

Reduce

Revival in Discretionary categories

- Revenues came ahead of our estimate but APAT was in line. Core business registered 7% sales growth - was a marginal beat.
- Beauty and personal care business reported 9.7% growth after 4 consecutive quarters of decline, was a positive surprise. Most discretionary categories witnessed revamp during the quarter.
- However, increase in RM and brand investment in key categories resulted in EBITDA margin contraction. We believe that the brand investment would help HUL in the long run.
- We have tweaked our FY21/FY22/FY23E EPS estimates to Rs 34.0/40.0/46.1 to factor in Q3 performance. Valuing the stock at 55x FY23E EPS, we have arrived at a TP of Rs 2,535. We Maintain Reduce. Considering recent run up in stock price, there is limited room for further upside. However, fundamentally, we see high growth prospects for HUL going ahead. Buy on dips.

Revenue and EBITDA was a beat, but APAT was in line

Net Sales stood at Rs 118.6bn was up 20.9% YoY in Q3FY21 – came ahead of our estimate. Excluding impact of GSK, standalone HUL business posted 7% revenue growth with 4% volume growth. Home care business reported 1.4% YoY decline while Beauty and Personal care posted 9.7% YoY sales increase. Food & refreshment business ex-GSK grew by 19%. EBITDA increased by 16.7% YoY to Rs 28.5bn. EBITDA margin contracted by 90bps as 20bps decline in A&P spends was completely offset by 20/10/70bps increase in RM/employee cost/other expenses. PAT increased 18.9% YoY to Rs 19.2bn. Excluding extraordinary items, APAT grew 14.5% YoY to Rs 19.6bn- came in line with our estimate.

Foods business was helped by GSK addition; but margins remained low

During the quarter, the core portfolio exhibited 7% growth, while including GSK, HUL reported 21% increase. GSK also reported YoY improvement in revenues. However, Food and refreshment margins contracted by 380bps due to – (1) unprecedented increase in tea prices and (2) accelerated investment in brand building. Going ahead, we believe that the company would take calibrated pricing actions in tea business. Further, as GSK business is expected to grow faster and has better inherent margins, overall foods business margins would normalize, going ahead.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	1,18,620	98,080	20.9	1,14,420	3.7
Total Expense	90,080	73,630	22.3	85,730	5.1
EBITDA	28,540	24,450	16.7	28,690	(0.5)
Depreciation	2,720	2,320	17.2	2,490	9.2
EBIT	25,820	22,130	16.7	26,200	(1.5)
Other Income	970	1,400	(30.7)	1,510	(35.8)
Interest	410	250	64.0	290	41.4
EBT	25,960	22,290	16.5	26,610	(2.4)
Tax	6,750	6,130	10.1	6,520	3.5
RPAT	19,210	16,160	18.9	20,090	(4.4)
APAT	19,630	17,150	14.5	20,900	(6.1)
			(bps)		(bps)
Gross Margin (%)	54.0	54.2	(24)	53.0	96
EBITDA Margin (%)	24.1	24.9	(87)	25.1	(101)
NPM (%)	16.2	16.5	(28)	17.6	(136)
Tax Rate (%)	26.0	27.5	(150)	24.5	150
EBIT Margin (%)	21.8	22.6	(80)	22.9	(113)

CMP	Rs 2,391
Target / Upside	Rs 2,535 / 6%
NIFTY	13,968

Scrip Details

Equity / FV	Rs 2,349mn / Rs 1
Market Cap	Rs 5,618bn
	USD 77bn
52-week High/Low	Rs 2,614/ 1,757
Avg. Volume (no)	22,29,580
Bloom Code	HUVR IN
Price Performance	1M 3M 12M
Absolute (%)	0 10 16
Rel to NIFTY (%)	(1) (7) 1

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	61.9	61.9	61.9
MF/Banks/FIs	12.0	12.1	10.7
FIIIs	14.8	14.5	14.9
Public / Others	11.3	11.5	12.5

Valuation (x)

	FY21E	FY22E	FY23E
P/E	70.3	59.8	51.9
EV/EBITDA	49.5	42.5	37.1
ROE (%)	93.8	98.4	100.9
RoACE (%)	98.2	102.6	104.8

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	4,53,133	4,96,724	5,46,332
EBITDA	1,12,112	1,30,473	1,49,200
PAT	79,859	93,872	1,08,202
EPS (Rs.)	34.0	40.0	46.1

VP - Research: Sachin Bobade
 Tel: +91 22 40969731
 E-mail: sachinb@dolatcapital.com

Associate: Nikhat Koor
 Tel: +91 22 40969764
 E-mail: nikhatk@dolatcapital.com

Improvement in discretionary categories

Considering the impact of pandemic on economy, few categories such as skin, purifier, deodorants were expected to take longer time to recover. However, during the quarter, discretionary categories have witnessed strong recovery (25% decline in Q2FY21 to 1% decline in Q3FY21). Further, overall beauty and personal care category reported 9.7% growth compared to decline in past four quarters. The performance was encouraging considering high margins associated with the discretionary categories.

