

# Hindustan Unilever

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**Shareholding (%)**

|               |      |
|---------------|------|
| Promoters     | 51.4 |
| FII's         | 12.3 |
| MFs           | 3.9  |
| Insurance Co. | 12.6 |
| Others        | 19.8 |

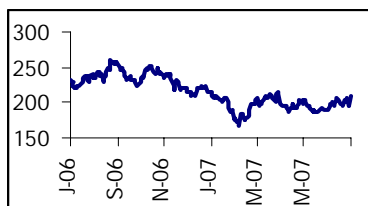
**Share price performance**

52-week high/low (Rs) 263/165

|          | -1m  | -3m  | -12m  |
|----------|------|------|-------|
| Abs (%)  | 10.4 | 4.8  | -10.2 |
| Rel* (%) | 6.7  | -3.8 | -51.5 |

\*to Nifty

**Stock chart**



**No surprises; Not enthused by growth prospects**

For Q2CY07, HUL posted 12.9% growth in net sales to Rs34.8bn on the back of 14.6% growth in soaps & detergents. Out of the total growth 6% was accounted for by volumes while the balance was due to price increases and improved product mix. EBITDA margins improved by 130bps to 14.7% leading to 23.5% growth in EBITDA to Rs5.12bn. However the margin expansion was solely due to lower advertising & sales promotion (A&SP) expenses. They fell by 150bps to 9.7% of sales. We believe that A&SP should be looked into from a yearly perspective and not on a quarterly basis. Over the next few quarters we expect A&SP spend to increase negating this quarter's impact. Net profit (before exceptional income) grew 24.4% to Rs4.72bn.

Based on valuations at which it use to trade few years back, HUL looks cheap on a PE basis. However we strongly believe that HUL will not be able to command higher premium unless there is significant product innovation (not renovation) and growth goes beyond 13%-14%.

**Key result highlights**

- ▲ Soaps & detergent category grew 14.6% to Rs16.69bn in Q2CY07 backed by double-digit growth in detergents. Soaps category however witnessed a fall in market share by 130bps to 54% on qoq basis. EBIT margins of the division grew 180bps to 16.1% leading to 28.8% growth in segmental EBIT to Rs2.68bn. Expansion in margins are attributable to improvement in detergent business margins (which had negligible margins earlier).
- ▲ Personal care division put up yet another disappointing show for the quarter as revenues grew by just 6% to Rs8.98bn. It was partly due to stagnant performance of skin segment as there was a planned pipeline stock rundown preparatory to Fair & Lovely relaunch. The performance of the division is vital as it has margins in the range of 29%-30% as against overall margins of around 16%. Segmental EBIT grew 9% to Rs2.63bn.
- ▲ Beverages revenues grew 20.9% to Rs3.63bn in Q2CY07. Margins improved by 220bps to 15.7% leading to 39.7% growth in EBIT to Rs568.9mn. Processed foods revenues grew 37.2% to Rs1.33bn however the division made a loss of Rs19.3mn on account of the fact that HUL has invested in a new production facility. Ice-cream grew 23.1% in sales. EBIT margins dropped by 440bps to 17.1% leading to 2% fall in EBIT to Rs106.6mn.

