

January 17, 2019

Q3FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	1,874		1,880	
Sales (Rs. m)	428,548	477,628	435,204	484,466
% Chng.			(1.5)	(1.4)
EBITDA (Rs. m)	100,104	114,791	100,298	114,704
% Chng.			(0.2)	0.1
EPS (Rs.)	33.0	37.8	33.2	37.9
% Chng.			(0.7)	(0.4)

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. bn)	345	385	429	478
EBITDA (Rs. bn)	73	87	100	115
Margin (%)	21.1	22.6	23.4	24.0
PAT (Rs. bn)	53	61	71	82
EPS (Rs.)	24.5	28.4	33.0	37.8
Gr. (%)	24.7	15.7	16.2	14.5
DPS (Rs.)	18.0	24.1	27.1	30.9
Yield (%)	1.0	1.4	1.5	1.8
RoE (%)	78.1	86.5	99.4	111.0
RoCE (%)	100.2	115.7	132.0	147.5
EV/Sales (x)	10.8	9.7	8.7	7.8
EV/EBITDA (x)	51.1	42.7	37.1	32.4
PE (x)	71.4	61.7	53.1	46.4
P/BV (x)	53.5	53.3	52.2	50.5

Key Data

HLL.BO | HUVR IN

52-W High / Low	Rs.1,871 / Rs.1,281
Sensex / Nifty	36,374 / 10,905
Market Cap	Rs.3,791bn/ \$ 53,379m
Shares Outstanding	2,165m
3M Avg. Daily Value	Rs.5163.41m

Shareholding Pattern (%)

Promoter's	67.19
Foreign	11.96
Domestic Institution	7.44
Public & Others	13.41
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.4)	4.2	27.7
Relative	(5.6)	4.6	23.2

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Sustains double digit UVG, Growth drivers intact

HUVR reported 5th consecutive quarter of double digit volume growth (10% UVG) with 16.9% Adj. PAT growth in a stable demand scenario despite a high base. HUL is well placed to gain from 1) Premiumisation in Home Care, 2) success in naturals with Lever Ayush, Indulekha etc., 3) strong growth in emerging categories (premium laundry, hand wash, Liquid dish wash, Hair conditioner, Face-wash and Green tea) 4) synergy gains from acquisition of Glaxo Consumer healthcare with expected margin accretion of 800-1000bps over time and 5) gains from supply chain, data analytics and efficient inventory management. Farm distress seen in some pockets of rural India and rising competition in select categories can pose a near term challenge, however decline in crude prices will provide a near term tailwind. We estimate pro-forma EPS (including GSK acquisition) of Rs40.7 for FY21 and value the stock at 46x thus arriving at target price of Rs1874. Retain Hold.

Concall Takeaways: 1) Demand has remained stable, rural sales are growing 1.3x of urban sales (1.5x earlier) 2) Impact of rising crude and depreciating currency was off-set by improved product mix and operating leverage 3) Merger process (9-12 months) with GSK and Integration of acquisition of Adityaa Milk Ice-cream is on track. Integration and merger costs would impact EBIT margins in F&R segment for coming 4-6 months 4) Skin care reported strong double digit growth as cluster based strategy showed results despite late onset of winters 5) Competitive activity has been modest was not as intense as in 1QFY19, however, some high margin products do see higher competition 6) 3Q numbers had Rs400mn provision for realigning of water purifier portfolio by gradually phasing out gravity purifiers in favor of RO/UV based systems. 7) Data analytics, supply chain efficiencies, 20% inventory reduction is enabling improved resource allocation, cost reduction in overheads and improving speed and agility across value chain 8) GST Refunds (Incentives) of 30bps are added in other operating income which has over stated actual sales and EBITDA. However, there is no impact at the PBT level 9) Ayush is showing strong performance in South. However, there will be strategy tweaking in Hindi heartland and North 10) Other operating income was lower due to lower recovery of certain costs from Unilever

