

India

March 15, 2023 - 8:17 AM

ADD (no change)

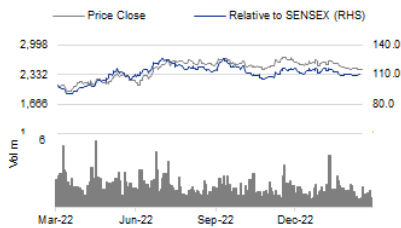
Consensus ratings*: Buy 34 Hold 8 Sell 2

Current price:	Rs2,442
Target price:	Rs2,850
Previous target:	Rs2,850
Up/downside:	16.7%
InCred Research / Consensus:	-1.9%
Reuters:	HLL.NS
Bloomberg:	HUVR IN
Market cap:	US\$69,568m
	Rs5,738,759m
Average daily turnover:	US\$47.6m
	Rs3927.5m
Current shares o/s:	2,350.0m
Free float:	38.1%

*Source: Bloomberg

Key financial forecast

	Mar-23F	Mar-24F	Mar-25F
Net Profit (Rsm)	101,141	114,878	129,591
Core EPS (Rs)	43.04	48.88	55.15
Core EPS Growth	14.8%	13.6%	12.8%
FD Core P/E	56.75	49.96	44.29
Recurring ROE	20.7%	23.5%	26.5%
P/BV (x)	11.76	11.74	11.72
DPS (Rs)	36.56	41.53	46.85
Dividend Yield	1.75%	1.99%	2.24%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	(5.3)	(9.0)	18.6
Relative (%)	0.2	(2.9)	14.3

Major shareholders	% held
Unilever PLC	61.9
Vanguard Group	1.5
Blackrock Inc	1.3

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4QFY23F preview: No demand cheer

- Volume growth continues to remain subdued while pricing growth tapers off (base effect and price cuts in skin-cleansing products). We estimate volume/value growth at 5%/11%, respectively, in 4QFY23F.
- We estimate 45bp/25bp yoy gross/EBITDA margin contraction to 49.1%/23.9%, respectively. We estimate ad spending at 9.3% of sales (vs. 7.1%/7.9% in 2Q/3Q), up 7.6% yoy, and royalty to increase by 30bp yoy.
- We estimate sales/EBITDA/APAT growth at 11%/9.7%/10.8% yoy, respectively.

Volume growth not enough to offset tapering price growth

- Despite the worst of inflation now behind (no sequential inflation), overall FMCG demand is still reeling under pressure as consumer prices have remained largely similar. The volume decline in Jan 2023 is at par with Nov-Dec 2022 levels. Our volume growth assumption of 5% translates to a 2.5% two-year CAGR.
- Pricing growth to taper off due to 1) price cuts in the skin-cleansing portfolio (*lower palm oil prices*), and 2) pricing now reflecting in the base quarter. Incremental price hikes (*higher milk and cereal prices*) are taken only in the health food drinks (HFD) portfolio. We expect the combination of these factors to lead to a pricing growth of 6% in 4QFY23F vs. 12%/11% in 2Q/3Q, respectively. As a result, overall sales growth on a two-year CAGR basis is expected to decelerate to 10.9% in 4QFY23F vs. 13.5%/13.3% in 2Q/3Q, respectively.

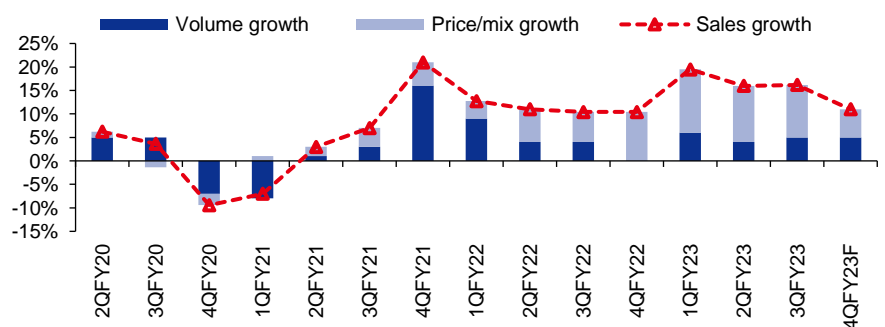
Home care segment may continue to lead sales growth

