

Robust all-around performance

Q4FY18 posted robust volume and operational performance abetted by – (1) favorable rural base (2) normalisation of trade channels and (3) revamp of rural growth. We believe that the performance was encouraging considering HUL reported 8.5%/7.4%/18.0%/15.4% revenue/volume/EBITDA/APAT CAGR over Q4FY16-Q4FY18 compared to 0.6%/4%/11.7%/18.3% over Q4FY15-Q4FY16. In addition, HUL reported better volume performance compared to peers like Dabur, BCL, Marico, GCPL, etc. We expect that the volume growth would remain high in the coming quarters considering revival in the rural markets - 6%+ volume growth over a medium-term can be taken sanguinely considering the size of the company. GM and EBITDA margin expansion at an unfavorable base (highest Q4 GM in 10 years+) indicates that the margins have not peaked yet and the company would continue to gain from its operating efficiencies. Going ahead, we believe HUL would benefit from the favorable base, favorable monsoon this season, GST benefits and benefits of seventh pay commission. We value HUL at 50x to arrive at TP of ₹1,614. Upgrade to Accumulate.

Strong operational performance

The company posted 10.8% growth in net sales to ₹ 91.0bn with underlying volume growth of 11%. Excluding the impact of GST, the growth would have been ~16%. It has been an impressive performance considering higher CAGR over a couple of years compared to normal growth. EBITDA jumped by 24.0% YoY to Rs 20.5bn with EBITDA margin expansion of 240bps to 22.5% - came ahead of our estimate. A 150/190bps decline in RM/Other expense was partially offset by 140bps increase in A&P spends. Excluding extraordinary loss of Rs 640mn APAT grew 19.5% YoY to Rs 14.2bn came in ahead of our estimate.

Margins expansion ahead of estimate

GM expansion aided with better volume growth was an outcome of HUL's calibrated pricing. Further, GST execution helped expand GM as the duty related charges got subsumed in GST. We believe that the EBITDA margins would continue to expand with better price management and operational efficiency measures. It is noteworthy that HUL has reported a 600bps+ expansion in EBITDA over FY12-18 with improvement in efficiency.

Strong performance at the segmental level

At the segmental level, net sales are not comparable as last year results includes excise duty. Home care, Personal care, Refreshments and Foods reported 350bps, 190bps, 130bps and 90bps expansion in EBIT margin.

Q4FY18 Result (₹Mn)

| Particulars | Q4FY18 | Q4FY17 | YoY (%) | Q3FY18 | QoQ (%) |
|-------------------------|--------|--------|---------|--------|---------|
| Net Sales | 90,970 | 82,130 | 10.8 | 85,900 | 5.9 |
| Total Expenditure | 70,490 | 65,620 | 7.4 | 69,100 | 2.0 |
| PBIDT (Excl OI) | 20,480 | 16,510 | 24.0 | 16,800 | 21.9 |
| Depreciation | 1,280 | 1,080 | 18.5 | 1,210 | 5.8 |
| EBIT | 20,200 | 16,260 | 24.2 | 17,110 | 18.1 |
| Interest | 40 | 60 | (33.3) | 50 | (20.0) |
| Exceptional Items | (640) | (10) | NA | (210) | NA |
| PBT | 19,520 | 16,190 | 20.6 | 16,850 | 15.8 |
| Tax | 6,010 | 4,360 | 37.8 | 3,590 | 67.4 |
| Profit After Tax | 13,510 | 11,830 | 14.2 | 13,260 | 1.9 |
| Net Profit (adj for EI) | 14,150 | 11,840 | 19.5 | 13,470 | 5.0 |
| | | | bps | | bps |
| Gross Profit (%) | 52.6 | 51.0 | 150 | 54.5 | (200) |
| Employee Cost (%) | 4.4 | 4.7 | (30) | 5.7 | (130) |
| Ad spends (%) | 11.8 | 10.4 | 140 | 12.9 | (110) |
| Other Exp (%) | 13.9 | 15.8 | (190) | 16.4 | (250) |
| EBITDA (%) | 22.5 | 20.1 | 240 | 19.6 | 300 |
| PAT (%) Adj | 15.6 | 14.4 | 110 | 15.7 | (10) |

| | |
|-----------------|-----------|
| CMP | ₹1,506 |
| Target / Upside | ₹1,614/7% |
| BSE Sensex | 35,557 |
| NSE Nifty | 10,807 |

