

Company update

Consumer Staples & Discretionary

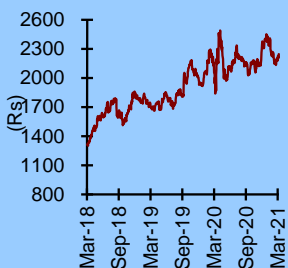
Target price Rs2,400

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	61.9	61.9	61.9
Institutional investors	23.2	25.4	25.6
MFs and others	4.4	4.0	3.5
Banks, FI's, Insurance co	3.8	3.8	4.0
FII's	15.0	17.6	18.1
Others	14.9	12.7	12.5

Source: BSE

Price chart



INDIA

Hindustan Unilever

ADD

Maintained

Nutrition portfolio round-up – Price cut, new ‘Plus’ range and synergy benefits

Rs2,215

In year-1 of GSK integration (since April 2020), HUL has undertaken multiple measures to drive growth – some of them being, (1) launch of 500gm pouch pack at 20% discount to existing 500gm refill pack (Chart 1), (2) newer premium variants (the ‘Plus’ range), (3) new consumer communication with focus on ingredients (“milk, wheat, vitamins” campaign) and (4) likely higher focus on sachets and other affordable packs (we reckon there is a market opportunity to launch a sub-Rs5 sachet as well). Scenario: We reckon that the probability of pouch pack cannibalising the refill pack (as its 20% cheaper) is high. This may be potentially interpreted as re-investment of synergy benefits from GSK – HUL merger (which is not a base case for consensus, in our view). The key question which (then) arises is whether there exists (or existed) a price-affordability mismatch in nutrition category which was hindering category growth. ADD retained.

- Double-digit volume growth required to justify the steep price-offs:** In our view, the likely cannibalisation of 500gm refill pack by 500gm pouch pack in nutrition portfolio imply either a steep gross margin decline and/or re-investment of potential synergy benefits from GSK acquisition. We believe that such steep price cut may be potentially viewed as negative by consensus if it does not lead to double-digit volume growth (nutrition business reported double-digit revenue growth in Q3FY21). If HUL is successful in consistently delivering double-digit volume growth in nutrition, it likely implies recruitment of new consumers (higher penetration) apart from higher usage. Driving premiumisation can happen later on – a potential stock rerating event. In past, HUL has been successful in driving premiumisation – EBITDA margin expanded ~930bps to 24.8% from 15.5% over FY2010-2020 (see Chart 2) and better mix (channel, category, brand etc.) was an important driver.
- Margin reconciliation (see Table 1):** Nutrition business had a positive impact on HUL EBITDA margins by 60bps and 90bps in Q1 and Q2 respectively implying synergy benefits and a margin accretive business. Nutrition business itself improved margins by 650bps and 330bps in Q1 and Q2 (this includes the 300bps savings on royalty), in our view. However, Foods & Refreshment EBIT margins declined 380bps YoY in Q3FY21 – we believe that in addition to the tea business margin impact, this decline may potentially be due to price-offs in nutrition portfolio implying re-investment of synergy benefits towards driving affordability.

Market Cap	Rs5204bn/US\$71.3bn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	HLL.BO/HUVR IN	Net Revenue (Rs mn)	387,850	458,321	514,255	585,929
Shares Outstanding (mn)	2,349.6	Net Profit (Rs mn)	69,350	77,869	89,883	104,882
52-week Range (Rs)	2614/1756	Dil. EPS (Rs)	32.1	33.2	38.3	44.7
Free Float (%)	38.1	% Chg YoY	10.7	3.4	15.4	16.7
FII (%)	18.1	P/E (x)	69.0	66.7	57.8	49.5
Daily Volume (US\$'000)	76,367	CEPS (Rs)	36.4	37.6	43.3	50.3
Absolute Return 3m (%)	(5.1)	EV/EBITDA (x)	49.2	45.8	39.7	34.0
Absolute Return 12m (%)	15.6	Dividend Yield (%)	1.1	1.3	1.5	1.8
Sensex Return 3m (%)	4.8	RoCE (%)	64.6	26.9	18.7	20.9
Sensex Return 12m (%)	70.5	RoE (%)	88.4	30.4	20.4	22.8

