

BUY

TP: Rs 3,069 | ▲ 24%

HINDUSTAN UNILEVER

Consumer Staples

23 October 2023

Soft topline but strong margin expansion

- Q2 volume and value growth weak YoY owing to delayed rural recovery and heightened competition from regional players
- EBITDA margin improved 130bps YoY despite 420bps expansion in A&P spend
- Focus remains on innovation and category development; maintain BUY with an unchanged TP of Rs 3,069

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Volume growth remains soft: HUVR's Q2FY24 revenue grew 3.2% YoY (+0.8% QoQ) with underlying volume growth of 2% YoY vs. ~3% estimated. Volumes were constrained by heightened competition from regional players and delayed recovery in rural markets. The company continued to gain volume market share in more than 75% of its portfolio and value market share in 60% of its portfolio. EBITDA margin expanded 130bps YoY (+60bps QoQ) despite a sharp increase in brand investments during the quarter, with A&P spend stepped up by 420bps YoY.

Modest growth in key categories: In Q2, HUVR's home care (HC), beauty & personal care (BPC), and foods & refreshment (F&R) segment revenues grew 3%, 4% and 4% YoY respectively. HC and BPC delivered mid-single-digit volume growth; however, F&R saw a mid-single-digit decline largely due to sustained inflation in coffee and health food drinks (HFD). The company cut prices in fabric wash and household care to pass on the benefits of lower cost inflation to customers but took judicious hikes in the F&R segment due to food inflation.

Innovation remains a focus area: HUVR continues to strengthen its core portfolio by launching new products across segments. In HC, the company rolled out *Comfort Intense* fabric conditioner and *Vim Pure*. In skin care, HUVR strengthened its *Pond's* moisturiser range and also introduced a new range of *Indulekha* anti-dandruff hair oil and shampoo during the quarter. In food & beverages, the company launched the *Horlicks Plus* range with two new variants in select geographies and channels.

Maintain BUY, TP Rs 3,069: HUVR's volume and value growth remained weak in a challenging environment, but the company continues to drive category development, innovation and premiumisation across product categories. We expect mid-single-digit volume growth in the medium term with gradual improvement in margins. The stock is trading at 49.3x/42.5x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 52.5x FY25E EPS, in line with the long-term mean, for an unchanged TP of Rs 3,069.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HUVR IN/Rs 2,484
Market cap	US\$ 71.0bn
Free float	38%
3M ADV	US\$ 45.8mn
52wk high/low	Rs 2,770/Rs 2,393
Promoter/FPI/DII	62%/14%/24%

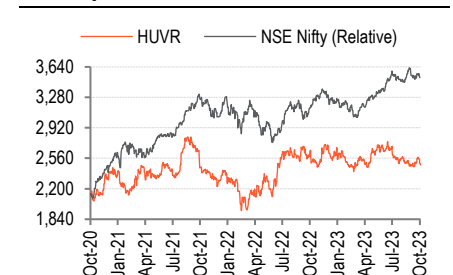
Source: NSE | Price as of 23 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	605,800	641,512	710,474
EBITDA (Rs mn)	141,490	166,730	193,320
Adj. net profit (Rs mn)	101,600	118,302	137,386
Adj. EPS (Rs)	43.2	50.3	58.5
Consensus EPS (Rs)	43.2	50.1	56.9
Adj. ROAE (%)	20.4	23.1	26.2
Adj. P/E (x)	57.4	49.3	42.5
EV/EBITDA (x)	41.2	35.0	30.2
Adj. EPS growth (%)	14.1	16.5	16.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

