Sharekhan
by BNP PARIBAS

Hindustan Unilever

Long-term growth prospects intact

Sector: Consumer Goods
Company Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 2,232**	
Price Target: **Rs. 2,575**	↑

↑ Upgrade ↔ No change ↓ Downgrade

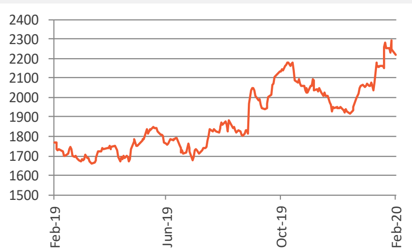
Company details

Market cap:	Rs. 4,83,186 cr
52-week high/low:	Rs. 2,307/1,650
NSE volume: (No of shares)	15.2 lakh
BSE code:	500696
NSE code:	HINDUNILVR
Sharekhan code:	HINDUNILVR
Free float: (No of shares)	71.0 cr

Shareholding (%)

Promoters	67.2
FII	12.8
DII	6.7
Others	13.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.8	9.2	19.7	26.8
Relative to Sensex	10.1	9.2	8.7	11.5

Sharekhan Research, Bloomberg

Hindustan Unilever Limited's (HUL's) board of directors has approved the proposal to form a new 100% subsidiary with an authorised share capital of Rs. 2,000 crore. The new subsidiary has been formed to leverage the growth opportunities in the change of business environment and to avail benefits of the new tax regime. Under section 115BAB, the company formed and registered in India and has commenced manufacturing before March 31, 2023, can avail lower tax rate of 15% (plus surcharge and cess). Further, the company would continue to invest in the high-growth/niche categories, enhance its distribution reach, new business verticals and suitable substitute options for imported products (largely raw materials).

Event: Subsidiary to be set up to avail tax benefits: HUL is forming a new subsidiary to set-up new manufacturing unit to avail the benefit of the revised scheme for new manufacturing companies. In the first phase, the company is planning to invest Rs. 500-800 crore for setting up a new facility, which is likely to manufacture some of the imported raw materials in India. The company is yet to finalise the plant's location and the products that will be manufactured therein. The capex for the plant would be largely met through internal accruals. The intent of the management is to become more business agile and also avail potential tax benefits under the new scheme. Though the timeline of the investment is not known, we expect this development to lead to a potential reduction in tax rate for HUL in the long run, which augurs well for investors.

Our Call

Valuation – Maintain Buy with a revised price target of Rs. 2,575: Despite tough roadblocks such as demonitisation and implementation of GST, HUL maintained its double-digit earnings growth (CAGR of 14% over FY2016-19). We expect the company to achieve double-digit organic earnings growth in the near to medium term, driven by sustained new product addition, entry into new categories, better revenue mix through premiumisation and improving market share. The merger of GSK Consumer's HFD business will further add on to overall earnings growth in the near to medium term. We maintain our Buy recommendation on the stock with revised price target of Rs. 2,575 (rolling over our price target to FY2022 earnings).

Key Risks

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

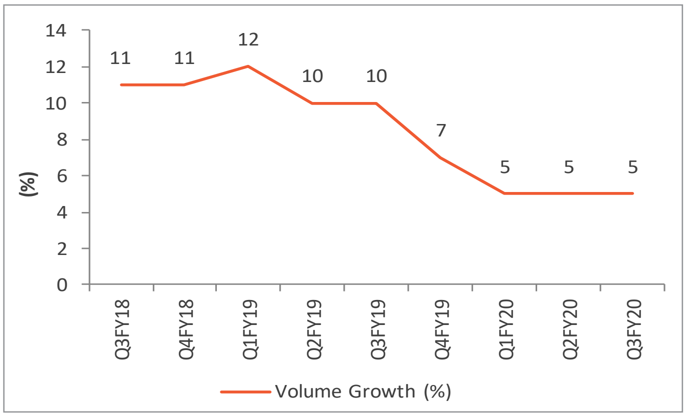
Valuation Rs cr

Particulars	FY17	FY18	FY19	FY20E	FY21E	FY22E
Revenue	34,487	35,218	38,224	40,651	45,561	52,064
OPM (%)	17.5	20.7	22.6	25.1	25.6	25.8
Adjusted PAT	4,249	5,287	6,199	7,431	8,733	10,480
Adjusted EPS (Rs.)	19.7	24.5	28.7	34.4	40.4	48.5
P/E (x)	113.5	91.2	77.8	64.9	55.2	46.0
P/B (x)	74.3	68.1	62.9	56.1	39.8	27.7
EV/EBIDTA (x)	78.9	65.4	55.1	46.5	40.2	34.5
RoNW (%)	66.6	77.9	84.2	91.5	84.3	71.0
RoCE (%)	93.0	104.2	113.2	115.3	106.2	92.0

