

# Hindustan Unilever

08 June 2020

Reuters: HLL.BO; Bloomberg: HUVR IN

## Leading the HUL way

We pored over Hindustan Unilever's (HUVR) annual report for the financial year 2020. Below are the key excerpts from the same:

**Financial performance:** FY20 was a challenging year with weakening macro-economic conditions, slowing FMCG market growth and COVID-19 led containment measures towards the end of the year. The second half of March saw an aggravated slowdown due to the COVID-19 outbreak, resultant containment measures by various states and finally a nation-wide lockdown. This had an adverse impact on the company's operations with supply chain breakage, manpower shortage and disruptions in transport offsetting the resilient growth levels achieved till Feb'2020. For the full year 2019-2020, domestic consumer business grew by 2%, supported by 2% underlying volume growth. Home Care continued to deliver strong growth with 6% underlying sales growth, backed by resilient volume growth. Focus on core and premiumisation yielded results even in an environment of slowing growth. Beauty & Personal Care registered a decline of 2% in sales due to more accentuated impact of slowdown in discretionary consumption, weather disruptions and skin cleansing delivery below expectations. Foods and Refreshment delivered 5% underlying sales growth. EBITDA margin expanded 100bps on a comparable basis as a result of strong savings agenda, scale efficiencies achieved on the back of healthy volume growth, mix impact given strong portfolio of premium brands and market development initiatives. Cost saving programmes (ZBB, 5S and Change Programme) delivered 7% of turnover as gross savings for the year. Capital expenditure during the year was at Rs7.65bn (Rs7.28bn in the previous year).

**Covid impact and Outlook:** In the Covid environment, health and hygiene essentials have seen an upswing with household stocking and increased awareness. Consumption trend in other essentials such as Fabric Solutions, Coffee, Oral Care etc is fairly neutral. The Out-of-Home channel is closed, resulting in near cessation of consumption in food services, Ice Creams and Life Essentials. The human impact of the virus and the containment efforts have resulted in supply and demand disruptions, resulting in a sharper growth deceleration. The current situation remains volatile and since there are many unknowns today, the near-term outlook is extremely uncertain. But, the company is keeping its savings ambition unchanged.

**Digitisation, Technology and Supply Chain update:** HUVR continues to invest significantly in the digital transformation programme – 'Reimagining HUL', embedding technology across all processes to build a business that is future-fit. It has introduced smartphone apps so that retailers can place product orders directly – and is refining these based on user needs. It is also designing products appropriate for each channel, which will help its customers differentiate themselves. HUVR's total reach now stands at 8mn+ outlets with improving customer fill rate and on-shelf quality. Under 'Project Shakti', the company now has nearly 1.2 lakh Shakti Entrepreneurs (Shakti Ammas) across India. The company continued its journey of delivering cost savings by using 'Zero Based Budgeting' and 'World Class Manufacturing' (WCM) principles and applying them to every element of cost in the end-to-end supply chain. Cash flows were improved through use of IT tools which enabled optimising stocks throughout the value chain. The company has brought down inventory by an additional one day.

**Our view and valuation:** HUVR's superior volume growth outperformance even when compared with much smaller players in recent quarters (Pre-Covid) has been remarkable. This is likely to continue in our view even in current times due to better execution capabilities, higher direct outlet reach compared to its peers and higher salience of modern channels of distribution (Modern Trade & Ecom). The confidence on HUVR's ability to deliver strong performance is because of its rapidly improving adaptability to market requirements exemplified by its 'Winning In Many Indias' (WIMI) strategy, recognition and strong execution on Naturals as a key sub-segment across categories, continuous strong trend towards premiumization and extensive plans to employ technology, creating further entry barriers. Margin prognosis stays strong on the back of (1) benign RM in both crude derivatives and other key inputs, (2) some moderation in adspend intensity in FY2021, (3) aggressive productivity improvement measures in response to the Covid-19 induced pressure on topline & some cost line items and (4) Fair amount of synergy benefit from GSKCH acquisition which is still left along with royalty savings (HUVR acquiring Horlicks brand for India from GSK for a consideration of ~Rs30.45bn). HUVR's acquisition of GSKCH not only adds to its topline (evolving the Foods & Refreshment portfolio into higher growth segments) and margin but also opens up the chemist channel for HUVR. The most recent acquisition of VWash brand from Glenmark also fits well as VWash liquids (Intimate hygiene category) is a nascent category with big potential for market development as urban penetration is at low single digit (<8%), growing at double digit and will maintain that for next few years as HUVR expands its reach for its HFD portfolio in Chemist, Pharmacy and Ecom channels. HUVR not only offers the best earnings growth visibility in large-cap Indian consumer space, but also has by far the highest return ratios, justifying premium valuations. The stock currently trades at 55x/46x FY21E/FY22E EPS. We continue to have a positive view on HUVR and have a BUY rating with a target price of Rs2,535.

**NBIE Values your patronage- Vote for The Team in the Asia Money poll 2020. [Click Here](#)**

## BUY

**Sector:** FMCG

**CMP:** Rs2,087

**Target Price:** Rs2,535

**Upside:** 21%

**Vishal Punmiya**

Research Analyst

vishal.punmiya@nirmalbang.com

+91-22-6273 8064

### Key Data

Current Shares O/S (mn)	2,347.8
Mkt Cap (Rsbn/US\$bn)	4901.3/64.8
52 Wk H / L (Rs)	2,614/1,659
Daily Vol. (3M NSE Avg.)	8,800,609

