

Resilient rural demand holds the fort for HUL in September quarter



Equitas Small Fin Bank's IPO is more of a valuation bet

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The worst in terms of consumption demand is behind us," FMCG major Hindustan Unilever Ltd (HUL) said on Tuesday. This is the key takeaway for investors from the consumer goods major's September quarter earnings.

HUL's health, hygiene and nutrition segment, which accounts for 80% of its portfolio, grew 10% in the September quarter on a year-on-year (y-o-y) basis, while sales in the discretionary category, which is 20% of its portfolio, fell 25% y-o-y. In the June quarter, this category had reported 45% y-o-y decline. Overall growth stood at 3% on a like-to-like basis in Q2, compared to a 7% decline in Q1.

The divergent demand trends in the discretionary and non-discretionary

categories show that rural demand is faring far better than urban demand. HUL expects the former to continue growing at a faster pace than the latter. The government's measures focused on boosting the rural economy are expected to keep rural demand in good stead, the management added. "HUL is seen as a proxy for consumption demand, so a stable rural

with a pinch of salt," said an analyst with a domestic brokerage firm requesting anonymity.

Thanks to the resilient rural demand, HUL exceeded *Bloomberg's* consensus analysts' estimates on net profit and revenue growth. Net profit rose around 9% y-o-y to ₹2,009 crore in the September quarter. Revenue increased 16% y-o-y to ₹11,442 crore.

HUL expects demand for discretionary products, such as deodorants and cosmetics, to improve as people start moving out of their homes.

Usually, ahead of the winter season, dealers stock up on skincare products. But that has not been the case this time due to liquidity issues at dealers' end, the management said. Nonetheless, analysts said the performance of the personal care category, especially skincare, has not been very impressive lately. Note that this segment enjoys high margins.

STAYING STRONG

THE firm exceeded *Bloomberg's* analysts' consensus forecast on net profit and revenue growth

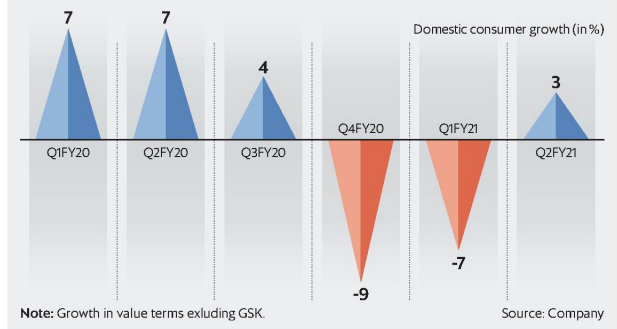
THE govt's measures focused on boosting the rural economy are expected to keep demand in good stead

HUL expects demand for discretionary products to improve with people starting to step out of homes

demand should bode well for the entire FMCG sector. That said, it should be noted that the buoyancy in rural demand comes on a low base. Also, migration of people may have contributed to the rural demand and reverse migration could weigh going ahead. So, investors should take the upbeat commentary on rural demand

Beating pandemic blues

HUL's domestic consumer growth recovered sequentially in the September quarter.



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Apart from that, analysts are closely watching the movement in the cost of key inputs. The management said it was witnessing cost inflation in some categories. Overall, HUL's management is cautiously optimistic on future demand recovery.

Meanwhile, the stock is trading at a one-year forward price-to-earnings

ratio of around 50 times. According to analysts, at this valuation multiple, the stock is expensive as the positives are fully priced-in. The HUL stock is still 13% away from its 52-week high of ₹2,488 seen in April. But analysts don't expect a sharp upside in the stock from the current levels based on September quarter earnings.