

Hindustan Unilever

BUY

INDUSTRY	FMCG
CMP (as on 18 Jul 2017)	Rs 1,158
Target Price	Rs 1,304
Nifty	9,827
Sensex	31,711
KEY STOCK DATA	
Bloomberg	HUVR IN
No. of Shares (mn)	2,164
MCap (Rs bn)/(US\$ mn)	2,507/38,971
6m avg traded value (Rs mn)	1,390
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 1,190/782
	3M 6M 12M
Absolute (%)	26.9 33.9 25.6
Relative (%)	18.7 17.6 11.3
SHAREHOLDING PATTERN (%)	
Promoters	67.20
FIs & Local MFs	5.66
FPIs	13.26
Public & Others	13.88
Source : BSE	

Encouraging performance

HUL's 1Q numbers came in better than expectations, despite channel destocking pressure. HUL's net revenue was up 5% YoY at Rs 85.3bn (1% expectation). The domestic consumer business registered healthy 6% growth, with flat UVG (-1% expectation). EBITDA and APAT were up 14% and 15% respectively.

- GST implementation was very smooth, and restocking benefits would be visible in 2QFY18.
- We are encouraged by HUL's broad-based growth, as Home Care, PC, Food and Refreshments registered healthy 6%, 4%, 4% and 11% growth respectively.
- We expect healthy 12% revenue CAGR over FY17-20, higher than 8% in the last five years. Our assumption of revenue growth is based on (1) Premiumisation across HUL's portfolio, (2) Expansion in the branded market post GST, (3) Improving consumer sentiment (monsoon can be a tailwind) and (4) HUL's increased direct reach.
- HUL's gross margin was up 78bps to 52%. Employee, ASP and other expenses grew -2%, 3% and 2% respectively. Therefore, EBITDA margin was up by

176bps at 22%. Healthy premium segment growth has expanded EBIT margin for Home Care and PC segments by 232bps and 52bps respectively.

- We expect HUL's EBITDA margin to expand >300bps over FY17-20, led by (1) Higher premium segment growth (2) Control on ASP (3) Operational efficiencies after GST and (4) Better pricing power with improving consumer sentiment.
- We expect Revenue/EBITDA/APAT CAGR of 12%/18%/20% respectively over FY17-20.
- HUL's high valuation is natural, considering consistent market share gain with margin expansion and strong RoCE. We expect HUL to be a key beneficiary of GST and premiumisation. We increase our target P/E to 42x (40x earlier) on Jun-19EPS. **Our TP is Rs 1,304 (Rs 1,200 earlier). We maintain BUY.**
- **Near-term outlook:** Stable raw material prices with healthy premium segment growth can help expand margins in the coming quarters. We expect the stock to give healthy returns in the near term.

Financial Summary

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	85,290	81,274	4.9	82,130	3.8	321,860	331,623	370,767	415,076	464,776
EBITDA	18,660	16,352	14.1	16,510	13.0	60,131	63,399	75,349	90,340	105,426
APAT	12,920	11,248	14.9	11,837	9.1	41,664	43,240	51,899	63,185	75,261
EPS (Rs)	6.0	5.2	14.9	5.5	9.1	19.3	20.0	24.0	29.2	34.8
P/E (x)						60.1	58.0	48.3	39.7	33.3
EV/EBITDA (x)						40.8	38.8	32.5	27.0	22.9
Core RoCE (%)						76.9	62.5	71.9	79.1	78.8

Source: Company, HDFC sec Inst Research

Revenue growth was healthy at 5%, with flat UVG despite channel destocking

CSD channel did not bill in June, and it has impacted 2% growth for HUL during the quarter

