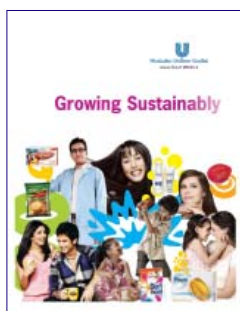


CMP: INR332

TP: INR302

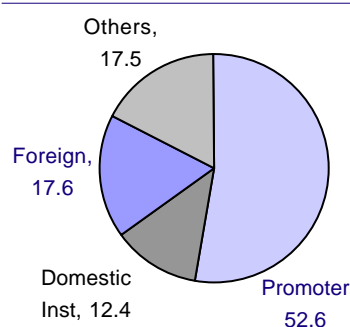
Neutral



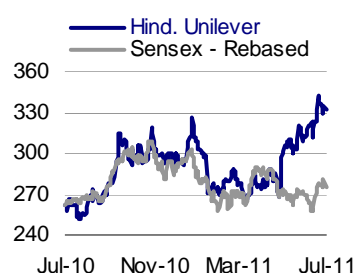
Bloomberg	HLL IN
Equity Shares (m)	2,159.5
52-Week Range (INR)	347/250
1,6,12 Rel. Perf. (%)	4/11/22
M.Cap. (INR b)	717.0
M.Cap. (USD b)	16.0

Y/E March	2011	2012E	2013E
Sales (INR b)	194.0	223.2	249.2
EBITDA (INR m)	26.9	30.9	35.3
NP (INR m)	21.5	24.0	27.2
EPS (INR)	9.9	11.1	12.6
EPS Gr. (%)	3.2	11.5	13.4
BV/Sh. (INR)	12.2	14.5	17.2
P/E (x)	33.3	29.9	26.4
P/BV (x)	27.2	22.9	19.4
EV/EBITDA (x)	26.5	23.1	20.2
EV/Sales (x)	3.7	3.2	2.9
RoE (%)	91.7	83.8	85.7
RoCE (%)	117.5	120.2	115.7

### Shareholding pattern % (Mar-11)



### Stock performance (1 year)



## Double-digit volume growth positive, but challenges persist

Personal products margins, soaps and detergents volume growth at risk

- HUVR has posted five consecutive quarters of double-digit volume growth, a first in 10 years. Volumes increased by an impressive 13% in FY11.
- However, the operating environment remains challenging, with inflation running high and rising competitive pressure.
- FY11 detergent volume growth of 19.2% is unsustainable. Personal care margins are likely to trend towards 20-22% from current levels of 25-26%.
- The current stock price does not reflect the risks to personal care margins and soaps and detergents volume growth. **Maintain Neutral.**

## Double-digit volume growth positive, but challenges persist

- HUVR has posted five consecutive quarters of double-digit volume growth, a first in 10 years. Volumes increased by an impressive 13% in FY11. However, we expect volume growth to soften, as the impact of price increases sets in.
- The operating environment remains challenging, as inflation is sustaining and GDP growth may moderate in the near term. In addition, competitive pressures are rising, as new entrants seek a slice of India's growth potential.
- FY11 detergent volume growth of 19.2% appears unsustainable. We believe soaps and detergents margins have bottomed out at 7.5% in 4QFY11; however, personal care margins are likely to trend towards 20-22% from current levels of 25-26%.

## Soaps and detergents - volume growth robust, but margins at all-time low

- HUVR has reported 8% volume growth in soaps in FY11, the highest since 1996. Detergent volumes grew by 19.2%, a new high, but realizations declined 10.2%.
- Margins for the soaps and detergents segment reached an all-time low of 9.5%, due to the dual impact of lower prices and steep increase in input costs.
- We note that the current margins are significantly lower than 13.8% achieved by HUVR during the peak of the price wars in 2005.

## Personal products - volume growth disappoints; margins flattish

- Personal products reported 14.2% volume growth, which is disappointing, given the re-launch of several brands and launch of new products.
- Margins declined 10bp, despite rising share of premium products in the portfolio.

## Foods - processed food volumes up 29%; ice cream, tea volume growth suffers

- Volume growth in tea (1%), ice cream (5%) and staples (-5.8%) was disappointing.
- The success of Knorr Soupy Noodles and continued traction in soups and new launches enabled 29% volume growth in processed foods.

## Fairly valued for 12.5% PAT CAGR; maintain Neutral

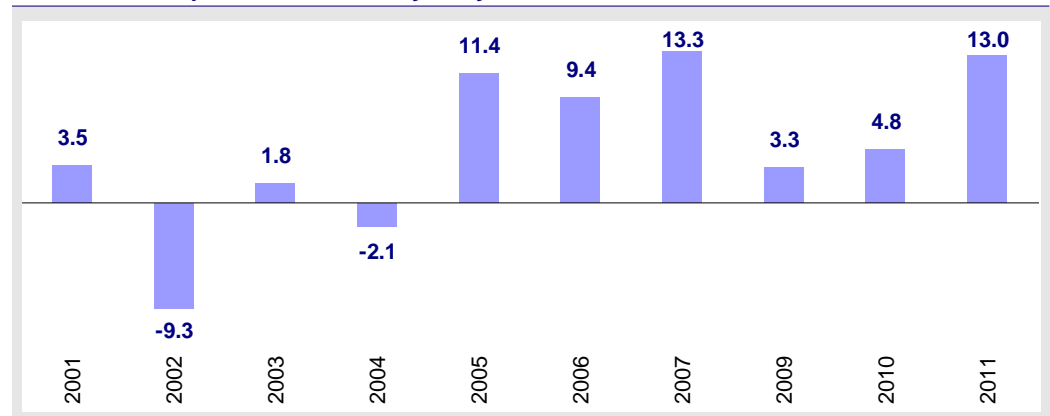
- HUVR has appreciated by 20% since 4QFY11 results, led by sustained traction in volumes and potential softening of input costs.
- We believe that the current price does not reflect the risks to personal care margins and soaps and detergents volume growth.
- The stock appears fairly valued at 29.9x FY12E and 26.4x FY13E EPS. **Neutral.**

