

Hindustan Unilever

CMP: ₹ 428
TP: ₹ 456
Accumulate

We attended analyst day organized by HUVR which focused on its strategy, recent innovation/product launches and sustainability initiatives. With a core focus on volume growth, the company has brought in product innovation (resulting in premiumisation) and improved its supply chain by leveraging technology.

- HUVR has increased its efforts towards understanding consumer and also address the problems of distributors.
- Increased its reach in the rural market and to expand further through engagement with telecom companies (already implemented in four states).
- HUVR would continue to focus on its existing product portfolio and expand its offerings in categories where its presence is not broad based (eg:- expand in Hair Care and Foods space)
- Sustainable living plan with a target to contract 100% of its raw material requirement.

We believe sustained volume growth and ability of HUVR to gain market share and improvement in its product mix is encouraging. The company will also benefit from the increase in its rural reach and now plans to focus on "Perfect Store" strategy which would improve its visibility in the interiors. We maintain our estimate and continue to prefer HUVR in the large cap. At a CMP of ₹ 428, the stock trades at 30x FY13E and 26x FY14E. We recommend an Accumulate with a price target of ₹ 456.

High Points

- Results in line with estimate. Volume growth of 10%.
- No signs of slowdown in FMCG
- Premiumisation across categories to continue
- View: We maintain Accumulate rating with a target price of ₹ 456

Scrip Details

Equity	₹ 2214mn
Face Value	₹ 1/-
Market Cap	₹ 948bn
	USD 18bn
52 week High / Low	₹ 434 / 266
Avg. Volume (no)	918,419
BSE Sensex	17,302
NSE Nifty	5,239
Bloomberg Code	HUVR IN
Reuters Code	HLL.BO

Q4FY12 Result (₹ mn)

Particulars	Q4FY12	Q4FY12	QoQ (%)	Q3FY12	YoY (%)	FY12	FY11	YoY (%)
Net Sales	57,659	49,666	16.1	59,376	-2.9	221,164	197,352	12.1
Expenditure	49,325	43,201	14.2	49,671	-0.7	188,250	170,359	10.5
Consumption of Raw Materials	31,223	26,581	17.5	30,751	1.5	117,378	100,569	16.7
Staff Cost	2,751	2,346	17.3	2,741	0.4	11,073	9,613	15.2
Advertising cost	6,773	6,233	8.7	6,902	-1.9	26,348	27,642	-4.7
Other Expenditure	8,578	8,041	6.7	9,278	-7.5	33,452	32,535	2.8
Operating Profit	8,334	6,465	28.9	9,705	-14.1	32,913	26,993	21.9
Other Income	700	560	25.0	801	-12.6	2,783	2,519	10.5
Interest	2	0	900.0	5	-55.6	12	2	416.7
Depreciation	571	556	2.6	568	0.4	2,183	2,208	-1.2
Exceptional Items - Gain / (Loss)	230	546		(124)		958	1,500	
PBT	8,691	7,014	23.9	9,809	-11.4	34,460	28,802	19.6
Tax	1,825	1,323	38.0	2,271	-19.6	6,895	5,742	20.1
Net Profit	6,866	5,692	20.6	7,538	-8.9	27,565	23,060	19.5
Adj Profit	6,636	5,146	29.0	7,662	-13.4	26,607	21,560	23.4
Gross Margin (%)	45.8	46.5	-63.1	48.2	-236.1	46.9	49.0	-211.4
OPM (%)	14.5	13.0	143.7	16.3	-189.1	14.9	13.7	120.4
Advertising spend (%)	11.7	12.5	-80.2	11.6	12.3	11.9	14.0	-209.3
Tax rate (%)	21.0	18.9	214.1	23.2	-215.5	20.0	19.9	7.2
NPM (%)	11.9	11.5	44.9	12.7	-78.7	12.5	11.7	77.9

Financials

Year	Net Sales	% Growth	EBIDTA	OPM %	PAT	Growth %	EPS (₹)	% Growth	PER (x)	ROANW (%)	ROACE (%)
FY11	197,352	11.3	26,993	13.7	21,563	4.7	10.0	5.8	42.9	82.7	128.6
FY12E	221,122	12.0	32,931	14.9	26,693	23.8	12.1	20.7	35.5	87.6	129.9
FY13E	247,428	11.9	38,173	15.4	31,372	17.5	14.2	17.5	30.2	79.8	114.8
FY14E	273,735	10.6	43,620	15.9	36,119	15.1	16.3	15.1	26.2	73.6	106.1

