

Lockdown disturbs supply; essentials to move needle

With massive impact on manufacturing & supply chain, HUL's operations were disrupted for the last 15 days of the quarter due to the lockdown across the country. Manufacturing capacity utilisation went down to as low as 5% before recovering to 70-75% by April end. This greatly impacted revenue, which declined 9% in the quarter. However, growth was in slow territory even in January-February given continued distress in rural economy, impacted by liquidity problems in trade. HUL's volume dipped 7% in the quarter. Impacted by operating deleverage, comparable operating margins fell 160 bps, resulting in 11% decline in PBT & 1.2% decline in net profit.

Sales to remain disrupted in FY21E

We believe the lockdown would impact Q1FY21 financials in even bigger way given first 20 days of April manufacturing was at extremely low utilisation. Further, we believe even in May, facilities would be working below optimum utilisation with continuance of labour and supply chain problems. On the demand front though, essentials (soaps, sanitisers, floor cleaners, personal hygiene products & tea) would continue to witness higher growth. However, certain discretionary categories (cosmetics, skin products, ice creams, etc.) would see subdued growth in H1FY21E. We expect revenues in home care & personal care to see 9% & 6% decline, respectively, in FY21E. With consolidation of GSK's business, F&R segment revenue is expected at ₹ 11175 crore (estimate ~10% decline in consolidate sales). We expect revenues to grow at 12.2% CAGR (including GSK's acquired business) in FY20-22E.

Operating margins to perk up on multiple factors

Despite comparable sales declining in FY21, we expect operating margins to perk up by 110 bps to 25.9% largely on the back of GSK's consolidation (~70% gross margins), crash in commodity prices (palm oil, crude based derivatives impacting packaging cost) and expected cut in media spends specifically in lockdown period. Moreover, we also believe HUL may not have to spend huge amounts on media spend for essential categories like soaps and personal hygiene products (given already heightened awareness about hygiene). Though the possibility of economic slowdown and its negative impact on income levels is likely to result in down trading (either to mass brands & lower SKUs), we still believe operating margins would further improve in FY22E given the benefits mentioned above.

Valuation & Outlook

The unprecedented turn of events and its negative impact on supply chain & discretionary products demand is expected to result in a revenue decline (comparable) in FY21E. However, we believe the company has many levers to protect its margins and propel growth once the situation come back to normal. HUL remains one of our preferred plays in the consumption space with its ability to weather the storm. We maintain **HOLD** recommendation with a revised target price of ₹ 2250/share.

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	34487.0	38734.0	38785.0	40808.3	48843.9	12.2%
EBITDA	7276.0	9147.0	9600.0	10574.9	12964.9	16.2%
EBITDA Margin %	21.1	23.6	24.8	25.9	26.5	
Net Profit	5237.0	6546.0	6738.0	7880.1	9712.3	20.1%
EPS (₹)	24.25	30.31	31.19	33.54	41.34	
P/E	90.9	72.8	70.7	65.7	53.3	
RoNW %	74.7	87.6	85.7	20.2	25.0	
RoCE (%)	79.9	90.7	82.5	24.4	30.3	

Source: Company, ICICI Direct Research



Particulars

Particular (₹ crore)	Amount
Market Capitalization	518,042.7
Total Debt (FY20)	0.0
Cash and Investments (FY20)	6,265.0
EV	511,777.7
52 week H/L (₹)	2614 / 1657
Equity capital	216.0
Face value	₹ 1
FII Holding (%)	12.1
DII Holding (%)	6.7

Key Highlights

- Home care (38% of revenue) witnessed de-growth of 4.3% YoY impacted by lockdown and nil sales of its water segment. EBIT margins rose by 131 bps
- Personal care (42% of revenue) saw decline of 13.5% YoY with 291 bps decline in EBIT margins impacted by weak sales of non-essentials portfolio
- F&R (20% of revenue) also witnessed a dip of 6.7% YoY with 547 bps decline in EBIT margins due to decline in OOH and ice-creams category
- Maintain HOLD with revised target price of ₹ 2,250/share

