

Industry
Bloomberg
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Consum. Staples
HUVR IN
500696

Volumes to remain impacted amidst COVID-19 outbreak

RATING	NEUTRAL
CMP	2196
Price Target	2319
Potential Upside	6%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	2614/1657
Mkt Capital (Rs Cr)	515,873
Free float (%)	33%
Avg. Vol 1M (,000)	123
No. of Shares (Crs)	216
Promoters Pledged %	NA

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4QFY20 Result update

- HINDUNILVR numbers in 4QFY20 remained below our expectations; Sales de-grew by 9.4% YoY to Rs. 9011 cr. led by decline in volumes by 7% YoY impacted on account of standstill of operation and nation wide lockdown due to COVID-19.
- The Company's operations remained impacted since the middle of march but came to standstill with the announcement of lockdown which in turn impacted production, supply chain & distribution and man power availability bringing down volumes to as low as 7% YoY in 4QFY20.
- The Company's major division's namely Home care, Foods & Refreshment and personal care de-grew by 4%/7%/14% YoY respectively impacted by lower discretionary spend and shift of consumer spending towards essentials category.
- Gross margin improved by 142 bps to 54.2% YoY (vs. expect. of 54.4% YoY) while EBITDA margin contracted by 42 bps to 22.9% YoY led by increase in Ad & P expense by 179 bps.
- PAT de-grew by 1.2% YoY to Rs. 1519 cr. with a PAT margin of 16.9% in 4QFY20.
- The Company is bringing in Lifebuoy germs kill spray and Domex disinfectant spray into the market along with other innovative products like germ removal wipes, germ wash boosters which are expected to come in next 4-6 weeks.

View and Valuation

In 4QFY20, HINDUNILVR volumes declined by 7% YoY impacted on account of turbulence caused by COVID-19. On production and distribution front, we expect situation to ease out gradually, the company has restarted the production of categories which falls under essentials (currently operating at 75-80% of its normal level) while also witnessing some ease in movement of goods (partnered with delivering partners like dunzo). The Company is taking all necessary steps like changing business model, deploying science in inventory management will help in combatting the situation effectively while entry into g innovative products in Health & Hygiene segment (acquired V Wash) and Nutrition segment through GSKCONS portfolio will give some cushion to lower expected discretionary spend. On margin front, the company is witnessing input inflation in some of the key inputs like SMP while company's cost saving measures at operational level will give some cushion to margins. Thus, we remain positive on the stock. However, considering the current scenario of lockdown and increasing rate of spread of disease, we expect the lockdown to extend which will hamper the numbers. Thus, maintain our NEUTRAL rating with a target price of Rs. 2319.

Key Risks to our rating and target

- Further increase in Lockdown situation.
- High Volatility in input prices and crude & currencies.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20
Net Sales	32186	33162	35545	39310	39783
EBITDA	6020	6340	7499	8880	9861
EBIT	5667	5908	6979	8315	8859
PAT	4151	4490	5227	6060	6756
EPS (Rs)	19	21	24	28	31
EPS growth (%)	-5%	8%	16%	16%	11%
ROE (%)	63%	67%	72%	77%	82%
ROCE (%)	86%	88%	96%	106%	108%
BV	30	31	34	36	38
P/B (X)	27.8	27.2	45.5	46.6	60.5
P/E (x)	44.1	40.9	63.4	60.5	73.6

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4QFY20 Results Below expectation

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	9,945	10,114	9,852	9,808	9,011	-9.4%	-8.1%	39,310	39,783	1.2%
Other Income	118	147	180	140	266	125.4%	90.0%	550	632	14.9%
COGS	4,743	4,648	4,485	4,490	4,170	-12.1%	-7.1%	18,474	18,259	-1.2%
Gross Margin	52%	54%	54%	54%	54%	1.4%	-0.5%	53%	54%	1.1%
Empl. Cost	402	452	430	454	355	-11.7%	-21.8%	1,875	1,820	-2.9%
Ad. Expense	1,107	1,161	1,198	1,163	1,164	5.1%	0.1%	4,607	4,607	0.0%
Other Exp.	1,372	1,206	1,296	1,256	1,257	-8.4%	0.1%	5,474	5,474	0.0%
EBITDA	2,321	2,647	2,443	2,445	2,065	-11.0%	-15.5%	8,880	9,861	11.0%
EBITDA Mar.	23%	26%	25%	25%	23%	-0.4%	-2.0%	23%	25%	2.2%
Depreciation	134	214	237	232	255	90.3%	9.9%	565	1,002	77.3%
EBIT	2,187	2,433	2,206	2,213	1,810	-17.2%	-18.2%	8,315	8,859	6.5%
Interest	7	24	31	25	26	271.4%	4.0%	33	118	257.6%
PBT	2,227	2,563	2,308	2,229	1,992	-10.6%	-10.6%	8,832	9,373	6.1%
Excep. Item	(71)	7	(47)	(99)	(58)	-18.3%	-41.4%	(228)	(200)	-12.3%
Tax	689	808	460	613	473	-31.3%	-22.8%	2,544	2,409	-5.3%
PAT	1,538	1,755	1,848	1,616	1,519	-1.2%	-6.0%	6,060	6,756	11.5%
PAT Margin	15%	17%	19%	16%	17%	1.4%	0.4%	15%	17%	1.6%

