

Hindustan Unilever Ltd (HUVR IN)

Getting future ready, but short term pressures persist

INDIA | FMCG | Analyst Meet Update

We attended the analyst meet of HUL where the company talked about the long term growth opportunities in each of its four categories and how the company plans to tap them.

The key highlights of the meet are:

Demand environment subdued; management satisfied with prompt action after commodity prices fell: Demand environment continues to be subdued and the current rural FMCG growth rate is at its lowest in a decade. FY16 was marked by a sharp fall in commodity prices; however, unlike 2009, when HUL absorbed input cost benefits and lost market share, this time it was prompt in passing on input-cost benefits to consumers through price action and thus maintained market share.

Innovations, market development, big data analytics, digital media to be key thrust areas: Innovations will be the major thrust area and the company has a huge pipeline across categories for the next 6-18 months. In the fast-growing 'naturals' category, HUL will not only focus on extending its existing portfolio, but also focus on new brands like Ayush, St. Ives, and its recently acquired ayurvedic hair-oil brand Indulekha. After considerable expansion of direct coverage in the last four years, it will consolidate its current network and focus on improving throughput from stores. Also, HUL will use its significant data to gain more insights into consumer behavior through big-data analytics. It plans to undertake innovative marketing campaigns in various channels and plans to use non-TV channels such as ecommerce and digital media more, in line with evolving trends. It has developed a strategy to use the internet through a focus on searches, online trends, and e-commerce. It plans to use 'mobiles as media' through videos and campaigns like 'Kan Khajura' station.

Foods – drive penetration and unlock relevance: HUL plans to boost growth in the Foods category by: (1) making its products more relevant through increased communication and partnering with popular brands like Pizza Hut and (2) driving penetration through better accessibility (smaller SKUs and increased reach), sampling, and new offerings.

Refreshments – brand and market development: HUL sees tremendous potential in refreshments in India because of low per-capita consumption in ice creams vs. that in other countries, low share of branded players in tea/coffee, and premiumisation opportunity in tea/coffee/ice creams. It plans to tap this growth potential by creating more appealing brands, using newer technology such as fresh tea vending machines, proprietary coffee and ice cream technology, differentiated focus across different markets, and network expansion.

Personal Care – make core aspirational and lead market premiumisation: HUL will make personal care core brands more aspirational through innovations in BB cream, ayurvedic care and powder cream and improve engagement platforms. It will lead market premiumisation through pioneering new trends in Lakme and expanding market by building new benefits in existing brands like Axe, Tresseme and Dove.

Home Care – premiumisation, focus on 'categories of future', and margin improvement: HUL plans to premiumise Home Care through higher focus on communication and accessibility of Surf Excel, and disproportionate investment behind the right brands in right geographies. It plans to develop categories of the 'future' like 'matic' powders, fabric conditioners, liquid detergents, and dish-wash liquids – through right communication and market development. It plans to improve margins in current VUCA environment through improving mix, reducing stock covers, and reducing lead-time.

Outlook: We believe that the company has a clearly defined strategy in the long term, but faces growth pressures in the short term due to sluggish market conditions. In the medium term, it has no major growth triggers. While the inorganic route can be a key growth driver, the company's dividend policy and limited cash balance lead us to believe that an aggressive expansion policy is unlikely. We maintain Sell with a target price of Rs 830.

20 July 2016

Sell (Maintain)

CMP RS 901 / TARGET RS 830 (-9%)

COMPANY DATA

O/S SHARES (MN) :	2164
MARKET CAP (RSBN) :	1937
MARKET CAP (USDBN) :	28.9
52 - WK HI/LO (RS) :	949 / 765
LIQUIDITY 3M (USDMN) :	20.2
PAR VALUE (RS) :	1

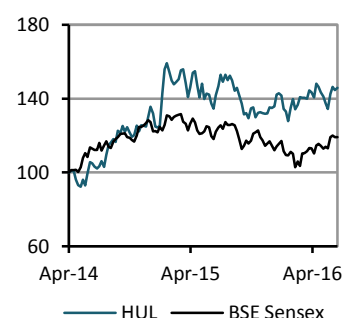
SHARE HOLDING PATTERN, %

	Mar 16	Dec 15	Sep 15
PROMOTERS :	67.2	67.2	67.2
FII / NRI :	14.2	13.9	13.9
FI / MF :	4.8	5.0	4.8
NON PRO :	1.7	1.8	0.8
PUBLIC & OTHERS :	12.1	12.1	13.2

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	1.6	-0.2	-3.2
REL TO BSE	-2.6	-7.6	-0.6

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY16	FY17E	FY18E
Net Sales	314,253	339,681	374,689
EBIDTA	62,306	70,219	77,435
Net Profit	41,226	45,179	50,113
EPS, Rs	19.0	20.8	23.1
PER, x	47.9	43.7	39.4
EV/EBIDTA, x	31.3	27.7	25.1
P/BV, x	53.6	54.3	56.4
ROE, %	111.8	124.1	143.2

Source: PhillipCapital India Research Est.