GM expanded by 78bps to 52%

Employee expenses were down by 2%. ASP and other expenses grew by 3% and 2%

EBITDA margin witnessed strong 176bps expansion to 22%

Quarterly Financials

Year to March (Rs mn)	1QFY18	1QFY17	YoY Chg	4QFY17	QoQ Chg
Net Sales	84,010	79,870	5.2	81,000	3.7
Other Operating Income	1,280	1,404	(8.9)	1,130	13.3
Total Income	85,290	81,274	4.9	82,130	3.8
Material Expenses	40,840	39,555	3.2	40,220	1.5
Employee Expenses	4,190	4,265	(1.8)	3,880	8.0
ASP	9,050	8,798	2.9	8,530	6.1
Other Operating Expenses	12,550	12,306	2.0	12,990	(3.4)
EBITDA	18,660	16,352	14.1	16,510	13.0
Depreciation	1,140	933	22.2	1,080	5.6
EBIT	17,520	15,419	13.6	15,430	13.5
Other Income	1,130	1,076	5.0	830	36.1
Interest Cost	60	60	0.8	60	-
PBT	18,590	16,435	13.1	16,200	14.8
PBT (after exceptional)	18,460	17,143	7.7	16,190	14.0
Tax	6,180	5,411	14.2	4,030	53.3
RPAT	12,830	11,732	9.4	11,830	8.5
APAT	12,920	11,248	14.9	11,837	9.1
EPS (Adjusted)	6.0	5.2	14.9	5.5	9.1
As % Of Net Revenue					
Material Cost	47.9	48.7	(78)	49.0	(109)
Employee Expenses	4.9	5.2	(34)	4.7	19
ASP Expenses	10.6	10.8	(21)	10.4	22
Other Expenses	14.7	15.1	(43)	15.8	(110)
EBITDA	21.9	20.1	176	20.1	178
Tax Rate	33.5	31.6	191	24.9	859
APAT	15.1	13.8	131	14.4	74

Source: Company, HDFC sec Inst Research

Home care reported healthy 6% growth. Laundry business was driven by the premium segment. Surf sustained healthy growth even in a difficult scenario

PC registered 4% growth impacted by weak demand from CSD channel and channel destocking. Soaps' premiumisation with pickup in hair care and skin care supported growth. Lever Ayush is receiving a good response and a pan-India launch is planned in 2Q

Refreshments maintained healthy growth, driven by broad-based volume led growth

Home care EBIT margin expanded significantly. Mgt expects more upside in margins, driven by higher premium segment growth

PC maintains a strong EBIT margin of 24%

Quarterly Segmental

Year to March (Rs mn)	1QFY18	1QFY17	YoY Chg	4QFY17	QoQ Chg
Segmental Revenues					
Home Care	30,470	28,760	5.9	30,040	1.4
Personal Care (PC)	43,680	42,220	3.5	40,750	7.2
Foods	2,840	2,720	4.4	2,950	(3.7)
Refreshment	13,460	12,150	10.8	13,000	3.5
Others	1,680	2,040	(17.6)	2,010	(16.4)
Total	92,130	87,890	4.8	88,750	3.8
Segmental EBIT					
Home Care	4,480	3,560	25.8	3,890	15.2
Personal Care (PC)	10,790	10,210	5.7	9,840	9.7
Foods	410	170	141.6	280	46.4
Refreshment	2,550	1,921	32.8	2,190	16.4
Others	(60)	(90)	(33.3)	(40)	50.0
Total	18,170	15,770	15.2	16,160	12.4
(a) Interest Cost & Bank Charges	60	60	0.8	60	-
(b) Other Un-allocable Expenses	(350)	(1,442)	(75.7)	(90)	288.9
PBT	18,460	17,153	7.6	16,190	14.0
Capital Employed					
Home Care	(4,640)	(4,215)	na	(4,450)	na
Personal Care (PC)	2,770	(98)	na	2,820	(1.8)
Foods	500	304	64.6	460	8.7
Refreshment	5,550	7,741	(28.3)	7,350	(24.5)
Others	940	1,186	(20.7)	900	4.4
Total	5,120	4,918	4.1	7,080	(27.7)
Unallocable Capital Employed	46,520	46,660	(0.3)	57,820	(19.5)
Total Capital Employed	51,640	51,578	0.1	64,900	(20.4)

