

Hindustan Unilever

A mixed bag, focus on strengthening the core

HUL posted a mixed result, with revenue/EBITDA growth of 20/17% (HSIE 18/19%). Ex-GSK, revenue grew by 7% YoY with UVG of 4% YoY (in-line). The company saw a recovery in demand for discretionary as well as OOH categories and revenue pressure eased out. Health, Hygiene and Nutrition (80% mix) continued to deliver strong double-digit growth, supported by new launches and price hikes. Market share gains in e-comm (market share above pre-COVID level) and strong rural growth (2x YoY) drove revenue growth. Nutrition portfolio (GSK) posted double-digit growth, and supply issues are over. High commodity inflation impacted GM, despite an improved product mix. A&P expenses returned to growth as the company resumed investments. We expect a sustained recovery in the discretionary portfolio along with growth acceleration in nutrition portfolio. We maintain our EPS estimates for FY21/FY22/FY23. We value HUL at 52x P/E on Mar-23E EPS to derive a TP of Rs 2,315. Maintain REDUCE, as there is limited scope for re-rating.

- Discretionary continues recovery:** Overall revenue grew 20% YoY (HSIE 18%) while ex-GSK revenue was up 7% YoY (+4% in 3QFY20 and +4% in 2QFY21). BPC/F&R (incl GSK) grew by 10/80% YoY (F&R 19% ex-GSK) while Home Care dipped by 1% YoY. Health, Hygiene and Nutrition portfolio (80% mix) clocked a sustained growth at 10% YoY, while discretionary (-1% YoY) and OOH (-15% YoY) continued to recover. The company has seen sequential improvement and expects growth to sustain. Rural growth is outperforming, and it is expected to sustain in the near term.
- Slight miss in margins:** Gross margin contracted by 24bps YoY (+44bps in 3QFY20 and -145bps in 2QFY21) vs an expectation of 52bps YoY contraction. Unprecedented commodity inflation (especially in crude, palm oil and tea) impacted the margin, despite an improving product mix. Home care/BPC EBIT margin expanded by 75/81bps YoY while F&R margin contracted by 381bps YoY. Employee/A&P/Other expenses grew by 23/19/28% YoY. Ad spends by the company were competitive, and it retained the highest share of voice. EBITDA margin contracted by 87bps YoY to 24.1% (+352bps in 3QFY20 and +28bps in 2QFY21). EBITDA grew 17% YoY (HSIE 19%). PBT clocked 13% YoY growth while PAT grew by 19% YoY.
- Call takeaways:** (1) 86% of the portfolio gained penetration during the quarter; (2) Horlicks and Boost saw double-digit growth, led by large packs (>500gm); (3) e-comm growth rate as well as revenue mix doubled YoY; (4) skin cleansing, skincare and tea saw improved growth within the premium segment; and (5) the company remains focused on driving innovation across categories.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	1,18,620	98,080	20.9	1,14,420	3.7	3,97,830	4,60,960	5,04,456	5,45,120
EBITDA	27,490	23,324	17.9	27,640	(0.5)	98,610	1,14,782	1,30,720	1,44,257
APAT	19,510	16,910	15.4	20,350	(4.1)	68,604	80,731	93,976	1,04,468
Diluted EPS (Rs)	8.3	7.8	6.3	8.7	(4.1)	31.7	34.4	40.0	44.5
P/E (x)						75.8	69.9	60.1	54.0
EV / EBITDA (x)						52.1	48.4	42.3	38.2
RoCE (%)						72.2	30.8	21.6	23.3

Source: Company, HSIE Research

REDUCE

CMP (as on 27 Jan 2021)	Rs 2,403
Target Price	Rs 2,315
NIFTY	13,968

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 2,315	Rs 2,315
	FY22E	FY23E
EPS %	0%	0%

KEY STOCK DATA

Bloomberg code	HUVR IN
No. of Shares (mn)	2,350
MCap (Rs bn) / (\$ mn)	5,646/77,423
6m avg traded value (Rs mn)	5,015
52 Week high / low	Rs 2,603/1,749

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.4	8.6	17.1
Relative (%)	(7.7)	(15.7)	3.1

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	61.90	61.90
FIs & Local MFs	10.82	10.72
FPIs	14.54	14.92
Public & Others	12.74	12.46
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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