

Hindustan Unilever

BSE SENSEX
46,666

S&P CNX
13,683



Hindustan Unilever Limited

Stock Info

Bloomberg	HUVR IN
Equity Shares (m)	2,345
M.Cap.(INRb)/(USDb)	5508.5 / 74.1
52-Week Range (INR)	2603 / 1749
1, 6, 12 Rel. Per (%)	0/-26/5
12M Avg Val (INR M)	8007
Free float (%)	38.1

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	387.9	451.1	505.3
Sales Gr. (%)	1.5	16.3	12.0
EBITDA	96.0	115.3	136.4
EBITDA mrg. (%)	24.8	25.6	27.0
Adj. PAT	67.4	81.6	100.1
Adj. EPS (INR)	31.2	34.8	42.7
EPS Gr. (%)	11.1	11.5	22.7
BV/Sh.(INR)	37.2	208.9	209.4

Ratios

RoE (%)	86.0	28.6	20.4
RoCE (%)	119.8	39.1	27.5
Payout (%)	96.2	103.1	119.4

Valuations

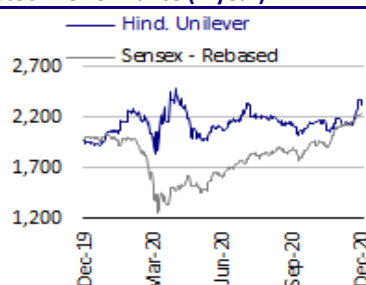
P/E (x)	75.1	67.4	54.9
P/BV (x)	63.0	11.2	11.2
EV/EBITDA (x)	52.2	46.6	39.3
Div. Yield (%)	1.1	1.5	2.2

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	61.9	61.9	67.2
DII	10.8	8.3	6.7
FII	14.5	14.8	12.4
Others	12.7	15.0	13.7

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR2,345 TP: INR2,750 (+17%)

Buy

Staples remains resilient with a recovery in discretionary

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

Essentials v/s Discretionary

- The decline has been much slower in sales of discretionary categories (skin care, cosmetics, deodorants, ~15% of portfolio) and OOH, Pureit and ice creams (5% of the portfolio) both of which had a decline of 25% YoY in 2QFY21.
- There was a slight tapering in growth in health, hygiene and nutrition (80% of portfolio) which had grown by 10% YoY in 2QFY21.
- Detergents was the only category where some growth was expected but did not materialize yet (perhaps because of significant bulk purchases earlier) which is now expected in the 4QFY21.

Rural outlook

- Good rural and winter season demand coupled with people stepping out of their homes more frequently resulted in further sequential improvement to consumer sentiments in 3QFY21.

GSK business

- The GSKCH business is back to its usual growth trajectory after a blip to flattish growth in 2QFY21 due to covid impact and temporary strike in its plant in 2QFY21.

Pricing, mix, and margins

- A combination of high palm oil costs and high tea costs for the quarter along with elevated ad spends combined with HUVR's primacy on volume growth means that EBITDA margins are likely to decline YoY.
- There was a price increase taken in soaps in December and there will be another price increase later. Because of the staggered manner of price increase and the fact that the first increase was only taken towards the end of the quarter, 3QFY21 margins will be under pressure.
- Premiumization in soaps seems here to stay.
- Other income is likely to decline sequentially in 3QFY21.

Valuation and view

- There is no change in our forecasts. Staples appears to have remained resilient, and demand in the Discretionary category seems to be recovering. As mentioned in our [Corner Office note](#) and detailed note on the [Annual Report](#), the structural and near-term investment case for HUVR remains strong.
- The company's earnings growth has gained further momentum in recent years (17% EPS CAGR in the past three years v/s ~12% CAGR over 10 years). 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 ability (exhibited by the successful implementation of the WIMI strategy, cost-saving plans, herbals, etc.) are key factors driving the pace of earnings growth.