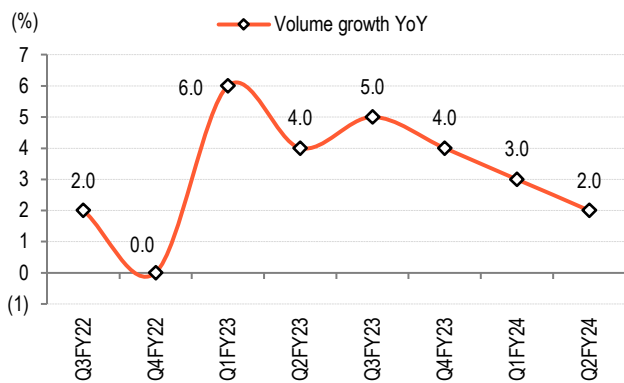


Fig 1 – Financial performance

(Rs mn)	Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	156,230	154,960	151,440	0.8	3.2	159,876	(2.3)
EBITDA	37,970	36,650	34,790	3.6	9.1	38,050	(0.2)
PAT	26,610	25,920	26,940	2.7	(1.2)	27,006	(1.5)
Gross Margin (%)	53.0	50.4	45.9	260bps	710bps	50.5	250bps
EBITDA Margin (%)	24.3	23.7	23.0	60bps	130bps	23.8	50bps
PAT Margin (%)	17.0	16.7	17.8	30bps	(80bps)	16.9	10bps

