

Hindustan Unilever

Performance Highlights

Quarterly Data

(₹ cr)	3QFY16	3QFY15	% yoy	2QFY16	% qoq
Revenue	7,981	7,774	2.7	7,955	0.3
EBITDA	1,314	1,321	(0.5)	1,304	0.8
Margin (%)	16.5	17.0	(52bp)	17.4	(89bp)
Adj. PAT	1,026	972	5.6	971	5.7

Source: Company, Angel Research

Hindustan Unilever (HUL)'s performance for 3QFY2016 was slightly below consensus expectations. For the quarter, the company's top-line grew by 2.7% yoy to ₹7,981cr while the reported PAT grew ~6% yoy to ₹1,026cr.

Key highlights: For 3QFY2016, HUL's top-line rose by 2.7% yoy to ₹7,981cr. The soaps and detergents division posted a flat yoy growth due to weak macros. However, in the soaps segment, we saw some growth in Dove, Pears and Lifebuoy as well as double-digit growth in the liquids portfolio. The detergents segment's saw double-digit growth in Surf and Rin. The personal products division posted a modest growth of 5.6% yoy. The reported growth of this segment was impacted by delayed winter and owing to one-time realignment of channel spends. In the beverages segment, the company reported a growth of 7% yoy primarily led by volumes, which were driven by activations and market development initiatives by the company.

On the operating profit front, the company reported a de-growth of 0.5% yoy due to lower sales growth. Further, the operating profit margin fell by 52bp yoy to 16.5% due to increase in advertisement and other expenses. During the quarter, the company incurred ₹55cr under the exceptional items head, which factored in provision towards restructuring and sale of properties. After adjusting for it, the company's net profit rose by a modest 5.6% yoy to ₹1,026cr.

Outlook and valuation: We expect HUL to post a ~6% and ~6% CAGR in its top-line and bottom-line respectively, over FY2015-16E. At the current market price, the stock is trading at 37.6x 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	33,299	35,497	38,230
% chg	9.4	4.2	6.6	7.7
Net profit	3,893	4,088	4,328	4,629
% chg	3.3	5.0	5.9	6.9
EBITDA margin (%)	16.9	17.1	17.1	17.1
EPS (₹)	18.0	18.9	20.0	21.4
P/E (x)	44.7	42.6	40.2	37.6
P/BV (x)	43.3	37.3	32.5	28.5
RoE (%)	108.5	87.6	80.8	75.9
RoCE (%)	125.3	113.5	105.4	99.8
EV/Sales (x)	5.3	5.0	4.7	4.4
EV/EBITDA (x)	31.1	29.4	27.5	25.5

Source: Company, Angel Research; Note: CMP as of January 18, 2016

NEUTRAL

CMP	₹811
Target Price	-
Investment Period	-

Stock Info

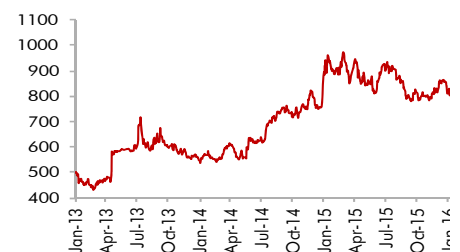
Sector	FMCG
Market Cap (₹ cr)	1,75,403
Net Debt (₹ cr)	-5,671
Beta	0.6
52 Week High / Low	979 / 771
Avg. Daily Volume	96,053
Face Value (₹)	1
BSE Sensex	24,188
Nifty	7,351
Reuters Code	HLL.BO
Bloomberg Code	HUVR@IN

Shareholding Pattern (%)

Promoters	67.2
MF / Banks / Indian Fls	13.9
FII / NRIs / OCBs	4.8
Indian Public / Others	14.1

Abs. (%)	3m	1yr	3yr
Sensex	(9.5)	(5.9)	20.7
HUL	2.5	(0.7)	65.8

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Consolidated quarterly performance

