

# Hindustan Unilever

**BSE SENSEX**  
40,852

**S&P CNX**  
11,972



Hindustan Unilever Limited

## Stock Info

Bloomberg	HUVR IN
Equity Shares (m)	2,165
M.Cap.(INRb)/(USDb)	4343.6 / 61.3
52-Week Range (INR)	2187 / 1650
1, 6, 12 Rel. Per (%)	-4/7/-4
12M Avg Val (INR M)	2776
Free float (%)	32.8

## Financials Snapshot (INR b)

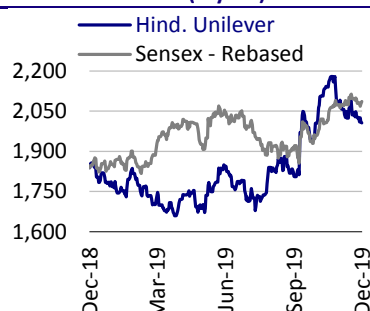
Y/E Mar	2019	2020E	2021E
Net Sales	382.2	408.9	466.3
EBITDA	86.4	100.6	120.3
Net Profit	62.6	71.9	88.4
EPS (INR)	28.9	33.2	40.8
EPS Growth (%)	18.2	14.8	22.9
BV/Share (INR)	35.4	36.8	39.2
P/E (x)	69.3	60.4	49.1
P/BV (x)	56.7	54.5	51.2
RoE (%)	85.0	92.0	107.4
RoCE (%)	119.1	127.3	146.4

## Shareholding pattern (%)

As On	Sep-19	Jun-19	Sep-18
Promoter	67.2	67.2	67.2
DII	6.7	6.9	7.3
FII	12.4	12.1	12.1
Others	13.7	13.8	13.4

FII Includes depository receipts

## Stock Performance (1-year)



**CMP: INR2,006 TP: INR2,378 (+19%)**

**Buy**

## Demand outlook similar to 2QFY20

We spoke to the management of Hindustan Unilever (HUVR) for an update on the overall market condition. Key takeaways highlighted below:

### Demand environment showing no signs of improvement

- The demand scenario is similar to last quarter with no major improvement or deterioration.
- Rural demand has seen slight sequential slowdown.
- The company doesn't see sharp demand turnaround for another two quarters.

### Rising raw material cost in a weak environment

- Since Oct'19, palm oil prices have started inflating and the company will view its implication on a blended basis. However, the company believes that it's too early currently to decide on a price increase.
- The company took the balance 3% price cut in Oct'19, as guided in its 2QFY20 management commentary.

### Premiumization trend continuing

- HUVR has seen no major downtrading during the quarter.
- Premiumization as a trend is continuing.
- Further, premium as a proportion of overall sales is holding up decently.

### Other pointers

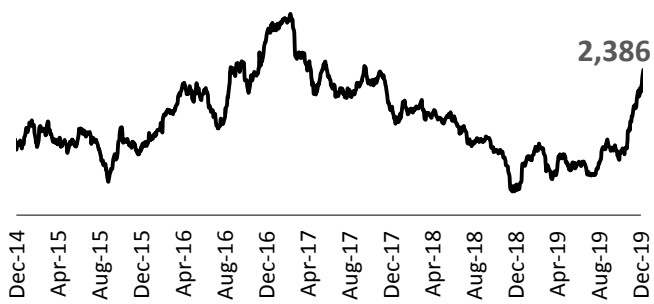
- The company is seeing slight sequential improvement in channel liquidity and is offering some credit wherever required.
- HUVR is seeing nothing extraordinary in ad-spends or competitive intensity.
- It will continue its focus on developing the market and the premium segment.
- Modern Trade is growing well ahead of General Trade.

### Valuation and view

- Four key trends are particularly relevant to HUVR as they point toward an elevated earnings growth trajectory compared to the past. These include (a) rapidly improving adaptability to market requirements, (b) recognition and strong execution of the Naturals segment, (c) a continuous strong trend toward premiumization, and (d) extensive plans to employ technology, creating further entry barriers.
- Once we incorporate the GSKCH merger (no clarity on the date yet), there could be 8-9% addition to EPS in FY21, which means that the stock trades at ~45.1x FY21E v/s 49.1x as it appears now.
- Given HUVR's best earnings growth visibility in the Indian large-cap consumer space and by far the highest return ratios, we believe that the premium valuations are justified.
- On a target multiple of 50x Dec'21E EPS, we derive a TP of INR2,378/share.

