

## Resilient Q1 performance amid challenges

Hindustan Unilever (HUVR IN) performance was a beat vs our and street expectations on all the key headline numbers. Reported sales grew by 4% at Rs. 10,560cr with the underlying consumer business de-growing 7% YoY led by an 8% volume degrowth in organic business (-11% UVG our estimate). A 6% growth in Health, Hygiene and Nutrition offset the adverse growth seen in Beauty & Personal Care (-45% YoY) and Out of Home products (-69% YoY). EBITDA of Rs. 2,644cr was flat (our estm. Rs. 2,125cr) with EBITDA Margins at 25% (in-line with our estm) contracted 110bps YoY on account of 1) adverse mix and de-leverage; 2) commodity inflation (SMP, tea, vegetable oil, tomato paste, crude); 3) heightened COVID related costs. Beauty & Personal Care (color cosmetics, skin, deo) and Out of Home segment (ice-cream, water, vending) reported the weakest numbers amongst segments given the discretionary, non-essential nature of these products. Recurring PAT at Rs. 1,881cr was up 7% YoY. While, performance in Q1FY21 has been healthy, we continue to maintain our estimates given the multiple moving parts to the business and uncertainty on growth outlook basis consumers' skepticism on spending. **At CMP the stock fully prices in near term growth leaving limited scope for an upside. Retain HOLD and continue to value the stock at 53x its FY22E EPS at a marginally higher TP of Rs. 2,200 (earlier Rs. 2,171).**

## Key concall takeaways

- Demand outlook:** On a MoM basis HUL has witnessed recovery in business which in April was at 70% further improving in May and in June the company reported 5% revenue growth on YoY basis including 6% distributor inventory re-stocking. However, whether this demand sustains is too early to call out as outlook on growth continues to remain uncertain given rising number of cases and implementation of more localized and vertical lockdowns in July affecting growth. Amid the challenging times, HUL has witnessed volume/value market share gains in 86%/80% of its portfolio as consumers' gravitated towards trusted and quality brands during the pandemic.
- Rural growth seeing green shoots:** While, until Feb 2020 rural was lagging urban growth in the COVID-19 period it has picked up driven by good harvest and monsoon, Government's proactive interventions through DBT, MGNREGA etc. While management expects rural to fare better than urban, it is too early to call out where rural growth is sustainable as numbers of cases are on the rise that could lead to intermittent lockdowns.
- 80% of portfolio focused on Health, Hygiene and Nutrition (HHN):** HUL's Healthy, Hygiene and Nutrition portfolio grew by 6% YoY and formed 80% of total revenues. There has been a clear shift in consumer behaviour towards using more of health, hygiene and nutrition based products like hand washes, hand sanitizers, floor cleaners, laundry wash products etc. HUL launched 50 new products in the HHN segment in a mix of brands, variants and different pack sizes including sachets.
- GSK Consumer growth performed well:** GSK Consumer portfolio contributed ~10% of total revenues and grew by 5% YoY in Q1FY21 driven by both volume and value share gains. During the quarter focused on value added innovations coupled with enhanced accessibility. Launched pouch packs to drive market development. Long term potential of this business remains healthy and there is a huge opportunity to grow the category and business growth by leveraging HUL's distribution network.

## Our Take

Overall Q1FY21 numbers have been healthy given the uncertain growth environment. Although the uncertainty persists as highlighted by the management, trusted brands like HUL could likely benefit as consumers' preference towards trusted brand increase. HUL's balance sheet strength and comfortable cash position could support in sailing through the challenging times in the near term. From a medium term perspective we believe, HUVR has the right growth matrix like 1) broad based portfolio straddling across price-value matrix, 2) focus on cost savings 3) GSK-CH integration led growth and 4) superior execution capabilities vs peers. We maintain HOLD recommendation and value the stock at 53x FY22E EPS with a Target Price of Rs. 2,200/share marginally revised upwards (earlier Rs. 2,171).

