

# Hindustan Unilever Ltd (HUVR IN)

## Detergents: Breaking rules and gaining ground

INDIA | FMCG | Company Update

12 March 2015

Continuing with trend of utilizing fall in commodity prices to upgrade consumers, HUL has cut prices of Surf excel Detergent Bar by 7%-22% across SKUs. This part of HUL's strategy of sacrificing short-term gains for long-term benefits will be viewed positively by the market. Also, it is important to note that the price cuts taken by HUL are proactive as competition is yet to make major interventions.

**Advantage HUL:** HUL had a couple of months back increased the grammage on 150g Rin Bar by 15g for the same price of Rs 10; implying a price reduction of 9%. According to our channel checks in Mumbai, the prices of Surf Excel Bar have also been slashed considerably recently. The 4x100g bar pack of Surf Excel which was earlier priced at Rs 46 is now available for Rs 36 implying a price reduction of 22%; the highest we have seen for in Surf Excel Bar in recent times. The price of 250 g Surf Excel Bar has been reduced from Rs 29 to Rs 27, a price reduction of 7%. Similarly, the grammage on 95 g Surf Excel Bar available at Rs 10 has been increased by 10g to 105 g, implying an effective price reduction of 9.5%. Interestingly, the prices of mass market brand Wheel Bar have not been reduced yet. Also worthwhile to note is that there has been no change in the prices of Detergent Bars offered by other major players like Nirma, P&G & Jyothy Laboratories.

**"We will be very proactive this time when it comes to protecting market share" – HUL Management:** During our meet with HUL management earlier, the management had stated that the company will be very proactive in guarding its market share. HUL had in 2010-11 lost its market share heavily o competitors on account of sluggishness in reacting to changes in Raw Material prices.

**Upgrading customers to premium brands:** A master stroke in the making: We believe that through the strategy of changing prices of only premium brands like Surf Excel & Rin, HUL is targeting a strategic upgradation of customers from Mass Brands to Premium Brands. The margins & net realizations are higher for premium brands compared to Mass Brands. As a result, inspite of a reduction in prices, HUL may be able to grow faster than the market in both value and volume. Also, HUL may perform satisfactorily on the bottomline on a yoy basis, inspite of price degrowth, because of gains it will make through mix improvement. If the strategy plays out according to management expectations- it will be a master stroke by HUL.

**Impact of unbranded players will be limited:** In the industrial towns of Ulhasnagar and Ambarnath, near Mumbai, there are large manufacturers of LAB, the primary raw material for detergents. Consequently, many small-scale detergent makers operate in that area. These manufacturers cater mainly to the Maharashtra market, which comprises about 10% of India's detergent market of about Rs150 bn. However, the market dynamics have changed significantly over the past few years. Local manufacturers indicate that rising labour costs and volatile commodity prices have made the detergents business unviable for small scale manufacturers and many have shut operations. Apart from detergents, we also noted that the market for oil cakes has shrunk by 90% according to a local manufacturer who indicated that the customers are moving up the value chain. The propensity of consumers to upgrade to branded products even in a category like detergents is significant.

**Our take:** The pro-activeness with which HUL has approached the recent commodity prices fall is a positive strategy of sacrificing short term gains for long-term value creation. HUL will be able to maintain its market share & also improve its mix improvement and it will be among the biggest gainers of the recent fall in commodity prices. We continue to maintain our "Buy" recommendation on HUL due to the multiple drivers which will help accelerate its growth in both Soaps & Detergents segment & Personal Products segment.

### BUY

CMP RS 961

TARGET RS 1010 (+5%)

#### COMPANY DATA

O/S SHARES (MN) :	2163
MARKET CAP (RSBN) :	2031
MARKET CAP (USDBN) :	32.7
52 - WK HI/LO (RS) :	967 / 548
LIQUIDITY 3M (USDMMN) :	28.7
PAR VALUE (RS) :	1

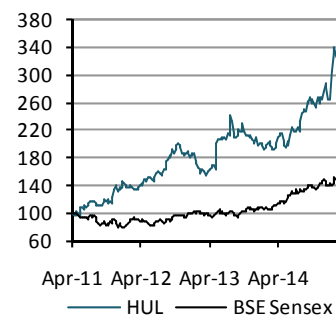
#### SHARE HOLDING PATTERN, %

PROMOTERS :	67.2
FII / NRI :	15.4
FI / MF :	3.9
NON PROMOTER CORP. HOLDINGS :	1.1
PUBLIC & OTHERS :	12.5

#### PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	3.4	14.5	70.3
REL TO BSE	1.3	11.0	31.9

#### PRICE VS. SENSEX



Source: Phillip Capital India Research

#### KEY FINANCIALS

Rs mn	FY15E	FY16E	FY17E
Net Sales	306,824	342,266	387,891
EBIDTA	59,496	73,403	85,376
Net Profit	39,897	49,582	57,471
EPS, Rs	18.5	22.9	26.6
PER, x	52.1	41.9	36.1
EV/EBIDTA, x	34.4	27.5	23.3
P/BV, x	42.6	28.4	19.9
ROE, %	81.8	67.7	55.1

Source: PhillipCapital India Research Est.

