

Hindustan Unilever (HUVR IN)

Rating: ACCUMULATE | CMP: Rs2,378 | TP: Rs2,535

July 22, 2021

Q1FY22 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		BUY	
Target Price	2,535		2,562	
Sales (Rs. m)	515,334	571,472	514,046	570,069
% Chng.	0.3	0.2		
EBITDA (Rs. m)	125,261	145,954	129,797	149,855
% Chng.	(3.5)	(2.6)		
EPS (Rs.)	37.6	45.1	39.3	46.6
% Chng.	(4.2)	(3.2)		

Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. bn)	388	460	515	571
EBITDA (Rs. bn)	96	113	125	146
Margin (%)	24.8	24.6	24.3	25.5
PAT (Rs. bn)	69	82	88	106
EPS (Rs.)	32.1	34.8	37.6	45.1
Gr. (%)	10.7	8.4	8.1	20.0
DPS (Rs.)	24.1	37.5	35.0	42.0
Yield (%)	1.0	1.6	1.5	1.8
RoE (%)	88.4	29.5	18.5	21.9
RoCE (%)	110.4	37.2	23.7	27.4
EV/Sales (x)	13.1	12.0	10.6	9.5
EV/EBITDA (x)	52.9	48.7	43.7	37.3
PE (x)	74.1	68.3	63.2	52.7
P/BV (x)	64.0	11.8	11.6	11.4

Key Data

HLL.BO | HUVR IN

52-W High / Low	Rs.2,534 / Rs.2,000
Sensex / Nifty	52,837 / 15,824
Market Cap	Rs.5,588bn/ \$ 75,036m
Shares Outstanding	2,350m
3M Avg. Daily Value	Rs.6787.01m

Shareholding Pattern (%)

Promoter's	61.90
Foreign	15.11
Domestic Institution	10.75
Public & Others	12.24
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.5)	(1.3)	6.2
Relative	(5.0)	(7.3)	(23.7)

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Growth intact but moderate margin expectations; Accumulate

Quick Pointers:

- Domestic consumer growth at 12% and underlying volume growth at 9%
- 3% price increase to mitigate RM inflation insufficient
- GTM integration for nutrition business at 50% mark

We are cutting FY22/23 EPS by 4.2%/3.2% and downgrading the stock to Accumulate. Despite the near term challenges, we remain positive on the structural story given that 1) More than 80% of business is gaining penetration 2) HFD segment is likely to emerge as a key driver of growth with launch of Rs2/5 pack of Horlicks and Boost and benefits of expansion in distribution and integration post 3Q22 4) Rebound in Discretionary Portfolio with easing of restrictions and improvement in mobility 4) Strong growth in Ecom channel which already accounts for 10% of revenue and 5) gains from strategies like WIMI and SHIKHAR driving distribution led gains.

Although HUL used to guide for calibrated margin expansion, however inflation in laundry, skin cleansing and Tea inputs and focus on driving volumes is likely to curtail margin expansion to levels lower than earlier expectations. We expect 11.5% Sales and 14% PAT CAGR over FY21-23 and assign a DCF based target price of Rs 2535 (Rs 2562 earlier). We downgrade the stock to Accumulate (Buy earlier) with near term underperformance.

Concall Takeaways: 1) All segments grew in double digits with rural leading the growth in FMCG segment 2) More than 10% sales through ecommerce/digitized segment 3) All time high inflation seen in all 3 commodities of crude, palm oil & tea 3) 3% price hike taken during the quarter to mitigate RM inflation.4) Integration with GSK achieved 50% though business development for same has been impacted by covid.5) Company confident of achieving synergies with GSK business and generating returns once covid situation normalizes 6) Food & Refreshments segment margins improved at 18% compared to 16.9% last year 7) Premium portfolio grew at twice the pace of the other segments.

