



NEUTRAL

Price	Rs277
Target Price	-
Investment Period	-

Stock Info

Sector	FMCG
Market Cap (Rs cr)	61,239
Beta	0.6
52 WK High / Low	306 /185
Avg Daily Volume	544,331
Face Value (Rs)	1

BSE Sensex	15,332
Nifty	4,564

BSE Code	500696
NSE Code	HINDUNILVR
Reuters Code	HLL.BO
Bloomberg Code	HLVR @IN

Shareholding Pattern (%)

Promoters	52.0
MF/Banks/Indian FIs	17.7
FII/ NRIs/ OCBs	14.7
Indian Public	15.6

Abs.	3m	1yr	3yr
Sensex (%)	39.4	6.8	43.6
HUL (%)	23.1	20.0	14.3

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Performance Highlights

- Muted Top-line growth, up 8%:** For 1QFY2010, HUL reported muted Top-line growth of 7.8% yoy to 4,476cr (Rs4,153cr) in line with our estimates. Management indicated that volumes in its core FMCG business grew 2% yoy (sequential growth of 6%). Top-line growth was largely led by an 12.8% growth in the company's core FMCG business backed by 14.7% growth in the Personal Products Segment (strong volume growth) and 17.3% yoy growth in the Foods Segment (witnessed growth momentum across segments). However, muted performance by its core Soaps/Detergent Segment (grew 9.5% yoy) and a drop in Exports by 34.6% yoy (planned decline in non-core Exports) impacted Top-line growth.
- Bottom-line growth disappoints, declines marginally:** HUL's Bottom-line registered a marginal decline of 0.6% yoy to Rs537cr (Rs540cr) on a recurring basis and 2.7% yoy to Rs543cr (Rs558cr) on a reported basis, despite Margin expansion, impacted by a higher Tax rate (up 411bp yoy partially on account of higher MAT rate announced in the recent Union Budget) and a sharp fall in Other Income (down 63.3% yoy including Other Operational Income) to Rs60.5cr (Rs164.7cr). Other Operational Income declined partly on account of mark-to-market (MTM) charges of Rs32cr (gain of Rs25cr in 2QFY2009) from restatement of Forex exposure. Adjusted for the same, Bottom-line registered a gain of 7% yoy.
- Margins surprise positively, expand by 209bp:** For the quarter, HUL's Operating Margins (excluding Other Operational Income) delivered a positive surprise posting an expansion of 209bp yoy to 15.4% and driving robust 24.8% yoy growth in EBITDA to Rs688cr (Rs552cr). OPMs expanded despite the 179bp jump in Advertising expenses, owing to a drop in raw material costs by 125bp yoy, 52bp reduction in Staff costs (flat in absolute terms) and 212bp drop in Other Expenditure (owing to better cost management and operating leverage). During the quarter, HUL registered a decline in Other Operational Income by 68% to Rs27cr (Rs84cr) including which Margins expanded by 68bp. The Soaps & Detergents segment registered an impressive 254bp expansion in Margins (despite price cuts, aided by Excise cuts and lower input costs). However, a 582bp reduction in Personal Products Margins (owing to higher Ad spend) limited Margin expansion.

Key Financials

Y/E March (Rs cr)	CY2007	FY2009#	FY2010E	FY2011E
Net Sales	13,675	20,239	18,443	20,965
% chg	13.0	48.0	(8.9)	13.7
Adj. Net Profit	1,699.4	2,500.7	2,233.7	2,601.8
% chg	10.4	47.2	(10.7)	16.5
OPM (%)	13.7	13.2	14.2	14.3
EPS (Rs)	8.8	11.5	10.2	11.9
P/E (x)	31.3	24.2	27.0	23.2
P/BV (x)	41.9	29.3	26.8	23.6
RoE (%)	121.1	121.3	99.1	101.6
RoCE (%)	132.3	111.4	107.7	113.1
EV/Sales (x)	4.3	2.9	3.2	2.8
EV/EBITDA (x)	31.3	21.9	22.4	19.4

