Hindustan Unilever Ltd

3Q results and investor call takeaways

Good topline performance with improving demand, but margins surprise negatively; expect a phase of consolidation

- ✓ **Our view –** While growth coming back to 7% was a positive, we do not find the 4% volume growth very exciting. The decline in margins was slightly disappointing as well especially in light of recent RM inflation. While the management's strategy of prioritizing growth over margins in the near term is a positive, this could lead to some sort of a cap on margins thereby leading to some earnings downgrades. With the stock trading at 50x FY23 earnings, we don't expect a further re-rating in the near-term and expect peers like Marico, Nestle, Tata Consumer, Emami to perform relatively better.
- ✓ **Industry trends –** FMCG industry growth has revived to 5% in 3Q vs 1% in 2Q with rural markets and health & hygiene leading growth, tea and palm oil prices up 40% yoy but crude down 30% yoy.
- ✓ **Quarter highlights –** Overall, 21% revenue and 15% PAT growth (negative surprise on margins) LFL growth at 7% with 4% UVG and overall revenue growth at 20%; 7 categories grew in double-digits, health and hygiene portfolio again grew at 10%, discretionary portfolio down 1% and OOH down 15%, margins at 24% down 80bps, other income sharply lower.
- ✓ **Margin drivers –** GMs down given sharp RM inflation (tea, palm oil) which was not fully passed on; significant improvement in mix, other expenses up 70bps led by aggressive investments in developing GTM, channels of future, capabilities.
- ✓ **Segmental performance –** BPC now growing at 9% vs flat in 2Q led by skin cleansing, Lux, oral care, hair care; foods continuing to grow at 19% retaining growth momentum (nutrition in double digits) led by ketchups, soaps, beverage; home care declined 2% as laundry impacted by category slowdown – with mobility improving seeing sequential pick up.
- ✓ **Demand outlook –** Near-term priority would be volume growth for next couple of quarters; demand trends improving with rural continuing double-digit growth and urban back to positive, focus on investing in innovation, market development and capabilities; looking at mix, pricing and cost savings to counter inflation.
- ✓ **Nutrition business outlook -** On target for double digit growth in the GSK portfolio now after overcoming some supply chain issues given industrial relation issues; picking up traction in both Horlicks and Boost, launched affordable pouch packs, also exploring sachets at a later date, high sciences also large opportunity; going much ahead of planned timelines on cost synergies and profitability front.
- ✓ **Segmental outlook –** Home care business will pick up going forward to offset slowdown in products like sanitizers etc, also expect discretionary and ice creams to pick up next year; demand is picking up but pace of recovery is still unknown; rural and GT doing really well but urban and MT muted due to lack of mobility.
- ✓ **Foods margins –** Margins impacted by tea inflation which was not fully passed on to gain volume share, higher investments to continue in packaged foods A&P and capabilities.
- ✓ **Laundry portfolio –** Shares are still strong but growth impacted by limited mobility; expect a quick recovery with economy opening up.
- ✓ **Margin outlook -** RM inflation in tea and skin cleansing was unprecedented which was not fully passed to avoid growth disruption and gains shares, ready to sacrifice near-term margins in key categories to retain consumers.

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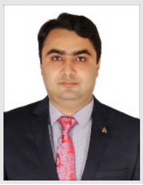

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