

October 23, 2024

**RESULT REPORT Q2 FY25** | Sector: Consumer Staples

# Hindustan Unilever

## Volume recovering gradually; Pricing turns positive in 2H

Hindustan Unilever's (HUVR) 2QFY25 performance was in-line with our estimate. Underlying Volume Growth (UVG) came in slightly below at 3% (5-year CAGR at ~2.8%) versus our est. of 4%. UVG decline in Soaps and Tea was offset by high-single digit UVG in Fabric Wash & Household Care. Tea category growth was impacted by downgradations while Soaps will take couple of quarters to recover from the recent price actions at the mass end. We continue to expect overall UVG to be better in 2H but it is more gradual than expected. This along with low-single digit pricing (anniversarization of price cuts + additional calibrated price hikes in soaps & tea) and no major improvement in EBITDA margins from current levels of 23-24% leads to just 5.7% earnings growth in FY25. We roll-forward our target price to FY'27E EPS, giving us a target price (TP) of Rs2,845. Maintain Neutral.

### Result Highlights

- **Headline performance:** HUVR's standalone turnover (including other operating income-OOI) for 2QFY25 grew by 1.5% YoY to Rs155bn (vs our est. Rs156.5bn). EBITDA de-grew by 1.3% YoY to Rs36.5bn (vs our est. Rs36bn). Recurring PAT (PAT bei) de-grew by 2.1% YoY to Rs26.1bn. Reported PAT de-grew by 3.9% YoY to Rs26.1bn.
- **UVG** for 2QFY25 came at 3% YoY, below our est. of 4%.
- **Margins** (Please note, our margins calculated with revenue (Sales+OOI) in denominator and not sales.): Reported gross margin came in at 51%, down ~170bps YoY (-40bps QoQ). While EBITDA margin was down 70bps YoY to 23.5%. A&SP was down 180bps YoY to 9.4% (down 14.9% on absolute basis) while other expenses was up 50bps YoY along with 30bps YoY increase in staff costs.
- **1HFY25 performance:** Revenue, EBITDA and APAT grew by 1.4%, 0.5% and 0.3% YoY, respectively. Gross margin is flat YoY at 51.2% while EBITDA margin is down 20bps YoY to 23.5%.

**Key near-term outlook:** (1) Urban growth has trended down; rural growing gradually but has been ahead of urban. Growth in big cities trending down. (2) Crude Oil, Palm Oil and Tea seeing inflation. Company taking calibrated price increases.

### View & Valuation

We expect HUL to deliver ~7% revenue CAGR over FY24-27E with ~5% volume CAGR and ~2% pricing. With strong gross margin recovery in FY24, we believe EBITDA margin will now see a modest improvement of ~60bps over FY24-27E, driven largely led by mix improvement. We thus estimate a subdued 8.4% earnings CAGR over the same period. In the very near term, we continue to expect overall UVG to be better in 2H but it is more gradual than expected. This along with low-single digit pricing (anniversarization of price cuts + additional calibrated price hikes in soaps & tea) and no major improvement in EBITDA margins from current levels of 23-24% leads to just 5.7% earnings growth in FY25. HUVR is now currently trading at ~59x/53x/49x on our FY25E/FY26E/FY27E EPS as we build revenue/EBITDA/APAT CAGR of 7%/7.8%/8.4% over FY24-27E. We roll-forward our target price to FY'27E EPS, giving us a target price (TP) of Rs2,845. Maintain Neutral.

### Exhibit 1: Actual vs estimate

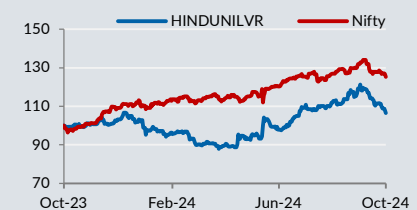
Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	155,080	156,552	157,758	(0.9)	(1.7)
EBITDA	36,470	36,007	37,259	1.3	(2.1)
EBITDA Margin (%)	23.5	23.0	23.6	0.5	(0.1)
Recurring PAT	26,110	25,918	26,806	0.7	(2.6)

