

# Hindustan Unilever

15 May 2018

Reuters: HLL.BO; Bloomberg: HUVR IN

## Reaping Rewards Of Consistency

4QFY18 was the third consecutive quarter wherein Hindustan Unilever (HUVR) has surprised our and consensus expectations on both top-line and profitability. It is fairly unique achievement and reflects the consistency and competitiveness of its business strategy. Strong operating performance during the quarter was led by double-digit volume growth and margin expansion, despite inflationary pressure in input prices. Profitable growth during the quarter was a function of a healthy mix of innovation and brand activations. HUVR's focus on core and continuous market development initiatives were the key enablers of growth which led to consistent and competitive growth compared to peers. Premiumisation trend was clearly witnessed wherein the popular and premium categories grew rapidly compared to mass segments. The management stance on demand improvement was also more optimistic as compared to previous quarter. Unlike some other companies, it struck more positive note on rural demand recovery. Hyperinflation in crude and weakness in currency would be the key risks to watch over next 6-12 months. Considering all this, we have revised our estimates. We have retained Buy rating on HUVR with a revised target price of Rs1,750 (from Rs1,700 earlier), indicating an upside of 16% from the CMP. Our target price is based on FY20E EPS and earnings multiple of 50x.

**Broad-based volume growth:** HUVR reported comparable sales growth of 16% supported by strong 11% volume growth which was above our estimate as well as consensus expectation. Similar to the previous quarter, HUVR reported growth across categories supported by strong volume growth. All the categories grew in double digits on like-to-like basis. We believe that HUVR's constant thrust on market development, entering underpenetrated categories, strong presence in naturals segment and significant brand investments led to strong underlying growth. With further improvement in the consumption sentiment, HUVR clearly stands out compared to peers considering its focus on innovation, distribution reach and the ability to gain market share.

**Healthy operating margin:** Margin delivery has been fairly good, despite the uptick in media spending and rising pressure from crude prices. The 150bps improvement at gross margin level is a function of supply chain efficiencies and an improved product mix led by innovation and brand activation. Also, Demand for popular and premium segments has been fairly strong compared to some of the mass brands. HUVR's commitment to rationalise costs was witnessed during the quarter as it reported 24% YoY growth in EBITDA, which is much higher compared to some of the other listed players of relatively lower scale. We believe that premiumisation and cost management programme will continue to gain margin. Considering recent deflation in product prices on account of GST and its own competitiveness, it does have pricing headroom but continued increase in CPI can have an adverse impact on demand.

**Outlook and valuation:** We expect HUVR to deliver competitive top-line and profitability growth led by strong category growth and premiumisation. Therefore, we have retained Buy rating on HUVR with an above consensus earnings estimate for FY20 and a revised target price of Rs1,750 (from Rs1,700 earlier), implying an upside of 16% from the CMP, keeping the earnings multiple of 50x unchanged.

## BUY

**Sector:** FMCG

**CMP:** Rs1,503

**Target Price:** Rs1,750

**Upside:** 16%

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### Key Data

Current Shares O/S (mn)	2,164.5
Mkt Cap (Rsbn/US\$bn)	3,254.5/48.2
52 Wk H / L (Rs)	1,522/975
Daily Vol. (3M NSE Avg.)	1,073,875

