

## Consumer Staples | Q4FY24 Result Update

## Volume growth continues to remain muted

- HUL's core results came in-line with our estimates. Despite 2% volume growth, revenues declined 0.2% due to price pass-on. Going ahead, volume growth would lead to value growth due to less opportunity for price hikes.
- GM expanded 320bps YoY due to softening commodity prices. However, 60/200/70bps increase in employee cost/A&P/other expense resulted in EBITDA margin contraction of 20bps (as estimated).
- Considering challenging demand conditions, we have revised our FY25/26E EPS estimates downward by 3.8/3.4% at Rs 46.9/52.6. Valuing the stock at 48x FY26E EPS, arrive at TP of Rs 2,522. Considering the recent fall in the stock price we upgrade to Accumulate.

## Revenue and EBITDA came in-line; APAT missed

Net Sales stood at Rs 148.6bn and de-grew by 0.2% YoY (in-line our estimate). The underlying volume growth stood at 2%. Revenue was flat due to price reductions. EBITDA de-grew by 1.0% YoY to Rs 34.4bn (in-line our estimate). EBITDA margin contracted by 20bps to 23.1% as 320bps decline in RM cost was fully offset by 60/200/70bps increase in employee cost/A&P expenses/other expenses resp. RPAT declined by 5.7% YoY to Rs 24.1bn. Excluding extraordinary items, APAT de-grew by 2% YoY to Rs 24.2bn (below our estimate).

## Mixed performance at segmental level

In Q4, HUL's majority portfolio gained market share in volume terms. At segmental level – (1) Home care reported 1.4% sales growth with 20bps EBIT margin expansion to 18.9% (2) Personal care reported 2.7% revenue de-growth; however, EBIT margins declined by 60bps to 25.5% and (3) Food & Refreshment posted 3.1% YoY sales growth with EBIT margin expansion of 100bps to 21%. Home care witnessed price deflation during the quarter, yet, mid-single digit volume growth across fabric wash and dish wash helped the segment to post sales growth. In personal care, hair care reported high single digit volume driven sales growth; however, skin business was impacted due to decline in the mass segment. This impact was offset by double digit growth in the premium skin category.

## Q4FY24 Result (Rs Mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Revenue	1,48,570	1,48,930	(0.2)	1,51,880	(2.2)
Total Expense	1,14,220	1,14,220	0.0	1,16,480	(1.9)
EBITDA	34,350	34,710	(1.0)	35,400	(3.0)
Depreciation	2,890	2,620	10.3	2,820	2.5
EBIT	31,460	32,090	(2.0)	32,580	(3.4)
Other Income	2,200	1,600	37.5	2,850	(22.8)
Interest	1,020	240	325.0	810	25.9
EBT	32,470	34,250	(5.2)	34,320	(5.4)
Tax	8,410	8,730	(3.7)	9,130	(7.9)
RPAT	24,060	25,520	(5.7)	25,190	(4.5)
APAT	24,230	24,720	(2.0)	25,490	(4.9)
			(bps)		(bps)
Gross Margin (%)	51.9	48.7	316	51.5	37
EBITDA Margin (%)	23.1	23.3	(19)	23.3	(19)
NPM (%)	16.2	17.1	(94)	16.6	(39)
Tax Rate (%)	25.9	25.5	41	26.6	(70)
EBIT Margin (%)	21.2	21.5	(37)	21.5	(28)

CMP	Rs 2,260
Target / Upside	Rs 2,522 / 12%
NIFTY	22,402

## Scrip Details

Equity / FV	Rs 2,350mn / Rs 1
Market Cap	Rs 5,312bn
	USD 64.1bn
52-week High/Low	Rs 2,770/ 2,172
Avg. Volume (no)	19,23,930
Bloom Code	HUVR IN

Price Performance	1M	3M	12M
Absolute (%)	0	(7)	(10)
Rel to NIFTY (%)		(10)	(31)

## Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	61.9	61.9	61.9
MF/Banks/FIs	11.5	12.0	13.3
FIs	14.5	13.9	12.7
Public / Others	12.1	12.2	12.2

