

Hindustan Unilever

BSE SENSEX

52,323

S&P CNX

15,691

CMP: INR2,417

TP: INR2,780 (+15%)

Buy

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Hindustan Unilever Limited

Stock Info

Bloomberg	HUVR IN
Equity Shares (m)	2,350
M.Cap.(INRb)/(USDb)	5678.7 / 76.7
52-Week Range (INR)	2504 / 2001
1, 6, 12 Rel. Per (%)	-4/-7/-40
12M Avg Val (INR M)	5345
Free float (%)	38.1

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	460	504	577
Sales Gr. (%)	18.6	9.5	14.6
EBITDA	113	131	154
EBITDA mrg. (%)	24.6	26.0	26.7
Adj. PAT	82	93	114
Adj. EPS (INR)	34.8	39.5	48.4
EPS Gr. (%)	11.5	13.6	22.5
BV/Sh.(INR)	201.8	202.4	203.3
Ratios			
RoE (%)	29.5	19.6	23.9
RoCE (%)	39.0	26.6	32.1
Payout (%)	116.3	98.6	98.1
Valuations			
P/E (x)	69.4	59.2	48.3
P/BV (x)	12.0	11.6	11.5
EV/EBITDA (x)	49.7	41.6	35.3
Div. Yield (%)	1.7	1.6	2.0

Demand for essentials unscathed, but discretionaries impacted

We interacted with the management of Hindustan Unilever (HUVR) for an update on overall market conditions. Here are the key takeaways:

Macro environment and sales channels

- With various parts of India progressively opening up, the management believes the impact from the second COVID wave would have peaked in May'21 and things will progressively get better. The outlook from Jun'21 onwards is positive, barring the emergence of a third COVID wave.
- The increase in store operating hours is also a positive development.
- Rural continues to do better than urban, despite experiencing a higher impact from the pandemic in 1QFY22 v/s last year. Prediction of a normal monsoon, good Rabi harvest, favorably timed Kharif sowing, and MNREGA provide prospective support as well.
- The modern trade (MT) channel was affected.

Segmental demand trends

- There was a lower amount of pantry stocking as the availability of essentials was ensured.
- Preventive measures like hand washing and a focus on hygiene among consumers continues to be seen.
- Hygiene and in-home categories (80% of HUVR's portfolio) continue to witness healthy demand.
- Demand for discretionary products was impacted as urban and MT sales, which had normalized in 4QFY21, were affected from the second half of Apr'21 till the end of May'21. The impact though is lesser than last year.
- The management said there would be some impact on the sales of GSKCH products due to temporary destocking on account of distributor integration, which started at the end of Mar'21.

Costs and margin

- While there has been some softening of palm oil prices in the last two weeks, Apr'21 and May'21 continued to witness RM inflation.
- Crude and tea prices have risen sequentially. In the case of tea, there is hope that the new crop, due to arrive in Jul'21, will lead to a softening of prices.
- HUVR has taken further price increases in soaps, detergents, home products, and tea in 1QFY22.
- Unlike last year, A&P is healthy as demand was far less affected, and thus advertising spends remains high.
- With some impact on discretionary demand sequentially (albeit better than 1QFY21), further RM inflation, and elevated advertising spends, EBITDA margin will be under pressure in 1QFY22.

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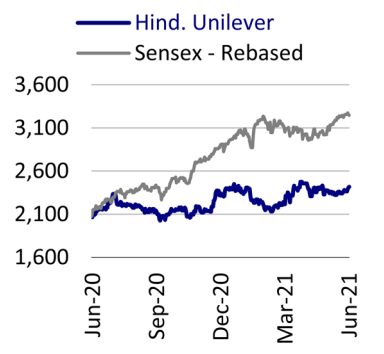
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Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	61.9	61.9	67.2
DII	10.7	10.7	6.7
FII	15.0	14.9	12.1
Others	12.5	12.5	14.1

FII Includes depository receipts

Stock performance (one-year)