### Price Performance (%)

	1 M	6 M	1 Yr
Hindustan Unilever	4.8	3.0	14.0
Nifty Index	9.6	(14.9)	(14.6)

Source: Bloomberg

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net revenue	3,45,250	3,82,240	3,87,850	4,60,765	5,19,189
EBITDA	72,760	86,370	96,000	1,20,356	1,40,384
Adjusted PAT	51,350	60,800	67,430	88,982	1,06,285
Adjusted EPS (Rs)	23.7	28.1	31.1	37.9	45.2
EPS growth (%)	20.9	18.4	10.9	21.6	19.4
EBITDA margin (%)	21.1	22.6	24.8	26.1	27.0
P/E (x)	88.0	74.3	67.0	55.1	46.1
P/BV (x)	63.8	59.0	56.3	40.4	71.7
EV/EBITDA (x)	61.6	51.9	46.5	40.0	34.3
RoCE (%)	108.6	119.1	119.8	120.4	120.0
RoE (%)	75.7	82.5	85.9	88.4	89.0

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Segmental Performance

Particulars	FY16	FY17	FY18	FY19	FY20
<b>Segment Revenue (Sales and Other operating income) - Rs mn</b>					
- Home Care	1,05,477	1,13,460	1,16,290	1,28,760	1,36,420
- Personal Care	1,57,189	1,63,046	1,64,640	1,76,550	1,73,450
- Foods & Refreshments	55,525	59,722	64,870	71,330	74,500
- Others (includes Exports, Infant & Feminine Care Products, etc)	10,506	8,179	6,230	5,600	3,480
<b>Total Segment Revenue</b>	<b>3,28,696</b>	<b>3,44,406</b>	<b>3,52,030</b>	<b>3,82,240</b>	<b>3,87,850</b>
<b>Segment Revenue (Sales and Other operating income) - Growth YoY %</b>					
- Home Care	-	7.6	2.5	10.7	5.9
- Personal Care	-	3.7	1.0	7.2	-1.8
- Foods & Refreshments	-	7.6	8.6	10.0	4.4
- Others (includes Exports, Infant & Feminine Care Products, etc)	-	-22.1	-23.8	-10.1	-37.9
<b>Total Segment Revenue</b>	<b>-</b>	<b>4.8</b>	<b>2.2</b>	<b>8.6</b>	<b>1.5</b>
<b>Segment Revenue (Sales and Other operating income) - Mix %</b>					
- Home Care	32	33	33	34	35
- Personal Care	48	47	47	46	45
- Foods & Refreshments	17	17	18	19	19
- Others (includes Exports, Infant & Feminine Care Products, etc)	3	2	2	1	1
<b>Total Segment Revenue</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Segment Results (Profit before tax and interest from ordinary activities) - Rs mn</b>					
- Home Care	10,523	12,589	16,960	21,590	25,590
- Personal Care	38,027	38,489	41,610	46,620	48,700
- Foods & Refreshments	7,897	8,393	9,860	12,290	12,320
- Others (includes Exports, Infant & Feminine Care Products, etc)	98	-203	-120	-10	60
<b>Total Segment Results</b>	<b>56,545</b>	<b>59,268</b>	<b>68,310</b>	<b>80,490</b>	<b>86,670</b>
<b>Segment Results (Profit before tax &amp; interest from ordinary activities) - Growth YoY (%)</b>					
- Home Care	-	19.6	34.7	27.3	18.5
- Personal Care	-	1.2	8.1	12.0	4.5
- Foods & Refreshments	-	6.3	17.5	24.6	0.2
- Others (includes Exports, Infant & Feminine Care Products, etc)	-	-308.1	-41.0	-91.7	-700.0
<b>Total Segment Results</b>	<b>-</b>	<b>4.8</b>	<b>15.3</b>	<b>17.8</b>	<b>7.7</b>
<b>Segment Results (Profit before tax and interest from ordinary activities) - Mix %</b>					
- Home Care	19	21	25	27	30
- Personal Care	67	65	61	58	56
- Foods & Refreshments	14	14	14	15	14
- Others (includes Exports, Infant & Feminine Care Products, etc)	0	0	0	0	0
<b>Total Segment Results</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Segmental EBIT margin (%)</b>					
- Home Care	10.0	11.1	14.6	16.8	18.8
- Personal Care	24.2	23.6	25.3	26.4	28.1
- Foods & Refreshments	14.2	14.1	15.2	17.2	16.5
- Others (includes Exports, Infant & Feminine Care Products, etc)	0.9	-2.5	-1.9	-0.2	1.7
<b>Total</b>	<b>17.2</b>	<b>17.2</b>	<b>19.4</b>	<b>21.1</b>	<b>22.3</b>

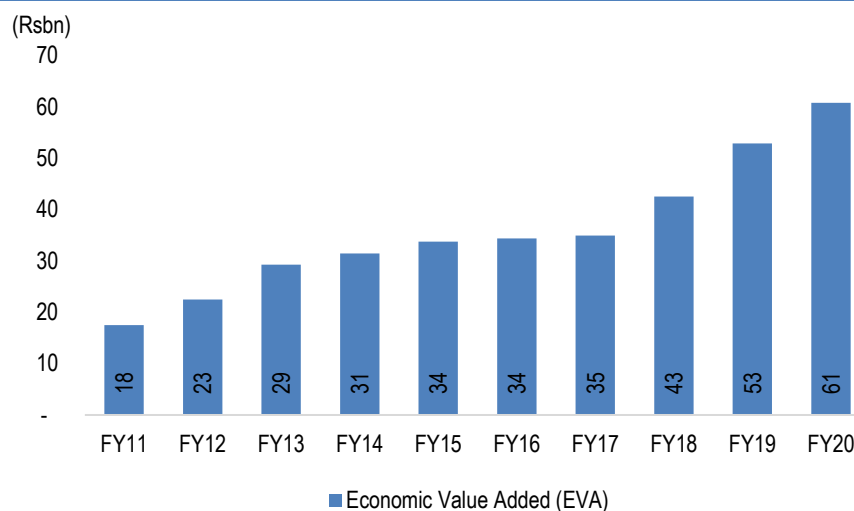
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Detergents had a strong growth with turnover mix improving to 22.5% of the turnover**

