

BUY

TP: Rs 3,069 | ▲ 24%

HINDUSTAN UNILEVER

Consumer Staples

27 April 2023

Fair performance in a challenging environment

- Underlying pricing growth tapered down in Q4 due to softening input cost; volume growth at 4% YoY
- Rural volume decline moderating; commodity price deflation to aid volume-led growth
- Premiumisation and innovation remain focus areas; maintain BUY with an unchanged TP of Rs 3,069

Vikrant Kashyap

research@bobcaps.in

Moderate volume and value growth: HUVR's Q4FY23 revenue grew 10.5% YoY (-2.4% QoQ), with underlying volume growth of 4% YoY (vs. 5% in Q3). Price-led growth was at 7% against 11% in Q3 due to a sequential price reduction taken during the quarter. The company continues to gain market share in more than 75% of its portfolio. Gross margin improved 110bps sequentially. The company continued to invest in its brands, stepping up A&P spend by 80bps QoQ.

Key categories healthy: In Q4, HUVR's home care, beauty & personal care, and foods & refreshment segment revenues grew 19%, 10% and 3% YoY respectively. Fabric wash delivered double-digit growth led by the premium portfolio. Household care segments saw double-digit volume and value growth driven by a strong performance in dishwasher. Hair care registered volume-led mid-single-digit growth and oral care grew in high single digits. Skin care and colour cosmetics registered double-digit growth led by premium products. Food and ice cream saw mid-single-digit growth. As palm oil softened, prices were reduced in the soaps portfolio.

Continues to strengthen the product portfolio: HUVR strengthened its food & beverages portfolio by launching *Millets Chocolate Horlicks* as well as new ice cream flavours. The company further augmented its offering in the beauty and personal care segment by launching skin care brand *Novology* in the masstige beauty segment, a new range of hair care products by *Dove* and *Tresemme*, a bathing range by *Lux*, and new *Lakme* cosmetics.

Maintain BUY, TP Rs 3,069: HUVR continues to grow ahead of the market and to gain market share despite persisting macro challenges. Increased investment in brand building and innovation is expected to lend further impetus to growth. The stock is trading at 51.9x/45.0x 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 2,469
Market cap	US\$ 79.9bn
Free float	38%
3M ADV	US\$ 44.5mn
52wk high/low	Rs 2,742/Rs 2,100
Promoter/FPI/DII	62%/14%/24%

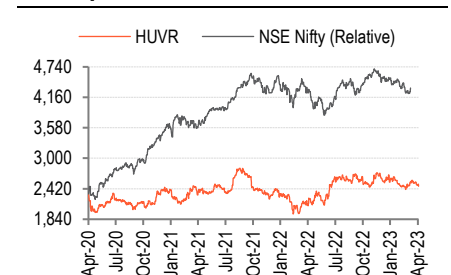
Source: NSE | Price as of 27 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	6,05,800	6,68,526	7,39,348
EBITDA (Rs mn)	1,41,490	1,68,452	1,94,908
Adj. net profit (Rs mn)	1,01,600	1,19,321	1,38,273
Adj. EPS (Rs)	43.2	50.8	58.8
Consensus EPS (Rs)	43.2	50.1	56.9
Adj. ROAE (%)	20.4	23.3	26.4
Adj. P/E (x)	57.1	48.6	42.0
EV/EBITDA (x)	46.2	38.8	33.6
Adj. EPS growth (%)	14.1	17.9	15.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