Segmental performance was a mixed bag

At the segmental level, the company posted mixed performance – (1) Home care reported 1.4% sales de-growth but 70bps EBIT margin expansion to 18.9% (2) Personal care reported 9.7% revenue increase to Rs 48.4 bn and 80bps EBIT expansion to 29.2% and (3) Food and Refreshment (including GSK) posted 79.9% YoY sales growth to Rs 33.6bn and EBIT margin contraction of 380bps to 14.1%. The Personal care segment benefited from winter portfolio during the quarter, especially in the skin business.

Exhibit 1: Segmental Performance

Particulars (Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Remarks
Home Care						<ul style="list-style-type: none"> Household Care continues to post double digit growth across segments, led by penetration gains Fabric Wash category improved sequentially with increased mobility. Liquids market development continues to yield good results. Purifiers exhibited stable performance led by strong execution in e-commerce
Revenue	34,090	34,560	(1.4)	33,180	2.7	
EBIT	6,460	6,290	2.7	6,780	(4.7)	
EBIT Margin (%)	18.9	18.2	70bps	20.4	(150)bps	
Beauty & Personal Care						<ul style="list-style-type: none"> Skin cleansing delivered high double digit growth led by Lifebuoy and double digit growth in premium skin cleansing (Dove, pears). Company took pricing action to manage inflation. In Skincare, winter portfolio picked up momentum with strong performance in Vaseline. Oral Care delivered double digit growth led by Close up. Hair Care registered strong double digit growth in Q3. Color Cosmetics saw sequential improvement.
Revenue	48,410	44,120	9.7	45,350	6.7	
EBIT	14,130	12,520	12.9	13,280	6.4	
EBIT Margin (%)	29.2	28.4	80bps	29.3	(10)bps	
Food & Refreshments						<ul style="list-style-type: none"> Food & Refreshment segment registered 19% growth (excl. GSK acquisition). Nutrition business returned to normalcy post restoration of disrupted supply lines. Foods portfolio continued to be supported by in-home consumption' tailwind. Tea continued to outperform with solid double-digit growth across brands. Icecream/Food solutions and Vending business improved gradually with rise in out-of-home consumption occasions
Revenue	33,560	18,650	79.9	33,790	(0.7)	
EBIT	4,730	3,340	41.6	5,590	(15.4)	
EBIT Margin (%)	14.1	17.9	(380)bps	16.5	(240)bps	
Others						
Revenue	2,560	750.0	241.3	2,100	21.9	
EBIT	500.0	(20.0)	0.0	550.0	0.0	
EBIT Margin (%)	19.5	(2.7)	NM	26.2	(670)bps	
Total						
Revenue	1,18,620	98,080	20.9	1,14,420	3.7	
EBIT	25,820	22,130	16.7	26,200	(1.5)	
EBIT Margin (%)	21.8	22.6	(80)bps	22.9	(110)bps	

Source: DART, Company (Food & Refreshment numbers include GSK Consumer acquisition)

Exhibit 2: Actual Vs Estimates Variance

Rs Mn	Actual	Estimates	Variance (%)	Comment
Revenue	118,620	113,751	4.3	Better than estimated performance across categories
EBITDA	28,540	27,902	2.3	
EBITDA margin %	24.1	24.5	(50) bps	Advertising expenses were higher than estimates
APAT	19,630	20,666	(5.0)	

Source: Company, DART

Exhibit 3: Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Net Revenue	4,53,133	4,39,928	3.0	4,96,724	4,86,962.8	2.0	5,46,332	5,38,709	1.4
EBITDA	1,12,112	1,13,194	(1.0)	1,30,473	1,30,642.1	(0.1)	1,49,200	1,50,373	(0.8)
EBITDA Margin (%)	24.7	25.7	(100) bps	26.3	26.8	(60) bps	27.3	27.9	(60) bps
APAT	79,859	80,659	(1.0)	93,872	93,943	(0.1)	1,08,202	1,09,036	(0.8)
EPS (Rs)	34.0	34.3	(1.0)	40.0	40.0	(0.1)	46.1	46.4	(0.8)

Source: Company, DART

We have revised our FY21/22/23E revenue estimates to factor in Q3 performance and improvement in discretionary portfolio. However, we have downward revised our margin estimates to factor in increase in RM prices.