Scrip Details

| | |
|------------------|----------------|
| Equity / FV | ₹2,160mn/₹ 1/- |
| Market Cap | ₹3,252bn |
| | USD 48bn |
| 52-week High/Low | ₹ 1,522/971 |
| Avg. Volume (no) | 900,191 |
| NSE Symbol | HINDUNILVR |
| Bloomberg Code | HUVR IN |

Shareholding Pattern Mar'18 (%)

| | |
|-----------------|------|
| Promoters | 67.2 |
| MF/Banks/FIs | 6.3 |
| FIIIs | 13.3 |
| Public / Others | 13.2 |

Valuation (x)

| | FY18 | FY19E | FY20E |
|-----------|-------|-------|-------|
| P/E | 62.3 | 51.0 | 44.3 |
| EV/EBITDA | 43.9 | 36.9 | 32.5 |
| ROE | 78.1 | 86.7 | 92.6 |
| ROCE | 112.0 | 124.0 | 131.1 |

Estimates (₹ mn)

| | FY18 | FY19E | FY20E |
|-----------|---------|---------|---------|
| Net Sales | 345,250 | 391,214 | 430,523 |
| EBITDA | 72,760 | 86,182 | 97,483 |
| PAT | 52,990 | 63,721 | 73,415 |
| EPS (₹) | 24.2 | 29.5 | 34.0 |

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Exhibit 1: Segmental Performance (₹ mn)

| Particulars | Q4FY18 | Q4FY17 | YoY (%) | Comparable YoY(%) | Remarks |
|----------------------|--------|---------|---------|-------------------|---|
| Home Care | | | | | |
| Revenue* | 31,020 | 30,040 | 3.3 | 21.0 | Fabric Wash, Household Care & Water ➤ Robust double digit growth across key brands in Fabric Wash ➤ Growth in Household Care was led by a strong performance in Vim ➤ Premium range purifiers perform well |
| EBIT | 5,090 | 3,890 | 30.8 | | |
| EBIT Margin (%) | 16.4 | 12.9 | 350.0 | | |
| Personal Care | | | | | |
| Revenue* | 40,960 | 40,750 | 0.5 | 13.0 | Personal Wash, Oral Care, Skin Care, Hair Care, Deodorant & Colour Cosmetics ➤ Robust growth in Personal Wash led by Premium range ➤ Fair & Lovely and Pond's led Skin Care growth ➤ Broad based volume led growth in Hair Care. Strong growth in Indulekha ➤ Color cosmetics delivered strong growth ➤ Launch of Naturals variant fueled Close up growth |
| EBIT | 10,660 | 9,840 | 8.3 | | |
| EBIT Margin (%) | 26.0 | 24.1 | 190.0 | | |
| Refreshments | | | | | |
| Revenue* | 14,090 | 13,000 | 8.4 | 14.0 | Tea, Coffee, Ice Cream & Frozen Desserts ➤ Double- digit growth in Tea through WiMI strategy and market development ➤ Ice Cream & Frozen Desserts delivered double-digit volume growth ➤ Strong volume led growth in Coffee |
| EBIT | 2,560 | 2,190 | 16.9 | | |
| EBIT Margin (%) | 18.2 | 16.8 | 130.0 | | |
| Foods | | | | | |
| Revenue* | 2,990 | 2,950 | 1.4 | 10.0 | Foods & Popular Foods ➤ Kissan delivered strong growth driven by Ketchups ➤ Knorr Instant Soups exhibited growth |
| EBIT | 310.0 | 280.0 | 10.7 | | |
| EBIT Margin (%) | 10.4 | 9.5 | 90.0 | | |
| Others | | | | | |
| Revenue* | 1,910 | 2,010.0 | (5.0) | | |
| EBIT | 20.0 | (40.0) | NM | | |
| EBIT Margin (%) | NM | NM | NM | | |
| Total | | | | | |
| Revenue* | 90,970 | 88,750 | 2.5 | 16.0 | |
| EBIT | 18,640 | 16,160 | 15.3 | | |
| EBIT Margin (%) | 20.5 | 18.2 | 230.0 | | |

