

Hindustan Unilever

BSE SENSEX
59,005

S&P CNX
17,562

CMP: INR2,812

TP: INR3,280 (+17%)

BUY



Hindustan Unilever Limited

Stock Info

Bloomberg	HUVR IN
Equity Shares (m)	2,350
M.Cap.(INRb)/(USDb)	6607.2 / 89.8
52-Week Range (INR)	2859 / 2001
1, 6, 12 Rel. Per (%)	1/3/-17
12M Avg Val (INR M)	4870
Free float (%)	38.1

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	460.0	507.4	581.5
Sales Gr. (%)	18.6	10.3	14.6
EBITDA	113.2	128.2	153.9
EBITDA mrg. (%)	24.6	25.3	26.5
Adj. PAT	81.8	90.3	111.7
Adj. EPS (INR)	34.8	38.4	47.5
EPS Gr. (%)	11.5	10.4	23.7
BV/Sh.(INR)	201.8	201.8	201.8

Ratios

RoE (%)	29.5	19.0	23.6
RoCE (%)	39.0	25.9	31.6
Payout (%)	116.3	100.2	99.9

Valuations

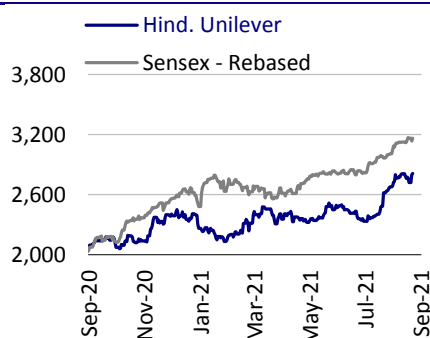
P/E (x)	80.8	73.2	59.2
P/BV (x)	13.9	13.9	13.9
EV/EBITDA (x)	57.9	51.1	42.5
Div. Yield (%)	1.4	1.4	1.7

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	61.9	61.9	61.9
DII	10.8	10.7	8.3
FII	15.1	15.0	14.8
Others	12.2	12.5	15.0

FII Includes depository receipts

Stock Performance (1-year)



Recovery in discretionary continues; commodity costs stable on a sequential basis

Key takeaways from HUVR's end of the quarter (2QFY22) update

Macro environment and demand

- As the number of COVID-19 cases started to reduce, mobility improved, restrictions were progressively lifted, stores remained open for a longer time, and modern trade (MT) reopened in a phased manner.
- Demand in Jul-Aug'21 has been better than that in Jun'21. General trade (GT) remains resilient, while MT has improved. However, MT is still not back to its Aug'19 levels owing to lower 'Big Day' sales.
- Rural markets continue to remain resilient on the back of a strong Rabi crop, good Kharif sowing, and monsoons ahead of its long period average. Rural resilience is expected to continue.
- Urban markets have seen an uptick in momentum.

Demand trends category-wise

- **Hygiene:** Hand Wash and Hand Sanitizer have seen their COVID-led tailwinds tapering off.
- **Discretionary and OOH** categories have started to pick up. The demand for discretionary has improved sequentially (until Aug'21) and is now closer to 2019 levels.
- **Nutrition:** Distribution and GTM integration with GSK-CH's business is currently at 80% v/s 50% levels in Jun'21.

Costs and margin

- The short-term target is to maintain EBITDA margin in the 24-25% range, given the sustained high pressure seen in key commodity prices.
- HUVR is witnessing inflation in palm oil and crude, though palm oil prices have started to soften in the last few days.
- Tea prices softened v/s last year, but remain higher than 2019 levels. The management is monitoring tea prices and will take necessary steps to maintain its competitive intensity in tea.
- Milk (SMP) and barley are seeing inflation, thereby putting pressure on the Nutrition portfolio.
- The management initiated one more round of price increases in its Skin Cleansing and Laundry portfolio in 2QFY22.
- The increase in realization will be higher in 2Q v/s 1QFY22 due to the price hikes. While margin pressure will continue in 2Q, it will be lower than that in 1QFY22.
- Though there is increased competition in the media for air space v/s last year it is not yet back to 2019 levels. HUVR's A&P spends remain at healthy levels.

