

CMP: INR 2,549

Rating: BUY

Target Price: INR 3,182

Stock Info

BSE	500696
NSE	HINDUNILVR
Bloomberg	HUVR:IN
Reuters	HLL.BO
Sector	Personal Products
Face Value (INR)	1
Equity Capital (INR cr)	235
Mkt Cap (INR cr)	5,98,911
52w H/L (INR)	2,769/ 2,393
Avg Daily Volume (in 000')	1,429

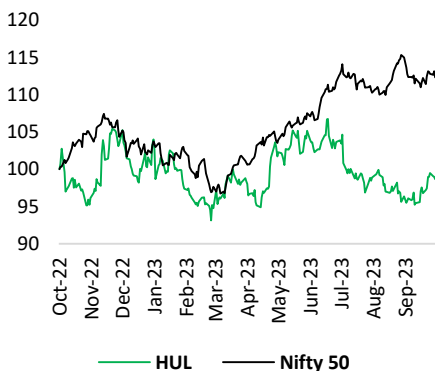
Shareholding Pattern %

(As on June 2023)

Promoters	61.90
FII	14.48
DII	11.47
Public & Others	12.13

Stock Performance (%)	1m	3m	12m
HUL	2.4	(4.6)	(1.4)
Nifty 50	(2.5)	(1.1)	12.1

HUL Vs Nifty 50



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HUL reported mixed results with misses on the top-line and PAT coupled with margin expansion from input cost corrections. Consolidated Net Revenue grew 3.16% YoY to INR 15,623 Cr (+0.82% QoQ), missing our estimate of INR 16,356 by 4.48%. Gross Margin expanded 711 bps YoY 52.99% (+254bps QoQ), beating our estimate of 45%, and returning back to pre-inflationary levels. EBITDA grew 9.14% YoY to INR 3,797 Cr (+3.60% QoQ) and the EBITDA Margin expanded 133bps YoY to 24.30% (+65bps QoQ), missing our estimates of INR 4,089 Cr and 25% respectively. PAT de-grew 0.49% YoY to INR 2,659 Cr (+3.95% QoQ), missing our estimate of INR 2,879 Cr by 7.71%.

Input prices: Commodities prices have corrected significantly during the quarter, and HUL passed on these benefits to end consumers- especially through the Home Care division where price cuts being passed on resulted in volume- led growth on a high base. Growth in Beauty and Personal care remained innovation-led and also displayed decent volume growth with new product launches playing on festive demand (the theme of premiumization continued here). Foods and Refreshments saw a slight de-growth due to the fact that input prices did not soften as much in this business as prices of tea, coffee, and milk continue to remain elevated (though they have softened from their peak. Downtrading was prevalent in the foods business.

A&P Spends remain high: The FMCG industry in India is witnessing a jump in competitive and media intensity as the unorganized sector re-enters the market on a strong footing with the moderation in commodity prices. To maintain it's share of voice, HUL continues to grow it's media expenditure to maintain market share and share of voice.

Rural demand will pick up: This quarter saw faltering rural volumes. Recovery in his market is visible, but gradual. The festive season getting pushed back to Q3 being the visibility of certain tailwinds in H2.

Outlook and Valuation: We assign a TP of INR 3,182, valued at a P/E multiple of 60x the FY25E EPS of INR 53, indicating an upside of 25% from the CMP and a 'Buy' rating. We believe the worst is over for the company as inflation is starting to show signs of moderation, input prices have largely started to correct, and the bulk of the festive season gets pushed back to the December quarter.

INR Cr	FY22	FY23	FY24E	FY25E	FY26E
Revenues	51,193	59,144	63,344	70,372	78,632
YoY growth (%)	11.3	15.5	7.1	11.1	11.7
Operating profit	12,503	13,632	15,266	17,241	19,556
OPM (%)	24.4	23.0	24.1	24.5	24.9
Reported PAT	8,818	9,962	11,050	12,461	14,125
YoY growth (%)	10.9	13.0	10.9	12.8	13.4
EPS (Rs)	37.5	42.4	47.0	53.0	60.1
P/E (x)	67.9	60.1	54.2	48.1	42.4
Price/Book (x)	12.3	11.9	11.5	11.1	10.7
EV/EBITDA (x)	47.6	43.6	38.8	34.2	30.1
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
RoE (%)	18.3	20.1	21.6	23.6	25.8
RoCE (%)	18.2	19.9	21.3	23.2	25.4

