

Premiumisation, innovation to drive future growth

We attended the Annual Investor Meet of Hindustan Unilever (HUL) on Friday, June 7, 2019 where the company reiterated its positive outlook on the growth prospects on account of 1) premiumisation and venturing into new categories/channels, 2) presence in under penetrated categories providing ample scope for further expansion, 3) recent acquisitions expected to increase distribution network and 4) digitisation and data analytics to provide better connectivity to its distributors and last mile connectivity with consumers.

Analyst meet highlights...

- HUL has been able to reshape the overall market towards premium side with mid-price range portfolio whose contribution has increased 400 bps to 25% in 2018 over last seven years. Similarly, premium brands contribution has increased 500 bps to 22% in 2018 over the period
- Over the last seven years, growth in laundry has been driven by premium segment (contribution increased from 17% to 22%) whereas mid-priced segment (Rin) contribution has dropped from 25% to 21%. Mass segment (Wheel) has witnessed a slight reduction of 100 bps drop in its contribution to the category from 58% to 57%
- In home care, the company is investing in future formats specifically in liquid detergent and liquid dish wash. In laundry, HUL is focusing on upgradation through Surf Excel liquid
- In foods, four brands are in the ₹ 500 crore plus category. However, by next year, six brands would be ₹ 1000 crore plus including Horlicks, Boost. Under the category, HUL is No. 1 in tea, ketchup & jams and No. 2 in ice creams & coffee
- More than 50% of SKUs sold for HUL are low unit packs (LUPs). HUL would increase the penetration of Horlicks & Boost through LUPs. Currently, 10-20% of GSK's brands are sold through sachets

Valuation & Outlook

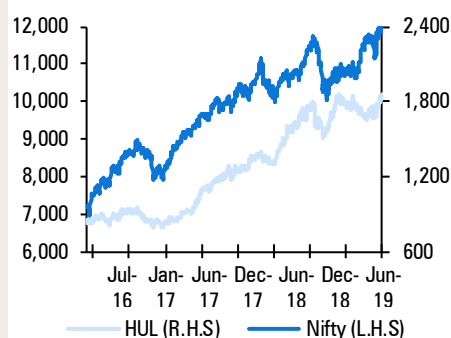
In a bid to outperform the industry in the medium to long term, HUL is focusing on digitisation and data analytics to increase its connectivity with distributors and end consumers, which would help drive future growth. In addition, GSK Consumer acquisition should also drive HUL's revenue growth considering lower penetration of malt based beverages and HUL's superior capabilities to distribute it in a much deeper retail network. We keep our estimates intact with revenue, PAT CAGR of 14.1%, 16.3%, respectively, in FY19-21E. The company has generated a free cash flow of ~₹ 6,000 crore and healthy return ratios (RoCE: 85.3%, RoNW: 80.9%) in FY19, which justifies its rich valuation multiples. We maintain our **HOLD** recommendation on the stock with a target price of ₹ 1,900 per share.



Particulars

Particular (₹ crore)	Amount
Market Capitalization	399,600.0
Total Debt (FY19)	0.0
Cash and Investments (FY19)	6,381.0
EV	393,219.0
52 week H/L (₹)	1870 / 1478
Equity capital	216.0
Face value	₹ 1

Price Chart



Key Highlights

- Brands in ₹ 2000 crore club: *Surf Excel, Wheel, Lifebuoy, Fair & Lovely* and *Brook Bond*. Brands in ₹ 1000 crore plus brands: *Ponds, Dove, Clinic Plus, Lakme, Rin, Vim* and *Lux*
- Premium products (1.2x market) is 20% of portfolio and growing at 2x rate
- Naturals' portfolio is growing at 2x rate of overall growth

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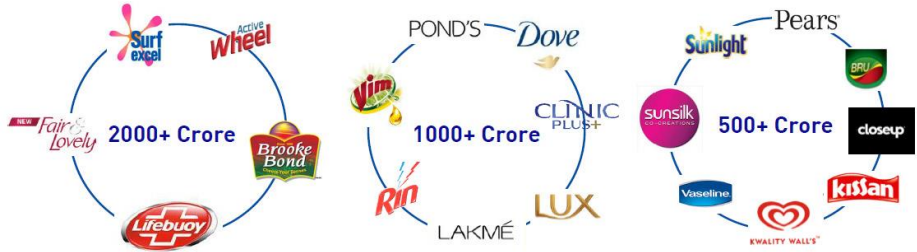
Key Financial Summary

Key Financials	FY17	FY18	FY19E	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	33895.0	33926.0	37660.0	43057.0	49010.8	14.1%
EBITDA	6046.8	7276.0	8637.0	9832.4	11140.5	13.6%
EBITDA Margin %	17.8	21.4	22.9	22.8	22.7	
Net Profit	5036.7	5237.0	6036.0	7102.9	8164.9	16.3%
EPS (₹)	23.32	24.25	27.94	32.88	37.80	
P/E	79.3	76.3	66.2	56.3	48.9	
RoNW %	74.9	74.7	80.9	90.1	102.1	
RoCE (%)	74.9	79.9	85.3	105.8	119.5	

