



India

HOLD (previously ADD)

Consensus ratings*: Buy 35 Hold 7 Sell 2

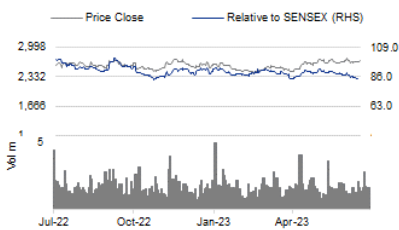
Current price: Rs2,703
 Target price: ▼ Rs2,700
 Previous target: Rs2,720
 Up/downside: -0.1%
 InCred Research / Consensus: -6.2%

Reuters:
 Bloomberg: HUVR IN
 Market cap: US\$87,469m
 Rs6,351,533m
 Average daily turnover: US\$52.5m
 Rs3811.0m
 Current shares o/s: 2,350.0m
 Free float: 38.1%

*Source: Bloomberg

Key changes in this note

- Downgrade to HOLD rating (from ADD earlier).
- Lower FY24F/25F sales by 1.8%/1.5%.



Source: Bloomberg

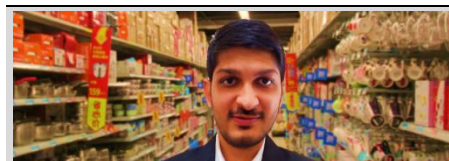
Price performance	1M	3M	12M
Absolute (%)	1.0	8.5	3.8
Relative (%)	(5.0)	(4.3)	(14.5)

Major shareholders	% held
Unilever PLC	61.9
LIC	4.0
SBI	1.6

Brokers Poll 2023

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InCred Research

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Hindustan Unilever Ltd

Soft quarter; rich valuation limits upside

- HUVR's 1Q sales/EBITDA/APAT grew by 6.5%/8.4%/9% below our estimates by 2-3%. Volume growth stood at 3%. Pricing is likely to be flat in 2QFY24F.
- The EBITDA margin was flat on a qoq basis as the benefits from gross margin expansion (up 120bp qoq) were invested in ad spending (up 110bp qoq).
- Gradual volume recovery with limited margin expansion at current valuation caps the upside. Downgrade to HOLD with a lower target price of Rs2,700.

Gradual volume recovery with flat pricing growth

Hindustan Unilever (HUVR) posted 1QFY24 net revenue growth of 6.1% yoy to Rs151.4bn, 2% below our estimate. Pricing growth tapered to 3.4% (vs. 11%/7% in 3Q/4QFY23, respectively) while volume growth was stagnant at 3% (c. 4% in 3Q-4QFY23). As per Nielsen data, industry volume growth (2%/5% for rural/overall) is on a low base (-6%/-10%). On a 2-year CAGR basis, rural/overall volume was -4%/flat, respectively. Based on past anecdotes, consumption level (volume) recovers two-to-three quarters after commodity prices cool off, leading to management's guidance of a gradual volume recovery. Lower inflation pressure & continuous government spending should aid rural recovery while adverse weather conditions may play spoil sport.

Home care segment leads growth; competitive intensity increases

The home care segment reported broad-based growth of 10% yoy (4-year CAGR of 11.9%) led by mid-single digit volume growth. Beauty & personal care segment grew by 4.4% yoy (4-year CAGR of 5.1%) aided by mid-single digit volume growth. The skin cleansing segment posted low single digit volume growth while skin care and cosmetics registered high single-digit volume growth. Food & refreshment sales grew by 4.7% yoy with flat volume. Competitive intensity from smaller players rose as inflation pressure moderated, leading to market share loss for HUVR in mass segments such as tea and detergent bars.

Benefits from gross margin expansion deployed in media spends

Gross margin expansion of 120bp qoq (to 49.9%) was deployed in higher ad spending (up 110bp qoq at 9.8% of sales). The EBITDA margin fell by 10bp qoq to 23.2%. As per HUVR, media spending has started normalizing and is now at 95% of 1QFY19 level as small FMCG players are stepping up media spending with a large part coming from categories that witnessed very high inflation. HUVR's near-term focus (next two-to-three quarters) is to build back gross margin & invest in media spending, limiting EBITDA margin expansion.

