

24 April 2025

Hindustan Unilever

Investments to boost volumes, but cuts near-term margin outlook; Buy

HUL's Q4 was broadly in line with the Street's expectations, with volumes growing 2% y/y (vs. 0-2% estimated) and the EBITDA margin at 22.8% (vs. 23%). Urban demand was soft; however, the company is optimistic about growth picking up ahead, helped by healthy rural demand, the Budget's consumption boost, lower commodity inflation and normal monsoon forecast. Also, it plans to invest in brands (especially in the B&W segment) to drive volumes and innovation, which could weigh on margins in the near term. Thus, management has lowered its EBITDA margin guidance for the near term to 22-23% but retained it at 23-24% for the medium term. To factor in the above, we lower our FY26e/27e EPS by 2% each. We retain our Buy rating, with a 12-mth lower TP of Rs2,840 (Rs2,900 earlier), 53x FY27e EPS.

Q4 volumes up 2% y/y. Homecare volumes grew in mid-single digit, while beauty & wellbeing grew by low single-digits; personal care saw a low-single digit decline and food & refreshments fell in mid-single-digits. The ~3% y/y revenue growth was driven by better rural demand; urban demand, however, continued to lag. Homecare revenue grew 2% y/y, with an 80bp y/y decline in the EBIT margin. B&W revenue grew 4% y/y, with the margin rising 260bps y/y. Personal care revenue rose 3% y/y, with a 50bp y/y rise in the margin. F&R declined 0.4% y/y, with a 280bp y/y fall in margin. We build in a 7.7% revenue CAGR over FY25-27, led by a 5.5% volume CAGR.

The EBITDA margin dipped 30bps to 22.8%. Higher palm oil, tea and coffee prices compressed the gross margin by 140bps y/y, though offset by lower A&SP spends (down 110bps y/y); meanwhile, higher other expenses (10bps) squeezed the EBITDA margin. Management anticipates low single-digit price hikes in the near term, but reduced the near-term EBITDA margin guidance to 22-23% (vs. earlier 23-24%) as the company plans to invest in brands to drive volumes. Thus, we build in just 50bp EBITDA-margin gain over FY25-27, driven by operating leverage, cost-saving initiatives and hiving off the low-margin ice-cream business.

Valuations. At the CMP, the stock trades at 48x/43x FY26e/27e EPS of Rs48.1/53.5. **Key risks:** A sharp rise in input cost, price-based competition, loss of market share to new/smaller manufacturers.

Key financials (YE Mar)	FY23	FY24	FY25	FY26e	FY27e
Sales (Rs m)	605,800	618,960	631,210	675,262	732,479
Net profit (Rs m)	101,860	102,750	103,522	113,142	125,793
EPS (Rs)	43.3	43.7	44.1	48.1	53.5
P/E (x)	53.7	53.2	52.8	48.4	43.5
EV / EBITDA (x)	38.1	36.5	36.4	34.1	30.7
P / BV (x)	10.9	10.7	11.1	10.8	10.6
RoE (%)	20.2	20.1	20.9	22.4	24.4
RoCE (%)	18.3	18.3	18.8	20.7	22.4
Dividend yield (%)	1.7	1.8	2.3	1.9	2.1
Net debt / equity (x)	-0.1	-0.1	-0.0	-0.0	-0.0

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price: Rs.2,840

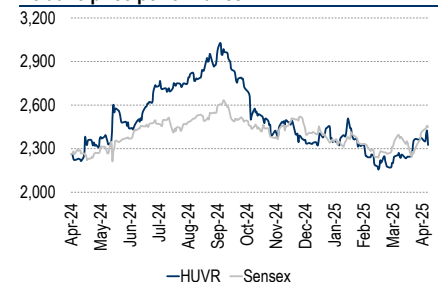
Share Price: Rs.2,328

Key data	HUVR IN / HLL.BO
52-week high / low	Rs.3,03523 / 2,136
Sensex / Nifty	79,801/ 24,247
Market cap	Rs.5,463bn
Shares outstanding	2350m

