

24 July 2024

India | Equity Research | Q1FY25 results review

Hindustan Unilever

Consumer Staples & Discretionary

Improving fundamentals and (even better) narratives may drive re-rating

HUL reported an improvement in UVG trajectory (at 4% YoY) driven by a recovery in rural markets (outperformed urban after a year) and mass brands portfolio (except mass skin care) which is likely to sustain driven by an improving demand scenario. Further, management has taken corrective actions for improving the proposition of mass skin care. Key positives: a) Homecare saw an improvement in UVG led by mass fabric wash brands, and b) hair care saw broad-based double-digit volume growth in beauty and wellbeing, while skin cleansing also saw an improvement led by pricing actions. F&R segment had a weak quarter due to harsh summers impacting hot beverages. Retention of majority of corporate market share gains (~200bps) over inflation and deflation cycle is impressive (unlike previous cycles). Margins are likely to remain stable in the near term due to higher ad-spends. Upgrade to **ADD** (from Hold) with a revised TP of INR 2,950.

Improving trajectory in UVG, rural, mass portfolio

HUL's Q1FY25 revenue / GP / EBITDA / recurring PAT growth (YoY) were 1 / 4 / 2 / 3 (%). Revenue growth of 1% with improvement in UVG trajectory at 4% (despite impact of harsh summers on hot beverages) in Q1FY25 (above estimates) is encouraging. Further, rural growth outperforming urban growth for last few months after a year augur well for rural recovery (key driver for improvement in overall performance of HUL). Further, from product segment perspective, mass skin care (Glow and Lovely) is the only segment declining (over indexed to rural and discretionary in nature) which is slightly concerning, while there is visible improvement in other segments like mass fabric wash, hair care (broad based including mass segment) and skin cleansing. Management has taken steps towards improving proposition of Glow and Lovely through contemporising the brand and extending it to fast-growing segments.

Segmental performance

UVG trajectory improved for Home care to broad-based high-single digit (from mid-single digit) driven by improved performance in mass fabric wash brands. Beauty and Wellbeing largely maintained its USG trajectory with double-digit volume growth (vs high-single digit earlier) in hair care across brands while decline in mass skin care is concerning. Personal care also saw improvement in USG at -5% (vs -10%; due to pricing actions) with improving trajectory in skin cleansing. F&R segment maintained its flattish UVG trajectory as hot beverages segment was impacted due to harsh summers.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	5,91,440	6,04,690	6,54,015	7,25,167
EBITDA	1,36,320	1,41,900	1,56,708	1,77,599
EBITDA Margin (%)	23.0	23.5	24.0	24.5
Net Profit	1,00,240	1,02,030	1,13,380	1,28,187
EPS (INR)	42.7	43.4	48.2	54.5
EPS % Chg YoY	13.2	1.8	11.1	13.1
P/E (x)	64.9	63.7	57.3	50.7
EV/EBITDA (x)	47.1	44.9	40.6	35.8
RoCE (%)	19.4	19.2	21.0	23.5
RoE (%)	20.3	20.2	22.1	24.6

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Market Data

Market Cap (INR)	6,500bn
Market Cap (USD)	77,644mn
Bloomberg Code	HUVR IN
Reuters Code	HLL.BO
52-week Range (INR)	2,812 / 2,170
Free Float (%)	38.0
ADTV-3M (mn) (USD)	72.9

Price Performance (%)	3m	6m	12m
Absolute	22.3	16.5	6.2
Relative to Sensex	13.4	3.3	(14.9)

Previous Reports

25-04-2024: [Q4FY24 results review](#)

20-01-2024: [Q3FY24 results review](#)

EBITDA margins to remain stable with benefits being invested back in ad-spends

Gross margin expanded by 153bps YoY to 51.4% driven by input cost correction and better mix (premium outperforming mass brands). Management plans to recover gross margins to pre-covid levels (~54%) through end-to-end net productivity focus to funnel investment in ad-spends to stay competitive and capture growth in fast-growing categories.

EBITDA margin expanded by 26bps YoY to 23.5% (+38bps QoQ). A constrained expansion vis-à-vis gross margin (at 320bps YoY to 51.9%) is largely due to: 1) increased ad-spends (+94bps YoY), and 2) lower other operating income due to termination of GSK consignment selling. Management expects EBITDA margin to be stable in the near term with moderate expansion in the medium term.

Valuation and risks

We largely maintain our earnings estimates for FY25E/FY26E, modelling revenue/EBITDA/PAT CAGR of 10/12/12 (%) over FY24-26E. Upgrade to **ADD** (from HOLD) with a DCF-based revised target price of INR 2,950 (earlier INR 2,600).

