May 18, 2017

Hindustan Unilever (HINLEV)

₹ 1009

Margin expansion in the spotlight…

- HUL reported a healthy set of numbers with domestic business growth at 8% YoY with volume growth of 4% YoY. Gross sales for the quarter grew by 7.1% YoY to 8773 crore. The gross revenue for refreshment segment grew 10.5% YoY, followed by personal & home care segments, which grew 8.1% & 7.4% YoY, respectively. The foods segment grew marginally by 2.4% YoY
- Led by lower employee & advertisement expense, operating margin expanded 91 bps YoY to 18.6% (I-direct estimate: 18.7%). Employee cost & advertisement expenses to net sales were down 98 bps and 84 bps YoY, respectively, for the quarter
- On a segmental basis, home care segment's EBIT margin expanded 216 bps YoY to 12.9%, whereas, for personal care & refreshment it remained largely flat. The EBIT margin of the foods segment, on the other hand, contracted 370 bps to 9.5%
- Led by healthy sales growth and margin expansion, net profit for the quarter increased 6.2% YoY to ₹ 1183 crore vs. our estimate of ₹ 1229.5 crore

Premiumisation, media efficiency to lead way for margin expansion

We believe that in sync with the global parent's outlook on margin expansion, HUL's margin will also improve led by premiumisation and thrust on rationalisation of marketing expense. The company is taking initiatives for effective and efficient marketing spends by rationalising on campaigns and media platforms. We are, thus, factoring in ~100 bps reduction in advertisement to 9.2% of net sales in FY19E. Additionally, HUL is focused on premium play across segments. Premium brands like *Surf* & liquid detergents, *Dove*, *TRESemme*, *Sunsilk* Keratin range, *Vim Liquid*, *Bru Gold*, *Magnum*, *Lipton Green Tea*, flavoured tea bags will continue to drive growth for the company. Additionally, HUL expects uptrading by customers to further aid volume growth of premiumisation products. We thus, expect the company to report revenue CAGR of 9.2% in FY17-19E with operating margin expansion of 210 bps to 19.6% in FY19E.

Traction in homecare coupled with premiumisation to drive growth

We believe that the home care segment, second highest contributor to HUL's revenues at ~34% in FY17 with EBIT margin of 11.1%, 136 bps YoY expansion will remain one of the key drivers of the company's growth. *Surf Excel*, HUL's largest brand (>₹ 3000 crore in FY16), *Wheel, Rin* are ₹ 2000+ crore brands while *Vim* is a ₹ 1000+ crore brand. *Surf Excel* has been a beneficiary of the growing premiumisation trend in detergents category and has grown in strong double digits in FY17. With an improving mix towards premium products and effective campaigning, we expect segment revenues to grow at 8.0% CAGR in FY17-19E along with EBIT margin improvement.

Revenue mix & marketing initiatives to drive growth; reiterate BUY

We remain confident about the company's commitment towards growth led by innovation, volume growth, premiumisation and, thus, market share gains. Though we are broadly keeping our estimates for revenue, led by the company's initiatives to improve EBITDA margin, we have revised our EBITDA estimates upwards. We are, thus, estimating revenue, PAT CAGR of 9.2%, 13.4%, respectively, in FY17-19E with 210 bps margin expansion in the same period to 19.6% in FY19E. We reiterate out **BUY** recommendation on the stock with a revised target price of ₹ 1120/share.

Rating matrix

Rating	:	Buy
Target	:	₹ 1120
Target Period	:	12 months
Potential Upside	:	11%

What's changed?

Target	Changed from ₹ 978 to ₹ 1120
EPS FY18E	Changed from ₹ 21.9 to ₹ 22.8
EPS FY19E	Changed from ₹ 24.4 to ₹ 26.7
Rating	Unchanged

Quarterly performance

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Gross Sales	8773.0	8193.0	7.1	8124.5	8.0
EBITDA	1651.0	1472.0	12.2	1355.4	21.8
EBITDA %	18.6	17.7	91 bps	16.3	228 bps
PAT	1183.0	1114.2	6.2	1037.9	14.0

Key financials

₹ Crore	FY16	FY17	FY18E	FY19E
Revenue	32,929	33,895	36,660	40,390
EBITDA	5,749	6,047	6,925	8,070
Net Profit	4,137	4,490	4,921	5,773
EPS(₹)	19.2	20.8	22.8	26.7
Adj. EPS(₹)	19.3	20.0	22.8	26.7

FY16 onwards, financials are reported as per Ind AS

Valuation summary

	FY16	FY17	FY18E	FY19E
P/E	52.7	48.6	44.3	37.8
Target P/E	58.5	53.9	49.2	41.9
Div. Yield	1.6	1.7	1.9	2.2
Mcap/Sales	6.6	6.4	5.9	5.4
RoNW (%)	66.2	66.6	66.7	69.0
RoCE (%)	74.7	74.9	82.2	85.6