Figure in ₹ mn

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May 03, 2012

Net Sales (Rs m)	Q4FY12	Q4FY11	YoY (%)	Q3FY12	QoQ (%)	FY12	FY11	YoY (%)
Soaps & Detergent	28,344	22,075	28.4	26,460	7.1	106,363	88,011	20.9
Personal Products	17,109	14,609	17.1	18,862	(9.3)	68,459	58,504	17.0
Beverages	6,832	6,347	7.6	6,704	1.9	26,174	23,465	11.5
Processed Foods	3,481	3,174	9.7	3,064	13.6	13,595	11,784	15.4
Exports	1,823	3,414	(46.6)	3,375	(46.0)	6,364	15,393	(58.7)
Others	0	0		982	(100.0)	0	0	
Total	57,588	49,618	16.1	59,446	(3.1)	220,954	197,157	12.1
EBIT (₹ m)								
Soaps & Detergent	3,201	1,650	93.9	3,559	(10.1)	12,333	8,208	50.3
Personal Products	4,492	3,652	23.0	4,881	(8.0)	17,446	14,948	16.7
Beverages	984	993	(0.9)	1,052	(6.5)	3,667	3,578	2.5
Processed Foods	(37)	47	(179.8)	(60)	(37.9)	242	299	(19.1)
Exports	(49)	152	(132.2)	446	(111.0)	(249)	114	(318.1)
Others	0	0		(103)	(100.0)	0	0	
Total	8,591	6,494	32.3	9,776	(12.1)	33,438	27,146	23.2
EBIT Margin								
Soaps & Detergent	11.3	7.5	381.6	13.5	(215.7)	11.6	9.3	226.9
Personal Products	26.3	25.0	125.6	25.9	37.5	25.5	25.6	(6.7)
Beverages	14.4	15.6	(124.2)	15.7	(128.9)	14.0	15.2	(123.7)
Processed Foods	(1.1)	1.5	(253.1)	(1.9)	88.2	1.8	2.5	(75.7)
Exports	(2.7)	4.4	(713.2)	13.2	(1,590.3)	(3.9)	0.7	(466.0)
Others				(10.5)				
Total	14.9	13.1	183.0	16.4	(152.7)	15.1	13.8	136.4

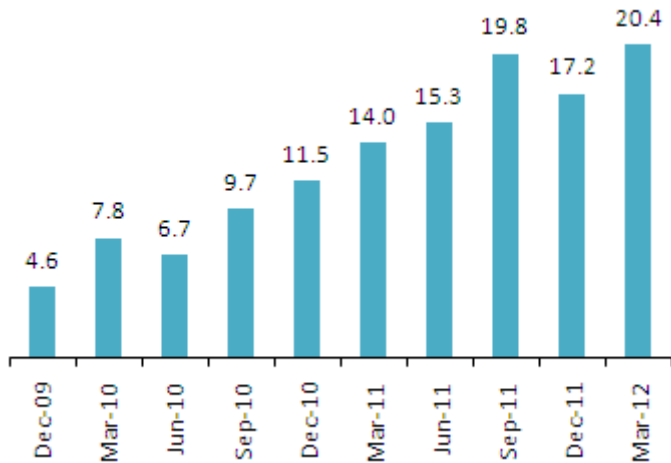
Key takeaways of Conference call:

- FMCG market has witnessed sequential improvement in growth rates during the quarter. HUVR has witness no signs of slowdown. Domestic FMCG business grew by 20.4% in Q4FY12 and 18% in FY12.
- Volume growth during the quarter stood at 10%. The growth was driven by premiumisation, new product launches and increase in distribution.
- Soaps and Detergent grew by 28.4% in Q4FY12 driven mainly by price increase. Personal Care growth at 17.1% was largely volume led. However, oral care reported muted growth.
- Growth in Beverages (up 7.6%) and Foods (up 9.7%) was slower during the quarter. While lower tea sales in the CSD impacted Beverages segment, Food was impacted due to sluggish growth in the Soup.
- Management seems confident of sustained premiumisation across categories over the next two years.

