

HINDUSTAN UNILEVER

Strong show despite GST headwind

India Equity Research | Consumer Goods

Hindustan Unilever (HUL) reported in-line Q1FY18 revenue growth of 4.9% YoY, while EBITDA (14.1% YoY) and PAT (14.9% YoY) growth surpassed estimates. Volumes remained flattish versus our 1-2% YoY dip estimate; this is commendable, especially in light of destocking by CSD as well as trade channel imbalance on GST rollout from July 2017. Benign raw material prices helped gross margin expand 91bps YoY and 104bps QoQ. This, coupled with cost rationalisation (ZBB strategy) and calibrated A&P spends, aided EBITDA margin jump 173bps. New launches in the natural space (launched skincare natural brand *Citra*) as well as pan-India roll out of Ayush have been successful. We envisage HUL to be key beneficiary of GST and recovery in the staples space. Maintain 'HOLD'.

Broad-based growth

Key highlights: (i) HUL's homecare segment grew 5.9% YoY on a high base of 6.8% YoY with margin also expanding 232bps YoY—highest in the past 7 quarters (premium brand *Surf* continued to outperform category growth); (ii) personal care grew at 3.5% YoY helped by spurt in relaunched *Fair & Lovely* and *Lever Ayush*, but mildly dragged by the oral care segment; (iii) refreshments continued double digit revenue growth—up 10.8% YoY aided by broad-based volume-led spurt; and (iv) foods continued to disappoint with 4.4% YoY growth, <5% growth for fifth consecutive quarter.

Q1FY18 conference call: Key takeaways

Rural growth has been a tad lower than urban growth. Rural markets continued to remain challenging. **Impact of lack of offtake in CSD channel on the quarter's sales was 2%.** HUL's growth in the personal care segment was in line with industry growth. Oral care's performance continued to remain subdued.

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

We expect HUL to be key beneficiary of share gains helped by GST. **Increased launches in the natural space and higher GST rate for herbal products are likely to boost share gains.** At CMP, the stock is trading at 40.6x FY19E. On better-than-expected Q1FY18 numbers, we revise up FY18/19E EPS 2.6%/4.2%, respectively, and also our target multiple to 44x (earlier 40x) to arrive at revised TP of INR1,253 (INR1,106 earlier). We maintain 'HOLD/SP'.

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: HUVV IN)

CMP	: INR 1,158
Target Price	: INR 1,253
52-week range (INR)	: 1,190 / 782
Share in issue (mn)	: 2,164.5
M cap (INR bn/USD mn)	: 2,506 / 38,953
Avg. Daily Vol.BSE/NSE('000)	: 1,349.8

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	6.0	2.5	(1.4)
3 months	26.9	7.9	8.1
12 months	25.6	15.5	16.3

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Financials

(INR mn)

Year to March	Q1FY18	Q1FY17	% Chg	Q4FY17	% Chg	FY17	FY18E	FY19E
Net revenues	85,290	81,282	4.9	82,130	3.8	331,620	367,163	413,286
EBITDA	18,660	16,359	14.1	16,510	13.0	63,400	74,192	88,690
Adjusted Profit	12,960	11,280	14.9	11,180	15.9	42,650	51,695	61,660
Adjusted Diluted EPS	6.0	5.2	14.9	5.2	15.9	19.7	23.9	28.5
Diluted P/E (x)						58.8	48.5	40.6
EV/EBITDA (x)						38.7	33.1	27.6
ROAE (%)						63.8	73.6	80.8

Table 1: Segmental growth and margins under IND AS

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
% sales growth (YoY)						
Home care	4.3	6.8	3.2	1.0	7.4	5.9
Personal care	1.5	2.1	(0.3)	(2.7)	8.1	3.5
Foods	10.0	4.7	2.4	0.5	2.4	4.4
Refreshment	9.2	5.4	8.4	8.1	10.5	10.8
Others	(6.1)	NM	(15.2)	(27.3)	(30.4)	(17.6)
EBIT margins (%)						
Home care	12.2	13.9	10.1	8.7	12.9	14.7
Personal care	25.7	26.2	22.9	23.1	24.1	24.7
Foods	13.5	6.4	4.9	9.4	9.5	14.4
Refreshment	16.9	16.1	14.8	14.7	16.8	18.9
Others	4.7	(4.8)	4.2	(8.5)	(2.0)	(3.6)

