Economy News

- Planning Commission Deputy Chairman, Montek Singh Ahluwalia said a target of eight per cent average annual growth rate for the 12th Plan (2012-13 to 2016-17) was not possible if the private sector did not contribute half of a trillion dollars required for infrastructure funding during the period. (BS)
- Europe's second-biggest oil firm BP plc has asked Prime Minister Manmohan Singh for a $1.5 per mmBtu additional "incentive" for deep-sea fields over and above the near doubling of domestic gas price suggested by the Rangarajan Committee. (ET)
- The parliamentary standing committee on coal observed that the inter-ministerial group (IMG) whose recommendations formed the basis of allotment of two large coal blocks to private players for conversion to oil "has not performed its duty honestly". (ET)
- Indian companies raised about $ 5.08 bn from overseas markets in March, as against $ 2.34 bn through ECBs and Foreign Currency Convertible Bonds in the previous month. (ET)
- India's textiles exports were $ 28.4 bn during the April-February period, way below the target for 2012-13 fiscal that ended on March 31. The government had set a target of $ 39.6 bn for the entire fiscal. (ET)
- Integration of direct cash transfer with Aadhaar will take time but the scheme will help Indian government save 0.5 per cent of the GDP, International Monetary Fund (IMF) said. (ET)

Corporate News

- The Management Committee (MC) of **RIL**-BP's controversial D6 block will meet to resolve the contentious issue of how much of the area in the gas-rich block should be surrendered by the operator. The directorate general of hydrocarbons (DGH) wants RIL to relinquish 6,601 sq km out of the total contract area of 7,645 sq km, which includes some discoveries, which Reliance thinks are commercially viable and does not want to surrender, government and industry officials said. (ET)
- Amid allegations of non-compliance and favouritism, the Defence Ministry has put on hold a joint venture between public sector Mazagon Dockyards and private sector **Pipavav shipyard** for building warships for Indian Navy. (ET)
- Two-wheeler market leader **Hero MotoCorp Ltd (HMCL)** said it has signed a three-year wage settlement agreement with its workers at Gurgaon plant after months of negotiations. (ET)
- **Lanco Infratech Ltd** has settled a vexatious multi-billion dollar litigation in Australia with Perdaman Chemicals agreeing to pay up A$7.5 million to the latter. (BL)
- **Coal India** is seeking overseas acquisitions with a sense of urgency. As a step in this direction, it has decided to induct more merchant bankers and invite expressions of interest from them on possible targets, besides extending the contract of existing merchant bankers. (ET)
- **Exide Industries Ltd.** planned a capital outlay of Rs 2.5 Bn for industrial batteries capacity augmentation and modernisation of its units in the FY 2014. (BL)
- The Central Electricity Regulatory Commission (CERC) has dismissed a petition filed by private power companies that claims state-run generator **NTPC Ltd** "abused its dominant position" in the sector by entering into long-term purchase deals with distribution companies (discoms). (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

Equity

	29 Apr 13	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	19,388	0.5	2.9	(2.6)
NIFTY Index	5,904	0.6	3.9	(2.2)
BANKEX Index	14,411	0.5	10.6	(1.2)
BSET Index	5,673	1.0	(17.6)	(11.3)
BSETCG INDEX	9,765	0.1	8.3	(7.0)
BSEOIL INDEX	8,739	0.5	5.0	(6.6)
CNXMcap Index	7,810	1.2	5.5	(6.6)
BSESMCAP INDEX	6,040	0.3	4.1	(14.6)
World Indices				
Dow Jones	14,819	0.7	1.6	6.9
Nasdaq	3,307	0.8	1.2	5.2
FTSE	6,458	0.5	0.7	2.9
NIKKEI	13,884	(0.3)	11.5	27.2
HANGSENG	22,581	0.1	1.9	(4.2)

Value traded (Rs cr)

	29 Apr 13	% Chg - Day
Cash BSE	1,908	(3.6)
Cash NSE	9,598	(17.0)
Derivatives	69,158	(15.8)

Net inflows (Rs cr)

	26 Apr 13	% Chg	MTD	YTD
FII	303	(80.4)	4,753	59,505
Mutual Fund	(143)	6.2	(1,171)	(8,339)

FII open interest (Rs cr)

	26 Apr 13	% Chg
FII Index Futures	10,138	3.7
FII Index Options	41,907	3.3
FII Stock Futures	23,255	3.2
FII Stock Options	1,357	27.4

Advances / Declines (BSE)