**From FY16 onwards, financials are reported as per Ind AS*

Stock data

Particular	Amount
Market Capitalization (₹ Crore)	216,086.4
Total Debt (FY17) (₹ Crore)	0.0
Cash and Investments (FY17) (₹ Crore)	5,190.0
EV (₹ Crore)	210,896.4
52 week H/L	1010 / 783
Equity capital	₹ 216 crore
Face value	₹ 1
FII Holding (%)	14.2
DII Holding (%)	5.2

Price performance

Return %	1M	3M	6M	12M
HUL	10.2	19.5	23.9	20.8
ITC	1.0	5.1	21.3	28.0
GCPL	10.9	15.2	32.6	34.7
Colgate	-2.6	7.4	5.5	17.9

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Tejashwini Kumari
tejashwini.kumari@icicisecurities.com

Variance analysis

	Q4FY17	Q4Y17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Comments
Gross Sales	8,773.0	8,128.5	8,193.0	7.1	8,124.5	8.0	Healthy revenue growth on led by 4% volume growth
Operating Income	113.0	207.5	136.0	-16.9	193.5	-41.6	
Raw Material Expenses	4,022.0	3,987.1	3,769.0	6.7	3,744.6	7.4	
Employee Expenses	388.0	399.1	443.0	-12.4	409.3	-5.2	Due to lower variable pay, the employee expense was lower
Marketing Expenses	853.0	957.9	865.0	-1.4	885.1	-3.6	Efficient media spend led to 84 bps reduction in marketing expense as percent of net sales
Excise Duty	673.0	146.3	608.0	10.7	612.0	10.0	
Other operating expenses	1,299.0	1,045.7	1,172.0	10.8	1,311.5	-1.0	
EBITDA	1,651.0	1,560.5	1,472.0	12.2	1,355.4	21.8	Healthy topline growth couple with saving on employee & media expense led to 12.2% growth in EBITDA
EBITDA margin (%)	18.6	18.7	17.7	91 bps	16.3	228 bps	
Depreciation	108.0	91.7	88.0	22.7	100.2	7.8	
Interest	6.0	0.0	2.0	NA	4.6	31.6	
Other Income	83.0	134.6	101.0	-17.8	82.4	0.7	Lower interest rate on investment led to a decline in other income
PBT	1,620.0	1,603.4	1,483.0	9.2	1,486.2	9.0	
Exceptional Items	-1.0	0.0	51.2	-102.0	153.1	-100.7	
Tax Outgo	436.0	373.9	420.0	3.8	448.2	-2.7	
PAT	1,183.0	1,229.5	1,114.2	6.2	1,037.9	14.0	Led by sales growth and EBITDA expansion, sales grew by 6.2%
Key Metrics growth YoY (%)							
Home care	7.4	NA	NA		1.0	633 bps	Home care segment grew strongly led by volume growth in premium brands
Personal care	8.1	NA	NA		-2.7	1079 bps	Growth was driven by soaps on account of stabilising input cost. Fair & Lovely's re-launch added to growth. However, oral care continued to remain subdued
Foods	2.4	NA	NA		0.5	196 bps	
Refreshments	10.5	NA	NA		8.1	240 bps	Premium coffee and ice cream drove the growth of the segment; tea sales also grew in double digit
EBIT margin (%)							
Home care	12.9	NA	10.8	216 bps	8.7	424 bps	Premiumisation and operational efficiency led expansion
Personal care	24.1	NA	24.0	19 bps	23.1	101 bps	
Foods	9.5	NA	13.2	-370 bps	9.4	11 bps	
Refreshments	16.8	NA	16.5	35 bps	14.7	213 bps	

Source: Company, ICICIdirect.com Research; Both, reported and estimated financials are represented in IND-AS format

Change in estimates

	FY18E			FY19E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Sales	36,662.4	36,659.7	0.0	39,921.0	40,390.1	1.2	
EBITDA	6,245.7	6,925.1	10.9	6,893.3	8,070.2	17.1	Upward revision in EBITDA considering efficient marketing expense and focus on premiumisation
EBITDA Margin (%)	16.8	18.6	182 bps	17.0	19.6	267 bps	
PAT	4,732.4	4,920.6	4.0	5,277.8	5,772.5	9.4	Led by upward revision in EBITDA
EPS (₹)	21.9	22.8	4.2	24.4	26.7	9.6	

Source: Company, ICICIdirect.com Research; Note: Have reported the earlier as well as the new estimates in the IND-AS

Assumptions

	Current				Earlier		
(₹ crore)	FY16	FY17E	FY18E	FY19E	FY18E	FY19E	
Home care	10,812.0	11,346.0	12,026.8	13,229.4	11,825.4	12,534.9	Upward revision on account of company's initiative on premiumisation
Personal care	16,011.0	16,304.0	17,282.2	19,010.5	17,367.1	19,103.8	
Foods	1,095.7	1,124.0	1,213.9	1,347.5	1,266.2	1,405.4	Revised estimates based on FY17 performance
Refreshments	4,482.0	4,848.0	5,235.8	5,811.8	5,272.2	5,852.2	

