ADD Hindustan Unilever

AR analyses: Timely execution key amid visible green shoots

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Consumer Goods ▸ Company Update ▸ **May 31, 2024**

TARGET PRICE (Rs): 2,575

HUL's FY24 Annual Report highlights its thrust on product superiority (3x superior products now vs 2019) and its Intelligent Enterprise initiative (geared to leverage opportunities with digital ecosystem in place). Its transformation journey started early on (a decade ago), inducing better results. But headwinds and muted execution in recent years have played spoilsport. Going ahead, the company needs to enhance its execution capabilities in the core/base portfolio, where focus should be on driving consumption, with premiumization the key theme. Rural rebound with anticipation of better monsoons is a positive, but we await tailwinds. We build in CAGR of 8% in topline and 10% in earnings over FY24-27E. Stock's 12M fwd P/E at 49x is in line with its last 10Y avg fwd P/E, which seems fair. We maintain ADD with new Jun-25E TP of Rs2,575/share.

Hindustan Unilever: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	591,440	604,690	641,617	690,884	752,484
EBITDA	136,320	141,900	152,177	167,021	185,366
Adj. PAT	97,200	99,849	108,771	119,908	133,620
Adj. EPS (Rs)	41.4	42.5	46.3	51.0	56.9
EBITDA margin (%)	23.0	23.5	23.7	24.2	24.6
EBITDA growth (%)	9.0	4.1	7.2	9.8	11.0
Adj. EPS growth (%)	11.4	2.7	8.9	10.2	11.4
RoE (%)	19.6	19.7	21.3	23.3	25.9
RoIC (%)	20.5	21.4	24.3	27.1	30.8
P/E (x)	56.2	54.7	50.2	45.5	40.9
EV/EBITDA (x)	39.5	37.7	35.1	31.9	28.7
P/B (x)	10.9	10.7	10.6	10.6	10.5
FCFF yield (%)	1.6	2.5	1.9	2.2	2.5

Source: Company, Emkay Research

Reviving growth in core, key in FY25

HUL's AR highlights organizational thrust on its Intelligent Enterprise initiative, thus leveraging its existing digital ecosystem. But Company needs to be able to promptly align to evolving consumer trends. With social media, the gap in consumer evolution globally has thinned. This is clearly visible in online channels, though general trade (dominant revenue share) has yet to witness a transformation and is thus seeing slower growth. HUL is well equipped to gauge global trends in India, given that its strong parentage has operations worldwide. As the new management settles in, we expect execution to improve, wherein devising a new trend would be key (differentiator for HUL in the past). In the last few years, HUL has worked on weak areas like functional nutrition, oral care, and beauty care, but has lost its grip on core segments.

Category thrust to intensify ahead

Under its new leadership, HUL targets growing core segments via brand superiority, driving 'market making' (i.e. category development), reshaping portfolio into premium spaces, and strengthening leadership in channels of the future. Growth trends were muted in FY24, with key milestones like brands with Rs10bn+ revenue still stagnant at brand-count of 19, home-care liquid revenue inert at >Rs30bn, and digital brand ARR at only Rs1bn. The margin profile would gradually improve, as HUL recoups gross margin with sales mix. We build-in 10% earnings CAGR for FY24-27E. With limited funding needs, we see near-full payout of earnings as dividend. HUL's return profile would see steady progress with rebound in margin.

Re-rating asks for tailwinds and enhanced execution; maintain ADD

We await stock tailwinds and believe headwinds are mostly priced-in. Stock could rerate on demand recovery (esp. with rural rebound) in our view, but requires enhanced Mgmt execution. In this note we introduce FY27 estimates and roll-over to Jun-26E earnings from Mar-26E; we raise our TP to Rs2,575/sh (on 49x P/E, in line with its last 10YF P/E).

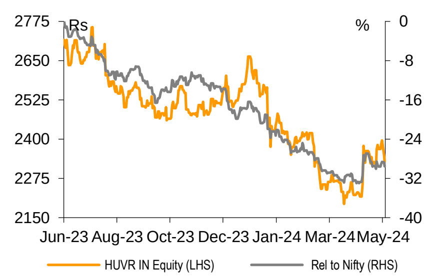
Target Price – 12M	Jun-25
Change in TP (%)	**3.0**
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	10.8
CMP (31-May-24) (Rs)	2,324.0

Stock Data	**HUVR IN**
52-week High (Rs)	2,770
52-week Low (Rs)	2,170
Shares outstanding (mn)	2,349.6
Market-cap (Rs bn)	5,460
Market-cap (USD mn)	65,422
Net-debt, FY25E (Rs mn)	0
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	5,144.1
ADTV-3M (USD mn)	61.6
Free float (%)	38.1
Nifty-50	22,523
INR/USD	83.5
Shareholding, Mar-24	
Promoters (%)	61.9
FPIs/MFs (%)	12.7/13.3

Price Performance

(%)	1M	3M	12M
Absolute	4.2	(3.7)	(12.9)
Rel. to Nifty	4.7	(5.8)	(28.2)

1-Year share price trend (Rs)



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

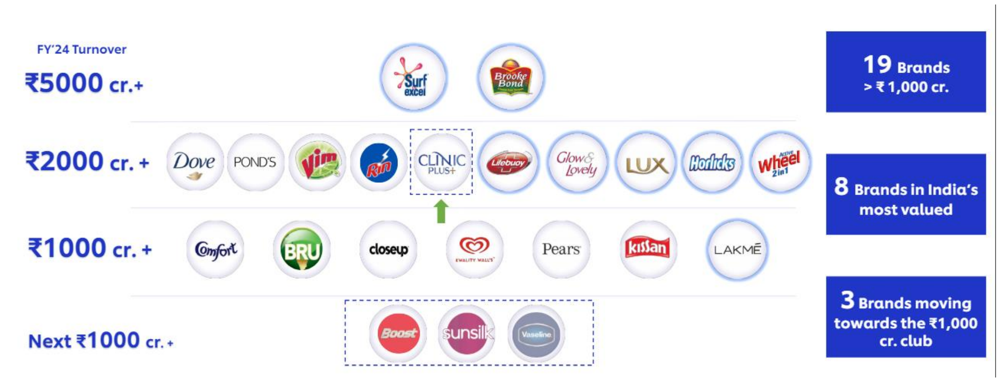
Soham Samanta
soham.samanta@emkayglobal.com
+91 22 6612 1262

ARA – Key monitorables

HUL had relatively slower progress on topline with just Rs14bn revenue addition in FY24. Most of the key monitorables for the topline trajectory have been maintained. From the brand perspective, Clinic Plus has seen revenue shift from >Rs10bn to >Rs20bn. With growth in FY25, *Boost*, *Sunsilk,* and *Vaseline* are likely to join the >Rs10bn brand list. Entering FY25 with the expected recovery in demand setting, the company is looking at building differentiated capabilities to align with shifting consumer behavior, emergence of new platforms, and new business opportunities.

- **19 brands with turnover >Rs10bn**/Rs1,000crore per annum (unchanged YoY). These brands together represent ~80% of the company's revenue

Exhibit 1: HUL's Rs10bn+ brands as well as prospective brands

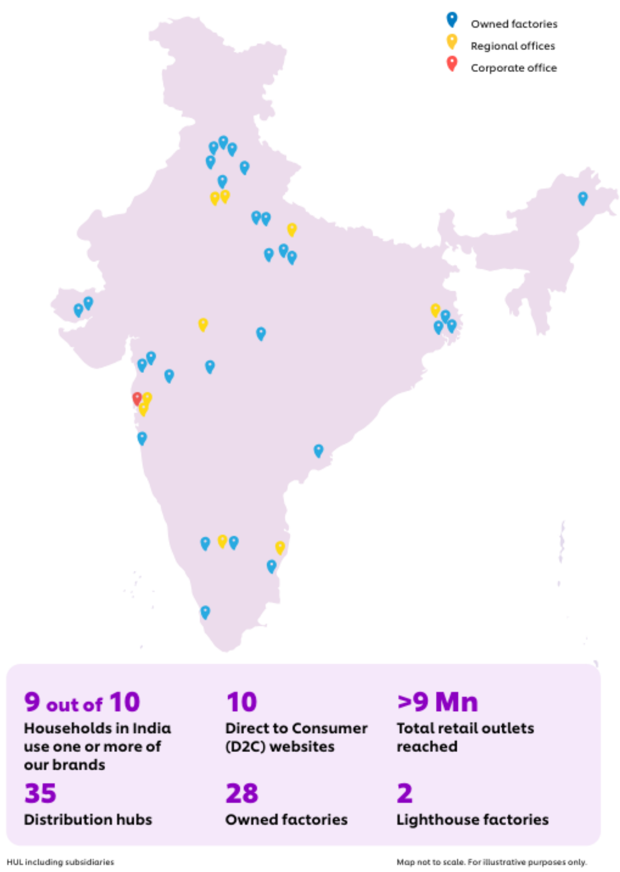


Source: Company; Note: 1crore = 10million

- In FY24, **>75% of business is gaining penetration** (based on brand perception study by Inside IIM at target business schools in 2023), similar trend observed by Nielsen in FY23.
- The company **distributes its products to >9mn retail outlets**, of these 3mn outlets are serviced directly (including outlets reached by Shakti Ammas) with 3,500+ distributors. Its B2B app 'Shikhar' is now active with 1.3mn retailers (vs 1.2mn as of Mar '23).

With an extensive network of 28 owned factories and over 50 manufacturing partners, HUL manufactures >75 billion units annually, reaching the shelves of over 9mn retail outlets through its chain of 35 distribution hubs and >3,500 distributors

Exhibit 2: HUL's pan-India thrust



Source: Company

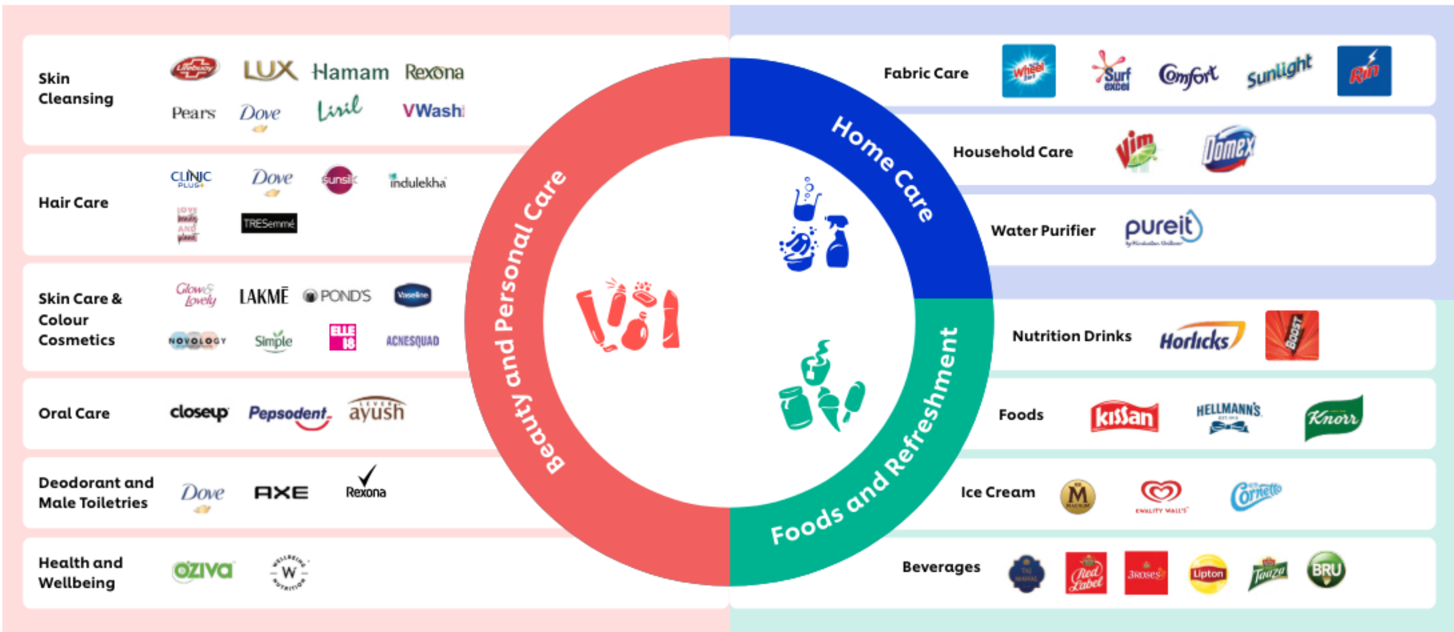
- **10 D2C websites:** D2C platforms offer direct access of premium brands to consumers, including convenient home delivery for a unique shopping experience.
- **New launches:** 1/4th revenue for the company in FY24 was driven by new launches in the last decade.

Exhibit 3: Portfolio incubation in the last decade

Source: Company; note: 1crore = 10million

- The company generates **30% revenue from modern retail channels** (Modern trade + E-commerce). 1/3rd of ecommerce revenue is now concentrated in quick commerce.
- **Digital demand capture:** Company captures ~30% of demand digitally, giving it a unique ability to run demand generation and demand fulfilment activities in a disruptive way.
- HUL has 16 category presence, wherein it is market leader in 85% of the business. 9 out of 10 households in India use one or more of HUL brands.

Exhibit 4: HUL's 16 category thrust



Source: Company

- **Digital first brands clocking Rs1bn ARR:** Three years since its incubation, this unit now boasts of an Annualized Run Rate (ARR) of >Rs1bn in sales of its 2 brands — 'Simple', and 'Love Beauty & Planet'.
- **Nano factories**, which are small-scale production lines, enable small-batch production, thereby accelerating the launch of innovations. Currently, over 250 SKUs (Stock Keeping Units) are manufactured in nano-factories.