Exhibit 4: 9MFY21 performance

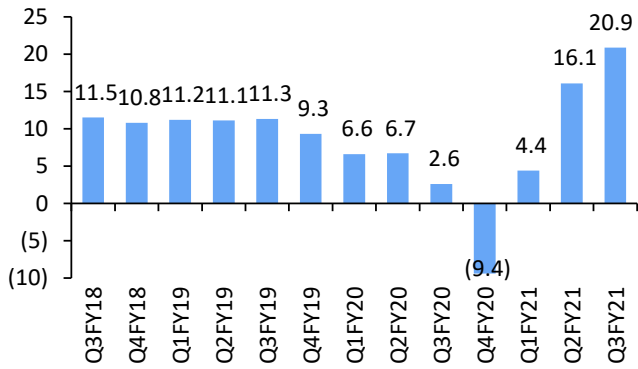
Particulars (Rs.mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net Sales	1,18,620	98,080	20.9	1,14,420	3.7	3,38,640	2,97,740	13.7
Total Expenditure	90,080	73,630	22.3	85,730	5.1	2,54,970	2,22,390	14.6
Raw material costs	54,590	44,900	21.6	53,750	1.6	1,59,210	1,36,230	16.9
Employee Cost	5,560	4,540	22.5	5,590	(0.5)	17,070	13,360	27.8
Ad spends	13,880	11,630	19.3	11,390	21.9	33,240	35,220	(5.6)
Other Exp	16,050	12,560	27.8	15,000	7.0	45,450	37,580	20.9
PBIDT (Excl OI)	28,540	24,450	16.7	28,690	(0.5)	83,670	75,350	11.0
Other Income	970	1,400	(30.7)	1,510	(35.8)	4,040	4,670	(13.5)
Depreciation	2,720	2,320	17.2	2,490	9.2	7,630	6,830	11.7
EBIT	26,790	23,530	13.9	27,710	(3.3)	80,080	73,190	9.4
Interest	410	250	64.0	290	41.4	990	800	23.8
Exceptional Items	(420)	(990)	NA	(810)	NA	(2,410)	(1,390)	NA
PBT	25,960	22,290	16.5	26,610	(2.4)	76,680	71,000	8.0
Tax	6,750	6,130	10.1	6,520	3.5	18,570	18,810	(1.3)
Profit After Tax (Reported)	19,210	16,160	18.9	20,090	(4.4)	58,110	52,190	11.3
APAT	19,630	17,150	14.5	20,900	(6.1)	60,520	53,580	13.0
EPS (based on APAT)	8.4	7.3	14.5	8.9	(6.1)	26	23	9.9
			bps		bps			bps
Gross Profit (%)	54.0	54.2	(20)	53.0	100	53.0	54.2	(130)
Employee Cost (%)	4.7	4.6	10	4.9	(20)	5.0	4.5	60
Ad spends (%)	11.7	11.9	(20)	10.0	170	9.8	11.8	(200)
Other Exp (%)	13.5	12.8	70	13.1	40	13.4	12.6	80
EBITDA (%)	24.1	24.9	(90)	25.1	(100)	24.7	25.3	(60)
PAT (%) Adj	16.5	17.5	(90)	18.3	(170)	17.9	18.0	(10)

