

Leveraging emerging trends...

Hindustan Unilever (HUL) reported 4.4% revenue growth with the inclusion of acquired brands (Horlicks, Boost) revenue. On a like to like basis, revenue fell 7% with 8% volume dip. Despite manufacturing & supply chain disruption in April, May, the home care segment saw mere 2.1% decline in revenues. The company has been able to refill the distributor pipeline by June 2020 to pre-Covid levels. Beauty & personal care segment (BPC) segment saw 12.0% sales decline severely impacted by cosmetics, skin care & deodorants. However, soaps, sanitisers saw a strong surge in demand. The company has augmented hand wash capacity by 5x to meet the surge in demand aided by increasing hygiene awareness. Foods & refreshments category grew 52% with the inclusion of acquired brands sales. On a like to like basis, revenues fell 4% with ice-cream business severely impacted by lockdown. However, ketchup, tea & coffee witnessed strong double digit growth with increasing in-home consumption. Operating margins contracted 113 bps with 220 bps shrinkage in gross margins. The reduction in A&P spend by 393 bps partially offset the operating de-leverage impact on other costs. Net profit increased 7.2%.

Long term emerging trend; rationalising operations

Given the significant impact of Covid-19, some long term changes in demand pattern are emerging. With a huge upsurge in demand for handwash, sanitisers, HUL was able to significantly ramp up capacity in these segments. Moreover, it launched 50 new products in hygiene & sanitisers space. Demand for ketchup, soups, tea & coffee has also increased significantly with upsurge in 'in-home' consumption. With the limited available manufacturing capacity, the company is currently producing 50% of SKUs. Moreover, it is planning to rationalise & discontinue 20% of SKUs even after manufacturing normalises to pre-Covid level.

Volatile commodity cost impacting margins

Though operating margins contracted 113 bps on a reported basis, Horlicks & Boost positively impacted margins by 60 bps. The company was unable to benefit from crude based packaging cost due to higher RW inventory levels. We believe some commodity costs like tea, vegetable oil are on the rise and would negatively impact margins in the next two quarters. Moreover, HUL is looking to pass on the benefit of lower crude related cost in terms of price cuts in home care segment. We estimate operating margins of 25.2% and 26.5% in FY21E and FY22E, respectively.

Valuation & Outlook

The strong performance in unprecedented quarter shows resilience of FMCG business. We expect HUL to be able to leverage structural demand trends in health & hygiene space with strong brands (Lifebuoy, Surf excel, Domex, Vim). We also expect strong growth in packaged foods, tea, coffee to continue in medium term. Maintain **HOLD** with revised TP of ₹ 2410.

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	34487.0	38734.0	38785.0	43245.1	49715.9	13.2%
EBITDA	7276.0	9147.0	9600.0	10879.4	13165.7	17.1%
EBITDA Margin %	21.1	23.6	24.8	25.2	26.5	
Net Profit	5237.0	6546.0	6738.0	7609.9	9425.9	18.3%
EPS (₹)	24.25	30.31	31.19	32.39	40.12	
P/E	95.6	76.5	74.3	71.6	57.8	
RoNW %	74.7	87.6	85.7	20.3	25.4	
RoCE (%)	79.9	90.7	89.5	26.7	33.0	

Source: Company, ICICI Direct Research



Particulars

Particular (₹ crore)	Amount
Market Capitalization	544,590.9
Total Debt (FY20)	0.0
Cash and Investments (FY20)	6,265.0
EV	538,325.9
52 week H/L (₹)	2614 / 1657
Equity capital	234.9
Face value	₹ 1

Key Highlights

- Home care posted 2.1% decline in sales with 140 bps contraction in EBIT margins to 18.8%
- BPC witnessed de-growth of 12.0% impacted by supply disruption as well demand dip in cosmetics, skin care & deodorants. EBIT margins contracted by 180 bps to 27.8%
- F&R grew 51.7% with 25 bps expansion in EBIT margins to 19.7% driven by inclusion of acquired brands
- Maintain HOLD with revised target price of ₹ 2,410/share

