Elara Capital

# Hindustan Unilever

Global Markets Research

## Persistent pains

### Volume growth subdued; underperforms market in Q3

In Q3FY24, Hindustan Unilever's (HUVR IN) net sales declined 0.3% YoY, led by flat/2% YoY value/volume growth in the domestic segment, at 11.5%/3.2% four-year CAGR. Per AC Nielsen, volume growth for the market came in ahead of HUVR's 8.9%, but on two-year CAGR, the market's volume grew at 2%, lower than HUVR's 3.5%. Market growth was led by urban and hence, the premium segment continued to outperform mass, as it grew 2.5x higher YTDFY24. Segments of home care and beauty & personal care saw 1% deceleration and flat growth respectively, led by mid-single digit volume growth and price reduction. However, the segment of foods & refreshment saw 1% price-led growth as volumes declined to low-single digit.

### Near-term challenges persist

Salience of business winning market share has dipped from 80% in the past year to 60% now. And HUVR expects it to dip further in the next two quarters before it recovers back to 60%+ by Dec-24E. HUVR is focusing on driving competitive volume growth and increasing investments in innovation and brand development. To up category specialization, HUVR has opted to divide its beauty and personal care segment into two distinct categories: 1) Beauty & Wellbeing and 2) Personal Care. This decision is rooted in the belief that these two segments have distinct business models/competitive landscapes.

### Gross margin gains to support higher advertising spend

Gross margin rose 400bps YoY to pre-inflationary margin of 51.5%, but still 200bps lower than pre-COVID level. While the easing off of inflation may positively impact gross margin, ad spend may be at higher level. The management expects to maintain EBITDA margin at ~23-24% in the near term.

### Valuation: Downgrade to Reduce; new TP INR 2,600

We pare FY24E/25E/26E earnings 4.6%/6.9%/7.4% to factor in lower-than-expected revenue growth and margin. We downgrade HUVR to **Reduce** from Accumulate with lower TP of INR 2,600 (from INR 2,820), as we assign 50x (from 52x on near-term challenges) on Dec'25E P/E to roll forward.

## Rating: Reduce

**Target Price: INR 2,600**

**Upside: 1%**

CMP: INR 2,565 (as on 19 January 2024)

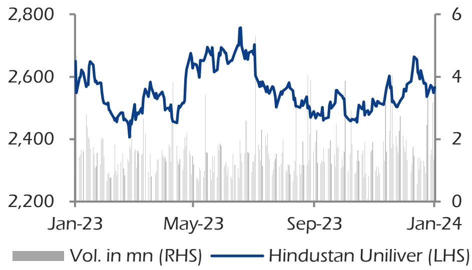
**Key data***

| | |
|---|---|
| Bloomberg /Reuters Code | HUVR IN/HLL.BO |
| Current /Dil. Shares O/S (mn) | 2,350/2,350 |
| Mkt Cap (INR bn/USD mn) | 6,028/72,573 |
| Daily Vol. (3M NSE Avg.) | 1,530,165 |
| Face Value (INR) | 1 |

**1 USD= INR 83.1**

Note: *Pricing as on 19 January 2024; Source: Bloomberg

**Price & Volume**




Source: Bloomberg

| Shareholding (%) | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 |
|---|---|---|---|---|
| Promoter | 61.9 | 61.9 | 61.9 | 61.9 |
| Institutional Investors | 25.9 | 25.9 | 26.0 | 25.9 |
| Other Investors | 1.4 | 1.4 | 1.4 | 1.4 |
| General Public | 10.8 | 10.8 | 10.7 | 10.8 |

Source: BSE

| Price performance (%) | 3M | 6M | 12M |
|---|---|---|---|
| Nifty | 10.2 | 9.0 | 19.4 |
| Hindustan Unilever | 0.7 | (4.0) | (3.2) |
| Nestle | 4.2 | 9.6 | 27.7 |
| ITC | 4.7 | (1.5) | 42.8 |

