

India

HOLD (no change)

Consensus ratings*: Buy 27 Hold 15 Sell 2

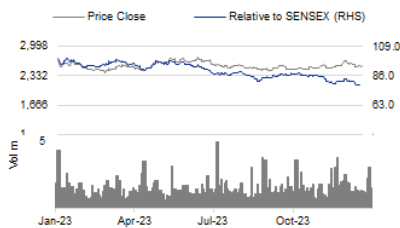
Current price:	Rs2,565
Target price:	Rs2,680
Previous target:	Rs2,730
Up/downside:	4.5%
InCred Research / Consensus:	-5.6%

Reuters:	HLL.NS
Bloomberg:	HUVR IN
Market cap:	US\$72,563m
	Rs6,027,642m
Average daily turnover:	US\$49.7m
	Rs4129.8m
Current shares o/s:	2,350.0m
Free float:	38.1%

*Source: Bloomberg

Key changes in this note

- Lower target price to Rs2,680 from Rs2,730.
- Lower FY24F/25F revenue by 3.9%/4%.
- Lower FY24F/25F EPS by 5.8%/5.7%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.3	2.8	0.7
Relative (%)	(0.5)	(6.2)	(14.9)

Major shareholders	% held
Unilever PLC	61.9
LIC	3.8
SBI	1.6

Research Analyst(s)



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Hindustan Unilever Ltd

Gradual volume uptick expected

- Revenue growth was flat yoy at Rs151.9bn in 3QFY24. Volume remained subdued at 2% while pricing growth moved into the negative zone.
- Competitive intensity from smaller players remained firm, with large players losing market share in mass categories, such as tea and detergent.
- We roll forward our estimates to Dec 2025F EPS, retain HOLD rating with an unchanged P/E multiple of 48x, and lower the target price to Rs2,680.

Subdued volume and higher degree of price cuts drag sales growth

Hindustan Unilever (HUVR) posted flat yoy revenue at Rs151.9bn in 3QFY24, below our estimate. Volume growth was subdued at 2% (5%/2% in 3QFY23/2QFY24, respectively) while pricing growth continued to taper off to -2.3% (vs. +10.6%/61.5% in 3QFY23/2QFY24, respectively). As per market research firm A.C. Nielsen's data, industry volume growth (c.9%/8% for rural/overall) continued to be aided by a low base. On a two-year CAGR basis, rural/overall volume stood at +1%/+2%, respectively. Price cuts taken in personal care and soap categories are starting to reflect in the numbers, which may spur a slight volume uptick going ahead.

Muted performance across segments; price cuts dent value growth

The BPC segment posted flat yoy growth (6.6% on a four-year CAGR basis), aided by mid-single digit volume growth. The skin cleansing business declined yoy led by price cuts while hair care posted a volume-led double-digit growth. Skincare was impacted by delayed winter, but the non-winter range did well. Oral care business grew in mid-single digits. Home care business declined by 1.3% yoy (12.1% on a four-year CAGR basis), aided by mid-single digit volume growth. The F&R segment posted a pricing-led growth of 0.9% yoy, with a low-single digit volume decline. The competitive intensity in tea and detergents remained firm, with smaller players continuing to gain market share from larger players in mass categories but a gradual normalization of equilibrium is likely from the next quarter.

Higher ad spends continue to limit EBITDA margin expansion

Gross margin expanded by 400bp qoq to 51.5% led by moderation of input costs and the gains were ploughed back into higher advertisement spending (up 261bp yoy at 10.5% of sales), restricting the EBITDA margin expansion to 10bp yoy at 23.3%. Management expects the EBITDA margin to remain in the 23-24% range in the near term.

Retain HOLD rating on the stock with a lower target price of Rs2,680

Recovery in rural markets remained elusive in 9MFY24. Subdued volume recovery with a negative pricing growth and limited margin expansion at the current level restricts the upside. We roll forward our estimates to Dec 2025F EPS and maintain our HOLD rating on the stock with a P/E multiple of 48x (unchanged) and cut the target price to Rs2,680 (from Rs2,730 earlier). 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	609,570	677,572	747,460
Operating EBITDA (Rsm)	125,030	136,320	144,795	166,078	178,975
Net Profit (Rsm)	87,840	99,000	104,749	121,366	131,245
Core EPS (Rs)	37.5	42.3	44.6	51.6	55.8
Core EPS Growth	7.0%	12.9%	5.3%	15.9%	8.1%
FD Core P/E (x)	68.63	60.90	57.55	49.67	45.93
DPS (Rs)	32.0	34.0	39.0	45.2	48.9
Dividend Yield	1.25%	1.33%	1.52%	1.76%	1.90%
EV/EBITDA (x)	47.68	43.70	41.11	35.72	33.02
P/FCFE (x)	91.26	66.59	84.60	48.05	43.49
Net Gearing	(12.6%)	(12.3%)	(12.9%)	(16.2%)	(20.0%)
P/BV (x)	12.36	12.00	11.70	11.36	11.02
ROE	18.3%	20.1%	20.6%	23.2%	24.4%
% Change In Core EPS Estimates			(5.78%)	(5.67%)	(5.36%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Gradual volume uptick expected

