

Hindustan Unilever (HINLEV)

₹ 1158

Escapes GST woes...

- HUL reported a healthy set of numbers ahead of our estimates despite the de-stocking ahead of GST implementation. The company reported sales growth of 5.0% YoY (volume remained flat) to ₹ 9094 crore, 8.1% higher than our estimate of ₹ 8416.3 crore
- The refreshment segment grew 10.8% YoY, followed by home care segment, which grew by 5.9%. The food and personal care segments grew 4.3% and 3.5% YoY, respectively
- The operating margin expanded 165 bps YoY to 20.2% against our estimate of 19.1%. This was largely driven by saving across cost items. Raw material, employee and marketing costs were down 75 bps, 32 bps and 20 bps YoY as percentage of net sales
- On a segmental basis, home care segment's EBIT margin expanded 232 bps YoY to 14.7% whereas, for personal care witnessed marginal improvement of 52 bps to 24.7%. Foods segment and refreshments also reported an expansion in EBIT margin by 819 bps and 314 bps YoY, respectively
- Led by healthy revenue & margin expansion, profit for the quarter grew 9.3% YoY to ₹ 1283 crore against estimated ₹ 1094.1 crore

Premiumisation coupled with cost efficiency-led saving to aid margin

In sync with the global parent's outlook on margin expansion, HUL's margin may also improve led by premiumisation and thrust on rationalisation of all cost items. Additionally, the benefits of GST in terms of supply chain would also come into play. The company is taking initiatives for effective and efficient marketing spends by rationalising campaigns and media platforms. We are, thus, factoring in ~92 bps reduction in advertisement to 9.3% of net sales in FY19E. Also, 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 9.6% in FY17-19E with operating margin expansion of 262 bps to 20.2% in FY19E.

Strong direct reach and focused cluster approach to aid volume growth

HUL has carved out key thrust areas for growth, namely a) focus on core brands through increasing penetration & innovation, b) focussed marketing content, c) investment in market development, d) driving uptrading and premiumisation and e) strengthening naturals' portfolio. Additionally, its continued focus on the Winning in Many Indias (WiMI) through cluster specific content & communication coupled with strong direct reach of 3.5 million stores could be a major volume driver. HUL is focused on increasing its direct reach from current 3.5 million outlets, if required, as the wholesale channel continues to remain impacted post the demonetisation and now with the implementation of GST.

Revenue mix, marketing initiatives to drive growth; reiterate HOLD

We remain confident about the company's commitment towards growth led by innovation, volume growth, premiumisation and, thus, market share gains. We estimate revenue, PAT CAGR of 9.6%, 16.2%, respectively, in FY17-19E with 262 bps margin expansion over the same period to 20.2% in FY19E. However, on account of price movement, we maintain our **HOLD** recommendation on the stock with a revised target price of ₹ 1180/share.

Rating matrix	
Rating	: Hold
Target	: ₹ 1180
Target Period	: 12 months
Potential Upside	: 2%

What's changed?	
Target	Changed from ₹ 1120 to ₹ 1180
EPS FY18E	Changed from ₹ 22.8 to ₹ 25.1
EPS FY19E	Changed from ₹ 26.7 to ₹ 28.1
Rating	Unchanged

Quarterly performance					
Gross Sales	9094.0	8662.4	5.0	8773.0	3.7
EBITDA	1866.0	1635.9	14.1	1651.0	13.0
EBITDA %	20.2	18.6	165 bps	18.6	165 bps
PAT	1283.0	1174.3	9.3	1183.0	8.5

Key financials				
₹ Crore	FY16	FY17	FY18E	FY19E
Revenue	32,929	33,895	36,985	40,749
EBITDA	5,749	6,047	7,509	8,358
Net Profit	4,137	4,491	5,422	6,062
EPS(₹)	19.2	20.8	25.1	28.1
Adj. EPS(₹)	19.3	20.0	25.1	28.1

FY16 onwards, financials are reported as per Ind AS

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	60.1	55.4	45.9	41.0
Target P/E	61.6	56.8	47.0	42.1
Div. Yield	1.3	1.4	1.6	1.6
Mcap/Sales	7.6	7.3	6.7	6.1
RoNW (%)	66.2	66.6	76.2	72.1
RoCE (%)	74.7	74.9	91.1	87.6

