



TM

22 January 2025

Hindustan Unilever

Demand moderation to persist; margins to be range-bound

RESULT UPDATE

Sector: FMCG **Rating:** HOLD
CMP: Rs 2,340 **Target Price:** Rs 2,645

Stock Info

Sensex/Nifty	76,405/ 23,155
Bloomberg	HUVR IN
Equity shares (mn)	2350
52-wk High/Low	Rs 3,035/2,170
Face value	Rs 1
M-Cap	Rs 5,500bn/US\$ 64bn
3-m Avg turnover	US\$ 58mn

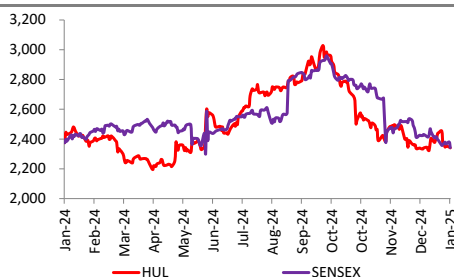
Financial Snapshot (Rs mn)

Y/E Mar	FY25E	FY26E	FY27E
Sales	6,32,682	6,89,712	7,48,904
PAT	1,03,984	1,16,539	1,30,326
EPS (Rs)	44.2	49.6	55.5
PE (x)	52.9	47.2	42.2
EV/EBITDA (x)	(0.4)	(0.4)	(0.4)
P/BV (x)	9.7	9.5	9.3
EV/Sales	(0.1)	(0.1)	(0.1)
RoE (%)	20.2	22.3	24.3
RoCE (%)	26.3	28.8	31.3
NWC (days)	-11	-10	-13
Net gearing (x)	(0.1)	(0.1)	(0.1)

Shareholding Pattern (%)

	Dec 24	Sept 24	Jun 24
Promoter	61.9	61.9	61.9
-Pledged	-	-	-
FII	11.4	12.2	11.9
DII	14.7	14.2	14.1
Others	12.0	11.7	12.1

Stock Performance (1-year)



Demand moderation to persist: Hindustan Unilever (HUL) delivered 3QFY25 results broadly in-line with our expectations. Topline growth of 1.5% YoY was driven by price hikes (4-5% in soaps and tea) but held back by (1) flat volume growth and (2) negative product mix, due to (1) higher sales of small packs and (2) higher growth in the lower-margin Home Care division. Management called out a sustained rural demand recovery offset by ongoing urban slowdown, and expects near-term moderation in consumption demand to continue. Categories of detergents, dishwash, floor cleaners (Home Care sales/volume growth of 6% YoY/ high-single digits), hair care (mid-single digit volume growth), oral care, packaged foods (mid-single digit growth) and coffee did relatively better. However, mass skin care (volume decline in winter portfolio), soaps (sales decline despite price hikes, largely in hygiene segment), nutrition drinks, tea and ice cream dragged down growth.

Positively, management noted sustenance of premiumization as a theme, with premium portfolio sales outgrowing mass, and better growth in premium formats like liquids, bodywash, shampoo sachets and premium tea. With the acquisition of premium D2C skin/hair care brand Minimalist, HUL has again signaled its intent to drive premiumization in the Beauty segment. Also, with acquisition of a palm undertaking in Telangana, HUL makes a decisive move towards backward integration and localization in palm oil (albeit more of a long-gestation story).

Margins to be range-bound: Gross margin (GPM) decline of c.85bps YoY to 50.7% was largely due to delayed price hikes in soaps and tea in the face of c.40%/ 25% inflation in palm oil/ tea costs, and HUL indicated further calibrated hikes will be taken. Management expects low-single digit pricing growth near-term; while it noted some easing of palm oil/ tea inflation in January, it flagged a volatile INR currency. Operating margin (OPM) contraction was more moderate at c.15bps YoY to 23.2%, as HUL (1) rationalized A&P spending from a high base (-8% YoY), and (2) continued to extract cost savings. Management guided near-term OPM at the lower end of 23-24%. EBITDA/ PAT grew +1%/ -2% YoY.