RECO	: NEUTRAL
CMP	: Rs 2,659
Target Price	: Rs 2,845
Potential Return	: +7.0%

### Stock data (as on Oct 23, 2024)

Nifty	24,436
52 Week h/l (Rs)	3035 / 2172
Market cap (Rs/USD mn)	6300899 / 74961
Outstanding Shares (mn)	2,350
6m Avg t/o (Rs mn):	5,087
Div yield (%):	1.5
Bloomberg code:	HUVR IN
NSE code:	HINDUNILVR

### Stock performance



	1M	3M	1Y
Absolute return	-12.2%	-3.9%	+7.1%

### Shareholding pattern (As of Jun'24 end)

Promoter	61.9%
FII+DII	26.0%
Others	12.1%

### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	2,845	2,845

### Δ in earnings estimates

	FY25e	FY26e	FY27e
EPS (New)	45.4	49.8	54.7
EPS (Old)	47.5	52.1	NA
% change	-4.4%	-4.3	NA

### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	632,335	685,049	738,408
YoY Growth (%)	4.6	8.3	7.8
EBIDTA	148,362	162,603	177,544
Margins (%)	23.5	23.7	24.0
APAT	106,792	117,135	128,599
EPS	45.4	49.8	54.7
YoY Growth (%)	5.7	9.7	9.8
Pre-tax RoCE (%)	29.3	32.5	35.6
ROE (%)	21.3	23.8	26.2
P/E (x)	58.5	53.4	48.6
EV/EBITDA (x)	41.7	38.1	34.8

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MANAS RASTOGI, Associate

## Segmental performance:

(1) Home care (HC) grew by 8% YoY (1.9% above our est.) with high-single digit UVG; segment EBIT margin up 20bps YoY to 18.9%.

(2) Beauty & Wellbeing grew by 1.5% YoY with mid- single digit UVG; segment EBIT margin down 60bps YoY to 33.7%

(3) Personal care de-grew by 4.9% YoY with low-single digit UVG decline; segment EBIT margin was down 140bps YoY to 16.6%. Overall BPC de-grew by 1.3% YoY (1.8% below our est.).

(4) Foods & Refreshments (F&R) de-grew by 1.2% YoY (3.2% below our est.) with low-single digit UVG decline, segment EBIT margin was down 60bps YoY to 18.1%.

## Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rs mn)	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	1HFY24	1HFY25	YoY (%)
Revenue	152,760	153,390	155,080	1.5	1.1	304,240	308,470	1.4
COGS	72,210	74,480	75,930	5.2	1.9	148,090	150,410	1.6
Gross margin %	52.7%	51.4%	51.0%	-1.7%	-0.4%	51.3%	51.2%	-0.1%
Employee costs	7,080	6,020	7,650	8.1	27.1	13,590	13,670	0.6
% of sales	4.6%	3.9%	4.9%	0.3%	1.0%	4.5%	4.4%	0.0%
Advertising costs	17,200	16,440	14,640	-14.9	-10.9	32,010	31,080	-2.9
% of sales	11.3%	10.7%	9.4%	-1.8%	-1.3%	10.5%	10.1%	-0.4%
Other expenses	19,330	20,390	20,390	5.5	0.0	38,400	40,780	6.2
% of sales	12.7%	13.3%	13.1%	0.5%	-0.1%	12.6%	13.2%	0.6%
EBITDA	36,940	36,060	36,470	-1.3	1.1	72,150	72,530	0.5
EBITDA margin %	24.2%	23.5%	23.5%	-0.7%	0.0%	23.7%	23.5%	-0.2%
Depreciation	2,690	2,980	3,050	13.4	2.3	5,260	6,030	14.6
EBIT	34,250	33,080	33,420	-2.4	1.0	66,890	66,500	-0.6
Interest expense	720	850	990	37.5	16.5	1,190	1,840	54.6
Other income	2,830	2,570	3,090	9.2	20.2	4,680	5,660	20.9
PBT	36,310	34,320	35,360	-2.6	3.0	69,960	69,680	-0.4
Tax	9,140	8,940	9,240	1.1	3.4	18,070	18,180	0.6
Effective tax rate %	25%	26%	26%	1.0%	0.1%	26%	26%	0.3%
PAT	27,170	25,380	26,120	-3.9	2.9	51,890	51,500	-0.8
Adjusted PAT	26,680	25,720	26,110	-2.1	1.5	51,680	51,830	0.3
Adj PAT margin %	17.5%	16.8%	16.8%	-0.6%	0.1%	17.0%	16.8%	-0.2%
EPS	11.4	10.9	11.1	-2.1	1.5	23.9	22.1	-7.6

