



Hindustan Lever

| | |
|--------------------|--------------|
| STOCK INFO. | BLOOMBERG |
| BSE Sensex: 14,253 | HLVR IN |
| | REUTERS CODE |
| S&P CNX: 4,107 | HLL.BO |

20 February 2007

Buy

Rs200

Previous Recommendation: Buy

| | |
|-----------------------|-------------|
| Equity Shares (m) | 2,201.2 |
| 52-Week Range | 296/180 |
| 1,6,12 Rel. Perf. (%) | -11/-39/-58 |
| M.Cap. (Rs b) | 439.5 |
| M.Cap. (US\$ b) | 10.0 |

| YEAR | NET SALES | PAT | EPS | EPS | P/E | P/BV | ROE | ROCE | EV/ | EV/ |
|--------|-----------|--------|------|------------|------|------|------|------|-------|--------|
| END | (RS M) | (RS M) | (RS) | GROWTH (%) | (X) | (X) | (%) | (%) | SALES | EBITDA |
| 12/06A | 121,034 | 15,397 | 7.0 | 17.5 | 28.5 | 16.6 | 58.0 | 70.5 | 3.4 | 25.0 |
| 12/07E | 133,847 | 18,019 | 8.2 | 17.0 | 24.4 | 15.6 | 63.8 | 78.2 | 3.0 | 20.9 |
| 12/08E | 146,700 | 20,855 | 9.5 | 13.5 | 21.1 | 13.9 | 66.1 | 80.9 | 2.7 | 18.0 |

- ✍ HLL's results for 4QCY06 were below expectations, with sales (from continuing operations) growing 6.9% YoY (v/s our estimate of 14% growth). EBITDA grew just 3.8% YoY, as margins contracted by 35bp. PAT excluding exceptional items grew 10.2% YoY, as other income increased by 66% YoY.
- ✍ Personal care, which has been the growth engine of the company, delivered sales growth of just 4.4% YoY from continuing businesses in 4QCY06 as against 18.5% growth in 9MCY06. Slow onset of winter resulted in skin cream sales being much lower than in 4QCY05. Hair care sales were flat due to high sales in 4QCY05 associated with launch of *Clinic All Clear*. We are disappointed with the sharp decline in personal care sales growth rates.
- ✍ Soaps & detergents sales increased 10.1% YoY, with 9bp decline in PBIT margin. Price increases and cost control enabled the company to mitigate the impact of higher prices of crude-based inputs and palm oil derivatives, to a large extent. We expect further price hikes in toilet soaps ahead of the peak summer season.
- ✍ We are reducing our sales growth estimates from 11.3% for CY07 and 10.7% for CY08 to 10.6% and 9.6%, respectively. We believe that high input costs and initial expenses relating to the national rollout of water project during CY07 would limit margin expansion to 90bp for CY07 and 70bp for CY08. We are lowering our EPS estimates from Rs8.7 for CY07 and Rs10.6 for CY08 to Rs8.2 and Rs9.5, respectively. The stock has underperformed the Sensex by more than 60% in the past nine months. We maintain **Buy**, with a reduced price target of Rs240 (Rs278 earlier). The stock trades at 24.4x CY07E and 21.1x CY08E earnings.

QUARTERLY PERFORMANCE

(Rs Million)

