

HSIE Results Daily

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Results Reviews

- Hindustan Unilever:** HUL reported slightly better revenue growth in a challenging period. Domestic revenue/volume YoY growth was at 10%/flat while FMCG market registered +2/-8%. HUL continued to enjoy share gain as regional/small players faced inflation pressures. Home care was the outlier with 24% growth while BPC and F&R clocked slow growth. Grammage reduction impacted volume growth by 2-3%, while price hike continued to be the sole driver. Demand outlook remains a concern, with volume decelerating in both rural and urban India. RM inflation continued to impact gross margin, which was down 301/206bps YoY/QoQ to 49.5% (HSIE 50.5%). EBITDA growth was at 9.7% (HSIE 5%). With geopolitical issues aggravating commodity inflation, we build in margin pressure for the near term. With ongoing demand disruptions in mass segments and structural pressures from new age brands in the premium space (as highlighted in our recent thematic), we see limited surprise opportunities for HUL. We maintain our EPS estimates for FY23/FY24. We give 45x P/E on Mar-24E EPS to derive a TP of INR 2,000. Maintain REDUCE.
- UTI Asset Management Company:** UTIAM reported a weak quarter despite improvement in equity yields, given a sharp rise in staff costs and administration expenses, resulting in a 15% miss on core operating profit. Moderating yields and elevated staff costs continue to drag core profitability (EBIT margin at 36%, a five-quarter low). While we draw comfort from management commentary around a buoyant flows environment and a strong growth outlook for the retirement solutions business, we remain wary of continued pressure on yields and staff costs in the medium term. We reduce our APAT estimates by 10-9 % over FY23E-24E to build in higher employee costs. We expect UTIAM to deliver FY21-24E 7% revenue CAGR and 8% operating profit CAGR, as a consequence of strong AUM growth and slight cost rationalisation. Given its attractive valuation, we maintain BUY with a revised TP of INR1050 (26.5x Sep-23E NOPLAT + Sep-22E cash and investments).

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Hindustan Unilever

Home care saves the day; margin pressure continues

HUL reported slightly better revenue growth in a challenging period. Domestic revenue/volume YoY growth was at 10%/flat while FMCG market registered +2/-8%. HUL continued to enjoy share gain as regional/small players faced inflation pressures. Home care was the outlier with 24% growth while BPC and F&R clocked slow growth. Grammage reduction impacted volume growth by 2-3%, while price hike continued to be the sole driver. Demand outlook remains a concern, with volume decelerating in both rural and urban India. RM inflation continued to impact gross margin, which was down 301/206bps YoY/QoQ to 49.5% (HSIE 50.5%). EBITDA growth was at 9.7% (HSIE 5%). With geopolitical issues aggravating commodity inflation, we build in margin pressure for the near term. With ongoing demand disruptions in mass segments and structural pressures from new age brands in the premium space (as highlighted in our recent thematic), we see limited surprise opportunities for HUL. We maintain our EPS estimates for FY23/FY24. We give 45x P/E on Mar-24E EPS to derive a TP of INR 2,000. Maintain REDUCE.

- Beat on volume:** Revenue grew 11% YoY (35% in Q4FY21 and 10% in Q3FY22), with home care/BPC/F&R growing 24/4/5% (11/2/11% three-year CAGR). Domestic revenue grew 10% YoY, a beat on our estimates (HSIE 6%), led by better-than-expected volume growth (flat YoY vs. -3% HSIE). Growth in home care was broad-based with both fabric wash and household care values growing in high double digits YoY. BPC growth, at 4%, was mainly led by double-digit growth in skin cleansing, while the rest of the portfolio was weak. F&R growth, at 5%, was led by food and ice cream. Growth outlook remains weak in the near term, with rural pick-up being the key monitorable.
- In-line EBITDA margin:** Gross margin contracted by 301bps YoY (-117bps in Q4FY21 and -186bps in Q3FY22) due to high commodity inflation. Home care EBIT margin contracted by 138bps YoY (+216bps in Q4FY21) to 19.8%. BPC EBIT margin, at 26.2%, contracted 129bps YoY (+266bps in Q4FY21). F&R margin expanded 290bps YoY to 19.3% due to cost synergies in the nutrition business and ease in tea prices. Employee/A&P/other expenses grew by 4/-9/7% YoY. EBITDA margin contracted 27bps YoY to 24.1% (146bps in Q4FY21; 99bps in Q3FY22). EBITDA grew 10% YoY (HSIE 5%).
- Call takeaways:** (1) HUL continued to gain volume and value market share in more than 75% of its portfolio. (2) It generates >75% of its revenues from its top 16 brands. (3) Indonesia consumes 1/3rd of palm oil it produces. Export of palm oil ban will have short-term supply/pricing issues. (4) HUL's premium portfolio has grown 2x of non-premium portfolio. (5) Transition of the nutrition business has been completed, with direct reach now being 2x compared to pre-integration. (6) The company is launching bridge packs to provide value to its customers while taking calibrated price hikes. (7) Near-term margin will be under pressure.

