



Hindustan Unilever

Apple Green

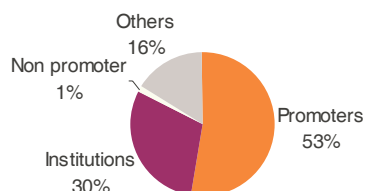
Prices levered up!

Buy; CMP: Rs234

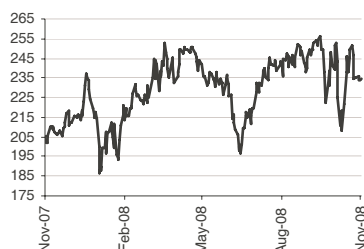
Company details

Price target:	Rs280
Market cap:	Rs51,039 cr
52 week high/low:	Rs265/170
BSE volume: (No of shares)	553,275
BSE code:	500696
NSE code:	HINDUNILVR
Sharekhan code:	HLL
Free float: (No of shares)	104.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.0	-3.8	-2.5	17.5
Relative to Sensex	10.2	59.2	91.7	159.6

HUL hikes prices

Hindustan Unilever Ltd (HUL) has hiked the prices of select products (stock-keeping units [SKU]) across categories, effective from October-end to the beginning of November 2008 (refer table). The price increase has been implemented primarily in shampoo, detergent and toothpaste categories. In the quarter gone by (July-September 2008) HUL's operating margins contracted by 154 basis points year on year (yoy), as the raw material cost as percentage to the sales increased by 112 basis points. This is despite the fact that the company has been continuously effecting steep price hikes across product categories, particularly from July 2008 (July-September 2008 quarter had a 12.9% year-on-year average increase in the prices). The steep increase in the prices of key raw materials such as palm oil, LAB, caustic soda, soda ash, raw tea, coffee and crude oil derivatives (refer charts) has led the company to implement these price increases to protect its margins.

Benefits of declining raw material prices to come with a lag

While a steep price correction has taken place in key commodities used by HUL, the benefits from the same are expected to accrue with a lag as high-cost inventory is consumed and replenished with low-cost materials (due to price correction). We believe HUL (and fast moving consumer good [FMCG] companies in general) will start benefiting from lower commodity prices from Q1CY2009 in the form of improvement in its margins.

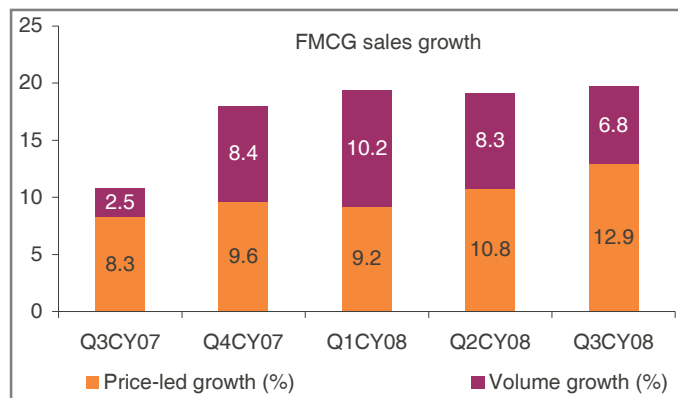
Volume growth to be under strain unless prices are cut

For the past three quarters, HUL's volume growth has been steadily declining (volume growth in Q1CY2008 stood at 10.2%, Q2CY2008 at 8.3%, Q3CY2008 at 6.8%), as increased prices and general inflation ate into consumer's valet. Further, the categories like soaps and fabric wash, which together account for ~47% of the company's revenues, are penetrated to the extent of ~90%. Hence the volume growth in these categories are achieved mainly by increasing the per capita usage and uptrading of consumers from non-branded to branded products. In an inflationary scenario the above factors to drive volume growth take a back seat, which we believe could pull down volume growth for HUL in the coming quarters. However, we opine that in order to push up the volumes, HUL will pass on the savings on the raw material cost to the consumers in the form of price cuts and hence we believe that the current price hikes are among the last lot. Thus we believe that in CY2009 the company will have a fine balancing act of maintaining profitability while ensuring volume growth.

