

**Improvement to continue gradually; Buy**

Q2FY24 Result Update | Sector: FMCG | October 20, 2023

**BUY**

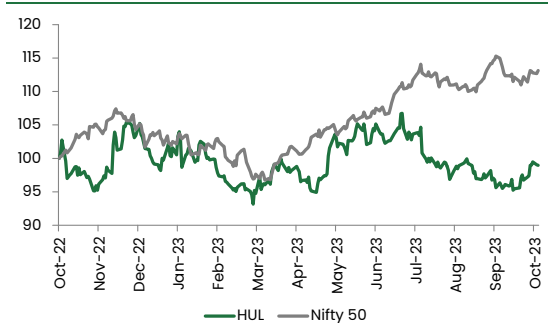
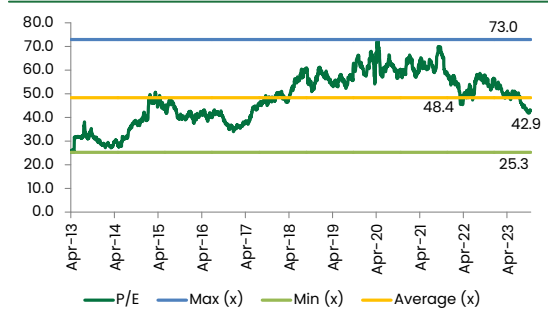
<b>CMP (Rs)</b>	<b>2,548</b>
<b>Target Price (Rs)</b>	<b>3,068</b>
<b>Potential Upside</b>	<b>20.4%</b>
<b>Sensex</b>	65,629
<b>Nifty</b>	19,625

**Key Stock data**

<b>BSE Code</b>	500696
<b>NSE Code</b>	HINDUNILVR
<b>Bloomberg</b>	HUVR:IN
<b>Shares o/s, Cr (FV 1)</b>	235
<b>Market Cap (Rs Cr)</b>	598,699
<b>3M Avg Volume</b>	1,536,620
<b>52 week H/L</b>	2,770/2,393

**Shareholding Pattern**

(%)	Dec-22	Mar-23	Jun-23
<b>Promoter</b>	61.9	61.9	61.9
<b>FII</b>	14.3	14.4	14.5
<b>DII</b>	11.6	11.6	11.5
<b>Others</b>	12.2	12.1	12.1

**1 Year relative price performance**

**1 year P/E Forward (x)**

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**Revenue growth in single digit, in-line with expectation:** HUL revenue for Q2FY24 grew by 3.2% YoY and 0.8% QoQ to Rs 15,623cr with an underlying volume growth of 2% and price growth of 1%. The company is translating from price to volume led growth and overall rural sales in FMCG is showing signs of revival but still negative (-1%) as compared to last year wherein rural growth witnessed a decline of 8-9% while urban market grew by 3% YoY. All segments that contributed to the revenue growth were largely driven by steady growth in the beauty & personal care segment followed by foods; however home care performance remained mixed.

**Healthy improvement in margins:** HUL posted gross profit of Rs 8,278cr, higher by 19.2% YoY and 5.9% QoQ and margin at 53% with healthy improvement of 711bps YoY and 254bps QoQ driven by cost measures and easing of raw material cost which declined by 10.4% YoY and 4.3% QoQ. Further, the management plan was to spend on advertisement and brand building thus it's A&P spends increased by 65.4% YoY and 15.7% QoQ to Rs 1,742cr (11% of revenue from 9.7% in Q1FY24 and 7% in Q2FY23). Consequently, its EBITDA reported at Rs 3,797cr, up by 9.1% YoY and 3.6% QoQ while margins were at 24.3% which improved by 133bps YoY and 65bps QoQ. PAT witnessed flat growth YoY but improved by 4% QoQ to Rs 2,657cr while margin was at 17%, down by 62bps YoY but up by 51bps QoQ.

