

Hindustan Unilever Ltd (HUVR IN)

Growth challenges persist

INDIA | FMCG | Quarterly Update

HUL reported Q4FY15 numbers adjusted for one-off benefits were below our and consensus estimates as revenue growth continued to remain tepid on account of sluggish market conditions. The Personal Products (PP) has seen improvement in a highly challenging environment but the sustenance of the segment growth rate will be critical for profitable growth. While the operating performance of HUL has been strong in a particularly challenging environment but the sharp stock price appreciation in 2015 and high consensus expectations mean limited room for negative surprises. We have cut our estimates on account of slower-than-expected volume growth and rise of commodity prices. Maintaining our target multiple at 38x, we value the company at Rs 920. Considering the limited upside from current levels, we downgrade our recommendation to Neutral. Our key takeaways from the results and the conference call are as follows:

Revenue growth below expectations: HUL reported domestic revenue growth of 8.6% yoy lead by volume growth of 6% yoy. The quarter benefitted from favourable outcome pertaining to excise duty case to the tune of Rs 715mn translating to 100bps yoy revenue growth. The benefits were mainly in the personal care segment which grew by 13% yoy and adjusting for the benefits grew by a healthy 10% yoy. The quarter was also a beneficiary of prior quarter blackout period which has impacted the volume growth and had led to mere 3% yoy volume growth in Q3FY15. The management however indicated that the primary and secondary sales for Q4FY15 were similar. Soaps and detergents grew by 5% yoy as it was impacted by price cuts on account of decline in input costs. In detergents surf has continued to do well but Wheel has continued to be subdued. The management indicated that cut in prices have not manifested into significant increase in volumes as the strategy is to protect the market share from increase in competitive activity. Beverages grew by 11% yoy and Packaged foods grew by 14% yoy.

Personal Products delivers double digit growth: The personal products category driven by Skin care delivered 10% yoy growth adjusted for one-time excise duty benefits. The growth was driven by Skin care segment. Fair and Lovely registered double digit growth which is encouraging considering the most profitable brand for the company is back in healthy growth trajectory. Hair Care also registered double digit growth with strong in Dove. Tresemme has continued to gain ground and Sunsilk brand saw impactful activation. In Oral care Closeup has continued to register robust growth while Pepsodent's performance was mixed. We expect Personal Care growth to pick up in forthcoming quarters but now believe that the pickup will be more gradual than our earlier expectations of sharp up in the masstige categories. We have marginally reduced our volume growth assumptions for FY16.

Gross and EBITDA margins improve: Gross margins improved by 310bps helped by lower raw material costs. The impact of one-time excise duty credit more than offset the phase out of benefits impacting 80bps on the overall margins but it was higher on personal care as margins expanded by 280bps yoy. Soaps and detergents segment margins improved by 120bps yoy. Reported EBITDA grew by 22% yoy and margins expanded by 200bps yoy. Adjusted for excise credit EBITDA growth was 16% yoy.

Estimates cut; Downgrade recommendation to Neutral: We have cut our FY16E and FY17E earnings by 10% and 9% respectively incorporating the slower volume growth and resurgence in crude oil prices. HUL currently trades at 43x FY16E earnings which is significant premium to the long-term average. We maintain our target multiple at 38x FY17E earnings valuing the company at Rs 920 on account of superior operating performance. Considering the limited upside we downgrade our recommendation to Neutral.

11 May 2015

Neutral (Downgrade)

CMP RS 895

TARGET RS 920 (+3%)

COMPANY DATA

O/S SHARES (MN) :	2163
MARKET CAP (RSBN) :	1859
MARKET CAP (USDBN) :	29.3
52 - WK HI/LO (RS) :	979 / 550
LIQUIDITY 3M (USDMN) :	22.7
PAR VALUE (RS) :	1