*FY11 volume growth at 13%, led by 19.2% volume growth in detergents*

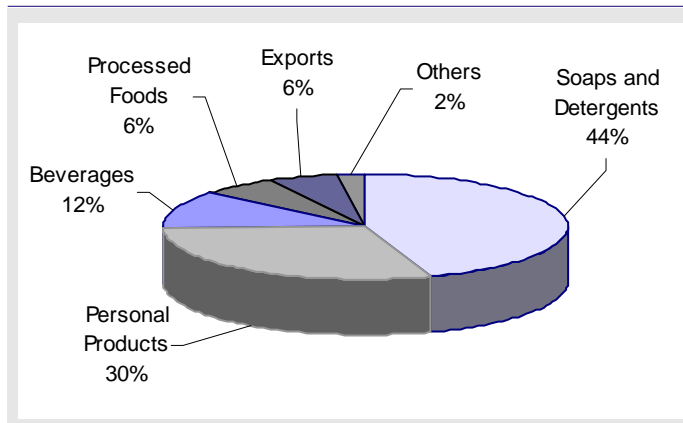
**Double-digit volume growth positive; volume growth mix disappointing**

- HUVR has posted five consecutive quarters of double-digit volume growth, a first in 10 years. Volumes increased by an impressive 13% in FY11. However, volume growth mix has been disappointing.
- Detergent volumes grew 19.2% and soap volumes grew 8%, led by price cuts and aggressive go-to-market strategies. Personal care volumes grew 14.2%, despite the launch of several new products and brands across price points, which is disappointing.
- Volume growth mix has deteriorated – we estimate the contribution of the high margin personal care segment to overall volume growth at 4.5% v/s 6.5% for the lower margin soaps and detergents segment.

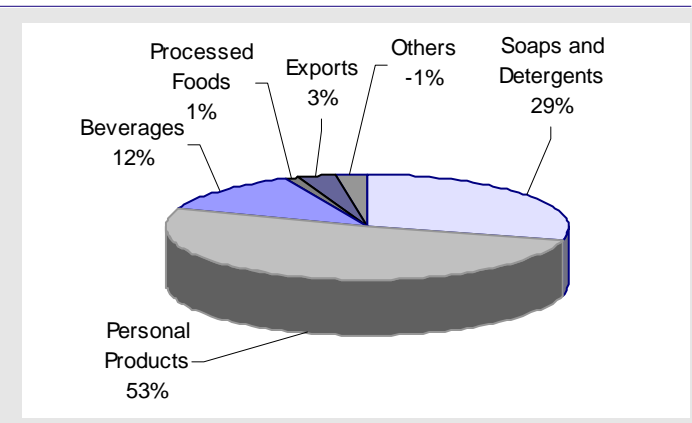
**FY11 volumes up 13%; sustainability a key issue**



**FY11 sales mix**



**FY11 EBIT mix**



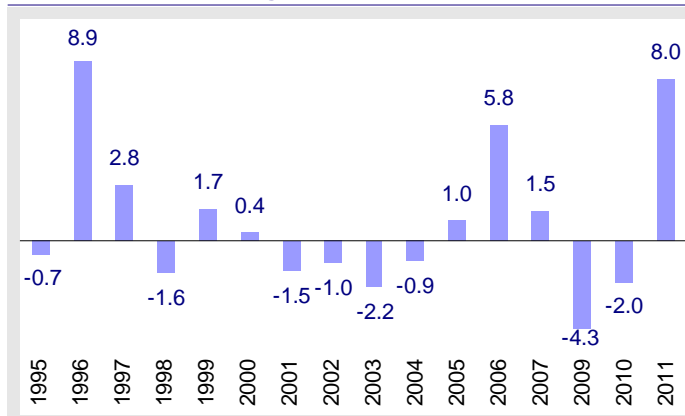
Source: Company/MOSL

*Soaps volume growth at 8% highest since 1996*

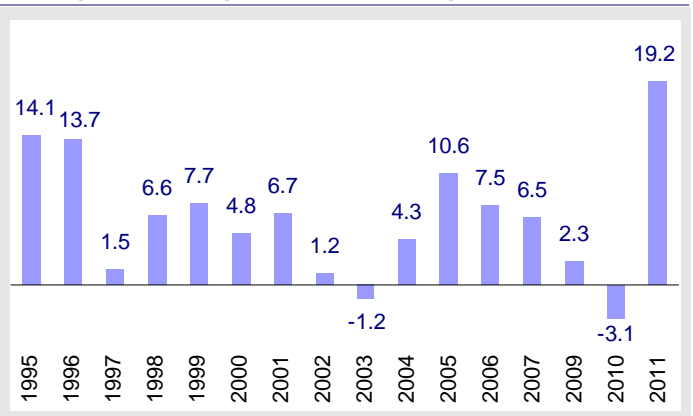
**Soaps and detergents – volume growth robust; sustainability a key issue**

- HUVR has reported 8% volume growth in toilet soaps in FY11, the highest since 1996. The numbers are, however, not comparable, as HUVR has started reporting volumes in number of cakes from FY09. Realization declined by 2% due to price corrections.
- HUVR has re-launched *Lifebuoy* and *Hamam*, backed by strong micro marketing and market development. It has withdrawn the consumer offers and grammage increase in soaps, in view of rising input costs in 2HFY11.

**Toilet soap volumes highest since 1996 (%)**



**Detergent volume growth at all-time high in FY11 (%)**



Source: Company/MOSL

*Detergent volumes increased 19.2%, realizations declined 10.2%*

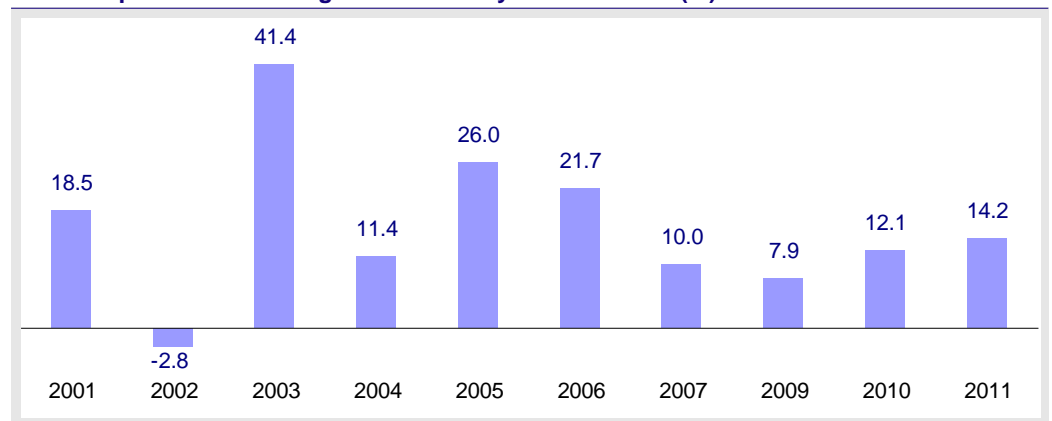
- Detergent volumes grew by 19.2%, a new high. Realizations declined 10.2%, as HUVR boosted volumes by strengthening its *Rin* and *Wheel* brands, and cutting prices of *Rin Advanced*, post the launch of *Tide Naturals* by P&G. HUVR maintained the growth momentum in *Vim Bar* and *Domex*.
- Margins for the soaps and detergents segment reached an all-time low of 9.5% (4QFY11 EBIT margin: 7.5%), due to the dual impact of lower prices and steep increase in input costs.
- We note that the current margins are significantly lower than 13.8% achieved by HUVR during the peak of the price wars in 2005. HUVR has increased soap and detergent prices in the past two quarters to protect margins.