View: While volume pickup in key categories of detergents, dishwash, hair care, foods and premium skin is encouraging, we remain cautious on persistent weak demand in soaps, tea, mass skin and nutrition drinks. We expect a gradual pickup in volume growth over FY26-FY27E as HUL rejigs its portfolio to expand into high-growth categories (laundry/dishwash liquids, bodywash, international foods, high-science products in nutrition). Realizations should benefit from (1) higher pricing in soaps and tea, (2) normalization in detergents/ other categories and (3) improving product mix/premiumization. However, we expect margins to remain range-bound as (1) pricing lags inflation (due to demand/ competition concerns) and (2) sustained investment is needed in brand-building, partly offset by mix improvement from premium portfolios.

Valuation: We lower our FY25-FY27E revenue/ EPS estimates by 1% to factor in sustained growth moderation, and build revenue/PAT CAGR of 7%/8% over FY24-FY27E. We maintain our HOLD rating; we roll forward valuation to December-2026 (from September-2026) and value the stock at P/E of 49x (vs 51x earlier, a 15% discount to its long-period average to account for ongoing sluggish demand), leading to a lower TP of Rs 2,645 (vs Rs 2,710 earlier).

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3QFY25 Result highlights

- Revenue/EBITDA/Adj.PAT growth of 1.4%/0.8%/-2.2% YoY respectively led by flat volume growth, 2% pricing and muted growth across categories except moderate growth in Home care.
- Overall revenue growth of 1.4% YoY was a result of 5.4% growth in home care, 1.4% growth in beauty & wellbeing, 3% decline in personal care and flat growth in foods.
- Overall gross margin shrank by 83bps to 50.7% impacted by RM inflation; EBITDA margin down by 14 bps to 23.2% with higher staff costs (+5.4% YoY, +17bps YoY as % of sales) and other expenses (+2.4% YoY, +12bps as % of sales).
- EBIT margin were up 110bps/185bps/70bps YoY for food & refreshment/ personal/ home care respectively, declined 290 bps in beauty & wellbeing.

Segmental Performance

- **Home care:** The segmental sales growth was 6% YoY, and volumes grew in high-single digit during Q3 FY25. A strong broad-based performance was delivered across the formats in the fabric wash sub-segment. The liquid portfolio delivered strong double-digit growth led by transformation of 'Comfort' Brand. Household care segment saw new launch of Sun dishwasher and the segment delivered high-single digit volume growth.
- **Beauty & wellbeing:** The Beauty & Wellbeing delivered 1% sales growth and low-single digit volume de-growth. The segment was impacted by delayed winter, but non-winter portfolio performed well delivering mid-single digit growth. In Hair care - sub-segment grew in mid-single digit volume. The delayed winter impacted the skincare & colour cosmetic performance, delivering muted growth.
- **Personal Care:** The sales de-grew by 4% YoY and volumes declined in the range of mid-single digit. The impact was due to decline in hygiene segment of Skin Cleansing. Positive momentum was seen in non-hygiene and relaunch of 'Lifebuoy' is expected to help in addressing declining trend of hygiene segment. In Skin Cleansing sub-segment, the market leadership of the bodywash portfolio was strengthened on the back of strong double-digit growth. Closeup brand led the mid-single digit growth in the Oral care sub-segment.
- **Foods:** The food segment sales were flat YoY and volumes declined by mid-single digit. Sequential improvement in Packaged Foods and Beverages seen. The company's Tea portfolio maintained its leadership position, both in value and volume terms. Coffee portfolio continued its double-digit growth. In the beverage sub-segment, the premium brands delivered mid-single digit growth. The subdued consumption led to decline in the Nutrition Drinks sub-segment. Ice Cream sub-segment revenue remained flat YoY. In Packaged foods, Ketchup, Mayonnaise, Food Solutions, International Sauces and Cuisines delivered strong volume.

Q&A takeaways

- **Demand & pricing**

- Rural gradually improving, urban moderation continues - overall consumption moderation to continue near-term
- 3Q topline growth impacted by (1) negative product mix (higher sales of small packs) and (2) higher growth in lower-margin Home Care business
- Premiumization trend sustaining - premium portfolio outgrew mass portfolio (premium shampoo sachets outgrew mass sachets etc)
- Price hikes of 4-5% taken across soaps & tea; HUL will continue to take calibrated price hikes
- Seeing some palm oil & tea inflation coming off in January, but INR/USD remains volatile
- Modern trade/ e-comm growing in DD; in e-comm, q-comm growing even faster