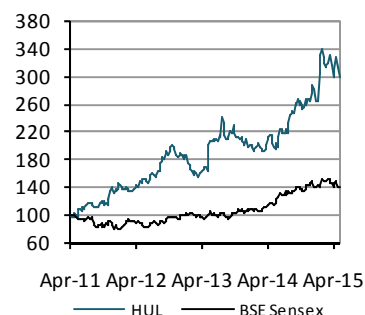
SHARE HOLDING PATTERN, %

PROMOTERS :	67.2
FII / NRI :	15.4
FI / MF :	3.9
NON PROMOTER CORP. HOLDINGS :	1.1
PUBLIC & OTHERS :	12.5

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-2.0	-1.2	61.8
REL TO BSE	3.6	4.4	40.5

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY15E	FY16E	FY17E
Net Sales	301,705	333,008	377,348
EBIDTA	58,267	66,378	77,424
Net Profit	36,519	44,794	52,062
EPS, Rs	16.9	20.7	24.1
PER, x	53.0	43.2	37.2
EV/EBIDTA, x	32.7	28.4	24.0
P/BV, x	37.2	27.0	19.9
ROE, %	70.2	62.5	53.5

Source: PhillipCapital India Research Est.

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Quarterly results table

(Rs mn)	Q4FY15	Q3FY15	QoQ%	Q4FY14	YoY, %
Net sales	75,550	75,792	-0.3	69,358	8.9
Growth, %	8.9	7.7		8.9	
Total income	76,756	77,743	-1.3	70,941	8.2
Gross Profit	37,281	37,312	-0.1	32,050	16.3
Margin, %	49.3	49.2		46.2	
Advertising Exp	10,279	9,771	5.2	8,403	22.3
as % of Sales	13.6	12.9		12.1	
Operating expenses	15,026	16,177	-7.1	14,454	4.0
EBITDA	13,182	13,315	-1.0	10,776	22.3
Margin, %	17.4	17.6		15.5	
Depreciation	705	731	-3.5	658	7.2
EBIT	12,477	12,584	-0.9	10,118	23.3
Margin, %	16.5	16.6		14.6	
Interest paid	0	42	-100.0	63	-100.0
Other Non-Operating Income	984	1,201	-18.0	1,506	-34.7
Pre-tax profit	13,461	13,743	-2.1	11,561	16.4
Tax provided	5,074	5,187	-2.2	3,479	45.9
Minority Interest					
Net Profit	9,110	9,550	-4.6	8,082	12.7
Reported PAT	10,181	12,522	-18.7	8,721	16.7
Growth, %	12.7	0.8		3.5	
Margin, %	12.1	12.6		11.7	
Extraordinary items: Gains/(Losses)	1,794	3,966		660	
Reported Fully Dilluted EPS, Rs	4.2	4.4	-4.6	3.7	12.7

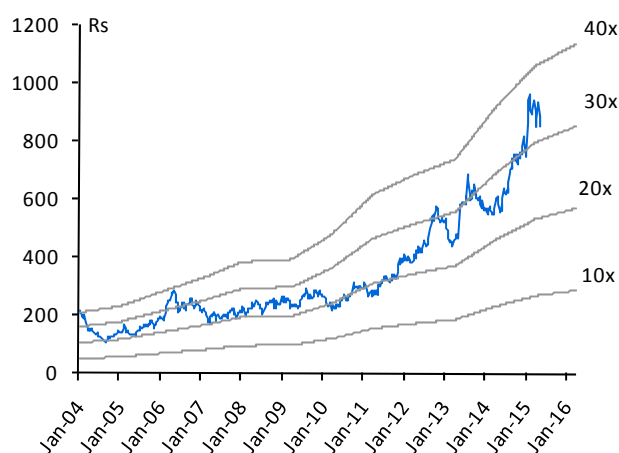
Source: Company, PhillipCapital India Research Estimates

