

December 3, 2018

## Event Update

■ Change in Estimates |  Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	HOLD		HOLD	
Target Price	1,880		1,703	
Sales (Rs. m)	391,394	435,204	391,394	435,204
% Chng.				
EBITDA (Rs. m)	86,193	100,298	86,193	100,298
% Chng.				
EPS (Rs.)	28.2	33.2	28.2	33.2
% Chng.				

### Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. bn)	345	391	435	484
EBITDA (Rs. bn)	73	86	100	115
Margin (%)	21.1	22.0	23.0	23.7
PAT (Rs. bn)	53	61	72	82
EPS (Rs.)	24.5	28.2	33.2	37.9
Gr. (%)	24.7	14.8	17.9	14.2
DPS (Rs.)	18.0	24.1	27.1	30.9
Yield (%)	1.0	1.3	1.5	1.7
RoE (%)	78.1	86.2	100.4	111.1
RoCE (%)	100.2	114.8	132.6	147.0
EV/Sales (x)	11.2	9.9	8.9	8.0
EV/EBITDA (x)	53.3	45.0	38.6	33.8
PE (x)	74.4	64.8	54.9	48.1
P/BV (x)	55.7	55.9	54.4	52.3

### Key Data

HLL.BO | HUVR IN

52-W High / Low	Rs.1,840 / Rs.1,241
Sensex / Nifty	36,241 / 10,884
Market Cap	Rs.3,952bn/ \$ 56,173m
Shares Outstanding	2,165m
3M Avg. Daily Value	Rs.5224.4m

### Shareholding Pattern (%)

Promoter's	67.19
Foreign	12.11
Domestic Institution	7.31
Public & Others	13.39
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	11.4	14.9	46.0
Relative	7.7	11.7	32.3

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## Power Boost by Horlicks

We remain positive on HUVR's acquisition of Glaxo Consumer Healthcare given that it will be 1) EPS accretive by 5% in FY20 and ~7.75% in FY21 2) market leading brands like Horlicks and boost with more than 63.4% volume share in Rs77bn MFD industry 3) strong R&D and pipeline of nutritional products and 3) scalability to foods and refreshment business as combined sales exceed Rs100bn. HUVR expects significant scalability and synergy benefits from 1) 3x distribution and direct reach than GSK 2) distribution gains in pharma channel which is HUVR's weak point 3) cost reduction in advertising, supply chain and overheads and administration which will give margin accretion of 800-1000bps over time. We believe that synergy benefits will start accruing from FY21 and estimate an EPS uptick of 7.75% and 8.25% in FY21 and FY22. We estimate pro-forma EPS of Rs40.9 for FY21 and value the stock at 46x thus arriving at target price of Rs1880 (1703 earlier). We expect one-time dividend in FY21 given that GSK has cash of Rs38bn in its books and HUVR has 80% dividend payout. Retain Hold.

### Salient features of the transaction

- GSK will be merged with HUVR, shareholders will get 4.39 HUL shares of Rs 1 each for each GSK share thus valuing GSK at Rs 317bn.
- HUVR will acquire Boost, Viva and Maltova which are owned by GSK will be retained by the merged entity
- Horlicks brand, Bangladesh business and rights in 20 other markets will be acquired by Unilever for Euro566mn.
- HUVR will pay royalty of 1.75-4.25% to unilever for use of Horlicks brand.
- GSK Plc (including Group Companies) will own 5.7% in the merged HUVR as Unilever's shareholding in merged entity will reduce from 67.2% to 61.9%. GSK is at liberty to sell stake post completion of merger.
- HUVR will distribute GSK's OTC and Oral Health products under a consignment selling agreement of 5 years.
- Amalgamation is expected to be completed in one-year subject to shareholders' and regulatory approvals

### Concall takeaways

- HUVR plans to gain from 3x bigger distribution network and wider portfolio of brands and segments
- Synergy benefits in Advertising, supply chain, administration and overheads will enable 800-1000 bps margin expansion
- OTC business will provide increased penetration of HUVR products in chemist channel while its margins in OTC will be largely flat
- HUVR will gain from strong R&D and pipeline of products of GSK in the nutrition and wellness segment
- Sensodyne portfolio will complement Pepsodent and Close-Up as these brands have different positioning and cater to diverse set of consumer needs.

