

Hindustan Unilever

BSE SENSEX	S&P CNX
30,659	9,526
Bloomberg	HUVR IN
Equity Shares (m)	2,164.3
M.Cap.(INRb)/(USDb)	2,159.4 / 33.7
52-Week Range (INR)	1010 / 783
1, 6, 12 Rel. Per (%)	5/7/2
Avg Val, INRm/ Vol m	1186
Free float (%)	32.8

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	313.0	348.3	391.5
EBITDA	60.5	68.9	78.9
PAT	42.5	48.6	56.0
EPS (INR)	19.6	22.4	25.9
Gr. (%)	1.9	14.3	15.3
BV/Sh (INR)	30.8	31.4	32.1
RoE (%)	65.6	72.1	81.4
RoCE (%)	87.3	95.5	107.7
P/E (x)	51.3	44.8	38.9
P/BV (x)	32.7	32.0	31.3

Estimate change



TP change



Rating change



CMP: INR1,006 TP: INR1,165(+16%) Upgrade to Buy

Beat on all fronts; Positive outlook on monsoon; Upgrade to Buy

- **HUVR's 4QFY17 net sales increased 6.4% YoY** (est. of +4.5%) to INR82.1b. Domestic consumer business rose 8% YoY, with underlying volumes growing 4% YoY (adjusted for pipeline correction, 2.5%-3% growth v/s est. of -0.5%). EBITDA increased by 12.2% YoY to INR16.5b (est. of INR14.6b) and adj. PAT by 6.2% YoY to INR11.2b (1.4% above estimate).
- **Personal care sales grew at a healthy 8.1% YoY.** Home care sales rose 7.4% YoY. Growth was 2.4% YoY in foods and 10.5% YoY in refreshments.
- **Gross margin contracted 20bp YoY to 51%** v/s estimate of -160bp, mainly because of healthy personal care sales, a segment where margins are far superior to other segments. The decline of 100bp YoY in staff costs and 80bp in A&P also contributed to the margin beat. Consequently, EBITDA margin at 20.1% expanded 100bp YoY (est. of -100bp).
- **FY17 performance:** Sales were up 3% YoY (1% volume growth) at INR319b, EBITDA margin improved 40bp YoY and adj. PAT grew 3% YoY to INR42.5b.
- **Concall highlights:** (1) There was a change in tone toward premiumization, which, in our view, indicates that EBITDA margin expansion will be better than the 'calibrated increase' of the past. (2) Management stated that net GST benefits, if any, will be passed on. (3) Under Ind-AS, RoE appears lower as provision for dividend is not deducted until AGM approval.
- **Upgrade to Buy:** A strong recovery in volumes (despite rural/wholesale being subdued) was a pleasant surprise. With forecast of normal monsoon, HUL has all the levers for earnings revival in place, especially when allied with benefits of low base of preceding years, return of price part of sales growth, lower promotion spends, continuing premiumization and government schemes (DBT implementation, a 24% increase in rural outlay in the budget, farm loan waiver in Uttar Pradesh, etc.). Return ratios and dividend yield are best-of-breed. We target 45x FY19E EPS (5% premium to 3-year avg.), resulting in TP of INR1,165.

