

Hindustan Unilever Ltd.



Hindustan Unilever Ltd

Sustainable Volume Growth Ahead

CMP INR 1,372	Target INR 1,500	Potential Upside 9.3%	Market Cap (INR Mn) 2,969,340	Recommendation ACCUMULATE	Sector FMCG
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Result highlights

Hindustan Unilever Ltd (HUL) posted its Q3FY18 results which were marginally below our estimates on YoY basis. Net revenue for Q3FY18 reported at INR 85,900.0 Mn which grew by 3.3% YoY and 3.4% QoQ. The Home Care segment reported revenue of INR 27,410 Mn with a growth of 1.9% on YoY basis. The 9MFY18 numbers are also positive, during the period HUL reported revenue of INR 261,210 Mn with a growth of 4.8% on YoY basis. During the Q3FY18, the domestic consumer growth on comparable basis was 17% and volume growth was around 11%. EBIDTA for Q3FY18 stood at INR 16,800 Mn with margins at 19.6% which increased by 326 bps YoY and de-grew by 69 bps QoQ. EBITDA for 9MFY18 stood at INR 66,662 Mn which grew by 51.7% YoY. PAT after exceptional item for Q3FY18 stood at INR 13,260 Mn and PAT margin was at 15.4% which was an increase of 296 bps YoY 13 bps QoQ. PAT for 9MFY18 stood at INR 53,230 Mn which grew by 61% YoY.

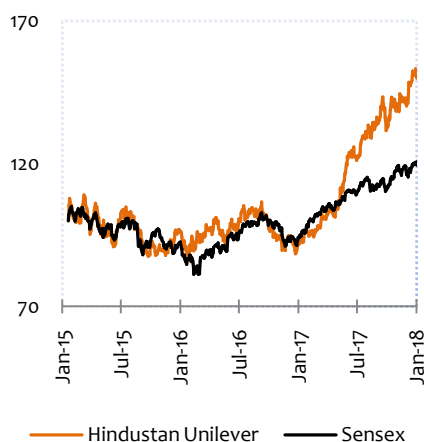
MARKET DATA

Shares outs (Mn)	2164
EquityCap (INR Mn)	2164
Mkt Cap (INR Mn)	2969340
52 Wk H/L (INR)	1390/827
Volume Avg (3m K)	1055
Face Value (INR)	1
Bloomberg Code	HUVR IN

KEY FINANCIALS

Particulars	FY15	FY16	FY17E	FY18E	FY19E	FY20E
Net Sales	314,407.4	334,910.0	344,870.0	362,113.5	380,219.2	399,230.1
EBITDA	58,443.0	57,491.7	60,470.0	64,818.3	68,819.7	72,260.7
PAT	49,513.2	41,365.6	44,900.0	47,273.9	50,169.9	52,678.4
OPM (%)	18.6	17.2	17.5	17.9	18.1	18.1
NPM (%)	15.7	12.4	13.0	13.1	13.2	13.2
EPS	22.9	19.1	20.8	21.9	23.2	24.4
PE (x)	59.9	71.8	66.1	62.7	59.1	56.3

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE


Volume based growth across segments: HUL reported its Q3FY18 revenue of INR 85,900 Mn which grew by 3.3% YoY and 3.4% QoQ. During the quarter, the comparable consumer growth was around 17% and volume growth stood at 11% owing to low base Q3FY17 impacted by demonetization. However, the transition phase of GST impacted the top line as the wholesale channel is gradually normalizing and market is showing positive sign of demand picking up. The 9MFY18 numbers are also positive, during the period HUL reported revenue of INR 261,210 Mn with a growth of 4.8% on YoY basis. Revenue growth was seen in segments, healthier from Food (7.5% YoY) followed by Refreshments (7.2% YoY), Personal Care (2.8% YoY) and Home Care (1.9% YoY). Personal Care Products is the largest contributor to revenue with 47.6% with revenue of INR 40,900 Mn with growth of 2.8% YoY and 4.6% QoQ. Home care is second in contributing to revenue with 31.9% share and its revenue of INR 27,410Mn with growth of 1.9% YoY. Refreshment contributes to 14.5% in revenue share with revenue of INR 12,480 Mn with growth of 7.2% YoY. Foods segment contributes minimum at 3.5% of total revenue with INR 3,000 Mn of revenue with growth of 7.5% YoY and 6.4% QoQ.

