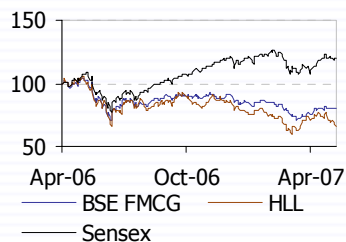


Stock Data

No. of shares	: 2,207mn
Market cap	: Rs 426bn
52 week high/low	: Rs 280/ Rs 166
Avg. daily vol. (6mth)	: 4.0mn shares
Bloomberg code	: HLVR IN
Reuters code	: HLL.BO

Shareholding (%) Mar-07 QoQ chg

Promoters	:	51.4	(0.0)
FII's	:	12.3	(0.6)
MFs / UTI	:	3.7	0.5
Banks / FIs	:	12.7	(0.1)
Others	:	19.9	0.2

Relative Performance

Source: ENAM Research, Bloomberg

Financial summary

Y/E Dec	Net Income (Rs mn)	Adj. PAT (Rs mn)	Consensus EPS* (Rs.)	Adj. EPS (Rs.)	Change (YoY %)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2005	112,790	13,545	-	6.2	13	32.1	61.6	54.8	24.8	5.0
2006	122,791	15,397	-	7.0	13	31.0	61.2	72.6	24.2	6.0
2007E	136,521	17,863	8.2	8.1	16	23.9	64.6	78.3	18.1	6.7
2008E	151,188	20,807	9.3	9.4	16	20.5	71.8	88.6	15.5	7.5

Source: *Consensus broker estimates, Company, ENAM estimates

Hindustan Lever Ltd

Relative to Sector: **Outperformer**

Rs 193

Target Price: Rs 230
Potential Upside: 19%

Bottomed-out valuations with long term triggers

Lead Analyst: Hemant B. Patel
hemantp@enam.com (+91 22 6754 7617)

Associate: Akhil Kejriwal
akhil@enam.com (+91 22 6754 7629)

May 15, 2007

Table of contents

	Slide No.
➔ Investment summary	3
➔ Underlying growth story	4
➔ Evaluating the growth engines	9
➔ The onset & offset of cost inflation	16
➔ Financial evaluation and outlook	20
➔ Valuations	26
➔ Business Overview	30

Investment summary

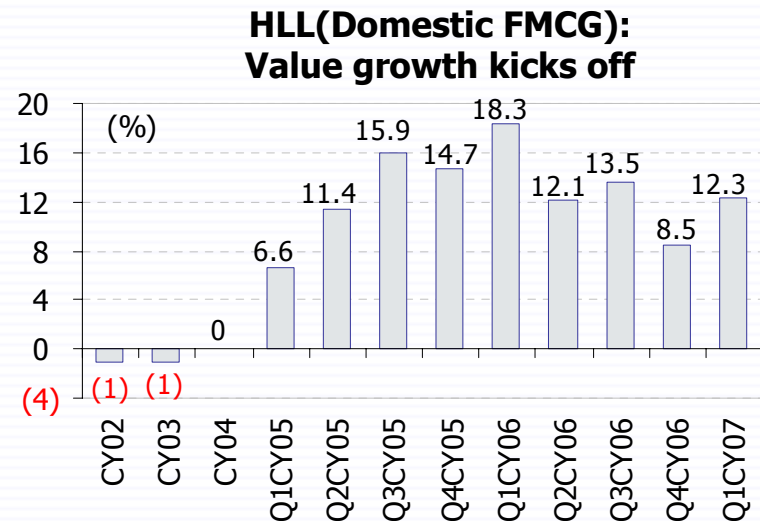
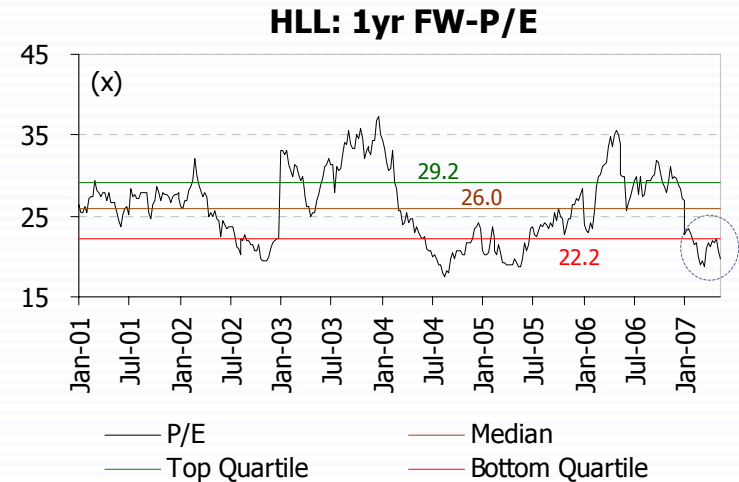
- **Bottomed out valuations: Scope for re-rating**
 - Underperformed the FMCG peer set in last 1 year
 - Trading 20x CY09 earnings - At 6-year historically low valuations
 - Intrinsic value at Rs 231/ share is under the J-Curve assumption, despite a higher cost of capital
 - Sustainable earnings momentum (~16% CAGR in next 2 years) & historic low valuations suggest head room for re-rating

- **Structural growth intact**
 - Domestic growth ~12% CAGR in next 2 years
 - Market shares gained in the interim phase

- **Brand extensions, organized reach, tax rationalization & consumption J-curve are Long Term triggers**

- **CY05 & CY06 marked the highest number of launches and re-launches in last few years, backed with high A&P spends**

- **However, a benign input cost environment & price increases affected in Q1CY07, are likely to improve EBITDA margin by 94bps in CY07**



Source: Company, ENAM Research

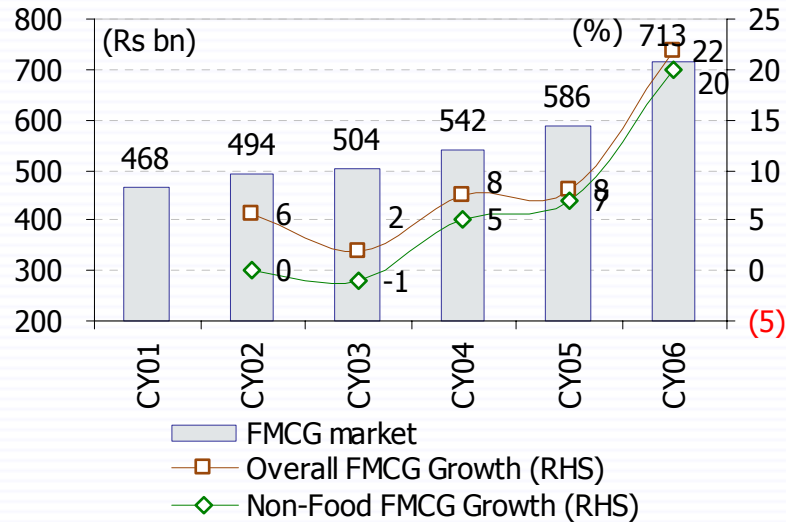


The underlying growth story

**Structural growth intact.
Volume growth momentum maintained in CY06.
Market share gain in the interim term.**

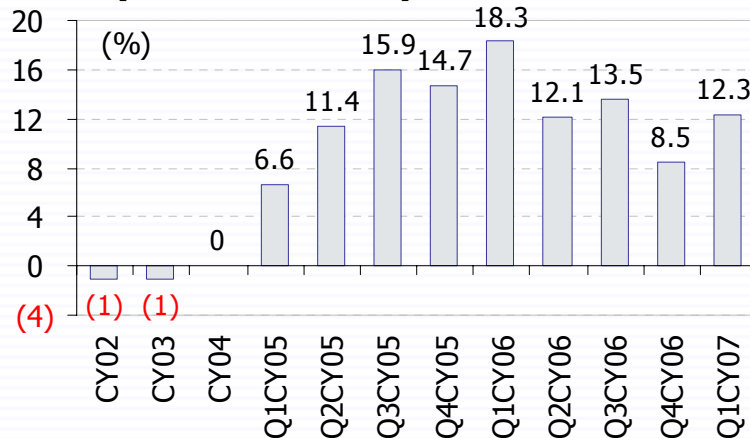
Core Growth Intact

FMCG Market: Growth Trend



Source: A.C.Nielsen. * FMCG market excludes tobacco, mineral water & carbonated drinks.

HLL(Domestic FMCG): Value Growth Kicks Off



Source: Company

FMCG Markets: A Second Coming

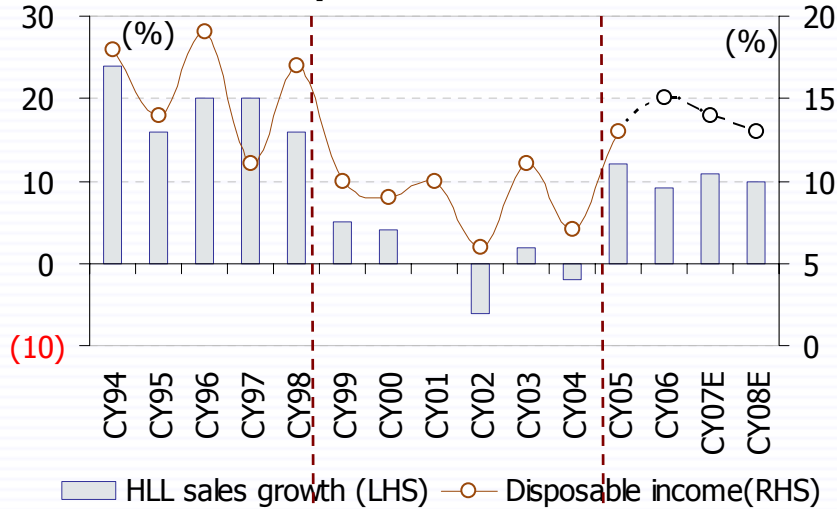
- **1990's** – growth at 15% p.a.
- **2000-2004** – growth stalled due to competing asset classes, down-trading in brands, low price competitors & lower rural off-take
- **Since 2005** - rising disposable incomes, changing lifestyle and emerging modern trade are increasingly driving demand for consumer goods
- **Outlook** - Consumption revival likely to translate into 7% real growth (12% nominal growth) till 2010. Current market size ~ Rs 713bn (USD 17bn)*

