

Hindustan Unilever Ltd

REDUCE

CMP Rs2,409

Target Rs 2,503

Upside 3.9%

Strong quarter but near-term demand/commodity headwinds can bring down valuations

Result Highlights

- ✓ **Quarter results** – 34.6% growth in topline (21% ex-GSK with 16% volume growth), 150bps EBITDA margin improvement and 41% PAT growth; home care grew 15%, personal care grew 20% and foods grew 36% ex-GSK; dividend increased from Rs 25 in FY20 to Rs 31 in FY21 (in addition special dividend of Rs 9.5 increased payout to Rs 40.5 per share).
- ✓ **Portfolio mix** – Health, hygiene and nutrition portfolio grew 22%, discretionary grew by 10% and out of home grew by 61% from a low base; FY21 growth rates for 3 segments were 12%/-15%/-26% respectively.
- ✓ **Margin improvement despite headwinds** – Despite inflation in prices of palm oil, tea, crude oil and increased competition, margins improved due to a 2% sequential pricing increase, increased cost savings and GSK nutrition business synergies.

Valuation and view - The 4Q performance by the company was marginally ahead of expectations as laggard segments like detergents, cosmetics, skin care have recovered well and margins also improved. Going forward, nutrition portfolio should be a key growth driver for the company. The company is well placed to grow ahead of the market given its innovation initiatives, distribution expansion and digital initiatives. Despite sharp commodity inflation, margins moved up indicating HUL's strong and agile pricing strategy in addition to its strong cost savings agenda, which should help it gain market shares till the time commodity inflation sustains.

But given the near-term headwinds on both the demand and margin fronts, we believe the stock is fully priced around current valuations with limited absolute upside. Although we do not expect a significant correction in the current market volatility given HUL's solid defensive characteristics, we would still advise waiting for a better entry point for further buying. We model in revenue/EBITDA/PAT CAGR of 11%/13%/14% over FY21-23E and assume coverage with a REDUCE rating with a PT of Rs 2,503 based on 55x FY23E earnings, a 10% premium to its 5-yr average multiple.

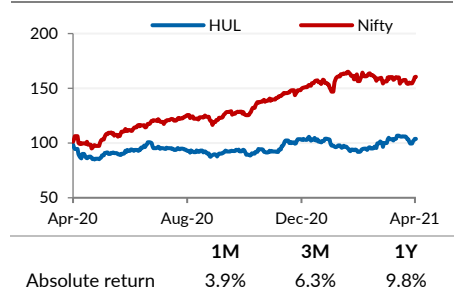
Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Net sales	1,21,320	90,110	34.6	1,18,620	2.3
Operating profit	29,570	20,650	43.2	28,540	3.6
OPM (%)	24.4	22.9		24.1	
Depreciation	2,490	2,550	(2.4)	2,720	(8.5)
Interest	90	260	(65.4)	410	(78.0)
Other income	1,090	2,660	(59.0)	970	12.4
PBT	28,080	20,500	37.0	26,380	6.4
Tax	6,790	4,730	43.6	6,750	0.6
Effective tax rate (%)	24.2	23.1		25.6	
Exceptional	140	-580		-420	
Reported PAT	21,430	15,190	35.0	19,210	11.6

Stock data (as on Apr 29, 2021)

Nifty:	14,895
52 Week h/l (Rs)	2,506/1,894
Market cap (Rs/USD mn)	5,656,819/76,406
Outstanding Shares	2,350
6m Avg t/o (Rs mn):	5,282
Div yield (%):	1.3
Bloomberg code:	HUVR IN
NSE code:	HUL

Stock performance



Shareholding pattern (As of Mar'21 end)

Promoter	61.9%
FII+DII	25.6%
Others	12.5%

Financial Summary

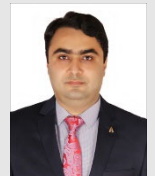
	FY21	FY22e	FY23e
Net Revenue	470,280	518,733	581,297
YoY Growth	18.2	10.3	12.1
EBIDTA	116,260	130,202	149,393
Margins (%)	24.7	25.1	25.7
PAT	82,390	92,865	106,947
YoY Growth	18.3	12.7	15.2
ROE	29.5	19.3	21.8
ROCE	39.2	26.1	29.4
EPS	34.0	39.5	45.5
P/E	70.8	61.0	52.9
EV/EBITDA	48.3	43.1	37.5

