

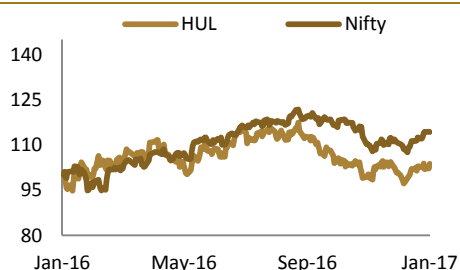
Market Statistics

Current stock price (₹)	1,375
Shares O/S (cr.)	216.4
Mcap (₹cr)	297,540
52W H/L (₹)	1,391/827
6m avg. volume	1,186,566
Bloomberg	HUVR IN

Shareholding pattern (%)

Promoters	67.19
Domestic Institution	6.28
Foreign Institution	12.89
Non-institution	13.64
of which more than 1%	
Life Insurance Corporation of India	2.55

HUL vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
ROE (%)	63.8	70.6	73.5
ROCE (%)	86.6	97.3	101.7
P/B(x)	29.2	43.2	38.9
P/E (x)	45.8	61.2	52.9
EPS (₹)	19.9	22.5	26.0
EV/OCF (x)	37.0	50.1	45.9

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HUL based on INDAS has reported revenue growth of 11.4% to Rs85.09bn. Comparable Domestic consumer business grew by 17% with 11% underlying volume.

Comparable growth on like to like basis, core segments, Home care & Personal care has displayed strong sales growth of 20% & 17%, respectively. Foods & Refreshment business also showed healthy growth of 18% & 13% YoY. PP (47% of sales) segment growth of 17% is highly encouraging.

Input prices are moving up while GM expansion of 314bps 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. Cost Saving program also supported the GM margin. They have taken price cut post the GST rate cut in various categories.

A&P spent increased by 25% YoY (+140bps YoY). Employee & other expenses moved by 40bps & -64bps YoY in Q2FY18. Hence, EBITDA Margin expanded by 198bps to 19.6%. EBITDA grew by 24% to Rs16.8bn.

Low tax rate of 21.3% vs 30% in Q3FY17 supported the bottom-line. Hence, reported PAT saw increase of 28% YoY to Rs13.26bn However, Adjusted PAT (excluding exceptional net of taxes) improved by 42.3% to Rs 13.25bn.

UVG jumped to by 11.4%; Strong growth across segments.

HUL's domestic growth inched up by 17% on like to like basis led by strong broad-based growth across segments. **Homecare (32% of sales)** showed 20% 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. Puriet entered air purifiers category. **Personal Care (48% of sales)** grew by 17% YoY due to broad based growth across categories. Dove & Lux lead the category growth in personal wash category. Skin Care segment growth was led by FAL while in Hair Care – Indulekha have surpassed the expectation and witnessing strong growth. HUL have extended the Indulekha brand to shampoos and rolled out nationally. Color cosmetics double digit growth sustained. Oral Care seeing gradual recovery post the new activations done during quarter. **Refreshment segment (15% sales)** showed healthy 13% growth led by double digit growth both in tea and coffee & healthy performance in ice-creams. **Foods segment** also showed 18% growth led by Ketchup under Kissan. We expect company to deliver 8-10% volume growth in coming qtrs.

Concall Highlights:

1) HUL had pass the net GST rate cut benefit to the consumers by taking price cuts and increase in grammage across ~800 SKU's 2) Extended Indulekha brand to shampoos and rolled out nationally 3) Company continue to remain focus for building Natural's portfolio by strengthening Ayush brand.

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 61x and 52.9x 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.**

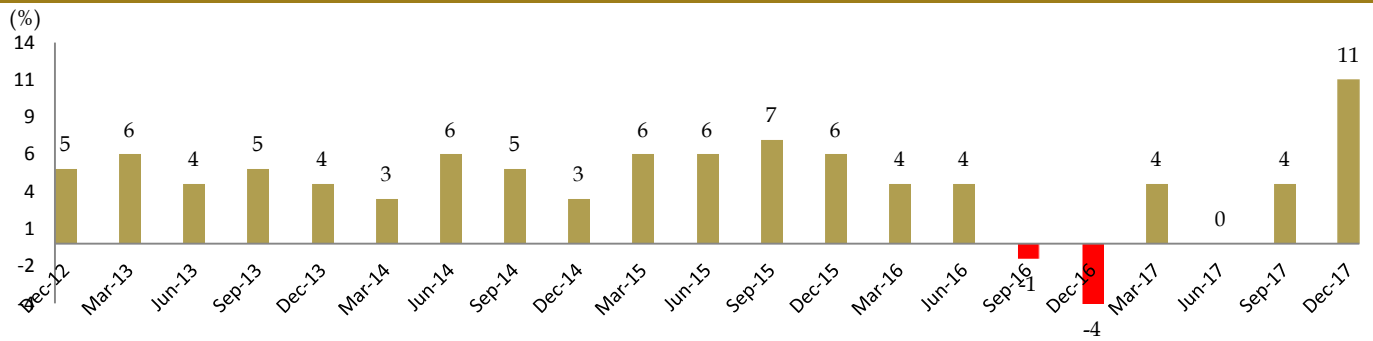


Exhibit 1: Quarterly Performance (Based on IND AS)