- Market share gains in the home care segment continue while the growth rate is expected to taper off (from 30-34% during 1Q-3QFY23) as pricing actions get reflected in the base while the growth will be largely volume-driven.
- The beauty and personal care category's growth will be impacted by 1) slowdown in discretionary spending, and 2) volume not equally compensating for price cuts in soaps.
- In the food & beverage segment, HFD is expected to witness some pressure owing to price inflation. The ice-cream business, which performed well over the last few quarters, is expected to perform well due to early onset of the summer season. Trends in the tea business remain similar to 3Q, with volume growth negated by pricing.

Margins to recover sequentially while being lower on yoy basis

- With net material inflation (NMI) coming down, the gross margin contraction (on a yoy basis) is expected to narrow as the price vs. cost gap gets smaller. We estimate gross margin to contract by 45bp yoy (up 160bp qoq) to 49.1%.
- With a recovery in gross margin, ad spending is likely to inch up in 4QFY23F. We expect ad spending at 9.3% of sales (vs. 7.1%/7.9% in 2Q/3Q, respectively), up 7.6% yoy.
- Royalty in 4QFY23F is likely to be higher by 30bp yoy (45bp increase from Feb 2023).
- We estimate EBITDA growth at 9.7% yoy with margin contraction of 25bp yoy to 23.9% (up 60bp qoq). We estimate APAT growth at 10.8% yoy.

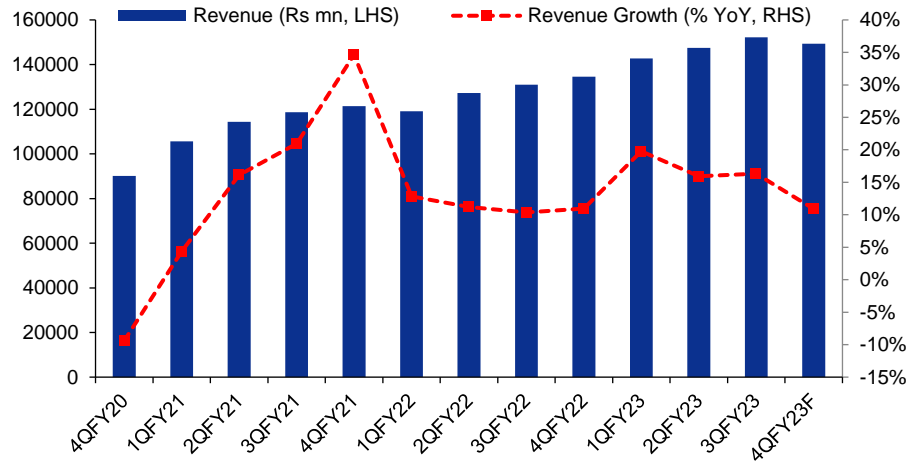
Figure 1: Tapering pricing growth is expected to drag overall sales growth