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)	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
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 (%)	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
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 Q1FY18 conference call: Key takeaways

Overall:

- Under volatile conditions, domestic consumer business grew at 6% with underlying volume growth remaining flat. Price growth actions from previous quarters continued.
- During the quarter, trade sentiment remained cautious, particularly in the run up to GST implementation. Despite high promotional intensity, stock pipelines remained low and varied across categories, channels and geographies.
- Rural growth has been slightly lower than urban growth. Rural markets continued to remain challenging. In the near term, the company expects rural demand to improve gradually. Affordable housing will go up which is likely to improve rural wages and hence consumption.
- Top priority is to build trade stocks to normative levels over the next few months.

- HUL is already profit accretive to Unilever and hence first objective is to increase penetration and deliver growth.

Pricing

- Expects a stream of products where prices have been reduced. This will be advertised as well.
- There has been distinct change in price vis-à-vis volume owing to changing mix.

GST

- HUL's transition to GST has been swift and smooth with no disruption.
- Geographies with higher wholesale proportion will take time to recover—wholesalers and smaller retailers have been impacted.
- No change in stock holding at the distributor level.
- Wholesalers are still figuring out compliance and will take time to return to normal buying. A few wholesalers are still sitting on the fence.
- **GST-led pricing actions have already started to land:** Output tax rate has been reduced for detergent bars, skin cleansers, toothpastes and hair oil. Output tax rate has been increased for detergent powders, hair care, skin creams, colour cosmetics and instant coffee. HUL will pass on the net benefit to consumers, as applicable. Post the rate changes, the company confirmed that there have been net benefits.
- Cut off related compensation (for 9 odd days of stock held at stockist level) will not be material.
- Aim is to restore trade pipeline on priority as well as to step-up communication to trade and advisors.
- No offtake by CSD channel for the past 45 days. However, recently a few depots have started to pick up stock. Impact of CSD sales on this quarter's sales was 2%.
- HUL has increased margins at GT or MT level wherever costs have increased.

Home care: Broad-based growth driven by premiumisation

- Q1FY18 saw strong growth across mass & premium laundry. Surf, the largest brand, maintained its robust volume led growth momentum.
- Surf continued to drive premiumisation.
- In detergents, mass markets also grew. The company will however, continue to drive premiumisation.
- Upgradation from bars to powders is likely which has been pushed by differential GST rate. However, dosage control and washing machine penetration will also need to be seen and will help enhance growth. Bars within detergents is ~40%. This percentage has remained at this level for over 3-4 years now.
- However, the water business witnessed a muted quarter due to lower trade purchases and destocking before GST implementation. This business will come back once the trade channel restores.
- Margin track record of this category has been good and will continue to grow.

Personal care: Growth rebounds in personal wash and personal products

- Growth was impacted disproportionately by thinning of trade pipelines, particularly in CSD.
- Personal wash clocked broad-based growth across brands. HUL has been growing in tandem with market.
- Colour cosmetics delivered yet another quarter of robust growth.
- Fair & Lovely relaunch was well received.
- Oral care performance continued to remain subdued.
- After successful test market, the company has rolled out *Lever Ayush* nationally. It is an ayurvedic range of personal care products spanning 6 categories of skin care, soaps, hair care, hand wash, body lotions and oral care. Nation-wide primary shipments for Ayush have just started. Communication will commence after 2-3 weeks.
- HUL will incrementally focus on increasing its play in male grooming. Hence, more activities in male grooming segment are expected.

Foods & refreshments: Modest growth

- Refreshments witnessed broad-based volume-led growth. In tea, double digit growth was sustained by leveraging differentiated portfolios across different parts of India.
- Coffee, ice cream and frozen desserts also delivered a robust quarter.
- In foods, the focus continued to be on market development for the category with soups and jams driving category growth.
- Nothing much to read in improvement in foods margin.

Margin improvement sustained:

- A combination of benign raw material prices as well as reduction in promotion activity helped improve gross margin.
- Strong margin delivery aided by savings agenda. Thinking and delivering end to end savings of 6% of turnover.
- Input costs remained stable and expected to remain so in the foreseeable future as well.
- Implemented ZBB—facilitated 20bps savings in A&P. EBITDA margin improvement was helped by ZBB.
- Overall strong savings delivery continues.

