




Hindustan Unilever Ltd

Industry Consum. Staples
Bloomberg HUVR IN
BSE CODE 500696

Numbers inline, moderation in demand impacted the volume

RATING	BUY
CMP	1693
Price Target	2022
Potential Upside	19%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	1871/1478
Mkt Capital (Rs Cr)	366,544
Free float (%)	33%
Avg. Vol 1M (,000)	957
No. of Shares (Cr)	216
Promoters Pledged %	NA

Research Analyst

RAJEEV ANAND

rajeev.anand@narnolia.com

+91-22-62701229

1QFY20 Result update

- ❑ HINDUNILVR results remained largely in line with the expectation; Sales grew by 7% YoY to Rs. 10114 cr. (vs. Expect. Rs. 10056 cr.) on the back of volume growth of 5% led by volume led growth in Home care segment and secular growth across the portfolio in Food & Refreshment segment despite of rural slowdown.
- ❑ The Company has launched Sunlight liquid (in west Bengal and kerela in Fabric Wash), Lux Botanicals, Pears Naturale (to strengthen Natural portfolio) & Fair & Lovely Soap (Personal wash) in select geographies while Sunsilk variant (Natural portfolio) and Elle 18 Lasting Glow range was launched nationally.
- ❑ The Company major division's namely Home care, Beauty & Personal care and Foods & Refreshment grew by 10%, 4% and 8% respectively backed by continuous launches & re-launches, increased penetration, premiumisation and Go to market initiatives.
- ❑ Gross margin improved by 4 bps to 54% YoY (vs. expect. of 54.5% YoY) led by commodity inflation and currency volatility while EBITDA margin expanded by 244 bps YoY (comparable improvement remain 150 bps) to 26.2% YoY (vs. expect. of 25.2% YoY) led by improved mix, cost saving measures and operating leverage.
- ❑ PAT grew by 14.8% YoY to Rs. 1755 cr. (vs. expect. of Rs. 1707 cr.) while PAT margin stood at 17.4%.

View and Valuation

Hindunilvr has reported numbers largely in line to our estimates, sales up by 7% YoY to Rs 10114 cr (vs expec. Rs10056 cr) impacted by moderation in demand across market while PAT grew by 15% YoY to Rs 1755 cr(vs expec. Rs 1755 cr).Going forward, we expect the market slowdown to continue for at least one more quarter taking account of tight liquidity situation in the market however as government is cognizant of this and taking necessary steps which are expected to translate into growth from 2HFY20. New product launches, market share gain and better execution are expected to drive sales while benign input prices and premiumization is expected to boost margins going ahead. We have modeled 6%/ 9% volume growth and 2%/4% pricing growth for FY20/FY21 respectively. We continue to like Hindunilvr on the back of its strong execution capability, proactive management and better return ratio among its peers. We have largely kept our eps estimates for FY20 and FY21 unchanged, however latest correction in prices prompted us to change our rating from ACCUMULATE to BUY for the previous target price of 2022.

Key Risks to our rating and target

- ❑ Further slowdown in rural demand.
- ❑ High Volatility in crude and currencies.

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	33162	35545	39310	42260	47616
EBITDA	6340	7499	8880	10213	11512
EBIT	5908	6979	8315	9360	10685
PAT	4490	5227	6060	6755	7789
EPS (Rs)	21	24	28	31	36
EPS growth (%)	8%	16%	16%	11%	15%
ROE (%)	67%	72%	77%	87%	103%
ROCE (%)	88%	96%	106%	121%	141%
BV	31	34	36	36	35
P/B (X)	27.2	45.5	46.6	47.4	48.4
P/E (x)	40.9	63.4	60.5	54.3	47.1

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1QFY20 Results**Largely inline**

