

HINDUSTAN UNILEVER

Good recovery; healthy mix of volumes and pricing

India Equity Research | Consumer Goods

Hindustan Unilever (HUL) reported in-line Q4FY17 revenue growth of 6.4% YoY, while EBITDA (12.2% YoY) and PAT (7.6% YoY) growth surpassed estimates. Volume growth of 4% YoY was a sharp recovery from the 4% YoY dip in Q3FY17 with domestic growth of 8% YoY aided by healthy pricing growth (recouped after many quarters). Gross margin was flattish YoY (fell 64bps YoY in Q3FY17), while overall margins grew 98bps YoY, helped by 87bps and 105bps YoY savings in ad spends and staff costs, respectively. New launches in natural space will see further pick up (launched skincare natural brand, *Citra*), while the recently launched *Ayush* range has met with good initial success. HUL will be key beneficiary of GST (likely at 18% versus 23-24% rate now). Maintain 'HOLD'.

Except foods, all other segments performed

Key highlights: (i) HUL's homecare grew 7.4% YoY (highest in at least 6 quarters), while margins grew 216bps YoY (*Surf*, the premium brand continues to outperform category growth); (ii) personal care saw strong 8.1% YoY growth (highest in at least 6 quarters) – helped by strong growth in relaunched *Fair & Lovely* and hair care; (iii) refreshments grew 10.5% YoY on double digit growth in tea and ice creams; and (iv) foods disappointed with mere 2.4% YoY growth, fourth quarter of single digit growth.

Q4FY17 conference call: Key takeaways

Consumer sentiment is witnessing gradual **improvement**. **Rural growth is slightly lower than urban growth**. Destocking will largely happen in channels where there is no direct reach, especially wholesale channel. **Volume growth was also supported by channel refilling – estimate ~100-150bps impact**. *Lever Ayush* has met initial objectives – will be a big play for the company. HUL is gaining market share in the mass segment of detergents.

Outlook and valuations: Long-term positive; maintain 'HOLD'

HUL is key beneficiary of share gains helped by GST. Increased launches in natural space will contain share loss and propel growth. However, success of new launches is key. Impact of cannibalisation on core portfolio is a monitorable. At CMP, the stock is trading at 36.5x FY19E. We maintain 'HOLD/SP' with target price of INR1,106.

Financials

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Net rev.	82,130	77,210	6.4	77,060	6.6	331,620	364,692	410,501
EBITDA	16,510	14,720	12.2	13,554	21.8	63,400	70,684	84,699
Adjusted profit	11,180	10,390	7.6	9,200	21.5	42,650	50,211	59,850
Dil. EPS (INR)	5.2	4.8	7.6	4.3	21.5	19.7	23.2	27.7
Diluted P/E (x)						51.2	43.5	36.5
EV/EBITDA (x)						33.6	30.1	25.0
ROAE (%)						100.8	106.5	113.0

* Quarterly nos. standalone; annual nos. consolidated

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Underweight

MARKET DATA (R: HLL.BO, B: HUVR IN)

CMP	: INR 1,009
Target Price	: INR 1,106
52-week range (INR)	: 1,012 / 782
Share in issue (mn)	: 2,164.3
M cap (INR bn/USD mn)	: 2,185 / 34,057
Avg. Daily Vol.BSE/NSE('000)	: 1,354.7

SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	67.2	67.2	67.2
MF's, FI's & BK's	5.7	5.7	5.2
FII's	13.3	13.1	13.8
Others	13.9	13.9	13.8
* Promoters pledged shares (% of share in issue)			NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer goods Index
1 month	10.4	4.2	3.5
3 months	20.0	8.0	8.7
12 months	21.0	20.7	22.4

Abneesh Roy

+91 22 6620 3141
abneesh.roy@edelweissfin.com

Tanmay Sharma, CFA

+91 22 4040 7586
tanmay.sharma@edelweissfin.com

Alok Shah

+91 22 6620 3040
alok.shah@edelweissfin.com

May 17, 2017

Table 1: Segmental growth and margins under IND AS

	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
% sales growth (YoY)						
Home care	2.4	4.3	6.8	3.2	1.0	7.4
Personal care	2.0	1.5	2.1	(0.3)	(2.7)	8.1
Foods	13.1	10.0	4.7	2.4	0.5	2.4
Refreshment	7.7	9.2	5.4	8.4	8.1	10.5
Others	(6.8)	(6.1)	NM	(15.2)	(27.3)	(30.4)
EBIT margins (%)						
Home care	10.0	12.2	13.9	10.1	8.7	12.9
Personal care	26.1	25.7	26.2	22.9	23.1	24.1
Foods	12.8	13.5	6.4	4.9	9.4	9.5
Refreshment	15.1	16.9	16.1	14.8	14.7	16.8
Others	(2.4)	4.7	(4.8)	4.2	(8.5)	(2.0)

Source: Company

Table 2: Performance trend across categories at a glance (according to IGAAP segmental reporting)