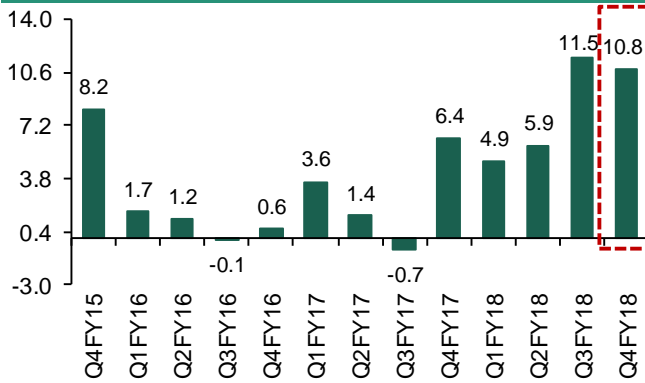
Source: DART, Company

* Comparable Sales growth excludes Other Operational Income but including Fiscal exemption/ refund and net of excise & input tax costs in Q4FY17.

Concall Highlights

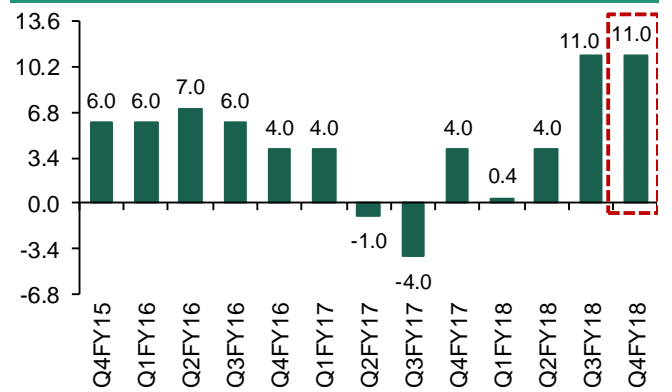
- Like to like growth in the domestic market was at 16%
- Rural growth was better compared to urban as in the base quarter rural growth was badly hampered. It would take few quarters to get assurance of revival of rural areas.
- The company has seen a gradual rise in demand. 11% volume growth translates in to ~7% volume CAGR.
- Almost 50% of the HUL's portfolio witnessed rate change from 28% to 18%. Consequently, price pass on done in the form of price reductions (8%) and discounts.
- Price reductions helped consumers to move from popular segments to premium. Hence premium portfolio grew faster than popular.
- Foods grew on favorable base, while Home care, Personal care and Refreshments reported strong jump on unfavorable base
- Inflationary pressures building up, but, strong cost saving agenda would continue.
- Tax rate would remain at ~30%
- Indulekha shampoo was launched nationwide during the quarter. Brand extension should help expand revenues for the company.
- No significant unorganised to organised shift witnessed yet. In premium segment unorganised players are not very active.
- Oral care portfolio is witnessing some revival led by activations and efforts such as extension of Ayush to oral care segment
- Company launched new Anti-Dandruff shampoos under the Pure Derm brand and new range of cosmetic products-Lakme Nudes

Exhibit 2: Trend in Revenue Growth (%)



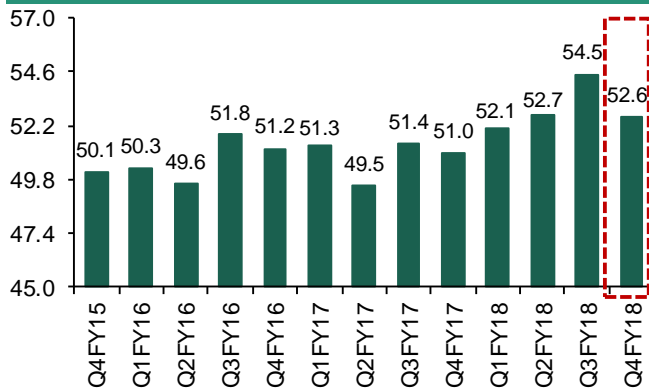
Source: DART, Company

Exhibit 3: Trend in Domestic Volume Growth (%)



