Hindustan Unilever

Reduce

DART
DOLAT ANALYSIS & RESEARCH THEMES
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Result Update

GSK Consumer addition helped boost operational performance

- Revenues came in line with our estimate but EBITDA and APAT was a beat. Core business registered 8% volume de-growth - was in line.
- Core business witnessed 170bps deterioration in margins but merger with GSK Consumer was margin accretive, helped restrict margin contraction to 110bps.
- Small SKU's contribution has increased in rural areas while consumption of large packs has remained firm in urban geographies.
- 80% of the company's portfolio (including GSK), related to health, hygiene and nutrition grew by 6% during the quarter. Ex-GSK, Home care/Personal care/Food & refreshment reported 2%/12%/4% sales decline.
- We have maintained our FY21E and FY22E EPS to Rs 34.3 and Rs 40.0. Though the operational performance was better than estimate, persistent supply constraints would have impact in ensuing quarters. Maintain TP at Rs 2,320 (58x FY22E). We Maintain Reduce. Considering recent run in stock price, there is limited room for further up-move. However, fundamentally, we see high growth prospects for HUL going ahead. Buy on dips.

Operational performance was a beat

Net Sales stood at Rs 105.6bn was up 4.4% YoY in Q1FY21 – came in line with our estimate. Excluding impact of GSK, standalone HUL business posted 7% revenue decline with 8% volume de-growth. EBITDA was flat at Rs 26.4bn with EBITDA margin contraction of 110bps to 25.0%. A 220/110/170bps increase in RM/employee cost/other expense was partially offset by 390bps decrease in A&P spends. PAT increased 7.2% YoY to Rs 18.8bn. Excluding extraordinary loss of Rs 1180mn, APAT grew 14.4% YoY to Rs 20.0bn - came below our estimate.

GSK addition was a savior

During the quarter, the core portfolio posted 7% decline, GSK reported 5% increase. According to the management, the growth has improved sequentially during the quarter which hints for further improvement in the coming months. In addition, GSK contributed 60bps to the overall margins of the company. Going ahead, we believe that HUL has strong distribution reach which will help GSK brands to exhibit high growth. During the pandemic, growing awareness about immunity boosting foods like health drinks, will augur well for the company.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	1,05,600	1,01,140	4.4	90,110	17.2
Total Expense	79,160	74,670	6.0	69,460	14.0
EBITDA	26,440	26,470	(0.1)	20,650	28.0
Depreciation	2,420	2,140	13.1	2,550	(5.1)
EBIT	24,020	24,330	(1.3)	18,100	32.7
Other Income	1,560	1,470	6.1	2,660	(41.4)
Interest	290	240	20.8	260	11.5
EBT	24,110	25,630	(5.9)	19,920	21.0
Tax	5,300	8,080	(34.4)	4,730	12.1
RPAT	18,810	17,550	7.2	15,190	23.8
APAT	19,990	17,480	14.4	15,770	26.8
			(bps)		(bps)
Gross Margin (%)	51.8	54.0	(222)	53.7	(190)
EBITDA Margin (%)	25.0	26.2	(113)	22.9	212
NPM (%)	17.8	17.4	46	16.9	96
Tax Rate (%)	22.0	31.5	(954)	23.7	(176)
EBIT Margin (%)	22.7	24.1	(131)	20.1	266

CMP	Rs 2,318
Target / Upside	Rs 2,320 / 0%
BSE Sensex	37,946
NSE Nifty	11,162

Scrip Details

Equity / FV	Rs 2,165mn / Rs 1
Market Cap	Rs 5,445bn
	US$ 73bn
52-week High/Low	Rs 2,614/Rs
Avg. Volume (no)	73,38,450
NSE Symbol	HINDUNILVR
Bloomberg Code	HUVR IN

Shareholding Pattern Jun'20(%)

Promoters	67.2
MF/Banks/FIs	6.7
FIIs	12.9
Public / Others	13.3

Valuation (x)