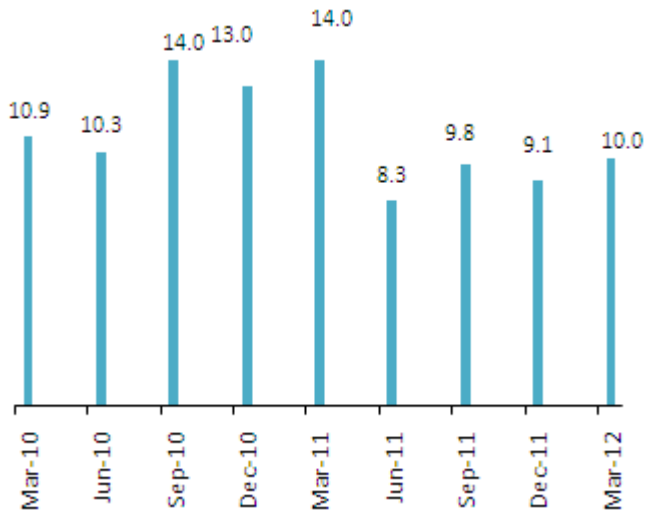
HUL's Q4FY12 results inline with our estimates. Net Sales at ₹ 57.6b up 16% and EBITDA at ₹ 8.3bn was up 28.9% as EBITDA margins expanded by 140bps to 14.5% (our estimate of 14%). PBT at ₹ 8.4bn was up 31% on back of higher other income. Adj PAT at ₹ 6.6bn up 29% v/s our estimate of ₹ 6.3bn was higher on back of lower tax rate. Domestic FMCG business grew by 20% YoY driven by strong growth in Soaps & Detergents. The underline volume growth during the quarter stood at 10% (14% in Q4FY11).

Gross margins declined by 63bps YoY to 45.8% (lowest in last 4 quarters). Operating leverage from Ad spends (down 80bps YoY) and other expenditure (down 130bps YoY) enabled the company to post an improvement in operating performance. Ad spend to sales ration stood at 11.7%

Domestic FMCG sales growth %

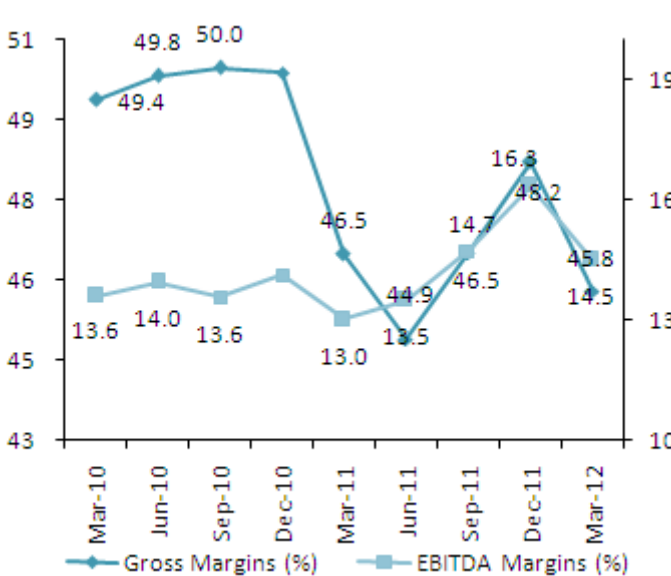


Volume growth %



Source: Company, Dolat Research

Quarterly trend in operating performance



Decline in ad-spend to sales ration (%)



Source: Company, Dolat Research

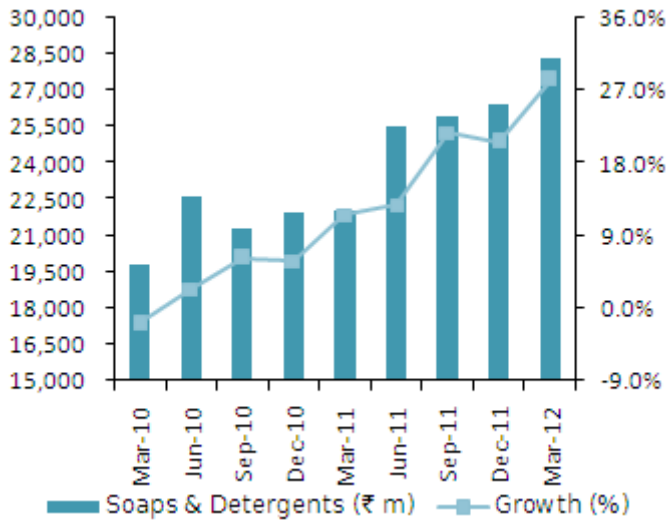
Some new Product Launches:

- **Lifebuy cliini-care 10** – It has 10x germ protection than any other soap.
- **Rin Perfect Shine** – It's a Fabric blue for white cloths and would compete with Ujala
- **Knorr coup a Soup** – Its in instant food segment with a focus on Out of Home consumption
- **Fruittare** – 100% fruit Ice-cream

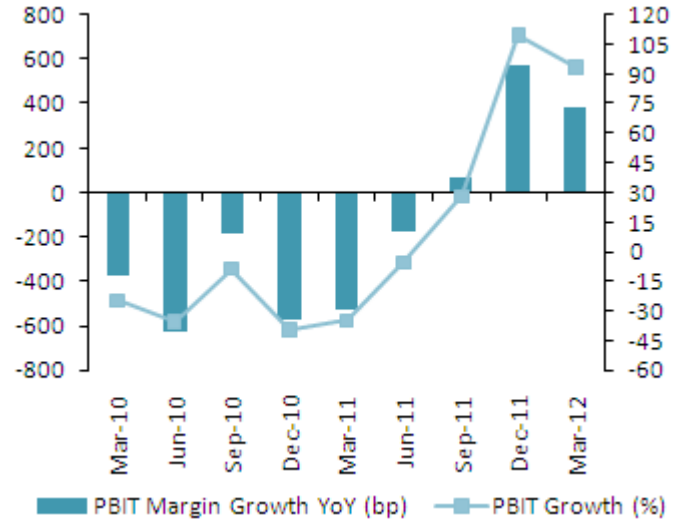
Soaps and Detergent performance

Soaps & Detergent revenue grew by 28% to ₹ 28.3bn and EBIT increased by 94% to ₹ 3.2bn as margins expanded by 381bps YoY to 11.3% (lower base of last year). However, EBIT margin declined sequentially by 20bps. The improvement is mainly on account of lower ad-spend (inline with Industry), premiumisation and lower base of last year.

