

**BUY****TP: Rs 3,349 | ▲ 21%****HINDUSTAN UNILEVER**

Consumer Staples

24 July 2024

## Sales growth in line; expect rebound in 2H

- Sales growth of 2% YoY was in line with Bloomberg consensus. Underlying volumes rose 4% on Home Care & Personal Care (Hair Care)
- EBITDA margin of 23.8% was above consensus. Margins increased 19bps YoY as higher A&P largely offset gross margin gains of 50bps
- Assume coverage on HUVR and retain BUY rating with a TP of Rs 3,349 (from Rs 2,617)

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**Sales beat but EBITDA miss:** HUVR reported 1QFY25 underlying EBITDA of Rs 37bn, up 2.2% YoY on 1.4% sales growth and 19bps margin expansion. Sales were in line with Bloomberg consensus but EBITDA was 2% higher on higher margins.

**Rural recovery to reflect prominently in Personal Care:** HUVR indicated gradual recovery in rural demand. Hair Care volumes were up in double digits partly due to the heatwave but also reflecting slight improvement in rural demand. Management expects continued recovery through the year. We expect strong rebound in sales in the December quarter post farmer payouts from the kharif season. Our sales growth forecast is 4% for 1HFY25 and 11% for 2HFY25.

**Change in soap formulations:** HUL is changing its soap formulation in Lifebuoy and Lux with improved composition, which would lead to better usage and reduced environmental impact. Prices will remain unchanged but weight will reduce. This may be a risk as it remains to be seen whether consumers accept a higher rate per gram. India is the pilot market for this innovation.

**Our view:** Volume growth trends have been weak for HUVR but a good monsoon, improved agri yield and subsequent rural recovery can drive sales and earnings given HUL's industry-leading distribution infrastructure and 40+% rural sales exposure. A portfolio skewed towards Personal and Home Care helps as these categories respond faster to changes in demand due to the changes in income – rural income growth is the key driver for FMCG earnings over the next year. We value HUL based on P/E relative to the NIFTY 50 index and apply a 10% premium. We use 63x 12M to Jun'26 P/E to derive the TP of Rs 3,349.

HUL 1QFY25 result summary (Rs mn)	Q1FY24	Q1FY25	YoY (%)
Sales	154,960	157,070	1
EBITDA	36,650	37,440	2
EBITDA margin (%)	23.7	23.8	19bps
Adj PAT	25,920	26,600	3
Adj. EPS (Rs)	11.03	11.32	3

Source: BOBCAPS Research, Company

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HUVR IN/Rs 2,766
Market cap	US\$ 77.7bn
Free float	38%
3M ADV	US\$ 71.0mn
52wk high/low	Rs 2,811/Rs 2,172
Promoter/FPI/DII	62%/14%/24%

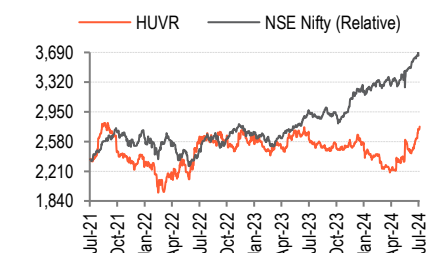
Source: NSE | Price as of 23 Jul 2024

## Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	618,960	664,209	731,302
EBITDA (Rs mn)	146,630	158,043	173,319
Adj. net profit (Rs mn)	102,770	110,429	120,092
Adj. EPS (Rs)	43.7	47.0	51.1
Consensus EPS (Rs)	43.7	47.3	52.7
Adj. ROAE (%)	20.2	21.4	23.0
Adj. P/E (x)	63.3	58.9	54.1
EV/EBITDA (x)	44.3	41.1	37.5
Adj. EPS growth (%)	1.6	6.9	9.2

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



## 1QFY25 result review

### Earnings and valuation

We forecast a stronger rebound in sales growth in the second half of FY25. Our sales growth forecast is 4% for 1HFY25 and 11% for 2HFY25. Our EBITDA margin forecasts also follow the same trajectory with margins down 30bps in 1HFY25 but up 50bps in 2HFY25. We value HUL based on P/E relative to the NIFTY 50 index and apply a 10% premium. We use 63x 12M to Jun'26 P/E to derive TP of Rs 3,349. We introduce FY27 forecasts.

