

## Hindustan Unilever

### Performance Highlights

#### Quarterly Data

(₹ cr)	1QFY17	1QFY16	% yoy	4QFY16	% qoq
<b>Revenue</b>	<b>8,128</b>	<b>7,844</b>	<b>3.6</b>	<b>7,721</b>	<b>5.3</b>
EBITDA	1,591	1,511	5.3	1,470	8.2
Margin (%)	19.6	19.3	32	19.0	54
<b>Reported PAT</b>	<b>1,174</b>	<b>1,069</b>	<b>9.8</b>	<b>1,114</b>	<b>5.4</b>

Source: Company, Angel Research

Hindustan Unilever (HUL)'s performance for 1QFY2017 was slightly below consensus expectations. For the quarter, the company's top-line grew by 3.6% yoy to ₹8,128cr while the reported PAT grew ~10% yoy to ₹1,174cr.

**Key highlights:** For 1QFY2017, HUL's overall top-line rose by 3.6% yoy to ₹8,128cr on the back of 4% volume growth. The Soaps & Detergents division posted a 6.8% yoy growth to ₹2,560cr, driven by healthy volume growth. The Fabric Wash category's revenue growth came in double digits, largely on the back of strong acceptance of premium products. Further, Household Care (Vim) continued to do well. In the Personal Products segment, HUL grew ~2% yoy due to a challenging environment. Beverages and Packaged Foods reported modest growth of ~5% yoy each.

The company posted a weak operating performance for the quarter with the operating profit reporting a growth of 5.3% yoy. Further, the operating profit margin increased by 32bp yoy to 19.6% due to lower material costs & ad spend. On the bottom-line front, the company reported a net profit growth of ~10%.

**Outlook and valuation:** We expect HUL to post a ~8% and ~7% CAGR in its top-line and bottom-line respectively, over FY2016-18E. At the current market price, the stock is trading at 40.9x its FY2018E earnings. **We maintain our Neutral view on the stock.**

#### Key financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
<b>Net sales</b>	<b>31,972</b>	<b>33,194</b>	<b>35,252</b>	<b>38,495</b>
% chg	9.4	3.8	6.2	9.2
<b>Net profit</b>	<b>3,893</b>	<b>4,109</b>	<b>4,420</b>	<b>4,739</b>
% chg	3.3	5.6	7.6	7.2
EBITDA margin (%)	16.9	17.8	17.6	17.4
<b>EPS (₹)</b>	<b>18.0</b>	<b>19.0</b>	<b>20.4</b>	<b>21.9</b>
P/E (x)	49.8	47.1	43.8	40.9
P/BV (x)	48.2	41.5	36.0	31.6
RoE (%)	108.5	87.4	82.2	77.3
RoCE (%)	125.3	112.8	103.5	98.5
EV/Sales (x)	5.9	5.7	5.3	4.8
EV/EBITDA (x)	34.7	31.8	30.2	27.9

Source: Company, Angel Research; Note: CMP as of July 19, 2016

## NEUTRAL

CMP	₹895
Target Price	-

Investment Period	-
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#### Stock Info

Sector	FMCG
Market Cap (₹ cr)	193,732
Net Debt (₹ cr)	(5,798)
Beta	0.6
52 Week High / Low	949 / 765
Avg. Daily Volume	100,030
Face Value (₹)	1
BSE Sensex	27,788
Nifty	8,529
Reuters Code	HLL.BO
Bloomberg Code	HUVR@IN

#### Shareholding Pattern (%)

Promoters	67.2
MF / Banks / Indian Fls	5.0
FII / NRIs / OCBs	14.0
Indian Public / Others	13.8

