

# Hindustan Unilever

BSE SENSEX  
38,024

S&P CNX  
11,427

**CMP: INR1,699 TP: INR2,125(+25%)**

**BUY**



Hindustan Unilever Limited

**Stock Info**

Bloomberg	HUVR IN
Equity Shares (m)	2,164
M.Cap.(INRb)/(USD\$b)	3677 / 53.2
52-Week Range (INR)	1871 / 1282
1, 6, 12 Rel. Per (%)	-11/4/18
12M Avg Val (INR M)	2433
Free float (%)	32.8

**Financials Snapshot (INR b)**

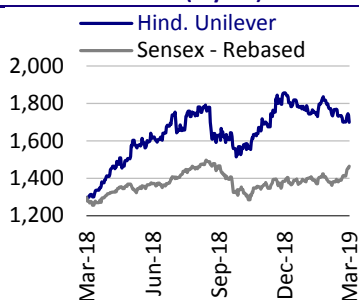
Y/E Mar	2019E	2020E	2021E
Net Sales	382.4	436.2	498.7
EBITDA	86.6	103.0	122.5
Net Profit	62.3	74.2	88.5
EPS (INR)	28.8	34.3	40.9
EPS Growth (%)	17.5	19.1	19.3
BV/Share (INR)	34.1	33.7	31.4
P/E (x)	59.0	49.6	41.6
P/BV (x)	49.8	50.5	54.0
RoE (%)	86.1	101.2	125.6
RoCE (%)	121.7	144.9	179.8

**Shareholding pattern (%)**

As On	Dec-18	Sep-18	Dec-17
Promoter	67.2	67.2	67.2
DII	7.4	7.3	6.3
FII	12.0	12.1	12.9
Others	13.4	13.4	13.6

FII Includes depository receipts

**Stock Performance (1-year)**



**Short-term blip in demand; Investment case remains strong**

We spoke to the management of Hindustan Unilever (HUL) for an update on the overall market conditions. Key takeaways:

- A small short-term blip was seen in 4QFY19 demand. But, we had already built in 8% volume growth for 4QFY19 v/s double-digit growth of the preceding five quarters.
- Measures announced in the budget are expected to benefit demand from 1QFY20 onwards. We see no immediate threat to our FY20 forecast of 7.5% volume growth.
- We believe HUVR will continue to outperform peers over the medium term.
- Material cost outlook remains benign, ad spends & promotion intensity have not picked up erratically and cost savings continue at the targeted pace.
- Valuation & View: There is no change to our forecasts. We expect its high multiples to sustain (a) on combination of continued healthy volume growth v/s peers, (b) on better earnings growth v/s its own past earnings, (c) because of the company's best-in-breed return ratios, and (d) due to synergies from the GSKCH acquisition from FY21 (we are not building in benefit from the acquisition yet in our numbers). We maintain BUY rating on the stock with a target price of INR2,125, target multiple of 52x FY2021 EPS (which is ~15% premium to 3-year average due to significantly improving business fundamentals).

**Some moderation seen in overall pace of growth in the FMCG market**

- Our conversation with the HUL management indicated that there is a bit of relative slowdown in 4QFY19 demand compared to the preceding five quarters, which had witnessed double-digit volume growth.
- Slight slowdown was witnessed across rural and urban. Rural growth remains well ahead of urban; but rural growth over urban has declined a tad, to less than 1.3x urban growth seen in the previous quarter.
- Therefore, we believe that HUVR is unlikely to report double-digit volume growth; but, we were already building in 8% volume growth for 4QFY19 in our forecasts.
- Importantly, there appears to be no concern over the medium-to long-term demand. With benefits on the demand front due to the budget coming through in FY20, we maintain our 7.5% volume growth forecasts for FY20/FY21.
- It is pertinent to note that HUL has been a huge outperformer on volumes compared to peers, despite being multiple times larger. (See exhibit no. 1)
- We expect HUVR's volumes, topline and earnings to continue outperforming its peers, as well as its own past record, led by:
  - It's rapidly improving adaptability to market requirements exemplified by its 'Winning in Many Indias' (WIMI) strategy.
  - Its recognition and strong execution on Naturals as a key sub-segment across categories.
  - Continuous strong trend towards premiumization.
  - Extensive plans to employ technology and creating further entry barriers.
  - Continued increase in efficiency levels leading to cost savings.

