



In partnership. With trust.

HUL

Q4FY16 Result Update

Sector: FMCG

CMP: ₹ 846

"Tepid core business growth; Margin exceeds expectation"

Recommendation: Hold

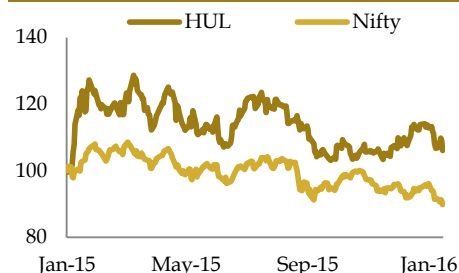
Market Statistics

Current stock price (₹)	846
Shares O/S (cr.)	216.4
Mcap (₹ cr)	182,961
52W H/L (₹)	944/765
6m avg. volume	1,366,333
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	FY16P	FY17E	FY18E
ROE (%)	102.2	114.4	127.5
ROCE (%)	138.0	155.8	162.0
P/B(x)	45.2	45.9	45.8
P/E (x)	44.2	40.1	35.9
EPS (₹)	19.0	21.2	23.7
EV/OCF (x)	36.8	34.4	28.4

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HUL reported Q4FY16 result with slow revenue growth of 3.5% to ₹79.5bn vs. our expectation of ₹79.2bn. Domestic consume business grew by 3.6% includes 4% UVG. Phasing out excise duty & price de-growth impacted the net sales. Core segments S&D & PP have displayed weak sales growth of 2.1% & 2.8%, respectively. Beverages & Food business have clocked 6.1% & 11.7% YoY growth, respectively. Product price deflation has continued to impact S&D business growth. PP impacted by phasing out excise duty and impact from the re-alignment of channel spends.

Gross margin improved by 242bps YoY to 52.6% owing to softening input prices. A&P expense was soft and grew by slow 6% YoY (+33bps YoY) during the quarter. EBITDA margin was strong at 18.5% (up 129bps YoY), ahead of our expectation of 17.5%. EBITDA grew by 11.3% YoY to ₹14.6bn vs. our expectation of ₹14.1bn. EBIT Margin for S&D & PP was strong by 123bps & 174bps to 14.5% & 29.5%, respectively. EBIT expansion for Beverage & Food business was up by 58bps & 38bps to 19.2% & 5.7%, respectively.

PBT before exceptional item grew by 8.6% YoY to ₹14.6bn - *in-line with our expectation of ₹14.5bn*. ETR was lower at 27.6% (our expectation 32%) vs. 33.3% in Q4FY15. Therefore, Adjusted PAT (excluding exceptional net of taxes) grew by 17.8% to ₹10.5bn as compared to our expectation of ₹9.8bn

UVG slows down at 4%; Tepid growth in core segments

HUL's UVG slowed down to 4% in Q4FY16 as the core segments (S&D and PP) were under pressure. S&D business remained under pressure owing to product price cut while premium laundry continued to grow faster with Surf reported double digit growth. In Soaps, Dove, Lifebuoy & Haman have shown strong volume growth. In Vim portfolio, liquid is growth healthy. PP showed disappointing growth of 2.8% - *far lower than HUL's historical average and other players' performance in this space*. Apart from weak demand, phasing out excise duty & channel re-alignment process also impacted the growth. Oral care remained under pressure while FAL, Lakme & Ponds have registered volume driven growth.

Margin exceeds expectation in Q4, Limited scope for margin expansion in FY17

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 FY16. A&P spend was controlled at 6.0% growth as compared to high growth during 9MFY16. Hence, EBITDA Margin expanded by 129bps and stood at 18.5% (our expectation was 17.5%). EBIT growth for S&D, PP, Beverages and Foods business was 11.6%, 9.2%, 9.5% & 19.7%, 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 9.9%, 8.7% & 11.6% CAGR during FY16-18E, respectively. The stock trades at a high P/E of 40.1x and 35.9x P/E of FY17 & FY18 estimated EPS - >30% 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.