Downgrade to HOLD with a marginally lower target price of Rs2,700

We have revised our sales and EBITDA estimates downwards by 1.5%-2.5% for FY24-25F and introduced FY26F estimates. Gradual volume recovery with flat pricing and limited margin expansion at current valuation restricts the upside. We downgrade HUVR to HOLD (from ADD) with a new target price of Rs2,700 (48x Jun-2025F EPS). Downside risk: Lower-than-expected sales growth. Upside risk: Faster recovery in the EBITDA margin.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	511,930	591,440	635,929	710,795	781,574
Operating EBITDA (Rsm)	125,030	136,320	151,303	174,901	193,494
Net Profit (Rsm)	87,840	99,000	109,630	127,984	142,134
Core EPS (Rs)	37.5	42.3	46.7	54.5	60.5
Core EPS Growth	7.0%	12.9%	10.2%	16.7%	11.1%
FD Core P/E (x)	72.32	64.17	57.95	49.64	44.69
DPS (Rs)	32.0	34.0	39.0	45.5	50.6
Dividend Yield	1.18%	1.26%	1.44%	1.68%	1.87%
EV/EBITDA (x)	50.27	46.07	41.51	35.72	32.10
P/FCFE (x)	96.16	70.17	69.06	45.27	40.81
Net Gearing	(12.6%)	(12.3%)	(12.0%)	(17.7%)	(23.5%)
P/BV (x)	13.03	12.65	12.21	11.74	11.25
ROE	18.3%	20.1%	21.4%	24.1%	25.7%
% Change In Core EPS Estimates			(1.52%)	0.11%	
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Soft quarter; rich valuation limits upside

Key takeaways from the earnings call

Demand and operating environment

- **The FMCG Industry** is seeing a gradual recovery with aggregate industry volume growth in mid-single digit, albeit on a lower base (2-year CAGR flat). Urban markets led growth. Rural markets turned positive in 1Q with 2% volume growth, albeit on a base of 10% volume decline. On a two-year CAGR basis, rural volume was down 4% for the industry.
- **Industry volume** was impacted as consumers are still facing high inflation - as they are still consuming higher-priced inventory. Management expects volume to recover gradually as consumers get the benefit of lower-priced inventory. Consumption levels (volume) in the past have recovered two-to-three quarters after commodity prices have cooled off.
- **Rural demand:** Management believes that rural markets are on the path to a gradual recovery owing to 1) lower inflation pressure, 2) government spending in rural markets, and 3) capex committed by the government driving non-farm income (higher remittances seen). However, uneven monsoon and bad weather can hamper growth.
- **Pricing trend:** Most commodity prices remained stable. Crude oil and palm derivatives remained benign. HFD-related categories are seeing high inflation. More players are passing on the benefits to customers, leading to lower price growth in the industry. If commodity prices remain at similar levels, price growth will be flattish/marginally negative in the near term.
- **Trade destocking witnessed in 1Q:** It's linked to price reductions in skin cleansing and laundry segments.
- **Higher advertising expenses:** Media spending has started normalizing and is now at 95% of the 1QFY19 level. Small FMCG players are stepping up media spending. A large part of advertisement spending is on the categories that had witnessed very high inflation.
- **Margins:** Near-term focus (next two-to-three quarters) is to build gross margin and invest in advertisements and promotion or A&P.
- **Competitive intensity is inching up** as inflation pressure moderates. Small players are recovering as well due to moderating commodity prices, leading to market share dip in mass segments for HUVR in categories like tea and detergent bars.

Segment-wise commentary

- **Home care** was up 10% (mid-single digit volume growth). **Fabric wash** grew by c.10% (equal volume-pricing). Household care growth (c.10%) was led by dishwash products.
- **BPC** grew 4% (mid-single digit volume growth). Skin care and colour cosmetics saw high single-digit volume growth (DD sales growth) with the premium portfolio doing well. Skin cleansing grew in low single digits (volume). Oral care's growth (double-digit) was led by Close Up (led by activation initiatives done over the last few quarters).
- **F&R** grew 5% (flat volume). The tea business saw customers downgrade to loose tea. HFD growth was led by price hikes and a healthy performance from Horlicks and Boost. Ice cream business was impacted owing to a high base and the impact of unseasonal rains.
- **GSK range:** Corrections were done in price/value equation, launched sachets (LUPs), Market development was done at scale (4.5m home-to-home visits done in FY23). The focus remains on driving relevance and consumption in the category. Inflation has played spoilsport since the acquisition, which impacted the HDF category.

Comments made by Mr. Rohit Jawa on his observations

- **HFD:** It's in a sweet spot for HUVR. It has a huge opportunity to grow as only a quarter of Indian households use the products from this category. Boost and a premium range of portfolios are seeing tailwinds. The core has been impacted by inflation in milk prices impacting consumption in the hinterlands. In the long term, management is confident of its growth. It will focus on increasing awareness and product relevance, led by sampling and ad spending.
- **BPC:** HUVR has a strong relative market share. Premiumization will remain a focus area, as seen in the skin cleansing range, with the body wash mix improving.
- HUVR has played the full portfolio (mass to premium) historically. In the mass segment, HUVR focuses on keeping the price/mix at optimal level. The premium end (1/3rd of its business) is growing faster owing to A&P spending, market development and portfolio expansion. The focus will be on driving both the core and premium ends.

