

**BUY**

TP: Rs 2,617 | ▲ 18%

**HINDUSTAN UNILEVER**

Consumer Staples

26 April 2024

### Subdued performance; expect gradual recovery

- Volume growth remained at 2%; revenue growth flat owing to pricing action in key portfolios
- EBITDA margin impacted on account of termination of GSK consignment selling agreement and higher ad spends
- Expect a modest recovery in volume; maintain BUY with lower TP of Rs 2,617 (previously Rs 2,895)

**Vikrant Kashyap**

research@bobcaps.in

**Volume growth remains subdued:** HUVR's underlying volume growth was flat sequentially at 3% in Q4FY24 as heightened competition from regional players and delayed recovery in rural markets continued to impact volumes. Consolidated revenue was also flat at Rs 152bn largely due to price corrections in key portfolios. Gross margin improved 320bps YoY during the quarter. EBITDA margin declined by 30bps to 23.2% owing to 60bps impact from the termination of the GlaxoSmithKline (GSK) consignment selling arrangement, 200bps increase in advertisements and promotions (A&P) investments and higher employee cost and other expenses. The company announced a final dividend of Rs 24/share.

**Key categories deliver subdued growth:** On a YoY basis in Q4, HUVR's home care (HC) had mid-single digit growth while the beauty & personal care (BPC) and foods & refreshment (F&R) segments had flat volume growth. Underlying sales growth for HC was flat, BPC declined 2% and pricing drove 4% sales growth for F&R. Fabric wash and household care grew volumes in the mid-single digit, driven by strong performance in the premium portfolio. Skin cleansing declined due to price cuts along with a drop in volumes in the mass and popular segments, and oral care reported double-digit growth led by pricing. The tea business saw a muted performance owing to continuous downtrading in the category.

**Innovation and premiumisation remain focus areas:** HUVR continues to strengthen its core portfolio by launching new products across segments. The company's focus on premiumisation continues to deliver results and now accounts for 25% of its business. In the BPC segment, the premium portfolio continued to grow ahead of the other segments.

**Maintain BUY:** HUVR's volume and value growth remained weak in a challenging environment amid elevated regional competition and delayed rural recovery. We cut our FY25/FY26 EPS expectations by 8%/9.6% to build in slower volumes and lower margins. Recovery in consumer sentiment and a good monsoon will result in modest recovery in volume in H2FY25, in our view. We cut our TP of Rs 2,617 (earlier Rs 2,895), based on a target P/E of 51.5x on FY26E, and retain BUY.

### Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HUVR IN/Rs 2,223
Market cap	US\$ 63.6bn
Free float	38%
3M ADV	US\$ 55.6mn
52wk high/low	Rs 2,770/Rs 2,172
Promoter/FPI/DII	62%/14%/24%

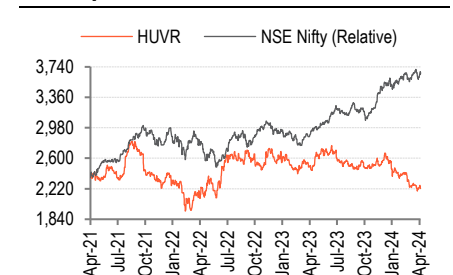
Source: NSE | Price as of 26 Apr 2024

### Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	605,800	618,960	660,828
EBITDA (Rs mn)	141,490	146,630	156,204
Adj. net profit (Rs mn)	101,600	102,770	108,120
Adj. EPS (Rs)	43.2	43.7	46.0
Consensus EPS (Rs)	43.2	44.8	50.7
Adj. ROAE (%)	20.4	20.2	20.9
Adj. P/E (x)	51.4	50.8	48.3
EV/EBITDA (x)	36.9	35.6	33.4
Adj. EPS growth (%)	14.1	1.6	5.2

