Stock Update

Decent performance in tough environment

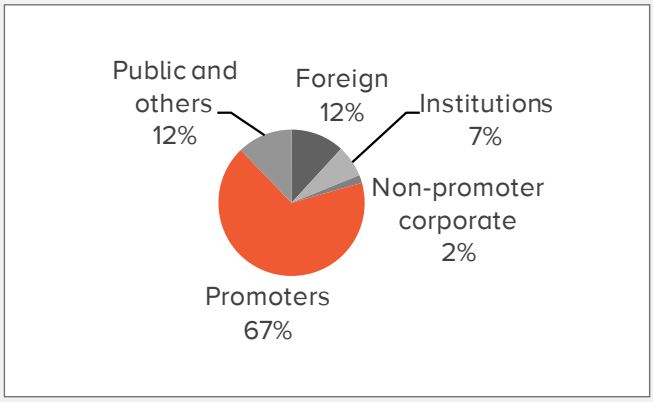
Hindustan Unilever

Reco: Buy | CMP: Rs1,693

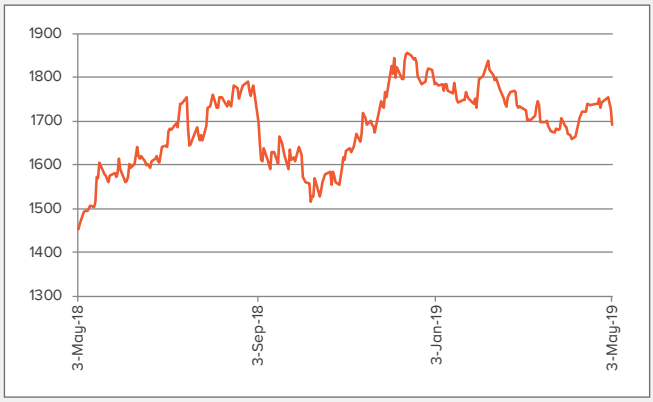
Company details

Price target:	Rs1,990
Market cap:	Rs366,484 cr
52-week high/low:	Rs1,871/1,442
NSE volume: (No of shares)	14.8 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	2.2	-4.2	5.2	18.7
Relative to Sensex	2.4	-10.5	-5.8	5.7

Key points

- **Decent operating performance:** Against the backdrop of a slowing demand environment (especially in rural markets) HUL delivered decent revenue growth of 9.3% y-o-y to Rs. 9,945 crore in Q3FY2019. The domestic business sales volume grew by 7% as compared to our expectation of 7-8% growth. Gross margins declined by 27 bps to 52.3% on account of higher input prices. However, the OPM improved by 83 bps to 23.3% due to operating efficiencies and the operating profit grew by 13.3% y-o-y at Rs. 2,321 crore. Adjusted PAT grew by 13.7% y-o-y to Rs. 1,589.1crore in Q4FY2019 as against Rs. 1,397crore in Q4FY2018 on account of decent revenue growth and margin expansion. There was an exceptional item of Rs. 71 crore pertaining to fair valuation of contingent consideration payable with respect to Indulekha acquisition .

- **Most categories fared well:** Home care products reported a 13% revenue growth with sustained double-digit volume-led growth across key categories. PBIT margin of the home care category improved by 127 BPS y-o-y to 16.4% supported by new launches. Beauty and personal care products registered a revenue growth of 7% with skin-care, hair-care, colour cosmetics and personal wash segments registering strong performance. The growth of beauty and personal care moderated to single digits from low-double digit in the earlier quarter on account of moderation in the sales two soap brands Lux and Lifebuoy. PBIT margin of the beauty and personal care category improved by 175 BPS y-o-y to 26%. The foods & refreshment category registered good double-digit revenue growth of 10% with a consistent performance by beverages and ice cream and frozen desserts. PBIT margin of the category improved significantly by 330 BPS to 14.8%.

- **Outlook – steady volume growth momentum to sustain; margin expansion will continue:** HUL witnessed moderation in rural demand in Q4FY2019, which led to rural sales growth equivalent to urban growth during the quarter (which was 1.3x ahead of urban growth few quarters back). The company will pass on the benefits of lower commodity prices to consumers by cutting prices in some of the key categories (including personal wash) in the coming months. Like other FMCG companies, the management expects a better monsoon to play a major role in reviving the rural demand in the near term. HUL has maintained its thrust on premiumisation and enhancing its distribution reach in the domestic market which will assist in delivering

steady volume growth in the near to medium term. We expect volume growth to stand at single digit in the near term and expect it to improve gradually with the improvement in the demand environment. HUL's OPM expanded by almost 200BPS to 22.6% in FY2019. We expect OPM to expand in the range of 30-50BPS as the company will focus on delivering steady volume growth in the near term.