Volumes up 10%, PAT up 16.9%: Total revenue increased by 11.3% to Rs95.58bn. Volumes increased by 10% and Domestic consumer sales by 13%. Gross margin declined 80bps to 53.8%. EBITDA increased 21.8% to Rs20.46bn. EBITDA margin increased 180bps on decline in staff costs by 530bps despite increase in ad-spends and other expenses by 710bps and 260bps respectively. Adj. PAT increased 16.9% to Rs14.01bn as other income declined by 30.3%. **Home Care** sales increased 14.8% and EBIT increased 14.1% despite 10bps decline in margins. **Beauty and Personal care** sales increased 11%, EBIT increased 15.4% on 100bps margin expansion with double digit growth in colour cosmetics, skin care and deodorants. **Foods and Refreshments** sales up 9.9%, EBIT increased 41.9% on 320bps margin expansion led by refreshment segment.

Exhibit 1: Q3FY19 Results (Rs m): Volumes up 10%, EBITDA margins up 180bps, Adj. PAT up 16.9%

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Net Sales	95,580	85,900	11.3	92,340	2,82,790	2,54,280	11.2
Gross Profit	51,400	46,850	9.7	47,990	1,50,620	1,35,100	11.5
Margin (%)	53.8	54.5		52.0	53.3	53.1	
A&P Exp.	11,860	11,070	7.1	11,060	34,450	30,350	13.5
% of NS	12.4	12.9		12.0	12.2	11.9	
EBITDA	20,460	16,800	21.8	20,190	63,160	69,570	(9.2)
Margins (%)	21.4	19.6	1.8	21.9	22.3	27.4	
Depreciation	1,330	1,210	9.9	1,300	3,900	3,500	11.4
EBIT	19,130	15,590	22.7	18,890	59,260	66,070	(10.3)
Interest	70	50	40.0	70	210	170	23.5
Other Income	1,060	1,520	(30.3)	3,050	5,460	4,690	16.4
PBT	20,120	17,060	17.9	21,870	64,510	70,590	(8.6)
Tax	6,110	5,080	20.3	6,650	19,610	16,040	22.3
Tax Rate (%)	30.4	29.8		30.4	30.4	22.7	
Adjusted PAT	14,010	11,980	16.9	15,220	44,900	54,550	(17.7)
Extraordinary	430	1,270		30	70	1,166	
Reported Profit	14,440	13,250	9.0	15,250	44,970	55,716	(19.3)

Source: Company, PL

Exhibit 2: Volume led growth across all key segments

Quarterly Segmental	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Net Sales (Rs m)	83,073	88,750	92,130	83,030	85,900	90,970	94,870	92,340	95,580
Home Care	26,891	30,040	30,470	27,390	27,410	31,020	31,460	30,800	31,480
Personal Care	39,802	40,750	43,680	39,100	40,900	40,960	44,070	43,160	45,390
Foods & Refreshment	14,426	15,950	16,540	15,260	15,720	17,350	17,850	17,040	17,280
Others	1,954	2,010	1,440	1,280	1,870	1,640	1,490	1,340	1,430
Sales Growth %	(0.8)	6.7	4.8	(2.0)	3.4	2.5	3.0	11.2	11.3
Home Care	1.0	7.4	5.9	(1.4)	1.9	3.3	3.2	12.4	14.8
Personal Care	(2.7)	8.1	3.5	(2.9)	2.8	0.5	0.9	10.4	11.0
Foods & Refreshment	6.6	8.9	11.2	5.5	9.0	8.8	7.9	11.7	9.9
Others	(27.3)	(30.4)	(29.3)	(41.3)	(4.3)	(18.4)	3.5	4.7	(23.5)
EBIT (Rs m)	13,359	16,160	18,170	15,560	15,300	18,640	20,960	18,970	18,070
Home Care	2,342	3,890	4,480	3,830	3,540	5,090	6,020	4,920	4,040
Personal Care	9,208	9,840	10,790	9,480	10,070	10,660	11,620	11,150	11,620
Foods & Refreshment	1,974	2,470	2,950	2,310	1,720	2,870	3,340	2,880	2,440
Others	-166	-40	-50	-60	-30	20	-20	20	-30
EBIT Growth %	(5.5)	11.3	15.2	11.3	14.5	15.3	15.4	21.9	18.1
Home Care	(0.6)	28.7	25.9	36.8	51.1	30.8	34.4	28.5	14.1
Personal Care	(7.1)	9.0	5.6	2.8	9.4	8.3	7.7	17.6	15.4
Foods & Refreshment	1.5	6.3	41.1	24.0	(12.9)	16.2	13.2	24.7	41.9
Others	159.0	(128.6)	(47.2)	(165.6)	(81.9)	(150.0)	(60.0)	(133.3)	0.0
EBIT Margin %									
Home Care	8.7	12.9	14.7	14.0	12.9	16.4	19.1	16.0	12.8
Personal Care	23.1	24.1	24.7	24.2	24.6	26.0	26.4	25.8	25.6
Foods & Refreshment	13.7	15.5	17.8	15.1	10.9	16.5	18.7	16.9	14.1
Others	(8.5)	(2.0)	(3.5)	(4.7)	(1.6)	1.2	(1.3)	1.5	(2.1)