## Valuation (x)

	FY24P	FY25E	FY26E
P/E	52.1	48.2	43.0
EV/EBITDA	37.0	34.4	30.6
ROE (%)	20.0	21.4	23.3
RoACE (%)	17.4	17.7	19.4

## Estimates (Rs bn)

	FY24P	FY25E	FY26E
Revenue	604.7	644.5	703.3
EBITDA	141.9	151.9	170.1
PAT	102.0	110.3	123.6
EPS (Rs.)	43.4	46.9	52.6

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**Exhibit 1: Actual V/s DART estimate**

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	1,48,570	1,51,534	(2.0)	
EBITDA	34,350	35,165	(2.3)	
EBITDA margin %	23.1	23.2	(10bps)	
APAT	24,230	25,769	(6.0)	Lower than anticipated other income resulted in lower APAT

Source: Company, DART

**Exhibit 2: Change in estimates**

Particulars (Rs mn)	FY25E			FY26E		
	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	6,44,544	6,62,344	(2.7)	7,03,269	7,22,951	(2.7)
EBITDA	1,51,904	1,57,803	(3.7)	1,70,127	1,76,084	(3.4)
EBITDA margin (%)	23.6	23.8	(30bps)	24.2	24.4	(20bps)
PAT	1,10,279	1,14,613	(3.8)	1,23,616	1,27,966	(3.4)
EPS (Rs)	46.9	48.8	(3.8)	52.6	54.5	(3.4)

Source: Company DART

We have revised our revenue estimates downward to factor in delayed rural recovery and less room to take price hikes from here-on. We have marginally downward revised our EBITDA margin estimates to factor in price pass on to address competition and increase volume growth. In line with the revision in EBITDA, we have also revised our EPS estimates.

**Exhibit 3: Segmental Performance**

Particulars (Rs.mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Remarks
<b>Home Care</b>						<b>Fabric Wash &amp; Household Care</b>
Revenue	57,150	56,380	1.4	54,480	4.9	<ul style="list-style-type: none"> <li>Fabric wash posted mid-single digit volume growth led by premium portfolio.</li> <li>Mid-single digit volume growth in household care led by Vim liquid.</li> </ul>
EBIT	10,810	10,560	2.4	9,660	11.9	
EBIT Margin (%)	18.9	18.7	20bps	17.7	120bps	
<b>Beauty &amp; Personal Care</b>						<b>Personal Wash, Oral Care, Skin Care, Hair Care, Deodorant &amp; Colour Cosmetics</b>
Revenue	50,500	51,880	(2.7)	57,050	(11.5)	<ul style="list-style-type: none"> <li>Skin cleansing de-grew due to price cuts and drop in volumes in mass and popular segments, which impacted performance.</li> <li>Haircare posted high single digit volume growth supported by Dove and Tresemmé. Future formats namely, serums, masks and conditioners continued to lead growth.</li> <li>Skin care and colour cosmetics posted low single digit growth, which was impacted due to decline in mass skin portfolio.</li> <li>Oral care grew in double digit driven by pricing.</li> </ul>
EBIT	12,880	13,530	(4.8)	14,610	(11.8)	
	25.5	26.1	(60bps)	25.6	(10bps)	
EBIT Margin (%)						
<b>Food &amp; Refreshments</b>						<ul style="list-style-type: none"> <li>Tea strengthened value and volume market leadership. However, the category continued to relegate; Coffee posted double-digit growth driven by pricing.</li> <li>HFD witnessed high single digit growth; Growth was driven by Plus range.</li> <li>Foods posted mid-single digit growth supported by healthy performance in soups and food solutions.</li> <li>Ice cream exhibited volume led double digit growth.</li> </ul>
Revenue	39,110	37,940	3.1	37,330	4.8	
EBIT	7,390	6,790	8.8	7,110	3.9	
	18.9	17.9	100bps	19.0	(20bps)	
EBIT Margin (%)						
<b>Others</b>						
Revenue	1,810	2,730.0	(33.7)	3,020	(40.1)	
EBIT	380.0	1,210.0	(68.6)	1,200.0	(68.3)	
EBIT Margin (%)	21.0	44.3	-	39.7	-	
<b>Total</b>						
Revenue	1,48,570	1,48,930	(0.2)	1,51,880	(2.2)	
EBIT	31,460	32,090	(2.0)	32,580	(3.4)	
EBIT Margin (%)	21.2	21.5	(40bps)	21.5	(30bps)	

