

**ADD** Hindustan Unilever

Your success is our success

**Weak demand and high base continue to hurt growth**

Consumer Goods ▶ Result Update ▶ January 20, 2024

**TARGET PRICE (Rs): 2,700**

**We believe demand slowdown, competitive pressure, distribution stress, and rising royalty rates are likely to have an overhang on HUL's valuations (46x P/E for FY26). Management commentary on demand setting remains unexciting, as demand recovery remains a hope on the emergence of tailwinds. Reinforcing general trade moat is now an added pressure, with changes in distributor margin structure, in our view. Q3 results stood 3% below our and 5% below street's expectations. Sales and EBITDA stood flat YoY, while adjusted earnings declined 1%. HUL was able to hold on to EBITDA margin at 23.3%, where gross margin expansion of 400bps was absorbed in a 265bps increase in A&P and 155bps increase in other expenses. As we cut our earnings by 3%, our TP has reduced to Rs2,700 (on 52x P/E) from Rs2,800. We maintain our ADD rating.**

**Hindustan Unilever: Financial Snapshot (Standalone)**

| Y/E March (Rs mn)   | FY22    | FY23    | FY24E   | FY25E   | FY26E   |
|---------------------|---------|---------|---------|---------|---------|
| Revenue             | 511,930 | 591,440 | 607,616 | 655,159 | 713,036 |
| EBITDA              | 125,030 | 136,320 | 140,745 | 156,077 | 173,801 |
| Adj. PAT            | 87,240  | 97,200  | 100,521 | 112,033 | 125,297 |
| Adj. EPS (Rs)       | 37.1    | 41.4    | 42.8    | 47.7    | 53.3    |
| EBITDA margin (%)   | 24.4    | 23.0    | 23.2    | 23.8    | 24.4    |
| EBITDA growth (%)   | 10.4    | 9.0     | 3.2     | 10.9    | 11.4    |
| Adj. EPS growth (%) | 9.6     | 11.4    | 3.4     | 11.5    | 11.8    |
| RoE (%)             | 18.1    | 19.6    | 20.0    | 22.1    | 24.6    |
| RoIC (%)            | 19.1    | 20.5    | 20.8    | 23.4    | 26.5    |
| P/E (x)             | 69.1    | 62.0    | 60.0    | 53.8    | 48.1    |
| EV/EBITDA (x)       | 47.6    | 43.7    | 42.3    | 38.1    | 34.1    |
| P/B (x)             | 12.4    | 12.0    | 12.0    | 11.9    | 11.8    |
| FCFF yield (%)      | 1.4     | 1.5     | 1.7     | 1.8     | 2.0     |

Source: Company, Emkay Research

**Topline recovery is still a concern; recovery remains a hope**

Optical growth numbers continue to wane for HUL, where volume delivery slowed to 2% in Q3FY24. Volume delivery for the HPC and BPC segments stood in mid-single digits, responding favorably to price corrections. However, the food and refreshments (F&R) segment's volume witnessed a low single-digit decline, as the company continued to take price hikes. Additionally, while the company is holding on to market share gains, share gains in >60% of the portfolio reduced from >75% earlier. On MAT basis, portfolio share gains are expected to dip under 60%, which management is expecting to recoup by year-end. Overall, management remains optimistic about volume recovery and expects to have marginal negative pricing ahead.

**Focus on holding EBITDA margin delivery; gross margin to aid A&P spends**

Continued margin thrust yielded stable OPM at 23.3%, up ~10bps YoY and down 10bps QoQ. Gross margin expanded 400bps YoY to 49.2%. Compared to pre-Covid-19 levels, there is still a 200bps gap in the gross margin, which the company is looking to achieve with a) mix improvement, b) net revenue management, and c) net productivity initiatives. Negative operating leverage, increased spending on capability development, and higher royalty (~50bps impact) led to a 155bps increase in other expenses. Renewed thrust on A&P spending absorbed 265bps of gross margin benefit. Absolute A&P spend increased 33% YoY and stood lower than our expectation of similar QoQ spends, which helped in EBITDA margin delivery. From Q4FY24, the margin profile is expected to have a bearing on the termination of the GSK OTC distribution arrangement.

**Valuation asks for structural recovery, ADD with a new Dec-24 TP of Rs2,700**

Capturing demand pressure, we have revised our topline expectations down by 3%, which led to a 3% cut in earnings. We are now 6-7% below consensus expectations for FY25 and FY26. The stock's valuations at 46x for FY26, though factoring in near-term pressure, may see a derating if volume recovery remains elusive in FY25. Our new Dec-24 TP is Rs2,700 vs. Rs2,800 earlier. We maintain our ADD rating with a limited upside.

|                         |              |
|-------------------------|--------------|
| Target Price – 12M      | Dec-24       |
| <b>Change in TP (%)</b> | <b>(3.6)</b> |
| Current Reco.           | ADD          |
| Previous Reco.          | ADD          |
| Upside/(Downside) (%)   | 5.2          |
| CMP (19-Jan-24) (Rs)    | 2,565.4      |

**Stock Data**

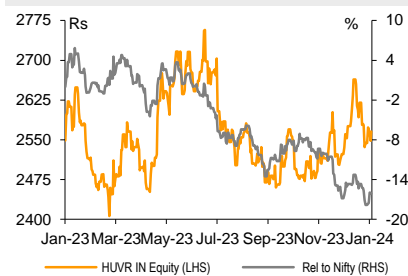
|                         |         |
|-------------------------|---------|
| 52-week High (Rs)       | 2,770   |
| 52-week Low (Rs)        | 2,393   |
| Shares outstanding (mn) | 2,349.6 |
| Market-cap (Rs bn)      | 6,028   |
| Market-cap (USD mn)     | 72,563  |
| Net-debt, FY24E (Rs mn) | 0       |
| ADTV-3M (mn shares)     | 2       |
| ADTV-3M (Rs mn)         | 4,183.7 |
| ADTV-3M (USD mn)        | 50.4    |
| Free float (%)          | 38.1    |
| Nifty-50                | 21,622  |
| INR/USD                 | 83.1    |

**Shareholding, Sep-23**

|               |           |
|---------------|-----------|
| Promoters (%) | 61.9      |
| FPIs/MFs (%)  | 13.9/12.0 |

**Price Performance**

| (%)           | 1M    | 3M    | 12M    |
|---------------|-------|-------|--------|
| Absolute      | 0.2   | 0.7   | (3.2)  |
| Rel. to Nifty | (0.6) | (8.6) | (18.9) |

