

# Hindustan Unilever Ltd

- Q3 revenues were below our expectations at ~Rs64bn, up by mere 10% yoy led by ~15% yoy growth in HPC segment. Domestic FMCG business witnessed a lower underlying volume growth of 5% against 7% in Q2 FY13
- Personal products segment witnessed 140bps expansion in EBIT margins at 28.3%. Soaps and Detergents segment margins, however, contracted by 100bps to 12.4%
- Operating margins contracted by 120bps to 13.5% due to sharp rise in advertising cost. Adjusted net profit registered ~16% yoy increase at Rs8.7bn driven by higher other income
- As per the new royalty agreement with Unilever, royalty payment will increase from current 1.4% of turnover to 3.15% in a phased manner effective February, 2013 till March 2018
- We maintain Market Performer rating with a revised 9-mth target price of Rs513 (earlier Rs544)

## Result table (Standalone)

(Rs m)	Q3 FY13	Q3 FY12	% yoy	Q2 FY13	% qoq
<b>Net sales</b>	<b>64,337</b>	<b>58,443</b>	<b>10.1</b>	<b>61,554</b>	<b>4.5</b>
Material cost	(34,191)	(30,799)	11.0	(32,695)	4.6
Personnel cost	(3,427)	(2,741)	25.0	(3,305)	3.7
Advertising cost	(8,222)	(6,902)	19.1	(7,690)	6.9
Other overheads	(9,821)	(9,408)	4.4	(9,652)	1.8
<b>Operating profit</b>	<b>8,677</b>	<b>8,593</b>	<b>1.0</b>	<b>8,213</b>	<b>5.6</b>
<b>OPM (%)</b>	<b>13.5</b>	<b>14.7</b>	<b>(122) bps</b>	<b>13.3</b>	<b>14 bps</b>
Depreciation	(593)	(568)	4.3	(577)	2.8
Interest	(75)	(5)	1,573.3	(63)	19.0
Other income	3,549	1,913	85.5	3,042	16.7
<b>PBT</b>	<b>11,557</b>	<b>9,933</b>	<b>16.3</b>	<b>10,615</b>	<b>8.9</b>
Tax	(2,771)	(2,271)	22.0	(2,561)	8.2
<b>Effective tax rate (%)</b>	<b>24.0</b>	<b>22.9</b>	-	<b>24.1</b>	-
<b>Adjusted PAT</b>	<b>8,786</b>	<b>7,662</b>	<b>14.7</b>	<b>8,053</b>	<b>9.1</b>
<b>Adj. PAT margin (%)</b>	<b>13.7</b>	<b>13.1</b>	<b>55 bps</b>	<b>13.1</b>	<b>57 bps</b>
Extra ordinary items	(73)	(124)	(41.2)	16	-
<b>Reported PAT</b>	<b>8,714</b>	<b>7,538</b>	<b>15.6</b>	<b>8,069</b>	<b>8.0</b>
Ann. EPS (Rs)	16.3	14.2	14.6	14.9	9.1

Source: Company, India Infoline Research

## Revenues below expectations

HUL Q3 FY13 revenues were below our expectations (of ~Rs66bn) at Rs64.3bn – up by mere 10.1% yoy due to slower 15% yoy growth in domestic FMCG business. Underlying volume growth was lower at 5% yoy compared to 7% in Q2 FY13 and 9.1% in Q3 FY12, due to price hikes in sachets, slowdown in 'Wheel', weakness in discretionary categories and lower modern retail sales.

## Revenue break-up

(Rs m)	Q3 FY13	Q3 FY12	Growth	Q2 FY13	Growth
	(3)	(3)	% yoy	(3)	% qoq
Domestic FMCG - HPC	50,708	43,963	15.3	48,131	5.4
Domestic FMCG - Foods	10,877	9,640	12.8	10,626	2.4
<b>a) Domestic FMCG - Total</b>	<b>61,585</b>	<b>53,604</b>	<b>14.9</b>	<b>58,758</b>	<b>4.8</b>
b) Others	2,752	4,840	(43.1)	2,796	(1.6)
<b>Total (a+b)</b>	<b>64,337</b>	<b>58,443</b>	<b>10.1</b>	<b>61,554</b>	<b>4.5</b>