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- The temporary blip in 4QFY19 demand may affect other relatively smaller-sized consumer companies more.
- Material cost outlook continues to remain benign, which is great for HUVR and other players from a 4QFY19 perspective, compared to the pressures witnessed in 3QFY19.
- Ad spend intensity in the sector has not changed. New launches and variants launched recently are doing well for HUVR.

**Valuation and view**

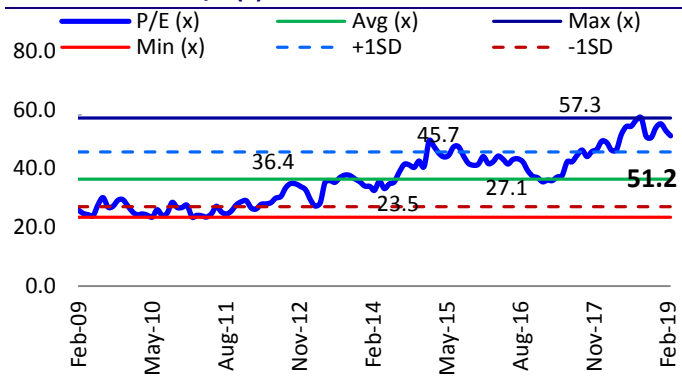
- There is no change to our forecasts. A combination of continued healthy volume growth v/s peers and better earnings growth compared to its own past record, aligned with best-in-breed return ratios, and synergies from the GSKCH acquisition from FY21 onwards (we are not building in benefit from the acquisition yet in our numbers), will lead to sustained high multiples.
- We maintain BUY rating on the stock with a target price of INR2,125, target multiple of 52x FY2021 EPS (~15% premium to 3-year average due to significantly improving business fundamentals).

**Exhibit 1: HUVR’s domestic volume growth has been ahead of its relatively smaller peers in recent quarters**

Quarterly volume growth (%)	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
<b>HUVR (Domestic)</b>	6.0	6.0	7.0	6.0	4.0	4.0	(1.0)	(4.0)	4.0	0.0	4.0	11.0	11.0	12.0	10.0	10.0
Marico (Domestic)	3.0	6.0	5.5	10.5	8.4	8.0	3.0	(4.0)	10.0	(9.0)	8.0	9.4	1.0	12.4	6.0	5.0
Dabur (Domestic FMCG)	8.1	8.1	5.5	(2.5)	7.0	4.1	4.5	(5.0)	2.4	(4.4)	7.2	13.0	7.7	21.0	8.1	12.4
Emami (Domestic)	12.0	15.0	13.5	9.3	18.0	18.0	11.0	0.2	(1.5)	(18.0)	10.0	6.0	8.0	18.0	(4.0)	3.5