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- ▶ **Efforts to improve “affordability”:** HUL commentary around nutrition portfolio has been around category development by increasing penetration driven by 1) leveraging HUL’s distribution reach and expertise, 2) launching access packs and 3) increasing category relevance. However, “price-affordability mismatch”, if any, was not a factor or conversation point for consensus, in our view. That said, we applaud the proactive actions in first year of acquisition itself.
- ▶ **Valuation and risks:** Our earnings estimates are unchanged; modelling revenue / EBITDA / PAT CAGR of 13 / 16 / 16 (%) over FY2021-23E. Maintain ADD rating with DCF-based target price of Rs2,400. Key downside risks are delayed recovery in demand and irrational competition.

Chart 1: Price cuts and other actions in nutrition portfolio

Horlicks Protein Plus
High protein nutritional beverage for adults

Horlicks Mother's Plus
Your baby's nourishment partner from pregnancy to lactation

Horlicks Women's Plus
Specialized nutrition for women

Source: Company data, I-Sec research

Table 1: HUL – EBITDA margin reconciliation (ex-GSK business)

	Q1FY21	Q1FY20	YoY change (bps)	Q2FY21	Q2FY20	YoY change (bps)
HUL EBITDA margin*	25.0%	26.2%	(113)	25.1%	24.8%	28
HUL (ex-GSK) EBITDA margin#	24.5%	26.2%	(170)	24.2%	24.8%	(60)
GSK EBITDA margin@	30.0%	23.5%	650	32.7%	29.4%	327
F&R EBIT margin – reported*	19.7%	19.4%	24	16.5%	15.9%	63
F&R (ex-GSK) EBIT margin@	14.6%	19.4%	(483)	8.7%	15.9%	(719)

