

**NEUTRAL**

CMP\* Rs324

Target Price -

**Stock Info**

Sector FMCG

Market Cap (Rs cr) 71,727

52 Week High/Low 348/250

Avg. Daily Volume (3m, '000) 2,192

Avg. Daily Value (3m, cr) 69.1

Dividend Yield (%) 2.0

Sensex 18,197

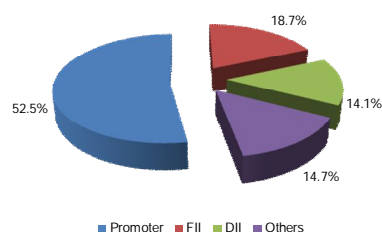
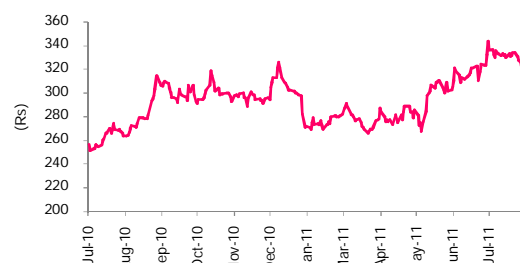
Nifty 5,482

BSE Code 500696

NSE Code HUL

**Stock Performance**

(%)	HUL	NIFTY
1-Week	(2.9)	(2.7)
1-month	(2.6)	(2.1)
1-year	26.3	1.4

**Shareholding Pattern (%)**

**Stock Price Chart**


Note: \*CMP as on July 29, 2011

Analyst: Chitrangda Kapur

chitrangda.kapur@relianceada.com

**Volume growth strong at ~8%, despite price hikes**
**Key highlights of the result**

- Top-line grows strong, aided by double digit growth across segments:** HUL delivered strong top-line growth of 14.8% yoy, primarily driven by 8.3% volume as well as value growth. Home and personal care business grew by 15.4% yoy while, personal products registered growth of 19.4% yoy. In terms of other business segments, Foods business grew 14.9% yoy with strong performance of both beverages (growth of 13.1% yoy) and packaged foods business (growth of 17.8% yoy), whereas exports grew by 15.7% yoy..
- OPM came in flat yoy, despite gross margin contraction of 482bp yoy:** HUL displayed resilience in terms of operating margins, despite facing severe raw material inflation pressure, resulting in gross margin contraction of 482bp yoy, the company reported flat OPM at 12.3% (12.5% in 1QFY2011) aided by high operational efficiency. Staff cost (flat, marginally down 3bp yoy), advertising expense (down 417bp yoy) and other expense (down 47bp yoy) declined.
- Earnings spruced up by one time exceptional gains:** Recurring earnings reported a growth of 10.4% yoy, primarily supported by higher EBITDA and flattish other income (up 1.3% yoy). However, on a reported basis, one time exceptional income of Rs59cr, including sale of assets (Rs51cr) and dilution of stake in subsidiary (Rs4cr) resulted in reported earnings higher by 17.6% yoy.

**Outlook and Valuation**

Sustainable volume growth and steady performance of personal products and foods business renders us confidence on the company's growth prospects. For FY2011-13E, we expect HUL to report a CAGR of ~13% in its top-line driven by 14.2% CAGR in foods business and 12% CAGR in personal products business, driven by product innovations and higher volumes. In terms of earnings, we peg a CAGR of 18% over FY2011-13E, barring the one-time extraordinary income reported by the company in FY2010 and FY2011. **At the CMP of Rs324, the stock price captures the positives of the result. Hence we recommend our Neutral view on the stock with a fair value of Rs332.**

**Risks to the view**

- Inequitable monsoon distribution may result in raw material price inflation
- Lower than anticipated volume growth on account of price wars will impact our estimates, even though we factor the same in our valuations

Year End	Net Revenues		EBITDA		Net income (reported)		RoaE	RoCE	EPS	Valuations (X)	
	(Rs cr)	% growth	(Rs cr)	% margin	(Rs cr)	% growth	%	%	(Rs)	P/E	EV/EBITDA
FY2010	17,524	(13.4)	2,548	14.5	2,202	(11.9)	90.5	101.3	9.7	32.1	26.5
FY2011	19,401	10.7	2,365	12.2	2,306	4.7	82.5	88.5	10.0	30.3	28.7
FY2012E	21,840	12.6	2,937	13.4	2,575	11.7	88.5	90.4	11.9	27.2	22.9
FY2013E	24,574	12.5	3,427	13.9	2,983	15.8	85.7	88.7	13.8	23.5	19.4

