

RESULTS REVIEW

Share Data

Market Cap	Rs. 524.9 bn
Price	Rs. 240.85
BSE Sensex	9,162.62
Reuters	HLL.BO
Bloomberg	HUVR IN
Avg. Volume (52 Week)	0.5 mn
52-Week High/Low	Rs. 265 / 170
Shares Outstanding	2,179.3 mn

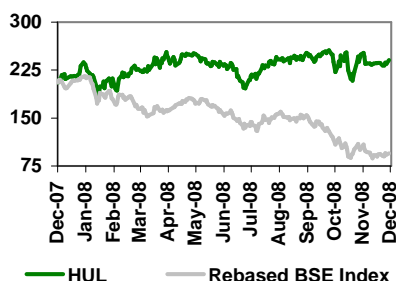
Valuation Ratios (Consolidated)

Year to 31 December	2008E	2009E
EPS (Rs.)	8.5	9.8
+/- (%)	4.7%	15.4%
PER (x)	28.4x	24.6x
EV/ Sales (x)	3.2x	2.8x
EV/ EBITDA (x)	29.3x	24.1x

Shareholding Pattern (%)

Promoters	52
FII's	14
Institutions	16
Public & Others	18

Relative Performance



Hindustan Unilever Limited

Hold

Facing intense competition

Hindustan Unilever Ltd. (HUL) reported a substantial net sales growth of 19.7% in Q3'08 on the back of a 6.8% growth in volume and a 13.1% improvement in pricing. However, the EBITDA margin fell 38 bps yoy due to soaring raw material prices and a 14% increase in advertisement costs. The stock currently trades at a 37% premium to its peers and we do not expect any significant upside in the near term. Hence, we maintain Hold.

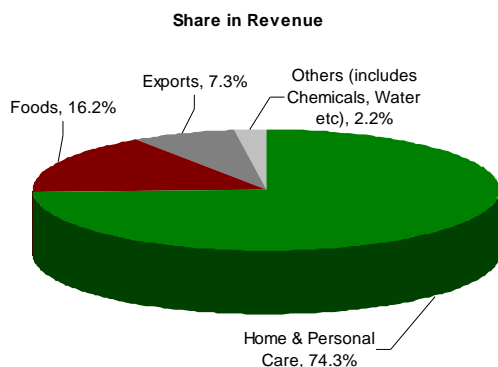
Loss of market share remains a worry: We expect HUL's revenue growth to slow down in the coming quarters due to the steady loss in market share. Following the aggressive entry by ITC and stiff competition from other FMCG players, HUL lost 1–2% market share in its mainstay, the Home & Personal Care (HPC) segment, during Q3'08. Its market share in the Personal Wash, Hair, and Skin Care segments declined from 53.2%, 47.7%, and 55% in Q3'07 to 50.3%, 46.1%, and 52.7% in Q3'08, respectively. This trend, coupled with the worsening economic conditions, might restrict the Company's pricing gains and volumes growth. Therefore, we have downgraded our revenue growth estimates for FY09 and FY10 from 15% and 14% to 12.7% and 13.5%, respectively.

Margin should improve albeit slowly: Soaring raw material prices, along with higher advertisement costs, adversely impacted the margins in the recent quarters. Although commodity prices have fallen, we believe HUL will need to spend more on advertisements in order to boost volumes and restrict the loss in market share. Thus, we expect the EBITDA margin to improve to 15.4% in FY09 compared to 14.6% in FY08.

Key Figures (Standalone)

Quarterly Data	Q3'07	Q1'08	Q3'08	YoY%	QoQ%	9M'07	9M'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	33,646	37,939	40,279	19.7%	6.2%	100,304	120,375	20.0%
Adj. EBITDA	4,802	4,851	5,594	16.5%	15.3%	14,183	16,799	18.4%
Adj. Net Profit	3,360	3,549	3,905	16.2%	10.0%	10,123	12,047	19.0%
Margins(%)								
Adj. EBITDA	14.3%	12.8%	13.9%			14.1%	14.0%	
Adj. NPM	10.0%	9.4%	9.7%			10.1%	10.0%	
Per Share Data (Rs.)								
Adj. EPS	1.5	1.6	1.8	17.7%	10.0%	4.6	5.5	20.6%

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Barring export, all the segments grew substantially

Result Highlights

HUL reported a robust net sales growth of 19.7% yoy in Q3'08 on the back of better pricing and a healthy volume growth of 6.8%. The FMCG business grew 22.6% yoy, outperforming the net sales growth. The HPC and Foods segments too advanced 23.4% and 19.1%, respectively, primarily due to the price increase and a sustained volume growth. However, exports declined 5.6% during the quarter.