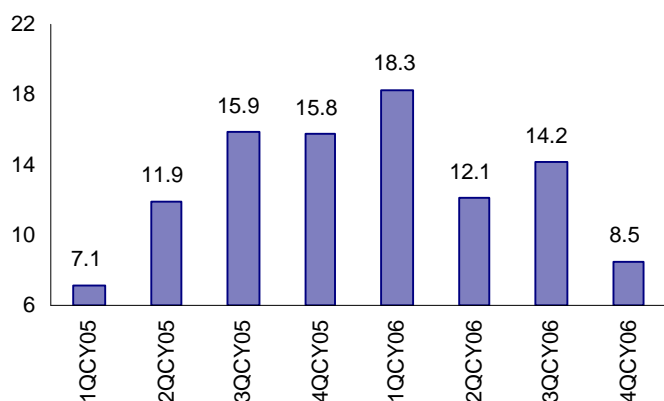
| Y/E DECEMBER | CY05 | | | | CY06 | | | | CY05 | CY06 |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | |
| Net Sales (incl service inc) | 25,064 | 28,363 | 27,315 | 29,743 | 27,981 | 30,832 | 30,660 | 31,561 | 110,606 | 121,034 |
| YoY Change (%) | 6.5 | 10.3 | 13.8 | 14.4 | 11.6 | 8.7 | 12.2 | 6.1 | 11.4 | 9.4 |
| Total Expenditure | 22,629 | 24,906 | 23,872 | 24,925 | 24,675 | 26,686 | 26,631 | 26,561 | 96,172 | 104,553 |
| EBITDA | 2,435 | 3,457 | 3,444 | 4,818 | 3,306 | 4,146 | 4,029 | 5,000 | 14,433 | 16,481 |
| YoY Change (%) | -32.4 | 8.4 | 1.7 | 14.7 | 35.8 | 19.9 | 17.0 | 3.8 | 0.4 | 14.2 |
| Margins (%) | 9.7 | 12.2 | 12.6 | 16.2 | 11.8 | 13.4 | 13.1 | 15.8 | 13.0 | 13.6 |
| Depreciation | -310 | -318 | -325 | -316 | -339 | -301 | -320 | -342 | -1,245 | -1,302 |
| Interest | -46 | -56 | -48 | -36 | -21 | -34 | -34 | -18 | -192 | -107 |
| Other Income | 746 | 794 | 849 | 642 | 694 | 814 | 968 | 1,070 | 3,048 | 3,545 |
| PBT | 2,826 | 3,877 | 3,920 | 5,108 | 3,640 | 4,625 | 4,643 | 5,709 | 16,045 | 18,617 |
| Tax | -606 | -872 | -666 | -796 | -655 | -833 | -812 | -875 | -2,500 | -3,220 |
| Rate (%) | 21.4 | 22.5 | 17.0 | 15.6 | 18.0 | 18.5 | 17.5 | 15.3 | 15.6 | 17.3 |
| Adjusted PAT | 2,220 | 3,005 | 3,254 | 4,312 | 2,985 | 3,793 | 3,830 | 4,834 | 13,545 | 15,397 |
| YoY Change (%) | -22.7 | 17.2 | 15.2 | 20.3 | 34.5 | 26.2 | 17.7 | 12.1 | 14.3 | 13.7 |
| Extraordinary Inc/(Exp) | 283 | -188 | 6 | 897 | 1,444 | 13 | 1,377 | 278 | 536 | 3,157 |
| Reported Profit | 2,503 | 2,817 | 3,260 | 5,209 | 4,429 | 3,806 | 5,208 | 5,112 | 14,081 | 18,554 |
| YoY Change (%) | -17.4 | 15.2 | 0.5 | 56.1 | 77.0 | 35.1 | 59.8 | -1.8 | 17.6 | 31.8 |

E: MOST Estimates

Lowest growth in last eight quarters

HLL reported revenue growth of 6.1% YoY in 4QCY06, much below our estimate. Overall, domestic FMCG grew by 8.6% YoY, backed by a 4.3% volume growth. For the full year, the company reported 9.4% growth in sales. Given the nominal GDP growth of 12-13%, this does not seem very encouraging. Management has attributed the lower sales growth to the personal care segment, which was considered as the main growth engine for the company until now. Personal care reported just 4.4% sales growth from continuing businesses – a late winter led to lower growth in skin care and hair care sales growth was adversely impacted by high base (*Clinic All Clear* was launched in 4QCY05). Lower marine exports and decline in HPC exports adversely impacted overall exports.

FMCG SALES GROWTH (%)



Source: Company/Motilal Oswal Securities

Cost pressures continue; more price increases likely

Cost pressures remained intense, with rising prices of crude-based raw material, palm oil and fuel, and higher cost of freight and advertising. HLL's sales mix deteriorated during the quarter, mainly due to lower sales growth for personal care. The company took price increases in detergents and toilet soaps in November 2006, which enabled it to limit margin decline to 9bp in soaps and detergents. Palm oil prices have increased by 12-15% since the last price increase by the company. We expect HLL to raise prices of toilet soaps ahead of the summer season to neutralize the cost increase.

