

## HINDUSTAN UNILEVER LTD

19-Feb-16

### Result Update

CMP	825
Target Price	935
Previous Target Price	910
Upside	13.3%
Change from Previous	3%

### Market Data

BSE Code	500696
NSE Symbol	HINDUNILVR
52wk Range H/L	981/766
Mkt Capital (Rs Cr)	58,700
Av. Volume	1179
Nifty	7192

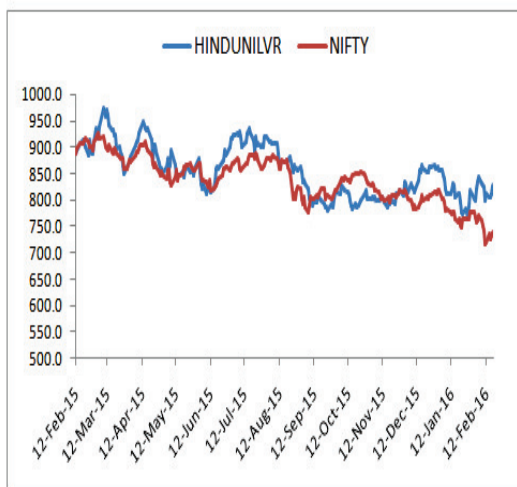
### Stock Performance

	1Month	3 Month	1Year
Absolute	2%	3%	3%
Rel.to Nifty	5%	20%	20%

### Share Holding Pattern-%

	2QFY16	3QFY16	4QFY15
Promoters	67.2	67.2	67.2
FII	13.9	14.6	15.0
DII	4.8	4.2	3.8
Others	14.1	14.0	13.9

### Company Vs NIFTY



The company reported a volume growth of 6% YoY in Q3FY2016 and stable at QoQ basis (stood at 7%). The price reduction along with phasing our excise duty, net revenue grew by 3% YoY. During quarter HUL has increased the advertisement spends and has taken necessary pricing action in order to boost the sales volume better in medium term of key category. The company's volume in 9MFY2016 stood at 6% versus 4.5% in 9MFY2015. Despite of price cut gross margin was up by 293 bps YoY to 52.2% due to softening of input prices. However, OPM was up only 21 bps YoY at 18.3% due to 16% increase in A&P to 14.5% of sales. We also note that HUL has plan to distribute Rs. 22 bn from general reserve to shareholders that will increase return ratio. We have upgraded our rating from Neutral to Buy with revised price target of Rs. 935/share.

### Segment wise business details

**Soaps & detergents:** Driven by higher promotions, strong volume growth was witnessed in key soap brands (Dove, Pears, Lifebuoy and liquids) and premium detergent brands (Surf and Rin). However, price cuts curtailed sales growth to 0.8% YoY. Despite soft input cost, EBIT margin stood flat YoY at 14%

**Personal Products:** Due to delayed winter and one-time realignment of channel spends (to continue in Q4 as well) drag revenue growth to 5.6% YoY but EBIT margin at 28.9% was up 112 bps YoY. Healthy growth registered in skin care and hair care. Subdued performance in Pepsodent lowered growth in Oral care.

**Rural growth decelerates but urban inline:** While rural growth decelerated, management believes it has bottomed out. Increased investments in the form of 7th pay commission and DBT to aid recovery in 2016

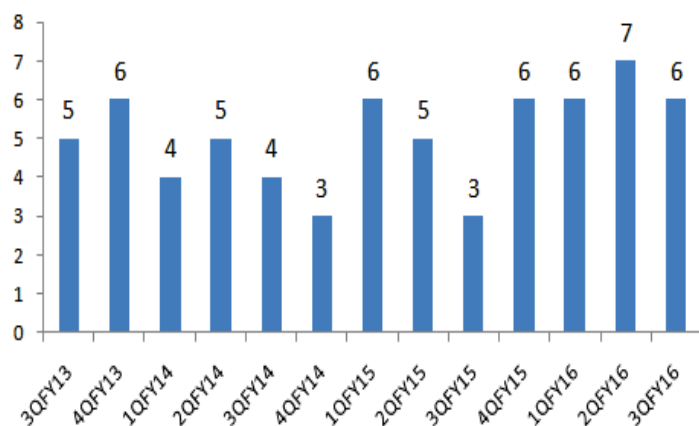
**Plan for special dividend/ buy back:** Board has approved transfer of Rs22bn from non-distributable reserve to distributable reserve (P&L), in order to rewards shareholders as cash generation is sufficient to meet business requirement. Scheme is subject to shareholder/court approval and expect announcement in 6-12 months.