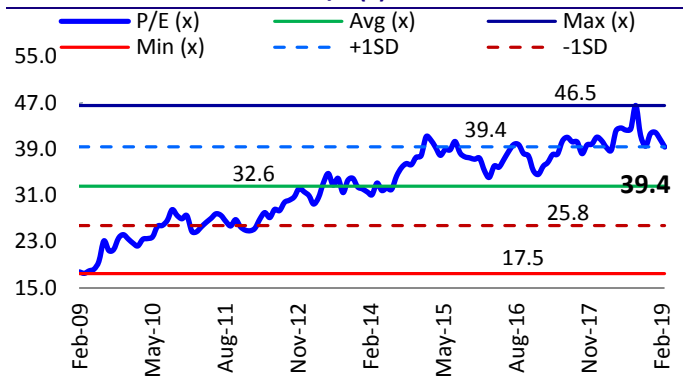
Source: Company, MOFSL

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



Source: Bloomberg, Company, MOFSL

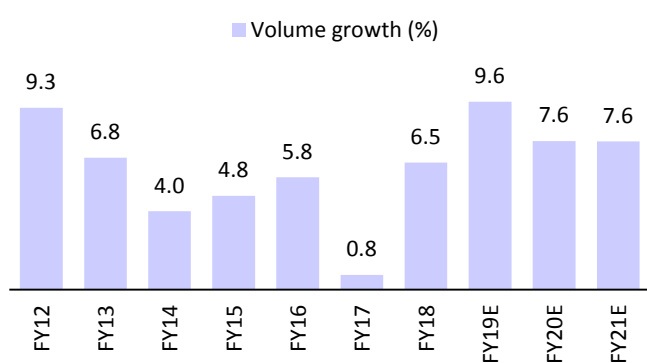
**Exhibit 3: Consumer sector P/E (x)**



Source: Bloomberg, Company, MOFSL

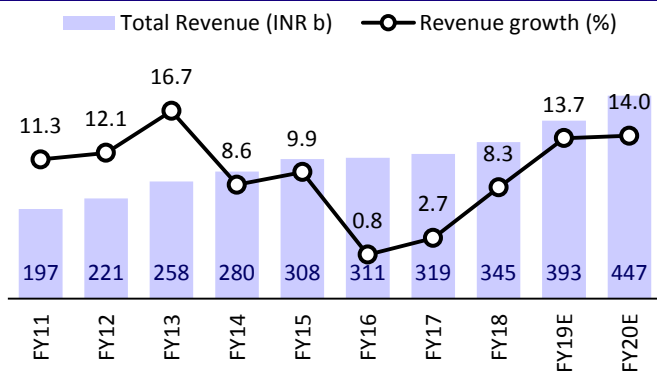
## Story in Charts

**Exhibit 4: Volumes to grow 7.6% in FY20 and FY21**



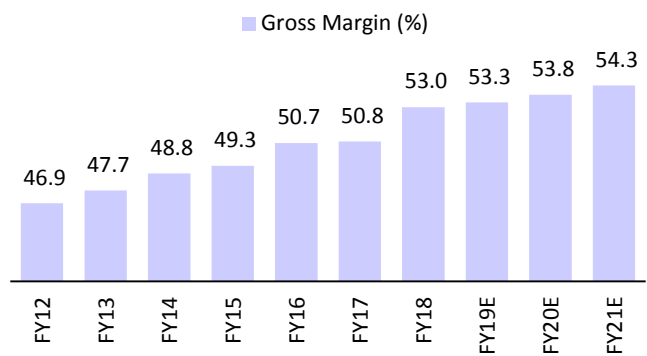
Source: Company, MOFSL

**Exhibit 5: Revenue to grow at 14.2% CAGR over FY19-21...**



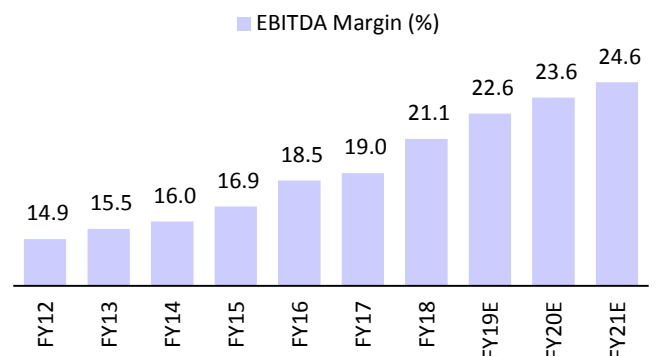
Source: Company, MOFSL

**Exhibit 6: ...with gross margin expanding 110bp over FY19-21...**



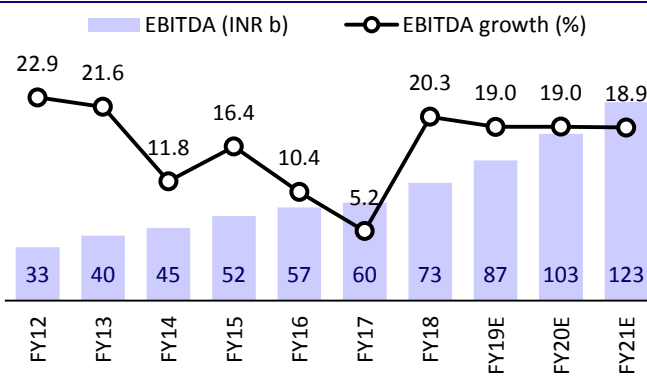
Source: Company, MOFSL

**Exhibit 7: ...leading to operating margins expanding by 190bp over the same period**



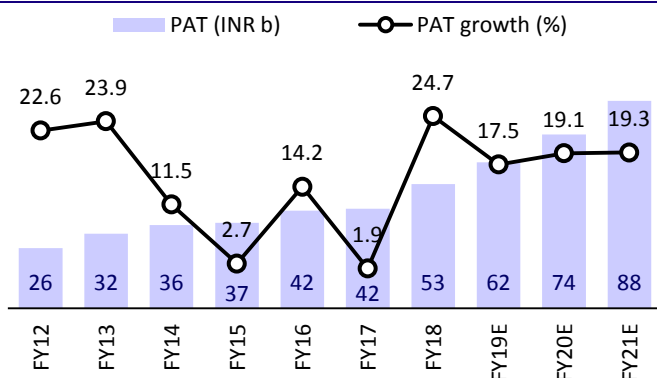
Source: Company, MOFSL

**Exhibit 8: EBITDA to grow at a CAGR of 19% over FY19-21**



Source: Company, MOFSL

**Exhibit 9: Adj. PAT to grow at a CAGR of 19.2% over the same period**



Source: Company, MOFSL

## Financials and valuations

Income Statement								(INR Million)
Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	
<b>Net Sales</b>	<b>301,705</b>	<b>304,990</b>	<b>312,980</b>	<b>339,260</b>	<b>376,970</b>	<b>429,561</b>	<b>491,466</b>	
Other Oper. Income	6,351	5,619	5,920	5,990	5,451	6,596	7,255	
<b>Total Revenue</b>	<b>308,056</b>	<b>310,609</b>	<b>318,900</b>	<b>345,250</b>	<b>382,421</b>	<b>436,157</b>	<b>498,721</b>	