Source: Company, India Infoline Research

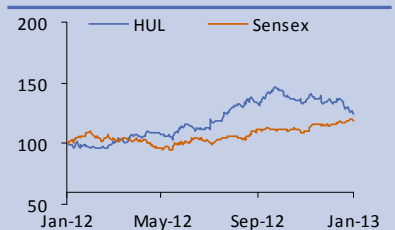
January 23, 2013

<b>Rating:</b>	<b>MP</b>
<b>Target:</b>	<b>Rs513</b>
<b>CMP:</b>	<b>Rs482</b>
<b>Upside:</b>	<b>6.6%</b>

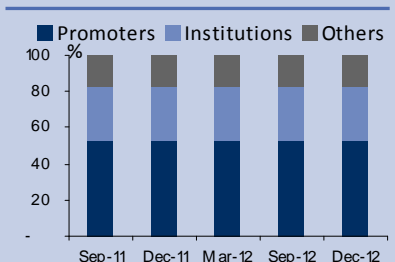
<b>Sector:</b>	<b>FMCG</b>
<b>Sector view:</b>	<b>Positive</b>
Sensex:	19,982
52 Week h/l (Rs):	571 / 370
Market cap (Rscr) :	104,109
6m Avg vol ('000Nos):	2,375
Bloomberg code:	HUVR IN
BSE code:	500696
NSE code:	HINDUNILVR
FV (Re):	1

Price as on Jan 22, 2013

## Share price trend

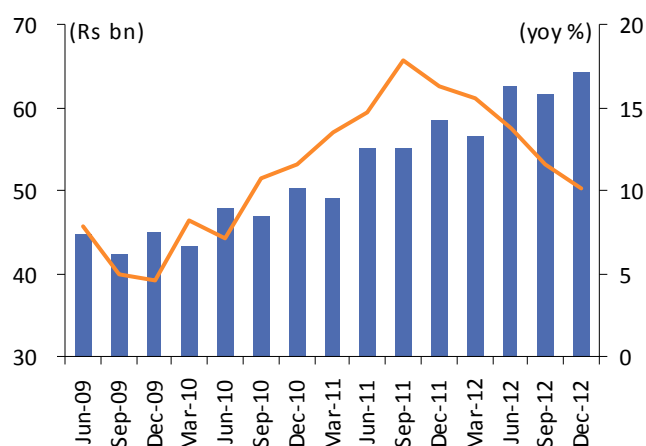
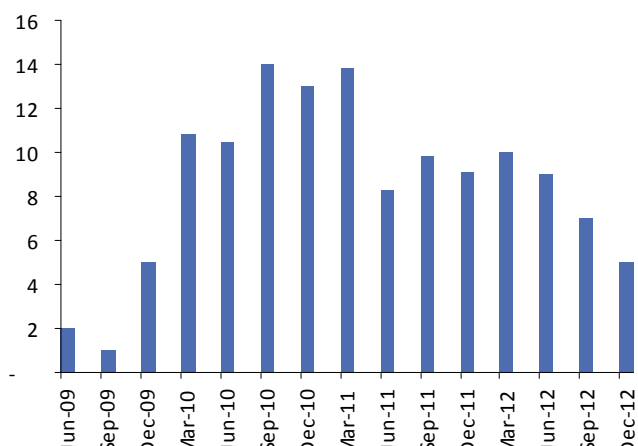


## Share holding pattern



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Result Update

**Trend in revenues**

**Underlying volume growth slowing down**


Source: Company, India Infoline Research

The core Soaps and Detergents segment; contributing ~48% to revenues and ~36% to EBIT registered 19.8% yoy growth at Rs31.7bn (double digit volume growth in Surf and Rin). Personal products segment recorded 13% yoy growth in revenues at Rs20.5bn primarily led by strong growth in skin care segment (double digit growth in brands - Ponds, Vaseline, Dove). The management stated that the skin care category is witnessing a slowdown. We believe price hikes taken in Fair and Lovely (by Re1 to Rs8 taken during Q2 FY13) and Dove sachets will take more 3-4 months to be successfully absorbed by the market. The growth could have been better but for the slower growth in shampoo segment due to intense competition. Beverages segment registered 18.2% yoy growth in revenues led by premium tea and coffee (strongest quarter for tea). Revenues from the packaged foods segment witnessed slower 7.7% yoy increase at Rs3.3bn driven by Kissan (double digit growth in Knorr on a low base – market still witnessing slowdown).

