

30<sup>th</sup> July 2021

## Hindustan Unilever–BUY

**CMP** : Rs.2,342.0  
**Target Price** : Rs.2,892.0  
**Upside** : 23%+  
**Stop Loss** : Rs.2,089.0 (Closing basis)

### Investment Thesis

Recently, the stock price of Hindustan Unilever Ltd. (HUL) corrected by ~4% from 52-week high of Rs.2,505.90 as HUL's operations were disrupted as lockdown and restriction imposed by most of the state government after spread of second wave of Covid-19.

With lockdown and restriction imposed by most of the state government after spread of second wave of Covid-19, HUL's business has again impacted due to scaling down of operations. Though HUL witnessed a strong growth momentum till the second week of April 2021, second wave of Covid-19 started to impact discretionary categories again after lockdowns. We believe soaps, sanitisers & foods categories will continue to see robust growth in FY22E also with heightened hygiene preferences & increase in at-home consumption. Detergent, cosmetics and skin care products, however, will be impacted by this lockdowns. We remain positive on HUL's ability to outgrow industry and its pricing power underpinned by distribution expansion, deepening direct reach and product innovation initiatives. We believe HUL has many levers to capture lost market share, 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 launched several new products in the space in the last 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 last lockdown period.

### Financials

- During the past 5 years, revenue of HUL grew at a CAGR of 7.8% while PAT grew at a CAGR of 14.0% in the same period.

Consol. (Rs.Mn.)	FY19	FY20	FY21	FY22E	FY23E
Revenue	393,110	397,830	470,290	540,834	621,959
EBITDA	88,800	98,550	116,250	133,688	153,741
% growth	18.4	11.0	18.0	15.0	15.0
PAT	60,540	67,480	79,950	91,943	105,366
EPS (INR)	28.0	31.2	34.0	39.1	44.8
P/E (x)	86.0	77.1	70.8	61.6	53.8
RoE (%)	77.2%	82.2%	16.8%	17.5%	18.3%

- HUL has reported 34.5% YoY growth in revenue to Rs.119,470mn in Q4FY21 due to low base quarter last year, consolidation of foods business, discretionary categories saw a sharp recovery in Q4FY21.

### Stock Data

Market Cap (Rs. Mn)	56,69,556
Market Cap (\$ Mn)	77,665.2
Shares O/S (in Mn)	2,350.0
Avg. Volume (3 month)	19,58,000
52-Week Range (Rs.)	2,505.90/ 2,000.05

### Shareholding Pattern

Promoters	61.90%
FII's	14.95%
Institutions	10.68%
Others (incl. body corporate)	12.47%

Performance (%)	1M	6M	1Yr
Absolute	1.4%	2.8%	16.1%
BSE FMCG	3.7%	6.6%	26.0%

### Key Ratios

Div Yield	1.3%
TTM PE	70.8x
ROE	16.8%
TTM EPS (Rs.)	34.0/-

- HUL's Home care and beauty & personal care (BPC) segments has witnessed growth of 14.6% and 19.7%, respectively in Q4'21 led by volume growth as well as price hikes in the soaps category.
- EBITDA of HUL gained by 43.2% YoY to Rs.29,570mn in Q4FY21 as marketing spends & other overhead spends were down 127bps and 172bps, respectively. As a result, EBITDA margin also improved by 146bps YoY to 24.4% in Q4FY21.

## 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 network covers over 2.5mn retail outlets spread across India while 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.77.0bn market in India, has just 14% rural penetration, HUL with vast distribution reach has huge growth potential in this category.
- HUL has acquired VWash brand from Glenmark Pharma, 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 soaps, sanitisers & foods categories to see robust growth, restoration of supply chain to 75-80% of normal levels, vast distribution network, 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 64.5x FY23E EPS of Rs.44.80 to arrive at target price of Rs.2,892.00, an upside of ~20%.

## 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 negative impact the margin of the company going ahead

## Graphs & Charts

Figure 1: Net Sales Trend

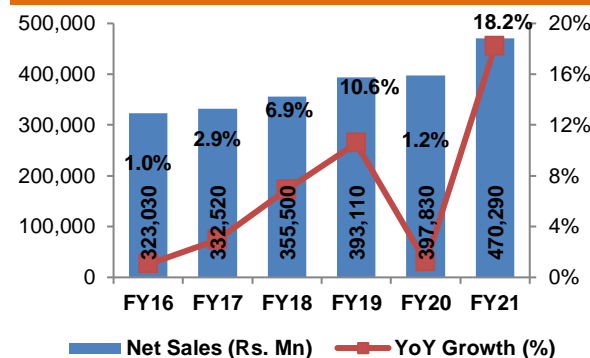


Figure 2: EBITDA & EBITDA Margin Trend

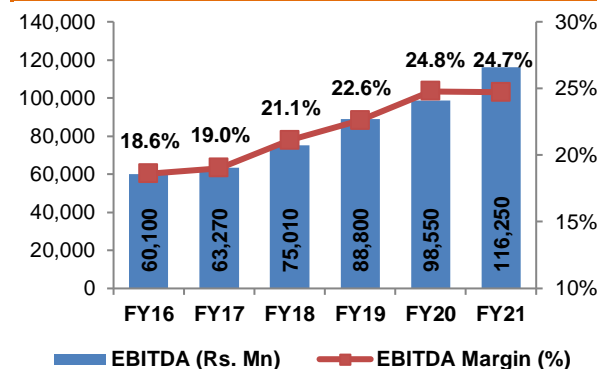


Figure 3: PAT Trend

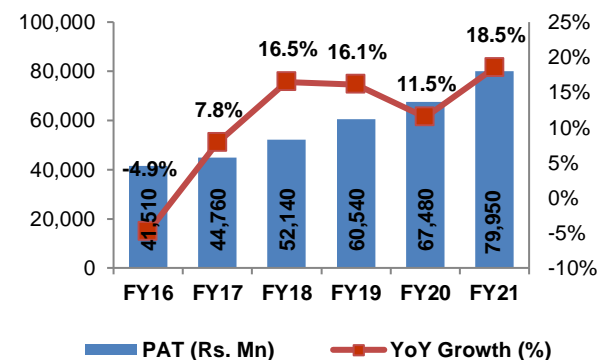
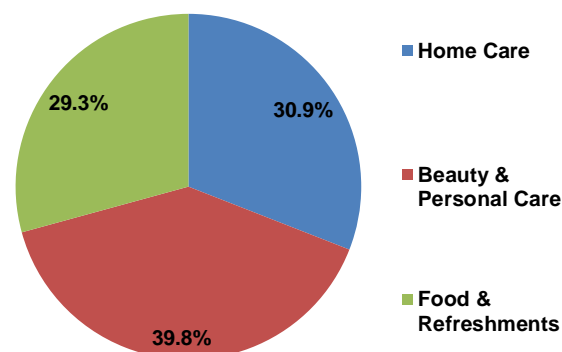


Figure 4: Segment-wise Revenue (FY21)



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