*Personal products volume growth of 14.2% despite new launches was disappointing*

**Personal products – volume growth disappoints; margins flattish**

- Personal care reported 14.2% volume growth, 1.6% realization growth and 10bp margin decline in FY11.
- Volume growth has been disappointing, given the re-launch of brands like *Dove*, *Fair and Lovely*, *Ponds Talc*, and *Elle 18*. Besides, the company had launched new products like *Sunsilk Shampoo* (co-creations), *Vaseline Male Grooming Range*, *Lakme Perfect Radiance* and *Sure Deo's*.
- Personal care margins declined 10bp, despite rising share and growth of premium products in the portfolio.

**Personal products volume growth driven by new launches (%)**



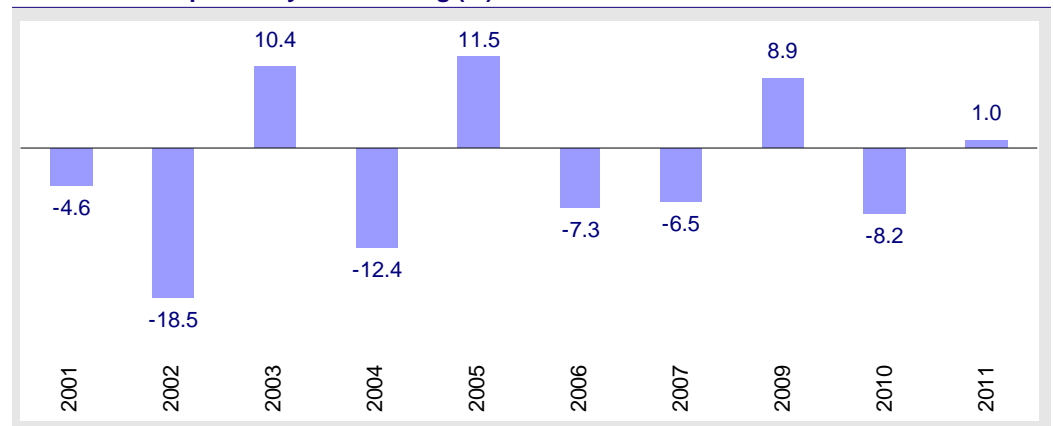
Source: Company/MOSL

**Foods – processed food volumes up 29%; ice cream, tea volume growth suffers**

*Tea and ice cream volume growth at 1% and 4.5%, respectively was disappointing; Soupy Noodles drove volume growth in foods*

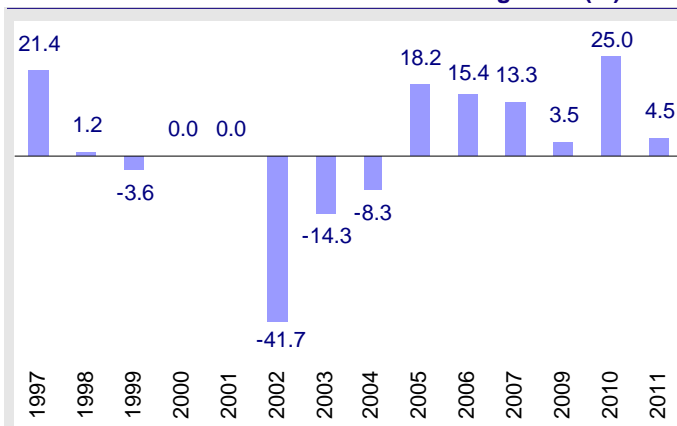
- Tea volumes increased by just 1%, as the category witnessed downtrading due to high tea prices, resulting in faster growth in the discount segment of the market. HUVR focused on *Brooke Bond Sehatmand* and *Ruby* to drive growth in the discount segment.
- Ice cream volumes grew by just 4.5%. Realization increased 14%, led by higher volumes in the premium segment and input cost led price increases. HUVR increased the number of *Swirl* parlors to 130. New launches include *Fun Mango*, *Strawberry*, *Jelly Kick*, *Rainbow Punch* and *Twister Ninja*. EBIT margin expanded 160bp, despite severe input cost pressure.
- Processed food volumes grew 29.5%. Realization increased 4%. The success of *Knorr Soupy Noodles* was the highlight of this business. HUVR also launched three new products under the *Kissan* umbrella: (1) *Kissan Fruit and Soya Milk*, (2) *Kissan Creamy Spread*, and (3) *Kissan Nutrismart Malted Food Drink* in South India.

**Tea volumes impacted by downtrading (%)**

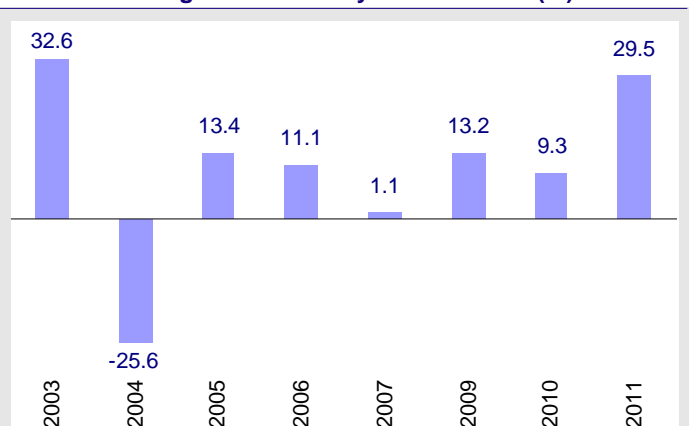


Source: Company/MOSL

**Price increase subdued ice cream volume growth (%)**



**Foods volume growth driven by new launches (%)**



Source: Company/MOSL

**Other takeaways**

*100% increase in direct coverage in last two years*

- **Supply chain:** HUVR focused on increasing customer fill ratio and reducing wastages. It was able to reduce supply chain costs by 6% due to these initiatives.
- **Distribution:** HUVR launched a customer differentiation tool to increase efficiency in front-end selling. It increased urban coverage by 20% and rural coverage by 200%. HUVR has more than 1.5m outlets under direct coverage, an increase of 100% in the last two years.