Strong revenue growth in Soaps and Detergent Personal



Improvement in operating performance in the Soaps & Detergent

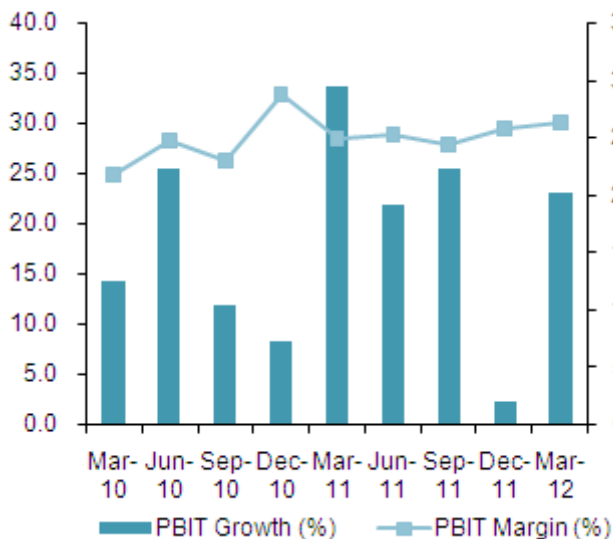


Source: Company, Dolat Research

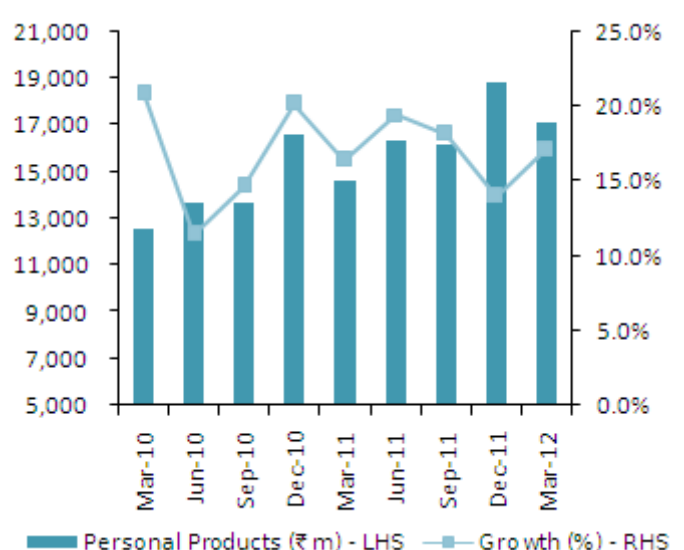
Personal Products revenue growth

Personal Products revenue grew by 17% to ₹ 17.1bn and EBIT increased by 23% to ₹ 4.5bn as margins expanded by 125bps YoY to 26.3%. In Skin Care, Fair & Lovely (FAL), Ponds and Vaseline continued to grow in double digits. In Hair Care, Dove, Sunsilk and Clear delivered double digit growth. Dove sustained its growth momentum and volumes doubled in the quarter. Conditioners continued to lead market development with growth in high double digits. Oral Care registered modest growth in a competitive environment. Pepsodent GumCare performed well gaining from stepped up investments and distribution expansion.

Trend in Personal Products revenue growth



Trend in operating performance of Personal Products



Source: Company, Dolat Research

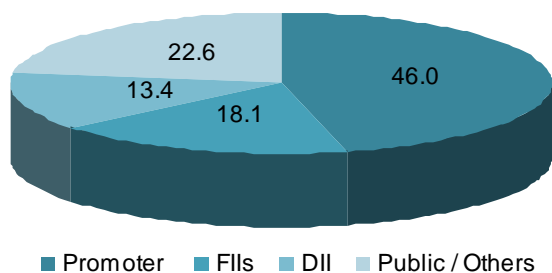
INCOME STATEMENT				₹ mn
Particulars	Mar11	Mar12	Mar13E	Mar14E
Net Sales	194,011	217,345	243,734	269,651
Other operating income	3,341	3,778	3,694	4,084
Other income	2,520	2,871	3,881	4,879
Total Income	199,872	223,993	251,308	278,614
Total Expenditure	170,359	188,192	209,254	230,116
Raw Material	100,569	117,372	130,509	144,006
Employee Expenses	9,613	11,074	12,074	13,103
Advertising exp	27,642	26,342	30,467	33,976
Selling & Administrative Expenses	22,541	23,622	25,552	27,505
Manufacturing exp	9,108	8,921	9,728	10,532
Other Expenses	886	860	924	993
EBIDTA (Excl. Other Income)	26,993	32,931	38,173	43,620
EBIDTA (Incl. Other Income)	29,513	35,801	42,054	48,499
Interest	2	12	2	2
Gross Profit	29,510	35,789	42,052	48,497
Depreciation	2,208	2,205	2,340	2,485
Profit Before Tax & EO Items	27,302	33,584	39,712	46,012
Extra Ordinary Exps/(Income)	(1,497)	(958)	0	0
Profit Before Tax	28,799	34,542	39,712	46,012
Tax	5,739	6,892	8,340	9,893
Net Profit	23,060	27,651	31,372	36,119
Net Profit	21,563	26,693	31,372	36,119

BALANCE SHEET				
Particulars	Mar11	Mar12E	Mar13E	Mar14E
Sources of Funds				
Equity Capital	2,160	2,214	2,214	2,214
Share Premium	9	9	9	9
Other Reserves	24,171	32,394	41,748	51,964
Net Worth	26,339	34,617	43,971	54,186
Deferred Tax Liability	(2,097)	(2,243)	(2,399)	(2,566)
Total Capital Employed	24,243	32,374	41,572	51,620

Applications of Funds				
Gross Block	37,596	39,096	41,596	44,096
Less: Accumulated Depreciation	15,905	18,110	20,450	22,935
Net Block	21,692	20,987	21,147	21,162
Capital Work in Progress	2,991	1,500	1,500	1,500
Investments	26,188	43,566	56,052	68,530
Current Assets, Loans & Advances				
Inventories	28,113	27,512	30,467	33,290
Sundry Debtors	9,432	8,932	9,349	9,973
Cash and Bank Balance	2,819	2,086	2,680	3,782
Loans and Advances	6,654	6,921	7,277	7,652
Other Current Assets	354	371	390	409
<i>sub total</i>	47,371	45,822	50,162	55,107
Less : Current Liabilities & Provisions				
Creditors	47,262	53,174	57,951	62,294
Other Liabilities	19,178	16,643	18,374	20,128
Provisions	7,558	9,684	10,964	12,257
<i>sub total</i>	73,999	79,501	87,289	94,679
Net Current Assets	(26,628)	(33,679)	(37,127)	(39,571)
Total Assets	24,243	32,374	41,572	51,620