**1-Year share price trend (Rs)****Nitin Gupta**

nitin.gupta@emkayglobal.com  
+91 22 6612 1257

**Soham Samanta**

soham.samanta@emkayglobal.com  
+91 22 6612 1262

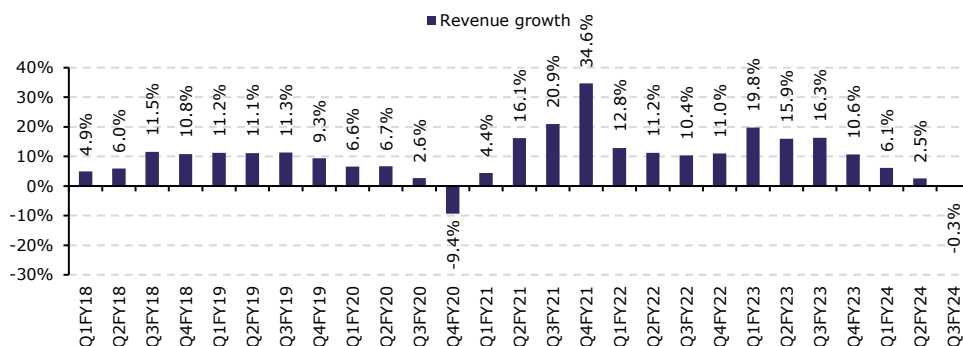
## Quarterly performance

Exhibit 1: Q3FY24 performance

| Y/E March (Rs mn)     | Q3FY24        | Q3FY23        | YoY (%)     | Q2FY24        | QoQ (%)     | Q3FY24E       | Var. (%)     | 9MFY24         | 9MFY23         | YoY (%)    |
|-----------------------|---------------|---------------|-------------|---------------|-------------|---------------|--------------|----------------|----------------|------------|
| Total income          | 151,880       | 152,280       | -0.3        | 151,257       | 0.4         | 156,369       | -2.9         | 454,617        | 442,510        | 2.7        |
| Cost of goods         | 73,670        | 79,970        | -7.9        | 72,210        | 2.0         | 75,137        | -2.0         | 221,760        | 235,050        | -5.7       |
| Employee expenses     | 6,490         | 6,760         | -4.0        | 7,080         | -8.3        | 7,200         | -9.9         | 20,080         | 19,820         | 1.3        |
| A&P spends            | 15,930        | 12,000        | 32.8        | 17,200        | -7.4        | 17,706        | -10.0        | 47,940         | 35,690         | 34.3       |
| Other expenses        | 20,390        | 18,180        | 12.2        | 19,330        | 5.5         | 19,753        | 3.2          | 58,790         | 50,340         | 16.8       |
| <b>EBITDA</b>         | <b>35,400</b> | <b>35,370</b> | <b>0.1</b>  | <b>35,437</b> | <b>-0.1</b> | <b>36,573</b> | <b>-3.2</b>  | <b>106,047</b> | <b>101,610</b> | <b>4.4</b> |
| EBITDA margin (%)     | 23.3          | 23.2          | 8bps        | 23.4          | -12bps      | 23.4          | -10bps       | 23.3           | 23.0           | 40bps      |
| Depreciation          | 2,820         | 2,600         | 8.5         | 2,690         | 4.8         | 2,600         | 8.5          | 8,080          | 7,680          | 5.2        |
| <b>EBIT</b>           | <b>32,580</b> | <b>32,770</b> | <b>-0.6</b> | <b>32,747</b> | <b>-0.5</b> | <b>33,973</b> | <b>-4.1</b>  | <b>97,967</b>  | <b>93,930</b>  | <b>4.3</b> |
| EBITM (%)             | 21.5          | 21.5          | -7bps       | 21.7          | -20bps      | 21.7          | -30bps       | 21.5           | 21.2           | 30bps      |
| Interest cost         | 810           | 260           | 211.5       | 720           | 12.5        | 500           | 62.0         | 2,000          | 770            | 159.7      |
| Other income          | 2,850         | 2,280         | 25.0        | 2,830         | 0.7         | 1,800         | 58.3         | 7,530          | 4,800          | 56.9       |
| <b>PBT</b>            | <b>34,620</b> | <b>34,790</b> | <b>-0.5</b> | <b>34,857</b> | <b>-0.7</b> | <b>35,273</b> | <b>-1.9</b>  | <b>103,497</b> | <b>97,960</b>  | <b>5.7</b> |
| Tax                   | 9,210         | 8,980         | 2.6         | 9,378         | -1.8        | 9,171         | 0.4          | 27,608         | 25,470         | 8.4        |
| Tax rate (%)          | 26.6          | 25.8          | 79bps       | 26.9          | -30bps      | 26.0          | 60bps        | 26.7           | 26.0           | 70bps      |
| <b>Adj. PAT</b>       | <b>25,410</b> | <b>25,810</b> | <b>-1.5</b> | <b>25,479</b> | <b>-0.3</b> | <b>26,102</b> | <b>(2.7)</b> | <b>75,889</b>  | <b>72,490</b>  | <b>4.7</b> |
| Non-recurring items   | 220           | 760           | -71.1       | (1,691)       | -113.0      | 0             |              | (1,191)        | (1,610)        | -26.0      |
| <b>Reported PAT</b>   | <b>25,190</b> | <b>25,050</b> | <b>0.6</b>  | <b>27,170</b> | <b>-7.3</b> | <b>26,102</b> | <b>-3.5</b>  | <b>77,080</b>  | <b>74,100</b>  | <b>4.0</b> |
| Net profit margin (%) | 16.6          | 16.4          | 14bps       | 18.0          | -7.7        | 16.7          | -10bps       | 17.0           | 16.7           | 20bps      |
| <b>EPS (Rs)</b>       | <b>10.8</b>   | <b>11.0</b>   | <b>-1.5</b> | <b>10.8</b>   | <b>-0.3</b> | <b>11.1</b>   | <b>-2.7</b>  | <b>35.1</b>    | <b>33.5</b>    | <b>4.6</b> |

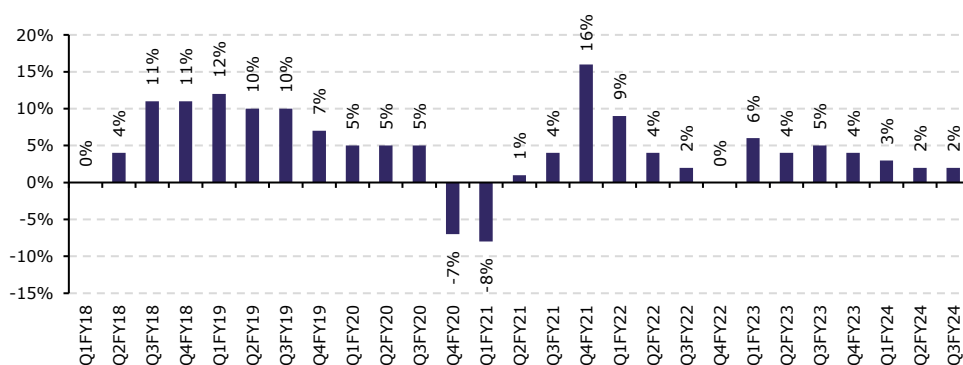
Source: Company, Emkay Research

Exhibit 2: Revenue growth trends



Source: Company, Emkay Research

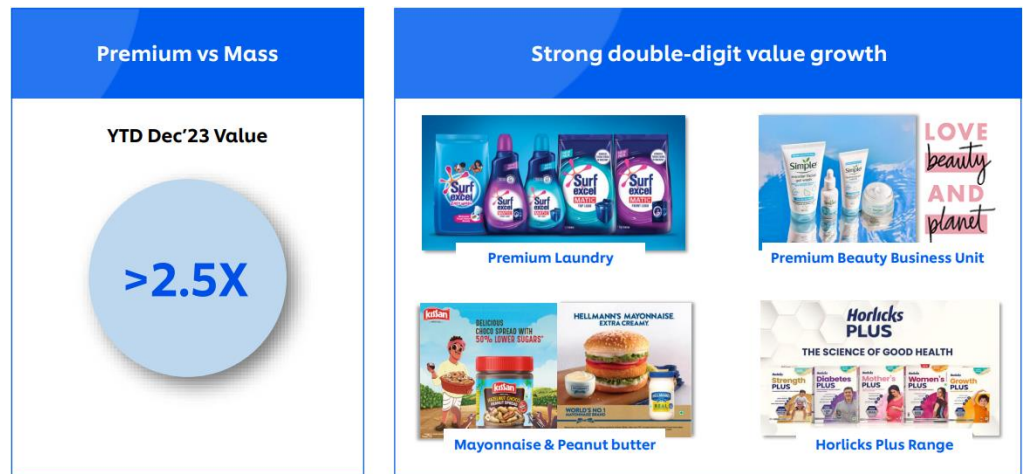
Exhibit 3: Underlying domestic volume growth trends



Source: Company, Emkay Research

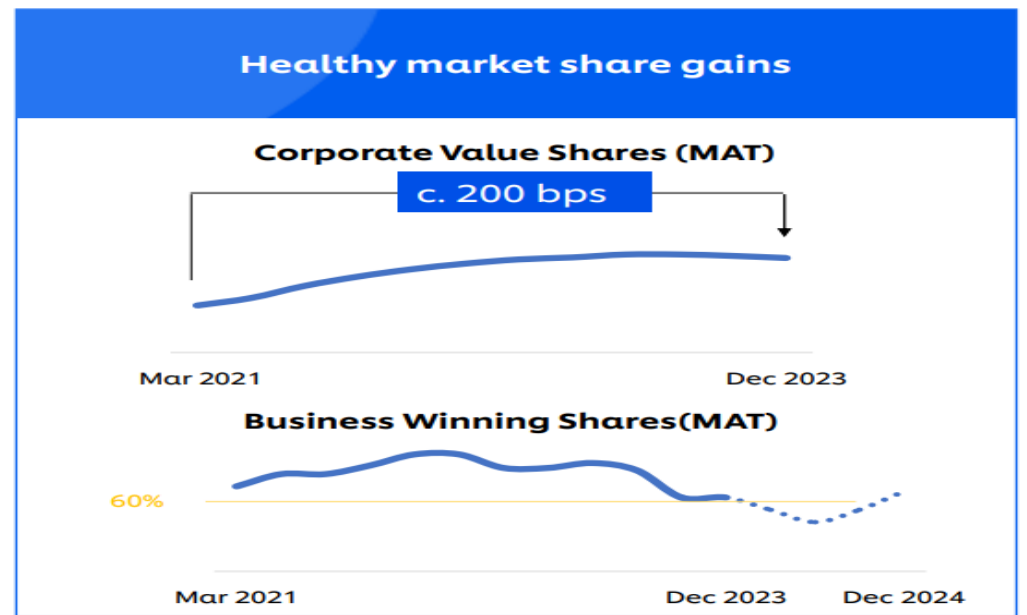
**Q3FY24 underlying volume growth stood at ~2%**

