

July 22, 2020

Event Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	2,304		2,278	
Sales (Rs. m)	4,47,430	4,96,835	4,47,430	4,96,835
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,19,313	1,33,214	1,19,313	1,33,214
% Chng.	-	-	-	-
EPS (Rs.)	39.1	44.4	39.1	44.4
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	388	402	447	497
EBITDA (Rs. bn)	96	108	119	133
Margin (%)	24.8	27.0	26.7	26.8
PAT (Rs. bn)	69	75	85	96
EPS (Rs.)	32.1	34.7	39.1	44.4
Gr. (%)	10.7	8.0	12.9	13.4
DPS (Rs.)	24.1	26.9	31.9	35.9
Yield (%)	1.1	1.2	1.4	1.6
RoE (%)	88.4	84.4	80.0	77.8
RoCE (%)	110.4	109.7	101.9	98.1
EV/Sales (x)	12.4	11.9	10.7	9.6
EV/EBITDA (x)	49.9	44.3	40.0	35.6
PE (x)	70.0	64.8	57.5	50.7
P/BV (x)	60.5	49.8	42.7	36.6

Key Data

HLL.BO | HUVR IN

52-W High / Low	Rs.2,614 / Rs.1,659
Sensex / Nifty	37,872 / 11,133
Market Cap	Rs.5,279bn/ \$ 70,612m
Shares Outstanding	2,348m
3M Avg. Daily Value	Rs.30292m

Shareholding Pattern (%)

Promoter's	68.18
Foreign	13.10
Domestic Institution	5.67
Public & Others	15.05
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.0	9.6	33.8
Relative	(1.3)	19.0	34.3

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HUL geared up for GSK Synergy Gains

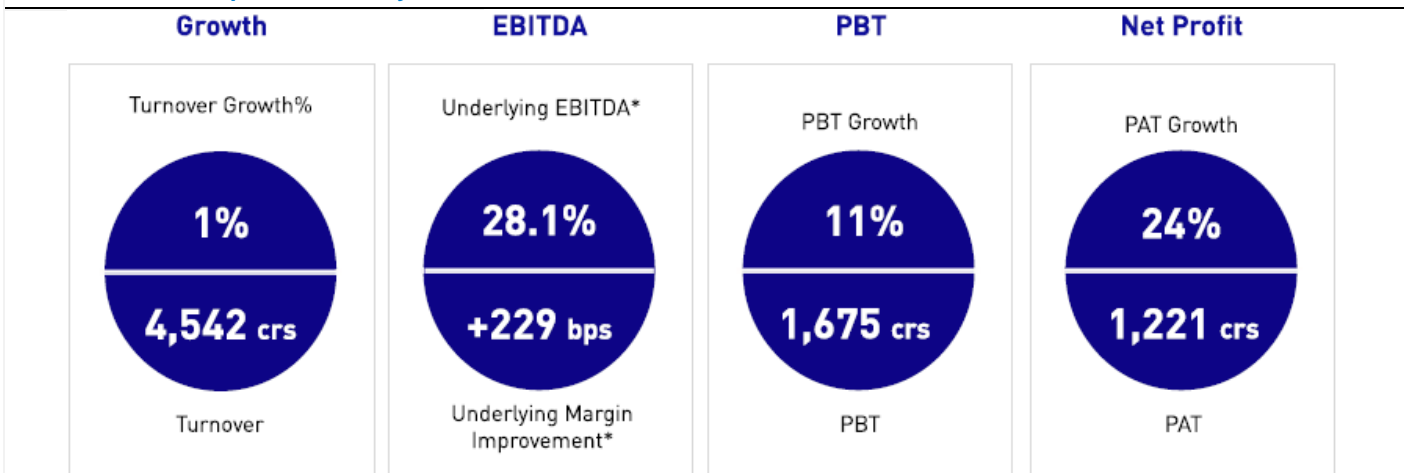
HUVR has successfully integrated GSK which reinforces our confidence in long-term growth story led by 1) Increased Market penetration by leveraging HUVR's distribution capabilities (increase in reach by 1.75x initially and then 2.25x), 2) Launch of sachets and pouch packs at aggressive price points (20% discount), 3) Low rural penetration of HFD in South and East India, 4) Savings in media costs and material procurement, 5) Reduction in number of depots and 6) Savings of 3% in Royalty costs as it now owns Horlicks brand. Synergy benefit of 250-300bps has been realized already, the HUL expects 550-700bps margin expansion over base of 31.1% (ex-royalty) of FY20.