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Exhibit 1: Variance Analysis

Particulars (₹ crore)	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Net Sales	10,406.0	9,872.8	9,984.0	4.2	8,885.0	17.1	The growth in sales due to inclusion of acquired brands. The base business witnessed a 7% decline in sales.
Other Operating Income	154.0	132.7	130.0	18.5	126.0	22.2	
Raw Material Expenses	5,087.0	4,513.5	4,648.0	9.4	4,170.0	22.0	Gross margins contracted by 220 bps due to change in mix, inability to get the benefit of crude based RM cost & inflation in palm oil, SMP & tea
Employee Expenses	592.0	565.0	452.0	31.0	355.0	66.8	A&P spend reduced by 393 bps .
Marketing Expenses	797.0	779.2	1,161.0	-31.4	1,164.0	-31.5	
Other operating expenses	1,440.0	1,397.1	1,206.0	19.4	1,257.0	14.6	
EBITDA	2,644.0	2,618.0	2,647.0	-0.1	2,065.0	28.0	Operating margins contracted by 113 bps due to operating de-leverage, gross margins dip.
EBITDA margin (%)	25.0	26.5	26.2	-113 bps	22.9	212 bps	
Depreciation	242.0	225.3	214.0	13.1	255.0	-5.1	
Interest	29.0	23.9	24.0	N.A.	26.0	N.A.	Net profit grew by 7.2% getting the benefit of lower taxation
Other Income	156.0	0.0	147.0	0.0	266.0	-41.4	
PBT	2,529.0	2,530.6	2,556.0	-1.1	1,992.0	27.0	
Exceptional Items	-118.0	0.0	7.0	N.A.	-58.0	N.A.	Exception spend were related to acquisition (stamp duty largely)
Tax Outgo	530.0	637.7	808.0	-34.4	473.0	12.1	Net profit grew by 7.2% getting the benefit of lower taxation
PAT	1,881.0	1,892.9	1,755.0	7.2	1,519.0	23.8	
Key Metrics growth YoY (%)							
Home care	-2.1	-12.2	10.1		-4.3		The segment impacted by skin care, cosmetics & deos
Beauty & Personal care	-12.0	-13.0	4.1		-13.5		
Food & Refreshments	51.7	34.7	9.2		-67.0		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Sales	40,205.2	42,606.0	6.0	48,122.1	48,908.9	1.6	Change in estimates due to better than expected sales
EBITDA	10,574.9	10,879.4	2.9	12,964.9	13,165.7	1.5	We lower our operating margins estimates with steep increase in some commodities & continued covid related expenses
EBITDA Margin (%)	25.9	25.2	-74 bps	26.5	26.5	-2 bps	
PAT	7,880.1	7,609.9	-3.4	9,712.3	9,425.9	-2.9	
EPS (₹)	33.5	32.4	-3.3	41.3	40.1	-2.9	

Source: Company, ICICI Direct Research

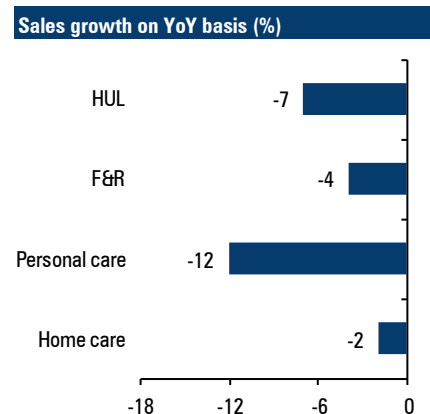
Exhibit 3: Assumptions

(₹ crore)	Current				Earlier			Comments
	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Home care	11,464.0	12,876.0	13,642.0	13,914.8	15,028.0	12,414.2	14,772.9	Change in estimates with better than expected performance
Personal care	16,132.0	17,655.0	17,345.0	16,477.8	19,773.3	16,304.3	19,565.2	
Refreshments	6,425.0	7,133.0	7,450.0	11,547.5	13,395.1	11,175.0	13,410.0	

