

October 14, 2019

Q2FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	2,083		1,967	
Sales (Rs. m)	4,13,756	4,58,604	4,19,948	4,65,410
% Chng.	(1.5)	(1.5)		
EBITDA (Rs. m)	1,02,929	1,11,821	98,080	1,09,036
% Chng.	4.9	2.6		
EPS (Rs.)	33.2	36.7	33.6	37.7
% Chng.	(1.1)	(2.6)		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	382	414	459	510
EBITDA (Rs. bn)	86	103	112	123
Margin (%)	22.6	24.9	24.4	24.2
PAT (Rs. bn)	63	72	80	89
EPS (Rs.)	29.0	33.2	36.7	41.0
Gr. (%)	18.2	14.6	10.6	11.5
DPS (Rs.)	21.0	24.1	27.4	29.9
Yield (%)	1.0	1.2	1.4	1.5
RoE (%)	85.0	88.1	88.0	88.6
RoCE (%)	110.1	114.7	112.4	112.2
EV/Sales (x)	11.2	10.3	9.3	8.3
EV/EBITDA (x)	49.5	41.5	38.2	34.5
PE (x)	69.3	60.5	54.7	49.0
P/BV (x)	56.7	50.3	46.0	41.2

Key Data

HLL.BO | HUVR IN

52-W High / Low	Rs.2,102 / Rs.1,500
Sensex / Nifty	38,214 / 11,341
Market Cap	Rs.4,349bn/ \$ 61,109m
Shares Outstanding	2,165m
3M Avg. Daily Value	Rs.5860.58m

Shareholding Pattern (%)

Promoter's	67.18
Foreign	12.40
Domestic Institution	6.67
Public & Others	13.75
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.3	16.7	28.0
Relative	8.9	18.4	16.3

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Play on broad based demand recovery

We cut HUVR's FY20 and FY21 EPS by 1.1% and 2.6% despite 5% volume growth and strong margin expansion on account of 1) delayed rural recovery despite good monsoons 2) limited scope to increase margins from current level 3) liquidity issues in trade channels. Though the near term outlook remains cautious, HUVR is well placed to benefit from Rural uptick (favorable rainfall, higher crop prices due to food inflation and benefit of DBT) and structural urban drivers like categories of future (body-wash, hand wash, naturals, premium Home Care, color cosmetics etc.) and strong innovation pipeline in new generation products. Although HUVR is operating at lifetime high margins, agility in price actions, strong brand health and gains from cost efficiencies in supply chain, data analytics and inventory management will keep competition at bay.

We estimate 12.4% Adj. PAT CAGR over FY19-22 (12.7% including GSK Merger) and value the stock at 46x FY22 pro-forma EPS (including GSK acquisition) to arrive at a target price of Rs2083 (earlier Rs1967 based on 46x June 21 EPS). Retain Accumulate.

Concall Takeaways: 1) Industry growth has moderated from 9% to 5% (Value terms) and 7% to 3% (volume terms). 2) Rural demand is growing 0.5x the Urban demand growth (earlier 1.6x in 2Q19, 1.1x in 4Q19 and 0.9x in 1Q20). 3) Trade channels continue to see pressure on liquidity despite various measures 4) Naturals growth (double digits) has moderated from earlier 2x to the company average to current YTD of 1.5x as Indulekha has now come in base. 5) Normal/ above normal rainfall in 30/35 divisions and higher farm realization should boost rural purchasing power with a lag 6) In 2Q, HUVR took ~6% price reduction mainly in Lux and Pears on benign input costs and 3Q will see price reductions in Dove and Pears 7) Demand in Water purifier segment has picked post channel rejig 8) Effective Tax rate in FY20 and FY21 shall be 27% and 26% 9) Approvals for merger with GSK is expected to be completed by 4Q instead of earlier expected Dec'19 deadline

Volumes up 5%, PAT up 20.4%: Total revenue increased by 6.2% to Rs97.1bn, Domestic consumer sales increased 7% on 5% volume growth. Gross margin expanded by 250bps to 54.5% YoY (up 50Bps QoQ) on better mix and benign input costs. EBITDA increased by 20% to Rs24.4bn. EBITDA margin increased 290bps on lower staff costs and other expenses by 40bps and 20bps respectively despite 20bps increase in ad-spends. Excluding the impact of IndAS116, EBITDA increased 24.6% with margin expansion of 370bps. Adj. PAT increased 20.4% to Rs18.3bn as tax rates declined by 820bps. HUL has declared Rs11 as interim dividend/ share. HUL launched premium brand of Love and Care in select channels and Magic rinse powder in TN. Pears Naturale body wash range, Pond's Superlight gel and Pond's micellar water range were launched PAN India. **Segmental performance:** Home Care sales increased by 9.4% led by Fabric Wash, EBIT increased 20.9% on 170bps margin expansion. Personal care sales increased 5.3%, EBIT increased 17.9% on 310bps margin expansion. Foods and Refreshments sales increased 2.1% led by Ice creams and frozen desserts, EBIT increased 13.5% on 100bps margin decline.