**Steady growth in Beauty & Personal Care segment (BPC):** HUL's BPC segment performance led the revenue growth as it grew steady by 5% YoY and 3.6% QoQ to Rs 5,873cr while underlying volume growth was in mid-single digit. It contributed 37.6% to revenue and 45.2% to profits. Further, EBIT grew by 12.4% YoY and 7.5% QoQ to Rs 1,582cr while contribution to margins improved by 133bps YoY and 164bps QoQ. Amongst portfolio, innovation and activation for products continued and strong growth was led by skincare, colour cosmetics and soaps like lux & Hamam while Hair care, oral care and Body wash continued to gain traction.

**Mixed growth from home care segment:** Home care revenue and profits were mixed for Q2FY24. Its revenue grew by 3.2% YoY but declined by 2.1% to Rs 5,308cr and profits grew by 14.6% YoY but was flat sequentially to Rs 1,014cr as marketing spends increased to protect from competition and maintain its position. Additionally, Home care contributed 34% of revenue and 29% of profits and underlying volume grew in mid-single digit. Its premium portfolio continues to contribute to growth while Dishwash & Fabric wash grew in high & mid-single digit, respectively.

**Outlook & Valuation:** HUL's Q2FY24 numbers came largely in-line with our expectation wherein revenue grew in single digit while strong improvement on margins. Going ahead, we expect rural areas to pick up pace and volumes to improve and gross margin to sustain at around levels of 23-24%. Besides, management will continue to invest behind its core brands to maintain its position from competition, also focus on innovation & premiumization as well as spend on advertisement and at the same time maintain margins. We are positive on the growth prospect ahead given its leadership position, strong product portfolio and better financials as compared to peers. On a financial front, we have estimated its revenue/EBITDA/PAT to grow at 15.5%/18.3%/17.5% CAGR over FY23-25E and recommend a **Buy** rating with a target price of **Rs 3,068**, assigning a PE multiple of 51x on FY25E EPS.

**Financial Summary - consolidated**

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	52,446	60,580	69,866	80,755
EBITDA	12,857	14,149	16,711	19,800
EBITDAM (%)	24.5	23.4	23.9	24.5
APAT	8,887	10,144	11,826	14,002
APATM (%)	16.9	16.7	16.9	17.3
EPS (Rs)	37.8	43.2	50.3	59.6
PE (x)	67.4	59.0	50.6	42.8
RoE (%)	18.1	20.2	22.0	23.9

Source: RBL Research

**Foods & refreshment segment witnessed mixed performance:** HUL's F&B segment revenue grew in single digit while mixed performance was seen on margin. Its revenue grew by 2.6% YoY and 1.4% QoQ to Rs 3,851cr while profit was down by 3.2% YoY but sequentially it was up by 5.7% to Rs 720cr. Overall, the F&B segment contributes ~24.6% to revenue and 20.6% to the profit of the company. Mid-single digit volume growth was seen during the quarter. Coffee grew strong while tea continued to witness consumer downgrading.

**Concall Highlights:** 1) Volume to recover gradually led by improving sentiments from rural areas. 2) Upcoming festive season and government spending on infrastructure will drive growth. 3) Price cut in soaps continued due to decline in raw material cost. 4) Also, price reductions were taken in both Fabric Wash and Household Care. 5) For Home Care, Vim Pure range with plant-based actives and Comfort Intense Fabric Conditioner were launched. 6) For F&B, Horlicks Strength Plus, Slow Churn Ice Cream and new blends of Lipton Green Tea were launched. 7) For BPC, key launches include a new range of Vaseline moisturizers, Lakme serums and cosmetics, Pond's serum, Indulekha Anti-Dandruff Oil and Shampoo. 8) The Board of Directors declared an interim dividend of INR 18/- per share.