## Key Financials (CONSOLIDATED)

(Rs. Cr)	FY19	FY20	FY21E	FY22E
Net Sales	39,310	39,783	42,824	47,372
EBITDA	9,430	10,493	11,523	13,351
Net Profit	6,288	6,964	7,688	9,002
EPS (Rs.)	29.0	32.1	35.5	41.5
PER (x)	79.9	72.1	65.3	55.8
EV/EBITDA (x)	52.9	47.4	43.0	36.9
P/BV (x)	63.8	61.2	53.4	46.9
ROE (%)	80	85	82	84

Source: Company, Axis Research

(CMP as of July 21, 2020)

CMP (Rs)	2,319
Upside /Downside (%)	-5%
High/Low (Rs)	2,614/1,660
Market cap (Cr)	5,44,884
Avg. daily vol. (6m) Shrs.	32,22,301
No. of shares (Cr)	235.0

## Shareholding (%)

	June-20	Mar-20	Dec-19
Promoter	61.9	67.2	67.2
FII's	14.8	12.1	12.3
MFs / UTI	4.4	2.9	2.6
Banks / FI's	0.4	0.4	0.4
Others	18.5	17.5	17.6

## Financial & Valuations

Y/E Mar (Rs. bn)	2020	2021E	2022E
Net Sales	397.8	428.2	473.7
EBITDA	104.9	115.2	133.5
Net Profit	69.6	76.9	90.0
EPS (Rs.)	32.1	35.5	41.5
PER (x)	72.1	65.3	55.8
EV/EBITDA (x)	47.4	43.0	36.9
P/BV (x)	61.2	53.4	46.9
ROE (%)	84.8	81.8	84.0

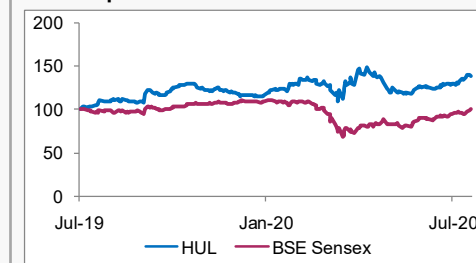
## Change in Estimates (%)

Y/E Mar	FY21E	FY22E
Sales	-	-
EBITDA	-	-
PAT	-	-

## Axis vs Consensus

EPS Estimates	2021E	2022E
Axis	35.5	41.5
Consensus	36.7	42.8
<b>Mean Consensus TP (12M)</b>	<b>2,343</b>	

## Relative performance



Source: Capitaline, Axis Securities

### Suvarna Joshi

Sr. Research Analyst

Call: (022) 4267 1740  
 email: suvarna.joshi@axissecurities.in

### Tanvi Shetty

Research Associate

email: tanvi.shetty@axissecurities.in

**Q1FY21 Financial Highlights (Standalone)**

(Rs cr)	Q1FY21	Axis Sec Estimates	Axis Sec Var (%)	Q4FY20	QoQ growth (%)	Q1FY20	YoY growth %
Volume growth (% yoy)	(8.0)	(11.0)	+300 bps	5.0	-1300 bps	(7)	-100 bps
Total Op. Income	10,560	8,530	24	10,114	4	9,011	17
Gross Profits	5,319	4,570	16	5,336	(0)	4,715	13
Gross Margin (%)	50.4	53.6	-321 bps	52.8	-239 bps	52.3	-196 bps
Staff costs	592			452	31	355	67
Ad spends	797			1,161	(31)	1,164	(32)
Other operating expenses	1,440			1,206	19	1,257	15
EBITDA	2,644	2,125	24	2,647	(0)	2,065	28
EBITDA Margin (%)	25.0	24.9	13 bps	26	-113 bps	23	212 bps
Depreciation	242			214	13	255	(16)
EBIT	2,402	1,890	27	2,433	(1)	1,810	34
Other Income	156			147	6	266	(45)
Interest Expenses	29			24	21	26	(8)
PBT	2,411			2,563	(6)	1,992	21
Tax rate (%)	25.0			32	-653 bps	24	126 bps
PAT	1,881	1,593	18	1,755	7	1,519	24
EPS (Rs.)	8.7	7.4	18	8	7	7	24

