

## Hindustan Unilever

### Performance Highlights

#### Quarterly Data

(₹ cr)	4QFY16	4QFY15	% yoy	3QFY16	% qoq
Revenue	7,946	7,676	3.5	7,981	(0.4)
EBITDA	1,457	1,318	10.5	1,314	10.9
Margin (%)	18.3	17.2	117bp	16.5	187bp
Reported PAT	1,090	1,018	7.0	971	12.2

Source: Company, Angel Research

Hindustan Unilever (HUL)'s performance for 4QFY2016 was slightly below consensus expectations. For the quarter, the company's top-line grew by 3.5% yoy to ₹7,946cr while the reported PAT grew ~7% yoy to ₹1,090cr.

**Key highlights:** For 4QFY2016, HUL's top-line rose by 3.5% yoy to ₹7,946cr on the back of 4% volume growth. The soaps and detergents division posted a lower yoy growth due to weak macros. However, in the soaps segment, we saw healthy volume growth in Dove, Pears, Hamam and Lifebuoy. In the laundry segment, growth was led by the premium sub-segment, with Surf maintaining its strong double-digit growth. The personal products division posted a soft growth of 2.8% yoy as it was impacted by phasing out of excise duty incentives, one-time credit for excise duty refund in base quarter and residual impact from the re-alignment of channel spend. In the beverages segment, the company reported a growth of 6% yoy, primarily led by volumes (tea and coffee products reported strong double-digit growth). Packaged food reported ~11% growth during the quarter.

The company posted a strong operating performance for the quarter with the operating profit reporting a growth of 10.5% yoy. Further, the operating profit margin increased by 117bp yoy to 18.3% due to lower material costs. On the bottom-line front, the company reported a net profit growth of 7%.

**Outlook and valuation:** We expect HUL to post a ~8% and ~8% CAGR in its top-line and bottom-line respectively, over FY2016-18E. At the current market price, the stock is trading at 38.9x 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	35,716	39,002
% chg	9.4	3.8	7.6	9.2
Net profit	3,893	4,109	4,476	4,800
% chg	3.3	5.6	8.9	7.2
EBITDA margin (%)	16.9	17.8	17.6	17.4
EPS (₹)	18.0	19.0	20.7	22.2
P/E (x)	47.9	45.4	41.7	38.9
P/BV (x)	46.4	40.0	34.6	30.3
RoE (%)	108.5	87.4	83.1	78.0
RoCE (%)	125.3	112.8	104.8	99.6
EV/Sales (x)	5.7	5.4	5.0	4.6
EV/EBITDA (x)	33.4	30.6	28.6	26.4

Source: Company, Angel Research; Note: CMP as of May 10, 2016

## NEUTRAL

CMP	₹862
Target Price	-
Investment Period	-

#### Stock Info

Sector	FMCG
Market Cap (₹ cr)	1,86,629
Net Debt (₹ cr)	-5,798
Beta	0.6
52 Week High / Low	944 / 765
Avg. Daily Volume	81,759
Face Value (₹)	1
BSE Sensex	25,773
Nifty	7,888
Reuters Code	HLL.BO
Bloomberg Code	HUVR@IN

#### Shareholding Pattern (%)

Promoters	67.2
MF / Banks / Indian Fls	4.8
FII / NRIs / OCBs	14.2
Indian Public / Others	13.8

Abs. (%)	3m	1yr	3yr
Sensex	8.5	(6.3)	28.3
HUL	4.5	(0.7)	47.4

#### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: Standalone quarterly performance**

