

Nutrition business to aid margins...

HUL reported a healthy set of numbers with 16.1% sales growth aided by consolidation of acquired brands (Horlicks, Boost, VWASH). On a like to like basis, growth has been 3% supported by 1% volume growth. Beauty & personal care segment recovered from 12% decline in Q1 to flat YoY sales in Q2. Foods segment saw strong 19% growth supported by price hike in tea segment. Home care segment declined 1.6% with 2.3% price cuts in fabric wash. The recovery in the business was led by complete normalisation of supply chain & strong demand in health, hygiene & nutrition space. However, demand for discretionary & out of home products has still remained dismal. The health, hygiene & nutrition products that constitute 80% of sales witnessed growth of 10% whereas discretionary & out of home consumption products, which constitute 20% of sales saw a decline of 25%. Gross margin declined 145 bps largely on account of a sharp 70% increase in tea prices. Though the company has taken price hikes, it is not sufficient to pass on the entire cost increase. With 221 bps lower advertisement spends, HUL was able to maintain its operating margins at 25.1% (27 bps up). Net profit increased 8.7% to ₹ 2009 crore. The slower growth in profitability is largely due to lower tax in base quarter.

Strong growth in foods segment

HUL saw strong 19% growth in the foods segment led by continued higher consumption of 'at home' products & increase in tea prices. Though out of home activity has largely returned to normal, we still believe 'at home' consumption products would continue to grow at a faster pace with restaurants, café, hotels yet seeing normalisation. Moreover, we believe firm tea procurement prices would continue to contribute to the segment growth. We believe higher tea prices would benefit HUL to gain market share from unorganised sector that still constitutes 50% of category sales.

Nutrition portfolio to aid margins

Though HUL reported a 27 bps improvement in operating margins, base business margins contracted 60 bps & acquired nutrition brands contributed 90 bps improvement to overall margins. We believe synergistic benefits from the acquisition would continue to aid margins, going forward. We expect 150 bps operating margin improvement in FY20-23E to 26.3%.

Valuation & Outlook

We believe H2FY21E would witness strong growth across segments with complete demand recovery in discretionary portfolio as well. The company has been able to leverage strong brands in hygiene (Lifebuoy, Domex, Vim, Surf Excel) space to drive growth. We believe the company would continue to witness strong double digit growth in the health, hygiene & nutrition space. Further, margins improvement with consolidation of nutrition brands would drive earnings. We upgrade our recommendation from HOLD to **BUY** with a revised target price of ₹ 2500/share.



Particulars

Particular (₹ crore)	Amount
Market Capitalization	510,289.7
Total Debt (FY20)	0.0
Cash and Investments (FY20)	6,265.0
EV	504,024.7
52 week H/L (₹)	2614 / 1657
Equity capital	234.9
Face value	₹ 1

Key Highlights

- Home care posted 1.6% decline in sales mainly on account of 2.3% price cut & muted sales of fabric wash
- BPC saw flat sales in Q2 recovering from 12% decline in Q1. Though skin cleansing, hair care, oral care witnessed strong growth, skin care & cosmetics continues to see decline in sales
- F&R grew 19% on a like to like basis aided by trend of 'at home' consumption & increase in tea prices
- Upgrade to BUY with revised target price of ₹ 2,500/share

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Total Operating Income	38734.0	38785.0	43245.1	49715.9	53614.6	17.6%
EBITDA	9147.0	9600.0	10879.4	12749.6	14093.4	21.2%
EBITDA Margin %	23.6	24.8	25.2	25.6	26.3	
Net Profit	6546.0	6738.0	7609.9	9114.6	10151.4	22.7%
EPS (₹)	30.31	31.19	32.39	38.80	43.21	
P/E	71.7	69.6	67.1	56.0	50.3	
RoNW %	87.6	85.7	18.6	21.9	23.9	
RoCE (%)	90.7	89.5	24.5	28.5	31.2	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