Source: Company, PL

Exhibit 3: Acquisition to be 7.8-8.3% margin accretive for HUVR

Y/E March (Rs in mn)	FY21E	FY22E
Adj. PAT		
HUVR	81,998	94,288
GSK	13,524	16,036
Total Adj. PAT	95,523	1,10,324
Equity shares		
Existing HUVR shares	2160.0	
Existing GSK shares	42.1	
Additional share issued on swap (4.39sh:1sh)	184.6	
Total shares after amalgamation	2344.6	
New Merged EPS		
	40.7	47.0
Existing EPS	37.8	43.5
% Change	7.8%	8.3%

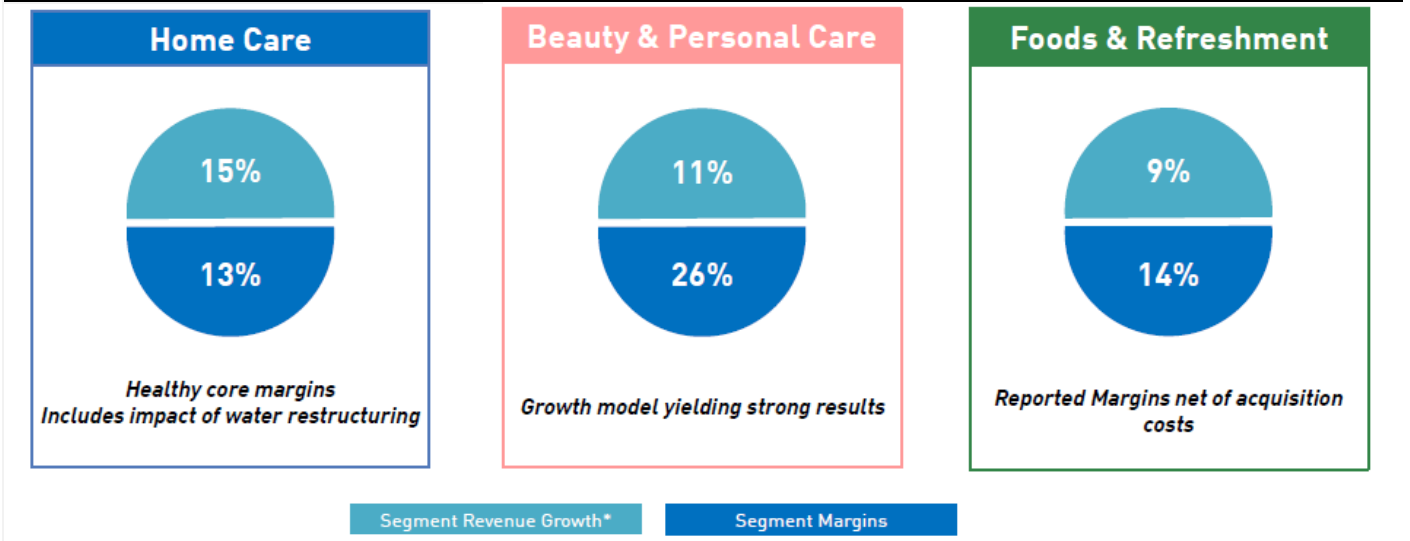
Source: Company, PL

Exhibit 4: HUVR's focus on innovation and activations continues in core categories



