

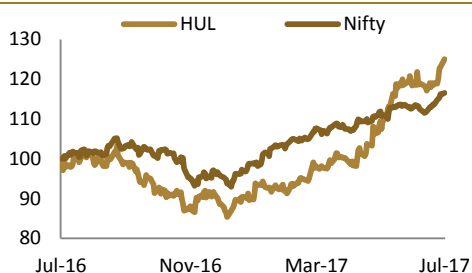
**Market Statistics**

Current stock price (₹)	1,158
Shares O/S (cr.)	216.4
Mcap (₹cr)	250,688
52W H/L (₹)	1,190/782
6m avg. volume	1,457,743
Bloomberg	HUVR IN

**Shareholding pattern (%)**

Promoters	67.20
Domestic Institution	5.62
Foreign Institution	13.45
Non-institution	13.73
of which more than 1%	
Life Insurance Corporation of India	1.89

**HUL vs Nifty**



**Capital efficiency & valuations**

Particulars	FY17	FY18E	FY19E
ROE (%)	63.8	70.6	73.3
ROCE (%)	86.6	104.3	106.2
P/B(x)	27.7	36.4	33.0
P/E (x)	43.4	51.6	45.1
EPS (₹)	19.9	22.5	25.7
EV/OCF (x)	35.0	41.4	42.6

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HUL based on INDAS has reported revenue growth of 4.9% to ₹85.2bn. Domestic consumer business grew by 6% with flat underlying volume.

Core segments, Home care & Personal care has displayed sales growth of 7.4% & 3.5%, respectively while Refreshment business also showed strong growth of 10.8%. Foods business grew by 4.4% YoY. PP (47% of sales) segment growth of 3.5% is low which showed 8.5% growth in Q4FY17. Being discretionary in nature, PP segment was more impacted resulting into de-stocking in GST implementation. In the coming qtrs, close watch on PP segment revival with sustainable volumes need to be kept.

Input prices were stable in the quarter that led gross margin expansion by 78bps YoY during the quarter and stood at 52.1%. A&P spent was soft and grew by 2.9% YoY (-21bps YoY) during the quarter. Employee & other expenses moved by -33bps & -43bps YoY in Q1FY18. Hence, EBITDA Margin expanded by 176bps to 21.9%. EBITDA grew by 14.1% to ₹18.6bn. EBIT Margin for Home care, Personal Care, Foods & Refreshments moved by 233bps, 51bps, 820bps & 314bps YoY respectively.

Reported PAT saw increase of 9.3% YoY to ₹12.83bn. However, Adjusted PAT (excluding exceptional net of taxes) improved by 4.8% to 12.81bn.

**UVG was flat; healthy growth across segments barring Personal Care**

HUL’s domestic growth was at 6% led by price hike taken in last quarter while volumes were flat. De-stocking particularly in discretionary products impacted the volumes during the quarter. However, HUL transition to GST has been swift and smooth with no disruption in trade servicing and in-bound supplies were normal. Management stated that first 2 weeks of July saw severe disruption in trade channel while recovery is gradual. Consumer off take and footfalls were not seen reducing and remains normal. Homecare (33% of sales) showed 5.9% due to premium segment Surf posted robust performance while water business was muted led by de-stocking. Personal Care (47% of sales) growth was slow at 3.5% YoY due to trade pipeline disruption particularly in CSD. Refreshment segment showed 10.8% 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 market remain challenging and expect gradual pick up 2) Stable raw material prices along with cost savings programs would support margin expansion in coming qtrs. 3) HUL would pass the net GST benefit to the consumers led by the tax reduction in Detergent bars, skin cleansing, toothpastes and hair oils 4) Post GST, tax inched up in Detergent powders, hair care(excluding hair oil), skin creams, color cosmetics & coffee 5) Ayurvedic Porfolio under ‘Ayush Brand’ has been rolled out nationally 6) Expect trade stock to buildup to normal levels in coming months.