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE

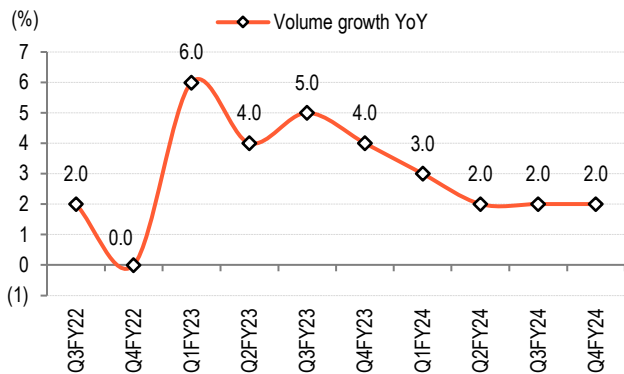


**Fig 1 – Financial performance**

(Rs mn)	Q4FY24	Q3FY24	Q4FY23	QoQ (%)	YoY (%)	FY24	FY23	YoY (%)
Revenue	152,100	155,670	152,150	(2.3)	0.0	618,960	605,800	2.2
EBITDA	35,350	36,660	35,740	(3.6)	(1.1)	146,630	141,490	3.6
Adj. PAT	24,800	25,380	25,190	(2.3)	(1.5)	102,710	101,830	0.9
Gross Margin (%)	52.3	52.0	49.1	30bps	320bps	51.9	47.6	430bps
EBITDA Margin (%)	23.2	23.5	23.5	(30bps)	(30bps)	23.7	23.4	30bps
Adj. PAT Margin (%)	16.3	16.3	16.6	0bps	(30bps)	16.6	16.8	(20bps)

