

Hindustan Unilever Ltd. (HUL)

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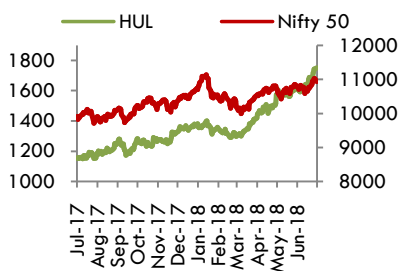
Key Stock Data

CMP	₹1741.1
Market Cap (₹crs)	₹364454
52W High/ Low	₹1779/1126
Shares o/s (crs)	216.46
NSE Code	HINDUNILVR
BSE Code	500696
Bloomberg	HUVR IN

Shareholding Pattern

Promoters	67.19%
FII & DII	19.42%
Public & Others	13.39%

Comparison Chart



Year	FY18	FY19E	FY20E
Revenue	35,545.0	37,451.7	40,094.3
Growth %	7.2%	5.4%	7.1%
EBITDA	7,499.0	8,554.0	9,550.5
EBITDA Margins %	21.1%	22.8%	23.8%
PAT	5,214.0	5,953.0	6,649.6
EPS (₹)*	24.1	27.6	30.8
P/E (x)	69.9	61.0	54.7

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Summary

HUL declared its Q1FY19 results on recently. The key highlights were as follows:

- For the quarter, the company's comparable* domestic consumer business grew at 16% with 12% underlying volume growth. This was mainly due to gradual recovery in demand. Comparable EBITDA margin expanded by 100 bps.
- Growth and margin improvement were mainly achieved through a combination of new launches, product mix & cost saving measures.
- The company maintained its strategy to focus on volume driven growth and improvement in operating margin through cost saving initiatives while strengthening its portfolio through innovation, premiumization and sharpening its execution capabilities to serve consumers even better.
- HUL announced the integration of food and refreshment categories in South Asia, effective from July 1, 2018. This integration will help HUL to increase organizational agility and better serve local consumers while harnessing the advantage of global scale. The integration of these two categories is also in alignment with the structure of Unilever globally.

Comparable*: reflecting the accounting impact of GST.

Financials

- Reported sales grew by 11.4% Y-O-Y to ₹9356crs in Q1FY19. However comparable domestic business grew by 16%. The company reported 12% underlying volume growth.
- Operating profit increased by 20.6% Y-O-Y to ₹2251 crs in Q1FY19. EBITDA Margin stood at 23.7% as opposed to 21.9% in the corresponding quarter last year. The comparable EBITDA margin expanded by 100bps.
- Reported Profit after Tax (after accounting for exceptional items) grew by 19.2% Y-O-Y to ₹1529 crs in Q1. PAT Margin stood at 16.1% as opposed to 15% in the same quarter in previous year. Exceptional Items includes restructuring expenses, profit on sale of surplus properties and provision towards restructuring and few contested matters.

Key Highlights for Quarter

- HUL delivered yet again a strong quarter. The management commentary suggested that the trade has fully stabilized post GST implementation coupled with green shoots of demand revival in Rural India. This quarter saw the integration of foods and refreshment division which will increase organizational agility and better serve local consumers while harnessing the advantages of global scale. Input cost headwinds to continue into FY19.
- Home care segment's comparable sales grew by 20% in Q1yoy led by double digit volume growth (~14%) across key brands. Purifiers premium range continued to perform well.
- Personal care segment's comparable sales grew by 14% yoy in Q1 (~11% UVG). Personal wash witnessed double digit growth across key brands. Lakme 9 to 5 Naturale range of makeup and skin care products infused with aloe vera were launched during the quarter. Colour cosmetics delivered another quarter of double digit growth with continued rollout of successful innovations.
- Food and Refreshment segment delivered comparable growth of 14% yoy in Q1 (~11% UVG). Strong growth led by tea and ice cream & frozen desserts Tea delivered double digit growth across key brands. Ice Cream and Frozen desserts also delivered robust volume led growth on the back of innovations and geographic expansion. Food registered double digit growth led by Kissan and Knorr. During the quarter, HUL launched Lever Ayush breakfast range in Tamil Nadu.

