

# Hindustan Unilever

BSE SENSEX  
33,176

S&P CNX  
10,195

**CMP: INR1,299 TP: INR1,515(+17%)**

**BUY**



Hindustan Unilever Limited

## Stock Info

Bloomberg	HUVR IN
Equity Shares (m)	2,164
52-Week Range (INR)	1415 / 888
1, 6, 12 Rel. Per (%)	0/2/31
M.Cap. (INR b)	2810.9
M.Cap. (USD b)	44.1
Avg Val ( INRm)/Vol m	1529.0
Free float (%)	32.8

## Financials Snapshot (INR b)

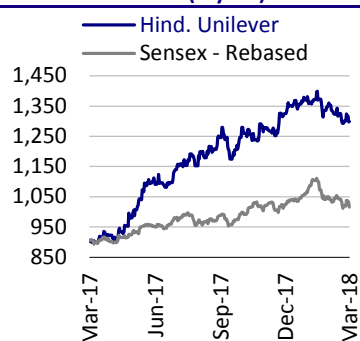
Y/E Mar	2018E	2019E	2020E
Net Sales	337.2	386.7	439.5
EBITDA (Rs b)	70.7	84.6	99.7
Net Profit	50.0	60.3	71.3
EPS	23.1	27.9	32.9
EPSGrowth (%)	17.6	20.7	18.1
BV/Share (Rs)	30.4	30.6	30.5
P/E (x)	56.2	46.6	39.4
P/BV (x)	42.7	42.5	42.6
RoE (%)	76.5	91.4	107.9
RoCE (%)	101.2	121.0	143.6

## Shareholding pattern (%)

As On	Dec-17	Sep-17	Dec-16
Promoter	67.2	67.2	67.2
DII	6.3	5.8	5.8
FII	12.9	13.3	13.1
Others	13.6	13.7	13.9

FII Includes depository receipts

## Stock Performance (1-year)



## Gradual broad-based improvement in demand

### Still no kicker to rural growth

We spoke to Hindustan Unilever's (HUL) management to get an update on the overall market environment. Key takeaways from our discussion:

- Market demand has been improving gradually over the past few quarters. Encouragingly, growth has been broad-based across categories and regions.
- Central India continues to do better than the rest of the regions for HUL, in line with the company's strategy .
- Although rural performance has improved, there is still no kicker to rural demand. Rural demand growth is yet to reach the buoyant historical levels, when it was 1.5-2x of urban demand growth.
- 3QFY18 had the benefit of a low base, which would be missing in 4QFY18.
- Wholesale and CSD channels, which were lagging behind for many quarters, are now back to normal.
- There were no significant new launches in the quarter in the FMCG industry.
- Adspend intensity in the market was almost flattish during the quarter.
- This quarter, HUL has launched an anti-dandruff shampoo product under a completely new brand *Purel*.

### Valuation and view

- As highlighted in our [Corner Office note](#), four key trends are particularly relevant for HUL that would fast-track its earnings growth trajectory: (i) its rapidly improving adaptability to market requirements, (ii) its recognition of Naturals as a key sub-segment across personal care categories, (iii) continuing strong trend toward premiumization (to be aided further by GST-led price reduction) and (d) extensive plans to employ technology (which will provide it with competitive edge). Tailwinds in terms of rural demand recovery, margin accretion due to further benefits of zero based budgeting (ZBB) and medium-term benefits of GST will also accelerate its earnings trajectory.
- Consequently, we expect 18.8% EPS growth over FY17-20, as against 6.1%/10.6%/10.7% EPS CAGR over the last 3/5/10 years. We maintain our **Buy** rating with a revised target price of INR1,515 – a target multiple of 46x and moving to Mar'19E EPS (5% premium to three-year average due to significantly improved business fundamentals).
- From a three-year investment perspective, we value the company at 42x FY22E EPS of INR46.2, deriving a target stock price of INR1,940, yielding a healthy 14% returns CAGR.

