

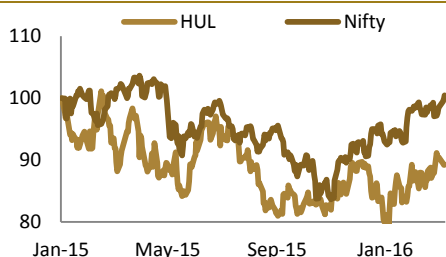
Market Statistics

Current stock price (₹)	863
Shares O/S (cr.)	216.4
Mcap (₹cr)	186,734
52W H/L (₹)	954
6m avg. volume	1,248,853
Bloomberg	HUVR IN

Shareholding pattern (%)

Promoters	67.20
Domestic Institution	3.94
Foreign Institution	13.14
Non-institution	15.72
of which more than 1%	
Life Insurance Corporation of India	1.55

HUL vs Nifty



Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
ROE (%)	116.9	142.8	155.7
ROCE (%)	154.7	184.0	193.3
P/B(x)	50.4	56.9	57.0
P/E (x)	43.2	39.9	36.6
EPS (₹)	20.0	21.7	23.6
EV/OCF (x)	44.4	33.1	31.6

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HUL based on INDAS has reported revenue de-growth of 0.7% to ₹77.0bn vs. our expectation of ₹79.0bn. Domestic consume business was flat led by 4% decline in volumes- impacted by Demonetization event & weak demand. Core segments, Home care & Personal care has displayed weak sales growth of 1.0% & -2.7%, respectively while Food & Refreshment business grew by 0.5% & 8.1% YoY growth, respectively. In Homecare segment, Surf (premium laundry) showed double digit growth. While PP business impacted by price increase taken in the quarter to manage increasing commodity costs

Higher input prices led gross margin contraction by 39bps YoY during the quarter and stood at 51.4%. Rising trend in input costs is expected to continue in coming qtrs. A&P spent was soft and de-grew by slow 3.9 YoY (-37bps YoY) during the quarter. Employee & other expenses grew by 20bps & 61bps YoY in Q3FY17. Hence, EBITDA Margin contracted by 83bps to 17.6%. EBITDA declined by 5.2% to ₹13.5bn vs. our expectation of ₹14.3bn. EBIT Margin for Home care, Personal Care, Foods & Refreshments contracted by 14bps, 108bps, 320bps, 11bps, 609bps, 81bps YoY respectively.

Lower other income (-43% YoY) further impacted the bottom line. Reported PAT saw increase of 6.8% YoY to Rs. 10.3bn vs our expectation of ₹10.1bn. However, Adjusted PAT (excluding exceptional net of taxes) declined by 9.3% to ₹93.1bn.

UVG contracts to 4%; weak growth in core segments continues

HUL's UVG slowed down to negative 4.0% in Q3FY17 as the core segments (Home Care and PC) were under pressure. Home Care (32% of sales) displayed weak growth of 1.0%YoY while Personal Care segment (48% of Sales) showed decline of 2.7% 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 was impacted largely due to price hike taken in personal wash segment. With a aim to gain foothold in ayurvedic segment, HUL launched extensive range personal care under "LEVER Ayush" across South India. Foods & Refreshments registered 0.5% & 8.4% growth, respectively.

Impact of Demonetization

Sales were got impacted in Q3FY17 due to reduced trade pipelines and lower consumer off take. Rural Whole sale got badly hit and still in under pressure. Other channels are gradually recovering from Dec. Southern & Western markets are least impacted while north & central was severely impacted. Company facilitated the trade channel with extended credit in Nov. Management mentioned that urban is recovering faster while rural demand is still under stress. Overall, company expects gradual recovery in market. Company focuses on expanding its direct coverage going ahead.