### Price Performance (%)

	1 M	6 M	1 Yr
Hindustan Unilever	6.6	17.1	53.4
Nifty Index	3.1	6.1	15.0

Source: Bloomberg

Y/E March (Rsmn)	4QFY17	3QFY18	4QFY18	YoY (%)	QoQ (%)	FY17	FY18	YoY (%)
<b>Net sales</b>	<b>82,130</b>	<b>85,900</b>	<b>90,970</b>	<b>10.8</b>	<b>5.9</b>	<b>3,18,899</b>	<b>3,45,250</b>	<b>8.3</b>
COGS	40,220	39,050	43,140	7.3	10.5	1,56,842	1,62,320	3.5
% of sales	49.0	45.5	47.4	(160bps)	190bps	49.2	47.0	(220bps)
<b>Gross margin %</b>	<b>51.0</b>	<b>54.5</b>	<b>52.6</b>	<b>160bps</b>	<b>(190bps)</b>	<b>50.8</b>	<b>53.0</b>	<b>220bps</b>
Employee costs	3,880	4,910	4,000	3.1	(18.5)	16,198	17,450	7.7
% of sales	4.7	5.7	4.4	(30bps)	(130bps)	5.1	5.1	-
Advertising costs	8,530	11,070	10,700	25.4	(3.3)	34,693	41,050	18.3
% of sales	10.4	12.9	11.8	140bps	(110bps)	10.9	11.9	100bps
Other expenses	12,990	14,070	12,650	(2.6)	(10.1)	50,697	51,670	1.9
% of sales	15.8	16.4	13.9	(190bps)	(250bps)	15.9	15.0	(90bps)
<b>EBITDA</b>	<b>16,510</b>	<b>16,800</b>	<b>20,480</b>	<b>24.0</b>	<b>21.9</b>	<b>60,470</b>	<b>72,760</b>	<b>20.3</b>
<b>EBITDA margin %</b>	<b>20.1</b>	<b>19.6</b>	<b>22.5</b>	<b>240bps</b>	<b>300bps</b>	<b>19.0</b>	<b>21.1</b>	<b>210bps</b>
Depreciation	1,080	1,210	1,280	18.5	5.8	3,960	4,780	20.7
EBIT	15,430	15,590	19,200	24.4	23.2	56,510	67,980	20.3
<b>EBIT margin %</b>	<b>18.8</b>	<b>18.1</b>	<b>21.1</b>	<b>230bps</b>	<b>300bps</b>	<b>17.7</b>	<b>19.7</b>	<b>200bps</b>
Interest expense	60	50	40	(33.3)	(20.0)	215	210	(2.1)
Other income	830	1,520	1,000	20.5	(34.2)	5,259	5,690	8.2
Exceptional items	(10)	(210)	(640)	6300.0	204.8	2,411	(620)	(125.7)
PBT	16,190	16,850	19,520	20.6	15.8	63,964	72,840	13.9
Tax	4,360	3,590	6,010	37.8	67.4	19,060	20,480	7.5
Effective tax rate %	27	21	31	390bps	950bps	30	28	(170bps)
PAT	11,830	13,260	13,510	14.2	1.9	44,904	52,360	16.6
Adjusted PAT	11,840	13,470	14,150	19.5	5.0	42,494	52,980	24.7
<b>Adj PAT margin %</b>	<b>14.3</b>	<b>15.4</b>	<b>15.4</b>	<b>100bps</b>	<b>-</b>	<b>13.1</b>	<b>15.1</b>	<b>200bps</b>
<b>EPS</b>	<b>5.5</b>	<b>6.1</b>	<b>6.2</b>	<b>14.2</b>	<b>1.9</b>	<b>20.7</b>	<b>24.2</b>	<b>16.6</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Net sales	3,10,610	3,18,899	3,45,250	3,83,973	4,29,676
YoY growth (%)	0.8	2.7	8.3	11.2	11.9
EBITDA	57,491	60,470	72,760	86,874	1,04,219
EBITDA margin (%)	18.5	19.0	21.1	22.6	24.3
PAT	41,365	44,904	52,360	61,869	75,391
EPS	19.1	20.8	24.2	28.6	34.8
YoY change (%)	(4.6)	8.6	16.6	18.2	21.9
RoCE (%)	87.4	88.5	100.2	113.4	135.4
RoE (%)	66.6	70.3	77.2	85.8	103.4
P/E (x)	45.5	43.9	55.1	52.6	43.1
P/B (x)	30.0	30.4	40.8	44.3	45.0
EV/EBITDA (x)	31.8	31.7	38.7	36.5	30.4