We remain positive on core business of HUL given advantages in distribution, technology and analytics and categories of future. We have tweaked some estimates for GSK in our proforma numbers shall revise our estimates for GSK acquisition on getting more clarity from the company. We currently estimate 13.1% PAT CAGR over FY20-23 (post-merger) and value the stock at 46x FY23 pro-forma EPS of Rs50.1 and assign a target price of Rs2304. Retain Hold, although we would seek a lower entry point given COVID19 led disruptions and rich valuations.

Conference Call Takeaways:

- GSK's revenue/PAT grew 1%/ 24% during FY20. Margins at 28.1% (after deducting royalty of 3%) expanding 229bps.
- In 1Q21, GSK reported 5% domestic sales growth while gaining market share.
- Synergy benefits of 250-300bps already realized expects incremental 550-700bps margin expansion over base of 31.1% (ex-royalty).
- IT Integration will take 12 months for which an IT transaction services agreement has been signed with GSK Plc for Rs 800m. Investment in integration costs will form part of exceptional items.
- Horlicks will be placed in Nutrition business segment under Food and Refreshments and OTC along with export business will be a part of Other segment. Exports will be routed through HUVR's UIEL subsidiary.
- OTC segment will report earnings (ie ex cost), net margins will be maintained.
- Export revenues reported muted growth due to stocking up at end of Dec and Mar quarter, lengthy transit time and higher compliance.
- To cater to increase in demand of immunity boosting products, HUVR has launched Horlicks variants with zinc, vitamins and iron.
- Rural penetration for HFD products is quiet low especially South and East India markets providing huge opportunity for growth.
- HUVR plans to develop market for sachets in HFD business.
- Distribution reach of HUL is 2.25x GSK's reach. Leveraging distribution reach through its MT and Ecom channel, Out of home consumption and Shakti channel.

Exhibit 1: Resilient performance by GSK in FY20



Source: Company, PL

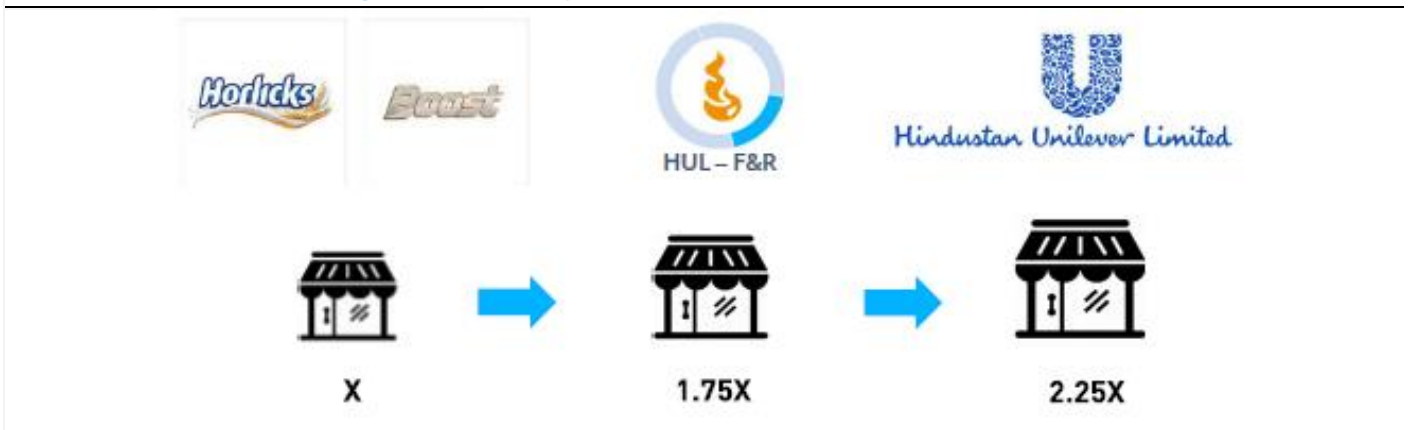
Exhibit 2: Increasing relevance and affordability to increase demand

