

ICICI Securities Limited
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Q4FY21 result review and earnings revision

Consumer Staples & Discretionary

Target price Rs2,600

Earnings revision

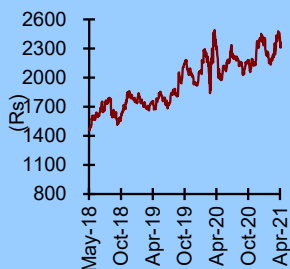
(%)	FY22E	FY23E
Sales	↑ 1.4	↑ 0.4
EBITDA	↑ 2.6	↑ 2.1
PAT	↑ 5.5	↑ 5.3

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	61.9	61.9	61.9
Institutional investors	25.4	25.6	25.6
MFs and others	4.0	3.5	3.3
Banks, FI's, Insurance co	3.8	4.0	4.2
FII's	17.6	18.1	18.1
Others	12.7	12.5	12.5

Source: BSE

Price chart



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INDIA

Hindustan Unilever

ADD

Maintained

Rs2,408

Volume-led growth focus over margins continues

Continued strong double-digit growth (+22% YoY) in health, hygiene and nutrition portfolio with high-teens volume growth in nutrition business was encouraging to note in 4QFY21. Underlying volume grew 16% (2-year CAGR of 4%). We note that HUL's continued focus on volume growth even at the expense of gross margins in the near-term ([see report](#)) is likely to accelerate volume growth. We like (1) HUL's supply chain agility (1.3x capacity vs pre-covid) and digital initiatives (incremental Shikhar outlets) in these challenging times, (2) efforts towards reducing price-affordability mismatch in nutrition business along with seamless integration of GSK's business, and (3) continuing plans to gain market shares in various categories by partially absorbing input cost inflation in short-term. However, we reckon that the probability of new pouch pack in nutrition cannibalising the refill pack (as its 20% cheaper) is high. This leads to (likely) re-investment of synergy benefits from GSK – HUL merger which is not a base case for consensus, in our view ([see report](#)). Maintain ADD.

Also see our report [What Markets Want #1: HUL](#)

- Overall revenue performance improved:** Reported revenue / EBITDA / recurring PAT grew 35% / 43% / 43%. Underlying domestic consumer business revenue (excluding merger of GSK CH and VWash) grew 21% with 16% volume growth (UVG; 2-year CAGR of 4%). Health, Hygiene and Nutrition (80% of company portfolio) witnessed 22% revenue growth. Further, discretionary segments of Skin care, Deos and Colour cosmetics (15% revenue contribution) and out of home consumption businesses like water, ice-creams, food solutions and vending (5% revenue contribution) also grew 10% and 61% respectively as consumer sentiment improved, however, on a much lower base. Nutrition volumes grew in double digits in Q4 and like-to-like EBITDA margins expanded 370bps in FY21.
- Gross margin impacted due to commodity headwinds:** Gross margin declined 120bps to 52.6% due to an inflationary trend in input costs which was partially offset by price hikes. HUL continued with the strategy to not pass on the steep inflation completely through calibrated price hikes in order to gain market shares (82% of the portfolio gained volume market shares in Q4). It continues to believe that if it can retain and recruit new consumers, margin expansion can be achieved over time.
- Cost savings, lower ad-spends drive operating margin expansion:** Reported EBITDA margin expanded 150bps YoY to 24.4% due to better absorption of ad-spends (-130bps YoY) and lower other operating expenses (-170bps YoY).
- Other highlights:** 1) OCF grew by 23% to ~Rs90bn while FCF declined by 25% to Rs49bn largely due to acquisition of Horlicks brand from parent, 2) working capital days increased by 6 days to (29) days, 3) 87% of portfolio gained penetration, 4) total coverage of Shikhar outlets is now 0.5mn, 5) E-commerce growth and contribution doubled YoY, and 6) 150+ SKUs launched in FY21.

Market Cap	Rs5657bn/US\$76.4bn	Year to March	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	HLL.BO/HUVR IN	Net Revenue (Rs mn)	387,850	459,960	521,243	588,322
Shares Outstanding (mn)	2,349.6	Net Profit (Rs mn)	69,350	81,810	94,869	110,430
52-week Range (Rs)	2476/1971	Dil. EPS (Rs)	32.1	34.8	40.4	47.0
Free Float (%)	38.1	% Chg YoY	10.7	8.4	16.0	16.4
FII (%)	18.1	P/E (x)	75.0	69.2	59.6	51.2
Daily Volume (US\$'000)	75,291	CEPS (Rs)	36.4	39.1	45.1	52.2
Absolute Return 3m (%)	6.3	EV/EBITDA (x)	53.5	49.4	42.2	36.4
Absolute Return 12m (%)	9.8	Dividend Yield (%)	1.0	1.7	1.5	1.7
Sensex Return 3m (%)	7.7	RoCE (%)	64.6	23.2	15.6	17.6
Sensex Return 12m (%)	53.8	RoE (%)	88.4	29.5	19.9	22.6

