Hindustan Unilever — Reduce

Consumer Staples | Q1FY24 Result Update

DART — DOLAT ANALYSIS & RESEARCH THEMES — IN-DEPTH•PRECISE•ACTIONABLE

Result Update

Performance below estimate; downgrade to Reduce

- **HUL's results came below our estimate. Revenue growth was led by 3% volume growth vs our estimate of 5%. Going ahead, volume growth would lead the value growth due to less opportunity for price hikes.**
- **GM expanded by 260bps YoY due to softening in commodity prices. However, 150/50bps increase in other expense/A&P spends restricted the EBITDA margin expansion at 50bps – came below estimate.**
- **To factor in Q1 performance, we have downward revised our EPS estimates by 2.3% for FY24/25E at Rs 46.6/51.4. Continue to value the stock at 55x FY25E EPS to arrive at a TP of Rs 2,826. Downgrade to Reduce.**

Results came below estimate

Net Sales stood at Rs 151.5bn was up 6.1% YoY in Q1FY24 – was below our estimate. The revenue growth was led by 3% price increase and volume growth of 3%. EBITDA increased 8.4% YoY to Rs 35.2bn – was below our estimate. EBITDA margin expanded by 50bps to 23.2% as 260bps decline in RM cost was partially offset by 10/50/150bps increase in employee cost/A&P expenses/other expenses respectively. The input cost pressure moderated during the quarter, hence GM contraction eased. We believe that the GM would improve here on. RPAT increased 8.0% YoY to Rs 24.7bn. Excluding EI, APAT grew 9.0% YoY to Rs 25.1bn - came below our estimate.

Volume led growth across most categories

+75% of the portfolio gained market share in volume and value terms in Q1FY24. At the segmental level – (1) Home care reported 10.0% sales growth with 60bps EBIT margin expansion to 18.3% (2) Personal care reported 4.4% revenue increase; EBIT margins were flat at 26.3% and (3) Food and Refreshment posted 4.7% YoY sales growth with EBIT margin expansion of 200bps to 17.9%. The Home care segment was benefited from double digit growth across fabric wash and household care segment, while Personal care segment growth was benefited from volume led growth across hair care and skin business. Beverages performance was impacted due to down-trading by the consumers.

Q1FY24 Result (Rs Mn)

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	1,51,480	1,42,720	6.1	1,48,930	1.7
Total Expense	1,16,270	1,10,250	5.5	1,14,220	1.8
EBITDA	35,210	32,470	8.4	34,710	1.4
Depreciation	2,570	2,600	(1.2)	2,620	(1.9)
EBIT	32,640	29,870	9.3	32,090	1.7
Other Income	1,850	1,370	35.0	1,600	15.6
Interest	470	260	80.8	240	95.8
EBT	33,650	30,860	9.0	34,250	(1.8)
Tax	8,930	7,970	12.0	8,730	2.3
RPAT	24,720	22,890	8.0	25,520	(3.1)
APAT	25,090	23,010	9.0	24,720	1.5
			(bps)		(bps)
Gross Margin (%)	49.9	47.4	256	48.7	120
EBITDA Margin (%)	23.2	22.8	49	23.3	(6)
NPM (%)	16.3	16.0	28	17.1	(82)
Tax Rate (%)	26.5	25.8	71	25.5	105
EBIT Margin (%)	21.5	20.9	62	21.5	0

CMP	Rs 2,703
Target / Upside	Rs 2,826 / 5%
NIFTY	19,979

Scrip Details

Equity / FV	Rs 2,350mn / Rs 1
Market Cap	Rs 6,353bn
	USD 77.3bn
52-week High/Low	Rs 2,770/ 2,393
Avg. Volume (no)	13,79,870
Bloom Code	HUVR IN

Price Performance	1M	3M	12M
Absolute (%)	1	8	4
Rel to NIFTY (%)		4	(8)

