

India

HOLD (no change)

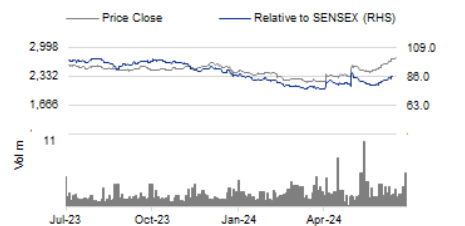
Consensus ratings*: Buy 25 Hold 12 Sell 5

Current price:	Rs2,766
Target price: ▲	Rs2,875
Previous target:	Rs2,400
Up/downside:	3.9%
InCred Research / Consensus:	11.2%
Reuters:	
Bloomberg:	HUVR IN
Market cap:	US\$89,510m Rs6,499,792m
Average daily turnover:	US\$75.8m Rs5502.9m
Current shares o/s:	2,350.0m
Free float:	38.1%

*Source: Bloomberg

Key changes in this note

- Introduce FY27F estimates
- Raise target price to Rs2,875 from Rs2,400.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	13.3	22.3	6.2
Relative (%)	9.0	12.3	(12.3)

Major shareholders	% held
Unilever PLC	61.9
LIC	5.2
Vanguard Group	1.6

Hindustan Unilever Ltd

Margins to remain range-bound in near term

- HUVR's net 1QFY25 revenue growth stood at +1.3% (our estimate at -0.6%) led by a 4% volume growth (our est. at 2%). Rural markets improved gradually.
- Home care/BPC/F&R posted 4.6%/flat/1.4% growth, respectively. Volume in F&R was flat while home care posted high-single digit volume growth in 1Q.
- Corrective action at mass-end of the portfolio & premiumization agenda to drive a gradual recovery. Retain HOLD rating with a higher TP of Rs2,875.

Volume growth better than expectations; mass end continues to drag

Hindustan Unilever (HUVR) posted a 4% underlying volume growth in 1QFY25, with sales growth at 1.3%. Price cuts were taken to the tune of 2.3% during the quarter, largely in the personal care and home care segments. Rural markets (c.40% salience) saw some green shoots towards the end of the quarter. The mass end of the portfolio continued to drag overall sales growth, while the premium range performed better. HUVR will sharpen its focus on premiumization (c.300bp improvement in mix over 3 years) to drive growth.

Steps up focus on both premium and mass segments

HUVR has been tackling demand weakness at both ends of its portfolio. At the premium end, it continues to launch products across segments under high growth avenues like face cleansing, sun care, moisturization, serums, body care and masstige categories and has launched a slew of products under these segments during the quarter. At the mass-end, it has stepped up its focus on driving product superiority led by relaunching brands with new/improved formulations. In terms of channels, the channels of the future (modern trade & e-commerce) have been supporting growth in urban markets while general trade channels continue to remain subdued. HUVR has launched Project Stratos, which replaces total fatty matter (TFM) in soap bars with a superior formulation that reduces its dependence on palm oil. This has been rolled out in Lux and Lifebuoy brands pan-India while Dove and Pears will not be pivoting to Stratos owing to differences in formulations.

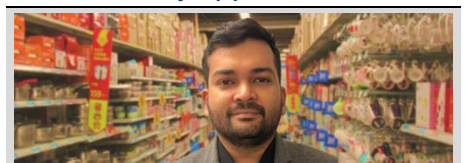
Margins expected to remain range-bound in near term

Gross margin expanded by 150bp yoy (down 40bp qoq) to 51.4% in 1QFY25. With the gap between net material inflation and price hikes narrowing, management expects low single-digit price hikes in FY25F. Ad spends are expected to remain elevated, keeping EBITDA margins range-bound. Any uptick in margins will be led by improvement in the sales mix.

Retain HOLD rating with higher target price of Rs2,875

We expect the demand scenario to remain subdued in the near term. Initiatives laid out to drive recovery in the mass and premium ends of the portfolio should aid a gradual recovery. We roll forward to 51x Sep 2026F EPS (from 46x earlier), reiterating our HOLD rating on HUVR with a higher target price of Rs2,875, (Rs2,400 earlier). Downside risk: Lower-than-expected sales growth. Upside risk: Faster recovery in the EBITDA margin.