Please refer to important disclosures at the end of this report

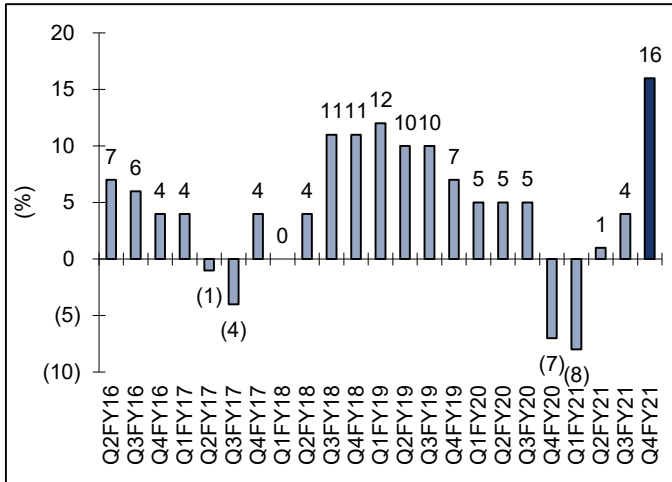
- **Valuation and risks:** We increase our earnings estimates by ~5%; modelling revenue / EBITDA / PAT CAGR of 13 / 17 / 16 (%) over FY2021-23E. Maintain ADD rating with DCF-based target price unchanged at Rs2,600. Key downside risks are delayed recovery in demand and irrational competition.

Table 1: Q4FY21 result review*(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume growth (%)	16.0	(7.0)	2300 bps	4.0	1200 bps	3.3	2.0	125 bps
Net sales	119,470	88,850	34	116,820	2	453,110	382,730	18
Other operating income	1,850	1,260	47	1,800	3	6,850	5,120	34
Net Revenue	121,320	90,110	35	118,620	2	459,960	387,850	19
COGS	(57,560)	(41,700)	38	(54,590)	5	(216,770)	(177,930)	22
Gross Profit	63,760	48,410	32	64,030	(0)	243,190	209,920	16
Staff cost	(5,220)	(3,550)	47	(5,560)	(6)	(22,290)	(16,910)	32
A&SP	(14,130)	(11,640)	21	(13,880)	2	(47,370)	(46,860)	1
Other opex	(14,840)	(12,570)	18	(16,050)	(8)	(60,290)	(50,150)	20
Total expenditure	(34,190)	(27,760)	23	(35,490)	(4)	(129,950)	(113,920)	14
EBITDA	29,570	20,650	43	28,540	4	113,240	96,000	18
Other income	1,090	2,660	(59)	970	12	5,130	7,330	(30)
Finance cost	(90)	(260)	(65)	(410)	(78)	(1,080)	(1,060)	2
D&A	(2,490)	(2,550)	(2)	(2,720)	(8)	(10,120)	(9,380)	8
PBT	28,080	20,500	37	26,380	6	107,170	92,890	15
Tax	(7,050)	(5,810)	21	(6,870)	3	(27,550)	(25,470)	8
PAT (recurring)	21,030	14,690	43	19,510	8	79,620	67,420	18
Extraordinary items	400	500		(300)		(80)	(40)	
Net profit (reported)	21,430	15,190	41	19,210	12	79,540	67,380	18
Core EPS (recurring)	8.9	6.8	32	8.3	8	33.9	31.2	9
Ratios (% of net revenues)								
COGS	47.4	46.3	116 bps	46.0	142 bps	47.1	45.9	125 bps
Gross margin (%)	52.6	53.7	-117 bps	54.0	-143 bps	52.9	54.1	-126 bps
Staff cost	4.3	3.9	36 bps	4.7	-39 bps	4.8	4.4	48 bps
A&SP	11.6	12.9	-128 bps	11.7	-6 bps	10.3	12.1	-179 bps
Other opex	12.2	13.9	-172 bps	13.5	-130 bps	13.1	12.9	17 bps
EBITDA margin (%)	24.4	22.9	145 bps	24.1	31 bps	24.6	24.8	-14 bps
Effective tax rate	25.1	28.3	-324 bps	26.0	-94 bps	25.7	27.4	-172 bps
Segment revenues								
Home care	38,400	33,500	15	34,090	13	139,590	136,420	2
Beauty & Personal Care	45,490	38,010	20	48,410	(6)	179,640	173,450	4
Foods & Refreshments	35,110	17,880	96	33,560	5	132,040	74,500	77
Others (incl exports)	2,320	720	222	2,560	(9)	8,690	3,480	150
Total segment revenue	121,320	90,110	35	118,620	2	459,960	387,850	19
Segment EBIT								
Home care	8,120	6,360	28	6,460	26	27,730	25,590	8
Beauty & Personal Care	12,520	9,450	32	14,130	(11)	51,270	48,700	5
Foods & Refreshments	5,750	2,250	156	4,730	22	21,890	12,320	78
Others (incl exports)	690	40	NM	500	38	2,230	60	
Total segment EBIT	27,080	18,100	50	25,820	5	103,120	86,670	19
Segment EBIT margin (%)								
Home care	21.1	19.0	216 bps	18.9	219 bps	19.9	18.8	110 bps
Beauty & Personal Care	27.5	24.9	266 bps	29.2	-167 bps	28.5	28.1	46 bps
Foods & Refreshments	16.4	12.6	379 bps	14.1	228 bps	16.6	16.5	4 bps
Others (incl exports)	29.7	5.6		19.5		25.7	1.7	
Total	22.3	20.1	223 bps	21.8	55 bps	22.4	22.3	7 bps

