

Hindustan Unilever

BSE SENSEX	S&P CNX
38,214	11,341
Bloomberg	HUVR IN
Equity Shares (m)	2,165
M.Cap.(INRb)/(USD\$b)	4361.4 / 61.3
52-Week Range (INR)	2102 / 1500
1, 6, 12 Rel. Per (%)	9/19/18
12M Avg Val (INR M)	2706
Free float (%)	32.8

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	382.2	408.9	466.3
EBITDA	86.4	100.6	120.3
PAT	62.6	71.9	88.4
EPS (INR)	28.9	33.2	40.8
Gr. (%)	18.2	14.8	22.9
BV/Sh (INR)	35.4	36.8	39.2
RoE (%)	85.0	92.0	107.4
RoCE (%)	119.1	127.3	146.4
P/E (x)	69.6	60.7	49.4
P/BV (x)	56.9	54.8	51.4

Estimate change 

TP change 

Rating change 

CMP: INR2,015 TP: INR2,265(+12%)

Buy

Earnings momentum strong, reinforcing investment case further

- Reported net sales grew 6.7% YoY to INR98.5b** (our estimate: INR98.8b). EBITDA rose 21% YoY to INR24.4b (16% on a comparable basis after adjusting for Ind-AS 116; our estimate: +14.4% to INR23.1b), while PAT (bei) was up 20.4% YoY to INR18.3b (our estimate: INR16.1b). In contrast to our expectation, the company has started utilizing the corporate tax benefits from 2QFY20 itself, leading to a sharp PAT beat. Domestic consumer business sales were up 7% YoY, led by underlying volume growth of 5% YoY (our estimate: 6%).
- Gross margins** stood at 54.5%, while the EBITDA margin expanded 290bp YoY to 24.8% – up 210bp YoY adjusted for Ind-AS 116 and 150bp adjusted for the impact of government grants. Notably, HUVR delivered a margin improvement despite a 20bp YoY/70bp QoQ increase in ad spend.
- Segmental performance:** Revenue was up 9.4% YoY at Home Care (34% of sales) and 5.3% YoY at Personal Care. Food & Refreshments (19% of sales) sales were up 8.4% YoY. Margin expanded 150bp YoY in Home Care and 260bp YoY in Personal Care, but shrank 140bp YoY in F&R.
- Key concall highlights: (1)** Rural growth was 0.5x urban for the sector in 2QFY20. **(2)** Prices were reduced by 4-6% in mass end personal wash products in 2QFY20, and a similar reduction is likely to be taken in premium products like Dove and Pears in 3QFY20. On a net basis, ~3% effective price reduction is likely in 2Q and 3Q across soap brands.
- Valuation and view:** Revenue was in line, while the margin surprised yet again. Once we incorporate the GSKCH merger (final approvals awaited), there could be 8-9% addition to EPS in FY21, which means that the stock is trading at ~45.3x FY21 v/s 49.4x as it appears currently. Given its best-of-breed earnings visibility and by far highest return ratios, the premium valuations are justified. On a target multiple of 50x Sep'21E EPS, we derive a TP of INR2,265.

Quarterly performance (Standalone)