Adapting to evolving consumption setting

In the journey of Indian consumer evolution, HUL has been transforming itself to align with consumption trend and remains agile in delivering consumer expectations. Starting from WIMI strategy a decade back, the company is now entrusted with the task to become an intelligent enterprise. We see that many of the initiatives from HUL are industry-first, and have gradually been adopted by peers. However, agility in picking up consumer trends and devising consumption trend is a miss, wherein new-age brands are fast in addressing consumer needs. With Intelligent Enterprise journey entering its fourth year, the company has appointed a Chief Digital Officer, who will steer the next phase of HUL's digital transformation journey, focusing on enhancing consumer and customer experience through digitalization.

The Beauty and Wellness space in India is evolving with rapid speed

With changing lifestyles, increasing disposable incomes, and higher exposure to global trends, Indians are looking for premium beauty products. HUL's chairman, Nitin Paranjpe, believes that being one of the largest beauty and personal care businesses in India, HUL is in a unique position to leverage this premiumization opportunity. The company is extending its current brands into high-demand premium spaces by introducing new formats, while launching brands to capture new demand spaces. To bring more focus to its portfolio in the Beauty and Personal Care business, the company has transitioned into two separate businesses – Beauty & Wellbeing, and Personal Care, from 1-Apr-24.

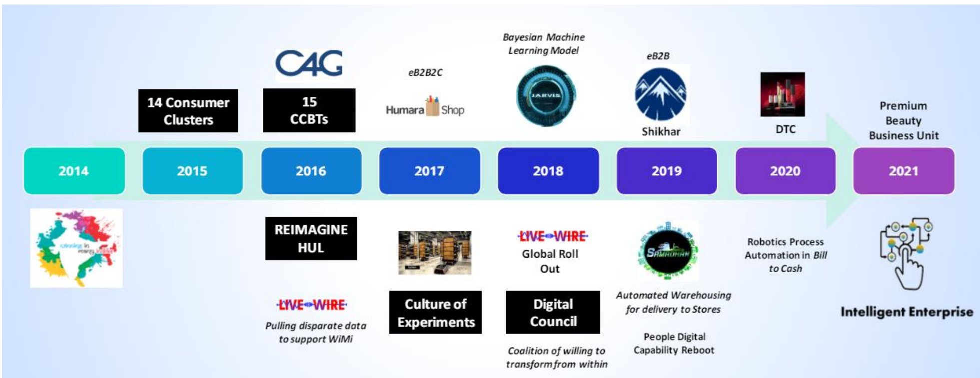
Riding the digital wave

HUL has undertaken a journey to strengthen its digital backbone and become an intelligent enterprise. For instance, its Agile Innovation Hub continues to leverage technology to gather information and identify trends or new demand spaces; it enables the company to use digital resources to launch on-trend innovations in record time. Similarly, Supply Chain Nerve Center helps integrate the Plan, Source, Make, and Deliver pillars to drive faster decision making and action. HUL continues to create a more agile and responsive business through a variety of digital tools and technologies.

Narrative of digital economy remains strong

India has witnessed rapid digitization with internet penetration increasing from 15% to over 50% in 7 years (as per Internet in India 2022 Report, Kantar). The digital economy is estimated to reach USD1tn by 2030 (as per E-Conomy India 2023, Bain & Company), supported by an influx of new-age startups, acceleration of B2B e-Commerce, and the rise of new ecosystems powered by the Digital India Initiative.

Exhibit 5: Journey of Intelligent Enterprise initiative continues



Source: Company

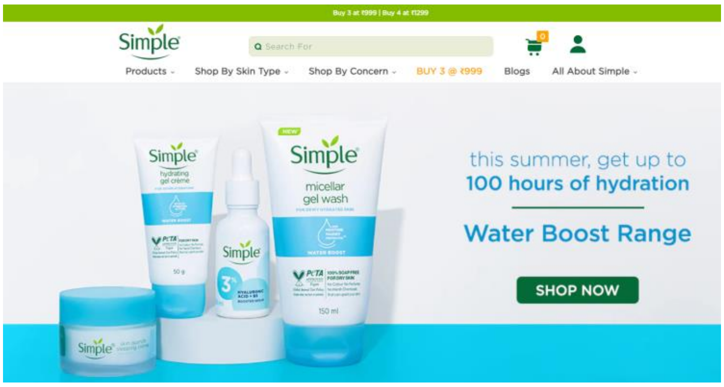
In this setting, with shifting consumer behavior, emergence of new platforms, and new business opportunities, HUL requires differential capabilities for it to come out on top.

- **Creating personalized and omni-channel journeys**: To deepen consumer understanding, the company has scaled its first-party data acquisition. Personalization deployment across brands has resulted in increased click-through rates of over 10x and savings through advertising efficiency. In parallel, HUL is building a content ecosystem to deliver personalized content to each consumer segment. Leveraging new-age technology, consumer knowledge, and platform relevance enables versatile content generation and personalization with Gen-AI capabilities, which allows for new-content curation. Artificial intelligence is one of the most potent tools that HUL is using to reshape consumer experience. This enables the user to achieve personalized recommendations and get superior product experience across platforms through facial recognition technology that enable virtual try-ons.

- By creating beauty-tech solutions such as skin regime recommendations, brands like Lakmē, Pond's, and TRESemmé are able to dial up premiumization. Unveiling a new era in beauty tech and innovation, the House of Lakmē introduced an immersive augmented reality experience for a new product launch.
- In the space of nutritech, Horlicks is able to deliver personalized health diagnostic reports, which enhances consumer engagement and drives up equity for HUL as an expert nutrition brand.

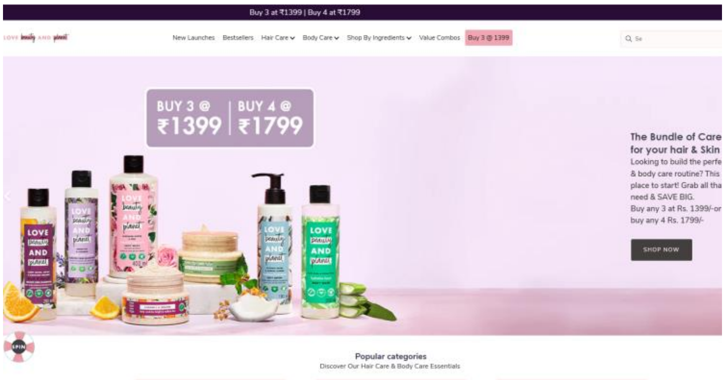
- **Automated and intelligent media planning & deployment**: HUL's underlying data lake, automated deployment, and analytics allow it to optimize spends in real-time, leading to greater media efficiency. The company has also amplified new-age capabilities with a dedicated influencer management team.
- **Riding the digital commerce tailwinds:** HUL recognizes digital commerce as a critical channel for growth. With rising digital penetration, it is vital to build new technologies that enables business models to serve changing shopper habits. HUL has specialized teams to drive both efficiencies and effectiveness in digital commerce. The company claims that its automated campaign management, platform-specific content, and optimized spend management has improved 'Return on Advertising Spends', while reducing cost. In parallel, HUL is also scaling up the D2C ecosystems of brands. D2C business extends to 10 brand.com websites, serving consumers across more than 19,000 pin codes in the country.

Exhibit 6: 'Simple' D2C platform



Source: Company

Exhibit 7: 'Love Beauty & Planet' D2C platform



Source: Company

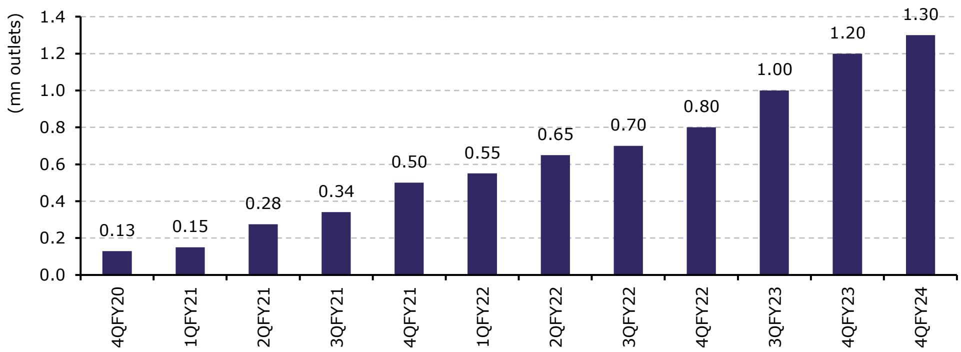
- **Leveraging data and analytics:** The company has state-of-the-art data democratization platform 'Chanakya', and it is a critical enabler for data-driven decision making across the organization. Company continues to leverage machine learning and Artificial Intelligence across business processes to embed intelligence in decision making, as well as drive productivity across processes e.g. commodity-price forecasting, market-mix modelling, and assortment analytics. To address dynamic demands in the digital era, the company has established an Agile Innovation Hub a few years ago. The Agile Innovation Hub has aided in the launch of 50+ new products in the market. Some notable innovations include that of Lakmē Sun Expert sunscreen, Glow & Lovely Hydraglow serum cream, Vim Shudhham, and Closeup multivitamin toothpaste.

Exhibit 8: Agile innovation hub

Source: Company

- **Enhancing B2B Commerce**: Shikhar (HUL's demand capturing application for e-B2B) covers 1.3mn stores and is used by over 70% of Shakti Ammas. This highlights the ubiquity of digital adoption across the country. Shikhar has also collaborated with ONDC, and is now available as a platform for retailers to list themselves on ONDC. HUL is accelerating retailers' self-adoption and order frequency with superior analytics, app features, and innovative marketing campaigns. Pushing the boundaries of demand fulfilment, the company introduced 'Samadhan' to deliver goods directly from its warehouse to the retailer. The fulfilment process is optimized and tracked end-to-end with semi-automated picking, crate and warehouse management in the depot, optimization of truck planning, last-mile delivery, real-time delivery tracking, and integrated retailer order-to-cash cycle.

Exhibit 9: Shikhar app adoption with retailers



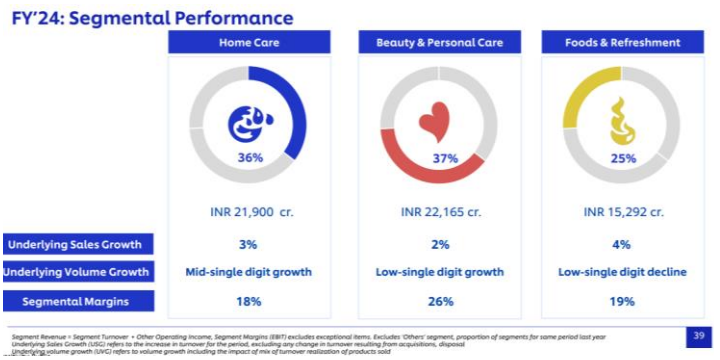
Source: Company

- **Reimagining the digital supply chain**: To drive agility and resilience for business, along with re-organization in asset and cost base and a focus on sustainable growth, the supply chain is undergoing a transformation across the verticals of Plan, Source, Make, and Deliver. The end-to-end integration is enabled through a 'Nerve Center' approach, which combines the four verticals of supply chain to enable real-time information flow and intelligent decision making to unlock business value. HUL is leveraging Shikhar's functionalities to reduce the launch time of innovative products within General Trade. Moreover, the app complements distributor sale representatives' ecosystem by unlocking time from routine order capturing tasks, thus allowing them to concentrate on market development and innovation initiatives.

Category thrust to intensify ahead

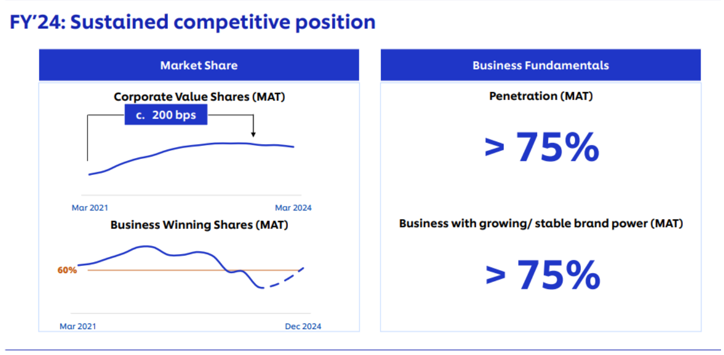
Under the new leadership, HUL is looking at growing core products through unmissable brand superiority, driving market making, reshaping portfolio into premium spaces, and strengthening leadership in channels of the future. Despite muted growth trends during FY24, the company sustained long-term efforts to build and strengthen its differentiated execution capabilities.

