

BUY

TP: Rs 3,349 | ▲ 20%

HINDUSTAN UNILEVER

Consumer Staples

30 August 2024

Management meeting: Mid/long term prospects remain positive

- Volumes were subdued for the past couple of years but trends are improving
- Medium to long term target is high single digit EPS growth driven by sales and low to modest margin expansion
- Retain BUY. Medium term targets are reasonable given the scale. Potential upside continues from Beauty & Wellbeing and Food

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Medium- to long-term prospects remain in place: HUL remains positive about leveraging its strong 9mn outlets penetration. Its key focus is to increase offerings and drive consumption. There is strong potential for distribution gains in high margin, innovation-driven sub-categories in Beauty and Wellbeing (~20% of sales) but may require more innovation from HUL. Food also remains a focus area.

Medium- to long-term targets: HUL is targeting high single digit EPS growth driven by sales. Volume growth will be the key growth driver with pricing in low single digits. Current volume run rate is ~4%, which should accelerate through FY25E. Margins will remain largely unchanged with a low to moderate positive bias. We view targets as reasonable given the large size of the business and building up of slightly inflationary scenario which should aid pricing, volumes and share gains.

The soap debate: HUL remains positive on the soap reformulation. Total Fatty Matter (TFM) is reduced but appearance, structure, weight, and price per unit remain unchanged. The value proposition appears favourable with better quality at the same price per unit. However, industry feedback suggests share losses and we prefer to review evidence of market share performance in the September quarter.

Horlicks performance subdued: HUL is happy with current margins but sales growth is below expectations due to a weak category. Horlicks is better placed vs others in terms of formulation – this reflects in consistent share gains. With 50+% share, HUL acknowledged the need for more initiatives to drive category sales.

FY25 outlook: Balanced sales growth across segments driven by volume with inflation-driven pricing in 2HFY25. Margins likely to remain ~23%. The growth trajectory will improve as we progress through FY25 on rural recovery and pricing.

Our view and valuation: Rural sales exposure at ~40% and skew towards Personal and Home Care enables a faster response to changes in demand due to changes in income – rural income growth is a key driver for FMCG earnings in FY25. We value HUL at 63x 12M to Jun'26 P/E to derive the TP of Rs 3,349. BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HUVR IN/Rs 2,785
Market cap	US\$ 78.0bn
Free float	38%
3M ADV	US\$ 70.8mn
52wk high/low	Rs 2,835/Rs 2,172
Promoter/FPI/DII	62%/14%/24%

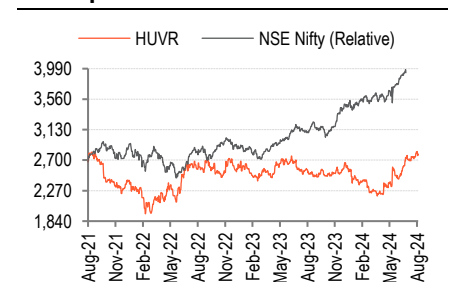
Source: NSE | Price as of 29 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	618,960	664,209	731,302
EBITDA (Rs mn)	146,630	158,043	173,319
Adj. net profit (Rs mn)	102,770	110,429	120,092
Adj. EPS (Rs)	43.7	47.0	51.1
Consensus EPS (Rs)	43.7	47.3	52.7
Adj. ROAE (%)	20.2	21.4	23.0
Adj. P/E (x)	63.7	59.3	54.5
EV/EBITDA (x)	44.6	41.4	37.8
Adj. EPS growth (%)	1.6	6.9	9.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	605,800	618,960	664,209	731,302	805,260
EBITDA	141,490	146,630	158,043	173,319	197,788
Depreciation	11,370	12,160	14,250	16,547	16,547
EBIT	130,120	134,470	143,793	156,772	181,241
Net interest inc./(exp.)	1,140	3,340	3,912	4,108	4,313
Other inc./(exp.)	5,120	8,110	9,164	9,622	10,103
Exceptional items	(640)	50	(480)	0	0
EBT	133,460	139,290	148,565	162,286	187,031
Income taxes	32,010	36,440	38,616	42,194	48,628
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	230	30	80	84	88
Reported net profit	101,220	102,820	109,949	120,092	138,403
Adjustments	(640)	50	(480)	0	0
Adjusted net profit	101,600	102,770	110,429	120,092	138,403

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	95,740	104,860	94,856	104,246	114,036
Other current liabilities	7,640	8,070	8,660	9,535	10,499
Provisions	17,520	19,160	20,312	22,020	23,904
Debt funds	980	130	130	130	130
Other liabilities	103,770	138,540	148,401	163,023	179,140
Equity capital	2,350	2,350	2,350	2,350	2,350
Reserves & surplus	502,870	511,880	517,377	523,382	530,302
Shareholders' fund	505,220	514,230	519,727	525,732	532,652
Total liab. and equities	730,870	784,990	792,087	824,685	860,361
Cash and cash eq.	46,780	75,590	76,295	87,287	100,233
Accounts receivables	30,790	29,970	34,575	38,068	41,918
Inventories	42,510	40,220	42,538	46,748	51,139
Other current assets	28,680	29,100	31,219	34,360	37,823
Investments	28,820	45,600	38,131	38,134	38,136
Net fixed assets	69,490	80,310	83,965	93,014	102,114
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	107	118	130
Other assets	189,750	191,380	192,527	194,228	196,103
Total assets	730,870	784,990	792,077	824,676	860,314