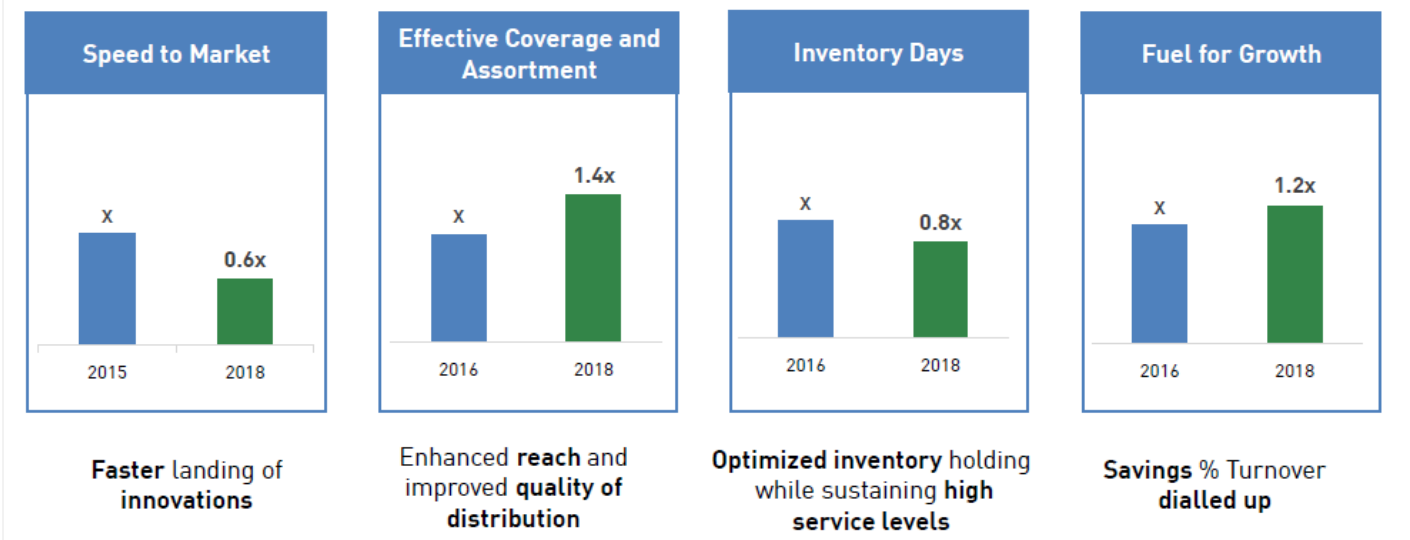
Source: Company, PL

Exhibit 5: Adjusted consumer sales up 13%, Strong volume led growth across divisions



Source: Company, PL

Exhibit 6: Speed to market, optimized inventory and enhanced quality of distribution drives margin expansion