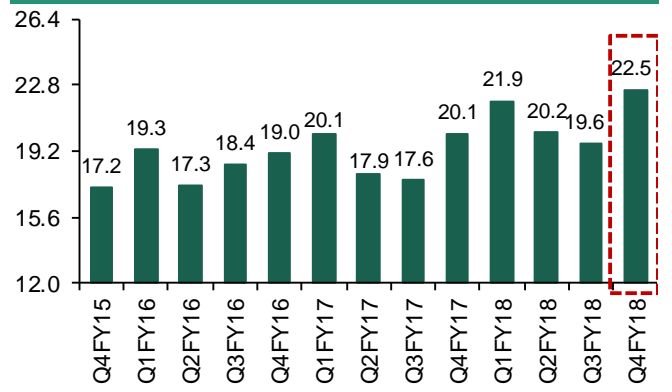
Source: DART, Company

Exhibit 4: Trend in Gross Margins (%)



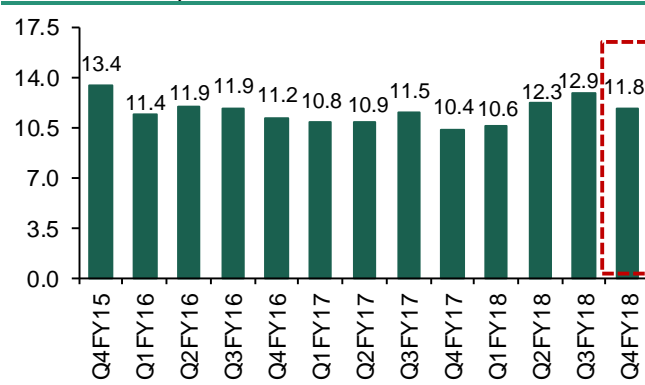
Source: DART, Company

Exhibit 5: Trend in EBITDA Margins (%)



Source: DART, Company

Exhibit 6: Ad spends as a % of sales



Source: DART, Company

Exhibit 7: Commodity Prices (Palm Oil)- ₹ /MT



Source: DART, Company

Income Statement (₹ mn)

| Particulars | Mar17 | Mar18P | Mar19E | Mar20E |
|-----------------------------|----------------|----------------|----------------|----------------|
| Net Sales | 318,900 | 345,250 | 391,214 | 430,523 |
| Other income | 5,260 | 5,690 | 6,980 | 8,596 |
| Total Income | 324,160 | 350,940 | 398,195 | 439,119 |
| Total Expenditure | 258,430 | 272,490 | 305,032 | 333,040 |
| Operational / Direct exp. | 156,850 | 162,320 | 181,974 | 198,537 |
| Employee Expenses | 16,200 | 17,450 | 19,773 | 21,760 |
| Selling & Adm. Expenses | 51,030 | 57,348 | 64,983 | 71,513 |
| Other Expenses | 34,350 | 35,372 | 38,302 | 41,231 |
| EBIDTA (Excl. OI) | 60,470 | 72,760 | 86,182 | 97,483 |
| EBIDTA (Incl. OI) | 65,730 | 78,450 | 93,163 | 106,079 |
| Interest | 220 | 200 | 220 | 242 |
| EBDT | 65,510 | 78,250 | 92,943 | 105,837 |
| Depreciation | 3,960 | 4,780 | 5,202 | 5,439 |
| PBT & EO Items | 61,550 | 73,470 | 87,741 | 100,397 |
| Extra Ordinary Exps/(Inc.) | (2,410) | 620 | 0 | 0 |
| Profit Before Tax | 63,960 | 72,850 | 87,741 | 100,397 |
| Tax | 19,060 | 20,480 | 24,019 | 26,982 |
| Net Profit | 44,900 | 52,370 | 63,721 | 73,415 |
| Net Profit (After minority) | 44,700 | 52,250 | 63,721 | 73,415 |
| Net Profit (Adj.) | 42,490 | 52,990 | 63,721 | 73,415 |