Quarterly performance

Y/E March	FY16				FY17				(INR Million)		Estimate 4QE	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY16 Ind AS	FY17 Ind AS		
Volume Growth (%)	6.0	7.0	6.0	4.0	4.0	-1.0	-4.0	4.0	5.8	0.8	-0.5	
Net Sales	78,445	77,314	77,640	77,210	81,282	78,427	77,060	82,130	310,608	318,899	80,680	1.8%
YoY Change (%)					3.6	1.4	-0.7	6.4			4.5	
COGS	38,976	38,965	37,424	37,690	39,555	39,620	37,440	40,220	153,055	156,835	40,626	
Gross Profit	39,469	38,349	40,216	39,520	41,727	38,807	39,620	41,910	157,553	162,064	40,054	4.6%
Margin %	50.3	49.6	51.8	51.2	51.3	49.5	51.4	51.0	50.7	50.8	49.6	
Operating Exp	24,349	24,982	25,914	24,800	25,368	24,760	26,060	25,400	100,045	101,588	25,487	
% to sales	31.0	32.3	33.4	32.1	31.2	31.6	33.8	30.9	32.2	31.9	31.6	
EBITDA	15,120	13,366	14,302	14,720	16,359	14,046	13,560	16,510	57,508	60,475	14,567	13.3%
YoY Change (%)					8.2	5.1	-5.2	12.2			5.2	
Margins (%)	19.3	17.3	18.4	19.1	20.1	17.9	17.6	20.1	18.5	19.0	18.1	
Depreciation	749	761	822	880	933	945	1,000	1,080	3,212	3,958	1,041	
Interest	47	45	45	20	60	49	50	60	157	219	16	
Other Income	1,230	1,944	1,451	1,010	1,076	2,528	820	830	5,634	5,254	1,105	
PBT	15,554	14,503	14,886	14,830	16,442	15,580	13,330	16,200	59,773	61,552	14,616	10.8%
Tax	4,960	4,560	4,373	4,200	5,411	4,807	4,480	4,360	18,093	19,058	3,591	
Rate (%)	31.9	31.4	29.4	28.3	32.9	30.9	33.6	26.9	30.3	31.0	24.6	
Adjusted PAT	10,628	9,902	10,241	10,390	11,277	10,818	9,199	11,180	41,162	42,474	11,025	1.4%
Reported Profit	10,692	9,822	9,717	11,140	11,739	10,956	10,380	11,830	41,370	44,905	11,025	
YoY Change (%)					9.8	11.5	6.8	6.2			(1.0)	

E: MOSL Estimates

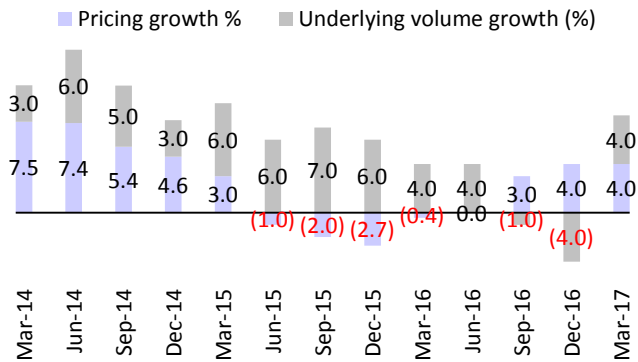
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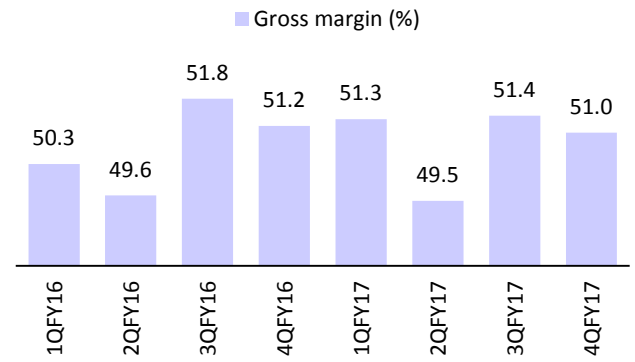
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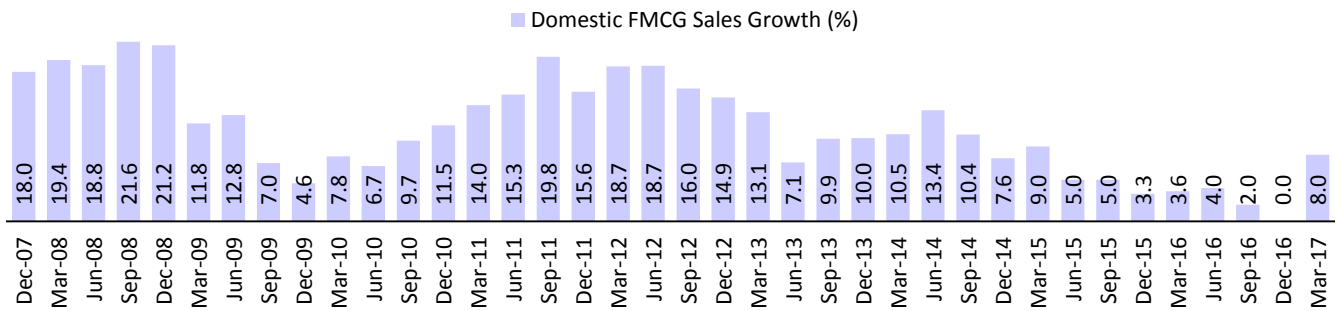
Key Quarterly Charts