#### P&L Account Quarterly - consolidated

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
<b>Net Sales</b>	15,623.0	15,144.0	3.2	15,496.0	0.8
Cost of Raw Materials	4,799.0	5,436.0	(11.7)	4,820.0	(0.4)
Purchase of Finished Goods	2,636.0	3,100.0	(15.0)	2,643.0	(0.3)
(Increase) / Decrease In Stocks	(90.0)	(339.0)	-	216.0	-
<b>Total Raw material cost</b>	<b>7,345.0</b>	<b>8,197.0</b>	<b>(10.4)</b>	<b>7,679.0</b>	<b>(4.3)</b>
<b>Gross Profit</b>	<b>8,278.0</b>	<b>6,947.0</b>	<b>19.2</b>	<b>7,817.0</b>	<b>5.9</b>
Gross Margins (%)	53.0	45.9	711bps	50.4	254bps
Employee Cost	766.0	758.0	1.1	705.0	8.7
A&P Cost	1,742.0	1,053.0	65.4	1,505.0	15.7
Other Expense	1,973.0	1,657.0	19.1	1,942.0	1.6
<b>Total Expenditure</b>	<b>11,826.0</b>	<b>11,665.0</b>	<b>1.4</b>	<b>11,831.0</b>	<b>(0.0)</b>
<b>EBITDA</b>	<b>3,797.0</b>	<b>3,479.0</b>	<b>9.1</b>	<b>3,665.0</b>	<b>3.6</b>
EBITDA Margins (%)	24.3	23.0	133bps	23.7	65bps
Depreciation	297.0	272.0	9.2	286.0	3.8
EBIT	3,500.0	3,207.0	9.1	3,379.0	3.6
Other Income	183.0	109.0	67.9	183.0	-
Interest	88.0	28.0	214.3	50.0	76.0
PBT	3,595.0	3,288.0	9.3	3,512.0	2.4
Exceptional	(7.0)	(29.0)	-	(38.0)	-
PBT	3,588.0	3,259.0	10.1	3,474.0	3.3
Tax	931.0	589.0	58.1	918.0	1.4
<b>PAT</b>	<b>2,657.0</b>	<b>2,670.0</b>	<b>(0.5)</b>	<b>2,556.0</b>	<b>4.0</b>
PAT Margin (%)	17.0	17.6	-62bps	16.5	51bps
EPS	11.3	11.4	(0.5)	10.9	4.0

Source : RBL Research

Gross margin improved because of decline in Raw material cost

Gross margin saving was spend on Advertisements

Revenue growth was driven by beauty & personal care as well as foods segment

### Segment Revenue

Particulars, Rs cr	Q2FY24	Q2FY23	YoY (%)	Q1FY24	Q-o-Q (%)
Home care	5,308	5,142	3.2	5,421	(2.1)
% of net sales	34.0	34.0	2bps	35.0	-101bps
Beauty & Personal Care	5,873	5,595	5.0	5,668	3.6
% of net sales	37.6	36.9	65bps	36.6	101bps
Foods & Refreshment	3,851	3,755	2.6	3,797	1.4
% of net sales	24.6	24.8	-15bps	24.5	15bps
Others	591	652	(9.4)	610	(3.1)
% of net sales	3.8	4.3	-52bps	3.9	-15bps
	<b>15,623</b>	<b>15,144</b>	<b>3.2</b>	<b>15,496</b>	<b>0.8</b>