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- ✓ **Updates on nutrition business of GSK** – System and processes have been seamlessly integrated, portfolio has been expanded with the launch of Horlicks Protein Plus, penetration and volumes were boosted by scale-up in Horlicks and Boost sachets and EBITDA margins are tracking better than expectations.
- ✓ **COVID Wave 2 impact** – Increasing COVID cases is leading to falling population mobility and localized restrictions but India should be able to come out of this given vaccination program and behavior changes; 90% of eligible HUL employees vaccinated and company operating with tiered operating protocols and flexible models.
- ✓ **Supply chain agility** – Better than pre-COVID agility and responsiveness of supply chain is ensuring continuity of supplies – capacity has increased 30%, multiple distribution models being given liquidity support, company has reached 5 lakh Shikhar outlets indicating rapid digitization, increased focus on E-commerce, GT and rural channels.
- ✓ **Innovation and premiumization** – Higher innovation intensity with 150 plus SKU launches in FY21, top brands saw 5x growth rates vs FY20, premium products grew 2x vs core, WIMI created market development opportunities, health, hygiene and nutrition portfolio grew 12% in FY21.
- ✓ **P&L and balance sheet management** – Company has retained its 8% annual savings agenda, net revenue management will ensure accurate and timely pricing actions, aggressive R&D investments sustained, higher focus on analytics.
- ✓ **Digital transformation** – Technology investments have been upped in last year with creation of a people data hub which has increased agility and innovation, Shikhar app has increased digital order capturing and digital factories and automated warehouses have improved operational efficiency.
- ✓ **Outlook** – Difficult to predict demand given pandemic surge but agility and responsiveness across the value chain is better than pre COVID levels, timely price actions and cost savings should help offset elevated commodity inflation, focus will remain on volume led competitive growth, innovation, market development and digital transformation.

CONCALL TAKEAWAYS

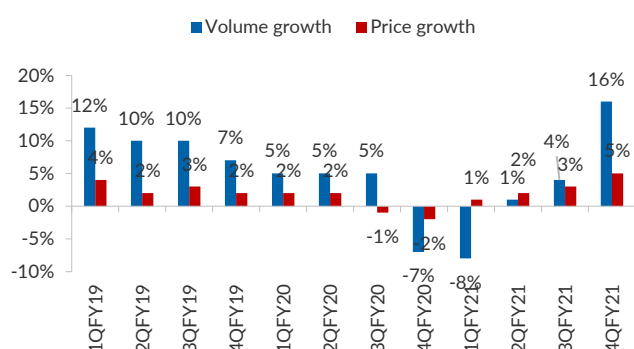
- ✓ **Market share and volumes** - 82% business gaining volume share and 87% of business gaining penetration.
- ✓ **Price hikes** – Total pricing increase of 2% for the entire portfolio in 4Q, 2 rounds of price increases (7-8%) taken in soaps with more to follow given 40-50% increase in palm oil prices, can go up to 14-15% if competition remains rational, took further calibrated price hikes in tea which helped margins, have reversed price cuts taken in laundry as crude continued to inch up.
- ✓ **GSK business performance** – Reinvesting savings into product and price to recruit new customers and improve affordability, going ahead of estimates on margin improvement, expanded margins by 370bps to 31.8% in FY22 with low teens growth.
- ✓ **Innovation** – Launch only in case of unique proposition and right to win, will remain aggressive on innovation in FY22 after 150 SKU launches in FY21.
- ✓ **COVID impact** – Local lockdowns instead of national lockdown seems to be a good move, supply chain much better prepared although 2nd half of April has seen some impact.
- ✓ **GT and chemist channel** – Shikhar B2B app and Shakti entrepreneurs are helping, chemist channel footprint has expanded post GSK acquisition, restricted operational hours for general retailers have not had much impact