- The company delivered strong margin on back of product mix, judicious pricing and various savings programs. HUL management guided for a targeted cost saving of ~6-7% of turnover going ahead. The company plans to reinvest part of the savings in growth of future categories while the rest will aid margin expansion.
- Advertising & Promotional (A&P) as a percentage of sales was move up to 27.4% to support innovations, activations and respond to competitive action the market place.
- Input costs as a percentage of sales declined from 47.9% to 46%. Although crude oil-related input costs may have turned expensive, it does not seem to have affected the company yet. This could also be attributable to a better mix.
- Volume growth was broad-based and also led by rural, which is again growing ahead of urban in many parts of the country.
- In the near term HUL see gradual improvement in demand and continued to focus on innovations and market development.
- The company reiterated its commitment to achieving modest improvement in its margin every year. The company's efforts towards premiumization and consistent and competitive growth will boost margins.
- The company remains positive on the medium-term outlook for the industry and will continue to invest in core brands and focus on driving consumer value and profitable volume driven growth.

Segmental Performance

Home Care

- Home care segment accounted for ₹33% of topline grew by 20% YoY to ₹33146 crs on GST accounting. The UVG was at ~14%. Laundry saw robust double-digit growth across key brands. In Household Care, growth was mainly driven by strong performance in Vim Bar. Margin expanded to 19.1% from 14.7%.
- Domex liquid relaunched in South India, Domex powders extended to new geographies.
- Fabric wash category continued to deliver double digit growth across key brands. Purifiers performance was subdued during the quarter; however, premium range continue to perform well.
- HUVR is growing ahead of the market and its premium segment in the home care space is growing 3x that of mass and medium segments which indicates that it has gained market share.
- Promotional offers by competitors, namely P&G has not dented growth rate for HUVR. Premiumisation-driven growth in the home care space has lifted the operating margin considerably.
- This segment accounts for ~1/3rd of the topline. Laundry is the biggest portfolio followed by dish wash segment and water purifier segment. The company's offering is spread across the pricing ladder with leadership positions in each category. Management stated that 1 in every 10 users is of premium category in the laundry segment leading to a perception of great scope of growth in this segment in the future. Apart from that the company is rigorously indulging in market development in segment. Example of this would be the fabric conditioners offering. Dish wash continues to be a very lowly penetrated product with future growth coming in from rural markets. Urban markets are witnessing premiumization in the dish wash segment. This segment has seen ~470 bps improvement in margins over the last 7 years.
- The scope for growth through penetration is still a large scale opportunity for the company. The company intends to build segments of the future to drive future growth. Liquids & fabric conditioners is where the company intends to focus market development.

Reported Revenue Growth	Comparable Sales growth
4%	20%

Comparable*: reflecting the accounting impact of GST.

Beauty and Personal Care

- Personal care segment contributed 46.5% to sales, grew by 14% to ₹4407 crs on GST accounting. The UVG was at ~11%. The broad-based growth was seen across Personal Products and Personal Wash.
- In Personal Wash, the growth was led by sustained strong performance of the Dove and Pears. Indulekha hair oil witnessed strong growth and further it extended to shampoo, an Ayurvedic Medicine for Hairfall.
- Growth in skin care was driven by the strong performance of Fair & Lovely and Ponds. Facial cleansing maintains strong momentum. Deodorants also saw good performance with Axe Ticket gaining traction.
- Oral Care segment shown another quarter of growth. Further Ayush Oral Care range would improve performance of Oral care products. Management commented that this is the 2nd quarter of positive growth for the segment, but still work needs to be done to further drive growth.
- Lakme Colour Cosmetics continued its strong innovation led growth. Lakme 9 to 5 Naturelle range of makeup and skin care products infused with aloe vera were launched during the quarter.
- Performance of the naturals portfolio is tracking internal expectations and set to grow 2.5x company average growth rate. Performance of Lever Ayush range and Indulekha has been satisfactory. The company also launched a new Lakme make-up range under the naturals umbrella.
- This segment accounts for ~47% of the topline and ~2/3rd of the profits of the company. This segment boasts of 7 ₹100 crs plus brand. This segment has seen great absolute growth over the last 5 years and this is expected to continue on the back of low penetration in key categories & innovation driven market development. More usage, higher penetration & accelerated premiumization are the key growth drivers for this category. The company's key thrust is on making core brands more aspirational; enter emerging segments (like baby care – est. Market size ~₹1000 crs.) & riding the natural care wave with its new brands Indulekha & Ayush. Ecommerce is emerging as a key trade platform for this category.
- The management aims to expand gross margins in this segment on the back of its premiumization strategy. The segment HUL is known for its market development activities, some such examples would be hair styling products & conditioners. The management reiterated its strategy of leading the trends in this segment (hence the argan oil & aloe vera infused launches) and also create new benefit spaces.