Y/E March	FY19				FY20						(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY19	FY20E	Est. 2QE	Var.
Domestic volume growth (%)	12.0	10.0	10.0	7.0	5.0	5.0	6.0	8.0	10.0	6.0	6.0	
Net sales	94,870	92,340	95,580	99,450	1,01,140	98,520	1,01,763	1,07,459	3,82,240	4,08,882	98,785	-0.3%
YoY change (%)	11.2	11.1	11.3	9.3	6.6	6.7	6.5	8.1	10.7	7.0	7.0	
Gross Profit	51,230	47,990	51,400	52,020	54,660	53,670	55,983	57,390	2,02,640	2,21,703	52,763	
Margin %	54.0	52.0	53.8	52.3	54.0	54.5	55.0	53.4	53.0	54.2	53.4	
EBITDA	22,510	20,190	20,460	23,210	26,470	24,430	23,207	26,477	86,370	1,00,585	23,107	5.7%
YoY change (%)	20.6	20.0	21.8	13.3	17.6	21.0	13.4	14.1	18.7	16.5	14.4	
Margins (%)	23.7	21.9	21.4	23.3	26.2	24.8	22.8	24.6	22.6	24.6	23.4	
Depreciation	1,270	1,300	1,330	1,340	2,140	2,370	2,155	1,938	5,240	8,602	2,145	
Interest	70	70	70	70	240	310	240	170	280	960	240	
Other income	1,350	3,050	1,060	1,180	1,470	1,800	2,014	2,162	6,640	7,446	2,013	
PBT	22,520	21,870	20,120	22,980	25,560	23,550	22,827	26,532	87,490	98,469	22,735	3.6%
Tax	6,640	6,270	5,060	6,890	8,080	4,600	6,163	7,743	24,860	26,587	6,593	
Rate (%)	29.5	28.7	25.1	30.0	31.6	19.5	27.0	29.2	28.4	27.0	29.0	
PAT bei	15,670	15,220	14,010	15,900	17,510	18,320	16,664	19,189	62,630	71,882	16,142	13.5%
YoY change (%)	21.3	23.1	16.9	12.8	11.7	20.4	18.9	20.7	18.2	14.8	6.1	
Reported Profit	15,290	15,250	14,440	15,380	17,550	18,480	16,664	19,189	60,360	71,882	16,142	

E: MOFSL Estimates

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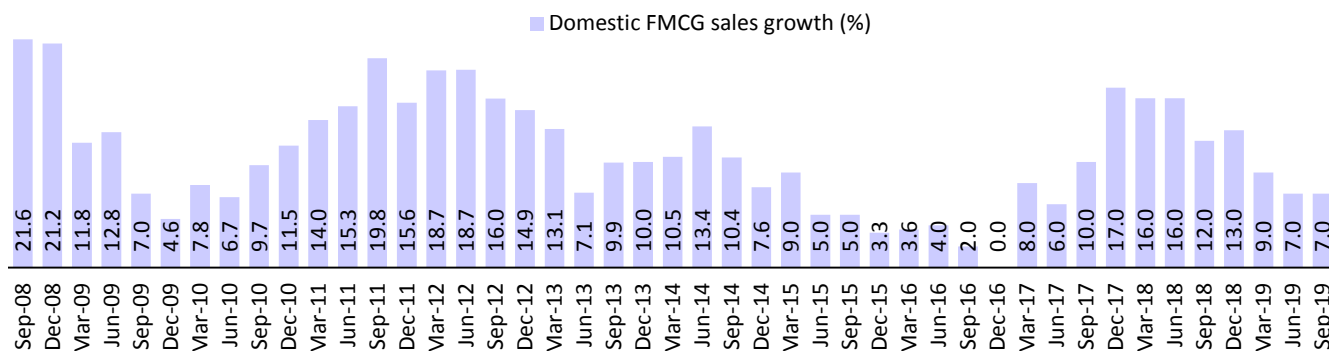
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

