



# HUL

Sector: FMCG

## Q1FY17 Result Update

CMP: ₹ 922

*“Growth weakness continues; Margin exceeds expectation”*

Recommendation: Hold

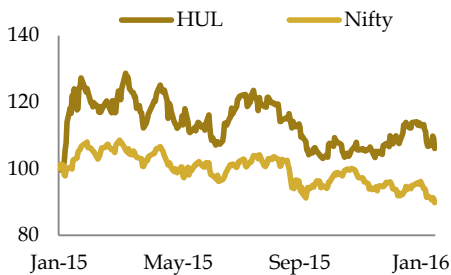
### Market Statistics

Current stock price (₹)	922
Shares O/S (cr.)	216.4
Mcap (₹ cr)	199,533
52W H/L (₹)	951/765
6m avg. volume	1,506,998
Bloomberg	HUVR.IN

### Shareholding pattern (%)

Promoters	67.21
Domestic Institution	4.80
Foreign Institution	14.20
Non-institution	13.79
of which more than 1%	
Life Insurance Corporation of India	1.55

### HUL vs Nifty



### Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
ROE (%)	103.5	115.8	129.5
ROCE (%)	139.9	158.4	175.8
P/B(x)	45.8	50.2	50.2
P/E (x)	44.2	43.4	38.8
EPS (₹)	19.0	21.1	23.6
EV/OCF (x)	42.7	43.0	32.1

#### ANALYST

Naveen Trivedi  
+91-22 4224 5181

naveen.trivedi@trustgroup.co.in

#### Associate

Ritu Chaudhary  
+91-22 4224 5183

ritu.chaudhary@trustgroup.co.in

HUL (based on IND AS) reported Q1FY17 result with slow revenue growth of 3.6% to ₹81.3bn vs. our expectation of 7% growth YoY. Domestic consumer business grew by 4% with 4% UVG. Home Care, Personal Care, Foods and Refreshment segments has displayed sales growth of 6.8%, 2.1%, 4.7% and 5.4%, respectively. Home care segment driven by premium segment with Surf and Vim liquid. Price deflation in the laundry business has narrow down to 3% during the quarter as compared to 9% last year. Personal Care (PC) performance has also supported by the premium products. In PC, Personal Products has improved but the segment growth dragged by deflation in Personal Wash.

Softening input prices has continued to benefit on gross margin that expanded by 102bps YoY during the quarter and stood at 51.3%. A&P spent was soft and contracted by 1.5% YoY (-56bps YoY) during the quarter. Hence, EBITDA Margin was strong at 20.1% (up 85bps YoY), ahead of our expectation of 54bps expansion. EBITDA grew by 8.2% YoY. EBIT Margin for Home Care was up by 180bps while PC EBIT Margin was down by 48bps. Food EBIT Margin was at 6.4% (-200bps) while Refreshment EBIT Margin was at 16.2% (+31bps).

Lower other income (-12.5%) and higher Depreciation further impacted the net earnings growth. APAT grew by 5.9% to ₹11.25bn vs. our expectation of ₹11.44bn

### UVG slows down at 4%; weak growth in core segments continues

HUL's UVG slowed down to 4% in Q1FY17 as the core segments (Home Care and PC) were under pressure. Home Care displayed growth of 6.8%YoY while Personal Care segment (48% of Sales) registered mere 2.1% YoY. In Home Care, laundry segment strong growth was led by premium segment with Surf while in House hold care, VIM liquids continued to perform well. Personal Care showed disappointing growth of 2.1% YoY largely caused by price deflation in personal wash while other personal products (Skin Care, Hair Care & Color cosmetics-Lakme) have registered volume driven growth.

### Benign Input Costs & Soft A&P spends aids EBITDA Margin.

Input price deflation has been supporting gross margin in the past several quarters despite sales mix benefits were limited. HUL had to take product price cut on several brands due to stiff competition, but still managed healthy margin expansion in Q1FY17. A&P spend was soft and contracted by 1.5% in the quarter. Hence, EBITDA Margin expanded by 85bps and stood at 20.1% (our expectation was 19.1%). EBIT growth for Home Care, PC, Foods and Refreshments business was 22.7%, 0.3%, -20.7% & 7.5%, respectively.

