

BUY
 TP: Rs 2,859 | ▲ 22%

HINDUSTAN UNILEVER

Consumer Staples

23 January 2025

Moderating demand

- Compared to Bloomberg consensus, 3QFY25 sales were in line, while EBITDA was 1% higher
- Commodity headwind requires LSD pricing in 4QFY25 amidst the trend of mix deterioration and “moderating” demand
- Current slow demand is transitory with long-term fundamentals of rural exposure + premiumisation still in place. **BUY**

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In line 3QFY25: HUVR reported 3QFY25 underlying EBITDA of Rs 37bn, +1% YoY on 2% sales growth with margins down 20bps. Compared to Bloomberg consensus, sales were in line but EBITDA 1% higher on 25bps higher margins.

Demand trends “moderating”: HUVR noted “moderating” demand trends as opposed to its earlier comment of “stable” demand trends during its Capital Markets Day on 29 November 2024. Weaker trends have likely emerged in the November / December months. We expect slower sales in FY26 with slight margin expansion on continued mix improvement – premium portfolio continues to perform ahead of the remainder business.

Minimalist acquisition to accelerate premiumisation: HUVR announced the Minimalist acquisition for ~Rs 30bn, due for completion in 1QFY26. The target company has a portfolio of Masstige Beauty & Wellness products with Rs 5bn annual sales. The brand was founded in 2020 and consistently maintained a profitable track record. The bulk of Minimalist sales come from online channels. HUVR did not share any quantitative targets or synergies but the company expects to leverage its global R&D for innovation, distribution network to increase offline sales, and advanced supply chain systems to improve efficiencies and margins.

Our view and valuation: We expect the softness in consumer demand to be transitory and HUVR’s long-term fundamentals of rural exposure to tap into rising consumption in the value segment and focus on premiumisation to capture a greater share of the fast growth affluent, and affluent plus consumer segments. We now value HUVR based on 5Y average 12M forward P/E. We use 54x 12M to Dec’26 P/E to derive the TP of Rs 2,859 (from Rs 3,077). Maintain **BUY**.

HUVR 3QFY25 result summary (Rs mn)	Actual			Reported vs (%)	
	Q3FY24	Q3FY25	YoY (%)	BOBCAPS	Cons.
Sales	155,670	158,180	1.6	(0.7)	0.2
EBITDA	36,660	36,950	0.8	(2.6)	1.2
EBITDA margin (%)	23.5	23.4	(19bps)	(46bps)	24bps

Sources: Company, Bloomberg, BOBCAPS Research

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HUVR IN/Rs 2,343
Market cap	US\$ 63.8bn
Free float	38%
3M ADV	US\$ 48.4mn
52wk high/low	Rs 3,035/Rs 2,172
Promoter/FPI/DII	62%/14%/24%

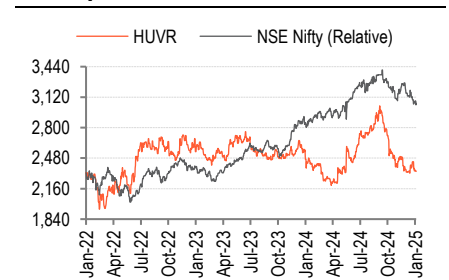
Source: NSE | Price as of 22 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	618,960	640,005	687,057
EBITDA (Rs mn)	146,630	147,222	163,222
Adj. net profit (Rs mn)	102,710	102,562	115,749
Adj. EPS (Rs)	43.7	43.6	49.3
Consensus EPS (Rs)	43.7	45.4	50.3
Adj. ROAE (%)	20.2	20.3	23.2
Adj. P/E (x)	53.6	53.7	47.6
EV/EBITDA (x)	37.5	37.4	33.6
Adj. EPS growth (%)	0.8	(0.1)	12.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



3QFY25 result review

Earnings and valuation

For FY25 and FY26, we adjust our forecasts with sales slightly upwards to reflect inflation-driven pricing. Our EBITDA margin forecasts are lower due to inflation, partly offset by mix improvement. For FY27, we keep our forecasts relatively unchanged assuming a return to “normal” demand.