**Outlook & Valuation:**

HUL management is focusing on volume growth acceleration due to increasing competition in the lull demand & high competition environment. With input cost expectation to remain stable coupled with cost savings initiatives, we expect margin to improve. However, PP segment which saw rebound in sales in Q4FY17 with 8% growth, sustainability of the same in the coming quarters would be in focus. Sales growth would improve led by volume growth and premiumisation strategy. Rural growth challenges persist, however gradual pick up would support the growth in coming qtrs. We expect Net Sales, EBITDA & PAT to grow by 10.7%, 16.1% & 14% CAGR during FY17-19E, respectively. The stock trades at a high P/E of 51.6x and 45.1x of FY18 & FY19 estimated EPS. We believe high valuation captures most of the near to medium term performance improvement. **We maintain our HOLD rating on the stock.**

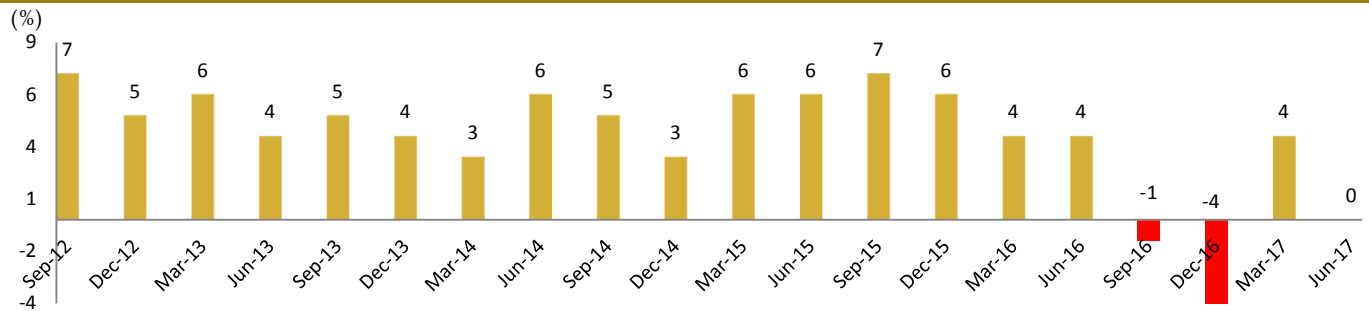


**Exhibit 1: Quarterly Performance (Based on IND AS)**

Quarterly Snapshot ( ` mn)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
<b>Gross Sales</b>	<b>82,129</b>	<b>82,266</b>	<b>81,930</b>	<b>86,624</b>	<b>83,351</b>	<b>81,245</b>	<b>87,730</b>	<b>90,940</b>
YoY Gr%	na	na	na	4.4	1.5	(1.2)	7.1	5.0
<b>Net Sales</b>	<b>77,314</b>	<b>77,640</b>	<b>77,213</b>	<b>81,278</b>	<b>78,427</b>	<b>77,060</b>	<b>82,130</b>	<b>85,290</b>
YoY Gr%	na	na	na	3.6	1.4	(0.7)	6.4	4.9
Gross Margin %	49.6	51.8	51.2	51.3	49.5	51.4	51.0	52.1
Margin expansion (YoY)	na	na	na	102bps	-12bps	-39bps	-16bps	78bps
A&P (% of Sales)	11.9	11.9	11.2	10.8	10.9	11.5	10.4	10.6
Expansion (YoY)	na	na	na	-56bps	-106bps	-37bps	-82bps	-21bps
<b>EBITDA</b>	<b>13,366</b>	<b>14,302</b>	<b>14,723</b>	<b>16,356</b>	<b>14,046</b>	<b>13,555</b>	<b>16,510</b>	<b>18,660</b>
YoY Gr%	na	na	na	8.2	5.1	(5.2)	12.1	14.1
EBITDA Margin %	17.3	18.4	19.1	20.1	17.9	17.6	20.1	21.9
Margin expansion (YoY)	na	na	na	85bps	62bps	-83bps	103bps	176bps
<b>Reported PAT</b>	<b>9,822</b>	<b>9,717</b>	<b>11,143</b>	<b>11,736</b>	<b>10,956</b>	<b>10,379</b>	<b>11,830</b>	<b>12,830</b>
YoY Gr%	na	na	na	9.8	11.5	6.8	6.2	9.3
<b>Adjusted PAT</b>	<b>9,823</b>	<b>10,266</b>	<b>10,772</b>	<b>12,220</b>	<b>11,083</b>	<b>9,322</b>	<b>11,837</b>	<b>12,810</b>
YoY Gr%	na	na	na	15.0	12.8	(9.2)	9.9	4.8

