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GSK Acquisition Brings in Some Resilience in HUL's Q1 Earnings

ET ANALYSIS

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ET Intelligence Group: The completion of merger of the GSK Consumer Healthcare business by April 1 proved to be well-timed for Hindustan Unilever (HUL) in two ways. Firstly, it provided resilient support to the company's overall performance during a challenging time. Secondly, its portfolio of nutrition products has proven to be a timely recipe for the Covid-infected Indian consumption scene. The GSK Consumer Health business it acquired has posted 5% growth in the quarter.

Excluding this business, HUL's domestic sales dropped 7% over the year-earlier level and volumes declined 8%. While staple products like detergents, toilet cleaners, soaps, toothpastes, tea and coffee performed well, discretionary items such as skin creams, colour cosmetics, deodorants and out-of-home ones such as ice creams, vending business and food

solutions didn't sell well during the lockdown-impacted quarter.

Nearly 80% of the company's portfolio themed on health, hygiene and nutrition has grown by 6% over a year earlier. Around 15% of the business outside of those themes has been impacted due to the lockdown, declining sharply by 45%. Smaller business segments of water, food solutions and ice creams — constituting 5% of the business — were very severely impacted, dropping by over 70%.

At 25.4%, operating margin dropped 1.1 percentage point, impacted by higher expenses incurred on Covid-related safety measures, raw material and staff. The sharp hit on profitability was reinvented in by cutting down on the advertising spending by a third.

As if to compensate investors for a relatively subdued performance amid the Covid crisis, the company chose to distribute a special dividend of ₹9.50 per share right in the first quarter of the fiscal year

HUL: Standalone Q1 Show (includes GSK nos)

| Parameters | ₹ crore | YoY Change(%) |
|--|---------|---------------|
| Net Sales | 10,406 | 4 |
| Home Care Revenues | 3,392 | -2 |
| Beauty & Personal Care Revenues | 4,039 | -12 |
| Food & Refreshment Revenues | 2,958 | 52 |
| Operating Profit | 2,644 | Flat |
| Home Care Profit | 637 | -9 |
| Beauty & Personal Care Profit | 1,134 | -16 |
| Food & Refreshment Profit | 582 | 53 |
| Operating Profit Margin (% of net sales) | 25.4 | -110 bps |
| Net Profit | 1,881 | 7 |

instead of conserving the cash and distributing the dividend at the end of the fourth quarter.

Intermittent localised lockdowns continue to affect product sales and lend uncertainty to a sustainable recovery of consumer demand. Adverse product mix, Covid-related costs and impact of fixed costs on the profitability have been identified as headwinds by the company during this Covid period.

According to the company management, early signs of an uptick in rural demand have been encouraging. If things don't worsen from here, the September-quarter performance would provide a better reflection of the underlying consumer demand.

As per data from Bloomberg, over two-thirds of the 42 analysts tracking the HUL stock have a 'buy' recommendation on it. The stock is trading just a percent lower than the consensus target price of ₹2,343, which is expected to go higher after the company's Q1 performance. The stock price is 11% lower than its record high hit in April, indicating room for the price to appreciate in the near term.