

Hindustan Unilever (HINLEV)

₹ 1572

New future categories to accelerate growth

We attended the Annual Investor Meet of Hindustan Unilever (HUL) on June 6, 2018 where the company reiterated its positive outlook on the long term consumption story of India driven by urbanisation and premiumisation. The key thrusts for the company remain on a) strengthening the core portfolio, b) creating categories for future, c) premiumisation, d) market development – both in terms of low penetrated products as well as creating need for future categories and e) strong focus on the natural's segment. We remain confident about the company's commitment towards innovation led volume growth, premiumisation and, thus, market share gains. We are keeping our estimates intact with revenue, PAT CAGR of 14.2%, 20.2%, respectively, in FY18-20E with a 210 bps margin expansion in the same period to 23.2% in FY20E. The company has generated a free cash flow of ~₹ 6,000 crore and healthy return ratios (RoCE: 79.9%, RoNW: 74.7%) in FY18, which justifies the rich valuation multiples it commands. We maintain our HOLD recommendation with a target price of ₹ 1,550 per share.

Key takeaways from analyst meet

- HUL outlined the key thrust areas for growth, which included a) focus on the core brands through increasing penetration and innovation, b) strengthening naturals' portfolio with natural brands like *Lever Ayush, Indulekha & Citra* and through brand extension into ayurvedic products and c) creating categories for future – body wash & lotion, hand & face wash, liquid dishwasher, hair conditioner, instant coffee
- It continued to stress upon Winning in Many Indias (WiMI) through focus on a) distinctive strategy at cluster level b) customised product propositions & media deployment for every cluster and c) empowering cluster heads & using more of data analytics for faster decision making. It deployed WiMI in 14 consumer clusters throughout the country. Additionally, it is investing in building channels of future, i.e. modern trade and e-commerce, where the share of HUL is higher than general trade. It has also set up cross functional teams [Cross Country Business Teams (CCBT)], which are customer centric and focussed on driving bigger innovations at a faster rate. WiMI has been successful in driving tea & coffee growth. At present, e-commerce contributes 1.5% of HUL's turnover
- Advertising cost as percentage of HUL's FY18 sales was at 12.1%. HUL's increasing thrust on digital marketing similar spend towards advertising costs should enable it to generate more media content, which would aid volume growth, going forward
- HUL launched Pureit Oxy Blast, Cornetto Oreo & Kwaliti Walls sandwich ice-cream and ventured into traditional Breakfast segment (Khichdi, Upma, etc) under Ayush in Tamil Nadu
- In the home care segment, HUL plans to upgrade consumption in detergent towards premium products specifically from 'Wheel' to 'Rin' to 'Surf' to liquid detergent. In the laundry segment, HUL has increased market share and profitable growth across segments. Premiumisation has been the primary driver of growth in laundry. HUL's share in premium laundry is 3.5x its mass segment share. Surf Excel's monthly penetration is still in single digits against 100% penetration of laundry segment, which gives it ample scope to penetrate, going forward

Rating matrix	
Rating	: Hold
Target	: ₹ 1550
Target Period	: 12 months
Potential Upside	: -1%

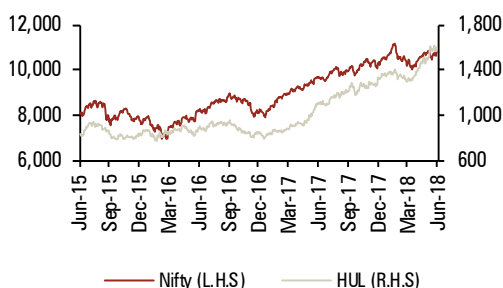
What's changed?	
Target	Unchanged
EPS FY19E	Unchanged
EPS FY20E	Unchanged
Rating	Unchanged

Key financials				
₹ Crore	FY17	FY18E	FY19E	FY20E
Revenue	33,895	33,926	39,451	44,218
EBITDA	6,047	7,276	8,884	10,438
Net Profit	4,491	5,237	6,318	7,567
EPS(₹)	20.8	24.2	29.2	35.0
Adj. EPS(₹)	20.0	24.5	29.2	35.0

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	75.6	64.8	53.7	44.9
Target P/E	74.6	63.9	53.0	44.3
Div. Yield	1.1	1.2	1.5	1.9
Mcaps/Sales	10.0	10.0	8.6	7.7
RoNW (%)	66.6	74.7	87.5	104.5
RoCE (%)	74.9	79.9	106.1	127.6