Valuation and view

- While 1QFY22 will be impacted by the second COVID wave, the extent will be far lower compared to last year. Rural continues to remain resilient, and demand in Health, Hygiene, and Nutrition categories remains healthy. While discretionary demand will be affected, we expect the impact to be lower YoY. EBITDA margin is likely to remain under pressure owing to sequential RM inflation and higher A&P spends.
- From a medium-term perspective, the outlook remains positive. Growth in earnings has gained further momentum in recent years (~18% EPS CAGR in the four years ended FY20 v/s ~12% CAGR over the 10 years ended FY20). Despite a highly disruptive year, HUVR posted an EPS growth of 11.5% in FY21. This is particularly impressive given the weak mid-single-digit earnings growth posted by (much smaller) peers in recent years.
- HUVR's best-of-breed analytics and execution capabilities (demonstrated via the successful implementation of its WIMI strategy, cost-saving plans, herbals, etc.) are key factors driving the pace of earnings growth. The strong outlook on rural, GSKCH synergies, and sustained growth and premiumization in Skin Cleansing offer further medium-term tailwinds.
- We maintain our **Buy** rating with a TP of INR2,780 per share.

Exhibit 1: Malaysian Palm Oil prices up 87.9% YoY and 9.2% QoQ

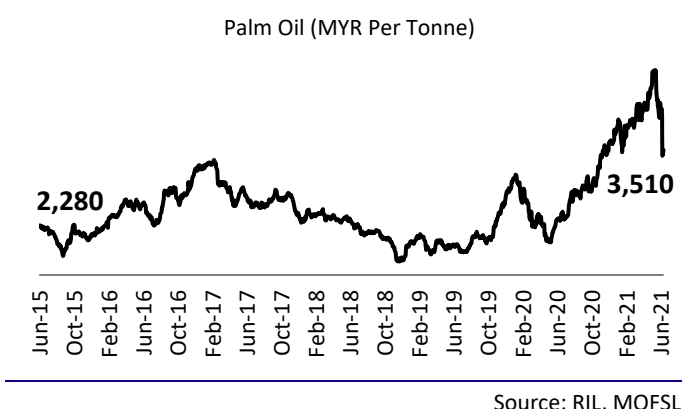


Exhibit 2: PFAD prices up 83.2% YoY and 9.3% QoQ

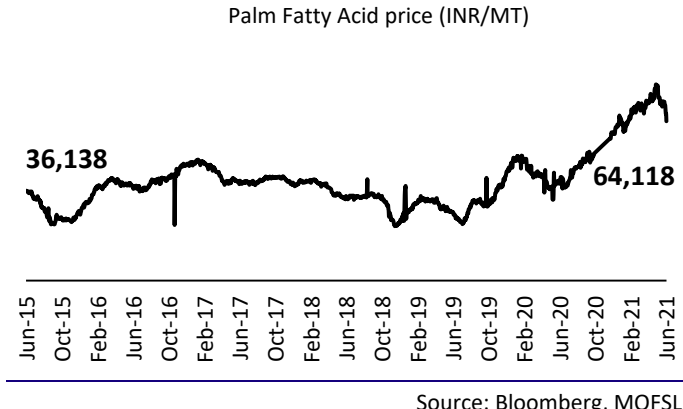


Exhibit 3: HUVR's P/E (x)