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Exhibit 1: Variance Analysis

Particulars (₹ crore)	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Operating Income	9,011.0	10,805.8	9,945.0	-9.4	9,808.0	-8.1	Net sales witnessed decline of 9.4% YoY due to 7% volume de-growth. The company took a price cut of 15% in essentials products category
Other Operating Income	126.0	119.8	136.0	-7.4	112.0	12.5	
Raw Material Expenses	4,170.0	5,068.5	4,743.0	-12.1	4,490.0	-7.1	Gross margins expanded 142 bps YoY. However, adjusting for re-classification from other expenses to material costs, gross margins contracted by 40 bps YoY
Employee Expenses	355.0	484.7	402.0	-11.7	454.0	-21.8	
Marketing Expenses	1,164.0	1,252.3	1,107.0	5.1	1,163.0	0.1	Marketing spend to sales expanded by 179 bps YoY
Other operating expenses	1,257.0	1,380.4	1,372.0	-8.4	1,256.0	0.1	
EBITDA	2,065.0	2,619.8	2,321.0	-11.0	2,445.0	-15.5	
EBITDA margin (%)	22.9	23.6	23.3	-42 bps	24.9	-201 bps	On a comparable basis (as regards to IND-AS accounting effect), operating margins contracted by 160 bps
Depreciation	255.0	237.0	134.0	90.3	232.0	9.9	
Interest	26.0	24.5	7.0	N.A.	25.0	N.A.	
Other Income	266.0	143.9	118.0	125.4	140.0	90.0	
PBT	2,050.0	2,502.1	2,298.0	-10.8	2,229.0	-8.0	With the decline in sales & small contraction in margins, PBT declined by 10.8%
Exceptional Items	-58.0	0.0	-71.0	N.A.	-99.0	N.A.	Exceptional items pertain to profit from sales of surplus properties, restructuring expenses and acquisition & disposal related costs
Tax Outgo	473.0	815.8	689.0	-31.3	613.0	-22.8	
PAT	1,519.0	1,686.3	1,538.0	-1.2	1,616.0	-6.0	Given cut in corporate tax rate, PAT merely dipped by 1.2% YoY
Key Metrics growth YoY (%)							
Home care	-4.3	7.0	12.9		9.8		Dip in water segment impacted Home care segment revenues
Personal care	-13.5	9.6	7.3		-2.8		Decline in skin care, hair care and colour cosmetics portfolio impacted Personal care revenues
Food & Refreshments	-6.7	6.6	10.4		7.9		Decline in OOH and ice creams category impacted F&R segment revenues

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Sales	45,688.2	40,205.2	-12.0	52,059.0	48,122.1	-7.6	We revised our FY21E estimates with lockdown impacting sales in Q1FY21
EBITDA	11,492.6	10,574.9	-8.0	12,932.0	12,964.9	0.3	
EBITDA Margin (%)	25.2	25.9	71 bps	24.8	26.5	174 bps	We revised our margins estimates upwards given crash in commodity prices & expected decline in media spend
PAT	8,392.8	7,880.1	-6.1	9,493.5	9,712.3	2.3	
EPS (₹)	38.9	33.5	-13.7	44.0	41.3	-5.9	

Source: Company, ICICI Direct Research

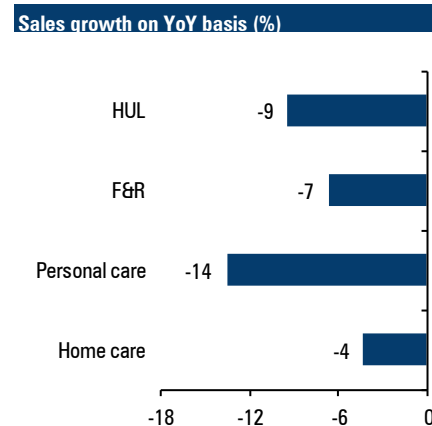
Exhibit 3: Assumptions

(₹ crore)	Current				Earlier			Comments
	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Home care	11,464.0	12,876.0	13,642.0	12,414.2	14,772.9	15,864.4	18,244.1	Home care and Personal care revenue estimates revised downwards due to negative impact of lockdown
Personal care	16,132.0	17,655.0	17,345.0	16,304.3	19,565.2	20,198.6	23,026.4	
Refreshments	6,425.0	7,133.0	7,450.0	11,175.0	13,410.0	8,474.5	9,491.5	F&R revenue estimates revised upwards on account of HUL-GSK Consumer merger

