

# Hindustan Unilever Ltd ₹ 458

Take **LEVER**age

Accumulate



Mar 15, 2013

## Company Background

Hindustan Unilever Limited (HUL), the largest FMCG Company in India, was formed by merging three subsidiaries of Unilever in 1956. At present, Unilever Plc holds a 52.5% stake in the company. HUL's portfolio of products covers a wide spectrum including soaps, detergents, skin creams, shampoos, tooth-pastes, tea, coffee, packaged foods and branded atta. Powerful brands and an envious distribution network are HUL's primary strengths. The company operates through segments—soaps & detergents, personal products, beverages, foods, exports, and other operations.

## Key Highlights

- ➔ HUL's domestic consumer business grew 15% YoY with a volume growth of 5% YoY on a base of 9.1% YoY growth in Q3FY12.
- ➔ Soaps & Detergents grew 19.8% YoY. EBIT margin contracted 102bps YoY to 12.4% because of a significant step up in investments through A&P. However, the category's gross margin expanded YoY. The laundry portfolio posted a strong performance, with both Surf & Rin registering double digit growth.
- ➔ Personal products grew at 13% YoY. Margin improved 142bps YoY to 28.3%. Skin care growth was broad based; robust growth was seen particularly in creams with Ponds Age Miracle and in lotions with Vaseline and Dove. Hair care portfolio delivered strong growth led by premium formats.
- ➔ Beverages grew 18.2% YoY with tea business delivering its strongest quarters with double digit growth across all brands in the premium & popular segments. Margin catapulted 203bps YoY to 17.7%. In tea business, extend distribution, impactful activation and continued market development of tea bags helped deliver high growth.
- ➔ Packaged foods business grew 7.7% YoY, and margin improved 115bps YoY as losses were curbed by INR 34 mn to INR 26 mn. Kissan Ketchup maintained double digit growth while growth accelerated in Knorr soups portfolio.
- ➔ In Water business Pureit posted good growth despite slowdown in consumer durables market in India. The newly launched 'Marvella UV' & 'Advanced' were received well by consumers.

## Key Financials

Year Ended 31 <sup>st</sup>	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	183,234.7	202,477.9	225,610.5
Rev. growth (%)	(13.16)	10.50	11.42
EBITDA (INR mn)	30,314.4	31,822.4	37,161.6
Net profit (INR mn)	22,020.3	23,059.9	26,914.0
Shares outstanding (mn)	1,957.2	1,957.2	1,957.2
EPS (INR)	11.3	11.8	13.8
EPS growth (%)	(55.90)	4.72	16.71
P/E (x)	21.2	24.2	29.8
RONW (%)	86.3	81.1	83.4
ROCE (%)	79.2	81.1	83.4

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## Info Codes

Reuters	: HLL.BO
Bloomberg	: HUVR@IN
NSE	: HINDUNILVR
BSE	: 500696

## Market Data

52 Wk Range (₹)	: 578 / 381
Shares in Issue (mn)	: 1957.2
Mkt. Cap (₹ bn)	: 991.55
BSE 2 Wk Avg Vol	: 264000

## Share Holding Pattern (%)

Promoters	: 52.49
DII's	: 08.51
FII's	: 21.68
Others	: 17.32

## Investment Theme

HUL is a play on consumption growth in India. It has displayed its ability to effect price hikes and avoid impact of inflation in vegetable oils, which, combined with improved outlook for fabric wash and strong growth in processed foods and beverages, boosts its positive outlook on the stock. HUL has modified its current royalty arrangement, w.e.f Feb 1, 2013, with Unilever for provision of technology, trade mark licence and other services. The recent moves by the company to dispose of its non-core assets including few properties give it a near term upside. We believe the price war in shampoos with rival P&G has weakened (just like in S&D). We like its revenue growth from a medium perspective, however increase in royalty, steep hike in tax rate (up 200bps and 250bps YoY for FY14E & FY15E resp.) & slowdown in other few segments remains an overhang.

**Properties at its Disposal**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	184623.4	206399.4	11.79	231810.9	12.31
Other Income	5101.2	4957.6	(2.82)	4051.3	(18.28)
Change in Stocks	194.7	2950.8	1415.56	(1310.0)	(144.39)
Raw Material Con.	53556.2	60323.3	12.64	67757.4	12.32
Employee Exp.	11443.4	9630.7	(15.84)	11195.7	16.25
Indirect Taxes	7469.8	9929.2	32.92	11527.3	16.09
Other Exp.	87135.5	102602.2	17.75	106910.2	4.20
Operating Exp.	159410.2	179534.6	12.62	198700.6	10.68
Operating Profit	25213.2	26864.8	6.55	33110.3	23.25
Total Interest	633.1	2.4	(99.62)	19.2	700.00
Gross Profit	29681.3	31820.0	7.21	37142.4	16.73
Net Dep.	1177.4	2480.3	110.66	2375.6	(4.22)
Total Taxation	6483.6	6279.8	(3.14)	7852.8	25.05
Net Profit/Loss	22020.3	23059.9	4.72	26914.0	16.71