Change in Estimates

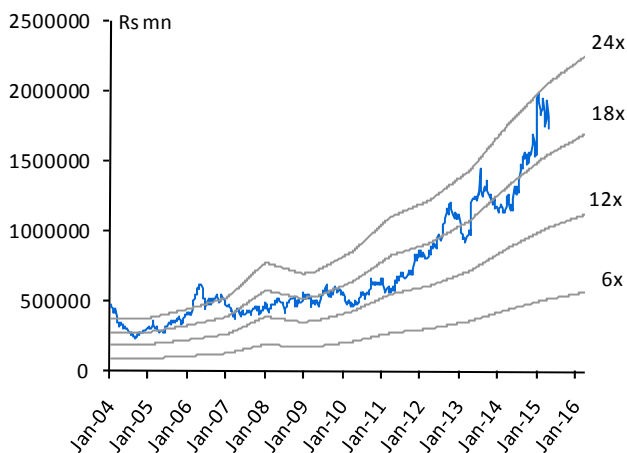
(Rs mn)	Earlier estimates		Revised estimates		Upgrade/(downgrade) (%)	
	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Net Sales	342,266	387,891	333,008	377,348	(3)	(3)
EBITDA	73,403	85,376	66,378	77,424	(9.6)	(9.3)
EBITDA margin (%)	21	22	19.9	20.5	(151)	(149)
PBT	69,817	81,501	63,073	73,829	(9.7)	(9.4)
Adj PAT	49,570	57,458	44,782	52,049	(9.7)	(9.4)
Adj PAT margin (%)	15	15	13.4	13.8	(105)	(101)
Adj EPS (Rs)	23	27	21	24	(10)	(9)

