

Hindustan Unilever (HUVR IN)

Rating: BUY | CMP: Rs2,173 | TP: Rs2,502

October 20, 2020

Q2FY21 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		HOLD	
Target Price	2,502		2,254	
Sales (Rs. m)	5,03,132	5,58,014	4,97,774	5,53,702
% Chng.	1.1	0.8		
EBITDA (Rs. m)	1,32,006	1,49,559	1,32,604	1,52,445
% Chng.	(0.5)	(1.9)		
EPS (Rs.)	40.5	46.9	41.8	49.0
% Chng.	(3.0)	(4.4)		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	388	448	503	558
EBITDA (Rs. bn)	96	112	132	150
Margin (%)	24.8	24.9	26.2	26.8
PAT (Rs. bn)	69	79	95	110
EPS (Rs.)	32.1	33.6	40.5	46.9
Gr. (%)	10.7	4.5	20.7	15.7
DPS (Rs.)	24.1	37.5	34.0	42.0
Yield (%)	1.1	1.7	1.6	1.9
RoE (%)	88.4	28.5	19.8	22.2
RoCE (%)	110.4	36.6	25.1	27.7
EV/Sales (x)	11.9	11.2	9.9	8.9
EV/EBITDA (x)	48.2	44.9	37.8	33.2
PE (x)	67.7	64.7	53.6	46.4
P/BV (x)	58.4	10.8	10.4	10.2

Key Data

HLL.BO | HUVR IN

52-W High / Low	Rs.2,603 / Rs.1,749
Sensex / Nifty	40,544 / 11,897
Market Cap	Rs.5,106bn / \$ 69,494m
Shares Outstanding	2,350m
3M Avg. Daily Value	Rs.9582.72m

Shareholding Pattern (%)

Promoter's	69.18
Foreign	14.10
Domestic Institution	6.67
Public & Others	16.05
Promoter Pledge (Rs bn)	1.00

Stock Performance (%)

	1M	6M	12M
Absolute	3.5	(6.6)	3.6
Relative	(0.8)	(27.1)	0.4

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Strong Growth Outlook; Upgrade to BUY

Quick Pointers:

- 1% volume growth, Ex-GSK sales up 3%, Health hygiene and nutrition grew 10%, Skin, color cosmetics, Deo's and OOH decline 25%
- Price cut in detergent and partial input cost absorption in Tea shows strong growth and market share push

We are upgrading HUL to Buy given strong growth and margin outlook, high FCF conversion (5-year average of >90%), 95% dividend payout and 18.2% PAT CAGR over FY1-23. HUVR results beat expectations driven by double digit growth in Health, Nutrition and Hygiene and better than expected recovery in Personal care. HUL remains confident of gaining market share across categories and has cut prices of Detergents and absorbed part of input cost increase in Tea. Although color cosmetics and Deo's will see a delayed recovery, lack of inventory push will enable strong 3Q relative to last year. GSK integration is in progress and any meaningful gains in sales growth will accrue from 4Q only. Near term margin outlook remains challenging given higher prices of Palmoil and Tea and bottomed out ad- spends.

We remain structurally positive on HUL given its strategy around emerging categories, increasing distribution, WIMI, digital market and strength in Supply chain. We estimate HUL to post EBITDA CAGR of 15.9% over FY20-23 led by 200bps margin expansion. We however cut EPS estimates by 2-4% as we increase dividend payout to 95% and assume lower interest on surplus funds. We shift our target price base from PE to DCF and assign a 15-month target price of Rs2502 (Rs2254 based on 46x FY23 earlier). Upgrade to Buy.

Concall Takeaways: 1) Domex and boost brands expanded pan India as HUVR expect increased hygiene requirements to benefit Domex and see huge potential in Boost to grow nationally. 2) Nutrition business of GSK remained flat impacted by disrupted supply chain and integration issues, pickup likely from 4Q21 3) Excluding GSK business margins contracted 60bps with nutrition business accounting for 90bps expansion. 4) Despite ~70% increase in tea prices HUVR has undertaken judicious pricing to gain share from unorganized players. 5) Lower commodity prices passed on in fabric wash but category consumption impacted due to confined living 6) Skin cleansing, oral care and haircare saw double digit growth while Deo's and color cosmetics continue to remain impacted. 7) Winter sales remained low given muted trade sentiments and liquidity constraints, will normalize in 3QFY21. 8) Glow and Lovely placed successfully on shelves and expected to target a larger audience. HUVR will incur increased ad spends to reposition the brand

