

HINDUSTAN UNILEVER: Focus on high growth categories

Hindustan Unilever Ltd (HUL) has reported better numbers than street expectations in Q4 FY13. Street cheered the positive surprise with better volume growth and as well as the margin expansion for the company, despite the increased spending on ad spends front. Company witnessed 12% (YoY) sales growth on the back of 6% volume growth and PAT growth by 15% (YoY) because of lower cost of key material.

Segmental Performance: Among key segments, HUL's soaps and detergents business (contributes half of its revenue) grew 13%. The company has cut prices of certain products like Dove soap on the back of benign input costs. Personal products segment (contributes 31% of sales) grew 12% and on the back of launch of new products and heightened advertising, volume growth in oral care was seen in double-digit. There has been some slowdown in discretionary spends by consumers, and that was visible, particularly in packaged foods, which grew only 7%. While HUL maintained that Kissan ketchups saw double-digit growth, ice creams, in particular, grew "modestly", impacted by a "slowdown in the market".

Volume growth: Company reported 6% volume growth, although volume growth dipped compared to growth clocked during Q4 FY12 over Q4 FY11, it rose on a sequential basis as the firm had generated volume growth of mere 5% in Q3 FY13 over the corresponding period the previous year. HUL managed to revive the volume growth, by passing on some benefits of reduction in raw material costs to customers by way of price cuts and increased A&P expenditure. This will increase competitiveness in the market and it will be interesting to watch out the pricing.

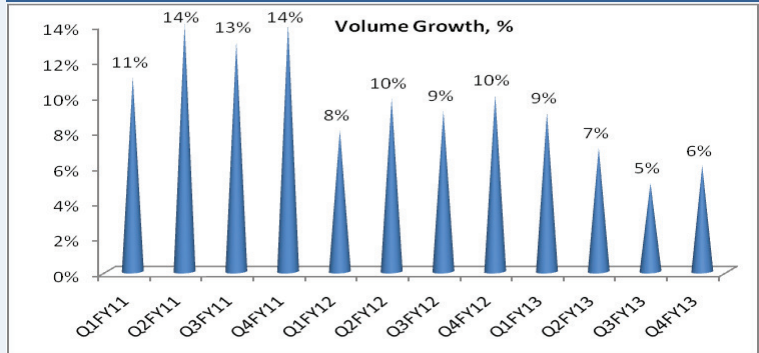
Stable Margin Picture: During the quarter, company's operating profit margin was up by 50 bps to 15%, compared with street's expectations of a flat growth. This despite a 21% increase in advertising spends at Rs 821crore.

Unilever PLC's open offer: The Anglo-Dutch giant Unilever planned to increased its share in Hindustan Unilever to as much as 75% from 52 at present. Unilever plans to pay up to \$5.4 billion to raise its stake in its Indian subsidiary, making its biggest deal in 13 years a huge bet on the strength of demand for personal care and food products. It would make an open offer for an additional 22.52% stake in the company at Rs 600 per share.

To continue to deliver strong growth, HUL is likely to continue with aggressive marketing and offer discounts/price cuts, especially in soaps, detergents and personal products as input cost pressures remain low and the company fights off competition rivals domestic as well as multi-national. While there are near-term concerns around slowing market growth and inflationary pressures on consumers, we are confident of the medium to long-term growth prospects of the FMCG sector and remain focused on delivering consistent, and competitive growth with sustainable operating margin improvement.

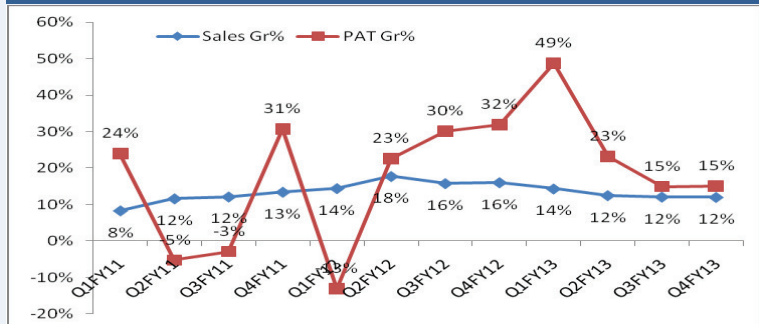
Despite of long-term prospects bright, giving rising incomes and low penetration, we have a cautious view on the stock on the back of Inflationary pressure. For now, Unilevers management has stated not to change the open offer price(fixed at Rs 600/share) after an intraday price rally of 17% post announcement. At a CMP of Rs 584, stock trades at 33x FY14E earnings. We have a NEUTRAL view on the stock.

Volume growth-%



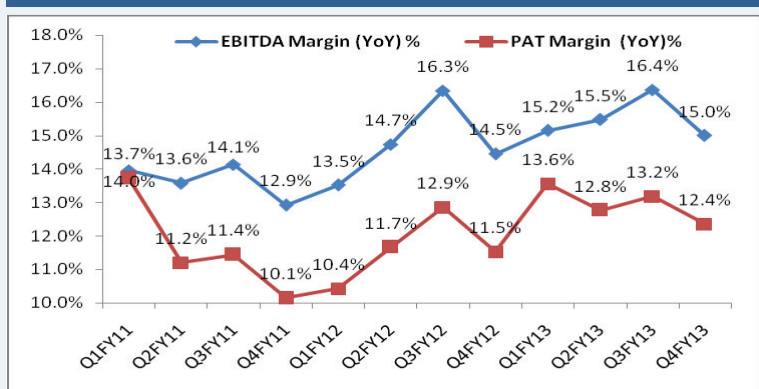
(Source: Company/Eastwind)

Sales and PAT Growth(YoY)-%



(Source: Company/Eastwind)

Margin-%



(Source: Company/Eastwind)

P/BV (x) -1year forward

