Hindustan Unilever Accumulate

Consumer Staples | Q2FY24 Result Update

DART
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Result Update

Margin expansion continues; Upgrade to Accumulate

- **HUL's core results came in line with our estimate. Revenue growth was led by 2% volume growth was in line with estimate. Going ahead, volume growth would lead the value growth due to less opportunity for price hikes.**
- **GM expanded by 690bps YoY due to softening in commodity prices. However, 420/160bps increase in A&P spends/other expense restricted the EBITDA margin expansion at 130bps – came marginally ahead of estimate.**
- **As core performance was in line, we have maintained FY24/25E EPS estimates at Rs 46.6/51.4 and introduced FY26E EPS at Rs 57.3. Valuing the stock at 49x FY26E EPS maintain TP at Rs 2,826. Upgrade to Accumulate.**

Results came in line with estimate

Net Sales stood at Rs 152.7bn was up 3.6% YoY in Q2FY24 – was in line with our estimate. The revenue growth was led by volume growth of 2%. EBITDA increased 9.4% YoY to Rs 36.9bn – was 3.6% ahead of our estimate. EBITDA margin expanded by 130bps to 24.2% as 690/20bps decline in RM cost/ employee cost was partially offset by 420/160bps increase in A&P expenses/other expenses respectively. RPAT increased 3.9% YoY to Rs 27.1bn. Excluding extraordinary items, APAT grew 3.0% YoY to Rs 27.2bn - came 5.6% ahead our estimate. Due to positive impact of one-off credit from favorable resolution of post indirect tax litigation, revenue/APAT was positively impacted by 1/4%.

Down trading continues across beverages portfolio

HUL's +75% of the portfolio gained market share in volume terms in Q2FY24. At the segmental level – (1) Home care reported 3.3% sales growth with 140bps EBIT margin expansion to 18.7% (2) Personal care reported 4.5% revenue increase; EBIT margin expanded by 210bps at 27.2% and (3) Food and Refreshment posted 2.6% YoY sales growth with EBIT margin contraction of 110bps to 18.7%. The Home care segment benefited from mid-single digit volume growth across fabric wash and high single digit volume growth household care segment, while Personal care segment growth was benefited from double digit growth across skin business. Beverages performance was impacted due to down-trading in beverages portfolio.

Q2FY24 Result (Rs Mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Revenue	152,760	147,510	3.6	151,480	0.8
Total Expense	115,820	113,740	1.8	116,270	(0.4)
EBITDA	36,940	33,770	9.4	35,210	4.9
Depreciation	2,690	2,480	8.5	2,570	4.7
EBIT	34,250	31,290	9.5	32,640	4.9
Other Income	2,830	1,150	146.1	1,850	53.0
Interest	720	250	188.0	470	53.2
EBT	36,310	31,910	13.8	33,650	7.9
Tax	9,140	5,750	59.0	8,930	2.4
RPAT	27,170	26,160	3.9	24,720	9.9
APAT	27,220	26,440	3.0	25,090	8.5
			(bps)		(bps)
Gross Margin (%)	52.7	45.8	692	49.9	282
EBITDA Margin (%)	24.2	22.9	129	23.2	94
NPM (%)	17.8	17.7	5	16.3	147
Tax Rate (%)	25.2	18.0	715	26.5	(137)
EBIT Margin (%)	22.4	21.2	121	21.5	87

CMP	Rs 2,548
Target / Upside	Rs 2,826 / 11%
NIFTY	19,625

Scrip Details

Equity / FV	Rs 2,350mn / Rs 1
Market Cap	Rs 5,988bn
	USD 72.9bn
52-week High/Low	Rs 2,770/ 2,393
Avg. Volume (no)	1,523,570
Bloom Code	HUVR IN

Price Performance	1M	3M	12M
Absolute (%)	2	(5)	(1)
Rel to NIFTY (%)	4	(3)	(14)

Shareholding Pattern

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

Valuation (x)

	FY24E	FY25E	FY26E
P/E	54.6	49.6	44.4
EV/EBITDA	39.0	35.4	31.6
ROE (%)	21.6	23.1	25.1
RoACE (%)	19.0	20.5	22.3

Estimates (Rs bn)

	FY24E	FY25E	FY26E
Revenue	636.7	692.3	755.8
EBITDA	151.7	166.8	186.1
PAT	109.6	120.7	134.8
EPS (Rs.)	46.6	51.4	57.3

