

## Demand Recovery Will Be Gradual; Maintain BUY

Est. Vs. Actual for Q4FY24: Revenue – **INLINE**; EBITDA – **MISS**; PAT – **INLINE**

### Changes in Estimates post Q4FY24

FY25E/FY26E: Revenue: -2%/-4%; EBITDA: -3%/-5%; PAT: -3%/-6%

### Recommendation Rationale

- **Volume growth to recover gradually:** The management reiterated that overall volume growth is likely to recover gradually, led by a normal monsoon outlook and improving macroeconomic indicators. However, EBITDA margins are likely to remain at current levels as it continues to step up investments in A&P.
- **Market share gains through premiumisation and operational efficiency:** HUL's overall Q4FY24 results were in line with our estimates with no meaningful recovery on the demand front. Home care (up 1% YoY) and BPC (down 2% YoY) remain challenging and were impacted on account of price cuts in fabric wash and skin care portfolio. F&R grew 4% (flat volume growth), led by Health Drinks, Foods and coffee. Gross margins improved 350bps YoY to 51.3% on account of improved efficiencies and improving product mix (~25% of portfolio is premium). However, EBITDA margins declined 19bps YoY to 23.1% on account of termination of GSK commission business (60bps impact), increase in royalty payment, and increase in ad-spends (up 23% YoY).

### Sector Outlook: Cautious

**Company Outlook & Guidance:** We maintain a **BUY** rating on the stock as we continue to remain positive on the company's long-term prospects. However, we cut our FY25/26 EPS to account for near-term volume pressure as we expect demand revival to be gradual.

**Current Valuation:** 51x Mar'26 EPS (Earlier Valuation: 56x Dec'25 EPS).

**Current TP:** Rs 2,500/share (Earlier TP: Rs 2,850/share).

**Recommendation** With an 11% upside from the CMP, we maintain our long-term BUY rating on the stock.

**Financial Performance:** HUL reported flat revenue growth (2% volume growth) to Rs 14,693 Cr, which was in line with our/cons estimates. This was on account of a subdued demand environment. Furthermore, price cuts in the Home Care and Skin Care segments impacted the overall revenue growth. Premium portfolio (~25% of the portfolio) continues to remain strong and urban business continues to grow faster than rural. The management reiterated that it has gained market share in over 60% of the portfolio across categories. The company's gross margins improved 350bps YoY to 51.3%; however, EBITDA margin expansion declined 19bps YoY to 23.1% owing to higher ad spends, royalty payments, and termination of GSK commission business. Adj. PAT stood at Rs 2,396 Cr, down 3% YoY.

**Outlook:** Management is cautiously optimistic about demand as the recovery in the country will be gradual, supported by a better monsoon and better macroeconomic indicators. In addition, management emphasised that price growth could remain negative in the low single digits in the near term if commodity prices remain at current levels. However, EBITDA margins are expected to remain at current levels due to higher advertising spend and the termination of GSK's commission business. In the longer term, however, HUL's growth prospects remain good as management focuses on the following: (1) Promoting a diversified portfolio and spreading the price-value matrix to drive premiumization; (2) Continued focus on efficiency improvement – nano factories, automation and scaling Shikar to 1.3 million outlets to drive overall cost saving initiatives; (3) Market development initiatives to gain market share across the portfolio; and (4) Strong execution capabilities (demonstrating the strength of the company with its diverse product portfolio and financial strength in this volatile and challenging environment).

**Valuation & Recommendation:** We expect HUL's Sales/EBITDA/PAT to grow at 6%/6%/5% CAGR over FY23-26E. We maintain our BUY stance with a revised TP of Rs 2,500/share, with an upside of 11% from the CMP.