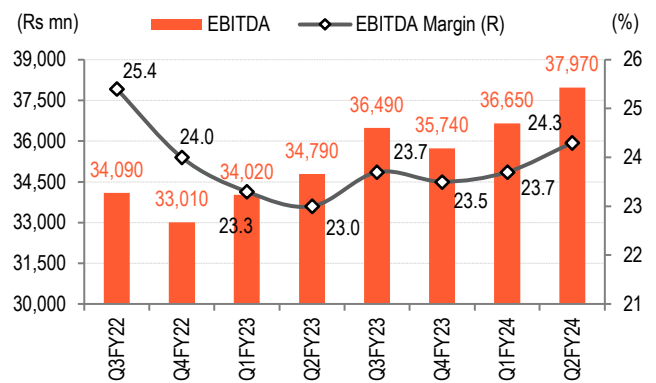
Source: Company, BOBCAPS Research

Fig 2 – Underlying volume growth



Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



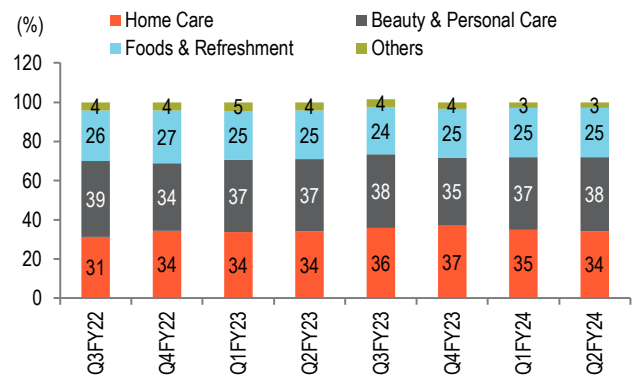
Source: Company, BOBCAPS Research

Fig 4 – Segment revenue



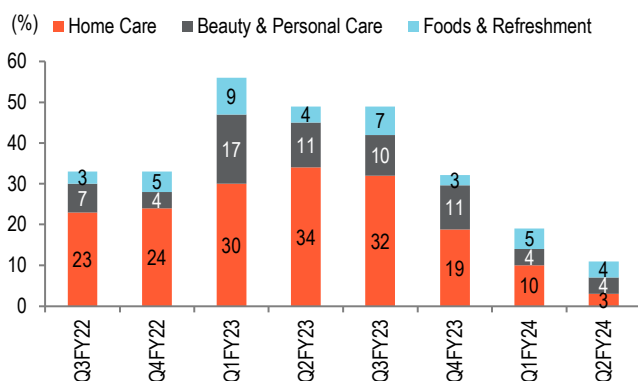
Source: Company, BOBCAPS Research

Fig 5 – Segment revenue contribution



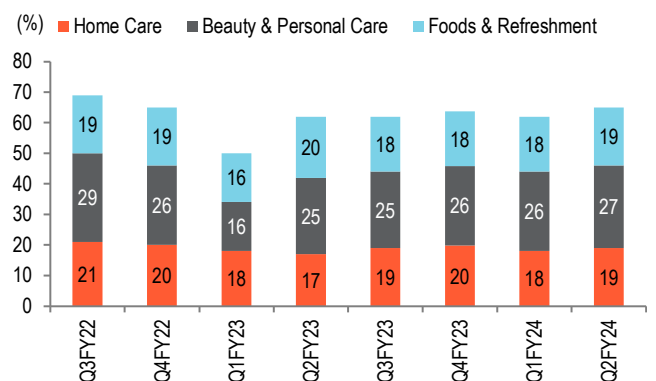
Source: Company, BOBCAPS Research

Fig 6 – Segment growth YoY



Source: Company, BOBCAPS Research

Fig 7 – Segment EBIT margin



Source: Company, BOBCAPS Research

Earnings call highlights

- HUVR saw stable demand trends QoQ in Q2FY24. The company's revenue from rural markets grew 7% YoY (two-year volume CAGR at 1%) off a slow base quarter where volumes had declined 6%. Per management, the single biggest factor supporting rural recovery is the moderation in inflation.
- In urban markets, modern trade and large packs are leading growth for the sector. Volumes sold in urban markets continued to outpace those in rural areas.
- The FMCG sector continues to witness increased competitive intensity as moderating inflation has led to the resurgence of small and regional players in select categories and price points. For instance, in tea and detergent bars, smaller players are growing well ahead of large consumer companies.
- Despite persisting challenges, HUVR's revenue grew 3.2% YoY in Q2FY24 with underlying volume growth of 2%. The company gained value and volume market share in ~60% and 75% of its portfolio respectively and scaled a new milestone by crossing Rs 150bn in quarterly revenue for the first time.
- Gross margin expanded by 710bps YoY to 53%, returning to pre-inflationary levels. HUVR has stepped up A&P investments by ~Rs 7bn YoY. Nevertheless, EBITDA margin expanded 130bps YoY to 24.3%.
- A&P expense as a percentage of sales climbed 420bps to 11.4% vs. 7.2% in the same quarter last year, with the incremental spends directed toward advertisements.
- HUVR expects volume recovery to remain gradual and anticipates marginally negative price growth if commodities hold at current levels. The company remains focused on driving competitive volume growth, stepping up investments behind brands and maintaining EBITDA margin in a healthy range.
- The HC business grew 3% YoY during Q2 while BPC and F&R each grew 4% YoY. Margins remained healthy with HC at 19%, BPC at 27% and F&R at 19%.
- HC and BPC delivered mid-single-digit volume growth while F&R saw a mid-single-digit decline primarily due to sustained input cost inflation in the coffee and HFD categories.
- In the skin cleansing category, volumes grew in low single digits with both *Lux* and *Hamam* continuing to outperform. Hair care saw high-single-digit growth led by *Clinic Plus*, *Sunsilk* and *Indulekha*.
- Skin care and colour cosmetics grew in double digits with a robust performance in *Vaseline* and *Pond's*. Oral care delivered mid-single-digit growth led by *Closeup*.
- Tea saw a modest uptick during Q2 as the category continued to witness consumer downgrading. Coffee delivered double-digit growth driven by a price increase taken during the quarter. HFD clocked mid-single-digit price-led growth.
- HUVR has taken further price reductions in both fabric wash and household care to pass on the benefits of lower input costs. The F&R segment, however, is seeing rising costs, leading the company to take judicious price increases in Q2.

- In terms of launches, the company expanded its *Comfort* range to intense fabric conditioner created specifically for sportswear. In dishwashing liquid, it launched *Vim Pure*, which is marketed as a 100% plant-based paraben and phosphate-free formulation.
- In skin care, the *Pond's* moisturiser range has been extended and now includes a cleanser, gel moisturiser, night gel and serum. In the *Indulekha* portfolio, HUVR launched a new anti-dandruff hair oil and shampoo. *Vaseline* saw the introduction of a new range of premium moisturisers, and *Lakme* had a new nail colour collection and eyeliner added to its slate.
- In HFD, HUVR extended its *Horlicks Plus* range with two new variants, Strength Plus for adults and Growth Plus for children, in select geographies and channels. *Lipton Green Tea* was relaunched in Q2 with a better tasting blend.