Source : RBL Research

Profit driven by personal & beauty care segment

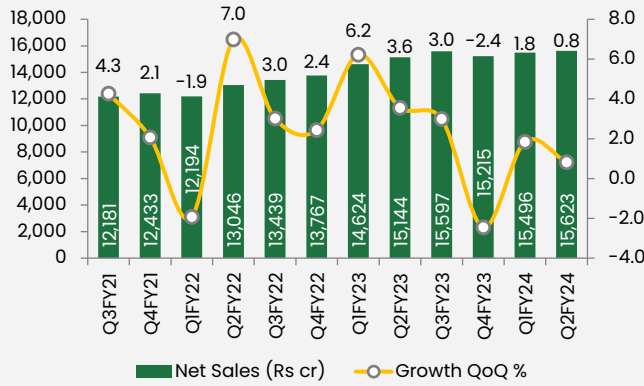
### Segment Profit

Particulars, Rs cr	Q2FY24	Q2FY23	YoY (%)	Q1FY24	Q-o-Q (%)
Home care	1,014	885	14.6	1,013	0.1
% of EBIT	29.0	27.6	138bps	30.0	-101bps
Beauty & Personal Care	1,582	1,407	12.4	1,472	7.5
% of EBIT	45.2	43.9	133bps	43.6	164bps
Foods & Refreshment	720	744	(3.2)	681	5.7
% of EBIT	20.6	23.2	-263bps	20.2	42bps
Others	184	171	7.6	213	(13.6)
% of EBIT	5.3	5.3	-7bps	6.3	-105bps
<b>EBIT</b>	<b>3,500</b>	<b>3,207</b>	<b>9.1</b>	<b>3,379</b>	<b>3.6</b>