Particulars (₹ crore)	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Net Sales	11,276.0	11,005.3	9,708.0	16.2	10,406.0	8.4	Net sales increased 16.5% mainly due to consolidation of acquired brands i.e. Horlicks, boost & Vwash. On a like to like basis, the growth has been 3% on the back of 1% volume growth
Other Operating Income	166.0	147.0	144.0	15.3	154.0	7.8	
Raw Material Expenses	5,375.0	5,244.7	4,485.0	19.8	5,087.0	5.7	With tea prices up 70% & palm oil prices up 40%, the company has seen 145 bps gross margins contraction
Employee Expenses	559.0	616.3	430.0	30.0	592.0	-5.6	
Marketing Expenses	1,139.0	990.5	1,198.0	-4.9	797.0	42.9	Marketing spends declined 5% with the company incurring benefit of lower ad rates & reduced promotional intensity
Other operating expenses	1,500.0	1,485.7	1,296.0	15.7	1,440.0	4.2	
EBITDA	2,868.2	2,815.1	2,443.0	17.4	2,643.5	8.5	Operating margins maintained with reduction in marketing spends & cost cutting measures
EBITDA margin (%)	25.1	25.2	24.8	27 bps	25.0	3 bps	
Depreciation	249.0	235.0	237.0	5.1	242.0	2.9	
Interest	29.0	23.9	31.0	N.A.	29.0	N.A.	
Other Income	151.0	88.0	180.0	0.0	156.0	-3.2	
PBT	2,741.2	2,644.2	2,355.0	16.4	2,410.5	13.7	
Exceptional Items	-80.5	0.0	-47.0	N.A.	-118.0	N.A.	
Tax Outgo	652.0	666.3	460.0	41.7	530.0	23.0	
PAT	2,008.7	1,977.9	1,848.0	8.7	1,880.5	6.8	Net profit increased by mere 8.7% given lower tax in base quarter
Key Metrics growth YoY (%)							
Home care	-1.6	0.0	9.8		-2.0		Home care segment sales impacted by fabric wash segment due to confined living
Beauty & Personal care	-0.2	0.0	-2.8		-12.0		The segment sales recovered significantly due to strong growth in soaps, shampoos, oral care segment
Food & Refreshments	82.9	50.0	7.9		51.7		On a like to like basis, foods segment witnessed 19% growth largely due to increase in tea prices

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% Change	Old	New	% Change	New	
Sales	42,606.0	42,606.0	0.0	48,908.9	48,908.9	0.0	52,744.4	No significant change in our numbers. We introduce FY23 numbers
EBITDA	10,879.4	10,879.4	0.0	12,602.8	12,749.6	1.2	14093.4	
EBITDA Margin (%)	25.2	25.2	0 bps	25.3	25.6	30 bps	26.7	
PAT	7,609.9	7,609.9	0.0	9,004.9	9,114.6	1.2	10151.4	
EPS (₹)	32.4	32.4	0.0	38.3	38.8	1.2	43.2	

Source: Company, ICICI Direct Research

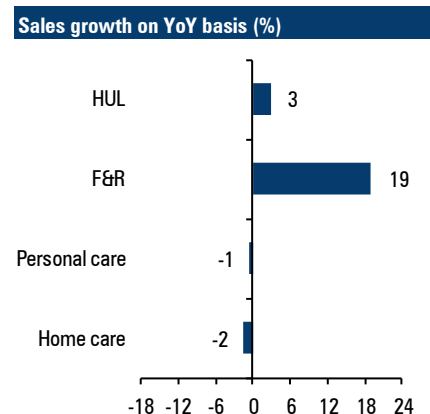
Exhibit 3: Assumptions

(₹ crore)	Current						Earlier		Comments
	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Home care	11,464.0	12,876.0	13,642.0	13,914.8	15,028.0	16,230.3	13,914.8	15,028.0	No change in our estimates
Personal care	16,132.0	17,655.0	17,345.0	16,477.8	19,773.3	21,552.9	16,477.8	19,773.3	
Food & Refreshments	6,425.0	7,133.0	7,450.0	11,547.5	13,395.1	14,198.8	11,547.5	13,395.1	

