

October 25, 2010

<b>Reco</b>	<b>Previous Reco</b>
Reduce	Hold
<b>CMP</b>	<b>Target Price</b>
Rs 306	Rs 275
EPS change FY11E/12E (%)	-
Target Price change (%)	7
Nifty	6,106
Sensex	20,303

<b>Price Performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
Absolute	(3)	17	27	9
Rel. to Nifty	(4)	4	10	(11)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	FMCG
Bloomberg	HUVR@IN
Equity Capital (Rs mn)	2182
Face Value(Rs)	1
No of shares o/s (mn)	2182
52 Week H/L	320/218
Market Cap (Rs bn/USD mn)	667/15,034
Daily Avg Volume (No of sh)	2375100
Daily Avg Turnover (US\$m)	15.3

### Shareholding Pattern (%)

	<b>S'10</b>	<b>J'10</b>	<b>M'10</b>
Promoters	52.0	52.0	52.0
FII/NRI	17.5	16.5	14.8
Institutions	12.9	13.4	14.1
Private Corp	2.6	2.8	3.5
Public	15.0	15.3	15.6

Source: Capitaline

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- **HUL reported spectacular volume growth of 14% in Q211, back of 11% in Q111 and Q410**
- **Q211 performance stood marginally ahead of expectation – revenue growth 9.7% yoy to Rs42.8 bn and APAT decline of 5.2% yoy to Rs5.2 bn**
- **Q211 performance for key segments on expected lines, except personal products that recorded 330 bps yoy and 180 bps qoq reduction in EBIT margins**
- **Absence of strong earnings upgrade catalysts and recent stock performance – downgrade HUL from 'HOLD' to 'REDUCE' with revised target price of Rs275/Share**

### Volume growth momentum continues, Q211 performance marginally ahead of estimates

With aggressive A&P spends (undertaken in preceding quarters) and selective re-launch and re-positioning of key brands – volume growth momentum continues in Q211 and springs positive surprise. HUL recorded spectacular volume growth of 14% in Q211, back of 11% in Q111 and Q410. Consequently, Q211 performance stood marginally ahead of estimates – (1) revenue growth of 9.7% yoy to Rs42.8 bn (2) Ebitda (including other income) growth of 4.9% yoy to Rs7.2 bn and (3) APAT decline of 5.2% yoy to Rs5.2 bn.

### Q211 performance for key segments on expected lines, except Personal Products

Q211 performance of key segments was on expected lines, except Personal Products which recorded 330 bps yoy and 180 bps qoq reduction in EBIT margins. Healthy revenue traction was witnessed in Personal Products, Beverages and Processed Foods, whereas Soaps N Detergents performance influenced by price-reduction.

- Revenue in Soaps & Detergent decline by 3.7% yoy to Rs21.3 bn & EBIT down 8.3% yoy to Rs2.5 bn
- Revenue in Personal Product grew by 11.4% yoy to Rs13.7 bn & EBIT grew by 0.2% yoy to Rs3.1 bn
- Revenue in Beverages grew by 14.1% yoy to Rs5.7 bn & EBIT down by 1.3% yoy to Rs876 mn
- Revenues in Processed Foods grew by 27.5% yoy to Rs2.2 bn & EBIT at Rs100 mn.

### Consolidated Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	(%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E
Mar								
FY09	202,393	29,779	14.7	24,941	11.5	44.1	143.3	26.5
FY10	175,238	27,964	16.0	22,020	9.7	(15.9)	90.8	31.5
FY11E	187,100	29,135	15.6	22,754	10.4	7.8	80.3	29.2
FY12E	203,018	31,599	15.6	24,712	11.3	8.6	74.3	26.9

### Q311E would most likely turn-out to be last quarter for high double-digit volume growth

We always reiterated that HUL has favorable base-effects in volume growth– specifically highlighted in sector note “Hairpin Bend, Drive Cautiously”. This was key argument for our positive bias on HUL despite the aggressive price-cuts announced in January-April 2010 period. Our stock preference in consumer sector was driven by (1) preference for volume traction in trade-off volume over price-led growths and (2) emphasis on valuation and under-performance in stock selection. Q311E would most likely turn-out to be last quarter for high double-digit volume growth and positive surprise or upgrades therein.

### Absence of strong earnings catalysts and recent performance leaves no-room for upsides, Downgrade from ‘HOLD to ‘REDUCE’

In our sector note ‘Hairpin Bend, Drive Cautiously’ dated May 28, 2010 - we had highlighted HUL as our top-pick based on (1) attractive valuations and (2) favorable base-effects in volume growth. Recent stock performance of HUL with absolute appreciation of 19% in a quarter has discounted volume surprise and recovery in FY12E earnings performance. We are not aligning valuations of HUL to peer companies (trading at average premium of 15% to 5-year average) and continue to value HUL at long-term average 1-year forward PER of 24X. With no earnings change, absence of strong earnings upgrades catalysts and recent stock performance- we downgrade HUL from ‘HOLD’ to ‘REDUCE’ with revised target price of Rs275/Share.