Y/E March (₹ cr)	4QFY16	4QFY15	% yoy	3QFY15	% qoq	FY2016	FY2015	% chg
<b>Net Sales</b>	<b>7,946</b>	<b>7,676</b>	<b>3.5</b>	<b>7,981</b>	<b>(0.4)</b>	<b>31,987</b>	<b>30,806</b>	<b>3.8</b>
Consumption of RM	3,769	3,827	(1.5)	3,742	0.7	15,313	15,624	(2.0)
(% of Sales)	47.4	49.9		46.9		47.9	50.7	
Staff Costs	446	388	14.8	402	11.1	1,592	1,579	0.8
(% of Sales)	5.6	5.1		5.0		5.0	5.1	
Advertising	1,090	1,025	6.3	1,138	(4.2)	4,526	3,872	16.9
(% of Sales)	13.7	13.4		14.3		14.1	12.6	
Other Expenses	1,183	1,117	5.9	1,385	(14.6)	4,865	4,536	7.2
(% of Sales)	14.9	14.5		17.4		15.2	14.7	
<b>Total Expenditure</b>	<b>6,488</b>	<b>6,357</b>	<b>2.1</b>	<b>6,667</b>	<b>(2.7)</b>	<b>26,296</b>	<b>25,611</b>	<b>2.7</b>
<b>Operating Profit</b>	<b>1,457</b>	<b>1,318</b>	<b>10.5</b>	<b>1,314</b>	<b>10.9</b>	<b>5,691</b>	<b>5,194</b>	<b>9.6</b>
OPM	18.3	17.2		16.5		17.8	16.9	
Interest	0.03	-		0	(40.0)	0	17	(98.9)
Depreciation	88	71	24.1	82	6.5	321	287	11.9
Other Income	135	278	(51.5)	177	(23.6)	501	1,297	(61.4)
<b>PBT (excl. Ext Items)</b>	<b>1,504</b>	<b>1,525</b>	<b>(1.4)</b>	<b>1,409</b>	<b>6.8</b>	<b>5,871</b>	<b>6,187</b>	<b>(5.1)</b>
Ext (Income)/Expense	-	-		-		-	-	
<b>PBT (incl. Ext Items)</b>	<b>1,504</b>	<b>1,525</b>	<b>(1.4)</b>	<b>1,409</b>	<b>6.8</b>	<b>5,871</b>	<b>6,187</b>	<b>(5.1)</b>
(% of Sales)	18.9	19.9		17.6		18.4	20.1	
Provision for Taxation	415	507		437		1,788	1,872	(4.5)
(% of PBT)	27.6	33.3		31.0		30	30	
<b>Reported PAT</b>	<b>1,090</b>	<b>1,018</b>	<b>7.0</b>	<b>971</b>	<b>12.2</b>	<b>4,082</b>	<b>4,315</b>	<b>(5.4)</b>
PATM	13.7	13.3		12.2		12.8	14.0	
Equity shares (cr)	216	216		216		216	216	
<b>FDEPS (₹)</b>	<b>5.0</b>	<b>4.7</b>	<b>7.0</b>	<b>4.5</b>	<b>12.2</b>	<b>18.9</b>	<b>19.9</b>	<b>(5.4)</b>