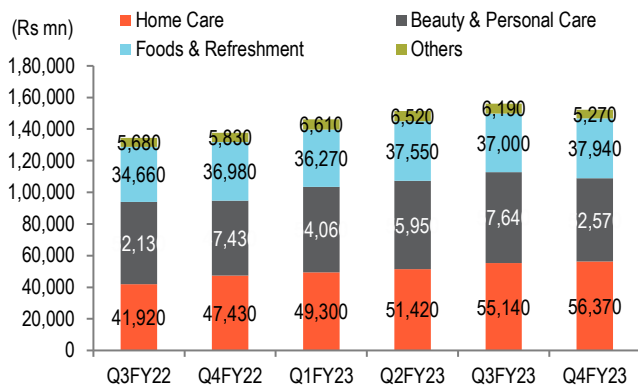


Fig 1 – Quarterly performance

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	152,150	155,970	137,670	(2.4)	10.5	153,680	(1)
EBITDA	35,740	36,940	33,010	(3.2)	8.3	37,652	(5.1)
Adj. PAT	25,190	24,740	22,470	(2.3)	12.1	25,803	(2.4)
Gross Margin (%)	49.1	48.0	49.5	110bps	(40bps)	49.4	(30bps)
EBITDA Margin (%)	23.5	23.7	24.0	(20bps)	(50bps)	24.5	(100bps)
Adj. PAT Margin (%)	16.6	15.9	16.3	10bps	30bps	16.8	(20bps)