Shareholding Pattern

	Dec'22	Mar'23	Jun'23
Promoters	61.9	61.9	61.9
MF/Banks/FIs	11.6	11.6	11.5
FIIs	14.3	14.4	14.5
Public / Others	12.2	12.2	12.1

Valuation (x)

	FY23A	FY24E	FY25E
P/E	63.4	57.9	52.6
EV/EBITDA	46.4	41.4	37.6
ROE (%)	20.1	21.6	23.1
RoACE (%)	17.8	19.0	20.5

Estimates (Rs bn)

	FY23A	FY24E	FY25E
Revenue	591.4	636.7	692.3
EBITDA	136.3	151.7	166.8
PAT	100.2	109.6	120.7
EPS (Rs.)	42.7	46.6	51.4

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Exhibit 1: Segmental Performance

Particulars (Rs.mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	Remarks
Home Care						**Fabric Wash, Household Care & Water**
Revenue	54,250	49,310	10.0	56,380	(3.8)	▪ Fabric wash posted strong double-digit growth led by strong performance in premium portfolio; continued to witness market share gain.
EBIT	9,910	8,690	14.0	10,560	(6.2)	
EBIT Margin (%)	18.3	17.6	60bps	18.7	(50bps)	▪ Strong double-digit volume growth in household care led by outperformance in Dishwash.
Beauty & Personal Care						**Personal Wash, Oral Care, Skin Care, Hair Care, Deodorant & Colour Cosmetics**
Revenue	56,010	53,640	4.4	51,880	8.0	
EBIT	14,720	14,110	4.3	13,530	8.8	▪ Skin cleansing posted modest volume led growth led by LUX and Hamam; soaps portfolio has resorted to price cuts in JQ'24.
EBIT Margin (%)	26.3	26.3	-	26.1	20bps	▪ Haircare posted volume led mid-single digit growth; innovations and future formats performed well. ▪ Double-digit growth in skin care and color cosmetics led by strong performance in premium portfolio. ▪ Oral care grew in high-double digit; Close up continues to grow.
Food & Refreshments						▪ Tea portfolio witnessed down trading as a result of continued inflation differential between loose and premium teas. Coffee posted mid-single digit growth.
Revenue	37,970	36,270	4.7	37,940	0.1	
EBIT	6,810	5,780	17.8	6,790	0.3	
EBIT Margin (%)	17.9	15.9	200bps	17.9	-	▪ HFD witnessed price led growth; Horlicks and Boost performed well. ▪ Foods portfolio grew in mid- single digit, led by strong performance in Ketchup and Food solutions. ▪ Ice cream exhibited mid-single digit growth on a high base. Consumption was impacted due to unseasonal rains.
Others						
Revenue	3,250	3,500.0	(7.1)	2,730	19.0	
EBIT	1,200.0	1,290.0	(7.0)	1,210.0	(0.8)	
EBIT Margin (%)	36.9	36.9	10bps	44.3	(740bps)	
Total						
Revenue	151,480	142,720	6.1	148,930	1.7	
EBIT	32,640	29,870	9.3	32,090	1.7	
EBIT Margin (%)	21.5	20.9	60bps	21.5	-	

Source: DART, Company

Exhibit 2: Actual V/s DART estimate

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	151,480	158,124	(4.2)	Overall volume growth was lower than our estimate.
EBITDA	35,210	37,556	(6.2)	Other expenses came higher than estimate.
EBITDA margin %	23.2	23.8	(50bps)	
APAT	25,090	27,022	(7.2)	Cascading effect of lower EBITDA.

