

Hindustan Lever

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Shareholding (%)

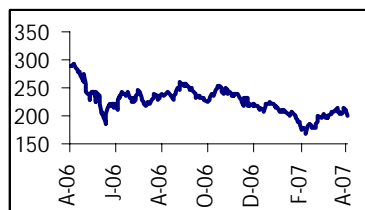
Promoters	51.4
FII's	12.9
MFs	3.3
Insurance Co.	12.5
Others	19.9

Share price performance

52-week high/low (Rs)	296/165		
	-1m	-3m	-12m
Abs (%)	-2.8	-4.3	-31.2
Rel* (%)	-10.4	-4.4	-46.1

*to Nifty

Stock chart



HPC revenue drags, margin disappoints

Hindustan Lever Ltd. (HLL) posted disappointing numbers for yet another quarter. For Q1CY07, the company recorded 13.8% growth in net sales to Rs31.84bn, while net profits (excluding extra-ordinary items) grew by 13.6% to Rs3.34bn. Of the total revenue growth, 4.2% was accounted for by underlying volume growth, while the balance was due to increase in prices and improved product mix. Home and personal care (HPC) grew by just 10%, personal care being a major disappointment with growth of 10.8% (adjusted for *Nihar*) in sales. HPC accounted for 70.5% of HLL's total sales in Q1CY07. EBITDA margin was under pressure due to higher A&SP; they fell by 40bps to 11.4% on YOY basis.

Key highlights

- ▲ The soaps and detergent segment saw revenue grow by 9.6% to Rs14.45bn in Q1CY07. While detergents grew by double digits, with good growth in *Surf* and *Wheel*; soap segment managed growth in single digits. EBIT margin improved 50bps to 12.1% on the back of increase in prices. Margins have improved even after an increase in prices of key raw materials like crude oil derivatives and palm oil.
- ▲ Revenue from personal care grew by 7.3% (10.8% adjusted for *Nihar*) to Rs8.22bn compared to 19.4% growth in CY05 and 13.8% in CY06. Growth in revenue from this segment seems to be tapering off. Personal care is an important constituent of HLL's portfolio as EBIT margin is the highest in the range of 24-30% compared to overall EBIT margin of 15-16%. Q1CY07 EBIT margin improved by 30bps to 24.7%.
- ▲ Performance of beverages segment was a positive surprise in terms of topline growth, as it grew 16.6% to Rs3.70bn. Growth in tea business was strong, with the entire range of *Brooke Bond* performing well. However, growth was at the cost of lower EBIT margin. Higher A&SP spend saw EBIT margin drop by 450bps to 15%. Fall in margin saw EBIT fall by 10.3% to Rs555.9mn.
- ▲ Revenue from processed foods division grew 48.7% to Rs1.31bn on the back of robust performance of *Knorr* and *Kissan*. EBIT margin too improved from 0.4% to 5.6%, leading to EBIT of Rs73.8mn compared to Rs3.1mn in Q1CY06. Export growth was also robust at 27.7% to Rs3.52bn due to higher HPC and beverage exports. Export segment's EBIT margin too improved from 2.9% to 3.8% leading to 66% growth in segment EBIT to Rs132.8mn.

Neutral

Rs199

April 30, 2007

Market cap

Rs bn 439

US\$ bn 11

Avg 3m daily volume

4,110,812

Avg 3m daily value

USD mn 20

Shares outstanding (mn)

