# Valuation of HUL

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## Abstract:

The objective of the papers is to do the valuation of HUL. The data was collected from the various annual reports of HUL. The valuation of the company was done through Discounted cash flows method (DCF), EBIDTA multiple and P/E multiple. The paper concludes that the fair value of HUL share is calculated by taking the simple average of all the three methods. It was observed that share price calculated with the help of DCF and EBIDTA multiple methods are much higher than the ruling market price. The share price calculated from P/E multiple method turns out to be much lower than the market price. As the average of the three method gives the fair value of the HUL share and it is close to the ruling market price.

**Key Words:** Valuation, DCF, EV/EBITDA, P/E multiple

## 1. Introduction

Acquiring companies for the sole purpose of sustaining growth rates may also not help unless and until the acquisition fits well with the company's strategic growth plans and vision. The FMCG sector does need economies of scale but this need not necessarily come through M&A's, given the current trend of high valuations for target companies, too much money is chasing too few brands. Companies need to figure out whether acquisitions would give them the necessary scale or is building own brands a more viable option. So, the business also needs to come at the right price.

Acquiring companies for the sole purpose of sustaining growth rates may also not help unless and until the acquisition fits well with the company's strategic growth plans and vision. The FMCG sector does need economies of scale but this need not necessarily come through M&A's, given the current trend of high valuations for target companies, too much money is chasing too few brands.

Valuation also plays a central role in acquisition analysis. The bidding firm or individual has to decide on a fair value for the target firm before making a bid and the target firm has to determine reasonable value for itself before deciding to accept or reject the offer. If the objective in corporate finance is the maximization of firm value, the relationship between financial decisions, corporate strategy and the firm value has to be delineated.

## 2. HUL Company Background

HUL is the largest FMCG manufacturer in India, having presence in Soaps, Detergents, Skin care, and Oral care, Hair Care, Staple Foods and Beverages. HUL was formed in 1933 as Lever Brothers India Ltd and came into being in 1956 as Hindustan Lever Ltd (HLL) through a merger of Lever Brothers, Hindustan Vanaspasti Manufacturing Company Ltd and United Traders Ltd. Later in mid 2007, the company was renamed as "Hindustan Unilever Ltd." HUL is owned by the European company Unilever and owns approximately 52% majority stake. HUL is one of the key script in the stock indices and carries greater than 3% weightage in the BSE SENSEX.

Despite the fact that HUL had maintained leadership position in most of the categories, the concern factor is losing volume and value market share. Companies with higher current in their River (Range, Innovation, Value weightage, Engage and Reach) will lead the game.

Brand's range (coverage of price points and wide variety) should be considered as a key trait. HUL's leadership in soaps, detergent, skin care, shampoo market is owing to strong range of its products. In each of the category HUL has 2-3 brands with each brand having more than variations; so this provides large option for customers.

## 3. Objectives and Methodology:

The objective of the papers is to do the valuation of HUL. The paper also analyses the tentative bid value of HUL by applying the relevant valuation techniques. One of the objective of the paper is also to analyses the financial health of the company.

**3.1 Data Sources:**

The data was collected from the various annual reports of HUL for the time period 2009 to 2011.

**3.2 Methodology:**

The top company from the FMCG sector, i.e. HUL was selected and its pro- forma financial statements were formulated for the next 5 years. The valuation of the company was done by the below mentioned methods:

1. Discounted cash flows method (DCF)
2. Multiples

**3.2.1 Discounted Cash Flows Method (DCF):**

This method is the most thorough way to value a company. There are two ways to value a company using the DCF approach: the Adjusted Present Value (APV) method and the Weighted Average Cost of Capital (WACC) Method. Both methods require calculation of a company's free cash flows (FCF) as well as the net present value (NPV) of these FCFs.