Product	as a % to total turnover				
	FY16	FY17	FY18	FY19	FY20
Soaps	30.8	30.5	30.0	28.4	27.0
Detergents	16.8	18.7	19.3	20.8	22.5
Cosmetics & Toiletries	17.0	16.4	16.2	16.8	16.9
<b>Imputed turnover (Rs bn)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
Soaps	96	97	104	109	105
Detergents	52	60	67	80	87
Cosmetics & Toiletries	53	52	56	64	66
<b>Imputed turnover growth (%)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
Soaps	-3	2	7	5	-4
Detergents	2	15	12	19	10
Cosmetics & Toiletries	5	-1	7	15	2

Source: Company, Nirmal Bang Institutional Equities Research

\* Principal business activities of the company (Activities contributing 10% or more of the turnover)

**Exhibit 4: Economic value added in FY20- Rs6.1bn**


Source: Company, Nirmal Bang Institutional Equities Research; \*EVA = Net Operating Profit after Taxes (NOPAT) - Cost of Capital Employed (COCE)

**Other key excerpts from the annual report (FY20) are as under: -**
**Category related highlights**
**1. Beauty & Personal Care**

- Personal Products delivered good growth this year. HUVR is working on skin cleansing portfolio to strengthen the competitiveness by taking decisive interventions in the areas of product, proposition, pricing and communication.
- In hair care, launched new variants in Dove and Sunsilk in line with the continued focus on naturals trend.
- In Skin Care, Fair & Lovely continues to deliver healthy growth. Launched Fair & Lovely soap during the year and the initial response has been good.
- In Skin Cleansing, Dove, Pears and liquid portfolio led the premiumisation journey. Launched TRESemmé sachet to drive more users into the category and accelerate premiumisation. Launched Love, Beauty & Planet, a premium brand across segments in Beauty & Personal Care.

- Naturals strategy continued through the three-pronged approach. The master brand LEVER Ayush continued its momentum in the focused market - South India. Ayush further strengthened the portfolio by launching LEVER Ayush Bhringaraj hair oil. HUVR continued to build specialist brands like Indulekha and Hamam. Indulekha has delivered a robust performance, with a unique product formulation and distinctive packaging and the launch of new variant – Neemraj Oil during the year. The third leg of naturals strategy involves various natural variants within the existing portfolio of products like Lifebuoy neem and turmeric, Dove and Sunsilk naturals in Hair Care, and aloe vera range in Vaseline.

## 2. Home Care

- The year saw strategic relaunch of Rin Matic powders to create affordable solutions for the mid-tier machine segment.
- New low price and flexible packs were introduced in detergent liquids and fabric conditioners to make the formats more affordable for the consumers. As a result, HUVR saw strong growth trajectory in Surf excel matic liquid and Comfort fabric conditioner.
- This year, it also launched Sunlight liquid detergent in select geographies and a premium expert care solution range under a new detergents brand, Love & Care.
- The company also launched Comfort Perfume Deluxe range in select geographies.
- HUVR also introduced a unique ancillary product, 'Magic' Rinse Powder sachet, which eases the rinsing process by reducing the foam and thereby requiring less water.
- Rin bar was also relaunched in South India with visual cues.
- In Home and Hygiene, Vim entered in Dish Wash applicator space through the launch of Vim scrubber
- Vim continued to upgrade existing bar consumers to liquid and drive adoption of bars in rural India.
- Domex launched a powder format in select geographies.
- Also launched Pureit Copper+ water purifiers during the year.

## 3. Foods & Refreshments

- The core portfolio of Jams and Ketchup delivered good growth this year.
- Kissan range of international sauces, which was launched last year, saw good traction in the market and is now available nationally.
- This year also marked the launch of globally loved brand, Hellmann's Mayonnaise, in Kolkata.
- Tea continued to deliver robust, volume-led growth led by on-trend superior product offering.
- Taaza continued to upgrade consumers along the quality pyramid by offering superior value at low price points.
- BRU Green Label Nice was launched in South Karnataka which was specifically tailored to the needs of conventional coffee consumers in the region.
- In the Ice Cream and Frozen Desserts business, focus on geographic expansion and building a strong innovation funnel continued with even greater momentum and helped business deliver strong growth.
- Launched Lipton Matcha Green Tea on e-Commerce.
- Integration of Adityaa Milk has strengthened geographical presence in South India, unlocked physical availability through cabinets expansion in key markets and enhanced bottom-of-pyramid offerings.

## Supply chain

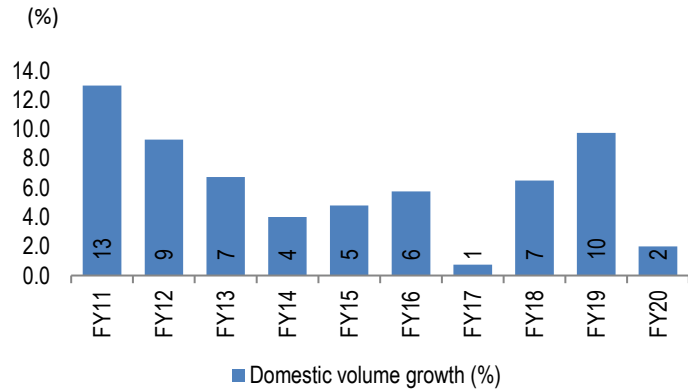
- The company delivered Customer-Case-Filled-on-Time (CCFOT) upwards of 95%, an all-time high. It also improved on-shelf quality by 30% over the previous year.
- In traditional trade, the focus was on optimal servicing with appropriate beat lengths, improving in-store visibility and competitiveness.
- Building capabilities in channels of the future.
- The company continued to invest in 'assisted selling' and 'visibility' in modern trade while improving execution. Building 'brands in store' remained a key thrust in this channel and yielded good results across the portfolio.
- E-Commerce channel continued on its exponential growth trajectory.