Volumes up 9%, EBIDTA margins decline 110bps: Sales increased 12.7% at Rs117.3bn (PLe Rs122.5bn) backed by Domestic consumer growth at 12% and underlying volume growth at 9%. Gross margin contracted 140 bps to 50.4% (Est: 52.5%) EBIDTA margins contracted 130bps to 23.9% (Est 24.9%) due to higher A&P/other expenses. EBIDTA increased 7.7% to Rs28.47bn (PLe Rs 30.50bn). PAT at Rs 19.62bn (Est Rs 21.72) increased 4.8%. Home care sale/EBIT up 11.9%/3.9%, Margins contracted 130bps to 17.4%. Personal care sales/EBIT up 13.2%/13.5%, margins remained flattish at 28.1%. Food and Refreshments sales increased 12.2%, EBIT stood at Rs 6.0bn (Rs 5.82bn in 1QFY21), margins contracted by 160bps to 18.1%

Exhibit 1: Q1FY22 Results (Rs m): Volumes up 9%, EBITDA margins decline 110bps

Y/e March	1QFY22	1QFY22	YoY gr. (%)	Q4FY21	FY21	FY20	YoY gr. (%)
Net Sales	1,19,150	1,05,600	12.8	1,21,320	4,59,960	3,87,850	18.6
Gross Profit	60,100	54,730	9.8	63,760	2,43,190	2,09,920	15.8
% of NS	50.4	51.8	(1.4)	52.6	52.9	54.1	(1.3)
A&P Exp.	10,240	7,970	28.5	14,130	47,370	46,860	1.1
% of NS	8.6	7.5	1.0	11.6	10.3	12.1	(1.8)
EBITDA	28,470	26,440	7.7	29,570	1,13,240	96,000	18.0
Margins	23.9	25.0	(1.1)	24.4	24.6	24.8	(0.1)
Depreciation	2,440	2,420	0.8	2,490	10,120	9,380	7.9
EBIT	26,030	24,020	8.4	27,080	1,03,120	86,620	19.0
Interest	110	290	(62.1)	90	1,080	1,060	1.9
Other Income	670	1,560	(57.1)	1,090	5,130	7,330	(30.0)
PBT	26,590	25,290	5.1	28,080	1,07,170	92,890	15.4
Tax	6,970	6,560	6.3	7,050	27,550	25,460	8.2
Tax Rate (%)	26.2	25.9	0.3	25.1	25.7	27.4	(1.7)
Adjusted PAT	19,620	18,730	4.8	21,030	79,620	67,430	18.1
Extraordinary	(900)	120		470	10	(940)	
Reported Profit	18,720	18,850	(0.7)	21,500	79,630	66,490	19.8