**Exhibit 1: Acquisition to be 7.75-8.24% margin accretive for HUVR**

Y/E March (Rs in mn)	FY21E	FY22E
<b>Adj. PAT</b>		
HUVR	82,322	94,595
GSK	13,524	16,036
<b>Total Adj. PAT</b>	<b>95,846</b>	<b>1,10,632</b>
<b>Equity shares</b>		
Existing HUVR shares	2160.0	
Existing GSK shares	42.1	
Additional share issued on swap (4.39sh:1sh)	184.6	
<b>Total shares after amalgamation</b>	<b>2344.6</b>	
<b>New Merged EPS</b>		
	<b>40.9</b>	<b>47.2</b>
Existing EPS	37.9	43.6
<b>% Change</b>	<b>7.75%</b>	<b>8.24%</b>

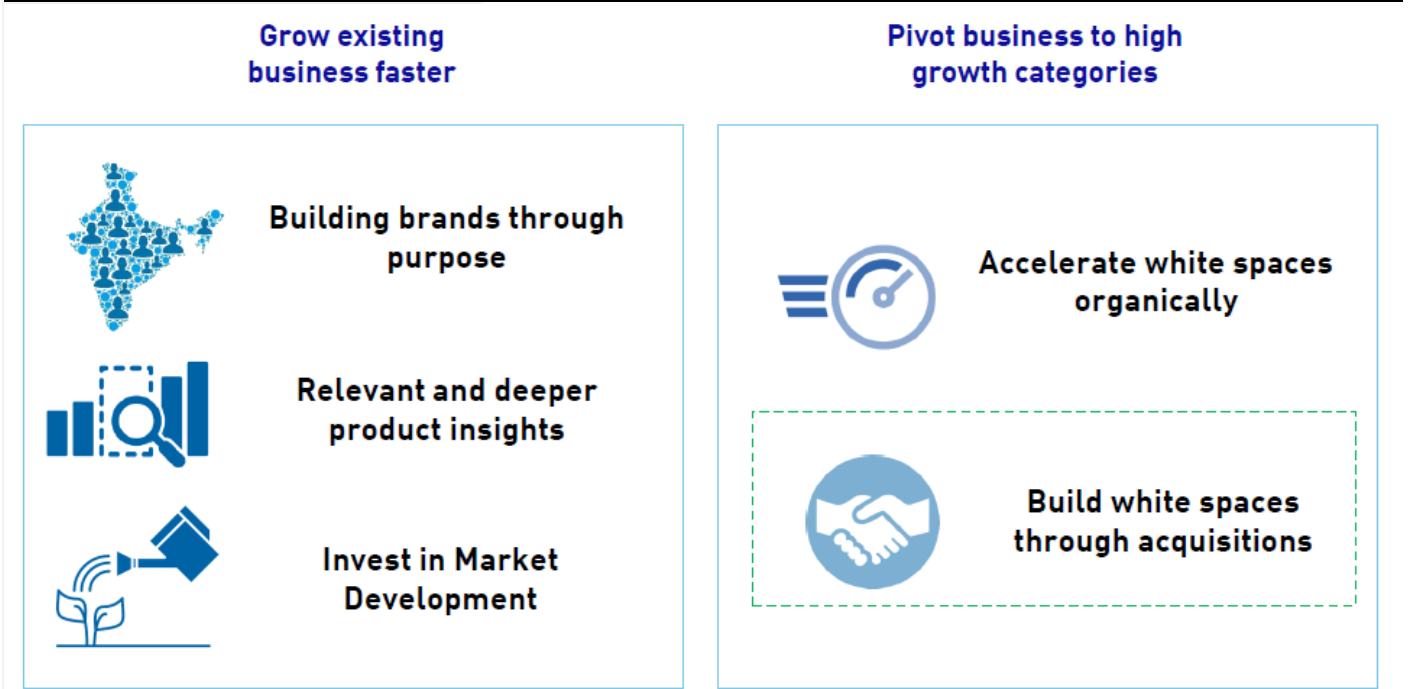
Source: Company, PL

**Exhibit 2: Snapshot of profit & loss of GSK (Pre acquisition)**

	FY2017	FY2018	FY2019E	FY2020E	FY2021E
<b>Net Sales</b>	<b>39,138</b>	<b>42,475</b>	<b>47,802</b>	<b>53,076</b>	<b>59,810</b>
Non-MFD Sales	2,156	2,309	2,399	2,551	2,775
MFD Sales	36,982	40,166	45,404	50,525	57,035
<i>% to sales</i>	<i>94.5%</i>	<i>94.6%</i>	<i>95.0%</i>	<i>95.2%</i>	<i>95.4%</i>