SEGMENT WISE REVENUES (RS M)

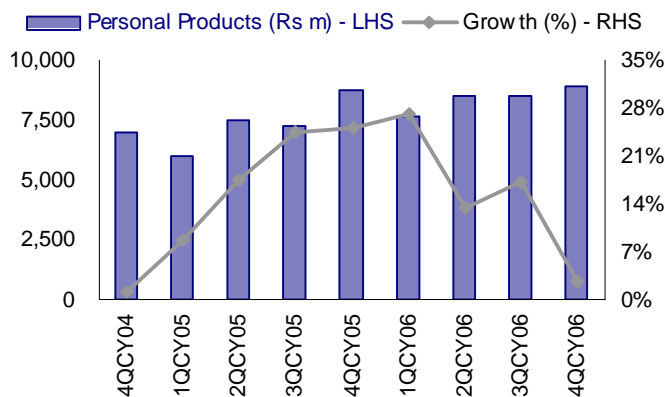
| SEGMENTAL | 4Q CY05 | 4Q CY06 | CHG. (%) | CY05 | CY06 | CHG. (%) |
|------------------------|------------|------------|-------------|--------|--------|-------------|
| Net Sales | | | | | | |
| Soaps & Det. | 12,969 | 14,281 | 10.1 | 49,617 | 55,959 | 12.8 |
| Pers. Products | 8,713 | 8,934 | 2.5 | 29,519 | 33,598 | 13.8 |
| Beverages | 3,388 | 3,670 | 8.3 | 12,775 | 13,307 | 4.2 |
| Proc. Foods | 865 | 1,022 | 18.1 | 3,137 | 3,849 | 22.7 |
| Ice Creams | 172 | 263 | 53.3 | 982 | 1,371 | 39.7 |
| Exports | 3,573 | 3,473 | -2.8 | 13,478 | 12,789 | -5.1 |
| Others | 553 | 603 | 9.1 | 2,505 | 1,802 | -28.0 |
| EBIT | | | | | | |
| Soaps & Det. | 2,035 | 2,227 | 9.5 | 6,837 | 7,731 | 13.1 |
| Pers. Products | 2,751 | 2,846 | 3.4 | 8,452 | 9,431 | 11.6 |
| Beverages | 678 | 722 | 6.5 | 2,424 | 2,205 | -9.0 |
| Proc. Foods | -34 | 64 | -292.2 | -161 | 129 | -179.9 |
| Ice Creams | -12 | 28 | -336.1 | 51 | 187 | 268.5 |
| Exports | 213 | 205 | -3.9 | 491 | 664 | 35.3 |
| Others | -51 | -249 | 384.4 | -277 | -674 | 143.4 |
| EBIT Margin (%) | | | | | | |
| Soaps & Det. | 15.7 | 15.6 | | 13.8 | 13.8 | |
| Pers. Products | 31.6 | 31.9 | | 28.6 | 28.1 | |
| Beverages | 20.0 | 19.7 | | 19.0 | 16.6 | |
| Proc. Foods | -3.9 | 6.3 | | -5.1 | 3.3 | |
| Ice Creams | -6.9 | 10.7 | | 5.2 | 13.7 | |
| Exports | 6.0 | 5.9 | | 3.6 | 5.2 | |
| Others | -9.3 | -41.3 | | -11.1 | -37.4 | |

Source: Company/Motilal Oswal Securities

Personal care – winter blues; but likely to bounce back

Personal care grew 2.5% YoY in 4QCY06, with EBIT margins expanding 30bp to 31.9%. A late and short winter impacted revenue growth in skin care while growth in hair care was flat – a high base in effect due to launch of *Clinic All Clear* in 4QCY05. For the full year, personal care grew 13.8% and EBIT margins contracted 70bp to 28.1%, probably due to investment in brands. To get a pie of the fastest growing market, HLL has launched a slew of products in the top-end. Personal care contributes 27.7% of total sales and 48% of PBIT and is the fastest growing category in the company's product basket. The skin care market (especially the top-end) has been recording robust growth following the entry of the foreign players like *L'oreal*, *Lancome*, *Garnier*, *Lancaster* and even *Kaya* products. With increasing number of working women, the demand for aspirational brands is growing rapidly.