	FY20A	FY21E	FY22E
P/E	78.5	67.5	58.0
EV/EBITDA	56.2	47.5	41.0
ROE (%)	85.9	94.7	98.4
RoACE (%)	93.3	99.1	102.5

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	3,87,850	4,39,928	4,86,963
EBITDA	96,000	1,13,194	1,30,642
PAT	69,350	80,659	93,943
EPS (Rs.)	29.5	34.3	40.0

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Discretionary would take longer to normalize

Considering Covid-19 scenario and its impact on economy, few categories such as hair, skin, water would take longer time to normalize compared to essential categories. During Q1FY21, categories like water, food solutions and ice creams posted 69% decline. In personal care segment, skincare, color cosmetics and deo (~15% of revenue) declined sharply by 45% YoY due to supply led issues and closure of some relevant channels. Though skin business has witnessed early signs of improvement in demand, categories like deodorants, color cosmetics are likely to take more time to normalize.

GM contracted while lower A&P spends restrict OPM deterioration

During Q1, GM contracted by 220bps primarily due to mixed impact of – (1) increase in RM costs but inability to pass on prices during the quarter (2) unfavorable product mix due to supply constraints in high margin categories and (3) increase in small SKUs. Synergies from Nutrition business partially restricted decline in gross margin. Further, rationalization in A&P spends restricted significant fall in EBITDA margins. Going ahead, we believe that the GM would gradually improve as the company is expected to take calibrated price hikes in the coming months. However, we believe that A&P spends would remain low for few months and gradually normalize post H1FY21E.

Supply constraints to remain in few parts of the country

Due to ongoing pandemic, the company had to shut down three factories in July. The company has partly shifted production to other locations. However, considering supply constraints, the company has planned to produce large and high selling SKU's to increase throughput. Management believes that more than supply constraints, distribution in pandemic hit areas is more important. Considering these supply issues, we believe that the core business should continue to remain impacted in the early part of Q2FY21.

Discretionary categories got impacted during the quarter

At the segmental level, the company posted weak performance – (1) Home care reported 2.1% sales de-growth and 140bps EBIT margin contraction to 18.8% (2) Personal care reported 12.0% decline to Rs 40.4 bn and 150bps EBIT decline to 28.1% and (3) Food and Refreshment (including GSK) posted 51.7% YoY sales growth to Rs 29.6bn and EBIT margin expansion of 20bps to 19.7%. The Personal care segment was impacted due to non-essential nature of the portfolio while Foods and Refreshment segment was impacted by lower sales of products like ice cream during the quarter.

Why HUL deserves high valuations

With essential portfolio started gaining traction and few categories in personal care witnessing early signs of recovery (overall 80% production), we believe that the demand would normalize for the majority of the portfolio over next couple of quarters. Post normalization, we believe that the company would continue to outpace domestic peers like Dabur, GCPL, and Marico, benefiting from diversified portfolio, brand strength and reach. We believe that HUL would continue to trade at rich valuations due to high market share and market share gains in most categories (80% portfolio). Hence we continue to believe that the valuation gap between HUL and peers would remain sizable. We have maintained valuations at 58x FY22E earnings.