We now value HUVR based on 5Y average P/E on 12M forward EPS. We use 54x 12M to Dec'26 P/E to derive the TP of Rs 2,859 (down from Rs 3,077). Maintain BUY.

Fig 1 – HUVR earnings revisions

(Rs mn)	Actual	New			Old			Change (%)		
	FY24	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	618,960	640,005	687,057	783,245	648,106	721,762	794,454	(1.3)	(4.8)	(1.4)
EBITDA	146,630	147,222	163,222	197,040	155,098	173,040	197,303	(5.1)	(5.7)	(0.1)
EBITDA Margin (%)	23.7	23.0	23.8	25.2	23.9	24.0	24.8	(93bps)	(22bps)	32bps
Adj. PAT	102,710	102,562	115,749	137,411	108,158	119,834	137,986	(5.2)	(3.4)	(0.4)
Adj. EPS (Rs)	43.71	43.64	49.25	58.47	46.02	50.99	58.72	(5.2)	(3.4)	(0.4)

Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	605,800	618,960	640,005	687,057	783,245
EBITDA	141,490	146,630	147,222	163,222	197,040
Depreciation	11,370	12,160	13,416	14,004	14,974
EBIT	130,120	134,470	133,806	149,218	182,066
Net interest inc./(exp.)	(1,140)	(3,340)	(4,388)	(4,953)	(4,953)
Other inc./(exp.)	5,120	8,110	8,697	6,240	6,289
Exceptional items	640	(60)	(4,430)	0	0
EBT	134,100	139,240	138,115	150,505	183,402
Income taxes	32,010	36,440	35,342	34,616	45,850
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	230	10	70	140	140
Reported net profit	101,210	102,770	106,992	115,749	137,411
Adjustments	630	(60)	(4,430)	0	0
Adjusted net profit	101,860	102,710	102,562	115,749	137,411

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	95,740	104,860	120,875	128,606	150,189
Other current liabilities	23,560	23,770	28,600	28,600	28,600
Provisions	77,840	81,330	84,120	84,120	84,120
Debt funds	980	130	130	130	130
Other liabilities	27,530	60,670	70,430	70,430	70,430
Equity capital	2,350	2,350	2,350	2,350	2,350
Reserves & surplus	502,870	511,880	494,352	499,464	515,541
Shareholders' fund	505,220	514,230	496,702	501,814	517,891
Total liab. and equities	730,870	784,990	800,857	813,699	851,360
Cash and cash eq.	7,140	8,250	45,243	46,074	58,372
Accounts receivables	30,790	29,970	32,367	34,793	41,641
Inventories	42,510	40,220	44,973	47,951	57,941
Other current assets	89,540	134,800	103,060	103,060	103,060
Investments	690	650	570	570	570
Net fixed assets	80,810	90,560	96,384	102,991	111,515
CWIP	0	0	0	0	0
Intangible assets	457,290	457,130	457,070	457,070	457,070
Deferred tax assets, net	0	0	0	0	0
Other assets	22,100	23,410	21,190	21,190	21,190
Total assets	730,870	784,990	800,857	813,699	851,360

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	99,910	154,690	136,263	132,853	157,869
Capital expenditures	(11,740)	(14,680)	(14,910)	(20,612)	(23,497)
Change in investments	(6,620)	(43,040)	38,330	0	0
Other investing cash flows	3,420	4,480	7,248	4,181	4,213
Cash flow from investing	(14,940)	(53,240)	30,668	(16,431)	(19,284)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	780	(850)	10	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(84,740)	(94,160)	(124,540)	(110,638)	(121,334)
Other financing cash flows	(5,570)	(5,330)	(5,408)	(4,953)	(4,953)
Cash flow from financing	(89,530)	(100,340)	(129,938)	(115,591)	(126,287)
Chg in cash & cash eq.	(4,590)	1,110	36,993	832	12,298
Closing cash & cash eq.	7,140	8,250	45,243	46,074	58,372

