

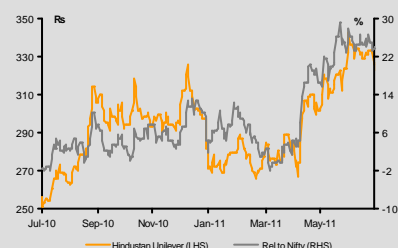
July 28, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs323	Rs328
EPS change FY12E/13E (%)	+2/+5
Target Price change (%)	+5
Nifty	5,488
Sensex	18,210

Price Performance (%)	1M	3M	6M	12M
Absolute	(0)	14	19	28
Rel. to Nifty	1	21	22	26

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Consumers
Bloomberg	HUVR@IN
Equity Capital (Rs mn)	2161
Face Value(Rs)	1
No of shares o/s (mn)	2161
52 Week H/L	347/250
Market Cap (Rs bn/USD mn)	697/15,799
Daily Avg Volume (No of sh)	524613
Daily Avg Turnover (US\$m)	3.7

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	52.5	52.6	52.0
FII/NRI	18.7	17.6	17.8
Institutions	11.8	12.4	12.7
Private Corp	2.4	2.6	2.7
Public	14.7	14.9	14.8

Source: Capitaline

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- Results are in line with expectations - Sales growth at 14.7% to Rs 55.8 bn is driven by 8.3% volume growth and APAT growth of 10.5% to Rs 5.7 bn
- Soaps and detergents grew 12.8% and PBIT margins witnessed qoq improvement of 170 bps to 9.2%. Personal products grew 19.4% with 50 bps PBIT margin expansion yoy
- Though implied price-led growth of 6.4% is the highest in last 8 quarters, pricing actions are yet to play out. We foresee improvement in EBITDA margins on qoq basis
- Raise our FY12E/13E EPS by 2% to Rs 11.1 and by 5% to Rs 12.6, respectively. We maintain our ACCUMULATE rating with target price of Rs 328/share

### In line performance... volume growth marginally below expectations

HUL's Q1FY12 performance meets our expectations. Sales growth of 14.7% yoy to Rs 55.8 bn is largely driven by 8.3% volume growth during the quarter. While continued raw material pressure led to a decline of 480 bps in gross margins, lower A&P spends (11.3% vs 15.4% in 1QFY11) restricted EBITDA margin decline to 20 bps to 13.5%. Further, excluding extra-ordinary income of Rs 586 mn, adjusted PAT grew by 10.5% yoy to Rs 5.7 bn.

### Revenue growth driven through across the portfolio...

All business segments reported strong growth during the quarter – 1. Soaps and Detergents grew 12.8% yoy to Rs 25.6 bn largely driven by double-digit growth in Rin and Lifebuoy; 2. Personal products grew 19.4% yoy to Rs 16.3 bn aided by new launches in skin care and strong growth in larger brands like Dove, Clinic and Ponds; and 3. Packaged Foods (processed foods and ice-creams) registered 17.8% yoy growth to Rs 3.7 bn assisted by strong growth in Kissan, Knorr and Kwality Walls ice-creams.

### Soaps and Detergents margin expand sequentially...

Soaps and detergents witnessed sequential PBIT margin expansion of 170 bps to 9.2% during the quarter aided by price hikes. Increasing share of premium products in skin care brands like Dove, Ponds and Lakme has led to 50 bps expansion yoy to 25.3% in personal products. With incremental price hikes to be effected in the market, we expect margins to improve, in ensuing quarters. Accordingly, we have revised our EBITDA and PAT estimates upwards by 4% and 5%, respectively, for FY13E.

### Margin lever to play out ....Maintain ACCUMULATE with TP of Rs 328

We believe margins levers are yet to play out in the ensuing quarters, with full price impact to be realized. Accordingly, we revise our FY12E/13E EPS by 2% to Rs 11.1 and by 5% to Rs 12.6, respectively. We maintain our ACCUMULATE rating on the stock with a revised target price of Rs 328/share (from Rs 312/share), valuing it at 26x FY13E EPS.