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

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	248,832.0
Total Debt (FY17) (₹ Crore)	0.0
Cash and Investments (FY17) (₹ Crore)	5,190.0
EV (₹ Crore)	243,642.0
52 week H/L	1156 / 783
Equity capital	₹ 216 crore
Face value	₹ 1
FII Holding (%)	14.2
DII Holding (%)	5.2

Price performance				
Return %	1M	3M	6M	12M
HUL	5.7	26.8	37.8	25.8
ITC	(8.3)	2.0	13.0	14.3
GCPL	1.6	14.1	20.8	20.6
Colgate	-2.7	6.6	17.7	15.2

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Variance analysis

	Q1FY18	Q1Y18E	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	Comments
Gross Sales	9,094.0	8,416.3	8,662.4	5.0	8,773.0	3.7	Healthy growth despite de-stocking; volume remained flat
Operating Income	128.0	152.3	140.4	-8.9	113.0	13.3	
Raw Material Expenses	4,084.0	3,871.5	3,955.5	3.2	4,022.0	1.5	Raw material cost was down 75 bps as percent of net sales
Employee Expenses	419.0	404.0	426.5	-1.8	388.0	8.0	
Marketing Expenses	905.0	799.5	879.8	2.9	853.0	6.1	Efficient media spend led to 20 bps reduction in marketing expense as percent of net sales
Excise Duty	693.0	648.1	674.6	2.7	673.0	3.0	
Other operating expenses	1,255.0	959.5	1,230.6	2.0	1,299.0	-3.4	
EBITDA	1,866.0	1,633.5	1,635.9	14.1	1,651.0	13.0	Healthy topline growth couple with saving on all cost items led to 14.1% growth in EBITDA
EBITDA margin (%)	20.2	19.1	18.6	165 bps	18.6	165 bps	EBITDA margin expanded 165 bps
Depreciation	114.0	81.6	93.3	22.2	108.0	5.6	
Interest	6.0	0.0	6.0	NA	6.0	0.0	
Other Income	113.0	0.0	108.0	4.6	83.0	36.1	
PBT	1,859.0	1,551.9	1,644.7	13.0	1,619.0	14.8	
Exceptional Items	-13.0	0.0	70.8	-118.4	-1.0	1,200.0	
Tax Outgo	563.0	457.8	541.1	4.0	436.0	29.1	
PAT	1,283.0	1,094.1	1,174.3	9.3	1,183.0	8.5	Led by sales growth and EBITDA expansion, sales grew 9.3%

Key Metrics growth YoY (%)

Home care	6	NA	20		7.4		Growth led by strong growth in both mass & premium laundry; water business impacted due to de-stocking
Personal care	3	NA	11		8.1		Growth was muted due to destocking, majorly in the CSD
Foods	4	NA	7		2.4		
Refreshments	11	NA	8		10.5		Tea continued to grow strongly with double digit
EBIT margin (%)							
Home care	14.7	NA	12.4	232 bps	12.9	175 bps	Premiumisation and operational efficiency led expansion
Personal care	24.7	NA	24.2	52 bps	24.1	56 bps	
Foods	14.4	NA	6.2	819 bps	9.5	495 bps	
Refreshments	18.9	NA	15.8	314 bps	16.8	210 bps	

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

Change in estimates

₹ Crore)	FY18E			FY19E			Comments
	Old	New	% Change	Old	New	% Change	
Sales	36,659.7	36,985.0	0.9	40,390.1	40,748.6	0.9	
EBITDA	6,925.1	7,509.5	8.4	8,070.2	8,357.7	3.6	Upward revision in EBITDA considering efficient cost saving strategies coupled with the premiumisation focus of the company
EBITDA Margin (%)	18.6	20.0	137 bps	19.6	20.2	56 bps	
PAT	4,920.6	5,421.8	10.2	5,772.5	6,062.5	5.0	Led by upward revision in EBITDA
EPS (₹)	22.8	25.1	10.1	26.7	28.1	5.1	

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

Assumptions

₹ crore)	Current				Earlier		
	FY16	FY17	FY18E	FY19E	FY18E	FY19E	
Home care	10,812.0	11,123.0	12,235.3	13,458.8	12,026.8	13,229.4	No major change in our revenue estimates
Personal care	16,011.0	16,078.0	17,364.2	19,100.7	17,282.2	19,010.5	
Foods	1,095.7	4,795.0	5,274.5	5,854.7	5,235.8	5,811.8	
Refreshments	4,482.0	1,102.0	1,234.2	1,370.0	1,213.9	1,347.5	