Research Analyst(s)



Rohan KALLE
 T (91) 22 4161 1561
 E rohan.kalle@incredresearch.com
Nishant BAGRECHA
 T (91) 22 4161 1564
 E nishant.bagrecha@incredresearch.com
Saurabh SINGH
 T (91) 2241611558
 E saurabh.singh@incredresearch.com

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	591,440	604,690	654,422	714,852	783,731
Operating EBITDA (Rsm)	136,320	141,900	155,262	173,988	196,503
Net Profit (Rsm)	99,000	100,253	112,320	123,739	141,319
Core EPS (Rs)	42.3	42.9	47.8	52.7	60.1
Core EPS Growth	12.9%	1.4%	11.3%	10.2%	14.2%
FD Core P/E (x)	65.67	64.85	57.88	52.54	46.00
DPS (Rs)	34.0	39.0	42.9	47.3	54.0
Dividend Yield	1.23%	1.41%	1.55%	1.71%	1.95%
EV/EBITDA (x)	47.16	45.01	41.34	36.79	32.52
P/FCFE (x)	71.81	55.60	92.00	50.80	47.18
Net Gearing	(12.3%)	(20.3%)	(14.1%)	(16.9%)	(18.4%)
P/BV (x)	12.94	12.75	12.47	12.18	11.86
ROE	20.1%	19.9%	21.8%	23.5%	26.1%
% Change In Core EPS Estimates			0.71%	0.46%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Margins to remain range-bound in near term

Highlights from 1QFY25 earnings conference call

Demand and operating environment

- In the last two years, volume recovery for the industry has been gradual due to inflation and erratic monsoon. In the last few months, management has been witnessing some green shoots in rural markets (volume tonnage is improving gradually). Urban markets and e-commerce have been driving FMCG demand in the last few quarters.
- Commodity prices have been deflationary. Key commodities were range-bound during the quarter.
The premium segment continues to outperform the mass segment across the industry.

Distribution & strategy

- Gained a market share of c.200bp over Mar 2021 (on MAT basis). The last three months have been good.
- The value weighted distribution stood at 95% of the FMCG industry.
- Key strategic focus areas: 1) focus on product superiority (example: Vim relaunched with a new formulation in 1Q), 2) premiumization, 3) reshaping portfolio in high-growth spaces, and 4) taking a lead in the channels of future.
- Premium range contribution is up 300bp over the last three years.
- New launches in 1Q: Lakme launched its first skin care range (pioneer in make-up skincare), Dove expanded into new variants, and Bru launched new formats under 'Southern Trails' - venturing into coffee pods and easy pour formats. Hellmans launched new variants of sauces. Rin liquids were relaunched at attractive price points (top load + front load washing machine variants), Vaseline's first overnight serum/lotion was launched, and Lux relaunched body wash with new formulation & packaging.
- The new portfolio grew 20% in UVG and 50% on e-commerce channels.
- Modern trade (MT) market share was ahead of the general trade channel (Suncare sales were up 60% in MT). E-commerce remains a growth driver.
- Shikar (e-B2B) continues to scale up, with new app features and user interface.
- **Channel mix:** 70%/20%/10% for GT/channels of future (MT, e-com)/CSD respectively. Margins in MT are better than GT, largely led by higher premium salience in the MT channel. In top cities MT contribution is as high as 40-50% to sales in those regions.

Home care

- Sales growth of 4% with high single-digit volume growth.
- **Fabric Wash:** High single-digit volume growth. Broad-based growth across segments. Liquids continued to perform well.
- **Household Care:** Volumes grew in mid-single digits led by premium liquid dishwash portfolio.
- Both categories continue to have negative pricing growth, reflecting commodity deflation.
- Pureit disinvestment is in line with the company's strategy of focusing on core categories.

Beauty and well being

- **Hair care:** Strong quarter with double-digit volume growth led by Clinic Plus, Sunsilk and Dove. Large packs were doing well in the last few quarters, and in 1Q it was broad-based across brands & price points. The mass-end is expected to come back gradually. Premiumization play continues to remain resilient.
- **Skincare & colour cosmetics:** Muted performance led by decline in the mass portfolio (Glow & Lovely). The premium range continues to perform well.
- Competitive intensity is higher across price points. The focus remains on transforming portfolios into high-growth spaces (suncare, serums, etc), which has aided growth.