**Exhibit 1: Quarterly performance (Consolidated)**

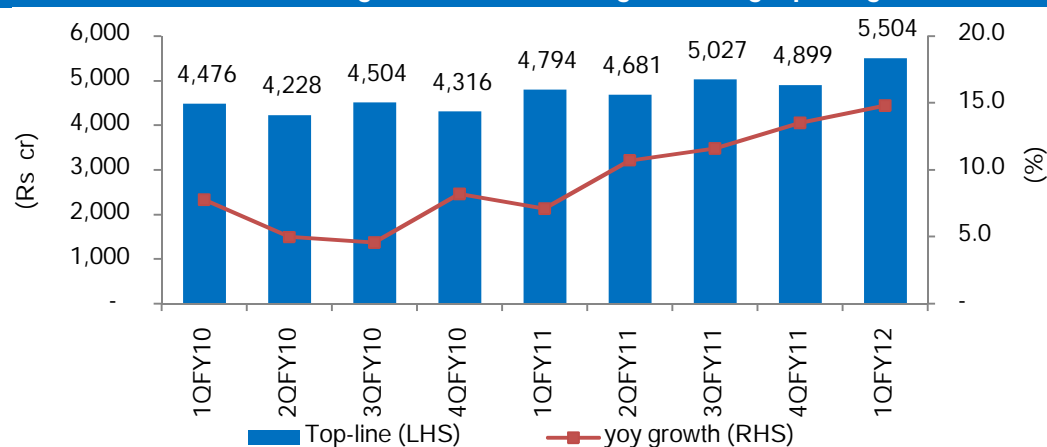
(Rs cr)	1QFY12	1QFY11	%yoy	FY2011	FY2010	%yoy
<b>Net Sales</b>	<b>5,503.9</b>	<b>4,793.9</b>	<b>14.8</b>	<b>19,401.1</b>	<b>17,523.8</b>	<b>10.7</b>
Consumption of RM	3,074.2	2,446.6	25.6	10,056.8	8,877.9	13.3
(% of sales)	55.9	51.0		51.8	50.7	
Staff Cost	286.2	250.6	14.2	961.3	936.3	2.7
(% of sales)	5.2	5.2		5.0	5.3	
Advertising Expense	633.0	751.2	(15.7)	2,764.2	2,391.4	15.6
(% of sales)	11.5	15.7		14.2	13.6	
Other expenses	831.8	746.9	11.4	3,253.6	2,769.7	17.5
(% of sales)	15.1	15.6		16.8	15.8	
<b>Total Expenditure</b>	<b>4,825.1</b>	<b>4,195.3</b>	<b>15.0</b>	<b>17,035.9</b>	<b>14,975.4</b>	<b>13.8</b>
<b>Operating profit</b>	<b>678.8</b>	<b>598.6</b>	<b>13.4</b>	<b>2,365.2</b>	<b>2,548.4</b>	<b>(7.2)</b>
OPM (%)	12.3	12.5		12.2	14.5	
Depreciation	56.2	53.5	5.0	220.8	184.0	20.0
<b>EBIT</b>	<b>622.6</b>	<b>545.1</b>	<b>14.2</b>	<b>2,144.4</b>	<b>2,364.4</b>	<b>(9.3)</b>
Interest	0.0	0.1	(75.0)	0.2	7.0	(96.7)
Other income	126.1	124.5	1.3	586.0	349.6	67.6
<b>PBT</b>	<b>748.7</b>	<b>669.5</b>	<b>11.8</b>	<b>2,730.2</b>	<b>2,707.1</b>	<b>0.9</b>
Tax	180.2	154.8	16.4	631.0	616.4	2.4
Tax Rate (%)	24.1	23.1		23.1	22.8	
<b>PAT (recurring)</b>	<b>568.4</b>	<b>514.7</b>	<b>10.4</b>	<b>2,099.2</b>	<b>2,090.7</b>	<b>0.4</b>
PAT Margin (%)	10.3	10.7		10.8	11.9	
Ext Income/ (Exp.)	58.8	18.5		206.8	111.3	
<b>PAT (reported)</b>	<b>627.2</b>	<b>533.2</b>	<b>17.6</b>	<b>2,306.0</b>	<b>2,202.0</b>	<b>4.7</b>
Equity shares (cr)	216.1	218.2		216.0	218.2	
<b>EPS (Rs)</b>	<b>2.9</b>	<b>2.4</b>	<b>18.8</b>	<b>10.7</b>	<b>10.1</b>	<b>5.8</b>