Distribution reach:

- HUL will continue to drive direct distribution.

Capex & tax rate

- Factory at Assam is still ramping up.

Management comment

- In light of GST implementation, HUL worked closely with all key shareholders including industry associations, the government and trade partners to prepare for smooth transition. Both growth and margin improvement were delivered through a combination of sustained innovation, a comprehensive savings programme and relentless focus on execution in market place.

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, deepening direct reach and product innovation initiatives. Despite tough market conditions with GST rollout from July 2017, it efficiently managed volumes. Pricing growth has largely returned, which along with pick up in volumes will help boost overall growth to double digits. Also, GST will help create a level playing field, rendering a large organised player like HUL the biggest beneficiary. However, it will face some short-term pressure till the time trade channel imbalances are ironed out. Cost savings and mix improvement are bound to spur margins structurally—HUL's margin has improved in the past 6 consecutive years. Margin, going forward, is expected to further improve helped by cost 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 is also likely to see some impact of the same.

HUL has taken cognisance of the rising potential in the natural space and labeled it a mega trend. Launch of the *Ayush* master brand in the mass segment across categories like toothpaste, facewash, shampoo, conditioner, etc., is envisaged to propel growth. However, Patanjali's aggression, especially in core segments of soaps & detergents, needs to be closely monitored. On account of better-than-expected Q1FY18 numbers, we revise up our EPS 2.6%/4.2% for FY18/19E, respectively, and also our target multiple to 44x (earlier 40x) to arrive at revised TP of INR1,253. We maintain '**HOLD/SP**'.