Y/E March (₹ cr)	3QFY16	3QFY15	% yoy	2QFY15	% qoq	9MFY16	9MFY15	% chg
Net Sales	7,981	7,774	2.7	7,955	0.3	24,042	23,130	3.9
Consumption of RM	3,742	3,848	(2.8)	3,899	(4.0)	11,544	11,797	(2.1)
(% of Sales)	46.9	49.5		49.0		48.0	51.0	
Staff Costs	402	442	(9.1)	381	5.5	1,146	1,190	(3.7)
(% of Sales)	5.0	5.7		4.8		4.8	5.1	
Advertising	1,138	977	16.4	1,145	(0.6)	3,436	2,847	20.7
(% of Sales)	14.3	12.6		14.4		14.3	12.3	
Other Expenses	1,385	1,187	16.7	1,226	13.0	3,792	3,418	11.0
(% of Sales)	17.4	15.3		15.4		15.8	14.8	
Total Expenditure	6,667	6,454	3.3	6,651	0.2	19,918	19,252	3.5
Operating Profit	1,314	1,321	(0.5)	1,304	0.8	4,124	3,878	6.3
OPM	16.5	17.0		17.4		17.2	16.8	
Interest	0	4	(98.8)	0	66.7	0	17	(99.1)
Depreciation	82	73	12.4	76	7.9	233	216	7.9
Other Income	177	527	(66.5)	180	(1.8)	476	1,017	(53.2)
PBT (excl. Ext Items)	1,409	1,771	(20.5)	1,408	0.1	4,366	4,662	(6.3)
Ext (Income)/Expense								
PBT (incl. Ext Items)	1,409	1,771	(20.5)	1,408	0.1	4,366	4,662	(6.3)
(% of Sales)	17.6	22.8		16.8		18.2	20.2	
Provision for Taxation	437	519		445		1,373	1,365	0.6
(% of PBT)	31.0	29.3		23		31	29	
Reported PAT	971	1,252	(22.4)	962	1.0	2,993	3,297	(9.2)
PATM	12.2	16.1		12.9		12.4	14.3	
Extra-ordinary Items	(55)	280		(8)		(56)	343	
Reported PAT	1,026	972	5.6	971	5.7	3,049	2,954	3.2
Equity shares (cr)	216	216		216		216	216	
FDEPS (₹)	4.7	4.5	5.6	4.5	5.7	14.1	13.7	3.2

Source: Company, Angel Research

Exhibit 2: Segmental Performance

	3QFY2016	3QFY2015	% chg	2QFY2016	% chg	9MFY16	9MFY15	% chg
Income								
Soaps & Detergents	3,630	3,600	0.8	3,817	(4.9)	11,301	11,203	0.9
Personal Products	2,593	2,455	5.6	2,346	10.5	7,344	6,757	8.7
Beverages	984	920	7.0	953	3.3	2,852	2,655	7.4
Packaged Foods	470	420	11.8	507	(7.4)	1,585	1,415	12.0
Others	295	354	(16.7)	324	(9.1)	931	1,018	(8.5)
Total Gross Income	7,971	7,748		7,946		24,012	23,048	
PBIT segment –wise bifurcation								
Soaps & Detergents	509	502	1.3	490	3.8	1,597	1,545	3.4
Personal Products	748	681	9.9	612	22.3	2,073	1,800	15.2
Beverages	173	141	22.6	138	25.4	454	433	4.9
Packaged Foods	15	(21)	(170.3)	27	(44.4)	96	58	66.5
Others	(35)	(4)	839.1	10	(438.5)	(29)	(8)	284.8
Total PBIT	1,410	1,299		1,277		4,191	3,828	
Less: Interest Exp	0	4	(98.8)	0	-	0	17	
Less: Other Unallocable Exp	1	-		-				
PBT	1,409	1,771		1,408		1,409	1,771	
PBIT Margin (%)								
Soaps & Detergents	14.0	14.0		12.8		14.1	13.8	
Personal Products	28.9	27.7		26.1		28.2	26.6	
Beverages	17.6	15.3		14.5		15.9	16.3	
Packaged Foods	3.2	(5.1)		5.3		6.1	4.1	
Others	(12.0)	(1.1)		3.2		(3.2)	(0.8)	