Personal care

- **Oral care:** It posted mid-single digit growth led by pricing growth. Close Up was relaunched with a new formulation (and higher pricing). Volume is expected to come back in strong markets in the near term. Pepsodent will focus on regaining volume in South India.
- **Skin cleansing:** It posted low single-digit volume growth. Body wash maintained its strong competitive growth momentum.
- **Project Stratos:** Soap bars have total fatty matter (TFM) to give structure. Only 25% of TFM in a bar is soluble and required for lathering properties. The remaining 75% is insoluble, just to give structure. Stratos is the first of its kind (patented) - took five years to develop. Now non-functional TFM will be reduced in soaps. Products are now more superior than earlier with lesser palm oil.
 - Lux and Lifebuoy have been rolled out with this technology after extensive testing. Management is confident that this technology is superior than that of its competitors. The formulation of Dove & Pears is different from Lux & Lifebuoy and hence, Stratos won't be rolled out for these brands.
 - India is the first market where Unilever is testing this product, and it will be rolled out in other markets as well.
 - With this change, some raw materials can be locally sourced as compared to palm oil, which will aid in reducing impact of volatility in palm oil prices.

Foods and refreshments

- **Beverages:** Tea sales were impacted by heatwave and continued downgrading at the mass-end. The premium portfolio is performing well. Coffee grew in double digits, led by pricing.
- **Health Food Drinks:** They registered a subdued performance, but the market share continued to improve. White spaces in North & West India will be explored in the future.
- **Foods:** Low single-digit volume growth. Food solutions, mayonnaise, peanut butter and international sauces continued to gain traction.
- **Ice-cream:** Double-digit volume growth led by innovations, execution and product launches.

Input costs and margins

- Crude oil prices are up 10% yoy (on a deflated base), soda ash down 15%, palm oil flat, skimmed milk powder down 15% yoy and tea prices up 15% yoy.
- Net material inflation or NMI: Since 1QFY24, NMI has been deflationary and hence, limited scope to hike prices. The gap between NMI and price growth is now diminishing. Management is expecting low single-digit price hike in FY25F.
- The tax rate for FY25F is expected to be marginally higher than 26%.
- Employee costs and other expenses are expected to remain at a similar level, as a percentage of sales, in the near term.

Outlook

- FMCG and rural demand is expected to improve gradually.
The EBITDA margin is expected to remain at a similar level in the near term.
Margin expansion will be led by improvement in the sales mix going ahead.

Figure 1: Quarterly results summary - standalone

Y/E Mar (Rs. m)	1QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)	FY23	FY24	Gr (%)
Revenue	1,51,480	1,48,570	1,53,390	1.3	3.2	5,91,440	6,04,690	2.2
Expenditure	1,16,270	1,14,220	1,17,330	0.9	2.7	4,55,120	4,62,790	1.7
Consumption of raw materials	75,880	71,510	74,480	-1.8	4.2	3,11,440	2,93,270	-5.8
as % of sales	50.1	48.1	48.6			52.7	48.5	
Employee costs	6,510	7,740	6,020	-7.5	-22.2	26,650	27,820	4.4
as % of sales	4.3	5.2	3.9			4.5	4.6	-0.37
Advertising & promotion expenses	14,810	15,860	16,440	11.0	3.7	48,590	63,800	31.3
as % of sales	9.8	10.7	10.7			8.2	10.6	0.94
Other expenditure	19,070	19,110	20,390	6.9	6.7	68,440	77,900	13.8
as % of sales	12.6	12.9	13.3			11.6	12.9	0.70
EBITDA	35,210	34,350	36,060	2.4	5.0	1,36,320	1,41,900	4.1
Depreciation	2,570	2,890	2,980	16.0	3.1	10,300	10,970	6.5
EBIT	32,640	31,460	33,080	1.3	5.1	1,26,020	1,30,930	3.9
Other income	1,850	2,200	2,570	38.9	16.8	6,400	9,730	52.0
Interest	470	1,020	850	80.9	-16.7	1,010	3,020	199.0
PBT	34,020	32,640	34,800	2.3	6.6	1,31,410	1,37,640	4.7
Total tax	8,930	8,410	8,940	0.1	6.3	31,170	35,610	14.2
APAT	25,090	24,230	25,860	3.1	6.7	1,00,240	1,02,030	1.8
Extraordinary items	-370	-170	-480	NA	NA	-620	-890	NA
Reported PAT	24,720	24,060	25,380	2.7	5.5	99,620	1,01,140	1.5
EPS	10.5	10.2	10.8	2.7	5.5	42.4	43.0	1.5
Margins (%)	1QFY24	4QFY24	1QFY25	(bp)	(bp)	FY23	FY24	(bp)
Gross Margin	49.9	51.9	51.4	150	-40	47.3	51.5	420
EBITDA	23.2	23.1	23.5	30	40	23.0	23.5	40
EBIT	21.5	21.2	21.6	0	40	21.3	21.7	30
EBT	22.5	22.0	22.7	20	70	22.2	22.8	50
PAT	16.6	16.3	16.9	30	60	16.9	16.9	-10
Effective tax rate	26.2	25.8	25.7	-60	-10	23.7	25.9	220

