

POSITIONAL CALL

Hindustan Unilever Limited



11th August 2020

Stock Data

CMP (₹)	2216
TARGET (₹)	2500
Upside	13%
M.Cap (₹ in cr)	520760
Equity (₹ in cr)	235
52 wk H/L ₹	2614/1756
Face Value ₹	1
Div Yield	1.15%
NSE Code	HINDUNILVR
BSE Code	500696

Valuation Data

P/E	71.6
P/BV	51.43
BV	43.09

Key Financial Data

Net Worth (₹ in cr)	10127
EPS(TTM)	30.95

Index Detail

Sensex	38407.01
Nifty	11322.50

LEAD RATIONALE

Amid the pandemic induced global chaos, one thing is at least clear: a few powerful and quality companies are set to gain more clout and HUL is one such name. With key brands in its bucket, solid quarter(Q1FY21) along with synergy benefits after the merger of GSK consumer, acquisition of Vwash brand HUL is well poised for future growth.

Its 80% of the portfolio saw 6% growth during the quarter & is gaining market share as well. **As 40% of the sale is from rural areas- Government focus towards improving demand in rural areas would expand sales further.**

Witnessed solid performance across the household care and fabric wash. Penetration gains lead to strong growth across home & hygiene portfolio. **Followed by uptick in demand for sanitizers & hand wash there was a strong double-digit growth across formats led by Lifebuoy.**

As consumption has been shifted to in-house during lockdown, demand for Tea & coffee surged- delivered double digit growth. Growing consumers interest around wellness space & immunity- augurs well going ahead.

The **ice cream, food solutions and vending** got severely impacted due to out of home consumption loss. **Pureit** which took a massive hit from both business and servicing prospective, is now picking up.

Also, mobility restrictions had impacted discretionary categories such as **hairecare, skincare and colour cosmetics**. *But, as supply issues have improved by the end of Q1, the demand for skincare & deodorants have started picking up.*

Now, HUL is operating with shorter planning cycles and working on longer shifts to rapidly fill up the gap in supply chain and is heading towards normalcy.

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Acquired intellectual property rights including trademarks, design and knowhow related to the **VWash brand** worldwide. **Vwash** is the market leader in intimate Hygiene category which gives HUL entry into the female intimate hygiene segment (VWash has more than 50% market share in the segment). ***It is looking to scale up the brand by building awareness, driving penetration, leveraging distribution and enhance offering for chemist channel.*** Moreover, post this pandemic the growing need for health & hygiene would significantly add up to revenue.

Going ahead, company will focus on hygiene, cleaning and nutrition as per the demand. Expansion, especially in the nutrition category would further unlock growth potential. *In the near term, the volatility in input costs to remain. The liquidity pressure would continue to remain uplifted.*

The demand for brands– Lifebuoy, Domex, Horlicks and Red lable has remained elevated.

April-June was the period of restoring of operations. *September Quarter will give a clear picture of underlying demand.* Management stated that *“Our B2B sales ordering app Shikar and our hyperlocal ordering platform of Humara Shop have witnessed increased adoption and usage by trade and consumers during the lockdown”.*

The behavioral change for personal healthcare and hygiene has significantly improved and going forward even post the pandemic, people would be much more cautious about being hygienic and thereby the demand for sanitizers and personal care would remain elevated.

The GSK merger effective 1st April,2020 brings in iconic brands and ~3500 strong nutrition team in HUL fold.

