

India

HOLD (no change)

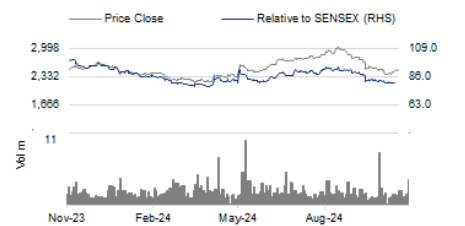
Consensus ratings*: Buy 24 Hold 15 Sell 4

Current price:	Rs2,496
Target price:	Rs2,715
Previous target:	Rs2,820
Up/downside:	8.8%
InCred Research / Consensus:	-5.8%
Reuters:	HLL.NS
Bloomberg:	HUVR IN
Market cap:	US\$69,414m
	Rs5,864,932m
Average daily turnover:	US\$67.9m
	Rs5734.3m
Current shares o/s:	2,350.0m
Free float:	38.1%

*Source: Bloomberg

Key changes in this note

- Lower target price to Rs2,715 from Rs2,820.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.6)	(10.0)	(0.8)
Relative (%)	(1.7)	(6.9)	(16.1)

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

Hindustan Unilever Ltd

Capital Markets Day 2024 - Highlights

- Hindustan Unilever (HUL) hosted its Capital Markets Day 2024 recently, which covered its strategy, targets and growth algorithm for the next decade.
- Over the next decade, HUL targets double-digit earnings growth led by topline growth, as margin expansion is expected to remain modest going ahead.
- While the long-term outlook is healthy, we maintain our HOLD rating with a lower target price of Rs2,715, considering the near-term weakness in demand.

Premiumization to remain a key focus area

Hindustan Unilever's (HUL) management highlighted the growth algorithm it expects to charter over the next decade and categorized its portfolio growth into three buckets. Management expects 1) the core business (50% salience) to grow in line with industry, 2) future core businesses (like Dove, Ponds, etc.) to grow 1.25x vs. industry, and 3) market makers (new categories like serums) to grow 1.5x vs. industry over the next decade, which is expected to drive a favourable mix growth and a c.100bp higher volume growth vs. the market. In addition, its Winning in Many Indias (WIMI) Strategy 2.0 will target the top 100 cities (c.30% of the market) to drive premiumization.

Big bets identified across categories to capture market share

For its future core categories, HUL has identified 10 brands (refer Fig. 4) which have significant headroom for premiumization as turnover has already topped Rs10bn. In categories like home care, liquid detergent formats have grown 3x over the last decade in terms of sales mix. Considering that 68m households have a washing machine but only 17m use liquids, there is a large headroom to grow. Despite many home and personal care or HPC peers launching liquids at affordable price points, HUL's management seems confident of the company's product superiority delivering better price/value to customers & hence, outperform the category. HUL has identified six bets under its 'market makers' which were valued at Rs70bn in FY24.

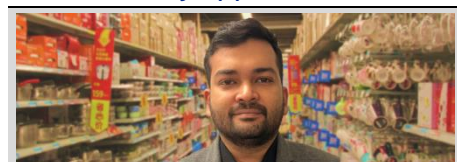
Targeting double-digit earnings growth led by topline expansion

HUL is targeting double-digit earnings growth over the next decade, largely volume-driven topline growth, where it targets to outpace the market by >100bp. Considering that it targets to expand future core and market-maker categories at a faster pace, brand investments are expected to remain high, which will lead to moderate margin expansion. In the near term, HUL targets pricing actions to drive growth (in line with industry) and focus on premiumization to drive an improvement in the overall mix.

Maintain HOLD rating with a lower target price of Rs2,715

While the long-term prospects remain strong for HUL, raw material volatility and near-term demand pressure are expected to persist. We maintain our HOLD rating on HUL with a lower target price of Rs2,715 (51x Sep 2026F EPS) from Rs2,820 earlier. Downside/upside risks: Lower/faster-than-expected sales growth.

