

# HINDUSTAN UNILEVER

## Volumes robust despite cost squeeze

India Equity Research | Consumer Goods

Hindustan Unilever's (HUL) Q2FY19 revenue growth of 11.1% came in line, while EBITDA and adjusted PAT spurt of 20.6% and 25.8%, respectively, surpassed estimates. The 10% YoY volume growth (fourth consecutive double-digit growth) translating into 7% two-years' average growth is a leg up from 6% clocked earlier—aided by speed and agility across value chain. As highlighted in our note [Staples sound; discretionary dicey](#), we continue to remain optimistic on volume off take envisaged for strong consumer staples companies. Against gross margin contraction of 61bps YoY, HUL's EBITDA margin expanded 158bps YoY backed by cost saving initiatives as well as 37bps dip in ad spends—key monitorables going ahead. New launches, performance of *Indulekha & Ayush* and revival of rural demand are potential triggers. Retain 'BUY' and continue to maintain HUL as one of our top picks in the consumer staples pack.

### Broad-based growth

**Key highlights:** (i) **home care** segment grew 12.4% aided by strong volume spurt with fabric care reporting double digit growth led by premiumisation; EBIT margin too expanded 199bps YoY; (ii) **beauty & personal care** segment grew 10.4% YoY led by broad-based growth across personal products and personal wash; (iii) **foods & refreshments'** revenue grew 11.7% led by double digit surge, WiMi strategy giving desired results and acquisition of Adityaa Milk Ice Cream.

### Q2FY19 conference call: Key takeaways

Rural has been growing faster than urban and has the potential to grow even faster. Blended price hike was ~3%. **Some calibration in competitive intensity can be expected in an inflationary environment.** In spite of price hikes, HUL's product pricing has yet reached to pre-GST levels - thus giving further scope in price hikes.

### Outlook and valuations: On terra firma; maintain 'BUY'

We envisage HUL to be key beneficiary of the anticipated rural recovery and herbal push. We estimate better-than-expected volume growth (trend too indicates the same). With rural improving and return of price hikes, we maintain our target multiple of 50x and TP of INR1,767 on FY20E EPS. We maintain 'BUY/SO'. At CMP, the stock is trading at 44.4x FY20E EPS.

#### Financials

(INR mn)

Year to March	Q2FY19	Q2FY18	% change	Q1FY19	% change	FY18	FY19E	FY20E
Net rev.	92,340	83,090	11.1	94,870	(2.7)	355,450	396,838	447,231
EBITDA	20,190	16,820	20.0	22,510	(10.3)	74,990	86,801	104,154
Adjusted profit	15,600	12,400	25.8	15,880	(1.8)	52,580	62,082	76,489
Dil. EPS (INR)	7.2	5.7	25.8	7.3	(1.8)	24.3	28.7	35.3
Diluted P/E (x)						64.6	54.7	44.4
EV/EBITDA (x)						44.5	38.4	31.9
ROAE (%)						74.8	79.5	85.6

\* Quarterly nos. standalone; annual nos. consolidated

#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Underweight

#### MARKET DATA (R: HLL.BO, B: HUVR IN)

CMP	: INR 1,570
Target Price	: INR 1,767
52-week range (INR)	: 1,809 / 1,216
Share in issue (mn)	: 2,164.6
M cap (INR bn/USD mn)	: 3,398 / 46,199
Avg. Daily Vol.BSE/NSE('000)	: 1,323.6

#### SHARE HOLDING PATTERN (%)

	Current	Q1FY19	Q4FY18
Promoters *	67.2	67.2	67.2
MF's, FI's & BK's	7.3	7.3	6.8
FII's	12.1	12.2	12.6
Others	13.4	13.4	13.4
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer goods Index
1 month	(7.7)	(11.1)	(13.0)
3 months	(10.6)	(5.1)	(7.4)
12 months	23.9	3.1	4.7

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October 12, 2018

**Table 1: New segmental growth and margins under IND AS**

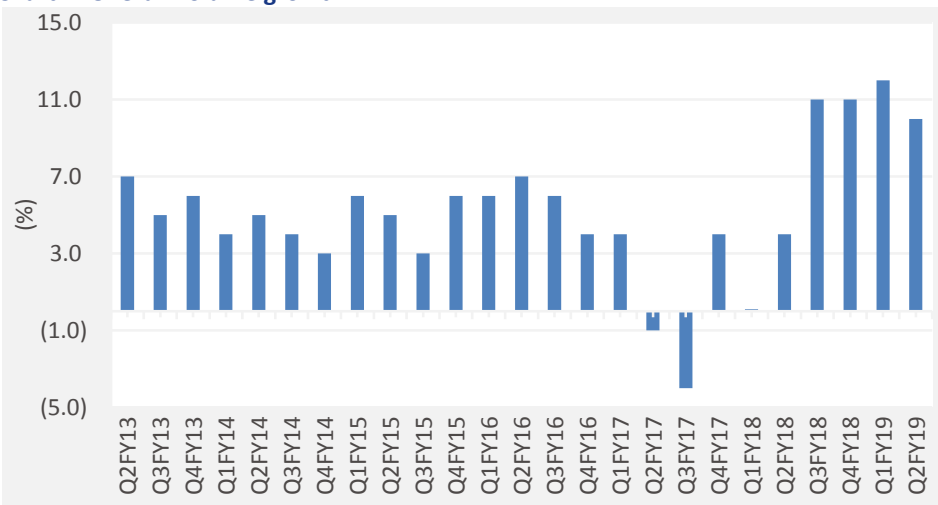
	Q1FY19	Q2FY19
<b>Overall volume growth (YoY)</b>	12.0	10.0
<b>% sales growth (YoY)</b>		
Home care	3.2	12.4
Personal care	0.9	10.4
Foods & Refreshments	7.9	11.7
Others	3.5	4.7
<b>EBIT margins (%)</b>		
Home care	19.1	16.0
Personal care	26.4	25.8
Foods & Refreshments	18.7	16.9
Others	(1.3)	1.5