Key takeaways from the earnings call

Demand and operating environment

- The winter season, which was delayed this year, was less severe in many parts of the country, impacting the winter range. The overall demand trends were similar to 2QFY24.
- Rural consumer sentiment remained muted, and the festive season buoyancy was lower than expected.
- **Premiumization trend in rural markets:** The premium range grew well with customers who could afford it. At peak inflation, consumption was down and downtrading was visible. The mass range grew in mid-single digit.
- The premium segment grew 2.5x, faster than the mass segment (c.30% of the portfolio). Premium beauty, Horlicks, and Premium laundry grew in strong double digits in 3QFY24.
- FMCG market volumes grew in high-single digit on a mid-single decline in the base. Urban markets continued to grow ahead of rural markets.
- Modern trade channel continues to outpace general trade.
- Direct reach stands at 3m customers currently. The coverage has grown 1.25x from the CY19 levels.

Home care

- **Fabric wash:** Volume grew in mid-single digit, driven by the premium portfolio led by Surf and Comfort. The detergent bar volume was muted due to heightened competition.
- **Household care:** Low-single digit volume growth led by Dishwash.
- Both these categories delivered a 14% growth on a two-year CAGR basis, driven by high single-digit volume growth.

Beauty and personal care

- The division will be split in 1QFY25F into two divisions - **Beauty & Wellbeing** (skin care, colour cosmetics, hair care and health & wellbeing) and **Personal Care** (skin cleansing, oral care and deodorants).
- **Skin cleansing:** Posted a decline yoy due to the impact of price cuts (larger price cuts taken). Body wash products continued to scale well led by market development activity.
- **Hair care:** Volume-led double-digit value growth with a broad-based performance across brands. Future formats, including serums, masks and conditioners continued to gain traction.
- **Skin care and colour cosmetics:** Impacted by a delayed winter. Premium non-winter portfolios continued to do well. The winter range accounts for 33% of the category.
- **Oral care:** Mid-single digit growth led by Closeup.

Foods and refreshments

- **Beverages:** Tea business strengthened value and volume market leadership further but remained muted as the category continued to witness a downgrade. Green tea and flavoured tea performed well. Coffee grew in double-digits driven by pricing.
- **Health food drinks:** Posted a competitive and modest pricing-led growth driven by the Plus range (double-digit growth). The category continues to remain impacted (low-single digit volume decline in the core). The focus remains on driving new customers into the category as core users have

reduced usage. Margins are better than when it was acquired. From 1 Jan 2024, the impact of the shift in distribution to GlaxoSmithKline will be visible.

- **Foods:** Food solutions, mayonnaise and peanut butter continued to post strong growth.
- **Ice-cream:** Registers mid-single digit growth on a high base.
- Health Food Drinks tea and coffee are yet to see a volume recovery. Management expects a gradual recovery.

Input costs and margins

- A&P spending was up 33% yoy. The focus on the premium range was higher. A&P spending is likely to remain elevated in the near term.
- Employee and other expenses were up by 120bp yoy due to higher spending on capability building and royalty payment (c.50bp yoy). Other expenses are likely to be 13% of sales in FY24F.
- Margins are likely to remain in the 23-24% range in the near term. The focus will be on improving the gross margin as investments will be further stepped up in market development, capability building, A&P spending, etc. In the short-term, HUVR is leaning on price cuts/promotions as well as making the portfolio more superior (premiumization). EPS growth is likely to be driven by topline growth.
- The full-year tax rate is likely to be slightly above 26%.

Outlook

- HUVR continues to expand its franchise, despite competitive intensity. More than 75% of its business continued to gain absolute and relative penetration. The focus remains on driving volume growth going ahead.
- Competitive intensity is likely to remain elevated as commodity prices remain benign. In terms of detergent bars, corrective steps are already deployed in the market. Most of the impact is likely to be behind us and will go back to equilibrium gradually from the next quarter. In the tea business, deflation continued which led to continuous downgrading at the consumer end.
- A 45 MW capacity solar park is being set up with Brookfield, with up to 32% ownership by HUVR in the special purpose vehicle or SPV.

Management makes a change in distributor margin structure

- Distributors account for two-thirds of the company's revenue and the relationships have been long-standing. HUVR is investing to improve its distribution and improving the processes in warehousing and delivery.
- The margin structure has been evolving over the last decade across channels and distributors.
- HUVR is now incentivizing distributors in big cities to serve more stores, improve delivery (next-day delivery) to drive sales.
- A pilot project was conducted for the last one year, which saw better realization for those in the program as well as better service levels at kirana stores and other retail touchpoints. It is now being rolled out to top 100 cities.
- The transition has gone well. There were some claims of stoppage of some products, but no adverse impact has been seen, as per management.