Reinforcing Horlicks Health credentials

Launch of pouch pack @ 20% discount

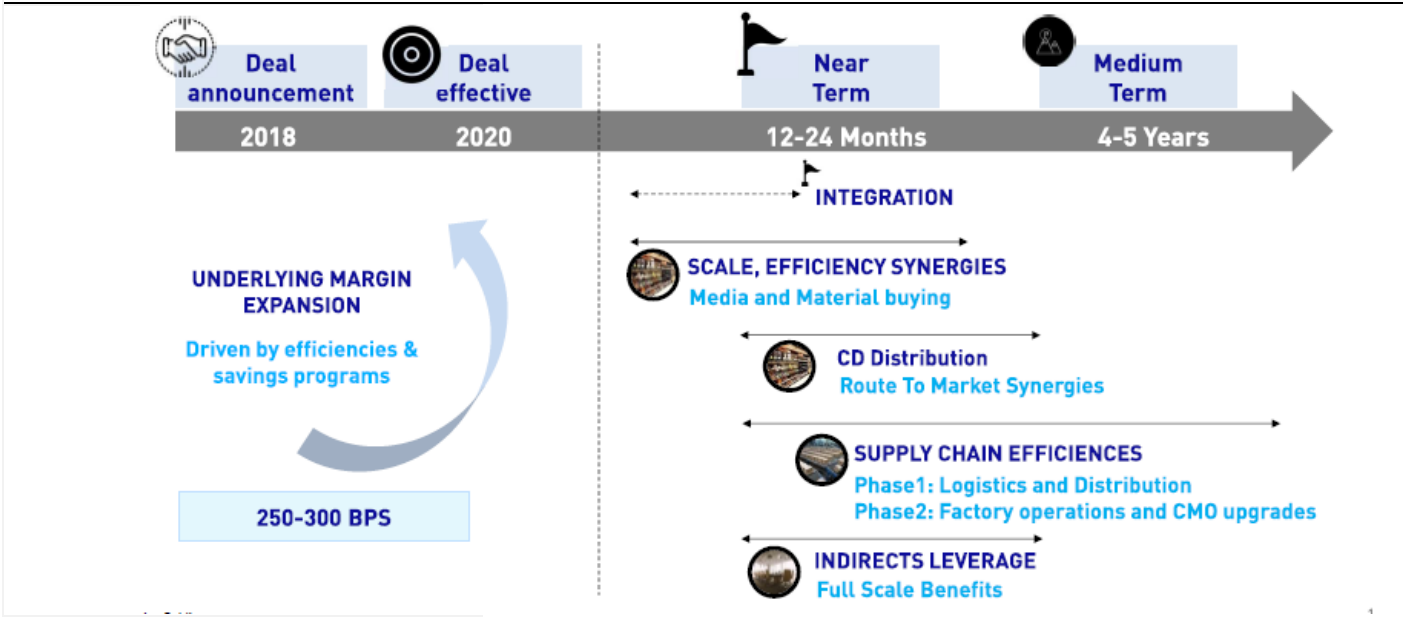
Source: Company, PL

Exhibit 3: GTM ramp up offers growth opportunity



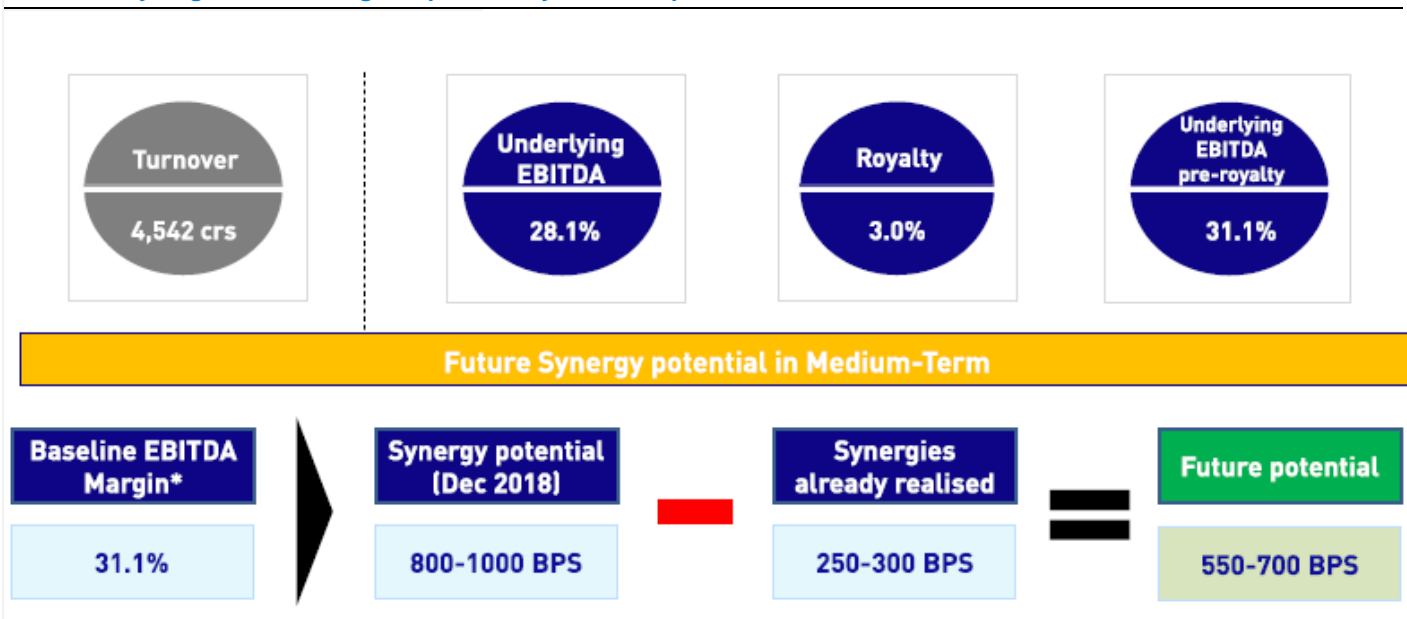
Source: Company, PL

Exhibit 4: Timeline for accruing benefits with Media and Procurement as low hanging fruits



Source: Company, PL

Exhibit 5: Synergies to aid margin expansion by 550-700 bps



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	3,87,850	4,02,041	4,47,430	4,96,835
YoY gr. (%)	1.5	3.7	11.3	11.0
Cost of Goods Sold	1,77,930	1,80,752	2,02,384	2,24,987
Gross Profit	2,09,920	2,21,289	2,45,046	2,71,848
Margin (%)	54.1	55.0	54.8	54.7
Employee Cost	16,910	16,868	18,840	20,692
Other Expenses	957	1,190	1,324	1,471
EBITDA	96,000	1,08,379	1,19,313	1,33,214
YoY gr. (%)	11.1	12.9	10.1	11.7
Margin (%)	24.8	27.0	26.7	26.8
Depreciation and Amortization	9,380	10,567	11,109	11,851
EBIT	86,620	97,812	1,08,204	1,21,363
Margin (%)	22.3	24.3	24.2	24.4
Net Interest	1,060	1,234	1,259	1,284
Other Income	7,330	5,101	7,813	10,012
Profit Before Tax	92,890	1,01,678	1,14,758	1,30,090
Margin (%)	23.9	25.3	25.6	26.2
Total Tax	23,540	26,436	29,837	33,823
Effective tax rate (%)	25.3	26.0	26.0	26.0
Profit after tax	69,350	75,242	84,921	96,267
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	69,350	75,242	84,921	96,267
YoY gr. (%)	10.7	8.5	12.9	13.4
Margin (%)	17.9	18.7	19.0	19.4
Extra Ord. Income / (Exp)	(1,970)	500	500	500
Reported PAT	67,380	75,742	85,421	96,767
YoY gr. (%)	11.6	12.4	12.8	13.3