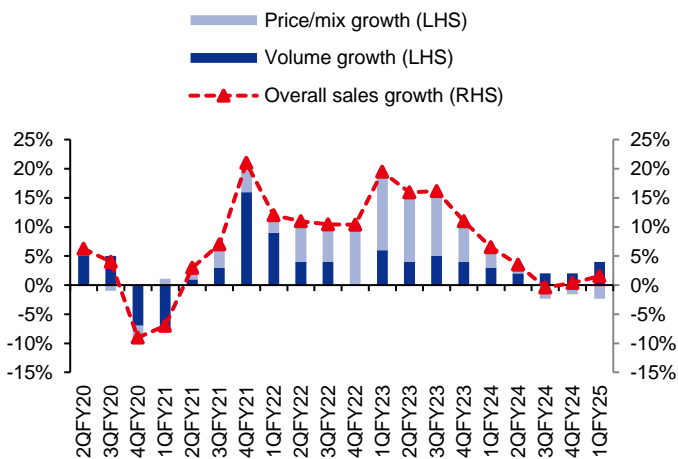
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Segmental breakup - standalone

Y/E Mar (Rs. m)	1QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)	FY23	FY24	Gr (%)
Segment Revenue								
Home Care	54,250	57,150	56,750	4.6	-0.7	2,12,300	2,19,000	3.2
Beauty & Personal Care	56,010	50,500	55,850	-0.3	10.6	2,18,310	2,21,650	1.5
Foods & Refreshments	37,970	39,112	38,500	1.4	-1.6	1,48,760	1,52,920	2.8
Others	3,250	1,810	2,290	-29.5	26.5	12,070	11,120	(7.9)
Total	1,51,480	1,48,572	1,53,390	1.3	3.2	5,91,440	6,04,690	2.2
Segment Results								
Home Care	9,910	10,810	11,090	11.9	2.6	38,750	40,330	4.1
Beauty & Personal Care	14,720	12,880	14,240	-3.3	10.6	55,970	58,020	3.7
Foods & Refreshments	6,810	7,390	7,360	8.1	-0.4	26,620	28,510	7.1
Others	1,200	380	390	-67.5	2.6	4,680	4,070	(13.0)
Total	32,640	31,460	33,080	1.3	5.1	1,26,020	1,30,930	3.9
Add- Unall. income / (expenses)	1,850	2,200	2,570	38.9	16.8	6,400	9,730	52.0
Less- Interest expenses	-470	-1,020	-850	80.9	-16.7	-1,010	-3,020	199.0
Less- Exceptional items	-370	-170	-480	NA	NA	-620	-890	NA
PBT	33,650	32,470	34,320	2.0	5.7	1,30,790	1,36,750	4.6
Segment-wise EBIT Margin (%)				(bp)	(bp)			(bp)
Home Care	18.3	18.9	19.5	130	60	18.3	18.4	20
Beauty & Personal Care	26.3	25.5	25.5	-80	0	25.6	26.2	50
Foods & Refreshments	17.9	18.9	19.1	120	20	17.9	18.6	70
Others	36.9	21.0	17.0	-1,990	-400	38.8	36.6	-220
Average	21.5	21.2	21.6	0	40	21.3	21.7	30