Source: Company, HDFC sec Inst Research

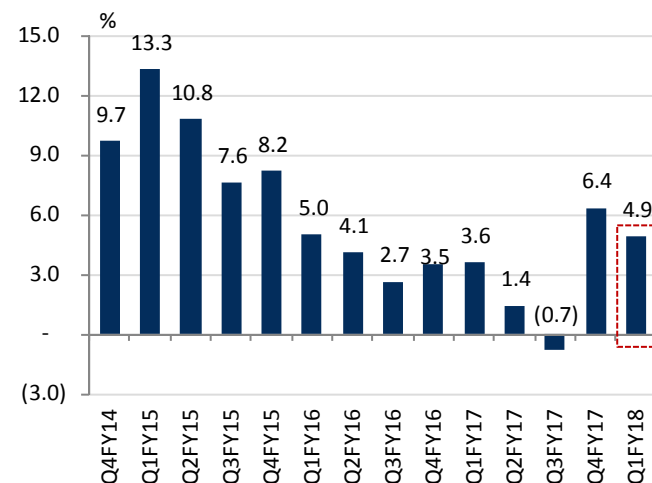
EBIT Margin

Year to March (Rs mn)	1QFY18	1QFY17	YoY Chg	4QFY17	QoQ Chg
Home Care	14.7	12.4	232	12.9	175
Personal Care (PC)	24.7	24.2	52	24.1	56
Foods	14.4	6.2	820	9.5	495
Refreshment	18.9	15.8	314	16.8	210
Others	(3.6)	(4.4)	84	(2.0)	na
Total	19.7	17.9	178	18.2	151

Source: Company, HDFC sec Inst Research

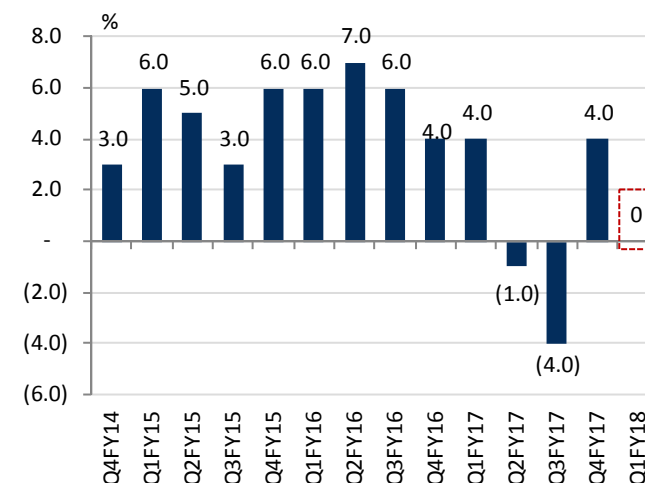
Maintained revenue growth in a challenging environment

