

**Hindustan Unilever Ltd.****Rs 465****KRChoksey**  
INTEGRATED FINANCIAL SOLUTIONS**Sustained volume growth in key segments****SELL**

**Hindustan Unilever (HUL) reported net sales growth of 14%YoY to Rs 6250 crores for Q1FY13. Domestic consumer business grew at 19%YoY led by underlying volume growth of 9%YoY. On segmental basis Soaps & Detergents registered 24%YoY growth, Personal products 13%, Beverages 8% and Packaged foods 17%. EBITDA margin for Q1FY13 rose 137bps YoY to 13.4% aided by gross margin improvement of 215bps, lower other expenses (down 93bps) partly offset by higher Advertising & Promotions spends (up 160bpsYoY). Net profit for the quarter grew 28%YoY to Rs 726 crores adjusted for income from sale of properties worth Rs 605 crores. We assign SELL rating on the stock with a price target of Rs 435 (25x FY14E EPS of Rs 17.4).**

**No surprises on volume growth**

HUL continued with strong quarterly performance with topline growth of 14%YoY (up 10%QoQ) driven by 9%YoY underlying volume growth. Domestic consumer business grew by 19%YoY. Both key segments Soaps & Detergents and Personal products contributed with double digit volume growth.

**Soaps & Detergents, Personal products and packaged foods do well**

HUL reported double digit growth across segments with its key segments Soaps & Detergents (improved volumes & double digit growth across brands), Personal Products(driven by skin & Hair care) and Packaged foods (Kissan Ketchup and soups registering double digit growth led by volumes) leading the pack registering 24%, 13% and 17%YoY revenue growth. Beverages segment reported growth of 8% YoY growth led by strong growth in coffee.

EBIT growth was driven by all the segments. EBIT margins for the soaps & detergent category (up 297bps YoY), Beverages (up 213bps YoY), Packaged foods (up 100bps YoY) and personal products (up 41bps YoY) improved on back of increase in prices, global buying efficiencies and lag effect between consuming cost and replacement cost. We believe with judicious price hikes the current EBIT margins are sustainable.

**Valuations & Views**

We maintain our positive outlook on the stock and believe 21% earnings growth over FY12-14E is achievable considering healthy volume growth & improved margins (product mix & price increases). However the stock is currently trading at a P/E of 31x and 27x its FY13E and FY14E earnings. Consequently, we recommend SELL on stock with a target price of Rs. 435, (25x FY14E EPS of Rs 17.4), giving a downside potential of 7%.

**Key Financials**

Particulars (Rs Crore)	FY10	FY11	FY12	FY13E	FY14E
Net Sales	17,524	19,736	22,116	25,939	29,752
EBITDA	2,548	2,678	3,291	3,969	4,612
PAT	2,103	2,099	2,573	3,250	3,757
EPS	9.6	9.7	11.9	15.0	17.4
OPM (%)	14.5	13.6	14.9	15.3	15.5
NPM (%)	12.0	10.6	11.6	12.5	12.6
PE	48.3	47.8	39.1	30.9	26.8

Source: Company Data, KRChoksey Estimates

**Target Price (Rs): 435**

Potential Downside : 7%

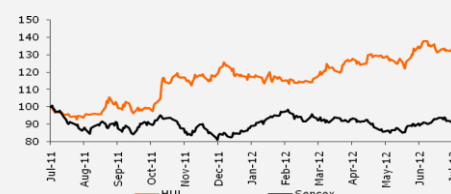
Previous TP (Rs): 412

**Market Data**

Shares outs (Cr)	216
Equity Cap (Rs. Cr)	216
Mkt Cap (Rs. Cr)	100515
52 Wk H/L (Rs)	478/ 309
Avg Vol (1yr avg)	2715550
Face Value (Rs)	1.0
Bloomberg Code	HUVR IN

**Market Info:**

SENSEX	16,918
NIFTY	5,128

**Price Performance****Share holding Pattern (%)**

Particulars	Jun-12	Mar-12	Chg
Promoters	52.50	52.50	-
DII	9.88	10.31	-0.43
FIIIs	20.06	19.43	0.63
Public	17.56	17.76	-0.20
Total	100.0	100.0	

