

## Exciting acquisition amid growing health awareness

As on March 23, 2020, Hindustan Unilever (HUL) has signed an agreement with Glenmark Pharmaceuticals to acquire its intimate hygiene brand VWash. The deal includes acquisition of intellectual property rights, including trademarks, design and know-how related to the VWash brand. As part of the deal, HUL will make most of the payment in cash upfront as well as pay a royalty on sales for three years. The companies, however, have not disclosed the amount of the deal. According to our estimates, sales of VWash brand were ~₹ 50 crore in FY19. The company could have spent ~₹ 200-250 crore for the acquisition.

The transaction is subject to fulfilment of certain conditions and both companies would be working together to complete this in the next few months. **Glenmark, however, will continue to manage the business until the transaction is completed and will continue to manufacture for HUL for an agreed period of time.**

## HUL's strong distribution network to aid penetration levels

We believe VWash is majorly distributed through Glenmark Pharmaceuticals' pharmacy and chemist stores. With HUL's extensive distribution reach of 7+ million outlets and direct distribution of 3.5+ million retail outlets, we believe HUL would be able to market VWash on a much wider scale across geographies. This would help the product grow faster with the company, going forward.

## Nascent & underpenetrated category

Feminine intimate hygiene is a nascent and underpenetrated category within the female hygiene space. With the strong gross margins, the brand fits into HUL's beauty & personal care segment. We believe the company is best positioned to grow the category as well as brand given its strong media spend power and robust presence in general trade. Overall, the female hygiene space is one of most underpenetrated categories.

## Valuation & Outlook

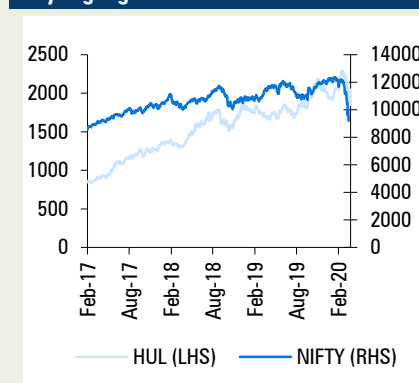
The acquisition of Vwash would not make any material difference to growth. However, it has strong potential to grow into a bigger brand in the next five to 10 years. With respect to the recent outbreak of Covid-19, the personal wash category is likely to see strong growth in the next few quarters. Though the personal wash category is fully penetrated, it is expected to witness unprecedented increase in per capita consumption after increasing awareness on personal hygiene. Despite the extraordinary economic slowdown, HUL is likely to sustain robust revenue growth and strong operating margins. The company would continue to command a premium to the peers being the leader in the category. We change our recommendation from HOLD to **BUY** with a target price of ₹ 2310/share.



### Particulars

Particular (₹ crore)	Amount
Market Capitalization	428,328.0
Total Debt (FY19)	0.0
Cash and Investments (FY19)	6,381.0
EV	421,947.0
52 week H/L (₹)	2187 / 1831
Equity capital	216.0
Face value	₹ 1
FII Holding (%)	12.3
DII Holding (%)	6.7

### Key Highlights



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### Key Financial Summary

Key Financials	FY 18	FY 19	FY 20E	FY 21E	FY 22E	CAGR (FY 19-22E)
Total Operating Income	34487.0	38224.0	40744.2	46472.3	52934.7	11.5%
EBITDA	7276.0	8637.0	10459.1	11109.2	12577.6	13.3%
EBITDA Margin %	21.1	22.6	25.7	23.9	23.8	
Net Profit	5237.0	6036.0	7266.6	8001.5	9118.1	14.7%
EPS (₹)	24.25	27.94	33.64	37.04	42.21	
P/E	77.1	66.9	55.6	50.5	44.3	
RoNW %	74.7	80.9	90.6	100.3	100.8	
RoCE (%)	79.9	85.3	105.8	115.0	117.0	