Chart 1: Overall volume growth

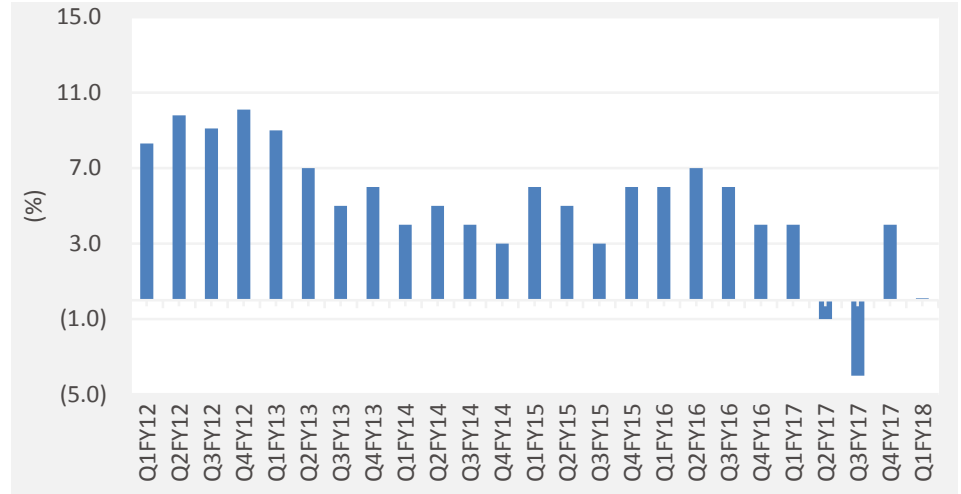


Chart 2: A&P spends

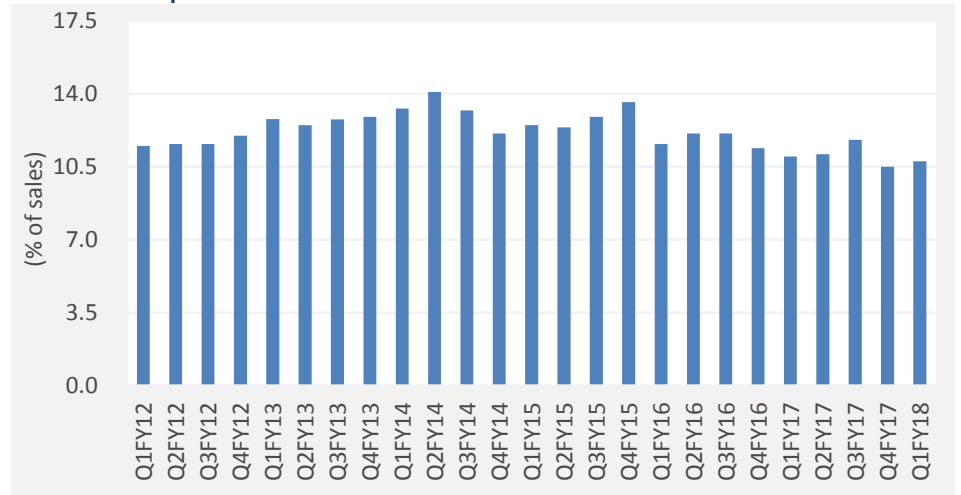
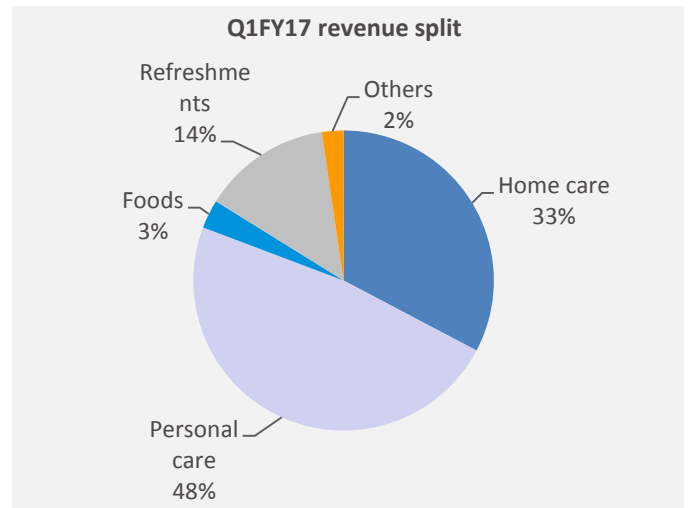
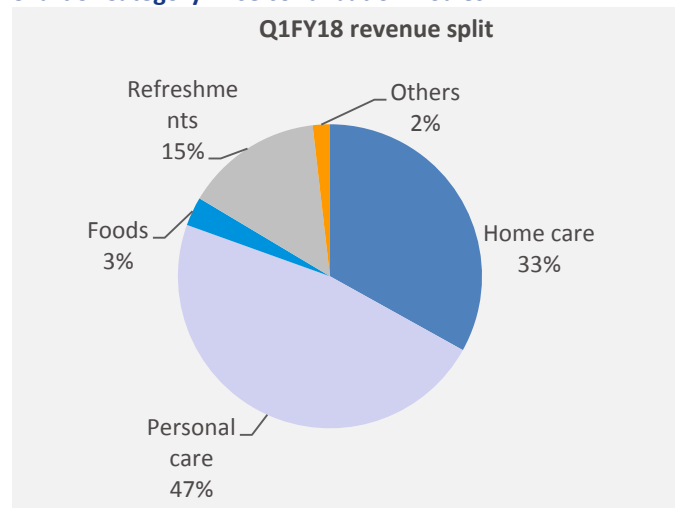
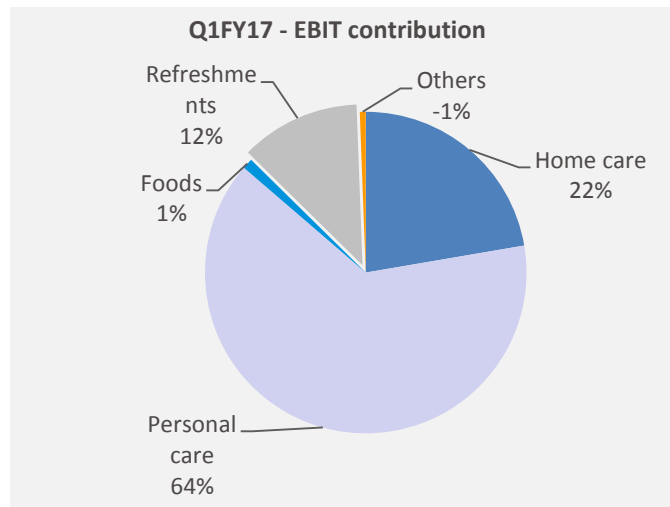
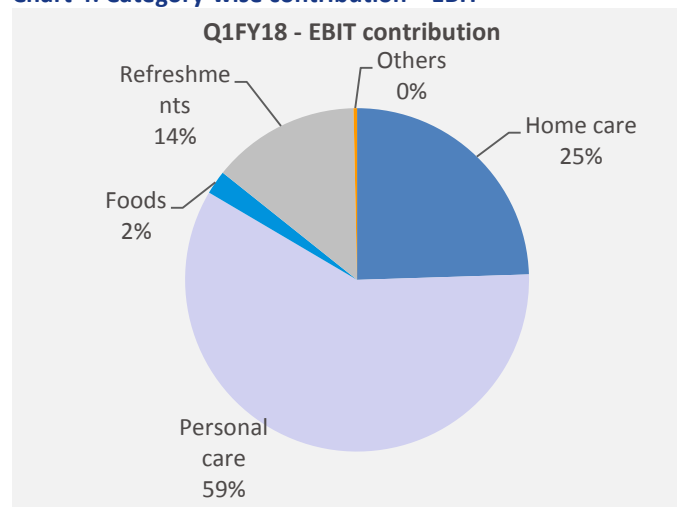