Source: Company, ICICI Direct Research

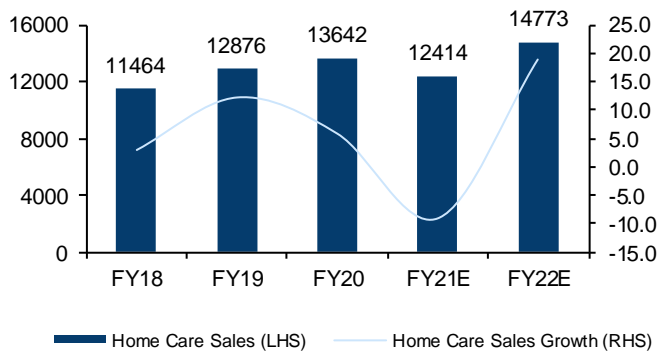
Conference Call Highlights

- The spread of Covid-19 impacted HUL's business from mid-March, which culminated in scaling down of operations post the national lockdown. Revenues dipped 9% YoY with a decline of 7% in volume growth mainly due to decline in discretionary categories like out of home (OOH) categories, certain food categories, consumer durables (water) segment and ice cream sales
- Home care segment witnessed de-growth of 4.3% YoY impacted by lockdown situation and nil sales of consumer durable (water) segment during lockdown. Personal care segment saw decline of 13.5% YoY impacted by weak sales of non-essentials portfolio (skin care, hair care and colour cosmetics). Food & refreshments segment also witnessed a dip of 6.7% YoY due to decline in OOH and ice-creams category
- HUL has increased supply of essential categories such as hand wash, hand sanitisers, floor cleaners, etc. It has increased hand sanitisers production by as much as 60x during the lockdown period
- HUL has taken a price cut of 15% in essentials category during the quarter. It has not resorted to any price hikes despite rising input costs
- HUL has witnessed 50 bps increase in corporate share in Q4FY20
- The company expects heightened demand for hygiene & nutrition products this year as people will focus more on protecting their health due to Covid-19 outbreak. To cater to the rising demand, HUL would be launching several new products in the space in the next few months such as Lifebuoy 'germ kill spray', Domex disinfectant sprays, germ removal wipes, Lifebuoy cloth sanitisers and Surf Excel anti-germ wash booster
- The management has highlighted that even though sales of health and hygiene products are likely to remain strong, demand for discretionary goods, like premium skincare products are likely to be impacted in the current scenario. Ice cream sales have also taken a big knock given that the summer is the peak season for the category
- While barely operating at 5% capacity utilisation in the first few days of the lockdown, HUL has managed to operate at 70-75% capacity utilisation as of now. The company has deferred expansion plans as of now and would only look at expansion if it increases existing capacity utilisation
- The company reported a 42 bps decline in operating margins mainly due to 180 bps increase in marketing spend to sales, partially offset by 140 bps improvement in gross margins. On a comparable basis, operating margin decline was 160 bps YoY. On a segmental basis, home care segment witnessed EBIT margin improvement of 131 bps YoY whereas personal care and F&R saw EBIT margin decline of 291 bps & 547 bps
- Given current uncertainties, HUL will review all areas of cash generation, usage and re-evaluate all costs, although they have indicated that there have been no job losses or salary cuts so far. The company remains bullish on the Indian FMCG market in the medium to long term. However, near term outlook on the growth prospects remains uncertain, as it is difficult at this stage to estimate the timeline of recovery
- HUL remains confident on medium term prospects of Horlicks and Boost brands. HUL-GSK Consumer became effective from April 1, 2020
- The company has proposed a final dividend of ₹ 14/share. Together with interim dividend of ₹ 11/share, the total dividend for FY20 amounts to ₹ 25/share; an increase of 14% YoY