**Environmental, Social and Governance (ESG)**

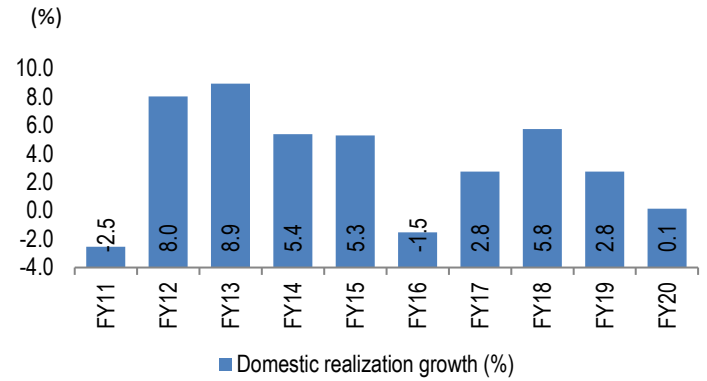
- Increased the renewable energy share in manufacturing to 71%.
- In 2019, the company had disposed more than 39,000 tonnes of post-consumer use plastic waste in an environment-friendly way.

**Other highlights**

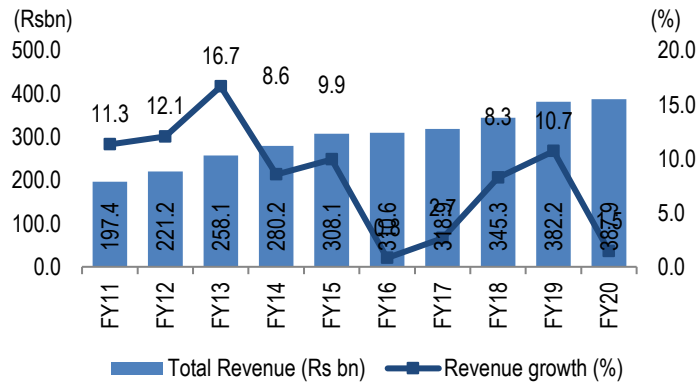
- Programmes such as 'Winning in many Indias' and Connected 4 Growth (C4G) are helping in faster decision-making, localised and swifter innovation delivery and increased speed-to-market.
- The company has an existing Technical Collaboration Agreement (TCA) and a Trade Mark License Agreement (TMLA) with Unilever which were entered into in 2013. The TCA provides for payment of royalty on net sales of specific products manufactured by HUVR, with technical know-how provided by Unilever. The TMLA provides for the payment of trademark royalty as a percentage of net sales on specific brands where Unilever owns the trademark in India including use of 'Unilever Corporate logo'.
- The total dividend for the financial year, including the proposed Final Dividend (Rs14 per share), amounts to Rs25 per equity share and will absorb Rs61.4bn (including Dividend Distribution Tax of Rs4.7bn on Interim Dividend). In view of the changes made under the Income-tax Act, 1961, by the Finance Act, 2020, dividends paid or distributed by the company shall be taxable in the hands of the shareholders. The company shall, accordingly, make the payment of the Final Dividend after deduction of tax at source.
- The Board of Directors at its meeting held on 1st April, 2020 approved the proposal for acquiring the Horlicks brand for India from GlaxoSmithKline (GSK), exercising the option available in the original agreement made between Unilever and GSK. This will enable HUVR to utilise cash on its balance sheet and create value for shareholders. In addition, it will enable HUVR to drive better salience in a local context. The other brands which were under the ownership of GSK CH like Boost, Maltova and Viva come to HUVR's brand portfolio by virtue of the merger.
- The company will be partnering with GSK (via a consignment selling arrangement) to distribute brands of the GSK family in India (like Eno, Crocin, Sensodyne etc.).
- The company entered into an agreement with Glenmark Pharmaceuticals Limited to acquire its intimate hygiene brand VWash. The deal involved acquisition of intellectual property rights, including trademarks, design and know-how related to the VWash brand.
- During the year, HUVR, in line with its commitment to participate in the 'Make in India' initiative of the Government of India, decided to form a new 100% subsidiary to leverage the growth opportunities in a fast-changing business environment and this will help HUVR in becoming more agile and customer-focused.
- Employees: 21,000 (3,600 GSKCH employees); 31 company-owned factories and 15 offices; More than 1,150 suppliers; 4,500 distributors.
- The company has 7,082 permanent employees on the rolls as on 31st March, 2020.
- The percentage increase in the median remuneration of employees for the financial year was 4.26%. Average increase made in the salaries of employees other than the managerial personnel in the financial year was 5.04%.

**Exhibit 5: Domestic volume grew 2% in FY20...**


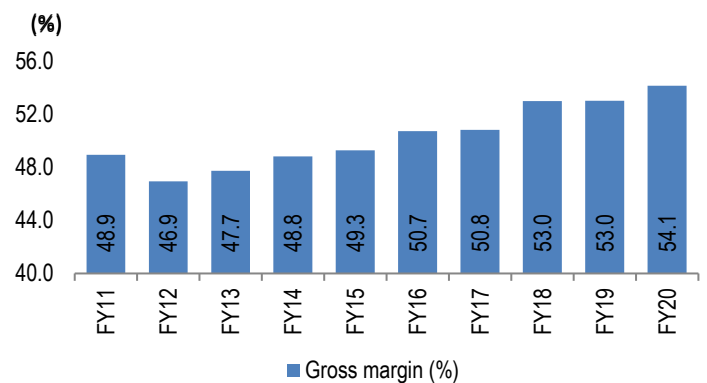
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: ...with realizations remaining flat**


