

Hindustan Unilever

Growth lagging expectation

Our interaction with HUL management reinforced our thesis that demand pick-up will be gradual and meaningful volume recovery will not be visible in the near term. The rural trend remains stable, with no further improvement or deterioration over the last quarter. Urban demand sustained recovery. With HUL initiating price cuts to adjust for a softening commodity basket, value growth will continue to tail off, thereby reducing the divergence between volume and value growth. As per HUL, it takes 3 to 4 quarters between price cuts and demand upticks, thereby recovery will be more back-ended. Retailers too continue to keep lower inventory (price cut phase), impacting primary growth in the near term (a similar trend in Q1). With falling RM inflation, regional and unorganised players are also becoming competitive (vs. last two years). Inadequate pricing action (18% vs. 30% cost inflation) negatively impacted GM (-600bps last two years); HUL has already recouped c.400bps of the GM. The incremental expansion will be slower (expect sequential expansion in Q2) as the company is also passing off benefits to consumers. Moreover, A&P spending will also step up along with a royalty rate increase in FY24. We cut our EPS estimates for FY24-FY26 by 2%. We value HUL at 47x P/E on Sep-25 EPS to arrive at a TP of INR 2,550. Maintain REDUCE.

- **Slow recovery in volume:** Over the last two years, HUL has reported pricing-led growth as it initiated a price hike of 18% to counter the 30% inflation it had seen in its commodity basket. With a softening RM basket and ensuing price cuts in most categories, value growth will continue to tail off (as seen in Q4FY23 and Q1FY24). We expect the divergence between value and volume growth to normalise in FY24 with volume growth back at its historical average of mid-high single digit. As consumers usually take 3 to 4 quarters to react to price corrections, volume recovery is likely to be gradual and back-ended. We expect UVG to sustain a similar level of Q1FY24 of 3% while revenue would see a deceleration in Q2FY24 (6% growth in Q1FY24) due to price cuts. We expect volume/value CAGRs of 6/8% for the next two years.
- **Urban remains resilient; rural on recovery path:** Continuing from Q4FY23 and Q1FY24, demand trends continue to improve but at a slow pace. Urban markets remain resilient and are growing faster than rural markets. Rural, after seeing a pick-up in June, is now stabilising and not seeing meaningful volume recovery. The monsoon was good in July, but August was the driest in the last 100 years. The overall expectation is 96% of long period average vs. 106% last year. Overall crop sowing pattern is at par. However, spatial coverage is not as good and might impact yield. This year's festive is slightly late (Nov vs. Oct in the previous year). Personal care categories have the sensitivity of the festive season.
- **F&R to remain impacted; price cuts in home care/BPC:** In F&R, tea continued to remain impacted by down-trading from 'premium' to 'loose' tea due to high inflation. The high milk inflation continues to ail the HFD portfolio. BPC may see a partial impact due to the delayed festive season this year. Within home care, HUL has taken price cuts in the last six months, which shall help maintain its industry outperformance. With falling RM inflation, regional and unorganised players are also becoming competitive (vs. the last two years).
- **GM to improve sequentially; stepping up A&P/royalty spends:** Of c.600bps GM contraction, HUL has recouped c.400bps so far. Incremental recovery will be gradual as the company has initiated price cuts. Moreover, HUL will look to intensify marketing spending in a bid to gain/defend market share. Royalty increase will further increase the expense line. We build in an EBITDAM of c.24% for FY24/FY25.

REDUCE

CMP (as on 13 Sep 2023) INR 2,507

Target Price INR 2,550

NIFTY 20,070

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,600	INR 2,550
EPS %	FY24E -2%	FY25E -2%

KEY STOCK DATA

Bloomberg code	HUVR IN
No. of Shares (mn)	2,350
MCap (INR bn) / (\$ mn)	5,889/72,014
6m avg traded value (INR mn)	3,845
52 Week high / low	INR 2,770/2,393

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.3)	2.1	(3.1)
Relative (%)	(13.2)	(13.8)	(14.5)

