

Hindustan Unilever

Performance Highlights

Quarterly Data

(₹ cr)	2QFY17	2QFY16	% yoy	1QFY17	% qoq
Revenue	7,843	7,731	1.4	8,128	(3.5)
EBITDA	1,403	1,315	6.7	1,591	(11.8)
Margin (%)	17.9	17.0	89bp	19.6	(169bp)
Reported PAT	1,096	982	11.5	1,174	(6.7)

Source: Company, Angel Research

Hindustan Unilever (HUL)'s performance for 2QFY2017 was below expectations on the top-line front; however, the bottom-line front performed well. For the quarter, the company's top-line grew by 1.4% yoy to ₹7,843cr, while the reported PAT grew by ~12% yoy to ₹1,096cr.

Key highlights: For 2QFY2017, HUL's overall top-line rose by 1.4% yoy to ₹7,843cr on the back of weak volume growth across the segment. The soaps & detergents division posted a 3.2% yoy growth to ₹2,777cr, which was driven by the healthy volume growth in surf. In home care, the growth continued to be driven by the premium segment. The vim liquid performed well, driven by sustained market development. In the personal products segment, HUL grew flat yoy due to a challenging market environment. The beverages and packaged foods reported a modest growth of ~8% and ~2% yoy, respectively.

The company posted a weak operating performance for the quarter with the operating profit reporting a growth of 6.7% yoy. Further, the operating profit margin increased by 89bp yoy to 17.9% due to lower material & employee cost. On the bottom-line front, the company reported a net profit growth of ~12%.

Outlook and valuation: We expect HUL to post ~7% and ~9% CAGR in its top-line and bottom-line, respectively, over FY2016-18E. At the current market price, the stock is trading at 37.3x its FY2018E earnings. **We maintain our Neutral view on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net sales	31,972	33,194	35,252	38,495
% chg	9.4	3.8	6.2	9.2
Net profit	3,893	4,109	4,469	4,845
% chg	3.3	5.6	8.8	8.4
EBITDA margin (%)	16.9	17.8	17.8	17.8
EPS (₹)	18.0	19.0	20.6	22.4
P/E (x)	46.4	44.0	40.4	37.3
P/BV (x)	44.9	45.5	38.6	33.2
RoE (%)	108.5	102.8	95.6	88.9
RoCE (%)	125.3	131.4	119.6	112.9
EV/Sales (x)	5.5	5.3	5.0	4.5
EV/EBITDA (x)	32.3	29.6	27.9	25.5

Source: Company, Angel Research; Note: CMP as of November 1, 2016

NEUTRAL

CMP	₹835
Target Price	-

Investment Period	-
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Stock Info

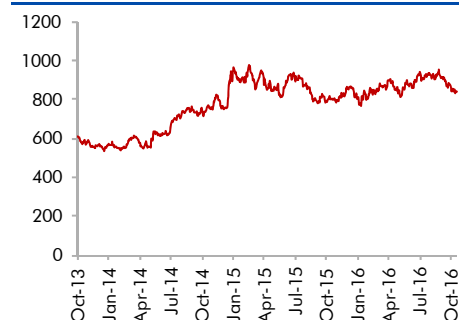
Sector	FMCG
Market Cap (₹ cr)	180,771
Net Debt (₹ cr)	(5,520)
Beta	0.6
52 Week High / Low	954 / 765
Avg. Daily Volume	73,419
Face Value (₹)	1
BSE Sensex	27,877
Nifty	8,626
Reuters Code	HLL.BO
Bloomberg Code	HUVR@IN

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	(0.3)	4.8	32.8
HUL	(8.8)	4.8	37.4

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Standalone quarterly performance