Shareholding pattern (%)	Mar'25	Dec'24	Sep'24
Promoters	61.9	61.9	61.9
- of which, Pledged	-	-	-
Free Float	38.0	38.0	38.1
- Foreign Institutions	10.6	11.4	12.2
- Domestic Institutions	15.5	14.7	14.1
- Public	11.9	11.9	11.8

Estimates revision (%)	FY26e	FY27e
Sales	-0.6	-0.6
EBITDA	-2.8	-2.6
PAT	-2.4	-2.4

Relative price performance



Source: Bloomberg

Ajay Thakur
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

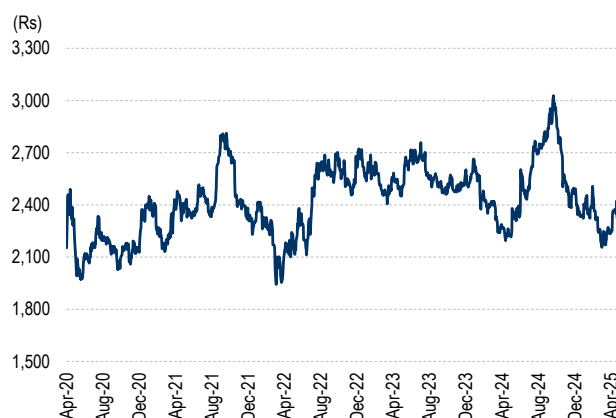
Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
Net revenues	605,800	618,960	631,210	675,262	732,479
Growth (%)	16	2	2	7	8
Direct costs	317,160	297,600	305,778	324,590	349,573
Gross profit	288,640	321,360	325,432	350,672	382,906
Gross margins (%)	47.6	51.9	51.6	51.9	52.3
Other expenses	147,140	174,730	176,918	191,492	206,998
EBITDA	141,500	146,630	148,513	159,180	175,908
EBITDA margins (%)	23.4	23.7	23.5	23.6	24.0
- Depreciation	11,380	12,160	13,549	13,944	14,323
Other income	5,120	8,110	10,170	10,500	10,800
Interest expenses	1,140	3,340	3,950	3,600	3,200
PBT	134,100	139,240	141,184	152,136	169,186
Effective tax rates (%)	23.9	26.2	26.5	25.5	25.5
+ Associates / (Minorities)	230	50	220	200	250
Net income	101,860	102,750	103,522	113,142	125,793
WANS	2,350	2,350	2,350	2,350	2,350
FDEPS (Rs)	43.3	43.7	44.1	48.1	53.5

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
PBT	133,460	139,260	141,184	152,136	169,186
+ Non-cash items	-7,430	-6,110	-7,329	-7,044	-6,723
Oper. prof. before WC	140,890	145,370	148,513	159,180	175,908
- Incr. / (decr.) in WC	-9,580	13,130	-39,866	2,707	4,975
Others incl. taxes	31,380	3,810	37,442	38,795	43,142
Operating cash-flow	99,930	154,690	71,206	123,093	137,741
- Capex (tang. + intang.)	-10,110	-14,570	-19,303	-39,910	-15,000
Free cash-flow	89,820	140,120	51,903	83,183	122,741
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	84,740	94,160	124,550	103,400	115,150
+ Equity raised	-	-	-	-	-
+ Debt raised	780	-850	-	-	-
- Fin investments	7,010	42,920	-8,150	-	-
- Misc. (CFI + CFF)	6,030	1,080	-3,940	-7,037	-7,760
Net cash-flow	-7,180	1,110	-60,558	-13,180	15,351

