



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Company details

Market cap:	Rs. 5,78,599 cr
52-week high/low:	Rs. 2,769/2,170
NSE volume: (No of shares)	20.7 lakh
BSE code:	500696
NSE code:	HINDUNILVR
Free float: (No of shares)	89.5 cr

Shareholding (%)

Promoters	61.9
FII	13.3
DII	13.3
Others	11.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.3	9.9	-5.6	-7.1
Relative to Sensex	-1.8	1.4	-15.6	-32.1

Sharekhan Research, Bloomberg

Hindustan Unilever Ltd
Subdued year gone by; on a comeback trail

Consumer Goods	Sharekhan code: HINDUNILVR		
Reco/View: Buy	↔	CMP: Rs. 2,463	Price Target: Rs. 2,725
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We maintain a Buy on Hindustan Unilever Limited (HUL) with an unchanged PT of Rs. 2,725. Likely revival in rural India and its underperformance versus broader indices makes HUL a preferred pick in the consumer goods space. Stock trades at 53x and 47x its FY25E and FY26E EPS, respectively.
- FY2024 performance was hit by subdued rural demand, leading to muted revenue growth. However, HUL maintained its leadership position in 85% of its portfolio. It invested a large part of raw material cost savings on brands.
- Cash flow generation stayed strong, with FCF at Rs. 13,472 crore (FCF/EBIDTA of 97%); Return ratios remained stable y-o-y, with RoE at 20% and RoCE (ex-goodwill) at 39%.
- Management continues to focus on achieving volume-led growth across businesses aided by distribution expansion, digitisation, innovation and premiumisation. With strategies in place, HUL is expected to deliver a revenue and PAT CAGR of 10-12% over FY2024-FY2026E.

Hindustan Unilever Limited's (HUL's) FY2024 performance was muted as uneven rainfall resulted in subdued agricultural output and affected rural demand. Revenue grew by 2.2% y-o-y with volume growth at 2%. All businesses reported low-single digit growth during the year. However, with focused strategies in place, HUL maintained its leadership position in 85% of its portfolio and 75% of business improved penetration during the year. Gradual deflation in commodity prices in parts of the portfolio aided HUL to post 370 bps y-o-y expansion in gross margin to 51%. However, with the company's strategy to step up investment on brand building, OPM stood flat y-o-y at 23%. Muted revenue growth and stable OPM led to a 1.2% y-o-y decline in the adjusted PAT. HUL maintained its strong cash flow generation with FCF at Rs. 13,472 crore (FCF/EBIDTA of 97%); Return ratios remained stable y-o-y, with RoE at 20% and RoCE (ex-goodwill) at 39%. Going ahead, HUL plans to continue its focus on distribution expansion (from 3 million direct reach outlets and a 9 million total reach outlets currently), digitisation (by creating an intelligent enterprise), innovation (launching relevant consumer-centric products) and premiumisation (reshaping portfolio into premium spaces) to achieve volume-led growth across businesses.

- **Focused strategies helped navigate challenging FY2024:** HUL is a market leader in more than 85% of its portfolio, with 75% of business gaining penetration during FY2024. Out of the company's portfolio of over 50 brands, 19 have a turnover exceeding Rs. 1,000 crore per annum. HUL's sustained focus on growing the core through brand superiority, driving market making, reshaping portfolio into premium spaces and strengthening leadership in channels of the future (such as e-commerce and modern trade) helped it navigate the challenging macroeconomic environment in FY2024.
- **Eyeing double-digit earnings growth:** On a four-year CAGR basis, HUL's revenue grew by 11.7%, while PAT grew 9.3% amid tough demand scenario and high commodity inflation. The company continues to focus on developing its product portfolio, expanding its distribution reach, driving market development and premiumisation, entering new categories, leveraging and improving digital capabilities and cost rationalization to achieve strong growth in the coming years. Improvement in volume growth led by recovery in consumer demand, consistent market share gains in the key portfolio and stability in raw-material prices would help the company deliver double-digit revenue and PAT growth in the medium-long term. Revenue and PAT are expected to post a 10% and 12% CAGR, respectively, over FY2024-26E.
- **Strong balance sheet with healthy cash flow generation:** During FY2024, HUL's working capital cycle declined by 6 days to negative 40 days from negative 34 days in FY2023. Cash from operations rose to Rs. 14,884 crore in FY2024 versus Rs. 9,626 crore in FY2023. FCF stood at Rs. 13,472 crore in FY2024 against Rs. 8,835 crore in FY2023; FCF to EBIDTA improved to 97% versus 65% in FY2023. Dividend payout ratio improved to 99.7% as against 91.4% in FY2023. RoE marginally fell to 19.6% in FY2024 from 20.3% in FY2023. RoCE (ex-goodwill) stood flat y-o-y at 38.5%. Going ahead, we expect the company to generate FCF of ~Rs. 25,400 over FY2025E-FY2026E, while RoE and RoCE (ex-goodwill) are expected to improve to 23% and 45%, respectively in FY2026E.

Our Call

View - Maintain Buy with an unchanged PT of Rs. 2,725: HUL continued to post muted performance for the past few quarters. However, an expected recovery in rural demand, improvement in the consumption of mass product categories and sustenance of good growth in premium categories will help volume growth to recover in the quarters ahead. HUL is currently trading at 52x and 46x its FY2025E and FY2026E earnings, respectively. Any consistent recovery in volume growth and margin expansion in the near term would act as a key trigger for valuations to improve going ahead. We maintain a Buy rating on the stock with an unchanged PT of Rs. 2,725.

Key Risks

A sustained slowdown in rural demand or persistent volatility in key input prices from current levels would act as a key risk to our earnings in the near term.

Valuation (standalone)

Particulars	FY23	FY24	FY25E	FY26E
Revenue	59,144	60,469	64,780	72,774
OPM (%)	23.0	23.0	23.2	23.4
Adjusted PAT	10,024	9,900	11,040	12,459
Adjusted EPS (Rs.)	42.7	42.1	47.0	53.0
P/E (x)	57.7	58.5	52.4	46.4
P/B (x)	11.5	11.4	11.0	10.4
EV/EBIDTA (x)	42.0	40.9	37.7	33.1
RoNW (%)	20.3	19.6	21.3	23.0
RoCE (%)	25.6	25.9	28.1	30.8

Source: Company; Sharekhan estimates

Highlights of management commentary

Chairman's speech (Nitin Paranjpe)

- ◆ **Beauty and personal care:** To bring more focus to its strong portfolio in the Beauty and Personal Care business, the company has transitioned to two separate businesses – Beauty & Wellbeing and Personal Care from 1st April, 2024.
- ◆ **Intelligent enterprise:** HUL is on a journey to strengthen its digital backbone and become an 'intelligent enterprise'.
- ◆ **Innovation:** The company expanded its Horlicks Plus range with two new scientifically backed products focused on adult and child strength. To make its product packaging more sustainable, HUL innovated bottles with more recycled plastics for Comfort, Surf Excel liquid and Vim liquid.
- ◆ **Commodity inflation:** HUL witnessed gradual deflation in commodity prices in parts of its portfolio after a long period of high inflation. However, cumulative inflation remained high. Despite this, HUL's gross margin improved by 370 bps y-o-y to 51% in FY2024.