% sales growth (YoY)	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Soaps and detergents	7.7	6.4	7.1	9.6	12.9	11.1	6.0	5.0	0.2	1.6	0.8	2.1
Personal products	2.0	11.8	12.4	8.3	14.7	9.9	6.5	13.4	11.4	9.5	5.6	2.8
Beverages	15.8	16.1	7.2	7.5	10.5	7.5	8.2	12.3	9.4	6.1	7.0	6.1
Packaged Food	4.8	8.7	12.9	12.7	18.8	13.4	12.6	13.6	11.8	12.4	11.8	11.7
Overall volume growth (% YoY)	4.0	5.0	4.0	3.0	6.0	5.0	3.0	6.0	6.0	7.0	6.0	4.0
% EBIT growth (YoY)												
Soaps and detergents	14.0	4.5	14.5	10.1	21.1	7.9	11.4	15.8	12.4	(4.1)	1.3	11.6
Personal products	(1.6)	5.3	13.9	5.1	27.4	17.4	3.3	26.0	19.5	17.2	9.9	9.2
Beverages	46.1	37.5	(2.2)	19.7	(1.8)	9.9	2.7	11.4	5.3	(11.5)	22.6	9.5
EBIT margins (%)												
Soaps and detergents	12.9	14.0	13.3	12.1	13.8	13.6	14.0	13.3	15.5	12.8	14.0	14.5
Personal products	24.9	22.8	28.6	25.0	27.6	24.4	27.7	27.8	29.6	26.1	28.9	29.5
Beverages	18.3	17.0	16.2	18.8	16.3	17.3	15.3	18.6	15.7	14.5	17.6	19.2
Packaged Food	8.4	3.3	(3.6)	5.5	10.9	4.4	(5.1)	5.3	8.9	5.3	3.2	5.7

Source: Edelweiss research

HUL Q4FY17 conference call: Key takeaways

Overall

- ✓ Domestic consumer business grew 8% with underlying volume growth at 4%, while EBITDA margin expanded by 90bps YoY. For FY17, domestic consumer business grew 4% YoY with 1% underlying volume growth.
- ✓ Market conditions started to stabilise in the quarter.
- ✓ Input cost inflation started to moderate.
- ✓ Pipeline refiling benefit would be anywhere between 100-150bps, post demonetisation.
- ✓ Close to 60% of product portfolios gained market share.

Outlook & Pricing

- ✓ In near term, consumer sentiment is improving. If monsoon is better, then positive sentiment will sustain.
- ✓ Input costs are stable and hence pricing is likely to remain stable.
- ✓ Future strategy remains unchanged – will focus on volume-driven growth with improvement in operating margin.
- ✓ Innovation continued unabated even during demonetisation. Going forward too, the company will not scale back its R&D and marketing efforts.
- ✓ Around 50% of the country's population accounts for mere 10% of consumption.

Home care: Broad based growth driven by premiumisation

- ✓ Registered 8% sales growth.
- ✓ In fabric wash, growth was driven by premium segment as *Surf* sustained robust volume-led growth momentum. This brand has been witnessing high growth in past 5 years. The strategy is to upscale customers to premium segment and HUL is on track to achieve the same. There are clear elasticities while deciding pricing, which need to be heeded. No price hikes have been taken in past 3 years as deflationary conditions prevailed then.
- ✓ Mass segment has not grown fast, but HUL's sales in mass segment have grown faster than the segment.
- ✓ In household care, *Vim* liquid continued its strong performance.
- ✓ Water business also witnessed strong volume-led growth.
- ✓ At operating profitability level, home care segment's margins were lower than HUL's margins. Hence, margin improvement in this category only feeds to come at par with HUL's levels.
- ✓ At parent level, Unilever is eyeing 600bps margin expansion in this category. Route to margin for HUL will not be pricing, but achieving asset turns, operating leverage benefits adhering to its premiumisation strategy.

Personal care: Growth rebounds in both personal wash and personal products

- ✓ Registered 8% sales growth.
- ✓ Personal wash performance improved in the quarter as prices and input costs stabilised.
- ✓ *Pears* and *Dove* led category growth.
- ✓ Skin care saw strong growth driven by *Fair & Lovely* relaunch. Overall, skin care category has been doing well for HUL. The company does not see any long term issues.
- ✓ Hair care delivered broad based, double digit growth. *Indulekha* has grown at a pace faster than HUL's growth rates.
- ✓ In oral care, performance was subdued. *Close up* was relaunched in the quarter. *Lever Ayush* oral care range is performing well in 5 Southern states. The company is now looking at how quickly it can roll out on pan-India basis. Marketing plan for *Ayush* will be broad based.

- ✓ HUL has much more to do in oral care. Growth is happening in natural segment and natural is a quarter of segment. Thus, the company is upping its focus on this segment. This, along with relaunch of *Close Up* will hopefully turnaround this category for HUL.
- ✓ Apart from, the company is also launching a new product, *Citra*.
- ✓ *Lakme* colour cosmetics continued its strong innovation-led growth and performance in deodorants was led by *Axe*.
- ✓ New launches included *Clini Plus Naturals* and *Tresemme* brand.
- ✓ Premiumisation, as a plan, is clearly building up as per HUL's strategy.

Foods: Modest growth in packaged foods

- ✓ Remained modest and grew by 2% YoY.
- ✓ Category grew moderately due to strong comparators in previous year.
- ✓ Ketchup and jam have done very well. However, for *Knorr* the base was very high and hence growth optically looked low.
- ✓ Focus continued to be on market development for the category and *Kissan* grew well in the quarter.

Refreshments: Robust growth sustained

- ✓ Revenues grew 11% YoY.
- ✓ Tea sustained broad based double digit growth by differentially leveraging its portfolio across the country. HUL's share in tea market is just 10% and the company believes there is huge room for improvement.
- ✓ *Lipton Green Tea* and *Brook Bond Natural Care* registered another quarter of high growth on sustained market development.
- ✓ In coffee, *Bru Gold* continued to drive premiumisation.
- ✓ Ice cream and frozen desserts saw another quarter of robust innovation-led growth.