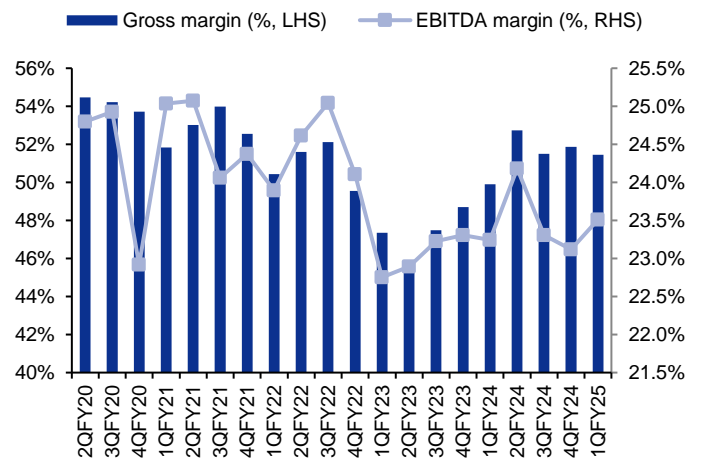
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Volume growth stood at 4% in 1QFY25



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Gross margin expanded 150bp yoy to 51.4%



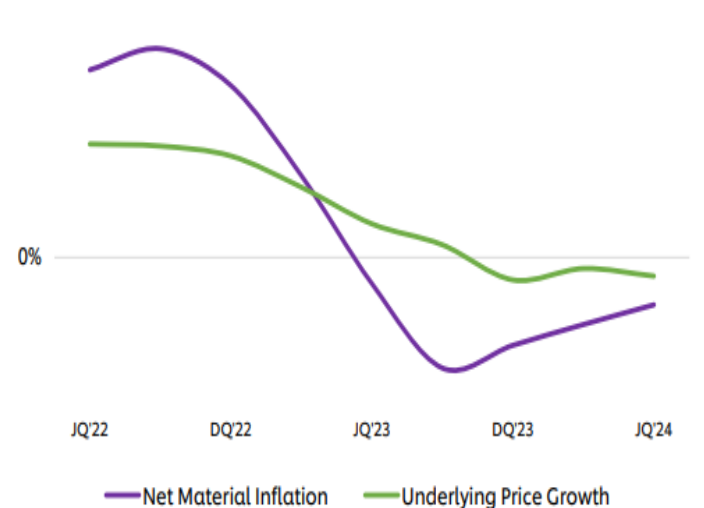
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Commodity prices remain benign on a deflationary base

	JQ'24 Inflation	
	vs. JQ'23	vs. JQ'22
Crude Oil (Brent USD/bbl)	10%	-25%
Soda Ash (INR/ton)	-15%	-15%
Palm Oil (BMD CPO USD/MT)	0%	-45%
Skimmed Milk Powder (INR/kg)	-15%	-10%
Tea (INR/kg)	15%	10%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Gap between net material inflation and price growth narrowing



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Project Stratos rolled out for Lux and Lifebuoy brands

Proprietary technology innovated over 5 years, 20+ patents filed



Re-formulated with added plant derived polysaccharides, vitamin blends, skin care actives and enhanced fragrance

Clinically and Consumer proven superior functional benefits

- ✓ Boosts Skin Barrier and Milder
- ✓ Superior Skin Glow and Even Tone
- ✓ More Efficacious Germ Protection

Winning in consumer blind tests, Proven in independent clinical studies and lab tests

Combining sustainable Palm while reducing wastage of Palm by up to 25%



100% No Deforestation, No Peat (NDP) Palm, Reduced commodity volatility, Reduced imports and Reduced greenhouse gases

