

22 January 2013

**HOLD**

TP: INR 480.00

▼ 0.2%

# Hindustan UniLever

HUVR IN

## Earnings growth to slow further; maintain HOLD

**HUVR reported a muted Q3 with net sales/EBITDA/adj. PAT growth of 10.2%/12.2%/14.9% YoY. Volume growth at 5% was the slowest in last 12 quarters, partly due to the indirect price hike. Royalty hike (w.e.f. Feb'13) by ~0.5% p.a. (cumulative 1.75% before FY18) coupled with rising tax rate would hurt EPS growth over the medium term (~12% CAGR over FY13-15 vs. 24% over FY11-13). We maintain HOLD with a revised Mar'14 TP of Rs. 480 (25x 1-yr fwd. target PE vs. 27x earlier) as we cut our FY14/FY15 EPS by 4.3%/5.7%.**

- ➔ **Topline up 10.2% YoY; domestic FMCG 14.9% YoY:** The domestic FMCG business grew 14.9% YoY led by a 19.7% growth in Soaps and Detergents (S&D), even as Personal Products (PP) saw a muted 13% YoY growth. Beverages grew 18% YoY but packaged foods only 8% YoY due to lower growth in ice-creams and Knorr. While reported volume growth at 5% YoY was the slowest in last 3 years, it was partly due to an adverse SKU mix and indirect price hike impact (to normalise ahead)
- ➔ **EBITDA growth at 12.2% YoY:** EBITDA margins (incl. operating income) were up 30bps YoY, which was disappointing as gross margins declined 40bps YoY due to an adverse category mix (PP vs. S&D). A&P spends were up 100bps YoY on higher media intensity in S&D, which pulled down segmental EBIT margins by 110bps YoY. PP margins were up by a strong 240bps YoY.
- ➔ **Royalty hike to hit margin expansion potential:** HUVR has approved a royalty hike to the parent company; this would increase effective royalty from 1.4% to 3.15% of sales by FY18 and entail a margin impact of ~0.5% p.a. over FY13-FY15. We cut our FY13/14/15 EPS by 1.9%/4.3%/5.7% to reflect this impact. The royalty hike coupled with increasing tax rates would restrict EPS CAGR to 12% over FY13-15.
- ➔ **HOLD with a revised TP of Rs. 480** as we roll over to a March'14 TP but lower our target PE multiple given the slowing EPS growth.

### Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (INR mln)	1,94,011	2,29,877	2,53,538	2,89,711	3,32,072
EBITDA (INR mln)	23,652	30,351	34,431	39,576	46,000
Adjusted net profit (INR mln)	21,533	26,865	32,931	37,329	41,300
Adjusted EPS (INR)	9.9	12.4	15.2	17.3	19.1
Adjusted EPS growth (%)	2.4	26.1	22.6	13.4	10.6
DPS (INR)	5.5	6.8	8.3	9.4	10.4
ROIC (%)	(402.9)	(484.3)	(665.6)	(620.2)	(335.1)
Adjusted ROAE (%)	82.5	85.1	76.5	69.5	65.7
Adjusted P/E (x)	29.1	33.0	31.6	27.8	25.2
EV/EBITDA (x)	25.0	27.8	28.7	24.6	20.9
P/BV (x)	23.5	24.1	21.1	17.9	15.4

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (22 Jan 13)

INR 480.90

MARKET CAP

INR 10,39,081 mln

USD 19,312 mln

SHARES O/S

2,160.7 mln

FREE FLOAT

47.5%

3M AVG DAILY VOLUME./VALUE

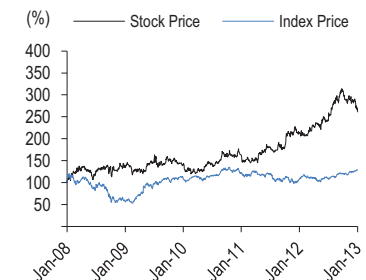
2.4 mln/ USD 23.5 mln

52 WK HIGH

INR 578.55

52 WK LOW

INR 378.50



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**Hindustan UniLever**

HUVR IN



Results Review

INDIA

CONSUMER STAPLES

**Per Share Data**

Y/E 31 Mar (INR)	FY11A	FY12A	FY13E	FY14E	FY15E
Reported EPS	10.6	13.0	17.5	17.3	19.1
Adjusted EPS	9.9	12.4	15.2	17.3	19.1
DPS	5.5	6.8	8.3	9.4	10.4
BVPS	12.2	17.0	22.8	26.9	31.3

**Valuation Ratios**

Y/E 31 Mar (x)	FY11A	FY12A	FY13E	FY14E	FY15E
EV/Sales	3.0	3.7	3.9	3.4	2.9
EV/EBITDA	25.0	27.8	28.7	24.6	20.9
Adjusted P/E	29.1	33.0	31.6	27.8	25.2
P/BV	23.5	24.1	21.1	17.9	15.4

**Financial Ratios**

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Profitability &amp; Return Ratios (%)</b>					
EBITDA margin	12.2	13.2	13.6	13.7	13.9
EBIT margin	11.1	12.2	12.6	12.7	12.9
Adjusted profit margin	11.1	11.7	13.0	12.9	12.4
Adjusted ROAE	82.5	85.1	76.5	69.5	65.7
ROCE	64.8	67.8	55.3	50.5	47.8
<b>YoY Growth (%)</b>					
Revenue	10.7	18.5	10.3	14.3	14.6
EBITDA	(7.2)	28.3	13.4	14.9	16.2
Adjusted EPS	2.4	26.1	22.6	13.4	10.6
Invested capital	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Working Capital &amp; Liquidity Ratios</b>					
Receivables (days)	15	14	15	15	14
Inventory (days)	91	80	89	97	94
Payables (days)	122	108	106	110	110
Current ratio (x)	0.8	0.8	0.9	1.0	1.0
Quick ratio (x)	0.4	0.5	0.5	0.6	0.7
<b>Turnover &amp; Leverage Ratios (x)</b>					
Gross asset turnover	5.3	5.9	5.8	5.9	6.0
Total asset turnover	2.0	2.1	2.0	1.9	1.9
Net interest coverage ratio	8,934.9	1,697.9	123.2	141.8	165.2
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

**DuPont Analysis**

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Tax burden (Net income/PBT)	78.9	76.6	74.5	73.5	70.0
Interest burden (PBT/EBIT)	127.3	125.2	138.0	137.8	137.4
EBIT margin (EBIT/Revenue)	11.1	12.2	12.6	12.7	12.9
Asset turnover (Revenue/Avg TA)	200.5	214.4	198.3	189.9	188.3
Leverage (Avg TA/Avg equities)	370.9	339.5	296.8	284.3	280.5
Adjusted ROAE	82.5	85.1	76.5	69.5	65.7

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Results Review

INDIA

CONSUMER STAPLES

**Income Statement**

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Total revenue</b>	<b>1,94,011</b>	<b>2,29,877</b>	<b>2,53,538</b>	<b>2,89,711</b>	<b>3,32,072</b>
EBITDA	23,652	30,351	34,431	39,576	46,000
EBIT	21,444	28,016	32,023	36,862	42,947
Net interest income/(expenses)	(2)	(17)	(260)	(260)	(260)
Other income/(expenses)	5,860	7,081	12,440	14,185	16,313
Exceptional items	0	0	0	0	0
EBT	27,302	35,080	44,202	50,787	59,000
Income taxes	(5,769)	(8,215)	(11,272)	(13,459)	(17,700)
Extraordinary items	1,527	1,136	4,820	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>23,060</b>	<b>28,001</b>	<b>37,751</b>	<b>37,329</b>	<b>41,300</b>
Adjustments	(1,527)	(1,136)	(4,820)	0	0
<b>Adjusted net profit</b>	<b>21,533</b>	<b>26,865</b>	<b>32,931</b>	<b>37,329</b>	<b>41,300</b>

**Balance Sheet**

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Accounts payables	60,749	57,399	70,157	80,167	91,888
Other current liabilities	0	0	0	0	0
Provisions	13,250	19,680	22,101	25,394	29,500
Debt funds	0	0	0	0	0
Other liabilities	0	183	0	0	0
Equity capital	2,160	2,162	2,162	2,162	2,162
Reserves & surplus	24,180	34,649	47,160	55,877	65,522
Shareholders' fund	26,340	36,811	49,321	58,038	67,683
<b>Total liabilities and equities</b>	<b>1,00,338</b>	<b>1,14,073</b>	<b>1,41,579</b>	<b>1,63,599</b>	<b>1,89,071</b>
Cash and cash eq.	16,400	19,964	27,075	42,577	54,646
Accounts receivables	9,432	8,567	11,809	11,906	13,647
Inventories	28,113	26,674	38,889	41,702	47,079
Other current assets	7,007	8,641	8,113	9,271	10,626
Investments	12,607	23,222	23,222	23,222	23,222
Net fixed assets	21,692	22,629	26,560	28,629	33,140
CWIP	2,991	2,276	3,812	4,193	4,612
Intangible assets	0	0	0	0	0
Deferred tax assets, net	2,097	2,099	2,099	2,099	2,099
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>1,00,338</b>	<b>1,14,072</b>	<b>1,41,579</b>	<b>1,63,598</b>	<b>1,89,071</b>

**Cash Flow Statement**

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Net income + Depreciation	25,268	30,336	40,159	40,043	44,353
Interest expenses	2	17	260	260	260
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(1,534)	2,036	251	9,234	7,354
Other operating cash flows	(4,828)	(3,524)	(7,996)	(3,408)	(3,959)
<b>Cash flow from operations</b>	<b>18,908</b>	<b>28,865</b>	<b>32,673</b>	<b>46,128</b>	<b>48,009</b>
Capital expenditures	(3,097)	(2,522)	(7,875)	(5,164)	(7,984)
Change in investments	669	(10,558)	4,820	0	0
Other investing cash flows	3,777	8,555	3,436	3,668	4,219
<b>Cash flow from investing</b>	<b>1,350</b>	<b>(4,524)</b>	<b>381</b>	<b>(1,495)</b>	<b>(3,765)</b>
Equities issued	(6,219)	336	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(2)	(17)	(260)	(260)	(260)
Dividends paid	(16,556)	(17,546)	(25,240)	(28,611)	(31,655)
Other financing cash flows	(2)	(12)	(3,827)	(260)	(260)
<b>Cash flow from financing</b>	<b>(22,780)</b>	<b>(17,240)</b>	<b>(25,760)</b>	<b>(29,131)</b>	<b>(32,175)</b>
<b>Changes in cash and cash eq</b>	<b>(2,522)</b>	<b>7,100</b>	<b>7,294</b>	<b>15,502</b>	<b>12,069</b>
<b>Closing cash and cash eq</b>	<b>16,400</b>	<b>23,501</b>	<b>27,075</b>	<b>42,577</b>	<b>54,646</b>