Source: Company, ICICI Direct Research

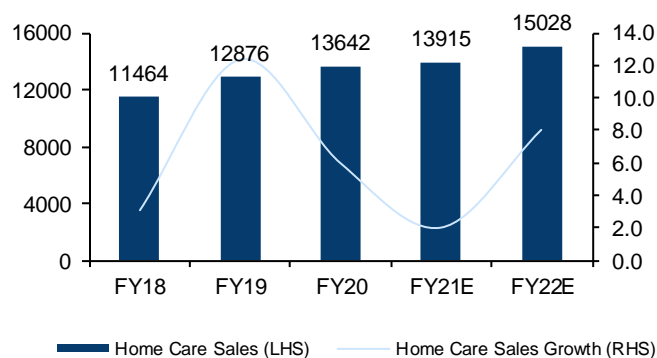
Conference Call Highlights

- HUL reported 4.4% growth in sales with the inclusion of acquired business brands (Horlicks, Boost). On a like to like basis, sales declined 7% negatively impacted by skin care, cosmetics, deodorants, ice-creams & water business.
- Home care segment witnessed 2.1% dip in sales with water purifier business witnessing a near washout quarter. However, Domex witnessed healthy growth with increasing home hygiene awareness. Fabric wash (Surf excel, Rin, Wheel) saw stable sales
- BPC segment witnessed 12% de-growth with hair care, cosmetics, deodorants severely impacted by lockdowns both in terms of production disruption as well as lack of demand. However, handwash, sanitisers saw a huge surge in demand and the company was able to significantly augment capacities in a short span of time. The recovery in cosmetics, skin care is likely to be prolonged
- Foods & refreshment segment saw 52% growth in sales after the inclusion of acquired brands Horlicks & boost. On a like to like basis, the segment revenue fell 4%. The category was impacted by significant decline in ice-cream business. However, ketchup, tea & coffee business saw strong double digit growth. Nutrition business (Horlicks, Boost) saw 5% growth
- Total 80% of the company's product portfolio (handwash, sanitisers, home care, hair care, oral care, packaged food, tea & coffee) grew 6% whereas 15% of the product portfolio (skin care, colour cosmetics & deodorants) witnessed a steep decline of 45%. The ice-cream, water & vending business, which is 5% of the business, witnessed a near washout quarter with 69% decline in sales
- With the disruption in manufacturing, the company was manufacturing only 20% of SKUs in April, 30% of SKUs in May & 50% of SKUs in June. Further, in a rationalisation process, it intend to reach only 80% of the SKUs in future and discontinue ~20% SKUs
- With a huge surge in demand for handwash & sanitisers, the company was able to augment sanitiser capacity by 100x and handwash capacity by 5x. We believe much of these capacities have been outsourced
- The company was able to refill the distributor inventory to pre-Covid levels by the end of June. HUL saw 6% depletion in distributor inventory by the end of March, which was recouped by June
- Operating margins contracted 113 bps but margins dipped 170 bps in base business, which was set off by 60 bps after the inclusion of nutrition (Horlicks, Boost) business. The contraction in gross margins by 220 bps can be attributed to mix change, inflation in palm oil, SMP & tea. On the other hand, the company could not benefit from crude based RM cost due to higher inventory levels. The company is likely to take calibrated price hikes in the tea segment to pass on the steep increase in the commodity
- Despite ~30% reduction in A&P spend, the share of spends was higher. TV is an important medium and the company will continue to advertise on it
- The management indicated at disruption in supply chain operations in July due to various localised lockdowns across states
- The company declared a special dividend of ₹ 9.5/share