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Valuation and view

- HUVR continues to lay the foundation for future growth and has been able to do so ahead of peers. It continues to display the dexterity shown over the last decade, despite its larger size, even as it continues to grow faster v/s peers.
- The company has historically had the upper hand when it comes to brand, distribution, and quality of personnel over peers, which it keeps strengthening. With its dexterity in decision making, exemplified by WIMI and CCBT, as well as cost savings (now 8% of sales) being plowed back into the business, HUVR has revitalized its topline and earnings growth in the last decade, despite being much larger v/s peers. With its analytics and R&D initiatives in recent years (which are ahead of peers and gathering momentum), the management is ensuring that it does not get disrupted in a dynamic environment and would be the disrupter in most cases. No other Consumer company in India boasts of all these advantages.
- Earnings growth has gained further impetus in recent years (before COVID-19 affected FY21 earnings). It reported ~18% EPS CAGR in the four years ended FY20. This is particularly impressive given the weak mid-single-digit earnings growth posted by (much smaller) peers in recent years.
- We maintain our **Buy** rating with a TP of INR3,280 per share.

Exhibit 1: Malaysian Palm Oil prices up 59% YoY and 5.2% QoQ

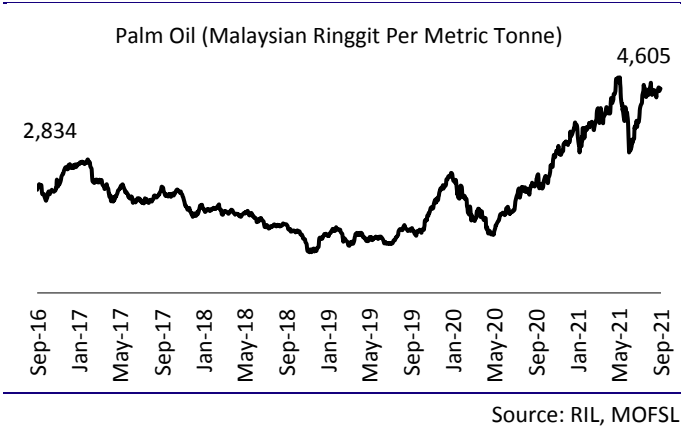


Exhibit 2: PFAD prices up 66.8% YoY and 4.3% QoQ

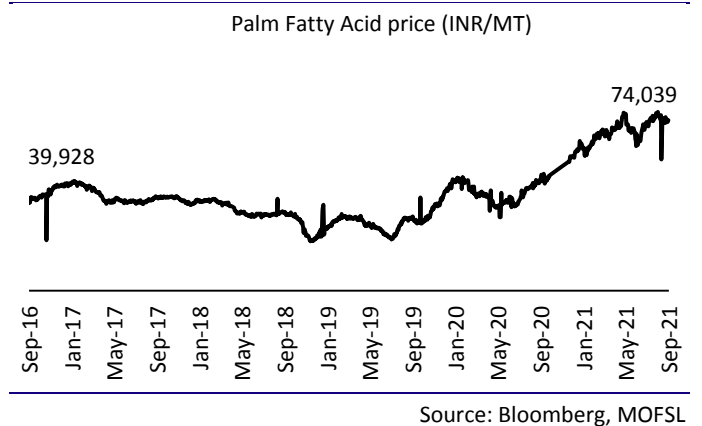


Exhibit 3: HUVR's P/E (x)

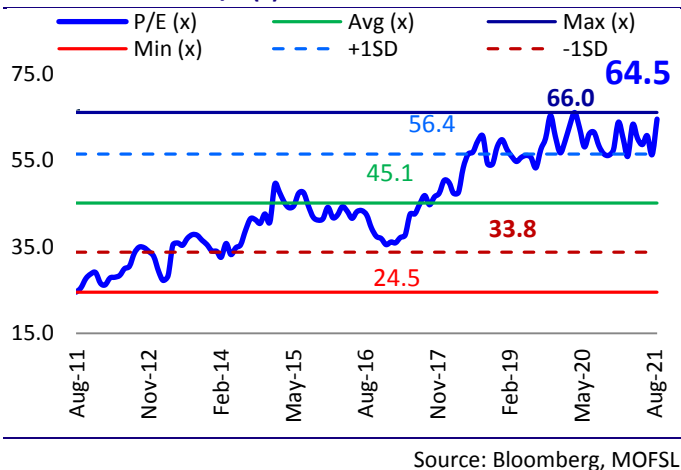
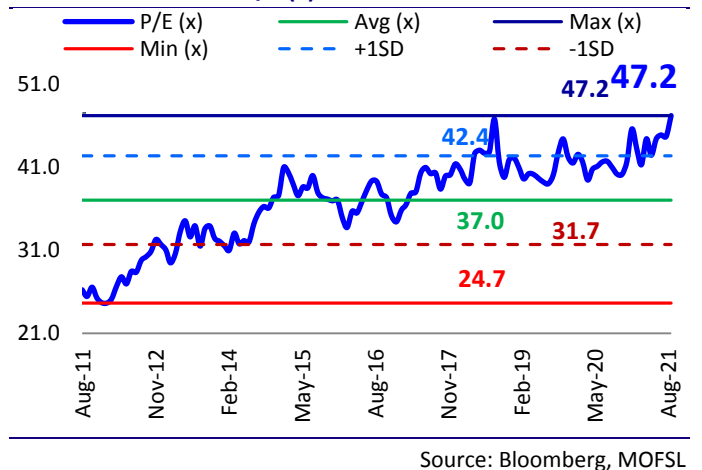
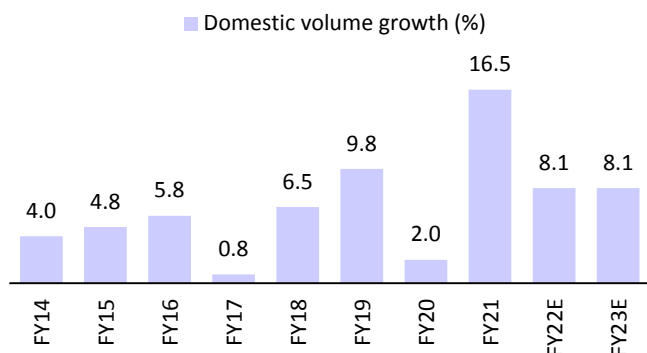


