Q4FY12 Result Update

May 12, 2012

HDFC Sec Scrip code	Industry	CMP (Rs.)	Recommended Action	Price Band (Rs.)	Target (Rs.)	Time Horizon
HLLLTDEQNR	FMCG	431	Buy on dips	392-405	446	3 months

Hindustan Unilever Limited (HUL) is India's largest fast moving consumer goods company, with leadership in Home & Personal Care Products. It is the market leader across diverse FMCG categories and has powerful brands like Rin, Surf Excel, Lux, Lifebuoy, and Ponds in its portfolio.

We present an update on the company after the Q4FY12 results:

Q4FY12 Results Review

Y-o-Y

- Net sales grew by 15.7% Y-o-Y to Rs. 56.6 bn [Q4FY11: Rs. 48.94 bn]. Domestic FMCG business grew at 20.4% Y-o-Y with healthy volume growth of 10%. HPC category reported strong growth of 23.6% Y-o-Y, led by robust growth in Soaps & Detergents segment, which rose 28.4% (third straight quarter of 20%+ growth) while personal products segment grew 17.1% Y-o-Y. Growth in soaps and detergents was largely led by price hikes. The segmental volume growth stood in mid-single digits. The segment contributed 49% to total revenues & 63% to the HPC business in Q4FY12. Personal Products segment growth was driven mainly by volumes. Domestic Foods segment revenues grew in single digits by 9.5%, as Beverages & Processed Foods both disappointed with Knorr witnessing slowdown in offtake. Others category (which includes Exports, Chemicals & Water) de-grew by 46.6% Y-o-Y.
- Operating profit grew by 28.3% (higher than in line with sales growth), while the OPM improved by 126 bps Y-o-Y to 12.9%, despite the higher input cost (up 17.2% Y-o-Y), aided by marginal rise in A&P spends (up 8.7% Y-o-Y) and other expenses (up 6.7% Y-o-Y). A&P cost as a % of Net Sales stood at 12%, a decline of 77 bps Y-o-Y. Employee Cost grew 17.3% Y-o-Y, higher than in line with the sales growth.
- On a segmental basis, Soaps & Detergents & Personal products segment witnessed an improvement of 382 bps & 126 bps Y-o-Y in their PBIT margins. However, Beverages and Packaged Foods disappointed, as their PBIT margins fell sharply. Infact the packaged foods segment reported a loss. Even others category reported a loss.
- Higher operating margins along with marginal rise in the depreciation cost (up 2.6% Y-o-Y), lower effective tax rate (down 277 bps Y-o-Y) and relatively higher growth in the other income (up 29.9% Y-o-Y) boosted the PAT (pre-exceptional & extr. ord items), which grew by 35.6% Y-o-Y at Rs. 6.59 bn. However reported PAT grew by only 20.6% Y-o-Y to Rs. 6.87 bn mainly due to lower one-time gains. The EPS (Adj.) for Q4FY12 stood at Rs. 3 vs. Rs. 2.2 in Q4FY11.

Q-o-Q

- Sequentially the results were subdued mainly due to seasonality (Q3 is generally the best quarter in terms of sales & profitability for HUL). Net sales declined by 3.1%, led by 9.4% and 58.2% q-o-q fall in the Personal Products & Others segment. Soaps & Detergents revenues grew by 7% Q-o-Q, while Packaged Foods grew by 13.5%. Beverages grew marginally by 1.8% Q-o-Q.
- Operating Profit de-grew by 15.2%, while the OPM fell by 183 bps Q-o-Q due to relatively higher material & employee cost (up 1.4% & 0.4% respectively). Segment-wise, all the segments witnessed a decline in their profitability & margins. Only Packaged Foods managed to reduce its losses marginally.
- Adjusted PAT de-grew by 14.1%, while reported PAT de-grew at a slower pace by 8.9% Q-o-Q on the back of one time loss in Q3FY12 compared to exceptional gain in Q4FY12.