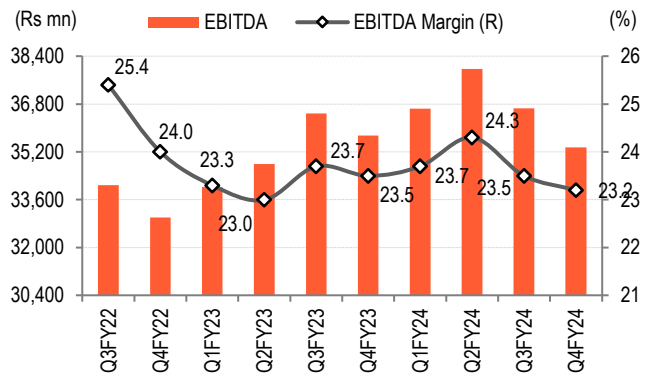
Source: Company, BOBCAPS Research

**Fig 2 – Underlying volume growth**



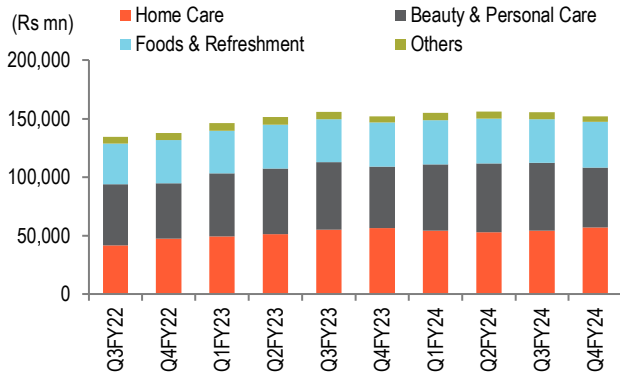
Source: Company, BOBCAPS Research

**Fig 3 – EBITDA and margin**



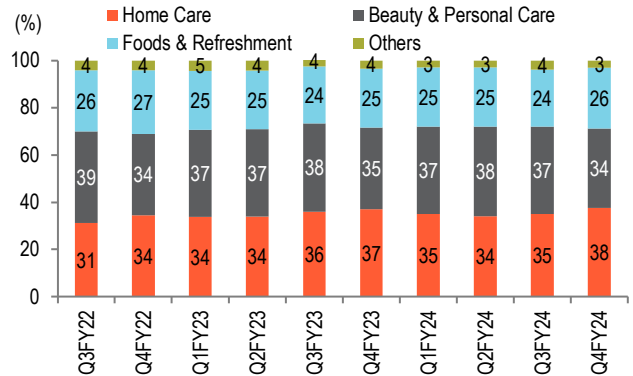
Source: Company, BOBCAPS Research

**Fig 4 – Segment revenue**



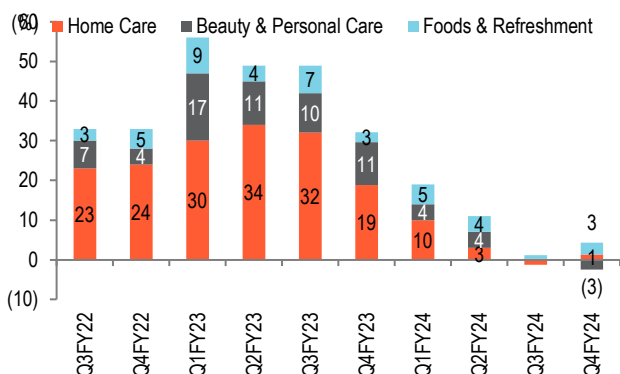
Source: Company, BOBCAPS Research

**Fig 5 – Segment revenue contribution**



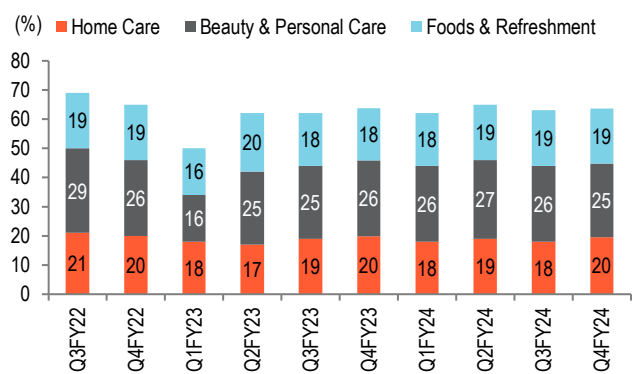
Source: Company, BOBCAPS Research

**Fig 6 – Segment growth YoY**



Source: Company, BOBCAPS Research

**Fig 7 – Segment EBIT margin**



Source: Company, BOBCAPS Research

## Earnings call highlights

- Demand trends remained subdued, however, management expects gradual recovery going ahead. The forecast of normal monsoons and positive macroeconomic indicators augur well for the FMCG sector.
- Rural demand is showing slow recovery while urban demand remains resilient. Volume growth for the company remains flat at 2%.
- The raw materials basket in key categories is witnessing deflation and HUVR expects an impact on pricing in the near future if the commodity prices remain at current levels.
- HUVR increased A&P investments in Q4 and strengthened its brand power, however the volume decline in soaps is due to a decline in volumes of mass-end products.
- About 75% of HUVR's business is reporting volume growth, with 50% of total business reporting mid-high single-digit volume growth.
- E-commerce and Quick Commerce are growing the fastest among all trade channels and the company continues to gain share. 70% of revenue comes through general trade, 20% through modern trade, 7% through e-commerce, and 3% through quick commerce.
- The premium segment continues to outperform the mass segment with strong double-digit value growth.
- The health food drinks (HFD) business reported high single-digit growth driven by a mix of volume and pricing. The Plus range of shampoos registered relatively higher growth.
- Fabric wash & household care grew in the mid-single digits due to price cuts, however, personal care sales declined due to pressure in mass segment of soap.
- F&R category growth was driven by increase in prices along with improved demand in the anticipation of summer.
- Foods grew in the mid-single digit led by strong performance in Soups and Food solutions. Mayonnaise and Peanut Butter continue to gain consumer traction.
- Ice Cream grew in double digits led by volumes. An exciting range of innovations including Cadbury Crackle Feast, American Nuts and Mango Duet were launched ahead of the upcoming ice-cream season.
- Tea continued to strengthen in value and volume market leadership. The category continued to witness consumers downgrading to loose tea. Coffee delivered double-digit growth driven by pricing.
- Hair care delivered volume driven by high single-digit growth led by outperformance in Dove and TRESemmé. Skin care and colour cosmetics grew in the low single digits. Premium skin care continued its strong double-digit growth trajectory led by innovations in new demand spaces and formats.
- Skin cleansing declined due to the impact of price cuts coupled with drop in volumes in the mass and popular segments while bodywash continued to do well.

## Valuation methodology

HUVR's volume and value growth remained weak during Q4FY24 in a challenging environment marked by elevated regional competition and delayed rural recovery. However, the company continues to drive category development, innovation and premiumisation across product categories.

We cut our FY24/FY25 revenue expectations by 1.8%/2.3% and EPS expectations by 8.2%/9.6% to build in slower volume recovery and lower margins owing to increased spending on advertising and promotions. Recovery in consumer sentiment and good monsoon will result in modest recovery in volume in H2FY25. We cut our TP to Rs 2,617 (from Rs 2,895), based on a target P/E of 51.5x on FY26E, and retain BUY.

