

Hindustan Unilever Ltd.

Industry Con. Staples
Bloomberg HUVR IN
BSE CODE 500696

Strong volume led growth on the back of Rural demand

RATING	ACCUMULATE
CMP	1748
Price Target	1983
Potential Upside	13%

Rating Change	↔
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	1871/1282
Mkt Capital (Rs Cr)	378835
Free float (%)	33%
Avg. Vol 1M (,000)	1485
No. of Shares (Crs)	216
Promoters Pledged %	NA

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Q3FY19 Result update

- ❑ HINDUNILVR has posted strong volume growth of 10% YoY with a sales growth of 11% to Rs.95.6 bn(vs expec. Rs 95.6 bn) on the back of strong rural demand. Rural is growing 1.3x of urban .
- ❑ Witnessed robust growth in all segments across its major divisions namely Home care, Beauty & Personal care and Foods & Refreshment which grew by 15%, 11% and 10%respectively in this quarter on the back of premiumization, lower unit packs and market developments.
- ❑ Gross margin declined by 76 bps YoY to 53.8% on account of volatility in crude oil prices while EBITDA margin expanded by 185 bps YoY to 21.4% backed by lower employee ,A&P and other expenses by 85,48 and 128 bps respectively.EBITDA grew by 22% YoY to Rs 20.5 bn (expec. Rs 21 bn).
- ❑ PAT grew by 9% YoY to Rs 14.4 bn, impacted by provisioning of higher taxes by 464 bps YoY to 25.9%(21.3% in Q3FY18) and lower other income of Rs 106 cr (Rs 152 cr in Q3FY18).Other income was lower due to change in accounting of budgetary support under GST & lowered dividend income as.
- ❑ Exceptional items include Rs.40 crs on account of phasing out gravity segment of water purifier. Also, company booked some exceptional cost for acquisition of Aditya milk & GSK acquisition as well.

View and Valuation

Hindunilvr has posted numbers largely in line with our estimates, sales grew by 11% YoY to Rs95.6 bn while EBITDA growth remained 22% YoY to Rs 20.5 bn. Positive for this quarter remained volume growth which grew by 10% despite higher base of 11% of previous year. The company witnessed broad based growth in all segments but home care stood out with the growth of 15%. Going forward we expect strong volume growth for company to continue on the back of improvement in penetration led by lower unit packs, improved offering backed by focused WIMI strategy and adoption of premiumization in rural market. While cost may increase on the back of restructuring of supply chain, merger related expenses and investment in technology but we expect that company's thrust on premiunization , improving contribution of beauty& Personal care and cost saving measures will help in improvement in margin going ahead. Factoring higher restructuring and cost related to merger we have reduced FY20e PAT estimates by 2% and accordingly we have changed our target to Rs 1983(57x FY20e eps) from earlier Rs 2020 with ACCUMULATE rating.

Key Risks to our rating and target

- ❑ Slowdown in rural demand.
- ❑ Volatility in crude and currency.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	32186	33162	35545	39817	45301
EBITDA	6020	6340	7499	8896	10827
EBIT	5667	5908	6979	8375	10296
PAT	4151	4490	5225	6264	7471
EPS (Rs)	19	21	24	29	35
EPS growth (%)	-5%	8%	16%	20%	19%
ROE (%)	63%	67%	72%	83%	101%
ROCE (%)	84%	84%	96%	111%	139%
BV	30	31	34	35	34
P/B (X)	27.8	27.2	45.5	51.3	52.3
P/E (x)	44.1	40.9	63.4	61.6	51.7

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Q3FY19 Results**Largely inline**

