

India

June 14, 2023 - 11:55 PM

ADD (no change)

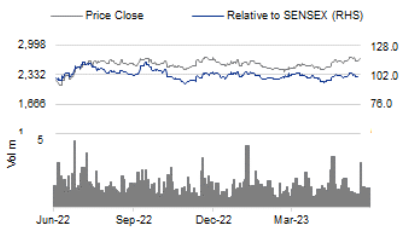
Consensus ratings*: Buy 36 Hold 6 Sell 2

| | |
|------------------------------|--------------|
| Current price: | Rs2,699 |
| Target price: | Rs2,720 |
| Previous target: | Rs2,720 |
| Up/downside: | 0.8% |
| InCred Research / Consensus: | -4.6% |
| Reuters: | HLL.NS |
| Bloomberg: | HUVR.IN |
| Market cap: | US\$77,229m |
| | Rs6,340,960m |
| Average daily turnover: | US\$45.2m |
| | Rs3713.9m |
| Current shares o/s: | 2,350.0m |
| Free float: | 38.1% |

*Source: Bloomberg

Key financial forecast

| | Mar-24F | Mar-25F |
|------------------|---------|---------|
| Net Profit (Rsm) | 111,318 | 127,848 |
| Core EPS (Rs) | 47.37 | 54.40 |
| Core EPS Growth | 11.7% | 14.8% |
| FD Core P/E | 56.97 | 49.61 |
| Recurring ROE | 21.6% | 23.7% |
| P/BV (x) | 12.03 | 11.54 |
| DPS (Rs) | 39.00 | 44.79 |
| Dividend Yield | 1.45% | 1.66% |



SOURCE: BLOOMBERG

| Price performance | 1M | 3M | 12M |
|-------------------|-----|------|------|
| Absolute (%) | 2.9 | 10.5 | 24.3 |
| Relative (%) | 1.4 | 0.6 | 3.3 |

| Major shareholders | % held |
|--------------------|--------|
| Unilever PLC | 61.9 |
| LIC | 4.0 |
| Blackrock Inc | 1.5 |

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Hindustan Unilever Ltd

1QFY24F preview: No positives

- We estimate volume/value growth of 4%/8% yoy, respectively, in 1QFY24F as pricing growth continues to taper off owing to the base effect and price cuts while the overall volume growth remains low.
- We estimate gross/EBITDA margin expansion of 120bp/70bp yoy to 49.9%/23.5%, respectively. We expect ad spending at 9.8% of sales, up 11.8% yoy.
- We estimate sales/EBITDA/PAT growth at 8%/9.4%/10.2% yoy, respectively.

Volume recovery expected in 2HFY24F; pricing growth tapers off

- While price cuts have been taken (completed in skin cleansing and are ongoing in fabric care products), the impact on consumption (volume recovery) is likely to be delayed. Primary sales are likely to be lower compared to secondary sales as the trade down-stocks (blackout to clear higher-priced inventory) and hence, benefits to the consumers accrue with a lag. Industry volume in rural areas (-3% in 4QFY23) is likely to improve sequentially (based on Apr 2023 data) while the monsoon remains a key variable.
- Commodity inflation has remained steady. Only the health food drinks (HFD) portfolio saw some price hikes owing to inflation in milk prices. The price-volume equation is likely to tilt towards volume in 2HFY24F as the overall market price growth is expected to be flat or negative by the end of FY24F.

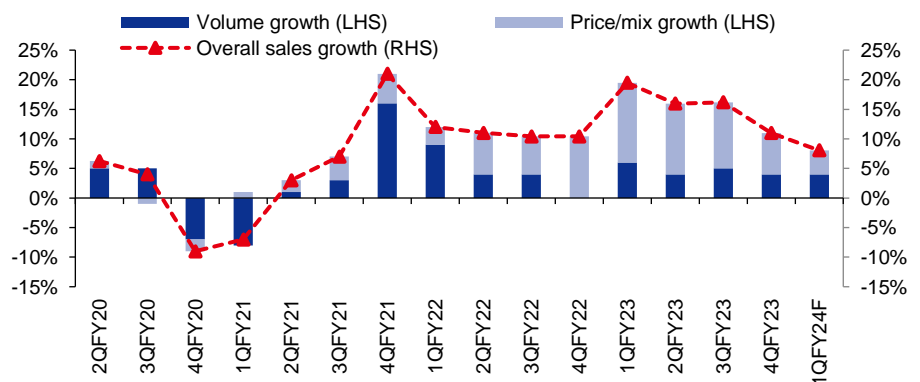
Outperformance vs. the industry to narrow down

- Hindustan Unilever (HUL) had a stellar performance in the home care segment in FY23 with significant value/volume market share gains. Management believes the outperformance (vis-a-vis peers) will narrow down as smaller players (impacted by higher and volatile input prices) make a comeback.
- Growth in the skin-cleansing portfolio will be largely volume-led while skin care and colour cosmetics will continue delivering a premiumization-led growth.
- Management maintained status quo in the tea and health food drinks (HFD) categories, with nothing much likely to change sequentially in 1QFY24F. HFD consumption remains under pressure due to milk price inflation and the gap between premium and loose tea is not expected to narrow until the new crop arrives.

