SUBDUED CONSUMER SENTIMENT AN OVERHANG

# HUL Fights Inflation with Price Hikes to Post a Robust Q4

## HUL: Standalone Q4 Performance

| Parameter | ₹ crore | YoY % Chg |
|---|---|---|
| Net Sales | 13,190 | 10.4 |
| Home Care Revenues | 4,750 | 23.7 |
| Beauty & Personal Care Revenues | 4,712 | 3.6 |
| Food & Refreshment Revenues | 3,698 | 5.3 |
| Operating Profit | 3,245 | 9.7 |
| Home Care Profit | 939 | 15.6 |
| Beauty & Personal Care Profit | 1,236 | -1.3 |
| Food & Refreshment Profit | 713 | 24.0 |
| Operating Profit Margin (% of net sales) | 24.6 | -20 bps |
| Net Profit | 2,327 | 8.6 |

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Declining volumes for three quarters a sign of the tough environment that will weigh on stock

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**ET Intelligence Group:** FMCG bellwether Hindustan Unilever (HUL) posted a resilient fourth-quarter performance amid headwinds of input cost inflation and subdued consumer demand sentiment. The company reported a 10% increase in revenue that was driven by price increases.

Volume growth was flat — given a high base of 16% over the same quarter the previous year. Incidentally, volume growth has been on a decline for the past three consecutive quarters as inflationary pressures have impacted consumer buying and rural demand continues to be weak.

Earnings Review

The inflationary pressure was visible from the 18% year-on-year rise in raw material costs — higher than the 10% growth in net sales. Raw material cost as a proportion of revenue was 51.6%, much higher than the level of 48.2% a year earlier. HUL's presentation mentions a 60% increase in both the prices of crude and palm oil over the previous year. To conserve profitability, HUL curtailed its advertising spending by 9% over the year-ago level. Consequently, the operating margin weakened just by 20 basis points to 24.6%.

Among the business segments, the beauty and personal care segment — HUL's most profitable business — posted the most modest performance with a 3.6% increase in revenue and 1.3% drop in profit. The segmental margin too contracted by 129 bps. Skincare and colour cosmetics had a muted quarter amid the third wave of Covid and high inflation impacting discretionary consumption.

The HUL stock is down more than 9% year-to-date. A final dividend of ₹19 announced by the company after an interim dividend of ₹15 should cheer investors. However, no major upside can be expected in the near term as commodity inflation, especially the inflation in edible oil prices, will continue to put near term pressure on the profitability of FMCG companies.

The company expects more inflation in the upcoming June and September quarters, which it is likely to respond to by calibrated pricing actions and productivity improvement. The operating environment remains challenging with rural demand and discretionary consumption impacted. Price increases will have an adverse impact on the volume growth. This could well be a cue for the investors to temper their expectations in the near term.