



HUL

Q2FY18 Result Update

“Healthy performance across all segments ”

Sector: FMCG

CMP: ₹ 1272

Recommendation: Hold

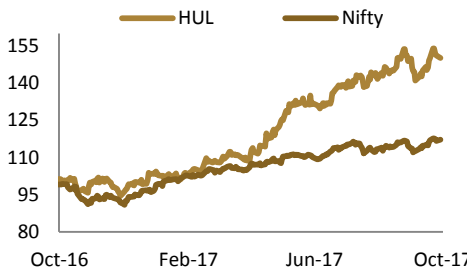
Market Statistics

Current stock price (₹)	1,272
Shares O/S (cr.)	216.4
Mcap (₹cr)	275,419
52W H/L (₹)	1,289/782
6m avg. volume	1,406,115
Bloomberg	HUVR IN

Shareholding pattern (%)

Promoters	67.19
Domestic Institution	5.77
Foreign Institution	13.21
Non-institution	13.83
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	70.9	72.6
ROCE (%)	86.6	101.4	104.4
P/B(x)	27.7	39.6	36.0
P/E (x)	43.4	55.9	49.7
EPS (₹)	19.9	22.8	25.6
EV/OCF (x)	35.0	45.3	46.8

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HUL based on INDAS has reported revenue growth of 5.9% to ₹83.09bn. Due to GST transition, turnover looks suppressed compared with actual sales growth. Comparable Domestic consumer business grew by 10% with 4% underlying volume.

Comparable growth on like to like basis, core segments, Home care & Personal care has displayed sales growth of 13% & 8%, respectively. Foods & Refreshment business showed strong growth of 11% & 10% YoY. PP (47% of sales) segment growth of 8% is highly encouraging.

Input prices are moving up while GM expansion of 323bps during the quarter is largely due to cost rebalancing due to GST which was earlier associated with RM cost. This cost has been netted from Sales. While the price hike taken in previous qtr also supported the GM expansion.

A&P spent increased by 20% YoY (+146bps YoY). Employee & other expenses moved by 19bps & -74bps YoY in Q2FY18. Hence, EBITDA Margin expanded by 233bps to 20.2%. EBITDA grew by 19.7% to ₹16.8bn.

Reported PAT saw increase of 16.5% YoY to ₹12.76bn vs our expectation of ₹12.04bn. However, Adjusted PAT (excluding exceptional net of taxes) improved by 15.2% to 12.77bn.

UVG picked up by 4%; healthy growth across segments.

HUL's domestic growth inched up by 10% on like to like basis led by healthy broad based growth across segments. Re-stocking was gradual during the quarter. **Homecare (33% of sales)** showed 13% YoY led by strong growth in VIM portfolio in house hold category while in fabric wash, premium products surf and rin continue to show double digit growth. **Personal Care (47% of sales)** grew by 8% YoY due to broad based growth across categories. Dove & Lux lead the category growth in personal wash category. Skin Care segment growth was weak while in Hair Care – Indulekha have surpassed the expectation and witnessing strong growth. Color cosmetics double digit growth sustained. Oral Care seg pertaining to pepsodent, performance remain subdued. Management is hopeful sales to rebound in segment with the launch of Ayush toothpaste. **Refreshment segment (14% sales)** showed 10% growth led by double digit growth both in tea and coffee & healthy performance in ice-creams. **Foods segment** also showed 11% growth led by Ketchup under Kissan. We expect company to deliver 5-6% volume growth in coming qtrs.

Concall Highlights:

1) Raw material prices are inching up, however cost savings programs would support margin in coming qtrs. 2) HUL had pass the net GST benefit to the consumers by taking price cuts in range of 3-4% 3) Ayurvedic Porfolio under 'Ayush Brand' has been rolled out nationally 4) There was one-time profit of Rs 460mn on account of sale of equity shares of KCLL. 5) Wholesale and CSD channels stabilizing gradually while consumer offtake are stable.

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. PP segment sales rebound by 8% is positive, 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 10.3%, 15.5% & 13% CAGR during FY17-19E, respectively. The stock trades at a high P/E of 56x and 49.7x 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.**

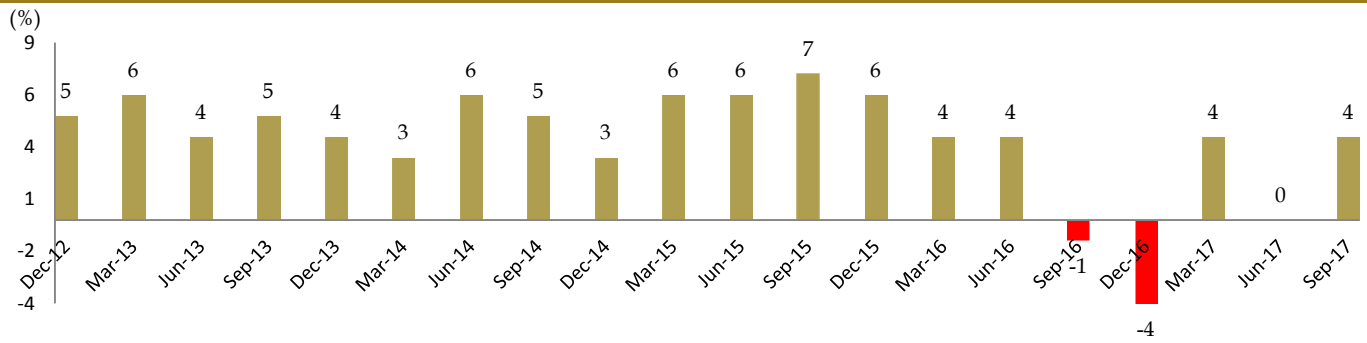


Exhibit 1: Quarterly Performance (Based on IND AS)

