

Hindustan Unilever

ACCUMULATE

Detergent and tea to drive volume growth

Summary

We have done SKU level analysis of Hindustan Unilever's (HUVR) soap, detergent and tea portfolio which contributes c. 60% to total revenue. We note that; (i) tea and soap category, FMCG companies have taken price hikes driven by inflationary raw material pricing trend (ii) in tea portfolio HUVR has been highly conservative in taking price hikes while in Soaps it has been aggressive compared to competition (iii) in detergent powder category HUVR has taken price cuts in line with deflationary raw material pricing trend while P&G has taken price hike. We expect; HUVR to gain volume led market share in both detergent and tea portfolio which contributes c. 33% to total revenue. In soaps portfolio, we expect Godrej Consumer to benefit from conservative price action in value segment. In premium segment, we expect HUVR pricing action to be margin accretive. As per channel check, we note that demand of discretionary products are now back to pre-covid levels. We continue to maintain our positive stance on the stock. We have an ACCUMULATE rating with TP of Rs2,677.

Key Highlights and Investment Rationale

HUVR to gain volume share in tea led by conservative price hikes

Tea price continues to remain stable at Rs 375/kg during Dec'20, backed by restoration of normalcy in overall production. As per Tea Board of India, tea production stood at 176mn kg during Oct'20 (vs 177mn kg in Oct'19) driven by 3% growth in North India which contributes c. 90% to overall tea production in India. We note that at SKU level, HUVR has taken price hike of c. 7% QoQ during 3QFY20 (vs 23% price hike taken by TGBL for same period). We expect, HUVR to gain volume driven market share in tea portfolio which contributes c. 10% to total revenue.

Soap category witness price hikes led by inflationary raw material cost trend

All major soap manufacturers have taken price hike to the tune of 3-10% in CY20 led by inflationary trend in palm oil prices. Palm oil prices have increased by 67% in CY20 (from Jan to Dec'20). At SKU level, we note that GCPL has been most conservative in taking price hikes at c. 3% while HUVR has taken hike of c. 7%.

Expect HUVR to gain market share in detergent powder portfolio

In detergent category we note that HUVR has taken c. 10% price cut during CY20 (Jan-Dec'20) in few SKUs while P&G hiked price by c. 9%. We expect HUVR to gain volume driven market share in this category. Currently, detergent contributes c. 23% to HUVR's total revenue.

TP
CMP

Rs2,677
Rs2,400

Potential upside / downside
Previous Rating

+12%
BUY

V/s Consensus

| EPS (Rs) | FY21E | FY22E | FY23E |
|--------------|-------|-------|-------|
| IDBI Capital | 36.4 | 44.1 | 48.7 |
| Consensus | 34.7 | 41.2 | 48.0 |
| % difference | 4.9 | 6.9 | 1.5 |

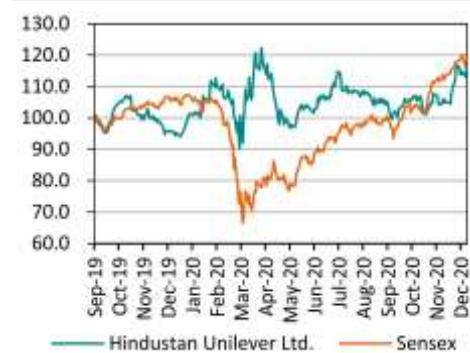
Key Stock Data

| | |
|---------------------------------|------------------|
| Bloomberg / Reuters | HUVR IN / HLL.BO |
| Sector | FMCG |
| Shares o/s (mn) | 2,351 |
| Market cap. (Rs mn) | 5,642,973 |
| Market cap. (US\$ mn) | 81,475 |
| 3-m daily average value (Rs mn) | 1,602.9 |
| 52-week high / low | Rs2,614 / 1,756 |
| Nifty / Sensex | 46,974 / 13,749 |

Shareholding Pattern (%)

| | |
|-----------|------|
| Promoters | 61.9 |
| FII | 14.5 |
| DII | 7.7 |
| Public | 15.9 |

