

VALUE PICK

Rationale:

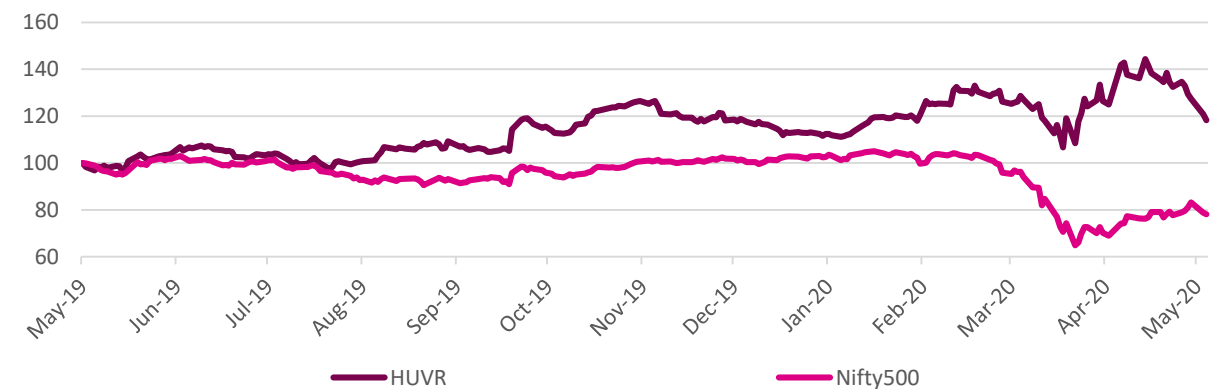
- Hindustan Unilever Limited (HUVR) is India's largest fast-moving consumer goods (FMCG) company with a heritage of over 80 years. It has grown meaningfully over the years to become a trusted brand and currently nine out of ten Indian households use its products everyday. Its portfolio includes leading brands such as Lux, Lifebuoy, Surf excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, Pepsodent, Closeup, Axe, Brooke Bond, BRU, Knorr, Kissan, Kwality Wall's and Pureit.
- In terms of market reach, HUL has almost 100 suppliers & associates, over 3,000 distributors and a broad market penetration through more than 2.4 million stores. The company has also started building future channels of modern trade like E-commerce etc.
- Over the past several years HUL has exhibited a decent track record of revenue and margin growth. In its latest quarterly results HUL reported a de growth of 9.7% in its consolidated revenues at ₹92,110 million in Q4-FY20 as against ₹1,02,010 million in Q4-FY19. The profit after tax (PAT) margins for the company stood at 15.5% at ₹14,240 million as against 15.4% at ₹15,690 million in Q4-FY19. The domestic consumer de growth during the quarter was 9% with underlying volume decline at 7%. The lower growth in the quarter was mainly due to impact of COVID-19 and lower discretionary spends across both urban and rural markets. The company's growth excluding COVID-19 impact could be around 3%.
- In terms of strategy to mitigate short term impact, the company has started to improve cost efficiency in its non-business segments and lower promotion spend. The company's production and sales has also scaled back to 75% of its total normal capacity. During the period the company has also improved market share by 50 basis points.
- While current macro economic conditions are likely to keep demand subdued in near term, we remain optimistic over the long term. We believe HUL being the largest FMCG company with one of the largest footprints in terms of products and distribution network, continued focus on strategy to target volume growth and decline in material and other costs should drive outperformance in both growth & profitability in medium to long term. We reiterate **BUY** on HUVR with a target price of **₹2,452**

52 Week L/H	1,650/2,325
Avg. Daily Volume (3M) ('000)	3,705
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	2,165 /44,13,719
Shareholding (Promoters/Institutions/Others)	67%/19%/14%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Net Sales	3,93,110	3,97,830	4,59,471	5,24,087
EBITDA	88,800	98,610	1,17,304	1,37,573
EBITDA Margin	22.6%	24.8%	25.5%	26.3%
PAT	60,540	66,590	82,550	97,867
PAT Margin	15.4%	16.7%	18.0%	18.7%
EPS (₹)	28.0	30.8	38.1	45.2
P/E (x)	73.3	66.6	53.8	45.3
ROE	66.4%	71.6%	77.0%	80.9%

Source: Company, Bloomberg Consensus. Note: Prices are as on 5th May-2020

Price Performance (May'19=100)



Rationale:

