

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.

Company Update

TP	Rs2,677
CMP	Rs2,400
Potential upside / downside	+12%
Previous Rating	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

Shareholding Pattern (%)

Promoters	61.9
FII	14.5
DII	7.7
Public	15.9

Price Performance (%)

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

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

Relative to Sensex (%)

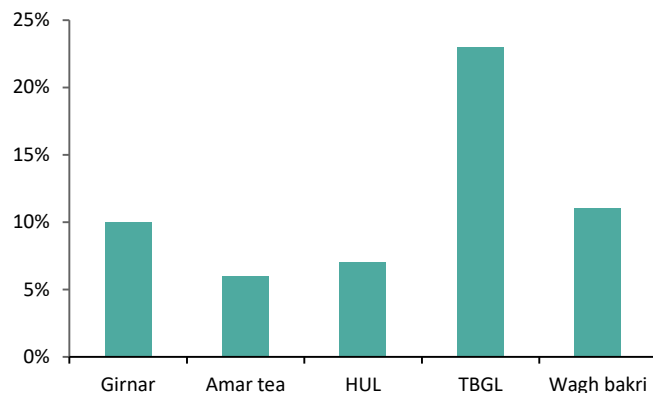


Financial snapshot

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)


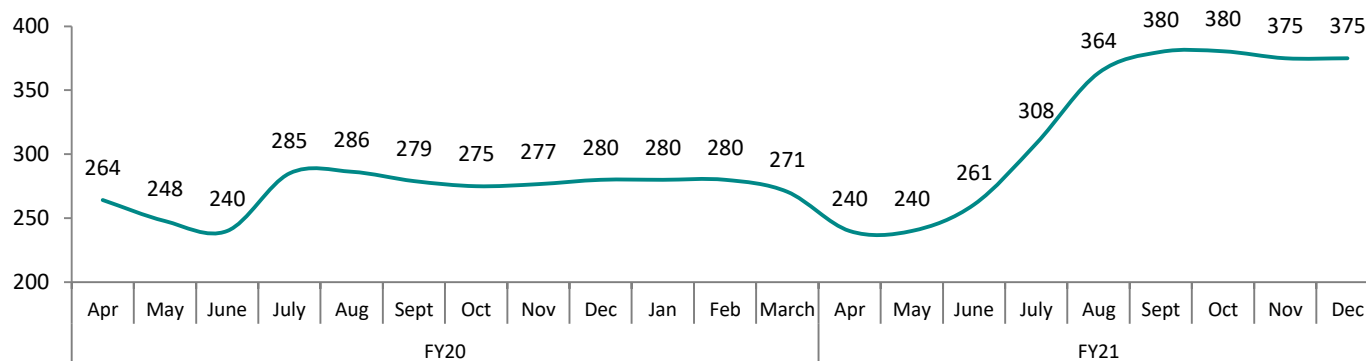
Source: Industry; IDBI Capital Research

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

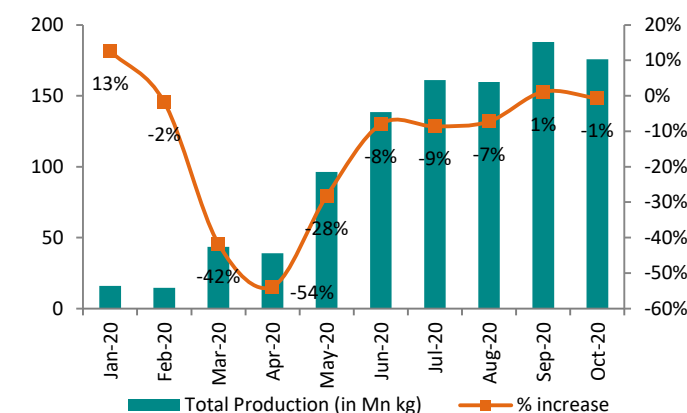
As per industry sources, Tea prices have increased by ~34% in CY20.