**Reduce  
Rs209**

July 30, 2007

**Market cap**

Rs bn 461

US\$ bn 11

**Avg 3m daily volume**

3,334,383

**Avg 3m daily value**

USD mn 16

**Shares outstanding (mn)**

2,207

**Reuters**

HLL.BO/HINDUNILVR.NS

**Bloomberg**

HLVR IN

**Sensex**

15,261

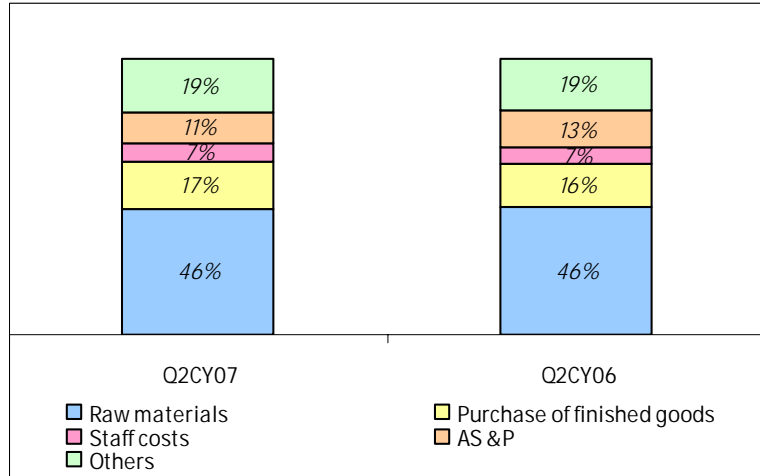
**Nifty**

4,440

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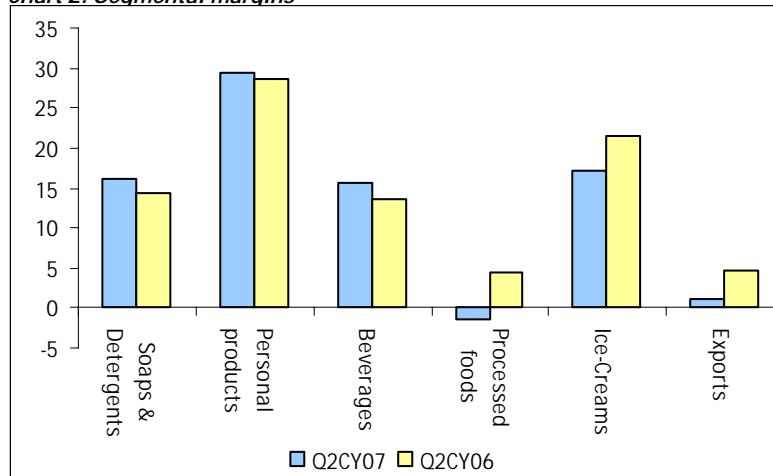
- ▲ The water purifier brand *Pure-it* has been extended to 6 states covering 66 towns catering to over 2mn consumers. HUL is expected to make significant investments behind *Pure-it* going forward.

**Chart 1: Raw material structure**



Source: IISL research, company

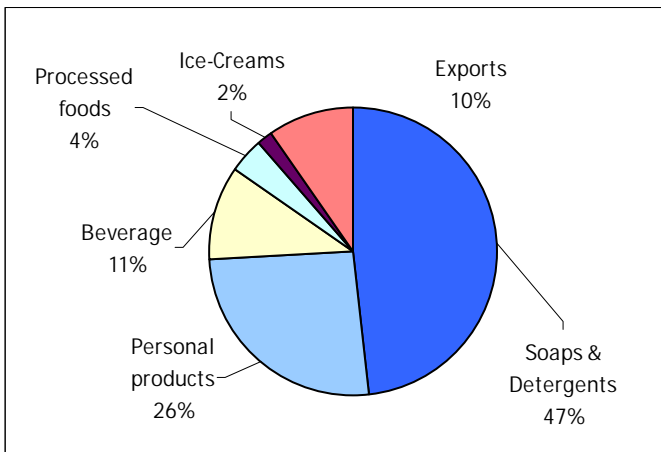
**Chart 2: Segmental margins**



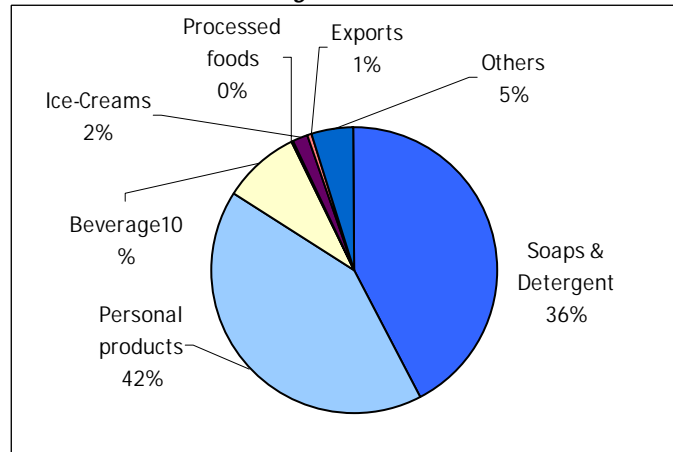
Source: IISL research, company

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**Chart 3: Contribution to revenues**