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	339,552.0
Total Debt (FY18) (₹ Crore)	0.0
Cash and Investments (FY18) (₹ Crore)	6,228.0
EV (₹ Crore)	333,324.0
52 week H/L	1625 / 1064
Equity capital	₹ 216 crore
Face value	₹ 1
FII Holding (%)	12.6
DII Holding (%)	6.9

Price Chart



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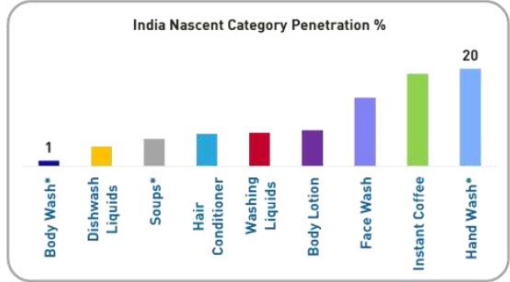
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Surf Excel penetration in premium detergent category is still in single digits – uptrading is a huge opportunity for HUL in detergent category

HUL's products are present at all price points across markets/segments ranging from ₹ 1 Clinic Plus sachet to ₹ 432 Indulekha hair oil

- The company is marketing Surf excel and Rin bar in Uttar Pradesh to drive growth in laundry as the region is known for its preference for mass detergents. HUL is also increasing distribution in Uttar Pradesh to drive sales
- In the personal care segment, the company highlighted headroom for growth across categories & segments. Compared to Indonesia, India can grow 2x+ in categories like personal wash, face creams, shampoo, deodorants and toothpastes, if India's per capita consumption level matches that of Indonesia. HUL outlined the key thrust areas in line with the company's overall strategy. To increase penetration to mass markets, HUL is working on smaller sachet packets. Seven brands of HUL have reached ₹ 1000 crore plus size.
- In the refreshment segment, HUL commands leading position in tea and coffee and second position in the ice-cream & frozen desserts segment and is consistently growing ahead of the market. Tea contributes two-third of overall foods & refreshment category sales. In India, ice cream per capita consumption is low. HUL plans to drive ice cream sales through increase in per capita consumption. Kwality Walls' reach has increased from 40 to 400 cities. In the refreshment segment, the company's strategies remain the same of strengthening the core brands & innovate premium products coupled with market development and increased accessibility through smaller packs
- Within foods, HUL enjoys No. 1 position in ketchup, jams and soups and have grown in double digits in the past five years. In the segment, the focus of the company remains on a) strengthening core portfolio – ketchups, soups and jams – through increasing penetration (penetration difference between urban and other areas is huge), b) innovations, with focus on convenience of cooking and eating, providing consumers the taste of international cuisines and having products with health and wellness benefits. In addition to this, sampling, access packs and building consumer relevance through partnering with related food item has aided the company in driving penetration and would continue, going ahead
- Out of 10 million retail outlets, HUL has indirect reach of 6.5 million outlets and direct reach of 3 million outlets

