



Unilever

HINDUSTAN UNILEVER LTD.



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Company Overview

- Hindustan Unilever Limited is india's largest fast moving consumer goods (fmcg) company with a historical presence in india of over 80 years.
- Nine out of ten indian households use one or more of their products.
- Each of their divisions – Home Care, Beauty & Personal Care and Foods and Refreshment – include a portfolio of brands that serve consumers across the length and breadth of India.
- With over 40 brands across 12 distinct categories including Fabric Wash, Household Care, Purifiers, Personal Wash, Skin Care, Hair Care, Colour Cosmetics, Oral Care, Deodorants, Beverages, Ice Cream & Frozen Desserts and Foods, the company is part of the daily life of millions of consumers.



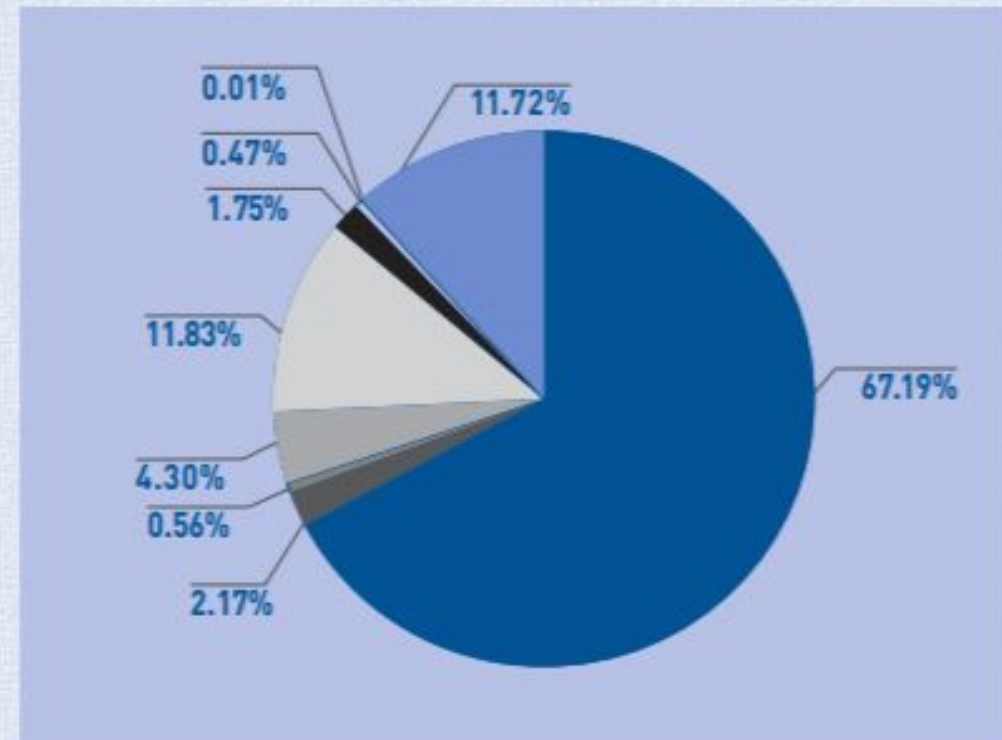
Their portfolio includes leading brands such as Surf excel, Rin, Wheel, Sunlight, Vim, Pureit, Lux, Lifebuoy, Dove, Fair & Lovely, Pond's, Vaseline, Clinic Plus, Sunsilk, Indulekha, Lakmé, Pepsodent, Closeup, Axe, Brooke Bond, BRU, Kwality Wall's, Knorr and Kissan. Their products are available in over eight million outlets across India.



Shareholding Pattern

Categories of Shareholders as on 31st March, 2019

Category	No. of Folios	Shares	%
Unilever PLC and its Associates	7	145,44,12,858	67.19
Mutual Funds & Unit Trust of India	305	4,69,86,043	2.17
Financial Institutions / Banks	138	1,20,75,737	0.56
Insurance Companies	18	9,31,86,102	4.30
Foreign Portfolio Investors	1,005	25,60,69,570	11.83
Bodies Corporate	2,489	37,805,430	1.75
NRIs / Foreign Bodies Corporate / Foreign Nationals	8,937	1,01,58,803	0.47
Directors and their Relatives	6	1,11,547	0.01
Resident Individuals & Others	365,463	25,38,98,315	11.72
Total	378,368	216,47,04,405	100.00



Distribution Of Shareholding

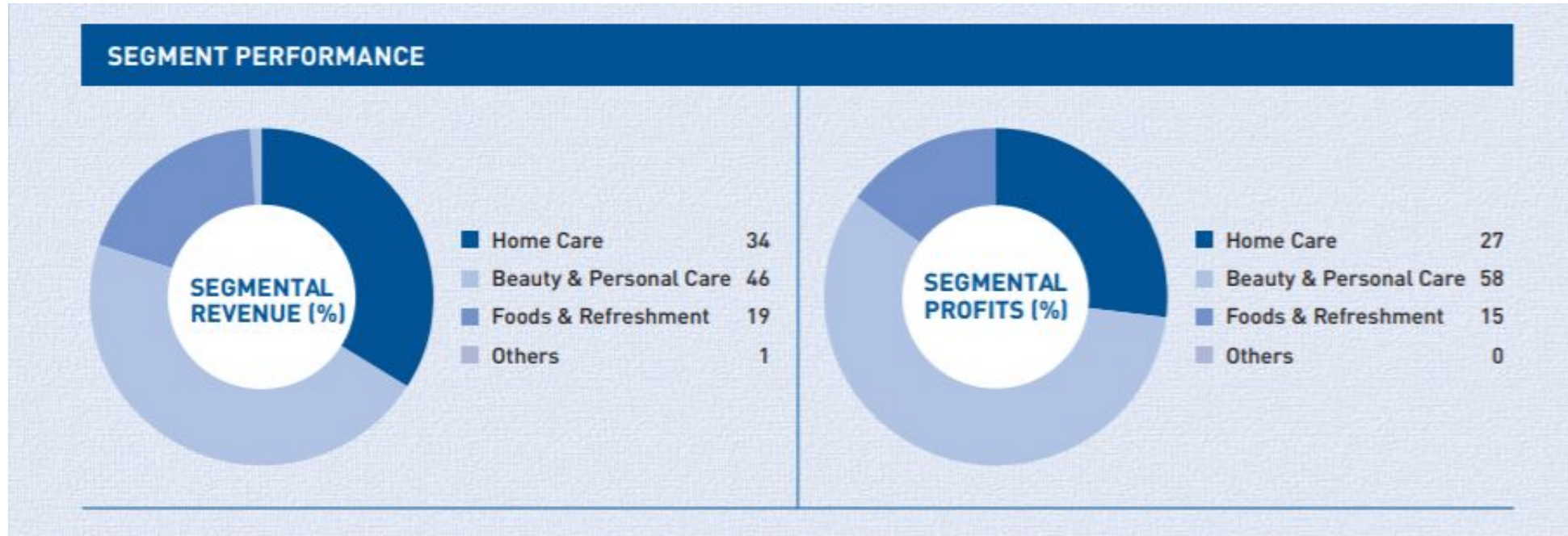
Distribution of Shareholding as on 31st March, 2019

Holding	Shareholders		Shares	
	Number	%	Number	%
1 - 5000	3,66,587	96.89	12,87,32,998	5.95
5001 - 10000	3,082	0.81	4,26,69,584	1.97
10001 - 20000	780	0.21	1,90,10,133	0.88
20001 - 30000	330	0.09	1,13,75,571	0.53
30001 - 40000	175	0.05	78,48,400	0.36
40001 - 50000	347	0.09	2,44,49,827	1.13
50001 - 100000	6,563	1.73	4,61,91,001	2.13
100001 and above	504	0.13	188,44,26,891	87.05
TOTAL	3,78,368	100.00	216,47,04,405	100.00