Source: Company, PL

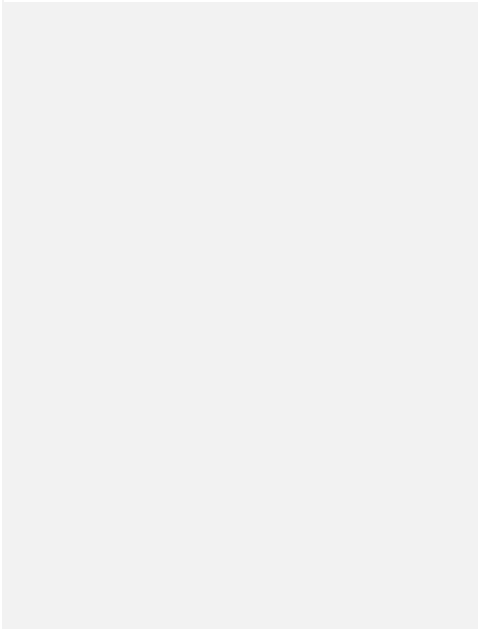
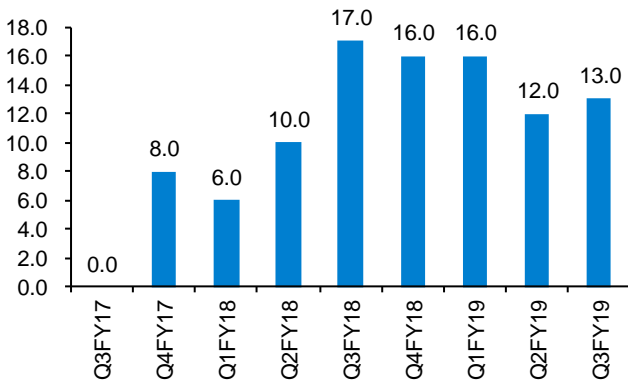
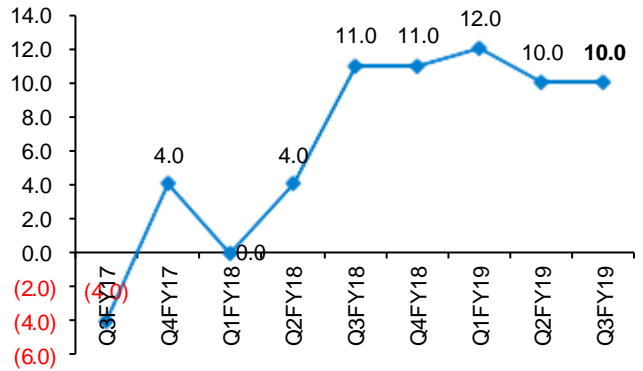