Segment Growth

SEGMENTS	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Home care	3%	3%	12%	15%	13%	10%	9%	10%	-4%
Beauty & Personal care	1%	1%	10%	11%	7%	4%	5%	-3%	-13%
Foods & ref.	7%	10%	13%	10%	12%	9%	8%	8%	-7%
Others	-5%	-11%	-11%	-24%	-30%	-26%	-32%	-48%	-46%

Concall Highlights

Macro:

- Before COVID-19, the macro economic scenario had been challenging led by high retail inflation, liquidity issues and lower GDP. However, the government and RBI took various measures to push the growth and are in right direction.
- The recovery in rural demand is not yet visible while resulting low consumer confidence has reflected into continued slowdown of FMCG market growth before COVID-19.
- Due to nation wide lockdown in 2nd half of March-20 supply chain got disrupted impacting distribution and trade inventory. In April, supply chain gradually improved and the company is able to do 75-80% of its normal level.

4QFY20 Result Update:

- The Company's operation remained impacted from middle of March-20. Domestic consumer growth stood at -9% in 4QFY20, 50% of the impact is on account of reduced stock at distribution location due to disturbance in primary distribution network and rest is on account of lower retailer stock and loss in consumer demand for ice cream and discretionary category.
- The Company's ice cream business witnessed sharp decline since mid of Mar-20.
- The Company's food category witnessed some boost whereas the discretionary category remained impacted.
- The Material cost increased by 40bps on account of inflation in raw material prices like oil, SMP (up by 60%) and Tomato paste.
- Improvement in other expense led by supply chain efficiency, saving initiatives, costs settlement and benefits from currency markets.
- The Company market share grew by 50 bps and ~80% of the business is gaining share as of 4QFY20.

Management Guidance

- Management expects shift in consumer demand to health, hygiene and Nutrition segment.
- The Company will focus on rebalancing media expense across channels both from competitive as well as consumer demand context. Thus, as of now the company's motto is "Earn and then spend".
- The Company will cut down expenses which are not core and not adding value.

Exhibit: Volume growth (%)

Volume remained impacted on account of shut down of factories and nation wide lockdown due to COVID-19.

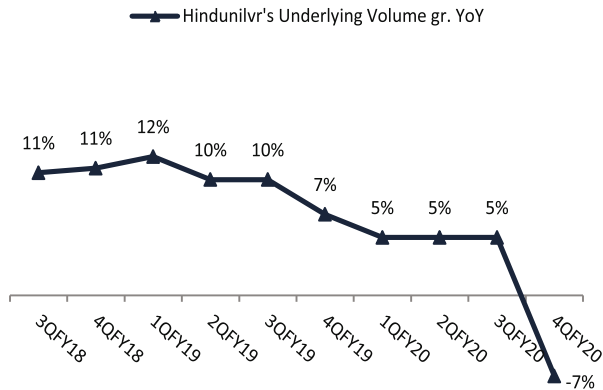


Exhibit: Sales and Sales Growth (%)

Sales remained impacted on account lower volumes due to turbulence caused by COVID-19.

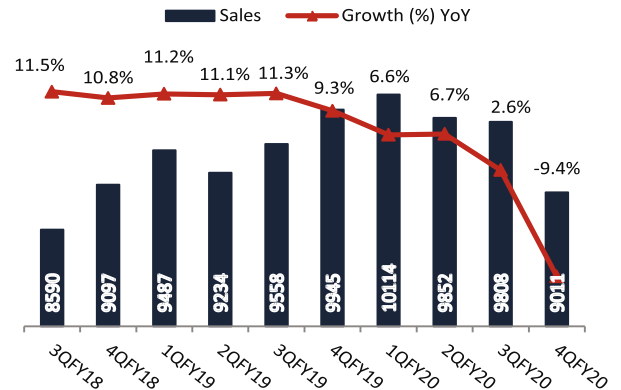


Exhibit: Gross and EBITDA Margin (%)

EBITDA margin contraction on account of increase in Ad & P expense by 179 bps to 13% YoY in 4QFY20.