Key Business Segments

- Homecare
- Beauty and Personal Care
- Food and Refreshment
- Others

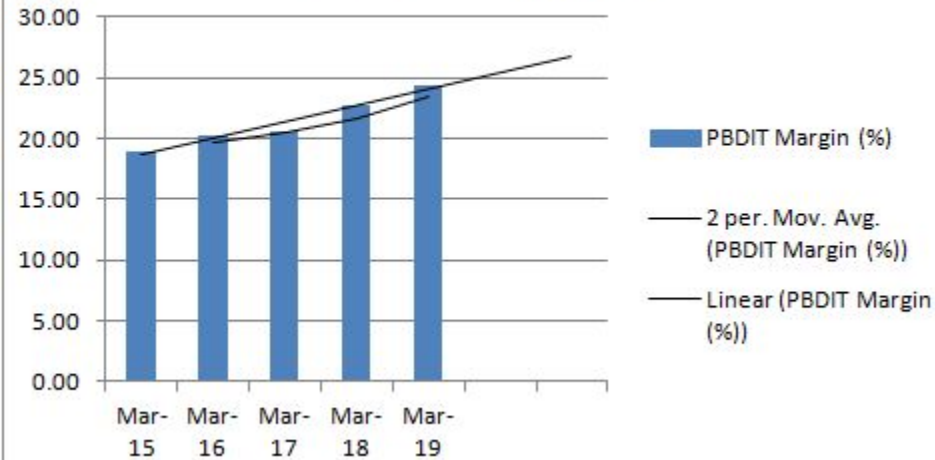


Ratio Analysis

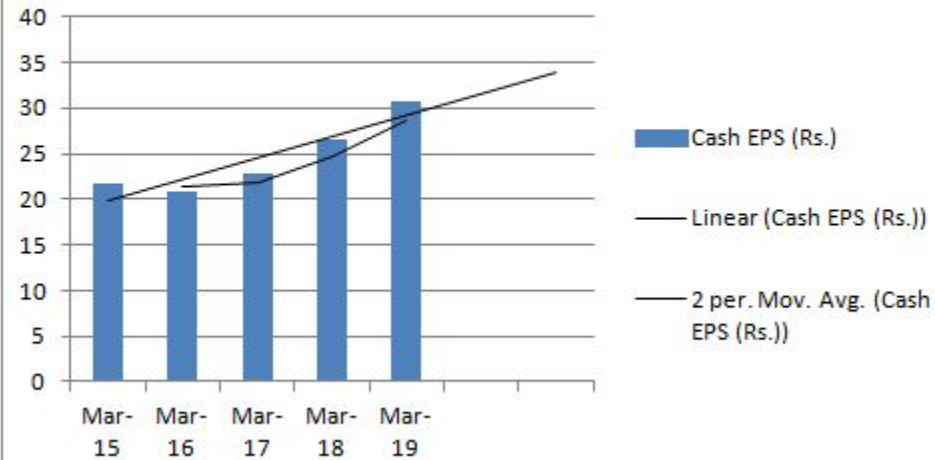


Profitability

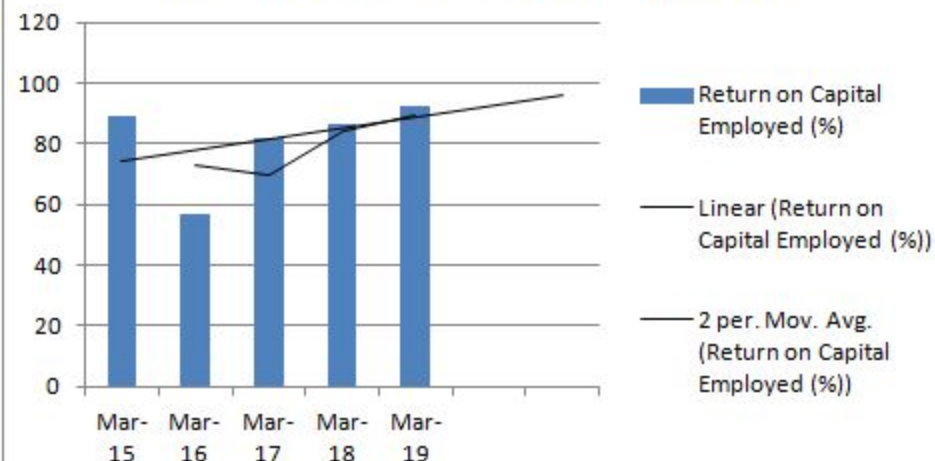
PBDIT Margin (%)



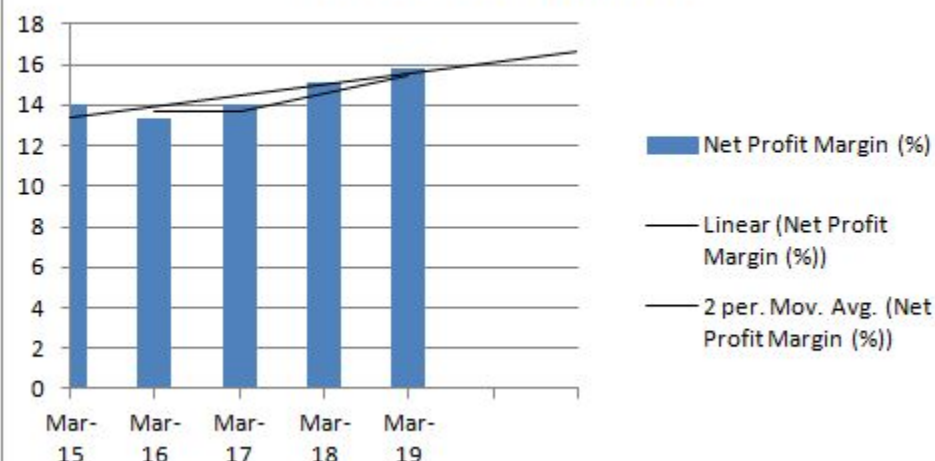
Cash EPS (Rs.)



Return on Capital Employed (%)



Net Profit Margin (%)

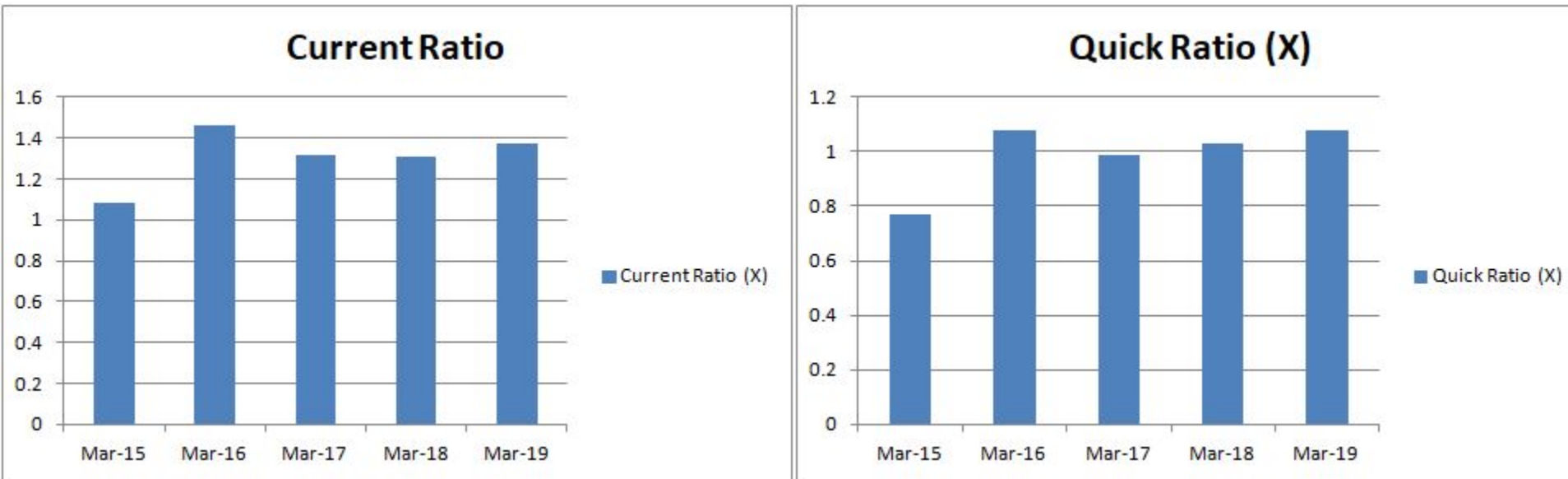


Analysis:-

- Consistent growth in PBIT Margin over 5 years implying high profitability
- Consistent growth in Net Profit Margin over 5 years implying high profitability
- Overall the company is increasing the profitability in the long run



Liquidity



Ideal Current Ratio is 2:1

=> HUL's current ratio should improve, however it is satisfactory according to industry standards

