

Sector: Consumer Goods
Company Update

	Change
Reco: Buy	↔
CMP: Rs. 1,929	
Price Target: Rs. 2,185	↓
↑ Upgrade	↔ No change
↓ Downgrade	

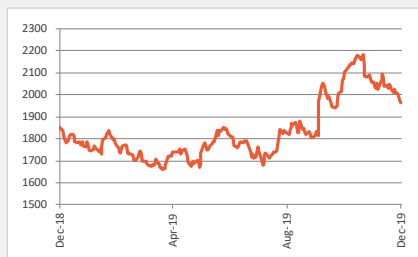
Company details

Market cap:	Rs. 4,17,592 cr
52-week high/low:	Rs. 2,187/1,650
NSE volume: (No of shares)	14.3 lakh
BSE code:	500696
NSE code:	HINDUNILVR
Sharekhan code:	HINDUNILVR
Free float: (No of shares)	71.0 cr

Shareholding (%)

Promoters	67.2
FII	12.9
DII	6.7
Others	13.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.7	7.7	9.2	7.3
Relative to Sensex	-7.0	-5.1	2.2	-7.0

Sharekhan Research, Bloomberg

Rural demand continued to remain sluggish in India with rural sales moderating to 0.5x urban sales in Q2FY2020. Demand in rural India continues to remain slow due to lower income in the hands of the rural population. In view of sustained slowdown in rural India, Unilever PLC has reduced its revenue guidance for CY2019 and H1CY2020. (Hindustan Unilever Limited's [HUL] contribution is higher in Unilever's Asia-Pacific region). HUL's management also indicated in the Q2FY2020 conference call that slowdown is expected to persist and recovery in demand would take another two to three quarters. However, HUL has undertaken various measures such as partnering with banks and financial partners and offering additional credit to wholesalers in rural markets to ease out liquidity concerns in trade channels. These, along with better rabi crop production in the backdrop of better monsoon and stability in the macro environment, would help in demand revival by H1FY2021 (largely in Q2FY2021). Hence, we are cutting our FY2020E and FY2021E estimates by ~3% each. We expect the volume growth trajectory to get back to 6-8% in the near to medium term.

Benign input prices and operating efficiencies to help margin expansion to sustain: Raw-material prices including palm oil prices remained benign in H1FY2020. HUL has taken pricing cuts in its core soaps category to see some improvement in sales volume. However, sales of the personal care category would continue to remain under pressure due to sustained slowdown. Thus, overall volume growth is expected to sustain at mid-single digit in H2FY2020. On the other hand, benign input prices and operating efficiencies will help operating margins to sustain on high base in H2FY2020. Despite slowdown in the domestic market, management has maintained its thrust on new launches and premiumisation to drive its long-term growth. In recent times, new launches such as Love & Care and Magic rinse powder are receiving good response. Oral care is regaining some momentum, led by freshness (Close-up) and naturals (Ayush) categories with region-specific media communication. We believe this will help HUL to achieve sustainable volume growth of 6-8% in the near to medium term in the backdrop of normal demand environment.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 2,185: We have reduced our earnings estimates for FY2020E and FY2021E by ~3% each to factor in sustained slowdown in the demand environment, especially in rural geographies. We have introduced FY2022E estimates in this note. The stock has corrected by 10% in the past one month, which factors in the near-term headwind of slower revenue growth in rural markets. Hence, there is very limited downside risk from the current level. However, the long-term growth story of HUL is intact. Hence, we maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 2,185 (valuing the stock at 49x average of FY2021-FY2022 earnings estimates).

Key Risks

Any sustained slowdown in volume growth and margin decline due to increased input prices would be key risks to our earnings estimates.