Net Revenue Growth



Source: Company, HDFC sec Inst Research

Underlying Volume Growth

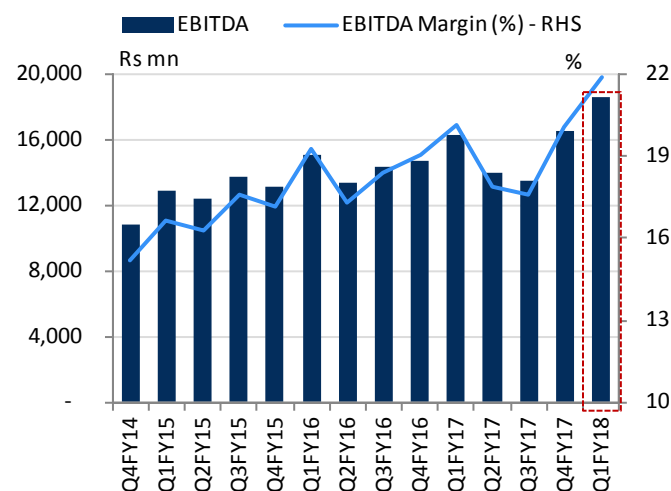


Source: Company, HDFC sec Inst Research

Consistent expansion in EBITDA margin for the last 5 years

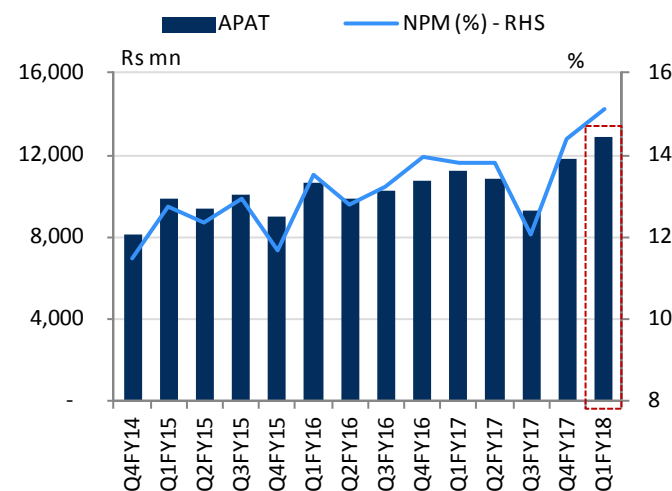
NPM continued to expand and touched 15% during the quarter

EBITDA



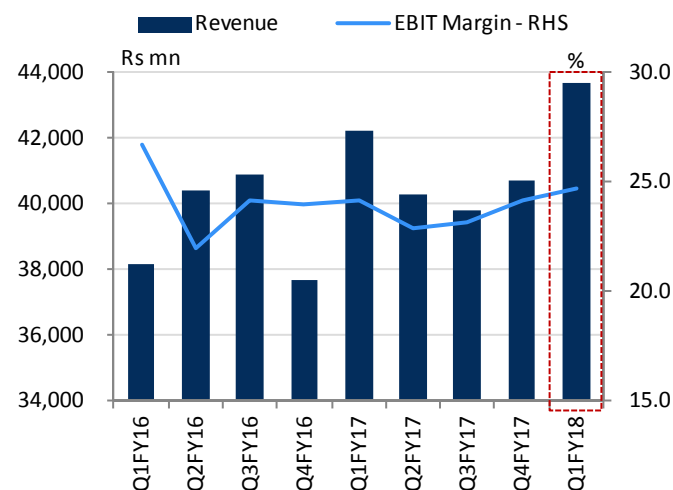
Source: Company, HDFC sec Inst Research

APAT



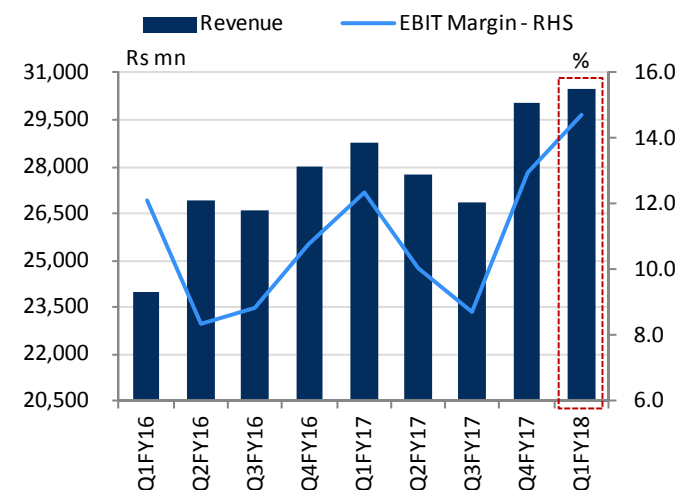
Source: Company, HDFC sec Inst Research

Personal Care Performance



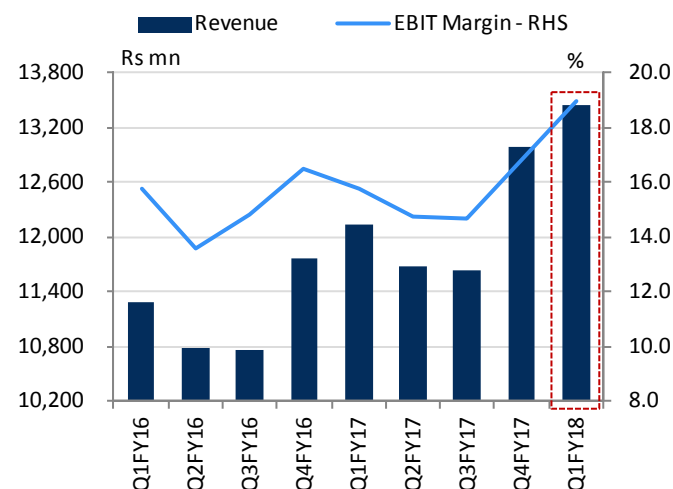
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Home Care Performance