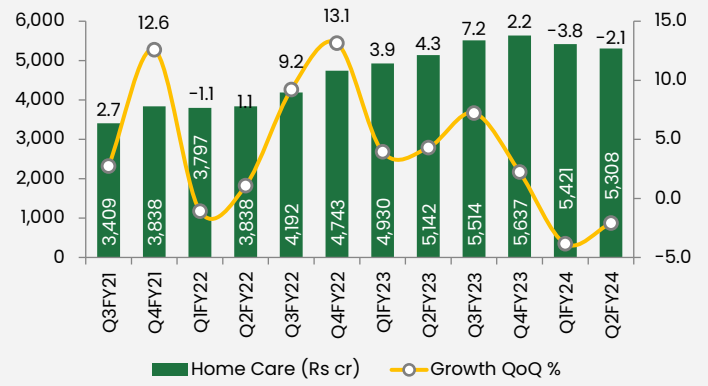
Source : RBL Research

Story in charts

Net Sales grew by 3.2% YoY and 0.8% QoQ

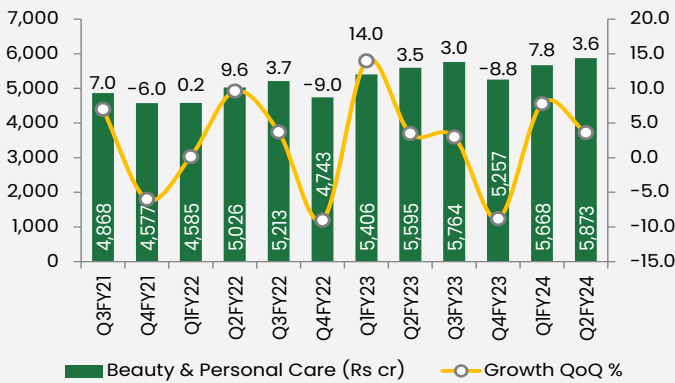


Home Care grew by 3.2% YoY but de-grew by 2.1% QoQ

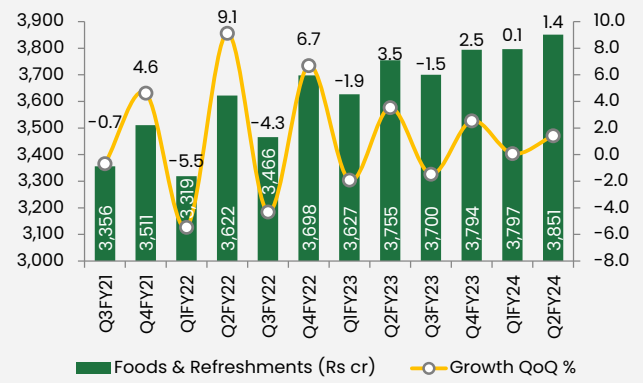


Source : RBL Research

Beauty & Personal Care grew by 5% YoY and 3.6% QoQ

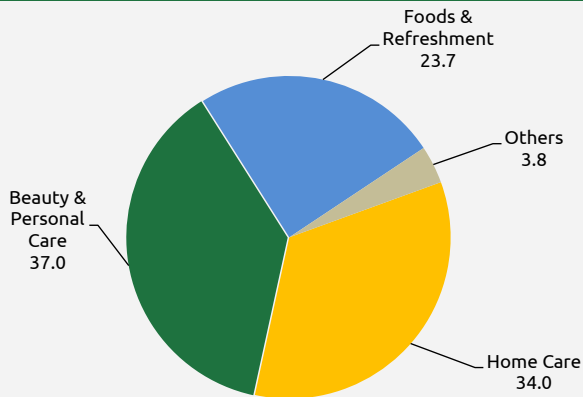


Foods & Refreshments grew by 2.6% YoY and 1.4% QoQ

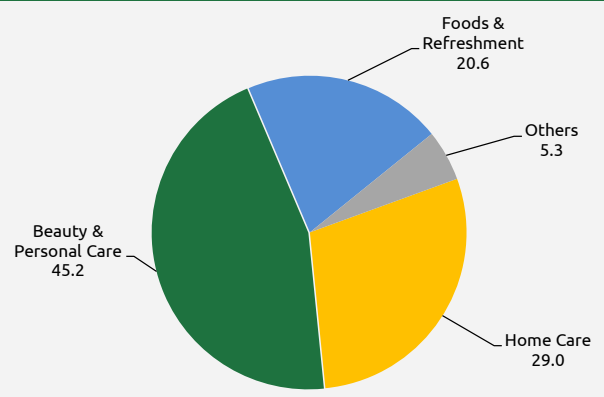


Source : RBL Research

Revenue Share by Segments in Q2FY24 (%)

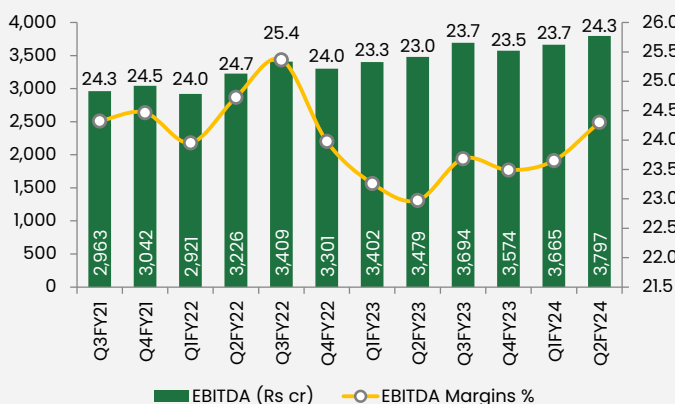


Profit Share by Segments in Q2FY24 (%)