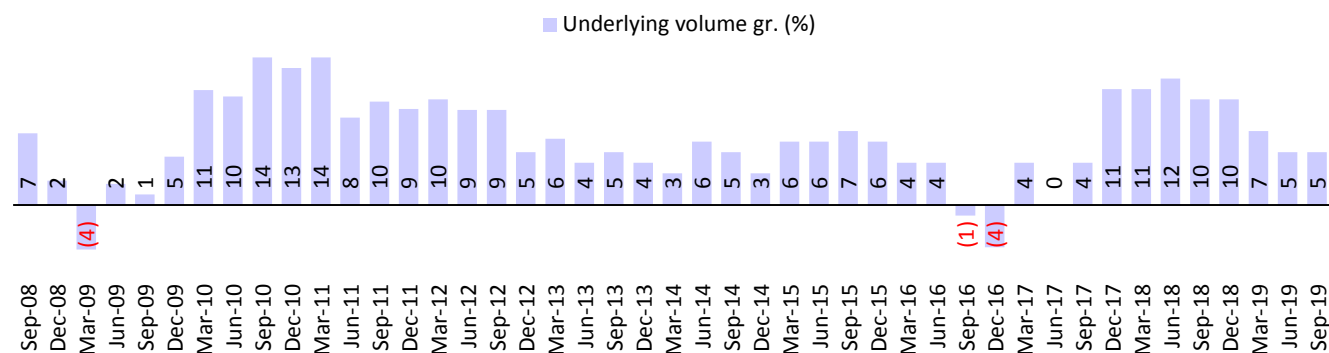
Quarterly performance details

Exhibit 1: Domestic sales grew 7% in 2QFY20 led by...



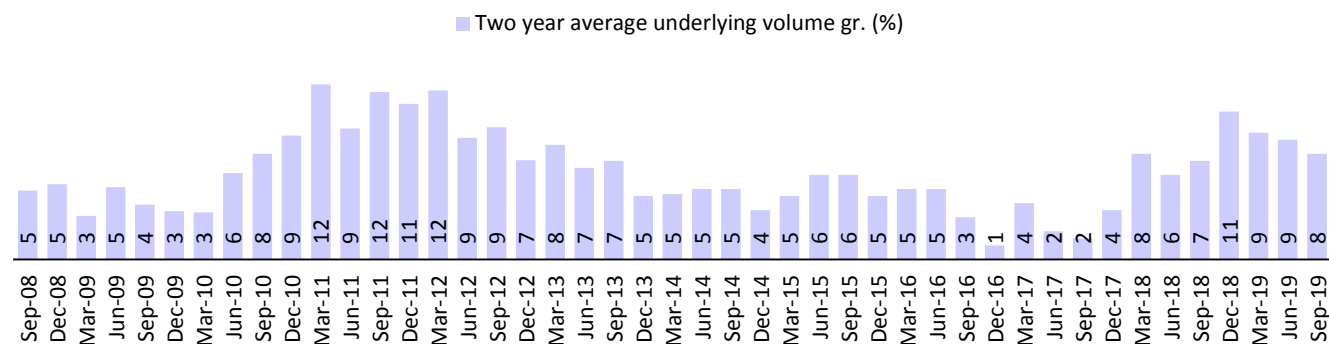
Source: Company, MOFSL

Exhibit 2: ...underlying volume growth of 5% YoY



Source: Company, MOFSL

Exhibit 3: On a two-year average basis, underlying volumes were up 7.5%



Source: Company, MOFSL

- Segmental EBIT margin expanded for Home care (+150bp YoY) and Personal care (+260bp YoY), but shrank for Foods & Refreshments (-140bp YoY).
- EBITDA margin expanded 290bp YoY to 24.8%, led by lower operating expenses – other expenses (-20bp YoY) and staff cost (-40bp YoY) – while ad spends were up 20bp YoY to 13.2%.