Chart 3: Category-wise contribution—Sales



Source: Company, Edelweiss research

Chart 4: Category-wise contribution—EBIT



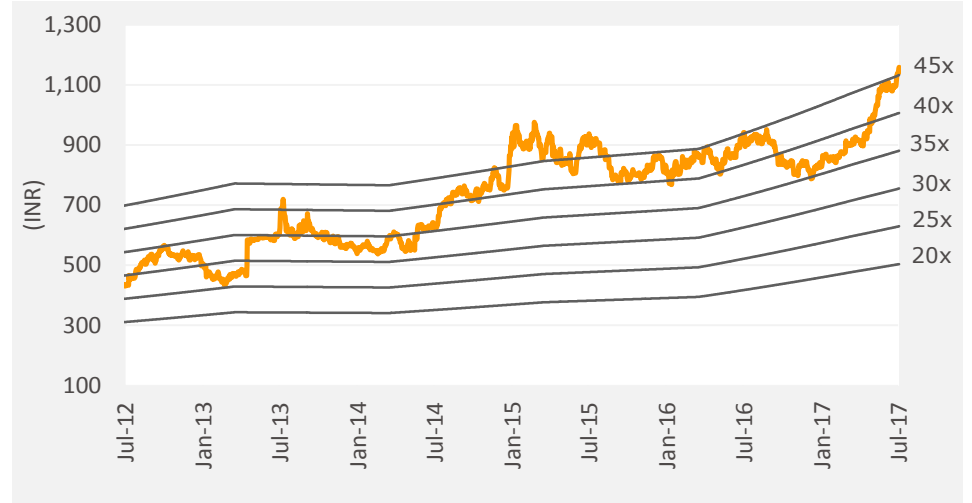
Source: Company, Edelweiss research

Table 3: Segmental performance

Year to March - Revenues (INR mn)	Q1FY18	Q1FY17	YoY growth	Q4FY17	QoQ growth
Home care	30,470	28,760	5.9	30,040	1.4
Personal care	43,680	42,220	3.5	40,750	7.2
Foods	2,840	2,720	4.4	2,950	(3.7)
Refreshments	13,460	12,150	10.8	13,000	3.5
Others (includes exports, infant and feminine care etc)	1,680	2,040	(17.6)	2,010	(16.4)
Segment results (Profit/(Loss) before tax and interest)					
Home care	4,480	3,560	25.8	3,890	15.2
Personal care	10,790	10,214	5.6	9,840	9.7
Foods	410	170	141.6	280	46.4
Refreshments	2,550	1,921	32.8	2,190	16.4
Others (includes exports, infant and feminine care etc)	(60)	(95)	NA	(40)	NM
Segment margins					
Margin (%)					
Home care	14.7	12.4	232	12.9	175
Personal care	24.7	24.2	51	24.1	56
Foods	14.4	6.2	820	9.5	495
Refreshments	18.9	15.8	314	16.8	210
Others (includes exports, infant and feminine care etc)	(3.6)	(4.6)	NM	(2.0)	NM