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Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	591,440	604,690	633,978	674,855	734,170
Operating EBITDA (Rsm)	136,320	141,900	150,373	164,200	184,037
Net Profit (Rsm)	99,000	100,253	107,368	117,583	132,661
Core EPS (Rs)	42.3	42.9	45.7	50.0	56.5
Core EPS Growth	12.9%	1.4%	6.4%	9.5%	12.8%
FD Core P/E (x)	59.25	58.51	54.63	49.89	44.22
DPS (Rs)	34.0	39.0	41.0	44.9	50.7
Dividend Yield	1.36%	1.56%	1.64%	1.80%	2.03%
EV/EBITDA (x)	42.50	40.54	38.47	35.17	31.34
P/FCFE (x)	64.80	50.17	92.43	50.16	46.37
Net Gearing	(12.3%)	(20.3%)	(13.5%)	(15.4%)	(16.3%)
P/BV (x)	11.68	11.51	11.27	11.01	10.74
ROE	20.1%	19.9%	20.8%	22.3%	24.6%
% Change In Core EPS Estimates			(4.41%)	(4.98%)	(6.13%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Capital Markets Day 2024 - Highlights

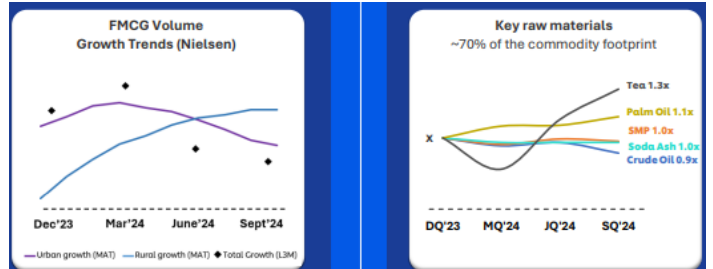
The India opportunity ►

Figure 1: India is under-indexed in FMCG spending



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Urban markets have moderated; rural recovery is gradual



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: HUL's growth algorithm for the next decade



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: 10 brands identified for premiumization efforts



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Segment-wise highlights

Beauty & wellbeing ►

- HUL has 4.5x/3x/1.4x relative market share in skin care, hair care and colour cosmetics, when compared to peers, and a reach of 300m households annually.
- Management highlighted the opportunity at both ends of the customer spectrum, with premiumization as the opportunity for affluent customers while category development for the aspiring segment.
- A decade ago, a single product regime used to be largely followed by customers, as per management, which required a single product to be marketed to various cohorts of consumers. Now, the regimes have increased, with various specialized offerings available to customers to create a regime. The focus will be on driving growth across regimes, with multi-faceted marketing strategies to reach relevant customers.
- Sun care, serums, moisturization, face cleansing and body lotions have huge potential for market development, compared to high-penetration categories like shampoos. HUL will invest disproportionately in six categories – 1) face cleansing, 2) light moisturization, 3) serums & treatments, 4) suncare, 5) body care, and 6) masstige segment.
- Under the masstige segment, HUL has launched Novology and the company is expected to launch Nexxus AV (from its global portfolio).

Figure 5: Portfolio in place to straddle the price pyramid and demand space



Personal care ➤

- HUL is a pioneer in the soaps category in India, with the first cast-melt bar launched under the Pears brand and the first DEFI soap bar launched under the Dove brand. The company is also a pioneer in the gel format of toothpastes via CloseUp.
- HUL demonstrated as to how its newly formulated soaps under the project Stratos are superior, compared to peers, with the ability to deliver a better lather & minimize wastage.
- Under its WIMI strategy, HUL has launched products across India based on regional preferences, skin types, habits, etc.
- Market-making categories like body wash have grown 10x over FY13 and are targeted to grow 100x by FY30F. Categories like roll-ons (under Rexona) are targeted to grow 10x by FY30F and 100x by FY34F over the FY24 level.