Source: Company, YES Sec

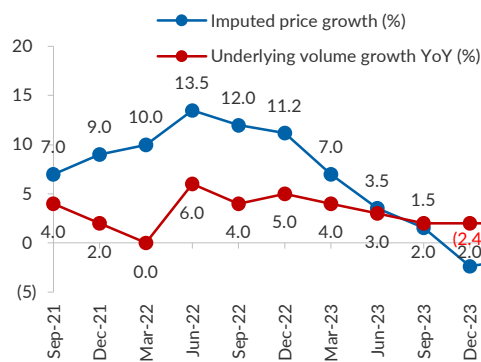
## HUVR 2QFY25 CONFERENCE CALL & PRESENTATION TAKEAWAYS

- **Demand Environment:** Urban growth has moderated in this quarter while rural has grown gradually. Rural growth outperformed urban in this quarter as well. Urban is seeing growth moderation across the country and is not specific to any particular region.
- **Outlook:** Company expects demand trends to remain stable. Low single-digit pricing growth is expected if commodity prices remain where they are.
- **Inflation:** Key commodities for the company like crude oil were lower in 2Q (but picking up) while palm oil and tea were up 10% and 25% YoY, respectively. It expects inflation is here to stay and hence will be taking calibrated price hikes in categories like tea and personal care. Tea is inflationary due to lower output.

- **Volume growth** has slowed, and the pace for recovery is gradual. Volume growth dipped in this quarter due to slow urban growth especially in bigger cities. However, the company remains optimistic for volume growth to come back.
- **A&SP spends:** In this quarter share of voice remains ahead of share of market. 45% of media spends are done on the digital channel. The company expects A&SP to be 10.5% of net sales.
- **Market share:** MAT has already crossed >60% which is ahead of the estimate given by Dec'24. However it has lost inconsequential share in select categories. 75% of the brands are gaining brand share in their respective categories.
- **Margins** contraction was on account of the increase in commodity prices. The company has guided to maintain the current EBITDA margin levels in the future.
- **Channel:** In E-commerce, the company has stepped up for festive and winter season specially for the beauty segment. GT channel contribution is 70%, 20% is MT and E-commerce is 6-7%. The company is gaining share in organized trade. E-commerce is growing faster than other channels. Organized trade has better margins than GT, however the portfolio is also different in both these channels. MT share is increasing and growing in double digits. Consumers prefer bulky items on the Q-commerce channel to avoid carrying it from the stores.
- **Ice-cream business division:** Ice cream business is a high growth, high investment, and a low margin business. There are limited synergies with existing businesses. Both the brand and technology are owned by HUL. Globally the separation has already been announced. The company pays royalty for the technology. Portfolio restructuring will help HUL focus in its core business. The board will decide whether to sell the business or demerge and list it separately. Q-commerce channel contribution from Ice-cream is ~10%.
- **Home Care:** The segment grew in high single digit UVG primarily led by high single digit volume growth in fabric wash and dishwash portfolio with premium portfolio growing faster. Vim forayed into the floor cleaner market with Vim Pro Floor cleaner. It also launched Comfort beads, an innovation in fabric conditioner. The segment is seeing broad based growth across the portfolio.
- **Food and Refreshments:** The segment saw a low single-digit decline in UVG. Overall Tea market growth is muted due to down-gradations. 2/3<sup>rd</sup> of F&R segment revenue is contributed by Tea and HFD. Absolute turnover for tea saw a decline due to downgradation. In HFD, Plus range is doing well. There is 250bps improvement in market share and 700bps improvement in penetration since the acquisition of HFD portfolio. Tea, coffee, nutrition drinks, condiments and cooking aid will be the key focus categories for the company. It launched Horlicks and Boost's Rs10 sachet with 20% extra volume.
- **Tea:** The company said Tea price hikes have already started in multiple price points and will continue to happen over the December quarter. When tea prices stabilize the down-gradation will stop. The company gained market share in both volume and value terms. There is no dramatic price change between loose tea and branded tea for the September quarter. Premium tea brands like Lipton, Brooke bond and Taj are lesser price sensitive hence continue to grow. The larger part of the tea business are mass brands like 3 roses, Taaza and Red Label, which are more price sensitive, seeing volume decline.
- **Beauty and Wellbeing:** The segment saw 7% intrinsic growth driven by mid-single digit UVG. Hair care volumes grew in high single digit driven by Sunsilk, Dove and Tresemme. Lakme gloss crossed Rs800mn in the first 6months of launch. Mass skincare growth 7%. Entire premium portfolio is Rs20bn is growing at high double digit. Focused on improving Glow and lovely in value added and high growth segments. Clinic Plus brand reaches every 3 out of 4 households in India.
- **Personal Care:** The segment saw a sequential improvement in turnover led by premium portfolio. However, there was a decline in both pricing and volume growth on a YoY basis led by re-calibration of pricing done in skin cleansing but now seeing early signs of volume market share gains. It maintained strong market leadership in bodywash segment growing in double digits and gaining market share.