Source: Company, PhillipCapital India Research Estimates

1yr forward P/E Band



EV/EBITDA band



Source: PhillipCapital India Research Estimate

Segment operating performance

Rs mn	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15
Soaps & Detergents	31,712	31,911	34,077	33,808	33,979	34,971	38,476	37,551	36,002	36,737
QoQ growth %	-0.2	0.6	6.8	-0.8	0.5	2.9	10.0	-2.4	-4.1	2.0
YoY growth %	19.8	12.6	7.7	6.4	7.1	9.6	12.9	11.1	6.0	5.0
Personal Products	20,489	18,311	18,834	19,503	23,039	19,833	21,596	21,427	24,546	22,497
QoQ growth %	17.4	-10.6	2.9	3.6	18.1	-13.9	8.9	-0.8	14.6	-8.3
YoY growth %	13.0	12.1	2.0	11.8	12.4	8.3	14.7	9.9	6.5	13.4
Beverages	7,929	8,081	7,574	8,354	8,500	8,690	8,366	8,991	9,197	9,762
QoQ growth %	10.2	1.9	-6.3	10.3	1.7	2.2	-3.7	7.5	2.3	6.1
YoY growth %	18.3	18.3	15.8	16.1	7.2	7.5	10.5	7.6	8.2	12.3
Processed Foods	3,301	3,723	4,579	3,980	3,728	4,197	5,438	4,513	4,199	4,768
QoQ growth %	-9.9	12.8	23.0	-13.1	-6.3	12.6	29.6	-17.0	-7.0	13.6
YoY growth %	7.7	7.0	4.8	8.7	12.9	12.7	18.8	13.4	12.6	13.6
Exports+Others	2,902	2,502	2,791	3,049	2,766	2,958	3,029	3,618	3,535	2,947
QoQ growth %	0.6	-13.8	11.5	9.2	-9.3	6.9	2.4	19.4	-2.3	-16.6
YoY growth %	-43.1	-3.7	5.7	5.7	-4.7	18.2	8.5	18.7	27.8	-0.4
Total	66,334	64,529	67,854	68,694	72,011	70,649	76,904	76,101	77,478	76,711
Contribution										
Soaps & Detergents	47.8	49.5	50.2	49.2	47.2	49.5	50.0	49.3	46.5	47.9
Personal Products	30.9	28.4	27.8	28.4	32.0	28.1	28.1	28.2	31.7	29.3
Beverages	12.0	12.5	11.2	12.2	11.8	12.3	10.9	11.8	11.9	12.7
Processed Foods	5.0	5.8	6.7	5.8	5.2	5.9	7.1	5.9	5.4	6.2
Exports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports+Others	4.4	3.9	4.1	4.4	3.8	4.2	3.9	4.8	4.6	3.8
Segment Results										
Soaps & Detergents	3,937	3,830	4,393	4,739	4,509	4,217	5,318	5,112	5,024	4,882
Segment Margins %	12.4	12.0	12.9	14.0	13.3	12.1	13.8	13.6	14.0	13.3
YoY change (in bps)	-102.4	71.0	71.3	-26.3	85.4	5.6	93.0	-40.4	68.5	123.2
Personal Products	5,789	4,717	4,682	4,449	6,592	4,958	5,967	5,223	6,809	6,245
Segment Margins %	28.3	25.8	24.9	22.8	28.6	25.0	27.6	24.4	27.7	27.8
YoY change (in bps)	133.4	-212.8	-89.5	-141.3	36.0	-76.2	277.1	156.2	-87.1	276.1
Beverages	1,404	1,362	1,387	1,417	1,373	1,630	1,363	1,557	1,410	1,816
Segment Margins %	17.7	16.9	18.3	17.0	16.2	18.8	16.3	17.3	15.3	18.6
YoY change (in bps)	201.4	245.3	379.4	263.7	-155.2	190.8	-202.4	35.9	-82.0	-15.6
Processed Foods	(26)	140	384	133	(134)	230	591	200	(213)	254
Segment Margins %	-0.8	3.8	8.4	3.3	-3.6	5.5	10.9	4.4	-5.1	5.3
YoY change (in bps)	115.0	484.1	271.4	309.9	-279.8	171.9	247.5	108.3	-146.9	-14.4
Exports+Others	(186)	(181)	(31)	46	(135)	(251)	(155)	116	(38)	(78)
Segment EBIT Growth YoY %										
Soaps & Detergents	10.6	19.7	14.0	4.5	14.5	10.1	21.1	7.9	11.4	15.8
Personal Products	18.6	3.6	(1.6)	5.3	13.9	5.1	27.4	17.4	3.3	26.0
Beverages	33.5	38.4	46.1	37.5	(2.2)	19.7	(1.8)	9.9	2.7	11.4
EBIT Contribution %										
Soaps & Detergents	36.1	38.8	40.6	43.9	36.9	39.1	40.6	41.9	38.7	37.2
Personal Products	53.0	47.8	43.3	41.3	54.0	46.0	45.6	42.8	52.4	47.6
Beverages	12.9	13.8	12.8	13.1	11.2	15.1	10.4	12.8	10.9	13.8
Processed Foods	-0.2	1.4	3.5	1.2	-1.1	2.1	4.5	1.6	-1.6	1.9
Others	-1.7	-1.8	-0.3	0.4	-1.1	-2.3	-1.2	0.9	-0.3	-0.6

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15E	FY16E	FY17E
Net sales	274,083	301,705	333,008	377,348
Growth, %	8.7	10.1	10.4	13.3
Other income	12,319	12,535	14,676	17,361
Total income	286,402	314,240	347,684	394,708
Raw material expenses	-143,436	-156,236	-170,083	-193,049
Employee expenses	-14,360	-15,789	-17,354	-19,084
Other Operating expenses	-77,643	-83,949	-93,868	-105,152
EBITDA (Core)	50,963	58,267	66,378	77,424
Growth, %	10.5	14.3	13.9	16.6
Margin, %	18.6	19.3	19.9	20.5
Depreciation	-2,606	-2,867	-3,137	-3,426
EBIT	48,357	55,400	63,241	73,998
Growth, %	10.5	14.6	14.2	17.0
Margin, %	17.6	18.4	19.0	19.6
Interest paid	-360	-168	-168	-168
Pre-tax profit	47,997	55,241	63,085	73,842
Tax provided	-11,014	-18,722	-18,291	-21,779
Profit after tax	36,983	36,519	44,794	52,062
Net Profit	36,983	36,519	44,794	52,062
Growth, %	10.5	(1.3)	22.7	16.2
Net Profit (adjusted)	36,983	36,519	44,794	52,062
Unadj. shares (m)	2,162	2,162	2,162	2,162
Wtd avg shares (m)	2,162	2,162	2,162	2,162