#### Quarterly Results

	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY Gr	QoQ Gr	YTD'10	YTD'11	YoY (%)
Net Sales	42,692.3	45,732.3	43,802.4	48,629.9	47,646.7	11.6	-2.0	88,036.7	96,276.6	9.4
Expenditure	36172.7	37857.3	37847.6	41952.7	41177.8	13.8	-1.8	74,048.7	83,130.5	12.3
Material Cost	21511.5	22110.8	22175.2	24466.0	23829.9	10.8	-2.6	44,628.0	48,295.9	8.2
% of Sales	50.4	48.3	50.6	50.3	50.0	-40 bp	-30 bps	50.7	50.2	-50 bps
Employee Exps	2357.9	2120.1	2381.0	2506.1	2450.1	3.9	-2.2	4,861.9	4,956.2	1.9
% of Sales	5.5	4.6	5.4	5.2	5.1	-40 bps	0 bps	5.5	5.1	-40 bps
Other Expenses	6594.1	7297.6	7026.2	7468.5	8433.0	27.9	12.9	13,238.5	15,901.5	20.1
% of Sales	15.4	16.0	16.0	15.4	17.7	230 bps	230 bps	15.0	16.5	150 bps
Operating Profit	6519.6	7875.0	5954.8	6677.2	6468.9	-0.8	-3.1	13,988.0	13,146.1	-6.0
EBIDTA (%)	15.3	17.2	13.6	13.7	13.6	-170 bps	-20 bps	15.9	13.7	-220 bps
Other Income	381.5	236.8	284.1	553.5	768.2	101.4	38.8	398.8	1,321.7	231.4
Interest	14.8	1.9	1.4	0.8	0.7	-95.3	-12.5	66.5	1.5	-97.7
Depreciation	462.4	450.1	502.9	535.0	553.7	19.7	3.5	887.3	1,088.7	22.7
PBT	6423.9	7659.8	5734.6	6694.9	6682.7	4.0	-0.2	13,433.0	13,377.6	-0.4
Tax	878.1	1765.5	1877.6	1547.8	1425.9	62.4	-7.9	2,520.6	2,973.7	18.0
PAT	5545.8	5894.3	3857.0	5147.1	5256.8	-5.2	2.1	10,912.4	10,403.9	-4.7
PAT (%)	13.0	12.9	8.8	10.6	11.0	-200 bps	40 bps	12.4	10.8	-160 bps
EPS	2.5	2.7	1.8	2.4	2.4	-5.3	2.0	4.1	4.8	15.5

Margins (%)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	(bps)	(bps)	YTD'10	YTD'11	(bps)
EBIDTA	15.3	17.2	13.6	13.7	13.6	-170	-20	15.9	13.7	-220
EBIT	15.1	16.8	13.1	13.8	14.0	-110	30	15.3	13.9	-140
EBT	15.0	16.7	13.1	13.8	14.0	-100	30	15.3	13.9	-140
PAT	13.0	12.9	8.8	10.6	11.0	-200	40	12.4	10.8	-160
Effective Tax rate	13.7	23.0	32.7	23.1	21.3	770	-180	18.8	22.2	350

Segment Revenues	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY Gr	QoQ Gr	YTD'10	YTD'11	YoY (%)
Soaps and Detergents	22,115	20,037	19784.8	22644.6	21293.8	-3.7	-6.0	42,277.9	43,938.4	3.9
Personal Products	12,255	11,902	12552.1	13655.1	13648.5	11.4	0.0	22,812.0	27,303.6	19.7
Beverages	4,996	5,216	5701.6	5378.4	5700	14.1	6.0	9,939.2	11,078.4	11.5
Processed Foods	1,721	1,739	1975.7	2111.1	2194.9	27.5	4.0	3,330.9	4,306.0	29.3
Ice Creams	886	504	553	1046.4	549.1	-38.0	-47.5	1,340.4	1,595.5	19.0
Exports	2,575	2,270	2555.1	2647.7	2647	2.8	0.0	4,783.2	5,294.7	10.7
Others	794	1,071	644.3	1125.8	1527.1	92.3	35.6	1,444.9	2,652.9	83.6
<b>Total</b>	<b>45,342</b>	<b>42,738</b>	<b>43766.6</b>	<b>48609.1</b>	<b>47560.4</b>	<b>4.9</b>	<b>-2.2</b>	<b>85,928.5</b>	<b>96,169.5</b>	<b>11.9</b>