Source: Company, ICICIdirect.com Research

Conference call highlights

- HUL reported 5% YoY sales growth driven by price increase whereas volume remains flat during the quarter. Most part of the price driven growth has come from the previous quarters
- Home care category sales increased 6% mainly on the back of strong growth in Wheel (mass detergent brand) and driving premiumisation through Surf brand.
- Personal care & foods portfolio was impacted the most by de-stocking due to GST implementation and grew 3% and 4%, respectively. On the one hand, impact at general trade & modern trade was minimal on account of thin inventory (~9 days at distributor level), canteen stores department (CSD) was completely shut since June 5. De-stocking at CSD led to ~2% loss of sales during the quarter (CSD contributes 6% to the sales)
- Refreshment sales increased 11% led by robust growth in tea segment
- The company has taken price cuts or grammage reduction in personal wash category specifically in Lifebuoy, Dove, Pears, Rin Bar and Surf Excel Bar on account of lower tax incidence under GST. On account of overall net savings on account of GST implementation, the company has no intention to take any price hike in those high taxed categories in foreseeable future
- Stable input cost, after peaking out in Q4FY17, resulted in 75 bps improvement in gross margins during the quarter. Along with the raw material cost benefits, cost efficiencies at A&P level and other expenses, resulted in 165 bps improvement in operating margin
- There has been a reduction in indirect tax incidence in detergent bars, soaps, toothpastes and hair oil. In contrast, net tax incidence would go up for detergent powder, shampoos, skin cream, colour cosmetics and instant coffee
- The company has launched skin care brand 'Citra' during the quarter and announced to roll out Lever Ayush brand nationally. In Q3FY17, Lever Ayush launched products in oral care, skin care, body lotions, hand wash, hair care and soaps in southern states
- The company has been targeting saving of 6% of the turnover through various cost efficiencies in the business, which would continue to drive innovations, brand building & new launches in the future

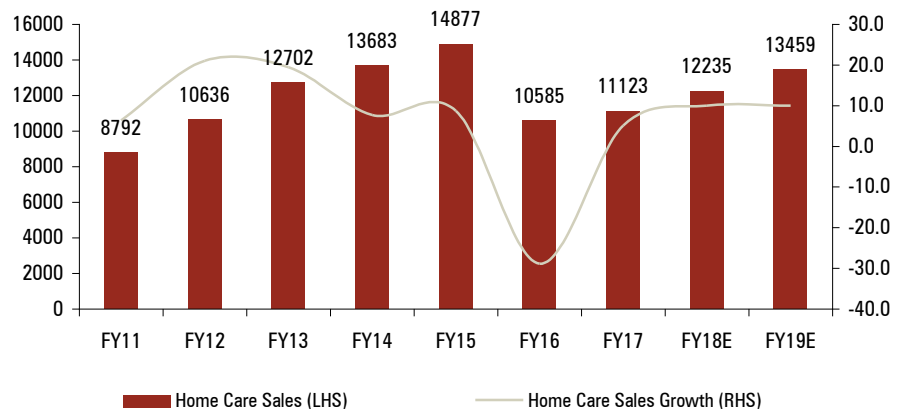
Company Analysis

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 11.3%, 137 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 (>₹ 2000 crore in FY17) 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 10.0% over 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

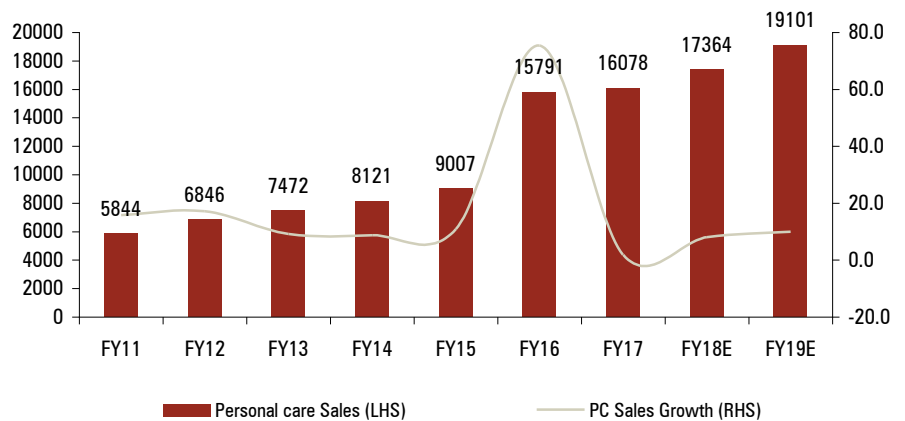
Innovative launches, continued investment on brands to drive personal care