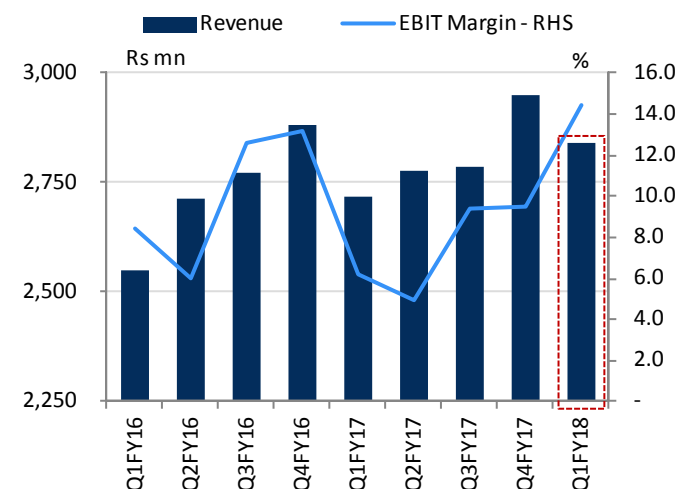
Source: Company, HDFC sec Inst Research

Refreshment Performance



Source: Company, HDFC sec Inst Research

Food Performance



Source: Company, HDFC sec Inst Research

Personal Care Performance

Particulars (Rs mn)	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Revenue	38,171	40,413	40,905	37,700	42,220	40,280	39,802	40,750	43,680
YoY Gr. (%)					10.6%	-0.3%	-2.7%	8.1%	3.5%
Revenue Mix (%)	48.7%	48.5%	48.8%	45.3%	48.0%	47.6%	47.9%	45.9%	47.4%
EBIT	10,184	8,906	9,907	9,030	10,210	9,226	9,208	9,840	10,790
EBIT Margin (%)	26.7%	22.0%	24.2%	24.0%	24.2%	22.9%	23.1%	24.1%	24.7%
EBIT Mix (%)	67.6%	69.4%	70.0%	62.2%	64.7%	66.0%	68.9%	60.9%	59.4%

Home Care Performance

Particulars (Rs mn)	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Revenue	23,972	26,908	26,617	27,980	28,760	27,770	26,891	30,040	30,470
YoY Gr. (%)					20.0%	3.2%	1.0%	7.4%	5.9%
Revenue Mix (%)	30.6%	32.3%	31.8%	33.6%	32.7%	32.8%	32.4%	33.8%	33.1%
EBIT	2,900	2,246	2,356	3,020	3,560	2,800	2,342	3,890	4,480
EBIT Margin (%)	12.1%	8.3%	8.9%	10.8%	12.4%	10.1%	8.7%	12.9%	14.7%
EBIT Mix (%)	19.3%	17.5%	16.7%	20.8%	22.6%	20.0%	17.5%	24.1%	24.7%

Refreshment Performance

Particulars (Rs mn)	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Revenue	11,297	10,789	10,764	11,760	12,150	11,692	11,641	13,000	13,460
YoY Gr. (%)					7.6%	8.4%	8.1%	10.5%	10.8%
Revenue Mix (%)	14.4%	12.9%	12.9%	14.1%	13.8%	13.8%	14.0%	14.6%	14.6%
EBIT	1,786	1,469	1,595	1,943	1,921	1,726	1,713	2,190	2,550
EBIT Margin (%)	15.8%	13.6%	14.8%	16.5%	15.8%	14.8%	14.7%	16.8%	18.9%
EBIT Mix (%)	11.9%	11.5%	11.3%	13.4%	12.2%	12.3%	12.8%	13.6%	14.0%