Source: Company, RSec Research

**Top-line grows strong, aided by double digit growth across segments**

Consolidated top-line growth driven by both volume growth as well as price led, although full impact of the price hike is likely to be witnessed in ensuing quarters

HUL delivered strong top-line growth of 14.8% yoy, primarily driven by 8.3% volume as well as value growth. Home and personal care business grew by 15.4% yoy, with soaps and detergent delivering strong growth driven by *Rin* and *Lifebuoy* brands, while hand and body wash tripled their sales. In the personal products category the re-launch of existing brands (Clear and Pepsodent) and also the new launches (under the brand umbrella of Fair and Lovely, Vaseline, Lakme and Ponds) aided growth of 19.4% yoy in personal products. In terms of other business segments, Foods business grew 14.9% yoy with strong performance of both beverages (growth of 13.1% yoy) and packaged foods business (growth of 17.8% yoy), while exports grew by 15.7% yoy.

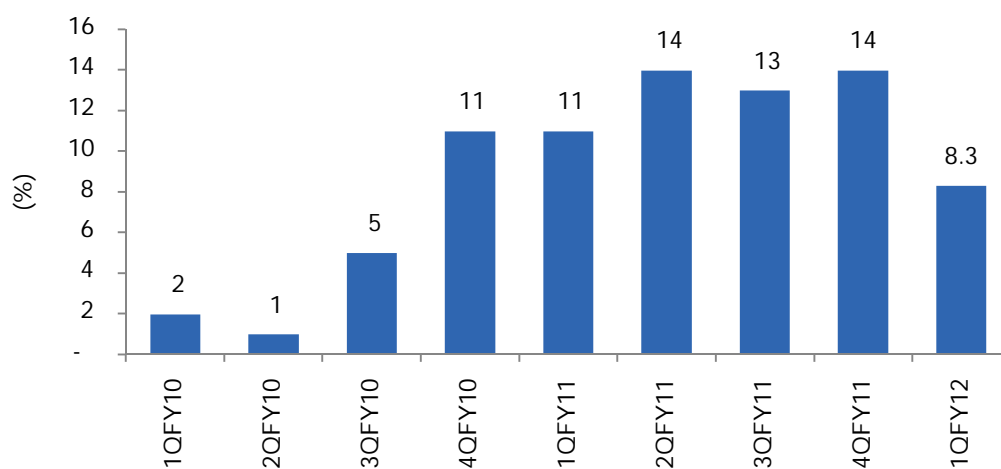
**Exhibit 2: Consistent volume growth aids HUL to register strong top-line growth**

Source: Company, RSec Research

**Exhibit 3: Segmental results**

Y/E March (Rs cr)	1QFY12	1QFY11	% chg	FY2011	FY2010	% chg
<b>Segmental Gross revenue</b>						
Soaps & Detergents	2,555	2,264	12.8	8,792	8,266	6.4
Personal Products	1,631	1,366	19.4	5,844	5,048	15.8
Beverages	609	538	13.1	2,344	2,142	9.4
Packaged foods	372	316	17.8	1,177	962	22.4
Exports	306	265	15.7	1,100	1,005	9.4
Others	107	113	(5.3)	438	347	26.3
Less: Inter Segment Revenue	-	-	-	-	(4)	
<b>Total Gross Income</b>	<b>5,579</b>	<b>4,861</b>	<b>14.8</b>	<b>19,694</b>	<b>17,766</b>	<b>10.9</b>
<b>Segmental Result (PBIT)</b>						
Soaps & Detergents	236	249	(5.1)	834	1,185	(29.6)
Personal Products	413	339	22.0	1,495	1,297	15.3
Beverages	75	70	8.4	358	320	11.9
Packaged Foods	17.4	25.9	(32.8)	32	17	88.7
Exports	24	23	4.4	92	59	56.3
Others	(3)	(27)		(75)	(72)	
<b>Total PBIT</b>	<b>763</b>	<b>679</b>	<b>12.4</b>	<b>2,736</b>	<b>2,805</b>	<b>(2.5)</b>
Less: Interest Exp	(0)	(0)		(0)	(7)	
Less: Other Unallocable Exp	44	9		202	(36)	
<b>PBT</b>	<b>807</b>	<b>688</b>	<b>17.4</b>	<b>2,937</b>	<b>2,763</b>	<b>6.3</b>
<b>PBIT Margin (%)</b>						
Soaps & Detergents	9.2	11.0		9.5	14.3	
Personal Products	25.3	24.8		25.6	25.7	
Beverages	12.4	12.9		15.3	14.9	
Packaged Foods	4.7	8.2		2.7	1.8	
Exports	7.7	8.6		8.3	5.8	
Others	(2.4)	(23.6)		(17.1)	(20.8)	