<i>Financials</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY17</i>	<i>FY18</i>	<i>YoY %</i>
<i>Net Sales</i>	8,590	9,097	9,487	9,234	9,558	11.3%	3.5%	33,162	35,545	7.2%
<i>Other Income</i>	152	100	135	305	106	-30.3%	-65.2%	369	384	4.1%
<i>COGS</i>	3,905	4,314	4,364	4,435	4,418	13.1%	-0.4%	16,313	16,730	2.6%
<i>Gross Margin</i>	55%	53%	54%	52%	54%	-0.8%	1.8%	51%	53%	2.1%
<i>Employee Ex.</i>	491	400	442	438	465	-5.3%	6.2%	1,743	1,860	6.7%
<i>Adv. Ex.</i>	1,107	1,070	1,153	1,106	1,186	7.1%	7.2%	-	-	-
<i>Other Expen.</i>	1,407	1,265	1,277	1,236	1,443	2.6%	16.7%	8,766	9,456	7.9%
<i>EBITDA</i>	1,680	2,048	2,251	2,019	2,046	21.8%	1.3%	6,340	7,499	18.3%
<i>EBITDA Mar.</i>	20%	23%	24%	22%	21%	1.8%	-0.5%	19%	21%	2.0%
<i>Depreciation</i>	121	128	127	130	133	9.9%	2.3%	432	520	20.4%
<i>EBIT</i>	1,559	1,920	2,124	1,889	1,913	23%	1.3%	5,908	6,979	18.1%
<i>Interest</i>	5	4	7	7	7	40%	0.0%	35	26	-25.7%
<i>PBT</i>	1,685	1,952	2,193	2,152	1,950	15.7%	-9.4%	6,242	7,337	18%
<i>Exceptional</i>	(21)	(64)	(59)	(35)	(62)	195.2%	77.1%	237	(33)	-114%
<i>Tax</i>	359	601	664	627	506	40.9%	-19.3%	1,977	2,079	5%
<i>PAT</i>	1,326	1,351	1,529	1,525	1,444	8.9%	-5.3%	4,490	5,225	16%
<i>PAT Margin</i>	15%	15%	16%	17%	15%	-0.3%	-1.4%	14%	15%	1.2%

Witnessed strong growth across categories

The company continued to maintain strong growth across categories driven by innovation and market developments. Home care category which contributes to the extent of 33% to the revenue posted a strong sales growth of 15% YoY led by strong performance of fabric wash, and household care driven by focus on the core, premiumization and targeted market development initiatives. Beauty & personal care (contributes ~ 47% to the revenue) up by 11%. Personal wash growth was driven by premium segment and naturals. Skin care too had strong quarter with robust growth in winter portfolio as company launched Rs.10 variants and tubs format across portfolio. Food & Refreshment (contributes ~ 18% to the revenue) grew by 10% led by beverages which showed good growth driven by premiumization through green tea .

Gross Margin was impacted due to volatility in crude

Gross margin declined by 76 bps YoY to 53.8% on account of volatility in crude oil prices while EBITDA margin expanded by 185 bps YoY to 21.4% backed by lower employee ,A&P and other expenses by 85,48 and 128 bps respectively. The company has effectively managed its cost led by rationalization of A&P expanses and other cost efficiency measures. PAT margin declined by 33 bps YoY on account of higher provisioning of Taxes(by 464 bps) and lower other income(by Rs 46 cr YoY to Rs106 cr).

Concall Highlights

- Market demand is stable. The company has delivered volume led growth in this quarter.
- Rural is growing ahead of urban. Rural growth is 1.3 times of Urban growth and it is contributing ~35-40% of the company's revenue.
- HUL Board approves merger of HUL and GSK CH India subject to regulatory and shareholder approvals, it will take 9-12 months to complete the merger.
- The Company will keep working on the improvement in sales with the margin expansion.
- NCLT approved the scheme of arrangement for transfer of the balance of Rs. 2187 Crs standing to credit of General Reserve to the Profit & Loss Account. Its timing for distribution to shareholders will depend on the approval of Board of directors.
- Volatility in crude and currency well managed; mix improvement and operating leverage aids margin expansion.
- Hindunilvr is focusing on launch of lower unit packs (LUP's) to drive penetration and using WIMI strategy to customize it offerings.
- Natural portfolio continues to do well; growing at rate of 2-2.5x of company's average.
- In Purifiers company is focusing premium devices with mid & top range of UV &RO purifier and phasing out gravity segment.
- In coming 4-5 quarters company will have exceptional costs as company is doing integration process & Supply chain restructuring.

Exhibit: Volume growth

Hindunilvr has posted strong vol. growth of 10% YoY on back of strong rural remand. Rural is growing 1.3x of urban .

