

Sector: Consumer Goods
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 1,693	
Price Target: Rs. 1,990	↔

↑ Upgrade ↔ No change ↓ Downgrade

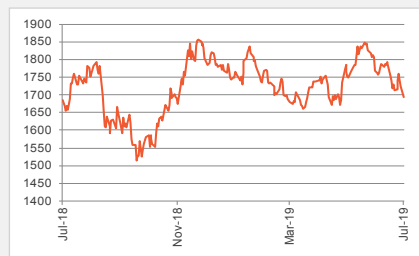
Company details

Market cap:	Rs.366,501 cr
52-week high/low:	Rs.1,871 / 1,478
NSE volume: (No of shares)	13.2 lakh
BSE code:	500696
NSE code:	HINDUNILVR
Sharekhan code:	HINDUNILVR
Free float: (No of shares)	71.0 cr

Shareholding (%)

Promoters	67.2
FII	12.5
DII	6.9
Others	13.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.9	-2.7	-3.3	2.8
Relative to Sensex	-2.1	-1.7	-8.0	-2.5

Sharekhan Research, Bloomberg

Hindustan Unilever Limited's (HUL) Q1FY2020 performance was largely in-line with our expectation. Revenue grew by ~7% and adjusted PAT grew by ~11%. Operating profit margin (OPM) expanded by 150 BPS on a comparable basis to 26.2%. Volume growth of the domestic consumer business moderated to 5% in Q1FY2019 from 7% in Q4FY2019 mainly on account of consumption slowdown in rural India. However, the same was decent in view of industry volume growth of ~6% during the quarter. We expect the volume growth trajectory to sustain at 5-7% in the near term. Margin expansion will sustain on account of operating efficiencies. We maintain our Buy recommendation on the stock.

Key positives

- Domestic volume growth stood at 5%, in-line with ours as well as street's expectation of 5-6% volume growth.
- Home care category (~35% of revenue) continued to deliver strong performance, with 10% growth and PBIT margin improving by 129 BPS to 20.2%.
- Though beauty & personal care (BPC) and food & refreshment (F&R) categories delivered single-digit growth, they have seen 227 BPS and 106 BPS PBIT margin expansion, respectively.
- OPM improved by 150 BPS on comparable basis (ahead of our expectation of 65 BPS) due to operating efficiencies.

Key negatives

- Personal care registered growth of just 4%, with personal wash category seeing a soft quarter.
- Despite the decline in key input prices, gross margin stood flat at 54%.

Our Call

Valuation: HUL's Q1FY2020 performance was largely in-line with expectations, with mid-single digit volume growth and low double-digit PAT growth. Management expects the volume growth trajectory to improve in H2FY2020 on account of likely improvement in demand environment. We have broadly maintained our earnings estimates for FY2020/FY2021. The stock has corrected by ~8% from its recent high and is currently trading at 42.6x its FY2021E earnings. We maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 1,990.

Key Risks

Any sustained slowdown in volume growth and decline in margins due to increased input prices would be key risks to our earnings estimates.

Valuation (standalone)

Particulars	Rs cr				
	FY17	FY18	FY19	FY20E	FY21E
Revenues	34,487	35,218	38,224	42,355	47,593
OPM (%)	17.5	20.7	22.6	23.3	23.5
Adjusted PAT	4,249	5,287	6,199	7,369	8,594
% YoY growth	2.0	24.4	17.3	18.9	16.6
Adjusted EPS (Rs.)	19.7	24.5	28.7	34.1	39.8
P/E (x)	86.1	69.2	59.0	49.6	42.6
P/B (x)	56.3	51.7	47.7	37.2	27.7
EV/EBIDTA (x)	59.6	49.4	41.6	36.1	31.5
RoNW (%)	66.6	77.9	84.2	84.3	74.6
RoCE (%)	93.0	104.2	113.2	109.0	96.8