Reported Revenue Growth	Comparable Sales growth
0.9%	14%

Comparable*: reflecting the accounting impact of GST.

Foods and Refreshments

- Foods segment contributed 18.8% to the sales and grew by 8% yoy to ₹1785 crs on GST accounting with margin expansion by 90 bps. The UVG was at ~11%. Strong growth led by Tea and Ice Cream & Frozen Desserts.
- This quarter saw the integration of foods and refreshment division which will increase organizational agility and better serve local consumers while harnessing the advantages of global scale.
- In 5 out of the 6 categories, HUL has No.1 position (except for ice-creams)
- The company has emerged as the market leader in the Tea category in FY18 for the first time in the last decade (~12% market share in the branded tea market).
- The growth momentum continued in Ice Cream & Frozen Desserts. It delivered strong double-digit growth. This was led by innovation.
- Robust growth was driven by Kissan and Jam. Knorr growth was led by a strong performance in Soups. Knorr franchise was expanded with new Knorr Pasta masala variants being launched in selected geographies.

Reported Revenue Growth	Comparable Sales growth
7.9%	14%

Comparable*: reflecting the accounting impact of GST.

- It launched Lever Ayush breakfast range in Tamil Nadu. Bru Kannadigara introduced in few geographies.
- This segment is reaching a critical size of ~₹1000 crs. in FY17. This segment has been growing at double digits in last 5 years. The company has been able to strengthen brands which can be seen in the fact that it is a leader in all categories where it is present. The key for growth in this segment is increased distribution and improved accessibility through access packs. The company's key thrust is on innovations in this segment.

Risks

- Rising Competitive Intensity
- Commodity prices are expected to strengthen going forward.

Valuation & Outlook

In the face of GST rollout in FY18, HUL has held ground and continues to report double digit growth. Of the 40 brands its owns ~ 19 brands have sales above ₹500 crs.; 5 of those are ₹2000 crs.+ brands, 7 are ₹1000 crs.+ & 7 are ₹500 crs.+.

Underlying the key building blocks for the future is a key thrust on driving premiumization across categories. Currently ~25-28% of the FMCG market is premium while the leftover is equally divide among the popular & mass offering segment. It is expected that over the next 2-3 years the premium segment of the market will grow at the fastest rate (~1-1.5%) while mass segment will de-grow (~1.5-2%).

HUL continues to invest in creating value propositions for the consumer. After successful transition into the GST system in FY18. This is the 3rd consecutive quarter of double digit volume growth. The management deterred yet again to call it a trend reversal in demand but said there is a gradual improvement in the same. The recent GST rate cuts in Nov 2017 also spurred affordability of branded products across the industry. Privy the result in Q1 and margin expansion, HUL has started FY19 on a strong footing. Growth was pillared on focus on premiumization, natural care portfolio and cost saving initiatives to drive profitable growth going into the future. We believe the normal monsoons & increase in MSP till now will help rural India growth accelerate further in second half of FY19. The company is now focusing on delivering a cost savings of ~6% part of which will be reinvested to fuel future growth & the remainder will flow to margins. **At the CMP of ₹1683.7/- the stock trades at 61.0x & 54.7x its estimated EPS of ₹27.6/- & ₹30.8/- for FY19E & FY20E respectively. We advise investors to HOLD the stock.**