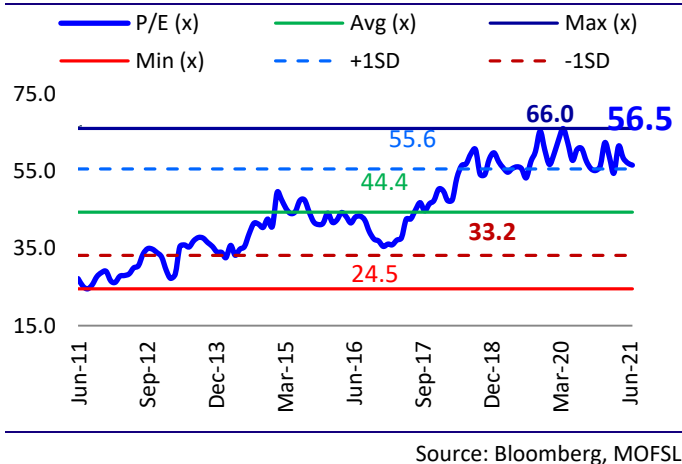
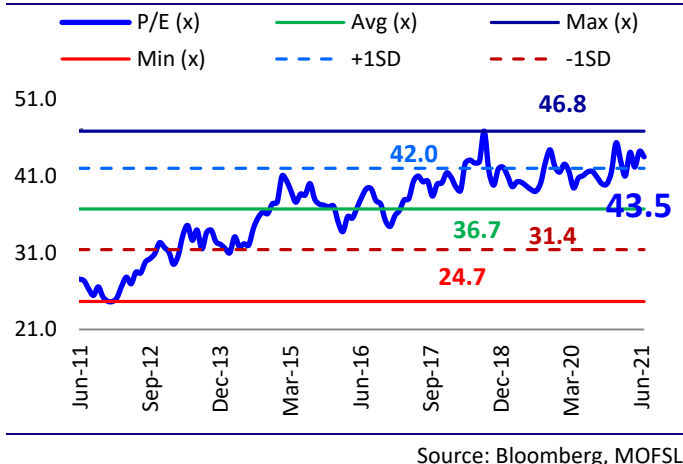
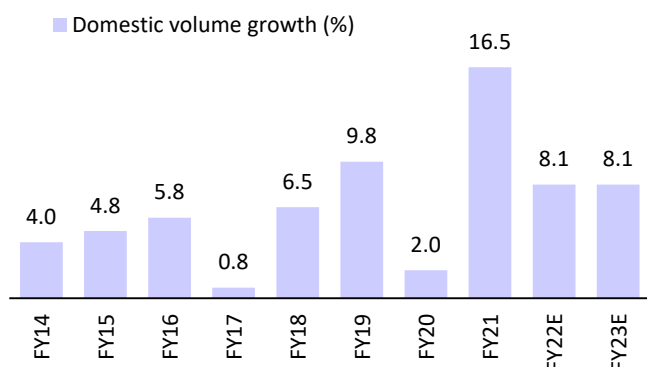


Exhibit 4: Consumer P/E (x)



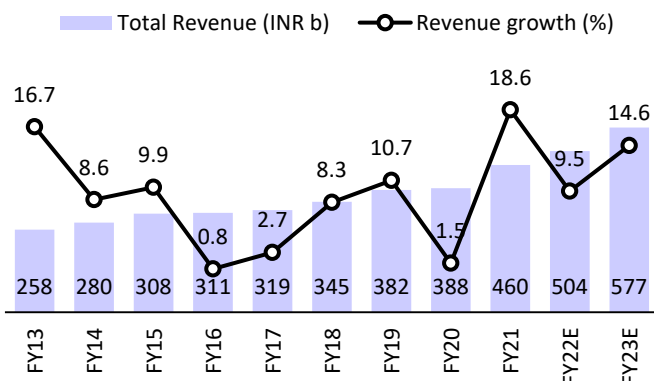
Story in charts

Exhibit 5: Volumes to grow 8.1% each in FY22E/FY23E



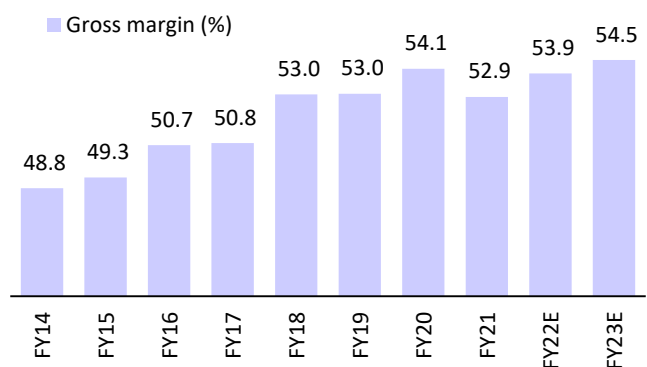
Source: Company, MOFSL

Exhibit 6: Revenue to grow at 12% CAGR over FY21-23E...