Figure 1: Quarterly summary – Standalone

Y/E, Mar (Rs. m)	1QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Revenue	1,42,720	1,48,930	1,51,480	6.1	1.7
Expenditure	1,10,250	1,14,220	1,16,270	5.5	1.8
Consumption of RM	75,140	76,390	75,880	1.0	-0.7
as % of sales	52.6	51.3	50.1		
Employee Cost	5,970	6,830	6,510	9.0	-4.7
as % of sales	4.2	4.6	4.3		
Advertising & Promotion	13,280	12,900	14,810	11.5	14.8
as % of sales	9.3	8.7	9.8		
Other expenditure	15,860	18,100	19,070	20.2	5.4
as % of sales	11.1	12.2	12.6		
EBITDA	32,470	34,710	35,210	8.4	1.4
Depreciation	2,600	2,620	2,570	-1.2	-1.9
EBIT	29,870	32,090	32,640	9.3	1.7
Other Income	1,370	1,600	1,850	35.0	15.6
Interest	260	240	470	80.8	95.8
PBT	30,980	33,450	34,020	9.8	1.7
Total Tax	7,970	8,730	8,930	12.0	2.3
APAT	23,010	24,720	25,090	9.0	1.5
Extraordinary items	-120	800	-370	NA	NA
Reported PAT	22,890	25,520	24,720	8.0	-3.1
EPS	9.7	10.9	10.5	8.0	-3.1
Margins (%)	1QFY23	4QFY23	1QFY24	(bp)	(bp)
Gross Margin	47.4	48.7	49.9	260	120
EBITDA	22.8	23.3	23.2	50	-10
EBIT	20.9	21.5	21.5	60	0
EBT	21.7	22.5	22.5	80	0
PAT	16.1	16.6	16.6	40	0
Effective Tax rate	25.7	26.1	26.2	50	20

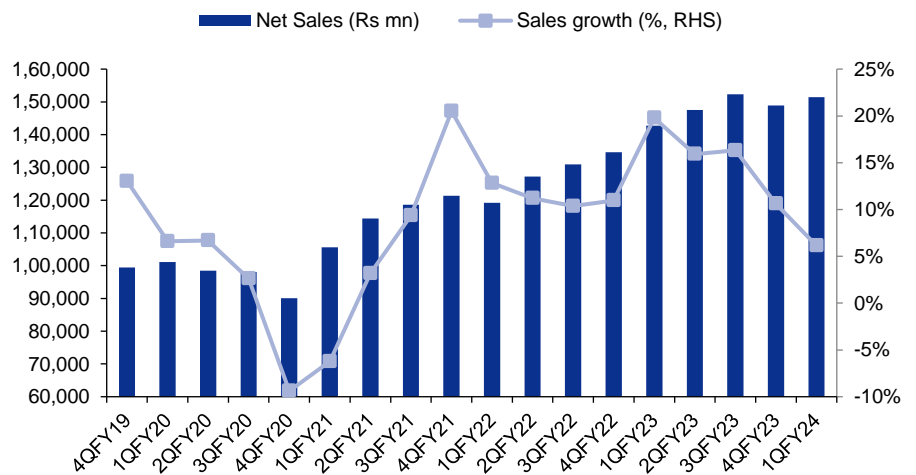
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Segmental breakup

Y/E, Mar (Rs. m)	1QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Segment Revenue					
Home Care	49,310	56,380	54,250	10.0	-3.8
Beauty & Personal Care	53,640	51,880	56,010	4.4	8.0
Foods & Refreshments	36,270	37,942	37,970	4.7	0.1
Others	3,500	2,730	3,250	-7.1	19.0
Total	1,42,720	1,48,932	1,51,480	6.1	1.7
Segment Results					
Home Care	8,690	10,560	9,910	14.0	-6.2
Beauty & Personal Care	14,110	13,530	14,720	4.3	8.8
Foods & Refreshments	5,780	6,790	6,810	17.8	0.3
Others	1,290	1,210	1,200	-7.0	-0.8
Total	29,870	32,090	32,640	9.3	1.7
Add- Unall. Income / (Exp)	1,370	1,600	1,850	35.0	15.6
Less- Interest Exp	-260	-240	-470	80.8	95.8
Less- Exceptional items	-120	800	-370	NA	-146.3
PBT	30,860	34,250	33,650	9.0	-1.8
Segment EBIT Margins (%)				(bp)	(bp)
Home Care	17.6	18.7	18.3	60	-50
Beauty & Personal Care	26.3	26.1	26.3	0	20
Foods & Refreshments	15.9	17.9	17.9	200	0
Others	36.9	44.3	36.9	10	-740
Average	20.9	21.5	21.5	60	0