HLL: Out of the Woods

- HLL posted negative real growth in domestic FMCG sales through 2000-2004....
- ...but indicated a clear sign of revival from Q1CY05, with double digit topline growth after a gap of 6 years.
- Buoyant demand in CY06 can be largely attributed to growth in rural demand
- Innovation, activations and executions will remain key future growth drivers

Led by disposable income

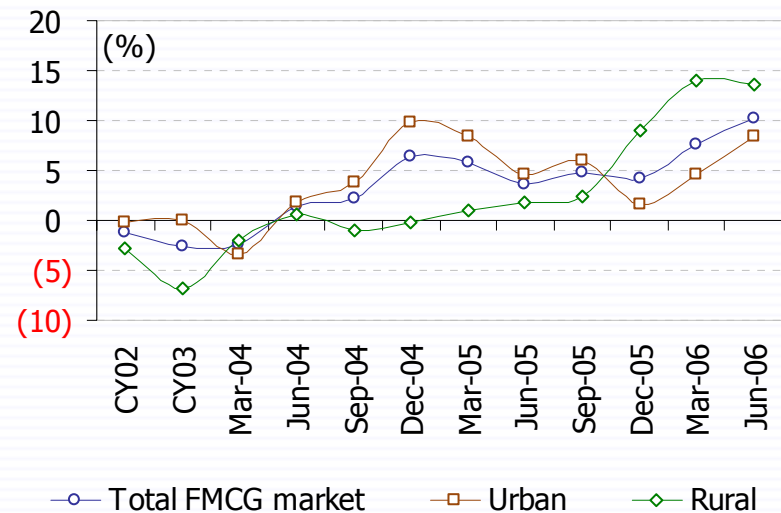
Growth in disposable income vs. HLL sales



- FMCG consumption propelled by higher disposable
- Lower competing asset class for share of wallet
- Economic slowdown
- Lower consumer off-take & down trading
- HLL: Loss of market share due to slow responsiveness to stiff competition
- Disposable income on the rise
- Brand up-trading
- Return of pricing power with underlying growth

Source: CSO, Company, ENAM Research Note: Personal disposable income at current price (new series from 2001) is forecasted for CY06E-CY08E

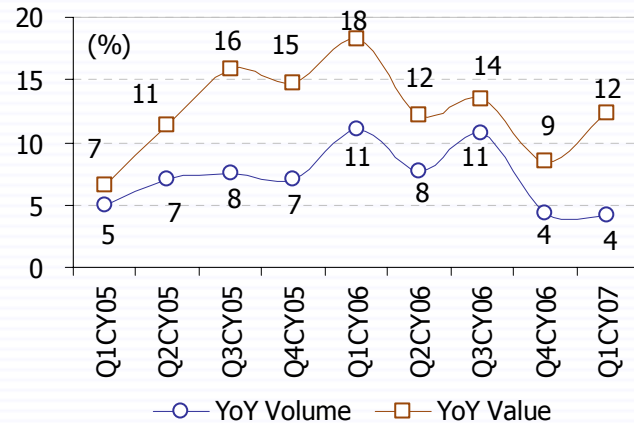
FMCG Market: Growth Trend



- Personal disposable income growth has averaged ~14% p.a. in CY95-CY99 vs. ~9% in CY00-CY04.
- Given the fall in dependency ratio (from 72% in 1985 to 60% in 2005) in the last 20 yrs and buoyant economic growth, disposable income is set to rise further
- This augurs well for consumption growth
- Rural markets will increase in importance and widen the demand base

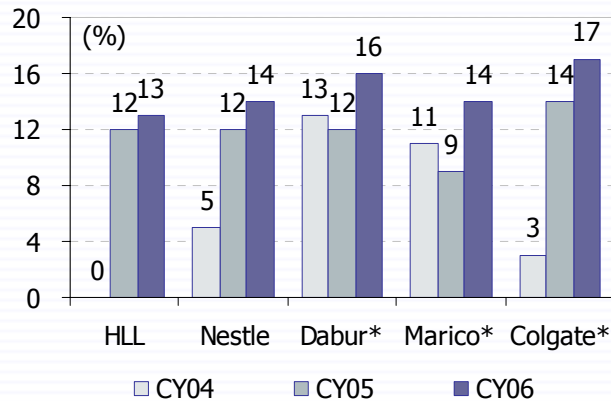
Growth revival is broad based

HLL: FMCG Value & Volume Growth Trend



Source: Company

Domestic FMCG growth of Peer Group



Source: ENAM Research Note: Domestic Sales growth excludes inorganic acquisitions and income from exports. * estimates for FY07E.

HLL: Segmental Growth Trend

	% of Sales	Sales Growth (YoY%)			
		CY03	CY04	CY05	CY06
Personal wash	23	4	2	7	10
Fabric wash	21	-4	1	16	16
Personal Products	29	15	3	22	15
Tea	12	4	0	2	-2
Coffee	3	6	3	12	11
Processed foods	3	19	(25)	11	20
Ice-cream	1	(13)	(4)	11	39

➔ HLL: Broad based category revival

- Primary categories - toilet soaps, laundry detergents & skin creams surpassed historical value & volume growth averages
- Underlying volume growth has brought back pricing power across categories
- Value growth is driven by both price increase and improvement in sales mix across categories

➔ Organic growth amongst the peer group indicates a sustainable growth revival

Market share gained in primary categories

Key categories	Sales* mix (%)	EBIT mix (%)	HLL value market share (MS)				Key competitor market share (MS)			
			Q3'06	Q4'06	Q1'07	Trend	Q3'06	Q4'06	Q1'07	Trend
Personal Wash	23	39	54.6	55.3	55.3	↑	9.3	9.2	9.4	↑
Fabric Wash	21		35.3	35.8	36.4	↑	14.7	15.1	15.5	↑
Skin	14	48	54.3	54.7	54.8	↑	7.2	7.4	7.3	↔
Shampoo	9		48.0	48.5	46.9	↓	23.2	23.8	24.8	↑
Toothpaste	6		30.2	30.4	30.0	↔	48.0	48.5	48.1	↔
Packet Tea	12	11	25.5	24.9	23.7	↓	20.4	19.9	20.5	↔
Instant Coffee	3		49.4	44.1	44.0	↓	50.6	56.0	55.0	↓

* Source: ENAM Research

➤ MS for ~64% of sales is holding up/ moving up

- Soaps – Held ground due to the re-launch and new introductions of power brands - Lifebuoy, Breeze & Lux.
- Fabric Wash – Competition has remained intense. Wheel, Rin & Surf delivered MS gains. Segment grew by 16% in CY06, the 2nd consecutive year of double digit growth.
- Skin care – 7x larger than the nearest competitor. New entrants continue to populate segment. HLL showing MS trend reversal.
- Toothpaste – Re-launches and activations in Pepsodent & Close-up, helped to arrest the fall in MS.

➤ MS for ~24% of sales is moving down

- Shampoo – Continued to lose ground to P&G, despite the re-launch of Sunsilk portfolio and Clinic brands in CY06. Sachets continue to be the key growth driver. New variants continue to be introduced across 3 primary brands.
- Instant Coffee – Despite value growth, HLL is losing out in terms of volume to competition. Consumer's of roast & ground filter coffee segment are moving to instant coffee.
- Packed Tea – Continued to show single digit growth. National, regional and local competitive environment remained high.

➤ **Current Initiative - New variants, packing innovation & product enhancements backed by A&P investments**

➤ **Strategic direction – Continue exploring mass market categories (e.g. foods) & enhance modern trade capabilities**

➤ **Expect HLL to maintain domestic growth at 12% CAGR, inline with industry growth in the next 2 years**



Evaluating the growth engines

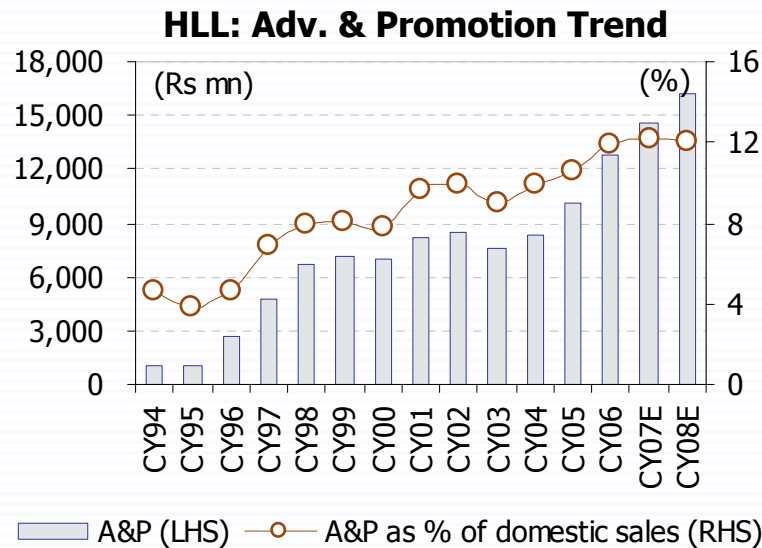
**No growth miracles in the interim phase.
But brand extensions, organized reach, tax rationalization and
consumption J-curve are Long Term triggers.**

Product Launches: Scale new heights

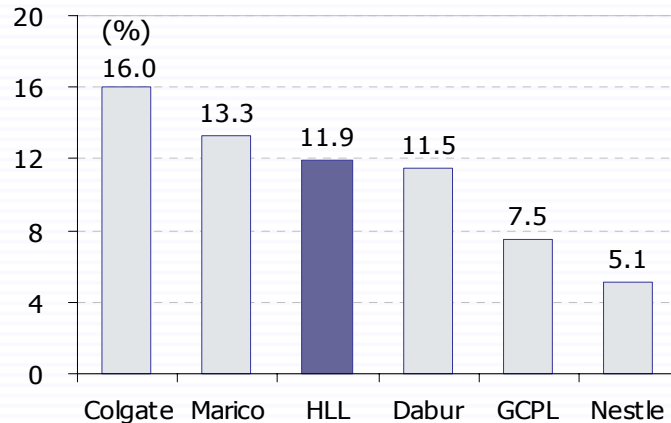
➔ **CY05 & CY06 marked a renewed aggression in terms of launches and re-launches.**

