

December 19, 2018

**Rating:** BUY  
**Ticker:** HUL  
**CMP:** Rs.1854  
**Target:** Rs.2104  
**Upside:** 13%

**Key Stock Data**

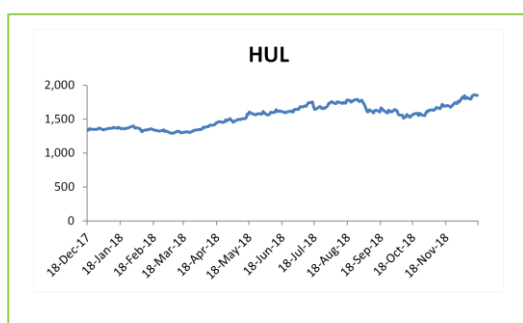
Sector	Personal Products
No. of shares	216 Crs
FV (Rs)	1
MCAP (Rs)	398945 Crs
MCAP (\$)	5618 Crs

**Key Financials (Rs. in Crs)**

Y/E March	FY18 A	FY19 E	FY20 E
Revenue	35787	40439	46101
EBITDA	7845	8897	10603
PAT	5237	6470	7837
EPS /sh.	24.20	29.96	36.28
BV /sh.	32.45	35.56	39.03
P/BV (x)	56.87	51.84	47.25
PE (x)	76.19	61.55	50.82

**Shareholding Pattern**

Promoters	67.19%
FIIIs	12.11%
DIIIs	10.8%
Others	9.9%



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**Hindustan Unilever Ltd. - HUL****2QFY19 Result Update**

The Company reported good set of 2QFY19 numbers on all counts on a yearly as well as on a quarterly basis. The topline of the company grew by 12% Y-o-Y and de-grew marginally by 1% Q-o-Q to Rs.9539 Crs in 2QFY19 as against Rs. 8513 Crs in 2QFY18. EBITDA for the quarter grew by 23% Y-o-Y to Rs. 2324 Crs in 2QFY19 as against Rs. 1886 Crs in 2QFY18. PAT for the quarter jumped by 20% to Rs.1525 Crs in 2QFY19 as against Rs.1276 Crs in 2QFY18. EBITDA Margin increased by 221bps Y-o-Y to 24.36% in 2QFY19 as against 22.15% in 2QFY18. PAT Margin increased by 100 bps to 15.99% in 2QFY19 from 14.99% in 2QFY18.

**Acquisition of Horlicks brand**

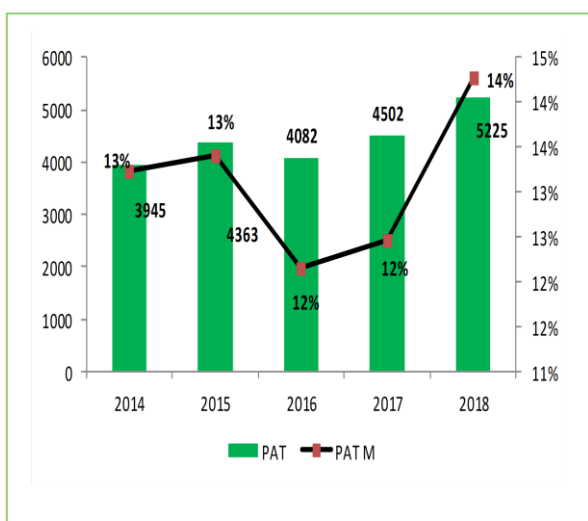
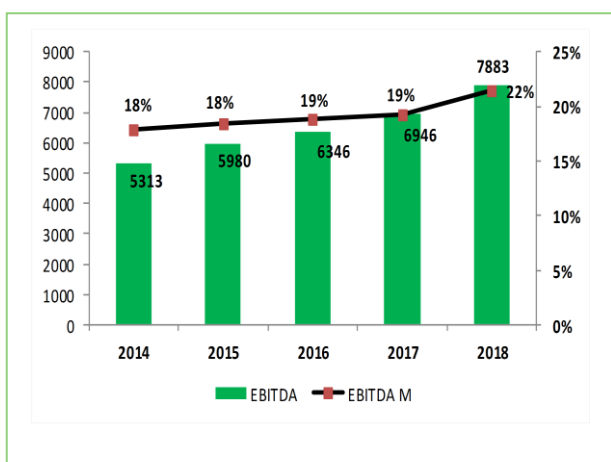
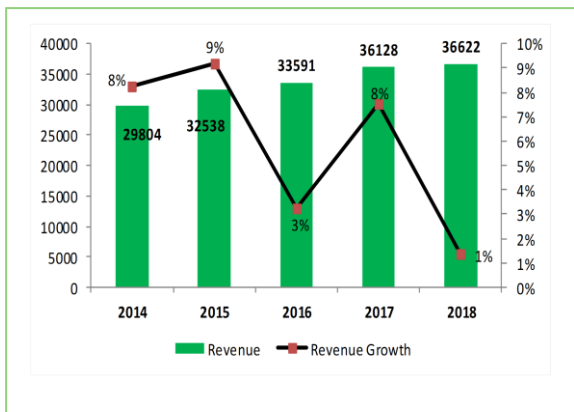
HUL announced merger with GSK Consumer India to acquire its brand Horlicks with an all equity deal, valuing at Rs 31,700 Crs. Every share of GSK CH will be exchanged with 4.39 shares of HUL. GSK CH is the leader in the Health Food Drinks (HFD) market in India with brands like Horlicks, Boost, Viva and Maltova. Brands owned by GSK India (Boost, Viva and Maltova) to be retained by merged entity. Unilever to acquire Horlicks brand in India and international markets (including group companies) which is currently owned by GSK Plc.