E-estimates

Shareholding Pattern as on Mar'12 (%)



CASH FLOW				
Particulars	Mar11	Mar12E	Mar13E	Mar14E
Profit before tax	27,302	33,584	39,712	46,012
Depreciation & w.o.	2,208	2,205	2,340	2,485
Net Interest Exp	2	12	2	2
Direct taxes paid	(5,739)	(6,892)	(8,340)	(9,893)
Chg in Working Capital	(3,130)	6,318	4,042	3,546
(A) CF from Opt. Activities	20,644	35,228	37,757	42,153
Capex	(2,028)	(9)	(2,500)	(2,500)
Free Cash Flow	18,616	35,219	35,257	39,653
Inc./ (Dec.) in Investments	3,061	(17,378)	(12,487)	(12,477)
(B) CF from Investing Activities	1,034	(17,387)	(14,987)	(14,977)
Issue of Equity/ Preference	(725)	55	0	0
Interest exp net	(2)	(12)	(2)	(2)
Dividend Paid (Incl. Tax)	(16,420)	(19,428)	(22,018)	(25,904)
Other	(4,025)	812	(156)	(167)
(C) CF from Financing	(21,172)	(18,573)	(22,177)	(26,073)
Net Change in Cash	505	(733)	594	1,102
Opening Cash balances	2,314	2,819	2,086	2,680
Closing Cash balances	2,819	2,086	2,680	3,782

E-estimates

IMPORTANT RATIOS

Particulars	Mar11	Mar12E	Mar13E	Mar14E
(A) Measures of Performance (%)				
Contribution Margin	49.0	46.9	47.3	47.4
EBIDTA Margin (excl. O.I.)	13.9	15.2	15.7	16.2
EBIDTA Margin (incl. O.I.)	14.8	16.0	16.7	17.4
Gross profit margin	14.8	16.0	16.7	17.4
Tax/PBT	19.9	20.0	21.0	21.5
Net Profit Margin	10.8	11.9	12.5	13.0

(B) As Percentage of Net Sales

Raw Material	51.8	54.0	53.5	53.4
Employee Expenses	5.0	5.1	5.0	4.9
Advertising exp	14.2	12.1	12.5	12.6
Selling & Administrative Expenses	11.6	10.9	10.5	10.2
Manufacturing exp	4.7	4.1	4.0	3.9
Other Expenses	0.5	0.4	0.4	0.4

(C) Measures of Financial Status

Interest Coverage (x)	12,297	2,983	21,027	24,249
Debtors Period (days)	17.7	15.0	14.0	13.5
Closing stock (days)	52.9	46.2	45.6	45.1
Inventory Turnover Ratio (x)	6.9	7.9	8.0	8.1
Fixed Assets Turnover (x)	5.2	5.6	5.9	6.1
Working Capital Turnover (x)	(7.3)	(6.5)	(6.6)	(6.8)
Non Cash Working Capital (₹ Mn)	(29,447)	(35,765)	(39,807)	(43,354)

(D) Measures of Investment

EPS (₹) (excl EO)	10.0	12.1	14.2	16.3
EPS (₹)	10.7	12.5	14.2	16.3
CEPS (₹)	11.0	13.1	15.2	17.4
DPS (₹)	6.5	7.5	8.5	10.0
Dividend Payout (%)	61.2	60.1	60.0	61.3
Profit Ploughback (%)	38.8	39.9	40.0	38.7
Book Value (Rs.)	12.2	15.6	19.9	24.5
RoANW (%)	82.7	87.6	79.8	73.6
RoACE (%)	91.9	95.0	84.9	77.5
RoAIC (%) (Excl Cash & Invest.)	128.6	129.9	114.8	106.1

(E) Valuation Ratios

CMP (₹)	428	428	428	428
P/E (x)	40.1	34.3	30.2	26.2
Market Cap. (₹ Mn.)	924,266	947,592	947,592	947,592
MCap/ Sales (x)	4.8	4.4	3.9	3.5
EV (₹ Mn.)	896,347	903,028	889,947	876,368
EV/Sales (x)	4.6	4.2	3.7	3.3
EV/EBIDTA (x)	33.2	27.4	23.3	20.1
P/BV (x)	35.1	27.4	21.6	17.5
Dividend Yield (%)	1.5	1.8	2.0	2.3

E-estimates

BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

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