- **Category updates**

- Skin cleansing - Hygiene segment (Lifebuoy) needs to be addressed; relaunched pack started shipping. Others - Lux, body wash, Dove, Pears - doing quite well
- Management satisfied with current margins in F&R (20.2%) and Personal Care (17.6%), now wants to drive topline growth in these
- HUL expects to see some margin decline in Beauty (29.4%), but expects growth above-HUL average here
- Stratos formulation - rolled out across good part of India; some pockets pending over next 2 qtrs.
- Horlicks - Trying to improve price-pack architecture, drive large packs, improve product stickiness
- Glow & Lovely - seen some consumer dropout and drop in penetration (from 60-70% rural penetration)

- **Minimalist**

- Minimalist is in Derma/Actives' space, which is two-thirds of the Affluent/Affluent+ beauty mkt growing at 2x of overall beauty market
- HUL sees synergies in terms of offline GT distribution, international distribution, supply chain capabilities, global R&D capabilities, cost synergies of scale
- For next 2 yrs, HUL will want Minimalist to operate "like a speedboat" while offering its enabling ecosystem

- **Overall demand:** FMCG volume growth has slowed down over last 6 months. Gradual recovery of rural has sustained. LUP demand has grown- it is a transitional phenomenon. Premium grew ahead of mass. UVG was flat.

- **Home care:** Relaunched Vim bar with better formulation. It lasts longer than key competitor. The response was good. Sun is doing well- with a new liquid detergent launch. Comfort went through relaunch. The co is going aggressive in fabric cleaning and liquid detergents by filling white spaces and premiumization.

- **Personal care:** Glow and lovely is well positioned. HUL has launched a new variant in this at an attractive price. Dove's new serum shower collection aims at

addressing a lot of problems. Recent Tresemme launch- SilkPress is seeing encouraging response and HUL is focusing on this brand. Focus on serums and premium products are yielding positive results. Bodywash is growing at double digit.

Oral care grew by mid-single digit. In skin cleansing, the innovations is working/gaining shares. HUL is leading in bodywash category. Pears is growing in volumes also. Dove is seeing a lot of innovations. Lux has done quite well and is gaining share. Other than Lifebuoy, all other brands in skin cleansing have done well and the problem is being addressed by relaunching the brand.

Stratos formulation is doing well. Mass skin care has seen sequential improvement. Oziva has scaled up 2.5x since acquisition.

- **Beauty:** HUL aims at 900bps portfolio shift to premium and Minimalist will aid it.
- **Foods:** Coffee double digit growth. Low-single digit growth in Tea led by pricing actions. In nutritional drinks, the company took adjustments in pricing architecture. Packaged Foods did mid-single digit growth led by strong performance in Future Core and Market Makers portfolio. Horlicks and Boost is seeing a consumption challenge and hence the company is working on pricing architecture in favour of large packs.
- **Guidance:** If commodity costs remain stable, the company will take low single-digit pricing in the near term. Margins will stay in the range of 23-24%, at the lower end. Rabi outcome is expected to be good. The pace of recovery will also depend on food inflation, employment levels and real wage growth. Subdued urban may continue in the near term, but things will improve gradually.

Demerger of Ice-cream business: HUL incorporated Kwaliti Wall's (India) Limited on 10th January 2025, Scheme of arrangement for demerger is approved by Board of Directors. Shareholders to get 1 share of Kwaliti walls for every 1 share of HUL held. Ice cream business has great potential to grow, Focused management with greater flexibility to deploy strategies suited to Ice Cream's distinctive business model, Kwaliti wall's is well equipped with the portfolio, brand and innovation expertise from the largest global Ice Cream business.

Acquisition of D2C brand Minimalist: HUL to acquire Uprising Science Pvt Ltd (brand Minimalist) at Enterprise value of c.Rs 30bn, implying trailing EV/sales of 8.6x (Minimalist FY24 sales stood at Rs 3.47bn) and 6x at current sales run rate of c.Rs 5bn. Brand Minimalist is one of the fastest growing digital first brands, catering in to premium beauty segment – with actives-led science with a sharp positioning and masstige pricing. Annual revenue run rate at Rs5+ bn and the business has been profitable since inception. Minimalist is in Derma/Actives' space, which is two-thirds of the Affluent/Affluent+ beauty mkt growing at 2x of overall beauty market. HUL sees synergies in terms of offline GT distribution, international distribution, supply chain capabilities, global R&D capabilities, cost synergies of scale. For next 2 years, HUL will want Minimalist to operate "like a speedboat" while offering its enabling ecosystem.