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Our estimates versus actual performance

Y/E (Rsmn)	4QFY17	3QFY18	4QFY18	YoY (%)	QoQ (%)	NBIE estimate	Variation (%)
Net sales	82,130	85,900	90,970	10.8	5.9	88,518	2.8
EBITDA	16,510	16,800	20,480	24.0	21.9	19,297	6.1
EBITDA (%)	20.1	19.6	22.5	240bps	300bps	21.8	70bps
PAT	11,830	13,260	13,510	14.2	1.9	13,506	-

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Change in our estimates

Y/E March (Rsmn)	Old estimates		New estimates		Change (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Net sales	3,69,762	4,05,582	3,83,973	4,29,676	3.8	5.9
EBITDA	86,209	1,00,462	86,874	1,04,219	0.8	3.7
EBITDA margin (%)	23.3	24.8	22.6	24.3	(70bps)	(50bps)
Net income	62,707	73,274	61,869	75,391	(1.3)	2.9

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 4: Category-wise performance

Segment-wise results	4QFY17	3QFY18	4QFY18	YoY (%)	QoQ (%)	FY17	FY18	YoY (%)
<b>Segment-wise revenues (Rsmn)</b>	<b>88,750</b>	<b>85,900</b>	<b>90,970</b>	<b>2.5</b>	<b>5.9</b>	<b>3,44,408</b>	<b>3,52,030</b>	<b>2.2</b>
- Home care	30,040	27,410	31,020	3.3	13.2	1,13,460	1,16,290	2.5
- Personal care	40,750	40,900	40,960	0.5	0.1	1,63,047	1,64,640	1.0
- Food	2,950	3,000	2,990	1.4	(0.3)	11,236	11,650	3.7
- Refreshment	13,000	12,480	14,090	8.4	12.9	48,482	52,250	7.8
Others	2,010	2,110	1,910	(5.0)	(9.5)	8,183	7,200	(12.0)
<b>Sales proportion (%)</b>								
- Home care	33.8	31.9	34.1	0.3	2.2	32.9	33.0	0.1
- Personal care	45.9	47.6	45.0	(0.9)	(2.6)	47.3	46.8	(0.6)
- Food	3.3	3.5	3.3	-	(0.2)	3.3	3.3	-
- Refreshment	14.6	14.5	15.5	0.8	1.0	14.1	14.8	0.8
Others	2.3	2.5	2.1	(0.2)	(0.4)	2.4	2.0	(0.3)
<b>Segment-wise results (Rsmn)</b>	<b>16,160</b>	<b>15,300</b>	<b>18,640</b>	<b>15.3</b>	<b>21.8</b>	<b>59,268</b>	<b>67,670</b>	<b>14.2</b>
- Home care	3,890	3,540	5,090	30.8	43.8	12,589	16,940	34.6
- Personal care	9,840	10,070	10,660	8.3	5.9	38,489	41,000	6.5
- Food	280	110	310	10.7	181.8	847	1,000	18.1
- Refreshment	2,190	1,690	2,560	16.9	51.5	7,547	8,940	18.5
Others	(40)	(110)	20	(150.0)	(118.2)	(203)	(210)	3.3
<b>EBIT margin (%)</b>								
- Home care	12.9	12.9	16.4	3.5	3.5	11.1	14.6	3.5
- Personal care	24.1	24.6	26.0	1.9	1.4	23.6	24.9	1.3
- Food	9.5	3.7	10.4	0.9	6.7	7.5	8.6	1.0
- Refreshment	16.8	13.5	18.2	1.3	4.6	15.6	17.1	1.5
Others	(2.0)	(5.2)	1.0	3.0	6.3	(2.5)	(2.9)	(0.4)
<b>EBIT composition (%)</b>								
- Home care	24.1	23.1	27.3	3.2	4.2	21.2	25.0	3.8
- Personal care	60.9	65.8	57.2	(3.7)	(8.6)	64.9	60.6	(4.4)
- Food	1.7	0.7	1.7	(0.1)	0.9	1.4	1.5	-
- Refreshment	13.6	11.0	13.7	0.2	2.7	12.7	13.2	0.5
Others	(0.2)	(0.7)	0.1	0.4	0.8	(0.3)	(0.3)	-