Exhibit 10: Segment performance



Source: Company

Exhibit 11: Business market share



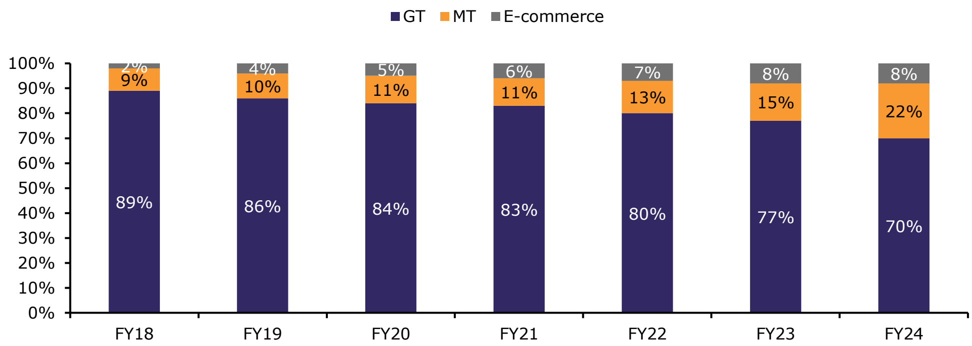
Source: Company

Exhibit 12: Focus on transformation to drive outperformance

Source: Company

Exhibit 13: Revenue split across sales channels

The company generates 30% revenue from modern retail channels (Modern trade + e-commerce). 1/3rd of e-commerce revenue is now concentrated in quick commerce



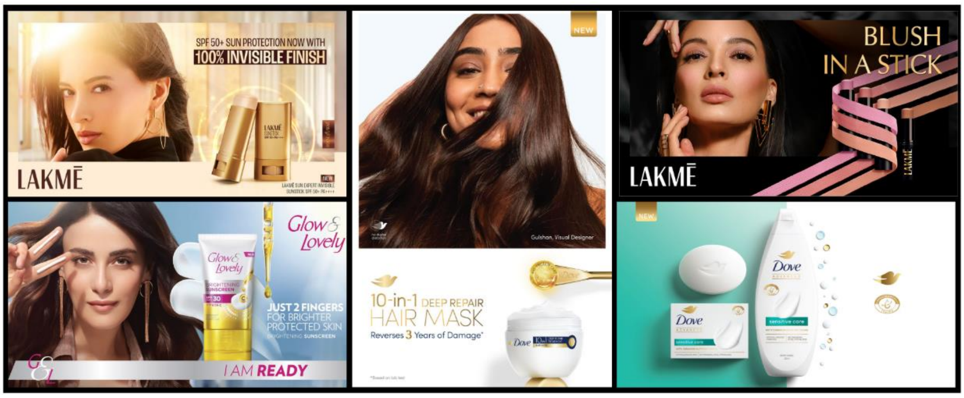
Source: Company, Emkay Research; Note: GT = General Trade; MT = Modern Trade

Here is the summary of portfolio transformation across segments:

- In the **Beauty and Personal Care business**, Management noted significant transformation across iconic brands with refreshed products, packaging, and communication. In its journey of becoming the 'beauty shapers of the country', HUL unveiled the Beauty Collective. Through this, it aims to strengthen beauty partnerships with e-Commerce and Modern Trade customers. The Company advanced its journey to transform its portfolio toward high-growth spaces.

- Lakmē further elevated its credentials with impactful launches like the MultiSlayer Face Sticks and the revolutionary Invisible Sunstick.
- In Skin Cleansing, bodywash portfolio grew in high-double digits.
- In Skin Care, sun care and light moisturizers witnessed a similar success story, with the premium portfolio continuing to grow strongly.
- In Hair Care, premium brands like Dove and TRESemmé continued to grow steadily, whereas Clinic Plus crossed the Rs20bn turnover mark.

Exhibit 14: Innovations and activations in the Beauty and Personal Care segment



Source: Company

- In **Home Care**, the company witnessed volume growth powered by big strides in its brand superiority journey. The company saw growth in both Fabric Wash and Household Care, with its premium portfolio leading this growth. HUL continued to drive market development through home trials and build its premium formats, such as liquids.
  - In Vim liquids, it has improved product formulation, sharpened the proposition further, and modified the packaging to make it more aspirational and ergonomical. As a result, Vim liquids saw robust volume growth with significant penetration gains in over a decade, and also maintained its position as the segment market leader.
  - In Surf Excel liquid, HUL launched a new winning proposition of 'removes tough dried stains 1st time in machine'.

Exhibit 15: Innovations and activations in the Home Care segment

Source: Company

- **Foods & Refreshment**
  - Strengthened its adult nutrition drinks portfolio by building condition awareness, from diabetes to women's health to bone strength. In Horlicks, the company sharpened and fortified the proposition of 'Taller, Stronger, Sharper' through precise and focused communications, packaging redesign, and promotions. The brand saw improvement in penetration, market share, and brand power.
  - Ice Cream segment launched multiple innovations such as the Feast Crackle, which took partnership to co-create ice creams with Cadbury further.

- In the Coffee segment, HUL continued to premiumize its portfolio to cater to the rising coffee culture in India. For instance, it launched a range of flavored coffee under Bru Gold.
- Knorr launched Korean noodles in popular flavors, Kimchi and Jjajangmyeon, in the on-trend innovation space.

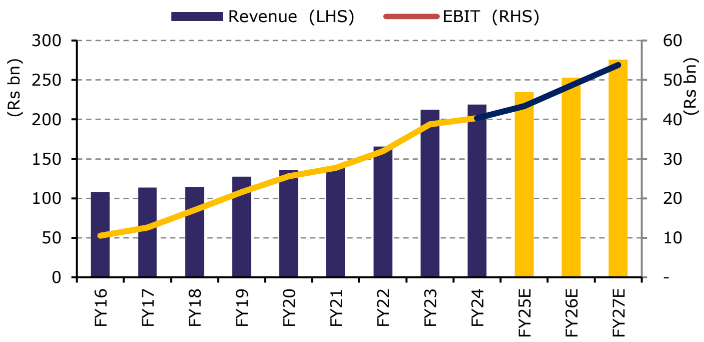
Exhibit 16: Innovations and activations in the Foods & Refreshment segment

Source: Company

Home care: Recovery in mass offerings key for growth

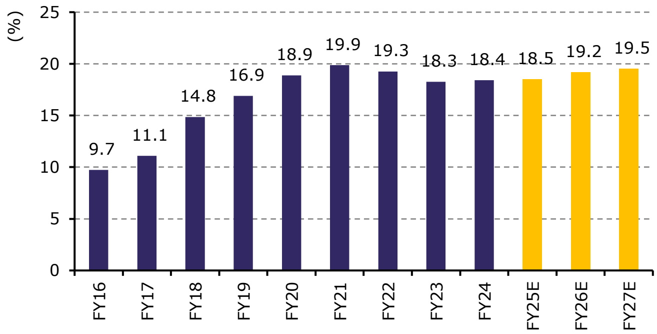
In FY24, Fabric and Household Care grew volumes in mid-single digit, with a negative price growth (YoY growth stood at 3%). Water business saw mid-single digit growth during the year. Premium part of the portfolio, consisting of washing powders, washing liquids, and dish wash liquids have sustained faster growth on the back of continuous market development activities. We see high base, surge in competition at the mass end, and price benefit pass-through to have led to a muted show in the mass end. As the gap to global market narrows with social media, we see a focused thrust on the premium part of the portfolio, which will continue to help with better mix. At the mass end, Company needs to enhance execution. Going ahead, we see high-single digit value growth and ~100bps margin expansion to 19.5% in FY27E.

Exhibit 17: Home care – Revenue and EBIT



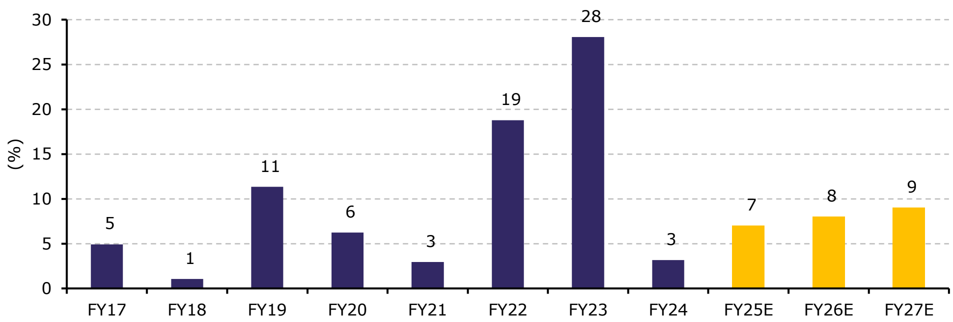
Source: Company, Emkay Research

Exhibit 18: Home care – EBIT margin



Source: Company, Emkay Research

Exhibit 19: Home care – Revenue growth trend (YoY)



Source: Company, Emkay Research

Exhibit 20: Home care segment – Quarterly trend

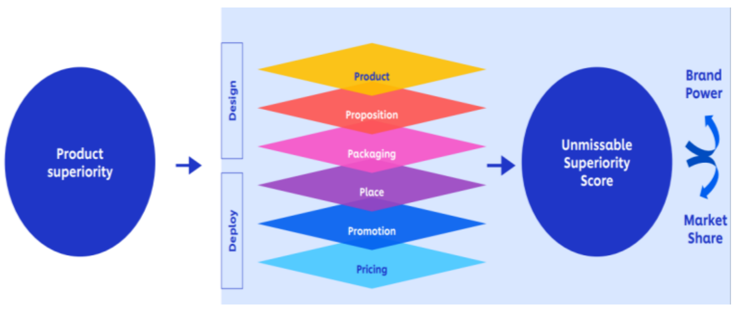
	Home care segment - Growth	Fabric wash	Household care	Purifiers
Q4FY24	1%	Mid-single-digit volume growth	Mid-single-digit volume growth led by Vim	
Q3FY24	-1%	Volume grew in mid-single digit	Low single-digit volume growth led by dishwash	
Q2FY24	3%	Premium portfolio outperformance drove mid-single-digit volume growth	High single-digit volume growth led by dishwash	
Q1FY24	10%	Double-digit value growth with mid-single-digit volume growth	Double-digit volume-led growth	Low single-digit volume growth
Q4FY23	19%	Strong double-digit value growth	Strong double-digit value and volume	
Q3FY23	32%	High double-digit value growth	High double-digit value growth and high-teens volume growth	
Q2FY23	34%	High double-digit value growth	High double-digit value growth	
Q1FY23	30%	High double-digit value growth and high single-digit volume growth	High double-digit value growth	
Q4FY22	19%	High double-digit value growth and mid-single-digit volume growth	High double-digit value growth	
Q3FY22	23%	Strong double-digit value growth	High-teens value growth	
Q2FY22	15%	High double-digit value growth		DD value growth
Q1FY22	12%	Double-digit value growth	High-teens value growth	
Q4FY21	15%		Strong double-digit value growth	
Q3FY21	-2%		Double-digit value growth	Stable performance
Q2FY21	-1%		Double-digit value growth	

Source: Company

Market making and premiumization thrust remain

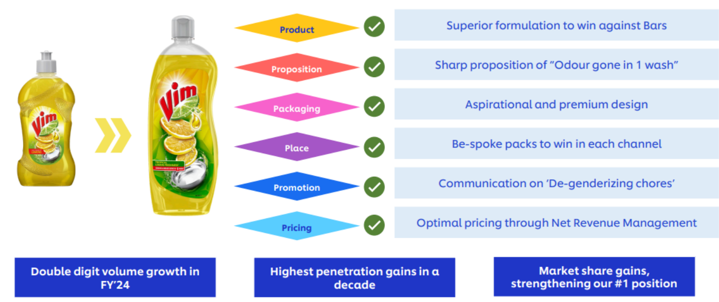
In Fabric Care, Company has achieved a significant shift in consumer preferences, successfully transitioning them from mass detergent bars and powders to premium options, and from premium powders to liquid detergents. It is also upgrading consumers via format disruptions like Smart Shots laundry pods. Company is further expanding consumer routine by introducing them to complementary products like Comfort fabric conditioners and Channels of the Future (Q-Commerce continues to be a key growth catalyst, and focus remains on expanding Home Care category profitably alongside partners. Collaborative category initiatives and curated events with key players have fostered stronger customer partnerships, and also ensured that Company is able to follow the shopper seamlessly in their omni-channel purchase journey).

Exhibit 21: Product superiority is the focus across products



Source: Company

Exhibit 22: HUL is reaping benefits from *Vim* liquid



Source: Company

Liquids franchisee stagnant

Home Care liquids, at more than Rs30bn (similar feat achieved in FY23), is a category that has been built over the last decade through dedicated efforts.

- Surf Excel liquid continued to build superiority in the market through its new enhanced stain removal proposition of 'Removes tough dried stains, 1st time in machine'.
- Rin detergent liquid offers brightness and sensorial freshness as the key benefit. The brand has recently expanded its liquid portfolio beyond south India, to further strengthen HUL's play in the rapidly growing liquid detergent segment.

- Comfort continued to expand its offering through innovations like 'Intense' fabric conditioner for athleisure wear and super-sensorial range.
- Vim liquid's relaunch emphasizes superior odor removal with completely-new packaging and a strong and persuasive communication that 'Vim Liquid removes tough odour in one wash'. To accelerate the premiumization message, Vim also launched two premium variants in its liquids portfolio, Pure Lemongrass and Tangerine.

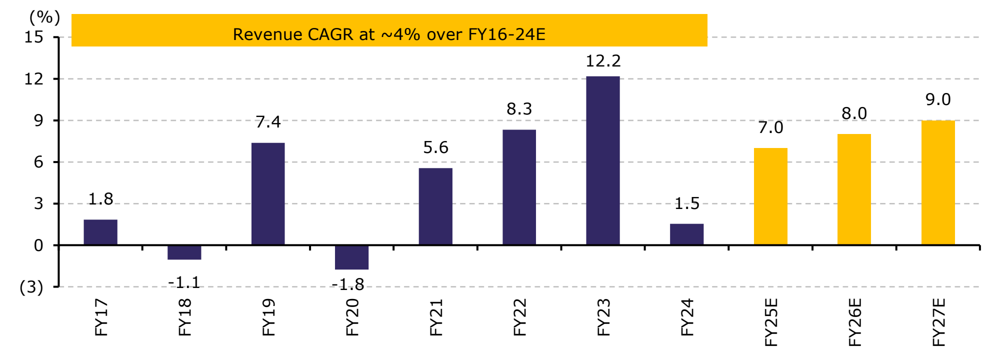
Exhibit 23: Liquid premium positioning focuses on removing tough stains with an efficacious product

Source: Company

Beauty and personal care: Evolving with consumer key

Beauty and personal care, which is a high-margin business for the company has been under pressure for a fairly long time, ~4% CAGR in the last eight years (since Company adopted new segment reporting). Going ahead, it is likely to remain tough, given the surge in competition from traditional and new-age brands. The company has taken actions, but has not been able to revive growth. From FY25, the company is adopting a new segment structure, separating Beauty & Wellness and personal care (aligning with parent's segment reporting structure), which in our view will further help better assess the segment performance.