**Exhibit 1: Sharp spike-up of late...**

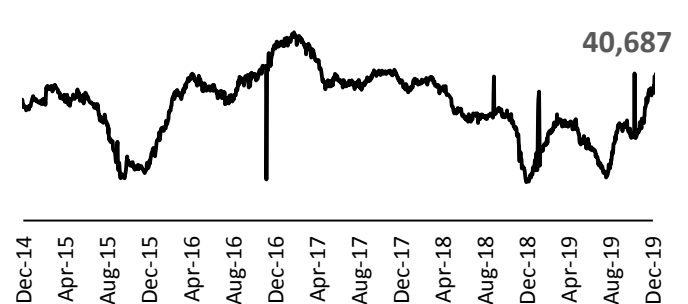
Palm Oil (Malaysian Ringgit Per Metric Tonne)



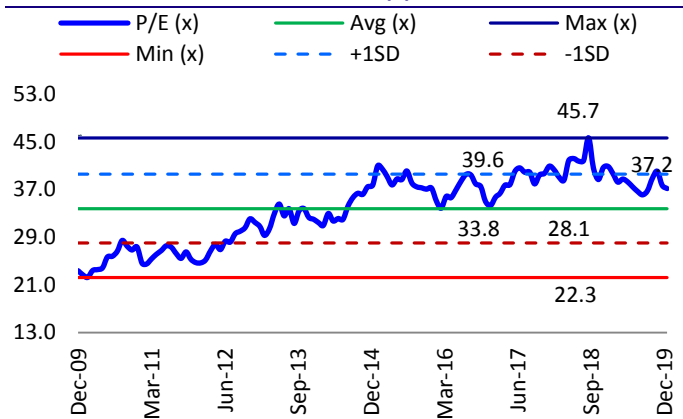
Source: RIL, MOFSL

**Exhibit 2: ...similarly PFAD has also increased**

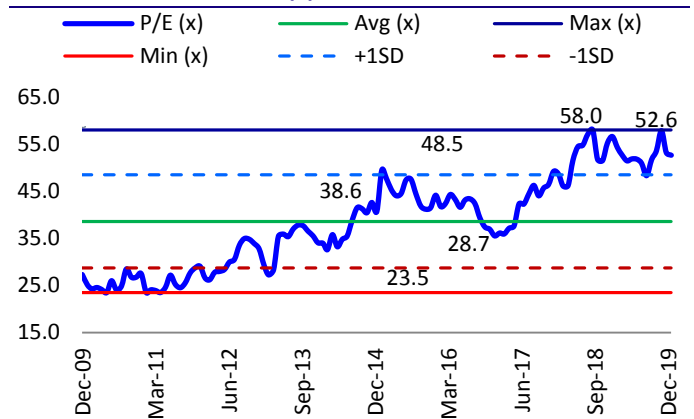
Palm Fatty Acid price (INR/MT)



