

RESULTS REVIEW
Hindustan Unilever Limited
Hold
Share Data

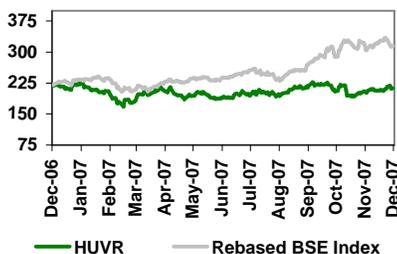
Market Cap	Rs. 469.3 bn
Price	Rs. 212.55
BSE Sensex	19,162.57
Reuters	HLL.BO
Bloomberg	HUVR IN
Avg. Volume (52 Week)	0.7 mn
52-Week High/Low	Rs. 230.4/166
Shares Outstanding	2,207.7 mn

Valuation Ratios (Consolidated)

Year to 31 December	2007E	2008E
EPS (Rs.)	7.9	9.2
+/- (%)	15.9%	16.8%
PER (x)	26.9x	23.0x
EV/ Sales (x)	3.4x	3.0x
EV/ EBITDA (x)	22.8x	19.7x

Shareholding Pattern (%)

Promoters	51
FII's	13
Institutions	17
Public & Others	19

Relative Performance

Lockout in Assam mellowed results

Hindustan Unilever Ltd (HUL), the FMCG major, reported lacklustre performance for Q3'07 with a subdued growth of 9.7% yoy in net sales due to seven weeks lockout in the Assam factory which caters the demand of the personal products segment. However, the results are not comparable to the extent of amalgamation of Modern Foods (India) Ltd with the Company. Excluding the effect of amalgamation, net sales grew 9% yoy to Rs. 33.4 bn yoy. The Personal Products segment, which contributed more than 25% to the top line, registered a subdued growth of 4% yoy. Moreover, due to the loss of tax benefits from the Assam plant, net profit for the quarter also bared the brunt. While adjusted net profit increased by a mere 6.9% yoy to Rs. 4.1 bn, net profit margin dipped 30 bps yoy to 12.2%.

Keeping in view, the expected growth in the non-core segments and the better performance by the core segments in the coming years, we expect net sales to grow at a CAGR of 12.1% to Rs. 156 bn over CY06-CY08E. However, rising input costs and increasing competition remains a cause for concern.

Recently, HUL's initiation of Rs. 6.3 bn share buyback at a maximum price of Rs. 230 per share obtained the shareholders approval. This along with the Company's move to sell off its non-core assets will provide some near term upside to the share price. Hence, we maintain our Hold rating on the stock.

Key Figures (Standalone)

Quarterly Data	Q3'06	Q2'07	Q3'07	YoY%	QoQ%	9M'06	9M'07	YoY%
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(Figures in Rs. mn, except per share data)

Net Sales	30,660	34,814	33,646	9.7%	(3.4)%	89,256	100,304	12.4%
Adj. EBITDA	4,446	5,394	4,802	8.0%	(11.0)%	12,405	14,313	15.4%
Adj. Net Profit	3,830	4,719	4,093	6.9%	(13.3)%	10,345	12,151	17.5%

Margins(%)

Adj. EBITDA	14.5%	15.5%	14.3%			13.9%	14.3%	
Adj. NPM	12.5%	13.6%	12.2%			11.6%	12.1%	

Per Share Data (Rs.)

Adj. EPS	1.7	2.1	1.9	6.9%	(13.1)%	4.7	5.5	17.4%
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*Another adverse quarter for
'Personal Products' segment*

Result Highlights

On the back of unexpected decline in the personal product segment, net sales for Q3'07 showed a slow growth of 9.7% yoy to Rs. 33.6 bn, the lowest for the current fiscal. Personal Products segment grew marginally by 4% yoy owing to seven weeks lockout at the Assam unit. In this segment, the skin and toothpaste categories were the most adversely impacted due to the lockout. Moreover, a negative growth of 4.2% yoy in exports, which contributed around 9.3% of net sales, added fuel to the fire. However, soaps and detergent segment improved 12.8% yoy backed by strong growth across all Fabric Wash brands.

Margins under pressure

While Adj. EBITDA expanded 8% yoy to Rs. 4.8 bn, on a sequential basis it declined substantially by 11%. Adj. EBITDA margin for Q3'07 showed a marginal decline of 20 bps yoy to 14.3% due to rising other expenditure to 17.4% of net sales (increase of 30 bps yoy). Despite a 32.9% yoy increase in financial other income, adj. net profit disappointed with only 6.9% yoy growth. However, the net profit margin for the quarter was relatively flat at 12.2% yoy.