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

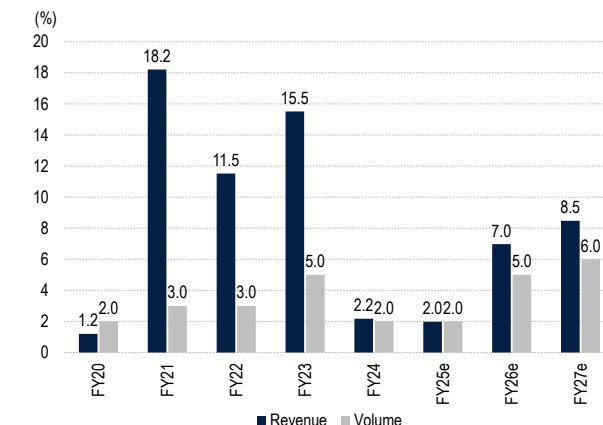
Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
Share capital	2,350	2,350	2,350	2,350	2,350
Net worth	503,040	512,180	494,872	504,750	515,553
Debt	980	130	130	130	130
Minority interest	2,180	2,050	2,270	2,470	2,720
TL / (Assets)	64,110	65,470	59,470	59,470	59,470
Lease liabilities	-	-	-	-	-
Capital employed	570,310	579,830	556,742	566,820	577,873
Net tangible assets	73,890	84,550	90,464	121,520	122,197
Net intangible assets	278,230	278,230	278,230	278,230	278,230
Goodwill	174,660	174,660	174,660	174,660	174,660
CWIP (tang. & intang.)	11,320	10,250	10,090	5,000	5,000
Investments (strategic)	-1,020	-1,340	-9,490	-9,490	-9,490
Investments (financial)	29,840	47,590	47,590	47,590	47,590
Current assets (excl. cash)	117,070	115,360	127,945	135,367	146,919
Cash	46,780	75,590	15,032	1,852	17,203
Current liabilities	160,460	205,060	177,779	187,908	204,435
Working capital	-43,390	-89,700	-49,834	-52,542	-57,517
Capital deployed	570,310	579,830	556,742	566,820	577,873

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
P/E (x)	53.7	53.2	52.8	48.4	43.5
EV / EBITDA (x)	38.1	36.5	36.4	34.1	30.7
EV / Sales (x)	8.9	8.6	8.6	8.0	7.4
P/B (x)	10.9	10.7	11.1	10.8	10.6
RoE (%)	20.2	20.1	20.9	22.4	24.4
RoCE (%) - after tax	18.3	18.3	18.8	20.7	22.4
RoIC (%) - after tax	21.2	22.2	22.4	22.9	24.9
DPS (Rs)	39.0	42.0	53.0	44.0	49.0
Dividend yield (%)	1.7	1.8	2.3	1.9	2.1
Dividend payout (%) - incl. DDT	90.0	96.1	120.3	91.4	91.5
Net debt / equity (x)	-0.1	-0.1	-0.0	-0.0	-0.0
Receivables (days)	18.6	17.7	22.1	20.8	20.5
Inventory (days)	25.6	23.7	25.5	25.5	25.4
Payables (days)	69.5	73.8	73.7	73.6	74.4
CFO: PAT %	98.1	150.5	68.8	108.8	109.5

Source: Company, Anand Rathi Research

Fig 6 – Revenue-growth trend



Source: Company

Result highlights

Fig 7 – Quarterly results

(Rs m)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
Volume growth (%)	6	4	5	4	3	2	2	2	4	3	-	2
Net sales	142,720	147,510	152,280	148,930	151,480	152,760	151,880	148,570	153,390	155,080	154,080	152,140
Y/Y	19.8	16.8	17.2	10.6	6.1	3.6	-0.3	-0.2	1.3	1.5	1.4	2.4
Gross Profit	67,580	67,570	72,310	72,540	75,600	80,550	78,210	77,060	78,910	79,150	78,070	76,800
Gross margins (%)	47.4	45.8	47.5	48.7	49.9	52.7	51.5	51.9	51.4	51.0	50.7	50.5
Staff expenses	5,970	7,090	6,760	6,830	6,510	7,080	6,490	7,740	6,020	7,650	6,840	7,890
Advertising spends	13,280	10,410	12,000	12,900	14,810	17,200	15,930	15,860	16,440	14,640	14,660	14,540
Other expenses	15,860	16,300	18,180	18,100	19,070	19,330	20,390	19,110	20,390	20,390	20,870	19,710
EBITDA	32,470	33,770	35,370	34,710	35,210	36,940	35,400	34,350	36,060	36,470	35,700	34,660
Y/Y	14.0	11.2	11.3	7.0	8.4	9.4	0.1	-1.0	2.4	-1.3	0.8	0.9
EBITDA margins	22.8	22.9	23.2	23.3	23.2	24.2	23.3	23.1	23.5	23.5	23.2	22.8
PBT	30,980	32,190	34,790	33,450	34,020	36,360	34,620	32,640	34,800	35,520	34,690	33,770
Y/Y	16.5	12.6	16.4	9.0	9.8	13.0	-0.5	-2.4	2.3	-2.3	0.2	3.5
PAT	23,010	26,440	26,070	24,720	25,090	27,220	25,490	24,230	25,860	26,280	24,920	25,160
Y/Y	10.3	26.4	18.1	8.9	9.0	3.0	-2.2	-2.0	3.1	-3.5	-2.2	3.8