CEO corner (Rohit Jawa)

- ◆ Focus on key strategic thrusts - growing core through brand superiority, driving market making, reshaping portfolio into premium spaces and strengthening leadership in channels of the future helped HUL to navigate a challenging macro-economic environment in FY2024.
- ◆ The company remained focused on driving operational excellence and continued to build back gross margins while stepping up investment in brands and long-term capabilities.
- ◆ In FY2024, HUL reported revenue from operations of Rs. 59,579 crore with an underlying sales growth of 3% and volume growth of 2%.
- ◆ In the Beauty and Personal Care business, HUL undertook significant transformation across iconic brands with refreshed products, packaging and communication and advanced on its journey to transform its portfolio towards high growth spaces. Towards its aim of becoming the 'beauty shapers of the country', HUL unveiled the Beauty Collective. Through this, HUL aims to strengthen beauty partnerships with e-Commerce and modern trade customers.
- ◆ In the Home Care business, HUL witnessed volume growth powered by big strides in its brand superiority journey. HUL continued to drive market development through home trials and build premium formats such as liquids. The company saw growth in both fabric wash and household care, with the premium portfolio leading this growth.
- ◆ In the Foods & Refreshment business, HUL strengthened its adult nutrition drinks portfolio by building condition awareness, launched multiple innovations in ice cream, continued to premiumise its coffee portfolio and launched Korean noodles in popular flavours.
- ◆ During FY2024, HUL witnessed rapid expansion in e-Commerce, quick commerce, e-B2B and modern trade retail. The company worked closely with its partners to design specifically for different shopping missions in these channels. HUL also invested significantly to make its distributors future-fit through training programmes and other interventions.
- ◆ With an aim to build a more agile and nimble supply chain, HUL has set up single minute changeovers and online changeover lines across several manufacturing sites. HUL's nano factories, which are small scale production lines, empowered it to reduce the batch size of production, thereby accelerating the launch of innovations. Currently, over 250 SKUs (Stock Keeping Units) are manufactured in the nano-factories.
- ◆ Total dividend for FY2024 amounts to Rs. 42 per share, including an interim dividend of Rs. 18 per share and final dividend of Rs. 24 per share, which is an increase of 8% y-o-y.

Creating an intelligent enterprise – Journey towards digitisation

India has seen rapid digitisation with internet penetration increasing from 15% to over 50% in seven years. The digital economy is estimated to reach \$1 trillion by 2030, supported by an influx of new-age startups, acceleration of B2B e-Commerce, and the rise of new ecosystems, powered by the Digital India Initiative. On its journey towards digitisation, HUL's key focus is on:

- ♦ **Creating personalised and omni-channel journeys:** Personalisation deployment across brands has resulted in increased click-through rates of over 10x and savings through efficient advertising.
- ♦ **Better resource allocation through automated and intelligent media planning and deployment:** HUL has enhanced its media capabilities to select the right mix of media vehicles to reach its target audience. HUL's underlying data lake, automated deployment, and analytics allows the company to optimise spends real time leading to greater media efficiency.
- ♦ **Riding digital commerce tailwinds:** HUL has specialised teams to drive both efficiencies and effectiveness in digital commerce. Automated campaign management, platform specific content, and optimised spend management has improved the company's 'Return on Advertising Spends' while reducing cost. In parallel, HUL is also scaling up the D2C ecosystems of its brands. HUL's D2C business extends to 10 brand.com websites serving consumers across more than 19,000 pincodes in the country.
- ♦ **Enhancing B2B commerce:** Shikhar, HUL's demand capturing application for e-B2B, covers 1.3 million stores and is used by over 70% of Shakti Ammas highlighting the presence of digital adoption across the country. Shikhar has also collaborated with ONDC and is now available as a platform for retailers to list themselves on ONDC.
- ♦ **Reimagining the digital supply chain:** HUL's supply chain is undergoing a transformation across the verticals of Plan, Source, Make and Deliver with an aim to drive agility and resilience, along with a re-organisation in asset and cost base and a focus on sustainable growth. The end-to-end integration is enabled through a 'Nerve Center' approach, which combines the four verticals of supply chain to enable real-time information flow and intelligent decision making to unlock business value.

Stakeholder engagement

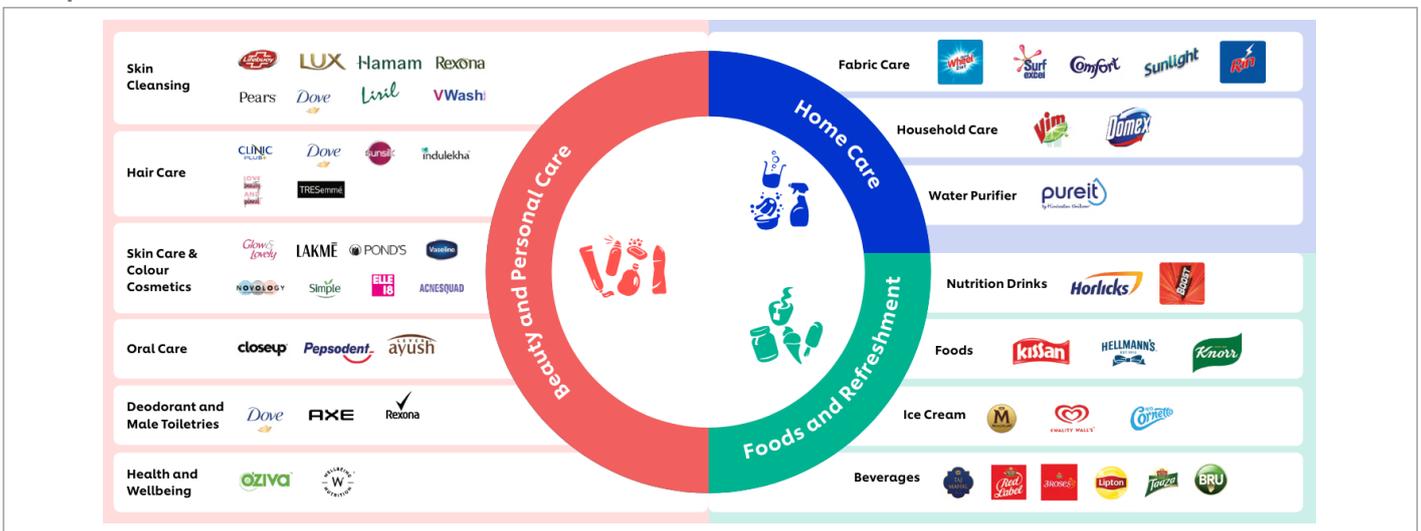
HUL has identified six stakeholder groups that are critical to its success including consumers, customers, suppliers and business partners, its people, planet and society, and shareholders. The company's stakeholder engagement framework outlines its approach to improving the company's understanding of stakeholder interests and concerns through tailored engagement strategies.