**Exhibit 4: Premium portfolio continued to outperform**



Source: Company, Emkay Research

**Exhibit 5: Healthy market share gains**

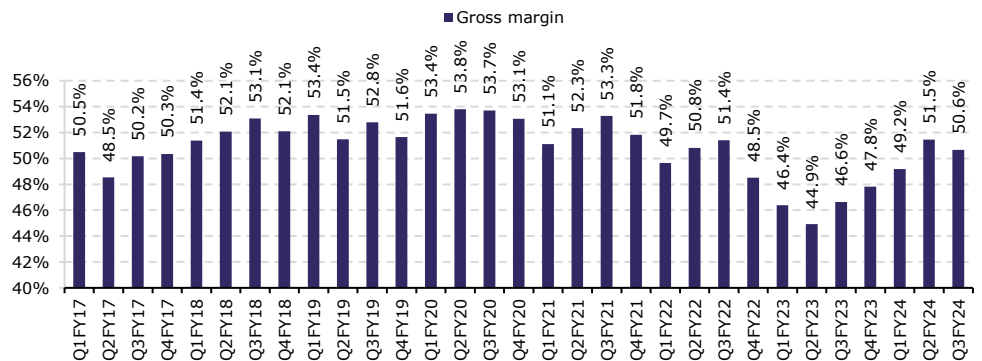


Source: Company, Emkay Research

**Exhibit 6: Gross margin trend**

**Gross margin saw a sharp 401bps expansion YoY in Q3FY24**

**Absolute COGS declined by 12.5% YoY in Q3**



Source: Company, Emkay Research

Exhibit 7: Key raw material for HUL and the spot price trend

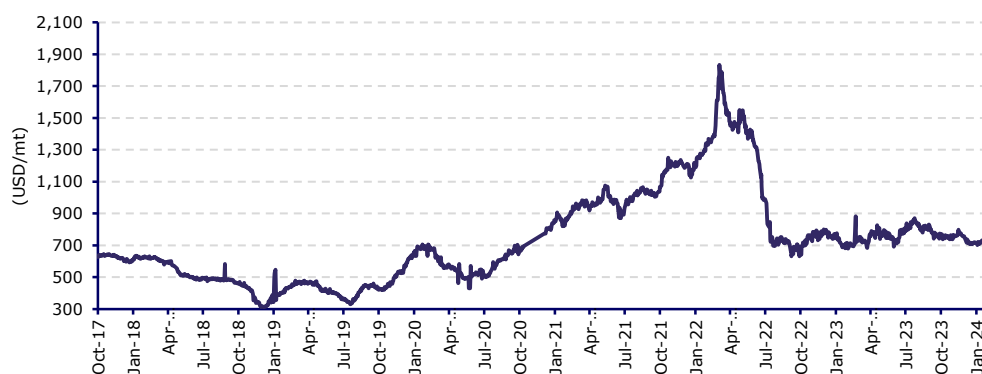
|                 | RM mix | Q3FY22       | Q4FY22 | Q1FY23 | Q2FY23       | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24       | YoY           | QoQ           |
|-----------------|--------|--------------|--------|--------|--------------|--------|--------|--------|--------|--------------|---------------|---------------|
| <b>PFAD</b>     | 17%    | <b>1,187</b> | 1,444  | 1,360  | <b>734</b>   | 754    | 721    | 767    | 806    | <b>747</b>   | <b>-1.1%</b>  | <b>-7.3%</b>  |
| <b>Soda Ash</b> | 17%    | <b>1,872</b> | 2,000  | 2,516  | <b>2,724</b> | 2,569  | 2,298  | 2,211  | 2,146  | <b>1876</b>  | <b>-27.1%</b> | <b>-12.6%</b> |
| <b>LAB</b>      | 10%    | <b>120</b>   | 122    | 139    | <b>145</b>   | 133    | 128    | 122    | 115    | <b>123</b>   | <b>-7.1%</b>  | <b>6.7%</b>   |
| <b>HDPE</b>     | 20%    | <b>124</b>   | 132    | 151    | <b>143</b>   | 133    | 131    | 128    | 126    | <b>126</b>   | <b>-3.5%</b>  | <b>0.0%</b>   |
| <b>Tea</b>      | 10%    | <b>173</b>   | 142    | 163    | <b>196</b>   | 182    | 147    | 175    | 178    | <b>167</b>   | <b>-6.8%</b>  | <b>-6.3%</b>  |
| <b>Sugar</b>    | 3%     | <b>3,646</b> | 3,542  | 3,569  | <b>3,575</b> | 3,589  | 3,521  | 648    | 622    | <b>582</b>   | <b>-28.1%</b> | <b>-6.4%</b>  |
| <b>Maize</b>    | 3%     | <b>1,970</b> | 2,255  | 2,262  | <b>2,419</b> | 2,480  | 2,434  | 1,882  | 2,067  | <b>2,263</b> | <b>-8.7%</b>  | <b>9.5%</b>   |
| <b>Coffee</b>   | 3%     | <b>123</b>   | 136    | 149    | <b>156</b>   | 155    | 152    | 146    | 148    | <b>149</b>   | <b>-3.4%</b>  | <b>0.3%</b>   |

Source: Bloomberg, NCDEX, Company, Emkay Research

Note: PFD price data is in USD/mt; Soda ash is in Rs/50kg, LAB, HDPE, and Tea prices are in Rs/kg, Sugar and Maize prices are in Rs/Quintal, Coffee is sourced from WPI

**PFAD spot prices are up 3.4% YoY, but seen easing QoQ by ~2.6% in Q3FY24**

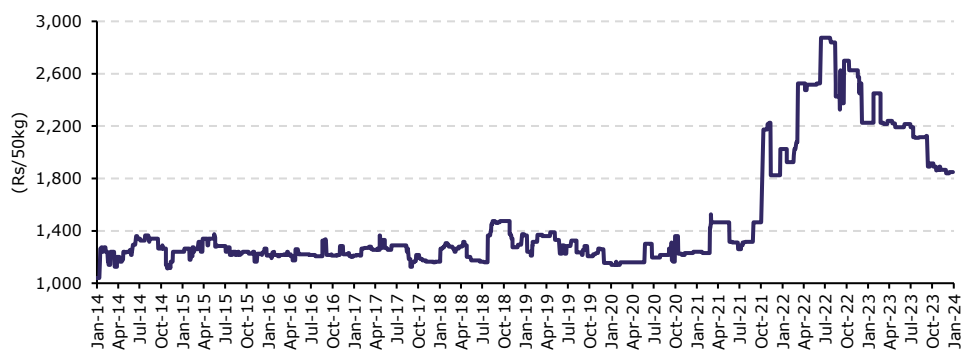
Exhibit 8: Palm Fatty Acid Distillate (PFAD) Prices (USD/mt)



Source: Bloomberg, Emkay Research

**Soda ash spot prices have eased by 17% YoY and 3% QoQ in Q3FY24**

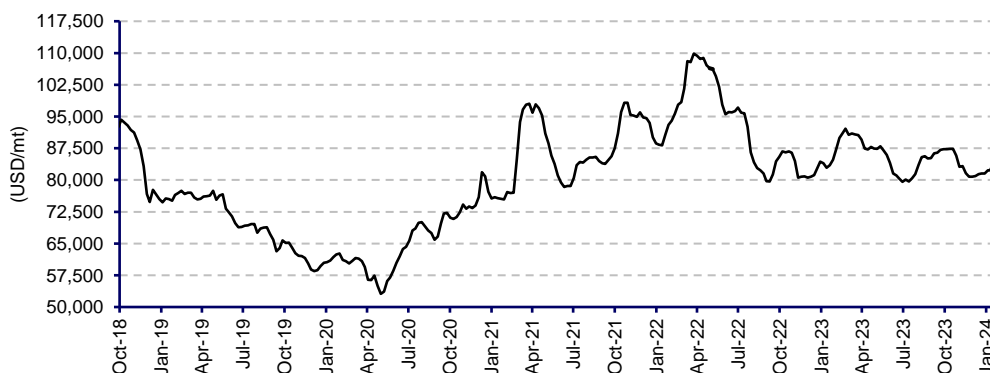
Exhibit 9: Soda ash prices (Rs/50kg)



Source: Bloomberg, Emkay Research

**HDPE spot prices have eased 2% YoY and 6% QoQ in Q3FY24**

Exhibit 10: HDPE prices (Rs/kg)



Source: Bloomberg, Emkay Research

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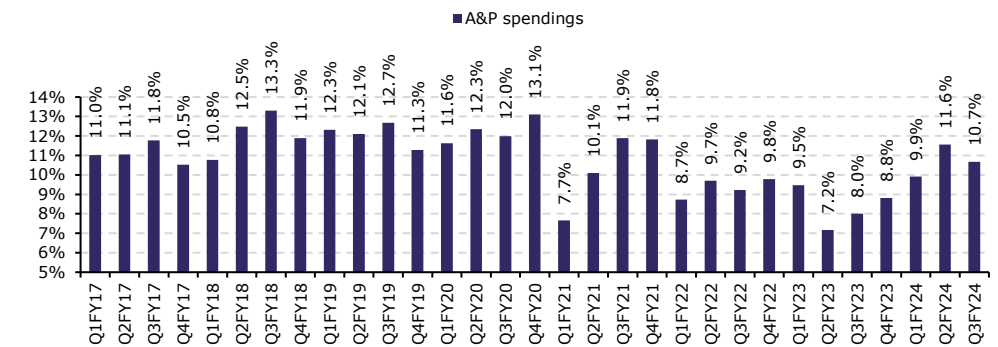
Exhibit 11: Thrust on gross margin build-up ahead



Source: Company

Exhibit 12: Advertisement and promotion spending as a % of sales

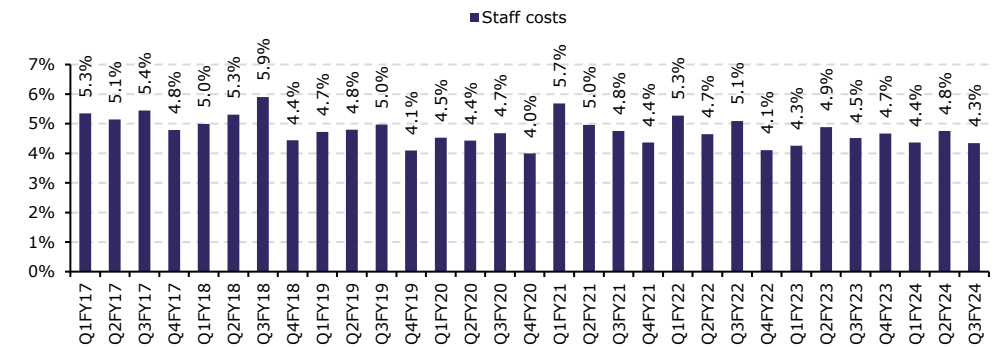
**Absolute A&P spending grew by 32.8% YoY in Q3**