Exhibit 1: Volumes grew 4%; below expectation


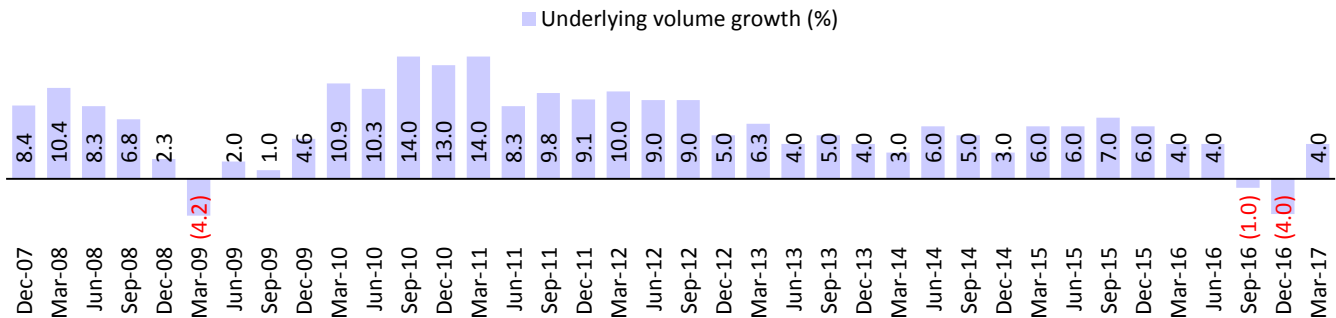
Source: Company, MOSL

Exhibit 2: Gross margins contracted 20bp YoY


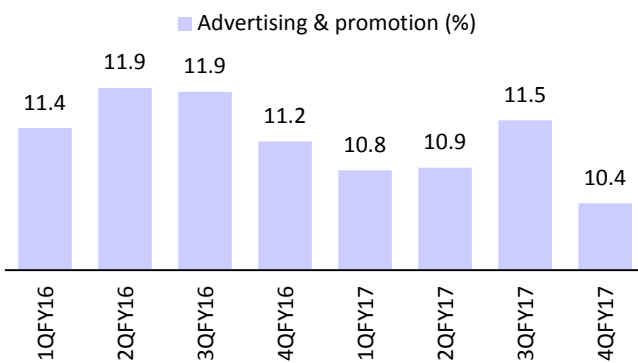
Source: Company, MOSL

Exhibit 3: Pipeline correction is likely to have contributed 100-150bp to domestic growth


