

Hindustan Unilever Ltd (Q1 F12/08)

April 29, 2008

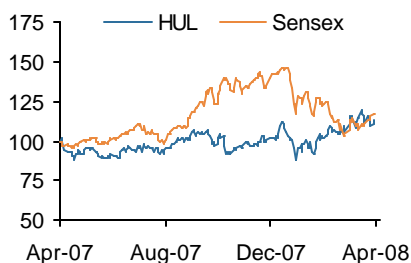
Stock data

Sensex:	17,016
CMP (Rs):	247
Target price (Rs):	269
Upside (%):	9.0
52 Week h/l (Rs):	256/169
Market cap (Rs cr)	53,838
6m Avg vol BSE&NSE ('000 nos):	2,813
No of o/s shares (mn):	2,177
FV (Re):	1
Bloomberg code:	HUVR IN
Reuters code:	HLL.BO
BSE code:	500696
NSE code	HINDUNILVR

Shareholding pattern

March 2008	(%)
Promoters	52.1
FII & institutions	30.6
Non promoter corp hold	0.9
Public & others	16.4

Share price trend



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- Records highest revenue growth of 19% in the last five years led by strong underlying volume growth of 10%. Soaps & detergents, personal products and foods segment record strong 20%, 23% and 15% growth respectively.
- Higher raw material and overhead costs pulled down margins. EBIT margins in the soaps and detergent segment witnessed sharp 140bps improvement. Strong revenue growth coupled with higher other income drives net profit.
- We expect HUL to register revenue and profit CAGR of 15% and 17.6% respectively over the next two years. Upgrade to Market Performer with a price target of Rs269 - an upside of 9%.

Result table

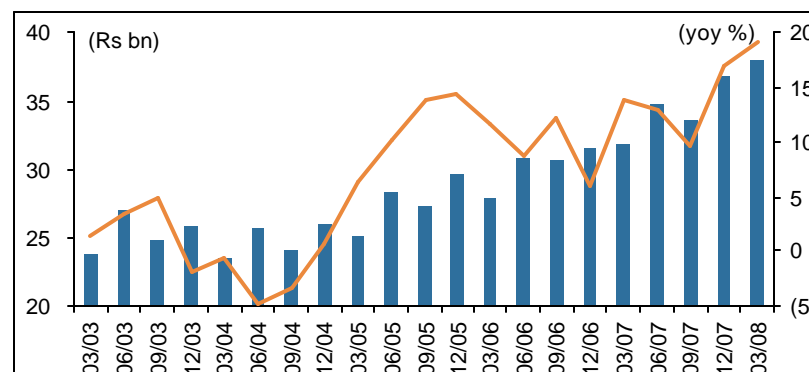
Period to	03/08	03/07	Growth	12/07	12/06	Growth
(Rs mn)	(3)	(3)	(%)	(12)	(12)	(%)
Sales	37,939	31,843	19.1	137,178	121,034	13.3
Expenditure	(33,861)	(28,198)	20.1	(118,321)	(104,553)	13.2
Operating profit	4,078	3,645	11.9	18,857	16,481	14.4
Other income	773	342	126.2	4,627	3,545	30.5
Interest	201	359	(44.1)	(255)	(107)	137.4
Depreciation	(363)	(329)	10.3	(1,384)	(1,302)	6.3
PBT	4,689	4,017	16.7	21,845	18,617	17.3
Tax	(905)	(775)	16.8	(4,155)	(3,220)	29.0
PAT	3,784	3,242	16.7	17,691	15,397	14.9
Extraordinary items	25	687	(96.3)	1,564	3,157	(50.5)
APAT	3,810	3,929	(3.0)	19,255	18,554	3.8
OPM (%)	10.7	11.4	-	13.7	13.6	-
Equity	2,178	2,207	-	2,178	2,207	-
EPS (Rs) Annualized	7.0	7.1	-	8.8	8.4	-
P/E (x), CMP-Rs247	35.3	-	-	28.0	-	-

Source: Company, India Infoline Research

Highest revenue growth in last five years

HUL surpassed our expectations by recording robust 19.1% yoy growth in revenues (highest in last 5 years) during Q1 F12/08 at Rs37.9bn. This was led by an impressive 10% underlying volume growth. Domestic FMCG sales registered strong 19.4% yoy growth driven by 20.4% yoy growth in core HPC segment and 15.1% yoy growth in foods segment. Exports recorded strong 12.9% yoy growth at Rs4bn.