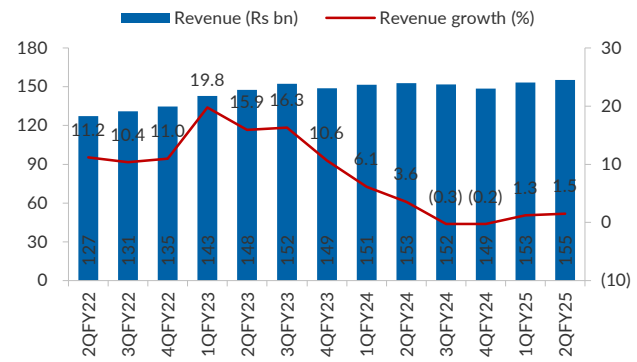
- **Soaps formulation change/Stratos technology:** Revised formulation of Lifebuoy and new Lux sandalwood feedback are encouraging. Only Non-soluble component of palm oil is reduced in soap formulations. The reduction in that component leaves more space to add more ingredients and thus makes soaps more effective. The company has applied for more than 20 patents, making the formulation very difficult to replicate. If the products are superior, the ability to command higher prices will be easy. The company is looking at the new branded formulation products closely.
- **Premiumization:** Premium portfolio continues to grow 20% faster than the mass segment. The upgradation and premiumization trend have sustained in this quarter and is likely to stay.
- **Distribution:** 1.37mn outlets onboarded on the Shikhar platform with active users at 70%.
- **Others:** Oziva (Majority stake) and Wellbeing nutrition (Minority stake) are doing well and seeing high growth & traction and expect it to strengthen further. At the end of 3-year period, HUL will acquire Oziva's remaining stake by the next calendar year.