Ideal Quick Ratio is 1:1

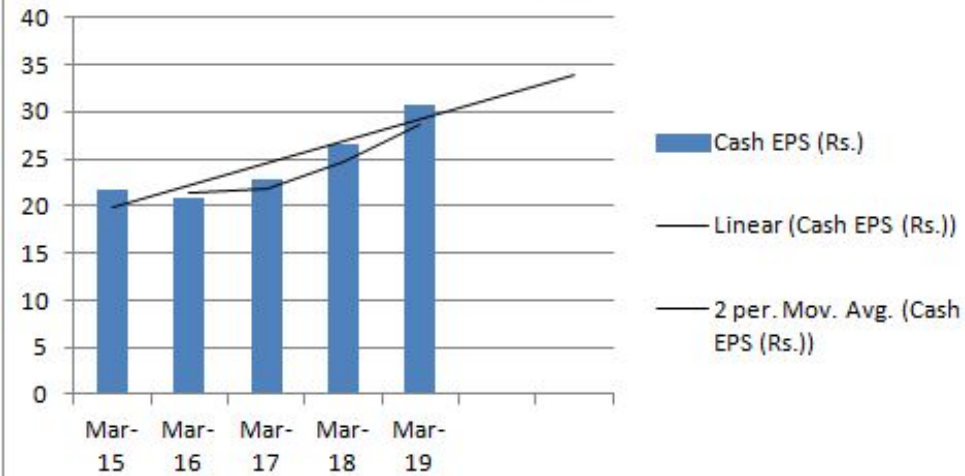
=> We can see that HUL maintains a steady quick ratio of 1:1

HUL's Liquidity position has been good for the last 5 years



Other Financial Ratios

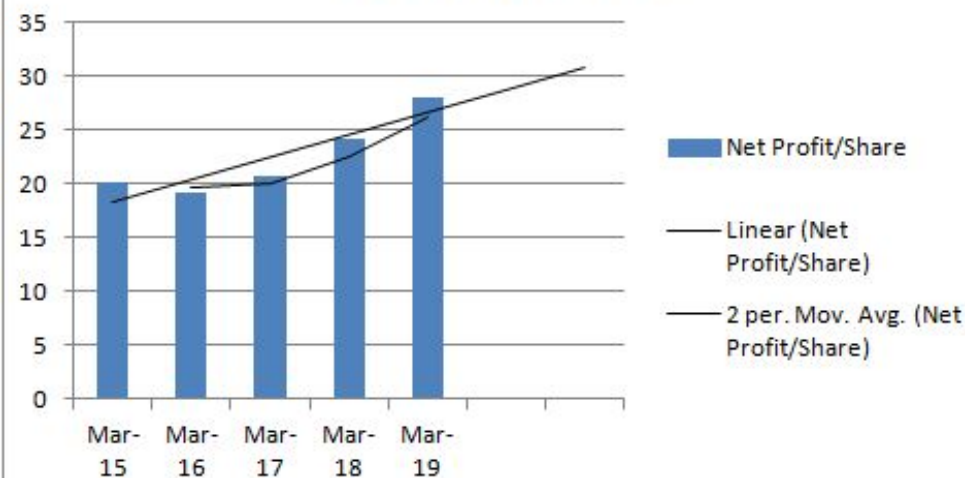
Cash EPS (Rs.)



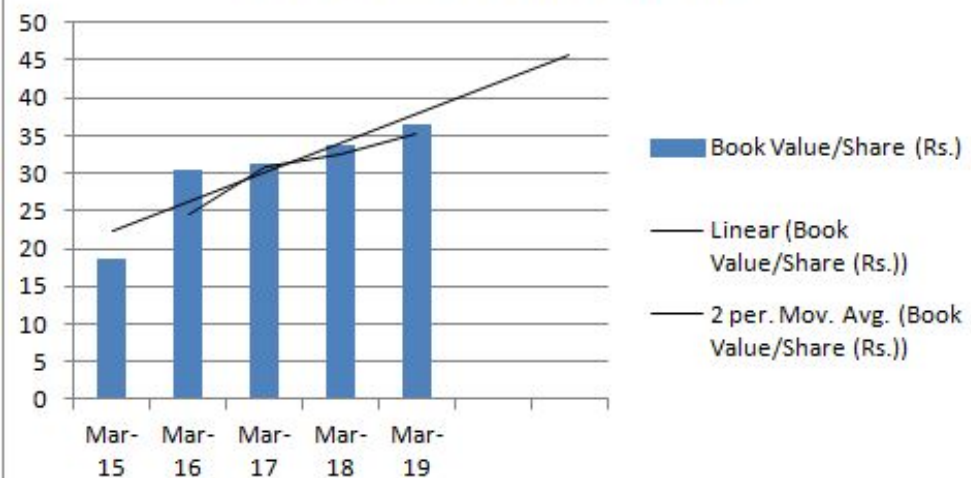
Revenue from Operations/Share (Rs.)



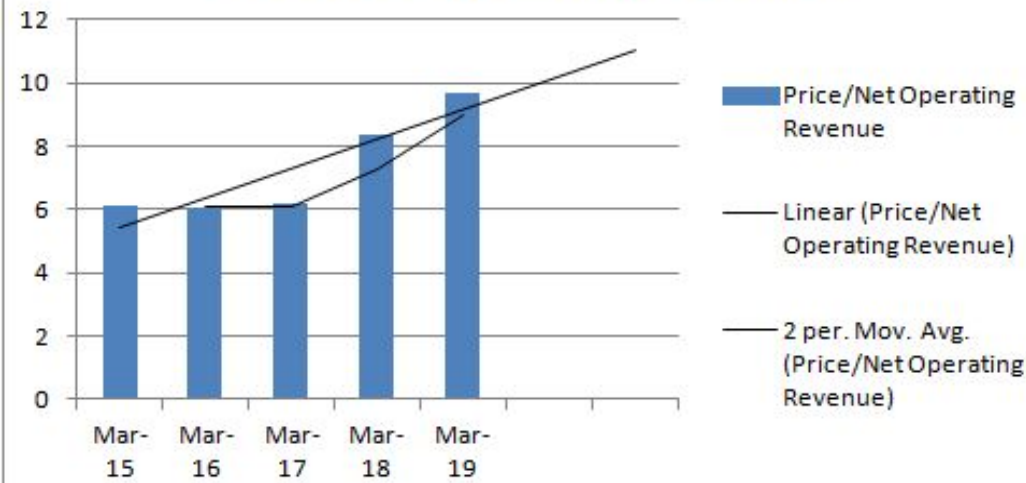
Net Profit/Share



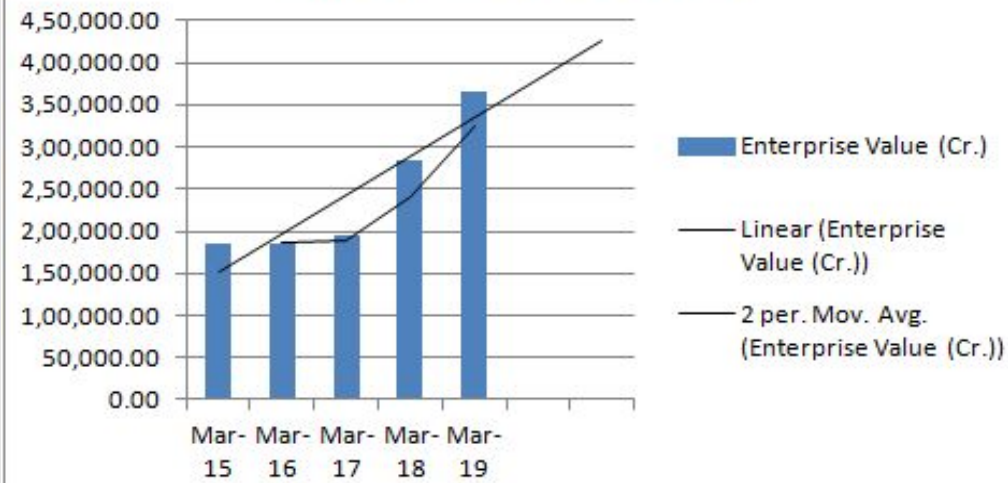
Book Value/Share (Rs.)