Figure 6: As income levels improve, the aspirational segment should see steady growth...

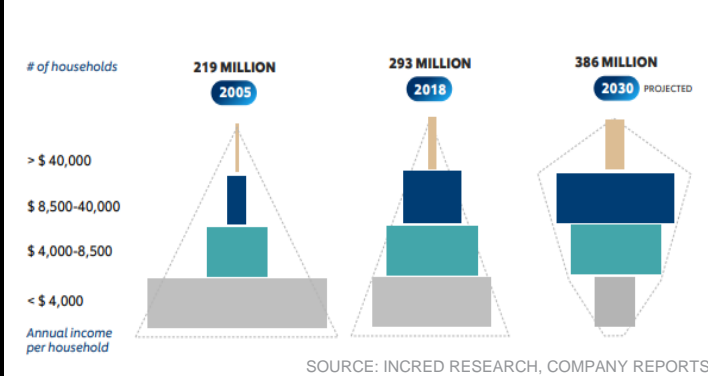
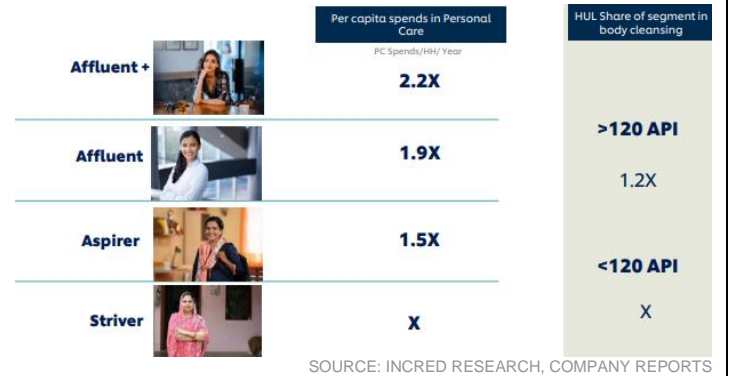


Figure 7: ...and this affluence should bring higher spending power in the personal care category



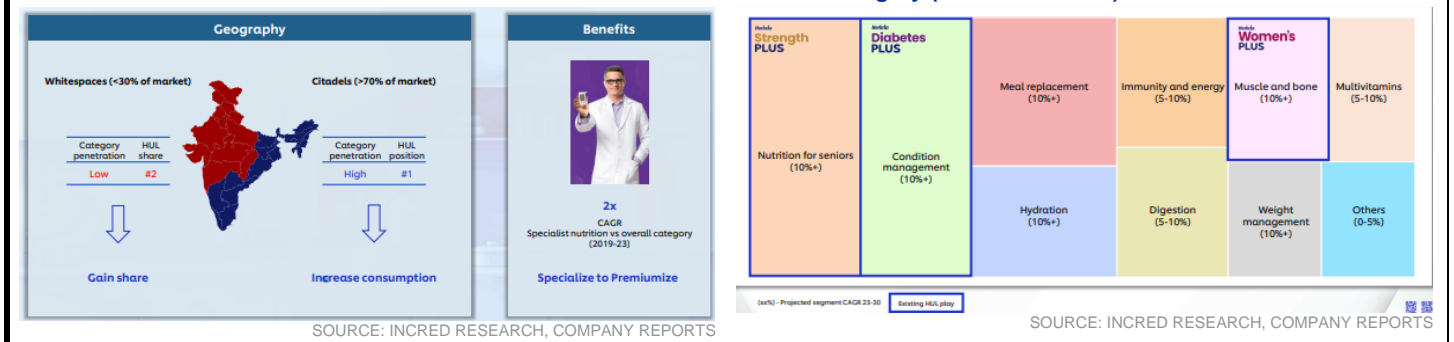
Food & refreshment (F&R) ➤

- HUL has a leadership position in the tea business and No.2 position in the coffee business (No.1 in South India, which is the largest market for coffee in India).
- Over the last 10 years, HUL has widened the gap in its market share, compared to its nearest competitor, in categories like tea, lifestyle nutrition & ketchups.
- HUL's F&R segment has a direct reach of 1.8m outlets monthly and 30m market development contacts (door-to-door sampling). The company has 16 clusters under its WIMI strategy.
- Within foods, the focus will be on 1) driving conversions from unbranded to branded, 2) convenience, 3) healthy offerings, 4) new cuisines, 5) premiumization, and 6) functional nutrition.

