

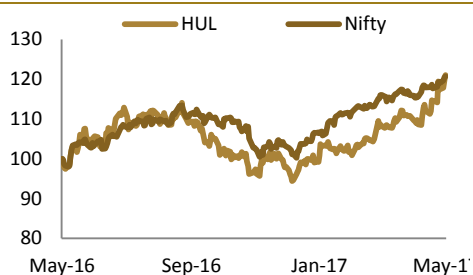
Market Statistics

Current stock price (₹)	1,009
Shares O/S (cr.)	216.4
Mcap (₹cr)	218,469
52W H/L (₹)	1,012/782
6m avg. volume	1,216,387
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	FY17P	FY18E	FY19E
ROE (%)	63.8	74.9	80.4
ROCE (%)	90.0	106.8	108.2
P/B(x)	27.7	33.2	29.9
P/E (x)	43.4	44.3	37.2
EPS (₹)	19.9	22.6	26.9
EV/OCF (x)	30.9	40.3	35.6

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HUL based on INDAS has reported revenue growth of 6.4% to ₹82.0bn vs. our expectation of Rs80.0bn. Domestic consumer business grew healthy at 8% with underlying volume growth of 4%. Volume pick up is encouraging on back of negative volumes in last two quarters.

Core segments, Home care & Personal care has displayed healthy sales growth of 7.4% & - 8.1%, respectively while Refreshment business also showed strong growth of 10.6%. Foods business grew by 2.4% YoY.

Higher input prices led gross margin contraction by 16bps YoY during the quarter and stood at 51.0%. Rising trend in input costs is expected to continue in coming qtrs. A&P spent was soft and de-grew by 1.4% YoY (-82bps YoY) during the quarter. Employee & other expenses moved by 101bps & 64bps YoY in Q3FY17. Hence, EBITDA Margin expanded by 103bps to 20.1%. EBITDA grew by 12.1% to ₹16.5bn vs. our expectation of Rs15.5bn. EBIT Margin for Home care, Personal Care, Foods & Refreshments moved by 215bps, 21bps, -374bps & 32bps YoY respectively.

Reported PAT saw increase of 6.2% YoY to ₹11.8bn. However, Adjusted PAT (excluding exceptional net of taxes) improved by 9.9% to 11.8bn.

In FY17, Sales, EBITDA & PAT increased by 3.0%, 5.3% & 8.0% YoY, respectively.

UVG expands by 4%; regain in pricing power improves Sales

HUL posted positive volume growth of 4% on back of healthy recovery in core segments of Home care & personal care segments. According to management, recovery in volumes was largely due to re-stocking of products of trade post demonetization event. Homecare (34% of sales) showed 7.4% due to premium segment Surf posted robust performance while in House care, vim continue to deliver strong growth. Personal Care (46% of sales) which was facing pressure in earlier qtrs recovered and posted 8.1% growth as prices & input costs stabilized. Refreshment segment showed 10.6% growth led by double digit growth in Tea & healthy performance in ice-creams. We expect company to deliver 5-6% volume growth in coming qtrs.

Concall Highlights:

1) Management stated there rural markets are reviving but partially still remains effected 2) Urban market growth during the quarter was higher than rural market 3) Whole sale trade channel in rural markets are showing gradual recovery 4) Going ahead, GST implementation would create some disruption in Q1FY18 while management stated the GST impact would be larger in wholesale channel of rural markets 5) HUL's initiatives of cost efficiencies, savings in supply chain & logistics from GST implementation would help to improve margins

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 GM expansion would be limited while Sales growth would improve led by volume growth and premiumisation strategy. Rural growth is improving but GST implementation could create some hiccups and delay the growth. 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 10.7%, 14.7% & 14% CAGR during FY17-19E, respectively. The stock trades at a high P/E of 44.3x and 37.2x 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.**