Change (%)	9.9	0.8	2.7	8.3	10.8	14.1	14.3	
COGS	156,236	153,053	156,850	162,320	178,643	201,650	227,705	
<b>Gross Profit</b>	<b>151,821</b>	<b>157,556</b>	<b>162,050</b>	<b>182,930</b>	<b>203,778</b>	<b>234,507</b>	<b>271,017</b>	
Gross Margin (%)	49.3	50.7	50.8	53.0	53.3	53.8	54.3	
Operating Exp	99,738	100,070	101,580	110,170	117,194	131,459	148,476	
% of sales	32.4	32.2	31.9	31.9	30.6	30.1	29.8	
<b>EBIDTA</b>	<b>52,082</b>	<b>57,486</b>	<b>60,470</b>	<b>72,760</b>	<b>86,584</b>	<b>103,048</b>	<b>122,541</b>	
Change (%)	16.4	10.4	5.2	20.3	19.0	19.0	18.9	
Margin (%)	16.9	18.5	19.0	21.1	22.6	23.6	24.6	
Depreciation	2,867	3,208	3,960	4,780	5,204	5,198	5,337	
Int. and Fin. Charges	168	150	220	200	280	288	297	
Other Income - Recurring	6,184	5,640	5,260	5,690	6,589	8,409	9,480	
<b>Profit before Taxes</b>	<b>55,231</b>	<b>59,769</b>	<b>61,550</b>	<b>73,470</b>	<b>87,689</b>	<b>105,970</b>	<b>126,388</b>	
Change (%)	15.1	8.2	3.0	19.4	19.4	20.8	19.3	
Margin (%)	18.3	19.6	19.7	21.7	23.3	24.7	25.7	
Tax	19,060	18,160	18,650	21,480	25,430	31,791	37,916	
Deferred Tax	-338	-70	410	-1,000	0	0	0	
Tax Rate (%)	33.9	30.3	31.0	27.9	29.0	30.0	30.0	
<b>Profit after Taxes</b>	<b>36,510</b>	<b>41,679</b>	<b>42,490</b>	<b>52,990</b>	<b>62,259</b>	<b>74,179</b>	<b>88,471</b>	
Change (%)	2.7	14.2	1.9	24.7	17.5	19.1	19.3	
Margin (%)	12.1	13.7	13.6	15.6	16.5	17.3	18.0	
Non-rec. (Exp)/Income	6,643	-310	2,410	-620	0	0	0	
<b>Reported PAT</b>	<b>43,153</b>	<b>41,369</b>	<b>44,900</b>	<b>52,370</b>	<b>62,259</b>	<b>74,179</b>	<b>88,471</b>	