1 st Half CY05	2 nd Half CY05	1 st Half CY06	2 nd Half CY06
<p><u>Launches</u></p> <ul style="list-style-type: none"> ■ Sunsilk new variants - Fresh & Cool, Velvety Soft ■ Wheel Lemon Fresh ■ Lifebuoy Clear Skin ■ New Tazza variant <p><u>Re-launch</u></p> <ul style="list-style-type: none"> ■ Lux ■ Close up Lemon-mint & Pepsodent Whitening ■ Fair & Lovely Core 	<p><u>Launches</u></p> <ul style="list-style-type: none"> ■ Celebrating 75 yrs of Lux – 4 celebrity endorsed variants ■ Lakme Hairnext – Lakme enters hair styling category ■ Lakme Mosaic collection ■ Sunsilk 9 to 9 – after wash combing lotion ■ Brooke Bond Red Lable Naturals – flavored tea variants ■ Pepsodent double care toothbrush ■ Axe Unlimited – 2 new fragrances ■ Lux – Chocolate, Aromatic & White Spa ■ Lifebuoy Nature – Liquid soap ■ Rin Advanced Jasmine Fresh ■ Pears Junior for kids ■ CAC hair fall defense ■ Fair & Lovely Perfect Radiance ■ Ponds Triple vitamin Moisturizing solution <p><u>Re-launch</u></p> <ul style="list-style-type: none"> ■ Re-launch - Bru ■ Annapurna Farm Fresh Atta & Iodised Powder Salt ■ Knorr Soups – packing innovation and 4 more variants 	<p><u>Launches</u></p> <ul style="list-style-type: none"> ■ Lux – Festive Glow & Aqua Sparkle ■ Dove - 2 new variants ■ Vaseline Aloe Fresh - summer body lotion ■ Lakme happy hour collection ■ Close-up Milk Calcium ■ Kwality Walls - Ice-cream season 2006 range ■ Surf Excel Gentle Wash – liquid detergents ■ Fair and Lovely MenzActive – skin lightening treatment ■ Bru Cappuccino ■ Ayush Therapeutic Ayurvedic oil ■ Pepsodent Fighter- Tooth Brush ■ Comfort fabric conditioner ■ Vim Liquid ■ Brook Bond – Connoisseur range ■ Clinic All Clear - ice cool ■ New Rexona Deos ■ Ponds Advance Skin Care range <p><u>Re-launch</u></p> <ul style="list-style-type: none"> ■ Sunsilk range ■ Wheel Active ■ Kissan – Ketchup, Jams & Squashes ■ Lifebuoy Range ■ Fair and Lovely Ayurvedic ■ Elle 18 Nail & Lip range ■ Surf Excel range ■ Pepsodent Germicheck 	<p><u>2nd Half CY06</u></p> <ul style="list-style-type: none"> ■ Axe Click Deo ■ Lakme – Fundamentals and Freespirit range ■ Domex toilet cleaner ■ Fair & Lovely - Skin clarity range ■ Ponds face wash range ■ Sunsilk – Hair care range for coloured hair. (Top end customer.) ■ Lux White Glow ■ Lux Uplifting Bar ■ CP Anti dandruff launch ■ Huggies Dry baby diapers ■ Ponds Age Miracle ■ Dove new variants ■ Lux body wash – 4 variants <p><u>Re-launch</u></p> <ul style="list-style-type: none"> ■ Clinic All Clear Active Care ■ Lifebuoy Handwash ■ Clinic plus daily care ■ Ponds moisturizing cold cream ■ Brook Bond Taaza ■ Vaseline Body Lotion ■ Breeze soap bars

Escalating brand investments



Peer comparison: A&P spend (CY06/FY07)



Source: ENAM Research

- ➔ **“Protect market share” is at the helm of the brand investment strategy.**
- ➔ **To maintain investment aggression in terms of**
 - Pricing - Response to competition
 - Product – Quality/value mix upgrade and new launches
 - Promotion – Maintain share of voice
- ➔ **Step-up of A&P spend in CY05 & CY06..**
 - A&P spend grew by 20% and 27% in CY05 and CY06 respectively, the highest growth since CY98.
- ➔ **... to maintain SOV & support product launches**
 - Industry peers have also scaled up A&P spend to maintain share of voice (SOV).
 - Key categories such as fabric wash, skin care, toothpaste & soaps have shown recent trend reversal in market share.
 - New introduction and re-launches are critical for incremental growth. Thus higher A&P expenditure to support greater nos. of brand launches/re-launches in CY05-06.
- ➔ **Outlook:**
 - We expect product launches to take a breather in CY07.
 - We expect A&P spend to be maintained at 12% of domestic sales in CY07E and CY08E representing a ~11% increase p.a. in absolute terms.

Revenue Profile: A slow transformation

Under-penetrated categories to drive transformation

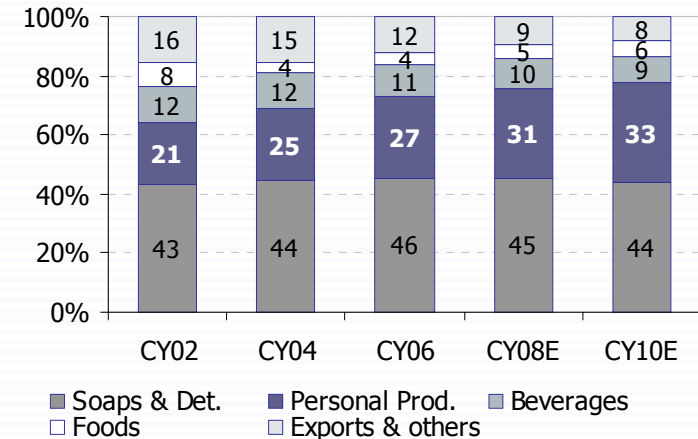
- Continued focus on skin care, processed foods & personal hygiene (excl. soaps) to drive the growth agenda
- Growth categories to contribute ~40% of sales in CY10E vs. ~32% of sales in CY06

Growth of mature categories to moderate at 9% CAGR over the next 4 years.

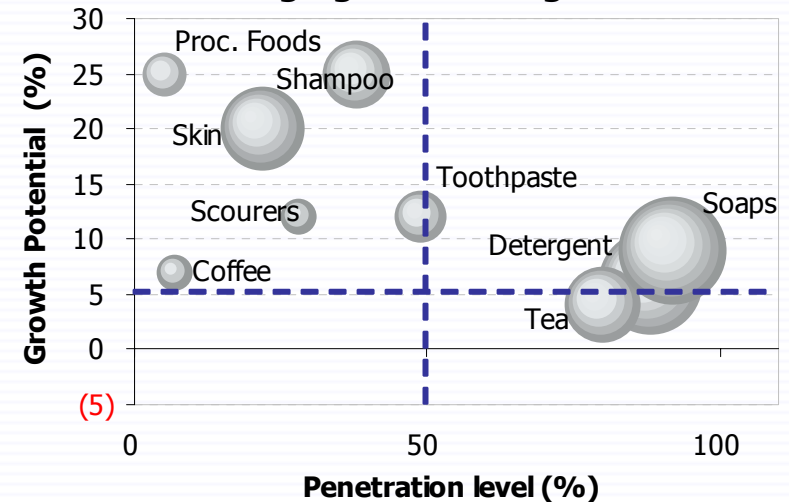
- ~56% of revenue contribution is derived from high penetrated categories (soaps, detergents and tea).
- Soaps (23% of sales) and detergents (23% of sales) have grown by 9% and 16% CAGR respectively in the last 2 yrs
 - Highest growth rate achieved since 1997.
 - Competitive intensity has remained high in fabric detergents relative to soaps and dish-wash category.
 - Both segments have high penetration levels. Growth will be lead by income growth and consumption improvement. Quality and functionality will gain importance for selection criteria.
 - OUTLOOK: Expect 10% CAGR in the next 4 yrs.
- Packed Tea & Coffee (11% of sales) grew by -0.2% and 12% CAGR respectively in the last 2 yrs.
 - Growth in packed tea will be lead by consumption improvement, while instant coffee is still an under-penetrated category.
 - Outlook: Expect 5% CAGR in the next 4 yrs.

Sales mix transformation has a positive implication for operating earnings in the long term

HLL: Sales Mix Trend



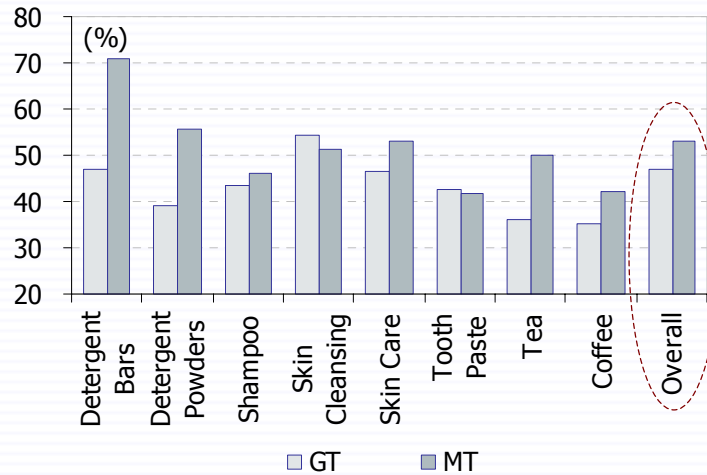
HLL: Growing importance of high growth categories



Source: ENAM Research

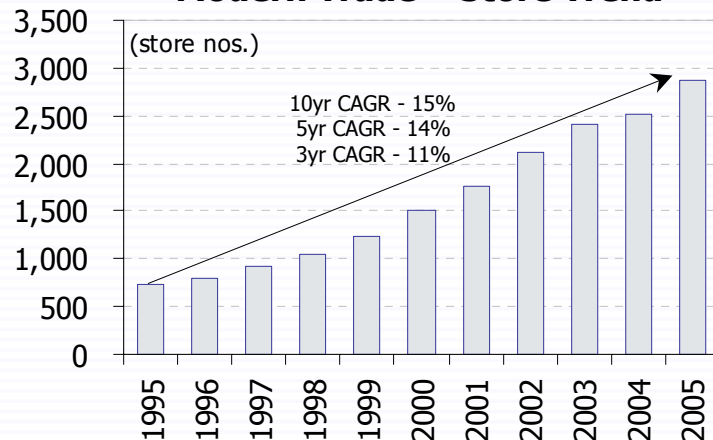
Modern Trade: A growth proposition

HLL: Market share in MT



Source: Company

Modern Trade – Store Trend



Source: Company

- ➔ **HLL: Competitively positioned for MT**
 - HLL's modern trade (MT) market share is higher than that of general trade (GT).
 - Revenue from MT ~4% of sales to scale up to ~10% by CY10E.