Relative to Sensex (%)



Price Performance (%)

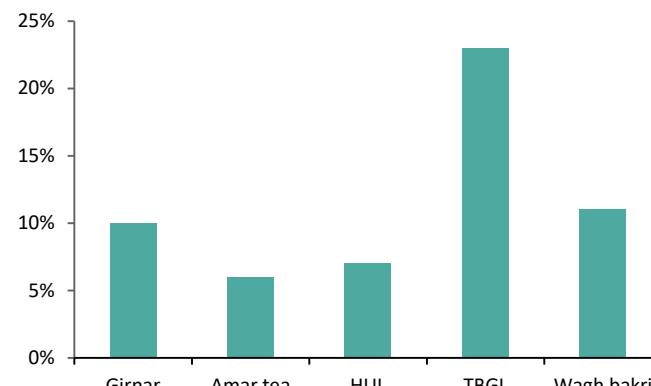
| | -1m | -3m | -12m |
|---------------|------|-------|------|
| Absolute | 12.7 | 16.9 | 23.1 |
| Rel to Sensex | 6.1 | (7.8) | 10.3 |

Financial snapshot

| Year | FY19 | FY20 | FY21E | FY22E | FY23E |
|--------------------|----------|----------|----------|----------|----------|
| Revenue | 3,82,240 | 3,87,850 | 4,42,095 | 5,07,800 | 5,59,709 |
| EBITDA | 86,370 | 96,000 | 1,20,165 | 1,44,935 | 1,60,896 |
| EBITDA (%) | 22.6 | 24.8 | 27.2 | 28.5 | 28.7 |
| Adj. PAT | 60,360 | 67,380 | 85,520 | 1,03,556 | 1,14,385 |
| EPS (Rs) | 27.9 | 31.2 | 36.4 | 44.1 | 48.7 |
| EPS Growth (%) | 15.3 | 11.6 | 16.7 | 21.1 | 10.5 |
| PE (x) | 85.9 | 76.9 | 65.9 | 54.5 | 49.3 |
| Dividend Yield (%) | 0.9 | 1.2 | 1.1 | 1.3 | 1.4 |
| EV/EBITDA (x) | 59.6 | 53.5 | 46.3 | 38.2 | 34.2 |
| RoE (%) | 81.9 | 85.9 | 93.1 | 87.1 | 75.4 |
| RoCE (%) | 90.0 | 86.6 | 94.0 | 92.8 | 83.5 |

Source: Company; IDBI Capital Research

In tea portfolio, HUVR has been most conservative in price hikes (average 7% increase) as compared to TBGL (avg. 23% hike)

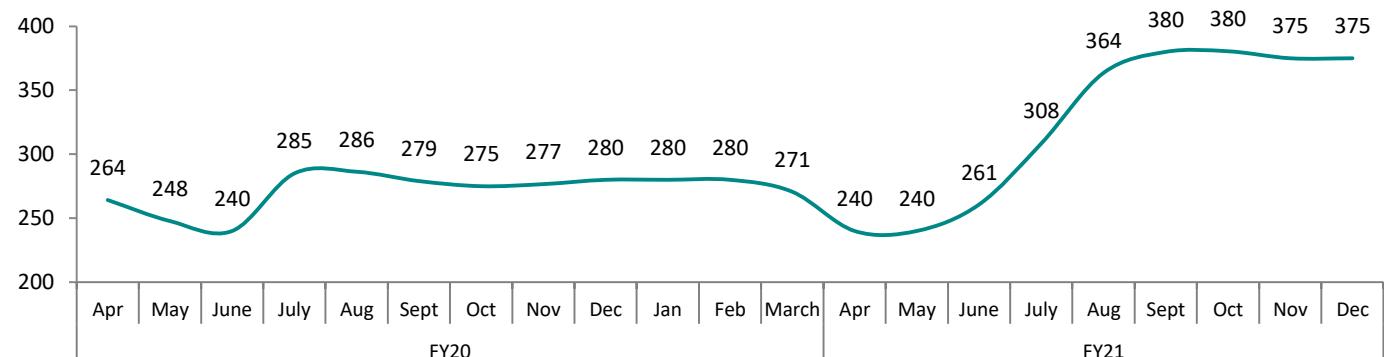
Exhibit 1: % QoQ Price hike in tea portfolio (3QFY21)