29 Apr 13	A	B	T	Total	% total
Advances	135	948	189	1,272	52
Declines	66	838	161	1,065	43
Unchanged	2	102	22	126	5

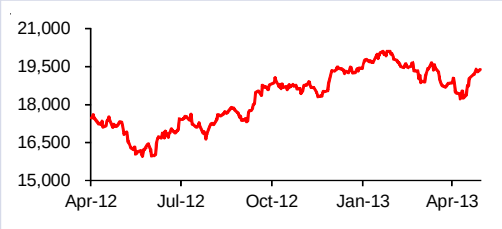
Commodity

	29 Apr 13	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	94.4	(0.1)	(3.0)	(3.2)
Gold (US$/OZ)	1,468.0	1.0	(8.0)	(11.5)
Silver (US$/OZ)	24.2	1.4	(14.3)	(22.2)

Debt / forex market

	29 Apr 13	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.8	7.8	8.0	8.0
Re/US$	54.2	54.4	54.3	53.8

Sensex



RESULT UPDATE

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HERO MOTOCORP (HMC)

PRICE: Rs.1649 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: Rs.1735 **FY14E P/E: 14.3x**

HMC reported better than expected 4QFY13 results. Revenues during the quarter stood at Rs61,458mn, 1.8% higher YoY, amid 3% volume decline. EBITDA margin though lower YoY, expanded significantly QoQ to 13.8%. PAT came in at Rs5,742mn, 5% lower YoY but 18% growth on a sequential basis. Management expects the 2W industry to grow in higher single digit in FY14. Company has taken up a margin improvement program and expects some positive impact within the next 3-8 quarters. As one time royalty payment expires in June 2014, earnings in FY15 will receive boost on that account. We upgrade the stock to ACCUMULATE (from REDUCE earlier) with revised price target of Rs1,735 (earlier Rs1,730).

Summary table

(Rs mn)	FY12	FY13	FY14E
Sales	235,790	237,681	256,648
Growth (%)	21.5	0.8	8.0
EBITDA	36,188	32,845	36,179
EBITDA margin (%)	15.3	13.8	14.1
PBT	28,647	25,292	29,802
Net profit	23,781	21,182	23,096
EPS (Rs)	119.1	106.1	115.7
Growth (%)	23.4	(10.9)	9.0
CEPS (Rs)	132.7	121.9	129.1
BV (Rs/share)	214.8	250.7	263.2
Dividend / share (Rs)	45.0	60.0	60.0
ROE (%)	65.6	45.6	45.0
ROCE (%)	78.9	54.5	58.1
Net cash (debt)	35,263	31,904	47,320
NW Capital (Days)	(14.7)	(13.1)	(14.1)
P/E (x)	13.8	15.5	14.3
P/BV (x)	7.7	6.6	6.3
EV/Sales (x)	1.2	1.3	1.1
EV/EBITDA (x)	8.1	9.1	7.8

Source: Company, Kotak Securities - Private Client Research

Result Highlights

Quarterly performance

(Rs mn)	4QFY13	4QFY12	YoY (%)	3QFY13	QoQ (%)
Revenues	**61,458**	**60,349**	**1.8**	**61,876**	**(0.7)**
Total expenditure	52,960	51,097	3.6	54,090	(2.1)
RM consumed	44,395	44,183	0.5	45,854	(3.2)
Employee cost	2,259	1,923	17.5	1,982	14.0
Other expenses	6,306	4,991	26.3	6,253	0.8
EBITDA	**8,498**	**9,253**	**(8.2)**	**7,786**	**9.1**
EBITDA margin (%)	13.8	15.3	-	12.6	-
Depreciation	2,655	2,804	(5.3)	2,832	(6.2)
Interest cost	31	29	5.1	30	3.7
Other Income	1,045	1,050	(0.4)	901	16.0
Exceptional item			-		-
PBT	**6,857**	**7,469**	**(8.2)**	**5,826**	**17.7**
PBT margins (%)	11.2	12.4		9.4	
Tax	1,115	1,433	(22.2)	947	17.7
Tax rate (%)	16.3	19.2	-	16.3	-
Reported PAT	5,742	6,036	(4.9)	4,879	17.7
PAT margins (%)	9.3	10.0	-	7.9	-
Reported EPS (Rs)	**28.8**	**30.2**	**(4.9)**	**24.4**	**17.7**
Volumes (nos)	1,527,351	1,572,027	(2.8)	1,573,135	(2.9)
Net Realization (Rs)	39,758	37,929	4.8	39,102	1.7
RM cost per vehicle (Rs)	29,067	28,106	3.4	29,148	(0.3)

Source: Company

- Revenues in 4QFY13 came in at Rs61,458mn, a growth of 1.8% YoY despite 2.8% volume de-growth. Revenues came in marginally ahead of our estimates on account of higher average selling price (ASP) and better than expected other operating income.
- ASP's during the quarter improved by 1.7% QoQ and the company attributed this to be on account of better product mix. Other operating income in 4QFY13 stood at Rs733mn as against Rs363mn in 3QFY13.
- Raw material cost as a % of net sales declined by 100bps YoY and 140bps QoQ. Reasons for lower material to sales ratio was 1.Better product mix leading to higher ASP 2.Benifits of JPY depreciation and 3.Softness in commodity prices.