Abs. (%)	3m	1yr	3yr
Sensex	7.5	(2.4)	37.8
HUL	(0.2)	(1.9)	29.9

#### 3-year price chart



Source: Company, Angel Research

**Amarjeet S Maurya**

022-39357800 Ext: 6831

amarjeet.maurya@angelbroking.com

**Exhibit 1: Standalone quarterly performance**

Y/E March (₹ cr)	1QFY17	1QFY16	% yoy	4QFY16	% qoq	FY2016	FY2015	% chg
<b>Net Sales</b>	<b>8,128</b>	<b>7,844</b>	<b>3.6</b>	<b>7,721</b>	<b>5.3</b>	<b>31,987</b>	<b>30,806</b>	<b>3.8</b>
Consumption of RM	3,955	3,898	1.5	3,769	5.0	15,313	15,624	(2.0)
(% of Sales)	48.7	49.7		48.8		47.9	50.7	
Staff Costs	427	358	19.2	443	(3.6)	1,592	1,579	0.8
(% of Sales)	5.2	4.6		5.7		5.0	5.1	
Advertising	880	893	(1.5)	865	1.7	4,526	3,872	16.9
(% of Sales)	10.8	11.4		11.2		14.1	12.6	
Other Expenses	1,275	1,185	7.6	1,174	8.6	4,865	4,536	7.2
(% of Sales)	15.7	15.1		15.2		15.2	14.7	
<b>Total Expenditure</b>	<b>6,537</b>	<b>6,333</b>	<b>3.2</b>	<b>6,251</b>	<b>4.6</b>	<b>26,296</b>	<b>25,611</b>	<b>2.7</b>
<b>Operating Profit</b>	<b>1,591</b>	<b>1,511</b>	<b>5.3</b>	<b>1,470</b>	<b>8.2</b>	<b>5,691</b>	<b>5,194</b>	<b>9.6</b>
OPM	19.6	19.3		19.0		17.8	16.9	
Interest	5.95	5	27.4	1.58	276.6	0	17	(98.9)
Depreciation	93	75	24.5	88	6.6	321	287	11.9
Other Income	223	134	66.6	153	46.0	501	1,297	(61.4)
<b>PBT (excl. Ext Items)</b>	<b>1,715</b>	<b>1,565</b>	<b>9.6</b>	<b>1,534</b>	<b>11.8</b>	<b>5,871</b>	<b>6,187</b>	<b>(5.1)</b>
Ext (Income)/Expense	-	-		-		-	-	
<b>PBT (incl. Ext Items)</b>	<b>1,715</b>	<b>1,565</b>	<b>9.6</b>	<b>1,534</b>	<b>11.8</b>	<b>5,871</b>	<b>6,187</b>	<b>(5.1)</b>
(% of Sales)	21.1	20.0		19.9		18.4	20.1	
Provision for Taxation	541	496		420		1,788	1,872	(4.5)
(% of PBT)	31.6	31.7		27.4		30	30	
<b>Reported PAT</b>	<b>1,174</b>	<b>1,069</b>	<b>9.8</b>	<b>1,114</b>	<b>5.4</b>	<b>4,082</b>	<b>4,315</b>	<b>(5.4)</b>
PATM	14.4	13.6		14.4		12.8	14.0	
Equity shares (cr)	216	216		216		216	216	
<b>FDEPS (₹)</b>	<b>5.4</b>	<b>4.9</b>	<b>9.8</b>	<b>5.1</b>	<b>5.4</b>	<b>18.9</b>	<b>19.9</b>	<b>(5.4)</b>