HUL is currently under indexed in premium segment. Brand enjoys strong brand equity. It has a strong online presence and can leverage HUL's RTM. The co is also present in international geographies.

Backward integration in palm oil: HUL to acquire the palm undertaking of Vishwatej Oil Industries Pvt Ltd (Telangana-based) as part of its palm localisation strategy, to build supply chain resilience for palm; HUL to set up sapling nurseries, palm fresh fruit bunch collection centres and a palm oil mill in Telangana.

Exhibit 1: Quarterly performance

YE March (Rs mn)	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Net Revenues	1,54,080	1,51,880	1,55,080	1.4	(0.6)
Cost of materials	44,140	44,230	43,980	(0.2)	0.4
(% of sales)	28.6	29.1	28.4		
Purchase of stock in trade	31,870	29,440	31,950	8.3	(0.3)
(% of sales)	20.7	19.4	20.6		
Gross Profit	78,070	78,210	79,150	(0.2)	(1.4)
Gross margin (%)	50.7%	51.5%	51.0%		
Employee cost	6,840	6,490	7,650	5.4	(10.6)
(% of sales)	4.4	4.3	4.9		
Selling & admin	14,660	15,930	14,640	(8.0)	0.1
(% of sales)	9.5	10.5	9.4		
Others	20,870	20,390	20,390	2.4	2.4
(% of sales)	13.5	13.4	13.1		
EBITDA	35,700	35,400	36,470	0.8	(2.1)
EBITDA margin (%)	23.2	23.3	23.5		
Other income	3,120	2,850	3,090	9.5	1.0
PBIDT	38,820	38,250	39,560	1.5	(1.9)
Depreciation	3,080	2,820	3,050	9.2	1.0
Finance cost	1,050	810	990	29.6	6.1
PBT	34,690	34,620	35,520	0.2	(2.3)
Tax	9,770	9,130	9,240	7.0	5.7
ETR (%)	28.2	26.4	26.0		
Adjusted PAT	24,920	25,490	26,280	(2.2)	(5.2)
PATAMI margin	16.2	16.8	16.9		
Exceptional item	5,090	-300	-160		
Reported PAT	30,010	25,190	26,120	19.1	14.9
No. of shares (mn)	2,350.0	2,350.0	2,350.0		
Adj EPS (Rs)	10.6	10.8	11.2		

Source: Company, Systematix Institutional Research

Exhibit 2: Segmental performance

YE March (Rs mn)	3QFY25	3QFY24	2QFY25	YoY (%)	QoQ (%)
Segment revenue					
Home care	57,420	54,480	57,370	5.4%	0.1%
Beauty & Wellbeing	34,380	33,900	33,230	1.4%	3.5%
Personal care	22,460	23,150	24,120	-3.0%	-6.9%
Foods & Refreshments	37,450	37,330	38,030	0.3%	-1.5%
Others	2,370	3,020	2,330	-21.5%	1.7%
Net Sales	1,54,080	1,51,880	1,55,080	1.4%	-0.6%
Segmental EBIT Margin					
Home care	18.4%	17.7%	18.9%	70 bps	-50 bps
Beauty & Wellbeing	29.4%	32.4%	33.7%	-290 bps	-430 bps
Personal care	17.6%	15.7%	16.6%	185 bps	95 bps
Foods & Refreshments	20.2%	19.0%	18.1%	110 bps	200 bps

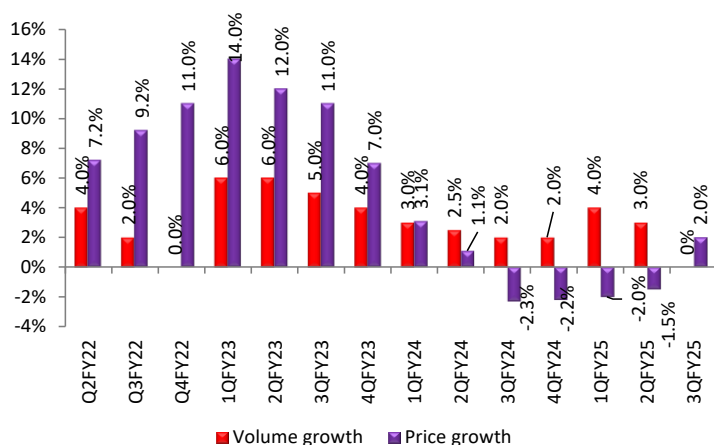
Source: Company, Systematix Institutional Research