Stakeholder and HUL impact	Engagement
<p>Consumer</p> <ul style="list-style-type: none"> • 9 of 10 households in India use one or more of HUL brands. • >75% of business gaining penetration. • 8 brands in the Kantar's list of most valued brands in India. 	<ul style="list-style-type: none"> • In-person consumer connects and virtual surveys to understand changing consumer preferences. • Market development activities undertaken at scale via engagement with millions of households. • Blind product testing for insights on consumer perception of product quality. • Communication through advertisements, product labelling, publications, corporate website, digital platforms and social media. • Levercare helpline centre for consumers to raise concerns and share feedback.
<p>Consumer</p> <ul style="list-style-type: none"> • Total reach of over 9 million retail outlets. • 1.3 million retailers use Shikhar, HUL's e-B2B app. • Distributor network of more than 3,500. 	<ul style="list-style-type: none"> • Distributor meet once in a year to discuss operational and strategic priorities. • Customer voice survey once in a year to evaluate systems and processes. • Regular interaction between sales team and distributors to review performance. • Comprehensive induction sessions for new distributors. • Customer inclusive digital transformation, empowering them to be future-fit. • Collaborative Joint Business Planning sessions with organised retail and e-Commerce partners. • Levercare helpline centre for raising queries and concerns. • Customer meetings between representative distributors and teams to discuss feedback on operations and processes.

Stakeholder and HUL impact	Engagement
<p>Suppliers and Business Partners</p> <ul style="list-style-type: none"> Material spends of more than Rs. 29,000 crore. >99% suppliers trained in ESG awareness. Over 75 billion units manufactured. 	<ul style="list-style-type: none"> Periodic supplier reviews, audits and evaluation of service level agreements. Workshops to tackle shared challenges, drive channel innovations and realise competencies in end-to-end value chain. Self-declaration, online assessments and third-party audit to ensure adherence to the Responsible Partner Policy's mandatory requirements. Strategically located driver management centres to educate drivers on road safety and driving behaviours (Suraksha Sab ke Saath). Partnering with suppliers to advance the company's sustainability agenda, while also identifying and implementing efficiencies across the entire value chain.
<p>Planet and Society</p> <ul style="list-style-type: none"> More than 3.2 trillion litres water potential created. 58% reduction in total waste generated from factories. ~10 million people reached through HUL's community development initiative – Prabhat. 	<ul style="list-style-type: none"> ESG committee chaired by an Independent Director forming a robust governance process. ESG materiality process ensures that HUL is focusing on the most important ESG issues. Hindustan Unilever Foundation, HUL's not-for-profit subsidiary works towards innovating scalable solutions to address India's water challenges. Prabhat, HUL's Sustainable Community Development programme, works across its manufacturing locations to uplift and empower the communities. Separate register for grievances of local community maintained at factory locations. Need assessment surveys carried out for key social and environmental projects.
<p>People</p> <ul style="list-style-type: none"> No. 1 Employer of Choice. 42% gender diversity at managerial positions. More than 1 lakh hours of training & upskilling employees. 	<ul style="list-style-type: none"> UniVoice: Annual employee engagement survey. Annual CEO review to discuss yearly performance and strategic priorities for the coming year. UniPulse: Regular employee engagement surveys. Continuous learning and leadership development programmes for future-fit workforce. Well-being workshops fostering mental, physical & psychological health. Regular performance review and feedback sessions. Townhalls, quarterly results communication by management committee. Robust whistle-blowing policy empowering employees to speak up.
<p>Shareholders</p> <ul style="list-style-type: none"> Rs. 59,579 crore revenue Rs. 10,114 crore PAT Rs. 42 dividend per share 	<ul style="list-style-type: none"> AGM to discuss business strategy and performance. Earnings call to discuss quarterly financial performance and strategic priorities. Analyst and investor meetings to discuss business performance, market trends and sustainability queries. Management participation in events and conferences. The Board and Management Committee's deliberations take into account shareholder feedback. Invitation to Shareholders by Stakeholder Relationship Committee for feedback on investor service. Engagement with shareholders via email through the company's investor relation email IDs.

