

Hindustan Unilever

BSE SENSEX 46,666 S&P CNX 13,683



| 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

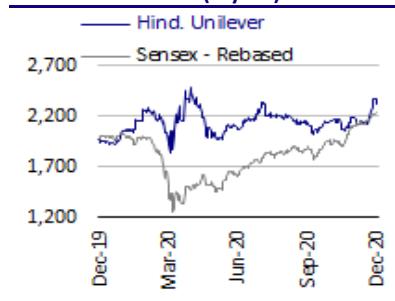
| | | | |
|----------------|------|------|------|
| P/E (x) | 75.1 | 67.4 | 54.9 |
| P/BV (x) | 63.0 | 11.2 | 11.2 |
| EV/EBITDA (x) | 52.2 | 46.6 | 39.3 |
| Div. Yield (%) | 1.1 | 1.5 | 2.2 |

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

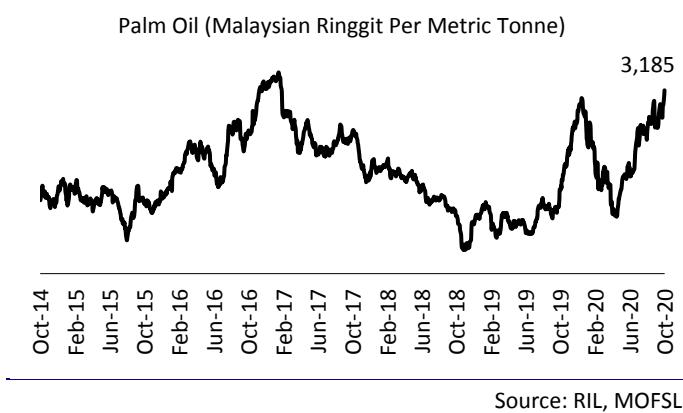


Exhibit 2: PFAD up 36% YoY and 11% QoQ till date

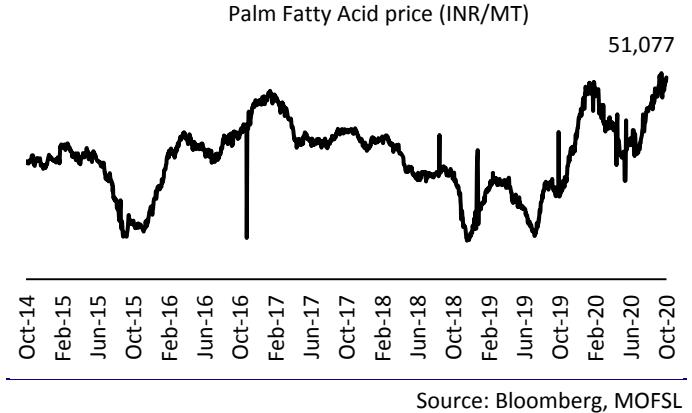


Exhibit 3: Hindustan Unilever P/E (x)

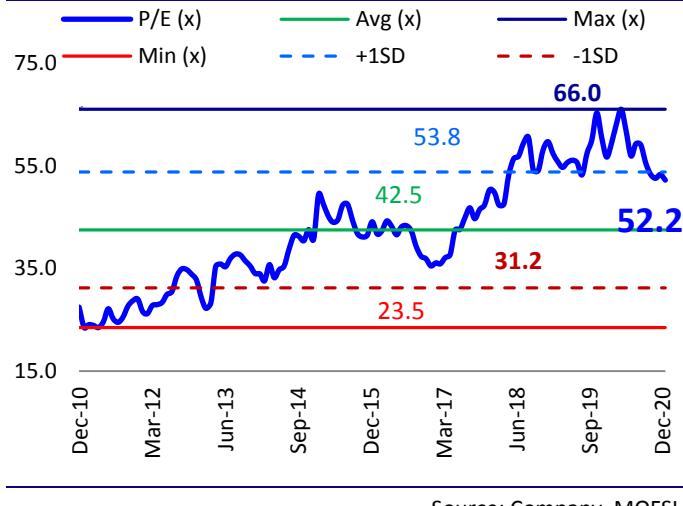
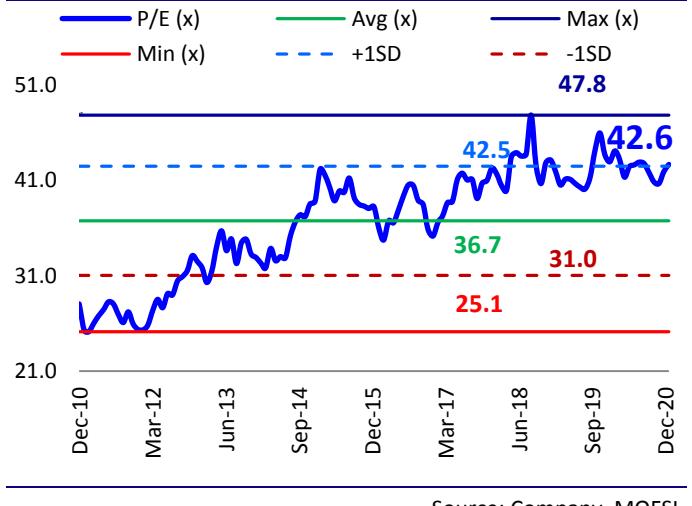


Exhibit 4: Consumer P/E (x)



Story in charts

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

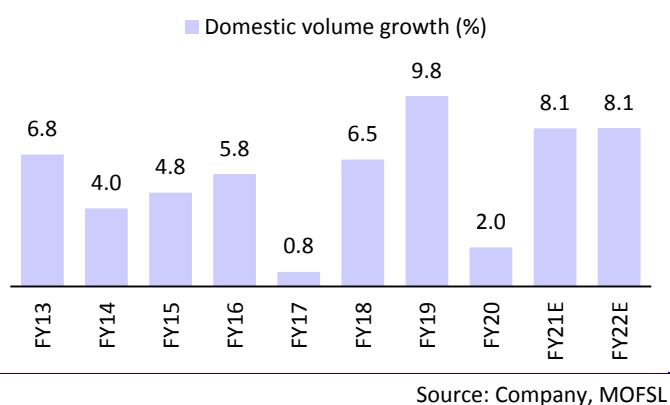


Exhibit 6: Revenue to grow at 14.3% CAGR over FY20-22E...