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15E	FY16E	FY17E
Cash & bank	22,210	30,187	50,877	79,930
Debtors	8,164	9,293	10,493	12,124
Inventory	27,475	29,406	30,894	33,546
Loans & advances	11,432	12,068	13,154	14,679
Other current assets	719	719	719	719
Total current assets	70,000	81,674	106,136	140,998
Investments	30,941	30,941	30,941	30,941
Gross fixed assets	44,429	48,429	52,929	57,929
Less: Depreciation	-20,208	-23,075	-26,212	-29,639
Add: Capital WIP	3,198	3,198	3,198	3,198
Net fixed assets	27,418	28,552	29,915	31,488
Non-current assets	7	964	965	965
Total assets	129,984	143,747	169,574	206,009
Current liabilities	78,182	79,386	85,076	94,111
Provisions	19,034	18,010	18,505	20,254
Total current liabilities	97,216	97,396	103,581	114,365
Total liabilities	97,216	97,396	103,581	114,365
Paid-up capital	2,163	2,163	2,163	2,163
Reserves & surplus	30,608	49,877	69,517	95,168
Shareholders' equity	32,770	52,039	71,680	97,331
Total equity & liabilities	129,984	143,747	169,574	206,009

Cash Flow

	FY14	FY15E	FY16E	FY17E
Pre-tax profit	47,997	55,241	63,085	73,842
Depreciation	2,606	2,867	3,137	3,426
Chg in working capital	7,776	-3,449	1,916	3,227
Total tax paid	-12,966	-13,798	-18,337	-20,571
Cash flow from operating activities	45,413	40,861	49,801	59,923
Capital expenditure	-4,939	-4,000	-4,500	-4,999
Cash flow from investing activities	-12,573	-3,997	-4,496	-4,995
Free cash flow	32,840	36,864	45,305	54,928
Dividend (incl. tax)	-29,485	-29,832	-24,601	-25,858
Cash flow from financing activities	-25,533	-22,401	-5,332	-6,217
Net chg in cash	7,307	14,463	39,973	48,711

Valuation Ratios

	FY14	FY15E	FY16E	FY17E
Per Share data				
EPS (INR)	17.1	16.9	20.7	24.1
Growth, %	10.5	(1.3)	22.7	16.2
Book NAV/share (INR)	15.2	24.1	33.2	45.0
FDEPS (INR)	17.1	16.9	20.7	24.1
CEPS (INR)	18.3	18.2	22.2	25.7
CFPS (INR)	19.6	19.3	23.0	27.7
DPS (INR)	13.0	9.5	10.0	10.5
Return ratios				
Return on assets (%)	30.4	26.8	28.7	27.8
Return on equity (%)	112.9	70.2	62.5	53.5
Return on capital employed (%)	125.1	86.4	72.6	61.7
Turnover ratios				
Asset turnover (x)	(158.2)	(260.0)	887.7	(517.9)
Sales/Total assets (x)	2.2	2.2	2.1	2.0
Sales/Net FA (x)	10.4	10.8	11.4	12.3
Working capital/Sales (x)	(0.2)	(0.2)	(0.1)	(0.1)
Working capital days	(65.8)	(55.5)	(53.0)	(51.6)
Liquidity ratios				
Current ratio (x)	0.7	0.8	1.0	1.2
Quick ratio (x)	0.4	0.5	0.7	0.9
Interest cover (x)	134.2	329.4	376.0	439.9
Dividend cover (x)	1.3	1.8	2.1	2.3
Net debt/Equity (%)	(67.8)	(58.0)	(71.0)	(82.1)
Valuation				
PER (x)	52.3	53.0	43.2	37.2
Price/Book (x)	59.0	37.2	27.0	19.9
Yield (%)	1.5	1.1	1.1	1.2
EV/Net sales (x)	7.0	6.3	5.7	4.9
EV/EBITDA (x)	37.5	32.7	28.4	24.0
EV/EBIT (x)	39.5	34.4	29.8	25.1

Source: Company, PhillipCapital India Research Estimates

Management

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