Source: Bloomberg

| YE March (INR mn) | Q3FY24 | Q3FY23 | YoY (%) | Q2FY24 | QoQ (%) | Q3FY24E | Variance (%) |
|---|---|---|---|---|---|---|---|
| Net Sales | 151,880 | 152,280 | (0.3) | 152,760 | (0.6) | 153,909 | (1.3) |
| Operating Expenses | 116,480 | 116,910 | (0.4) | 115,820 | 0.6 | 117,267 | (0.7) |
| % of Sales | 76.7 | 76.8 | | 75.8 | | 76.2 | |
| EBITDA | 35,400 | 35,370 | 0.1 | 36,940 | (4.2) | 36,641 | (3.4) |
| EBITDA Margins (%) | 23.3 | 23.2 | | 24.2 | | 23.8 | |
| Other Income | 2,850 | 2,280 | 25.0 | 2,830 | 0.7 | 2,000 | 42.5 |
| Interest | 810 | 260 | | 720 | | 720 | |
| Depreciation | 2,820 | 2,600 | | 2,690 | 4.8 | 2,690 | 4.8 |
| PBT | 34,620 | 34,790 | (0.5) | 36,360 | (4.8) | 35,231 | (1.7) |
| Tax | 9,210 | 8,980 | 2.6 | 9,680 | (4.9) | 9,336 | (1.4) |
| Effective Tax Rate(%) | 26.6 | 25.8 | | 26.6 | | 26.5 | |
| Reported PAT | 25,190 | 25,050 | 0.6 | 26,190 | (3.8) | 25,895 | (2.7) |
| Adjusted PAT | 25,410 | 25,810 | (1.5) | 26,680 | (4.8) | 25,895 | (1.9) |
| NPM (%) | 16.7 | 16.9 | | 17.5 | | 16.8 | |

**Key financials**

| YE March | Revenue (INR mn) | YoY (%) | EBITDA (INR mn) | EBITDA margin (%) | Adj PAT (INR mn) | YoY (%) | Fully DEPS (INR) | RoE (%) | RoCE* (%) | P/E (x) | EV/EBITDA (x) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FY23 | 591,440 | 15.5 | 136,320 | 23.0 | 100,240 | 13.2 | 42.7 | 20.3 | 26.2 | 60.1 | 44.0 |
| FY24E | 606,370 | 2.7 | 143,817 | 23.7 | 103,012 | 2.8 | 43.8 | 20.7 | 27.9 | 58.5 | 41.8 |
| FY25E | 651,109 | 7.9 | 156,336 | 24.0 | 112,619 | 9.3 | 47.9 | 22.9 | 30.7 | 53.5 | 38.5 |
| FY26E | 713,991 | 9.7 | 172,164 | 24.1 | 124,894 | 10.9 | 53.1 | 25.9 | 34.6 | 48.3 | 35.0 |

Note: Pricing as on 19 January 2024; Source: Company, Elara Securities Estimate

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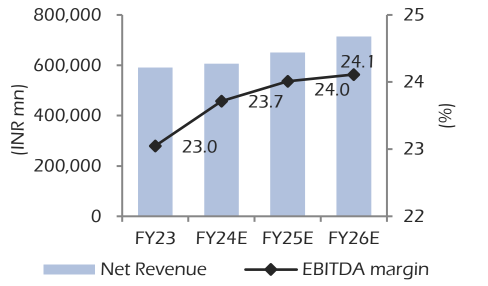
## Financials (YE March)