Balance Sheet								(INR Million)
Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	
Share Capital	2,164	2,164	2,164	2,164	2,164	2,164	2,164	
Reserves	35,084	60,630	62,740	68,590	71,655	70,679	65,876	
<b>Capital Employed</b>	<b>37,248</b>	<b>62,794</b>	<b>64,904</b>	<b>70,754</b>	<b>73,819</b>	<b>72,843</b>	<b>68,040</b>	
Gross Block	44,306	50,774	65,827	71,787	73,787	75,787	77,787	
Less: Accum. Depn.	-19,731	-21,627	-25,587	-30,367	-35,571	-40,769	-46,106	
<b>Net Fixed Assets</b>	<b>24,575</b>	<b>29,147</b>	<b>40,240</b>	<b>41,420</b>	<b>38,216</b>	<b>35,018</b>	<b>31,681</b>	
Capital WIP	4,790	3,860	2,030	4,300	4,300	4,300	4,300	
Investment in Subsidiaries	6,541	3,130	2,540	2,540	2,540	2,540	2,540	
Current Investments	26,238	24,670	35,250	28,570	28,570	28,570	28,570	
Deferred Charges	1,960	1,680	1,600	2,550	2,550	2,550	2,550	
<b>Curr. Assets, L&amp;A</b>	<b>72,236</b>	<b>76,509</b>	<b>65,850</b>	<b>92,110</b>	<b>109,106</b>	<b>131,537</b>	<b>147,130</b>	
Inventory	26,027	25,284	23,620	23,590	27,560	29,372	35,931	
Account Receivables	7,829	10,645	9,280	11,470	10,571	14,485	15,160	
Cash and Bank Balance	25,376	27,590	16,710	33,730	40,908	54,839	60,392	
Others	13,005	12,990	16,240	23,320	30,067	32,842	35,647	
<b>Curr. Liab. and Prov.</b>	<b>99,093</b>	<b>76,202</b>	<b>82,606</b>	<b>100,736</b>	<b>111,462</b>	<b>131,672</b>	<b>148,731</b>	
Account Payables	48,515	54,980	60,060	70,130	76,219	91,627	103,705	
Other Liabilities	29,828	12,382	13,826	16,376	18,014	19,815	21,796	
Provisions	20,749	8,840	8,720	14,230	17,230	20,230	23,230	
<b>Net Current Assets</b>	<b>-26,857</b>	<b>307</b>	<b>-16,756</b>	<b>-8,626</b>	<b>-2,356</b>	<b>-135</b>	<b>-1,601</b>	
<b>Application of Funds</b>	<b>37,248</b>	<b>62,794</b>	<b>64,904</b>	<b>70,754</b>	<b>73,819</b>	<b>72,843</b>	<b>68,040</b>	

