

# Hindustan Unilever

## Growth likely to be more back-ended

Hindustan Unilever's (HUL) 3QFY25 results were below our estimates, as performance was subdued across segments except home care. It managed to show flat EBITDA, as it drastically cut down brand-building spends (down 8% YoY). The home care segment was an outlier and saw the second consecutive quarter of high single-digit volume growth, owing to management's focus on premiumization. Persistent RM inflation (palm oil) and the delayed winter season impacted soaps and skin care within the BPC segment, respectively, while downtrading (for tea) and muted consumption (malted food drinks) continued to affect the F&R segment. Management remains cautiously optimistic about rural recovery and will focus on driving moderate margin expansion in the medium term, using its pillars of driving the core, premiumization trends, and investment in categories of tomorrow, along with channels and formats of the future. We have cut our EPS estimates by 2-3% for FY26/FY27 and downgraded the stock to ADD from BUY with a target price of Rs 2,650 (50x FY27 EPS), as in the near term, volume/profitability growth remains challenging due to: a) macro challenges in urban areas, which in turn will decelerate premiumization trends; b) persistent inflation in palm oil and tea prices; and c) increased competitive intensity in the high-margin beauty and well-being segment. Despite near-term challenges, HUL trades at attractive valuations, i.e., 44x FY27 EPS, almost 20% below its 5-year average PE of 55x. We believe HUL could trade closer to its 5-year average PE once confidence in volume growth delivery and profitability improves, which is contingent upon several macro factors.

- 3QFY25 result summary:** HUL's domestic volume growth was flat, well below our expectation of 2-3%. This underperformance can be attributed to subdued performance in the beauty & well-being, personal care, and F&R segments, which saw low-to-mid single-digit volume declines. Moreover, the faster growth of small/low unit packs compared to large packs further negatively impacted the mix. However, home care (35% of sales) outperformed, with the second consecutive quarter of high single-digit volume growth, driven by premiumization and strong traction in the liquids portfolio. Adjusted gross margin declined by 67bps YoY despite persistent inflationary pressures in palm oil (up 40% YoY) and tea (up 24% YoY), as this was partially mitigated by the benign crude oil price (down 11% YoY). EBITDA margin declined by only about 22bps YoY despite the gross margin contraction, owing to the rationalization of A&P spending (down 8% YoY).

### Quarterly/annual financial summary

(INR mn)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	FY24	FY25E	FY26E	FY27E
Net Sales	1,51,950	1,49,280	1.8	1,53,190	(0.8)	5,95,790	6,09,778	6,53,195	6,99,702
EBITDA	35,700	35,400	0.8	36,470	(2.1)	1,41,900	1,44,671	1,59,379	1,74,451
APAT	25,400	25,410	(0.0)	26,110	(2.7)	1,02,030	1,03,243	1,14,135	1,25,060
Adjusted EPS (Rs)	10.8	10.8	(0.0)	11.1	(2.7)	43.0	43.9	48.6	53.2
P/E (x)						54.1	53.0	47.9	43.7
EV/EBITDA (x)						38.0	37.3	33.7	30.8
Core RoCE (%)						18.6	18.1	19.8	21.4

Source: Company, HSIE Research

## ADD

CMP (as on 22 Jan 2025) INR 2,343

Target Price INR 2,650

NIFTY 23,155

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	INR 3,200	INR 2,650
	FY25E	FY26E
EPS %	-1.7%	-1.4%

### KEY STOCK DATA

Bloomberg code	HUVR IN
No. of Shares (mn)	2,350
MCap (INR bn) / (\$ mn)	5,505/63,763
6m avg traded value (INR mn)	4,740
52 Week high / low	INR 3,023/2,162

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(3.9)	17.5	7.1
Relative (%)	(3.4)	8.9	(16.9)

### SHAREHOLDING PATTERN (%)

	Sep-24	Dec-24
Promoters	61.90	61.90
FIs & Local MFs	14.18	14.73
FPIs	12.18	11.43
Public & Others	11.74	11.93
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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### 3QFY25 Con call takeaways