Y/E March (₹ cr)	2QFY17	2QFY16	% yoy	1QFY17	% qoq	1HFY17	1HFY16	% chg
Net Sales	7,843	7,731	1.4	8,128	(3.5)	15,971	15,576	2.5
Consumption of RM	3,962	3,897	1.7	3,955	0.2	7,918	7,794	1.6
(% of Sales)	50.5	50.4		48.7		49.6	50.0	
Staff Costs	396	375	5.5	427	(7.2)	823	733	12.2
(% of Sales)	5.0	4.9		5.2		5.2	4.7	
Advertising	851	921	(7.6)	880	(3.2)	1,731	1,814	(4.6)
(% of Sales)	10.9	11.9		10.8		10.8	11.6	
Other Expenses	1,230	1,224	0.5	1,275	(3.5)	2,459	2,388	3.0
(% of Sales)	15.7	15.8		15.7		15.4	15.3	
Total Expenditure	6,439	6,417	0.4	6,537	(1.5)	12,930	12,730	1.6
Operating Profit	1,403	1,315	6.7	1,591	(11.8)	3,041	2,846	6.8
OPM	17.9	17.0		19.6		19.0	18.3	
Interest	5	5	9.1	5.95	(17.0)	11	9	18.4
Depreciation	95	76	24.1	93	1.3	188	151	24.3
Other Income	272	204	33.6	223	22.3	449	317	41.6
PBT (excl. Ext Items)	1,576	1,438	9.6	1,715	(8.1)	3,291	3,003	9.6
Ext (Income)/Expense	-	-		-		-	-	
PBT (incl. Ext Items)	1,576	1,438	9.6	1,715	(8.1)	3,291	3,003	9.6
(% of Sales)	20.1	18.6		21.1		20.6	19.3	
Provision for Taxation	481	456		541		1,022	952	7.3
(% of PBT)	30.5	31.7		31.6		31	32	
Reported PAT	1,096	982	11.5	1,174	(6.7)	2,270	2,051	10.6
PATM	14.0	12.7		14.4		14.2	13.2	
Equity shares (cr)	216	216		216		216	216	
FDEPS (₹)	5.1	4.5	11.5	5.4	(6.7)	10.5	9.5	10.6

Source: Company, Angel Research

Exhibit 2: Segmental Performance

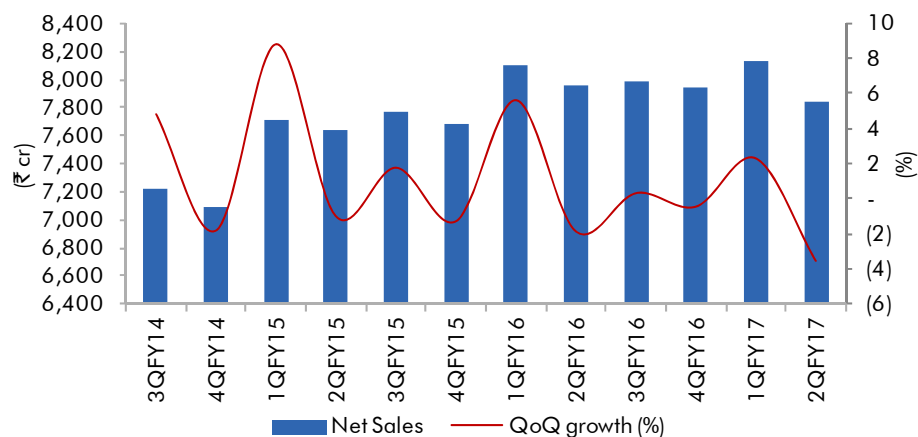
	2QFY2017	2QFY2016	% chg	1QFY2017	% chg	1HFY17	1HFY16	% chg
Income								
Soaps & Detergents	2,777	2,691	3.2	2,876	(3.4)	5,653	7,603	(25.6)
Personal Products	4,028	4,041	(0.3)	4,222	(4.6)	8,250	4,302	91.7
Beverages	1,169	1,079	8.4	1,215	(3.8)	2,384	1,736	37.4
Packaged Foods	278	271	2.4	272	2.1	550	995	(44.7)
Others	218	257	(15.2)	204	7.0	422	665	(36.5)
Total Gross Income	8,470	8,339		8,789		17,259	15,300	
PBIT segment –wise bifurcation								
Soaps & Detergents	280	225	24.7	356	(21.3)	636	1,043	(39.0)
Personal Products	923	891	3.6	1,021	(9.7)	1,944	1,119	73.7
Beverages	173	147	17.5	192	(10.1)	365	292	24.9
Packaged Foods	14	16	(16.2)	17	(19.2)	31	79	(61.2)
Others	9	4	112.1	(9)		(0)	(4)	(91.5)
Total PBIT	1,398	1,283		1,577		2,975	2,529	
Less: Interest Exp	5	5		6		11	13	
Less: Other Unallocable Exp	183	160		144		327	375	
PBT	1,576	1,438		1,715		3,291	2,891	
PBIT Margin (%)								
Soaps & Detergents	10.1	8.3		12.4		11.2	13.7	
Personal Products	22.9	22.0		24.2		23.6	26.0	
Beverages	14.8	13.6		15.8		15.3	16.8	
Packaged Foods	4.9	6.0		6.2		5.6	7.9	
Others	4.2	1.7		(4.6)		(0.1)	(0.6)	