Margin improvement sustained

- ✓ COGS was lower by 20bps YoY with moderation inflation.
- ✓ Brand & Marketing investment savings was 80bps. HUL changed strategy here with each campaign seen as an objective. The company has also been closely evaluating number of campaign runs, time period of campaigns, etc. Thus, no way effectiveness of media spend would come down but HUL is now very clear about its objective. Earlier, the company had ROBMI which was a more linear thought process. However, sole focus on BMI is very dynamic and allows the company to see media heat, etc.
- ✓ HUL is focused on finding more ways to save costs and register margin improvements.
- ✓ Staff cost was lower since in the base quarter there was implementation of Bonus Act. Further, overall bonus payouts was also lower.
- ✓ For any royalty increase, the company will need majority approval within the minority shareholders.

Naturals segment

- ✓ HUL has progressively started building the naturals portfolio. *Fair & Lovely* is extending to new geographies and expanding footprint in North & Central India.
- ✓ *Lever Ayush* launched in South in Q3FY17 is well received.
- ✓ Wherever relevant, the company will continue to look at entering Naturals in newer categories too.

GST

- ✓ Under GST, first there is scope for realigning what can be manufactured where. Second, the number of DCs may come down.
- ✓ First priority is compliance, second is cut-over and third is cost efficiencies and savings.
- ✓ HUL welcomes reforms, however transitional challenges need to be addressed.
- ✓ The company's factory to their own outlets will not face any challenges under GST since the company will compensate them. However, distributors outside HUL's domain might face problems.
- ✓ GST will not impact working capital materially.
- ✓ In short term, trade pipelines are likely to thin down – presumptive credit percentage is a key concern. Disruptions will vary across channels.
- ✓ HUL would pass on net benefits on differential tax rates, in light of anti-profiteering clause.
- ✓ Benefits from building efficiencies will help improve margins.
- ✓ HUL and its ecosystem is targeting to be ready by July 1, 2017.

Distribution network

- ✓ Wholesale and rural channels have yet to recover.
- ✓ Earlier rural used to grow at 2x of urban growth rates.

Management comment

- ✓ They stated it was a strong quarter with profitable volume driven growth. In a challenging year, the company delivered resilient performance by managing business dynamically and responding with agility to the changing external environment. With gradual improvement in market conditions, HUL remains optimistic about medium term outlook for sector.

Capex & tax rate

- ✓ Net atleast 50bps reduction from benefits emerging from Assam plant coupled with R&D benefit moving out.
- ✓ Capex for FY18 and FY19 should be at normalised level.

Balance sheet

- ✓ Dividend, till the time it is not paid, is not shown as payable under IND-AS. Till such time, it sits in reserves and increases net worth.

HUL's new brand *Citra* in India | Skin care brand for women with focus on Naturals

- ✓ *Citra* is a brand in countries like Indonesia, Thailand and the Middle East. It is a complete skincare product that provides overall natural beauty.
- ✓ It was launched first as a **Hand & Body Lotion brand**. But, in recent years has expanded its brand to other segments, such as, **Body Scrub, Facial Wash and Facial Moisturiser**.
- ✓ *Citra's target consumers are women aged in the 15 to 35 age group who* want to take care of their skin.
- ✓ *Citra Body Scrub* effectively eliminates impurities from the skin and releases dead skin cells that make the skin look clean and fresh.
- ✓ Unilever also opened launched *Aktivasi Rumah Cantik Citra* in Indonesia, which is a semi permanent spa house to enjoy the full range of *Citra* products.

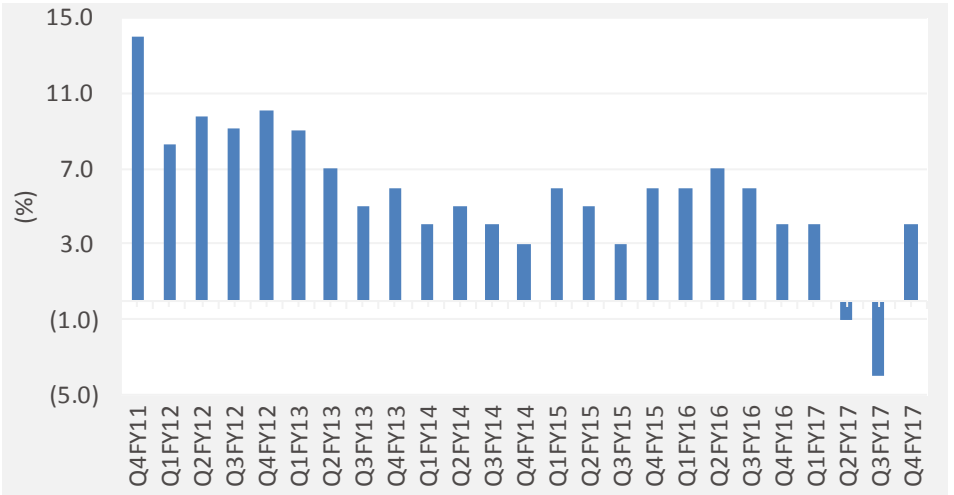
In our view, this will further strengthen HUL's dominance in skin care and also ward off competition from herbal players like Patanjali, Dabur, Himalaya, etc. Brand launches in past few years like *Tresemme* have done well in India.