Source: Company, Emkay Research

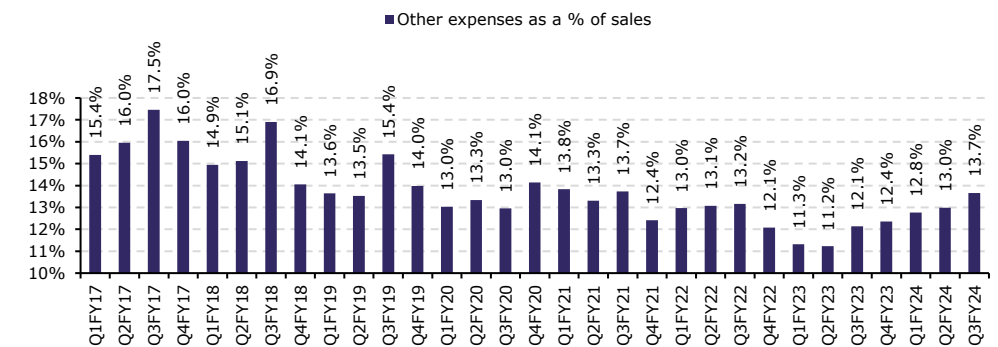
Exhibit 13: Staff costs as a % of sales

**Employee spending declined by 4% YoY**



Source: Company, Emkay Research

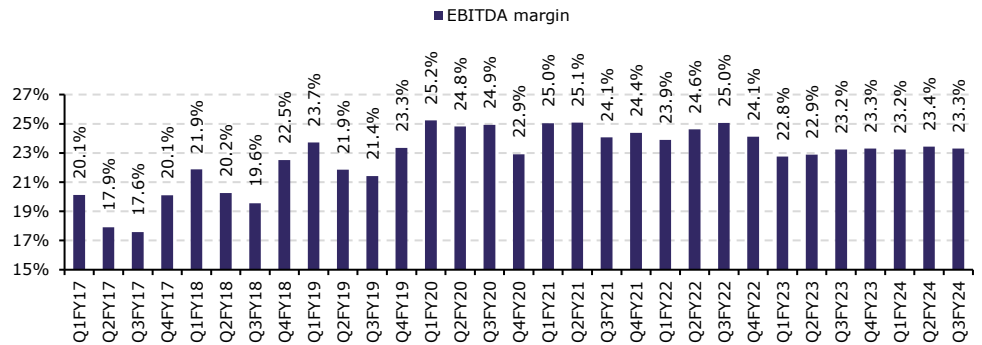
Exhibit 14: Other expenses as a % of sales



Source: Company, Emkay Research

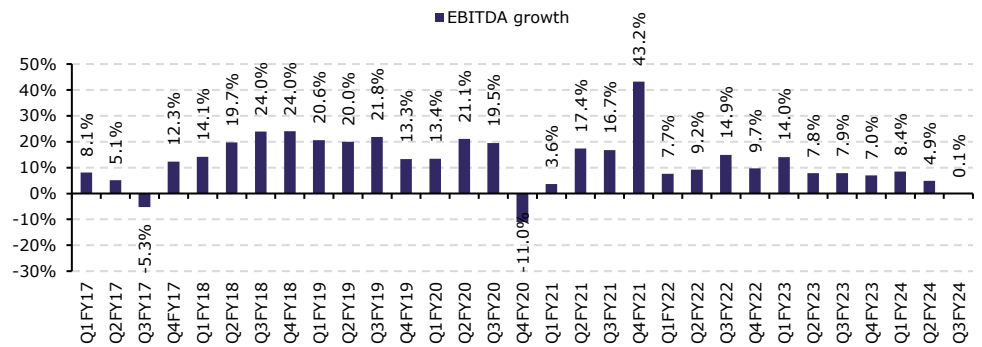
Exhibit 15: EBITDA margin trends

**EBITDA margin stood flat YoY to 23.3%, stood 10bps lower than our expectations**



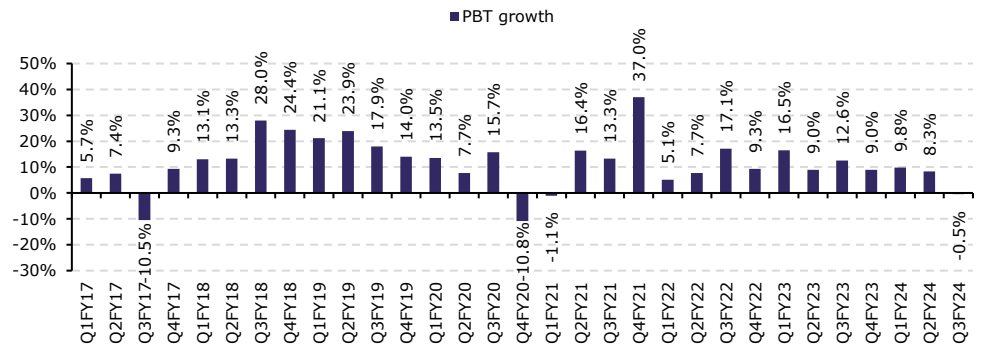
Source: Company, Emkay Research

Exhibit 16: EBITDA growth trends (YoY)



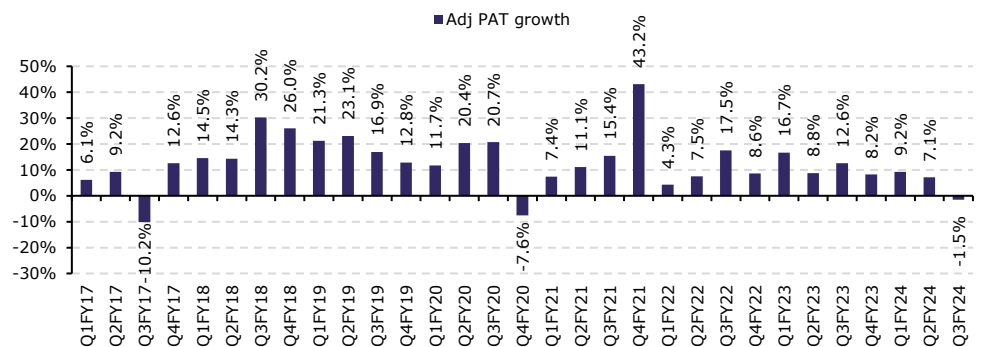
Source: Company, Emkay Research

Exhibit 17: Profit before tax growth (YoY)



Source: Company, Emkay Research

Exhibit 18: Adjusted profit after tax growth (YoY)

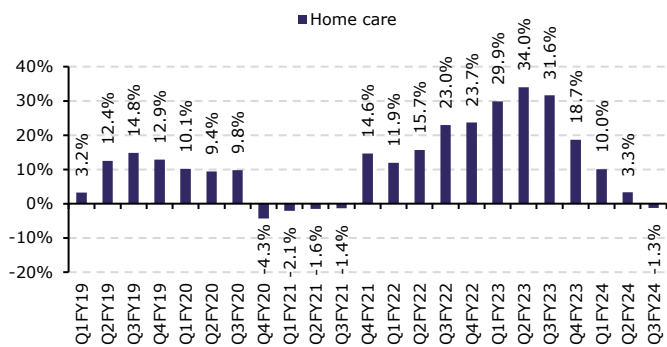


Source: Company, Emkay Research



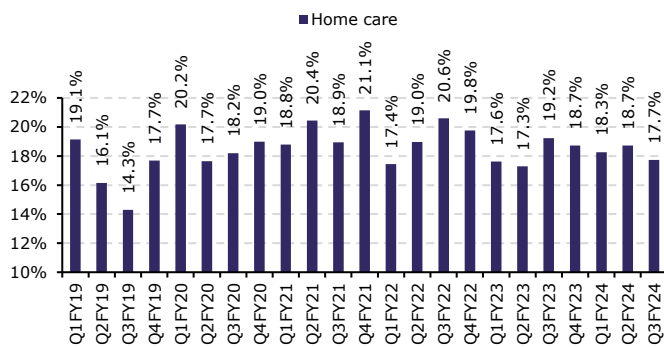
# Segment performance

Exhibit 19: Home care segment's growth (YoY)



Source: Company, Emkay Research

Exhibit 20: Home care segment's margin



Source: Company, Emkay Research

Exhibit 21: Home care segment – Quarterly trend

|        | Home care segment - Growth | Fabric wash   | Household care                                    | Purifiers                      |
|--------|----------------------------|---|---|--------------------------------|
| Q3FY24 | -1%                        | Volume grew in mid-single digit                                       | Low single-digit volume growth led by dishwash    |                                |
| Q2FY24 | 3%                         | Premium portfolio outperformance drove mid-single-digit volume growth | High single-digit volume growth led by dishwash   |                                |
| Q1FY24 | 10%                        | Double-digit (DD) value growth with mid-single-digit volume growth    | DD volume-led growth                              | Low single-digit volume growth |
| Q4FY23 | 19%                        | Strong DD value growth  | Strong DD value and volume                        |                                |
| Q3FY23 | 32%                        | High DD value growth  | High DD value growth and high-teens volume growth |                                |
| Q2FY23 | 34%                        | High DD value growth  | High DD value growth                              |                                |
| Q1FY23 | 30%                        | High DD value growth and high single-digit volume growth              | High DD value growth                              |                                |
| Q4FY22 | 19%                        | High DD value growth and mid-single-digit volume growth               | High DD value growth                              |                                |
| Q3FY22 | 23%                        | Strong DD value growth  | High teens value growth                           |                                |
| Q2FY22 | 15%                        | High DD value growth  |   | DD value growth                |
| Q1FY22 | 12%                        | DD value growth   | High teens value growth                           |                                |
| Q4FY21 | 15%                        |   | Strong DD value growth                            |                                |
| Q3FY21 | -2%                        |   | DD value growth                                   | Stable performance             |
| Q2FY21 | -1%                        |   | DD value growth                                   |                                |
| Q1FY21 | -2%                        | Stable performance  |   |                                |