### Financial Snapshot

	Rs Mn							
	Net	EBITDA	AEPS	AEPS	ROE	P/E	EV/	P/BV
YE-Mar	Sales	(Core)	(%)	(Rs)	% Chg	(x)	EBITDA (x)	(x)
FY2010	177,659	27,977	15.7	9.7	-15.9	31.3	22.1	25.6
FY2011	196,945	26,645	13.5	10.0	2.1	30.4	21.6	24.8
FY2012E	226,797	30,700	13.5	11.1	11.6	27.2	18.9	22.2
FY2013E	250,166	34,937	14.0	12.6	13.4	24.0	16.5	19.3

## Quarterly results

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY Growth	QoQ Growth
Net Sales	48,630	47,647	51,277	49,666	55,794	14.7%	12.3%
Expenditure	41,953	41,178	44,027	43,201	48,251	15.0%	11.7%
Material Cost	24,466	23,830	25,692	26,581	30,742	25.6%	15.7%
% of Sales	50.3%	50.0%	50.1%	53.5%	55.1%	480 bps	160 bps
Employee Expenses	2,506	2,450	2,310	2,346	2,862	14.2%	22.0%
% of Sales	5.2%	5.1%	4.5%	4.7%	5.1%	0 bps	40 bps
Other Expenses	7,469	8,433	8,593	8,041	8,318	11.4%	3.4%
% of Sales	15.4%	17.7%	16.8%	16.2%	14.9%	-50 bps	-130 bps
Operating Profit	6,677	6,469	7,250	6,465	7,543	13.0%	16.7%
Other Income	554	768	770	560	508	-8.2%	-9.3%
Interest	1	1	1	0	0	-75.0%	0.0%
Depreciation	535	554	563	556	562	5.0%	1.0%
PBT	6,695	6,683	7,456	6,468	7,489	11.9%	15.8%
Tax	1,548	1,426	1,724	1,613	1,802	16.4%	11.8%
PAT	5,147	5,257	5,732	4,856	5,686	10.5%	17.1%
EPS	2.4	2.4	2.6	2.2	2.6	11.6%	17.1%

Margins (%)							(bps)	(bps)
EBIDTA	13.7%	13.6%	14.1%	13.0%	13.5%	-20 bps	50 bps	
EBIT	13.8%	14.0%	14.5%	13.0%	13.4%	-30 bps	40 bps	
EBT	13.8%	14.0%	14.5%	13.0%	13.4%	-30 bps	40 bps	
PAT	10.6%	11.0%	11.2%	9.8%	10.2%	-40 bps	40 bps	
Effective Tax rate	23.1%	21.3%	23.1%	24.9%	24.1%	90 bps	-90 bps	

Segment Revenues	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY Gr	QoQ Gr
Soaps and Detergents	22645	21294	21929	22048	25550	12.8%	15.9%
Personal Products	13655	13649	16547	14591	16307	19.4%	11.8%
Beverages	5378	5700	6022	6339	6086	13.1%	-4.0%
Packaged foods	3158	2744	2700	3170	3721	17.8%	17.4%
Exports	2648	2647	2909	2793	3063	15.7%	9.7%
Others	1126	1527	1111	617	1066	-5.3%	72.7%

Segment PBIT	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY Gr	QoQ Gr
Soaps and Detergents	2,488	2,501	1,693	1,659	2,361	-5.1%	42.3%
Personal Products	3,388	3,140	4,769	3,652	4,133	22.0%	13.2%
Beverages	695	876	1,014	993	764	9.9%	-23.0%
Packaged foods	259	155	-166	76	174	-32.8%	129.0%
Exports	227	189	227	273	237	4.4%	-13.1%
Others	-266	-183	-185	-115	-26	-90.4%	-77.8%