Outlook and valuations: Long term positive; maintain 'HOLD'

We remain positive on HUL's ability to outpace market growth and its pricing power due to the company's distribution expansion and product innovation initiatives. Despite tough market conditions and demonetisation, it efficiently managed volumes. Pricing growth has largely come back fully which along with pick up in volumes will help in taking overall growth to double digits. Also, GST will help create a level playing field which makes a large organised player like HUL the biggest beneficiary. Though it will see some short-term pressure due to destocking, HUL is one of the best placed companies in the consumer goods space to implement GST. Cost savings and mix improvement are bound to spur margins structurally – HUL has seen margin improvement in past 6 consecutive years. Margins, going forward, are expected to further improve helped by costs saving initiatives, such as, zero-based budgeting, efficiency in ad spends, etc – globally Unilever is targeting ~200-300bps YoY improvement in overall margins led by costs savings initiatives, HUL will also see some impact of same.

HUL has taken cognisance of the increasing potential in natural space and described it as a mega trend. Launch of the *Ayush* master brand in the mass segment across categories like toothpaste, facewash, shampoo, conditioner, etc., will propel growth. However, Patanjali's aggression, especially in core segments of soaps and detergents, needs to be closely monitored. We expect higher investments in A&P to support brand equity, aid market development of future categories and counter intensifying competition. We assign target P/E of 40x FY19E EPS and arrive at a target price of INR1,106. We maintain '**HOLD/ Sector Performer**'.

Chart 1: Overall volume growth



Source: Company, Edelweiss research

Chart 2: A&P spends

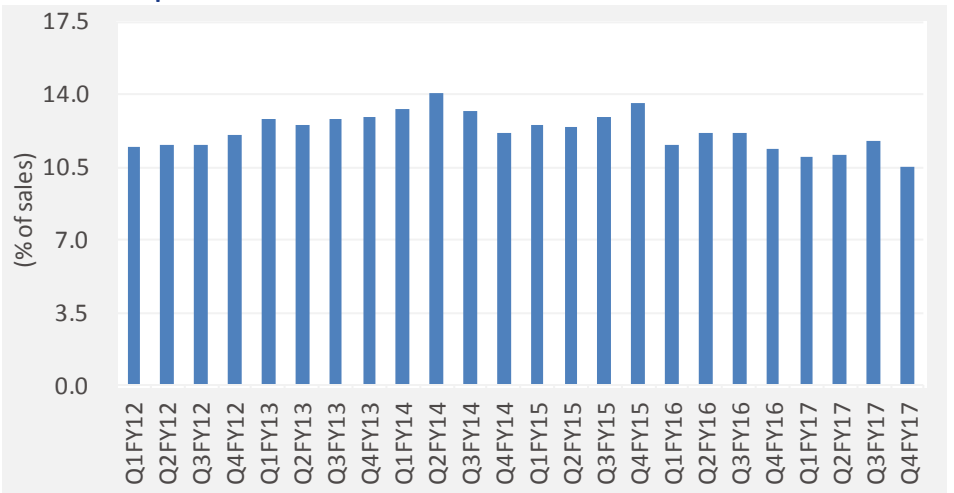
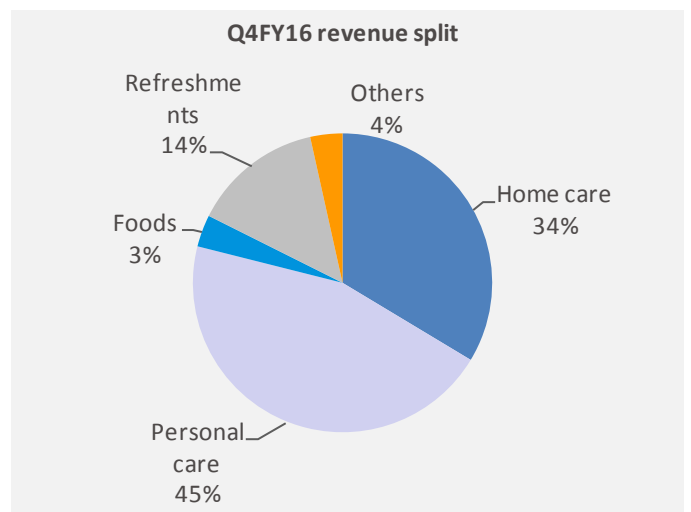
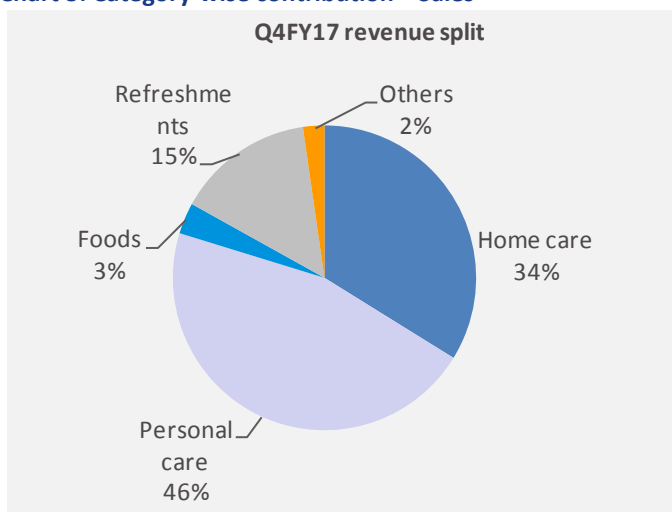
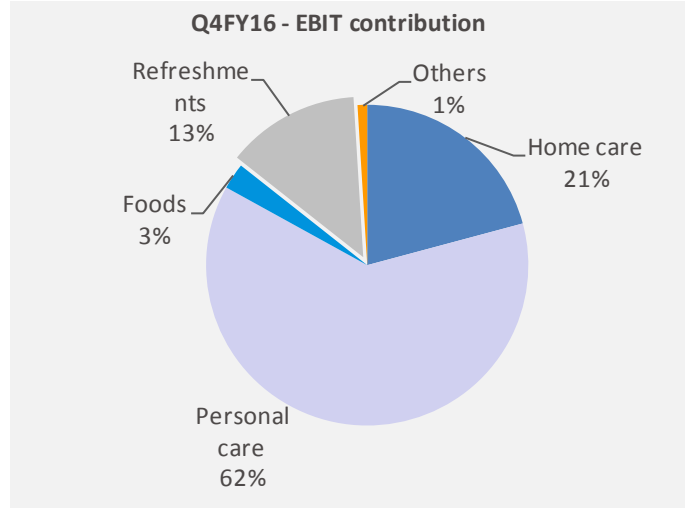
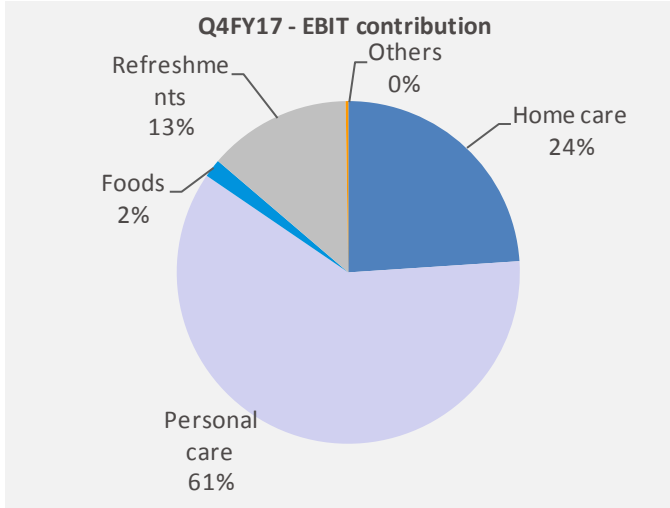