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


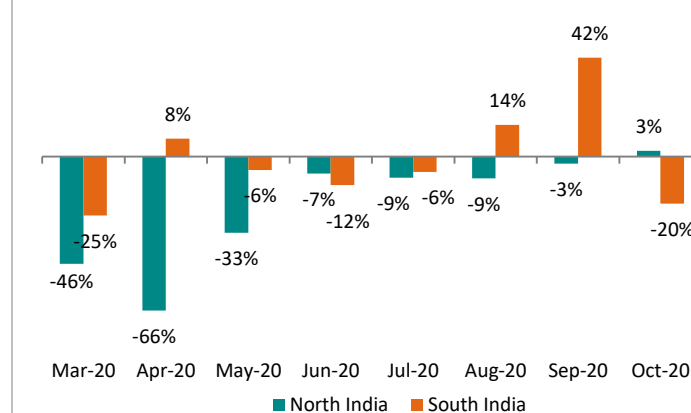
Source: Bloomberg, IDBI Capital Market Research

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

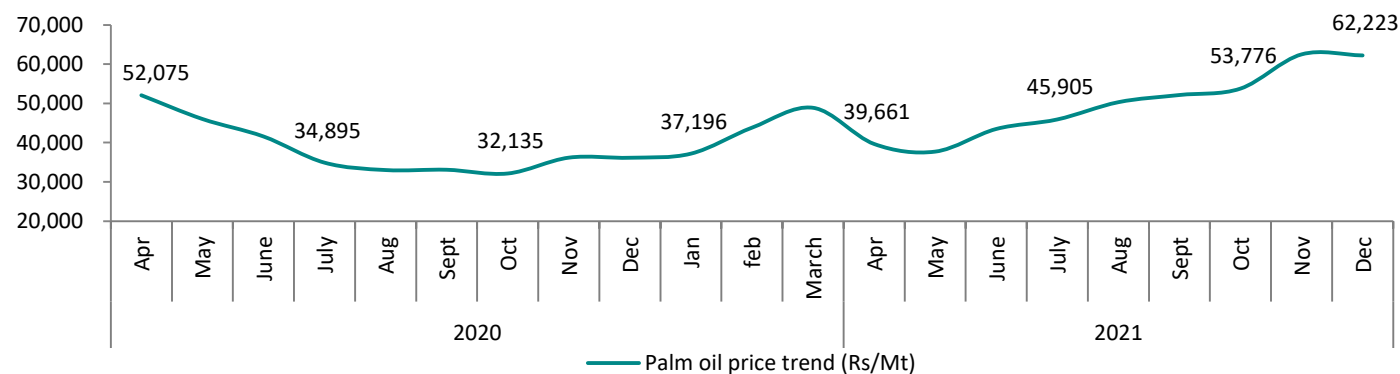
Company	HUL					GCPL		Reckitt B
Brand	Pears Pure & Gentle Soap Bar	Dove Cream Beauty Bathing Bar	Dove Cream Beauty Bathing Bar	Lux Soft Touch French Rose and Almond Oil Soap Bar	Lifebuoy Total 10 Germ Protection Soap Bar	Godrej No. 1 Sandal & Turmeric Soap	Cinthal Original Deodorant & Complexion Soap	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