Figure 1: Quarterly summary - Standalone

Y/E Mar (Rs. m)	3QFY23	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY23	9MFY24	Gr (%)
Revenue	1,52,280	1,52,760	1,51,880	-0.3	-0.6	4,42,510	4,56,120	3.1
Expenditure	1,16,910	1,15,820	1,16,480	-0.4	0.6	3,40,900	3,48,570	2.2
Consumption of RM	79,970	72,210	73,670	-7.9	2.0	2,35,050	2,21,760	-5.7
as % of sales	52.5	47.3	48.5			53.1	48.6	
Employee Costs	6,760	7,080	6,490	-4.0	-8.3	19,820	20,080	1.3
as % of sales	4.4	4.6	4.3			4.5	4.4	-0.17
Advertising & Promotion Costs	12,000	17,200	15,930	32.8	-7.4	35,690	47,940	34.3
as % of sales	7.9	11.3	10.5			8.1	10.5	2.61
Other Expenditure	18,180	19,330	20,390	12.2	5.5	50,340	58,790	16.8
as % of sales	11.9	12.7	13.4			11.4	12.9	1.49
EBITDA	35,370	36,940	35,400	0.1	-4.2	1,01,610	1,07,550	5.8
Depreciation	2,600	2,690	2,820	8.5	4.8	7,680	8,080	5.2
EBIT	32,770	34,250	32,580	-0.6	-4.9	93,930	99,470	5.9
Other Income	2,280	2,830	2,850	25.0	0.7	4,800	7,530	56.9
Interest	260	720	810	211.5	12.5	770	2,000	159.7
PBT	34,790	36,360	34,620	-0.5	-4.8	97,960	1,05,000	7.2
Total Tax	8,720	9,140	9,130	4.7	-0.1	22,440	27,200	21.2
APAT	26,070	27,220	25,490	-2.2	-6.4	75,520	77,800	3.0
Extraordinary items	-1,020	-50	-300	NA	NA	-1,420	-720	NA
Reported PAT	25,050	27,170	25,190	0.6	-7.3	74,100	77,080	4.0
EPS	10.7	11.6	10.7	0.6	-7.3	31.5	32.8	4.0
Margins (%)	3QFY23	2QFY24	3QFY24	(bp)	(bp)	9MFY23	9MFY24	(bp)
Gross Margin	47.5	52.7	51.5	400	-120	46.9	51.4	450
EBITDA	23.2	24.2	23.3	10	-90	23.0	23.6	60
EBIT	21.5	22.4	21.5	-10	-100	21.2	21.8	60
EBT	22.8	23.8	22.8	-10	-100	22.1	23.0	90
PAT	17.1	17.8	16.8	-30	-100	17.1	17.1	0
Effective Tax Rate	25.1	25.1	26.4	130	120	22.9	25.9	300

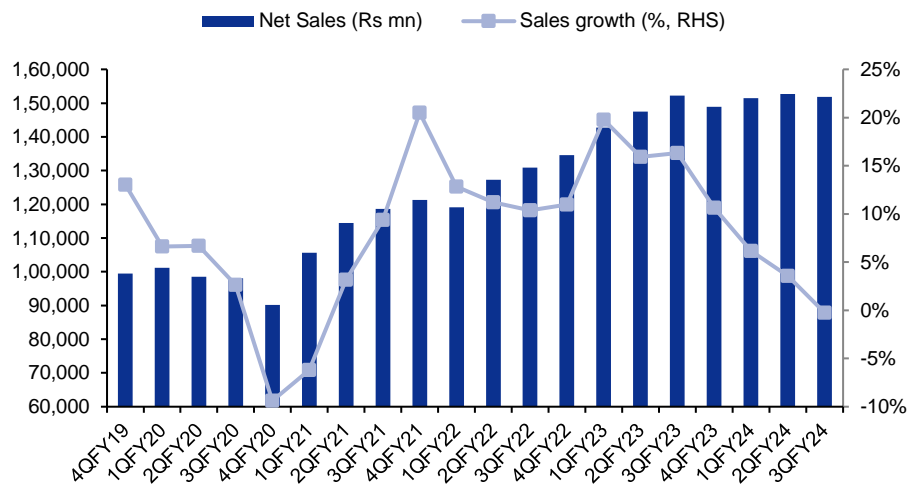
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Segmental break-up