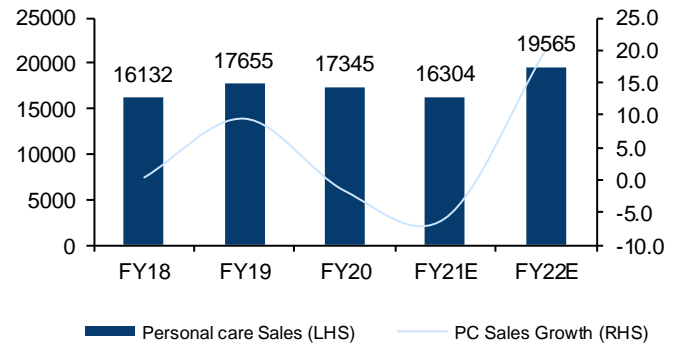
Key Metrics

Exhibit 4: Home care revenue (₹ crore) and YoY growth (%)



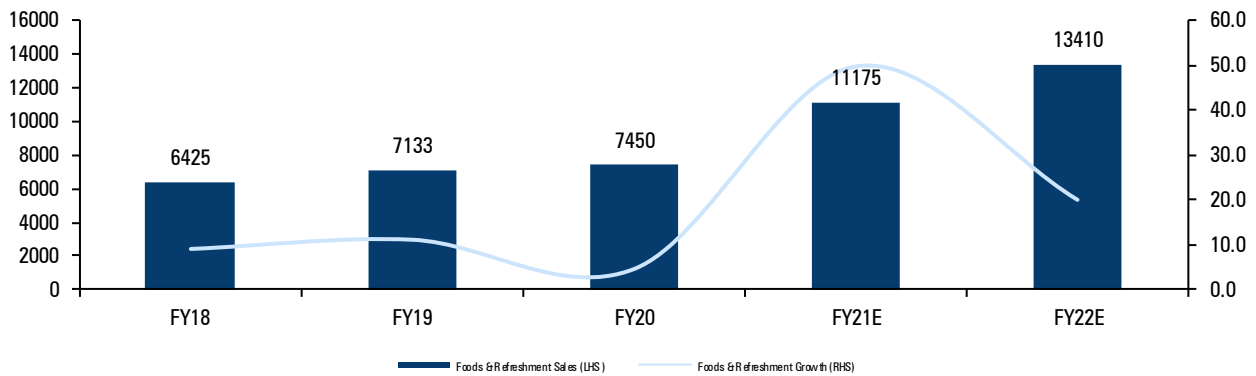
Source: ICICI Direct Research, Company

Exhibit 5: Personal care revenue (₹ crore) & growth (%) trend



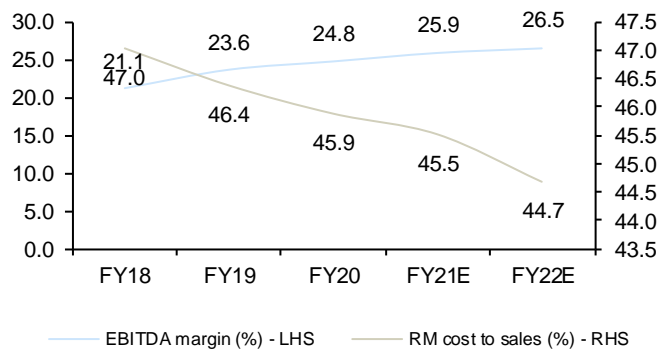
Source: ICICI Direct Research, Company

Exhibit 6: Foods & refreshment revenue (₹ crore) and growth (%) trend



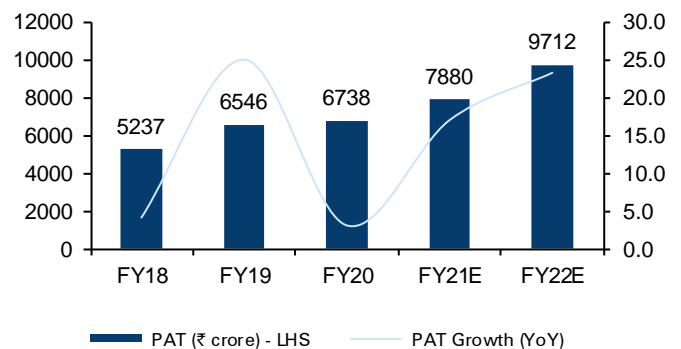
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin and raw material trend