Outlook & Valuation:

HUL management is focusing on volume growth acceleration due to increasing competition in the lull demand & high competition environment. With rising input cost scenario, we expect sales growth would be challenging in the coming quarters too until good monsoon & govt. initiatives start improving consumer sentiments. Rural growth outlook is grim as of now. However, strong operating efficiency and relatively lower A&P spend can expand marginal EBITDA Margin in the coming quarters. We expect Net Sales, EBITDA & PAT to grow by 7.6%, 6.1% & 9% CAGR during FY17-19E, respectively. The stock trades at a high P/E of 39.9x and 36.6x P/E of FY18 & FY19. We believe high valuation captures most of the near to medium term performance improvement. **We maintain our HOLD rating on the stock.**

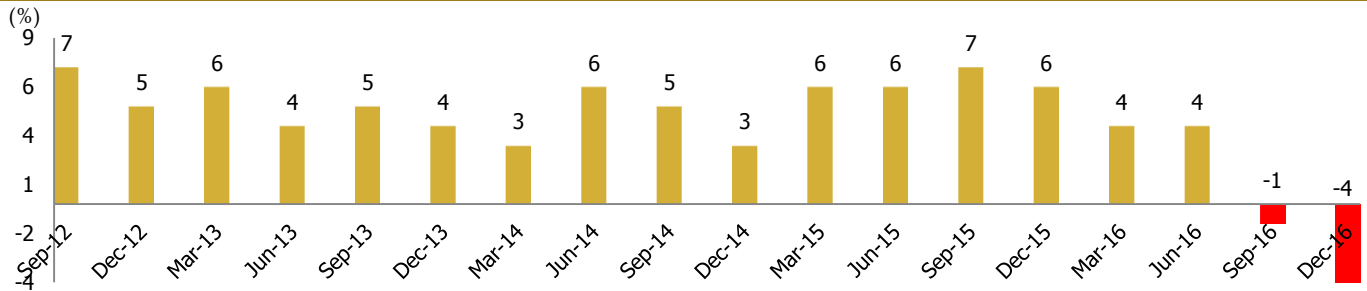


Exhibit 1: Quarterly Performance (Based on IND AS)

Quarterly Snapshot (₹ mn)	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Gross Sales	82,266	81,927	86,624	83,351	81,245
YoY Gr%	na	na	4.4	1.5	(1.2)
Net Sales	77,640	77,212	81,282	78,427	77,060
YoY Gr%	na	na	3.6	1.4	(0.7)
Gross Margin %	51.8	51.2	51.3	49.5	51.4
Margin expansion (YoY)	na	na	102bps	-12bps	-39bps
A&P (% of Sales)	11.9	11.2	10.8	10.9	11.5
Expansion (YoY)	na	na	-56bps	-106bps	-37bps
EBITDA	14,302	14,704	16,359	14,046	13,555
YoY Gr%	na	na	8.2	5.1	(5.2)
EBITDA Margin %	18.4	19.0	20.1	17.9	17.6
Margin expansion (YoY)	na	na	85bps	62bps	-83bps
Reported PAT	9,717	11,136	11,739	10,956	10,379
YoY Gr%	na	na	9.8	11.5	6.8
Adjusted PAT	10,266	10,764	12,224	11,083	9,322
YoY Gr%	na	na	15.0	12.8	(9.2)

Source: Company, Trust

Exhibit 2: Underlying Volume Growth Trajectory



Source: Company, Trust

Segmental Analysis

Home Care – “Weak Performance, premium laundry continue to perform better”

- ❖ Home Care sales disappointed with at 1.0% growth during the quarter. Premium laundry performed well with double digit growth in Surf.
- ❖ Mass segment products faced pressure during the quarter. EBIT de-grew by .6% YoY and EBIT margin contracted by 14 bps to 8.7%

Exhibit 3: Home Care (IND AS)

Particulars	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Revenue	26,619	26,908	26,617	27,982	28,760	27,770	26,891
Revenue Growth (%)	na	na	na	na	8.0%	3.2%	1.0%
Revenue Mix (%)	31.6%	32.3%	31.8%	33.6%	32.7%	32.8%	32.4%
EBIT	2,900	2,246	2,356	3,023	3,559	2,800	2,342
EBIT Growth (%)	na	na	na	na	22.7%	24.7%	-0.6%
EBIT Mix (%)	19.3%	17.5%	16.7%	20.8%	22.6%	20.0%	17.5%
EBIT Margin	10.9%	8.3%	8.9%	10.8%	12.4%	10.1%	8.7%
EBIT Margin Expansion	na	na	na	na	148bps	174bps	-14bps

**Personal Care– “Personal Products growth gets impacted due to price increase in Personal Wash segment”**

- ❖ In Personal Wash, Lifebuoy, Pears and dove were the key products leading the segment and price increase impacted the growth.
- ❖ Launch of Baby Dove is gaining acceptance among consumers.
- ❖ HUL remain focus in expansion of herbal based products and launched ‘LEVER Ayush’ – an exclusive range of personal care products. It comprises of soaps, shampoos, toothpaste, hand washes & faces washes which has been launched across South India. This has been launched in all channels and consists of wide range of 27 SKU’s.
- ❖ EBIT declined by 7.1% and EBIT margin contracted by 108bps in Q3FY17.