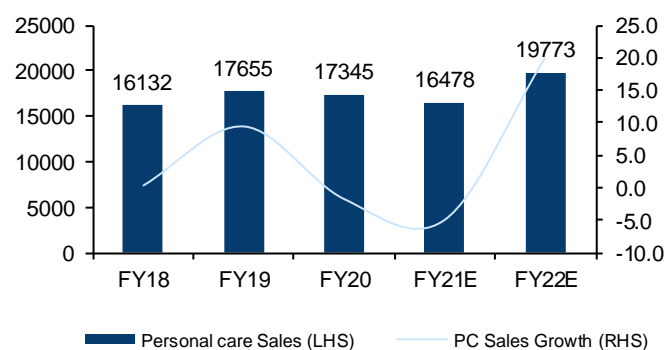
Key Metrics

Exhibit 4: Home care revenue (₹ crore) and YoY growth (%)



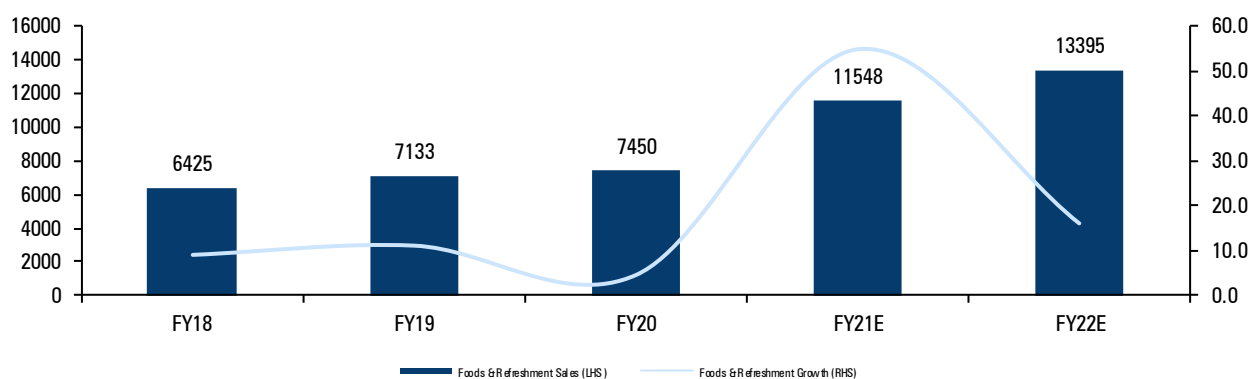
Source: ICICI Direct Research, Company

Exhibit 5: Personal care revenue (₹ crore) & growth (%) trend



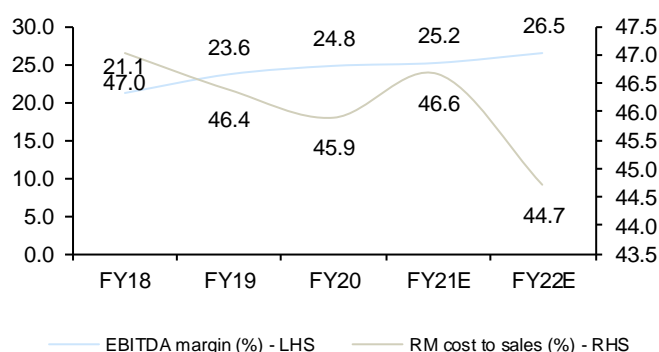
Source: ICICI Direct Research, Company

Exhibit 6: Foods & refreshment revenue (₹ crore) and growth (%) trend



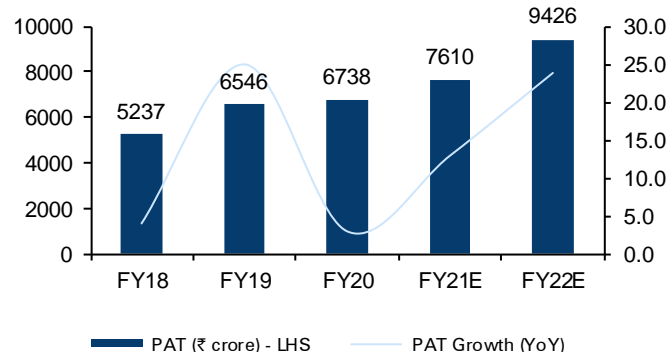
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin and raw material trend