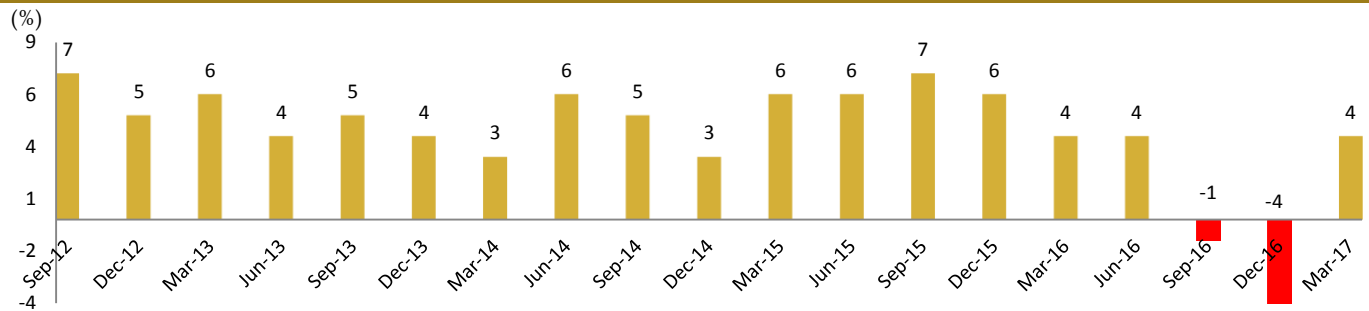


Exhibit 1: Quarterly Performance (Based on IND AS)

Quarterly Snapshot (` mn)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Gross Sales	82,973	82,129	82,266	81,930	86,624	83,351	81,245	87,730
YoY Gr%	na	na	na	na	4.4	1.5	(1.2)	7.1
Net Sales	78,445	77,314	77,640	77,213	81,282	78,427	77,060	82,130
YoY Gr%	na	na	na	na	3.6	1.4	(0.7)	6.4
Gross Margin %	50.3	49.6	51.8	51.2	51.3	49.5	51.4	51.0
Margin expansion (YoY)	na	na	na	na	102bps	-12bps	-39bps	-16bps
A&P (% of Sales)	11.4	11.9	11.9	11.2	10.8	10.9	11.5	10.4
Expansion (YoY)	na	na	na	na	-56bps	-106bps	-37bps	-82bps
EBITDA	15,121	13,366	14,302	14,723	16,359	14,046	13,555	16,510
YoY Gr%	na	na	na	na	8.2	5.1	(5.2)	12.1
EBITDA Margin %	19.3	17.3	18.4	19.1	20.1	17.9	17.6	20.1
Margin expansion (YoY)	na	na	na	na	85bps	62bps	-83bps	103bps
Reported PAT	10,693	9,822	9,717	11,143	11,739	10,956	10,379	11,830
YoY Gr%	na	na	na	na	9.8	11.5	6.8	6.2
Adjusted PAT	10,626	9,823	10,266	10,772	12,224	11,083	9,322	11,837
YoY Gr%	na	na	na	na	15.0	12.8	(9.2)	9.9

Source: Company, Trust

Exhibit 2: Underlying Volume Growth Trajectory



Source: Company, Trust

Segmental Analysis

Home Care – “Broad based growth driven by premiumization”

- ❖ Home Care sales grew by 7.4% during the quarter. Premium laundry performed well with double digit growth in Surf.
- ❖ Vim liquid maintained healthy growth. EBIT grew by 28.7% YoY and EBIT margin expanded by 215 bps to 12.9%

Exhibit 3: Home Care (IND AS)

Particulars	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Revenue	26,619	26,908	26,617	27,982	28,760	27,770	26,891	30,040
Revenue Growth (%)	na	na	na	na	8.0%	3.2%	1.0%	7.4%
Revenue Mix (%)	31.6%	32.3%	31.8%	33.6%	32.7%	32.8%	32.4%	33.8%
EBIT	2,900	2,246	2,356	3,023	3,559	2,800	2,342	3,890
EBIT Growth (%)	na	na	na	na	22.7%	24.7%	-0.6%	28.7%
EBIT Mix (%)	19.3%	17.5%	16.7%	20.8%	22.6%	20.0%	17.5%	24.1%
EBIT Margin	10.9%	8.3%	8.9%	10.8%	12.4%	10.1%	8.7%	12.9%
EBIT Margin Expansion	na	na	na	na	148bps	174bps	-14bps	215bps

**Personal Care– “Sales rebound due to price stabilization”**

- ❖ In Personal Wash, Lifebuoy, Pears and dove were the key products leading the segment and price stabilization resulted into healthy growth.
- ❖ Skin Care saw strong growth driven by Fair & Lovely re-launch. Hair care too delivered double digit growth. I
- ❖ In Oral Care, Close up performance was subdued while Ayush Oral care range performing well in South
- ❖ Lakme color cosmetics continued to show innovation led growth and deodorants performance was led by AXE
- ❖ EBIT grew by 9.0% and EBIT margin expanded by 21bps in Q4FY17.