Chart 3: Category-wise contribution—Sales



Source: Company, Edelweiss research

Chart 4: Category-wise contribution—EBIT

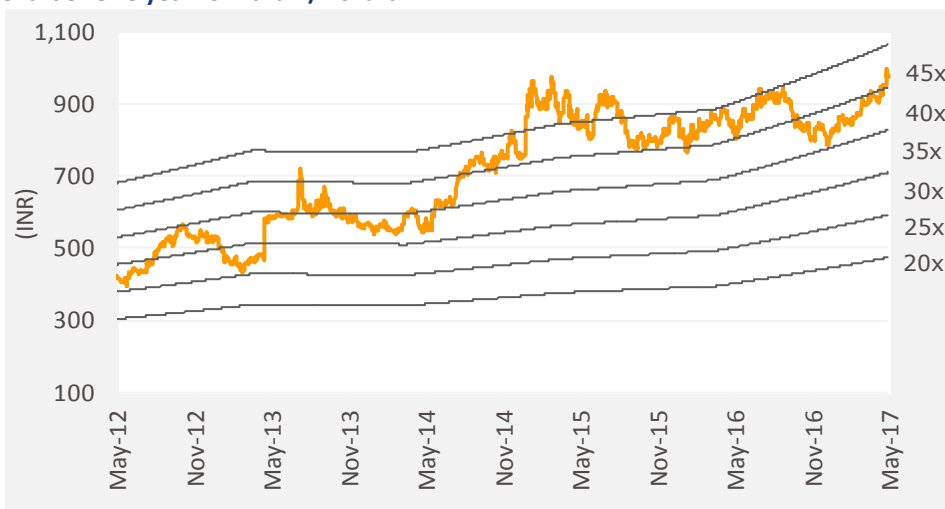


Source: Company, Edelweiss research

Table 3: Segmental performance

Year to March - Revenues (INR mn)	Q4FY17	Q4FY16	YoY growth	Q3FY17	QoQ growth
Home care	30,040	27,980	7.4	26,890	11.7
Personal care	40,750	37,700	8.1	39,800	2.4
Foods	2,950	2,880	2.4	2,790	5.7
Refreshments	13,000	11,760	10.5	11,640	11.7
Others (includes exports, infant and feminine care etc)	2,010	2,890	(30.4)	1,950	3.1
Segment results (Profit/(Loss) before tax and interest)					
Home care	3,890	3,020	28.8	2,340	66.2
Personal care	9,840	9,030	9.0	9,210	6.8
Foods	280	380	(26.3)	260	7.7
Refreshments	2,190	1,940	12.9	1,710	28.1
Others (includes exports, infant and feminine care etc)	(40)	140	NA	(160)	NM
Segment margins					
Margin (%)					
Home care	12.9	10.8	216	8.7	425
Personal care	24.1	24.0	19	23.1	101
Foods	9.5	13.2	(370)	9.3	17
Refreshments	16.8	16.5	35	14.7	216
Others (includes exports, infant and feminine care etc)	(2.0)	4.8	NM	(8.2)	NM

