

**BUY**  
 TP: Rs 3,077 | ▲ 16%

**HINDUSTAN UNILEVER**

Consumer Staples

24 October 2024

**Managing inflation; FMCG remains rational**

- 2QFY25 sales were 1% above consensus while EBITDA was 2% higher as margins came in 15bps above expectations
- Personal Care was the main drag on sales growth. Tea inflation and lack of pricing are the drags on margin
- Rational tea industry provides comfort on margins and potential for share gains. Rural recovery will help given 40+% sales exposure. **BUY**

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**Small beat on both sales and EBITDA:** HUVR reported 2QFY25 underlying EBITDA of Rs 38bn, flat YoY on 2% sales growth and 50bps margin contraction. Compared to Bloomberg consensus, sales were 1% higher with EBITDA 2% higher on 15bps higher margins.

**Conservative view on demand trends?** HUVR guided for stable trends through FY25 with no further improvements in demand. We differ. We suspect some of the slow growth in urban could be inventory adjustments in general trade due to channel shift to Q-Comm. Meanwhile rural continues to recover and we expect an acceleration through the December quarter.

**Initial response is positive on change in soap formulation:** HUVR changed its soap formulation by partly replacing palm oil to lab-developed material. The initial response was positive with volume share gains. Quarterly volumes were higher in Sep'24 vs Jun'24, even though the June quarter is seasonally stronger.

**Tea industry is still rational:** HUVR indicated 25% inflation in tea and clarified no material industry pricing in the Sep'24 quarter. HUVR will take calibrated pricing to complete the inflation offset by Dec'24. There is potential for share gains as smaller payers would need to raise prices immediately which will create a favourable relative price index for branded players such as Tata Consumer and HUVR.

**Our view:** Despite soft volumes, we expect a good monsoon, improved agri-yield and rural recovery to drive sales and earnings given HUL's industry leading distribution reach and 40+% rural sales exposure. A rational industry structure in tea provides comfort on margins and potential for share gains. We value HUVR at 64x 12M to Sep'26 P/E to derive the TP of Rs 3,077 – an implied return of 16%. **BUY.**

(Rs mn)	Q2FY24	Q2FY25	YoY (%)	Variation vs (%)	
				BoB	Consensus
Sales	156,230	159,260	2	1	1
EBITDA	37,970	37,930	0	0	2
EBITDA margin (%)	24.3	23.8	(49bps)	(8bps)	15bps

Source: Company, Bloomberg, BOBCAPS Research

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	HUVR IN/Rs 2,659
Market cap	US\$ 74.3bn
Free float	38%
3M ADV	US\$ 55.9mn
52wk high/low	Rs 3,035/Rs 2,172
Promoter/FPI/DII	62%/14%/24%

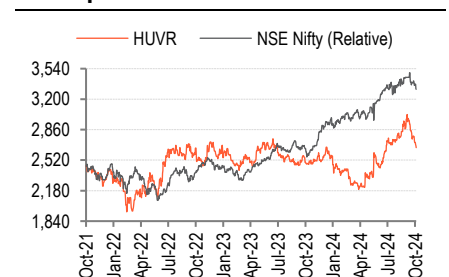
Source: NSE | Price as of 23 Oct 2024

**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)	60.8	57.8	52.2
EV/EBITDA (x)	42.6	40.3	36.1
Adj. EPS growth (%)	1.6	4.7	11.4

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



## 2QFY25 result review

### Earnings and valuation

For FY25, we adjust our sales slightly downwards by 2%. Personal Care is the main drag on sales as HUVR expects a rebound post the Mar'25 quarter. Our EBITDA margin forecasts are slightly higher given clarity from the company regarding full offset of tea inflation by Dec'24. For FY26 and FY27, our sales are slightly lower to reflect slightly slower-than-expected recovery in Personal Care. Earnings are relatively unchanged as the combination of current inflationary environment and rational behaviour by market majors will lead to share gains in the organised sector – this should benefit volumes as prices normalise. We value HUVR based on P/E relative to the NIFTY 50 index and apply a 10% premium. We use 64x 12M to Sep'26 P/E to derive the TP of Rs 3,077 (from Rs 3,349). Maintain BUY.