Source: Company, ICICI Direct Research

Exhibit 8: PAT to grow at CAGR of 20.1% in FY20-22E



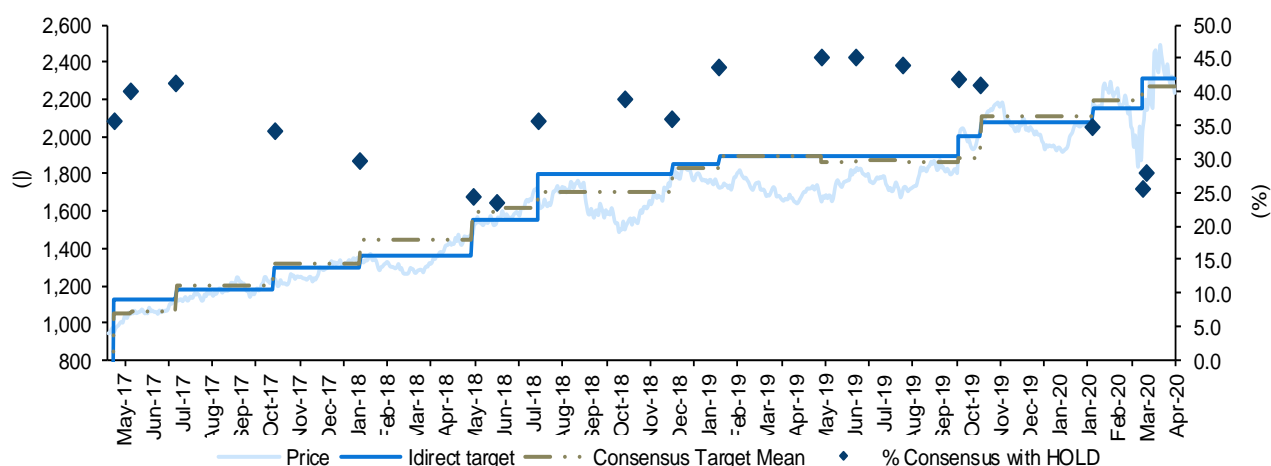
Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	38170.0	12.5	30.3	25.0	72.8	56.2	87.6	90.7
FY20	38273.0	0.3	31.2	2.9	70.7	53.4	85.7	82.5
FY21E	40205.2	5.0	33.5	7.5	65.7	48.7	20.2	24.4
FY22E	48122.1	19.7	41.3	23.2	53.3	39.7	25.0	30.3

Source: Company, ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S Position	(m)	Change (m)
1	Unilever Plc	31-Mar-20	51.5	1114.4	0.0
2	Brooke Bond Group	31-Mar-20	4.9	106.7	0.0
3	Unilever Overseas Holding	31-Mar-20	4.1	87.6	0.0
4	Unilever UK & Cn Holding	31-Mar-20	2.8	60.1	0.0
5	Brooke Bond South	31-Mar-20	2.4	52.7	0.0
6	Brooke Bond Assam	31-Mar-20	1.5	32.8	0.0
7	Vanguard Group	8-Apr-20	1.2	26.9	0.8
8	Blackrock	21-Apr-20	1.2	26.7	0.4
9	SBI Funds Management	31-Mar-20	0.8	16.8	1.4
10	Nomura	23-Apr-20	0.7	15.0	-0.3