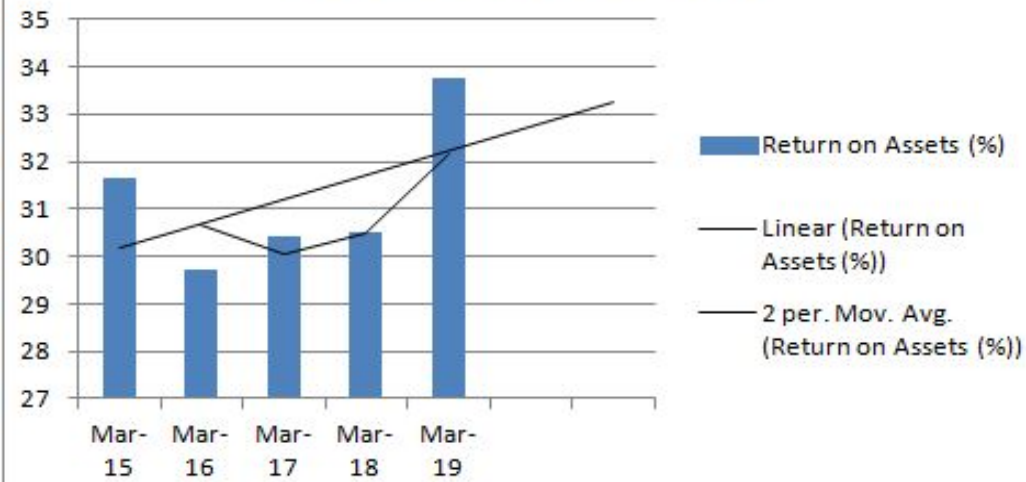
Price/Net Operating Revenue



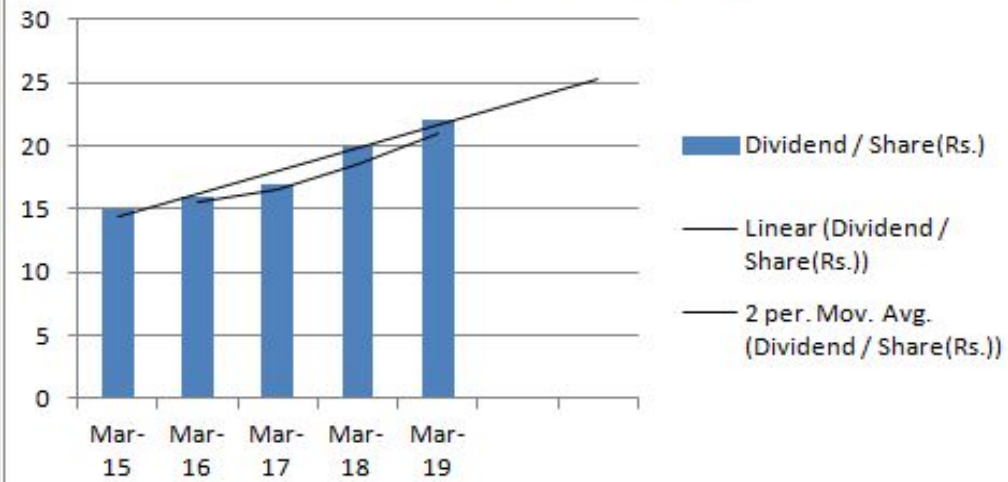
Enterprise Value (Cr.)



Return on Assets (%)



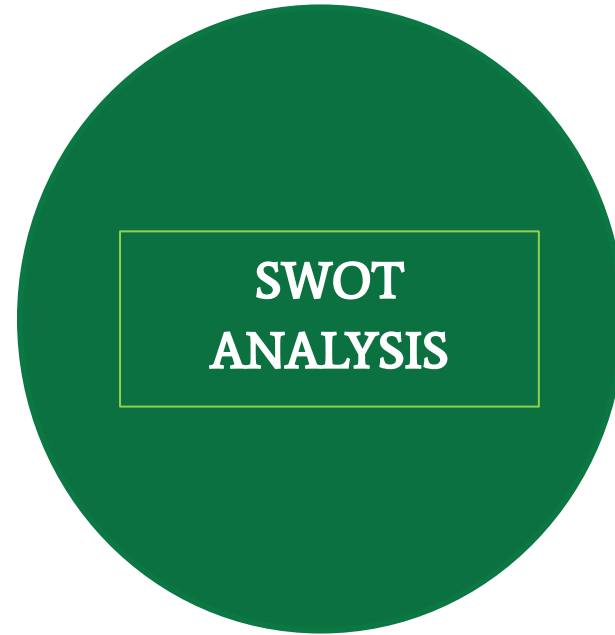
Dividend / Share(Rs.)



Qualitative Analysis



Key Frameworks For Qualitative Analysis



BCG MATRIX

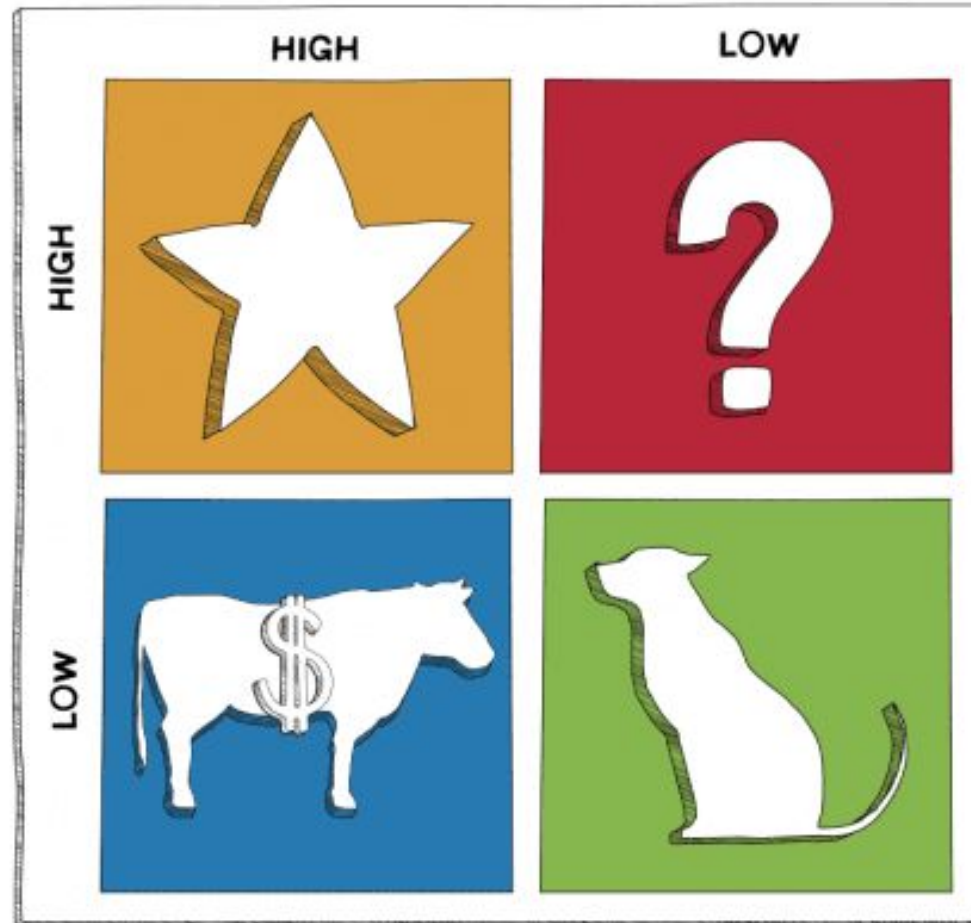
THE GROWTH SHARE MATRIX

RELATIVE MARKET SHARE

CASH GENERATION

MARKET GROWTH RATE

CASH USAGE



		RELATIVE MARKET SHARE	
		High	Low
MARKET GROWTH RATE	Cash Usage	<p>Cash Generation</p> <p>High</p> <ul style="list-style-type: none"> • AXE Deodarant • Vim • Comfort • Fair & Lovely • Lakme Anti-Aging • Wheel • Surf Excel • Lifebuoy • Lux • Kwality Walls • Kissan • Knor Soup 	<p>Low</p> <ul style="list-style-type: none"> • Closeup • Pepsodent • Annapurna • Fair and Lovely Men • Domex • Rin • Breeze • Taj Mahal Tea Bags • Brylcream • Knor Meal maker
	Cash Usage	<p>Low</p> <ul style="list-style-type: none"> • Kissan Ketchup • Clinic Plus • Sunsilk • Vaseline • Red Label • Dove • Pears 	<p>Low</p> <ul style="list-style-type: none"> • Taaza • Bru • Brooke Bond Sehatmand • Indulekha



