

Sector: Consumer Goods

Result Update

	Change
Reco: Buy	↔
CMP: Rs. 2,319	
Price Target: Rs. 2,550	↑

↑ Upgrade ↔ No change ↓ Downgrade

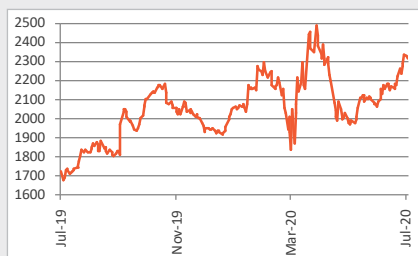
Company details

Market cap:	Rs. 544,865 cr
52-week high/low:	Rs. 2614/1660
NSE volume: (No of shares)	16.6 lakh
BSE code:	500696
NSE code:	HINDUNILVR
Sharekhan code:	HINDUNILVR
Free float: (No of shares)	89.5 cr

Shareholding (%)

Promoters	61.9
FII	14.8
DII	8.3
Others	15.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.4	0.1	13.1	37.0
Relative to Sensex	1.7	-23.7	21.3	37.2

Sharekhan Research, Bloomberg

HUL Q1FY2021 performance is not strictly comparable on y-o-y basis due to consolidation of GSK Consumer Healthcare's (GSK Consumer) nutrition business. Overall performance was better than our as well street expectation with revenue and adjusted PAT growth of ~4% and ~8%, respectively. The underlying volume decline for the quarter stood at 8%, which was much lesser than our as well as the street's expectation of 11-13% for the quarter. Around 80% of HUL's domestic business (largely includes essential products) registered a growth of 6%, while discretionary products (skincare, cosmetics and deodorants) contributing 15% to domestic business declined by 45% y-o-y. On the other hand, out-of-home consumption registered 69% decline during the quarter. Nutrition business (including Horlicks and Boost) registered a growth of 5%. A change in mix affected gross margins along with higher palm oil prices. Though the current business environment remains uncertain, the management is confident that 80% of business (largely essentials) will continue to perform well. Recovery in rural demand, strong demand for hygiene and nutritional products and market share gains in key categories will be key revenue drivers in the near term. Synergistic benefits from GSK Consumer's merger and cost rationalisation measures will help OPM to remain high in FY2021. The company paid special dividend of Rs. 9.5 per share as per the earlier plans of transferring balance of general reserve to P&L for rewarding shareholders with special dividend.

Key positives

- Around 80% of domestic business (excluding GSK Consumer's merger) registered 6% growth.
- About 86% of domestic business has gained volume share while 80% of the business gained value share.
- GSK Consumer's nutrition business led to 60 bps addition to overall margins, thus lowering the fall in OPM to 110 bps.

Key negatives

- Unfavourable mix led to a 222 bps decline in gross margins
- Ice cream, skin care and colour cosmetic categories registered decline in sales.

Our Call

View: Maintain Buy with revised PT of Rs. 2,550: HUL's Q1FY2021 performance was better than expected. In view of this, we have raised our earnings estimates by ~5% and ~4% for FY2021 and FY2022, respectively, to factor in a recovery in performance of some categories and steady growth in the 80% of the business in the coming quarters. Sustained innovation, expansion in distribution reach and entering into categories remain long-term growth drivers for HUL. GSK Consumer's merger will add-in a lot of synergistic benefits and further strengthen the balance sheet. We maintain our Buy recommendation on the stock with revised price target (PT) of Rs. 2,550 (valuing the stock at 56x its FY2022E EPS).

Key Risks

Frequent lockdowns, intensity of spread of virus in tier two and three town intensifies and significant increase in the key input prices would act as a key risk to our earnings in the near term.