Exhibit 4: Realization growth at 2% YoY for 2QFY20

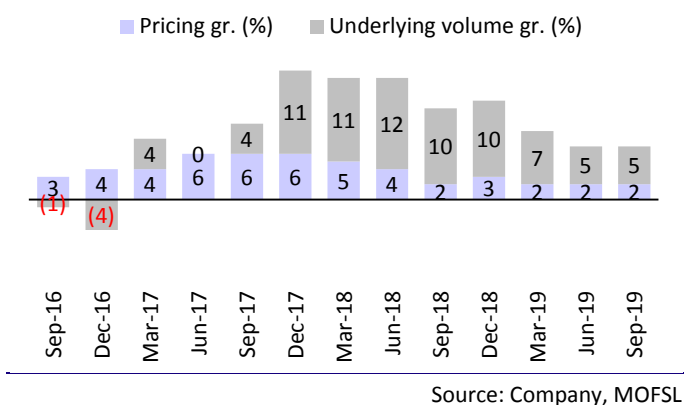


Exhibit 5: Gross margin expanded 250bp YoY to 54.5%

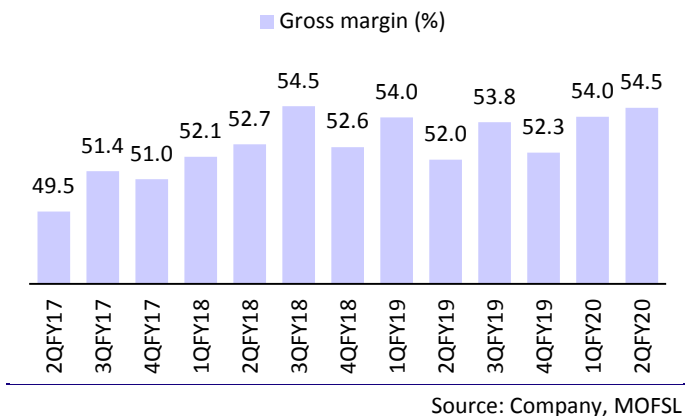


Exhibit 6: A&P spends up 20bp YoY

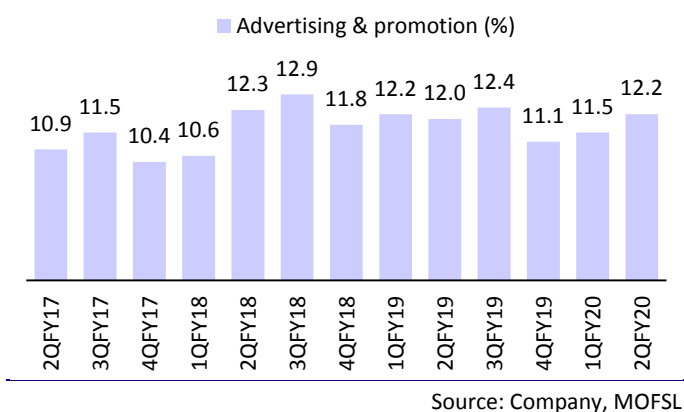


Exhibit 7: Employee expenses down 40bp YoY...

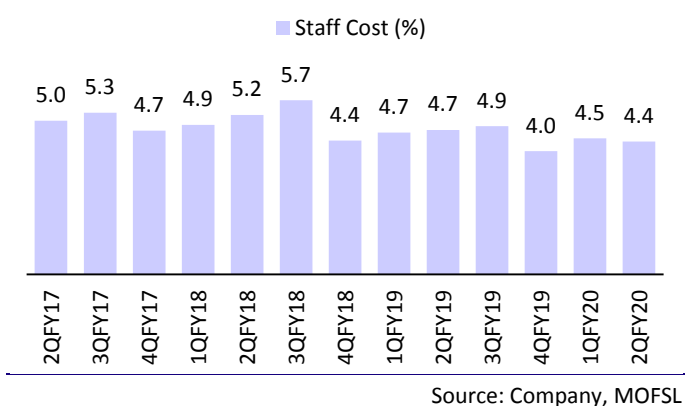


Exhibit 8: Other expenses down 20bp YoY...

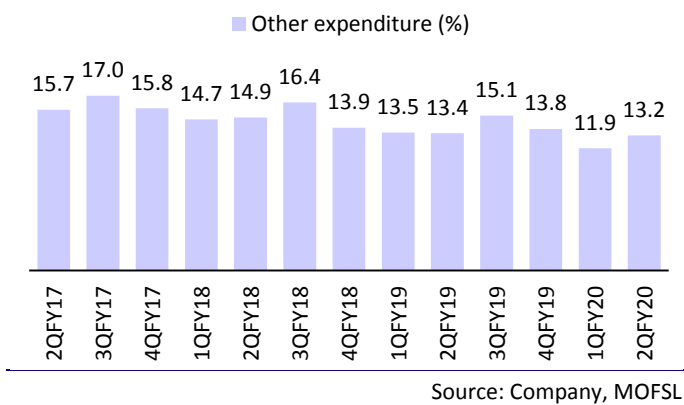
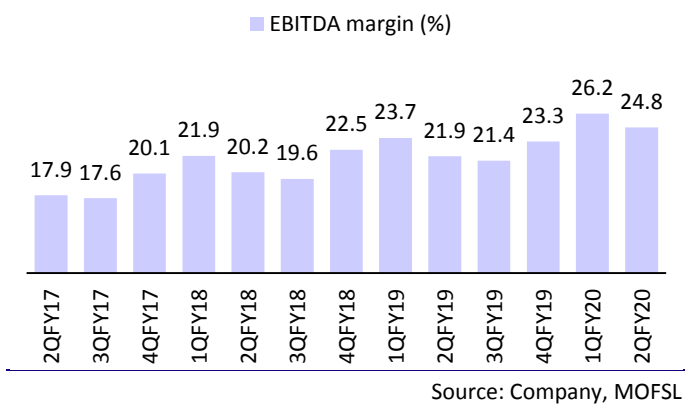