*Operating income higher due to gains on forex contracts*

- **Other operating income:** Other operational income grew 66%, led by profit of INR365m on derivative and forex contracts (INR500m loss in FY10). Financial other income increased 70% to INR2.5b due to profit booking on investments and higher interest rates.
- **Debtors:** Debtors increased from 8.5 days’ sales in FY09 to 11.5 days in FY10 and 13.5 days in FY13, led by rising share of modern trade and premium launches through modern trade.
- **Employee costs:** Employee costs increased 2.7%, mainly due to 18% increase in welfare costs; the trend seems unsustainable in an era of double-digit inflation.
- **Inventory:** Inventory increased 29%, led by 34% growth in raw material inventory and 24% increase in finished goods inventory.

*Price hikes in soaps and detergents in last 6 months will assist margin improvement*

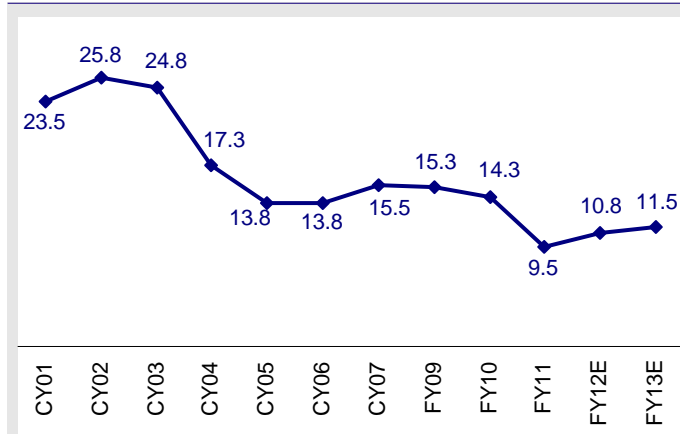
**Soaps and detergents margins have bottomed out...**

- HUVR’s soaps and detergents margins declined to 9.5% in FY11, with 4QFY11 EBIT margin at 7.5%. Price cuts and quality improvements in Rin Advanced and Wheel, coupled with aggressive advertising spend impacted detergent margins. Toilet soap margins were impacted by delay in taking price increase even as PFAD ( Palm Fatty Acid Distillate) prices increased sharply, more so in 2HFY11.
- HUVR is gradually increasing product prices across soaps and detergents by using a mix of price increases and grammage reductions. It increased Rin Advanced prices by 17%, and reduced the grammage of Wheel by 11%, Surf Excel Blue by 7% and Surf Excel Matic by 3% in FY11. It has also increased toilet soap prices by 5-10% over the last six months.
- We believe that margins in soaps and detergents have bottomed out.

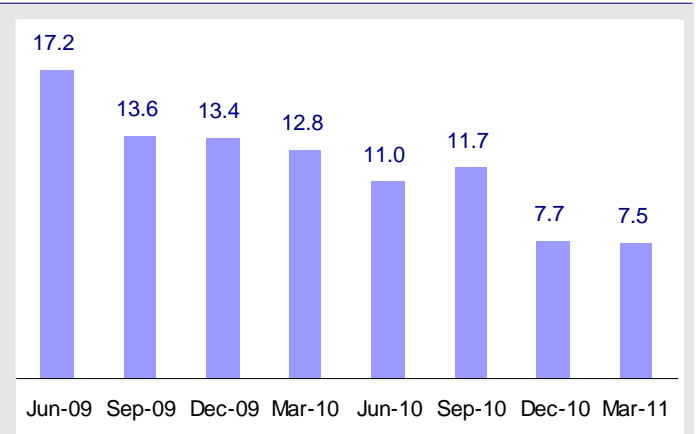
**...but personal products margins are at risk**

- Personal products margins remain on a sticky wicket due to: (1) rising competition from global players in skin care, (2) price-based competition in hair care, and (3) likely increase in competitive intensity in the oral care market in the medium term.
- HUVR has launched a host of new products and brands in personal care, which it has identified as a key thrust area. We expect new launches, rising competition and increased advertising to steadily reduce EBIT margins in personal care to 20-22%.

**FY11 soap and detergent margins at an all-time low (%)**

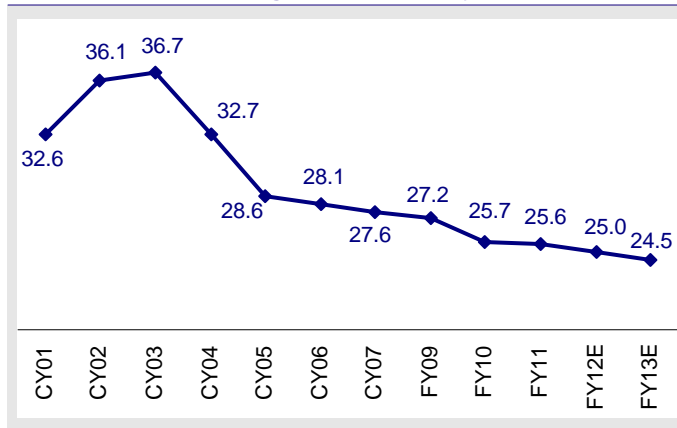


**4QFY11 margins likely to be the bottom (%)**

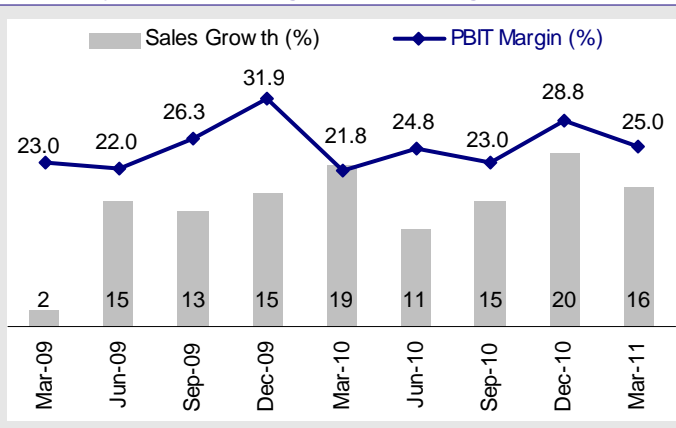


Source: Company/MOSL

Personal products margins have steadily declined (%)