**Table 2: Segmental growth and margins under IND AS (not LTL comparable)**

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
<b>Overall volume growth (YoY)</b>	4.0	4.0	(1.0)	(4.0)	4.0	0.1	4.0	11.0	11.0
<b>% sales growth (YoY)</b>									
Home care	4.3	6.8	3.2	1.0	7.4	5.9	(1.4)	1.9	3.3
Personal care	1.5	2.1	(0.3)	(2.7)	8.1	3.5	(2.9)	2.8	0.5
Foods	10.0	4.7	2.4	0.5	2.4	4.4	1.4	7.5	1.4
Refreshment	9.2	5.4	8.4	8.1	10.5	10.8	4.5	7.2	8.4
Others	(6.1)	NM	(15.2)	(27.3)	(30.4)	(17.6)	(31.2)	8.2	(5.0)
<b>EBIT margins (%)</b>									
Home care	12.2	13.9	10.1	8.7	12.9	14.7	14.0	12.9	16.4
Personal care	25.7	26.2	22.9	23.1	24.1	24.7	24.2	24.6	26.0
Foods	13.5	6.4	4.9	9.4	9.5	14.4	6.0	3.7	10.4
Refreshment	16.9	16.1	14.8	14.7	16.8	18.9	17.5	13.5	18.2
Others	4.7	(4.8)	4.2	(8.5)	(2.0)	(3.6)	(4.0)	(5.2)	1.0

Source: Company, Edelweiss research

**Chart 1: Overall volume growth**



Source: Company, Edelweiss research

## Q2FY19 conference call: Key takeaways

### Macro economic and outlook

- Rural has been growing better than urban; called out this has potential to grow even faster. Rural is growing at 1.25x urban.
- Historically, in an inflationary environment, companies such as HUL can gain market share and focus on volume growth.
- Some round of calibration in competitive intensity can be expected in an inflationary environment. Compared to earlier, some ease off in competitive pressure apparent.
- Post GST rate cut, price cuts were 7-9%. In spite of recent price increases, overall prices have not reached pre-GST level. Some of the competition is also taking price hikes in some products / geographies.
- Monsoon started very well, but end has not been great.
- Had some disruptions on account of transport strike and Kerala floods; HUL navigated it nevertheless.
- Quarter also saw good mix of innovations and activations.
- Crude and currency headwinds partially offset by benign veg oil and food prices.
- Crude increase and currency depreciation will be key to watch for.
- Going ahead will focus on volume-driven growth and improvement in operating margin.
- Agile & responsive supply chain and data driven capabilities will enable the company to best serve consumer needs.

### Home Care - *Strong volume driven growth sustained*

- **Fabric wash:** Double digit growth across the portfolio led by premiumization and market development.
- **Household care:** Another quarter of strong volume growth. Market activation of Vim.
- **Domex:** 'Pick up the Brush' campaign launched in South India – Andhra Pradesh. This has helped really well.
- **Purifiers:** Sharpening portfolio strategy in line with evolving consumer needs; performance impacted in the quarter. Remain committed to water purifier category. Revival of purifier segment will take some more time; will also lead to re-shaping of cost structures.

### Beauty & Personal Care - *Broad based growth across Personal Wash & Personal Products*

- **Personal wash:** Robust growth across premium portfolio; Dove and Pears led category growth.
- Penetration step up- Lifebuoy INR5 access pack launched.
- New communication of Dove also started.
- **Skin care:** Momentum across brands continued to deliver strong results; Men's Fair & Lovely relaunch well received. For a few quarters, this portfolio has done very well. At an aggregate market share in skin care is improving.

- **Hair care:** Strong double digit growth across key brands – MT channel registered strong growth.
- TRESemmé relaunched with superior fragrance and packaging.
- **Colour cosmetics:** Another quarter of double digit growth on account of rollout of successful innovations.
- **Oral care:** Central and North markets performed well; overall delivery below expectations. Clearly more work needs to be done in this category.
- Aayush is doing reasonably well in South India. In North India, HUL will have to tweak the mix and then see the growth going ahead. As said, most of the success comes only post tweaking, HUL is hopeful of achieving success in Aayush as well.
- **Deodorants:** Impressive growth led by strong performance of innovations; Axe Ticket continued to gain traction and is reshaping category for HUL.