Source: Company, Angel Research

Overall top-line growth flattish

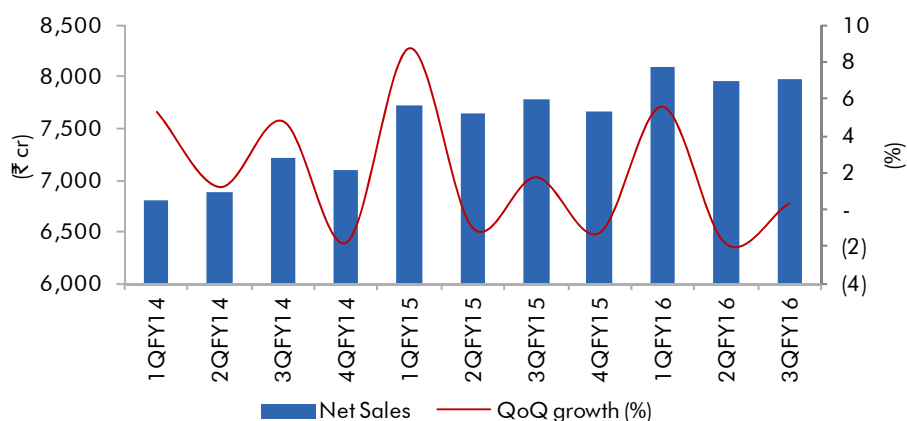
For 3QFY2016, HUL's top-line rose by 2.7% yoy to ₹7,981cr. The soaps & detergents business reported lower growth of 0.8% yoy due to weak macros. The soaps category's performance was supported by growth in Dove, Pears and Lifebuoy as well as double-digit growth in the liquids portfolio. The detergents segment saw double-digit growth in Surf and Rin.

The personal products division posted a growth of 5.6% yoy. The reported growth of the segment was impacted by delayed winter and owing to one-time realignment of channel spends undertaken to drive effectiveness in the market place. In this segment, skin care delivered volume led growth driven by Fair & Lovely, Pond's and Lakme. Fair & Lovely continued to do well and saw an encouraging response to the BB cream. The performance of Pond's was led by premium skin lightening while Lakme's growth was buoyed by premium innovations and facewash. Hair care maintained its strong volume led growth momentum, with Dove and TRESemmé leading the category performance. In oral care, the overall performance was subdued. Close Up's growth was driven by impactful activation while Pepsodent Clove and Salt continued to do well.

In the Beverages segment, the company reported a growth of 7%, primarily led by volumes, which were driven by activations and market development initiatives by the company. In the tea segment, Red Label, Taj Mahal and 3 Roses grew well and

Lipton Green Tea registered another quarter of high growth on sustained market development. In the coffee segment, Bru delivered double-digit growth and achieved market leadership.

Exhibit 3: Top-line growth trend

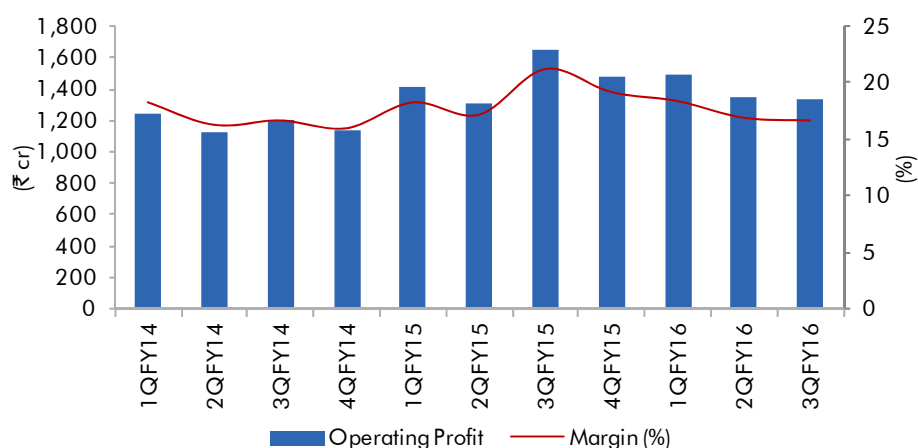


Source: Company, Angel Research

Operating margin contracts due to higher advertisement and other expenses

On the operating profit front, the company reported a de-growth of 0.5% yoy due to lower sales growth. Further, the operating profit margin fell by 52bp yoy to 16.5% due to increase in advertisement and other expenses, which rose by 169bp and 209bp as a percentage of sales, respectively.