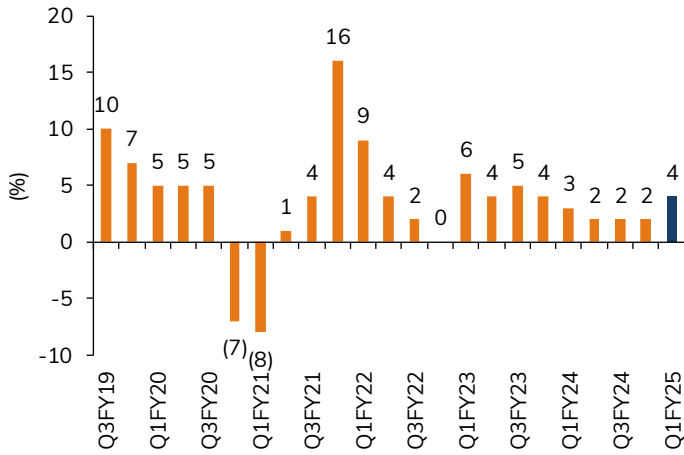
Key downside risks are delayed recovery in demand, and irrational competition. Key upside risks are better-than-expected recovery in rural demand and reduction in competitive intensity.

Exhibit 1: Q1FY25 result review

INR mn	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Net sales	151,660	149,310	2	146,930	3
Other operating income	1,730	2,170	(20)	1,640	5
Net Revenue	153,390	151,480	1	148,570	3
COGS	(74,480)	(75,880)	(2)	(71,510)	4
Gross Profit	78,910	75,600	4	77,060	2
Staff cost	(6,020)	(6,510)	(8)	(7,740)	(22)
A&SP	(16,440)	(14,810)	11	(15,860)	4
Other opex	(20,390)	(19,070)	7	(19,110)	7
Total expenditure	(42,850)	(40,390)	6	(42,710)	0
EBITDA	36,060	35,210	2	34,350	5
Other income	2,570	1,850	39	2,200	17
Finance cost	(850)	(470)	81	(1,020)	(17)
D&A	(2,980)	(2,570)	16	(2,890)	3
PBT	34,800	34,020	2	32,640	7
Tax	(9,080)	(9,020)	1	(8,680)	5
PAT (recurring)	25,720	25,000	3	23,960	7
Extraordinary items	(340)	(280)		100	
Net profit (reported)	25,380	24,720	3	24,060	5
Core EPS (recurring)	10.9	10.6	3	10.2	7
Ratios (% of net operating revenues)					
COGS	48.6	50.1	-154 bps	48.1	42 bps
Gross margin (%)	51.4	49.9	153 bps	51.9	-43 bps
Staff cost	3.9	4.3	-38 bps	5.2	-129 bps
A&SP	10.7	9.8	94 bps	10.7	4 bps
Other opex	13.3	12.6	70 bps	12.9	43 bps
EBITDA margin (%)	23.5	23.2	26 bps	23.1	38 bps
Effective tax rate	26.1	26.5	-43 bps	26.6	-51 bps
Segment revenues					
Home care	56,750	54,250	4.6	57,150	(1)
Beauty & Wellbeing	31,990	31,030	3	29,870	7
Personal Care	23,860	24,980	(4)	29,870	(20)
Foods & Refreshments	38,500	37,970	1	39,110	(2)
Others (incl exports)	2,290	3,250	(30)	1,810	27
Total segment revenue	129,530	126,500	2	127,940	1
Segment EBIT					
Home care	11,090	9,910	12	10,810	3
Beauty & Wellbeing	10,060	10,260	(2)	9,170	10
Personal Care	4,180	4,460	(6)	3,710	13
Foods & Refreshments	7,360	6,810	8	7,390	(0)
Others (incl exports)	390	1,200	(68)	380	3
Total segment EBIT	33,080	32,640	1	31,460	5
Segment EBIT margin (%)					
Home care	19.5	18.3	127 bps	18.9	62 bps
Beauty & Wellbeing	31.4	33.1	-162 bps	30.7	74 bps
Personal Care	17.5	17.9	-34 bps	12.4	509 bps
Foods & Refreshments	19.1	17.9	118 bps	18.9	22 bps
Others (incl exports)	17.0	36.9		21.0	
Total	25.5	25.8	-27 bps	24.6	94 bps