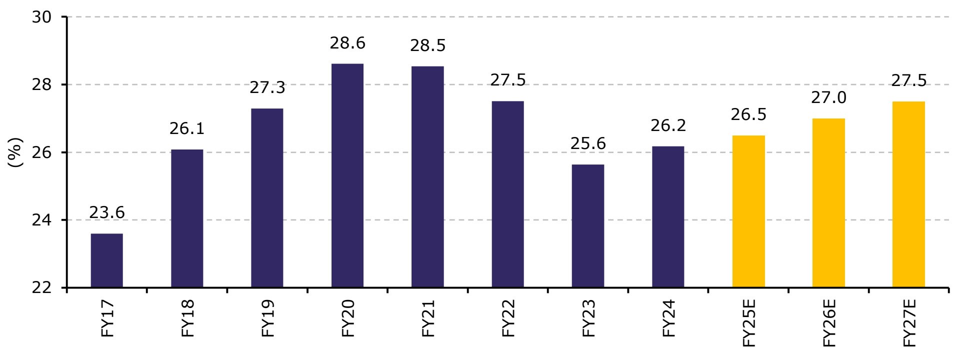
Exhibit 24: BPC segment – Revenue growth



Source: Company, Emkay Research

Weak top-line delivery has been a factor of slow margin recoup from the inflationary lows. Going ahead, as the company aligns with evolving consumer trends, we expect the margins to see gradual recovery.

Exhibit 25: BPC segment – EBIT margin



Source: Company, Emkay Research

Exhibit 26: BPC segment – Quarterly trend

	BPC - Growth	Skin cleansing	Hair care	Skin care	Color cosmetics	Oral care
Q4FY24	-3%	Volume and value declined (mainly in the mass end)	Volume-driven growth	Low single-digit growth		Double-digit growth
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 digit volume growth	Double-digit 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	Double-digit value growth		High-single-digit value growth
Q3FY23	10%	Strong double-digit value growth	High single-digit growth	Double-digit growth in the non-winter portfolio		Steady performance
Q2FY23	11%	Strong double-digit value growth	Strong broad-based performance	Premium portfolio delivered double-digit growth		Steady performance
Q1FY23	17%	Double-digit value growth in soaps	High double-digit value growth		Strong YoY growth on a soft base	
Q4FY22	8%	Double-digit value growth		Double-digit value growth		
Q3FY22	7%	Double-digit value growth	Steady performance	Double-digit value growth	Strong YoY growth	
Q2FY22	10%			High double-digit value growth		
Q1FY22	13%		Strong double-digit value growth	High double-digit value growth		
Q4FY21	20%	High double-digit value growth	High double-digit value growth			
Q3FY21	9%	High double-digit value growth	Double-digit value growth			Strong double-digit value growth
Q2FY21	0%	Double-digit value growth	Double-digit value growth			Double-digit value growth

Source: Company

Focus should shift to devising consumption trends, than just aligning with them

Management noted changing lifestyles, rising per-capita income, exposure to global trends through social media, and a growing emphasis on self-care and wellness. Personal Care categories are witnessing a transformational shift. The affluent households of India are set to grow exponentially in the next few years, providing an opportunity for HUL (leveraging parent portfolio) to accelerate market development across new demand spaces and formats. In the last couple of years, while the company has addressed loose ends, we see recent under delivery in core segments as concerning.

Growing core portfolio is key; focus on brand relevance

Cognizant of changing consumer needs, HUL has been contemporizing core brands, keeping them relevant, accessible, aspirational, and purposeful, while expanding them into new demand spaces and formats of the future.

- During the year, *Sunsilk* forayed into the post-wash hair serum segment through the launch of the Super Shine Serum.
- The company has undergone significant transformations across key brands like *Lakmē* and *Vaseline*, revamping them by refreshing product, packaging, and communication and innovating into new demand spaces and formats. This keeps them aspirational and relevant for evolving consumers.

- *Glow & Lovely* (GAL) was relaunched with a sharper claim-led proposition and modernized packaging.
- *Closeup* has expanded its offerings by introducing new variants in the Natural's category. These are made with a 95% natural origin formula to cater to the naturals demand within the category.

Market making and premiumization remains the key for high-margin segment

India has under-indexed FMCG consumption vs other South-East Asian peers. As the country's per capita GDP increases, rise in discretionary spends is likely to expand consumer range of products. Management sees themselves in a category, which are at an inflection point and the effort has been on re-shaping the portfolio to fit and grow in this evolutionary context. In beauty, the company has identified key demand spaces where it expects disproportionate growth to occur.

- **India is at an inflection point:** Like China, Indonesia, and Philippines, we expect to see a similar trend of multi-fold increase in beauty consumption once the per capita income of the country crosses an inflection point. With the growth in digital technologies and changing consumer behavior, India is seeing an unprecedented influx of digital-first beauty brands and innovative methods of brand building.
- **Portfolio of fast-growing segments:** The company has created Rs20bn portfolio across face cleansing, post-wash hair treatment, light moisturisers, serums, sun-care and masstige, and this portfolio continues to grow faster than rest of the portfolio.

Exhibit 27: Multi-year bets

Source: Company
1. USG and Turnover for FY24
2. E-com growth on gross sales value for FY24

- **Focus on demand spaces:** The company has stepped up its play in fast-growing demand spaces such as sun care, light moisturisation, face cleansing, and all-season body care with *Pond's Sun Miracle* range, *Pond's Pure Detox* Facewash, and *Vaseline Gluta-Hya* Serum in lotion. Bodywash has continued to clock strong double-digit growth, growing 4X in the last 4 years. Within Skin Care, in the sun care and light moisturising segments, the size of business has more than doubled in the last 4 years.

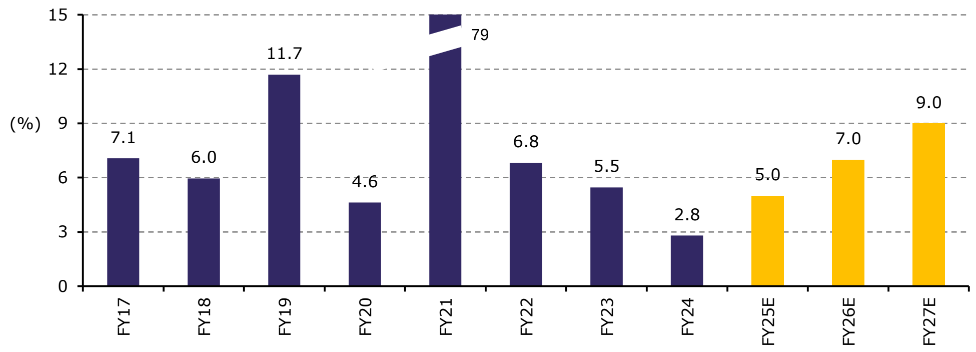
Exhibit 28: Market making (category development) and premiumization efforts are now 1/4th of the revenue

Source: Company; Note: 1crore = 10million

Foods and refreshments: Execution is key going ahead

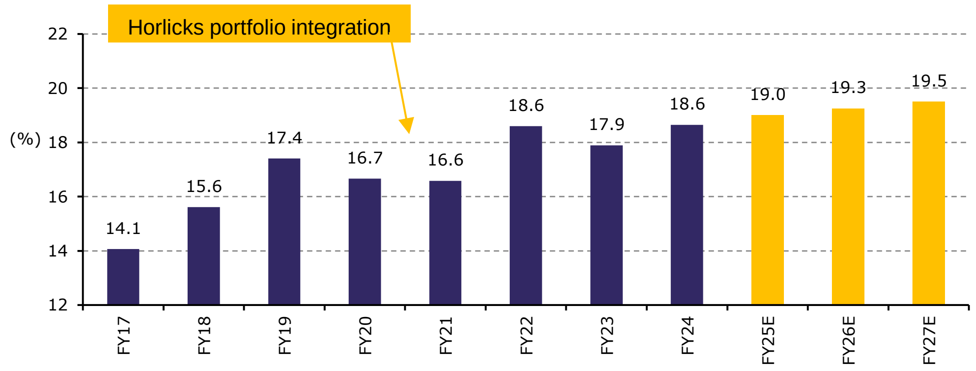
Nutrition Drinks (Horlicks & Boost) and Tea continued their trajectory of gaining handsome market share during the year. The Ice Cream business faced unseasonal weather-related headwinds but still delivered strong growth. Food Solutions Business saw strong high double-digit growth as it continued to scale up. With parts of the business i.e., Coffee and Nutrition Drinks continuing to see inflation or sustained high prices, and Tea witnessing consumers downgrading, this year posed considerable challenges for the segment. For FY24, segment revenue growth moderated to ~3%. Amid the sustaining weakness in tea business (though market share gains are heartening) and category slowdown in nutritional drinks, we see 5% growth in FY25E. After which, with the expected rebound in consumption, we are likely to see growth trend in high-single digits. Margin profile is expected to see 100bps expansion over FY25-27E, as the mix continue to enhance.

Exhibit 29: F&R segment – Revenue growth



Source: Company, Emkay Research

Exhibit 30: F&R segment – EBIT margin



Source: Company, Emkay Research

Exhibit 31: Product superiority is the focus across products

Source: Company

Exhibit 32: Company is reaping benefits in *Horlicks*

Source: Company

Exhibit 33: Foods and refreshment segment – Quarterly trends

	Foods & Refreshment — Growth	Beverages (Tea and Coffee)	Health food drinks	Foods	Ice cream
Q4FY24	3%	Tea witnessed downgrading, while Coffee grew in double digits	High-single digit growth	Mid-single digit growth	Volume-led double-digit growth
Q3FY24	1%	Tea reported muted performance, whereas Coffee grew in double digits	Price-led growth, volume declined 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 volumes grew in low-single digit, 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 digit, price cuts softened overall value growth	Mid-single digit value growth	Volume-led high-teens growth	Double-digit value growth
Q2FY23	4%	Coffee grew in double digits; Tea volumes grew in mid-single digit	Category growth remains subdued due to inflation	Double-digit value growth and volume growth in mid teens	
Q1FY23	9%	Coffee grew in double digits		Double-digit value growth	
Q4FY22	7%	Coffee delivered double-digit value growth		High double-digit value growth	High double-digit 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%		Double-digit volume growth	Double-digit growth in the base	
Q1FY22	12%	High double-digit value growth	Mid-single-digit volume growth		
Q4FY21	36%	High double-digit value growth	Volume growth in teens		
Q3FY21	19%		Double-digit value growth	Double-digit value growth in Ketchups and Soups	
Q2FY21	19%	Tea - Double-digit value growth			

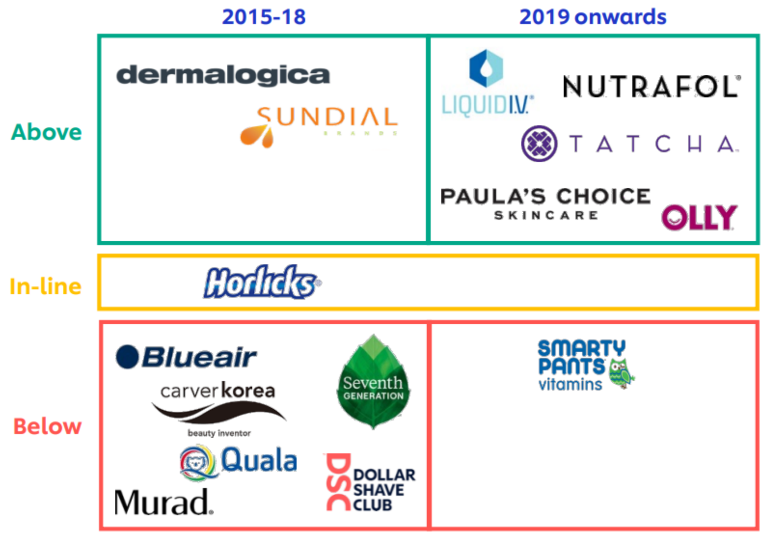
Source: Company

Market making and premiumization initiatives

In the premium segment, the company is witnessing resilient demand and growth acceleration, with consumers seeking new experiences, differentiated benefits, and experimenting with new cuisines.

- In **Tea**, the company has accelerated Green Tea portfolio with the launch of the 'Tastier and less bitter' clear and light green tea variants.
- **Coffee** continues to accelerate ahead of other categories at double-digit growth, driven by pricing. The company augmented the premium Freeze Dried Coffee range with launch of *Bru Gold Vanilla, Caramel, and Hazelnut flavors*. The company also introduced a range of ready-to-drink cold coffee, which was incubated successfully through online channels.
- In **Horlicks**, it has introduced Strength Plus and Growth Plus variants.
  - *Strength Plus* is a specialized nutritional supplement crafted for aging adults, and designed to address the unique health challenges that come with aging.
  - *Growth Plus* is a nutritional drink, designed to support optimal bone growth, healthy weight gain, and immune function in toddlers with nutrients like arginine, high-quality protein and growth promoters.

