

# Pick of the Week

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- In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.
- **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
- **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP (Rs)	Target Price *	Potential Upside (%)	Reco
Hindustan Unilever Ltd	4,17,538	1,929	2,175	13%	BUY

\* Note: Investment horizon Approx. 6-9 months., CMP as on 3<sup>rd</sup> Dec, 2020.

# Hindustan Unilever Ltd

CMP (Rs)	Target (Rs)
1,929	2,175

## MARKET DATA

No. of Shares	: 216.5 cr
Market Cap	: Rs 4,17,538 Cr
52-week High / Low	: Rs 2,187/1,650
BSE Code	: 500696
NSE Code	: HINDUNILVR

Hindustan Unilever (HUVR) is the largest FMCG player in India. HUVR's product portfolio consists of a wide spectrum including Home Care, Personal Care, Foods & Refreshments and Water Purifiers. In terms of direct distribution, HUVR has one of the largest direct distribution network (retail touch points) in the FMCG sector serviced by over 3,500 distributors.

## Investment Rationale

- ❑ **Strong business model & deeply entrenched distribution network enables HUVR to manage cyclical downturns better:** Given the long standing history of HUVR, strong product portfolio, best in class margins and reaching 8m outlets (distribution network) allows HUVR to manage downturns better than peers as has been observed in times of demonetization and GST. Although, it's parent Unilever Plc. has revised guidance downwards for CY19 and H1CY20, we believe in the Indian context HUVR is better placed to wade through cyclical downturns following it's robust processes and balanced strategy of tactically prioritizing between topline and bottom-line growth by offering most consumer value by keeping a check on costs.
- ❑ **GSK Consumer merger - hugely value-accretive:** GSK Consumer's merger with HUVR's would raise HUVR's presence in foods (malted foods) category and could aid ~5-7% accretion to earnings upon successful integration of the merger. Besides, the management indicated that's EBITDA Margins are likely to add 1000bps more to current ~25% margin profile. Health Foods, which is a Rs. 7,700cr category in India has just 14% rural penetration, HUVR with vast distribution reach (3x direct distribution reach over GSK Consumer) has huge growth potential in this category.
- ❑ **HUVR offers relative comfort in earnings growth in the consumer Staples space:** HUVR has constantly expanded EBITDA margin each year (over the past 8 years) and has industry leading return ratios, led by its focus on cost-efficiency plans & premiumization. It offers most visibility (~18% earnings CAGR over FY19-21E) in the FMCG-staples packs with multiple drivers for growth with its (a) WIMI strategy, (b) strong execution, (c) thrust on Naturals portfolio, (d) focus on premiumization and market development to drive profitability improvement, (e) extensively employing technology and data analytics to remain ahead of competition.
- ❑ We recommend a **BUY** with TP of Rs 2,175.

## Financial Summary

Y/E March	Sales (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (YoY %)	RoE (%)	RoCE (%)
FY19	39,310	6,054	28.0	16.1	85.0	85.3
FY20E	41,580	7,214	33.4	19.3	89.9	96.2
FY21E	47,809	8,778	39.6	18.7	84.2	87.1

Source: Reuters consensus estimates.

# Performance

## No of Stocks Matrix

<i>No of Stocks</i>	9m	15m
Met Target	20	38
Not Met Target	20	28

## Performance Matrix

<i>% Return</i>	9m	15m
Met Target	13.02	12.44
Not Met Target	(6.77)	(12.06)

## Benchmark Performance Matrix

<i>% Return</i>	9m	15m
Met Target	1.51	2.90
Not Met Target	3.92	6.67

Note : Performance of the pick of the week is calculated for stocks recommended from Apr-19 to Dec-19 for 9 Months and from Oct-18 to Dec-19 for 15 Months.

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