Source: Company, DART

Exhibit 3: Change in estimates

Particulars (Rs mn)	FY24E			FY25E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	636,693	651,357	(2.3)	692,291	708,355	(2.3)
EBIDTA	151,711	155,169	(2.2)	166,780	170,603	(2.2)
EBIDTA margin (%)	23.8	23.8	-	24.1	24.1	-
PAT	109,626	112,220	(2.3)	120,745	123,629	(2.3)
EPS (Rs)	46.6	47.8	(2.3)	51.4	52.6	(2.3)

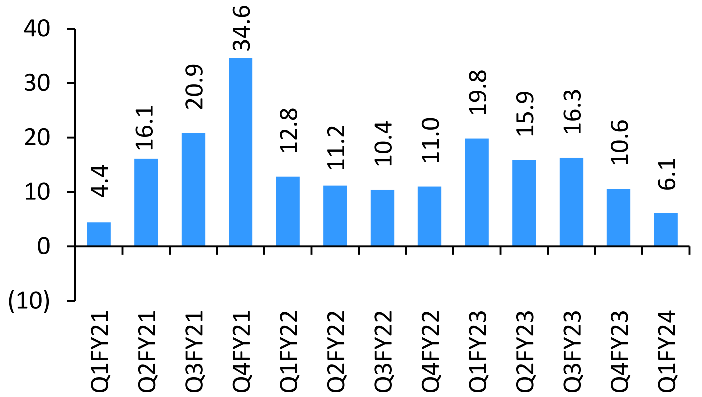
Source: Company DART

We have lowered our FY24/25E revenue estimates to factor in Q1 performance and expected reduction in product prices. However, we maintained our EBITDA margin estimates as continue to believe that the commodity deflation would help the company. In line with the reduction in revenues, we have revised our earnings estimate.

Earning call KTA's

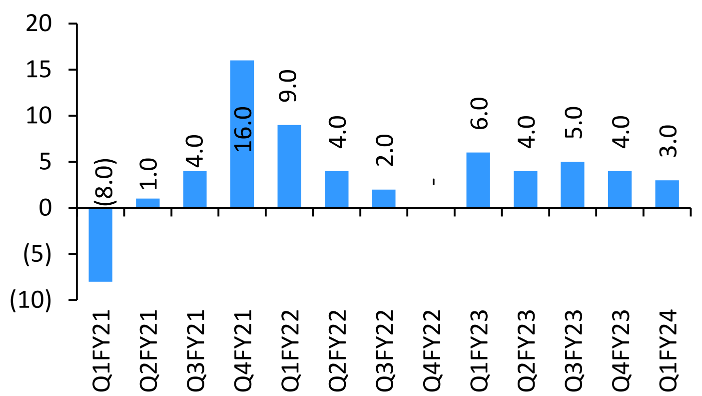
- During the quarter, HUL posted 3% volume growth vs a mid-single digit volume growth in FMCG industry. We believe, the FMCG industry demand trends are gradually improving supported by strong demand in urban markets and softening of raw material inflation. Further, the rural markets has posted positive volume growth in Q1FY24. However on a 2-Yr CAGR basis rural markets volume continue to be in the negative trajectory. We believe, in ensuing quarters price growth would remain flat to negative and HUL would focus on volume led growth going ahead.
- During Q1FY24, GM expanded by 260bps YoY led by moderation in key commodity prices. Furthermore, HUL has resorted to price cut in soap portfolio as a result of softening in palm oil prices. Going ahead, focus would remain on GM improvement.
- A&P spends in Q1FY24 were at 9.8% (8.7/9.3% QoQ/YoY). HUL is confident to further step-up its A&P spends to pre-covid level and continue to invest competitively in brand building and market development. We believe that benefit of GM expansion would be passed on through A&P expenses. Consequently, HUL will take slightly longer time to achieve peak margins going ahead.
- Home care segment posted 10% YoY revenue growth with mid-single digit volume growth during the quarter. Further, fabric wash and household care witnessed double-digit led by premiumisation and focused market development actions.
- During the quarter, BP&C segment reported 4% YoY revenue growth with mid-single digit volume growth. Skin care & colour cosmetics delivered double-digit growth on the back of strong performance in premium portfolio. In addition, hair care posted mid-single digit volume growth led by Tresemme, Indulekha and Clinic plus.
- In Q1FY24, F&R segment delivered 5% YoY revenue growth with flat volume growth, led by strong performance in HFD and foods solution. However, ice cream consumption was impacted due to unseasonal rains, leading to mid-single digit growth.
- During the quarter, HUL witnessed downtrading in tea portfolio due to inflation differential in premium tea compared to loose tea. In the long term shift of customers from loose tea to premium tea would further strengthen market leadership in tea portfolio.
- During Q1FY24, HUL launched/relaunched various new products namely, Comfort – In wardrobe premium fragrance hangers, Dove men care in 3 variants, Pureit- duraviva, Ponds – anti pigmentation serum, Surf excel matic, Horlicks millet biscuits and Closeup multivitamins etc. We believe, focus on new launches and innovation in products would drive growth, going ahead.
- During the quarter, other expenses were up 150bps YoY due to 1)Impact of royalty, 2) one-off in base quarter and 3) step up in investment capabilities.