% to sales

Staff cost	4.2	4.8	4.4	4.6	4.3	4.6	4.3	5.2	3.9	4.9	4.4	5.2
Advertising Spends	9.3	7.1	7.9	8.7	9.8	11.3	10.5	10.7	10.7	9.4	9.5	9.6
Other expenses	11.1	11.1	11.9	12.2	12.6	12.7	13.4	12.9	13.3	13.1	13.5	13.0

Segment revenue

Home Care	49,310	51,430	55,180	56,380	54,250	53,120	54,480	57,150	56,750	57,370	57,420	58,180
Y/Y	29.9	34.0	31.6	18.7	10.0	3.3	-1.3	1.4	4.6	8.0	5.4	1.8
Personal Care	53,640	55,610	57,180	51,880	24,980	25,350	23,150	20,630	23,860	24,120	22,460	21,240
Y/Y	17.3	11.2	10.5	10.1	-53.4	-54.4	-59.5	-60.2	-4.5	-4.9	-3.0	3.0
Beauty & Wellbeing	-	-	-	-	31,030	32,740	33,900	29,870	31,990	33,230	34,380	31,130
Y/Y	-	-	-	-	-	-	-	-	3.1	1.5	1.4	4.2
Food & Refreshment	36,270	37,550	37,000	37,940	37,970	38,510	37,330	39,110	38,500	38,030	37,450	38,960
Y/Y	9.3	3.7	6.8	2.6	4.7	2.6	0.9	3.1	1.4	-1.2	0.3	-0.4
Others	3,500	2,920	2,920	2,730	3,250	3,040	3,020	1,810	2,290	2,330	2,370	2,630
Y/Y	54.9	10.6	13.2	-9.6	-7.1	4.1	3.4	-33.7	-29.5	-23.4	-21.5	45.3

Segment EBIT

Home Care	8,690	8,890	10,610	10,560	9,910	9,950	9,660	10,810	11,090	10,870	10,540	10,560
Y/Y	31.3	22.1	22.8	12.5	14.0	11.9	-9.0	2.4	11.9	9.2	9.1	-2.3
Personal Care	14,110	13,960	14,370	13,530	4,460	4,560	3,640	3,710	4,180	4,010	3,950	3,920
Y/Y	9.6	0.4	-0.3	9.5	-68.4	-67.3	-74.7	-72.6	-6.3	-12.1	8.5	5.7
Beauty & Wellbeing	-	-	-	-	10,260	11,250	10,970	9,170	10,060	11,210	10,120	10,370
Y/Y	-	-	-	-	-	-	-	-	-1.9	-0.4	-7.7	13.1
Food & Refreshment	5,780	7,440	6,610	6,790	6,810	7,200	7,110	7,390	7,360	6,900	7,550	6,270
Y/Y	-3.7	12.0	2.3	-4.8	17.8	-3.2	7.6	8.8	8.1	-4.2	6.2	-15.2
Others	1,290	1,000	1,180	1,210	1,200	1,290	1,200	380	390	430	460	410
Y/Y	138.9	17.6	61.6	26.0	-7.0	29.0	1.7	-68.6	-67.5	-66.7	-61.7	7.9

