

Higher A&P expenses resulting into lower profitability

Despite lower RM cost, EBITDA margin for Q1FY11 declined by 190 bps to 14.0% due to higher advertisement (+313 bps) and other operational expenses. However, impact of higher advertising cost on profitability margins was reduced by buying efficiencies (+ 60bps) and higher non-operating income. In FY10, the company generated a profit of ~Rs 23 crore from sale of properties and long term investments. The Net profit margin in Q1FY11 declined by 120 bps to 10.9%.

New product launched to drive future growth

With the successful launch of Pure-it Compact priced at Rs. 1000, HUL has consolidated its position in the water purifier segment. Introduction of Comfort has opened up avenues in the fast growing fabric conditioners segment. During the quarter, Fair & Lovely brand was relaunched through perfect stores. Tea business registered double digits growth with the launch and national roll out of Brooke Bond Sehatmand. Towards the end of current quarter, Rin was also re-launched with an improved formulation.

Valuation and recommendations

At the CMP of Rs 256.5 the stock is trading at 21.5x of its FY12 EPS of Rs 11.9. We expect volume growth to be sustained for coming quarters. But profitability margins remain a matter of concern. We recommend a **hold** on the stock at the CMP. .

Result Update



Kyon ki bhaiya, sabse bada rupaiya.

(Rs. In Cr.)

Hindustan Unilever Ltd.	Q1FY11	Q1FY10	% Chg.	Q1FY11	Q4FY10	% Chg.	FY201003	FY200903	% Chg.
Net Sales	4793.9	4475.7	7.1	4793.9	4315.8	11.1	17523.8	20239.3	-13.4
Other operational Income	82.3	27.0	205.5	82.3	64.5	27.7	201.5	362.2	-44.4
Total Oper. Income(TOI)	4876.2	4502.6	8.3	4876.2	4380.2	11.3	17725.3	20601.6	-14.0
Raw Materials Cons.-	1683.3	1569.5	7.3	1683.3	1773.5	-5.1	6608.9	8414.4	-21.5
% to TOI	34.5%	34.9%	-	34.5%	40.5%	-	37.3%	40.8%	-
Stock adj. (-)Inc / (+)Dec-	111.1	227.2	-51.1	111.1	-229.1	LP	-22.7	-421.6	-94.6
% to TOI	2.3%	5.1%	-	2.3%	-5.2%	-	-0.1%	-2.1%	-
Net Raw Mat adj. for stock	1794.3	1796.7	-0.1	1794.3	1544.4	16.2	6586.2	7992.8	-17.6
% to TOI	36.8%	39.9%	-	36.8%	35.3%	-	37.2%	38.8%	-
Other expenses	2150.3	1740.6	23.5	2150.3	2002.3	7.4	7452.9	8416.4	-11.5
% to TOI	44.1%	38.7%	-	44.1%	45.7%	-	42.1%	40.9%	-
Contribution Net_Sales	931.6	965.4	-3.5	931.6	833.6	11.8	3686.3	4192.3	-12.1
Personnel	250.6	250.4	0.1	250.6	238.1	5.3	936.3	1152.1	-18.7
% to TOI	5.1%	5.6%	-	5.1%	5.4%	-	5.3%	5.6%	-
Total expenditure	4195.3	3787.6	10.8	4195.3	3784.8	10.9	14975.4	17561.4	-14.7
Operating Profit	680.9	715.0	-4.8	680.9	595.5	14.4	2750.0	3040.2	-9.6
<i>% to TOI</i>	<i>14.0%</i>	<i>15.9%</i>	<i>-</i>	<i>14.0%</i>	<i>13.6%</i>	<i>-</i>	<i>15.5%</i>	<i>14.8%</i>	<i>-</i>
Non-Operating Income	42.1	33.5	25.6	42.1	28.4	48.3	148.1	205.6	-27.9
Interest	0.1	5.2	-98.5	0.1	0.1	-42.9	7.0	25.3	-72.4
Exceptional Items	18.5	2.8	570.3	18.5	143.4	-87.1	55.5	-16.3	LP
Gross Profit	741.5	746.2	-0.6	741.5	767.1	-3.3	2946.6	3204.1	-8.0
Depreciation	53.5	42.5	25.9	53.5	50.3	6.4	184.0	195.3	-5.8
PBT before Extra-ord	688.0	703.7	-2.2	688.0	716.9	-4.0	2762.5	3008.8	-8.2
% to TOI	14.1%	15.6%	-	14.1%	16.4%	-	15.6%	14.6%	-
Extraordinary Items		3.8			52.1	0.0	55.9	-8.8	LP
PBT	688.0	707.4	-2.8	688.0	769.0	-10.5	2818.4	3000.0	-6.1
Tax Rate	22.5%	23.2%	-	22.5%	24.4%	-	21.9%	16.8%	-
Prov. for Tax	154.8	164.3	-5.8	154.8	187.8	-17.6	616.4	503.6	22.4
% to TOI	3.2%	3.7%	-	3.2%	4.3%	-	3.5%	2.4%	-
Profit after Tax	533.2	543.2	-1.8	533.2	581.2	-8.3	2202.0	2496.5	-11.8
<i>% to TOI</i>	<i>10.9%</i>	<i>12.1%</i>	<i>-</i>	<i>10.9%</i>	<i>13.3%</i>	<i>-</i>	<i>12.4%</i>	<i>12.1%</i>	<i>-</i>
Face Value	1.0	1.0	0.0	1.0	1.0		1.0	1.0	0.0
Equity Share capital	218.2	218.1	0.1	218.2	218.2	0.0	218.2	218.0	0.1
EPS (Rs.)	2.4	2.5	-1.9	2.4	2.7	-8.3	10.1	11.5	-11.9
CEPS (Rs.)	2.7	2.7	0.1	2.7	2.9	-6.9	10.9	12.4	-11.4

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