

May 12, 2009

BUY

Price	Target Price
Rs226	Rs276

Sensex	11,683
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Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(13)	(10)	(10)
Rel. to Sensex	(10)	(31)	(19)	29

Source: Capitaline

Stock Details

Sector	FMCG
Reuters	HLL.BO
Bloomberg	HUVR@IN
Equity Capital (Rs mn)	2180
Face Value(Rs)	1
No of shares o/s (mn)	2180
52 Week H/L	271/185
Market Cap (Rs bn/USD mn)	493/9,983
Daily Avg Volume (No of sh)	4619447
Daily Avg Turnover (US\$m)	22.1

Shareholding Pattern (%)

	M'09	D'08	S'08
Promoters	52.1	52.1	52.1
FII/NRI	14.7	15.2	14.2
Institutions	15.1	15.1	16.0
Private Corp	2.6	2.0	1.5
Public	15.6	15.7	16.3

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Result Update

Margin Expansion

In Q5FY09, HUL reported (1) 5.1% yoy growth in its revenues to Rs40.4 bn, below our estimates (2) operating profit growth at 22.9% yoy to Rs6.0 bn, ahead of estimates and (3) adjusted net profit increased 32.7% yoy to Rs5.0 bn, ahead of estimates. HUL disappointed on volume growth by reporting volume decline of 4.2%, but posted higher than expected price-led growth (16.7% yoy increase) - partially mitigating the impact from slow volume growth. A higher than expected benefits from decline in raw material expenses resulted in 210 bps yoy expansion in operating margins - posting positive surprise. Barring disappointment in Personal Products segment, performance in other segments was satisfactory during Q5FY09 - though price-led performance.

Our argument of margin expansion owing to fall in cost index has played out in Q5FY09 (though earlier than anticipated) with gross margin and operating margin expansion of 160 bps yoy and 210 bps yoy respectively. But, steep decline in volume at 4.2% yoy accompanied with loss of market share in key categories - has come to fore. We believe that, HUL is more likely to adopt competitive growth against profitable growth in ensuing quarters- posing risk to incremental margin expansion and earnings growth momentum. We have revised downwards our FY10E estimates by 6.8% from Rs11.7/Share to Rs10.9/Share and introduced FY11E estimates of Rs12.1/Share. We maintain our 'BUY' rating with revised price target of Rs276 - valuing on 1-year rolling forward basis.

Adjusted net profit up 32.7% yoy to Rs5.0 bn, ahead of estimates

In Q5FY09, HUL reported 5.1% yoy growth in its revenues to Rs40.4 bn, below our estimates. HUL disappointed on volume growth by reporting a volume decline of 4.2% yoy versus expectation of 2% yoy volume growth, but posted higher than expected price-led growth (16.7% yoy increase) - partially mitigating the impact of steep volume decline. However, operating profit growth at 22.9% yoy to Rs6.0 bn, ahead of estimates. A higher than expected benefits from decline in raw material expenses lifted the operating performance of Q5FY09. Consequently, the operating margins expanded 210 bps yoy to 14.8% - ahead of our estimates of expansion of 120 bps. The adjusted net profit increased 32.7% yoy to Rs5.0 bn owing to better operating margins and lower tax outgo - ahead of estimates.

At segmental level - Personal Products disappointed

Barring disappointment in Personal Products segment, performance in other segments was satisfactory during Q5FY09 - though price-led performance. The Personal Product segment reported lowest revenue growth at 1.9% yoy to Rs10.4 bn and EBIT decline by 2.8% yoy to Rs2.4 bn - impacted by transition in the distribution set-up and loss of market share. Whereas, segments like Soaps & Detergents and Ice Creams reported satisfactory performance - (1) Soaps & Detergents segment grew by 15.8% yoy to Rs20.1 bn and 320 bps yoy expansion in EBIT margins to 16.6% (2) Beverages grew 13.5% yoy to Rs4.9 bn and 31.5% yoy increase in EBIT to Rs65.0 mn. However, Processed Foods grew by mere 7.5% yoy to Rs1.6 bn and reported higher EBIT loss at Rs4.5 mn.

Higher expansion in operating margins - positive surprise

Though, 4.2% volume decline was key highlight in Q5FY09 - strong operational performance with margin expansion was positive surprise. Our theory of margin expansion spelled in earlier reports 'Drawing Parallel' and 'Pricing Action' played out in Q5FY09 - but earlier than expectation. Company gained from drop in cost index with gross margin and operating margin expanding by 160 bps yoy to 48.3% and 210 bps yoy to 14.8%. We had factored 120 bps yoy expansion in operating margins, thus posting positive surprises in Q5FY09.

	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	EV/EBITDA	P/BV	Div Yld (%)	RoE (%)	P/E (x)
FY2008	139,134	19,033	13.7	19189	8.0	21.5	33.2	4.6	84.1	28.8
FY2009	208,330	30,065	14.4	24929	11.6	15.0	23.8	3.8	139.6	19.9
FY2010E	180,738	27,910	15.4	23665	10.9	16.1	21.3	4.2	106.4	21.2
FY2011E	198,196	30,715	15.5	26446	12.1	14.5	19.3	4.7	108.4	18.9

Performance of Personal Products and Foods – negative surprise

HUL posted negative surprise with weak performance in core business segment of Personal Products. Even, the performance of Foods segment was below expectation. In Q5FY09, Personal Products segment reported mere 1.9% yoy growth to Rs10.4 bn with EBIT decline of 2.8% yoy to Rs2.4 bn – impacted by transition and loss of market share. The Foods segment reported muted growth at 7.5% yoy to Rs1.6 bn with EBIT loss widening to Rs44.7 mn in Q5FY09. Both segments performed below expectation – posting negative surprise.