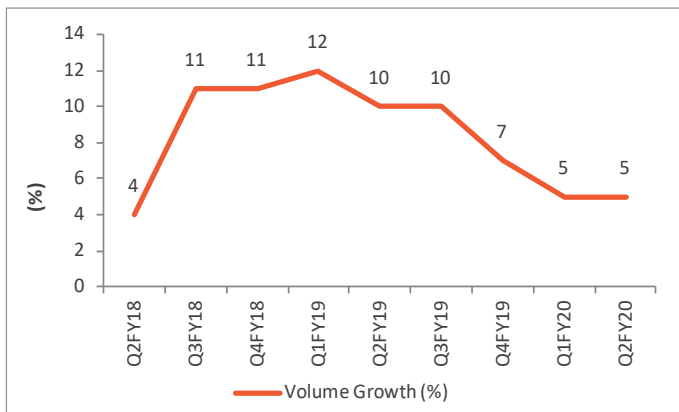
Valuation

Particulars	Rs cr				
	FY18	FY19	FY20E	FY21E	FY22E
Revenue	35,218	38,224	40,566	45,702	51,755
OPM (%)	20.7	22.6	24.8	25.3	25.7
Adjusted PAT	5,287	6,199	7,395	8,791	10,484
% YoY growth	24.4	17.3	19.3	18.9	19.3
Adjusted EPS (Rs.)	24.5	28.7	34.2	40.7	48.5
P/E (x)	78.8	67.2	56.3	47.4	39.7
P/B (x)	58.9	54.4	42.3	31.0	22.2
EV/EBIDTA (x)	56.4	47.5	40.6	34.8	29.8
RoNW (%)	77.9	84.2	84.5	75.5	65.2
RoCE (%)	104.2	113.2	106.8	95.8	84.8