Quarterly trend in sales growth and margins in PP

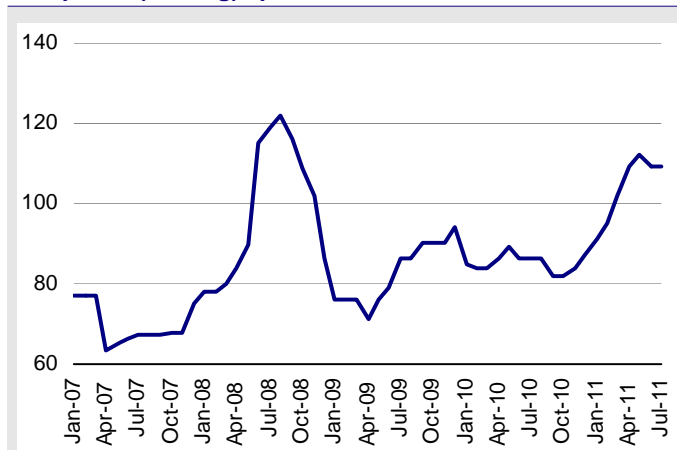


Source: Company/MOSL

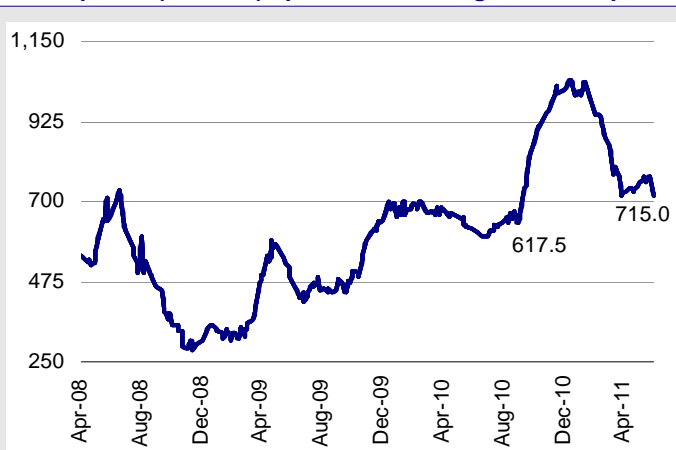
**Volatile commodity prices, competitive intensity are key headwinds**

- Volatile commodity prices remain a key risk in HUVR, in our view. PFAD prices have corrected by 30% from the peak, but are still up 20% YoY. LAB prices have increased by 30-35% in the last 12 months. Packaging costs are up 20-25% and coffee prices are up 50-60%.

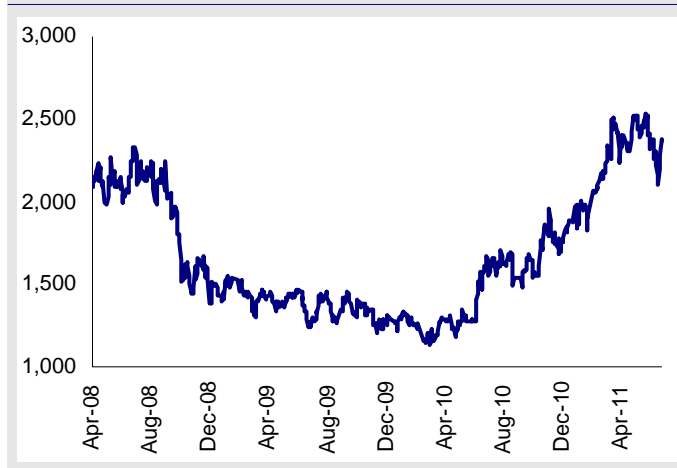
LAB prices (INR / kg) up 27% YoY



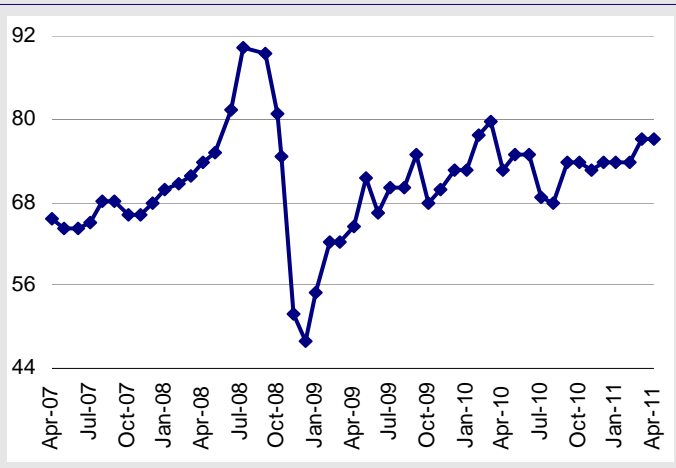
PFAD prices (USD/MT) up 13% after falling from their peak



Coffee prices (USD/MT) higher by 50% YoY



HDPE prices have remained largely stable (INR/kg)



Source: Company/MOSL

- India is one of the most sought after consumer markets. We expect competitive intensity to increase from MNCs like P&G, J&J, Reckitt, and L'Oreal on the one hand and domestic niche players on the other. EBIT margins in personal care can decline from 25% to 20-22% in the next 2-3 years. Any price wars by new entrants to increase brand visibility and gain market share is a key risk to profit margins and growth in the medium term.

### Fairly valued for 12.5% PAT CAGR; maintain Neutral

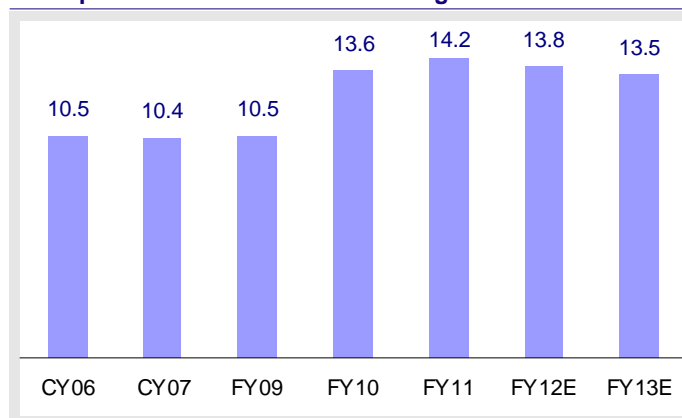
- We revise our estimates marginally upwards by 2% and 1% in FY12E and FY13E respectively, factoring in the recent price increases undertaken in soaps and detergents.
- We note that soaps and detergent margins have bottomed out and gradual recovery is likely. However, we remain skeptical of personal care margins sustaining at current levels in the long term.
- The stock trades at 29.9x FY12E and 26.4x FY13E EPS. Maintain **Neutral**.