Source: Company, Angel Research; #Note: FY2009 Results are for 15 Months

Segment-wise Performance

- **FMCG Business:** Overall, HUL's Domestic FMCG business registered 12.8% yoy growth (largely value driven as volumes grew by just 2%) for the quarter aided by strong volume growth in Personal Products. The Home & Personal Care (HPC) business registered 11.9% yoy growth while the Food business registered strong growth of 17.3% yoy. Growth in HPC Division was partially impacted due to muted performance of Soaps/Detergents Segment, which registered 9.5% yoy growth.
- **Soaps & Detergents:** HUL's Soaps & Detergents Segment registered subdued growth of 9.5% yoy to Rs2,212cr (Rs2,021cr) driven largely by price growth and better product mix as volumes remained under pressure. Reduction in prices (via price cuts/grammage action) undertaken during the previous quarter impacted value growth to a certain extent. However, PBIT Margin of the Segment witnessed significant expansion of 254bp to 17.2% and PBIT for the quarter grew by an impressive 28.4% to Rs382cr. In the Laundry Segment, the company initiated measures to improve its competitiveness. *Surf* and *Rin* continue to lead Laundry Segment growth. In Soaps, *Lifebuoy* and *Liril* were re-launched during the quarter while *Dove* continued to grow rapidly. Pricing actions have been implemented at the mass end resulting in strong volume growth in *Breeze*. **We believe volume decline and marketshare loss (in soaps) in this Segment remain a major concern for HUL. Moreover, management has indicated that down-trading in certain categories are also visible, which we believe could lead to deterioration in product mix. Nonetheless, Margins of this Segment are expected to improve owing to softening of Palm oil prices (reflected in this quarter) and Excise cuts.**
- **Personal Products:** The Personal Products Segment delivered mixed performance for the quarter. On the Revenue front, HUL posted modest growth of 14.7% yoy to Rs1,226cr (Rs1,068cr) led by strong growth in categories like Shampoo and Skin care. *Clinic Plus* and *Sunsilk* drove Shampoo category growth, *Dove* shampoo doubled sales while *Clinic All Clear* was relaunched as *Clear*. In Skin care, *Fair and Lovely* continued to drive growth while *Vaseline* grew on the back of strong volumes. In Oral care, *Close Up* led the category growth. In terms of marketshare, the Hair and Oral Care categories gained share sequentially. However, in terms of Profitability, the Segment registered sharp Margin contraction by 582bp (on account of higher Ad spends) to 22% resulting in a decline in PBIT of 9.2% to Rs270cr.
- **Foods:** The Foods Segment recorded strong growth of 17.3% yoy with growth momentum witnessed across segments. Beverages registered 18.6% yoy growth in Revenues to Rs500cr with all brands doing well. *Lipton Theanine Tea* was launched in during the quarter. PBIT Margins of the Segment fell by 51bp yoy (due to higher tea prices). The Processed Foods business registered 14.7% yoy growth to Rs172cr driven largely by *Kissan* and *Annapurna*. However, the company reported a Loss of Rs1.3cr (Profit of Rs3.8cr) for the quarter on account of continued investment in Advertising and Sales promotions. The Ice cream business registered strong 23% yoy growth in Revenue to Rs89cr (driven by strong volume growth). **We remain positive on the prospects of HUL's Food Segment and expect a slew of launches in FY2010 given its global parent's expertise in the domain, HUL's marketing and distribution strength and renewed demand for such value-added products particularly in the urban markets. However, we are not too impressed with the speed of launches, which remains a key concern and could impact our Segment estimates.**
- **Other Businesses:** Exports fell by 34.6% yoy in terms of Revenues owing to the planned decline in non-core Exports and commodity segments. In the Water business, *Pure-it* has now become Rs200cr+ brand with strong consumer franchise of more than two million homes. We believe this SBU will continue its growth momentum driven by higher sales of the Purifier and Battery Kits, but it will breakeven only in a couple of years as it achieves scale.

Exhibit 1: 1QFY2010 Segmental Performance

Y/E Dec (Rs cr)	1QFY2010	2QFY2009	% chg	FY2009	CY2007	% chg
Soaps & Detergents	2,211.5	2,020.5	9.5	9,880.6	6,399.9	54.4
Personal Products	1,225.5	1,068.0	14.7	5,367.4	3,686.6	45.6
Beverages	499.6	421.4	18.6	2,294.5	1,540.6	48.9
Processed Foods	172.1	150.0	14.7	810.7	540.1	50.1
Ice Creams	88.6	72.0	23.0	235.1	161.5	45.6
Exports	257.5	393.4	(34.6)	1,575.7	1,349.0	16.8
Others	79.4	84.7	(6.2)	361.0	185.0	95.2
Less: Inter Segment Revenue	(3.9)	(0.9)		(7.9)	(6.8)	
Total Gross Income	4,530.3	4,209.1	7.6	20,517.1	13,855.9	16.1
Soaps & Detergents	381.5	297.1	28.4	1,481.7	978.7	51.4
Personal Products	269.9	297.3	(9.2)	1,429.0	1,020.4	40.0
Beverages	70.3	61.5	14.4	308.2	230.0	34.0
Processed Foods	(1.3)	3.8		1.5	15.2	(90.5)
Ice Creams	15.5	13.7	12.9	8.6	12.8	(32.9)
Exports	20.5	28.8	(28.7)	108.2	46.9	130.9
Others	(27.9)	(25.4)		(134.5)	(87.0)	
Total PBIT	728.5	676.8	7.6	3,202.6	2,216.9	44.5
Less: Interest Exp	(5.2)	(8.7)		(25.3)	(25.5)	
Less: Other Unallocable Exp	(19.6)	19.5		(168.5)	116.3	
PBT	703.7	687.6	2.3	3,008.8	2,307.7	30.4
PBIT Margin (%)						
Soaps & Detergents	17.2	14.7		15.0	15.3	
Personal Products	22.0	27.8		26.6	27.7	
Beverages	14.1	14.6		13.4	14.9	
Processed Foods	(0.7)	2.5		0.2	2.8	
Ice Creams	17.5	19.0		3.7	8.0	
Exports	8.0	7.3		6.9	3.5	
Others	(35.2)	(30.0)		(37.3)	(47.1)	
Capital Employed						
Soaps & Detergents	80.5	200.9	(59.9)	593.5	126.2	370.1
Personal Products	(119.8)	99.7	(220.2)	22.9	146.4	(84.3)
Beverages	180.8	77.8	132.5	326.6	53.5	510.7
Processed Foods	(11.6)	33.6	(134.5)	44.0	1.5	2,936.6
Ice Creams	40.3	41.8	(3.5)	46.1	37.6	22.5
Exports	224.1	352.8	(36.5)	321.0	307.7	4.3
Others	(72.9)	(26.9)		(50.6)	(24.5)	
Total Capital Employed in Segments	321.4	779.6	(58.8)	1,303.5	648.3	101.1
Add: Unallocable Capital Employed	2,293.6	720.6	218.3	758.0	790.9	(4.2)
Total Capital Employed in Company	2,614.9	1,500.3	74.3	2,061.5	1,439.2	43.2

