



Hindustan Unilever

Q4FY18 Result Update

Sector: FMCG

CMP: ₹ 1,516

“Strong volume growth on weak base and uptick in rural”

Recommendation: HOLD

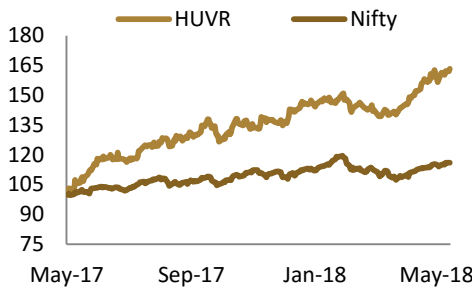
Market Statistics

Current stock price (₹)	1,516
Shares O/S (cr.)	216.4
Mcap (₹cr)	328,034
52W H/L (₹)	1,543/975
6m avg. volume	1,155,236
Bloomberg	HUVR IN

Shareholding pattern (%)

Promoters	67.19
Domestic Institution	6.85
Foreign Institution	12.56
Non-institution	13.4
of which more than 1%	
Life Insurance Corporation of India	3.08

HUVR vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
ROE (%)	63.8	70.9	72.6
ROCE (%)	86.6	101.4	104.4
P/B(x)	27.7	39.6	36.0
P/E (x)	43.4	55.9	49.7
EPS (₹)	19.9	22.8	25.6
EV/OCF (x)	35.0	45.3	46.8

HUVR's Q4FY18 consolidated reported PAT grew strong 14.2% YoY to Rs13.5b; higher than our est. led by strong underlying volume growth and sharp cut in A&P and other expenses. Revenue grew 11% YoY to Rs90b while comparable revenue (net of excise & input taxes in 4QFY17) grew 16% YoY. Comparable volume growth was strong 11% similar to 3QFY18 on a poor base (4% in Q4FY17) and partially aided by decline in prices post reduction in GST slab to 18% in November 2017; which effectively made product prices attractive for consumer by 8% as per management.

HUVR commentary was fairly positive as trade has stabilized post shocks of demonetization, implementation of GST in July 2017 and stressed trade conditions have normalized. Rural growth has accelerated due to passing of GST benefits and green shoots are visible in rural recovery however management emphasized that clear strong volume growth trend is yet to establish. Gradual recovery in volume growth is underway. HUVR witnessed continuation of premiumisation (25% of total HUVR's product portfolio) trend as volume pick up was across rural India post two years of slow volume growth. Maintain HOLD.

UVG picked up by 11% similar to Q3FY18; double digit growth across segments

HUVR's domestic growth inched up by 16% on like to like basis led by healthy broad based growth across segments. Re-stocking was gradual during the quarter. **Homecare (33% of sales)** showed 21% YoY comparable growth led by double digit volume growth. Fabric wash witnessed robust double digit growth across key brands. EBIT grew 31% YoY, with EBIT margin expanding 105bps on a comparable basis. **Personal Care (47% of sales)** grew by 13% YoY due to broad based growth across Personal Products and Personal Wash. Premium products lead the category growth in personal wash. Skin Care was led by Fair & Lovely and Pond's while in Hair Care it was broad based volume recovery. EBIT grew 8%, with margin declining 100bps on a comparable basis. Growth for HUVR has been driven by popular and premium products, where the unorganized sector has minimal presence, while the mass end products have been relatively softer. During Q4FY18, HUVR has booked an exceptional loss of Rs480mn pertaining to a mark-up in the contingent consideration payable, w.r.t. the Indulekha acquisition; which implies that Indulekha has performed better than HUVR's expectations. **Refreshment segment (14% sales)** comparable revenues grew 14% YoY driven by double digit growth in tea and ice cream & frozen desserts. **Foods segment** also showed 10% growth led by Kissan and Knorr. Overall consolidated EBITDA margins at 22.5% (241bps expansion YoY) was highest in history led by premiumisation and recovery in volume growth.

Concall Highlights:

1) Segments of future grew 2x HUVR's average growth. 2) Innovation and Naturals portfolio grew 2.5x averages however on a low base. 3) Premium portfolio aided personal care business. 4) Rural markets witnessed strong volume growth which is ~40% for HUVR in value and much higher in volume terms. 5) HUVR had passed on the net GST benefit to the consumers by taking price cuts in range of ~8%; implementation of e-way bill will benefit organized sector over next 1-2 quarters. 6) Expect competitive intensity to step up in certain pockets where RM inflation is absent as volume growth has recovered.