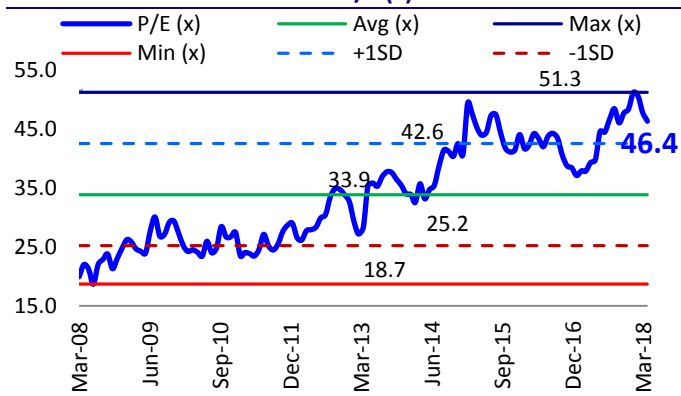
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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

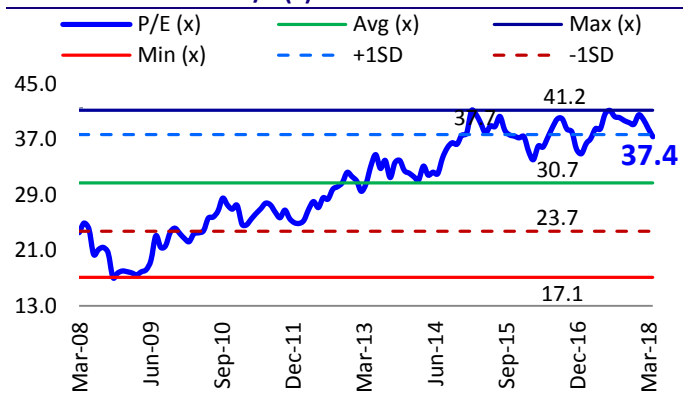
Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Exhibit 1: Hindustan Unilever P/E (x)**