Source: Industry; IDBI Capital Research

Exhibit 2: Price hike at SKU level; HUVR brands

| Product | Quantity | % price hike in Q3 |
|--|----------|--------------------|
| Brooke Bond Red Label Natural Care Tea | 1 kg | 9% |
| Brooke Bond Red Label Natural Care Tea | 250 gms | 9% |
| Brooke Bond Red Label Natural Care Tea | 500 gms | 8% |
| Brooke Bond Red Label Tea | 1 kg | 6% |
| Brooke Bond Red Label Tea | 250 gms | 10% |
| Brooke Bond Taj Mahal Tea | 500 gms | 2% |

Source: Industry; IDBI Capital Research

Exhibit 3: Tea price trend (in Rs/kg)


Source: Bloomberg, IDBI Capital Market Research

As per industry sources, Tea prices have increased by~34% in CY20.

Tea production in October'20 declined by 1%YoY due to floods in South India.

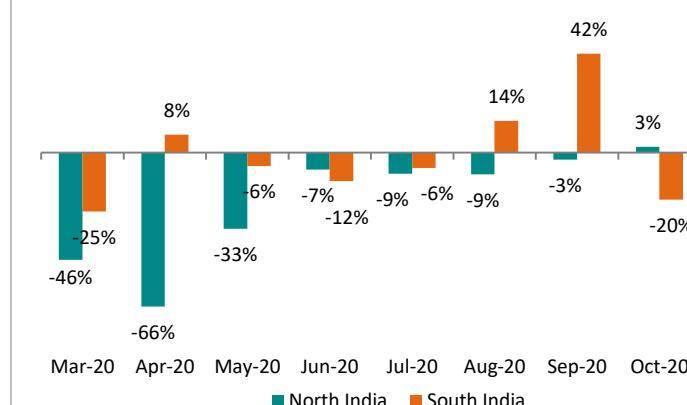
Tea production in South India (11% of overall production) declined by 20%in October-20.

Exhibit 4: All India tea production trend



Source Tea Board of India ; IDBI Capital Research

Exhibit 5: Region-wise tea production trend



Source: Tea Board of India; IDBI Capital Research

Quantum of price hike taken by HUVR is higher than its competition, driven by (i) its ability to lead price hikes being the market leader (HUL has around 43% market share in soaps) and (ii) wide portfolio straddling across price points.

In soaps portfolio, GCPL and HUVR both reported double digit revenue growth in Q2FY21 due to higher thrust health and hygiene.