<b>Business Auxiliary Income</b>	<b>1940</b>	<b>2018</b>	<b>2335</b>	<b>2640</b>	<b>2986</b>
Gross Profit	27,927	26,895	28,744	33,698	37,247
<i>Gross Margin %</i>	<i>67.5%</i>	<i>67.5%</i>	<i>66.7%</i>	<i>69.3%</i>	<i>68.9%</i>
Advertisement expenses	5,441	5,147	5,467	5,832	6,487
<i>% to sales</i>	<i>13.9%</i>	<i>12.1%</i>	<i>11.4%</i>	<i>11.0%</i>	<i>10.8%</i>
<b>EBITDA</b>	<b>8,382</b>	<b>8,335</b>	<b>8,738</b>	<b>11,499</b>	<b>12,838</b>
<i>EBITDA Margin %</i>	<i>20.3%</i>	<i>20.9%</i>	<i>20.3%</i>	<i>23.7%</i>	<i>23.7%</i>
PBT	10,560	10,104	10,744	14,131	15,393
Tax	3,687	3,537	3,743	5,029	5,463
<b>Adj. PAT</b>	<b>6,872</b>	<b>6,567</b>	<b>7,001</b>	<b>9,102</b>	<b>9,930</b>
<i>% to sales</i>	<i>17.6%</i>	<i>15.5%</i>	<i>14.6%</i>	<i>17.1%</i>	<i>16.6%</i>
<b>Cash &amp; Cash Equivalents</b>	<b>27,123</b>	<b>30,874</b>	<b>35,852</b>	<b>39,377</b>	<b>44,327</b>