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	67.2	67.2	67.2	67.2	67.2
FII	11.8	12.1	12.4	12.3	12.1
DII	7.0	6.9	6.7	6.7	6.7
Others	14.0	13.8	13.7	13.8	14.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	38,734.0	38,785.0	40,808.3	48,843.9
Growth (%)	12.2	0.1	5.2	19.7
Raw Material Expenses	17,960.0	17,793.0	18,573.9	21,827.4
Employee Expenses	1,747.0	1,691.0	1,849.4	2,261.7
Marketing Expenses	4,552.0	4,686.0	4,221.5	5,437.8
Administrative Expenses	1,994.0	0.0	1,970.1	2,406.1
Other expenses	3,334.0	5,015.0	3,618.5	3,946.0
Total Operating Expenditure	29,587.0	29,185.0	30,233.4	35,879.1
EBITDA	9,147.0	9,600.0	10,574.9	12,964.9
Growth (%)	25.7	5.0	10.2	22.6
Depreciation	524.0	938.0	750.9	776.9
Interest	28.0	106.0	95.4	90.6
Other Income	664.0	733.0	806.3	886.9
Exceptional Income	-227.0	-197.0	0.0	0.0
PBT	9,032.0	9,092.0	10,534.9	12,984.3
Total Tax	2,486.0	2,354.0	2,654.8	3,272.0
PAT	6,546.0	6,738.0	7,880.1	9,712.3
Growth (%)	25.0	2.9	17.0	23.2
EPS (₹)	30.3	31.2	33.5	41.3

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	5,837.0	6,627.0	7,880.1	9,712.3
Add: Depreciation	524.0	938.0	750.9	776.9
(Inc)/dec in Current Assets	-228.0	-34.0	-2,692.2	-1,623.4
Inc/(dec) in CL and Provisions	-33.0	331.0	-1,063.0	1,583.4
CF from operating activities	5,728.0	7,305.0	4,950.9	10,449.2
(Inc)/dec in Investments	27.0	2,249.0	-100.0	-100.0
(Inc)/dec in loans & advances	35.0	-35.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	-724.0	-713.0	1,769.0	-200.0
Others	398.0	425.0	75.1	27.3
CF from investing activities	-264.0	1926.0	1719.1	-297.7
Issue/(Buy back) of Equity	0.0	0.0	18.9	0.0
Inc/(dec) in loan funds	0.0	-426.0	0.0	0.0
Dividend paid & dividend tax	-5,459.0	-6,244.0	-8,758.6	-9,853.4
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-3.0	-6.0	0.0	0.0
CF from financing activities	-5,462.0	-6,676.0	-8,739.6	-9,853.4
Net Cash flow	2.0	2,555.0	-2,069.6	298.0
Opening Cash	573.0	575.0	3,130.0	1,060.4
Closing Cash*	3,688.0	5,017.0	2,947.4	3,245.4

Source: Company, ICICI Direct Research *includes cash in bank

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	216.0	216.0	234.9	234.9
Reserve and Surplus	7,443.0	7,815.0	38,692.6	38,551.4
Total Shareholders funds	7,659.0	8,031.0	38,927.5	38,786.4
Other Non Current Liabilities	804.0	1,269.0	1,269.0	1,269.0
Long Term Provisions	1049.0	1198.0	118.2	145.7
Total Liabilities	9,512.0	10,498.0	40,314.7	40,201.1
Assets				
Gross Block	5,476.0	5,676.0	5,876.0	6,076.0
Less: Acc Depreciation	1,569.0	2,507.0	3,257.9	4,034.8
Net Block	3,907.0	4,625.0	2,618.1	2,041.2
Capital WIP	373.0	513.0	0.0	0.0
Total Fixed Assets	4,280.0	5,138.0	2,618.1	2,041.2
Goodwill on Consolidation	36	36	31717	31717
Net Intangible Assets	400.0	395.0	395.0	395.0
Other Investments	256.0	252.0	352.0	452.0
Inventory	2,422.0	2,636.0	2,753.8	3,296.0
Debtors	1,673.0	1,046.0	1,652.3	1,713.9
Loans and Advances	0.0	0.0	220.3	263.7
Investments & Other CA	898.0	1,961.0	1,101.5	1,318.4
Cash	3,688.0	5,017.0	2,947.4	3,245.4
Total Current Assets	11,374.0	11,908.0	12,530.5	14,451.9
Creditors	7,070.0	7,399.0	6,609.1	7,910.5
Provisions & other CL	1,283.0	1,705.0	1,432.0	1,713.9
Total Current Liabilities	8,353.0	9,104.0	8,041.0	9,624.4
Net Current Assets	3,021.0	2,804.0	4,489.5	4,827.5
Others Non-Current Assets	746.0	717.0	742.0	767.0
Application of Funds	9,512.0	10,498.0	40,314.7	40,201.1