Y/E Mar (Rs. m)	3QFY23	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY23	9MFY24	Gr (%)
Segment Revenue								
Home Care	55,180	53,120	54,480	-1.3	2.6	1,55,920	1,61,850	3.8
Beauty & Personal Care	57,180	58,090	57,050	-0.2	-1.8	1,66,430	1,71,150	2.8
Foods & Refreshments	37,000	38,512	37,330	0.9	-3.1	1,10,820	1,13,810	2.7
Others	2,920	3,040	3,020	3.4	-0.7	9,340	9,310	(0.3)
Total	1,52,280	1,52,762	1,51,880	-0.3	-0.6	4,42,510	4,56,120	3.1
Segment Results								
Home Care	10,610	9,950	9,660	-9.0	-2.9	28,190	29,520	4.7
Beauty & Personal Care	14,370	15,810	14,610	1.7	-7.6	42,440	45,140	6.4
Foods & Refreshments	6,610	7,200	7,110	7.6	-1.3	19,830	21,120	6.5
Others	1,180	1,290	1,200	1.7	-7.0	3,470	3,690	NA
Total	32,770	34,250	32,580	-0.6	-4.9	93,930	99,470	5.9
Add- Unall. Income / (Exp.)	2,280	2,830	2,850	25.0	0.7	4,800	7,530	56.9
Less- Interest Exp	-260	-720	-810	211.5	12.5	-770	-2,000	159.7
Less- Exceptional items	-1,020	-50	-300	NA	500.0	-1,420	-720	NA
PBT	33,770	36,310	34,320	1.6	-5.5	96,540	1,04,280	8.0
Segment EBIT Margin (%)				(bp)	(bp)			(bp)
Home Care	19.2	18.7	17.7	-150	-100	18.1	18.2	20
Beauty & Personal Care	25.1	27.2	25.6	50	-160	25.5	26.4	90
Foods & Refreshments	17.9	18.7	19.0	120	40	17.9	18.6	70
Others	40.4	42.4	39.7	-70	-270	37.2	39.6	250
Average	21.5	22.4	21.5	-10	-100	21.2	21.8	60

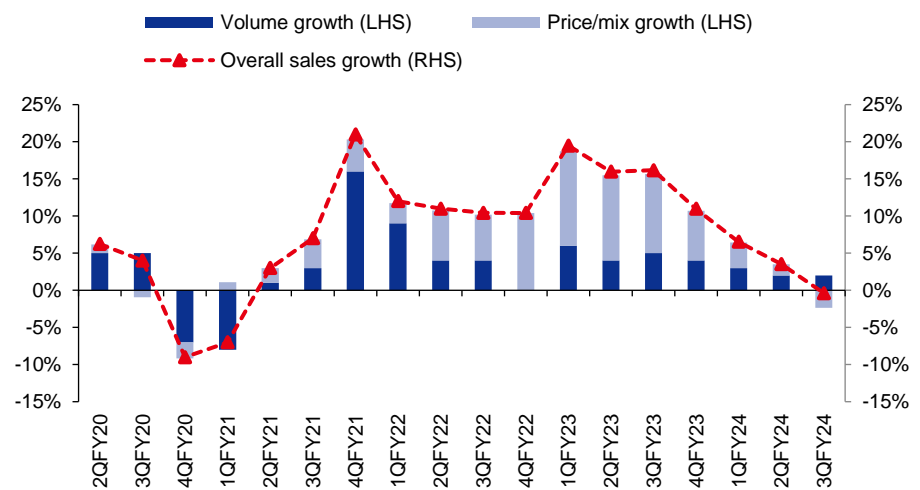
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Net sales growth was flat in 3QFY24



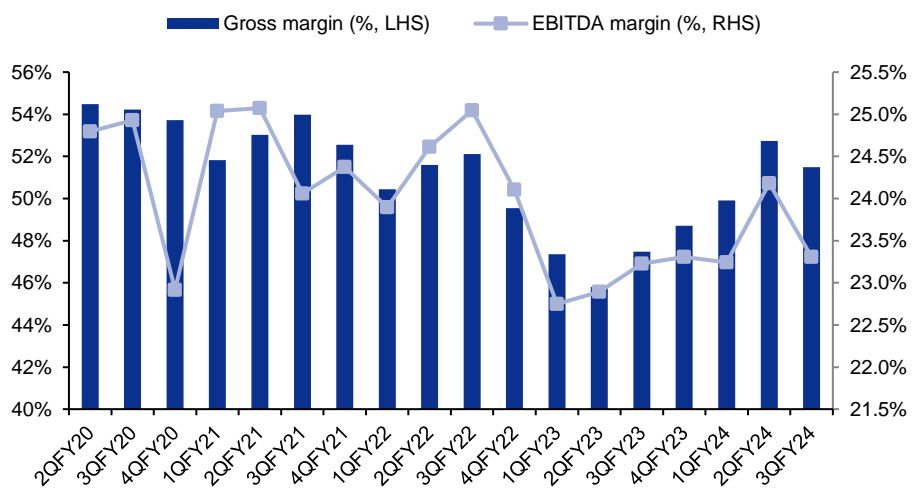
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Volume remained subdued at 2% while pricing tapered off to -2% in 3QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Gross margin expanded by 400bp yoy to 51.5% in 3QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: FMCG industry's volume growth continued to be supported by a low base