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Exhibit 1: Segmental Performance

Particulars (Rs.mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	Remarks
Home Care						**Fabric Wash & Household Care**
Revenue	53,120	51,430	3.3	54,250	(2.1)	▪ Fabric wash posted mid-single digit volume growth led by strong performance in premium portfolio.
EBIT	9,950	8,890	11.9	9,910	0.4	▪ High-single digit volume growth in household care led by Dishwash.
EBIT Margin (%)	18.7	17.3	140bps	18.3	50bps	▪ HUL resorted to price cuts in Fabric wash and Household Care portfolio.
Beauty & Personal Care						**Personal Wash, Oral Care, Skin Care, Hair Care, Deodorant & Colour Cosmetics**
Revenue	58,090	55,610	4.5	56,010	3.7	▪ Skin cleansing posted low single digit volume growth which was offset by price cuts, which impacted performance.
EBIT	15,810	13,960	13.3	14,720	7.4	▪ Haircare posted high-single digit growth; led by Clinic Plus and Indulekha.
EBIT Margin (%)	27.2	25.1	210bps	26.3	90bps	▪ Double-digit growth in skin care and color cosmetics led by outperformance of Ponds and Vaseline. ▪ Oral care grew in mid-single digit; Closeup continues to grow.
Food & Refreshments						▪ Tea portfolio witnessed down trading as a result of continued inflation differential between loose and premium teas. Coffee posted double-digit growth driven by pricing.
Revenue	38,510	37,550	2.6	37,970	1.4	▪ HFD witnessed price led mid-single digit growth; Growth was driven by innovation and activation.
EBIT	7,200	7,440	(3.2)	6,810	5.7	▪ Foods portfolio grew in mid- single digit, led by strong performance in Food Solutions, Mayonnaise and Peanut Butter
EBIT Margin (%)	18.7	19.8	(110bps)	17.9	80bps	▪ Ice cream exhibited mid-single digit growth on a high base.
Others						
Revenue	3,040	2,920.0	4.1	3,250	(6.5)	
EBIT	1,290.0	1,000.0	29.0	1,200.0	7.5	
EBIT Margin (%)	42.4	34.2	820bps	36.9	550bps	
Total						
Revenue	152,760	147,510	3.6	151,480	0.8	
EBIT	34,250	31,290	9.5	32,640	4.9	
EBIT Margin (%)	22.4	21.2	120bps	21.5	90bps	

Source: DART, Company

Exhibit 2: Actual V/s DART estimate

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	152,760	153,724	(0.6)	
EBITDA	36,940	35,654	3.6	Lower than estimate RM cost.
EBITDA margin %	24.2	23.2	100bps	
APAT	27,220	25,778	5.6	Cascading effect of higher EBITDA.

Source: Company, DART

Exhibit 1: Change in estimates

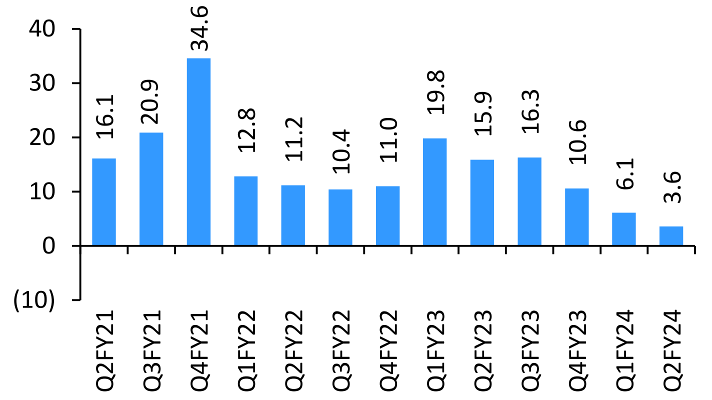
Particulars (Rs mn)	FY24E			FY25E			FY26E
	New	Old	Chg. (%)	New	Old	Chg. (%)	New
Revenue	636,693	636,693	-	692,291	692,291	-	755,792
EBIDTA	151,711	151,711	-	166,780	166,780	-	186,067
EBIDTA margin (%)	23.8	23.8	-	24.1	24.1	-	24.6
PAT	109,626	109,626	-	120,745	120,745	-	134,754
EPS (Rs)	46.6	46.6	-	51.4	51.4	-	57.3