Trend in revenues



Source: Company, India Infoline Research

Strong growth across categories

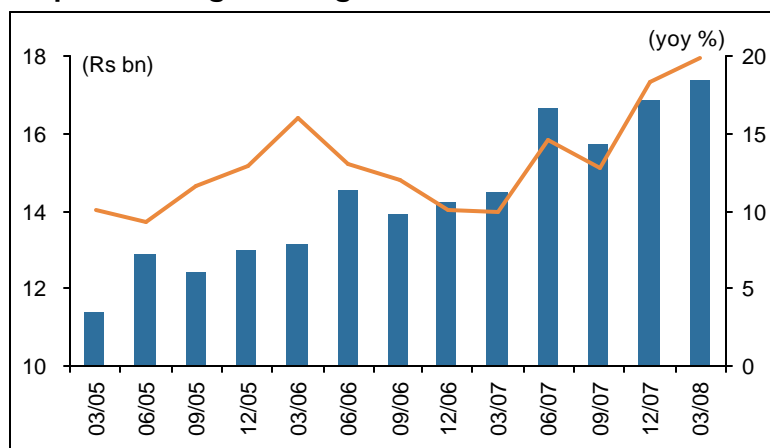
All categories recorded strong growth during the quarter. Revenues from the soaps and detergents segment grew by 19.9% yoy to Rs17.4bn led by laundry (Surf, Rin and Wheel) and personal wash (led by Lifebuoy) categories. Personal products segment revenues grew by strong 23.5% yoy to Rs10.2bn driven by strong growth in shampoo (Dove), skin (Fair and Lovely, Ponds top end range) and oral care category. The beverages segment recorded 15.8% yoy growth in revenues at Rs4.3bn led by strong growth in both tea and coffee, while ice cream segment recorded 14.1% yoy growth at Rs370mn. HUL launched Kissan Amaze brand in Karnataka and Tamil Nadu during the quarter. HUL has extended its water business to 170 key towns across 19 states and expects to achieve a national roll out by F12/08.

Segmental revenue trend (Rs mn)

Segments	F12/05				F12/06				F12/07				F12/08
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Soaps & Det.	11,368	12,876	12,429	12,969	13,186	14,559	13,933	14,281	14,499	16,687	15,722	16,892	17,382
Personal Prod.	6,026	7,474	7,291	8,713	7,659	8,467	8,538	8,934	8,252	8,978	8,876	10,643	10,189
Beverages	3,024	3,122	3,240	3,388	3,177	3,006	3,455	3,670	3,721	3,633	3,905	4,085	4,310
Processed Foods	674	783	815	865	882	973	973	1,022	1,316	1,334	1,289	1,443	1,520
Ice cream	204	376	230	172	265	505	338	263	324	622	371	292	370
Exports	3,421	3,225	2,731	3,573	2,755	3,287	3,274	3,473	3,533	3,331	3,136	3,437	3,989
Others	704	786	894	553	340	379	480	603	510	639	642	941	755
Total	25,421	28,643	27,629	30,232	28,263	31,175	30,991	32,246	32,156	35,223	33,940	37,731	38,514

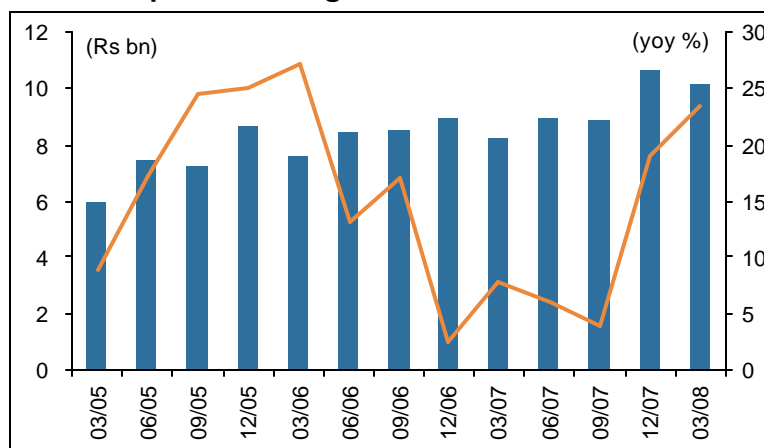
Source: Company, India Infoline Research

Soaps & detergents segment revenues



Source: Company, India Infoline Research

Personal products segment revenues



Higher raw material and overhead cost pulled down margins

Operating margins for the quarter declined marginally by 70bps to 10.7% mainly due to sharp 17.5% yoy increase in raw material cost and 120bps increase in overhead cost. Adspend for the quarter increased by 21.4% yoy to Rs4.3bn. HUL is likely to maintain the high levels of adspend (between 10% and 15%) going forward. Prices of key raw materials like palm oil, crude oil are expected to remain firm going ahead and this could put pressure on margins.