Note: The above numbers are reported numbers. Following the change in accounting treatment, these numbers are not comparable as the base quarter numbers have not been restated; Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 5: Comparable sales growth category-wise

Segments	4QFY18	FY18
Home care	21	15
Personal care	13	10
Refreshment	14	12
Food	10	11
<b>Total</b>	<b>16</b>	<b>12</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Conference-call highlights**

- The management stated that the robust growth in top-line was broad-based across categories. With trade channels stabilising after GST-related disruption, the management sounded very optimistic and appealing and expects improvement in consumption demand. With positive consumer sentiment and the government's focus on rural India, growth from rural areas will come back on track at pan- India level and will grow higher than that of urban areas. Also, GST rate cut from 28% to 18% on a major portion of the portfolio also helped during the quarter to fuel volume growth. Media spending during the quarter has also gone up and we take this positively as this shows the intention of the company to invest in brands and gain market share. We also believe that there must be some green shoots of recovery which led HUVR to go aggressively on media spending. We expect this to continue in the medium term, considering the competitive intensity in the sector.
- All the categories grew in double digits. This shows the management's focus on each and every category. Similar to revenue growth, each category contributed to margin expansion. There were new launches across categories during the quarter. As a result, a healthy mix of innovation and new launches led to higher growth compared to peers. Performance of naturals portfolio has also been satisfactory wherein all categories, mass to premium are doing well. The management is pleased with the performance of Indulekha and has raised internal growth projection for the same. This shows the brand is gaining market share at the cost of other players. The launch of Lever Ayush has also got an encouraging consumer response and will continue to support volume growth going forward.

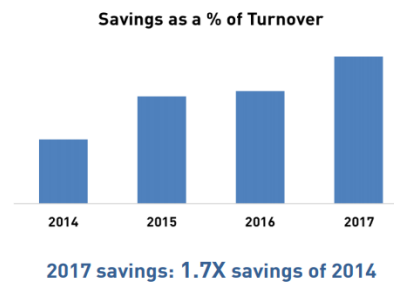
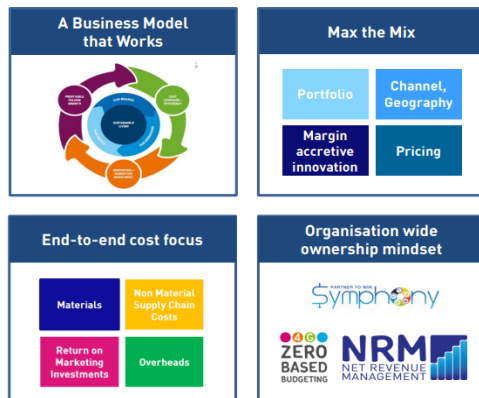
**Exhibit 6: New launches across the categories**



Source: Company presentation, Nirmal Bang Institutional Equities Research

- Premiumisation trend is clearly being played out across the industry. Therefore, despite facing crude oil-led pricing pressure, HUVR managed to report 160bps gross margin expansion. The management stated during the conference call that demand for premium and popular brands has been on the higher side compared to some mass brands. We believe that with further improvement in the market sentiment, this will continue to improve the product mix and lead to margin expansion. On the cost side, HUVR's commitment to rationalise costs has yielded results consistently since the past few quarters. Although, it ramped up its media spending during the quarter, there has been remarkable savings in staff costs and other overheads leading to a strong 240bps margin expansion. Measures like ZBB, NRM etc, are working really in favour of the company and we expect it will continue to enjoy the benefits of the same.

