

Hindustan Unilever

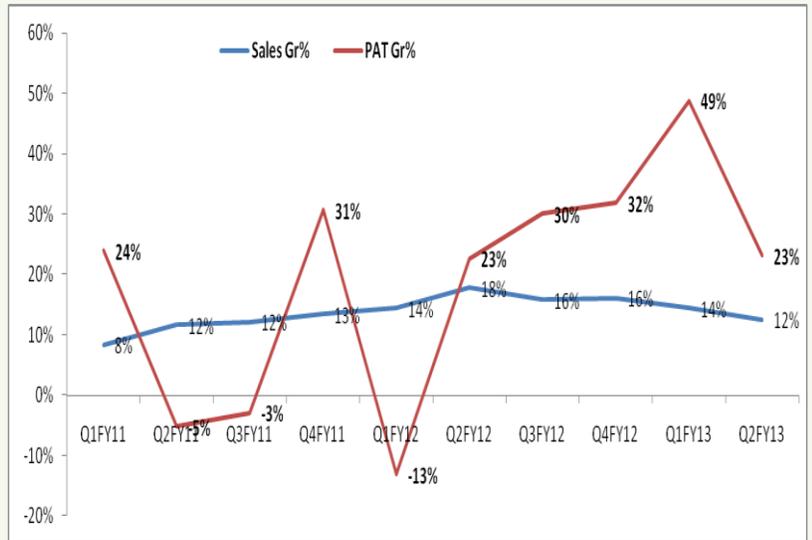
Hindustan Unilever (HUL) reported inline Q2FY13 numbers with sales growth of 12% (Figure: 1.1), led by strong 23% growth in Soap and Detergents (contributes half part of sales), 8% growth in Personal Products (Contributes 28% of Sales) and 10% in Beverages (contributes 11% of Sales). Company has witnessed 15% growth in Domestic FMCG category business, while export business disappointed. PAT growth of 23% YoY because of strong growth across all segments. Overall EBITDA Margin (Figure:1.2) expanded by 75bps to 15.5% due to judicious price hikes and global sourcing benefit. While HUL's total expenses in the quarter were up 12%, its advertising and promotional spends went up 18% from a year ago.

Company's Volumes (Figure:1.3) grew 7% YoY, a slight moderation from the recent trend of 8-10% because of moderation in discretionary categories (premium skin care, processed foods, and water) and continued weak trends in Canteen Stores Department (CSD), which contributes 6% of HUL's revenues. CSD's adverse volume impact was 120bn for the company

Soaps and detergents' competitive intensity increased sharply QoQ. This is a reflection of rising local competition due to softening input costs. HUL's key laundry brands and peers took 20-25% price hikes in the past 12 months and company launched Comfort One Rinse during the quarter. We expect the impact of pricing component to fade, going forward. Due to sharp price hikes in laundry products in the past 12 months, both HUL and P&G increased their value market shares by 40bp and 220bp respectively, post CY11. HUL is focusing on new growth categories like high-end personal care, foods and water. Recently Company and Future Group have reportedly collaborated to develop a new brand of bakery product that will be sold exclusively at Big Bazaar stores.

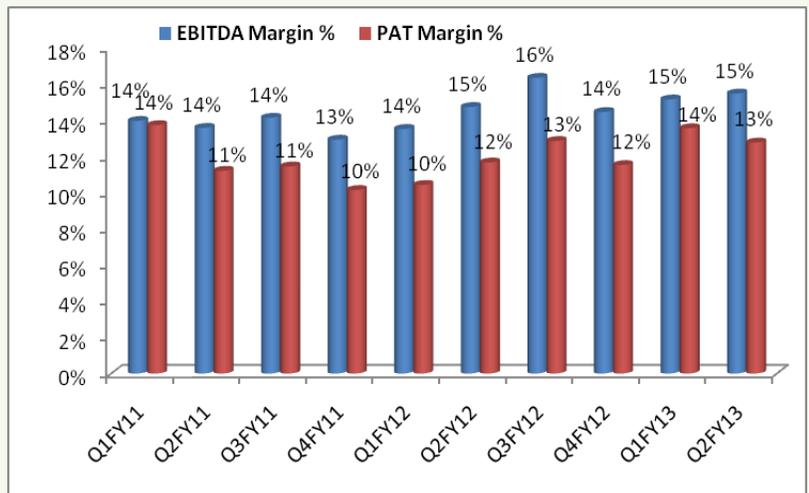
During the quarter, its cost pressure was managed dynamically through the aggressive strategy of Saving Scheme Programme coupled with judicious pricing system. To consolidate its position in the water purifier market company has launched Pureit Advanced at a genuine price. Innovations and new launches across segment (Lux deodorant for women, Pepsodent extra protection range, entry into mouthwash category, Axe soap bars for men, relaunch of FAL) could be better for revenue visibility in near term.

In the past HUL has lost market share due to increased competitive intensity in the key categories soaps and detergents. However increasing "premiumization" of its product sales, increased rural sales and global softening of chemical prices is further abetting margin expansion. 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. At a CMP of Rs 536, stock trades at 35x FY13E earnings and 25x FY13E PB. We maintain "Neutral" rating on premium valuation.



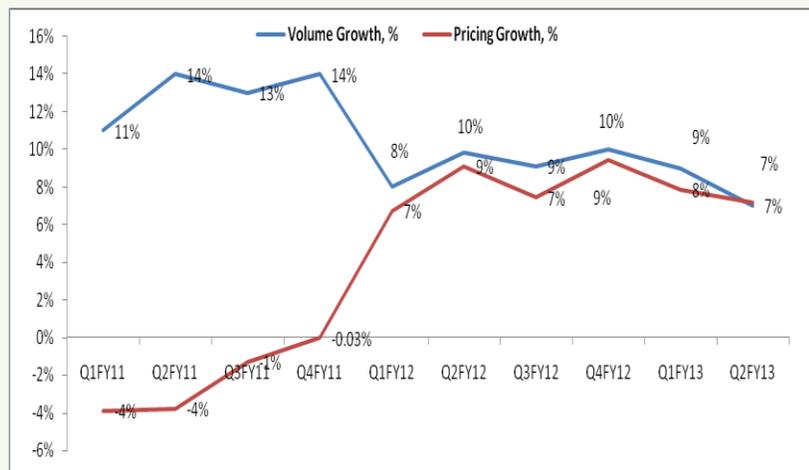
(Figure: 1.1)

(Source: Eastwind)



(Figure: 1.2)

(Source: Eastwind)



(Figure: 1.3)

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