Quarterly Financials:

(Rs. in Million)

Particulars	Mar-12	Mar-11	VAR [%]	Dec-11	VAR [%]	Remarks
Net Sales	56604.8	48936.7	15.7	58443.1	-3.1	• Domestic FMCG business grew at 20.4% Y-o-Y with healthy volume growth of 10%. HPC category reported strong growth of 23.6% Y-o-Y, led by robust growth of 28.4% in Soaps & Detergents segment (3rd straight quarter of 20%+ growth), largely led by price hikes. • Personal Products segment growth was decent at 17.1% and was mainly driven by volumes. • However, Domestic Foods segment revenues grew in single digits by 9.5%, as Beverages & Processed Foods both disappointed with Knorr witnessing slowdown in offtake. Others category de-grew by 46.6% Y-o-Y. • The management stated that it continues to gain market share in both rural & modern trade
Total Expenditure	49325.1	43262	14.0	49856.1	-1.1	
(Inc) / Dec. in Stock in Trade	2764.9	-1951.8	-	-273.8	-	
Cons. of Raw / Packaging Material	20795.5	21110.8	-1.5	23460.3	-11.4	Material Cost [incl. (Inc) / Dec. in Stock in Trade, Cons. of Raw / Packaging Material & Purchase of Goods] as a % to net sales rose 72 bps Y-o-Y to 55.2%. Inflationary pressures, both from the rupee and from crude, continued to remain in the quarter.
Purchase of Goods	7662.1	7482.9	2.4	7612.8	0.6	
Advertising & Promotions	6773.3	6232.8	8.7	6901.8	-1.9	The company managed its Advertising & Promotion expenses effectively as the A&P / Net Sales stood at 12% in Q4FY12, down 77 bps Y-o-Y (however it was up marginally by 16 bps sequentially). The moderation in the A&P cost supported OPM expansion on a Y-o-Y basis. HUL has maintained its ad spend in line with industry GRP trends. It seems that lower media inflation is helping to curb ad spends. As per the management, the media intensity in non-soap and detergent segment has fallen while in soap and detergent segment it has slightly grown.
Employee Cost	2751.3	2346	17.3	2741.2	0.4	
Other Expenditure	8578.0	8041.3	6.7	9413.8	-8.9	
Operating Profit	7279.7	5674.7	28.3	8587.0	-15.2	
Other Income	1753.8	1350.4	29.9	1918.7	-8.6	Other Income includes other operational income, which increased by 41.1% Y-o-Y and other financial income, which rose 16% Y-o-Y. Other financial income includes interest income, dividend income and net gain on sale of other non-trade investments.
EBIDTA	9033.5	7025.1	28.6	10505.7	-14.0	
Interest	2	0.2	900.0	4.5	-55.6	
PBDT	9031.5	7024.9	28.6	10501.2	-14.0	
Depreciation	570.7	556.3	2.6	568.2	0.4	
PBT	8460.8	6468.6	30.8	9933.0	-14.8	
Tax (incl. DT & FBT)	1875.5	1612.8	16.3	2271.1	-17.4	Effective tax rate on PBT fell by 277 bps Y-o-Y & 70 bps Q-o-Q to 22.2% in Q4FY12.
PAT (pre-except & extra-ord items)	6585.3	4855.8	35.6	7661.9	-14.1	
Extr. Ord. Items [gain /(loss)]	280.8	836	-66.4	-123.8	-326.8	Lower exceptional gains in Q4FY12 as compared to Q4FY11 were due to lower profit on sale of properties Rs. 347.3 mn (Q4FY11: Rs. 477.8 mn), loss on sale of a stake in a subsidiary Rs. 6.8 mn, provision for retirement benefits of Rs. 57.8 mn arising out of change in actuarial assumptions (Q4FY11: Rs. 390.3 mn reduction) and loss on capital reduction of a wholly owned subsidiary of Rs. 61.3 mn.