Source: Company, Edelweiss research

Chart 5: One year forward P/E chart



Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net revenues	85,290	81,282	4.9	82,130	3.8	331,620	367,163	413,286
Cost of goods sold	40,840	39,555	3.2	40,220	1.5	163,130	178,784	198,544
Gross profit	44,450	41,727	6.5	41,910	6.1	168,490	188,379	214,742
Staff costs	4,190	4,265	(1.8)	3,880	8.0	17,430	19,092	21,078
Advt. sales & promotions	9,050	8,798	2.9	8,530	6.1	35,420	38,185	42,569
Other expenses	12,550	12,306	2.0	12,990	(3.4)	52,240	56,910	62,406
Total expenditure	25,790	25,368	1.7	25,400	1.5	105,090	114,188	126,052
EBITDA	18,660	16,359	14.1	16,510	13.0	63,400	74,192	88,690
Depreciation	1,140	933	22.2	1,080	5.6	4,320	4,537	4,943
EBIT	17,520	15,426	13.6	15,430	13.5	59,080	69,654	83,747
Other income	1,130	1,076	5.0	830	36.1	3,690	5,060	5,299
Interest	60	60	0.8	60	0.0	350	150	120
Add: Prior period items								
Add: Exceptional items	(130)	459	NA	650	NA	2,370	-	-
Profit before tax	18,590	16,442	13.1	16,200	14.8	62,420	74,564	88,925
Provision for taxes	5,630	5,162	9.1	5,020	12.2	19,770	22,742	27,122
Minority interest	-	-		-		-	127	143
Associate profit share								
Reported net profit	12,830	11,739	9.3	11,830	8.5	45,020	51,695	61,660
Adjusted Profit	12,960	11,280	14.9	11,180	15.9	42,650	51,695	61,660
Diluted shares (mn)	2,164	2,164		2,164		2,164	2,164	2,164
Adjusted Diluted EPS	6.0	5.2	14.9	5.2	15.9	19.7	23.9	28.5
Diluted P/E (x)						58.8	48.5	40.6
EV/EBITDA (x)						38.7	33.1	27.6
ROAE (%)						63.8	73.6	80.8
As % of net revenues								
COGS	48.6	49.5		49.7		50.4	49.9	49.1
Employee cost	5.0	5.3		4.8		5.4	5.3	5.2
Adv. & sales promotions	10.8	11.0		10.5		10.9	10.6	10.5
Other expenditure	14.9	15.4		16.0		16.1	15.9	15.4
EBITDA	22.2	20.5		20.4		19.6	20.7	22.0
EBIT	20.9	19.3		19.0		18.3	19.4	20.7
PBT	22.1	20.6		20.0		19.3	20.8	22.0
Reported net profit	15.4	14.1		13.8		13.2	14.4	15.3
Tax rate	30.3	31.4		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	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
Company				
Volume gr. (overall)	6.0	1.0	5.0	7.0
Pricing gr. (overall)	(1.9)	2.2	5.6	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	20.7	22.0
EBITDA margin assumpn				
Oil fat resin % of COGS	9.8	11.1	10.6	10.6
Chem & perfume % of COGS	30.2	32.9	31.0	31.2
Tea & Grn leaf % of COGS	10.1	9.7	8.9	9.0
Selling & distribn costs	15.2	15.8	15.5	15.1
A&P as % of sales	11.6	10.9	10.6	10.5
Employee cost (% of rev)	5.3	5.4	5.3	5.2
Financial assumptions				
Tax rate (%)	31.0	31.7	30.5	30.5
Capex (INR mn)	7,060	15,000	7,410	7,000
Debtor days	13	13	14	14
Inventory days	64	59	61	63
Payable days	129	133	130	130
Cash conversion cycle	(52)	(61)	(55)	(53)
Dep. (% gross block)	6.3	6.4	5.8	5.8
Yield on cash	6.9	6.6	9.0	10.0