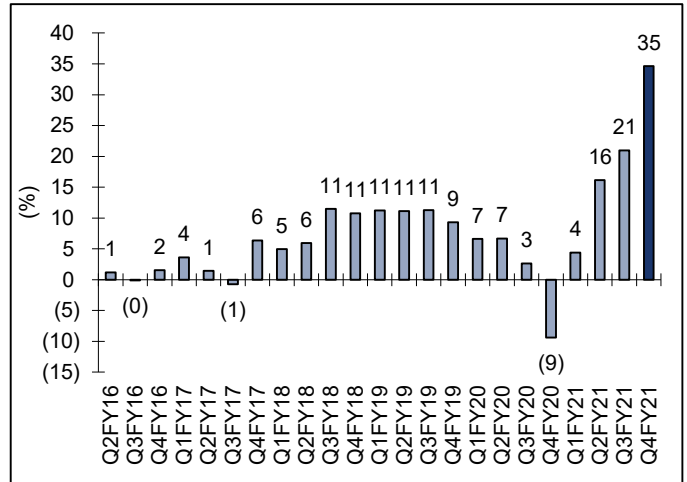
Source: Company data, I-Sec research

Chart 1: Volume growth



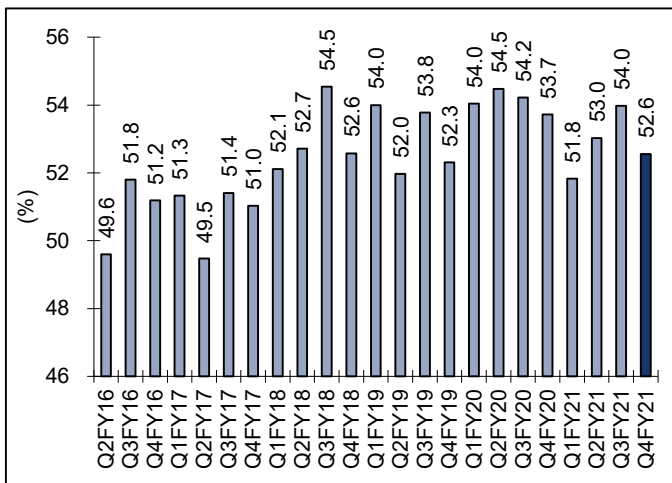
Source: Company data, I-Sec research

Chart 2: Revenue growth



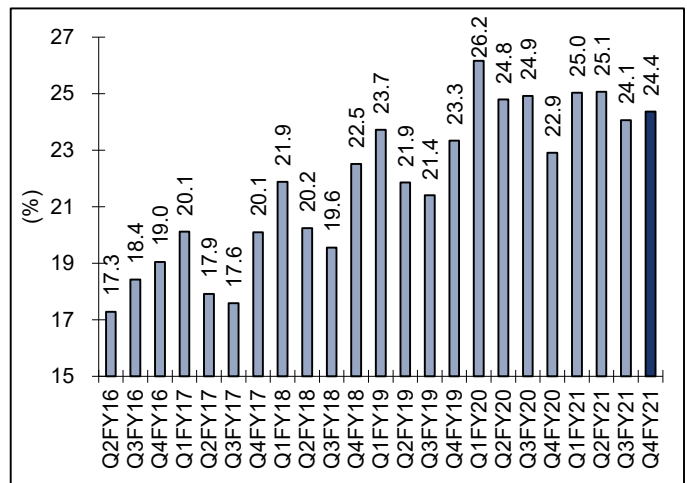
Source: Company data, I-Sec research

Chart 3: Gross margin



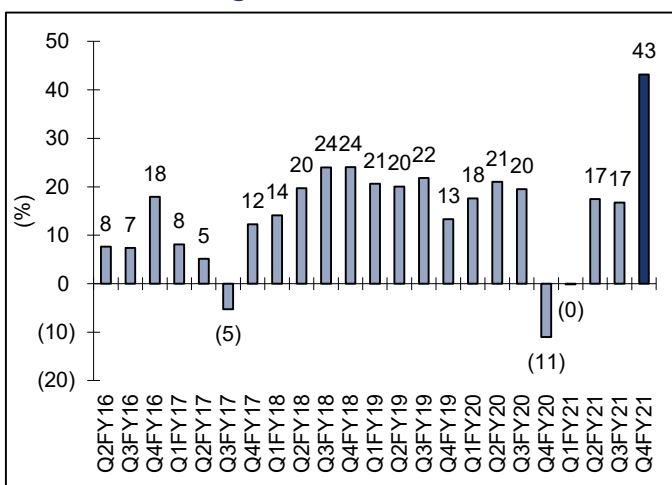
Source: Company data, I-Sec research

Chart 4: EBITDA margin



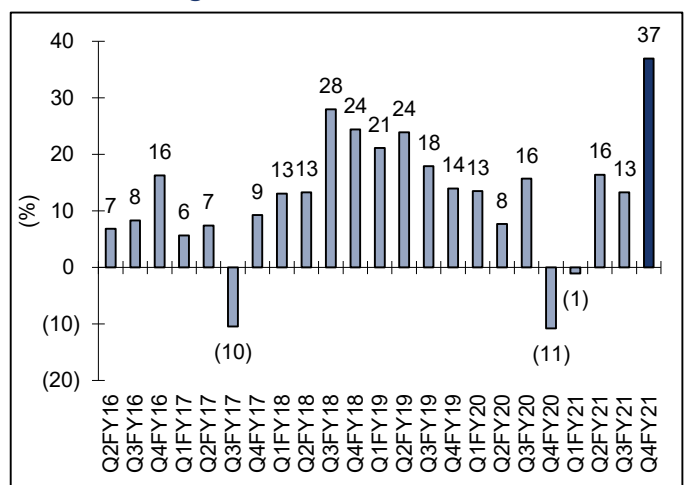
Source: Company data, I-Sec research

Chart 5: EBITDA growth



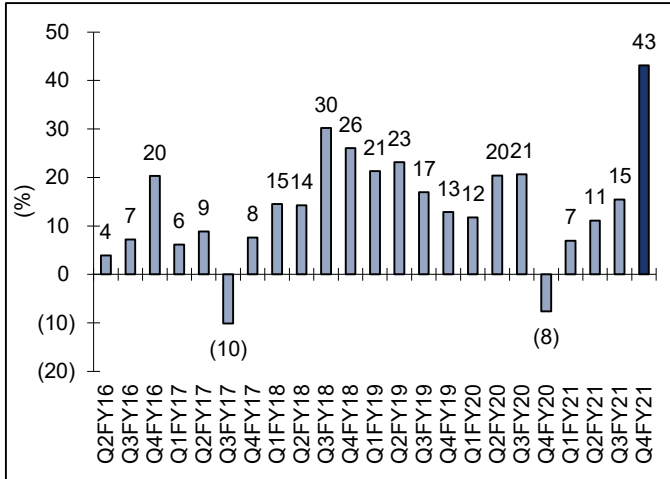
Source: Company data, I-Sec research

Chart 6: PBT growth



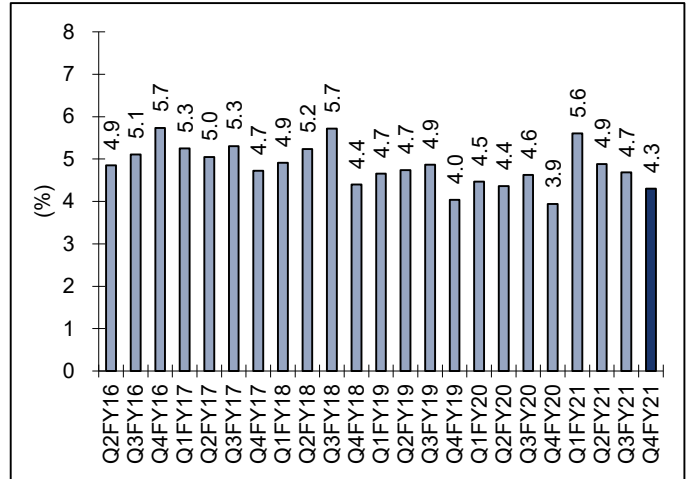
Source: Company data, I-Sec research

Chart 7: Recurring PAT growth



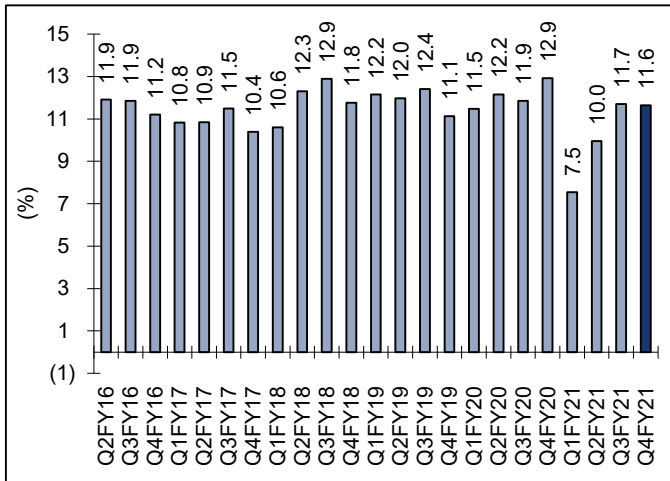
Source: Company data, I-Sec research

Chart 8: Staff costs as a % of sales



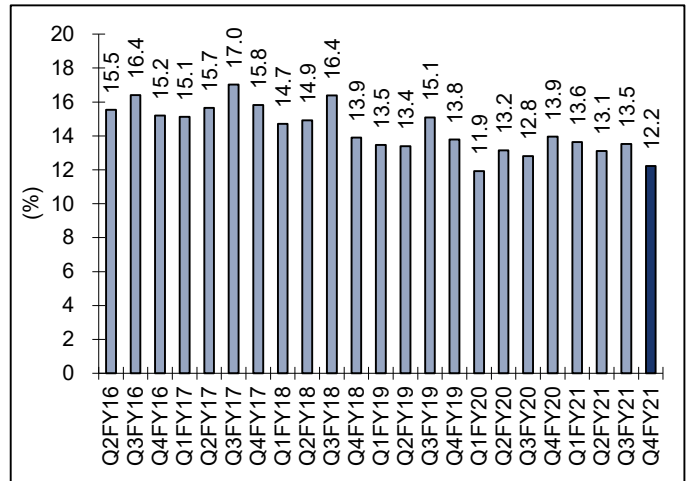
Source: Company data, I-Sec research

Chart 9: Ad-spends as a % of sales



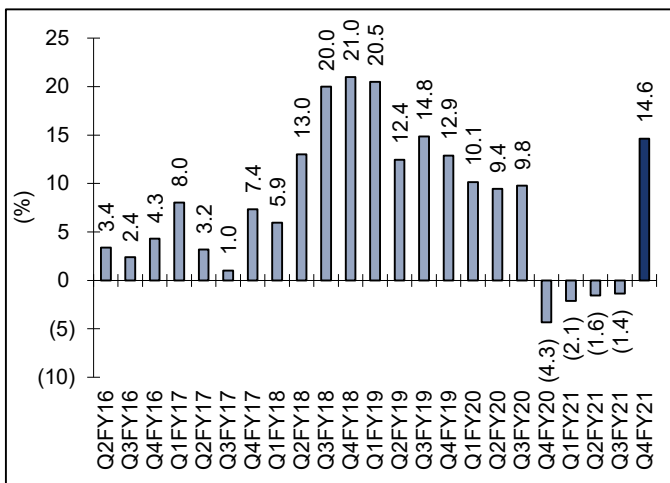
Source: Company data, I-Sec research

Chart 10: Other opex as a % of sales



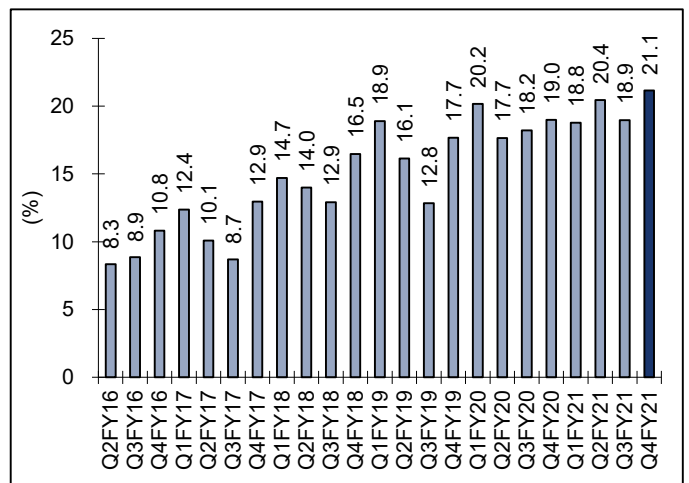
Source: Company data, I-Sec research

Chart 11: Revenue growth - Home care



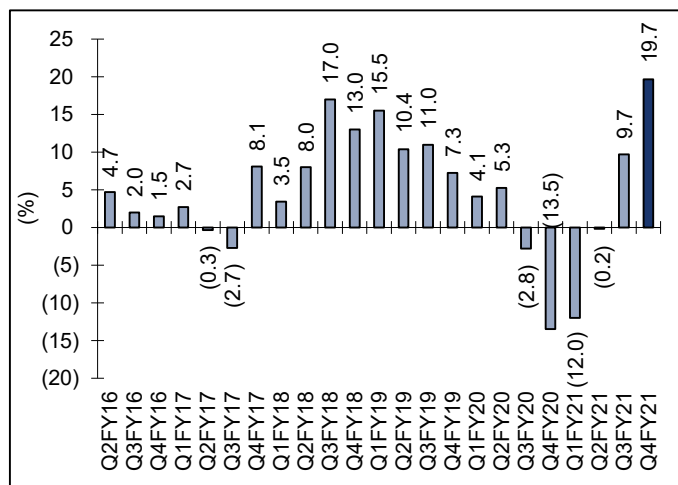
