

Analyst & Advisor: Abhishek Jain
www.stocksidea.com
+91-98260-41144

*Stocks idea
Equity Research*

Hindustan Lever Limited—Strong Buy—178—INR

Sector — FMCG
Regd.Off. — Lever House, 165/166, Backbay Reclamation, Mumbai- 400020
Listed — NSE, BSE.

Company overview—

Hindustan Lever Ltd. country's leading fast moving consumer goods company and amongst those enjoying the largest branded market coverage, is a 51% subsidiary of Unilever Plc, UK. In 2000 Company launched the International Lux Skincare range, "Sunscreen Formula". In this year only HLL acquires Modern Foods, the first public sector company to be divested by the Government of India. For "Clinic All Clear" on the Net, Hindustan Lever has launched a host of Web Promotions on popular Websites that include, Rediff.com, Sify.com, Indya.com, Uthplanet.com, Hungama.com and C2W.com. Company also launched Clinic Plus Protein Shampoo with a new formulation that contains a Protein Health Complex. Company launched the new Lakme Sunscreen Lotion with ultraviolet rays guard and Alpine Mint. Company forays into snack foods market under the Knorr Annapurna brand. Company quit the production of two of its variants under the Sunsilk shampoo range, Bouncy Volume and Ceramide Plus. In 2003 it acquired the seafoods business of the south-based Amalgam group. Company also made entry into conventional biscuits market by launching a traditional glucose biscuit under its acquired bakery brand Modern. Company started a Ayurvedic science center - Ayush Therapy Centre - to provide a platform for scientific enquiry of Ayurveda and dissemination of this knowledge through collaborations with leading national and international scientific, Ayurvedic and medical experts and institutions. Company also introduced iced tea in glass bottles.

Products & services—

Hindustan Lever Limited is India's largest fast moving consumer goods company with leadership in Branded Home & Personal Care Products and Foods & Beverages. HLL is India's largest marketer of soaps and detergents. It has the country's largest personal products business, leading in shampoos, skin care products, color cosmetics, deodorants and fragrances. It is also the market leader in tea, processed coffee, branded wheat flour, tomato products, ice cream, jams and squashes. It also has a presence in specialty & bulk chemicals, animal feeding stuff and fertilizers. HLL commands over 50% market share in branded soaps and has presence in all segments. Company has strong presence in detergents and hair care segments. With aggressive advertising and promotions it has acquired good brand value in the Indian FMCG market. HLL's brands spread across 20 distinct consumer categories, touch the lives of two out of three Indians. Company manufactures and markets many products into different categories – Home & personal care, Foods, Hindustan lever network, Exports, Water, Enablers.

Home & personal care— Company has strong brands like Lux, Lifebuoy, Liril, surf excel, rin, wheel, hamam, breeze, dove, pears, rexona, Fair's & lovely, ponds, sunsilk naturals, clinic, Axe, rexona, pepsodent, lekme, closeup, ayush etc in this segment.

Foods— Company is making strong presence into this category. Brands are Kissan, Knorr, Annapurna, Kwality Wall's, Bru, Lipton, Brooke Bond etc.

Hindustan Lever Network— company's direct selling arm. It has about 4 lakh consultants - all independent entrepreneurs, trained and guided by HLN's expert managers and trainers. HLN has a network into 1600 towns and cities, backed by over 45 offices and over 300 service centers across the country.

Exports— Company is a sourcing base for Unilever brands in Home & Personal Care and Tea for supplies to other Unilever companies. It also focuses on becoming a preferred supplier to both non-Unilever and Unilever clients in three categories in which India as a country has competitive advantage - Marine Products, Castor and its Derivatives and Rice. HLL enjoys international recognition within Unilever and outside for its quality, reliability and speed of customer service. HLL's Exports geography comprises, at present, countries in Asia, Australia, Africa, North America and Europe.

Company Exports following products—

Home & personal care: The categories are soaps; skin care products and oral care products. The brands are Lux, Lifebuoy, Pears, Fair & Lovely, Dove, Vaseline, Close-Up, Pepsodent, Signal. HLL is the only source of Pears soap across the world.

Tea: The categories are branded packet tea, and instant tea for Unilever's ready to drink tea business. The branded teas are Brooke Bond, Brooke Bond Red label, Brooke Bond Taj Mahal, Lipton, Lipton Yellow Label, Lipton Green Label, Lipton Brisk, Lipton 3-in-1 premix, Chinese Rickshaw.

Marine Products: HLL offers a comprehensive portfolio, ranging from Surimi, Crabsticks to Shrimps and several value-added products. Among its customers is Icelandic, the world's third largest seafood company. HLL has become a part of Unilever's supply chain in seafoods for Europe too. HLL's Marine Products brands are Ocean Diamond, Ocean Excellence, Shogun, Hima, Gold Seal, Tara and Prima.

Rice: The categories are Basmati Rice and Basmati Rice-based ready-to-eat rice meals. The brands are Gold Seal Indus Valley, Rozana and Annapurna.

Castor: The categories are Castor Oil; Castor oil based products, like hydrogenated castor oil, 12 - Hydroxy Stearic Acid, Ricinoleic Acid and Speciality Castor Oils etc used in pharmaceutical preparations. HLL's Castor brand is Topsol.