<i>Financials</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>4QFY19</i>	<i>1QFY20</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY18</i>	<i>FY19</i>	<i>YoY %</i>
<i>Net Sales</i>	9,487	9,234	9,558	9,945	10,114	6.6%	1.7%	35,545	39,310	10.6%
<i>Other Income</i>	135	305	106	118	147	8.9%	24.6%	384	550	43.2%
<i>COGS</i>	4,364	4,435	4,418	4,743	4,648	6.5%	-2.0%	16,730	18,474	10.4%
<i>Gross Margin</i>	54%	52%	54%	52%	54%	0.0%	1.7%	53%	53%	0.1%
<i>Empl. Cost</i>	442	438	465	402	452	2.3%	12.4%	1,860	1,875	0.8%
<i>Ad. Expense</i>	1,153	1,106	1,186	1,107	1,161	0.7%	4.9%	4,153	4,607	10.9%
<i>Other Exp.</i>	1,277	1,236	1,443	1,372	1,206	-5.6%	-12.1%	5,303	5,474	3.2%
<i>EBITDA</i>	2,251	2,019	2,046	2,321	2,647	17.6%	14.0%	7,499	8,880	18.4%
<i>EBITDA Mar.</i>	24%	22%	21%	23%	26%	2.4%	2.8%	21%	23%	1.5%
<i>Depreciation</i>	127	130	133	134	214	68.5%	59.7%	520	565	8.7%
<i>EBIT</i>	2,124	1,889	1,913	2,187	2,433	14.5%	11.2%	6,979	8,315	19.1%
<i>Interest</i>	7	7	7	7	24	242.9%	242.9%	26	33	26.9%
<i>PBT</i>	2,193	2,152	1,950	2,227	2,563	16.9%	15.1%	7,337	8,832	20.4%
<i>Excep. Item</i>	(59)	(35)	(62)	(71)	7	-111.9%	-109.9%	(33)	(228)	590.9%
<i>Tax</i>	664	627	506	689	808	21.7%	17.3%	2,079	2,544	22.4%
<i>PAT</i>	1,529	1,525	1,444	1,538	1,755	14.8%	14.1%	5,227	6,060	15.9%
<i>PAT Margin</i>	16%	17%	15%	15%	17%	1.2%	1.9%	15%	15%	0.7%

Growth led by Home care and Food & Refreshment

The Company growth was driven by Home care and Food & Refreshment category. Home care (contributed to the extent of 35% to the revenue) posted a growth of 10% YoY led by volumes driven by Fabric Wash, Household Care and Purifiers. In Fabric wash the company launched Sunlight liquid in selected geographies and re-launched Rin nationally. Food & Refreshment category (contributed to the extent of 19% to the revenue) posted a growth of 8% YoY led by Secular growth across the portfolio. Beauty and Personal care which is the major contributor to the revenue i.e. 46% Posted a slightly muted growth 4% YoY impacted by subdued growth in popular segment of personal wash.

EBITDA margin expansion led by better mix, cost saving & operating leverage

Gross margin improved by 4 bps to 54% YoY (vs. expect. of 54.5% YoY) led by commodity inflation and currency volatility while EBITDA margin expanded by 244 bps YoY (comparable improvement remain 150 bps) to 26.2% YoY (vs. expect. of 25.2% YoY) led by improved mix, cost saving measures and operating leverage.

Concall Highlights

- **Macro:**
 - Rural growth rate remained nearly at par with urban growth rate while crude and currency continues to be volatile.
 - The Management expects near term demand to remain subdued considering given macro economic conditions and expecting the revival in demand from 2HFY20.
- **Management Strategy:**
 - The company will keep looking for consistent, competitive, profitable and responsible growth.
 - The Company will continue building capabilities for channels of future i.e. e-commerce and modern trade. Presently, e-commerce is ~2-3% while Modern trade is 15-17% of the total business.
 - For categories, focusing on the core and drive weighted distribution and penetration.
- **Outlook:**
 - In July the Company has taken price reduction in Lux and Lifebuoy Portfolio in a range of 4-6% in order to pass the benefit of benign commodity price as is expected to remain benign for certain period of time.
 - Future action is expected to be taken in next few weeks for LUX addressing both product and proposition.
 - Mgmt. is expecting GSK merger legal process to complete by December quarter (3QFY20).
- **Other highlights:**
 - **Oral care:** Close Up and Ayush Oral Care continues to grow.
 - **Fabric wash:** continued to benefit from large portfolio.
 - **In Purifiers:** Focus on premium range. New Go to Market which company undertook is now in place.

Exhibit: Volume growth (%)

Volume growth of 5% YoY led by better growth in home care and food & beverages segment.