**Exhibit 3: Underlying Volume Growth (UVG) for the quarter stood at 3%, lower than our estimate**



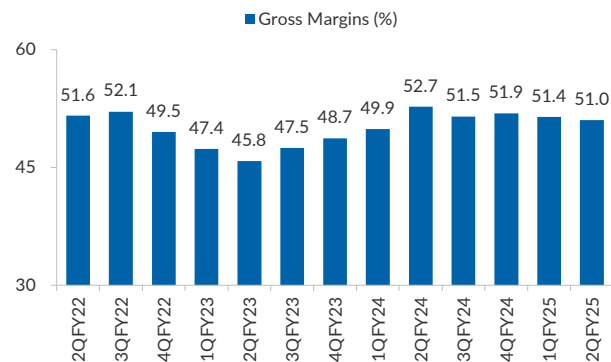
Source: Company, YES Sec

**Exhibit 4: This along with ~1.1% imputed price decline led to 1.5% YoY revenue growth**



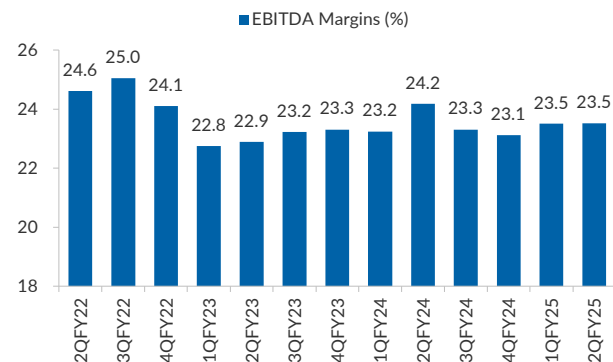
Source: Company, YES Sec

**Exhibit 5: Gross margin came 20bps below our estimate at 51% (-170bps YoY and -40bps QoQ)**



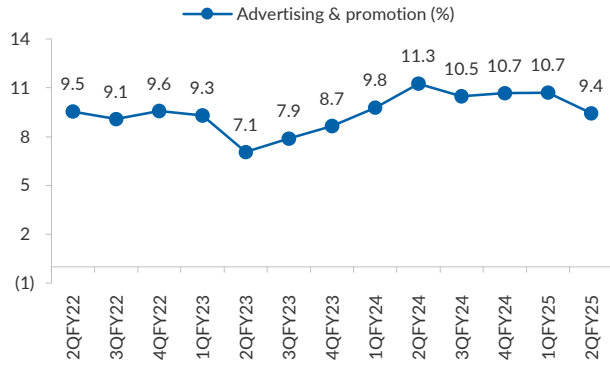
Source: Company, YES Sec; \*Margins calculated on revenues not sales

**Exhibit 6: EBITDA margin was down ~70bps YoY to 23.5%**



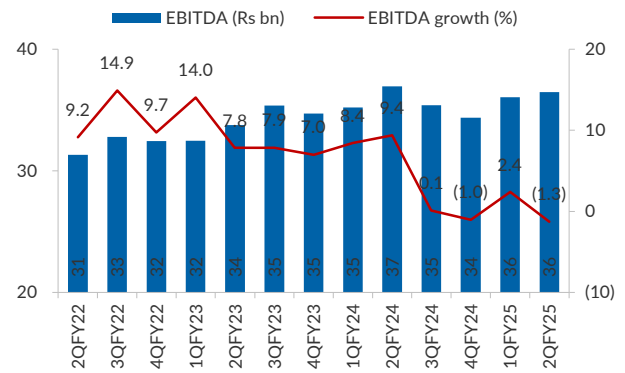
Source: Company, YES Sec; \*Margins calculated on revenues not sales