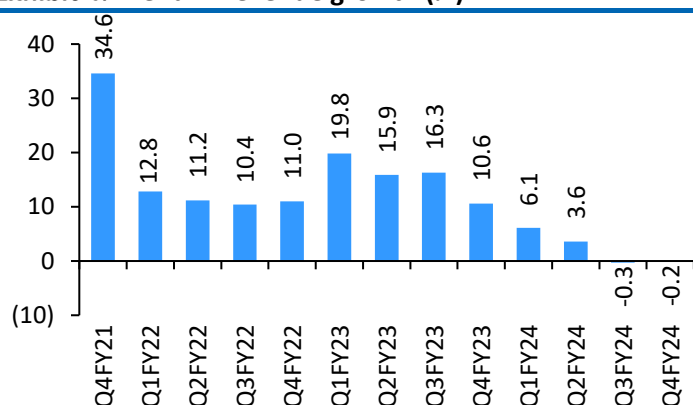
Source: DART, Company

## Earning call KTA's

- During the quarter, HUL posted 2% volume growth led by mid-single digit volume growth in home care segment. However, revenue was flat due to price pass on. In Q4FY24, FMCG sector saw gradual volume recovery. Further, urban markets grew ahead of rural markets. We believe FMCG demand will continue to witness gradual recovery in the ensuing quarters, supported by positive monsoon outlook.
- HUL maintained a competitive position and witnessed marginal blip in market share, despite the resurgence of small and regional players. The company is holding on to all the market share gains that were made FY2021 onwards - the corporate market share has increased by ~200bps over FY21.
- HUL has a total of 19 brands which are clocking ~>Rs10bn each in annual turnover and account for 80% of turnover. Moreover, Surf excel and Brooke bond delivered ~Rs 50bn each. In addition, Clinic plus moved up to 20bn brands club from 10bn in FY23. Going ahead, 3 brands i.e. Boost, Sunsilk and Vasline will move towards the Rs10bn club.
- Home care segment witnessed mid-single digit underlying volume growth (UVG), with flat underlying sales growth (USG) due to negative underlying pricing growth. The volume growth was led by mid-single digit volume growth in fabric wash - led by outperformance in premium portfolio and mid-single digit volume growth in household care - led by outperformance in vim liquid.
- Hair care segment delivered high-single digit volume growth- led by strong performance in Dove and Tresemme. However, skin care and colour cosmetics witnessed low single digit growth - led by decline in mass skin portfolio, while premium skin continued to outperform, growing in double digits. Skin cleansing business declined due to impact of price cuts coupled with drop in volumes in the mass and popular segments.
- Food & Refreshment segment posted 4% USG with flat underlying volume growth and positive pricing. Tea category continued to witness consumers downgrading to loose tea, while coffee grew in double-digits driven by pricing. HFD, which include Horlicks and Boost, delivered high single digit growth - led by outperformance in the plus range. Moreover, foods delivered mid-single digit growth - led by soups, food solutions, mayonnaise and peanut butter. Ice cream volume grew in double-digit.
- HFD business grew in high single digit driven by pricing and volume growth, also supported by the plus range. In addition, HFD portfolio has witnessed market share improvement. Going ahead, HUL would focus on building penetration improvement in the HFD category. Furthermore, benign commodity costs would drive further consumption in the category.
- To provide best in class product across portfolio, it is measuring products on 6 tangible and distinct drivers namely 1) Product, 2) Proposition, 3) Packaging, 4) Place, 5) Promotion and 6) Pricing. The drivers have been tried and tested by HUL and have reaped results in certain products as follows 1) Vim liquid has reported double digit volume growth in FY24, furthermore, it has posted highest penetration gains in a decade. 2) Horlicks has reported strong penetration gains during the year, further it continued market leadership through market share gains.
- The A&P spend stood at 10.8% (+200bps YoY). Going ahead, HUL is confident to further step-up its A&P spends and continue to invest competitively in brand building and market development. We believe that the benefit of GM expansion (focus on improving GM through end-to-end net productivity program) would be passed on through A&P expenses.
- Employee benefits and other expenses at 18.3% are up 120 bps YoY spent on royalty and capability building. Furthermore, termination of consignment selling agreement with GSK will have an impact of 60bps in the ensuing quarters.
- In general trade, HUL is fortifying distribution mode, which has led to coverage/assortment increasing by 1.2/1.25x versus that of FY20. Further, Shikhar app is becoming the most adopted e-B2B app with 1.3mn retail outlets.