SWOT ANALYSIS



- **Strength**
 - Market leader
 - Diversification
 - Goodwill and Brand Awareness
 - Extensive and Integrated Distribution System
- **Weakness**
 - Decreasing Market Share of Individual Segments Due To Competition
 - Maintaining Profitability Across All Segments
- **Opportunity**
 - Building Brands Around Natural Products
 - Tapping the increasing demand for FMCG in rural areas as growth in rural areas for FMCG is higher than urban
- **Threat**
 - FMCG Sector Slowdown 4 consecutive quarters
 - Declining Rural Demand
 - Political Instability



Industry Analysis and Macro Economic Trends



Slow & Unsteady

10%
Decline in
value growth
in Apr-Jun

3rd
consecutive
quarter of
slowdown

KEY FACTORS FOR DECLINE

- 1 Macroeconomic
- 2 Govt policies
- 3 Monsoons
- 4 Low base effect

7%
Personal
care

8%
Home
Care

10-11%
Expected growth in
food categories

37%
Contribution of
rural India to
overall FMCG
spends

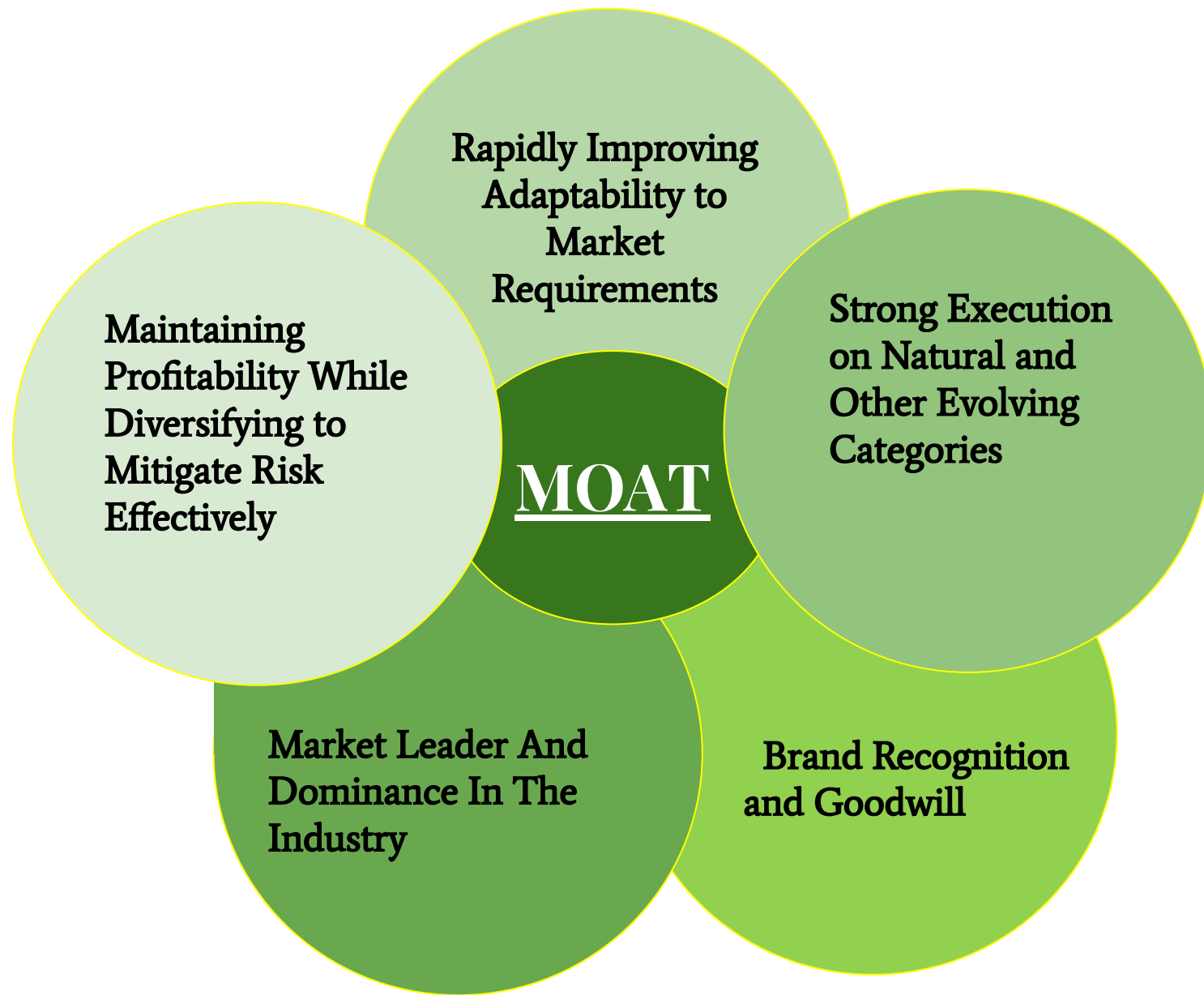
- The FMCG industry in India is divided into the demographics of rural and urban India. The urban market contributes 60% of the consumption revenue of the FMCG market in India.
- FMCG companies in India have witnessed higher growth in rural areas compared to urban ones.
- Rural India accounts for more than 40% of consumption in major FMCG categories such as personal care, fabric care, and hot beverages.
- In urban areas, home and personal care category- including skin care, household care, and feminine hygiene- will continue to grow at attractive rates.
- Within the foods segment, it is estimated that processed foods, bakery, and dairy are long-term growth categories in both rural and urban areas.
- Favourable demand drivers such as rising income levels and growing urbanisation, among others, had previously encouraged major and diverse investments in the FMCG sector.
- In the short run, however, the FMCG Sector witnessed a slowdown.

Ref. [<https://www.investindia.gov.in/team-india-blogs/fmcg-industry-overview>]



MOATS





"In business, I look for economic castles protected by unbreachable moats."

–Warren Buffet



Quantitative Analysis



Revenue Growth and Break-Up of Business

SEGMENT PERFORMANCE



FINANCIAL

NET REVENUE

2018-19

₹ 38,224 crores

Comparable Domestic Consumer business grew 12% with 10% underlying volume growth

EBITDA

2018-19

₹ 8,637 crores

Comparable Earning Before Interest Tax Depreciation and Amortisation (EBITDA) improved by 130 bps

EPS (BASIC)