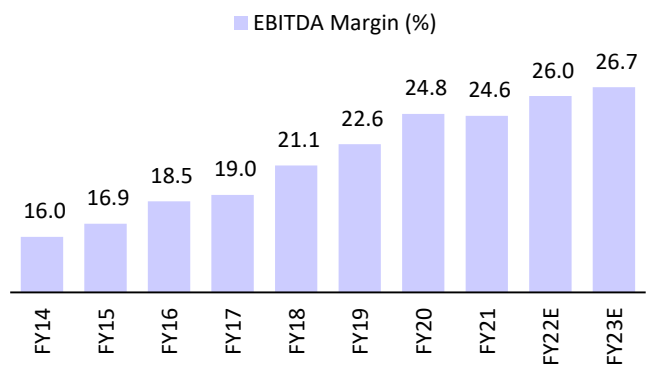
Source: Company, MOFSL

Exhibit 7: ...with gross margin expansion of 160bp...



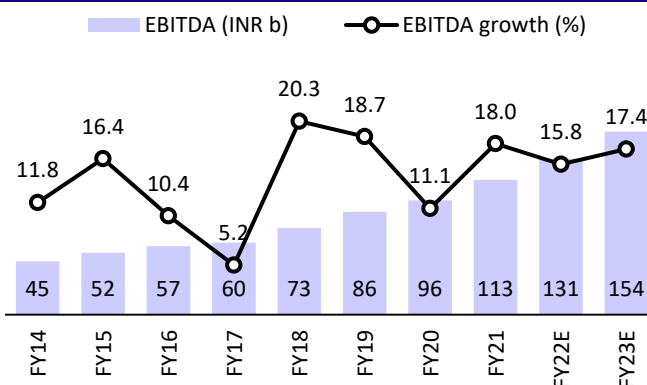
Source: Company, MOFSL

Exhibit 8: ...leading to operating margin expansion of 210bp



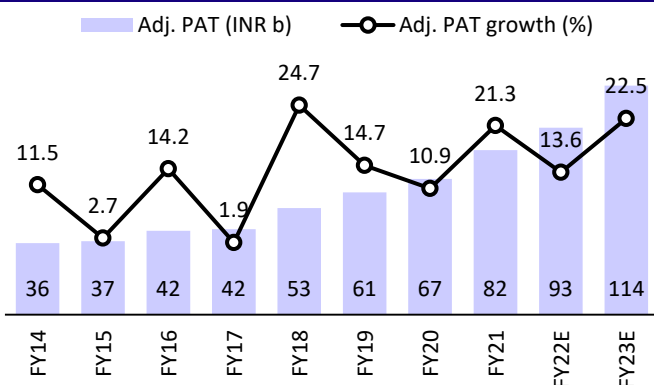
Source: Company, MOFSL

Exhibit 9: EBITDA to grow at 16.6% CAGR over FY21-23E



Source: Company, MOFSL

Exhibit 10: Adjusted PAT to grow at 18% CAGR over FY21-23E



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Sales	313	339	377	383	453	497	570
Other Oper. Income	6	6	6	5	7	7	8
Total Revenue	319	345	382	388	460	504	577
Change (%)	2.7	8.3	10.7	1.5	18.6	9.5	14.6
COGS	157	162	180	178	217	232	263
Gross Profit	162	183	203	210	243	272	315
Gross Margin (%)	50.8	53.0	53.0	54.1	52.9	53.9	54.5
Operating Exp.	102	110	116	114	130	140	161
% of sales	31.9	31.9	30.4	29.4	28.3	27.9	27.8
EBITDA	60	73	86	96	113	131	154
Change (%)	5.2	20.3	18.7	11.1	18.0	15.8	17.4
Margin (%)	19.0	21.1	22.6	24.8	24.6	26.0	26.7
Depreciation	4	5	5	9	10	11	11
Int. and Fin. Charges	0	0	0	1	1	1	1
Other Income - Recurring	5	6	7	7	5	7	11
Profit before Taxes	62	73	87	93	107	126	152
Change (%)	3.0	19.4	19.1	6.2	15.4	17.2	21.1
Margin (%)	19.7	21.7	23.2	24.3	23.7	25.3	26.7
Tax	19	21	27	24	25	33	38
Deferred Tax	0	-1	-1	2	1	0	0
Tax Rate (%)	31.0	27.9	30.5	27.4	23.7	26.0	25.2
Profit after Taxes	42	53	61	67	82	93	114
Change (%)	1.9	24.7	14.7	10.9	21.3	13.6	22.5
Margin (%)	13.6	15.6	16.1	17.6	18.1	18.7	20.0
Non-rec. (Exp.)/Income	2	-1	0	0	-2	0	0
Reported PAT	45	52	60	67	80	93	114