Exhibit 3: Change in Estimates

Rs mn	Old Estimates			Revised Estimates			Variation (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net Sales	6,39,987	6,97,489	7,57,200	6,32,682	6,89,712	7,48,904	-1.1%	-1.1%	-1.1%
EBITDA	1,50,164	1,67,493	1,86,375	1,49,083	1,66,315	1,85,082	-0.7%	-0.7%	-0.7%
EBITDA Margin	23.5%	24.0%	24.6%	23.6%	24.1%	24.7%			
Adj. PAT	1,05,358	1,17,896	1,31,798	1,03,984	1,16,539	1,30,326	-1.3%	-1.2%	-1.1%

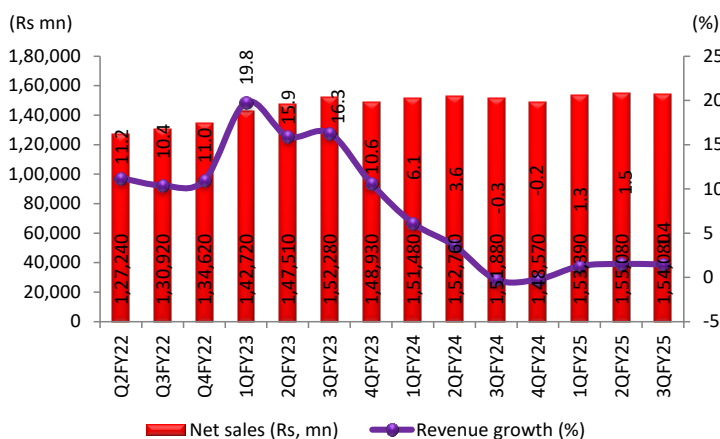
Source: Company, Systematix Institutional Research

Exhibit 4: Flat volume growth, pricing growth at 2%



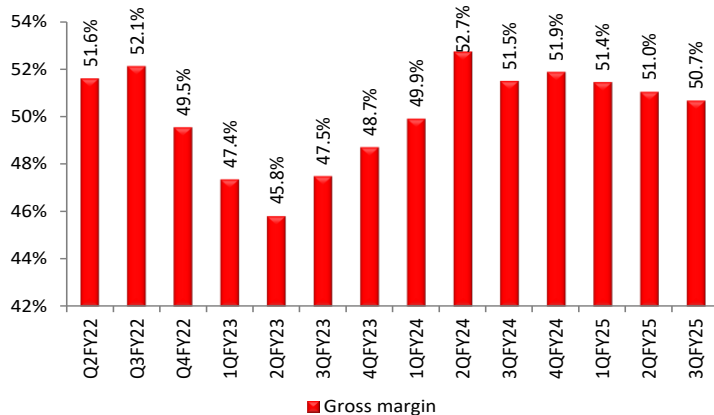
Source: Company, Systematix Institutional Research

Exhibit 5: Revenue grew 1.4% YoY



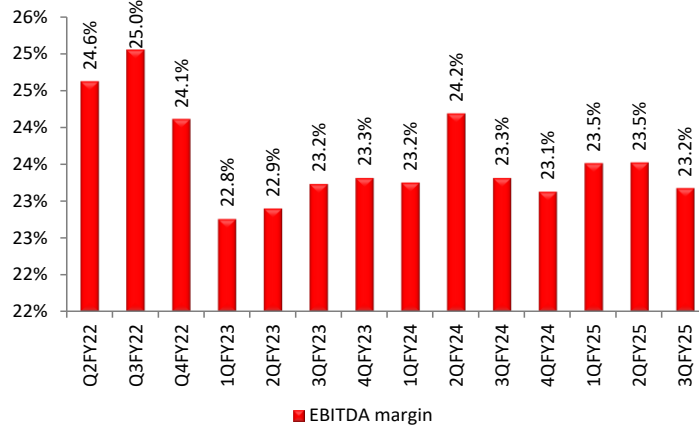
Source: Company, Systematix Institutional Research