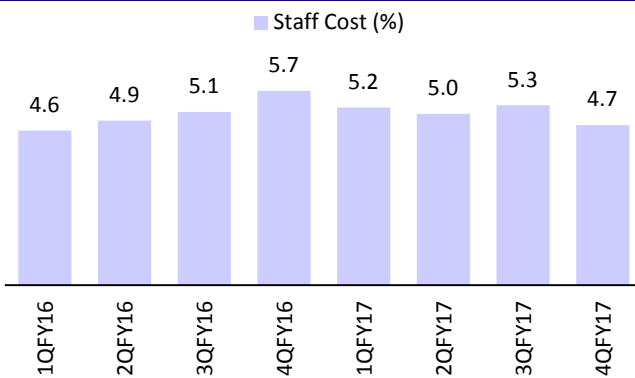
Source: Company, MOSL

Exhibit 4: Domestic consumer business volumes grew by 4% YoY


Source: Company, MOSL

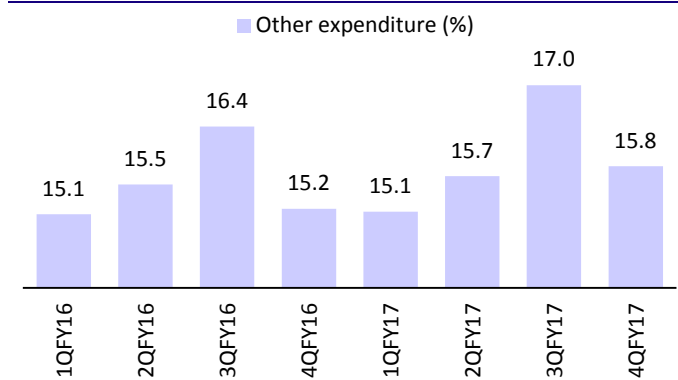
Exhibit 5: A&P spends down 80bp YoY..


Source: Company, MOSL

Exhibit 6: ..employee expenses down 100bp..


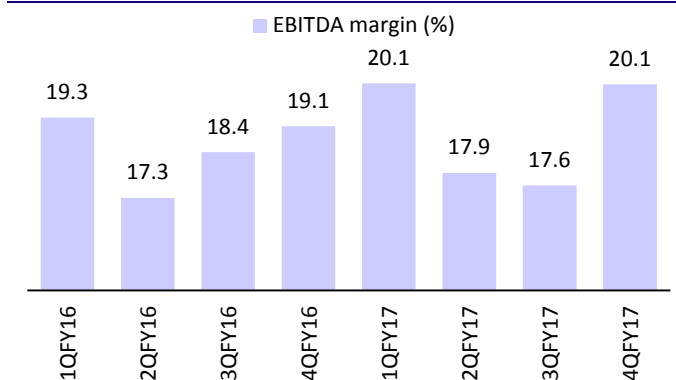
Source: Company, MOSL

Exhibit 7: ..other expenses were up 60bp YoY..



Source: Company, MOSL

Exhibit 8: ..led to EBITDA margin expansion of 100bp YoY



Source: Company, MOSL

Exhibit 9: Segmental growth

Reported Sales growth (%)	4QFY17	FY17
Home care	8.0	5.0
Personal care	8.0	1.5
Refreshment	11.0	8.0
Foods	2.0	2.3
Domestic Consumer	8.0	3.5

Note: Sales growth=Segment t/o growth excluding other operational income; Excludes impact of A&D

Source: Company, MOSL

Exhibit 10: Home care segment saw premiumisation led by Surf

Segmental EBIT margin (%)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY change	QoQ change
- Home Care	10.8	12.4	10.1	8.7	12.9	2.2	4.2
- Personal Care	24.0	24.2	22.9	23.1	24.1	0.2	1.0
- Foods	13.2	6.2	4.9	9.3	9.5	(3.7)	0.2
- Refreshments	16.5	15.8	14.8	14.7	16.8	0.3	2.2
- Others (includes Exports, Infant & Feminine Care Products, etc)	4.8	(4.6)	4.2	(8.2)	(2.0)	(6.8)	6.2
Total	17.4	17.9	16.5	16.1	18.2	0.8	2.1

Source: Company, MOSL

Exhibit 11: Innovations in the portfolio during the quarter



Source: Company, MOSL

Concall highlights**Business environment**

- Market situation has witnessed gradual improvement.
- However wholesale and rural channels are still not back to normal yet.
- Management expects input costs to be reasonable stable going forward for the near term.
- Around 50% of the portfolio is gaining share.

Ayush/ Herbal

- Management is happy about *Ayush* performance in South India. Looking to roll out to other states gradually.
- The company will launch another herbal brand apart from *Ayush* and *Indulekha*.