Exhibit 34: Unilever rates performance of *Horlicks* as in line with expectations



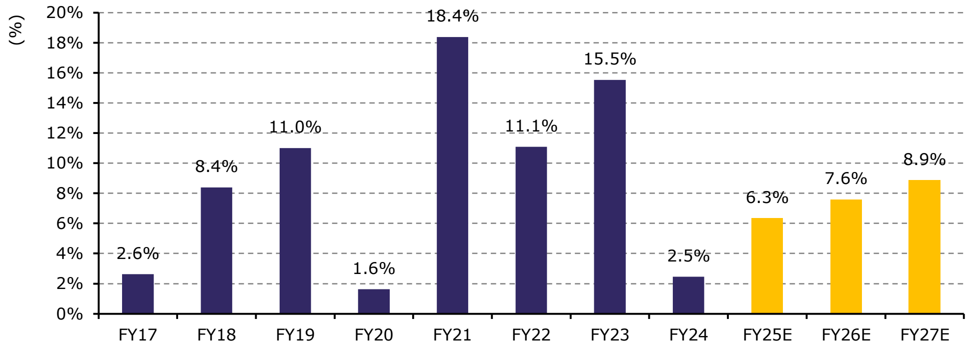
Source: Company

- Newly-introduced range of **Korean meal pots** continued to show significant consumer traction and the range was further augmented by the launch of Knorr K-Pot Korean Ramen, as per the management.
- Premium **Ice Cream** continues to accelerate significantly ahead of the category, on the back of *Magnum* and consumer preference for in-home ordering through e-Commerce and q-Commerce portals. In FY24, HUL introduced a premium range of ice cream *'Slow Churn',* made with artisanal expertise from handpicked fruits and fresh milk cream slowly churned together into creamy perfection. It also introduced the *Chocolate Hazelnut and Feast Crackle* in partnership with Cadbury, providing consumers with diverse flavors and options to choose from.

Earnings delivery needs revenue support

HUL's double-digit revenue growth momentum has slowed in FY24 (~2.5% YoY net sales growth in FY24), due to: i) high revenue base seen in Covid-19 (when it gained share across segments), ii) healthy pricing growth in FY23 (in line with inflationary stress), iii) surge in competition (along with D2C stress, small regional players gained aggressively in a muted raw material setting), iv) demand slowdown, and v) changes in business heads. Going forward, we see category development and premiumization efforts to help growth, with pressure to remain in popular segments where its core businesses have witnessed growth pressures. While rural rebound is likely to help with demand improvement, we see that enhanced execution on a large base would be key to get the portfolio on the growth path.

Exhibit 35: Net sales growth



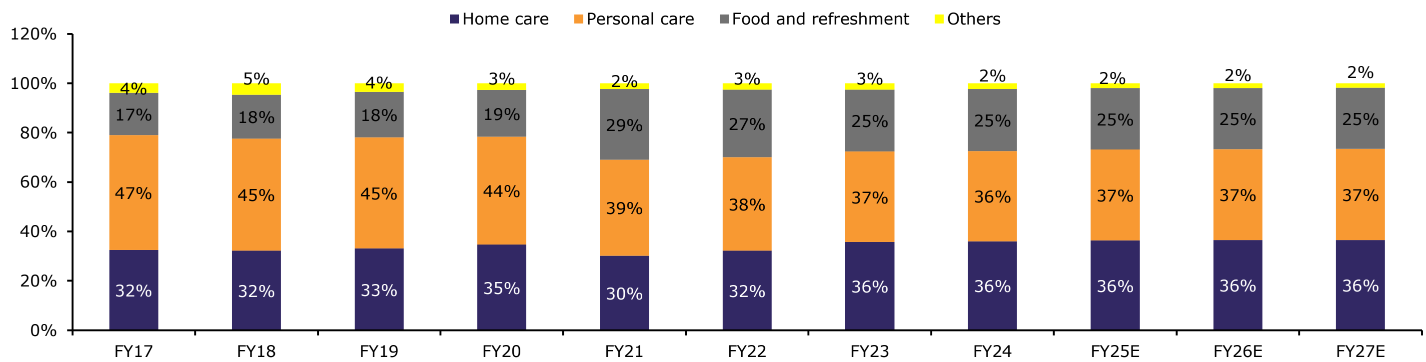
Source: Company, Emkay Research

Exhibit 36: Trade actions absorb part of the revenue growth in FY24

(Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Contracted price	388,430	429,030	441,970	509,050	560,760	652,710	680,880
growth		10%	3%	15%	10%	16%	4%
Trade discounts and promotions, volume rebates, returns, etc.	49,170	52,430	59,240	55,940	57,400	71,170	85,090
- growth		7%	13%	-6%	3%	24%	20%
as a % of contracted price	13%	12%	13%	11%	10%	11%	12%
Sale of products	339,260	376,600	382,730	453,110	503,360	581,540	595,790
- growth		11%	2%	18%	11%	16%	2%

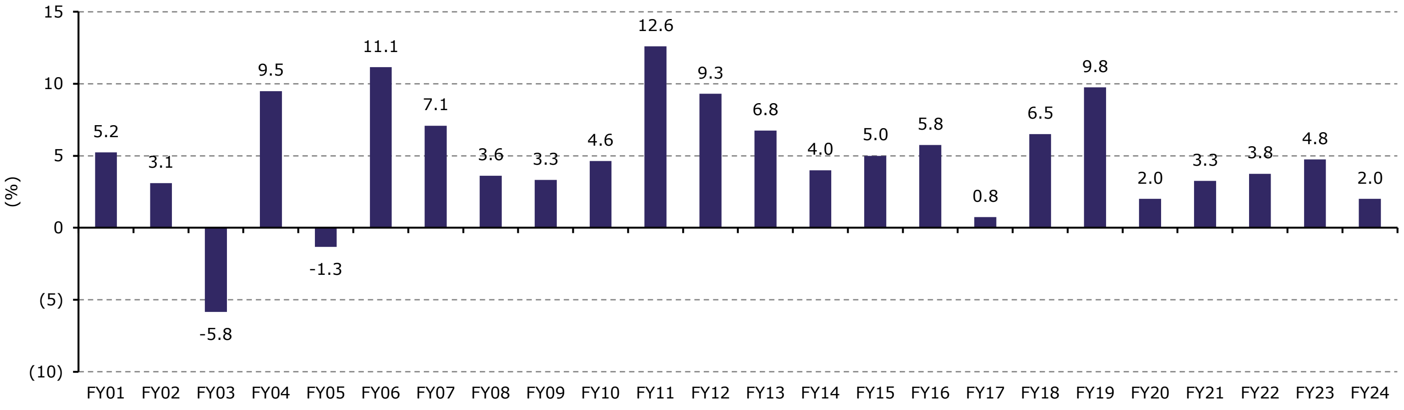
Source: Company

Exhibit 37: Segment revenue contribution



Source: Company, Emkay Research

Exhibit 38: Underlying volume growth trend for HUL

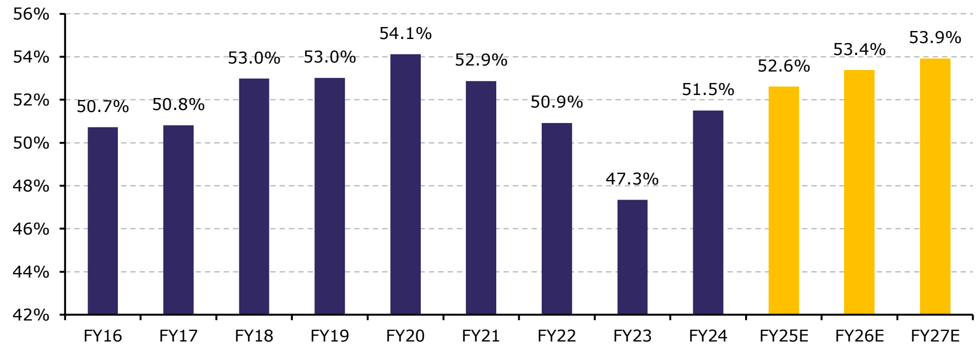


Source: Company, Emkay Research

Gross margin recoup to be gradual

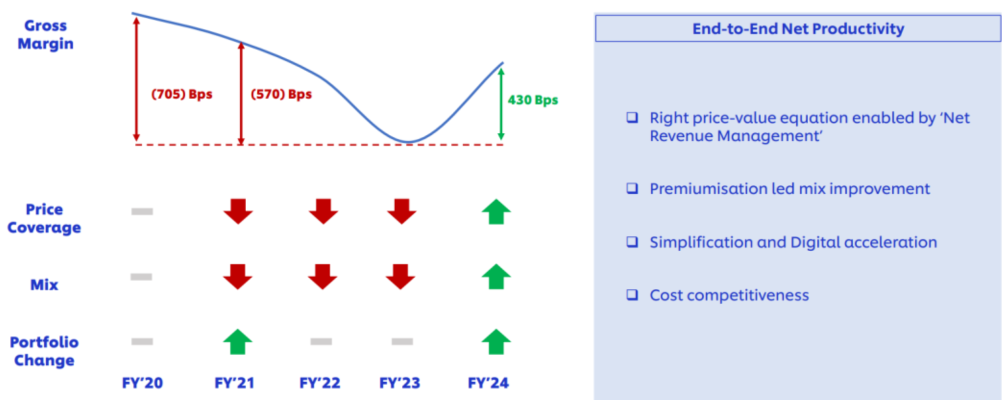
Unlike traditional peers, gross margin recovery for HUL has been slow, given the pressure on high-margin beauty and personal care portfolio. As the growth trend improves and Company remains focused on premiumization, we see gross margin recovering gradually.

Exhibit 39: Gross margin profile to recoup gradually



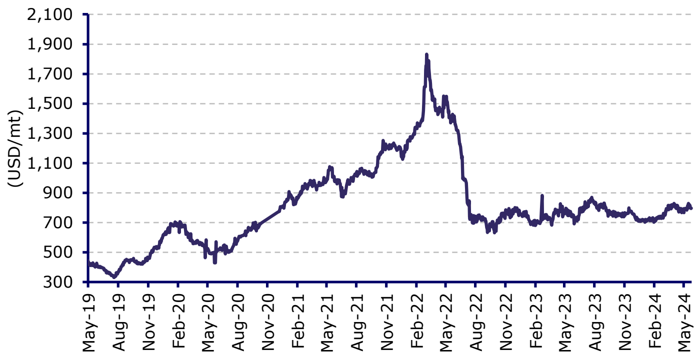
Source: Company, Emkay Research

Exhibit 40: Focus is on recouping gross margin



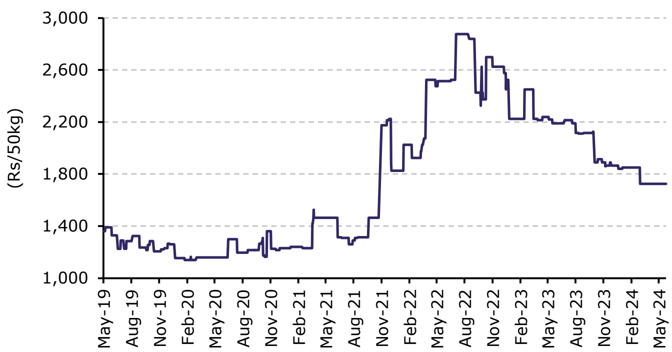
Source: Company

Exhibit 41: PFAD prices have been stable over the last 10 months



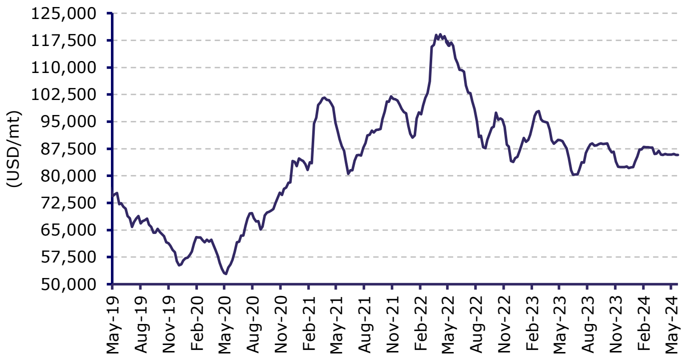
Source: Bloomberg, Emkay Research

Exhibit 42: Caustic soda prices (Mumbai)



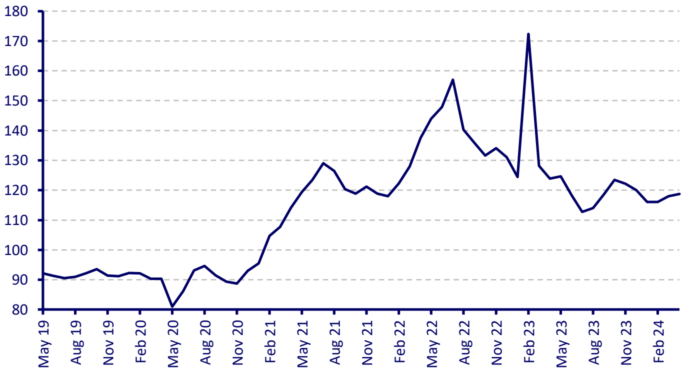
Source: Bloomberg, Emkay Research

Exhibit 43: HDPE prices



Source: Bloomberg, Emkay Research

Exhibit 44: LAB prices

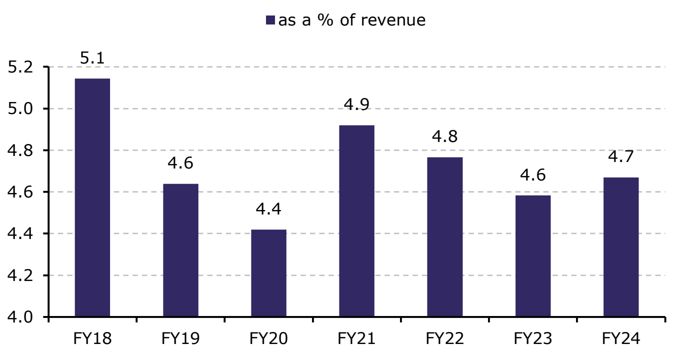


Source: WPI, Emkay Research

Employee absolute spending surged ~10% (CAGR) in the last two years

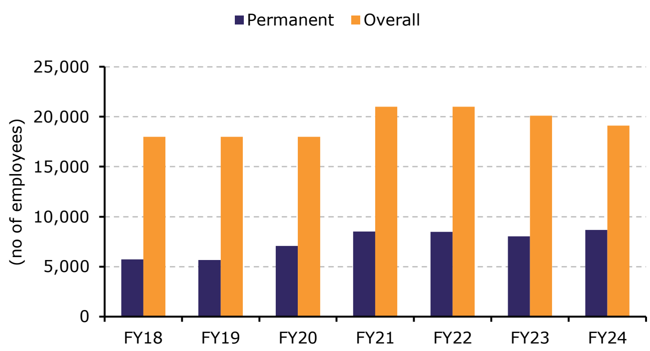
Employee spends, which have seen steady optimization till Covid-19, have expanded post-GSK portfolio acquisition. Going ahead, retaining talent would be key, where the company has seen per-employee cost increase of ~13% CAGR in the last couple of years vs. 9% CAGR seen in revenue per employee. With sustained Management changes, we see that talent retention will require spending to remain at the current level as a % of sales.