PERSONAL PRODUCTS: SHARP SLOWDOWN IN SALES

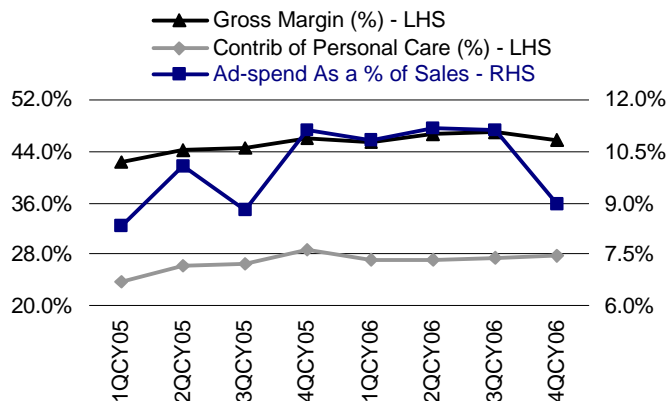


Source: Company/Motilal Oswal Securities

- ✎ HLL has recently launched the *Ponds* top-end range of creams (anti-ageing, moisturizer, fairness) in the Rs400 plus range and face-washes for different skin types in the Rs100 plus range.
- ✎ In the existing range of products, *Ponds* and *Vaseline* were re-launched in new and much improved packaging.
- ✎ Under *Fair & Lovely (FAL)* the company has launched a men's fairness cream and *FAL* skin clarity creams.
- ✎ HLL extended its *Sunsilk* range to launch top-end hair color shampoos, conditioners and leave-on. HLL also plans to extend its premium brand – *Dove* to enter the top-end shampoos.

HLL's gross margins have been improving quarter over quarter, with higher contribution of personal care. Newer brands in the top-end will increasingly help in improving gross margins. The company has cut back on advertising spend from 11% of sales in 9MCY06 to 9% in 4QCY06, which has enabled it to prevent the slide in margins. The company has increased advertising spend by 250bp in the last two years. We expect advertising spends to increase to 10.7% of sales in CY07 and 11.2% in CY08. Lower ad spend increase and favorable change in sales mix will enable the company to post 90bp margin expansion in CY07.

GROSS MARGINS IMPROVING QUARTER OVER QUARTER

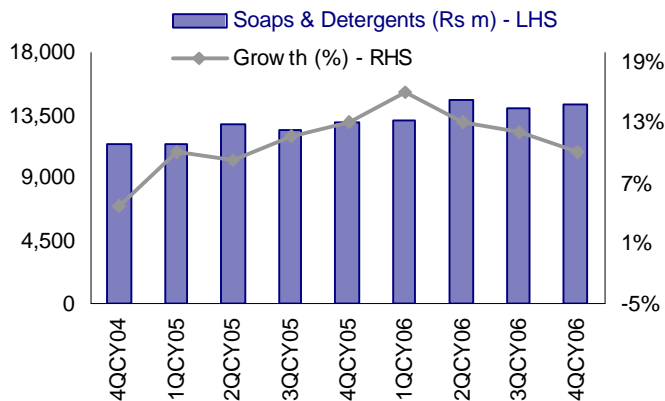


Source: Company/Motilal Oswal Securities

Soaps & detergents – input price pressure continues

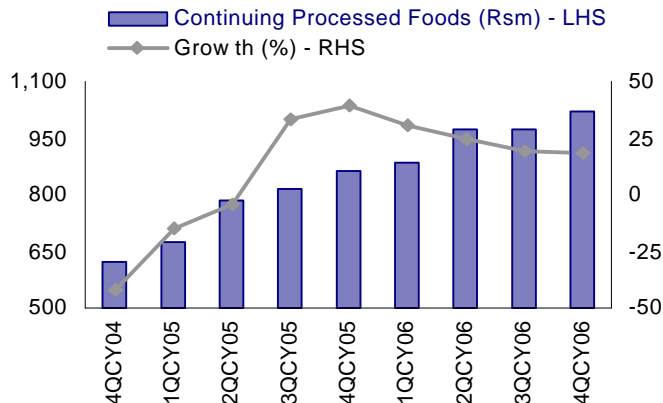
Soaps & detergents reported a 10.1% increase in sales and 9.5% increase in EBIT for 4QCY06. Detergents recorded better growth than soaps, which we believe was dragged by *Lux* and *Breeze*. Growth in revenues has been the slowest in the last eight quarters. EBIT margins were flat at 15.6% for the quarter, following commensurate price increases taken to pass on the rise in input costs. For the full year CY06, soaps & detergent revenues grew by 12.8% while EBIT margins were flat at 13.8%. Prices of key inputs such as palm oil, soda ash and LAB have been on an uptrend over the last year. Palm oil prices have moved by more than 27% in the past few months. However, the company has taken price increases in various soaps brands and with a dominant 54% market share in the category, it should not be difficult to pass on the price hikes. We expect HLL to take further price increase in toilet soaps ahead of the peak summer season, as palm oil prices have increased by 12-15% since the last price hike in November 2006.