2Q Volumes increased 1%: Sales increased 16.1% at Rs114.4bn (Est: Rs113.29bn). Ex-GSK sales, topline increased 3%. GRMs declined 150bps to 53% (Est: 54%). EBITDA margins expanded 30bps to 25.1% (Est 24.5%), EBITDA increased 17.4% to Rs28.69bn (Est: Rs 27.8bn). PAT at Rs20.35bn (Est Rs 19.69bn) increased 11.1%. Home care sales down 1.6%, EBIT up 13.9%, Margins expanded 280bps to 20.4%. Beauty care sales declined 0.2%, EBIT up 1%, margins expanded 30bps to 29.3%. Food and Refreshments sales increased 82.9%, EBIT up 90.1%, margins up 60bps to 16.5%.

Exhibit 1: Q2FY21 Results (Rs m): Volumes up 1%, EBITDA margins expand 30bps and Adj. PAT up 11.1%

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	1,14,420	98,520	16.1	1,05,600	2,20,020	1,99,660	10.2
Gross Profit	60,670	53,670	13.0	54,730	1,15,400	1,08,330	6.5
% of NS	53.0	54.5	(1.5)	51.8	52.4	54.3	(1.8)
A&P Exp.	11,390	11,980	(4.9)	7,970	19,360	23,590	(17.9)
% of NS	10.0	12.2	(2.2)	7.5	8.8	11.8	(3.0)
EBITDA	28,690	24,430	17.4	26,440	55,130	50,900	8.3
Margins	25.1	24.8	0.3	25.0	25.1	25.5	(0.4)
Depreciation	2,490	2,370	5.1	2,420	4,910	4,510	8.9
EBIT	26,200	22,060	18.8	24,020	50,220	46,390	8.3
Interest	290	310	(6.5)	290	580	550	5.5
Other Income	1,510	1,800	(16.1)	1,560	3,070	3,270	(6.1)
PBT	27,420	23,550	16.4	25,290	52,710	49,110	7.3
Tax	7,070	5,230	35.2	6,560	13,630	13,280	2.6
Tax Rate (%)	25.8	22.2	3.6	25.9	25.9	27.0	(1.2)
Adjusted PAT	20,350	18,320	11.1	18,730	39,080	35,830	9.1
Extraordinary	(330)	190		120	(210)	230	
Reported Profit	20,020	18,510	9.9	18,850	38,870	36,060	7.8

