

Hindustan Unilever

In-line result; core categories remain slow

HUL posted a mixed result, with a marginal beat in revenue (3% vs 1% HSIE), but a slight miss in margins. UVG was at +1% (HSIE -2%). Home Care remained weak at 2% YoY decline as demand for fabric wash was sluggish (also impacted by price cuts). BPC recovered well but was flat after a sharp 12% YoY decline in 1QFY21. F&R clocked strong growth of 19% (ex-GSK), aided by in-home consumption. The company clocked double-digit growth in 80% of its portfolio, which indicates a strong recovery. GM contracted by 145bps YoY due to commodity inflation and adverse product mix. ASP saw a sequential increase as the company resumed investments. We expect a gradual recovery in core categories in 2HFY21. We maintain our below-consensus EPS estimate for FY21/FY22/FY23. We roll forward our target price to Sep-22E EPS and value HUL at 50x P/E to derive a TP of Rs 2,060. Maintain REDUCE on a muted absolute growth trajectory and limited scope for re-rating.

- **Slight revenue beat:** Revenue grew by 16% YoY (+6% in 2QFY20 and +4% in 1QFY21) vs expectation of 15% YoY growth. Ex-GSK, revenue grew 3% YoY (HSIE 1%). Health, Hygiene and Nutrition portfolio (80% mix) clocked a strong growth of 10% YoY, discretionary (15% mix) and OOH (5% mix) declined by 25% each. The company has seen sequential improvement and expects better growth trajectory in 2HFY21. Rural growth is outperforming, and it is expected to sustain in the near term.
- **Margins in-line:** Gross margin contracted by 145bps YoY (+251bps in 2QFY20 and -222bps in 1QFY21) vs expectation of +102bps YoY expansion. Headwinds through commodity inflation (especially in palm oil and tea) and adverse product mix impacted the margin. Home care/PC/F&R EBIT margin expanded by 278/34/63bps YoY. Employee/Other expenses grew by 30/16% YoY while ASP dipped by 5% YoY. However, ASP saw a sequential increase and the company is expected to ramp up its ASP in 2HFY21. EBITDA margin expanded by 28bps YoY to 25.1% (+293bps in 2QFY20 and -113bps in 1QFY21). EBITDA grew 17% YoY (HSIE 18%). PBT clocked 16% YoY growth while PAT grew by 9% YoY due to lower tax rate in the base quarter.
- **Call takeaways:** (1) Demand for larger packs is higher in urban markets with a lower frequency of buying while rural markets are witnessing growth in smaller packs with a higher frequency of buying; (2) Volume growth stood at 1% in the core business; (3) Supply service levels returned to pre-COVID level, and the company does not expect any significant supply-led constraints; (4) 70% of the company's portfolio saw improved penetration; and (5) e-comm revenue mix doubled YoY.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	114,420	98,520	16.1	105,600	8.4	397,830	457,585	496,222	534,694
EBITDA	27,640	23,420	18.0	25,390	8.9	98,610	115,047	128,699	141,198
APAT	20,350	18,264	11.4	18,730	8.6	68,604	81,647	92,257	101,289
Diluted EPS (Rs)	8.7	8.4	2.7	8.0	8.6	31.7	34.8	39.3	43.1
P/E (x)						68.6	62.5	55.3	50.4
EV / EBITDA (x)						47.1	43.6	38.8	35.2
RoCE (%)						72.2	31.1	21.2	22.7

Source: Company, HSIE Research

REDUCE

CMP (as on 20 Oct 2020)	Rs 2,173
Target Price	Rs 2,060
NIFTY	11,897

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 2,016	Rs 2,060
EPS %	FY21E	FY22E
	-2%	-0.4%

KEY STOCK DATA

Bloomberg code	HUVR IN
No. of Shares (mn)	2,350
MCap (Rs bn) / (\$ mn)	5,106/69,499
6m avg traded value (Rs mn)	10,201
52 Week high / low	Rs 2,603/1,749

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(6.4)	(6.6)	3.6
Relative (%)	(14.7)	(34.7)	0.4

SHAREHOLDING PATTERN (%)

	June-20	Sep-20
Promoters	61.90	61.90
FIs & Local MFs	8.34	10.82
FPIs	14.81	14.54
Public & Others	14.95	12.74
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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