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Total operating income</b>	<b>38,224.0</b>	<b>40,744.2</b>	<b>46,472.3</b>	<b>52,934.7</b>
Growth (%)	10.7	6.6	14.1	13.9
Raw Material Expenses	17,960.0	18,655.4	21,384.8	24,434.9
Employee Expenses	1,747.0	1,810.9	2,199.9	2,505.8
Marketing Expenses	4,552.0	4,748.5	5,453.8	6,212.3
Administrative Expenses	1,994.0	1,851.1	2,383.2	2,714.6
Other expenses	3,334.0	3,219.3	3,941.4	4,489.5
Total Operating Expenditure	29,587.0	30,285.1	35,363.1	40,357.1
<b>EBITDA</b>	<b>8,637.0</b>	<b>10,459.1</b>	<b>11,109.2</b>	<b>12,577.6</b>
Growth (%)	18.7	21.1	6.2	13.2
Depreciation	524.0	892.2	750.9	776.9
Interest	28.0	104.5	94.1	89.3
Other Income	664.0	630.8	687.6	749.5
Exceptional Income	-227.0	-139.0	-139.0	-139.0
PBT	8,522.0	9,954.2	10,812.8	12,321.8
Total Tax	2,486.0	2,687.6	2,811.3	3,203.7
<b>PAT</b>	<b>6,036.0</b>	<b>7,266.6</b>	<b>8,001.5</b>	<b>9,118.1</b>
Growth (%)	15.3	20.4	10.1	14.0
EPS (₹)	27.9	33.6	37.0	42.2

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	5,837.0	7,266.6	8,001.5	9,118.1
Add: Depreciation	524.0	892.2	750.9	776.9
(Inc)/dec in Current Assets	-228.0	-1,464.7	-1,271.0	-1,449.2
Inc/(dec) in CL and Provisions	-33.0	246.5	1,194.5	1,361.9
<b>CF from operating activities</b>	<b>5,728.0</b>	<b>6,940.5</b>	<b>8,675.8</b>	<b>9,807.7</b>
(Inc)/dec in Investments	27.0	-100.0	-100.0	-100.0
(Inc)/dec in loans & advances	35.0	-25.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	-724.0	173.0	-200.0	-200.0
Others	398.0	-130.6	10.9	16.6
<b>CF from investing activities</b>	<b>-264.0</b>	<b>-82.6</b>	<b>-314.1</b>	<b>-308.4</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-5,459.0	-6,794.3	-8,052.5	-8,052.5
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-3.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-5,462.0</b>	<b>-6,794.3</b>	<b>-8,052.5</b>	<b>-8,052.5</b>
Net Cash flow	2.0	63.6	309.2	1,446.8
Opening Cash	573.0	575.0	638.6	947.8
Closing Cash*	3,688.0	3,751.6	4,060.8	5,507.6

Source: Company, ICICI Direct Research \*includes cash in bank

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	216.0	216.0	216.0	216.0
Reserve and Surplus	7,443.0	7,915.3	7,864.3	8,929.9
Total Shareholders funds	7,659.0	8,131.3	8,080.3	9,145.9
Other Non Current Liabilities	804.0	804.0	804.0	804.0
Long Term Provisions	1049.0	110.5	121.6	138.3
<b>Total Liabilities</b>	<b>9,512.0</b>	<b>9,045.8</b>	<b>9,005.8</b>	<b>10,088.3</b>
<b>Assets</b>				
Gross Block	5,476.0	5,676.0	5,876.0	6,076.0
Less: Acc Depreciation	1,569.0	2,461.2	3,212.0	3,988.9
Net Block	3,907.0	3,214.8	2,664.0	2,087.1
Capital WIP	373.0	0.0	0.0	0.0
Total Fixed Assets	4,280.0	3,214.8	2,664.0	2,087.1
Net Intangible Assets	400.0	400.0	400.0	400.0
Other Investments	256.0	356.0	456.0	556.0
Liquid Investments	0	0	0	0
Inventory	2,422.0	2,756.2	3,139.1	3,575.6
Debtors	1,673.0	1,212.7	1,381.2	1,573.3
Loans and Advances	0.0	220.5	251.1	286.0
Investments & Other CA	898.0	1,102.5	1,255.6	1,430.2
Cash	3,688.0	3,751.6	4,060.8	5,507.6
Total Current Assets	11,374.0	12,902.3	14,482.6	17,378.6
Creditors	7,070.0	7,166.2	8,161.6	9,296.6
Provisions & other CL	1,283.0	1,433.2	1,632.3	1,859.3
Total Current Liabilities	8,353.0	8,599.5	9,793.9	11,155.9
Net Current Assets	3,021.0	4,302.9	4,688.6	6,222.8
Others Non-Current Assets	746.0	771.0	796.0	821.0
<b>Application of Funds</b>	<b>9,512.0</b>	<b>9,045.8</b>	<b>9,005.8</b>	<b>10,088.3</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	27.9	33.6	37.0	42.2
Cash EPS	30.4	37.8	40.5	45.8
BV	35.5	37.6	37.4	42.3
DPS	21.0	27.0	32.0	32.0
Cash Per Share	17.1	17.4	18.8	25.5
<b>Operating Ratios (%)</b>				
EBITDA/Total Operating Income	22.6	25.7	23.9	23.8
PBT Margin	22.9	24.8	23.6	23.5
PAT Margin	15.8	17.8	17.2	17.2
Inventory days	23	25	25	25
Debtor days	16	11	11	11
Creditor days	69	65	65	65
<b>Return Ratios (%)</b>				
RoE	80.9	90.6	100.3	100.8
RoCE	85.3	105.8	115.0	117.0
<b>Valuation Ratios (x)</b>				
P/E	71.0	58.9	53.5	47.0
EV / EBITDA	49.2	40.6	38.2	33.6
EV / Net Sales	11.3	10.6	9.3	8.1
Market Cap / Sales	11.4	10.6	9.3	8.2
Price to Book Value	55.9	52.7	53.0	46.8
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	1.1	1.1	1.1
Quick Ratio	0.6	0.7	0.7	0.7