- ➔ **MT private brands to take on economy FMCG brands.**
 - Modern trade to introduce private FMCG brands across mass categories.
 - Price conscious customers are the target segment.
 - Expect private brands to become 15% of MT FMCG sales in the next 4 years.

- ➔ **National FMCG brands set to gain**
 - Past trends in D&E markets show that global consumer majors have experience to partner modern trade to reduce cost in the system.
 - Higher margin offered to MT will be partly off-set by richer sales mix and higher asset turns.
 - Key impetus: Provides launch pad for niche products at lower cost and ability to drive market share in select power brands. Popular and premium brands will have an upper hand over mass market & regional brands.

Phase of acquisitions or divestments?

Growth Phase of 90's

- ⇒ Key alliances, acquisitions and mergers during the growth phase
 - 1993 – Acquired Tata Oil Mills Company (TOMCO).
 - 1996 - Merged Brooke Bond Lipton India Limited (BBLIL) with the portfolio of tea plantations and ice-cream.
 - 1998 - Acquired Lakme cosmetics brands.
 - 1998 - Amalgamated Ponds India Ltd (PIL).
 - 2000 - Acquired Modern foods.

- ⇒ Added Rs 37bn in sales by 1998.

Divestments & Rationalizations through 2000-05

- ⇒ ~75% of sales in CY2000 derived from FMCG businesses

- ⇒ Divested & discontinued 15 non-FMCG & commodity businesses (~Rs 20bn sales)
 - Animal feeds, specialty chemicals, adhesives, thermometers, vanaspati, seeds, mushrooms etc.

- ⇒ Commenced brands rationalization in CY2000 to reverse down-trading & re-establish brand relevance
 - Reduced number of brands from 110 to 35 brands across 20 categories.
 - Resource concentration has improved.

What next?

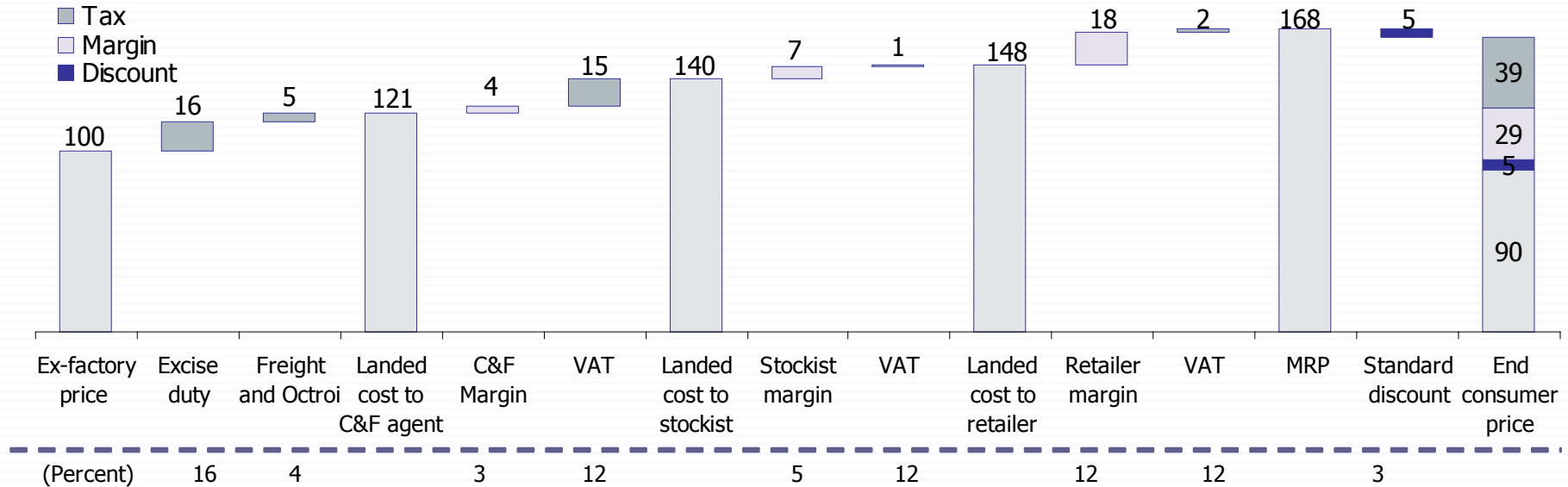
- ⇒ Escalates the new variant strategy under power brands.

- ⇒ Visible innovation across product, packing, formats & delivery mechanisms.

- ⇒ May evaluate inorganic opportunities in growth categories (e.g. branded foods)
 - Caveat – Only large dominant players in relevant categories to present acquisition opportunities.

GST regime can increase consumption by 2x

Cascading effect of indirect taxes



Fiscal impediments on FMCG growth...

- Higher indirect taxes vs. global benchmarks.
- Increase in production and distribution cost
- Discriminating tax on branded and packed food articles.
- Cascading tax impact on competitiveness.
- Higher compliance cost due to multiple taxes.
- Higher import duty on certain FMCG inputs.

.....and the way forward

- Phase I** – Multiple state sales taxes were brought under value added tax regime (CENVAT) in April 2005.
- Phase II** – Integrate central sales tax (CST), under the current VAT regime by reducing 100bps ever year till 2010.
- Phase III** – Integrate state level VAT and state excise duty into common GST, by 2010.

- China has 15% VAT on FMCG products. In India, indirect taxes are at 22%-35% of maximum retail price (MRP)
- Reduction of taxes will bring unorganized players in the tax net, thus reducing pricing differential
- But only complete integration to GST level by 2010 will lower prices by 15%-25%
- The combine impact of price reduction & level playing field will increase consumption in select categories by 2x



The Onset & Offset of Cost Inflation

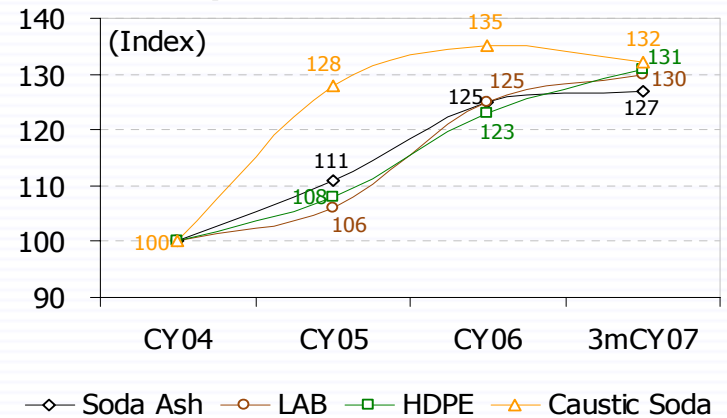
Input costs have firmed-up

- **Material cost at 54% net sales in CY06**
 - Crude derivative inputs- packing polymers and LAB - ~45% of material cost (MC)
 - Chemicals based - Soda Ash & Caustic Soda- 14% of MC
 - Non-edible vegetable oils ~12% of MC
 - Tea and coffee ~ 12% of MC

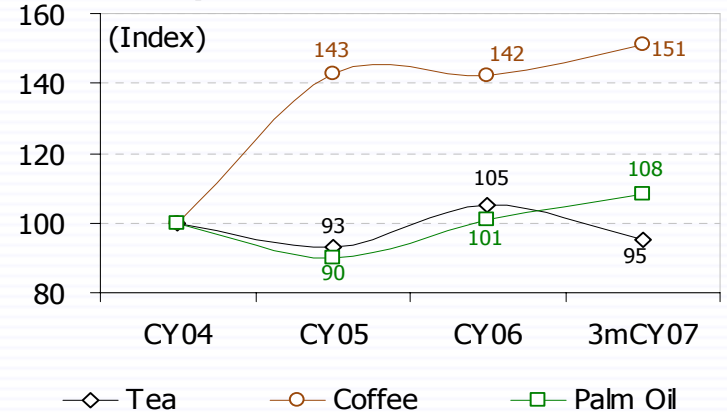
- **A sharp rise in prices of crude derivatives, caustic soda and coffee exerted cost pressures across categories in CY05**

- **Manageable rise in input cost through CY06. Overall cost environment to remain benign through CY07**
 - HDPE prices are likely sustain at current levels till at least CY07 end, given the delays in global capacity additions.
 - LAB: Feedstock prices are dependant on crude oil. Prices have marginally increased in CY07.
 - Palm oil: Prices have continued to maintain an upward trend due to growing concerns on demand for bio diesel.
 - Soda Ash: Domestic prices of soda ash remain stable due to favorable demand-supply economics. Producers are expected to maintain prices, although they might witness downward pressure with increase in capacity and imports.
 - Tea and coffee prices remain firm on account of tight demand-supply situation. Expect most price increase.

Input Prices : Domestic trend



Input Prices : Domestic trend



Source: CMIE

Pricing rational prevails

- ➔ **Select price increases effected across power brands in various categories**
 - Volume revival and a prevailing inflationary input cost environment has compelled industry peers to increase prices in unison.
- ➔ **Will new entrants cause pricing disruption?**
 - Consumers tend to be more sticky to products closer to the skin, such as cosmetics, skin creams and oral care.
 - Implications – Penetrative pricing strategy in skin creams or oral care will not work as well as that of detergents.
 - Expect new entrants in under penetrated categories, but with pricing rationality and patience, in order to gain volume share in a growing market.
- ➔ **Current volume gains coupled with rational pricing structure will offset margin pressure**
- ➔ **However price elasticity could be put to test if input costs rises sharply**
 - Striking a balance between pricing & affordability has volume growth implications on economy brands.
 - Further price increases do not seem an immediate concern in most categories.