Exhibit 7: Comparable FMCG sales up 13%



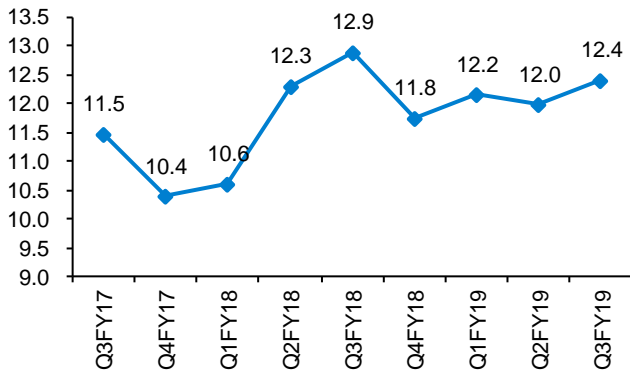
Source: Company, PL

Exhibit 8: Volumes up 10% despite a high base



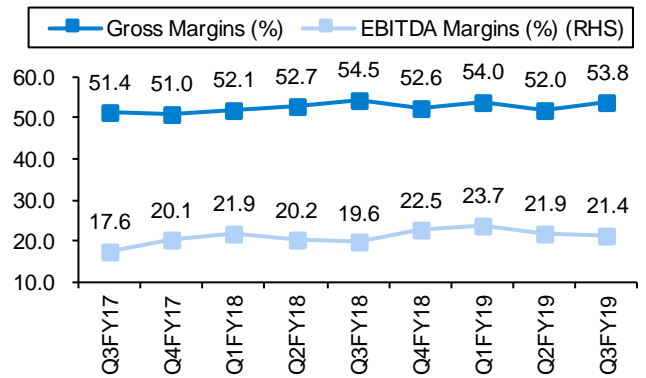
Source: Company, PL

Exhibit 9: Ad spend increased 40bps QoQ



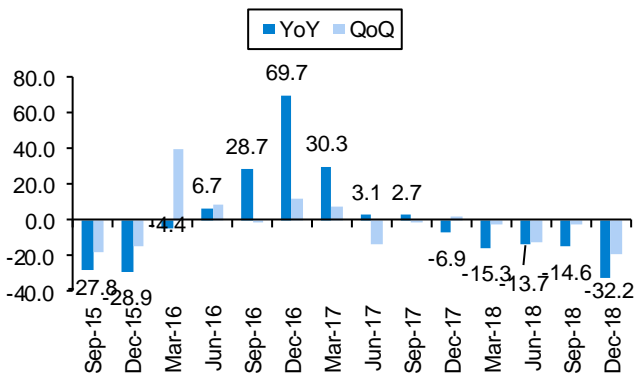
Source: Company, PL

Exhibit 10: GM down 70bps; EBITDA margins up 160bps



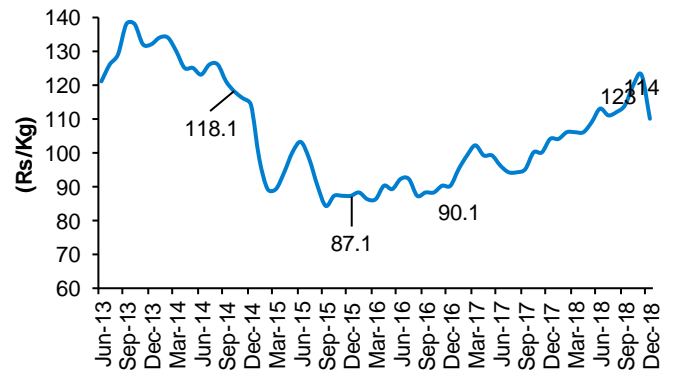
Source: Company, PL

Exhibit 11: PFAD prices down 21.4% QoQ and 13.5% YoY



Source: Company, PL

Exhibit 12: LAB prices fell as crude prices corrected



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	345,250	385,143	428,548	477,628
YoY gr. (%)	8.3	11.6	11.3	11.5
Cost of Goods Sold	162,320	180,320	200,046	222,637
Gross Profit	182,930	204,823	228,502	254,992
Margin (%)	53.0	53.2	53.3	53.4
Employee Cost	17,450	18,973	21,633	23,858
Other Expenses	940	938	1,269	1,414
EBITDA	72,760	87,113	100,104	114,791
YoY gr. (%)	20.3	19.7	14.9	14.7
Margin (%)	21.1	22.6	23.4	24.0
Depreciation and Amortization	4,780	5,134	5,485	5,836
EBIT	67,980	81,978	94,620	108,956
Margin (%)	19.7	21.3	22.1	22.8
Net Interest	200	280	215	215
Other Income	5,690	6,401	7,168	8,166
Profit Before Tax	73,470	88,099	101,572	116,907
Margin (%)	21.3	22.9	23.7	24.5
Total Tax	20,480	26,782	30,309	34,908
Effective tax rate (%)	27.9	30.4	29.8	29.9
Profit after tax	52,990	61,317	71,263	81,998
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	52,990	61,317	71,263	81,998
YoY gr. (%)	24.7	15.7	16.2	15.1
Margin (%)	15.3	15.9	16.6	17.2
Extra Ord. Income / (Exp)	(620)	500	(500)	500
Reported PAT	52,370	61,817	70,763	82,498