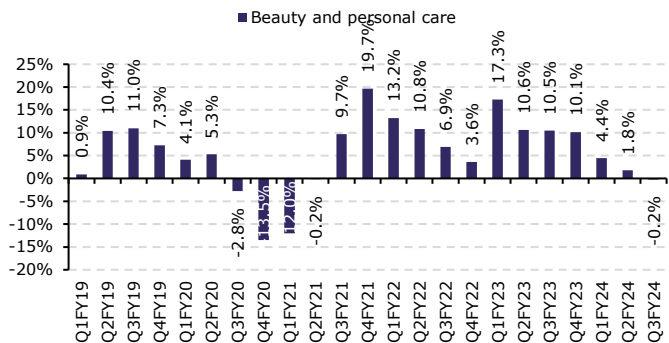
Source: Company

Exhibit 22: Home care: Innovations and activations



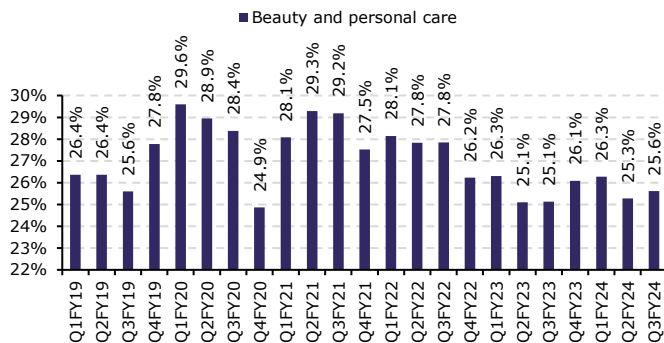
Source: Company

Exhibit 23: Beauty and personal care segment's growth (YoY)



Source: Company, Emkay Research

Exhibit 24: Beauty and personal care segment's margin



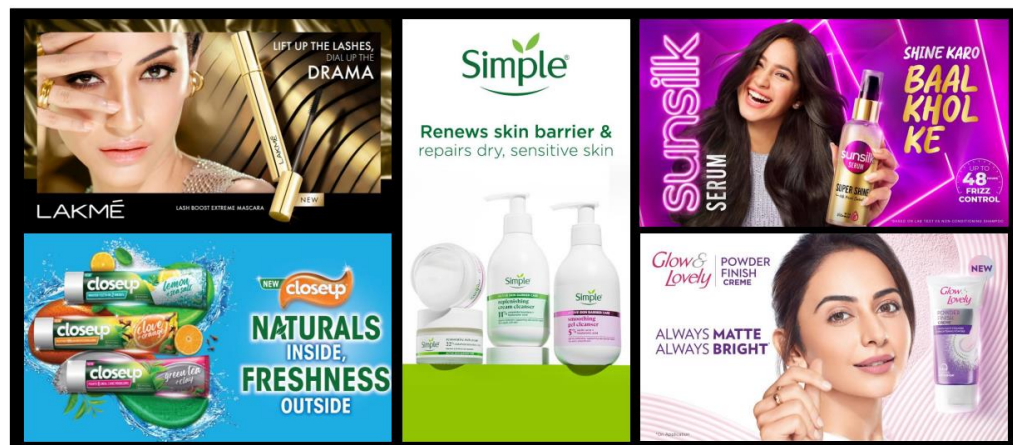
Source: Company, Emkay Research

Exhibit 25: Beauty and personal care segment – Quarterly trend

|        | BPC - Growth | Skin Cleansing                                   | Hair care                          | Skin Care                                      | Color Cosmetics                  | Discretionary segments | Oral care  |
|--------|--------------|--|------------------------------------|--|----------------------------------|------------------------|--|
| Q3FY24 | 0%           | Volume declined                                  | Double-digit volume growth         | Delayed winter impacted skincare               |                                  |                        | Mid-single digit growth                            |
| Q2FY24 | 4%           | Low single-digit volume growth. Negative pricing | High-single digit growth           | Double-digit growth                            |                                  |                        | Mid-single digit growth                            |
| Q1FY24 | 4%           | Low single-digit volume growth. Negative pricing | Mid-single volume digit            | DD growth with high single-digit volume growth |                                  |                        | High DD growth with mid-single-digit volume growth |
| Q4FY23 | 10%          | DD value growth                                  | Volume led mid-single-digit growth | DD value growth                                |                                  |                        | High-single-digit value growth                     |
| Q3FY23 | 10%          | Strong DD value growth                           | High single-digit growth           | DD growth in the non-winter portfolio          |                                  |                        | Steady performance                                 |
| Q2FY23 | 11%          | Strong DD value growth                           | Strong broad-based performance     | Premium portfolio delivered DD growth          |                                  |                        | Steady performance                                 |
| Q1FY23 | 17%          | DD value growth in soaps                         | High DD value growth               |  | Strong YoY growth on a soft base |                        |  |
| Q4FY22 | 8%           | DD value growth                                  |                                    | DD value growth                                |                                  |                        |  |
| Q3FY22 | 7%           | DD value growth                                  | Steady performance                 | DD value growths                               | Strong YoY growth                |                        |  |
| Q2FY22 | 10%          |  |                                    | High DD value growth                           |                                  |                        |  |
| Q1FY22 | 13%          |  | Strong DD value growth             | High DD value growth                           |                                  |                        |  |
| Q4FY21 | 20%          | High DD value growth                             | High DD value growth               |  |                                  |                        |  |
| Q3FY21 | 9%           | High DD value growth                             | DD value growth                    |  |                                  |                        | Strong DD value growth                             |
| Q2FY21 | 0%           | DD value growth                                  | Double-digit value growth          |  |                                  |                        | DD value growth                                    |
| Q1FY21 | -12%         | Strong DD value growth                           |                                    |  |                                  | Adversely impacted     | Good delivery                                      |

Source: Company

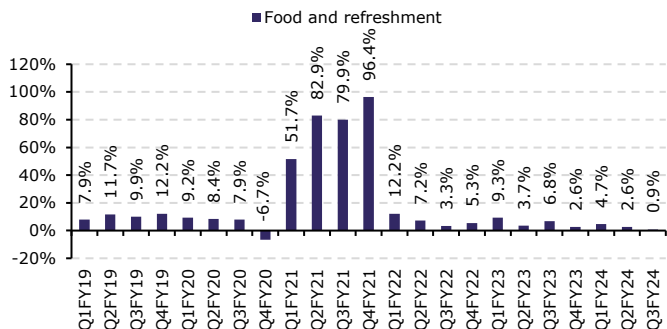
Exhibit 26: BPC: Innovations and activations



Source: Company

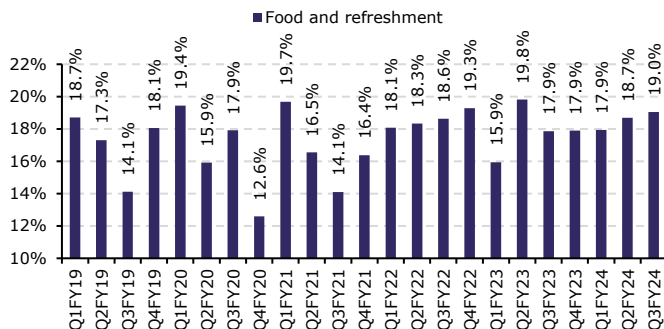


Exhibit 27: Foods and refreshment segment's growth (YoY)



Source: Company, Emkay Research

Exhibit 28: Foods and refreshment segment's margin



Source: Company, Emkay Research

Exhibit 29: Foods and refreshment segment – Quarterly trends

|        | Foods & Refreshment - Growth | Beverages (Tea and Coffee)   | Health food drinks   | Foods   | Ice cream  |
|--------|------------------------------|--|--|---|--|
| Q3FY24 | 1%                           | Tea reported muted performance, whereas coffee grew in double digits.  | Price-led growth, volume declined to low single digit.           | Strong growth led by Food Solutions                         | Mid-single digit growth                                      |
| Q2FY24 | 4%                           | Tea saw modest growth. Coffee grew in double digits.   | Price-led mid-single-digit growth.                               | High-single digit growth                                    | Mid-single digit growth                                      |
| Q1FY24 | 5%                           | Modest growth. Tea volume grew in low single digits, while coffee volume saw a mid-single digit decline.       | Price-led sales growth, volume decline seen in low-single digit. | Mid-single digit growth with low-single digit volume growth | Mid-single-digit growth with low-single-digit volume decline |
| Q4FY23 | 3%                           | Coffee grew in double digits; Tea growth was under pressure.   | Mid-single digit growth  | Mid-single digit growth                                     | Mid-single digit growth                                      |
| Q3FY23 | 7%                           | Coffee grew in double digits; Tea volumes grew in mid-single digits, price cuts softened overall value growth. | Mid-single-digit value growth                                    | Volume-led high teens growth                                | DD value growth  |
| Q2FY23 | 4%                           | Coffee grew in double digits; Tea volumes grew in mid-single digits.   | Category growth remains subdued due to inflation                 | DD value growth and volume growth in mid-teens              | DD value growth  |
| Q1FY23 | 9%                           | Coffee grew in double digits.  |  | DD value growth   |  |
| Q4FY22 | 7%                           | Coffee delivered double-digit value growth.  |  | High DD value growth  | High DD value growth   |
| Q3FY22 | 3%                           | Tea - 2Y CAGR in high teens. Coffee grew in high single digits.  |  |   | Ice cream-2Y CAGR in high teens                              |
| Q2FY22 | 7%                           |  | DD volume growth   | DD growth in the base                                       |  |
| Q1FY22 | 12%                          | High DD value growth.  | Mid-single-digit volume growth                                   |   |  |
| Q4FY21 | 36%                          | High DD value growth.  | Volume growth in teens   |   |  |
| Q3FY21 | 19%                          |  | DD value growth  | DD value growth in ketchups and soups                       |  |
| Q2FY21 | 19%                          | Tea - DD value growth  |  |   |  |
| Q1FY21 | -4%                          | Tea - Strong DD value growth<br>Coffee - Strong DD value growth  |  | Broad-based DD value growth                                 | Severely impacted  |