Source: Company, MOSL

**Exhibit 2: Consumer P/E (x)**



Source: Company, MOSL

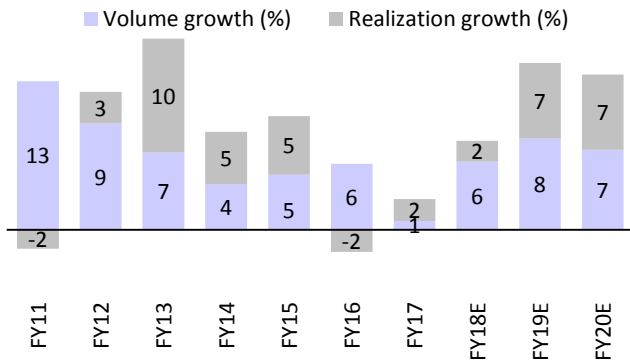
**Exhibit 3: Valuation matrix**

Company	Reco	CMP	Target Price	Upside (%)	Mkt Cap		EPS Growth YoY (%)			P/E (x)			RoE (%)	Div. (%)
		(INR)	(INR)		(INR B)	(USD B)	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY17
<b>Consumer</b>														
Asian Paints	Neutral	1,125	1,270	13	1,114	17.1	2.7	18.8	20.2	52.2	43.9	36.5	26.9	0.8
Britannia Inds.	Buy	4,861	5,995	23	582	9.0	14.3	24.8	25.1	57.7	46.3	37.0	33.9	0.5
Colgate-Palm.	Buy	1,043	1,365	31	284	4.4	12.9	17.9	19.7	43.5	36.9	30.8	49.9	1.0
Dabur India	Buy	321	415	29	572	8.8	4.5	19.2	16.2	42.4	35.6	30.6	25.4	0.8
Emami	Buy	1,021	1,505	47	238	3.7	-9.6	30.5	19.1	42.5	32.6	27.4	29.0	0.9
Future Consumer	Buy	59	76	29	109	1.7	Loss	LP	276.5	NM	196.3	52.1	-1.8	0.0
Godrej Cons.	Neutral	1,058	1,065	1	729	11.2	10.6	15.1	14.2	50.6	44.0	38.5	23.6	0.6
GlaxoSmith C H L	Neutral	6,538	6,350	-3	275	4.2	3.1	14.1	17.4	40.6	35.6	30.3	20.7	1.1
<b>Hind. Unilever</b>	<b>Buy</b>	<b>1,299</b>	<b>1,515</b>	<b>17</b>	<b>2,807</b>	<b>43.2</b>	<b>17.6</b>	<b>20.7</b>	<b>18.1</b>	<b>56.2</b>	<b>46.6</b>	<b>39.4</b>	<b>76.5</b>	<b>1.3</b>
ITC	Neutral	261	278	7	3,226	49.7	6.6	13.7	12.4	29.1	25.6	22.8	22.8	2.2
Jyothy Lab.	Neutral	360	380	6	65	1.0	-27.7	32.0	24.2	44.3	33.5	27.0	13.8	1.7
Marico	Neutral	301	345	15	388	6.0	1.2	19.2	18.4	47.4	39.7	33.6	33.0	1.0
Nestle India	Neutral	7,693	7,882	2	744	11.5	13.2	13.6	20.8	54.9	48.4	40.0	43.4	0.8
P & G Hygiene	Neutral	9,436	9,303	-1	309	4.8	6.9	20.5	17.3	66.4	55.1	47.0	61.2	3.4
Page Industries	Buy	20,535	27,490	34	236	3.6	24.5	39.9	32.2	69.1	49.4	37.3	39.9	0.4
Parag Milk	Neutral	278	314	13	23	0.4	147.7	38.7	35.6	31.1	22.5	16.6	10.8	0.0
Pidilite Inds.	Buy	916	1,050	15	466	7.2	5.7	17.8	15.5	51.8	43.9	38.0	25.2	0.5
United Brew.	Buy	1,007	1,380	37	271	4.2	62.0	23.9	31.2	71.5	57.8	44.0	14.9	0.1
United Spirits	Neutral	3,126	3,515	12	464	7.1	22.9	73.4	38.1	95.1	54.9	39.7	17.3	0.0
<b>Retail</b>														
Jubilant Food.	Neutral	2,108	2,185	4	141	2.2	186.2	29.6	31.3	69.5	53.6	40.8	22.5	0.1
PC Jeweller	Buy	371	685	85	144	2.2	44.4	26.6	27.6	24.0	19.0	14.9	16.9	0.3
Titan Company	Buy	876	990	13	774	11.9	38.8	27.0	24.1	69.9	55.0	44.4	23.4	0.4

