

October 31, 2011

Reco	Previous Reco
Hold	Accumulate
CMP	Target Price
Rs 375	Rs 347
EPS change FY12E/13E (%)	+5.9/+5.6
Target Price change (%)	+5.8
Nifty	5,327
Sensex	17,705

Price Performance

(%)	1M	3M	6M	12M
Absolute	10	16	33	28
Rel. to Nifty	2	19	43	44

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Consumers
Bloomberg	HUVR@IN
Equity Capital (Rs mn)	2161
Face Value(Rs)	1
No of shares o/s (mn)	2161
52 Week H/L	377/265
Market Cap (Rs bn/USD mn)	811/16,617
Daily Avg Volume (No of sh)	2955217
Daily Avg Turnover (US\$m)	19.9

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	52.5	52.5	52.6
FII/NRI	18.0	18.7	17.6
Institutions	12.1	11.8	12.4
Private Corp	2.8	2.4	2.6
Public	14.6	14.7	14.9

Source: Capitaline

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- **Results beat our expectations – Sales growth of 17.8% to Rs 56bn driven by 9.8% volume growth and APAT growth of 21.7% to Rs 6.9bn**
- **Soaps and detergents outshine – revenue growth of 21.8% with PBIT margin expansion of 60bps yoy and 320bps qoq – this catalyst played out earlier than expected**
- **We believe all the upgrade catalysts have played out and do not see further catalysts in the near term. At CMP, we feel there is limited upside left, if any**
- **While we raise our FY12E/13E EPS by 5.9% to Rs 11.8 and by 5.6% to Rs 13.3, respectively, we downgrade the stock to HOLD with a revised TP of Rs 347/share**

Strong performance driven by soaps and detergents...

HUL's Q2FY12 performance beats our estimates - Sales growth of 17.8% yoy to Rs 56 bn is aided by 9.8% overall volume growth and robust growth in soaps and detergents segment. While input costs continued to put pressure on a yoy basis, efficient cost management and lower A&P (11.6% in 2QFY12 vs. 13.6% in 2QFY11) resulted in 120 bps expansion in EBITDA margins to 14.7%. Adjusted PAT registered growth of 22.6% yoy to Rs 6.5 bn against our expectation of Rs 5.5 bn.

Soaps and detergents segment outshines...a positive surprise

Soaps and detergents segment reported a stellar performance with 21.8% yoy sales growth to Rs 26 bn. This revenue growth has been primarily driven by the laundry segment led by double-digit growth in Rin, Surf and Wheel. Lux and Lifebuoy also registered healthy growth. PBIT margins expanded 60bps yoy and 320 bps qoq driven by higher realizations and lower A&P in this segment. *With this catalyst being played out earlier than expected, we revise our EBITDA estimates upwards by 7.9% for FY12E and 7.5% for FY13E. Accordingly, our EPS stands revised to Rs 11.8/share (+5.9%) for FY12E and Rs 13.3/share (+5.6%) for FY13E.*

Other portfolio continued its healthy growth momentum

While soaps and detergents segment was the out-performer, other portfolio including personal products and packaged foods continued their healthy growth momentum.

- Personal products registered healthy revenue growth of 18.2% yoy to Rs 16 bn with PBIT margin expansion of 140 bps yoy. Skin care growth was accelerated driven by Fair and Lovely, Vaseline and Ponds; all recording double-digit growth. New launches including Dove face wash and low unit SKUs in Dove oil care range further aided the growth momentum
- Packaged foods registered 21% yoy revenue growth to Rs 3.3 bn driven by re-launch of Kissan range and low unit pack of Kissan Soupy Noodles. PBIT margins increased marginally by 40 bps during this quarter.

Financial Snapshot

	Rs Mn								
	Net Sales	EBITDA (Core)	EBITDA (%)	AEPS (Rs)	AEPS % Chg	ROE %	P/E (x)	EV/ EBITDA (x)	P/BV (x)
YE-Mar									
FY10	177,659	27,977	15.7	9.7	-15.9	90.8	38.8	27.5	31.7
FY11	196,945	26,645	13.5	10.0	2.1	82.6	37.6	26.9	30.8
FY12E	229,431	33,111	14.4	11.8	18.2	87.3	31.8	21.9	25.3
FY13E	255,587	37,540	14.7	13.3	13.1	82.4	28.1	19.3	21.4

Quarterly results

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD FY12	YTD FY11	YoY (%)
Net Sales	47,647	51,277	49,666	55,794	56,105	17.8	0.6	111,898	96,277	16.2
Expenditure	41,178	44,027	43,201	48,251	47,838	16.2	(0.9)	96,089	83,131	15.6
Material Cost	23,830	25,692	26,581	30,742	30,010	25.9	(2.4)	60,752	48,296	25.8
% of Sales	50.0%	50.1%	53.5%	55.1%	53.5%	350 bps	-160 bps	54.3%	50.2%	410 bps
Employee Expenses	2,450	2,310	2,346	2,862	2,873	17.3	0.4	5,735	4,956	15.7
% of Sales	5.1%	4.5%	4.7%	5.1%	5.1%	0 bps	0 bps	5.1%	5.1%	0 bps
Other Expenses	8,433	8,593	8,041	8,318	8,441	0.1	1.5	16,759	15,902	5.4
% of Sales	17.7%	16.8%	16.2%	14.9%	15.0%	-270 bps	10 bps	15.0%	16.5%	-150 bps
Operating Profit	6,469	7,250	6,465	7,543	8,267	27.8	9.6	15,810	13,146	20.3
Other Income	768	770	560	508	777	1.1	52.9	1,285	1,322	(2.8)
Interest	1	1	0	0	5	-	-	6	2	-
Depreciation	554	563	556	562	571	3.1	1.6	1,133	1,089	4.1
PBT	6,683	7,456	6,468	7,489	8,467	26.7	13.1	15,956	13,378	19.3
Tax	1,426	1,724	1,613	1,802	2,022	41.8	12.2	3,825	2,974	28.6
APAT	5,257	5,732	4,856	5,686	6,445	22.6	13.3	12,131	10,404	16.6
EPS	2.4	2.6	2.2	2.6	3.0	23.9	13.3	5.6	4.8	17.8

Margins (%)

EBIDTA	13.6%	14.1%	13.0%	13.5%	14.7%	120 bps	120 bps	14.1%	13.7%	50 bps
EBIT	14.0%	14.5%	13.0%	13.4%	15.1%	110 bps	170 bps	14.3%	13.9%	40 bps
EBT	14.0%	14.5%	13.0%	13.4%	15.1%	110 bps	170 bps	14.3%	13.9%	40 bps
PAT	11.0%	11.2%	9.8%	10.2%	11.5%	50 bps	130 bps	10.8%	10.8%	0 bps
Effective Tax rate	21.3%	23.1%	24.9%	24.1%	23.9%	250 bps	-20 bps	24.0%	22.2%	170 bps

Margin levers played out ...Downgrade to HOLD with TP of Rs347/share

We had anticipated incremental margin delta in the soaps and detergents segment (*ref: Report – Holding Fort, Slipping Realm dated September 15, 2011*). However, this catalyst played out a quarter earlier. Hence, we raise our earnings estimates by 5.9% to Rs 11.8//share for FY12E and 5.6% to Rs 13.3/share for FY13E.

We do not foresee further tailwinds in its business operations from either volume or margin catalysts. Moreover, at the CMP of Rs 375 and valuations of 28x FY13E EPS, we believe potential upsides are capped. Hence, while we raise our earnings estimates, we downgrade our rating on the stock to HOLD from ACCUMULATE with a revised target price of Rs 347/share (revised from Rs 328/share.)

