

March 23, 2020

Company Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	2,136		2,136	
Sales (Rs. m)	4,46,445	4,96,849	4,46,445	4,96,849
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,14,167	1,26,934	1,14,167	1,26,934
% Chng.	-	-	-	-
EPS (Rs.)	37.5	42.2	37.5	42.2
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	382	402	446	497
EBITDA (Rs. bn)	86	101	114	127
Margin (%)	22.6	25.2	25.6	25.5
PAT (Rs. bn)	63	71	81	92
EPS (Rs.)	29.0	32.7	37.5	42.2
Gr. (%)	18.2	12.7	14.7	12.6
DPS (Rs.)	21.0	24.1	27.4	29.9
Yield (%)	1.1	1.3	1.5	1.6
RoE (%)	85.0	87.3	90.2	89.7
RoCE (%)	110.1	113.7	115.4	113.8
EV/Sales (x)	10.4	9.9	8.9	7.9
EV/EBITDA (x)	46.0	39.1	34.7	31.1
PE (x)	64.5	57.2	49.9	44.3
P/BV (x)	52.7	47.5	42.6	37.2

Key Data

HLL.BO | HUVR IN

52-W High / Low	Rs.2,308 / Rs.1,650
Sensex / Nifty	25,981 / 7,610
Market Cap	Rs.4,048bn / \$ 53,201m
Shares Outstanding	2,165m
3M Avg. Daily Value	Rs.7887.49m

Shareholding Pattern (%)

Promoter's	67.18
Foreign	12.32
Domestic Institution	6.68
Public & Others	13.82
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(16.8)	(8.3)	11.4
Relative	31.8	37.9	63.7

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Defensive play in uncertain times

HUL continues to face sluggish demand in 4Q although COVID19 is resulting in strong pickup in demand for Hygiene products like soaps, wandwash, sanitizers, floor cleaners etc. Discretionary personal care products are facing pressure on demand as Covid 19 is reducing the incidence of going out. HUL is ramping up production of hygiene related products which should benefit the company in the coming months, however the benefits will be negated by reduction in prices of sanitizers and increased CSR allocation in view of COVID19. HUL has not taken any major price adjustments despite recent crude decline given volatile pricing scenario. Near term visibility looks hazy given uncertainty on COVID19, however we believe that expected demand recovery from 1QFY21 will be for sure pushed back to 2HFY21. We believe acquisition of VWash brand from Glenmark is positive although it is unlikely to have material impact on the numbers.

Despite near term challenges, we remain positive on HUVR's ability to gain from 1) ability to straddle though products and price points 2) maximum range of new generation products (handwash, body/face wash, hair conditioners, green tea, liquid detergents) 3) most agile and efficient supply chain, focus on digital and analytics for distribution and sales. HUL trades at 40.3x FY22 EPS (Post Glaxo Merger) of Rs46.4 with 15% PAT CAGR. HUL remains one of the best defensive plays in the current uncertain scenario despite rich valuations. Retain Accumulate.

Pre Covid: Slack Demand, Soaps industry sales decline

- Industry Demand under pressure, soaps industry sales declined in Jan/Feb
- MP, Delhi and South markets have been relatively resilient. Demand pressures are more visible in Maharashtra, Central and Eastern India
- HUL increased soap prices by 5-6% from Feb given sharp increase in PFAD prices, post that there has not been any change in prices by the company

Post Covid: Hygiene products gain, personal care suffers

- There has been increase in demand for home and hygiene related products like Sanitizers, Hand wash, Soaps, Toilet cleaners and floor cleaners, due to Corona virus led up-stocking
- Some of the products like skin creams and other discretionary items are witnessing decline in demand as the focus has shifted to hygiene and health.
- HUL had tied up with suppliers and there is no shortage of raw materials.
- Production lines of HUL are working normally, HUL is ramping up production of hygiene products which have seen a sharp increase in demand recently
- There has not been any business or supply disruption due to COVID 19 so far
- Input costs have seen volatility due to crude, however HUL has higher cost inventory. HUL is working with agility, however the current scenario looks hazy due to too much volatility and uncertainty due to COVID

HUL acquires VWash brand from Glenmark

HUL has announced acquisition of VWash brand from Glenmark Pharma. The brand was launched in 2013 and has 79% brand recall in its segment. VWash is market leader in intimate feminine hygiene segment which has been growing in double digits and has less than 8% penetration.