Exhibit 4: Consumer P/E (x)



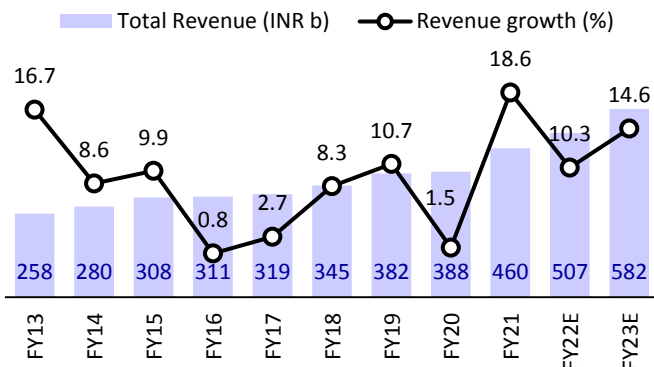
Story in charts

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



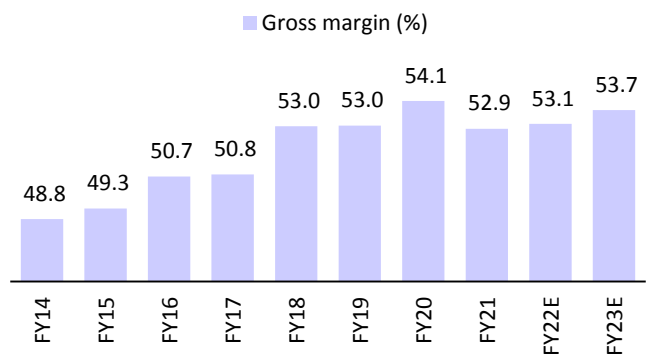
Source: Company, MOFSL

Exhibit 6: Revenue to grow at 12.4% CAGR over FY21-23E...



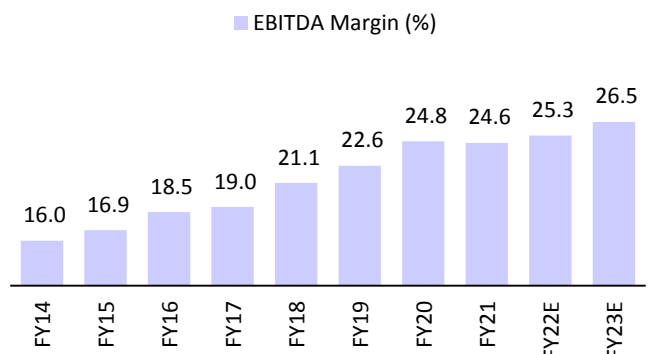
Source: Company, MOFSL

Exhibit 7: ...with gross margin expansion of 80bp...