Exhibit 1: Q2FY20 Results (Rs m): Volumes up 5%, Adj. EBITDA margins up 150bps, Adj. PAT up 20.4%

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	1HFY20	1HFY19	YoY gr. (%)
Net Sales	98,520	92,340	6.7	1,01,140	1,99,660	1,87,210	6.7
Gross Profit	53,670	47,990	11.8	54,660	1,08,330	99,220	9.2
<i>Margin (%)</i>	<i>54.5</i>	<i>52.0</i>	<i>2.5</i>	<i>54.0</i>	<i>54.3</i>	<i>53.0</i>	<i>1.3</i>
A&P Exp.	11,980	11,060	8.3	11,610	23,590	22,590	4.4
<i>% of NS</i>	<i>12.2</i>	<i>12.0</i>	<i>0.2</i>	<i>11.5</i>	<i>11.8</i>	<i>12.1</i>	<i>(0.3)</i>
EBITDA	24,430	20,190	21.0	26,470	50,900	42,700	19.2
<i>Margins (%)</i>	<i>24.8</i>	<i>21.9</i>	<i>2.9</i>	<i>26.2</i>	<i>25.5</i>	<i>22.8</i>	<i>2.7</i>
Depreciation	2,370	1,300	82.3	2,140	4,510	2,570	75.5
EBIT	22,060	18,890	16.8	24,330	46,390	40,130	15.6
Interest	310	70	342.9	240	550	140	292.9
Other Income	1,800	3,050	(41.0)	1,470	3,270	4,400	(25.7)
PBT	23,550	21,870	7.7	25,560	49,110	44,390	10.6
Tax	5,230	6,650	(21.4)	8,050	13,280	13,500	(1.6)
<i>Tax Rate (%)</i>	<i>22.2</i>	<i>30.4</i>	<i>(8.2)</i>	<i>31.5</i>	<i>27.0</i>	<i>30.4</i>	<i>(3.4)</i>
Adjusted PAT	18,320	15,220	20.4	17,510	35,830	30,890	16.0
Extraordinary	190	30		40	230	(360)	
Reported Profit	18,510	15,250	21.4	17,550	36,060	30,530	18.1

Source: Company, PL

Exhibit 2: 2Q20 performance was led by Home care; Foods and refreshments remained soft

Quarterly Segmental	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Net Sales (Rs m)	83,030	85,900	90,970	94,870	92,340	95,580	99,450	1,01,140	98,520
Home Care	27,390	27,410	31,020	31,460	30,800	31,480	35,020	34,650	33,710
Personal Care	39,100	40,900	40,960	44,070	43,160	45,390	43,930	45,890	45,430
Foods & Refreshment	15,260	15,720	17,350	17,850	17,040	17,280	19,160	19,500	18,470
Others	1,280	1,870	1,640	1,490	1,340	1,430	1,340	1,100	910
Sales Growth %	(2.0)	3.4	2.5	3.0	11.2	11.3	9.3	6.6	6.7
Home Care	(1.4)	1.9	3.3	3.2	12.4	14.8	12.9	10.1	9.4
Personal Care	(2.9)	2.8	0.5	0.9	10.4	11.0	7.3	4.1	5.3
Foods & Refreshment	5.5	9.0	8.8	7.9	11.7	9.9	10.4	9.2	8.4
Others	(41.3)	(4.3)	(18.4)	3.5	4.7	(23.5)	(18.3)	(26.2)	(32.1)
EBIT (Rs m)	15,560	15,300	19,280	20,960	18,970	18,070	21,870	24,380	22,060
Home Care	3,830	3,540	5,110	6,020	4,920	4,040	6,190	6,990	5,950
Personal Care	9,480	10,070	11,270	11,620	11,150	11,620	12,200	13,580	13,150
Foods & Refreshment	2,310	1,720	2,880	3,340	2,880	2,440	3,460	3,790	2,940
Others	-60	-30	20	-20	20	-30	20	20	20
EBIT Growth %	11.3	14.5	19.3	15.4	21.9	18.1	13.4	16.3	16.3
Home Care	36.8	51.1	31.4	34.4	28.5	14.1	21.1	16.1	20.9
Personal Care	2.8	9.4	14.5	7.7	17.6	15.4	8.3	16.9	17.9
Foods & Refreshment	24.0	(12.9)	16.6	13.2	24.7	41.9	20.1	13.5	2.1
Others	(165.6)	(81.9)	(150.0)	(60.0)	(133.3)	0.0	0.0	(200.0)	0.0
EBIT Margin %									
Home Care	14.0	12.9	16.5	19.1	16.0	12.8	17.7	20.2	17.7
Personal Care	24.2	24.6	27.5	26.4	25.8	25.6	27.8	29.6	28.9
Foods & Refreshment	15.1	10.9	16.6	18.7	16.9	14.1	18.1	19.4	15.9
Others	(4.7)	(1.6)	1.2	(1.3)	1.5	(2.1)	1.5	1.8	2.2