Exhibit 1: Segmental Performance

Particulars (Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Remarks
Home Care						**Fabric Wash, Household Care & Water** ▪ Household Care exhibited strong growth with increased penetration ▪ Fabric Wash demonstrated stable performance in both mass and premium portfolio ▪ Purifiers performance impacted due to discretionary nature of category
Revenue	33,920	34,650	(2.1)	33,500	1.3	
EBIT	6,370	6,990	(8.9)	6,360	0.2	
EBIT Margin (%)	18.8	20.2	(140)	19.0	(20)	
Beauty & Personal Care						**Personal Wash, Oral Care, Skin Care, Hair Care, Deodorant & Colour Cosmetics** ▪ Skin cleansing delivered strong double digit growth across formats led by Lifebuoy. Handwash and Sanitizers witnessed demand upsurge. ▪ Oral Care delivered good performance with accelerated momentum in CloseUp ▪ Hair Care witnessed demand uptick during latter half of the quarter. ▪ Discretionary categories like Skincare, Color Cosmetics and Deo declined sharply by 45% YoY due to supply led issues and closure of some relevant channels
Revenue	40,390	45,890	(12.0)	38,010	6.3	
EBIT	11,340	13,580	(16.5)	9,450	20.0	
EBIT Margin (%)	28.1	29.6	(150)	24.9	320	
Food & Refreshments						**Food & Refreshments** ▪ The Food & Refreshment segment registered de-growth of 4% excluding the impact of merger of GSK Consumer. Nutrition business performed well with 5% top line growth. ▪ Foods, Tea and Coffee delivered strong double digit growth due to in-home consumption tailwind. ▪ Jams and Ketchups are growing at robust pace ▪ Icecream/Food solutions and Vending business severely impacted due to out-of-home consumption loss.
Revenue	29,580	19,500	51.7	17,880	65.4	
EBIT	5,820	3,790	53.6	2,250	158.7	
EBIT Margin (%)	19.7	19.4	20	12.6	710	
Others						
Revenue	1,710	1,100.0	55.5	720	137.5	
EBIT	490.0	20.0	0.0	40.0	0.0	
EBIT Margin (%)	28.7	1.8	2,680	5.6	2,310	
Total						
Revenue	105,600	101,140	4.4	90,110	17.2	
EBIT	24,020	24,380	(1.5)	18,100	32.7	
EBIT Margin (%)	22.7	24.1	(140)	20.1	270	

Source: DART, Company (Food & Refreshment numbers include GSK Consumer acquisition)

Exhibit 2: Actual Vs Estimates Variance

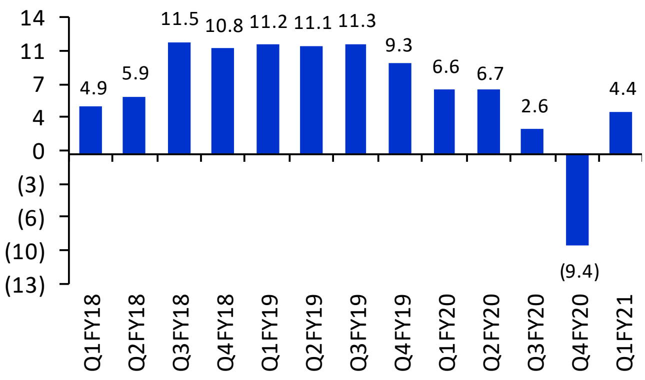
Rs Mn	Actual	Estimates	Variance (%)	Comment
Revenue	105,600	102,690	*2.8*	
EBITDA	26,440	24,822	*6.5*	
EBITDA margin %	25.0	24.2	*90*	Variation due to lower than estimated A&SP spends; and synergies from Nutrition business
APAT	19,990	18,070	*10.6*	Cascading effect of higher EBITDA