Source: Annual report; Sharekhan Research

HUL's portfolio across businesses



Source: Annual report; Sharekhan Research

Business-wise performance update for FY2024

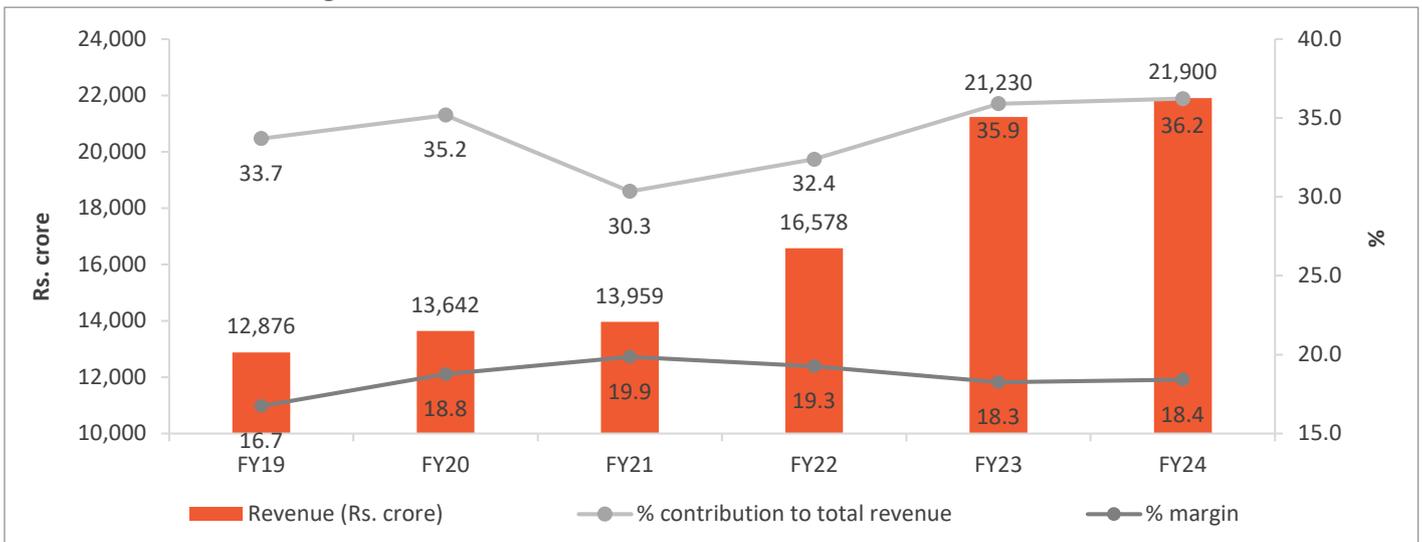
Home Care

The business grew 3.2% y-o-y to Rs. 21,900 crore in FY2024 (36% contribution to revenue), on a very strong base of 28.1% growth in FY2023. On a four-year CAGR basis, revenue grew by 12.6%. Both fabric and household care registered mid-single digit volume growth in FY2024 with a negative price growth. Water business grew in mid-single digit during the year. Within the segment, premium portfolio consisting of premium washing powders, washing liquids and dishwash liquids continued to clock strong growths on the back of sustained market development activities. EBIT margins stood stable y-o-y at 18.4% in FY2024.

Key highlights

- ◆ In Fabric Care, HUL's flagship brand, Surf Excel, crossed the milestone of \$1 billion-mark in FY2023 and continued to be a trusted brand in FY2024. Surf Excel liquid continued to build superiority in the market through its new enhanced stain removal proposition.
- ◆ Wheel, HUL's mass-tier fabric cleaning brand, has been honoured as one of the best Value for Money Brands in the country by Exchange4Media's Pitch Top 50 Brands of India.
- ◆ Comfort continued to expand its offering through innovations like 'Intense' fabric conditioner for athleisure wear and super sensorial range.
- ◆ Rin detergent liquid recently expanded its liquid portfolio beyond South India to further strengthen HUL's play in the rapidly growing liquid detergent segment.
- ◆ To accelerate premiumisation, Vim launched two premium variants in its liquids portfolio, Pure Lemongrass and Tangerine.
- ◆ Pureit has expanded its portfolio with the introduction of the Pureit Revito Series, a premium offering in the RO+UV segment.
- ◆ HUL's focus will be to continue scaling up future formats like liquid detergents and other premium innovations with the help of strategic partnerships with its customers.
- ◆ Quick commerce continues to be a key growth catalyst and HUL's focus remains on expanding Home Care category profitably.

Homecare – Revenue and margin trend



Source: Company, Sharekhan Research

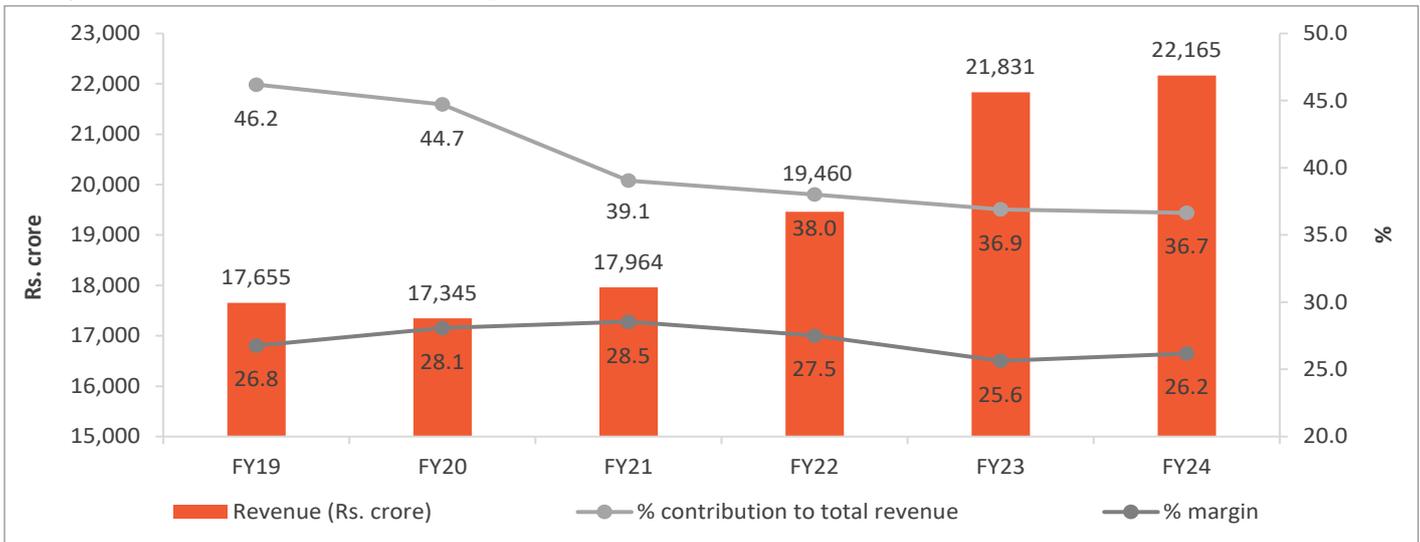
Beauty and Personal care

During FY2024, the Beauty and Personal Care business reported 1.5% y-o-y growth to Rs. 22,165 crore, driven by volume growth. On a four-year CAGR basis, revenue grew by 6.3%. While premium portfolio within hair care and skincare led growth for the category, mass segment continued to witness subdued volume recovery. Mass demand was impacted on account of high cumulative inflation in the last 3 years and below par agricultural output due to uneven monsoons. EBIT margin improved by ~50 bps y-o-y to 26.2% in FY2024.