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	314,610	323,670	358,577	404,014
Other Operating Income	7,250	7,950	8,586	9,273
Total operating income	321,860	331,620	367,163	413,286
Materials costs	158,670	163,130	178,784	198,544
Gross profit	163,190	168,490	188,379	214,742
Employee costs	16,800	17,430	19,092	21,078
Other Expenses	49,630	52,240	56,910	62,406
Ad. & sales costs	36,560	35,420	38,185	42,569
EBITDA	60,200	63,400	74,192	88,690
Depreciation	3,530	4,320	4,537	4,943
EBIT	56,670	59,080	69,654	83,747
Add: Other income	4,230	3,690	5,060	5,299
Less: Interest Expense	170	350	150	120
Add: Exceptional items	(310)	2,370	-	-
Profit Before Tax	60,730	62,420	74,564	88,925
Less: Provision for Tax	18,750	19,770	22,742	27,122
Less: Minority Interest	90	-	127	143
Reported Profit	41,580	45,020	51,695	61,660
Exceptional Items	(310)	2,370	-	-
Adjusted Profit	41,890	42,650	51,695	61,660
Shares o /s (mn)	2,164	2,164	2,164	2,164
Adjusted Basic EPS	19.4	19.7	23.9	28.5
Diluted shares o/s (mn)	2,165	2,165	2,165	2,165
Adjusted Diluted EPS	19.4	19.7	23.9	28.5
Adjusted Cash EPS	21.0	21.7	26.0	30.8
Dividend per share (DPS)	15.5	16.5	17.9	21.4
Dividend Payout Ratio(%)	96.6	95.0	89.6	89.6

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Materials costs	50.4	50.4	49.9	49.1
Staff costs	5.3	5.4	5.3	5.2
Ad. & sales costs	11.6	10.9	10.6	10.5
Interest Expense	0.1	0.1	-	-
EBITDA margins	19.1	19.6	20.7	22.0
Net Profit margins	13.3	13.2	14.5	15.3

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	4.1	2.9	10.8	12.7
EBITDA	9.9	5.3	17.0	19.5
Adjusted Profit	13.7	1.8	21.2	19.3
EPS	13.7	1.8	21.2	19.3

Balance sheet (INR mn)				
As on 31st March	FY16	FY17	FY18E	FY19E
Share capital	2,164	2,164	2,164	2,164
Reserves & Surplus	63,570	65,280	70,680	77,120
Shareholders' funds	65,734	67,444	72,844	79,285
Minority Interest	200	220	347	490
Short term borrowings	1,770	2,770	2,770	2,770
Total Borrowings	1,770	2,770	2,770	2,770
Long Term Liabilities	11,330	12,260	12,260	12,260
Def. Tax Liability (net)	(1,670)	(1,700)	(1,700)	(1,700)
Sources of funds	77,364	80,994	86,521	93,105
Gross Block	59,730	74,730	81,730	88,730
Net Block	31,650	39,680	42,143	44,199
Capital work in progress	4,080	2,290	2,700	2,700
Intangible Assets	930	4,510	4,510	4,510
Total Fixed Assets	36,660	46,480	49,353	51,409
Non current investments	320	60	60	60
Cash and Equivalents	55,690	56,160	52,929	58,334
Inventories	27,260	25,410	29,879	34,269
Sundry Debtors	12,640	10,850	14,083	15,852
Loans & Advances	3,860	4,590	4,590	4,590
Other Current Assets	9,834	11,814	11,814	11,814
Current Assets (ex cash)	53,594	52,664	60,366	66,526
Trade payable	56,850	61,860	63,676	70,714
Other Current Liab	12,050	12,510	12,510	12,510
Total Current Liab	68,900	74,370	76,186	83,224
Net Curr Assets-ex cash	(15,306)	(21,706)	(15,820)	(16,699)
Uses of funds	77,364	80,994	86,521	93,105
BVPS (INR)	30.4	31.2	33.7	36.6

Free cash flow (INR mn)				
Year to March	FY16	FY17	FY18E	FY19E
Reported Profit	41,580	45,020	51,695	61,660
Add: Depreciation	3,530	4,320	4,537	4,943
Interest (Net of Tax)	118	239	104	83
Others	(2,628)	(4,669)	173	180
Less: Changes in WC	120	(8,650)	5,886	(879)
Operating cash flow	42,480	53,560	50,624	67,745
Less: Capex	7,060	15,000	7,410	7,000
Free Cash Flow	35,420	38,560	43,214	60,745

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Hindustan Unilever	38,953	48.5	40.6	33.1	27.6	73.6	80.8
Colgate	4,537	42.8	36.9	26.9	23.0	52.6	52.0
Dabur	8,211	36.5	31.2	31.2	26.3	27.5	27.7
Godrej Consumer	10,124	41.7	34.3	30.0	24.9	24.7	26.0
ITC	53,789	29.7	26.2	19.6	17.2	28.9	29.6
Nestle Ltd	10,269	51.2	39.6	28.2	22.1	39.4	41.9
Median	-	42.3	35.6	29.1	23.9	34.1	35.8
AVERAGE	-	41.7	34.8	28.2	23.5	41.1	43.0