Outlook & Valuation:

Government's effort to increase MSP, consequent wage rate hikes and probable good monsoon for third consecutive year is expected to improve rural volume growth trajectory. HUVR is focused on volume growth and premiumisation across its product portfolio. With rising input cost inflation in certain crude linked categories and rising competitive intensity in others can put pressure on volumes and margins in coming quarters. Strong volume growth trajectory can continue for next two quarters given the trade disturbance in base quarters. We expect revenues, EBITDA & PAT to grow by 15%, 16% & 10% CAGR during FY18-20E, respectively. However at CMP, stock trades at a P/E of 59x and 51x of FY19E & FY20E EPS which appear expensive. **Maintain HOLD.**

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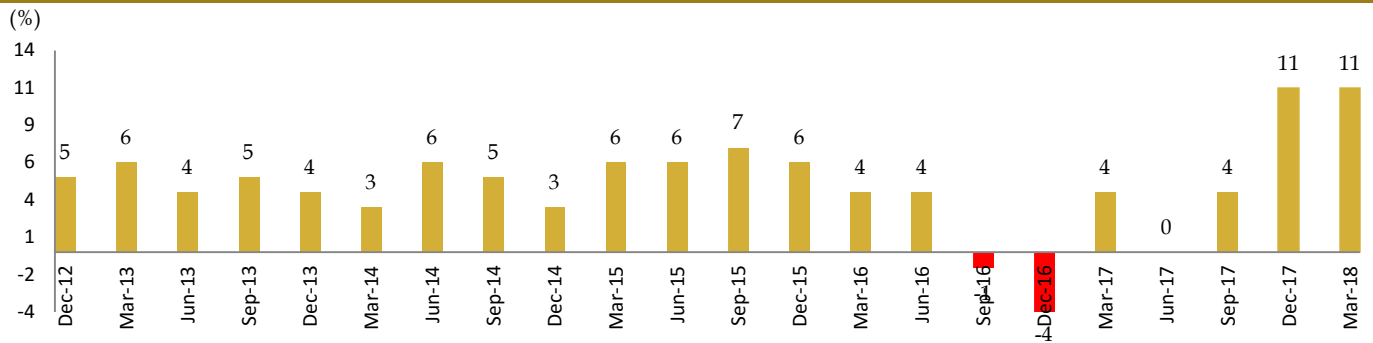


Exhibit 1: Quarterly Performance (Based on IND AS)

Quarterly Snapshot (₹ mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Net Sales	81,278	78,427	77,050	82,130	85,290	83,090	85,900	90,970
YoY Gr%	3.6	1.4	(0.8)	6.4	4.9	5.9	11.5	10.8
Gross Margin %	51.3	49.5	51.4	51.0	52.1	52.7	54.5	52.6
Margin expansion (YoY)	102bps	-12bps	-40bps	-16bps	78bps	323bps	314bps	155bps
A&P (% of Sales)	10.8	10.9	11.5	10.4	10.6	12.3	12.9	11.8
Expansion (YoY)	-56bps	-106bps	-37bps	-82bps	-21bps	146bps	140bps	138bps
EBITDA	16,356	14,046	13,545	16,510	18,660	16,820	16,800	20,480
YoY Gr%	8.2	5.1	(5.3)	12.1	14.1	19.7	24.0	24.0
EBITDA Margin %	20.1	17.9	17.6	20.1	21.9	20.2	19.6	22.5
Margin expansion (YoY)	85bps	62bps	-84bps	103bps	176bps	233bps	198bps	241bps
Reported PAT	11,736	10,956	10,370	11,830	12,830	12,760	13,260	13,510
YoY Gr%	9.8	11.5	6.7	6.2	9.3	16.5	27.9	14.2
Adjusted PAT	12,220	11,083	9,313	11,837	12,810	12,770	13,250	14,016
YoY Gr%	15.0	12.8	(9.3)	9.9	4.8	15.2	42.3	18.4

Source: Company, Trust

Exhibit 2: Underlying Volume Growth Trajectory



Source: Company, Trust



Consolidated Financials

P&L Statement

Y/E Mar (₹ mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	3,21,860	3,31,620	3,55,450	4,10,353	4,70,783
% Growth	0.7	3.0	7.2	15.4	14.7
Raw Material	1,58,670	1,63,130	1,67,300	1,93,276	2,21,739
Staff	16,800	17,430	18,600	21,417	24,249
Other Expenses	86,192	87,660	94,560	1,07,048	1,23,689
Total Expenditures	2,61,662	2,68,220	2,80,460	3,21,741	3,69,677
EBITDA	60,198	63,400	74,990	88,611	1,01,107
% Growth	11.2	5.3	18.3	18.2	14.1
EBITDA Margins (%)	18.7	19.1	21.1	21.6	21.5
Interest	170	350	260	324	364
Depreciation	3,530	4,320	5,200	5,591	5,982
Profit Before Tax	60,328	64,790	73,040	78,823	91,226
Provision for tax	18,830	19,770	20,790	23,962	27,733
Effective tax rate (%)	31.2	30.5	28.5	30.4	30.4
Reported PAT	41,308	44,700	52,250	54,861	63,494
% Growth	13.1	8.2	16.9	5.0	15.7
Adjusted Net Profit	41,583	43,041	52,481	54,976	63,551
% Growth	13.2	3.5	21.9	4.8	15.6