Reported PAT	6866.1	5691.8	20.6	7538.1	-8.9	Reported profit growth on Y-o-Y basis was low due to lower exceptional gain in Q4FY12.
EPS	3.0	2.2	35.5	3.5	-14.1	
Equity	2161.5	2159.5	0.1	2161.0	0.0	
Face Value	1	1.0	0.0	1.0	0.0	
OPM (%)	12.9	11.6	10.9	14.7	-12.5	Gross margin contracted 90 bps Y-o-Y to 44.8% on the back of continued input cost pressure and INR depreciation. However, decline in the A&P cost / Net Sales and marginal rise in the other expenses led to OPM expansion on a Y-o-Y basis.
PBIT (%)	15.0	13.2	13.1	17.0	-12.1	
PATM (%)	11.6	9.9	17.2	13.1	-11.3	

(Source: Company, HDFC Sec)

Segmental Results:

Quarterly:

(Rs. in Million)

Particulars	Q4FY12	Q4FY11	VAR [%]	Q3FY12	VAR [%]	Remarks
Segment Revenue						
Soaps & Detergents	28343.8	22075	28.4	26481.3	7.0	• The segment reported third straight quarter of 20%+ revenue growth. Growth was largely price-led, owing to inflationary environment. Laundry delivered strong double-digit growth across all brands. Premium portfolio delivered strong growth. • Momentum was sustained in both bars and powders with Rin benefiting from the bars re-launch in Q3. The focus on driving upgradation led to stepped up growth rates in Surf. During the quarter, Rin made a foray into the fabric blues segment with the launch of Rin perfect shine. Household Care delivered robust double-digit growth led by Vim and Domex. • Skin Cleansing had broad based double-digit growth across all price segments. Lux accelerated its momentum, delivering the third successive quarter of double digit growth post its re-launch.
Personal Products	17109.4	14608.5	17.1	18877.2	-9.4	• The segment delivered decent growth mainly led by volumes. There were no price hikes undertaken on a Y-o-Y basis. • In Skin Care, Fair & Lovely (FAL), Ponds and Vaseline continued to grow in double digits. FAL growth was broad based with the FAL Menz variant more than doubling in Q4FY12. • Vaseline grew on the back of a robust performance in lotions and Ponds performed well at the premium end. Innovations in the quarter were led by the re-launch of Ponds Age Miracle, FAL anti-Marks, FAL Under Eye Serum and Vaseline Menz. • Hair business delivered strong double-digit growth, which was led by volumes. Oral Care registered modest growth in a competitive environment. Pepsodent GumCare performed well gaining from stepped up investments and distribution expansion.
Beverages	6831.7	6347	7.6	6709.3	1.8	In Beverages, Tea growth was led by Modern Trade. Brooke Bond Red Label and 3 Roses performed well with a strengthened proposition of health and taste. Coffee continued its double- digit growth trajectory with both Instant and Roast & Ground (R&G) doing well.
Packaged Foods	3480.5	3173.7	9.7	3066.6	13.5	In Foods, Kissan and Kwality Walls did well, however, Knorr Soups witnessed slowdown in offtake. HUL launched 5 new variants of Kwality Walls ice cream and Chicken variant in Knorr Soupy Noodles.