Personal care remains the highest contributor to HUL's revenues, 48.6% in FY17 with an EBIT margin of 23.9%. 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 LEVER Ayush, targeting the mass segment in South India and further intention of pan India launch. Additionally, it has extended its existing brands and launched their herbal variants - TRESemme Botanic, Clinic Plus Ayurveda and Fair & Lovely Ayurvedic Care in FY17. During the quarter they have launched skin care product range under the brand Citra.

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 9.0% 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

Low penetration, changing food habits to aid food, refreshment segments

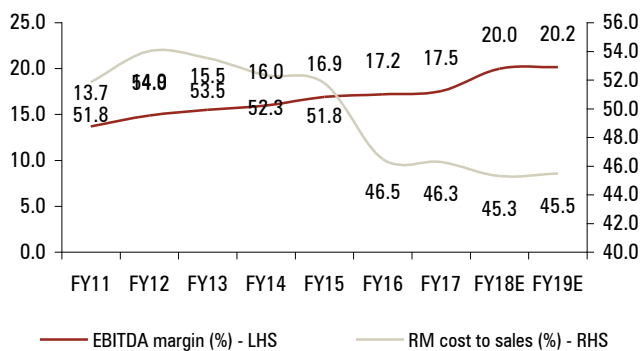
HUL's beverage business' (tea brands: *Lipton, Taj Mahal, Red Label*; coffee brands: *Bru*) growth at 11.1% CAGR (FY10-15) has been led largely by prices following the high penetration of tea consumption in India, keeping volume growth muted. HUL is the second largest branded tea company in the country with a market share of 27% (in FY16) 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 Kwaliti Wall's*) is India's second largest player in the ice cream segment. The segment reported 8.1% revenue growth in FY17 to ₹ 4795 crore.

Low per capita consumption of ice cream, 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 11.5% CAGR (FY17-19E), going ahead. Additionally, with HUL's increasing focus on developing its foods portfolio while driving premiumisation, we expect foods revenue growth at 10.5% CAGR (FY17-19E).

Operating margin expansion on the cards for company

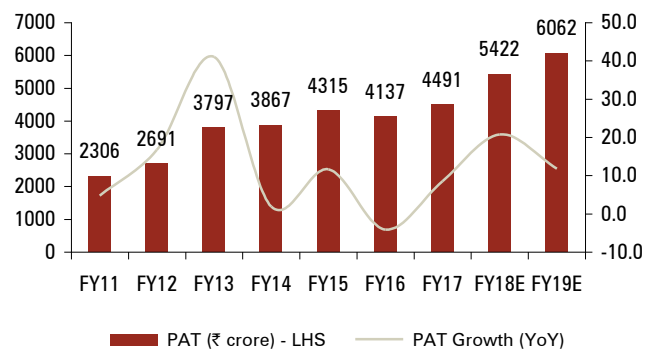
We believe that in sync with the global parent's outlook on margin expansion, HUL's margin will also improve led by premiumisation and thrust on rationalisation of marketing and other expense. The company is taking initiatives for effective and efficient marketing spends by rationalising on campaigns and media platforms. We are thus, factoring in ~90 bps reduction in advertisement over FY17-19E to 9.3% 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. Moreover, HUL expects up-trading by customers to further aid volume growth of premiumisation products. Thus, we expect the company to report EBITDA CAGR of 17.6% in FY17-19E with operating margin expansion of 262 bps to 20.2% in FY19E. Further, HUL's effective tax rate has increased over the years from ~17% in CY07 to ~30% 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 16.2% 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 16.2% 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 on 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 10.0% 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 9.0% CAGR (FY17-19E) for personal care. Led by premium tea, coffee & ice cream, the refreshment segment is estimated to grow at 11.5% CAGR (FY17-19E). The food business is also expected to register healthy growth of 10.5% (CAGR over FY16-19E) largely led by realisation growth.