**Segment-wise revenue trend**

Segments (Rs m)	FY11				FY12				FY13		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Soaps & Det.	22,645	21,294	21,929	22,075	25,576	25,961	26,481	28,344	31,631	31,762	31,712
Personal Prod.	13,655	13,649	16,547	14,609	15,823	15,562	18,134	17,109	18,471	17,445	20,489
Beverages	5,378	5,700	6,022	6,347	6,092	6,542	6,709	6,832	6,541	7,196	7,929
Pkgd Foods	3,158	2,744	2,700	3,174	3,721	3,323	3,067	3,481	4,370	3,663	3,301
Others	1,126	1,527	1,111	3,414	4,634	4,662	5,104	1,823	2,640	2,884	2,902
<b>Total</b>	<b>48,609</b>	<b>47,560</b>	<b>51,218</b>	<b>49,618</b>	<b>55,846</b>	<b>56,050</b>	<b>59,495</b>	<b>57,588</b>	<b>63,651</b>	<b>62,949</b>	<b>66,334</b>

Source: Company, India Infoline Research

**Segment-wise EBIT trend**

Segments (Rs m)	FY11				FY12				FY13		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Soaps & Det.	2,488	2,501	1,693	1,650	2,361	3,212	3,559	3,201	3,852	4,536	3,937
Personal Prod.	3,388	3,140	4,769	3,652	4,107	3,965	4,865	4,492	4,757	4,226	5,789
Beverages	695	876	1,014	993	754	877	1,052	984	950	1,031	1,404
Pkgd Foods	259	155	(166)	46	174	165	(60)	(37)	248	9	(26)
Others	(266)	(183)	(185)	152	237	138	359	(49)	(43)	21	(186)
<b>Total</b>	<b>6,790</b>	<b>6,678</b>	<b>7,351</b>	<b>6,494</b>	<b>7,632</b>	<b>8,357</b>	<b>9,776</b>	<b>8,591</b>	<b>9,763</b>	<b>9,822</b>	<b>10,917</b>

Source: Company, India Infoline Research

### Higher adspend pulls down operating margin by 120bps

Operating margins contracted by 120bps to 13.5% mainly due to sharp 100bps/60bps increase in adspend and staff cost. An 80bps decline in overhead cost restricted further margin erosion. We believe competitive intensity in the key categories (like soaps, detergents and shampoos) will compel the company to increase adspend in the coming quarters, which will keep margins under check.

### Cost analysis

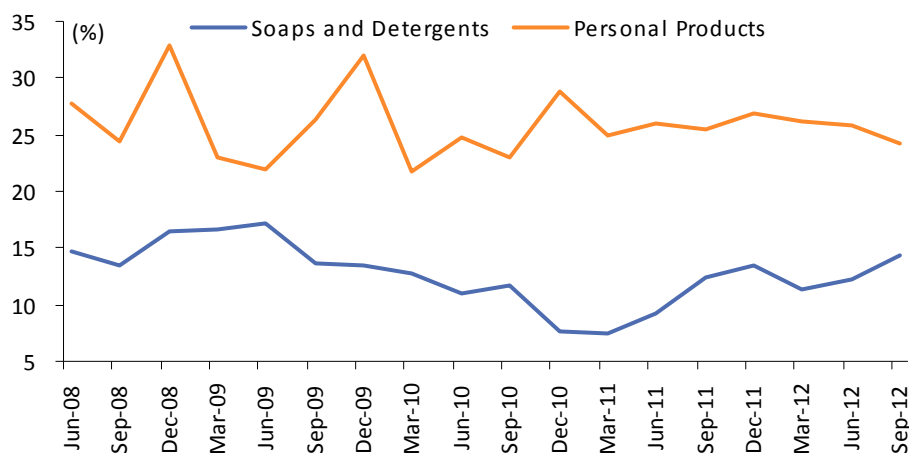
As a % of net sales	Q3 FY13	Q3 FY12	bps yoy	Q2 FY13	bps qoq
Material cost	53.1	52.7	44	53.1	3
Purchase of goods	0.0	0.0	0	0.0	0
Personnel cost	5.3	4.7	64	5.4	(4)
Advertising cost	12.8	11.8	97	12.5	29
Other overheads	15.3	16.1	(83)	15.7	(42)
<b>Total costs</b>	<b>86.5</b>	<b>85.3</b>	<b>122</b>	<b>86.7</b>	<b>(14)</b>