Source: Company, DART

Other Concall Highlights

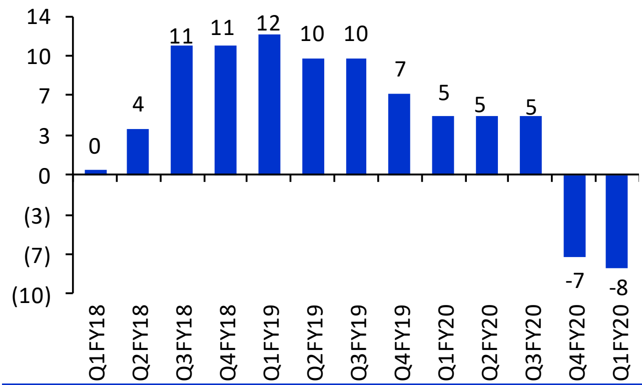
- HUL focused on increasing penetration and gained market share in 80% of business in Q1FY21.
- Health, Hygiene & Nutrition portfolio which accounted for 80% of revenue grew ~6%.
- April was at ~70% from an operational perspective. May was relatively better and June saw mid-single digit growth due to recovery of lost distribution inventory. Secondary sales growth in June was flat to low single digit.
- Due to capacity constraints, HUL is working on 50% of the SKUs where throughput is maximum. As a standard practice, it is planning to permanently discontinue 20% of SKU's.
- Company did not take any material price increase during Q1FY21.
- There is significant inflation in tea while SMP prices are softening. Vegetable oil is also inching upwards. Company is taking judicious price increases in part of tea portfolio. In Home Care or laundry, company may pass on some benefits to consumers as it has stocked crude at lower price.
- HUL expanded capacities by 5x in case of hand wash and ~100x in case of sanitizers. Domex is witnessing good momentum.
- E-commerce and traditional channels performed well while modern trade suffered as stores were shut. Mobile application Shikhar helped retailers order goods directly.
- Rural growth seemed better than urban due to better harvest and government interventions. However, company would wait for few more months to gain clarity. Sachet continues to be in demand in rural.
- Company has launched 40-50 new products during the quarter like lifebuoy spray, Domex disinfectant spray and laundry sanitizers, etc. Horlicks with added Zinc to boost immunity was launched in Q1.
- While robust demand in sanitizer is not likely to sustain once vaccine is out, it will not fall to pre covid levels. We believe that, sustained momentum in sanitizers is likely to boost revenue growth.
- GSK portfolio is `10% of HUL's business. HUL is optimistic on the medium-term potential of the Nutrition category, it's a low penetration category.
- Company has commenced production and will soon launch Glow & Lovely.
- The BOD approved special dividend of Rs 9.50 per equity share (FV of Re 1 each) resulting in total dividend payout to Rs 22.3bn.

Exhibit 3: Trend in revenue growth (%)



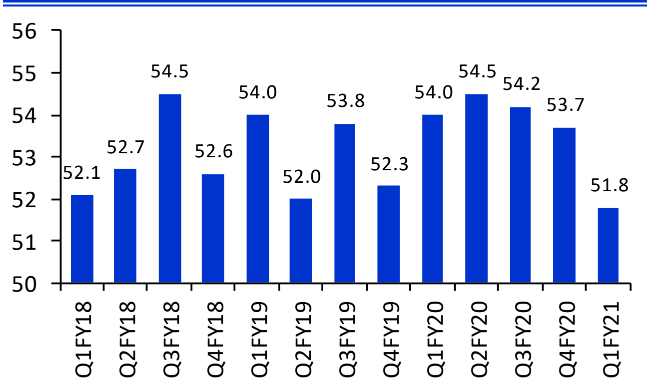
Source: DART, Company

Exhibit 4: Trend in domestic volume growth (%)



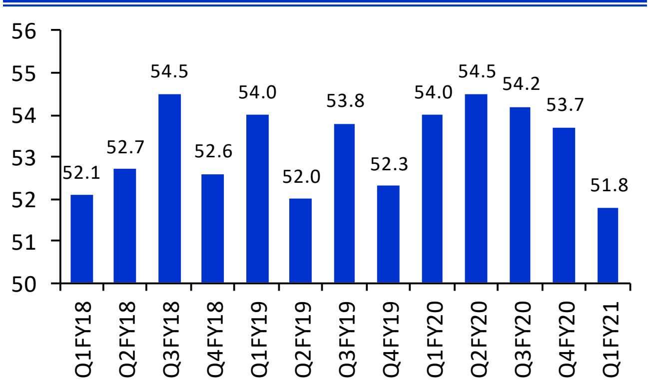
*Source: DART, Company (*Standalone numbers)*

Exhibit 5: Trend in gross margins (%)