Source: Company, RSec Research

**Exhibit 4: Volume growth trend (yoy)**

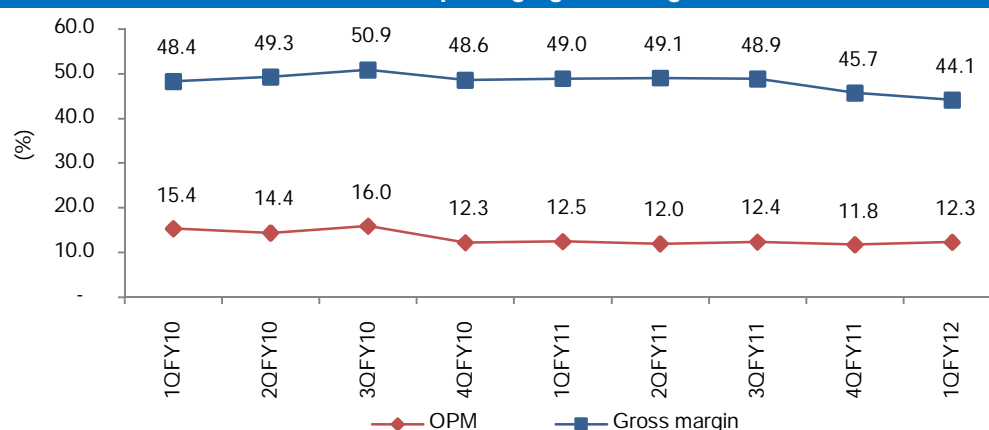
Source: Company, RSec Research

OPM reported at ~12%, flat yoy despite gross margin pressure at the back of operational efficiency

### OPM came in flat yoy, despite gross margin contraction of 482bp yoy

HUL displayed resilience in terms of operating margins despite facing severe raw material inflation pressure, resulting in gross margin contraction of 482bp yoy, the company reported flat OPM at 12.3% (12.5% in 1QFY2011) aided by high operational efficiency. Staff cost (flat, marginally down 3bp yoy), advertising expense (down 417bp yoy) and other expense (down 47bp yoy) declined.

**Exhibit 5: OPM exhibits flat trend despite high gross margins**

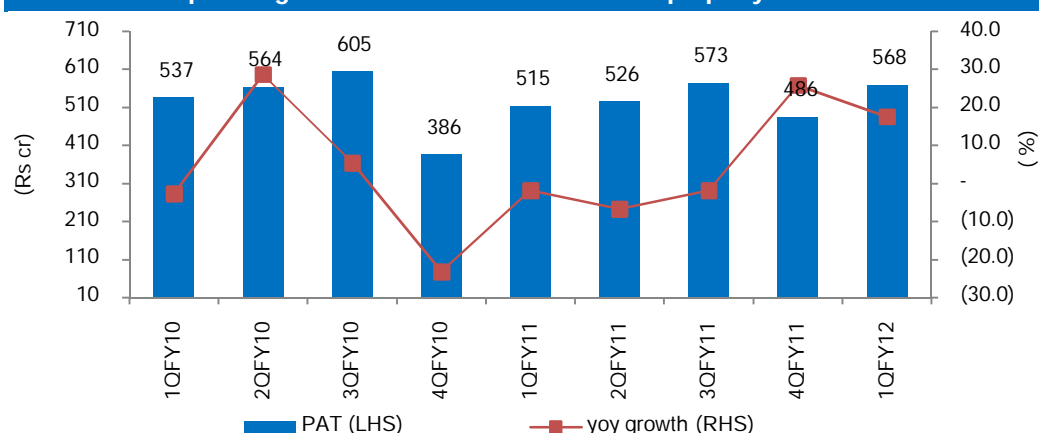


Source: Company, RSec Research

### Reported earnings spruced by one time exceptional item

Recurring earnings reported a growth of 10.4% yoy, primarily supported by higher EBITDA and flattish other income (up 1.3% yoy). However, on a reported basis, one time exceptional income of Rs59cr, including sale of assets (Rs51cr) and dilution of stake in subsidiary (Rs4cr) resulted in reported earnings higher by 17.6% yoy.