Source: Company, India Infoline Research

### Soaps and Detergents EBIT margins witness 100bps decline

Soaps and Detergents segment EBIT margins declined by 100bps to 12.4%, despite soft palm oil prices. Given the competitive intensity in such a key segment, improving/maintaining margins will be a challenge for the company. Personal products segment margins expanded by 140bps yoy to 28.3% while, beverages segment witnessed 200bps expansion at 17.7%. Packaged foods segment reported a loss of Rs26mn against Rs60mn during Q3 FY12 (marginal impact of CSD sales in Kissan brand and lower sales in Knorr brand).

### Trend in EBIT margins



Source: Company, India Infoline Research

### Sharp rise in other income drives net profit

Net profit for the quarter recorded 14.7% yoy growth at Rs8.8bn (almost in line with our expectations), primarily led by higher other income (includes other operational income) at Rs3.5bn against Rs1.9bn in Q3 FY12. Adjusted net profit after extraordinary items increased by 15.6% yoy.

### Extraordinary items

Particulars (Rs m)	Q3 FY13	Q3 FY12
Profit from sale of properties	247	0
Restructuring costs	(319)	(124)
<b>Total</b>	<b>(73)</b>	<b>(124)</b>

Source: Company, India Infoline Research

### New royalty arrangements with Unilever

With the HUL board approving new royalty agreement with Unilever, royalty payment will increase from current 1.4% of turnover (was just 0.6% in FY08) to 3.15% in a phased manner effective February, 2013 till March 2018.

- ✧ New agreement effective 1<sup>st</sup> February 2013 for provision of technology, trademark licensing and services.
- ✧ Existing royalty cost of ~1.4% of turnover will increase in a phased manner (by 30-70bps per annum) to ~3.15% of turnover no later than FY18. Total estimated increase of 1.75% of turnover.
- ✧ Increase in royalty cost in the period from 1<sup>st</sup> February 2013 to 31<sup>st</sup> March 2014 is estimated to be 0.5% of turnover.

### Competition in core categories to increase further

HUL is focusing on new growth categories like high-end personal care (skin, hair care), foods and water. Going forward, the competitive pressure is expected to increase with more players entering the personal care and toilet soaps segments, which accounts for 78%+ of HUL's sales. Improving/maintaining EBIT margins in the Soaps and Detergent segment will be a challenge for the company. Requirement of higher adspend on account of severe competition in core categories could put pressure on operating margins. At the current market price of Rs482, the stock is trading at 30.9x FY14E EPS of Rs15.6. Maintain Market Performer rating with a revised 9-mth price target of Rs513 (earlier Rs544).

### Financial Summary (Standalone)

Y/e 31 Mar (Rs m)	FY11	FY12	FY13E	FY14E
Revenues	193,810	217,356	245,152	277,524
yoy growth (%)	10.6	12.1	12.8	13.2
Operating profit	23,239	29,106	33,647	38,590
OPM (%)	12.0	13.4	13.7	13.9
Pre-exceptional PAT	20,992	25,725	29,492	33,631
Reported PAT	23,060	26,914	29,492	33,631
yoy growth (%)	4.7	16.7	9.6	14.0
EPS (Rs)	9.7	11.9	13.6	15.6
P/E (x)	49.5	40.5	35.3	30.9
Price/Book (x)	39.1	29.6	23.5	19.0
EV/EBITDA (x)	44.0	35.1	30.3	26.3
Debt/Equity (x)	0.0	0.0	0.0	0.0
RoE (%)	80.1	83.4	74.3	67.9
RoCE (%)	100.3	108.6	96.8	88.4

Source: Company, India Infoline Research

## After receiving two reputed awards for being the 'Best Broker' in 2011, IIFL has now bagged the Best Broking House with Global Presence in 2012.

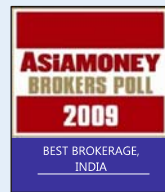
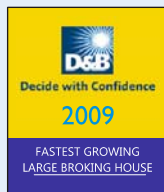
### 'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

### 'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011.

### Other awards



#### Recommendation parameters for fundamental reports:

**Buy** – Absolute return of over +10%

**Market Performer** – Absolute return between -10% to +10%

**Sell** – Absolute return below -10%

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