

BUY

TP: Rs 3,069 | ▲ 16%

HINDUSTAN UNILEVER

Consumer Staples

19 January 2023

Growth momentum continues; margins improve sequentially

- Q3 revenue grew 16% YoY with volume growth of 5%; EBITDA margin improved sequentially by 70bps
- Royalty to parent company hiked 80bps to c.3.45%, staggered over a 3Y period
- We assume coverage on HUVR with BUY and a TP of Rs 3,069, based on 52.5x FY25E EPS

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Sustained volume trajectory: HUVR's Q3FY23 revenue grew 16% YoY (3% QoQ), with underlying volume growth of 5%. The company continues to gain market share in more than 75% of its portfolio. During the quarter, the FMCG market grew in high single digits, but industry volumes continued to decline in both urban and rural centres, with a deeper slowdown in the latter areas. Given softening of inflation and early signs of recovery in the rural market, we expect increased volume growth ahead.

Broad-based growth: In Q3FY23, HUVR's home care, beauty & personal care, and foods & refreshment segment revenues grew 32%, 10% and 7% YoY respectively. Home care delivered double-digit volume growth. The fabric wash and household care segments saw similar volume trends as well as calibrated price hikes by the company. As palm oil softened, prices were reduced in the soaps portfolio. The foods business clocked double-digit volume growth led by jams, ketchup, and the Unilever food solutions business.

Margins improve QoQ on lower cost inflation: EBITDA margin for Q3 expanded 70bps QoQ but contracted 170bps YoY to 23.7%. Segment EBIT margins were healthy with home care at 19%, beauty & personal care at 25%, and foods & refreshment at 18%. Gross margin contracted 430bps YoY but improved 210bps QoQ to 48%.

Increase in royalty for parent company: The board has approved a new agreement with the Unilever group for the provision of technology, trademark licenses and services to HUVR. The arrangement envisages a staggered increase of 80bps in royalty payout over a period of three years from c.2.65% to c.3.45% of turnover.

BUY, TP Rs 3,069: HUVR continues to grow ahead of the market and to gain market share despite macro challenges. With softening of inflation and improving rural demand, we expect continued volume growth across the portfolio. Sustained investment in brand building will lend further impetus to growth. The stock is trading at 52.4x/45.4x FY24E/FY25E EPS. We assume coverage on HUVR with BUY and value the stock at 52.5x FY25E EPS, in-line with the long-term mean, translating to a TP of Rs 3,069.

Ticker/Price	HUVR IN/Rs 2,650
Market cap	US\$ 86.3bn
Free float	38%
3M ADV	US\$ 44.4mn
52wk high/low	Rs 2,742/Rs 1,902
Promoter/FPI/DII	62%/14%/24%

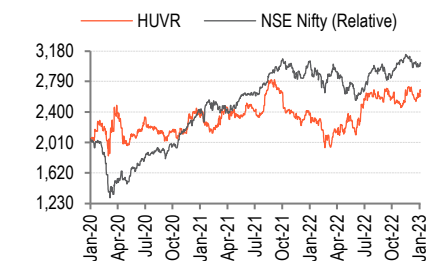
Source: NSE | Price as of 19 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	5,24,460	6,03,710	6,66,091
EBITDA (Rs mn)	1,28,570	1,42,260	1,69,178
Adj. net profit (Rs mn)	89,180	1,01,752	1,19,215
Adj. EPS (Rs)	37.9	43.3	50.7
Consensus EPS (Rs)	37.9	42.4	50.1
Adj. ROAE (%)	18.4	20.4	23.2
Adj. P/E (x)	69.8	61.2	52.2
EV/EBITDA (x)	54.6	49.4	41.5
Adj. EPS growth (%)	11.0	14.5	17.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

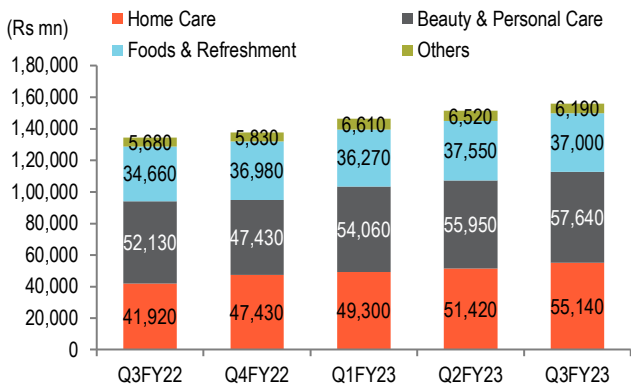


Fig 1 – Quarterly performance

(Rs mn)	Q3FY23	Q2FY23	Q3FY22	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	155,970	151,440	134,390	3.0	16.1	151,730	2.8
EBITDA	36,940	34,790	34,090	6.2	8.4	36,264	1.9
PAT	24,740	26,650	22,970	(7.2)	7.7	25,227	(1.9)
Gross Margin (%)	48.0	45.9	52.3	210bps	(430bps)	47.5	50bps
EBITDA Margin (%)	23.7	23.0	25.4	70bps	(170bps)	23.9	(20bps)
PAT Margin (%)	15.9	17.6	17.1	(170bps)	(120bps)	16.6	(70bps)