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 5.9% during the quarter. Premium laundry performed well with volume led growth in Surf.
- ❖ Water business growth was muted during the quarter due to lower trade purchases and de-stocking before GST implementation.
- ❖ EBIT grew by 25.8% YoY and EBIT margin expanded by 233bps to 14.7%

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

Particulars	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Revenue	26,908	26,617	27,982	28,760	27,770	26,891	30,040	30,470
Revenue Growth (%)	na	na	na	8.0%	3.2%	1.0%	7.4%	5.9%
Revenue Mix (%)	32.3%	31.8%	33.6%	32.7%	32.8%	32.4%	33.8%	33.1%
EBIT	2,246	2,356	3,023	3,559	2,800	2,342	3,890	4,480
EBIT Growth (%)	na	na	na	22.7%	24.7%	-0.6%	28.7%	25.9%
EBIT Mix (%)	17.5%	16.7%	20.8%	22.6%	20.0%	17.5%	24.1%	24.7%
EBIT Margin	8.3%	8.9%	10.8%	12.4%	10.1%	8.7%	12.9%	14.7%
EBIT Margin Expansion	na	na	na	148bps	174bps	-14bps	215bps	233bps

**Personal Care– “Sales lowered down after strong showing strong pick up in last quarter”**

- ❖ Personal Wash segment which forms 47% of total portfolio showed 3.5% in Q1FY17.
- ❖ Color cosmetics showed robust growth while Close-up performance remains sluggish.
- ❖ Broad based growth across all brands in Personal Wash
- ❖ Fair & Lovely re-launch was well accepted while company launched Citra in the face care segment during the quarter.
- ❖ Ayush (Ayurvedic range) portfolio was rolled out across India after successful test marketing
- ❖ EBIT grew by 5.6% and EBIT margin expanded by 51bps to 24.7% in Q1FY18.

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

Particulars	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Revenue	40,413	40,905	37,703	42,220	40,280	39,802	40,750	43,680
Revenue Growth (%)	na	na	na	2.7%	-0.3%	-2.7%	8.1%	3.5%
Revenue Mix (%)	48.5%	48.8%	45.3%	48.0%	47.6%	47.9%	45.9%	47.4%
EBIT	2,246	2,356	3,023	10,214	9,226	9,208	9,840	10,790
EBIT Growth (%)	na	na	na	0.3%	3.6%	-7.1%	9.0%	5.6%
EBIT Mix (%)	69.4%	70.0%	62.2%	64.8%	66.0%	68.9%	60.9%	59.4%
EBIT Margin	22.0%	24.2%	23.9%	24.2%	22.9%	23.1%	24.1%	24.7%
EBIT Margin Expansion	na	na	na	-59bps	87bps	-108bps	21bps	51bps

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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 Q1FY18
- ❖ EBIT Margin improved by 314bps to 18.9% in Q1FY18.