**Profitability Ratios (%)**

Gross Margins	50.4	52.8	-247 bps	52.8	-239 bps	52.3	-196 bps
EBITDA Margins	25.0	24.6	47 bps	26.2	-113 bps	22.9	212 bps
PAT Margin	18.1	18.7	-60 bps	17.6	50 bps	17.1	98 bps

**Cost Analysis (%)**

COGS	48.2	-	-	46.0	222 bps	46.3	190 bps
Employee Costs	5.6	-	-	4.5	114 bps	3.9	167 bps
A&P	7.5	-	-	11.5	-393 bps	12.9	-537 bps
Other Exp	13.6	-	-	11.92	171 bps	13.9	-31 bps

Source: Company; Axis Securities

**Segmental Performance (Standalone)**

(Rs cr)	Q1FY21	Q4FY20	QoQ growth (%)	Q1FY20	YoY growth %
<b>Segment Revenues</b>					
Home Care	3,392	3,465	(2.1)	3,350	1.3
Personal Care	4,039	4,589	(12.0)	3,801	6.3
Foods & Refreshment	2,958	1,950	51.7	1,788	65.4
Others (includes Exports, Infant, Feminine Care)	171	110	55.5	72	137.5
Total segment revenue	10,560	10,114	4.4	9,011	17.2

**Segment EBIT**

Home Care	637	699	(8.9)	636	0.2
Personal Care	1,134	1,358	(16.5)	945	20.0
Foods & Refreshments	582	379	53.6	225	158.7
Others (includes Exports, Infant, Feminine Care)	49	2	2,350.0	4	1,125.0
Total segment results	2,402	2,438	(1.5)	1,810	32.7

**Segment Margins (%)**

Home Care	18.8	20.2	-139 bps	19.0	-21 bps
Personal Care	28.1	29.6	-152 bps	24.9	321 bps
Foods & Refreshment	19.7	19.4	24 bps	12.6	709 bps
Others (includes Exports, Infant, Feminine Care)	28.7	1.8	2684 bps	5.6	2310 bps
<b>Total Segment Margins</b>	<b>22.7</b>	<b>24.1</b>	<b>-136 bps</b>	<b>20.1</b>	<b>266 bps</b>