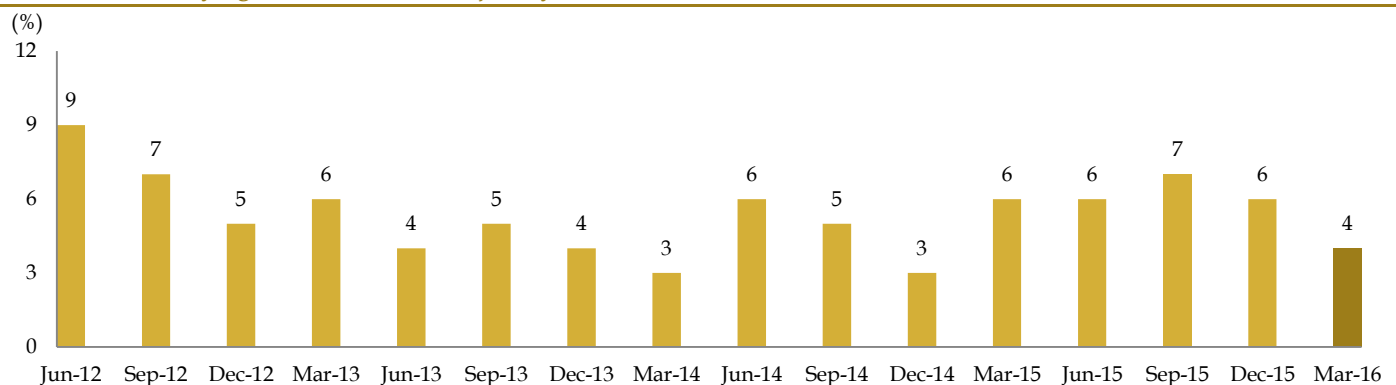


Exhibit 1: Quarterly Performance

Quarterly Snapshot (₹ mn)	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Net Sales	69,358	75,708	74,655	75,792	75,550	79,734	78,196	78,229	78,094
YoY Gr%	8.9	13.2	10.6	7.7	8.9	5.3	4.7	3.2	3.4
Total Income	70,941	77,163	76,393	77,743	76,756	81,051	79,554	79,810	79,457
YoY Gr%	9.7	13.3	10.8	7.6	8.2	5.0	4.1	2.7	3.5
Gross Margin %	47.4	48.3	48.2	50.5	50.1	51.9	51.0	53.1	52.6
Margin expansion (YoY)	50bps	-55bps	-148bps	117bps	273bps	356bps	281bps	261bps	242bps
A&P (% of Sales)	11.8	12.2	12.1	12.6	13.4	14.2	14.4	14.3	13.7
Margin expansion (YoY)	-85bps	-82bps	-173bps	-30bps	155bps	199bps	228bps	169bps	33bps
EBITDA	10,776	12,841	12,421	13,700	13,182	15,065	13,259	14,309	14,670
YoY Gr%	10.9	18.3	14.4	11.7	22.3	17.3	6.7	4.4	11.3
EBITDA Margin %	15.2	16.6	16.3	17.6	17.2	18.6	16.7	17.9	18.5
Margin expansion (YoY)	16bps	70bps	51bps	64bps	198bps	195bps	41bps	31bps	129bps
Reported PAT	8,722	10,245	9,882	12,907	10,181	10,593	9,623	9,715	10,898
YoY Gr%	10.8	0.5	8.1	21.5	16.7	3.4	(2.6)	(24.7)	7.0
Adjusted PAT	8,133	9,850	9,435	10,078	8,984	10,526	9,706	10,263	10,586
YoY Gr%	3.3	5.4	6.6	(3.5)	10.5	6.9	2.9	1.8	17.8

Source: Company, Trust

Exhibit 2: Underlying Volume Growth Trajectory



Source: Company, Trust

Exhibit 3: Segment Performance

Segments	Sales Growth (%)					EBIT Growth (%)				
	FY13	FY14	FY15	FY16	Q4FY16	FY13	FY14	FY15	FY16	Q4FY16
Soaps and Detergents	19.2	8.0	8.7	1.2	2.1	31.2	10.4	13.9	5.3	11.6
Personal Products	11.6	8.5	10.9	7.2	2.8	11.9	5.9	17.2	13.7	9.2
Beverages	7.8	17.4	9.7	7.1	6.1	18.2	34.0	5.8	6.2	9.5
Foods	15.5	5.0	14.8	11.9	11.7	97.9	28.1	35.9	52.0	19.7