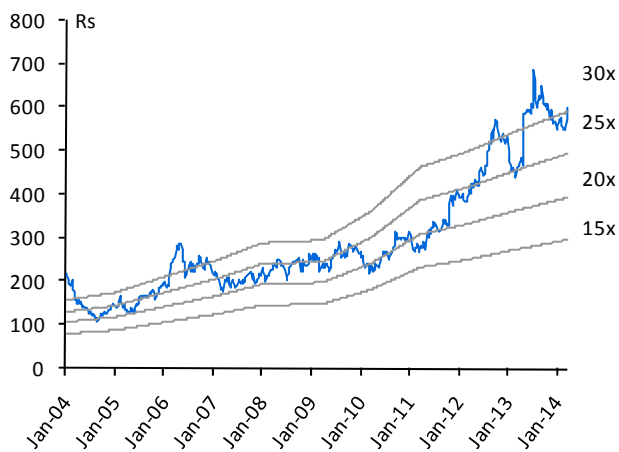
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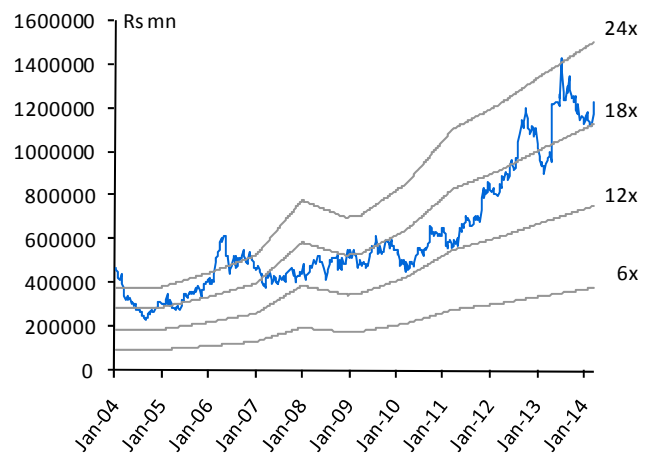
Prices in Surf Excel Bar have been decreased by 7% to 22% in various SKUs



**1yr forward P/E Band**



**EV/EBITDA**



Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	FY14	FY15E	FY16E	FY17E
<b>Net sales</b>	<b>274,083</b>	<b>306,824</b>	<b>342,266</b>	<b>387,891</b>
Growth, %	8.7	11.9	11.6	13.3
Other income	12,319	13,017	15,653	18,732
Total income	286,402	319,841	357,919	406,623
Raw material expenses	-143,436	-159,647	-171,728	-195,274
Employee expenses	-14,360	-15,585	-17,134	-18,842
Other Operating expenses	-77,643	-85,113	-95,654	-107,130
<b>EBITDA (Core)</b>	<b>50,963</b>	<b>59,496</b>	<b>73,403</b>	<b>85,376</b>
Growth, %	10.5	16.7	23.4	16.3
Margin, %	18.6	19.4	21.4	22.0
Depreciation	-2,606	-2,956	-3,226	-3,515
<b>EBIT</b>	<b>48,357</b>	<b>56,541</b>	<b>70,177</b>	<b>81,862</b>
Growth, %	10.5	16.9	24.1	16.7
Margin, %	17.6	18.4	20.5	21.1
Interest paid	-360	-360	-360	-360
<b>Pre-tax profit</b>	<b>47,997</b>	<b>56,190</b>	<b>69,829</b>	<b>81,514</b>
Tax provided	-11,014	-16,292	-20,247	-24,043
<b>Profit after tax</b>	<b>36,983</b>	<b>39,897</b>	<b>49,582</b>	<b>57,471</b>
<b>Net Profit</b>	<b>36,983</b>	<b>39,897</b>	<b>49,582</b>	<b>57,471</b>
Growth, %	10.5	7.9	24.3	15.9
<b>Net Profit (adjusted)</b>	<b>36,983</b>	<b>39,897</b>	<b>49,582</b>	<b>57,471</b>
Unadj. shares (m)	2,162	2,162	2,162	2,162
Wtd avg shares (m)	2,162	2,162	2,162	2,162