### **Foods & Refreshment** - Robust growth across categories

- Beverages: Broad-based double digit growth for the quarter.
  - WiMI strategy delivering strong results.
  - Focused market development accelerated green tea growth. Coffee posted double digit growth.
- Green tea has done well.
- **Ice cream & frozen desserts:** Sustained strong growth momentum.
- Acquired Adityaa Milk Ice cream; integration commenced – this will help play in Karnataka and around.
- Adityaa is an interesting play in South India. It also offers looking at differentiated business model and get access to new delivery model. Will take it to other markets gradually. Will jointly sell Adityaa brand along with Kwality.
- Seeing sizeable growth in ice cream segment in Tier 2 and 3 cities.
- Will acquire 100% of ice cream business of Adityaa Ice cream.
- Foods: Double digit growth led by ketchups and jams.

### **Margin**

- Double digit growth has helped harness operating leverage benefit as well.
- Blended price hike will be ~3%.
- No reason to believe that margin expansion story will not pan out going forward.
- Has been using data and analytics in a big way; this has helped in removing cost out of system.
- In beauty and personal care – more ad spends will be done.
- F&B gross margins are in good shape and will incrementally play through total portfolio basis.
- Online coding of price changes – significant investment made. In case packing needs to be changed, cylinders are ready – all these are helping reach the market fast.

- Ability to finalise communication and move to market has become more seamless and faster.
- Savings in the 6-7% range.
- Staff cost and other expenditure flat owing to some GST related cost in the base quarter.
- In terms of cost savings – looking at reducing DC from 40,000 to 20,000; also looking at streamlining supply chain reorganization, third party manufacturers, etc.

#### Capex and others

- Government grants has seen accounting change—earlier it was part of other operating income and now it is in other income. This will be ~0.8-1.0% of sales.
- One off in other income line—this is on account of income tax adjustment.
- Need to have a differentiated portfolio for e-commerce. Share in e-commerce is >share in MT> share in GT. Will focus on having higher profitability also in e-commerce vis-à-vis MT and GT.

#### Outlook and valuations: On terra firma; maintain 'BUY'

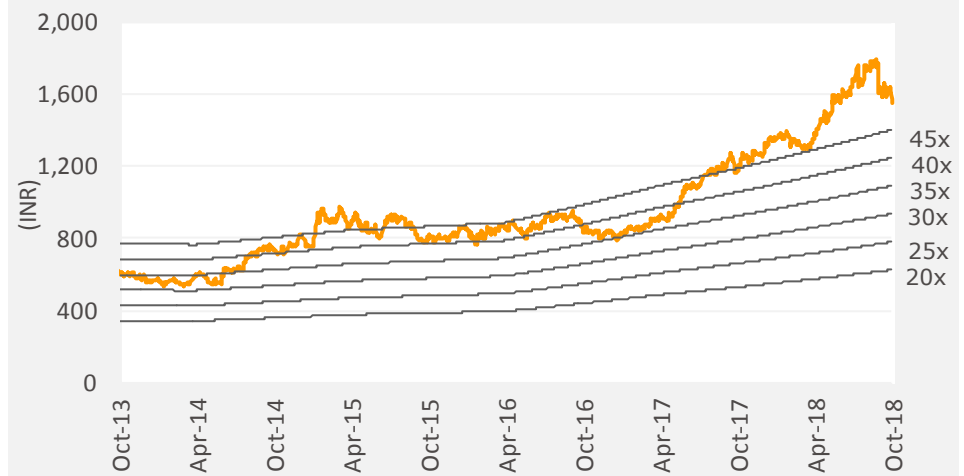
We remain positive on HUL's ability to outpace market growth and its pricing power underpinned by distribution expansion, deepening direct reach and product innovation initiatives. Despite tough market conditions with GST rollout from July 2017, the company efficiently managed volumes. **Pricing growth is now returning, which along with pick up in volumes is likely to boost overall revenue growth to double digits. Also, GST and e-way bill will create a level playing field, rendering a large organised player like HUL the biggest beneficiary.**

**Cost savings and mix improvement are bound to spur margin structurally—HUL's margin has improved over the past seven consecutive years.** Margin, going forward, is expected to further improve aided by cost saving initiatives such as zero-based budgeting, efficiency in ad spends, etc. Globally, Unilever is targeting ~200-300bps YoY improvement in overall margin led by cost saving initiatives; HUL is also likely to see some impact of the same.

HUL has taken cognizance of the rising potential in the natural space and termed it a mega trend. Launch of the Ayush master brand in the mass segment across categories like toothpaste, facewash, shampoo, conditioner, etc., is envisaged to propel growth. This, coupled with Indulekha's clinical validation, is likely to further boost the company's natural proposition. However, competitor's aggression, especially in core segments of soaps & detergents, needs to be closely monitored.