SOAPS & DETERGENTS



Source: Company/Motilal Oswal Securities

CONTINUING PROCESSED FOODS: HIGH GROWTH CONTINUES



Source: Company/Motilal Oswal Securities

Beverages – tea market showing signs of improvement

Beverages reported an encouraging 8.3% increase in sales but EBIT margins declined by 30bp to 19.7% on account of higher tea prices. The tea segment bounced back to growth after the successful re-launch of *Taj Mahal* and *Red Label* in 4QCY06. The company’s long-term strategy involves targeting the premium end of the market, with valued-added offerings. Coffee business continued its growth momentum, with strong market share gains. For the full year, revenues grew 4.2%. We expect the beverages business to show low growth in the medium term, with flat margins.

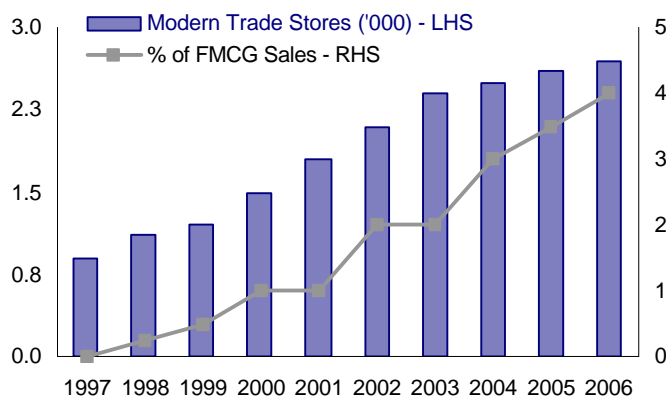
Processed foods and ice creams post strong growth

Continuing processed foods business reported strong 18.1% sales growth, with EBIT turnaround in 4QCY06. HLL achieved EBIT of Rs 64m in 4QCY06 as against a loss of Rs34m in 4QCY05. All the key brands like *Annapurna*, *Knorr* and *Kissan* contributed to growth. Ice creams business grew by a robust 53.3% in a non-season quarter, with PBIT of Rs28m compared to a loss of Rs12m in 4QCY05 – high growth was driven by impulse as well as take-home category. During the year, HLL has announced merger of Modern Foods and shifting of foods division from Bangalore to Mumbai. We see this move as a precursor to new initiatives in the foods business. We expect HLL to enter new food product categories in the coming year.

Modern retailing will boost long-term prospects

The modern trade is growing at a scorching pace. Today it accounts for 10% of sales in the metros, 20% in southern India and 4% of the entire FMCG sector. Large MNCs, and Indian corporate houses like Reliance, Bharti - Walmart, Metro - Cash & Carry, Subhiksha, Aditya Birla Group, RPG Group, Pantaloon, Hypercity are talking big about their retail plans. We believe that HLL would be one of the biggest beneficiaries of the fast expanding retail wave in India. Sheer inventory filling for these retail chains would require large offtake from HLL. Modern trade accounts for 4% of FMCG sales today and we expect this to double in the next five years.

MODERN TRADE STORES ('000)



Source: HLL Presentation/Motilal Oswal Securities

Management of HLL seems quite optimistic about their prospects in modern trade, as the sales mix is better. The big retailers' focus on national brands acts to the advantage of these companies. Management hinted that their market share in modern trade is higher than the general trade. Management hinted that the strong relationships Unilever has with global retailers has enabled both parties to share the fruits of growth. The company believes that foods business could be a big beneficiary of the growth in modern trade.

Reducing estimates and target price

We are reducing our sales growth estimates from 11.3% for CY07 and 10.7% for CY08 to 10.6% and 9.6%, respectively. We believe that high input costs and initial expenses relating to the national rollout of water project during CY07 would limit margin expansion to 90bp for CY07 and 70bp for CY08. We are lowering our EPS estimates from Rs8.7 for CY07 and Rs10.6 for CY08 to Rs8.2 and Rs9.5, respectively. The stock has underperformed the Sensex by more than 60% in the past nine months. We maintain **Buy**, with a reduced price target of Rs240 (Rs278 earlier). The stock trades at 24.4x CY07E and 21.1x CY08E earnings.

Hindustan Lever: an investment profile

Company description

HLL is the largest company in the FMCG industry, with market leadership in soaps, detergents and personal care categories.

It has a wide distribution network with direct reach of over 1m retail outlets. The company is a subsidiary of Unilever, the Anglo Dutch FMCG giant.