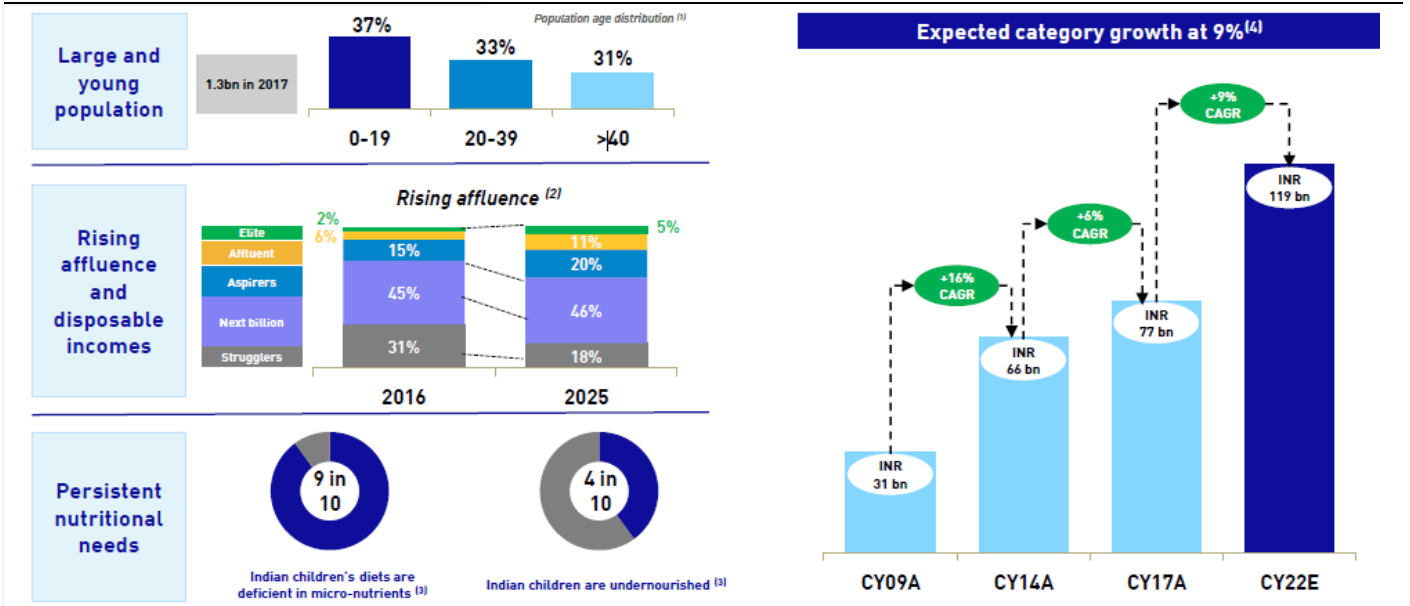
Source: Company, PL

Exhibit 3: F&R segment: Market development and filling white spaces to accelerate growth