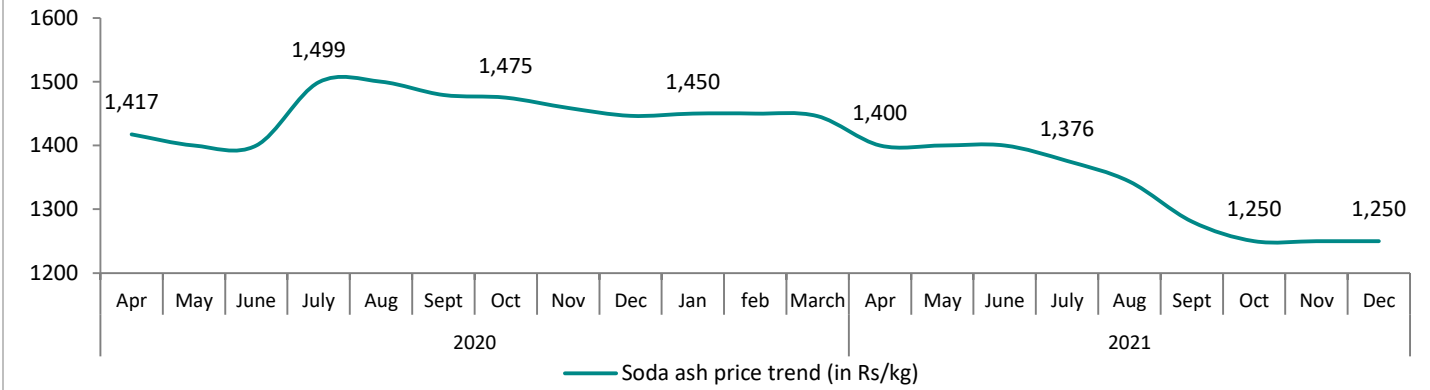
Exhibit 8: Detergent powder; SKU level pricing analysis

Company Brand	HUL				P&G	
	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.

Exhibit 9: Soda ash is on a deflationary trend



Source: Bloomberg, IDBI Capital Research

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

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net sales	387,850	442,095	507,800	559,709
<i>Growth (%)</i>	<i>1.5</i>	<i>14.0</i>	<i>14.9</i>	<i>10.2</i>
Operating expenses	(291,850)	(321,930)	(362,865)	(398,813)
EBITDA	96,000	120,165	144,935	160,896
<i>Growth (%)</i>	<i>11.1</i>	<i>25.2</i>	<i>20.6</i>	<i>11.0</i>
Depreciation	(9,380)	(10,690)	(11,668)	(13,733)
EBIT	86,620	109,475	133,266	147,163
Interest paid	(1,060)	(1,184)	(1,244)	(1,293)
Other income	7,330	8,063	8,869	9,756
Pre-tax profit	92,890	116,353	140,892	155,626
Tax	(23,540)	(30,834)	(37,336)	(41,241)
<i>Effective tax rate (%)</i>	<i>25.3</i>	<i>26.5</i>	<i>26.5</i>	<i>26.5</i>
Minority Interest	-	-	-	-
Net profit	69,350	85,520	103,556	114,385
Exceptional items	1,970	-	-	-
Adjusted net profit	67,380	85,520	103,556	114,385
<i>Growth (%)</i>	<i>11.6</i>	<i>26.9</i>	<i>21.1</i>	<i>10.5</i>
<i>Shares o/s (mn nos)</i>	<i>2,160</i>	<i>2,350</i>	<i>2,350</i>	<i>2,350</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	90,920	116,353	140,892	155,626
Depreciation	9,380	10,690	11,668	13,733
Tax paid	(24,650)	(30,834)	(37,336)	(41,241)
Chg in working capital	(380)	(2,761)	5,114	4,040
Other operating activities	(2,220)	1,184	1,244	1,293
Cash flow from operations (a)	73,050	94,633	121,581	133,451
Capital expenditure	(7,540)	(7,216)	(14,493)	(16,090)
Chg in investments	22,250	-	-	-
Other investing activities	4,550	-	-	-
Cash flow from investing (b)	19,260	(7,216)	(14,493)	(16,090)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	-	-	-	-
Dividend (incl. tax)	(62,440)	(62,510)	(72,380)	(80,070)
Chg in minorities	-	-	-	-
Other financing activities	(4,320)	(1,184)	(1,244)	(1,293)
Cash flow from financing (c)	(66,760)	(63,694)	(73,624)	(81,363)
Net chg in cash (a+b+c)	25,550	23,722	33,464	35,999

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

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Key to Ratings Stocks:

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

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