Exhibit 4: Personal Care (IND AS)

Particulars	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Revenue	41,094	40,413	40,905	37,703	42,216	40,280	39,802	40,750
Revenue Growth (%)	na	na	na	na	2.7%	-0.3%	-2.7%	8.1%
Revenue Mix (%)	48.8%	48.5%	48.8%	45.3%	48.0%	47.6%	47.9%	45.9%
EBIT	2,900	2,246	2,356	3,023	10,214	9,226	9,208	9,840
EBIT Growth (%)	na	na	na	na	0.3%	3.6%	-7.1%	9.0%
EBIT Mix (%)	67.6%	69.4%	70.0%	62.2%	64.8%	66.0%	68.9%	60.9%
EBIT Margin	24.8%	22.0%	24.2%	23.9%	24.2%	22.9%	23.1%	24.1%
EBIT Margin Expansion	na	na	na	na	-59bps	87bps	-108bps	21bps

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Refreshment– “Healthy Sales & EBIT sustained”

- ❖ Tea portfolio registered double digit growth led by Lipton Green Tea & Natural Care
- ❖ Ice-cream & frozen desserts showed robust activation led growth in Q4FY17
- ❖ EBIT Margin improved by 32bps to 16.8% in Q4FY17.

Exhibit 5: Refreshment (IND AS)

Particulars	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Revenue	11,508	10,789	10,764	11,758	12,149	11,692	11,641	13,000
Revenue Growth (%)	na	na	na	na	5.6%	8.4%	8.1%	10.6%
Revenue Mix (%)	13.7%	12.9%	12.9%	14.1%	13.8%	13.8%	14.0%	14.6%
EBIT	1,786	1,469	1,595	1,943	1,921	1,726	1,713	2,190
EBIT Growth (%)	na	na	na	na	7.5%	17.5%	7.4%	12.7%
EBIT Mix (%)	11.9%	11.5%	11.3%	13.4%	12.2%	12.3%	12.8%	13.6%
EBIT Margin	15.5%	13.6%	14.8%	16.5%	15.8%	14.8%	14.7%	16.8%
EBIT Margin Expansion	na	na	na	na	29bps	114bps	-11bps	32bps

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

- ❖ Food business delivered weak sales growth products.
- ❖ EBIT Margin contracted by 374bps in Q4FY17

Exhibit 6: Foods (IND AS)

Particulars	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Revenue	2,593	2,712	2,772	2,880	2,722	2,778	2,785	2,950
Revenue Growth (%)	na	na	na	na	5.0%	2.4%	0.5%	2.4%
Revenue Mix (%)	3.1%	3.3%	3.3%	3.5%	3.1%	3.3%	3.4%	3.3%
EBIT	214	164	349	381	170	137	261	280
EBIT Growth (%)	na	na	na	na	-20.7%	-16.2%	-25.1%	-26.5%
EBIT Mix (%)	1.4%	1.3%	2.5%	2.6%	1.1%	1.0%	2.0%	1.7%
EBIT Margin	8.2%	6.0%	12.6%	13.2%	6.2%	4.9%	9.4%	9.5%
EBIT Margin Expansion	na	na	na	na	-202bps	-110bps	-320bps	-374bps

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Consolidated Financials

P&L Statement

Y/E Mar (₹ mn)	FY15	FY16	FY17P	FY18E	FY19E
Net Revenues	319,722	321,860	331,620	366,954	406,119
% Growth	9.4	0.7	3.0	10.7	10.7
Raw Material	161,761	158,670	163,130	173,835	191,282
Staff	17,239	16,800	17,430	19,723	22,478
Other Expenses	86,585	86,190	87,660	98,695	109,016
Total Expenditures	265,584	261,660	268,220	292,253	322,776
EBITDA	54,138	60,200	63,400	74,701	83,343
% Growth	14.2	11.2	5.3	17.8	11.6
EBITDA Margins (%)	16.9	18.7	19.1	20.4	20.5
Interest	177	170	350	458	467
Depreciation	3,224	3,530	4,320	4,946	5,197
Profit Before Tax	56,093	60,420	64,790	69,188	78,317
Provision for tax	19,440	18,830	19,770	19,373	19,579
Effective tax rate (%)	34.7	31.2	30.5	28.0	25.0
Reported PAT	36,529	41,400	44,700	49,684	58,592
% Growth	(7.4)	13.3	8.0	11.1	17.9
Adjusted Net Profit	36,732	41,614	43,041	48,854	58,178
% Growth	(2.2)	13.3	3.4	13.5	19.1