Source: Company, Trust

Exhibit 4: Year Performance

Segments	FY14			FY15			FY16		
	USG (%)	UVG (%)	EBIT Gr. (%)	USG (%)	UVG (%)	EBIT Gr. (%)	USG (%)	UVG (%)	EBIT Gr. (%)
Soaps and Detergents	8	5	10	9	3	14	1	6	5
Personal Products	9	4	6	11	6	17	3	6	14
Beverages	12	3	34	9	5	6	6	4	6
Foods	10	3	28	15	10	36	12	8	52

Source: Company, Trust



Segmental Analysis

Soaps & Detergent (S&D) - "Weak growth, Premium segment picking up"

- ❖ S&D sales were low by 2.1% during the quarter led by price de-growth across products due to softening of input costs
- ❖ Growth in the Soap business was driven by Dove, Lifebuoy & Haman which displayed strong volume growth.
- ❖ Comfort Fabric conditioner delivered strong growth on back of market development.
- ❖ In the premium segment, Surf maintained its double digit growth. Wheel performance improved on powders re-launch
- ❖ Vim led the growth in Household Care driven by liquids formats.
- ❖ EBIT Margin improved by 123 bps YoY to 14.5%

Exhibit 5: S&D Performance

Particulars	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Revenue (₹ mn)	34,971	38,476	37,551	36,002	36,737	38,544	38,166	36,298	37,525
Revenue Gr. (%)	9.6	12.9	11.1	6.0	5.0	0.2	1.6	0.8	2.1
Revenue Mix (%)	49.5	50.0	49.3	46.5	47.9	47.6	48.0	45.5	47.3
EBIT (₹ mn)	4,217	5,318	5,112	5,024	4,883	5,980	4,903	5,089	5,449
EBIT Margin (%)	12.1	13.8	13.6	14.0	13.3	15.5	12.8	14.0	14.5
Change (bps)	6bps	93bps	-40bps	68bps	123bps	169bps	-77bps	7bps	123bps
EBIT Mix (%)	39.1	40.6	41.9	38.7	37.2	39.8	38.4	36.1	37.6
EBIT Gr. (%)	10.1	21.1	7.9	11.4	15.8	12.4	(4.1)	1.3	11.6

Source: Company, Trust

Personal Products (PP) - "Growth slowed down further; margin expansion continues"

- ❖ PP business growth was impacted due to phasing out of Excise duty incentives and impact of one time realignment of channel spends and displayed 2.8% growth in Q4FY16. It is slowest growth in the last 11 quarters. Realignment of channels has also impacted Q4FY16 which has resolved as per the management.
- ❖ Skin Care registered broad based volume growth led by FAL, Pond's and Vaseline. FAL performance is led by BB cream while premium portfolio led the growth in Pond's and Lakme.
- ❖ Hair Care delivered showed volume led growth driven by Dove & TRESemmé
- ❖ Close up delivered double digit growth due to impactful activation, while Pepsodent performance remains subdued.
- ❖ Color Cosmetics delivered double digit growth led by Lakme Absolute and 9 to 5 product.

Exhibit 6: PP Performance

Particulars	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Revenue (₹ mn)	19,833	21,596	21,427	24,546	22,497	24,056	23,456	25,929	23,124
Revenue Gr. (%)	8.3	14.7	9.9	6.5	13.4	11.4	9.5	5.6	2.8
Revenue Mix (%)	28.1	28.1	28.2	31.7	29.3	29.7	29.5	32.5	29.1
EBIT (₹ mn)	4,958	5,967	5,223	6,809	6,245	7,130	6,119	7,483	6,822
EBIT Margin (%)	25.0	27.6	24.4	27.7	27.8	29.6	26.1	28.9	29.5
Change (bps)	-76bps	277bps	156bps	-87bps	276bps	201bps	171bps	112bps	174bps
EBIT Mix (%)	46.0	45.6	42.8	52.4	47.6	47.4	47.9	53.1	47.1
EBIT Gr. (%)	5.1	27.4	17.4	3.3	26.0	19.5	17.2	9.9	9.2