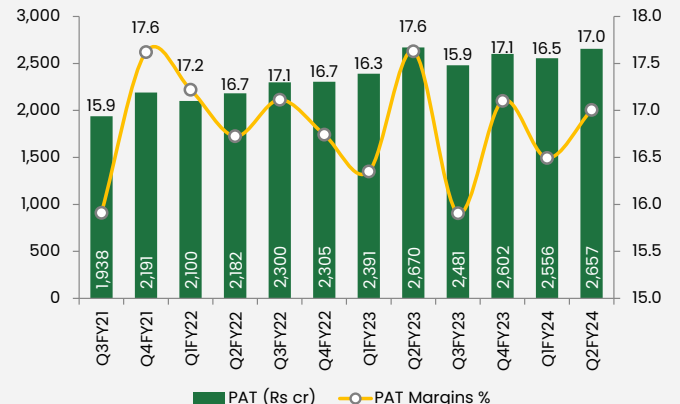


Source : RBL Research

EBITDA margin was at 24.3% improved by 133bps YoY & 65bps QoQ



PAT margin was at 17% in Q2FY24, decline of 62bps YoY but up by 51bps QoQ



Source : RBL Research

## P&amp;L Account – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net sales	52,446	60,580	69,866	80,755
<b>Expenditure</b>				
Cost of materials	16,446	20,212	23,056	26,326
Purchase of stock in trade	9,311	11,579	13,275	15,343
(Increase) / Decrease In Stocks	(22)	(75)	(21)	(24)
<b>Total raw materials</b>	<b>25,735</b>	<b>31,716</b>	<b>36,310</b>	<b>41,645</b>
<b>Gross Profit</b>	<b>26,711</b>	<b>28,864</b>	<b>33,557</b>	<b>39,110</b>
Gross Margins %	50.9	47.6	48.0	48.4
Employee cost	2,545	2,854	3,291	3,804
A&P Cost	4,744	4,907	5,659	6,541
Other expenses	449	6,954	7,895	8,964
<b>Total expenditure</b>	<b>39,589</b>	<b>46,431</b>	<b>53,155</b>	<b>60,955</b>
<b>EBITDA</b>	<b>12,857</b>	<b>14,149</b>	<b>16,711</b>	<b>19,800</b>
EBITDAM (%)	24.5	23.4	23.9	24.5
Depreciation	1,091	1,137	1,327	1,534
PBIT	11,766	13,012	15,384	18,266
Other income	258	512	419	565
Interest expenses	106	114	140	162
PBT	11,918	13,410	15,663	18,670
Tax	2,987	3,201	3,837	4,667
<b>Reported PAT</b>	<b>8,931</b>	<b>10,209</b>	<b>11,826</b>	<b>14,002</b>
Exceptional Income / Expenses	(44)	(65)	-	-
PAT (after Exceptional)	8,887	10,144	11,826	14,002
PAT Margin %	16.9	16.7	16.9	17.3
EPS	37.8	43.2	50.3	59.6

Source : RBL Research

## Balance Sheet – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	235	235	235	235
Reserves & Surplus	48,826	50,069	53,421	58,258
<b>Total Shareholder's Fund</b>	<b>49,061</b>	<b>50,304</b>	<b>53,656</b>	<b>58,493</b>
Minority Interest	26	218	218	218
Short term borrowing	-	98	-	-
<b>Total Debt</b>	<b>-</b>	<b>98</b>	<b>-</b>	<b>-</b>
Deferred tax liabilities	7,472	7,507	7,685	7,752
Long term provision	1,580	1,363	1,467	1,615
Other long term liabilities	1,098	1,667	1,747	2,019
<b>Total</b>	<b>10,150</b>	<b>10,537</b>	<b>10,899</b>	<b>11,386</b>
<b>Current Liabilities</b>				
Trade payables	9,068	9,574	10,719	11,505
Short term provisions	346	389	449	404
Other current liabilities	1,866	1,967	2,096	2,261
<b>Total</b>	<b>11,280</b>	<b>11,930</b>	<b>13,264</b>	<b>14,170</b>
<b>Total liabilities</b>	<b>70,517</b>	<b>73,087</b>	<b>78,037</b>	<b>84,267</b>
<b>Application of Assets</b>				
Net Block	34,076	35,281	36,544	38,366
Current work in process	1,313	1,132	1,132	1,132
Goodwill on consolidation	17,397	17,466	17,466	17,466
Non current investment	2	2	2	3
Tax assets	1,169	1,174	1,354	1,565
Long term loans and advances	115	98	140	162
Other non-current assets	923	936	1,079	1,248
<b>Total</b>	<b>54,995</b>	<b>56,089</b>	<b>57,718</b>	<b>59,941</b>
<b>Current Assets</b>				
Current investments	3,519	2,811	3,493	4,038
Inventories	4,096	4,251	4,903	5,667
Trade receivables	2,236	3,079	3,551	4,104
Cash & Bank balance	3,846	4,678	5,859	7,613
Short term loans and advances	35	36	42	48
Other current assets	1,790	2,143	2,472	2,857
<b>Total</b>	<b>15,522</b>	<b>16,998</b>	<b>20,319</b>	<b>24,326</b>
<b>Total assets</b>	<b>70,517</b>	<b>73,087</b>	<b>78,037</b>	<b>84,267</b>