Source: Company, Angel Research

**Exhibit 2: Segmental Performance**

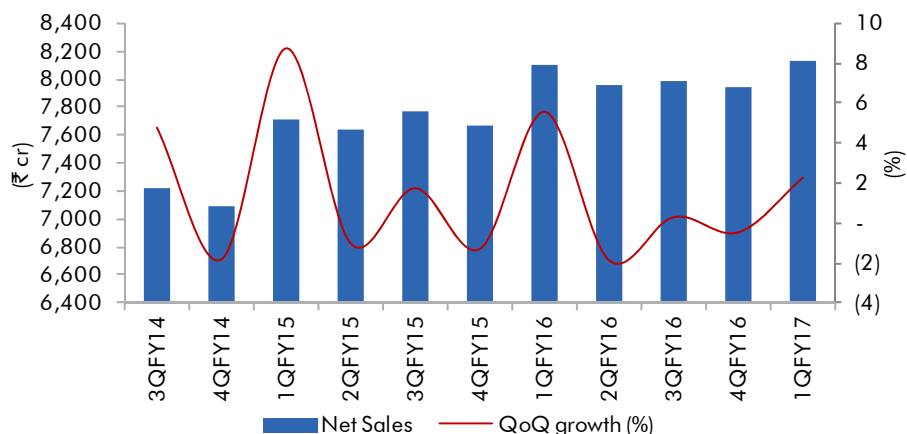
	1QFY2017	1QFY2016	% chg	4QFY2016	% chg	9MFY16	9MFY15	% chg
<b>Income</b>								
Soaps & Detergents	2,560	2,397	6.8	3,753	(31.8)	15,053	14,877	1.2
Personal Products	3,899	3,817	2.1	2,312	68.6	9,656	9,006	7.2
Beverages	1,191	1,130	5.4	1,036	15.0	3,888	3,631	7.1
Packaged Foods	267	255	4.7	533	(49.9)	2,117	1,892	11.9
Others	198	236	(16.2)	303	(34.9)	1,235	1,313	(6.0)
<b>Total Gross Income</b>	<b>8,114</b>	<b>7,835</b>		<b>7,937</b>		<b>31,949</b>	<b>30,719</b>	
<b>PBIT segment –wise bifurcation</b>								
Soaps & Detergents	356	290	22.7	545	(34.7)	2,142	2,034	5.3
Personal Products	1,021	1,018	0.3	682	49.7	2,755	2,424	13.7
Beverages	192	179	7.5	199	(3.4)	653	615	6.2
Packaged Foods	17	21	(20.7)	30	(44.3)	127	83	52.3
Others	(9)	(2)	340.5	(8)	21.6	(37)	(15)	140.5
<b>Total PBIT</b>	<b>1,577</b>	<b>1,506</b>		<b>1,449</b>		<b>5,640</b>	<b>5,140</b>	
Less: Interest Exp	6	5		(0)		(0)	(17)	
Less: Other Unallocable Exp	144	63		56		231	1,064	
<b>PBT</b>	<b>1,715</b>	<b>1,565</b>		<b>1,504</b>		<b>5,870</b>	<b>6,187</b>	
<b>PBIT Margin (%)</b>								
Soaps & Detergents	13.9	12.1		14.5		14.2	13.7	
Personal Products	26.2	26.7		29.5		28.5	26.9	
Beverages	16.1	15.8		19.2		16.8	16.9	
Packaged Foods	6.4	8.4		5.7		6.0	4.4	
Others	(4.8)	(0.9)		(2.6)		(3.0)	(1.2)	

Source: Company, Angel Research

**Overall top-line growth flattish**

For 1QFY2017, HUL's overall top-line rose by 3.6% yoy to ₹8,128cr on the back of 4% volume growth. The Soaps & Detergents division posted a 6.8% yoy growth to ₹2,560cr, driven by healthy volume growth. The Fabric Wash category's revenue growth came in double digits, largely on the back of strong acceptance of premium products. Further, Household Care (Vim) continued to do well. In the Personal Products segment, HUL grew ~2% yoy due to a challenging environment. Beverages and Packaged Foods reported a modest growth of ~5% yoy each.

**Exhibit 3: Top-line growth trend**

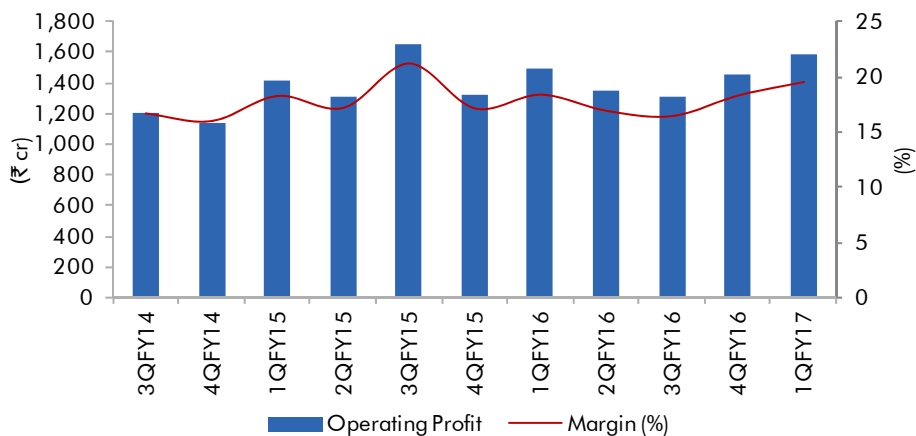


Source: Company, Angel Research

**Operating margin improved due to lower raw material cost and ad spend**

The company reported a 5% yoy growth in its operating profit for the quarter while the operating profit margin improved by 32bp yoy to 19.6% due to lower material cost and ad spend.