Valuation methodology

HUVR's volume and value growth remained weak in a challenging environment, but the company continues to drive category development, innovation and premiumisation across product categories. We expect mid-single-digit volume growth in the medium term with gradual improvement in margins.

The stock is trading at 49.3x/42.5x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 52.5x FY25E EPS, in line with the long-term mean, for an unchanged TP of Rs 3,069.

Key risks

Key downside risks to our estimates are:

- continued decline in underlying volume growth, and
- sustained food inflation.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	13.3	4,531	5,844	BUY
Dabur India	DABUR IN	11.2	521	669	BUY
Godrej Consumer Products	GCPL IN	12.2	981	1,159	BUY
Hindustan Unilever	HUVR IN	71.0	2,484	3,069	BUY
ITC	ITC IN	65.9	436	523	BUY
Marico	MRCO IN	8.4	537	646	BUY
Nestle India	NEST IN	28.4	24,198	28,260	BUY
Tata Consumer Products	TATACONS IN	10.0	883	994	BUY
Zydus Wellness	ZYWL IN	1.2	1,506	1,556	HOLD

Source: BOBCAPS Research, NSE | Price as of 23 Oct 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	470,280	524,460	605,800	641,512	710,474
EBITDA	116,260	128,570	141,490	166,730	193,320
Depreciation	10,740	10,910	11,370	12,416	14,260
EBIT	105,520	117,660	130,120	154,314	179,060
Net interest inc./(exp.)	1,170	1,060	1,140	1,398	1,468
Other inc./(exp.)	4,100	2,580	5,120	5,790	6,079
Exceptional items	(2,390)	(440)	(640)	(380)	0
EBT	106,060	118,740	133,460	158,326	183,671
Income taxes	26,060	29,870	32,010	40,324	46,285
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	40	130	230	80	84
Reported net profit	79,960	88,740	101,220	117,922	137,386
Adjustments	(2,390)	(440)	(640)	(380)	0
Adjusted net profit	82,350	89,180	101,600	118,302	137,386

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	88,020	90,680	95,740	94,413	102,336
Other current liabilities	5,880	6,650	7,640	8,090	8,960
Provisions	20,850	19,260	17,520	18,323	19,875
Debt funds	0	0	980	980	980
Other liabilities	95,880	97,710	103,770	109,702	121,157
Equity capital	2,350	2,350	2,350	2,350	2,350
Reserves & surplus	474,590	488,520	502,870	514,742	528,481
Shareholders' fund	476,940	490,870	505,220	517,092	530,831
Total liab. and equities	687,570	705,170	730,870	748,601	784,140
Cash and cash eq.	44,710	38,460	46,780	49,313	71,439
Accounts receivables	17,580	22,360	30,790	32,605	36,110
Inventories	35,790	40,960	42,510	41,921	45,439
Other current assets	23,190	25,190	28,680	30,364	33,615
Investments	27,090	35,210	28,820	38,862	38,943
Net fixed assets	61,160	61,690	69,490	70,862	72,232
CWIP	7,450	13,130	11,320	11,320	11,320
Intangible assets	279,300	279,070	282,630	282,630	282,630
Deferred tax assets, net	170	110	100	106	117
Other assets	191,130	188,990	189,750	190,618	192,295
Total assets	687,570	705,170	730,870	748,600	784,140

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	91,630	90,480	99,910	134,346	162,952
Capital expenditures	(7,410)	(12,250)	(11,740)	(14,113)	(15,630)
Change in investments	39,600	(7,910)	(3,670)	(10,000)	0
Other investing cash flows	3,000	1,580	2,600	0	0
Cash flow from investing	(12,280)	(17,280)	(14,940)	(24,155)	(15,711)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,940)	0	780	0	0
Interest expenses	(860)	(820)	(880)	(1,398)	(1,468)
Dividends paid	(88,110)	(75,260)	(84,740)	(106,130)	(123,648)
Other financing cash flows	(4,060)	(4,070)	(4,690)	0	0
Cash flow from financing	(93,090)	(80,150)	(89,530)	(107,528)	(125,115)
Chg in cash & cash eq.	(13,740)	(6,950)	(4,560)	2,663	22,125
Closing cash & cash eq.	18,420	11,470	7,010	9,673	31,799