Source: Company; Sharekhan estimates

Decent performance in Q1FY2020: HUL's standalone revenue grew by 6.6% y-o-y to Rs. 10,114 crore in Q1FY2020 (almost in line with our expectation of Rs. 10,229 crore), led by 5% volume growth. Home care category grew by 10%, while BPC and F&R categories grew by 4% and 9%, respectively. Gross margin stood flat at 54%. OPM improved substantially by 244 BPS to 26.2% (higher than our expectation of 24.4%) due to a 154 BPS reduction in other expenses as a percentage of sales due change in accounting standards to Ind AS116. However, on a comparable basis, OPM improved by 150 BPS mainly on account of controlled advertisement and promotion spends and employee expenses. Operating profit increased by 17.6% y-o-y to Rs. 2,647 crore. However, adjusted PAT grew by slightly lower 11% y-o-y to Rs. 1,750 crore due to a substantial rise in interest costs and depreciation (up 243% and 69% y-o-y, respectively). Implementation of Ind AS 116 did not have any significant impact on the bottom-line for the quarter.

Home care – Maintained double-digit growth: Despite the slowdown in consumption, home care continued to deliver a healthy performance with 10% growth, largely driven by double-digit volume growth in both fabric wash and household care. Focus on the core, premiumisation and targeted market development initiatives boosted growth in the fabric wash segment, whereas liquid's upgradation and increased penetration in bars contributed to growth in the household care segment. Rin brand was relaunched nationally during the quarter. To build up its liquid detergent portfolio, the company launched Sunlight liquid in West Bengal and Kerala. PBIT margin improved by 129 BPS y-o-y to 20.2% mainly on account better revenue mix.

Beauty and personal care – Personal wash was soft: Revenue of the (PC category grew by just 4%, with personal wash category posting soft performance, while personal products reporting stable performance. The personal wash category's growth was affected by slowdown in the popular segment. Growth in the skin care division was driven by strong performance across the portfolio. Hair care witnessed good growth. Two new Sunsilk variants with natural ingredients were launched nationally to enhance the company's presence in naturals. Colour cosmetics delivered yet another quarter of double-digit growth, with a slew of shade expansions increasing online and offline traffic. Momentum on Close up and Ayush Oral Care continued to build up. PBIT margin of the BPC category improved by 227 BPS to 29.6%. To improve growth of popular brands, the company has recently taken a price cut of 4-6% in two of its prominent brands – Lux and Lifebuoy. The company is also planning product intervention in Lux brand in the coming quarters. We expect the BPC category to gradually improve going ahead.

Foods and refreshments – Decent performance: F&R maintained its steady growth momentum with revenue growing by 9% in Q1FY2020. Beverages witnessed a reasonable quarter, driven by consistent strategy across brands and markets. Ice cream and frozen desserts had a good season and delivered strong double-digit growth, led by innovations and helped by extreme summers. In foods, HUL's core segment continued to perform well. F&R margins improved by 106 BPS to 19.4% during the quarter.

Results (Standalone)

Particulars	Rs cr				
	Q1FY20	Q1FY19	Y-o-Y %	Q4FY19	Q-o-Q %
Net revenue	10114.0	9487.0	6.6	9945.0	1.7
Total expenditure	7467.0	7236.0	3.2	7624.0	-2.1
Operating Profit	2647.0	2251.0	17.6	2321.0	14.0
Other income	147.0	135.0	8.9	118.0	24.6
EBITDA	2794.0	2386.0	17.1	2439.0	14.6
Interest	24.0	7.0	242.9	7.0	242.9
PBDT	2770.0	2379.0	16.4	2432.0	13.9
Depreciation	214.0	127.0	68.5	134.0	59.7
PBT	2556.0	2252.0	13.5	2298.0	11.2
Tax	805.7	675.8	19.2	708.9	13.7
Adjusted PAT	1750.3	1576.2	11.0	1589.1	10.1
Extra-ordinary items	-4.7	47.2	-109.9	51.1	-109.2
Reported PAT	1755.0	1529.0	14.8	1538.0	14.1
Adjusted EPS (Rs.)	8.1	7.3	11.0	7.3	10.1
GPM (%)	54.0	54.0	-	52.3	174 BPS
OPM (%)	26.2	23.7	244 BPS	23.3	283 BPS