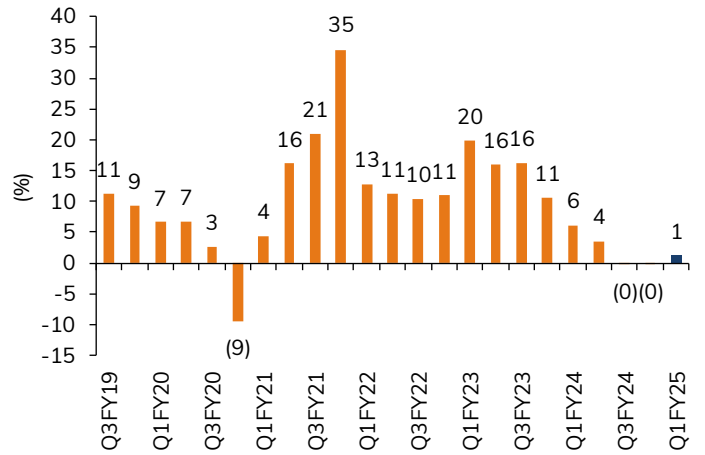
Source: Company data, I-Sec research

Exhibit 2: Volume growth



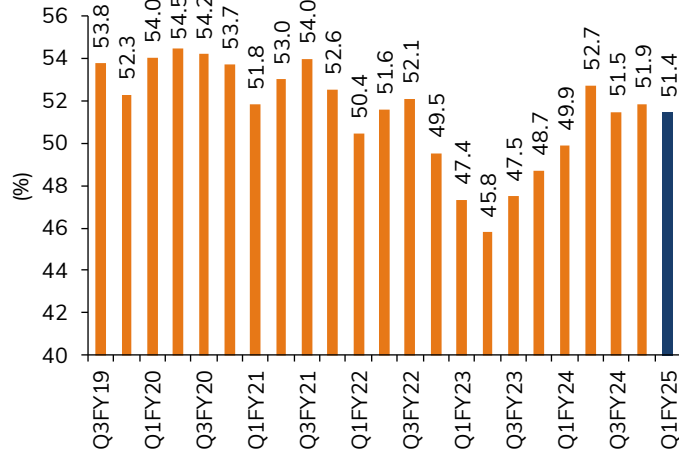
Source: Company data, I-Sec research

Exhibit 3: Revenue growth



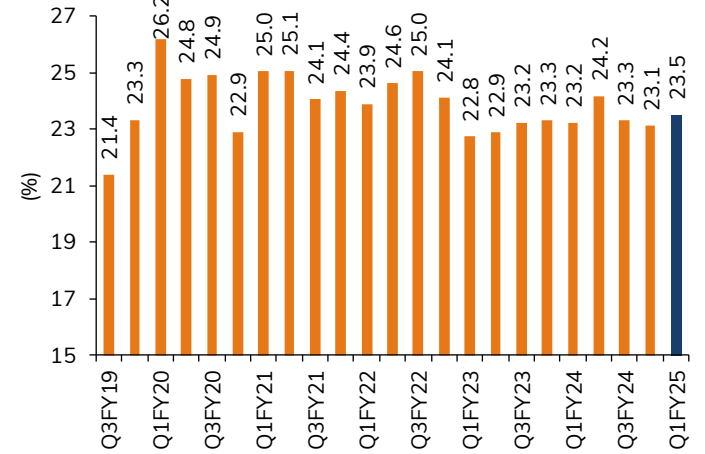
Source: Company data, I-Sec research

Exhibit 4: Gross margin



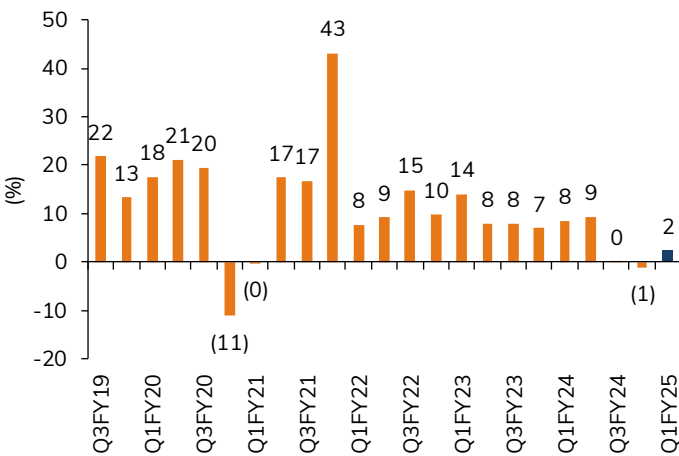
Source: Company data, I-Sec research

Exhibit 5: EBITDA margin



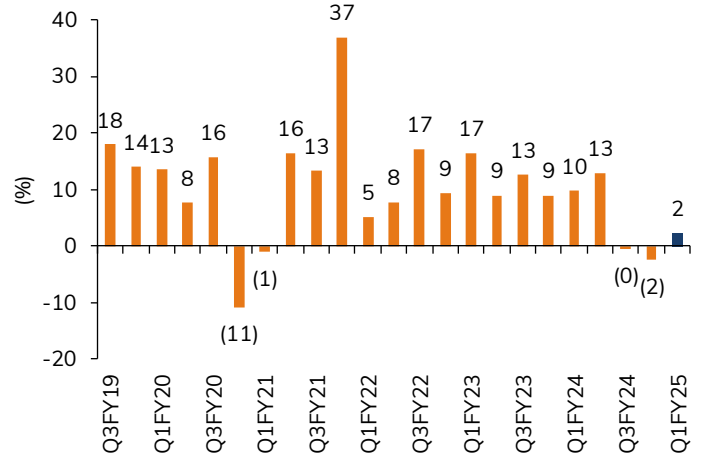
Source: Company data, I-Sec research

Exhibit 6: EBITDA growth



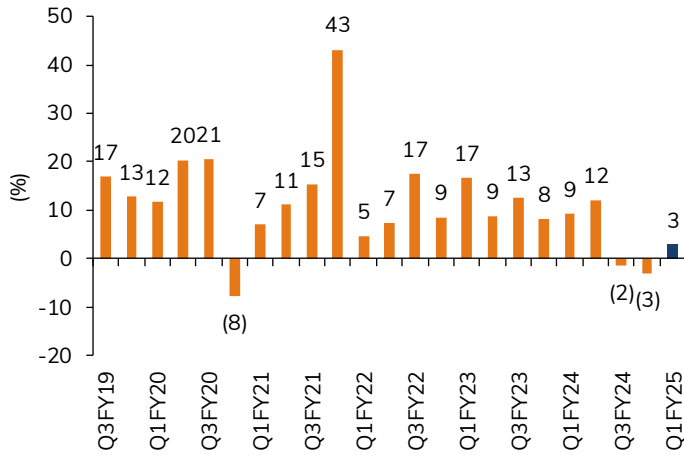
Source: Company data, I-Sec research

Exhibit 7: PBT growth



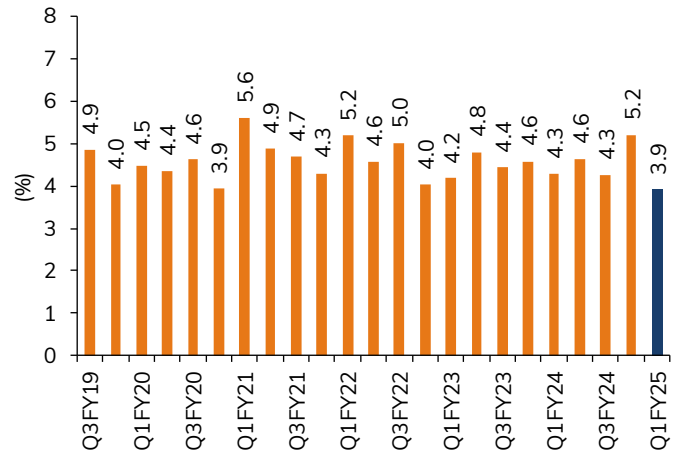
Source: Company data, I-Sec research

Exhibit 8: Recurring PAT growth



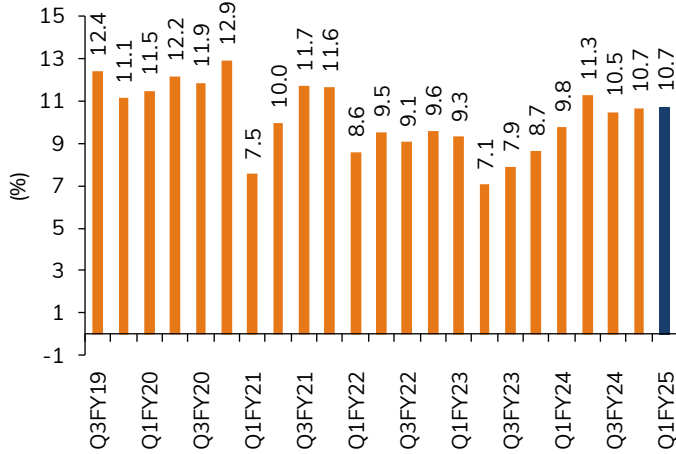
Source: Company data, I-Sec research

Exhibit 9: Staff costs as a % of sales



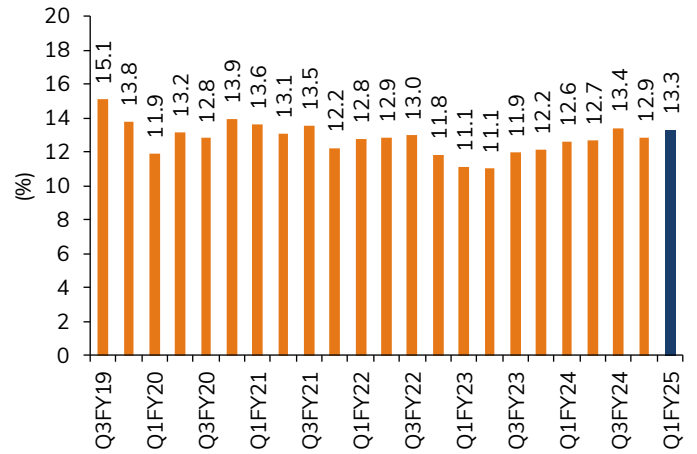
Source: Company data, I-Sec research

Exhibit 10: Ad-spends as a % of sales



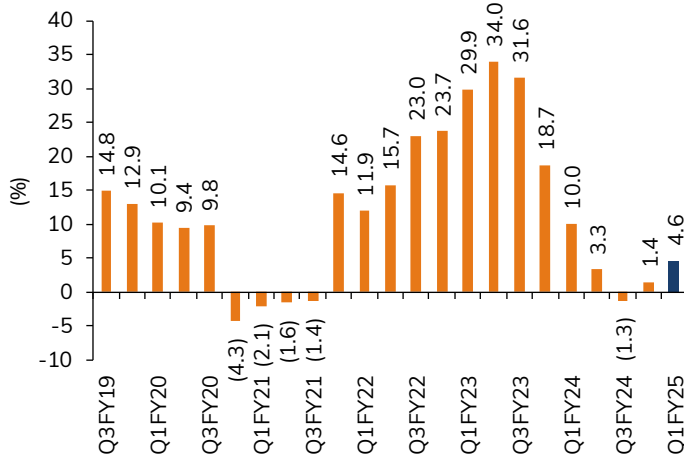
Source: Company data, I-Sec research

Exhibit 11: Other opex as a % of sales



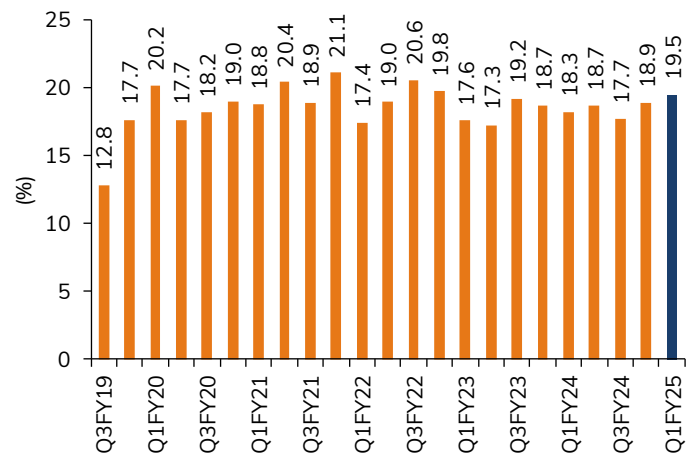
Source: Company data, I-Sec research

Exhibit 12: Revenue growth – Home Care



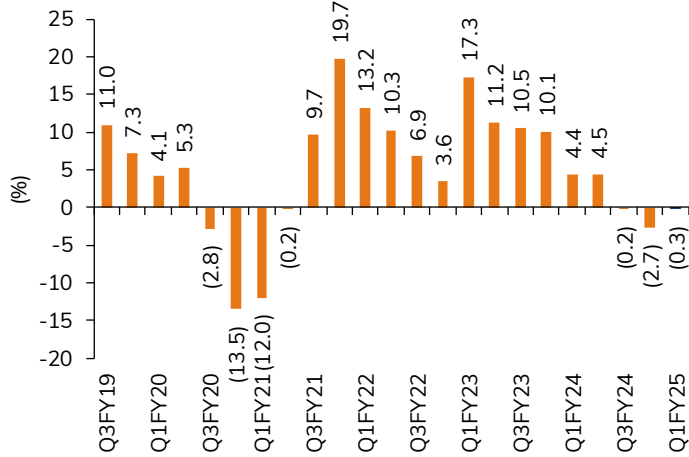
Source: Company data, I-Sec research

Exhibit 13: EBIT margin – Home Care