Balance Sheet (₹ mn)

| Particulars | Mar17 | Mar18P | Mar19E | Mar20E |
|-------------------------------------|---------------|---------------|---------------|---------------|
| Sources of Funds | | | | |
| Equity Capital | 2,160 | 2,160 | 2,160 | 2,160 |
| Reserves | 62,740 | 68,590 | 74,027 | 80,291 |
| Net Worth | 64,900 | 70,750 | 76,187 | 82,451 |
| Deferred Tax Liability | (1,600) | (2,550) | (2,550) | (2,550) |
| Total Capital Employed | 63,300 | 68,200 | 73,637 | 79,901 |
| Applications of Funds | | | | |
| Gross Block | 47,120 | 53,500 | 56,000 | 58,500 |
| Less: Accumulated Depreciation | 6,880 | 11,660 | 16,862 | 22,301 |
| Net Block | 40,240 | 41,840 | 39,138 | 36,199 |
| Capital Work in Progress | 2,030 | 4,300 | 4,300 | 4,300 |
| Investments | 37,790 | 28,570 | 28,570 | 28,570 |
| Curr Assets, Loans & Adv | | | | |
| Inventories | 23,620 | 23,590 | 26,268 | 28,916 |
| Sundry Debtors | 9,280 | 11,470 | 12,772 | 14,060 |
| Cash and Bank Balance | 16,710 | 33,730 | 43,226 | 54,747 |
| Loans and Advances | 16,240 | 18,780 | 20,912 | 23,020 |
| <i>sub total</i> | 65,850 | 87,570 | 103,178 | 120,744 |
| Less: CurrLiab&Prov | | | | |
| Current Liabilities | 68,150 | 72,160 | 78,533 | 85,744 |
| Provisions | 14,460 | 21,920 | 23,016 | 24,167 |
| <i>sub total</i> | 82,610 | 94,080 | 101,549 | 109,911 |
| Net Current Assets | (16,760) | (6,510) | 1,629 | 10,833 |
| Total Assets | 63,300 | 68,200 | 73,637 | 79,901 |

E – Estimates

Cash Flow (₹ mn)

| Particulars | Mar17 | Mar18P | Mar19E | Mar20E |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Profit before tax | 61,550 | 73,470 | 87,741 | 100,397 |
| Depreciation & w.o. | 3,960 | 4,780 | 5,202 | 5,439 |
| Net Interest Exp | 220 | 200 | 220 | 242 |
| Direct taxes paid | (19,060) | (20,480) | (24,019) | (26,982) |
| Change in WC (Non Cash) | 6,190 | 6,770 | 1,357 | 2,318 |
| (A) CF from Opt. Activities | 52,860 | 64,740 | 70,500 | 81,414 |
| Capex | (13,230) | (8,650) | (2,500) | (2,500) |
| Free Cash Flow | 39,630 | 56,090 | 68,000 | 78,914 |
| (Inc.) / Dec. in Investments | (9,990) | 9,220 | 0 | 0 |
| (B) CF from Invt. Activities | (23,220) | 570 | (2,500) | (2,500) |
| Issue of Equity/ Preference | 2,240 | 379 | 0 | 0 |
| Interest exp net | (220) | (200) | (220) | (242) |
| Dividend Paid (Incl. Tax) | (42,540) | (48,469) | (58,284) | (67,151) |
| (C) CF from Financing | (40,520) | (48,290) | (58,504) | (67,393) |
| Net Change in Cash | (10,880) | 17,020 | 9,496 | 11,521 |
| Opening Cash balances | 27,590 | 16,710 | 33,730 | 43,226 |
| Closing Cash balances | 16,710 | 33,730 | 43,226 | 54,747 |