**Exhibit 5: Refreshment (IND AS)**

Particulars	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Revenue	10,789	10,764	11,758	12,150	11,692	11,641	13,000	13,460
Revenue Growth (%)	na	na	na	5.6%	8.4%	8.1%	10.6%	10.8%
Revenue Mix (%)	12.9%	12.9%	14.1%	13.8%	13.8%	14.0%	14.6%	14.6%
EBIT	1,469	1,595	1,943	1,921	1,726	1,713	2,190	2,550
EBIT Growth (%)	na	na	na	7.5%	17.5%	7.4%	12.7%	32.8%
EBIT Mix (%)	11.5%	11.3%	13.4%	12.2%	12.3%	12.8%	13.6%	14.0%
EBIT Margin	13.6%	14.8%	16.5%	15.8%	14.8%	14.7%	16.8%	18.9%
EBIT Margin Expansion	na	na	na	29bps	114bps	-11bps	32bps	314bps

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**Food Business – “Sales growth improved”**

- ❖ Food business delivered better sales growth of 4.4% led by soups & Jams category.
- ❖ EBIT Margin expanded sharply by 820bps in Q1FY18 to 14.4%

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

Particulars	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Revenue	2,712	2,772	2,880	2,720	2,778	2,785	2,950	2,840
Revenue Growth (%)	na	na	na	4.9%	2.4%	0.5%	2.4%	4.4%
Revenue Mix (%)	3.3%	3.3%	3.5%	3.1%	3.3%	3.4%	3.3%	3.1%
EBIT	164	349	381	170	137	261	280	410
EBIT Growth (%)	na	na	na	-20.7%	-16.2%	-25.1%	-26.5%	141.6%
EBIT Mix (%)	1.3%	2.5%	2.6%	1.1%	1.0%	2.0%	1.7%	2.3%
EBIT Margin	6.0%	12.6%	13.2%	6.2%	4.9%	9.4%	9.5%	14.4%
EBIT Margin Expansion	na	na	na	-201bps	-110bps	-320bps	-374bps	820bps

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## Consolidated Financials

### P&L Statement

Y/E Mar (₹ mn)	FY15	FY16	FY17	FY18E	FY19E
<b>Net Revenues</b>	<b>319,722</b>	<b>321,860</b>	<b>331,620</b>	<b>366,954</b>	<b>406,119</b>
% 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	19,520	22,211
Other Expenses	86,585	86,192	87,660	96,960	107,107
Total Expenditures	265,584	261,662	268,220	290,316	320,600
<b>EBITDA</b>	<b>54,138</b>	<b>60,198</b>	<b>63,400</b>	<b>76,639</b>	<b>85,519</b>
% Growth	14.2	11.2	5.3	20.9	11.6
EBITDA Margins (%)	16.9	18.7	19.1	20.9	21.1
Interest	177	170	350	349	247
Depreciation	3,224	3,530	4,320	5,008	5,385
<b>Profit Before Tax</b>	<b>56,093</b>	<b>60,328</b>	<b>64,790</b>	<b>69,297</b>	<b>78,536</b>
Provision for tax	19,440	18,830	19,770	19,750	22,383
Effective tax rate (%)	34.7	31.2	30.5	28.5	28.5
<b>Reported PAT</b>	<b>36,529</b>	<b>41,308</b>	<b>44,700</b>	<b>49,416</b>	<b>56,008</b>
% Growth	(7.4)	13.1	8.2	10.5	13.3
<b>Adjusted Net Profit</b>	<b>36,732</b>	<b>41,583</b>	<b>43,041</b>	<b>48,586</b>	<b>55,594</b>
% Growth	(2.2)	13.2	3.5	12.9	14.4