Exhibit 9: ..driving EBITDA margin expansion of 290bp YoY



Conference call highlights

Macro

- Rural growth slowed down further in 2QFY20. Rural growth was 0.5x urban for the sector in 2QFY20.
- Near-term demand outlook remains challenging.
- The RBI's repo rates cuts, the government's slew of measures and direct benefit transfer will lead to some improvement over the near term.
- Need to see how transmission of incomes to customers, particularly rural customers, happens.
- Adequate to above average rainfall in most regions could however potentially lead to improved demand.

Category highlights

- Ninth consecutive quarter of double-digit growth in home care. Fabric wash doing very well as are other parts of home care.
- Personal wash: Taken a series of actions in mass part recently to boost growth.
- **Personal wash price reduction:** Prices were reduced by 4-6% in mass end personal wash products in 2QFY20, and a similar reduction is likely to be taken in premium products like Dove and Pears in 3QFY20. On a net basis, ~3% effective price reduction is likely in 2Q and 3Q across soap brands.
- Deodorants outlook challenging while oral care did well for the quarter. While the company is content with the oral care performance, it would hesitate to call out sustained good performance.
- Foods did well with 8% growth in 2QFY20. Good performance across sub segments with WIMI strategy contributing significantly to growth.

Margins and tax rate

- **Comparable EBITDA margins:** Reported margins up 310bp (up 210bp adjusted for lease effect; up150bp adjusted for government grants).
- Margin expansion was despite ad spend increase YoY/QoQ. New launches continue at a healthy pace. Launched premium detergent brand 'Love and Care' in 2QFY20.
- **Tax rate:** ETR was 30.5% before corporate tax cuts. ETR will be 27% in FY20 and 26% for FY21 onward because there is some DTA on books.
- Still looking at various options to utilize the corporate tax rate cuts. May not invest in new facilities as of now.
- While income tax benefits from Assam go away, GST benefits remain.

Other points

- GSK merger approvals: NCLT Mumbai approval for HUVR will likely be received in two weeks, while NCLT Chandigarh (for GSK) hearing is getting a bit delayed. The expected merger dateline of December 2019 may be extended by a couple of months.
- Naturals growing at 1.5x base business.

Sustainability

- By 2025, it will be fully independent of single use plastics.
- Will collect and then process more packaging than use by this year.

Valuation and view

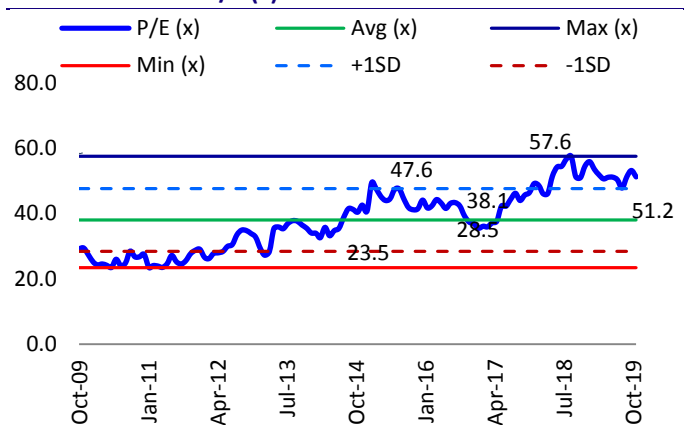
- Four key trends are particularly relevant for HUVR in that they point toward an elevated earnings growth trajectory compared to the past: (1) Rapidly improving adaptability to market requirements. (2) Recognition and strong execution on Naturals. (3) A continuous strong trend toward premiumization. (4) Extensive plans to employ technology, creating further entry barriers.
- Once we incorporate the GSKCH merger (no clarity on date as yet), there could be 8-9% addition to EPS in FY21, which means that the stock trades at ~45.3x FY21E v/s 49.4x as it appears now.
- Given the company’s best earnings growth visibility in the large-cap Indian consumer space and by far the highest return ratios, the premium valuations are justified, in our view. On a target multiple of 50x Sep’21E EPS, we derive a TP of INR2,265.