**Fig 1 – HUL: Revised estimates**

(Rs mn)	Actual	New			Old			Change (%)		
	FY24P	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	618,960	648,106	721,762	794,454	664,209	731,302	805,260	(2)	(1)	(1)
EBITDA	146,630	155,098	173,040	197,303	158,043	173,319	197,788	(2)	0	0
EBITDA Margin (%)	23.7	23.9	24.0	24.8	23.8	23.7	24.6	14bps	27bps	27bps
Adj PAT	102,710	108,158	119,834	137,986	110,429	120,092	138,403	(2)	0	0
Adj. EPS (Rs)	43.71	46.02	50.99	58.72	47.00	51.10	58.90	(2)	0	0

Source: Company, BOBCAPS Research

### Key risks

Key downside risks to our estimates are:

- continued stress in underlying volume growth,
- slower-than-anticipated rural recovery,
- sustained food inflation,
- failed experiment in soaps reformulation.

## Conference call highlights

### Sales

- Management expects demand trends to remain stable. This appears conservative given rural recovery will be more prominent in the December quarter. HUVR has an industry-leading distribution network with 40+% sales exposure to rural.
- Low single digit pricing is likely in the December quarter to offset inflation.
- Personal Care sales will likely see a rebound after two quarters.
- An inflationary scenario is favourable to branded tea makers as consumers up-trade from loose tea which needs to implement quicker and steeper price rises.

### Cost

- Palm oil (+10% YoY) and tea (+25% YoY) are inflationary.
- Reliance on palm oil will be slightly lower now with soap reformulation which partially replaces palm oil.

### Margins

- EBITDA margins will remain in the 23%-24% range.
- Offsetting pricing in tea will be implemented in a calibrated manner over the December quarter.
- Cost efficiency programme will act as a natural offset to inflation.
- Benefits from lower palm oil usage in soap reformulation will be reinvested into the business.

## 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	10.3	10.1	9.6	8.7	7.9
EV/EBITDA	44.2	42.6	40.3	36.1	31.7
Adjusted P/E	61.4	60.8	57.8	52.2	45.3
P/BV	12.4	12.2	12.0	11.9	

### 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%

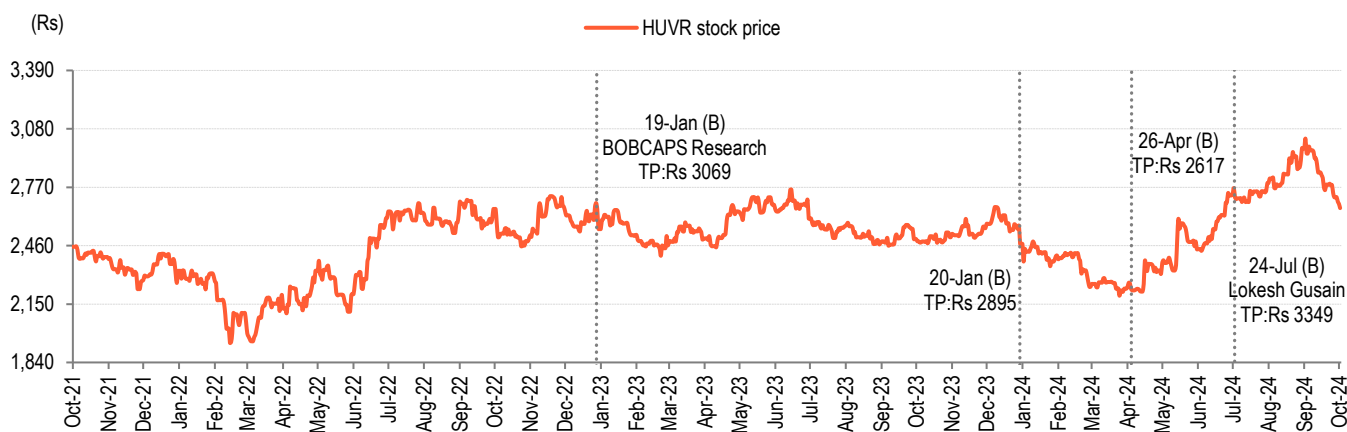
**HOLD** – Expected return from -6% to +15%

**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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