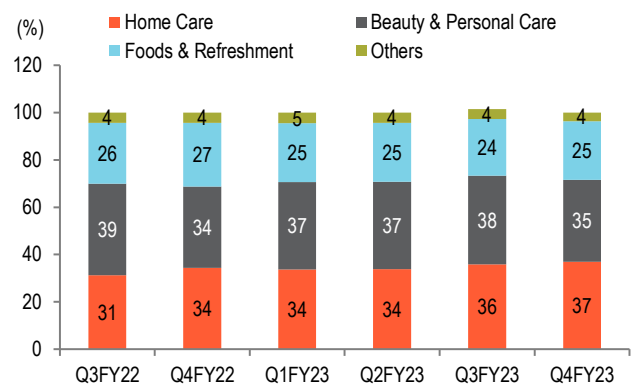
Source: Company, BOBCAPS Research

Fig 2 – Segment revenue



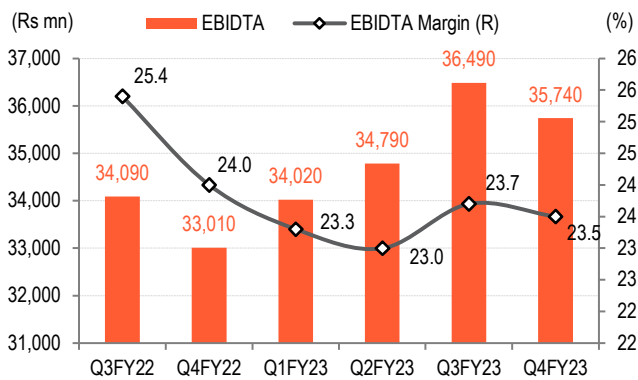
Source: Company, BOBCAPS Research

Fig 3 – Revenue contribution



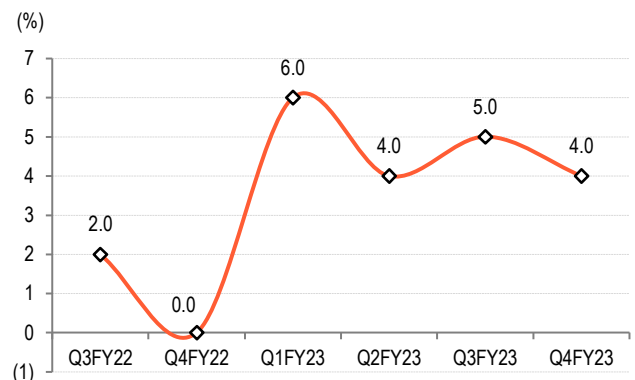
Source: Company, BOBCAPS Research

Fig 4 – EBITDA and margin



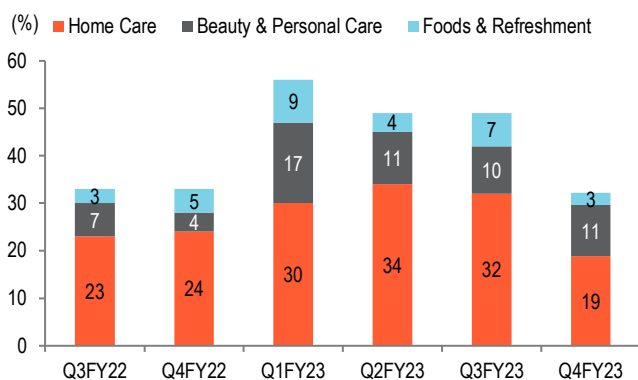
Source: Company, BOBCAPS Research

Fig 5 – Volume growth



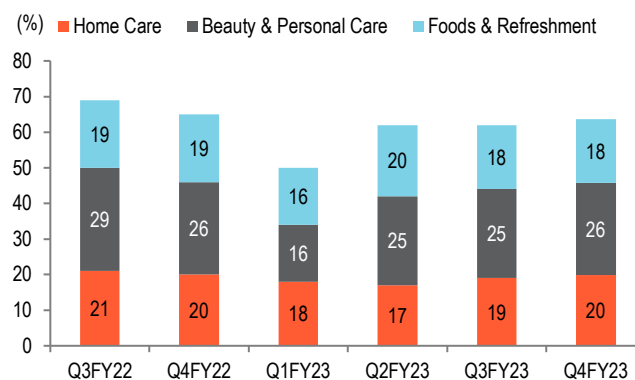
Source: Company, BOBCAPS Research

Fig 6 – Segment revenue growth



Source: Company, BOBCAPS Research

Fig 7 – Segment margin



Source: Company, BOBCAPS Research

Earnings call highlights

- In FY23, HUVR reported 15.5% YoY topline growth with underlying volume growth of 5%. Growth was significantly ahead of the market, leading to handsome market share gains. EBITDA margin remained healthy at 23.4% despite the unprecedented inflation during the year.
- Going ahead, management expects the near-term operating environment to remain volatile. With inflation easing due to overlapping of a high base and sequential softening in a few commodities, price and volume growth will likely rebalance.
- Underlying pricing growth has declined 400bps sequentially to 7% during Q4FY23, and further price cuts can be expected if inflation remains at current levels or moderates further.
- Overall FMCG volume growth for the quarter was flat with rural volumes declining 3% YoY during Q4.
- Management remains confident of the medium-to-long-term potential of the Indian FMCG sector and HUVR's ability to deliver consistent, competitive, and profitable growth.
- The company continues to invest competitively behind its brands and stepped up advertising & promotion (A&P) investments by 80bps QoQ during Q4FY23.
- Home care delivered 19% YoY revenue growth in Q4. Both fabric wash and household care grew in strong double digits, and the premium portfolio continued to outperform.
- Beauty & personal care grew 10% YoY with a broad-based performance across categories. Skin cleansing delivered double-digit growth led by *Lux*.
- Hair care continued its strong competitive performance and delivered volume-led mid-single-digit growth. Skin care grew in double digits led by a strong performance in the premium portfolio.
- During the quarter, HUVR launched skin care brand *Novology* in the masstige beauty segment, a new range of haircare products by *Dove* and *Tresemme*, a bathing range by *Lux*, and Lip and Face Mousse by *Lakme*.
- With softening in palm oil, further price reductions were taken in the soaps portfolio.
- Tea strengthened its value and volume market leadership, but the category saw consumers downgrading due to higher inflation in premium teas vis-à-vis loose tea.
- Health food drinks (HFD) continued to grow competitively and gain penetration. Coffee delivered double-digit growth. Ice cream grew in mid-single-digits with unseasonal rains impacting consumption.
- HUVR announced interim dividend of Rs 17/sh, taking the total to Rs 39/sh for FY23, up 15% YoY.

Valuation methodology

HUVR continues to grow ahead of the market and to gain market share despite persisting macro challenges. Increased investment in brand building and innovation is expected to lend further impetus to growth. We like the company's continued strategic initiatives aimed at driving portfolio transformation and premiumisation.

The stock is trading at 51.9x/45.0x 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.