Source: Company, Angel Research

Overall top-line growth flattish

For 2QFY2017, HUL's overall top-line rose by 1.4% yoy to ₹7,843cr on the back of weak volume growth across the segment. The soaps & detergents division posted a 3.2% yoy growth to ₹2,777cr, which was driven by healthy volume growth in surf. In home care, the growth continued to be driven by the premium segment. The vim liquid performed well, driven by sustained market development. In the personal products segment, HUL grew flat yoy due to a challenging market environment. The beverages and packaged foods reported a modest growth of ~8% and ~2% yoy, respectively.

Exhibit 3: Top-line growth trend

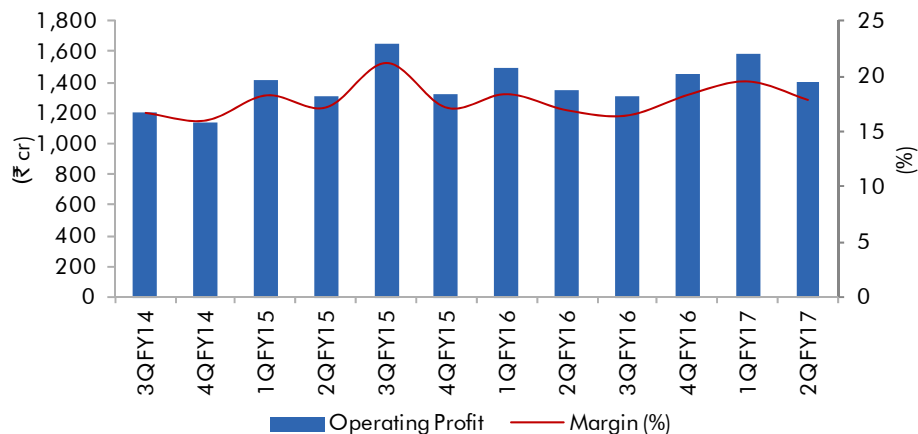


Source: Company, Angel Research

Operating margin improved due to lower raw material cost and employee cost

The company reported a 6.7% yoy growth in its operating profit for the quarter, while the operating profit margin improved by 89bp yoy to 17.9% due to lower material and employee cost.