Source: Company data, I-Sec research

Chart 12: EBIT margin - Home care



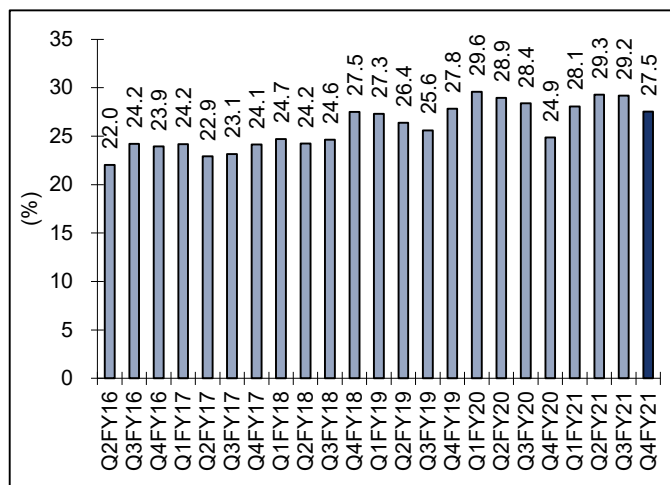
Source: Company data, I-Sec research

Chart 13: Revenue growth - Beauty & Personal Care



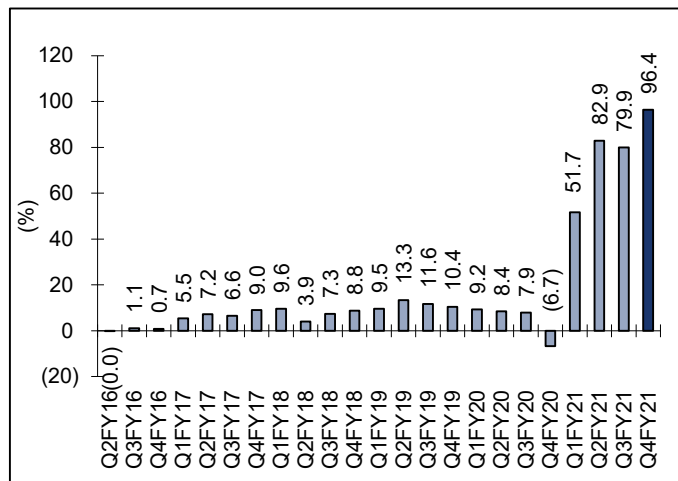
Source: Company data, I-Sec research

Chart 14: EBIT margin – Beauty & Personal Care



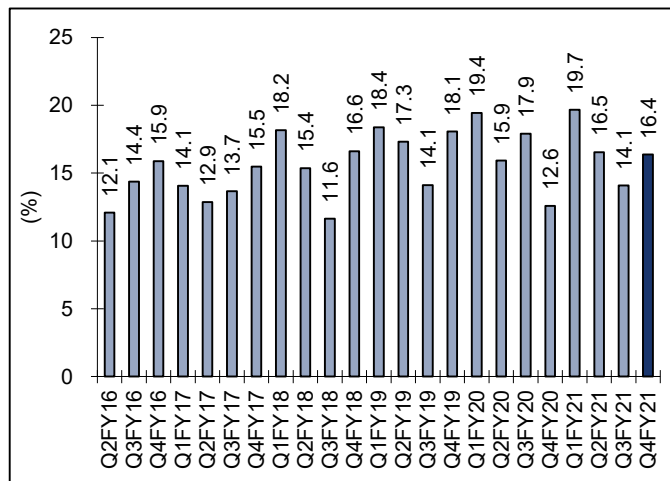
Source: Company data, I-Sec research

Chart 15: Revenue growth - Foods & Refreshments



Source: Company data, I-Sec research

Chart 16: EBIT margin – Foods & Refreshments



Source: Company data, I-Sec research

Table 2: HUL brands launch and re-launch timeline

Segment	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	FY21	FY21	FY21	FY21	FY20	FY20	FY20	FY20	FY19	FY19	FY19	FY19	FY18	FY18	FY18	FY18
Annapurna																
Axe							N	N	N				N			N
Ayush												N				N
Boost																
Bru		N										N				N
Brylcreem																
Cif																
Citra																N
Clinic		N														
CloseUp								N		N			N			
Comfort						N							N			
Domex		N	N	N	N		R		N			R				
Dove									N	R				N	N	N
Elle 18							N									
Fair & Glow								N	R		N					
Hamam																N
Hellmann						N										
Horlicks	N	N		N												