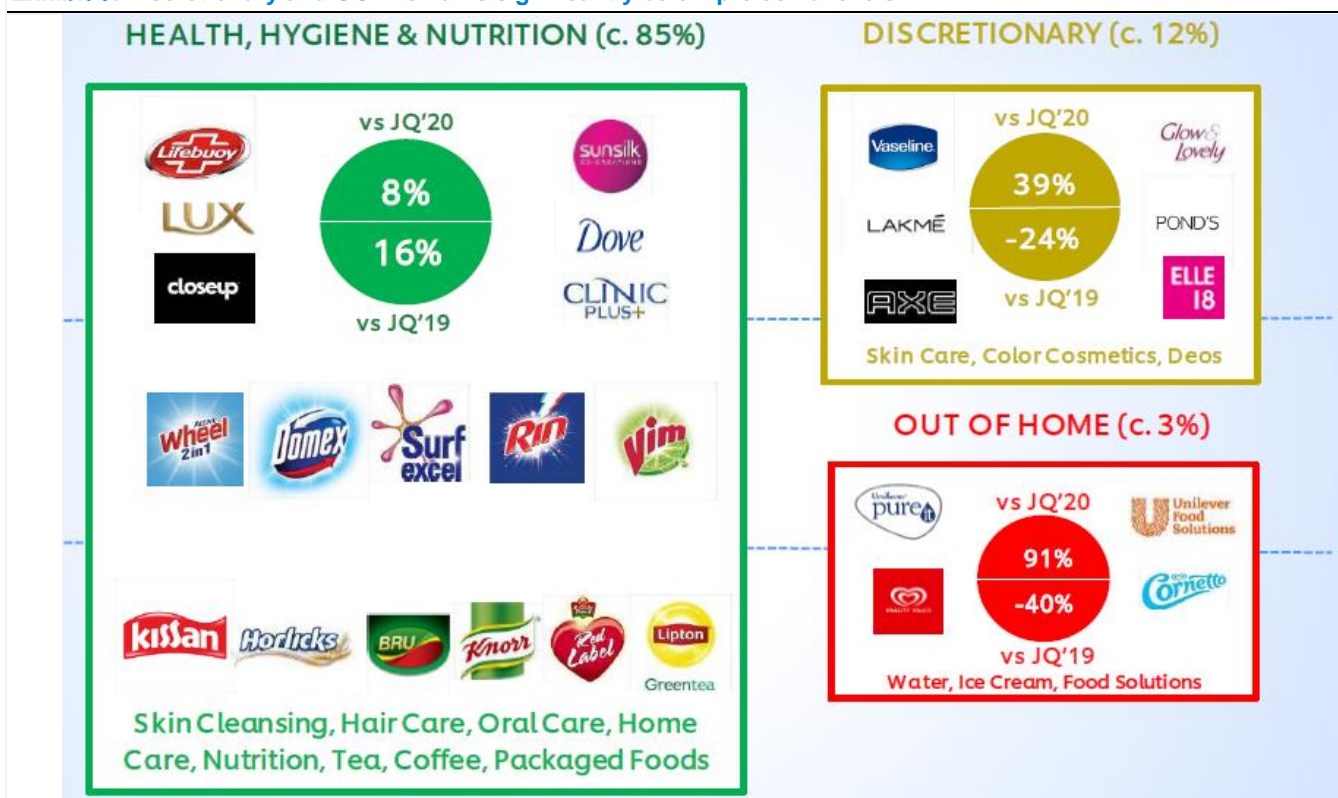
Source: Company, PL

Exhibit 2: 1Q22 performance was driven by double digit growth across all segments

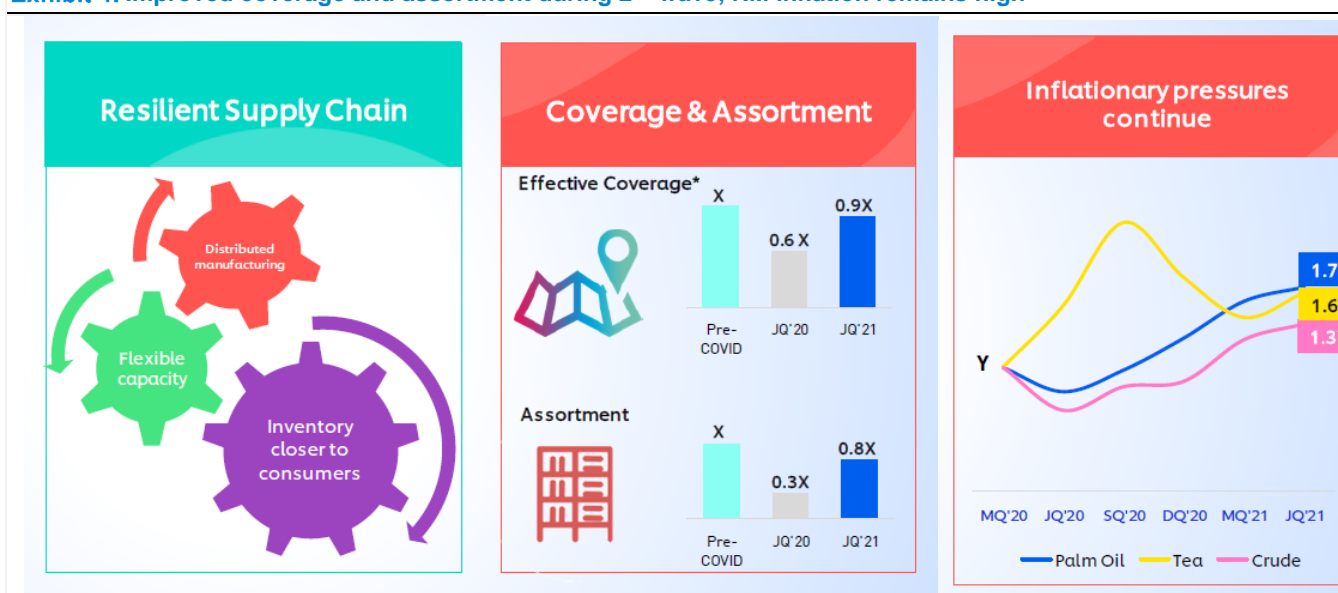
Quarterly Segmental	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Net Sales (Rs m)	1,01,140	98,520	98,080	90,110	1,05,600	1,14,420	1,18,620	1,21,320	1,19,150
Home Care	34,650	33,710	34,560	33,500	33,920	33,180	34,090	38,400	37,970
Personal Care	45,890	45,430	44,120	38,010	40,390	45,350	48,410	45,490	45,730
Foods & Refreshment	19,500	18,470	18,650	17,880	29,580	33,790	33,560	35,110	33,190
Others	1,100	910	750	720	1,710	2,100	2,560	2,320	2,260
Sales Growth %	6.6	6.7	2.6	(9.4)	4.4	16.1	20.9	34.6	12.8
Home Care	10.1	9.4	9.8	(4.3)	(2.1)	(1.6)	(1.4)	14.6	11.9
Personal Care	4.1	5.3	(2.8)	(13.5)	(12.0)	(0.2)	9.7	19.7	13.2
Foods & Refreshment	9.2	8.4	7.9	(6.7)	51.7	82.9	79.9	96.4	12.2
Others	(26.2)	(32.1)	(47.6)	(46.3)	55.5	130.8	241.3	222.2	32.2
