

BUY

TP: Rs 3,069 | ▲ 18%

HINDUSTAN UNILEVER

Consumer Staples

21 July 2023

Modest quarter but improvement ahead

- Q1 volume and value growth moderated; margins improved sequentially as inflation eased
- Rural markets turned positive YoY (2Y CAGR of -4%); impact of El Nino remains a key monitorable
- Focus remains on category development and margin expansion; maintain BUY with an unchanged TP of Rs 3,069

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Volume and value growth soft: HUVR's Q1FY23 revenue grew 6% YoY (+1.8% QoQ) against our estimate of 8.8% YoY growth, with underlying volume growth of 3% YoY vs. ~5% estimated. Underlying volume growth was constrained by trade destocking in anticipation of price cuts along with heightened competition from regional players. The company continued to gain market share in more than 75% of its portfolio. Gross margin improved 280bps YoY (+130bps QoQ) despite sustained brand investments, with A&P spend stepped up by 110bps QoQ.

Modest growth in key categories: In Q1, HUVR's home care (HC), beauty & personal care (BPC), and foods & refreshment (F&R) segment revenues grew 10%, 4% and 5% YoY respectively. HC delivered mid-single-digit volume growth led by premiumisation and market development activities during the quarter. BPC performed similarly aided by the Tresemme, Indulekha, Clinic Plus, Lux, Hamam and Closeup brands. Volume growth in F&R was flattish as tea witnessed continued downgrading. As palm oil softened, prices were cut further in the soaps portfolio.

Focus remains on innovation: HUVR further strengthened its food & beverages portfolio by launching *Horlicks* millet biscuits, a range of *Knorr* Chinese sauces and *Bru* cold coffee millets. In BPC, the company launched its *Dove* men+ care range, *Indulekha* soap, and *Pond's* anti-pigmentation serum. In HC, it introduced *Comfort* wardrobe premium fragrance hangers and *Vim Shudhham* cleaning spray and gel.

Maintain BUY, TP Rs 3,069: HUVR's growth has moderated in a challenging environment, but the company remains focused on category development, innovation and premiumisation. We expect mid-to-high-single-digit volume growth in the medium term with gradual improvement in margins. The stock is trading at 51.7x/44.5x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 52.5x FY25E EPS, in line with the long-term mean, for an unchanged TP of Rs 3,069.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HUVR IN/Rs 2,604
Market cap	US\$ 74.5bn
Free float	38%
3M ADV	US\$ 46.3mn
52wk high/low	Rs 2,770/Rs 2,393
Promoter/FPI/DII	62%/14%/24%

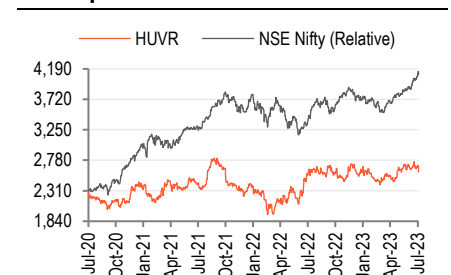
Source: NSE | Price as of 21 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	6,05,800	6,41,512	7,10,474
EBITDA (Rs mn)	1,41,490	1,66,730	1,93,320
Adj. net profit (Rs mn)	1,01,600	1,18,302	1,37,386
Adj. EPS (Rs)	43.2	50.3	58.5
Consensus EPS (Rs)	43.2	50.1	56.9
Adj. ROAE (%)	20.4	23.1	26.2
Adj. P/E (x)	60.2	51.7	44.5
EV/EBITDA (x)	43.2	36.7	31.7
Adj. EPS growth (%)	14.1	16.5	16.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