Source: Company; Sharekhan Research

Revenue (Consolidated)

Particulars	Rs cr				
	Q1FY20	Q1FY19	Y-o-Y %	Q4FY19	Q-o-Q %
Net revenue	10225.0	9640.0	6.1	10047.0	1.8
Total expenditure	7640.0	7459.0	2.4	7807.0	-2.1
Operating Profit	2585.0	2181.0	18.5	2240.0	15.4
Adjusted PAT	1788.0	1628.0	9.8	1638.0	9.2
GPM (%)	53.4	53.1	27 BPS	51.7	166 BPS
OPM (%)	25.3	22.6	266 BPS	22.3	299 BPS

Source: Company; Sharekhan Research

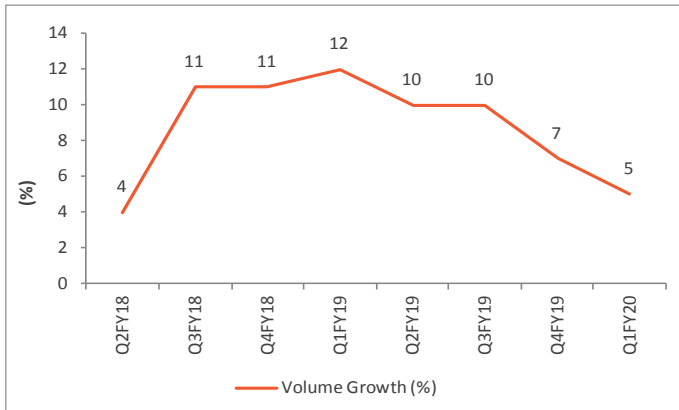
Segment wise revenue (Standalone)

Particulars	Rs cr				
	Q1FY20	Q1FY19	Y-o-Y %	Q4FY19	Q-o-Q %
Revenue					
Home Care	3465	3146	10.1	3502	-1.1
Personal Care	4589	4407	4.1	4393	4.5
Food & Refreshments	1950	1785	9.2	1916	1.8
Total	10004	9338	7.1	9811	2.0
PBIT					
Home Care	699	594	17.7	619	12.9
Personal Care	1358	1204	12.8	1220	11.3
Food & Refreshments	379	328	15.5	346	9.5
Total	2436	2126	14.6	2185	11.5
PBIT margins (%)					
			BPS		BPS
Home Care	20.2	18.9	129	17.7	250
Personal Care	29.6	27.3	227	27.8	182
Food & Refreshments	19.4	18.4	106	18.1	138
Total	24.4	22.8	158	22.3	208