Source: Company, ICICIdirect.com Research

Conference call highlights

- The company clocked 4% volume growth after a decline in the past two quarters led largely by urban demand. Rural still remains under pressure post demonetisation
- HUL expects de-stocking to continue ahead of GST. Wholesale will continue to remain under pressure as uncertainty about GST implementation is there among the traders. However, company remains upbeat on the rollout of GST and its benefits to the industry
- The company indicated that the benefit of GST rates would be passed on completely to customers. HUL will, however, enjoy the benefits of operational efficiencies arising out of GST implementation through removal of various supply chain bottlenecks
- HUL is set to continue rationalising advertisement expenses, which started in December 2016. The company would focus on effectiveness of advertisements rather than duration. For instance, HUL would look at additional revenue inflow with the media spending on an existing brand, and would continue to invest behind new launches. Additionally, it is exploring all media platforms for effective campaigning
- The company indicated that raw material cost moderated in Q4FY17 and is stable at present and hence, no significant price hikes are on the cards in near future
- To tap the growing herbal market, the company extended a few brands and launched their herbal variants e.g. TRESemme Botanic, Clinic Plus Ayurveda and Fair & Lovely Ayurvedic Care during the quarter. Additionally, it is planning a pan-India rollout of the newly launched ayurvedic brand, Ayush Lever, after successful acceptance of the brand in the southern market. Company also is set to launch another ayurvedic brand under the name of *Citra*
- The company indicated that premium products continued to do well across segments. Additionally, HUL gained market share in the mass segment and is focusing on uptrading by customers to drive premiumisation
- Oral care remained a laggard and continued to lose market share due to competition. However, the company remains committed to the revival of the category and re-launched Close up with a new campaign
- The tax rate for HUL is expected to come down by 50 bps for FY18E on account of commencement of Assam factory and R&D spends
- FY18 capex is expected to be on the higher side considering some residual capex from investments in Assam plant
- Dividend payout for FY17 stood at ~95%

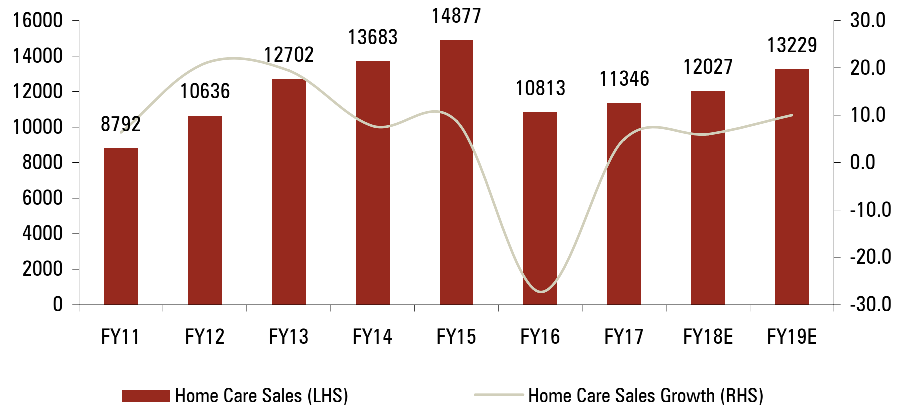
Company Analysis

Volume growth coupled with premiumisation to aid home care revenue

The home care segment is the second highest contributor to HUL's revenues at ~34% in FY17 with EBIT margin of 11.1%, 136 bps YoY expansion. It consists of fabric wash, household care & water business of HUL. HUL's strong brands in soaps (Lifebuoy, Lux, Liril and Rexona) and detergents (Wheel, Surf Excel, Surf, Vim) aided the company's dominant position in both segments (~40% of value share in detergents & ~45% value share in soaps) over the years despite the constant tough competition from global player, P&G. Hence, despite the high penetration in the segment (~99%), S&D revenue growth of 12.5% CAGR in FY10-15 has been a mix of volume and price led growth.

Going ahead, we expect volumes to drive the home care segment coupled with realisation growth led by favourable sales mix. HUL's largest brand Surf Excel (>₹ 3000 crore in FY16) has been a key beneficiary of the growing premiumisation trend in the detergents category and has growth in double digits in FY17. To increase the penetration of Surf Excel, the company had launched a ₹ 10 pack also targeting users of low priced detergents. We expect home care revenues to grow at a CAGR of 8.0% in FY17-19E. With improving contribution of premium products in the sales mix, we believe margins from the segment would improve and, thereby, contribute more to the company's overall EBIT.