Key investment arguments

- ✍ 2QCY06 FMCG sales growth of 12.1%, is higher than FMCG industry growth of 10.2%.
- ✍ Favorable change in sales mix as higher margin, personal care and toilet soaps record strong volume growth.
- ✍ Longer term prospects bright due to expected pick up in consumer demand.

Key investment risks

- ✍ Competitive pressure could intensify with more companies entering personal care and toilet soaps which account for more than 50% of HLL sales.
- ✍ Failure of monsoons could dampen rural demand pickup.
- ✍ High crude prices would increase material costs.

Recent developments

- ✍ Announced national roll out of water project in CY07.
- ✍ Proposed change in the name of the company to Hindustan Unilever Ltd.
- ✍ Launched new products like Clinic All Clear Scalp Control, Ponds Age Miracle and variants of Fair & Lovely.

Valuation and view

- ✍ We expect an earnings CAGR of 16.4% over CY06-08E.
- ✍ The stock quotes at 24.4x CY07E and 21.1x CY08E earnings. We maintain **Buy**.

Sector view

- ✍ We are positive on the sector. The sector is showing strong volume growth across product categories with improving pricing power for leading players.
- ✍ Companies with low competitive pressures and brought product portfolios will be able to better withstand any slowdown in a particular segment.
- ✍ Longer term prospects bright, given rising incomes and low penetration.

COMPARATIVE VALUATIONS

| | | HLL | ITC | NESTLE |
|---------------|-------|------|------|--------|
| P/E (x) | CY06E | 28.5 | 24.0 | 34.2 |
| | CY07E | 24.4 | 20.1 | 27.7 |
| EV/EBITDA (x) | CY06E | 25.0 | 15.7 | 21.0 |
| | CY07E | 20.9 | 13.0 | 14.3 |
| EV/Sales (x) | CY06E | 3.4 | 5.0 | 4.2 |
| | CY07E | 3.0 | 4.2 | 3.8 |
| P/BV (x) | CY06E | 16.6 | 6.3 | 18.5 |
| | CY07E | 15.6 | 5.5 | 16.2 |

SHAREHOLDING PATTERN (%)

| | DEC.06 | SEP.06 | DEC.05 |
|---------------|--------|--------|--------|
| Promoter | 51.4 | 51.4 | 51.6 |
| Domestic Inst | 16.1 | 15.4 | 14.8 |
| Foreign | 13.2 | 14.3 | 14.1 |
| Others | 19.3 | 18.9 | 19.5 |

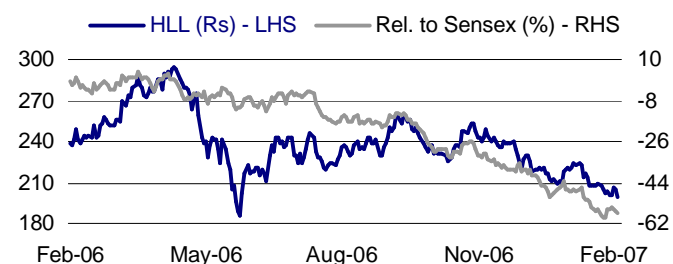
EPS: MOST FORECAST VS CONSENSUS (RS)

| | MOST FORECAST | CONSENSUS FORECAST | VARIATION (%) |
|------|---------------|--------------------|---------------|
| CY07 | 8.2 | 8.7 | -5.3 |
| CY08 | 9.5 | - | - |

TARGET PRICE AND RECOMMENDATION

| CURRENT PRICE (RS) | TARGET PRICE (RS) | UPSIDE (%) | RECO. |
|--------------------|-------------------|------------|-------|
| 200 | 240 | 20.2 | Buy |

STOCK PERFORMANCE (1 YEAR)