| Income statement (INR mn) | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|
| Net Revenue | 591,440 | 606,370 | 651,109 | 713,991 |
| EBITDA | 136,320 | 143,817 | 156,336 | 172,164 |
| Less: Depreciation & Amortisation | 10,300 | 11,000 | 11,750 | 11,750 |
| EBIT | 126,020 | 132,817 | 144,586 | 160,414 |
| Less: Interest Expense | 1,010 | 2,400 | 2,000 | 2,000 |
| Add: Other Income | 6,400 | 9,165 | 9,602 | 10,362 |
| Exceptional item | (620) | - | - | - |
| PBT | 130,790 | 139,582 | 152,187 | 168,776 |
| Less Taxes | 31,170 | 36,571 | 39,569 | 43,882 |
| **Reported PAT** | **99,620** | **103,012** | **112,619** | **124,894** |
| **Adjusted PAT** | **100,240** | **103,012** | **112,619** | **124,894** |
| **Balance Sheet (INR mn)** | **FY23** | **FY24E** | **FY25E** | **FY26E** |
| Share capital | 2,350 | 2,350 | 2,350 | 2,350 |
| Reserves | 499,860 | 492,676 | 484,822 | 476,113 |
| Borrowings | 10,390 | 10,390 | 10,390 | 10,390 |
| Deferred Tax (Net) | 63,250 | 63,250 | 63,250 | 63,250 |
| **Total Liabilities** | **575,850** | **568,666** | **560,812** | **552,103** |
| Gross Block | 393,090 | 398,090 | 403,090 | 408,090 |
| Less: Accumulated depreciation | 52,200 | 63,200 | 74,950 | 86,700 |
| Net Block | 340,890 | 334,890 | 328,140 | 321,390 |
| Capital work in progress | 10,200 | 10,200 | 10,200 | 10,200 |
| Goodwill | 173,160 | 173,160 | 173,160 | 173,160 |
| Investments | 37,940 | 57,940 | 57,940 | 57,940 |
| Cash | 44,220 | 21,481 | 20,338 | 20,759 |
| Net working capital | (30,560) | (29,005) | (28,966) | (31,346) |
| **Total Assets** | **575,850** | **568,666** | **560,812** | **552,103** |
| **Cash flow statement (INR mn)** | **FY23** | **FY24E** | **FY25E** | **FY26E** |
| Operating cash flow | 102,450 | 112,456 | 124,330 | 139,024 |
| Less: Capex | 15,200 | 5,000 | 5,000 | 5,000 |
| Free cash flow to firm | 87,250 | 107,456 | 119,330 | 134,024 |
| Investing cash flow | (11,920) | (25,000) | (5,000) | (5,000) |
| Financing cash flow | (82,490) | (110,196) | (120,472) | (133,604) |
| **Net change in cash** | **8,040** | **(22,739)** | **(1,142)** | **420** |
| **Ratio Analysis** | **FY23** | **FY24E** | **FY25E** | **FY26E** |
| **Income statement Ratios (%)** | | | | |
| Revenue growth | 15.5 | 2.7 | 7.9 | 9.7 |
| EBITDA growth | 9.0 | 5.5 | 8.7 | 10.1 |
| PAT growth | 13.2 | 2.8 | 9.3 | 10.9 |
| EBITDA margin | 23.0 | 23.7 | 24.0 | 24.1 |
| Net margin | 16.9 | 17.0 | 17.3 | 17.5 |
| **Return and liquidity ratios** | | | | |
| Net debt/Equity (x) | (0.1) | (0.0) | (0.0) | (0.0) |
| ROE (%) | 20.3 | 20.7 | 22.9 | 25.9 |
| ROCE(%) | 26.2 | 27.9 | 30.7 | 34.6 |
| **Per share data and Valuation ratios** | | | | |
| Diluted EPS (INR) | 42.7 | 43.8 | 47.9 | 53.1 |
| EPS growth (%) | 13.2 | 2.8 | 9.3 | 10.9 |
| DPS (INR) | 39.0 | 40.1 | 43.8 | 48.6 |
| P/E ratio (x) | 60.1 | 58.5 | 53.5 | 48.3 |
| EV/EBITDA (x) | 44.0 | 41.8 | 38.5 | 35.0 |
| EV/Sales (X) | 10.3 | 10.1 | 9.3 | 8.5 |
| Price/Book(x) | 12.0 | 12.2 | 12.4 | 12.6 |
| FCFF yield (%) | 1.4 | 1.7 | 1.9 | 2.1 |
| Dividend yield (%) | 1.5 | 1.6 | 1.7 | 1.9 |

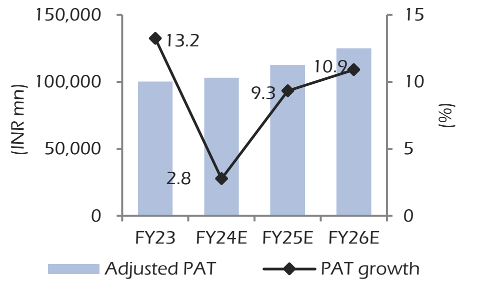
Note: Pricing as on 19 January 2024; Source: Company, Elara Securities Estimate

