

March 4, 2010

Rating	Sell
Price	Rs238
Target Price	Rs218
Implied Upside	(-) 8.4%
Sensex	17,000

(Prices as on March 3, 2010)

Trading Data

Market Cap. (Rs bn)	518.8
Shares o/s (m)	2,179.9
Free Float	47.98%
3M Avg. Daily Vol ('000)	3,381.7
3M Avg. Daily Value (Rs m)	857.8

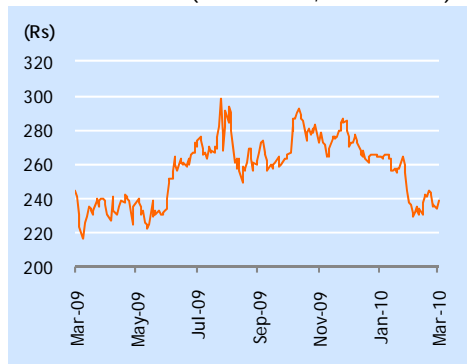
Major Shareholders

Promoters	52.02%
Foreign	15.04%
Domestic Inst.	13.90%
Public & Others	19.04%

Stock Performance

(%)	1M	6M	12M
Absolute	0.7	(10.8)	(1.3)
Relative	(2.3)	(21.2)	(103.1)

Price Performance (RIC: HLL.BO, BB: HUVR IN)



Source: Bloomberg

As mentioned in our earlier note "Let the games begin", dated February 1, 2010, we expected marketing battles/price cuts/promotions to get fiercer. Recent -50% price cuts by Procter & Gamble (P&G) in *Tide* bar and latest advertisement by Hindustan Unilever (HUVR) on *Rin* claiming better whiteness compared to *Tide Naturals* vindicate our view. While acknowledging the risk of predicting earnings for HUVR in an environment of pricing war where earnings estimates will change frequently depending on the spread and duration of the price war, we cut our earnings forecast to reflect the price cuts implemented by HUVR so far in Soaps and Detergents categories. We cut our earnings estimate by 5-10% for FY10E, FY11E and FY12E and revised the target price downwards by 9% to Rs218.

- **The games have begun:** We had expected recent price war and marketing actions to get entrenched and fiercer. P&G's -50% price cut in Tide Bar (from Rs17 and Rs7 to Rs9 and Rs4 for 250gm and 105gm, respectively) and latest ad from HUVR on Rin, claiming superior whiteness compared to Tide Naturals vindicate our expectations. We expect this to stretch and expect P&G to take one more round of price cuts in Tide powder as it is yet to react to HUVR's 30% price cut in Rin powder.
- **Cut earnings by 10% and 11% for FY11E and FY12E, respectively:** Acknowledging the risk associated with forecasting earnings in a dynamic pricing war environment, we revise our EPS downwards for FY10E, FY11E and FY12E by 7%, 10% and 11%, respectively as we account for price cuts implemented so far in Soaps and Detergents. Consequently, our target price stands revised downwards by 9% to Rs218, a further downside of 10%.
- **Revised target price to Rs218:** Stock has performed in line with our expectations since our initiation (*The Rising Tide*, dated December 10, 2009) with 'Sell' and has declined 15% in ~3 months, based on our premise that rising competitive intensity from P&G will impact HUVR. We now cut our target P/E multiple to 19x, 10% lesser than the earlier multiple (21X) we were ascribing. We believe that pressure on operating business, ever-increasing competitive intensity from P&G, eroding pricing power in an inflationary environment and slowing earnings growth justify our target P/E multiple. Pricing actions and aggressive ad spending may benefit HUVR in the long term in terms of market share. However, profitability will be a new concern, for HUVR, highlighting the catch 22 situation. We maintain our 'Sell' rating on the stock.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	205,011	175,798	192,388	215,699
Growth (%)	47.8	(14.2)	9.4	12.1
EBITDA (Rs m)	27,029	27,420	28,593	32,144
PAT (Rs m)	24,900	21,229	22,168	25,028
EPS (Rs)	11.4	9.7	10.2	11.5
Growth (%)	43.1	(14.7)	4.4	12.9
Net DPS (Rs)	7.5	7.8	8.1	9.2

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	13.3	15.7	14.9	15.0
RoE (%)	136.6	96.3	94.6	100.4
RoCE (%)	133.6	97.1	96.7	104.4
EV / sales (x)	2.4	2.8	2.6	2.3
EV / EBITDA (x)	18.4	18.2	17.4	15.5
PE (x)	20.8	24.4	23.4	20.7
P / BV (x)	24.3	22.8	21.5	20.2
Net dividend yield (%)	3.2	3.3	3.4	3.9

Source: Company Data; PL Research

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Fig 1: EPS cut of 7-12%

(Rs m)

	Old			New			Change		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Net sales	179,379	199,883	221,635	174,924	191,431	214,627	-2.5%	-4.2%	-3.2%
Profit	22,765	25,350	28,176	21,229	22,168	25,028	-6.7%	-12.6%	-11.2%
EPS (Rs)	10.4	11.6	12.9	9.7	10.2	11.5	-6.7%	-12.6%	-11.2%

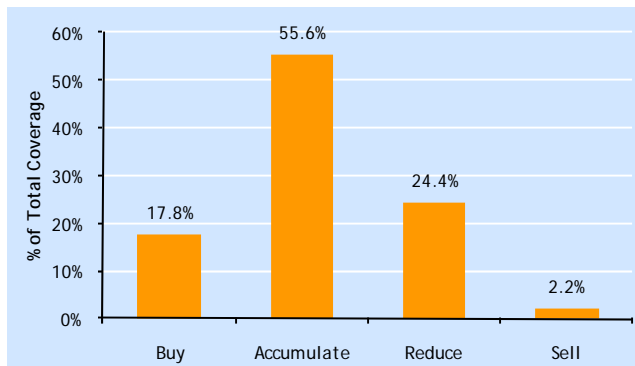
Source: PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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