PBIT Margin	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY Gr	QoQ Gr
Soaps and Detergents	11.0%	11.7%	7.7%	7.5%	9.2%	-170 bps	170 bps
Personal Products	24.8%	23.0%	28.8%	25.0%	25.3%	50 bps	30 bps
Beverages	12.9%	15.4%	16.8%	15.7%	12.6%	-40 bps	-310 bps
Packaged foods	8.2%	5.6%	-6.2%	2.4%	4.7%	-350 bps	230 bps
Exports	8.6%	7.1%	7.8%	9.8%	7.7%	-80 bps	-200 bps
Others	-23.6%	-12.0%	-16.6%	-18.7%	-2.4%	2120 bps	1630 bps

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Revenues	220,623	226,797	2.8	242,307	250,166	3.2
EBITDA	30,421	30,700	0.9	33,603	34,937	4.0
EBITDA Margin (%)	13.8	13.5	(1.8)	13.9	14.0	0.7
APAT	23,512	24,045	2.3	26,001	27,275	4.9
EPS	10.9	11.1	2.3	12.0	12.6	4.9

## Financials

## Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>177,659</b>	<b>196,945</b>	<b>226,797</b>	<b>250,166</b>
Growth (%)	-13.5	10.9	15.2	10.3
<b>Expenses</b>	<b>149,682</b>	<b>170,300</b>	<b>196,097</b>	<b>215,228</b>
Growth (%)	-14.8	13.8	15.1	9.8
Raw Materials	88,779	100,569	120,349	132,749
% Of Sales	50.0	51.1	53.1	53.1
Employee Cost	9,363	9,613	11,070	12,210
% Of Sales	5.3	4.9	4.9	4.9
Manufacturing Exps	6,167	7,248	8,346	9,206
% Of Sales	3.5	3.7	3.7	3.7
Admin Expenses	12,752	14,755	14,708	15,149
% Of Sales	7.2	7.5	6.5	6.1
Selling & Distribn Exp	32,621	38,116	41,625	45,914
% Of Sales	18.4	19.4	18.4	18.4
<b>Ebidta</b>	<b>27,977</b>	<b>26,645</b>	<b>30,700</b>	<b>34,937</b>
Growth (%)	-5.6	-4.8	15.2	13.8
Ebidta%	15.7	13.5	13.5	14.0
Other Income	1,076	2,878	2,994	3,114
Interest	70	2	2	2
Depreciation	1,840	2,208	2,415	2,570
PBT	27,143	27,312	31,277	35,479
Tax	6,044	5,769	7,232	8,204
<b>PAT (Before EO Item)</b>	<b>21,099</b>	<b>21,542</b>	<b>24,045</b>	<b>27,275</b>
Growth (%)	-15.9	2.1	11.6	13.4
Net Margin%	11.9	10.9	10.6	10.9
E/O Item	922	1,527	0	0
Reported PAT	22,020	23,070	24,045	27,275