2,207

Reuters

HLL.BO/HINDLEVER.NS

Bloomberg

HLVR IN

Sensex

13,872

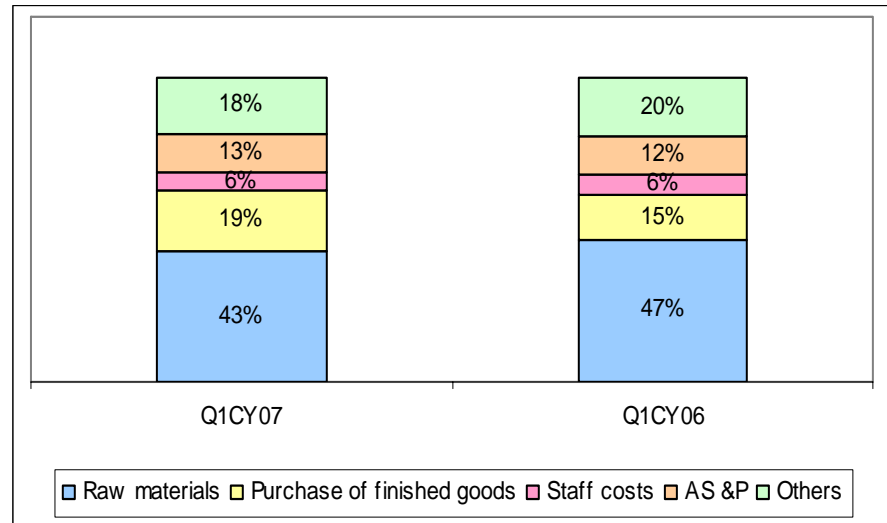
Nifty

4,088

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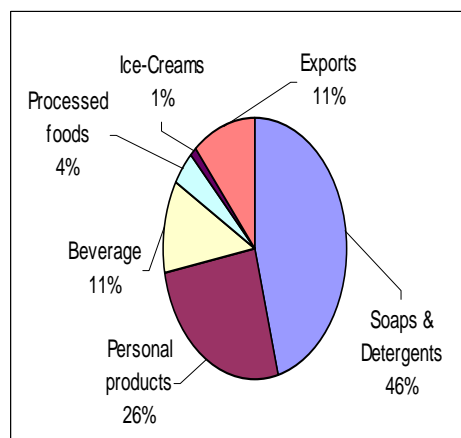
At the current market price, the stock is trading at a price-earnings multiple of 24.9x and 22x based on CY07E and CY08E earnings. Though the stock appears inexpensive on P/E basis considering the historical premium it had been commanding, we are not enthused by the prospects going forward. On a PEG basis, the stock looks expensive as it is trading at a PEG of 1.7 based on CY07E and CY08E earnings growth.