The EBITDA margin dipped 38 bps to 13.9% during the quarter despite the price hikes in certain products. The steep increases in the raw material/packaging prices negatively impacted the margin.

Adj. Net profit jumped 16% yoy during the quarter to Rs. 3.9 bn, while the adj. net profit margin advanced 29 bps to 13.9%.

Segmental Highlights

During the quarter, the **Soaps & Detergents** category grew by 26% yoy, led primarily by higher growth in the recently launched Rin Matic and Wheel Active Gold brands. However, the category's EBIT margin slumped 319 bps yoy to 13.5% due to surging prices of raw materials such as palm oil. The Personal Wash division too reported a good growth on the back of improved pricing and a better product mix. The LUX, Lifebuoy, and Dove brands led the growth momentum in this division. However, the eroding market share in this category remains a matter of concern for the Company.

Personal products again posted a strong growth of 18.3% yoy to Rs. 10.5 bn on the back of a strong volume growth in the shampoo and skin care divisions.

Food sales grew 19.1% yoy, driven by 34.9%, 25.7%, and 13.2% yoy growth in processed foods (aided by Knorr Soup & Kissan), ice creams, and beverages, respectively. Growth in the beverages segment was

primarily due to a strong show by Taj and Bru in the premium tea and coffee categories, respectively.

The **Other Products** segment, which primarily includes HUL's chemical and water purifier businesses, grew 41.5% as 'Pure It' (a water purifier product) increased its reach to more than 600 towns. This segment is still in its nascent stage and is expected to grow at a substantial rate due to a lower base. However, the **Exports** segment slipped 5.6% yoy to Rs. 2.9 bn in Q3'08.

Market Share(%)					
	Sep-08	Sep-07	YoY bps	Jun-08	QoQ bps
Laundry	37.9	37	90	38.3	(40)
Personal wash	50.3	53.2	(290)	52.7	(240)
Hair	46.1	47.7	(160)	46.5	(40)
Skin	52.7	55	(230)	53.4	(70)
Oral	29.6	30	(40)	30	(40)
Tea	23.3	23.4	(10)	23.2	10
Coffee	47.1	46.5	60	46.9	20

Source: Company Data; A.C.Nielsen

Key Risks

With new entrants entering the fray, the likely price war can pose a threat to the Company's earnings and our rating.

Outlook

Though HUL enjoys market leadership in categories such as soaps, detergents, and personal products, it has been steadily losing market share to its competitors. This trend is likely to continue and adversely affect the Company's volume growth and pricing gains in the near term. Although we expect margins to improve in the coming quarters on the back of falling raw material prices, we believe that the Company will be forced to spend more on advertisements in order to increase sales and protect its market share. Higher sales and marketing costs will offset the benefit of the falling raw material prices.

Our DCF-based valuation gives a fair value estimate of Rs. 248.51 for HUL's share, which provides an upside of around 3.1% over the current market price of Rs. 240.85. The Company trades at a PE of 24.6x for FY09, a 37% premium over the sector average of 18x. After factoring all the positives, such as an ROE of 80%, wide distribution network, and the market leadership status in certain product categories, we believe that the stock is fairly valued. As we do not expect any further upside from the current levels, we maintain our Hold rating for the stock.

Key Figures (Consolidated)

Year to December	CY05	CY06	CY07	CY08E	CY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(CY07-09E)
Net Sales	115,462	123,887	138,891	163,522	184,303	15.2%
EBITDA	17,497	20,050	23,574	23,835	28,401	9.8%
Net Profit	13,559	18,905	19,149	18,470	21,323	5.5%
Margins(%)						
EBITDA	15.2%	16.2%	17.0%	14.6%	15.4%	
NPM	11.7%	15.3%	13.8%	11.3%	11.6%	
Per Share Data (Rs.)						
EPS	6.2	8.7	8.8	8.5	9.8	5.5%
PER (x)	31.7x	24.9x	24.3x	28.4x	24.6x	

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