- Under lifestyle nutrition, HUL has a 70% market share in East & South India, where category penetration is high, and the company is the No.1 player. The focus in these markets is to drive consumption. In West & North India, where category penetration is lower, HUL is the No.2 player. The focus in these markets is to drive category development and gain market share.
- Horlicks: The focus will be on driving better taste to drive growth. HUL's specialist range under Horlicks Plus (Rs5bn turnover; targeting 3x growth by FY30F) is 1.2x more profitable than the category and will remain a large focus area.
- Boost: It has higher salience in South India, however the brand equity is healthy in North India. Considering its 'chocolatey' flavour, it will be launched pan-India under a ready-to-drink variant (Rs20bn market size).
- Spreads: Targeting 20x growth by 2030F via Hellmans mayonnaise.
- Knorr: Cooking aids grew 3x in 2024 over 2021. Mini meals will be the next big focus area.
- Food solutions business targeting 4x growth by 2030F, led by 3x growth in restaurant coverage.
- Outlook: Targeting high single-digit growth, accelerating market share gains and improving profitability.

Figure 8: The focus will be on gaining market share in West & North India

Figure 9: The Horlicks Plus range will play in the specialist nutrition category (Rs500bn market)



Home care ➤

- In the last decade, HUL saw 2.8x/10x growth in turnover/profit, respectively, in the home care segment.
- The fabric cleaning segment grew 4x/10x in penetration/turnover, respectively, led by product superiority.
- Pioneer categories like Comfort fabric enhancers (>Rs10bn turnover) saw 5x/7x growth in penetration/turnover, respectively.
- Liquids formats saw 4x/3x growth in penetration/turnover, respectively.
- Over the next decade, liquids will be a strong focus area as 1) customers' wardrobes have changed, with more types of products/colours now and hence, stain removal will be a big requirement, 2) washing machine penetration has increased in India with 68m households, however only 17m of these households use liquid detergents.
- HUL will focus on driving liquids and capsule formats over the next decade.
- While competitors have launched lower-priced products, HUL's management believes that in this category the price/value proposition is more important than only the price and believes that product superiority is what will lead to customer adoption of its brands.
- Extension into floor cleaners: This is HUL's third attempt in this category after Shield & Nature Protekt, which were launched as new brands but were not backed by significant A&P spending. This time, HUL has entered the category via extension of its Vim brand, with a superior formulation.