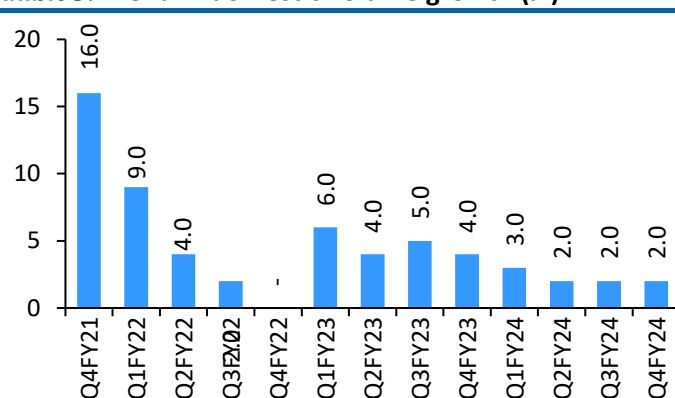
- HUL launched various new products in Q4FY24, namely, Lakme cosmetics, sun-care products under Glow and Lovely, Ponds and Lakme skin, and sensitive skin cleansing range by Dove in the BPC category and Cadbury crackle feast, American nuts and Mango Duet were launched ahead of the upcoming ice-cream season in the F&R category.
- BOD has proposed a final dividend of Rs 24 per share, subject to the approval of shareholders. Together with an interim dividend of Rs 18 per share, the total dividend for FY24 amounts to Rs 42 per share.