Source: Company, Trust



Beverages – “Healthy Sales Growth aided by margin expansion”

- ❖ Tea portfolio delivered volume led growth driven by impactful activation and market development. Red Label largely led the healthy performance. Lipton Green Tea maintained strong growth momentum
- ❖ In Coffee, Bru registered double digit growth and attained value market leadership first time surpassing competitors.
- ❖ EBIT Margin improved by 58bps to 19.2% in Q4FY16- *highest in 9 years*

Exhibit 7: Beverage Performance

Particulars	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Revenue (₹ mn)	8,690	8,366	8,991	9,197	9,762	9,149	9,526	9,841	10,362
Revenue Gr. (%)	7.5	10.5	7.6	8.2	12.3	9.4	5.9	7.0	6.1
Revenue Mix (%)	12.3	10.9	11.8	11.9	12.7	11.3	12.0	12.3	13.1
EBIT (₹ mn)	1,630	1,363	1,557	1,410	1,816	1,435	1,378	1,728	1,988
EBIT Margin (%)	18.8	16.3	17.3	15.3	18.6	15.7	14.5	17.6	19.2
Change (bps)	191bps	-202bps	36bps	-82bps	-16bps	-60bps	-285bps	223bps	58bps
EBIT Mix (%)	15.1	10.4	12.8	10.9	13.8	9.5	10.8	12.3	13.7
EBIT Gr. (%)	19.7	(1.8)	9.9	2.7	11.4	5.3	(11.5)	22.6	9.5

Source: Company, Trust

Food Business – “Sustaining double digit growth;”

- ❖ Food business delivered healthy sales growth driven by double digit growth in Kissan, Knorr and Kwality walls
- ❖ Kissan delivered robust growth led ketchups and jams. Knorr portfolio growth is led by instant soups.
- ❖ Innovation across brands adding to the portfolio.
- ❖ EBIT Margin expanded by 38bps to 5.7% in Q4FY16

Exhibit 8: Food Performance

Particulars	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Revenue (₹ mn)	4,197	5,438	4,513	4,199	4,768	6,079	5,071	4,695	5,325
Revenue Gr. (%)	12.7	18.8	13.4	12.6	13.6	11.8	12.4	11.8	11.7
Revenue Mix (%)	5.9	7.1	5.9	5.4	6.2	7.5	6.4	5.9	6.7
EBIT (₹ mn)	229.6	590.5	199.8	(212.0)	254.0	543.8	268.7	149.0	304.0
EBIT Margin (%)	5.5	10.9	4.4	(5.0)	5.3	8.9	5.3	3.2	5.7
Change (bps)	172bps	247bps	109bps	-145bps	-14bps	-191bps	87bps	822bps	38bps
EBIT Mix (%)	2.1	4.5	1.6	(1.6)	1.9	3.6	2.1	1.1	2.1
EBIT Gr. (%)	64.4	53.8	50.2	58.2	10.6	(7.9)	34.5	(170.3)	19.7

Source: Company, Trust



Consolidated Financials

P&L Statement

Y/E Mar (₹ mn)	FY14	FY15	FY16P	FY17E	FY18E
Net Revenues	292,333	319,722	331,930	362,811	400,704
% Growth	8.3	9.4	3.8	9.3	10.4
Raw Material	148,688	161,761	158,662	170,159	187,930
Staff	15,758	17,239	17,747	19,874	22,256
Other Expenses	80,467	86,585	96,026	106,037	117,068
Total Expenditures	244,913	265,584	272,436	296,070	327,254
EBITDA	47,420	54,138	59,494	66,742	73,450
% Growth	12.8	14.2	9.9	12.2	10.1
EBITDA Margins (%)	16.2	16.9	17.9	18.4	18.3
Other Income	5,710	5,666	3,975	4,473	5,886
Interest	407	177	45	127	127
Depreciation	2,955	3,224	3,573	4,022	4,262
Profit Before Tax	52,155	63,196	59,465	67,065	74,947
Provision for tax	12,594	19,440	18,524	21,126	23,608
Effective tax rate (%)	24.1	30.8	31.2	31.5	31.5
Reported PAT	39,459	43,631	40,825	45,811	51,198
% Growth	3.1	10.6	(6.4)	12.2	11.8
Adjusted Net Profit	37,552	38,928	41,091	45,811	51,198
% Growth	16.5	3.7	5.6	11.5	11.8