Source: Company, MOSL

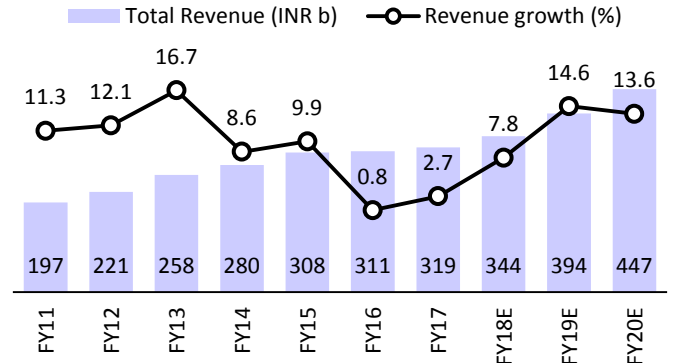
## Story in Charts

**Exhibit 4: Volumes to grow by 6%, 8% and 7% in FY18, FY19 and FY20, respectively**



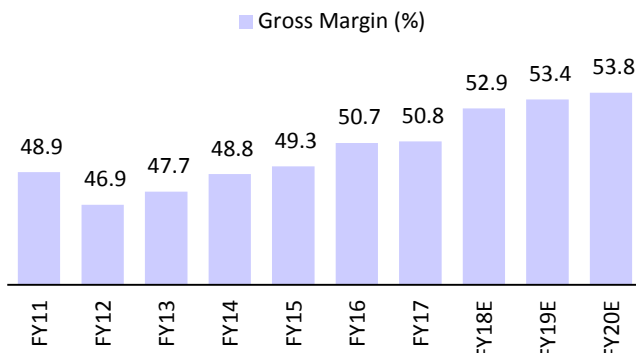
Source: Company, MOSL

**Exhibit 5: Revenue to grow at a CAGR of 12% over FY17-20...**



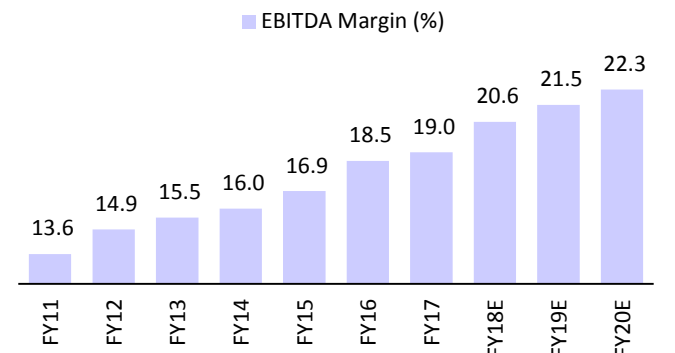
Source: Company, MOSL

**Exhibit 6: ...with gross margin expansion of 300bp**



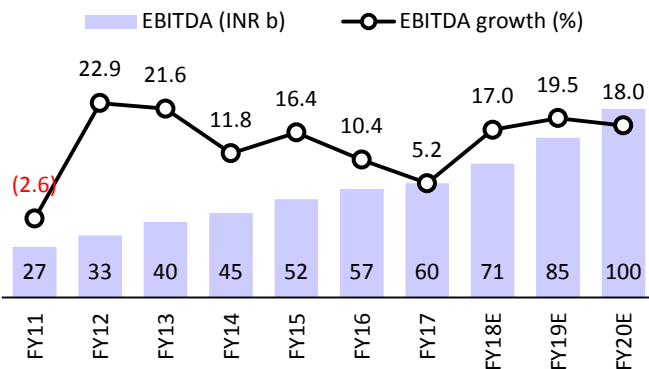
Source: Company, MOSL

**Exhibit 7: ...leading to 330bp expansion in operating margin**



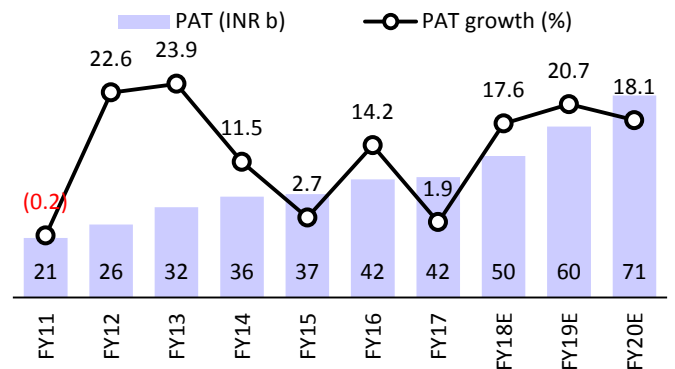
Source: Company, MOSL

**Exhibit 8: EBITDA to grow at a CAGR of 18.2% over FY17-20**



Source: Company, MOSL

**Exhibit 9: Adj. PAT to grow at a CAGR of 18.8% over the same period**



Source: Company, MOSL

## Financials and Valuations

Income Statement						(INR m)
Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Net Sales</b>	<b>301,705</b>	<b>304,990</b>	<b>312,980</b>	<b>337,199</b>	<b>386,714</b>	<b>439,489</b>
Other Oper. Income	6,351	5,619	5,920	6,512	7,163	7,880
<b>Total Revenue</b>	<b>308,056</b>	<b>310,609</b>	<b>318,900</b>	<b>343,711</b>	<b>393,877</b>	<b>447,369</b>
<i>Change (%)</i>	9.9	0.8	2.7	7.8	14.6	13.6
COGS	156,236	153,053	156,850	162,027	183,511	206,615
<b>Gross Profit</b>	<b>151,821</b>	<b>157,556</b>	<b>162,050</b>	<b>181,684</b>	<b>210,366</b>	<b>240,753</b>
Gros Margin (%)	49.3	50.7	50.8	52.9	53.4	53.8
Operating Exp	99,738	100,070	101,580	110,944	125,799	141,007
<i>% of sales</i>	32.4	32.2	31.9	32.3	31.9	31.5
<b>EBIDTA</b>	<b>52,082</b>	<b>57,486</b>	<b>60,470</b>	<b>70,740</b>	<b>84,567</b>	<b>99,747</b>
<i>Change (%)</i>	16.4	10.4	5.2	17.0	19.5	18.0
<i>Margin (%)</i>	16.9	18.5	19.0	20.6	21.5	22.3
Depreciation	2,867	3,208	3,960	4,611	4,749	4,887
Int. and Fin. Charges	168	150	220	266	293	322
Other Income - Recurring	6,184	5,640	5,260	5,538	6,645	7,265
<b>Profit before Taxes</b>	<b>55,231</b>	<b>59,769</b>	<b>61,550</b>	<b>71,400</b>	<b>86,170</b>	<b>101,802</b>
<i>Change (%)</i>	15.1	8.2	3.0	16.0	20.7	18.1
<i>Margin (%)</i>	18.3	19.6	19.7	21.2	22.3	23.2
Tax	19,060	18,160	18,650	20,920	25,248	29,828