*Domestic FMCG – 'Home and
Personal Care' improved
9.5% yoy*

Segmental Highlights

'Soaps and Detergents' segment and 'Personal Products' segment which together contributed 72.5% of the total segmental revenues, improved 12.8% yoy (led by Lifebuoy and Breeze) and 4% yoy, respectively. The growth of 'Personal Products' segment was affected due to an unexpected seven weeks lockout in the Assam plant. 'Soaps and Detergent' EBIT registered a robust growth of 52.7% yoy while in the 'Personal Products' segment, EBIT was negative 6% yoy. The quarter witnessed a steady gain of 220 bps yoy to 37.7% in the laundry market share but in the personal wash category market share declined 90 bps yoy to 53.2%.

'Foods' business continued its strong performance and grew 16.8% yoy. In 'Beverages' (which contributed 11.5% of the total segmental revenues), tea maintained its steady growth with Red Label, 3 Roses and Lipton

Robust growth in 'Processed Foods' driving the Foods Business

Yellow Label performing well. **'Processed Foods'** continued its high growth trajectory with a 32.5% yoy growth, driven by the strong performance in Kissan and Knorr categories. Further, to strengthen the 'Processed Foods' category, the Company re-launched the Knorr Soups range during the quarter. Despite an "off-season" period the **'Ice-Creams'** segment achieved a double digit growth in Q3'07.

'Water business' – expanded to eight states

'Other Operations' which primarily consists of Chemical and Water business grew 33.8% yoy. Q3'07 witnessed the launch of water purifiers in two more states – Delhi & UP. Thus, Pureit water purifier now serves three million consumers. Although, water business is expanding at a fast pace, we expect the business would take a couple of quarters to start contributing to the bottom line.

Key Events

- The Board of Directors declared a Platinum Jubilee dividend of Rs. 3 per share to commemorate the 75th year of the Company.
- The Company expanded its product portfolio by launching Lux Crystal Shine, Lakme Skin Balancing Toner, Strawberry Face Wash, Dove sachet launch, Lakme 9-5 range, and Elle 18 range extension.
- 'Pureit' water purifier further extended to Delhi & UP.

Key Risks

- Rising crude palm oil prices could affect the profitability of the 'Home & Personal Care' segment, which contributes around 93.5% yoy to the overall segmental EBIT.
- Foreign players entering the Indian FMCG market could pose a risk to the Company's already declining market share.

Share buyback to act as a short-term catalyst

Outlook

HUL, registered a lower than expected top-line growth of 9.7% yoy in Q3'07. The continuous slowdown in the 'Personal Products' segment, due to unexpected seven weeks lockout at the Assam unit significantly affected the performance of the Company in the third quarter. Consequent to this, the Company also lost in terms of tax benefits from the Assam facility. Although, HUL possesses the ability to take successful price hikes, but with the continuing upward rally in crude palm oil prices, margins are expected to remain under pressure. The Company is also tilted more towards reconstruction and product expansion rather than introducing innovative products to the market which will further keep margins under check.

However, with the re-launch of 'Fair & Lovely' in the previous quarter and the Assam unit resuming operations, HUL is set to pose better performance in the upcoming quarters. Moreover, the share buyback announced by the Company along with its plans to sell off some of its non-core assets and properties will be the near term catalyst for the stock. Based on the fundamentals and our analysis of the Company's quarterly results, we maintain our Hold rating on the stock.

Key Figures (Consolidated)

Year to December	CY04	CY05	CY06	CY07E	CY08E	CAGR (%)
(Figures in Rs. mn, except per share data) (CY07-08E)						
Net Sales	105,982	115,658	124,110	138,708	155,987	12.1%
Adj. EBITDA	16,308	15,914	18,129	20,423	23,596	14.1%
Net Profit	11,645	13,140	15,049	17,459	20,146	15.7%
Margins(%)						
EBITDA	15.2%	13.6%	14.4%	14.5%	14.8%	
NPM	10.9%	11.2%	11.9%	12.4%	12.6%	
Per Share Data (Rs.)						
Adj. EPS	5.3	6.0	6.8	7.9	9.2	16.4%
PER (x)	40.2x	35.6x	31.1x	26.9x	23.0x	

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