Exhibit 6: Soap category; SKU level pricing analysis

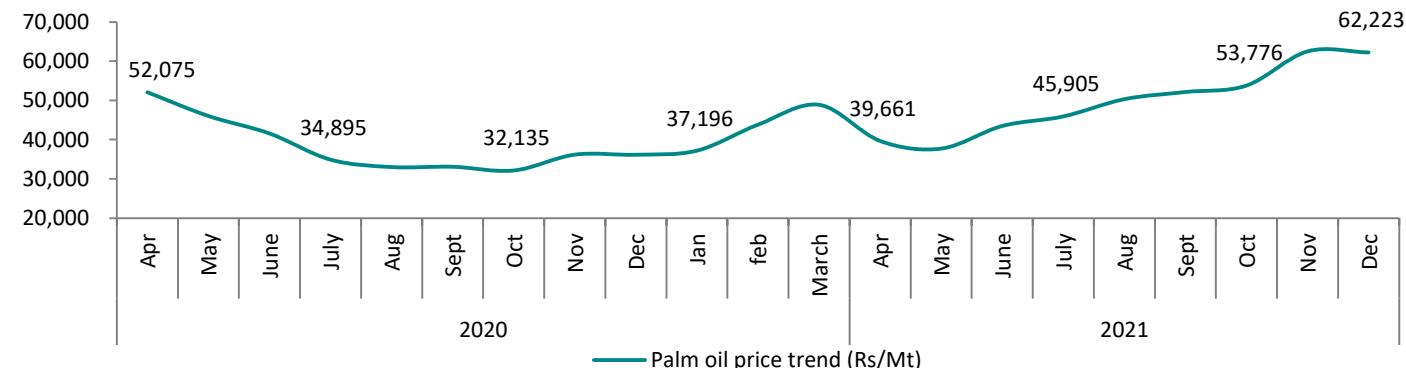
| Company | Pears Pure & Gentle Soap Bar | Dove Cream Beauty Bathing Bar | HUL Dove Cream Beauty Bathing Bar | Lux Soft Touch French Rose and Almond Oil Soap Bar | Lifebuoy Total 10 Germ Protection Soap Bar | GCPL Godrej No. 1 Sandal & Turmeric Soap | Cinthol Original Deodorant & Complexion Soap | Reckitt B Dettol original soap |
|----------------|------------------------------|-------------------------------|-----------------------------------|--|--|--|--|--------------------------------|
| SKU | 4x125 gms | 3x125 gms | 4x100 gms | 3x100 gms | 5x125 gms | 3x150 gms | 4x100gms | 4x125gms |
| Jan'20 | 240 | 140 | 240 | 155 | 150 | 102 | 135 | 200 |
| Dec'20 | 259 | 150 | 259 | 160 | 165 | 108 | 139 | 208 |
| Price increase | 8% | 7% | 8% | 3% | 10% | 6% | 3% | 4% |

Source: Industry, IDBI Capital Market Research

Global palm oil prices have been on an uptrend due to (i) recovering demand from China and India post COVID led restrictions and (ii) labor shortage in key palm oil producing countries like Malaysia and Indonesia.

Palm oil price rose 67% (highest over last 8 years) during Jan-Dec'20

Exhibit 7: Palm oil prices are on an inflationary trend



Source: Bloomberg, IDBI Capital Market Research

Exhibit 8: Detergent powder; SKU level pricing analysis

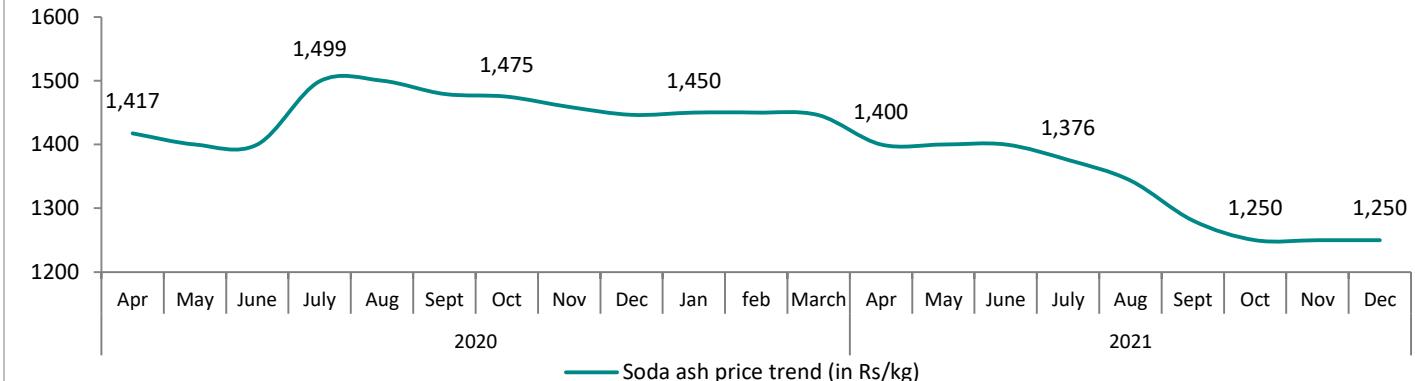
| Company | HUL | | | | P&G | |
|---------------------------|----------------------|---|--|---|-------------------------------|---|
| Brand | Rin Detergent Powder | Rin Refresh Lemon & Rose Detergent Powder | Surf Excel Matic Top Load Detergent Powder | Wheel Active Lemon & Jasmine Detergent Powder | Ariel Colour Detergent Powder | Ariel Matic Front Load Detergent Washing Powder |
| Quantity | 1 kg | 1 kg | 1 kg | 1 kg | 3 kg | 1 kg |
| Jan'20 | 77 | 79 | 225 | 53 | 560 | 219 |
| Dec'20 | 70 | 72 | 190 | 50 | 580 | 250 |
| % price increase/decrease | -9% | -9% | -16% | -6% | 4% | 14% |