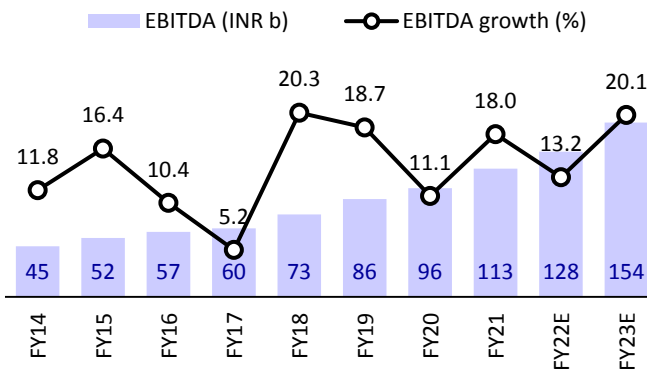
Source: Company, MOFSL

Exhibit 8: ...leading to operating margin expansion of 190bp



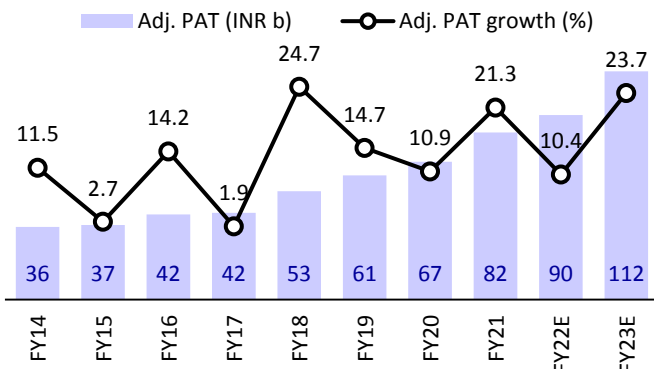
Source: Company, MOFSL

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



Source: Company, MOFSL

Exhibit 10: Adj. PAT to grow at 16.9% 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	313.0	339.3	376.6	382.7	453.1	500.2	574.0
Other Oper. Income	5.9	6.0	5.6	5.1	6.9	7.2	7.6
Total Revenue	318.9	345.3	382.2	387.9	460.0	507.4	581.5
<i>Change (%)</i>	2.7	8.3	10.7	1.5	18.6	10.3	14.6
COGS	156.9	162.3	179.6	177.9	216.8	238.0	269.2
Gross Profit	162.1	182.9	202.6	209.9	243.2	269.4	312.4
<i>Gross Margin (%)</i>	50.8	53.0	53.0	54.1	52.9	53.1	53.7
Operating Exp.	101.6	110.2	116.3	113.9	130.0	141.2	158.4
<i>As a percentage of sales</i>	31.9	31.9	30.4	29.4	28.3	27.8	27.2
EBITDA	60.5	72.8	86.4	96.0	113.2	128.2	153.9
<i>Change (%)</i>	5.2	20.3	18.7	11.1	18.0	13.2	20.1
<i>Margin (%)</i>	19.0	21.1	22.6	24.8	24.6	25.3	26.5
Depreciation	4.0	4.8	5.2	9.4	10.1	10.7	11.5
Int. and Fin. Charges	0.2	0.2	0.3	1.1	1.1	0.6	0.7
Other Income - Recurring	5.3	5.7	6.6	7.3	5.1	5.2	7.5
Profit before Taxes	61.6	73.5	87.5	92.9	107.2	122.1	149.3
<i>Change (%)</i>	3.0	19.4	19.1	6.2	15.4	13.9	22.3
<i>Margin (%)</i>	19.7	21.7	23.2	24.3	23.7	24.4	26.0
Tax	18.7	21.5	27.5	23.9	24.6	31.7	37.6
Deferred Tax	0.4	-1.0	-0.8	1.5	0.8	0.0	0.0
<i>Tax Rate (%)</i>	31.0	27.9	30.5	27.4	23.7	26.0	25.2
Profit after Taxes	42.5	53.0	60.8	67.4	81.8	90.3	111.7
<i>Change (%)</i>	1.9	24.7	14.7	10.9	21.3	10.4	23.7
<i>Margin (%)</i>	13.6	15.6	16.1	17.6	18.1	18.1	19.5
Non-rec. (Exp.)/Income	2.4	-0.6	-0.4	-0.1	-2.3	0.0	0.0
Reported PAT	44.9	52.4	60.4	67.4	79.5	90.3	111.7