Standalone Financials

	Q1FY19	Q1FY18	VAR [%]	Q4FY18	VAR [%]	FY18
(₹ Crs)						
Net Sales (Net of Excise Duty)	9,356.0	8,401.0	11.4%	9,003.0	3.9%	9,003.0
Other Operating Income	131.0	128.0	2.3%	94.0	39.4%	94.0
	9,487.0	8,529.0	11.2%	9,097.0	4.3%	9,097.0
Other Income	135.0	113.0	19.5%	100.0	35.0%	100.0
TOTAL INCOME	9,622.0	8,642.0	11.3%	9,197.0	4.6%	9,197.0
Cost Of Materials Consumed	3,379.0	2,904.0	16.4%	3,514.0	-3.8%	3,514.0
Purchase of stock in trade	905.0	1,128.0	-19.8%	855.0	5.8%	855.0
Stock Adjustment	80.0	52.0	53.8%	(55.0)	-245.5%	(55.0)
RMC as a % of sales	46.0%	47.9%		47.4%		47.4%
Employee Benefit Expenses	442.0	419.0	5.5%	400.0	10.5%	400.0
EPC as a % of sales	4.7%	4.9%		4.4%		4.4%
Advertisement & Promotion	1,153.0	905.0	27.4%	1,070.0	7.8%	1,070.0
Advertisement Expenses as a %age of sales	12.2%	10.6%		11.8%		11.8%
Other Expenses	1,277.0	1,255.0	1.8%	1,265.0	0.9%	1,265.0
Other Expenses as a % of sales	13.5%	14.7%		13.9%		13.9%
TOTAL EXPENDITURE	7,236.0	6,663.0	8.6%	7,049.0	2.7%	7,049.0
EBIDTA	2,251.0	1,866.0	20.6%	2,048.0	9.9%	2,048.0
EBIDTA Margins %	23.7%	21.9%		22.5%		22.5%
Finance Costs	7.0	6.0	16.7%	4.0	75.0%	4.0
PBDT	2,379.0	1,973.0	20.6%	2,144.0	11.0%	2,144.0
Depreciation	127.0	114.0	11.4%	128.0	-0.8%	128.0
PBT before exceptional items	2,252.0	1,859.0	21.1%	2,016.0	11.7%	2,016.0
Exceptional items	(59.0)	(13.0)	353.8%	(64.0)	-7.8%	(64.0)
PBT	2,193.0	1,846.0	18.8%	1,952.0	12.3%	1,952.0
Tax	664.0	563.0	17.9%	601.0	10.5%	601.0
Tax Rate	30.3%	30.5%		30.8%		30.8%
Reported Profit After Tax	1,529.0	1,283.0	19.2%	1,351.0	13.2%	1,351.0
PATM %	16.1%	15.0%		14.9%		14.9%
Extra-ordinary Items	0.0	0.0	#DIV/0!	0.0	#DIV/0!	0.0
Adjusted Profit After Extra-ordinary item	1,529.0	1,283.0	19.2%	1,351.0	13.2%	1,351.0
Other Comprehensive Income (Net of tax)- net credit / (charge)						
Total Comprehensive Income (13+14)	1,528.0	1,281.0	19.3%	1,341.0	13.9%	1,341.0
Basic:						
EPS	7.1	5.9	19.3%	6.2	13.9%	6.2
Equity	216.4	216.4		216.4		216.4
Face Value	1.0	1.0		1.0		1.0

Segmental Standalone

	Q1FY19	Q1FY18	VAR [%]	Q4FY18	VAR [%]	(₹ Crs) FY18
REVENUES						
Revenue from Operations	9,487.0	9,213.0	3.0%	9,097.0	4.3%	9,097.0
Home Care	3,146.0	3,047.0	3.25%	3,102.0	1.4%	3,102.0
Mix %	33.2%	33.1%		34.1%		34.1%
Personal Care	4,407.0	4,368.0	0.9%	4,096.0	7.6%	4,096.0
Mix %	46.5%	47.4%		45.0%		45.0%
Foods & Refreshments	1,785.0	1,654.0	7.9%	299.0	497.0%	1,735.0
Mix %	18.8%	18.0%		3.3%		19.1%
Others	149.0	144.0	3.5%	191.0	-22.0%	164.0
Mix %	1.6%	1.6%		2.1%		1.8%
Less : Inter Segment Revenues	0.0	0.0	-	0.0	-	0.0
Total Segment Revenue	9,487.0	9,213.0	3.0%	9,097.0	4.3%	9,097.0
Add : Other Unallocable Income	0.0	0.0	-	0.0	-	0.0
Net Revenue from Operations	9,487.0	9,213.0	3.0%	9,097.0	4.3%	9,097.0
PROFIT						
Profit/Loss Before Interest and Tax	2,096.0	1,817.0	15.4%	1,864.0	12.4%	1,864.0
Margin %	22.1%	19.7%		20.5%		20.5%
Home Care	602.0	448.0	34.4%	509.0	18.3%	509.0
Margin %	19.1%	14.7%		16.4%		16.4%
Personal Care	1,162.0	1,079.0	7.7%	1,066.0	9.0%	1,066.0
Margin %	26.4%	24.7%		26.0%		26.0%
Foods & Refreshments	334.0	295.0	13.2%	31.0	977.4%	287.0
Margin %	18.7%	17.8%		10.4%		16.5%
Others	(2.0)	(5.0)	-60.0%	2.0	-200.0%	2.0
Margin %	-1.3%	-3.5%		1.0%		1.2%
Less : Interest	7.0	6.0	16.7%	4.0	75.0%	4.0
Other Un-allocable Expenditure	0.0	0.0		0.0		0.0
Add : Other Un-allocable Income	104.0	35.0	197.1%	92.0	13.0%	92.0
Extra-Ordinary Income/Expense						
Net Profit/Loss Before Tax	2,193.0	1,846.0	18.8%	1,952.0	12.3%	1,952.0