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	43.1	43.7	45.5	49.3	58.5
Adjusted EPS	43.3	43.7	43.6	49.3	58.5
Dividend per share	39.0	42.0	50.4	49.2	62.7
Book value per share	215.0	218.8	211.4	213.5	220.4

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	9.1	8.9	8.6	8.0	7.0
EV/EBITDA	38.8	37.5	37.4	33.6	27.7
Adjusted P/E	54.1	53.6	53.7	47.6	40.1
P/BV	10.9	10.7	11.1	11.0	10.6

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	76.0	73.8	74.3	76.9	74.9
Interest burden (PBT/EBIT)	103.1	103.5	103.2	100.9	100.7
EBIT margin (EBIT/Revenue)	21.5	21.7	20.9	21.7	23.2
Asset turnover (Rev./Avg TA)	84.4	81.7	80.7	85.1	94.1
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.6	1.6	1.6
Adjusted ROAE	20.5	20.2	20.3	23.2	27.0

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	15.5	2.2	3.4	7.4	14.0
EBITDA	10.0	3.6	0.4	10.9	20.7
Adjusted EPS	14.2	0.8	(0.1)	12.9	18.7
Profitability & Return ratios (%)					
EBITDA margin	23.4	23.7	23.0	23.8	25.2
EBIT margin	21.5	21.7	20.9	21.7	23.2
Adjusted profit margin	16.8	16.6	16.0	16.8	17.5
Adjusted ROAE	20.5	20.2	20.3	23.2	27.0
ROCE	21.3	20.5	20.5	22.7	27.1

Working capital days (days)

	FY23A	FY24A	FY25E	FY26E	FY27E
Receivables	16	18	18	18	18
Inventory	48	51	50	51	51
Payables	107	123	132	137	134

Ratios (x)

	FY23A	FY24A	FY25E	FY26E	FY27E
Gross asset turnover	5.1	4.6	4.1	3.9	3.9
Current ratio	1.4	1.7	1.5	1.5	1.5
Net interest coverage ratio	114.1	40.3	30.5	30.1	36.8
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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BUY – Expected return >+15%

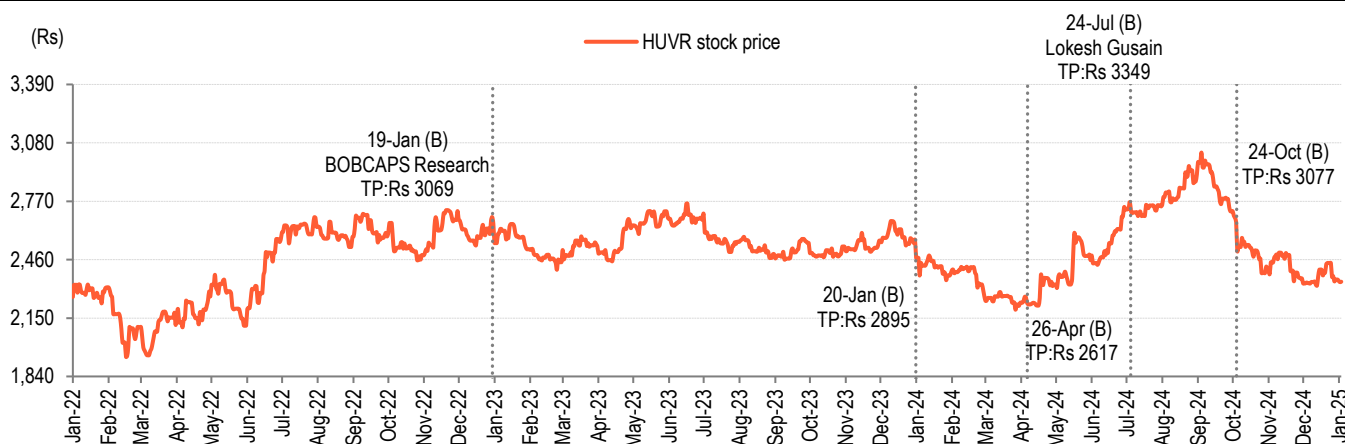
HOLD – Expected return from -6% to +15%

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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