Source: Company & Arihant Research

Quarterly Result

INR Cr (Consolidated)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y	Q2FY24E	Surprise
Income From Operations	15,623	15,496	15,144	0.82%	3.16%	16,356	-4.48%
Cost of Services	7,345	7,679	8,197	-4.35%	-10.39%	8,996	-18.35%
Gross Profit	8,278	7,817	6,947	5.90%	19.16%	7,360	12.47%
<i>Gross Margin</i>	<i>52.99%</i>	<i>50.45%</i>	<i>45.87%</i>	<i>254bps</i>	<i>711bps</i>	<i>45.00%</i>	<i>799bps</i>
Employee costs	766	705	758	8.65%	1.06%	818	-6.33%
Other Expenses	3,715	3,447	2,710	7.77%	37.08%	2,453	51.43%
EBITDA	3,797	3,665	3,479	3.60%	9.14%	4,089	-7.14%
<i>EBITDA margin %</i>	<i>24.30%</i>	<i>23.65%</i>	<i>22.97%</i>	<i>65bps</i>	<i>133bps</i>	<i>25.00%</i>	<i>-70bps</i>
Other Income	183	183	109	0.00%	67.89%	164	11.89%
Depreciation & Amortization	297	286	272	3.85%	9.19%	327	-9.20%
EBIT	3,683	3,562	3,316	3.40%	11.07%	3,925	-6.17%
Finance costs	88	50	28	76.00%	214%	50	76%
PBT before exceptional items	3,595	3,512	3,288	2.36%	9.34%	3,875	-7.23%
Exceptional Items	-5	-37	-29	-86.49%	-83%	-37	-86%
PBT	3,590	3,475	3,259	3.31%	10.16%	3,838	-6.47%
Tax Expense	931	918	589	1.42%	58.06%	960	-2.98%
<i>Effective tax rate %</i>	<i>25.93%</i>	<i>26.42%</i>	<i>18.07%</i>	<i>-48bps</i>	<i>786bps</i>	<i>25.00%</i>	<i>93bps</i>
PAT	2,659	2,557	2,670	3.99%	-0.41%	2,879	-7.63%
Share of Associate Income	-2	-1	-	100.00%	-	-	-
Profit for the Period	2,657	2,556	2,670	3.95%	-0.49%	2,879	-7.71%

INR Cr (Consolidated)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
Segment Revenue					
Home Care	5,308	5,421	5,142	-2.08%	3.23%
Beauty & Personal Care	5,873	5,668	5,595	3.62%	4.97%
Foods & Refreshment	3,851	3,797	3,755	1.42%	2.56%
Others (includes Exports, Consignment, etc.)	591	610	652	-3.11%	-9.36%
Total Segment Revenue	15,623	15,496	15,144	0.82%	3.16%
Segment Results (EBIT)					
Home Care	1,014	1,013	885	0.10%	14.58%
Beauty & Personal Care	1,582	1,472	1,407	7.47%	12.44%
Foods & Refreshment	720	681	744	5.73%	-3.23%
Others (includes Exports, Consignment, etc.)	184	213	171	-13.62%	7.60%
Total Segment EBIT	3,500	3,379	3,207	3.58%	9.14%
Segment EBIT Margin					
Home Care	19.10%	18.69%	17.21%	42bps	189bps
Beauty & Personal Care	26.94%	25.97%	25.15%	97bps	179bps
Foods & Refreshment	18.70%	17.94%	19.81%	76bps	-112bps
Others (includes Exports, Consignment, etc.)	31.13%	34.92%	26.23%	-378bps	491bps
EBIT Margin	22.40%	21.81%	21.18%	60bps	123bps

Source: Company & Arianth Research

Standalone Financials

Income Statement (INR Cr)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	51,193	59,144	63,344	70,372	78,632
Net Raw Materials	25,124	31,144	32,305	35,538	39,316
Advt & Promotion	4,718	4,859	5,384	5,982	6,684
Employee Cost	2,399	2,665	2,850	3,167	3,641
Other Expenses	6,449	6,844	7,538	8,445	9,436
Total Expenses	38,690	45,512	48,078	53,130	59,076
EBITDA	12,503	13,632	15,266	17,241	19,556
EBITDA margin	24.4	23.0	24.1	24.5	24.9
Depreciation	(1,025)	(1,030)	(1,227)	(1,410)	(1,611)
Interest expense	(98)	(101)	(122)	(121)	(121)
Other income	393	640	720	795	885
Exceptional items	(34)	(62)	-	-	-
Profit before tax	11,739	13,079	14,636	16,505	18,708
Taxes	(2,921)	(3,117)	(3,586)	(4,044)	(4,583)
Net profit	8,818	9,962	11,050	12,461	14,125
EPS	37.5	42.4	47.0	53.0	60.1
Balance Sheet (INR Cr)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	235	235	235	235	235
Reserves	48,525	49,986	51,644	53,513	55,631
Net worth	48,760	50,221	51,879	53,748	55,866
Debt	1,015	1,241	1,201	1,221	1,206
Deferred tax liab (net)	7,465	7,401	7,621	7,868	8,149
Total liabilities	57,240	58,863	60,700	62,837	65,221
Fixed assets	4,810	5,080	5,373	5,485	5,549
Capital Work In Progress	901	1,020	1,023	1,175	1,343
Other Intangible assets	28,908	29,009	29,009	29,009	29,009
Goodwill	17,316	17,316	17,316	17,316	17,316
Investments	1,873	2,037	2,217	2,463	2,752
Other non current assets	1,282	1,314	352	391	437
Net working capital	(6,082)	(5,572)	(4,711)	(5,219)	(5,820)
Inventories	3,890	4,031	4,038	4,442	4,914
Sundry debtors	1,932	2,735	2,991	3,323	3,713
Other current assets	593	624	704	782	874
Sundry creditors	(8,864)	(9,391)	(10,016)	(11,069)	(12,308)
Other current liabilities & Prov	(3,633)	(3,571)	(2,428)	(2,698)	(3,014)
Cash	3,618	4,422	5,723	7,330	9,175
Other Financial Assets	4,614	4,237	4,399	4,887	5,461
Total assets	57,240	58,863	60,700	62,837	65,221
Statement of Cash Flows (INR Cr)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	11,739	13,079	14,636	16,505	18,708
Depreciation	1,025	1,030	1,227	1,410	1,611
Tax paid	(2,921)	(3,117)	(3,586)	(4,044)	(4,583)
Working capital Δ	(824)	(510)	(861)	508	601
Operating cashflow	9,019	10,482	11,417	14,379	16,337
Capital expenditure	(1,318)	(1,419)	(1,523)	(1,675)	(1,843)
Free cash flow	7,701	9,063	9,894	12,704	14,494
Equity raised	498	664	-	-	-
Investments	(428)	(164)	(180)	(246)	(289)
Others	(674)	244	800	(527)	(620)
Debt financing/disposal	70	226	(40)	20	(15)
Dividends paid	(7,990)	(9,165)	(9,393)	(10,592)	(12,006)
Other items	120	(64)	220	248	281
Net Δ in cash	(703)	804	1,301	1,607	1,845
Opening Cash Flow	4,321	3,618	4,422	5,723	7,330
Closing Cash Flow	3,618	4,422	5,723	7,330	9,175

Source: Company & Arianth Research

Standalone Financials

Ratio analysis	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue growth	11.3	15.5	7.1	11.1	11.7
EBITDA growth	10.4	9.0	12.0	12.9	13.4
EBIT growth	9.7	11.5	11.5	12.7	13.3
Net profit growth	10.9	13.0	10.9	12.8	13.4
Profitability ratios (%)					
EBITDA margin	24.4	23.0	24.1	24.5	24.9
EBIT margin	23.2	22.4	23.3	23.6	23.9
Net profit margin	17.2	16.8	17.4	17.7	18.0
RoCE	18.2	19.9	21.3	23.2	25.4
RoNW	18.3	20.1	21.6	23.6	25.8
RoA	15.4	16.9	18.2	19.8	21.7
Per share ratios					
EPS	37.5	42.4	47.0	53.0	60.1
Dividend per share	34.0	39.0	40.0	45.1	51.1
Cash EPS	41.9	46.8	52.2	59.0	67.0
Book value per share	207.5	213.7	220.8	228.7	237.7
Valuation ratios					
P/E	67.9	60.1	54.2	48.1	42.4
P/CEPS	60.9	54.5	48.8	43.2	38.1
P/B	12.3	11.9	11.5	11.1	10.7
EV/EBIDTA	47.6	43.6	38.8	34.2	30.1
Payout (%)					
Dividend payout	90.6	92.0	85.0	85.0	85.0
Tax payout	24.9	23.8	24.5	24.5	24.5
Liquidity ratios					
Debtor days	13.6	16.6	17.0	17.0	17.0
Inventory days	55.7	46.6	45.0	45.0	45.0
Creditor days	82.5	74.3	75.0	75.0	75.0
Cash Conversion Cycle	(13.2)	(11.0)	(13.0)	(13.0)	(13.0)
Leverage ratios					
Interest coverage	121.1	131.1	120.9	137.3	155.2
Net debt / equity	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Net debt / op. profit	(0.2)	(0.2)	(0.3)	(0.4)	(0.4)
Working Capital Cycle	(13.2)	(11.0)	(13.0)	(13.0)	(13.0)
Du-Pont Analysis	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
EBIT margin (x)	0.2	0.2	0.2	0.2	0.2
Asset turnover (x)	3.0	3.1	3.0	3.0	2.9
Financial leverage (x)	0.4	0.4	0.4	0.4	0.5
RoE (%)	18.3	20.1	21.6	23.6	25.8

Source: Company & Arian Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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