2018-19

₹ 27.89

Last year's basic EPS: ₹ 24.20 per share

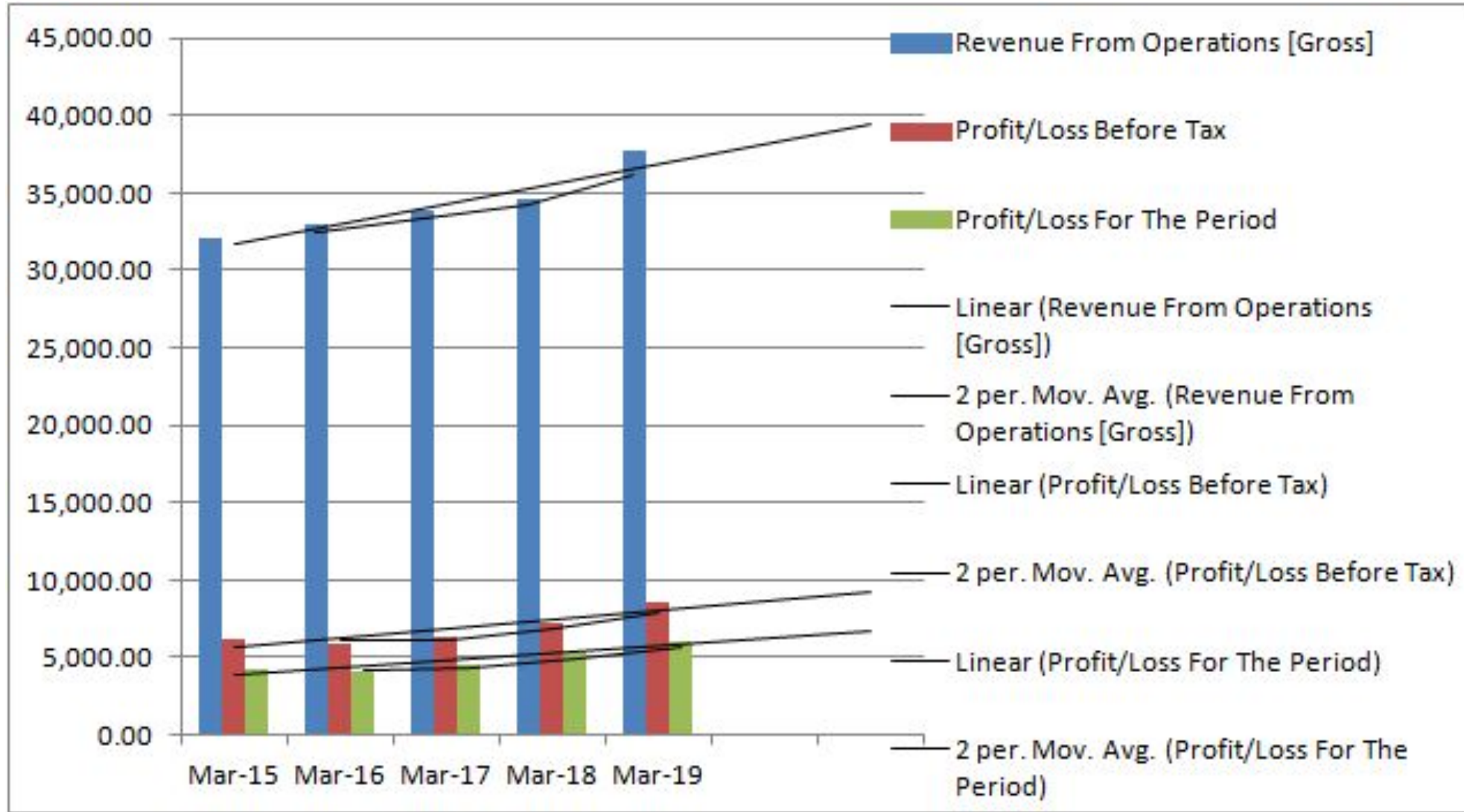
CASH FROM OPERATIONS

2018-19

₹ 8,000+ crores

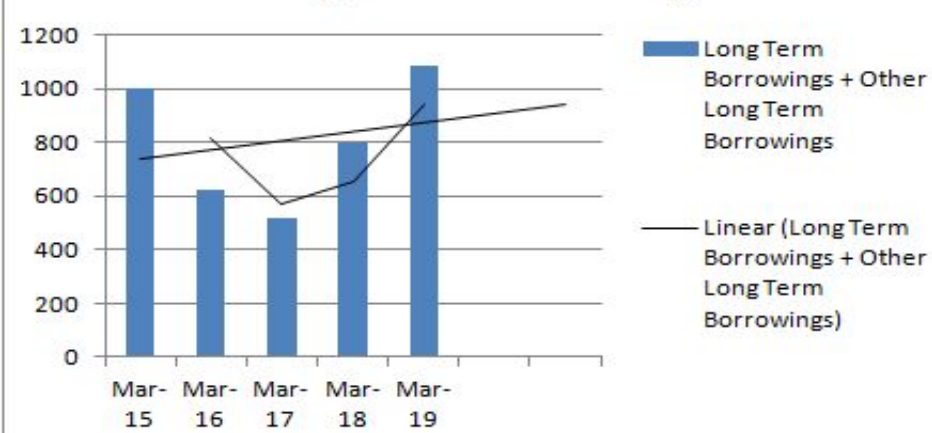
Cash from operations was up ₹ 312 crores over the previous year

Profit and Loss Statement

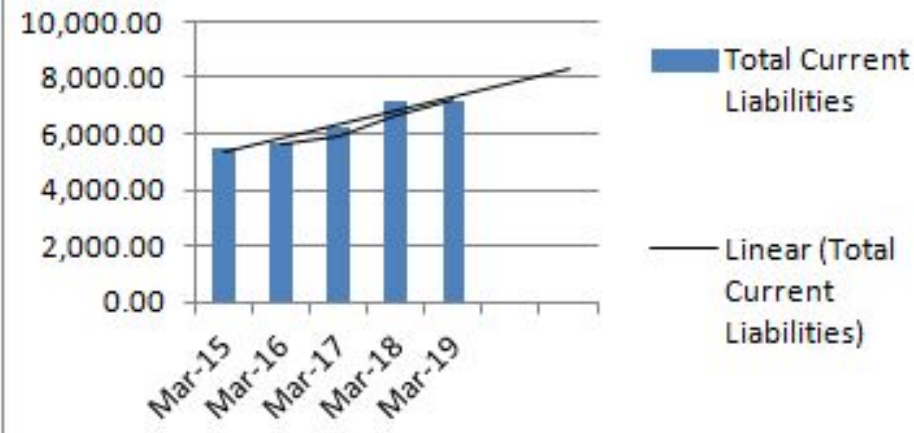


Balance Sheet

Long Term Borrowings + Other Long Term Borrowings



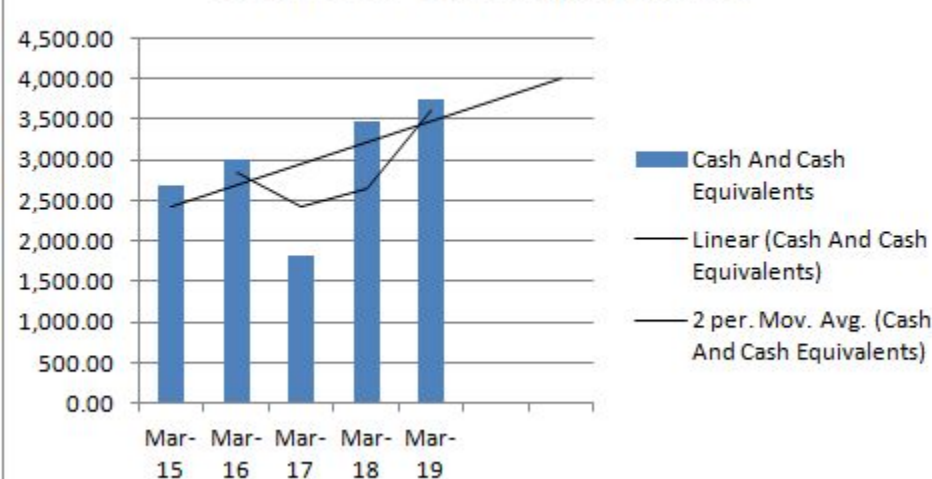
Total Current Liabilities



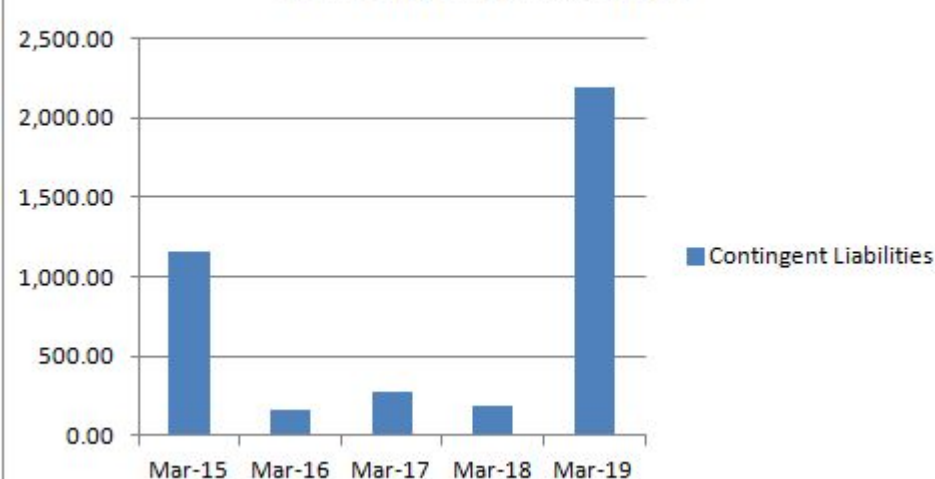
Analysis:

- There has been an unanticipated and significant increase in contingent liabilities during the last year
- Cash and Cash Equivalents have risen proportionately which is a positive sign
- Long term borrowings and current liabilities have also risen significantly year after year