Source: Company; Axis Securities

## Other Key Concall Takeaways:

- 1) **EBITDA Margin maintained at 25% amid tough environment:** Despite Gross Margin (GM) contraction of 196bps YoY to 50.4% from 52.3% in Q1FY20, HUL reported EBITDA Margin of 25% in Q1FY21 down by 110bps YoY led by sharp reduction in A&P spends (30% decline YoY). Organic business EBITDA margins were lower by 170bps impacted by adverse mix, covid related costs, deleverage and RM inflation, however, nutrition business gains of 60bps partially offset the impact. Going forward mix is unlikely to deteriorate further, also cost savings agenda and likely stability in COVID related costs could support margins.
- 2) **RM outlook:** Crude and currency continue to be volatile. In Q1FY21, HUL saw significant inflation in Tea, SMP, Vegetable Oil and Tomato paste which had a bearing on the gross margins. However, SMP prices have seen a decrease currently while Vegetable Oil continues to remain at elevated prices. However, to offset sharp rise in Tea prices, company has taken calibrated price increases in the Tea portfolio in select SKUs. While, in the Home Care segment, HUL will likely pass on benefit of lower crude prices to consumers.
- 3) **Discretionary portfolio impacted significantly:** Given non-essential nature of the products and also severe impact on out-of-home consumption the discretionary portfolio consisting of
  - ✓ Beauty and Personal Care (skin care color cosmetics and deos) forming 15% of revenues saw a 45% decline in its business. Management indicated some green shoots are visible in some parts of the Skin Care portfolio
  - ✓ Out of Home products like Water purifiers, Vending, Ice-creams and Food solutions forming just 5% of total revenues saw a disproportionate decline of 69% impacted by continued lockdowns thereby affecting overall performance.
- 4) **Segmental Performance:**
  - ✓ **Home Care (32% revenues):** Within Home Care the Household Care and Fabric care saw healthy growth. Segment revenues stood at Rs. 3,392cr a decline of 2% YoY, while segment EBIT Margin came in at 18.8% in Q1FY21 while EBIT declined 8% to Rs. 637cr.
    - i. Household care growth was driven by penetration led gains across home & hygiene portfolio. Domex with sodium hypochlorite which is proven to kill virus in 60 seconds was launched.
    - ii. Fabric Care witnessed stable performance across both mass and premium products.
    - iii. Purifiers performance was adversely impacted given the Consumer Durables nature of the product
  - ✓ **Beauty & Personal Care (38% of revenues):** reported a 12% decline to Rs. 4,039cr with EBIT decline of 17% at Rs. 1,134cr and EBIT Margin of 28% in Q1FY21. Within BPC category:
    - i. Skin cleansing reported strong double digit growth across formats led by Lifebuoy. Volume share gains were also reported by HUL during the quarter. The company saw a sharp surge in Handwash and Sanitizers demand. Capacity in Handwash was 5x while in Sanitizers it was 100x given increasing preference and awareness towards Health and Hygiene and as a protection from the virus.
    - ii. Oral Care reported good momentum on the back of strengthening of the CloseUp franchise
    - iii. Hair Care demand pick up was seen in the latter half of Q1FY21 and is a key part of consumers' consideration in Hygiene.
    - iv. Deos, Color Cosmetics and Skin segments were adversely impacted given discretionary nature of products. On skin care segment, management indicated rework on Fair & Lovely (FAL) to Glow & Lovely was in the works for the last few years. A year ago it went for a product relaunch and has since observed healthy traction. Management remains confident of not just retaining its FAL customers but also attracting new customers for the renamed product Glow & Launch. Production of Glow & Handsome and the entire portfolio will land in the market from Q2FY21.
  - ✓ **Food & Refreshment (28% of revenues):** reported 52% YoY growth in revenues at Rs. 2,958cr with contribution rising from 19% in Q1FY20. EBIT of Rs. 582cr was higher 54% YoY and EBIT Margin of 20%. The growth was driven by a strong double digit performance in Foods; Beverages portfolio supported by 'in-home consumption' tailwinds and increased consumer interest around wellness and immunity, Jams and Ketchups also saw robust growth.

- 5) **Distribution channel and growth:** Management highlighted that it has seen healthy traction in General Trade (GT) and robust growth in E-commerce channels. However, Modern Trade (MT) channel continues to be impacted as stores remain shut. Growth in GT channel has been on account of rising frequency (in trips) to kirana stores especially in rural areas with preference for lower pack sizes.
- 6) **On Cost Management:** Management believes that strong balance sheet offers competitive advantage to the company and it will focus on reallocation spends with rigorous discipline. Company is looking at moving cost that does not add value from fixed to variable, but also honoring contracts.
- 7) **Special Dividend:** Board approved special dividend of Rs. 9.5/share as per the Scheme of Arrangement for transfer of general reserves to P&L retained earnings that was approved by NCLT in 2018.
- 8) **Other takeaways:**
  - ✓ Portfolio prioritization: Immediately post the lockdown and constraints on manufacturing, man power availability and transporting, focus of the management was on portfolio prioritization across categories and SKUs. In April number of SKUs were 20% of pre COVID levels which gradually improved to 30% in May and June and 50% currently. Going ahead, the company expects to prune its SKUs by 20%.
  - ✓ Sustainability of high growth in Sanitizers: with the outbreak of COVID-19, and heightened focus on handwashing and sanitizing, there has been a sharp rise in growth for sanitizers. As a result the category has grown with multiple brands offering products in this category. Management believes that the category is here to stay but current growth rates are unsustainable although it will be better than the pre-COVID levels. Further, over the long term strong brands like HUL could sustain as indicated by the company.
  - ✓ Update on COVID: Overall 3 plants including Haridwar are shut due to rising COVID cases. However, company remains confident of soon restarting operations. Further, with over 30 manufacturing plants pan India and multiple 3<sup>rd</sup> party contractors managing supply and manufacturing is not a challenge and thus unlikely to have any major impact on the business.
  - ✓ Ad Spends: HUL management indicated calibrated BMI spends. While April saw a big reduction, spends have remained competitive. As the unlock phase began, the company stepped up on ad spends. Share of Voice in June 2020 was higher YoY; Nutrition business share of spends is also higher. For now the company has paused promotions.