| INCOME STATEMENT | | | | | | (RS MILLION) | | | | | |
|----------------------------|---------------|----------------|----------------|----------------|----------------|--------------|--|--|--|--|--|
| Y/E DECEMBER | 2004 | 2005 | 2006E | 2007E | 2008E | | | | | | |
| Net Sales | 99,269 | 110,605 | 121,034 | 133,847 | 146,700 | | | | | | |
| Change (%) | -2.1 | 11.4 | 9.4 | 10.6 | 9.6 | | | | | | |
| Total Expenditure | -84,896 | -96,172 | -104,553 | -114,381 | -124,431 | | | | | | |
| EBITDA | 14,374 | 14,433 | 16,481 | 19,467 | 22,269 | | | | | | |
| Change (%) | -27.3 | 0.4 | 14.2 | 18.1 | 14.4 | | | | | | |
| Margin (%) | 14.5 | 13.0 | 13.6 | 14.5 | 15.2 | | | | | | |
| Depreciation | -1,209 | -1,245 | -1,302 | -1,352 | -1,402 | | | | | | |
| Int. and Fin. Charges | -1,300 | -192 | -107 | -110 | -110 | | | | | | |
| Other Income - Recurring | 3,188 | 3,048 | 3,545 | 3,976 | 4,655 | | | | | | |
| Profit before Taxes | 15,053 | 16,045 | 18,617 | 21,981 | 25,412 | | | | | | |
| Change (%) | -32.9 | 6.6 | 16.0 | 18.1 | 15.6 | | | | | | |
| Margin (%) | 15.2 | 14.5 | 15.4 | 16.4 | 17.3 | | | | | | |
| Tax | -2,660 | -2,530 | -2,952 | -3,413 | -3,922 | | | | | | |
| Deferred Tax | -547 | -410 | -268 | -550 | -635 | | | | | | |
| Tax Rate (%) | -2.13 | -18.3 | -17.3 | -18.0 | -17.9 | | | | | | |
| Profit after Taxes | 11,846 | 13,105 | 15,397 | 18,019 | 20,855 | | | | | | |
| Change (%) | -32.6 | 10.6 | 17.5 | 17.0 | 15.7 | | | | | | |
| Margin (%) | 11.9 | 11.8 | 12.7 | 13.5 | 14.2 | | | | | | |
| Non-rec. (Exp)/Income | 128 | 976 | 3,157 | 0 | 0 | | | | | | |
| Reported PAT | 11,973 | 14,081 | 18,554 | 18,019 | 20,855 | | | | | | |

| BALANCE SHEET | | | | | | (RS MILLION) | | | | | |
|------------------------------|---------------|----------------|----------------|----------------|----------------|--------------|--|--|--|--|--|
| Y/E DECEMBER | 2004 | 2005 | 2006E | 2007E | 2008E | | | | | | |
| Share Capital | 2,201 | 2,201 | 2,201 | 2,201 | 2,201 | | | | | | |
| Reserves | 18,726 | 20,855 | 24,352 | 26,060 | 29,349 | | | | | | |
| Net Worth | 20,927 | 23,056 | 26,553 | 28,261 | 31,550 | | | | | | |
| Loans | 14,711 | 569 | 0 | 0 | 0 | | | | | | |
| Capital Employed | 35,638 | 23,626 | 26,553 | 28,261 | 31,550 | | | | | | |
| Gross Block | 23,142 | 23,751 | 25,251 | 26,251 | 27,251 | | | | | | |
| Less: Accum. Deprn. | -8,911 | -9,896 | -11,198 | -12,549 | -13,951 | | | | | | |
| Net Fixed Assets | 14,231 | 13,855 | 14,053 | 13,702 | 13,300 | | | | | | |
| Capital WIP | 944 | 980 | 980 | 980 | 980 | | | | | | |
| Investments | 22,296 | 20,142 | 22,926 | 29,646 | 34,818 | | | | | | |
| Deferred Charges | 2,260 | 2,201 | 2,142 | 2,167 | 2,193 | | | | | | |
| Curr. Assets, L&A | 33,050 | 27,630 | 29,996 | 30,644 | 32,296 | | | | | | |
| Inventory | 14,704 | 13,218 | 15,129 | 16,224 | 17,259 | | | | | | |
| Account Receivables | 4,893 | 5,228 | 5,471 | 5,867 | 6,029 | | | | | | |
| Cash and Bank Balance | 6,980 | 3,550 | 4,176 | 3,485 | 4,082 | | | | | | |
| Others | 6,472 | 5,634 | 5,219 | 5,067 | 4,926 | | | | | | |
| Curr. Liab. and Prov. | 37,143 | 41,183 | 43,544 | 48,878 | 52,038 | | | | | | |
| Account Payables | 20,292 | 23,450 | 24,883 | 28,023 | 30,486 | | | | | | |
| Other Liabilities | 10,773 | 11,572 | 11,382 | 12,358 | 12,937 | | | | | | |
| Provisions | 6,077 | 6,162 | 7,280 | 8,497 | 8,616 | | | | | | |
| Net Current Assets | -4,093 | -13,553 | -13,548 | -18,235 | -19,742 | | | | | | |
| Application of Funds | 35,638 | 23,626 | 26,553 | 28,261 | 31,550 | | | | | | |