**Exhibit 7: A&P investments down by 180bps YoY**



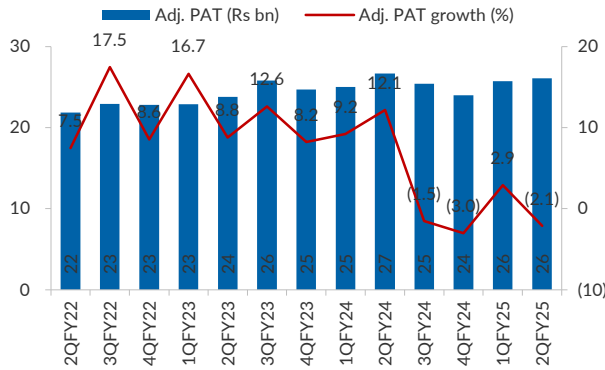
Source: Company, YES Sec

**Exhibit 8: EBITDA was down 1.3% YoY in 2QFY25**



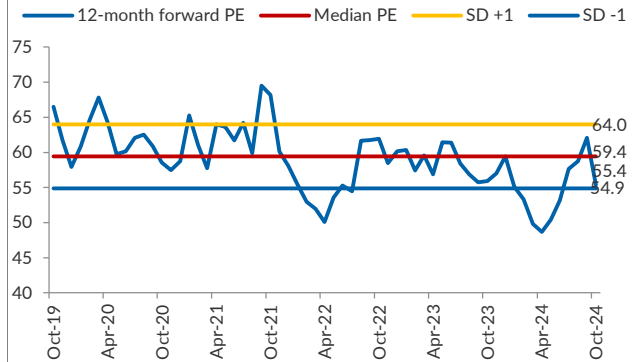
Source: Company, YES Sec

**Exhibit 9: Recurring PAT down 2.1% YoY in 2QFY25**



Source: Company, YES Sec

**Exhibit 10: Currently trading at ~55x on 1-yr fwd. earnings**



Source: Company, YES Sec

## ANNUAL FINANCIALS

### Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	2,350	2,350	2,350	2,350	2,350
Reserves	499,860	507,380	489,592	489,227	488,576
Net worth	502,210	509,730	556,482	556,117	555,466
Deferred charges	63,250	64,540	64,540	64,540	64,540
<b>Total liabilities</b>	<b>565,460</b>	<b>574,270</b>	<b>556,482</b>	<b>556,117</b>	<b>555,466</b>
Gross block	137,547	158,407	166,407	174,407	182,407
Depreciation	(75,657)	(86,627)	(98,807)	(111,418)	(124,620)
Net block	61,890	71,780	67,599	62,989	57,787
CWIP	10,200	9,150	9,650	10,150	10,650
Goodwill & other intangibles	452,160	452,010	452,010	452,010	452,010
Investments	37,940	54,930	61,930	68,930	75,930
Inventories	40,310	38,120	40,319	43,688	47,097
Debtors	27,350	26,900	27,395	29,684	32,000
Cash	44,220	72,160	52,190	52,360	52,901
Other current assets	44,180	45,710	48,918	52,471	56,423
Total current assets	156,060	182,890	168,822	178,203	188,421
Creditors	93,910	101,480	104,737	113,118	121,494
Other current liabilities & provisions	58,880	95,010	98,793	103,047	107,838
Total current liabilities	152,790	196,490	203,530	216,165	229,333
Net current assets	3,270	(13,600)	(34,707)	(37,962)	(40,911)
<b>Total assets</b>	<b>565,460</b>	<b>574,270</b>	<b>556,482</b>	<b>556,117</b>	<b>555,466</b>

Source: Company, YES Sec

### Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	591,440	604,690	632,335	685,049	738,408
<b>% Growth</b>	<b>15.5</b>	<b>2.2</b>	<b>4.6</b>	<b>8.3</b>	<b>7.8</b>
COGS	311,440	293,270	308,440	331,875	354,338
Staff costs	26,650	27,820	28,216	30,793	33,049
Advertising costs	48,590	63,800	65,619	72,119	79,571
Other expenses	68,440	77,900	81,698	87,659	93,907
Total expenses	455,120	462,790	483,973	522,446	560,864
EBITDA	136,320	141,900	148,362	162,603	177,544
<b>% growth</b>	<b>9.0</b>	<b>4.1</b>	<b>4.6</b>	<b>9.6</b>	<b>9.2</b>
EBITDA margin (%)	23.0	23.5	23.5	23.7	24.0
Other income	6,400	9,730	10,636	9,731	10,394
Interest costs	1,010	3,020	3,473	3,126	2,813
Depreciation	10,300	10,970	12,181	12,610	13,202
Profit before tax	131,410	137,640	143,345	156,598	171,923
Exceptional items	-620	-890	0	0	0

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Tax	29,220	34,460	36,553	39,463	43,325
Reported PAT	96,580	100,160	106,792	117,135	128,599
Adj. PAT	97,200	101,050	106,792	117,135	128,599
PAT margin (%)	16.4	16.7	16.9	17.1	17.4
% Growth	11.4	4.0	5.7	9.7	9.8

Source: Company, YES Sec; \*Margins calculated on revenues, not sales

### Exhibit 13: Cash flow statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Operating profit (before Tax)	130,790	137,640	143,345	156,598	171,923
Depreciation	10,450	10,970	12,181	12,610	13,202
Other income	6,400	9,730	10,636	9,731	10,394
(Inc.)/dec. in working capital	(8,630)	44,810	1,138	3,424	3,490
<b>Cash flow from operations</b>	<b>96,260</b>	<b>152,250</b>	<b>112,947</b>	<b>126,564</b>	<b>137,710</b>
Capital expenditure (-)	(8,610)	(19,810)	(8,500)	(8,500)	(8,500)
<b>Net cash after capex</b>	<b>87,650</b>	<b>132,440</b>	<b>104,447</b>	<b>118,064</b>	<b>129,210</b>
Dividends paid (-)	(84,590)	(98,700)	(124,550)	(117,500)	(129,250)
Inc./(dec.) in investments	7,320	(16,990)	(7,000)	(7,000)	(7,000)
<b>Cash from financial activities</b>	<b>(89,660)</b>	<b>(95,702)</b>	<b>(124,487)</b>	<b>(117,414)</b>	<b>(129,164)</b>
Opening cash balance	36,180	44,220	72,160	52,190	52,360
Closing cash balance	44,220	72,160	52,190	52,360	52,901
<b>Change in cash balance</b>	<b>8,040</b>	<b>27,940</b>	<b>(19,970)</b>	<b>170</b>	<b>541</b>