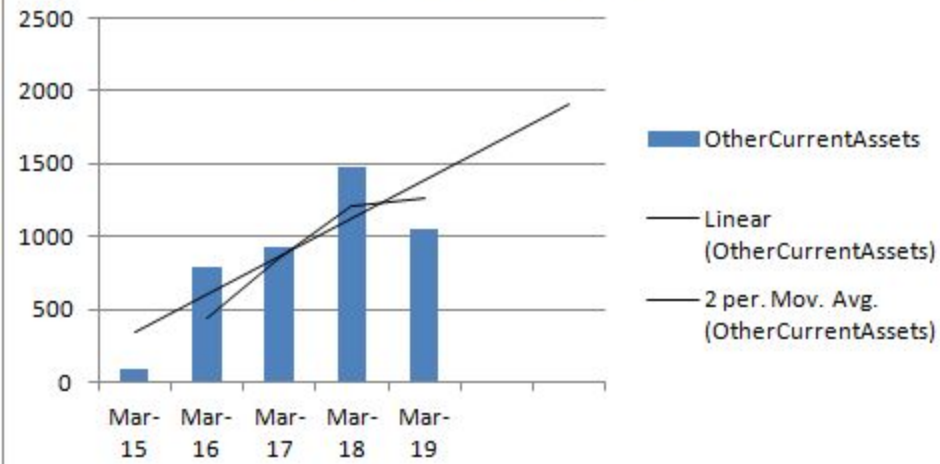
Cash And Cash Equivalents



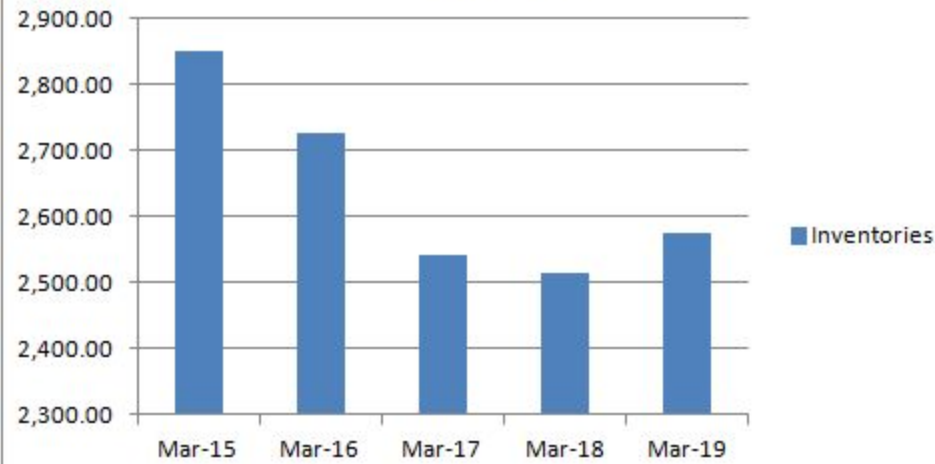
Contingent Liabilities



OtherCurrentAssets



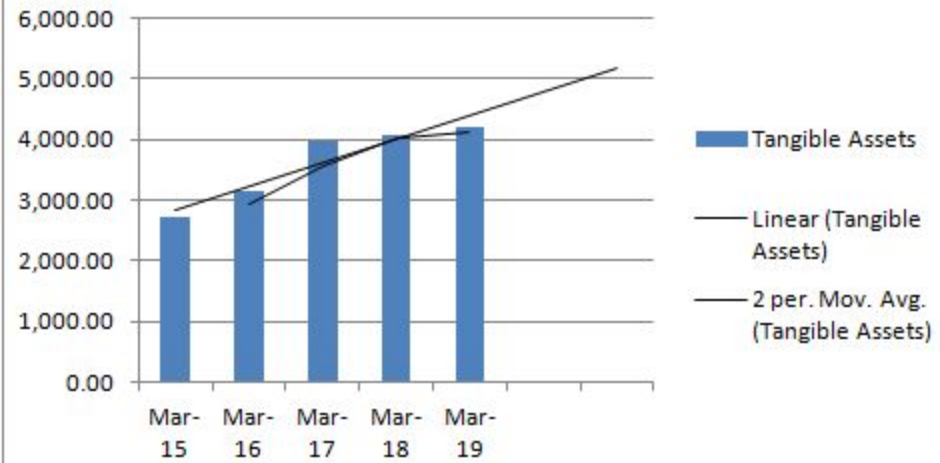
Inventories



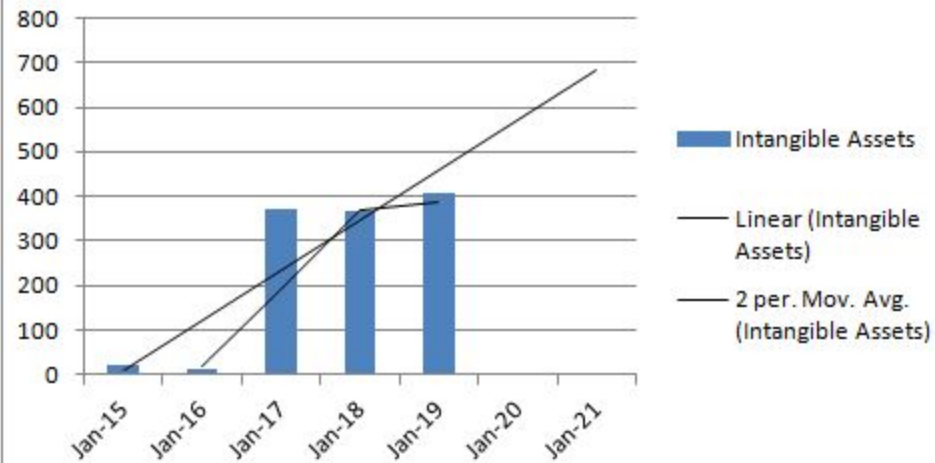
Analysis:

- The asset side of the balance sheet is very positive both in quantitative and qualitative aspects
- There has been a step increase in the tangible and intangible assets during the last five years (as shown in the graphs)
- Inventories have had an irregular trend due to economic slowdown in the FMCG sector

