

Pick of the week



Hindustan Unilever Ltd

Recommendation

Add

Time Period

12 Months

Current Price

₹ 2032

Target Price

₹ 2300

Potential Upside

13.18%

Investment Argument

- HUVR's 4QFY20 revenues declined 9% yoy to Rs90.1 bn led by 7% decline in underlying volume growth (UVG). As per management, it gained market share by about 50 bps (portfolio level) & normative revenue growth (excluding Covid impact) was 3% yoy, weak but broadly similar to 3Q.
- Homecare – revenues down 4% yoy, Personal care – revenues were down 13% yoy & Food and refreshment – revenues declined 7% yoy. Overall, demand was resilient for health, hygiene and food products whereas personal care (excluding personal wash), ice-cream and water purifier sales were significantly impacted.
- HUVR has further stepped up focus on cost savings. The company would also defer expansion plans (capex) and restructuring expenses. Management indicated that it has ramped up production to 75-80% of normative levels despite lockdown-led challenges which KIE believes as very impressive execution.
- KIE has factored in Covid impact and cut FY2021-22E earnings by 11-15%, modelled 12% decline in sales in 1QFY21, flat sales in 2Q and gradual recovery starting 3QFY21 and estimates now include numbers of GSK-CH.
- KIE expects HUVR to race ahead of competition, further widening execution gap, and accelerated margin expansion led by permanent retention of a few 'temporary' cost savings and dominance of this nimble-footed giant to increase further. KIE has rolled over & arrived at a revised DCF-based fair value of Rs2,300.