#### **Home care—high single-digit volume growth (37% of sales, 32% of EBIT)**

- The home care segment reported a second consecutive quarter of high single-digit volume growth as a) the company's action of price correction to combat regional/local players has started yielding results in terms of improved offtake, and b) continued thrust on premiumization.
- During 3QFY25, it launched a new dishwashing liquid under the name "Sun," targeting price-conscious customers.
- Management attributed high single-digit volume growth in the fabric care business to the following reasons: a) premiumization trend; b) pricing correction, as well as product quality adjustments made in respective regional markets, which made it more competitive to regain market share; c) increased acceptance of liquids in Tier 2 cities; and d) launch of an innovative product (Comfort Beads) in the fabric conditioner sub-segment. Moreover, HUL continues to offer LUPs to make aspirational brands accessible. It launched Rin liquids in 1QFY25 at an attractive price point and made the product portfolio more comprehensive with the launch of both variants – top load as well as front load.
- Dishwashing portfolio (15% of home care sales): This sub-segment saw high-single-digit volume growth owing to a) strong performance in the liquids portfolio and b) newly formulated dishwashing bars, which have started seeing increased consumer acceptance. With the launch of "Sun," the company has heightened its aggression in accelerating the move to liquid from bars in the dishwash category.
- Home care EBIT margin expanded by around 60bps YoY to 18.4%, owing to the improving salience of the high-margin liquids portfolio (in both sub-segments of detergent and dishwashing) and a benign RM index.

#### **Beauty and personal care (BPC) – (37% of sales, 46% of EBIT)**

**BPC EBIT margins declined c90bps YoY to 24.8%** due to a sharp surge in the PFAD price and unfavourable weather conditions (delayed winter) impacting performance of the high-margin skin portfolio.

#### **Personal care—low single-digit volume decline (40% of BPC sales, 28% of BPC EBIT)**

- *Soaps segment* (85% of personal care business) saw a mid-single-digit volume decline due to subdued performance of Lifebuoy (in our view owing to quality issues) and increased downtrading owing to recent price hikes.
- *Lifebuoy brand* continues to remain a pain point for the company, as there is significant decline in the hygiene segment. Management is trying to address the core via contemporizing the entire brand architecture (w.r.t Lifebuoy) in terms of product superiority, communication, and improved packaging.
- Management stated that if it follows the action plan in the soaps segment, they hope to see sustained growth – a) aggression on innovation; b) winning in channels of tomorrow; c) better product formulation; and d) gaining market share in high-margin body wash portfolio. As a result of this, HUL has launched Lux Sandalwood in 2QFY25, specifically targeting the western and southern markets, with a larger intention of grabbing market share from Santoor, the key differentiation being superior fragrance and better skincare experience.
- Management feels comfortable against any emulation attempts since the reformulation is protected via 20+ patents. HUL states that the main advantage of product reformulation is that they are able to add highly efficacious ingredients to the end product, thereby providing superior customer experience.

- **Oral Care** (15% of personal care sales) delivered pricing-led mid-single-digit growth, led by Closeup, as the company revised formulation in 1QFY25.

**Beauty & Wellbeing—low single-digit volume decline (60% of BPC sales, 72% of BPC EBIT)**

- The **Hair Care** portfolio saw mid-single-digit volume growth, driven by market share gains and the strong performance of premium brands.
- **Skincare** experienced muted growth due to the delayed winter, subdued performance in the mass market range, and incremental challenges in **colour cosmetics** from muted consumer sentiment and increased competitive intensity.
- At the same time, management is working to revive the mass market skincare brand (**Glow & Lovely**) by contemporizing the entire brand architecture (similar to **Lifebuoy**), focusing on product superiority, communication, and improved packaging.
- Focused categories (with aggregate annual sales of **Rs 20 bn**) continue to grow at strong double-digit rates, and management expects momentum to further accelerate following the acquisition of **Minimalist**.

**Food & Refreshment (F&R)—low single-digit volume decline (25% of sales, 23% of EBIT)**

- **F&R** segment revenue reported flat growth YoY due to a) downtrading in the tea segment, and b) muted performance in the health food segment.
- **Tea segment:** Volume remained muted due to a high inflationary environment (around 25%), with growth driven entirely by pricing undertaken in premium brands (**3 Roses** and **Taj Mahal**).
- **Health food drinks:** Management continues to believe in the long-term potential of this segment despite near-term headwinds, given a) it is a nutrient-deficient country; b) the market in the North and West has not been fully exploited; and c) it covers white spaces within the HFD segment. Moreover, pricing corrections have been undertaken in large packs to drive consumption.
- **Packaged foods:** The segment saw mid-single-digit growth, led by strong performance in the **Future Core** and **Market Makers** portfolios. **Ketchup, Mayonnaise, Food Solutions, International Sauces,** and **Cuisines** delivered strong volume performance.
- However, **F&R EBIT margin** expanded by around **110bps YoY** to **20.2%**, likely due to an improved product mix. On a **9MFY25** basis, margins were at **19%**, showing a **50bps improvement YoY**.