YoY gr. (%)	16.6	18.0	14.5	16.6
Margin (%)	15.2	16.1	16.5	17.3
Other Comprehensive Income	(120)	(200)	(200)	(200)
Total Comprehensive Income	52,250	61,617	70,563	82,298
Equity Shares O/s (m)	2,160	2,160	2,160	2,170
EPS (Rs)	24.5	28.4	33.0	37.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	73,614	78,614	83,614	88,614
Tangibles	66,720	71,720	76,720	81,720
Intangibles	6,894	6,894	6,894	6,894
Acc: Dep / Amortization	32,194	37,328	42,813	48,649
Tangibles	28,960	33,991	39,372	45,104
Intangibles	3,234	3,337	3,441	3,544
Net fixed assets	41,420	41,286	40,801	39,965
Tangibles	37,760	37,729	37,348	36,616
Intangibles	3,660	3,557	3,453	3,350
Capital Work In Progress	4,300	2,350	2,500	2,600
Goodwill	-	-	-	-
Non-Current Investments	6,000	6,056	6,115	6,177
Net Deferred tax assets	2,550	2,703	2,865	3,037
Other Non-Current Assets	5,170	5,263	5,362	5,474
Current Assets				
Investments	33,840	37,801	38,673	46,219
Inventories	23,590	27,057	29,546	32,928
Trade receivables	11,470	11,968	13,325	13,946
Cash & Bank Balance	28,440	27,591	30,899	34,450
Other Current Assets	6,260	7,107	7,908	8,813
Total Assets	171,490	177,079	188,752	203,336
Equity				
Equity Share Capital	2,160	2,160	2,160	2,170
Other Equity	68,590	68,816	70,256	73,143
Total Networkth	70,750	70,976	72,416	75,313
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	7,720	8,611	9,617	10,703
Other non current liabilities	1,670	1,795	1,930	2,075
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	70,130	71,634	78,100	85,395
Other current liabilities	16,230	18,142	20,226	22,528
Total Equity & Liabilities	171,490	176,592	188,206	202,476