Source: Bloomberg, MOFSL

**Exhibit 3: Hindustan Unilever P/E (x)**

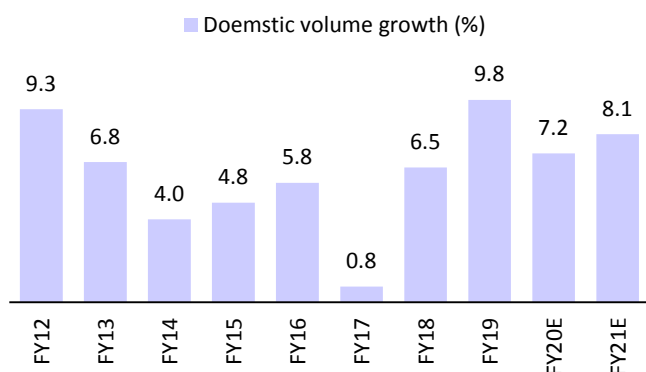
Source: Company, MOFSL

**Exhibit 4: Consumer P/E (x)**

Source: Company, MOFSL

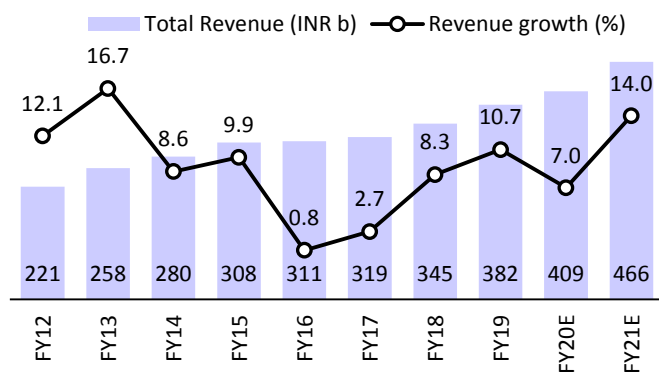
## Story in Charts

**Exhibit 5: Volumes to grow 7.2%/8.1% in FY20/FY21**



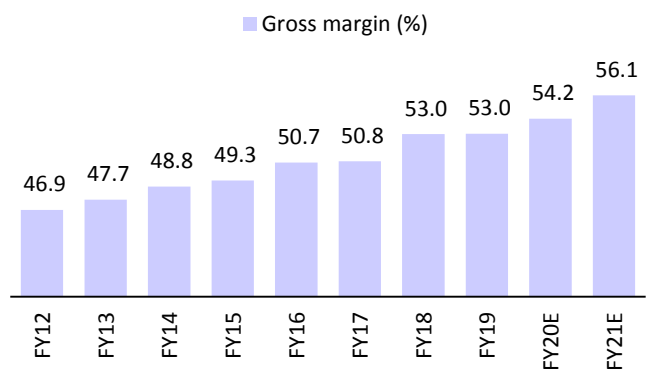
Source: Company, MOFSL

**Exhibit 6: Revenue to see ~10.4% CAGR over FY19-21...**



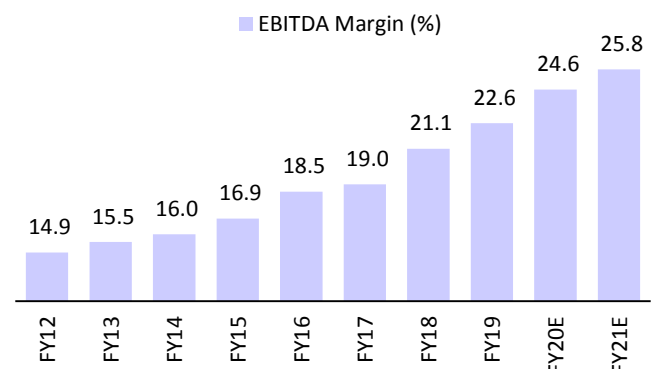
Source: Company, MOFSL

**Exhibit 7: ...with gross margin expansion of 310bp...**



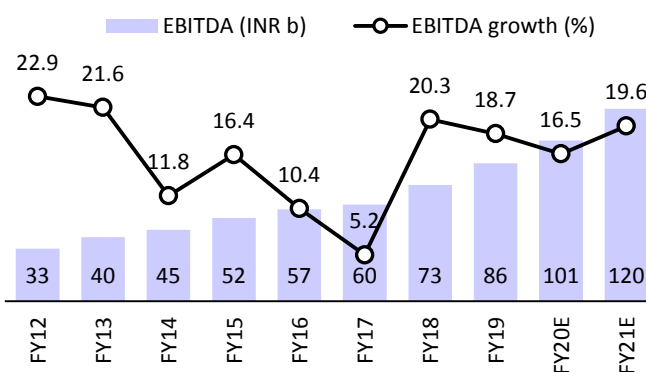
Source: Company, MOFSL

**Exhibit 8: ...leading to operating margins expanding 320bp**



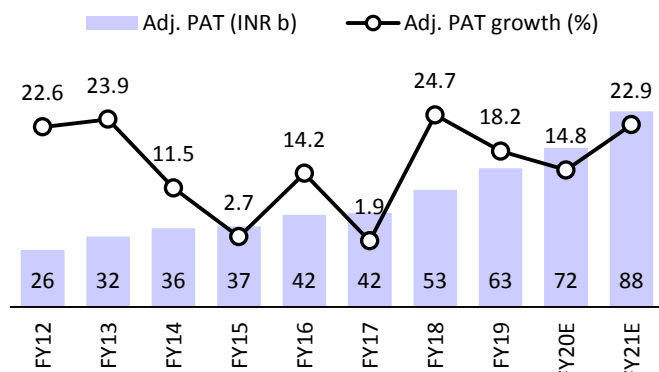
Source: Company, MOFSL

**Exhibit 9: EBITDA to see 18% CAGR over FY19-21**



Source: Company, MOFSL

**Exhibit 10: Adj. PAT estimated at 18.8% CAGR over FY19-21**



Source: Company, MOFSL

## Financials and valuations

Income Statement							(INR M)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Net Sales</b>	<b>3,01,705</b>	<b>3,04,990</b>	<b>3,12,980</b>	<b>3,39,260</b>	<b>3,76,600</b>	<b>4,03,016</b>	<b>4,60,130</b>
Other Oper. Income	6,351	5,619	5,920	5,990	5,640	5,866	6,159
<b>Total Revenue</b>	<b>3,08,056</b>	<b>3,10,609</b>	<b>3,18,900</b>	<b>3,45,250</b>	<b>3,82,240</b>	<b>4,08,882</b>	<b>4,66,289</b>
Change (%)	9.9	0.8	2.7	8.3	10.7	7.0	14.0
<b>Gross Profit</b>	<b>1,51,821</b>	<b>1,57,556</b>	<b>1,62,050</b>	<b>1,82,930</b>	<b>2,02,640</b>	<b>2,21,703</b>	<b>2,61,523</b>
Gross Margin (%)	49.3	50.7	50.8	53.0	53.0	54.2	56.1
Operating Exp	99,738	1,00,070	1,01,580	1,10,170	1,16,270	1,21,118	1,41,250
% of sales	32.4	32.2	31.9	31.9	30.4	29.6	30.3
<b>EBIDTA</b>	<b>52,082</b>	<b>57,486</b>	<b>60,470</b>	<b>72,760</b>	<b>86,370</b>	<b>1,00,585</b>	<b>1,20,273</b>
Change (%)	16.4	10.4	5.2	20.3	18.7	16.5	19.6
Margin (%)	16.9	18.5	19.0	21.1	22.6	24.6	25.8
Depreciation	2,867	3,208	3,960	4,780	5,240	8,602	9,086
Int. and Fin. Charges	168	150	220	200	280	960	989
Other Income - Recurring	6,184	5,640	5,260	5,690	6,640	7,446	9,230
<b>Profit before Taxes</b>	<b>55,231</b>	<b>59,769</b>	<b>61,550</b>	<b>73,470</b>	<b>87,490</b>	<b>98,469</b>	<b>1,19,428</b>
Change (%)	15.1	8.2	3.0	19.4	19.1	12.5	21.3
Margin (%)	18.3	19.6	19.7	21.7	23.2	24.4	26.0
Tax	19,060	18,160	18,650	21,480	25,650	26,587	31,051
Deferred Tax	-338	-70	410	-1,000	-790	0	0