Exhibit 45: Employee spends as a % of revenue



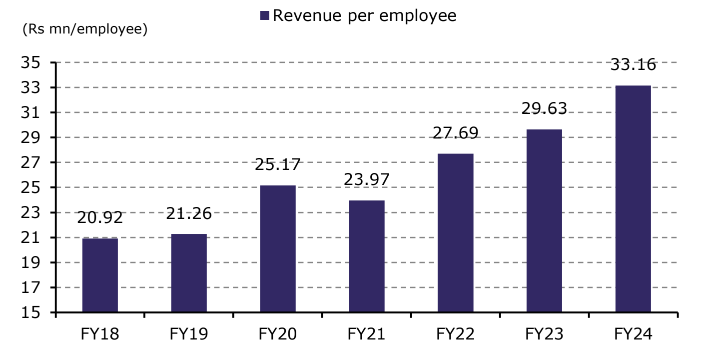
Source: Company, Emkay Research

Exhibit 46: Employee base saw steady drop in the last four years



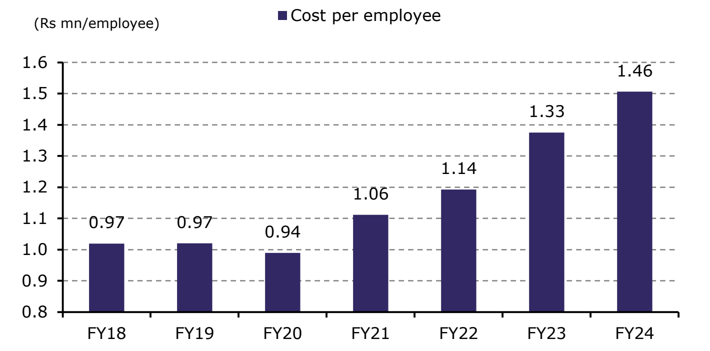
Source: Company, Emkay Research

Exhibit 47: Focused approach to drive revenue per employee higher



Source: Company, Emkay Research

Exhibit 48: Cost per employee surged post Covid-19

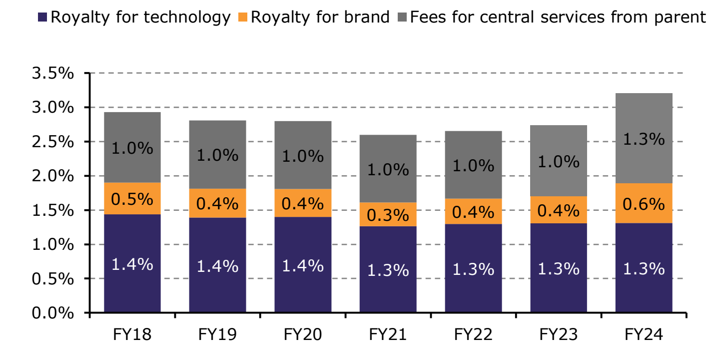


Source: Company, Emkay Research

Royalty increases as per new policy

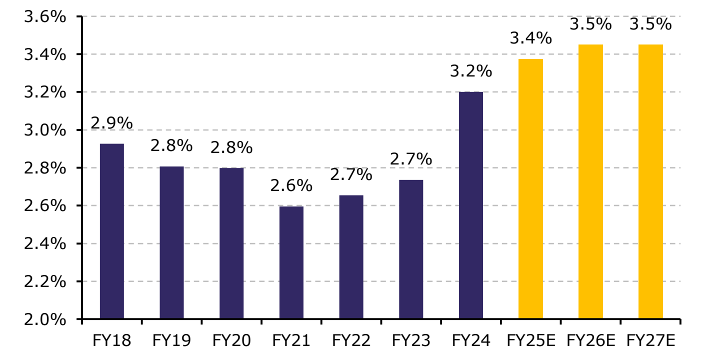
Overall royalty pay-out for FY24 increased to 3.2% in FY24 from 2.7% in FY23. This aligns with the Board approval to increase royalty from 2.65% (net of tax) in FY22 to 3.45% over three years. The increases have been slated as: a) 45bps effective Feb-23, 25bps effective Dec-24, and 10bps effective Jan-25.

Exhibit 49: Royalty pay-outs to parent



Source: Company, Emkay Research

Exhibit 50: Overall royalty rates

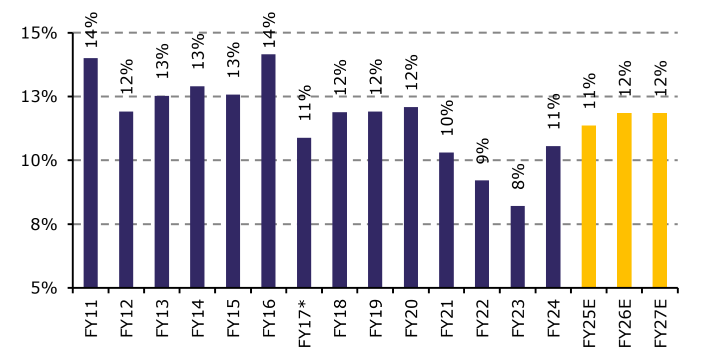


Source: Company, Emkay Research

Thrust on A&P spends increases with gross margin recovery

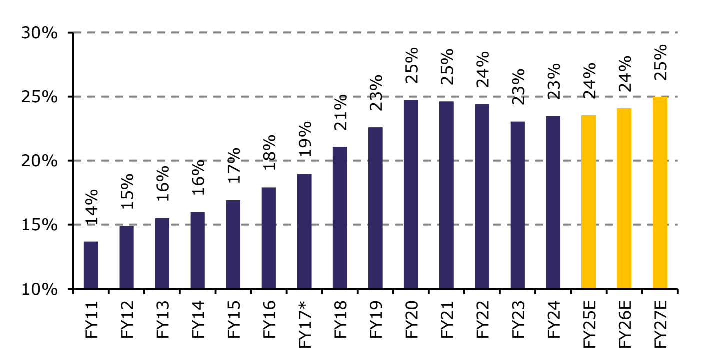
With recoup in gross margins, the company has been rebuilding its A&P spending. We see spending to surge to ~12% over the next three years. In the light of top-line growth acceleration and focus on category premiumization, we believe A&P would be crucial ahead. This, along with slated royalty increases are to have a bearing on its EBITDA margin expansion prospects.

Exhibit 51: A&P spends to trend upward going ahead



Source: Company, Emkay Research

Exhibit 52: EBITDA margin to see modest improvement going ahead

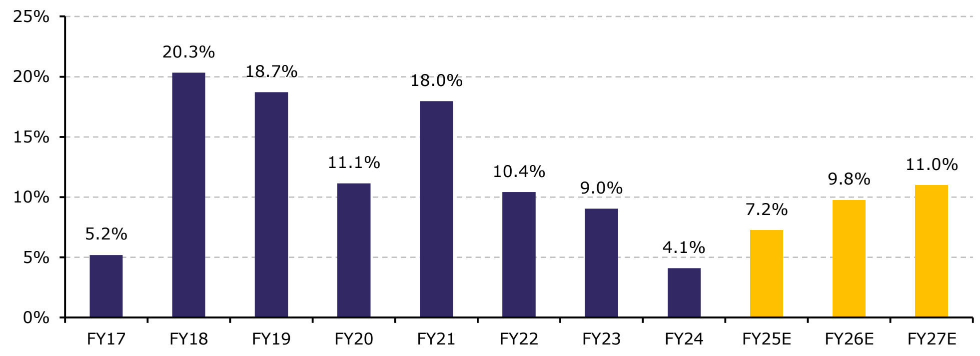


Source: Company, Emkay Research

EBITDA and earnings to see growth recovery

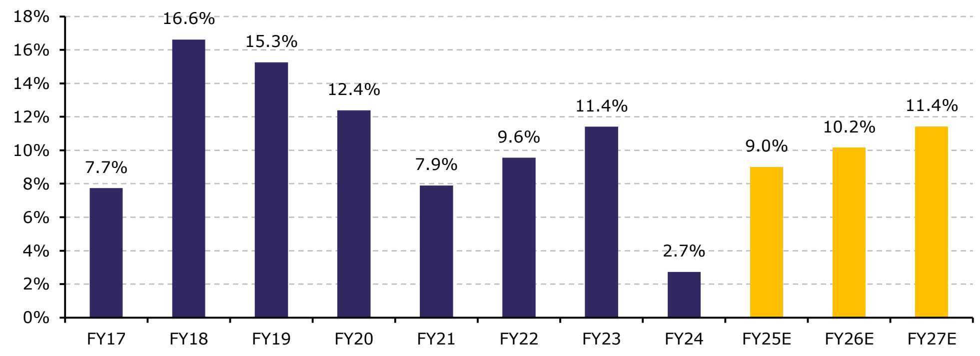
As can be seen in the exhibits below, EBITDA and Earnings growth are likely to recoup to double digits in FY26, with recovery in sales and steady margin recoup. In the near term, we see earnings delivery to be in the high-single digit.

Exhibit 53: EBITDA growth



Source: Company, Emkay Research

Exhibit 54: Earnings growth

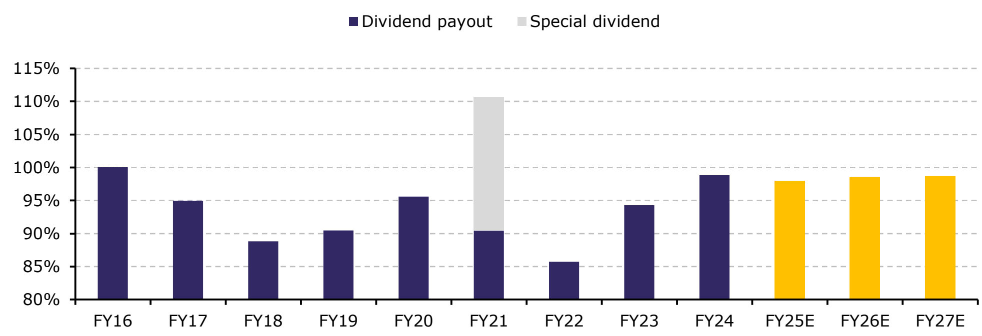


Source: Company, Emkay Research

Dividend pay-outs have remained near 100%

With healthy earnings cash conversion, and no need for large capex or category incubations, the company has near-full return of earnings to shareholders. We see that strong parentage would be handy for the company to enter into new segments. With no funding needs, we see dividend pay-out to remain near 100% ahead.

Exhibit 55: Dividend payouts



Source: Company, Emkay Research

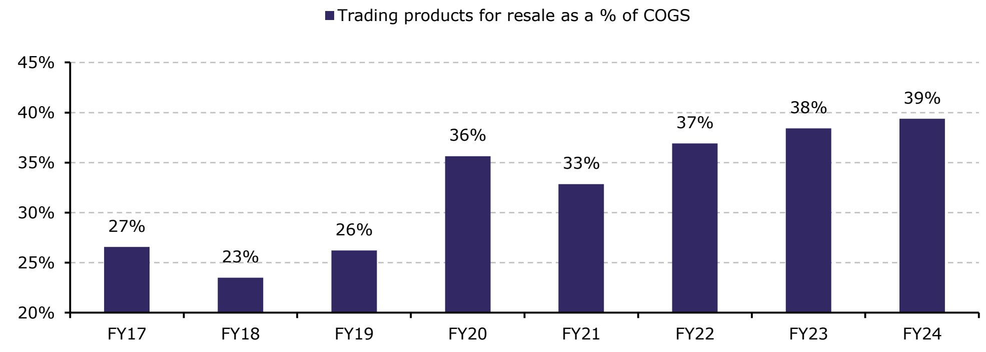
Cash generation healthy, returns to improve

Adjusted for GSK portfolio acquisition-related intangibles, Hindustan Unilever's balance sheet remains lean. Also, its cash generation in the business has been healthy.