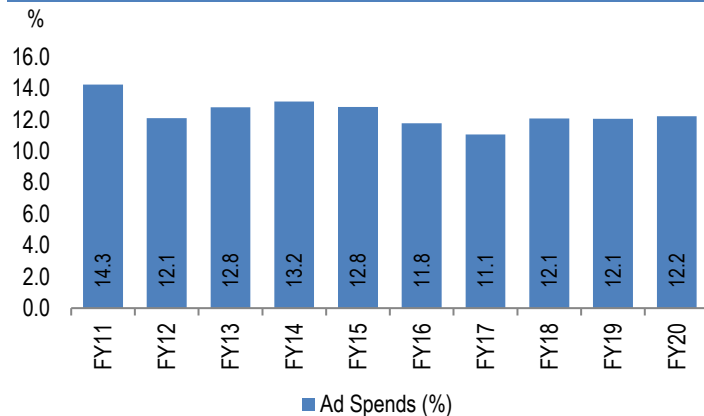
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Revenue grew 1.5% in FY20 to Rs388bn**


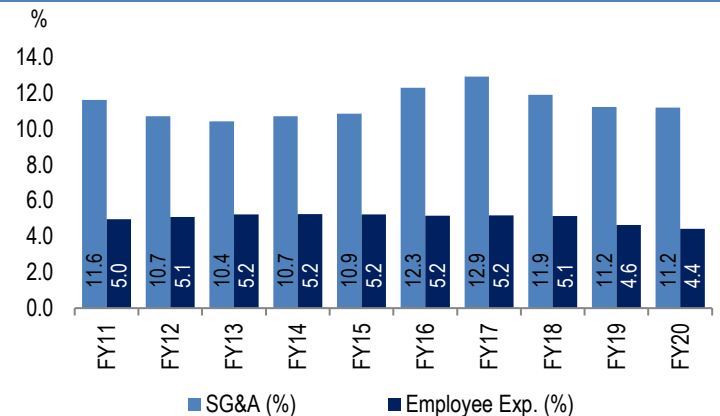
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Reported gross margin expanded 110bps**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Ad spends stood at 12.2% of net sales**


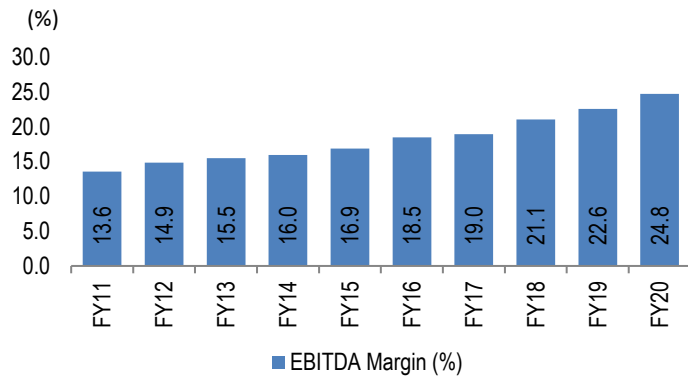
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Employee cost down 20bps YoY**


Source: Company, Nirmal Bang Institutional Equities Research

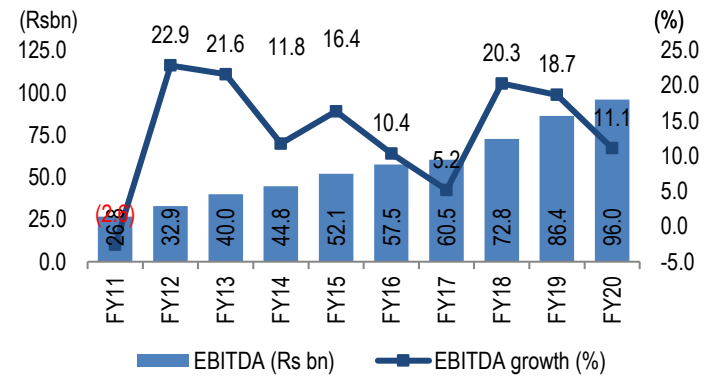


**Exhibit 11: Reported EBITDA margin up 220bps while comparable margin up 100bps**



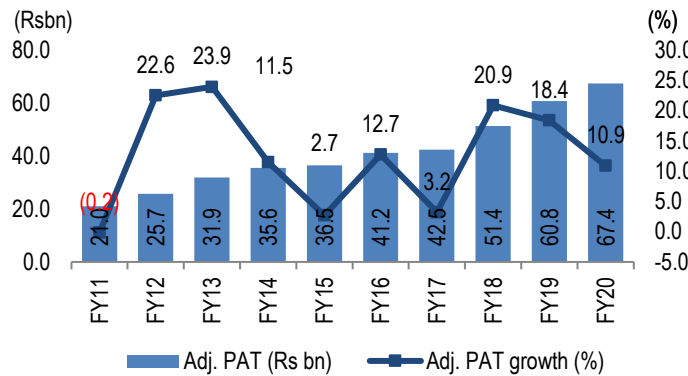
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: EBITDA grew 11.1% to Rs96bn**



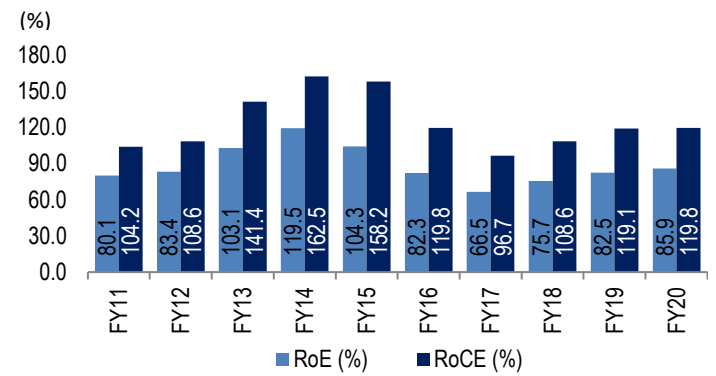
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 13: Adj. PAT grew 10.9% to Rs67.4bn**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 14: Return ratios remain the best in the industry**