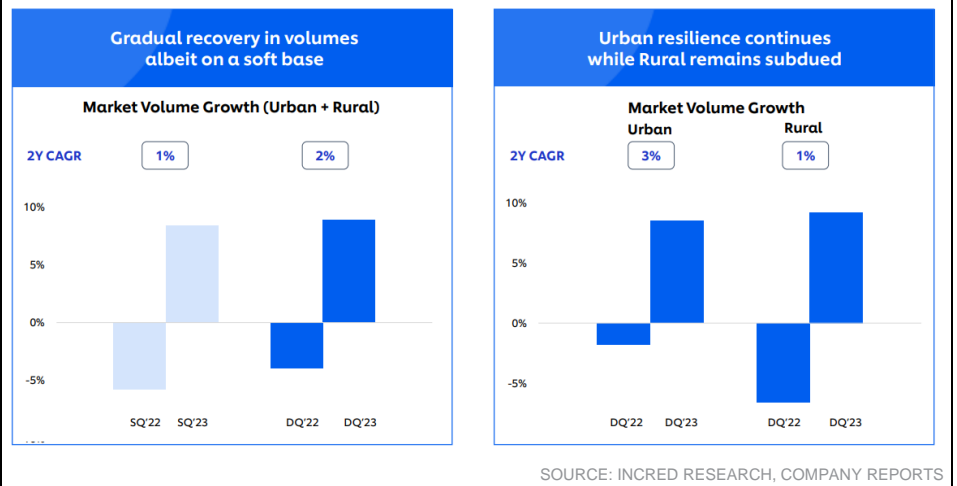


Figure 7: FMCG industry's pricing growth tapered further

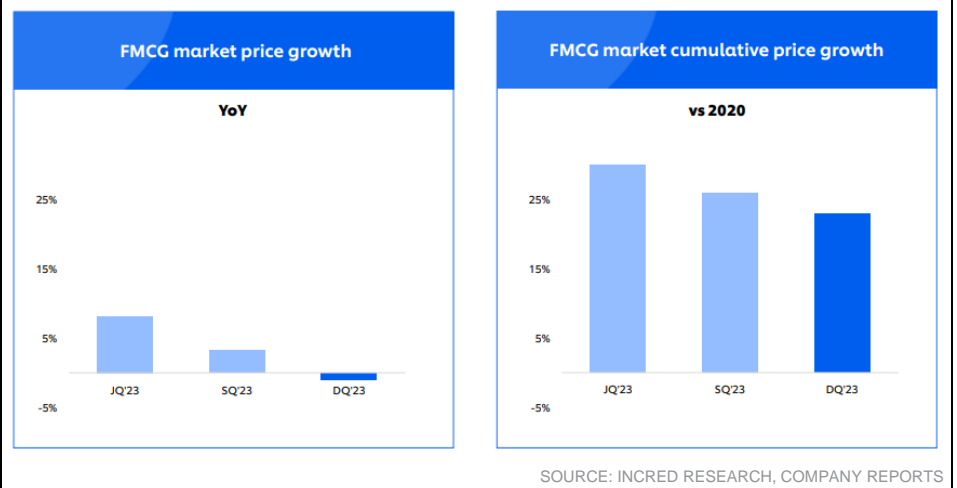


Figure 8: Modern trade and the premium range drove market growth

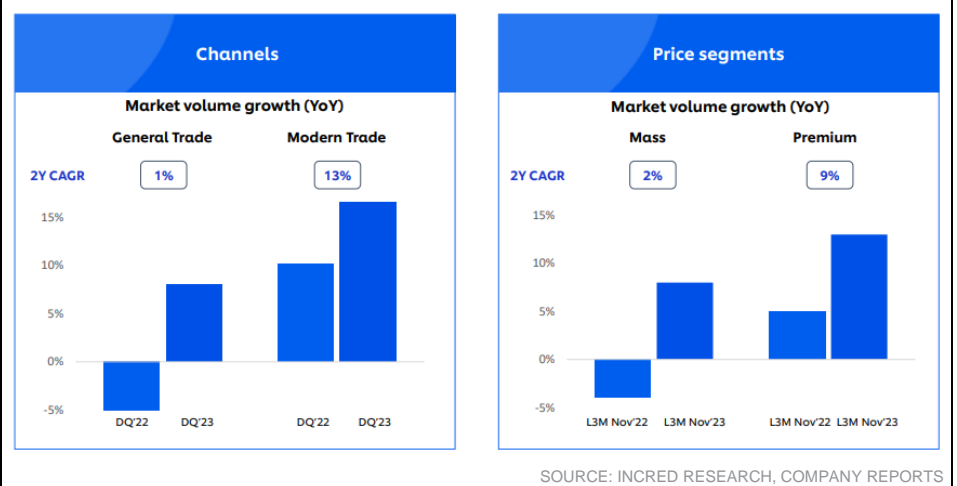
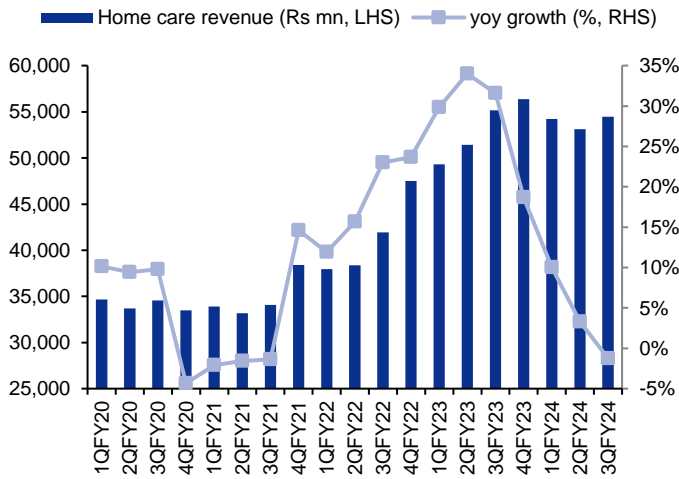
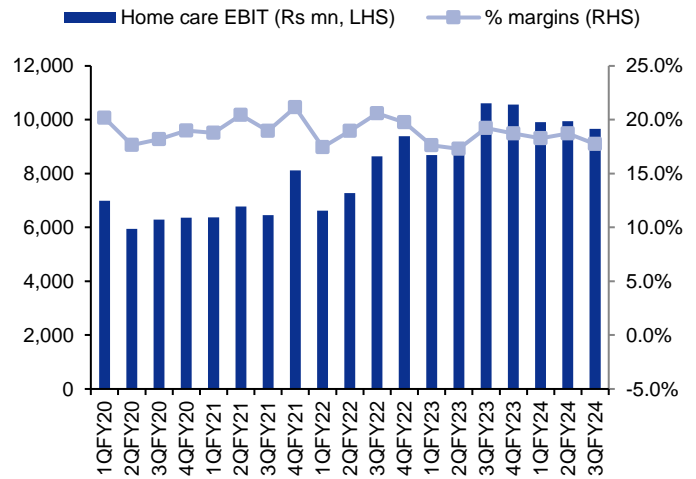