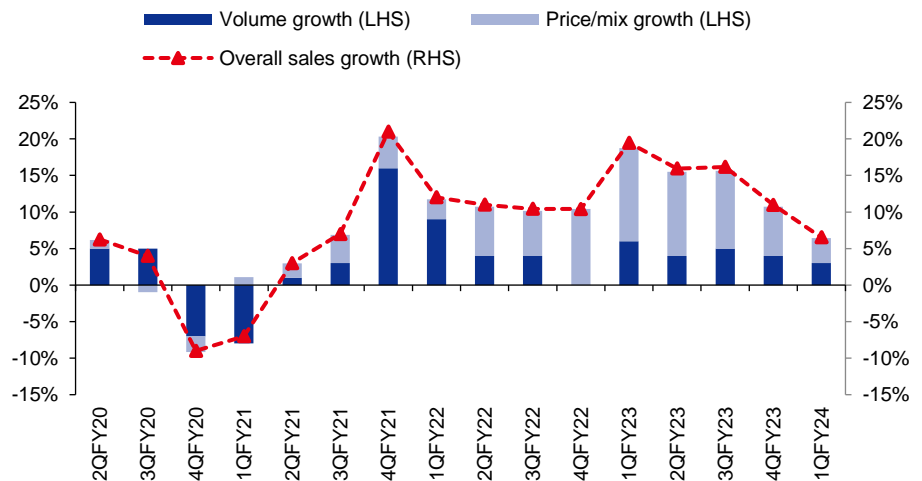
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Net sales grew 6.1% yoy in 1QFY24



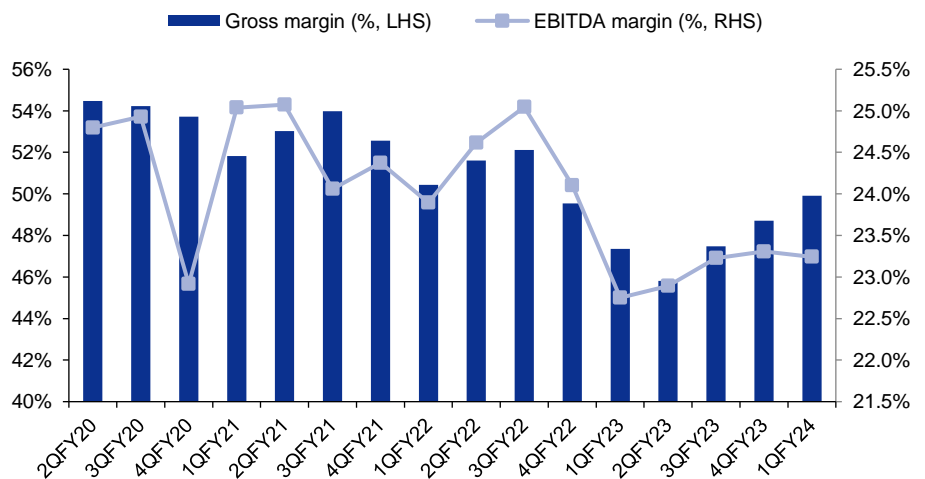
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Volume growth stood at 3% in 1QFY24



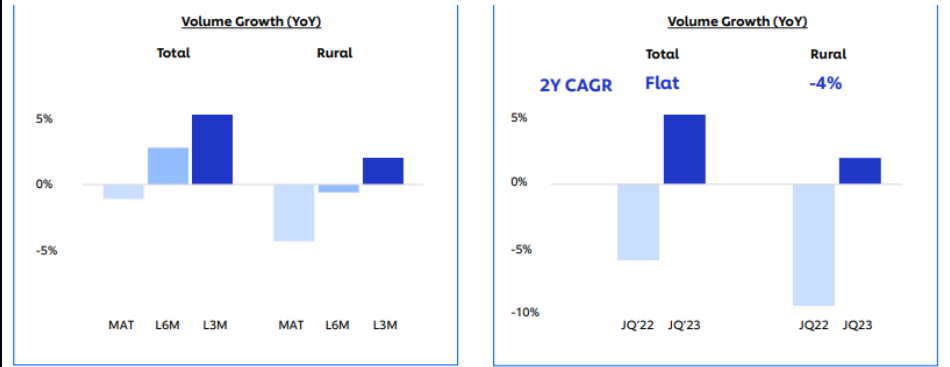
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Gross margin expanded by 260bp yoy in 1QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: FMCG industry volume is recovering on a low base