Source: Company, Angel Research, # Note: FY2009 Results are for 15 Months and hence not comparable

Outlook and Valuation

While the current quarter results were disappointing on the Earnings front, we believe the stock markets over-reacted partially owing to the pre-result build up in the stock price on account of strong results posted by most FMCG companies. HUL's Earnings declined largely due to three reasons – 1) Higher Tax rate, 2) Sharp drop in Other Income (partially due to MTM charge on account of forex cover), and 3) higher Advertising spend to support brand activities. While we have marginally downgraded our Earnings estimates by 4% and 2% for FY2010E and FY2011E respectively, to account for the same, we have revised our Margin estimates upwards to factor in higher Gross Margins and lower overheads (due to cost optimisation initiatives and higher Operating leverage).

Consistent marketshare loss across categories and slowdown in underlying volume growth (particularly in Soaps/Detergents) coupled with potential price cuts (leading to lower value growth) have emerged as key concerns for HUL in the near future. However, modest growth in the Personal Products and Food business in the current quarter came as a positive surprise. **At Rs277, the stock is trading at 23.2x FY2011E EPS of Rs11.9, which limits the upside potential from current levels. While the long-term story for HUL remains intact, we recommend Neutral view on the stock owing to likely volatility in near-term Earnings, uncertainty over revival in Volume growth and better investment opportunities in the Midcap FMCG space (given higher growth rates). Upside risks to our estimates include – 1) Marketshare gains, 2) Return of pricing power, and 3) Benign input cost environment.**

Exhibit 2: 1QFY2010 Performance

Y/E Dec (Rs cr)	1QFY2010	2QFY2009	% chg	FY2009	CY2007	% chg
Net Sales	4,475.7	4,152.8	7.8	20,239.3	13,675.4	48.0
Consumption of RM	2,319.8	2,204.4	5.2	10,837.9	7,268.5	49.1
(% of Sales)	51.8	53.1		53.5	53.2	
Staff Costs	250.4	253.9	(1.4)	1,152.1	767.8	50.1
(% of Sales)	5.6	6.1		5.7	5.6	
Advertising Expenses	561.1	446.2	25.8	2,130.9	1,440.2	48.0
(% of Sales)	12.5	10.7		10.5	10.5	
Other Expenses	656.3	696.9	(5.8)	3,440.4	2,320.2	48.3
(% of Sales)	14.7	16.8		17.0	17.0	
Total Expenditure	3,787.6	3,601.4	5.2	17,561.4	11,796.8	48.9
Operating Profit	688.1	551.5	24.8	2,678.0	1,878.7	42.5
OPM (%)	15.4	13.3		13.2	13.7	
Interest	5.2	8.7	(40.7)	25.3	25.5	(0.7)
Depreciation	42.5	37.9	12.1	195.3	138.4	41.2
Other Income	60.5	164.7	(63.3)	567.8	431.5	31.6
PBT (excl. Extr Items)	700.9	669.5	4.7	3,025.1	2,146.3	40.9
Extr Income/(Expense)	6.5	18.0		(25.1)	226.1	
PBT (incl. Extr Items)	707.4	687.6	2.9	3,000.0	2,372.4	26.5
(% of Sales)	15.8	16.6		14.8	17.3	
Provision for Taxation	164.3	129.4	27.0	503.6	447.0	12.7
(% of PBT)	23.4	19.3		16.6	20.8	
Recurring PAT	536.7	540.1	(0.6)	2,521.6	1,699.4	48.4
PATM (%)	12.0	13.0		12.5	12.4	
Reported PAT	543.2	558.2	(2.7)	2,496.4	1,925.5	29.7
Equity shares (cr)	218.1	217.8		218.1	217.8	
EPS (Rs)	2.5	2.6		11.4	8.8	

Source: Company, Angel Research, # Note: FY2009 Results are for 15 Months and hence not comparable


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Ratings (Returns) : Buy (Upside > 15%)
 Reduce (Downside upto 15%)

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Neutral (5 to -5%)