**Fig 8 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	660,828	727,479	673,056	744,415	(1.8)	(2.3)
EBITDA	156,204	172,412	166,661	187,226	(6.3)	(7.9)
Adj. PAT	108,120	119,429	117,759	132,111	(8.2)	(9.6)
Adj. EPS	46.0	50.8	50.1	56.2	(8.2)	(9.6)

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- continued stress in underlying volume growth,
- slower-than-anticipated rural recovery, and,
- sustained food inflation.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	14.1	4,800	5,980	BUY
Dabur India	DABUR IN	11.0	509	673	BUY
Godrej Consumer Products	GCPL IN	15.0	1,203	1,363	HOLD
Hindustan Unilever	HUVR IN	63.6	2,223	2,617	BUY
ITC	ITC IN	66.8	440	532	BUY
Marico	MRCO IN	8.1	518	618	BUY
Nestle India	NEST IN	29.1	2,483	2,826	HOLD
Tata Consumer Products	TATACONS IN	12.8	1,103	1,330	BUY
Zydus Wellness	ZYWL IN	1.3	1,669	1,531	HOLD

Source: BOBCAPS Research, NSE | Price as of 26 Apr 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>524,460</b>	<b>605,800</b>	<b>618,960</b>	<b>660,828</b>	<b>727,479</b>
EBITDA	128,570	141,490	146,630	156,204	172,412
Depreciation	10,910	11,370	12,160	15,104	16,281
EBIT	117,660	130,120	134,470	141,100	156,131
Net interest inc./(exp.)	1,060	1,140	3,340	3,507	3,682
Other inc./(exp.)	2,580	5,120	8,110	8,516	8,941
Exceptional items	(440)	(640)	50	0	0
EBT	118,740	133,460	139,290	146,108	161,390
Income taxes	29,870	32,010	36,440	37,988	41,961
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	130	230	30	32	33
<b>Reported net profit</b>	<b>88,740</b>	<b>101,220</b>	<b>102,820</b>	<b>108,120</b>	<b>119,429</b>
Adjustments	(440)	(640)	50	0	0
<b>Adjusted net profit</b>	<b>89,180</b>	<b>101,600</b>	<b>102,770</b>	<b>108,120</b>	<b>119,429</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	90,680	95,740	104,860	94,324	103,701
Other current liabilities	6,650	7,640	8,070	8,616	9,485
Provisions	19,260	17,520	19,160	20,226	21,923
Debt funds	0	980	130	130	130
Other liabilities	97,710	103,770	138,540	147,664	162,189
Equity capital	2,350	2,350	2,350	2,350	2,350
Reserves & surplus	488,520	502,870	511,880	517,286	523,257
Shareholders' fund	490,870	505,220	514,230	519,636	525,607
<b>Total liab. and equities</b>	<b>705,170</b>	<b>730,870</b>	<b>784,990</b>	<b>790,596</b>	<b>823,035</b>
Cash and cash eq.	38,460	46,780	75,590	79,160	89,921
Accounts receivables	22,360	30,790	29,970	34,399	37,869
Inventories	40,960	42,510	40,220	42,299	46,504
Other current assets	25,190	28,680	29,100	31,060	34,181
Investments	35,210	28,820	45,600	38,131	38,134
Net fixed assets	61,690	69,490	80,310	80,278	89,459
CWIP	13,130	11,320	10,250	10,250	10,250
Intangible assets	279,070	282,630	282,470	282,470	282,470
Deferred tax assets, net	110	100	100	107	118
Other assets	188,990	189,750	191,380	192,441	194,131
<b>Total assets</b>	<b>705,170</b>	<b>730,870</b>	<b>784,990</b>	<b>790,596</b>	<b>823,035</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>90,480</b>	<b>99,910</b>	<b>154,690</b>	<b>128,886</b>	<b>153,365</b>
Capital expenditures	(12,250)	(11,740)	(14,680)	(26,433)	(25,462)
Change in investments	(7,910)	(3,670)	(42,920)	7,470	0
Other investing cash flows	1,580	2,600	4,290	0	0
<b>Cash flow from investing</b>	<b>(17,280)</b>	<b>(14,940)</b>	<b>(53,240)</b>	<b>(18,964)</b>	<b>(25,464)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	780	(890)	0	0
Interest expenses	(820)	(880)	(1,060)	(3,507)	(3,682)
Dividends paid	(75,260)	(84,740)	(94,160)	(102,714)	(113,457)
Other financing cash flows	(4,070)	(4,690)	(4,230)	0	0
<b>Cash flow from financing</b>	<b>(80,150)</b>	<b>(89,530)</b>	<b>(100,340)</b>	<b>(106,221)</b>	<b>(117,140)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(6,950)</b>	<b>(4,560)</b>	<b>1,110</b>	<b>3,700</b>	<b>10,761</b>
<b>Closing cash &amp; cash eq.</b>	<b>11,470</b>	<b>7,010</b>	<b>8,120</b>	<b>11,820</b>	<b>22,581</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	37.8	43.1	43.8	46.0	50.8
Adjusted EPS	37.9	43.2	43.7	46.0	50.8
Dividend per share	32.0	36.1	40.1	43.7	48.3
Book value per share	208.9	215.0	218.8	221.1	223.7