Exhibit 4: Operating profit and margin trend

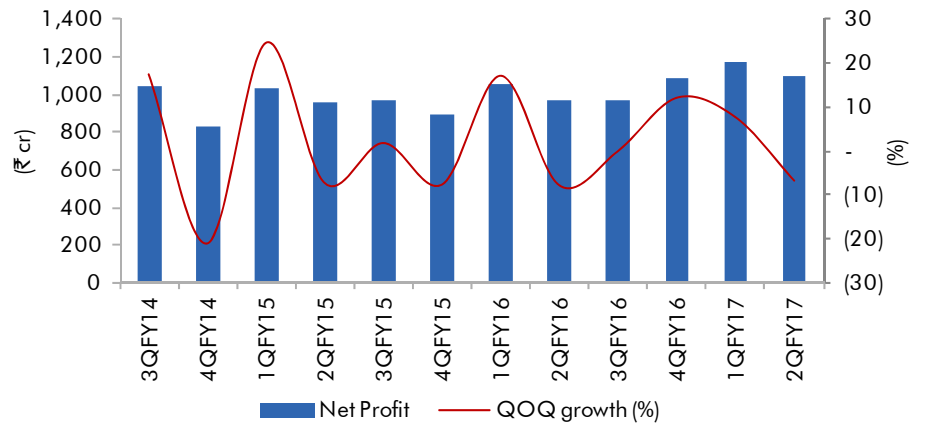


Source: Company, Angel Research

Reported PAT grew ~12% yoy

Despite the low top-line growth, the company has reported ~12% growth on the back of overall improvement in the operating margin, higher other income and lower taxes.

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.

Outlook and valuation

We expect HUL to post ~7% and ~9% CAGR in its top-line and bottom-line, respectively, over FY2016-18E. At the current market price, the stock is trading at 37.3x 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
Total operating income	27,004	29,234	31,972	33,194	35,252	38,495
% chg	15.2	8.3	9.4	3.8	6.2	9.2
Total Expenditure	22,799	24,488	26,558	27,283	28,977	31,643
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	5,288	5,774
EBITDA	4,205	4,746	5,414	5,911	6,275	6,852
% chg	20.7	12.8	14.1	9.2	6.2	9.2
(% of Net Sales)	15.6	16.2	16.9	17.8	17.8	17.8
Depreciation & Amortisation	251	296	322	357	377	407
EBIT	3,954	4,450	5,091	5,554	5,898	6,445
% chg	21.7	12.5	14.4	9.1	6.2	9.3
(% of Net Sales)	14.6	15.2	15.9	16.7	16.7	16.7
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	9.2	8.5
Share in profit of Associates	-	-	-	-	-	-
PBT (reported)	5,066	5,215	6,320	5,947	6,494	7,041
Tax	1,227	1,259	1,944	1,852	2,013	2,183
(% of PBT)	24.2	24.1	30.8	31.2	31.0	31.0
PAT (reported)	3,839	3,956	4,376	4,094	4,481	4,858
Less: Minority interest (MI)	10	10	12	12	12	13
PAT after MI (reported)	3,829	3,946	4,363	4,082	4,469	4,845
Prior Period & Extra. Exp./ (Inc.)	459	179	470	(27)	-	-
ADJ. PAT	3,370	3,767	3,893	4,109	4,469	4,845
% chg	24.7	11.8	3.3	5.6	8.8	8.4
(% of Net Sales)	12.5	12.9	12.2	12.4	12.7	12.6
Basic & diluted EPS (₹)	15.6	17.4	18.0	19.0	20.6	22.4
Adjusted EPS (₹)	15.6	17.4	18.0	19.0	20.6	22.4
% chg	24.7	11.8	3.3	5.6	8.8	8.4