Segment EBIT margin (%)

Home Care	17.6	17.3	19.2	18.7	18.3	18.7	17.7	18.9	19.5	18.9	18.4	18.2
Personal Care	26.3	25.1	25.1	26.1	17.9	18.0	15.7	18.0	17.5	16.6	17.6	18.5
Beauty & Wellbeing	-	-	-	-	33.1	34.4	32.4	30.7	31.4	33.7	29.4	33.3
Food & Refreshment	15.9	19.8	17.9	17.9	17.9	18.7	19.0	18.9	19.1	18.1	20.2	16.1
Others	36.9	34.2	40.4	44.3	36.9	42.4	39.7	21.0	17.0	18.5	19.4	15.6

Source: Company * Note; Beauty & Personal care segment has been reclassified into Personal care and B&W segment from Q1 FY25.

Key takeaways from Q4 earnings call

Demand trend

- In FY24-25, the FMCG market saw subdued overall demand, marked by a divergence in rural and urban growth trajectories.
- Rural demand continued to recover gradually, supported by improving macro indicators and increased government spending, especially in H2. However, urban demand moderated, impacted by inflationary pressures, muted income growth, and a gradual shift in discretionary consumption behaviour.
- Management's focus is on volume-led growth across its portfolio (unit growth > pricing).
- Positive macro tailwinds: No new external headwinds, favourable kharif & rabi output, improved food inflation, crude deflation, tax relief. Thus, expect H1FY26 to perform better than H2FY25.
- Rural demand is recovering well, supporting growth in small packs; Both premium and small packs are growing faster than the market.
- Jun–Sep 2025 performance is expected to be better, with growth revival.

Strategic priorities & brand performance

- **Volume-led growth, cost competitiveness and market leadership focus.** The company's >80% business is superior to peers on its UBS score framework.
- Segmented portfolio strategy in place:
 - **Core:** Lifebuoy, Glow & Lovely – undergoing relaunches.
 - **Future core:** Strong growth, premiumization focus.
 - **Market makers:** Double-digit growth, future-facing innovations.

Segmental performance

Home care

- **Q4: Mid-single digit volume growth; USG: 3%.**
- **Fabric wash:** Mid-single-digit volume growth; strong performance by Surf Excel & Comfort.
- **Household care:** High-single-digit volume growth; the liquid portfolio grew 5x faster than the rest.
- All price actions have been deployed; the company expects continued impact over the next two quarters. UVG, still negative.

Beauty & wellbeing

- **Q4: USG of 3%, driven by high-single-digit UVG in hair care.**
- Clinic Plus, Sunsilk, and TRESemme: Double-digit growth.
- Skin care and colour cosmetics: Low-single-digit decline, impacted by mass skincare.
- E-commerce growth in the segment was ~40%.
- **Launches:** Lakme's Higher Matte range, Ponds Hydra Miracle extensions, SPF awareness campaigns.

- Skin care – A key transformation play; gained share and added Rs20bn in the last four quarters.
- Glow & Lovely renovated; signs of share recovery, improved brand power. The Glass Bright variant has a Rs1bn potential.
- UVA Sunscreen (urban penetration at just 3%) is growing 30-40% y/y; saw 60% CAGR last year.

Personal Care

- **Q4: USG of 3%, led by pricing.**
- **Skin cleansing:** Low-single-digit growth; the non-hygiene segment saw high-single-digit growth. The gap between cost and price persists; action likely.
- **Body wash:** Continued double-digit growth.
- Lifebuoy was relaunched with Stratos tech; saw heavy media push during IPL & Mahakumbh; a gradual recovery is expected.
- **Oral care:** Low-single-digit growth, driven by Closeup's new premium range. High promotional intensity; underpenetrated market.
- Closeup: Identified geographic white space for growth.