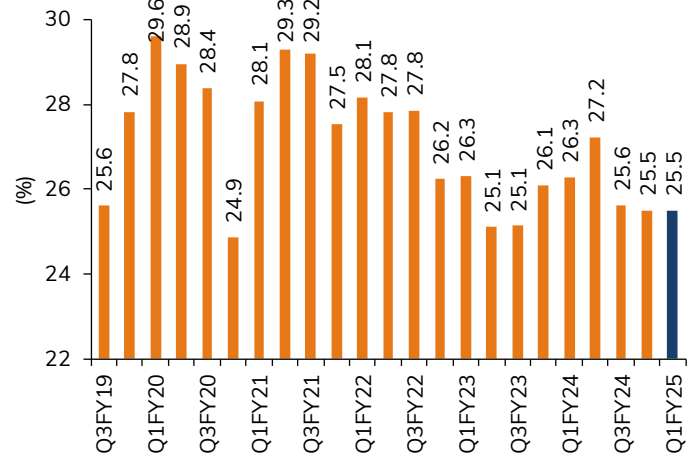
Source: Company data, I-Sec research

Exhibit 14: Revenue growth – Beauty & Personal Care



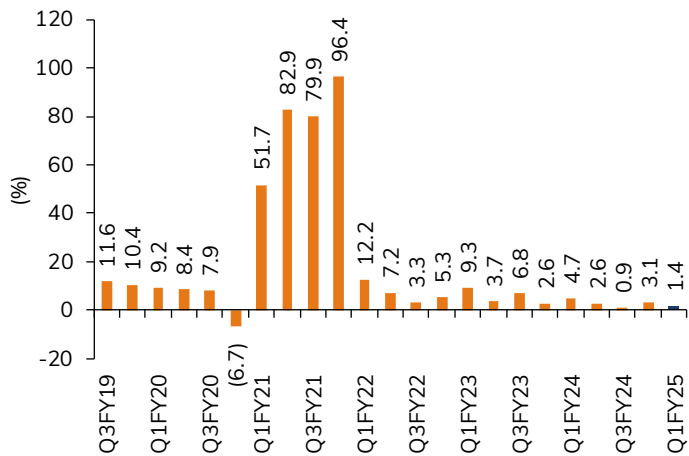
Source: Company data, I-Sec research

Exhibit 15: EBIT margin – Beauty & Personal Care



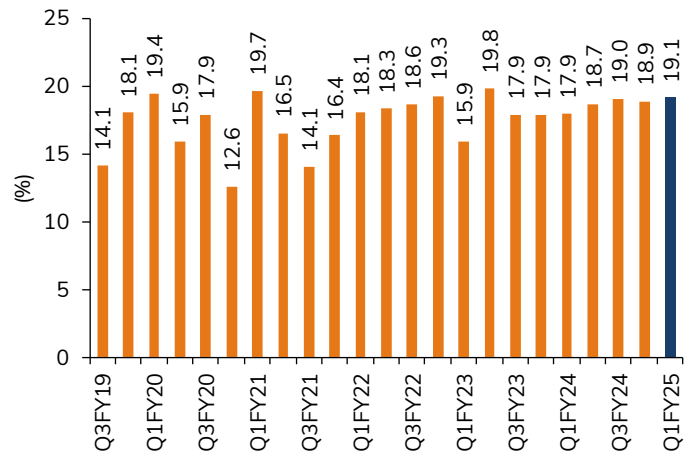
Source: Company data, I-Sec research

Exhibit 16: Revenue growth - Foods & Refreshments



Source: Company data, I-Sec research

Exhibit 17: EBIT margin – Foods & Refreshments



Source: Company data, I-Sec research

Exhibit 18: HUL brands launch and re-launch timeline

Segment	Q1 FY25	Q4 FY24	Q3 FY24	Q2 FY24	Q1 FY24	Q4 FY23	Q3 FY23	Q2 FY23	Q1 FY23	Q4 FY22	Q3 FY22	Q2 FY22	Q1 FY22	Q4 FY21	Q3 FY21	Q2 FY21	Q1 FY21
Acnesquad								N									
Annapurna																	
Axe																	
Ayush						N											
Boost																	
Bru	N		N		N	N	N	N			N				N		
Brylcreem																	
Cif																	
Citra																	
Clinic															N		
CloseUp			N														
Comfort				N	N			N	N								
Domex															N	N	N
Dove	N	N			N	N		N	N	N	N	N	N				
Elle 18																	
Glow & Lovely		N	N					N									R
Find Your Happy Place							N	N									
Hamam																N	
Hellmann	N																
Horlicks				N	N	N	N	N				N		N	N		N
Indulekha				N	N				N								
Kissan							N	N				N	N		N		
Knorr		N	N		N		N								N		