### Revenue growth & margin trend



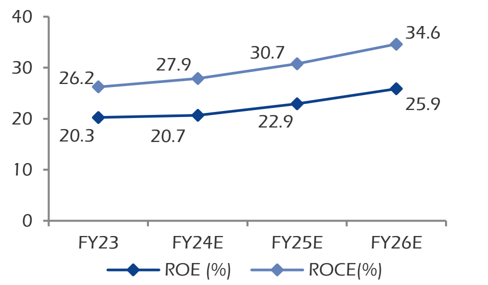

Source: Company, Elara Securities Estimate

### Adjusted profit growth trend




Source: Company, Elara Securities Estimate

### Return ratios




Source: Company, Elara Securities Estimate

### Exhibit 1: Key ratios

| YE March (%) | Q3FY24 | Q3FY23 | YoY bp chg | Q2FY24 | QoQ bp chg | Q3FY24E | bp variance |
|---|---|---|---|---|---|---|---|
| Raw material cost | 48.5 | 52.5 | (401) | 47.3 | 124 | 46.5 | 201 |
| Staff costs | 4.3 | 4.4 | (17) | 4.6 | (36) | 4.7 | (40) |
| Advertising expenses | 10.5 | 7.9 | 261 | 11.3 | (77) | 11.4 | (88) |
| Other expenses | 13.4 | 11.9 | 149 | 12.7 | 77 | 13.6 | (22) |
| Effective tax rate | 26.6 | 25.8 | 79 | 26.6 | (2) | 26.5 | 10 |
| Gross margin | 51.5 | 47.5 | 401 | 52.7 | (124) | 53.5 | (201) |
| EBITDA margin | 23.3 | 23.2 | 8 | 24.2 | (87) | 23.8 | (50) |
| NPM | 16.6 | 16.4 | 14 | 17.1 | (56) | 16.8 | (24) |

Source: Company, Elara Securities Estimate

### Exhibit 2: Q3 segment-wise highlights – Volume decline in foods & refreshments drags overall volume growth

| Segment | Revenue growth YoY (%) | EBIT margin (%) | EBIT margin YoY change (bp) | Comments |
|---|---|---|---|---|
| Home care (fabric wash, household care & water purifiers) | (1.3) | 17.7 | (150) | • Fabric wash posted mid-single digit volume growth, driven by outperformance in premium portfolio.<br>• Household care volumes grew in low single-digit led by Dishwash.<br>• EBIT margin stood at 17.7% (down 150bps YoY/ down 100bps QoQ) despite raw material prices declining. The decline in EBIT in the Homecare segment has come after 30 quarters. |
| Beauty & Personal Care (personal wash, oral care, skin care, hair care, deodorant and color cosmetics) | (0.2) | 25.6 | 50 | • The Beauty & Personal care segment posted flat sales growth with mid-single digit volume growth.<br>• Skin cleansing revenues declined due to price reductions. Market development actions in bodywash continue to yield good results.<br>• Skin care and color cosmetics were impacted amidst delayed winter. Premium non-winter portfolio continued to do well.<br>• Hair Care delivered volume-led double-digit growth with broad-based performance across brands.<br>• Oral grew mid-single digit, led by *Closeup*.<br>• Launches and relaunches: *Glow & Lovely Powder Finish Crème*, new active skin barrier care range by *Simple*, *Sunsilk* hair serums, *Close-up* naturals range and *Lakme*'s range of make-up products. |
| Foods & Refreshments (F&R: food, tea, coffee, ice cream & frozen desserts) | 0.9 | 19.0 | 120 | • Food and refreshment grew 1%, with low single-digit decline in volumes.<br>• Tea further strengthened value and volume market leadership. Green Tea and flavored tea performed well.<br>• Coffee grew in double-digits, driven by pricing.<br>• HFD delivered price-led growth led by '*Plus*' range.<br>• Ice cream grew in mid-single digit on a high base.<br>• Foods solutions, mayonnaise and peanut butter posted strong growth.<br>• Launches and relaunches: *Knorr* Korean K-Pot noodles and *Bru Gold* in Vanilla, Caramel and Hazelnut flavors. |