Source: Edelweiss research

Cash flow metrics				
Year to March	FY16	FY17	FY18E	FY19E
Operating cash flow	41,790	52,060	50,624	67,745
Investing cash flow	(2,820)	(11,730)	(7,410)	(7,000)
Financing cash flow	(38,640)	(42,140)	(46,445)	(55,339)
Net cash Flow	330	(1,810)	(3,231)	5,406
Capex	(7,060)	(15,000)	(7,410)	(7,000)
Dividend paid	(40,090)	(42,640)	(46,295)	(55,219)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	78.9	63.8	73.6	80.8
ROACE (%)	112.1	90.9	102.1	112.4
Inventory Days	63	59	61	63
Debtors Days	14	13	14	14
Payable Days	131	133	130	130
Cash Conversion Cycle	(54)	(61)	(55)	(53)
Current Ratio	1.6	1.5	1.5	1.5
Adjusted Debt/Equity	-	-	-	-
Net Debt/Equity	(0.8)	(0.8)	(0.7)	(0.7)
Interest Coverage Ratio	333.4	168.8	464.4	697.9

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	4.9	4.1	4.3	4.5
Fixed Asset Turnover	10.4	8.4	7.9	8.5
Equity Turnover	5.9	4.8	5.1	5.3

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	19.4	19.7	23.9	28.5
Y-o-Y growth (%)	13.7	1.8	21.2	19.3
Adjusted Cash EPS (INR)	21.0	21.7	26.0	30.8
Diluted P/E (x)	59.8	58.8	48.5	40.6
P/B (x)	38.1	37.2	34.4	31.6
EV / Sales (x)	7.8	7.6	6.8	6.1
EV / EBITDA (x)	40.7	38.7	33.1	27.6
Dividend Yield (%)	1.3	1.4	1.5	1.8

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
Life Insurance Corp Of India	1.7	Aberdeen Asset Managers	1.3
Blackrock Fund Advisors	1.1	Vanguard Group	1.1
Franklin Resources	0.5	Vontobel Asset Management	0.4
ICICI Prudential Asset Mgmt Co	0.4	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	HOLD	SP	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

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Aditya Narain

Head of Research

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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
17-Jul-17	ITC	Negative surprise on cess; <i>Company Update</i>	325	Hold
14-Jul-17	Consumer Goods	Food for thought: Prudent diversification; <i>Sector Update</i>		
13-Jul-17	Bajaj Corp	Destocking pangs dent volumes; Outlook improving; <i>Result Update</i>	410	Hold

Distribution of Ratings / Market Cap

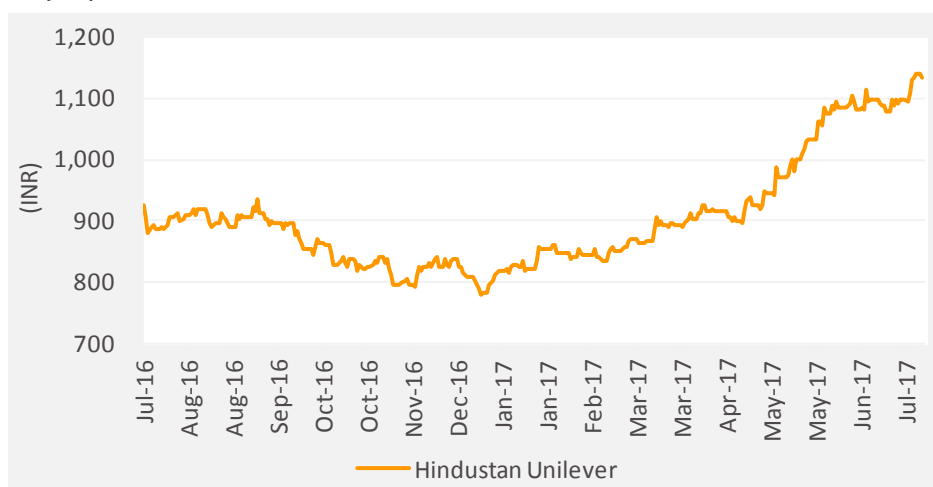
Edelweiss Research Coverage Universe

	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



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