



CMP	568	Rating	Unrated
Target	Unrated	Upside	Unrated

Moderate revenue growth: During Q3 FY14, HUL reported a moderate revenue growth of 8.5% Y/Y (+ 4.8% Q/Q) at Rs.72.2bn. This was contributed by volume growth of 4% Y/Y while rest was contributed by price. Home and Personal care (79.2% of sales) segment grew by 9.8% Y/Y while food segment (17% of sales) grew by 10.3% Y/Y.

Operating profit grew higher than sales growth: Raw material cost during the quarter was down 71bps Y/Y (+33 bps Q/Q) to 50.7%. Savings in raw material cost gave the company flexibility to enhance adv & promotion spending which grew 51 bps Y/Y to 12.9%. Effectively, OPM expanded by 62bps Y/Y to 17% during the quarter. However, sequentially, OPM expanded 124bps primarily due to lower advertising expenses (-97bps Q/Q). EBITDA grew by 12.7% Y/Y (+13% Q/Q) to Rs.12.3bn.

PAT grew further aided by one offs: Higher operating profit along with an exceptional item of Rs.229mn and lower tax (due to write back of Rs. 930mn) led PAT grow by 21.9% Y/Y (16.3% Q/Q) to Rs

Result (Rs.bn)	Q3FY14	Q2FY14	Q3FY13	Y/Y (%)	Q/Q (%)
Revenue	72.2	68.9	66.5	8.5	4.8
EBITDA	12.3	10.9	10.9	12.7	13.0
OPM%)	17.0	15.7	16.4	62bps	124bps
Adj PAT	10.4	8.8	8.8	18.3	18.1
NPM%)	14.4	12.8	13.2	119bps	162bps
EPS	4.8	4.1	4.1	18.3	18.1

.10.4bn. Adjusting for One offs, PAT grew by 18.3% Y/Y (+18.1% Q/Q).

Concall Highlight :

Personal care & Packaged Foods will be the growth driver : Of the four key categories **Personal Products** (32% of sales) and **Packaged Foods** (5.2% of sales) grew in double digits registering Y/Y growth of 13% & 14% respectively while **Soaps& Detergents**(47.2% of sales) & **Beverage** (11.8% of sales) segment grew modest 8% and 9% respectively. Soaps & detergent segments saw price hike and unwinding of promotional offers which moderated sales growth. Beverage segment (Tea & Coffee)saw double digit volume growth but price correction led to single digit sales growth. Among personal care products, except skincare, all the segments witnessed double digit growth . Packaged foods category growth was led by double digit growth in Knorr, Kissan & Kwality walls brand. Personal care products and Packaged foods are going to be the key segments offering growth opportunities going forward.

Volume growth expected to remain lower: In Q3FY14, HUL witnessed a meager volume growth of 4% which is lower sequentially and Y/Y as well. The quarter saw selective price increase and withdrawal of promotional offers in soaps and detergents segment (47.2% of Total sales) in order to deal with imported raw material cost hike (caustic soda)due to weakening domestic currency .This has resulted into adverse impact on volume growth of this largest category . Competitive intensity in this segment is likely to persist in near to medium term and thus volume growth should remain muted. Slow volume growth in Soaps & detergents segment will play a drag on overall volume growth for the company.

New launches in the pipeline to tackle slowdown: In order to tackle the slowing demand and fighting intense competition, company is planning to launch new products and relaunch some older products. Fair & Lovely sachet was re-launched at Rs.5 in Q3FY14 which will help HUL increase its customer base. It has also indicated that this sachet is targeted at a different category of users and hence down-trading may not happen to a great extent. Wheel detergent was also relaunch and as per management, its performance in Q3FY14 has been better than the previous two quarters. Going forward, it expects Wheel to report better performance.

Margin to remain under pressure : Major portion of raw material is imported and landed cost depends on INR/USD parity. Looking at the persistent weakness in INR against USD, raw material pressure will be there for some more time. Add to this continued focus of Advertisement to maintain visibility of existing and newer products. Intense competition will not allow much scope for price hike. Operating efficiency is the way company plans to keep cost under control but effectiveness of the same will be keenly watched.

Valuation & View: At CMP of Rs.568, the stock is trading at 33.8x consensus FY14E earnings and 30.9x consensus FY15E earnings. Going by the near term concerns surrounding the company top line and bottom line growth will be muted . Valuation looks stretched and no fresh trigger appears in sight.

Stock can be considered at lower levels from medium to long term perspective .