Gross margin expansion to be offset by higher ad spending

- Sequential gross margin expansion is likely to continue, but management indicated that the pace of expansion (290bp gross margin or GM expansion from 2QFY23 to 4QFY23) will not sustain (over the next two quarters) as the benefit of lower prices has been passed on to the consumers. We estimate 255/120bp yoy/qq GM expansion to 49.8%.
- Advertisement intensity has increased across the industry and as HUL wants to maintain a higher share of voice (SOV) vs. the share of market (SOM), the sequential increase in advertisement spending (we estimate a 110bp qoq increase to 9.8% of sales) will negate the benefit from gross margin expansion.
- We estimate EBITDA growth at 9.4% yoy with margin expansion of 70bp/15bp yoy/qoq, respectively, to 23.5%. We estimate APAT growth at 10.2% yoy.

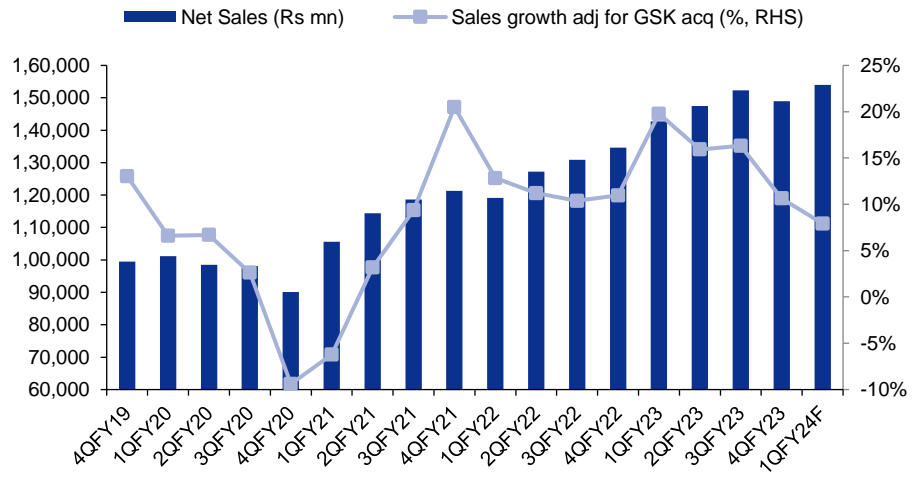
Figure 1: Volume growth not commensurate to offset tapering pricing growth