Kwality Wall's	N	N		N		N		N		N		N	N	N			
Lakme	N	N	N	N		N	N	N	N	N	N	N	N				
Lifebuoy	N						N			N	N	N			N	N	N
Lipton				N													
Love Beauty & Planet								N	N								
Love & Care						N											
Lux	N					N											
Magic Rinse																	
Magnum Ice Cream																	
Nature Protect															N		
New St.Ives Scrub Soap							N										
Novology						N											
OK																	
Pears												R	N				
Pepsodent					N							N					
Pond's	N	N		N													
Pure Derm							N										
Pureit							N	N									
Red Label		N										N					
Rin	N							N									
Simple			N			N				N							
Sunsilk			N					N				N	N		N		
Surf Excel																	
Taaza Tea																	
Taj Mahal		N															
Toni & Guy							N		N			N			N		
TRESemme						N			N			N	N		N		
Vaseline	N			N	N	N									N		R
Vim	N			N												N	
VWash																	
Wheel						N											

Source: Company data, I-Sec research. * N = New launch, R = Re-launch

Segment performance

Home Care segment grew by 4% YoY with high single digit volume growth. Reported EBIT margin expanded 127bps YoY to 19.5% (leading to 12% YoY EBIT growth).

- Fabric Wash grew volumes in high-single digit led by structural actions taken across the portfolio, in both mass and premium segments.