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	61.90	61.90
FIs & Local MFs	11.58	11.55
FPIs	14.36	14.48
Public & Others	12.16	12.07
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Varun Lohchab

varun.lohchab@hdfcsec.com
+91-22-6171-7334

Naveen Trivedi

naveen.trivedi@hdfcsec.com
+91-22-6171-7324

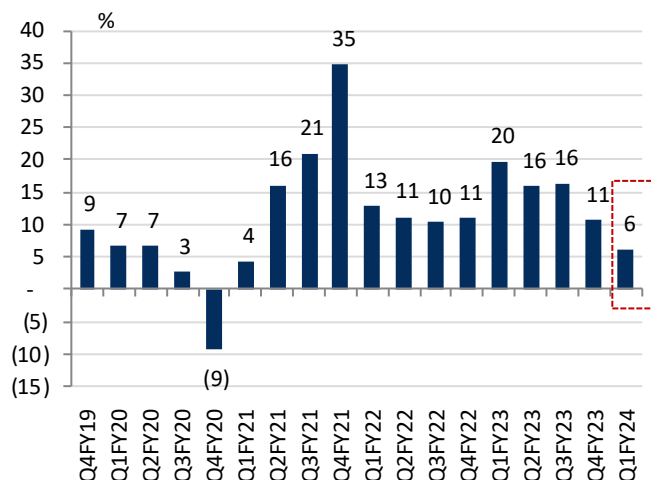
Paarth Gala

paarth.gala@hdfcsec.com
+91-22-6171-7336

Riddhi Shah

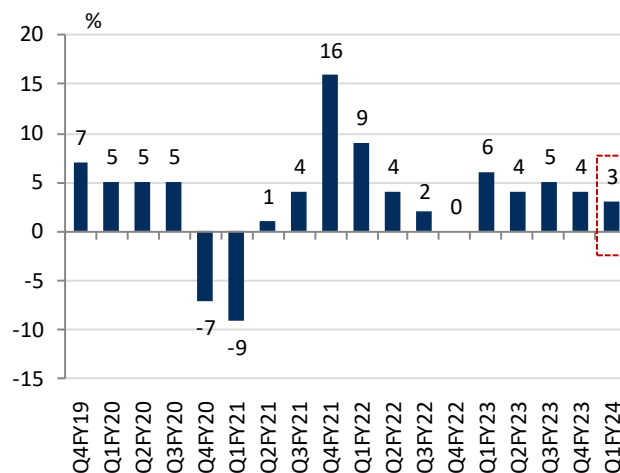
riddhi.shah@hdfcsec.com
+91-22-6171-7359

Revenue Growth Performance



Source: Companies, HSIE Research

Volume Growth Performance



Source: Companies, HSIE Research

Segmental Performance and Assumptions

(INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue												
Home Care	49,310	51,430	55,180	56,380	54,250	1,36,420	1,39,590	1,65,780	2,12,300	2,27,161	2,49,877	2,76,114
PC	53,640	55,610	57,180	51,880	56,010	1,73,450	1,79,640	1,94,600	2,18,310	2,29,226	2,47,564	2,67,369
F&R	36,270	37,550	37,000	37,940	37,970	74,500	1,32,040	1,41,050	1,48,760	1,60,661	1,76,727	1,94,400
Others	3,500	2,920	2,920	2,730	3,250	3,480	8,690	10,500	12,070	13,036	14,339	15,773
Total	1,42,720	1,47,510	1,52,280	1,48,930	1,51,480	3,87,850	4,59,960	5,11,930	5,91,440	6,30,083	6,88,507	7,53,655
Revenue Gr. (%)												
Home Care	30%	34%	32%	19%	10%	6%	2%	19%	28%	7%	10%	11%
BPC	17%	11%	10%	10%	4%	(2)%	4%	8%	12%	5%	8%	8%
F&R	9%	4%	7%	3%	5%	4%	77%	7%	5%	8%	10%	10%
Others	55%	11%	13%	(10)%	(7)%	(38)%	150%	21%	15%	8%	10%	10%
Total	20%	16%	16%	11%	6%	1%	19%	11%	16%	7%	9%	9%
EBIT												
Home Care	8,690	8,890	10,610	10,560	9,910	25,590	27,730	31,930	38,750	43,161	48,726	53,842
PC	14,110	13,960	14,370	13,530	14,720	48,700	51,270	53,540	55,970	60,745	66,842	72,190
F&R	5,780	7,440	6,610	6,790	6,810	12,320	21,890	26,230	26,620	29,722	33,578	36,936
Total	29,870	31,290	32,770	32,090	32,640	86,670	1,03,120	1,14,780	1,26,020	1,38,451	1,54,452	1,68,804
EBIT Margin												
Home Care	18%	17%	19%	19%	18%	19%	20%	19%	18%	19%	20%	20%
PC	26%	25%	25%	26%	26%	28%	29%	28%	26%	27%	27%	27%
F&R	16%	20%	18%	18%	18%	17%	17%	19%	18%	19%	19%	19%
Others	37%	34%	40%	44%	37%	2%	26%	29%	39%	37%	37%	37%
Total	21%	21%	22%	22%	22%	22%	22%	22%	21%	22%	22%	22%
Revenue Mix (%)												
Home Care	35%	35%	36%	38%	36%	35%	30%	32%	36%	36%	36%	37%
PC	38%	38%	38%	35%	37%	45%	39%	38%	37%	36%	36%	35%
F&R	25%	25%	24%	25%	25%	19%	29%	28%	25%	25%	26%	26%
Others	2%	2%	2%	2%	2%	1%	2%	2%	2%	2%	2%	2%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
EBIT Gr. (%)												
Home Care	31%	22%	23%	12%	14%	19%	8%	15%	21%	11%	13%	11%
PC	10%	0%	0%	9%	4%	4%	5%	4%	5%	9%	10%	8%
F&R	(4)%	12%	2%	(5)%	18%	1%	78%	20%	1%	12%	13%	10%
Others	139%	18%	62%	26%	(7)%	(700)%	3617%	38%	52%	3%	10%	10%
Total	15%	9%	8%	8%	9%	7%	19%	11%	10%	10%	12%	9%
EBIT Mix (%)												
Home Care	29%	28%	32%	33%	30%	30%	27%	28%	31%	31%	32%	32%
PC	47%	45%	44%	42%	45%	56%	50%	47%	44%	44%	43%	43%
F&R	19%	24%	20%	21%	21%	0%	0%	0%	0%	0%	0%	0%
Others	4%	3%	4%	4%	4%	0%	2%	3%	4%	3%	3%	3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Consolidated P&L

