

June 5, 2017

## Hindustan Unilever (HINLEV)

₹ 1086

### Innovation & premiumisation remain key...

Hindustan Unilever (HUL) hosted its Annual Investor Meet on June 2, 2017 where the company reiterated its positive outlook on the long term consumption story of India driven by urbanisation and premiumisation. The key thrusts for the company remain on a) strengthening the core portfolio, b) continuous innovation across categories, c) premiumisation, d) market development – both in terms of low penetrated products as well as creating need for future categories, e) strong focus on the natural's segment and f) touching lives of consumers with a differentiated content across media platforms. We remain confident about the company's commitment towards growth led by innovation, volume growth, premiumisation and, thus, market share gains. We are keeping our estimates intact with revenue and 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 maintain our target price for HUL at ₹ 1120/share, valuing it at 42x FY19E EPS of ₹ 26.7. However, with the run up in the stock price after our last result update, we revise our recommendation to HOLD.

#### Key takeaways from the analyst meet

- HUL outlined the key thrust areas for growth, which included a) focus on core brands through increasing penetration and innovation, b) build brands with purpose and focus marketing content on that, c) continued investment in market development, d) addressing needs of all consumers, simultaneously driving up-trading and premiumisation and e) strengthening naturals' portfolio with - natural brands like *Lever Ayush*, *Indulekha* and *Citra* and through brand extension into ayurvedic products
- It continued to stress upon the Winning in Many Indias (WiMI) through focusing on a) cluster specific content, communication & schemes and b) effective coverage and assortment of products in stores. Additionally, it is investing in building channels of future, i.e. modern trade and e-commerce, where it enjoys higher share than general trade. It has also set up cross functional teams [cross country business teams (CCBT)], which are customer centric and focused on driving bigger innovations at a faster rate. Launch of *Lever Ayush*, *Baby Dove*, *Citra* and ayurvedic variants in existing brands are the successful stories of CCBT
- GST is welcomed by the company and preparedness of the same is under way. The company believes it will be passing on all benefits of the differential tax under GST. Additionally, ahead of GST implementation, traders are thinning the inventory with them. Hence, to keep the impact minimal, the company will be compensating traders. At present, credit on closing stock for the channel is likely to be just 40% of CGST which may impact the margins for the traders. However, clarity on net benefits with GST implementation is still awaited

#### Exhibit 1: Continues to build bigger brands

Size	Brands
₹ 2000 crore + brands	Lifebuoy, Surf excel, Rin, Brook Bond, Wheel, Fair & Lovely
₹ 1000 crore + brands	Lux, clinic Plus, Vim, Pond's, Dove
₹ 500 crore + brands	Sunsilk, Vaseline, Pears, Close-Up, Kissan, Bru, Lakme, Kwality Walls

Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Hold
Target	: ₹ 1120
Target Period	: 12 months
Potential Upside	: 3%

What's changed?	
Target	Unchanged
EPS FY18E	Unchanged
EPS FY19E	Unchanged
Rating	Changed from Buy to Hold

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	56.7	52.3	47.7	40.7
Target P/E	58.5	53.9	49.2	41.9
Div. Yield	1.5	1.6	1.7	2.1
Mcap/Sales	7.1	6.9	6.4	5.8
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)	234,662.4
Total Debt (FY17) (₹ Crore)	0.0
Cash and Investments (FY17) (₹ Crore)	5,190.0
EV (₹ Crore)	229,472.4
52 week H/L	1101 / 783
Equity capital	₹ 216 crore
Face value	₹ 1
FII Holding (%)	14.2
DII Holding (%)	5.2

Price performance				
Return %	1M	3M	6M	12M
HUL	17.0	23.9	30.5	25.1
ITC	14.6	20.6	39.7	33.8
GCPL	2.3	13.2	25.5	17.9
Colgate	-0.3	15.1	10.8	19.0

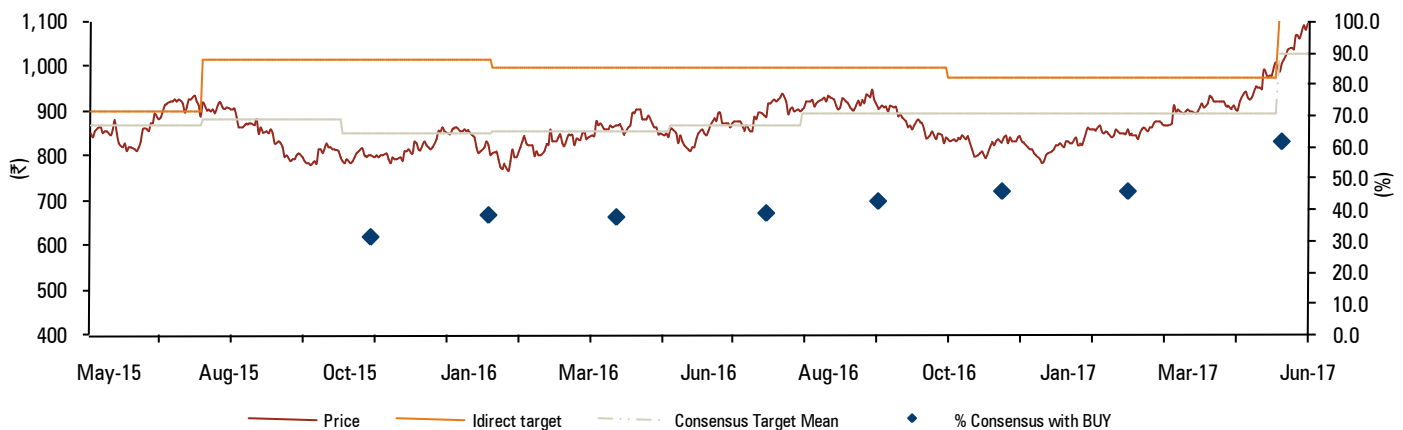
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*Only 1 in 10 washes uses a HUL premium laundry powder – uptrading is a huge opportunity for HUL in detergent category*