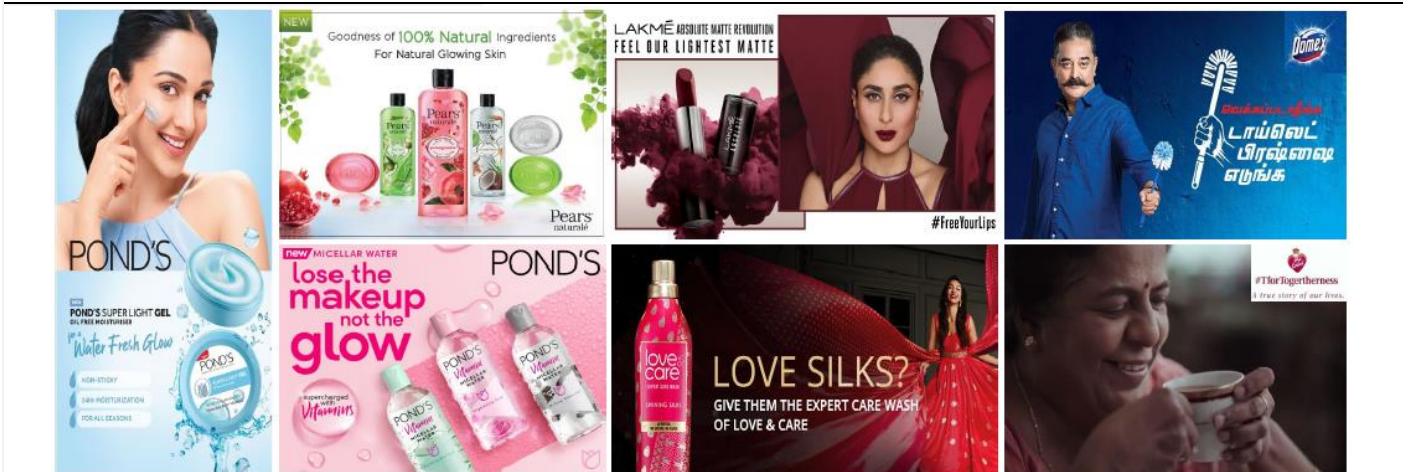
Source: Company, PL

Exhibit 3: Acquisition to be ~10.5% margin accretive for HUVR

Y/E March (Rs in mn)	FY21E	FY22E
Adj. PAT		
HUVR	79,697	88,894
GSK	15,399	17,267
Total Adj. PAT	95,095	1,06,161
Equity shares		
Existing HUVR shares		2160.0
Existing GSK shares		42.1
Additional share issued on swap (4.39sh:1sh)		184.6
Total shares after amalgamation		2344.6
New Merged EPS		
	40.56	45.28
Existing EPS	36.7	41.0
% Change	10.43%	10.53%