Source: Company

Exhibit 30: F&R: Innovations and activations



Source: Company

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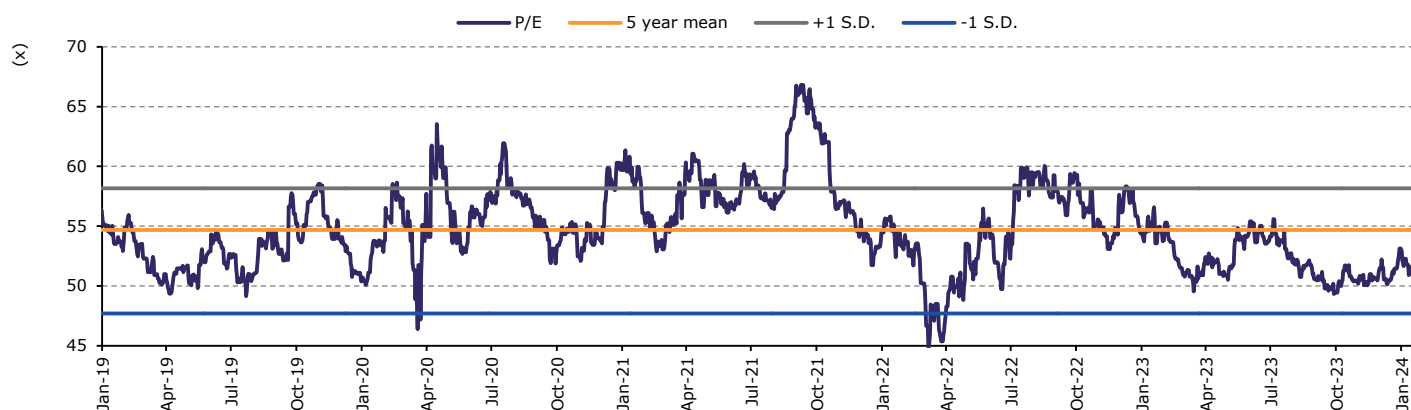
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## Management commentary

- **Overall market commentary:** The impact of an uneven monsoon was evident in the Kharif crop output, affecting agricultural yields and rural incomes. Concerns persist over lower water reserve levels, particularly for Rabi crops, despite a gradual recovery in crop sowing rates. Over a cumulative 2 year period, market volumes have registered a modest 2% CAGR. Urban markets consistently demonstrated growth, with a 3% increase over the two-year period, while rural markets saw 1% growth during the same time.
- **Outlook:** Management maintains its cautiously optimistic outlook, anticipating a gradual recovery in demand to persist. The pace of recovery is expected to hinge on factors such as rural income growth and winter crop yields. With commodity prices staying favorable, the competitive landscape is likely to remain intense. Management is focusing on achieving volume growth, with a projection of marginal negativity in price growth with stable commodity prices. On the gross margin front, management aims to reach pre-COVID levels and plans to invest more in A&P to enhance the brand's voice and market share. Consequently, there is limited scope for significant improvement in operating margins.
- **Price:** Market price growth has declined as anticipated, with a sequential reduction from 8% in the June quarter to marginally negative in the current quarter. However, over the last three years, there has been a notable increase in pricing, reflecting the impact of unprecedented levels of commodity cost inflation in the markets. Homecare and BPC segments showed negative price growth in mid-single digits. F&R maintained positive pricing, driven by inflation in commodities like coffee and sugar.
- **New Segment:** Management has changed its segment's structure from BPC to Beauty and Wellbeing (Rs120bn) and Personal Care (Rs100bn), effective from FY25, to provide more focus on the beauty portfolio, which has long-term growth.
- **Volume:** Underlying volume growth in the quarter was 2%, with variations among segments. Home care and beauty and personal care segments experienced volume recovery, while F&R segment witnessed a decline in volumes due to pricing strategies.
- **Premium portfolio continued to outpace the mass portfolio:** In various categories, premium segments have outperformed mass segments, influencing demand patterns in city markets. Overall, FMCG demand trends have remained relatively stable, similar to the previous quarter.
- **Distribution:** The company has expanded its effective coverage, achieving 1.25 times the 2019 levels, directly reaching 3mn outlets where 2.3mn are reached through the distribution network and the remaining are covered by Shakti Entrepreneurs in rural areas.
- **HPC:** It has delivered low single-digit volume growth led by the dishwasher segment. In fabric wash, volumes grew in mid-single digits, driven by outperformance in the premium portfolio. Laundry business and dishwasher and household care business have seen volume recovery.
- **BPC:** Mid-single-digit volume growth was achieved, although skin cleansing declined due to pricing actions to pass on the benefit of lower commodity prices. Premium portfolios in non-winter categories continued to perform well, with double-digit volume growth in products like Lakmé and *Ponds* cream. Oral care delivered mid-single-digit growth, led by *Close Up*. Winter portfolio, ~30% of skincare, did not perform well, while the non-winter portfolio's volume grew in mid-single-digit.
- **F&R:** In the F&R segment, price-led growth has been observed, driven by Market Development portfolio. HFD volumes declined in low single digit, where price growth has been observed. Coffee delivered double-digit growth, driven by pricing. Management believes with a 600bps increase in the penetration of *Horlicks* and *Boost*, there is now an opportunity to drive consumption, and it is eagerly awaiting to capitalize on this development.
- **Distribution Margin:** Management has revised the margin structure in alignment with the future-fit portfolio strategy. In the pilot phase, management closely monitored and observed improvements across all parameters.
- **Competition:** From the next quarter, management believes competition intensity would come down in the detergent category. Tea and coffee consumers have been downtraded on the back of higher prices, where a slowdown in HFD has been observed.

## Maintain ADD with a new Dec-24 TP of Rs2,700

Exhibit 31: HUL's one-year forward P/E trend



Source: Bloomberg, Company, Emkay Research

Exhibit 32: Key assumptions

|                                   | FY20  | FY21  | FY22  | FY23  | FY24E | FY25E | FY26E |
|-----------------------------------|-------|-------|-------|-------|-------|-------|-------|
| <b>Income statement</b>           |       |       |       |       |       |       |       |
| Total income growth (%)           | 1.5%  | 18.6% | 11.3% | 15.5% | 2.7%  | 7.8%  | 8.8%  |
| Gross margin (%)                  | 54.1% | 52.9% | 50.9% | 47.3% | 51.5% | 52.6% | 53.3% |
| Royalty (%)                       | 2.8%  | 2.6%  | 2.7%  | 2.7%  | 3.2%  | 3.4%  | 3.5%  |
| Advertisement (%)                 | 12.1% | 10.3% | 9.2%  | 8.2%  | 10.6% | 11.4% | 11.9% |
| EBITDA margin (%)                 | 24.8% | 24.6% | 24.4% | 23.0% | 23.2% | 23.8% | 24.4% |
| Tax rate (%)                      | 27.4% | 25.7% | 25.9% | 26.0% | 26.5% | 26.5% | 26.5% |
| Adj PAT growth (%)                | 10.9% | 18.1% | 9.6%  | 11.4% | 3.4%  | 11.5% | 11.8% |
| EPS (Rs/share)                    | 31.22 | 33.89 | 37.12 | 41.36 | 42.77 | 47.67 | 53.32 |
| <b>Balance Sheet</b>              |       |       |       |       |       |       |       |
| ROE (%)                           | 86%   | 29%   | 18%   | 20%   | 20%   | 22%   | 25%   |
| ROCE (%)                          | 110%  | 37%   | 24%   | 25%   | 26%   | 29%   | 32%   |
| Inventory days                    | 25    | 27    | 28    | 25    | 25    | 24    | 24    |
| Receivable days                   | 10    | 13    | 14    | 17    | 17    | 17    | 17    |
| Payable days                      | 70    | 68    | 63    | 58    | 59    | 59    | 59    |
| <b>Segment revenue growth (%)</b> |       |       |       |       |       |       |       |
| Home care                         | 6.24  | 2.95  | 18.76 | 28.06 | 4.00  | 8.00  | 9.00  |
| Personal care                     | -1.75 | 5.55  | 8.33  | 12.18 | 2.00  | 9.00  | 10.00 |
| Food and refreshment              | 4.63  | 78.55 | 6.82  | 5.47  | 2.50  | 7.00  | 7.00  |
| <b>Segment EBIT margin (%)</b>    |       |       |       |       |       |       |       |
| Home care                         | 18.9  | 19.9  | 19.3  | 18.3  | 18.1  | 19.0  | 20.0  |
| Personal care                     | 28.6  | 28.5  | 27.5  | 25.6  | 25.9  | 26.3  | 26.5  |
| Food and refreshment              | 16.7  | 16.6  | 18.6  | 17.9  | 18.5  | 19.3  | 19.8  |