EBIT (Rs m)	24,380	22,060	22,130	18,100	24,020	26,200	25,820	27,080	26,030
Home Care	6,990	5,950	6,290	6,360	6,370	6,780	6,460	8,120	6,620
Personal Care	13,580	13,150	12,520	9,450	11,340	13,280	14,130	12,520	12,870
Foods & Refreshment	3,790	2,940	3,340	2,250	5,820	5,590	4,730	5,750	6,000
Others	20	20	-20	40	490	550	500	690	540
EBIT Growth %	16.3	16.3	22.5	(17.2)	(1.5)	18.8	16.7	49.6	8.4
Home Care	16.1	20.9	55.7	2.7	(8.9)	13.9	2.7	27.7	3.9
Personal Care	16.9	17.9	7.7	(22.5)	(16.5)	1.0	12.9	32.5	13.5
Foods & Refreshment	13.5	2.1	36.9	(35.0)	53.6	90.1	41.6	155.6	3.1
Others	(200.0)	0.0	(33.3)	100.0	2,350.0	2,650.0	(2,600.0)	1,625.0	10.2
EBIT Margin %	24.1	22.4	22.6	20.1	22.7	22.9	21.8	22.3	21.8
Home Care	20.2	17.7	18.2	19.0	18.8	20.4	18.9	21.1	17.4
Personal Care	29.6	28.9	28.4	24.9	28.1	29.3	29.2	27.5	28.1
Foods & Refreshment	19.4	15.9	17.9	352.8	16.9	17.8	164.6	18.1	18.1
Others	1.8	2.2	(2.7)	5.6	28.7	26.2	19.5	29.7	23.9