Source: Industry, IDBI Capital Research

Diverging trends in detergent category:
HUVR has reduced price in select SKUs whereas P&G has hiked prices.

Soda ash prices declined by 14% during Jan-Dec'20.

Exhibit 9: Soda ash is on a deflationary trend



Source: Bloomberg, IDBI Capital Research

Financial Summary

| Profit & Loss Account | | | | | (Rs mn) | Cash Flow Statement | | | | | (Rs mn) |
|-------------------------------|----------------|----------------|----------------|----------------|---------|--------------------------------------|-----------------|-----------------|-----------------|-----------------|---------|
| Year-end: March | FY20 | FY21E | FY22E | FY23E | | Year-end: March | FY20 | FY21E | FY22E | FY23E | |
| Net sales | 387,850 | 442,095 | 507,800 | 559,709 | | Pre-tax profit | 90,920 | 116,353 | 140,892 | 155,626 | |
| <i>Growth (%)</i> | 1.5 | 14.0 | 14.9 | 10.2 | | Depreciation | 9,380 | 10,690 | 11,668 | 13,733 | |
| Operating expenses | (291,850) | (321,930) | (362,865) | (398,813) | | Tax paid | (24,650) | (30,834) | (37,336) | (41,241) | |
| EBITDA | 96,000 | 120,165 | 144,935 | 160,896 | | Chg in working capital | (380) | (2,761) | 5,114 | 4,040 | |
| <i>Growth (%)</i> | 11.1 | 25.2 | 20.6 | 11.0 | | Other operating activities | (2,220) | 1,184 | 1,244 | 1,293 | |
| Depreciation | (9,380) | (10,690) | (11,668) | (13,733) | | Cash flow from operations (a) | 73,050 | 94,633 | 121,581 | 133,451 | |
| EBIT | 86,620 | 109,475 | 133,266 | 147,163 | | Capital expenditure | (7,540) | (7,216) | (14,493) | (16,090) | |
| Interest paid | (1,060) | (1,184) | (1,244) | (1,293) | | Chg in investments | 22,250 | - | - | - | |
| Other income | 7,330 | 8,063 | 8,869 | 9,756 | | Other investing activities | 4,550 | - | - | - | |
| Pre-tax profit | 92,890 | 116,353 | 140,892 | 155,626 | | Cash flow from investing (b) | 19,260 | (7,216) | (14,493) | (16,090) | |
| Tax | (23,540) | (30,834) | (37,336) | (41,241) | | Equity raised/(repaid) | - | - | - | - | |
| <i>Effective tax rate (%)</i> | 25.3 | 26.5 | 26.5 | 26.5 | | Debt raised/(repaid) | - | - | - | - | |
| Minority Interest | - | - | - | - | | Dividend (incl. tax) | (62,440) | (62,510) | (72,380) | (80,070) | |
| Net profit | 69,350 | 85,520 | 103,556 | 114,385 | | Chg in minorities | - | - | - | - | |
| Exceptional items | 1,970 | - | - | - | | Other financing activities | (4,320) | (1,184) | (1,244) | (1,293) | |
| Adjusted net profit | 67,380 | 85,520 | 103,556 | 114,385 | | Cash flow from financing (c) | (66,760) | (63,694) | (73,624) | (81,363) | |
| <i>Growth (%)</i> | 11.6 | 26.9 | 21.1 | 10.5 | | Net chg in cash (a+b+c) | 25,550 | 23,722 | 33,464 | 35,999 | |
| <i>Shares o/s (mn nos)</i> | 2,160 | 2,350 | 2,350 | 2,350 | | | | | | | |