Year End (March)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	5,24,460	6,05,800	6,43,936	7,01,375	7,65,032
Growth (%)	11.5	15.5	6.3	8.9	9.1
Material Expenses	2,57,350	3,17,160	2,96,552	3,23,004	3,52,320
Employee Expense	25,450	28,540	28,241	30,077	32,031
ASP Expense	47,440	49,070	70,833	77,151	84,154
Distribution Expenses	18,740	19,720	21,894	23,847	26,011
Other expenses	46,910	49,820	72,477	76,303	84,105
EBITDA	1,28,570	1,41,490	1,53,940	1,70,993	1,86,412
EBITDA Growth (%)	10.6	10.0	8.8	11.1	9.0
EBITDA Margin (%)	24.5	23.4	23.9	24.4	24.4
Depreciation	10,910	11,370	12,697	13,862	15,027
EBIT	1,17,660	1,30,120	1,41,243	1,57,131	1,71,384
Other Income (Including EO Items)	2,580	5,120	5,290	6,124	6,895
EO Items, Others	(440)	(640)	(370)	-	-
Interest	1,060	1,140	1,200	1,260	1,323
PBT	1,18,740	1,33,460	1,44,962	1,61,995	1,76,956
Tax	29,870	32,010	36,241	40,774	44,540
RPAT	88,870	1,01,450	1,08,722	1,21,221	1,32,416
adjustment	(330)	4,250	259	-	-
Adjusted PAT	89,200	97,200	1,08,463	1,21,221	1,32,416
APAT Growth (%)	9.1	11.4	11.6	11.8	9.2
Adjusted EPS (Rs)	38.0	41.4	46.2	51.6	56.4
EPS Growth (%)	9.1	11.4	11.6	11.8	9.2

Consolidated BS

(Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS					
Share Capital - Equity	2,349	2,350	2,349	2,349	2,349
Reserves	4,88,260	5,00,690	5,13,995	5,33,030	5,56,214
Total Shareholders' Funds	4,90,609	5,03,040	5,16,344	5,35,379	5,58,563
Minority Interest	260	2,180	2,180	2,180	2,180
Long Term Debt	-	130	-	-	-
Short Term Debt	-	850	-	-	-
Total Debt	-	980	-	-	-
Net Deferred Taxes	61,300	64,110	64,110	64,110	64,110
Long Term Provisions & Others	40,090	41,160	45,276	49,804	54,784
TOTAL SOURCES OF FUNDS	5,92,259	6,11,470	6,27,910	6,51,473	6,79,637
APPLICATION OF FUNDS					
Net Block	61,690	69,490	71,793	72,931	72,904
CWIP	13,130	11,320	5,660	2,830	1,415
Other Non-current Assets	21,980	21,980	23,738	25,637	27,688
Total Non-current Assets	96,800	1,02,790	1,01,191	1,01,398	1,02,007
Goodwill	4,53,040	4,57,290	4,57,290	4,57,290	4,57,290
Inventories	40,960	42,510	48,300	52,608	57,383
Debtors	22,360	30,790	32,728	35,648	38,883
Other Current Assets	18,250	21,790	43,232	47,024	51,203
Cash & Equivalents	73,650	75,600	71,978	95,626	1,23,529
Total Current Assets	1,55,220	1,70,690	1,96,238	2,30,906	2,70,997
Creditors	90,680	95,740	1,01,767	1,10,845	1,20,905
Other Current Liabilities & Provns	22,120	23,560	25,043	27,277	29,753
Total Current Liabilities	1,12,800	1,19,300	1,26,810	1,38,121	1,50,657
Net Current Assets	42,420	51,390	69,428	92,784	1,20,340
TOTAL APPLICATION OF FUNDS	5,92,260	6,11,470	6,27,910	6,51,473	6,79,637