- Employee cost increased from Rs1,923mn in 4QFY13 and Rs1,982mn in 3QFY13 to Rs2,259mn for the quarter under review. Other expenses increased by 26% YoY but remained largely flat QoQ at Rs6,306mn. Sharp YoY increase in other expenses is due to higher advertisement, power and transportation related cost. Further, cost related to new launches also led to increased other expenses.
- EBITDA during the quarter declined by 8% YoY to Rs8,498mn. EBITDA margin in 4QFY13 stood at 13.8% versus 15.3% in 4QFY12 and 12.6% in 3QFY13. Higher operating income was one of the reasons for sequential rise in EBITDA margin.
- Depreciation cost came down both YoY and QoQ because of MTM gain on royalty due to favorable JPY movement.
- Net profit for the quarter stood at Rs5,742mn, 5% lower YoY but 18% higher QoQ.

Conference Call Highlights

- Management expects the 2W industry in FY14 to grow in higher single digit. Company expects to maintain 50% plus market share in the motorcycle space.
- HMC is looking to focus on captive financing arm to finance its 2W sales. Recently the company did a soft launch of its captive finance at one dealership in Delhi and plans to increase the number to 450 over the next 2-3 years. HMC owns 40.3% stake in the financing arm and will be investing Rs3-3.5bn over the next 2-3 years.
- On the recently launched 5 year warranty scheme, the company said that this new initiative is well received by the customers. Company is seeing strong pick-up in April retail sales and that has also helped the company correct dealer inventory from 5.5 weeks in March 2013 to 4.5 weeks in April 2013. Further, HMC expects annual impact of the new warranty scheme to be ~Rs 350-Rs400mn.
- To offset rise in cost, HMC took a price hike in the range of Rs500-1500 in April 2013.
- HMC's direct imports stands at 5.5% of sales and majority of them are USD denominated. HMC's indirect imports accounts for 9.5% of sales, of which 50% is JPY denominated. With 60-70% of the vendors, the company works with a quarterly lag and hence the impact of price increase/decrease given to vendor generally comes with a lag of one quarter.
- On the exports side, HMC entered certain African and Latin American markets in 4QFY13. Company said that they will continue to enter new markets going ahead.
- With 100% income tax benefit getting over in FY13, tax rate in FY14 will rise to ~22-23% from around 16% in FY13.
- In FY13, HMC added 500 touch points to take the tally to 5,500 touch points. Company plans to add another 500 touch points going forward.
- HMC has hedged 40% of the balance royalty payment (upto June 2014) at JPY98 to a USD. Average JPY/USD rate for HMC in FY13 stood at 84.
- In FY13, the company incurred Rs4.5bn in capex and in FY14, capex will rise to Rs11bn. Company will be investing in its new manufacturing unit in Rajasthan, new global parts center, R&D center, land acquisition for Gujarat plant and other capex on existing facilities.

Outlook and View

- Given high competitive intensity, we expect HMC to underperform industry volume growth in FY14. We have assumed 4% volume growth for HMC in FY14. In order to defend its market share, the company has taken certain steps like the 5 year warranty scheme, focus on captive financing arm and continuous expansion of touch points.
- In 4QFY13, HMC arrested the declining EBITDA margin trend been witnessed for the past several quarters. To further improve its margins, the company has set up a margin improvement program that focusses on cost control/rationalization across cost verticals. Management expects positive impact of the same over the next 3-8 quarters.
- JPY depreciation is positive for the company and we expect benefit of weak JPY on the margins in FY14. Further the company has hedged 40% of the future lumpsum royalty payment at favorable JPY/USD rate of 98.
- HMC's lumpsum royalty payment to Honda (Japan) will get over in June 2014. Accordingly, HMC's FY15 earnings is expected to receive boost on this account.
- We have marginally revised our FY14 earnings estimate. We factor in lower volume growth leading to 2% lower revenues. Other expenses continue to stay high and that along with decline in our volume growth estimates led to reduction in FY14 EBITDA margins estimates by 30bps. Despite that, our FY14 EBITDA margin estimate stands 30bps higher over FY13. We also lower our depreciation cost (royalty amortization cost is included in depreciation) due to favorable JPY movement for HMC. As a result of the above changes, our FY14 net profit estimates stands marginally revised to Rs23,096mn (earlier Rs23,029mn).