Segmental highlights

- All soap brands reported good numbers.
- Oral care segment continues to be under pressure.
- There has been good growth even at the mass end of detergents. Premiumization trend continues.
- On detergents, management kept on reiterating that fundamental agenda is premiumization in this segment. They said they will not compromise profitability at the altar of growth. This is a definite change on tone compared to earlier statements (albeit about overall business in India) that focus is in volume led sales growth with calibrated increase in margin every year.
- Skin care did well aided by *Fair and Lovely* relaunch.
- Hair Care delivered double digit sales growth.
- Deodorants- *Axe* delivered strong growth.
- In FY17 foods business was affected by aftermath of noodles crisis, bread issue, and drought in some areas of the country and demonetization.

GST

- Trade pipeline likely to reduce ahead of GST implementation.
- Management confirmed that if there are Net benefits on GST rates, if any, will be passed on.
- What are the efficiencies that could improve due to GST? a) Culling subscale distributors and b) Better planning of capex.
- More clarity ahead of GST implementation on the exact transfer process will be helpful to avoid panic among the retail chain.
- GST implementation unlikely to lead to any material impact on working capital metrics.

Financials

- Tax rates will be 50bp lower in FY18 compared to FY17 level due to Assam benefits.
- Lower bonuses in 4QFY17 compared to 4QFY16 led to lower staff cost YoY.
- Royalty increase approvals will need majority of the minority approvals.
- Under Ind-AS Net worth increases as dividend to be paid is not taken out of reserves until AGM approval. No cash flow impact but ROE does get affected.

Valuation and view

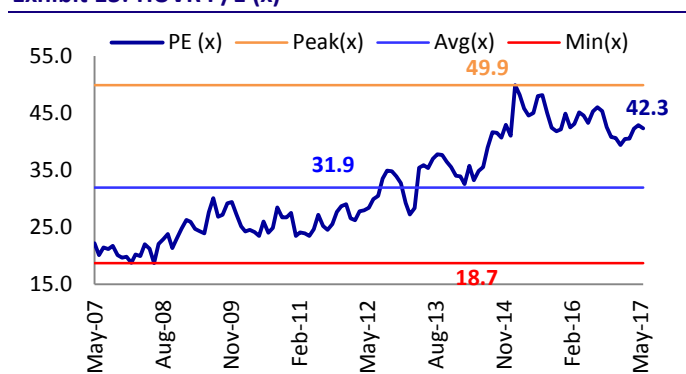
- Strong recovery in volumes despite rural/wholesale being subdued was a pleasant surprise. With a normal monsoon now being forecasted, HUL has all the levers for earnings revival in place especially when allied with benefits of low base of preceding years, return of price part of sales growth, lower promotion spends, continuing premiumization as well as government schemes (DBT implementation, 24% increase in rural outlay in the budget, farm loan waiver in Uttar Pradesh etc). Return ratios and dividend yield are best of breed.
- We target 45x FY19 EPS, (5% premium to 3 year average) resulting in target price of INR 1,165.

Exhibit 12: We change our estimates upwards by ~4% for FY18/FY19

	New		Old		Change	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Sales	354,778	398,676	344,984	384,350	2.8%	3.7%
EBITDA	68,910	78,893	64,514	74,223	6.8%	6.3%
PAT	48,556	55,973	46,548	53,706	4.3%	4.2%

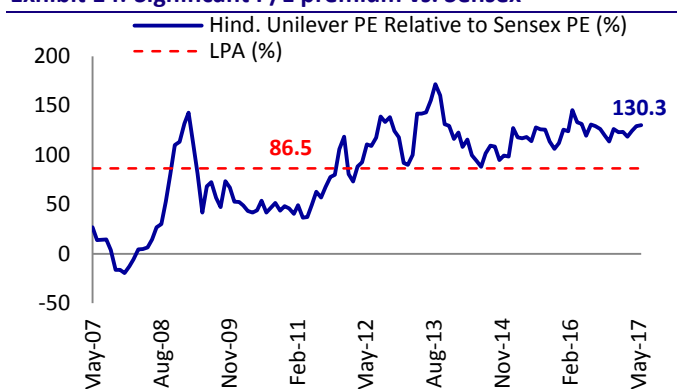
Source: Company, MOSL

Exhibit 13: HUVR P/E (x)



