

**BUY**

TP: Rs 3,077 | ▲ 23%

**HINDUSTAN UNILEVER**

Consumer Staples

02 December 2024

**Premiumisation may be ahead of its time.**

- HUVR's outlook of stable demand trends for FY25 appears conservative as the building blocks for rural demand remain favourable
- Longer term, HUVR's excessive focus on premiumisation may result in below industry average growth when mass consumption picks up
- With a ~6% rise in kharif foodgrains and HUVR's 1/3<sup>rd</sup> rural sales exposure, we remain comfortable with a sales rebound in 2HFY25. Buy

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**Conservative view on FY25:** HUVR guided to stable demand trends amidst a soft urban and gradual recovery in rural. We differ. Nielsen shows sequential improvement in rural FMCG volumes in the Sep-24 quarter. We expect improvement was towards the end of the quarter coinciding with the harvesting period. Building blocks to rural demand remain favourable with 2024 Kharif foodgrains +6% YoY. We continue to expect an acceleration in HUVR sales in 2HFY25 driven by rural.

**Long term targets:** HUVR guided to double digits EPS growth driven by topline and mix driven slight margin expansion. On topline, portfolio is divided into three parts. "Core"; value focused portfolio, will retain market share and work with current levels of investment. "Future Core"; premiumised portfolio, will have slight increase in investments with sales rising 1.25x vs category. "Market Makers"; new, high growth, most premium segment, will grow 1.50x vs category. Overall volume growth will be 100bps ahead of the market. This appears ambitious and depends on the pace of economic growth in India and its impact on household composition by income.

**Broad focus on premiumization:** HUVR is focused on premiumisation across the portfolio. Margin is a consideration, including new products, with quality prioritised over pricing. Affordability is in the form of lower pack sizes even as price per unit remains higher vs competition. This may restrict trials from new consumers and the ones looking to shift brands.

**Food and B&W are key growth drivers:** HUVR is up-trading the affluent class into higher end / masstige portfolio, while expanding the beauty regime from one to two products for the lower end consumers. The Nano Manufacturing approach is enables flexibility to work on premium / high-end innovation despite low scale.

**Our view:** Near term, we expect favourable monsoon, improved agri-yield and rural recovery to drive sales and earnings in 2HFY25 given HUL's industry leading distribution reach and 1/3<sup>rd</sup> rural sales exposure. A rational industry structure in tea provides comfort on margins and potential for share gains. Longer term, we view HUVR's excessive focus on premiumization as slightly ahead of its time given the mass consumption is yet to pickup in India.

**Key changes**

Target	Rating
◀▶	◀▶

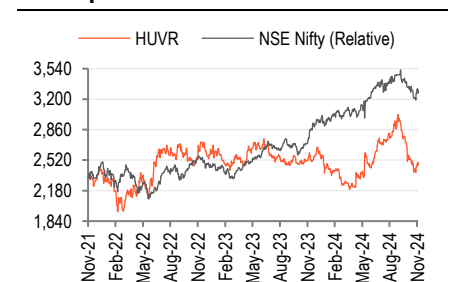
Ticker/Price	HUVR IN/Rs 2,496
Market cap	US\$ 69.4bn
Free float	38%
3M ADV	US\$ 56.0mn
52wk high/low	Rs 3,035/Rs 2,172
Promoter/FPI/DII	62%/14%/24%

Source: NSE | Price as of 29 Nov 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	618,960	648,106	721,762
EBITDA (Rs mn)	146,630	155,098	173,040
Adj. net profit (Rs mn)	102,770	108,338	120,023
Adj. EPS (Rs)	43.7	46.0	51.0
Consensus EPS (Rs)	43.7	47.3	52.7
Adj. ROAE (%)	20.2	21.0	23.0
Adj. P/E (x)	57.1	54.2	49.0
EV/EBITDA (x)	40.0	37.8	33.9
Adj. EPS growth (%)	1.6	4.7	11.4