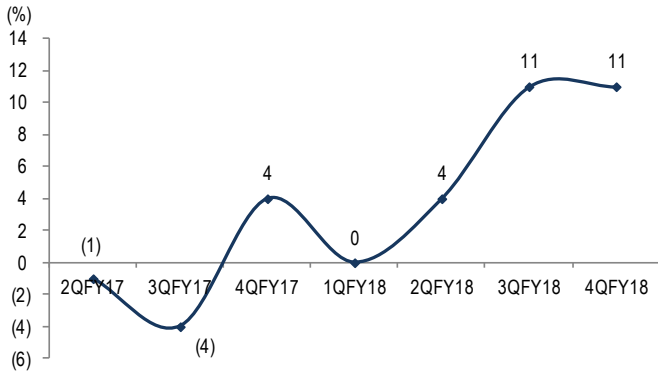
**Exhibit 7: Margin expansion strategy**



Source: Company presentation, Nirmal Bang Institutional Equities Research

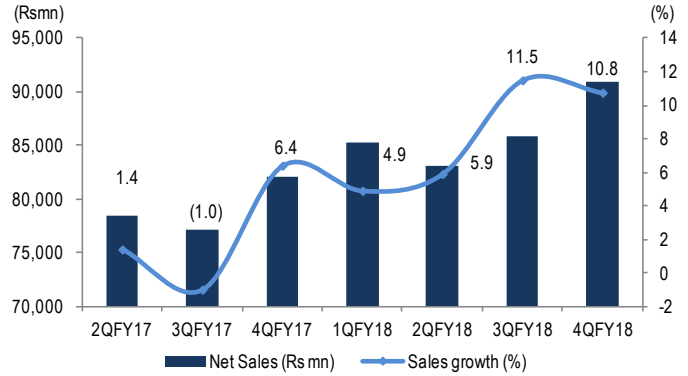
- Although, HUVR is geared up for strong operational performance delivery, one cannot ignore the impact of rising prices of crude oil, which is a key raw material for the company. With a continuous rise in crude oil prices, HUVR may have to go for price hike. Although we believe that because of the brand equity the company enjoys it has pricing power, but aggressive price hike could compromise future growth to some extent. Hence, we have to be extremely watchful as far as the movement of crude oil prices is concerned.

**Exhibit 8: Robust volume growth**



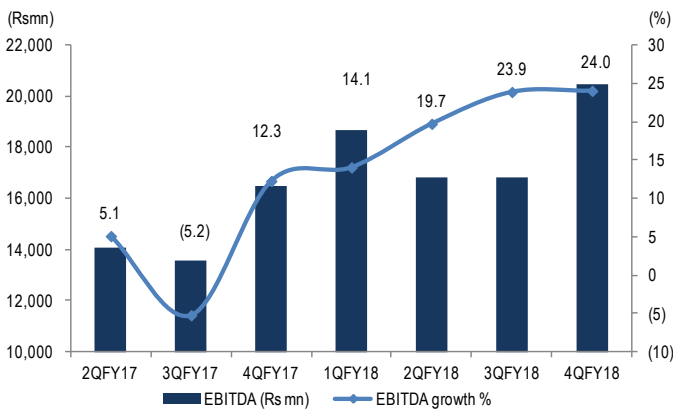
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Improved top-line performance**



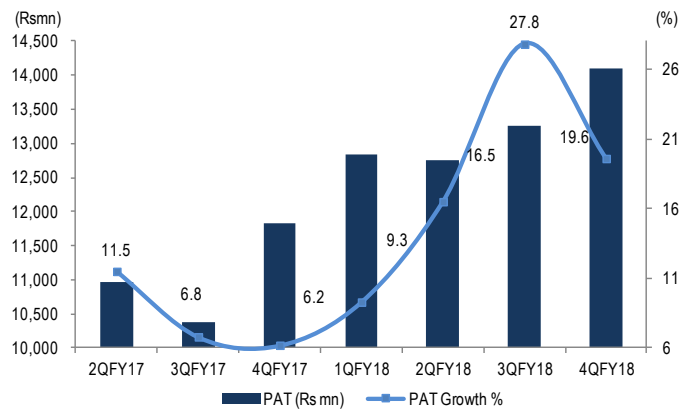
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Strong operating profit trend**