Source: Company, ICICI Direct Research

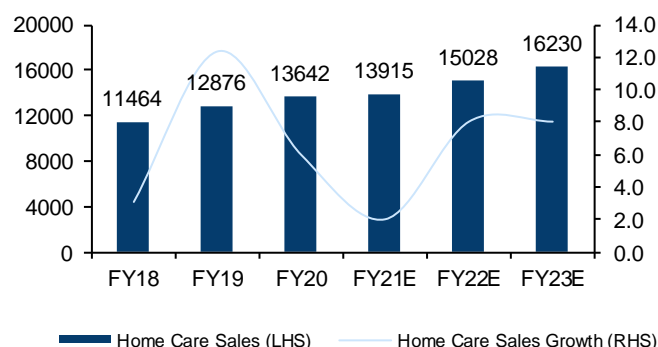
Conference Call Highlights

- HUL reported 3% like to like sales growth with 1% volume growth in Q2. The recovery was supported by strong 19% growth in foods business. Home care segment witnessed 1.6% sales decline mainly on account of 2.3% price cut in fabric wash segment. Beauty & personal care segment sales were flat with recovery in discretionary products sales. The company has launched more than 100+ SKUs in the last six months across segments
- The decline in homecare sales is largely due to lower fabric care sales with confined living restricting usage of detergents. However, liquid detergent is witnessing healthy growth. Household care products are witnessing double digit growth. Though purifier business is recovering with e-commerce sales, it is still considerably lower than normal sales
- In beauty & personal care segment, skin cleansing, oral care, hair care witnessed strong double digit growth whereas skin care & cosmetics continued to see muted sales
- In foods business, tea business growth has been in double digits with judicious price increase whereas 'at home' consumption trend drove 'Kissan' & 'Knorr' brand sales
- Health, hygiene & nutrition products (contributes 80%) witnessed 10% growth whereas discretionary products (contributes 15%) saw 25% sales decline. Out of home (contributes 5%) consumption products also witnessed 25% sales de-growth
- In commodity cost, tea prices & palm oil prices were up 70% & 40%, respectively, whereas crude prices were down 30%. The company has taken price hike in tea segment. It has also taken price cuts in fabric wash to pass on the benefit of crude price decline. However, price increase in the tea segment is not sufficient to pass on entire cost increase. This resulted in a 145 bps contraction in overall gross margins
- With migrant population shifting from metro cities to smaller cities & rural areas, growth in urban regions has been dismal. Rural growth has been aided by government spends, MSP hike & good monsoons
- Domex & Boost have been launched nationally. Domex has been strong brand in south India. It is the right time to take it national with greater awareness about hygiene. Boost has strong recall value and has the greater potential to grow across regions
- Winter skin care portfolio has seen dismal sales given trade is not pre-stocking the winter portfolio due to liquidity concerns. It would only stock up close to winter months. The company has sufficient back end capability to fill the inventory to the direct channel in one week
- In big cities, consumers are still preferring to buy bulk SKUs to reduce frequent visits to store whereas in rural regions. The smaller SKUs and sachets are preferred. There is no prominent signs of down-trading
- Advertisement spend has declined largely due to favourable ad-rates. The comparable media spends have gone up YoY. The company is spending on brand building for 'Glow & Lovely', which would continue in the ongoing quarter before moderating in the March quarter
- Direct distribution has improved by 10% from June to September. Further, the number of SKUs has increased by 70% during the quarter. E-commerce contribution to sales has doubled
- The company has announced an interim dividend of ₹ 14/share