Key details

- The consideration has not been disclosed but major part of the consideration will be upfront and other part will be over a period of 3 years and linked to fulfillment of certain benchmarks. The brand is largest selling brand in the intimate feminine hygiene segment, despite presence of large number of other local cum national brands
- The deal includes brand, intellectual rights and trademarks related to the same.
- HUL is not taking any manpower and manufacturing facility and will have production security in the interim

Benefits to HUL

- Acquisition complements the presence in chemist and Modern trade channels with OTC brands of Glaxo, which will be marketed by HUL
- HUL will use its marketing and distribution synergies to drive growth in this business across metros, tier2 and tier 3 cities to grow the business and develop the market
- Gross margin profile of the brand is not materially different from the current margins
- The move is positive; however, it is unlikely to have any material impact on the financials of HUL

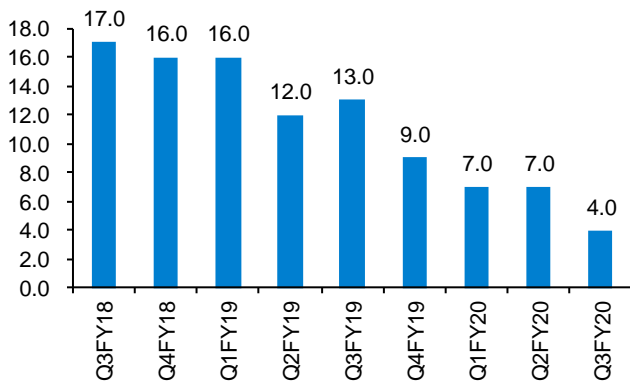
Exhibit 1: VWash: strong and well established brand