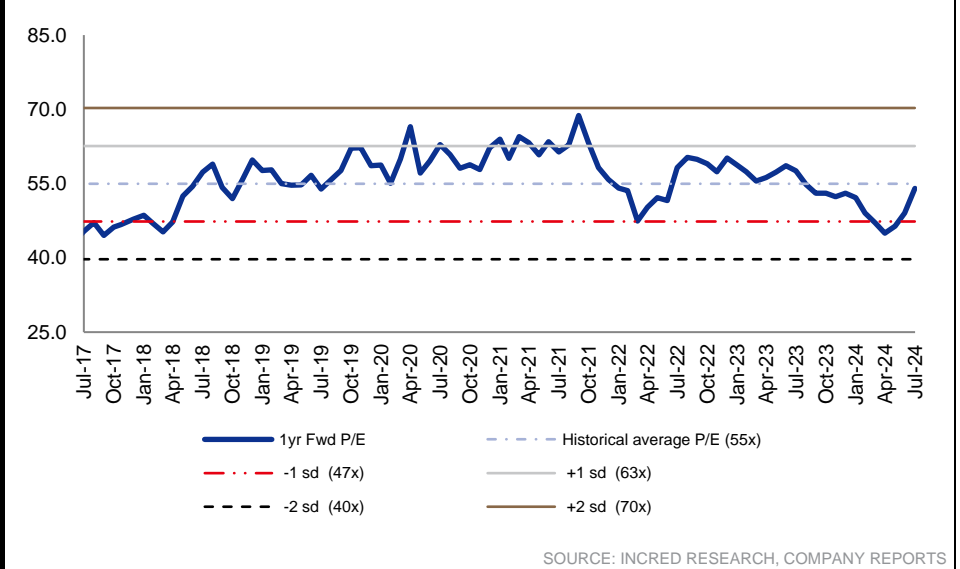
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Our revised earnings estimates

Y/E Mar (Rs m)	FY25F			FY26F			FY27F
	Earlier	Revised	% Change	Earlier	Revised	% Change	Introduced
Net Sales	6,54,422	6,54,422	-	7,19,379	7,14,852	(0.6)	7,83,731
EBITDA	1,54,205	1,55,262	0.7	1,73,221	1,73,988	0.4	1,96,503
EBITDA Margin (%)	23.6	23.7	20 bp	24.1	24.3	30 bp	25.1
APAT	1,11,532	1,12,320	0.7	1,23,168	1,23,739	0.5	1,41,319
EPS (Rs)	47.5	47.8	0.7	52.4	52.7	0.5	60.1

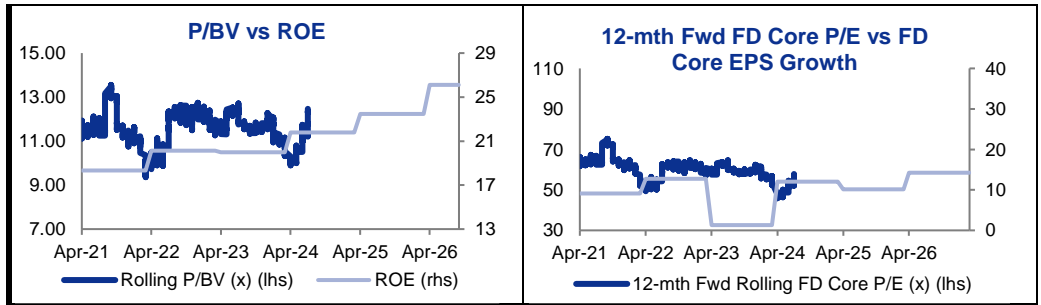
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: HUVR's one-year forward P/E trades at its historical average



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	591,440	604,690	654,422	714,852	783,731
Gross Profit	280,000	311,420	345,540	383,166	427,140
Operating EBITDA	136,320	141,900	155,262	173,988	196,503
Depreciation And Amortisation	(10,300)	(10,970)	(11,000)	(15,000)	(15,000)
Operating EBIT	126,020	130,930	144,262	158,988	181,503
Financial Income/(Expense)	3,240	2,490	2,061	2,667	3,334
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,150	4,223	4,645	5,110	5,621
Profit Before Tax (pre-EI)	131,410	137,643	150,968	166,765	190,457
Exceptional Items	(620)	(890)			
Pre-tax Profit	130,790	136,753	150,968	166,765	190,457
Taxation	(31,170)	(35,610)	(38,648)	(43,025)	(49,138)
Exceptional Income - post-tax					
Profit After Tax	99,620	101,143	112,320	123,739	141,319
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(620)	(890)			
Net Profit	99,000	100,253	112,320	123,739	141,319
Recurring Net Profit	99,472	100,911	112,320	123,739	141,319
Fully Diluted Recurring Net Profit	99,472	100,911	112,320	123,739	141,319