Valuation table

Particulars	CY2006	CY2007	CY2008E	CY2009E
Net profit (Rs crore)	1,539.7	1,769.1	2,059.6	2,443.6
% y-o-y growth	17.5	14.9	16.4	18.6
Shares in issue (crore)	220.7	217.7	217.8	217.8
EPS (Rs)	7.0	8.1	9.5	11.2
PER (x)	33.0	28.3	24.3	20.5
Book value (Rs)	12.3	6.6	9.0	13.2
P/BV (Rs)	18.6	34.8	25.4	17.4
EV/EBIDTA (x)	29.1	25.7	21.9	18.0
RoCE (%)	72.6	102.2	143.8	123.0
RoNW (%)	61.2	85.0	120.8	100.7

Volume and price growth



Source: Company

Valuation and view

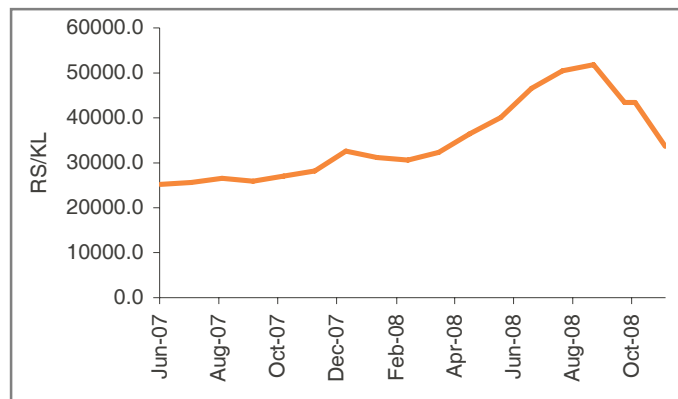
We believe HUL's earnings growth in CY2009 will be driven by increase in profit margins, as the top-line growth is likely to taper on the back of lower volume and price growth. Thus we believe HUL is in a favourable position to continue the earnings momentum and remains one of the better picks in the FMCG sector. At the current market price of Rs234 the stock trades at 20.5x its CY2009E earnings per share (EPS) of Rs11.2. We maintain our Buy recommendation on the stock with a price target of Rs280.

Softening of key raw material prices

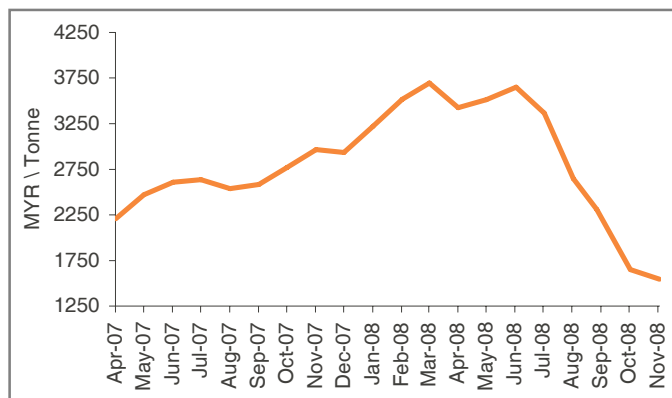
	Unit	Oct-Nov08	Q3 CY08	% Chg	Oct-Nov07	% Chg
Palm oil	MYR/tonne	1,599.2	2,773.6	-42.3	2,868.0	-44.2
Soda ash	Rs/Kg	22.0	24.7	-10.8	22.7	-2.9
Caustic soda (flakes)	Rs/Kg	27.1	30.2	-10.2	24.4	11.1
LABfs	Rs/KL	38,545.0	48,568.4	-20.6	26,066.7	47.9
Prices at tea auction	Rs/Kg	94.7	92.4	2.4	67.7	39.9
Caustic soda (Lye)	Rs/Kg	28.0	29.4	-4.8	21.6	29.4

