

# NOT RATED

## Result Update

# Hindustan Unilever

## Volumes disappoint; royalty increased

### Stock Information

Bloomberg Code:	HUVR IN
CMP (₹):	481
TP (₹):	NA
Mcap (₹ bn/US\$ bn):	1,040/19.3
3M ADV (₹ mn/US\$ mn):	1,175/21.9

### Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(9)	(14)	25	(8)
Rel. to Sensex	(13)	(21)	5	(11)

Source: Bloomberg, Ambit Capital research

**Results overview:** HUL reported its 3QFY13 results with 15% YoY growth in the domestic consumer business (20% growth in Soaps and Detergents, 13% in Personal Products, 18% in Beverages and 8% in Packaged Foods) and 15% YoY growth in net profit, with an underlying volume growth of 5% YoY. Whilst gross margins declined by 40bps YoY to 46.9%, EBITDA margins expanded 10bps to 16.4% (base quarter unadjusted for the demerger of the exports business). PBIT margins for the Soaps & Detergents business declined 100bps to 12.4% whilst the Personal Products business expanded 140bps to 26.8%). An 80bps higher tax rate (24%) led to net profit coming in 15% higher YoY for the quarter.

**Where do we go from here?** Whilst HUL remained aggressive in terms of new launches during the quarter (launch of Brylcreem, Dove hair oil, Lifebuoy handwash, Vaseline lotions, Knorr and a Sunsilk variant), we highlight concerns around the following:

- 1) Volume growth under pressure related to HUL-specific factors:** The company attributed the lower volume growth to: (a) Poor consumer response to the price increase in the sachet format of Fair and Lovely; (b) High base effect of the sachet format Dove shampoo, which was priced at Re1 (now Rs1.5) due to competitive intensity in the base quarter; and (c) Wheel losing further market share to Ghadi in the mass category detergent segment. None of these factors were related particularly to an overall slowdown in macro growth rates for the respective categories. Consequently, we expect HUL's peers to report healthier volume growth on a YoY basis for 3QFY13.
- 2) Higher royalty paid to the parent:** HUL announced an increase in royalty paid to Unilever from 1.4% currently to 3.15% over a period of five years effective February 2013. The immediate impact up to FY14 will be 50bps. We expect the increased royalty to affect HUL's PAT by 3 percentage points in FY14 (and 11% by FY18 when the full impact comes through) assuming all else remains unchanged.
- 3) Margins under pressure:** Whilst gross margins for the Soaps & Detergents (S&D) business have improved YoY, overall gross margins have fallen. Further, higher A&P spends in the S&D business led to 100bps PBIT margin contraction (from 13.4% in 3QFY12 to 12.4% in 3QFY13). Note that despite such aggressive spends on A&P, the Group has reported a moderation in overall volume growth for its products (as highlighted above).

The stock is currently trading at 28x FY14 consensus estimates, around 10% higher than its peer group average.

### Quarterly Financials

	3QFY13	3QFY12 (adjusted)	2QFY13	YoY	QoQ
Total Income	66,548	56,715	59,555	17.3%	11.7%
Net expenses	55,064	47,275	49,622	16.5%	11.0%
Profit Before Tax	11,484	9,440	9,933	21.7%	15.6%
Tax Expense	2,771	2,185	2,271	26.8%	22.0%
Profit After Tax	8,714	7,255	7,662	20.1%	13.7%
Volume growth	5%	9%	7%		

Source: Company, Ambit Capital research

### Analysts

#### Rakshit Ranjan

rakshitrnanjan@ambitcapital.com  
Tel: +91 22 3043 3201

#### Shariq Merchant

shariqmerchant@ambitcapital.com  
Tel: +91 22 3043 3246