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	99,910	154,690	131,360	154,784	174,405
Capital expenditures	(11,740)	(14,680)	(26,568)	(25,596)	(28,184)
Change in investments	(3,670)	(42,920)	7,470	0	0
Other investing cash flows	2,600	4,290	0	0	0
Cash flow from investing	(14,940)	(53,240)	(19,100)	(25,598)	(28,186)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	780	(890)	0	0	0
Interest expenses	(880)	(1,060)	(3,912)	(4,108)	(4,313)
Dividends paid	(84,740)	(94,160)	(104,451)	(114,087)	(131,483)
Other financing cash flows	(4,690)	(4,230)	(3,061)	0	2,523
Cash flow from financing	(89,530)	(100,340)	(111,424)	(118,195)	(133,273)
Chg in cash & cash eq.	(4,560)	1,110	835	10,992	12,946
Closing cash & cash eq.	7,010	8,120	8,955	19,947	32,893

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	43.1	43.8	46.8	51.1	58.9
Adjusted EPS	43.2	43.7	47.0	51.1	58.9
Dividend per share	36.1	40.1	44.4	48.5	56.0
Book value per share	215.0	218.8	221.2	223.7	0.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	10.8	10.6	9.9	9.0	8.1
EV/EBITDA	46.3	44.6	41.4	37.8	33.1
Adjusted P/E	64.4	63.7	59.3	54.5	47.3
P/BV	13.0	12.7	12.6	12.4	

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	75.8	73.8	74.0	74.0	74.0
Interest burden (PBT/EBIT)	102.6	103.6	103.3	103.5	103.2
EBIT margin (EBIT/Revenue)	21.5	21.7	21.6	21.4	22.5
Asset turnover (Rev./Avg TA)	82.9	78.8	83.9	88.7	93.6
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.5	1.6	1.6
Adjusted ROAE	20.0	20.0	21.2	22.8	26.0

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	15.5	2.2	7.3	10.1	10.1
EBITDA	10.0	3.6	7.8	9.7	14.1
Adjusted EPS	14.1	1.6	6.9	9.2	15.2
Profitability & Return ratios (%)					
EBITDA margin	23.4	23.7	23.8	23.7	24.6
EBIT margin	21.5	21.7	21.6	21.4	22.5
Adjusted profit margin	16.8	16.6	16.6	16.4	17.2
Adjusted ROAE	20.4	20.2	21.4	23.0	26.2
ROCE	16.4	15.7	16.0	17.0	19.0
Working capital days (days)					
Receivables	16	18	18	18	18
Inventory	48	51	48	47	47
Payables	107	123	116	105	105
Ratios (x)					
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	36.8	38.2	42.0
Adjusted debt/equity	0.2	0.0	0.0	0.0	0.0

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

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BUY – Expected return >+15%

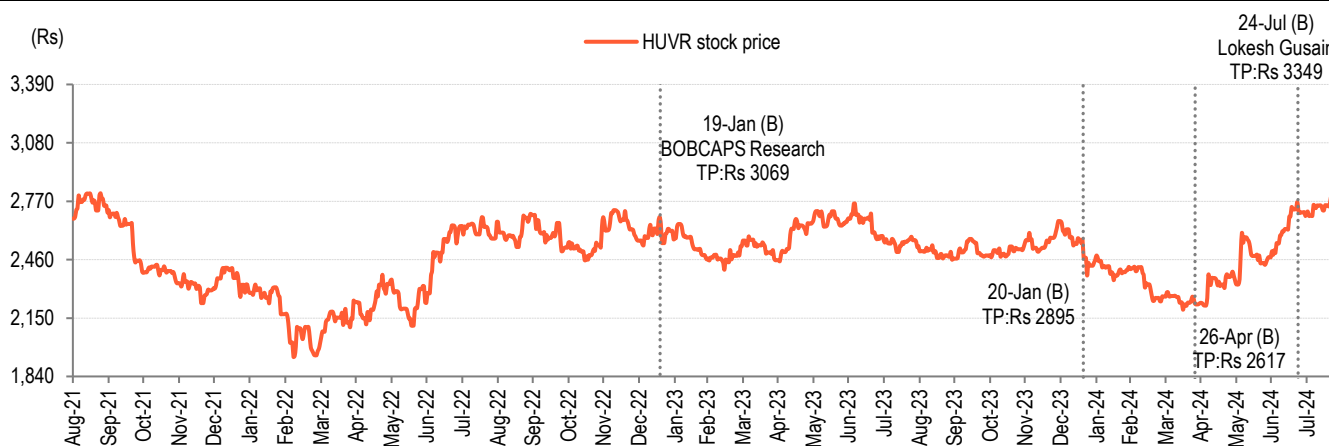
HOLD – Expected return from -6% to +15%

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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