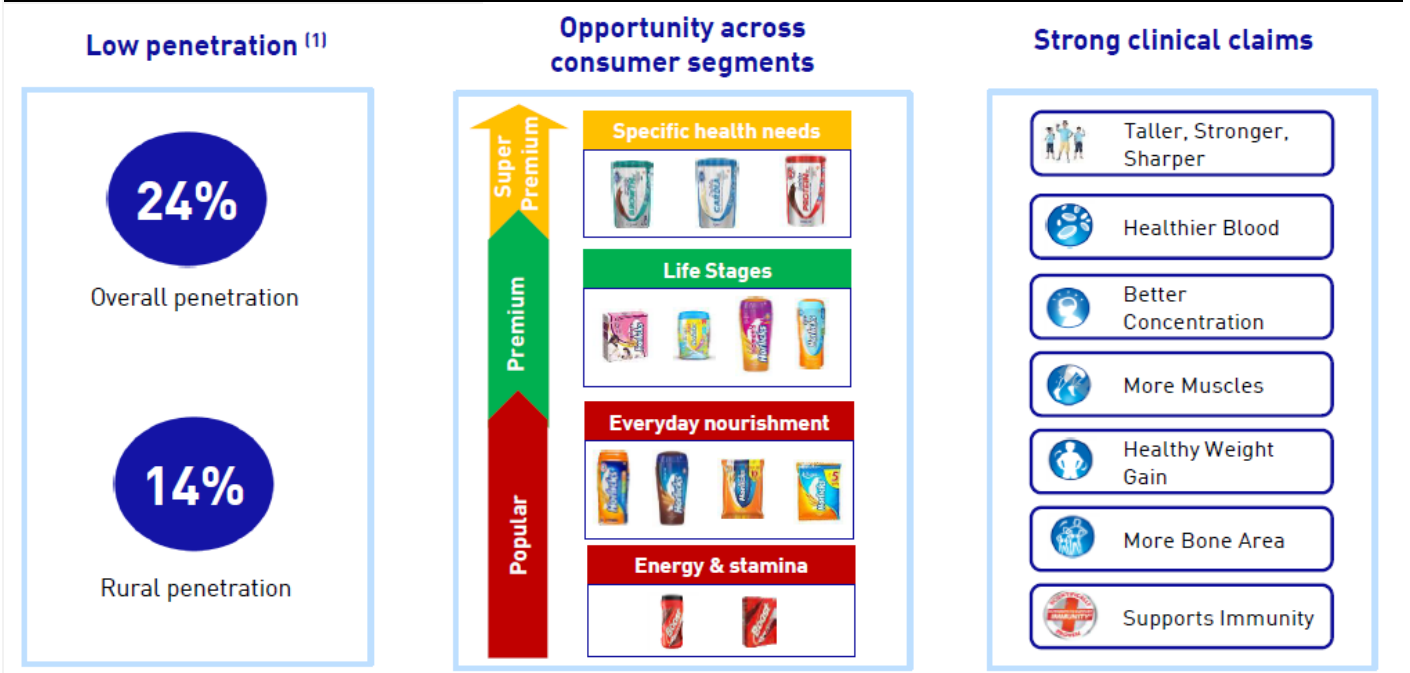
Source: Company, PL

Exhibit 4: Huge potential for market development in HFD segment