Others (includes Exports, Chemicals & Water)	1823	3413.8	-46.6	4360.6	-58.2	In Water business, Pureit Marvella RO (Reverse Osmosis) continues to do well and the portfolio was further expanded with the introduction of a 3000 litres germ-kill kit to enable the convenience of one change per year.
Total	**57588.4**	**49618**	**16.1**	**59495.0**	**-3.2**	
Segment Results						
Soaps & Detergents	3200.8	1650.4	93.9	3558.9	-10.1	Sharp Y-o-Y increase in the segment's PBIT growth was largely on the back of low base.
Personal Products	4491.9	3651.9	23.0	4881.2	-8.0	
Beverages	983.8	992.8	-0.9	1051.8	-6.5	
Packaged Foods	-37.1	46.5	-179.8	-59.7	-37.9	Investment into marketing and distribution for the launch of a new chicken variant in Knorr Soupy Noodles led to higher expenditure, resulting in an EBIT loss in food business.
Others (includes Exports, Chemicals & Water)	-48.9	151.9	-132.2	343.5	-114.2	
Total	**8590.5**	**6493.5**	**32.3**	**9775.70**	**-12.1**	
EBIT Margin (%)						
Soaps & Detergents	11.3	7.5	382	13.44	-215	
Personal Products	26.3	25.0	126	25.9	40	Despite a slightly lower growth in sales on a Y-o-Y basis, the segment margins improved on a Y-o-Y basis.
Beverages	14.4	15.6	-124	15.7	-128	With tea and coffee prices remaining firm in the past few quarters, margins are likely to remain under pressure in the coming quarters.
Packaged Foods	-1.1	1.5	-253	-1.9	88	
Others (includes Exports, Chemicals & Water)	-2.7	4.4	-713	7.9	-1056	
Total PBITM	**14.92**	**13.09**	**183**	**16.43**	**-151**	
Capital Employed						
Soaps & Detergents	-407.8	-3655.8	-88.8	-4830.7	-91.6	
Personal Products	254.5	1506.8	-83.1	609.8	-58.3	
Beverages	2999.3	3462.4	-13.4	2282.4	31.4	
Packaged Foods	2148.7	1334.5	61.0	1850	16.1	
Others (includes Exports, Chemicals & Water)	-750.7	1696.4	-144.3	960.6	-178.1	
Total	**4244**	**4344.3**	**-2.3**	**872.1**	**386.6**	
Other Unallocable Items	30885.3	22250.9	38.8	37656.2	-18.0	
Total	**35129.3**	**26595.2**	**32.1**	**38528.3**	**-8.8**	

(Source: Company, HDFC Sec)

The Board of Directors at their meeting held on Tuesday, 1st May, 2012 recommended a final dividend of Rs. 4.00 per share of Re.1 each, for the financial year ended 31st March, 2012. Together with the interim dividend of Rs. 3.50 per share paid on 22nd November, 2011, the total dividend for the financial year ended 31st March, 2012 works out to Rs. 7.50 per share of Re. 1/- each. This is compared to a total dividend of 650% in the previous year.

Conclusion & Recommendation:

HUL's Q4FY12 & FY12 performance was slightly below our expectations. Volume growth of 10% in domestic FMCG business was encouraging. Growth of 28.4% Y-o-Y in the Soaps & Detergents was impressive and it was the third straight quarter of 20%+ growth reported by the segment. The growth was largely price led owing to inflationary environment. 17.1% Y-o-Y growth in the personal products segment, though decent, was slightly below our expectations. However, both these segments witnessed a substantial improvement in their respectively PBIT margins. The beverages & packaged foods segment disappointed during the quarter both on the revenue & profit front. Investment into marketing and distribution for the launch of a new chicken variant in Knorr Soupy Noodles led to higher expenditure, resulting in an EBIT loss in foods business.

The company continued to face inflationary pressure during the quarter. This is evident from the fact that the gross margins contracted 90 bps Y-o-Y to 44.8% on the back of continued input cost pressure and INR depreciation. However, decline in the A&P cost / Net Sales and marginal rise in the other expenses led to OPM expansion on a Y-o-Y basis. If the crude prices remain firm and the rupee continues to depreciate from the current levels, then the gross margins could continue to remain under pressure in the near term. Also PFAD (palm fatty acid distillate) prices are at a new high, which is a concern. While A&P cost / Net Sales has cooled off from 14.3% in FY11 to 12.1% in FY12, ad spends could step up in FY13 on the back of innovations and the level of competitive intensity. We expect competitive intensity to increase in skin care and hair products. This could put pressure on the margins of Personal Products segment.