Tax Rate (%)	33.9	30.3	31.0	27.9	28.4	27.0	26.0
<b>Profit after Taxes</b>	<b>36,510</b>	<b>41,679</b>	<b>42,490</b>	<b>52,990</b>	<b>62,630</b>	<b>71,882</b>	<b>88,377</b>
Change (%)	2.7	14.2	1.9	24.7	18.2	14.8	22.9
Margin (%)	12.1	13.7	13.6	15.6	16.6	17.8	19.2
Non-rec. (Exp)/Income	6,643	-310	2,410	-620	-2,270	0	0
<b>Reported PAT</b>	<b>43,153</b>	<b>41,369</b>	<b>44,900</b>	<b>52,370</b>	<b>60,360</b>	<b>71,882</b>	<b>88,377</b>

Balance Sheet							(INR M)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	2,164	2,164	2,164	2,164	2,165	2,165	2,165
Reserves	35,084	60,630	62,740	68,590	74,430	77,475	82,727
<b>Capital Employed</b>	<b>37,248</b>	<b>62,794</b>	<b>64,904</b>	<b>70,754</b>	<b>76,595</b>	<b>79,639</b>	<b>84,892</b>
<b>Net Fixed Assets</b>	<b>24,575</b>	<b>29,147</b>	<b>40,240</b>	<b>41,420</b>	<b>43,430</b>	<b>39,828</b>	<b>35,741</b>
Capital WIP	4,790	3,860	2,030	4,300	3,730	3,730	3,730
Investment in Subsidiaries	6,541	3,130	2,540	2,540	2,540	2,540	2,540
Current Investments	26,238	24,670	35,250	28,570	26,950	27,950	28,950
Deferred Charges	1,960	1,680	1,600	2,550	3,390	3,390	3,390
<b>Curr. Assets, L&amp;A</b>	<b>72,236</b>	<b>76,509</b>	<b>65,850</b>	<b>92,110</b>	<b>98,615</b>	<b>1,20,149</b>	<b>1,38,291</b>
Inventory	26,027	25,284	23,620	23,590	24,220	26,868	35,395
Account Receivables	7,829	10,645	9,280	11,470	16,730	12,146	17,649
Cash and Bank Balance	25,376	27,590	16,710	33,730	36,880	58,451	60,466
Others	13,005	12,990	16,240	23,320	20,785	22,685	24,782
<b>Curr. Liab. and Prov.</b>	<b>99,093</b>	<b>76,202</b>	<b>82,606</b>	<b>1,00,736</b>	<b>1,02,060</b>	<b>1,17,947</b>	<b>1,27,751</b>
Account Payables	48,515	54,980	60,060	70,130	70,700	84,794	92,765
Other Liabilities	29,828	12,382	13,826	16,376	15,860	16,653	17,486
Provisions	20,749	8,840	8,720	14,230	15,500	16,500	17,500
<b>Net Current Assets</b>	<b>-26,857</b>	<b>307</b>	<b>-16,756</b>	<b>-8,626</b>	<b>-3,445</b>	<b>2,202</b>	<b>10,540</b>
<b>Application of Funds</b>	<b>37,248</b>	<b>62,794</b>	<b>64,904</b>	<b>70,754</b>	<b>76,595</b>	<b>79,639</b>	<b>84,892</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>16.9</b>	<b>19.3</b>	<b>19.6</b>	<b>24.5</b>	<b>28.9</b>	<b>33.2</b>	<b>40.8</b>
Cash EPS	18.2	20.7	21.5	26.7	31.4	37.2	45.0
BV/Share	17.2	29.0	30.0	32.7	35.4	36.8	39.2
DPS	15.0	15.5	17.0	20.0	22.0	26.5	32.0
Payout %	90	97	98	99	95	96	94