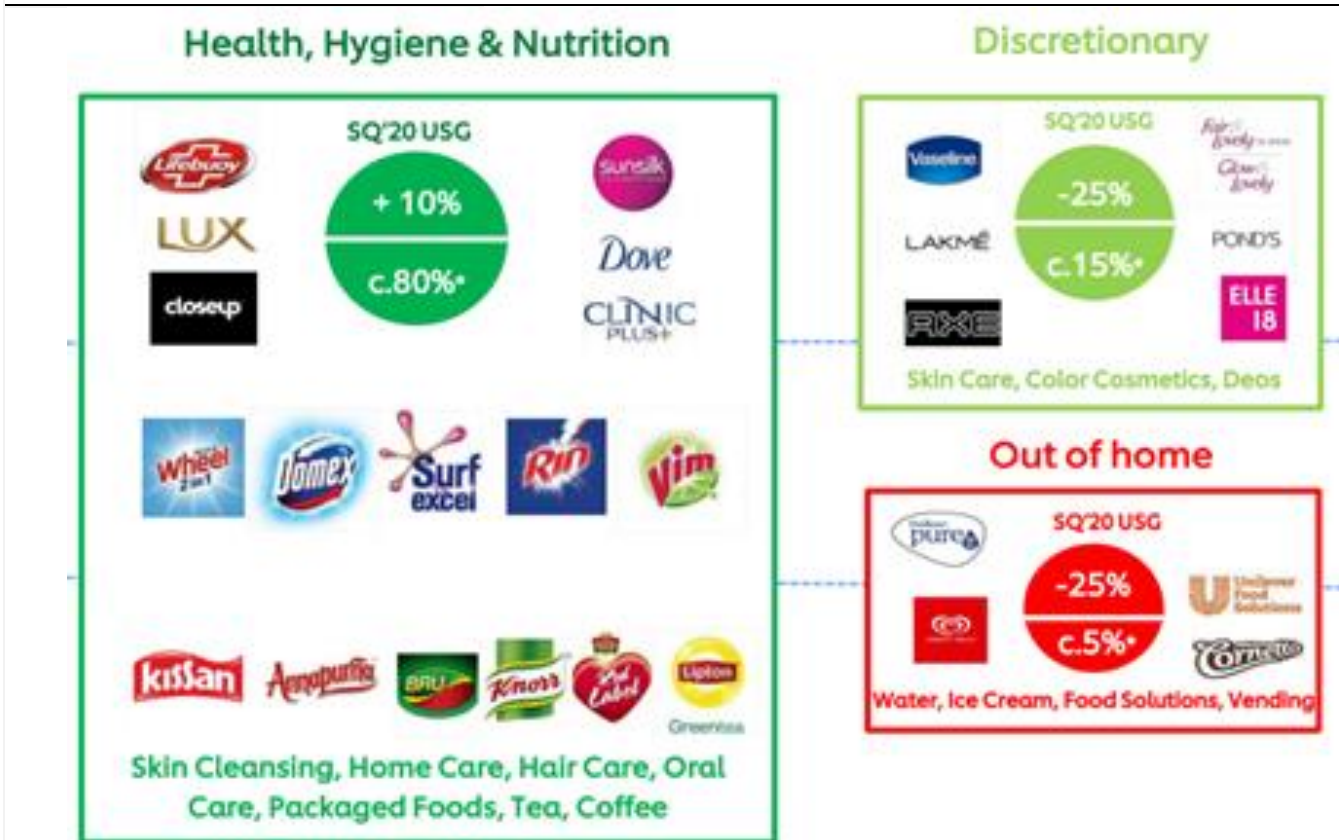
Source: Company, PL

Exhibit 2: 2Q21 performance was driven by 10% growth in health hygiene and nutrition segments

Quarterly Segmental	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Net Sales (Rs m)	92,340	95,580	99,450	1,01,140	98,520	98,080	90,110	1,05,600	1,14,420
Home Care	30,800	31,480	35,020	34,650	33,710	34,560	33,500	33,920	33,180
Personal Care	43,160	45,390	43,930	45,890	45,430	44,120	38,010	40,390	45,350
Foods & Refreshment	17,040	17,280	19,160	19,500	18,470	18,650	17,880	29,580	33,790
Others	1,340	1,430	1,340	1,100	910	750	720	1,710	2,100
Sales Growth %	11.2	11.3	9.3	6.6	6.7	2.6	(9.4)	4.4	16.1
Home Care	12.4	14.8	12.9	10.1	9.4	9.8	(4.3)	(2.1)	(1.6)
Personal Care	10.4	11.0	7.3	4.1	5.3	(2.8)	(13.5)	(12.0)	(0.2)
Foods & Refreshment	11.7	9.9	10.4	9.2	8.4	7.9	(6.7)	51.7	82.9
Others	4.7	(23.5)	(18.3)	(26.2)	(32.1)	(47.6)	(46.3)	55.5	130.8
EBIT (Rs m)	18,970	18,070	21,870	24,380	22,060	22,130	18,100	24,020	26,200
Home Care	4,920	4,040	6,190	6,990	5,950	6,290	6,360	6,370	6,780
Personal Care	11,150	11,620	12,200	13,580	13,150	12,520	9,450	11,340	13,280
Foods & Refreshment	2,880	2,440	3,460	3,790	2,940	3,340	2,250	5,820	5,590
Others	20	-30	20	20	20	-20	40	490	550
EBIT Growth %	21.9	18.1	13.4	16.3	16.3	22.5	(17.2)	(1.5)	18.8
Home Care	28.5	14.1	21.1	16.1	20.9	55.7	2.7	(8.9)	13.9
Personal Care	17.6	15.4	8.3	16.9	17.9	7.7	(22.5)	(16.5)	1.0
Foods & Refreshment	24.7	41.9	20.1	13.5	2.1	36.9	(35.0)	53.6	90.1
Others	(133.3)	0.0	0.0	(200.0)	0.0	(33.3)	100.0	2,350.0	2,650.0
EBIT Margin %									
Home Care	16.0	12.8	17.7	20.2	17.7	18.2	19.0	18.8	20.4
Personal Care	25.8	25.6	27.8	29.6	28.9	28.4	24.9	28.1	29.3
Foods & Refreshment	16.9	14.1	18.1	19.4	15.9	17.9	12.6	19.7	16.5
Others	1.5	(2.1)	1.5	1.8	2.2	(2.7)	5.6	28.7	26.2