- Household Care grew volumes in mid-single digit driven by strong performance in premium dishwasher portfolio.
- Sale and divestment of 'Pureit' announced subject to customary closing conditions (strategic intent to focus on its core portfolio)

Beauty & wellbeing segment registered mid-single digit volume growth with USG of 3%. The category continued to witness premium portfolio growing ahead of the rest. Reported EBIT margin declined 162bps YoY to 31.4% (leading to 2% YoY EBIT decline).

- Hair Care grew volumes in double-digit driven by strong performance in Sunsilk, Clinic Plus and Dove.
- Skin care and Colour cosmetics had a muted volume performance driven by decline in mass portfolio.

Personal Care segment registered low-single digit volume growth with USG of -5%. Reported EBIT margin declined 34bps YoY to 17.5% (leading to 6% YoY EBIT decline).

- Skin cleansing grew volumes in low-single digit, while revenue declined on pricing actions. Bodywash continues to strengthen market leadership.

Foods & Refreshments segment witnessed USG of 1% YoY with flat volumes. Segment EBIT margins improved 118bps YoY to 19%. (EBIT grew by 8% YoY).

- Beverages: Tea strengthened its value and volume market leadership. Coffee grew in double digit led by pricing action. HFD was impacted by harsh summer, while continues to win competitively.