Source: Company; Sharekhan Research

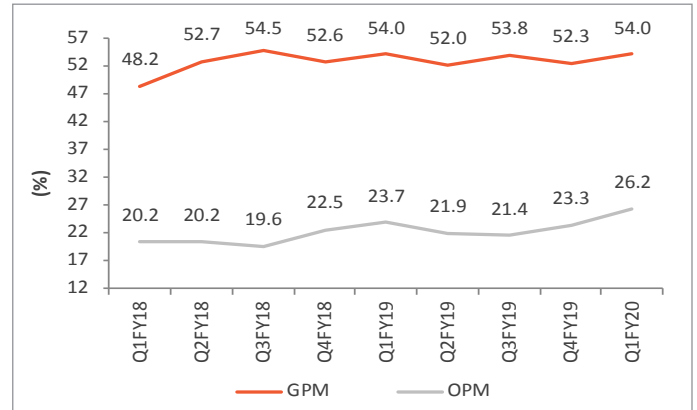
Financials in charts

Volume growth came in at 5%



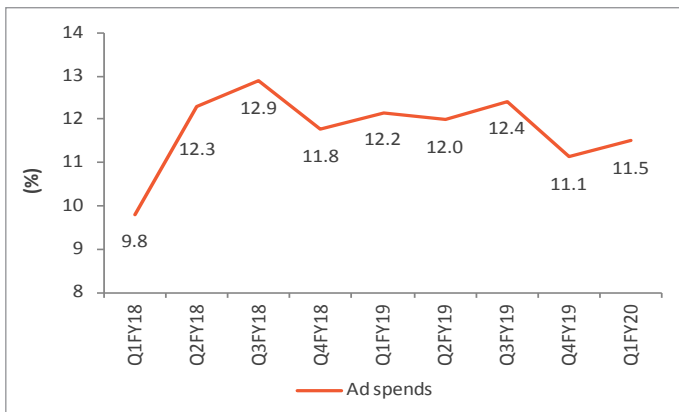
Source: Company, Sharekhan Research

GPM remained flat; OPM improved



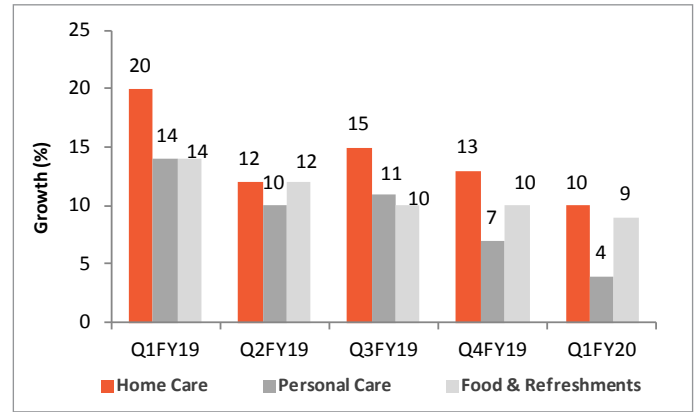
Source: Company, Sharekhan Research

Ad spends remained benign



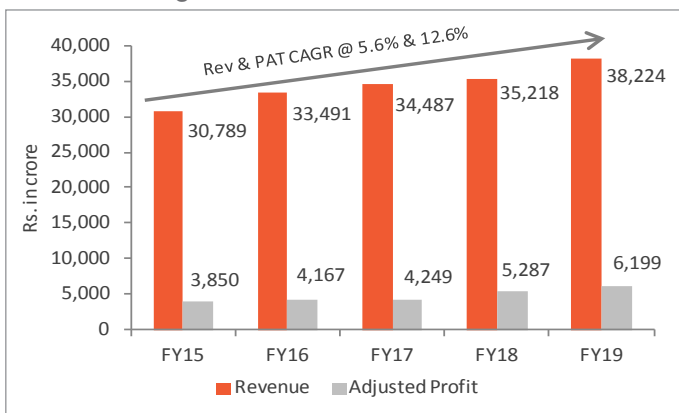
Source: Company, Sharekhan Research