### Outlook & Valuation

HUL management is focusing on volume growth acceleration due to increasing competition in the lull demand & high competition environment, therefore, passing raw material softening benefits to customers. Barring base effect benefits, we expect sales growth would be challenging in the coming quarters too until monsoon & govt. initiatives started improving consumer sentiments. Rural growth is slowing down and growth outlook is grim as of now. However, raw material softening, low inflation and relatively lower A&P spend can expand marginal EBITDA Margin in the coming quarters. We expect Net Sales, EBITDA & PAT to grow by 10%, 12% & 12% CAGR during FY16-18E, respectively. The stock trades at a high P/E of 43.4x and 38.8x P/E of FY17 & FY18 estimated EPS - >33% higher than its past 3 year average. We believe high valuation captures most of the near to medium term performance improvement. We maintain our **HOLD** rating on the stock.

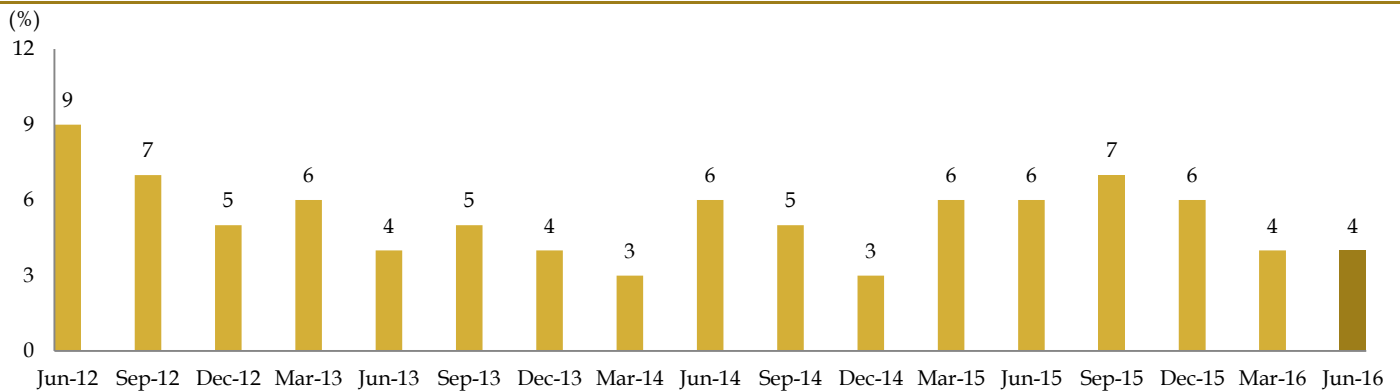


**Exhibit 1: Quarterly Performance (Based on IND AS)**

Quarterly Snapshot (₹ mn)	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
<b>Net Sales</b>	<b>77,127</b>	<b>75,956</b>	<b>76,058</b>	<b>75,849</b>	<b>79,877</b>
YoY Gr%	na	na	na	na	3.6
<b>Total Income</b>	<b>78,445</b>	<b>77,314</b>	<b>77,639</b>	<b>77,212</b>	<b>81,282</b>
YoY Gr%	na	na	na	na	3.6
Gross Margin %	50.3	49.6	51.8	51.2	51.3
Margin expansion (YoY)	na	na	na	na	102bps
A&P (% of Sales)	11.4	11.9	11.9	11.2	10.8
Expansion (YoY)	na	na	na	na	-56bps
<b>EBITDA</b>	<b>15,121</b>	<b>13,366</b>	<b>14,302</b>	<b>14,704</b>	<b>16,359</b>
YoY Gr%	na	na	na	na	8.2
EBITDA Margin %	19.3	17.3	18.4	19.0	20.1
Margin expansion (YoY)	na	na	na	na	85bps
<b>Reported PAT</b>	<b>10,693</b>	<b>9,822</b>	<b>9,717</b>	<b>11,136</b>	<b>11,739</b>
YoY Gr%	na	na	na	na	9.8
<b>Adjusted PAT</b>	<b>10,626</b>	<b>9,905</b>	<b>10,266</b>	<b>10,764</b>	<b>11,255</b>
YoY Gr%	na	na	na	na	5.9