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PE table (based on consensus estimates)

PC FMCG Universe	Current PE				Current PE premium to historical avg			Premium to sector multiple ex-ITC			
	Current PE	3 yr avg	5 yr avg	10 yr avg	3 yr avg	5 yr avg	10 yr avg	Current	3 yr avg	5 yr avg	10 yr avg
Agro Tech	33.6	43.6	36.8	29.3	-23%	-9%	15%	-16%	18%	9%	2%
Bajaj Corp	22.1	21.2	18.5	17.8	4%	19%	24%	-45%	-43%	-45%	-38%
Britannia	34.2	29.2	25.7	25.1	17%	33%	36%	-15%	-21%	-24%	-12%
Colgate	37.3	38.1	36.2	29.0	-2%	3%	29%	-7%	3%	7%	1%
Dabur	36.8	33.1	30.1	27.1	11%	22%	36%	-8%	-10%	-11%	-6%
Emami	39.1	34.0	29.2	23.5	15%	34%	66%	-3%	-8%	-14%	-18%
GCPL	38.5	32.6	30.3	23.5	18%	27%	64%	-4%	-12%	-11%	-18%
GSKConsumer	33.5	34.1	31.4	24.1	-2%	7%	39%	-17%	-8%	-8%	-16%
HUL	41.7	39.0	34.9	30.2	7%	19%	38%	4%	5%	3%	5%
Marico	40.3	31.3	30.5	26.4	29%	32%	53%	0%	-15%	-10%	-8%
Nestle	46.8	47.9	45.0	36.1	-2%	4%	30%	16%	30%	32%	26%
Asian Paints	44.6	39.3	36.1	28.5	14%	24%	57%	11%	6%	6%	-1%
ITC	25.7	27.3	26.6	23.7	-6%	-3%	9%	-36%	-26%	-22%	-17%
Total	34.0	32.8	30.7	26.5	4%	11%	28%	-15%	-11%	-9%	-8%
Total Ex-ITC	40.2	37.0	33.9	28.6	9%	18%	40%				

Source: Bloomberg, PhillipCapital India Research Estimates; as on 15th July 2016

Financials

Income Statement

Y/E Mar, Rs mn	FY15	FY16	FY17E	FY18E
Net sales	301,705	314,253	339,681	374,689
Growth, %	10.1	4.2	8.1	10.3
Other income	12,535	10,625	11,365	12,048
Total income	314,240	324,878	351,046	386,737
Raw material expenses	-156,236	-153,130	-163,477	-179,665
Employee expenses	-15,789	-15,920	-16,805	-18,486
Other Operating expenses	-83,949	-93,522	-100,544	-111,151
EBITDA (Core)	58,266	62,306	70,219	77,435
Growth, %	14.3	6.9	12.7	10.3
Margin, %	19.3	19.8	20.7	20.7
Depreciation	-2,867	-3,208	-3,463	-3,739
EBIT	55,399	59,098	66,756	73,696
Growth, %	14.6	6.7	13.0	10.4
Margin, %	18.4	18.8	19.7	19.7
Interest paid	-168	-2	-2	-2
Pre-tax profit	55,240	59,108	66,766	73,694
Tax provided	-16,795	-17,882	-21,588	-23,582
Profit after tax	38,445	41,226	45,179	50,113
Net Profit	38,445	41,226	45,179	50,113
Growth, %	4.0	7.2	9.6	10.9
Net Profit (adjusted)	38,445	41,226	45,179	50,113
Unadj. shares (m)	2,162	2,168	2,168	2,168
Wtd avg shares (m)	2,162	2,168	2,168	2,168

Balance Sheet

Y/E Mar, Rs mn	FY15	FY16	FY17E	FY18E
Cash & bank	25,376	27,588	26,954	28,896
Debtors	7,829	10,645	11,596	12,854
Inventory	26,027	25,284	27,036	28,904
Loans & advances	12,407	12,546	14,673	16,111
Other current assets	593	625	406	406
Total current assets	72,232	76,688	80,666	87,171
Investments	32,779	29,666	29,666	29,666
Gross fixed assets	47,214	53,787	58,787	64,287
Less: Depreciation	-22,638	-24,640	-28,104	-31,845
Add: Capital WIP	4,790	3,860	3,860	3,860
Net fixed assets	29,365	33,007	34,543	36,302
Non-current assets	4	2	2	2
Total assets	136,341	141,670	147,184	155,448
Current liabilities	75,590	79,988	81,802	88,287
Provisions	23,502	24,810	29,694	32,864
Total current liabilities	99,093	104,797	111,496	121,150
Total liabilities	99,093	104,797	110,788	120,442
Paid-up capital	2,164	2,164	2,164	2,164
Reserves & surplus	35,084	34,709	34,232	32,842
Shareholders' equity	37,248	36,873	36,396	35,006
Total equity & liabilities	136,341	141,670	147,184	155,448

Source: Company, PhillipCapital India Research Estimates
Numbers in Indian GAAP format