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>16.9</b>	<b>19.3</b>	<b>19.6</b>	<b>24.5</b>	<b>28.8</b>	<b>34.3</b>	<b>40.9</b>
Cash EPS	18.2	20.7	21.5	26.7	31.2	36.7	43.3
BV/Share	17.2	29.0	30.0	32.7	34.1	33.7	31.4
DPS	15.0	15.5	17.0	20.0	24.0	30.0	37.0
Payout %	89.9	96.9	97.9	98.9	99.8	104.7	108.3
<b>Valuation (x)</b>							
P/E	100.7	88.2	86.5	69.4	59.0	49.6	41.6
Cash P/E	93.3	81.9	79.1	63.6	54.5	46.3	39.2
EV/Sales	12.1	12.0	11.7	10.7	9.6	8.4	7.4
EV/EBITDA	69.9	63.4	60.5	50.0	42.0	35.1	29.5
P/BV	98.7	58.5	56.6	52.0	49.8	50.5	54.0
Dividend Yield (%)	0.9	0.9	1.0	1.2	1.4	1.8	2.2
<b>Return Ratios (%)</b>							
RoE	104.3	83.3	66.5	78.1	86.1	101.2	125.6
RoCE	158.2	119.8	96.7	108.6	121.7	144.9	179.8
RoIC	4,523.0	290.6	118.7	144.0	222.1	399.5	1,481.4
<b>Working Capital Ratios</b>							
Debtor (Days)	9	13	11	12	10	12	11
Asset Turnover (x)	8.1	4.9	4.8	4.8	5.1	5.9	7.2
<b>Leverage Ratio</b>							
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Cash Flow Statement

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(loss) before Tax	55,231	59,770	61,550	73,470	87,689	105,970	126,388
Financial other income	-3,559	-1,910	-920	-2,720	-6,589	-8,409	-9,480
Depreciation	2,867	3,210	3,960	4,780	5,204	5,198	5,337
Net Interest Paid	-1,890	-3,160	-2,400	-2,460	280	288	297
Direct Taxes Paid	-17,775	-17,040	-18,040	-22,100	-25,430	-31,791	-37,916
(Incr)/Decr in WC	-2,156	-1,130	5,380	8,190	908	11,709	7,020
<b>CF from Operations</b>	<b>32,719</b>	<b>39,740</b>	<b>49,530</b>	<b>59,160</b>	<b>62,063</b>	<b>82,966</b>	<b>91,645</b>
Other Items	3,506	6,004	450	4,790	8,636	10,440	11,654
(Incr)/Decr in FA	263	-6,740	-8,520	-8,210	-2,000	-2,000	-2,000
<b>Free Cash Flow</b>	<b>32,982</b>	<b>33,000</b>	<b>41,010</b>	<b>50,950</b>	<b>60,063</b>	<b>80,966</b>	<b>89,645</b>
(Pur)/Sale of Investments	1,182	3,290	-9,700	7,790	0	0	0
<b>CF from Invest.</b>	<b>4,951</b>	<b>2,554</b>	<b>-17,770</b>	<b>4,370</b>	<b>6,636</b>	<b>8,440</b>	<b>9,654</b>
Dividend Paid	-29,123	-33,420	-35,610	-38,720	-62,124	-77,655	-95,775
Others	-5,403	-6,660	-7,030	-7,790	603	181	29
<b>CF from Fin. Activity</b>	<b>-34,504</b>	<b>-40,080</b>	<b>-42,640</b>	<b>-46,510</b>	<b>-61,521</b>	<b>-77,474</b>	<b>-95,746</b>
<b>Incr/Decr of Cash</b>	<b>3,166</b>	<b>2,214</b>	<b>-10,880</b>	<b>17,020</b>	<b>7,177</b>	<b>13,932</b>	<b>5,553</b>
Add: Opening Balance	22,210	25,376	27,590	16,710	33,730	40,907	54,839
<b>Closing Balance</b>	<b>25,376</b>	<b>27,590</b>	<b>16,710</b>	<b>33,730</b>	<b>40,907</b>	<b>54,839</b>	<b>60,393</b>

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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

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