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	10.0	8.6	8.4	7.9	7.2
EV/EBITDA	40.6	36.9	35.6	33.4	30.3
Adjusted P/E	58.6	51.4	50.8	48.3	43.7
P/BV	10.6	10.3	10.2	10.1	9.9

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.7	75.8	73.8	74.0	74.0
Interest burden (PBT/EBIT)	100.9	102.6	103.6	103.5	103.4
EBIT margin (EBIT/Revenue)	22.4	21.5	21.7	21.4	21.5
Asset turnover (Rev./Avg TA)	74.4	82.9	78.8	83.6	88.4
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.5	1.5	1.6
Adjusted ROAE	18.1	20.0	20.0	20.8	22.7

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	11.5	15.5	2.2	6.8	10.1
EBITDA	10.6	10.0	3.6	6.5	10.4
Adjusted EPS	11.0	14.1	1.6	5.2	10.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	24.5	23.4	23.7	23.6	23.7
EBIT margin	22.4	21.5	21.7	21.4	21.5
Adjusted profit margin	17.0	16.8	16.6	16.4	16.4
Adjusted ROAE	18.4	20.4	20.2	20.9	22.9
ROCE	15.1	16.4	15.7	15.7	16.9
<b>Working capital days (days)</b>					
Receivables	14	16	18	18	18
Inventory	54	48	51	48	47
Payables	127	107	123	116	105
<b>Ratios (x)</b>					
Gross asset turnover	0.7	0.8	0.7	0.8	0.8
Current ratio	1.4	1.4	1.7	1.8	1.8
Net interest coverage ratio	111.0	114.1	40.3	40.2	42.4
Adjusted debt/equity	0.0	0.2	0.0	0.0	0.0

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

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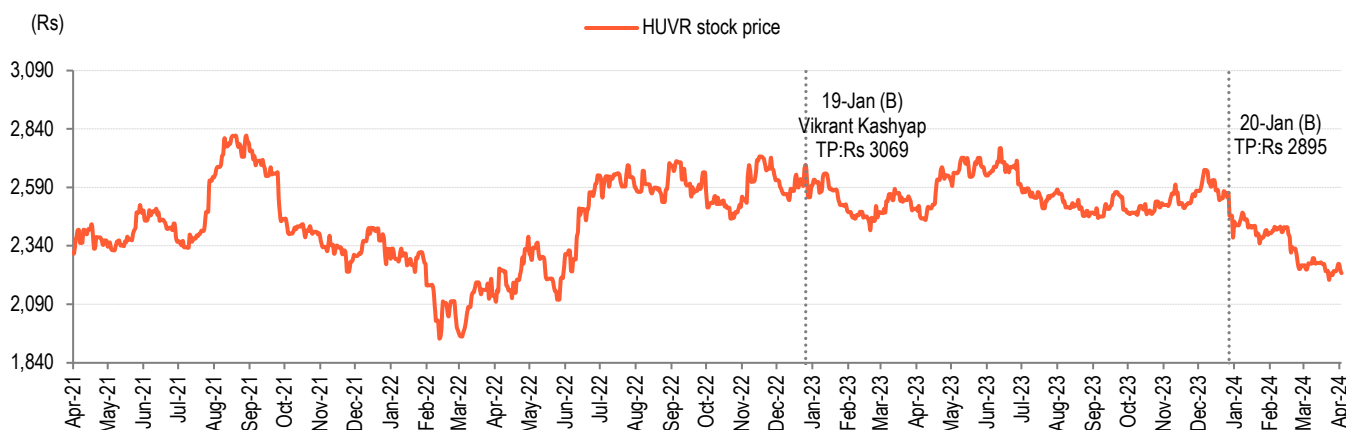
**HOLD** – Expected return from -6% to +15%

**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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