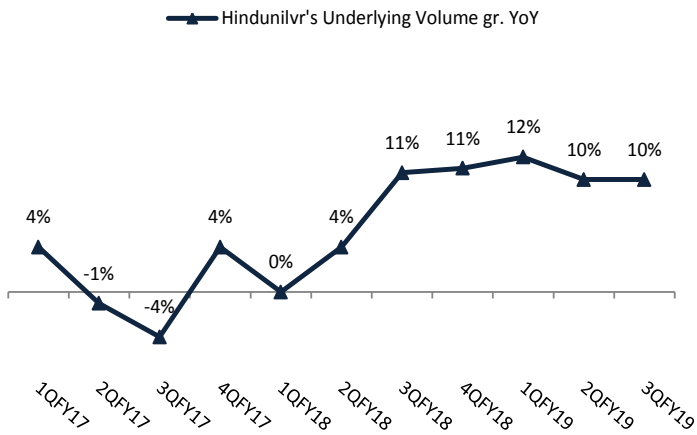


Exhibit: Sales and Sales Growth

Sales grew by 11% YoY on the back of strong broad based growth in all segments.

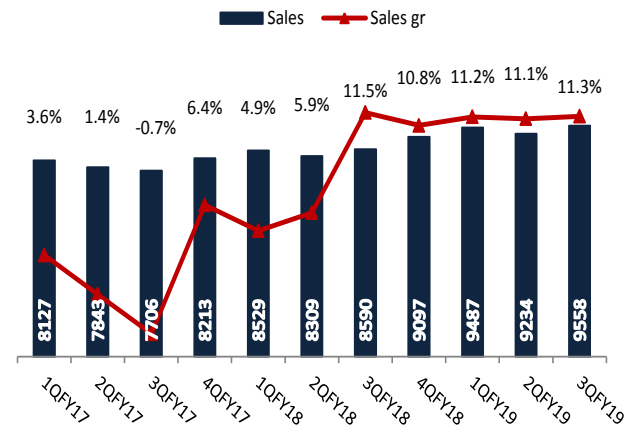


Exhibit: COGS and Other Cost Items

Employee , A&P and other expenses declined by 85,48 and 128 bps YoY respectively in Q3FY19.

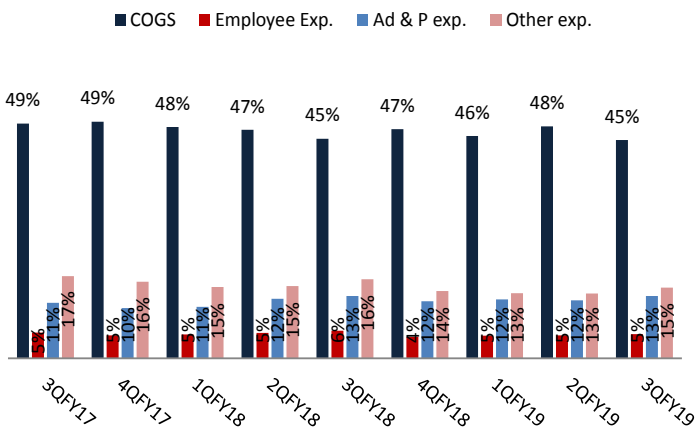


Exhibit: Gross and EBITDA Margin

Gross margin declined by 76 bps YoY to 53.8% led by volatility in crude oil prices.

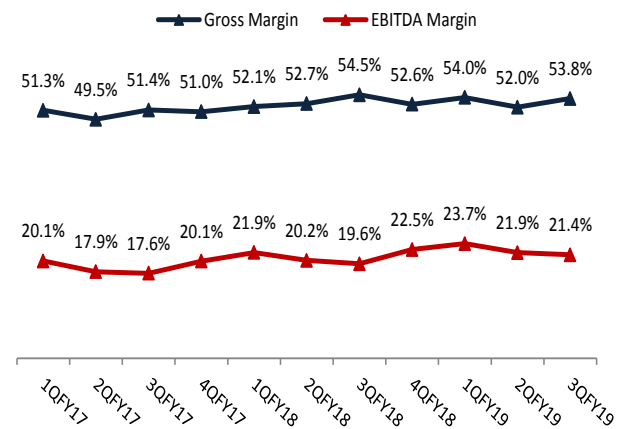


Exhibit: Provisioning of Taxes(%PBT)

PAT margin declined by 33 bps YoY on account of higher provisioning of Taxes (by 464 bps).