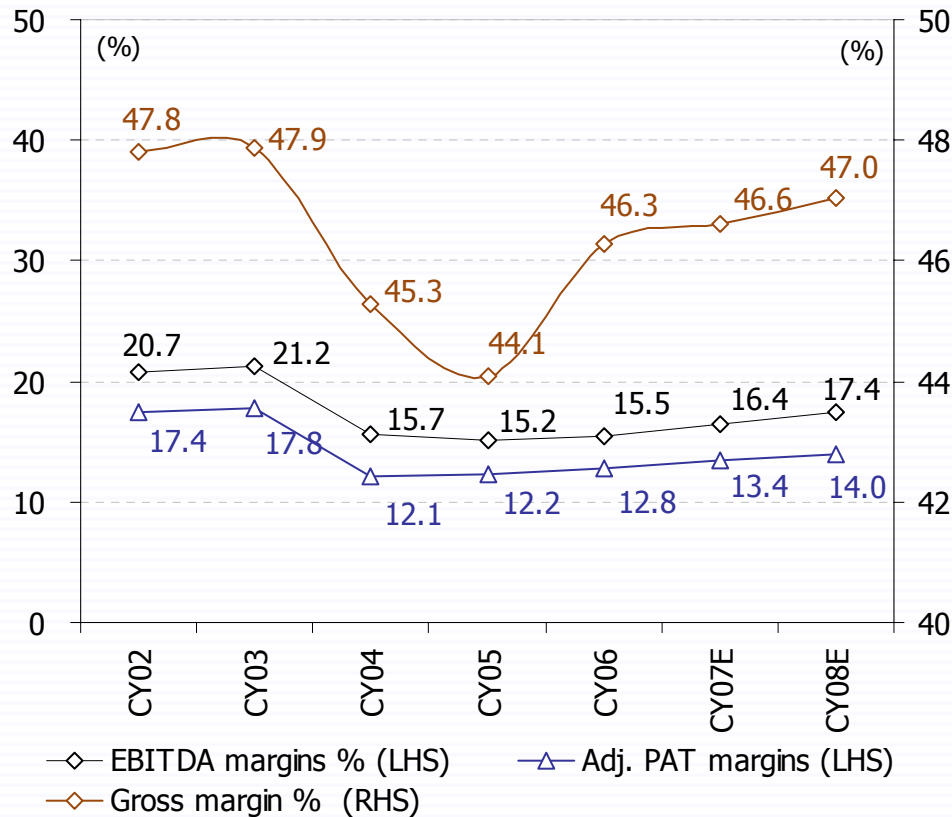
HLL: Price increase trend (YoY)

Brand	Segment	CY05	CY06
Lifebuoy	Soaps	-	9%-11%
Breeze	Soaps	-	-
Hamam	Soaps	-	8-14%
Lux	Soaps	-	5-8%
Rexona	Soaps	-	7-8%
Liril	Soaps	-	-
Pears	Soaps	2.60%	3-5%
Dove	Soaps	2.60%	10-12%
Wheel	Detergents	3%-12%	3%-6%
Rin	Detergents	4%-12%	4%
Surf Excel	Detergents	3%-12%	2%
Closeup	Toothpaste	4%-10%	3%-7%
Pepsodent	Toothpaste	4%	5%-10%
Clinic	Shampoo	8%-10%	5%-7%
Sunsilk	Shampoo	-	4%-13%
Fair & Lovely	Skin Care	4%-6%	6%-7%
Ponds	Skin Care	5%	3-5%
Brooke Bond	Tea	-	2%-4%
Bru	Coffee	7%-20%	5%-7%

Source: ENAM Research

Margin profile to improve

HLL: Margin trends



Source: Company, ENAM Research

Gross margin expansion in CY06

- Select price increase across categories.
- Improvement in sales mix due to brand up-trading.
- Raw material and packing material cost well contained.

But aggressive brand investment held back EBITDA margin expansion

- While contribution margin increased by 226bps in CY06, EBITDA margin improved to a lesser extent at 32bps due to increase in A&P expenditure by 130bps as % of domestic sales.
- Significant product innovation / activations completed in CY06.
- Outlook: Expect EBITDA margin to improve by 94bps in CY07, backed by improvement in revenue mix & a manageable input cost environment.

Net margin expansion

- Expect net margin to improve by 90bps in CY07E, after considering higher effective tax rate.
- While a demonstrable pricing power alongside soft commodity prices could trigger earning surprises, a resumption of brand down-trading, post interest rate hike, or a slowdown in rural off-take are key short term concerns.



Financial evaluation & outlook

HLL in 2016!

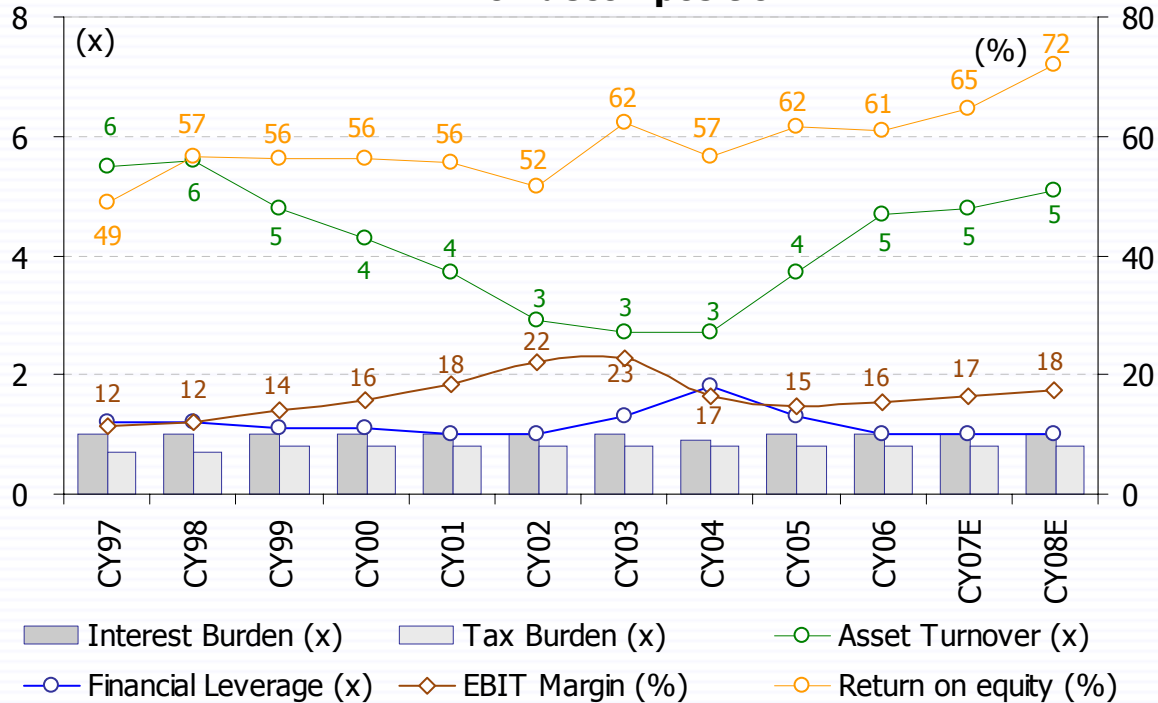
	Sales (Rs bn)			Sales mix (%)			CAGR (%)	
	2006	2011E	2016E	2006	2011E	2016E	2011E	2016E
Personal Care	61	107	232	50	55	63	12	17
- Soaps	28	39	57	22	20	15	7	8
- Oral Care	7	11	19	5	5	5	10	12
- Hair Care	9	20	47	7	10	13	17	19
- Skin Care	15	32	89	12	16	24	16	23
- Others	3	7	21	2	4	6	18	25
Home Care	28	40	59	23	20	16	7	8
Beverages - Foods	13	17	23	11	9	6	5	6
Culinary - Foods	4	8	18	3	4	5	16	18
Ice-cream - Foods	1	4	9	1	2	3	22	20
Exports	13	16	23	10	8	6	5	7
Others	2	2	3	1	1	1	6	6
Net Sales	123	195	367	100	100	100	10	14

Source: Company, ENAM Research

- ➔ **Power brands to enter a new growth phase.**
 - Well positioned / rationalized brand portfolio and straddled across segments - can be leveraged in the growth phase.
 - Better equipped to handle modern trade - Capabilities in supply chain management to further improve price-to-performance across products, and in-store merchandizing to drive impulse purchase across core categories.
- ➔ **Under penetrated personal care category & a large processed foods opportunity are the key growth drivers.**
 - Personal care products – we expect market dominance to be maintained in high growth categories.
 - In fact, the personal care segment will continue to dominate, with ~63% of revenue in CY2016.
 - Processed foods (exc. beverages) category to become ~5x by CY2016E, contributing 8% of net sales.
- ➔ **We expect no miracles in growth in the interim period. But the J Curve theory still holds beyond 2010.**

Capital efficiency, Interim trend upwards

HLL: RoE decomposition



- HLL's **gross margin** at 45% is amongst the lowest among domestic peer group. Wide product range across price points & a mass market presence are key factors for lower gross margin. Similarly EBIT margin is also below industry average.
- Continues to maintain a net debt free status. **Interest burden** at 1x. Considering the cash surplus the non-operating income stood at 11% of adj. PAT in CY06.
- Effective tax planning initiatives through establishing plants in tax heaven backward zones. We expect the **tax burden** to trend upwards as fiscal benefits are withdrawn gradually.

Fixed asset turnover at a high level of ~4.5x, as ~40% of sales is 3rd party processed/outsourced. Divestment of non-FMCG businesses and low capital expenditure requirement, expect asset turns to rise.

Tighter **inventory management** and higher **supplier credit** given its significant buying power. The growth in MT will gradually bring back working capital to sales ratio into +ve territory by 2015.

Superior asset turn (5x) vs. peer group to be maintained in the interim phase. High level of cash assets and under leveraged balance sheet could add upside.

- **Lower margin but outstanding capital efficiency has led to higher returns. – RoE 62%, ROCE 73% (includes ~70% cash on books)**
- **Sustainable – Continued market dominance to support high asset turns, while margin have an upward bias.**

Source: Company, ENAM Research

Quarterly Review

(%)	Q1'05	Q2'05	Q3'05	Q4'05	Q1'06	Q2'06	Q3'06	Q4'06	Q1'07
Domestic sales (YoY)	7	11	16	15	18	12	14	8	12
- Soaps & Detergents	10	9	12	13	16	13	12	10	10
- Personal Products	9	17	25	25	27	13	17	3	7
- Beverages	0	16	11	2	5	(4)	7	8	17
- Foods & Ice Creams	(12)	(1)	28	38	31	27	25	24	42
Export Sales (YoY)	10	(3)	(8)	12	(19)	2	20	(3)	22
Net Sales (YoY)	7	10	14	14	12	9	12	6	14
Gross margin	42	44	45	46	46	47	47	46	45
Gross margin (YoY)	-3	9	11	17	20	14	18	6	11
EBITDA margin	12	13	14	17	13	15	15	18	13
EBITDA (YoY)	(24)	5	4	12	25	20	18	11	12
Adj. PAT margin	10	11	12	15	11	12	12	15	11
Adj. PAT (YoY)	(15)	17	15	23	14	26	18	10	14

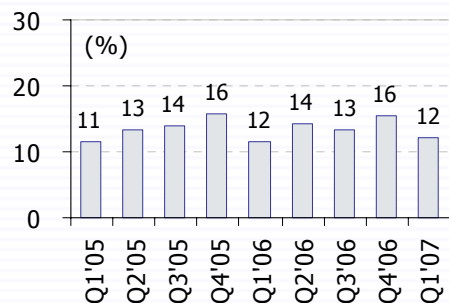
Domestic growth of 13% in CY06 is expected to be maintained in CY07E.

