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Solid all-round performance (broad-based growth across segments), robust margin expansion (despite stepping up A&P spends this year), modest improvement in industry-leading working capital position, sharp jump in FCF (up 42% YoY) and 900 bps jump in RoE YoY were the key highlights of HUL's FY18 performance.

We continue to stay impressed with HUL's consistency of improved delivery (FY18 was seventh consecutive year of topline and margin improvement) and see the company's solid in-market execution, strong innovation machinery and relentless focus on portfolio premiumization and market development as the key structural drivers. While valuations are rich, we believe HUL's strong and superior quality of earnings deserves a premium multiple. Retain our BUY rating, TP unchanged.

For FY18, revenue, EBITDA and recurring PAT grew 8%, 20% and 21% YoY respectively; underlying domestic consumer business growth stood at 12% YoY led by 6% volume growth. Underlying EBITDA margin expanded 155 bps largely led by GM expansion; the company reinvested bulk of savings from other overheads in higher A&P (up 100 bps YoY to 11.9%) to support its strong innovation delivery.

Interestingly, royalty classification was changed in FY18 (royalty now includes just technology and brand payments, fees from central services now reclassified in other expenses) bringing down royalty as % of sales down to 1.9% (below 2% threshold suggested by Sebi's new proposal); overall royalty fell 40 bps to 2.9%. In terms of segments, while growth was broad-based home care emerged as the star performer delivering 15% sales growth and 35% EBIT growth (accounted for 50%+ of incremental EBIT).

HUL improved its net working capital by 7 days of sales to negative 45 days of sales led by reduction in inventory (by 2 days) and improvement in payables (by 5 days), (2) HUL's RoE improved to 76% in FY18.

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