E: M O S t Estimates

| RATIOS | | | | | |
|-------------------------------|------------|------------|------------|------------|------------|
| Y/E DECEMBER | 2004 | 2005 | 2006E | 2007E | 2008E |
| Basic (Rs) | | | | | |
| EPS | 5.4 | 6.0 | 7.0 | 8.2 | 9.5 |
| Cash EPS | 5.9 | 6.5 | 7.6 | 8.8 | 10.1 |
| BV/Share | 9.5 | 10.5 | 12.1 | 12.8 | 14.3 |
| DPS | 5.0 | 5.0 | 6.0 | 6.5 | 7.0 |
| Payout % | 92.9 | 84.0 | 85.8 | 79.4 | 73.9 |
| Valuation (x) | | | | | |
| P/E | | 33.5 | 28.5 | 24.4 | 21.1 |
| Cash P/E | | 30.6 | 26.3 | 22.7 | 19.7 |
| EV/Sales | | 3.8 | 3.4 | 3.0 | 2.7 |
| EV/EBITDA | | 28.8 | 25.0 | 20.9 | 18.0 |
| P/BV | | 19.1 | 16.6 | 15.6 | 13.9 |
| Dividend Yield (%) | | 2.5 | 3.0 | 3.3 | 3.5 |
| Return Ratios (%) | | | | | |
| RoE | 56.6 | 56.8 | 58.0 | 63.8 | 66.1 |
| RoCE | 45.9 | 68.7 | 70.5 | 78.2 | 80.9 |
| Working Capital Ratios | | | | | |
| Debtor (Days) | 18 | 17 | 17 | 16 | 15 |
| Asset Turnover (x) | 2.8 | 4.7 | 4.6 | 4.7 | 4.6 |
| Leverage Ratio | | | | | |
| Debt/Equity (x) | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 |

| CASH FLOW STATEMENT | | | | | | (RS MILLION) | | | | | |
|------------------------------|----------------|----------------|----------------|----------------|----------------|--------------|--|--|--|--|--|
| Y/E DECEMBER | 2004 | 2005 | 2006E | 2007E | 2008E | | | | | | |
| OP/(loss) before Tax | 13,165 | 13,189 | 15,179 | 18,115 | 20,867 | | | | | | |
| Int./Div. Received | 3,188 | 3,048 | 3,545 | 3,976 | 4,655 | | | | | | |
| Depreciation and Amort. | 1,209 | 1,245 | 1,302 | 1,352 | 1,402 | | | | | | |
| Interest Paid | -1,300 | -192 | -107 | -110 | -110 | | | | | | |
| Direct Taxes Paid | -2,660 | -2,530 | -2,952 | -3,413 | -3,922 | | | | | | |
| (Incr)/Decr in WC | -679 | 6,030 | 621 | 3,996 | 2,104 | | | | | | |
| CF from Operations | 12,923 | 20,789 | 17,587 | 23,915 | 24,996 | | | | | | |
| Extraordinary Items | 128 | 976 | 3,157 | 0 | 0 | | | | | | |
| (Incr)/Decr in FA | -1,931 | -645 | -1,500 | -1,000 | -1,000 | | | | | | |
| (Pur)/Sale of Investments | 3,454 | 2,154 | -2,784 | -6,721 | -5,172 | | | | | | |
| CF from Invest. | 1,650 | 2,485 | -1,127 | -7,721 | -6,172 | | | | | | |
| Issue of Shares | 0 | 0 | 0 | 0 | 0 | | | | | | |
| (Incr)/Decr in Debt | -2,332 | -14,141 | -569 | 0 | 0 | | | | | | |
| Dividend Paid | -11,006 | -11,006 | -15,057 | -16,311 | -17,566 | | | | | | |
| Others | -2,320 | -1,557 | -209 | -575 | -662 | | | | | | |
| CF from Fin. Activity | -15,659 | -26,704 | -15,835 | -16,886 | -18,228 | | | | | | |
| Incr/Decr of Cash | -1,085 | -3,430 | 626 | -691 | 596 | | | | | | |
| Add: Opening Balance | 8,065 | 6,980 | 3,550 | 4,176 | 3,485 | | | | | | |
| Closing Balance | 6,980 | 3,550 | 4,176 | 3,485 | 4,082 | | | | | | |



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Disclosure of Interest Statement

Hindustan Lever

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|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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