Retail Equity Research

Hindustan Unilever Limited

Household Products

BSE CODE: 500696 NSE CODE: HINDUNILVR

Bloomberg CODE: HUVR:IN SENSEX: 40,558

BUY

12M Investment period Rating as per Large Cap

CMP Rs. 2,179 TARGET Rs. 2,440 RETURN 12%

(Closing: 22-10-20)

KEY CHANGES: ***TARGET*** ↑ ***RATING*** ↑ ***EARNINGS*** ↑

Decent quarter; Outlook positive

Hindustan Unilever (HUL), a subsidiary of Unilever PLC, is India's leading FMCG Company. It has over 35 brands spanning across 20 distinct categories, such as soaps, detergents, shampoos and skin care.

- **Q2FY21 standalone revenue rose 16.1%, primarily aided by improved sales from Food & Refreshments segment.**
- **EBITDA margin improved 30bps YoY to 25.1% mainly benefitted from Nutrition business (acquisitions). Excluding this impact, on a like-to-like basis, margin declined 60bps.**
- **Company is set to benefit from winter portfolio demand which usually picks up by September. Also, we expect non-staple demand to recover and production and supply-chain disruptions to subside post-lifting of lockdowns. Hence, we upgrade our rating to a BUY on the stock with a revised target price of Rs. 2,440 based on 57x FY22E adj. EPS.**

Food segment drives topline growth

HUVR reported 16.1% YoY increase in revenue in Q2FY21 to Rs. 11,442cr, primarily helped by acquisition of GSK Consumer Healthcare and contribution from food segment. Foods & Refreshment segment revenue surged 82.9% YoY to Rs. 3,379cr. This was partly offset by weak revenue from Home Care (-1.6% YoY) and Beauty & Personal Care (-0.2% YoY). Domestic consumer business sales grew 3% YoY. The Beauty & Personal Care, Foods and Home Care's operating margin stood at 29.3%, 16.5% and 20.4%, respectively, vs. 28.9%, 15.9% and 17.7% in Q2FY20.

EBITDA Margin Improvement support by Nutrition Business

Q2FY21 EBITDA rose 17.4% YoY to Rs. 2,869cr, as EBITDA margin expanded 30bps YoY to 25.1% aided by better mix and lower costs. While, gross margin (reduced by ~150bps YoY) remained under pressure due to higher raw material costs for Food & related products, higher sales growth and improved margins from nutrition products helped in improving overall EBITDA margin. Adj. PAT increased 10.3% YoY to Rs. 2,090cr. The exceptional items included restructuring charges of Rs. 69cr and acquisition & disposal related cost of Rs. 17cr and gain on property sale of Rs. 5cr.

Key concall highlights

- Factories & Depots are 100% operational. Supplier service operations are also back to normal despite interim difficulties due to localized lockdowns.
- 2x growth from E-Commerce (YoY Basis) demonstrates the brands' strength and growth momentum.
- Domestic consumer growth stood at 3% (excluding the impact of GSK's merger & Vwash's acquisition).
- The board has approved an interim dividend of Rs.14 per share.

Valuation

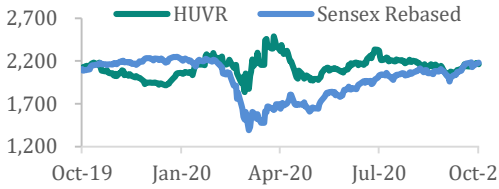
As the virus related uncertainties fade & people start stepping out, demand for the non-staple products is also expected to improve which in turn provides comfort in terms of revenue & margin growth for the firm. We are optimistic in terms of growth prospects of the firm and hence upgrade our rating on the stock to BUY with a revised target price of Rs. 2,440 based on 57x FY22E adj. EPS.

Company Data	
Market Cap (cr)	Rs. 511,780
Enterprise Value (cr)	Rs. 506,684
Outstanding Shares (cr)	234.8
Free Float	38.0%
Dividend Yield	1.1%
52 week high	Rs. 2,614
52 week low	Rs. 1,756
6m average volume (lacs)	2.4
Beta	0.6
Face value	Rs. 1

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	67.2	61.9	61.9
FII's	12.1	14.8	14.5
MFs/Insti	6.7	8.3	10.8
Public	11.0	11.3	11.5
Others	3.1	3.6	1.3
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-3.1%	-8.7%	2.4%
Absolute Sensex	7.1%	29.3%	4.1%
Relative Return*	-10.2%	-37.9%	-1.7%