**We estimate better-than-expected volume growth (trend too indicates the same) and with rural reviving, we retain our target multiple of 50x and TP of INR1,767 on FY20E EPS. We maintain 'BUY/SO'. At CMP, the stock is trading at 44.4x FY20 EPS.**

Chart 2: One year forward P/E chart



Source: Edelweiss research

Chart 3: A&P spends

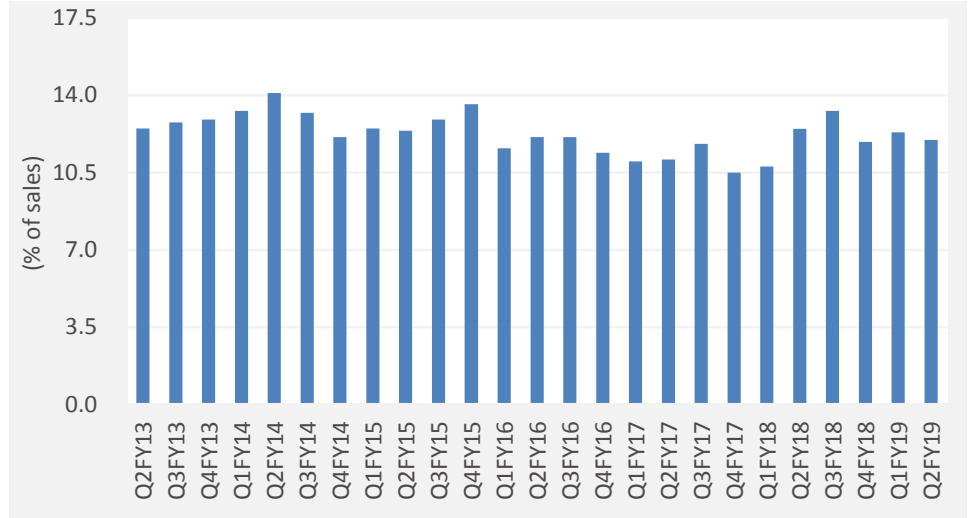
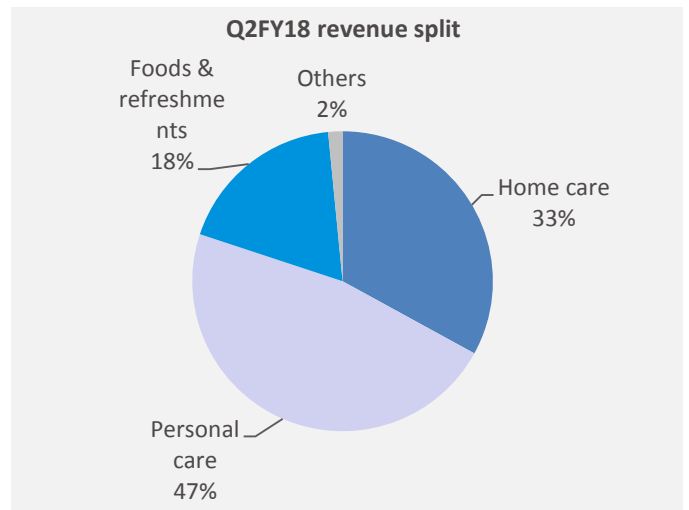
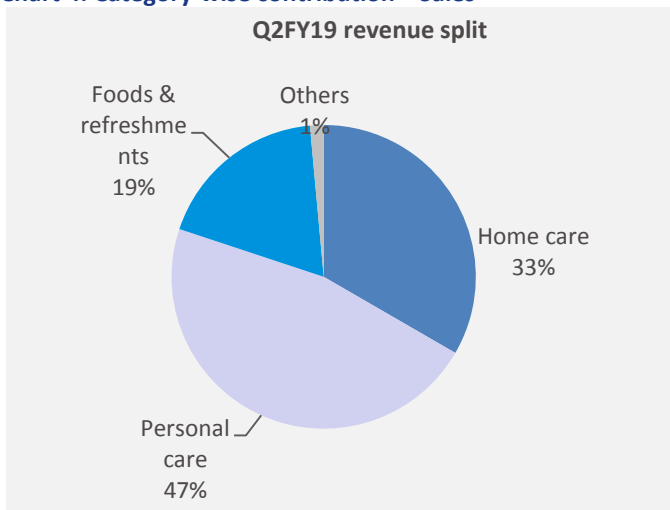
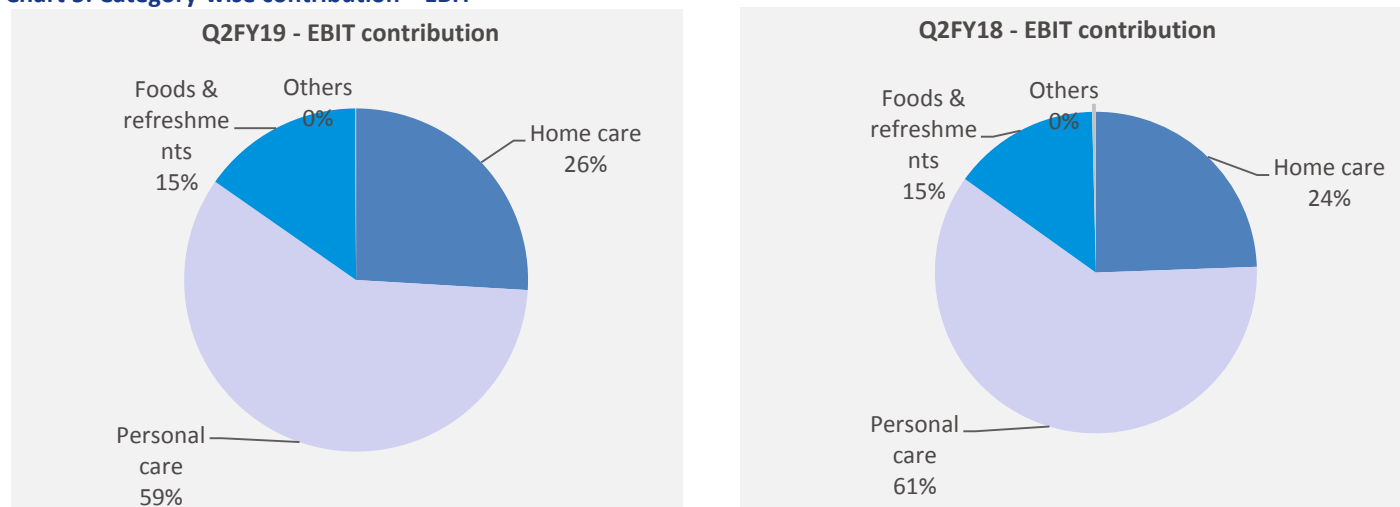