Balance Sheet							(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Share Capital	2.2	2.2	2.2	2.2	2.4	2.4	2.4
Reserves	62.7	68.6	74.4	78.2	472.0	471.8	471.9
Net Worth	64.9	70.8	76.6	80.3	474.3	474.2	474.3
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Employed	64.9	70.8	76.6	80.3	474.3	474.2	474.3
Gross Block	65.8	71.8	79.0	95.5	565.4	570.4	575.4
Less: Accum. Depn.	-25.6	-30.4	-35.6	-45.0	-55.1	-65.8	-77.2
Net Fixed Assets incl. Goodwill	40.2	41.4	43.4	50.6	510.3	504.6	498.1
Capital WIP	2.0	4.3	3.7	5.1	6.2	6.2	6.2
Investment in Subsidiaries	2.5	2.5	2.5	2.5	3.1	3.1	3.1
Current Investments	35.3	28.6	27.0	12.5	26.9	29.9	33.9
Deferred Charges	1.6	2.6	3.4	2.6	-59.9	-59.9	-59.9
Curr. Assets, L&A	65.9	92.1	98.6	122.7	134.7	151.1	171.8
Inventory	23.6	23.6	24.2	26.4	33.8	39.6	44.2
Account Receivables	9.3	11.5	16.7	10.5	16.5	21.3	22.0
Cash and Bank Balance	16.7	33.7	36.9	50.2	43.2	47.8	57.9
Others	16.2	23.3	20.8	35.7	41.2	42.4	47.7
Curr. Liab. and Prov.	82.6	100.7	102.1	115.7	147.0	160.9	179.0
Account Payables	60.1	70.1	70.7	74.0	86.3	96.2	111.2
Other Liabilities	13.8	16.4	15.9	25.6	40.3	42.3	44.4
Provisions	8.7	14.2	15.5	16.2	20.4	22.4	23.4
Net Current Assets	-16.8	-8.6	-3.4	7.0	-12.3	-9.7	-7.2
Application of Funds	64.9	70.8	76.6	80.3	474.3	474.2	474.3

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	38.4	47.5
Cash EPS	21.5	26.7	30.5	35.6	39.1	43.0	52.4
BV/Share	30.0	32.7	35.4	37.2	201.8	201.8	201.8
DPS	17.0	20.0	22.0	25.0	40.5	38.5	47.5
Payout (%)	97.9	98.9	94.8	96.2	116.3	100.2	99.9
Valuation (x)							
P/E	143.2	114.9	100.1	90.1	80.8	73.2	59.2
Cash P/E	131.0	105.4	92.2	79.1	71.9	65.4	53.7
EV/Sales	19.4	17.8	16.1	15.7	14.5	13.1	11.4
EV/EBITDA	100.3	83.1	70.0	62.7	57.9	51.1	42.5
P/BV	93.8	86.0	79.5	75.6	13.9	13.9	13.9
Dividend Yield (%)	0.6	0.7	0.8	0.9	1.4	1.4	1.7
Return Ratios (%)							
RoE incl. Goodwill	66.5	78.1	82.5	86.0	29.5	19.0	23.6
RoCE incl. Goodwill	96.7	108.6	119.1	119.8	39.0	25.9	31.6
Working Capital Ratios							
Debtor (Days)	10.8	12.3	16.2	10.0	13.3	15.6	14.0
Asset Turnover (x)	4.8	4.8	4.9	4.8	1.0	1.1	1.2
Leverage Ratio							
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
(INR b)							
OP/(loss) before Tax	61.6	72.9	85.2	90.9	104.9	122.1	149.3
Financial other income	-0.9	-2.8	-0.8	-1.6	0.6	-5.2	-7.5
Depreciation	4.0	4.8	5.2	9.4	10.7	10.7	11.5
Net Interest Paid	-2.4	-2.5	-3.0	-3.9	-2.4	0.6	0.7
Direct Taxes Paid	-18.0	-21.9	-26.9	-24.7	-23.7	-31.7	-37.6
(Incr.)/Decr. in WC	5.4	8.6	-2.6	3.0	-0.6	2.0	7.6
CF from Operations	49.5	59.1	57.3	73.1	89.6	98.5	124.0
Other Items	0.5	4.9	4.5	-8.5	11.9	8.4	10.6
(Incr.)/Decr. in FA	-8.5	-8.3	-7.2	-7.0	-39.5	-5.0	-5.0
Free Cash Flow	41.0	50.9	50.0	66.0	50.0	93.5	119.0
(Pur.)/Sale of Investments	-9.7	7.8	3.3	22.5	23.9	-3.0	-4.0
CF from Invest.	-17.8	4.4	0.5	7.0	-3.7	0.4	1.6
Dividend Paid	-35.6	-39.0	-45.5	-62.4	-88.1	-90.5	-111.6
Others	-7.0	-7.6	-9.2	-4.3	-4.7	-3.8	-3.8
CF from Fin. Activity	-42.6	-46.5	-54.6	-66.8	-92.8	-94.3	-115.5
Incr./Decr. in Cash	-10.9	17.0	3.2	13.3	-7.0	4.6	10.1
Add: Opening Balance	27.6	16.7	33.7	36.9	50.2	43.2	47.8
Closing Balance	16.7	33.7	36.9	50.2	43.2	47.8	57.9

E: MOFSL estimates

NOTES

Explanation of Investment Rating	
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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