Exhibit 1: Home care revenue (₹ crore) and YoY growth (%)*



Source: Company, ICICIdirect.com Research

**Until FY15, the above chart reflects numbers of soaps & detergents segment*

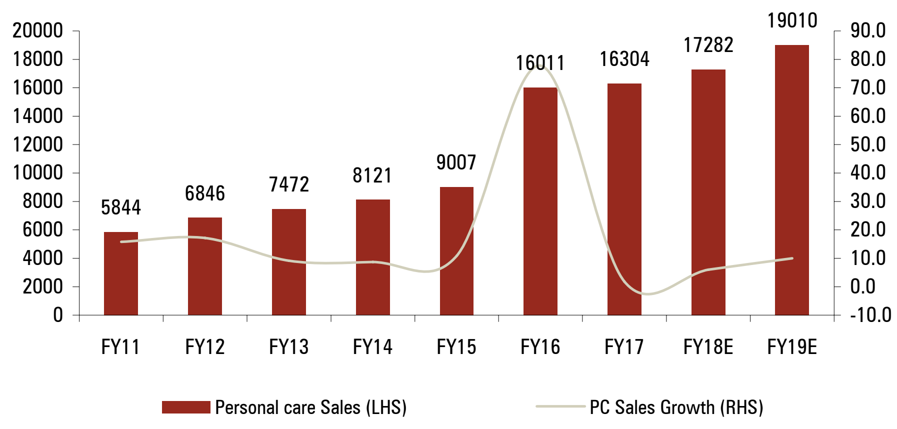
Innovative launches, continued investment on brands to drive personal care

Personal care remains the highest contributor to HUL's revenues, 48.5% in FY16 with an EBIT margin of 23.6%. From FY16 onwards, personal wash category is also a part of this segment [formerly, personal products (PP)]. HUL has a strong brand portfolio across the value pyramid (Premium - *Pond's, Axe, Dove, Close Up*; Popular - *Vaseline, Sunsilk, Pepsodent*; Mass – *Fair & Lovely, Clinic Plus*) and presence across all categories of personal care (hair care, oral care, skin care, men's grooming, cosmetics & services). We believe the company will be the key beneficiary of a revival in discretionary demand and booming personal products demand in the economy. HUL's premium hair care brand TRESemme became a ₹ 100 crore brand in FY15 further helping the company in the implementation of its premiumisation strategy. The baby care range under brand Dove, launched in Q2FY17, is also perceived well by consumers.

HUL is focusing on the natural/ayurvedic segment in the backdrop of increasing popularity and demand from the category. In sync with the strategy, it acquired Indulekha brand from Mosons Group (for ₹ 330 crore) in FY16, and is continuously increasing its geographical presence. During Q3FY17, it launched the ayurvedic personal care range under the brand Ayush, targeting the mass segment in south India. After the successful acceptance of the same in the southern market, it is planning a pan-India rollout of the same in the near future. Additionally, it has extended its existing brands and launched their herbal variants - TRESemme Botanic, Clinic Plus Ayurveda and Fair & Lovely Ayurvedic Care during the quarter.

Though the personal segment is currently under pressure due to intense competition, we expect the innovative product launches and re-launches (Close-up, Lux) and continued investment on branding to aid growth, going forward. We expect the personal care segment to post 8.0% CAGR in FY17-19E.

Exhibit 2: Personal care revenues (₹ crore) and growth (%) trend*



Source: Company, ICICIdirect.com Research

**Until FY15, the above chart reflects numbers of personal products segment*

Changing consumption habits in tea, coffee & ice creams bode well

HUL reorganised its foods & refreshments (F&R) business into two separate units viz. foods and refreshments to sharpen its focus on each of them. From FY16 onwards, the former segment of beverages, which included tea & coffee would also include ice cream & frozen desserts and be rechristened as 'refreshment'. HUL's beverage business' (tea brands: *Lipton, Taj Mahal, Red Label*; coffee brands: *Bru*) growth at 11.1% CAGR (FY10-15) has been led largely by prices following the high penetration of tea consumption in India, keeping volume growth muted. HUL is the second largest branded tea company in the country and is growing aggressively in the branded coffee business with its brand Bru. Bru coffee became market leader by volume and value in Q3FY16. HUL (*Magnum, Cornetto, Paddle Pop and Kwality Wall's*) is India's second largest player in the ice cream segment. The segment reported 8.2% revenue growth in FY17 to ₹ 4848 crore.

With India's per capita consumption of ice cream itself low at 400 ml in comparison to 1.6 litre in Indonesia and 7 litre in Brazil, we believe the segment offers huge potential for growth for the company on the back of strong brand equity of HUL's ice cream brands. Also, with increasing green tea and coffee culture in the country (home and out-of-the home) and shift of consumers to premium flavoured teas and tea bags, premiumisation would be the key revenue driver for HUL's refreshments portfolio at 9.5% CAGR (FY17-19E), going ahead.