Exhibit 6: Gross margin declined 83bps YoY



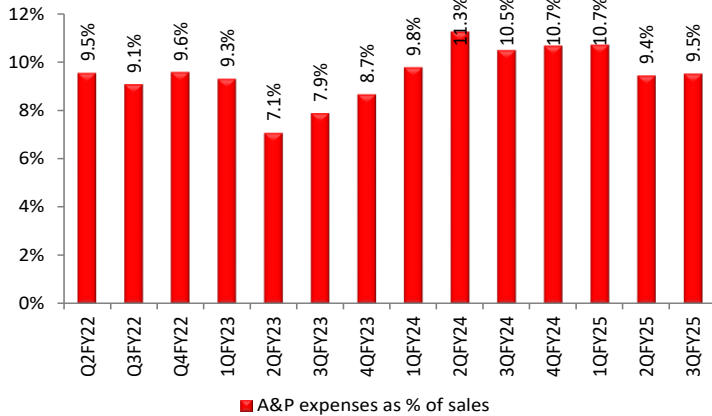
Source: Company, Systematix Institutional Research

Exhibit 7: EBITDA declined 14bps YoY



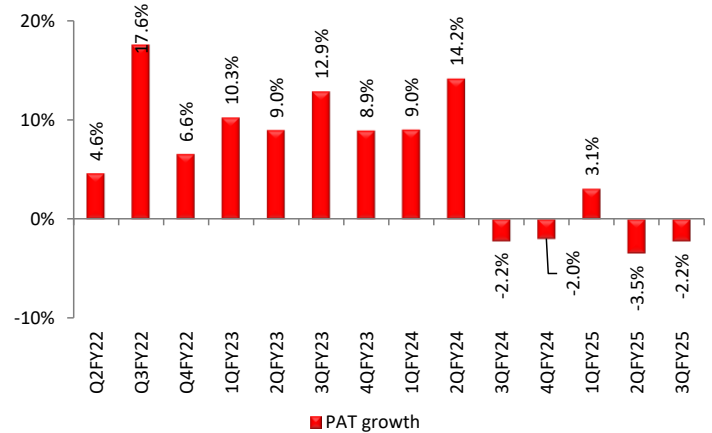
Source: Company, Systematix Institutional Research

Exhibit 8: A&P spends have declined year on year



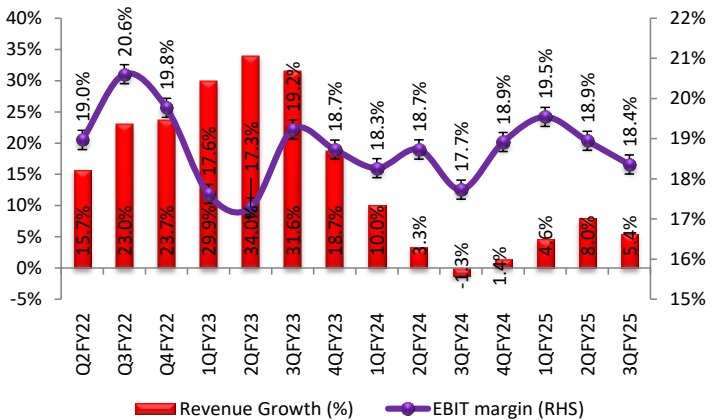
Source: Company, Systematix Institutional Research

Exhibit 9: PAT degred 2.2% YoY



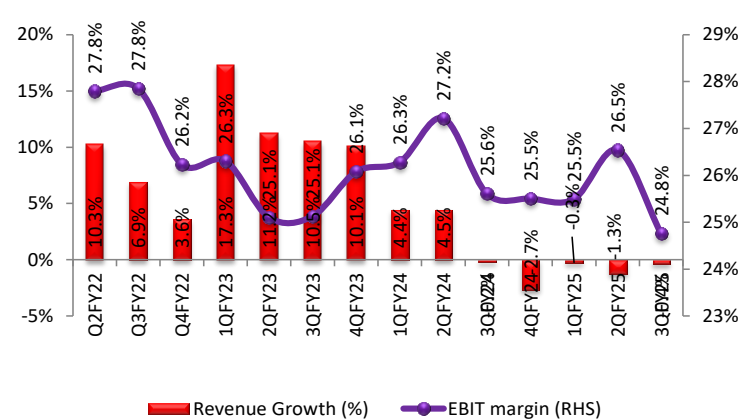
Source: Company, Systematix Institutional Research

