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EVEN AS Q4 NET PROFIT GROWS 41%

It's Difficult to Predict Demand Outlook Amid Covid Surge: HUL

Our Bureau

Mumbai: Hindustan Unilever (HUL) on Thursday reported a 41% increase in net profit and 35% growth in sales for the January-March quarter, but the nation's biggest FMCG company said demand outlook was difficult to predict in an unprecedented environment with a surge in Covid-19 infection.

Excluding the nutrition business it acquired from GSK Consumer and integrated with its own portfolio in April last year, revenue rose 21%, also helped by a low base to compare with as sales had declined 9% in the year-earlier period.

The performance of the local unit of Unilever is considered a proxy for broader consumer sentiment in India.

HUL said it had seen progressive improvement in demand after the lockdown last year, with India unlocking in stages and the rural market still growing.

"In the last two weeks, there has been turbulence but it is not as bad as what we saw last April, because the containment has been localised, and we have not gone into a general lockdown. So, the business, albeit impacted to some extent, is still running," chairman Sanjiv Mehta said. All its factories are running, he said, adding: "There would be some demand impact because of mobility issues. So, let us wait and see how it pans out."

Sales rose to ₹12,241 crore and net profit grew to ₹2,143 crore. Volume, which indicates the number of products that customers put in their shopping carts, increased 16%. Operating profit expanded 1.5 percentage point even as the company faced elevated inflationary pressure in certain categories.

Parent Unilever, in an earnings call with investors, said it has an optimistic forecast for India for the rest of the year due to strong operational capabilities on the ground despite the public health and humanitarian crisis in the country.

"The situation in India is a really good example of just how unpredictable Covid continues to be. While India posted strong growth in Q1 as restrictions eased, the region has since seen a deeply worrying spike in cases and we have seen lockdowns return in some states and metro areas this month," Unilever CFO Graeme Pitkethly told analysts.

Positive Quarter

21% Growth in March quarter revenue, helped by a low base

Co saw progressive improvement in demand after the lockdown in 2020

Sales rose to ₹12,241 cr and net profit grew to ₹2,143 cr

Operating profit expanded 1.5% point

HUL Results Analysis ▶▶ 8

RURAL DEMAND unlikely to be buoyant amid extended curbs, which will test the FMCG bellwether

HUL Delivers Big, but Street Stays Cautious on Lockdown Concerns

Earnings Review

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ET Intelligence Group: FMCG bellwether Hindustan Unilever posted a strong March quarter performance with the low base effect helping record exceptional growth in net sales and net profit of 35% and 41%, respectively.

The company's domestic consumer business expanded 21% with underlying volume growth of 16% (volumes had declined 7% in the year-ago quarter due of the nationwide lockdown).

All the business segments posted double-digit year-on-year growth in revenue for the third consecutive quarter. However, unlike the other segments, the beauty and personal care segment failed to register an increase in sales and profit sequentially. This is disappointing given that it is the largest and most profitable segment. In contrast, the food & refreshments segment, thanks to the nutrition portfolio it has acquired, posted strong growth in both revenue and profit.

Contrary to the Street's expectation, HUL's operating margin expanded 1.5 percentage points to 24.8% — aided by price increases and cost controls. The company made savings on ad spends and other expenses (as a proportion of net sales) in comparison to the year-earlier levels. Staff cost was the lowest in four quarters.

The March quarter also marked the completion of one year of the acquisition of the nutrition portfolio from GlaxoSmithKline. HUL has managed to revive growth in Horlicks and Boost at a time when nutrition and hygiene are relevant due to the pandemic.

Despite the stellar Q4 performance, the Street remained largely unperturbed with the stock closing flat following the results announcement. It seems a good fourth-quarter show was already factored in and traders are cautious due to the lockdown-like circumstances in the current quarter.

Rural demand, an important engine of growth for HUL throughout the past year, is also likely to be dented in the ongoing quarter. It will be interesting to see how the company performs amid localised lockdowns, reduced mobility, lower discretionary spends and forecast of a normal monsoon.

HUL holds the promise of growth and dividend for a long-term investor. Its stock, however, is just 4% below its record high and is trading at a PE multiple of 77. It has gained 5% in year, trailing broad-based indices.

Top Notch Performance

PARAMETER	₹ (CR)	YOY % CHG
Net Sales	11,947	34.5
Home Care Revenues	3,840	14.6
Beauty & Personal Care Revenues	4,549	19.7
Food & Refreshment Revenues	3,511	96.4
Operating Profit	2,957	43.2
Home Care Profit	812	27.7
Beauty & Personal Care Profit	1,252	32.5
Food & Refreshment Profit	575	155.6
Op Profit Margin (% of net sales)	24.8	150 bps
Net Profit	2,143	41.1