Source: Company, ICICI Direct Research

Exhibit 8: PAT to grow at CAGR of 14.7% in FY19-22E

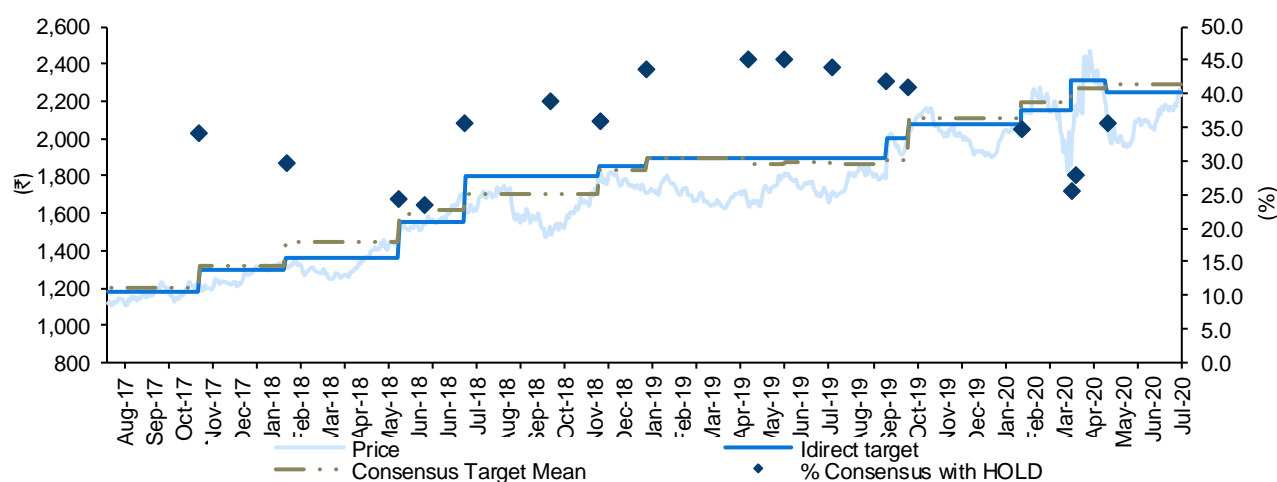


Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY19	38170.0	12.5	30.3	25.0	76.5	59.1	87.6	90.7
FY20	38273.0	0.3	31.2	2.9	74.3	56.2	85.7	89.5
FY21E	42606.0	11.3	32.4	3.8	71.6	49.9	20.3	26.7
FY22E	48908.9	14.8	40.1	23.9	57.8	-0.1	25.4	33.0

Source: Company, ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change (m)
1	Unilever Plc	31-Mar-20	51.5	1114.4	0.0
2	Brooke Bond Group Lt	31-Mar-20	4.9	106.7	0.0
3	Unilever Overseas Ho	31-Mar-20	4.1	87.6	0.0
4	Unilever Uk & Cn Hol	31-Mar-20	2.8	60.1	0.0
5	Brooke Bond South In	31-Mar-20	2.4	52.7	0.0
6	Brooke Bond Assam Es	31-Mar-20	1.5	32.8	0.0
7	Vanguard Group	8-Apr-20	1.2	26.9	0.8
8	Blackrock	21-Apr-20	1.2	26.7	0.4
9	Sbi Funds Management	31-Mar-20	0.8	16.8	1.4
10	Nomura	23-Apr-20	0.7	15.0	-0.3