Balance Sheet (Rs mn)

| Year-end: March | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Net fixed assets | 55,870 | 52,396 | 55,221 | 57,578 |
| Investments | 2,520 | 2,520 | 2,520 | 2,520 |
| Other non-curr assets | 18,730 | 18,730 | 18,730 | 18,730 |
| Current assets | 118,900 | 153,164 | 193,668 | 235,228 |
| Inventories | 26,360 | 28,013 | 32,176 | 35,465 |
| Sundry Debtors | 10,460 | 19,350 | 22,226 | 24,498 |
| Cash and Bank | 50,170 | 73,892 | 107,356 | 143,355 |
| Marketable Securities | - | - | - | - |
| Loans and advances | - | - | - | - |
| Total assets | 196,020 | 226,811 | 270,139 | 314,056 |
| | | | | |
| Shareholders' funds | 80,310 | 103,320 | 134,495 | 168,811 |
| Share capital | 2,160 | 2,160 | 2,160 | 2,160 |
| Reserves & surplus | 78,150 | 101,160 | 132,335 | 166,651 |
| Total Debt | - | - | - | - |
| Secured loans | - | - | - | - |
| Unsecured loans | - | - | - | - |
| Other liabilities | 24,670 | 24,670 | 24,670 | 24,670 |
| Curr Liab & prov | 91,040 | 98,821 | 110,974 | 120,575 |
| Current liabilities | 86,860 | 94,641 | 106,794 | 116,395 |
| Provisions | 4,180 | 4,180 | 4,180 | 4,180 |
| Total liabilities | 115,710 | 123,491 | 135,644 | 145,245 |
| Total equity & liabilities | 196,020 | 226,811 | 270,139 | 314,056 |
| Book Value (Rs) | 37 | 44 | 57 | 72 |

Source: Company; IDBI Capital Research

Financial Ratios

| Year-end: March | FY20 | FY21E | FY22E | FY23E |
|--|-------|-------|-------|-------|
| Adj. EPS (Rs) | 31.2 | 36.4 | 44.1 | 48.7 |
| Adj. EPS growth (%) | 11.6 | 16.7 | 21.1 | 10.5 |
| EBITDA margin (%) | 24.8 | 27.2 | 28.5 | 28.7 |
| Pre-tax margin (%) | 23.9 | 26.3 | 27.7 | 27.8 |
| ROE (%) | 85.9 | 93.1 | 87.1 | 75.4 |
| ROCE (%) | 86.6 | 94.0 | 92.8 | 83.5 |
| Turnover & Leverage ratios (x) | | | | |
| Asset turnover (x) | 2.1 | 2.1 | 2.0 | 1.9 |
| Leverage factor (x) | 2.4 | 2.3 | 2.1 | 1.9 |
| Net margin (%) | 17.4 | 19.3 | 20.4 | 20.4 |
| Net Debt/Equity (x) | (0.6) | (0.7) | (0.8) | (0.8) |
| Working Capital & Liquidity ratio | | | | |
| Inventory days | 25 | 23 | 23 | 23 |
| Receivable days | 10 | 16 | 16 | 16 |
| Payable days | 93 | 93 | 94 | 95 |

Valuation

| Year-end: March | FY20 | FY21E | FY22E | FY23E |
|------------------------|------|-------|-------|-------|
| P/E (x) | 76.9 | 65.9 | 54.5 | 49.3 |
| Price / Book value (x) | 64.5 | 54.6 | 41.9 | 33.4 |
| PCE (x) | 67.5 | 58.6 | 48.9 | 44.0 |
| EV / Net sales (x) | 13.2 | 12.6 | 10.9 | 9.8 |
| EV / EBITDA (x) | 53.5 | 46.3 | 38.2 | 34.2 |
| Dividend Yield (%) | 1.2 | 1.1 | 1.3 | 1.4 |



Notes

Dealing

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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