**Exhibit 4: Trend in revenue growth (%)**



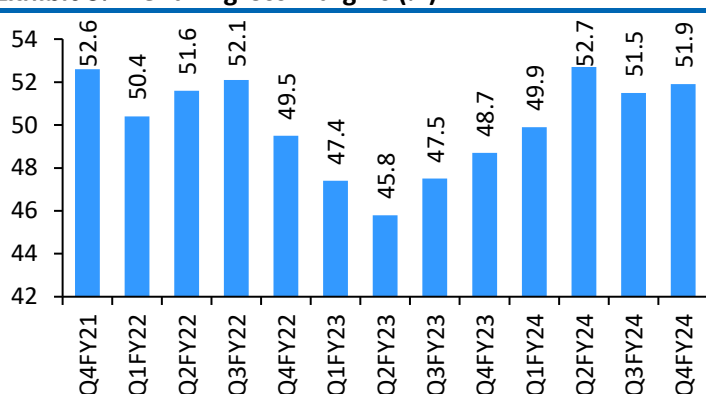
Source: Company, DART

**Exhibit 5: Trend in domestic volume growth (%)**



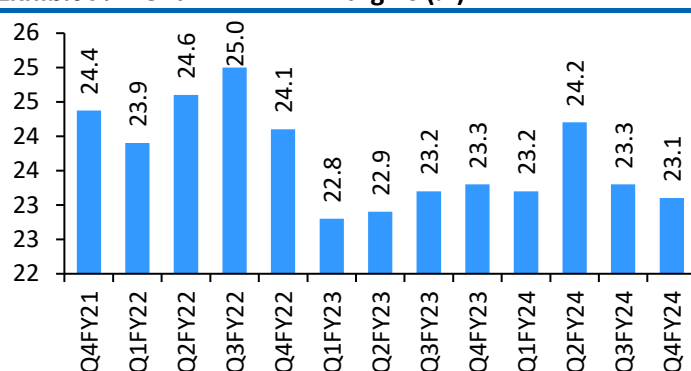
Source: Company, DART

**Exhibit 6: Trend in gross margins (%)**



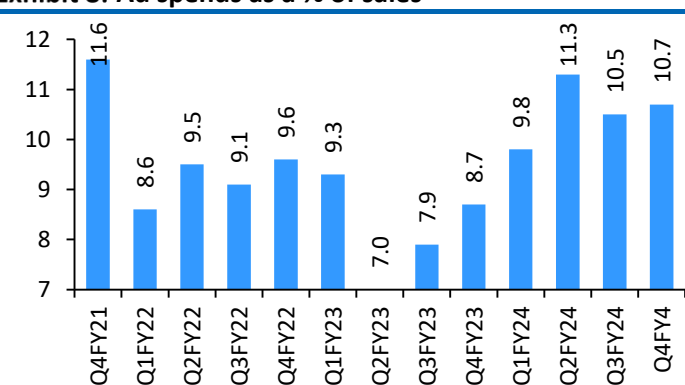
Source: Company, DART

**Exhibit 7: Trend in EBITDA margins (%)**



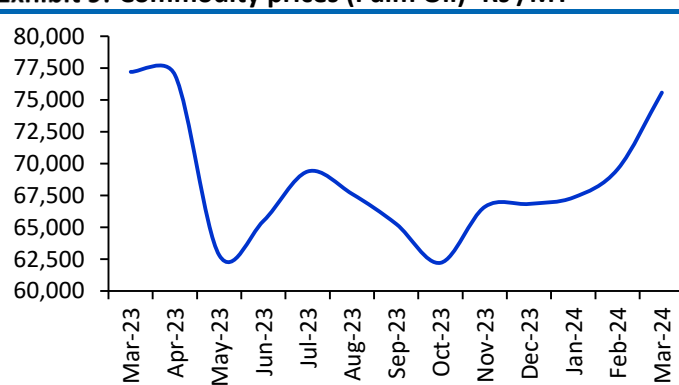
Source: Company, DART

**Exhibit 8: Ad spends as a % of sales**



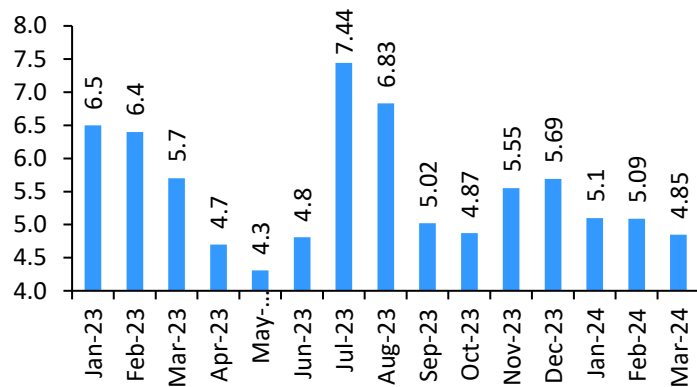
Source: Company, DART

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



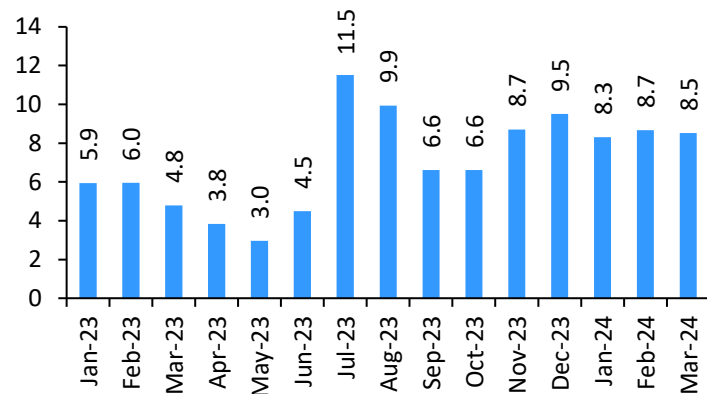
Source: Company, DART

**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)	FY23A	FY24P	FY25E	FY26E
<b>Revenue</b>	<b>5,91,440</b>	<b>6,04,690</b>	<b>6,44,544</b>	<b>7,03,269</b>
<b>Total Expense</b>	<b>4,55,123</b>	<b>4,62,790</b>	<b>4,92,640</b>	<b>5,33,142</b>
COGS	3,11,440	2,93,270	3,11,632	3,37,915
Employees Cost	26,650	27,820	30,943	35,168
Other expenses	1,17,033	1,41,700	1,50,065	1,60,058
<b>EBIDTA</b>	<b>1,36,318</b>	<b>1,41,900</b>	<b>1,51,904</b>	<b>1,70,127</b>
Depreciation	10,300	10,970	11,302	11,800
<b>EBIT</b>	<b>1,26,018</b>	<b>1,30,930</b>	<b>1,40,602</b>	<b>1,58,327</b>
Interest	1,010	3,020	3,111	3,204
Other Income	6,402	9,730	11,534	11,926
Exc. / E.O. items	(620)	(890)	0	0
<b>EBT</b>	<b>1,30,790</b>	<b>1,36,750</b>	<b>1,49,025</b>	<b>1,67,049</b>
Tax	31,170	35,610	38,747	43,433
RPAT	99,620	1,01,140	1,10,279	1,23,616
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>1,00,240</b>	<b>1,02,030</b>	<b>1,10,279</b>	<b>1,23,616</b>