Source: Company, Emkay Research

**Exhibit 33: Changes to Emkay estimates**

|                   | New estimates |         |         | Old estimates |         |         | Changes to our estimates |       |       |
|-------------------|---------------|---------|---------|---------------|---------|---------|--------------------------|-------|-------|
|                   | FY24E         | FY25E   | FY26E   | FY24E         | FY25E   | FY26E   | FY24E                    | FY25E | FY26E |
| Revenue           | 598,470       | 647,389 | 704,279 | 605,637       | 667,203 | 729,648 | -1%                      | -3%   | -3%   |
| Growth (%)        | 2.7%          | 7.8%    | 8.8%    | 4.0%          | 10.2%   | 9.4%    |                          |       |       |
| EBITDA            | 140,745       | 156,077 | 173,801 | 144,145       | 162,390 | 180,934 | -2%                      | -4%   | -4%   |
| Growth (%)        | 3.2%          | 10.9%   | 11.4%   | 5.7%          | 12.7%   | 11.4%   |                          |       |       |
| EBITDA margin (%) | 23.2%         | 23.8%   | 24.4%   | 23.4%         | 24.1%   | 24.5%   |                          |       |       |
| Adj. PAT          | 100,521       | 112,033 | 125,297 | 102,530       | 116,080 | 129,537 | -2%                      | -3%   | -3%   |
| Growth (%)        | 3.4%          | 11.5%   | 11.8%   | 5.5%          | 13.2%   | 11.6%   |                          |       |       |
| EPS (Rs)          | 42.77         | 47.67   | 53.32   | 43.63         | 49.40   | 55.12   | -2%                      | -3%   | -3%   |

Source: Emkay Research

**Exhibit 34: Emkay vs. Consensus estimates**

|                   | Emkay estimates |         |         | Consensus estimates |         |         | Emkay vs. Consensus |       |       |
|-------------------|-----------------|---------|---------|---------------------|---------|---------|---------------------|-------|-------|
|                   | FY24E           | FY25E   | FY26E   | FY24E               | FY25E   | FY26E   | FY24E               | FY25E | FY26E |
| Revenue           | 598,470         | 647,389 | 704,279 | 620,083             | 679,910 | 742,913 | -3%                 | -5%   | -5%   |
| Growth (%)        | 2.7%            | 7.8%    | 8.8%    | 6.4%                | 9.6%    | 9.3%    |                     |       |       |
| EBITDA            | 140,745         | 156,077 | 173,801 | 147,909             | 166,127 | 183,870 | -5%                 | -6%   | -5%   |
| Growth (%)        | 3.2%            | 10.9%   | 11.4%   | 8.5%                | 12.3%   | 10.7%   |                     |       |       |
| EBITDA margin (%) | 23.2%           | 23.8%   | 24.4%   | 23.9%               | 24.4%   | 24.7%   |                     |       |       |
| Adj. PAT          | 100,521         | 112,033 | 125,297 | 106,902             | 120,014 | 132,860 | -6%                 | -7%   | -6%   |
| Growth (%)        | 3.4%            | 11.5%   | 11.8%   | 10.0%               | 12.3%   | 10.7%   |                     |       |       |

Source: Emkay Research

## Hindustan Unilever: Standalone Financials and Valuations

| Profit and Loss             |                |                |                |                |                |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Y/E Mar (Rs mn)             | FY22           | FY23           | FY24E          | FY25E          | FY26E          |
| <b>Revenue</b>              | <b>511,930</b> | <b>591,440</b> | <b>607,616</b> | <b>655,159</b> | <b>713,036</b> |
| Revenue growth (%)          | 11.3           | 15.5           | 2.7            | 7.8            | 8.8            |
| <b>EBITDA</b>               | <b>125,030</b> | <b>136,320</b> | <b>140,745</b> | <b>156,077</b> | <b>173,801</b> |
| EBITDA growth (%)           | 10.4           | 9.0            | 3.2            | 10.9           | 11.4           |
| Depreciation & Amortization | 10,250         | 10,300         | 10,900         | 11,400         | 12,000         |
| <b>EBIT</b>                 | <b>114,780</b> | <b>126,020</b> | <b>129,845</b> | <b>144,677</b> | <b>161,801</b> |
| EBIT growth (%)             | 11.3           | 9.8            | 3.0            | 11.4           | 11.8           |
| Other operating income      | 8,570          | 9,900          | 9,146          | 7,771          | 8,757          |
| Other income                | 3,930          | 6,400          | 9,718          | 10,690         | 11,759         |
| Financial expense           | 980            | 1,010          | 2,800          | 2,940          | 3,087          |
| <b>PBT</b>                  | <b>117,730</b> | <b>131,410</b> | <b>136,763</b> | <b>152,426</b> | <b>170,473</b> |
| Extraordinary items         | 0              | 0              | 0              | 0              | 0              |
| Taxes                       | 30,490         | 34,210         | 36,242         | 40,393         | 45,175         |
| Minority interest           | 0              | 0              | 0              | 0              | 0              |
| Income from JV/Associates   | 0              | 0              | 0              | 0              | 0              |
| <b>Reported PAT</b>         | <b>87,240</b>  | <b>97,200</b>  | <b>100,521</b> | <b>112,033</b> | <b>125,297</b> |
| PAT growth (%)              | 9.6            | 11.4           | 3.4            | 11.5           | 11.8           |
| <b>Adjusted PAT</b>         | <b>87,240</b>  | <b>97,200</b>  | <b>100,521</b> | <b>112,033</b> | <b>125,297</b> |
| <b>Diluted EPS (Rs)</b>     | <b>37.1</b>    | <b>41.4</b>    | <b>42.8</b>    | <b>47.7</b>    | <b>53.3</b>    |
| Diluted EPS growth (%)      | 9.6            | 11.4           | 3.4            | 11.5           | 11.8           |
| <b>DPS (Rs)</b>             | <b>31.8</b>    | <b>39.0</b>    | <b>42.0</b>    | <b>46.0</b>    | <b>52.0</b>    |
| <b>Dividend payout (%)</b>  | <b>85.7</b>    | <b>94.3</b>    | <b>98.2</b>    | <b>96.5</b>    | <b>97.5</b>    |
| EBITDA margin (%)           | 24.4           | 23.0           | 23.2           | 23.8           | 24.4           |
| EBIT margin (%)             | 22.4           | 21.3           | 21.4           | 22.1           | 22.7           |
| Effective tax rate (%)      | 25.9           | 26.0           | 26.5           | 26.5           | 26.5           |
| <b>NOPLAT (pre-IndAS)</b>   | <b>85,054</b>  | <b>93,213</b>  | <b>95,436</b>  | <b>106,337</b> | <b>118,924</b> |
| Shares outstanding (mn)     | 2,350.0        | 2,350.0        | 2,350.0        | 2,350.0        | 2,350.0        |

Source: Company, Emkay Research

| Cash Flows                   |                 |                 |                  |                  |                  |
|------------------------------|-----------------|-----------------|------------------|------------------|------------------|
| Y/E Mar (Rs mn)              | FY22            | FY23            | FY24E            | FY25E            | FY26E            |
| PBT                          | 117,730         | 131,410         | 136,763          | 152,426          | 170,473          |
| Others (non-cash items)      | 0               | 0               | 0                | 0                | 0                |
| Taxes paid                   | (27,200)        | (30,680)        | (36,242)         | (40,393)         | (45,175)         |
| Change in NWC                | (7,890)         | (8,630)         | 3,778            | 3,283            | 1,778            |
| <b>Operating cash flow</b>   | <b>89,640</b>   | <b>96,260</b>   | <b>108,281</b>   | <b>118,966</b>   | <b>130,403</b>   |
| Capital expenditure          | (7,850)         | (9,730)         | (10,000)         | (10,000)         | (10,000)         |
| Acquisition of business      | 0               | 0               | 0                | 0                | 0                |
| Interest & dividend income   | 3,020           | 3,910           | 9,718            | 10,690           | 11,759           |
| <b>Investing cash flow</b>   | <b>(17,320)</b> | <b>(10,620)</b> | <b>(10,282)</b>  | <b>(9,310)</b>   | <b>(18,241)</b>  |
| Equity raised/(repaid)       | 0               | 0               | 280              | 280              | 280              |
| Debt raised/(repaid)         | 0               | 0               | 0                | 0                | 0                |
| Payment of lease liabilities | 0               | 0               | 0                | 0                | 0                |
| Interest paid                | (20)            | 0               | (2,800)          | (2,940)          | (3,087)          |
| Dividend paid (incl tax)     | (75,190)        | (84,590)        | (98,700)         | (108,100)        | (122,200)        |
| Others                       | (4,630)         | (5,070)         | 0                | 0                | 0                |
| <b>Financing cash flow</b>   | <b>(79,840)</b> | <b>(89,660)</b> | <b>(101,220)</b> | <b>(110,760)</b> | <b>(125,007)</b> |
| Net chg in Cash              | (7,520)         | (4,020)         | (3,221)          | (1,104)          | (12,845)         |
| OCF                          | 89,640          | 96,260          | 108,281          | 118,966          | 130,403          |
| Adj. OCF (w/o NWC chg.)      | 97,530          | 104,890         | 116,911          | 115,684          | 128,626          |
| FCFF                         | 81,790          | 86,530          | 98,281           | 108,966          | 120,403          |
| FCFE                         | 83,830          | 89,430          | 105,199          | 116,716          | 129,075          |
| OCF/EBITDA (%)               | 71.7            | 70.6            | 76.9             | 76.2             | 75.0             |
| FCFE/PAT (%)                 | 96.1            | 92.0            | 104.7            | 104.2            | 103.0            |
| <b>FCFF/NOPLAT (%)</b>       | <b>96.2</b>     | <b>92.8</b>     | <b>103.0</b>     | <b>102.5</b>     | <b>101.2</b>     |