Quarterly/annual financial summary

YE Mar (INR mn)	Q4 FY22	Q4 FY21	YoY (%)	Q3 FY22	QoQ (%)	FY21	FY22P	FY23E	FY24E
Net Sales	134,620	121,320	11.0	130,920	2.8	470,280	524,460	570,131	617,424
EBITDA	32,450	29,570	9.7	32,790	(1.0)	116,260	128,570	136,711	149,156
APAT	22,830	21,030	8.6	22,920	(0.4)	81,793	89,200	95,745	105,104
Diluted EPS (INR)	9.7	9.0	8.6	9.8	(0.4)	34.8	38.0	40.8	44.7
P/E (x)						61.6	56.5	52.6	47.9
EV / EBITDA (x)						42.7	38.6	36.3	33.1
RoCE (%)						26.1	17.0	17.8	18.9

Source: Company, HSIE Research

REDUCE

CMP (as on 27 Apr 2022) INR 2,145

Target Price INR 2,000

NIFTY 17,038

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,000	INR 2,000
	FY23E	FY24E
EPS %	0%	0%

KEY STOCK DATA

Bloomberg code	HUVR IN
No. of Shares (mn)	2,350
MCap (INR bn) / (\$ mn)	5,040/67,729
6m avg traded value (INR mn)	4,185
52 Week high / low	INR 2,859/1,902

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.5)	(10.5)	(9.9)
Relative (%)	(5.7)	(3.4)	(26.0)

SHAREHOLDING PATTERN (%)

	Dec-21	Mar-22
Promoters	61.90	61.90
FIs & Local MFs	10.85	11.61
FPIs	14.71	13.66
Public & Others	12.54	12.83
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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UTI Asset Management Company

Washout quarter - higher staff costs continue to haunt

UTIAM reported a weak quarter despite improvement in equity yields, given a sharp rise in staff costs and administration expenses, resulting in a 15% miss on core operating profit. Moderating yields and elevated staff costs continue to drag core profitability (EBIT margin at 36%, a five-quarter low). While we draw comfort from management commentary around a buoyant flows environment and a strong growth outlook for the retirement solutions business, we remain wary of continued pressure on yields and staff costs in the medium term. We reduce our APAT estimates by 10-9 % over FY23E-24E to build in higher employee costs. We expect UTIAM to deliver FY21-24E 7% revenue CAGR and 8% operating profit CAGR, as a consequence of strong AUM growth and slight cost rationalisation. Given its attractive valuation, we maintain BUY with a revised TP of INR1050 (26.5x Sep-23E NOPLAT + Sep-22E cash and investments).

- Core performance disappoints:** Revenue was in line with the estimate at INR2.95bn (+4.6% QoQ), supported by better equity yields, which offset lower-than-estimated growth in equity MF AUM. Revenue as a percentage of MF QAAUM improved 2.5bps to 52.7bps despite a lower share of equity (42.8%; -47bps QoQ) in the mix, largely on account of improvement in international business yields. Staff costs, at INR1.15bn (+19% QoQ), came in 19% ahead of the estimate, and continue to dampen profitability - savings on this front remain elusive in the medium term. Admin expenses came in 44% higher than our estimates on account of higher trail fees in international business and digital marketing initiatives, resulting in a double whammy, pulling down core operating profit 15% sequentially to INR1bn and APAT to INR0.54bn (-58% QoQ, a 64% miss and the lowest in nine quarters).
- Staff costs outlook bleak:** A higher provision on account of variable pay (INR170mn for FY22) resulted in bloated staff costs. Management expects 'fixed pay' to reduce within staff costs, but we believe staff cost moderation in the medium term would be an uphill task.
- Market share remains a concern:** Market share dropped 23/13bps to 5.2/5% in the hybrid and active equity category. Also, NPS AUM market share further slipped 24bps QoQ to 27.4% due to lower allocation; however, we look forward to the impact of BCG's appointment in driving market share improvement from private corporate AUM.

Financial summary

(INR bn)	Q4 FY22	Q4 FY21	YoY (%)	Q3 FY22	QoQ (%)	FY21	FY22P	FY23E	FY24E
Revenue	2.95	2.36	25.2	2.82	4.6	8.1	11.2	11.6	12.7
Operating profits	1.03	1.01	2.1	1.21	(15.4)	2.4	4.5	4.4	5.3
OP Margin (%)	34.8	42.7	-787bps	43.1	-825bps	29.5	40.4	37.8	41.3
APAT	0.54	1.34	-59.7	1.27	(57.5)	4.9	5.3	4.9	5.5
EV/NOPLAT (x)						40.7	21.2	21.3	18.6
P/E (x)						22.1	20.4	22.1	19.8
ROE (%)						16.5	16.0	14.0	14.7

Source: Company, HSIE Research

Change in estimates

(INR bn)	FY23E			FY24E		
	Revised	Old	Change (%)	Revised	Old	Change (%)
Revenues	11.6	11.6	0.2	12.7	12.7	0.6
EBIT	4.5	5.2	-13.8	5.4	6.1	-11.8
EBIT margin (%)	38.7	45.0	-631bps	42.2	48.1	-591bps
NOPLAT	3.5	4.1	-14.1	3.9	4.5	-12.0
APAT	4.9	5.5	-10.5	5.5	6.0	-8.8

Source: Company, HSIE Research

BUY

CMP (as on 27Apr 2022) INR 860

Target Price INR 1,050

NIFTY 17,038

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,215	INR 1,050
EPS %	FY22E -10.5%	FY23E -8.8%

KEY STOCK DATA

Bloomberg code	UTIAM IN
No. of Shares (mn)	127
MCap (INR bn) / (\$ mn)	109/1,467
6m avg traded value (INR mn)	256
52 Week high / low	INR 1,217/595

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(12.3)	(18.1)	42.1
Relative (%)	(11.5)	(11.0)	26.0

SHAREHOLDING PATTERN (%)

	Dec-21	Mar-22
Promoters	0.0	0.0
FIs & Local MFs	49.1	50.1
FPIs	5.5	6.5
Public & Others	45.5	43.5
Pledged Shares	Nil	Nil

Source : BSE

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Varun Lohchab	Hindustan Unilever	PGDM	NO
Naveen Trivedi	Hindustan Unilever	MBA	NO
Saras Singh	Hindustan Unilever	PGDM	NO
Sahej Mittal	UTI Asset Management Company	ACA	NO
Krishnan ASV	UTI Asset Management Company	PGDM	NO

Disclosure:

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