Quarterly Snapshot (₹ mn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Sales	77,640	77,213	81,278	78,427	77,060	82,130	85,290	83,090
YoY Gr%	na	na	3.6	1.4	(0.7)	6.4	4.9	5.9
Gross Margin %	51.8	51.2	51.3	49.5	51.4	51.0	52.1	52.7
Margin expansion (YoY)	na	na	102bps	-12bps	-39bps	-16bps	78bps	323bps
A&P (% of Sales)	11.9	11.2	10.8	10.9	11.5	10.4	10.6	12.3
Expansion (YoY)	na	na	-56bps	-106bps	-37bps	-82bps	-21bps	146bps
EBITDA	14,302	14,723	16,356	14,046	13,555	16,510	18,660	16,820
YoY Gr%	na	na	8.2	5.1	(5.2)	12.1	14.1	19.7
EBITDA Margin %	18.4	19.1	20.1	17.9	17.6	20.1	21.9	20.2
Margin expansion (YoY)	na	na	85bps	62bps	-83bps	103bps	176bps	233bps
Reported PAT	9,717	11,143	11,736	10,956	10,379	11,830	12,830	12,760
YoY Gr%	na	na	9.8	11.5	6.8	6.2	9.3	16.5
Adjusted PAT	10,266	10,772	12,220	11,083	9,322	11,837	12,810	12,770
YoY Gr%	na	na	15.0	12.8	(9.2)	9.9	4.8	15.2

Source: Company, Trust

Exhibit 2: Underlying Volume Growth Trajectory



Source: Company, Trust



Consolidated Financials

P&L Statement

Y/E Mar (₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	319,722	321,860	331,620	362,218	403,115
% Growth	9.4	0.7	3.0	9.2	11.3
Raw Material	161,761	158,670	163,130	171,605	189,867
Staff	17,239	16,800	17,430	19,520	22,211
Other Expenses	86,585	86,192	87,660	95,865	106,448
Total Expenditures	265,584	261,662	268,220	286,990	318,527
EBITDA	54,138	60,198	63,400	75,228	84,588
% Growth	14.2	11.2	5.3	18.7	12.4
EBITDA Margins (%)	16.9	18.7	19.1	20.8	21.0
Interest	177	170	350	349	247
Depreciation	3,224	3,530	4,320	5,008	5,385
Profit Before Tax	56,093	60,328	64,790	70,262	78,295
Provision for tax	19,440	18,830	19,770	20,025	22,314
Effective tax rate (%)	34.7	31.2	30.5	28.5	28.5
Reported PAT	36,529	41,308	44,700	50,105	55,835
% Growth	(7.4)	13.1	8.2	12.1	11.4
Adjusted Net Profit	36,732	41,583	43,041	49,276	55,421
% Growth	(2.2)	13.2	3.5	14.5	12.5

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	67,318	74,224
Shareholders' funds	64,544	65,734	67,444	69,482	76,388
Minorities interests	190	200	220	352	497
Total Debt	1,346	3,564	5,570	3,528	2,928
Capital Employed	66,080	69,498	73,234	74,192	81,059
Net fixed assets	32,900	36,660	46,480	47,471	48,086
Cash & Cash Eq.	29,810	32,480	21,590	21,925	20,462
Net Other current assets	(27,191)	(28,461)	(35,760)	(39,569)	(35,353)
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
Total Assets	66,080	69,498	73,234	74,192	81,059

**Cash flow**

Cash Flow Statement(₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	56,403	60,580	62,290	70,262	78,295
Depreciation	3,224	3,530	4,320	5,008	5,385
Total Tax Paid	(18,616)	(17,650)	(18,590)	(20,025)	(22,314)
Chg in working capital	(3,421)	(810)	7,150	3,809	(4,216)
Other operating activities	(4,670)	(3,940)	(3,320)	349	247
Cash flow from oper (a)	32,919	41,710	51,850	59,403	57,397
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	-	-
Cash flow from inv.(b)	1,379	(2,820)	(11,730)	(9,440)	(9,500)
Free cash flow (a+b)	34,298	38,890	40,120	49,963	47,897
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)
Cash flow from fin. (c)	(34,624)	(38,640)	(42,140)	(49,628)	(49,361)
Net chg in cash (a+b+c)	(326)	250	(2,020)	335	(1,464)

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	5.4	5.5
Operating & Other Cost/Sales (%)	27.1	26.8	26.4	26.5	26.4
Revenue Growth (%)	9.4	0.7	3.0	9.2	11.3
EBITDA Margins (%)	16.9	18.7	19.1	20.8	21.0
Net Income Margins (%)	11.5	12.9	13.0	13.6	13.7
ROCE (%)	81.9	86.6	86.6	101.4	104.4
ROE (%)	56.9	63.3	63.8	70.9	72.6

Valuation Parameters

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (₹.)	17.0	19.2	19.9	22.8	25.6
P/E (x)	47.4	43.7	43.4	55.9	49.7
BV (₹)	29.8	30.4	31.2	32.1	35.3
P/BV (x)	27.0	27.7	27.7	39.6	36.0
EV/EBITDA (x)	31.1	29.3	28.6	35.8	31.8
Fixed assets turnover ratio (x)	9.7	8.8	7.1	7.6	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	7.4	6.7



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