**Others:**

**Ice Cream Demerger:** HUL has formed a separate subsidiary for its ice cream business, providing an opportunity for all shareholders to participate in future value creation with a 1:1 Share Entitlement Ratio. During 3Q, management stated the following reasons for the separation:

- Ice Cream, which contributes around 3% to HUL's turnover, is a high-growth category that requires significant investments to realize its full potential.
- Given that Unilever owns the trademarks and know-how and has announced the separation of its ice cream business, local capabilities will need to be developed to continue running the business.
- Ice cream has a different operating model, including cold chain infrastructure and a distinct channel landscape, which limits synergies with the rest of HUL.

### Acquisition of Minimalist brand (actives-led premium beauty brand)

- HUL will acquire a **90.5%** stake in the business through secondary buyouts at a pre-money enterprise value of **INR 29.5 bn** and primary infusion. The transaction is expected to close in **Q1FY25**, subject to applicable regulatory approvals and customary closing conditions.
- The remaining **9.5%** will be acquired from the founders in two years. Minimalist's team, led by the founders, will continue to run the business for a period of two years to unlock value through synergies and complementary capabilities.
- Minimalist is positioned at the intersection of beauty and actives-led science, with a sharp positioning and masstige pricing (notably, **2/3rd** of dermatology and active-based segment revenue comes from the masstige segment). The company has an annual revenue run rate of **Rs 5 bn+** and has been profitable since inception. Additionally, the brand has a strong eCommerce presence.
- Management plans to leverage its offline distribution (it has a separate sales team, **Beauty Pro**, to serve premium outlets) and the strength of Unilever's global sales infrastructure to further drive sales. It also intends to capitalize on R&D capabilities and supply chain synergies to improve the brand's margin profile.
- Moreover, this acquisition allows the company to fill gaps in the premium beauty segment.

### Acquisition of palm undertaking (Telangana)

- The board has approved the acquisition of the palm undertaking of Vishwatej Oil Industries Private Limited, as part of HUL's palm localisation strategy. The palm undertaking is located in the Kamareddy district of Telangana.
- Palm and its derivatives are key feedstocks for manufacturing a variety of HUL's Personal Care, Beauty, and Home Care products and are largely imported from Indonesia and Malaysia. HUL's palm localisation strategy aims to build supply chain resilience for palm derivatives through backward integration.

### Other management commentary

- Channel contribution: GT—70%, MT—20%, E-commerce—7%, Others—3%. The organized channel grew in strong double digits in 3Q.

**Standalone P&L**

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Net Revenues</b>	<b>5,81,540</b>	<b>5,95,790</b>	<b>6,09,778</b>	<b>6,53,195</b>	<b>6,99,702</b>
Growth (%)	15.5	2.5	2.3	7.1	7.1
Material Expenses	3,11,440	2,93,270	3,02,068	3,20,192	3,41,005
Employee Expense	26,650	27,820	28,655	30,087	31,592
Other Expenses	1,17,030	1,41,700	1,41,950	1,51,858	1,61,808
<b>EBITDA</b>	<b>1,36,320</b>	<b>1,41,900</b>	<b>1,44,671</b>	<b>1,59,379</b>	<b>1,74,451</b>
<b>EBITDA Growth (%)</b>	<b>9.0</b>	<b>4.1</b>	<b>2.0</b>	<b>10.2</b>	<b>9.5</b>
<b>EBITDA Margin (%)</b>	<b>23.4</b>	<b>23.8</b>	<b>23.7</b>	<b>24.4</b>	<b>24.9</b>
Depreciation	10,300	10,970	12,331	13,501	14,671
<b>EBIT</b>	<b>1,26,020</b>	<b>1,30,930</b>	<b>1,32,340</b>	<b>1,45,878</b>	<b>1,59,781</b>
Other Income	6,400	9,730	11,481	12,285	13,145
Interest	1,010	3,020	3,926	3,926	3,926
<b>PBT</b>	<b>1,31,410</b>	<b>1,37,640</b>	<b>1,39,896</b>	<b>1,54,237</b>	<b>1,69,000</b>
Tax	31,170	35,610	36,653	40,102	43,940
Profit from minority/associates	-	-	-	-	-
<b>RPAT</b>	<b>99,620</b>	<b>1,01,140</b>	<b>1,03,243</b>	<b>1,14,135</b>	<b>1,25,060</b>
Adjustment	(620)	(890)	-	-	-
<b>Adjusted PAT</b>	<b>1,00,240</b>	<b>1,02,030</b>	<b>1,03,243</b>	<b>1,14,135</b>	<b>1,25,060</b>
<b>APAT Growth (%)</b>	<b>13.7</b>	<b>1.8</b>	<b>1.2</b>	<b>10.6</b>	<b>9.6</b>
<b>Adjusted EPS</b>	<b>41.4</b>	<b>43.0</b>	<b>43.9</b>	<b>48.6</b>	<b>53.2</b>
<b>EPS Growth (%)</b>	<b>11.4</b>	<b>4.0</b>	<b>2.2</b>	<b>10.6</b>	<b>9.6</b>