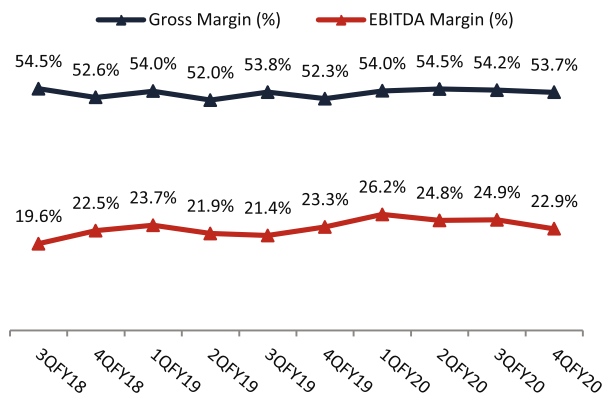


Exhibit: Trend in Expenses (%)

Employee expense declined by 10 bps while other and Ad & P expense increased by 15/179 bps respectively.

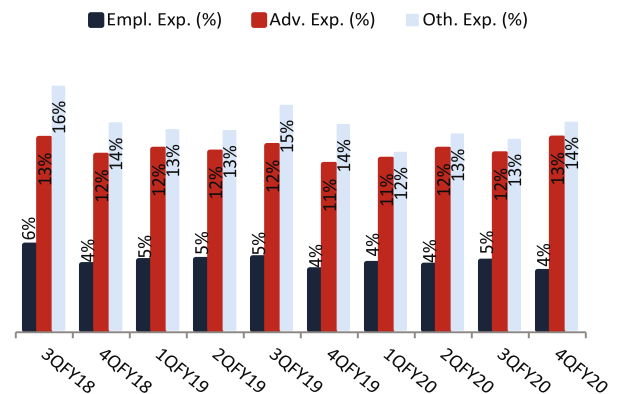


Exhibit: PAT and PAT Growth (%)

PAT declined on account of lower top line while PAT margin stood at 16.9% in 4QFY20.

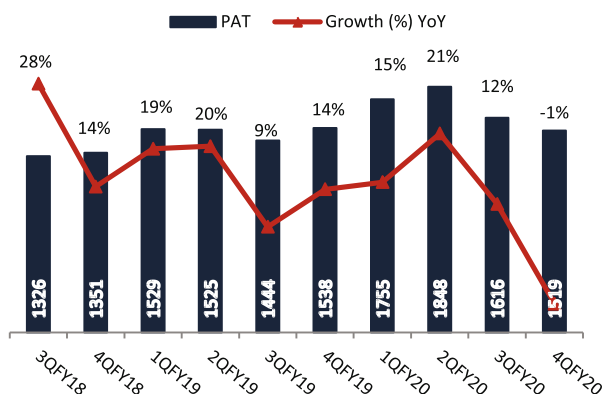
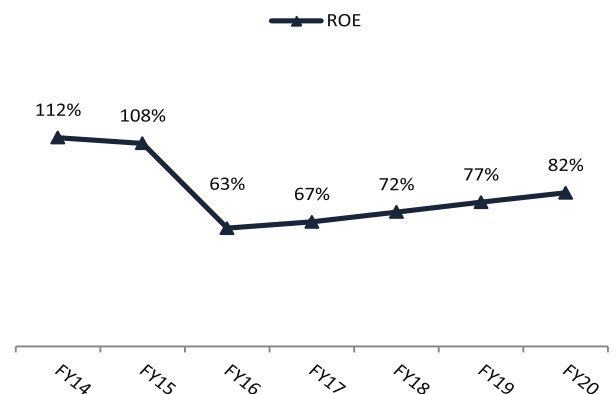


Exhibit: ROE (%)

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



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Share Capital	216	216	216	216	216	216	216	216
Reserves	2,649	3,321	3,805	6,357	6,528	7,065	7,651	8,013
Networth	2,865	3,537	4,022	6,573	6,744	7,281	7,867	8,229
Debt	25	46	43	177	277	-	99	-
Other Non Current Liab	1,192	1,269	1,172	1,134	1,226	1,674	2,077	2,590
Total Capital Employed	2,890	3,583	4,065	6,750	7,021	7,281	7,966	8,229
Net Fixed Assets (incl CWIP)	2,654	3,038	3,256	3,585	4,567	4,908	5,004	5,959
Non Current Investments	395	380	324	-	-	2	-	-
Other Non Current Assets	3,581	3,846	4,125	4,449	5,488	6,200	6,715	7,832
Non Current Assets	3,976	4,226	4,449	4,449	5,488	6,202	6,715	7,832
Inventory	2,706	2,940	2,849	2,726	2,541	2,513	2,574	2,767
Debtors	997	1,017	1,011	1,264	1,085	1,310	1,816	1,149
Cash & Bank	1,901	2,516	2,689	3,009	1,828	3,485	3,757	5,113
Other Current Assets	2,512	3,055	3,433	3,346	4,764	4,352	3,767	3,292
Current Assets	8,116	9,528	9,982	10,345	10,218	11,660	11,914	12,321
Creditors	5,342	5,825	5,507	5,685	6,186	7,170	7,206	7,535
Provisions	1,988	2,088	2,709	293	392	688	523	422
Other Current Liabilities	659	967	953	912	859	1,029	839	1,360
Curr Liabilities	7,989	8,880	9,169	6,890	7,437	8,887	8,568	9,317
Net Current Assets	126	649	813	3,455	2,781	2,773	3,346	3,004
Total Assets	12,092	13,754	14,431	14,794	15,706	17,862	18,629	20,153