Source: Company, PL

Exhibit 3: Health, Hygiene and nutrition register healthy growth of 10%



Source: Company, PL

Exhibit 4: HUL has stepped up innovation in relevant categories during pandemic

Surf excel
ADDITIVE TO YOUR DETERGENT
ANTI-GERM WASH BOOSTER
REMOVES 99.9% GERMS*

Vim
DON'T JUST CLEAN. DISINFECT.
DOMEX MULTI-PURPOSE DISINFECTANT SPRAY
KILLS 99.9% GERMS*

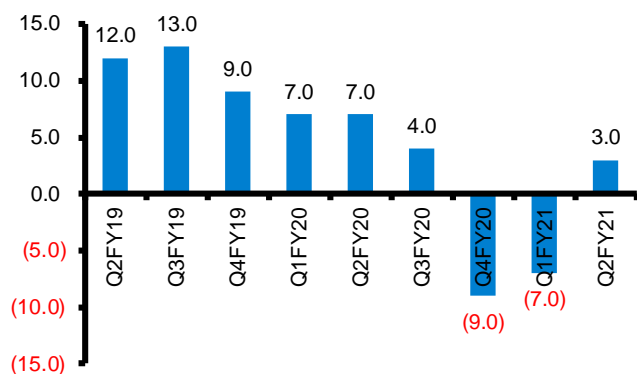
Domex
DON'T JUST CLEAN. DISINFECT.
DOMEX MULTI-PURPOSE DISINFECTANT SPRAY
KILLS 99.9% GERMS*