Exhibit 4: Operating profit and margin trend

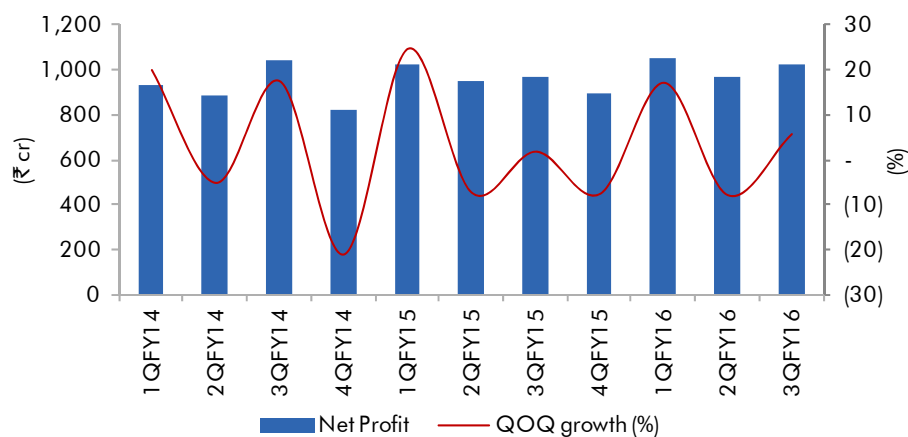


Source: Company, Angel Research

Adjusted PAT grew ~5.6%

During the quarter, the company incurred ₹55cr under the exceptional items head, which factored in provision towards restructuring and sale of properties. After adjusting for it, the company's net profit rose by a modest 5.6% yoy to ₹1,026cr.

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 ~6% and ~6% CAGR in its top-line and bottom-line respectively, over FY2015-16E. At the current market price, the stock is trading at 37.6x 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, with one of the largest distribution networks spanning over 6.3mn retail outlets.

Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Total operating income	27,004	29,234	31,972	33,299	35,497	38,230
% chg	15.2	8.3	9.4	4.2	6.6	7.7
Total Expenditure	22,799	24,488	26,558	27,605	29,427	31,693
Raw Materials	14087	14870	16176	16583	17464	18580
Selling & Administrative Exp	3290	3675	3944	4162	4508	4932
Personnel Expenses	1,413	1,573	1,724	1,865	2,059	2,294
Others Expenses	4,009	4,371	4,715	4,995	5,396	5,887
EBITDA	4,205	4,746	5,414	5,694	6,070	6,537
% chg	20.7	12.8	14.1	5.2	6.6	7.7
(% of Net Sales)	15.6	16.2	16.9	17.1	17.1	17.1
Depreciation & Amortisation	251	296	322	350	377	407
EBIT	3,954	4,450	5,091	5,344	5,693	6,130
% chg	21.7	12.5	14.4	5.0	6.5	7.7
(% of Net Sales)	14.6	15.2	15.9	16.0	16.0	16.0
Interest & other Charges	26	41	18	0	0	0
Other Income	1,138	806	1,246	600	600	600
(% of PBT)	22.5	15.4	19.7	10.1	9.5	8.9
Share in profit of Associates	-	-	-	-	-	-
PBT (reported)	5,066	5,215	6,320	5,943	6,293	6,730
Tax	1,227	1,259	1,944	1,842	1,951	2,086
(% of PBT)	24.2	24.1	30.8	31.0	31.0	31.0
PAT (reported)	3,839	3,956	4,376	4,101	4,342	4,644
Less: Minority interest (MI)	10	10	12	13	14	15
PAT after MI (reported)	3,829	3,946	4,363	4,088	4,328	4,629
Prior Period & Extra. Exp./ (Inc.)	459	179	470	-	-	-
ADJ. PAT	3,370	3,767	3,893	4,088	4,328	4,629
% chg	24.7	11.8	3.3	5.0	5.9	6.9
(% of Net Sales)	12.5	12.9	12.2	12.3	12.2	12.1
Basic & diluted EPS (₹)	15.6	17.4	18.0	18.9	20.0	21.4
Adjusted EPS (₹)	15.6	17.4	18.0	18.9	20.0	21.4
% chg	24.7	11.8	3.3	5.0	5.9	6.9