Margin (%)	17.4	18.8	19.1	19.5
Other Comprehensive Income	(890)	(200)	(200)	(200)
Total Comprehensive Income	66,490	75,542	85,221	96,567
Equity Shares O/s (m)	2,160	2,170	2,170	2,170
EPS (Rs)	32.1	34.7	39.1	44.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	96,684	1,03,684	1,10,684	1,17,684
Tangibles	89,172	96,172	1,03,172	1,10,172
Intangibles	7,512	7,512	7,512	7,512
Acc: Dep / Amortization	46,484	57,051	68,160	80,011
Tangibles	42,922	53,309	64,245	75,923
Intangibles	3,562	3,742	3,915	4,088
Net fixed assets	50,200	46,633	42,524	37,673
Tangibles	46,250	42,863	38,927	34,249
Intangibles	3,950	3,770	3,597	3,424
Capital Work In Progress	5,130	2,600	2,800	2,800
Goodwill	360	360	360	360
Non-Current Investments	7,080	7,160	7,160	7,160
Net Deferred tax assets	2,610	2,767	2,933	3,109
Other Non-Current Assets	11,560	11,782	11,965	12,166
Current Assets				
Investments	12,480	42,058	64,295	89,532
Inventories	26,360	25,214	27,820	30,907
Trade receivables	10,460	15,212	16,934	18,813
Cash & Bank Balance	50,170	33,932	36,907	40,978
Other Current Assets	5,330	6,031	6,711	7,453
Total Assets	1,96,020	1,99,303	2,26,591	2,57,818
Equity				
Equity Share Capital	2,160	2,170	2,170	2,170
Other Equity	78,150	95,900	1,12,109	1,31,003
Total Network	80,310	98,070	1,14,279	1,33,173
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	11,980	9,847	10,964	12,165
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	73,990	69,329	76,518	85,063
Other current liabilities	17,050	15,926	18,169	20,178
Total Equity & Liabilities	1,96,020	1,99,303	2,26,591	2,57,818