Source: Company, Edelweiss research

Chart 5: One year forward P/E chart

Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Net revenues	82,130	77,210	6.4	77,060	6.6	331,620	364,692	410,501
Cost of goods sold	40,220	37,690	6.7	37,446	7.4	163,130	179,859	199,778
Gross profit	41,910	39,520	6.0	39,613	5.8	168,490	184,832	210,723
Staff costs	3,880	4,430	(12.4)	4,093	(5.2)	17,430	18,599	20,525
Advt. sales & promotions	8,530	8,650	(1.4)	8,851	(3.6)	35,420	39,022	43,513
Other expenses	12,990	11,720	10.8	13,115	(1.0)	52,240	56,527	61,986
Total expenditure	25,400	24,800	2.4	26,059	(2.5)	105,090	114,149	126,024
EBITDA	16,510	14,720	12.2	13,554	21.8	63,400	70,684	84,699
Depreciation	1,080	880	22.7	1,002	7.8	4,320	4,232	4,638
EBIT	15,430	13,840	11.5	12,552	22.9	59,080	66,452	80,061
Other income	830	1,010	(17.8)	824	0.7	3,690	6,127	6,380
Interest	60	20	200.0	46	31.6	350	150	120
Add: Prior period items								
Add: Exceptional items	650	752	(13.6)	1,179	(44.9)	2,370	-	-
Profit before tax	16,200	14,830	9.2	13,331	21.5	62,420	72,429	86,321
Provision for taxes	5,020	4,440	13.1	4,131	21.5	19,770	22,091	26,328
Minority interest	-	-	-	-	-	-	127	143
Associate profit share								
Reported net profit	11,830	11,142	6.2	10,379	14.0	45,020	50,211	59,850
Adjusted Profit	11,180	10,390	7.6	9,200	21.5	42,650	50,211	59,850
Diluted shares (mn)	2,164	2,164		2,164		2,164	2,164	2,164
Adjusted Diluted EPS	5.2	4.8	7.6	4.3	21.5	19.7	23.2	27.7
Diluted P/E (x)	-	-		-		48.5	41.2	34.5
EV/EBITDA (x)	-	-		-		31.7	28.4	23.6
ROAE (%)	-	-		-		100.8	106.5	113.0
As % of net revenues								
COGS	49.7	49.7		49.8		50.4	50.5	49.8
Employee cost	4.8	5.8		5.4		5.4	5.2	5.1
Adv. & sales promotions	10.5	11.4		11.8		10.9	11.0	10.8
Other expenditure	16.0	15.5		17.5		16.1	15.9	15.4
EBITDA	20.4	19.4		18.0		19.6	19.8	21.1
EBIT	19.0	18.2		16.7		18.3	18.7	20.0
PBT	20.0	19.6		17.7		19.3	20.3	21.5
Reported net profit	13.8	13.7		12.2		13.2	14.1	14.9
Tax rate	31.0	29.9		31.0		31.7	30.5	30.5

Company Description

HUL, the largest FMCG Company in India, was formed by merging three subsidiaries of Unilever in 1956. At present, Unilever Plc holds a 67.2% stake in the company. HUL's portfolio of products covers a wide spectrum including soaps, detergents, skin creams, shampoos, toothpastes, tea, coffee, packaged foods and branded atta.

Powerful brands and an enviable distribution network (direct coverage of 3.2mn outlets) are HUL's primary strengths. The company operates through segments—Home care, personal care, Refreshments, Foods and other operations.

Investment Theme

HUL is a play on consumption growth in India. The company has displayed its ability to effect price hikes and ability to grow ahead of market, which, combined with improved outlook for S&D and personal care, and strong growth in processed foods and beverages, boosts our positive outlook on the company. We like its revenue growth from a medium to long term perspective. Commodity price correction will aid gross margin expansion though we expect partial benefit to be passed on to customers through promotional offers/select price cuts. We expect higher investment in A&P to support brand equity and counter pick up in competitive intensity (especially from regional players). However with an anticipated recovery in urban demand and commodity correction to aid EBITDA margin expansion, we expect HUL to potentially benefit.

Key Risks

Depreciation in rupee impacts price of imported raw materials.

Ad spends likely to spike due to increased competition from regional players. Maintaining market share will also be a challenge for HUL.

The price war in HUL's popular segments with new entrants entering the fray could hit the company hard.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.0	5.8	5.8
USD/INR (Avg)	65.0	67.5	69.0	69.0
Company				
Volume gr. (overall)	6.0	1.0	5.0	7.0
Pricing gr. (overall)	(1.9)	1.9	5.0	5.7
Growth in Soaps	(3.5)	(3.0)	9.0	11.0
Growth in Detergents	3.9	3.0	8.0	12.0
Growth in PP	7.4	1.0	10.0	15.0
Growth in beverages	6.9	5.0	12.0	15.0
Growth in packaged foods	11.9	1.0	10.0	12.0
EBITDA margin (%)	19.1	19.6	19.8	21.1
EBITDA margin assumpn				
Oil fat resin % of COGS	9.8	10.3	10.4	10.2
Chem & perfume % of COGS	30.2	30.7	31.0	31.2
Tea & Grn leaf % of COGS	10.1	9.1	7.9	7.6
Selling & distribn costs	15.2	15.8	15.5	15.1
A&P as % of sales	11.6	10.9	11.0	10.8
Employee cost (% of rev)	5.3	5.4	5.2	5.1
Financial assumptions				
Tax rate (%)	31.0	31.7	30.5	30.5
Capex (INR mn)	7,159	7,427	7,000	7,000
Debtor days	13	12	14	14
Inventory days	64	63	63	63
Payable days	129	130	130	130
Cash conversion cycle	(52)	(55)	(53)	(53)
Dep. (% gross block)	6.3	6.6	5.8	5.8
Yield on cash	6.9	6.0	10.0	10.0

