

19th May 2020

Hindustan Unilever–BUY

CMP : Rs.1,995.0
Target Price : Rs.2,383.0
Upside : 19%+
Stop Loss : Rs.1,735.0 (Closing basis)

Investment Thesis

HUL's operations were disrupted since mid-March 2020 due to prevailing lockdown across the country after spread of Covid-19 in India.

With the spread of Covid-19, HUL's business has impacted from mid-March, which culminated in scaling down of operations post the national lockdown. Distributor and trade inventory were down significantly from March 2020 but are restored at 75-80% of the normal levels over the last few days. However, restoration of supply chain to 75-80% of normal levels despite ongoing lockdown is remarkable and yet again demonstrates HUL's efficiency well ahead of peers. With the long-standing history of HUL, strong product portfolio, best in class margins and reaching 9.0mn outlets allows HUL to manage this downturn better, which has been observed in times of demonetization and GST. We remain positive on HUL's ability to outgrow market and its pricing power underpinned by distribution expansion, deepening direct reach and product innovation initiatives. We believe the company has many levers to protect its margins and propel growth once the situation come back to normal.

HUL expects heightened demand for hygiene & nutrition products this year on the back of spread of Covid-19 as people will focus more on protecting their health. To cater to the rising demand, HUL has planned to launch several new products in the space in the next few months such as Lifebuoy 'germ kill spray', Domex disinfectant sprays, germ removal wipes, Lifebuoy cloth sanitisers and Surf Excel anti-germ wash booster. HUL has already increased supply of essential categories such as hand wash, hand sanitisers, floor cleaners, etc. It has increased hand sanitisers production by as much as 60x during the lockdown period.

Financials

- During the past 5 years, revenue of HUL grew at a CAGR of 4.5% while PAT grew at a CAGR of 9.1% in the same period.

Consol. (Rs.Mn.)	FY18	FY19	FY20	FY21E	FY22E
Revenue	355,500	393,110	397,830	441,591	507,830
EBITDA	75,010	88,800	98,610	109,457	125,876
% growth	18.6	18.4	11.0	11.0	15.0
PAT	52,140	60,540	67,480	74,835	86,061
EPS (INR)	24.1	28.0	28.7	31.9	36.7
P/E (x)	82.2	70.8	69.1	62.3	54.2
RoE (%)	71.9%	77.2%	81.8%	82.7%	86.7%

- HUL has reported 9.4% YoY decline in revenue to Rs.90,780mn in Q4FY20 as volume de-growth by 7.0% YoY due to business disruption of last 15 days of the quarter on lockdown across the country.

Stock Data

Market Cap (Rs. Mn)	46,91,535
Market Cap (\$ Mn)	61,934.5
Shares O/S (in Mn)	2,347.8
Avg. Volume (3 month)	36,99,000
52-Week Range (Rs.)	2,614.30/ 1,656.00

Shareholding Pattern

Promoters	67.18%
FII's	12.32%
Institutions	6.68%
Others (incl. body corporate)	13.82%

Performance (%)	1M	6M	1Yr
Absolute	-6.7%	-7.8%	20.4%
BSE FMCG	0.3%	-18.4%	-13.5%

Key Ratios

Div Yield	1.2%
TTM PE	69.1x
ROE	81.8%
TTM EPS (Rs.)	28.7/-

- HUL's Home Care was down only by 4.3% YoY whereas Beauty & Personal Care was down by 13.5% YoY and Food & Refreshments was down 7% YoY in Q4FY20.
- EBITDA of HUL declined by 12.3% YoY to Rs.21,000mn in Q4FY20 on account of revenue decline, higher raw material cost and higher Ad spends. As a result, EBITDA margin also contracted by 70bps YoY to 23.1% in Q4FY20.

Key Business Highlights

- HUL is engaged in fast-moving consumer goods business comprising home and personal care, foods and refreshments. The Company's segments are soaps and detergents, personal products, beverages, packaged foods, frozen desserts, and others. The others segment also includes export sale of marine and leather products.
- HUL's brands include Lux, Surf excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakme, Dove, Clinic Plus, Sunsilk, Axe, Brooke Bond, Bru, Knorr, Kissan, Kwality Wall's and Pureit.
- HUL's distribution covers over 2.5mn retail outlets across India directly and its products are available in over 9.0mn retail outlets in the country.