For WACC, the discount rate is calculated with the following formula:

rdWACC = (E)(reL)/ (D + E) + (D) (1 - t)(rD)/ (D + E)

Here:

D = Market value of debt

E = Market value of equity

rD = Discount rate for debt = Average interest rate on long-term debt

reL = Discount rate for (leveraged) equity (calculated using the CAPM)

To capture the characteristics of an all-equity firm recalculate a company's cash flows as if the firm had no debt. The free cash flow (FCF) of an all-equity firm in a year can be calculated as:

FCFE = Earnings Before Interest and Taxes x (1 - t) + Depreciation & Amortization - Capital Expenditure (—CapExp) - Net increase in working capital (or + net decrease in working capital) + Other relevant cash flows for an all equity firm

The value of the terminal year cash flows is given as:

TY FCF = FCF10 (1 + g)/(rd - g)

Adding the value of the terminal year free cash flows (TY FCF) and future cash flows (FCFs) up to the terminal year gives us the value of the company under the DCF analysis. These cash flows need to be discounted to the present value.

**3.2.2 Multiples**:

There is not enough information to determine the valuation using the comparable transactions method. In these cases, one can value a company based on market valuation multiples. Examples of these valuation multiples include price/earning multiples (also known as P/E ratios, this method, which compares a company's market capitalization to its annual income, is the most commonly used multiple) EBITDA multiples. When using this method, one look at what multiples are used for other companies in the industry.

# 4. Analysis and Interpretation

The projected income statement i.e., the projected profit and loss account and projected balance sheets are prepared on the basis of assumptions shown in table 1 below.

**Table 1 Assumption**

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | |
|---|---|---|---|---|---|---|---|
| Revenue Growth | 30% | 32.50% | 35.20% | 38.20% | 41.40% | 44.80% | CAGR |
| RM Consumption | 45% | 45% | 45% | 45% | 45% | 45% | |
| Wages & labor charges | 1.40% | 1.40% | 1.50% | 1.50% | 1.50% | 1.60% | CAGR |
| Other Manufacturing expenses | 3.70% | 3.70% | 3.70% | 3.70% | 3.70% | 3.70% | |
| Personnel Expenses | 5.00% | 5.40% | 5.80% | 6.10% | 6.60% | 7.00% | CAGR |
| Other admin expenses | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | |

| | 2009 | 2010 | 20.11 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|
| Interest/Average debt | - | 21.% | 4.60% | 9.00% | 9.00% | 9.00% | 9.00% | 9.00% | 9.00% |
| Dep/Gross block | 45.90 % | 40.00 % | 42.70 % | 50.00 % | 50.00 % | 50.00 % | 50.00 % | 50.00 % | 50.00 % |

| | 2009 | 2010 | 20.11 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|
| **Interest/Average debt** | | 21.00% | 4.60% | 9.00 % | 9.00 % | 9.00 % | 9.00 % | 9.00 % | 9.00 % |
| **Dep/Gross block** | 45.90 % | 40.00% | 42.70 % | 50.0 0% | 50.0 0% | 50.0 0% | 50.0 0% | 50.0 0% | 50.0 0% |
| **FA/sales** | - | 19.70% | 18.60 % | 19.6 0% | 20.8 0% | 22.0 0% | 23.3 0% | 24.6 0% | 26.0 0% |
| **Inventory/ RM** | 24.00 % | 25.00% | 31.00 % | 20.0 0% | 20.0 0% | 20.0 0% | 20.0 0% | 20.0 0% | 20.0 0% |
| **Debtor/Sales** | | 3.70% | 4.60% | 4.60 % | 4.60 % | 4.60 % | 4.60 % | 4.60 % | 11.0 0% |
| **Cash Balance (No. of month expenses)** | 0.2 | 0.2 | 0.2 | 0.3 | 0.5 | 0.8 | 0.8 | 0.8 | 0.8 |
| **YoY Inc in L&A** | | -159 | 50 | 50 | 50 | 50 | 50 | 50 | 50 |
| **Creditors/Expenses** | 31.30 % | 36.80% | 36.40 % | 39.3 0% | 42.4 0% | 45.7 0% | 49.3 0% | 53.2 0% | 57.4 0% |
| **NWC/Sales** | - 10.10 % | - 16.80% | - 13.40 % | - 18.9 0% | - 21.4 0% | - 24.1 0% | - 27.2 0% | - 30.4 0% | - 27.7 0% |