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- ✓ **Hygiene segment** – Lifebuoy has gained market share, Domex still small; have high hopes from Nature Protect.
- ✓ **Shikhar B2B app update** – It has not replaced current ordering system but is complementary as an additional option for the retailers, business grew 6x in FY21 vs FY20; both frequency of usage and order value have increased.
- ✓ **Demand environment** – Normative growth was 2-3% in base quarter vs reported 9% decline due to COVID impact and pipeline shift, so 10% 2-yr CAGR is the run-rate till now which is a strong consumption growth in the management’s view.
- ✓ **Margins** – BPC margins impacted sequentially due to calibrated price hikes in soaps and sharp sequential palm oil inflation, home care margins improved given low cost commodity inventory being utilized.
- ✓ **GSK portfolio expansion** – Yet to take a call on the biscuits portfolio which has come down, aggressively focusing on the high sciences portfolio under Plus brand which will see more launches, penetration is only 25% and strong in East and South markets, so focusing on geographical expansion and increasing penetration via better affordability, sales integration is still underway, so benefits of outlet scale-up still to fructify fully.
- ✓ **Commodity outlook** – Crude prices are uncertain, agri prices should cool off post the new crop in a few months.
- ✓ **Premiumisation** – Demand remains resilient as long as supply chain and distribution is working well, premium brands have not seen any significant impact of the pandemic.
- ✓ **Rural outlook** – Consumption story should remain strong if pandemic does not go deep into rural markets.
- ✓ **Urban vs rural growth** – Urban markets grew in low to mid-single digits vs negative in December while rural continued to grow double digit in both 3Q and 4Q

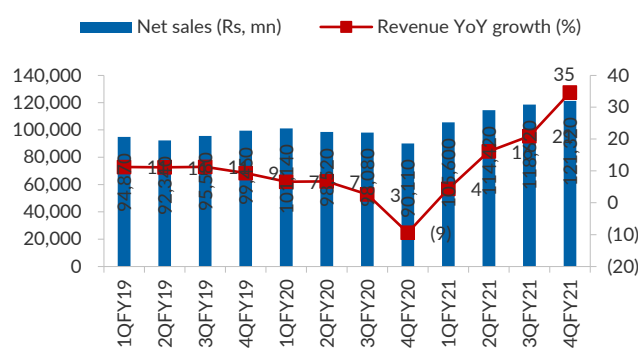
CHARTS

Exhibit 2: Volume growth picked up from low base



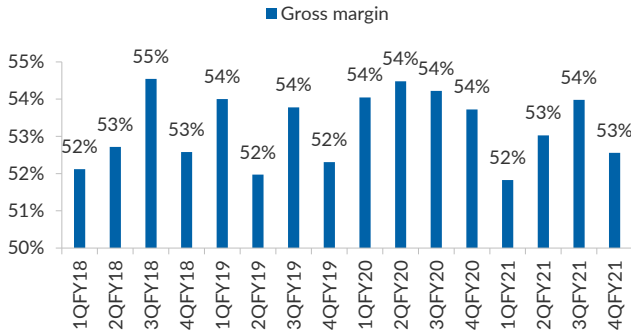
Source: Company, YES Sec – Research

Exhibit 3: Sales growth helped by GSK merger



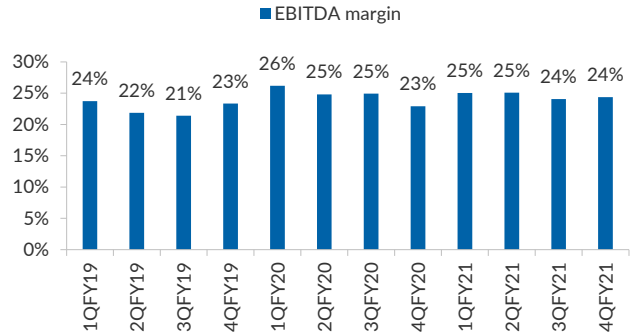
Source: Company, YES Sec – Research

Exhibit 4: Gross margin impacted by inflation in crude, palm oil, tea and packing material



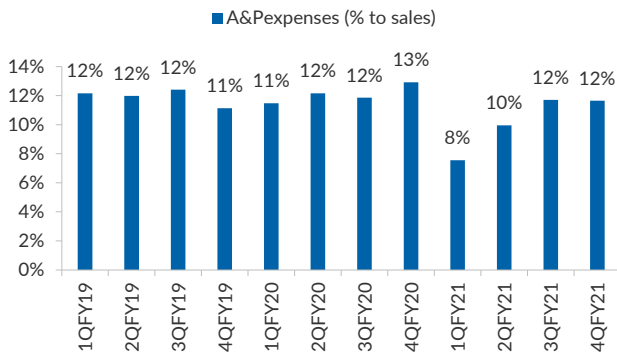
Source: Company, YES Sec - Research

Exhibit 5: ... However, lower A&P spends, GSK synergies and cost controls held up EBITDA margin