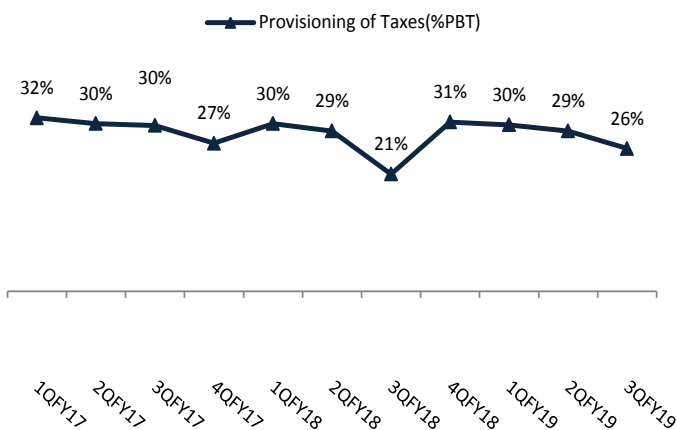
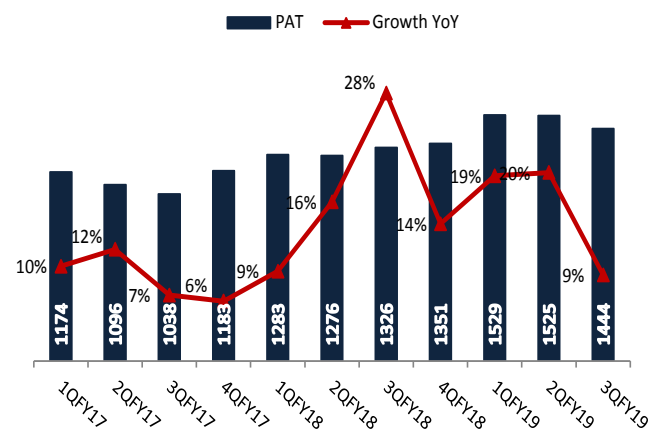


Exhibit: PAT and PAT Growth

PAT grew by 9% YoY to Rs 14.4 bn, impacted by higher provisioning of taxes and lower other income.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	216	216	216	216	216	216	216	216
Reserves	2,649	3,321	3,805	6,357	6,528	7,065	7,316	7,166
Networth	2,865	3,537	4,022	6,573	6,744	7,281	7,532	7,383
Debt	25	46	43	177	277	-	-	-
Other Non Current Liab	1,192	1,269	1,172	1,134	1,226	1,674	1,274	1,224
Total Capital Employed	2,890	3,583	4,065	6,750	7,021	7,281	7,532	7,383
Net Fixed Assets (incl CWIP)	2,654	3,038	3,256	3,585	4,567	4,908	4,882	4,846
Non Current Investments	395	380	324	-	-	2	2	2
Other Non Current Assets	3,581	3,846	4,125	4,449	5,488	6,200	6,174	6,138
Non Current Assets	3,976	4,226	4,449	4,449	5,488	6,202	6,176	6,140
Inventory	2,706	2,940	2,849	2,726	2,541	2,513	2,815	3,203
Debtors	997	1,017	1,011	1,264	1,085	1,310	1,467	1,670
Cash & Bank	1,901	2,516	2,689	3,009	1,828	3,485	2,166	2,058
Other Current Assets	2,512	3,055	3,433	3,346	4,764	4,352	6,157	6,882
Current Assets	8,116	9,528	9,982	10,345	10,218	11,660	12,605	13,812
Creditors	5,342	5,825	5,507	5,685	6,186	7,170	8,032	9,138
Provisions	1,988	2,088	2,709	293	392	688	771	877
Other Current Liabilities	659	967	953	912	859	1,029	1,153	1,311
Curr Liabilities	7,989	8,880	9,169	6,890	7,437	8,887	9,955	11,326
Net Current Assets	126	649	813	3,455	2,781	2,773	2,650	2,486
Total Assets	12,092	13,754	14,431	14,794	15,706	17,862	18,781	19,953

