



Hindustan Unilever Ltd

Industry Consum. Staples
Bloomberg HUVR IN
BSE CODE 500696

Better volume growth in sluggish demand environment

RATING	ACCUMULATE
CMP	2034
Price Target	2319
Potential Upside	14%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	2187/1650
Mkt Capital (Rs Cr)	4,40,355
Free float (%)	33%
Avg. Vol 1M (,000)	57
No. of Shares (Cr)	216
Promoters Pledged %	NA

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3QFY20 Result Update

- ❑ HINDUNILVR posted mixed set of numbers in 3QFY20, Sales grew by 2.6% YoY to Rs. 9808 cr. (vs. expect. of Rs. 10131 cr.) on the back of underlying volume growth of 5% YoY led by Home care and Food & Refreshment segment.
- ❑ Sales growth remained muted on account of rural slowdown, lower discretionary spends and slowdown in Beauty & Personal care segment.
- ❑ The Company's major division's namely Home care, Foods & Refreshment grew by 10%/8% YoY while Beauty & Personal care segment (which contributes to the extent of 45% to the revenue in 3QFY20) de-grew by 1% YoY on account of demand slowdown, delayed winters and price reduction taken in personal wash.
- ❑ Gross margin improved by 44 bps to 54.2% YoY (vs. expect. of 54.4% YoY) led by benign commodity prices and premiumization while EBITDA margin expanded by 352 bps to 24.9% YoY led by decline in employee, other expense and Ad & P expense by 24/229/55 bps and impact of change in lease accounting.
- ❑ PAT grew by 11.9% YoY to Rs. 1616 cr. (vs. expect. of Rs. 1623 cr.) with a PAT margin of 16.5% impacted on account of higher exceptional item.
- ❑ The Company has launched shampoo and conditioner under Love Beauty & Planet brand in e-commerce channel and Indulekha Neemraj oil in all India under Personal Care segment while launched Hellmann's Mayonnaise in Kolkata under Food & Refreshment segment.

View and Valuation

In 3QFY20, HINDUNILVR volumes remained at 5% YoY (Better in a sluggish demand environment) impacted on account overall economic slowdown led by high retail inflation, liquidity issues and lower discretionary spends. Going forward, we expect overall market in near term to remain challenging but government initiative to reverse economic slowdown and upcoming budget may give some impetus to demand improvement. On Company's front, distribution expansion, premiumization, better execution and traction from new launches will drive sales while pricing action in the wake of input inflation along with cost saving measures at operational level will ensure margin expansion. Thus, we continue to remain positive on the stock and have largely kept our EPS estimates for FY20 & FY21 unchanged and recommend ACCUMULATE 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.
- ❑ Steep increase in input prices.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	33162	35545	39310	41411	46853
EBITDA	6340	7499	8880	10335	11557
EBIT	5908	6979	8315	9418	10681
PAT	4490	5227	6060	7092	8307
EPS (Rs)	21	24	28	33	38
EPS growth (%)	8%	16%	16%	17%	17%
ROE (%)	67%	72%	77%	92%	110%
ROCE (%)	88%	96%	106%	122%	141%
BV	31	34	36	36	35
P/B (X)	27.2	45.5	46.6	57.0	58.2
P/E (x)	40.9	63.4	60.5	62.1	53.0

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3QFY20 Results

Mixed numbers

Financials	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY19	FY20	Fig in Rs Cr
										YoY %
Net Sales	9,558	9,945	10,114	9,852	9,808	2.6%	-0.4%	35,545	39,310	10.6%
Other Income	106	118	147	180	140	32.1%	-22.2%	384	550	43.2%
COGS	4,418	4,743	4,648	4,485	4,490	1.6%	0.1%	16,730	18,474	10.4%
Gross Margin	54%	52%	54%	54%	54%	0.4%	-0.3%	53%	53%	0.1%
Empl. Cost	465	402	452	430	454	-2.4%	5.6%	1,860	1,875	0.8%
Ad. Expense	1,186	1,107	1,161	1,198	1,163	-1.9%	-2.9%	4,153	4,607	10.9%
Other Exp.	1,443	1,372	1,206	1,296	1,256	-13.0%	-3.1%	5,303	5,474	3.2%
EBITDA	2,046	2,321	2,647	2,443	2,445	19.5%	0.1%	7,499	8,880	18.4%
EBITDA Mar.	21%	23%	26%	25%	25%	3.5%	0.1%	21%	23%	1.5%
Depreciation	133	134	214	237	232	74.4%	-2.1%	520	565	8.7%
EBIT	1,913	2,187	2,433	2,206	2,213	15.7%	0.3%	6,979	8,315	19.1%
Interest	7	7	24	31	25	257.1%	-19.4%	26	33	26.9%
PBT	1,950	2,227	2,563	2,308	2,229	14.3%	-3.4%	7,337	8,832	20.4%
Excep. Item	(62)	(71)	7	(47)	(99)	59.7%	110.6%	(33)	(228)	590.9%
Tax	506	689	808	460	613	21.1%	33.3%	2,079	2,544	22.4%
PAT	1,444	1,538	1,755	1,848	1,616	11.9%	-12.6%	5,227	6,060	15.9%
PAT Margin	15%	15%	17%	19%	16%	1.4%	-2.3%	15%	15%	0.7%