Exhibit 4: Trend in revenue growth (%)



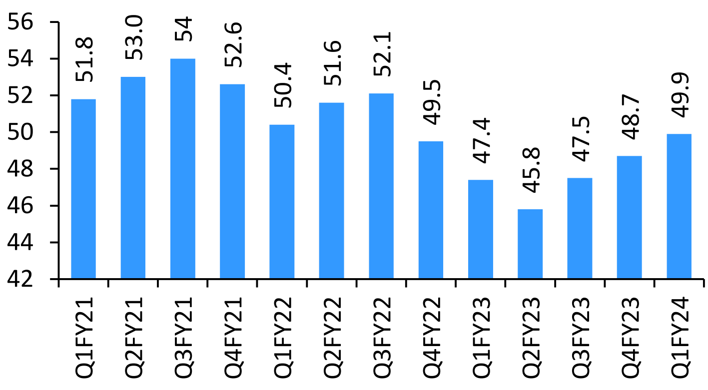
Source: Company, DART

Exhibit 5: Trend in domestic volume growth (%)



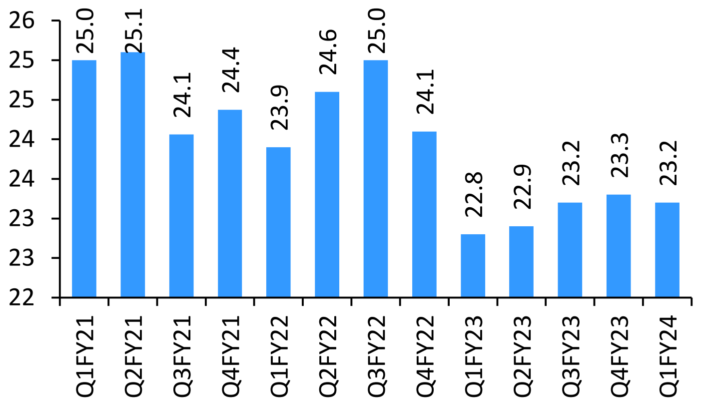
Source: Company, DART

Exhibit 6: Trend in gross margins (%)



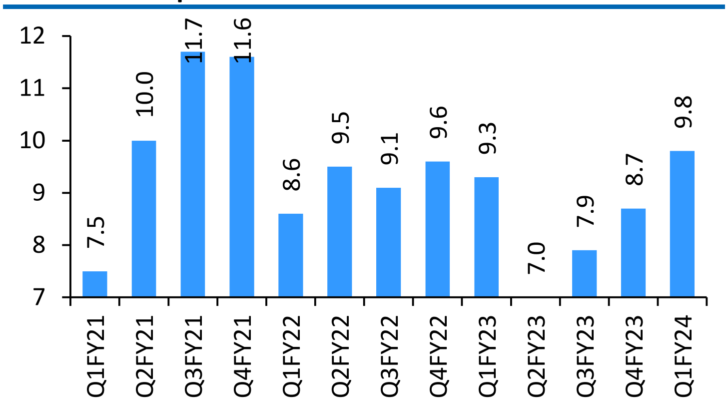
Source: Company, DART

Exhibit 7: Trend in EBITDA margins (%)



