

Published Date:	20 Jan 2023	Publication:	Mint [Mumbai]
Journalist:	Suneera Tandon	Page No:	5
Circulation:	71,000		

HUL net profit beats Street; raises royalty fee for parent

The company's performance is seen as a proxy for the broader consumer sentiment in India

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NEW DELHI

Hindustan Unilever Ltd (HUL) on Thursday beat Street expectations with a 12% rise in quarterly net profit, with the maker of household goods gaining from higher demand for products and easing inflationary pressures.

The company's board also approved increased payout to its European parent Unilever Plc for providing technology, trademark licences and services. This entails paying royalty and central services fees at 3.45% of HUL's revenue, up from 2.65% in FY22. The new arrangement, which is effective from February, will be in force for a period of five years.

Meanwhile, HUL's standalone net profit climbed to ₹2,505 crore for the three months ended 31 December, from ₹2,243 crore a year earlier. A Bloomberg survey of analysts forecast the company to report a profit of ₹2,488 crore. HUL's performance is seen as a proxy for the broader consumer sentiment in India. The company said demand slowdown in the rural market could be bottoming out and that the worst of inflation may be behind the consumer goods industry.

"Looking forward, we are cautiously optimistic in the near term and believe that the worst of inflation is behind us. This should aid in a gradual recovery of consumer demand," Sanjiv Mehta, chief executive and managing director, HUL, said.

Rural markets reported signs of an improvement in the December quarter, the company said. While rural volumes remained in the negative, they improved sequentially.

"Speaking of urban rural dynamics, market growth was led by urban. Rural markets are showing some signs of improvement with December quarter growth higher than September quarter and the last 12 months. With lower inflation, strong winter crop sowing and the signs of a pickup in farm incomes, it is likely that rural slowdown is bottoming out," said Ritesh Tiwari, chief financial officer, HUL.

The maker of Lux soaps and Surf Excel detergent said revenue rose 16% to ₹15,228 crore in the December quarter



HUL is one of the top three businesses of Unilever and is a priority market. HT

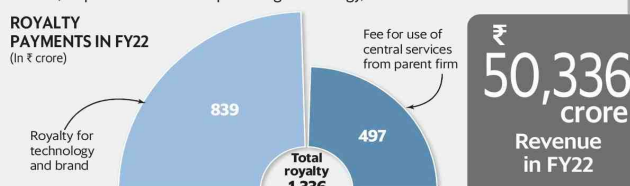
from ₹13,092 crore a year earlier.

Quarterly sales volumes rose 5% from a year earlier, but slowed sequentially. Gross margins contracted by 4.63 percentage points, but improved sequentially. Earnings before interest, taxes, depreciation and amortization (Ebitda) was up 7.9% to ₹3,540 crore.

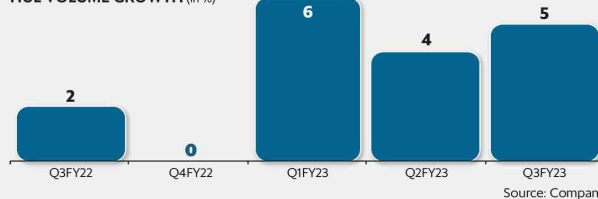
Mehta said the company is cautiously optimistic getting into 2023 and warned that it might take some time before rural volumes turn around. "Value growth in June and July in rural was negative and

Growing share

The HUL board approved increased royalty payout at 3.45% of revenue, up from 2.65% in FY22, to parent Unilever for providing technology, trademark licences and services.



HUL VOLUME GROWTH (in %)



SARVESH KUMAR SHARMA/MINT

In FY22, HUL incurred an expense of ₹1,336 crore, out of which ₹839 crore was paid as royalty for technology and brand, while ₹497 crore was paid for use of central services from the parent company, according to the company's FY22 annual report. For the full year, its total operating revenue was at ₹51,193 crore.

To be sure, the current technology, trademark licence and central services pact with Unilever was entered into in January 2013 for a period of 10 years. This granted HUL the right to use Uni-

lever-owned trademarks, technology, and corporate logo, and gave access to central services provided by the Unilever group. "Unilever's global brands, innovations, technical know-how, centralized services, and functional expertise enables HUL to win in the marketplace. During the tenure of the contract, HUL doubled its turnover and improved Ebitda margin by c.1000 basis points," it said in a regulatory filing.

Meanwhile, during Q3, HUL's home care division posted 32% rise in revenue aided by double-digit volume growth. Beauty and personal care grew 10%. With softening in palm oil prices, HUL cut soap prices in the quarter.

Analysts tracking the company said sales growth was largely led by pricing. "With the correction in crude and related commodity costs along with benign palm oil prices, we believe the company would further take price cuts and grammage increase to pass on the benefits. This will help the company recoup volume growth in the coming quarters," ICICI Securities analysts said in a note.

Mehta said the company will gauge how commodity prices behave. "If commodity prices flare up again, we might have to go back to the books and see how we protect the business model," he said. "But we believe that the worst of inflation perhaps is behind us," he said.

CONSUMPTION PLAY

HUL'S standalone net profit climbed to ₹2,505 crore for the three months ended 31 December

RURAL markets reported signs of improvement in the December quarter

THE company said its revenue rose 16% to ₹15,228 crore in the December quarter

IN Q3, HUL's home care division posted 32% rise in revenue aided by double-digit volume growth

volume growth were at -13% and -12%, (respectively). The good bit is that the December quarter saw 2.5% positive value growth, and volume growth which used to be in minus double digit is down to -9%. Clearly, we are looking at things which are improving, but there is a long way to go before volumes in rural India become positive," he added.

The company said increased royalty and central services payout to Unilever will be staggered over three years.

Tiwari said HUL is one of the top