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- We remain positive on HUVR from a medium-term perspective, encouraged by: (a) robust earnings growth potential beyond the near term owing to its portfolio and execution strengths and (b) significant synergies in FY22E as a result of GSKCH. These factors suggest premium multiples are likely to sustain. Valuing the company at 55x Dec'22 merged EPS, we arrive at TP of INR2,750, implying 17% upside.

Exhibit 1: Malaysian Palm Oil price up 21% YoY and 9% QoQ till date

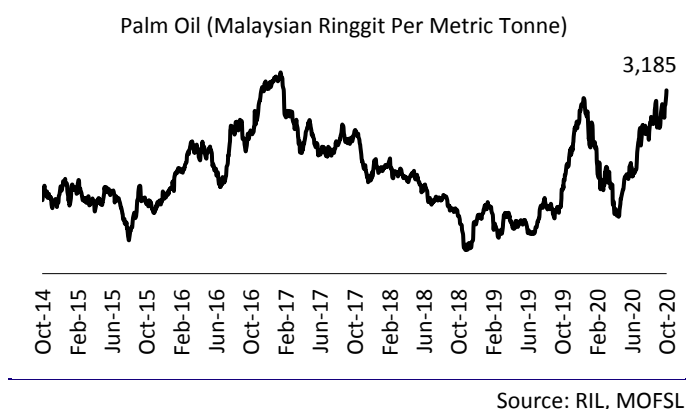


Exhibit 2: PFAD up 36% YoY and 11% QoQ till date

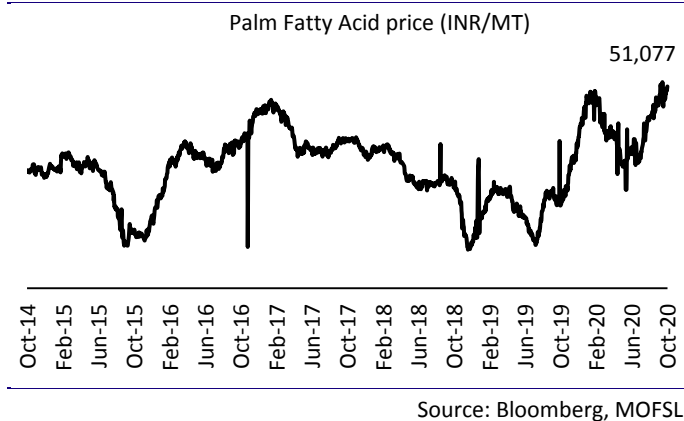


Exhibit 3: Hindustan Unilever P/E (x)