- Foods segment: Foods solutions, mayonnaise, peanut butter and international sauces continue to clock growth with the segment growing in low-single digits.
- Ice cream reported double digits' volume growth. The quarter witnessed new launches during summer: Kwality Walls' Strawberry Sundae.

Exhibit 19: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	61.9	61.9	61.9
Institutional investors	25.9	25.9	26.1
MFs and others	4.6	5.0	5.6
Banks, FI's, Insurance co	7.6	7.4	8.6
FII's	13.7	13.5	11.9
Others	12.2	12.2	12.0

Source: Bloomberg

Exhibit 20: Price chart



Source: Bloomberg

Financial Summary

Exhibit 21: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	5,91,440	6,04,690	6,54,015	7,25,167
Operating Expenses	4,55,120	4,62,790	4,97,306	5,47,569
EBITDA	1,36,320	1,41,900	1,56,708	1,77,599
EBITDA Margin (%)	23.0	23.5	24.0	24.5
Depreciation & Amortization	10,300	10,970	10,960	12,104
EBIT	1,26,020	1,30,930	1,45,748	1,65,494
Interest expenditure	1,010	3,020	3,262	3,612
Other Non-operating Income	6,400	9,730	10,729	11,343
Recurring PBT	1,31,410	1,37,640	1,53,216	1,73,225
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	31,170	35,610	39,836	45,039
PAT	1,00,240	1,02,030	1,13,380	1,28,187
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(620)	(890)	-	-
Net Income (Reported)	99,620	1,01,140	1,13,380	1,28,187
Net Income (Adjusted)	1,00,240	1,02,030	1,13,380	1,28,187