**Exhibit 4: Operating profit and margin trend**

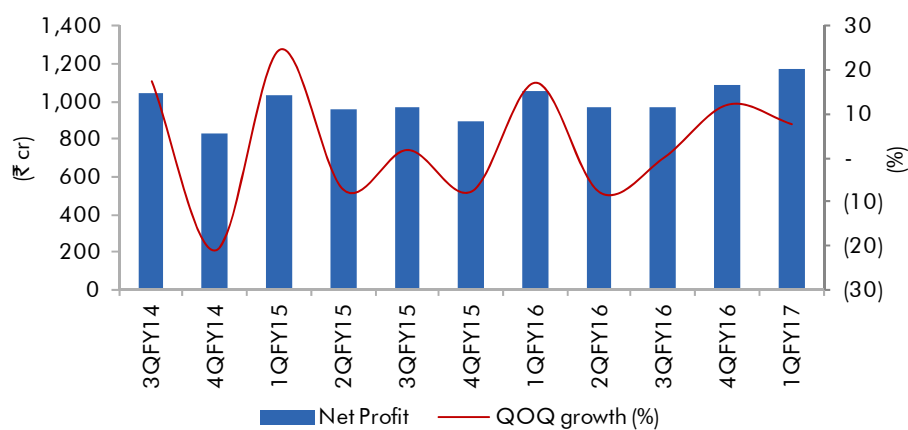


Source: Company, Angel Research

### Reported PAT grew ~10% yoy

On the bottom-line front, the company reported a net profit growth of 10% yoy on back of volume growth of 4%; the performance was aided by an overall improvement in the operating margin and higher other income.

**Exhibit 5: Net Profit and growth trend**



Source: Company, Angel Research

## Investment rationale

### Largest FMCG player with leadership in several categories

HUL has presence across various product categories and has brands in both mass and premium segments in most of these categories. The company's products are available at multiple price points and it is a leader in many of the categories in which it has presence.

### Outlook and valuation

We expect HUL to post a ~8% and ~7% CAGR in its top-line and bottom-line respectively, over FY2016-18E. At the current market price, the stock is trading at 40.9x its FY2018E earnings. **We maintain our Neutral view on the stock.**

### Company background

HUL, a 52% subsidiary of Unilever, is one of India's largest consumer goods companies. HUL is present across four main product categories – 1) Soaps and Detergents (50% of revenue); 2) Personal Products (mainly shampoos, skin care and toothpaste; 30% of revenue); 3) Beverages (mainly tea and coffee; 12% of revenue); 4) Packaged Foods and Ice cream (6% of revenue); and 5) Others (mainly consisting of water purifiers). The company, with its iconic brands such as *Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, Pepsodent, Close Up, Axe, Brooke Bond, Bru, Knorr, Kissan and Walls*, has a vast presence in rural as well as urban Indian markets, and has one of the largest distribution networks spanning over 6.3mn retail outlets.