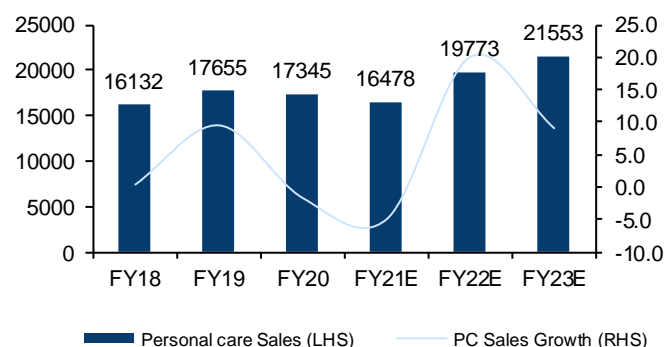
Key Metrics

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



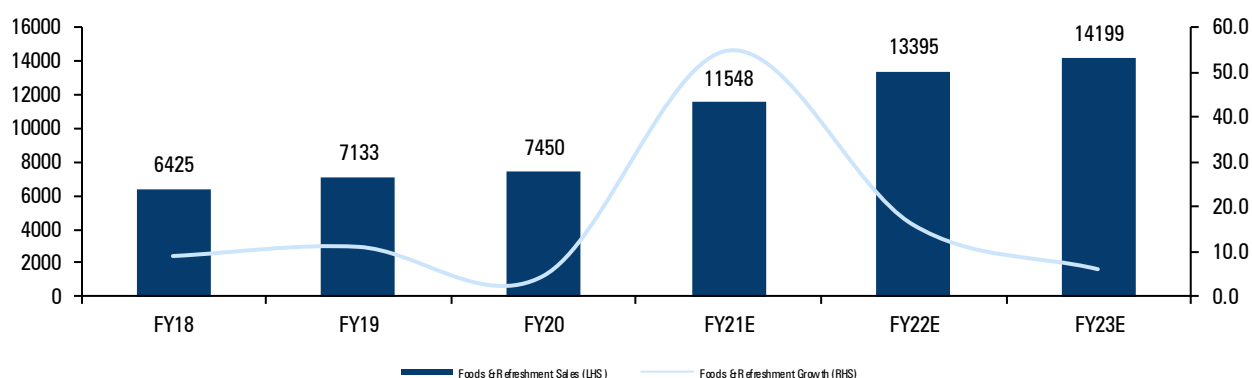
Source: ICICI Direct Research, Company

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



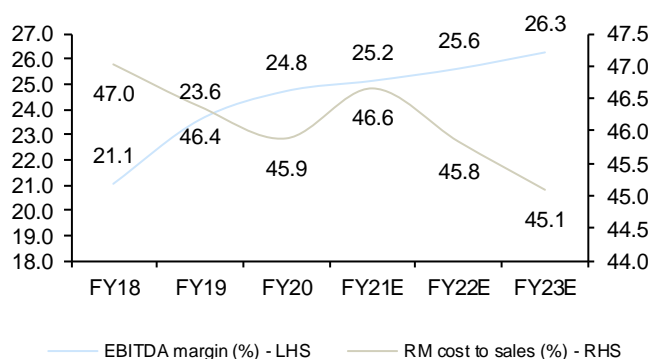
Source: ICICI Direct Research, Company

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



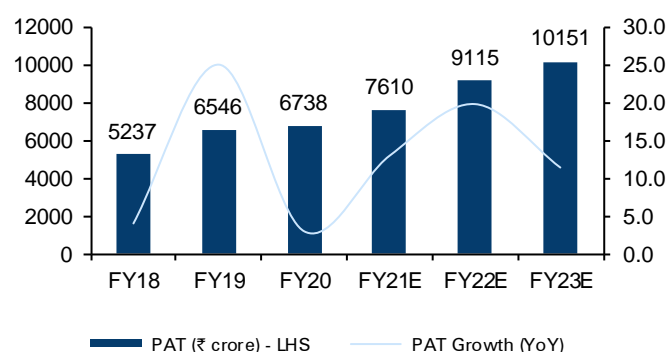
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin and raw material trend