Source: Company, HSIE Research

**Standalone Balance Sheet**

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	2,350	2,350	2,350	2,350	2,350
Reserves	4,99,860	5,07,380	5,12,542	5,18,249	5,24,502
<b>Total Shareholders Funds</b>	<b>5,02,210</b>	<b>5,09,730</b>	<b>5,14,892</b>	<b>5,20,599</b>	<b>5,26,852</b>
Minority Interest	-	-	-	-	-
Long Term Debt	-	-	-	-	-
Short Term Debt	-	-	-	-	-
<b>Total Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Deferred Taxes	63,250	64,540	64,540	64,540	64,540
Other Non-current Liabilities & Provns	36,520	72,460	72,824	73,954	75,165
<b>TOTAL SOURCES OF FUNDS</b>	<b>6,01,980</b>	<b>6,46,730</b>	<b>6,52,256</b>	<b>6,59,093</b>	<b>6,66,557</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	<b>61,890</b>	<b>71,780</b>	<b>71,449</b>	<b>69,948</b>	<b>67,278</b>
CWIP	10,200	9,150	9,150	9,150	9,150
Other Non Current Assets	4,85,670	4,86,870	4,86,870	4,86,870	4,86,870
<b>Total Non-current Assets</b>	<b>5,57,760</b>	<b>5,67,800</b>	<b>5,67,469</b>	<b>5,65,968</b>	<b>5,63,298</b>
Inventories	40,310	38,120	41,766	44,739	47,925
Debtors	27,350	26,900	25,059	26,844	28,755
Other Current Assets	48,610	65,780	65,780	65,780	65,780
Cash & Equivalents	44,220	72,160	78,672	89,887	1,03,103
<b>Total Current Assets</b>	<b>1,60,490</b>	<b>2,02,960</b>	<b>2,11,277</b>	<b>2,27,250</b>	<b>2,45,563</b>
Creditors	93,910	1,01,480	1,03,863	1,11,258	1,19,179
Other Current Liabilities & Provns	22,360	22,550	22,627	22,867	23,124
<b>Total Current Liabilities</b>	<b>1,16,270</b>	<b>1,24,030</b>	<b>1,26,490</b>	<b>1,34,125</b>	<b>1,42,303</b>
<b>Net Current Assets</b>	<b>44,220</b>	<b>78,930</b>	<b>84,787</b>	<b>93,125</b>	<b>1,03,259</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>6,01,980</b>	<b>6,46,730</b>	<b>6,52,256</b>	<b>6,59,093</b>	<b>6,66,557</b>