Capex needs have been limited

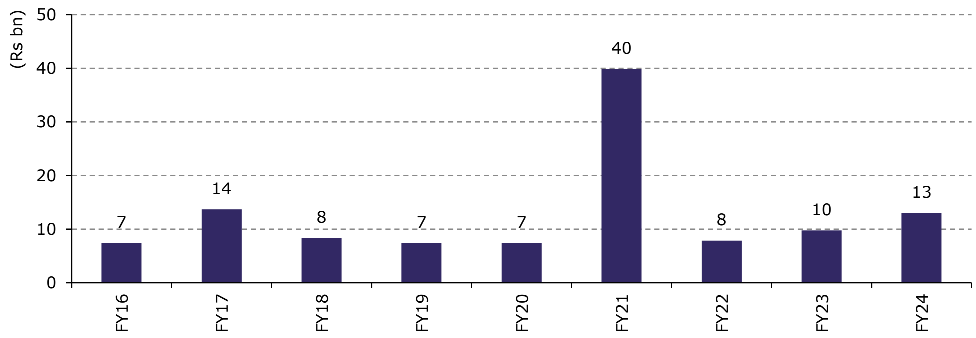
Given the category concentration, reliance on contract manufacturers has been high for HUL. Incrementally, given the portfolio and Company's thrust on premium, we see capacity expansion needs to be limited. Though, aligning with new tech will require capex to the tune of ~Rs10bn annually.

Exhibit 56: Purchase of stock-in-trade for resale as a % of Cost of Goods Sold (COGS)



Source: Company, Emkay Research

Exhibit 57: Annual capex spends

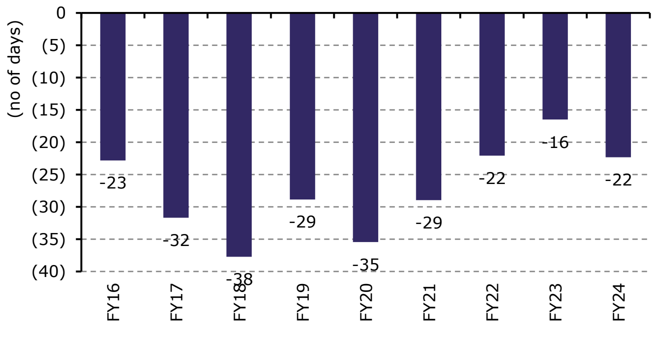


Source: Company, Emkay Research

Working capital position remains healthy

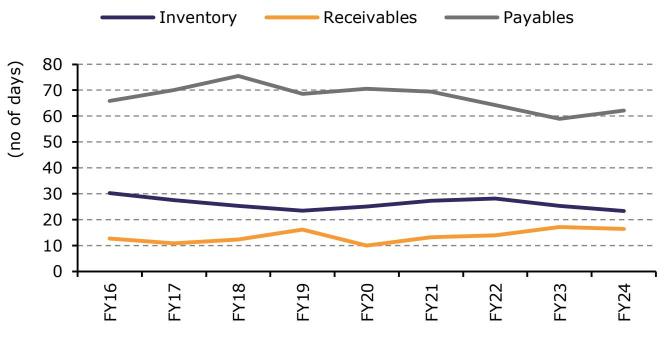
HUL has sustained negative working capital on the back of healthy payable days. With easing in raw material inflation, inventory days have seen reduction from 25 days as of Mar-23 to 23 days as of Mar-24. Receivables also see moderate reduction to ~16 days. On the other hand, payable days have seen an increase of 3 days to 62 days as of Mar-24. As such, net working capital release days expanded from 16 as of Mar-23 to 22 as of Mar-24.

Exhibit 58: Working capital position healthy



Source: Company, Emkay Research

Exhibit 59: Working capital component movement

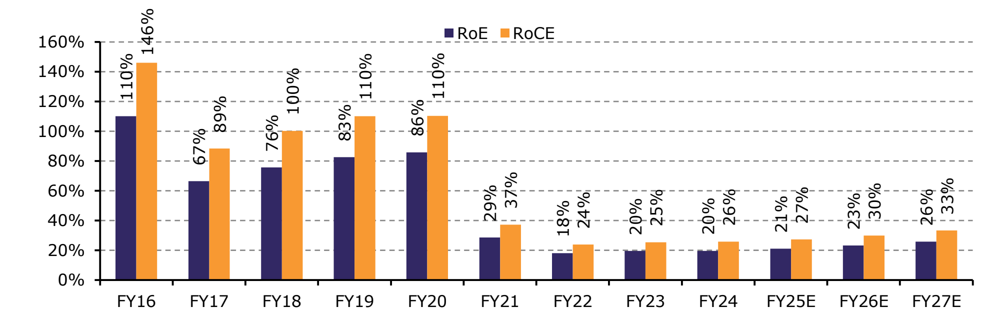


Source: Company, Emkay Research

Return profile to see steady improvement; high intangible to limit improvement

HUL's return profile was impacted in FY21, with acquisition of GSK portfolio, when the company had to account for goodwill of Rs173bn and brands/trademark of Rs243bn. Amid the weak margin setting, return profile remains sub-par. However, with the expected recovery in margins ahead, we should see an improvement in the return profile.

Exhibit 60: Return ratios



Source: Company, Emkay Research

Exhibit 61: DuPont analysis

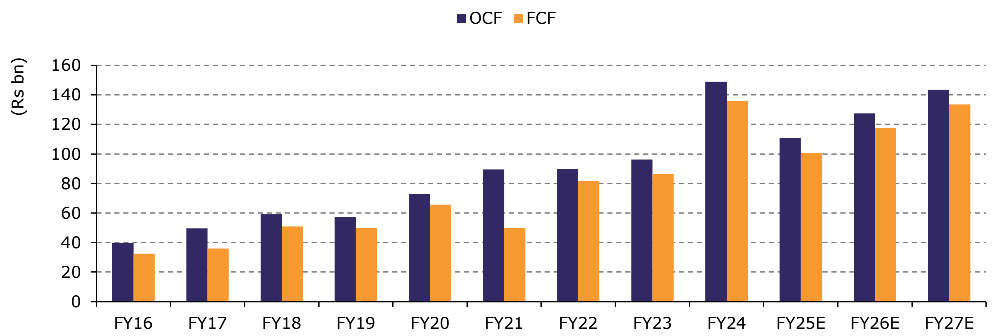
	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Fixed asset turn (x)	8.0	6.9	6.8	5.8	1.5	0.9	1.1	1.1	1.1	1.2	1.3
Net profit margin (%)	13.3	14.9	15.9	17.4	17.3	17.0	16.4	16.5	17.0	17.4	17.8
Fixed assets/equity (x)	0.6	0.7	0.8	0.8	1.1	1.1	1.1	1.1	1.1	1.1	1.2
Return on equity (%)	67	76	83	86	29	18	20	20	21	23	26

Source: Company, Emkay Research

Cash generation remains healthy

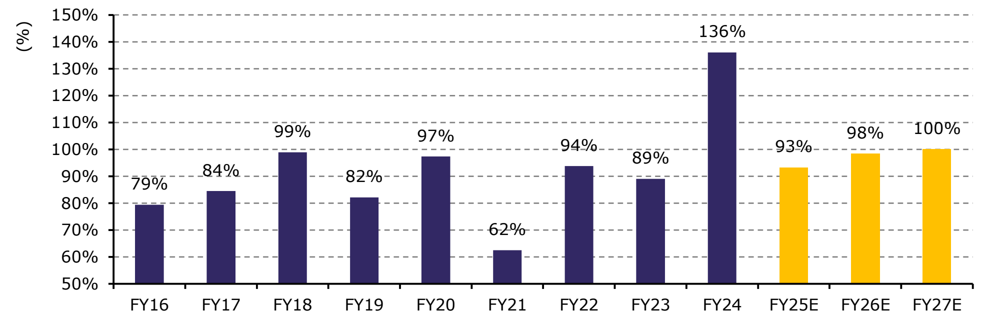
Compared to net working capital outflow of Rs8.6bn in FY23, the company has inflow of Rs11.4bn in FY24. This, along with tax refund of Rs31.48bn, drove higher operating cash flow of Rs149bn for FY24 vs Rs96bn for FY23. Adjusted for one-off base in FY24, we see steady expansion in cash generation ahead. Earnings-to-FCF conversion likely to remain healthy.

Exhibit 62: Cash flow trend



Source: Company, Emkay Research

Exhibit 63: Earnings-to-FCF conversion remains healthy

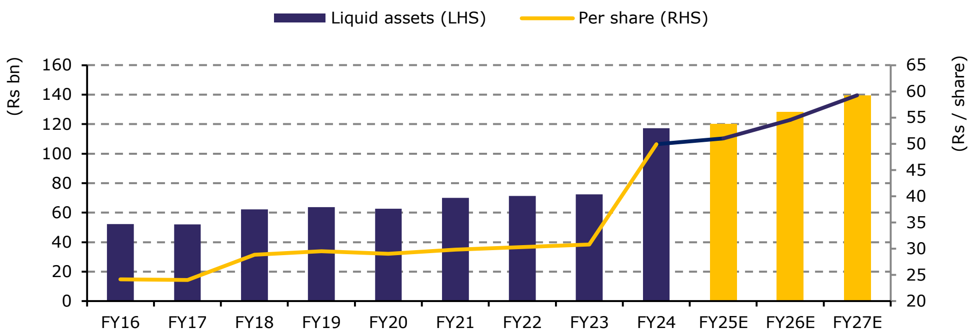


Source: Company, Emkay Research

Liquid assets position improved

HUL's liquid asset position has seen expansion form Rs72bn as of Mar-23 to Rs117bn as of Mar-24. We expect liquid assets to see steady expansion ahead.

Exhibit 64: Liquid assets

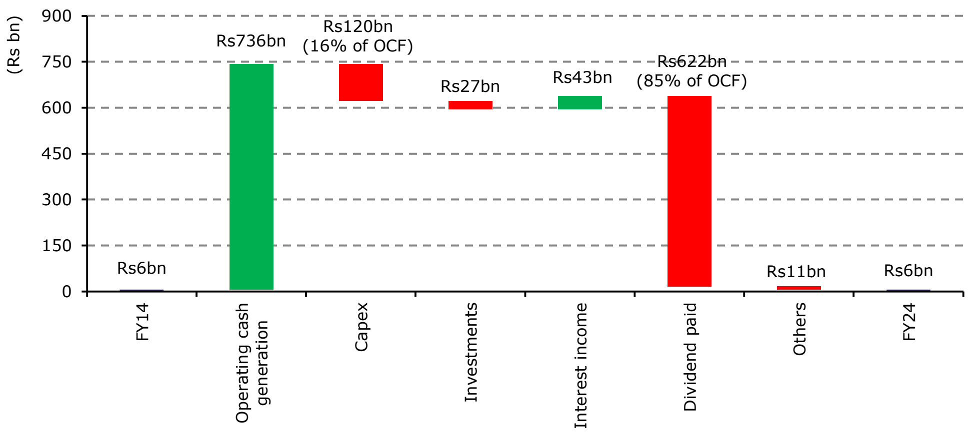


Source: Company, Emkay Research

Healthy cash generation is largely passed on to shareholders

In the last decade, HUL has generated Rs736bn in cash from operations, of which ~85% is returned back to shareholders as dividend. While the remaining is deployed toward capex needs. With negative working capital and healthy liquidity, the company has generated non-operating income.

Exhibit 65: Cash flow in the last decade



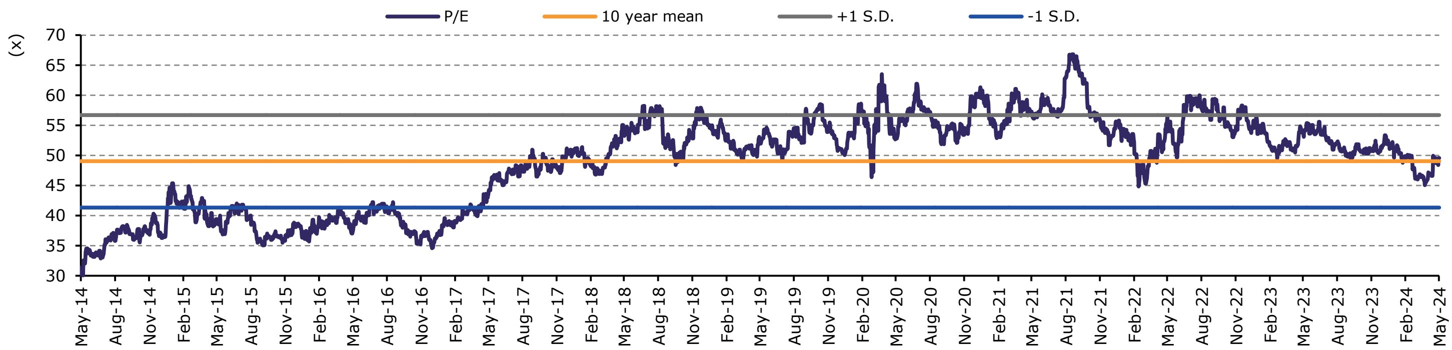
Source: Company, Emkay Research

We maintain ADD, with new Jun-25E TP of Rs2,575/share

Its valuation in the last couple of years has seen steady de-rating, which in our view, has been a factor of: i) earnings growth moderation (~2.5% for FY24), ii) sustained weakness in BPC, high competitive intensity from new age and smaller brands, iii) sustained rural slowdown (~40% of revenue), and iv) added royalty burden (80bps increase over FY22-26E).