Key highlights

- ◆ Clinic Plus and Sunsilk continued to clock strong growth. While Clinic Plus achieved high brand power scores through effective communication and deployment, Sunsilk forayed into the post-wash hair serum segment through the launch of the Super Shine Serum.
- ◆ During the year, HUL made significant transformations across its key brands like Lakmē and Vaseline, revamping them by refreshing product, packaging, communication and innovating into new demand spaces and formats.
- ◆ CloseUp expanded its offerings by introducing new variants in the naturals category.
- ◆ HUL has ventured into on-trend, future formats like face and hair serums with exciting launches such as TRESemmé Ultra Shine Hair Serum and Lakmē Skin Ultime Collection.
- ◆ Indulekha, HUL's naturals brand, expanded its portfolio by venturing into the anti-dandruff demand space with the launch of Indulekha Svetakutaja Shampoo & Oil.
- ◆ OZiva, HUL's health & wellness brand, doubled digital ARR from Q4FY2023 to Q4FY2024 by setting up a strong foundation for accelerated growth in 2024 with a promising innovation funnel.

Beauty and Personal Care – Revenue and margin trend



Source: Company, Sharekhan Research

Foods & Refreshment

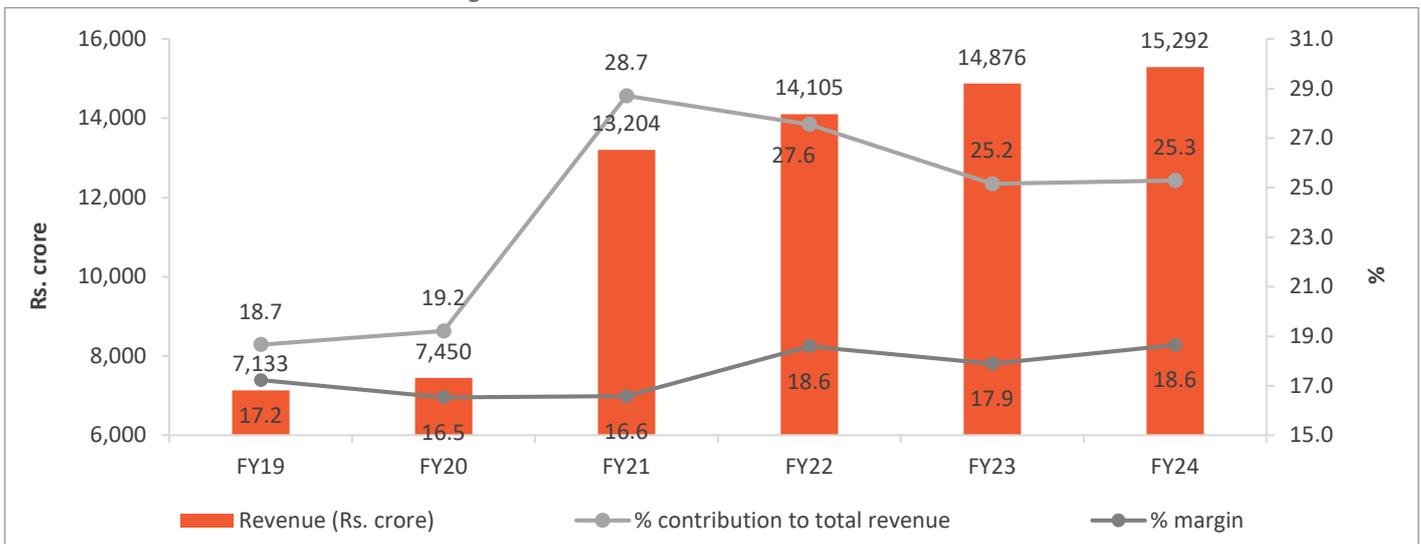
The business grew by 2.8% y-o-y to Rs. 15,292 crore in FY2024. On a four-year CAGR basis, revenue grew by 19.7%. Nutrition drinks (Horlicks & Boost) and tea continued the trajectory of gaining handsome market share during the year. Food Solutions Business saw strong high double-digit growth as it continued to scale up. The Ice Cream business faced unseasonal weather-related headwinds but still delivered strong growth in FY2024. Coffee continued to outpace other categories, at double-digit growth, driven by pricing. EBIT margin rose by 75 bps y-o-y to 18.6% in FY2024.

Key highlights

- ◆ HUL strengthened its core brands in Tea and Nutrition Drinks gaining both volume and value market shares.
- ◆ HUL widened the market share gap versus its nearest competitor in Tea, gaining significant share. In Tea, HUL accelerated its Green Tea portfolio with the launch of the 'Tastier and less bitter' clear and light green tea variant.

- ◆ Nutrition Drinks continued to gain significant levels of market penetration and shares. In Horlicks, HUL introduced Strength Plus and Growth Plus variants.
- ◆ During FY2024, HUL relaunched Kissan Jams with a formulation of 30% more fruit content.
- ◆ Bru coffee was relaunched with enhanced taste, stronger aroma and with new packaging highlighting its South Indian heritage. HUL augmented its premium Freeze Dried Coffee range with the launch of Bru Gold Vanilla, Caramel and Hazelnut flavours.
- ◆ In Ice Cream, HUL strengthened Cornetto with the re-launch of 'Double Chocolate', in a rich creamy chocolate flavour. The company also introduced a premium range of ice cream 'Slow Churn' and introduced the Chocolate Hazelnut and Feast Crackle in partnership with Cadbury.
- ◆ As more people stepped out, the company saw growth in both modern trade and its out-of-home Unilever Food Solutions business.