Foods Performance

Particulars (Rs mn)	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Revenue	2,550	2,712	2,772	2,880	2,720	2,778	2,785	2,950	2,840
YoY Gr. (%)					6.7%	2.4%	0.5%	2.4%	4.4%
Revenue Mix (%)	3.3%	3.3%	3.3%	3.5%	3.1%	3.3%	3.4%	3.3%	3.1%
EBIT	214	164	349	381	170	137	261	280	410
EBIT Margin (%)	8.4%	6.0%	12.6%	13.2%	6.2%	4.9%	9.4%	9.5%	14.4%
EBIT Mix (%)	1.4%	1.3%	2.5%	2.6%	1.1%	1.0%	2.0%	1.7%	2.3%

Source: Company, HDFC sec Inst Research

Assumptions

	FY16	FY17	FY18E	FY19E	FY20E
Revenue Growth (%)					
Soaps and Detergents	1.2	4.4	11.3	11.1	11.2
Personal Products	7.4	2.3	11.9	12.7	12.8
Beverages	6.9	(1.7)	11.0	10.4	10.4
Packaged Food	11.9	2.8	14.9	15.7	15.7
Others	(2.5)	5.0	8.0	8.0	8.0
Total	4.0	3.0	11.4	11.6	11.7
Gross Margin (%)	50.7	51.0	52.0	52.9	53.5
ASP (% of sales)	11.4	10.7	11.0	11.0	11.0
Distribution (% of sales)	4.5	4.6	4.4	4.1	4.0
EBITDA Margin (%)	18.7	19.1	20.3	21.8	22.7
ETR (%)	31.2	30.5	30.0	29.0	29.0

Source: Company, HDFC sec Inst Research

Estimates Change

	FY18E			FY19E		
	OLD	NEW	Chg (%)	OLD	NEW	Chg (%)
Net Sales	370,767	370,767	-	415,014	415,076	-
EBITDA	74,607	75,349	1.0	87,412	90,340	3.3
APAT	50,992	51,899	1.8	61,279	63,185	3.1
EPS	23.6	24.0	1.6	28.3	29.2	3.2

Source: Company, HDFC sec Inst Research

Peer Valuation

Company	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core RoCE (%)		
					FY17P	FY18E	FY19E	FY17P	FY18E	FY19E	FY17P	FY18E	FY19E	FY17P	FY18E	FY19E
ITC	3,462	285	BUY	351	8.6	9.8	11.0	33.0	29.1	26.0	21.1	18.7	16.6	36.2	38.4	39.6
HUL	2,506	1,158	BUY	1,304	20.0	24.0	29.2	58.0	48.3	39.7	38.8	32.5	27.0	62.5	71.9	79.1
Dabur	530	301	BUY	311	7.2	8.2	9.4	41.5	36.8	31.9	33.9	30.8	26.6	46.6	48.9	55.1
Britannia	443	3,692	BUY	3,720	73.7	88.6	105.3	50.1	41.7	35.1	34.4	28.0	23.5	43.6	43.4	51.0
Marico	413	320	NEU	342	6.3	8.0	9.7	50.9	40.2	33.0	35.7	29.1	24.2	43.3	51.0	62.4
Colgate	294	1,079	NEU	1,038	21.2	26.2	31.5	50.9	41.2	34.3	30.7	24.9	21.2	57.2	65.5	82.1
Emami	241	1,060	BUY	1,278	24.3	29.9	36.5	43.6	35.5	29.0	32.2	26.6	22.3	16.4	22.0	29.7
Jub. Food	72	1,270	BUY	1,404	10.2	20.2	29.5	106.7	54.1	36.9	28.8	20.4	15.4	11.6	20.8	33.3
Havells	321	480	NEU	495	9.7	11.6	14.7	47.4	39.7	31.4	34.7	25.0	20.7	36.6	31.0	27.3
Crompton	144	224	BUY	244	4.7	5.7	7.0	48.0	39.3	32.1	29.2	24.4	20.5	40.4	51.1	60.4
V-Guard	77	182	NEU	195	3.6	4.5	6.0	51.0	40.3	30.2	35.5	29.9	23.1	27.6	29.6	34.9