Source: Company, Trust

**Exhibit 2: Underlying Volume Growth Trajectory**



Source: Company, Trust

**Segmental Analysis**

**Home Care - "Strong EBIT growth, price deflation narrowed down"**

- ❖ Home Care sales was moderate at 6.8% during the quarter driven by premium segment with Surf & Vim liquid.
- ❖ Price deflation has narrowed down significantly to 3% from 9% last year.
- ❖ EBIT grew by significantly by 23% YoY

**Exhibit 3: Home Care (IND AS)**

Particulars	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
<b>Revenue</b>	<b>23,972</b>	<b>24,016</b>	<b>23,655</b>	<b>24,853</b>	<b>25,596</b>
Revenue Growth (%)	na	na	na	na	6.8%
Revenue Mix (%)	30.6%	31.1%	30.5%	32.2%	31.5%
<b>EBIT</b>	<b>2,900</b>	<b>2,246</b>	<b>2,356</b>	<b>3,023</b>	<b>3,559</b>
EBIT Growth (%)	na	na	na	na	22.7%
EBIT Mix (%)	19.3%	17.5%	16.7%	20.8%	22.6%
EBIT Margin	12.1%	9.4%	10.0%	12.2%	13.9%
EBIT Margin Expansion	na	na	na	na	181bps



## Personal Care – “Personal Products improves; price deflation in personal wash impacts segment”

- ❖ All the categories in Personal Products improved performance during the quarter.
- ❖ In Personal Wash, Lifebuoy, Pears and dove were the key products leading the category volume growth. However, price deflation hampered the Personal Care segment.
- ❖ In Skin Care, growth was led by premium segment with BB & CC creams delivering strong growth
- ❖ Acquisition of Indulekha was completed during the quarter and initial response from the consumers was encouraging.
- ❖ Hair care delivered showed volume led growth driven by Dove & TRESemmé
- ❖ Initiatives were taken to re-launch Pepsodent core with ‘best ever flavour’ through sampling activity
- ❖ Color Cosmetics delivered strong growth led by Lakme on premium makeup and innovations in the segment. In Deodorants, re-launch of Axe aerosol range led the growth.
- ❖ Flat EBIT growth is very disappointing.

### Exhibit 4: Personal Care (IND AS)

Particulars	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Revenue	38,171	37,393	37,935	35,078	38,986
Revenue Growth (%)	na	na	na	na	2.1%
Revenue Mix (%)	48.7%	48.4%	48.9%	45.5%	48.0%
EBIT	2,900	2,246	2,356	3,023	10,214
EBIT Growth (%)	na	na	na	na	0.3%
EBIT Mix (%)	67.6%	69.4%	70.0%	62.2%	64.8%
EBIT Margin	26.7%	23.8%	26.1%	25.7%	26.2%
EBIT Margin Expansion	na	na	na	na	-48bps

Company, Trust

## Refreshment– “Steady growth; EBIT Margins expansion aids performance”

- ❖ Tea portfolio growth was led by Lipton Green Tea & Natural Care portfolio driven by market development.
- ❖ Ice-cream and Frozen desserts continue to show robust growth driven by distribution expansion and sharper market-execution
- ❖ EBIT Margin improved by 31bps to 16.1% in Q1FY17.

### Exhibit 5: Refreshment (IND AS)

Particulars	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Revenue	11,297	10,600	10,562	11,529	11,912
Revenue Growth (%)	na	na	na	na	5.4%
Revenue Mix (%)	14.4%	13.7%	13.6%	14.9%	14.7%
EBIT	1,786	1,469	1,595	1,943	1,921
EBIT Growth (%)	na	na	na	na	7.5%
EBIT Mix (%)	11.9%	11.5%	11.3%	13.4%	12.2%
EBIT Margin	15.8%	13.9%	15.1%	16.9%	16.1%
EBIT Margin Expansion	na	na	na	na	31bps

Company, Trust

## Food Business – “Weak sales growth;”

- ❖ Food business delivered weak sales growth
- ❖ Kissan delivered robust growth led ketchups. Knorr portfolio growth is led by instant soups.
- ❖ Kissan Jam performance impacted due to bread issue
- ❖ EBIT Margin contracted by 200bps in Q1FY17