Exhibit 1: Creating categories of future



Source: HUL analyst meet presentation

Exhibit 2: Consistent high performers

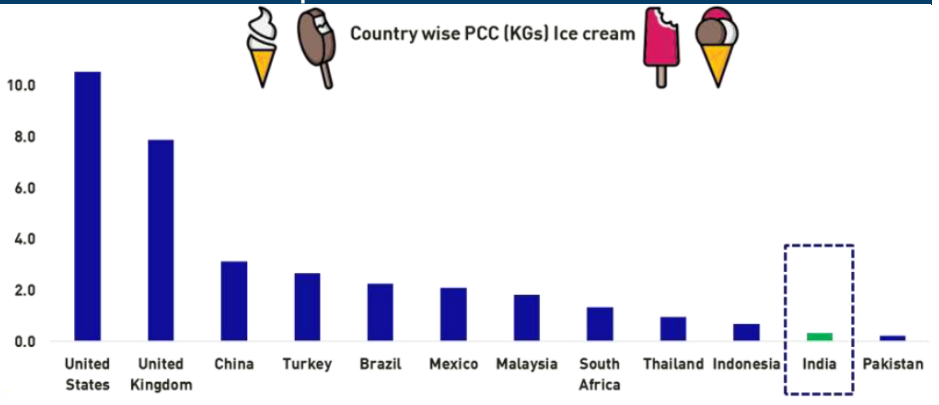
Laundry

Hair Care

Tea

Source: HUL analyst meet presentation

Exhibit 3: Global ice-cream comparison



Source: HUL analyst meet presentation

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Total operating Income	34,487.0	34,525.0	40,184.4	45,040.6	
Growth (%)	3.0	0.1	16.4	12.1	
Raw Material Expenses	15,685.0	16,232.0	18,643.8	20,416.2	
Employee Expenses	1,620.0	1,745.0	1,834.5	2,056.1	
Marketing Expenses	3,470.0	4,105.0	3,485.5	3,906.7	
Administrative Expenses	1,970.0	0.0	2,017.9	2,261.8	
Other expenses	3,098.0	5,167.0	2,557.2	2,866.3	
Total Operating Expenditure	28,440.2	27,249.0	31,300.4	34,602.3	
EBITDA	6,046.8	7,276.0	8,884.0	10,438.3	
Growth (%)	5.2	20.3	22.1	17.5	
Depreciation	396.0	478.0	410.1	205.0	
Interest	22.0	20.0	0.0	0.0	
Other Income	526.0	569.0	603.1	639.3	
Exceptional Income	241.1	-62.0	0.0	0.0	
PBT	6,396.8	7,285.0	9,077.1	10,872.6	
Total Tax	1,906.0	2,048.0	2,759.4	3,305.3	
PAT	4,490.8	5,237.0	6,317.6	7,567.3	
Growth (%)	8.5	16.6	20.6	19.8	
EPS (₹)	20.8	24.2	29.2	35.0	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	4,372.0	5,237.0	6,317.6	7,567.3	
Add: Depreciation	396.0	478.0	410.1	205.0	
(Inc)/dec in Current Assets	161.0	-72.0	-1,205.0	-1,084.1	
Inc/(dec) in CL and Provisions	505.0	1,434.0	-205.5	1,018.8	
CF from operating activities	4,953.0	7,077.0	5,317.3	7,707.0	
(Inc)/dec in Investments	64.0	4.0	-100.0	-100.0	
(Inc)/dec in loans & advances	-36.0	-52.0	-25.0	-25.0	
(Inc)/dec in Fixed Assets	-1,367.0	-823.0	430.0	-100.0	
Others	587.0	148.0	-161.3	18.6	
CF from investing activities	-752.0	-723.0	143.7	-206.4	
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	-4,254.0	-4,781.2	-6,039.4	-7,549.2	
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	
Others	-10.0	0.0	0.0	0.0	
CF from financing activities	-4,264.0	-4,781.2	-6,039.4	-7,549.2	
Net Cash flow	-63.0	1,572.8	-578.4	-48.5	
Opening Cash	635.0	572.0	2,144.8	1,566.4	
Closing Cash*	1,671.0	3,243.8	2,665.4	2,616.9	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Liabilities					
Equity Capital	216.0	216.0	216.0	216.0	
Reserve and Surplus	6,274.0	6,859.0	7,008.1	7,026.2	
Total Shareholders funds	6,490.0	7,075.0	7,224.1	7,242.2	
Other Non Current Liabilities	574.0	666.0	666.0	666.0	
Long Term Provisions	485.0	772.0	94.8	113.5	
Total Liabilities	7,549.0	8,513.0	7,984.9	8,021.7	
Assets					
Gross Block	6,212.7	6,712.7	6,812.7	6,912.7	
Less: Acc Depreciation	2,558.7	3,036.7	3,446.8	3,651.8	
Net Block	3,654.0	3,776.0	3,365.9	3,260.9	
Capital WIP	203.0	430.0	0.0	0.0	
Total Fixed Assets	3,857.0	4,206.0	3,365.9	3,260.9	
Net Intangible Assets	370.0	366.0	366.0	366.0	
Other Investments	260.0	256.0	356.0	456.0	
Liquid Investments	0	0	0	0	
Inventory	2,362.0	2,359.0	2,702.1	3,028.6	
Debtors	928.0	1,147.0	1,188.9	1,332.6	
Loans and Advances	0.0	0.0	216.2	242.3	
Investments & Other CA	885.0	1,405.0	1,080.8	1,211.5	
Cash	1,671.0	3,373.0	2,665.4	2,616.9	
Total Current Assets	9,365.0	11,139.0	11,636.4	12,672.0	
Creditors	6,006.0	7,013.0	7,025.5	7,874.5	
Provisions & other CL	1,196.0	1,623.0	1,405.1	1,574.9	
Total Current Liabilities	7,202.0	8,636.0	8,430.5	9,449.4	
Net Current Assets	2,163.0	2,503.0	3,205.9	3,222.6	
Others Non-Current Assets	518.0	665.0	690.0	715.0	
Application of Funds	7,549.0	8,513.0	7,984.9	8,021.7	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18	FY19E	FY20E	
Per share data (₹)					
EPS	20.8	24.2	29.2	35.0	
Cash EPS	22.6	26.5	31.1	36.0	
BV	30.0	32.8	33.4	33.5	
DPS	16.5	19.0	24.0	30.0	
Cash Per Share	7.7	15.6	12.3	12.1	
Operating Ratios (%)					
EBITDA/Total Operating Income	17.5	21.1	22.1	23.2	
PBT Margin	17.8	21.3	22.6	24.1	
PAT Margin	13.0	15.2	15.7	16.8	
Inventory days	25	25	25	25	
Debtor days	10	12	11	11	
Creditor days	65	75	65	65	
Return Ratios (%)					
RoE	66.6	74.7	87.5	104.5	
RoCE	74.9	79.9	106.1	127.6	
Valuation Ratios (x)					
P/E	75.0	64.3	53.3	44.5	
EV / EBITDA	55.4	45.8	37.6	32.0	
EV / Net Sales	9.9	9.8	8.5	7.6	
Market Cap / Sales	9.9	9.9	8.5	7.6	
Price to Book Value	51.9	47.6	46.6	46.5	
Solvency Ratios					
Debt/EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	1.1	0.9	1.1	1.1	
Quick Ratio	0.7	0.6	0.7	0.7	