STOCK DETAILS	
BSE Code	500696
NSE Code	HINDUNILVR
Market Cap (Rs.bn)	1249.6
Sector	FMCG
Year End	March
52 w.High/Low	725/432
Avg Daily Turnover (Rs.bn)	0.84
Shares in Issue (bn)	2.2
BSE Sensex	20528
NSE Nifty	6088

About the company: Hindustan Unilever (HUL) is a Fast Moving Consumer Goods Company. It has 35 brands spanning 20 categories such as soaps, detergents, shampoos, skin care, toothpastes, deodorants, cosmetics, tea, coffee, packaged foods, ice cream & water purifiers. Its portfolio includes Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, Pepsodent, Closeup, Axe, Brooke Bond, Bru, Knorr, Kissan, Kwality Wall's and Pureit. HUL is a subsidiary of Unilever, one of the world's leading suppliers of fast moving consumer goods with presence in more than 100 countries across the globe.

CONSOLIDATED FINANCIALS				
Rs in bn	FY12	FY13	FY14E	FY15E
Revenue	234.4	263.2	292.7	329.4
EBIDTA	35.0	42.2	46.4	52.5
EBIDTA(%)	14.9	16.0	15.9	15.9
PAT	28.0	38.3	36.7	40.0
PAT(%)	11.9	14.6	12.5	12.1
EPS	12.9	17.7	16.8	18.4
P/E (x)	44.0	32.1	33.8	30.9

Source: Company, Bloomberg

INDSEC Rating Distribution

BUY : Expected total return of over 25% within the next 12 months.

ACCUMULATE : Expected total return between 10 to 25% within the next 12 months.

REDUCE : Expected total return below 10% within the next 12 months.

SELL : Expected total return is below the market return within the next 12 months.

NEUTRAL: No investment opinion on the stock under review.

Disclaimer

This report has been issued by Indsec Securities and Finance Limited (ISFL), which is a SEBI regulated entity.

This document is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of security.

This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. However, we do not guarantee its accuracy and the information may be incomplete and condensed. Note however that, we have taken meticulous care to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any other employee of our company is in any way responsible for its contents. The Company's research department has received assistance from the subject company (ies) referred to in this document including, but not limited to, discussions with management of the subject company (ies). All opinions, projections and estimates constitute the judgment of the author as of the date of this document and these, including any other information contained in this document, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. While we would endeavor to update the information herein on reasonable basis, we are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent us from doing so.

Securities recommended in this document are subject to investment risks, including the possible loss of the principal amount invested. Any decision to purchase/sale securities mentioned in this document must take into account existing public information on such security or any registered prospectus. The appropriateness of a particular investment, decision or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in this document may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved).

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject the company to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction

The company may trade in securities, which are the subject of this document or in related instruments and may have acted upon, use or used the information contained in this document or the research or the analysis on which it is based, before its publication. The company or its directors may have a position or be otherwise interested in the investment strategy referred to in this document. The company may be involved in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender/borrower to such company(ies) or have other potential conflicts of interest with respect to any recommendation and related information and opinions. This is just a suggestion and the company will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of the company. No matter contained in this document may be reproduced or copied without the consent of the company. Any unauthorized use, duplication, redistribution or disclosure is prohibited by law and will result in prosecution. The information contained in this document is intended solely for the recipient and may not be further distributed by the recipient. The Company accepts no liability whatsoever for the actions of third parties.

The research analyst(s) of this report certifies that all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities and that no part of his/her/their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.

Analyst's holding in the stocks mentioned in the Report: - NIL

CONTACT DETAILS

Managing Director		Contact Information	
Nandkishore Gupta		ngupta@indsec.com	022-6114 6101/02
Research Team	Sectors Covered	Contact Information	
Milan Wadkar	Cement, Auto & Mid Caps	milanw@indsec.co.in	022-6114 6105
Shailesh Kumar	Banking, FMCG & Mid Caps	shaileshk@indsec.co.in	022-6114 6139
Rohit Natarajan	EPC, Infra, Capital Goods & Mid Caps	rohitn@indsec.co.in	022-6114 6118
Divya Sankaranarayanan	Research Associate	divyas@indsec.co.in	022-6114 6109
Institutional Sales Team		Contact Information	
Nilesh Mistry		nileshm@indsec.co.in	022-6114 6125
Pradnya Potdar		pradnyap@indsec.co.in	022-6114 6134
Parag Shah		parags@indsec.co.in	022-6114 6133

For additional information please contact: research@indsec.co.in, or visit us at www.indsec.co.in

Indsec Securities & Finance Ltd, 301/302, "215 Atrium", "A" Wing, Andheri-Kurla Road, Chakala, Andheri (East), Mumbai - 400 093
Telephone: +91 22 6114 6114 / 6114 6100, Fax: +91 22 6114 6180 / 86