Source: Company, PL

Exhibit 3: Discretionary and OOH remains significantly below pre covid levels



Source: Company, PL

Exhibit 4: Improved coverage and assortment during 2nd wave; RM inflation remains high


Source: Company, PL

Exhibit 5: Innovations and Activations continue across segments



Source: Company, PL

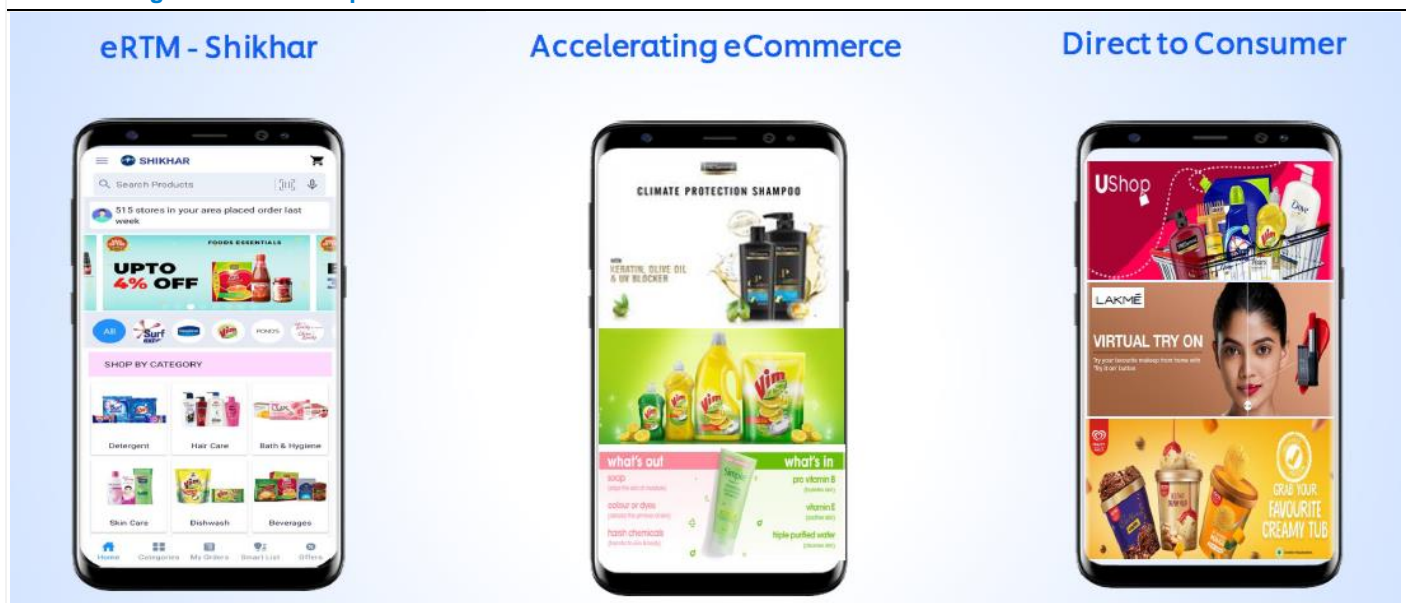
Exhibit 6: Nutrition Integration on track, small packs launched, 1.4x direct coverage



Source: Company, PL

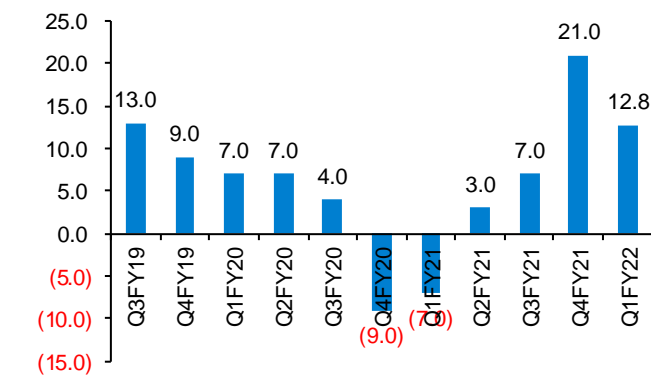
<p>c.50%</p> <p>GTM integration completed</p>	<p>1.4x</p> <p>Increasing direct coverage</p>
<p>+0.5m contacts</p> <p>Market development</p>	<p>Continued journey on cost synergies</p>