Foods business growth expected at 9.5% CAGR in FY17-19E

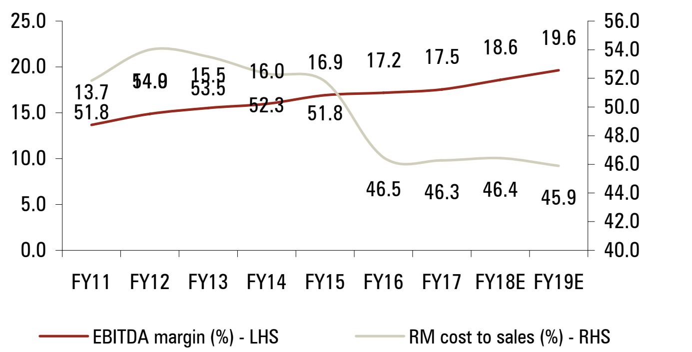
Earlier, HUL used to report its foods (Kissan, Knorr, Annapurna, Modern Foods), ice cream & frozen desserts as one segment under 'packaged foods' while from FY16 onwards, it has moved ice cream & frozen desserts under 'refreshment 'segment & exited modern foods business. The new segment is now known as 'foods'. The foods segment, the biggest opportunity for the future but the weakest performer in HUL's portfolio, posted healthy revenue growth of 21% CAGR in FY10-15 but remained a dragger on the earnings front. We believe that though HUL has strong brands in the segment, Kissan, Knorr, the company has been unable to establish itself in the higher growth segments of packaged food (noodles, dairy, biscuits), keeping earnings growth muted. However, going forward, exit from the modern food business, extension of Knorr portfolio to masalas, cooking mixes and instant soups, and launch of premium range of Kissan jams will improve the growth outlook of the segment. In FY17, it grew marginally by 2.6% in FY17 due to various unfavourable situation throughout the year – noodle crisis, hiving off of bread business, demonetisation, etc. With HUL's increasing focus on developing its foods portfolio while driving premiumisation, we expect foods revenue growth at 9.5% CAGR (FY17-19E).

Operating margin expansion on the cards for company

We believe that in sync with the global parent's outlook on margin expansion, HUL's margin will also improve led by premiumisation and thrust on rationalisation of marketing expense. The company is taking initiatives for effective and efficient marketing spends by rationalising on campaigns and media platforms. We are thus, factoring in ~100 bps reduction in advertisement to 9.2% of net sales in FY19E. Additionally, the company is focused on premium play across segments. Premium brands like Surf, Dove, TRESemme, Vim Liquid, Bru Gold will continue to drive growth for the company. Additionally, HUL expects uptrading by customers to further aid volume growth of premiumisation products. Thus, we expect the company to report EBITDA CAGR of 15.5% in FY17-19E with operating margin expansion of 210 bps to 19.6% in FY19E.

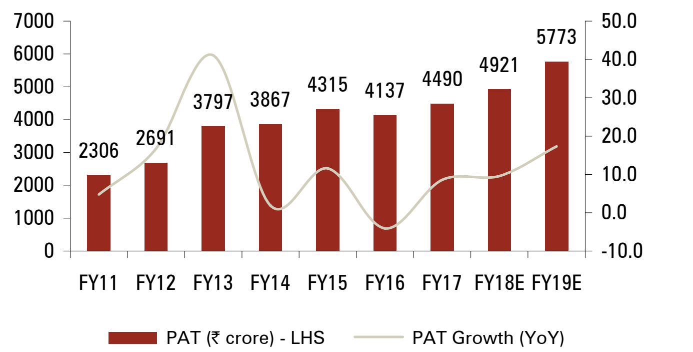
Further, HUL's effective tax rate has increased over the years from ~17% in CY07 to 30.3% in FY15 and 30.4% in FY16 as a result of phasing out of tax benefits. However, going ahead, with tax benefits arising from the newly commissioned Assam plant, the company's tax rate would be at 29%. Thus, we are factoring in 13.4% CAGR in earnings of the company in FY17-19E.

Exhibit 3: EBITDA margin and raw material trend



Source: Company, ICICIdirect.com Research

Exhibit 4: PAT to grow at CAGR of 13.4% over FY17-19E



Source: Company, ICICIdirect.com Research

Outlook & valuation

HUL's key growth driver would be the company's presence across the value pyramid across segments. Also, with HUL's increasing focus towards premiumisation (launch of liquid detergents, Magnum, *Sunsilk* Keratin range, TRESemme, Lipton Green Tea, *Bru* Gold, flavoured tea bags, etc), we believe revenue and margins would continue to remain healthy with a revival in discretionary demand.

HUL's home care growth would be driven by a mix of volume & realisation growth on the back of premiumisation especially in the detergents. We expect home care revenue growth at 8.0% CAGR (FY17-19E). For personal care, we believe higher innovation and premiumisation, supported by brand investment, would drive the personal care segment. Hence, we estimate revenue growth at 8.0% CAGR (FY17-19E) for personal care. Led by premium tea, coffee & ice cream, the refreshment segment is estimated to grow at 9.5% CAGR (FY16-19E). The food business is also expected to register healthy growth of 9.5% (CAGR over FY16-19E) largely led by realisation growth.

HUL's Board of Directors has approved a scheme of arrangement to return ₹ 2187.3 crore (excess cash reserve) to shareholders. The company has got approval of shareholders. However, the approval of the High Court of Mumbai is still awaited. Once implemented, this move by the company is expected to drive the efficiency of the balance sheet and significantly improve return ratios. The timeline of the corporate action is unclear as the court approval is still pending.