Source: Bloomberg, Company, MOSL

Exhibit 14: Significant P/E premium vs. Sensex



Source: Bloomberg, Company, MOSL

Exhibit 15: Valuation Matrix of coverage universe

Company	Reco	Price (INR)	Mkt Cap (USD M)	EPS Growth YoY (%)			P/E (x)			EV/EBITDA (x)			RoE (%)	Div.
				FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E		
Consumer														
Asian Paints	Neutral	1,154	17.1	8.7	10.0	18.6	54.9	49.9	42.1	35.5	32.0	26.9	28.5	1.0
Britannia	Buy	3,667	7.0	3.0	15.5	22.0	50.8	44.0	36.1	38.4	32.9	26.0	43.1	0.7
Colgate	Buy	977	4.1	-5.7	20.8	21.1	46.0	38.1	31.5	27.7	23.0	19.1	50.4	1.0
Dabur	Neutral	276	7.5	1.9	6.7	18.3	38.1	35.7	30.2	30.2	28.8	24.1	28.4	0.9
Emami	Buy	1,083	3.9	4.5	10.2	18.6	40.8	37.0	31.2	32.7	28.5	24.0	35.8	0.6
Godrej	Neutral	1,858	10.0	12.4	15.4	14.6	49.1	42.6	37.2	34.8	30.0	26.4	24.6	0.6
GSK Consumer	Sell	5,310	3.5	0.9	8.7	9.3	34.0	31.3	28.6	23.0	21.4	19.0	22.2	1.0
HUL	Buy	1,006	33.7	1.9	14.3	15.3	51.3	44.8	38.9	35.7	31.4	27.2	65.6	1.7
ITC	Buy	282	53.3	8.6	11.6	18.1	33.7	30.2	25.5	22.8	20.3	16.9	28.4	1.9
Jyothy Labs	Neutral	381	1.1	94.5	12.8	16.5	47.8	42.4	36.4	26.5	24.2	21.5	16.4	1.0
Marico	Neutral	309	6.2	12.1	10.5	21.1	49.1	44.4	36.7	34.7	31.4	26.2	36.7	1.0
Nestle	Sell	6,555	9.7	-1.6	0.6	17.6	55.6	55.2	47.0	33.6	32.5	27.6	39.0	1.0
PGHH	Buy	7,673	4.1	11.5	7.5	16.6	53.0	49.2	42.2	37.4	32.8	27.7	45.3	4.7
Page Inds.	Buy	15,012	2.6	12.9	29.5	27.3	63.7	49.2	38.7	41.0	31.5	24.9	41.3	0.7
Parag Milk	Neutral	248	0.3	-87.9	756.4	79.4	306.3	35.8	19.9	28.4	15.5	10.6	1.3	0.0
Pidilite Inds.	Neutral	774	6.1	12.5	10.1	12.3	46.6	42.4	37.7	30.8	27.2	23.8	27.9	0.6
United Brew.	Buy	814	3.3	-5.4	34.3	28.2	76.3	56.8	44.3	31.4	27.8	22.0	12.6	0.1
United Spirits	Neutral	2,121	4.8	71.2	47.2	39.1	74.1	50.3	36.2	35.6	28.5	22.1	20.8	0.0
Retail														
Jubilant	Neutral	1,049	1.1	-17.6	76.4	34.0	85.1	48.3	36.0	27.0	18.4	14.0	10.1	0.2
Titan Company	Neutral	482	6.8	18.5	13.8	18.2	53.4	46.9	39.7	36.8	32.3	27.1	20.6	0.6