Volume decline hogs limelight in Q5FY09

HUL reported disappointing volume performance with 4.2% yoy decline in sales volume during Q509 – far below the industry average. HUL reported volume decline in virtually all business segment – accompanied with loss of market share. Further, pressure was visible in the core segment of ‘Soaps & Detergents’ and ‘Personal Products’. We believe that, HUL has challenging task gain the lost market share in key product categories.

Maintain ‘BUY’

Our argument of margin expansion owing to fall in cost index has played out in Q5FY09 (though earlier than anticipated) with gross margin and operating margin expansion of 160 bps yoy and 210 bps yoy respectively. But, steep decline in volume at 4.2% yoy accompanied with loss of market share in key categories – has come to fore. We believe that, HUL is more likely to adopt competitive growth against profitable growth in ensuing quarters- posing risk to incremental margin expansion and earnings growth momentum. We have revised downwards our FY10E estimates by 6.8% from Rs11.7/Share to Rs10.9/Share and introduced FY11E estimates of Rs12.1/Share. We maintain our ‘BUY’ rating with revised price target of Rs276 – valuing on 1-year rolling forward basis.

Quarterly Results

(Rs Million)	Q5FY09	Q1CY08	YoY Gr (%)	Q4FY09	QoQ Gr (%)
Net Sales	40,353.7	38,398.8	5.1%	43,077.1	-6.3%
Expenditure	34,390.5	33,547.5	2.5%	36,146.5	-4.9%
Material Cost	20,856.4	20,451.5	2.0%	23,200.5	-10.1%
% of Sales	0.5	0.5	-160 bps	53.9%	-220 bps
Employee Expenses	2343.5	2135.2	9.8%	2208.6	6.1%
% of Sales	5.8%	5.6%	20 bps	5.1%	70 bps
Other Expenses	6685.1	6569.4	1.8%	7027.2	-4.9%
% of Sales	16.6%	17.1%	-50 bps	16.3%	30 bps
Operating Profit	5963.2	4851.3	22.9%	6930.6	-14.0%
EBIDTA (%)	14.8%	12.6%	210 bps	16.1%	-130 bps
Other Income	202.6	235.8	-14.1%	709.6	-71.4%
Interest	22.1	35.0	-36.9%	-291.5	-107.6%
Depreciation	412.5	363.0	13.6%	405.7	1.7%
PBT	5731.2	4689.1	22.2%	7526.0	-23.8%
Tax	710.4	904.8	-21.5%	1424.8	-50.1%
APAT	5020.8	3784.3	32.7%	6101.2	-17.7%
APAT (%)	12.4%	9.9%	260 bps	14.2%	-170 bps
EPS	2.3	1.7	32.7%	2.8	-17.7%

Segmental Results (Revenues)

(Rs Mn)	Q5FY09	Q1CY08	YoY Gr (%)	Q4FY09	QoQ Gr (%)
Segment Revenue					
Soaps and Detergents	20,122	17,382	15.8%	21,234	-5.2%
Personal Products	10,386	10,189	1.9%	11,923	-12.9%
Beverages	4,893	4,310	13.5%	5,106	-4.2%
Processed Foods	1,634	1,520	7.5%	1,715	-4.7%
Ice Creams	453	370	22.4%	343	32.1%
Exports	2,205	3,989	-44.7%	2,668	-17.4%
Others	675	755	-10.6%	739	-8.6%
Total	40,367	38,514	4.8%	43,728	-7.7%

Segmental Results (EBIT)

(Rs Mn)	Q5FY09	Q1CY08	YoY Gr (%)	Q4FY09	QoQ Gr (%)
Segment EBIT					
Soaps and Detergents	3,335	2,325	43.4%	3,501	-4.7%
Personal Products	2,389	2,517	-5.1%	3,914	-39.0%
Beverages	655	498	31.5%	651	0.6%
Processed Foods	-45	17	-358.4%	-39	14.6%
Ice Creams	-19	-29	-35.9%	-28	-34.5%
Exports	144	177	-18.8%	156	-7.7%
Others	-242	-305	-20.7%	-255	-4.9%
Total	6,218	5,200	19.6%	7,900	-21.3%

Segmental Results (EBIT Margins)

(Rs Mn)	Q5FY09	Q1CY08	YoY Gr (%)	Q4FY09	QoQ Gr (%)
Segment EBIT Margin					
Soaps and Detergents	16.6%	13.4%	320 bps	16.5%	10 bps
Personal Products	23.0%	24.7%	-170 bps	32.8%	-980 bps
Beverages	13.4%	11.6%	180 bps	12.8%	60 bps
Processed Foods	-2.7%	1.1%	-390 bps	-2.3%	-50 bps
Ice Creams	-4.1%	-7.8%	370 bps	-8.3%	420 bps
Exports	6.5%	4.4%	210 bps	5.8%	70 bps
Others	-35.9%	-40.4%	460 bps	-34.5%	-140 bps
Total	15.4%	13.5%	190 bps	18.1%	-270 bps

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