Figure 10: Rising affluence to drive growth in premium product offerings

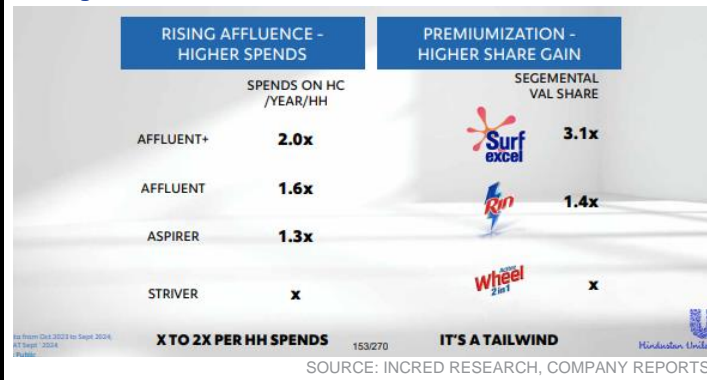
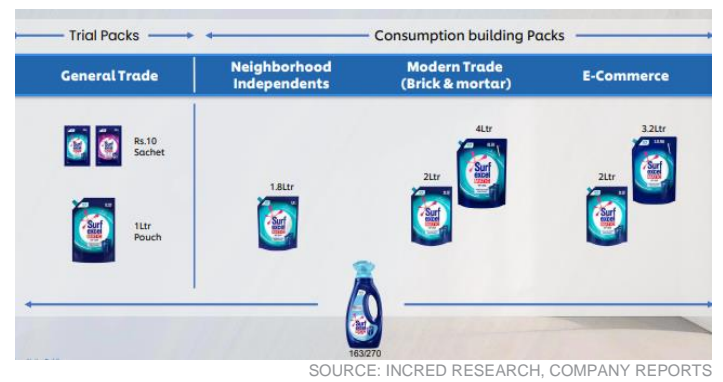


Figure 11: Price points designed across channels for liquids



Winning in channels of the future >

Figure 12: Launching new route to markets for emerging channels



Figure 13: Modern trade to remain a strong focus area



Figure 14: E-commerce now accounts for 7% of sales

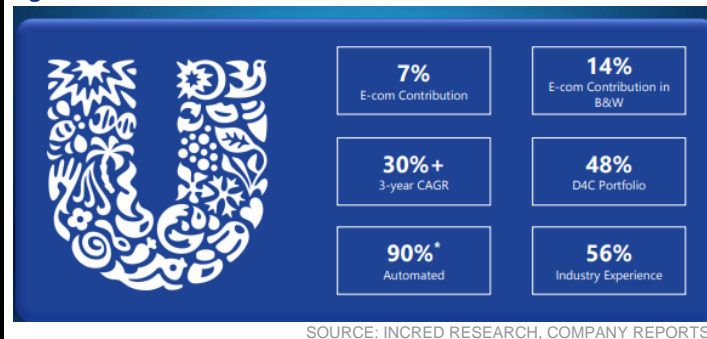
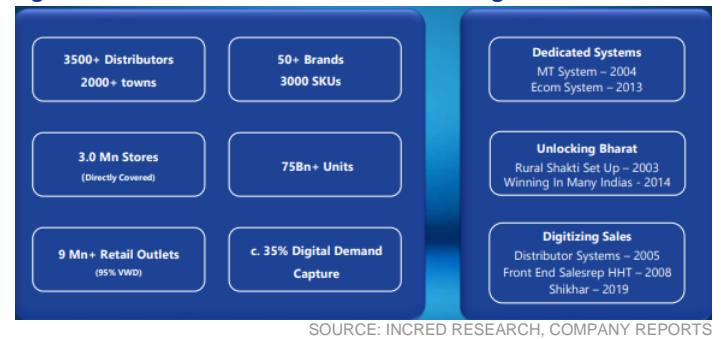
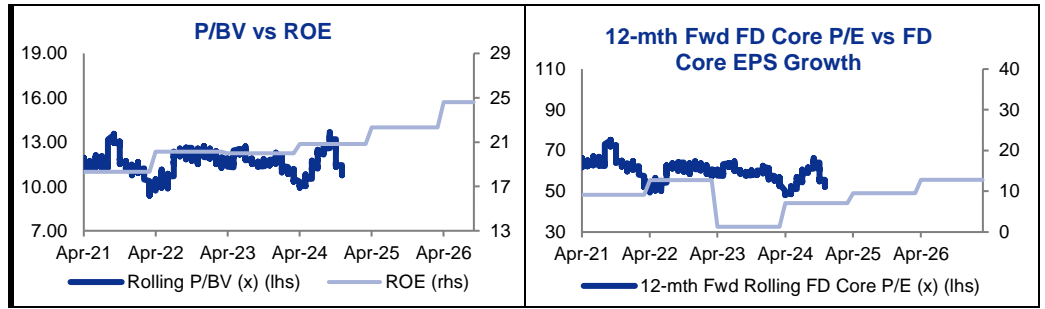