Chart 4: Category-wise contribution—Sales



Source: Company, Edelweiss research

Chart 5: Category-wise contribution—EBIT



Source: Company, Edelweiss research

Table 3: Segmental performance

Year to March - Revenues (INR mn)	Q2FY19	Q2FY18	YoY growth	Q1FY18	QoQ growth
Home care	30,800	27,390	12.4	30,470	1.1
Personal care	43,160	39,100	10.4	43,680	(1.2)
Foods & Refreshments	17,040	15,260	11.7	16,540	3.0
Others	1,340	1,280	4.7	1,440	(6.9)
<b>Segment results (Profit/(Loss) before tax and interest)</b>					
Home care	4,920	3,830	28.5	4,480	9.8
Personal care	11,150	9,480	17.6	10,790	3.3
Foods & Refreshments	2,880	2,310	24.7	2,950	(2.4)
Others	20	(60)	NA	(50)	NM
<b>Segment margins</b>					
<b>Margin (%)</b>					
Home care	16.0	14.0	199	14.7	127
Personal care	25.8	24.2	159	24.7	113
Foods & Refreshments	16.9	15.1	176	17.8	(93)
Others	1.5	(4.7)	NM	(3.5)	NM

Source: Company, Edelweiss research

## Financial snapshot

(INR mn)

Year to March	Q2FY19	Q2FY18	% change	Q1FY19	% change	YTD19	FY19E	FY20E
Net revenues	92,340	83,090	11.1	94,870	(2.7)	187,210	396,838	447,231
Staff costs	4,380	4,350	0.7	4,420	(0.9)	8,800	19,842	21,467
Cost of goods sold	44,350	39,290	12.9	43,640	1.6	87,990	186,620	206,671
Gross profit	47,990	43,800	9.6	51,230	(6.3)	99,220	210,218	240,559
Advt. sales & promotions	11,060	10,230	8.1	11,530	(4.1)	22,590	45,240	50,090
Other expenses	12,360	12,400	(0.3)	12,770	(3.2)	25,130	58,335	64,848
Total expenditure	27,800	26,980	3.0	28,720	(3.2)	56,520	123,417	136,405
EBITDA	20,190	16,820	20.0	22,510	(10.3)	42,700	86,801	104,154
Depreciation	1,300	1,150	13.0	1,270	2.4	2,570	3,914	4,033
EBIT	18,890	15,670	20.5	21,240	(11.1)	40,130	82,888	100,121
Interest	70	60	16.7	70	0.0	140	225	225
Other income	3,050	2,040	49.5	1,350	125.9	4,400	5,086	8,215
Add: Prior period items								
Add: Exceptional items	(350)	360	NA	(590)	NA	(940)	-	-
Profit before tax	21,870	17,650	23.9	22,520	(2.9)	44,390	87,749	108,111
Provision for taxes	6,270	5,250	19.4	6,640	(5.6)	12,910	25,667	31,623
Minority interest								
Associate profit share								
Reported net profit	15,250	12,760	19.5	15,290	(0.3)	30,540	62,082	76,489
Adjusted Profit	15,600	12,400	25.8	15,880	(1.8)	31,480	62,082	76,489
Diluted shares (mn)	2,164	2,164		2,164		2,164	2,165	2,165
Adjusted Diluted EPS	7.2	5.7	25.8	7.3	(1.8)	14.5	28.7	35.3
Diluted P/E (x)							54.7	44.4
EV/EBITDA (x)							38.4	31.9
ROAE (%)							79.5	85.6
<b>As % of net revenues</b>								
COGS	48.5	47.9		46.6		47.6	48.0	47.1
Employee cost	4.8	5.3		4.7		4.8	5.1	4.9
Adv. & sales promotions	12.1	12.5		12.3		12.2	11.6	11.4
Other expenditure	13.5	15.1		13.6		13.6	15.0	14.8
EBITDA	22.1	20.5		24.1		23.1	22.3	23.7
EBIT	20.7	19.1		22.7		21.7	21.3	22.8
PBT	23.9	21.5		24.1		24.0	22.6	24.6
Reported net profit	17.1	15.1		17.0		17.0	16.0	17.4
Tax rate	28.7	29.7		29.5		29.1	29.3	29.3