SOURCE: INCRED RESEARCH, COMPANY REPORTS

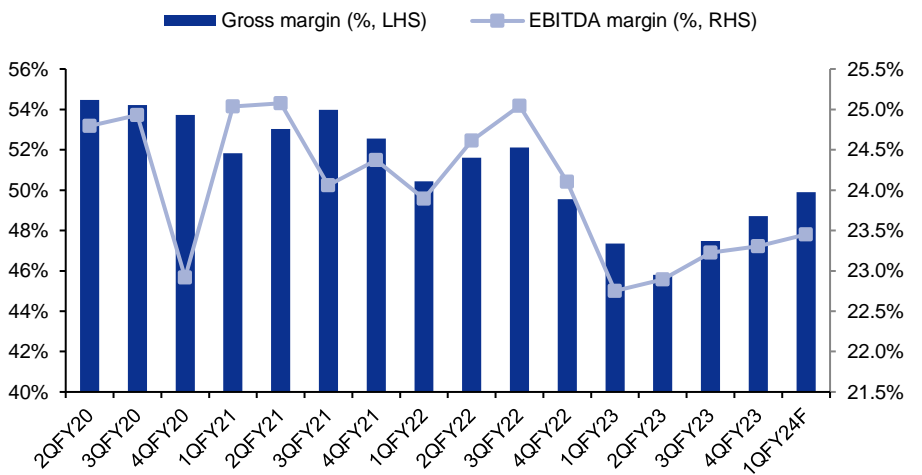
1QFY24F preview: No positives

Figure 2: Sales growth of 8% yoy expected in 1QFY24F



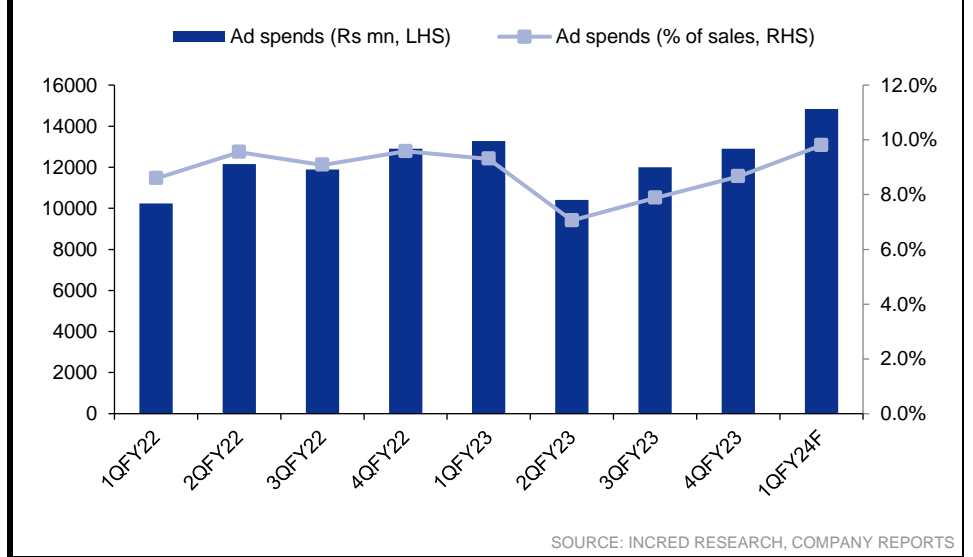
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Sequential increase of 120bp in gross margin will be negated by higher ad spending restricting EBITDA margin expansion to 70bp/15bp yoy/qoq, respectively, to 23.5%



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Advertisement expenses expected to inch up by 110bp qoq in 1QFY24F



Profit & Loss

| (Rs mn) | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|---|----------------|----------------|----------------|----------------|
| Total Net Revenues | 511,930 | 591,440 | 647,437 | 721,266 |
| Gross Profit | 260,690 | 280,183 | 324,838 | 378,470 |
| Operating EBITDA | 125,030 | 136,503 | 155,390 | 177,773 |
| Depreciation And Amortisation | (10,250) | (10,300) | (11,000) | (11,750) |
| Operating EBIT | 114,780 | 126,203 | 144,390 | 166,023 |
| Financial Income/(Expense) | 1,090 | 2,361 | 2,708 | 3,079 |
| Pretax Income/(Loss) from Assoc. | | | | |
| Non-Operating Income/(Expense) | 1,860 | 3,029 | 3,332 | 3,665 |
| Profit Before Tax (pre-EI) | 117,730 | 131,593 | 150,430 | 172,767 |
| Exceptional Items | (340) | (620) | | |
| Pre-tax Profit | 117,390 | 130,973 | 150,430 | 172,767 |
| Taxation | (29,210) | (31,170) | (39,112) | (44,920) |
| Exceptional Income - post-tax | | | | |
| Profit After Tax | 88,180 | 99,803 | 111,318 | 127,848 |
| Minority Interests | | | | |
| Preferred Dividends | | | | |
| FX Gain/(Loss) - post tax | | | | |
| Other Adjustments - post-tax | (340) | (620) | | |
| Net Profit | 87,840 | 99,183 | 111,318 | 127,848 |
| Recurring Net Profit | 88,095 | 99,655 | 111,318 | 127,848 |
| Fully Diluted Recurring Net Profit | 88,095 | 99,655 | 111,318 | 127,848 |

Balance Sheet

| (Rs mn) | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|--------------------------------------|----------------|----------------|----------------|----------------|
| Total Cash And Equivalents | 71,280 | 72,330 | 85,630 | 122,553 |
| Total Debtors | 19,320 | 27,350 | 22,268 | 24,823 |
| Inventories | 38,900 | 40,310 | 45,238 | 50,430 |
| Total Other Current Assets | 42,400 | 45,370 | 48,441 | 49,223 |
| Total Current Assets | 171,900 | 185,360 | 201,577 | 247,029 |
| Fixed Assets | 346,190 | 254,000 | 245,250 | 236,000 |
| Total Investments | 6,120 | 9,830 | 9,830 | 9,830 |
| Intangible Assets | 173,160 | 173,160 | 173,160 | 173,160 |
| Total Other Non-Current Assets | (61,410) | (63,250) | (63,250) | (63,250) |
| Total Non-current Assets | 464,060 | 373,740 | 364,990 | 355,740 |
| Short-term Debt | 2,850 | 2,930 | 2,930 | 2,930 |
| Current Portion of Long-Term Debt | | | | |
| Total Creditors | 119,780 | 125,260 | 113,845 | 125,748 |
| Other Current Liabilities | | | | |
| Total Current Liabilities | 122,630 | 128,190 | 116,775 | 128,678 |
| Total Long-term Debt | 6,860 | 7,460 | 7,460 | 7,460 |
| Hybrid Debt - Debt Component | | | | |
| Total Other Non-Current Liabilities | | | | |
| Total Non-current Liabilities | 6,860 | 7,460 | 7,460 | 7,460 |
| Total Provisions | 18,870 | 17,140 | 16,354 | 18,064 |
| Total Liabilities | 148,360 | 152,790 | 140,589 | 154,202 |
| Shareholders Equity | 487,610 | 502,210 | 527,181 | 549,770 |
| Minority Interests | | | | |
| Total Equity | 487,610 | 502,210 | 527,181 | 549,770 |