*As per internal studies

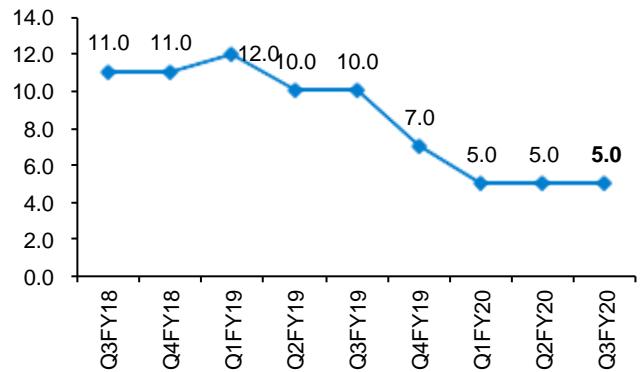
Source: Company, PL

Exhibit 2: Comparable Domestic FMCG sales up 4%



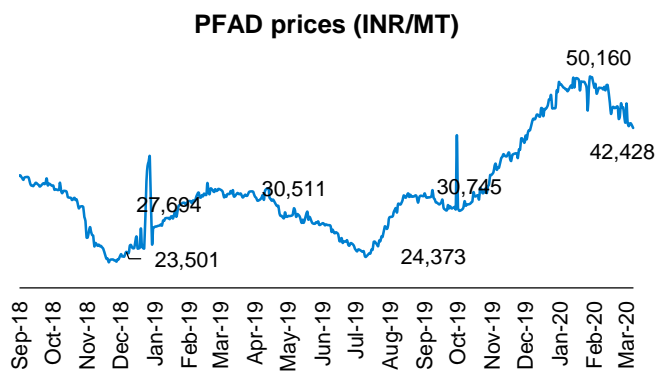
Source: Company, PL

Exhibit 3: Volumes up 5% despite moderation in rural sales



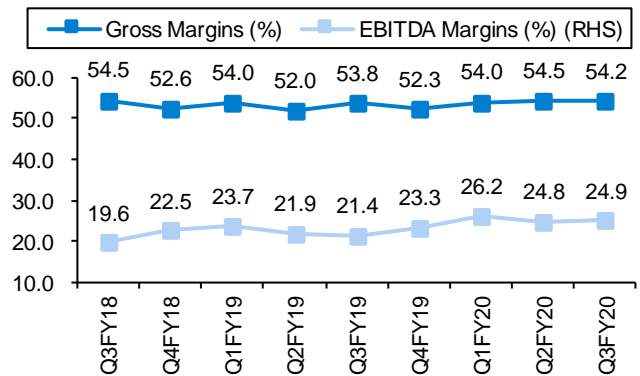
Source: Company, PL

Exhibit 4: PFAD prices down 18.8% YoY and 14.7% QoQ



Source: Company, PL

Exhibit 5: GM up 40bps; Adj. EBITDA margins up 350bps



Source: Company, PL

Exhibit 6: Acquisition to be ~10.5% margin accretive for HUVR

Y/E March (Rs in mn)	FY21E	FY22E
Adj. PAT		
HUVR	81,342	91,624
GSK	15,399	17,267
Total Adj. PAT	96,741	1,08,891
Equity shares		
Existing HUVR shares	2,160.0	2,160.0
Existing GSK shares	42.1	42.1
Additional share issued on swap (4.39sh:1sh)	184.6	184.6
Total shares after amalgamation	2344.6	2344.6
New Merged EPS	41.26	46.44
Existing EPS	37.5	42.2
% Change	10.07%	9.99%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	3,82,240	4,02,491	4,46,445	4,96,849
YoY gr. (%)	10.7	5.3	10.9	11.3
Cost of Goods Sold	1,79,600	1,84,456	2,05,057	2,29,029
Gross Profit	2,02,640	2,18,035	2,41,388	2,67,820
Margin (%)	53.0	54.2	54.1	53.9
Employee Cost	17,470	17,772	18,744	20,935
Other Expenses	350	994	1,322	1,472
EBITDA	86,370	1,01,397	1,14,167	1,26,934
YoY gr. (%)	18.7	17.4	12.6	11.2
Margin (%)	22.6	25.2	25.6	25.5
Depreciation and Amortization	5,240	9,512	10,091	10,642
EBIT	81,130	91,885	1,04,076	1,16,291
Margin (%)	21.2	22.8	23.3	23.4
Net Interest	280	1,210	1,234	1,259
Other Income	6,640	6,014	7,080	8,784
Profit Before Tax	87,490	96,689	1,09,922	1,23,816
Margin (%)	22.9	24.0	24.6	24.9
Total Tax	24,860	26,106	28,580	32,192
Effective tax rate (%)	28.4	27.0	26.0	26.0
Profit after tax	62,630	70,583	81,342	91,624
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	62,630	70,583	81,342	91,624
YoY gr. (%)	18.2	12.7	15.2	12.6
Margin (%)	16.4	17.5	18.2	18.4
Extra Ord. Income / (Exp)	(2,270)	500	500	500
Reported PAT	60,360	71,083	81,842	92,124
YoY gr. (%)	15.3	17.8	15.1	12.6
Margin (%)	15.8	17.7	18.3	18.5
Other Comprehensive Income	(30)	(200)	(200)	(200)
Total Comprehensive Income	60,330	70,883	81,642	91,924
Equity Shares O/s (m)	2,160	2,160	2,170	2,170
EPS (Rs)	29.0	32.7	37.5	42.2

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	7,815	7,993	8,196
Current Assets				
Investments	32,450	37,160	52,829	71,797
Inventories	24,220	25,586	28,018	30,913
Trade receivables	16,730	16,332	16,908	18,816
Cash & Bank Balance	31,360	33,145	37,218	41,358
Other Current Assets	3,520	6,037	6,697	7,453
Total Assets	1,78,650	1,90,280	2,11,698	2,38,053
Equity				
Equity Share Capital	2,160	2,160	2,170	2,170
Other Equity	74,430	82,938	93,072	1,06,962
Total Network	76,590	85,098	95,242	1,09,132
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	10,490	9,923	10,942	12,183
Other non current liabilities	1,870	2,010	2,161	2,323
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	70,700	72,014	78,652	86,592
Other current liabilities	12,830	14,786	17,698	20,188
Total Equity & Liabilities	1,78,650	1,90,280	2,11,698	2,38,052

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	87,490	96,689	1,09,922	1,23,816
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	1,06,501	1,20,313	1,34,758
Net Changes-WC	(3,550)	(821)	6,258	5,382
Direct tax	(24,860)	(26,106)	(28,580)	(32,192)
Net cash from Op. activities	61,690	79,575	97,992	1,07,948
Capital expenditures	(6,350)	(10,770)	(7,100)	(7,200)
Interest / Dividend Income	-	-	-	-
Others	(2,370)	(6,182)	(19,229)	(23,051)
Net Cash from Inv. activities	(8,720)	(16,952)	(26,329)	(30,251)
Issue of share cap. / premium	100	263	269	276
Debt changes	1,310	65	348	394
Dividend paid	(54,590)	(62,640)	(71,780)	(78,310)
Interest paid	-	-	-	-
Others	0	2	13	1
Net cash from Fin. activities	(53,180)	(62,310)	(71,150)	(77,639)
Net change in cash	(210)	312	513	58
Free Cash Flow	55,340	68,805	90,892	1,00,748

Source: Company Data, PL Research

Quarterly Financials (Rs m)

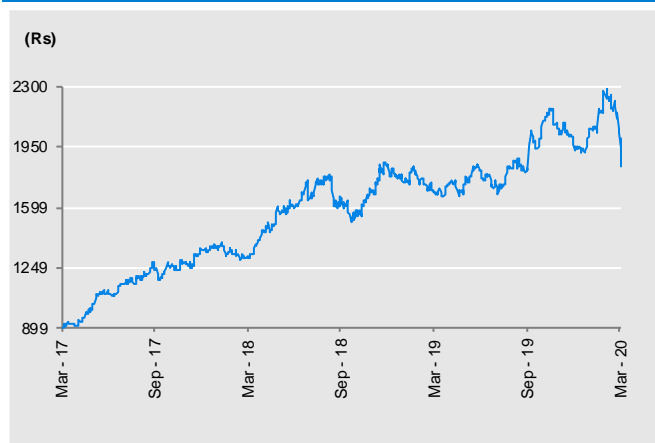
Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	99,450	1,01,140	98,520	98,080
YoY gr. (%)	9.3	6.6	6.7	2.6
Raw Material Expenses	47,430	46,480	44,850	44,900
Gross Profit	52,020	54,660	53,670	53,180
Margin (%)	52.3	54.0	54.5	54.2
EBITDA	23,210	26,470	24,430	24,450
YoY gr. (%)	13.3	17.6	21.0	19.5
Margin (%)	23.3	26.2	24.8	24.9
Depreciation / Depletion	1,340	2,140	2,370	2,320
EBIT	21,870	24,330	22,060	22,130
Margin (%)	22.0	24.1	22.4	22.6
Net Interest	70	240	310	250
Other Income	1,180	1,470	1,800	1,400
Profit before Tax	22,980	25,560	23,550	23,280
Margin (%)	23.1	25.3	23.9	23.7
Total Tax	7,080	8,050	5,230	6,370
Effective tax rate (%)	30.8	31.5	22.2	27.4
Profit after Tax	15,900	17,510	18,320	16,910
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	15,900	17,510	18,320	16,910
YoY gr. (%)	12.8	11.7	20.4	20.7
Margin (%)	16.0	17.3	18.6	17.2
Extra Ord. Income / (Exp)	520	40	160	750
Reported PAT	16,420	17,550	18,480	17,660
YoY gr. (%)	21.5	14.8	21.2	22.3
Margin (%)	16.5	17.4	18.8	18.0
Other Comprehensive Income	(20)	-	30	(10)
Total Comprehensive Income	16,400	17,550	18,510	17,650
Avg. Shares O/s (m)	2,164	2,164	2,164	2,164
EPS (Rs)	7.3	8.1	8.5	7.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	29.0	32.7	37.5	42.2
CEPS	31.4	37.1	42.1	47.1
BVPS	35.5	39.4	43.9	50.3
FCF	25.6	31.9	41.9	46.4
DPS	21.0	24.1	27.4	29.9
Return Ratio(%)				
RoCE	110.1	113.7	115.4	113.8
ROIC	589.0	636.5	62,425.8	(784.6)
RoE	85.0	87.3	90.2	89.7
Balance Sheet				
Net Debt : Equity (x)	(0.8)	(0.8)	(0.9)	(1.0)
Net Working Capital (Days)	(28)	(27)	(28)	(27)
Valuation(x)				
PER	64.5	57.2	49.9	44.3
P/B	52.7	47.5	42.6	37.2
P/CEPS	59.5	50.4	44.4	39.7
EV/EBITDA	46.0	39.1	34.7	31.1
EV/Sales	10.4	9.9	8.9	7.9
Dividend Yield (%)	1.1	1.3	1.5	1.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	31-Jan-20	Accumulate	2,136	2,034
2	3-Jan-20	Accumulate	2,057	1,927
3	14-Oct-19	Accumulate	2,083	2,009
4	3-Oct-19	Accumulate	1,967	1,962
5	23-Jul-19	Accumulate	1,816	1,690
6	4-Jul-19	Hold	1,753	1,794
7	7-Jun-19	Hold	1,764	1,831
8	3-May-19	Hold	1,764	1,694
9	5-Apr-19	Hold	1,854	1,659

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,815	1,779
2	Avenue Supermarts	Reduce	1,639	1,877
3	Britannia Industries	BUY	3,725	3,156
4	Colgate Palmolive	Reduce	1,270	1,391
5	Crompton Greaves Consumer Electricals	BUY	306	267
6	Dabur India	Hold	486	479
7	Emami	Accumulate	361	300
8	Future Retail	Under Review	-	332
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	567	601
11	Hindustan Unilever	Accumulate	2,136	2,034
12	ITC	BUY	310	235
13	Jubilant FoodWorks	BUY	1,913	1,749
14	Kansai Nerolac Paints	Accumulate	545	499
15	Marico	Accumulate	357	315
16	Nestle India	Reduce	11,886	16,400
17	Pidilite Industries	Hold	1,447	1,522
18	Titan Company	Hold	1,264	1,273
19	Voltas	Hold	694	682

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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