### Balance Sheet

(Rs Mn)	FY23A	FY24P	FY25E	FY26E
<b>Sources of Funds</b>				
Equity Capital	2,350	2,350	2,350	2,350
Minority Interest	0	0	0	0
Reserves & Surplus	4,99,860	5,07,380	5,20,319	5,34,823
<b>Net Worth</b>	<b>5,02,210</b>	<b>5,09,730</b>	<b>5,22,669</b>	<b>5,37,173</b>
Total Debt	10,390	13,740	13,740	13,740
Net Deferred Tax Liability	63,250	1,09,860	1,09,860	1,09,860
<b>Total Capital Employed</b>	<b>5,75,850</b>	<b>6,33,330</b>	<b>6,46,269</b>	<b>6,60,773</b>

### Applications of Funds

Net Block	5,14,050	5,23,790	5,20,488	5,16,688
CWIP	10,200	9,150	9,150	9,150
Investments	37,940	54,930	55,618	56,354
<b>Current Assets, Loans &amp; Advances</b>	<b>1,40,350</b>	<b>1,81,600</b>	<b>2,13,339</b>	<b>2,42,044</b>
Inventories	40,310	38,120	46,719	50,982
Receivables	27,350	26,900	22,759	24,835
Cash and Bank Balances	44,220	70,870	96,667	1,17,009
Loans and Advances	28,470	45,710	47,195	49,217
Other Current Assets	0	0	0	0
<b>Less: Current Liabilities &amp; Provisions</b>	<b>1,26,690</b>	<b>1,36,140</b>	<b>1,52,326</b>	<b>1,63,463</b>
Payables	93,910	1,01,480	1,16,981	1,27,656
Other Current Liabilities	32,780	34,660	35,345	35,808
<i>sub total</i>				
Net Current Assets	13,660	45,460	61,013	78,580
<b>Total Assets</b>	<b>5,75,850</b>	<b>6,33,330</b>	<b>6,46,269</b>	<b>6,60,773</b>

E – Estimates



### Important Ratios

Particulars	FY23A	FY24P	FY25E	FY26E
<b>(A) Margins (%)</b>				
Gross Profit Margin	47.3	51.5	51.7	52.0
EBIDTA Margin	23.0	23.5	23.6	24.2
EBIT Margin	21.3	21.7	21.8	22.5
Tax rate	23.8	26.0	26.0	26.0
Net Profit Margin	16.8	16.7	17.1	17.6
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	52.7	48.5	48.3	48.0
Employee	4.5	4.6	4.8	5.0
Other	19.8	23.4	23.3	22.8
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	124.8	43.4	45.2	49.4
Inventory days	25	23	26	26
Debtors days	17	16	13	13
Average Cost of Debt	10.0	25.0	22.6	23.3
Payable days	58	61	66	66
Working Capital days	8	27	35	41
FA T/O	1.2	1.2	1.2	1.4
<b>(D) Measures of Investment</b>				
AEPS (Rs)	42.7	43.4	46.9	52.6
CEPS (Rs)	47.0	48.1	51.7	57.6
DPS (Rs)	36.0	40.0	41.4	46.4
Dividend Payout (%)	84.4	92.1	88.3	88.3
BVPS (Rs)	213.7	216.9	222.4	228.6
RoANW (%)	20.1	20.0	21.4	23.3
RoACE (%)	17.8	17.4	17.7	19.4
RoAIC (%)	23.9	23.9	25.3	29.0
<b>(E) Valuation Ratios</b>				
CMP (Rs)	2260	2260	2260	2260
P/E	53.0	52.1	48.2	43.0
Mcap (Rs Mn)	53,11,588	53,11,588	53,11,588	53,11,588
MCap/ Sales	9.0	8.8	8.2	7.6
EV	52,77,758	52,54,458	52,28,660	52,08,318
EV/Sales	8.9	8.7	8.1	7.4
EV/EBITDA	38.7	37.0	34.4	30.6
P/BV	10.6	10.4	10.2	9.9
Dividend Yield (%)	1.6	1.8	1.8	2.1
<b>(F) Growth Rate (%)</b>				
Revenue	15.5	2.2	6.6	9.1
EBITDA	9.0	4.1	7.0	12.0
EBIT	9.8	3.9	7.4	12.6
PBT	11.4	4.6	9.0	12.1
APAT	13.2	1.8	8.1	12.1
EPS	13.2	1.8	8.1	12.1