Exhibit 10: Changes to model leads to ~0.2%/4.4% increase in our FY20/FY21 EPS

	New		Old		Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Sales	4,08,882	4,66,289	4,17,240	4,75,118	-2.0%	-1.9%
EBITDA	1,00,585	1,20,273	1,03,593	1,21,035	-2.9%	-0.6%
PAT	71,882	88,377	71,742	84,634	0.2%	4.4%

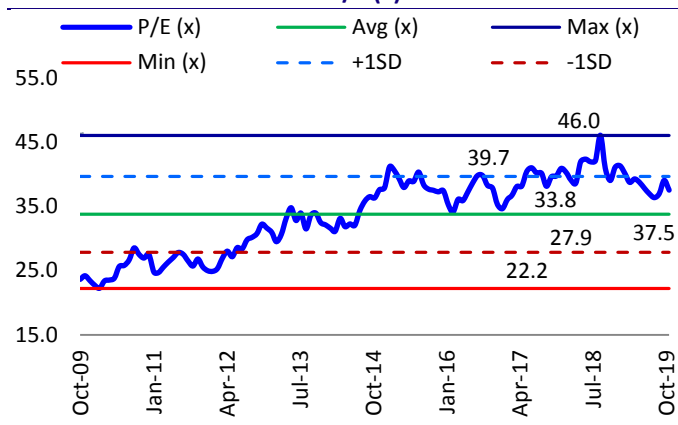
Source: Company, MOFSL

Exhibit 11: HUVR P/E (x)



Source: Bloomberg, Company, MOFSL

Exhibit 12: Consumer sector P/E (x)



Source: Bloomberg, Company, MOFSL

Financials and valuations

Income Statement							(INR M)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3,01,705	3,04,990	3,12,980	3,39,260	3,76,600	4,03,016	4,60,130
Other Oper. Income	6,351	5,619	5,920	5,990	5,640	5,866	6,159
Total Revenue	3,08,056	3,10,609	3,18,900	3,45,250	3,82,240	4,08,882	4,66,289
<i>Change (%)</i>	9.9	0.8	2.7	8.3	10.7	7.0	14.0
Gross Profit	1,51,821	1,57,556	1,62,050	1,82,930	2,02,640	2,21,703	2,61,523
<i>Gross Margin (%)</i>	49.3	50.7	50.8	53.0	53.0	54.2	56.1
Operating Exp	99,738	1,00,070	1,01,580	1,10,170	1,16,270	1,21,118	1,41,250
<i>% of sales</i>	32.4	32.2	31.9	31.9	30.4	29.6	30.3
EBIDTA	52,082	57,486	60,470	72,760	86,370	1,00,585	1,20,273
<i>Change (%)</i>	16.4	10.4	5.2	20.3	18.7	16.5	19.6
<i>Margin (%)</i>	16.9	18.5	19.0	21.1	22.6	24.6	25.8
Depreciation	2,867	3,208	3,960	4,780	5,240	8,602	9,086
Int. and Fin. Charges	168	150	220	200	280	960	989
Other Income - Recurring	6,184	5,640	5,260	5,690	6,640	7,446	9,230
Profit before Taxes	55,231	59,769	61,550	73,470	87,490	98,469	1,19,428
<i>Change (%)</i>	15.1	8.2	3.0	19.4	19.1	12.5	21.3
<i>Margin (%)</i>	18.3	19.6	19.7	21.7	23.2	24.4	26.0
Tax	19,060	18,160	18,650	21,480	25,650	26,587	31,051
Deferred Tax	-338	-70	410	-1,000	-790	0	0
<i>Tax Rate (%)</i>	33.9	30.3	31.0	27.9	28.4	27.0	26.0
Profit after Taxes	36,510	41,679	42,490	52,990	62,630	71,882	88,377
<i>Change (%)</i>	2.7	14.2	1.9	24.7	18.2	14.8	22.9
<i>Margin (%)</i>	12.1	13.7	13.6	15.6	16.6	17.8	19.2
Non-rec. (Exp)/Income	6,643	-310	2,410	-620	-2,270	0	0
Reported PAT	43,153	41,369	44,900	52,370	60,360	71,882	88,377