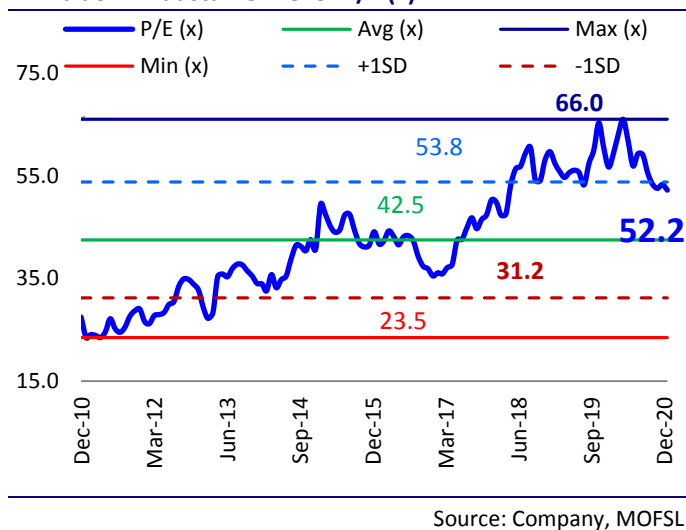
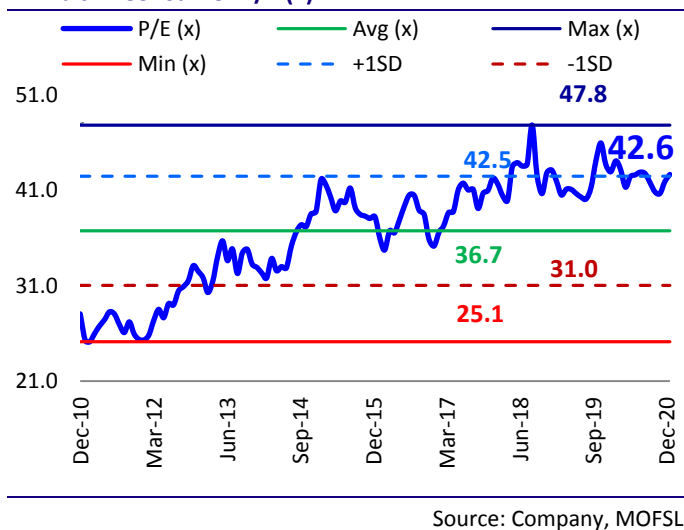
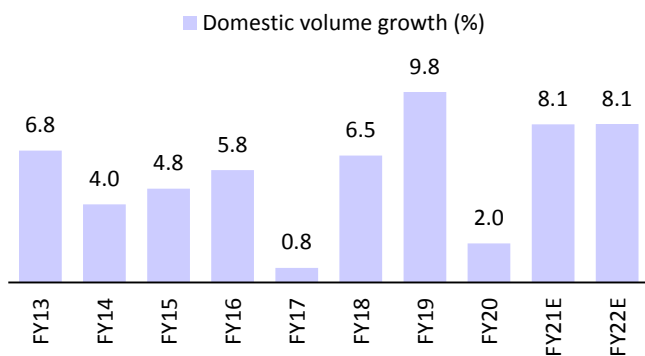


Exhibit 4: Consumer P/E (x)



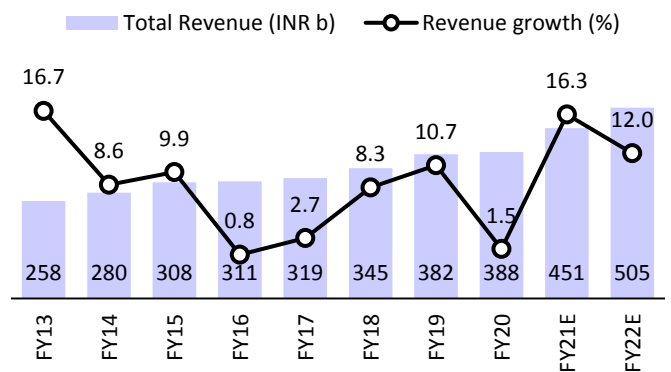
Story in charts

Exhibit 5: Volumes to grow by 8.1% each in FY21E/FY22E



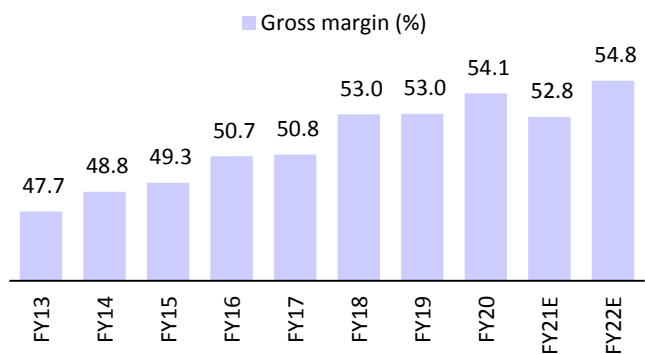
Source: Company, MOFSL

Exhibit 6: Revenue to grow at 14.3% CAGR over FY20-22E...