### Key Financials (Standalone)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	14,693	(1.6)	0.4	14,776	(0.6)
EBITDA	3,435	(3.0)	(1.0)	3,481	(1.3)
EBITDA Margin (%)	23.1	-19 bps	-19 bps	23.2	-6 bps
Net Profit	2,396	(5.7)	(3.0)	2,407	(0.5)
EPS (Rs)	10	(5.7)	(3.0)	10	(0.5)

Source: Company, Axis Research

(CMP as of 24<sup>th</sup> April 2024)

CMP (Rs)	2260
Upside /Downside (%)	11%
High/Low (Rs)	2768/2170
Market cap (Cr)	5,30,807
Avg. daily vol. (6m) Shrs'000.	1860
No. of shares (Cr)	235

### Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	61.9	61.9	61.9
FII's	13.9	13.7	12.7
MFs / UTI	4.8	4.8	5.0
Banks / FI's	0.1	0.1	0.1
Others	19.3	19.6	20.4

### Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	59,579	63,821	68,365
EBITDA	14,190	15,218	16,320
Net Profit	10,114	10,854	11,578
EPS, Rs	43.0	46.2	49.3
PER, x	55.1	51.8	48.5
EV/EBITDA, x	39.1	36.4	33.8
ROE (%)	20.2	21.3	22.4

### Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	(2)	(4)
EBITDA	(3)	(5)
PAT	(3)	(6)

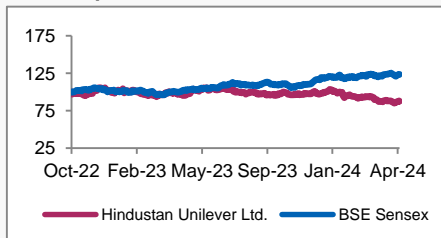
### ESG disclosure Score\*\*

Environmental Disclosure	18.30
Social Disclosure Score	24.51
Governance Disclosure Score	86.09
<b>Total ESG Disclosure Score</b>	<b>43.02</b>
<b>Sector Average</b>	<b>44.87</b>

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

### Relative performance



Source: Ace Equity, Axis Securities

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## Key Highlights & Concall Takeaways

- **Home care** – Home Care grew by a marginal 1% with mid-single-digit UVG in Q4. However, on a 2-year CAGR basis, it delivered double-digit volume growth. Both fabric wash and Household care grew in mid-single digits, led by a strong performance in the premium portfolio and Vim Liquid, which continues to maintain its No. 1 position. However, on a YoY basis, both categories witnessed a decline in price growth due to price actions implemented during the year.
- **Beauty & Personal Care** – The Beauty & Wellbeing segment witnessed strong growth of 4%, led by outperformance in the premium portfolio. However, overall, the Beauty and Personal Care segment had a USG of -2% with flat volumes. The Hair and Care portfolio delivered volume-driven high-single-digit growth, led by strong performance in Dove and Tresemmé. Skin Care and Colour Cosmetics grew in low-single digits, along with underperformance in the mass portfolio segment. However, Premium Skin continued to deliver its strong double-digit growth trajectory, led by innovations in new demand spaces and formats. The Skin Cleansing business declined due to the impact of price cuts coupled with a drop in volumes in the mass and popular segments. Body wash continues to perform well. On the other hand, Oral Care witnessed double-digit broad-based growth driven by pricing. Additionally, a range of innovations were introduced under Lakme Cosmetics, Sun-care products under Glow and Lovely, Ponds, and Lakme skin and sensitive skin cleansing range by Dove.
- **Foods & Refreshment** – Foods & Refreshment revenue grew by 4%, with flat volume growth. The company further strengthened its value and volume market leadership in the Tea segment. Furthermore, the category continued to witness consumers downgrading loose tea in favour of branded ones. Coffee grew in double digits, driven by pricing. Functional Nutritional Drinks (Horlicks & Boost) delivered high-single-digit growth driven by the Plus range and witnessed strong penetration gains during FY24 on the back of sustained market development actions. Foods grew in mid-single digits, led by strong performance in Soups and Food solutions. Mayonnaise and Peanut Butter continue to gain traction with consumers. The Ice Creams category performed well, growing in double digits led by volume. Several innovations under this category, including Cadbury Crackle Feast, American Nuts, and Mango Duet, were launched ahead of the upcoming summer season.

## Key Risks to our Estimates and TP

- Prolonged recovery in rural, raw material inflation, and increase in competitive intensity.