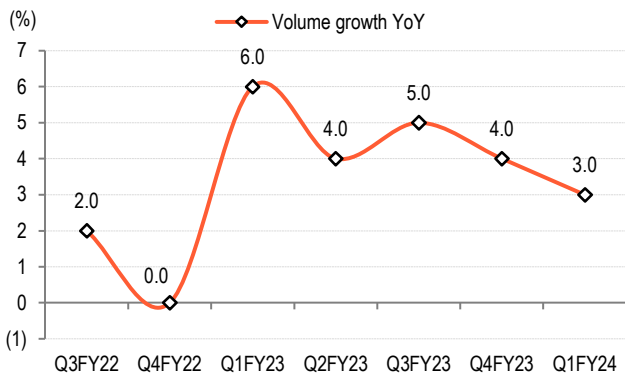


Fig 1 – Financial performance

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	154,960	152,150	146,240	1.8	6.0	159,170	(2.6)
EBIDTA	36,650	35,740	34,020	2.5	7.7	37,246	(1.6)
PAT	25,920	25,190	23,930	2.9	8.3	26,216	(1.1)
Gross Margin (%)	50.4	49.1	47.6	130bps	280bps	48.6	180bps
EBIDTA Margin (%)	23.7	23.5	23.3	20bps	40bps	23.4	30bps
PAT Margin (%)	16.7	16.6	16.4	10bps	30bps	16.5	20bps

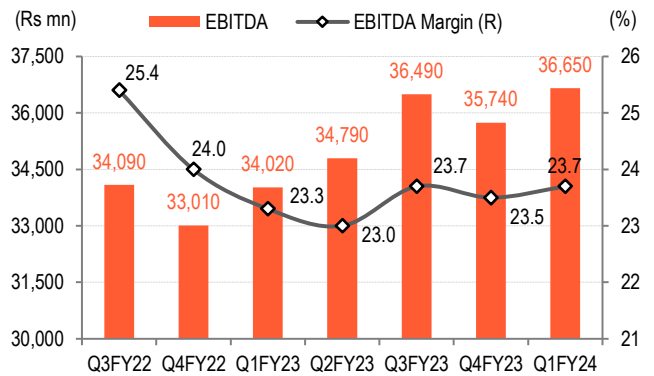
Source: Company, BOBCAPS Research

Fig 2 – Underlying volume growth



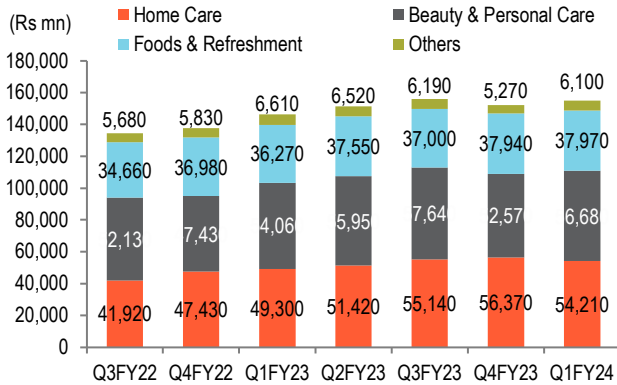
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