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

Source: NSE



## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>605,800</b>	<b>618,960</b>	<b>648,106</b>	<b>721,762</b>	<b>794,454</b>
EBITDA	141,490	146,630	155,098	173,040	197,303
Depreciation	11,370	12,160	13,947	16,459	16,459
EBIT	130,120	134,470	141,151	156,581	180,844
Net interest inc./(exp.)	1,140	3,340	4,088	4,292	4,507
Other inc./(exp.)	5,120	8,110	9,433	9,904	10,399
Exceptional items	(640)	50	(640)	0	0
EBT	133,460	139,290	145,855	162,193	186,736
Income taxes	32,010	36,440	38,157	42,170	48,551
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	230	30	180	189	198
<b>Reported net profit</b>	<b>101,220</b>	<b>102,820</b>	<b>107,698</b>	<b>120,023</b>	<b>138,185</b>
Adjustments	(640)	50	(640)	0	0
<b>Adjusted net profit</b>	<b>101,600</b>	<b>102,770</b>	<b>108,338</b>	<b>120,023</b>	<b>138,185</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	95,740	104,860	94,248	102,288	111,852
Other current liabilities	7,640	8,070	8,450	9,410	10,358
Provisions	17,520	19,160	19,902	21,778	23,628
Debt funds	980	130	130	130	130
Other liabilities	103,770	138,540	144,892	160,944	176,785
Equity capital	2,350	2,350	2,350	2,350	2,350
Reserves & surplus	502,870	511,880	517,265	523,266	530,175
Shareholders' fund	505,220	514,230	519,615	525,616	532,525
<b>Total liab. and equities</b>	<b>730,870</b>	<b>784,990</b>	<b>787,237</b>	<b>820,166</b>	<b>855,279</b>
Cash and cash eq.	46,780	75,590	74,063	85,419	98,352
Accounts receivables	30,790	29,970	33,737	37,571	41,355
Inventories	42,510	40,220	42,265	45,871	50,159
Other current assets	28,680	29,100	30,465	33,913	37,317
Investments	28,820	45,600	38,131	38,133	38,136
Net fixed assets	69,490	80,310	83,380	92,183	101,028
CWIP	11,320	10,250	10,250	10,250	10,250
Intangible assets	282,630	282,470	282,470	282,470	282,470
Deferred tax assets, net	100	100	105	117	128
Other assets	189,750	191,380	192,119	193,986	195,829
<b>Total assets</b>	<b>730,870</b>	<b>784,990</b>	<b>786,984</b>	<b>819,913</b>	<b>855,023</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>99,910</b>	<b>154,690</b>	<b>126,521</b>	<b>154,934</b>	<b>174,001</b>
Capital expenditures	(11,740)	(14,680)	(25,924)	(25,262)	(27,806)
Change in investments	(3,670)	(42,920)	7,470	0	0
Other investing cash flows	2,600	4,290	0	0	0
<b>Cash flow from investing</b>	<b>(14,940)</b>	<b>(53,240)</b>	<b>(18,455)</b>	<b>(25,264)</b>	<b>(27,808)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	780	(890)	0	0	0
Interest expenses	(880)	(1,060)	(4,088)	(4,292)	(4,507)
Dividends paid	(84,740)	(94,160)	(102,313)	(114,021)	(131,276)
Other financing cash flows	(4,690)	(4,230)	(3,061)	0	2,523
<b>Cash flow from financing</b>	<b>(89,530)</b>	<b>(100,340)</b>	<b>(109,462)</b>	<b>(118,314)</b>	<b>(133,260)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(4,560)</b>	<b>1,110</b>	<b>(1,397)</b>	<b>11,356</b>	<b>12,933</b>
<b>Closing cash &amp; cash eq.</b>	<b>7,010</b>	<b>8,120</b>	<b>6,723</b>	<b>18,079</b>	<b>31,012</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	43.1	43.8	45.8	51.1	58.8
Adjusted EPS	43.3	43.7	46.0	51.0	58.7
Dividend per share	36.1	40.1	43.5	48.5	55.9
Book value per share	215.0	218.8	221.1	223.7	0.0