Balance Sheet

Balance Sheet (₹ mn)	FY15	FY16	FY17P	FY18E	FY19E
Equity Share Capital	2,164	2,164	2,164	2,164	2,164
Reserves & surplus	38,111	63,570	65,280	63,066	70,176
Shareholders' funds	40,275	65,734	67,444	65,230	72,340
Minorities interests	252	200	220	352	497
Total Debt	430	2,040	2,800	3,528	2,928
Capital Employed	40,957	67,974	70,464	69,940	77,011
Net fixed assets	33,373	36,660	46,480	45,534	44,337
Cash & Cash Eq.	26,895	30,090	18,280	12,210	11,733
Net Other current assets	(51,560)	(32,396)	(40,866)	(37,874)	(32,629)
Investments	30,251	31,750	44,700	48,200	51,700
Net Deferred tax Assets	1,998	1,870	1,870	1,870	1,870
Total Assets	40,957	67,974	70,464	69,940	77,011

**Cash flow**

Cash Flow Statement(₹ mn)	FY15	FY16	FY17P	FY18E	FY19E
Pre-tax profit	56,403	59,851	64,790	69,188	78,317
Depreciation	3,224	3,573	4,320	4,946	5,197
Total Tax Paid	(18,616)	(17,663)	(19,470)	(19,373)	(19,579)
Chg in working capital	(3,421)	(1,079)	8,470	(2,992)	(5,244)
Other operating activities	(4,670)	(3,429)	350	458	467
Cash flow from oper (a)	32,919	41,253	58,460	52,227	59,157
Capital Expenditure	(5,726)	(7,914)	(14,140)	(4,000)	(4,000)
Chg in investments	(907)	689	(12,950)	(3,500)	(3,500)
Other investing activities	8,012	4,542	-	-	-
Cash flow from inv.(b)	1,379	(2,682)	(27,090)	(7,500)	(7,500)
Free cash flow (a+b)	34,298	38,571	31,370	44,727	51,657
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(25)	2,117	761	729	(599)
Interest paid	(177)	(45)	(350)	(458)	(467)
Dividend (incl. Tax)	(29,118)	(33,417)	(38,950)	(43,278)	(43,278)
Other financing activities	(5,481)	(6,890)	(7,361)	(8,248)	(8,257)
Cash flow from fin. (c)	(34,801)	(38,235)	(45,900)	(51,254)	(52,601)
Net chg in cash (a+b+c)	(503)	336	(14,531)	(6,528)	(944)

Key Ratios

Y/E Mar	FY15	FY16	FY17P	FY18E	FY19E
Raw Material Cost/Sales (%)	50.6	49.3	49.2	47.4	47.1
Manpower Cost/Sales (%)	5.4	5.2	5.3	5.4	5.5
Operating & Other Cost/Sales (%)	27.1	26.8	26.4	26.9	26.8
Revenue Growth (%)	9.4	0.7	3.0	10.7	10.7
EBITDA Margins (%)	16.9	18.7	19.1	20.4	20.5
Net Income Margins (%)	11.5	12.9	13.0	13.3	14.3
ROCE (%)	132.2	88.6	90.0	106.8	108.2
ROE (%)	91.2	63.3	63.8	74.9	80.4

Valuation Parameters

Y/E Mar	FY15	FY16	FY17P	FY18E	FY19E
EPS (₹.)	17.0	19.2	19.9	22.6	26.9
P/E (x)	47.4	43.7	43.4	44.3	37.2
BV (₹)	18.6	30.4	31.2	30.1	33.4
P/BV (x)	43.2	27.7	27.7	33.2	29.9
EV/EBITDA (x)	31.1	29.2	28.5	28.2	25.2
Fixed assets turnover ratio (x)	9.6	8.8	7.1	8.1	9.2
Net Debt/Equity (x)	(0.7)	(0.4)	(0.2)	(0.1)	(0.1)
EV/Sales (x)	5.3	5.5	5.4	5.7	5.2



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Hold 15% to -15%

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