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	67.2	67.2	67.2	67.2	61.9
FII	12.1	12.4	12.3	12.1	14.8
DII	6.9	6.7	6.7	6.7	8.4
Others	13.8	13.7	13.8	14.0	14.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	38,734.0	38,785.0	43,245.1	49,715.9
Growth (%)	12.2	0.1	11.5	15.0
Raw Material Expenses	17,960.0	17,793.0	20,171.8	22,219.9
Employee Expenses	1,747.0	1,691.0	2,343.3	2,445.4
Marketing Expenses	4,552.0	4,686.0	4,047.6	5,428.9
Administrative Expenses	1,994.0	0.0	2,087.7	2,445.4
Other expenses	3,334.0	5,015.0	3,715.2	4,010.5
Total Operating Expenditure	29,587.0	29,185.0	32,365.6	36,550.2
EBITDA	9,147.0	9,600.0	10,879.4	13,165.7
Growth (%)	25.7	5.0	13.3	21.0
Depreciation	524.0	938.0	940.2	966.2
Interest	28.0	106.0	95.4	90.6
Other Income	664.0	0.0	0.0	0.0
Exceptional Income	-227.0	-197.0	0.0	0.0
PBT	9,032.0	9,092.0	10,283.7	12,601.5
Total Tax	2,486.0	2,354.0	2,673.8	3,175.6
PAT	6,546.0	6,738.0	7,609.9	9,425.9
Growth (%)	25.0	2.9	12.9	23.9
EPS (₹)	30.3	31.2	32.4	40.1

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	5,837.0	6,627.0	7,609.9	9,425.9
Add: Depreciation	524.0	938.0	940.2	966.2
(Inc)/dec in Current Assets	-228.0	-34.0	-1,513.5	-1,511.3
Inc/(dec) in CL and Provisions	-33.0	331.0	-582.8	1,260.6
CF from operating activities	5,728.0	7,305.0	6,453.8	10,141.3
(Inc)/dec in Investments	27.0	2,249.0	-100.0	-100.0
(Inc)/dec in loans & advances	35.0	-35.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	-724.0	-713.0	313.0	-200.0
Others	398.0	425.0	71.0	27.1
CF from investing activities	-264.0	1926.0	259.0	-297.9
Issue/(Buy back) of Equity	0.0	0.0	18.9	0.0
Inc/(dec) in loan funds	0.0	-426.0	0.0	0.0
Dividend paid & dividend tax	-5,459.0	-6,244.0	-9,853.4	-9,853.4
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-3.0	-6.0	0.0	0.0
CF from financing activities	-5,462.0	-6,676.0	-9,834.4	-9,853.4
Net Cash flow	2.0	2,555.0	-3,121.6	-10.0
Opening Cash	573.0	575.0	3,130.0	8.4
Closing Cash*	3,688.0	5,017.0	1,895.4	1,885.4

Source: Company, ICICI Direct Research *includes cash in bank

Exhibit 15: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	216.0	216.0	234.9	234.9
Reserve and Surplus	7,443.0	7,815.0	37,252.5	36,825.1
Total Shareholders funds	7,659.0	8,031.0	37,487.5	37,060.0
Other Non Current Liabilities	804.0	1,269.0	1,269.0	1,269.0
Long Term Provisions	1049.0	1198.0	114.1	141.4
Total Liabilities	9,512.0	10,498.0	38,870.6	38,470.4
Assets				
Gross Block	5,476.0	7,132.0	7,332.0	7,532.0
Less: Acc Depreciation	1,569.0	2,507.0	3,447.2	4,413.3
Net Block	3,907.0	4,625.0	3,884.8	3,118.7
Capital WIP	373.0	513.0	0.0	0.0
Total Fixed Assets	4,280.0	5,138.0	3,884.8	3,118.7
Goodwill on Consolidation	36	36	31717	31717
Net Intangible Assets	400.0	395.0	395.0	395.0
Other Investments	256.0	252.0	352.0	452.0
Inventory	2,422.0	2,636.0	2,918.2	3,349.9
Debtors	1,673.0	1,046.0	1,750.9	1,742.0
Loans and Advances	0.0	0.0	233.5	268.0
Investments & Other CA	898.0	1,961.0	1,167.3	1,340.0
Cash	3,688.0	5,017.0	1,895.4	1,885.4
Total Current Assets	11,374.0	11,908.0	10,299.8	11,801.2
Creditors	7,070.0	7,399.0	7,003.7	8,039.8
Provisions & other CL	1,283.0	1,705.0	1,517.5	1,742.0
Total Current Liabilities	8,353.0	9,104.0	8,521.2	9,781.8
Net Current Assets	3,021.0	2,804.0	1,778.6	2,019.4
Others Non-Current Assets	746.0	717.0	742.0	767.0
Application of Funds	9,512.0	10,498.0	38,870.6	38,470.4