Figure 9: Home care revenue declined by 1.3% yoy in 3QFY24...



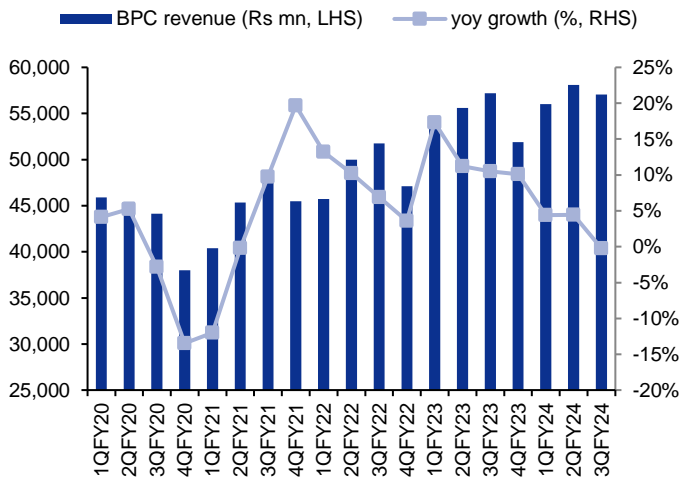
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: .. while EBIT margin contracted by 150bp yoy to 17.7%



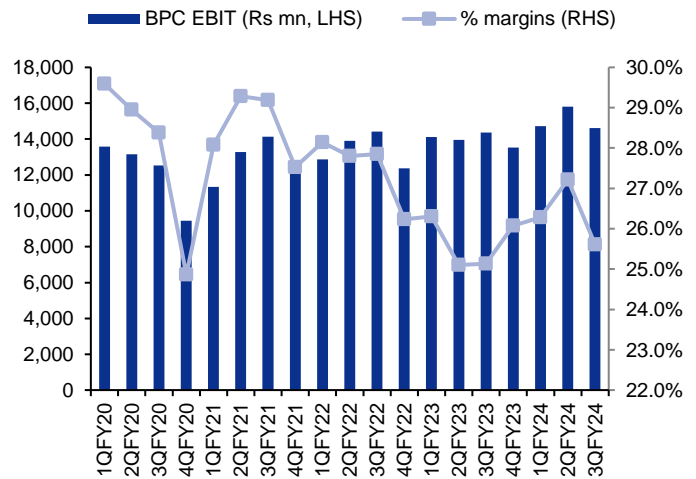
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: BPC segment's revenue growth was flat yoy in 3QFY24