Segment Growth

Segments	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Home care	2%	3%	3%	12%	15%	13%	10%	9%	10%
Beauty & Personal care	3%	1%	1%	10%	11%	7%	4%	5%	-3%
Foods & ref.	9%	7%	10%	13%	10%	12%	9%	8%	8%

Concall Highlights

Macro:

- As per Management, the overall market in near term is expected to remain challenging led by high retail inflation, liquidity issues and lower GDP estimate.
- Rural consumption remained weak (0.5 times of urban) led by unfavorable macroeconomic factors; Both Urban as well as rural are witnessing consumption slowdown but rural remains more sluggish.
- As per Management, consumption in discretionary categories remained more impacted than food categories.
- Crude and currency continues to be volatile due to trade dynamics, Geo political issues and global economic cycles.

3QFY20 Result Update:

- Beauty & Personal care segment de-grew by 1% YoY on account of delayed winters in skin care business (mainly winter portfolio) and price reduction taken in personal wash (to the extent of 6% till dec-19) to pass on the benefit of lower commodity prices to the consumers.
- E-commerce continues to do well for the company and have not seen any decline.
- The Management expects skin cleansing segment (Lux and lifebuoy portfolio) to rebound in some quarters led by distribution expansion, volumes and other corrective measures which is already been taken in this portfolio.
- The Company's Naturals portfolio continues to grow 2 times of the average growth of the company.
- In Oral care, Close Up and Lever Ayush performed better and company is now focusing on Pepsodent brand.
- Other expenses remained lower on account of expenses which were prevailing in previous corresponding quarter and saving in transport contracts made by the company.
- Premium portfolio continued to grow at a higher rate than value products.

Management Guidance

- As per Management, the Government initiative to reverse economic slowdown and upcoming budget is expected to boost rural income.
- The Company may take price increase in a range of 5-6% across soap portfolio in next couple of months led by input inflation.

Exhibit: Volume growth (%)

Posted Vol. growth of 5% YoY led by growth in Home care & Food & Refreshment despite consumption slowdown.

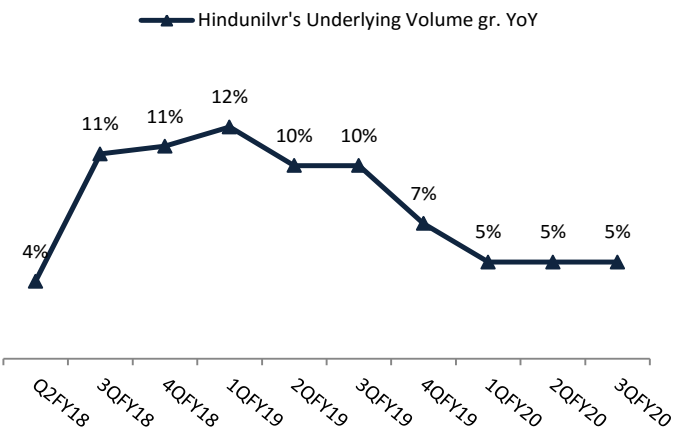


Exhibit: Sales and Sales Growth (%)

Sales growth remained muted on account of rural slowdown and lower discretionary spend.