### Annual segmental snapshot

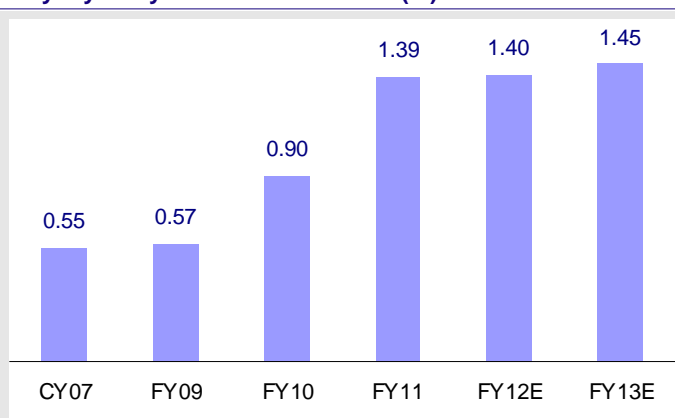
	CY03	CY04	CY05	CY06	FY08	FY09	FY10	FY11
<b>Sales (INR m)</b>								
Soaps and Detergents	43,794	44,707	49,617	55,959	66,883	81,424	82,656	87,916
Personal care	24,102	24,722	29,519	33,598	38,803	43,486	50,479	58,441
Foods	18,801	15,686	16,893	18,527	23,260	27,204	31,042	35,211
Exports	12,463	12,490	13,478	12,789	13,946	11,768	10,053	10,997
Others	3,666	3,002	2,505	1,803	2,205	3,797	2,467	4,380
<b>Sales Growth (%)</b>								
Soaps and Detergents	-0.1	2.1	11.0	12.8	19.5	21.7	1.5	6.4
Personal care	15.0	2.6	19.4	13.8	15.5	12.1	16.1	15.8
Foods		-16.6	7.7	9.7	25.5	17.0	14.1	13.4
Exports	-0.8	0.2	7.9	-5.1	9.0	-15.6	-14.6	9.4
Others	6.8	-18.1	-16.6	-28.0	22.3	72.2	-35.0	77.5
<b>EBIT (INR m)</b>								
Soaps and Detergents	10,883	7,751	6,837	7,731	10,381	12,492	11,853	8,341
Personal care	8,841	8,075	8,452	9,431	10,703	11,832	12,965	14,948
Foods	2,258	1,523	2,314	2,521	2,489	2,639	3,369	3,901
Exports	615	396	491	664	514	904	586	916
Others	-150	-329	-277	-674	-1,005	-1,047	-720	-750
<b>EBIT Margins (%)</b>								
Soaps and Detergents	24.8	17.3	13.8	13.8	15.5	15.3	14.3	9.5
Personal care	36.7	32.7	28.6	28.1	27.6	27.2	25.7	25.6
Foods	12.0	9.7	13.7	13.6	10.7	9.7	10.9	11.1
Exports	4.9	3.2	3.6	5.2	3.7	7.7	5.8	8.3
Others	-4.1	-10.9	-11.1	-37.4	-45.6	-27.6	-29.2	-17.1

Source: Company/MOSL

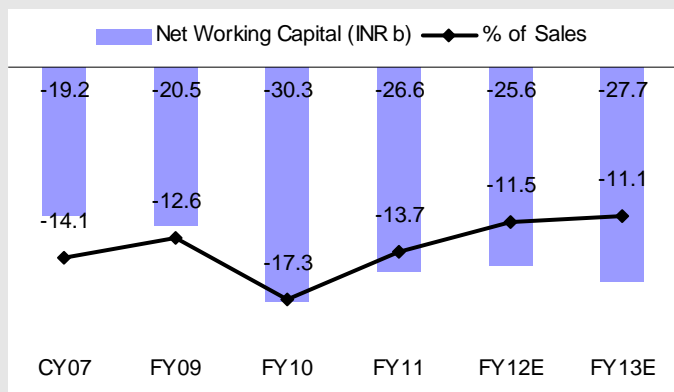
### A&P spends at 14.2% in FY11 at life high



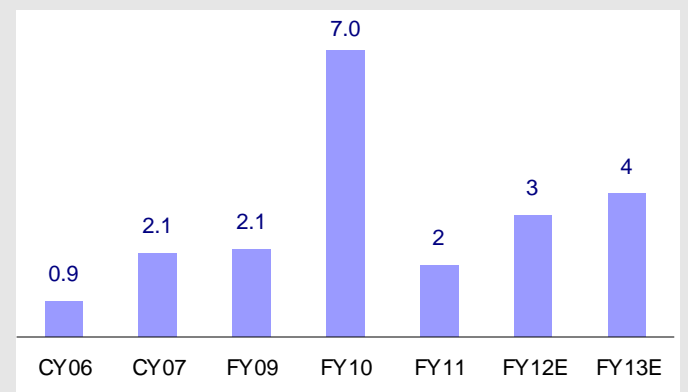
### Royalty likely to increase in future (%)



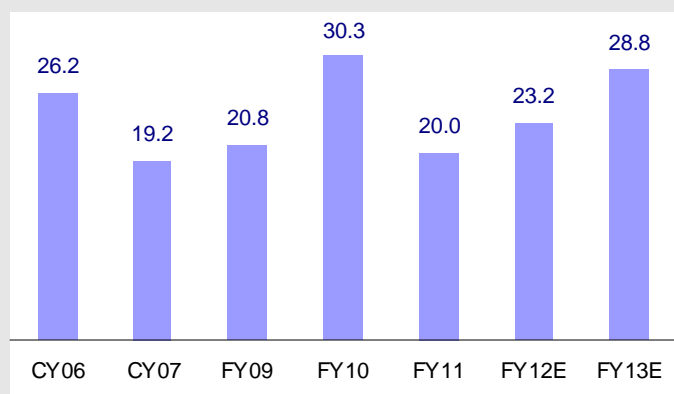
Higher debtors days increase net working capital



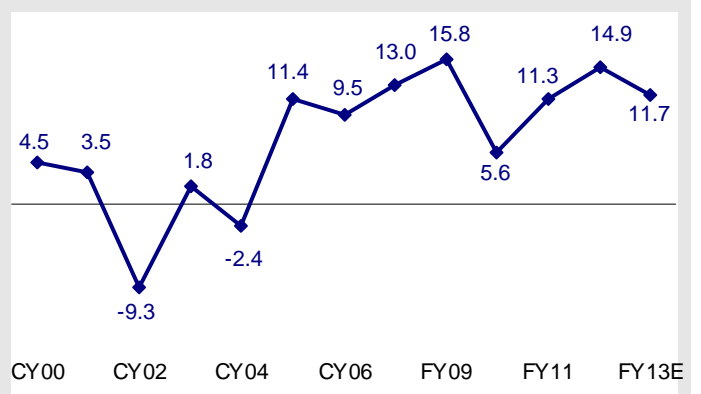
Capex (INR b)