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	27,004	29,234	31,972	32,186	33,162	35,545	39,817	45,301
Change (%)		8%	9%	1%	3%	7%	12%	14%
EBITDA	4,205	4,746	5,414	6,020	6,340	7,499	8,896	10,827
Change (%)		13%	14%	11%	5%	18%	19%	22%
Margin (%)	16%	16%	17%	19%	19%	21%	22%	24%
Depr & Amor.	251	296	322	353	432	520	521	531
EBIT	3,954	4,450	5,091	5,667	5,908	6,979	8,375	10,296
Int. & other fin. Cost	26	41	18	17	35	26	34	34
Other Income	532	570	567	423	369	384	644	558
EBT	4,460	4,980	5,640	6,073	6,242	7,337	8,985	10,820
Exp Item	606	236	679	(31)	237	(33)	(218)	(105)
Tax	1,227	1,259	1,944	1,875	1,977	2,079	2,503	3,244
Minority Int & P/L share of Ass.								
Reported PAT	3,829	3,946	4,363	4,151	4,490	5,225	6,264	7,471
Adjusted PAT	3,390	3,770	3,918	4,172	4,328	5,249	6,421	7,545
Change (%)		3%	11%	-5%	8%	16%	20%	19%
Margin(%)	14%	13%	14%	13%	14%	15%	16%	16%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	134%	112%	108%	63%	67%	72%	83%	101%
ROCE	137%	124%	125%	84%	84%	96%	111%	139%
Asset Turnover	2	2	2	2	2	2	2	2
Debtor Days	13	13	12	14	12	13	13	13
Inv Days	37	37	33	31	28	26	26	26
Payable Days	72	73	63	64	68	74	74	74
Int Coverage	154	109	288	333	169	268	246	303
P/E	26	33	31	44	41	63	62	52
Price / Book Value	35	37	34	28	27	45	51	52
EV/EBITDA	24	27	24	30	29	44	43	35
FCF per Share	15	15	12	16	17	24	29	37
Div Yield	2%	2%	2%	2%	2%	1%	1%	2%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	4,460	4,980	5,640	6,058	6,229	7,337	8,767	10,715
(inc)/Dec in Working Capital	429	405	(342)	(81)	715	791	33	506
Non Cash Op Exp	281	326	391	373	455	543	521	531
Int Paid (+)	26	41	18	17	35	26	34	34
Tax Paid	(1,074)	(1,384)	(2,030)	(1,765)	(1,859)	(2,268)	(2,503)	(3,244)
others	(515)	(544)	(539)	(356)	(283)	(230)	-	-
CF from Op. Activities	3,605	3,818	3,124	4,171	5,185	6,064	6,854	8,524
(inc)/Dec in FA & CWIP	(441)	(584)	(573)	(772)	(1,452)	(878)	(495)	(495)
Free Cashflow	3,164	3,234	2,551	3,399	3,733	5,186	6,359	8,029
(Pur)/Sale of Inv	(29)	(425)	404	271	(1,132)	1,042	(1,629)	(500)
others	(413)	327	44	59	1,267	(1,315)	(2)	18
CF from Inv. Activities	63	(475)	306	(282)	(1,173)	(1,068)	(2,126)	(977)
inc/(dec) in NW	7	2	2	-	-	-	-	-
inc/(dec) in Debt	25	(15)	(3)	177	100	(277)	-	-
Int. Paid	(26)	(29)	(18)	(2)	(14)	(6)	(34)	(34)
Div Paid (inc tax)	(4,137)	(2,904)	(3,437)	(4,027)	(4,289)	(4,668)	(6,013)	(7,621)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(4,147)	(2,960)	(3,462)	(3,864)	(4,214)	(4,975)	(6,047)	(7,655)
Inc(Dec) in Cash	(480)	383	(33)	25	(202)	21	(1,319)	(107)
Add: Opening Balance	942	462	845	805	830	628	3,485	2,166
Closing Balance	462	845	813	830	628	649	2,166	2,059

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