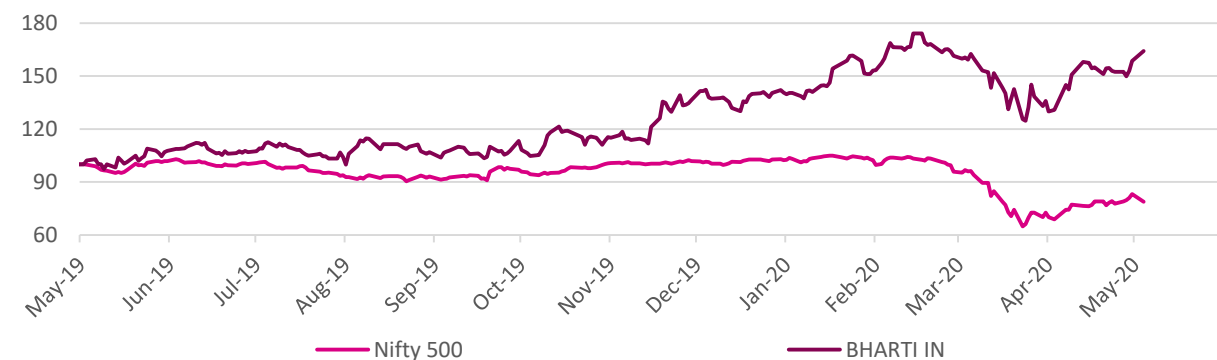
- ❑ Bharti Airtel Ltd. is one of leading providers of telecommunication services in the world with presence across 18 countries including India, Sri Lanka and 14 countries in Africa. Through its brand 'AIRTEL', the company offers telecom services under wireless and fixed line technology, national and international long distance connectivity, Digital TV and telecom solutions to enterprise customers. Also, the company owns Tower Infrastructure relating to telecom operations. As of Dec 31, 2019, the company had 419 million customers, including 283 million subscribers for mobile services in India.
- ❑ During 9MFY20, total revenues increased 6% y/y to ₹638,163 million while EBITDA increased 37% y/y to ₹267,790 million. Reflecting higher depreciation, increased finance cost and exceptional items, the company reported a loss of ₹256,872 million compared to profit of ₹11,114 million in 9MFY19.
- ❑ In recent quarters, the company has been witnessing growth in its Average Revenue Per Use (ARPU) in mobile services India. From ₹104 in Q3FY19, ARPU has increased to ₹135 in Q3FY20. ARPU should continue to improve given the increased tariffs effective Dec 2019. Further, revenue prospects look decent as the company has been able to record steady improvement in the performance of African operations (contributed around 30% of reported consolidated EBITDA in FY19) over last few quarters on the back of growth in data and several strategic initiatives.
- ❑ During FY20, the company has undertaken several efforts to deleverage its balance sheet including rights issue of ₹250,000 million and Airtel Africa IPO of around US\$670 million. Most recently in Jan 2020, the company raised ₹215,017 million through a combination of QIP and FCCBs.
- ❑ Regarding the AGR issue, the company owed nearly ₹355,860 million per DoT estimates. In Feb this year, the company paid self-assessed amount of ₹180,040 million. The AGR matter is still pending before the Supreme court, however, following the company's capital-raising activities we believe, Bharti Airtel is well positioned to clear the AGR dues.
- ❑ The intense competition in the domestic telecom industry has gradually lessened with reduced number of players. Given the current scenario, Bharti Airtel is likely to enjoy further market share as another key player -Vodafone Idea- struggles to survive in the market. Additionally, the company should benefit from the deferral of spectrum auction instalment payments and moderation in capital expenditure intensity.
- ❑ We initiate our coverage on Bharti Airtel Ltd. with a **BUY** rating and a target price **₹625** per share.

52 Week L/H	313 /569
Avg. Daily Volume (3M) ('000)	15,421
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	5132/2,714,808
Shareholding (Promoters/Institutions/Others)	63%/30%/7%

(In ₹ mn)	FY-18	FY-19	FY-20E	FY-21E
Net Sales	826,388	807,802	870,832	1,003,017
EBITDA	300,368	242,035	359,793	448,434
EBITDA Margin	36.35%	29.96%	41.32%	44.71%
PAT	10,990	4,095	-256,368	27,210
PAT Margin	1.33%	0.51%	-29.44%	2.71%
EPS (₹)	2.7	1.0	(50.0)	5.3
P/E (x)	192	516	(11)	100

Source: Company, Anand Rathi Research, Bloomberg Consensus. Note: Prices are as on 5th May-2020

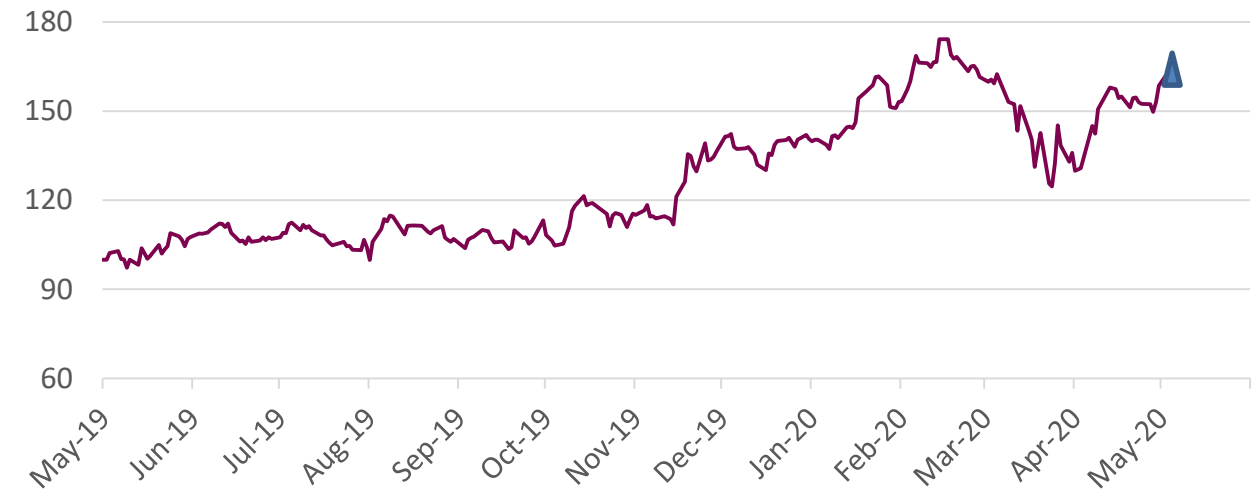
Price Performance (Apr'19=100)



HUVR rating history & price chart



BHARTI rating history & price chart



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