Change in estimates (FY14)

(Rs mn)	Old	New	% change
Revenues	261,495	256,648	-1.9
EBITDA margin (%)	14.4	14.1	
PAT	23,029	23,096	0.3

Source:

We recommend ACCUMULATE on Hero MotoCorp with a price target of Rs.1735

Since our previous REDUCE recommendation, the stock has corrected by 9%. On the back of above stated reasons and correction in stock price, we upgrade HMC to **ACCUMULATE** with revised price target of Rs1,735 (earlier Rs1,730).

RESULT UPDATE

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SHREE CEMENTS LTD

PRICE: Rs.4414 **RECOMMENDATION: BUY**
TARGET PRICE: Rs.4820 **FY14E (P/CEPS)x: 9.0x**

- **Company's revenues during Q3FY13 reported a growth of 6% YoY mainly led by improvement in power sales while cement volumes declined on yearly basis.**
- **Operating margin performance was slightly better than our estimates due to higher revenues and stood at 27.8% for Q3FY13 as against 27.1% during same period last year.**
- **Net profit growth for Q3FY13 was boosted by yearly decline in depreciation as well as lower tax rate. It came better than our estimates of Rs 2.36 bn.**
- **At current market price of Rs4414, stock is trading at 11x and 9x P/CEPS and 8x and 6.4x EV/EBITDA for FY13 and FY14 respectively. We maintain our estimates and continue to recommend BUY with a price target of Rs 4820 based on average of 6.2x EV/EBITDA and $130 EV/Tonne for FY14 and adding valuations from power division.**

Summary table

(Rs mn)	FY12*	FY13E	FY14E
Sales	60,803	56,935	66,158
Growth (%)	73.1	-6.4	16.2
EBITDA	16,456	15,725	19,258
EBITDA margin (%)	27.1	27.6	29.1
PBT	6,878	11,184	12,931
Net profit	6,185	9,717	10,603
EPS (Rs)	177.5	278.9	304.3
Growth (%)	194.9	57.1	9.1
CEPS (Rs)	428.1	400.4	491.5
BV (Rs/share)	784.7	1,055.6	1,351.9
Dividend / share (Rs)	8.0	8.0	8.0
ROE (%)	26.2	30.3	25.3
ROCE (%)	23.6	29.5	27.3
Net cash (debt)	19,946	27,276	31,217
NW Capital (Days)	49.7	50.0	50.0
P/E (x)	24.9	15.8	14.5
P/BV (x)	5.6	4.2	3.3
EV/Sales (x)	2.2	2.2	1.9
EV/EBITDA (x)	8.1	8.0	6.4
P/CEPS(x)	10.3	11.0	9.0

*Source: Company, Kotak Securities - Private Client Research; *FY12 would now be 15 month Financial year; FY13: July12-Jun13*

Financial highlights

(Rs mn)	Jan-Mar,13	Jan-Mar,12	YoY (%)
Net Sales	**14,568**	**13,762**	**6**
Expenditure	10,514	10,031	
Inc/Dec in trade	5	12	
RM	1,407	1,457	
As a % of net sales	9.7	10.6	
Staff cost	747	605	
As a % of net sales	5.1	4.4	
Power and fuel	3,545	3,611	
As a % of net sales	24.3	26.2	
Transportation & Handling	2,395	2,460	
As a % of net sales	16.4	17.9	
Other expenditure	2,416	1,887	
As a % of net sales	16.6	13.7	
Operating Profit	**4,054**	**3,730**	**9**
Operating Profit Margin (%)	27.8	27.1	
Depreciation	1,265	2,346	
EBIT	**2,789**	**1,384**	**101**
Interest	447	411	
EBT (exc other income)	2,342	974	
Other Income	576	774	
Exceptional items	1	28	
EBT	**2,917**	**1,719**	**70**
Tax	176	576	
Tax Rate (%)	6.0	33.5	
Net Profit	**2,741**	**1,143**	**140**
NPM (%)	18.8	8.3	
Equity Capital	348.4	348.4	
EPS (Rs)	**78.7**	**32.8**	
Cash EPS	115	100	

Source: Company

Revenue growth led by improvement in power sales

Segment wise revenues: Company's revenues during Q3FY13 reported a growth of 6% YoY mainly led by improvement in power sales while cement volumes declined on yearly basis. Cement realizations also remained largely flat on yearly basis due to high base effect since Jan-March,12 witnessed steep increase in cement prices.