Figure 15: Scale across channels to be strengthened



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	591,440	604,690	633,978	674,855	734,170
Gross Profit	280,000	311,420	334,745	361,728	400,128
Operating EBITDA	136,320	141,900	150,373	164,200	184,037
Depreciation And Amortisation	(10,300)	(10,970)	(11,000)	(12,000)	(12,500)
Operating EBIT	126,020	130,930	139,373	152,200	171,537
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	146,079	159,977	180,491
Exceptional Items	(620)	(890)			
Pre-tax Profit	130,790	136,753	146,079	159,977	180,491
Taxation	(31,170)	(35,610)	(38,711)	(42,394)	(47,830)
Exceptional Income - post-tax					
Profit After Tax	99,620	101,143	107,368	117,583	132,661
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(620)	(890)			
Net Profit	99,000	100,253	107,368	117,583	132,661
Recurring Net Profit	99,472	100,911	107,368	117,583	132,661
Fully Diluted Recurring Net Profit	99,472	100,911	107,368	117,583	132,661

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	136,320	141,900	150,373	164,200	184,037
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(8,660)	42,650	(42,405)	(143)	(6,169)
(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)	(38,711)	(42,394)	(47,830)
Cashflow From Operations	101,260	154,763	75,963	129,439	138,992
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)	(96,442)	(105,617)	(119,161)
Preferred Dividends					
Other Financing Cashflow	1,420	1,647			
Cash Flow From Financing	(83,170)	(92,333)	(96,442)	(105,617)	(119,161)
Total Cash Generated	7,360	24,590	(32,979)	11,322	7,330
Free Cashflow To Equity	90,530	116,923	63,463	116,939	126,492
Free Cashflow To Firm	91,540	119,943	67,463	120,939	130,492

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	85,081	103,953	112,083
Total Debtors	27,350	26,900	27,031	29,136	32,696
Inventories	40,310	38,120	32,506	36,420	49,539
Total Other Current Assets	45,370	45,710	44,842	45,062	45,383
Total Current Assets	185,360	227,990	189,459	214,571	239,701
Fixed Assets	349,900	359,780	361,280	361,780	361,780
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	480,230	480,230
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	117,920	123,117	132,635
Other Current Liabilities					
Total Current Liabilities	128,190	167,350	121,320	126,517	136,035
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	16,073	16,973	18,285
Total Liabilities	152,790	196,490	148,534	162,180	173,810
Shareholders Equity	502,210	509,730	520,656	532,621	546,121
Minority Interests					
Total Equity	502,210	509,730	520,656	532,621	546,121

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	15.5%	2.2%	4.8%	6.4%	8.8%
Operating EBITDA Growth	9.0%	4.1%	6.0%	9.2%	12.1%
Operating EBITDA Margin	23.0%	23.5%	23.7%	24.3%	25.1%
Net Cash Per Share (Rs)	26.36	44.05	30.02	34.84	37.95
BVPS (Rs)	213.71	216.91	221.56	226.65	232.39
Gross Interest Cover	124.77	43.35	34.84	38.05	42.88
Effective Tax Rate	23.8%	26.0%	26.5%	26.5%	26.5%
Net Dividend Payout Ratio	80.2%	90.6%	89.8%	89.8%	89.8%
Accounts Receivables Days	14.40	16.37	15.52	15.19	15.37
Inventory Days	46.42	48.81	43.07	40.17	46.96
Accounts Payables Days	143.59	179.97	171.91	140.48	139.73
ROIC (%)	28.2%	31.5%	30.5%	33.2%	36.9%
ROCE (%)	25.8%	26.3%	27.5%	29.2%	31.8%
Return On Average Assets	14.9%	14.5%	15.3%	16.8%	18.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework	
Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.