Fig 8 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	668,525	739,348	670,195	741,177	(0.2)	(0.2)
EBITDA	168,452	194,908	170,255	195,947	(1.1)	(0.5)
Adj. PAT	119,321	138,273	119,949	138,367	(0.5)	(0.1)
EBITDA Margin (%)	25.4	26.4	25.4	26.4	-	-
Adj. PAT Margin (%)	17.9	18.7	17.9	18.7	-	-

Source: BOBCAPS Research

Fig 9 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY22-25E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22	FY23E	FY22	FY23E	
ITC	ITC IN	BUY	459	12.0	12.5	15.2	24.3	27.6	25.1
Nestle India	NEST IN	BUY	24,670	14.2	247.9	317.9	97.2	104.7	67.0
Tata Consumer Products	TATACONS IN	BUY	924	11.7	10.2	12.8	5.7	7.0	51.6
Godrej Consumer Products	GCPL IN	BUY	1,112	10.3	17.5	16.8	15.4	12.7	45.0

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- a decline in volume growth, and
- delayed rural recovery.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	13.0	4,416	5,623	BUY
Godrej Consumer Products	GCPL IN	11.9	954	1,112	BUY
Hindustan Unilever	HUVR IN	79.9	2,469	3,069	BUY
ITC	ITC IN	63.1	416	459	BUY
Nestle India	NEST IN	24.9	21,147	24,670	BUY
Tata Consumer Products	TATACONS IN	8.6	754	924	BUY

Source: BOBCAPS Research, NSE | Price as of 27 Apr 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	4,70,280	5,24,460	6,05,800	6,68,526	7,39,348
EBITDA	1,16,260	1,28,570	1,41,490	1,68,452	1,94,908
Depreciation	10,740	10,910	11,370	12,899	14,626
EBIT	1,05,520	1,17,660	1,30,120	1,55,553	1,80,281
Net interest inc./(exp.)	1,170	1,060	1,140	1,040	1,020
Other inc./(exp.)	4,100	2,580	5,120	5,330	5,596
Exceptional items	(2,390)	(440)	(640)	0	0
EBT	1,06,060	1,18,740	1,33,460	1,59,843	1,84,857
Income taxes	26,060	29,870	32,010	40,280	46,584
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	40	130	230	242	254
Reported net profit	79,960	88,740	1,01,220	1,19,321	1,38,273
Adjustments	(2,390)	(440)	(640)	0	0
Adjusted net profit	82,350	89,180	1,01,600	1,19,321	1,38,273

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	88,020	90,680	95,740	1,17,621	1,26,913
Other current liabilities	5,880	6,650	7,640	8,477	9,375
Provisions	20,850	19,260	17,520	23,640	25,774
Debt funds	0	0	980	980	980
Other liabilities	95,880	94,690	1,00,630	1,20,701	1,33,488
Equity capital	2,350	2,350	2,350	2,350	2,350
Reserves & surplus	4,74,590	4,88,520	5,02,870	5,15,044	5,28,871
Shareholders' fund	4,76,940	4,90,870	5,05,220	5,17,394	5,31,221
Total liab. and equities	6,87,570	7,05,170	7,30,870	7,88,812	8,27,750
Cash and cash eq.	44,710	38,460	46,780	69,976	73,672
Accounts receivables	17,580	22,360	30,790	28,502	31,522
Inventories	35,790	40,960	42,510	53,129	57,326
Other current assets	17,020	17,900	21,430	22,771	25,171
Investments	27,090	35,210	28,820	38,135	48,138
Net fixed assets	61,160	61,690	69,490	69,195	71,838
CWIP	7,450	13,130	11,320	11,320	11,320
Intangible assets	2,79,300	2,79,070	2,82,630	2,92,630	3,02,630
Deferred tax assets, net	170	110	100	140	155
Other assets	1,91,130	1,88,640	1,89,390	1,93,360	1,95,341
Total assets	6,87,570	7,05,170	7,30,870	7,88,812	8,27,750

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	91,630	90,480	99,910	1,66,685	1,66,434
Capital expenditures	(7,410)	(12,250)	(11,740)	(25,615)	(27,269)
Change in investments	39,600	(7,910)	(3,670)	(10,000)	(10,000)
Other investing cash flows	3,000	1,580	2,600	0	0
Cash flow from investing	(12,280)	(17,280)	(14,940)	(34,930)	(37,272)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,940)	0	780	0	0
Interest expenses	(860)	(820)	(880)	(1,040)	(1,020)
Dividends paid	(88,110)	(75,260)	(84,740)	(1,07,389)	(1,24,446)
Other financing cash flows	(4,060)	(4,070)	(4,690)	0	0
Cash flow from financing	(93,090)	(80,150)	(89,530)	(1,08,429)	(1,25,466)
Chg in cash & cash eq.	(13,740)	(6,950)	(4,560)	23,326	3,696
Closing cash & cash eq.	18,420	11,470	7,010	30,336	34,032