Source: Company, Nirmal Bang Institutional Equities Research

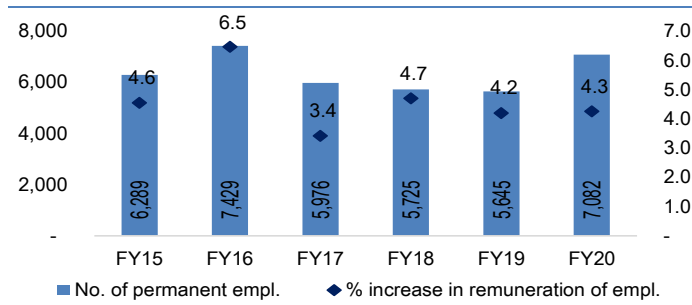
**Exhibit 15: Cash conversion cycle**

Cash conversion cycle (on avg basis)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Inventory days	46	44	36	34	32	30	28	25	23	24
Debtor days	15	13	11	11	9	11	11	11	13	13
Creditor days	95	79	69	71	66	65	68	69	67	68
<b>Cash conversion cycle</b>	<b>-34</b>	<b>-22</b>	<b>-23</b>	<b>-26</b>	<b>-24</b>	<b>-24</b>	<b>-28</b>	<b>-33</b>	<b>-31</b>	<b>-31</b>

Cash conversion cycle (on year end basis)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Inventory days	52	42	36	36	31	30	27	25	23	25
Debtor days	17	11	12	11	9	13	11	12	16	10
Creditor days	93	76	73	75	63	69	69	74	68	70
<b>Cash conversion cycle</b>	<b>-23</b>	<b>-24</b>	<b>-26</b>	<b>-29</b>	<b>-23</b>	<b>-26</b>	<b>-31</b>	<b>-37</b>	<b>-28</b>	<b>-35</b>

Source: Company, Nirmal Bang Institutional Equities Research; Note: Days calculated on Sales

**Exhibit 16: There was 4.3% increase in remuneration of employees**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 17: Total number of employees including GSKCH stands at 21k**

Particulars	FY18	FY19	FY20
No of employees	18,000	18,000	21,000
Factories	28	28	31
Offices	9	9	15
Suppliers	900	1,000	1,150
Outlets (in mn)	7	8	8
Distributors	3,500	3,500	4,500

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 18: Remuneration of Director**

Name	Designation	Remuneration (Rsmn)					% change
		FY16	FY17	FY18	FY19	FY20	
<b>Sanjiv Mehta</b>	Managing Director & CEO	<b>138</b>	<b>142</b>	<b>194</b>	<b>189</b>	<b>194</b>	<b>2.9</b>
Gross salary		102	108	136	127	158	24.6
Stock Option		34	31	54	58	32	-44.7
Others		3	3	4	4	5	4.7
<b>Srinivas Phatak</b>	Executive Director, Finance & IT and CFO (Mr. Srinivas Phatak appointed as an ED, Finance & IT and CFO w.e.f. 1st December, 2017)	<b>NA</b>	<b>NA</b>	<b>10</b>	<b>49</b>	<b>51</b>	<b>3.3</b>
Gross salary				9	41	39	-5.6
Stock Option		NA	NA	0	4	8	79.1
Others				1	4	5	12.5
<b>P. B. Balaji</b>	Executive Director, Finance & IT and CFO (Mr. P. B.Balaji ceased to be ED, Finance & IT and CFO w.e.f. 13th November, 2017)	<b>68</b>	<b>83</b>	<b>32</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Gross salary		62	71	30			
Stock Option		5	9	0	NA	NA	NA
Others		2	4	2			
<b>Pradeep Banerjee</b>	Executive Director, Supply Chain (Mr. Pradeep Banerjee ceased to be a ED w.e.f. 31st December, 2019)	<b>45</b>	<b>48</b>	<b>55</b>	<b>59</b>	<b>57</b>	<b>-2.7</b>
Gross salary		30	27	41	27	0	-100.0
Stock Option		12	17	10	17	0	-100.0
Others		2	4	4	15	57	292.4
<b>Wilhelmus Uijen</b>	Executive Director, Supply Chain (Mr. Wilhelmus Uijen was appointed as a WTD w.e.f. 1st January, 2020)	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>18</b>	<b>NA</b>
Gross salary						17	NA
Stock Option		NA	NA	NA	NA	0	NA
Others						1	NA
<b>Dev Bajpai</b>	Executive Director, Legal & Corporate Affairs and Company Secretary	<b>NA</b>	<b>47</b>	<b>60</b>	<b>68</b>	<b>55</b>	<b>-18.4</b>
Gross salary			26	36	38	38	-1.6
Stock Option		NA	18	21	25	13	-49.2
Others			3	4	4	5	15.0
<b>Total remuneration to KMP (excluding Independent directors)</b>		<b>251</b>	<b>320</b>	<b>350</b>	<b>364</b>	<b>375</b>	<b>3.0</b>
<b>As a % of adjusted PAT</b>		<b>0.6</b>	<b>0.8</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	

Source: Company, Nirmal Bang Institutional Equities Research

\* Mr. P. B.Balaji ceased to be ED, Finance & IT and CFO w.e.f. 13th November, 2017 and Mr. Srinivas Phatak appointed as an ED, Finance & IT and CFO w.e.f. 1st December, 2017

# Mr. Pradeep Banerjee ceased to be a WTD w.e.f. 31st December, 2019 and Mr. Wilhelmus Uijen was appointed as a WTD w.e.f. 1st January, 2020.