Income Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue from Operation	27,004	29,234	31,972	32,186	33,162	35,545	39,310	39,783
Change (%)	-	8%	9%	1%	3%	7%	11%	1%
EBITDA	4,205	4,746	5,414	6,020	6,340	7,499	8,880	9,861
Change (%)	-	13%	14%	11%	5%	18%	18%	11%
Margin (%)	16%	16%	17%	19%	19%	21%	23%	25%
Depr & Amor.	251	296	322	353	432	520	565	1,002
EBIT	3,954	4,450	5,091	5,667	5,908	6,979	8,315	8,859
Int. & other fin. Cost	26	41	18	17	35	26	33	118
Other Income	532	570	567	423	369	384	550	632
EBT	4,460	4,980	5,640	6,073	6,242	7,337	8,832	9,373
Exp Item	606	236	679	(31)	237	(33)	(228)	(200)
Tax	1,227	1,259	1,944	1,875	1,977	2,079	2,544	2,409
Minority Int & P/L share of Ass.	(10)	(10)	(12)	-	-	-	-	-
Reported PAT	3,829	3,946	4,363	4,151	4,490	5,227	6,060	6,756
Adjusted PAT	3,390	3,770	3,918	4,172	4,328	5,251	6,222	6,905
Change (%)	-	3%	11%	-5%	8%	16%	16%	11%
Margin(%)	14%	13%	14%	13%	14%	15%	15%	17%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
ROE	134%	112%	108%	63%	67%	72%	77%	82%
ROCE	138%	126%	126%	86%	88%	96%	106%	108%
Asset Turnover	2	2	2	2	2	2	2	2
Debtor Days	13	13	12	14	12	13	17	11
Inv Days	37	37	33	31	28	26	24	25
Payable Days	72	73	63	64	68	74	67	69
Int Coverage	154	109	288	333	169	268	252	75
P/E	26	33	31	44	41	63	60	74
Price / Book Value	35	37	34	28	27	45	47	60
EV/EBITDA	24	27	24	30	29	44	41	50
FCF per Share	15	15	12	16	17	24	23	31
Div Yield	2.3%	2.2%	2.4%	1.8%	1.9%	1.2%	1.2%	1.1%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
PBT	4,460	4,980	5,640	6,058	6,229	7,304	8,604	9,173
(inc)/Dec in Working Capital	429	405	(342)	(81)	715	836	(342)	411
Non Cash Op Exp	281	326	391	373	455	591	641	977
Int Paid (+)	26	41	18	17	35	26	33	118
Tax Paid	(1,074)	(1,384)	(2,030)	(1,765)	(1,859)	(2,264)	(2,767)	(2,505)
others	(532)	(549)	(553)	(431)	(390)	(434)	(369)	(551)
CF from Op. Activities	3,605	3,818	3,124	4,171	5,185	6,059	5,800	7,623
(inc)/Dec in FA & CWIP	(441)	(584)	(573)	(772)	(1,452)	(878)	(754)	(810)
Free Cashflow	3,164	3,234	2,551	3,399	3,733	5,181	5,046	6,813
(Pur)/Sale of Inv	(29)	(425)	404	271	(1,132)	1,042	326	1,600
others	532	535	475	219	1,411	(1,315)	(10)	1,001
CF from Inv. Activities	63	(475)	306	(282)	(1,173)	(1,063)	(438)	1,791
inc/(dec) in NW	7	2	2	-	-	-	-	-
inc/(dec) in Debt	25	(15)	(3)	177	100	(277)	99	(99)
Int. Paid	(26)	(29)	(18)	(2)	(14)	(6)	(7)	(10)
Div Paid (inc tax)	(4,137)	(2,904)	(3,437)	(4,027)	(4,289)	(4,692)	(5,482)	(6,257)
others	(17)	(14)	(7)	(12)	(11)	-	-	-
CF from Fin. Activities	(4,147)	(2,960)	(3,462)	(3,864)	(4,214)	(4,975)	(5,390)	(6,819)
Inc(Dec) in Cash	(480)	383	(33)	25	(202)	21	(28)	2,595
Add: Opening Balance	942	462	845	805	830	628	649	621
Closing Balance	462	845	813	830	628	649	621	3,216

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