Source: Company, HSIE Research

Consolidated Cash Flow

(Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	1,18,740	1,33,460	1,44,962	1,61,995	1,76,956
Non-operating & EO Items	(590)	(1,120)	(259)	-	-
Interest Expenses	(920)	(2,970)	1,200	1,260	1,323
Depreciation	11,060	11,520	12,697	13,862	15,027
Working Capital Change	(10,000)	(9,580)	(21,660)	291	347
Tax Paid	(27,810)	(31,400)	(36,241)	(40,774)	(44,540)
OPERATING CASH FLOW (a)	90,480	99,910	1,00,700	1,36,634	1,49,114
Capex	(10,790)	(10,530)	(9,340)	(12,170)	(13,585)
Free Cash Flow (FCF)	79,690	89,380	91,360	1,24,464	1,35,529
Investments & Acquisition	(7,910)	(7,430)	(4,290)	(5,000)	(5,000)
Non-operating Income	1,420	3,020	2,358	2,629	2,929
INVESTING CASH FLOW (b)	(17,280)	(14,940)	(11,272)	(14,541)	(15,656)
Debt Issuance/(Repaid)	-	780	(980)	-	-
Interest Expenses	(820)	(840)	(1,200)	(1,260)	(1,323)
FCFE	78,870	89,320	89,180	1,23,204	1,34,206
Share Capital Issuance	-	-	-	-	-
Dividend	(75,260)	(84,740)	(95,158)	(1,02,185)	(1,09,233)
Others	(4,070)	(4,730)	-	-	-
FINANCING CASH FLOW (c)	(80,150)	(89,530)	(97,338)	(1,03,445)	(1,10,556)
NET CASH FLOW (a+b+c)	(6,950)	(4,560)	(7,911)	18,648	22,903
EO Items, Others	(700)	(12,880)	1	-	-
Closing Cash & Equivalents	38,460	46,780	38,868	57,516	80,419

Ratios

	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY (%)					
GPM	50.9	47.6	53.9	53.9	53.9
EBITDA Margin	24.5	23.4	23.9	24.4	24.4
EBIT Margin	22.4	21.5	21.9	22.4	22.4
APAT Margin	16.6	16.0	16.8	17.3	17.3
RoE	18.0	19.6	21.3	23.1	24.2
RoIC (or Core RoCE)	19.1	20.5	21.3	23.1	25.1
RoCE	16.6	18.0	19.5	21.1	22.0
EFFICIENCY					
Tax Rate (%)	25.2	24.0	25.0	25.2	25.2
Fixed Asset Turnover (x)	3.8	3.9	3.8	3.8	3.8
Inventory (days)	28.5	25.6	27.4	27.4	27.4
Debtors (days)	15.6	18.6	18.6	18.6	18.6
Other Current Assets (days)	12.7	13.1	24.5	24.5	24.4
Payables (days)	63.1	57.7	57.7	57.7	57.7
Other Current Liab & Provns (days)	15.4	14.2	14.2	14.2	14.2
Cash Conversion Cycle (days)	(21.7)	(14.6)	(1.4)	(1.5)	(1.5)
Net D/E (x)	(0.2)	(0.1)	(0.1)	(0.2)	(0.2)
PER SHARE DATA (Rs)					
EPS	37.1	41.4	46.2	51.6	56.4
CEPS	41.8	46.2	51.6	57.5	62.8
Dividend	34.0	39.0	42.0	45.0	48.0
Book Value	208.9	214.1	219.8	227.9	237.8
VALUATION					
P/E (x)	67.5	60.6	54.3	48.6	44.5
P/BV (x)	12.0	11.7	11.4	11.0	10.5
EV/EBITDA (x)	45.2	41.1	37.8	33.9	30.9
EV/Revenues (x)	11.1	9.6	9.0	8.3	7.5
OCF/EV (%)	1.6	1.7	1.7	2.4	2.6
FCF/EV (%)	1.4	1.5	1.6	2.1	2.4
FCFE/Mkt Cap (%)	1.3	1.5	1.5	2.1	2.3
Dividend Yield (%)	1.4	1.6	1.7	1.8	1.9

Source: Company, HSIE Research

1 Yr Price History



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com