Balance Sheet

Balance Sheet	FY14	FY15	FY16P	FY17E	FY18E
Equity Share Capital	2,163	2,164	2,164	2,164	2,164
Reserves & surplus	33,210	38,053	38,024	37,874	38,004
Shareholders' funds	35,373	40,216	40,188	40,038	40,168
Minorities interests	223	248	365	493	634
Total Debt	456	430	2,548	2,548	2,548
Capital Employed	36,052	40,894	43,100	43,079	43,349
Net fixed assets	31,188	33,373	37,307	35,615	35,353
Cash & Cash Eq.	25,160	26,895	31,220	32,990	35,503
Net Other current assets	(50,474)	(51,620)	(54,897)	(56,495)	(61,974)
Investments	28,381	30,251	27,474	28,974	32,474
Net Deferred tax Assets	1,796	1,994	1,994	1,994	1,994
Total Assets	36,052	40,894	43,100	43,079	43,349



Cash flow

Cash Flow Statement	FY14	FY15	FY16P	FY17E	FY18E
Pre-tax profit	49,764	56,403	59,465	67,065	74,947
Depreciation	2,955	3,224	3,573	4,022	4,262
Total Tax Paid	(13,836)	(20,297)	(18,524)	(21,126)	(23,608)
Chg in working capital	4,085	(3,421)	3,276	1,599	5,478
Other operating activities	(4,787)	(4,670)	45	127	127
Cash flow from oper (a)	38,182	31,238	47,837	51,688	61,206
Capital Expenditure	(5,844)	(5,726)	(7,507)	(2,330)	(4,000)
Chg in investments	(3,779)	(908)	2,777	(1,500)	(3,500)
Other investing activities	2,562	9,694	-	-	-
Cash flow from inv.(b)	(7,061)	3,059	(4,730)	(3,830)	(7,500)
Free cash flow (a+b)	31,121	34,297	43,106	47,858	53,706
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(132)	(25)	2,119	1	1
Interest paid	(289)	(177)	(45)	(127)	(127)
Dividend (incl. Tax)	(24,956)	(29,118)	(34,622)	(38,950)	(43,278)
Other financing activities	(4,515)	(5,481)	(6,277)	(7,138)	(7,917)
Cash flow from fin. (c)	(29,892)	(34,801)	(38,826)	(46,215)	(51,322)
Net chg in cash (a+b+c)	1,230	(504)	4,280	1,643	2,385

Key Ratios

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
Raw Material Cost/Sales (%)	50.9	50.6	47.8	46.9	46.9
Manpower Cost/Sales (%)	5.4	5.4	5.3	5.5	5.6
Operating & Other Cost/Sales (%)	27.5	27.1	28.9	29.2	29.2
Revenue Growth (%)	8.3	9.4	3.8	9.3	10.4
EBITDA Margins (%)	16.2	16.9	17.9	18.4	18.3
Net Income Margins (%)	12.8	12.2	12.4	12.6	12.8
ROCE (%)	131.5	132.4	138.0	154.9	169.4
ROE (%)	106.2	96.8	102.2	114.4	127.5

Valuation Parameters

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
EPS (₹.)	17.4	18.0	19.0	21.2	23.7
P/E (x)	34.8	44.7	44.2	40.1	35.9
BV (₹)	16.4	18.6	18.6	18.5	18.6
P/BV (x)	36.9	43.3	45.2	45.9	45.8
EV/EBITDA (x)	26.4	31.1	29.6	26.7	24.2
Fixed assets turnover ratio (x)	9.4	9.6	8.9	10.2	11.3
Net Debt/Equity (x)	(0.7)	(0.7)	(0.7)	(0.8)	(0.8)
EV/Sales (x)	4.3	5.3	5.3	4.9	4.4



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