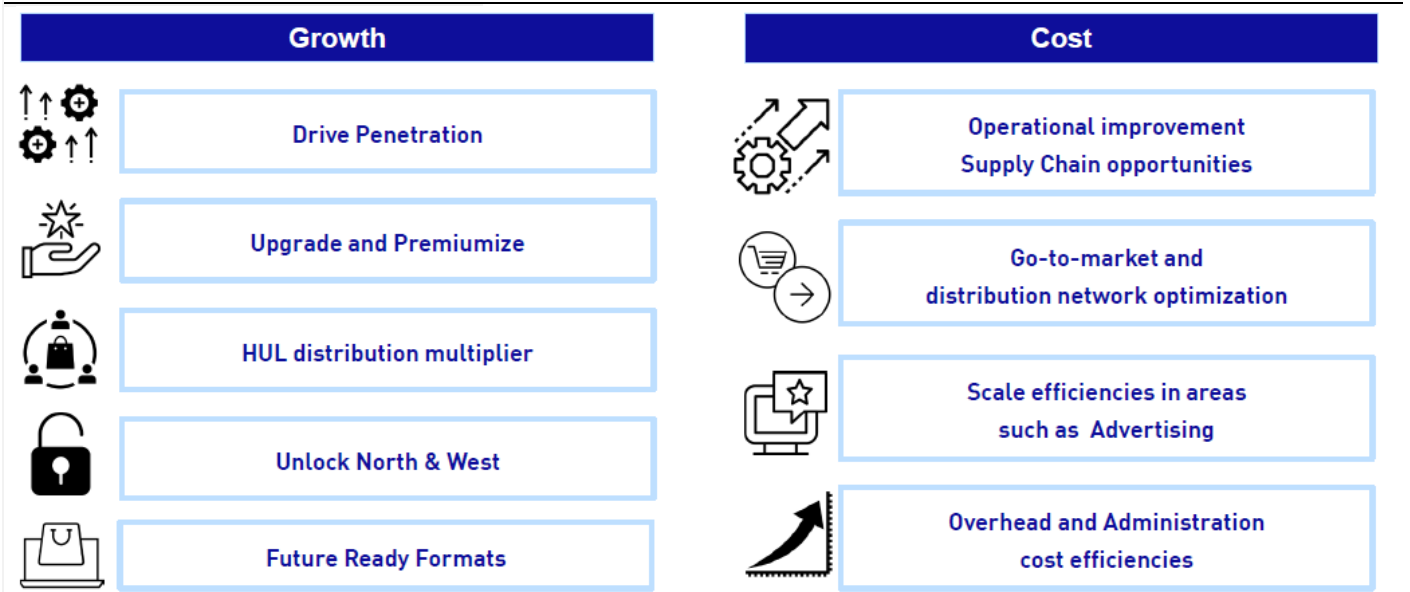
Source: Company, PL

Exhibit 5: Low penetration and presence across MFD segments offer significant headroom for growth