**Consolidated Profit & Loss Statement**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
<b>Total operating income</b>	<b>27,004</b>	<b>29,234</b>	<b>31,972</b>	<b>33,194</b>	<b>35,252</b>	<b>38,495</b>
% chg	15.2	8.3	9.4	3.8	6.2	9.2
<b>Total Expenditure</b>	<b>22,799</b>	<b>24,488</b>	<b>26,558</b>	<b>27,283</b>	<b>29,047</b>	<b>31,797</b>
Raw Materials	14087	14870	16176	15866	17168	18593
Selling & Administrative Exp	3290	3675	3944	4595	4477	4966
Personnel Expenses	1,413	1,573	1,724	1,742	2,045	2,310
Others Expenses	4,009	4,371	4,715	5,079	5,358	5,928
<b>EBITDA</b>	<b>4,205</b>	<b>4,746</b>	<b>5,414</b>	<b>5,911</b>	<b>6,204</b>	<b>6,698</b>
% chg	20.7	12.8	14.1	9.2	5.0	8.0
(% of Net Sales)	15.6	16.2	16.9	17.8	17.6	17.4
Depreciation & Amortisation	251	296	322	357	377	407
<b>EBIT</b>	<b>3,954</b>	<b>4,450</b>	<b>5,091</b>	<b>5,554</b>	<b>5,828</b>	<b>6,291</b>
% chg	21.7	12.5	14.4	9.1	4.9	8.0
(% of Net Sales)	14.6	15.2	15.9	16.7	16.5	16.3
Interest & other Charges	26	41	18	5	5	5
Other Income	1,138	806	1,246	397	600	600
(% of PBT)	22.5	15.4	19.7	6.7	9.3	8.7
Share in profit of Associates	-	-	-	-	-	-
<b>PBT (reported)</b>	<b>5,066</b>	<b>5,215</b>	<b>6,320</b>	<b>5,947</b>	<b>6,423</b>	<b>6,887</b>
Tax	1,227	1,259	1,944	1,852	1,991	2,135
(% of PBT)	24.2	24.1	30.8	31.2	31.0	31.0
<b>PAT (reported)</b>	<b>3,839</b>	<b>3,956</b>	<b>4,376</b>	<b>4,094</b>	<b>4,432</b>	<b>4,752</b>
Less: Minority interest (MI)	10	10	12	12	12	13
<b>PAT after MI (reported)</b>	<b>3,829</b>	<b>3,946</b>	<b>4,363</b>	<b>4,082</b>	<b>4,420</b>	<b>4,739</b>
Prior Period & Extra. Exp./ (Inc.)	459	179	470	(27)	-	-
<b>ADJ. PAT</b>	<b>3,370</b>	<b>3,767</b>	<b>3,893</b>	<b>4,109</b>	<b>4,420</b>	<b>4,739</b>
% chg	24.7	11.8	3.3	5.6	7.6	7.2
(% of Net Sales)	12.5	12.9	12.2	12.4	12.5	12.3
<b>Basic &amp; diluted EPS (₹)</b>	<b>15.6</b>	<b>17.4</b>	<b>18.0</b>	<b>19.0</b>	<b>20.4</b>	<b>21.9</b>
<b>Adjusted EPS (₹)</b>	<b>15.6</b>	<b>17.4</b>	<b>18.0</b>	<b>19.0</b>	<b>20.4</b>	<b>21.9</b>
% chg	24.7	11.8	3.3	5.6	7.6	7.2

**Consolidated Balance Sheet**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	216	216	216	216	216	216
Reserves & Surplus	2,649	3,321	3,805	4,452	5,159	5,918
<b>Shareholders Funds</b>	<b>2,865</b>	<b>3,537</b>	<b>4,022</b>	<b>4,669</b>	<b>5,376</b>	<b>6,134</b>
Minority Interest	21	22	25	25	25	25
Total Loans	25	46	43	255	255	255
Deferred Tax Liability	218	241	278	278	278	278
<b>Total Liabilities</b>	<b>3,128</b>	<b>3,846</b>	<b>4,367</b>	<b>5,226</b>	<b>5,940</b>	<b>6,698</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	4,418	5,079	5,412	5,712	6,062	6,462
Less: Acc. Depreciation	1,986	2,333	2,591	2,948	3,325	3,732
<b>Net Block</b>	<b>2,431</b>	<b>2,746</b>	<b>2,821</b>	<b>2,764</b>	<b>2,737</b>	<b>2,730</b>
Capital Work-in-Progress	222	373	516	516	516	516
<b>Investments</b>	<b>2,252</b>	<b>2,838</b>	<b>3,025</b>	<b>3,025</b>	<b>3,025</b>	<b>3,025</b>
Current Assets	6,977	7,617	7,869	8,689	9,878	11,459
Inventories	2,706	2,940	2,849	2,910	3,091	3,375
Sundry Debtors	997	1,017	1,011	1,091	1,159	1,266
Cash	1,901	2,516	2,689	3,028	3,690	4,316
Loans & Advances	655	598	731	996	1,234	1,540
Other Assets	718	547	588	664	705	962
Current liabilities	9,181	10,149	10,341	10,245	10,694	11,509
<b>Net Current Assets</b>	<b>(2,204)</b>	<b>(2,531)</b>	<b>(2,472)</b>	<b>(1,556)</b>	<b>(816)</b>	<b>(51)</b>
<b>Deferred Tax Asset</b>	<b>426</b>	<b>421</b>	<b>477</b>	<b>477</b>	<b>477</b>	<b>477</b>
Mis. Exp. not written off	-	-	-	-	-	-
<b>Total Assets</b>	<b>3,128</b>	<b>3,846</b>	<b>4,367</b>	<b>5,226</b>	<b>5,940</b>	<b>6,698</b>