Source Company data, I-Sec research

Exhibit 22: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	1,60,490	2,02,960	2,13,958	2,33,531
of which cash & cash eqv.	72,330	1,17,260	1,23,851	1,33,949
Total Current Liabilities & Provisions	1,13,340	1,20,630	1,21,999	1,32,304
Net Current Assets	47,150	82,330	91,959	1,01,226
Investments	9,830	9,830	9,830	9,830
Net Fixed Assets	50,800	57,510	60,054	62,197
ROU Assets	11,090	14,270	14,270	14,270
Capital Work-in-Progress	10,200	9,150	9,150	9,150
Total Intangible Assets	4,52,160	4,52,010	4,52,010	4,52,010
Long Term Loans & Advances	23,680	25,030	27,036	29,938
Deferred Tax assets	-	-	-	-
Total Assets	6,04,910	6,50,130	6,64,309	6,78,622
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	63,250	64,540	64,540	64,540
Provisions	13,350	15,510	16,753	18,551
Other Liabilities	26,100	60,350	65,187	72,184
Equity Share Capital	2,350	2,350	2,350	2,350
Reserves & Surplus	4,99,860	5,07,380	5,15,480	5,20,997
Total Net Worth	5,02,210	5,09,730	5,17,830	5,23,347
Minority Interest	-	-	-	-
Total Liabilities	6,04,910	6,50,130	6,64,309	6,78,622

Source Company data, I-Sec research

Exhibit 23: Quarterly trend

(INR mn, year ending March)

	Sep 23	Dec 23	Mar 24	Jun 24
Net Sales	1,52,760	1,51,880	1,48,570	1,53,390
% growth (YOY)	4	(0)	0	2
EBITDA	36,940	35,400	34,350	36,060
Margin %	24.2	23.3	23.1	23.5
Other Income	2,830	2,850	2,200	2,570
Extraordinaries	490	(220)	100	(340)
Adjusted Net Profit	26,680	25,410	23,960	25,720

Source Company data, I-Sec research

Exhibit 24: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	96,260	1,48,840	1,17,907	1,39,284
Working Capital Changes	(8,630)	11,360	1,035	6,724
Capital Commitments	10,230	13,090	13,504	14,248
Free Cashflow	86,030	1,35,750	1,04,404	1,25,037
Other investing cashflow	(390)	(36,620)	10,729	11,343
Cashflow from Investing Activities	(10,620)	(49,710)	(2,774)	(2,905)
Issue of Share Capital	-	-	-	-
Interest Cost	(5,070)	(4,920)	(3,262)	(3,612)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(84,590)	(93,980)	(1,05,280)	(1,22,670)
Others	-	-	-	-
Cash flow from Financing Activities	(89,660)	(98,900)	(1,08,542)	(1,26,282)
Chg. in Cash & Bank balance	(4,020)	230	6,591	10,098
Closing cash & balance	5,860	6,090	12,681	22,779

Source Company data, I-Sec research

Exhibit 25: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	42.7	43.4	48.2	54.5
Adjusted EPS (Diluted)	42.7	43.4	48.2	54.5
Cash EPS	47.0	48.1	52.9	59.7
Dividend per share (DPS)	39.0	42.0	49.0	57.0
Book Value per share (BV)	213.7	216.9	220.4	222.7
Dividend Payout (%)	91.4	96.7	101.6	104.5
Growth (%)				
Net Sales	15.5	2.5	8.0	10.7
EBITDA	9.0	4.1	10.4	13.3
EPS (INR)	13.2	1.8	11.1	13.1
Valuation Ratios (x)				
P/E	64.9	63.7	57.3	50.7
P/CEPS	58.8	57.5	52.3	46.3
P/BV	12.9	12.8	12.6	12.4
EV / EBITDA	47.1	44.9	40.6	35.8
P / Sales	11.2	10.9	10.1	9.1
Dividend Yield (%)	1.4	1.5	1.8	2.1
Operating Ratios				
Gross Profit Margins (%)	47.3	51.5	51.6	51.9
EBITDA Margins (%)	23.0	23.5	24.0	24.5
Effective Tax Rate (%)	23.7	25.9	26.0	26.0
Net Profit Margins (%)	16.9	16.9	17.3	17.7
Net Debt / Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)
Net Debt / EBITDA (x)	(0.6)	(0.9)	(0.9)	(0.8)
Fixed Asset Turnover (x)	7.1	6.5	6.2	6.1
Working Capital Days	(17)	(21)	(18)	(17)
Inventory Turnover Days	28	24	24	25
Receivables Days	19	17	16	16
Payables Days	66	65	60	60
Profitability Ratios				
RoCE (%)	19.4	19.2	21.0	23.5
RoE (%)	20.3	20.2	22.1	24.6
RoIC (%)	23.2	24.2	28.1	32.1

Source Company data, I-Sec research

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