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	30.3	31.2	32.4	40.1
Cash EPS	32.7	35.5	36.4	44.2
BV	35.5	37.2	159.6	157.7
DPS	21.0	24.1	36.0	36.0
Cash Per Share	17.1	23.2	8.1	8.0
Operating Ratios (%)				
EBITDA/Total Operating Income	23.6	24.8	25.2	26.5
PBT Margin	23.9	23.9	23.8	25.3
PAT Margin	16.9	17.4	17.6	19.0
Inventory days	23	25	25	25
Debtor days	16	10	15	13
Creditor days	68	71	60	60
Return Ratios (%)				
RoE	87.6	85.7	20.3	25.4
RoCE	90.7	89.5	26.7	33.0
Valuation Ratios (x)				
P/E	76.5	74.3	71.6	57.8
EV / EBITDA	59.1	56.2	49.9	-0.1
EV / Net Sales	14.2	14.1	12.7	0.0
Market Cap / Sales	14.3	14.2	12.8	0.0
Price to Book Value	65.4	62.3	14.5	14.7
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	0.8	1.0	1.0
Quick Ratio	0.6	0.5	0.6	0.7

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Colgate (COLPAL)	1,413	1,350	Hold	37,915	30.0	29.3	33.6	47.1	48.2	42.0	8.4	8.3	7.6	60.7	66.2	77.5	52.2	51.2	50.8
Dabur India (DABIND)	491	520	Buy	80,096	8.2	8.8	10.3	59.9	55.8	47.8	9.2	9.1	7.9	26.1	25.7	28.3	21.9	22.5	24.8
Hindustan Unilever (HINLEV)	2,318	2,410	Hold	544,591	31.2	32.4	40.1	74.3	71.6	57.8	14.2	12.8	0.0	89.5	26.7	33.0	85.7	20.3	25.4
ITC Limited (ITC)	192	250	Buy	236,874	12.5	11.6	13.6	15.4	16.5	14.1	5.1	5.3	4.6	29.4	28.0	30.9	23.8	21.5	23.7
Jyothy Lab (JYOLAB)	124	115	Hold	4,590	5.3	4.3	4.1	23.6	28.9	30.1	2.6	2.8	3.0	28.6	24.3	23.3	22.6	21.7	18.8
Marico (MARLIM)	353	300	Hold	44,383	8.1	7.8	9.5	43.7	45.0	37.3	6.1	6.3	5.4	41.0	40.1	46.9	34.5	33.8	40.3
Nestle (NESIND)	17,275	18,000	Hold	160,790	204.3	230.9	269.4	84.6	74.8	64.1	13.1	12.1	10.6	56.9	59.3	65.9	101.9	114.1	123.1
Tata Consumer Product (TATGLO)	409	440	Buy	35,386	5.0	8.7	10.9	81.9	47.1	37.6	3.7	3.4	3.2	6.9	7.9	8.8	4.6	5.9	7.1
VST Industries (VSTIND)	3,246	4,000	Buy	4,846	196.9	124.8	216.3	16.5	26.0	15.0	3.9	4.4	3.5	52.1	32.9	45.6	38.6	24.3	33.7
Varun Beverage (VARBEV)	715	580	Reduce	19,593	16.6	9.9	18.1	43.0	72.2	39.5	4.9	3.8	2.7	15.5	11.3	16.3	14.2	8.8	14.2
Zydus Wellness (ZYDWEL)	1,486	1,530	Buy	7,352	32.2	31.6	50.3	46.1	47.0	29.6	4.2	4.4	3.6	5.9	5.7	7.4	5.4	5.1	7.5

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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