Home care continues to grow in double digits



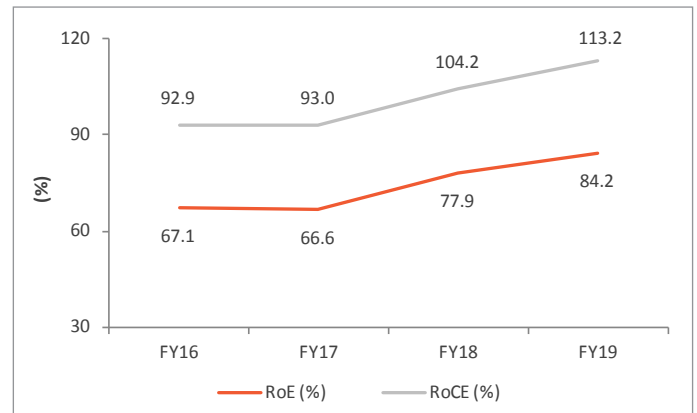
Source: Company, Sharekhan Research

Revenue & PAT grew @ CAGR of 5.6% & 12.6%



Source: Company, Sharekhan Research

Return ratios is on an increasing trend



Source: Company, Sharekhan Research

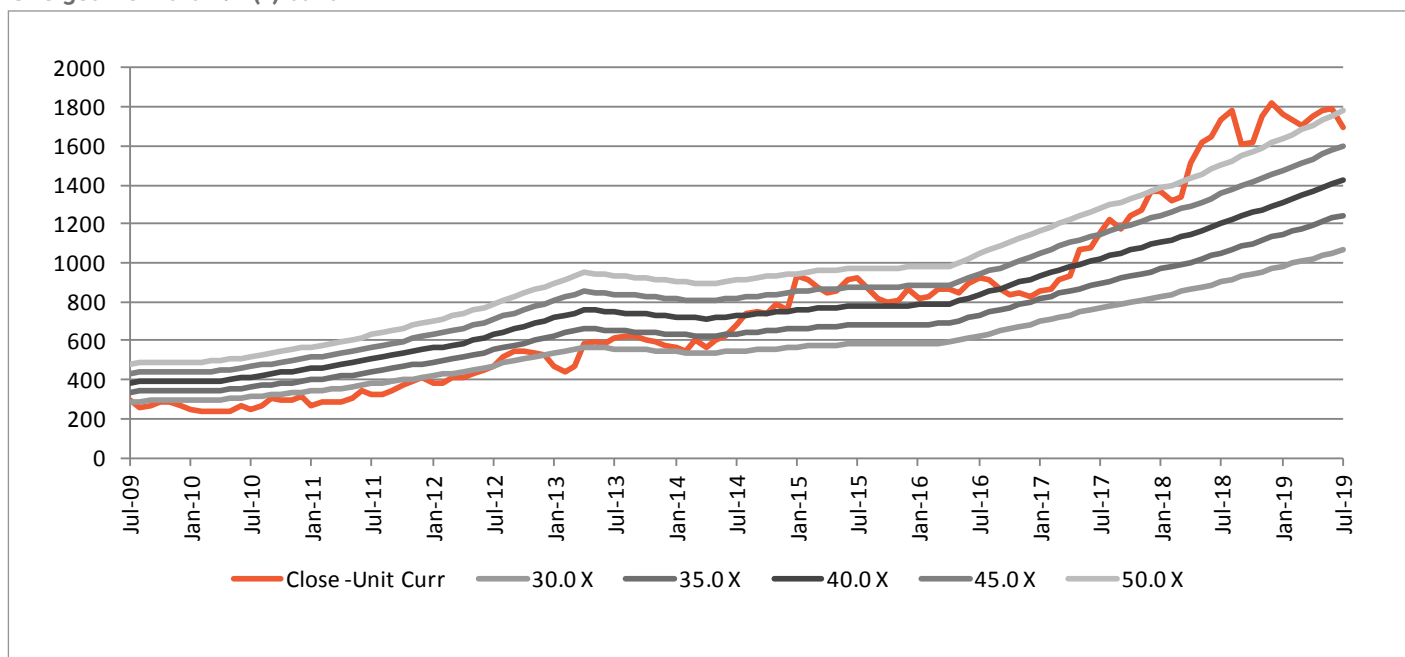
Outlook - Volume growth to sustain at 5-7%; Margin expansion to sustain

