement. This will put pressure on the margins of consumer goods companies in the quarters ahead. Companies might opt for a gradual price increase to mitigate the impact of higher raw material prices. We expect operating profit growth to be lower as compared to revenue growth in the near term. On the other hand, an increase in commodity prices will reduce competitive intensity from small/regional players in the quarters ahead. Thus, overall growth trends remain positive for most companies under our coverage.

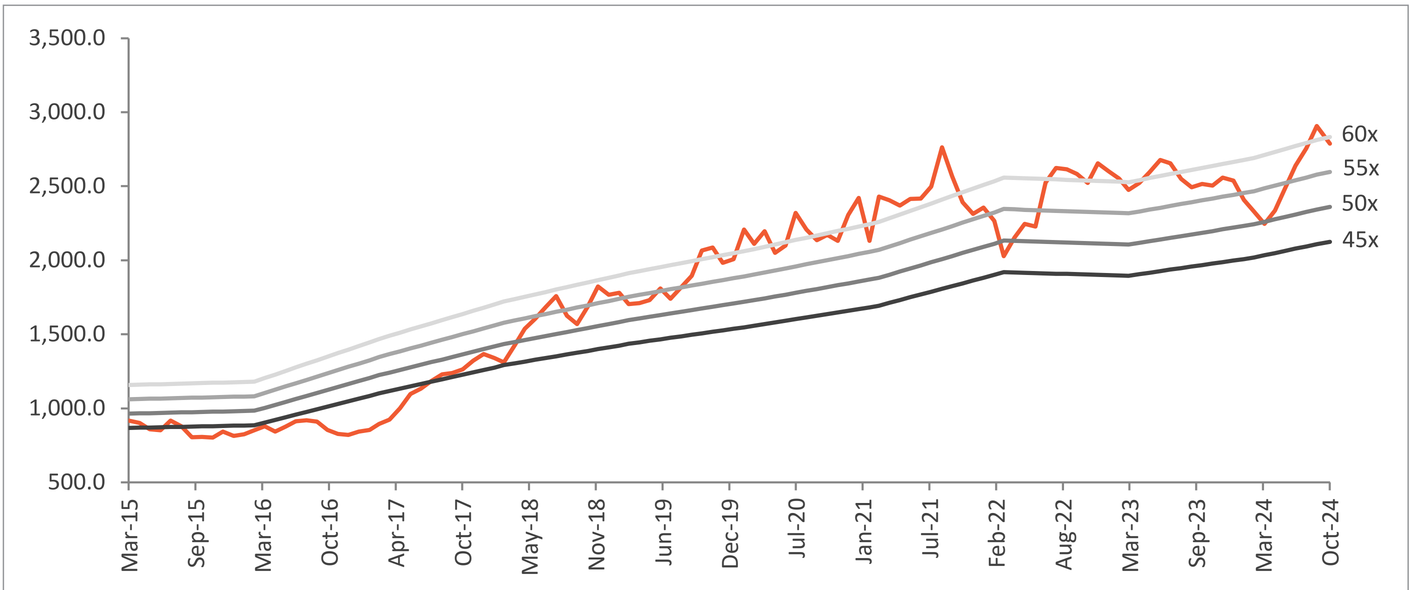
■ Company outlook - Focus remains on achieving competitive volume growth

HUL's Q2FY2025 numbers were soft, with low single-digit revenue growth and decline in OPM leading to low-mid single-digit decline in PAT. Recovery in rural demand, better offtake for out-of-home categories, addition of relevant products in the portfolio and sustained improvement in penetration in key categories remain key growth drivers in the near term. The company is well-poised to achieve good growth in the coming years with a leadership position in over 85% of the portfolio and a presence in more than nine million stores. A better product mix, operational efficiencies and integration benefits would help margins to improve in the coming years. However, a recent hike in royalty charges and continued focus on A&P spends will moderate the rise in margins.

■ Valuation - Maintain Buy with a revised PT of Rs. 3,079

HUL's Q2 performance was slight miss on expectation with volume growth coming in lower than expectation. Though rural demand is recovering, slowing demand in the urban market has impacted the pace of overall recovery in the near term. The management is optimistic about the medium-term outlook focusing on premiumisation, targeting high growth spaces through new launches, growing core and leading channels of the future. The stock has corrected by 13% from its recent and high and any further correction will provide a good entry opportunity. The stock currently trades at 59x, 54x and 49x its FY25E, FY26E and FY27E EPS, respectively. We retain a Buy on the stock with a revised PT of Rs. 3,079.

One-year forward P/E band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Nestle India	57.1	69.3	62.4	38.5	46.6	41.0	126.5	106.1	113.5
ITC	28.7	25.8	22.7	23.7	20.4	17.8	30.9	33.4	34.9
Godrej Consumer Products	65.0	54.1	46.3	43.5	40.0	35.2	17.1	18.0	18.9
HUL	63.1	59.3	54.4	44.3	42.3	38.7	25.9	26.9	29.2

Source: Company; Sharekhan Research

About company

HUL is India's largest FMCG company with presence of more than 90 years. The company is a subsidiary of Unilever Plc (that holds a 62% stake in HUL), the world's largest consumer goods company present across 190 countries. It has a strong portfolio in the homecare and beauty and personal care categories. With over 50 brands spanning 16 distinct categories such as personal wash, fabric wash, skin care, hair care, oral care, deodorants, colour cosmetics, beverages, ice creams, frozen desserts, and water purifiers, HUL is part of the everyday life of millions of consumers across India. The company's portfolio includes leading brands such as Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, and Axe. Out of the company's portfolio of over 50 brands, 19 brands have a turnover exceeding Rs. 1,000 crore per annum (FY24).

Investment theme

HUL has a leadership position in highly penetrated categories such as soaps, detergents, and shampoos in India. The company maintained its leadership position in more than 85% of business (FY24). Sustaining product innovation, entering new categories, premiumisation, and increasing distribution network remain some of the company's key revenue drivers. A strong financial background, robust cash-generation ability, and leadership position in some of the key categories give HUL an edge over other companies and, hence, justify the stock's premium valuation. With strategies in place, we expect the company to clock 7%/9% revenue/PAT CAGR over FY2024-27E.

Key Risks

- **Slowdown in the demand environment:** Any slowdown in demand (especially in rural India) would affect sales of key categories, resulting in moderation of sales volume growth.
- **Increased input prices:** Palm oil and crude derivatives such as linear alkyl benzene are some of the key raw materials used by HUL. Any significant increase in the prices of some of these raw materials would affect profitability and earnings growth.
- **Increased competition in highly penetrated categories:** Increased competition in highly penetrated categories such as soaps and detergents would act as a threat to revenue growth.

Additional Data

Key management personnel

Nitin Paranjpe	Chairman
Rohit Jawa	Chief Executive Officer & Managing Director
Ritesh Tiwari	Executive Director, Finance & IT and Chief Financial Officer
Dev Bajpai	Executive Director, Legal & Corporate Affairs & Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.01
2	BlackRock Inc	1.59
3	Vanguard Group Inc	1.59
4	SBI Funds Management Ltd	1.57
5	ICICI Prudential AMC Ltd	1.15
6	UTI Asset Management Co Ltd	0.49
7	Kotak Mahindra AMC	0.48
8	ICICI Prudential Life Insurance Co Ltd	0.38
9	Norges Bank	0.35
10	Nippon Life India AMC	0.31

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.