Source: Company DART

Earning call KTA's

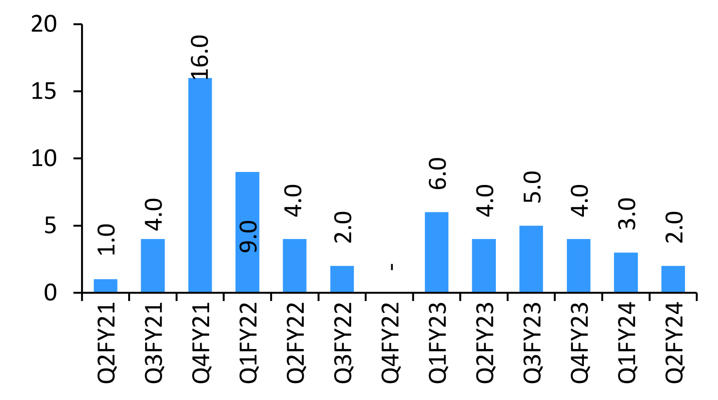
- During the quarter, HUL posted 2% volume growth vs a high single digit growth (base quarter volume declined in mid-single digits) in FMCG industry. We believe, the FMCG industry demand trends are gradually improving supported by urban demand (growth led by large packs and MT). However, the rural markets have remained subdued with marginal volume de-growth on 2-Yr CAGR basis. We believe, in ensuing quarters price growth would remain flat to negative and HUL would focus on volume led growth.
- During Q2FY24, GM expanded by 690bps YoY led by moderation in key commodity prices. Furthermore, HUL has resorted to price cuts in soap and laundry portfolio as a result of softening in raw material prices.
- A&P spends in Q2FY24 were at 11.3% (9.8/7.1% QoQ/YoY). HUL is confident of continuing 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 would focus on maintaining healthy EBITDA margins going ahead.
- Home care segment posted 3% YoY revenue growth with mid-single digit volume growth during the quarter. Further, fabric wash volume grew in mid-single digit and household care witnessed high single digit volume growth led by dishwash. During Q2FY24, HUL has resorted to price reduction in both fabric wash and household care portfolio to pass on benefits of moderating RM cost.
- BP&C segment reported 4% YoY revenue growth with mid-single digit volume growth in Q2FY24. Skin care & colour cosmetics delivered double-digit growth on the back of strong performance in Ponds and Vaseline. In addition, hair care posted high-single digit volume growth led by Indulekha and Clinic plus.
- F&R segment delivered 4% YoY revenue growth with mid-single digit de-growth in volumes during the quarter. The volumes were impacted as a result of high inflation and consumers down trading.
- During the quarter, HUL witnessed down trading in tea portfolio due to inflation differential in premium tea compared to loose tea. However, we believe in the long term shift of customers from loose tea to premium tea would further strengthen market leadership in tea portfolio.
- In recent quarters, the HFD category performance has been impacted due to high milk inflation, which has led to significant increase in end-cup cost of Horlicks and Boost. In addition, the EBITDA margins in the category were impacted due to high inflation and planned strategic interventions focused towards growth (access packs, sachets) which has led to adverse mix. Consequently, EBITDA margins in the category remained at similar levels. Going ahead, HUL would focus on market development, expanding portfolio to new demand spaces and focus on premiumisation to strengthen penetration and market share in the category.
- HUL launched/relaunched various new products in Q2FY24 namely, Vim Pure range with plant-based actives and Comfort Intense Fabric Conditioner in the HPC category. New range of Vaseline moisturizers, Lakme serums and cosmetics, Pond's serum, Indulekha Anti-Dandruff Oil and Shampoo in the BPC category and Horlicks Strength Plus, Slow Churn Ice Cream and new blends of Lipton Green Tea in the F&R category. We believe, focus on new launches and innovation in products would drive growth, going ahead.