Balance Sheet							(INR M)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	2,164	2,164	2,164	2,164	2,165	2,165	2,165
Reserves	35,084	60,630	62,740	68,590	74,430	77,475	82,727
Capital Employed	37,248	62,794	64,904	70,754	76,595	79,639	84,892
Net Fixed Assets	24,575	29,147	40,240	41,420	43,430	39,828	35,741
Capital WIP	4,790	3,860	2,030	4,300	3,730	3,730	3,730
Investment in Subsidiaries	6,541	3,130	2,540	2,540	2,540	2,540	2,540
Current Investments	26,238	24,670	35,250	28,570	26,950	27,950	28,950
Deferred Charges	1,960	1,680	1,600	2,550	3,390	3,390	3,390
Curr. Assets, L&A	72,236	76,509	65,850	92,110	98,615	1,20,149	1,38,291
Inventory	26,027	25,284	23,620	23,590	24,220	26,868	35,395
Account Receivables	7,829	10,645	9,280	11,470	16,730	12,146	17,649
Cash and Bank Balance	25,376	27,590	16,710	33,730	36,880	58,451	60,466
Others	13,005	12,990	16,240	23,320	20,785	22,685	24,782
Curr. Liab. and Prov.	99,093	76,202	82,606	1,00,736	1,02,060	1,17,947	1,27,751
Account Payables	48,515	54,980	60,060	70,130	70,700	84,794	92,765
Other Liabilities	29,828	12,382	13,826	16,376	15,860	16,653	17,486
Provisions	20,749	8,840	8,720	14,230	15,500	16,500	17,500
Net Current Assets	-26,857	307	-16,756	-8,626	-3,445	2,202	10,540
Application of Funds	37,248	62,794	64,904	70,754	76,595	79,639	84,892

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)							
EPS	16.9	19.3	19.6	24.5	28.9	33.2	40.8
Cash EPS	18.2	20.7	21.5	26.7	31.4	37.2	45.0
BV/Share	17.2	29.0	30.0	32.7	35.4	36.8	39.2
DPS	15.0	15.5	17.0	20.0	22.0	26.5	32.0
Payout %	90	97	98	99	95	96	94

Valuation (x)

P/E	119.4	104.6	102.6	82.3	69.6	60.7	49.4
Cash P/E	110.7	97.1	93.9	75.5	64.3	54.2	44.8
EV/Sales	14.3	14.2	13.9	12.7	11.5	10.7	9.3
EV/EBITDA	83.1	75.3	71.8	59.4	50.0	42.8	35.7
P/BV	117.0	69.4	67.2	61.6	56.9	54.8	51.4
Dividend Yield (%)	0.7	0.8	0.8	1.0	1.1	1.3	1.6

Return Ratios (%)

RoE	104.3	83.3	66.5	78.1	85.0	92.0	107.4
RoCE	158.2	119.8	96.7	108.6	119.1	127.3	146.4
RoIC	4,523.0	290.6	118.7	144.0	197.5	300.2	538.8