## Company Description

HUL, the largest FMCG player in India, was formed by merging three subsidiaries of Unilever in 1956. Currently, Unilever Plc holds 67.2% stake in the company. HUL's portfolio of products covers a wide spectrum including soaps, detergents, skin creams, shampoos, toothpastes, tea, coffee, packaged foods and branded atta.

Powerful brands and an enviable distribution network (direct coverage of >3.4mn outlets) are its primary strengths. The company operates through segments—home care, personal care, foods & refreshments, and other operations.

## Investment Theme

HUL is a play on consumption growth in India. The company has proved its ability to effect price hikes and ability to grow ahead of market, which, combined with improved outlook for S&D and personal care, and strong growth in processed foods and beverages, boosts our positive outlook on the company. HUL has strongly entered the naturals category and termed it a mega trend. We appreciate its revenue growth from a medium to long term perspective. Though commodity prices have started to inch up, we are not worried since HUL has sufficient pricing power to offset any pressure likely to arise at the gross margin level. We expect higher investment in A&P to support brand equity and counter pick up in competitive intensity (especially from regional players). With overall demand looking buoyant, we expect HUL to be key beneficiary.

## Key Risks

INR depreciation impacts price of imported raw materials.

Ad spends likely to spike due to increased competition from regional players. Maintaining market share will also be a challenge for HUL.

The price war in HUL's popular segments with new entrants entering the fray could hit the company hard.

## Financial Statements

### Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
<b>Macro</b>				
GDP(Y-o-Y %)	7.1	6.7	7.3	7.6
Inflation (Avg)	4.5	3.6	4.5	4.5
Repo rate (exit rate)	6.3	6.0	6.8	6.8
USD/INR (Avg)	67.1	64.5	70.0	72.0
<b>Company</b>				
Volume gr. (overall)	1.0	6.0	8.0	9.0
Pricing gr. (overall)	2.2	(4.5)	4.9	1.7
EBITDA margin (%)	19.6	21.6	22.3	23.7
<b>EBITDA margin assumpn</b>				
Oil fat resin % of COGS	11.1	11.2	11.1	11.1
Chem & perfume % of COGS	32.9	31.2	30.7	30.7
Tea & Grn leaf % of COGS	9.7	9.5	9.3	9.4
Selling & distribn costs	15.8	14.9	14.7	14.5
A&P as % of sales	10.9	11.9	11.6	11.4
Employee cost (% of rev)	5.4	5.3	5.1	4.9
<b>Financial assumptions</b>				
Tax rate (%)	31.7	28.3	29.3	29.3
Capex (INR mn)	15,760	5,810	5,090	7,000
Debtor days	13	12	14	14
Inventory days	59	55	58	58
Payable days	133	146	135	135
Cash conversion cycle	(61)	(78)	(63)	(63)
Dep. (% gross block)	10.0	9.7	6.5	6.0
Yield on cash	6.6	6.0	8.0	13.0

### Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	323,670	347,810	388,969	438,968
Other Operating Income	7,950	7,640	7,869	8,263
Total operating income	331,620	355,450	396,838	447,231
Materials costs	163,130	167,300	186,620	206,671
Gross profit	168,490	188,150	210,218	240,559
Employee costs	17,430	18,600	19,842	21,467
Ad. & sales costs	35,420	41,530	45,240	50,090
Other Expenses	52,240	53,030	58,335	64,848
EBITDA	63,400	74,990	86,801	104,154
Depreciation	4,320	5,200	3,914	4,033
EBIT	59,080	69,790	82,888	100,121
Less: Interest Expense	350	260	225	225
Add: Other income	3,690.00	3,840.00	5,086.39	8,215.16
Profit Before Tax	62,420	73,370	87,749	108,111
Less: Provision for Tax	19,770	20,790	25,667	31,623
Add: Exceptional items	2,370	(330)	-	-
Reported Profit	45,020	52,250	62,082	76,489
Exceptional Items	2,370	(330)	-	-
Adjusted Profit	42,650	52,580	62,082	76,489
Shares o /s (mn)	2,164	2,165	2,165	2,165
Adjusted Basic EPS	19.7	24.3	28.7	35.3
Diluted shares o/s (mn)	2,165	2,165	2,165	2,165
Adjusted Diluted EPS	19.7	24.3	28.7	35.3
Adjusted Cash EPS	21.7	26.7	30.5	37.2
Dividend per share (DPS)	16.5	20.0	20.1	24.7
Dividend Payout Ratio(%)	95.0	99.0	83.7	83.7

### Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Materials costs	50.4	48.1	48.0	47.1
Staff costs	5.4	5.3	5.1	4.9
Ad. & sales costs	10.9	11.9	11.6	11.4
Interest Expense	0.1	0.1	0.1	0.1
EBITDA margins	19.6	21.6	22.3	23.7
Net Profit margins	13.2	15.1	16.0	17.4

### Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	2.9	7.5	11.8	12.9
EBITDA	5.3	18.3	15.8	20.0
Adjusted Profit	1.8	23.3	18.1	23.2
EPS	1.8	23.3	18.1	23.2

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	2,164	2,164	2,164	2,164	
Reserves & Surplus	65,280	70,650	80,762	93,220	
Shareholders' funds	67,444	72,814	82,926	95,385	
Minority Interest	220	200	200	200	
Short term borrowings	2,770	-	-	-	
Total Borrowings	2,770	-	-	-	
Long Term Liabilities	12,260	16,740	16,740	16,740	
Def. Tax Liability (net)	(1,700)	(3,020)	(3,020)	(3,020)	
<b>Sources of funds</b>	<b>80,994</b>	<b>86,734</b>	<b>96,846</b>	<b>109,305</b>	
Gross Block	50,900	56,710	63,710	70,710	
Net Block	39,680	40,800	43,886	46,854	
Capital work in progress	2,290	4,610	2,700	2,700	
Intangible Assets	4,510	4,480	4,480	4,480	
Total Fixed Assets	46,480	49,890	51,066	54,034	
Non current investments	60	20	20	20	
Cash and Equivalents	56,160	63,560	63,174	74,962	
Inventories	25,410	25,130	29,655	32,841	
Sundry Debtors	10,850	13,100	15,221	17,154	
Loans & Advances	4,590	9,990	9,990	9,990	
Other Current Assets	11,814	13,914	13,914	13,914	
Current Assets (ex cash)	52,664	62,134	68,780	73,899	
Trade payable	61,860	71,700	69,024	76,440	
Other Current Liab	12,510	17,170	17,170	17,170	
Total Current Liab	74,370	88,870	86,194	93,610	
Net Curr Assets-ex cash	(21,706)	(26,736)	(17,414)	(19,711)	
<b>Uses of funds</b>	<b>80,994</b>	<b>86,734</b>	<b>96,846</b>	<b>109,305</b>	
BVPS (INR)	31.2	33.6	38.3	44.1	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	45,020	52,250	62,082	76,489	
Add: Depreciation	4,320	5,200	3,914	4,033	
Interest (Net of Tax)	239	186	159	159	
Others	(4,669)	(4,766)	66	66	
Less: Changes in WC	(8,650)	(7,870)	9,322	(2,297)	
Operating cash flow	53,560	60,740	56,899	83,044	
Less: Capex	15,760	5,810	5,090	7,000	
<b>Free Cash Flow</b>	<b>37,800</b>	<b>54,930</b>	<b>51,809</b>	<b>76,044</b>	

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Hindustan Unilever	46,199	54.7	44.4	38.4	31.9	79.5	85.6
Colgate	4,068	38.8	34.7	24.0	21.4	46.0	44.8
Dabur	9,795	42.3	36.9	36.8	32.0	27.6	27.3
Emami	2,739	56.4	43.0	25.2	21.0	17.0	20.2
Marico	5,528	44.8	37.1	30.4	25.2	33.3	34.5
Nestle Ltd	12,716	58.8	44.4	35.6	27.4	44.3	53.1

Source: Edelweiss research

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		52,060	60,640	56,899	83,044
Financing cash flow		(42,140)	(49,750)	(52,196)	(64,255)
Investing cash flow		(11,730)	(10,680)	(5,090)	(7,000)
Net cash Flow		(1,810)	210	(386)	11,788
Capex		(15,760)	(5,810)	(5,090)	(7,000)
Dividend paid		(42,640)	(51,770)	(51,971)	(64,030)

## Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	63.8	74.8	79.5	85.6
ROACE (%)	90.9	102.7	112.7	121.2
Inventory Days	59	55	58	58
Debtors Days	13	12	14	14
Payable Days	133	146	135	135
Cash Conversion Cycle	(61)	(78)	(63)	(63)
Current Ratio	1.5	1.4	1.5	1.6
Adjusted Debt/Equity	-	-	-	-
Net Debt/Equity	(0.8)	(0.9)	(0.8)	(0.8)
Interest Coverage Ratio	168.8	268.4	368.4	445.0

## Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	4.1	4.1	4.2	4.3
Fixed Asset Turnover	8.4	7.8	8.3	8.8
Equity Turnover	4.8	4.9	5.0	4.9

## Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	19.7	24.3	28.7	35.3
Y-o-Y growth (%)	1.8	23.3	18.1	23.2
Adjusted Cash EPS (INR)	21.7	26.7	30.5	37.2
Diluted P/E (x)	79.7	64.6	54.7	44.4
P/B (x)	50.4	46.7	41.0	35.6
EV / Sales (x)	10.3	9.6	8.6	7.6
EV / EBITDA (x)	52.7	44.5	38.4	31.9
Dividend Yield (%)	1.1	1.3	1.3	1.6

## Additional Data

### Directors Data

Mr. Sanjiv Mehta	Managing Director and Chairman	Mr. Srinivas Phatak	Executive Director, Finance & IT and Chief Financial Officer
Mr. Pradeep Banerjee	Executive Director, Supply Chain	Mr. Dev Bajpai	Executive Director, Legal & CS
Mr. A. Narayan	Independent Director	Mr. S. Ramadorai	Independent Director
Ms. Kalpana Morparia	Independent Director	Mr. O. P. Bhatt	Independent Director
Dr. Sanjiv Misra	Independent Director	Mr. BP Biddappa	Executive Director, Human Resources

Auditors - BSR & Co. LLP

*\*as per last annual report*

### Holding – Top10

	Perc. Holding		Perc. Holding
Life Insurance Corp Of India	2.6	Vanguard Group	1.1
Blackrock	1.1	Nomura	0.6
Standard Life Aberdeen Plc	0.6	Sbi Funds Management	0.5
Franklin Resources	0.3	Schroders Plc	0.3
Aditya Birla Sun Life Asset Mgmt	0.2	Govmt Pension Invst Fund Japan	0.2

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SO	M	Bajaj Corp	HOLD	SU	H
Berger Paints	BUY	SO	L	Britannia Industries	BUY	SO	L
Colgate	HOLD	SP	M	Dabur	BUY	SO	M
Emami	HOLD	SP	H	Future Consumer	BUY	SP	M
GlaxoSmithKline Consumer Healthcare	HOLD	SU	M	Godrej Consumer	BUY	SO	H
Hindustan Unilever	BUY	SO	L	ITC	BUY	SO	M
Marico	BUY	SP	M	Nestle Ltd	BUY	SO	L
Pidilite Industries	BUY	SP	M	United Spirits	HOLD	SU	H

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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## Coverage group(s) of stocks by primary analyst(s): Consumer Goods

Asian Paints, Bajaj Corp, Berger Paints, Britannia Industries, Colgate, Dabur, Future Consumer, Godrej Consumer, Emami, Hindustan Unilever, ITC, Marico, Nestle Ltd, Pidilite Industries, GlaxoSmithKline Consumer Healthcare, United Spirits

### Recent Research

Date	Company	Title	Price (INR)	Recos
10-Oct-18	Consumer Goods	Staples sound; discretionary dicey; Sector Update		
05-Oct-18	Consumer Goods	Continuing its terra firma; Q2FY19 Result Preview		
04-Sep-18	ITC	Happy days are here again ; Company Update	313	Buy

### Distribution of Ratings / Market Cap

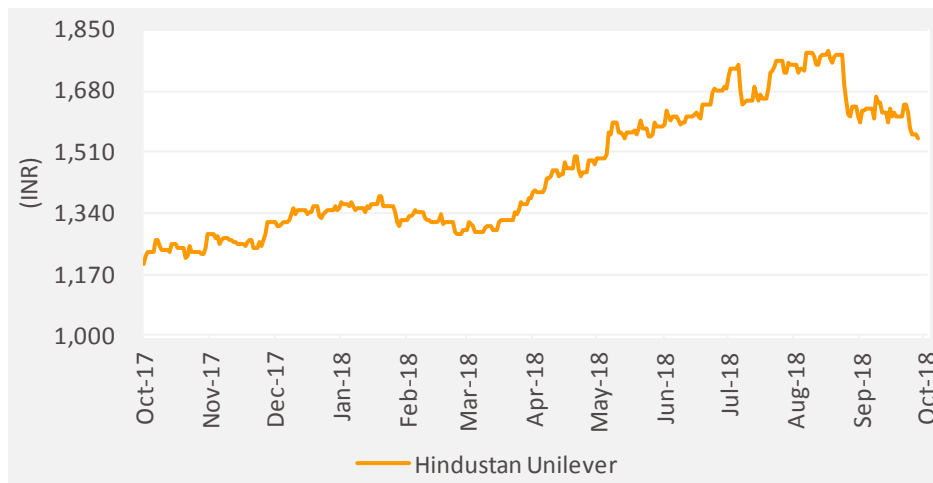
#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

### One year price chart



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