Foods and Refreshment – Revenue and margin trend



Source: Company, Sharekhan Research

Key subsidiaries performance

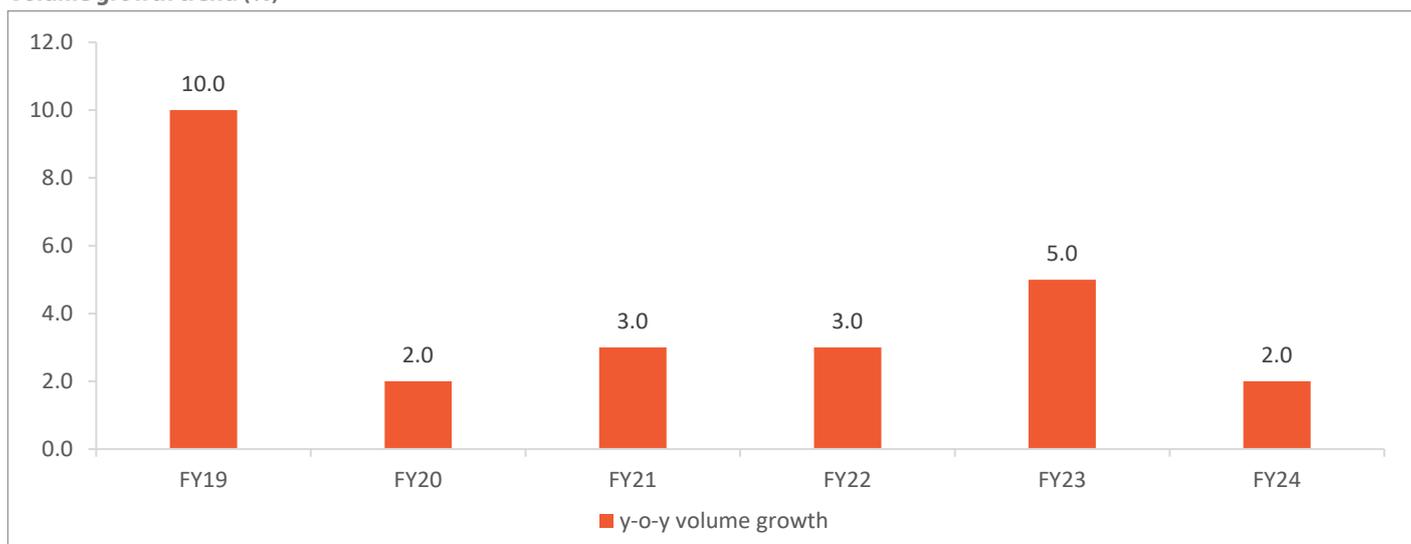
- ◆ **Unilever India Exports Limited:** It is a wholly-owned subsidiary engaged in FMCG exports business with a two-fold focus of expanding global presence of HUL's brands and effectively providing cross-border sourcing of FMCG products to other Unilever companies across the world. Its revenue declined by 7.7% y-o-y to Rs. 1,170 crore in FY2024, while PAT declined by 32.8% y-o-y to Rs. 80 crore.
- ◆ **Unilever India Limited:** It is a wholly-owned subsidiary that leverages growth opportunities in a fast-changing business environment. Its state-of-the-art spray dried detergent factory in Sumerpur, Uttar Pradesh, manufactures Home Care products for HUL. In FY2024, it ramped up its operations and delivered robust volume growth. Its revenue and PAT grew by 2.5x and 3.3x y-o-y to Rs. 1,115 crore and Rs. 78 crore, respectively.
- ◆ **Lakme Lever Private Limited:** It is a wholly-owned subsidiary engaged in the salon business and operates a manufacturing unit at Gandhidham, Gujarat which carries out job work operations for the company. It reported revenue growth of 4.3% y-o-y to Rs. 342 crore and PAT growth of 3.7% y-o-y to Rs. 28 crore in FY2024.
- ◆ **Unilever Nepal Limited (UNL - 80% shareholding):** UNL is engaged in marketing and manufacturing products related to Beauty & Wellbeing, Personal Care and Home Care in Nepal. Despite a challenging business environment in Nepal, (impacted by national liquidity crunch, low foreign reserves and rising migration), UNL demonstrated resilient performance in FY2024, with revenue and PAT declining by 4.5% and 3.8% y-o-y to Rs. 508 crore and Rs. 126 crore, respectively.

- ◆ **Zywie Ventures Private Limited:** HUL acquired a 53.34% stake (51% on a fully diluted basis) in Zywie Ventures Private Limited (ZVPL) on January 10, 2023. ZVPL is engaged in the business of health and wellbeing products under the brand OZiva. OZiva is a digital-first, plant-based and clean label consumer wellness brand with an omnichannel approach. Its revenue came in at Rs. 104 crore in FY2024, versus Rs. 21 crore in FY2023, while losses widened to Rs. 44 crore in FY224, versus Rs. 10 crore in FY2023.

FY2024 – Muted revenue growth and OPM remaining flat y-o-y led to marginal decline in PAT

- ◆ Standalone revenue from operations grew by 2.2% y-o-y to Rs. 60,649 crore, driven by volume growth of 2%.
- ◆ Gradual correction in prices of few inputs aided a 370 bps y-o-y expansion in gross margin to 51%.
- ◆ Despite a sharp rise in gross margins, OPM stood flat y-o-y at 23% on account of a 235-bps y-o-y increase in the percentage of advertisement spends to sales and a 130-bps increase in other expenses as a percentage to sales.
- ◆ Other income came in higher at Rs. 973 crore in FY2024, against Rs. 640 crore in FY2023, mainly on account of a 30% y-o-y increase in interest income to Rs. 551 crore and a 2.5x y-o-y rise in the other non-operating income.
- ◆ Interest expenses rose to Rs. 302 crore, versus Rs. 101 crore in FY2023.
- ◆ Muted revenue growth, stable OPM and higher interest expense led to 1.2% y-o-y decline in the adjusted PAT to Rs. 9,900 crore.
- ◆ On a four-year CAGR basis, revenue and PAT grew by 11.7% and 9.3%, respectively.

Volume growth trend (%)



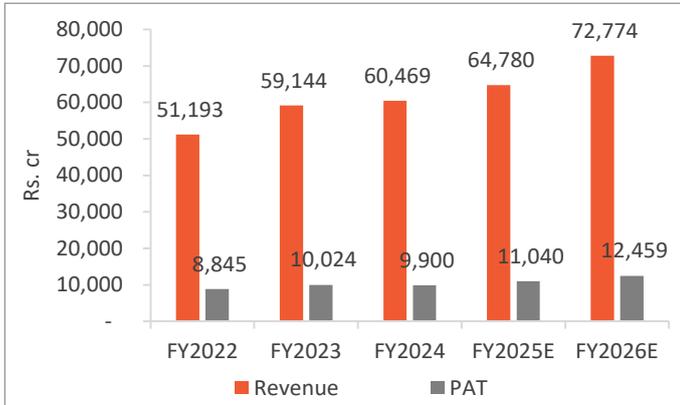
Source: Company, Sharekhan Research

Balance sheet – Rise in operating cash flows; FCF continues to improve

- ◆ Cash from operations improved to Rs. 14,884 crore in FY2024 versus Rs. 9,626 crore in FY2023.
- ◆ FCF stood at Rs. 13,472 crore in FY2024 against Rs. 8,835 crore in FY2023; FCF to EBIDTA improved to 97% versus 65% in FY2023.
- ◆ Working capital cycle came in at 40 days versus 34 days in FY2023.
- ◆ Investment on books increased to Rs. 4,510 crore from Rs. 2,811 crore in FY2023.
- ◆ The company paid a dividend of Rs. 42 per share in FY2024 (dividend payout stood at 99.7%) as against Rs. 39 per share in FY2023 (dividend payout stood at 91.4%).
- ◆ RoE fell to 19.6% in FY2024 from 20.3% in FY2023. RoCE (ex-goodwill) stood flat y-o-y at 38.5%.