Exhibit 3: Trend in revenue growth (%)



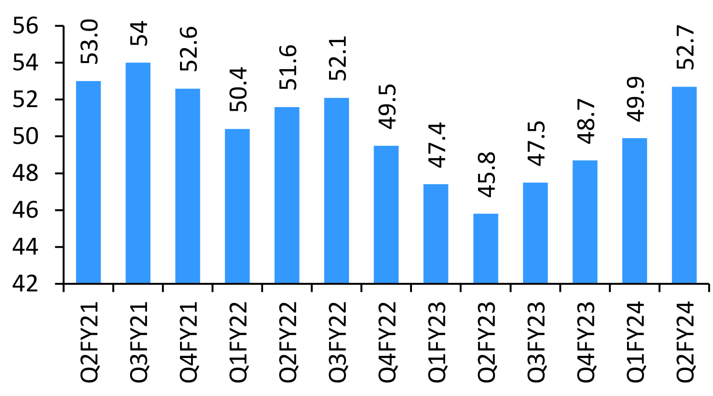
Source: Company, DART

Exhibit 4: Trend in domestic volume growth (%)



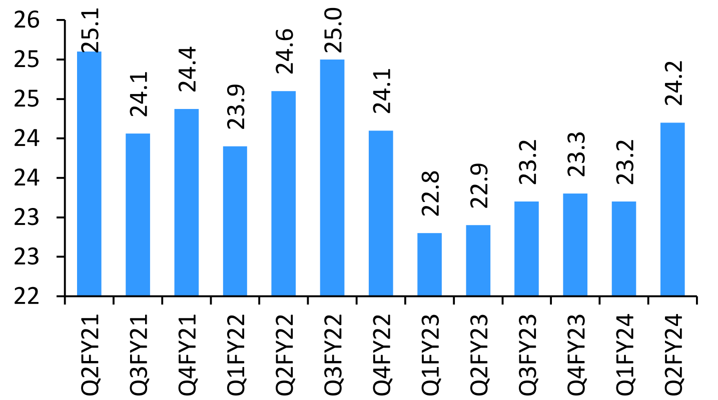
Source: Company, DART

Exhibit 5: Trend in gross margins (%)



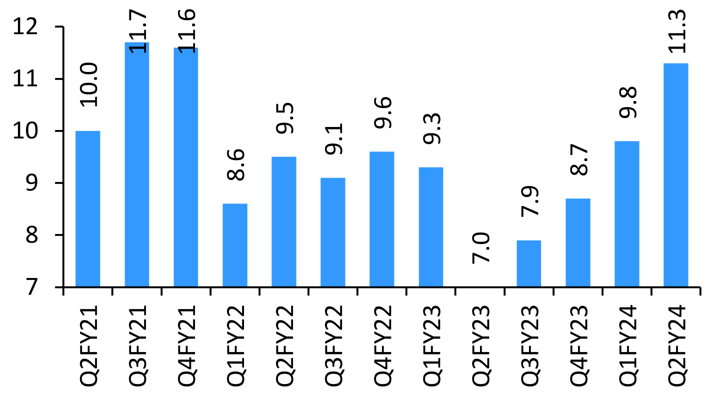
Source: Company, DART

Exhibit 6: Trend in EBITDA margins (%)