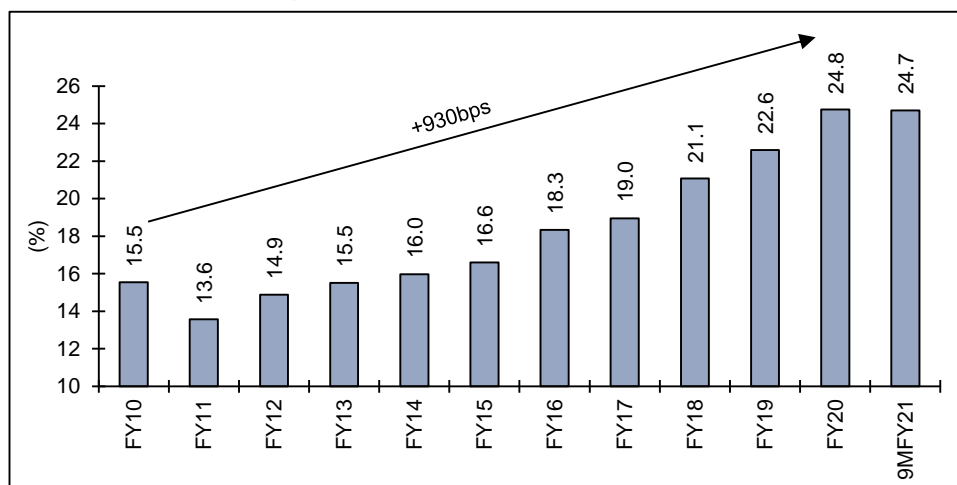
Source: Company data, I-Sec research

* Reported Financials

Based on numbers commented by management on respective results concall

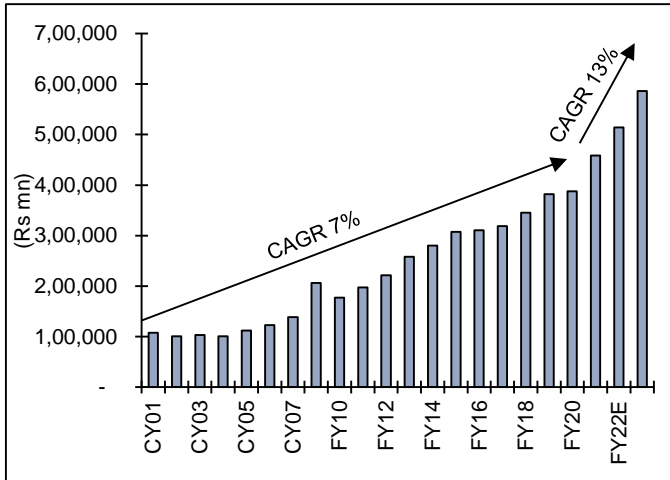
@ Approximate calculations based on reported and management commented numbers