Source: BSE

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## Q1FY13 Result Snapshot(Rs Crore)

Particulars(Rs Cr)	Q1FY13	Q4FY12	Q1FY12	Q-o-Q	Y-o-Y
<b>Net Sales</b>	<b>6,250</b>	<b>5,660</b>	<b>5,496</b>	<b>10.4%</b>	<b>13.7%</b>
<b>Total Expenditure</b>	<b>5,412</b>	<b>4,933</b>	<b>4,835</b>	<b>9.7%</b>	<b>11.9%</b>
Raw material consumed	2,503	2,080	2,120	20.4%	18.1%
Purchase of Stock in trade	797	766	770	4.0%	3.6%
Changes in WIP	68	276	190	-75.5%	-64.4%
<b>COGS</b>	<b>3,368</b>	<b>3,122</b>	<b>3,080</b>	<b>7.9%</b>	<b>9.4%</b>
Employee Cost	333	275	286	21.0%	16.3%
ASP Exp.	820	677	633	21.0%	29.5%
Other Expenditure	892	858	836	4.0%	6.8%
<b>EBITDA</b>	<b>838</b>	<b>728</b>	<b>661</b>	<b>15.1%</b>	<b>26.7%</b>
Depreciation	58	57	56	1.0%	2.5%
<b>EBIT</b>	<b>780</b>	<b>671</b>	<b>605</b>	<b>16.3%</b>	<b>28.9%</b>
Interest Cost	5	0	0	2544.7%	26300.0%
Other Income	347	175	144	98.0%	141.9%
Exceptional items	605	28	59	2053.2%	929.3%
<b>PBT</b>	<b>1,727</b>	<b>874</b>	<b>807</b>	<b>97.5%</b>	<b>113.9%</b>
Provision for Tax	396	188	180	111.0%	119.5%
Tax Rate	23%	21%	22%	146 bps	59 bps
<b>PAT</b>	<b>1,331</b>	<b>687</b>	<b>627</b>	<b>93.9%</b>	<b>112.3%</b>
<b>Adjustments</b>	<b>(605)</b>	<b>(28)</b>	<b>(59)</b>	<b>2053.2%</b>	<b>929.3%</b>
<b>Adjusted PAT</b>	<b>727</b>	<b>659</b>	<b>568</b>	<b>10.3%</b>	<b>27.8%</b>
<b>EPS (Adj)</b>	<b>3.4</b>	<b>3.0</b>	<b>2.6</b>	<b>10.3%</b>	<b>27.8%</b>
GPM	46.1%	44.8%	44.0%	128 bps	215 bps
OPM	13.4%	12.9%	12.0%	54 bps	137 bps
NPM	21.3%	12.1%	11.4%	917 bps	989 bps

Source: Company Data, KRChoksey Research

Segment Revenue	Q1FY13	Q4FY12	Q1FY12	Q-o-Q	Y-o-Y	FY12	FY11	Y-o-Y
Soaps & Detergents	3163	2834	2555	11.6%	23.8%	10636	8801	21%
Personal Products	1847	1711	1631	8.0%	13.3%	6846	5850	17%
Beverages	654	683	609	-4.3%	7.5%	2617	2347	12%
Packaged foods	437	348	372	25.6%	17.4%	1359	1178	15%
Exports/Others	264	182	306	44.8%	-13.8%	636	1539	-59%
<b>Total</b>	<b>6365</b>	<b>5759</b>	<b>5473</b>	<b>10.5%</b>	<b>16.3%</b>	<b>22095</b>	<b>19716</b>	<b>12%</b>