Deferred Tax	-338	-70	410	500	603	713
<i>Tax Rate (%)</i>	33.9	30.3	31.0	30.0	30.0	30.0
<b>Profit after Taxes</b>	<b>36,510</b>	<b>41,679</b>	<b>42,490</b>	<b>49,980</b>	<b>60,319</b>	<b>71,261</b>
<i>Change (%)</i>	2.7	14.2	1.9	17.6	20.7	18.1
<i>Margin (%)</i>	12.1	13.7	13.6	14.8	15.6	16.2
Non-rec. (Exp)/Income	6,643	-310	2,410	0	0	0
<b>Reported PAT</b>	<b>43,153</b>	<b>41,369</b>	<b>44,900</b>	<b>49,980</b>	<b>60,319</b>	<b>71,261</b>

Balance Sheet						(INR m)
Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	2,164	2,164	2,164	2,164	2,164	2,164
Reserves	35,084	60,630	62,740	63,661	63,977	63,843
<b>Net Worth</b>	<b>37,248</b>	<b>62,794</b>	<b>64,904</b>	<b>65,825</b>	<b>66,141</b>	<b>66,006</b>
<b>Capital Employed</b>	<b>37,248</b>	<b>62,794</b>	<b>64,904</b>	<b>65,825</b>	<b>66,141</b>	<b>66,006</b>
Gross Block	44,306	50,774	65,827	67,827	69,827	71,827
Less: Accum. Depn.	-19,731	-21,627	-25,587	-30,198	-34,947	-39,834
<b>Net Fixed Assets</b>	<b>24,575</b>	<b>29,147</b>	<b>40,240</b>	<b>37,629</b>	<b>34,880</b>	<b>31,993</b>
Capital WIP	4,790	3,860	2,030	2,030	2,030	2,030
Investment in Subsidiaries	6,541	3,130	2,540	2,540	2,540	2,540
Current Investments	26,238	24,670	35,250	35,750	37,750	39,750
Deferred Charges	1,960	1,680	1,600	1,600	1,600	1,600
<b>Curr. Assets, L&amp;A</b>	<b>72,236</b>	<b>76,509</b>	<b>65,130</b>	<b>68,178</b>	<b>85,703</b>	<b>91,980</b>
Inventory	26,027	25,284	23,620	28,820	30,510	34,674
Account Receivables	7,829	10,645	9,280	11,939	13,692	15,560
Cash and Bank Balance	25,376	27,590	16,710	11,400	21,843	21,425
Others	13,005	12,990	15,520	16,020	19,658	20,321
<b>Curr. Liab. and Prov.</b>	<b>99,093</b>	<b>76,202</b>	<b>81,886</b>	<b>81,903</b>	<b>98,362</b>	<b>103,887</b>
Account Payables	48,515	54,980	60,060	58,421	73,193	76,995
Other Liabilities	29,828	12,382	13,106	13,761	14,449	15,172
Provisions	20,749	8,840	8,720	9,720	10,720	11,720
<b>Net Current Assets</b>	<b>-26,857</b>	<b>307</b>	<b>-16,756</b>	<b>-13,724</b>	<b>-12,659</b>	<b>-11,907</b>
<b>Application of Funds</b>	<b>37,248</b>	<b>62,794</b>	<b>64,904</b>	<b>65,825</b>	<b>66,141</b>	<b>66,006</b>