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (FMCG)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Colgate (COLPAL)	1,235	1,250	Hold	33,454	21.2	24.8	26.0	58.2	49.9	48.1	7.5	7.8	6.9	64.1	62.9	62.9	45.3	44.7	45.4
Dabur India (DABIND)	381	415	Buy	65,166	7.2	7.7	8.8	52.6	49.4	43.3	8.5	8.4	7.4	28.0	26.2	27.7	26.4	23.8	24.8
GSK CH (GLACON)	6,440	7,000	Buy	24,813	156.1	166.5	184.0	41.2	38.7	38.0	5.6	5.7	5.3	30.8	29.8	29.8	21.0	20.1	20.5
Hindustan Unilever (HINLEV)	1,572	1,550	Hold	339,552	20.8	24.2	29.2	75.6	64.8	53.0	10.0	10.0	8.6	74.9	79.9	106.1	66.6	74.7	87.5
ITC Limited (ITC)	268	330	Buy	347,416	8.4	9.2	10.2	31.9	29.0	32.5	8.8	8.6	7.9	32.9	30.9	34.6	22.5	21.3	24.0
Jyothy Lab (JYOLAB)	404	520	Buy	8,508	11.1	8.8	10.1	36.3	45.8	51.6	5.2	5.0	4.5	32.1	35.1	33.0	30.9	23.5	24.7
Marico (MARLIM)	331	362	Buy	40,254	6.3	6.4	7.8	52.7	51.6	46.4	6.8	6.4	5.1	44.5	38.9	44.1	34.9	32.5	35.7
Nestle (NESIND)	9,710	9,950	Buy	86,643	127.1	164.0	198.4	76.4	59.2	50.2	8.5	7.7	6.7	34.9	46.3	47.6	37.6	43.1	42.7
Prabhat Dairy (PRADAI)	160	220	Buy	1,739	4.8	4.8	8.7	37.0	36.8	20.4	1.2	1.1	1.0	8.0	9.6	13.6	5.1	7.0	10.0
VST Industries (VSTIND)	3,018	3,900	Buy	4,815	98.1	117.8	139.1	30.8	25.6	28.0	5.2	5.1	4.5	42.0	46.9	47.5	28.1	31.3	33.4
Varun Beverage (VARBEV)	753	840	Buy	13,163	11.7	15.5	22.4	61.6	46.4	32.2	3.3	2.6	2.4	12.7	16.0	19.7	12.1	14.6	19.1

Source: Company, ICICI Direct Research

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