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	34.0	37.8	43.1	50.8	58.8
Adjusted EPS	35.0	37.9	43.2	50.8	58.8
Dividend per share	37.5	32.0	36.0	45.7	53.0
Book value per share	203.0	208.9	215.0	220.2	226.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	13.9	12.5	10.8	9.8	8.8
EV/EBITDA	56.3	50.9	46.2	38.8	33.6
Adjusted P/E	70.5	65.1	57.1	48.6	42.0
P/BV	12.2	11.8	11.5	11.2	10.9

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	75.4	74.7	75.8	74.6	74.8
Interest burden (PBT/EBIT)	100.5	100.9	102.6	102.8	102.5
EBIT margin (EBIT/Revenue)	22.4	22.4	21.5	23.3	24.4
Asset turnover (Rev./Avg TA)	68.4	74.4	82.9	84.8	89.3
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.5	1.6
Adjusted ROAE	16.8	18.1	20.0	23.1	26.0

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	18.2	11.5	15.5	10.4	10.6
EBITDA	17.9	10.6	10.0	19.1	15.7
Adjusted EPS	9.0	11.0	14.1	17.9	15.9
Profitability & Return ratios (%)					
EBITDA margin	24.7	24.5	23.4	25.2	26.4
EBIT margin	22.4	22.4	21.5	23.3	24.4
Adjusted profit margin	17.5	17.0	16.8	17.8	18.7
Adjusted ROAE	29.4	18.4	20.4	23.3	26.4
ROCE	23.2	15.1	16.4	18.5	20.4
Working capital days (days)					
Receivables	11	14	16	16	15
Inventory	52	54	48	52	56
Payables	135	127	107	117	124
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	1.5
Net interest coverage ratio	90.2	111.0	114.1	149.6	176.7
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%

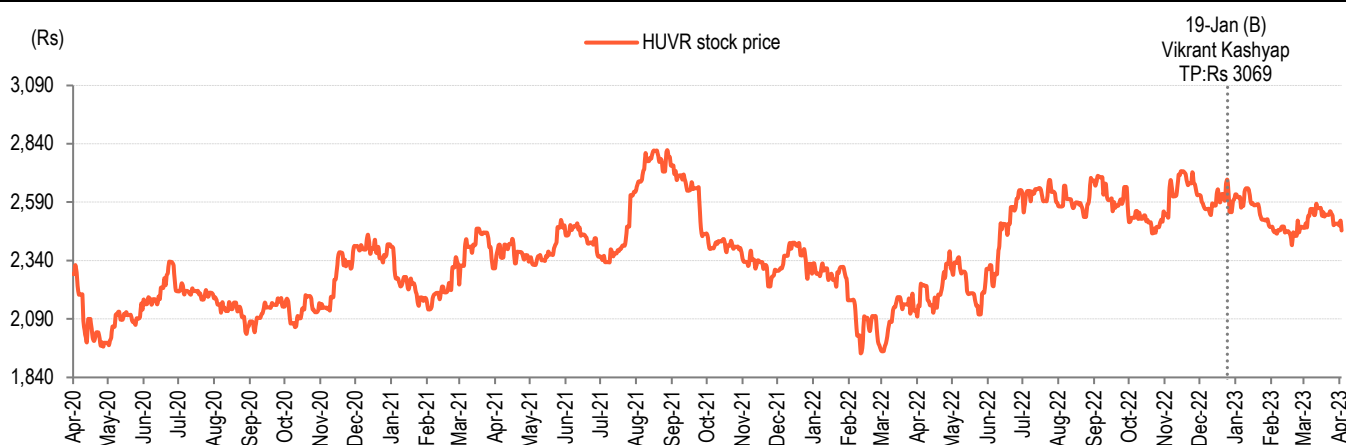
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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