Cement division revenues stood at Rs 11829 mn during Jan-Mar,13 as against Rs 11891 mn during Jan-Mar,12 and was impacted by decline in cement volumes.Power revenues jumped to Rs2887mn for Q3FY13 as against Rs1872mn during same period last year. Cement realizations improved by nearly 0.6% YoY and stood at Rs 3632 per tonne while cement volumes stood at 3.257 MT for Q3FY13, down by 6.2% YoY. Cement prices have improved during Jan, 2013 till mid-March,13 in most of the key markets of the company but witnessed a correction during Holi festival. Demand growth also remained lower than expectations. During Q3FY13, company sold nearly 722mn units of power at Rs 4 per unit. Sales from power division have started ramping up in line with expectations.

Cement pricing trend: Despite lower than expected demand growth, cement prices recovered during Q4FY13 till mid-March, 13. Though cement prices have come off in few regions during April, 2013 due to lack of demand but with pre-election spend expected in key markets of the company, demand is expected to grow. We also expect cement prices to recover post monsoons.

Capex: Company'sbrownfield expansion of 2MT of clinker manufacturing unit (Unit IX) at Ras is progressing as per schedule and it expects to commission this facility by June 2013. It has also planned addition of Unit X of 2MT clinker at Ras which is expected to commission by June, 2014.Along with this, company is also setting up 1.5MT cement grinding plant at Bihar, which is expected to commission by Dec, 2013. Company also plans to set up a clinker cum grinding unit (integrated unit) in the State of Chhattisgarh for which necessary pre-project activities are being undertaken. This project would also cater to the clinker requirements of Bihar grinding unit. Thus, from an existing capacity of 13.5MT, Shree Cement's capacity is expected to be enhanced to 20 MT by FY14 and would further get enhanced once clinker unit in Chattisgarh commissions.

We expect cement volumes of 12.5MT and 13.5MT for FY13 and FY14 respectively. Along with this, we also expect cement prices to firm up after monsoons since companies are likely to pass on any increase in costs to the end users going forward. We thus expect revenues of Rs 5.69 bn and Rs 6.6 bn for FY13 and FY14 respectively.

Operating margins better than our estimates

Operating margin performance was slightly better than our estimates due to higher revenues and stood at 27.8% for Q3FY13 as against 27.1% during same period last year.

Per tonne analysis

	Jan-Mar,13	Jan-Mar,12
Dispatches(mntonne)	3.257	3.473
CemRealisation/tonne	**3632**	**3611**
YoY (%)	0.6	
Costs per tonne		
Inc/Dec in trade	1	3
Raw material	432	419
Staff cost	229	174
Power and fuel	1088	1040
Transportation & Handling	735	708
Other expenditure	742	543
Total costs per tonne	**3228**	**2888**

Source: Company, Kotak Securities - Private Client Research

EBITDA for the power division stood at Rs 0.91 per unit, translating into power EBITDA of Rs 660 mn. Adjusted with this, pure cement EBITDA per tonne for the quarter stood at Rs 1055 per tonne. This is likely to improve further led by improvement in cement pricing.

We tweak our estimates and expect operating margins of 27.6% (27.1% earlier) for FY13 and 29.1% for FY14 led by cement EBITDA per tonne of Rs 1136 and Rs 1308 for FY13 and FY14 respectively and power EBITDA of Rs 0.8 and Rs 0.8 per unit for FY13 and FY14 respectively.

Net profit growth led by lower tax rate

Net profit growth for Q3FY13 was boosted by yearly decline in depreciation as well as lower tax rate. It came better than our estimates of Rs 2.36 bn. Company has also changed its financial year to June as against March till FY12. Hence, depreciation was higher during last quarter of FY12.

We maintain our estimates and expect net profits of Rs9.7bn and Rs10.6bn for FY13 and FY14 respectively.

Valuation and recommendation

- At current market price of Rs4414, stock is trading at 11x and 9x P/CEPS and 8x and 6.4x EV/EBITDA for FY13 and FY14 respectively.

We recommend BUY on Shree Cements with a price target of Rs.4820

- We maintain our estimates and continue to recommend **BUY** with a price target of Rs 4820 based on average of 6.2x EV/EBITDA and $130 EV/Tonne for FY14 and adding valuations from power division.
- Key risk to our estimates would come from lower than expected cement realizations or any adverse ruling from CCI.

RESULT UPDATE

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HINDUSTAN UNILEVER LTD.

PRICE: Rs.498 **RECOMMENDATION: BUY**
TARGET PRICE: Rs.600 **FY14E P/E: 30.0x**

The parent, Unilever, has made an open offer for 22.5% equity of HUL at a price of Rs.600 per share. This is expected to lead to the rise in stock price. The valuations at Rs.600 will be expensive, based on our estimates.