Source: Company; Sharekhan estimates

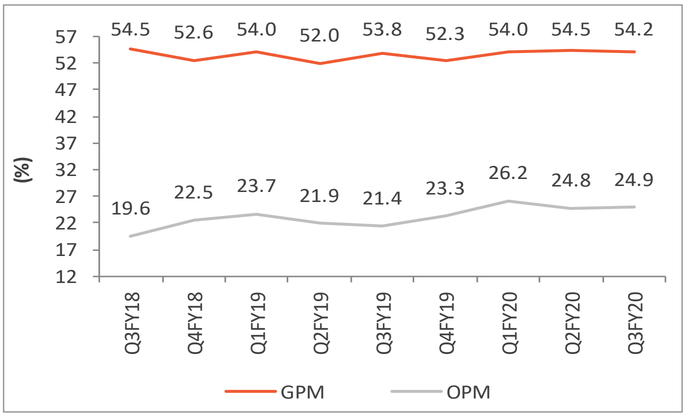
Financials in charts

Volume growth sustained at 5% in Q3



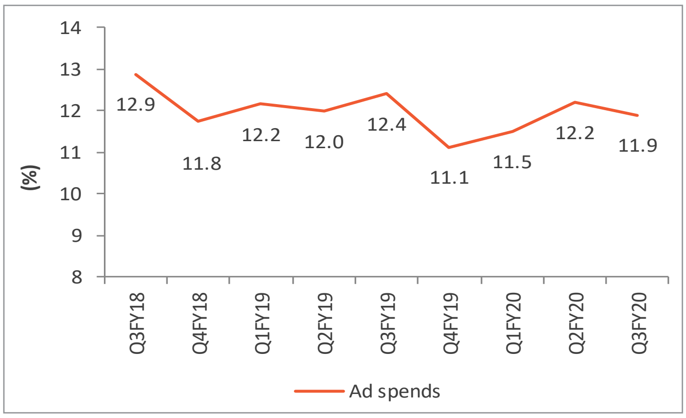
Source: Company, Sharekhan Research

GPM and OPM improved y-o-y



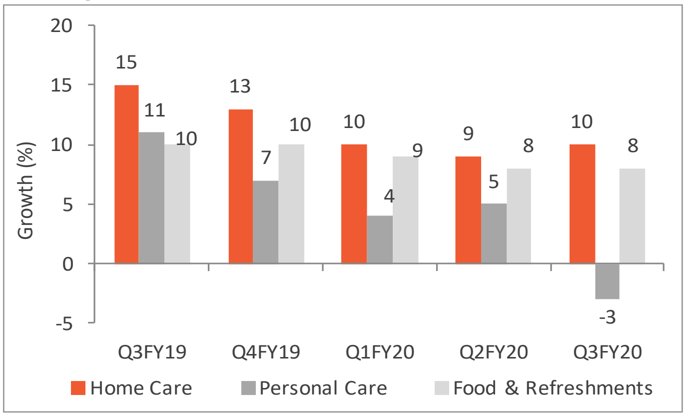
Source: Company, Sharekhan Research

Lower ad spends resulted in OPM expansion in Q3



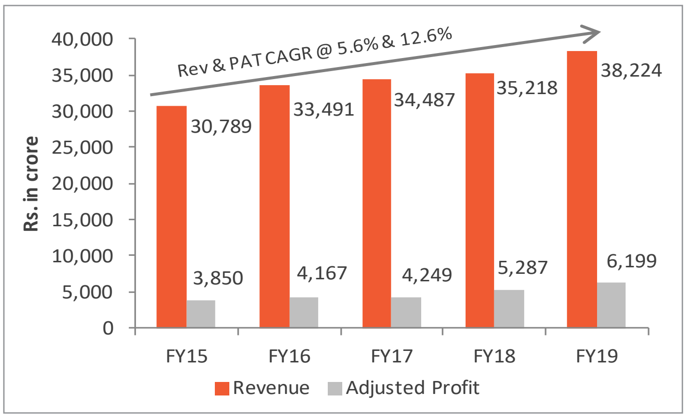
Source: Company, Sharekhan Research

Decent growth in home care & foods, personal care was subdued



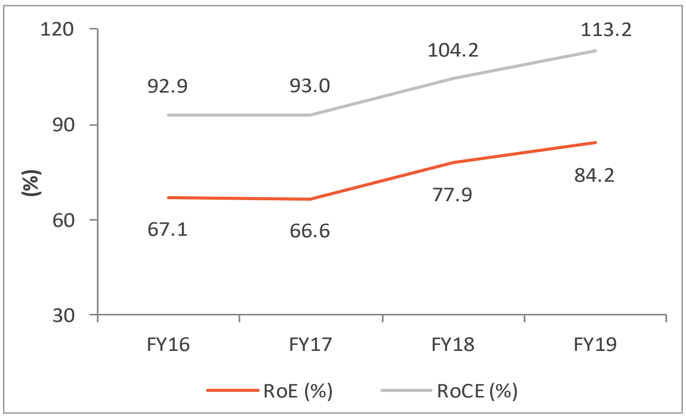
Source: Company, Sharekhan Research

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



Source: Company, Sharekhan Research

Return ratios remained strong



Source: Company, Sharekhan Research

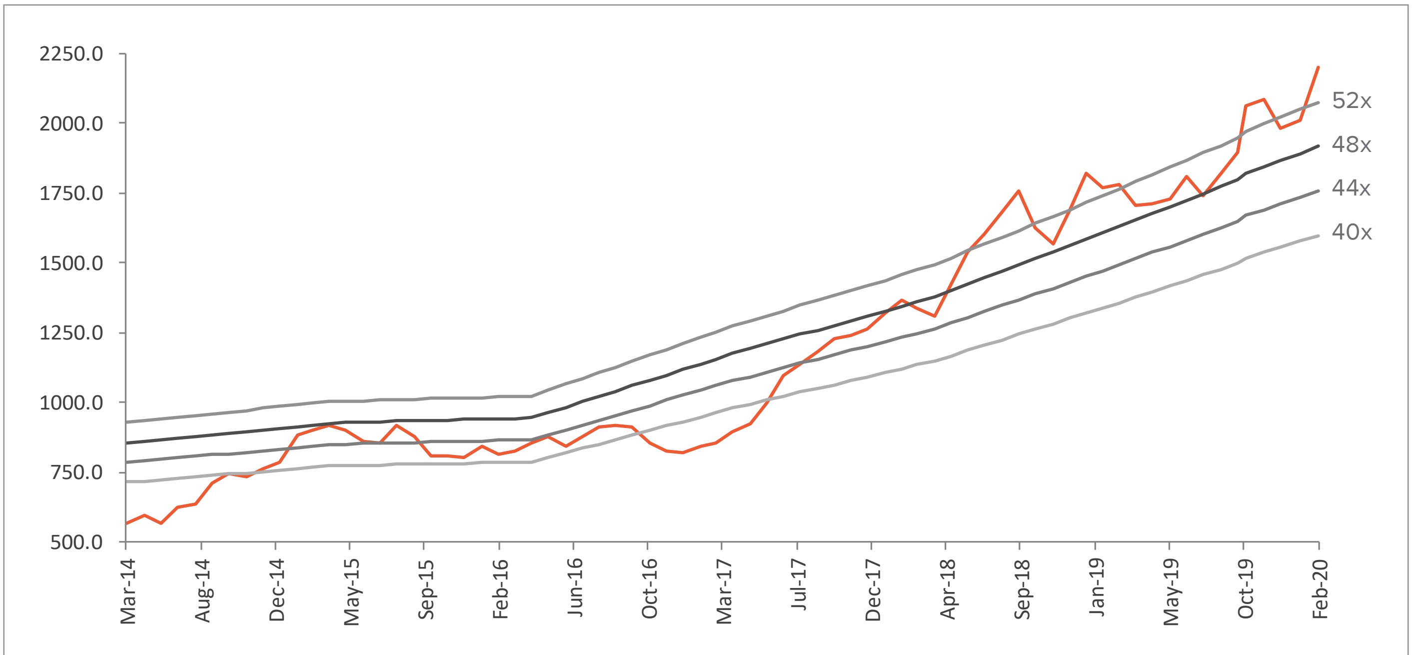
Outlook

Volume growth to sustain at 4-5% in the near term; Margin expansion to sustain: HUL has been registering volume growth of 5% for the past three quarters as slowdown in rural demand continues to put pressure on sales of categories such as personal care. Despite slowdown in demand environment, the company has maintained its thrust on higher investment behind existing categories, new product launches and enhancing the distribution reach, which will help it to achieve steady revenue growth in the coming years. Post the parent company's redefined focus on improving operating profit margins (OPM) through efficiencies, HUL managed to expand its OPM by 506 bps in the past two years. Better revenue mix through premiumisation and synergistic benefits from the merger of GSK Consumer's health food drink (HFD) business would help in posting sustained margin expansion in the near to medium term.