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	314,610	323,670	356,106	401,228
Other Operating Income	7,250	7,950	8,586	9,273
Total operating income	321,860	331,620	364,692	410,501
Materials costs	158,670	163,130	179,859	199,778
Gross profit	163,190	168,490	184,832	210,723
Employee costs	16,800	17,430	18,599	20,525
Other Expenses	49,630	52,240	56,527	61,986
Ad. & sales costs	36,560	35,420	39,022	43,513
EBITDA	60,200	63,400	70,684	84,699
Depreciation	3,530	4,320	4,232	4,638
EBIT	56,670	59,080	66,452	80,061
Add: Other income	4,230.00	3,690.00	6,126.79	6,379.86
Less: Interest Expense	170	350	150	120
Add: Exceptional items	(310)	2,370	-	-
Profit Before Tax	60,730	62,420	72,429	86,321
Less: Provision for Tax	18,750	19,770	22,091	26,328
Less: Minority Interest	90	-	127	143
Reported Profit	41,580	45,020	50,211	59,850
Exceptional Items	(310)	2,370	-	-
Adjusted Profit	41,890	42,650	50,211	59,850
Shares o /s (mn)	2,164	2,164	2,164	2,164
Adjusted Basic EPS	19.4	19.7	23.2	27.7
Diluted shares o/s (mn)	2,165	2,165	2,165	2,165
Adjusted Diluted EPS	19.4	19.7	23.2	27.7
Adjusted Cash EPS	21.0	21.7	25.2	29.8
Dividend per share (DPS)	16.0	15.6	17.4	20.7
Dividend Payout Ratio(%)	99.6	89.7	89.7	89.7

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Materials costs	50.4	50.4	50.5	49.8
Staff costs	5.3	5.4	5.2	5.1
Ad. & sales costs	11.6	10.9	11.0	10.8
Interest Expense	0.1	0.1	-	-
EBITDA margins	19.1	19.6	19.8	21.1
Net Profit margins	13.3	13.2	14.1	15.0

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	4.1	2.9	10.0	12.7
EBITDA	9.9	5.3	11.5	19.8
Adjusted Profit	13.7	1.8	17.7	19.2
EPS	13.7	1.8	17.7	19.2

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	2,164	2,164	2,164	2,164	
Reserves & Surplus	37,553	42,203	47,390	53,572	
Shareholders' funds	39,717	44,367	49,554	55,736	
Minority Interest	251	251	378	521	
Short term borrowings	2,128	2,128	2,128	2,128	
Long term borrowings	420	420	420	420	
Total Borrowings	2,548	2,548	2,548	2,548	
Long Term Liabilities	13,787	13,787	13,787	13,787	
Def. Tax Liability (net)	(2,333)	(2,333)	(2,333)	(2,333)	
Sources of funds	53,969	58,619	63,933	70,258	
Gross Block	60,465	69,465	76,465	83,465	
Net Block	32,074	36,754	39,522	41,884	
Capital work in progress	4,273	2,700	2,700	2,700	
Intangible Assets	932	932	932	932	
Total Fixed Assets	37,279	40,386	43,154	45,516	
Non current investments	3,250	3,250	3,250	3,250	
Cash and Equivalents	54,503	58,018	60,549	66,411	
Inventories	27,521	28,157	31,044	34,482	
Sundry Debtors	12,685	10,903	13,988	15,745	
Loans & Advances	13,049	13,049	13,049	13,049	
Other Current Assets	1,029	1,029	1,029	1,029	
Current Assets (ex cash)	54,284	53,137	59,110	64,305	
Trade payable	57,277	58,101	64,059	71,154	
Other Current Liab	38,070	38,070	38,070	38,070	
Total Current Liab	95,346	96,171	102,129	109,223	
Net Curr Assets-ex cash	(41,062)	(43,034)	(43,019)	(44,919)	
Uses of funds	53,969	58,619	63,933	70,258	
BVPS (INR)	18.3	20.5	22.9	25.7	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	41,580	45,020	50,211	59,850	
Add: Depreciation	3,530	4,320	4,232	4,638	
Interest (Net of Tax)	118	239	104	83	
Others	(2,792)	(2,259)	173	180	
Less: Changes in WC	(598)	(1,972)	15	(1,899)	
Operating cash flow	43,033	49,292	54,705	66,650	
Less: Capex	7,159	7,427	7,000	7,000	
Free Cash Flow	35,874	41,865	47,705	59,650	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Hindustan Unilever	34,057	43.5	36.5	30.1	25.0	106.5	113.0
Colgate	4,140	38.9	33.6	24.5	20.9	52.6	52.0
Dabur	7,579	33.5	28.7	28.7	24.2	27.5	27.7
Emami	3,838	50.5	38.2	26.8	22.1	28.5	32.1
Godrej Consumer	9,850	40.5	33.3	29.1	24.1	24.7	26.0
ITC	53,335	27.4	23.6	17.9	15.1	31.1	31.2