HUL has reported expectedly robust set of financials for 4QFY13, beating our EBITDA estimates modestly (+1% vs estimates). Growth in earnings has been led largely by soaps and detergents (+20%, y/y PBIT growth), and beverages (+38% y/y), with significant weakness in Personal Products profit growth (+3.6% y/y). With uncertainty in Personal Products, we believe medium-term earnings estimates rely heavily on Soaps and Detergents and Beverages - segments that tend to have lower differentiation and (consequently) visibility in earnings. Valuations are expensive at 30x FY14E PER.

Summary table

(Rs mn)	FY13	FY14E	FY15E
Sales	2,64,740	2,99,689	3,34,667
Growth (%)	16.0	13.3	11.7
EBITDA	40,037	46,526	52,978
EBITDA margin (%)	15.1	15.5	15.8
PBT	43,498	47,455	53,870
Adj. PAT	33,145	35,864	39,539
Adj. EPS (Rs)	15.3	16.6	18.3
Growth (%)	26.8	8.2	10.2
CEPS (Rs)	16.4	17.7	19.6
BV (Rs/share)	12.3	17.9	25.1
Dividend / share (Rs)	18.5	9.5	9.5
ROE (%)	107.4	110.0	85.2
ROCE (%)	107.6	109.6	85.2
Net cash (debt)	37,417	19,941	36,990
NW Capital (Days)	-97	-49	-48
P/E (x)	32.5	30.0	27.2
P/BV (x)	40.5	27.9	19.8
EV/Sales (x)	4.1	3.7	3.3
EV/EBITDA (x)	26.0	22.7	19.6

Source: Company, Kotak Securities - Private Client Research

Results Summary

- HUL's 4QFY13 results were broadly in line with expectations. The company reported sales growth of 12%, with sales from domestic operations growing 13%. Volume growth for the quarter came in at 6% (excluding impact of inventory up-stocking in anticipation of a transport strike, volume growth was 5.5%). EBITDA margin surprised positively, leading to a modest EBITDA surprise (1% ahead of estimates). The management noted that costs were contained on account of savings across the value chain. Excluding exceptional items, PAT was 1% ahead of our estimates.

Quarterly Financials

Rs mn, FY Ends Mar	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	% chg y/y	% chg. q/q
Net Sales from Operations	**57659**	**63788**	**63108**	**66548**	**64658**	**12.1%**	**-2.8%**
- Domestic/ HPC	44026	49256	48131	50708	49605	12.7%	-2.2%
- Domestic/ Foods	10144	10700	10626	10877	11673	15.1%	7.3%
- Domestic Sales/ Total	54170	59956	58758	61585	61277	13.1%	-0.5%
-Others	2435	2545	2796	2752	2394	-1.7%	-13.0%
Other Operating Income	1054	1286	1554	2211	987	-6.4%	-55.4%
Expenses	**49325**	**54123**	**53341**	**55660**	**54940**	**11.4%**	**-1.3%**
- Raw Materials	31223	33677	32695	34191	34326	9.9%	0.4%
- Personnel Expenses	2751	3329	3305	3427	3123	13.5%	-8.9%
- A&P Expenses	6773	8196	7690	8222	8211	21.2%	-0.1%
- Other Expenses	8578	8921	9652	9821	9281	8.2%	-5.5%
EBITDA	**8334**	**9665**	**9767**	**10888**	**9718**	**16.6%**	**-10.7%**
Margin	14.5%	15.2%	15.5%	16.4%	15.0%	0.6ppt	-1.3ppt
Depreciation and Amortization	571	576	577	593	614	7.6%	3.6%
EBIT	**7763**	**9088**	**9191**	**10295**	**9104**	**17.3%**	**-11.6%**
Margin	13.5%	14.2%	14.6%	15.5%	14.1%	0.6ppt	-1.4ppt
Other Income	700	2186	1488	1337	1058	51.3%	-20.9%
Interest Expenses	2	53	63	75	60	2905.0%	-20.2%
Profit bef. Exceptional Items &Tax	8461	11222	10615	11557	10102	19.4%	-12.6%
Exceptional Items	281	6047	16	-73	94	-66.5%	-229.3%
PBT	**8742**	**17268**	**10599**	**11484**	**10196**	**16.6%**	**-11.2%**
Prov. For Tax	1876	3956	2561	2771	2324	23.9%	-16.1%
PAT	**6866**	**13312**	**8038**	**8714**	**7872**	**14.7%**	**-9.7%**

Source: Company Reports

- Among segments, revenue growth was led by beverages, which grew 18%, and soaps and detergents that grew 13%. Personal Products' growth was relatively modest at 12%. Beverages also led growth in PBIT, followed by soaps and detergents. Personal Products' profit growth came in weak, at 4%. The soaps segment registered double digit volume growth and price deflation, while detergents registered double digit value growth. In the personal products segment, hair care and oral care registered strong double digit, volume -led growth, while skin care (in particular, mass skin lightening cream Fair and Lovely) was weaker.