Income Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	321,860	331,623	370,767	415,076	464,776
Growth (%)	0.7	3.0	11.8	12.0	12.0
Material Expenses	131,920	135,492	149,278	163,072	180,380
Employee Expense	16,800	17,430	18,308	19,232	20,202
ASP Expense	36,560	35,420	40,784	45,658	51,125
Distribution Expenses	14,500	15,255	16,314	17,018	18,591
Other expenses	61,950	64,628	70,734	79,756	89,052
EBITDA	60,131	63,399	75,349	90,340	105,426
EBITDA Growth (%)	11.1	5.4	18.8	19.9	16.7
EBITDA Margin	18.7	19.1	20.3	21.8	22.7
Depreciation	3,530	4,320	4,931	5,210	5,427
EBIT	56,601	59,079	70,418	85,130	99,999
Other Income (Including EO Items)	3,920	6,060	4,022	4,150	6,310
Interest	170	350	111	83	83
PBT	60,351	64,789	74,329	89,197	106,226
Tax	18,830	19,770	22,299	25,867	30,806
RPAT	41,451	44,899	51,899	63,185	75,261
Adjustment	(213)	1,659	-	-	-
APAT	41,664	43,240	51,899	63,185	75,261
APAT Growth (%)	7.0	3.8	20.0	21.7	19.1
Adjusted EPS (Rs)	19.3	20.0	24.0	29.2	34.8
EPS Growth (%)	7.0	3.8	20.0	21.7	19.1

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	2,164	2,164	2,164	2,164	2,164
Reserves	63,570	65,500	68,875	80,982	100,058
Total Shareholders' Funds	65,734	67,664	71,039	83,146	102,222
Minority Interest	200	320	452	597	757
Long Term Debt	-	-	-	-	-
Short Term Debt	1,770	2,770	2,770	2,770	2,770
Total Debt	1,770	2,770	2,770	2,770	2,770
Net Deferred Taxes	(2,333)	(2,033)	(2,033)	(2,033)	(2,033)
Long Term Provisions & Others	13,347	11,530	12,109	12,716	13,354
TOTAL SOURCES OF FUNDS	78,718	80,251	84,337	97,197	117,070
APPLICATION OF FUNDS					
Net Block	32,580	44,190	44,759	43,049	41,122
CWIP	4,080	2,290	1,145	573	286
Other Non-current Assets	6,362	7,046	7,805	8,646	9,578
Total Non-current Assets	43,022	53,526	53,709	52,267	50,986
Inventories	27,260	25,410	28,161	31,223	34,764
Debtors	12,640	10,850	12,131	13,580	15,206
Other Current Assets	12,159	13,807	14,071	14,880	15,770
Cash & Equivalents	53,096	52,153	56,896	71,379	92,367
Total Current Assets	105,155	102,220	111,259	131,062	158,108
Creditors	56,850	61,860	66,190	70,824	75,781
Other Current Liabilities & Provns	12,609	13,635	14,442	15,309	16,243
Total Current Liabilities	69,459	75,495	80,632	86,133	92,024
Net Current Assets	35,696	26,725	30,628	44,929	66,084
TOTAL APPLICATION OF FUNDS	78,718	80,251	84,337	97,197	117,070

Source: Company, HDFC sec Inst Research

Cash Flow Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	59,851	64,789	74,329	89,197	106,226
Non-operating & EO Items	(947)	-	-	-	-
Interest Expenses	(2,481)	350	111	83	83
Depreciation	3,573	4,320	4,931	5,210	5,427
Working Capital Change	(1,079)	5,527	660	(52)	(460)
Tax Paid	(17,663)	(19,470)	(22,299)	(25,867)	(30,806)
OPERATING CASH FLOW (a)	41,253	55,515	57,732	68,571	80,471
Capex	(7,914)	(14,140)	(4,355)	(2,928)	(3,214)
Free Cash Flow (FCF)	33,340	41,375	53,377	65,643	77,257
Investments	689	(12,280)	(3,500)	(3,500)	(3,500)
Non-operating Income	4,542	447	-	-	-
INVESTING CASH FLOW (b)	(2,682)	(25,973)	(7,855)	(6,428)	(6,714)
Debt Issuance/(Repaid)	2,117	1,000	-	-	-
Interest Expenses	(45)	(350)	(111)	(83)	(83)
FCFE	35,412	42,025	53,267	65,560	77,174
Share Capital Issuance	(110)	-	-	-	-
Dividend	(33,417)	(36,793)	(41,122)	(43,286)	(47,615)
Others	(6,735)	(6,623)	(7,402)	(7,791)	(8,571)
FINANCING CASH FLOW (c)	(38,190)	(42,766)	(48,634)	(51,161)	(56,268)
NET CASH FLOW (a+b+c)	382	(13,223)	1,243	10,983	17,489
EO Items, Others	3,384	-	-	-	-
Closing Cash & Equivalents	27,436	14,213	15,456	26,439	43,927