We remain confident about the company's commitment towards growth led by innovation, volume growth, premiumisation and, thus, market share gains. We are estimating revenue, PAT CAGR of 9.6%, 16.2%, respectively, in FY17-19E with 262 bps margin expansion over the same period to 20.2% in FY19E. However, on account of price movement we maintain our **HOLD** recommendation on the stock with a revised target price of ₹ 1180/share.

Exhibit 5: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	32929.0	9.1	19.2	-4.1	60.1	42.8	66.2	74.7
FY17	33895.0	2.9	20.8	8.5	55.4	40.9	66.6	74.9
FY18E	36985.0	9.1	25.1	20.7	45.9	32.9	76.2	91.1
FY19E	40748.6	10.2	28.1	11.8	41.0	29.3	72.1	87.6

Source: Company, ICICIdirect.com Research

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

Brand size

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

Annual report highlights

- In FY17, reported 2.9% growth in the revenue with 1% underlying volume growth. Further, higher commodity prices led to price hikes across segments, which led to slow down in volume growth
- On the demand side, consumer spending remained subdued, as the gradual recovery of the market was temporarily impacted by adverse liquidity conditions post demonetisation
- Advertising spend for the year was at 10.2% of net sales (10.9% in FY16). EBITDA for the year grew 5.2% while EBITDA margin remained largely flat at 17.5% for the year
- HUL reorganised its business under four major categories i.e. home care, personal care, foods and refreshments

Exhibit 6: Reorganisation of segments

Category	
Home Care	Fabric Wash, Household Care and Water businesses
Personal Care	Personal Wash, Skin Care, Hair Care, Oral Care, Colour Cosmetics and Deodorants
Foods	Packaged Foods and Popular Foods
Refreshments	Tea, Coffee, Ice cream and Frozen Desserts
Others	Exports, Infant and Feminine care

Source: Company, ICICIdirect.com Research

Segmental performance

1. Home care

- Amid growing raw material cost and intensifying competition, the home care segment's growth was driven by premium Fabric Wash. Surf Excel sustained its volume-led growth momentum
- Vim also continued to drive growth and premiumisation of the category. Vim liquid continued to drive market development of the emerging premium household cleaning segment. Pureit continued to target potential consumers from the bottom of the pyramid and partnered with micro finance institutions (MFIs) to provide them affordable instalments

2. Personal care

- Personal care segment continued to lead trends across all categories with strong performance in Hair Care and Lakmé colour cosmetics. The category's growth was supported by innovations, aggressive advertisement, brand engagement platforms and market development efforts
- Price hikes undertaken on account of rise in input costs impacted the volumes in personal care. The business witnessed muted growth for most part of the year, only to recover in Q4FY17
- Skin care category grew well on the back of both core as well as premium offerings. The company refreshed the portfolio facial cleansing across Fair & Lovely, Pond's and Lakmé
- It also forayed into the baby care segment with the launch of 'Baby Dove'
- It also launched a range of authentic Ayurvedic Personal Care products under the Lever Ayush brand
- Oral care witnessed muted performance on account of increasing competition. Close Up was re-launched during the year. Additionally, the company launched toothpastes under brand Ayush with natural proposition

3. Food

- Though HUL's products grew ahead of the markets in most food categories, the overall growth of the categories and, hence, the company's food segment witnessed slower growth

- To appeal to kids and young generation, Kissan launched a new range of 'khatta meetha' jams in berry, strawberry and orange flavours. This led to growth in the jam category
- Knorr witnessed healthy performance with the launch of single serve packs. Additionally, Knorr expanded its international range with the launch of Italian Mushroom soup, Hong Kong Manchow Noodles soup and Shanghai Hot & Sour Chicken soup

4. Refreshments

- Both, tea and coffee, witnessed broad-based growth by differentially leveraging its portfolio across the country – different products matching the local taste
- The coffee segment under brand BRU, delivered strong growth, led by the instant coffee
- Ice cream & frozen desserts business delivered strong performance with double-digit growth and improved profitability led by increased focus on widening distribution. The impulse portfolio continued to grow faster. Also, new variants of Cornetto as well as Kulfi were we received