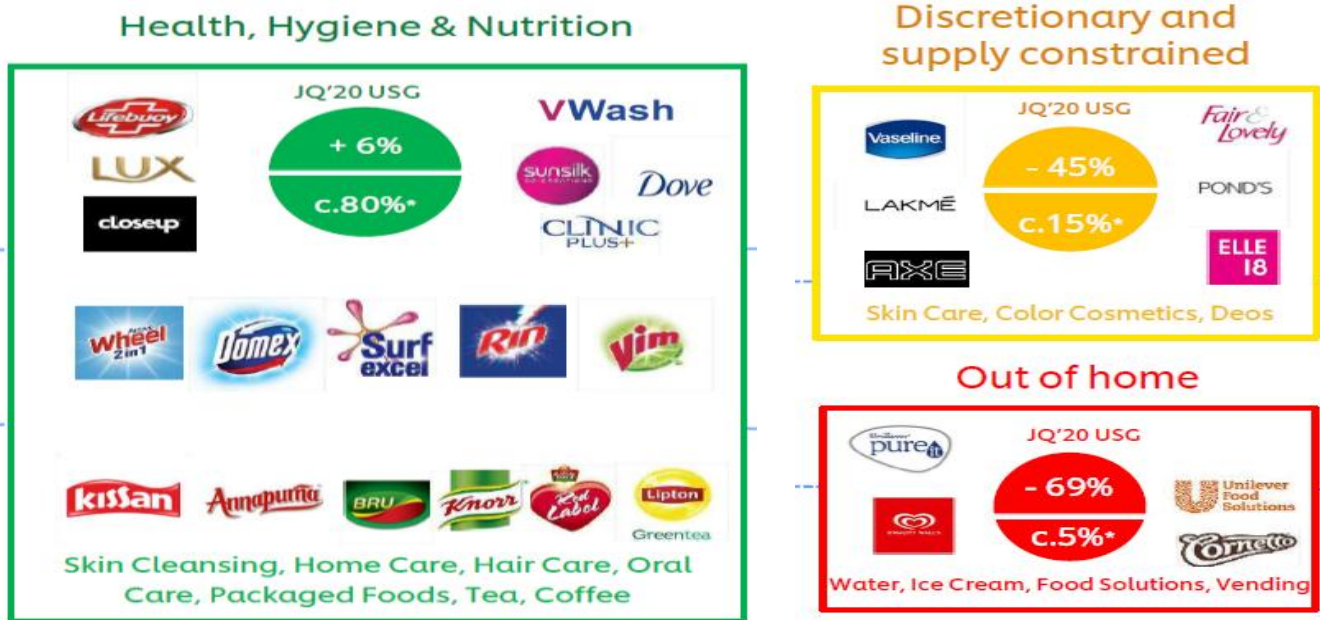
Moreover, merger with GSK offers double digit potential for medium-long term with future margin potential of 550-700bps(of 800-1000bps already 250-300bps synergy has been realized). Brands such as Horlicks and Boost would provide opportunity to drive premiumization and would leverage HUL distribution capabilities. Hence, we expect good recovery in Revenue & margins ahead.

Fundamentally too, it is virtually debt-free. Has sound ROE at 85.62%. We recommend to BUY for a price target of ₹ 2500 in medium term.

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In the homecare care segment, as crude oil prices remain lower, HUL has passed the benefits to consumers by price cuts of approx. 15% (in lifebuoy hand wash & Domex). However, in nutrition and tea portfolio price hike has been done.



Factories & warehouses re-opens, capacity utilization now at 90%

Due to pandemic & lockdown all the factories and warehouses remained shut which impacted production and sales for short term. With unlocking all over, HUL resumed its capacities except one in Assam. Hence, HUL's capacity utilization now stands at 90% against pre-covid levels- bodes well for the company. The production levels which were halted during March has moved to 40% levels in April and 80% in May- higher than the industry average.

Already the demand for hand sanitizers, handwash, hygiene and nutrition products are on surge. Company is also making efforts to re-evaluate cost, looking for opportunities of cash generation and curtail further disruptions in supply chain.

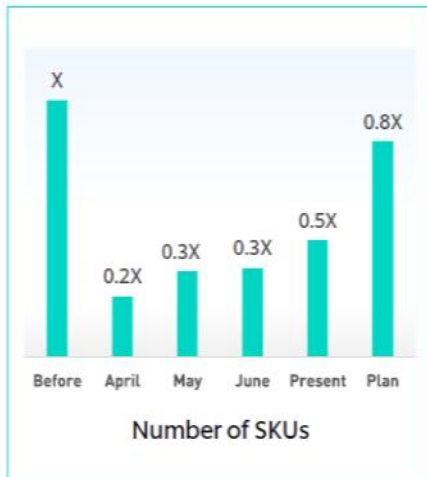
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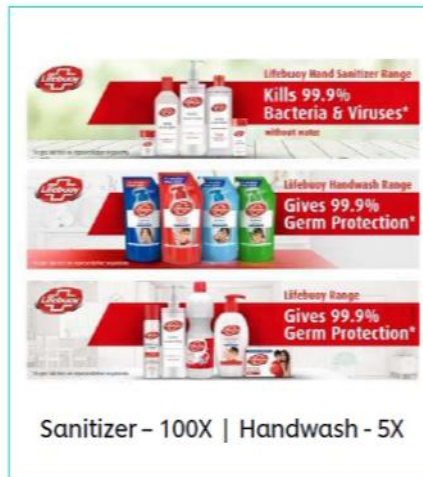


Turnaround in operations

Portfolio prioritization



Capacity unlocks



New demand capture & fulfilment models

2X
Vs. pre-COVID levels
Average order value & #SKUs ordered

eB2B: A competitive advantage

Addressing the consumer needs during COVID, company has ramped up capacities. Its 86% business is winning the share.