E: MOSL Estimates

## Financials and Valuations

### Ratios

Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Basic (INR)</b>						
<b>EPS</b>	<b>16.9</b>	<b>19.3</b>	<b>19.6</b>	<b>23.1</b>	<b>27.9</b>	<b>32.9</b>
Cash EPS	18.2	20.7	21.5	25.2	30.1	35.2
BV/Share	17.2	29.0	30.0	30.4	30.6	30.5
DPS	15.0	15.5	16.5	19.5	23.7	28.2
Payout %	88.9	80.5	84.0	84.4	85.0	85.6

### Valuation (x)

P/E	77.0	67.4	66.2	56.2	46.6	39.4
Cash P/E	71.4	62.6	60.5	51.5	43.2	36.9
EV/Sales	9.2	9.1	8.9	8.3	7.2	6.3
EV/EBITDA	53.3	48.4	46.2	39.5	33.0	27.9
P/BV	75.5	44.8	43.3	42.7	42.5	42.6
Dividend Yield (%)	1.2	1.2	1.3	1.5	1.8	2.2

### Return Ratios (%)

RoE	104.3	83.3	66.5	76.5	91.4	107.9
RoCE	140.6	108.5	88.5	101.2	121.0	143.6
RoIC	4,018.2	263.3	108.6	99.0	124.7	166.5

### Working Capital Ratios

Debtor (Days)	9	13	11	13	13	13
Asset Turnover (x)	8.1	4.9	4.8	5.1	5.8	6.7

### Leverage Ratio

Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
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### Cash Flow Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(loss) before Tax	55,231	59,769	61,550	71,400	86,170	101,802
Int./Div. Received	-6,184	-5,640	-5,260	-5,538	-6,645	-7,265
Depreciation	2,867	3,208	3,960	4,611	4,749	4,887
Interest Paid	168	150	220	266	293	322
Direct Taxes Paid	-19,060	-18,160	-18,650	-20,920	-25,248	-29,828
(Incr)/Decr in WC	2,816	-24,949	6,183	-8,342	9,378	-1,171
<b>CF from Operations</b>	<b>35,839</b>	<b>14,378</b>	<b>48,003</b>	<b>41,477</b>	<b>68,697</b>	<b>68,748</b>
Extraordinary Items	6,643	-310	2,410	0	0	0
(Incr)/Decr in FA	-4,269	-5,537	-13,223	-2,000	-2,000	-2,000
<b>Free Cash Flow</b>	<b>31,569</b>	<b>8,840</b>	<b>34,780</b>	<b>39,477</b>	<b>66,697</b>	<b>66,748</b>
(Pur)/Sale of Investments	-1,838	4,979	-9,990	-500	-2,000	-2,000
<b>CF from Invest.</b>	<b>536</b>	<b>-868</b>	<b>-20,803</b>	<b>-2,500</b>	<b>-4,000</b>	<b>-4,000</b>
Change in Networkth	137	24,262	-150	310	0	0
Change in equity	1	0	0	0	0	0
Change in reserves	136	24,262	-150	310	0	0
Dividend Paid	-38,812	-40,085	-42,640	-49,369	-60,003	-71,396
Others	5,467	4,528	4,711	4,772	5,749	6,230
<b>CF from Fin. Activity</b>	<b>-33,208</b>	<b>-11,295</b>	<b>-38,080</b>	<b>-44,287</b>	<b>-54,254</b>	<b>-65,166</b>
<b>Incr/Decr of Cash</b>	<b>3,166</b>	<b>2,215</b>	<b>-10,880</b>	<b>-5,310</b>	<b>10,444</b>	<b>-418</b>
Add: Opening Balance	22,210	25,376	27,590	16,710	11,400	21,843
<b>Closing Balance</b>	<b>25,376</b>	<b>27,590</b>	<b>16,710</b>	<b>11,400</b>	<b>21,843</b>	<b>21,425</b>

E: MOSL Estimates

Explanation of Investment Rating	Expected return (over 12-month)
Investment Rating	
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

#### Disclosures:

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