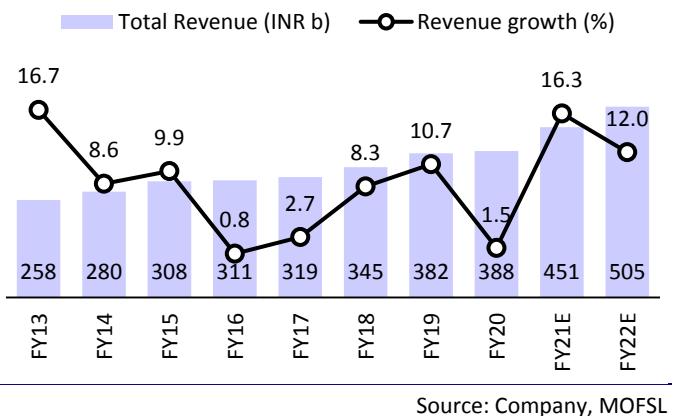


Exhibit 7: ...with gross margin expansion of 70bp

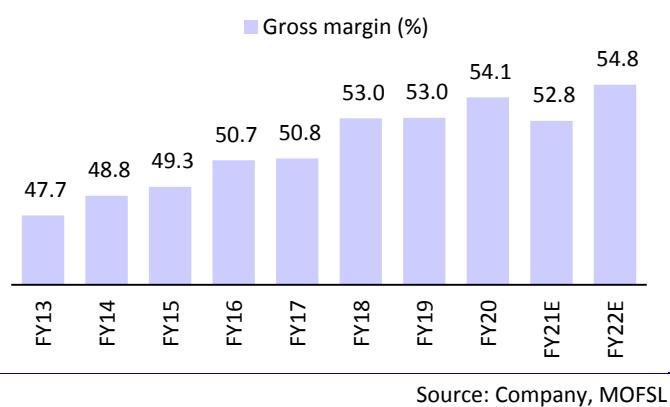


Exhibit 8: ...leading to operating margin expansion of 220bp

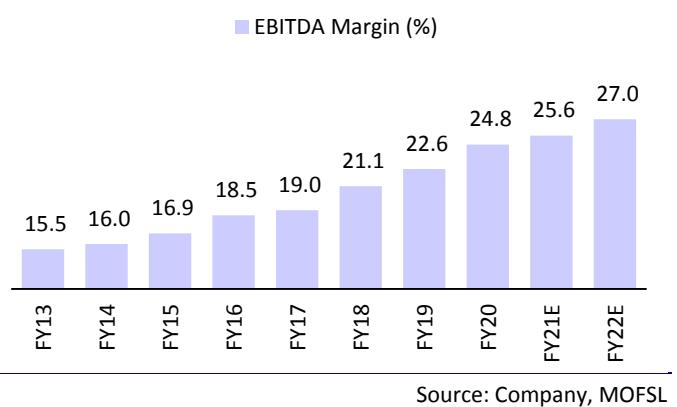


Exhibit 9: EBITDA to grow at 19.2% CAGR over FY20–22E

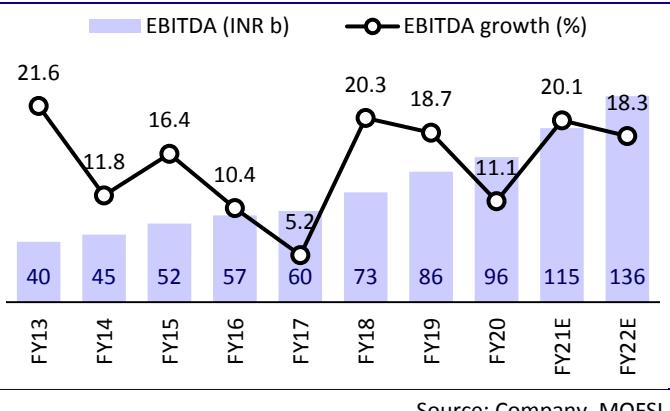
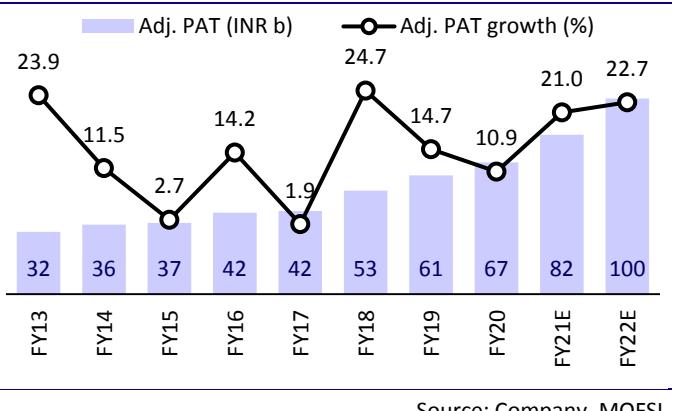


Exhibit 10: Adj. PAT to grow at 21.9% CAGR over FY20–22E



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 |

Cash Flow Statement

| Y/E March | FY16 | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E | (INR m) |
|------------------------------|------------|------------|------------|------------|------------|------------|-------------|---------|
| 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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