Segment Results

	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	% grw, y/y	% grw q/q
Segment Revenues, Rs mn							
Soaps and Detergents	28344	31631	31762	31712	31914	12.6%	0.6%
Personal Products	16333	18471	17445	20489	18311	12.1%	-10.6%
Beverages	6832	6541	7196	7929	8081	18.3%	1.9%
Packaged Foods	3481	4370	3663	3301	3723	7.0%	12.8%
Others	1823	2640	2884	2902	2502	37.3%	-13.8%
Segment Profits, Rs mn							
Soaps and Detergents	3201	3852	4336	3937	3830	19.7%	-2.7%
Personal Products	4555	4757	4226	5789	4717	3.6%	-18.5%
Beverages	984	950	1031	1404	1362	38.4%	-3.0%
Packaged Foods	-37	248	9	-26	140	NM	NM
Others	-49	-43	21	-186	-181	NM	NM
Margins							
Soaps and Detergents	11.3%	12.2%	13.7%	12.4%	12.0%	0.7ppt	-0.4ppt
Personal Products	27.9%	25.8%	24.2%	28.3%	25.8%	-2.1ppt	-2.5ppt
Beverages	14.4%	14.5%	14.3%	17.7%	16.9%	2.5ppt	-0.9ppt
Packaged Foods	-1.1%	5.7%	0.2%	-0.8%	3.8%	4.8ppt	4.5ppt
Others	-2.7%	-1.6%	0.7%	-6.4%	-7.2%	-4.5ppt	-0.8ppt

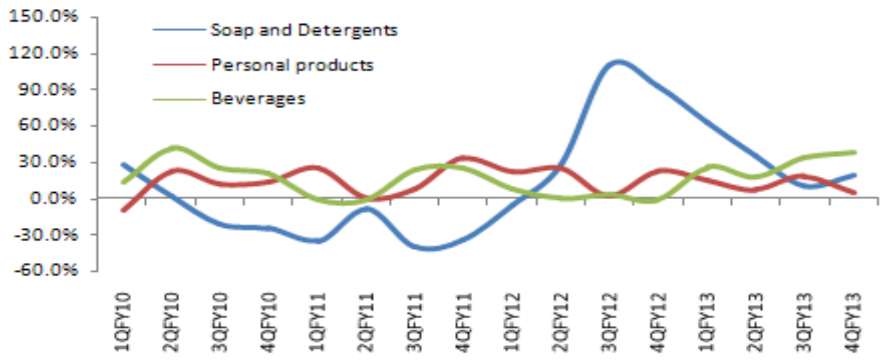
Source: Company Reports, Kotak Securities - Private Client Research

- The management has explained that growth in Soaps and Detergents has largely been volume-led, and is likely to remain so in the near future. Personal Products growth has been dragged down largely on account of weakness in skincare, in particular skin lightning creams, which has affected HUL's 'Fair and Lovely' sales adversely. The company noted, however, that market share of FAL has been intact. Personal Products margins have been impacted adversely primarily on account of higher A&P spends on the segment in this quarter. On beverages, the company has received benefits of higher tea prices for the second quarter in a row. On the conference call, the management said that margin improvements in beverages were a consequence of supply chain improvements, while conceding that there is a possibility that profit margins in the beverage segment have been impacted positively by lower cost inventory.

Investment View

- We have, since we initiated coverage on HUL, held the view that HUL's long-term growth faces significant hurdles on account of soft (long-term) growth in Soaps and Detergents segment, and the large dependence of the company on the same segment for its revenues. In the larger part of the past two years, the stock has responded to strong growth from Soaps and Detergents segment. This growth, in our opinion, has been affected by: 1/ a hiatus in irrational competitive activity among organized players, and 2/ decline of unorganized players. These factors have themselves been affected by volatility in raw material prices. In addition to the delta (PBIT) benefits that have come in from weak base effect in Soaps and Detergents, HUL has, in the past two quarters, been benefited by significant margin gains in beverages. The extent to which beverages segment might have benefited from lower inventory costs is as yet unclear.

Segmental PBIT Growth (%, y/y)



Source: Company Reports, Kotak Securities - Private Client Research

- Going forward, we think that benefits from these two segments are likely to weaken: Soaps and Detergents shall likely see higher competition from unorganized players in the coming quarters (the company has begun to pass on lower raw material prices to meet this challenge), and Beverages could see some margin correction as benefits of lower price inventory fade. Given the potential for weakening of growth in profits from these two segments, we believe that weakness in the Personal Products segment, if it persists, can lead to negative surprises.