**Exhibit 6: Exceptional gain of Rs51cr due to the sale of property recorded**



Source: Company, RSec Research

### Outlook and Valuation

Sustainable volume growth and steady performance of personal products and foods business renders us confidence on the company's growth prospects. For FY2011-13E, we expect HUL to report a CAGR of ~13% in its top-line driven by 14.2% CAGR in foods business and 12% CAGR in personal products business, driven by product innovations and higher volumes. In terms of earnings, we peg a CAGR of 18% over FY2011-13E, barring the one-time extraordinary income reported by the company in FY2010 and FY2011. **At the CMP of Rs324, the stock price captures the positives of the result. Hence we recommend our Neutral view on the stock with a fair value of Rs332.**

## Profit &amp; Loss Statement

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
<b>Gross sales</b>	<b>18,220</b>	<b>20,306</b>	<b>22,869</b>	<b>25,786</b>
Less: Excise duty	696	904	1,029	1,212
Net Sales	17,524	19,401	21,840	24,574
<b>Total operating income</b>	<b>17,524</b>	<b>19,401</b>	<b>21,840</b>	<b>24,574</b>
% chg	(13.4)	10.7	12.6	12.5
<b>Total Expenditure</b>	<b>14,975</b>	<b>17,036</b>	<b>18,903</b>	<b>21,147</b>
<b>EBITDA</b>	<b>2,548</b>	<b>2,365</b>	<b>2,937</b>	<b>3,427</b>
% chg	(4.1)	(7.2)	24.2	16.7
(% of Net Sales)	14.5	12.2	13.4	13.9
Depre. & Amortization	184	221	245	270
<b>EBIT</b>	<b>2,364</b>	<b>2,144</b>	<b>2,692</b>	<b>3,158</b>
(% of Net Sales)	13.5	11.1	12.3	12.8
Interest	7	0	(34)	(42)
Other Income	350	586	619	700
Share in profit of Asso.	-	-	-	-
<b>PBT (reported)</b>	<b>2,707</b>	<b>2,730</b>	<b>3,345</b>	<b>3,900</b>
Tax	604	577	769	916
Tax rate (%)	22.3	21.1	23.0	23.5
<b>PAT (recurring)</b>	<b>2,103</b>	<b>2,153</b>	<b>2,575</b>	<b>2,983</b>
Ext. Exp./ (Income)	(99)	(153)	-	-
Minority interest (MI)	-	-	-	-
<b>PAT (reported)</b>	<b>2,202</b>	<b>2,306</b>	<b>2,575</b>	<b>2,983</b>
% chg	(11.9)	4.7	11.7	15.8
(% of Net Sales)	12.6	11.9	11.8	12.1
<b>Basic EPS (Rs)</b>	<b>9.6</b>	<b>10.0</b>	<b>11.9</b>	<b>13.8</b>
<b>Fully Diluted EPS (Rs)</b>	<b>9.7</b>	<b>10.0</b>	<b>11.9</b>	<b>13.8</b>
% chg	(15.9)	2.4	19.6	15.8

## Balance Sheet

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	218	216	216	216
Preference Capital	-	-	-	-
Reserves & Surplus	2,365	2,418	2,972	3,555
<b>Shareholders Funds</b>	<b>2,584</b>	<b>2,634</b>	<b>3,188</b>	<b>3,771</b>
Minority Interest	-	-	-	-
Total Loans	0	0	0	0
Deferred Tax Liability	(249)	(210)	(210)	(210)
<b>Total Liabilities</b>	<b>2,335</b>	<b>2,424</b>	<b>2,978</b>	<b>3,561</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	3,582	3,760	4,368	4,818
Less: Acc. Depreciation	1,420	1,590	1,835	2,105
<b>Net Block</b>	<b>2,162</b>	<b>2,169</b>	<b>2,533</b>	<b>2,714</b>
Capital Work-in-Progress	274	299	437	482
Goodwill	-	-	-	-
<b>Investments</b>	<b>1,264</b>	<b>1,261</b>	<b>1,761</b>	<b>2,261</b>
Current Assets	5,368	6,095	6,410	7,093
Cash	1,892	1,640	1,598	1,871
Loans & Advances	617	701	808	922
Other	2,858	3,754	4,004	4,300
Current liabilities	6,733	7,400	8,162	8,987
<b>Net Current Assets</b>	<b>(1,365)</b>	<b>(1,305)</b>	<b>(1,752)</b>	<b>(1,895)</b>
<b>Total Assets</b>	<b>2,335</b>	<b>2,424</b>	<b>2,978</b>	<b>3,561</b>