**Exhibit 6: Foods (IND AS)**

Particulars	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Revenue	2,550	2,667	2,718	2,821	2,670
Revenue Growth (%)	na	na	na	na	4.7%
Revenue Mix (%)	3.3%	3.5%	3.5%	3.7%	3.3%
EBIT	214	164	349	381	170
EBIT Growth (%)	na	na	na	na	-20.7%
EBIT Mix (%)	1.4%	1.3%	2.5%	2.6%	1.1%
EBIT Margin	8.4%	6.1%	12.8%	13.5%	6.4%
EBIT Margin Expansion	na	na	na	na	-203bps

*Company, Trust*



## Consolidated Financials

### P&L Statement

Y/E Mar (₹ mn)	FY14	FY15	FY16	FY17E	FY18E
<b>Net Revenues</b>	<b>292,333</b>	<b>319,722</b>	<b>331,937</b>	<b>362,816</b>	<b>400,706</b>
% Growth	8.3	9.4	3.8	9.3	10.4
Raw Material	148,688	161,761	158,664	171,975	188,733
Staff	15,758	17,239	17,422	19,511	21,849
Other Expenses	80,467	86,585	96,355	104,222	115,444
Total Expenditures	244,913	265,584	272,441	295,707	326,026
<b>EBITDA</b>	<b>47,420</b>	<b>54,138</b>	<b>59,496</b>	<b>67,108</b>	<b>74,681</b>
% Growth	12.8	14.2	9.9	12.8	11.3
EBITDA Margins (%)	16.2	16.9	17.9	18.5	18.6
Other Income	5,710	5,666	3,973	3,996	4,553
Interest	407	177	45	127	127
Depreciation	2,955	3,224	3,573	3,918	4,166
<b>Profit Before Tax</b>	<b>52,155</b>	<b>63,196</b>	<b>59,466</b>	<b>67,059</b>	<b>74,940</b>
Provision for tax	12,594	19,440	18,525	21,258	23,756
Effective tax rate (%)	24.1	30.8	31.2	31.7	31.7
<b>Reported PAT</b>	<b>39,459</b>	<b>43,631</b>	<b>40,824</b>	<b>45,673</b>	<b>51,043</b>
% Growth	3.1	10.6	(6.4)	11.9	11.8
<b>Adjusted Net Profit</b>	<b>37,552</b>	<b>38,928</b>	<b>41,089</b>	<b>45,673</b>	<b>51,043</b>
% Growth	16.5	3.7	5.6	11.2	11.8

### Balance Sheet

Balance Sheet	FY14	FY15	FY16	FY17E	FY18E
Equity Share Capital	2,163	2,164	2,164	2,164	2,164
Reserves & surplus	33,210	38,111	37,553	37,265	37,240
<b>Shareholders' funds</b>	<b>35,373</b>	<b>40,275</b>	<b>39,717</b>	<b>39,429</b>	<b>39,404</b>
Minorities interests	223	252	251	379	520
Total Debt	456	430	2,548	2,548	2,548
<b>Capital Employed</b>	<b>36,052</b>	<b>40,957</b>	<b>42,515</b>	<b>42,356</b>	<b>42,472</b>
Net fixed assets	31,188	33,373	37,279	33,087	32,921
Cash & Cash Eq.	25,160	26,895	30,278	27,763	28,949
Net Other current assets	(50,474)	(51,560)	(54,849)	(49,801)	(54,204)
Investments	28,381	30,251	27,474	28,974	32,474
Net Deferred tax Assets	1,796	1,998	2,333	2,333	2,333
<b>Total Assets</b>	<b>36,052</b>	<b>40,957</b>	<b>42,515</b>	<b>42,356</b>	<b>42,472</b>