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	9.7	9.5	9.1	8.1	7.4
EV/EBITDA	41.5	40.0	37.8	33.9	29.7
Adjusted P/E	57.6	57.1	54.2	49.0	42.5
P/BV	11.6	11.4	11.3	11.2	

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	75.8	73.8	73.8	74.0	74.0
Interest burden (PBT/EBIT)	102.6	103.6	103.3	103.6	103.3
EBIT margin (EBIT/Revenue)	21.5	21.7	21.8	21.7	22.8
Asset turnover (Rev./Avg TA)	82.9	78.8	82.4	88.0	92.9
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.5	1.6	1.6
<b>Adjusted ROAE</b>	<b>20.0</b>	<b>20.0</b>	<b>20.7</b>	<b>22.8</b>	<b>25.9</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	15.5	2.2	4.7	11.4	10.1
EBITDA	10.0	3.6	5.8	11.6	14.0
Adjusted EPS	14.1	1.6	4.7	11.4	15.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	23.4	23.7	23.9	24.0	24.8
EBIT margin	21.5	21.7	21.8	21.7	22.8
Adjusted profit margin	16.8	16.6	16.7	16.6	17.4
Adjusted ROAE	20.4	20.2	21.0	23.0	26.1
ROCE	16.4	15.7	15.7	17.0	19.0
<b>Working capital days (days)</b>					
Receivables	16	18	18	18	18
Inventory	48	51	48	47	47
Payables	107	123	116	106	105
<b>Ratios (x)</b>					
Gross asset turnover	0.8	0.7	0.8	0.8	0.8
Current ratio	1.4	1.7	1.8	1.8	1.8
Net interest coverage ratio	114.1	40.3	34.5	36.5	40.1
<b>Adjusted debt/equity</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

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**BUY** – Expected return >+15%

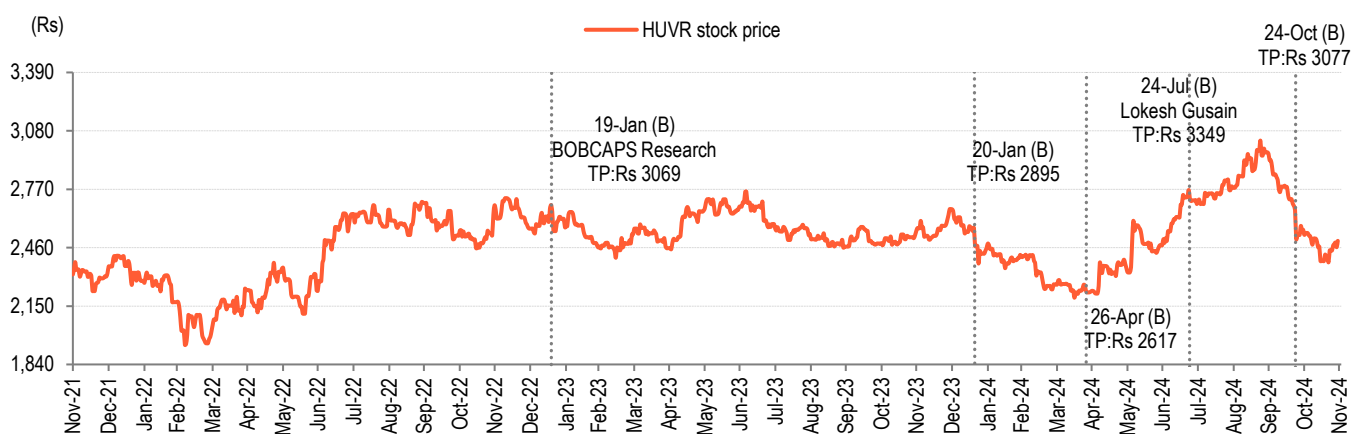
**HOLD** – Expected return from -6% to +15%

**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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