**Chart 4: Contribution to margins**



Source: IISL research, company

**Table 1. Quarterly result table**

| Rs mn                                      | Q2CY07   | Q2CY06   | YOY (%) |
|--|----------|----------|---------|
| Net sales from operations                  | 34,814.0 | 30,832.3 | 12.9    |
| Total Expenses                             | 29,694.5 | 26,686.4 | 11.3    |
| (Increase)/Decrease in stock               | 482.4    | 10.1     |         |
| Raw material Consumed                      | 13,091.8 | 12,245.3 | 6.9     |
| Purchase of goods                          | 5,000.7  | 4,183.0  | 19.5    |
| Staff costs                                | 2,027.6  | 1,755.5  | 15.5    |
| Advertisement & sales promotion            | 3,360.4  | 3,452.7  | (2.7)   |
| Other Expenses                             | 5,731.6  | 5,039.8  | 13.7    |
| EBITDA                                     | 5,119.5  | 4,145.9  | 23.5    |
| Depreciation                               | 332.9    | 300.5    | 10.8    |
| EBIT                                       | 4,786.6  | 3,845.4  | 24.5    |
| Interest                                   | 110.4    | 34.3     | 221.9   |
| Other Income                               | 1,063.2  | 814.0    | 30.6    |
| PBT  | 5,739.4  | 4,625.1  | 24.1    |
| Provision for tax (including deferred tax) | 1,020.3  | 832.5    | 22.6    |
| Net Profit before extraordinary items      | 4,719.1  | 3,792.6  | 24.4    |
| Extraordinary item                         | 211.7    | 13.3     |         |
| Net profit                                 | 4,930.8  | 3,805.9  | 29.6    |
| Equity                                     | 2,207.0  | 2,207.0  |         |
| EPS  | 2.2      | 1.7      |         |

Source: IISL research, company

## Hindustan Unilever

**Table 2. Key ratios**

|                              | Q2CY07 | Q2CY06 |
|------------------------------|--------|--------|
| Gross margins %              | 46.6   | 46.7   |
| A & SP to sales %            | 9.7    | 11.2   |
| Purchase of goods to sales % | 14.4   | 13.6   |
| Staff cost to sales %        | 5.8    | 5.7    |
| EBITDA %                     | 14.7   | 13.4   |
| Effective tax rate %         | 17.8   | 18.0   |
| NPM %                        | 13.6   | 12.3   |

Source: IISL research, company

**Table 3. Segment Result**

|                             | Q2CY07  | Q2CY06  | YOY (%) |
|-----------------------------|---------|---------|---------|
| <b>Segment Revenues</b>     |         |         |         |
| Soaps & Detergents          | 16687.0 | 14559.2 | 14.6    |
| Personal products           | 8977.7  | 8467.2  | 6.0     |
| Beverages                   | 3632.9  | 3005.5  | 20.9    |
| Processed foods             | 1334.1  | 972.6   | 37.2    |
| Ice-Creams                  | 621.7   | 505.0   | 23.1    |
| Exports                     | 3331.0  | 3286.7  | 1.3     |
| Others                      | 638.7   | 379.2   | 68.4    |
| Total                       | 35223.1 | 31175.4 | 13.0    |
| Less: Intersegment sales    | 14.0    | 19.2    | -27.1   |
| Gross sales from operations | 35209.1 | 31156.2 | 13.0    |
| <b>Segment PBIT</b>         |         |         |         |
| Soaps & Detergents          | 2683.7  | 2084.2  | 28.8    |
| Personal products           | 2632.1  | 2413.9  | 9.0     |
| Beverages                   | 568.9   | 407.1   | 39.7    |
| Processed foods             | -19.3   | 42.0    | -146.0  |
| Ice-Creams                  | 106.6   | 108.8   | -2.0    |
| Exports                     | 34.1    | 156.0   | -78.1   |
| Others                      | -296.6  | -192.4  | 54.2    |
| Total segment PBIT          | 5709.5  | 5019.6  | 13.7    |
| <b>Segment margins</b>      |         |         |         |
| Soaps & Detergents          | 16.1    | 14.3    |         |
| Personal products           | 29.3    | 28.5    |         |
| Beverages                   | 15.7    | 13.5    |         |
| Processed foods             | -1.4    | 4.3     |         |
| Ice-Creams                  | 17.1    | 21.5    |         |
| Exports                     | 1.0     | 4.7     |         |
| Others                      | -46.4   | -50.7   |         |
| Aggregate PBIT margins      | 16.2    | 16.1    |         |

Source: IISL research, company

## Hindustan Unilever

*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       | 29.8     | 26.0     | 23.0     |
| PEG Ratio       | 2.2      | 1.8      | 1.7      |

*Source: IISL research, company*

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