Source: Company, ICICI Direct Research

**Exhibit 5: ICICI Direct coverage universe (FMCG)**

Sector / Company	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Colgate (COLPAL)	1,109	1,430	Hold	36,990	28.5	30.6	32.6	38.9	36.2	34.0	8.3	8.0	7.4	70.7	75.5	82.9	52.2	59.7	65.1
Dabur India (DABIND)	401	550	Buy	84,312	8.2	9.3	10.3	49.0	43.2	39.0	9.9	9.0	8.2	29.6	29.9	30.0	25.7	26.8	26.7
GSK CH (GLACON)	8,499	8,780	Hold	35,327	233.7	272.5	N.A.	36.4	31.2	N.A.	7.4	6.8	N.A.	36.1	32.6	N.A.	24.0	24.8	N.A.
Hindustan Unilever (HINLEV)	1,983	2,310	Buy	428,328	27.9	33.6	37.0	71.0	58.9	53.5	11.4	10.6	9.3	85.3	105.8	115.0	80.9	90.6	100.3
ITC Limited (ITC)	150	230	Buy	191,929	10.3	12.8	13.7	14.6	11.7	10.9	4.3	4.0	3.7	30.8	30.4	30.0	21.5	24.1	23.0
Jyothy Lab (JYOLAB)	87	185	Hold	6,363	5.3	5.9	6.5	16.4	14.8	13.4	3.6	3.3	3.0	28.6	28.5	30.6	22.6	22.4	23.5
Marico (MARLIM)	245	350	Hold	40,641	8.8	8.4	8.7	27.9	29.3	28.1	5.5	5.4	4.9	38.0	41.2	41.9	31.6	33.9	34.4
Nestle (NESIND)	12,980	18,000	Hold	159,093	166.7	204.3	242.4	77.9	63.5	53.5	14.2	12.9	11.4	42.9	56.9	61.0	45.6	101.9	113.3
Tata Global Bev (TATGLO)	215	450	Buy	24,613	7.2	8.0	9.5	29.7	27.0	22.6	3.4	3.3	2.4	8.4	8.7	8.6	6.5	6.8	6.5
VST Industries (VSTIND)	2,910	5,200	Buy	6,949	146.9	198.4	218.4	19.8	14.7	13.3	6.3	5.5	5.1	51.4	53.6	50.2	34.2	38.8	37.0
Varun Beverage (VARBEV)	571	950	Buy	23,427	11.7	16.4	16.6	48.7	34.8	34.3	5.9	4.6	3.3	12.7	14.2	15.5	12.1	15.0	14.2

Source: Company, ICICI Direct Research

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