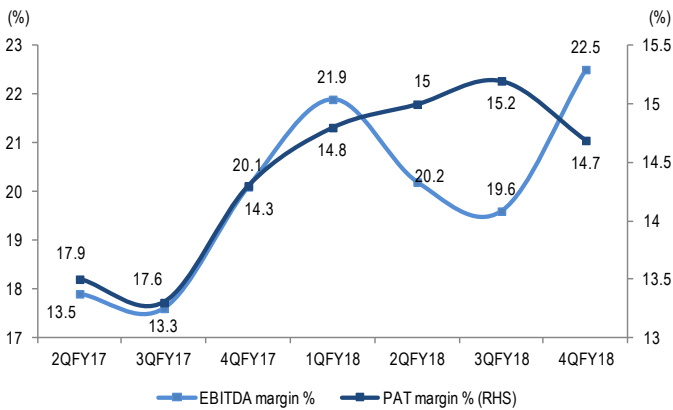
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Net income trending upwards**



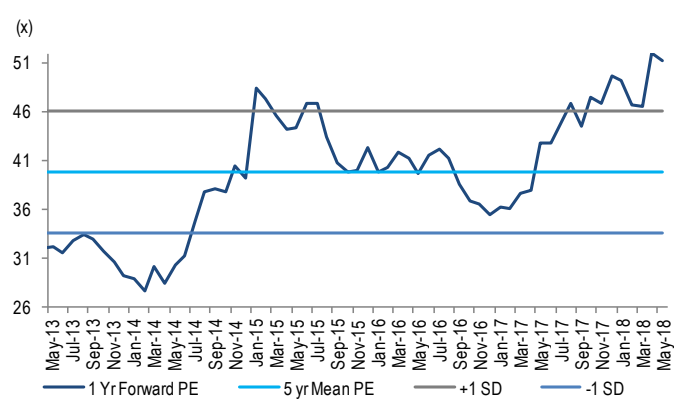
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: Improved margin profile**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 13: One-year forward P/E**



Source: Company, Nirmal Bang Institutional Equities Research



## Financials (standalone)

### Exhibit 14: Income statement

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Net sales	3,10,610	3,18,899	3,45,250	3,83,973	4,29,676
<b>% Growth</b>	<b>0.8</b>	<b>2.7</b>	<b>8.3</b>	<b>11.2</b>	<b>11.9</b>
COGS	1,53,053	1,56,842	1,62,320	1,78,278	1,96,681
Staff costs	15,728	16,198	17,450	18,815	20,624
Advertising costs	36,000	34,693	41,050	45,178	49,697
Other expenses	48,338	50,697	51,670	54,828	58,454
Total expenses	2,53,118	2,58,429	2,72,490	2,97,099	3,25,457
<b>EBITDA</b>	<b>57,491</b>	<b>60,470</b>	<b>72,760</b>	<b>86,874</b>	<b>1,04,219</b>
<b>% growth</b>	<b>10.4</b>	<b>5.2</b>	<b>20.3</b>	<b>19.4</b>	<b>20.0</b>
<b>EBITDA margin (%)</b>	<b>18.5</b>	<b>19.0</b>	<b>21.1</b>	<b>22.6</b>	<b>24.3</b>
Other income	5,638	5,259	5,690	6,223	6,962
Interest costs	153	215	210	220	220
Depreciation	3,208	3,960	4,780	5,119	5,519
Profit before tax (before exceptional items)	59,769	61,554	73,460	87,758	1,05,442
Exceptional items	(308)	2,411	(620)	-	-
Tax	18,096	19,060	20,480	25,889	30,051
PAT (before exceptional items)	41,673	42,494	52,980	61,869	75,391
<b>PAT</b>	<b>41,365</b>	<b>44,904</b>	<b>52,360</b>	<b>61,869</b>	<b>75,391</b>
<b>PAT margin (%)</b>	<b>13.1</b>	<b>13.9</b>	<b>14.9</b>	<b>15.9</b>	<b>17.3</b>
<b>% Growth</b>	<b>(4.6)</b>	<b>8.6</b>	<b>16.6</b>	<b>18.2</b>	<b>21.9</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 16: Balance sheet