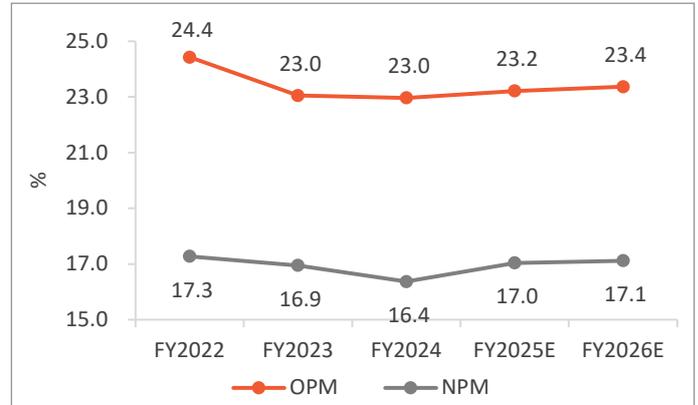
Financials in charts

Steady growth in revenue and PAT



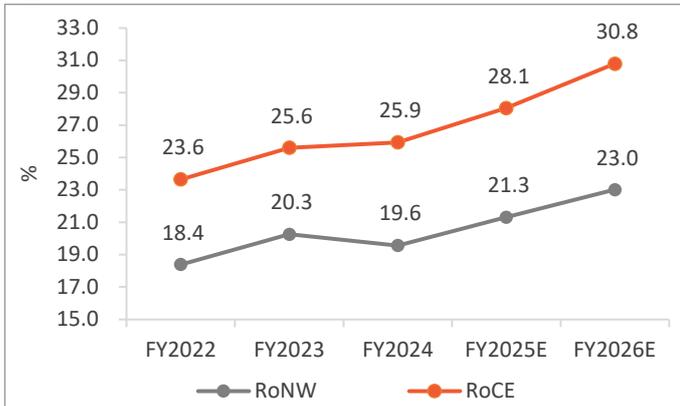
Source: Company, Sharekhan Research

Margins to improve slightly



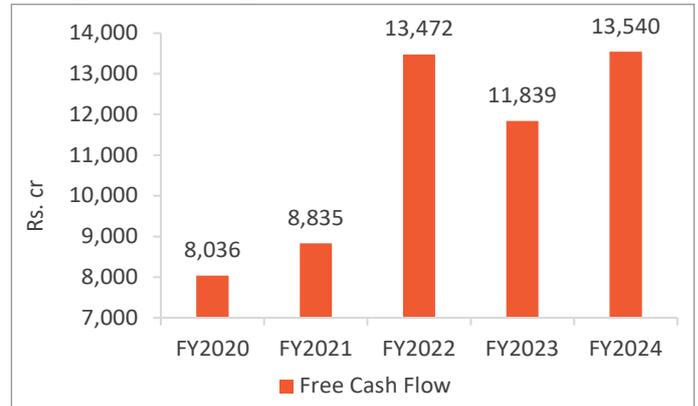
Source: Company, Sharekhan Research

Significant rise in return ratios



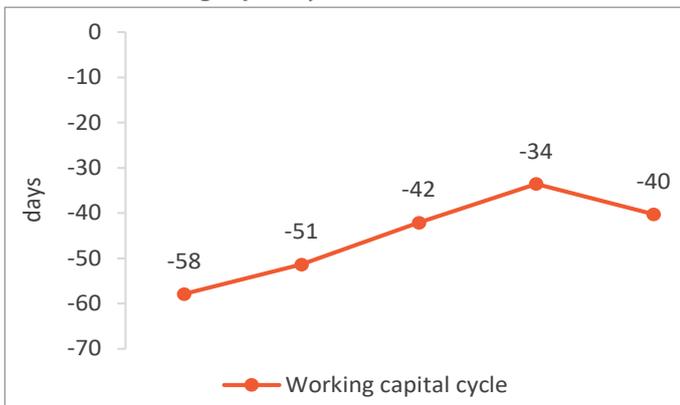
Source: Company, Sharekhan Research

Strong free cash flow generation



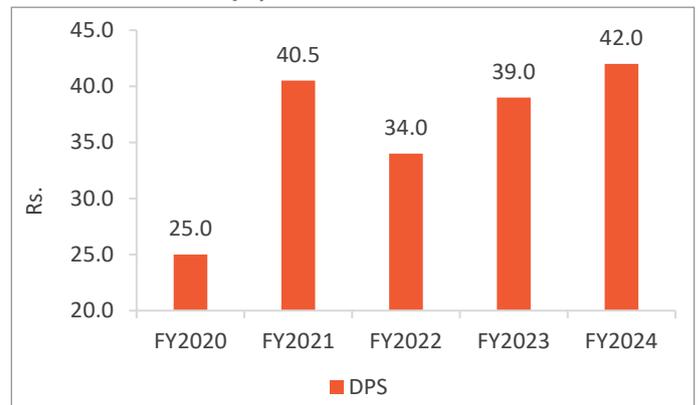
Source: Company, Sharekhan Research

Consistent working capital cycle



Source: Company, Sharekhan Research

Consistent dividend payout



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Volume growth likely to pick-up from H2FY2025

Rural demand has seen some uptick in Q4FY2024 with a sequential improvement in the consumption. We expect consistent recovery with likely stimulus coming in the post-election Budget. This along with a better monsoon might help in good recovery in demand for consumer goods companies (especially in rural markets) in H2FY2025. Prices of key inputs such as crude and palm oil have increased due to global uncertainties. If prices continue to move from current levels, we should see price hikes in product categories in the coming months. This will also reduce aggression from small and regional players in the domestic market. We expect revenue growth for consumer goods companies to be much better in FY2025 as compared to FY2024. This along with stable margins would help consumer goods companies post decent PAT growth in FY2025.