We recommend BUY purely based on the open offer by Unilever

- The dynamics between pricing, competitive intensity, and raw material prices shall largely be determinants of HUL's earnings, going forward. It remains likely that a lag between pricing action (from the company) and benefits of lower raw material prices (primarily in soaps and detergents) may further allow HUL to report strong earnings in the next quarter or two. However, going by the strong growth in soaps and detergents segment in recent quarters, it appears that unorganized players have lost much ground, which may be regained at lower prices; we believe that competitive intensity among organized players too shall be high given inflation pressure on consumer.
- HUL currently trades at 30x FY14 PER, and we believe that the margin for error is low, at this price point. However, the open offer made by Unilever will likely take the stock price higher. The valuations at those levels will be even more expensive.

Open offer by Unilever plc

The parent of HUL, Unilever, has made an open offer to acquire 22.5% stake in HUL at a price of Rs.600 per share. This will take the parents holding to 75%.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
29-Apr	Acclaim Ind	Parkes Multi Trade Pvt Ltd	S	34,875	8.7
29-Apr	Acclaim Ind	Ceeplast Trading Co Pvt Ltd	B	65,000	8.7
29-Apr	Adi Rasayan	Arnav Green Energy Ltd	B	62,000	16.1
29-Apr	Allied Comp	Patel Yogeshbhai R	S	696,537	0.4
29-Apr	Arvind Intl-$	Ruchika Bajoria	S	80,500	10.0
29-Apr	Brescon Corp	Nirmal Kumar Deepchand Gangwal	S	84,800	175.0
29-Apr	Capricorn Sys	Geeta Yogender Khandeliya	S	150,000	27.2
29-Apr	Capricorn Sys	Suresh Kumar Agarwal	S	69,000	27.2
29-Apr	Capricorn Sys	Vinod Saraf	B	100,000	27.2
29-Apr	Capricorn Sys	Kavita Saraf	B	100,000	27.2
29-Apr	Croitre Inds	Dharmendra Harilal Bhojak	S	101,000	11.0
29-Apr	Croitre Inds	Blue Arcade Constructions Pvt Ltd	B	100,000	10.6
29-Apr	GCV Serv	Avichal Securities Pvt Ltd	S	2,039,160	0.6
29-Apr	GCV Serv	Aristo Media & Entertainment Pvt Ltd	B	2,039,060	0.6
29-Apr	Glory Polyfilms	Streamline Shipping Co Pvt Ltd	S	406,895	1.4
29-Apr	Kwality Cred	Dharmendra Kothari	S	50,000	63.3
29-Apr	Lords Chemicals	Ashwin Rasiklal Jani	B	100,000	18.6
29-Apr	RCL Retail	Guiness Securities Ltd	B	190,000	11.3
29-Apr	RCL Retail	R.Manish Kumar	S	180,000	11.4
29-Apr	Regency Trust	Avichal Securities Pvt Ltd	S	140,000	23.4
29-Apr	Regency Trust	Aristo Media & Entertainment Pvt Ltd	B	140,000	23.4
29-Apr	Shreychem	Sweta Tibrewala	B	100,000	7.7
29-Apr	Shreychem	Ganesh Bhagoji Khaire	S	159,332	7.7
29-Apr	Shreychem	Hari Kishan Prahladka	B	200,000	7.7
29-Apr	Shreychem	Nrupal Nareshchandra Raja	S	69,995	7.7
29-Apr	TCPL Pack-$	Anil Kumar Goel	B	50,300	70.0
29-Apr	TCPL Pack-$	Bishwanath Prasad Agarwal	S	50,000	70.0
29-Apr	Vaishnavi	Mohanarao Karra	B	123,000	3.9
29-Apr	Vaishnavi	Baddula Ravindra	S	100,000	3.9
29-Apr	Vyapar Inds	Limitless Yarn Traders & Manufactures	B	61,600	27.9
29-Apr	Wagend	Devchand Mulji Shah	S	340,000	28.4
29-Apr	Wagend	Dinesh Sunderji Shah	S	250,000	28.3

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Hindustan Unilever	497	7.0	10.3	11.1
ITC	325	1.8	9.8	4.1
HDFC Bank	695	0.9	3.5	2.9
Losers				
HDFC	864	(1.0)	(4.0)	1.6
L&T	1,530	(0.7)	(1.9)	0.7
Sun Pharma	941	(1.6)	(1.8)	0.9

Source: Bloomberg

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