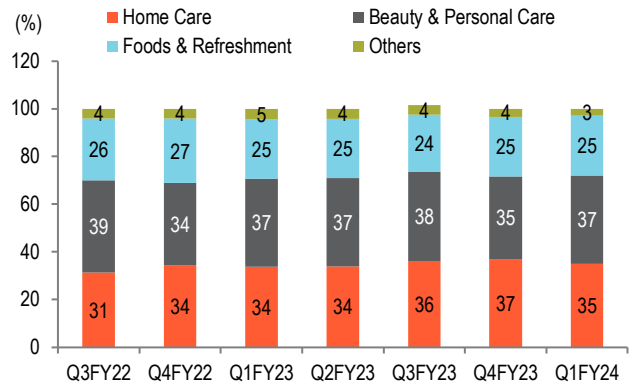
Source: Company, BOBCAPS Research

Fig 4 – Segment revenue



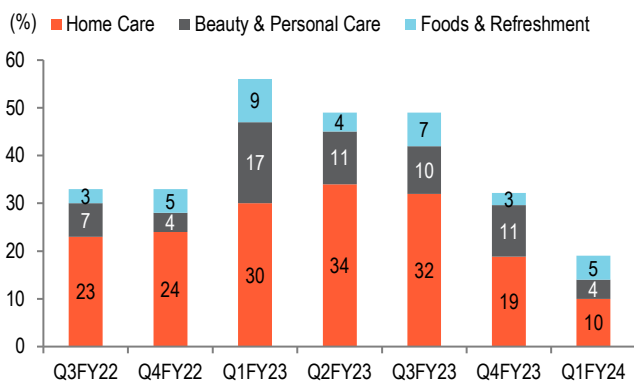
Source: Company, BOBCAPS Research

Fig 5 – Segment revenue contribution



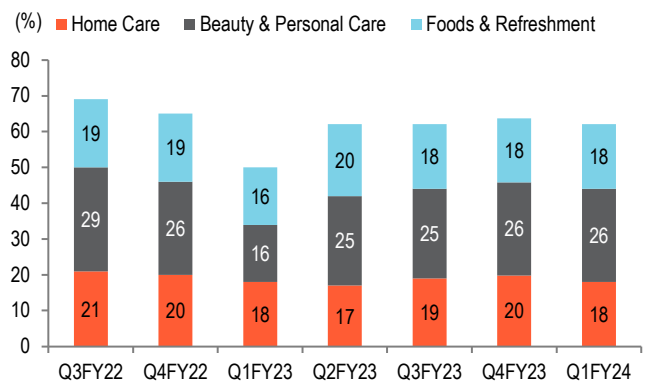
Source: Company, BOBCAPS Research

Fig 6 – Segment growth YoY



Source: Company, BOBCAPS Research

Fig 7 – Segment EBIT margin



Source: Company, BOBCAPS Research

Earnings call highlights

- HUVR witnessed gradual volume recovery during Q1FY24 with aggregate volume growth at 3% YoY. Urban markets continued to outpace rural areas but the latter turned positive in terms of volume growth for the quarter.
- Rural markets grew 2% YoY in Q1 but continue to show a decline (of 4%) on a two-year CAGR basis. There are a few elements helping the ongoing recovery – moderating inflation, increased rural expenditure and higher government capex.
- Management expects the near-term operating environment to remain volatile. El Nino has set in early and the impact of inflation and monsoons on rural demand needs to be monitored. HUVR expects price growth to be flattish to slightly negative going forward, with rising competitive intensity as inflation moderates.
- As inflation eased YoY, more players passed on the benefits of lower input costs to consumers. However, milk, cereals, barley, and coffee saw substantial inflation during the quarter.
- Volumes are likely to recover gradually due to high levels of cumulative inflation and the time lag between companies reducing prices and high-priced inventory in the channel.
- HUVR witnessed increased competitive intensity in the market due to the softening of input costs. The company is also seeing a resurgence of small and regional players, resulting in market share loss in select categories. Even so, it continued to gain share in over 75% of the portfolio in Q1, both in volume and value terms.
- The company stepped up A&P investments during the quarter, raising spends by 110bps over the Mar'23 quarter, representing an additional investment of Rs 2bn.
- HUVR's HC segment registered 10% YoY revenue growth with underlying volume growth in mid-single digits. BPC delivered volume-led revenue growth of 4% while F&R was up 5% despite near flat volumes. Segment EBIT margins remained healthy across the board with HC at 18%, BPC at 26% and F&R at 18%.
- Skin care and colour cosmetics posted high-single-digit volume growth driven by *Ponds*, *Lakme* and *Vaseline*. Oral care grew in the mid-single-digits while underlying volume growth in the skin cleansing category was muted.
- Volume growth in food, health food drinks (HFD) and coffee was impacted by price increases taken to mitigate the impact of input cost inflation. Ice cream sales softened due to unseasonal rains in April.
- During the quarter, the company launched *Surf Excel Matic* liquid with a superior UV formulation, *Vim Shudham* cleaning spray and gel for brass and copper vessels, *Comfort* wardrobe perfume hangers, and *Pureit Revito* water purifiers.
- The *Indulekha* franchise was extended to skin cleansing with the introduction of Indulekha soap. This apart, the company added *Dove* men+ care 2-in-1 shampoo plus conditioner in three variants. HUVR expanded its foods portfolio further with a new range of *Knorr* Chinese sauces (green chilli, red chilli, and dark soya sauce). *Horlicks* biscuits were relaunched in South India.

Valuation methodology

HUVR's growth has moderated in a challenging environment, but the company remains focused on category development, innovation and premiumisation. We expect mid-to-high single digit volume growth in the medium term with gradual margin improvement.

The stock is trading at 51.7x/44.5x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 52.5x FY25E EPS, in line with the long-term mean, for an unchanged TP of Rs 3,069.