**Fig 1 – HUL financial forecasts**

(Rs mn)	FY22	FY23	FY24P	FY25E	FY26E	FY27E
Sales	524,460	605,800	618,960	664,209	731,302	805,260
... YoY (%)	-	16	2	7	10	10
EBITDA	128,570	141,490	146,630	158,043	173,319	197,788
... YoY (%)	-	10	4	8	10	14
EBITDA margin	24.5	23.4	23.7	23.8	23.7	24.6
... YoY (%)	-	(116bps)	33bps	10bps	(9bps)	86bps

Source: Company, BOBCAPS Research

### Key risks

Key downside risks to our estimates are:

- continued stress in underlying volume growth,
- slower-than-anticipated rural recovery,
- sustained food inflation, and
- failed experiment in soaps reformulation.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>605,800</b>	<b>618,960</b>	<b>664,209</b>	<b>731,302</b>	<b>805,260</b>
EBITDA	141,490	146,630	158,043	173,319	197,788
Depreciation	11,370	12,160	14,250	16,547	16,547
EBIT	130,120	134,470	143,793	156,772	181,241
Net interest inc./(exp.)	1,140	3,340	3,912	4,108	4,313
Other inc./(exp.)	5,120	8,110	9,164	9,622	10,103
Exceptional items	(640)	50	(480)	0	0
EBT	133,460	139,290	148,565	162,286	187,031
Income taxes	32,010	36,440	38,616	42,194	48,628
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	230	30	80	84	88
<b>Reported net profit</b>	<b>101,220</b>	<b>102,820</b>	<b>109,949</b>	<b>120,092</b>	<b>138,403</b>
Adjustments	(640)	50	(480)	0	0
<b>Adjusted net profit</b>	<b>101,600</b>	<b>102,770</b>	<b>110,429</b>	<b>120,092</b>	<b>138,403</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	95,740	104,860	94,856	104,246	114,036
Other current liabilities	7,640	8,070	8,660	9,535	10,499
Provisions	17,520	19,160	20,312	22,020	23,904
Debt funds	980	130	130	130	130
Other liabilities	103,770	138,540	148,401	163,023	179,140
Equity capital	2,350	2,350	2,350	2,350	2,350
Reserves & surplus	502,870	511,880	517,377	523,382	530,302
Shareholders' fund	505,220	514,230	519,727	525,732	532,652
<b>Total liab. and equities</b>	<b>730,870</b>	<b>784,990</b>	<b>792,087</b>	<b>824,685</b>	<b>860,361</b>
Cash and cash eq.	46,780	75,590	76,295	87,287	100,233
Accounts receivables	30,790	29,970	34,575	38,068	41,918
Inventories	42,510	40,220	42,538	46,748	51,139
Other current assets	28,680	29,100	31,219	34,360	37,823
Investments	28,820	45,600	38,131	38,134	38,136
Net fixed assets	69,490	80,310	83,965	93,014	102,114
CWIP	11,320	10,250	10,250	10,250	10,250
Intangible assets	282,630	282,470	282,470	282,470	282,470
Deferred tax assets, net	100	100	107	118	130
Other assets	189,750	191,380	192,527	194,228	196,103
<b>Total assets</b>	<b>730,870</b>	<b>784,990</b>	<b>792,077</b>	<b>824,676</b>	<b>860,314</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>99,910</b>	<b>154,690</b>	<b>131,360</b>	<b>154,784</b>	<b>174,405</b>
Capital expenditures	(11,740)	(14,680)	(26,568)	(25,596)	(28,184)
Change in investments	(3,670)	(42,920)	7,470	0	0
Other investing cash flows	2,600	4,290	0	0	0
<b>Cash flow from investing</b>	<b>(14,940)</b>	<b>(53,240)</b>	<b>(19,100)</b>	<b>(25,598)</b>	<b>(28,186)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	780	(890)	0	0	0
Interest expenses	(880)	(1,060)	(3,912)	(4,108)	(4,313)
Dividends paid	(84,740)	(94,160)	(104,451)	(114,087)	(131,483)
Other financing cash flows	(4,690)	(4,230)	(3,061)	0	2,523
<b>Cash flow from financing</b>	<b>(89,530)</b>	<b>(100,340)</b>	<b>(111,424)</b>	<b>(118,195)</b>	<b>(133,273)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(4,560)</b>	<b>1,110</b>	<b>835</b>	<b>10,992</b>	<b>12,946</b>
<b>Closing cash &amp; cash eq.</b>	<b>7,010</b>	<b>8,120</b>	<b>8,955</b>	<b>19,947</b>	<b>32,893</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	43.1	43.8	46.8	51.1	58.9
Adjusted EPS	43.2	43.7	47.0	51.1	58.9
Dividend per share	36.1	40.1	44.4	48.5	56.0
Book value per share	215.0	218.8	221.2	223.7	0.0