Indulekha						N										
Kissan		N										N				R
Knorr		N											N		N	
Kwality Wall's	N								N			N	N			
Lakme						N	N	N	N	N	N	N	N	N	N	N
Lifebuoy		N	N	N	N		N			R	N					
Lipton								N								
Love Beauty & Planet						N										
Love & Care							N									
Lux								N		N						
Magic Rinse							N									
Magnum Ice Cream										N			N			
Nature Protect		N														
OK																
Pears							N	N								
Pepsodent																
Pond's							N	N	N					N		
Pure Derm													N			
Pureit														N	N	
Red Label										N						
Rin								R								
Sunsilk								N								N
Surf Excel		N			N				N							
Taaza Tea																
Taj Mahal															R	
Toni & Guy																
TRESemme		N					N				R			N		
Vaseline		N								N						N
Vim		N														N
VWash			N													
Wheel																

Source: Company data, I-Sec research * N = New launch, R = Re-launch

Segment performance

Home Care segment grew by 15% YoY. Reported EBIT margin expanded 220bps YoY to 21.1% (leading to 28% YoY EBIT growth).

- Fabric wash witnessed strong recovery driven by increase in mobility which was impacted for most of FY21 as consumption of laundry was impacted due to confined living. However, market development of liquids continued as liquids and premium portfolio of fabric wash grew ahead of the category.