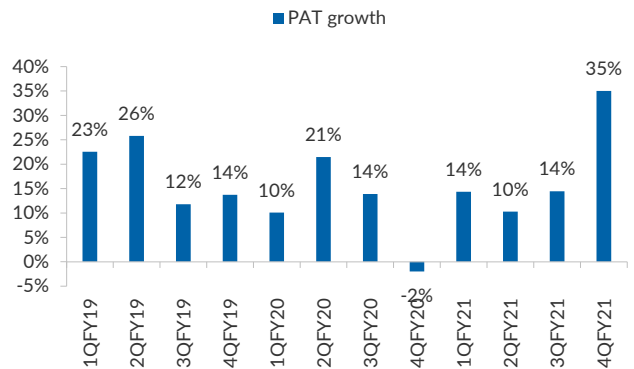
Source: Company, YES Sec - Research

Exhibit 6: Slow pick-up in A&P spends



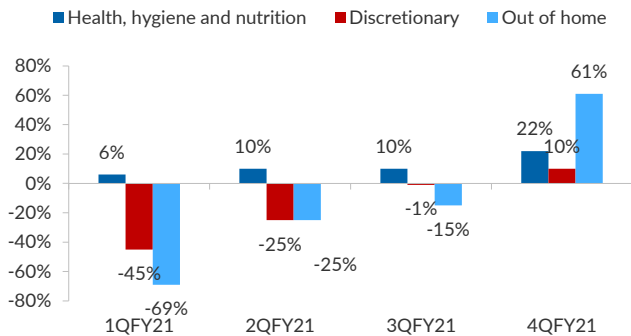
Source: Company, YES Sec - Research

Exhibit 7: Strong earnings growth led by margin improvement and GSK merger



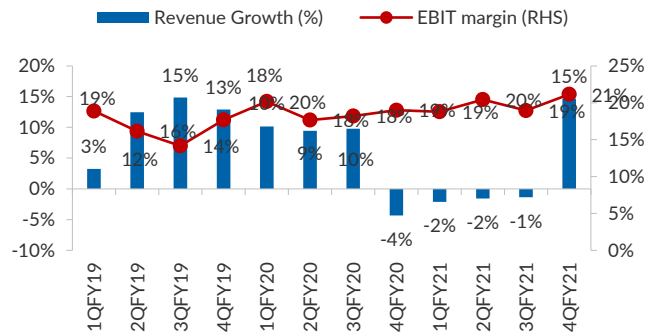
Source: Company, YES Sec - Research

Exhibit 8: HHN going strong whereas Discretionary and Out of home segment recovering sequentially



Source: Company, YES Sec - Research

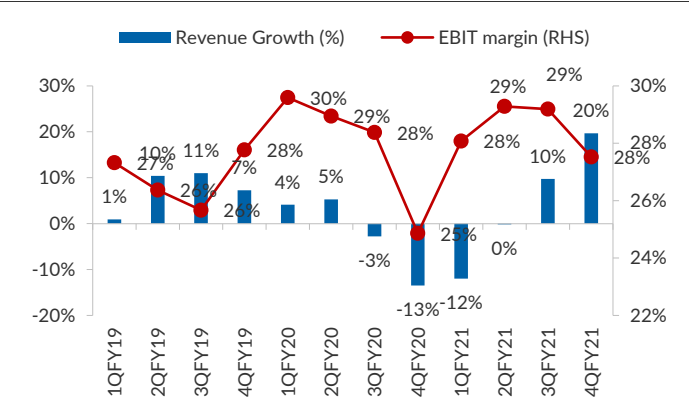
Exhibit 9: Strong recovery in fabric wash and double digit growth in household care drove Home care



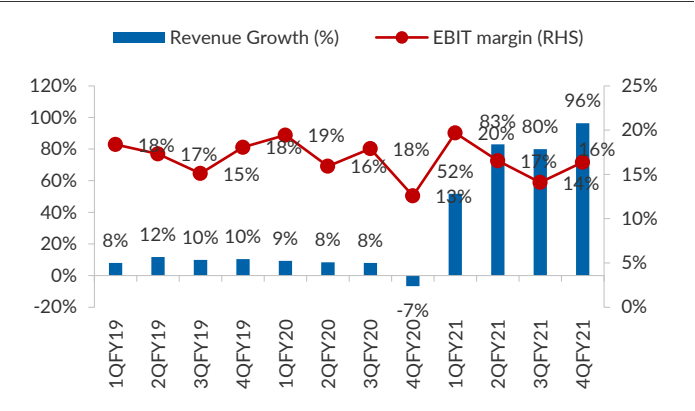
Source: Company, YES Sec - Research

Exhibit 10: Strong performance in Beauty and Personal care led by soaps, hair care & oral care