Consolidated Yearly Financials

	FY18	FY17	YOY [%]
Net Sales	34,878.0	32,367.0	7.8%
Other Operating Income	667.0	795.0	-16.1%
Other Income	384.0	369.0	4.1%
Total Income	35,929.0	33,531.0	7.2%
Raw Material Consumed	12,927.0	11,946.0	8.2%
Purchase of stock in trade	3,875.0	4,223.0	-8.2%
Stock Adjustment	(72.0)	144.0	-150.0%
RMC as a %age of sales	47.1%	49.2%	
Employee Expenses	1,860.0	1,743.0	6.7%
EPC as a %age of sales	5.2%	5.3%	
Advertisement Expenses	4,153.0	3,542.0	17.3%
Advertisement Expenses as a %age of sales	11.7%	10.7%	
Other Expenses	5,303.0	5,224.0	1.5%
Other Expenses as a %age of sales	14.9%	15.8%	
Total Expenditure	28,046.0	26,822.0	4.6%
EBIDTA	7,499.0	6,340.0	18.3%
EBIDTA Margin%	21.1%	19.1%	
Interest	26.0	35.0	-25.7%
Interest	26.0	35.0	-25.7%
Loss/Gain in Forex	-	-	-
PBDT	7,857.0	6,674.0	17.7%
Depreciation	520.0	432.0	20.4%
Minority Interest Before NP	0.0	-	-
PBT before exceptional items	7,337.0	6,242.0	17.5%
Exceptional items	(33.0)	237.0	-113.9%
PBT	7,304.0	6,479.0	12.7%
Share of Profit /loss from Joint Venture	-	-	-
PBT	7,304.0	6,479.0	
Tax	2,216.0	1,947.0	13.8%
Fringe Benefit Tax	-	-	-
Deferred Tax	137.0	(30.0)	-556.7%
Tax Rate	32.1%	30.7%	
Reported Profit After Tax	5,225.0	4,502.0	16.1%
Profit/(Loss) from discontinued operations before tax		(13.0)	
Tax expenses of discontinued operations		1.0	
Profit/(Loss) from discontinued operations after tax (B)	2.0	(12.0)	
PROFIT FOR THE YEAR	5,227.0	4,490.0	
Minority Interest After NP	0.0	0.0	-
Profit/Loss of Associate Company	-	-	-
Net Profit after Minority Interest & P/L Asso.Co.	5,227.0	4,490.0	16.4%
PATM %	14.7%	13.6%	
Extra-ordinary Items	-	-	-
Adjusted Profit After Extra-ordinary item	5,227.0	4,490.0	16.4%
Other Comprehensive Income (Net of tax)- net credit / (charge)	(11.0)	(20.0)	
Total Comprehensive Income	5,216.0	4,470.0	16.7%
Basic:			
EPS	24.2	20.8	16.4%
Equity	216.3	216.3	
Face Value	1.0	1.0	

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Disclosure of Interest Statement in Hindustan Unilever Ltd. as on July 17, 2017

Name of the Security	Hindustan Unilever Ltd.
Name of the analyst	Shivani Vishwanathan & Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	No
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.