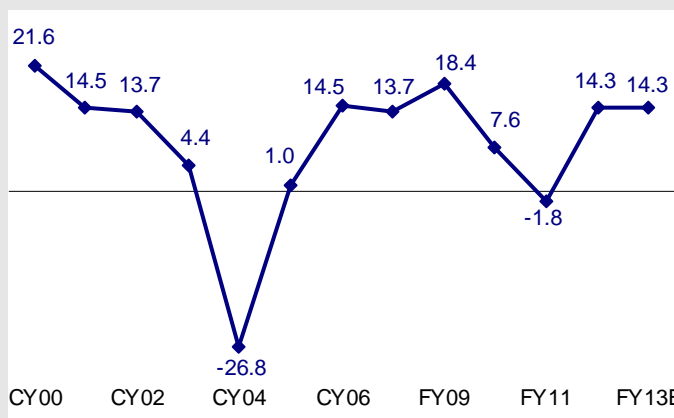
Free cash flow (INR b) continued to be healthy



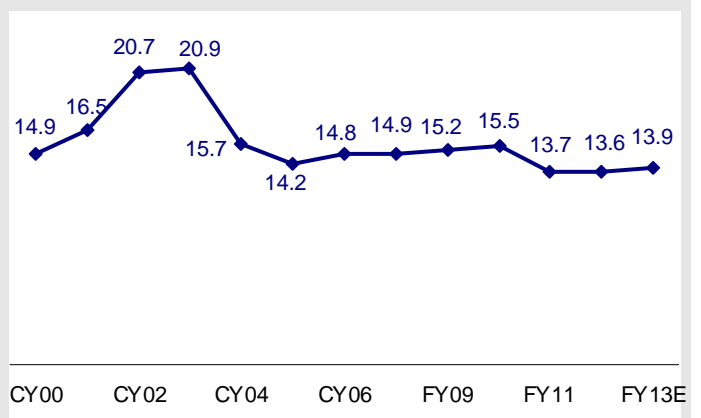
Sales growth has been volatile in the last 10 years (%)



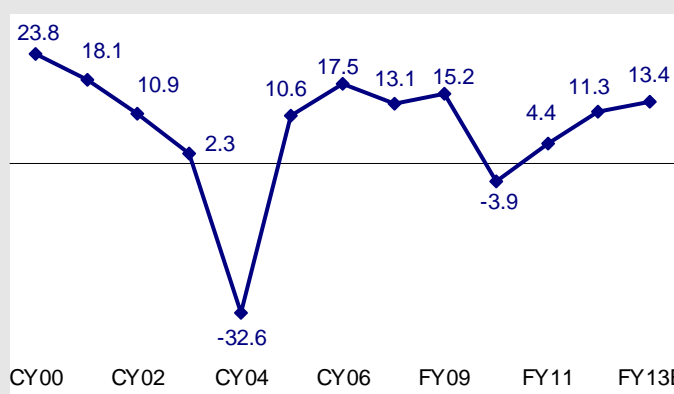
EBITDA growth has not been consistent



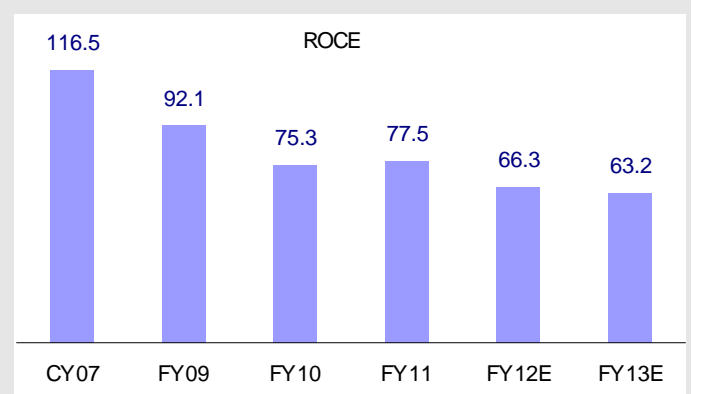
EBITDA margins have steadily declined since CY02



Growth in PAT has largely mirrored EBITDA growth (%)



Lower profitability has impacted return ratios



Source: Company/MOSL



## Financials and Valuation

## Income Statement

(INR Million)

Y/E March	CY07	FY09	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>136,754</b>	<b>202,393</b>	<b>175,238</b>	<b>194,011</b>	<b>223,204</b>	<b>249,243</b>
Other Operating Income	1,937	3,622	2,015	3,341	3,548	4,063
<b>Total Revenue</b>	<b>138,691</b>	<b>206,016</b>	<b>177,253</b>	<b>197,352</b>	<b>226,752</b>	<b>253,307</b>
Change (%)	13.0	48.5	-14.0	11.3	14.9	11.7
COGS	72,685	108,379	88,779	100,569	117,901	132,094
<b>Gross Profit</b>	<b>66,006</b>	<b>97,636</b>	<b>88,474</b>	<b>96,783</b>	<b>108,851</b>	<b>121,213</b>
Gros Margin	47.6	47.4	49.9	49.0	48.0	47.9
Operating Exp	45,281	67,235	60,975	69,790	77,995	85,949
% of sales	32.6	32.6	34.4	35.4	34.4	33.9
<b>EBIDTA</b>	<b>20,724</b>	<b>30,402</b>	<b>27,500</b>	<b>26,945</b>	<b>30,856</b>	<b>35,264</b>
Change (%)	13.7	46.7	-9.5	-2.0	14.5	14.3
Margin (%)	14.9	14.8	15.5	13.7	13.6	13.9
Depreciation	1,384	1,953	1,840	2,208	2,346	2,541
Int. and Fin. Charges	255	253	70	2	5	5
Other Income - Recurring	2,379	2,056	1,481	2,520	2,617	2,800
<b>Profit before Taxes</b>	<b>21,464</b>	<b>30,251</b>	<b>27,071</b>	<b>27,254</b>	<b>31,122</b>	<b>35,519</b>
Change (%)	15.3	40.9	-10.5	0.7	14.2	14.1
Margin (%)	15.7	14.9	15.4	14.0	13.9	14.3
Tax	3,643	5,244	5,823	5,488	6,847	7,992
Deferred Tax	389	0	221	281	311	355
Tax Rate (%)	18.8	17.3	22.3	21.2	23.0	23.5
<b>Profit after Taxes</b>	<b>17,432</b>	<b>25,007</b>	<b>21,027</b>	<b>21,485</b>	<b>23,964</b>	<b>27,172</b>
Change (%)	13.2	43.5	-15.9	2.2	11.5	13.4
Margin (%)	12.7	12.4	12.0	11.1	10.7	10.9
Non-rec. (Exp)/Income	1,824	-43	994	1,527	0	0
<b>Reported PAT</b>	<b>19,256</b>	<b>24,965</b>	<b>22,020</b>	<b>23,012</b>	<b>23,964</b>	<b>27,172</b>