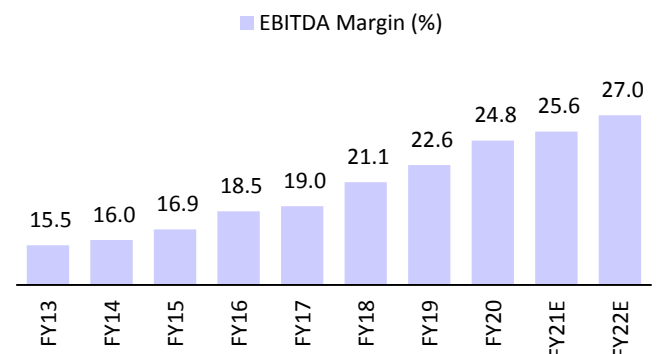
Source: Company, MOFSL

Exhibit 7: ...with gross margin expansion of 70bp



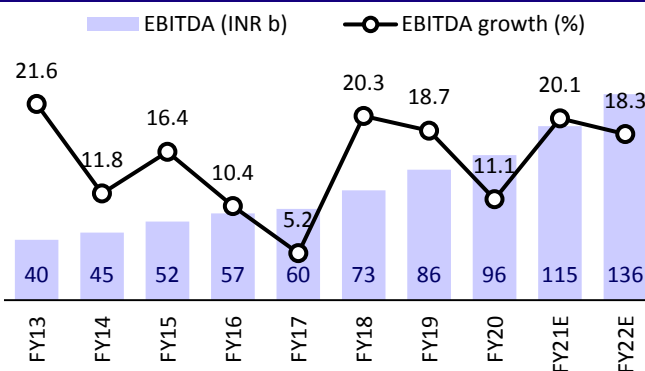
Source: Company, MOFSL

Exhibit 8: ...leading to operating margin expansion of 220bp



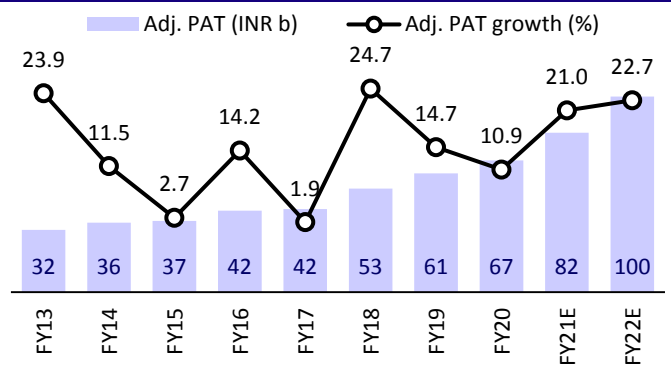
Source: Company, MOFSL

Exhibit 9: EBITDA to grow at 19.2% CAGR over FY20-22E



Source: Company, MOFSL

Exhibit 10: Adj. PAT to grow at 21.9% CAGR over FY20-22E



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR b)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Sales	305	313	339	377	383	446	500
Other Oper. Income	6	6	6	6	5	5	5
Total Revenue	311	319	345	382	388	451	505
Change (%)	0.8	2.7	8.3	10.7	1.5	16.3	12.0
COGS	153	157	162	180	178	213	228
Gross Profit	158	162	183	203	210	238	277
Gross Margin (%)	50.7	50.8	53.0	53.0	54.1	52.8	54.8
Operating Exp	100	102	110	116	114	123	141
% of sales	32.2	31.9	31.9	30.4	29.4	27.3	27.8
EBIDTA	57	60	73	86	96	115	136
Change (%)	10.4	5.2	20.3	18.7	11.1	20.1	18.3
Margin (%)	18.5	19.0	21.1	22.6	24.8	25.6	27.0
Depreciation	3	4	5	5	9	10	11
Int. and Fin. Charges	0	0	0	0	1	1	1
Other Income - Recurring	6	5	6	7	7	6	9
Profit before Taxes	60	62	73	87	93	110	134
Change (%)	8.2	3.0	19.4	19.1	6.2	18.7	21.4
Margin (%)	19.6	19.7	21.7	23.2	24.3	24.7	26.8
Tax	18	19	21	27	24	29	34
Deferred Tax	0	0	-1	-1	2	0	0
Tax Rate (%)	30.3	31.0	27.9	30.5	27.4	26.0	25.2
Profit after Taxes	42	42	53	61	67	82	100
Change (%)	14.2	1.9	24.7	14.7	10.9	21.0	22.7
Margin (%)	13.7	13.6	15.6	16.1	17.6	18.3	20.0
Non-rec. (Exp)/Income	0	2	-1	0	0	-2	0
Reported PAT	41	45	52	60	67	80	100