Source: Edelweiss research

Cash flow metrics				
Year to March	FY16	FY17	FY18E	FY19E
Operating cash flow	41,253	49,292	54,705	66,650
Investing cash flow	(2,682)	(7,427)	(7,000)	(7,000)
Financing cash flow	(38,190)	(38,350)	(45,174)	(53,788)
Net cash Flow	382	3,515	2,531	5,863
Capex	(7,159)	(7,427)	(7,000)	(7,000)
Dividend paid	(41,395)	(40,370)	(45,024)	(53,668)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	104.3	100.8	106.5	113.0
ROACE (%)	145.9	140.0	145.7	155.4
Inventory Days	64	63	63	63
Debtors Days	13	12	14	14
Payable Days	129	130	130	130
Cash Conversion Cycle	(52)	(55)	(53)	(53)
Current Ratio	1.1	1.2	1.2	1.2
Gross Debt/EBITDA	-	-	-	-
Gross Debt/Equity	0.1	0.1	0.1	-
Adjusted Debt/Equity	0.1	0.1	0.1	-
Net Debt/Equity	(1.3)	(1.2)	(1.2)	(1.1)
Interest Coverage Ratio	333.4	168.8	443.0	667.2

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	6.0	5.7	5.8	6.0
Fixed Asset Turnover	10.3	9.2	9.1	9.6
Equity Turnover	7.8	7.7	7.5	7.6

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	19.4	19.7	23.2	27.7
Y-o-Y growth (%)	13.7	1.8	17.7	19.2
Adjusted Cash EPS (INR)	21.0	21.7	25.2	29.8
Diluted P/E (x)	52.2	51.2	43.5	36.5
P/B (x)	55.0	49.2	44.1	39.2
EV / Sales (x)	6.8	6.6	6.0	5.3
EV / EBITDA (x)	35.4	33.6	30.1	25.0
Dividend Yield (%)	1.6	1.5	1.7	2.1

Additional Data

Directors Data

Mr. Harish Manwani	Chairman	Mr. Sanjiv Mehta	Managing Director and Chief Executive Officer
Mr. P. B. Balaji	Executive Director, Finance & IT and Chief Financial Officer	Mr. Pradeep Banerjee	Executive Director, Supply Chain
Mr. Dev Bajpai	Executive Director, Legal & CS	Mr. A. Narayan	Independent Director
Mr. S. Ramadorai	Independent Director	Ms. Kalpana Morparia	Independent Director
Mr. O. P. Bhatt	Independent Director	Dr. Sanjiv Misra	Independent Director

Auditors - BSR & Co. LLP

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Aberdeen Asset Managers	1.8	Life Insurance Corp Of India	1.6
Blackrock Fund Advisors	1.1	Vanguard Group	1.1
Max New York Life Ins	0.5	Franklin Resources	0.5
Vontobel Asset Management	0.5	Birla Sun Life Asset Management	0.3
Virtus Investment Partners	0.3	Schroders Plc	0.3

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SO	M	Bajaj Corp	HOLD	SU	H
Berger Paints	BUY	SO	L	Britannia Industries	BUY	SO	L
Colgate	HOLD	SP	M	Dabur	BUY	SO	M
Emami	BUY	SO	H	GlaxoSmithKline Consumer Healthcare	HOLD	SU	M
Godrej Consumer	BUY	SO	H	Hindustan Unilever	HOLD	SP	L
ITC	BUY	SO	M	Marico	BUY	SO	M
Nestle Ltd	HOLD	SP	L	Pidilite Industries	BUY	SO	M
United Spirits	HOLD	SP	H				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain

Head of Research

aditya.narain@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s): Consumer Goods

Asian Paints, Bajaj Corp, Berger Paints, Britannia Industries, Colgate, Dabur, Godrej Consumer, Emami, Hindustan Unilever, ITC, Marico, Nestle Ltd, Pidilite Industries, GlaxoSmithKline Consumer Healthcare, United Spirits

Recent Research

Date	Company	Title	Price (INR)	Recos
15-May-17	Colgate Palmolive	Sequential recovery in volumes; success in Naturals key; <i>Result Update</i>	994	Hold
15-May-17	Nestle India	Growth recipe: Innovations and new launches ; <i>Result Update</i>	6,610	Hold
12-May-17	GSK Consumer	Sequential recovery, but market share loss a concern; <i>Result Update</i>	5,246	Hold

Distribution of Ratings / Market Cap

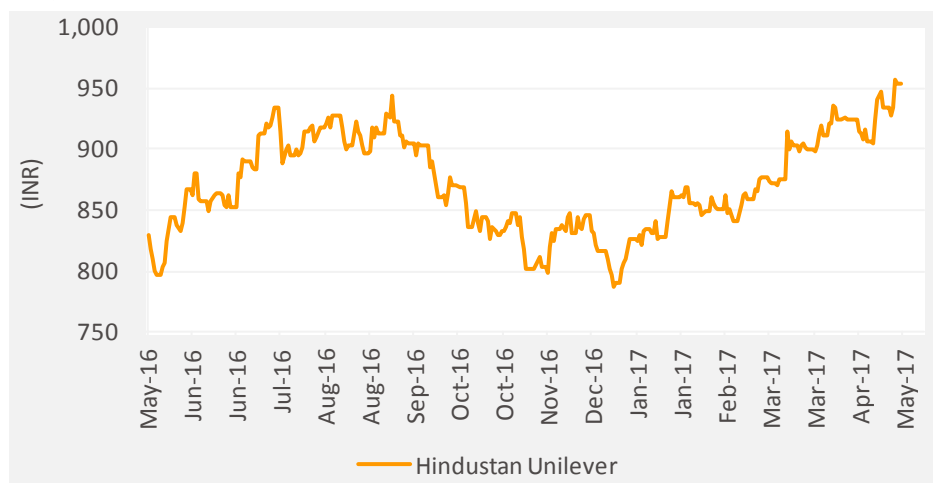
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



DISCLAIMER

Edelweiss Securities Limited (“ESL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on www.edelweissfin.com) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies 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. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved