



INDIA RESEARCH

Hindustan Unilever

Rs281
NEUTRAL
RESULT NOTE
Mkt Cap: Rs611bn; US \$13bn

Analyst: **Nikhil Vora (91-22-6638 3308; nikhilvora@idfcsski.com)**
Bhushan Gajaria (91-22-6638 3367; bhushangajaria@idfcsski.com)
Shweta Dewan (91-22-6638 3290; shweta.dewan@idfcsski.com)

Result: **Q2FY10**

Comment: **Where's the lather?**

Last Report: **28 July 2009 (Price Rs277; Recommendation: Neutral)**

Key valuation metrics

Year to March 31	Net revenues	yoy chg (%)	Net Profit	EPS	yoy chg (%)	PER (x)	EV/EBITDA (x)
CY07	138,691	14.6	16,994	7.8	11.9	36.0	28.3
FY09	206,016	48.5	25,215	11.6	48.4	24.3	18.7
FY10E	180,873	(12.2)	23,498	10.8	(6.8)	26.0	20.0
FY11E	206,090	13.9	27,257	12.5	16.0	22.4	16.1

FY09E results for 15 months period
KEY HIGHLIGHTS OF Q2FY10 RESULTS

- Hindustan Unilever (HUL) has majorly disappointed on the revenue growth numbers, whereas profits remains in line with our estimates
- HUL's revenues have grown by mere 5% at Rs42.3bn (estimates of Rs43.5bn), EBITDA of Rs6.1bn (estimates of Rs6.1bn) and Profit before exceptional items and tax at Rs6.5bn (estimates of Rs6.4bn)
- PAT adjusting for exceptional items has grown by 14.4% at Rs5.06bn (estimates of Rs5.08bn)
- HUL has provided for Rs1.6bn of restructuring cost, Rs500m of forex MTM charge (netted off against other operational income) Rs308m of gains on sale of properties
- Domestic FMCG business has grown by 7% at Rs39bn, exports revenues are down by 23% at Rs22.6bn
- Overall underlying volume growth remains low at 1% with soaps and detergents business volume decline at ~3% (mass brands impacted sharper) and personal products business volume growth at ~11%.
- Home and personal care business has grown by mere 5.7% with soaps and detergents business growing by just 1% (at Rs20bn) and personal care business growing by 13.4% (at Rs11.9bn). While the volume growth in personal products is in double digit, soaps and detergents business has been impacted by market share loss in mass segments as well as price cuts.
- While overall foods portfolio has grown by 13%, growth is driven by higher tea prices. Beverages business has grown by 18% (at Rs5.2bn) and Ice-cream business has grown by 8% at Rs504m. Processed foods business has remained flat at Rs1.74bn.
- Marginally ahead of estimates, EBITDA margins have expanded by 260bp at 14.4% (estimates of 14%) and overall EBITDA stood at Rs6.1bn

IDFC - SSKI Securities Ltd.

701-702 Tulsiani Chambers, 7th Floor (East Wing), Nariman Point, Mumbai 400 021. Tel: 9122-6638 3300 Fax: 9122-2204 0282

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- With easing commodity costs and favourable product mix (premium portfolio and personal product business growing faster than mass segment in soaps and detergents segment), gross margins have improved by 330bp at 49.1%
- With volume growth under pressure and higher gross margin improvement, HUL has increased its ASP spends by 41% at Rs5.7bn (higher by 350bp). HUL has witnessed substantial savings on other expenditure (260bp savings) While margins in soaps and detergents business have improved by 10bp at 13.6% and personal products business margins have improved by 200bp at 26.3%
- While other operational income is lower at Rs411m (after Forex MTM charge of Rs500m), financial other income is higher at Rs456m
- We believe that in Q3FY10, there would be high base effect of price hikes in soaps and detergents business and if the volumes don't pick up from here, HUL would potentially witness revenue decline in soaps and detergents business. Margins would however, continue to remain healthy on the back of product mix.

During the quarter, Colgate has reported volume growth of 16%, Dabur, Marico and GCPL have reported their best ever margins, ITC's cigarettes business volume growth was at ~7%. While rest of the FMCG pack has reported best of its growth numbers (volume led growth) and profitability, HUL's growth continues to be in single digit. Volume growth continues to be a concern, as HUL finds it difficult to regain the lost market share at the bottom of the pyramid, which it had virtually vacated or reduced its focus in the inflationary environment. With likes of GCPL, Ghari, Colgate (Cibaca) and Dabur becoming more competitive and Unilever having 'volume growth' as their top KRA, pressure is mounting on HUL. This is indicative from aggressive media spends (41% increase in ASP spends – 8x the revenue growth), which is largely to support the growth in the existing categories rather than market NPD. While the volume growth remains a concern, we anticipate sharp decline in realization from Q3FY10 (sharpest price hikes were taken in September and October 2008). With near term growth pressures, absence in scalable segments of foods and water business and valuations at 22x FY11E, we maintain our Neutral call with price target of Rs285.

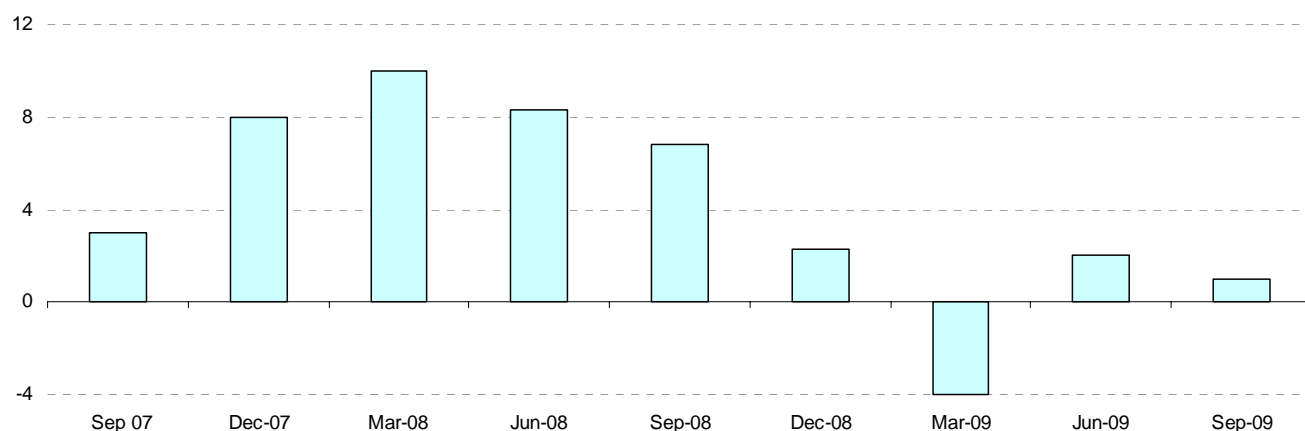
Segmental Performance

	Sales			EBIT		
	Sep-08	Sep-09	Growth (%)	Sep-08	Sep-09	Change (bps)
Soaps & Detergents	19,862.5	20,036.9	0.9	13.5	13.6	9.0
Personal Products	10,498.2	11,901.8	13.4	24.3	26.3	199.2
Beverages	4,421.7	5,215.8	18.0	14.1	17.0	286.6
Processed Foods	1,738.9	1,739.2	0.0	1.6	(0.5)	(215.1)
Ice Creams	466.1	503.6	8.0	4.5	5.0	45.6
Exports	2,961.0	2,270.0	(23.3)	10.7	7.6	(313.5)
Others	908.3	1,070.5	17.9	(31.8)	(9.2)	2,259.3
Total	40,856.7	42,737.8	4.6	14.5	16.0	145.2

Value market share

	Sep-09	Jun-09	Sep-08
Laundry	35.0	36.2	38.8
Soaps	44.5	46.3	49.7
Face Care	47.5	48.3	52.3
Hair & Body	52.7	53.7	56.4
Hair Care	45.6	45.4	45.9
Toothpaste	27.1	28.0	29.2
Tea	22.3	21.8	24.3
Coffee	44.6	44.0	47.5

Volume growth



Quarterly results

Quarterly results (Rs Mn)	Sep-08	Dec-08	Mar-09	FY09E	Jun-09	Sep-09	FY10E	FY11E
Net Sales	40,279	43,077	39,883	206,016	44,757	42,281	180,873	206,090
% yoy	19.7	16.8	6.0	48.5	7.8	5.0	(12.2)	13.9
EBITDA	4,743	6,931	5,493	30,401	6,881	6,108	28,026	34,357
EBITDA (%)	11.8	16.1	13.8	14.8	15.4	14.4	15.5	16.7
Net interest	-	-	-	(1,802)	-	-	(1,673)	(1,915)
Depreciation	393	406	413	1,953	425	462	1,659	1,769
Other Income	1,219	1,001	651	0	553	869	0	0
Profit before Tax	5,569	7,526	5,731	30,251	7,009	6,515	28,040	34,502
Tax	1,231	1,425	710	5,036	1,643	878	4,542	7,245
Exceptional items	1,087	56	(1,071)	(251)	28	(1,352)	(1,324)	-
Profit After Tax	5,426	6,157	3,950	24,964	5,394	4,285	22,174	27,257

FY09 is 15 months period

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Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6638 3300
Pathik Gandotra	Head of Research; Financials, Strategy	pathik@idfcsski.com	91-22-6638 3304
Shirish Rane	Construction, Power, Cement	shirish@idfcsski.com	91-22-6638 3313
Nikhil Vora	FMCG, Media, Mid Caps, Education, Exchanges	nikhilvora@idfcsski.com	91-22-6638 3308
Ramnath S	Automobiles, Auto ancillaries, Real Estate, Oil & Gas	ramnaths@idfcsski.com	91-22-6638 3380
Nitin Agarwal	Pharmaceuticals	nitinagarwal@idfcsski.com	91-22-6638 3395
Chirag Shah	Metals & Mining, Telecom, Pipes, Textiles	chirag@idfcsski.com	91-22-6638 3306
Bhoomika Nair	Logistics, Engineering	bhoomika@idfcsski.com	91-22-6638 3337
Hitesh Shah	IT Services	hitesh.shah@idfcsski.com	91-22-6638 3358
Bhushan Gajaria	Retailing, FMCG, Media, Mid Caps	bhushangajaria@idfcsski.com	91-22-6638 3367
Ashish Shah	Construction, Power, Cement, Telecom	ashishshah@idfcsski.com	91-22-6638 3371
Salil Desai	Construction, Power, Cement	salil@idfcsski.com	91-22-6638 3373
Ritesh Shah	Pharmaceuticals, IT Services	riteshshah@idfcsski.com	91-22-6638 3376
Neha Agrawal	Financials	neha@idfcsski.com	91-22-6638 3237
Swati Nangalia	Mid Caps, Media, Exchanges	swati@idfcsski.com	91-22-6638 3260
Sameer Bhise	Strategy, Financials	sameer@idfcsski.com	91-22-6638 3390
Shweta Dewan	Mid Caps, Education, FMCG	shweta.dewan@idfcsski.com	91-22-6638 3290
Nikhil Salvi	Construction, Power, Cement	nikhil.salvi@idfcsski.com	91-22-6638 3239
Rajeev Desai	Real Estate	rajeev@idfcsski.com	91-22-6638 3231
Chinmaya Garg	Financials	chinmaya@idfcsski.com	91-22-6638 3325
Aniket Mhatre	Automobiles, Auto ancillaries	aniket@idfcsski.com	91-22-6638 3311
Probal Sen	Oil & Gas	probal@idfcsski.com	91-22-6638 3238
Saumil Mehta	Metals, Pipes	saumil.mehta@idfcsski.com	91-22-6638 3344
Rupesh Sonawale	Database Analyst	rupesh@idfcsski.com	91-22-6638 3382
Dharmesh Bhatt	Technical Analyst	dharmesh@idfcsski.com	91-22-6638 3392
Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6638 3300
Naishadh Paleja	MD, CEO	naishadh@idfcsski.com	91-22-6638 3211
Paresh Shah	MD, Dealing	paresh@idfcsski.com	91-22-6638 3341
Vishal Purohit	MD, Sales	vishal@idfcsski.com	91-22-6638 3212
Nikhil Gholani	MD, Sales	nikhil@idfcsski.com	91-22-6638 3363
Sanjay Panicker	Director, Sales	sanjay@idfcsski.com	91-22-6638 3368
V Navin Roy	Director, Sales	navin@idfcsski.com	91-22-6638 3370
Suchit Sehgal	AVP, Sales	suchit@idfcsski.com	91-22-6638 3247
Pawan Sharma	MD, Derivatives	pawan.sharma@idfcsski.com	91-22-6638 3213
Dipesh Shah	Director, Derivatives	dipeshshah@idfcsski.com	91-22-6638 3245
Jignesh Shah	AVP, Derivatives	jignesh@idfcsski.com	91 22 6638 3321
Sunil Pandit	Director, Sales trading	sunil@idfcsski.com	91-22-6638 3299
Mukesh Chaturvedi	SVP, Sales trading	mukesh@idfcsski.com	91-22-6638 3298
Viren Sompura	VP, Sales trading	viren@idfcsski.com	91-22-6638 3277
Rajashekhar Hiremath	VP, Sales trading	rajashekhar@idfcsski.com	91-22-6638 3243

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2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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