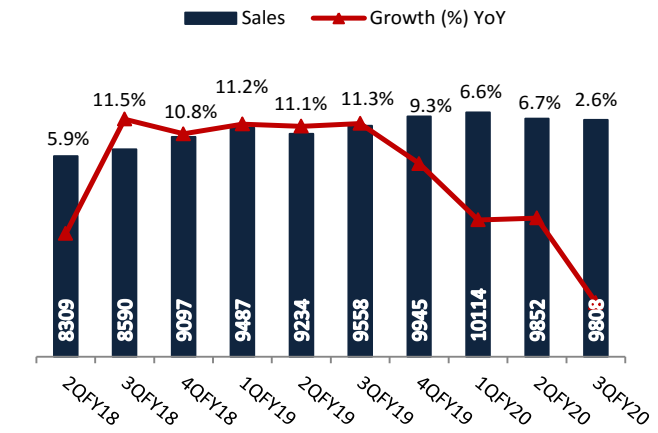


Exhibit: Gross and EBITDA Margin (%)

Gross margin expansion led by benign commodity prices, premiumization.

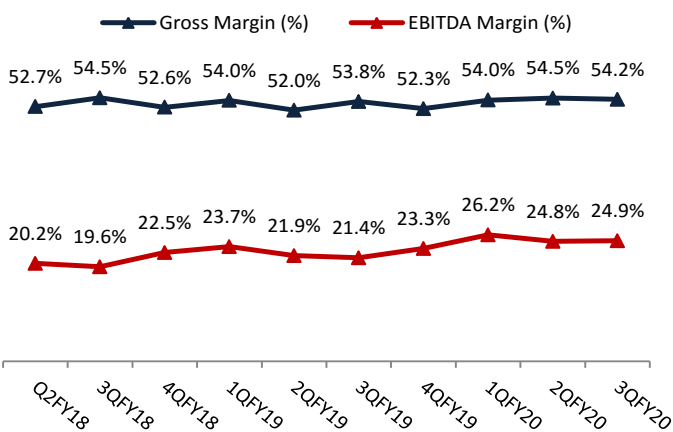


Exhibit: Trend in Expenses (%)

Employee, other exp. and Ad & P expense declined by 24/22/ 55 bps respectively.

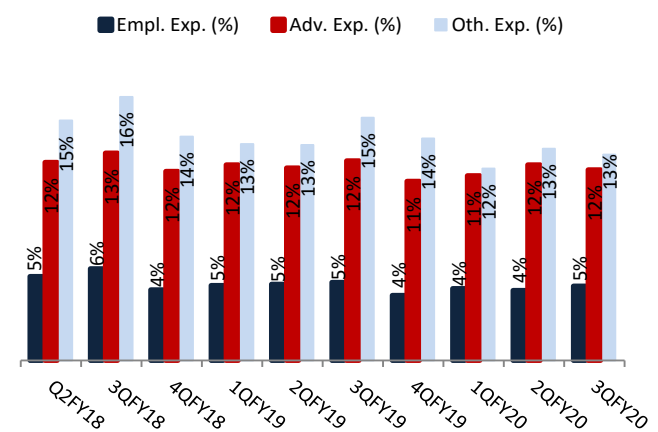


Exhibit: PAT and PAT Growth (%)

PAT growth led by higher other income while PAT margin stood at 16.5% in 3QFY20.

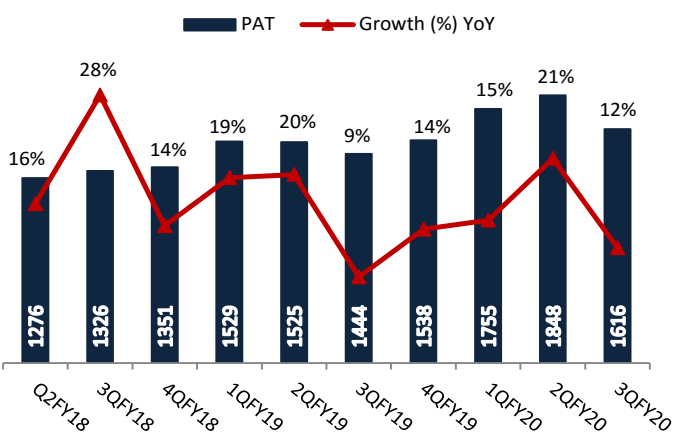
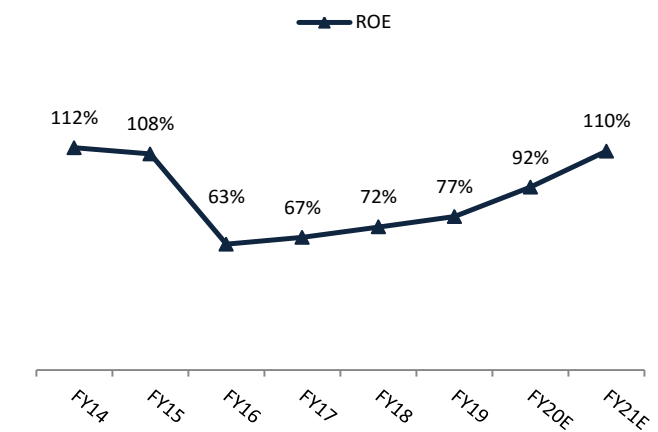