Valuation

- HUL's merger with GSK Consumer is expected to increase HUL's presence in foods (malted foods) category and may aid ~5-7% accretion to earnings upon successful integration of the merger. HUL is confident on medium term prospects of Horlicks and Boost brands of GSK Consumer and HUL can leverage its distribution reach of 9.0mn outlets against 2.1mn of GSK consumer to drive further market penetration. Besides, the management indicated that's EBITDA margins are likely to add 1,000bps more to current ~25% margin profile. Health Foods, which is a Rs.77bn market in India, has just 14% rural penetration, HUL with vast distribution reach has huge growth potential in this category.
- HUL has recently acquired VWash brand from Glenmark Pharma, which was launched in 2013 and has 79% brand recall in its segment. VWash is market leader in intimate feminine hygiene segment and has been growing in double digits with less than 8% penetration. The brand is largest selling brand in the intimate feminine hygiene segment, despite presence of large number of other local cum national brands.
- HUL had constantly expanded EBITDA margin each year during the past 8 years and has industry leading return ratios, led by its focus on cost-efficiency plans & premiumization. We believe, with the prevailing lower crude oil price in global market, raw material cost of HUL will remain under control and boost margin of HUL.
- With vast distribution network, restoration of supply chain to 75-80% of normal levels, heightened demand for hygiene & nutrition products, merger with GSK Consumer, acquisition of VWash brand from Glenmark Pharma and prevailing lower crude oil price in global market, we value HUL at 65.0x FY22E EPS of Rs.36.70 to arrive at target price of Rs.2,383.00, an upside of 19%.

Risk & Concern

- FMCG segment is highly competitive, hence any entry of new competitor like Patanjali may adversely impact home care and personal care business growth.
- Failure of monsoon could impact both urban and rural economy which in turn would hamper HUL's business growth.
- Any increase in raw material costs may be negative impact to the margin of the company.

Graphs & Charts

Figure 1: Net Sales Trend

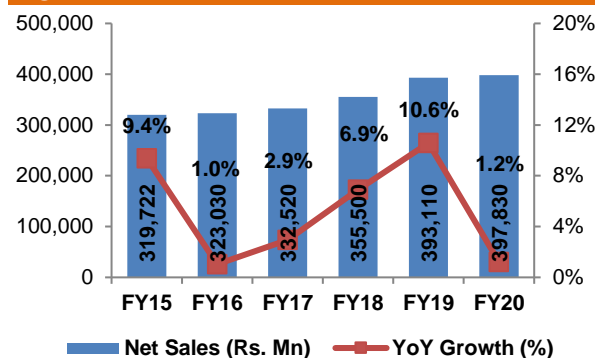


Figure 2: EBITDA & EBITDA Margin Trend

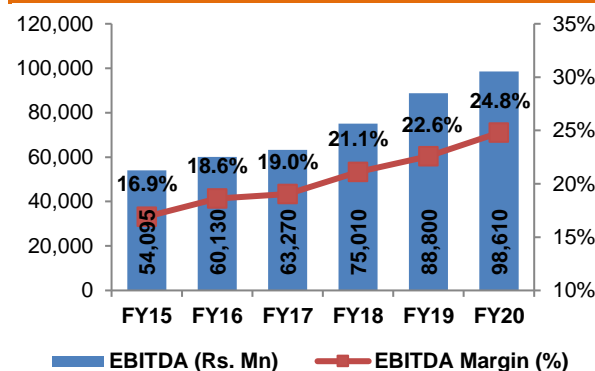


Figure 3: PAT Trend

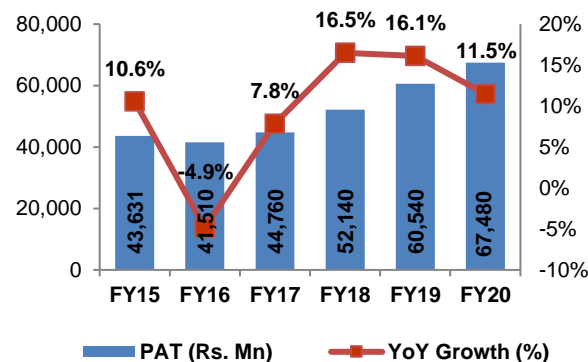
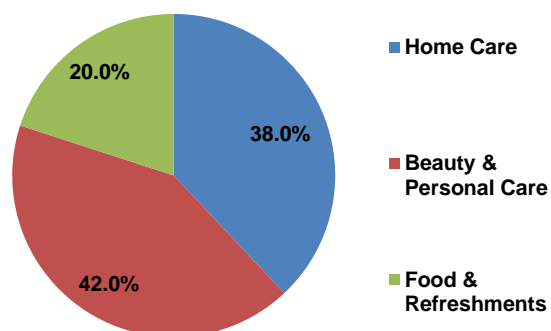


Figure 4: Segment-wise Revenue (Q4FY20)



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