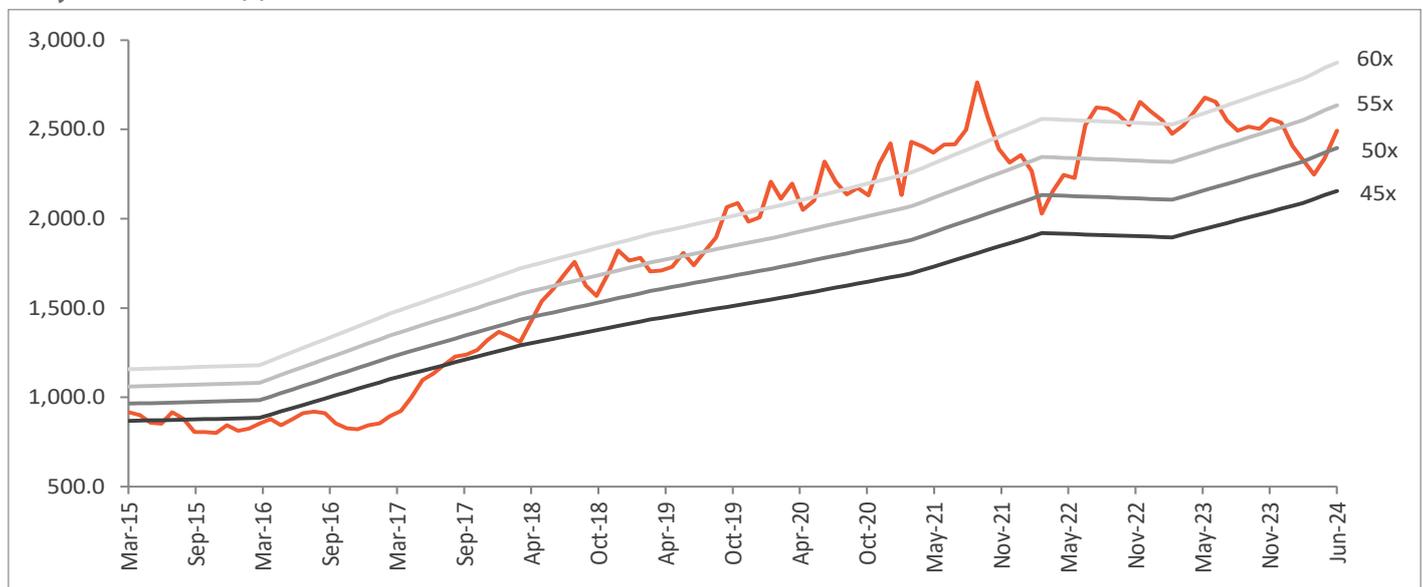
■ Company outlook - Focus remains on achieving competitive volume growth

FY2024 numbers were muted, with the company posting low-single digit volume growth. Recovery in rural demand, improvement in demand for out-of-home categories, addition of relevant products in the portfolio and sustained improvement in penetration in key categories remain key growth drivers in the near term. The company is well-poised to achieve good growth in the coming years with a leadership position in over 85% of the portfolio and a presence in more than 9 million stores. A better product mix, operational efficiencies and integration benefits would help margins to improve in the coming years. However, a recent hike in royalty charges and continued focus on A&P spends will moderate the rise in margins.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 2,725

HUL continued to post muted performance for the past few quarters. However, an expected recovery in rural demand, improvement in the consumption of mass product categories and sustenance of good growth in premium categories will help volume growth to recover in the quarters ahead. HUL is currently trading at 52x and 46x its FY2025E and FY2026E earnings, respectively. Any consistent recovery in volume growth and margin expansion in the near term would act as a key trigger for valuations to improve going ahead. We maintain a Buy rating on the stock with an unchanged PT of Rs. 2,725.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Nestle India*	-	69.7	61.3	-	46.4	40.6	-	114.0	117.3
ITC	25.4	22.8	20.0	20.8	17.9	15.6	30.9	33.5	34.9
Godrej Consumer Products	68.6	55.0	47.5	45.9	40.6	36.0	17.1	18.6	19.3
HUL	58.5	52.4	46.4	40.9	37.7	33.1	25.9	28.1	30.8

Source: Company, Sharekhan estimates; *FY24 numbers are not comparable

About company

HUL is India's largest FMCG company with presence of more than 90 years. The company is a subsidiary of Unilever Plc (that holds a 62% stake in HUL), the world's largest consumer goods company present across 190 countries. It has a strong portfolio in the homecare and beauty and personal care categories. With over 50 brands spanning 16 distinct categories such as personal wash, fabric wash, skin care, hair care, oral care, deodorants, colour cosmetics, beverages, ice creams, frozen desserts, and water purifiers, HUL is part of the everyday life of millions of consumers across India. The company's portfolio includes leading brands such as Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, and Axe. Out of the company's portfolio of over 50 brands, 19 brands have a turnover exceeding Rs. 1,000 crore per annum (FY24).

Investment theme

HUL has a leadership position in highly penetrated categories such as soaps, detergents, and shampoos in India. The company maintained its leadership position in more than 85% of business (FY24). Sustaining product innovation, entering new categories, premiumisation, and increasing distribution network remain some of the company's key revenue drivers. A strong financial background, robust cash-generation ability, and leadership position in some of the key categories give HUL an edge over other companies and, hence, justify the stock's premium valuation. With strategies in place, we expect the company to clock 10%/12% revenue/PAT CAGR over FY2024-26E.

Key Risks

- ◆ **Slowdown in the demand environment:** Any slowdown in demand (especially in rural India) would affect sales of key categories, resulting in moderation of sales volume growth.
- ◆ **Increased input prices:** Palm oil and crude derivatives such as linear alkyl benzene are some of the key raw materials used by HUL. Any significant increase in the prices of some of these raw materials would affect profitability and earnings growth.
- ◆ **Increased competition in highly penetrated categories:** Increased competition in highly penetrated categories such as soaps and detergents would act as a threat to revenue growth.

Additional Data

Key management personnel

Nitin Paranjpe	Chairman
Rohit Jawa	Chief Executive Officer & Managing Director
Ritesh Tiwari	Executive Director, Finance & IT and Chief Financial Officer
Dev Bajpai	Executive Director, Legal & Corporate Affairs & Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.01
2	Vanguard Group Inc	1.58
3	Blackrock Inc	1.58
4	SBI Funds Management Ltd	1.58
5	ICICI Prudential AMC Ltd	1.15
6	Kotak Mahindra AMC Ltd	0.48
7	UTI Asset Management Co Ltd	0.48
8	ICICI Prudential Life Insurance Co Ltd	0.38
9	Nippon Life India Asset Management Ltd	0.31
10	HDFC Asset Management Ltd	0.31

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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