Source: Company, Angel Research

**Exhibit 2: Segmental Performance**

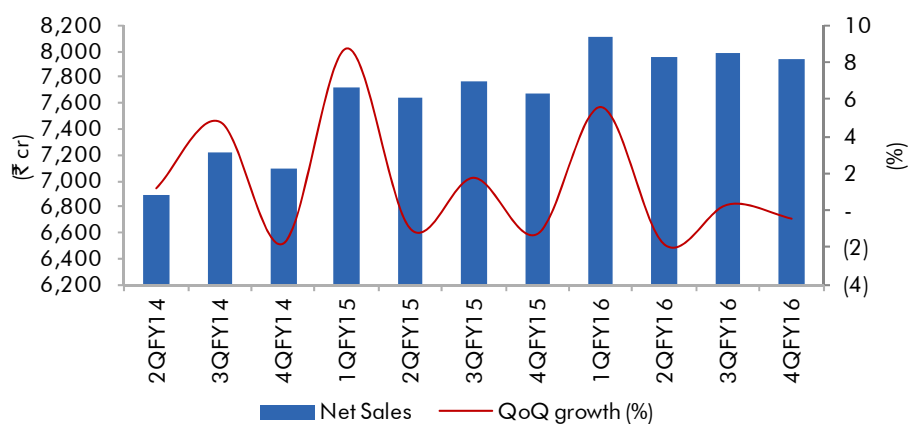
	4QFY2016	4QFY2015	% chg	3QFY2016	% chg	9MFY16	9MFY15	% chg
<b>Income</b>								
Soaps & Detergents	3,753	3,674	2.1	3,630	3.4	15,053	14,877	1.2
Personal Products	2,312	2,250	2.8	2,593	(10.8)	9,656	9,006	7.2
Beverages	1,036	976	6.1	984	5.3	3,888	3,631	7.1
Packaged Foods	533	477	11.7	470	13.4	2,117	1,892	11.9
Others	303	295	2.9	295	2.9	1,235	1,313	(6.0)
<b>Total Gross Income</b>	<b>7,937</b>	<b>7,671</b>		<b>7,971</b>		<b>31,949</b>	<b>30,719</b>	
<b>PBIT segment –wise bifurcation</b>								
Soaps & Detergents	545	488	11.6	509	7.1	2,142	2,034	5.3
Personal Products	682	625	9.2	748	(8.8)	2,755	2,424	13.7
Beverages	199	182	9.5	173	15.0	653	615	6.2
Packaged Foods	30	25	19.8	15	103.7	127	83	52.3
Others	(8)	(8)	(0.5)	(35)	(77.9)	(37)	(15)	140.5
<b>Total PBIT</b>	<b>1,449</b>	<b>1,312</b>		<b>1,410</b>		<b>5,640</b>	<b>5,140</b>	
Less: Interest Exp	(0)			(0)		(0)	(17)	
Less: Other Unallocable Exp	56	214		(1)		231	1,064	
<b>PBT</b>	<b>1,504</b>	<b>1,525</b>		<b>1,409</b>		<b>5,870</b>	<b>6,187</b>	
<b>PBIT Margin (%)</b>								
Soaps & Detergents	14.5	13.3		14.0		14.2	13.7	
Personal Products	29.5	27.8		28.9		28.5	26.9	
Beverages	19.2	18.6		17.6		16.8	16.9	
Packaged Foods	5.7	5.3		3.2		6.0	4.4	
Others	-2.6	(2.7)		(12.0)		(3.0)	(1.2)	

Source: Company, Angel Research

**Overall top-line growth flattish**

For 4QFY2016, HUL's top-line rose by 3.5% yoy to ₹7,946cr on the back of 4% volume growth. The soaps and detergents division posted a lower yoy growth due to weak macros. However, in the soaps segment, we saw healthy volume growth in Dove, Pears, Hamam and Lifebuoy. In the laundry segment, growth was led by the premium sub-segment, with Surf maintaining its strong double-digit growth. The personal products division posted a soft growth of 2.8% yoy as it was impacted by phasing out of excise duty incentives, one-time credit for excise duty refund in base quarter and residual impact from the re-alignment of channel spend. In the beverages segment, the company reported a growth of 6% yoy, primarily led by volumes (tea and coffee products reported strong double-digit growth). Packaged food reported ~11% growth during the quarter.