Source: Company, PL

Exhibit 6: Acquisition to be EPS accretive on Revenue and Cost synergies



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Net Revenues</b>	<b>345,250</b>	<b>391,394</b>	<b>435,204</b>	<b>484,466</b>
YoY gr. (%)	8.3	13.4	11.2	11.3
Cost of Goods Sold	162,320	184,571	203,488	226,213
Gross Profit	182,930	206,823	231,716	258,253
Margin (%)	53.0	52.8	53.2	53.3
Employee Cost	17,450	19,753	22,008	24,222
Other Expenses	940	952	1,287	1,434
<b>EBITDA</b>	<b>72,760</b>	<b>86,193</b>	<b>100,298</b>	<b>114,704</b>
YoY gr. (%)	20.3	18.5	16.4	14.4
Margin (%)	21.1	22.0	23.0	23.7
Depreciation and Amortization	4,780	5,134	5,485	5,836
<b>EBIT</b>	<b>67,980</b>	<b>81,059</b>	<b>94,813</b>	<b>108,868</b>
Margin (%)	19.7	20.7	21.8	22.5
Net Interest	200	220	215	215
Other Income	5,690	6,727	7,694	8,715
<b>Profit Before Tax</b>	<b>73,470</b>	<b>87,565</b>	<b>102,293</b>	<b>117,368</b>
Margin (%)	21.3	22.4	23.5	24.2
Total Tax	20,480	26,707	30,524	35,046
Effective tax rate (%)	27.9	30.5	29.8	29.9
<b>Profit after tax</b>	<b>52,990</b>	<b>60,858</b>	<b>71,769</b>	<b>82,322</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>52,990</b>	<b>60,858</b>	<b>71,769</b>	<b>82,322</b>
YoY gr. (%)	24.7	14.8	17.9	14.7
Margin (%)	15.3	15.5	16.5	17.0
Extra Ord. Income / (Exp)	(620)	500	(500)	500
<b>Reported PAT</b>	<b>52,370</b>	<b>61,358</b>	<b>71,269</b>	<b>82,822</b>
YoY gr. (%)	16.6	17.2	16.2	16.2
Margin (%)	15.2	15.7	16.4	17.1
Other Comprehensive Income	(120)	(200)	(200)	(200)
Total Comprehensive Income	52,250	61,158	71,069	82,622
<b>Equity Shares O/s (m)</b>	<b>2,160</b>	<b>2,160</b>	<b>2,160</b>	<b>2,170</b>
<b>EPS (Rs)</b>	<b>24.5</b>	<b>28.2</b>	<b>33.2</b>	<b>37.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>73,614</b>	<b>78,614</b>	<b>83,614</b>	<b>88,614</b>
Tangibles	66,720	71,720	76,720	81,720
Intangibles	6,894	6,894	6,894	6,894
<b>Acc: Dep / Amortization</b>	<b>32,194</b>	<b>37,328</b>	<b>42,813</b>	<b>48,649</b>
Tangibles	28,960	33,991	39,372	45,104
Intangibles	3,234	3,337	3,441	3,544
<b>Net fixed assets</b>	<b>41,420</b>	<b>41,286</b>	<b>40,801</b>	<b>39,965</b>
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	5,276	5,377	5,489
<b>Current Assets</b>				
Investments	33,840	37,801	38,673	46,219
Inventories	23,590	27,458	29,977	33,401
Trade receivables	11,470	12,145	13,519	14,146
Cash & Bank Balance	28,440	28,036	31,373	34,937
Other Current Assets	6,260	7,222	8,030	8,939
<b>Total Assets</b>	<b>171,490</b>	<b>178,342</b>	<b>190,112</b>	<b>204,773</b>
<b>Equity</b>				
Equity Share Capital	2,160	2,160	2,160	2,170
Other Equity	68,590	68,357	70,303	73,513
<b>Total Network</b>	<b>70,750</b>	<b>70,517</b>	<b>72,463</b>	<b>75,683</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	7,720	8,767	9,760	10,858
Other non current liabilities	1,670	1,795	1,930	2,075
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	70,130	73,323	79,444	86,767
Other current liabilities	16,230	18,436	20,524	22,852
<b>Total Equity &amp; Liabilities</b>	<b>171,490</b>	<b>178,342</b>	<b>190,111</b>	<b>204,773</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	73,470	87,565	102,293	117,368
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	92,999	107,078	123,503
Net Changes-WC	7,600	1,486	1,725	6,923
Direct tax	(20,480)	(26,707)	(30,524)	(35,046)
<b>Net cash from Op. activities</b>	<b>64,220</b>	<b>67,778</b>	<b>78,279</b>	<b>95,380</b>
Capital expenditures	(7,820)	(3,050)	(5,150)	(5,100)
Interest / Dividend Income	-	-	-	-
Others	(10,870)	(3,415)	(3,998)	(11,056)
<b>Net Cash from Inv. activities</b>	<b>(18,690)</b>	<b>(6,465)</b>	<b>(9,148)</b>	<b>(16,156)</b>
Issue of share cap. / premium	110	346	339	347
Debt changes	660	276	261	293
Dividend paid	(46,510)	(61,740)	(69,460)	(79,760)
Interest paid	-	-	-	-
Others	-	3	(2)	11
<b>Net cash from Fin. activities</b>	<b>(45,740)</b>	<b>(61,115)</b>	<b>(68,862)</b>	<b>(79,108)</b>
<b>Net change in cash</b>	<b>(210)</b>	<b>198</b>	<b>270</b>	<b>116</b>
Free Cash Flow	56,400	64,728	73,129	90,280