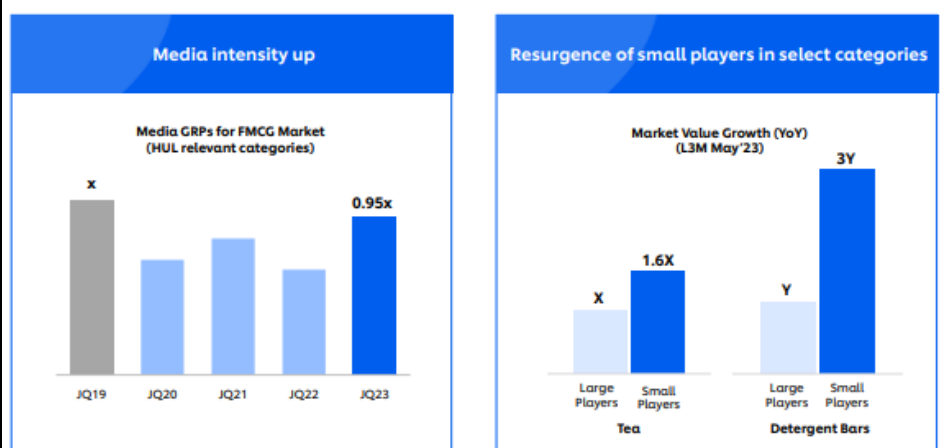
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Pricing growth in the industry tapering off



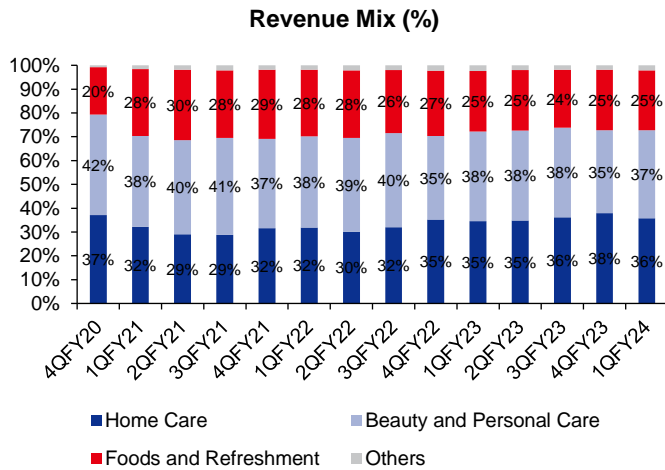
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Media spending is stepping up across the industry and small players (in tea and detergent segments) are recovering owing to softening input costs



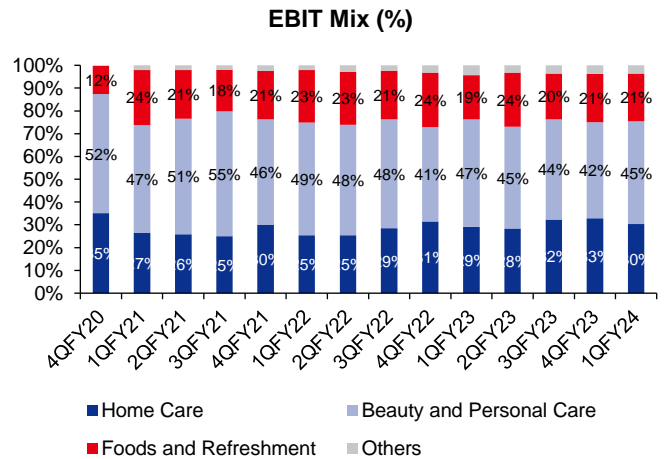
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Home care segment contributed to 36% of sales in 1QFY24, down 200bp qoq



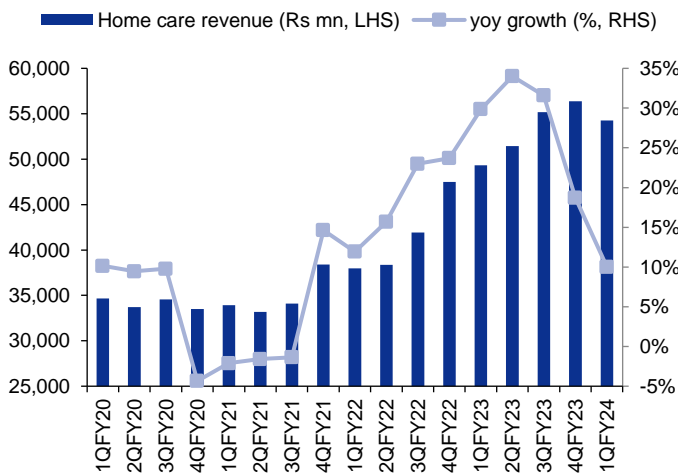
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Home care segment shrunk 300bp qoq to 30% of the EBIT mix in 1QFY24 while BPC improved by 300bp to 45%