Growth in the personal care segment that was impacted in Q4CY06 due to seasonal delays, recovered in Q1CY07 with 11% YoY growth (adjusted for Nihar divestment).

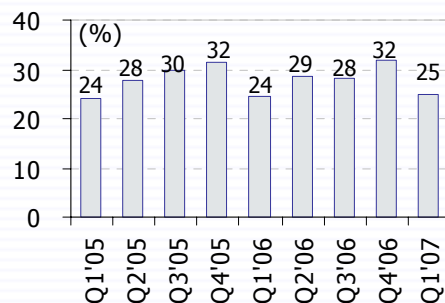
Input cost are stabilizing. Price increase affected in soaps, detergents & skin cream among other categories in Q1CY07.

PBIT margin have improved across all primary categories with the exception of beverages. Upward bias in operating margin maintained.

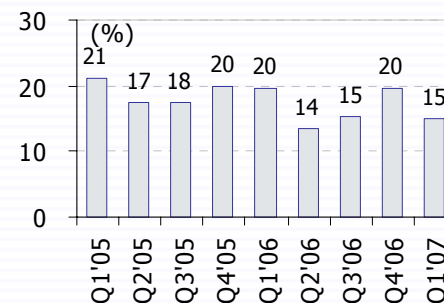
PBIT: Soaps & Detergents



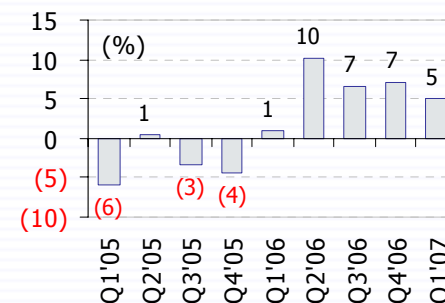
PBIT: Personal Care



PBIT: Beverages



PBIT: Foods & Ice Creams



Source: Company, ENAM Research

Company financials

Income statement

(Rs mn)

Y/E Dec	2005	2006	2007E	2008E
Net sales	110,803	120,752	134,371	148,807
Other operating income	1,987	2,040	2,150	2,381
Total income	112,790	122,791	136,521	151,188
Cost of goods sold	72,153	75,778	83,317	91,230
Contribution (%)	37	39	40	40
Advt/Sales/Distrn O/H	23,820	28,302	31,120	34,098
Operating Profit	16,817	18,712	22,084	25,860
Other income	664	1,314	1,506	1,544
PBIDT	17,481	20,026	23,590	27,404
Depreciation	1,245	1,302	1,479	1,533
Interest	192	107	59	23
Other pretax	0	0	0	1
Pre-tax profit	16,045	18,617	22,052	25,847
Tax provision	2,500	3,220	4,190	5,040
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Adjusted PAT	13,545	15,397	17,863	20,807
E/o income / (Expense)	536	3,157	0	0
Reported PAT	14,081	18,554	17,863	20,807

Key ratios

(%)

Y/E Dec	2005	2006	2007E	2008E
Sales growth	11.6	9.0	11.3	10.7
OPM	15.2	15.5	16.4	17.4
Oper. profit growth	8.0	11.3	18.0	17.1
COGS / Net sales	64.0	61.7	61.0	60.3
Overheads/Net sales	21.1	23.0	22.8	22.6
Depreciation / G. block	5.2	5.3	5.4	5.1
Effective interest rate	2.5	16.6	10.0	10.0
Net wkg.cap / Net sales (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net sales / Gr block (x)	4.7	5.0	5.2	5.2
Incremental RoCE	(19.1)	(565.1)	506.8	238.4
RoCE	54.8	72.6	78.3	88.6
Debt / equity (x)	0.0	0.0	0.0	0.0
Effective tax rate	15.6	17.3	19.0	19.5
RoE	61.6	61.2	64.6	71.8
Payout ratio (Div/NP)	78.2	71.4	82.8	79.5
EPS (Rs.)	6.2	7.0	8.1	9.4
EPS Growth	12.9	13.4	16.0	16.5
CEPS (Rs.)	6.7	7.6	8.8	10.1
DPS (Rs.)	5.0	6.0	6.7	7.5

Source: Company, ENAM Research

Company Financials

Balance sheet

(Rs mn)

Y/E Dec	2005	2006	2007E	2008E
Total assets	23,626	27,961	28,545	29,869
Gross block	23,751	24,627	27,427	29,927
Net fixed assets	13,855	14,008	15,328	16,295
CWIP	980	1,103	955	900
Investments	0	0	0	0
Wkg. cap. (excl cash)	(17,103)	(17,703)	(18,246)	(17,597)
Cash / Bank balance	18,296	25,564	25,767	25,790
Others/Def tax assets	7,597	4,990	4,740	4,480
Capital employed	23,626	27,961	28,544	29,869
Equity capital	2,201	2,207	2,207	2,207
Reserves	20,855	25,028	25,888	27,662
Borrowings	569	726	450	0
Others	0	0	0	0

Cash flow

(Rs mn)

Y/E Dec	2005	2006	2007E	2008E
Sources	(10,539)	8,139	2,063	2,858
Cash profit	16,117	15,545	19,592	22,601
(-) Dividends	(12,544)	(13,470)	(17,003)	(19,034)
Retained earnings	3,574	2,075	2,588	3,567
Issue of equity	0	0	0	0
Borrowings	(14,156)	157	(276)	(450)
Others	43	5,907	(249)	(260)
Applications	(10,539)	8,139	2,063	2,858
Capital expenditure	1,775	1,542	2,652	2,445
Investments	(3,775)	5,945	861	(500)
Net current assets	(5,108)	131	(793)	389
Change in cash	(3,430)	522	(657)	523

Source: Company, ENAM Research

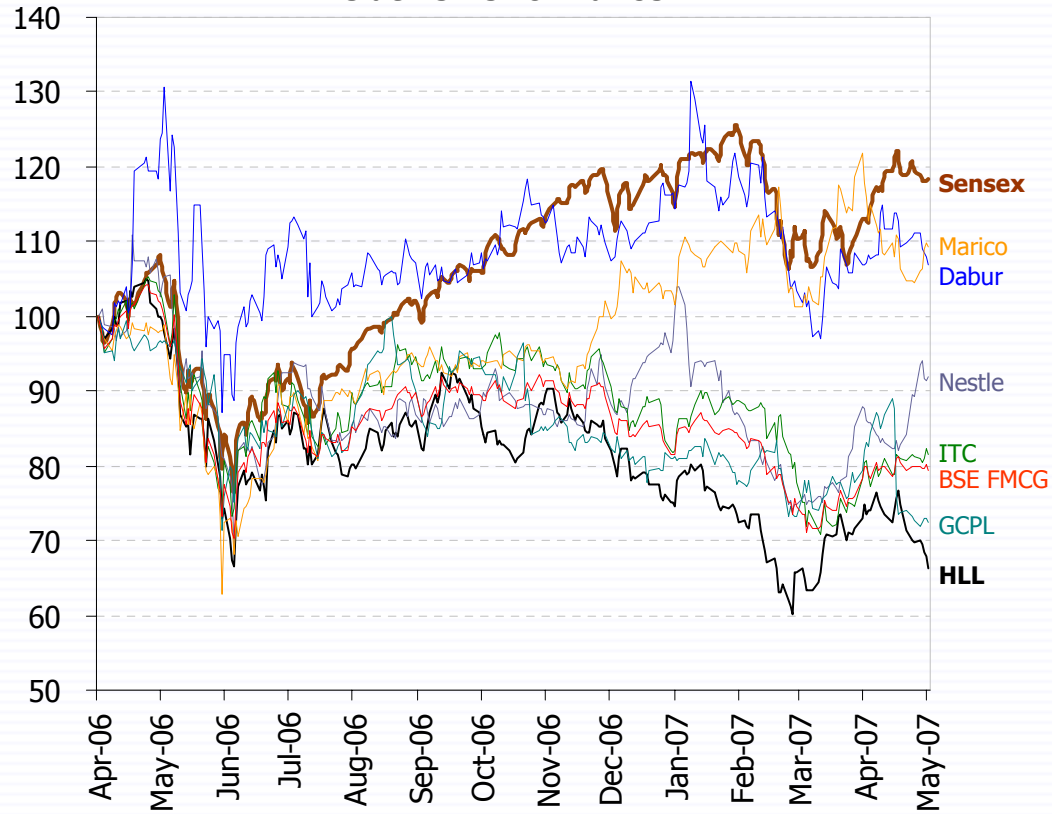


Valuations

**Bottomed-out valuations.
Intrinsic value at Rs 231/ share –
under the J curve scenario.**

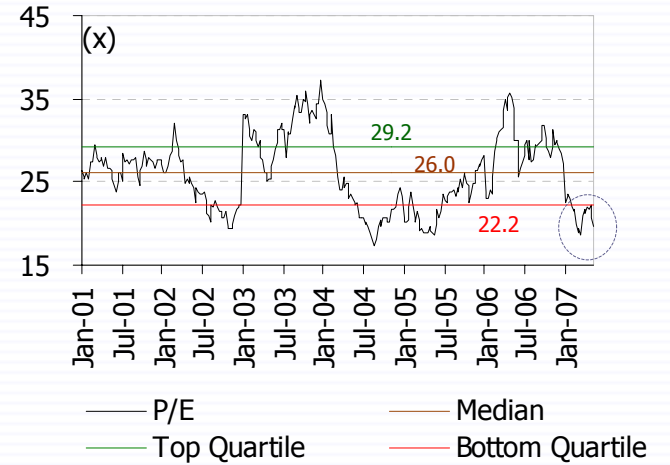
Scope for a re-rating

Relative Performance

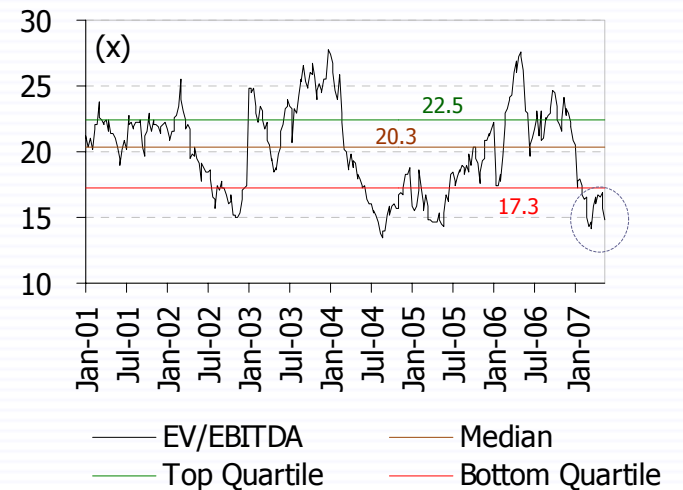


- Traditionally has had a low market correlation (R-squared – 0.4)
- Stock performance has been largely driven by earnings & growth
- Sustainable earnings momentum and historic low valuations suggest head room for re-rating