Exhibit 7: Digital Initiatives capture 10% of sales



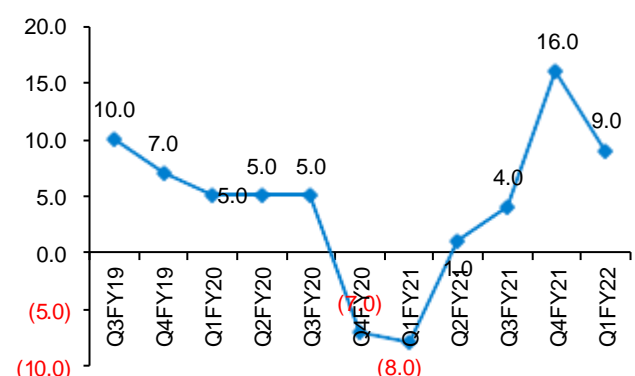
Source: Company, PL

Exhibit 8: Comparable Domestic FMCG sales grew 12.8%



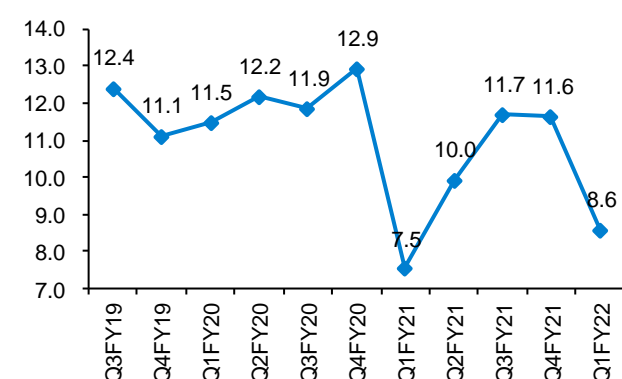
Source: Company, PL

Exhibit 9: Volumes increased 9% in 1Q



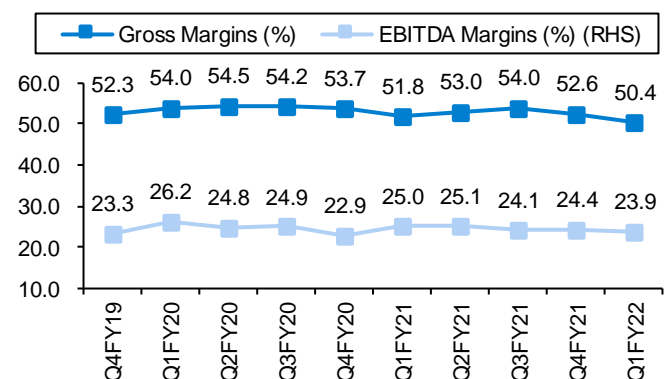
Source: Company, PL

Exhibit 10: Ad-spends up 100bps YoY



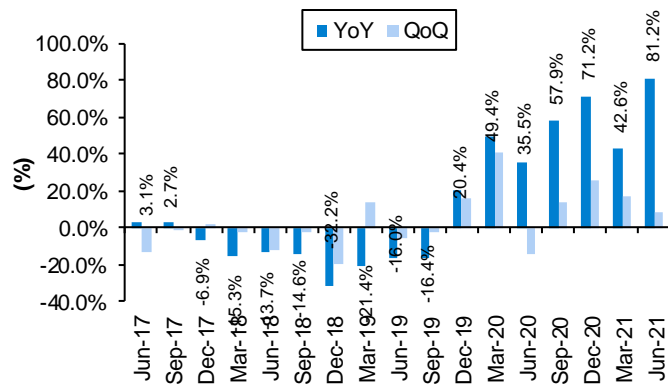
Source: Company, PL

Exhibit 11: GM down 140bps, EBITDA margin down 110bps



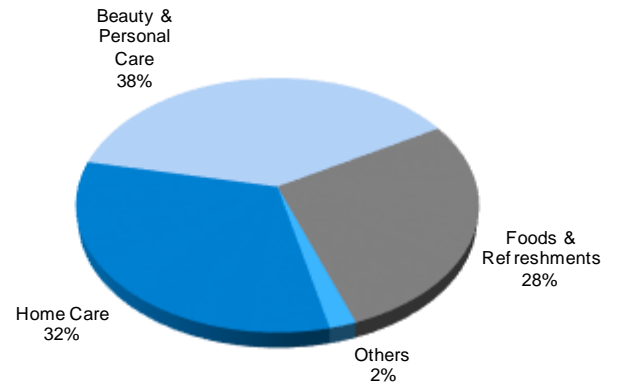
Source: Company, PL

Exhibit 12: PFAD prices up 81.2% YoY and 8.2% QoQ



Source: Company, PL

Exhibit 13: GSK-merger leads to rise in FR contribution



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	387,850	459,960	515,334	571,472
YoY gr. (%)	1.5	18.6	12.0	10.9
Cost of Goods Sold	177,930	216,770	245,468	265,042
Gross Profit	209,920	243,190	269,866	306,430
Margin (%)	54.1	52.9	52.4	53.6
Employee Cost	16,910	22,290	24,129	26,140
Other Expenses	380	1,953	2,069	2,203
EBITDA	96,000	113,240	125,261	145,954
YoY gr. (%)	11.1	18.0	10.6	16.5
Margin (%)	24.8	24.6	24.3	25.5
Depreciation and Amortization	9,380	10,120	11,980	12,855
EBIT	86,620	103,120	113,281	133,100
Margin (%)	22.3	22.4	22.0	23.3
Net Interest	1,060	1,080	1,145	1,169
Other Income	7,330	5,130	6,768	10,709
Profit Before Tax	92,890	107,170	118,904	142,640
Margin (%)	23.9	23.3	23.1	25.0
Total Tax	23,540	25,360	30,483	36,567
Effective tax rate (%)	25.3	23.7	25.6	25.6
Profit after tax	69,350	81,810	88,422	106,073
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	69,350	81,810	88,422	106,073
YoY gr. (%)	10.7	18.0	8.1	20.0
Margin (%)	17.9	17.8	17.2	18.6
Extra Ord. Income / (Exp)	(1,970)	(2,270)	500	500
Reported PAT	67,380	79,540	88,922	106,573
YoY gr. (%)	11.6	18.0	11.8	19.8
Margin (%)	17.4	17.3	17.3	18.6
Other Comprehensive Income	(890)	210	(200)	(200)
Total Comprehensive Income	66,490	79,750	88,722	106,373
Equity Shares O/s (m)	2,160	2,350	2,350	2,350
EPS (Rs)	32.1	34.8	37.6	45.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	94,334	398,877	407,028	415,294
Tangibles	86,860	115,936	124,087	132,353
Intangibles	7,474	282,941	282,941	282,941
Acc: Dep / Amortization	44,134	61,767	74,402	87,913
Tangibles	40,610	58,076	70,561	83,922
Intangibles	3,524	3,691	3,841	3,991
Net fixed assets	50,200	337,110	332,626	327,381
Tangibles	46,250	57,860	53,526	48,431
Intangibles	3,950	279,250	279,100	278,950
Capital Work In Progress	5,130	6,230	2,800	2,800