Chart 2: EBITDA margin expansion of HUL



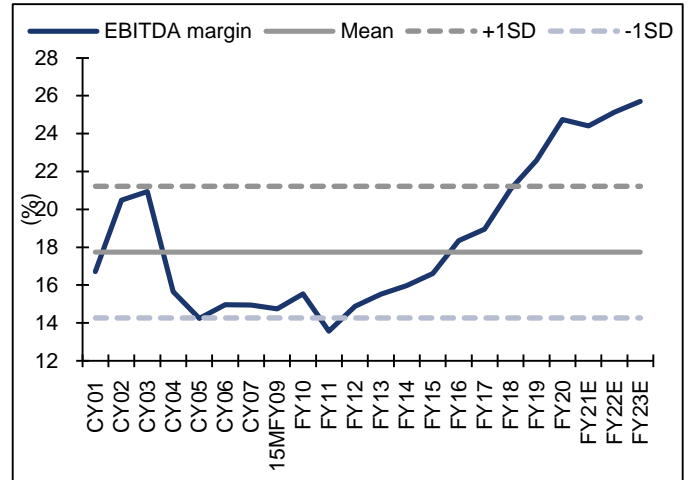
Source: Company data, I-Sec research

Chart 3: Net revenues and growth rates



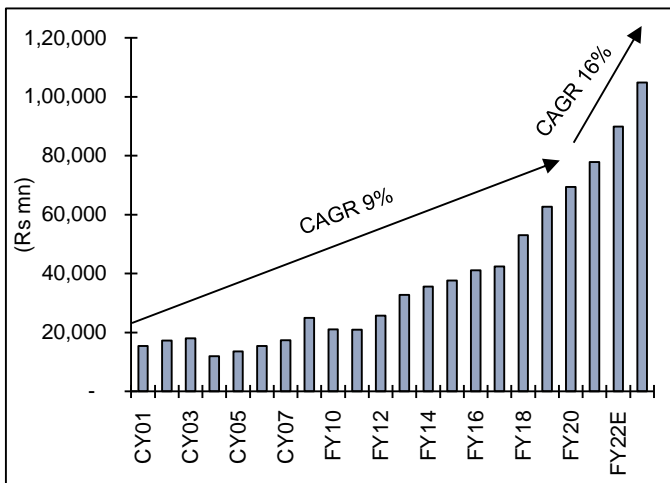
Source: Company data, I-Sec research

Chart 4: EBITDA margin



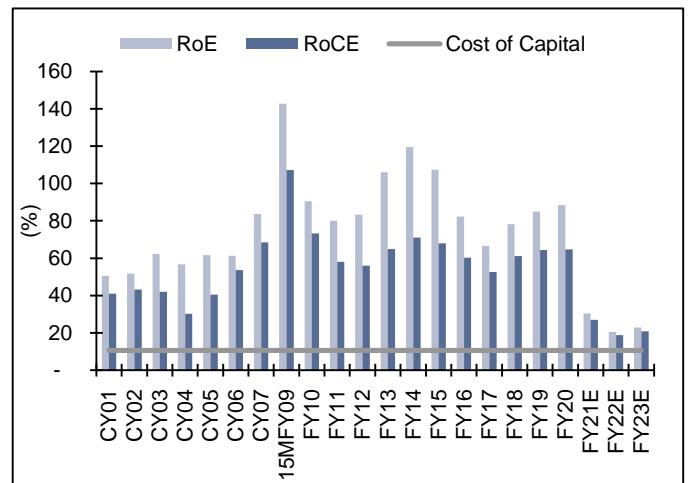
Source: Company data, I-Sec research

Chart 5: Net profit and growth rates



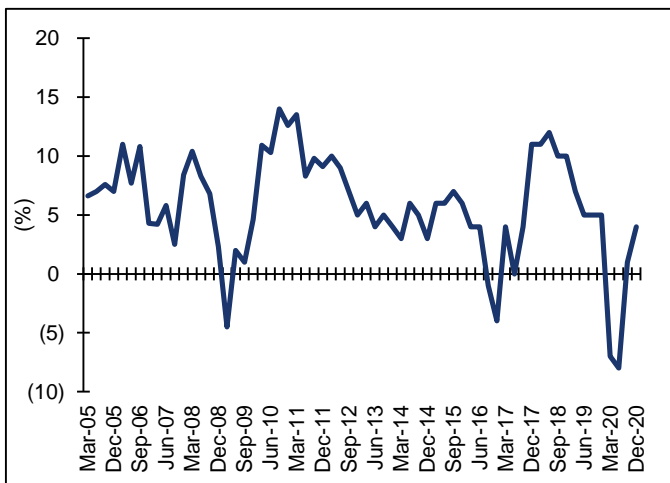
Source: Company data, I-Sec research

Chart 6: Return ratios



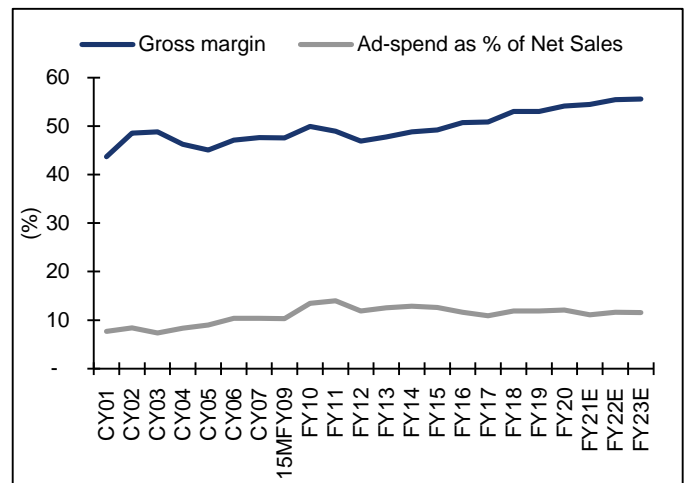
Source: Company data, I-Sec research

Chart 7: Volume growth (quarterly)



Source: Company data, I-Sec research

Chart 8: Gross margin and ad-spends as a % of revenues



Source: Company data, I-Sec research

Financial summary

Table 2: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Net Sales	387,850	458,321	514,255	585,929
Operating Expenses	291,850	346,421	384,977	435,358
EBITDA	96,000	111,900	129,278	150,570
% margins	25	24	25	26
Depreciation & Amortisation	9,380	10,373	11,528	13,059
Gross Interest	1,060	1,188	1,327	1,508
Other Income	7,330	3,721	3,693	4,157
Recurring PBT	92,890	104,061	120,117	140,161
Less: Taxes	23,540	26,192	30,233	35,278
Less: Minority Interest	-	-	-	-
Net Income (Reported)	67,380	77,869	89,883	104,882
Extraordinaries (Net)	(1,970)	-	-	-
Recurring Net Income	69,350	77,869	89,883	104,882