Balance Sheet							(INR b)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	2	2	2	2	2	2	2
Reserves	61	63	69	74	78	488	489
Capital Employed	63	65	71	77	80	490	491
Net Fixed Assets incl Goodwill	29	40	41	43	51	397	391
Capital WIP	4	2	4	4	5	5	5
Investment in Subsidiaries	3	3	3	3	3	3	3
Current Investments	25	35	29	27	13	14	15
Deferred Charges	2	2	3	3	3	4	4
Curr. Assets, L&A	77	66	92	99	123	218	237
Inventory	25	24	24	24	26	35	40
Account Receivables	11	9	11	17	10	19	21
Cash and Bank Balance	28	17	34	37	50	119	130
Others	13	16	23	21	36	45	46
Curr. Liab. and Prov.	76	83	101	102	116	150	163
Account Payables	55	60	70	71	74	94	103
Other Liabilities	12	14	16	16	26	32	34
Provisions	9	9	14	16	16	24	26
Net Current Assets	0	-17	-9	-3	7	68	74
Application of Funds	63	65	71	77	80	490	491

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)							
EPS	19.3	19.6	24.5	28.1	31.2	34.8	42.7
Cash EPS	20.7	21.5	26.7	30.5	35.6	39.2	47.4
BV/Share	29.0	30.0	32.7	35.4	37.2	208.9	209.4
DPS	15.5	17.0	20.0	22.0	25.0	35.0	51.0
Payout %	97	98	99	95	96	103	119

Valuation (x)

P/E	121.7	119.4	95.7	83.5	75.1	67.4	54.9
Cash P/E	113.0	109.2	87.8	76.8	65.9	59.8	49.5
EV/Sales	16.5	16.1	14.8	13.4	13.1	12.1	10.7
EV/EBITDA	87.7	83.6	69.2	58.3	52.2	46.6	39.3
P/BV	80.8	78.1	71.7	66.2	63.0	11.2	11.2
Dividend Yield (%)	0.7	0.7	0.9	0.9	1.1	1.5	2.2

Return Ratios (%)

RoE incl. Goodwill	83.3	66.5	78.1	82.5	86.0	28.6	20.4
RoCE incl. Goodwill	119.8	96.7	108.6	119.1	119.8	39.1	27.5

Working Capital Ratios

Debtor (Days)	13	11	12	16	10	16	16
Asset Turnover (x)	4.9	4.8	4.8	4.9	4.8	0.9	1.0

Leverage Ratio

Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(loss) before Tax	60	62	73	85	91	110	134
Financial other income	-2	-1	-3	-1	-2	-6	-9
Depreciation	3	4	5	5	9	10	11
Net Interest Paid	-3	-2	-2	-3	-4	1	1
Direct Taxes Paid	-17	-18	-22	-27	-25	-29	-34
(Incr)/Decr in WC	-1	5	9	-3	3	8	5
CF from Operations	40	50	59	57	73	94	108
Other Items	6	0	5	4	23	62	32
(Incr)/Decr in FA	-7	-9	-8	-7	-7	-1	-5
Free Cash Flow	33	41	51	50	66	93	103
(Pur)/Sale of Investments	3	-10	8	3	22	-1	-1
CF from Invest.	3	-18	4	0	38	60	26
Dividend Paid	-33	-36	-39	-45	-62	-82	-120
Others	-7	-7	-8	-9	-4	-4	-4
CF from Fin. Activity	-40	-43	-47	-55	-67	-85	-123
Incr/Decr of Cash	2	-11	17	3	44	69	11
Add: Opening Balance	25	28	17	34	6	50	119
Closing Balance	28	17	34	37	50	119	130

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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