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

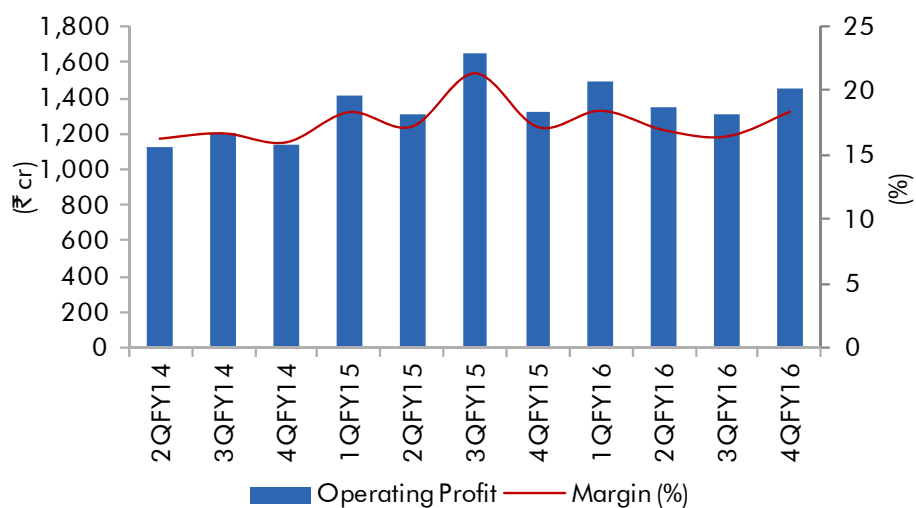


Source: Company, Angel Research

### Operating margin improved due to lower raw material cost

The company reported a 10.5% yoy growth in its operating profit for the quarter while the operating profit margin improved by 117bp yoy to 18.3% due to lower material cost.

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

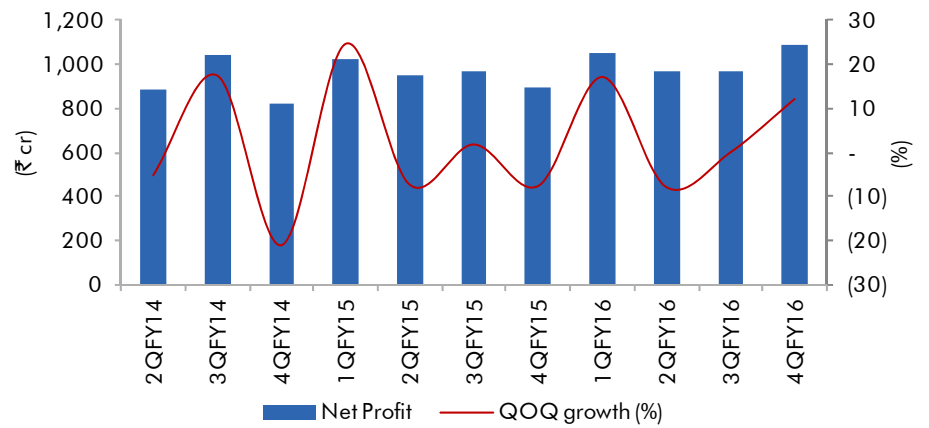


Source: Company, Angel Research

**Reported PAT grew ~7% yoy**

On the bottom-line front, the company reported a modest net profit growth of 7% yoy on back of volume growth of 4% and aided by an overall improvement in the operating margin.