### Balance Sheet

Balance Sheet (₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	2,164	2,164	2,164	2,164	2,164
Reserves & surplus	62,380	63,570	65,280	66,628	73,707
<b>Shareholders' funds</b>	<b>64,544</b>	<b>65,734</b>	<b>67,444</b>	<b>68,792</b>	<b>75,871</b>
Minorities interests	190	200	220	352	497
Total Debt	1,346	3,564	5,570	3,528	2,928
<b>Capital Employed</b>	<b>66,080</b>	<b>69,498</b>	<b>73,234</b>	<b>73,502</b>	<b>80,542</b>
Net fixed assets	32,900	36,660	46,480	47,471	48,086
Cash & Cash Eq.	29,810	32,480	21,590	21,564	20,101
Net Other current assets	(27,191)	(28,461)	(35,760)	(39,897)	(35,509)
Investments	28,990	27,130	39,220	42,660	46,160
Net Deferred tax Assets	1,570	1,690	1,700	1,700	1,700
<b>Total Assets</b>	<b>66,080</b>	<b>69,498</b>	<b>73,234</b>	<b>73,502</b>	<b>80,542</b>

**Cash flow**

Cash Flow Statement(₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	56,403	60,580	62,290	69,297	78,536
Depreciation	3,224	3,530	4,320	5,008	5,385
Total Tax Paid	(18,616)	(17,650)	(18,590)	(19,750)	(22,383)
Chg in working capital	(3,421)	(810)	7,150	4,137	(4,388)
Other operating activities	(4,670)	(3,940)	(3,320)	349	247
<b>Cash flow from oper (a)</b>	<b>32,919</b>	<b>41,710</b>	<b>51,850</b>	<b>59,042</b>	<b>57,398</b>
Capital Expenditure	(5,726)	(7,780)	(14,520)	(6,000)	(6,000)
Chg in investments	(907)	2,770	(11,310)	(3,440)	(3,500)
Other investing activities	8,012	2,190	14,100	-	-
<b>Cash flow from inv.(b)</b>	<b>1,379</b>	<b>(2,820)</b>	<b>(11,730)</b>	<b>(9,440)</b>	<b>(9,500)</b>
<b>Free cash flow (a+b)</b>	<b>34,298</b>	<b>38,890</b>	<b>40,120</b>	<b>49,602</b>	<b>47,898</b>
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(25)	1,770	1,000	(2,041)	(599)
Interest paid	(177)	(20)	(140)	(349)	(247)
Dividend (incl. Tax)	(29,118)	(33,660)	(35,830)	(40,032)	(41,114)
Other financing activities	(5,304)	(6,730)	(7,170)	(7,206)	(7,401)
<b>Cash flow from fin. (c)</b>	<b>(34,624)</b>	<b>(38,640)</b>	<b>(42,140)</b>	<b>(49,628)</b>	<b>(49,361)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(326)</b>	<b>250</b>	<b>(2,020)</b>	<b>(26)</b>	<b>(1,463)</b>

**Key Ratios**

Y/E Mar	FY15	FY16	FY17	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	5.3	5.5
Operating & Other Cost/Sales (%)	27.1	26.8	26.4	26.4	26.4
Revenue Growth (%)	9.4	0.7	3.0	10.7	10.7
EBITDA Margins (%)	16.9	18.7	19.1	20.9	21.1
Net Income Margins (%)	11.5	12.9	13.0	13.2	13.7
ROCE (%)	81.9	86.6	86.6	104.3	106.2
ROE (%)	56.9	63.3	63.8	70.6	73.3

**Valuation Parameters**

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (₹.)	17.0	19.2	19.9	22.5	25.7
P/E (x)	47.4	43.7	43.4	51.6	45.1
BV (₹)	29.8	30.4	31.2	31.8	35.1
P/BV (x)	27.0	27.7	27.7	36.4	33.0
EV/EBITDA (x)	31.1	29.3	28.6	31.9	28.6
Fixed assets turnover ratio (x)	9.7	8.8	7.1	7.7	8.4
Net Debt/Equity (x)	(0.4)	(0.4)	(0.2)	(0.3)	(0.2)
EV/Sales (x)	5.3	5.5	5.5	6.7	6.0



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Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

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**Recommendation**      **Expected absolute returns (%) over 12 months**

Buy                              More than 15%

Hold                             15% to -15%

Sell                              Less than -15%

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