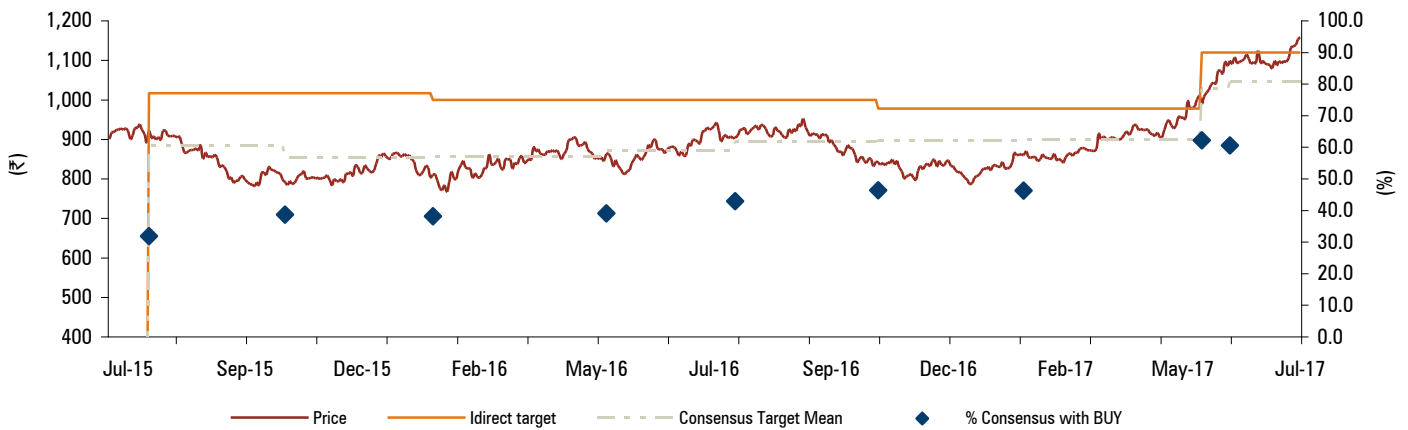
Exhibit 7: New launches during FY17

Segments	Products launched
Home Care	Surf excel Matic liquids, Classic RO range of water purifiers
Personal Care	Signature range, LEVER Ayush, Baby Dove, Fair & Lovely Ayurveda, Clinic Plus Ayurveda and TRESemmé Botanique
Foods	Jams - in Berry, Strawberry & Orange flavours; Knorr Soup - Mushroom soup, Hong Kong Manchow Noodles soup and Shanghai Hot & Sour Chicken soup
Refreshments	New variants of Cornetto as well as Kulfi

Source: Company, ICICIdirect.com Research

- During the year, HUL came up with the intention to divest its stake in KCLL to the JV partner KCC. This decision is in line with HUL's objective to focus on the core business. Kimberly Clark Lever Pvt Ltd (KCLL) is a joint venture between HUL and Kimberly-Clark Corporation (KCC), USA, with brands - Huggies and Kotex
- New manufacturing facility in Doom Dooma Industrial Estate, Assam, mainly for the production of personal care products, was commenced in March 2017
- During the year, HUL focussed on quality of distribution in general trade, improvement in in-store presence in modern trade and building capabilities in e-commerce. Additionally, through the 'Winning in Many Indias' agenda, HUL continued to benefit from geographical focus while leveraging scale.

Recommendation history vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Event	Description
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	30-Jun-17	55.53	1,202.0	0.0
2	Brooke Bond Group, Ltd.	30-Jun-17	4.93	106.7	0.0
3	Unilever UK & CN Holdings, Ltd.	30-Jun-17	2.78	60.1	0.0
4	Brooke Bond South India Estates, Ltd.	30-Jun-17	2.44	52.7	0.0
5	Life Insurance Corporation of India	30-Jun-17	1.89	41.0	5.1
6	Brooke Bond Assam Estates, Ltd.	30-Jun-17	1.52	32.8	0.0
7	Aberdeen Asset Management (Asia) Ltd.	31-May-17	1.03	22.3	-1.2
8	The Vanguard Group, Inc.	31-May-17	1.02	22.0	0.4
9	BlackRock Institutional Trust Company, N.A.	30-Jun-17	0.91	19.7	0.1
10	Aberdeen Asset Managers Ltd.	31-May-17	0.69	15.0	0.0