Source: Company; Sharekhan estimates

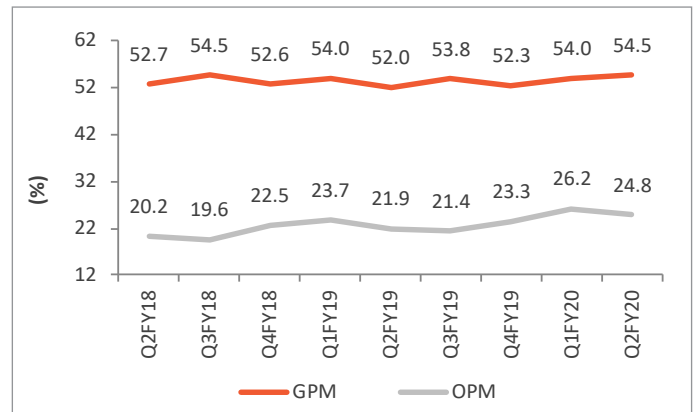
Financials in charts

Volume growth came in at 5% in Q2



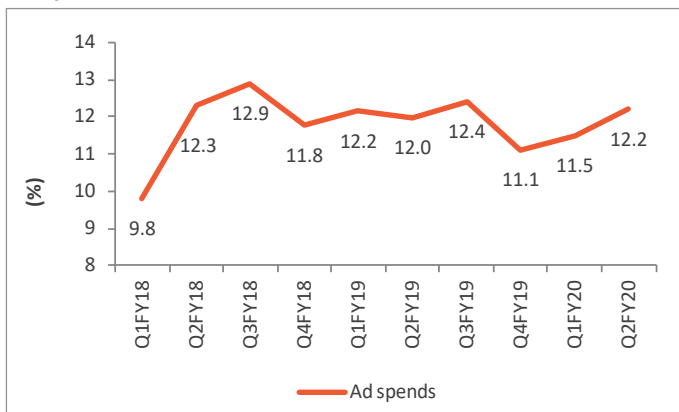
Source: Company, Sharekhan Research

GPM and OPM improved significantly y-o-y



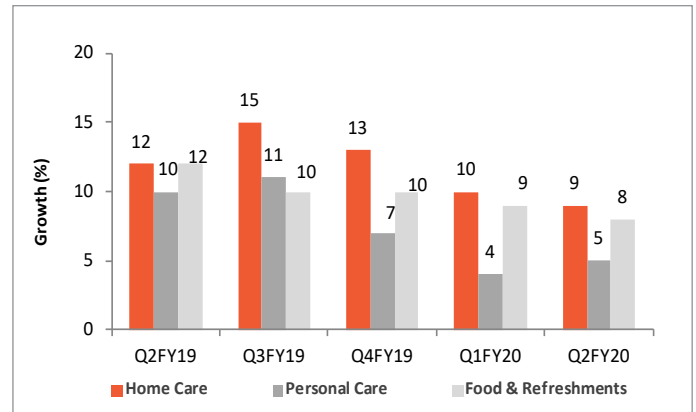
Source: Company, Sharekhan Research

Ad spends maintained



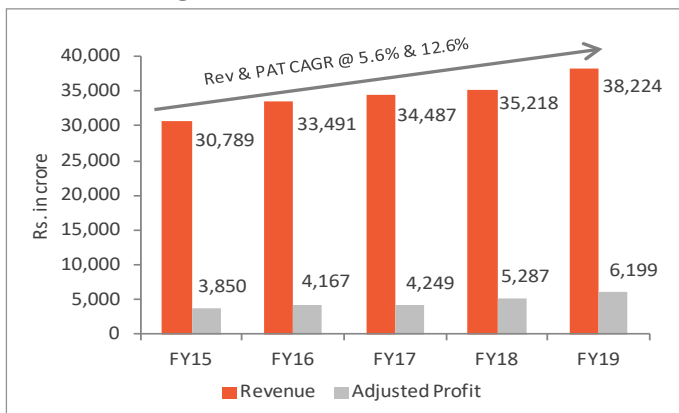
Source: Company, Sharekhan Research

Key categories moderated due to slowdown



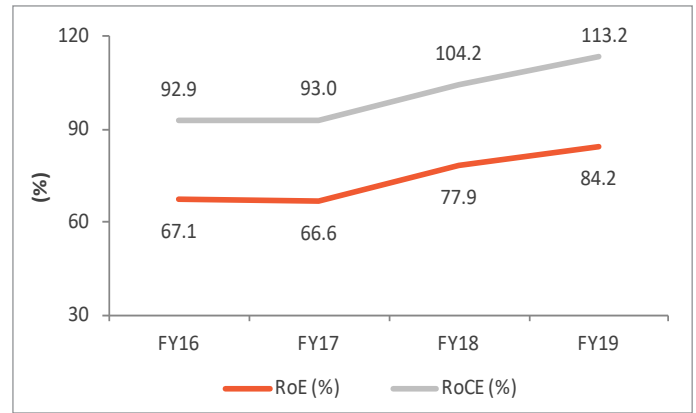
Source: Company, Sharekhan Research

Revenue & PAT grew @ CAGR of 5.6% & 12.6%



Source: Company, Sharekhan Research

Return ratios remained strong



Source: Company, Sharekhan Research

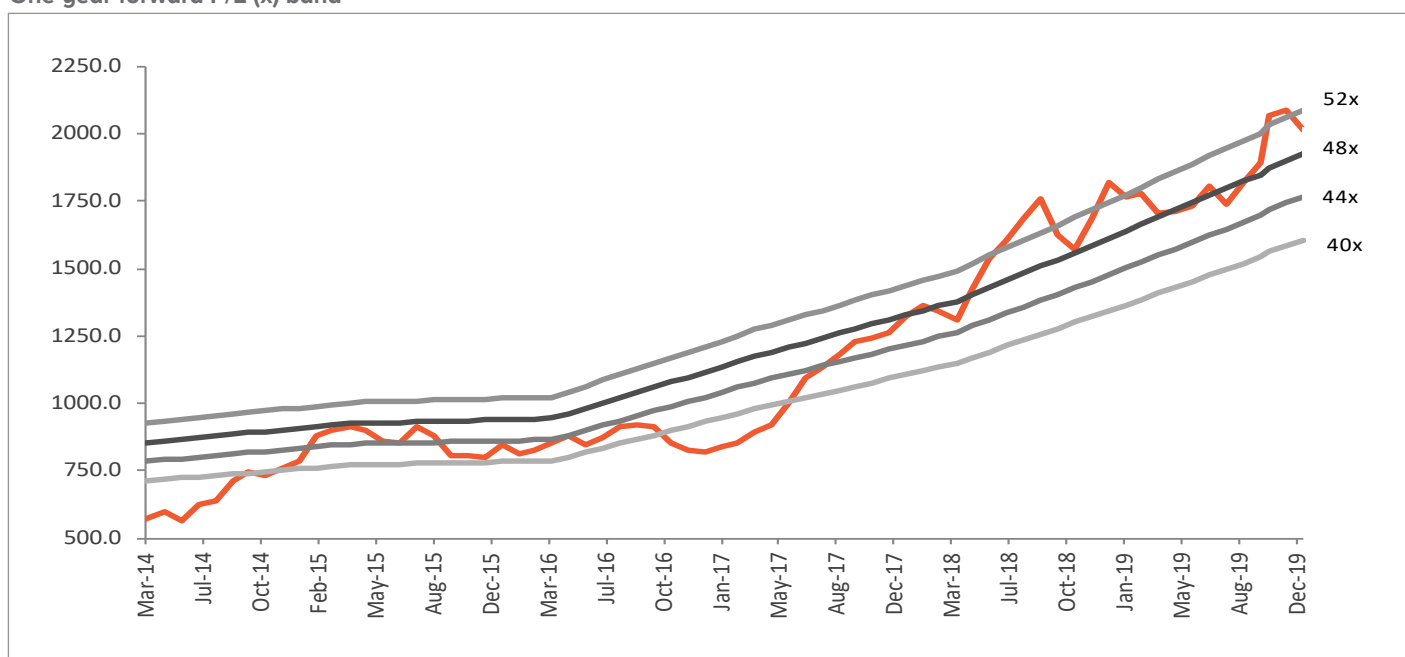
Outlook

Volume growth to remain in low single digit in H2FY2020: Rural sales stood at 0.5x of urban sales in Q2FY2020, which continue to put pressure on the consumer goods industry's growth. Demand in rural India continues to remain sluggish due to lower income in the hands of the rural population. HUL's volume growth in H1FY2020 stood at 5% in the domestic business and we expect it to remain at 5-6% in the near term. However, benign input prices and operating efficiencies will help margins to remain high on a y-o-y basis.

Valuation

Maintain Buy with a revised PT of Rs. 2,185: We have reduced our earnings estimates for FY2020E and FY2021E by ~3% each to factor in sustained slowdown in the demand environment, especially in rural geographies. We have introduced FY2022E estimates in this note. The stock has corrected by 10% in the past one month, which factors in the near-term headwind of slower revenue growth in rural markets. Hence, there is very limited downside risk from the current level. However, the long-term growth story of HUL is intact. Hence, we maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 2,185 (valuing the stock at 49x average of FY2021-FY2022 earnings estimates).

One-year forward P/E (x) band



Source: Company; Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Nestle India*	83.2	70.1	57.0	50.7	47.8	39.8	70.3	67.1	67.9
ITC	24.3	19.7	17.8	15.9	14.3	12.7	27.8	27.7	28.4
HUL	67.2	56.3	47.4	47.5	40.6	34.8	113.2	106.8	95.8

Source: Company, Sharekhan estimates

*Values for Nestle India are for CY2018, CY2019E and CY2020E

About company