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	119,080	121,644	156,202	199,042
of which cash & cash eqv.	50,170	46,317	72,346	104,358
Total Current Liabilities & Provisions	91,040	114,846	129,370	147,814
Net Current Assets	28,040	6,797	26,831	51,228
Investments	21,250	25,398	27,734	30,726
Net Fixed Assets	50,560	422,650	420,840	418,267
Capital Work-in-Progress	5,130	5,256	5,256	5,256
Total Assets	104,980	460,102	480,662	505,476
Liabilities				
Borrowings	24,670	27,733	31,094	35,434
Deferred Tax Liability	-	-	-	-
Minority Interest	-	-	-	-
Equity Share Capital	2,160	2,345	2,345	2,345
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	78,150	430,024	447,223	467,698
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	80,310	432,369	449,568	470,043
Total Liabilities	104,980	460,102	480,662	505,476

Source: Company data, I-Sec research

Table 4: Quarterly trends

(Rs mn, year ending March 31)

	Mar 20	Jun 20	Sep 20	Dec 20
Net sales	90,110	105,600	114,420	118,620
% growth (YoY)	(9)	4	16	20
EBITDA	20,650	26,440	28,690	28,540
Margin (%)	22.9	25.0	25.1	24.1
Other income	2,660	1,560	1,510	970
Extraordinaries (Net)	500	80	(260)	(300)
Net profit	14,690	18,730	20,350	19,510

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	70,080	85,708	99,045	115,292
Working Capital	2,970	6,963	7,020	8,964
Changes	-	-	-	-
Capital Commitments	(7,650)	(9,120)	(9,717)	(10,486)
Free Cashflow	65,400	83,552	96,347	113,770
Cashflow from Investing Activities	19,260	(22,398)	(6,024)	(6,329)
Issue of Share Capital	-	185	-	-
Inc (Dec) in Borrowings	(4,320)	(31,638)	(1,327)	(1,508)
Dividend paid	(62,440)	(64,044)	(72,684)	(84,407)
Chg. in Cash & Bank balance	25,550	(25,223)	26,029	32,012
Closing cash & balance	31,300	6,077	32,106	64,118

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS	32.1	33.2	38.3	44.7
Cash EPS	36.4	37.6	43.3	50.3
Dividend per share (DPS)	25.0	29.0	34.0	39.0
Book Value per share (BV)	37.2	184.4	191.7	200.5
Growth (%)				
Net Sales	1.6	18.0	12.3	14.0
EBITDA	11.1	16.6	15.5	16.5
PAT	10.7	12.3	15.4	16.7
DPS	13.6	16.0	17.2	14.7
Valuation Ratios (x)				
P/E	69.0	66.7	57.8	49.5
P/CEPS	60.8	58.9	51.2	44.0
P/BV	59.6	12.0	11.6	11.0
EV / EBITDA	49.2	45.8	39.7	34.0
EV / Sales	12.3	11.4	10.1	8.9
Operating Ratios				
Raw Material / Sales (%)	45.9	45.6	44.6	44.4
Employee cost / Sales (%)	4.4	4.7	4.6	4.6
Other exps / Sales (%)	25.0	25.3	25.6	25.3
Other Income / PBT (%)	7.9	3.6	3.1	3.0
Effective Tax Rate (%)	25.3	25.2	25.2	25.2
Working Capital (days)	(40.6)	(39.9)	(40.6)	(41.2)
Inventory Turnover (days)	24.8	25.7	25.4	25.2
Receivables (days)	9.8	13.7	13.6	13.5
Payables (days)	67.5	70.3	70.6	70.8
Net D/E (x)	(0.8)	(0.1)	(0.2)	(0.2)
Profitability Ratios (%)				
Net Income Margins	17.9	17.0	17.5	17.9
RoACE	64.6	26.9	18.7	20.9
RoAE	88.4	30.4	20.4	22.8
Dividend Payout	91.1	87.3	88.7	87.2
Dividend Yield	1.1	1.3	1.5	1.8
EBITDA Margins	24.8	24.4	25.1	25.7

Source: Company data, I-Sec research

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