Water— Company has launched Pureit, the most advanced in-home water purifier in the world. Only purifier that gives water as safe as boiled water without boiling and without needing electricity or continuous tap water supply. It is the most advanced in home water purifier in the world. Pureit gives water that is free from viruses, bacteria and parasites because it has a Pureit Germkill Battery TM that is a combination of unique technological breakthroughs. Therefore, it provides 100% protection from all diseases like jaundice, diarrhoea, and typhoid, cholera that come from drinking water. Pureit also removes pesticides that may be present in drinking water. Pureit meets the germ kill standard of the toughest regulatory agency in the USA, the Environmental Protection Agency for protection against viruses, bacteria and parasites, and getting microbiologically safe drinking water.

Projects— in 1998, Hindustan Lever launched Project Streamline to further extend its distribution reach. Company identifies sub stockists in a large village, connected by motorable road to a small town. This sub-stockist in turn distributes the company's products to outlets in adjacent smaller villages using transportation suitable to interconnecting roads, like cycles, scooters or the age-old bullock cart. Hindustan Lever is trying to circumvent the barrier of motorable roads. As a result,

the distribution network, as of now, directly covers about 50,000 villages, reaching about 250 million consumers. The company simultaneously uses the wholesale channel, suitably incentivising them to distribute company products.

Recent developments—

HLL is in talks with the Indian Railways to form independent joint ventures (JV). The JVs are for setting up warehouses on the excess land around railway stations, guaranteeing certain freight traffic to the railways in return. The railways will set up SPVs, which will enter into joint ventures (JV) with FMCG major. This would be a low-cost model for transportation and storage. HLL's proposal is being finalised. Railways ministry is set to bring industry bodies CII and FICCI on board to formulate modalities for the special purpose vehicle (SPV) it will float to enter into such alliances.

Company is looking for further acquisitions of Indian companies and brands, which are in line with its core areas of business. Unilever chief executive, Patrick Cescau has said that the company would stick to its core areas of strength while taking a decision on acquisitions. Cescau also expressed his concerns that the company was in too many places, which were away from the core business. He added saying that he expects the management to learn from past mistakes and never make them again, while referring to some of the past acquisitions such as Nihar which was sold later to Marico and Tea Estates which did not do well, forcing HLL to sell them. Company is forging strategic alliances and providing consultancy services to traditional kirana stores to transform them into modern outlets called super value stores (SVS) — a brand whose rights would remain with HLL.

Company's business restructuring exercise at consumer goods is nearing completion, with the hive off of its leather and marine business. The company began divesting its non-core business portfolio - which included its fragrances, fertiliser, hair oil and plantation businesses. The leather business accounts for a turnover of Rs 1 billion and marine foods business about Rs 5 billion.

Company is planning to make deodorant Rexona Rs 1730 million brand over the next three years. Globally, Rexona is a USD 1 billion brand. Anil Chopra, vice-president Lakme Lever, who also takes care of deodorants, said the company aims to become a USD 30 million brand by reaching out to 20 million consumers by 2010. In 2006, the brand clocked a turnover of Rs 220 million and currently has a user base of 3.5 million people. The domestic organized deodorant market is valued at Rs 1,780 million and has been growing at close to 30%. Rexona enjoys 9% of the market, while Axe, the other deo brand from HLL is the market leader with 33% share.

Financials—

01-Jan-2006 to 31-Dec-2006 (Annual)

Financial Results	Rs.lakhs
Net Sales	1210339.00
Other Income	35452.00
Gross Income	1245791.00
Increase/Decrease in Stock	-11597.00
Consumption of Raw Materials	661875.00
Staff Cost	64281.00
Total Expenditure (Excluding Other Expenditure)	714559.00
Other Expenditure	330974.00

Total Expenditure	1045533.00
Interest	1074.00
Profit Before Depreciation & Taxes	199184.00
Depreciation	13016.00
Profit Before Tax	186168.00
Provision for Taxation	32201.00
Other Provisions	-31570.00
Net Profit	185537.00
Adjusted Net Profit	185537.00
Face Value of Share (in Rs.)	1.00
Paid-up Equity Share Capital	22068.00
Reserves Excluding Revaluation Reserves	250214.00
Dividend (%)	600.00
Basic EPS (in Rs.)	8.41
Diluted EPS (in Rs.)	8.41

Valuation—

Company's sales are expected to grow at the rate of 10.8% in FY2007 and 9.7% in FY2008. Input cost pressures are increased in personal care products but foods and ice cream division will provide strong volume growth going forward. At CMP, Stock is trading at attractive valuation of 17.8 X multiple of its FY2007 Estimated earnings. We recommend investors to "Strong Buy" "Hindustan Lever Ltd." with medium to long-term investment horizon.

We invite Readers to send Valuable feedback, stock and subscription queries at E-mail investment_guru1@yahoo.com

Disclaimer: Research group www.stocksidea.com has prepared this document. The information and opinions contained in the document have been compiled from sources believed to be reliable. We don't warrant its accuracy, completeness and correctness. Stock market is highly unpredictable & risk involved in investment into the securities, we don't take any liability of any kind of loss or profit due to investment made in securities mentioned in the articles. Our group members may have investment positions in the securities mentioned in the article referred herein and may make purchases or sale thereof while this report is in circulation. This is not an offer to buy or sell the securities mentioned in the articles; calls made here in are for informational purposes only.