Exhibit 4: Personal Care (IND AS)

Particulars	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Revenue	41,094	40,413	40,905	37,703	42,216	40,280	39,802
Revenue Growth (%)	na	na	na	na	2.7%	-0.3%	-2.7%
Revenue Mix (%)	48.8%	48.5%	48.8%	45.3%	48.0%	47.6%	47.9%
EBIT	2,900	2,246	2,356	3,023	10,214	9,226	9,208
EBIT Growth (%)	na	na	na	na	0.3%	3.6%	-7.1%
EBIT Mix (%)	67.6%	69.4%	70.0%	62.2%	64.8%	66.0%	68.9%
EBIT Margin	24.8%	22.0%	24.2%	23.9%	24.2%	22.9%	23.1%
EBIT Margin Expansion	na	na	na	na	-59bps	87bps	-108bps

*Company, Trust***Refreshment– “Healthy Sales & EBIT growth”**

- ❖ Tea portfolio registered double digit growth led by Lipton Green Tea & Natural Care
- ❖ Coffee portfolios faced pressure during the quarter.
- ❖ Ice-cream & frozen desserts showed robust activation led growth in Q3FY17
- ❖ EBIT Margin declined marginally by 11bps to 14.7% in Q3FY17.

Exhibit 5: Refreshment (IND AS)

Particulars	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Revenue	11,508	10,789	10,764	11,758	12,149	11,692	11,641
Revenue Growth (%)	na	na	na	na	5.6%	8.4%	8.1%
Revenue Mix (%)	13.7%	12.9%	12.9%	14.1%	13.8%	13.8%	14.0%
EBIT	1,786	1,469	1,595	1,943	1,921	1,726	1,713
EBIT Growth (%)	na	na	na	na	7.5%	17.5%	7.4%
EBIT Mix (%)	11.9%	11.5%	11.3%	13.4%	12.2%	12.3%	12.8%
EBIT Margin	15.5%	13.6%	14.8%	16.5%	15.8%	14.8%	14.7%
EBIT Margin Expansion	na	na	na	na	29bps	114bps	-11bps

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**Food Business – “Weak sales growth continues”**

- ❖ Food business delivered weak sales growth products.
- ❖ EBIT Margin contracted by 320bps in Q3FY17

Exhibit 6: Foods (IND AS)

Particulars	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Revenue	2,593	2,712	2,772	2,880	2,722	2,778	2,785
Revenue Growth (%)	na	na	na	na	5.0%	2.4%	0.5%
Revenue Mix (%)	3.1%	3.3%	3.3%	3.5%	3.1%	3.3%	3.4%
EBIT	214	164	349	381	170	137	261
EBIT Growth (%)	na	na	na	na	-20.7%	-16.2%	-25.1%
EBIT Mix (%)	1.4%	1.3%	2.5%	2.6%	1.1%	1.0%	2.0%
EBIT Margin	8.2%	6.0%	12.6%	13.2%	6.2%	4.9%	9.4%
EBIT Margin Expansion	na	na	na	na	-202bps	-110bps	-320bps

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Consolidated Financials

P&L Statement

Y/E Mar (₹ mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Revenues	3,31,937	3,41,615	3,66,392	3,95,624	3,31,937
% Growth	3.8	2.9	7.3	8.0	3.8
Raw Material	1,58,664	1,61,926	1,72,571	1,86,339	1,58,664
Staff	17,422	19,511	21,849	24,468	17,422
Other Expenses	96,355	98,372	1,05,924	1,15,196	96,355
Total Expenditures	2,72,441	2,79,808	3,00,344	3,26,002	2,72,441
EBITDA	59,496	61,807	66,048	69,621	59,496
% Growth	9.9	3.9	6.9	5.4	9.9
EBITDA Margins (%)	17.9	18.1	18.0	17.6	17.9
Other Income	3,973	5,786	7,056	9,871	3,973
Interest	45	127	127	127	45
Depreciation	3,573	3,918	4,166	4,414	3,573
Profit Before Tax	59,466	63,547	68,811	74,951	59,466
Provision for tax	18,525	20,144	21,813	23,759	18,525
Effective tax rate (%)	31.2	31.7	31.7	31.7	31.2
Reported PAT	40,824	43,274	46,857	51,036	40,824
% Growth	(6.4)	6.0	8.3	8.9	(6.4)
Adjusted Net Profit	41,089	43,274	46,857	51,036	41,089
% Growth	5.6	5.3	8.3	8.9	5.6