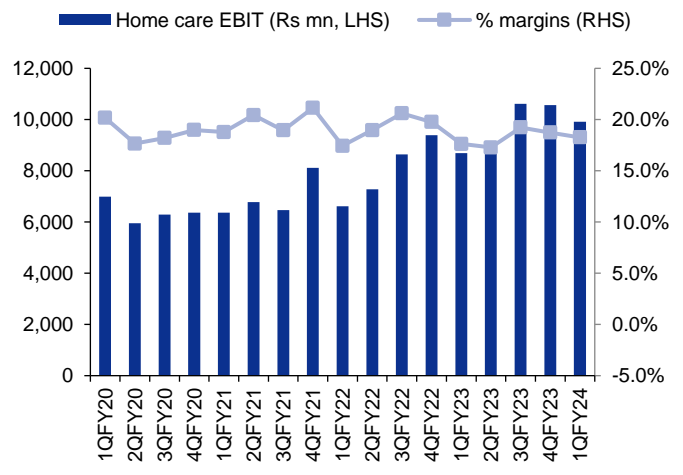
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Home care segment's revenue grew 10% yoy in 1QFY24



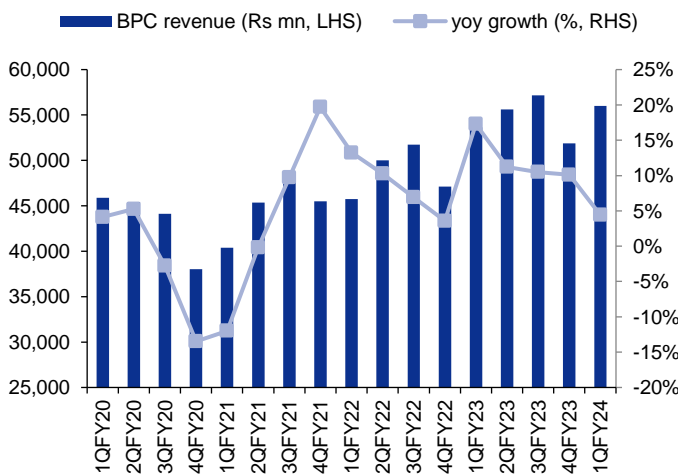
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Home care segment's EBIT margin expanded by 64bp yoy in 1QFY24



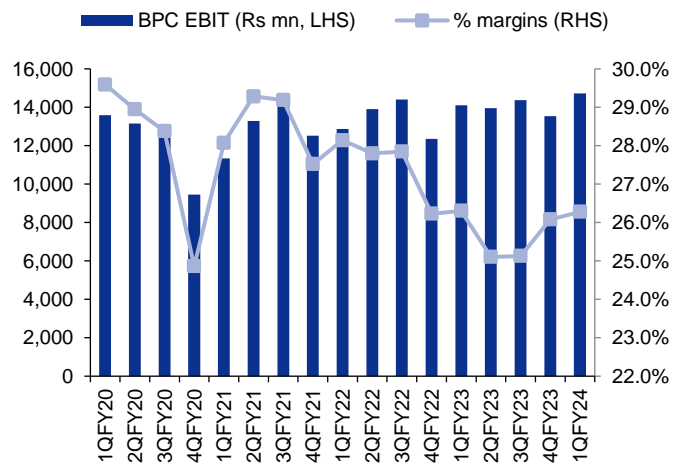
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: BPC segment's revenue grew 4.4% yoy in 1QFY24



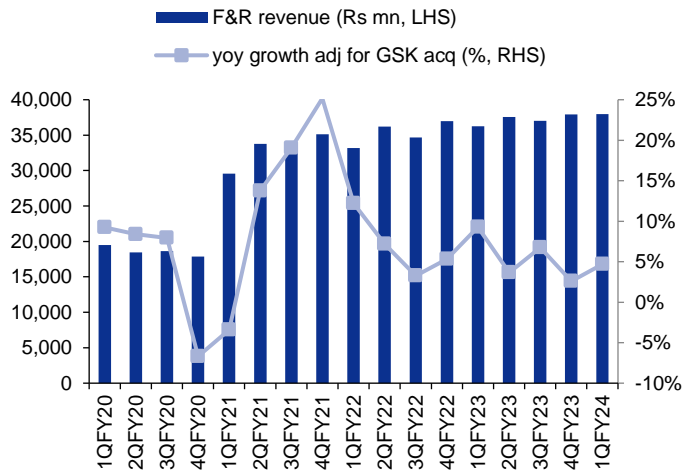
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: BPC segment's EBIT margin remained flat yoy in 1QFY24



