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Investor's Delight: L&T Finance Holdings Ltd. and Hindustan Unilever Ltd.

April 10, 2019

1) L&T Finance Holdings (LTFH)

CMP: Rs. 149, FV: Rs. 10, Market Cap: Rs. 29,792 crores, Target: Rs. 180, Upside: 22%



Price chart source: Moneycontrol

Investment Rationale

We like the Company as the Company has transformed itself and improved its return ratios by focusing on profitable verticals and shutting down low yielding verticals. The Company currently operates in 8 verticals from around 20+ earlier. LTFH has successfully dealt with the volatility and liquidity conditions through prudent ALM and resilient business model. LTFH continues to deliver top quartile RoE of 18%+.

In Q3FY19, Consolidated PAT witnessed yoy growth of 81 % to Rs. 580 crores led by strong AUM growth of 23 % and improving asset quality. It was heartening to see Company achieving solid disbursement growth of 40 percent in rural finance business after its renewed focus on the vertical.

In times of liquidity crunch, the Company has fared well. The Company raised adequate liquidity to build sufficient liquidity buffer and support growth of its core businesses. Differentiated performance & strong pedigree were instrumental in raising ~Rs. 29,800 crores in Q3FY19.

As of 31st December, 2018, Rs. 15,662 crores of liquidity is maintained through the following:

- o Rs. 4,173 crores in the form of cash, FDs and other liquid instruments which is around 4% of Balance sheet
- o Undrawn bank lines of Rs. 9,489 crores
- o Back up line from L&T of Rs. 2,000 crores

The Company's ability to pass increasing cost to customers and increase in retailisation of its portfolio has maintained NIMs at a steady level



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Although the Company has exposure to six SPV subsidiaries of IL&FS, the Company is confident of zero credit losses. LTFH has exposure to 4 Annuity projects and 2 Toll road projects. All projects are operational. Cash flows for all the projects are secured through water tight escrow accounts with specific charge/lien in favour of lenders. All the projects have Debt Service Reserve Account and other reserves amounting to ~ Rs. 500 Cr. All projects are self - sustaining without any further equity infusion required from the promoter. For Q3FY19, interest and principal payments has been made on due date. The Company in January 2019 received an undisclosed amount of dues from SPV of IL&FS.

The Company's asset quality also improved marginally in Q3FY19. GNPA stood at 6.7% and Net NPA ratio stood at 2.6 %. Gross Stage 3 has reduced from 10.40% to 6.74% (7.10% in Q2FY19) • Net Stage 3 has reduced from 4.74% to 2.64% (2.79% in Q2FY19) • Provision coverage increased from 57% to 62%

At CMP of Rs. 145, the stock is valued at a P/BV of 2.3x. We recommend a BUY with a target price of Rs. 180 for investors with a horizon of 12 months.

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- b) Company holding: No
- c) Directors holding: No
- d) Group/Associates Position: No
- e) Relationship with management: No
- f) Any Compensation Received by our Company/Associate during the last 12 months: No
- g) Our Company/Associate have managed the public offering of securities for the subject Company in the past 12 months: No

2) Hindustan Unilever Ltd. (HUL)

CMP: Rs. 1,699, FV: Re.1, Market Cap: Rs. 3,67,566 crores, Target: Rs. 1,923, Upside: 13%



Price chart source: Moneycontrol

Investment Rationale

In Q3FY19, HUL's domestic consumer growth was at 13% with underlying volume growth at 10%. HUL's prudent management of volatility in costs (crude and currency led) along with improved mix and operating leverage has driven marginal improvement. The Company's focus on strengthening the core and leading market development by tapping into emerging trends has been yielding results across categories. Fabric wash and household care division reported impressive performance with double digit growth. In addition, beauty and personal care segment had a very good quarter. Personal



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wash growth continued to be driven by premiumization of the portfolio. The company witnessed revenue growth of 11.3% yoy to Rs. 9,558 crores led by 10% underlying volume growth. EBITDA also registered a growth of 21.8% on yoy basis to Rs. 2,046 crores.

The Company's acquisition of GSK Consumer's India business would augur well for the Company in reducing its dependence on the traditional segments like homecare, personalcare and will help diversify in Health foods segment. Iconic brands of GSK combined with HUL capabilities will unlock significant growth opportunities for the Company. As part of this merger, health drinks including Boost, Horlicks and Maltova — the mainstays of GSK CH — will now move to the HUL stable. For HUL, it is a unique opportunity, to have the number one health food drink portfolio in the largest HFD market globally. Horlicks with the volume share of close to 50% was introduced to India in the 1930s and has been everyday staple in several households across generations. The HFD category is over Rs. 7,700 crores and is poised to grow well on back of strong structural demand drivers, namely favourable demographics, rising affluence, disposable income and persistent nutritional needs. Even today, four out of 10 Indian children are undernourished, and nine out of 10 are deficient and micronutrients.

HUL, on March 14, 2019 has elevated HUL Chairman and Managing Director Sanjiv Mehta as the President of Unilever South Asia with effect from May 1, 2019. Mr. Mehta would also continue as the Chairman and Managing Director of Hindustan Unilever. As part of the new role, he would also become a member of the Unilever Leadership Executive (ULE). The Company also elevated Nitin Paranjpe, 56, to Chief Operating Officer (COO) who was earlier heading Unilever's foods and refreshments business. He is the second Indian after Mr. Harish Manwani to make it to the global post. Mr. Paranjpe is known in the domestic corporate world for navigating India's largest FMCG company HUL through the tough times of the global economic crisis. We believe the Company will do well under the new leadership.

We expect the Company to deliver pat CAGR of 20 % + over the period FY19-21.

We recommend a "BUY" with a target price of Rs. 1,923 for investors with a horizon of 12 months.

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Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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