- Strong double-digit growth in home & hygiene portfolio driven by *Vim* due to higher penetration and market share gains, in our view. Innovation intensity increased in the segment (*Domex*) driven by increased demand of hygiene products by consumers.
- Premium water purifier business suffered though recovered sequentially due to strong execution in e-commerce.

Beauty & Personal Care segment revenue grew 20% YoY. EBIT margin expanded 270bps YoY to 27.5% (EBIT grew by 32% YoY).

- Skin cleansing segment witnessed high double-digit growth driven by Lifebuoy, premium Skin Cleansing (Dove & Pears) and stable performance of Lux. Price increases were taken judiciously due to steep inflationary input cost trends.
- Oral care sustained momentum with high double-digit growth driven by *Close Up*.
- Hair care also witnessed double-digit growth across brands. Good performance driven by consumer focused innovations.
- Winter portfolio also witnessed strong performance driven by *Vaseline*. Facial Cleansing and Talc products also continue to perform well. GAL also witnessed sequential momentum driven by penetration.
- Color cosmetics though still impacted have been improving sequentially. Management believes the category will be impacted again in short-term due to second wave of covid, however, the category is well positioned in long-term.

Foods & Refreshments segment witnessed revenue growth of 36% (excluding Nutrition business; 96% including nutrition business). Segment EBIT margins expanded 380bps to 16.4%.

- Food segment witnessed strong growth with double-digit growth in Ketchups & Soups driven by in-home consumption tailwind, however with increase in mobility, in-home consumption witnessed some declining trend.
- Beverages witnessed good performance with tea delivering strong double-digit growth (volume and price driven) across brands with increased consumption at home. Performance in coffee was also stable.
- Nutrition business volumes grew double-digit as volume and affordability focus driven penetration continues. Launched Rs2 Sachet in *Boost* & *Horlicks* and also increased grammage of recently launched Rs5 Sachet to improve affordability.
- Ice cream & food solutions and vending witnessed strong recovery in ice cream business. Innovation intensity increased with launch of *Cornetto Chokissimo*, *Trixy* cup and Premium Kulfis.