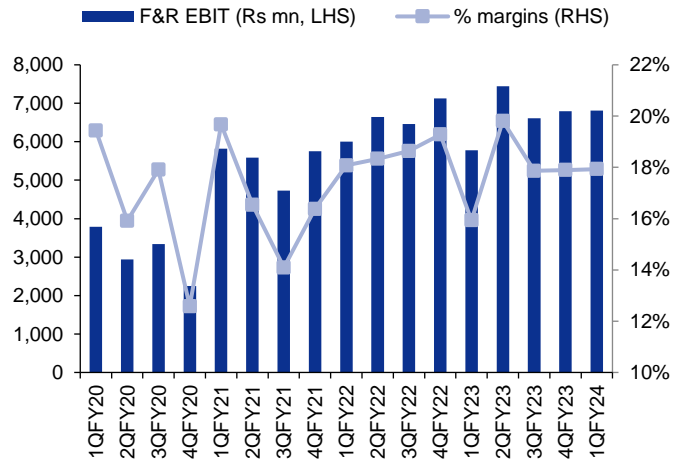
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 15: F&R segment's revenue grew 4.7% yoy in 1QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: F&R segment's EBIT margin expanded by 200bp yoy in 1QFY24



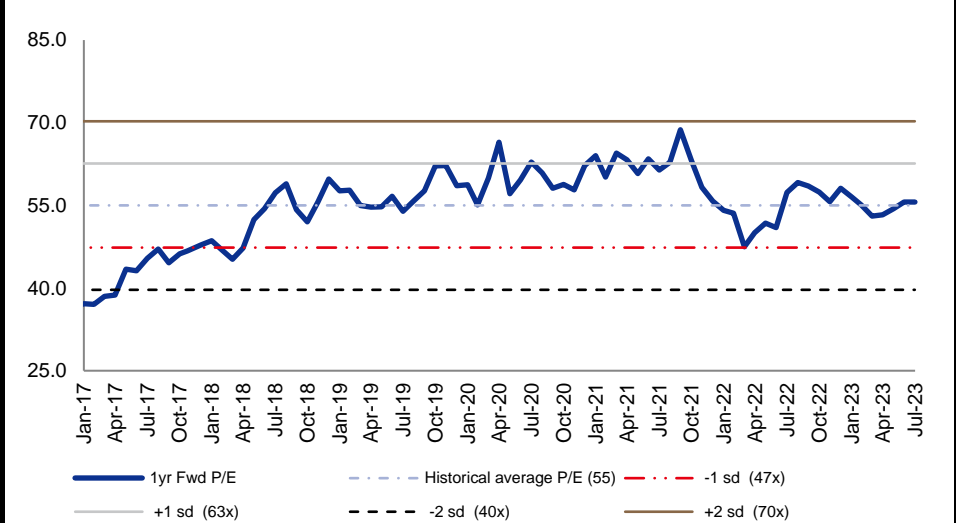
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 17: Our revised earnings estimates

Y/E, Mar (Rs m)	FY24F			FY25F			FY26F
	Earlier	Revised	% Change	Earlier	Revised	% Change	Introduced
Net Sales	6,47,437	6,35,929	(1.8)	7,21,266	7,10,795	(1.5)	7,81,574
EBITDA	1,55,390	1,51,303	(2.6)	1,77,773	1,74,901	(1.6)	1,93,494
EBITDA Margin (%)	24.0	23.8	-20 bp	24.6	24.6	0 bp	24.8
APAT	1,11,318	1,09,630	(1.5)	1,27,848	1,27,984	0.1	1,42,134
EPS (Rs)	47.4	46.7	(1.6)	54.4	54.5	0.1	60.5

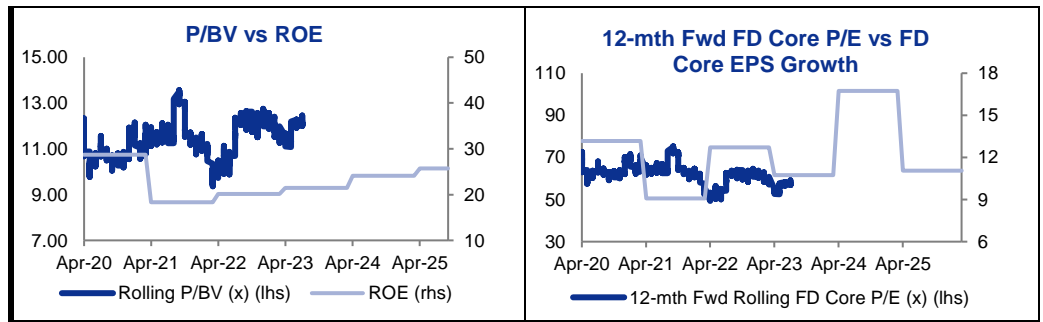
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 18: 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-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	511,930	591,440	635,929	710,795	781,574
Gross Profit	260,690	280,000	325,863	375,599	417,689
Operating EBITDA	125,030	136,320	151,303	174,901	193,494
Depreciation And Amortisation	(10,250)	(10,300)	(10,670)	(11,000)	(11,500)
Operating EBIT	114,780	126,020	140,633	163,901	181,994
Financial Income/(Expense)	1,090	3,240	3,175	4,143	4,657
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,860	2,150	2,365	2,602	2,862
Profit Before Tax (pre-EI)	117,730	131,410	146,173	170,645	189,512
Exceptional Items	(340)	(620)			
Pre-tax Profit	117,390	130,790	146,173	170,645	189,512
Taxation	(29,210)	(31,170)	(36,543)	(42,661)	(47,378)
Exceptional Income - post-tax					
Profit After Tax	88,180	99,620	109,630	127,984	142,134
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(340)	(620)			
Net Profit	87,840	99,000	109,630	127,984	142,134
Recurring Net Profit	88,095	99,472	109,630	127,984	142,134
Fully Diluted Recurring Net Profit	88,095	99,472	109,630	127,984	142,134