We remain confident about the company's commitment towards growth led by innovation, volume growth, premiumisation and, thus, market share gains. We are revising our revenue estimates marginally upwards by 1.2% for FY19E. However, led by the company's initiatives to improve EBITDA margin through improving sales mix and cost rationalisation, we have revised our EBITDA estimates upwards by 10.9% and 17.1% for FY18E and FY19E (in Ind-As. Thus, our EPS estimates are also getting revised upwards by 4.2% and 9.6%, for FY18E and FY19E, respectively. We are estimating revenue and PAT CAGR of 9.2% and 13.4% in FY17-19E with 210 bps margin expansion at 19.6% in FY19E. We reiterate our BUY recommendation on the stock, with a revised target price of ₹ 1120/share valuing it at 42x FY19E EPS of ₹ 26.7.

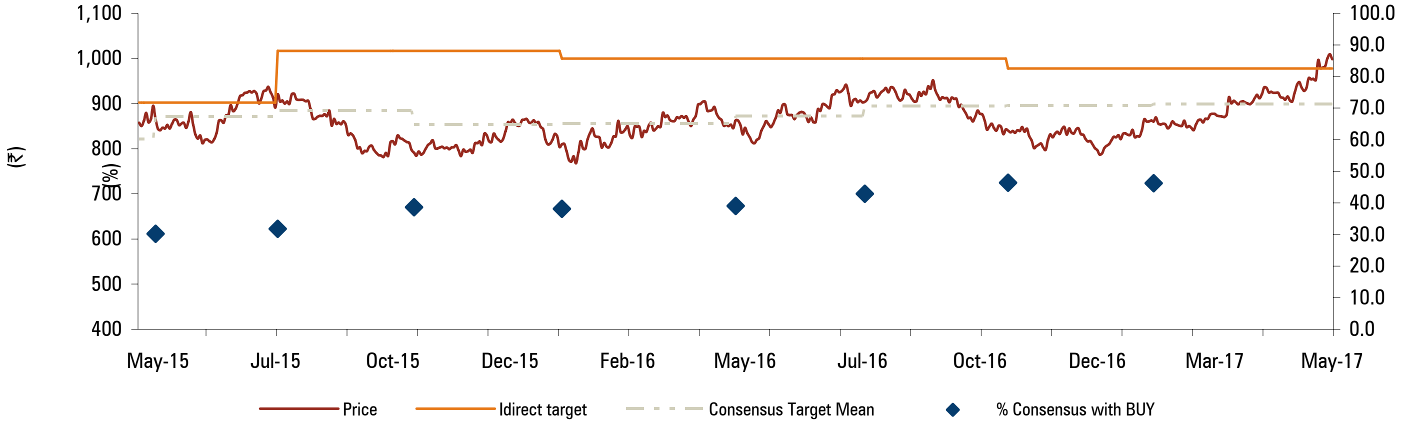
Exhibit 5: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	32929.0	9.1	19.2	-4.0	52.7	37.4	66.2	74.7
FY17	33895.0	2.9	20.8	8.5	48.6	35.8	66.6	74.9
FY18E	36659.7	8.2	22.8	9.6	44.3	31.2	66.7	82.2
FY19E	40390.1	10.2	26.7	17.3	37.8	26.6	69.0	85.6

Source: Company, ICICIdirect.com Research

**From FY16 onwards, financials are reported as per Ind AS*

Recommendation history vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

	Event
Feb-10	Launches 'Must Win, 2010' programme involving strategic pricing & huge distribution push to mop up the company's falling performance
Dec-10	Though profit growth remains moderate at 15%, the stock posts a return of ~28% following strong volume growth and marketing initiatives of HUL
Q4FY11	Soaps & detergents margins get dented drastically due to exceptional increase in input (LAB) costs leading the stock to correct ~21% from January-March, 2011
Q1FY12	Hikes prices (5-8% overall & ~21% in S&D) to pass on input cost inflation. Gains market share from unorganised players with rising input costs
H1FY13	from April, 2013) mirroring the FMCG Index as defensives were the safest bet in the market considering the slowing economic scenario
H2FY13	Stock declines ~12% led by consistent weakness in volume growth (low sigle digits)
Apr-13	Unilever announces open offer at ₹ 600/share to increase its stake in HUL to 75% from 52.5%
Jul-13	The stock soars ~12% on account of FTSE and MSCI re-balancing post the closure of open offer
Oct-14	Volume growth remains subdued at 4% as urban discretionary demand remain dismal
Dec-14	Commodity prices including palm oil, crude and related derivatives witness significant decline
Sep-15	HUL divests its bread and bakery business under the brand 'Modern' to Nimman Foods Private Ltd., an investee company of the Everstone Group
Dec-15	HUL signs an agreement with Mosons Group to acquire Indulekha, a premium Ayurvedic hair oil brand, for a consideration of ₹ 330 crore
Mar-16	HUL signs an agreement for sale of its rice exports business to LT Foods for a consideration of ₹ 25 crore