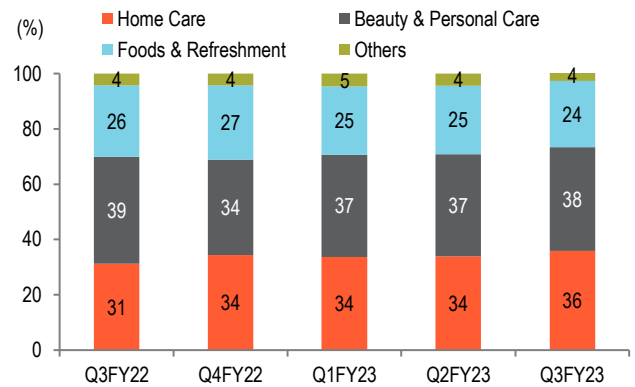
Source: Company, BOBCAPS Research

Fig 2 – Segment revenue



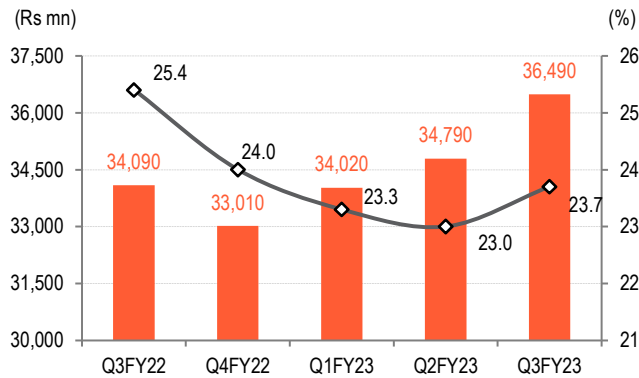
Source: Company, BOBCAPS Research

Fig 3 – Revenue contribution



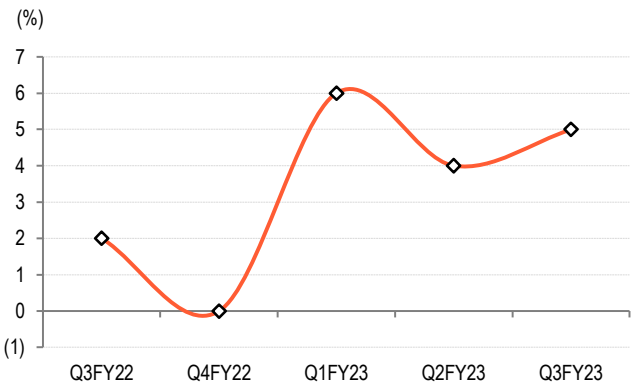
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and Margin trend