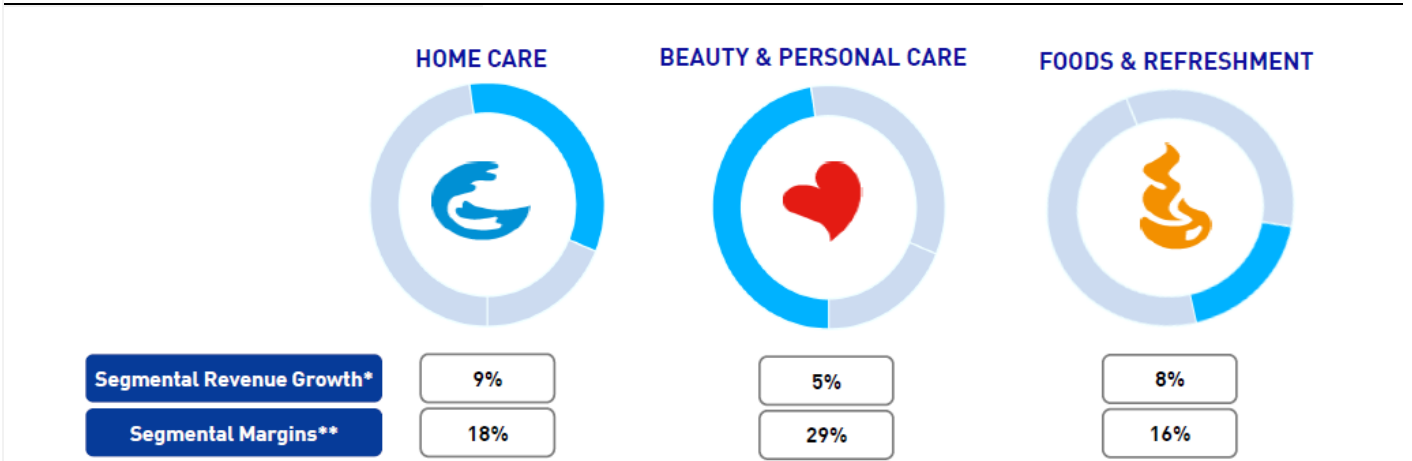
Source: Company, PL

Exhibit 4: HUVR's focus on innovation and activations continues in core categories