Working Capital Ratios

Debtor (Days)	9	13	11	12	16	11	14
Asset Turnover (x)	8.1	4.9	4.8	4.8	4.9	5.1	5.4

Leverage Ratio

Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
(INR M)							
OP/(loss) before Tax	55,231	59,770	61,550	72,850	85,220	98,469	1,19,428
Financial other income	-3,559	-1,910	-920	-2,800	-770	-7,446	-9,230
Depreciation	2,867	3,210	3,960	4,780	5,240	8,602	9,086
Net Interest Paid	-1,890	-3,160	-2,400	-2,460	-2,950	960	989
Direct Taxes Paid	-17,775	-17,040	-18,040	-21,880	-26,850	-26,587	-31,051
(Incr)/Decr in WC	-2,156	-1,130	5,380	8,640	-2,610	15,924	-6,323
CF from Operations	32,719	39,740	49,530	59,130	57,280	89,922	82,898
Other Items	3,506	6,004	450	4,880	4,460	6,441	8,628
(Incr)/Decr in FA	263	-6,740	-8,520	-8,270	-7,240	-5,000	-5,000
Free Cash Flow	32,982	33,000	41,010	50,860	50,040	84,922	77,898
(Pur)/Sale of Investments	1,182	3,290	-9,700	7,790	3,270	-1,000	-1,000
CF from Invest.	4,951	2,554	-17,770	4,400	490	441	2,628
Dividend Paid	-29,123	-33,420	-35,610	-38,960	-45,460	-68,837	-83,124
Others	-5,403	-6,660	-7,030	-7,550	-9,160	45	-522
CF from Fin. Activity	-34,504	-40,080	-42,640	-46,510	-54,620	-68,792	-83,646
Incr/Decr of Cash	3,166	2,214	-10,880	17,020	3,150	21,571	1,879
Add: Opening Balance	22,210	25,376	27,590	16,710	33,730	36,880	58,587
Closing Balance	25,376	27,590	16,710	33,730	36,880	58,451	60,466

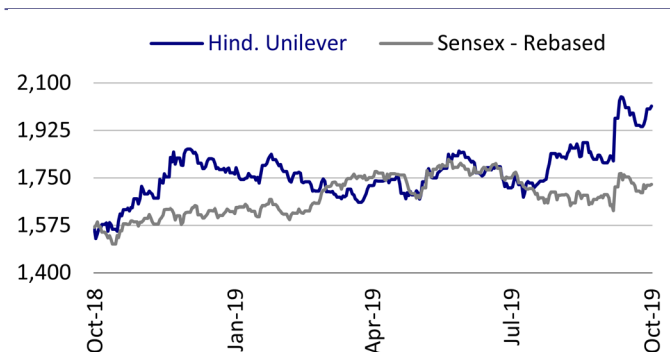
E: MOSL Estimates

Corporate profile

Company description

Hindustan Unilever Limited (HUL) is India's largest Fast Moving Consumer Goods company with its products touching the lives of nine out of ten households in India. The company is a subsidiary of Anglo Dutch FMCG giant Unilever. It has over ~35 brand spanning 20 distinct categories. It has strong brands, with market leadership in most of the categories it operates in. It has a large distribution network with overall reach of ~8m outlets and direct reach of over 3m retail outlets.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-19	Mar-19	Jun-18
Promoter	67.2	67.2	67.2
DII	6.9	7.0	7.3
FII	12.1	11.8	12.2
Others	13.8	14.0	13.4

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIC of India	1.6
NA	0.0
NA	0.0
NA	0.0
NA	0.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Sanjiv Mehta	Chairman & Managing Director
Srinivas Phatak	Executive Director
Pradeep Banerjee	Executive Director(Sup. Chain)
Dev Bajpai	Executive Director & Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Aditya Narayan	O P Bhatt
Kalpana Morparia	Sanjiv Misra
Leo Puri	

*Independent

Exhibit 6: Auditors

Name	Type
BSR & Co LLP	Statutory
RA & Co	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY20	33.2	33.3	-0.4
FY21	40.8	39.1	4.3

Source: Bloomberg

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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