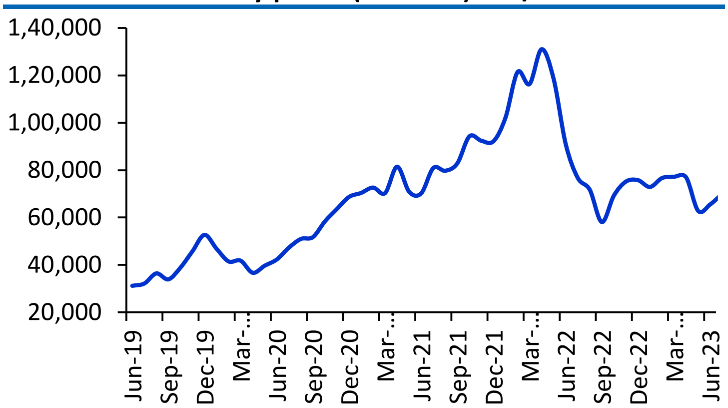
Source: Company, DART

Exhibit 8: Ad spends as a % of sales



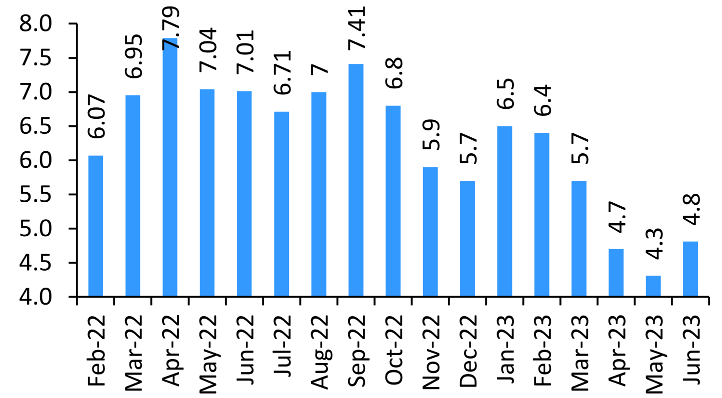
Source: Company, DART

Exhibit 9: Commodity prices (Palm Oil)- Rs /MT



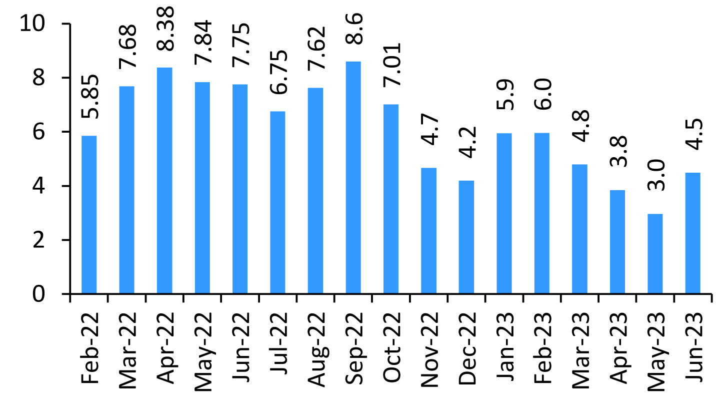
Source: Company, DART

Exhibit 10: CPI Monthwise (YoY %)



Source: Company, DART

Exhibit 11: Food Inflation Monthwise (YoY %)