Fig 8 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	641,512	710,474	668,525	739,348	(4.0)	(3.9)
EBITDA	166,730	193,320	168,452	194,908	(1.0)	(0.8)
Adj. PAT	117,922	137,386	119,949	138,367	(1.7)	(0.7)
EBITDA Margin (%)	26.0	27.2	25.4	26.4	60bps	80bps
Adj. PAT Margin (%)	18.4	19.3	17.9	18.7	50bps	60bps

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- continued decline in underlying volume growth,
- impact of monsoons on rural income, and
- sustained inflation in food.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	14.8	5,047	5,844	BUY
Dabur India	DABUR IN	12.2	565	669	BUY
Godrej Consumer Products	GCPL IN	13.1	1,057	1,159	BUY
Hindustan Unilever	HUVR IN	74.5	2,604	3,069	BUY
ITC	ITC IN	74.2	490	523	BUY
Marico	MRCO IN	8.5	539	629	BUY
Nestle India	NEST IN	27.0	22,983	26,430	BUY
Tata Consumer Products	TATACONS IN	9.6	852	994	BUY
Zydus Wellness	ZYWL IN	1.1	1,477	1,631	HOLD

Source: BOBCAPS Research, NSE | Price as of 21 Jul 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	4,70,280	5,24,460	6,05,800	6,41,512	7,10,474
EBITDA	1,16,260	1,28,570	1,41,490	1,66,730	1,93,320
Depreciation	10,740	10,910	11,370	12,416	14,260
EBIT	1,05,520	1,17,660	1,30,120	1,54,314	1,79,060
Net interest inc./(exp.)	1,170	1,060	1,140	1,398	1,468
Other inc./(exp.)	4,100	2,580	5,120	5,790	6,079
Exceptional items	(2,390)	(440)	(640)	(380)	0
EBT	1,06,060	1,18,740	1,33,460	1,58,326	1,83,671
Income taxes	26,060	29,870	32,010	40,324	46,285
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	40	130	230	80	84
Reported net profit	79,960	88,740	1,01,220	1,17,922	1,37,386
Adjustments	(2,390)	(440)	(640)	(380)	0
Adjusted net profit	82,350	89,180	1,01,600	1,18,302	1,37,386

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	88,020	90,680	95,740	94,413	1,02,336
Other current liabilities	5,880	6,650	7,640	8,090	8,960
Provisions	20,850	19,260	17,520	18,323	19,875
Debt funds	0	0	980	980	980
Other liabilities	95,880	97,710	1,03,770	1,09,702	1,21,157
Equity capital	2,350	2,350	2,350	2,350	2,350
Reserves & surplus	4,74,590	4,88,520	5,02,870	5,14,742	5,28,481
Shareholders' fund	4,76,940	4,90,870	5,05,220	5,17,092	5,30,831
Total liab. and equities	6,87,570	7,05,170	7,30,870	7,48,600	7,84,140
Cash and cash eq.	44,710	38,460	46,780	49,313	71,439
Accounts receivables	17,580	22,360	30,790	32,605	36,110
Inventories	35,790	40,960	42,510	41,921	45,439
Other current assets	23,190	25,190	28,680	30,364	33,615
Investments	27,090	35,210	28,820	38,862	38,943
Net fixed assets	61,160	61,690	69,490	70,862	72,232
CWIP	7,450	13,130	11,320	11,320	11,320
Intangible assets	2,79,300	2,79,070	2,82,630	2,82,630	2,82,630
Deferred tax assets, net	170	110	100	106	117
Other assets	1,91,130	1,88,990	1,89,750	1,90,618	1,92,295
Total assets	6,87,570	7,05,170	7,30,870	7,48,600	7,84,140

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	91,630	90,480	99,910	1,34,346	1,62,952
Capital expenditures	(7,410)	(12,250)	(11,740)	(14,113)	(15,630)
Change in investments	39,600	(7,910)	(3,670)	(10,000)	0
Other investing cash flows	3,000	1,580	2,600	0	0
Cash flow from investing	(12,280)	(17,280)	(14,940)	(24,155)	(15,711)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,940)	0	780	0	0
Interest expenses	(860)	(820)	(880)	(1,398)	(1,468)
Dividends paid	(88,110)	(75,260)	(84,740)	(1,06,130)	(1,23,648)
Other financing cash flows	(4,060)	(4,070)	(4,690)	0	0
Cash flow from financing	(93,090)	(80,150)	(89,530)	(1,07,528)	(1,25,115)
Chg in cash & cash eq.	(13,740)	(6,950)	(4,560)	2,663	22,125
Closing cash & cash eq.	18,420	11,470	7,010	9,673	31,799