Source: Company, HSIE Research

### Standalone Cash Flow

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	1,30,790	1,36,750	1,39,896	1,54,237	1,69,000
Non-operating & EO Items	(2,430)	(4,260)	-	-	-
Interest Expenses	(3,240)	(2,660)	-	-	-
Depreciation	10,450	10,970	12,331	13,501	14,671
Working Capital Change	(8,630)	11,360	1,019	4,007	4,292
Tax Paid	(30,680)	(2,950)	(36,653)	(40,102)	(43,940)
<b>OPERATING CASH FLOW ( a )</b>	<b>96,260</b>	<b>1,49,210</b>	<b>1,16,593</b>	<b>1,31,643</b>	<b>1,44,023</b>
Capex	(10,230)	(13,090)	(12,000)	(12,000)	(12,000)
Free Cash Flow (FCF)	86,030	1,36,120	1,04,593	1,19,643	1,32,023
Investments	(36,270)	(90,800)	-	-	-
Non-operating Income	35,880	54,180	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(10,620)</b>	<b>(49,710)</b>	<b>(12,000)</b>	<b>(12,000)</b>	<b>(12,000)</b>
Debt Issuance/(Repaid)	-	-	-	-	-
Interest Expenses	(760)	(980)	-	-	-
FCFE	85,270	1,35,140	1,04,593	1,19,643	1,32,023
Share Capital Issuance	-	-	-	-	-
Dividend	(84,590)	(93,980)	(98,081)	(1,08,429)	(1,18,807)
Others	(4,310)	(3,940)	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(89,660)</b>	<b>(98,900)</b>	<b>(98,081)</b>	<b>(1,08,429)</b>	<b>(1,18,807)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(4,020)</b>	<b>600</b>	<b>6,512</b>	<b>11,215</b>	<b>13,216</b>
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	5,860	6,460	12,972	24,187	37,403

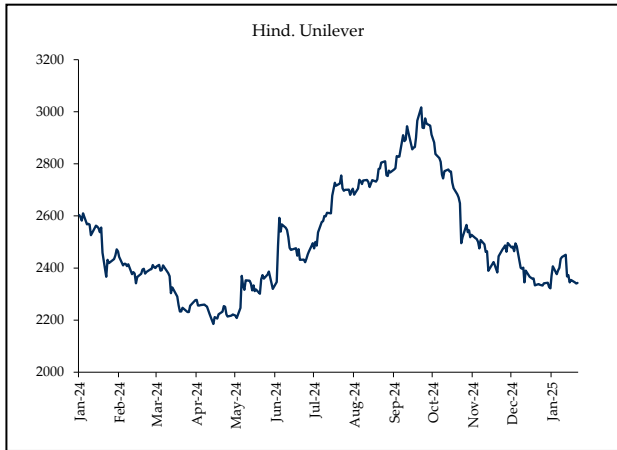
Source: Company, HSIE Research

### Ratios

KEY RATIOS	FY23	FY24	FY25E	FY26E	FY27E
<b>PROFITABILITY (%)</b>					
GPM	46.4	50.8	50.5	51.0	51.3
EBITDA Margin	23.4	23.8	23.7	24.4	24.9
EBIT Margin	21.7	22.0	21.7	22.3	22.8
APAT Margin	17.2	17.1	16.9	17.5	17.9
RoE	20.3	20.2	20.2	22.0	23.9
RoIC (or Core RoCE)	21.7	22.3	22.5	24.9	27.5
RoCE	19.0	18.6	18.1	19.8	21.4
<b>EFFICIENCY</b>					
Tax Rate (%)	23.7	25.9	26.2	26.0	26.0
Fixed Asset Turnover (x)	5.5	4.9	4.6	4.5	4.5
Inventory (days)	25.3	23.4	25.0	25.0	25.0
Debtors (days)	17.2	16.5	15.0	15.0	15.0
Other Current Assets (days)	30.5	40.3	39.4	36.8	34.3
Payables (days)	58.9	62.2	62.2	62.2	62.2
Other Current Liab & Provns (days)	14.0	13.8	13.5	12.8	12.1
Cash Conversion Cycle (days)	-	4.1	3.7	1.8	0.1
Net D/E (x)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Interest Coverage (x)					
<b>PER SHARE DATA (Rs)</b>					
EPS	41.4	43.0	43.9	48.6	53.2
CEPS	95.0	98.7	100.2	110.6	121.2
Dividend	39.0	42.0	41.7	46.1	50.6
Book Value	213.7	216.9	219.1	221.5	224.2
<b>VALUATION</b>					
P/E (x)	56.3	54.1	53.0	47.9	43.7
P/BV (x)	10.9	10.7	10.6	10.5	10.4
EV/EBITDA (x)	39.8	38.0	37.3	33.7	30.8
EV/Revenues (x)	9.3	9.1	8.8	8.2	7.7
OCF/EV (%)	1.8	2.8	2.2	2.4	2.7
FCF/EV (%)	1.6	2.5	1.9	2.2	2.5
FCFE/Mkt Cap (%)	1.6	2.5	1.9	2.2	2.4
Dividend Yield (%)	1.7	1.8	1.8	2.0	2.2

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential



**Disclosure:**

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