Opportunity in underserved adult nutrition market

Maternal nutrition



Women's nutrition



Adult deficiency & Wellness



Key Drivers

- ✓ Driving access
- ✓ Building relevance
- ✓ New Product development

Activate Windows
Go to Settings to activate Windows

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Merger with GSK- to unlock future growth potential

Merger with GSK open up huge opportunities in the Nutrition portfolio. The GSK merger effective 1st April,2020 brings in iconic brands and ~3500 strong nutrition team in HUL fold.

The deal is set for a mega Rs 31700cr & additionally Rs 3045cr to acquire the Horlicks brand for India- *Horlicks has a volume share close to 50%*. GSKCH's brands such as **Horlicks, Boost, and Maltova** will now be part of the company's food and refreshments business falling under the nutrition category. Under the deal, HUL will distribute GSK's brands like **Eno, Crocin, Sensodyne etc in the country for 5 years**.

GlaxoSmithKline Consumer Healthcare Limited business delivered a total turnover of Rs 45 billion in FY19, mainly through the Horlicks & Boost. The exchange ratio of the merger has been set at 4.39 HUL shares for each GSK share. Post the completion, GSK Plc (including group companies) will own 5.7% of the merged entity; while Unilever shareholding in the combined company will be 61.9% versus 67.2% prior to the merger.

GSKCH business—or the nutrition portfolio—will now function as part of its **food and refreshments (F&R)** business segment. *This merger is in line with the strategy to build a sustainable and profitable F&R business in India by leveraging the megatrend of health & wellness. It will be classified as a separate category country business team (CCBT).* That team will look at unlocking the opportunity in the HFD segment. The nutrition business head will lead a CCBT and an integration team that will work over the **next 18 months to draw out synergy plans, create business processes and IT harmonization, likely to be completed by June FY2021.**



Nutrition a separate CCBT within F&R Division

- Business strategy & execution - Unlock the market development opportunity



Integration team continues for next 18 months

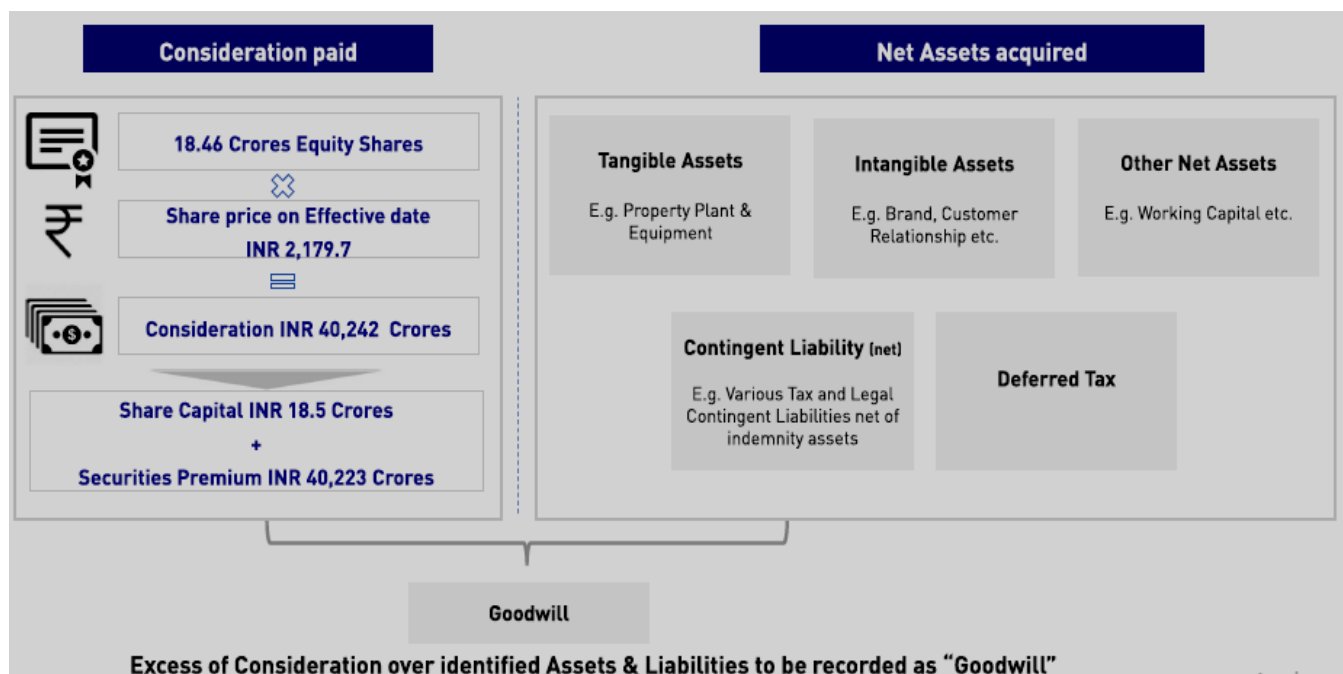
- Charting of synergy plans
- Business Process and IT Harmonisation - full IT integration likely to be completed by June 2021