Source: Company

Other Concall Highlights

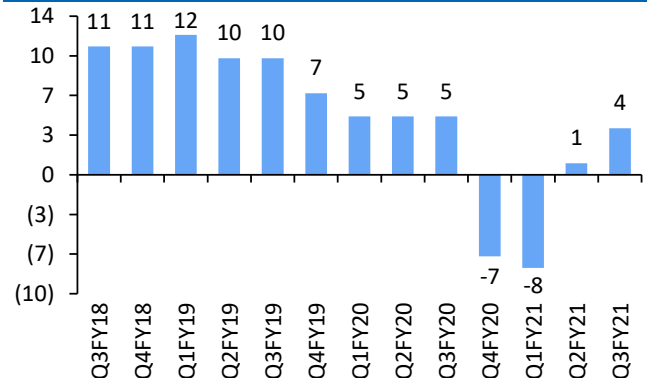
- HUL is witnessing unprecedented inflation, especially in tea prices and the palm oil prices, which increased ~40% . Also, crude prices have increased sequentially. We believe inflation in RM is likely to continue in near term and company will take pricing actions and cost management measures to maintain margins.
- Rural and smaller towns continued to lead with double digit growth while the metros and big cities improved progressively. HUL's network of Shakti entrepreneurs is at 1.36 lakhs and is double from the 2016 level.
- Hindustan Unilever's use of technology to drive sales increased since the Covid-19 lockdown The company has 3.4 lakh outlets on-board on the Shikhar B2B app. Orders per month have gone up by 6x YoY indicating active participation from the retail stores.
- HUL continues to gain share in e-commerce, growth momentum has picked up significantly and growth in E-com is 2x versus Q3FY20.
- Health, Hygiene & Nutrition portfolio which accounts for 80% of revenue grew ~10% in Q3FY21 (+6%/+10% in Q1/Q2FY21). Discretionary (15% contribution) declined mere 1% YoY in Q3FY21, strong recovery from 45%/25% YoY decline in Q1/Q2 respectively. Out of Home consumption fell 15% YoY in Q3, from 69%/25% YoY decline in Q1/Q2FY21.
- Going ahead, some part of Health Hygiene and Nutrition business ie sanitizers and hand wash is likely to come down. However, this will be balanced by pick up in Home care business, and discretionary business like Lakme and Icecream.
- With the supply issues getting resolved in Nutrition business, both Horlicks and Boost grew in double-digit. Boost was re-launched in North and West and received encouraging response. HUL has launched Horlicks Mother's Plus, and Horlicks Women's Plus in Q3. Entry into adult nutrition space will help gain customers and increase penetration.
- The company witnessed inflationary pressure in Skin cleansing portfolio. In order to maintain margin, HUL took price increase of 2.5% in Q3FY21 and further initiated 2.5% increase later.
- Food and Refreshment margins declined 380bps on account of rising tea inflation and significant brand investment. Calibrated approach to pricing helped HUL gain share from the unorganized sector especially in Tea.
- Due to continued strong traction in in-home consumption portfolio, HUL launched Kissan Peanut Butter, Bru Veda – Instant Coffee and Knorr Chicken cubes.
- In Home care, HUL launched 'Vim Matic Dishwash', 'Surf Excel Smart Spray' and 'Surf Excel Active Hygiene'. It also introduced new hygiene products in Lifebuoy.
- HUL announced the appointment of Mr Ritesh Tiwari as Executive Director, Finance & Chief Financial Officer with effect from May 1, 2021. He will succeed Mr Srinivas Phatak who will move as EVP Financial Control and Risk Management, based out of Unilever's headquarters in London to be part of the Finance Leadership Executive Team.
- Going ahead, HUL aims to drive profitable volume growth with further pick-up in demand, innovation, investment in market development.

Exhibit 5: Trend in revenue growth (%)



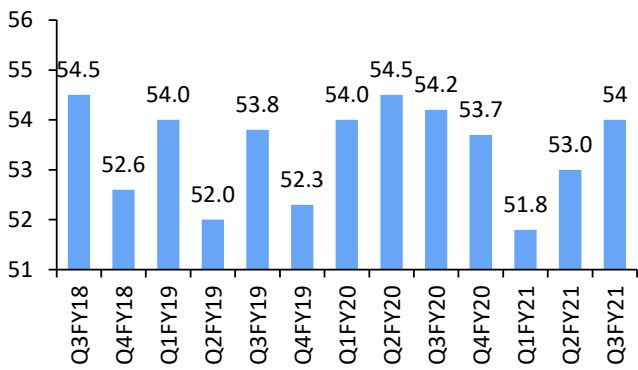
Source: Company, DART

Exhibit 6: Trend in domestic volume growth (%)