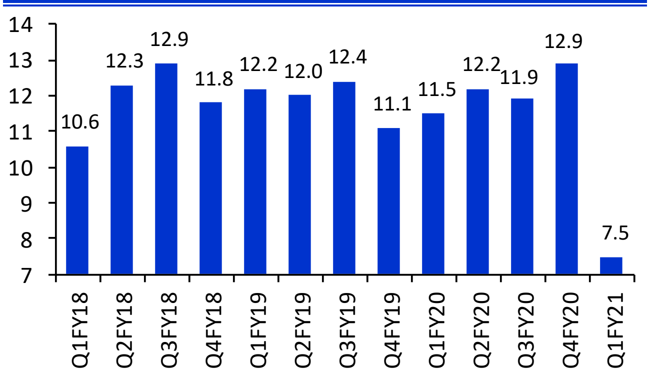
Source: DART, Company

Exhibit 6: Trend in EBITDA margins (%)



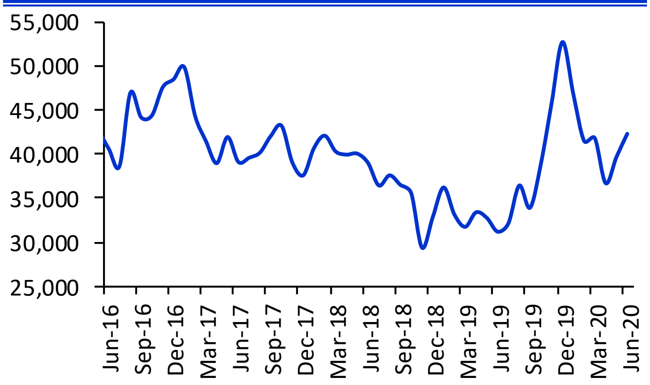
Source: DART, Company

Exhibit 7: Ad spends as a % of sales



Source: DART, Company

Exhibit 8: Commodity prices (Palm Oil)- Rs /MT



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	**3,82,240**	**3,87,850**	**4,39,928**	**4,86,963**
Total Expense	**2,95,870**	**2,91,850**	**3,26,734**	**3,56,321**
COGS	1,79,600	1,77,930	2,00,942	2,20,964
Employees Cost	17,470	16,910	19,181	20,257
Other expenses	98,800	97,010	1,06,612	1,15,099
EBIDTA	**86,370**	**96,000**	**1,13,194**	**1,30,642**
Depreciation	5,240	9,380	10,694	11,040
EBIT	**81,130**	**86,620**	**1,02,500**	**1,19,602**
Interest	280	1,060	1,166	1,283
Other Income	6,640	7,330	7,665	8,630
Exc. / E.O. items	(2,270)	(1,970)	0	0
EBT	**85,220**	**90,920**	**1,08,999**	**1,26,949**
Tax	24,860	23,540	28,340	33,007
RPAT	60,360	67,380	80,659	93,943
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**62,630**	**69,350**	**80,659**	**93,943**

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	2,165	2,165	2,349	2,349
Minority Interest	0	0	0	0
Reserves & Surplus	74,430	78,150	87,619	98,648
Net Worth	**76,595**	**80,315**	**89,969**	**1,00,997**
Total Debt	0	0	0	0
Net Deferred Tax Liability	(3,390)	(2,610)	(2,610)	(2,610)
Total Capital Employed	**73,205**	**77,705**	**87,359**	**98,387**
Applications of Funds				
Net Block	**43,430**	**50,560**	**42,366**	**33,826**
CWIP	3,730	5,130	5,130	5,130
Investments	29,490	14,980	14,980	14,980
Current Assets, Loans & Advances	**80,085**	**98,075**	**1,16,717**	**1,44,423**
Inventories	24,220	26,360	27,416	30,354
Receivables	16,730	10,460	18,937	20,967
Cash and Bank Balances	36,880	50,170	67,812	90,277
Loans and Advances	2,255	11,085	2,552	2,826
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	**83,530**	**91,040**	**91,834**	**99,972**
Payables	70,240	73,990	79,683	88,222
Other Current Liabilities	13,290	17,050	12,151	11,750
sub total				
Net Current Assets	(3,445)	7,035	24,883	44,451
Total Assets	**73,205**	**77,705**	**87,359**	**98,387**