HUL's domestic volume growth stood at 5% in Q1FY2020. The company has taken pricing cuts of 4-6% in the popular segment of personal wash to pass on the benefits of lower commodity prices. Competitive intensity has been lower in general trade, which will help HUL gain market share in some of the key categories through relevant pricing actions and product innovations. We expect the volume growth trajectory to sustain at 5-7% in the near term. However, any improvement in rural demand will improve the volume growth trajectory to high single digit (especially in H2FY2020). We expect margin expansion to sustain but at a moderate rate of 50-70 BPS, as the company is focusing on improving volume growth through promotional/pricing actions in the coming quarters. The company has maintained its thrust on innovation, on-time market actions, expansion in distribution reach and improving distribution reach to achieve sustainable double-digit revenue and earnings growth. Overall, we expect HUL's revenue and PAT to report a CAGR of 11.6% and 17.7% over FY2019-FY2021.

Valuation

HUL's Q1FY2020 performance was largely in-line with expectations, with mid-single digit volume growth and low double-digit PAT growth. Management expects the volume growth trajectory to improve in H2FY2020 on account of improved demand environment. We have broadly maintained our earnings estimates for FY2020/FY2021. The stock has corrected by ~8% from its recent high and is currently trading at 42.6x its FY2021E earnings. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 1,990.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Nestle*	67.1	57.3	49.7	40.8	35.4	31.0	49.1	51.2	49.7
ITC	26.8	24.0	21.3	17.7	15.5	13.5	27.8	28.9	30.7
HUL	59.0	49.6	42.6	41.6	36.1	31.5	113.2	109.0	96.8

Source: Company, Sharekhan estimates

*Values for Nestle India is CY18, CY19E and CY20E

About company

HUL is India's largest FMCG company with a strong presence in the home care and beauty and personal care categories. The company is a subsidiary of Unilever Plc (that holds a 67% stake in HUL), the world's largest consumer goods company present across 190 countries. With over 40 brands spanning 12 distinct categories such as personal wash, fabric wash, skin care, hair care, oral care, deodorants, colour cosmetics, beverages, ice creams, frozen desserts and water purifiers, HUL is part of the everyday life for millions of consumers across India. The company's portfolio includes leading brands such as Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk and Axe. HUL reported revenue of Rs. 38,224 crore and OPM of 22.6% in FY2019.

Investment theme

HUL has a leadership position in highly-penetrated categories such as soaps, detergents and shampoos in India. Sustaining product innovation, entering into new categories, premiumisation and increased distribution network remain some of the key revenue drivers for the company. The recent acquisition of GSK Consumer will make the company a formidable play in the health food drinks segment and will enhance the growth prospects of its relatively small food business. A strong financial background, robust cash generation ability and leadership position in some key categories give HUL an edge over other companies and, hence, justifies the stock's premium valuation

Key Risks

- ◆ **Slowdown in the demand environment:** Any slowdown in demand (especially in rural India) would affect sales of key categories, resulting in moderation of sales volume growth.
- ◆ **Increased input prices:** Palm oil and crude derivatives such as linear alkyl benzene are some of the key raw materials for HUL. Any significant increase in the prices of some of these raw materials would affect profitability and earnings growth.
- ◆ **Increased competition in highly penetrated categories:** Increased competition in highly penetrated categories such as soaps and detergents would act as a threat to revenue growth.

Additional Data

Key management personnel

Sanjiv Mehta	Chairman & Managing Director
Srinivas Pathak	Executive Director, Finance & IT and CFO
Pradeep Bannerjee	Executive Director, Supply Chain
Dev Bajpai	Executive Director, legal & Corporate Affairs and Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Unilever PLC	51.5
2	Brooke Bond Group Ltd	4.9
3	Unilever Overseas Holdings Ltd	4.1
4	Life Insurance Corporation of India	3.6
5	Unilever UK & CN Holdings Ltd	2.8
6	Brooke Bond South East Estates Ltd	2.4
7	Brooke Bond Assam Estates Ltd	1.5
8	Vanguard Group Inc	1.2
9	BlackRock Inc	1.2
10	Nomura Holdings Inc	0.7

Source: Bloomberg

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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