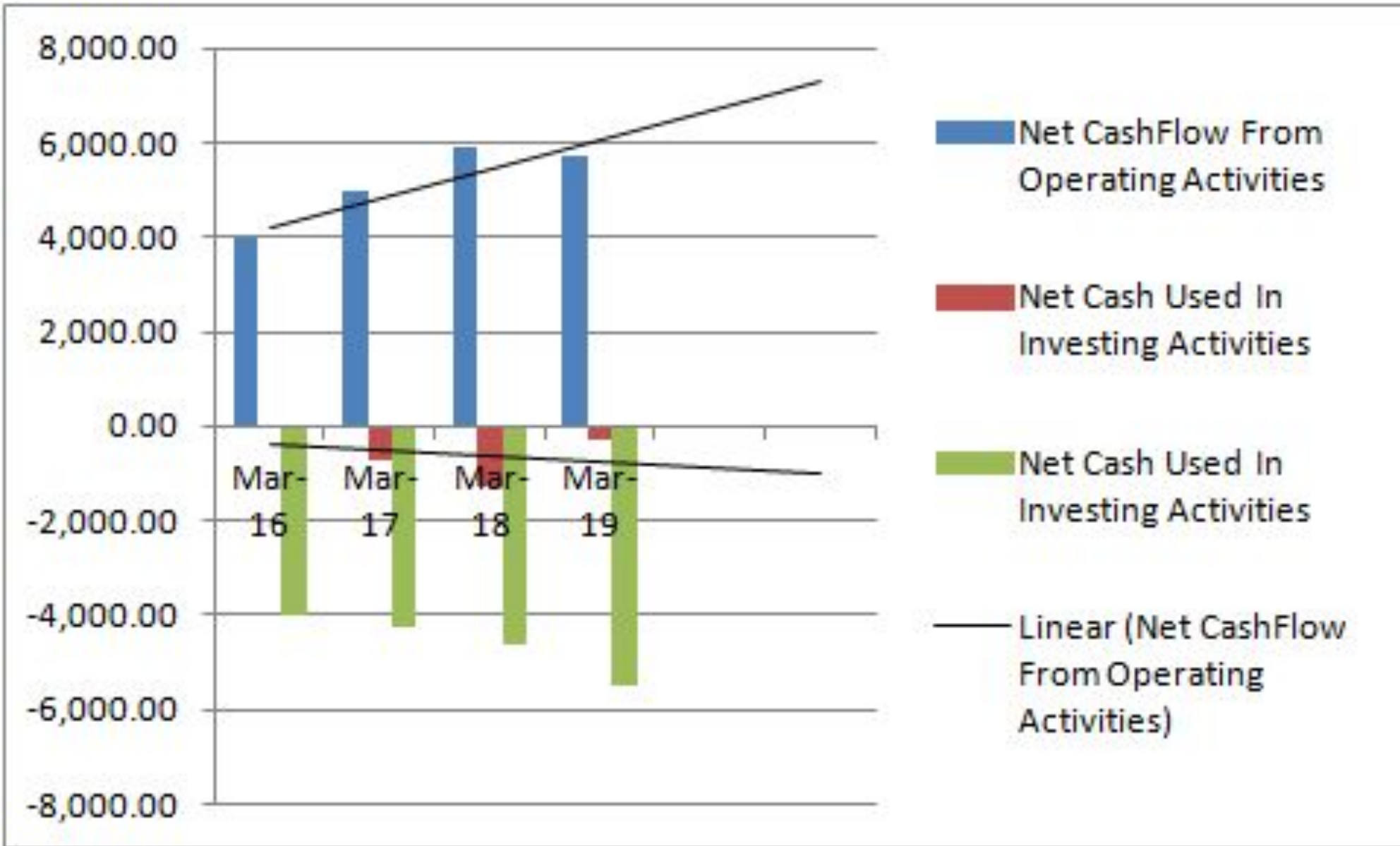
Tangible Assets



Intangible Assets



Cash Flow Statement

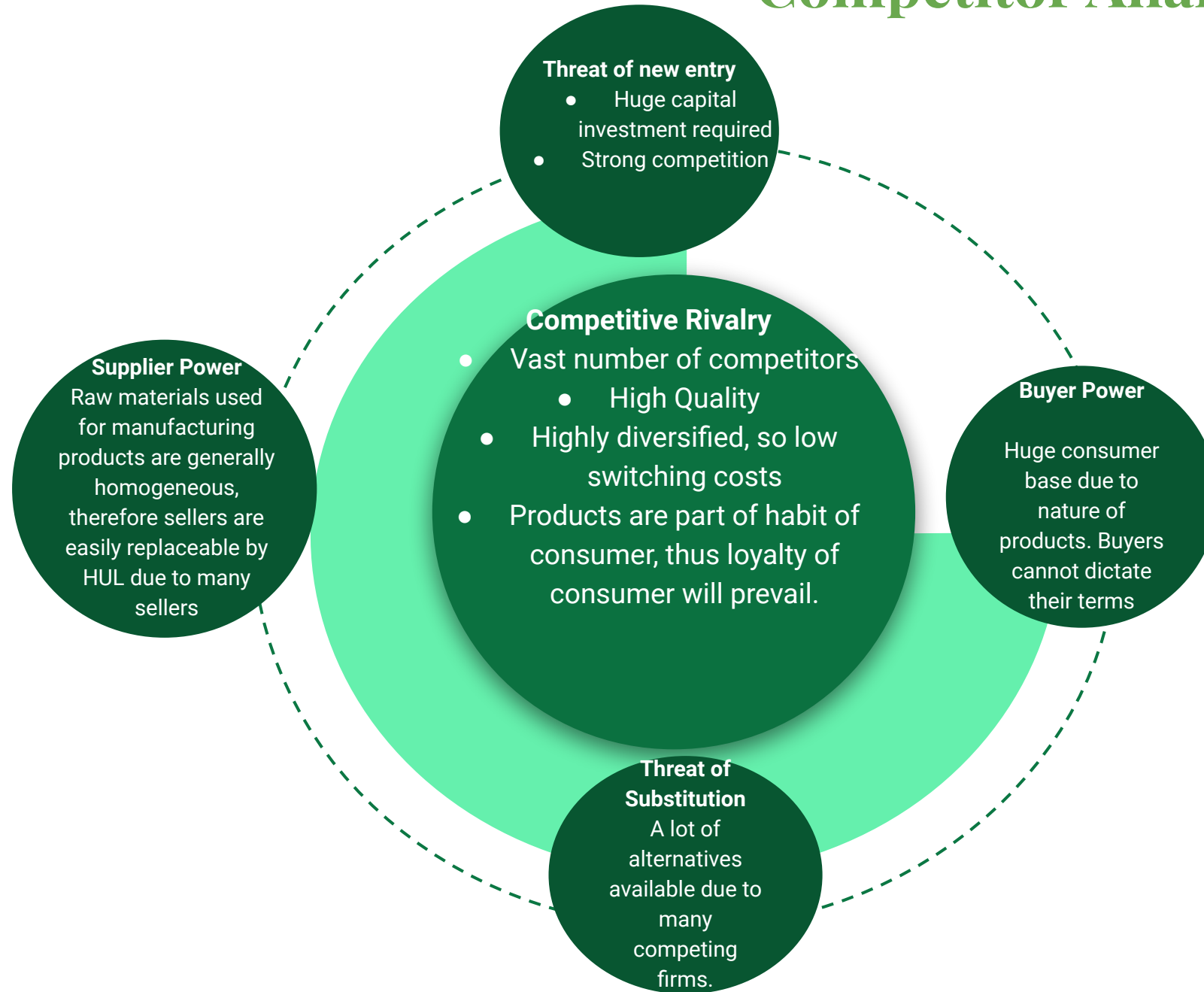


Competitor's Analysis



Competitor Analysis- Qualitative

Porter's 5 Forces



Main Competitors

Multiple-sphere FMCGs: Companies that deal with various line of products like home care, beauty and personal care, food, etc.

- ITC Ltd.
- Proctor and Gamble
- Godrej Ltd



Single-sphere FMCGs: Companies that deal with only one or two line of products out of all products sold by HUL.

- Dabur India
- Nestle
- Parle
- Colgate-Palmolive
- Marico
- L'Oreal



Competitor Analysis- Quantitative

- ❖ In home care and personal products, the market cap of HUL is the largest, standing at 421,210 Cr. Followed by Dabur at 81,214 Cr and Godrej Ltd at 72,221 Cr.
- ❖ HUL also exceeds its competitors on the value of assets, with assets worth 5977 Crs, followed by Godrej's 4518 Cr and Dabur's 3852 Cr.
- ❖ Although the revenue from operations of Nestle, ITC, L'Oreal and P&G exceed HUL's, in India, HUL still has the highest market cap in home care and personal care products.

As we can see, HUL dominates the market and would be a good buy due to its leading position in the market.



Some further developments that may affect market cap in the FMCG industry:

- Patanjali will spend US\$743.72 million in various food parks in Maharashtra, Madhya Pradesh, Assam, Andhra Pradesh and Uttar Pradesh.
- Dabur is planning to invest Rs 250-300 crore (US\$ 38.79-46.55 million) in FY19 for capacity expansion and is also planning to make acquisitions in the domestic market.



Valuation



Comparable Company Analysis

COMPARABLE COMPANY ANALYSIS. Figures taken on 23rd December 2019. (Figures in rupees, in crores)

Company Name	Market Data			Financial Data			Valuation		
	Price	Market Cap	EV	Sales	EBITDA	Earnings	EV/Sales	EV/EBITDA	P/E
Proctor and Gamble	11344	36,825	36832	852	182	137	43.2x	202.3x	89.4x
Dabur India	460	81,214	82222	1612	375	325	51x	219.2x	62x
Marico	337	43,569	44076	1454	262	259	30.3x	168.2x	36.2x
Nestle India	14833	1,43,015	142680	3,199	752	595	44.6x	189.7x	77.9x
Average							42.3x	194.8x	66.4x
Median							43.2x	189.7x	62x
HUL	1947	421511	424893	9708	2433	1848	43.7x	174.6x	63.8x



Enterprise Value:

If net sales are multiplied with the EV/sales average, EV is 410,648.

If EBITDA is multiplied with the EV/EBITDA companies average, EV is 473,948.

Actual EV is 424,893. Therefore, we can say that EV is undervalued.

Price:

If EPS is multiplied with the P/E companies average, price of shares is 2019.8.

Actual price is 1947.

However, due to inadequate Margin of Safety we give the company a HOLD rating.



Company Profile: Hindustan Unilever Ltd

Current Price as on 1:20 P.M. 19th december, 2019: Rs. 1955/-

Market Capitalisation: Rs. Cr. 423,870.20

Analyst Take: Hold

CRISIL Credit Rating: AAA

Risk Rating Relative to Sector: Low

Face Value: Rs. 1/-

Date: 19th december, 2019

Analysts: Satvik Agarwal and Saumin Agarwal