Segment Results	Q1FY13	Q4FY12	Q1FY12	Q-o-Q	Y-o-Y	FY12	FY11	Y-o-Y
Soaps & Detergents	386	320	236	20.7%	63.6%	1233	821	50%
Personal Products	476	449	413	5.9%	15.1%	1745	1495	17%
Beverages	95	98	75	-3.5%	25.9%	367	358	2%
Packaged foods	25	-4	17	-767.9%	42.6%	24	30	-19%
Exports/others	-4	-5	24	-11.5%	-118.3%	-25	11	
Total	977	859	766	13.8%	27.6%	3344	2715	23%
Less: Interest Expense	-5	0	0	2544.7%	26300.0%	-1	0	418%
Add/(less): Other Unall. Exp.	756	15	44	4836.9%	1610.0%	126	223	-43%
<b>PBT</b>	<b>1728</b>	<b>874</b>	<b>810</b>	<b>97.7%</b>	<b>113.3%</b>	<b>3469</b>	<b>2937</b>	<b>18%</b>

EBIT Margins	Q1FY13	Q4FY12	Q1FY12	Q-o-Q	Y-o-Y	FY12	FY11	Y-o-Y
Soaps & Detergents	12.21%	11.29%	9.24%	92 bps	297 bps	11.60%	9.30%	227bps
Personal Products	25.75%	26.25%	25.34%	-50 bps	41 bps	25.50%	25.60%	-7bps
Beverages	14.52%	14.40%	12.39%	12 bps	213 bps	14.00%	15.20%	-124bps
Packaged foods	5.67%	-1.07%	4.67%	674 bps	100 bps	1.80%	2.50%	-76bps
Exports/others	-1.64%	-2.68%	7.73%	104 bps	-937 bps	-3.90%	0.70%	-466bps

Source: Company Data, KRChoksey Research

## Income statement

FYE March, Rs Cr	FY10	FY11	FY12	FY13E	FY14E
Revenues	17,524	19,736	22,116	25,939	29,752
Growth (%)	(13.4)	12.6	12.1	17.3	14.7
EBITDA	2,548	2,678	3,291	3,969	4,612
Growth (%)	(4.0)	5.1	22.9	20.6	16.2
Depreciation & amortisation	184	221	218	227	232
EBIT	2,364	2,458	3,073	3,742	4,380
Growth (%)	(3.9)	4.0	25.0	21.8	17.1
Interest	7	0	1	5	5
Other income	350	273	278	484	504
EBT	2,707	2,730	3,350	4,221	4,879
Income taxes	604	631	778	971	1,122
Effective tax rate (%)	22.3	23.1	23.2	23.0	23.0
Extra-ordinary items	99	207	119	605	-
Min int / inc from assoc	-	-	-	-	-
Reported net income	2,202	2,306	2,691	3,855	3,757
Adjustments	99	207	119	605	-
Adjusted net income	2,103	2,099	2,573	3,250	3,757
Growth (%)	(15.9)	(0.2)	22.6	26.3	15.6
Shares outstanding (cr)	218.2	216.0	216.2	216.2	216.2
EPS (Rs)	9.6	9.7	11.9	15.0	17.4
Growth (%)	(16.0)	0.9	22.4	26.3	15.6
DPS (Rs)	6.5	6.5	7.5	7.5	8.0

Source: Company Data, KRChoksey Research Estimates

## Balance Sheet

FYE March, Rs Cr	FY10	FY11	FY12	FY13E	FY14E
Cash and cash eq	1,892	1,628	1,830	3,381	5,323
Accounts receivable	672	943	679	817	937
Inventories	2,180	2,811	2,517	2,956	3,391
Others current assets	624	852	917	1,073	1,225
Investments	1,264	1,261	2,438	2,438	2,438
Gross fixed assets	3,582	3,760	3,812	4,012	4,262
Net fixed assets	2,162	2,169	2,147	2,120	2,138
CWIP	274	289	215	300	300
Intangible assets	-	-	-	-	-
Deferred tax assets, net	249	210	214	214	214
Other assets	-	-	-	-	-
<b>Total assets</b>	<b>9,317</b>	<b>10,163</b>	<b>10,958</b>	<b>13,300</b>	<b>15,968</b>
Accounts payable	4,374	3,890	3,783	4,434	5,086
Other current liabilities	918	1,673	1,387	1,478	1,695
Provisions	1,442	1,720	1,946	1,580	1,639
Debt funds	-	-	-	-	-
Other liabilities	-	219	330	330	330
Equity capital	218	216	216	216	216
Reserves & surplus	2,365	2,444	3,297	5,261	7,002
Shareholder's funds	2,584	2,660	3,513	5,477	7,218
<b>Total liabilities</b>	<b>9,317</b>	<b>10,163</b>	<b>10,958</b>	<b>13,300</b>	<b>15,968</b>
BVPS (Rs)	12.8	13.3	17.3	26.3	34.4