### Balance Sheet

Y/E Mar, Rs mn	FY14	FY15E	FY16E	FY17E
Cash & bank	22,210	29,540	55,438	90,156
Debtors	8,164	9,497	10,853	12,531
Inventory	27,475	29,671	31,280	33,990
Loans & advances	11,432	12,273	13,519	15,089
Other current assets	719	719	719	719
Total current assets	70,000	81,700	111,809	152,485
Investments	30,941	30,941	30,941	30,941
Gross fixed assets	44,429	48,429	52,929	57,929
Less: Depreciation	-20,208	-23,163	-26,389	-29,904
Add: Capital WIP	3,198	3,198	3,198	3,198
Net fixed assets	27,418	28,463	29,737	31,222
Non-current assets	2,968	3,925	3,926	3,926
<b>Total assets</b>	<b>132,946</b>	<b>146,647</b>	<b>178,032</b>	<b>220,192</b>
Current liabilities	78,182	80,639	85,697	94,943
Provisions	19,034	17,233	19,131	20,971
Total current liabilities	97,216	97,872	104,827	115,914
Non-current liabilities	0	2	3	0
Total liabilities	97,216	97,874	104,830	115,914
Paid-up capital	2,163	2,163	2,163	2,162
Reserves & surplus	30,606	46,610	71,039	102,113
Shareholders' equity	32,769	48,773	73,201	104,274
<b>Total equity &amp; liabilities</b>	<b>129,984</b>	<b>146,647</b>	<b>178,032</b>	<b>220,192</b>

### Cash Flow

	FY14	FY15E	FY16E	FY17E
Pre-tax profit	47,997	56,190	69,829	81,514
Depreciation	2,606	2,956	3,226	3,515
Chg in working capital	4,814	-2,867	846	3,286
Total tax paid	-12,966	-12,146	-18,890	-22,737
<b>Cash flow from operating activities</b>	<b>42,451</b>	<b>44,133</b>	<b>55,010</b>	<b>65,577</b>
Capital expenditure	-4,939	-4,000	-4,500	-4,999
<b>Cash flow from investing activities</b>	<b>-12,573</b>	<b>-3,997</b>	<b>-4,496</b>	<b>-4,995</b>
Free cash flow	29,878	40,136	50,514	60,582
Dividend (incl. tax)	-29,485	-29,832	-24,601	-25,849
<b>Cash flow from financing activities</b>	<b>-24,132</b>	<b>-23,803</b>	<b>-8,597</b>	<b>-1,422</b>
Net chg in cash	5,746	16,332	41,917	59,159

### Valuation Ratios

	FY14	FY15E	FY16E	FY17E
<b>Per Share data</b>				
EPS (INR)	17.1	18.5	22.9	26.6
Growth, %	10.5	7.9	24.3	15.9
Book NAV/share (INR)	15.2	22.6	33.9	48.2
FDEPS (INR)	17.1	18.5	22.9	26.6
CEPS (INR)	18.3	19.8	24.4	28.2
CFPS (INR)	19.6	20.9	25.4	30.3
DPS (INR)	13.0	9.5	10.0	10.5
<b>Return ratios</b>				
Return on assets (%)	30.0	28.7	30.7	29.0
Return on equity (%)	112.9	81.8	67.7	55.1
Return on capital employed (%)	125.1	98.4	81.7	65.0
<b>Turnover ratios</b>				
Asset turnover (x)				
Sales/Total assets (x)	2.2	2.2	2.1	1.9
Sales/Net FA (x)	10.4	11.0	11.8	12.7
Working capital/Sales (x)	(0.2)	(0.1)	(0.1)	(0.1)
Fixed capital/Sales (x)	-	-	-	-
Working capital days	(65.8)	(54.4)	(51.7)	(50.4)
<b>Liquidity ratios</b>				
Current ratio (x)	0.7	0.8	1.1	1.3
Quick ratio (x)	0.4	0.5	0.8	1.0
Interest cover (x)	134.2	156.9	194.8	227.2
Dividend cover (x)	1.3	1.9	2.3	2.5
Net debt/Equity (%)				
<b>Valuation</b>				
PER (x)	56.2	52.1	41.9	36.1
Price/Book (x)	63.4	42.6	28.4	19.9
Yield (%)	1.4	1.0	1.0	1.1
EV/Net sales (x)	7.5	6.7	5.9	5.1
EV/EBITDA (x)	40.3	34.4	27.5	23.3
EV/EBIT (x)	42.5	36.2	28.8	24.3

Source: Company, PhillipCapital India Research Estimates

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