Segment PBIT	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY Gr	QoQ Gr	YTD'10	YTD'11	YoY (%)
Personal Products	2,726	2,785	2527.3	2,488	2,501	-8.3	0.5	6,540.9	4,988.5	-23.7
Beverages	3,134	4,399	2733.7	3,388	3,140	0.2	-7.3	5,832.3	6,527.7	11.9
Processed Foods	887	817	789.6	695	876	-1.3	25.9	1,590.6	1,571.0	-1.2
Ice Creams	-9	-13	79	106	100	-1175.3	-5.2	-22.1	205.5	-1029.9
Exports	25	-37	-15.7	153	55	117.5	-64.2	180.0	208.0	15.6
Others	172	75	133.4	227	189	10.2	-16.6	377.1	416.1	10.3
Total	-98	-150	-192.9	-266	-183	86.3	-31.1	-377.8	-449.4	19.0
Soaps and Detergents	6,836	7,877	6054.4	6,790	6,677	-2.3	-1.7	14,121.0	13,467.4	-4.6

EBIT Margin	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY Gr	QoQ Gr	YTD'10	YTD'11	YoY (%)
Soaps and Detergents	13.6	14.1	12.8	11.0	11.7	-190 bps	80 bps	15.5	11.4	-410 bps
Personal Products	26.3	35.0	21.8	24.8	23.0	-330 bps	-180 bps	25.6	23.9	-170 bps
Beverages	17.0	14.3	13.8	12.9	15.4	-160 bps	240 bps	16.0	14.2	-180 bps
Processed Foods	-0.5	-0.6	4.0	5.0	4.6	510 bps	-40 bps	-0.7	4.8	540 bps
Ice Creams	5.0	-6.8	-2.8	14.6	10.0	500 bps	-470 bps	13.4	13.0	-40 bps
Exports	7.6	2.9	5.2	8.6	7.1	-40 bps	-140 bps	7.9	7.9	0 bps
Others	-9.2	-23.2	-29.9	-23.6	-12.0	-280 bps	1160 bps	-26.1	-16.9	920 bps
<b>Total</b>	<b>16.0</b>	<b>18.0</b>	<b>13.8</b>	<b>14.0</b>	<b>14.0</b>	<b>-200 bps</b>	<b>10 bps</b>	<b>16.4</b>	<b>14.0</b>	<b>-240 bps</b>

## Financials

## Income Statement

Y/E, Mar (Rs. m)	FY09	FY10P	FY11E	FY12E
<b>Net Sales</b>	<b>202,393</b>	<b>175,238</b>	<b>187,100</b>	<b>203,018</b>
Growth (%)	48.0	-13.4	6.8	8.5
<b>Expenses</b>	<b>175,392</b>	<b>149,695</b>	<b>161,918</b>	<b>175,648</b>
Growth (%)	48.8	-14.7	8.2	8.5
Raw Materials	108,379	88,779	96,287	104,656
% Of Sales	53.5	50.7	51.5	51.6
Employee Cost	11,521	9,363	10,069	10,922
% Of Sales	5.7	5.3	5.4	5.4
Manufacturing Exps	7,431	6,167	6,727	7,298
% Of Sales	3.7	3.5	3.6	3.6
Admin Expenses	15,283	12,765	13,658	14,615
% Of Sales	7.6	7.3	7.3	7.2
Selling & Distribn Exp	32,777	32,621	35,176	38,158
% Of Sales	16.2	18.6	18.8	18.8
<b>Ebidta</b>	<b>29,779</b>	<b>27,964</b>	<b>29,135</b>	<b>31,599</b>
Growth (%)	44.2	-6.1	4.2	8.5
Ebidta%	14.7	16.0	15.6	15.6
Other Income	2,901	1,076	1,639	1,782
Interest	253	70	70	70
Depreciation	1,953	1,840	2,000	2,134
PBT	30,344	27,143	28,718	31,190
Tax	5,268	6,044	5,964	6,477
<b>PAT (Before EO Item)</b>	<b>25,076</b>	<b>21,099</b>	<b>22,754</b>	<b>24,712</b>
Growth (%)	44.3	-15.9	7.8	8.6
Net Margin%	12.4	12.0	12.2	12.2
E/O Item	-135	922	0	0
Reported PAT	24,941	22,020	22,754	24,712