Source: Company, Elara Securities Research

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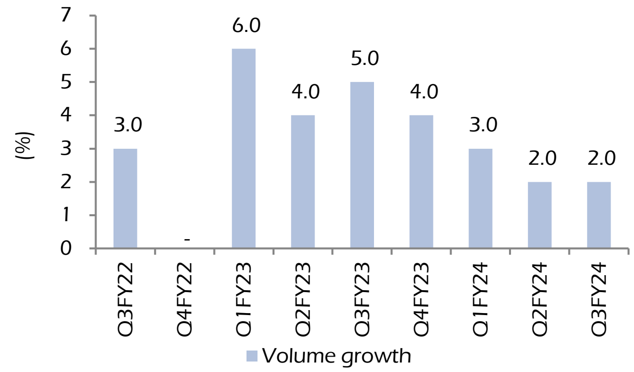
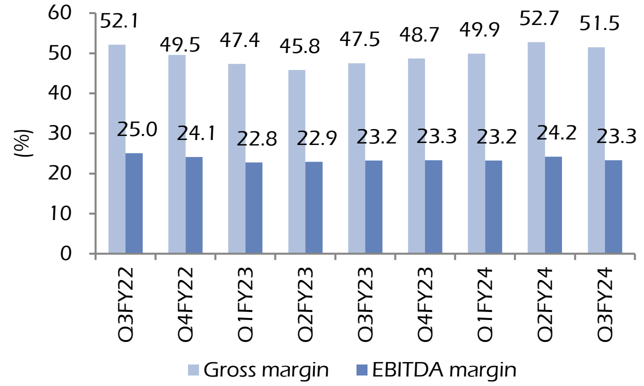
#### Exhibit 3: Q3 volume growth similar to Q2