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	125,030	136,320	151,303	174,901	193,494
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(8,000)	(8,660)	(26,064)	3,842	4,536
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(340)	(620)			
Other Operating Cashflow	3,930	6,400	7,040	7,744	8,518
Net Interest (Paid)/Received	(980)	(1,010)	(1,500)	(1,000)	(1,000)
Tax Paid	(29,210)	(31,170)	(36,543)	(42,661)	(47,378)
Cashflow From Operations	90,430	101,260	94,236	142,825	158,170
Capex	(13,100)	(14,010)	(2,250)	(2,500)	(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)	(2,250)	(2,500)	(2,500)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(75,190)	(84,590)	(91,650)	(106,994)	(118,823)
Preferred Dividends					
Other Financing Cashflow	1,820	1,420			
Cash Flow From Financing	(73,370)	(83,170)	(91,650)	(106,994)	(118,823)
Total Cash Generated	(7,310)	7,360	336	33,332	36,847
Free Cashflow To Equity	66,060	90,530	91,986	140,325	155,670
Free Cashflow To Firm	67,040	91,540	93,486	141,325	156,670

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	71,280	72,330	72,666	105,998	142,845
Total Debtors	19,320	27,350	24,672	27,597	30,358
Inventories	38,900	40,310	41,875	46,838	51,525
Total Other Current Assets	42,400	45,370	46,647	47,242	47,803
Total Current Assets	171,900	185,360	185,860	227,675	272,531
Fixed Assets	346,190	349,900	341,480	332,980	323,980
Total Investments	6,120	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	(61,410)	(63,250)	(63,250)	(63,250)	(63,250)
Total Non-current Assets	464,060	469,640	461,220	452,720	443,720
Short-term Debt	2,850	2,930	2,930	2,930	2,930
Current Portion of Long-Term Debt					
Total Creditors	119,780	125,260	100,393	111,013	121,824
Other Current Liabilities					
Total Current Liabilities	122,630	128,190	103,323	113,943	124,754
Total Long-term Debt	6,860	7,460	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	7,460
Total Provisions	18,870	17,140	16,107	17,811	19,546
Total Liabilities	148,360	152,790	126,890	139,215	151,760
Shareholders Equity	487,600	502,210	520,190	541,180	564,491
Minority Interests					
Total Equity	487,600	502,210	520,190	541,180	564,491

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	11.3%	15.5%	7.5%	11.8%	10.0%
Operating EBITDA Growth	10.4%	9.0%	11.0%	15.6%	10.6%
Operating EBITDA Margin	24.4%	23.0%	23.8%	24.6%	24.8%
Net Cash Per Share (Rs)	26.20	26.36	26.50	40.68	56.36
BVPS (Rs)	207.49	213.71	221.36	230.29	240.21
Gross Interest Cover	117.12	124.77	93.76	163.90	181.99
Effective Tax Rate	24.9%	23.8%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	85.3%	80.2%	83.6%	83.6%	83.6%
Accounts Receivables Days	12.76	14.40	14.93	13.42	13.53
Inventory Days	52.83	46.42	48.37	48.30	49.33
Accounts Payables Days	172.08	143.59	132.82	115.10	116.78
ROIC (%)	26.2%	28.2%	30.3%	36.1%	41.2%
ROCE (%)	23.8%	25.8%	27.9%	31.2%	33.3%
Return On Average Assets	13.9%	14.9%	16.4%	18.7%	19.7%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Home Care growth %	18.8%	28.1%	8.0%	12.0%	10.0%
Beauty & Personal Care Growth %	7.9%	12.2%	7.0%	11.5%	9.2%
Food & Refreshments Growth %	6.8%	5.5%	7.0%	12.0%	11.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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