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
SOURCES OF FUNDS						
Equity Share Capital	216	216	216	216	216	216
Reserves & Surplus	2,649	3,321	3,805	3,755	4,460	5,235
Shareholders Funds	2,865	3,537	4,022	3,972	4,676	5,451
Minority Interest	21	22	25	25	25	25
Total Loans	25	46	43	255	255	255
Deferred Tax Liability	218	241	278	285	285	285
Total Liabilities	3,128	3,846	4,367	4,536	5,241	6,016
APPLICATION OF FUNDS						
Gross Block	4,418	5,079	5,412	6,128	6,062	6,462
Less: Acc. Depreciation	1,986	2,333	2,591	2,827	3,204	3,611
Net Block	2,431	2,746	2,821	3,301	2,858	2,851
Capital Work-in-Progress	222	373	516	427	427	427
Investments	2,252	2,838	3,025	2,747	2,747	2,747
Current Assets	6,977	7,617	7,869	8,456	9,455	10,801
Inventories	2,706	2,940	2,849	2,752	2,897	3,164
Sundry Debtors	997	1,017	1,011	1,269	1,352	1,477
Cash	1,901	2,516	2,689	3,028	3,267	3,658
Loans & Advances	655	598	731	771	1,234	1,540
Other Assets	718	547	588	636	705	962
Current liabilities	9,181	10,149	10,341	10,913	10,765	11,329
Net Current Assets	(2,204)	(2,531)	(2,472)	(2,457)	(1,310)	(528)
Deferred Tax Asset	426	421	477	518	518	518
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	3,128	3,846	4,367	4,536	5,241	6,016

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	4,460	4,980	5,640	5,985	6,494	7,041
Depreciation	251	296	322	357	377	407
Change in Working Capital	429	429	405	(342)	(108)	(1,094)
Interest / Dividend (Net)	(140)	(290)	(258)	(225)	(278)	5
Direct taxes paid	(1,074)	(1,384)	(2,030)	(1,766)	(2,013)	(2,183)
Others	(323)	(212)	(957)	116	(710)	727
Cash Flow from Operations	3,605	3,818	3,124	4,125	3,761	4,902
(Inc.)/ Dec. in Fixed Assets	(7)	111	493	(546)	(350)	(400)
(Inc.)/ Dec. in Investments	70	(586)	(187)	278	-	-
Cash Flow from Investing	63	(475)	306	(268)	(350)	(400)
Issue of Equity	7	2	2	0	-	-
Inc./(Dec.) in loans	25	(15)	(3)	212	-	-
Dividend Paid (Incl. Tax)	(4,000)	(2,811)	(3,245)	(3,452)	(3,754)	(4,070)
Interest / Dividend (Net)	212	98	(9)	(279)	582	(41)
Cash Flow from Financing	(3,764)	(2,728)	(3,256)	(3,519)	(3,172)	(4,111)
Inc./(Dec.) in Cash	(96)	615	173	338	239	392
Opening Cash balances	1,996	1,901	2,516	2,689	3,028	3,267
Closing Cash balances	1,901	2,516	2,689	3,028	3,267	3,658

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	53.6	48.0	46.4	44.0	40.4	37.3
P/CEPS	44.2	42.5	38.5	40.6	37.2	34.3
P/BV	63.1	51.1	44.9	45.5	38.6	33.2
Dividend yield (%)	2.2	1.6	1.8	1.9	2.1	2.3
EV/Sales	6.5	6.0	5.5	5.3	5.0	4.5
EV/EBITDA	42.0	37.0	32.3	29.6	27.9	25.5
EV / Total Assets	14.3	12.5	11.9	11.3	10.9	10.1
Per Share Data (₹)						
EPS (Basic)	15.6	17.4	18.0	19.0	20.6	22.4
EPS (fully diluted)	15.6	17.4	18.0	19.0	20.6	22.4
Cash EPS	18.9	19.6	21.7	20.6	22.4	24.3
DPS	18.5	13.0	15.0	15.9	17.3	18.8
Book Value	13.2	16.3	18.6	18.4	21.6	25.2
Returns (%)						
ROCE	136.8	124.2	125.3	131.4	119.6	112.9
ROE	133.7	111.5	108.5	102.8	95.6	88.9
Turnover ratios (x)						
Asset Turnover (Gross Block)	6.1	5.8	5.9	5.4	5.8	6.0
Inventory / Sales (days)	37	37	33	30	30	30
Receivables (days)	13	13	12	14	14	14
Payables (days)	58	62	58	59	57	56
WC cycle (ex-cash) (days)	(8)	(12)	(14)	(15)	(13)	(12)

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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)