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	136,320	141,900	155,262	173,988	196,503
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(8,660)	42,650	(40,156)	1,731	(6,023)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(620)	(890)			
Other Operating Cashflow	6,400	9,733	10,706	11,777	12,955
Net Interest (Paid)/Received	(1,010)	(3,020)	(4,000)	(4,000)	(4,000)
Tax Paid	(31,170)	(35,610)	(38,648)	(43,025)	(49,138)
Cashflow From Operations	101,260	154,763	83,164	140,470	150,296
Capex	(14,010)	(20,850)	(12,500)	(12,500)	(12,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	3,280	(16,990)			
Other Investing Cashflow					
Cash Flow From Investing	(10,730)	(37,840)	(12,500)	(12,500)	(12,500)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(84,590)	(93,980)	(100,890)	(111,148)	(126,938)
Preferred Dividends					
Other Financing Cashflow	1,420	1,647			
Cash Flow From Financing	(83,170)	(92,333)	(100,890)	(111,148)	(126,938)
Total Cash Generated	7,360	24,590	(30,227)	16,823	10,858
Free Cashflow To Equity	90,530	116,923	70,664	127,970	137,796
Free Cashflow To Firm	91,540	119,943	74,664	131,970	141,796

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	72,330	117,260	87,833	112,206	123,864
Total Debtors	27,350	26,900	27,916	30,889	34,936
Inventories	40,310	38,120	33,570	38,612	52,933
Total Other Current Assets	45,370	45,710	44,954	45,281	45,655
Total Current Assets	185,360	227,990	194,273	226,988	257,389
Fixed Assets	349,900	359,780	361,280	358,780	356,280
Total Investments	9,830	9,830	9,830	9,830	9,830
Intangible Assets	173,160	173,160	173,160	173,160	173,160
Total Other Non-Current Assets	(63,250)	(64,540)	(64,540)	(64,540)	(64,540)
Total Non-current Assets	469,640	478,230	479,730	477,230	474,730
Short-term Debt	2,930	3,400	3,400	3,400	3,400
Current Portion of Long-Term Debt					
Total Creditors	125,260	163,950	121,713	130,400	141,578
Other Current Liabilities					
Total Current Liabilities	128,190	167,350	125,113	133,800	144,978
Total Long-term Debt	7,460	10,340	11,140	18,690	19,490
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	7,460	10,340	11,140	18,690	19,490
Total Provisions	17,140	18,800	16,590	17,977	19,518
Total Liabilities	152,790	196,490	152,844	170,467	183,986
Shareholders Equity	502,210	509,730	521,160	533,752	548,133
Minority Interests					
Total Equity	502,210	509,730	521,160	533,752	548,133

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	15.5%	2.2%	8.2%	9.2%	9.6%
Operating EBITDA Growth	9.0%	4.1%	9.4%	12.1%	12.9%
Operating EBITDA Margin	23.0%	23.5%	23.7%	24.3%	25.1%
Net Cash Per Share (Rs)	26.36	44.05	31.19	38.35	42.97
BVPS (Rs)	213.71	216.91	221.77	227.13	233.25
Gross Interest Cover	124.77	43.35	36.07	39.75	45.38
Effective Tax Rate	23.8%	26.0%	25.6%	25.8%	25.8%
Net Dividend Payout Ratio	80.2%	90.6%	89.8%	89.8%	89.8%
Accounts Receivables Days	14.40	16.37	15.29	15.01	15.33
Inventory Days	46.42	48.81	42.36	39.72	46.85
Accounts Payables Days	143.59	179.97	168.78	138.72	139.20
ROIC (%)	28.2%	31.5%	31.7%	35.2%	39.7%
ROCE (%)	25.8%	26.3%	28.4%	30.4%	33.5%
Return On Average Assets	14.9%	14.5%	16.0%	17.6%	19.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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