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11	Mar 12
<b>SOURCES OF FUNDS</b>	<b>24,827.8</b>	<b>25,828.5</b>	<b>26,588.5</b>	<b>35,122.6</b>
Equity Share capital	2,179.9	2,181.7	2,159.5	2,161.5
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	18,428.5	23,646.8	24,429.0	32,961.1
Long Term Loans	3.4	0.0	0.0	0.0
Short Term Loans	4,216.0	0.0	0.0	0.0
<b>USES OF FUNDS</b>	<b>24,827.8</b>	<b>25,828.5</b>	<b>26,588.5</b>	<b>35,122.6</b>
Gross Block	28,817.4	35,819.6	37,596.2	38,116.8
Less : Revaluation Reserves	6.7	6.7	6.7	6.7
Less : Accumulated Depreciation	12,749.5	14,198.5	15,905.2	16,642.1
Net Block	16,061.2	21,614.4	21,684.3	21,468.0
Capital Work in Progress	4,720.6	2,739.6	2,887.6	2,154.5
Investments	3,326.2	12,640.8	12,606.7	24,382.1
Current Assets	61,088.1	58,907.6	66,833.8	63,968.9
Less : Current Liabilities	60,368.3	70,073.9	77,423.9	76,850.9
Total Net Current Assets	719.8	(11,166.3)	(10,590.1)	(12,882.0)
Misc. Expenses not written	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	3,073.9	845.2	1,089.1	1,746.4
Mkt Val. Quoted Investments	710.9	13,355.2	12,794.9	24,692.8
Contingent Liabilities	6,065.4	6,588.0	8,369.6	9,301.1
Dividend (%)	650	650	750	1250

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 12	Jun 12	Sep 12	Dec 12
Net Sales	57,659.00	63,787.70	63,108.10	66,548.30
Cost Of Sales	49,332.00	54,123.20	53,340.70	55,660.40
Operating Profit	8,327.00	9,664.50	9,767.40	10,887.90
Recurring Income	699.60	2,186.10	1,487.50	1,337.10
Adjusted PBDIT	9,026.60	11,850.60	11,254.90	12,225.00
Financial Expenses	2.00	52.80	63.30	75.30
Depreciation	570.70	576.30	576.90	592.80
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	8,453.90	11,221.50	10,614.70	11,556.90
Tax Charges	1,875.50	3,956.50	2,561.30	2,770.50
Adjusted PAT	6,578.40	7,265.00	8,053.40	8,786.40
Non Recurring Items	345.50	6,046.90	15.80	(72.80)
Other Non Cash Adjust	57.80	0.00	0.00	0.00
Net Profit	6,866.10	13,311.90	8,069.20	8,713.60

## 52 Week Index Relative Percentage Appreciation



HUL vs SENSEX vs FMCG

## New @ HUL

- ➔ HUL launched Lux Body Sprays recently to tap the potential of the INR10bn plus deo market growing at 25% CAGR. With the launch of Dove Elixir, HUL has extended Dove to premium hair oils. This shows HUL's rising interest in the premium hair oils category which is worth INR 67 bn.
- ➔ Unilever opened a R&D centre in Bengaluru; formally inaugurated by CEO Paul Polman.
- ➔ HUL has become the only company to win the IR Global Ranking awards this year in India in 3 out of 4 categories. It is a winner in IR website, Online annual report and Financial disclosures categories.
- ➔ Importance of India is increasing for Unilever as innovations are happening in India and are getting bigger; aims to get 75% of revenue from emerging markets by 2020, up from the current 55%. Pureit, entirely developed in India, is now sold in at least 15 other countries.
- ➔ Learnings from India, such as lower price points for products in smaller packages or sachets (available at GBP1), is gaining acceptance in Europe.

## Key Risks

Loss in market share has forced HUL to pass on significant benefit from reduction in raw material prices. Further correction in palm oil prices may lead to gross margin expansion. Competitive pressure has intensified with more companies entering personal care and toilet soap and detergents, which account for 80% of HUL's profits. Also, upside risk arise from HUL's continuous efforts through innovations to deal with the discretionary slowdown.

**In a Nutshell**

HUL 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 1mn retail outlets. The company is a subsidiary of Anglo Dutch FMCG giant Unilever. HUL is India's largest Fast Moving Consumer Goods Company with a heritage of over 75 years in India and touches the lives of two out of three Indians. HUL works to create a better future every day and helps people feel good, look good and get more out of life with brands and services that are good for them and good for others. With over 35 brands spanning 20 distinct categories such as soaps, detergents, shampoos, skin care, toothpastes, deodorants, cosmetics, tea, coffee, packaged foods, ice cream, and water purifiers, the Company is a part of the everyday life of millions of consumers across India. Its portfolio includes leading household brands such as 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. The Company has over 16,000 employees and has an annual turnover of around Rs. 217.36 bn (financial year 2011 - 2012). HUL is a subsidiary of Unilever, one of the world's leading suppliers of fast moving consumer goods with strong local roots in more than 100 countries across the globe with annual sales of about •46.5 billion in 2011. Unilever products touch the lives of over 2 billion people every day – whether that's through feeling great because they've got shiny hair and a brilliant smile, keeping their homes fresh and clean, or by enjoying a great cup of tea, satisfying meal or healthy snack.

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**Rating Interpretation**

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate 10% to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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