## Change in Estimates

	Old Est.		Revised Est.		% Revision	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	65,409	71,564	63,821	68,365	(2)	(4)
EBITDA	15,647	17,249	15,218	16,320	(3)	(5)
PAT	11,144	12,324	10,854	11,578	(3)	(6)
EPS	47.4	52.4	46.2	49.3	(3)	(6)

Source: Company, Axis Securities

## Results Review

(Rs Cr)	Q4FY23	Q3FY24	Axis Sec Est	Q4FY24	YoY growth %	QoQ growth %	Axis Sec Var (%)
Volume growth (% yoy)	4.0	2.0	3.0	2.0			
Net Sales	14,638	14,928	14,776	14,693	0.4	(1.6)	(0.6)
Gross Profits	6,999	7,561	7,671	7,542	7.8	(0.3)	(1.7)
Gross Margin (%)	47.8	50.6	51.9	51.3	352 bps	68 bps	-59 bps
Staff costs	683	649	690	774	13.3	19.3	12.2
Ad spends	1,290	1,593	1,716	1,586	22.9	(0.4)	(7.6)
Other operating expenses	1,810	2,039	2,027	1,911	5.6	(6.3)	(5.7)
EBITDA	3,471	3,540	3,481	3,435	(1.0)	(3.0)	(1.3)
EBITDA Margin (%)	23.3	23.3	23.2	23.1	-19 bps	-19 bps	-6 bps
Depreciation	262	282	296	289	7.6	2.5	(2.4)
EBIT	3,209	3,258	3,185	3,146	1.5	(3.4)	(1.2)
Other Income	160	285	176	220	78.1	(22.8)	25.0
Interest Expenses	24	81	81	102	237.5	25.9	25.3
PBT	3,425	3,432	3,279	3,247	(5.2)	(5.4)	(1.0)
Tax rate (%)	25.5	26.6	26.6	25.9	41 bps	-70 bps	-70 bps
PAT	2,471	2,541	2,407	2,396	(3.0)	(5.7)	(0.5)
EPS (Rs.)	10.5	10.8	10.2	10.2	(3.0)	(5.7)	(0.5)

Source: Company, Axis Securities

**Segmental Performance**

Revenue (Rs Cr)	Q4FY23	Q3FY24	Q4FY24	YoY %	QoQ %
Home Care	5,638	5,448	5,715	1.4	4.9
Personal Care	5,188	5,705	5,050	(2.7)	(11.5)
Foods & Refreshment	3,794	3,733	3,911	3.1	4.8
Others	273	302	181	(33.7)	(40.1)
Total segment revenue	14,893	15,188	14,857	(0.2)	(2.2)
<b>Segment results (Rs Cr)</b>					
Home Care	1,056	966	1,081	2.4	11.9
Personal Care	1,353	1,461	1,288	(4.8)	(11.8)
Foods & Refreshments	679	711	739	8.8	3.9
Others	121	120	38	(68.6)	(68.3)
Total segment results	3,209	3,258	3,146	(2.0)	(3.4)
<b>Segment margins %</b>					
Home Care	18.7	17.7	18.9	19 bps	118 bps
Personal Care	26.1	25.6	25.5	-57 bps	-10 bps
Foods & Refreshment	17.9	19.0	18.9	100 bps	-15 bps
Others	44.3	39.7	21.0	-2333 bps	-1874 bps
Total segment Margins	21.5	21.5	21.2	-37 bps	-28 bps

Source: Company, Axis Securities

## Financials (Standalone)

### Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY23	FY24	FY25E	FY26E
Net sales	58,154	59,579	63,821	68,365
Growth, %	15.5	2.5	7.1	7.1
Other operating income	990	890	899	908
Total income	59,144	60,469	64,720	69,273
Raw material expenses	(31,144)	(29,327)	(31,087)	(33,263)
Employee expenses	(2,665)	(2,782)	(3,060)	(3,274)
Other Operating expenses	(11,703)	(14,170)	(15,355)	(16,416)
<b>EBITDA (Core)</b>	<b>13,632</b>	<b>14,190</b>	<b>15,218</b>	<b>16,320</b>
Growth, %	9.0	4.1	7.2	7.2
Margin, %	23.4	23.8	23.8	23.9
Depreciation	(1,030)	(1,097)	(1,215)	(1,334)
<b>EBIT</b>	<b>12,602</b>	<b>13,093</b>	<b>14,002</b>	<b>14,986</b>
Growth, %	10	4	7	7
Margin, %	22	22	22	22
Interest paid	(101)	(302)	(317)	(333)
Other Income	640	973	983	993
Non-recurring Items	(62)	(89)	-	-
<b>Pre-tax profit</b>	<b>13,079</b>	<b>13,675</b>	<b>14,668</b>	<b>15,646</b>
Tax provided	(3,117)	(3,561)	(3,814)	(4,068)
<b>Profit after tax</b>	<b>9,962</b>	<b>10,114</b>	<b>10,854</b>	<b>11,578</b>
Growth, %	13.2	1.8	6.4	6.7
<b>Net Profit (adjusted)</b>	<b>9,962</b>	<b>10,114</b>	<b>10,854</b>	<b>11,578</b>
Unadj. shares (Cr)	235	235	235	235
Wtdavg shares (Cr)	235	235	235	235