Cash Flow

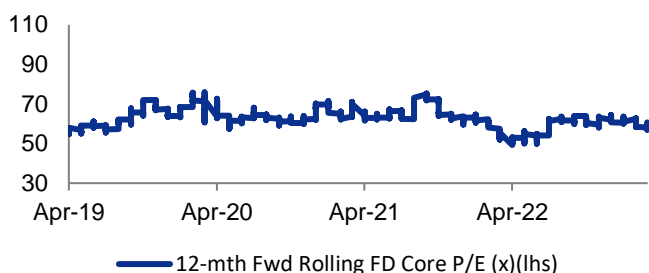
| (Rs mn) | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|----------------------------------|-----------------|-----------------|-----------------|------------------|
| EBITDA | 125,030 | 136,503 | 155,390 | 177,773 |
| Cash Flow from Invt. & Assoc. | | | | |
| Change In Working Capital | (8,000) | (8,660) | (15,118) | 5,084 |
| (Incr)/Decr in Total Provisions | | | | |
| Other Non-Cash (Income)/Expense | (340) | (620) | | |
| Other Operating Cashflow | 3,930 | 6,400 | 7,040 | 7,744 |
| Net Interest (Paid)/Received | (980) | (1,010) | (1,000) | (1,000) |
| Tax Paid | (29,210) | (31,170) | (39,112) | (44,920) |
| Cashflow From Operations | 90,430 | 101,443 | 107,200 | 144,682 |
| Capex | (13,100) | (14,010) | 93,650 | (2,500) |
| Disposals Of FAs/subsidiaries | | | | |
| Acq. Of Subsidiaries/investments | (11,270) | 3,280 | | |
| Other Investing Cashflow | | | | |
| Cash Flow From Investing | (24,370) | (10,730) | 93,650 | (2,500) |
| Debt Raised/(repaid) | | | | |
| Proceeds From Issue Of Shares | | | | |
| Shares Repurchased | | | | |
| Dividends Paid | (75,190) | (84,590) | (91,650) | (105,259) |
| Preferred Dividends | | | | |
| Other Financing Cashflow | 1,830 | 1,227 | 5,303 | |
| Cash Flow From Financing | (73,360) | (83,363) | (86,347) | (105,259) |
| Total Cash Generated | (7,300) | 7,350 | 114,503 | 36,923 |
| Free Cashflow To Equity | 66,060 | 90,713 | 200,850 | 142,182 |
| Free Cashflow To Firm | 67,040 | 91,723 | 201,850 | 143,182 |

Key Ratios

| | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|---------------------------|---------|---------|---------|---------|
| Revenue Growth | 11.3% | 15.5% | 9.5% | 11.4% |
| Operating EBITDA Growth | 10.4% | 9.2% | 13.8% | 14.4% |
| Operating EBITDA Margin | 24.4% | 23.1% | 24.0% | 24.6% |
| Net Cash Per Share (Rs) | 26.20 | 26.36 | 32.02 | 47.73 |
| BVPS (Rs) | 207.49 | 213.71 | 224.33 | 233.94 |
| Gross Interest Cover | 117.12 | 124.95 | 144.39 | 166.02 |
| Effective Tax Rate | 24.9% | 23.8% | 26.0% | 26.0% |
| Net Dividend Payout Ratio | 85.3% | 80.1% | 82.3% | 82.3% |
| Accounts Receivables Days | 12.76 | 14.40 | 13.99 | 11.92 |
| Inventory Days | 52.83 | 46.44 | 48.40 | 50.93 |
| Accounts Payables Days | 172.08 | 143.67 | 135.27 | 127.56 |
| ROIC (%) | 26.2% | 35.9% | 40.4% | 48.2% |
| ROCE (%) | 23.8% | 25.7% | 28.2% | 31.0% |
| Return On Average Assets | 13.9% | 16.3% | 19.3% | 21.3% |

12-mth Fwd Rolling FD Core P/E

(x)



Key Drivers

| | Mar-22A | Mar-23A | Mar-24F | Mar-25F |
|---------------------------------|---------|---------|---------|---------|
| Home Care growth % | 18.8% | 28.1% | 11.2% | 12.0% |
| Beauty & Personal Care Growth % | 7.9% | 12.2% | 9.5% | 10.5% |
| Food & Refreshments Growth % | 6.8% | 5.5% | 6.5% | 12.0% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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