Exhibit 11: Continued robust growth led by tea, ketchups, ice creams and nutrition

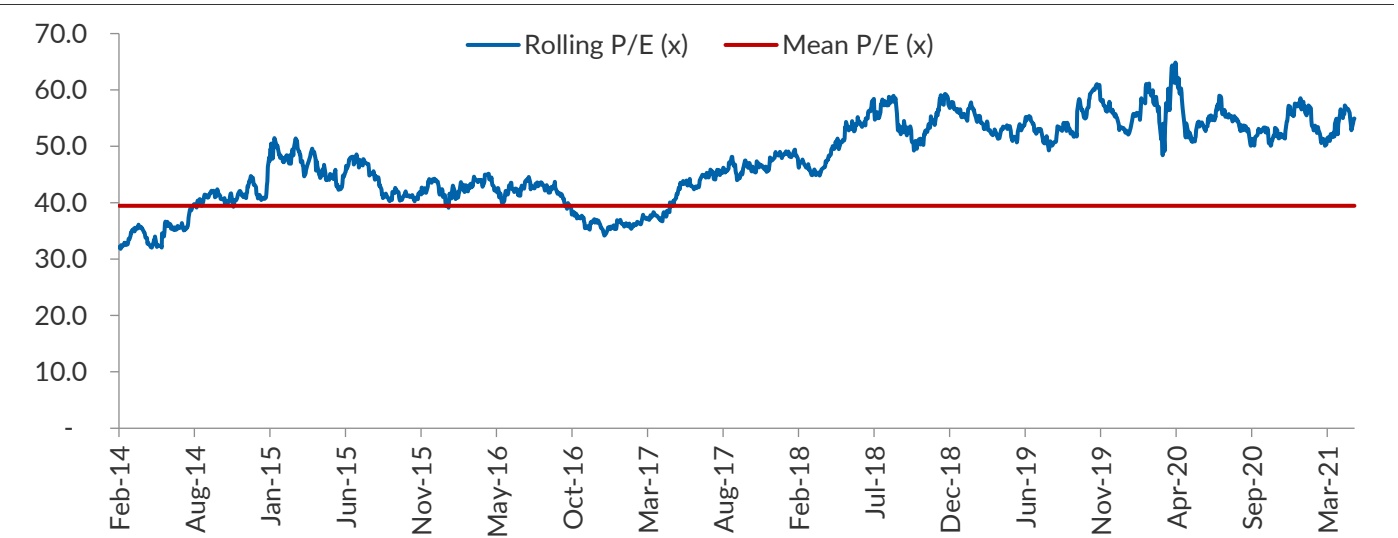


Source: Company, YES Sec - Research



Source: Company, YES Sec - Research

Exhibit 12: Currently trading at 55x one-yr fwd earnings



Source: Company, YES Sec - Research

FINANCIALS

Exhibit 13: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	2,160	2,160	2,350	2,350	2,350
Reserves	76,510	80,130	4,74,390	4,83,676	4,94,369
Net worth	78,670	82,290	4,76,740	4,86,026	4,96,719
Debt	180	170	200	200	200
Deferred tax liability	-	-	73,550	60,920	60,920
Other non-current liabilities	9,950	13,630	10,270	10,989	11,758
Current liability	85,680	93,170	1,11,030	1,21,962	1,36,397
Sundry creditors	72,060	75,350	88,020	99,483	1,11,482
Other current liabilities	8,390	13,600	17,940	17,054	19,111
Provision	5,230	4,220	5,070	5,425	5,805
Total liabilities	1,86,290	2,01,530	6,87,570	6,96,981	7,24,061
Net Block	46,340	53,980	61,160	71,160	81,160
CWIP	4,060	5,970	7,450	7,450	7,450
Fixed Asset	50,400	59,950	5,21,880	5,31,880	5,41,880
Non-current investments	27,160	12,550	27,090	27,090	27,090
Other Non-current Assets	14,470	15,940	20,990	8,945	9,571
Non-current assets	94,290	90,850	5,72,470	5,70,601	5,81,415
Current Assets	54,430	59,550	70,390	72,217	80,005
Inventories	25,740	27,670	35,790	35,530	39,815
Sundry debtors	18,160	11,490	17,580	18,475	20,704
Loans and Advances	6,090	14,200	-	-	-
Cash & equivalents	37,570	51,130	44,710	54,164	62,642
Total assets	1,86,290	2,01,530	6,87,570	6,96,981	7,24,061