Exhibit 10: Home care sees 5.4% growth, with high single digit volumes



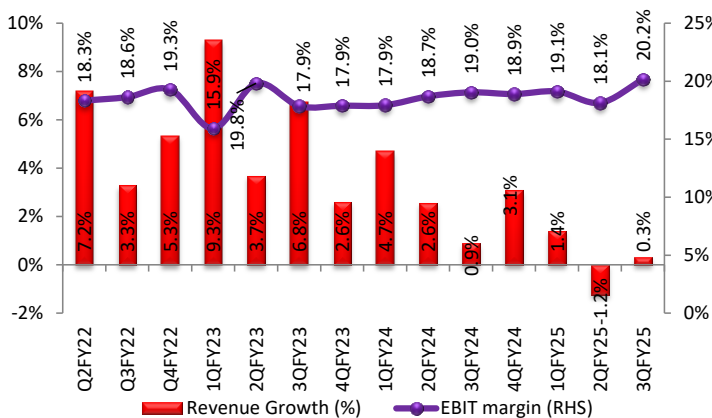
Source: Company, Systematix Institutional Research

Exhibit 11: B&W decline by 0.4%, volume at low single digit



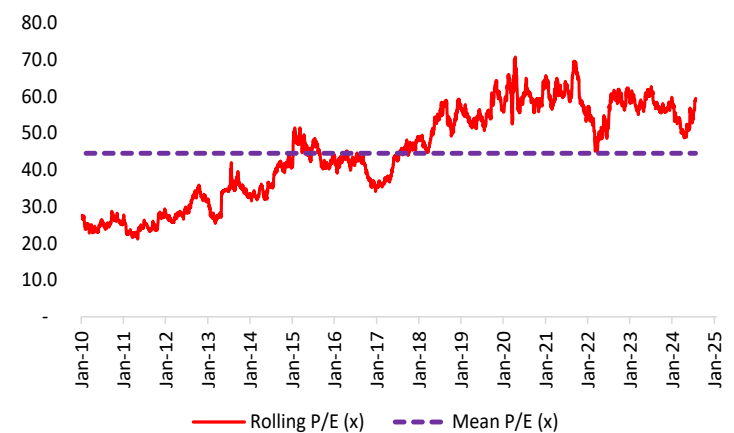
Source: Company, Systematix Institutional Research

Exhibit 12: F&R - volume decline mid single digit



Source: Company, Systematix Institutional Research

Exhibit 13: Currently trades at 48x 1-yr fwd P/E



Source: Bloomberg, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	6,05,800	6,18,960	6,32,682	6,89,712	7,48,904
RM Cost	2,01,370	1,92,460	1,98,662	2,13,466	2,28,041
Purchase of trad. Goods	1,15,790	1,05,140	1,07,556	1,17,251	1,27,314
Gross Profits	2,88,640	3,21,360	3,26,464	3,58,995	3,93,549
Employee costs	28,540	30,090	29,736	32,416	34,450
Selling & Admin costs	1,18,620	1,44,640	1,47,645	1,60,264	1,74,018
Total Expenses	4,64,320	4,72,330	4,83,599	5,23,397	5,63,823
EBITDA	1,41,480	1,46,630	1,49,083	1,66,315	1,85,082
Depreciation	11,370	12,160	13,520	14,397	15,115
Other income	5,120	8,110	9,570	10,527	11,579
EBIT	1,35,230	1,42,580	1,45,133	1,62,445	1,81,546
cost	1,140	3,340	4,275	4,703	5,173
PBT	1,34,090	1,39,240	1,40,857	1,57,742	1,76,373
Taxes	32,010	36,440	36,623	41,013	45,857
Share in JV/ MI	(10)	(40)	(250)	(190)	(190)
Adj. PAT	1,02,070	1,02,760	1,03,984	1,16,539	1,30,326
Extraordinaries/Exceptional	640	(60)	(4,430)	-	-
Reported PAT	1,01,430	1,02,820	1,08,414	1,16,539	1,30,326
No. of shares (mn)	2,350	2,350	2,350	2,350	2,350
Adj. EPS	43.4	43.7	44.2	49.6	55.5