Quarterly Snapshot (₹ mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Net Sales	77,213	81,278	78,427	77,050	82,130	85,290	83,090	85,900
YoY Gr%	na	3.6	1.4	(0.8)	6.4	4.9	5.9	11.5
Gross Margin %	51.2	51.3	49.5	51.4	51.0	52.1	52.7	54.5
Margin expansion (YoY)	na	102bps	-12bps	-40bps	-16bps	78bps	323bps	314bps
A&P (% of Sales)	11.2	10.8	10.9	11.5	10.4	10.6	12.3	12.9
Expansion (YoY)	na	-56bps	-106bps	-37bps	-82bps	-21bps	146bps	140bps
EBITDA	14,723	16,356	14,046	13,545	16,510	18,660	16,820	16,800
YoY Gr%	na	8.2	5.1	(5.3)	12.1	14.1	19.7	24.0
EBITDA Margin %	19.1	20.1	17.9	17.6	20.1	21.9	20.2	19.6
Margin expansion (YoY)	na	85bps	62bps	-84bps	103bps	176bps	233bps	198bps
Reported PAT	11,143	11,736	10,956	10,370	11,830	12,830	12,760	13,260
YoY Gr%	na	9.8	11.5	6.7	6.2	9.3	16.5	27.9
Adjusted PAT	10,772	12,220	11,083	9,313	11,837	12,810	12,770	13,250
YoY Gr%	na	15.0	12.8	(9.3)	9.9	4.8	15.2	42.3

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	3,19,722	3,21,860	3,31,620	3,57,829	4,10,353
% Growth	9.4	0.7	3.0	7.9	14.7
Raw Material	1,61,761	1,58,670	1,63,130	1,69,537	1,93,276
Staff	17,239	16,800	17,430	19,520	22,211
Other Expenses	86,585	86,192	87,660	94,766	1,08,279
Total Expenditures	2,65,584	2,61,662	2,68,220	2,83,823	3,23,766
EBITDA	54,138	60,198	63,400	74,005	86,586
% Growth	14.2	11.2	5.3	16.7	17.0
EBITDA Margins (%)	16.9	18.7	19.1	20.7	21.1
Interest	177	170	350	446	496
Depreciation	3,224	3,530	4,320	5,008	5,385
Profit Before Tax	56,093	60,328	64,790	69,343	79,408
Provision for tax	19,440	18,830	19,770	19,763	22,631
Effective tax rate (%)	34.7	31.2	30.5	28.5	28.5
Reported PAT	36,529	41,308	44,700	49,448	56,632
% Growth	(7.4)	13.1	8.2	10.6	14.5
Adjusted Net Profit	36,732	41,583	43,041	48,619	56,217
% Growth	(2.2)	13.2	3.5	13.0	15.6

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	66,661	74,363
Shareholders' funds	64,544	65,734	67,444	68,825	76,527
Minorities interests	190	200	220	352	497
Total Debt	1,346	3,564	5,570	6,070	6,870
Capital Employed	66,080	69,498	73,234	76,077	85,140
Net fixed assets	32,900	36,660	46,480	47,471	48,086
Cash & Cash Eq.	29,810	32,480	21,590	23,179	28,798
Net Other current assets	(27,191)	(28,461)	(35,760)	(38,937)	(39,608)
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	76,077	85,140

**Cash flow**

Cash Flow Statement(₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	56,403	60,580	62,290	69,343	79,408
Depreciation	3,224	3,530	4,320	5,008	5,385
Total Tax Paid	(18,616)	(17,650)	(18,590)	(19,763)	(22,631)
Chg in working capital	(3,421)	(810)	7,150	3,177	671
Other operating activities	(4,670)	(3,940)	(3,320)	446	496
Cash flow from oper (a)	32,919	41,710	51,850	58,212	63,329
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	48,772	53,829
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(25)	1,770	1,000	501	801
Interest paid	(177)	(20)	(140)	(446)	(496)
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)	(47,183)	(48,209)
Net chg in cash (a+b+c)	(326)	250	(2,020)	1,589	5,619

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	5.5	5.4
Operating & Other Cost/Sales (%)	27.1	26.8	26.4	26.5	26.4
Revenue Growth (%)	9.4	0.7	3.0	7.9	14.7
EBITDA Margins (%)	16.9	18.7	19.1	20.7	21.1
Net Income Margins (%)	11.5	12.9	13.0	13.6	13.7
ROCE (%)	81.9	86.6	86.6	97.3	101.7
ROE (%)	56.9	63.3	63.8	70.6	73.5

Valuation Parameters

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (₹.)	17.0	19.2	19.9	22.5	26.0
P/E (x)	47.4	43.7	45.8	61.2	52.9
BV (₹)	29.8	30.4	31.2	31.8	35.4
P/BV (x)	27.0	27.7	29.2	43.2	38.9
EV/EBITDA (x)	31.1	29.3	30.2	39.4	33.6
Fixed assets turnover ratio (x)	9.7	8.8	7.1	7.5	8.5
Net Debt/Equity (x)	(0.4)	(0.4)	(0.2)	(0.2)	(0.3)
EV/Sales (x)	5.3	5.5	5.8	8.1	7.1



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