HLL: 1yr FW-P/E



HLL: 1yr FW-EV/EBITDA



Source: ENAM Research

Global Valuation Comparison

Company Name	Sales	OPM	Historic	Revenue	PAT	Valuation - CY08E/ FY09E		
	CY07E/ FY08E (USD mn)	CY07E/ FY08E (%)	RoE (%)	CAGR (%) FY07 / FY09	CAGR (%) FY07 / FY09	P/S (x)	P/E (x)	EV/ EBITDA
Global Players								
AVON	9,479	15	60	7	38	1.7	18.3	11.6
CADBURY SCHWEPES	15,702	17	35	10	(17)	1.7	18.5	9.6
COCA-COLA	26,733	31	30	11	15	4.3	18.9	13.7
COLGATE-PALMOLIVE	13,135	24	108	7	20	2.5	17.6	10.9
GROUPE DANONE	19,757	18	NA	10	8	2.0	21.1	NA
HEINZ	9,252	20	28	4	7	1.5	16.1	9.8
KAO	10,623	17	15	3	4	1.4	24.2	9.8
KIMBERLY-CLARK	17,741	21	26	5	16	1.8	16.2	9.3
KRAFT FOODS	35,759	17	11	4	(0)	1.4	17.2	9.9
L'OREAL	23,116	20	14	12	9	3.0	23.8	15.3
NESTLE	86,240	17	18	8	12	1.7	17.3	10.6
PEPSICO	37,991	23	38	8	3	2.7	18.2	11.5
PROCTER & GAMBLE	76,095	24	22	9	15	2.4	16.8	11.0
RECKITT BENCKISER	10,283	25	36	10	27	3.5	19.3	14.3
SARA LEE	12,098	12	21	(11)	9	1.0	19.1	8.0
UNILEVER NV	55,130	16	48	7	(4)	1.0	9.8	6.7
Domestic Players*								
ITC	3,444	32	26	15	9	3.7	18.0	11.4
HLL	3,288	16	65	11	16	2.7	19.6	16.5
NESTLE	788	19	92	13	20	2.9	23.1	14.2
DABUR	624	16	64	15	21	2.8	19.3	16.4
MARICO	455	14	43	17	27	1.6	18.0	12.1
COLGATE	361	18	63	13	17	3.0	19.3	16.5
GODREJ CONSUMER	272	19	101	15	19	2.5	15.6	13.3

Source: Bloomberg, * ENAM Research

DCF – Inducing J-Curve assumption

3 Stage DCF model J-Curve Assumption	Stage-I (07-11)	Stage-II (CY12-CY20)	Stage-III (CY21-CY25)	Comments
Sales Growth (%)	11	15	9	➔ Revenue to accelerate inline with nominal PFCE growth in Stage-II.
OPM (%) (inc other income)	19	20	16	➔ Volume driven pricing power. Income driven aspiration levels will improve sales mix.
W/C as % of sales (%) period ended	(5)	7	12	➔ Working capital-to-sales to increase as revenue share from modern trade rises. Capital efficiency to decline in LT.
PV of FCFE (Rs bn)	80	155	61	➔ Used a higher discounting as we believe market risk premium is on a rise and cost of debt has gone up too.
Total PV (Rs bn) 296				
Terminal Value (Rs bn) 190				
Less Debt (net cash) (25)				
Equity Value (Rs bn) 510				
Intrinsic Value/ Share (Rs.) 231				

DCF: Under J-Curve Assumptions

		Discount Rate (%)				
		10	11	12	13	14
Terminal growth (%)	4.5	269	241	212	195	177
	5.5	283	252	221	203	184
	6.5	301	268	231	215	193
	7.5	328	290	252	231	207
	8.5	368	324	280	255	228

Source: ENAM Research

DCF: Bedrock Assumptions

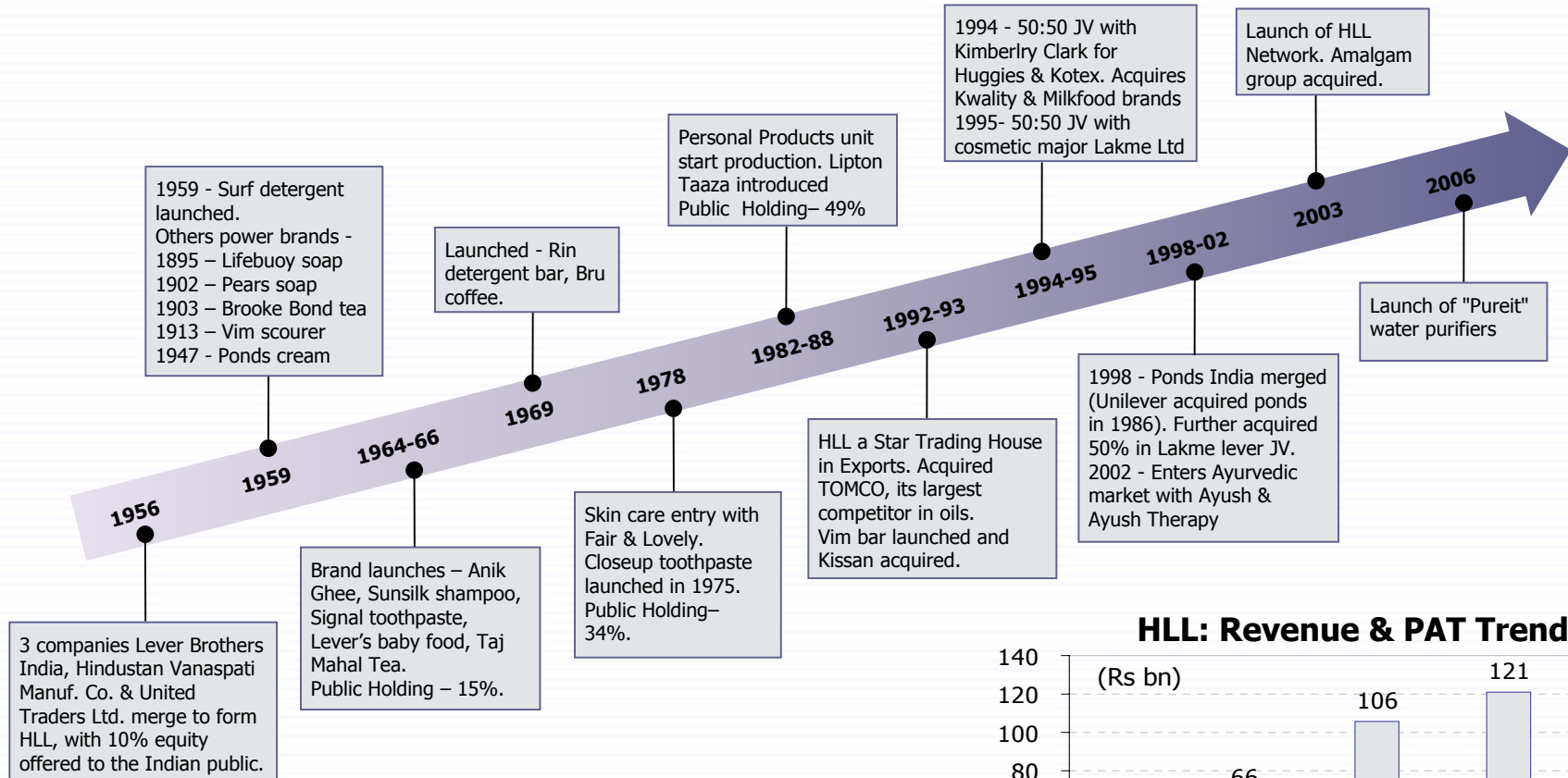
		Discount Rate (%)				
		10	11	12	13	14
Terminal growth (%)	4.5	203	183	163	152	139
	5.5	212	191	169	157	143
	6.5	224	201	178	164	150
	7.5	241	215	190	175	158
	8.5	267	237	208	191	172

Source: ENAM Research, Note; Growth inline with disposable income growth of 10% through Stage -II