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	3,93,100	3,97,830	4,70,280	5,18,733	5,81,297
Operating profit	88,800	98,610	1,16,260	1,30,202	1,49,393
Depreciation	5,650	10,020	10,740	11,751	12,723
Interest expense	330	1,180	1,170	1,252	1,340
Other income	5,500	6,320	4,100	6,952	7,647
Profit before tax	88,320	93,730	1,08,450	1,24,151	1,42,978
Taxes	25,440	24,090	26,060	31,286	36,030
Minorities and other	-	-	-	-	-
Adj. profit	62,880	69,640	82,390	92,865	1,06,947
Exceptional items	2,280	2,000	2,390	-	-
Net profit	60,600	67,640	80,000	92,865	1,06,947

Exhibit 15: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	88,650	94,910	1,09,620	1,25,403	1,44,317
Depreciation	5,650	10,020	10,740	11,751	12,723
Tax paid	(25,440)	(24,090)	(26,060)	(31,286)	(36,030)
Working capital Δ	(4,580)	2,370	7,020	9,106	6,647
Other operating items					
Operating cashflow	64,280	83,210	1,01,320	1,14,974	1,27,657
Capital expenditure	(6,970)	(19,570)	(4,72,670)	(21,751)	(22,723)
Free cash flow	57,310	63,640	(3,71,350)	93,222	1,04,934
Equity raised	(2,800)	(5,157)	4,09,625	5,883	6,471
Investments	1,570	14,610	(14,540)	-	-
Debt financing/disposal	990	(990)	-	-	-
Dividends paid	(330)	(1,180)	(1,170)	(1,252)	(1,340)
Other items	(51,941)	(58,863)	(95,175)	(89,462)	(1,02,725)
Net Δ in cash	(2,080)	1,500	66,190	1,063	1,137

Exhibit 16: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.7	0.7	0.8	0.7	0.7
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
EBIT margin (x)	0.2	0.2	0.2	0.2	0.2
Asset turnover (x)	2.2	2.1	1.1	0.7	0.8
Financial leverage (x)	2.4	2.4	1.6	1.4	1.4
RoE (%)	83.0	86.5	29.5	19.3	21.8

Exhibit 17: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	10.6	1.2	18.2	10.3	12.1
Op profit growth	18.4	11.0	17.9	12.0	14.7
EBIT growth	20.4	7.1	15.5	14.4	15.1
Net profit growth	19.6	10.8	18.3	12.7	15.2
Profitability ratios (%)					
OPM	22.6	24.8	24.7	25.1	25.7
EBIT margin	22.6	23.9	23.3	24.2	24.8
Net profit margin	16.0	17.5	17.5	17.9	18.4
RoCE	116.3	117.2	39.2	26.1	29.4
RoNW	83.0	86.5	29.5	19.3	21.8
RoA	34.5	35.9	18.5	13.4	15.1
Per share ratios					
EPS	29.1	32.2	35.1	39.5	45.5
Dividend per share	24.0	27.3	40.5	38.1	43.7
Cash EPS	31.7	36.9	39.6	44.5	50.9
Book value per share	36.4	38.1	202.9	206.8	211.4
Valuation ratios					
P/E	82.8	74.7	68.7	61.0	52.9
P/CEPS	75.9	65.3	60.8	54.1	47.3
P/B	66.1	63.2	11.9	11.6	11.4
EV/EBIDTA	58.2	52.2	48.3	43.1	37.5
Payout (%)					

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Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Dividend payout	83	85	116	96	96
Tax payout	29	26	24	25	25
Liquidity ratios					
Debtor days	17	11	14	13	13
Inventory days	24	25	28	25	25
Creditor days	67	69	68	70	70

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BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

REDUCE: Potential return -10% to +5% over 12 months

SELL: Potential return <-10% over 12 months

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