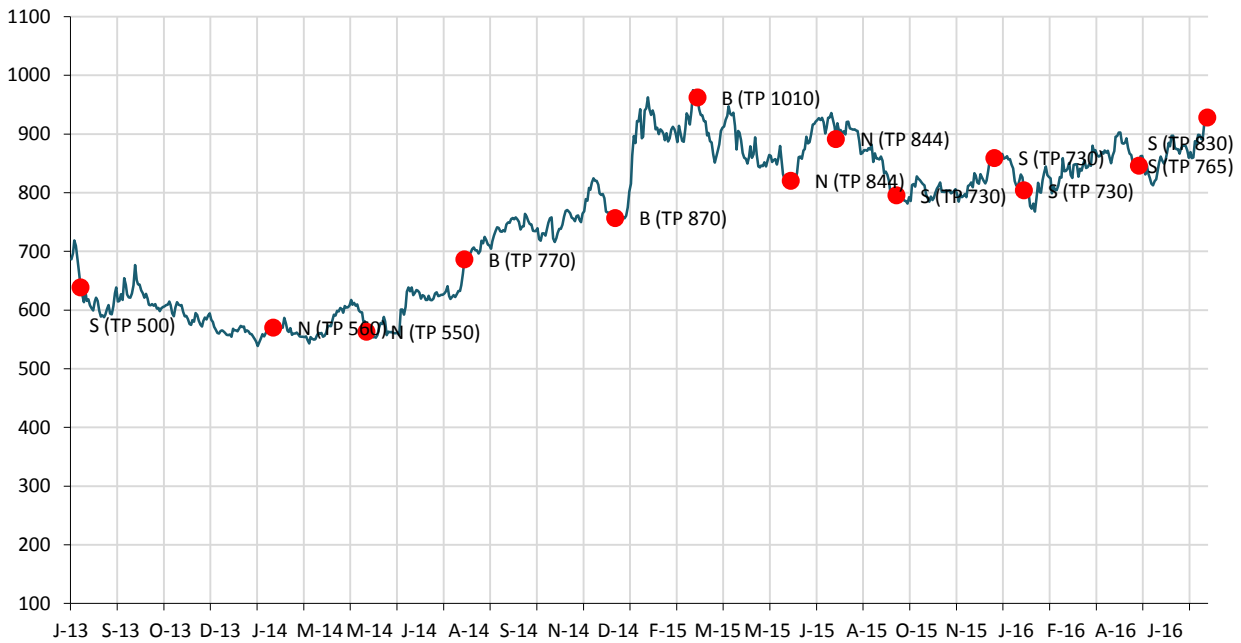
Cash Flow

Y/E Mar, Rs mn	FY15	FY16	FY17E	FY18E
Pre-tax profit	55,240	59,108	66,766	73,694
Depreciation	2,867	3,208	3,463	3,739
Chg in working capital	-1,653	2,157	-3,506	1,921
Total tax paid	-15,920	-18,010	-15,621	-22,576
Cash flow from operating activities	45,240	46,057	51,085	56,777
Capital expenditure	-4,814	-6,849	-4,999	-5,498
Cash flow from investing activities	-6,649	-3,731	-4,995	-5,498
Free cash flow	38,591	42,325	46,090	51,279
Dividend (incl. tax)	-35,561	-40,309	-47,433	-49,337
Cash flow from financing activities	-35,424	-40,112	-47,433	-49,337
Net chg in cash	3,166	2,213	-1,343	1,942

Valuation Ratios

	FY15	FY16	FY17E	FY18E
Per Share data				
EPS (INR)	17.8	19.0	20.8	23.1
Growth, %	4.0	6.9	9.6	10.9
Book NAV/share (INR)	17.2	17.0	16.8	16.1
FDEPS (INR)	17.8	19.0	20.8	23.1
CEPS (INR)	19.1	20.5	22.4	24.8
CFPS (INR)	18.7	21.4	23.6	26.2
DPS (INR)	15.0	16.0	18.0	20.0
Return ratios				
Return on assets (%)	29.0	29.7	31.3	33.1
Return on equity (%)	103.2	111.8	124.1	143.2
Return on capital employed (%)	110.1	111.2	124.5	143.2
Turnover ratios				
Asset turnover (x)				
Sales/Total assets (x)	2.3	2.3	2.4	2.5
Sales/Net FA (x)	10.6	10.1	10.1	10.6
Working capital/Sales (x)	(0.2)	(0.2)	(0.2)	(0.2)
Working capital days	(63.2)	(64.7)	(62.1)	(61.2)
Liquidity ratios				
Current ratio (x)	0.7	0.7	0.7	0.7
Quick ratio (x)	0.5	0.5	0.5	0.5
Interest cover (x)				
Dividend cover (x)	1.2	1.2	1.2	
Net debt/Equity (%)				
Valuation				
PER (x)	51.2	47.9	43.7	39.4
Price/Book (x)	52.9	53.6	54.3	56.4
Yield (%)	1.6	1.8	2.0	
EV/Net sales (x)	6.4	6.2	5.7	5.2
EV/EBITDA (x)	33.4	31.3	27.7	25.1
EV/EBIT (x)	35.1	33.0	29.2	26.4

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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