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	10.7	10.5	9.8	8.9	8.1
EV/EBITDA	45.9	44.3	41.1	37.5	32.9
Adjusted P/E	64.0	63.3	58.9	54.1	47.0
P/BV	12.9	12.6	12.5	12.4	

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	75.8	73.8	74.0	74.0	74.0
Interest burden (PBT/EBIT)	102.6	103.6	103.3	103.5	103.2
EBIT margin (EBIT/Revenue)	21.5	21.7	21.6	21.4	22.5
Asset turnover (Rev./Avg TA)	82.9	78.8	83.9	88.7	93.6
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.5	1.6	1.6
<b>Adjusted ROAE</b>	<b>20.0</b>	<b>20.0</b>	<b>21.2</b>	<b>22.8</b>	<b>26.0</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	15.5	2.2	7.3	10.1	10.1
EBITDA	10.0	3.6	7.8	9.7	14.1
Adjusted EPS	14.1	1.6	6.9	9.2	15.2

### Profitability & Return ratios (%)

EBITDA margin	23.4	23.7	23.8	23.7	24.6
EBIT margin	21.5	21.7	21.6	21.4	22.5
Adjusted profit margin	16.8	16.6	16.6	16.4	17.2
Adjusted ROAE	20.4	20.2	21.4	23.0	26.2
ROCE	16.4	15.7	16.0	17.0	19.0

### Working capital days (days)

Receivables	16	18	18	18	18
Inventory	48	51	48	47	47
Payables	107	123	116	105	105

### Ratios (x)

Gross asset turnover	0.8	0.7	0.8	0.8	0.8
Current ratio	1.4	1.7	1.8	1.8	1.8
Net interest coverage ratio	114.1	40.3	36.8	38.2	42.0
<b>Adjusted debt/equity</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

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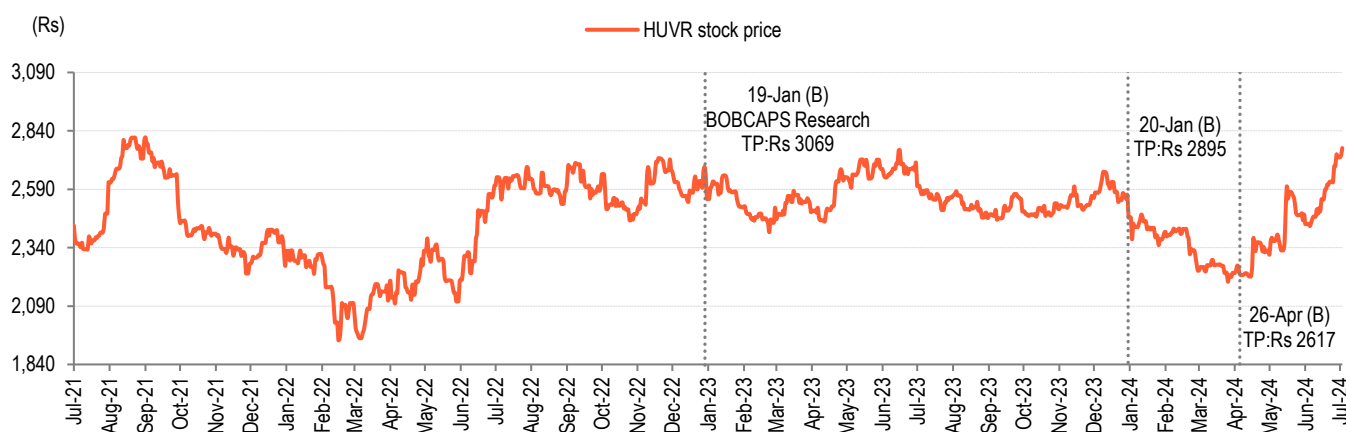
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

## 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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