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Merger details



Future Synergy potential in Medium-Term



Growth Drivers:

- 25% of India's population is under the age of 14 years.
- 1 out of 3 children are too short for their age
- 1 out of 4 Indian adolescents are too thin for their age
- 9 in 10 children's diets are deficient in micro nutrients.
- **Rural penetration offers significant growth potential**- As per report(FY19), Rural penetration for Health food Drink in South & East accounts for only 28% and 26% which offers more room for upside.

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The GTM (Go-to-Market) ramp-up offers significant growth opportunity. During lockdown, company's products have witnessed a significant increase in adoption by consumers from the B2B sales ordering app Shikar and hyperlocal ordering platform Humara Shop. Thus, it gives company an opportunity to cover more stores and maximize physical reach for its products.

Key plans to unlock value

- » Business process transformation
- » Rewiring Nutrition (SAP)
- » Go to Market Synergies
- » Capacity and Cost Synergies
- » Functional Integration
- » Talent and Culture

Fuel for growth

- ⇒ Dynamic re-allocation of spends to optimize ROI
- ⇒ Reduction in non-essential spends
- ⇒ Realise year 1 synergy benefits from nutrition integration
- ⇒ Dial up savings across value chain; leverage scale

Key Performance-Q1FY20-21

Strong Quarter despite challenging business environment

Revenue growth reported at 4.4% at ₹ 10560cr during Quarter, attributable to the merger of GSK nutrition brands. Excluding the impact of merger, Domestic Consumer Growth declined 7% due to pandemic and lockdown.

Profit before tax (PBT) for the period fell 6% (Y-O-Y) to ₹ 2,411 cr. While Net profit rose 7.2% YoY to ₹ 1,881 cr

Operating profit, however, fell 0.1% to ₹ 2,644 cr in Q1, while operating margins narrowed to 25% from 26.2% a year ago.

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₹ in cr

Segment Revenue	Home care	Beauty & personal care	Food & refreshment
Revenue- Q1FY20-21	3392	4039	2958
Segment Revenue growth	-2%	-12%	52%
Segmental Margins	19%	28%	20%

Health, Hygiene and Nutrition constituting 80% of portfolio delivered healthy mid-single digit domestic consumer growth. Immunity boosting Horlicks with added Zinc was launched in the quarter.

Household Care grew strongly on back of penetration led gains.

Domex's credentials of destroying

Coronavirus in just 60 seconds is resonating well with consumers. In Fabric Wash, Surf excel ran a contextual campaign #DaagGharPeRahenge. Skin Cleansing led by Lifebuoy delivered strong double-digit growth across formats.

Has significantly stepped up capacities in both hand wash and hand sanitizers to meet the consumer needs. Lifebuoy is making the 'good habit of handwashing' viral with campaigns across platforms.

Oral Care delivered good performance with accelerated momentum on **CloseUp**. In **Hair Care**, pickup in consumer demand in the latter part of the quarter. *Performance of Skin, Color Cosmetics and Deos being relatively discretionary in nature was impacted severely on account of supply led issues and closure of some of the channels that are extremely relevant for the categories.*

Riding on the 'In-home, wellness and immunity' trends, **Foods, Tea and Coffee** delivered strong performance with double digit growths. **Red Label** extended its long-running 'Taste of Togetherness' campaign.

*80% portfolio focused on Health, hygiene & nutrition
15% is discretionary
5% is out-of-home consumption*

80% business registered a growth rate of 6 %.

The nutrition business, including GSK Consumer's products, registered 5% growth.

The discretionary portfolio, including skincare, deos and colour cosmetics declined 45%

Out-of-home consumption, which includes ice creams, declined 70%

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Result Update:

Rs. Crores

Particulars	JQ'20	JQ'19	Growth %
Sales	10,406	9,984	4%*
EBITDA	2,644	2,647	Flat
Other Income (Net)	127	123	
Exceptional Items – Credit / (Charge)	(118)	7	
PBT	2,411	2,563	- 6%
Tax	530	808	
PAT bei	1,873	1,751	7%
Net Profit	1,881	1,755	7%

- *Domestic Consumer Growth at - 7%
- Exceptional items include costs related to Nutrition business merger and integration

Share Price chart:



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