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Promoter	67.2	67.2	67.2	67.2	67.2
FII	14.4	14.2	13.1	13.3	13.5
DII	5.0	5.2	5.8	5.7	5.6
Others	13.4	13.4	13.9	13.9	13.8

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Life Insurance Corporation of India	85.31m	5.11m	Fidelity Management & Research Company	-33.01m	-2.35m
ARISAIG Partners (Asia) Pte. Ltd.	21.82m	1.55m	Lyxor Asset Management	-38.03m	-2.3m
Eastspring Securities Investment Trust Co. Ltd.	6.07m	0.5m	Aberdeen Asset Management (Asia) Ltd.	-19.55m	-1.18m
Aberdeen Asset Management Company Ltd. (Thailand)	5.9m	0.45m	Norges Bank Investment Management (NBIM)	-11.59m	-0.95m
The Vanguard Group, Inc.	6.36m	0.38m	Union Investment Luxembourg S.A.	-10.71m	-0.88m

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	37599.4	41463.2	
Growth (%)	8.7	3.0	9.0	10.3	
Raw Material Expenses	15,305.0	15,685.0	16,755.2	18,526.6	
Employee Expenses	1,573.0	1,620.0	1,706.9	1,880.5	
Marketing Expenses	3,600.0	3,470.0	3,584.4	3,798.7	
Administrative Expenses	1,987.0	1,970.0	2,082.4	2,331.9	
Other expenses	2,847.0	3,098.0	3,113.3	3,430.1	
Total Operating Expenditure	27,742.0	28,440.2	30,090.0	33,105.4	
EBITDA	5749.0	6046.8	7509.5	8357.7	
Growth (%)	10.4	5.2	24.2	11.3	
Depreciation	321.0	396.0	417.7	410.1	
Interest	15.0	22.0	0.0	0.0	
Other Income	564.0	526.0	557.6	591.0	
Exceptional Income	-30.8	241.1	-13.0	0.0	
PBT	5,946.2	6,396.8	7,636.4	8,538.7	
Total Tax	1,809.0	1,906.0	2,214.6	2,476.2	
PAT	4137.2	4490.8	5421.8	6062.5	
Growth (%)	-4.1	8.5	20.7	11.8	
EPS (₹)	19.2	20.8	25.1	28.1	

Source: Company, ICICIdirect.com Research

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

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	6,914.7	8,196.0	
Total Shareholders funds	6,279.0	6,490.0	7,130.7	8,412.0	
Other Non Current Liabilities	395.0	574.0	574.0	574.0	
Long Term Provisions	594.0	485.0	81.5	90.9	
Total Liabilities	7268.0	7549.0	7786.1	9076.9	
Assets					
Gross Block	5,064.7	6,212.7	6,712.7	6,812.7	
Less: Acc Depreciation	2,162.7	2,558.7	2,976.4	3,386.4	
Net Block	2,902.0	3,654.0	3,736.3	3,426.2	
Capital WIP	386.0	203.0	0.0	0.0	
Total Fixed Assets	3,288.0	3,857.0	3,736.3	3,426.2	
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	2,533.2	2,791.0	
Debtors	1,064.0	928.0	1,114.6	1,228.0	
Loans and Advances	162.0	196.0	202.7	223.3	
Investments & Other CA	740.0	931.0	1,013.3	1,116.4	
Cash	2,759.0	1,671.0	2,132.2	3,556.3	
Total Current Assets	9,714.0	9,607.0	10,542.4	12,822.4	
Creditors	5,498.0	6,006.0	6,586.4	7,256.6	
Provisions & other CL	1,154.0	1,194.0	1,317.3	1,451.3	
Total Current Liabilities	6,652.0	7,200.0	7,903.6	8,707.9	
Net Current Assets	3,062.0	2,407.0	2,638.8	4,114.5	
Others Non-Current Assets	455.0	541.0	566.0	591.0	
Application of Funds	7268.0	7549.0	7786.1	9076.9	