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	34.0	37.8	43.1	50.2	58.5
Adjusted EPS	35.0	37.9	43.2	50.3	58.5
Dividend per share	37.5	32.0	36.0	45.2	52.6
Book value per share	203.0	208.9	215.0	220.0	225.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	12.4	11.1	9.6	9.1	8.2
EV/EBITDA	50.2	45.4	41.2	35.0	30.2
Adjusted P/E	70.9	65.4	57.4	49.3	42.5
P/BV	12.2	11.9	11.6	11.3	11.0

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	75.4	74.7	75.8	74.5	74.8
Interest burden (PBT/EBIT)	100.5	100.9	102.6	102.6	102.6
EBIT margin (EBIT/Revenue)	22.4	22.4	21.5	24.1	25.2
Asset turnover (Rev./Avg TA)	68.4	74.4	82.9	85.7	90.6
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.4	1.5
Adjusted ROAE	16.8	18.1	20.0	22.8	25.9

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	18.2	11.5	15.5	5.9	10.8
EBITDA	17.9	10.6	10.0	17.8	15.9
Adjusted EPS	9.0	11.0	14.1	16.5	16.5
Profitability & Return ratios (%)					
EBITDA margin	24.7	24.5	23.4	26.0	27.2
EBIT margin	22.4	22.4	21.5	24.1	25.2
Adjusted profit margin	17.5	17.0	16.8	18.4	19.3
Adjusted ROAE	29.4	18.4	20.4	23.1	26.2
ROCE	23.2	15.1	16.4	18.5	20.8
Working capital days (days)					
Receivables	11	14	16	18	18
Inventory	52	54	48	49	47
Payables	135	127	107	111	106
Ratios (x)					
Gross asset turnover	0.7	0.7	0.8	0.8	0.8
Current ratio	1.3	1.4	1.4	1.5	1.7
Net interest coverage ratio	90.2	111.0	114.1	110.4	122.0
Adjusted debt/equity	0.0	0.0	0.2	0.2	0.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

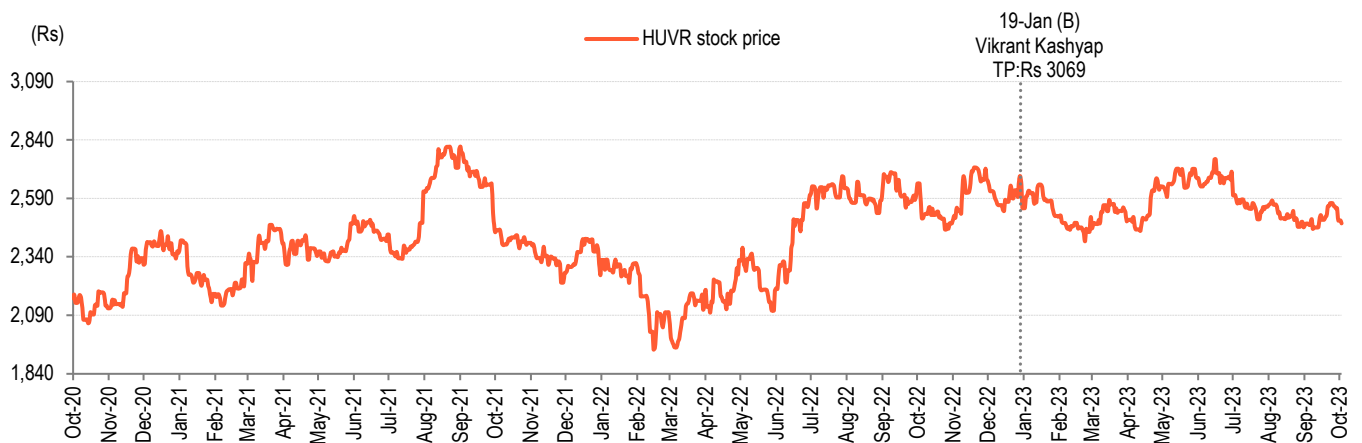
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): HINDUSTAN UNILEVER (HUVR IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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