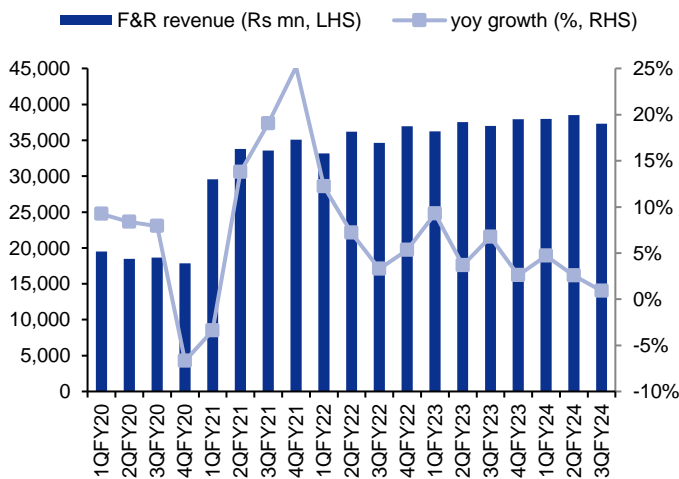
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: BPC segment's EBIT margin was up 50bp yoy at 25.6% in 3QFY24



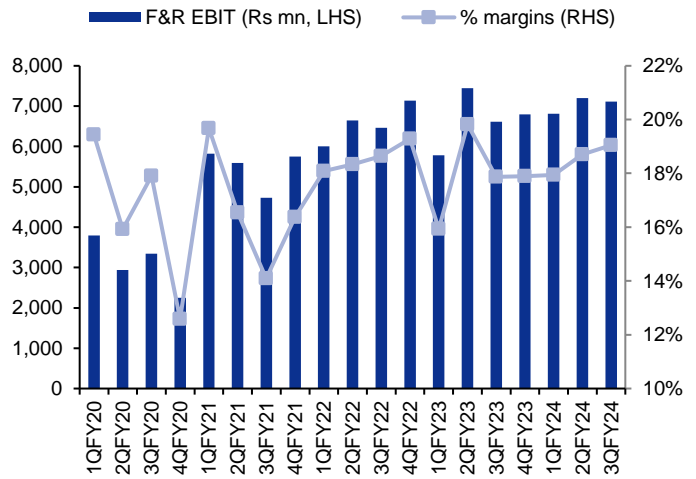
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: F&R segment's revenue grew 1% yoy in 3QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: F&R segment's EBIT margin expanded by 120bp yoy led by pricing



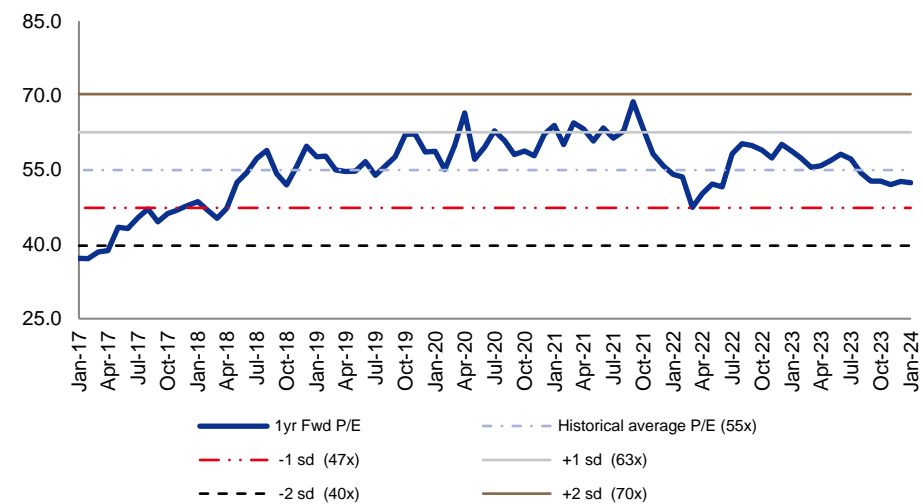
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 15: Our revised earnings estimates

Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Net Sales	6,34,626	6,09,570	(3.9)	7,33,477	6,77,572	(4.0)	7,75,687	7,47,460	(3.6)
EBITDA	1,53,361	1,44,795	(5.6)	1,79,347	1,66,078	(5.5)	1,88,889	1,78,975	(5.2)
EBITDA Margin (%)	24.2	23.8	-40 bp	24.5	24.5	-40 bp	24.4	23.9	-40 bp
APAT	1,11,173	1,04,749	(5.8)	1,29,591	1,21,366	(5.7)	1,38,680	1,31,245	(5.4)
EPS (Rs)	47.3	44.6	(5.8)	55.1	51.6	(5.7)	59.0	55.8	(5.4)