***over or under performance to benchmark index**



Standalone (cr)	FY20A	FY21E	FY22E
Sales	38,785	45,569	51,613
Growth (%)	1.5	17.5	13.3
EBITDA	9,600	11,913	13,885
EBITDA Margin (%)	24.8	26.1	26.9
Adj. PAT	6,743	8,512	10,050
Growth (%)	10.9	26.2	18.1
Adj. EPS	31.2	36.2	42.8
Growth (%)	10.9	16.4	18.0
P/E	73.8	60.1	51.0
P/B	61.9	52.4	43.3
EV/EBITDA	51.5	42.5	36.4
ROE (%)	83.9	85.1	85.0
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	11,442	9,852	*16.1*	10,560	*8.4*	22,002	19,966	*10.2*
EBITDA	**2,869**	**2,443**	*17.4*	**2,644**	*8.5*	**5,513**	**5,090**	*8.3*
EBITDA margins	25.1	24.8	30bps	25.0	10bps	25.1	25.5	(40bps)
Depreciation	249	237	*5.1*	242	*2.9*	491	451	*8.9*
EBIT	**2,620**	**2,206**	*18.8*	**2,402**	*9.1*	**5,022**	**4,639**	*8.3*
Interest	29	31	*(6.5)*	29	-	58	55	*5.5*
Other Income	70	133	*(47.4)*	156	*(55.1)*	226	280	*(19.3)*
Exceptional Items	(81)	(47)	*(172.3)*	(118)	*68.6*	(199)	(40)	*(397.5)*
PBT	**2,661**	**2,308**	*15.3*	**2,411**	*10.4*	**5,072**	**4,871**	*4.1*
Tax	652	460	*41.7*	530	*23.0*	1,182	1,268	*(6.8)*
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	**2,002**	**1,848**	*8.7*	**1,881**	*6.8*	**3,890**	**3,603**	*8.0*
Adjustments	81	47	*172.3*	118	*(68.6)*	199	40	*397.5*
Adj. PAT	**2,090**	**1,895**	*10.3*	**1,999**	*4.6*	**4,089**	**3,643**	*12.2*
No. of shares	234.8	216.4	*8.5*	234.8	-	234.8	216.4	*8.5*
Adj. EPS (Rs.)	**8.9**	**8.8**	*1.6*	**8.5**	*4.6*	**17.4**	**16.8**	*3.4*

Segment-wise Revenue

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Home Care	3,318	3,371	(1.6)	3,392	(2.2)	6,710	6,836	(1.8)
Beauty & Personal Care	4,535	4,543	*(0.2)*	4,039	*12.3*	8,574	9,132	*(6.1)*
Foods & Refreshments	3,379	1,847	*82.9*	2,958	*14.2*	6,337	3,797	*66.9*
Others	210	91	*130.8*	171	*22.8*	381	201	*89.6*
Total segment revenue	**11,442**	**9,852**	***16.1***	**10,560**	***8.4***	**22,002**	**19,966**	***10.2***

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	**FY21E**	**FY22E**	**FY21E**	**FY22E**	**FY21E**	**FY22E**
Revenue	44,243	49,740	45,569	51,613	*3.0*	*3.8*
EBITDA	11,421	13,380	11,913	13,885	*4.3*	*3.8*
Margins (%)	25.8	26.9	26.1	26.9	*32.9bps*	*0.4bps*
Adj. PAT	7,928	9,940	8,512	10,050	*7.4*	*1.1*
Adj. EPS	33.8	42.3	36.2	42.8	*7.4*	*1.1*

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	**35,218**	**38,224**	**38,785**	**45,569**	**51,613**
% change	2.1	8.5	1.5	17.5	13.3
EBITDA	**7,276**	**8,637**	**9,600**	**11,913**	**13,885**
% change	20.3	18.7	11.1	24.1	16.6
Depreciation	478	524	938	1,093	1,026
EBIT	**6,798**	**8,113**	**8,662**	**10,819**	**12,859**
Interest	20	28	106	116	153
Other Income	507	437	536	607	968
PBT	**7,285**	**8,522**	**9,092**	**11,311**	**13,674**
% change	13.9	17.0	6.7	24.4	20.9
Tax	2,048	2,486	2,354	2,997	3,623
Tax Rate (%)	28.1	29.2	25.9	26.5	26.5
Reported PAT	**5,237**	**6,036**	**6,738**	**8,313**	**10,050**
Adj*	(102)	44	5	199	-
Adj PAT	**5,135**	**6,080**	**6,743**	**8,512**	**10,050**
% change	20.9	18.4	10.9	26.2	18.1
No. of shares (cr)	216.5	216.5	216.5	234.8	235.0
Adj EPS (Rs.)	**23.7**	**28.1**	**31.2**	**36.2**	**42.8**
% change	20.9	18.4	10.9	16.4	18.0
DPS (Rs.)	12.0	22.0	25.0	28.0	34.0
CEPS (Rs.)	25.9	30.5	35.5	40.9	47.1