Exhibit: ROE (%)

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	7,509	7,343
Networth	3,537	4,022	6,573	6,744	7,281	7,867	7,726	7,559
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	7,825	7,658
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	2,712	3,068
Debtors	1,017	1,011	1,264	1,085	1,310	1,816	1,913	2,164
Cash & Bank	2,516	2,689	3,009	1,828	3,485	3,757	3,207	3,741
Other Current Assets	3,055	3,433	3,346	4,764	4,352	3,767	4,609	4,754
Current Assets	9,528	9,982	10,345	10,218	11,660	11,914	12,440	13,727
Creditors	5,825	5,507	5,685	6,186	7,170	7,206	7,591	8,589
Provisions	2,088	2,709	293	392	688	523	551	623
Other Current Liabilities	967	953	912	859	1,029	839	884	1,000
Curr Liabilities	8,880	9,169	6,890	7,437	8,887	8,568	9,026	10,212
Net Current Assets	649	813	3,455	2,781	2,773	3,346	3,414	3,515
Total Assets	13,754	14,431	14,794	15,706	17,862	18,629	18,946	19,966

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	41,411	46,853
Change (%)	8%	9%	1%	3%	7%	11%	5%	13%
EBITDA	4,746	5,414	6,020	6,340	7,499	8,880	10,335	11,557
Change (%)	13%	14%	11%	5%	18%	18%	16%	12%
Margin (%)	16%	17%	19%	19%	21%	23%	25%	25%
Depr & Amor.	296	322	353	432	520	565	916	875
EBIT	4,450	5,091	5,667	5,908	6,979	8,315	9,418	10,681
Int. & other fin. Cost	41	18	17	35	26	33	96	96
Other Income	570	567	423	369	384	550	490	633
EBT	4,980	5,640	6,073	6,242	7,337	8,832	9,813	11,219
Exp Item	236	679	(31)	237	(33)	(228)	(139)	-
Tax	1,259	1,944	1,875	1,977	2,079	2,544	2,581	2,912
Minority Int & P/L share of Ass.	(10)	(12)	-	-	-	-	-	-
Reported PAT	3,946	4,363	4,151	4,490	5,227	6,060	7,092	8,307
Adjusted PAT	3,770	3,918	4,172	4,328	5,251	6,222	7,195	8,307
Change (%)	0	11%	-5%	8%	16%	16%	17%	17%
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%	92%	110%
ROCE	126%	126%	86%	88%	96%	106%	122%	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	98	111
P/E	33	31	44	41	63	60	62	53
Price / Book Value	37	34	28	27	45	47	57	58
EV/EBITDA	27	24	30	29	44	41	42	38
FCF per Share	15	12	16	17	24	23	35	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	9,674	11,219
(inc)/Dec in Working Capital	405	(342)	(81)	715	836	(342)	167	434
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)	(2,581)	(2,912)
others	(549)	(553)	(431)	(390)	(434)	(369)	0	-
CF from Op. Activities	3,818	3,124	4,171	5,185	6,059	5,800	8,273	9,712
(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	7,566	9,104
(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)	(7,234)	(8,473)
others	(14)	(7)	(12)	(11)	-	-	-	-
CF from Fin. Activities	(2,960)	(3,462)	(3,864)	(4,214)	(4,975)	(5,390)	(7,330)	(8,569)
Inc(Dec) in Cash	383	(33)	25	(202)	21	(28)	(550)	535
Add: Opening Balance	462	845	805	830	628	649	3,757	3,207
Closing Balance	845	813	830	628	649	621	3,207	3,742

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