Revision in estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Revenues	226,797	229,431	1.2	250,166	255,587	2.2
EBITDA	30,700	33,111	7.9	34,937	37,540	7.5
EBITDA Margin (%)	13.5	14.4	90 bps	14.0	14.7	70 bps
APAT	24,045	25,465	5.9	27,275	28,799	5.6
EPS	11.1	11.8	5.9	12.6	13.3	5.6

Segmental highlights (Rs mn)

Segment Revenues	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY Gr	QoQ Gr	YTD FY12	YTD FY11	YoY (%)
Soaps and Detergents	21294	21929	22048	25550	25926	21.8	1.5	51476	43938	17.2
Personal Products	13649	16547	14591	16307	16126	18.2	(1.1)	32433	27304	18.8
Beverages	5700	6022	6339	6086	6533	14.6	7.3	12618	11078	13.9
Packaged foods	2744	2700	3170	3721	3318	20.9	(10.8)	7039	5902	19.3
Exports	2647	2909	2793	3063	2909	9.9	(5.0)	5973	5295	12.8
Others	1527	1111	617	1066	1161	(24.0)	8.9	2227	2653	(16.1)

Segment PBIT	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY Gr	QoQ Gr	YTD FY12	YTD FY11	YoY (%)
Soaps and Detergents	2,501	1,693	1,659	2,361	3,212	28.4	36.1	5,573	4,989	11.7
Personal Products	3,140	4,769	3,652	4,133	3,940	25.5	(4.7)	8,073	6,528	23.7
Beverages	876	1,014	993	764	877	0.2	14.8	1,641	1,571	4.5
Packaged foods	155	-166	76	174	165	6.4	(5.2)	339	414	(18.1)
Exports	189	227	273	237	240	27.0	1.4	477	416	14.6
Others	-183	-185	-115	-26	-78	(57.4)	204.7	-104	-449	(76.9)

PBIT Margin	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY Gr	QoQ Gr	YTD FY12	YTD FY11	YoY (%)
Soaps and Detergents	11.7%	7.7%	7.5%	9.2%	12.4%	60 bps	320 bps	10.8%	11.4%	-50 bps
Personal Products	23.0%	28.8%	25.0%	25.3%	24.4%	140 bps	-90 bps	24.9%	23.9%	100 bps
Beverages	15.4%	16.8%	15.7%	12.6%	13.4%	-190 bps	90 bps	13.0%	14.2%	-120 bps
Packaged foods	5.6%	-6.2%	2.4%	4.7%	5.0%	-70 bps	30 bps	4.8%	7.0%	-220 bps
Exports	7.1%	7.8%	9.8%	7.7%	8.3%	110 bps	50 bps	8.0%	7.9%	10 bps
Others	-12.0%	-16.6%	-18.7%	-2.4%	-6.7%	530 bps	-430 bps	-4.7%	-16.9%	1230 bps

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	177,659	196,945	229,431	255,587
Growth (%)	-13.5	10.9	16.5	11.4
Expenses	149,682	170,300	196,320	218,047
Growth (%)	-14.8	13.8	15.3	11.1
Raw Materials	88,779	100,569	124,040	137,926
% Of Sales	50.0	51.1	54.1	54.0
Employee Cost	9,363	9,613	11,657	12,986
% Of Sales	5.3	4.9	5.1	5.1
Manufacturing Exps	6,167	7,248	7,248	8,074
% Of Sales	3.5	3.7	3.2	3.2
Admin Expenses	12,752	14,755	14,708	14,708
% Of Sales	7.2	7.5	6.4	5.8
Selling & Distribn Exp	32,621	38,116	38,667	44,353
% Of Sales	18.4	19.4	16.9	17.4
Ebidta	27,977	26,645	33,111	37,540
Growth (%)	-5.6	-4.8	24.3	13.4
Ebidta%	15.7	13.5	14.4	14.7
Other Income	1,076	2,878	2,878	2,997
Interest	70	2	12	12
Depreciation	1,840	2,208	2,415	2,570
PBT	27,143	27,312	33,562	37,955
Tax	6,044	5,769	8,096	9,156
PAT (Before EO Item)	21,099	21,542	25,465	28,799
Growth (%)	-15.9	2.1	18.2	13.1
Net Margin%	11.9	10.9	11.1	11.3
E/O Item	922	1,527	1,037	0
Reported PAT	22,020	23,070	26,503	28,799