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

As of 31st Mar, Rs Cr	FY23	FY24E	FY25E	FY26E
Cash & bank	4,422	4,882	5,719	6,904
Marketable securities at cost	2,811	2,811	2,811	2,811
Debtors	2,735	2,802	3,002	3,215
Inventory	4,031	3,918	4,196	4,495
Other current assets	2,015	2,015	2,015	2,015
Total current assets	16,014	16,427	17,743	19,441
Investments	2	2	2	2
Gross fixed assets	55,736	56,936	58,136	59,336
Less: Depreciation	(4,331)	(5,428)	(6,643)	(7,977)
Add: Capital WIP	1,020	1,020	1,020	1,020
Net fixed assets	52,425	52,528	52,513	52,379
Non-current assets	1,288	1,288	1,288	1,288
<b>Total assets</b>	<b>71,825</b>	<b>72,341</b>	<b>73,642</b>	<b>75,206</b>
Current liabilities	11,334	11,573	12,286	13,049
Provisions	1,335	1,368	1,465	1,569
Total current liabilities	12,669	12,941	13,751	14,619
Non-current liabilities	8,935	8,935	8,935	8,935
Total liabilities	21,604	21,876	22,686	23,554
Paid-up capital	235	235	235	235
Reserves & surplus	49,986	50,230	50,721	51,417
Shareholders' equity	50,221	50,465	50,956	51,652
<b>Total equity &amp; liabilities</b>	<b>71,825</b>	<b>72,341</b>	<b>73,642</b>	<b>75,206</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E Mar, Rs Cr	FY23	FY24E	FY25E	FY26E
Pre-tax profit	13,079	13,675	14,668	15,646
Depreciation	1,030	1,097	1,215	1,334
Chg in working capital	(679)	319	332	355
Total tax paid	(2,933)	(3,561)	(3,814)	(4,068)
Other operating activities	-	-	-	-
<b>Cash flow from operating activities</b>	<b>10,497</b>	<b>11,530</b>	<b>12,401</b>	<b>13,267</b>
Capital expenditure	(1,520)	(1,200)	(1,200)	(1,200)
Chg in marketable securities	699	-	-	-
Other investing activities	0	0	-	-
<b>Cash flow from investing activities</b>	<b>(1,192)</b>	<b>(1,200)</b>	<b>(1,200)</b>	<b>(1,200)</b>
Free cash flow	9,305	10,330	11,201	12,067
Equity raised/(repaid)	(29)	-	-	-
Dividend (incl. tax)	(9,163)	(9,870)	(10,364)	(10,882)
Other financing activities	-	-	-	-
<b>Cash flow from financing activities</b>	<b>(9,192)</b>	<b>(9,870)</b>	<b>(10,364)</b>	<b>(10,882)</b>
Net chg in cash	113	460	838	1,185
Opening cash balance	3,618	4,422	4,882	5,719
Closing cash balance	4,422	4,882	5,719	6,904