Foods & refreshment

- **Q4: USG of -1% and mid-single-digit decline in UVG.**
- **Tea:** Improved trajectory via pricing; Pukka herbal infusion launched.
- **Coffee:** Continued double-digit growth; Bru Cold Coffee introduced in Tetra Pak.
- **Nutrition drinks:** Declined due to category headwinds & price-pack transition.
- **Packaged foods:** Mid-single-digit volume growth; strong market maker portfolio.
- **Ice cream:** Double-digit volume growth; launched Magnum Mini, Pistachio, Twister.

Channel & execution excellence

- **E-commerce GSV:** +45% for high-growth segments. E-commerce contribution at 7–8%; growing strongly.
- **On-shelf & online availability:** +200bps & +500bps, respectively.
- **Q-commerce assortment:** Doubled during the quarter. Q-commerce ~2% of sales; not margin-dilutive.
- **Specialty channels:** Customized mix for health, beauty, gourmet outlets.
- Omni-channel expansion via Shopper's Stop, Nykaa, etc.
- Organized trade more profitable than general trade.
- +400bp improvement in weighted value distribution, enabled by a sharper assortment and market-level execution.
- The company is driving premiumization and rural penetration simultaneously.

M&A and portfolio actions

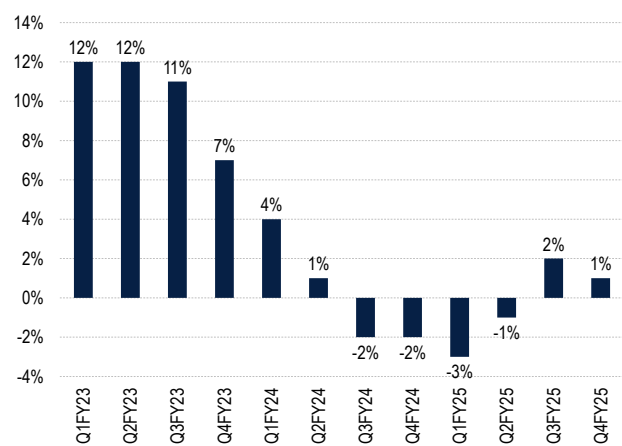
- **OZiva:** Scaled up from a Rs1bn to a Rs4bn run-rate post-acquisition. Turned profitable and broke even.
- **Minimalist:** Delivered a turnover of Rs5bn in FY25; now part of HUL.
- **Pureit divestment:** Unlocked Rs6bn value.
- **Ice cream demerger:** On track for FY26.
- The company has undertaken acquisition of a palm undertaking from Vishwatej Oil Industries and announced investment in Lucro Plastecycle.

Margin outlook & investment strategy

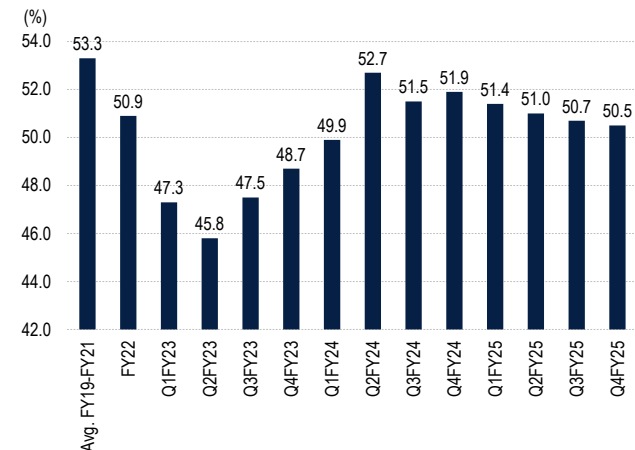
- **Commodity trends diverged:** The company is witnessing inflation in palm oil, tea, coffee, while inputs such as crude oil, soda ash, skimmed milk powder are seeing deflationary trends.
- Palm oil and tea prices are easing; rupee depreciation continues.
- Tea up 20% y/y in FY25. Management is cautious about further pricing in tea due to the high base. Also, coffee is not yet priced to peak inflation and warrants margin watch on it.
- The EBITDA margin guidance is 22–23% (near-to-mid-term for 2–3 quarters), remains healthy despite higher investments.
- ~100bp margin is being redeployed towards: (a) trade channel enhancements, (b) A&P spends, (c) product quality and innovation and (d) market research.
- Investment focus has been dialed up in the B&W segment, including digital-first and premium skincare.
- No segment-specific or cost-driven margin compression seen; margins adjusted for strategic growth levers.
- Operating leverage to kick in as growth returns—every 1% delta in growth can drive 40–50bp of margin benefit.
- HUL will begin to drop operating leverage into P&L once consistent growth is visible.