HUL is India's largest FMCG company with a strong presence in the home care and beauty and personal care categories. The company is a subsidiary of Unilever Plc (that holds a 67% stake in HUL), the world's largest consumer goods company present across 190 countries. With over 40 brands spanning 12 distinct categories such as personal wash, fabric wash, skin care, hair care, oral care, deodorants, colour cosmetics, beverages, ice creams, frozen desserts and water purifiers, HUL is part of the everyday life of millions of consumers across India. The company's portfolio includes leading brands such as Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk and Axe. HUL reported revenue of Rs. 38,224 crore and OPM of 22.6% in FY2019.

Investment theme

HUL has a leadership position in highly penetrated categories such as soaps, detergents and shampoos in India. Sustaining product innovation, entering into new categories, premiumisation and increasing distribution network remain some of the key revenue drivers for the company. The recent acquisition of GSK Consumer will make HUL a formidable play in the health food drinks segment and will enhance the growth prospects of its relatively small food business. A strong financial background, robust cash-generation ability and leadership position in some key categories give HUL an edge over other companies and, hence, justify the stock's premium valuation.

Key Risks

- ◆ Slowdown in the demand environment: Any slowdown in demand (especially in rural India) would affect sales of key categories, resulting in moderation of sales volume growth.
- ◆ Increased input prices: Palm oil and crude derivatives such as linear alkyl benzene are some of the key raw materials used by HUL. Any significant increase in the prices of some of these raw materials would affect profitability and earnings growth.
- ◆ Increased competition in highly penetrated categories: Increased competition in highly penetrated categories such as soaps and detergents would act as a threat to revenue growth.

Additional Data

Key management personnel

Sanjiv Mehta	Chairman and Managing Director
Srinivas Pathak	Executive Director, Finance & IT and CFO
Pradeep Bannerjee	Executive Director, Supply Chain
Dev Bajpai	Executive Director, Legal and Corporate Affairs and Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Unilever PLC	51.5
2	Brooke Bond Group Ltd	4.9
3	Unilever Overseas Holdings Ltd	4.1
4	Unilever UK & CN Holdings Ltd	2.8
5	Brooke Bond South India Estates Ltd	2.4
6	Brooke Bond Assam Estates Ltd	1.5
7	Vanguard Group Inc	1.2
8	BlackRock Inc	1.1
9	Nomura Holdings Inc	0.7
10	SBI Funds Management Pvt Ltd	0.7

Source: Bloomberg

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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