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Share capital	2,164	2,164	2,164	2,164	2,164
Reserves	60,630	62,740	68,590	71,312	70,125
Net worth	62,794	64,904	70,754	73,476	72,289
Total debt	-	-	-	-	-
Deferred tax liability	(1,680)	(1,600)	(2,550)	(2,550)	(2,550)
<b>Total liabilities</b>	<b>71,004</b>	<b>73,894</b>	<b>82,584</b>	<b>85,811</b>	<b>86,371</b>
Gross block	31,950	43,190	49,190	53,190	57,190
Depreciation	2,930	6,650	11,430	16,549	22,068
Net block	29,020	36,540	37,760	36,641	35,122
Capital work-in-progress	3,980	5,730	7,960	7,500	7,000
Investments	3,190	2,600	2,560	3,134	3,502
Inventories	25,280	23,620	23,590	26,230	26,577
Debtors	10,640	9,280	11,470	5,701	8,689
Cash	30,120	19,770	42,024	46,551	46,534
Loans & advances	2,940	3,580	4,100	4,700	5,252
Other current assets	4,870	5,790	5,760	5,876	5,690
Total current assets	95,524	93,654	1,11,394	1,17,652	1,26,883
Creditors	54,980	60,060	70,130	71,189	75,378
Other current liabilities & provisions	11,540	11,960	16,230	17,627	21,009
Total current liabilities	66,520	72,020	86,360	88,816	96,388
Net current assets	29,004	21,634	25,034	28,836	30,495
<b>Total assets</b>	<b>71,004</b>	<b>73,894</b>	<b>82,584</b>	<b>85,811</b>	<b>86,371</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 15: Cash flow

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
PAT	41,365	44,904	52,360	61,869	75,391
Depreciation	3,208	3,960	4,780	5,119	5,519
Other income	(5,638)	(5,259)	(5,690)	(6,223)	(6,962)
(Inc.)/dec. in working capital	(786)	7,600	12,210	5,470	4,421
<b>Cash flow from operations</b>	<b>43,787</b>	<b>56,464</b>	<b>69,350</b>	<b>72,458</b>	<b>85,331</b>
Capital expenditure (-)	(6,622)	(13,230)	(8,230)	(3,540)	(3,500)
<b>Net cash after capex</b>	<b>37,165</b>	<b>43,234</b>	<b>61,120</b>	<b>68,918</b>	<b>81,831</b>
Interest paid (-)	-	-	-	-	-
Dividends paid (-)	(41,395)	(42,929)	(51,446)	(59,147)	(76,578)
Inc./(dec.) in total borrowings	-	-	-	-	-
Inc./(dec.) in investments	2,476	(9,990)	6,684	(5,319)	(6,465)
<b>Cash from financial activities</b>	<b>(39,315)</b>	<b>(42,149)</b>	<b>(48,606)</b>	<b>(58,642)</b>	<b>(74,831)</b>
Others	-	1,400	-	-	-
Opening cash balance	28,610	30,120	19,770	42,024	46,551
Closing cash balance	30,120	19,770	42,024	46,551	46,534