Improved margins but concern over inflating input costs: EBIDTA margins saw improvement of 326 bps YoY which stood at 19.6% in Q3FY18. EBIDTA was at INR 16,800 Mn with growth of 23.9% YoY, it saw an improvement due to netting off of Excise duty and other Input cost from the overall turnover which was earlier included in Cost of Goods Sold and other cost saving strategies adopted by the company. Segmental margins for Personal care products was around INR 10,070 Mn with 24.6% margins and saw improvement of 148 bps YoY. Home care margins were at 12.9% with improvement of 421 bps YoY which stood at INR 3,540 Mn. Refreshments margins stood at INR 1,690 Mn with margins of 13.5% which declined by 115 bps YoY. Foods margin remained at INR 110 Mn with margins of 3.7% which declined by 565 bps YoY. PAT after exceptional item for Q3FY18 stood at INR 13,260 Mn and PAT margin was at 15.4% which was an increase of 296 bps YoY. PAT for 9MFY18 stood at INR 53,232 Mn and margins at 20.4% which increased by 711.2 bps YoY.

MARKET INFO

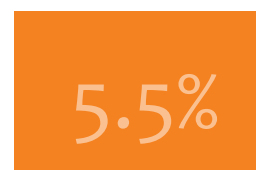
SENSEX	35082
NIFTY	10789

SHARE HOLDING PATTERN (%)

Particulars	Dec 17	Sep 17	Jun 17
Promoters	67.2	67.2	67.2
FIIIs	12.89	13.31	13.45
DIIIs	6.29	5.76	5.58
Others	13.63	13.73	13.77
Total	100	100	100



Revenue CAGR between FY17 and FY20E



PAT CAGR between FY17 and FY20E

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Hindustan Unilever Ltd

Valuations & Outlook: HUL subsist as one of the largest player in consumer sector and a market leader in many of its segments like detergents, soaps, etc. During Q3FY18, we believe with GST it has faced some trade disruption but it soon recovered back to normal. HUL has benefitted from the GST rates and have cut down its product's price by 3-4%. HUL strategy to remain same like investing behind its brands, focusing on core business with innovative products and concentrate on volume lead growth with improvement in cost across its segments and lastly focus to remain on improving demand in rural areas. We expect revenue growth of around 5% in FY18E & FY19E on back on improving demand scenario, premium products, brand recall, etc. Whereas we would see improvement in its EBITDA and PAT margins due to its ongoing strategy of controlling cost, Its margins will be around 18.1% and 13.2% in FY19E. At CMP 1,372, HUL is trading at EPS of INR 24.4 its FY20E and we are revising the **target price to INR 1,500 with "ACCUMULATE" rating on the stock and an upside of 9.3%.**

Q3FY18 Concall Highlights:

➤ Management remains optimistic of the growth in the medium term given the fact that HUL will continue on its strategy with cost saving program which will lead to improvement in margins and innovation of products which will lead to growth in revenue. Going ahead management is eyeing volume and margin driven growth with focus on premium category however Rural markets remain challenging but it focus will remain to improve demand from it.

➤ In Q3FY18 continue to be an encouraging quarter with profitable growth, improved margins and continuous innovation during the quarter. Also HUL focused on building its natural portfolio with new launch or re-launches in product segment like Vim, Hamam, Citra and Ayush. In addition to this Ayush was marketed Pan India (nationally) after successful launch of the products in south India in FY17. During the quarter the new product 'Indulekha' (Hair Oil) which is part of personal care segment has cleared the clinical validity Test, this will turn out positive for HULs future growth.

