

Stock Update

Results ahead of expectations; volumes grew in double digit

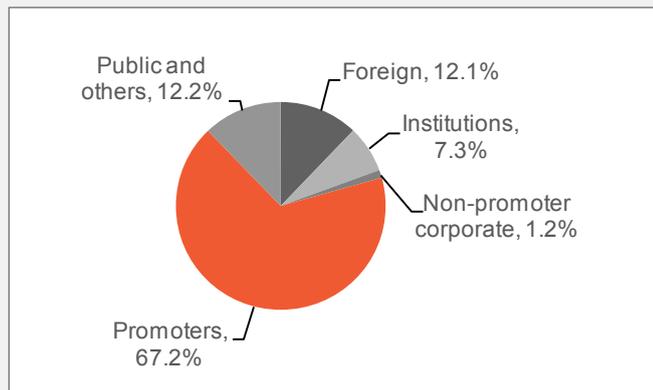
Hindustan Unilever

Reco: Buy | CMP: Rs1,570

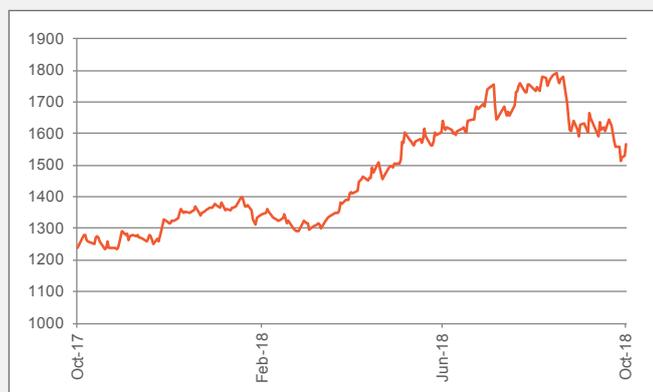
Company details

| | |
|----------------------------|----------------|
| Price target: | Rs1,900 |
| Market cap: | Rs339,850 cr |
| 52-week high/low: | Rs1,809 / 1190 |
| NSE volume: (No of shares) | 13.8 lakh |
| BSE code: | 500696 |
| NSE code: | HINDUNILVR |
| Sharekhan code: | HINDUNILVR |
| Free float: (No of shares) | 71.0 cr |

Shareholding pattern



Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|------|-------|-----|------|
| Absolute | -4.1 | -11.2 | 9.1 | 27.0 |
| Relative to Sensex | 5.6 | -5.5 | 8.0 | 17.6 |

Key points

- Volume growth continues to stand in double digits; strong operating performance sustained:** In Q2FY2019, revenue of Hindustan Unilever Limited (HUL) grew by 11% y-o-y at Rs. 9,234 crore, in line with our expectation of ~12%. This will be the first quarter to have a comparable base as Q2FY2018 had the effect of GST. Sales volume for the quarter stood at 10% compared to our expectation of 8-10% for the quarter (fourth consecutive quarter of double-digit volume growth). Strong volume growth can be attributed to uptick in rural demand, strong traction to new launches. OPM improved by ~160 BPS to 21.9% due to dip in advertisement cost by 33bps y-o-y. Operating profit grew by 20% y-o-y to Rs. 2,019 crore and adjusted PAT grew by 21.4% y-o-y to Rs. 1,535.5 crore (ahead of our expectation of Rs. 1,392.8 crore) on account of strong operating performance and higher other income during the quarter.
- Strong performance by all categories:** During the quarter, revenue of the home care category grew by 12%, with sustained double-digit volume-led growth across key categories. PBIT margin of the home care category improved by ~200 BPS y-o-y to 16% in Q2FY2019. The personal care category registered revenue growth of 10.4%, with skin care, hair care and personal wash segments registering double-digit growth. PBIT margin of the personal care category improved by 159 BPS y-o-y to 25.8%. The foods & refreshment category registered strong double-digit growth of 11.7% during the quarter. The acquisition of Adityaa Milk Ice Cream during the quarter is being integrated with the company. PBIT margin of the category improved by 176 bps at 16.9% during the quarter.
- Outlook – Volume growth momentum to sustain; margin to remain under check:** HUL delivered yet another quarter of robust performance and sustained its double digit volume growth of 10% in Q2FY19. We expect strong volume growth momentum to be sustained in the coming quarters on the back of festivities, improving rural demand, sustained new product launches and premiumisation resulting in the better revenue mix. The rising crude prices and rupee depreciating against dollar would slower the margin expansion in the near term but the price hikes taken of 3-4% during fag end of Q2FY19 (an in future if any) will help HUL to mitigate this pressure. However the focus on premiumisation and cost rationalization would continue to give strong support to profitability in the near to medium term.

- ♦ **Valuations – Maintain Buy with an unchanged PT of Rs. 1,900:** We have broadly maintained our earnings estimates for FY2019, FY2020 and FY2021. The management is upbeat about improving demand environment (especially in rural India growing at ~1.2x that of urban demand) and expects strong performances to

be sustained in the coming quarters. With key beneficiary of improving rural demand and sustained new launches, HUL remains one of our top picks in the FMCG space. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 1900.

