

# Hindustan Lever

Relative to sector: **Outperformer**

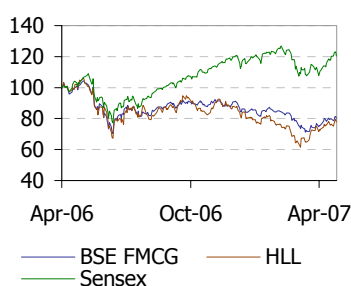
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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares	: 2,207mn
Market cap	: Rs 440bn
52 week high/low	: Rs 296/ Rs 166
Avg. daily vol. (6mth)	: 4.3mn shares
Bloomberg code	: HLVR IN
Reuters code	: HLL.BO

## Shareholding (%) Mar-07 QoQ chg

Promoters	: 51.4	(0.0)
FII's	: 12.3	(0.6)
MFs / UTI	: 3.7	0.5
Banks / FIs	: 12.7	(0.1)
Others	: 19.9	0.2

## MEETS EXPECTATION

Hindustan Lever (HLL) reported a net income of Rs 32.3bn (↑ 14%), EBIDTA of Rs 4.1bn (↑ 12%) and adj. net profit of Rs 3.3bn (↑ 14%) in Q1CY07. Domestic FMCG growth of 12.3% YoY (11.5% YoY on excluding the impact of the modern foods merger) was inline with our expectations. PBIT margins remained firm at 11.9% in Q1CY07, against our expectations of margin expansion, as cost pressures persisted. While commodity prices are showing signs of stability, the management has put into effect price increases in soaps, detergents & skin cream among other categories in Q1CY07. We continue to maintain our upward bias on operating margins.

## Key Highlights – Q1CY07

- Net Sales growth of 13.8% in Q1CY07 was driven by both domestic FMCG growth of 11.5% and export growth of 27.7%. Growth in the personal care segment that was impacted in Q4CY06 due to seasonal delays, recovered in Q1CY07 with 11% YoY growth (adjusted for Nihar divestment).
- Market shares improved in the personal wash segment, remained stable for fabric wash and oral care, but declined for skin care, shampoo and packed tea segment. To restrict this current decline we expect the management to maintain its current investment aggression in terms of promotions (share of voice related) and products (activations and new extensions).
- Higher A&P spend (↑ 57 bps YoY) and material cost (↑ 101 bps YoY) was off set by lower manufacturing overheads (↓94 bps YoY) and non-operating income.
- PBIT margins have improved all across primary categories with the exception of beverages. In fact, we believe the improvement in margins in CY07 & CY08 will be led by an expansion in gross margins due to an expected mean reversion of commodity prices.

At CMP (Rs 199), the stock trades at 24.6x CY07E and 21.2x CY08E earnings. We maintain our sector **Outperformer** rating.

## Financial summary (Standalone)

Y/E Dec	Net Income (Rs.mn)	Adj. PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs.)
2005	112,790	13,545	-	6.2	13	32.1	61.6	54.8	24.8	5.0
2006	122,791	15,397	-	7.0	13	31.0	61.2	72.6	24.2	6.0
2007E	136,521	17,862	8.4	8.1	16	24.6	64.6	78.3	18.8	6.7
2008E	151,188	20,805	9.5	9.4	16	21.2	71.8	88.6	16.0	7.5