Balance Sheet							(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Share Capital	2	2	2	2	2	2	2
Reserves	63	69	74	78	472	473	475
Net Worth	65	71	77	80	474	476	478
Loans	0	0	0	0	0	0	0
Capital Employed	65	71	77	80	474	476	478
Gross Block	66	72	79	96	565	570	575
Less: Accum. Depn.	-26	-30	-36	-45	-55	-66	-78
Net Fixed Assets incl. Goodwill	40	41	43	51	510	504	497
Capital WIP	2	4	4	5	6	6	6
Investment in Subsidiaries	3	3	3	3	3	3	3
Current Investments	35	29	27	13	27	30	34
Deferred Charges	2	3	3	3	-60	-60	-60
Curr. Assets, L&A	66	92	99	123	135	151	174
Inventory	24	24	24	26	34	39	44
Account Receivables	9	11	17	10	16	21	22
Cash and Bank Balance	17	34	37	50	43	48	60
Others	16	23	21	36	41	42	48
Curr. Liab. and Prov.	83	101	102	116	147	159	177
Account Payables	60	70	71	74	86	94	109
Other Liabilities	14	16	16	26	40	42	44
Provisions	9	14	16	16	20	22	23
Net Current Assets	-17	-9	-3	7	-12	-8	-3
Application of Funds	65	71	77	80	474	476	478

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)							
EPS	19.6	24.5	28.1	31.2	34.8	39.5	48.4
Cash EPS	21.5	26.7	30.5	35.6	39.1	44.4	53.3
BV/Share	30.0	32.7	35.4	37.2	201.8	202.4	203.3
DPS	17.0	20.0	22.0	25.0	40.5	39.0	47.5
Payout (%)	98	99	95	96	116	99	98
Valuation (x)							
P/E	123.1	98.7	86.1	77.4	69.4	59.2	48.3
Cash P/E	112.6	90.5	79.2	68.0	61.8	52.8	43.9
EV/Sales	16.6	15.3	13.8	13.5	12.4	11.3	9.9
EV/EBITDA	86.2	71.4	60.1	53.8	49.7	41.6	35.3
P/BV	80.6	73.9	68.3	65.0	12.0	11.6	11.5
Dividend Yield (%)	0.7	0.8	0.9	1.0	1.7	1.6	2.0
Return Ratios (%)							
RoE incl. Goodwill	66.5	78.1	82.5	86.0	29.5	19.6	23.9
RoCE incl. Goodwill	96.7	108.6	119.1	119.8	39.0	26.6	32.1
Working Capital Ratios							
Debtor (Days)	11	12	16	10	13	16	14
Asset Turnover (x)	4.8	4.8	4.9	4.8	1.0	1.0	1.2
Leverage Ratio							
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(loss) before Tax	62	73	85	91	105	126	152
Financial other income	-1	-3	-1	-2	1	-7	-11
Depreciation	4	5	5	9	11	11	11
Net Interest Paid	-2	-2	-3	-4	-2	1	1
Direct Taxes Paid	-18	-22	-27	-25	-24	-33	-38
(Incr.)/Decr. in WC	5	9	-3	3	-1	0	7
CF from Operations	50	59	57	73	90	99	123
Other Items	0	5	4	-8	12	10	13
(Incr.)/Decr. in FA	-9	-8	-7	-7	-40	-5	-5
Free Cash Flow	41	51	50	66	50	94	118
(Pur.)/Sale of Investments	-10	8	3	22	24	-3	-4
CF from Invest.	-18	4	0	7	-4	2	4
Dividend Paid	-36	-39	-45	-62	-88	-92	-112
Others	-7	-8	-9	-4	-5	-4	-4
CF from Fin. Activity	-43	-47	-55	-67	-93	-95	-115
Incr./Decr. in Cash	-11	17	3	13	-7	5	12
Add: Opening Balance	28	17	34	37	50	43	48
Closing Balance	17	34	37	50	43	48	60

E: MOFSL estimates

NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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