Source : RBL Research

## Cashflow – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Profit before tax	11,874	13,346	15,663	18,670
Add: Depreciation	1,106	1,152	1,327	1,534
Add: Interest cost	106	114	140	162
Less: Other Income /Interest Rec	(198)	(411)	(419)	(565)
Less: Dividend Income	(1)	(2)	(2)	(2)
Others	(58)	(110)	-	-
<b>Operating profit before working capital changes</b>	<b>12,829</b>	<b>14,089</b>	<b>16,709</b>	<b>19,798</b>
Changes in working capital	(1,000)	(958)	(127)	(717)
Cash from Operations	11,829	13,131	16,582	19,081
Less: Taxes	(2,781)	(3,140)	(3,837)	(4,667)
<b>Cash flow from Operations</b>	<b>9,048</b>	<b>9,991</b>	<b>12,745</b>	<b>14,414</b>
<b>Net cash used in Investing</b>				
Purchase of fixed assets	(1,228)	(1,192)	(2,591)	(3,356)
Purchase of investments	(52,234)	(26,693)	(683)	(545)
Sales of fixed assets	175	26,131	-	-
Sales of investments	51,442	(1)	-	-
Dividend Income/Interest Rec.	162	261	417	563
Others	(45)	-	-	-
<b>Cash flow from investing</b>	<b>(1,728)</b>	<b>(1,494)</b>	<b>(2,856)</b>	<b>(3,338)</b>
<b>Cash flow from Financing</b>				
Proceeds of borrowings	55	286	(98)	-
Sales of borrowings	(55)	(208)	-	-
Dividend (Incl dividend tax)	(7,526)	(8,474)	(8,474)	(9,165)
Interest cost	(82)	(88)	(140)	(162)
Others	(407)	(469)	-	-
<b>Cash flow from Financing</b>	<b>(8,015)</b>	<b>(8,953)</b>	<b>(8,712)</b>	<b>(9,327)</b>
<b>Net cash Inflow/Outflow</b>	<b>(695)</b>	<b>(456)</b>	<b>1,177</b>	<b>1,750</b>
Opening cash	1,842	1,147	714	1,891
Bank balance	2,699	3,964	3,968	3,972
<b>Closing Cash &amp; Bank</b>	<b>3,846</b>	<b>4,678</b>	<b>5,859</b>	<b>7,613</b>

Source : RBL Research

## Key ratios – consolidated

Particulars	FY22	FY23	FY24E	FY25E
<b>Per share Data</b>				
EPS (Rs)	37.8	43.2	50.3	59.6
Book value per share (Rs)	208.8	214.1	228.3	248.9
Dividend per share (Rs)	32.0	36.1	36.1	39.0
Dividend Yield (%)	1.3	1.4	1.4	1.5
Dividend Payout (%)	84.8	83.5	71.7	65.5
<b>Profitability Ratios</b>				
EBITDAM(%)	24.5	23.4	23.9	24.5
PBTM (%)	22.7	22.1	22.4	23.1
NPM (%)	16.9	16.7	16.9	17.3
RoE (%)	18.1	20.2	22.0	23.9
RoCE (%)	24.0	25.8	28.7	31.2
<b>Efficiency Data</b>				
Debt-Equity Ratio	0.0	0.0	0.0	0.0
Interest Cover Ratio	111.0	114.1	110.1	113.1
Fixed Asset Ratio	0.6	0.6	0.5	0.5
Debtors (Days)	15.6	18.6	18.6	18.6
Inventory (Days)	28.5	25.6	25.6	25.6
Payable (Days)	63.1	57.7	56.0	52.0
WC (Days)	-19.0	-13.5	-11.8	-7.8
<b>Valuation</b>				
P/E (x)	67.4	59.0	50.6	42.8
P/BV	12.2	11.9	11.2	10.2
EV/EBITDA	46.5	42.3	35.7	30.1
EV/Sales	11.4	9.9	8.5	7.4

Source : RBL Research

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**Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)**

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? <b>[If answer is yes, nature of Interest is given below this table]</b>		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

**Nature of Interest ( if answer to F (a) above is Yes :**

.....

**Name(s) with Signature(s) of RA(s).**

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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