Source: \*Consensus broker estimates, Company, ENAM estimates

## Results update

(Rs. mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Dec-07E	Dec-06	% Chg
<b>Net Income</b>	<b>32,341</b>	<b>28,346</b>	<b>14.1</b>	<b>32,334</b>	<b>0.0</b>	<b>136,521</b>	<b>122,791</b>	<b>11.2</b>
<b>EBIDTA</b>	<b>4,117</b>	<b>3,671</b>	<b>12.1</b>	<b>5,773</b>	<b>(28.7)</b>	<b>22,083</b>	<b>18,712</b>	<b>18.0</b>
Other income	410	328	25.0	297	38.2	1,506	1,314	14.6
<b>PBIDT</b>	<b>4,527</b>	<b>3,999</b>	<b>13.2</b>	<b>6,070</b>	<b>(25.4)</b>	<b>23,589</b>	<b>20,026</b>	<b>17.8</b>
Depreciation	329	339	(2.8)	342	(3.9)	1,479	1,302	13.6
Interest	51	21	150.2	18	180.3	59	107	(45.2)
<b>PBT</b>	<b>4,147</b>	<b>3,640</b>	<b>13.9</b>	<b>5,709</b>	<b>(27.4)</b>	<b>22,051</b>	<b>18,617</b>	<b>18.4</b>
Tax	809	700	15.5	875	(7.6)	4,190	3,220	30.1
<b>Adjusted PAT</b>	<b>3,338</b>	<b>2,940</b>	<b>13.5</b>	<b>4,834</b>	<b>(31.0)</b>	<b>17,862</b>	<b>15,397</b>	<b>16.0</b>
Extra ordinary income/ (exp.)	590	1,489	(60.4)	278	112.7	0	3,157	(100.0)
<b>Reported PAT</b>	<b>3,928</b>	<b>4,429</b>	<b>(11.3)</b>	<b>5,112</b>	<b>(23.2)</b>	<b>17,862</b>	<b>18,554</b>	<b>(3.7)</b>
No. of shares (mn)	2,207	2,201	-	2,207	-	2,207	2,207	-
EBIDTA margins (%)	12.7	13.0	-	17.9	-	16.2	15.2	-
PBIDT margins (%)	14.0	14.1	-	18.8	-	17.3	16.3	-
<b>EPS - annualized (Rs.)</b>	<b>6.1</b>	<b>5.3</b>	<b>13.3</b>	<b>8.8</b>	<b>(31.0)</b>	<b>8.1</b>	<b>7.0</b>	<b>16.0</b>

Source: Company, ENAM Research

## Segmental Growth Trend: Underlying volume growth at 4.2% (vs. 11% in Q1CY06)

	% of Sales	Quarter - YoY Sales Growth (%)					Comment	
		Dec-05	Mar-06	Jun-06	Sep-06	Dec-06		Mar-07
Soaps & Detergents	46	13.0	16.0	13.1	12.1	10.1	9.6	Domestic growth of 12.3% in Q1CY07 was largely driven by price increase and improvement in sales mix.
Personal Products	27	25.0	27.1	13.3	17.1	2.5	7.3*	
Beverages	11	2.5	5.0	(3.7)	6.6	8.3	16.6	
Processed foods	3	39.2	30.9	24.2	19.3	18.1	48.7^	
Ice Cream	1	31.5	29.7	34.3	47.1	53.3	21.9	

Source: Company Note: \* Grew by 10.8% adjusted for divestment of Nihar brand. ^ Growth at 25.3%, excludes impact of Modern merger.

## Segmental PBIT trend: Inflationary pressure well contained

	% of Sales	PBIT margin trend (%)					Comment	
		Dec-05	Mar-06	Jun-06	Sep-06	Dec-06		Mar-07
Soaps & Detergents	40	15.7	11.6	14.3	13.2	15.6	12.1	All categories demonstrated an improvement in PBIT margins. Beverage margin was lower due to higher A&P spend.
Personal Products	46	31.6	24.4	28.5	28.2	31.9	24.7	
Beverages	13	20.0	19.5	13.5	15.3	19.7	15.0	
Processed foods	2	(3.9)	0.4	4.3	4.2	6.3	5.6	
Ice Cream	0	(6.9)	3.2	21.5	13.8	10.7	4.1	

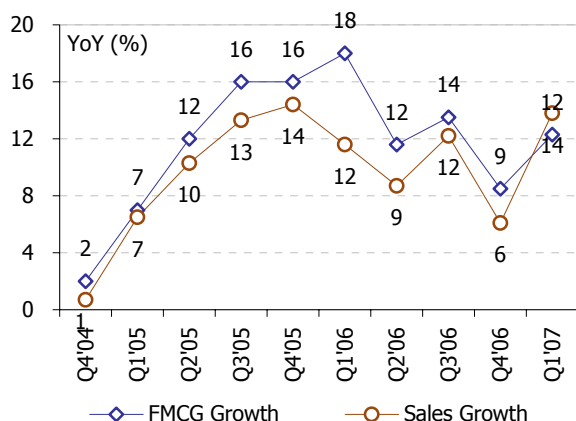
Source: Company

## Key categories

	Q2CY06	Q3CY06	Q4CY06	Q1CY07	Trend
Personal Wash	54.5	54.6	55.3	55.3	↑
Fabric Wash	36.6	35.3	35.8	36.4	↔
Skin care	56.4	54.3	54.7	54.8	↓
Shampoo	47.7	48.0	48.5	46.9	↓
Oral care	30.2	30.2	30.4	30.0	↔
Packet Tea	25.5	25.8	24.9	23.7	↓