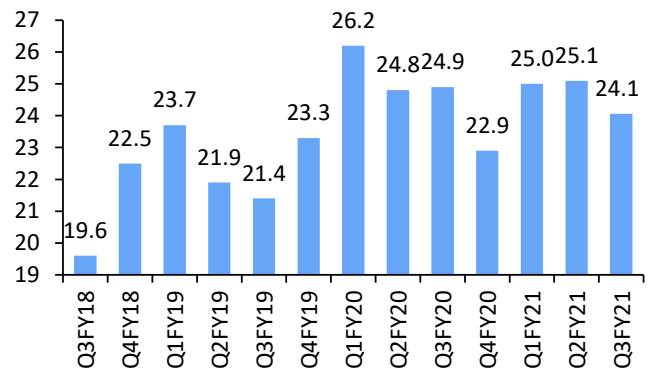
Source: Company, DART

Exhibit 7: Trend in gross margins (%)



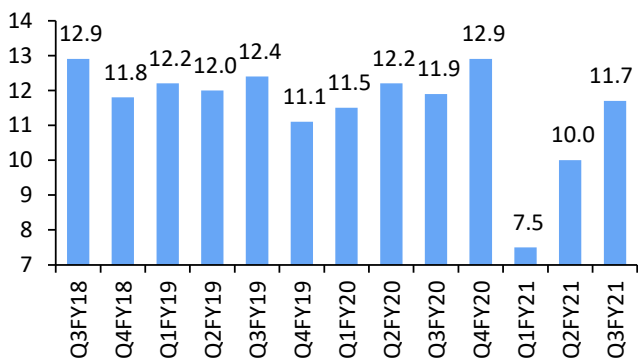
Source: Company, DART

Exhibit 8: Trend in EBITDA margins (%)



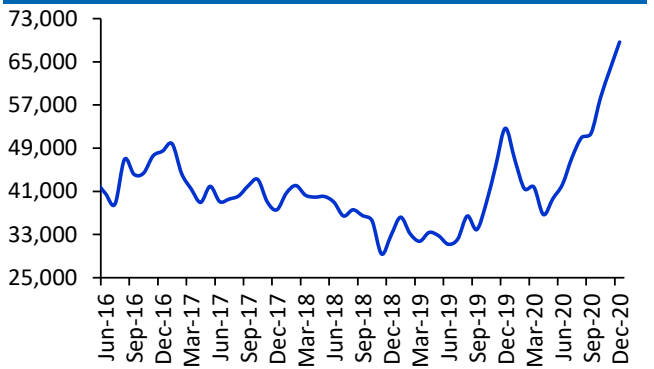
Source: Company, DART

Exhibit 9: Ad spends as a % of sales



Source: Company, DART

Exhibit 10: Commodity prices (Palm Oil)- Rs /MT



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	3,87,850	4,53,133	4,96,724	5,46,332
Total Expense	2,91,850	3,41,020	3,66,251	3,97,132
COGS	1,77,930	2,12,410	2,28,871	2,50,089
Employees Cost	16,910	19,756	20,663	21,634
Other expenses	97,010	1,08,854	1,16,717	1,25,408
EBIDTA	96,000	1,12,112	1,30,473	1,49,200
Depreciation	9,380	10,694	11,040	11,385
EBIT	86,620	1,01,418	1,19,433	1,37,815
Interest	1,060	1,166	1,283	1,411
Other Income	7,330	7,665	8,704	9,814
Exc. / E.O. items	(1,970)	0	0	0
EBT	90,920	1,07,917	1,26,854	1,46,218
Tax	23,540	28,058	32,982	38,017
RPAT	67,380	79,859	93,872	1,08,202
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	69,350	79,859	93,872	1,08,202

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	2,165	2,349	2,349	2,349
Minority Interest	0	0	0	0
Reserves & Surplus	78,150	87,525	98,546	1,11,249
Net Worth	80,315	89,875	1,00,895	1,13,598
Total Debt	0	0	0	0
Net Deferred Tax Liability	(2,610)	(2,610)	(2,610)	(2,610)
Total Capital Employed	77,705	87,265	98,285	1,10,988

Applications of Funds

Net Block	50,560	42,366	33,826	24,941
CWIP	5,130	5,130	5,130	5,130
Investments	14,980	14,980	29,960	44,940
Current Assets, Loans & Advances	98,075	1,20,446	1,31,999	1,47,102
Inventories	26,360	28,252	30,972	34,059
Receivables	10,460	19,515	21,394	23,526
Cash and Bank Balances	50,170	70,049	76,750	86,347
Loans and Advances	11,085	2,630	2,883	3,171
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	91,040	95,658	1,02,630	1,11,125
Payables	73,990	82,115	90,020	98,991
Other Current Liabilities	17,050	13,543	12,610	12,134
<i>sub total</i>				
Net Current Assets	7,035	24,789	29,369	35,977
Total Assets	77,705	87,265	98,285	1,10,988