## CashFlow

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
<b>Pre-Tax Profit</b>	<b>30,251</b>	<b>27,071</b>	<b>28,718</b>	<b>31,190</b>
Depreciation	1,953	1,840	2,000	2,134
Non Cash	-1,077	223	0	0
Chg in Working Cap	-3,289	14,289	-3,120	1,280
Tax Paid	-6,337	-6,617	-5,964	-6,477
<b>Operating Cash Flow</b>	<b>21,501</b>	<b>36,806</b>	<b>21,634</b>	<b>28,126</b>
Capex	-4,558	-5,568	-2,500	-2,500
<b>Free Cash Flow</b>	<b>16,944</b>	<b>31,237</b>	<b>19,134</b>	<b>25,626</b>
Investments	11,872	-8,358	0	0
Change in Equity Capital	0	0	0	0
Loans	3,715	-3,907	0	0
Dividend	-16,766	-17,827	-17,776	-19,808
Others	0	0	0	0
<b>Net Change in Cash</b>	<b>15,765</b>	<b>1,146</b>	<b>1,357</b>	<b>5,818</b>
<b>Opening Cash Position</b>	<b>2,009</b>	<b>17,773</b>	<b>18,922</b>	<b>20,279</b>
<b>Closing Cash Position</b>	<b>17,773</b>	<b>18,922</b>	<b>20,279</b>	<b>26,098</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10P	FY11E	FY12E
Equity Share Capital	2,180	2,182	2,182	2,182
Reserves	18,435	23,654	28,631	33,535
<b>Networth</b>	<b>20,615</b>	<b>25,835</b>	<b>30,812</b>	<b>35,717</b>
Secured Loans	1,446	0	0	0
Unsecured Loans	2,773	0	0	0
<b>Loan Funds</b>	<b>4,219</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Capital Employed</b>	<b>24,835</b>	<b>25,835</b>	<b>30,812</b>	<b>35,717</b>
Gross Block	28,817	35,820	38,320	40,820
Less: Depreciation	12,750	14,199	16,198	18,333
<b>Net Block</b>	<b>16,068</b>	<b>21,621</b>	<b>22,121</b>	<b>22,487</b>
Capital Work In Progress	4,721	2,740	2,740	2,740
<b>Investments</b>	<b>3,326</b>	<b>12,641</b>	<b>12,641</b>	<b>12,641</b>
<b>Current Assets</b>	<b>56,010</b>	<b>53,678</b>	<b>56,873</b>	<b>65,791</b>
Inventories	25,289	21,799	22,958	24,911
Debtors	5,369	6,784	7,145	7,753
Cash & Bank	17,773	18,922	20,279	26,098
Loans & Advances	7,421	6,006	6,325	6,863
Other Current Assets	157	166	166	166
<b>Current Liabilities &amp; Prov</b>	<b>57,838</b>	<b>67,332</b>	<b>66,051</b>	<b>70,429</b>
<b>Net Current Assets</b>	<b>-1,828</b>	<b>-13,655</b>	<b>-9,178</b>	<b>-4,639</b>
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	2,548	2,488	2,488	2,488
<b>Capital Deployed</b>	<b>24,835</b>	<b>25,835</b>	<b>30,812</b>	<b>35,717</b>

## Key Ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
<b>Profitability %</b>				
Ebidta Mgn	15.9	16.4	16.1	16.1
PAT Mgn	12.2	11.9	11.9	11.9
ROCE	152.6	107.4	101.6	94.0
ROE	143.3	90.8	80.3	74.3
<b>Per Share Data</b>				
EPS	11.5	9.7	10.4	11.3
CEPS	12.3	10.3	11.2	12.1
BVPS	9.5	11.8	14.1	16.4
DVPS	7.5	6.5	7.0	7.8
<b>Valuations (X)</b>				
PER	26.5	31.5	29.2	26.9
CPER	24.8	29.5	27.4	25.2
P/BV	32.3	25.8	21.6	18.6
Ev/Sales	3.2	3.7	3.4	3.1
Ev/Ebidta	20.0	22.3	21.0	19.1
Dividend Yield (%)	2.5	2.1	2.3	2.6
<b>Turnover X Days</b>				
Debtor TO Days	9.6	13.9	13.9	13.9
Inventory TO Days	45.0	44.8	44.8	44.8
<b>Gearing Ratio</b>				
Net Debt/Equity	-0.8	-1.2	-1.1	-1.1
Total Debt/Equity	0.2	0.0	0.0	0.0

**Recommendation History: Hindustan Unilever – HUVR IN**

Date	Reports	Reco	CMP	Target
27/08/2010	<a href="#">Hindustan Unilever Event Update</a>	Hold	265	271
29/07/2010	<a href="#">Hindustan Unilever Q1FY11 Result Update</a>	Hold	252	257
26/05/2010	<a href="#">Hindustan Unilever Q4FY10 Result Update</a>	Hold	230	257
29/01/2010	<a href="#">Hindustan Unilever Q3FY10 Result Update</a>	Hold	244	276

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
30/07/2010	<a href="#">Titan Industries Q1FY11 Result Update</a>	Accumulate	1,813	3,074
29/07/2010	<a href="#">Marico Q1FY11 Result Update</a>	Hold	126	128
29/07/2010	<a href="#">Asian Paints Q1FY11 Result Update</a>	Hold	2,585	2,510
26/07/2010	<a href="#">GCPL Q1FY11 Result Update</a>	Accumulate	341	371

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