Balance Sheet

Balance Sheet(₹ mn)	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	2,164	2,164	2,164	2,164	2,164
Reserves & surplus	38,111	37,553	34,866	30,655	30,623
Shareholders' funds	40,275	39,717	37,030	32,819	32,787
Minorities interests	252	251	379	520	675
Total Debt	430	2,548	2,548	2,548	2,548
Capital Employed	40,957	42,515	39,957	35,886	36,010
Net fixed assets	33,373	37,279	33,087	32,921	32,508
Cash & Cash Eq.	26,895	30,278	23,921	20,076	18,849
Net Other current assets	(51,560)	(54,849)	(48,358)	(51,917)	(53,652)
Investments	30,251	27,474	28,974	32,474	35,974
Net Deferred tax Assets	1,998	2,333	2,333	2,333	2,333
Total Assets	40,957	42,515	39,957	35,886	36,010

**Cash flow**

Cash Flow Statement(₹ mn)	FY15	FY16	FY17E	FY18E	FY19E
Pre-tax profit	56,403	59,851	63,547	68,811	74,951
Depreciation	3,224	3,573	3,918	4,166	4,414
Total Tax Paid	(18,616)	(17,663)	(20,144)	(21,813)	(23,759)
Chg in working capital	(3,421)	(1,079)	(6,491)	3,558	1,735
Other operating activities	(4,670)	(3,429)	127	127	127
Cash flow from oper (a)	32,919	41,253	40,957	54,850	57,468
Capital Expenditure	(5,726)	(7,914)	273	(4,000)	(4,000)
Chg in investments	(907)	689	(1,500)	(3,500)	(3,500)
Other investing activities	8,012	4,542	-	-	-
Cash flow from inv.(b)	1,379	(2,682)	(1,227)	(7,500)	(7,500)
Free cash flow (a+b)	34,298	38,571	39,730	47,350	49,968
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(25)	2,117	1	1	1
Interest paid	(177)	(45)	(127)	(127)	(127)
Dividend (incl. Tax)	(29,118)	(33,417)	(38,950)	(43,278)	(43,278)
Other financing activities	(5,481)	(6,890)	(7,138)	(7,917)	(7,917)
Cash flow from fin. (c)	(34,801)	(38,235)	(46,215)	(51,322)	(51,322)
Net chg in cash (a+b+c)	(503)	336	(6,485)	(3,972)	(1,354)

Key Ratios

Y/E Mar	FY15	FY16	FY17E	FY18E	FY19E
Raw Material Cost/Sales (%)	50.6	47.8	47.4	47.1	47.1
Manpower Cost/Sales (%)	5.4	5.2	5.7	6.0	6.2
Operating & Other Cost/Sales (%)	27.1	29.0	28.8	28.9	29.1
Revenue Growth (%)	9.4	3.8	2.9	7.3	8.0
EBITDA Margins (%)	16.9	17.9	18.1	18.0	17.6
Net Income Margins (%)	12.2	12.4	12.7	12.8	12.9
ROCE (%)	132.2	139.9	154.7	184.0	193.3
ROE (%)	96.7	103.5	116.9	142.8	155.7

Valuation Parameters

Y/E Mar	FY15	FY16	FY17E	FY18E	FY19E
EPS (₹.)	18.0	19.0	20.0	21.7	23.6
P/E (x)	44.7	44.2	43.2	39.9	36.6
BV (₹)	18.6	18.4	17.1	15.2	15.2
P/BV (x)	43.2	45.8	50.4	56.9	57.0
EV/EBITDA (x)	31.1	29.6	29.4	27.5	26.1
Fixed assets turnover ratio (x)	9.6	8.9	10.3	11.1	12.2
Net Debt/Equity (x)	(0.7)	(0.7)	(0.6)	(0.5)	(0.5)
EV/Sales (x)	5.3	5.3	5.3	5.0	4.6



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