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	1,33,460	1,39,260	1,40,857	1,57,742	1,76,373
Add: Depreciation	11,520	12,160	13,520	14,397	15,115
Add:	1,140	3,170	4,275	4,703	5,173
Less: taxes paid	(31,400)	(3,810)	(36,623)	(41,013)	(45,857)
Add: other adjustments	(5,230)	(4,820)	-	-	-
Less: WC changes	(9,580)	8,730	(15,299)	348	9,298
Total OCF	99,910	1,54,690	1,06,730	1,36,177	1,60,102
OCF w/o WC changes	1,09,490	1,45,960	1,22,030	1,35,828	1,50,804
Capital expenditure	(13,870)	(14,610)	(14,000)	(14,000)	(10,000)
Change in investments	(3,680)	(42,910)	-	-	-
/Dividend reced.	2,610	4,280	-	-	-
Total ICF	(14,940)	(53,240)	(14,000)	(14,000)	(10,000)
Free Cash Flows	86,040	1,40,080	92,730	1,22,177	1,50,102
Share issuances	-	-	-	-	-
Change in borrowings	-	-	-	-	-
Dividends	(84,740)	(94,160)	(97,573)	(1,04,885)	(1,17,294)
payment	(880)	(1,100)	(4,275)	(4,703)	(5,173)
Others	(3,910)	(5,080)	(3,932)	(8,701)	(9,825)
Total FCF	(89,530)	(1,00,340)	(1,05,780)	(1,18,289)	(1,32,291)
Net change in cash	(4,560)	1,110	(13,050)	3,888	17,811
Opening cash & CE	38,460	46,780	75,590	62,151	65,852
Closing cash & CE	46,780	75,590	62,151	65,852	80,003

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	2,350	2,350	2,350	2,350	2,350
Reserves and surplus	5,00,690	5,09,830	5,16,241	5,27,895	5,40,928
Net worth	5,03,040	5,12,180	5,18,591	5,30,245	5,43,278
Minority	2,180.0	2,050.0	2,050.0	2,050.0	2,050.0
Total Debt	-	-	-	-	-
Other LT liabilities	30,300	34,000	36,380	38,927	41,651
Total sources	5,35,520	5,48,230	5,57,021	5,71,222	5,86,979
Net Block	69,490	80,310	90,310	1,00,310	1,10,310
Intangible assets	4,57,290	4,57,130	4,53,270	4,53,271	4,53,271
Net deferred tax	(63,330)	(96,150)	(96,150)	(96,150)	(96,150)
Other assets	11,030	11,300	12,091	12,937	13,843
CWIP	11,320	10,250	10,250	10,250	10,250
Investments	28,130	45,600	45,600	45,600	45,600
Cash	46,780	75,590	62,151	65,852	80,003
Inventories	42,510	40,220	46,801	52,909	55,398
Debtors	30,790	29,970	32,934	37,792	38,984
Other current assets	21,790	21,880	23,005	26,505	27,364
Current Assets	95,090	92,070	1,02,740	1,17,207	1,21,747
Creditors	95,740	1,04,860	98,802	1,09,598	1,21,056
Other CL	24,540	23,010	24,438	28,458	30,838
Current Liabilities	1,20,280	1,27,870	1,23,241	1,38,056	1,51,894
Net Working Capital	(25,190)	(35,800)	(20,501)	(20,849)	(30,147)
Total Uses	5,35,520	5,48,230	5,57,021	5,71,221	5,86,979

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY23	FY24	FY25E	FY26E	FY27E
Yoy growth in Revenue	15.5	2.2	2.2	9.0	8.6
Yoy growth in EBITDA	10.0	3.6	1.7	11.6	11.3
Yoy growth in Net income	14.3	0.7	1.2	12.1	11.8
Effective tax rate	22.4	25.3	26.0	26.0	26.0
EBITDA margin	23.4	23.7	23.6	24.1	24.7
PAT margin	16.8	16.6	16.4	16.9	17.4
ROACE (pre-tax)	25.7	26.3	26.3	28.8	31.3
ROAE	20.5	20.3	20.2	22.3	24.3
Net debt to equity (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Inventory days	26	24	27	28	27
Debtors days	19	18	19	20	19
Payable days	58	62	57	58	59
NWC days	(14)	(20)	(11)	(10)	(13)
Per share numbers (Rs)					
Reported earnings	43.4	43.7	44.2	49.6	55.5
Dividend	39.0	42.0	41.5	44.6	49.9
Book Value	232.9	237.1	240.1	245.5	251.5
Valuations (x)					
Price to diluted earnings	53.9	53.5	52.9	47.2	42.2
EV / EBITDA	(0.3)	(0.5)	(0.4)	(0.4)	(0.4)
Price to sales	-	-	-	-	-

Source: Company, Systematix Institutional Research

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