E – Estimates

## Cash Flow

Particulars	FY23A	FY24P	FY25E	FY26E
<b>Profit before tax</b>	<b>1,31,410</b>	<b>1,37,640</b>	<b>1,49,025</b>	<b>1,67,049</b>
Depreciation & w.o.	10,300	10,970	11,302	11,800
Net Interest Exp	1,010	3,020	3,111	3,204
Direct taxes paid	(30,680)	(35,610)	(38,747)	(43,433)
Change in Working Capital	(8,630)	(5,150)	10,244	2,775
Non Cash	8,180	0	0	0
<b>(A) CF from Operating Activities</b>	<b>1,11,590</b>	<b>1,10,870</b>	<b>1,34,936</b>	<b>1,41,395</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(8,610)	(19,660)	(8,000)	(8,000)
<b>Free Cash Flow</b>	<b>1,02,980</b>	<b>91,210</b>	<b>1,26,936</b>	<b>1,33,395</b>
(Inc.)/ Dec. in Investments	(5,030)	(16,990)	(688)	(736)
Other	0	0	0	0
<b>(B) CF from Investing Activities</b>	<b>(13,640)</b>	<b>(36,650)</b>	<b>(8,688)</b>	<b>(8,736)</b>
Issue of Equity/ Preference	0	46,080	0	0
Inc./(Dec.) in Debt	(4,310)	3,350	0	0
Interest exp net	(1,010)	(3,020)	(3,111)	(3,204)
Dividend Paid (Incl. Tax)	(84,590)	(93,980)	(97,340)	(1,09,112)
Other	0	0	0	0
<b>(C) CF from Financing</b>	<b>(89,910)</b>	<b>(47,570)</b>	<b>(1,00,450)</b>	<b>(1,12,316)</b>
Net Change in Cash	8,040	26,650	25,797	20,342
<b>Opening Cash balances</b>	<b>36,180</b>	<b>44,220</b>	<b>70,870</b>	<b>96,667</b>
<b>Closing Cash balances</b>	<b>44,220</b>	<b>70,870</b>	<b>96,667</b>	<b>1,17,009</b>

E – Estimates

## Notes

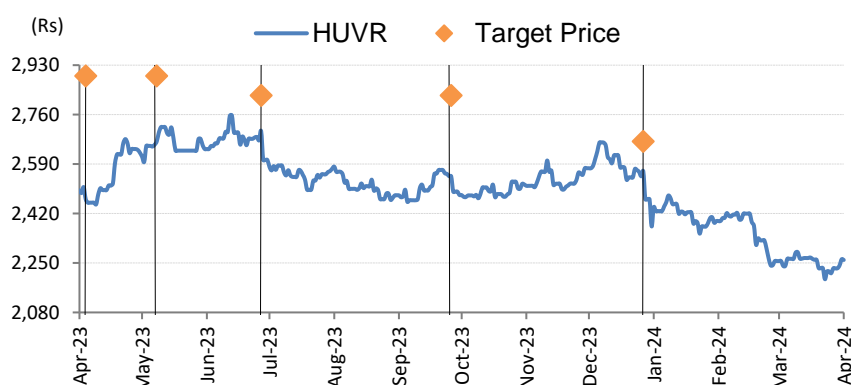


## DART RATING MATRIX

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.)
Apr-23	Accumulate	2,893	2,469
May-23	Accumulate	2,893	2,668
Jul-23	REDUCE	2,826	2,703
Oct-23	Accumulate	2,826	2,548
Jan-24	REDUCE	2,668	2,565

\*Price as on recommendation date

## DART Team

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