➤ The management also explained the impact of GST which resulted in de-growth of revenue by around 2% but on comparable basis the revenue has grown by 10%. This de-growth is reflected mainly due transactional changes occurred post GST, the Excise Duty and other Input Cost tax which were earlier part of Cost of Goods Sold are now netted off to the overall turnover under the new GST regime which reduces the revenue and hence de-growth is reflected. While on the other hand exclusion of these taxes from the Cost of Goods Sold has enable the margins to improve by 180 bps on comparable basis. However, HUL's transition to GST has remain smooth because of well planned strategy ahead of GST and there has been zero disruption in trade up till now. Benefits of GST has been passed to consumer on fair basis by reducing the prices by around 3-4% in the categories like detergents bars, soaps, tooth paste and hair oils. The Advertisement and Promotional spent remained higher during the quarter because of new launches and promotion of 'Ayush' on National level.

Segment Performance

Home Care:

Strong double digit growth was seen in mass product category like Vim Bar and also in premium laundry category. The growth in the segment was driven by Fabric Wash which recorded robust double digit growth across key brands.

Personal Care:

HUL personal care products is the largest contributor of around 47.8% to revenue and it has witnessed robust growth across its key brands. The key drivers in this categories are Dove, Lux and Indulekha. After poor performance in last quarter, the oral care category was back on track with robust growth led by Axe and Activation of some oral care products.

Food & Refreshment:

The growth in Foods and Refreshment segment remained stronger with its key brands like Knor, Kissan, Bru, Red Label, Kwality Walls. In future HUL expects sustained growth from foods and refreshment category.

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Q3FY18 Result Snapshot

Exhibit 1: Quarterly Income Statement (INR Mn)

Particulars	Q3FY18	Q2FY18	Q3FY17	Q-o-Q	Y-o-Y
Net Sales & Other Operating Income	85,900.0	83,090.0	83,180.0	3.4%	3.3%
Total Expenditure	69,100.0	66,270.0	69,624.9	4.3%	-0.8%
Cost of Raw Materials	31,880.0	28,850.0	25,740.0	10.5%	23.9%
Purchase of Finished Goods	7,680.0	10,610.0	10,212.2	-27.6%	-24.8%
(Increase) / Decrease In Stocks	-510.0	-170.0	1,494.5	200.0%	-134.1%
Employee Cost	4,910.0	4,350.0	4,092.6	12.9%	20.0%
Advertisement expense	11,070.0	10,230.0	8,851.2	8.2%	25.1%
Operating & Manufacturing Expenses	14,070.0	12,400.0	19,234.4	13.5%	-26.8%
EBIDTA	16,800.0	16,820.0	13,555.1	-0.1%	23.9%
EBITDA Margins (%)	19.6%	20.2%	16.3%	-69 bps	326 bps
Other Income	1,520.0	2,040.0	824.4	-25.5%	84.4%
Depreciation	1,210.0	1,150.0	1,002.0	5.2%	20.8%
EBIT	17,110.0	17,710.0	13,377.5	-3.4%	27.9%
Interest	50.0	60.0	45.6	-16.7%	9.6%
PBT	17,060.0	17,650.0	13,331.9	-3.3%	28.0%
Tax	3,590.0	5,250.0	4,482.4	-31.6%	-19.9%
PAT before Exceptional	13,470.0	12,400.0	8,849.5	8.6%	52.2%
PAT Margin (%)	15.7%	14.9%	10.6%	76 bps	504 bps
Exceptional Items	-210.0	320.0	1,530.0	-165.6%	-113.7%
PAT after Exceptional	13,260.0	12,720.0	10,379.5	4.2%	27.8%
PAT Margin (%)	15.4%	15.3%	12.5%	13 bps	296 bps
EPS	6.1	5.9	4.8	4.2%	27.8%

Source: Company, KRChoksey Research

Exhibit 2 Segmental Revenue (INR Mn)

Particulars	Q3FY18	Q2FY18	Q3FY17	Q-o-Q	Y-o-Y
Home Care	27,410.0	27,390.0	26,890.0	0.1%	1.9%
Personal Care	40,900.0	39,100.0	39,800.0	4.6%	2.8%
Foods	3,000.0	2,820.0	2,790.0	6.4%	7.5%
Refreshments	12,480.0	12,220.0	11,640.0	2.1%	7.2%
Others	2,110.0	1,500.0	1,950.0	40.7%	8.2%
TOTAL	85,900.0	83,030.0	83,070.0	3.5%	3.4%