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	573	575	3,130	5,096	6,882
Accounts Receivable	1,147	1,673	1,046	1,595	2,323
Inventories	2,359	2,422	2,636	3,147	3,555
Other Cur. Assets	7,060	6,704	5,096	5,343	5,562
Investments	256	256	252	260	263
Gross Fixed Assets	4,868	5,476	6,882	7,669	8,558
Net Fixed Assets	3,346	3,534	4,112	3,768	3,592
CWIP	430	373	513	539	566
Intangible Assets	366	436	431	443	455
Def. Tax (Net)	255	339	261	332	401
Other Assets	1,357	1,553	2,125	2,252	2,391
Total Assets	**17,149**	**17,865**	**19,602**	**22,774**	**25,990**
Current Liabilities	8,636	8,353	9,104	10,457	11,481
Provisions	772	1,049	1,198	1,246	1,283
Debt Funds	115	173	-	-	-
Other Liabilities	551	631	1,269	1,303	1,397
Equity Capital	216	216	216	216	216
Reserves & Surplus	6,859	7,443	7,815	9,553	11,613
Shareholder's Fund	7,075	7,659	8,031	9,769	11,829
Minority Interest	-	-	-	-	-
Total Liabilities	**17,149**	**17,865**	**19,602**	**22,774**	**25,990**
BVPS (Rs.)	**33**	**35**	**37**	**42**	**50**

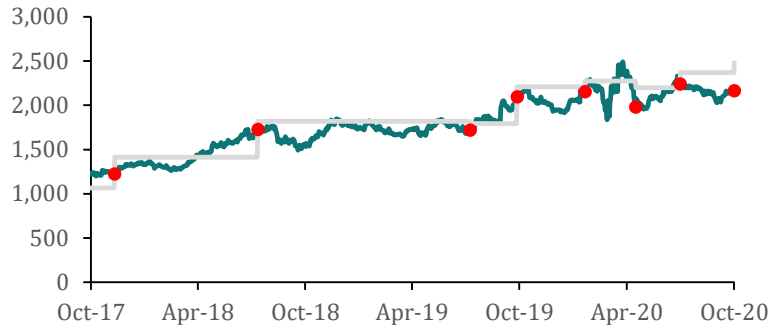
CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	**5,715**	**6,560**	**7,676**	**9,407**	**11,077**
Non-cash adj.	(420)	(637)	(2)	(174)	(78)
Changes in W.C	621	(195)	(369)	220	(177)
C.F. Operation	**5,916**	**5,728**	**7,305**	**9,452**	**10,821**
Capital exp.	(827)	(724)	(713)	(787)	(890)
Change in inv.	(897)	27	2,249	(8)	(3)
Other invest.CF	460	433	390	-	-
C.F – Investment	**(1,264)**	**(264)**	**1,926**	**(795)**	**(893)**
Issue of equity	-	-	-	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(4,627)	(5,459)	(6,244)	(6,575)	(7,990)
Other finance.CF	(24)	(3)	(432)	(116)	(153)
C.F – Finance	**(4,651)**	**(5,462)**	**(6,676)**	**(6,691)**	**(8,143)**
Chg. in cash	1	2	2,555	1,966	1,786
Closing cash	573	575	3,130	5,096	6,882

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	20.7	22.6	24.8	26.1	26.9
EBIT margin (%)	19.3	21.2	22.3	23.7	24.9
Net profit mgn.(%)	14.9	15.8	17.4	18.2	19.5
ROE (%)	74.0	78.8	83.9	85.1	85.0
ROCE (%)	94.5	103.6	107.9	110.8	108.7
W.C & Liquidity					
Receivables (days)	11.9	16.0	9.8	12.8	16.4
Inventory (days)	50.9	49.2	54.1	55.2	56.3
Payables (days)	151.2	143.7	151.8	152.1	152.5
Current ratio (x)	1.3	1.4	1.3	1.5	1.6
Quick ratio (x)	0.9	1.0	0.8	0.9	1.1
Turnover & Leverage					
Gross asset T.O (x)	7.7	7.4	6.3	6.3	6.4
Total asset T.O (x)	2.2	2.2	2.1	2.2	2.1
Int. coverage ratio (x)	339.9	289.8	81.7	93.3	84.1
Adj. debt/equity (x)	0.0	0.0	-	-	-
Valuation					
EV/Sales (x)	8.0	9.6	12.7	11.1	9.8
EV/EBITDA (x)	38.8	42.4	51.5	42.5	36.4
P/E (x)	55.1	60.3	73.8	60.1	51.0
P/BV (x)	40.0	47.9	61.9	52.4	43.3

Recommendation Summary



Dates	Rating	Target
1-Dec-17	BUY	1,412
2-Aug-18	HOLD	1,817
30-Jul-19	HOLD	1,792
18-Oct-19	HOLD	2,210
11-Feb-20	HOLD	2,275
7-May-20	HOLD	2,200
24-Jul-20	HOLD	2,370
23-Oct-20	BUY	2,440

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:
Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.
Accumulate: Partial buying or to accumulate as CMP dips in the future.
Hold: Hold the stock with the expected target mentioned in the note.
Reduce: Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.
Sell: Exit from the stock.
Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.
The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Vincent K A, author of this Report, hereby certify that all the views expressed in this research report reflect my personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit, a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION: The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE: GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific

investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER: We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

JURISDICTION: The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES: GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units).In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Vincent K A, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226

VINCENT K A