Source: Company, ICICI Direct Research

Exhibit 8: PAT to grow at CAGR of 22.7% in FY20-23E

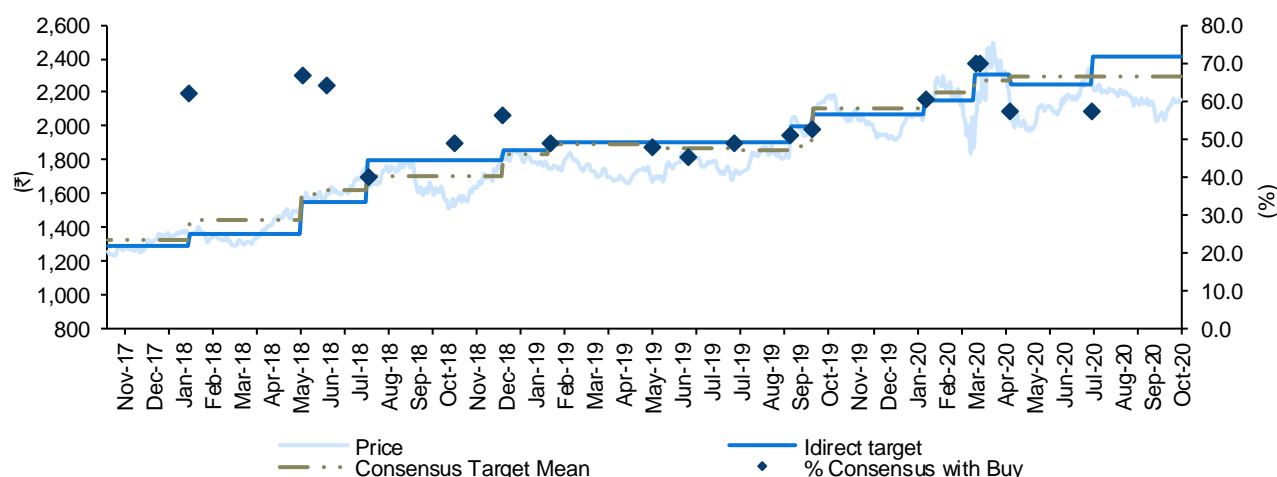


Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	38273.0	0.3	31.2	2.9	69.6	52.6	85.7	89.5
FY21E	42606.0	11.3	32.4	3.8	67.1	46.4	18.6	24.5
FY22E	48908.9	14.8	38.8	19.8	56.0	39.5	21.9	28.5
FY23E	52744.4	7.8	43.2	11.4	50.3	35.7	23.9	31.2

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	30-Jun-20	47.4	1114.4	0.0
2	Brooke Bond Group Lt	30-Jun-20	4.5	106.7	0.0
3	Unilever Overseas Ho	30-Jun-20	3.7	87.6	0.0
4	Life Insurance Corp	30-Jun-20	2.6	61.1	0.0
5	Unilever Uk & Cn Hol	30-Jun-20	2.6	60.1	0.0
6	Brooke Bond South In	30-Jun-20	2.2	52.7	0.0
7	Brooke Bond Assam Es	30-Jun-20	1.4	32.8	0.0
8	Vanguard Group	30-Sep-20	1.4	32.5	-0.6
9	Blackrock	16-Oct-20	1.1	25.8	-0.5
10	Republic Of Singapor	30-Jun-20	1.1	25.1	0.0