Financials	FY12	FY13	FY14	FY15	FY16E
Sales	23436	27004	29234	31972	33109
EBITDA	3484	4205	4746	5414	5887
Net Profit	2791	3829	3946	4363	4111
EBITDA%	14.9%	15.6%	16.2%	16.9%	17.8%
P/E	31.7	26.3	33.1	31.0	42.9

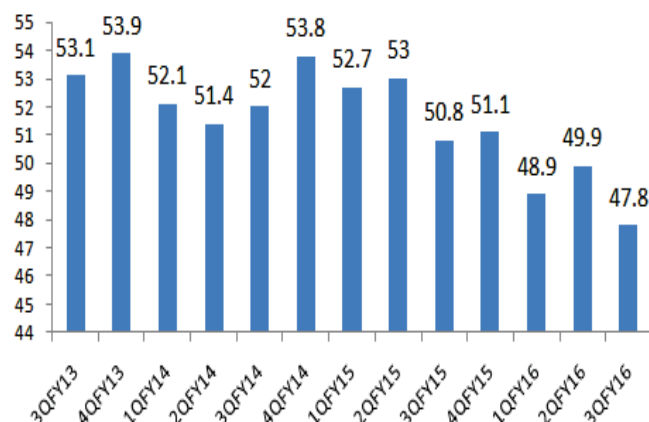
(Source: Company/Eastwind)