Source: Company, YES Sec

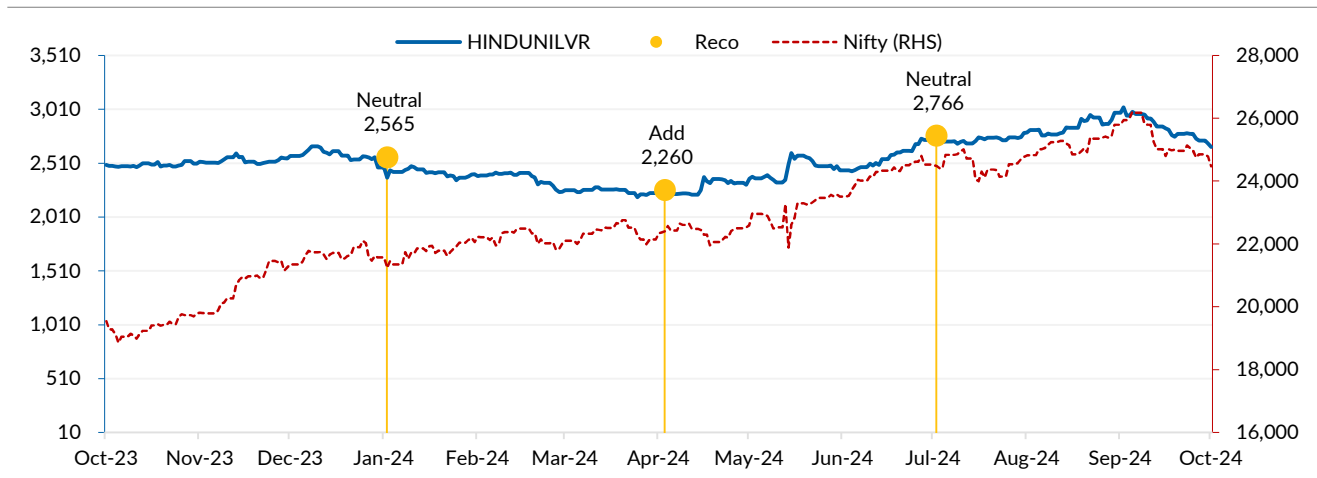
### Exhibit 14: Ratio

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Per share (Rs)</b>					
EPS	41.4	43.0	45.4	49.8	54.7
Book value	213.7	216.9	209.3	209.2	208.9
DPS	39.0	42.0	53.0	50.0	55.0
<b>Valuation (x)</b>					
EV/sales	10.7	10.4	9.9	9.1	8.5
EV/EBITDA	45.4	43.5	41.7	38.1	34.8
P/E	64.3	61.8	58.5	53.4	48.6
P/BV	12.4	12.3	12.7	12.7	12.7
<b>Return ratios (%)</b>					
RoCE*	26.8	27.8	29.3	32.5	35.6
RoE	19.6	20.0	21.3	23.8	26.2
RoIC*	26.5	28.6	30.3	33.0	36.2
<b>Profitability ratios (%)</b>					
Gross margin	47.3	51.5	51.2	51.6	52.0
EBITDA margin	23.0	23.5	23.5	23.7	24.0
EBIT margin	21.3	21.7	21.5	21.9	22.3

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
PAT margin	16.4	16.7	16.9	17.1	17.4
<b>Liquidity ratios (%)</b>					
Current ratio	1.0	0.9	0.8	0.8	0.8
Quick ratio	0.8	0.7	0.6	0.6	0.6
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	1.0	1.1	1.1	1.2	1.3
Fixed asset turnover ratio (x)	9.6	8.4	9.4	10.9	12.8
Debtor days	14	16	16	15	15
Inventory days	46	49	46	46	47
Creditor days	107	122	122	120	121

Source: Company, YES Sec; Note: \*Pre-tax and on average basis

## Recommendation Tracker





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Analyst signature

Analyst signature

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