**Table 2 Projected Profit and Loss Account**

| Profit & Loss Account | Historical | | | Projected | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| INR cr | 12/31/ 2009 | 12/31/ 2010 | 12/31/ 2011 | 12/31/ 2012 | 12/31/ 2013 | 12/31/ 2014 | 12/31/ 2015 | 12/31/ 2016 | 12/31/ 2017 |
| **Sales** | 17541. 78 | 18462. 34 | 20598. 89 | 26778. 56 | 35484. 05 | 47984. 47 | 66302. 43 | 93730. 22 | 135747 .31 |
| **Other Income** | 221.23 | 199.73 | 439.48 | 439.48 | 439.48 | 439.48 | 439.48 | 439.48 | 439.48 |
| **Less Excise duty** | 1138.3 2 | 693.20 | 908.90 | 908.90 | 908.90 | 908.90 | 908.90 | 908.90 | 908.90 |
| **Stock Adjustm ents** | 347.44 | 19.47 | 295.08 | 295.08 | 295.08 | 295.08 | 295.08 | 295.08 | 295.08 |
| **Total Revenue** | **16972. 14** | **17988. 34** | **20424. 55** | **26604. 22** | **35309. 71** | **47810. 13** | **66128. 09** | **93555. 88** | **135572 .97** |
| **Raw material Consump tion** | 9104.0 4 | 9003.9 7 | 10494. 33 | 11971. 90 | 15889. 37 | 21514. 56 | 29757. 64 | 42100. 14 | 61007. 84 |
| **% of sales** | 53.64 | 50.05 | 51.38 | 45.00 | 45.00 | 45.00 | 45.00 | 45.00 | 45.00 |
| **Wages and Labour Charges** | 241.10 | 244.34 | 274.74 | 367.49 | 500.86 | 696.42 | 989.16 | 1437.0 7 | 2138.5 0 |
| **% of sales** | 1.42 | 1.36 | 1.35 | 1.38 | 1.42 | 1.46 | 1.50 | 1.54 | 1.58 |
| **Other Manufac turing expenses** | 237.87 | 412.19 | 551.25 | 996.42 | 1322.4 7 | 1790.6 5 | 2476.7 2 | 3503.9 8 | 5077.6 6 |
| **% of sales** | 1.40 | 2.29 | 2.70 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 | 3.75 |
| **Total Direct Costs** | **9583.0 1** | **9660.5 0** | **11320. 32** | **13335. 81** | **17712. 70** | **24001. 63** | **3324.0 0** | **47041. 20** | **68224. 00** |
| **Gross Profit** | **7389.1 3** | **8327.8 4** | **9104.2 3** | **13268. 41** | **17597. 01** | **23808. 50** | **32905. 00** | **46514. 68** | **67348. 97** |
| **Gross Profit % (GP/** | 43.54 | 46.30 | 44.57 | 49.87 | 49.84 | 49.80 | 49.80 | 49.72 | 49.68 |

