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HUL POSTS 9% RISE IN Q2 NET PROFIT, BUT LAGS ESTIMATES

Hindustan Unilever (HUL) posted a 9 per cent year-on-year (YoY) rise in net profit at ₹2,187 crore for the July-September quarter (Q2 of FY22). This was marginally lower than the ₹2,195 crore estimated by *Bloomberg*. The rise in costs weighed on the operating performance as well as the bottom line. 3 ▶

HUL stance raises demand concerns after a steady Q2

Company posts 9% YoY increase in net profit, 11% growth in revenues

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Mumbai, 19 October

The country's largest fast-moving consumer goods (FMCG) company, Hindustan Unilever (HUL), posted a 9 per cent year-on-year (YoY) rise in net profit at ₹2,187 crore for the July-September quarter (Q2 of FY22). This was marginally lower than the ₹2,195 crore estimated by Bloomberg. Despite a robust top line performance, the rise in costs weighed on the operating performance as well as the bottom line.Powered by a double-digit growth across two of its three segments, HUL reported a 11 per cent rise in revenues. While volume growth at 4 per cent was weaker than the 9 per cent in the June quarter, the company indicated that it was on account of a higher base for Q2. HUL said that 75 per cent of its business saw an increase in market share as well as penetration. The rest of the top line growth came from price hikes.

Despite the good performance, the stock shed over 4 per cent in trade. Street is worried on two counts. The first is the slowing sales in the rural market. The Nielsen FMCG market data indicates that rural growth has slipped sharply in the August-September period and is now a third of the growth reported by the urban segment.

For the January-July period, both urban and rural growth were at par, according to the market research firm. The HUL management indicated a softness in rural demand over the last few weeks. While the reasons are not clear, the slowing growth could be due to unseasonal rain as well as higher base as compared to the urban segment.

The other worry is on the margin front. Operating profit margins slipped 40 basis points over the year ago quarter, given the sharp rise in crude oil prices as well palm oil.

Skin cleansing (soaps) and home care (fabric wash) are the two product portfolios, which face the most pressure due to a surge in raw material costs. The company indicated that pressure on account of raw materials as well as packaging and freight will persist in the near term.

The only relief on the raw materials front are softening tea prices and recovery in the discretionary portfolio, which fetches higher margins and accounts for 12 per of sales. Price hikes and contribution from the discretionary portfolio aided profitability with margins expanding 70 basis points on a sequential basis.

The company indicated that it will try to keep margins in the 24-25 per cent range by calibrated revenue management (price hikes), improving product mix and cost-saving programmes.

Among its three segments, home care posted a strong 15 per cent growth, aided by increase in mobility and market share gains. Surf Excel gained the highest market share over the last three years. While other products in the portfolio (Vim and Domex) also gained share, water purifier sales, led by the ecommerce channel, are now back to pre-Covid levels.

The discretionary portfolio of skin care and colour cosmetics in the beauty and personal care segment has been the biggest gainer from increased mobility. These products contribute the most to the company's margins.

Foods and refreshments posted the slowest growth among the three categories, though it was on a higher base.

Sanjiv Mehta, chairman and managing director, said that the quarter witnessed a sequential improvement in trading conditions. However, the situation remained challenging with unprecedented levels of input cost inflation and subdued consumer sentiment. The company remains cautiously optimistic about demand recovery.

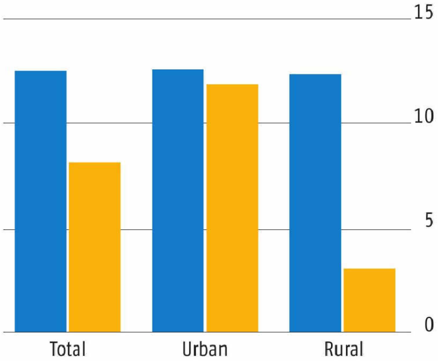
KEY FINANCIALS

	Q2FY21	Q2FY22	% change
Sales (₹ cr)	11,276	12,516	11.0
EBITDA (₹ cr)	2,869	3,132	9.2
EBITDA Margin (%)	25.4	25.0	-40 bps
Profit before tax (₹ cr)	2,661	2,954	11.0
Net profit (₹ cr)	2,009	2,187	8.9

bps: basis points; Source: Investor; Compiled by BS Research

FMCG MARKET GROWTH MODERATING

Nielsen YoY growths* (%) — Jan to Jul '21 ▪ Aug + Sep '21



*Nielsen FMCG market growth for relevent catagores