Chart 1: Cost structure



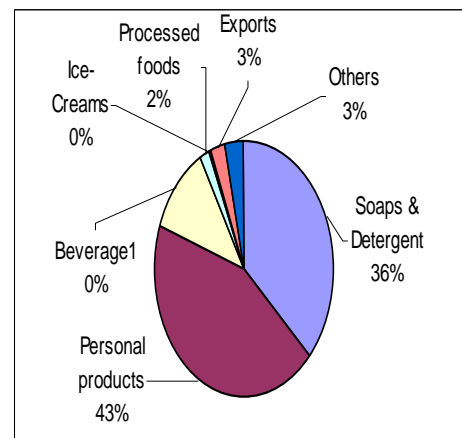
Source: IISL research, company

Chart 2: Contributions to revenue



Source: IISL research, company

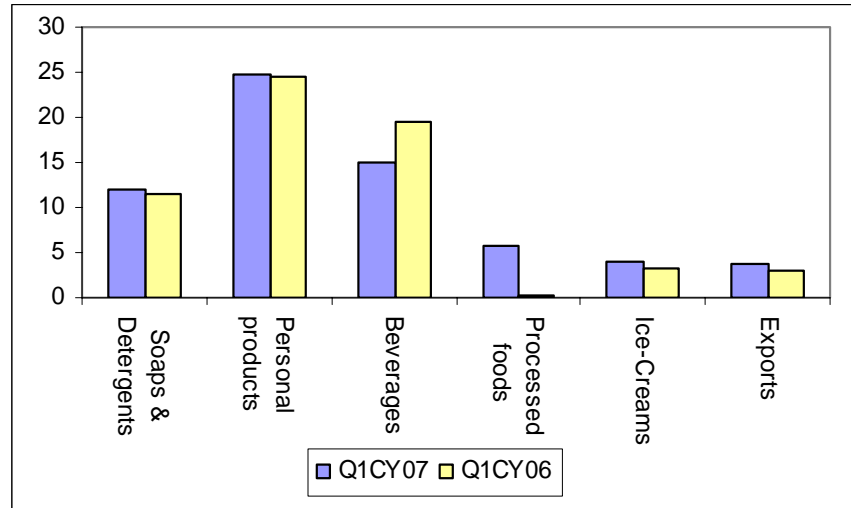
Chart 3: Contributions to EBIT



Source: IISL research, company

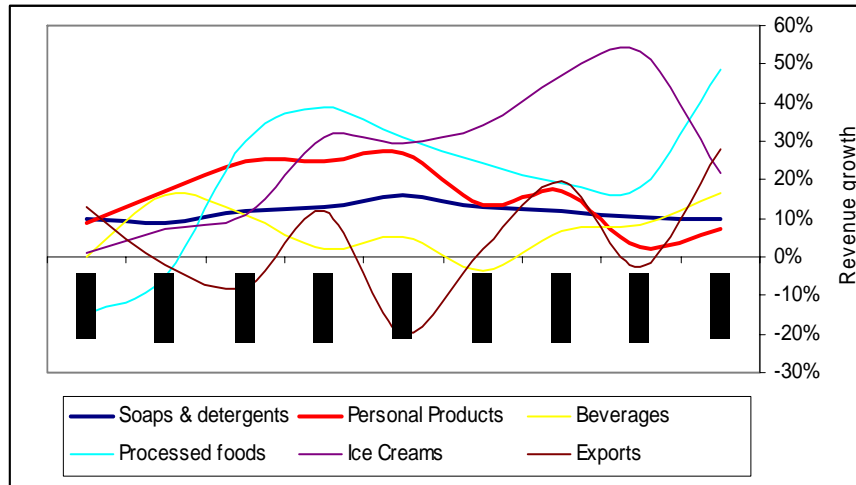
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Chart 4: Segmental margins



Source: IISL research, company

Chart 5: Trend in revenue growth of various segments



Source: IISL research, company

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Table 1. Quarterly result table

	Q1CY07	Q1CY06	YOY %
Net sales from operations	31,843.2	27,980.5	13.8
Total Expenses	28,223.5	24,675.0	14.4
(Increase)/Decrease in stock	(758.1)	(532.5)	
Raw material consumed	12,948.7	12,016.2	7.8
Purchase of goods	5,485.7	3,765.2	45.7
Staff costs	1,786.8	1,563.5	14.3
Advertisement & sales promotion	3,563.7	3,033.4	17.5
Other Expenses	5,196.7	4,829.2	7.6
EBITDA	3,619.7	3,305.5	9.5
Depreciation	329.0	338.6	(2.8)
EBIT	3,290.7	2,966.9	10.9
Interest	51.3	20.5	150.2
Other Income	908.0	693.6	30.9
PBT	4,147.4	3,640.0	13.9
Provision for tax (including deferred tax)	808.8	700.2	15.5
Net Profit before extra-ordinary items	3,338.6	2,939.8	13.6
Extra-ordinary item	590.3	1,488.8	
Net profit	3,928.9	4,428.6	(11.3)
Equity	2,206.8	2,206.8	
EPS	1.8	2.0	

Source: IISL research, company

Table 2. Key ratios

	Q1CY07	Q1CY06
Gross margins %	44.5	45.5
A&SP to sales %	11.2	10.8
Purchase of goods to sales %	17.2	13.5
Staff cost to sales %	5.6	5.6
EBITDA %	11.4	11.8
Effective tax rate %	19.5	19.2
NPM %	10.5	10.5

Source: IISL research, company

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Table 3. Segment result

	Q1CY07	Q1CY06	YOY %
Segment Revenues			
Soaps & Detergents	14445.3	13185.8	9.6
Personal products	8221.3	7658.6	7.3
Beverages	3704.9	3176.6	16.6
Processed foods	1311.2	881.9	48.7
Ice-Creams	322.3	264.5	21.9
Exports	3519.3	2755.3	27.7
Others	631.3	340.2	85.6
Total	32155.6	28262.9	13.8
Less: Inter-segment sales	13.8	14.7	-6.1
Gross sales from operations	32141.8	28248.2	13.8
Segment PBIT			
Soaps & Detergents	1744.2	1523.5	14.5
Personal products	2030.2	1867.6	8.7
Beverages	555.9	620.0	-10.3
Processed foods	73.8	3.1	2280.6
Ice-Creams	13.1	8.4	56.0
Exports	132.8	80.0	66.0
Others	-157.2	-50.5	211.3
Total segment PBIT	4392.8	4052.1	8.4
Segment Margins %			
Soaps & Detergents	12.1	11.6	
Personal products	24.7	24.4	
Beverages	15.0	19.5	
Processed foods	5.6	0.4	
Ice-Creams	4.1	3.2	
Exports	3.8	2.9	
Others	-24.9	-14.8	
Aggregate PBIT margins	13.7	14.3	

Source: IISL research, company

Table 4. Estimates

Particulars	CY2006	CY2007E	CY2008E
Net sales	121033.9	137246.8	153065.3
growth %	9.4	13.4	11.5
EBITDA	16480.5	18722.7	21220.7
EBITDA margin %	13.6	13.6	13.9
Net profit	15396.7	17629.2	19968.1
growth %	13.7	14.5	13.3
NPM %	12.6	12.7	12.9
EPS (Rs)	7.0	8.0	9.0
P/E Ratio	28.6	24.9	22.0
PEG Ratio	2.1	1.7	1.7

Source: IISL research, company

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