Note: For Nestle FY16 means CY15

Source: Company, MOSL

Financials and valuations

Income Statement					(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E
Net Sales	274,083	301,705	304,990	312,980	348,266	391,512
Other Oper. Income	6,108	6,351	5,619	5,920	6,512	7,163
Total Revenue	280,191	308,056	310,609	318,900	354,778	398,676
Change (%)	8.6	9.9	0.8	2.7	11.3	12.4
COGS	143,436	156,236	153,053	156,850	173,279	192,916
Gross Profit	136,755	151,821	157,556	162,050	181,499	205,760
Gros Margin (%)	48.8	49.3	50.7	50.8	51.2	51.6
Operating Exp	92,003	99,738	100,070	101,580	112,589	126,867
% of sales	32.8	32.4	32.2	31.9	31.7	31.8
EBIDTA	44,753	52,082	57,487	60,470	68,910	78,893
Change (%)	11.8	16.4	10.4	5.2	14.0	14.5
Margin (%)	16.0	16.9	18.5	19.0	19.4	19.8
Depreciation	2,606	2,867	3,208	3,960	4,611	4,818
Int. and Fin. Charges	360	168	150	220	242	242
Other Income - Recurring	6,210	6,184	5,640	5,260	5,808	6,704
Profit before Taxes	47,997	55,231	59,769	61,550	69,865	80,537
Change (%)	10.4	15.1	8.2	3.0	13.5	15.3
Margin (%)	17.5	18.3	19.6	19.7	20.1	20.6
Tax	12,196	19,060	18,160	18,650	20,820	24,000
Deferred Tax	248	-338	-70	410	489	564
Tax Rate (%)	25.9	33.9	30.3	31.0	30.5	30.5
Profit after Taxes	35,553	36,510	41,679	42,490	48,556	55,973
Change (%)	11.5	2.7	14.2	1.9	14.3	15.3
Margin (%)	13.0	12.1	13.7	13.6	13.9	14.3
Non-rec. (Exp)/Income	3,122	6,643	-310	2,410	0	0
Reported PAT	38,675	43,153	41,369	44,900	48,556	55,973

Balance Sheet					(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E
Share Capital	2,163	2,164	2,164	2,164	2,164	2,164
Reserves	30,608	35,084	60,627	64,489	65,869	67,346
Net Worth	32,771	37,248	62,791	66,653	68,033	69,510
Capital Employed	32,771	37,248	62,791	66,653	68,033	69,510
Gross Block	41,706	44,306	50,774	65,827	67,827	69,827
Less: Accum. Depn.	-17,409	-19,731	-21,627	-25,587	-30,198	-35,016
Net Fixed Assets	24,298	24,575	29,147	40,240	37,629	34,811
Capital WIP	3,121	4,790	3,860	2,030	2,030	2,030
Investment in Subsidiaries	6,362	6,541	3,190	2,540	2,540	2,540
Current Investments	24,580	26,238	24,606	35,190	35,690	37,690
Deferred Charges	1,617	1,960	1,680	1,600	1,600	1,600
Curr. Assets, L&A	70,007	72,236	76,509	65,130	72,242	91,077
Inventory	27,475	26,027	25,284	23,620	29,766	30,889
Account Receivables	8,164	7,829	10,645	9,280	12,331	13,862
Cash and Bank Balance	22,210	25,376	27,590	16,710	14,126	26,669
Others	12,158	13,005	12,990	15,520	16,020	19,658
Curr. Liab. and Prov.	97,214	99,093	76,201	80,077	83,698	100,238
Account Payables	49,115	48,515	54,980	60,060	61,645	75,868
Other Liabilities	30,558	29,828	12,381	11,297	12,427	13,669
Provisions	17,540	20,749	8,840	8,720	9,626	10,701
Net Current Assets	-27,206	-26,857	308	-14,947	-11,456	-9,161
Application of Funds	32,771	37,248	62,791	66,653	68,033	69,510

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E
Basic (INR)						
EPS	16.4	16.9	19.3	19.6	22.4	25.9
Cash EPS	17.6	18.2	20.7	21.5	24.6	28.1
BV/Share	15.2	17.2	29.0	30.8	31.4	32.1
DPS	13.0	15.0	16.0	17.0	19.5	23.5
Payout %	79.1	88.9	83.1	86.6	86.9	90.9