Source: Company, Axis Securities

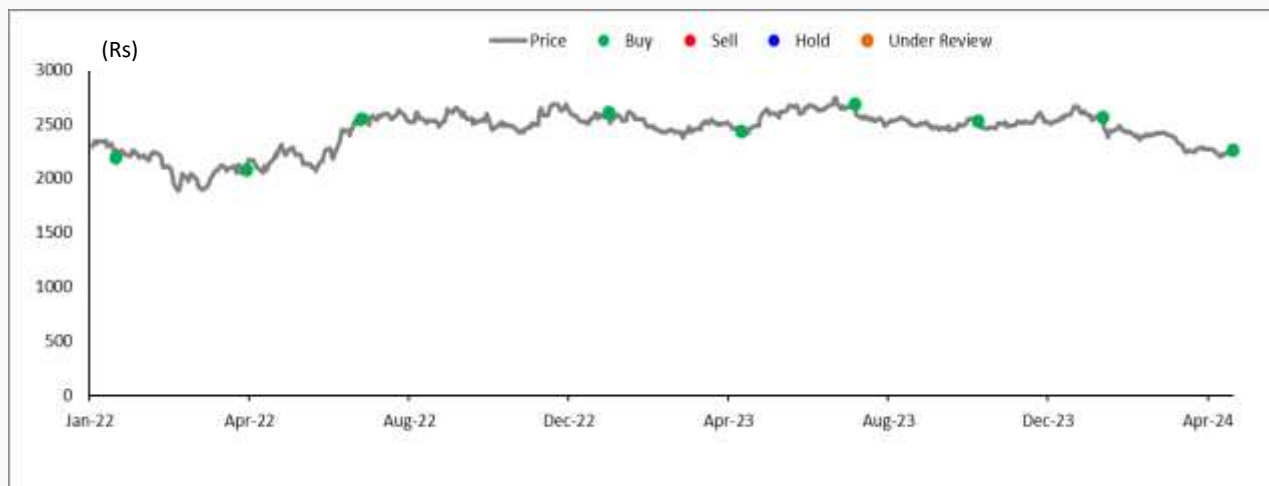
**Ratio Analysis**

(%)

Y/E Mar, Rs Cr	FY23	FY24E	FY25E	FY26E
<b>Per Share data</b>				
EPS (INR)	42.4	43.0	46.2	49.3
Growth, %	13.2	1.8	6.4	6.7
Book NAV/share (INR)	213.7	214.7	216.8	219.8
FDEPS (INR)	42.7	43.4	46.2	49.3
CEPS (INR)	47.3	48.5	51.4	54.9
CFPS (INR)	41.2	44.9	48.6	52.2
DPS (INR)	39.0	42.0	44.1	46.3
<b>Return ratios</b>				
Return on assets (%)	14.2	14.4	15.3	16.0
Return on equity (%)	20.0	20.2	21.3	22.4
Return on capital employed (%)	16.8	17.2	18.3	19.3
<b>Turnover ratios</b>				
Asset turnover (x)	1.2	1.2	1.3	1.4
Sales/Total assets (x)	0.8	0.8	0.9	0.9
Sales/Net FA (x)	1.1	1.1	1.2	1.3
Working capital/Sales (x)	(0.0)	(0.0)	(0.0)	(0.0)
Receivable days	17.2	17.2	17.2	17.2
Inventory days	25.3	24.0	24.0	24.0
Payable days	75.3	75.9	76.0	76.1
Working capital days	(16.0)	(17.4)	(17.6)	(17.7)
<b>Liquidity ratios</b>				
Current ratio (x)	1.4	1.4	1.4	1.5
Quick ratio (x)	1.1	1.1	1.1	1.1
Interest cover (x)	124.8	43.4	44.2	45.0
Net debt/Equity (%)	(8.8)	(9.7)	(11.2)	(13.4)
<b>Valuation</b>				
PER (x)	56.1	55.1	51.8	48.5
PEG (x) - y-o-y growth	4.2	30.8	8.1	7.3
Price/Book (x)	11.2	11.1	11.0	10.9
EV/Net sales (x)	9.5	9.3	8.7	8.1
EV/EBITDA (x)	40.7	39.1	36.4	33.8
EV/EBIT (x)	44.0	42.3	39.5	36.8

Source: Company, Axis Securities

## Hindustan Unilever Price Chart and Recommendation History



Date	Reco	TP	Research
21-Jan-22	BUY	2,700	Result Update
27-Apr-22	BUY	2,450	Result Update
20-Jul-22	BUY	2,810	Result Update
25-Oct-22	BUY	2,850	Result Update
20-Jan-23	BUY	3,000	Result Update
28-Apr-23	BUY	2,800	Result Update
21-Jul-23	BUY	2,960	Result Update
20-Oct-23	BUY	2,900	Result Update
20-Jan-24	BUY	2,850	Result Update
25-Apr-24	BUY	2,500	Result Update

Source: Axis Securities

#### About the analyst



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<b>HOLD</b>	Between 10% and -10%
<b>SELL</b>	Less than -10%
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