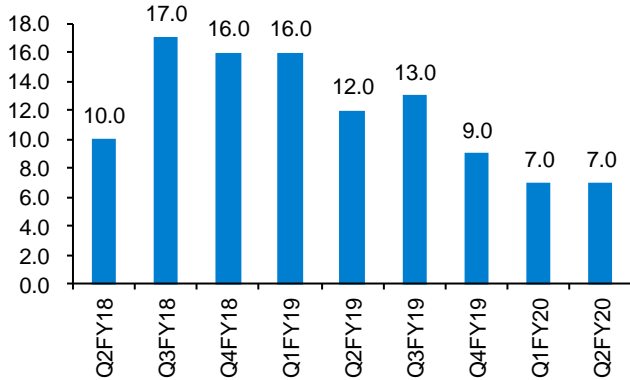
Source: Company, PL

Exhibit 5: Adjusted consumer sales up 6%, Home care lead growth



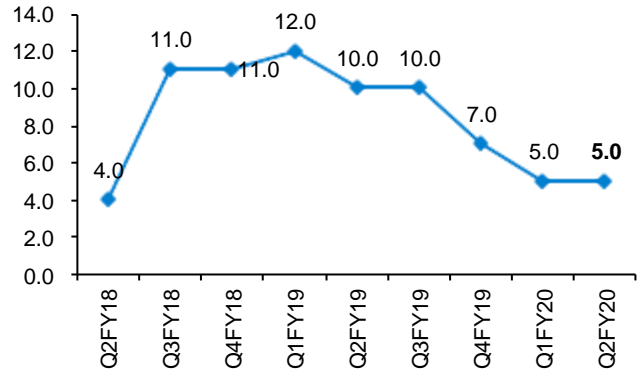
Source: Company, PL

Exhibit 6: Comparable Domestic FMCG sales up 7%



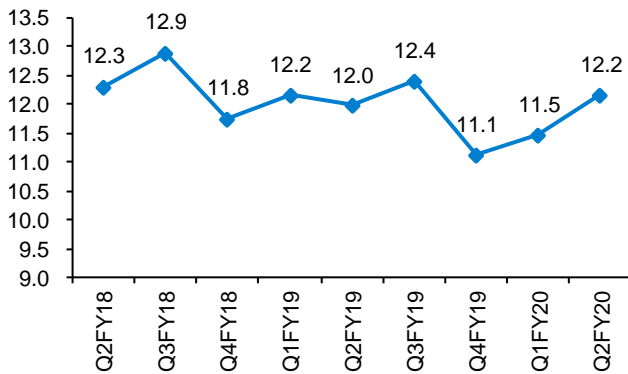
Source: Company, PL

Exhibit 7: Volumes up 5% despite moderation in rural sales



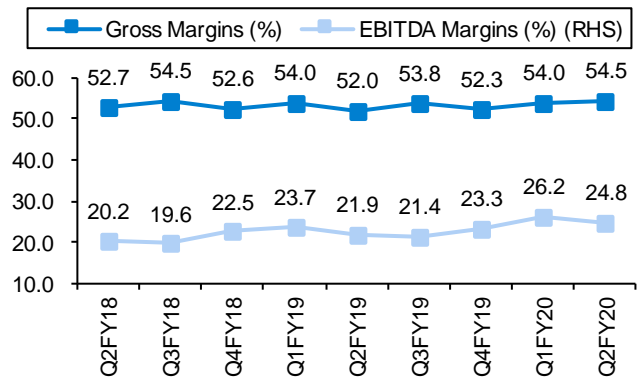
Source: Company, PL

Exhibit 8: Ad-spends up 20bps YoY despite slowdown



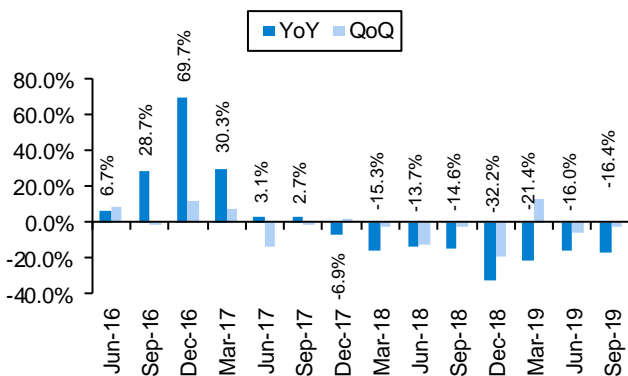
Source: Company, PL

Exhibit 9: GM up 50bps; Adj. EBITDA margins up 290bps



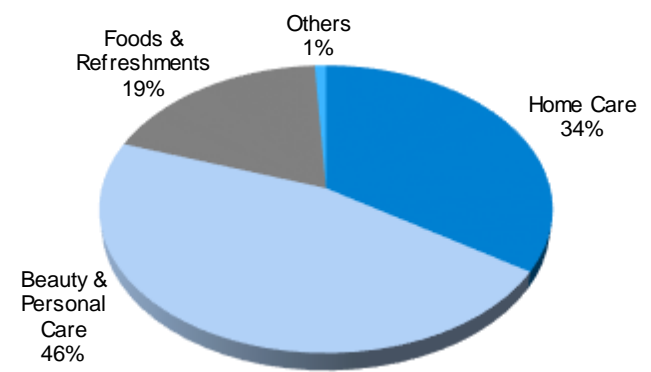
Source: Company, PL

Exhibit 10: PFAD prices down 16.4% YoY and 2.8% QoQ



Source: Company, PL

Exhibit 11: Sales contribution increased for HC and F&R



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	3,82,240	4,13,756	4,58,604	5,09,982
YoY gr. (%)	10.7	8.2	10.8	11.2
Cost of Goods Sold	1,79,600	1,88,239	2,09,883	2,34,617
Gross Profit	2,02,640	2,25,518	2,48,722	2,75,365
Margin (%)	53.0	54.5	54.2	54.0
Employee Cost	17,470	19,338	23,220	26,489
Other Expenses	350	1,017	1,353	1,506
EBITDA	86,370	1,02,929	1,11,821	1,23,246
YoY gr. (%)	18.7	19.2	8.6	10.2
Margin (%)	22.6	24.9	24.4	24.2
Depreciation and Amortization	5,240	9,512	10,091	10,642
EBIT	81,130	93,417	1,01,730	1,12,603
Margin (%)	21.2	22.6	22.2	22.1
Net Interest	280	1,210	1,234	1,259
Other Income	6,640	6,092	7,202	8,782
Profit Before Tax	87,490	98,299	1,07,698	1,20,127
Margin (%)	22.9	23.8	23.5	23.6
Total Tax	24,860	26,541	28,001	31,233
Effective tax rate (%)	28.4	27.0	26.0	26.0
Profit after tax	62,630	71,758	79,697	88,894
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	62,630	71,758	79,697	88,894
YoY gr. (%)	18.2	14.6	11.1	11.5
Margin (%)	16.4	17.3	17.4	17.4
Extra Ord. Income / (Exp)	(2,270)	500	500	500
Reported PAT	60,360	72,258	80,197	89,394
YoY gr. (%)	15.3	19.7	11.0	11.5
Margin (%)	15.8	17.5	17.5	17.5
Other Comprehensive Income	(30)	(200)	(200)	(200)
Total Comprehensive Income	60,330	72,058	79,997	89,194
Equity Shares O/s (m)	2,160	2,160	2,170	2,170
EPS (Rs)	29.0	33.2	36.7	41.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	80,174	92,174	99,174	1,06,174
Tangibles	72,800	84,800	91,800	98,800