Source: Company

## FMCG Growth Trend (excludes exports): Overall growth encouraging

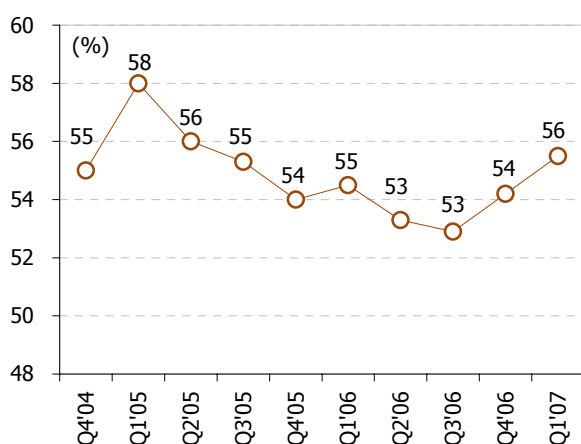


- Domestic FMCG growth of 12.3% YoY (11.5% YoY on excluding the impact of the modern foods merger) for Q1CY07. Underlying growth for the quarter stood at 4.2% vs. 11% in Q1FY07
- Personal care segment that was impacted in Q4CY06 due to seasonal delay, recovered in Q1CY07 with 11% YoY growth (adjusted for Nihar divestment)
- Processed foods (↑23% YoY) and ice cream (↑22% YoY) continue to show an encouraging performance.

**Selective price increases against underlying volume growth suggest structural growth remains intact. We expect 11% CAGR in net sales over next 2 yrs.**

Source: Company, ENAM Research

## Material Cost as % of sales: Inflationary pressures visible but contained

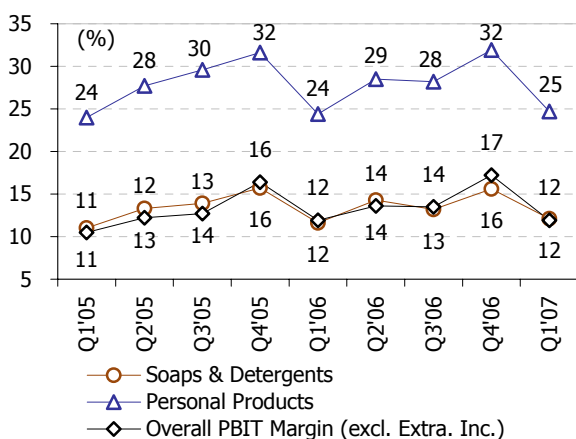


- Key raw material trends
  - ▶ Soda Ash: (↑8% YoY), (↓1% QoQ)
  - ▶ HDPE: (↑20% YoY), (↓3% QoQ)
  - ▶ LAB: (↑5% YoY), stable QoQ
  - ▶ Palm oil: (↑12% YoY), (↑13% QoQ)
- With the exception of palm oil, other commodities either showed a slight decline or remained stable on a QoQ basis. Select price increases have been put into effect in the soaps, detergents & skin cream categories among others.

**We expect material cost pressure to ease off in Q2CY07.**

Source: Company

## PBIT Margins: Well Managed



- Overall PBIT margin remained firm at 11.9% in Q1CY07, no improvement on YoY basis.
- In fact all categories, with an expectation of beverages, indicated PBIT margin expansion on YoY basis.
- Higher A&P spend (↑57 bps YoY) and material cost (↑101 bps YoY) was off set by lower manufacturing overheads (↓94 bps YoY) and non operating income.

**Despite a challenging cost environment, we believe volume growth and price increases will support the uptrend bias in operating margins.**

Source: Company

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