Analyst meet highlights (continued)

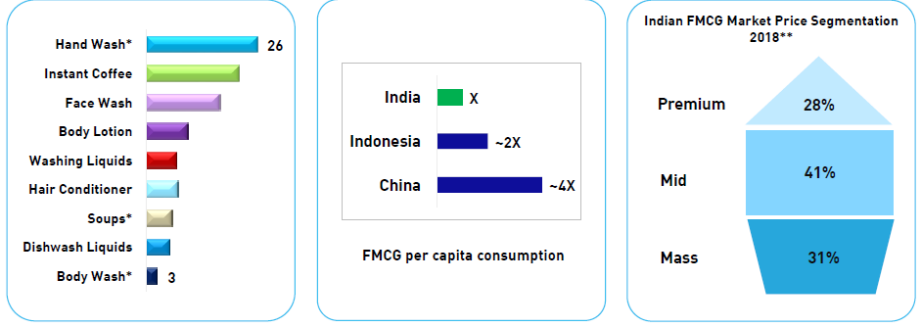
- In toilet cleaning, the company is developing the market through the launch of Domex powder priced at ₹ 10 per pack targeted at Indian toilets (recently launched in South India and West Bengal)
- Despite the higher penetration of soaps, the category can become much bigger with the increase in higher usage in rural India similar to some of the emerging countries like Indonesia. Per capita consumption of soaps in Indonesia is 1.6x the per capita consumption in India
- In tea, HUL is focusing on increasing its penetration in rural markets as HUL's tea revenue is primarily dominated by urban markets. This provides huge scope to increase its tea revenue from rural markets
- In water purifiers, HUL has recently launched "Pure it Copper RO" and created five patents around the product
- The company is using data analytics to strengthen its core categories. In some categories like daily skin care, through data analytics, the company has witnessed annual penetration much higher over quarterly penetration. Consequently, the company plans to drive the regular usage of these products to drive per capita consumption
- The acquisition of Aditya Foods has increased HUL's distribution network in Northern Karnataka
- HUVR currently has 15 Cluster Category Business Teams (CCBT), which will grow to 16 post completion of GSK Consumer integration
- As per the management, benefits of GST will accrue over the next two to three years through cost savings and better servicing
- HUL has achieved cost savings of 7% of revenue, which was partly invested in brands in driving growth, which have increased 1.8x as percentage of turnover in the past five years
- Market share in e-commerce and modern trade is 1.5x. Lakme brand under Color cosmetics has increased in size and scale on the back of digital distribution channel as e-commerce has emerged as a significant growth driver of the same
- Under managerial pool, women employees occupy 40% of managers, which the company plans to increase to 50% by FY22
- In the handwash format, it recently launched Surf Excel liquid detergent. The company launched Domex toilet cleaning powder for toilets at an access pack price of ₹ 10 across South India and West Bengal
- HUL has improved its R&D capabilities in the last few years, which has aided innovation in India as well as globally

Exhibit 1: HUL's brand portfolio



Source: HUL analyst meet presentation

Exhibit 2: Huge potential in FMCG



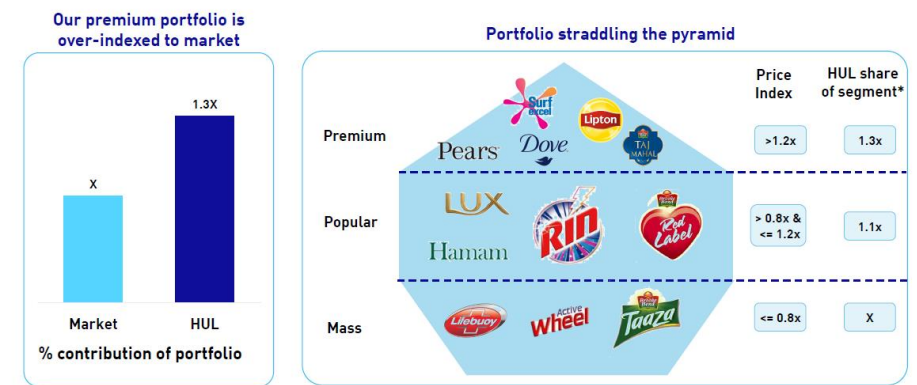
Source: HUL analyst meet presentation

Exhibit 3: Creating categories of future



Source: HUL analyst meet presentation

Exhibit 4: Driving premiumisation



Source: Company

Exhibit 5: Profit & Loss Statement

(Year-end March)	FY18	FY19E	FY20E	FY21E
Total operating income	34,525.0	38,224.0	43,659.8	49,696.9
Growth (%)	0.1	10.7	14.2	13.8
Raw Material Expenses	16,232.0	17,960.0	20,307.5	22,995.5
Employee Expenses	1,745.0	1,747.0	2,066.7	2,450.5
Marketing Expenses	4,105.0	4,552.0	5,080.7	5,734.3
Administrative Expenses	1,968.0	0.0	2,411.2	2,793.6
Other expenses	3,199.0	5,328.0	3,961.2	4,582.5
Total Operating Expenditure	27,249.0	29,587.0	33,827.4	38,556.4
EBITDA	7,276.0	8,637.0	9,832.4	11,140.5
Growth (%)	20.3	18.7	13.8	13.3
Depreciation	478.0	524.0	532.1	474.1
Interest	20.0	28.0	0.0	0.0
Other Income	569.0	664.0	703.8	753.1
Exceptional Income	-62.0	-227.0	0.0	0.0
PBT	7,285.0	8,522.0	10,004.1	11,419.5
Total Tax	2,048.0	2,486.0	2,901.2	3,254.6
PAT	5,237.0	6,036.0	7,102.9	8,164.9
Growth (%)	4.0	15.3	17.7	15.0
EPS (₹)	24.2	27.9	32.9	37.8