Source: Company, KRChoksey Research

Exhibit 3 Segment EBIT (INR Mn)

Particulars	Q3FY18	Q2FY18	Q3FY17	Q-o-Q	Y-o-Y
Home Care	3,540.0	3,830.0	2,340.0	-7.6%	63.7%
Personal Care	10,070.0	9,480.0	9,210.0	6.2%	9.3%
Foods	110.0	170.0	260.0	-35.3%	-57.7%
Refreshments	1,690.0	2,140.0	1,710.0	-21.0%	-1.2%
Others	-110.0	-60.0	-160.0	83.3%	-31.3%
Total	15,300.0	15,560.0	13,360.0	-1.7%	14.5%
Less: Interest Exp	-50.0	-60.0	-50.0	-16.7%	0.0%
Add/Less: (other)	1,600.0	2,510.0	1,550.0	-36.3%	3.2%
PBT	16,850.0	18,010.0	14,860.0	-6.4%	13.4%

Source: Company, KRChoksey Research

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Exhibit 4 - EBIT Margin – Segmental

Particulars	Q3FY18	Q2FY18	Q3FY17	Q-o-Q	Y-o-Y
Home Care	12.9%	14.0%	8.7%	-107 bps	421 bps
Personal Care	24.6%	24.2%	23.1%	38 bps	148 bps
Foods	3.7%	6.0%	9.3%	-236 bps	-565 bps
Refreshments	13.5%	17.5%	14.7%	-397 bps	-115 bps
Others	-5.2%	-4.0%	-8.2%	-921 bps	-1342 bps

Source: Company, KRChoksey Research

Exhibit 5 – 9MFY18 Income Statement (INR Mn)

Particulars	9MFY18	9MFY17	Y-o-Y
Net Sales & Other Operating Income	261,210.0	249,264.4	4.8%
Total Expenditure	194,548.0	205,308.5	-5.2%
Cost of Raw Materials	89,770.0	82,465.1	8.9%
Purchase of Finished Goods	29,570.0	31,980.8	-7.5%
(Increase) / Decrease In Stocks	-160.0	2,176.0	-107.4%
Excise Duty	693.0	6,380.0	-89.1%
Employee Cost	13,450.0	12,317.7	9.2%
Advertisement expense	22,205.0	26,162.5	-15.1%
Operating & Manufacturing Expenses	39,020.0	43,826.4	-11.0%
EBIDTA	66,662.0	43,955.9	51.7%
EBITDA Margins (%)	25.5%	17.6%	788.6 bps
Other Income	4,690.0	4,428.6	5.9%
Depreciation	3,500.0	2,879.9	21.5%
EBIT	67,852.0	45,504.6	49.1%
Interest	170.0	154.5	10.0%
PBT	67,682.0	45,350.1	49.2%
Tax	14,470.0	14,700.0	-1.6%
PAT before Exceptional	53,212.0	30,650.1	73.6%
PAT Margin (%)	20.4%	12.3%	807.5 bps
Exceptional Items	20.0	2,420.1	-99.2%
PAT after Exceptional	53,232.0	33,070.2	61.0%
PAT Margin (%)	20.4%	13.3%	711.2 bps
EPS	24.6	15.3	61.0%

Source: Company, KRChoksey Research

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Exhibit 6 : Income Statement (INR Mn)