Valuation (standalone)

Particulars	FY18	FY19	FY20	FY21E*	FY22E*
Revenue	35,218	38,224	38,785	46,032	51,217
OPM (%)	20.7	22.6	24.8	25.4	26.5
Adjusted PAT	5,287	6,199	6,886	8,568	10,706
Adjusted EPS (Rs.)	24.5	28.7	31.9	36.5	45.6
P/E (x)	94.7	80.8	72.7	63.6	50.9
P/B (x)	70.8	65.4	62.4	11.2	10.7
EV/EBIDTA (x)	68.0	57.3	51.6	44.9	38.4
RoNW (%)	77.9	84.2	87.8	30.2	21.5
RoCE (%)	104.2	113.2	105.2	39.7	28.5

Source: Company; Sharekhan estimates

* FY2021 and FY2022 earnings estimates include the merger of GSK Consumer Healthcare

Base business impacted by COVID-19 led disruptions; margins declined by 113 bps: HUL's standalone revenue grew by 4.4% y-o-y to Rs. 10,560 crore due to the merger of the health food drink (HFD) portfolio of GSK Consumer Healthcare. Revenue of the underlying domestic consumer business declined by 7% y-o-y affected by supply disruptions in the initial part of the quarter whereas the acquired portfolio grew by 5%. Domestic volumes declined by 8% y-o-y. The homecare, foods & refreshment (F&R) and beauty and personal care (B&PC) categories declined by 2%, 12% and 4%, respectively. Gross margin declined by 222 bps to 51.8% due to unfavourable revenue mix. In spite of considerably lower advertisement expenses, higher employee costs and other expenses led OPM to decline by 113 bps to 25%. Operating profit stood flat at Rs. 2,264 crore. Higher finance costs and depreciation charges caused profit before tax (PBT) to decline by ~1.1% y-o-y to Rs. 2,529 crore. Lower incidence of tax resulted in adjusted PAT to grow by 7.9% y-o-y to Rs. 1,889 crore. Reported PAT came in at Rs. 1,881 crore.

Homecare – Good growth in household care and fabric wash: Despite the supply disruptions, revenue of the homecare category declined by just 2%, largely driven by robust growth in the home and hygiene portfolio led by market penetration gains. Domex performed well and registered double-digit sales growth. Stable performance was witnessed in both the mass and premium portfolios in the fabric wash segment. Performance of purifiers was impacted as the segment is consumer durable in nature. The homecare category's PBIT margin declined by 139 bps y-o-y to 18.8%, mainly on account of lower operating leverage.

Beauty and personal care (B&PC) – Good growth in skin cleansing, discretionary products impacted: Revenue of the B&PC category declined by 12% y-o-y mainly because of the discretionary nature of most of the products in the portfolio. The skin cleansing segment registered robust performance driven by double-digit revenue growth in Lifebuoy hand-washes and sanitisers which witnessed a rise in demand. The oral care segment saw decent growth whereas demand in the hair care segment picked up in the latter part of the quarter. In the oral care segment, momentum on Close-up strengthened. The discretionary part of the portfolio such as skin care portfolio, colour cosmetics and deodorants remained adversely impacted. PBIT margin of the B&PC category declined by 152 bps to 28.1%. The B&PC category is expected to remain subdued in the near term.

Foods and Refreshments (F&R) – Good growth across brands driven by in-home consumption: Revenue of the underlying F&R category declined by 4% y-o-y. On a reported basis (including the HFD portfolio), the category grew by 52% y-o-y. The foods and beverages segments reported double-digit growth driven by in-home consumption. Both tea and coffee registered robust performance. The ice cream, food solutions and vending segments were severely impacted due to loss of out-of-home consumption. The nutrition segment comprising of the recently acquired HFD portfolio reported mid-single-digit growth. The company launched new Horlicks with added zinc to address the immunity boosting needs. The company also launched Horlicks and Boost in pouch format. The F&R category's EBIT margin improved by 24 bps to 19.7% due to the acquired portfolio.

Key conference call highlights

- ◆ After relaxation of lockdown restrictions, HUL had scaled back its operations at ~70% of its capacity in April and improved further in May and June (mid-single-digit revenue growth in June). The company has been ramping up the production of its essential category products such as hand sanitisers, where production was increased by 100x and that of hand-wash was increased by 5x. The distributor stocks that were down by ~6% in March were recovered back in June and the pipeline is normalising. HUL launched 50 new products in the hygiene and sanitisation space.
- ◆ HUL's health, hygiene and nutrition portfolio which contributes ~80% to the total revenue grew by 6% in Q1FY2021 driven by demand upsurge in skin cleansing products and higher in-home consumption. The discretionary portfolio such as skin care, colour cosmetics and deodorants that contribute ~15% to total revenue declined sharply by 45% affected by supply constraints and lower demand. Out-of-home consumption product portfolio including water, ice cream and food solutions that contribute ~5% to total revenue were severely impacted with revenue declining by 69%.