Source: Company, DART

Financial Performance

Profit and Loss Account

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
Revenue	**5,11,930**	**5,91,440**	**6,36,693**	**6,92,291**
Total Expense	**3,86,900**	**4,55,123**	**4,84,983**	**5,25,511**
COGS	2,51,240	3,11,440	3,28,902	3,56,031
Employees Cost	23,990	26,650	29,962	33,963
Other expenses	1,11,670	1,17,033	1,26,118	1,35,517
EBIDTA	**1,25,030**	**1,36,318**	**1,51,711**	**1,66,780**
Depreciation	10,250	10,300	10,820	11,302
EBIT	**1,14,780**	**1,26,018**	**1,40,891**	**1,55,478**
Interest	980	1,010	1,111	1,222
Other Income	3,930	6,402	6,389	6,737
Exc. / E.O. items	(340)	(620)	0	0
EBT	**1,17,390**	**1,30,790**	**1,46,169**	**1,60,993**
Tax	29,210	31,170	36,542	40,248
RPAT	88,180	99,620	1,09,626	1,20,745
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**88,520**	**1,00,240**	**1,09,626**	**1,20,745**

Balance Sheet

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
Sources of Funds				
Equity Capital	2,350	2,350	2,350	2,350
Minority Interest	0	0	0	0
Reserves & Surplus	4,85,250	4,99,860	5,12,722	5,26,889
Net Worth	**4,87,600**	**5,02,210**	**5,15,072**	**5,29,239**
Total Debt	9,710	10,390	10,390	10,390
Net Deferred Tax Liability	61,410	63,250	63,250	63,250
Total Capital Employed	**5,58,720**	**5,75,850**	**5,88,712**	**6,02,879**
Applications of Funds				
Net Block	**5,10,340**	**5,14,050**	**5,11,230**	**5,07,928**
CWIP	9,010	10,200	10,200	10,200
Investments	41,220	37,940	38,628	39,364
Current Assets, Loans & Advances	**1,20,270**	**1,40,350**	**1,77,272**	**2,05,176**
Inventories	38,900	40,310	46,041	50,066
Receivables	19,320	27,350	22,428	24,389
Cash and Bank Balances	36,180	44,220	78,990	98,998
Loans and Advances	25,870	28,470	29,813	31,723
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	**1,22,120**	**1,26,690**	**1,48,618**	**1,59,789**
Payables	88,640	93,910	1,15,284	1,25,363
Other Current Liabilities	33,480	32,780	33,334	34,426
sub total				
Net Current Assets	(1,850)	13,660	28,654	45,387
Total Assets	**5,58,720**	**5,75,850**	**5,88,712**	**6,02,879**

E – Estimates

Important Ratios

Particulars	FY22A	FY23A	FY24E	FY25E
(A) Margins (%)				
Gross Profit Margin	50.9	47.3	48.3	48.6
EBIDTA Margin	24.4	23.0	23.8	24.1
EBIT Margin	22.4	21.3	22.1	22.5
Tax rate	24.9	23.8	25.0	25.0
Net Profit Margin	17.2	16.8	17.2	17.4
(B) As Percentage of Net Sales (%)				
COGS	49.1	52.7	51.7	51.4
Employee	4.7	4.5	4.7	4.9
Other	21.8	19.8	19.8	19.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	117.1	124.8	126.8	127.2
Inventory days	28	25	26	26
Debtors days	14	17	13	13
Average Cost of Debt	10.2	10.0	10.7	11.8
Payable days	63	58	66	66
Working Capital days	(1)	8	16	24
FA T/O	1.0	1.2	1.2	1.4
(D) Measures of Investment				
AEPS (Rs)	37.7	42.7	46.6	51.4
CEPS (Rs)	42.0	47.0	51.3	56.2
DPS (Rs)	32.0	36.0	41.2	45.4
Dividend Payout (%)	84.9	84.4	88.3	88.3
BVPS (Rs)	207.5	213.7	219.2	225.2
RoANW (%)	18.3	20.1	21.6	23.1
RoACE (%)	16.2	17.8	19.0	20.5
RoAIC (%)	22.4	23.9	27.1	30.7
(E) Valuation Ratios				
CMP (Rs)	2703	2703	2703	2703
P/E	71.8	63.4	57.9	52.6
Mcap (Rs Mn)	63,52,638	63,52,638	63,52,638	63,52,638
MCap/ Sales	12.4	10.7	10.0	9.2
EV	63,26,168	63,18,808	62,84,038	62,64,030
EV/Sales	12.4	10.7	9.9	9.0
EV/EBITDA	50.6	46.4	41.4	37.6
P/BV	13.0	12.6	12.3	12.0
Dividend Yield (%)	1.2	1.3	1.5	1.7
(F) Growth Rate (%)				
Revenue	11.3	15.5	7.7	8.7
EBITDA	10.4	9.0	11.3	9.9
EBIT	11.3	9.8	11.8	10.4
PBT	11.9	11.4	11.8	10.1
APAT	8.2	13.2	9.4	10.1
EPS	8.2	13.2	9.4	10.1