| Profit & Loss Account | Historical | | | Projected | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| INR cr | 12/31/ 2009 | 12/31/ 2010 | 12/31/ 2011 | 12/31/ 2012 | 12/31/ 2013 | 12/31/ 2014 | 12/31/ 2015 | 12/31/ 2016 | 12/31/ 2017 |
| Sales) | | | | | | | | | |
| Personnel Expenses | 921.70 | 936.30 | 961.27 | 1338.59 | 1899.30 | 2749.29 | 4065.28 | 6148.63 | 9525.39 |
| % of sales | 5.43 | 5.21 | 4.71 | 5.03 | 5.38 | 5.75 | 6.15 | 6.57 | 7.03 |
| Other Administration expenses | 3874.23 | 4394.09 | 5038.91 | 6651.05 | 8827.43 | 11952.53 | 16532.02 | 23388.97 | 33893.24 |
| % of sales | 22.83 | 24.43 | 24.67 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 |
| **Total Overheads** | **4795.93** | **5330.39** | **6000.18** | **7989.64** | **10726.72** | **14701.83** | **20597.30** | **29537.59** | **43418.64** |
| **EBITDA** | **2593.20** | **2997.45** | **3104.05** | **5278.77** | **6870.29** | **9106.67** | **12307.00** | **16977.08** | **23930.34** |
| **EBITDA % (EBITDA/ Total Revenue)** | 15.28 | 16.66 | 15.20 | 19.84 | 19.46 | 19.05 | 18.60 | 18.15 | 17.65 |
| **Interest** | 25.32 | 6.98 | 0.24 | 2.94 | 5.64 | 5.64 | 5.64 | 5.64 | 5.64 |
| **Depreciation** | 1301.15 | 1452.88 | 1630.69 | 2628.25 | 3685.24 | 5273.36 | 7710.27 | 11533.83 | 17675.78 |
| **PBT** | 1266.73 | 1537.59 | 1473.12 | 2647.58 | 3179.40 | 3827.67 | 4591.00 | 5437.62 | 6248.92 |
| **EBIT** | 1292.05 | 1544.57 | 1473.36 | 2650.52 | 3185.04 | 3833.31 | 4597.00 | 5443.26 | 6254.56 |
| **Tax** | 430.56 | 522.63 | 500.71 | 899.91 | 1032.00 | 1242.00 | 1490.00 | 1764.00 | 2027.00 |
| **PAT** | 836.17 | 1014.96 | 972.41 | 1747.67 | 2148.00 | 2586.00 | 3102.00 | 3673.00 | 4221.00 |
| **PAT %** | 4.93 | 5.64 | 4.76 | 6.57 | 6.10 | 5.40 | 4.70 | 3.90 | 3.09 |