Dove
Dove Anti-Dandruff Solutions
Dandruff Care Shampoo

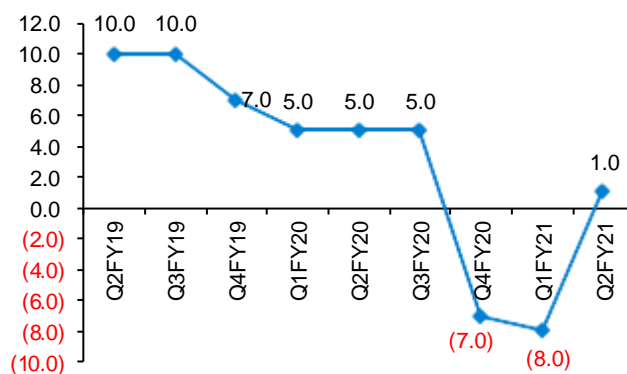
Lifebuoy
Hands
Face
Body

100+ innovation-led SKUs launched in last 6 months

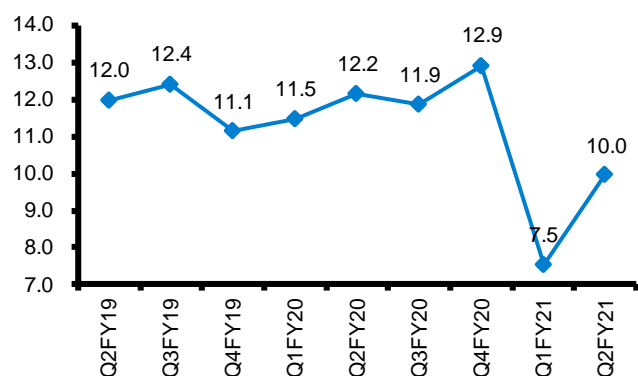
Source: Company, PL

Exhibit 5: Comparable Domestic FMCG sales grew 3%


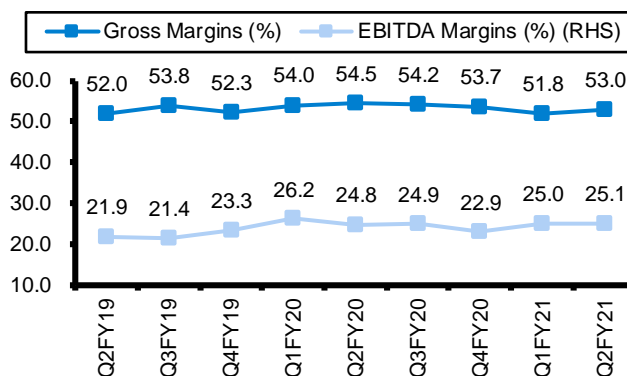
Source: Company, PL

Exhibit 6: Volumes increased 1% in 2Q


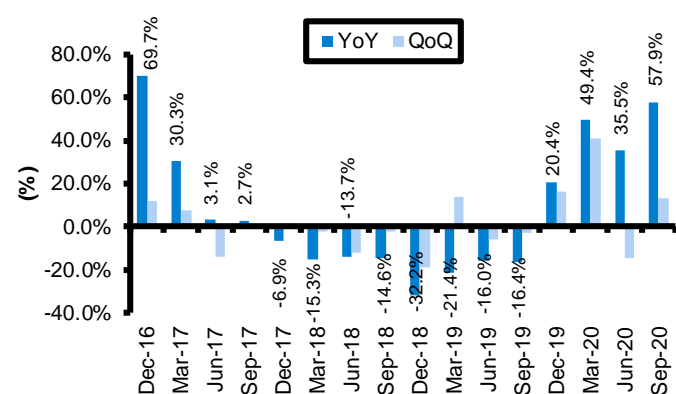
Source: Company, PL

Exhibit 7: Ad-spends down 220bps YoY


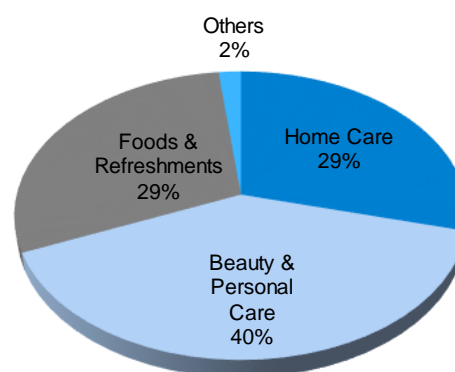
Source: Company, PL

Exhibit 8: GM down 150bps, EBITDA margins up 30bps


Source: Company, PL

Exhibit 9: PFAD prices up 57.9% YoY and 13.3% QoQ


Source: Company, PL

Exhibit 10: GSK-merger leads to rise in FR contribution


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	3,87,850	4,48,392	5,03,132	5,58,014
YoY gr. (%)	1.5	15.6	12.2	10.9
Cost of Goods Sold	1,77,930	2,07,248	2,26,432	2,50,345
Gross Profit	2,09,920	2,41,144	2,76,700	3,07,670
Margin (%)	54.1	53.8	55.0	55.1
Employee Cost	16,910	23,253	24,940	27,059
Other Expenses	380	1,943	2,072	2,205
EBITDA	96,000	1,11,787	1,32,006	1,49,559
YoY gr. (%)	11.1	16.4	18.1	13.3
Margin (%)	24.8	24.9	26.2	26.8
Depreciation and Amortization	9,380	10,199	11,061	11,936
EBIT	86,620	1,01,588	1,20,945	1,37,623
Margin (%)	22.3	22.7	24.0	24.7
Net Interest	1,060	1,129	1,145	1,169
Other Income	7,330	5,604	8,267	11,671
Profit Before Tax	92,890	1,06,063	1,28,067	1,48,125
Margin (%)	23.9	23.7	25.5	26.5
Total Tax	23,540	27,191	32,832	37,974
Effective tax rate (%)	25.3	25.6	25.6	25.6
Profit after tax	69,350	78,872	95,235	1,10,152
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	69,350	78,872	95,235	1,10,152
YoY gr. (%)	10.7	13.7	20.7	15.7
Margin (%)	17.9	17.6	18.9	19.7
Extra Ord. Income / (Exp)	(1,970)	500	500	500
Reported PAT	67,380	79,372	95,735	1,10,652
YoY gr. (%)	11.6	17.8	20.6	15.6
Margin (%)	17.4	17.7	19.0	19.8
Other Comprehensive Income	(890)	(200)	(200)	(200)
Total Comprehensive Income	66,490	79,172	95,535	1,10,452
Equity Shares O/s (m)	2,160	2,350	2,350	2,350
EPS (Rs)	32.1	33.6	40.5	46.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	94,334	3,89,743	3,97,894	4,06,160
Tangibles	86,860	1,07,269	1,15,420	1,23,686
Intangibles	7,474	2,82,474	2,82,474	2,82,474
Acc: Dep / Amortization	44,134	62,501	74,217	86,809
Tangibles	40,610	58,810	70,376	82,818
Intangibles	3,524	3,691	3,841	3,991
Net fixed assets	50,200	3,27,243	3,23,677	3,19,351
Tangibles	46,250	48,460	45,044	40,868
Intangibles	3,950	2,78,783	2,78,633	2,78,483
Capital Work In Progress	5,130	2,600	2,800	2,800