Intangibles	7,374	7,374	7,374	7,374
Acc: Dep / Amortization	37,104	46,616	56,708	67,350
Tangibles	33,730	43,058	52,972	63,445
Intangibles	3,374	3,558	3,735	3,905
Net fixed assets	43,070	45,558	42,466	38,824
Tangibles	39,070	41,742	38,828	35,355
Intangibles	4,000	3,816	3,639	3,469
Capital Work In Progress	3,730	2,500	2,600	2,800
Goodwill	360	360	360	360
Non-Current Investments	6,630	6,630	6,630	6,630
Net Deferred tax assets	3,390	3,593	3,809	4,038
Other Non-Current Assets	7,730	7,854	8,035	8,242
Current Assets				
Investments	32,450	38,340	53,015	69,531
Inventories	24,220	26,203	28,672	31,625
Trade receivables	16,730	16,725	17,302	19,250
Cash & Bank Balance	31,360	34,097	38,182	42,362
Other Current Assets	3,520	6,206	6,879	7,650
Total Assets	1,78,650	1,93,764	2,14,266	2,38,337
Equity				
Equity Share Capital	2,160	2,160	2,170	2,170
Other Equity	74,430	84,113	92,602	1,03,762
Total Network	76,590	86,273	94,772	1,05,932
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	10,490	10,238	11,466	12,800
Other non current liabilities	1,870	2,010	2,161	2,323
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	70,700	73,490	80,503	88,705
Other current liabilities	12,830	15,173	18,220	20,790
Total Equity & Liabilities	1,78,650	1,93,765	2,14,266	2,38,337

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	87,490	98,299	1,07,698	1,20,127
Add. Depreciation	4,910	9,512	10,091	10,642
Add. Interest	-	-	-	-
Less Financial Other Income	-	-	-	-
Add. Other	(2,300)	300	300	300
Op. profit before WC changes	90,100	1,08,111	1,18,089	1,31,069
Net Changes-WC	(3,550)	69	6,917	5,692
Direct tax	(24,860)	(26,541)	(28,001)	(31,233)
Net cash from Op. activities	61,690	81,640	97,005	1,05,528
Capital expenditures	(6,350)	(10,770)	(7,100)	(7,200)
Interest / Dividend Income	-	-	-	-
Others	(2,370)	(8,274)	(18,308)	(20,678)
Net Cash from Inv. activities	(8,720)	(19,044)	(25,408)	(27,878)
Issue of share cap. / premium	100	263	269	276
Debt changes	1,310	132	353	401
Dividend paid	(54,590)	(62,640)	(71,780)	(78,310)
Interest paid	-	-	-	-
Others	0	2	13	1
Net cash from Fin. activities	(53,180)	(62,243)	(71,145)	(77,632)
Net change in cash	(210)	352	452	18
Free Cash Flow	55,340	70,870	89,905	98,328

Source: Company Data, PL Research

Quarterly Financials (Rs m)