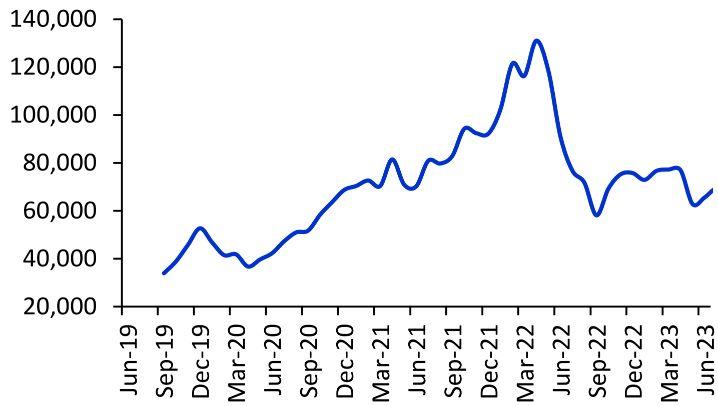
Source: Company, DART

Exhibit 7: Ad spends as a % of sales



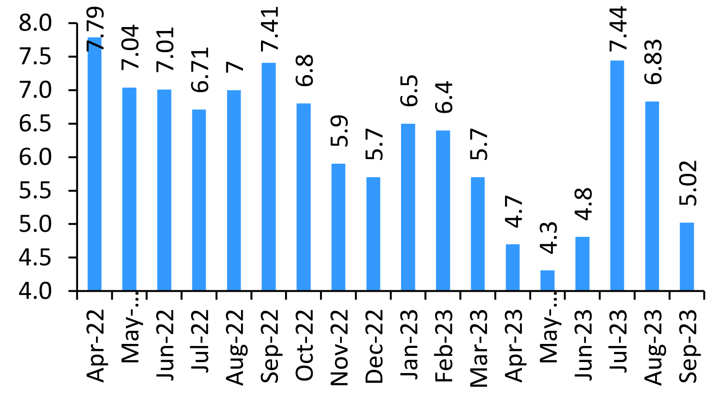
Source: Company, DART

Exhibit 8: Commodity prices (Palm Oil)- Rs /MT



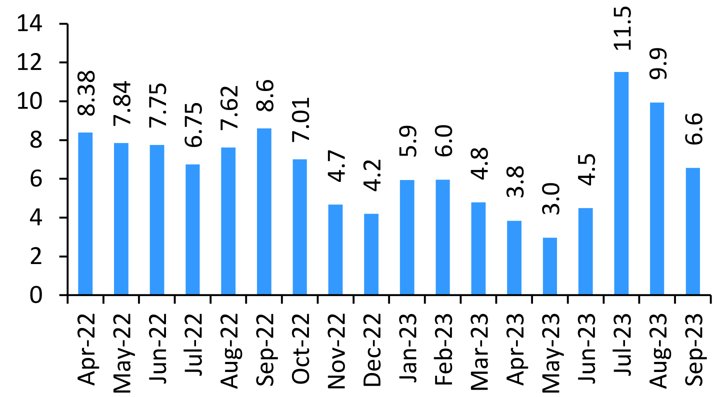
Source: Company, DART

Exhibit 9: CPI Monthwise (YoY %)



Source: Company, DART

Exhibit 10: Food Inflation Monthwise (YoY %)



Source: Company, DART

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Revenue	**591,440**	**636,693**	**692,291**	**755,792**
Total Expense	**455,123**	**484,983**	**525,511**	**569,725**
COGS	311,440	328,902	356,031	386,949
Employees Cost	26,650	29,962	33,963	38,590
Other expenses	117,033	126,118	135,517	144,185
EBIDTA	**136,318**	**151,711**	**166,780**	**186,067**
Depreciation	10,300	10,820	11,302	11,804
EBIT	**126,018**	**140,891**	**155,478**	**174,263**
Interest	1,010	1,111	1,222	1,344
Other Income	6,402	6,389	6,737	6,753
Exc. / E.O. items	(620)	0	0	0
EBT	**130,790**	**146,169**	**160,993**	**179,672**
Tax	31,170	36,542	40,248	44,918
RPAT	99,620	109,626	120,745	134,754
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**100,240**	**109,626**	**120,745**	**134,754**

Balance Sheet

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	2,350	2,350	2,350	2,350
Minority Interest	0	0	0	0
Reserves & Surplus	499,860	512,722	526,889	542,700
Net Worth	**502,210**	**515,072**	**529,239**	**545,050**
Total Debt	10,390	10,390	10,390	10,390
Net Deferred Tax Liability	63,250	63,250	63,250	63,250
Total Capital Employed	**575,850**	**588,712**	**602,879**	**618,690**
Applications of Funds				
Net Block	**514,050**	**511,230**	**507,928**	**504,124**
CWIP	10,200	10,200	10,200	10,200
Investments	37,940	38,628	39,364	40,152
Current Assets, Loans & Advances	**140,350**	**177,272**	**205,176**	**236,180**
Inventories	40,310	46,041	50,066	54,667
Receivables	27,350	22,428	24,389	26,631
Cash and Bank Balances	44,220	78,990	98,998	120,977
Loans and Advances	28,470	29,813	31,723	33,906
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	**126,690**	**148,618**	**159,789**	**171,967**
Payables	93,910	115,284	125,363	136,883
Other Current Liabilities	32,780	33,334	34,426	35,083
sub total				
Net Current Assets	13,660	28,654	45,387	64,214
Total Assets	**575,850**	**588,712**	**602,879**	**618,690**