**Table 3 Projected Balance Sheet**

| Balance Sheet | Historical | | | Projected | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **INR million** | **12/31/2009** | **12/31/2010** | **12/31/2011** | **12/31/2012** | **12/31/2013** | **12/31/2014** | **12/31/2015** | **12/31/2016** | **12/31/2017** |
| **Equity Share capital** | 217.99 | 218.17 | 215.95 | 215.95 | 215.95 | 215.95 | 215.95 | 215.95 | 215.95 |
| **Reserves & Surplus** | 1919.49 | 2450.76 | 2493.40 | 3241.42 | 4295.18 | 5808.30 | 8025.60 | 11345.61 | 16431.58 |
| **NET WORTH** | **2137.48** | **2668.93** | **2709.35** | **3457.37** | **4511.13** | **6024.25** | **8241.55** | **11561.56** | **16647.53** |
| **Secured Loans** | 56.00 | 10.49 | 0.00 | 60.00 | 60.00 | 60.00 | 60.00 | 60.00 | 60.00 |
| **Unsecured Loans** | 277.85 | 0.35 | 2.66 | 2.66 | 2.66 | 2.66 | 2.66 | 2.66 | 2.66 |
| **TOTAL DEBT** | 333.85 | 10.84 | 2.66 | 62.66 | 62.66 | 62.66 | 62.66 | 62.66 | 62.66 |
| **Other Liabilities(Min Interest)** | 52.80 | 62.10 | 79.75 | 79.75 | 79.75 | 79.75 | 79.75 | 79.75 | 79.75 |
| **Total Liabilities** | **2524.13** | **2741.87** | **2791.76** | **3599.78** | **4653.54** | **6166.66** | **8383.96** | **11703.97** | **16789.94** |
| **Gross Block** | 2835.11 | 3636.37 | 3821.20 | 5256.50 | 7370.49 | 10546.72 | 15420.54 | 23067.65 | 35351.56 |
| **Accumulated Depreciation** | 1301.15 | 1452.88 | 1630.69 | 2628.25 | 3685.24 | 5273.36 | 7710.27 | 11533.83 | 17675.78 |
| **Net Block** | **1533.96** | **2183.49** | **2190.51** | **2628.25** | **3685.24** | **5273.36** | **7710.27** | **11533.83** | **17675.78** |
| **CWIP** | 477.87 | 279.98 | 299.69 | 2183.51 | 3043.51 | 4313.51 | 7421.51 | 12779.51 | 13546.51 |
| **Total Fixed Assets (including WIP)** | 2011.83 | 2463.47 | 2490.20 | 4811.76 | 6728.76 | 9586.87 | 15131.78 | 24313.34 | 31222.29 |
| **Investments** | 287.64 | 1224.42 | 1188.46 | 1802.11 | 2732.60 | 4143.54 | 6283.00 | 9527.15 | 14446.37 |
| **Fix** | 1627.8 | 1718.0 | 1450.1 | 1450.1 | 1450.1 | 1450.1 | 1450.1 | 1450.1 | 1450.1 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **deposits** | 8 | 3 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| **Current assets, loans and advances** | **4532.81** | **4201.25** | **5189.18** | **5220.56** | **7196.62** | **10182.86** | **13672.00** | **18880.22** | **35596.92** |
| **Inventories** | 2558.87 | 2209.41 | 2846.84 | 2394.38 | 3177.87 | 4302.91 | 5951.53 | 8420.03 | 12201.57 |
| **Sundry debtors** | 560.56 | 687.76 | 951.85 | 1237.41 | 1639.68 | 2217.30 | 3063.76 | 4331.16 | 14932.20 |
| **Cash and bank balances** | 209.46 | 258.76 | 295.58 | 444.28 | 1184.98 | 2418.97 | 3364.00 | 4786.17 | 7070.70 |
| **Loans and advances** | 1203.92 | 1045.32 | 1094.91 | 1144.50 | 1194.09 | 1243.68 | 1293.27 | 1342.86 | 1392.45 |
| **Less :- Current liabilities and provisions** | **6029.56** | **6971.59** | **7638.05** | **9797.01** | **13566.02** | **19308.35** | **25265.00** | **42579.15** | **66037.67** |
| **Current liabilities** | 4494.66 | 5520.81 | 6302.12 | 8371.48 | 12044.90 | 17685.21 | 26533.00 | 40731.01 | 64065.58 |
| **Provisions** | 1534.90 | 1450.78 | 1335.93 | 1425.52 | 1521.12 | 1623.14 | 1731.99 | 1848.15 | 1972.09 |
| **Net current assets** | **-1496.75** | **-2770.34** | **-2448.87** | **-4576.44** | **-6369.41** | **-9125.48** | **-14593.00** | **-23698.93** | **-30440.75** |
| **Miscellaneous expenses not written off** | 93.81 | 106.37 | 111.78 | 111.78 | 111.78 | 111.78 | 111.78 | 111.78 | 111.78 |
| **Total Assets** | **2524.41** | **2741.95** | **2791.76** | **3599.40** | **4653.92** | **6166.90** | **8384.00** | **11703.53** | **16789.88** |
| **NWC excluding cash** | -1706.21 | -3029.10 | -2744.45 | -5020.72 | -7554.38 | -11544.45 | -17957.00 | -28485.10 | -37511.45 |

On the basis of projected profit and loss account and balance sheet valuation is done applying DCF method. The terminal growth rate is assumed as 3%. The valuation of HUL is shown in table 4 below.