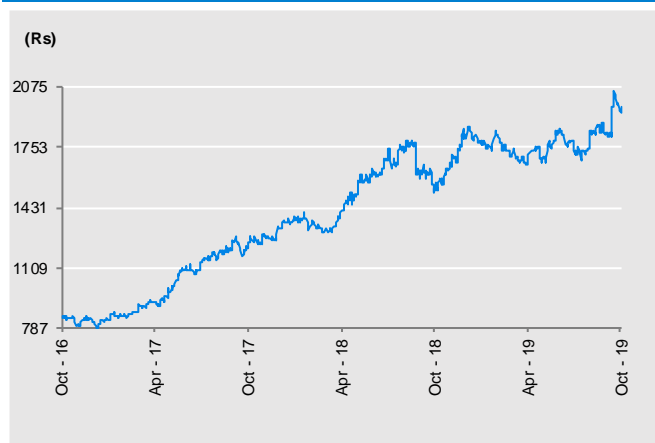
Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	95,580	99,450	1,01,140	98,520
YoY gr. (%)	11.3	9.3	6.6	6.7
Raw Material Expenses	44,180	47,430	46,480	44,850
Gross Profit	51,400	52,020	54,660	53,670
Margin (%)	53.8	52.3	54.0	54.5
EBITDA	20,460	23,210	26,470	24,430
YoY gr. (%)	21.8	13.3	17.6	21.0
Margin (%)	21.4	23.3	26.2	24.8
Depreciation / Depletion	1,330	1,340	2,140	2,370
EBIT	19,130	21,870	24,330	22,060
Margin (%)	20.0	22.0	24.1	22.4
Net Interest	70	70	240	310
Other Income	1,060	1,180	1,470	1,800
Profit before Tax	20,120	22,980	25,560	23,550
Margin (%)	21.1	23.1	25.3	23.9
Total Tax	6,110	7,080	8,050	5,230
Effective tax rate (%)	30.4	30.8	31.5	22.2
Profit after Tax	14,010	15,900	17,510	18,320
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	14,010	15,900	17,510	18,320
YoY gr. (%)	16.9	12.8	11.7	20.4
Margin (%)	14.7	16.0	17.3	18.6
Extra Ord. Income / (Exp)	430	520	40	160
Reported PAT	14,440	16,420	17,550	18,480
YoY gr. (%)	8.9	21.5	14.8	21.2
Margin (%)	15.1	16.5	17.4	18.8
Other Comprehensive Income	-	(20)	-	30
Total Comprehensive Income	14,440	16,400	17,550	18,510
Avg. Shares O/s (m)	2,164	2,164	2,164	2,164
EPS (Rs)	6.5	7.3	8.1	8.5

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	29.0	33.2	36.7	41.0
CEPS	31.4	37.6	41.4	45.9
BVPS	35.5	39.9	43.7	48.8
FCF	25.6	32.8	41.4	45.3
DPS	21.0	24.1	27.4	29.9
Return Ratio(%)				
RoCE	110.1	114.7	112.4	112.2
ROIC	589.0	758.1	(11,164.0)	(722.0)
RoE	85.0	88.1	88.0	88.6
Balance Sheet				
Net Debt : Equity (x)	(0.8)	(0.8)	(1.0)	(1.1)
Net Working Capital (Days)	(28)	(27)	(27)	(27)
Valuation(x)				
PER	69.3	60.5	54.7	49.0
P/B	56.7	50.3	46.0	41.2
P/CEPS	63.9	53.4	48.6	43.8
EV/EBITDA	49.5	41.5	38.2	34.5
EV/Sales	11.2	10.3	9.3	8.3
Dividend Yield (%)	1.0	1.2	1.4	1.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Oct-19	Accumulate	1,967	1,962
2	23-Jul-19	Accumulate	1,816	1,690
3	04-Jul-19	Hold	1,753	1,794
4	07-Jun-19	Hold	1,764	1,831
5	03-May-19	Hold	1,764	1,694
6	05-Apr-19	Hold	1,854	1,659
7	17-Jan-19	Hold	1,874	1,752
8	07-Jan-19	Hold	1,880	1,785
9	03-Dec-18	Hold	1,880	1,826

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,640	1,749
2	Avenue Supermarts	Reduce	1,647	1,843
3	Britannia Industries	Accumulate	3,307	2,903
4	Colgate Palmolive	Reduce	1,240	1,490
5	Crompton Greaves Consumer Electricals	BUY	300	244
6	Dabur India	Hold	464	434
7	Emami	Accumulate	373	317
8	Future Retail	BUY	477	381
9	GlaxoSmithKline Consumer Healthcare	Hold	8,631	8,456
10	Havells India	Reduce	640	702
11	Hindustan Unilever	Accumulate	1,967	1,962
12	ITC	BUY	344	262
13	Jubilant FoodWorks	BUY	1,688	1,323
14	Kansai Nerolac Paints	Accumulate	507	496
15	Marico	Hold	339	384
16	Nestle India	Hold	12,149	13,710
17	Pidilite Industries	Accumulate	1,429	1,393
18	Titan Company	BUY	1,282	1,296
19	Voltas	Hold	626	674

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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