E – Estimates

Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	47.3	48.3	48.6	48.8
EBIDTA Margin	23.0	23.8	24.1	24.6
EBIT Margin	21.3	22.1	22.5	23.1
Tax rate	23.8	25.0	25.0	25.0
Net Profit Margin	16.8	17.2	17.4	17.8
(B) As Percentage of Net Sales (%)				
COGS	52.7	51.7	51.4	51.2
Employee	4.5	4.7	4.9	5.1
Other	19.8	19.8	19.6	19.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	124.8	126.8	127.2	129.6
Inventory days	25	26	26	26
Debtors days	17	13	13	13
Average Cost of Debt	10.0	10.7	11.8	12.9
Payable days	58	66	66	66
Working Capital days	8	16	24	31
FA T/O	1.2	1.2	1.4	1.5
(D) Measures of Investment				
AEPS (Rs)	42.7	46.6	51.4	57.3
CEPS (Rs)	47.0	51.3	56.2	62.4
DPS (Rs)	36.0	41.2	45.4	50.6
Dividend Payout (%)	84.4	88.3	88.3	88.3
BVPS (Rs)	213.7	219.2	225.2	231.9
RoANW (%)	20.1	21.6	23.1	25.1
RoACE (%)	17.8	19.0	20.5	22.3
RoAIC (%)	23.9	27.1	30.7	34.8
(E) Valuation Ratios				
CMP (Rs)	2548	2548	2548	2548
P/E	59.7	54.6	49.6	44.4
Mcap (Rs Mn)	5,988,035	5,988,035	5,988,035	5,988,035
MCap/ Sales	10.1	9.4	8.6	7.9
EV	5,954,205	5,919,435	5,899,427	5,877,448
EV/Sales	10.1	9.3	8.5	7.8
EV/EBITDA	43.7	39.0	35.4	31.6
P/BV	11.9	11.6	11.3	11.0
Dividend Yield (%)	1.4	1.6	1.8	2.0
(F) Growth Rate (%)				
Revenue	15.5	7.7	8.7	9.2
EBITDA	9.0	11.3	9.9	11.6
EBIT	9.8	11.8	10.4	12.1
PBT	11.4	11.8	10.1	11.6
APAT	13.2	9.4	10.1	11.6
EPS	13.2	9.4	10.1	11.6

E – Estimates

Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
Profit before tax	**131,410**	**146,169**	**160,993**	**179,672**
Depreciation & w.o.	10,300	10,820	11,302	11,804
Net Interest Exp	1,010	1,111	1,222	1,344
Direct taxes paid	(30,680)	(36,542)	(40,248)	(44,918)
Change in Working Capital	(8,630)	19,776	3,275	3,153
Non Cash	8,180	0	0	0
(A) CF from Operating Activities	**111,590**	**141,333**	**136,544**	**151,055**
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(8,610)	(8,000)	(8,000)	(8,000)
Free Cash Flow	**102,980**	**133,333**	**128,544**	**143,055**
(Inc.)/ Dec. in Investments	(5,030)	(688)	(736)	(788)
Other	0	0	0	0
(B) CF from Investing Activities	**(13,640)**	**(8,688)**	**(8,736)**	**(8,788)**
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	(4,310)	0	0	0
Interest exp net	(1,010)	(1,111)	(1,222)	(1,344)
Dividend Paid (Incl. Tax)	(84,590)	(96,764)	(106,578)	(118,944)
Other	0	0	0	0
(C) CF from Financing	**(89,910)**	**(97,875)**	**(107,800)**	**(120,288)**
Net Change in Cash	8,040	34,770	20,008	21,980
Opening Cash balances	**36,180**	**44,220**	**78,990**	**98,998**
Closing Cash balances	**44,220**	**78,990**	**98,998**	**120,977**

E – Estimates

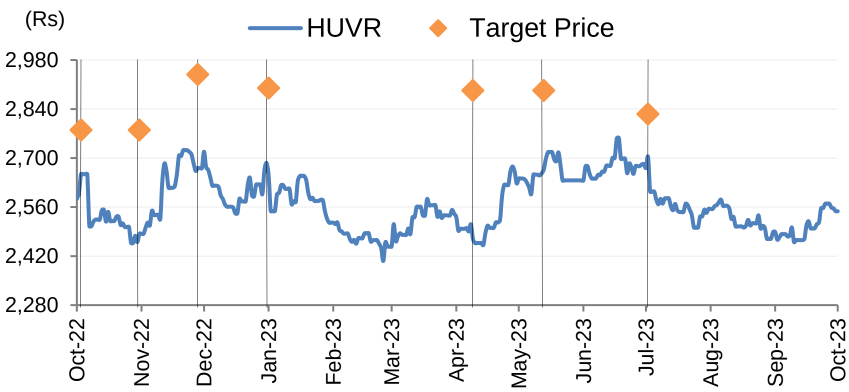
Notes

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
Jul-23	Reduce	2,826	2,703

*Price as on recommendation date

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Analyst(s) Certification

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