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Amid gloom, HUL puts up a tough fight

Vineetha Sampath & Pallavi Pengonda
vineetha.s@livemint.com

Hindustan Unilever Ltd's (HUL's) shares have risen nearly 22% in the past month. True, the softening in palm oil prices, a key input for many fast-moving consumer goods companies, has helped sentiments. Even so, it's not as if the benefits from this decline will accrue to HUL immediately.

For one, the prices of most commodities remain high. The average price of key commodities for HUL in the June quarter (Q1FY23) remained above the 10-year median, said the company. It further added that, the consumption of the higher-cost pipeline inventory will mean Q2FY23 would see a sharper hit to margins compared to Q1. As such, the company expects net material inflation to rise sequentially in Q2FY23. There is also a headwind for the margin from the depreciation in the Indian rupee.

Prices have been hiked in a calibrated manner in many categories over the past few months, but this has not been enough to compensate for the increase in input costs. In Q1FY23 and Q4FY22, HUL's gross profit margin had declined by 309 basis points (bps) and 301 bps, respectively, on a year-on-year (y-o-y) basis. For the same time frames, the drops in Ebitda (earnings before interest, tax, depreciation, and amortization) margin were 114 bps and 27 bps, respectively, y-o-y.

HUL was able to protect its Ebitda margin relatively better in Q4 as it cut down on advertising and promotion expenses by 8.7% y-o-y. These expenses have risen nearly 30% y-o-y in Q1FY23.

This, coupled with higher input costs, weighed on the company's Ebitda margin in the last quarter. Even so, HUL has done reasonably well in Q1 on the Ebitda margin front, considering that the gross margin drop was much sharper.

The company indicates that marketing spending is likely to remain high. "We are not going to blink when it comes to spending behind our brands," Sanjiv

Bouncing Back

Hindustan Unilever's volume growth in Q1FY23 stood at 6%, which was better than expected.



Source: Company, JM Financial

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Mehta, chief executive officer and managing director, HUL, said in a call with reporters.

There were indeed some bright spots in Q1. Volume performance, for instance, was ahead of Street expectations of up to about 4%. HUL clocked 6% volume growth in Q1 driven by all segments and a lower base. Growth in Q1FY22 was 9%, but recall that volumes declined by 8% in Q1FY21.



care portfolios as input costs continue to inflate at significantly high levels," said the company. The beauty and personal care segment saw 17% growth, while the foods and refreshment segment saw 9.3% growth.

However, demand conditions are still sombre. The rural market continues to be soft and a good monsoon season would be critical for the company.

Against this backdrop, HUL expects

growth to be price-led in the near term. A significant drop in commodity costs would help. Malaysian palm oil price has fallen by around 50% from the high seen in early March. If this sustains (or declines further) and other key com-

modities see similar trends on a consistent basis, then the company expects sequential improvement in margins from Q3FY22 onwards. Meanwhile, HUL's shares now trade at 53 times estimated earnings for FY24, based on Bloomberg data. Valuations are not exactly cheap after the recent run-up in the share price. There may be some earnings upgrades post Q1 results, said analysts.

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IN Q1, HUL's gross margin and Ebitda margin fell 309 bps & 114 bps, respectively, on a yearly basis

REVENUE growth was driven mainly by pricing. This trend would continue in the near-term

HUL'S shares have risen significantly in the past one month and valuations are not exactly cheap

In Q1FY23, HUL's pricing growth was 12%, taking the company's total operating revenue growth to nearly 20% y-o-y to ₹14,272 crore. The home care segment was the best performer among HUL's three key businesses, posting 30% revenue growth driven by the robust show in the fabric wash and household care segments. "Calibrated price increases were taken across fabric wash and household