- **Valuation – Maintain Buy with a revised TP of Rs1990:** We have reduced our earnings estimates marginally by 2.3%/1.6% for FY2020/21 to factor in lower than earlier expected revenue growth. HUL will continue to deliver decent earning growth as it has a strong portfolio of brands in some of the leading categories and strong distribution base. Further, the recent acquisition of GSK Consumers' domestic health food business will scale up HUL's food business and will help it grow in the double digits in the near to medium term. We expect HUL's earning to grow at CAGR of 18% over FY2019-21. HUL's stock price is currently trading at 42.5x its FY2019E earnings. We maintain our Buy recommendation on the stock with a revised price target of Rs1990 (in-line with reduction of FY2021E estimates).

Valuations (standalone) Rs cr

Particulars	FY2017	FY2018	FY2019	FY2020E	FY2021E
Net sales (Rs crore)	34487.0	35218.0	38224.0	42941.4	48220.4
Net profit (Rs crore)	4249.0	5286.6	6199.4	7296.4	8604.5
OPM (%)	17.5	20.7	22.6	22.9	23.3
EPS (Rs)	19.7	24.5	28.7	33.8	39.8
PER (x)	86.1	69.2	59.0	50.1	42.5
EV/EBIDTA (x)	59.6	49.3	41.6	36.1	31.2
RoCE (%)	91.8	104.2	113.2	112.0	101.1
RoNW (%)	66.6	77.9	84.2	83.1	73.7

Results (Standalone) Rs cr

Particulars	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %
Net sales	9945.0	9097.0	9.3%	9558.0	4.0
Total Expenditure	7624.0	7049.0	8.2%	7512.0	1.5
Operating Profit	2321.0	2048.0	13.3%	2046.0	13.4
Other income	118.0	100.0	18.0%	106.0	11.3
EBITDA	2439.0	2148.0	13.5%	2152.0	13.3
Interest	7.0	4.0	75.0%	7.0	0.0
PBDT	2432.0	2144.0	13.4%	2145.0	13.4
Depreciation	134.0	128.0	4.7%	133.0	0.8
PBT	2298.0	2016.0	14.0%	2012.0	14.2
Tax	703.2	613.8	14.6%	607.6	15.7
Adjusted PAT	1589.1	1397.1	13.7%	1404.4	13.2
Extra-ordinary items	51.1	46.1	-	-39.6	-
Reported PAT	1538.0	1351.0	13.8%	1444.0	6.5
Adjusted EPS (Rs.)	7.3	6.5	13.7%	6.5	13.2
			BPS		BPS
GPM(%)	52.3	52.6	-27	53.8	-147
OPM%	23.3	22.5	83	21.4	193

HUL's Q4FY19 Segmental performance

- **Home Care – Persistent double digit volume growth:** Home care continued to deliver a healthy performance during the quarter driven by double-digit volume growth in both Fabric Wash and Household Care. Focus on the core, premiumisation and targeted market development initiatives boosted growth in the Fabric Wash segment whereas liquids up gradation and increased penetration on bars contributed to growth in Household care segment. HUL launched Surf Excel Easy Wash liquid nationally and access pack of Domex liquid in Tamil Nadu to aid market development. The home care division registered 13% growth in revenue with EBIT margins expanding by 127 BPS y-o-y at 17.7%.

- **Beauty & Personal Care – Premium brands lead growth for Personal Products and Personal Wash segments:** Personal wash posted good growth which was led by premiumisation of the portfolio. Growth in the skin care division

was driven by strong performance across the portfolio. Hair Care witnessed strong growth; with Dove Nourishing secrets with natural ingredients launching nationally. Colour cosmetics delivered yet another quarter of strong growth by leading trends and fulfilling rising aspirations. Deodorants sustained their strong double digit growth and Axe Signature Dark Temptation was launched nationally. Momentum on Close up and Ayush Oral Care continued to build. The personal care division registered 7% growth in revenue and 175 BPS improvement in the EBIT margins at 27.8%.

- **Foods & Refreshments – Growth momentum sustains across foods and refreshments with improvement in margins:** Foods maintained its steady growth momentum with good performance in Kissan range. Beverages also reported consistent secular growth with purpose led campaigns driving salience. Ice cream and frozen desserts continued its strong growth trajectory across all formats with exciting range of innovations launched for the season. The foods & refreshments division registered 10% growth in revenue and margins were up by 330 BPS at 18.1%.

Segmental performance Rs cr

Particulars	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %
Revenue					
Home Care	3502.0	3102.0	12.9	3148.0	11.2
Personal Care	4393.0	4096.0	7.3	4539.0	-3.2
Food & Refreshments	1916.0	1735.0	10.4	1728.0	10.9
Total	**9811.0**	**8933.0**	**9.8**	**9415.0**	**4.2**
PBIT					
Home Care	619.0	509.0	21.6	404.0	53.2
Personal Care	1220.0	1066.0	14.4	1162.0	5.0
Food & Refreshments	346.0	256.0	35.2	244.0	41.8
Total	**2185.0**	**1862.0**	**17.3**	**1810.0**	**20.7**
PBIT margins (%)					
Home Care	17.7	16.4	127	12.8	484
Personal Care	27.8	26.0	175	25.6	217
Food & Refreshments	18.1	14.8	330	14.1	394
Total	**22.3**	**20.8**	**143**	**19.2**	**305**

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