Source: CMIE, Bloomberg and Sharekhan research

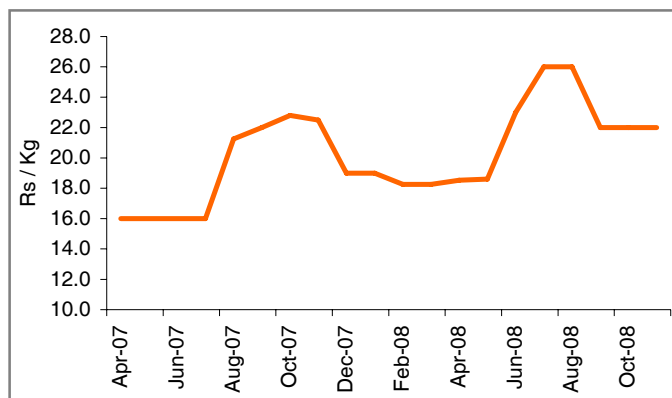
LABFS



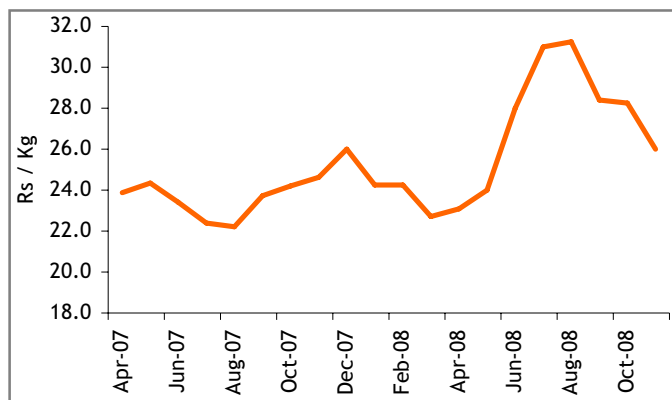
Palm oil



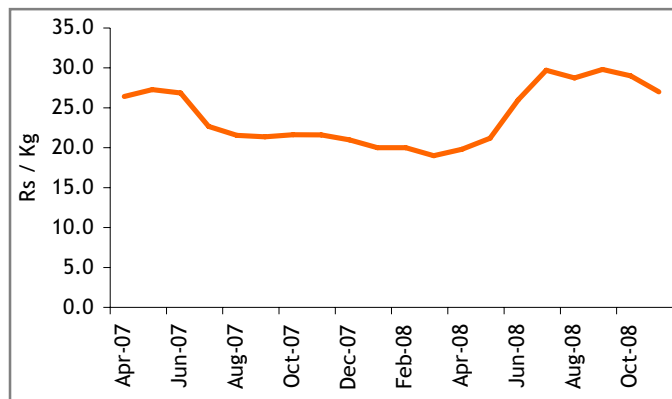
Soda ash



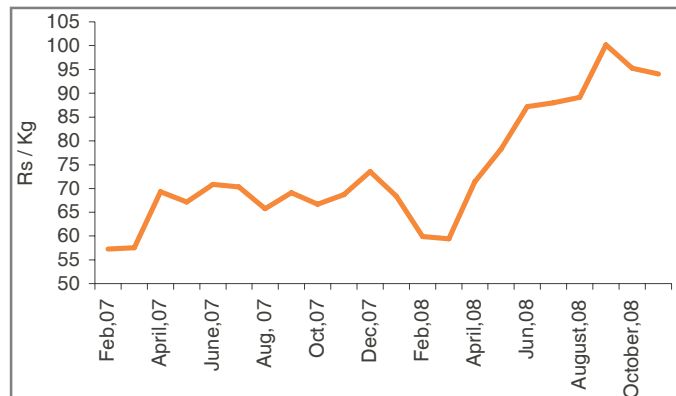
Caustic soda (flakes)



Caustic soda (lye)



Auction tea prices all-India



Price hike taken in Oct08 end and Nov'08 beginning

Products	SKU	Old	New	% Chg
Shampoo				
Clinic plus	400ml	129	139	7.8
	200ml	72	79	9.7
	100ml	42	44	4.8
Soap				
Breeze	50gm	5	6	20.0
Dove	100gm	45	43	-4.4

Price hike taken in Oct 2008 end and Nov 2008 beginning

Products	SKU	Old	New	% Chg
Detergents				
Surf Excel Blue (laminated)	200gm	24	26	8.3
Surf Excel Blue (carton)	200gm	24	28	16.7
Surf Excel (pouches Rs2 each)	size cut from 18gm to 15gm			
Surf Excel Quickwash	2kg	260	280	7.7
Surf Excel Quickwash	1kg	130	145	11.5
Surf Excel Quickwash	200gm	32	36	12.5
Surf Excel Quickwash	500gm	74	78	5.4
Surf Excelmatic	2kg	330	420	27.3
Oral care				
Close up	150gm	50	53	6.0
	80gm	29	30	3.4
	40gm	14	15	7.1
Close up (lemon mint)	175gm	52	53	1.9
Pepsodent	175gm	51	53	3.9
	80 gm	24	25	4.2
	40gm	12	13	8.3
Beverages				
Taj Mahal	985gm	275	299	8.7
Taj Mahal	245gm	76	82	7.9
Taj Mahal	490gm	150	162	8.0
Red Label	245gm	59	63	6.8

The author doesn't hold any investment in any of the companies mentioned in the article.

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