## Business Details

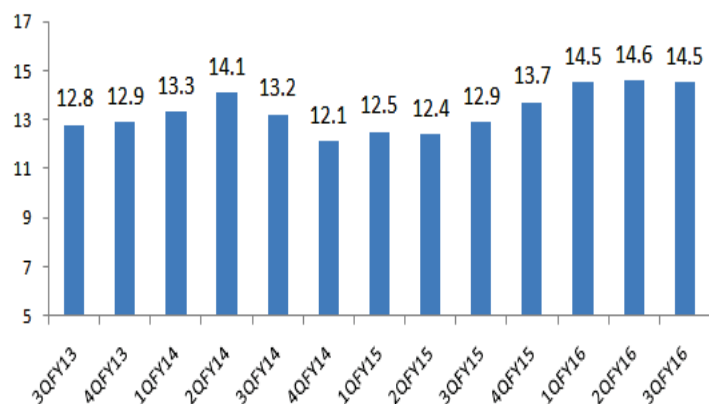
■ Volume Growth



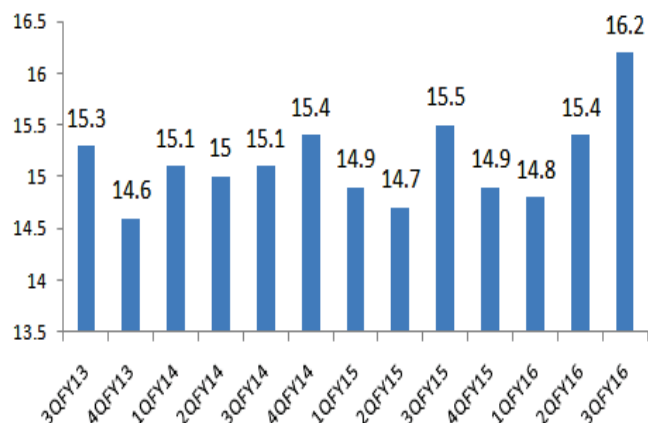
■ RM cost-to-sales



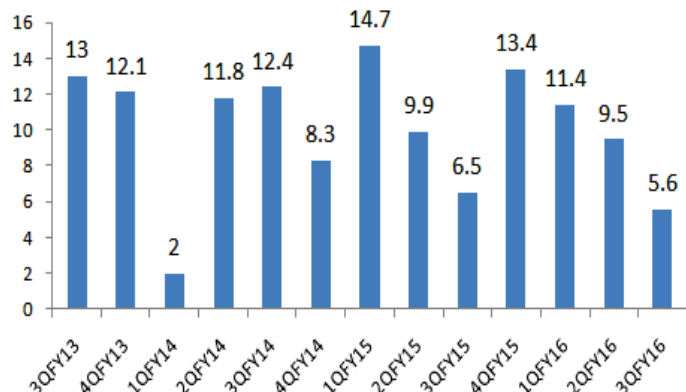
■ A&P spends-to-sales ratio



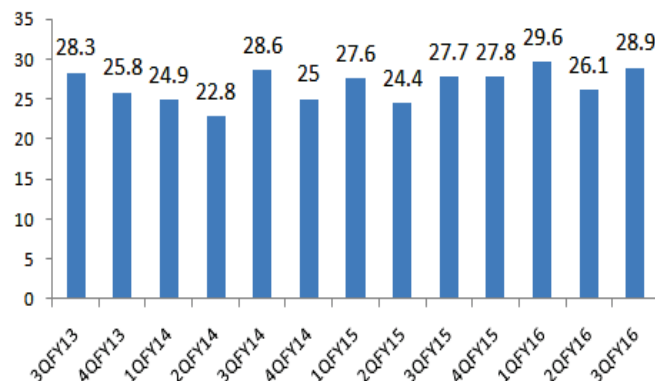
■ Other cost-to-sales



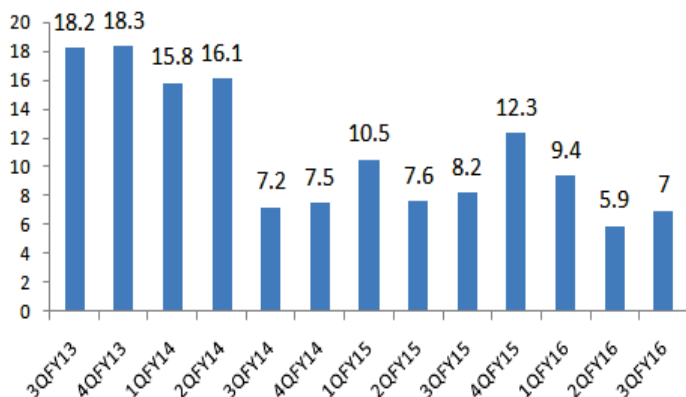
■ Personal products revenue growth



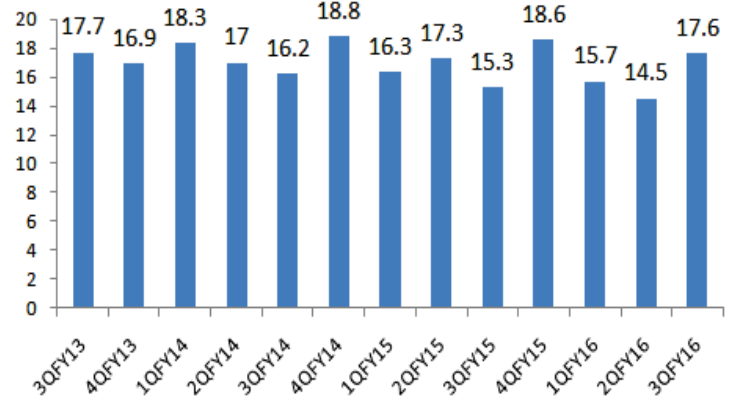
■ Personal products – PBIT margin



■ Beverage revenue growth

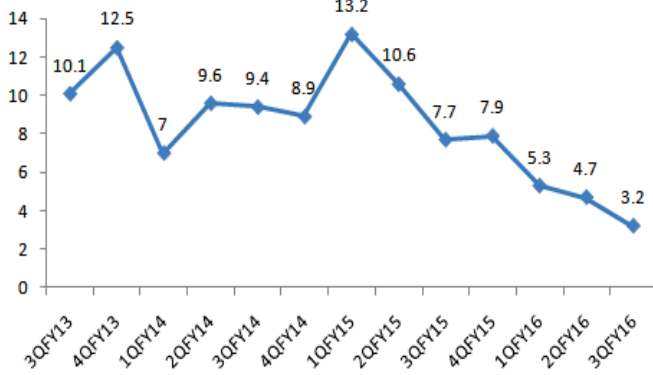


■ Beverage – PBIT margin

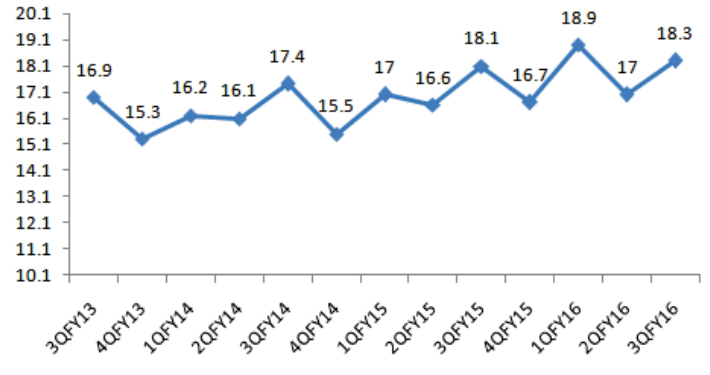


## P/L Details

◆ Net sales growth

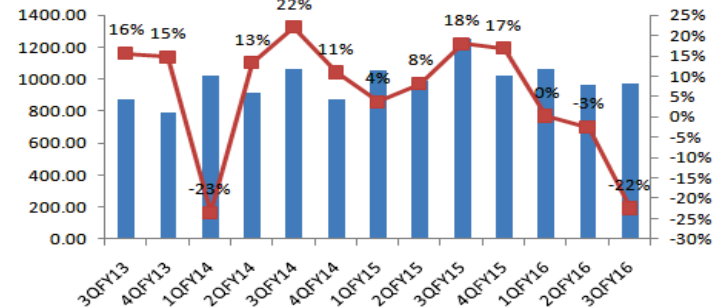


◆ EBITDA Margin(%)



The negative profit growth was due to miss of exception items. At operating level performance was by and large stable

■ Pat ■ PAT Gr(%)



Source: Eastwind/Company

## Financials Snap Shot

INCOME STATEMENT					RATIOS				
	FY13	FY14	FY15	FY16E		FY13	FY14	FY15	FY16E
Revenue (Net of Excise D	27004	29234	31972	33109	EPS	17.7	18.2	20.2	19.0
Other Income	532	570	567	498	Book Value	13.2	16.4	18.6	20.0
Total Revenue	27536	29804	32539	33607	DPS	19.1	13.4	15.9	17.5
COGS	14087	14870	16176	15809	Payout (incl. Div. Tax.)	108%	74%	79%	92%
GPM	48%	49%	49%	52%	<b>Valuation(x)</b>				
Other Expenses	7299	8045	8659	9728	P/E	26.3	33.1	31.0	42.9
EBITDA	4205	4746	5414	5887	Price / Book Value	35.2	36.9	33.6	40.7
EBITDA Margin (%)	16%	16%	17%	18%	Dividend Yield (%)	4.10%	2.22%	2.54%	2.15%
Depreciation	251	296	322	344	<b>Profitability Ratios</b>				
EBIT	3954	4450	5091	5543	RoE	76%	134%	112%	108%
Interest	26	41	18	0	RoCE	138%	126%	126%	128%
PBT	4460	4980	5640	6040	<b>Turnover Ratios</b>				