SOURCE: INCRED RESEARCH, COMPANY REPORTS

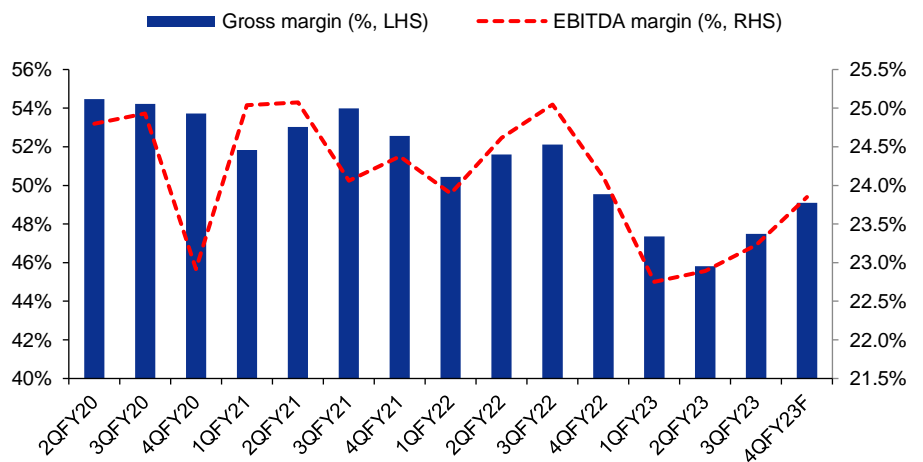
4QFY23F preview: No demand cheer

Figure 2: Sales growth to decelerate on a yoy basis



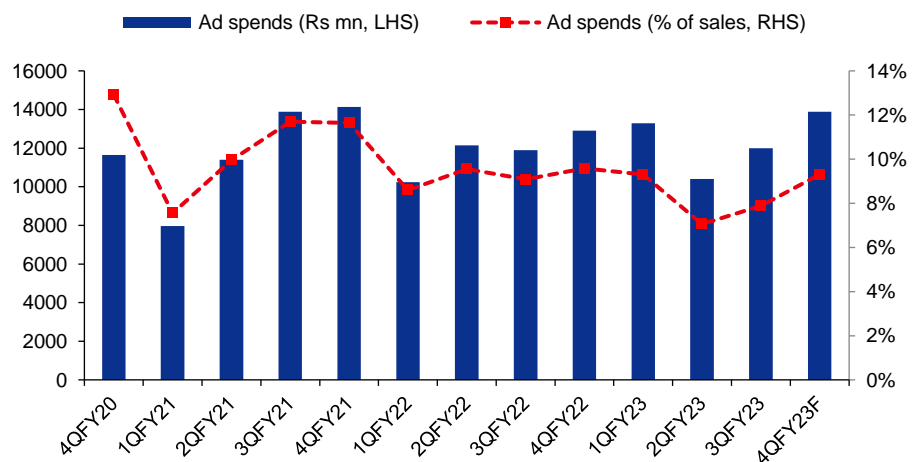
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Margins likely to recover sequentially



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Advertisement spending is expected to inch up with a recovery in gross margin



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Profit & Loss

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	511,930	588,955	656,232	733,477
Gross Profit	260,690	279,006	326,626	369,474
Operating EBITDA	125,030	137,434	159,490	179,347
Depreciation And Amortisation	(10,250)	(10,400)	(11,000)	(11,750)
Operating EBIT	114,780	127,034	148,490	167,597
Financial Income/(Expense)	1,090	4,000	4,500	5,050
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	1,860	2,046	2,251	2,476
Profit Before Tax (pre-EI)	117,730	133,080	155,240	175,123
Exceptional Items	(340)			
Pre-tax Profit	117,390	133,080	155,240	175,123
Taxation	(29,210)	(31,939)	(40,362)	(45,532)
Exceptional Income - post-tax				
Profit After Tax	88,180	101,141	114,878	129,591
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax	(340)			
Net Profit	87,840	101,141	114,878	129,591
Recurring Net Profit	88,095	101,141	114,878	129,591
Fully Diluted Recurring Net Profit	88,095	101,141	114,878	129,591