**Cash flow**

Cash Flow Statement	FY14	FY15	FY16P	FY17E	FY18E
Pre-tax profit	49,764	56,403	59,851	67,059	74,940
Depreciation	2,955	3,224	3,573	3,918	4,166
Total Tax Paid	(13,836)	(18,616)	(17,663)	(21,258)	(23,756)
Chg in working capital	4,085	(3,421)	(1,079)	(5,049)	4,403
Other operating activities	(4,787)	(4,670)	(3,429)	127	127
<b>Cash flow from oper (a)</b>	<b>38,182</b>	<b>32,919</b>	<b>41,253</b>	<b>44,799</b>	<b>59,881</b>
Capital Expenditure	(5,844)	(5,726)	(7,914)	273	(4,000)
Chg in investments	(3,779)	(907)	689	(1,500)	(3,500)
Other investing activities	2,562	8,012	4,542	-	-
<b>Cash flow from inv.(b)</b>	<b>(7,061)</b>	<b>1,379</b>	<b>(2,682)</b>	<b>(1,227)</b>	<b>(7,500)</b>
<b>Free cash flow (a+b)</b>	<b>31,121</b>	<b>34,298</b>	<b>38,571</b>	<b>43,572</b>	<b>52,381</b>
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(132)	(25)	2,117	1	1
Interest paid	(289)	(177)	(45)	(127)	(127)
Dividend (incl. Tax)	(24,956)	(29,118)	(33,417)	(38,950)	(43,278)
Other financing activities	(4,515)	(5,481)	(6,890)	(7,138)	(7,917)
<b>Cash flow from fin. (c)</b>	<b>(29,892)</b>	<b>(34,801)</b>	<b>(38,235)</b>	<b>(46,215)</b>	<b>(51,322)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,230</b>	<b>(503)</b>	<b>336</b>	<b>(2,643)</b>	<b>1,059</b>

**Key Ratios**

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
Raw Material Cost/Sales (%)	50.9	50.6	47.8	47.4	47.1
Manpower Cost/Sales (%)	5.4	5.4	5.2	5.4	5.5
Operating & Other Cost/Sales (%)	27.5	27.1	29.0	28.7	28.8
Revenue Growth (%)	8.3	9.4	3.8	9.3	10.4
EBITDA Margins (%)	16.2	16.9	17.9	18.5	18.6
Net Income Margins (%)	12.8	12.2	12.4	12.6	12.7
ROCE (%)	131.5	132.2	139.9	158.4	175.8
ROE (%)	106.2	96.7	103.5	115.8	129.5

**Valuation Parameters**

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
EPS (₹.)	17.4	18.0	19.0	21.1	23.6
P/E (x)	34.8	44.7	44.2	43.4	38.8
BV (₹)	16.4	18.6	18.4	18.2	18.2
P/BV (x)	36.9	43.2	45.8	50.2	50.2
EV/EBITDA (x)	26.4	31.1	29.6	28.7	25.7
Fixed assets turnover ratio (x)	9.4	9.6	8.9	11.0	12.2
Net Debt/Equity (x)	(0.7)	(0.7)	(0.7)	(0.6)	(0.7)
EV/Sales (x)	4.3	5.3	5.3	5.3	4.8



## Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.co.in	+91-22-4084-5074
<b>Institutional Sales</b>				
Sriram Rangarajan	Sales		sriram.rangarajan@trustgroup.co.in	+91-22-4224-5216
Vivek Kumar	Sales		vivek.kumar@trustgroup.co.in	+91-22-4224-5197
<b>Sales Trading &amp; Dealing</b>				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.co.in	+91-22-4224-5123
Nikhil Shah	Dealer		nikhil.shah@trustgroup.co.in	+91-22-4084-5089
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
<b>Research Team</b>				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.co.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.co.in	+91-22-4224-5125
Naveen Trivedi	Analyst	Consumer Staple & Durable	naveen.trivedi@trustgroup.co.in	+91-22-4224-5181
Shashwat Nanda	Analyst	Rates & Credit Research	shashwat.nanda@trustgroup.co.in	+91-22-4224-5038
Tejas Sarvaiya	Analyst	Seeds, Exchanges & MidCap	tejas.sarvaiya@trustgroup.co.in	+91-22-4084-5064
Ritu Chaudhary	Associate	Consumer Durable	ritu.chaudhary@trustgroup.co.in	+91-22-4224-5183

## DISCLAIMER

We are committed to providing completely independent and transparent recommendations to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Financial Consultancy Services Pvt. Ltd. has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Financial Consultancy Services Pvt. Ltd., its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Financial Consultancy Services Pvt. Ltd. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Copyright in this document vests exclusively with Trust Financial Consultancy Services Pvt. Ltd.