

Growth pick-up remains elusive

Our channel checks & industry interactions indicate Oct demand trends remained similar to 2Q, with much anticipated growth pick-up during festive season not materializing. Rural continues to be a drag, as the impact of weak monsoon becomes evident, with real wages (rural) also under pressure. Competition continues to stay high, which should reflect in ad-spends. Put together, near-term earning outlook for HUL remains weak. We stay on the sidelines.

Industry growth: Our industry interactions indicate FMCG market growth in Oct remains similar to the Sep quarter, with a widely-expected festive-led uptick not materializing. Industry volumes grew mid-single digits, with 2Y Cagr still sluggish at 2%. Rural continues to underperform (2Y: flat) vs. urban (2Y: 3%).

Monsoon impact: Rural and bottom-of-pyramid sentiment remains muted with an evident dent from a weak monsoon. This along with a jump in food prices negated potential rural uptick during the festive season. Real wage growth in rural remains negative, also reflecting in weak agri GDP growth. Meanwhile, urban-skewed premium categories continue to do better, similar to prior quarters.

Competition: Resurgence of local & regional players remains an issue and hence, volume growth for larger competition, including HUL would continue to lag industry growth during Dec qtr.

Negative pricing growth: Pricing growth has turned negative as per Nielsen as trade pipelines adjust and product price reductions taken by companies now reflect in retail sales. HUL too should see a slight negative pricing growth in 3Q. No major pricing changes were done in 3Q, albeit price cuts from prior quarters would reflect fully in 3Q. This along with muted volumes will likely weigh on revenue growth. Growth in F&R would be price-led (price hike in HFD), while that in Home Care and BPC will likely be volume-led (price reductions in soaps, detergents).

Input price: Jump in key input prices was seen in the June/Sep qtr, which will reflect in HUL's GM in 3Q, which would likely see a QoQ dip, although would continue to expand, YoY.

Media Intensity: With high competition, media intensity in the FMCG sector also remain elevated. A&P spends hence should remain high, as seen in the Sept qtr. Overall, we expect Ebitda margins to remain range-bound at levels seen in the last few quarters.

OTC Income: HUL discontinued its distribution arrangement with GSK for its OTC portfolio, starting Nov-23. This would mean a wind-down of commission income (Rs3.3bn in FY23) received on such consignment sales.

Organisation change: HUL split its BPC segment into two viz. *Beauty & Well-being* and *Personal Care*, to further sharpen focus and align with global Unilever segments. New leaders (Harman Dhillion and Kartik Chandrasekhar) were appointed to head these segments. HUL also appointed Mr. Arun Neelakantan as Chief Digital Officer, who is now also a member of the management committee as HUL looks to further accelerate digital transformation.

(FY Mar)	2023A	2024E	2025E	2026E
Rev. (MM)	581,540	609,576	662,086	720,604
EBITDA (MM)	136,320.0	146,522.2	163,126.1	179,400.6
EPS	41.36	44.55	49.70	54.82
FY P/E	62.0x	57.5x	51.6x	46.8x

COMPANY UPDATE

RATING	HOLD
PRICE	INR2,563.20*
PRICE TARGET % TO PT	INR2,720 +6%
52W HIGH-LOW	INR2,768.50 - INR2,393.00
FLOAT (%) ADV MM (USD)	37.8% 49.41
MARKET CAP	INR6.0T \$72.2B
TICKER	HUVR IN

*Prior trading day's closing price unless otherwise noted.

	CHANGE TO JEF		JEF vs CONS	
	2024	2025	2024	2025
REV	NA	NA	-4%	-5%
EPS	NA	NA	-5%	-7%

2024 (INR)	Q1	Q2	Q3	Q4	FY
EPS	-	-	-	-	44.55
PREV					

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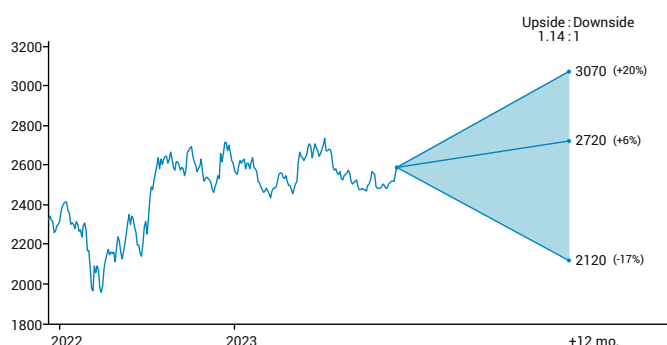
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The Long View: Hindustan Unilever

Investment Thesis / Where We Differ

We are below consensus on FY24-25e earnings. We expect HUL to see weak earnings growth in the near term, as volume growth recovery is gradual, price growth comes off, and margin recovery is capped by a ramp-up in ad-spends and higher competition.