Tax	1227	1259	1944	1860	Asset Turnover (x)	2.2	2.1	2.2	2.1
Tax Rate (%)	28%	25%	34%	31%	Debtors (No. of Days)	13.5	12.7	11.5	11.5
Reported PAT	3829	3946	4363	4111	Inventory (No. of Days)	70.1	72.2	64.3	60.0
Dividend Paid	4137	2904	3437	3797	Creditors (No. of Days)	72.2	72.7	62.9	60.0
No. of Shares	216	216	216	216	Net Debt/Equity (x)	0.00	0.00	0.00	0.00

Souce: Eastwind/Company

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BALANCE SHEET									
	FY13	FY14	FY15	FY16E		FY13	FY14	FY15	FY16E
Share Capital	216	216	216	216	OP/(Loss) before Tax	4460	4980	5640	6040
Reserves	2649	3321	3805	4120	Depreciation	251	296	322	344
Net Worth	2865	3537	4022	4336	Direct Taxes Paid	(1074)	(1384)	(2030)	(1860)
Long term Debt	8	8	7	7	Operating profit before w	4266	4802	5510	6385
Short term Debt	16	37	36	36	CF from Op. Activity	3605	3818	3124	4965
Deferred Tax	0	0	0	0	Purchase of Non Current investments				
Total Capital Employed	2873	3546	4029	4343	Capital expenditure on fix	(441)	(606)	(606)	(422)
Net Fixed Assets	2395	2641	2718	2795	CF from Inv. Activity	63	(475)	306	(749)
Capital WIP	212	365	516	723	Repayment of Long Term	8	(10)	(1)	0
Debtors	997	1017	1011	1047	Interest Paid	(26)	(29)	(18)	(0)
Cash & Bank Balances	1901	2516	2689	3179	Divd Paid (incl Tax)	(4137)	(2904)	(3437)	(3797)
Trade payables	5342	5825	5507	5443	CF from Fin. Activity	(4147)	(2960)	(3462)	(3797)
Total Provisions	2699	3072	3703	4515	Inc/(Dec) in Cash	(480)	383	(33)	419
Net Current Assets	126	649	813	805	Add: Opening Balance	942	462	845	2689
Total Assets	12092	13754	14431	15496	Closing Balance	462	845	813	3109

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