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	54.1	53.1	53.9	54.2
EBIDTA Margin	24.8	24.7	26.3	27.3
EBIT Margin	22.3	22.4	24.0	25.2
Tax rate	25.9	26.0	26.0	26.0
Net Profit Margin	17.4	17.6	18.9	19.8
(B) As Percentage of Net Sales (%)				
COGS	45.9	46.9	46.1	45.8
Employee	4.4	4.4	4.2	4.0
Other	25.0	24.0	23.5	23.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	81.7	87.0	93.1	97.7
Inventory days	25	23	23	23
Debtors days	10	16	16	16
Average Cost of Debt				
Payable days	70	66	66	66
Working Capital days	7	20	22	24
FA T/O	7.7	10.7	14.7	21.9
(D) Measures of Investment				
AEPS (Rs)	29.5	34.0	40.0	46.1
CEPS (Rs)	33.5	38.5	44.7	50.9
DPS (Rs)	26.6	30.0	35.3	40.7
Dividend Payout (%)	90.0	88.3	88.3	88.3
BVPS (Rs)	34.2	38.3	43.0	48.4
RoANW (%)	85.9	93.8	98.4	100.9
RoACE (%)	93.3	98.2	102.6	104.8
RoAIC (%)	271.3	453.3	616.4	596.9
(E) Valuation Ratios				
CMP (Rs)	2391	2391	2391	2391
P/E	81.0	70.3	59.8	51.9
Mcap (Rs Mn)	56,17,642	56,17,642	56,17,642	56,17,642
MCap/ Sales	14.5	12.4	11.3	10.3
EV	55,67,472	55,47,593	55,40,892	55,31,295
EV/Sales	14.4	12.2	11.2	10.1
EV/EBITDA	58.0	49.5	42.5	37.1
P/BV	69.9	62.5	55.7	49.4
Dividend Yield (%)	1.1	1.3	1.5	1.7
(F) Growth Rate (%)				
Revenue	1.5	16.8	9.6	10.0
EBITDA	11.1	16.8	16.4	14.4
EBIT	6.8	17.1	17.8	15.4
PBT	6.7	18.7	17.5	15.3
APAT	10.7	15.2	17.5	15.3
EPS	10.7	15.2	17.5	15.3

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	82,600	93,844	1,08,315	1,23,987
CFI	(3,400)	(2,500)	(17,480)	(17,480)
CFF	(65,910)	(71,465)	(84,134)	(96,910)
FCFF	64,690	91,344	1,05,815	1,21,487
Opening Cash	36,880	50,170	70,049	76,750
Closing Cash	50,170	70,049	76,750	86,347

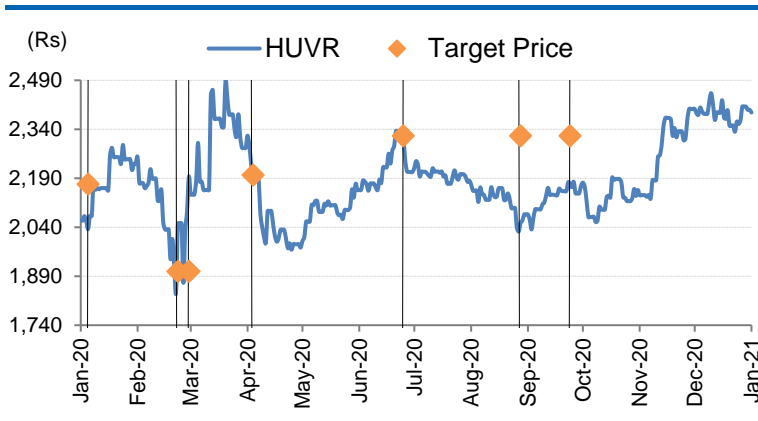
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-20	Accumulate	2,172	2,034
Mar-20	Reduce	1,905	2,052
Mar-20	Sell	1,905	2,195
Apr-20	Accumulate	2,200	2,195
Jul-20	Reduce	2,320	2,318
Sep-20	Reduce	2,320	2,053
Oct-20	Reduce	2,320	2,173

*Price as on recommendation date

DART Team

Purvag Shah **Managing Director** **purvag@dolatcapital.com** **+9122 4096 9747**

Amit Khurana, CFA **Head of Equities** **amit@dolatcapital.com** **+9122 4096 9745**

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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Dolat Capital Market Private Limited.

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