Volume growth would continue to remain a key focus area for the company. In FY13, we expect the volume growth to remain healthy on the back of continuous launches and innovations and expansion in the rural distribution. However, improving the margins significantly from the current levels could be challenging. Some of the key things, which we will need to monitor over the next few quarters include i) Volume Sustainability & Competitive Intensity (in both Soaps & Detergents and Personal Products segment, which contribute nearly 79% to the total revenues of HUL), ii) New launches, variants across the categories, iii) Pricing actions taken by the competitors and iv) Price behavior of key inputs like palm oil, raw tea, PFAD (Palm Fatty Acid Distillate) & LAB (Linear Alkyl Benzene).

We feel that the company could meet our FY13 revenue & profit projections. Hence we are keeping the same unchanged.

At CMP of Rs. 431, HUL trades at 32xFY13E. In our Q3FY12 result review dated Feb 21, 2012, we recommended investors to buy this scrip at lower levels in the price band of Rs. 358-371 for a price target of Rs. 405 over the next quarter. Thereafter, the stock touched a low of Rs. 376.3 on Feb 22, 2012 & subsequently touched a new high of Rs. 439.5 on May 10, 2012.

HUL has been one of those very few stocks, which has done well in Q4FY12 in a market that has been very listless. Post a robust performance in FY12, despite the challenging environment, investors have started to believe in HUL. In majority of the cases in the last ten years, HUL's premium over the benchmark index has increased during periods of uncertainty and consequent flight to safety. This has been supported by HUL's stable free cash flow generation during these years. HUL has shown a lot of resilience in a high inflationary scenario. A return to growth has triggered PE re-rating in the stock and this re-rating could continue, if the company continues to report robust numbers in the coming quarters. Volume growth, along with margin sustainence / improvement could be key triggers for further re-rating in the stock price.

Valuing the stock at 33xFY13E EPS, we arrive at a price target of Rs. 446. For better returns and margin of safety, investors can buy this scrip on dips in the price band of Rs. 392-405 (29-30xFY13E EPS) for the mentioned price target over the next quarter.

Financial Estimations: (Quick Estimates)

(Rs. in Million)

Particulars	FY09 (12 mn)	FY10	FY11	FY12E	FY12 (Act)	FY13 (RE)
Net Sales	164767.5	175238.0	193810.1	224640.4	217356.0	251597.2
Core Operating Profit	22482.1	25484.4	23238.9	30567.6	29105.7	33965.6
Adjusted PAT	21431.4	20907.0	20991.6	26214.0	25725.3	29185.3
Reported PAT	21155.2	22020.3	23059.9	27121.9	26914.0	29185.3
Equity	2179.9	2181.4	2159.5	2161.0	2161.5	2161.5
Adjusted EPS	9.8	9.6	9.7	12.1	11.9	13.5
OPM (%)	13.6	14.5	12.0	13.6	13.4	13.5
PATM (%)	13.0	11.9	10.8	11.7	11.8	11.6
PE	44.0	45.1	44.5	35.6	36.3	32.0

(Source: Company, HDFC Sec Estimates)

* OE - Original Estimates; RE - Revised Estimates

Analyst: Mehernosh Panthaki - FMCG, IT & Midcaps **Email ID:** mehernosh.panthaki@hdfcsec.com)

RETAIL RESEARCH Tel: (022) 3075 3400 Fax: (022) 2496 5066 Corporate Office
HDFC Securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Website: www.hdfcsec.com
Email: hdfcsecretailresearch@hdfcsec.com

Disclaimer: This document has been prepared by HDFC Securities Limited and is meant for sole use by the recipient and not for circulation. This document is not to be reported or copied or made available to others. It should not be considered to be taken as an offer to sell or a solicitation to buy any security. The information contained herein is from sources believed reliable. We do not represent that it is accurate or complete and it should not be relied upon as such. We may have from time to time positions or options on, and buy and sell securities referred to herein. We may from time to time solicit from, or perform investment banking, or other services for, any company mentioned in this document. This report is intended for non-Institutional Clients only.