Other highlights

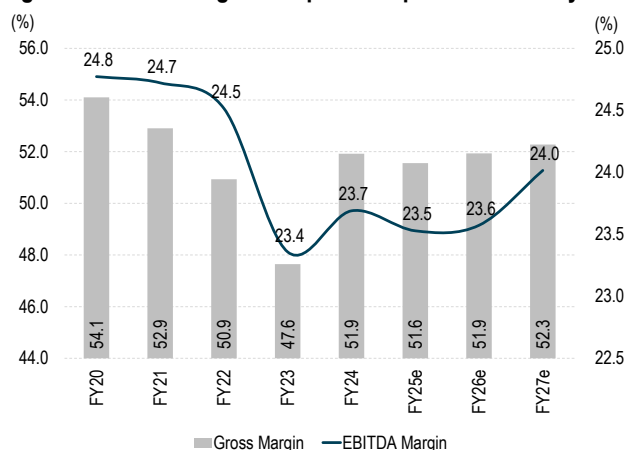
- The company continues to invest in market makers, brand strength, and innovation.
- It maintained its negative working capital and 100% cash conversion in FY25.
- FMCG pricing contribution is moderating from 4% as inflation eases; volume becomes key.
- Reported EPS for FY25 grew 5%; the company is committed to double-digit EPS growth in the medium to long term.

Fig 8 – Pricing remained positive in Q4

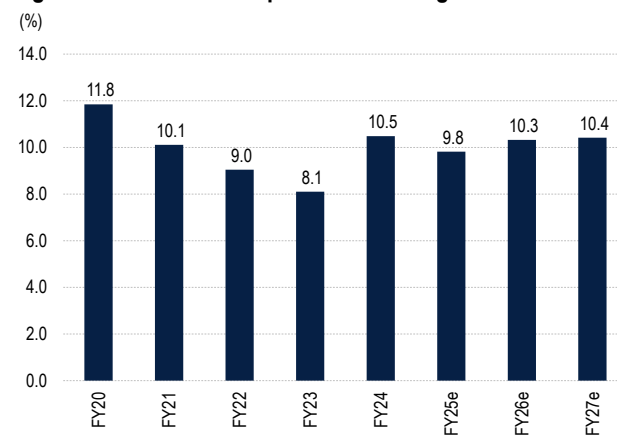
Source: Company, Anand Rath Research

Fig 9 – Gross margin slips from recent high on input inflation

Source: Company, Anand Rath Research

Fig 10 – EBITDA margin to expand 50bps in the next 2 yrs...

Source: Company, Anand Rath Research

Fig 11 – ... while A&SP spends remain high

Source: Company, Anand Rath Research

Valuation

Management's emphasis is on driving growth in future core and market-makers through premiumisation (especially for B&W and food). The emerging-channel focus would drive consistent growth. The intent is to lever global brands (Dermalogica, etc.) and technology to enhance market share across categories. We are sanguine regarding management's double-digit earnings growth aspiration, led by revenue growth (volumes growing 100bps ahead of the market). The stock has fallen ~13% in the last six months and trades at an attractive 43x FY27e EPS.

While urban demand remains soft, the company is optimistic regarding growth picking up ahead, helped by healthy rural demand, the Budget's consumption boost, lower commodity inflation and the normal monsoon forecast. Also, it plans to invest in brands (especially in the B&W segment) to drive volumes and innovation, which could weigh on margins in the near term. Consequently, management has lowered its near-term EBITDA margin guidance to 22-23% but maintained it for the medium-term at 23-24%. To factor in the above, we lower our FY26e/27e EPS by 2% each.