## Valuation & Outlook

Although there are near term challenges to growth owing to COVID-19, we believe in HUVRs track record of delivering profitable growth in tough environment and its proven ability to sail through challenging times thereby reaffirming our confidence in management's ability to 1) emerge strong in challenging macro conditions like in the past, 2) threadbare focus on cost savings to maintain EBITDA Margin, 3) strong and cash rich balance sheet, and 4) GSK-CH integration led gains. However, given uncertainty on FY21 growth, we maintain HOLD rating and continue to value the stock at 53x FY22E EPS with a marginally revised Target Price of Rs. 2,200/share (earlier Rs. 2,171). Key downside risk to our call – sharp deceleration in consumption spending even beyond H2FY21E, volatility in RM prices, local and vertical lockdowns in rural areas.

## Financials (Standalone)

### Profit & Loss

(Rs Cr)

Y/E Mar, Rs. cr	FY19	FY20	FY21E	FY22E
<b>Net sales</b>	<b>39,310</b>	<b>39,783</b>	<b>42,824</b>	<b>47,090</b>
Growth, %	8.5	1.2	7.6	10.0
Other income	550	632	678	759
Total income	3,986	4,042	4,350	4,785
Raw material expenses	-18,474	-18,259	-19,446	-21,099
Employee expenses	-1,875	-1,820	-1,902	-1,978
Other Operating expenses	-28,395	-27,914	-30,040	-32,463
<b>EBITDA (Core)</b>	<b>9,430</b>	<b>10,493</b>	<b>11,327</b>	<b>13,079</b>
Growth, %	19.6	11.3	7.9	15.5
Margin, %	24.0	26.4	26.4	27.8
Depreciation	-565	-1,002	-1,052	-1,104
<b>EBIT</b>	<b>8,865</b>	<b>9,491</b>	<b>10,275</b>	<b>11,974</b>
Growth, %	20.4	7.1	8.3	16.5
Margin, %	22.6	23.9	24.0	25.4
Interest paid	-33	-118	-125	-131
<b>Pre-tax profit</b>	<b>8,992</b>	<b>9,513</b>	<b>10,150</b>	<b>11,843</b>
Tax provided	-2,544	-2,409	-2,537	-2,961
<b>Profit after tax</b>	<b>6,448</b>	<b>7,104</b>	<b>7,612</b>	<b>8,882</b>
<b>Net Profit</b>	<b>6,448</b>	<b>7,104</b>	<b>7,612</b>	<b>8,882</b>
Growth, %	19.6	10.8	9.3	16.7
Unadj shares (cr)	217	217	235	235