## Cash Flow Statement

Y/E March (Rs cr)	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	2,707	2,730	3,345	3,900
Depreciation	184	221	245	270
Change in Working Capital	1,391	(223)	402	416
Interest / Dividend (Net)	(122)	(192)	(268)	(304)
Direct taxes paid	604	577	769	916
Others	(84)	(305)	3	0
<b>Cash Flow from Operations</b>	<b>3,473</b>	<b>1,655</b>	<b>2,957</b>	<b>3,365</b>
(Inc.)/ Dec. in Fixed Assets	(502)	(299)	(746)	(496)
(Inc.)/ Dec. in Investments	(931)	(85)	(500)	(500)
<b>Cash Flow from Investing</b>	<b>(1,434)</b>	<b>(384)</b>	<b>(1,246)</b>	<b>(996)</b>
Issue of Equity	32	(73)	-	-
Inc./(Dec.) in loans	(422)	-	-	-
Dividend Paid (Incl. Tax)	1,656	1,642	2,021	2,400
Interest / Dividend (Net)	(122)	(192)	(268)	(234)
<b>Cash Flow from Financing</b>	<b>(1,924)</b>	<b>(1,523)</b>	<b>(1,753)</b>	<b>(2,097)</b>
Inc./(Dec.) in Cash	115	(252)	(42)	273
<b>Opening Cash balances</b>	<b>1,777</b>	<b>1,892</b>	<b>1,640</b>	<b>1,598</b>
<b>Closing Cash balances</b>	<b>1,892</b>	<b>1,640</b>	<b>1,598</b>	<b>1,871</b>

## Key Ratios

Y/E March	FY2010	FY2011	FY2012E	FY2013E
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	32.1	30.3	27.2	23.5
P/CEPS	30.6	29.5	24.8	21.5
P/BV	27.1	26.6	21.9	18.6
Dividend yield (%)	2.0	2.0	2.5	2.9
EV/Sales	3.9	3.5	3.1	2.7
EV/EBITDA	26.5	28.7	22.9	19.4
EV / Total Assets	28.9	28.0	22.6	18.7
<b>Per Share Data (Rs)</b>				
EPS (Basic)	9.6	10.0	11.9	13.8
EPS (fully diluted)	9.7	10.0	11.9	13.8
Cash EPS	10.6	11.0	13.1	15.1
DPS	6.5	6.5	8.0	9.5
Book Value	12.0	12.2	14.8	17.5
<b>Returns (%)</b>				
RoCE	101.3	88.5	90.4	88.7
RoE	90.5	82.5	88.5	85.7
<b>Turnover ratios (x)</b>				
Asset Turnover	4.9	5.2	5.0	5.1
Inventory / Sales (days)	45	53	49	46
Receivables (days)	14	18	18	18
Payables (days)	110	114	109	106
WCC (days)	(68)	(55)	(56)	(56)

**General Disclaimers:** This Research Report (hereinafter called 'Report') is prepared and distributed by Reliance Securities Limited (RSL) for information purposes only. The views herein constitute only the opinions and do not constitute any guidelines or recommendation and should not be deemed or construed to be neither advice for the purposes of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

**Risks:** Trading and investment in securities are subject market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

**Disclaimers in respect of jurisdiction:** The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

**Disclosure of Interest:** The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. Neither RSL nor the research analysts did have any known direct /indirect conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made, during the preparation of this Report.

**Copyright:** The copyright in this Report belongs exclusively to RSL. This Report shall only be read by those persons to whom it has been delivered. No reprinting, reproduction, copying, distribution of this Report in any manner whatsoever, in whole or in part, is permitted without the prior express written consent of RSL.

**Important** These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

**Reliance Securities Limited is a Stock Broker with Bombay Stock Exchange Limited (SEBI Registration Nos. INB011234839, INF011234839 and INE011234839); with National Stock Exchange of India Limited (SEBI Registration Nos. INB231234833, INF231234833, and INF231234833); and with MCX Stock Exchange Limited (SEBI Registration No. INE261234833)**