**Consolidated Cashflow Statement**

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Profit before tax	4,460	4,980	5,640	5,947	6,423	6,887
Depreciation	251	296	322	357	377	407
Change in Working Capital	429	429	405	(342)	(603)	(107)
Interest / Dividend (Net)	(140)	(290)	(258)	(225)	5	5
Direct taxes paid	(1,074)	(1,384)	(2,030)	(1,852)	(1,991)	(2,135)
Others	(323)	(212)	(957)	(22)	488	(44)
<b>Cash Flow from Operations</b>	<b>3,605</b>	<b>3,818</b>	<b>3,124</b>	<b>3,863</b>	<b>4,699</b>	<b>5,012</b>
(Inc.)/ Dec. in Fixed Assets	(7)	111	493	(300)	(350)	(400)
(Inc.)/ Dec. in Investments	70	(586)	(187)	-	-	-
<b>Cash Flow from Investing</b>	<b>63</b>	<b>(475)</b>	<b>306</b>	<b>(300)</b>	<b>(350)</b>	<b>(400)</b>
Issue of Equity	7	2	2	-	-	-
Inc./(Dec.) in loans	25	(15)	(3)	212	-	-
Dividend Paid (Incl. Tax)	(4,000)	(2,811)	(3,245)	(3,452)	(3,713)	(3,981)
Interest / Dividend (Net)	212	98	(9)	15	26	(5)
<b>Cash Flow from Financing</b>	<b>(3,764)</b>	<b>(2,728)</b>	<b>(3,256)</b>	<b>(3,224)</b>	<b>(3,687)</b>	<b>(3,986)</b>
Inc./(Dec.) in Cash	(96)	615	173	338	662	626
<b>Opening Cash balances</b>	<b>1,996</b>	<b>1,901</b>	<b>2,516</b>	<b>2,689</b>	<b>3,028</b>	<b>3,690</b>
<b>Closing Cash balances</b>	<b>1,901</b>	<b>2,516</b>	<b>2,689</b>	<b>3,028</b>	<b>3,690</b>	<b>4,316</b>

**Key Ratios**

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	57.5	51.4	49.8	47.1	43.8	40.9
P/CEPS	47.3	45.6	41.2	43.5	40.3	37.5
P/BV	67.6	54.8	48.2	41.5	36.0	31.6
Dividend yield (%)	2.1	1.5	1.7	1.8	1.9	2.1
EV/Sales	7.0	6.4	5.9	5.7	5.3	4.8
EV/EBITDA	45.1	39.7	34.7	31.8	30.2	27.9
EV / Total Assets	15.4	13.5	12.8	12.1	11.3	10.2
<b>Per Share Data (₹)</b>						
EPS (Basic)	15.6	17.4	18.0	19.0	20.4	21.9
EPS (fully diluted)	15.6	17.4	18.0	19.0	20.4	21.9
Cash EPS	18.9	19.6	21.7	20.6	22.2	23.8
DPS	18.5	13.0	15.0	16.0	17.2	18.4
Book Value	13.2	16.3	18.6	21.6	24.8	28.3
<b>Returns (%)</b>						
ROCE	136.8	124.2	125.3	112.8	103.5	98.5
ROE	133.7	111.5	108.5	87.4	82.2	77.3
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	6.1	5.8	5.9	5.8	5.8	6.0
Inventory / Sales (days)	37	37	33	32	32	32
Receivables (days)	13	13	12	12	12	12
Payables (days)	58	62	58	58	57	57
WC cycle (ex-cash) (days)	(8)	(12)	(14)	(14)	(13)	(13)

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	HUL
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)