*HUL's products are present at all price points across markets/segments ranging from ₹ 1 Clinic Plus sachet to ₹ 432 Indulekha hair oil*

- In the home care segment, HUL's four focus areas are:
  - a) Innovate for premiumisation – charging premium for additional/innovative benefit, e.g. re-launch of *Rin bar* with new technology, which saves water and *Vim Extra* with Pudhina for fragrance
  - b) Strengthening of the core – market share improvement in *Wheel* through launch of *Wheel 2-in-1* detergent with additional benefits
  - c) Developing formats of the future and simultaneously educate customers about the same and increase the penetration of those them through sampling, e.g. development of products such as fabric conditioner and dishwash liquid
  - d) Improving profitability of the segment through various savings and savings and better product mix
- In the personal care segment, the company highlighted headroom for growth across categories & segments. When compared to Indonesia, India has headroom to grow 2x+ in categories like personal wash, face creams, shampoo, deodorants and toothpastes, if the country's per capita consumption level matches to that of Indonesia. HUL outlined the key thrust areas in line with company's overall strategy. Its focus remains on a) making core brands aspirational, b) accelerate premiumisation & develop market and c) enhance focus and presence in the growing ecommerce and digital market. Additionally, the focus on natural portfolio and entry in the emerging segment of baby products through the brand Dove also provides huge growth opportunity (baby products market is estimated at over ₹1000 crore)
- In the refreshment segment, HUL commands leading position in tea and coffee and second position in the ice-cream & frozen desserts segment and is consistently growing ahead of the market. The under penetrated market gives the company a huge opportunity. In the segment company's strategies remains same of strengthening the core brands & innovate premium products coupled with market development and increased accessibility through smaller packs
- In foods segment, HUL enjoys No.1 position in ketchup, jams and soups and have grown in double digit in the past five years. In the segment, the focus of the company remains on a) strengthening core portfolio – ketchups, soups and jams – through increasing penetration (penetration difference between urban and other areas is huge), b) innovations, with focus on convenience of cooking and eating, providing consumers the taste of international cuisines and having products with health and wellness benefits. In addition to this, sampling, access packs and building consumer relevance through partnering with related food item (e.g. partnered Britannia for jam sampling) has aided company in driving penetration and would continue in the future

## 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 single 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	56.7	52.3	47.7	40.7	
EV / EBITDA	40.3	38.5	33.6	28.7	
EV / Net Sales	7.0	6.9	6.3	5.7	
Market Cap / Sales	7.1	6.9	6.4	5.8	
Price to Book Value	37.4	36.2	31.8	28.0	
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)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Colgate (COLPAL)	1,026	990	Hold	27,045	21.2	23.6	26.0	48.3	43.6	38.0	6.0	5.5	5.0	64.1	71.4	70.4	45.3	50.2	49.3
Dabur India (DABIND)	285	305	Hold	50,368	7.2	7.5	8.0	39.3	38.0	38.0	6.5	6.1	5.6	28.0	25.6	25.5	26.4	23.4	22.6
GSK CH (GLACON)	5,415	6,074	Buy	22,079	156.1	176.3	199.2	34.7	30.7	30.5	5.0	4.4	3.8	30.8	30.3	31.3	21.0	21.2	21.7
Hindustan Unilever (HINLEV)	1,086	1,120	Buy	234,662	20.8	22.8	26.7	52.3	47.7	41.9	6.9	6.4	5.8	74.9	82.2	85.6	66.6	66.7	69.0
ITC Limited (ITC)	319	345	Buy	375,476	8.4	10.3	11.6	38.0	31.0	29.6	6.8	6.3	5.6	32.9	46.9	48.7	22.5	32.9	34.1
Jyothy Lab (JYOLAB)	366	397	Hold	6,751	11.1	10.7	12.7	32.9	34.1	31.3	4.0	3.6	3.2	28.1	29.0	30.5	30.9	27.1	28.0
Marico (MARLIM)	322	341	Hold	40,641	6.3	6.9	8.4	51.1	46.7	40.4	6.9	5.9	5.0	44.6	45.1	49.4	34.9	34.6	37.7
Nestle (NESIND)	6,649	7,420	Buy	63,637	103.9	133.4	154.5	64.0	49.8	48.0	6.8	5.9	5.3	34.9	36.7	44.3	36.2	40.0	44.1
Tata Global Bev (TATGLO)	155	147	Hold	9,186	7.2	7.7	8.2	21.5	20.1	18.0	1.4	1.3	1.2	8.8	9.1	9.3	7.2	7.7	7.8
VST Industries (VSTIND)	3,085	3,320	Hold	4,790	108.3	127.1	150.8	28.5	24.3	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**

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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;



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