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	92,890	1,01,678	1,14,758	1,30,089
Add. Depreciation	9,380	10,567	11,109	11,851
Add. Interest	-	-	-	-
Less Financial Other Income	-	-	-	-
Add. Other	(2,860)	300	300	300
Op. profit before WC changes	99,410	1,12,545	1,26,167	1,42,240
Net Changes-WC	(8,630)	2,189	4,735	5,174
Direct tax	(23,540)	(26,436)	(29,837)	(33,823)
Net cash from Op. activities	67,240	88,298	1,01,065	1,13,591
Capital expenditures	(17,910)	(4,470)	(7,200)	(7,000)
Interest / Dividend Income	-	-	-	-
Others	31,780	(43,353)	(25,914)	(29,239)
Net Cash from Inv. activities	13,870	(47,823)	(33,114)	(36,239)
Issue of share cap. / premium	(133)	664	276	283
Debt changes	12,730	(12,626)	359	390
Dividend paid	(62,640)	(58,460)	(69,290)	(77,950)
Interest paid	-	-	-	-
Others	3	14	2	(4)
Net cash from Fin. activities	(50,040)	(70,407)	(68,653)	(77,282)
Net change in cash	31,070	(29,933)	(701)	70
Free Cash Flow	49,330	83,828	93,865	1,06,591

Source: Company Data, PL Research

Quarterly Financials (Rs m)