Important Ratios

| Particulars | Mar17 | Mar18P | Mar19E | Mar20E |
|---|-----------|-----------|-----------|-----------|
| (A) Measures of Performance (%) | | | | |
| EBIDTA Mrg. (excl. O.I.) | 19.0 | 21.1 | 22.0 | 22.6 |
| EBIDTA Marg (incl. O.I.) | 20.6 | 22.7 | 23.8 | 24.6 |
| EBDT Margin | 20.5 | 22.7 | 23.8 | 24.6 |
| Tax/PBT | 29.8 | 28.1 | 27.4 | 26.9 |
| Net Profit Margin | 14.1 | 15.2 | 16.3 | 17.1 |
| (B) As Percentage of Net Sales | | | | |
| Raw Material | 49.2 | 47.0 | 46.5 | 46.1 |
| Employee Expenses | 5.1 | 5.1 | 5.1 | 5.1 |
| Selling & Adm. Exp. | 16.0 | 16.6 | 16.6 | 16.6 |
| Other Expenses | 10.8 | 10.2 | 9.8 | 9.6 |
| (C) Measures of Financial Status | | | | |
| Interest Coverage (x) | 299 | 392 | 423 | 438 |
| Debtors Period (days) | 10.6 | 12.1 | 11.9 | 11.9 |
| Closing stock (days) | 27.0 | 24.9 | 24.5 | 24.5 |
| Inventory Turn. Ratio (x) | 13.5 | 14.6 | 14.9 | 14.9 |
| Fixed Assets Turn. (x) | 6.8 | 6.5 | 7.0 | 7.4 |
| WC Turnover (x) | (19) | (53) | 240 | 40 |
| Non-Cash WC (₹ Mn) | (33,470) | (40,240) | (41,597) | (43,915) |
| (D) Measures of Investment | | | | |
| EPS (₹) | 20.7 | 24.2 | 29.5 | 34.0 |
| CEPS (₹) | 21.5 | 26.7 | 31.9 | 36.5 |
| DPS (₹) | 15.5 | 19.3 | 23.3 | 26.8 |
| Dividend Payout (%) | 75.0 | 80.0 | 78.9 | 78.9 |
| Book Value (₹) | 30.0 | 32.8 | 35.3 | 38.2 |
| RoANW (%) | 66.6 | 78.1 | 86.7 | 92.6 |
| RoACE (%) | 99.3 | 112.0 | 124.0 | 131.1 |
| RoAIC (%) | 154.2 | 181.8 | 271.1 | 330.9 |
| (E) Valuation Ratios | | | | |
| CMP (₹) | 1,506 | 1,506 | 1,506 | 1,506 |
| P/E (x) | 72.8 | 62.3 | 51.0 | 44.3 |
| Market Cap. (₹ Mn) | 3,252,960 | 3,252,960 | 3,252,960 | 3,252,960 |
| MCap/ Sales (x) | 10.2 | 9.4 | 8.3 | 7.6 |
| EV (₹ Mn) | 3,198,460 | 3,190,660 | 3,181,164 | 3,169,643 |
| EV/Sales (x) | 10.0 | 9.2 | 8.1 | 7.4 |
| EV/EBDITA (x) | 52.9 | 43.9 | 36.9 | 32.5 |
| P/BV (x) | 50.1 | 46.0 | 42.7 | 39.5 |
| FCFE Yield (%) | 1.2 | 1.7 | 2.1 | 2.4 |
| Dividend Yield (%) | 1.0 | 1.3 | 1.5 | 1.8 |

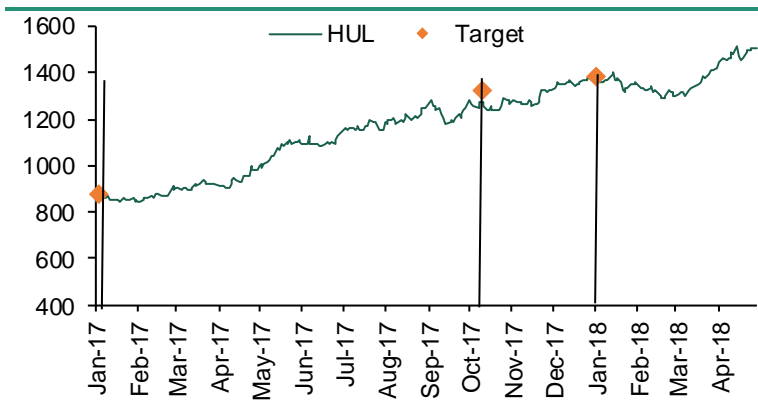
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

| | |
|-------------------|------------------|
| Buy | >20% |
| Accumulate | 10 to 20% |
| Reduce | 0 to 10% |
| Sell | <0% |

Rating and Target Price History



| Month | Rating | TP (₹) | Price (₹)* |
|--------|--------|--------|------------|
| Jan'17 | Reduce | 870 | 863 |
| Oct'17 | Reduce | 1,322 | 1,274 |
| Jan'18 | Reduce | 1377 | 1372 |

* As on Recommended Dated

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| | | | |
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