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

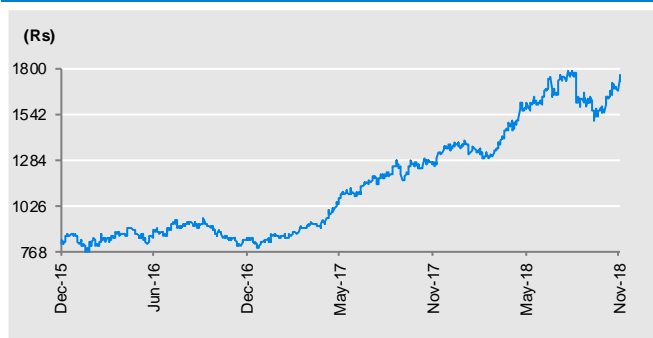
Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
<b>Net Revenue</b>	<b>85,900</b>	<b>90,970</b>	<b>94,870</b>	<b>92,340</b>
YoY gr. (%)	11.5	10.8	11.2	11.1
Raw Material Expenses	39,050	43,140	43,640	44,350
Gross Profit	46,850	47,830	51,230	47,990
Margin (%)	54.5	52.6	54.0	52.0
<b>EBITDA</b>	<b>16,800</b>	<b>20,480</b>	<b>22,510</b>	<b>20,190</b>
YoY gr. (%)	(0.1)	21.9	9.9	(10.3)
Margin (%)	19.6	22.5	23.7	21.9
Depreciation / Depletion	1,210	1,280	1,270	1,300
<b>EBIT</b>	<b>15,590</b>	<b>19,200</b>	<b>21,240</b>	<b>18,890</b>
Margin (%)	18.1	21.1	22.4	20.5
Net Interest	50	40	70	70
Other Income	1,520	1,000	1,350	3,050
<b>Profit before Tax</b>	<b>17,060</b>	<b>20,160</b>	<b>22,520</b>	<b>21,870</b>
Margin (%)	19.9	22.2	23.7	23.7
Total Tax	5,080	6,070	6,850	6,650
Effective tax rate (%)	29.8	30.1	30.4	30.4
<b>Profit after Tax</b>	<b>11,980</b>	<b>14,090</b>	<b>15,670</b>	<b>15,220</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>11,980</b>	<b>14,090</b>	<b>15,670</b>	<b>15,220</b>
YoY gr. (%)	30.2	19.0	21.3	23.1
Margin (%)	13.9	15.5	16.5	16.5
Extra Ord. Income / (Exp)	1,280	(580)	(380)	30
<b>Reported PAT</b>	<b>13,260</b>	<b>13,510</b>	<b>15,290</b>	<b>15,250</b>
YoY gr. (%)	27.9	14.2	18.3	23.4
Margin (%)	15.4	14.9	16.1	16.5
Other Comprehensive Income	(10)	(100)	(10)	-
<b>Total Comprehensive Income</b>	<b>13,250</b>	<b>13,410</b>	<b>15,280</b>	<b>15,250</b>
Avg. Shares O/s (m)	2,164	2,164	2,164	2,164
<b>EPS (Rs)</b>	<b>5.5</b>	<b>6.5</b>	<b>7.2</b>	<b>7.0</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	24.5	28.2	33.2	37.9
CEPS	26.7	30.6	35.8	40.6
BVPS	32.8	32.6	33.5	34.9
FCF	26.1	30.0	33.9	41.6
DPS	18.0	24.1	27.1	30.9
<b>Return Ratio(%)</b>				
RoCE	100.2	114.8	132.6	147.0
ROIC	884.2	1,174.6	4,606.7	(1,078.0)
RoE	78.1	86.2	100.4	111.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.9)	(0.9)	(1.0)	(1.1)
Net Working Capital (Days)	(37)	(31)	(30)	(30)
<b>Valuation(x)</b>				
PER	74.4	64.8	54.9	48.1
P/B	55.7	55.9	54.4	52.3
P/CEPS	26.7	30.6	35.8	40.6
EV/EBITDA	53.3	45.0	38.6	33.8
EV/Sales	11.2	9.9	8.9	8.0
Dividend Yield (%)	1.0	1.3	1.5	1.7

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Dec-17	BUY	1,387	1,317
2	10-Jan-18	BUY	1,387	1,363
3	17-Jan-18	Accumulate	1,387	1,372
4	12-Feb-18	Accumulate	1,387	1,335
5	15-Mar-18	Accumulate	1,387	1,297
6	13-Apr-18	Accumulate	1,387	1,410
7	14-May-18	BUY	1,555	1,505
8	6-Jun-18	Accumulate	1,627	1,573
9	10-Jul-18	Accumulate	1,627	1,644
10	16-Jul-18	Hold	1,703	1,751

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,300	1,138
2	Avenue Supermarts	Reduce	1,286	1,412
3	Britannia Industries	Accumulate	6,298	5,813
4	Colgate Palmolive	Hold	1,157	1,102
5	Crompton Greaves Consumer Electricals	BUY	276	195
6	Dabur India	Hold	427	385
7	Emami	Accumulate	521	402
8	Future Retail	BUY	604	529
9	GlaxoSmithKline Consumer Healthcare	Hold	8,520	7,119
10	Hindustan Unilever	Hold	1,703	1,570
11	ITC	BUY	364	281
12	Jubilant FoodWorks	Accumulate	1,395	1,193
13	Kansai Nerolac Paints	Accumulate	474	387
14	Marico	BUY	377	320
15	Nestle India	Accumulate	11,129	9,569
16	Pidilite Industries	Accumulate	1,121	959
17	Titan Company	BUY	1,115	848
18	Voltas	Accumulate	658	540

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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