The stock has seen some recovery in forward P/E (now in line with 10Y-average P/E of 49x) post-Q4 results, aided by the rebound of rural volume growth in the sector. While tailwinds are yet to emerge, the positives are likely to be in place, as the El Nino effect subsides and raw material prices stabilize. We build gradual recovery in the top-line, given the sustained competitive pressure. With this report, we introduce FY27 estimates. As we roll-over from Mar-26E to Jun-26E earnings, our TP increases to Rs2,575/sh (on 49x P/E) from Rs2,500/sh.

Exhibit 66: HUL's one-year forward P/E trend



Source: Company, Bloomberg, Emkay Research

HUL continues to command higher valuations relative to other HPC-focused FMCG companies in India, on account of its market-share dominance, size advantage, better distribution network, and good quality management — all these bring in various valuation positives such as lower risk to earnings and the advantage of venturing into new business segments with lower earnings risk. However, we believe HUL's high valuations are primarily a reflection of its outstanding capital efficiency. With a sustainable ROE (adjusted for intangibles) of over 100%, HUL is an extraordinarily capital-efficient company. The company's competitive advantages are time-tested and its high-capital efficiencies are sustainable over a long period of time.

Exhibit 67: Changes to our estimates

(Rs mn)	New estimates			Old estimates		Changes to our estimate	
	FY25E	FY26E	FY27E	FY25E	FY26E	FY25E	FY26E
Revenue	634,210	682,737	743,521	635,125	682,470	0%	0%
- growth	6.1%	7.7%	8.9%	6.3%	7.5%		
EBITDA	152,177	167,021	185,366	151,192	166,370	1%	0%
- growth	7.2%	9.8%	11.0%	6.5%	10.0%		
EBITDA margin	24.0%	24.5%	24.9%	23.8%	24.4%		
Adj. PAT	108,771	119,908	133,620	108,300	119,743	0%	0%
- growth	8.9%	10.2%	11.4%	8.5%	10.6%		
EPS (Rs)	46.3	51.0	56.9	46.1	51.0	0%	0%

Source: Company, Emkay Research

Exhibit 68: Emkay vs Consensus expectations

	Emkay estimates			Consensus estimates			Emkay estimate vs consensus		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net sales	634,210	682,737	743,521	646,159	702,399	763,832	-2%	-3%	-3%
- growth	6.1%	7.7%	8.9%	8.1%	8.7%	8.7%			
EBITDA	152,177	167,021	185,366	153,314	169,909	188,758	-1%	-2%	-2%
- growth	7.2%	9.8%	11.0%	8.0%	10.8%	11.1%			
EBITDA margin	24.0%	24.5%	24.9%	23.7%	24.2%	24.7%			
Adj. PAT	108,771	119,908	133,620	110,206	122,131	140,624	-1%	-2%	-5%
- growth	8.9%	10.2%	11.4%	10.4%	10.8%	15.1%			
EPS (Rs)	46.29	51.02	56.86	47.02	52.07	59.87	-2%	-2%	-5%

Source: Company, Emkay Research

Exhibit 69: Key assumptions

	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Income statement							
Total income growth	18.6%	11.3%	15.5%	2.2%	6.1%	7.7%	8.9%
Gross margin	52.9%	50.9%	47.3%	51.5%	52.6%	53.3%	53.9%
Royalty	2.6%	2.7%	2.7%	3.2%	3.4%	3.5%	3.5%
Advertisement	10.3%	9.2%	8.2%	10.6%	11.4%	11.9%	11.9%
EBITDA margin	24.6%	24.4%	23.0%	23.5%	23.7%	24.2%	24.6%
Tax rate	25.7%	25.9%	26.0%	27.5%	26.6%	26.5%	26.5%
Adj. PAT growth	18.1%	9.6%	11.4%	2.7%	8.9%	10.2%	11.4%
EPS (Rs)	33.89	37.12	41.36	42.49	46.29	51.02	56.86
Balance Sheet							
ROE	29%	18%	20%	20%	21%	23%	26%
ROCE	37%	24%	25%	26%	28%	30%	33%
Inventory days (no.of)	27	28	25	23	24	24	23
Receivable days (no.of)	13	14	17	16	17	17	17
Payable days (no.of)	68	63	58	61	59	59	59
Segment revenue growth (%)							
Home care	2.95	18.76	28.06	3.16	7.00	8.00	9.00
Personal care	5.55	8.33	12.18	1.53	7.00	8.00	9.00
Food and refreshment	78.55	6.82	5.47	2.80	5.00	7.00	9.00
Segment EBIT margin (%)							
Home care	19.9	19.3	18.3	18.4	18.5	19.2	20.0
Personal care	28.5	27.5	25.6	26.2	26.5	27.0	27.5
Food and refreshment	16.6	18.6	17.9	18.6	19.0	19.3	19.5

Source: Company, Emkay Research

Hindustan Unilever: Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**591,440**	**604,690**	**641,617**	**690,884**	**752,484**
Revenue growth (%)	15.5	2.2	6.1	7.7	8.9
EBITDA	**136,320**	**141,900**	**152,177**	**167,021**	**185,366**
EBITDA growth (%)	9.0	4.1	7.2	9.8	11.0
Depreciation & Amortization	10,300	10,970	11,470	12,000	12,500
EBIT	**126,020**	**130,930**	**140,707**	**155,021**	**172,866**
EBIT growth (%)	9.8	3.9	7.5	10.2	11.5
Other operating income	9,900	8,900	7,407	8,148	8,962
Other income	6,400	9,730	10,703	11,773	12,951
Financial expense	1,010	3,020	3,322	3,654	4,020
PBT	**131,410**	**137,640**	**148,088**	**163,140**	**181,797**
Extraordinary items	0	0	0	0	0
Taxes	34,210	37,791	39,317	43,232	48,176
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**97,200**	**99,849**	**108,771**	**119,908**	**133,620**
PAT growth (%)	11.4	2.7	8.9	10.2	11.4
Adjusted PAT	**97,200**	**99,849**	**108,771**	**119,908**	**133,620**
Diluted EPS (Rs)	**41.4**	**42.5**	**46.3**	**51.0**	**56.9**
Diluted EPS growth (%)	11.4	2.7	8.9	10.2	11.4
DPS (Rs)	**39.0**	**42.0**	**45.0**	**50.0**	**56.0**
Dividend payout (%)	**94.3**	**98.8**	**97.2**	**98.0**	**98.5**
EBITDA margin (%)	23.0	23.5	23.7	24.2	24.6
EBIT margin (%)	21.3	21.7	21.9	22.4	23.0
Effective tax rate (%)	26.0	27.5	26.6	26.5	26.5
NOPLAT (pre-IndAS)	**93,213**	**94,982**	**103,350**	**113,940**	**127,056**
Shares outstanding (mn)	2,350.0	2,350.0	2,350.0	2,350.0	2,350.0

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	2,350	2,350	2,350	2,350	2,350
Reserves & Surplus	499,860	507,380	510,681	513,369	515,669
Net worth	**502,210**	**509,730**	**513,031**	**515,719**	**518,019**
Minority interests	0	0	0	0	0
Deferred tax liability (net)	63,250	64,540	64,540	64,540	64,540
Total debt	**0**	**0**	**0**	**0**	**0**
Total liabilities & equity	**565,460**	**574,270**	**577,571**	**580,259**	**582,559**
Net tangible fixed assets	513,900	523,640	522,170	520,170	517,820
Net intangible assets	150	150	150	150	0
Net ROU assets	11,820	12,411	13,032	13,683	0
Capital WIP	10,200	9,150	9,150	9,150	9,150
Goodwill	150	150	150	150	0
Investments [JV/Associates]	21,360	21,880	22,610	23,965	25,805
Cash & equivalents	**72,350**	**117,280**	**120,779**	**129,687**	**141,050**
Current assets (ex-cash)	100,320	98,620	106,520	113,735	120,378
Current Liab. & Prov.	152,820	196,450	203,808	216,598	231,644
NWC (ex-cash)	**(52,500)**	**(97,830)**	**(97,288)**	**(102,863)**	**(111,266)**
Total assets	**565,460**	**574,270**	**577,571**	**580,259**	**582,559**
Net debt	(72,350)	(117,280)	(120,779)	(129,687)	(141,050)
Capital employed	565,460	574,270	577,571	580,259	582,559
Invested capital	**461,400**	**425,810**	**424,882**	**417,307**	**406,554**
BVPS (Rs)	213.7	216.9	218.3	219.5	220.4
Net Debt/Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)
Net Debt/EBITDA (x)	(0.5)	(0.8)	(0.8)	(0.8)	(0.8)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	**23.8**	**24.7**	**26.3**	**28.8**	**32.0**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	131,410	137,640	148,088	163,140	181,797
Others (non-cash items)	0	0	0	0	0
Taxes paid	(30,680)	(2,950)	(39,317)	(43,232)	(48,176)
Change in NWC	(8,630)	11,360	(1,272)	4,221	6,563
Operating cash flow	**96,260**	**148,840**	**111,588**	**128,009**	**143,752**
Capital expenditure	(9,730)	(12,980)	(10,000)	(10,000)	(10,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	3,910	5,930	10,703	11,773	12,951
Investing cash flow	**(10,620)**	**(49,710)**	**(4,297)**	**(3,227)**	**(7,049)**
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	0	(4,920)	(3,322)	(3,654)	(4,020)
Dividend paid (incl tax)	(84,590)	(93,980)	(105,750)	(117,500)	(131,600)
Others	(5,070)	0	0	0	0
Financing cash flow	**(89,660)**	**(98,900)**	**(108,792)**	**(120,874)**	**(135,340)**
Net chg in Cash	(4,020)	230	(1,501)	3,908	1,363
OCF	96,260	148,840	111,588	128,009	143,752
Adj. OCF (w/o NWC chg.)	104,890	157,470	112,860	123,789	137,189
FCFF	86,530	135,860	101,588	118,009	133,752
FCFE	89,430	138,770	108,969	126,128	142,683
OCF/EBITDA (%)	70.6	104.9	73.3	76.6	77.6
FCFE/PAT (%)	92.0	139.0	100.2	105.2	106.8
FCFF/NOPLAT (%)	**92.8**	**143.0**	**98.3**	**103.6**	**105.3**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	56.2	54.7	50.2	45.5	40.9
P/CE(x)	51.8	50.2	46.3	42.2	38.1
P/B (x)	10.9	10.7	10.6	10.6	10.5
EV/Sales (x)	9.3	9.0	8.4	7.8	7.2
EV/EBITDA (x)	39.5	37.7	35.1	31.9	28.7
EV/EBIT(x)	43.6	41.6	38.7	35.1	31.4
EV/IC (x)	11.9	12.8	12.8	13.0	13.3
FCFF yield (%)	1.6	2.5	1.9	2.2	2.5
FCFE yield (%)	1.6	2.5	2.0	2.3	2.6
Dividend yield (%)	1.7	1.8	1.9	2.2	2.4
DuPont-RoE split					
Net profit margin (%)	16.4	16.5	17.0	17.4	17.8
Total asset turnover (x)	1.1	1.1	1.1	1.2	1.3
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
RoE (%)	**19.6**	**19.7**	**21.3**	**23.3**	**25.9**
DuPont-RoIC					
NOPLAT margin (%)	15.8	15.7	16.1	16.5	16.9
IC turnover (x)	1.3	1.4	1.5	1.6	1.8
RoIC (%)	**20.5**	**21.4**	**24.3**	**27.1**	**30.8**
Operating metrics					
Core NWC days	(36.9)	(38.9)	(39.1)	(37.6)	(37.7)
Total NWC days	**(32.4)**	**(59.1)**	**(55.3)**	**(54.3)**	**(54.0)**
Fixed asset turnover	1.1	1.1	1.1	1.2	1.3
Opex-to-revenue (%)	24.3	28.0	28.9	29.2	29.2

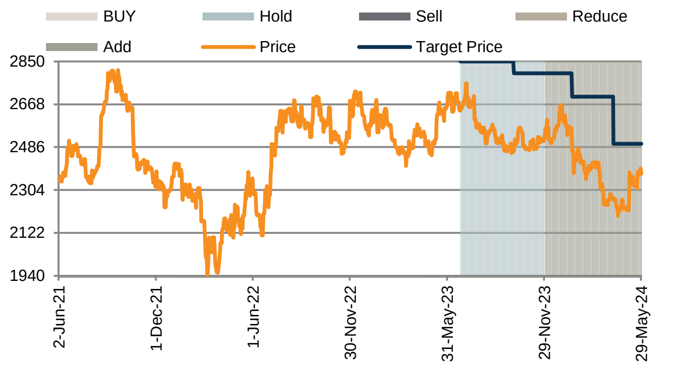
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
13-May-24	2,361	2,500	Add	Nitin Gupta
08-May-24	2,341	2,500	Add	Nitin Gupta
25-Apr-24	2,231	2,500	Add	Nitin Gupta
15-Apr-24	2,194	2,500	Add	Nitin Gupta
07-Apr-24	2,267	2,500	Add	Nitin Gupta
14-Mar-24	2,335	2,700	Add	Nitin Gupta
23-Jan-24	2,376	2,700	Add	Nitin Gupta
20-Jan-24	2,469	2,700	Add	Nitin Gupta
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: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

Emkay Global Financial Services Ltd.

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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SESHADRI KUMAR SEN

Digitally signed by SESHADRI KUMAR SEN
DN: c=IN, o=Personal,
pseudonym=133422712594461905DSVUy8kk9un4ET,
2.5.4.20=1217a0ac22644d6a490a50ef35978ca2cbcf94e395
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st=Maharashtra,
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9551e83b808ee76a10dbb491f06e, cn=SESHADRI KUMAR
SEN
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