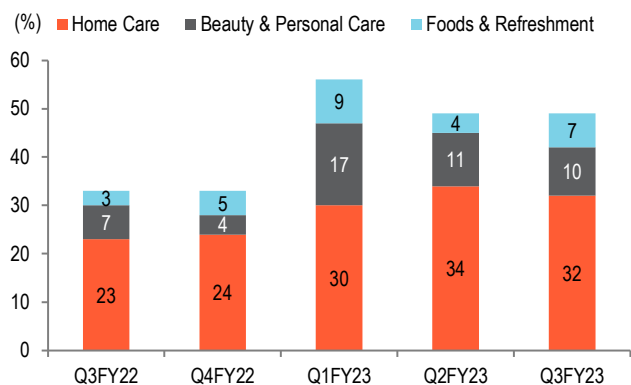
Source: Company, BOBCAPS Research

Fig 4 – Volume growth trend



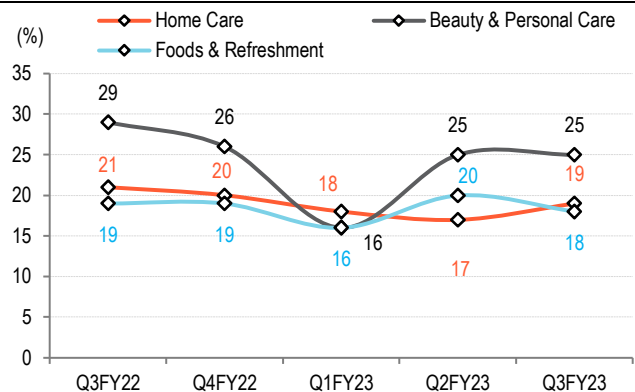
Source: Company, BOBCAPS Research

Fig 5 – Segment revenue growth



Source: Company, BOBCAPS Research

Fig 6 – Segment EBIT margins



Source: Company, BOBCAPS Research

Earnings call highlights

- Management is seeing gradual improvement in the FMCG business environment. HUVR remains cautiously optimistic in the near term and expects price-led growth.
- The company has seen real improvement in rural markets compared to the months of Jun-Jul'22. Despite higher inflation, people in rural areas are spending more than the previous year.
- HUVR believes peak inflation is likely behind us and anticipates gradual recovery in consumer demand. If inflation were to remain at current levels, then margins can improve on the back of premiumisation and benefits of scale.
- Calibrated price increases were taken in the fabric wash and household care portfolio to partly offset input cost inflation, while prices were reduced in the soaps portfolio.
- Management indicated that its double-digit EPS growth guidance will not change despite the increase in royalty payment to Unilever.
- During the quarter, the company forayed into the fast-growing health and wellbeing category through strategic partnerships with QZiva and Wellbeing Nutrition.
- Market development efforts in the health food drinks (HFD) category have started yielding results, with improving market penetration and share gains.

Valuation methodology

HUVR continues to grow ahead of the market and to gain market share despite macro challenges. Given a softening of inflation and improving rural demand, we expect continued volume growth across the portfolio. Sustained investment in brand building will lend further impetus to growth.

The stock is trading at 52.4x/45.4x FY24E/FY25E EPS. We assume coverage on HUVR with BUY and value the stock at 52.5x FY25E EPS, in-line with the long-term mean, translating to a TP of Rs 3,069.

Key risks

Key downside risks to our estimates are:

- continued slowdown in the rural market, and
- above-expected input costs.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	4,70,280	5,24,460	6,03,710	6,66,091	7,36,508
EBITDA	1,16,260	1,28,570	1,42,260	1,69,178	1,94,691
Depreciation	10,740	10,910	11,574	13,130	14,850
EBIT	1,05,520	1,17,660	1,30,686	1,56,048	1,79,841
Net interest inc./(exp.)	1,170	1,060	1,120	1,040	1,020
Other inc./(exp.)	4,100	2,580	4,420	4,595	4,825
Exceptional items	(2,390)	(440)	(410)	0	0
EBT	1,06,060	1,18,740	1,33,576	1,59,603	1,83,645
Income taxes	26,060	29,870	31,813	40,220	46,279
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	40	130	160	168	176
Reported net profit	79,960	88,740	1,01,602	1,19,215	1,37,367
Adjustments	(2,390)	(440)	(410)	0	0
Adjusted net profit	82,350	89,180	1,01,752	1,19,215	1,37,367

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	88,020	93,700	1,16,022	1,21,097	1,30,640
Other current liabilities	5,880	6,650	7,655	8,446	9,339
Provisions	20,850	19,260	21,688	23,567	25,688
Debt funds	0	0	0	0	0
Other liabilities	95,880	94,690	1,08,998	1,20,261	1,32,975
Equity capital	2,350	2,350	2,350	2,350	2,350
Reserves & surplus	4,74,590	4,88,520	5,05,682	5,17,772	5,31,508
Shareholders' fund	4,76,940	4,90,870	5,08,032	5,20,122	5,33,858
Total liab. and equities	6,87,570	7,05,170	7,62,395	7,93,492	8,32,500
Cash and cash eq.	44,710	38,460	53,998	53,048	57,177
Accounts receivables	17,580	22,360	25,739	28,398	31,401
Inventories	35,790	40,960	50,718	52,936	57,108
Other current assets	17,020	17,900	20,585	22,699	25,085
Investments	27,090	35,210	45,213	55,215	65,218
Net fixed assets	61,160	61,690	64,217	66,645	68,998
CWIP	7,450	13,130	13,130	13,130	13,130
Intangible assets	2,79,300	2,79,070	2,89,070	2,99,070	3,09,070
Deferred tax assets, net	170	110	127	140	154
Other assets	1,91,130	1,88,640	1,90,857	1,92,602	1,94,571
Total assets	6,87,570	7,05,170	7,62,395	7,93,492	8,32,500