Valuation

Maintain Buy with a revised price target of Rs. 2,575: Despite tough roadblocks such as demonitisation and implementation of GST, HUL maintained its double-digit earnings growth (CAGR of 14% over FY2016-19). We expect the company to achieve double-digit organic earnings growth in the near to medium term, driven by sustained new product addition, entry into new categories, better revenue mix through premiumisation and improving market share. The merger of GSK Consumer's HFD business will further add on to overall earnings growth in the near to medium term. We maintain our Buy recommendation on the stock with revised price target of Rs. 2,575 (rolling over our price target to FY2022 earnings).

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*	95.7	80.7	65.6	58.5	55.7	46.4	70.3	81.9	97.7
ITC	20.0	16.4	15.0	12.8	11.6	10.5	27.8	27.5	27.7
HUL	77.8	64.9	55.2	55.1	46.5	40.2	113.2	115.3	106.2

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 homecare 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 increased 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 HFD 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 demand:** 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	Vanguard Group Inc	1.2
2	BlackRock Inc	1.2
3	Nomura Holdings Inc	0.7
4	SBI Funds Management Pvt Ltd	0.7
5	Standard Life Aberdeen PLC	0.4
6	ICICI Prudential Life Insurance Co Ltd	0.4
7	ICICI Prudential Asset Management Co Ltd	0.3
8	UTI Asset Management Co Ltd	0.2
9	Government Pension Investment Fund	0.2
10	JP Morgan Chase & Co	0.2

Source: Bloomberg

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