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
SOURCES OF FUNDS						
Equity Share Capital	216	216	216	216	216	216
Reserves & Surplus	2,649	3,321	3,805	4,449	5,141	5,882
Shareholders Funds	2,865	3,537	4,022	4,665	5,358	6,098
Minority Interest	21	22	25	25	25	25
Total Loans	25	46	43	43	43	43
Deferred Tax Liability	218	241	278	278	278	278
Total Liabilities	3,128	3,846	4,367	5,015	5,707	6,447
APPLICATION OF FUNDS						
Gross Block	4,418	5,079	5,412	5,712	6,062	6,462
Less: Acc. Depreciation	1,986	2,333	2,591	2,941	3,318	3,725
Net Block	2,431	2,746	2,821	2,771	2,744	2,737
Capital Work-in-Progress	222	373	516	516	516	516
Investments	2,252	2,838	3,025	3,025	3,025	3,025
Current Assets	6,977	7,617	7,869	8,605	9,645	11,082
Inventories	2,706	2,940	2,849	2,737	2,918	3,142
Sundry Debtors	997	1,017	1,011	1,095	1,167	1,257
Cash	1,901	2,516	2,689	3,408	3,786	4,580
Loans & Advances	655	598	731	766	1,065	1,147
Other Assets	718	547	588	599	710	956
Current liabilities	9,181	10,149	10,341	10,379	10,701	11,391
Net Current Assets	(2,204)	(2,531)	(2,472)	(1,775)	(1,055)	(309)
Deferred Tax Asset	426	421	477	477	477	477
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	3,128	3,846	4,367	5,015	5,707	6,447

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Profit before tax	4,460	4,980	5,640	5,943	6,293	6,730
Depreciation	251	296	322	350	377	407
Change in Working Capital	429	429	405	(342)	(6)	(372)
Interest / Dividend (Net)	(140)	(290)	(258)	(225)	0	0
Direct taxes paid	(1,074)	(1,384)	(2,030)	(1,842)	(1,951)	(2,086)
Others	(323)	(212)	(957)	549	(380)	404
Cash Flow from Operations	3,605	3,818	3,124	4,433	4,333	5,083
(Inc.)/ Dec. in Fixed Assets	(7)	111	493	(300)	(350)	(400)
(Inc.)/ Dec. in Investments	70	(586)	(187)	-	-	-
Cash Flow from Investing	63	(475)	306	(300)	(350)	(400)
Issue of Equity	7	2	2	-	-	-
Inc./(Dec.) in loans	25	(15)	(3)	(0)	-	-
Dividend Paid (Incl. Tax)	(4,000)	(2,811)	(3,245)	(3,434)	(3,636)	(3,888)
Interest / Dividend (Net)	212	98	(9)	20	30	(1)
Cash Flow from Financing	(3,764)	(2,728)	(3,256)	(3,414)	(3,605)	(3,889)
Inc./(Dec.) in Cash	(96)	615	173	719	378	794
Opening Cash balances	1,996	1,901	2,516	2,689	3,408	3,786
Closing Cash balances	1,901	2,516	2,689	3,408	3,786	4,580

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	51.6	46.2	44.7	42.6	40.2	37.6
P/CEPS	42.5	40.9	37.0	39.1	36.9	34.4
P/BV	60.7	49.2	43.3	37.3	32.5	28.5
Dividend yield (%)	2.3	1.6	1.9	2.0	2.1	2.2
EV/Sales	6.3	5.8	5.3	5.0	4.7	4.4
EV/EBITDA	40.4	35.5	31.1	29.4	27.5	25.5
EV / Total Assets	13.8	12.1	11.4	10.9	10.2	9.3
Per Share Data (₹)						
EPS (Basic)	15.6	17.4	18.0	18.9	20.0	21.4
EPS (fully diluted)	15.6	17.4	18.0	18.9	20.0	21.4
Cash EPS	18.9	19.6	21.7	20.6	21.8	23.3
DPS	18.5	13.0	15.0	15.9	16.8	18.0
Book Value	13.2	16.3	18.6	21.6	24.8	28.2
Returns (%)						
ROCE	136.8	124.2	125.3	113.5	105.4	99.8
ROE	133.7	111.5	108.5	87.6	80.8	75.9
Turnover ratios (x)						
Asset Turnover (Gross Block)	6.1	5.8	5.9	5.8	5.9	5.9
Inventory / Sales (days)	37	37	33	30	30	30
Receivables (days)	13	13	12	12	12	12
Payables (days)	58	62	58	58	57	57
WC cycle (ex-cash) (days)	(8)	(12)	(14)	(16)	(15)	(15)

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Disclosure of Interest Statement	Hindustan Unilever
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

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%)
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