Source: Company, Emkay Research

| Balance Sheet                         |                 |                 |                 |                 |                 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Y/E Mar (Rs mn)                       | FY22            | FY23            | FY24E           | FY25E           | FY26E           |
| Share capital                         | 2,350           | 2,350           | 2,350           | 2,350           | 2,350           |
| Reserves & Surplus                    | 485,250         | 499,860         | 501,961         | 506,174         | 509,552         |
| <b>Net worth</b>                      | <b>487,600</b>  | <b>502,210</b>  | <b>504,311</b>  | <b>508,524</b>  | <b>511,902</b>  |
| Minority interests                    | 0               | 0               | 0               | 0               | 0               |
| Deferred tax liability (net)          | 61,410          | 63,250          | 63,250          | 63,250          | 63,250          |
| <b>Total debt</b>                     | <b>0</b>        | <b>0</b>        | <b>0</b>        | <b>0</b>        | <b>0</b>        |
| <b>Total liabilities &amp; equity</b> | <b>549,010</b>  | <b>565,460</b>  | <b>567,561</b>  | <b>571,774</b>  | <b>575,152</b>  |
| Net tangible fixed assets             | 510,190         | 513,900         | 513,000         | 511,600         | 509,600         |
| Net intangible assets                 | 150             | 150             | 150             | 150             | 150             |
| Net ROU assets                        | 10,680          | 11,820          | 12,411          | 13,032          | 13,683          |
| Capital WIP                           | 9,010           | 10,200          | 10,200          | 10,200          | 10,200          |
| Goodwill                              | 150             | 150             | 150             | 150             | 150             |
| Investments [JV/Associates]           | 19,690          | 21,360          | 20,903          | 21,834          | 23,013          |
| <b>Cash &amp; equivalents</b>         | <b>71,300</b>   | <b>72,350</b>   | <b>79,129</b>   | <b>88,025</b>   | <b>95,180</b>   |
| Current assets (ex-cash)              | 87,030          | 100,320         | 103,556         | 109,577         | 118,275         |
| Current Liab. & Prov.                 | 148,360         | 152,820         | 159,377         | 169,612         | 181,266         |
| <b>NWC (ex-cash)</b>                  | <b>(61,330)</b> | <b>(52,500)</b> | <b>(55,821)</b> | <b>(60,035)</b> | <b>(62,991)</b> |
| <b>Total assets</b>                   | <b>549,010</b>  | <b>565,460</b>  | <b>567,561</b>  | <b>571,774</b>  | <b>575,152</b>  |
| Net debt                              | (71,300)        | (72,350)        | (79,129)        | (88,025)        | (95,180)        |
| Capital employed                      | 549,010         | 565,460         | 567,561         | 571,774         | 575,152         |
| <b>Invested capital</b>               | <b>448,860</b>  | <b>461,400</b>  | <b>457,179</b>  | <b>451,565</b>  | <b>446,609</b>  |
| BVPS (Rs)                             | 207.5           | 213.7           | 214.6           | 216.4           | 217.8           |
| Net Debt/Equity (x)                   | (0.1)           | (0.1)           | (0.2)           | (0.2)           | (0.2)           |
| Net Debt/EBITDA (x)                   | (0.6)           | (0.5)           | (0.6)           | (0.6)           | (0.5)           |
| Interest coverage (x)                 | 0.0             | 0.0             | 0.0             | 0.0             | 0.0             |
| <b>RoCE (%)</b>                       | <b>21.9</b>     | <b>23.8</b>     | <b>24.6</b>     | <b>27.3</b>     | <b>30.3</b>     |

Source: Company, Emkay Research

| Valuations and Key Ratios |               |               |               |               |               |
|---------------------------|---------------|---------------|---------------|---------------|---------------|
| Y/E Mar                   | FY22          | FY23          | FY24E         | FY25E         | FY26E         |
| P/E (x)                   | 69.1          | 62.0          | 60.0          | 53.8          | 48.1          |
| P/CE(x)                   | 61.8          | 56.1          | 54.1          | 48.8          | 43.9          |
| P/B (x)                   | 12.4          | 12.0          | 12.0          | 11.9          | 11.8          |
| EV/Sales (x)              | 11.8          | 10.2          | 9.9           | 9.2           | 8.4           |
| EV/EBITDA (x)             | 47.6          | 43.7          | 42.3          | 38.1          | 34.1          |
| EV/EBIT(x)                | 51.9          | 47.3          | 45.8          | 41.1          | 36.7          |
| EV/IC (x)                 | 13.3          | 12.9          | 13.0          | 13.2          | 13.3          |
| FCFF yield (%)            | 1.4           | 1.5           | 1.7           | 1.8           | 2.0           |
| FCFE yield (%)            | 1.4           | 1.5           | 1.7           | 1.9           | 2.1           |
| Dividend yield (%)        | 1.2           | 1.5           | 1.6           | 1.8           | 2.0           |
| <b>DuPont-RoE split</b>   |               |               |               |               |               |
| Net profit margin (%)     | 17.0          | 16.4          | 16.5          | 17.1          | 17.6          |
| Total asset turnover (x)  | 0.9           | 1.1           | 1.1           | 1.2           | 1.2           |
| Assets/Equity (x)         | 1.1           | 1.1           | 1.1           | 1.1           | 1.1           |
| <b>RoE (%)</b>            | <b>18.1</b>   | <b>19.6</b>   | <b>20.0</b>   | <b>22.1</b>   | <b>24.6</b>   |
| <b>DuPont-RoIC</b>        |               |               |               |               |               |
| NOPLAT margin (%)         | 16.6          | 15.8          | 15.7          | 16.2          | 16.7          |
| IC turnover (x)           | 1.1           | 1.3           | 1.3           | 1.4           | 1.6           |
| <b>RoIC (%)</b>           | <b>19.1</b>   | <b>20.5</b>   | <b>20.8</b>   | <b>23.4</b>   | <b>26.5</b>   |
| <b>Operating metrics</b>  |               |               |               |               |               |
| Core NWC days             | (43.0)        | (36.9)        | (37.3)        | (37.3)        | (37.4)        |
| <b>Total NWC days</b>     | <b>(43.7)</b> | <b>(32.4)</b> | <b>(33.5)</b> | <b>(33.4)</b> | <b>(32.2)</b> |
| Fixed asset turnover      | 0.9           | 1.1           | 1.1           | 1.1           | 1.2           |
| Opex-to-revenue (%)       | 26.5          | 24.3          | 28.3          | 28.8          | 28.9          |

Source: Company, Emkay Research

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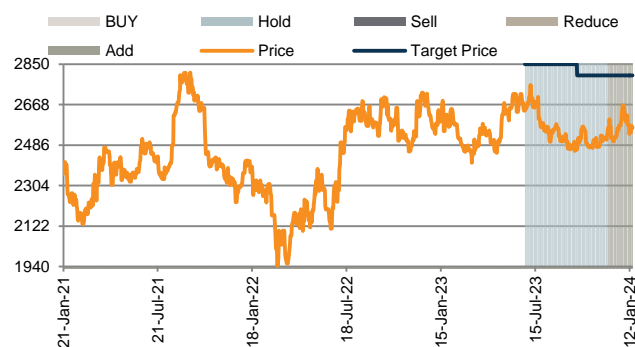


## RECOMMENDATION HISTORY - DETAILS

| Date      | Closing Price (INR) | TP (INR) | Rating | Analyst     |
|-----------|---------------------|----------|--------|-------------|
| 07-Jan-24 | 2,620               | 2,800    | Add    | Nitin Gupta |
| 12-Dec-23 | 2,503               | 2,800    | Add    | Nitin Gupta |
| 30-Nov-23 | 2,546               | 2,800    | Add    | Nitin Gupta |
| 24-Nov-23 | 2,515               | 2,800    | Hold   | Nitin Gupta |
| 20-Oct-23 | 2,495               | 2,800    | Hold   | Nitin Gupta |
| 03-Oct-23 | 2,469               | 2,800    | Hold   | Nitin Gupta |
| 28-Aug-23 | 2,556               | 2,850    | Hold   | Nitin Gupta |
| 15-Aug-23 | 2,533               | 2,850    | Hold   | Nitin Gupta |
| 20-Jul-23 | 2,703               | 2,850    | Hold   | Nitin Gupta |
| 25-Jun-23 | 2,642               | 2,850    | Hold   | Nitin Gupta |

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India  
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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