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# Unilever offers to pay $5.4 billion to raise stake in Hindustan Unilever to 75 per cent

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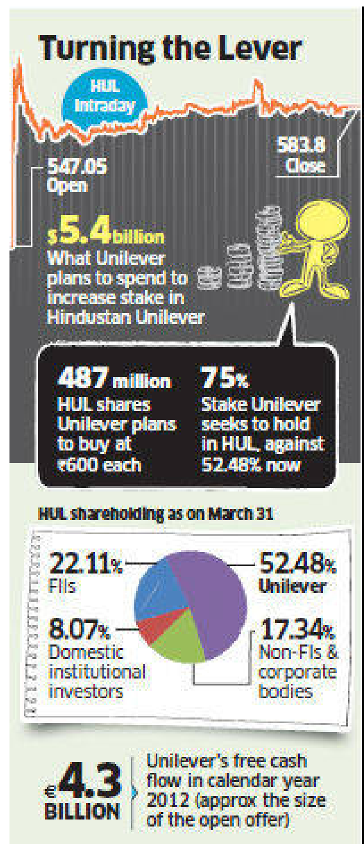
MUMBAI: Anglo-Dutch company Unilever has offered to pay $5.4 billion (over Rs 29,000 crore) to increase its stake in Hindustan Unilever to 75%, the largest acquisition deal in India's consumer goods sector that comes at a time India's lustre has dimmed for many foreign investors. The maker of Rin detergent, Lux soap and Knorr soups said the deal was driven by its desire for a bigger pie of HUL's dividend outflow, and it had no intention of delisting its Indian unit.




"Unilever has no intention to delist the Indian unit," said Lucila Zambrano, a spokeswoman for Unilever, replying to ET's queries. "Indeed, the purpose of the offer is partly to increase Unilever's share of the HUL dividend flow," she said.

The parent company plans to buy over 487 million HUL shares at Rs 600 each in a public offer, to raise its holding to 75% from 52.48% at present. The offer represents a 20.6% premium over Monday's closing share price and a 26% premium to the one-month average price. The acquisition is Unilever's biggest since its 2000 purchase of Best Foods for $23 billion and is the largest offer announced in the history of Indian capital markets. It becomes the second multinational to spend big money to hike its stake in its Indian unit after GlaxoSmithKline spent over $1 billion ( Rs 5,222 crore) in February this year to raise its stake to over 70% from 43%, marking a break in a narrative of doom and gloom about the Indian economy.

The Unilever move, which sent HUL shares surging 17%, is part of the MNC's plan to increase its presence in emerging markets such as India, where HUL brands are market leaders in most of the categories they operate in.

Paul Polman, Unilever's CEO, said in a statement the company's decision to increase its stake in HUL was part of its strategic focus on emerging markets. "This represents a further step in Unilever's strategy to invest in emerging markets, and offers a liquidity opportunity at what we believe to be an attractive premium for existing shareholders," he said about the open offer, which opens in June and is being managed by HSBC Holdings Plc.

Some analysts say the open offer may be telling a bigger story about the Indian economy. The open offer, coming at a time expectations are that consumer growth is slowing, does seem to indicate that the slowdown impact may be overestimated by the Street, said a Deutsche Securities report. It's far from clear that a majority of investors will tender their shares as many expect the price to go higher. Some said they would hedge their bets by selling a part of their stake.

Sources at LIC, which holds a 3.2% stake, say the state-owned life insurer will not tender its shares unless HUL comes out with a revised offer with a higher price. "We will take a call early next week. It is a good company and we would not completely exit," said a senior LIC executive.

"We don't believe in open offer mechanism as it can go wrong in terms of return expectations. We will not be tendering our shares in the open offer," said Akshay Gupta, CEO at Peerless Mutual fund, which holds less than 1% in HUL.

"We will participate in the offer as the price is good and offload 40-50% of our holding," said Sampath Reddy, chief investment officer of Bajaj Allianz Life Insurance. The insurer holds 1% in the company. As on March 31, 2013, FIIs held a 22.11% stake in HUL while domestic institutional investors owned 8.07%. Non-institutional investors and corporate bodies own a combined 17.34% stake in the company.

"The offer doesn't look attractive, given the stock was trading at similar levels a few months ago and corrected only due to negative sentiments from high royalty payment announcement to the parent company. Not many investors would be tendering the shares at the offer price," said a senior official at Birla Sun Life who didn't wish to be identified.

While Adi Godrej, chairman of Godrej Group, declined to comment specifically on rival HUL, he said an open offer from a company with cash surplus is generally a good move. "For someone who has cash on books and earning low interest, investments in Indian FMCG business are a much better opportunity."

Anand Burman, chairman of Dabur India, said he would have done the same thing. "If I were Unilever, I would have done exactly the same thing. HUL has been around in the country for 100 years and understands the Indian consumer like nobody else. Why should it limit its exposure to 51%. They are doing well here, so why shouldn't they reap the benefits? I am surprised they didn't opt for the open offer earlier."

Mehul Savla of boutique investment bank Ripplewave Equity says with the offer price at Rs 600 per share, the parent is buying the additional shares at an earning multiple of 33.5, which is not very high. "It is too early to say the company is intending to delist the Indian subsidiary. Going forward, the parents will benefit from the higher dividends due to increased stake," added Savla, who was earlier executive director at JPMorgan.

According to Unilever's annual report, the free cash flow in calendar year 2012 was 4.3 billion euros ( rs 30,300 crore), approximately the size of the open offer, while net debt was 7.4 billion euros ( rs 52,270 crore).

**Emphasis on Emerging Markets**

While the London- and Rotterdam-based company reported the slowest quarterly growth in two years as austerity-hit Europeans curbed spending, the Indian business grew in line with the broader FMCG industry at 13% during the quarter ended March 31.

HUL controls nearly 15% of the total FMCG market worth Rs 2 lakh crore, with sales topping the combined sales of rivals - Procter & Gamble, Nestle, Colgate and Reckitt Benckiser.

Andrew Holland, CEO of Ambit Investment Advisors, says Unilever is betting on emerging markets, especially India, to drive their global earnings. "Though the valuations are high at present with slowing growth in the country, the long-term consumption growth story of India is intact and this is what HUL has invested in."

Not surprisingly, HUL's presence in a range of daily consumption items such as soaps, shampoos and food makes its performance a good proxy for consumer sentiment in India.

Unilever has said developing markets will account for more than 90% of its annual sales growth this decade from around 57% at present. HUL contributes 6.65% of its parent's revenues. In contrast to other multinational companies, Unilever has most of its international subsidiaries listed on the regional stock exchanges, though it has recently moved to delist its Pakistan subsidiary.