Balance Sheet

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	71,280	57,429	71,065	87,351
Total Debtors	19,320	20,273	22,603	25,279
Inventories	38,900	41,185	45,919	51,357
Total Other Current Assets	42,400	42,851	43,563	44,382
Total Current Assets	171,900	161,738	183,149	208,369
Fixed Assets	346,190	337,790	329,040	319,790
Total Investments	6,120	6,120	6,120	6,120
Intangible Assets	173,160	173,160	173,160	173,160
Total Other Non-Current Assets	(61,410)	(61,410)	(61,410)	(61,410)
Total Non-current Assets	464,060	455,660	446,910	437,660
Short-term Debt	2,850	2,850	2,850	2,850
Current Portion of Long-Term Debt				
Total Creditors	119,780	104,468	114,931	128,209
Other Current Liabilities				
Total Current Liabilities	122,630	107,318	117,781	131,059
Total Long-term Debt	6,860	6,860	6,860	6,860
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities				
Total Non-current Liabilities	6,860	6,860	6,860	6,860
Total Provisions	18,870	15,007	16,510	18,417
Total Liabilities	148,360	129,185	141,151	156,336
Shareholders Equity	487,610	488,222	488,918	489,703
Minority Interests				
Total Equity	487,610	488,222	488,918	489,703

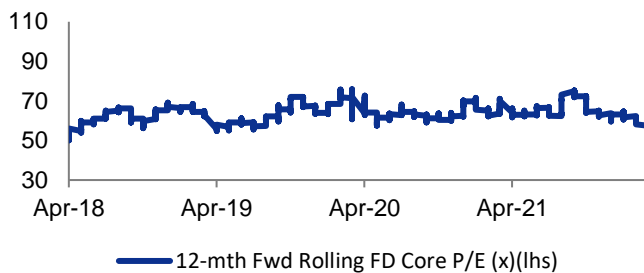
Cash Flow

(Rs mn)	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	125,030	137,434	159,490	179,347
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(8,000)	(22,863)	4,190	6,251
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	(340)			
Other Operating Cashflow	3,930	7,046	7,751	8,526
Net Interest (Paid)/Received	(980)	(1,000)	(1,000)	(1,000)
Tax Paid	(29,210)	(31,939)	(40,362)	(45,532)
Cashflow From Operations	90,430	88,678	130,068	147,592
Capex	(13,100)	(2,000)	(2,250)	(2,500)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments	(11,270)			
Other Investing Cashflow				
Cash Flow From Investing	(24,370)	(2,000)	(2,250)	(2,500)
Debt Raised/(repaid)				
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(75,190)	(100,529)	(114,182)	(128,806)
Preferred Dividends				
Other Financing Cashflow	1,830			
Cash Flow From Financing	(73,360)	(100,529)	(114,182)	(128,806)
Total Cash Generated	(7,300)	(13,851)	13,636	16,286
Free Cashflow To Equity	66,060	86,678	127,818	145,092
Free Cashflow To Firm	67,040	87,678	128,818	146,092

Key Ratios

	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	11.1%	15.2%	11.5%	11.8%
Operating EBITDA Growth	10.4%	9.9%	16.0%	12.5%
Operating EBITDA Margin	24.8%	23.7%	24.7%	24.8%
Net Cash Per Share (Rs)	26.20	20.31	26.11	33.04
BVPS (Rs)	207.49	207.75	208.05	208.38
Gross Interest Cover	117.12	127.03	148.49	167.60
Effective Tax Rate	24.9%	24.0%	26.0%	26.0%
Net Dividend Payout Ratio	85.3%	99.4%	99.4%	99.4%
Accounts Receivables Days	12.76	12.27	11.92	11.91
Inventory Days	52.83	47.15	48.23	48.77
Accounts Payables Days	172.08	132.04	121.48	121.90
ROIC (%)	26.2%	28.3%	33.9%	39.5%
ROCE (%)	23.8%	26.5%	30.9%	34.8%
Return On Average Assets	13.9%	15.5%	17.7%	19.5%

12-mth Fwd Rolling FD Core P/E (x)



Key Drivers

	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Sale growth	11.3%	15.0%	11.4%	11.8%
EBIDTA margins	24.4%	23.3%	24.3%	24.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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