- ◆ Nearly 80% of the product portfolio is under health, hygiene and nutrition which is performing well. About 86% of the business is gaining volume market share whereas 80% of the business is gaining value market share. SKUs had been reduced to 20% of pre-COVID levels in April which gradually came back to 50% currently. HUL will gradually ramp up the SKUs to 80% of pre-COVID levels which is expected to stay at the same level going ahead.
- ◆ Though distribution and supply network is recovering fast, the demand environment remains uncertain in the near term. July is expected to be affected by re-enforcement of lockdown in many parts of the country. The environment is expected to improve gradually as the pandemic situation starts normalising. However, demand for hygiene and in-home consumption portfolio will remain higher in the near term.
- ◆ Rural demand has been recovering faster than urban demand. It was soft until February and has picked up in the recent months due to better harvest, normalisation of monsoons and government initiatives to improve rural economy. However, as the pandemic is spreading in tier-II and tier-III towns, the company will monitor the impact of the same on rural growth in the coming months. Urban demand remains impacted by lockdown affecting modern trade.
- ◆ Prices of raw materials such as tea and skimmed milk (SMP) have gone up in Q1FY2021. SMP prices have started declining whereas prices of vegetable oils are still higher. To mitigate higher tea prices, HUL expects to take judicious price hikes in the product segment. The company intends to pass on the benefit of lower crude prices to consumers in the home-care/laundry segment.
- ◆ OPM of base business declined by ~170 bps. However, there was a ~60 bps improvement in margins of the acquired portfolio and thus, overall reported OPM declined by ~110 bps to 25%. Employee costs and other COVID-related costs were higher, while the company rationalised trade spends and reduced advertisement spends. Going ahead, some of the COVID-19-related costs are expected to reduce and the mix is expected to improve. Thus, margins are expected to improve on a sequential basis.
- ◆ HUL's business operations are well-funded and the balance sheet is strong. Hence, the board has approved a special dividend of Rs. 9.5 per share, with a total outflow of Rs. 2,232 crore.

Results (Standalone)

Particulars	Rs cr				
	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Net revenue	10560.0	10114.0	4.4	9011.0	17.2
Total expenditure	7916.0	7467.0	6.0	6946.0	14.0
Operating Profit	2644.0	2647.0	-0.1	2065.0	28.0
Other income	156.0	147.0	6.1	173.3	-10.0
EBITDA	2800.0	2794.0	0.2	2238.3	25.1
Interest	29.0	24.0	20.8	28.0	3.6
PBDT	2771.0	2770.0	0.0	2210.3	25.4
Depreciation	242.0	214.0	13.1	255.0	-5.1
PBT	2529.0	2556.0	-1.1	1955.3	29.3
Tax	639.9	805.7	-20.6	486.3	31.6
Adjusted PAT	1889.1	1750.3	7.9	1469.0	28.6
Extra-ordinary items	8.1	-4.7	-	48.0	-83.2
Reported PAT	1881.0	1755.0	7.2	1517.0	24.0
Adjusted EPS (Rs.)	8.7	8.1	7.9	6.8	28.6
GPM (%)	51.8	54.0	-222	53.7	-190
OPM (%)	25.0	26.2	-113	22.9	212

Source: Company; Sharekhan Research

Results (Consolidated)

Particulars					Rs cr
	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Net revenue	10731.0	10364.0	3.5	9211.0	16.5
Operating Profit	2695.0	2724.0	-1.1	2100.0	28.3
PBT	2561.0	2613.0	-2.0	2063.0	24.1
Adjusted PAT	1976.7	1790.3	10.4	1559.5	26.8
Exceptional items	79.7	-4.7	-	39.5	-
Reported PAT	1897.0	1795.0	5.7	1520.0	24.8
			bps		bps
GPM (%)	51.9	54.0	-214	53.8	-193
OPM (%)	25.1	26.3	-117	22.8	232