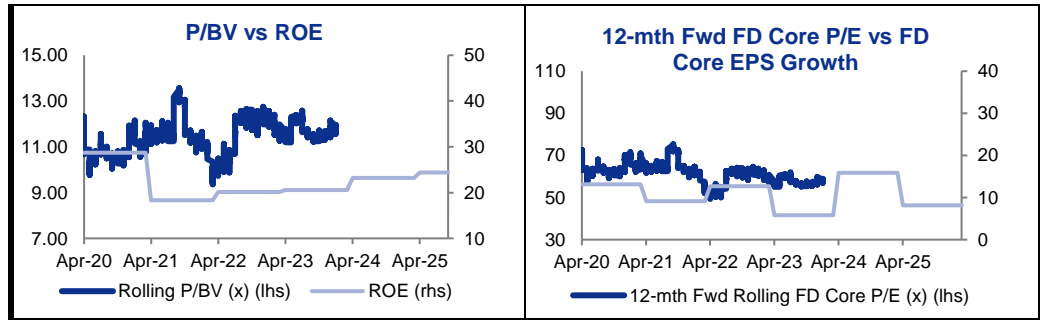
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: HUVR's one-year forward P/E trades close to its five-year 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	609,570	677,572	747,460
Gross Profit	260,690	280,000	314,185	358,043	399,458
Operating EBITDA	125,030	136,320	144,795	166,078	178,975
Depreciation And Amortisation	(10,250)	(10,300)	(10,670)	(11,000)	(11,500)
Operating EBIT	114,780	126,020	134,125	155,078	167,475
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	139,665	161,822	174,994
Exceptional Items	(340)	(620)			
Pre-tax Profit	117,390	130,790	139,665	161,822	174,994
Taxation	(29,210)	(31,170)	(34,916)	(40,455)	(43,748)
Exceptional Income - post-tax					
Profit After Tax	88,180	99,620	104,749	121,366	131,245
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(340)	(620)			
Net Profit	87,840	99,000	104,749	121,366	131,245
Recurring Net Profit	88,095	99,472	104,749	121,366	131,245
Fully Diluted Recurring Net Profit	88,095	99,472	104,749	121,366	131,245

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	125,030	136,320	144,795	166,078	178,975
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(8,000)	(8,660)	(6,908)	5,597	8,381
(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)	(34,916)	(40,455)	(43,748)
Cashflow From Operations	90,430	101,260	108,511	137,963	151,126
Capex	(13,100)	(14,010)	(12,250)	(12,500)	(12,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments	(11,270)	3,280	(25,000)		
Other Investing Cashflow					
Cash Flow From Investing	(24,370)	(10,730)	(37,250)	(12,500)	(12,500)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(75,190)	(84,590)	(91,650)	(106,189)	(114,833)
Preferred Dividends					
Other Financing Cashflow	1,820	1,420			
Cash Flow From Financing	(73,370)	(83,170)	(91,650)	(106,189)	(114,833)
Total Cash Generated	(7,310)	7,360	(20,389)	19,274	23,793
Free Cashflow To Equity	66,060	90,530	71,261	125,463	138,626
Free Cashflow To Firm	67,040	91,540	72,761	126,463	139,626

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	78,141	97,415	121,208
Total Debtors	19,320	27,350	26,914	29,937	33,041
Inventories	38,900	40,310	40,110	44,614	49,241
Total Other Current Assets	42,400	45,370	46,435	46,975	47,529
Total Current Assets	171,900	185,360	191,601	218,941	251,020
Fixed Assets	346,190	349,900	351,480	352,980	353,980
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	471,220	472,720	473,720
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	120,474	132,585	147,357
Other Current Liabilities					
Total Current Liabilities	122,630	128,190	123,404	135,515	150,287
Total Long-term Debt	6,860	7,460	8,660	8,660	8,660
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	6,860	7,460	8,660	8,660	8,660
Total Provisions	18,870	17,140	15,448	17,000	18,895
Total Liabilities	148,360	152,790	147,512	161,175	177,841
Shareholders Equity	487,600	502,210	515,309	530,486	546,898
Minority Interests					
Total Equity	487,600	502,210	515,309	530,486	546,898

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	11.3%	15.5%	3.1%	11.2%	10.3%
Operating EBITDA Growth	10.4%	9.0%	6.2%	14.7%	7.8%
Operating EBITDA Margin	24.4%	23.0%	23.8%	24.5%	23.9%
Net Cash Per Share (Rs)	26.20	26.36	28.32	36.52	46.65
BVPS (Rs)	207.49	213.71	219.28	225.74	232.72
Gross Interest Cover	117.12	124.77	89.42	155.08	167.48
Effective Tax Rate	24.9%	23.8%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	85.3%	80.2%	87.5%	87.5%	87.5%
Accounts Receivables Days	12.76	14.40	16.25	15.31	15.38
Inventory Days	52.83	46.42	49.69	48.39	49.22
Accounts Payables Days	172.08	143.59	151.82	144.54	146.81
ROIC (%)	26.2%	28.2%	29.5%	34.3%	37.5%
ROCE (%)	23.8%	25.8%	26.7%	30.0%	31.5%
Return On Average Assets	13.9%	14.9%	15.4%	17.3%	17.9%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Home Care growth %	18.8%	28.1%	2.5%	11.5%	11.0%
Beauty & Personal Care Growth %	7.9%	12.2%	3.0%	11.0%	9.2%
Food & Refreshments Growth %	6.8%	5.5%	3.0%	11.0%	11.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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