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	67.2	67.2	67.2	61.9	61.9
FII	12.4	12.3	12.1	14.8	14.5
DII	6.7	6.7	6.7	8.4	7.9
Others	13.7	13.8	14.0	14.9	15.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	38,785.0	43,245.1	49,715.9	53,614.6
Growth (%)	0.1	11.5	15.0	7.8
Raw Material Expenses	17,793.0	20,171.8	22,782.8	24,172.6
Employee Expenses	1,691.0	2,343.3	2,445.4	2,637.2
Marketing Expenses	4,686.0	4,047.6	5,380.0	5,801.9
Administrative Expenses	2,047.0	2,087.7	2,396.5	2,637.2
Other expenses	2,968.0	3,715.2	3,961.6	4,272.3
Total Operating Expenditure	29,185.0	32,365.6	36,966.4	39,521.2
EBITDA	9,600.0	10,879.4	12,749.6	14,093.4
Growth (%)	5.0	13.3	17.2	10.5
Depreciation	938.0	940.2	966.2	992.2
Interest	106.0	95.4	90.6	81.6
Other Income	733.0	439.8	492.6	551.7
Exceptional Income	-197.0	0.0	0.0	0.0
PBT	9,092.0	10,283.7	12,185.4	13,571.4
Total Tax	2,354.0	2,673.8	3,070.7	3,420.0
PAT	6,738.0	7,609.9	9,114.6	10,151.4
Growth (%)	2.9	12.9	19.8	11.4
EPS (₹)	31.2	32.4	38.8	43.2

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	6,627.0	7,609.9	9,114.6	10,151.4
Add: Depreciation	938.0	940.2	966.2	992.2
(Inc)/dec in Current Assets	-34.0	-1,513.5	-1,511.3	-777.6
Inc/(dec) in CL and Provisions	331.0	-582.8	1,260.6	767.1
CF from operating activities	7,305.0	6,453.8	9,830.1	11,133.1
(Inc)/dec in Investments	2,249.0	-100.0	-100.0	-100.0
(Inc)/dec in loans & advances	-35.0	-25.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	-713.0	313.0	-200.0	-1,192.2
Others	425.0	71.0	22.4	16.9
CF from investing activities	1926.0	259.0	-302.6	-1300.3
Issue/(Buy back) of Equity	0.0	18.9	0.0	0.0
Inc/(dec) in loan funds	-426.0	0.0	0.0	0.0
Dividend paid & dividend tax	-6,244.0	-6,343.4	-8,457.8	-9,397.6
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-6.0	0.0	0.0	0.0
CF from financing activities	-6,676.0	-6,324.4	-8,457.8	-9,397.6
Net Cash flow	2,555.0	388.4	1,069.6	435.2
Opening Cash	575.0	3,130.0	3,518.4	4,588.0
Closing Cash*	5,017.0	5,405.4	6,475.0	6,910.2

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

Exhibit 15: Balance sheet ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	216.0	234.9	234.9	234.9
Reserve and Surplus	7,815.0	40,762.5	41,419.4	42,173.2
Total Shareholders funds	8,031.0	40,997.5	41,654.3	42,408.1
Other Non Current Liabilities	1,269.0	1,269.0	1,269.0	1,269.0
Long Term Provisions	1198.0	114.1	136.7	152.3
Total Liabilities	10,498.0	42,380.6	43,060.0	43,829.4
Assets				
Gross Block	7,132.0	7,332.0	7,532.0	7,732.0
Less: Acc Depreciation	2,507.0	3,447.2	4,413.3	4,413.3
Net Block	4,625.0	3,884.8	3,118.7	3,318.7
Capital WIP	513.0	0.0	0.0	0.0
Total Fixed Assets	5,138.0	3,884.8	3,118.7	3,318.7
Goodwill on Consolidation	36	31717	31717	31717
Net Intangible Assets	395.0	395.0	395.0	395.0
Other Investments	252.0	352.0	452.0	552.0
Inventory	2,636.0	2,918.2	3,349.9	3,612.6
Debtors	1,046.0	1,750.9	1,742.0	1,878.6
Loans and Advances	0.0	233.5	268.0	289.0
Investments & Other CA	1,961.0	1,167.3	1,340.0	1,445.1
Cash	5,017.0	5,405.4	6,475.0	6,910.2
Total Current Assets	11,908.0	13,809.8	16,390.8	17,603.6
Creditors	7,399.0	7,003.7	8,039.8	8,670.3
Provisions & other CL	1,705.0	1,517.5	1,742.0	1,878.6
Total Current Liabilities	9,104.0	8,521.2	9,781.8	10,548.9
Net Current Assets	2,804.0	5,288.6	6,609.0	7,054.7
Others Non-Current Assets	717.0	742.0	767.0	792.0
Application of Funds	10,498.0	42,380.6	43,060.0	43,829.4