Balance Sheet

Balance Sheet (₹ mn)	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	2,164	2,164	2,164	2,164	2,164
Reserves & surplus	63,570	65,280	70,523	76,985	92,021
Shareholders' funds	65,734	67,444	72,687	79,149	94,185
Minorities interests	200	220	220	220	220
Total Debt	3,564	5,570	6,070	6,870	7,670
Capital Employed	69,498	73,234	79,807	87,485	1,03,321
Net fixed assets	36,660	46,480	47,280	47,689	47,706
Cash & Cash Eq.	32,480	21,590	36,841	28,509	46,010
Net Other current assets	(28,461)	(35,760)	(51,108)	(39,538)	(44,776)
Investments	27,130	39,220	42,660	46,160	49,660
Net Deferred tax Assets	1,690	1,700	3,070	3,070	3,070
Total Assets	69,498	73,234	79,807	87,485	1,03,321

**Cash flow**

Cash Flow Statement(₹ mn)	FY16	FY17	FY18	FY19E	FY20E
Pre-tax profit	60,580	62,290	73,040	78,823	91,226
Depreciation	3,530	4,320	5,200	5,591	5,982
Total Tax Paid	(17,650)	(18,590)	(22,160)	(23,962)	(27,733)
Chg in working capital	(810)	7,150	15,348	(11,570)	5,239
Other operating activities	(3,940)	(3,320)	260	324	364
Cash flow from oper (a)	41,710	51,850	71,688	49,205	75,078
Capital Expenditure	(7,780)	(14,520)	(6,000)	(6,000)	(6,000)
Chg in investments	2,770	(11,310)	(3,440)	(3,500)	(3,500)
Other investing activities	2,190	14,100	-	-	-
Cash flow from inv.(b)	(2,820)	(11,730)	(9,440)	(9,500)	(9,500)
Free cash flow (a+b)	38,890	40,120	62,248	39,705	65,578
Equity raised/(repaid)					
Debt raised/(repaid)	1,770	1,000	501	801	801
Interest paid	(20)	(140)	(260)	(324)	(364)
Dividend (incl. Tax)	(33,660)	(35,830)	(40,032)	(41,114)	(41,114)
Other financing activities	(6,730)	(7,170)	(7,206)	(7,401)	(7,401)
Cash flow from fin. (c)	(38,640)	(42,140)	(46,997)	(48,037)	(48,077)
Net chg in cash (a+b+c)	250	(2,020)	15,251	(8,332)	17,501

Key Ratios

Y/E Mar	FY16	FY17	FY18	FY19E	FY20E
Raw Material Cost/Sales (%)	49.3	49.2	47.1	48.1	48.1
Manpower Cost/Sales (%)	5.2	5.3	5.2	5.2	5.2
Operating & Other Cost/Sales (%)	26.8	26.4	26.6	25.1	25.3
Revenue Growth (%)	0.7	3.0	7.2	15.4	14.7
EBITDA Margins (%)	18.7	19.1	21.1	21.6	21.5
Net Income Margins (%)	12.9	13.0	14.8	13.4	13.5
ROCE (%)	86.6	86.6	94.0	101.3	97.9
ROE (%)	63.3	63.8	72.2	69.5	67.5

Valuation Parameters

Y/E Mar	FY16	FY17	FY18	FY19E	FY20E
EPS (₹.)	19.2	19.9	24.3	25.4	29.4
P/E (x)	43.7	45.8	62.5	59.7	51.6
BV (₹)	30.4	31.2	33.6	36.6	43.5
P/BV (x)	27.7	29.2	45.1	41.4	34.8
EV/EBITDA (x)	29.3	30.2	42.8	36.3	31.6
Fixed assets turnover ratio (x)	8.8	7.1	7.5	8.6	9.9
Net Debt/Equity (x)	(0.4)	(0.2)	(0.4)	(0.3)	(0.4)
EV/Sales (x)	5.5	5.8	9.0	7.8	6.8



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