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	34.0	37.8	43.1	50.2	58.5
Adjusted EPS	35.0	37.9	43.2	50.3	58.5
Dividend per share	37.5	32.0	36.0	45.2	52.6
Book value per share	203.0	208.9	215.0	220.0	225.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	13.0	11.7	10.1	9.5	8.6
EV/EBITDA	52.6	47.6	43.2	36.7	31.7
Adjusted P/E	74.3	68.6	60.2	51.7	44.5
P/BV	12.8	12.5	12.1	11.8	11.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	75.4	74.7	75.8	74.5	74.8
Interest burden (PBT/EBIT)	100.5	100.9	102.6	102.6	102.6
EBIT margin (EBIT/Revenue)	22.4	22.4	21.5	24.1	25.2
Asset turnover (Rev./Avg TA)	68.4	74.4	82.9	85.7	90.6
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.4	1.5
Adjusted ROAE	16.8	18.1	20.0	22.8	25.9

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	18.2	11.5	15.5	5.9	10.8
EBITDA	17.9	10.6	10.0	17.8	15.9
Adjusted EPS	9.0	11.0	14.1	16.5	16.5
Profitability & Return ratios (%)					
EBITDA margin	24.7	24.5	23.4	26.0	27.2
EBIT margin	22.4	22.4	21.5	24.1	25.2
Adjusted profit margin	17.5	17.0	16.8	18.4	19.3
Adjusted ROAE	29.4	18.4	20.4	23.1	26.2
ROCE	23.2	15.1	16.4	18.5	20.8
Working capital days (days)					
Receivables	11	14	16	18	18
Inventory	52	54	48	49	47
Payables	135	127	107	111	106
Ratios (x)					
Gross asset turnover	0.7	0.7	0.8	0.8	0.8
Current ratio	1.3	1.4	1.4	1.5	1.7
Net interest coverage ratio	90.2	111.0	114.1	110.4	122.0
Adjusted debt/equity	0.0	0.0	0.2	0.2	0.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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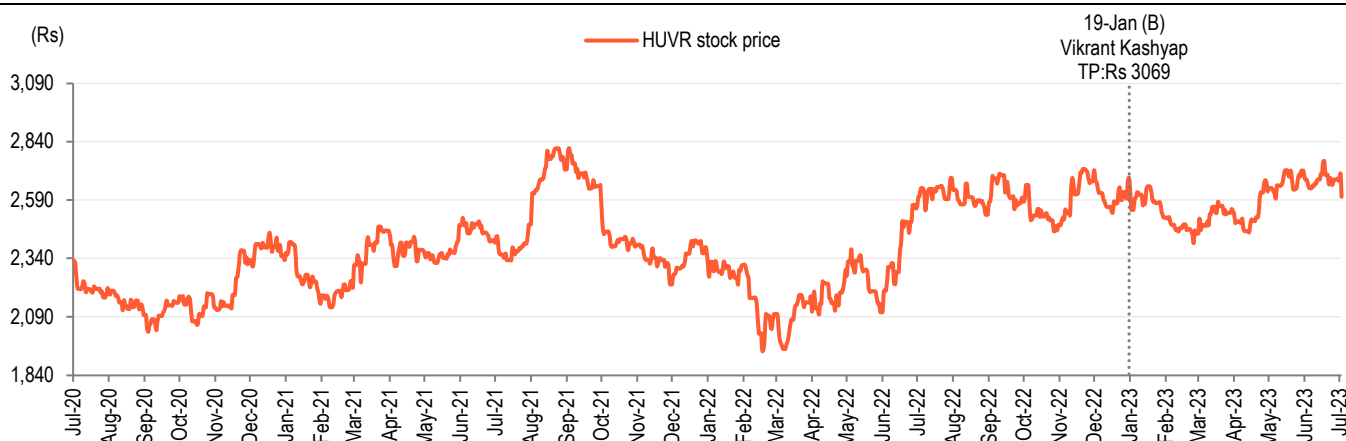
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): HINDUSTAN UNILEVER (HUVR IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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