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 17: Key ratios

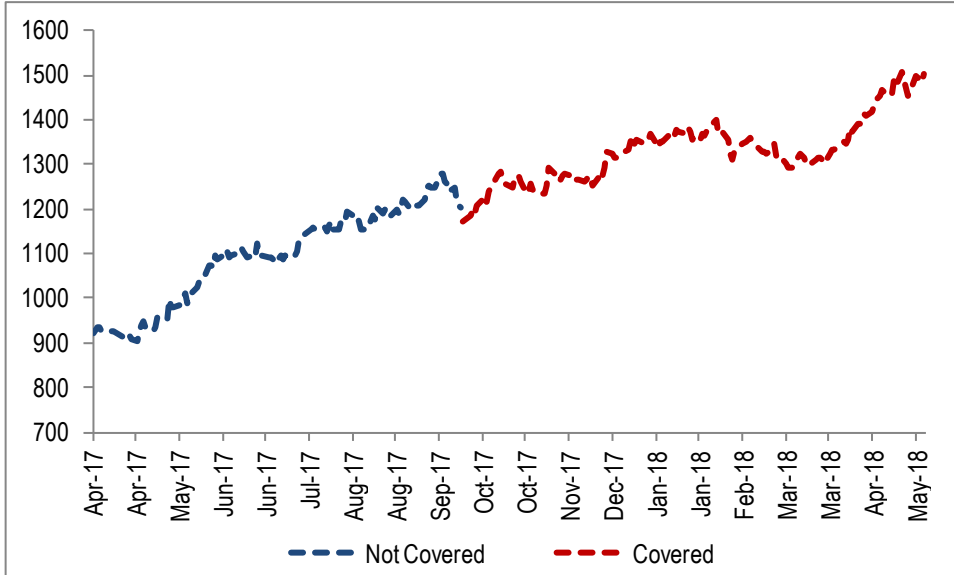
Y/E March	FY16	FY17	FY18	FY19E	FY20E
<b>Per share (Rs)</b>					
EPS	19.1	20.8	24.2	28.6	34.8
Book value	29.0	30.0	32.7	34.0	33.4
DPS	16.0	16.6	20.0	22.9	29.6
<b>Valuation (x)</b>					
P/Sales	5.6	5.7	8.2	8.3	7.4
EV/sales	5.5	5.6	8.0	8.1	7.2
EV/EBITDA	31.8	31.7	38.7	36.5	30.4
P/E	45.5	43.9	55.1	52.6	43.1
P/BV	30.0	30.4	40.8	44.3	45.0
<b>Return ratios (%)</b>					
RoCE	87.4	88.5	100.2	113.4	135.4
RoE	66.6	70.3	77.2	85.8	103.4
<b>Profitability ratios (%)</b>					
Gross margin	50.7	50.8	53.0	53.6	54.2
EBITDA margin	18.5	19.0	21.1	22.6	24.3
EBIT margin	17.5	17.7	19.7	21.3	23.0
PAT margin	13.1	13.9	14.9	15.9	17.3
<b>Liquidity ratios (%)</b>					
Current ratio	1.4	1.3	1.3	1.3	1.3
Quick ratio	1.1	1.0	1.0	1.0	1.0
<b>Solvency ratio (%)</b>					
Debt-to-equity	-	-	-	-	-
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	2.4	2.4	2.1	2.2	2.4
Fixed asset turnover ratio (x)	10.1	8.2	7.7	8.9	10.4
Debtor days	10	11	11	8	6
Inventory days	61	57	53	51	49
Creditor days	129	128	129	134	136

Source: Company, Nirmal Bang Institutional Equities Research

**Rating track**

Date	Rating	Market price (Rs)	Target price (Rs)
29 September 2017	Buy	1,170	1,425
26 October 2017	Buy	1,272	1,460
20 December 2017	Buy	1,350	1,570
18 January 2018	Buy	1,371	1,700
15 May 2018	Buy	1,503	1,750

**Rating chart**



## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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