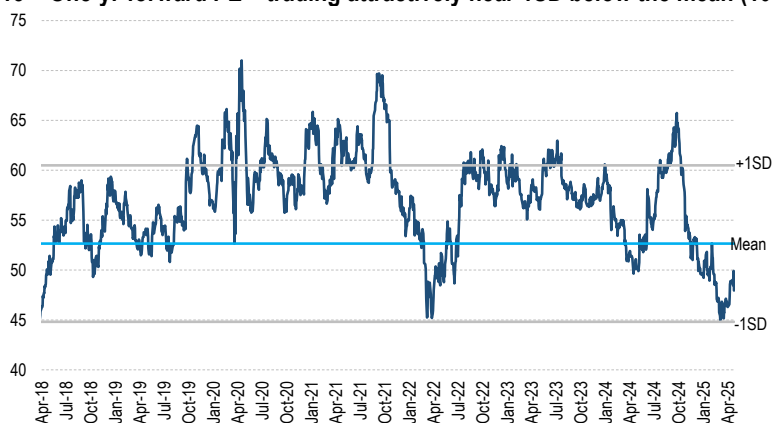
We retain a **Buy rating** with a **12-mth TP of Rs2,840** (Rs2,900 earlier), 53x FY27e EPS. At the CMP, the stock trades at 48x/43x FY26e/27e EPS of Rs48.1/53.5.

Fig 12 – Change in estimates

(Rs m)	Old		Revised		Change	
	FY26e	FY27e	FY26e	FY27e	FY26	FY27
Sales	679,411	736,949	675,262	732,479	-0.6%	-0.6%
EBITDA	163,832	180,604	159,180	175,908	-2.8%	-2.6%
EBITDA margins	24.1%	24.5%	23.6%	24.0%		
PAT	115,889	128,881	113,142	125,793	-2.4%	-2.4%

Source: Anand Rath Research

Fig 13 – One-yr-forward PE – trading attractively near 1SD below the mean (10-yr)



Source: Bloomberg, Anand Rath Research

Key risks

- Failure of brand launches.
- Unwarranted or overpriced bolt-on acquisitions.
- Price-led competition; loss of share to new entrant (Reliance) & /or others.
- Stringent regulations in nutrition-based healthcare.

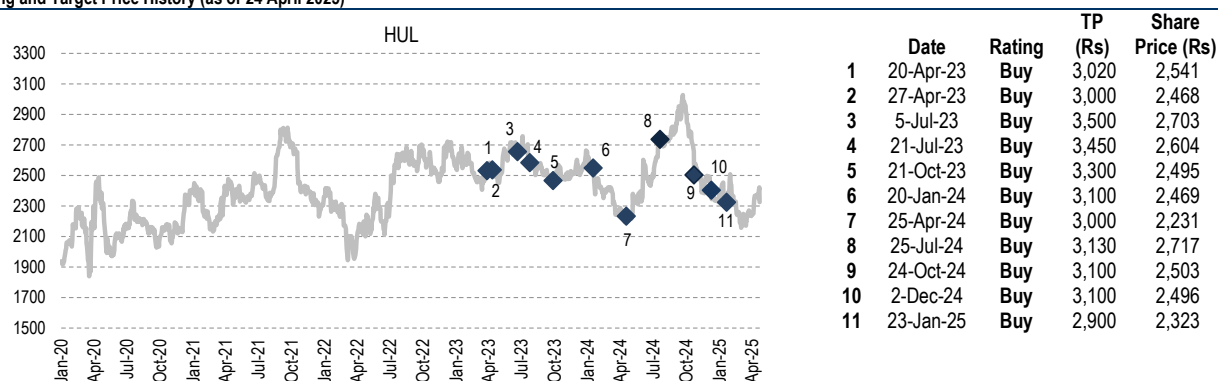
Appendix

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