Goodwill	360	173,160	173,160	173,160
Non-Current Investments	6,250	14,450	7,522	7,642
Net Deferred tax assets	2,610	(59,860)	(59,860)	(59,860)
Other Non-Current Assets	11,560	13,810	13,970	14,285
Current Assets				
Investments	14,510	26,830	22,000	23,600
Inventories	26,360	33,830	37,713	41,967
Trade receivables	10,460	16,480	16,240	17,506
Cash & Bank Balance	48,140	43,210	92,709	114,842
Other Current Assets	12,150	4,380	15,460	17,144
Total Assets	196,020	681,160	721,838	748,800
Equity				
Equity Share Capital	2,160	2,350	2,350	2,350
Other Equity	78,150	471,990	479,092	487,045
Total Network	80,310	474,340	481,442	489,395
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	11,980	15,510	16,087	17,790
Other non current liabilities	1,830	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	73,990	86,270	106,815	115,673
Other current liabilities	17,050	22,140	29,802	33,433
Total Equity & Liabilities	196,020	681,160	721,839	748,801

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	92,890	107,170	118,904	142,639
Add. Depreciation	7,030	16,425	11,306	12,048
Add. Interest	-	-	-	-
Less Financial Other Income	-	-	-	-
Add. Other	(2,860)	(2,060)	300	300
Op. profit before WC changes	97,060	121,535	130,511	154,987
Net Changes-WC	(4,950)	74,870	21,628	6,125
Direct tax	(23,540)	(25,360)	(30,483)	(36,567)
Net cash from Op. activities	68,570	171,045	121,656	124,545
Capital expenditures	(15,560)	(478,443)	(4,721)	(8,266)
Interest / Dividend Income	-	-	-	-
Others	29,780	(27,460)	(45,884)	(23,196)
Net Cash from Inv. activities	14,220	(505,903)	(50,605)	(31,462)
Issue of share cap. / premium	20	402,388	626	283
Debt changes	9,020	7,500	1,098	4,530
Dividend paid	(62,440)	(88,110)	(82,240)	(98,700)
Interest paid	-	-	-	-
Others	(350)	1,211	1,324	1,460
Net cash from Fin. activities	(53,750)	322,989	(79,192)	(92,427)
Net change in cash	29,040	(11,870)	(8,142)	656
Free Cash Flow	53,010	(307,399)	116,935	116,279

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	32.1	34.8	37.6	45.1
CEPS	36.4	39.1	42.7	50.6
BVPS	37.2	201.8	204.9	208.3
FCF	24.5	(130.8)	49.8	49.5
DPS	24.1	37.5	35.0	42.0
Return Ratio(%)				
RoCE	110.4	37.2	23.7	27.4
ROIC	409.3	38.0	23.2	28.5
RoE	88.4	29.5	18.5	21.9
Balance Sheet				
Net Debt : Equity (x)	(0.8)	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	(35)	(29)	(37)	(36)
Valuation(x)				
PER	74.1	68.3	63.2	52.7
P/B	64.0	11.8	11.6	11.4
P/CEPS	65.2	60.8	55.7	47.0
EV/EBITDA	52.9	48.7	43.7	37.3
EV/Sales	13.1	12.0	10.6	9.5
Dividend Yield (%)	1.0	1.6	1.5	1.8