Source: Company; Sharekhan Research

Segment-wise performance

Particulars					Rs cr
	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Revenue					
Home Care	3392	3465	-2.1	3350	1.3
Personal Care	4039	4589	-12.0	3801	6.3
Food & Refreshments*	2958	1950	51.7	1788	65.4
Total	10389	10004	3.8	8939	16.2
PBIT					
Home Care	637	699	-8.9	636	0.2
Personal Care	1134	1358	-16.5	945	20.0
Food & Refreshments*	582	379	53.6	225	158.7
Total	2353	2436	-3.4	1806	30.3
PBIT margins (%)			bps		bps
Home Care	18.8	20.2	-139	19.0	-21
Personal Care	28.1	29.6	-152	24.9	321
Food & Refreshments*	19.7	19.4	24	12.6	709
Total	22.6	24.4	-170	20.2	245

Source: Company; Sharekhan Research

*includes the HFD portfolio of GSK Consumer Healthcare

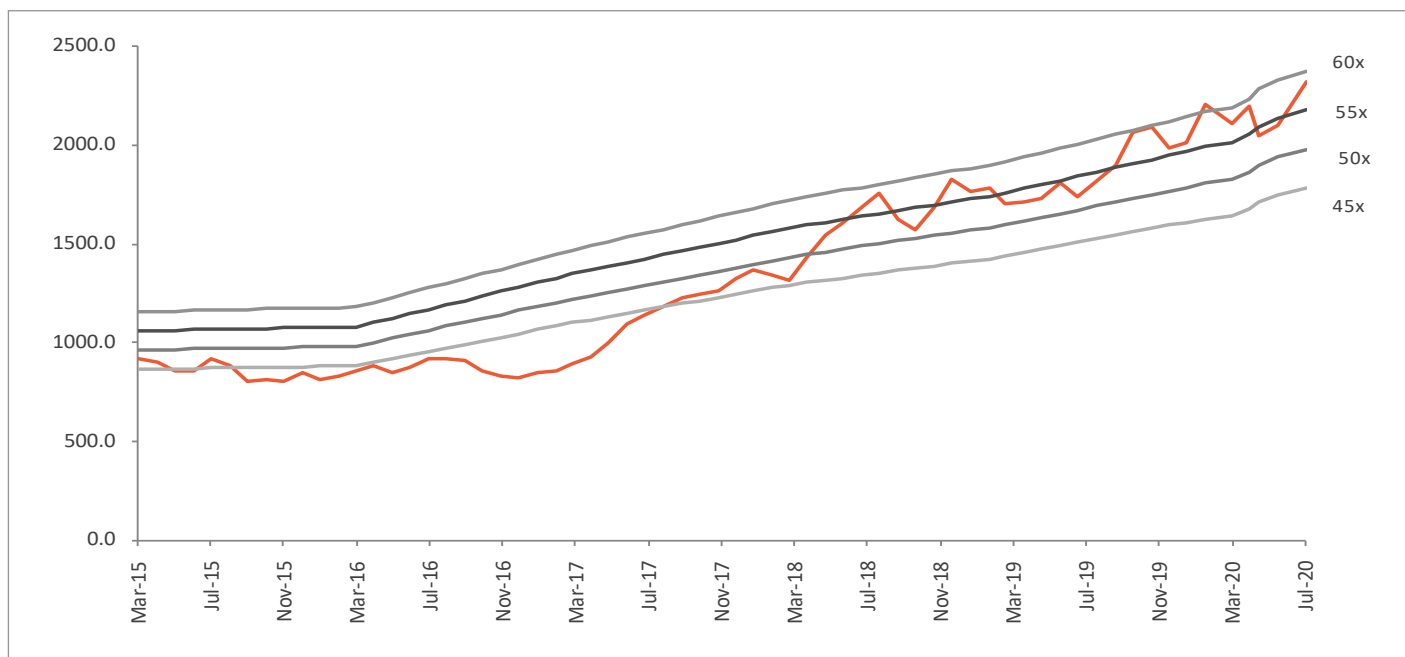
Outlook

80% of business will continue to deliver steady performance: Though the current business environment remains uncertain due to sustained spread of the Coronavirus, the management is confident that 80% of business (largely essentials) will continue to perform well. We expect Q2FY2021 performance to be sequentially better compared to Q1FY2021 with most facilities operating at 100% capacity and distribution regaining momentum. Recovery in rural demand, strong demand for hygiene and nutritional products and market share gains in key categories will be major revenue drivers in the near term. Synergistic benefits from GSK Consumer’s merger and cost rationalisation measures will help OPM remain high in FY2021.