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	91,630	90,480	1,35,363	1,42,944	1,65,985
Capital expenditures	(7,410)	(12,250)	(24,101)	(25,558)	(27,203)
Change in investments	39,600	(7,910)	(10,000)	(10,000)	(10,000)
Other investing cash flows	3,000	1,580	0	0	0
Cash flow from investing	(12,280)	(17,280)	(34,104)	(35,560)	(37,206)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,940)	0	0	0	0
Interest expenses	(860)	(820)	(1,120)	(1,040)	(1,020)
Dividends paid	(88,110)	(75,260)	(84,600)	(1,07,293)	(1,23,630)
Other financing cash flows	(4,060)	(4,070)	0	0	0
Cash flow from financing	(93,090)	(80,150)	(85,720)	(1,08,333)	(1,24,650)
Chg in cash & cash eq.	(13,740)	(6,950)	15,538	(950)	4,129
Closing cash & cash eq.	18,420	11,470	27,008	26,058	30,187

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	34.0	37.8	43.2	50.7	58.5
Adjusted EPS	35.0	37.9	43.3	50.7	58.5
Dividend per share	37.5	32.0	36.0	45.7	52.6
Book value per share	203.0	208.9	216.2	221.3	227.2

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	14.9	13.4	11.6	10.5	9.5
EV/EBITDA	60.4	54.6	49.4	41.5	36.1
Adjusted P/E	75.6	69.8	61.2	52.2	45.3
P/BV	13.1	12.7	12.3	12.0	11.7

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	75.4	74.7	76.1	74.7	74.8
Interest burden (PBT/EBIT)	100.5	100.9	102.2	102.3	102.1
EBIT margin (EBIT/Revenue)	22.4	22.4	21.6	23.4	24.4
Asset turnover (Rev./Avg TA)	68.4	74.4	79.2	83.9	88.5
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.5	1.5	1.6
Adjusted ROAE	16.8	18.1	20.0	22.9	25.7

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	18.2	11.5	15.1	10.3	10.6
EBITDA	17.9	10.6	10.6	18.9	15.1
Adjusted EPS	9.0	11.0	14.5	17.3	15.2
Profitability & Return ratios (%)					
EBITDA margin	24.7	24.5	23.6	25.4	26.4
EBIT margin	22.4	22.4	21.6	23.4	24.4
Adjusted profit margin	17.5	17.0	16.9	17.9	18.7
Adjusted ROAE	29.4	18.4	20.4	23.2	26.1
ROCE	23.2	15.1	16.4	18.3	20.3
Working capital days (days)					
Receivables	11	14	15	15	15
Inventory	52	54	53	57	56
Payables	135	129	120	130	128
Ratios (x)					
Gross asset turnover	0.7	0.7	0.7	0.8	0.8
Current ratio	1.3	1.4	1.4	1.5	1.5
Net interest coverage ratio	90.2	111.0	116.7	150.0	176.3
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

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

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

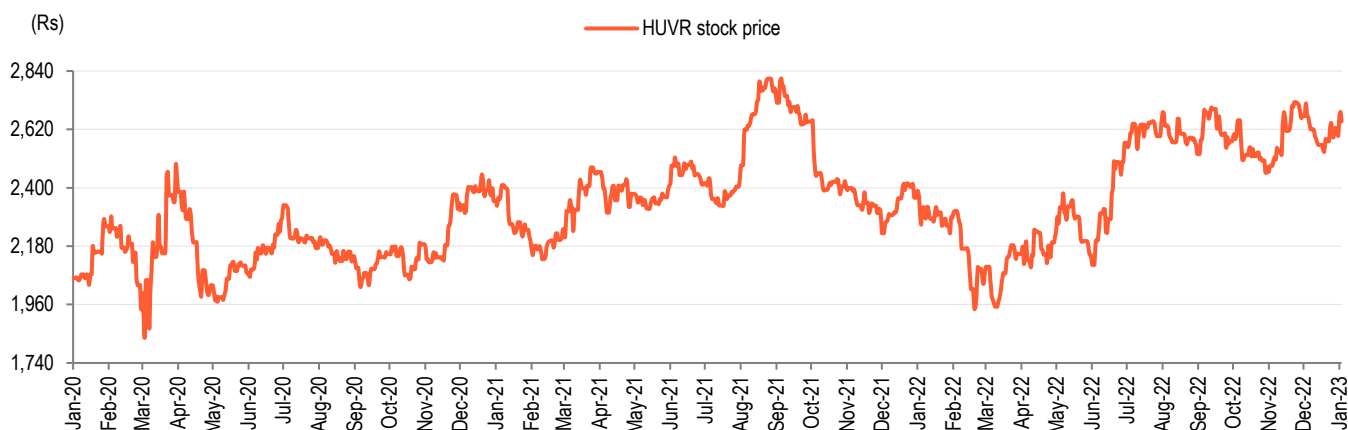
HOLD – Expected return from -6% to +15%

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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