CashFlow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Pre-Tax Profit	27,071	27,302	33,562	37,955
Depreciation	1,840	2,208	2,415	2,570
Non Cash	223	-815	1,037	0
Chg in Working Cap	14,289	-1,534	-981	1,383
Tax Paid	-6,617	-6,524	-8,096	-9,156
Operating Cash Flow	36,806	20,636	27,936	32,752
Capex	-5,568	-2,992	-2,500	-2,500
Free Cash Flow	31,237	17,644	25,436	30,252
Investments	-8,358	2,611	0	0
Change in Equity Capital	0	-6,219	0	0
Loans	-3,907	-2	0	0
Dividend	-17,827	-16,556	-20,863	-22,874
Others	0	0	0	1
Net Change in Cash	1,146	-2,522	4,573	7,378
Opening Cash Position	17,773	18,922	16,400	20,973
Closing Cash Position	18,922	16,400	20,973	28,350

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity Share Capital	2,182	2,160	2,160	2,160
Reserves	23,654	24,180	29,819	35,744
Networth	25,835	26,339	31,978	37,903
Secured Loans	0	0	0	0
Unsecured Loans	0	0	0	0
Loan Funds	0	0	0	0
Capital Employed	25,835	26,339	31,978	37,903
Gross Block	35,820	37,596	40,096	42,596
Less: Depreciation	14,199	15,905	18,319	20,889
Net Block	21,621	21,692	21,777	21,707
Capital Work In Progress	2,740	2,991	2,991	2,991
Investments	12,641	12,607	12,607	12,607
Current Assets	53,678	60,952	71,292	84,539
Inventories	21,799	28,113	31,781	35,514
Debtors	6,784	9,432	10,663	11,915
Cash & Bank	18,922	16,400	20,973	28,350
Loans & Advances	6,006	6,654	7,522	8,405
Other Current Assets	166	354	354	354
Current Liabilities & Prov	67,332	73,998	78,784	86,037
Net Current Assets	-13,655	-13,046	-7,492	-1,498
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	2,488	2,096	2,096	2,096
Capital Deployed	25,835	26,339	31,978	37,903

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability %				
Ebidta Mgn	15.7	13.5	14.4	14.7
PAT Mgn	11.9	10.9	11.1	11.3
ROCE	107.4	104.7	115.1	108.7
ROE	90.8	82.6	87.3	82.4
Per Share Data				
EPS	9.7	10.0	11.8	13.3
CEPS	10.3	10.8	12.6	14.2
BVPS	11.8	12.2	14.8	17.6
DVPS	6.5	7.5	8.3	9.1
Valuations (X)				
PER	38.8	37.6	31.8	28.1
CPER	36.4	34.7	29.7	26.4
P/BV	31.7	30.8	25.3	21.4
Ev/Sales	4.6	4.1	3.5	3.1
Ev/Ebidta	27.5	26.9	21.9	19.3
Dividend Yield (%)	1.7	2.0	2.2	2.4
Turnover X Days				
Debtor TO Days	13.9	17.5	17.5	17.5
Inventory TO Days	44.8	52.1	52.1	52.1
Gearing Ratio				
Net Debt/Equity	-0.8	-0.7	-0.7	-0.8
Total Debt/Equity	0.0	0.0	0.0	0.0

Recommendation History: Hindustan Unilever – HUVR IN

Date	Reports	Reco	CMP	Target
15/09/2011	Consumers Sector Sector Update			
28/07/2011	Hindustan Unilever Q1FY12 Result Update	Accumulate	323	328
09/05/2011	Hindustan Unilever Q4FY11 Result Update	Accumulate	284	312
27/01/2011	Hindustan Unilever Q3FY11 Result Update	Hold	271	275

Recent Research Reports

Date	Reports	Reco	CMP	Target
12/08/2011	Jubilant Foodworks Q1FY12 Result Update	Accumulate	852	900
03/08/2011	Berger Paints Q1FY12 Result Update	Accumulate	101	109
03/08/2011	GSK Cosnumer Q2CY11 Result Update	Accumulate	2,388	2,547
01/08/2011	Nestle India Q2CY11 Result Update	Accumulate	4,349	4,268

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