EBIT margins in the personal products segment (contributing 26.5% to revenues and 48.4% to EBIT) expanded by 30bps while, margins in the soaps and detergents segment (contributing 45.1% to revenues and 44.7% to profitability) recorded 140bps expansion on a yoy basis. However, margins in the beverages and processed foods segment declined by 320bps and 440bps respectively. Ice creams' segment recorded a loss of Rs29mn during the quarter.

Margin trend

EBIT Margins (%)	Q1 F12/05	Q2 F12/05	Q3 F12/05	Q4 F12/05	Q1 F12/06	Q2 F12/06	Q3 F12/06	Q4 F12/06	Q1 F12/07	Q2 F12/07	Q3 F12/07	Q4 F12/07	Q1 F12/08
Soaps & Det.	11.4	13.3	13.9	15.7	11.6	14.3	12.3	15.6	11.9	16.1	16.7	17.2	13.4
Personal Prod.	24.0	27.7	29.6	31.6	24.4	28.5	26.7	31.9	24.5	29.3	24.2	33.4	24.7
Beverages	21.0	17.3	17.5	20.0	19.5	13.5	13.8	19.7	14.8	15.7	14.4	15.4	11.6
Processed Foods	(3.1)	(5.8)	(7.6)	(3.9)	0.4	4.3	(0.4)	6.3	5.5	(1.4)	2.4	7.0	1.1
Ice creams	(15.2)	13.5	11.4	(6.9)	3.2	21.5	12.6	10.7	3.8	17.1	1.4	3.9	(7.8)
Exports	1.8	0.7	0.7	6.0	2.9	4.7	6.3	5.9	3.7	1.0	2.0	7.1	4.4
Others	(3.9)	(16.8)	(9.5)	(9.3)	(14.8)	(50.7)	(32.2)	(41.3)	(31.9)	(46.4)	(51.3)	(36.6)	(40.4)

Source: Company, India Infoline Research

Strong revenue growth and higher other income drives net profit

HUL recorded strong 16.7% yoy increase in net profit at Rs3.8bn, led by higher other income at Rs773mn. Adjusted net profit after an extraordinary income of Rs25mn (Rs687mn in Q1 F12/07) declined by 3% yoy to Rs3.8bn.

Outlook

HUL has recorded a strong double-digit revenue growth in the domestic FMCG division. This was driven by strong growth in core HPC segment (led by smart 19% and 18% increase in personal care and soaps & detergents segment respectively). HUL has started focusing on new growth categories like high-end personal care (skin, hair care), foods and water. HUL has invested heavily in its water purifier business and expects to complete national roll out by F12/08. Higher adspend due to increasing competition in the core categories from emerging players like ITC and firm raw material prices could put pressure on margins going forward. HUL has been able to maintain market share in its core categories and is aggressively targeting the premium-end segment with various new launches. HUL has recorded strong growth in the soaps and detergents segment (which was impacted due to price wars) with market share improving from ~34% in F12/06 to ~37% in F12/07. We expect HUL to register revenue and profit CAGR of 15% and 17.6% respectively over the next two years. At the current market price of Rs247, the stock is trading at 22x F12/09E EPS of Rs11.2. Upgrade to Market Performer with a price target of Rs269 – an upside of 9%.

Projected financials

y/e December, Rs mn	F12/05	F12/06	F12/07	F12/08E	F12/09E
Revenues	110,605	121,034	137,178	157,726	181,463
yoy growth (%)	11.4	9.4	13.3	15.0	15.0
Operating profit	14,433	16,481	18,857	22,019	26,639
OPM (%)	13.0	13.6	13.7	14.0	14.7
PAT	14,081	18,554	19,255	20,669	24,445
Pre-exceptional PAT	13,545	15,397	17,691	20,669	24,445
yoy growth (%)	17.6	31.8	3.8	7.3	18.3
EPS (Rs)	6.4	8.4	8.8	9.5	11.2
P/E (x)	38.7	29.4	28.0	26.0	22.0
P/BV (x)	23.6	20.0	37.4	35.5	31.5
EV/EBITDA (x)	37.5	32.9	28.5	24.3	20.1
ROE (%)	61.1	68.1	133.8	136.4	142.8
ROCE (%)	68.7	67.0	144.7	162.6	170.9

Source: Company, India Infoline Research

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