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Unilever PLC	31-Mar-17	55.54	1,202.0	0.0
2	Brooke Bond Group, Ltd.	31-Mar-17	4.93	106.7	0.0
3	Unilever UK & CN Holdings, Ltd.	31-Mar-17	2.78	60.1	0.0
4	Brooke Bond South India Estates, Ltd.	31-Mar-17	2.44	52.7	0.0
5	Life Insurance Corporation of India	31-Mar-17	1.66	35.9	2.4
6	Brooke Bond Assam Estates, Ltd.	31-Mar-17	1.52	32.8	0.0
7	Aberdeen Asset Management (Asia) Ltd.	31-Mar-17	1.09	23.5	0.3
8	The Vanguard Group, Inc.	31-Mar-17	0.99	21.4	0.2
9	BlackRock Institutional Trust Company, N.A.	30-Apr-17	0.89	19.3	0.5
10	Aberdeen Asset Managers Ltd.	31-Mar-17	0.70	15.1	1.1

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	67.2	67.2	67.2	67.2	67.2
FII	14.2	14.4	14.2	13.1	13.3
DII	4.8	5.0	5.2	5.8	5.7
Others	13.8	13.4	13.4	13.9	13.9

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Life Insurance Corporation of India	34.38m	2.45m	Lyxor Asset Management	-34.72m	-2.47m
Columbia Threadneedle Investments (US)	25.53m	1.76m	Fidelity Management & Research Company	-28.25m	-2.01m
ARISAIG Partners (Asia) Pte. Ltd.	21.82m	1.55m	Vontobel Asset Management, Inc.	-20.89m	-1.49m
Aberdeen Asset Managers Ltd.	15.1m	1.07m	L&T Investment Management Limited	-12.27m	-0.98m
BlackRock Institutional Trust Company, N.A.	6.9m	0.47m	Norges Bank Investment Management (NBIM)	-11.59m	-0.95m

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Total operating Income	33491.0	34487.0	37268.7	41098.4
Growth (%)	8.7	3.0	8.1	10.3
Raw Material Expenses	15,305.0	15,685.0	17,024.6	18,540.3
Employee Expenses	1,573.0	1,620.0	1,691.8	1,864.0
Marketing Expenses	3,600.0	3,470.0	3,552.9	3,728.0
Administrative Expenses	0.0	0.0	2,165.6	2,385.9
Other expenses	4,834.0	5,068.0	3,085.9	3,399.9
Total Operating Expenditure	27,742.0	28,440.2	30,343.6	33,028.2
EBITDA	5749.0	6046.8	6925.1	8070.2
Growth (%)	10.4	5.2	14.5	16.5
Depreciation	321.0	396.0	326.5	341.7
Interest	15.0	22.0	0.0	0.0
Other Income	564.0	526.0	331.8	401.8
Exceptional Income	-30.8	241.1	0.0	0.0
PBT	5,946.2	6,396.4	6,930.4	8,130.3
Total Tax	1,809.0	1,906.0	2,009.8	2,357.8
PAT	4137.2	4490.4	4920.6	5772.5
Growth (%)	-4.1	8.5	9.6	17.3
EPS (₹)	19.2	20.8	22.8	26.7

Source: Company, ICICIdirect.com Research

**From FY16 onwards, financials are reported as per Ind AS*

Cash flow statement				₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E
Profit after Tax	4,137.2	4,490.4	4,920.6	5,772.5
Add: Depreciation	321.0	396.0	326.5	341.7
(Inc)/dec in Current Assets	-229.0	-981.0	-400.3	-848.3
Inc/(dec) in CL and Provisions	-2,130.8	548.0	634.1	797.2
CF from operating activities	2098.4	4453.4	5480.9	6063.1
(Inc)/dec in Investments	203.1	77.0	-100.0	-100.0
(Inc)/dec in loans & advances	296.5	-94.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	-684.4	-1,323.0	-297.0	-100.0
Others	-109.1	78.0	-412.2	12.7
CF from investing activities	-293.9	-1262.0	-834.2	-212.3
Issue/(Buy back) of Equity	-0.3	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	0.0	-4,139.5	-4,277.9	-4,781.2
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	19.6	-1,500.0	0.0	0.0
CF from financing activities	19.3	-5639.5	-4277.9	-4781.2
Net Cash flow	1,823.7	-2,448.1	368.9	1,069.7
Opening Cash	2,537.6	4,361.3	1,913.2	2,282.0
Closing Cash	2759.0	1671.0	2282.0	3351.7