### Valuation (x)

P/E	118.9	104.1	102.2	81.9	69.3	60.4	49.1
Cash P/E	110.2	96.7	93.5	75.2	64.0	54.0	44.6
EV/Sales	14.3	14.1	13.8	12.7	11.4	10.6	9.3
EV/EBITDA	82.7	75.0	71.5	59.2	49.8	42.6	35.6
P/BV	116.5	69.1	66.9	61.4	56.7	54.5	51.2
Dividend Yield (%)	0.7	0.8	0.8	1.0	1.1	1.3	1.6

### Return Ratios (%)

RoE	104.3	83.3	66.5	78.1	85.0	92.0	107.4
RoCE	158.2	119.8	96.7	108.6	119.1	127.3	146.4
RoIC	4,523.0	290.6	118.7	144.0	197.5	300.2	538.8

### Working Capital Ratios

Debtor (Days)	9	13	11	12	16	11	14
Asset Turnover (x)	8.1	4.9	4.8	4.8	4.9	5.1	5.4

### Leverage Ratio

Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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### Cash Flow Statement

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(loss) before Tax	55,231	59,770	61,550	72,850	85,220	98,469	1,19,428
Financial other income	-3,559	-1,910	-920	-2,800	-770	-7,446	-9,230
Depreciation	2,867	3,210	3,960	4,780	5,240	8,602	9,086
Net Interest Paid	-1,890	-3,160	-2,400	-2,460	-2,950	960	989
Direct Taxes Paid	-17,775	-17,040	-18,040	-21,880	-26,850	-26,587	-31,051
(Incr)/Decr in WC	-2,156	-1,130	5,380	8,640	-2,610	15,924	-6,323
<b>CF from Operations</b>	<b>32,719</b>	<b>39,740</b>	<b>49,530</b>	<b>59,130</b>	<b>57,280</b>	<b>89,922</b>	<b>82,898</b>
Other Items	3,506	6,004	450	4,880	4,460	6,441	8,628
(Incr)/Decr in FA	263	-6,740	-8,520	-8,270	-7,240	-5,000	-5,000
<b>Free Cash Flow</b>	<b>32,982</b>	<b>33,000</b>	<b>41,010</b>	<b>50,860</b>	<b>50,040</b>	<b>84,922</b>	<b>77,898</b>
(Pur)/Sale of Investments	1,182	3,290	-9,700	7,790	3,270	-1,000	-1,000
<b>CF from Invest.</b>	<b>4,951</b>	<b>2,554</b>	<b>-17,770</b>	<b>4,400</b>	<b>490</b>	<b>441</b>	<b>2,628</b>
Dividend Paid	-29,123	-33,420	-35,610	-38,960	-45,460	-68,837	-83,124
Others	-5,403	-6,660	-7,030	-7,550	-9,160	45	-522
<b>CF from Fin. Activity</b>	<b>-34,504</b>	<b>-40,080</b>	<b>-42,640</b>	<b>-46,510</b>	<b>-54,620</b>	<b>-68,792</b>	<b>-83,646</b>
<b>Incr/Decr of Cash</b>	<b>3,166</b>	<b>2,214</b>	<b>-10,880</b>	<b>17,020</b>	<b>3,150</b>	<b>21,571</b>	<b>1,879</b>
Add: Opening Balance	22,210	25,376	27,590	16,710	33,730	36,880	58,587
<b>Closing Balance</b>	<b>25,376</b>	<b>27,590</b>	<b>16,710</b>	<b>33,730</b>	<b>36,880</b>	<b>58,451</b>	<b>60,466</b>

E: MOFSL Estimates

## NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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