**Outlook & Valuations**

HUL one of the largest consumer durable company has huge footprints in terms of products and distribution network. With the acquisition of Horlicks brand which also has a good market share but could not do good in the Northern and western region, will now be able to capture the untapped markets. Currently the stock is trading at 50x on an FY20E and we would like to allot a PE multiple of 58x on an FY20E EPS of Rs. 36 to arrive at a target price of Rs. 2104.

**Quarterly Financial Highlight Table (Rs. In Crs)**

Particulars	2QFY19	1QFY19	2QFY18	Q/Q	Y/Y	FY2018
Revenue	9539	9622	8513	-1%	12%	35787
EBITDA	2324	2386	1886	-3%	23%	7845
PAT	1525	1529	1276	0%	20%	5237
EPS	7.04	7.06	5.9	0%	19%	24.2
EBITDA M	24.36%	24.80%	22.15%	(44 bps)	221 bps	21.92%
PAT M	0.29%	6.41%	-1.15%	(10 bps)	100 bps	14.63%



## Investment Rationale

### 1. Huge Synergy for HUL from the acquisition.

Acquiring Horlicks brand of Glaxosmith is highly positive for HUL. Horlicks have been a market leader and acquiring Horlicks will lead the food & refreshment segment into the market leader. The transaction is expected to finish in a year's time subject to regulatory and shareholders' approval. HUL's strategy for the acquired portfolio is around premiumisation. The company will continue to focus on affordable packs in the premium segment and develop products for different life stages and specific health needs which include protein, growth, heart health etc. HUL is better placed than GSK CH owing to its deeper distribution reach which is greater than 8mn stores vs. 1.8mn stores of GSK CH, higher quality of reach which is 3x direct reach and better execution track record. GSK CH's portfolio is weak in the North and West markets that provide an added benefit for HUL to address given its success of regional penetration.

### 2. Horlicks acquisition to boost HUL's food & refreshment segment.

Unlike Unilever, HUL has a smaller revenue share from the F&R (Food & Refreshment) segment which is mere 19% of the total sales. This deal gives HUL's F&R the much needed 'boost' to spur its revenue growth and this acquisition is expected to fetch Rs 10,000 Crs revenues post-merger which indicates double digit growth rate. Though, recent years performance of HUL's F&R category has been muted at 6% CAGR during FY14-18, the outlook remains bright with double digit growth rate of 10% CAGR expected over FY18-20E considering penetration levels which is 14% in rural along with young demographics of 37% population.

## Company Background

Hindustan Unilever Limited is India's largest FMCG Company with a heritage of over 80 years has over 40 brands spanning 20 distinct categories

In terms of market reach, HUL has almost 100 suppliers & associates and over 3,000 distributors.

Acquisition of Horlicks brand which also has a good market share but could not do good in the Northern and western region, will now be able to capture the untapped markets though HUL's distribution reach.

We believe this acquisition is a huge positive step to grow HUL's top-line

We believe the premium valuations are justified given the rich products it has in its kitty

Hindustan Unilever Limited is India's largest fast-moving consumer goods (FMCG) company with a heritage of over 80 years. Each of its categories – Home Care, Personal Care, Foods and Refreshments – includes a portfolio of brands that serves consumers across the length and breadth of India. With over 40 brands spanning 20 distinct categories including soaps, detergents, shampoos, skincare, toothpastes, deodorants, cosmetics, tea, coffee, packaged foods, ice cream, frozen desserts, water and air purifiers. Its portfolio includes leading brands such as Lux, Lifebuoy, Surf excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, Pepsodent, Closeup, Axe, Brooke Bond, BRU, Knorr, Kissan, Kwality Wall's and Pureit. The products are available in over seven million outlets across India. In terms of market reach, HUL has almost 100 suppliers & associates and over 3,000 distributors.

## Risk & Concerns

1. Slow GDP revival leading to lower traction in discretionary spending
2. Lack of innovation may lose peoples interest in the value and relevance of the brands.
3. Consumer tastes, preferences and behaviors are changing more rapidly than ever. The Company's ability to identify and respond to these changes is vital to business success.

## Outlook & Valuations

HUL one of the largest consumer durable company has huge footprints in terms of products and distribution network. With the acquisition of Horlicks brand which also has a good market share but could not do good in the Northern and western region, will now be able to capture the untapped markets. We believe this acquisition is a huge positive step to grow HUL's top-line, which is now witnessing slower growth on account of the higher base. This acquisition will give HUL the much needed boost to grow the topline and restore its previous growth rate which was in double digits. Hence we are very positive on the stock. We believe the premium valuations are justified given the rich products it has in its kitty. Currently the stock is trading at 50x on an FY20E and we would like to allot a PE multiple of 58x on an FY20 EPS of Rs. 36 to arrive at a target price of Rs. 2104.

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Analyst Stock Rating	
<b>Ratings</b>	<b>Expected absolute returns over 12 months</b>
BUY	>15%
HOLD	10- 15%
REDUCE	<10%

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