E – Estimates

Cash Flow

Particulars	FY22A	FY23A	FY24E	FY25E
Profit before tax	**1,17,730**	**1,31,410**	**1,46,169**	**1,60,993**
Depreciation & w.o.	10,400	10,300	10,820	11,302
Net Interest Exp	980	1,010	1,111	1,222
Direct taxes paid	(27,200)	(30,680)	(36,542)	(40,248)
Change in Working Capital	(7,890)	(8,630)	19,776	3,275
Non Cash	(2,640)	8,180	0	0
(A) CF from Operating Activities	**91,380**	**1,11,590**	**1,41,333**	**1,36,544**
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(7,440)	(8,610)	(8,000)	(8,000)
Free Cash Flow	**83,940**	**1,02,980**	**1,33,333**	**1,28,544**
(Inc)./ Dec. in Investments	(10,920)	(5,030)	(688)	(736)
Other	0	0	0	0
(B) CF from Investing Activities	**(18,360)**	**(13,640)**	**(8,688)**	**(8,736)**
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	(3,880)	(4,310)	0	0
Interest exp net	(980)	(1,010)	(1,111)	(1,222)
Dividend Paid (Incl. Tax)	(75,190)	(84,590)	(96,764)	(1,06,578)
Other	0	0	0	0
(C) CF from Financing	**(80,050)**	**(89,910)**	**(97,875)**	**(1,07,800)**
Net Change in Cash	(7,030)	8,040	34,770	20,008
Opening Cash balances	**43,210**	**36,180**	**44,220**	**78,990**
Closing Cash balances	**36,180**	**44,220**	**78,990**	**98,998**

E – Estimates

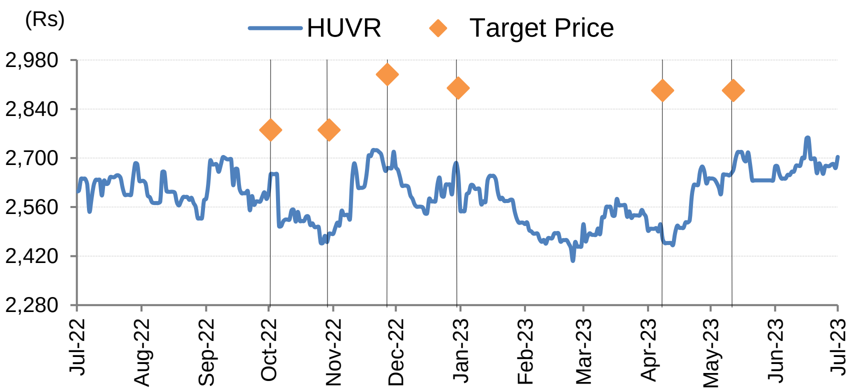
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Oct-22	Reduce	2,780	2,654
Nov-22	Reduce	2,780	2,484
Dec-22	Accumulate	2,939	2,671
Jan-23	Accumulate	2,900	2,650
Apr-23	Accumulate	2,893	2,469
May-23	Accumulate	2,893	2,668

**Price as on recommendation date*

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