Source: Company, ICICI Direct Research

Exhibit 6: Cash Flow Statement

(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	5,153.0	6,036.0	7,102.9	8,164.9
Add: Depreciation	478.0	524.0	532.1	474.1
(Inc)/dec in Current Assets	-768.0	80.0	-2,105.0	-1,353.9
Inc/(dec) in CL and Provisions	1,587.0	-283.0	848.2	1,272.3
CF from operating activities	5,916.0	6,357.0	6,378.2	8,557.5
(Inc)/dec in Investments	-897.0	0.0	-100.0	-100.0
(Inc)/dec in loans & advances	-29.0	3.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	-837.0	-668.0	764.0	-200.0
Others	499.0	75.0	-170.6	15.8
CF from investing activities	-1,264.0	-590.0	468.4	-309.2
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-4,627.0	-5,536.1	-6,794.3	-8,052.5
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-24.0	0.0	0.0	0.0
CF from financing activities	-4,651.0	-5,536.1	-6,794.3	-8,052.5
Net Cash flow	1.0	230.9	52.3	195.8
Opening Cash	572.0	573.0	803.9	856.2
Closing Cash*	3,373.0	3,688.0	3,656.2	3,852.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet

(Year-end March)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	216.0	216.0	216.0	216.0
Reserve and Surplus	6,859.0	7,443.0	7,667.5	7,780.0
Total Shareholders funds	7,075.0	7,659.0	7,883.5	7,996.0
Other Non Current Liabilities	666.0	804.0	804.0	804.0
Long Term Provisions	772.0	1049.0	106.5	122.5
Total Liabilities	8,513.0	9,512.0	8,794.1	8,922.5
Assets				
Gross Block	4,868.0	4,968.0	5,168.0	5,368.0
Less: Acc Depreciation	1,092.0	1,616.0	2,148.1	2,622.3
Net Block	3,776.0	3,943.0	3,019.9	2,745.7
Capital WIP	430.0	373.0	0.0	0.0
Total Fixed Assets	4,206.0	4,316.0	3,019.9	2,745.7
Net Intangible Assets	366.0	400.0	400.0	400.0
Other Investments	256.0	256.0	356.0	456.0
Liquid Investments	0	0	0	0
Inventory	2,359.0	2,422.0	2,949.1	3,356.9
Debtors	1,147.0	1,673.0	1,297.6	1,477.0
Loans and Advances	0.0	0.0	235.9	268.6
Investments & Other CA	1,405.0	898.0	1,179.6	1,342.8
Cash	3,373.0	3,688.0	3,656.2	3,852.0
Total Current Assets	11,139.0	11,374.0	13,447.3	14,996.9
Creditors	7,013.0	7,070.0	7,667.7	8,727.9
Provisions & other CL	1,623.0	1,283.0	1,533.5	1,745.6
Total Current Liabilities	8,636.0	8,353.0	9,201.2	10,473.5
Net Current Assets	2,503.0	3,021.0	4,246.0	4,523.4
Others Non-Current Assets	665.0	746.0	771.0	796.0
Application of Funds	8,513.0	9,512.0	8,794.1	8,922.5

Source: Company, ICICI Direct Research

Exhibit 8: Key Ratios

(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
EPS	24.2	27.9	32.9	37.8
Cash EPS	26.5	30.4	35.3	40.0
BV	32.8	35.5	36.5	37.0
DPS	20.0	22.0	27.0	32.0
Cash Per Share	15.6	17.1	16.9	17.8
Operating Ratios (%)				
EBITDA/Total Operating Income	21.1	22.6	22.5	22.4
PBT Margin	21.3	22.9	22.9	23.0
PAT Margin	15.2	15.8	16.3	16.4
Inventory days	25	23	25	25
Debtor days	12	16	11	11
Creditor days	75	69	65	65
Return Ratios (%)				
RoE	74.7	80.9	90.1	102.1
RoCE	79.9	85.3	105.8	119.5
Valuation Ratios (x)				
P/E	76.3	66.2	56.3	48.9
EV / EBITDA	54.5	45.8	40.3	35.5
EV / Net Sales	11.7	10.5	9.2	8.1
Market Cap / Sales	11.8	10.6	9.3	8.2
Price to Book Value	56.5	52.2	50.7	50.0
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	0.9	1.1	1.1
Quick Ratio	0.6	0.6	0.7	0.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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