**Table 4 Valuation by DCF**

| | | 1 | 2 | 3 | 4 | 5 | |
|---|---|---|---|---|---|---|---|
| **Year End** | | **31-Dec-12** | **31-Dec-13** | **31-Dec-14** | **31-Dec-15** | **31-Dec-16** | **Perpetuity** |
| **No of Months** | | 12 | 12 | 12 | 12 | 12 | |
| **EBITDA** | | 5278.77 | 6870.29 | 9106.67 | 12307.00 | 16977.08 | 16977.08 |
| **EBIT *t** | | 874.67 | 1051.06 | 1264.99 | 1491.00 | 1796.27 | 1796.27 |
| **(Increase)/ Decrease in Gross Block** | | -1435.30 | -2113.99 | -3176.23 | -4873.82 | -7647.11 | -7647.11 |
| **(Increase)/ Decrease in Investments** | | 613.65 | 930.49 | 1410.94 | 2139.46 | 3244.15 | 3244.15 |
| **(Increase)/ Decrease in Working Capital** | | 2276.27 | 2533.66 | 3990.07 | 6412.00 | 10529.00 | 10529.00 |
| **FCFF** | | **5858.72** | **7169.39** | **10066.46** | **14493.60** | **21336.60** | **21366.60** |
| **Discount rate -** | **15.66%** | | | | | 142520.49 | |
| **PV of cash flows** | 35628.00 | | | | | | |
| **Terminal Value** | 69578.00 | | | | | | |
| **Enterprise Value as at December 31, 2011** | 105206.00 | | | | | | |
| **Less: Net Debt** | -292.92 | | | | | | |
| **Equity Value as at December 31, 2011** | 105499.00 | | | | | | |

The WACC of HUL is calculated in table 5 below. The cost of equity is calculated using CAPM method.

**Table 5 : HUL COST OF EQUITY**

| | |
|---|---|
| *r*RF | 7.90% |
| Beta | 0.456 |
| MRP | 17% |
| *r*d | 8.02% |
| S | 3118 |
| D | 2 |
| *w*d | 0.064% |
| WACC | 15.66% |

The valuation of HUL using P/E and EBIDTA multiple is shown in table 6 and table 7 below

**Table 6: Valuation using P/E multiple**

| **PE Multiple** | **2011** | **2012** | **2013** |
|---|---|---|---|
| **PAT** | 972.406512 | 1748 | 2148 |
| **PE Multiple** | 32.14 | 31.3 | 27.1 |
| **Equity Value** | 31253.1453 | 54702.01275 | 58206.62 |
| **Weights** | 100% | 100% | 100% |
| **Equity Valuation as at December 31, 2011** | **31253.1453** | **54702.01275** | **58206.62** |

**Table 7 Valuation using EBITDA Multiple**

| **EV/ EBITDA Multiple** | **2011** | **2012** | **2013** |
|---|---|---|---|
| **EBITDA** | 3104.05 | 5278.770402 | 6870.287064 |
| **EV/ EBITDA Multiple** | **29.8** | **23.5** | **20** |
| **Enterprise Value** | 92500.69 | 124051.1044 | 137405.7413 |
| **Less: Net Debt** | 292.92 | 381.6201375 | 1122.316026 |
| **Less: Contingent Liabilities** | 0 | 0 | 0 |
| **Add: Surplus Investments** | 0 | 0 | 0 |
| **Equity Valuation** | **92793.61** | **124432.7246** | **138528.0573** |

Table 8 calculates the share price of HUL under three methods namely, DCF, EBIDTA multiple and P/E multiple which comes out to be Rs.488.185, Rs. 429.394 and Rs.144.621 respectively. The simple average of these price turns out to be Rs 354 which is close to the actual share price as on that date i.e., Rs 385.1.

**Table 8**

| Valuation Methodology | Equity Value | No of Outstanding Shares in crores | Share Price |
|---|---|---|---|
| DCF | 105499 | 216.1044 | 488.185 |
| EV/ EBITDA Multiple | 92794 | 216.1044 | 429.394 |
| PE Multiple | 31253.1453 | 216.1044 | 144.621 |
| Actual Share Price December 31, 2011 | 385.1 | | |

## 5. Conclusions

The paper calculates the valuation of HUL under three different methods namely DCF, EBIDTA multiple and P/E multiple. It was observed that share price calculated with the help of DCF and EBIDTA multiple methods are much higher than the ruling market price. The share price calculated from P/E multiple method turns out to be much lower than the market price. The average of the three method gives the fair value of the HUL share and it is close to the ruling market price. Hence one can conclude that the valuation for valuation of HUL an FMCG company all the three method chosen namely DCF, EBIDTA multiple and P/E multiple are appropriate.

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