## Balance Sheet

(INR Million)

Y/E March	CY07	FY09	FY10	FY11	FY12E	FY13E
Share Capital	2,177	2,180	2,182	2,160	2,160	2,160
Reserves	12,215	18,435	23,653	24,180	29,194	34,890
<b>Net Worth</b>	<b>14,392</b>	<b>20,615</b>	<b>25,835</b>	<b>26,339</b>	<b>31,354</b>	<b>37,049</b>
Loans	885	4,219	0	0	0	0
<b>Capital Employed</b>	<b>15,278</b>	<b>24,835</b>	<b>25,835</b>	<b>26,339</b>	<b>31,354</b>	<b>37,049</b>
Gross Block	26,691	28,817	35,820	37,596	40,596	44,096
Less: Accum. Depn.	-11,466	-12,750	-14,199	-15,905	-18,250	-20,791
<b>Net Fixed Assets</b>	<b>15,225</b>	<b>16,068</b>	<b>21,621</b>	<b>21,692</b>	<b>22,346</b>	<b>23,305</b>
Capital WIP	1,856	4,721	2,740	2,991	2,500	2,500
Investments	14,408	19,194	29,249	26,188	29,908	36,512
Deferred Charges	2,124	2,548	2,488	2,097	2,243	2,399
<b>Curr. Assets, L&amp;A</b>	<b>32,774</b>	<b>40,142</b>	<b>37,854</b>	<b>47,371</b>	<b>52,344</b>	<b>57,760</b>
Inventory	19,536	25,289	21,799	28,113	31,001	34,378
Account Receivables	4,434	5,369	6,716	9,432	11,007	12,291
Cash and Bank Balance	2,009	1,906	2,314	2,819	2,996	3,372
Others	6,796	7,579	7,025	7,007	7,340	7,718
<b>Curr. Liab. and Prov.</b>	<b>51,110</b>	<b>57,838</b>	<b>67,332</b>	<b>73,999</b>	<b>77,987</b>	<b>85,427</b>
Account Payables	28,785	33,050	43,737	47,262	52,046	57,181
Other Liabilities	15,610	16,068	15,374	19,178	17,303	18,528
Provisions	6,716	8,720	8,221	7,558	8,638	9,718
<b>Net Current Assets</b>	<b>-18,336</b>	<b>-17,696</b>	<b>-29,478</b>	<b>-26,628</b>	<b>-25,643</b>	<b>-27,667</b>
<b>Application of Funds</b>	<b>15,278</b>	<b>24,834</b>	<b>26,620</b>	<b>26,339</b>	<b>31,354</b>	<b>37,049</b>

E: MOSL Estimates

## Financials and Valuation

### Ratios

Y/E March	2007	FY09	FY10	FY11	FY12E	FY13E
<b>Basic (INR)</b>						
<b>EPS</b>	<b>8.0</b>	<b>11.5</b>	<b>9.6</b>	<b>9.9</b>	<b>11.1</b>	<b>12.6</b>
Cash EPS	8.6	12.4	10.5	11.0	12.2	13.8
BV/Share	6.6	9.5	11.8	12.2	14.5	17.2
DPS	9.1	7.5	6.5	6.5	7.5	8.5
Payout %	113.4	65.4	67.4	65.7	67.6	67.6

### Valuation (x)

P/E				33.4	29.9	26.4
Cash P/E				30.2	27.3	24.1
EV/Sales				3.5	3.1	2.7
EV/EBITDA				25.5	22.2	19.2
P/BV				27.2	22.9	19.4
Dividend Yield (%)				2.0	2.3	2.6

### Return Ratios (%)

RoE	121.1	121.3	81.4	81.6	76.4	73.3
RoCE	142.2	122.8	105.1	103.5	99.3	95.9

### Working Capital Ratios

Debtor (Days)	12	10	14	18	18	18
Asset Turnover (x)	9.0	8.1	6.8	7.4	7.1	6.7

### Leverage Ratio

Debt/Equity (x)	0.1	0.2	0.0	0.0	0.0	0.0
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### Cash Flow Statement

(INR Million)

Y/E March	2007	FY09	FY10	FY11E	FY12E	FY13E
OP/(loss) before Tax	20,724	30,402	27,500	26,945	30,856	35,264
Int./Div. Received	2,379	2,056	1,481	2,520	2,617	2,800
Interest Paid	-255	-253	-70	-2	-5	-5
Direct Taxes Paid	-3,643	-5,244	-5,823	-5,488	-6,847	-7,992
(Incr)/Decr in WC	2,641	-742	12,190	-2,345	-808	2,400
Change in Deff	122	-424	60	392	-146	-156
<b>CF from Operations</b>	<b>21,968</b>	<b>25,794</b>	<b>35,338</b>	<b>22,020</b>	<b>25,667</b>	<b>32,311</b>
Extraordinary Items	1,824	-43	994	1,527	0	0
(Incr)/Decr in FA	-2,818	-4,991	-5,021	-2,028	-2,509	-3,500
(Pur)/Sale of Investments	9,731	-4,786	-10,055	3,062	-3,720	-6,604
<b>CF from Invest.</b>	<b>8,737</b>	<b>-9,819</b>	<b>-14,083</b>	<b>2,561</b>	<b>-6,230</b>	<b>-10,104</b>
Change in Networth	-8,782	381	-240	-6,088	0	0
change in equity	-29	2	2	-22	0	0
change in reserves	-8,753	379	-242	-6,066	0	0
(Incr)/Decr in Debt	159	3,334	-4,219	0	0	0
Dividend Paid	-23,316	-19,123	-16,560	-16,420	-18,950	-21,476
Others	-927	-669	172	-1,568	-318	-362
<b>CF from Fin. Activity</b>	<b>-32,866</b>	<b>-16,077</b>	<b>-20,848</b>	<b>-24,076</b>	<b>-19,268</b>	<b>-21,838</b>
<b>Incr/Decr of Cash</b>	<b>-2,161</b>	<b>-102</b>	<b>407</b>	<b>506</b>	<b>170</b>	<b>370</b>
Add: Opening Balance	4,169	2,009	1,906	2,314	2,819	2,996
<b>Closing Balance</b>	<b>2,008</b>	<b>1,906</b>	<b>2,313</b>	<b>2,819</b>	<b>2,989</b>	<b>3,366</b>

E: MOSL Estimates; FY09 Fifteen month ending (March)

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