Valuations (standalone)

Rs cr

| Particulars | FY2017 | FY2018 | FY2019E | FY2020E | FY2021E |
|---------------|---------|---------|---------|---------|---------|
| Net sales | 34487.0 | 35218.0 | 39598.0 | 45321.1 | 51218.4 |
| Net profit | 4249.0 | 5286.6 | 6197.8 | 7362.4 | 8740.7 |
| OPM (%) | 17.5 | 20.7 | 21.5 | 21.3 | 21.7 |
| EPS (Rs) | 19.7 | 24.5 | 28.7 | 34.1 | 40.5 |
| PER (x) | 79.8 | 64.1 | 54.7 | 46.1 | 38.8 |
| EV/EBIDTA (x) | 55.2 | 45.6 | 38.6 | 33.6 | 28.6 |
| RoCE (%) | 91.8 | 104.2 | 102.0 | 89.4 | 77.5 |
| RoNW (%) | 66.6 | 77.9 | 74.9 | 65.3 | 56.3 |

Results (standalone)

Rs cr

| Particulars | Q2FY19 | Q2FY18 | YoY % | Q1FY19 | QoQ % |
|-------------------------|---------------|---------------|--------------|---------------|--------------|
| Net sales | 9234.0 | 8309.0 | 11.1% | 9487.0 | -2.7 |
| Total Expenditure | 7215.0 | 6627.0 | 8.9% | 7236.0 | -0.3 |
| Operating Profit | 2019.0 | 1682.0 | 20.0% | 2251.0 | -10.3 |
| Other income | 305.0 | 204.0 | 49.5% | 135.0 | 125.9 |
| EBITDA | 2324.0 | 1886.0 | 23.2% | 2386.0 | -2.6 |
| Interest | 7.0 | 6.0 | 16.7% | 7.0 | 0.0 |
| PBDT | 2317.0 | 1880.0 | 23.2% | 2379.0 | -2.6 |
| Depreciation | 130.0 | 115.0 | 13.0% | 127.0 | 2.4 |
| PBT | 2187.0 | 1765.0 | 23.9% | 2252.0 | -2.9 |
| Tax | 651.5 | 499.8 | 30.4% | 675.8 | -3.6 |
| Adjusted PAT | 1535.5 | 1265.2 | 21.4% | 1576.2 | -2.6 |
| Extra-ordinary items | 10.5 | -10.8 | - | 47.2 | - |
| Reported PAT | 1525.0 | 1276.0 | 19.5% | 1529.0 | -0.3 |
| Adjusted EPS (Rs.) | 7.1 | 5.8 | 21.4% | 7.3 | -2.6 |
| GPM (%) | 52.0 | 52.7 | -74 | 54.0 | -203 |
| OPM (%) | 21.9 | 20.2 | 162 | 23.7 | -186 |

HUL's Q2FY19 Segmental performance

- ♦ **Home Care – Robust volume driven growth sustained:** Home care saw stellar performance with robust double-digit growth in Fabric wash and Household care. During the quarter, *Domex* 'Pick up the Brush' campaign was launched in South India and was well received. On a comparable basis, the home care division registered 12.4% growth in revenues and 199BPS improvement in the EBIT margins.
- ♦ **Personal Care – Broad-based growth across Personal Products and Personal Wash:** Personal wash witnessed robust growth across its premium range of products with *Dove* and *Pears* performing well. Growth in the skin care segment was driven by the strong performances of key brands. Men's *Fair and Lovely* relaunch was well received. Hair Care witnessed strong double digit growth and *TRESemmé* was relaunched with superior fragrance and

packaging. Colour cosmetics delivered yet another quarter of strong growth on the back of successful innovations; "*Kareena Kapoor Khan by Lakmé Absolute*" an exclusive makeup range was launched during the quarter. *Axe* ticket performed well and is continuing to gain traction. On a comparable basis, the personal care division registered 10.4% growth in revenues and 159BPS improvement in the EBIT margins.

- ♦ **Foods & Refreshments – Strong growth led by Tea, Ice Creams and Frozen desserts:** Due to the flawless execution of the WiMI strategy, beverages delivered broad based double-digit growth for the quarter. Ice Cream and Frozen Desserts and Foods registered double digit growth. The company acquired Adityaa Milk Ice cream during the quarter and the integration has commenced. On a comparable basis, the foods & refreshments division registered 11.7% growth in revenues and margins were up by 176 bps at 16.9%.

| Segmental performance | | | | | Rs cr | |
|-------------------------|---------------|---------------|-------------|---------------|-------------|--|
| Particulars | Q2FY19 | Q2FY18 | YoY % | Q1FY19 | QoQ % | |
| Revenue | | | | | | |
| Home Care | 3080.0 | 2739.0 | 12.4 | 3146.0 | -2.1 | |
| Personal Care | 4316.0 | 3910.0 | 10.4 | 4407.0 | -2.1 | |
| Food & Refreshments | 1704.0 | 1526.0 | 11.7 | 1785.0 | -4.5 | |
| Total | 9100.0 | 8175.0 | 11.3 | 9338.0 | -2.5 | |
| PBIT | | | | | | |
| Home Care | 492.0 | 383.0 | 28.5 | 602.0 | -18.3 | |
| Personal Care | 1115.0 | 948.0 | 17.6 | 1162.0 | -4.0 | |
| Food & Refreshments | 288.0 | 231.0 | 24.7 | 334.0 | -13.8 | |
| Total | 1895.0 | 1562.0 | 21.3 | 2098.0 | -9.7 | |
| PBIT margins (%) | | | bps | | bps | |
| Home Care | 16.0 | 14.0 | 199 | 19.1 | -316 | |
| Personal Care | 25.8 | 24.2 | 159 | 26.4 | -53 | |
| Food & Refreshments | 16.9 | 15.1 | 176 | 18.7 | -181 | |
| Total | 20.8 | 19.1 | 172 | 22.5 | -164 | |

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