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	53.0	54.1	54.3	54.6
EBIDTA Margin	22.6	24.8	25.7	26.8
EBIT Margin	21.2	22.3	23.3	24.6
Tax rate	29.2	25.9	26.0	26.0
Net Profit Margin	15.8	17.4	18.3	19.3
(B) As Percentage of Net Sales (%)				
COGS	47.0	45.9	45.7	45.4
Employee	4.6	4.4	4.4	4.2
Other	25.8	25.0	24.2	23.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	289.8	81.7	87.9	93.2
Inventory days	23	25	23	23
Debtors days	16	10	16	16
Average Cost of Debt				
Payable days	67	70	66	66
Working Capital days	(3)	7	21	33
FA T/O	8.8	7.7	10.4	14.4
(D) Measures of Investment				
AEPS (Rs)	26.7	29.5	34.3	40.0
CEPS (Rs)	28.9	33.5	38.9	44.7
DPS (Rs)	23.2	26.6	30.3	35.3
Dividend Payout (%)	87.2	90.0	88.3	88.3
BVPS (Rs)	32.6	34.2	38.3	43.0
RoANW (%)	81.9	85.9	94.7	98.4
RoACE (%)	89.0	93.3	99.1	102.5
RoAIC (%)	229.2	271.3	435.4	864.9
(E) Valuation Ratios				
CMP (Rs)	2318	2318	2318	2318
P/E	86.9	78.5	67.5	58.0
Mcap (Rs Mn)	54,45,446	54,45,446	54,45,446	54,45,446
MCap/ Sales	14.2	14.0	12.4	11.2
EV	54,08,566	53,95,276	53,77,634	53,55,168
EV/Sales	14.1	13.9	12.2	11.0
EV/EBITDA	62.6	56.2	47.5	41.0
P/BV	71.1	67.8	60.5	53.9
Dividend Yield (%)	1.0	1.1	1.3	1.5
(F) Growth Rate (%)				
Revenue	10.7	1.5	13.4	10.7
EBITDA	18.7	11.1	17.9	15.4
EBIT	19.3	6.8	18.3	16.7
PBT	17.0	6.7	19.9	16.5
APAT	18.2	10.7	16.3	16.5
EPS	18.2	10.7	16.3	16.5

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	66,120	82,600	92,313	1,09,162
CFI	(5,060)	(3,400)	(2,500)	(2,500)
CFF	(57,910)	(65,910)	(72,171)	(84,196)
FCFF	59,440	64,690	89,813	1,06,662
Opening Cash	33,730	36,880	50,170	67,812
Closing Cash	36,880	50,170	67,812	90,277

E – Estimates

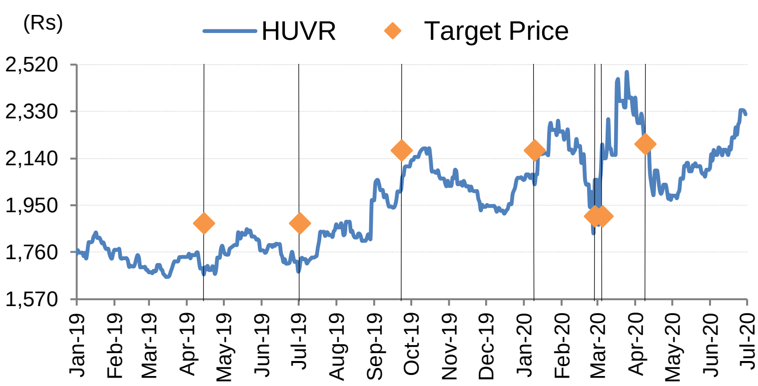
DART

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-19	Accumulate	1,877	1,669
Jul-19	Accumulate	1,877	1,693
Oct-19	Accumulate	2,172	2,014
Jan-20	Accumulate	2,172	2,034
Mar-20	Accumulate	1,905	2,052
Apr-20	Reduce	2,200	2,195

**Price as on recommendation date*

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