Risk/Reward - 12 Month View



Base Case, INR2720, +6%

In our base case, we forecast c.7% annual growth in revenues over FY23-26E with 140bps EBITDA margin expansion. Input inflation is abating, albeit HUL is seeing only a gradual volume growth recovery. We forecast EPS to rise at a 10% CAGR over FY23-26E. We value HUL at 52x Sep-25 earnings, slightly below the 5-yr average, to arrive at a price target of Rs2,720.

Upside Scenario, INR3070, +20%

In our upside scenario, we forecast c.9% annual growth in revenues over FY23-26E with 190bps EBITDA margin expansion. Revenue growth is supported by a recovery in rural demand. Input inflation moderates and HUL is able to drive margin expansion. We forecast EPS to rise at a 13% CAGR over FY23-26E. We value HUL at 55x Sep-25 earnings to arrive at a price target of Rs3,070.

Downside Scenario, INR2120, -17%

In our downside scenario, we forecast 5% annual growth in revenues over FY23-26E with a 40bps margin contraction. In this scenario, demand recovery and rural growth remain muted. Further, limited pricing growth impacts revenue growth. We forecast EPS to rise at a 6% CAGR over FY23-26E. Consumer sector multiples may also see a pullback. We value HUL at 45x Sep-25 earnings to arrive at a price target of Rs2,120.

Sustainability Matters

Top Material Issue(s): Product quality & safety, GHG emissions, packaging lifecycle management, responsible sourcing, and water management.

Company Target(s): **1)** Double the number of products sold that deliver positive nutrition by 2025. 70% of portfolio to meet WHO-aligned nutritional standards by 2022. 95% of packaged ice cream to contain <22g total sugar and <250 Kcal per serving by 2025. **2)** Achieve net zero for all products from sourcing to point of sale by 2039 and zero emissions in own operations by 2030. Halve greenhouse gas impact of products across the lifecycle by 2030. **3)** Shift to 100% reusable, recyclable, or compostable plastic packaging by 2025. Use 15% recycled plastic and halve food waste by 2025. **4)** Deforestation-free supply chain in palm oil, paper, tea, soy, and cocoa by 2023. 100% of ingredients will be biodegradable by 2030. **5)** Contribute to 3tn lts of water potential in India by 2025.

Qs to Mgmt: **1)** What capex outlay do you envisage for achieving these ESG targets? Do you foresee any margin implications? **2)** How do Unilever's global presence and deep expertise help you in achieving these targets?

Catalysts

Upside catalysts

- Sharp correction in raw material prices.
- Volume growth acceleration helped by better-than-expected rural performance.
- Market share gains versus peers.

Downside catalysts

- Raw material inflation remains higher than expected for a prolonged period.
- Weak demand trends make it difficult to take price hikes. High Competition.
- Elevated valuation multiples may result in significant underperformance if the sector sees a derating.

Exhibit 1 - Income statement (Standalone)

(Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	382,730	453,110	503,360	581,540	609,576	662,086	720,604
Material cost	(177,930)	(216,770)	(251,240)	(311,440)	(295,976)	(312,202)	(335,112)
Gross profit	204,800	236,340	252,120	270,100	313,600	349,884	385,492
% of net revenues	53.5	52.2	50.1	46.4	51.4	52.8	53.5
Advertisement spends	(46,860)	(47,370)	(47,180)	(48,590)	(67,086)	(76,176)	(86,511)
% of net revenues	(12.2)	(10.5)	(9.4)	(8.4)	(11.0)	(11.5)	(12.0)
Other op costs	(67,060)	(82,580)	(88,480)	(95,090)	(108,227)	(118,174)	(127,742)
Ebitda	90,880	106,390	116,460	126,420	138,287	155,534	171,239
% of net revenues	25.1	25.0	24.8	23.4	24.0	24.6	24.9
Operating other income	5,120	6,850	8,570	9,900	8,235	7,592	8,162
Op Ebitda	96,000	113,240	125,030	136,320	146,522	163,126	179,401
% of Op. income	24.8	24.6	24.4	23.0	23.7	24.4	24.6
Depreciation	(9,380)	(10,120)	(10,250)	(10,300)	(10,650)	(11,150)	(11,650)
Ebit	86,620	103,120	114,780	126,020	135,872	151,976	167,751
% of Op. income	22.3	22.4	22.4	21.3	22.0	22.7	23.0
Interest	(1,060)	(1,080)	(980)	(1,010)	(2,020)	(2,060)	(2,102)
Other Income	7,330	5,130	3,930	6,400	8,640	9,072	9,707
Taxes	(25,460)	(27,540)	(30,490)	(34,210)	(37,807)	(42,184)	(46,527)
Rate (%)	27.4	25.7	25.9	26.0	26.5	26.5	26.5
PAT	67,430	79,630	87,240	97,200	104,685	116,803	128,829

Source: Company data, Jefferies estimates

Exhibit 2 - Balance sheet (Standalone)

(Rs m)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Networth	80,315	474,340	487,600	502,210	513,105	519,458	526,087
Debt	-	-	-	-	-	-	-
Total	80,315	474,340	487,600	502,210	513,105	519,458	526,087
Fixed assets	55,330	343,340	346,190	351,090	352,440	353,290	353,640
Goodwill & Intangibles	360	173,160	173,160	173,160	173,160	173,160	173,160
Investments	2,500	3,100	6,100	9,810	9,810	9,810	9,810
Cash & liquid	62,670	70,060	71,300	72,350	76,278	79,560	83,972
Net current assets	(43,155)	(55,460)	(47,740)	(40,950)	(35,184)	(32,812)	(30,795)
Deferred taxes assets	2,610	(59,860)	(61,410)	(63,250)	(63,400)	(63,550)	(63,700)
Total	80,315	474,340	487,600	502,210	513,105	519,458	526,087

Source: Company data, Jefferies estimates

Company Description

Hindustan Unilever

Hindustan Unilever is India's largest fast-moving consumer goods company, owned by the Anglo-Dutch company Unilever, which holds a 62% majority stake.

Company Valuation/Risks

Hindustan Unilever

We value HUL at 52x Sep-25 earnings, slightly below 5-yr average, to arrive at a price target of Rs2,720. Key risks: further increase in raw material prices, increase in competition, slower-than-expected demand recovery, de-rating of consumer multiples.

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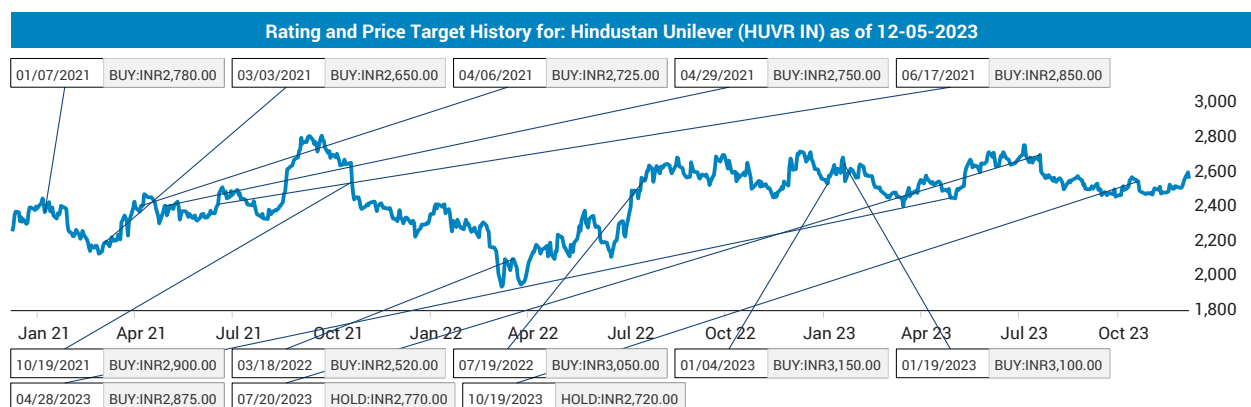
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Legend:

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D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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