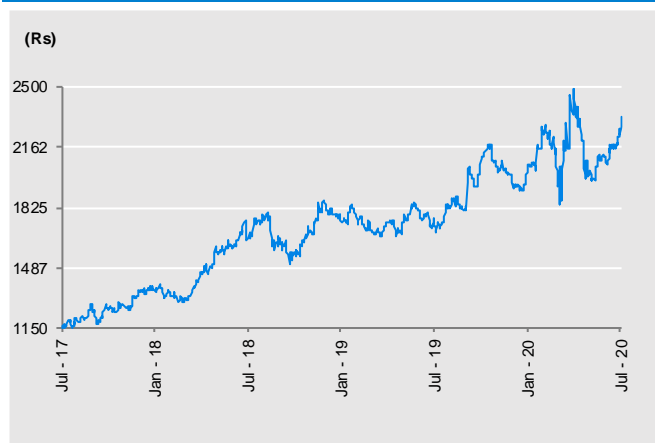
Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	98,520	98,080	90,110	1,05,600
YoY gr. (%)	6.7	2.6	(9.4)	4.4
Raw Material Expenses	44,850	44,900	41,700	50,870
Gross Profit	53,670	53,180	48,410	54,730
Margin (%)	54.5	54.2	53.7	51.8
EBITDA	24,430	24,450	20,650	26,440
YoY gr. (%)	21.0	19.5	(11.0)	(0.1)
Margin (%)	24.8	24.9	22.9	25.0
Depreciation / Depletion	2,370	2,320	2,550	2,420
EBIT	22,060	22,130	18,100	24,020
Margin (%)	22.4	22.6	20.1	22.7
Net Interest	310	250	260	290
Other Income	1,800	1,400	2,660	1,560
Profit before Tax	23,550	23,280	20,500	25,290
Margin (%)	23.9	23.7	22.7	23.9
Total Tax	5,230	6,370	5,810	6,560
Effective tax rate (%)	22.2	27.4	28.3	25.9
Profit after Tax	18,320	16,910	14,690	18,730
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	18,320	16,910	14,690	18,730
YoY gr. (%)	20.4	20.7	(7.6)	7.0
Margin (%)	18.6	17.2	16.3	17.7
Extra Ord. Income / (Exp)	160	(750)	500	80
Reported PAT	18,480	16,160	15,190	18,810
YoY gr. (%)	21.2	11.9	(7.5)	7.2
Margin (%)	18.8	16.5	16.9	17.8
Other Comprehensive Income	30	(10)	(910)	40
Total Comprehensive Income	18,510	16,150	14,280	18,850
Avg. Shares O/s (m)	2,164	2,164	2,164	2,350
EPS (Rs)	8.5	7.8	6.8	8.0

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	32.1	34.7	39.1	44.4
CEPS	36.4	39.5	44.3	49.8
BVPS	37.2	45.2	52.7	61.4
FCF	22.8	38.6	43.3	49.1
DPS	24.1	26.9	31.9	35.9
Return Ratio(%)				
RoCE	110.4	109.7	101.9	98.1
ROIC	409.3	548.4	1,610.3	(1,323.7)
RoE	88.4	84.4	80.0	77.8
Balance Sheet				
Net Debt : Equity (x)	(0.8)	(0.8)	(0.9)	(1.0)
Net Working Capital (Days)	(35)	(26)	(26)	(26)
Valuation(x)				
PER	70.0	64.8	57.5	50.7
P/B	60.5	49.8	42.7	36.6
P/CEPS	61.7	56.9	50.8	45.1
EV/EBITDA	49.9	44.3	40.0	35.6
EV/Sales	12.4	11.9	10.7	9.6
Dividend Yield (%)	1.1	1.2	1.4	1.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	21-Jul-20	Hold	2,278	2,318
2	08-Jul-20	Hold	2,098	2,154
3	01-May-20	Hold	2,017	2,195
4	15-Apr-20	Hold	2,014	2,488
5	01-Apr-20	Accumulate	2,136	2,180
6	23-Mar-20	Accumulate	2,136	1,870
7	31-Jan-20	Accumulate	2,136	2,034
8	03-Jan-20	Accumulate	2,057	1,927
9	14-Oct-19	Accumulate	2,083	2,009
10	03-Oct-19	Accumulate	1,967	1,962

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,857	1,746
2	Avenue Supermarts	Reduce	1,695	2,323
3	Bajaj Electricals	BUY	500	384
4	Britannia Industries	BUY	4,316	3,785
5	Colgate Palmolive	Reduce	1,277	1,392
6	Crompton Greaves Consumer Electricals	BUY	287	241
7	Dabur India	Hold	451	479
8	Emami	Hold	287	233
9	Future Retail	Under Review	-	332
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Reduce	521	598
12	Hindustan Unilever	Hold	2,278	2,318
13	ITC	BUY	262	194
14	Jubilant FoodWorks	UR	-	1,746
15	Kansai Nerolac Paints	BUY	529	444
16	Marico	Hold	337	352
17	Nestle India	Reduce	14,609	16,912
18	Pidilite Industries	Hold	1,418	1,399
19	Titan Company	Hold	1,025	1,016
20	Voltas	Accumulate	600	575

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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