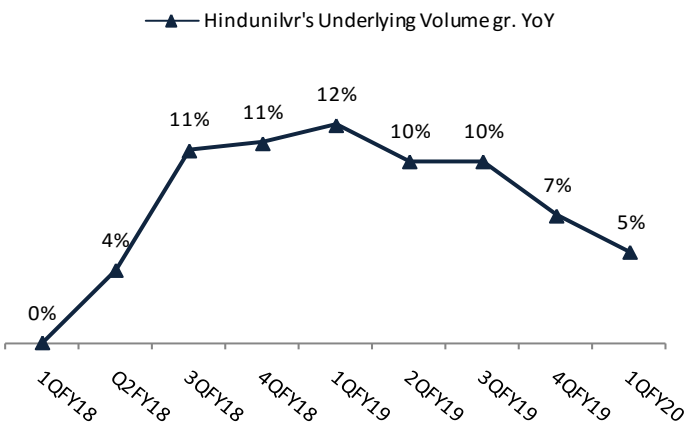


Exhibit: Sales and Sales Growth (%)

Sales Gr backed by double digit growth in home care led by launches, re-launches & market developments.

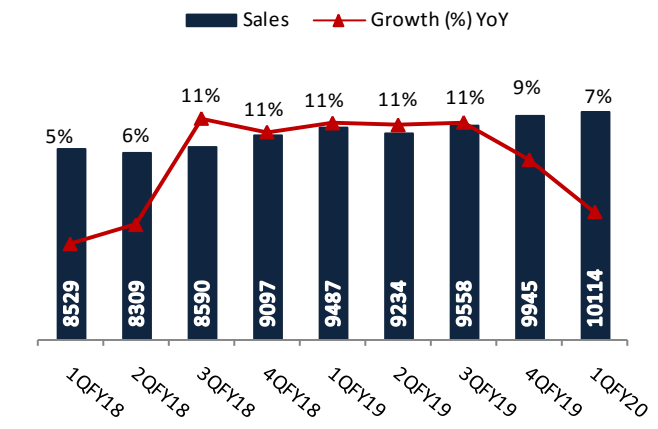


Exhibit: Gross and EBITDA Margin (%)

EBITDA margin expansion led by prudent cost management, improved mix & better operating leverage.

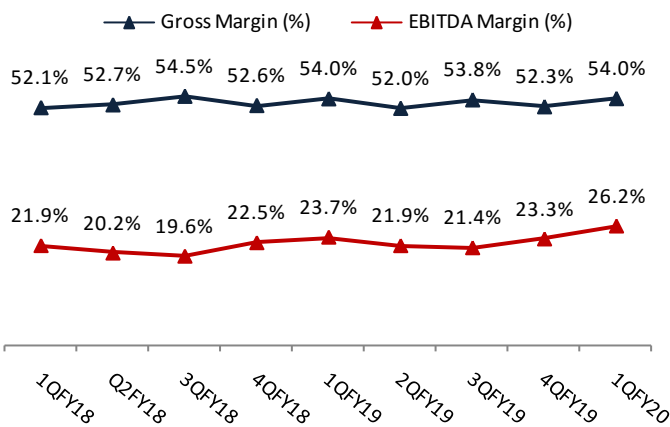


Exhibit: Trend in Expenses (%)

Employee, ad and other expenses declined by 19, 67 and 154 bps YoY respectively.

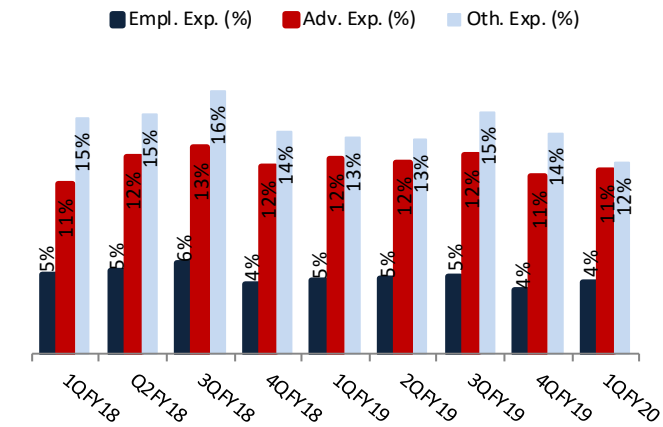


Exhibit: PAT and PAT Growth (%)

PAT grew by 15% YoY while PAT margin improved by 124 bps YoY to 17.4%.

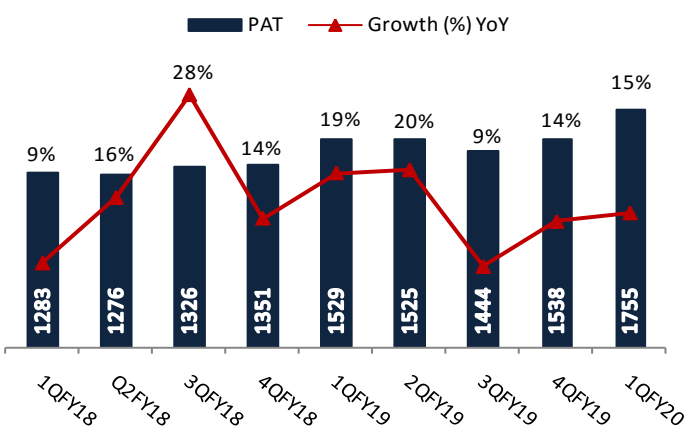
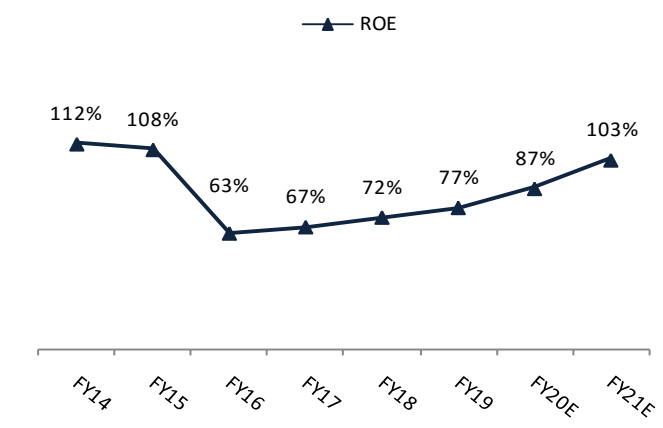


Exhibit: ROE (%)

Margin improvement and better pay out will led to RoE improvement.



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	216	216	216	216	216	216	216	216
Reserves	3,321	3,805	6,357	6,528	7,065	7,651	7,516	7,360
Networth	3,537	4,022	6,573	6,744	7,281	7,867	7,732	7,577
Debt	46	43	177	277	-	99	99	99
Other Non Current Liab	1,269	1,172	1,134	1,226	1,674	2,077	2,077	2,077
Total Capital Employed	3,583	4,065	6,750	7,021	7,281	7,966	7,831	7,676
Net Fixed Assets (incl CWIP)	3,038	3,256	3,585	4,567	4,908	5,004	4,857	4,638
Non Current Investments	380	324	-	-	2	-	-	-
Other Non Current Assets	3,846	4,125	4,449	5,488	6,200	6,715	6,568	6,349
Non Current Assets	4,226	4,449	4,449	5,488	6,202	6,715	6,568	6,349
Inventory	2,940	2,849	2,726	2,541	2,513	2,574	2,767	3,118
Debtors	1,017	1,011	1,264	1,085	1,310	1,816	1,952	2,200
Cash & Bank	2,516	2,689	3,009	1,828	3,485	3,757	3,218	3,708
Other Current Assets	3,055	3,433	3,346	4,764	4,352	3,767	4,631	4,774
Current Assets	9,528	9,982	10,345	10,218	11,660	11,914	12,569	13,800
Creditors	5,825	5,507	5,685	6,186	7,170	7,206	7,747	8,729
Provisions	2,088	2,709	293	392	688	523	562	634
Other Current Liabilities	967	953	912	859	1,029	839	902	1,016
Curr Liabilities	8,880	9,169	6,890	7,437	8,887	8,568	9,211	10,378
Net Current Assets	649	813	3,455	2,781	2,773	3,346	3,358	3,421
Total Assets	13,754	14,431	14,794	15,706	17,862	18,629	19,137	20,149

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	29,234	31,972	32,186	33,162	35,545	39,310	42,260	47,616
Change (%)	8%	9%	1%	3%	7%	11%	8%	13%
EBITDA	4,746	5,414	6,020	6,340	7,499	8,880	10,213	11,512
Change (%)	13%	14%	11%	5%	18%	18%	15%	13%
Margin (%)	16%	17%	19%	19%	21%	23%	24%	24%
Depr & Amor.	296	322	353	432	520	565	854	827
EBIT	4,450	5,091	5,667	5,908	6,979	8,315	9,360	10,685
Int. & other fin. Cost	41	18	17	35	26	33	90	90
Other Income	570	567	423	369	384	550	588	631
EBT	4,980	5,640	6,073	6,242	7,337	8,832	9,857	11,225
Exp Item	236	679	(31)	237	(33)	(228)	(63)	-
Tax	1,259	1,944	1,875	1,977	2,079	2,544	3,039	3,437
Minority Int & P/L share of Ass.	(10)	(12)	-	-	-	-	-	-
Reported PAT	3,946	4,363	4,151	4,490	5,227	6,060	6,755	7,789
Adjusted PAT	3,770	3,918	4,172	4,328	5,251	6,222	6,799	7,789
Change (%)	0	11%	-5%	8%	16%	16%	11%	15%
Margin(%)	13%	14%	13%	14%	15%	15%	16%	16%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	112%	108%	63%	67%	72%	77%	87%	103%
ROCE	126%	126%	86%	88%	96%	106%	121%	141%
Asset Turnover	2	2	2	2	2	2	2	2
Debtor Days	13	12	14	12	13	17	17	17
Inv Days	37	33	31	28	26	24	24	24
Payable Days	73	63	64	68	74	67	67	67
Int Coverage	109	288	333	169	268	252	104	119
P/E	33	31	44	41	63	60	54	47
Price / Book Value	37	34	28	27	45	47	47	48
EV/EBITDA	27	24	30	29	44	41	36	32
FCF per Share	15	12	16	17	24	23	33	39
Div Yield	2.2%	2.4%	1.8%	1.9%	1.2%	1.2%	1.6%	1.8%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	4,980	5,640	6,058	6,229	7,304	8,604	9,794	11,225
(inc)/Dec in Working Capital	405	(342)	(81)	715	836	(342)	235	427
Non Cash Op Exp	326	391	373	455	591	641	854	827
Int Paid (+)	41	18	17	35	26	33	90	90
Tax Paid	(1,384)	(2,030)	(1,765)	(1,859)	(2,264)	(2,767)	(3,039)	(3,437)
others	(549)	(553)	(431)	(390)	(434)	(369)	-	-
CF from Op. Activities	3,818	3,124	4,171	5,185	6,059	5,800	7,934	9,133
(inc)/Dec in FA & CWIP	(584)	(573)	(772)	(1,452)	(878)	(754)	(707)	(608)
Free Cashflow	3,234	2,551	3,399	3,733	5,181	5,046	7,227	8,525
(Pur)/Sale of Inv	(425)	404	271	(1,132)	1,042	326	(786)	-
others	535	475	219	1,411	(1,315)	(10)	-	-
CF from Inv. Activities	(475)	306	(282)	(1,173)	(1,063)	(438)	(1,493)	(608)
inc/(dec) in NW	2	2	-	-	-	-	-	-
inc/(dec) in Debt	(15)	(3)	177	100	(277)	99	-	-
Int. Paid	(29)	(18)	(2)	(14)	(6)	(7)	(90)	(90)
Div Paid (inc tax)	(2,904)	(3,437)	(4,027)	(4,289)	(4,692)	(5,482)	(6,890)	(7,944)
others	(14)	(7)	(12)	(11)	-	-	-	-
CF from Fin. Activities	(2,960)	(3,462)	(3,864)	(4,214)	(4,975)	(5,390)	(6,980)	(8,034)
Inc(Dec) in Cash	383	(33)	25	(202)	21	(28)	(539)	490
Add: Opening Balance	462	845	805	830	628	649	3,757	3,218
Closing Balance	845	813	830	628	649	621	3,218	3,708

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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