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	30.3	31.2	33.5	41.3
Cash EPS	32.7	35.5	36.7	44.6
BV	35.5	37.2	165.7	165.1
DPS	21.0	25.0	32.0	36.0
Cash Per Share	17.1	23.2	12.5	13.8
Operating Ratios (%)				
EBITDA/Total Operating Income	23.6	24.8	25.9	26.5
PBT Margin	23.9	23.9	25.8	26.6
PAT Margin	16.9	17.4	19.3	19.9
Inventory days	23	25	25	25
Debtor days	16	10	15	13
Creditor days	68	71	60	60
Return Ratios (%)				
RoE	87.6	85.7	20.2	25.0
RoCE	90.7	82.5	24.4	30.3
Valuation Ratios (x)				
P/E	72.8	70.7	65.7	53.3
EV / EBITDA	56.2	53.4	48.7	39.7
EV / Net Sales	13.5	13.4	12.8	10.7
Market Cap / Sales	13.6	13.5	12.9	10.8
Price to Book Value	62.2	59.3	13.3	13.4
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	0.8	1.2	1.2
Quick Ratio	0.6	0.5	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E
Colgate (COLPAL)	1,460	1,430	Hold	36,990	28.5	30.6	32.6	51.2	47.7	44.7	8.3	8.0	7.4	70.7	75.5	82.9	52.2	59.7	65.1
Dabur India (DABIND)	489	550	Buy	86,947	8.9	9.9	10.9	55.0	49.2	44.8	9.6	8.8	8.1	30.2	29.9	30.6	25.9	26.7	27.2
Hindustan Unilever (HINLEV)	2,205	2,250	Hold	518,043	31.2	33.5	41.3	70.7	65.7	53.3	13.5	12.9	10.8	82.5	24.4	30.3	85.7	20.2	25.0
ITC Limited (ITC)	182	230	Buy	219,868	11.8	13.2	14.9	15.4	13.8	12.2	4.7	4.3	4.0	29.3	29.6	30.2	22.6	22.7	23.1
Jyothy Lab (JYOLAB)	116	110	Hold	4,113	5.3	3.2	4.4	22.1	36.3	26.6	2.3	2.2	2.0	28.6	18.6	23.9	22.6	14.0	18.5
Marico (MARLIM)	286	300	Hold	36,642	8.4	8.7	9.4	34.2	32.8	30.3	4.9	4.6	4.2	41.2	41.8	43.0	33.9	34.3	35.3
Nestle (NESIND)	17,906	18,000	Buy	164,136	204.3	241.5	281.6	87.7	74.1	63.6	13.3	11.7	10.5	56.9	60.9	66.1	101.9	113.4	116.0
Tata Global Bev (TATGLO)	351	375	Buy	17,986	8.3	9.4	10.7	42.3	37.3	32.7	2.4	1.8	1.6	8.9	8.4	9.3	7.1	6.5	7.1
VST Industries (VSTIND)	2,917	4,000	Buy	4,756	191.8	191.3	210.6	15.2	15.2	13.8	3.9	3.7	3.4	52.5	46.6	47.3	38.0	34.4	34.9
Varun Beverage (VARBEV)	671	700	Buy	18,997	16.6	16.0	21.0	40.3	41.9	31.9	4.7	3.7	2.7	15.5	15.2	17.8	14.2	13.6	15.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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