Source: Company Data, PL Research

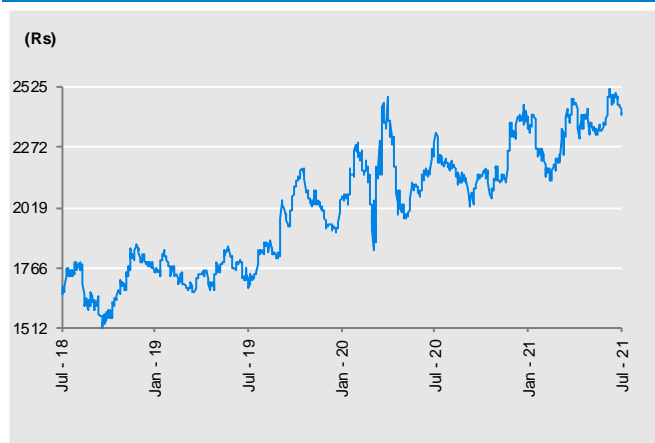
Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	114,420	118,620	121,320	119,150
YoY gr. (%)	16.1	20.9	34.6	12.8
Raw Material Expenses	53,750	54,590	57,560	59,050
Gross Profit	60,670	64,030	63,760	60,100
Margin (%)	53.0	54.0	52.6	50.4
EBITDA	28,690	28,540	29,570	28,470
YoY gr. (%)	17.4	16.7	43.2	7.7
Margin (%)	25.1	24.1	24.4	23.9
Depreciation / Depletion	2,490	2,720	2,490	2,440
EBIT	26,200	25,820	27,080	26,030
Margin (%)	22.9	21.8	22.3	21.8
Net Interest	290	410	90	110
Other Income	1,510	970	1,090	670
Profit before Tax	27,420	26,380	28,080	26,590
Margin (%)	24.0	22.2	23.1	22.3
Total Tax	7,070	6,870	7,050	6,970
Effective tax rate (%)	25.8	26.0	25.1	26.2
Profit after Tax	20,350	19,510	21,030	19,620
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	20,350	19,510	21,030	19,620
YoY gr. (%)	11.1	15.4	43.2	4.8
Margin (%)	17.8	16.4	17.3	16.5
Extra Ord. Income / (Exp)	(260)	(420)	400	(990)
Reported PAT	20,090	19,090	21,430	18,630
YoY gr. (%)	8.7	18.1	41.1	(1.0)
Margin (%)	17.6	16.1	17.7	15.6
Other Comprehensive Income	(70)	170	70	90
Total Comprehensive Income	20,020	19,260	21,500	18,720
Avg. Shares O/s (m)	2,350	2,164	2,164	2,350
EPS (Rs)	8.7	9.0	9.7	8.3

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jul-21	BUY	2,562	2,487
2	30-Apr-21	BUY	2,562	2,408
3	07-Apr-21	BUY	2,509	2,400
4	27-Jan-21	BUY	2,502	2,391
5	07-Jan-21	BUY	2,502	2,417
6	20-Oct-20	BUY	2,502	2,173
7	08-Oct-20	Hold	2,254	2,161

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,511	3,159
2	Avenue Supermarts	BUY	3,686	3,378
3	Bajaj Electricals	Hold	1,084	1,050
4	Britannia Industries	Accumulate	3,755	3,545
5	Burger King India	BUY	250	158
6	Colgate Palmolive	Accumulate	1,794	1,690
7	Crompton Greaves Consumer Electricals	BUY	454	450
8	Dabur India	UR	-	590
9	Emami	BUY	579	564
10	Havells India	Hold	1,066	1,022
11	Hindustan Unilever	BUY	2,562	2,487
12	ITC	BUY	258	202
13	Jubilant FoodWorks	Accumulate	3,404	3,065
14	Kansai Nerolac Paints	Accumulate	620	587
15	Marico	UR	-	520
16	Nestle India	Accumulate	18,450	17,602
17	Pidilite Industries	UR	-	2,179
18	Titan Company	Accumulate	1,869	1,763
19	Voltas	Hold	955	1,015
20	Westlife Development	BUY	572	496

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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