Financial summary

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Net Sales	387,850	459,960	521,243	588,322
Operating Expenses	291,850	346,720	388,632	434,594
EBITDA	96,000	113,240	132,610	153,728
% margins	25	25	25	26
Depreciation & Amortisation	9,380	10,120	11,199	12,321
Gross Interest	1,060	1,080	1,100	1,116
Other Income	7,330	5,130	7,716	8,737
Recurring PBT	92,890	107,170	128,028	149,028
Less: Taxes	23,540	25,360	33,159	38,598
Less: Minority Interest	-	-	-	-
Net Income (Reported)	67,380	79,540	94,869	110,430
Extraordinaries (Net)	(1,970)	(2,270)	-	-
Recurring Net Income	69,350	81,810	94,869	110,430

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	119,080	136,400	145,151	183,267
of which cash & cash eqv.	50,170	43,210	43,426	69,333
Total Current Liabilities & Provisions	91,040	108,410	111,206	125,715
Net Current Assets	28,040	27,990	33,945	57,552
Investments	21,250	28,260	31,578	35,183
Net Fixed Assets	50,560	510,270	510,017	509,463
Capital Work-in-Progress	5,130	6,230	6,230	6,230
Total Assets	104,980	572,750	581,771	608,428
Liabilities				
Borrowings	24,670	38,550	43,638	49,165
Deferred Tax Liability	-	59,860	59,860	59,860
Minority Interest	-	-	-	-
Equity Share Capital	2,160	2,350	2,350	2,350
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	78,150	471,990	475,923	497,053
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	80,310	474,340	478,273	499,403
Total Liabilities	104,980	572,750	581,771	608,428

Source: Company data, I-Sec research

Table 5: Quarterly trends

(Rs mn, year ending March 31)

	Jun 20	Sep 20	Dec 20	Mar 21
Net sales	105,600	114,420	118,620	121,320
% growth (YoY)	4	16	20	34
EBITDA	26,440	28,690	28,540	29,570
Margin (%)	25.0	25.1	24.1	24.4
Other income	1,560	1,510	970	1,090
Extraordinaries (Net)	80	(260)	(300)	400
Net profit	18,730	20,350	19,510	21,030

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	70,080	90,130	99,451	115,129
Working Capital Changes	2,970	(560)	(3,970)	4,223
Capital Commitments	(7,650)	(40,510)	(10,946)	(11,766)
Free Cashflow	65,400	49,060	84,536	107,586
Cashflow from Investing Activities	19,260	(13,670)	(3,230)	(3,029)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(4,320)	(4,690)	(1,100)	(1,116)
Dividend paid	(62,440)	(88,110)	(90,936)	(89,300)
Chg. in Cash & Bank balance	25,550	(16,900)	216	25,907
Closing cash & balance	31,300	17,400	17,616	43,523

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS	32.1	34.8	40.4	47.0
Cash EPS	36.4	39.1	45.1	52.2
Dividend per share (DPS)	25.0	40.5	36.0	41.0
Book Value per share (BV)	37.2	201.8	203.5	212.5
Growth (%)				
Net Sales	1.6	18.4	13.2	12.7
EBITDA	11.1	18.0	17.1	15.9
PAT	10.7	18.0	16.0	16.4
DPS	13.6	62.0	(11.1)	13.9
Valuation Ratios (x)				
P/E	75.0	69.2	59.6	51.2
P/CEPS	66.1	61.5	53.3	46.1
P/BV	64.8	11.9	11.8	11.3
EV / EBITDA	53.5	49.4	42.2	36.4
EV / Sales	13.4	12.3	10.9	9.7
Operating Ratios				
Raw Material / Sales (%)	45.9	47.1	47.1	46.6
Employee cost / Sales (%)	4.4	4.8	4.4	4.4
Other exps / Sales (%)	25.0	23.4	23.1	22.9
Other Income / PBT (%)	7.9	4.8	6.0	5.9
Effective Tax Rate (%)	25.3	23.7	25.9	25.9
Working Capital (days)	(40.6)	(44.0)	(36.1)	(34.6)
Inventory Turnover (days)	24.8	26.8	26.7	26.6
Receivables (days)	9.8	13.1	13.0	12.9
Payables (days)	69.6	68.5	68.4	68.3
Net D/E (x)	(0.8)	(0.1)	(0.1)	(0.2)
Profitability Ratios (%)				
Net Income Margins	17.9	17.8	18.2	18.8
RoACE	64.6	23.2	15.6	17.6
RoAE	88.4	29.5	19.9	22.6
Dividend Payout	91.1	119.6	89.2	87.2
Dividend Yield	1.0	1.7	1.5	1.7
EBITDA Margins	24.8	24.6	25.4	26.1

Source: Company data, I-Sec research

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