Valuation (x)

P/E		59.6	52.2	51.3	44.8	38.9
Cash P/E		55.3	48.5	46.9	41.0	35.8
EV/Sales		7.1	7.0	6.9	6.2	5.5
EV/EBITDA		41.2	37.3	35.7	31.4	27.2
P/BV		58.5	34.7	32.7	32.0	31.3
Dividend Yield (%)		1.5	1.6	1.7	1.9	2.3

Return Ratios (%)

RoE	119.5	104.3	83.3	65.6	72.1	81.4
RoCE	141.6	140.6	108.5	87.3	95.5	107.7
RoIC	1,947.5	4,018.2	263.8	106.1	94.4	117.5

Working Capital Ratios

Debtor (Days)	11	9	13	11	13	13
Asset Turnover (x)	8.4	8.1	4.9	4.7	5.1	5.6

Leverage Ratio

Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
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Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E
OP/(loss) before Tax	47,997	55,231	59,769	61,550	69,865	80,537
Int./Div. Received	-6,210	-6,184	-5,640	-5,260	-5,808	-6,704
Depreciation	2,606	2,867	3,208	3,960	4,611	4,818
Interest Paid	360	168	150	220	242	242
Direct Taxes Paid	-12,196	-19,060	-18,160	-18,650	-20,820	-24,000
(Incr)/Decr in WC	8,638	2,816	-24,950	4,375	-6,075	10,248
CF from Operations	41,195	35,839	14,377	46,195	42,015	65,141
Extraordinary Items	3,122	6,643	-310	2,410	0	0
(Incr)/Decr in FA	-3,981	-4,269	-5,537	-13,223	-2,000	-2,000
Free Cash Flow	37,213	31,569	8,839	32,972	40,015	63,141
(Pur)/Sale of Investments	-7,635	-1,838	4,983	-9,934	-500	-2,000
CF from Invest.	-8,494	536	-864	-20,747	-2,500	-4,000
Change in Network	85	137	25,752	2,002	2,193	5,000
change in equity	0	1	0	0	0	0
change in reserves	85	136	25,752	2,002	2,193	5,000
Dividend Paid	-32,730	-38,812	-41,578	-43,040	-49,369	-59,496
Others	5,075	5,467	4,528	4,710	5,077	5,899
CF from Fin. Activity	-27,570	-33,208	-11,298	-36,328	-42,099	-48,597
Incr/Decr of Cash	5,131	3,166	2,214	-10,880	-2,584	12,544
Add: Opening Balance	17,079	22,210	25,376	27,590	16,710	14,126
Closing Balance	22,210	25,376	27,590	16,710	14,126	26,669

E: MOSL Estimates

Corporate profile

Company description

HUL is the largest company in the FMCG industry, with market leadership in soaps, detergents and personal care categories. The company is a subsidiary of Anglo Dutch FMCG giant Unilever. It has over 35 brand spanning 20 distinct categories; the company is a part of the everyday life of millions of consumers across India. It has strong brands, with market leadership in most of the categories it operates in. It has a large distribution network with direct reach of over 1m retail outlets.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-17	Dec-16	Mar-16
Promoter	67.2	67.2	67.2
DII	5.7	5.8	4.8
FII	13.3	13.1	14.2
Others	13.9	13.9	13.8

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIC of India	1.7
NA	0.0
NA	0.0
NA	0.0
NA	0.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Harish Manwani	Chairman
Sanjiv Mehta	Managing Director & CEO
P B Balaji	ED (Finance & IT) and CFO
Dev Bajpai	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Aditya Narayan	Kalpana Morparia
O P Bhatt	S Ramadorai
Sanjiv Misra	Pradeep Banerjee

*Independent

Exhibit 6: Auditors

Name	Type
BSR & Co LLP	Statutory
RA & Co	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	22.4	22.4	0.0
FY19	25.9	25.6	1.0

Source: Bloomberg

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