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	31.2	32.4	38.8	43.2
Cash EPS	35.5	36.4	42.9	47.4
BV	37.2	174.5	177.3	180.5
DPS	24.1	27.0	36.0	40.0
Cash Per Share	23.2	23.0	27.6	29.4
Operating Ratios (%)				
EBITDA/Total Operating Income	24.8	25.2	25.6	26.3
PBT Margin	23.9	23.8	24.5	25.3
PAT Margin	17.4	17.6	18.3	18.9
Inventory days	25	25	25	25
Debtor days	10	15	13	13
Creditor days	71	60	60	60
Return Ratios (%)				
RoE	85.7	18.6	21.9	23.9
RoCE	89.5	24.5	28.5	31.2
Valuation Ratios (x)				
P/E	69.6	67.1	56.0	50.3
EV / EBITDA	52.6	46.4	39.5	35.7
EV / Net Sales	13.2	11.9	10.3	9.5
Market Cap / Sales	13.3	12.0	10.4	9.7
Price to Book Value	58.4	12.4	12.3	12.0
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.8	1.0	1.0	1.0
Quick Ratio	0.5	0.6	0.7	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)	1,461	1,540	Hold	37,208	30.0	31.0	34.3	48.7	47.2	42.6	8.3	8.1	7.4	60.7	68.0	76.0	51.2	52.1	58.3
Dabur India (DABIND)	528	565	Buy	88,708	8.2	8.8	10.3	64.4	59.9	51.5	10.2	10.1	8.7	26.1	24.0	24.7	21.9	20.9	21.4
Hindustan Unilever (HINLEV)	2,173	2,500	Buy	510,290	31.2	32.4	38.8	69.7	67.1	56.0	13.3	12.0	10.4	89.5	24.5	28.5	85.7	18.6	21.9
ITC Limited (ITC)	167	250	Buy	218,801	12.5	11.7	13.0	13.4	14.3	12.8	4.7	4.6	4.1	29.4	28.3	36.1	23.8	21.7	27.7
Jyothy Lab (JYOLAB)	142	150	Hold	5,141	4.3	5.3	5.8	33.2	26.8	24.4	3.1	2.9	2.6	24.3	29.7	29.9	21.7	24.2	24.1
Marico (MARLIM)	367	380	Hold	45,802	8.1	8.5	9.6	45.4	43.2	38.4	6.3	6.2	5.5	41.0	42.3	46.2	34.5	35.6	39.5
Nestle (NESIND)	16,253	18,000	Hold	151,669	204.3	230.3	268.9	79.6	70.6	60.5	12.3	11.4	10.0	56.9	59.3	65.9	101.9	114.2	123.6
Tata Consumer Products (TATGLC)	478	525	Buy	49,578	5.0	9.8	11.7	95.7	48.9	41.0	5.1	4.6	4.3	6.9	8.8	9.4	4.6	6.6	7.5
VST Industries (VSTIND)	3,466	4,450	Buy	5,530	196.9	202.1	222.6	17.6	17.2	15.6	4.5	4.6	3.9	52.1	46.3	44.8	38.6	34.2	33.0
Varun Beverage (VARBEV)	677	700	Hold	19,948	16.4	9.7	17.8	41.4	69.5	38.0	2.8	3.3	2.7	15.5	11.3	16.3	14.2	8.8	14.2
Zydus Wellness (ZYDWEL)	1,781	2,300	Buy	10,782	24.6	43.4	66.4	72.5	41.1	26.8	6.1	5.8	5.2	5.9	7.0	8.3	5.4	5.9	8.6

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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