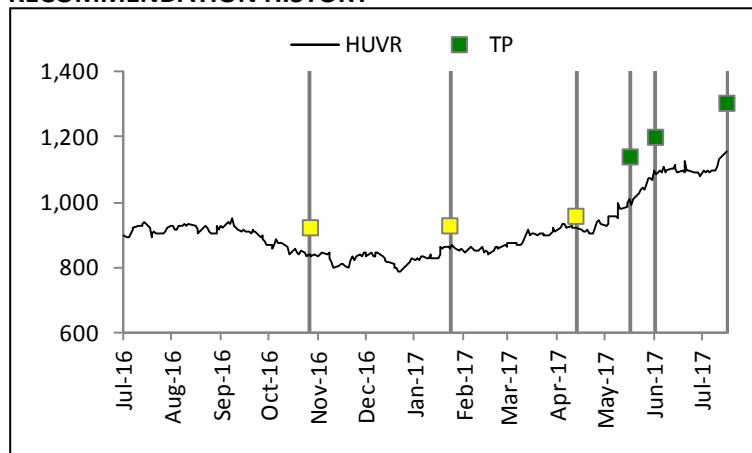
Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	50.7	51.0	52.0	52.9	53.5
EBITDA Margin	18.7	19.1	20.3	21.8	22.7
EBIT Margin	17.6	17.8	19.0	20.5	21.5
APAT Margin	12.9	13.0	14.0	15.2	16.2
RoE	78.6	64.8	74.8	82.0	81.2
RoCE	76.9	62.5	71.9	79.1	78.8
EFFICIENCY					
Tax Rate (%)	31.2	30.5	30.0	29.0	29.0
Fixed Asset Turnover (x)	5.3	4.3	4.5	4.8	5.2
Inventory (days)	30.9	28.0	27.7	27.5	27.3
Debtors (days)	14.3	11.9	11.9	11.9	11.9
Other Current Assets (days)	13.8	15.2	13.9	13.1	12.4
Payables (days)	64.5	68.1	65.2	62.3	59.5
Other Current Liab & Provns (days)	14.3	15.0	14.2	13.5	12.8
Cash Conversion Cycle (days)	(19.7)	(28.0)	(25.9)	(23.3)	(20.6)
Net D/E (x)	(0.8)	(0.7)	(0.8)	(0.8)	(0.9)
PER SHARE DATA (Rs)					
EPS	19.3	20.0	24.0	29.2	34.8
CEPS	20.9	22.0	26.3	31.6	37.3
Dividend	16.0	17.0	19.0	20.0	22.0
Book Value	30.4	31.3	32.8	38.4	47.2
VALUATION					
P/E (x)	60.1	58.0	48.3	39.7	33.3
P/BV (x)	38.1	37.0	35.3	30.1	24.5
EV/EBITDA (x)	40.8	38.8	32.5	27.0	22.9
EV/Revenues (x)	7.6	7.4	6.6	5.9	5.2
OCF/EV (%)	1.7	2.3	2.4	2.8	3.3
FCF/EV (%)	1.3	1.7	2.2	2.7	3.2
FCFE/Mkt Cap (%)	1.4	1.7	2.1	2.6	3.1
Dividend Yield (%)	1.4	1.5	1.6	1.7	1.9

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
28-Oct-16	840	NEU	920
24-Jan-17	862	NEU	925
14-Apr-17	925	NEU	954
18-May-17	1,009	BUY	1,140
5-Jun-17	1,086	BUY	1,200
19-Jul-17	1,158	BUY	1,304

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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