Goodwill	360	1,73,360	1,73,360	1,73,360
Non-Current Investments	6,250	6,810	6,922	7,042
Net Deferred tax assets	2,610	(58,610)	(58,610)	(58,610)
Other Non-Current Assets	11,560	13,623	13,925	14,235
Current Assets				
Investments	14,510	12,867	22,000	23,600
Inventories	26,360	33,113	36,949	41,124
Trade receivables	10,460	17,318	15,907	17,139
Cash & Bank Balance	48,140	70,403	95,527	1,21,482
Other Current Assets	12,150	13,452	15,094	16,740
Total Assets	1,96,020	6,79,647	7,13,618	7,45,147
Equity				
Equity Share Capital	2,160	2,350	2,350	2,350
Other Equity	78,150	4,71,762	4,87,678	4,99,710
Total Network	80,310	4,74,112	4,90,028	5,02,060
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	11,980	14,200	15,830	17,509
Other non current liabilities	1,830	1,967	2,115	2,273
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	73,990	90,981	99,723	1,10,057
Other current liabilities	17,050	25,402	29,309	32,888
Total Equity & Liabilities	1,96,020	6,79,647	7,13,617	7,45,147

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	92,890	1,06,063	1,28,067	1,48,124
Add. Depreciation	7,030	17,159	10,388	11,130
Add. Interest	-	-	-	-
Less Financial Other Income	-	-	-	-
Add. Other	(2,860)	300	300	300
Op. profit before WC changes	97,060	1,23,521	1,38,755	1,59,554
Net Changes-WC	(4,950)	70,656	10,724	6,787
Direct tax	(23,540)	(27,191)	(32,832)	(37,974)
Net cash from Op. activities	68,570	1,66,986	1,16,647	1,28,368
Capital expenditures	(15,560)	(4,65,879)	(8,351)	(8,266)
Interest / Dividend Income	-	-	-	-
Others	29,780	(35,113)	(40,049)	(27,233)
Net Cash from Inv. activities	14,220	(5,00,992)	(48,400)	(35,499)
Issue of share cap. / premium	20	4,02,738	276	283
Debt changes	9,020	4,234	4,364	4,530
Dividend paid	(62,440)	(88,110)	(79,900)	(98,700)
Interest paid	-	-	-	-
Others	(350)	1,210	1,333	1,461
Net cash from Fin. activities	(53,750)	3,20,072	(73,928)	(92,426)
Net change in cash	29,040	(13,934)	(5,680)	443
Free Cash Flow	53,010	(2,98,893)	1,08,297	1,20,102

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	32.1	33.6	40.5	46.9
CEPS	36.4	37.9	45.2	52.0
BVPS	37.2	201.7	208.5	213.6
FCF	24.5	(127.2)	46.1	51.1
DPS	24.1	37.5	34.0	42.0
Return Ratio(%)				
RoCE	110.4	36.6	25.1	27.7
ROIC	409.3	39.0	24.7	29.2
RoE	88.4	28.5	19.8	22.2
Balance Sheet				
Net Debt : Equity (x)	(0.8)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	(35)	(33)	(34)	(34)
Valuation(x)				
PER	67.7	64.7	53.6	46.4
P/B	58.4	10.8	10.4	10.2
P/CEPS	59.6	57.3	48.0	41.8
EV/EBITDA	48.2	44.9	37.8	33.2
EV/Sales	11.9	11.2	9.9	8.9
Dividend Yield (%)	1.1	1.7	1.6	1.9

Source: Company Data, PL Research

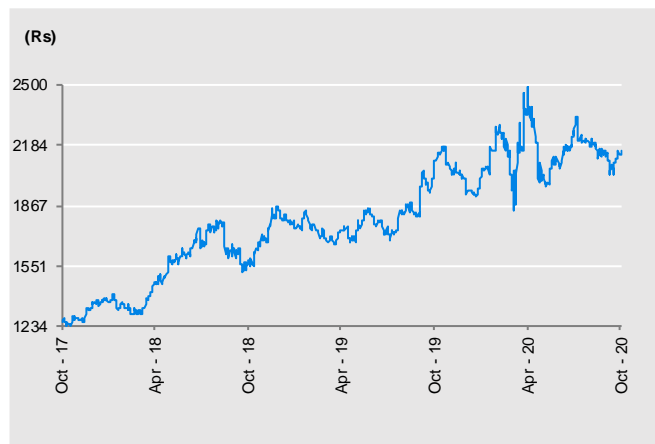
Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	98,080	90,110	1,05,600	1,14,420
YoY gr. (%)	2.6	(9.4)	4.4	16.1
Raw Material Expenses	44,900	41,700	50,870	53,750
Gross Profit	53,180	48,410	54,730	60,670
Margin (%)	54.2	53.7	51.8	53.0
EBITDA	24,450	20,650	26,440	28,690
YoY gr. (%)	19.5	(11.0)	(0.1)	17.4
Margin (%)	24.9	22.9	25.0	25.1
Depreciation / Depletion	2,320	2,550	2,420	2,490
EBIT	22,130	18,100	24,020	26,200
Margin (%)	22.6	20.1	22.7	22.9
Net Interest	250	260	290	290
Other Income	1,400	2,660	1,560	1,510
Profit before Tax	23,280	20,500	25,290	27,420
Margin (%)	23.7	22.7	23.9	24.0
Total Tax	6,370	5,810	6,560	7,070
Effective tax rate (%)	27.4	28.3	25.9	25.8
Profit after Tax	16,910	14,690	18,730	20,350
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	16,910	14,690	18,730	20,350
YoY gr. (%)	20.7	(7.6)	7.0	11.1
Margin (%)	17.2	16.3	17.7	17.8
Extra Ord. Income / (Exp)	(750)	500	80	(260)
Reported PAT	16,160	15,190	18,810	20,090
YoY gr. (%)	11.9	(7.5)	7.2	8.7
Margin (%)	16.5	16.9	17.8	17.6
Other Comprehensive Income	(10)	(910)	40	(70)
Total Comprehensive Income	16,150	14,280	18,850	20,020
Avg. Shares O/s (m)	2,164	2,164	2,350	2,350
EPS (Rs)	7.8	6.8	8.0	8.7

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	Hold	2,254	2,161
2	22-Jul-20	Hold	2,304	2,249
3	21-Jul-20	Hold	2,278	2,318
4	08-Jul-20	Hold	2,098	2,154
5	01-May-20	Hold	2,017	2,195
6	15-Apr-20	Hold	2,014	2,488
7	01-Apr-20	Accumulate	2,136	2,180
8	23-Mar-20	Accumulate	2,136	1,870
9	31-Jan-20	Accumulate	2,136	2,034
10	03-Jan-20	Accumulate	2,057	1,927

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	2,032	2,089
2	Avenue Supermarts	BUY	2,316	1,988
3	Bajaj Electricals	BUY	564	498
4	Britannia Industries	BUY	4,279	3,795
5	Colgate Palmolive	Reduce	1,350	1,452
6	Crompton Greaves Consumer Electricals	BUY	308	280
7	Dabur India	Hold	469	522
8	Emami	Hold	424	353
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	571	688
11	Hindustan Unilever	Hold	2,254	2,161
12	ITC	BUY	244	167
13	Jubilant FoodWorks	Hold	2,255	2,330
14	Kansai Nerolac Paints	BUY	550	477
15	Marico	Hold	359	372
16	Nestle India	Reduce	14,496	16,305
17	Pidilite Industries	Hold	1,415	1,487
18	Titan Company	Accumulate	1,352	1,254
19	Titan Company	Accumulate	1,352	1,254
20	Voltas	Accumulate	702	672

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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