Source: Company, Elara Securities Research

#### Exhibit 4: Gross margin sees strong improvement YoY

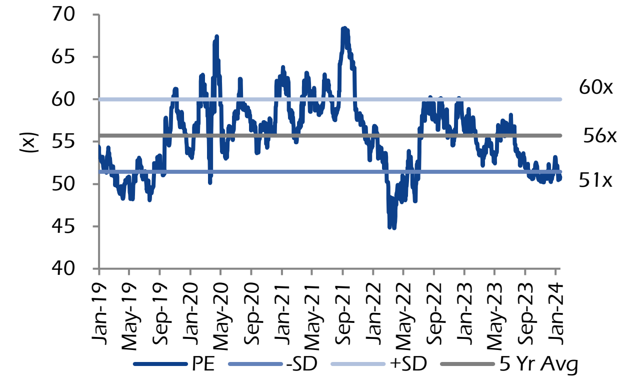



Source: Company, Elara Securities Research

#### Exhibit 5: HUVR – Gained 200bps share in past two years, but is seeing a dip due to competitive intensity


Source: Company presentation

#### Exhibit 6: HUVR trades below five-year average P/E of 56x



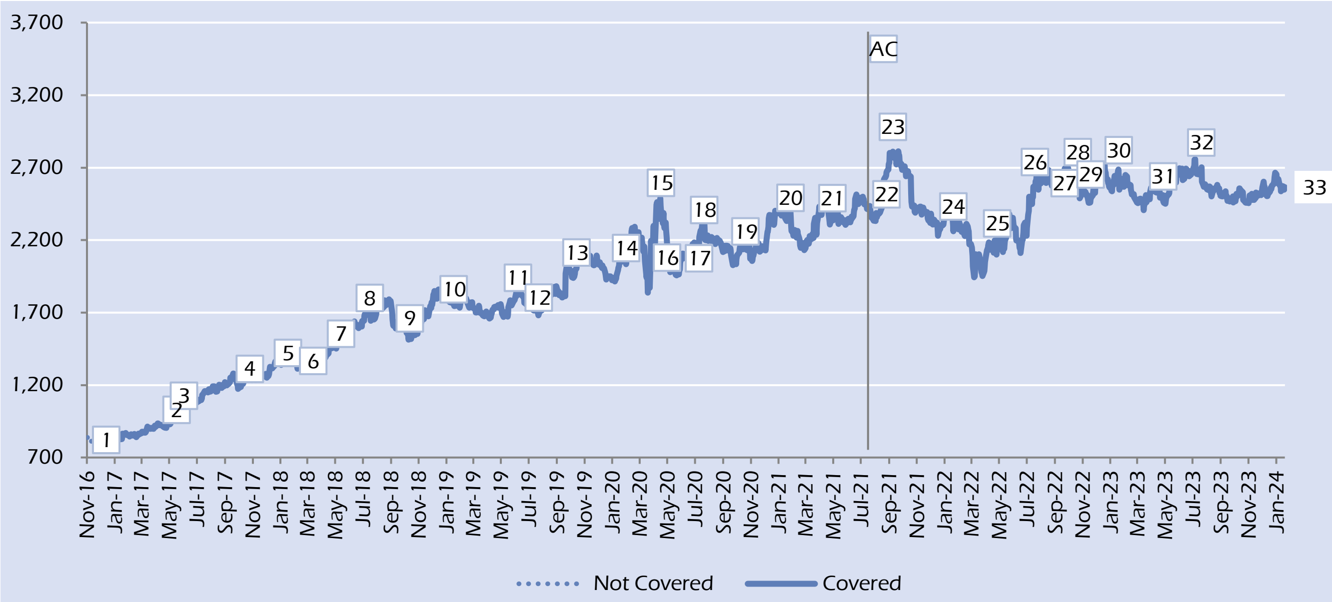

Source: Company, Bloomberg, Elara Securities Estimate

#### Exhibit 7: Change in estimates

| (INR mn) | Old estimates | | | Revised estimates | | | (%) change | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY24 | FY25 | FY26 | FY24 | FY25 | FY26 | FY24 | FY25 | FY26 |
| Revenue | 616,019 | 673,557 | 738,496 | 606,370 | 651,109 | 713,991 | (1.6) | (3.3) | (3.3) |
| EBITDA | 151,991 | 168,544 | 187,063 | 143,817 | 156,336 | 172,164 | (5.4) | (7.2) | (8.0) |
| EBITDA (%) | 24.7 | 25.0 | 25.3 | 23.7 | 24.0 | 24.1 | (95.5) | (101.2) | (121.7) |
| PAT | 107,948 | 120,987 | 134,883 | 103,012 | 112,619 | 124,894 | (4.6) | (6.9) | (7.4) |
| EPS (INR) | 45.9 | 51.5 | 57.4 | 43.8 | 47.9 | 53.1 | (4.6) | (6.9) | (7.4) |
| Target price (INR) | | | 2,820 | | | 2,600 | | | (7.8) |
| Rating | | | Accumulate | | | Reduce | | | |

Source: Elara Securities Estimate

## Coverage History




AC = Analyst change

| | Date | Rating | Target Price | Closing Price |
|---|---|---|---|---|
| 20 | 27-Jan-2021 | Reduce | INR 2,366 | INR 2,391 |
| 21 | 29-Apr-2021 | Reduce | INR 2,400 | INR 2,408 |
| 22 | 26-Aug-2021 | Accumulate | INR 2,864 | INR 2,667 |
| 23 | 9-Sept-2021 | Accumulate | INR 3,000 | INR 2,811 |
| 24 | 20-Jan-2022 | Buy | INR 2,770 | INR 2,262 |
| 25 | 27-Apr-2022 | Buy | INR 2,620 | INR 2,145 |
| 26 | 19-July-2022 | Accumulate | INR 2,755 | INR 2,568 |
| 27 | 21-Sep-2022 | Accumulate | INR 2,950 | INR 2,693 |
| 28 | 21Oct-2022 | Accumulate | INR 3,060 | INR 2,654 |
| 29 | 18-Nov-2022 | Buy | INR 3,060 | INR 2,484 |
| 30 | 19-Jan-2023 | Accumulate | INR 3,060 | INR 2,650 |
| 31 | 27-Apr-2023 | Accumulate | INR 2,900 | INR 2,469 |
| 32 | 20-July-2023 | Accumulate | INR 2,820 | INR 2,703 |
| 33 | 19-Jan-2024 | Reduce | INR 2,600 | INR 2,565 |

## Guide to Research Rating

| | |
|---|---|
| BUY | Absolute Return >+20% |
| ACCUMULATE | Absolute Return +5% to +20% |
| REDUCE | Absolute Return -5% to +5% |
| SELL | Absolute Return < -5% |

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