Valuation

Maintain Buy with revised PT of Rs. 2,550: HUL’s Q1FY2021 performance was better than expected. In view of this, we have raised our earnings estimates by ~5% and ~4% for FY2021 and FY2022, respectively, to factor in a recovery in performance of some categories and steady growth in the 80% of the business in the coming quarters. Sustained innovation, expansion in distribution reach and entering into categories remain long-term growth drivers for HUL. GSK Consumer’s merger will add-in a lot of synergistic benefits and further strengthen the balance sheet. We maintain our Buy recommendation on the stock with revised price target (PT) of Rs. 2,550 (valuing the stock at 56x its FY2022E EPS).

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Nestle India*	101.1	84.6	76.2	61.8	57.7	53.1	70.3	96.9	137.0
ITC	15.5	17.2	14.9	11.6	12.3	10.5	25.5	22.4	26.1
HUL	72.7	63.6	50.9	51.6	44.9	38.4	105.2	39.7	28.5

Source: Company, Sharekhan estimates

*Values for Nestle India are for CY2019, CY2020E and CY2021E

About company

HUL is India's largest FMCG company with a strong presence in the homecare and beauty and personal care categories. The company is a subsidiary of Unilever Plc (that holds a 67% stake in HUL), the world's largest consumer goods company present across 190 countries. With over 40 brands spanning 12 distinct categories such as personal wash, fabric wash, skin care, hair care, oral care, deodorants, colour cosmetics, beverages, ice creams, frozen desserts and water purifiers, HUL is part of the everyday life of millions of consumers across India. The company's portfolio includes leading brands such as Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk and Axe. HUL reported revenue of Rs. 38,224 crore and OPM of 22.6% in FY2019.

Investment theme

HUL has a leadership position in highly penetrated categories such as soaps, detergents and shampoos in India. Sustaining product innovation, entering into new categories, premiumisation and increased distribution network remain some of the key revenue drivers for the company. The merger of GSK Consumer's HFD business will make HUL a formidable play in the HFD segment and will enhance the growth prospects of its relatively small food business. A strong financial background, robust cash generation ability and leadership position in some key categories give HUL an edge over other companies and, hence, justify the stock's premium valuation.

Key Risks

- ◆ **Slowdown in the demand environment:** Any slowdown in demand (especially in rural India) would affect sales of key categories, resulting in moderation of sales volume growth.
- ◆ **Increased input prices:** Palm oil and crude derivatives such as linear alkyl benzene are some of the key raw materials used by HUL. Any significant increase in the prices of some of these raw materials would affect profitability and earnings growth.
- ◆ **Increased competition in highly penetrated categories:** Increased competition in highly penetrated categories such as soaps and detergents would act as a threat to revenue growth.

Additional Data

Key management personnel

Sanjiv Mehta	Chairman and Managing Director
Srinivas Pathak	Executive Director, Finance & IT and CFO
Pradeep Bannerjee	Executive Director, Supply Chain
Dev Bajpai	Executive Director, Legal and Corporate Affairs and Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Vanguard Group Inc	1.4
2	BlackRock Inc	1.1
3	SBI Funds Management Pvt Ltd	1.0
4	ICICI Prudential Life Insurance Co Ltd	0.6
5	Nomura Holdings Inc	0.6
6	ICICI Prudential Asset Management Co Ltd	0.5
7	J P Morgan Chase & Co	0.4
8	Kotak Mahindra Asset Management Co	0.4
9	Aditya Birla Sun Life Asset Management Co	0.4
10	UTI Asset Management Co Ltd	0.4

Source: Bloomberg

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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