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Liabilities				
Equity Capital	216.0	216.0	216.0	216.0
Reserve and Surplus	6,063.0	6,274.0	7,158.9	8,150.2
Total Shareholders funds	6,279.0	6,490.0	7,374.9	8,366.2
Other Non Current Liabilities	395.0	574.0	574.0	574.0
Long Term Provisions	594.0	485.0	73.8	86.6
Total Liabilities	7268.0	7549.0	8022.7	9026.8
Assets				
Gross Block	5,064.7	6,212.7	6,712.7	6,812.7
Less: Acc Depreciation	2,162.7	2,558.7	2,885.2	3,227.0
Net Block	2,902.0	3,654.0	3,827.5	3,585.7
Capital WIP	386.0	203.0	0.0	0.0
Total Fixed Assets	3,288.0	3,857.0	3,827.5	3,585.7
Net Intangible Assets	12.0	370.0	370.0	370.0
Other Investments	451.0	374.0	474.0	574.0
Liquid Investments	0	0	0	0
Inventory	2,528.0	2,362.0	2,510.9	2,766.4
Debtors	1,064.0	928.0	1,104.8	1,217.2
Loans and Advances	162.0	196.0	200.9	221.3
Investments & Other CA	740.0	931.0	1,004.4	1,106.6
Cash	2,759.0	1,671.0	2,282.0	3,351.7
Total Current Assets	9,714.0	9,607.0	10,618.3	12,536.3
Creditors	5,498.0	6,006.0	6,528.4	7,192.8
Provisions & other CL	1,154.0	1,194.0	1,305.7	1,438.6
Total Current Liabilities	6,652.0	7,200.0	7,834.1	8,631.3
Net Current Assets	3,062.0	2,407.0	2,784.2	3,905.0
Others Non-Current Assets	455.0	541.0	566.0	591.0
Application of Funds	7268.0	7549.0	8022.7	9026.8

Source: Company, ICICIdirect.com Research

**From FY16 onwards, financials are reported as per Ind AS*

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Per share data (₹)				
EPS	19.2	20.8	22.8	26.7
Cash EPS	20.6	22.6	24.3	28.3
BV	29.1	30.0	34.1	38.7
DPS	16.0	17.0	19.0	22.5
Cash Per Share	12.8	7.7	10.6	15.5
Operating Ratios (%)				
EBITDA/Total Operating Income	17.2	17.5	18.6	19.6
PBT Margin	17.8	17.8	18.6	19.8
PAT Margin	12.4	13.0	13.2	14.0
Inventory days	28	25	25	25
Debtor days	12	10	11	11
Creditor days	61	65	65	65
Return Ratios (%)				
RoE	66.2	66.6	66.7	69.0
RoCE	74.7	74.9	82.2	85.6
Valuation Ratios (x)				
P/E	52.7	48.6	44.3	37.8
EV / EBITDA	37.4	35.8	31.2	26.6
EV / Net Sales	6.5	6.4	5.9	5.3
Market Cap / Sales	6.6	6.4	5.9	5.4
Price to Book Value	34.7	33.6	29.6	26.1
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.0	1.1	1.1	1.1
Quick Ratio	0.7	0.8	0.7	0.7

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (FMCG)

	CMP			M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
Sector / Company	(₹)	TP(₹)	Rating	(₹ Cr)	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Colgate (COLPAL)	977	990	Hold	27,045	21.2	23.6	26.0	46.0	41.5	38.0	6.0	5.5	5.0	64.1	71.4	70.4	45.3	50.2	49.3
Dabur India (DABIND)	276	305	Hold	50,368	7.2	7.5	8.0	38.1	36.9	38.0	6.5	6.1	5.6	28.0	25.6	25.5	26.4	23.4	22.6
GSK CH (GLACON)	5,324	6,074	Buy	22,079	156.1	176.3	199.2	34.1	30.2	30.5	5.0	4.4	3.8	30.8	30.3	31.3	21.0	21.2	21.7
Hindustan Unilever (HINLEV)	1,009	1,100	Buy	216,086	20.8	22.8	26.7	48.6	44.3	41.2	6.4	5.9	5.3	74.9	82.2	85.6	66.6	66.7	69.0
ITC Limited (ITC)	282	300	Buy	347,639	8.5	9.6	10.4	33.3	29.4	28.9	6.4	6.0	5.3	44.4	49.0	50.3	31.0	34.6	35.4
Jyothy Lab (JYOLAB)	382	397	Buy	6,690	8.8	10.9	13.3	43.2	35.1	29.9	4.0	3.5	3.2	16.4	17.8	22.8	14.7	17.4	20.0
Marico (MARLIM)	308	341	Hold	40,641	6.3	6.9	8.4	48.9	44.6	40.4	6.9	5.9	5.0	44.6	45.1	49.4	34.9	34.6	37.7
Nestle (NESIND)	6,558	7,420	Buy	63,637	103.9	133.4	154.5	63.1	49.2	48.0	6.8	5.9	5.3	34.9	36.7	44.3	36.2	40.0	44.1
Tata Global Bev (TATGLO)	153	147	Hold	9,041	8.2	8.8	9.4	18.6	17.4	15.7	1.3	1.2	1.1	9.5	9.9	10.1	8.0	8.7	8.7
VST Industries (VSTIND)	2,958	3,320	Hold	4,790	108.3	127.1	150.8	27.3	23.3	22.0	5.1	4.5	4.0	45.0	47.2	49.5	31.1	32.8	34.8

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

ICICI direct.com Investments on Your Fingertips from ICICI Securities Ltd. No 1 BROKER ET STARMINE Analyst Award 2012

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

We /I, Sanjay Manyal, MBA (Finance) and Tejashwini Kumari, MBA (Finance), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securitiesis under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Manyal, MBA (Finance) and Tejashwini Kumari, MBA (Finance), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.
It is confirmed that Manyal, MBA (Finance) and Tejashwini Kumari, MBA (Finance), Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

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 ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.