Particulars	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Operating Income	314,407.4	334,910.0	344,870.0	362,113.5	380,219.2	399,230.1
Total Expenditure	255,964.4	277,418.3	284,400.0	297,295.2	311,399.5	326,969.5
(Increase) / Decrease In Stocks	582.8	871.1	1,560.0	1,086.3	1,140.7	1,197.7
Purchase of Finished Goods	36,979.6	39,511.5	41,660.0	45,264.2	47,527.4	49,903.8
Cost of Raw Materials	118,673.1	112,670.4	113,630.0	118,411.1	123,571.2	129,749.8
Operating & Manufacturing Expenses	45,200.0	72,637.6	76,650.0	78,578.6	82,507.6	86,632.9
Employee Cost	15,788.9	15,728.0	16,200.0	17,019.3	17,870.3	18,763.8
Selling & Distribution Expenses	38,740.0	35,999.7	34,700.0	36,935.6	38,782.4	40,721.5
EBITDA	58,443.0	57,491.7	60,470.0	64,818.3	68,819.7	72,260.7
EBITDA Margins (%)	18.6%	17.2%	17.5%	17.9%	18.1%	18.1%
Other Income	6,183.9	5,638.1	5,260.0	6,518.0	6,843.9	7,186.1
Depreciation	2,866.9	3,207.5	3,960.0	3,621.1	3,802.2	3,992.3
Exceptional Items	6,643.0	308.0	2,410.0	0.0	0.0	0.0
EBIT	68,403.0	59,614.3	64,180.0	67,715.2	71,861.4	75,454.5
Interest	168.2	152.7	220.0	181.1	190.1	199.6
EBT	68,234.8	59,461.6	63,960.0	67,534.2	71,671.3	75,254.9
Tax	18,721.6	18,096.0	19,060.0	20,260.3	21,501.4	22,576.5
PAT	49,513.2	41,365.6	44,900.0	47,273.9	50,169.9	52,678.4
PAT Margin (%)	15.7%	12.4%	13.0%	13.1%	13.2%	13.2%
EPS	22.9	19.1	20.8	21.9	23.2	24.4

Source: Company, KRChoksey Research

Hindustan Unilever Ltd

Exhibit 7: Balance Sheet (INR Mn)

Particulars	FY15	FY16	FY17E	FY18E	FY19E	FY20E
EQUITY AND LIABILITIES						
Share Capital	2,162.7	2,163.9	2,164.2	2,164.2	2,164.2	2,164.2
Total Reserves	35,084.3	60,630.0	62,740.0	66,056.1	72,268.3	80,988.9
Shareholder's Funds	37,247.0	62,793.9	64,904.2	68,220.3	74,432.5	83,153.1
Other Long Term Liabilities	1,701.1	2,020.0	2,780.0	2,896.9	3,041.8	3,193.8
Long Term Provisions	9,563.5	7,870.0	7,810.0	8,328.6	8,745.0	9,182.3
Total Non-Current Liabilities	11,264.6	9,890.0	10,590.0	11,225.5	11,786.8	12,376.1
Current Liabilities						
Trade Payables	52,889.0	54,978.9	60,060.0	65,453.3	70,783.3	74,322.4
Other Current Liabilities	9,080.5	8,640.0	8,090.0	8,328.6	9,505.5	9,980.8
Short Term Provisions	25,858.7	2,900.0	3,870.0	3,621.1	3,802.2	3,992.3
Total Current Liabilities	87,828.2	66,518.9	72,020.0	77,403.0	84,090.9	88,295.5
Total Liabilities	136,339.8	139,202.8	147,514.2	156,848.9	170,310.2	183,824.7
ASSETS						
Non-Current Assets						
Fixed Assets	29,365.4	33,007.0	42,270.0	44,383.5	48,821.9	53,704.0
Non Current Investments	6,541.1	3,190.0	2,600.0	2,730.0	2,866.5	3,009.8
Long Term Loans & Advances	5,834.6	5,400.0	6,230.0	6,518.0	6,843.9	7,186.1
Differed tax assets (Net)	1,959.6	1,680.0	1,600.0	1,920.0	2,304.0	2,764.8
Other non current assets	4.4	410.0	700.0	724.2	760.4	798.5
Total Non-Current Assets	43,705.1	43,687.0	53,400.0	56,275.8	61,596.7	67,463.3
Current Assets						
Currents Investments	26,238.2	24,610.0	35,190.0	36,934.6	38,942.5	38,942.5
Inventories	26,026.8	25,283.6	23,620.0	24,827.1	28,313.3	29,729.0
Sundry Debtors	7,829.4	10,640.0	9,280.0	9,722.5	10,208.6	10,719.1
Cash and Bank	25,375.6	27,590.0	16,710.0	19,280.0	20,949.8	26,196.4
Other Current Assets	592.0	212.2	720.0	756.0	793.8	793.8
Short Term Loans and Advances	6,572.7	7,180.0	8,594.2	9,052.8	9,505.5	9,980.8
Total Current Assets	92,634.7	95,515.8	94,114.2	100,573.0	108,713.5	116,361.5
Total Assets	136,339.8	139,202.8	147,514.2	156,848.8	170,310.2	183,824.7