**Exhibit 19: Forex net outgo for the year stood at Rs13bn**

Foreign exchange transactions (Rsbn)	FY16	FY17	FY18	FY19	FY20
Earnings	6	5	4	3	3
Outgo	11	12	13	14	16
<b>Net outgo</b>	<b>5</b>	<b>7</b>	<b>9</b>	<b>11</b>	<b>13</b>

Source: Company, Nirmal Bang Institutional Equities Research



**Exhibit 20: Reducing the environmental impact**

**85%** reduction in CO2 emissions (kg / tonne of production) in HUL's manufacturing operations over 2008 baseline



**78%** of tea in India sourced for Unilever's brands is from sustainable sources **76%** of tomatoes used in Kissan ketchup were from sustainable sources



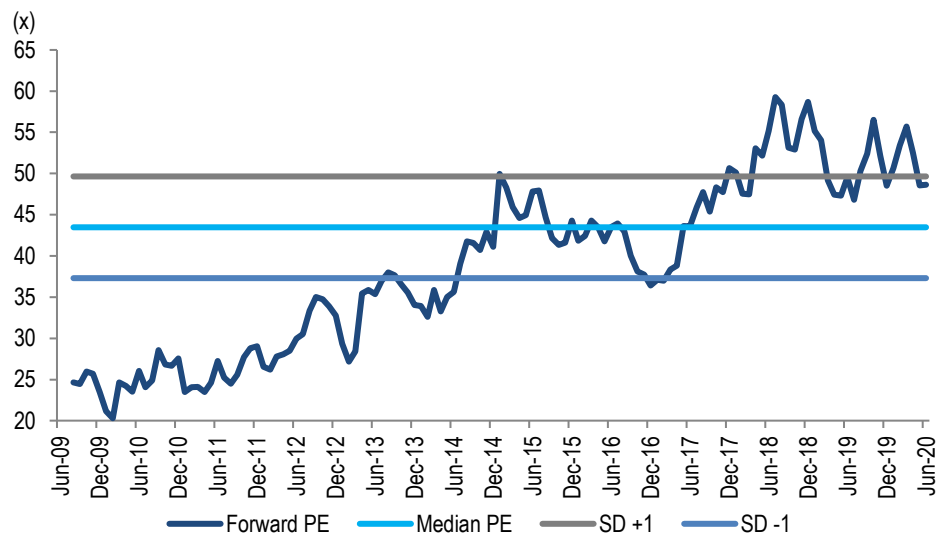
**63%** reduction in the total waste generated (kg / tonne of production) from HUL's factories over 2008 baseline



**58%** reduction in water consumption (in mt cube / tonne of production) in HUL's manufacturing operations over 2008 baseline

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 21: P/E (x)**



Source: Company, Nirmal Bang Institutional Equities Research

**Financials (Standalone)**
**Exhibit 22: Income statement**

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	3,45,250	3,82,240	3,87,850	4,60,765	5,19,189
<b>% Growth</b>	<b>8.3</b>	<b>10.7</b>	<b>1.5</b>	<b>18.8</b>	<b>12.7</b>
COGS	1,62,320	1,79,600	1,77,930	2,03,033	2,25,277
Staff costs	17,450	17,470	16,910	17,506	19,169
Advertising costs	41,050	45,520	46,860	44,033	50,657
Other expenses	51,670	53,280	50,150	51,571	56,789
Total expenses	2,72,490	2,95,870	2,91,850	3,40,409	3,78,804
EBITDA	72,760	86,370	96,000	1,20,356	1,40,384
<b>% growth</b>	<b>20.3</b>	<b>18.7</b>	<b>11.1</b>	<b>25.4</b>	<b>16.6</b>
<i>EBITDA margin (%)</i>	<i>21.1</i>	<i>22.6</i>	<i>24.8</i>	<i>26.1</i>	<i>27.0</i>
Other income	5,690	6,640	7,330	12,014	14,608
Interest costs	200	280	1,060	1,181	1,237
Depreciation	4,780	5,240	9,380	11,138	11,721
Profit before tax (before except. items)	73,470	87,490	92,890	1,20,051	1,42,035
Exceptional items	-620	-2,270	-1,970	0	0
Tax	21,480	25,650	22,020	31,069	35,750
Reported PAT	52,370	60,360	67,380	88,982	1,06,285
Adj. PAT	51,350	60,800	67,430	88,982	1,06,285
<i>PAT margin (%)</i>	<i>14.9</i>	<i>15.9</i>	<i>17.4</i>	<i>19.3</i>	<i>20.5</i>
<b>% Growth</b>	<b>20.9</b>	<b>18.4</b>	<b>10.9</b>	<b>32.0</b>	<b>19.4</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 24: Balance sheet**

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	2,164	2,165	2,165	2,349	2,349
Reserves	68,590	74,430	78,150	1,18,764	1,15,421
Net worth	70,754	76,595	80,315	1,21,113	1,17,770
Total debt	0	0	0	0	0
<b>Total liabilities</b>	<b>70,754</b>	<b>76,595</b>	<b>80,315</b>	<b>1,21,113</b>	<b>1,17,770</b>
Gross block	71,787	79,037	95,547	1,06,566	1,12,566
Depreciation	-30,367	-35,607	-44,987	-59,260	-70,981
Net block	41,420	43,430	50,560	47,306	41,585
CWIP	4,300	3,730	5,130	5,256	5,256
Investments	31,110	29,490	15,000	25,000	30,000
Inventories	23,590	24,220	26,360	30,306	32,489
Debtors	11,470	16,730	10,460	21,683	24,428
Cash	33,730	36,880	50,170	88,575	92,502
Other current assets	23,320	20,785	35,730	45,777	50,058
Total current assets	92,110	98,615	1,22,720	1,86,341	1,99,477
Creditors	70,130	70,700	73,990	91,205	1,04,390
Other current liabilities & provisions	30,606	31,360	41,715	55,335	57,907
Total current liabilities	1,00,736	1,02,060	1,15,705	1,46,539	1,62,297
Net current assets	-8,626	-3,445	7,015	39,802	37,179
<b>Total assets</b>	<b>70,754</b>	<b>76,595</b>	<b>80,315</b>	<b>1,21,113</b>	<b>1,17,770</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 23: Cash flow**