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	73,470	88,099	101,572	116,907
Add. Depreciation	4,370	5,134	5,485	5,836
Add. Interest	-	-	-	-
Less Financial Other Income	-	-	-	-
Add. Other	(740)	300	(700)	300
Op. profit before WC changes	77,100	93,533	106,357	123,042
Net Changes-WC	7,600	128	2,146	6,924
Direct tax	(20,480)	(26,782)	(30,309)	(34,908)
Net cash from Op. activities	64,220	66,879	78,194	95,057
Capital expenditures	(7,820)	(3,050)	(5,150)	(5,100)
Interest / Dividend Income	-	-	-	-
Others	(10,870)	(2,977)	(3,969)	(11,043)
Net Cash from Inv. activities	(18,690)	(6,027)	(9,119)	(16,143)
Issue of share cap. / premium	110	346	339	347
Debt changes	660	243	258	290
Dividend paid	(46,510)	(61,740)	(69,460)	(79,760)
Interest paid	-	-	-	-
Others	-	3	(2)	11
Net cash from Fin. activities	(45,740)	(61,148)	(68,865)	(79,112)
Net change in cash	(210)	(296)	210	(198)
Free Cash Flow	56,400	63,829	73,044	89,957

Source: Company Data, PL Research

Key Financial Metrics

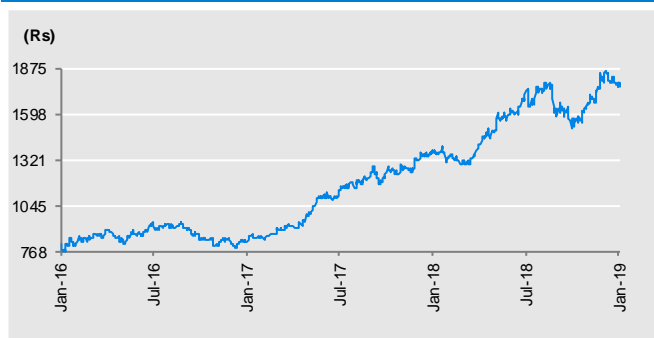
Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	24.5	28.4	33.0	37.8
CEPS	26.7	30.8	35.5	40.5
BVPS	32.8	32.9	33.5	34.7
FCF	26.1	29.6	33.8	41.5
DPS	18.0	24.1	27.1	30.9
Return Ratio(%)				
RoCE	100.2	115.7	132.0	147.5
ROIC	884.2	1,042.9	3,124.3	(1,123.2)
RoE	78.1	86.5	99.4	111.0
Balance Sheet				
Net Debt : Equity (x)	(0.9)	(0.9)	(1.0)	(1.1)
Net Working Capital (Days)	(37)	(31)	(30)	(29)
Valuation(x)				
PER	71.4	61.7	53.1	46.4
P/B	53.5	53.3	52.2	50.5
P/CEPS	65.5	56.9	49.3	43.3
EV/EBITDA	51.1	42.7	37.1	32.4
EV/Sales	10.8	9.7	8.7	7.8
Dividend Yield (%)	1.0	1.4	1.5	1.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	90,970	94,870	92,340	95,580
YoY gr. (%)	10.8	11.2	11.1	11.3
Raw Material Expenses	43,140	43,640	44,350	44,180
Gross Profit	47,830	51,230	47,990	51,400
Margin (%)	52.6	54.0	52.0	53.8
EBITDA	20,480	22,510	20,190	20,460
YoY gr. (%)	21.9	9.9	(10.3)	1.3
Margin (%)	22.5	23.7	21.9	21.4
Depreciation / Depletion	1,280	1,270	1,300	1,330
EBIT	19,200	21,240	18,890	19,130
Margin (%)	21.1	22.4	20.5	20.0
Net Interest	40	70	70	70
Other Income	1,000	1,350	3,050	1,060
Profit before Tax	20,160	22,520	21,870	20,120
Margin (%)	22.2	23.7	23.7	21.1
Total Tax	6,070	6,850	6,650	6,110
Effective tax rate (%)	30.1	30.4	30.4	30.4
Profit after Tax	14,090	15,670	15,220	14,010
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	14,090	15,670	15,220	14,010
YoY gr. (%)	19.0	21.3	23.1	16.9
Margin (%)	15.5	16.5	16.5	14.7
Extra Ord. Income / (Exp)	(580)	(380)	30	430
Reported PAT	13,510	15,290	15,250	14,440
YoY gr. (%)	14.2	18.3	23.4	8.9
Margin (%)	14.9	16.1	16.5	15.1
Other Comprehensive Income	(100)	(10)	-	-
Total Comprehensive Income	13,410	15,280	15,250	14,440
Avg. Shares O/s (m)	2,164	2,164	2,164	2,164
EPS (Rs)	6.5	7.2	7.0	6.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Feb-18	Accumulate	1,387	1,335
2	15-Mar-18	Accumulate	1,387	1,297
3	13-Apr-18	Accumulate	1,387	1,410
4	14-May-18	BUY	1,555	1,505
5	6-Jun-18	Accumulate	1,627	1,573
6	10-Jul-18	Accumulate	1,627	1,644
7	16-Jul-18	Hold	1,703	1,751
8	5-Oct-18	Hold	1,703	1,574
9	12-Oct-18	Hold	1,703	1,570
10	3-Dec-18	Hold	1,880	1,826

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,300	1,396
2	Avenue Supermarts	Reduce	1,270	1,572
3	Britannia Industries	Accumulate	3,231	3,144
4	Colgate Palmolive	Hold	1,157	1,303
5	Crompton Greaves Consumer Electricals	BUY	276	227
6	Dabur India	Hold	427	420
7	Emami	Accumulate	521	419
8	Future Retail	BUY	604	459
9	GlaxoSmithKline Consumer Healthcare	Hold	8,520	7,488
10	Hindustan Unilever	Hold	1,880	1,785
11	ITC	BUY	364	282
12	Jubilant FoodWorks	Accumulate	1,395	1,217
13	Kansai Nerolac Paints	Accumulate	474	467
14	Marico	Accumulate	387	387
15	Nestle India	Accumulate	11,129	10,786
16	Pidilite Industries	Accumulate	1,121	1,103
17	Titan Company	BUY	1,115	944
18	Voltas	Accumulate	658	542

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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