Source: Company, KRChoksey Research

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Exhibit 8: Cash flow statement (INR Mn)

Particulars	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT	55,231.2	59,770.0	61,550.0	67,534.2	71,671.3	75,254.9
Depreciation and Amortization	2,866.9	3,207.5	3,960.0	3,621.1	3,802.2	3,992.3
Interest Expense	168.2	152.7	220.0	181.1	190.1	199.6
Tax	17,722.9	17,044.7	18,040.0	20,260.3	21,501.4	22,576.5
Cash Flow From Operating Activities	32,719.0	39,735.5	49,530.0	46,076.1	51,162.2	53,870.3
Cash Flow From Investing Activities	2,799.0	-510.0	-7,520.0	-367.0	-7,780.6	-6,033.2
Cash Flow From Financing Activities	-34,504.4	-40,089.8	-42,640.0	-43,957.8	-43,957.8	-43,957.8
Increase/Decrease in Cash	1,013.6	-864.3	-630.0	1,751.4	-576.1	3,879.3
Opening Cash Balance	6,206.1	7,219.7	6,355.4	5,725.4	7,476.8	6,900.6
Closing Cash Balance	7,219.7	6,355.4	5,725.4	7,476.8	6,900.6	10,780.0
Bank Balance	18,155.9	21,234.6	10,984.6	11,803.2	14,049.2	15,416.4
Total Cash & cash equivalent Balance	25,375.6	27,590.0	16,710.0	19,280.0	20,949.8	26,196.4

Source: Company, KRChoksey Research

Exhibit 9: Ratio Analysis

Particulars	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Sales Growth(%)	12.2%	6.5%	3.0%	5.0%	5.0%	5.0%
EBITDA Growth(%)	30.6%	-1.6%	5.2%	7.2%	6.2%	5.0%
PAT Growth(%)	28.0%	-16.5%	8.5%	5.3%	6.1%	5.0%
EBIDTA Margin (%)	18.6%	17.2%	17.5%	17.9%	18.1%	18.1%
PAT Margin (%)	15.7%	12.4%	13.0%	13.1%	13.2%	13.2%
EPS (Rs.)	22.9	19.1	20.8	21.9	23.2	24.4
PE (x)	59.9	71.8	66.1	62.7	59.1	56.3
EV/EBIDTA (x)	50.3	51.2	48.8	45.5	42.8	40.7
Book Value (Rs)	17.2	17.2	29.0	30.0	31.5	34.4
Price / Book Value(x)	79.7	79.7	47.3	45.7	43.5	39.9
Return on equity (RoE)	132.9%	65.9%	69.2%	69.3%	67.4%	63.4%
Return on capital employed (RoCE)	50.2%	42.8%	43.5%	43.2%	42.2%	41.0%

Source: Company, KRChoksey Research

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Hindustan Unilever Ltd

Hindustan Unilever Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
18-Jan-18	1372	1500	ACCUMULATE	Buy	More than 15%
25-Oct-17	1273	1392	ACCUMULATE		
18-July-17	1158	1206	HOLD	Accumulate	5% – 15%
17-May-17	1006	1044	HOLD		
10-Apr-17	923	990	ACCUMULATE	Hold	0 – 5%
24-Jan-17	863	924	ACCUMULATE		
27-Oct-16	842	924	ACCUMULATE	Reduce	-5% – 0
20-Jul-16	895	990	ACCUMULATE		
10-May-16	847	951	ACCUMULATE	Sell	Less than – 5%
20-Apr-16	897	992	ACCUMULATE		
16-Jan-16	804	930	BUY		

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