Source: Company Data, KRChoksey Research Estimates

**Cash flow statement**

FYE March, Rs Cr	FY10	FY11	FY12	FY13E	FY14E
Net income + Depreciation	2,386	2,527	2,910	4,082	3,989
Non-cash adjustments	(258)	(301)	(73)	(236)	-
Changes in working capital	1,438	(161)	204	9	162
Cashflow from operations	3,565	2,065	3,040	3,855	4,151
Capital expenditure	(456)	(311)	(245)	(285)	(250)
Change in investments	(836)	(387)	(1,021)	-	-
Other investing cashflow	15	646	149	-	-
Cashflow from investing	(1,277)	(53)	(1,117)	(285)	(250)
Issue of equity	31	(619)	34	0	0
Issue/repay debt	(422)	-	-	-	-
Dividends paid	(1,783)	(1,654)	(1,755)	(2,020)	(1,958)
Other financing cashflow	-	(3)	-	-	-
Change in cash & cash eq	115	(264)	202	1,551	1,943
Closing cash & cash eq	1,892	1,628	1,830	3,381	5,323

Source: Company Data, KRChoksey Research Estimates

**Key Ratios**

FYE March	FY10	FY11	FY12	FY13E	FY14E
<b>Profitability &amp; Return ratios</b>					
EBITDA margin (%)	14.5	13.6	14.9	15.3	15.5
EBIt margin (%)	13.5	12.5	13.9	14.4	14.7
Net profit margin (%)	12.0	10.6	11.6	12.5	12.6
ROE (%)	90.5	80.1	83.4	72.3	59.2
ROCE (%)	83.2	80.1	83.4	72.4	59.2
Receivables (days)	13	15	13	11	11
Inventory (days)	97	90	83	74	75
Payables (days)	158	150	119	111	112
Current ratio (x)	1.0	1.1	1.1	1.4	1.6
Quick ratio (x)	0.5	0.5	0.5	0.1	0.1
<b>Turnover &amp; Leverage ratios</b>					
Gross asset turnover (x)	5.4	5.4	5.8	6.6	7.2
Total asset turnover (x)	2.0	2.0	2.1	2.1	2.0
Interest coverage ratio (x)	338.6	10,239.8	2,468.6	713.4	835.0
Adjusted debt/equity (x)	-	-	-	-	-
<b>Valuation ratios</b>					
EV/Sales (x)	5.7	5.0	4.5	3.8	3.3
EV/EBITDA (x)	39.0	37.1	30.2	25.0	21.5
P/E (x)	48.3	47.9	39.2	31.0	26.8
P/BV (x)	36.3	35.0	27.0	17.7	13.5

Source: Company Data, KRChoksey Research Estimates

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HUL			
Date	CMP (Rs)	TP (Rs)	Recommendation
25-Jul-12	465	435	SELL
03-May-12	425	412	REDUCE
04-Apr-12	403	420	HOLD
07-Feb-12	379	414	HOLD
03-Nov-11	383	409	HOLD
01-Aug-11	323	343	HOLD
10-May-11	298	343	BUY
04-Apr-11	283	292	HOLD
28-Jan-11	271	281	REDUCE

Rating Legend	
Our Rating	Upside
<b>Buy</b>	More than 15%
<b>Accumulate</b>	5% - 15%
<b>Hold</b>	0 – 5%
<b>Reduce</b>	-5% – 0
<b>Sell</b>	Less than -5%

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