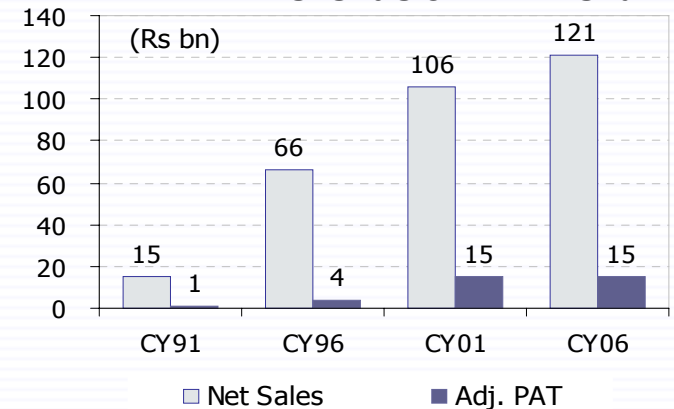


Business Overview

Key Milestones



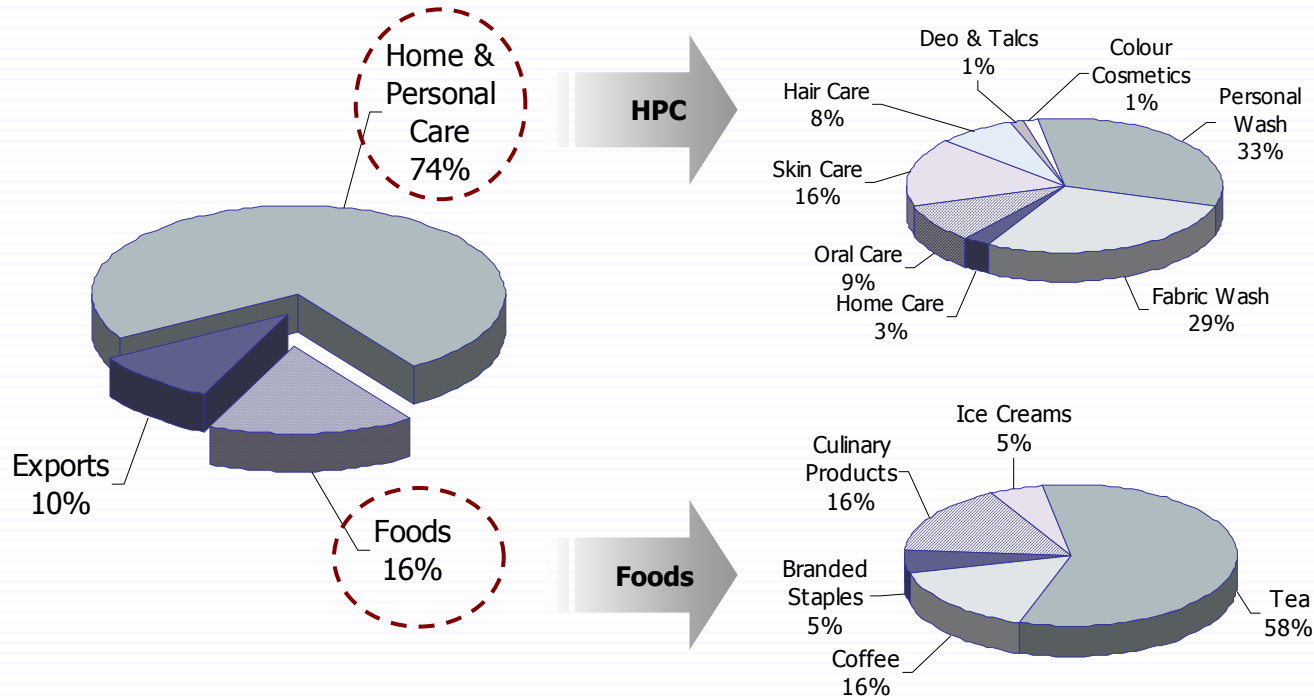
HLL: Revenue & PAT Trend



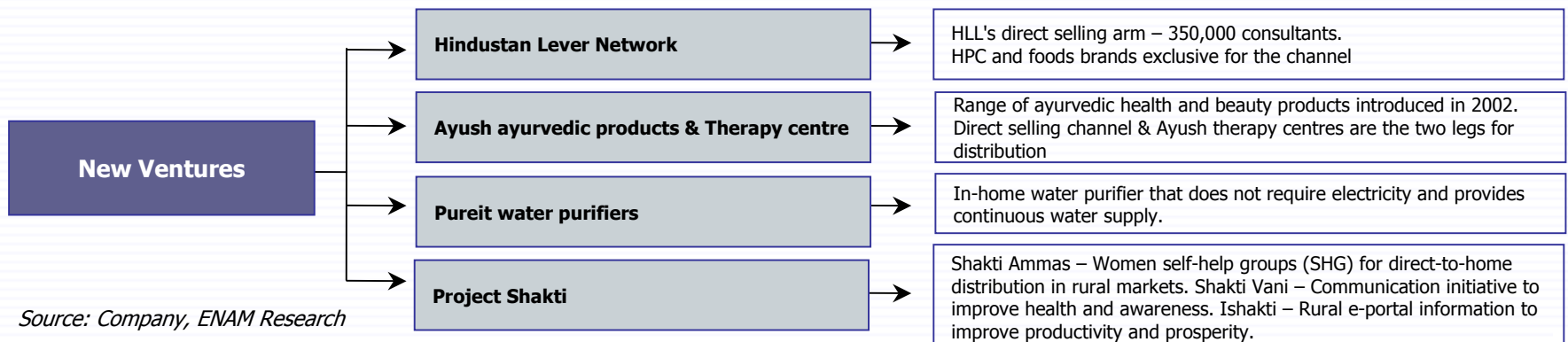
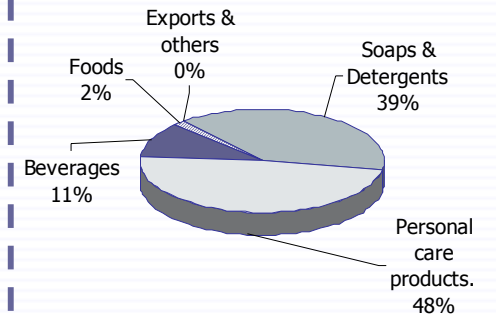
Source: Company

Business Mix

Revenue Contribution



PBIT Contribution



Source: Company, ENAM Research

HPC- Category Analysis

Category	Market characteristics	HLL: Segments/ brands	Key competing brands	Category - attractiveness/ growth enablers
Personal Wash	<ul style="list-style-type: none"> Size – Rs 50bn Penetration - 92% Value growth - 8% MS - HLL(55%), GCPL (9%), Nirma (9%) 	<ul style="list-style-type: none"> Carbolic - Lifebuoy Sub popular - Breeze, Hamam Popular - Lux, Rexona, Liril Premium-Dove, Pears 	<ul style="list-style-type: none"> Nirma Bath, Nirma, Godrej No:1 Nirma Lime/Sandal, Cinthol, Fair Glow Nivea, Emami, Dettol 	<ul style="list-style-type: none"> Income level of consumers and new users to drive category growth Consolidated category and pricing rational prevails GCPL has been steadily gaining share HLL has held up MS in last 2 yrs.
Fabric Wash	<ul style="list-style-type: none"> Size – Rs 57bn Penetration (washing powder) -86% Value growth -6% MS – HLL(36%), Nirma (16%), P&G (13%) 	<ul style="list-style-type: none"> Economy - Wheel Popular - Rin Premium - Surf Excel 	<ul style="list-style-type: none"> Nirma Tide, Henko, Nirma Popular Ariel 	<ul style="list-style-type: none"> Growth in consumption and income level to drive category growth Lower pricing aggression with price increase to offset cost inflation HLL has lost MS to P&G over the years, but is showing signs of stability
Home Care	<ul style="list-style-type: none"> Size – Rs 23bn Penetration -28% Value growth -14-15% MS – HLL(55%), Nirma(9%) 	<ul style="list-style-type: none"> Scourers - Vim, Wheel 	<ul style="list-style-type: none"> Nirma Bartan, Reckitt 	<ul style="list-style-type: none"> Traditional way of utensil cleaning prevalent in India will drive growth HLL maintains leadership position
Oral Care	<ul style="list-style-type: none"> Size –Rs 31bn Penetration (toothpaste) -49% Value growth – Toothpaste 16%, toothpowder 14%. MS – CLGT(48%), HLL(30%), 	<ul style="list-style-type: none"> Toothpaste - Pepsodent, Closeup Toothbrush - Pepsodent 	<ul style="list-style-type: none"> Colgate, Meswak, Anchor Oral-B, Colgate 	<ul style="list-style-type: none"> Consumption and penetration to drive growth in segment As consumers upgrade lifestyles, toothpaste off-take will accelerate, toothpowder will decline Pricing power present Dabur and Colgate continue to show strong market share gains

Source: Company, ENAM Research

HPC- Category Analysis

Category	Market characteristics	HLL: Segments/ brands	Key competing brands	Category - attractiveness/ growth enablers
Skin Care	<ul style="list-style-type: none"> Size – Rs 26bn Penetration (skin cream) -22% Value growth -12-15% MS – HLL(55%), comp.(7%) 	<ul style="list-style-type: none"> Fair & Lovely, Ponds, Lakme 	<ul style="list-style-type: none"> Fairever, Emami, Nivea, No Marks etc. 	<ul style="list-style-type: none"> Penetration, consumption and income level to drive growth High growth and margin category Expect more competition from international players at premium end and niche regional players HLL maintains market dominance
Hair Care	<ul style="list-style-type: none"> Size (Shampoo)–Rs 14bn Penetration - 38% Value growth - 18-20% MS – HLL(48%), P&G(24%) 	<ul style="list-style-type: none"> Shampoo - Sunsilk, Clinic Allclear 	<ul style="list-style-type: none"> Pantene, Head and Shoulder, Garnier, Vatika, CavinKare 	<ul style="list-style-type: none"> Category will be driven by penetration & rural distribution High margin along with intense competition HLL & P&G dominate the mid-premium-priced segment and CavinKare dominates the popular segment
Deodorants & Talcs	<ul style="list-style-type: none"> Size – Rs 8bn Penetration (Deo) - 2% Value growth - 18% MS – HLL(59%) 	<ul style="list-style-type: none"> Deo - Axe, Rexona Talcum powder - Ponds, Liril 	<ul style="list-style-type: none"> Fa, Zattak Cinthol, Johnson & Johnson, Dermicool, Nytle 	<ul style="list-style-type: none"> Growing awareness for hygiene across age groups will drive this category Category is very fragmented with low consumer loyalty HLL is the clear leader
Colour Cosmetics	<ul style="list-style-type: none"> Size –4bn Penetration - 5% Value growth - 20% MS – N.A. 	<ul style="list-style-type: none"> Lakme 	<ul style="list-style-type: none"> Revlon, L'oreal, Oriflame, Ultimate 	<ul style="list-style-type: none"> Importance of self presentation among women today will help grow this category. Income will drive growth. Margin are attractive although competition is growing Consumers prefer large MNC brands

Source: Company, ENAM Research

Food- Category Analysis

Category	Market characteristics	HLL: Segments/ brands	Key competing brands	Category - attractiveness/ growth enablers
Packed Tea	<ul style="list-style-type: none"> Size – Rs 33bn Penetration – 85% Value growth - 4-5% MS – HLL(25%), TT(20%) 	<ul style="list-style-type: none"> Brooke Bond, Lipton 	<ul style="list-style-type: none"> Tata Agni, Chakra Gold, Kannan Devan, Society, Tetley etc 	<ul style="list-style-type: none"> Tea is the poor mans beverage hence growth driven by population Price sensitive but consumers willing to pay higher incase of price increases Tata Tea has continued to gain MS
Coffee	<ul style="list-style-type: none"> Size – