

Industry
Bloomberg
BSE CODE

Consum. Staples
HUVR IN
500696

volume growth in line impacted by subdued rural growth

RATING	BUY
CMP	2015
Price Target	2319
Potential Upside	15%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	2102/1500
Mkt Capital (Rs Cr)	436,145
Free float (%)	33%
Avg. Vol 1M (,000)	1698
No. of Shares (Crs)	216
Promoters Pledged %	NA

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2QFY20 Result update

- In 2QFY20, HINDUNILVR posted numbers largely in line with our expectations; wherein Sales grew by 6.7% YoY to Rs. 9852 cr. (vs. expect. of Rs. 9788 cr.) on the back of underlying volume growth of 5% YoY (impacted due to rural slowdown) led by consistent growth in Home care segment, broad based growth across portfolio in Food & Refreshment segment and better performance from personal care despite prevailing unfavorable macroeconomic scenario.
- The Company's 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, premiumisation and go to market initiatives.
- Gross margin improved by 251 bps to 54.5% YoY (vs. expect. of 53.3% YoY) led by benign commodity prices, cost saving initiatives and improved mix while EBITDA margin expanded by 293 bps to 24.8% YoY (vs. expect. of 24.4% YoY) led by gross margin expansion.
- EBITDA grew by 21% YoY to Rs 2443 cr (vs expectation of Rs 2383 cr).
- PAT grew by 21.2% YoY to Rs. 1848 cr. (vs. expect. of Rs. 1962 cr. factoring higher other income of Rs 324 cr vs Rs180cr reported) led by benefit of reduction in corporate tax rate while PAT margin stood at 18.8% in 2QFY20. Provisioning of taxes remained lower by 9.21% to 19.9%.
- The Company has launched premium brand Love & Care in selected channels, Magic Rinse powder sachet in Tamil Nadu under Fabric wash while Launched Pond's Super Light gel & Pond's Micellar water range nationally under Skin Care.

View and Valuation

HUL's volume growth remained 5%, in line with our expectations, impacted by tapering down of rural growth (rural currently growing .5x of urban came down from ~1.4x) in 2QFY20. Going forward, we expect gradual demand recovery on the back of government's initiatives. On company's front, better execution, better traction from new launches and market share gain (led by price cut & GST impact) are expected to drive HUL's sales while benign input prices, cost saving measures & premiumization are expected to boost margins going ahead. We continue to like Hul on the back of its strong execution capability, proactive management and better return ratios among its peers. We have largely kept our eps estimates for FY20 & FY21 unchanged and retained our BUY rating with the target price of Rs 2319.

Key Risks to our rating and target

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

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	33162	35545	39310	42133	47471
EBITDA	6340	7499	8880	10313	11581
EBIT	5908	6979	8315	9397	10706
PAT	4490	5227	6060	7197	8328
EPS (Rs)	21	24	28	33	38
EPS growth (%)	8%	16%	16%	19%	16%
ROE (%)	67%	72%	77%	93%	110%
ROCE (%)	88%	96%	106%	122%	142%
BV	31	34	36	36	35
P/B (X)	27.2	45.5	46.6	56.5	57.7
P/E (x)	40.9	63.4	60.5	60.6	52.4

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2QFY20 Results

Largely inline

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	9,234	9,558	9,945	10,114	9,852	6.7%	-2.6%	35,545	39,310	10.6%
Other Income	305	106	118	147	180	-41.0%	22.4%	384	550	43.2%
COGS	4,435	4,418	4,743	4,648	4,485	1.1%	-3.5%	16,730	18,474	10.4%
Gross Margin	52%	54%	52%	54%	54%	2.5%	0.4%	53%	53%	0.1%
Empl. Cost	438	465	402	452	430	-1.8%	-4.9%	1,860	1,875	0.8%
Ad. Expense	1,106	1,186	1,107	1,161	1,198	8.3%	3.2%	4,153	4,607	10.9%
Other Exp.	1,236	1,443	1,372	1,206	1,296	4.9%	7.5%	5,303	5,474	3.2%
EBITDA	2,019	2,046	2,321	2,647	2,443	21.0%	-7.7%	7,499	8,880	18.4%
EBITDA Mar.	22%	21%	23%	26%	25%	2.9%	-1.4%	21%	23%	1.5%
Depreciation	130	133	134	214	237	82.3%	10.7%	520	565	8.7%
EBIT	1,889	1,913	2,187	2,433	2,206	16.8%	-9.3%	6,979	8,315	19.1%
Interest	7	7	7	24	31	342.9%	29.2%	26	33	26.9%
PBT	2,152	1,950	2,227	2,563	2,308	7.2%	-9.9%	7,337	8,832	20.4%
Excep. Item	(35)	(62)	(71)	7	(47)	34.3%	-771.4%	(33)	(228)	590.9%
Tax	627	506	689	808	460	-26.6%	-43.1%	2,079	2,544	22.4%
PAT	1,525	1,444	1,538	1,755	1,848	21.2%	5.3%	5,227	6,060	15.9%
PAT Margin	17%	15%	15%	17%	19%	2.2%	1.4%	15%	15%	0.7%

Growth led by all 3 segments i.e. Home, Personal care and Food & Refreshment

Despite, muted demand, the Company's all the 3 segments performed well backed by new launches, Go to market initiatives, innovation and increased penetration. Home care category (contributed to the extent of 34% to the revenue) grew by 10% YoY driven by new launches and better traction from existing products in fabric wash while Purifiers witnessed good growth in the premium segment. Beauty & Personal Care (contributed to the extent of 46% to the revenue) grew by 4% YoY driven by better pricing in popular segment and also launched new products under its existing brand under Personal Wash and skin care. The Company's Oral Care portfolio witnessed good growth driven by freshness and naturals proposition. Food & Refreshment category (contributed to the extent of 19% to the revenue) grew by 8% YoY led by broad based growth across categories.

Gross margin expansion led by improved mix & benign commodity prices

Gross margin improved by 251 bps to 54.5% YoY led by benign commodity prices, improved mix and while EBITDA margin expanded by 293 bps to 24.8% YoY driven by gross margin expansion, cost saving initiatives undertaken by the company and accounting impact of lease Accounting (Ind AS-116) while PAT grew by 21.2% YoY to Rs. 1848 cr. led by benefit of reduction in corporate tax rate in 2QFY20.

Concall Highlights

Macro:

- Rural consumption went down to 0.5 times of urban in last 3 quarters which used to be ~1.4 x one year back; Both Urban as well as rural are witnessing consumption slowdown but rural demand deceleration is more prominent.
- As per Management, the Government initiative to reverse economic slowdown and good monsoon is expected to boost rural income which in turn will increase the rural demand and consumption and will remain the key watch out for the company.
- The near-term outlook for demand especially in rural remains challenging.

Management Strategy:

- Company's key drivers remained focus on strengthening the core portfolio by constantly innovating and renovating, deepening reach, acting on local trend, driving market development and premiumization by increasing consumer connects, expanding brands across sub categories.
- For categories, focusing on the core and drive weighted distribution and penetration.
- Future action with regard to price reduction is expected to be taken in Dove and Pears portfolio to the extent of 2% in Dec-19 (~4% already taken till sep-19 in lux and Lifebuoy portfolio) at overall personal wash segment.

Other highlights:

- Purifiers:** Witnessing good growth in the premium segment post channel transformation.
- Modern trade and e-commerce also witnessed some slowdown but continues to grow at double digit for the company. (Faster than General trade)
- Effective tax rate (excluding prior period adjustments): FY20:~27% and FY21: ~26%.

Exhibit: Volume growth (%)

Posted Vol. growth of 5% YoY led by growth in all 3 segments i.e. Home care, Personal care & Food & Refreshment.

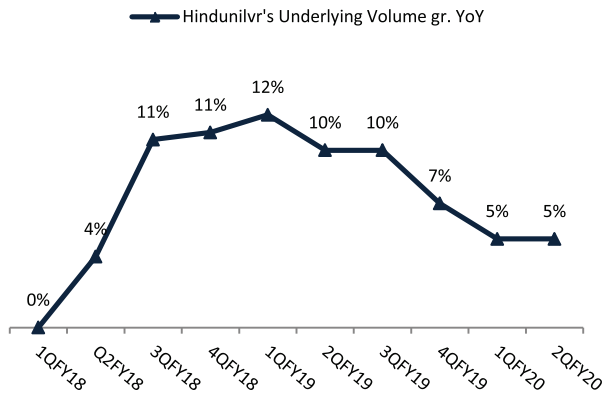


Exhibit: Sales and Sales Growth (%)

Sales Growth backed by traction from core brands, new launches, re-launches & Go-to market initiatives.

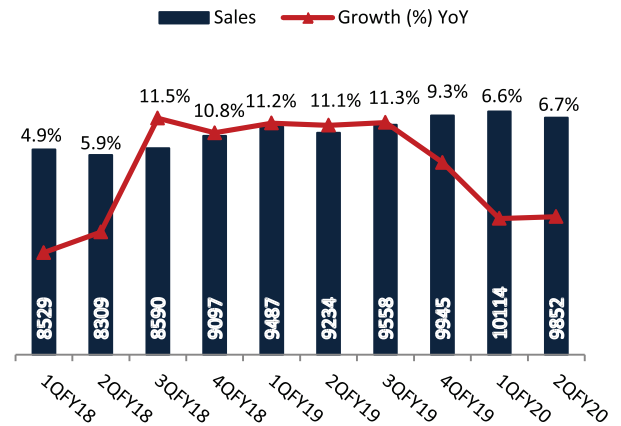


Exhibit: Gross and EBITDA Margin (%)

Gross margin expansion led by benign commodity prices, improved mix & cost saving initiatives.

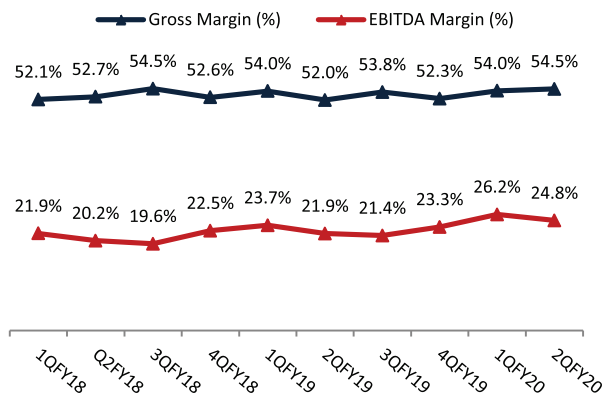


Exhibit: Trend in Expenses (%)

Empl. and other exp. declined by 38 and 23 bps YoY while Ad exp. up by 18 bps respectively.

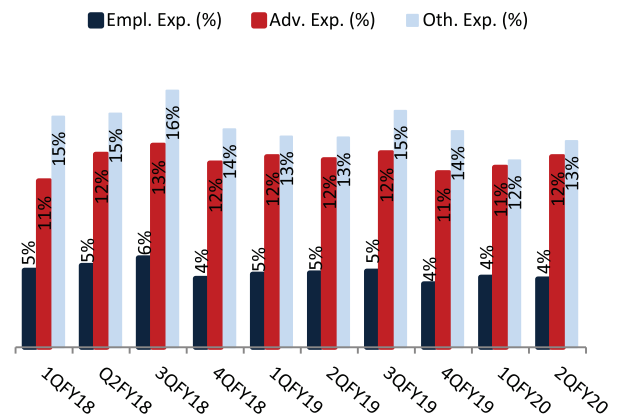


Exhibit: PAT and PAT Growth (%)

PAT gr. was led by benefit of reduction in corporate tax rate in 2QFY20. (Currently tax as % of PBT reduced to 19.9% YoY)

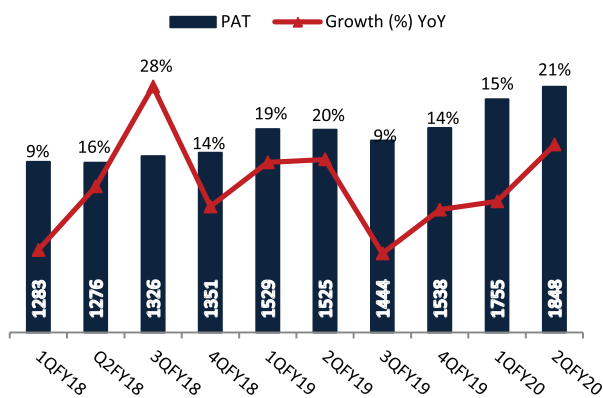
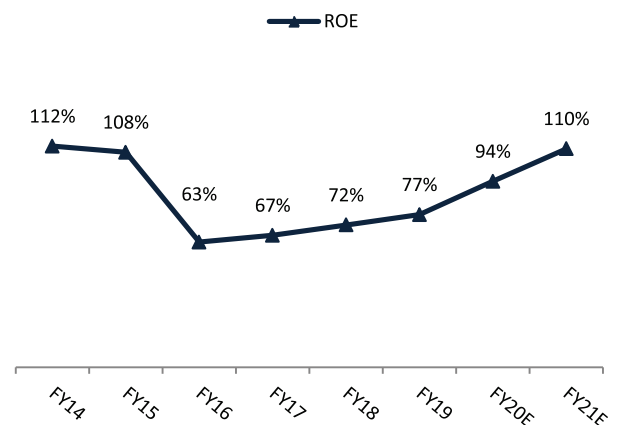


Exhibit: ROE (%)

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



Financial Details

Balance Sheet

Fig in Rs Cr

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	7,507	7,341
Networth	3,537	4,022	6,573	6,744	7,281	7,867	7,724	7,557
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	7,823	7,656
Net Fixed Assets (incl CWIP)	3,038	3,256	3,585	4,567	4,908	5,004	4,795	4,527
Non Current Investments	380	324	-	-	2	-	-	-
Other Non Current Assets	3,846	4,125	4,449	5,488	6,200	6,715	6,506	6,238
Non Current Assets	4,226	4,449	4,449	5,488	6,202	6,715	6,506	6,238
Inventory	2,940	2,849	2,726	2,541	2,513	2,574	2,759	3,108
Debtors	1,017	1,011	1,264	1,085	1,310	1,816	1,946	2,193
Cash & Bank	2,516	2,689	3,009	1,828	3,485	3,757	3,262	3,788
Other Current Assets	3,055	3,433	3,346	4,764	4,352	3,767	4,628	4,770
Current Assets	9,528	9,982	10,345	10,218	11,660	11,914	12,595	13,859
Creditors	5,825	5,507	5,685	6,186	7,170	7,206	7,723	8,702
Provisions	2,088	2,709	293	392	688	523	561	632
Other Current Liabilities	967	953	912	859	1,029	839	899	1,013
Curr Liabilities	8,880	9,169	6,890	7,437	8,887	8,568	9,183	10,347
Net Current Assets	649	813	3,455	2,781	2,773	3,346	3,412	3,513
Total Assets	13,754	14,431	14,794	15,706	17,862	18,629	19,101	20,098

Income Statement

Fig in Rs Cr

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	42,133	47,471
Change (%)	8%	9%	1%	3%	7%	11%	7%	13%
EBITDA	4,746	5,414	6,020	6,340	7,499	8,880	10,313	11,581
Change (%)	13%	14%	11%	5%	18%	18%	16%	12%
Margin (%)	16%	17%	19%	19%	21%	23%	24%	24%
Depr & Amor.	296	322	353	432	520	565	916	875
EBIT	4,450	5,091	5,667	5,908	6,979	8,315	9,397	10,706
Int. & other fin. Cost	41	18	17	35	26	33	96	96
Other Income	570	567	423	369	384	550	561	637
EBT	4,980	5,640	6,073	6,242	7,337	8,832	9,862	11,247
Exp Item	236	679	(31)	237	(33)	(228)	(87)	-
Tax	1,259	1,944	1,875	1,977	2,079	2,544	2,578	2,919
Minority Int & P/L share of Ass.	(10)	(12)	-	-	-	-	-	-
Reported PAT	3,946	4,363	4,151	4,490	5,227	6,060	7,197	8,328
Adjusted PAT	3,770	3,918	4,172	4,328	5,251	6,222	7,261	8,328
Change (%)	0	11%	-5%	8%	16%	16%	19%	16%
Margin(%)	13%	14%	13%	14%	15%	15%	17%	18%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	112%	108%	63%	67%	72%	77%	93%	110%
ROCE	126%	126%	86%	88%	96%	106%	122%	142%
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	98	112
P/E	33	31	44	41	63	60	61	52
Price / Book Value	37	34	28	27	45	47	56	58
EV/EBITDA	27	24	30	29	44	41	42	37
FCF per Share	15	12	16	17	24	23	36	42
Div Yield	2.2%	2.4%	1.8%	1.9%	1.2%	1.2%	1.4%	1.6%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	4,980	5,640	6,058	6,229	7,304	8,604	9,775	11,247
(inc)/Dec in Working Capital	405	(342)	(81)	715	836	(342)	225	425
Non Cash Op Exp	326	391	373	455	591	641	916	875
Int Paid (+)	41	18	17	35	26	33	96	96
Tax Paid	(1,384)	(2,030)	(1,765)	(1,859)	(2,264)	(2,767)	(2,578)	(2,919)
others	(549)	(553)	(431)	(390)	(434)	(369)	0	-
CF from Op. Activities	3,818	3,124	4,171	5,185	6,059	5,800	8,435	9,725
(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	7,728	9,117
(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)	(96)	(96)
Div Paid (inc tax)	(2,904)	(3,437)	(4,027)	(4,289)	(4,692)	(5,482)	(7,341)	(8,495)
others	(14)	(7)	(12)	(11)	-	-	-	-
CF from Fin. Activities	(2,960)	(3,462)	(3,864)	(4,214)	(4,975)	(5,390)	(7,437)	(8,591)
Inc(Dec) in Cash	383	(33)	25	(202)	21	(28)	(495)	526
Add: Opening Balance	462	845	805	830	628	649	3,757	3,262
Closing Balance	845	813	830	628	649	621	3,262	3,788

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