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	4,281.0	4,372.0	5,421.8	6,062.5	
Add: Depreciation	321.0	396.0	417.7	410.1	
(Inc)/dec in Current Assets	-224.0	161.0	-474.3	-855.8	
Inc/(dec) in CL and Provisions	111.0	505.0	703.6	804.3	
CF from operating activities	3974.0	4953.0	6068.9	6421.0	
(Inc)/dec in Investments	32.0	64.0	-100.0	-100.0	
(Inc)/dec in loans & advances	3.0	-36.0	-25.0	-25.0	
(Inc)/dec in Fixed Assets	-736.0	-1,367.0	-297.0	-100.0	
Others	650.0	587.0	-404.5	9.4	
CF from investing activities	-51.0	-752.0	-826.5	-215.6	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0	
Dividend paid & dividend tax	-3,997.0	-4,254.0	-4,781.2	-4,781.2	
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	
Others	-11.0	-10.0	0.0	0.0	
CF from financing activities	-4008.0	-4264.0	-4781.2	-4781.2	
Net Cash flow	-85.0	-63.0	461.2	1,424.2	
Opening Cash	720.0	635.0	572.0	1,033.2	
Closing Cash*	2759.0	1671.0	2132.2	3556.3	

Source: Company, ICICIdirect.com Research; * includes cash in Bank

Key ratios		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Per share data (₹)					
EPS	19.2	20.8	25.1	28.1	
Cash EPS	20.6	22.6	27.0	30.0	
BV	29.1	30.0	33.0	38.9	
DPS	15.5	16.5	19.0	19.0	
Cash Per Share	12.8	7.7	9.9	16.5	
Operating Ratios (%)					
EBITDA/Total Operating Income	17.2	17.5	20.0	20.2	
PBT Margin	17.8	17.8	20.3	20.6	
PAT Margin	12.4	13.0	14.4	14.6	
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	76.2	72.1	
RoCE	74.7	74.9	91.1	87.6	
Valuation Ratios (x)					
P/E	60.1	55.4	45.9	41.0	
EV / EBITDA	42.8	40.9	32.9	29.3	
EV / Net Sales	7.5	7.3	6.7	6.0	
Market Cap / Sales	7.6	7.3	6.7	6.1	
Price to Book Value	39.6	38.3	34.9	29.6	
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)	1,073	1,150	Hold	30,288	21.2	23.6	28.7	50.5	45.5	40.1	6.7	6.5	5.7	64.1	71.5	74.0	45.3	50.2	51.7
Dabur India (DABIND)	300	305	Hold	49,990	7.2	7.5	8.0	41.4	40.1	38.0	6.5	6.0	5.5	28.0	25.6	25.5	26.4	23.4	22.6
GSK CH (GLACON)	5,421	6,074	Buy	22,775	156.1	176.3	199.2	34.7	30.8	30.5	5.2	4.5	4.0	30.8	30.3	31.3	21.0	21.2	21.7
Hindustan Unilever (HINLEV)	1,158	1,180	Hold	248,832	20.8	25.1	28.1	55.7	46.1	42.1	7.3	6.7	6.1	74.9	91.1	87.6	66.6	76.2	72.1
ITC Limited (ITC)	285	317	Hold	409,550	8.4	8.9	9.9	33.9	32.0	32.0	7.4	6.7	6.1	32.9	34.1	36.9	22.5	23.8	25.7
Jyothy Lab (JYOLAB)	370	397	Hold	6,625	11.1	10.7	12.7	33.3	34.5	31.3	3.9	3.5	3.2	28.1	29.0	30.5	30.9	27.1	28.0
Marico (MARLIM)	329	341	Hold	41,532	6.3	6.9	8.4	52.3	47.7	40.4	7.0	6.0	5.1	44.6	45.1	49.4	34.9	34.6	37.7
Nestle (NESIND)	6,852	7,420	Buy	64,106	103.9	133.4	154.5	66.0	51.4	48.0	6.8	6.0	5.3	34.9	36.7	44.3	36.2	40.0	44.1
Prabhat Dairy (PRADAI)	138	140	Buy	1,160	4.8	6.4	9.5	24.7	18.5	12.5	0.8	0.7	0.6	8.0	9.7	12.2	5.1	6.8	9.7
Tata Global Bev (TATGLO)	174	195	Buy	10,697	7.2	7.7	8.2	24.1	22.6	23.9	1.6	1.5	1.4	8.8	9.1	9.3	7.2	7.7	7.8
VST Industries (VSTIND)	3,280	3,430	Hold	5,517	108.3	122.3	142.8	30.3	26.8	24.0	2.4	2.0	1.8	45.0	45.6	47.9	31.1	31.9	34.0

Source: Company, ICICIdirect.com Research

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