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Operating profit (before Tax)	72,850	85,220	92,890	1,20,051	1,42,035
Depreciation	4,780	5,240	9,380	11,138	11,721
Other income	5,690	6,640	7,330	12,014	14,608
(Inc./dec. in working capital)	8,640	-2,610	2,830	5,618	6,549
<b>Cash flow from operations</b>	<b>59,130</b>	<b>57,280</b>	<b>76,810</b>	<b>94,905</b>	<b>1,11,183</b>
Capital expenditure (-)	-8,270	-7,240	-17,910	-11,146	-6,000
<b>Net cash after capex</b>	<b>50,860</b>	<b>50,040</b>	<b>58,900</b>	<b>83,759</b>	<b>1,05,183</b>
Dividends paid (-)	-38,960	-45,460	-64,945	-85,338	-1,00,016
Inc./(dec.) in investments	7,790	3,270	14,490	-10,000	-5,000
<b>Cash from financial activities</b>	<b>-46,510</b>	<b>-54,620</b>	<b>-64,747</b>	<b>-85,154</b>	<b>-1,00,016</b>
Opening cash balance	16,710	33,730	36,880	50,170	88,575
Closing cash balance	33,730	36,880	50,170	88,575	92,501
Change in cash balance	17,020	3,150	13,290	38,405	3,926

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 25: Key ratios**

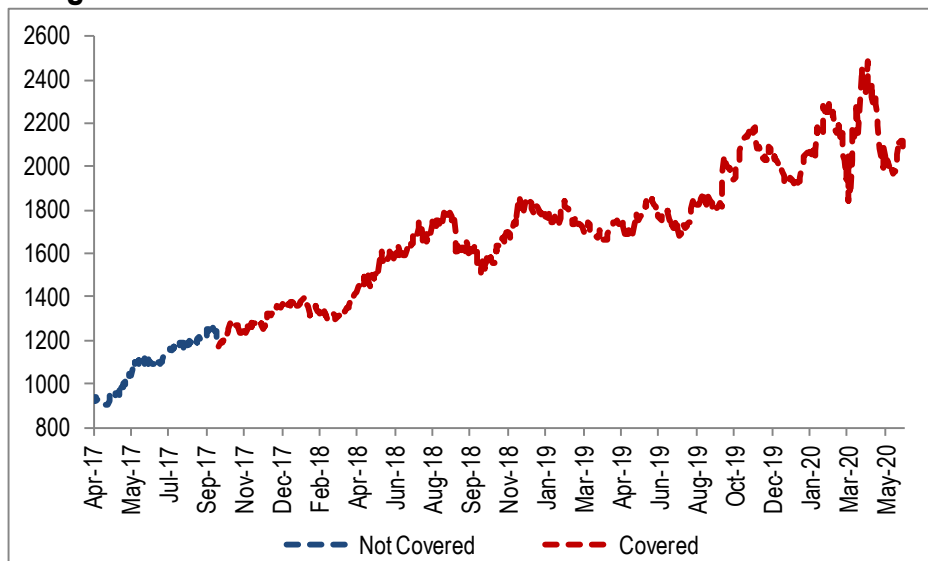
Y/E March	FY18	FY19	FY20	FY21E	FY22E
<b>Per share (Rs)</b>					
EPS	23.7	28.1	31.1	37.9	45.2
Book value	32.7	35.4	37.1	51.5	50.1
DPS	20.0	22.0	25.0	33.3	38.9
<b>Valuation (x)</b>					
EV/sales	13.2	11.9	11.7	10.6	9.4
EV/EBITDA	61.6	51.9	46.5	40.0	34.3
P/E	88.0	74.3	67.0	55.1	46.1
P/BV	63.8	59.0	56.3	40.4	71.7
<b>Return ratios (%)</b>					
RoCE	108.6	119.1	119.8	120.4	120.0
RoE	75.7	82.5	85.9	88.4	89.0
<b>Profitability ratios (%)</b>					
Gross margin	53.0	53.0	54.1	55.9	56.6
EBITDA margin	21.1	22.6	24.8	26.1	27.0
EBIT margin	19.7	21.2	22.3	23.7	24.8
PAT margin	15.1	16.1	17.6	19.7	20.8
<b>Liquidity ratios (%)</b>					
Current ratio	0.9	1.0	1.1	1.3	1.2
Quick ratio	0.7	0.7	0.8	1.1	1.0
<b>Solvency ratio (%)</b>					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	4.9	5.0	4.8	3.8	4.4
Fixed asset turnover ratio (x)	8.3	8.8	7.7	9.7	12.5
Debtor days	11	13	13	13	16
Inventory days	53	49	54	54	53
Creditor days	69	67	68	65	69

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
29 September 2017	Buy	1,170	1,425
26 October 2017	Buy	1,272	1,460
20 December 2017	Buy	1,350	1,570
18 January 2018	Buy	1,371	1,700
15 May 2018	Buy	1,503	1,750
17 July	Buy	1,751	2,025
15 October 2018	Buy	1,570	1,900
18 January 2019	Buy	1,750	2,025
9 April 2019	Buy	1,672	2,015
6 May 2019	Buy	1,692	2,000
24 July 2019	Buy	1,693	1,980
15 October 2019	Buy	2,014	2,255
1 February 2020	Buy	2,034	2,445
1 May 2020	Buy	2,205	2,535
8 June 2020	Buy	2,087	2,535

## Rating chart



## DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as “NBEPL”) for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

**Analyst Certification:** I/We, Mr. Vishal Punmiya, the research analyst, the authors of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst is principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website [www.nirmalbang.com](http://www.nirmalbang.com)

**Access all our reports on Bloomberg, Thomson Reuters and Factset.**

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park,  
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010