## CashFlow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
<b>Pre-Tax Profit</b>	<b>27,071</b>	<b>27,302</b>	<b>31,277</b>	<b>35,479</b>
Depreciation	1,840	2,208	2,415	2,570
Non Cash	223	-815	0	0
Chg in Working Cap	14,289	-1,534	-347	1,142
Tax Paid	-6,617	-6,524	-7,232	-8,204
<b>Operating Cash Flow</b>	<b>36,806</b>	<b>20,636</b>	<b>26,113</b>	<b>30,987</b>
Capex	-5,568	-2,992	-2,500	-2,500
<b>Free Cash Flow</b>	<b>31,237</b>	<b>17,644</b>	<b>23,613</b>	<b>28,487</b>
Investments	-8,358	2,611	0	0
Change in Equity Capital	0	-6,219	0	0
Loans	-3,907	-2	0	0
Dividend	-17,827	-16,556	-20,863	-22,874
Others	0	0	0	1
<b>Net Change in Cash</b>	<b>1,146</b>	<b>-2,522</b>	<b>2,749</b>	<b>5,612</b>
<b>Opening Cash Position</b>	<b>17,773</b>	<b>18,922</b>	<b>16,400</b>	<b>19,149</b>
<b>Closing Cash Position</b>	<b>18,922</b>	<b>16,400</b>	<b>19,149</b>	<b>24,762</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity Share Capital	2,182	2,160	2,160	2,160
Reserves	23,654	24,180	27,361	31,761
<b>Networth</b>	<b>25,835</b>	<b>26,339</b>	<b>29,520</b>	<b>33,921</b>
Secured Loans	0	0	0	0
Unsecured Loans	0	0	0	0
<b>Loan Funds</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Capital Employed</b>	<b>25,835</b>	<b>26,339</b>	<b>29,520</b>	<b>33,921</b>
Gross Block	35,820	37,596	40,096	42,596
Less: Depreciation	14,199	15,905	18,319	20,889
<b>Net Block</b>	<b>21,621</b>	<b>21,692</b>	<b>21,777</b>	<b>21,707</b>
Capital Work In Progress	2,740	2,991	2,991	2,991
<b>Investments</b>	<b>12,641</b>	<b>12,607</b>	<b>12,607</b>	<b>12,607</b>
<b>Current Assets</b>	<b>53,678</b>	<b>60,952</b>	<b>68,759</b>	<b>79,616</b>
Inventories	21,799	28,113	31,330	34,666
Debtors	6,784	9,432	10,511	11,631
Cash & Bank	18,922	16,400	19,149	24,762
Loans & Advances	6,006	6,654	7,415	8,205
Other Current Assets	166	354	354	354
<b>Current Liabilities &amp; Prov</b>	<b>67,332</b>	<b>73,998</b>	<b>78,710</b>	<b>85,096</b>
<b>Net Current Assets</b>	<b>-13,655</b>	<b>-13,046</b>	<b>-9,950</b>	<b>-5,480</b>
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	2,488	2,096	2,096	2,096
<b>Capital Deployed</b>	<b>25,835</b>	<b>26,339</b>	<b>29,520</b>	<b>33,921</b>

## Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
<b>Profitability %</b>				
Ebidta Mgn	15.7	13.5	13.5	14.0
PAT Mgn	11.9	10.9	10.6	10.9
ROCE	107.4	104.7	112.0	111.9
ROE	90.8	82.6	86.1	86.0
<b>Per Share Data</b>				
EPS	9.7	10.0	11.1	12.6
CEPS	10.3	10.8	12.0	13.5
BVPS	11.8	12.2	13.7	15.7
DVPS	6.5	7.5	8.3	9.1
<b>Valuations (X)</b>				
PER	31.3	30.4	27.2	24.0
CPER	29.4	28.1	25.3	22.4
P/BV	25.6	24.8	22.2	19.3
Ev/Sales	3.7	3.3	2.9	2.6
Ev/Ebidta	22.1	21.6	18.9	16.5
Dividend Yield (%)	2.1	2.5	2.7	3.0
<b>Turnover X Days</b>				
Debtor TO Days	13.9	17.5	17.5	17.5
Inventory TO Days	44.8	52.1	52.1	52.1
<b>Gearing Ratio</b>				
Net Debt/Equity	-0.8	-0.7	-0.7	-0.8
Total Debt/Equity	0.0	0.0	0.0	0.0

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

Date	Reports	Reco	CMP	Target
09/05/2011	<a href="#">Hindustan Unilever Q4FY11 Result Update</a>	Accumulate	284	312
27/01/2011	<a href="#">Hindustan Unilever Q3FY11 Result Update</a>	Hold	271	275
25/10/2010	<a href="#">Hindustan Unilever Q2FY11 Result Update</a>	Reduce	306	275
27/08/2010	<a href="#">Hindustan Unilever Event Update</a>	Hold	265	271

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
27/07/2011	<a href="#">Marico Q1FY12 Result Update</a>	Accumulate	167	172
27/07/2011	<a href="#">Asian Paints Q1FY12 Result Update</a>	Hold	3,140	3,026
25/07/2011	<a href="#">GCPL Q1FY12 Result Update</a>	Accumulate	453	474
22/07/2011	<a href="#">Colgate-Palmolive Q1FY12 Result Update</a>	Reduce	993	826

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