**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 ~8% CAGR in its top-line and bottom-line respectively, over FY2016-18E. At the current market price, the stock is trading at 38.9x 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	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>35,716</b>	<b>39,002</b>
% chg	15.2	8.3	9.4	3.8	7.6	9.2
<b>Total Expenditure</b>	<b>22,799</b>	<b>24,488</b>	<b>26,558</b>	<b>27,283</b>	<b>29,430</b>	<b>32,216</b>
Raw Materials	14,087	14,870	16,176	15,866	17,394	18,838
Selling & Administrative Exp	3,290	3,675	3,944	4,595	4,536	5,031
Personnel Expenses	1,413	1,573	1,724	1,742	2,072	2,340
Others Expenses	4,009	4,371	4,715	5,079	5,429	6,006
<b>EBITDA</b>	<b>4,205</b>	<b>4,746</b>	<b>5,414</b>	<b>5,911</b>	<b>6,286</b>	<b>6,786</b>
% chg	20.7	12.8	14.1	9.2	6.3	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>5,909</b>	<b>6,379</b>
% chg	21.7	12.5	14.4	9.1	6.4	8.0
(% of Net Sales)	14.6	15.2	15.9	16.7	16.5	16.4
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	8.6
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>6,505</b>	<b>6,975</b>
Tax	1,227	1,259	1,944	1,852	2,016	2,162
(% 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>4,488</b>	<b>4,813</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>4,476</b>	<b>4,800</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>4,476</b>	<b>4,800</b>
% chg	24.7	11.8	3.3	5.6	8.9	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>20.7</b>	<b>22.2</b>
<b>Adjusted EPS (₹)</b>	<b>15.6</b>	<b>17.4</b>	<b>18.0</b>	<b>19.0</b>	<b>20.7</b>	<b>22.2</b>
% chg	24.7	11.8	3.3	5.6	8.9	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	5,169	5,936
<b>Shareholders Funds</b>	<b>2,865</b>	<b>3,537</b>	<b>4,022</b>	<b>4,669</b>	<b>5,385</b>	<b>6,153</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>5,942</b>	<b>6,710</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	10,019	11,620
Inventories	2,706	2,940	2,849	2,910	3,131	3,419
Sundry Debtors	997	1,017	1,011	1,091	1,174	1,282
Cash	1,901	2,516	2,689	3,028	3,749	4,383
Loans & Advances	655	598	731	996	1,250	1,560
Other Assets	718	547	588	664	714	975
Current liabilities	9,181	10,149	10,341	10,245	10,832	11,658
<b>Net Current Assets</b>	<b>(2,204)</b>	<b>(2,531)</b>	<b>(2,472)</b>	<b>(1,556)</b>	<b>(813)</b>	<b>(38)</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>5,942</b>	<b>6,710</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	6,505	6,975
Depreciation	251	296	322	357	377	407
Change in Working Capital	429	429	405	(342)	(603)	(57)
Interest / Dividend (Net)	(140)	(290)	(258)	(225)	5	5
Direct taxes paid	(1,074)	(1,384)	(2,030)	(1,852)	(2,016)	(2,162)
Others	(323)	(212)	(957)	(22)	538	(96)
<b>Cash Flow from Operations</b>	<b>3,605</b>	<b>3,818</b>	<b>3,124</b>	<b>3,863</b>	<b>4,805</b>	<b>5,071</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)	(3,760)	(4,032)
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>(3,734)</b>	<b>(4,037)</b>
Inc./(Dec.) in Cash	(96)	615	173	338	721	634
<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>3,749</b>
<b>Closing Cash balances</b>	<b>1,901</b>	<b>2,516</b>	<b>2,689</b>	<b>3,028</b>	<b>3,749</b>	<b>4,383</b>

**Key Ratios**

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	55.4	49.5	47.9	45.4	41.7	38.9
P/CEPS	45.6	43.9	39.7	41.9	38.3	35.7
P/BV	65.1	52.7	46.4	40.0	34.6	30.3
Dividend yield (%)	2.1	1.5	1.7	1.9	2.0	2.2
EV/Sales	6.8	6.2	5.7	5.4	5.0	4.6
EV/EBITDA	43.4	38.2	33.4	30.6	28.6	26.4
EV / Total Assets	14.8	12.9	12.3	11.7	10.7	9.8
<b>Per Share Data (₹)</b>						
EPS (Basic)	15.6	17.4	18.0	19.0	20.7	22.2
EPS (fully diluted)	15.6	17.4	18.0	19.0	20.7	22.2
Cash EPS	18.9	19.6	21.7	20.6	22.5	24.1
DPS	18.5	13.0	15.0	16.0	17.4	18.6
Book Value	13.2	16.3	18.6	21.6	24.9	28.4
<b>Returns (%)</b>						
ROCE	136.8	124.2	125.3	112.8	104.8	99.6
ROE	133.7	111.5	108.5	87.4	83.1	78.0
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	6.1	5.8	5.9	5.8	5.9	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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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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