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E Mar, Rs. Cr	FY19	FY20	FY21E	FY22E
Cash & bank	3,757	5,113	6,777	9,541
Debtors	1,816	1,149	1,963	2,089
Inventory	2,574	2,767	2,634	2,672
Loans & advances	219	238	238	238
Other current assets	472	619	619	619
Total current assets	8,838	9,886	12,231	15,159
Investments	2,716	1,255	1,255	1,255
Gross fixed assets	6,342	7,042	7,842	8,642
Less: Depreciation	-1,777	-2,779	-3,831	-4,936
Add: Capital WIP	406	597	597	597
Net fixed assets	4,971	4,860	4,608	4,303
Non-current assets	782	1,581	1,581	1,581
<b>Total assets</b>	<b>17,914</b>	<b>18,532</b>	<b>20,625</b>	<b>23,249</b>
	0	0	0	0
Current liabilities	6,445	7,674	8,469	9,569
Provisions	3,599	3,809	4,149	4,844
Total current liabilities	1,004	1,148	1,262	1,441
Total liabilities	10,047	10,320	11,227	12,532
Paid-up capital	216	216	235	235
Reserves & surplus	7,651	7,996	9,163	10,482
Shareholders' equity	7,867	8,212	9,398	10,717
<b>Total equity &amp; liabilities</b>	<b>17,914</b>	<b>18,532</b>	<b>20,625</b>	<b>23,249</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E Mar, Rs. Cr	FY19	FY20	FY21E	FY22E
Pre-tax profit	8,992	9,513	10,347	12,115
Depreciation	565	1,002	1,052	1,104
Chg in working capital	-787	-428	-113	445
Total tax paid	-2,550	-2,759	-2,541	-2,888
Other operating activities	0	0	0	0
<b>Cash flow from operating activities</b>	<b>6,220</b>	<b>7,329</b>	<b>8,744</b>	<b>10,776</b>
Capital expenditure	-547	-891	-800	-800
Chg in investments	157	1,461	0	0
<b>Cash flow from investing activities</b>	<b>-390</b>	<b>570</b>	<b>-800</b>	<b>-800</b>
Free cash flow	5,831	7,899	7,944	9,977
Equity raised/(repaid)	-2,181	14	19	0
Dividend (incl. tax)	-5,233	-5,964	-6,487	-7,357
<b>Cash flow from financing activities</b>	<b>-7,414</b>	<b>-5,950</b>	<b>-6,468</b>	<b>-7,357</b>
Net chg in cash	-1,583	1,949	1,476	2,620
Opening cash balance	34,850	37,570	51,130	67,773
Closing cash balance	37,570	51,130	67,773	95,413

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E Mar	FY19	FY20	FY21E	FY22E
<b>Per Share data</b>				
EPS (INR)	29.0	32.1	35.5	41.5
Growth, %	19.6	10.8	10.4	17.1
Book NAV/share (INR)	36.3	37.9	43.3	49.4
FDEPS (INR)	29.0	32.1	35.5	41.5
CEPS (INR)	30.9	36.1	40.3	46.6
CFPS (INR)	28.1	37.5	40.3	49.7
DPS (INR)	22.0	24.0	26.0	30.3
<b>Return ratios</b>				
Return on assets (%)	36.7	39.4	39.6	41.4
Return on equity (%)	79.9	84.8	81.8	84.0
Return on capital employed (%)	86.0	96.2	103.1	107.8
<b>Turnover ratios</b>				
Asset turnover (x)	12.4	11.8	14.0	18.2
Sales/Total assets (x)	2.2	2.2	2.2	2.2
Sales/Net FA (x)	7.9	8.1	9.0	10.6
Working capital/Sales (x)	(0.1)	(0.2)	(0.2)	(0.2)
Working capital days	(46.1)	(61.6)	(61.1)	(67.8)
<b>Liquidity ratios</b>				
Current ratio (x)	0.9	0.9	1.0	1.1
Quick ratio (x)	0.6	0.6	0.8	0.9
Interest cover (x)	268.6	80.4	83.7	93.2
Net debt/Equity (%)	(47.8)	(62.3)	(72.1)	(89.0)
<b>Valuation</b>				
PER (x)	79.9	72.1	65.3	55.8
Price/Book (x)	63.8	61.2	53.4	46.9
EV/Net sales (x)	12.7	12.5	11.6	10.4
EV/EBITDA (x)	52.9	47.4	43.0	36.9
EV/EBIT (x)	56.2	52.4	47.3	40.2

Source: Company, Axis Securities

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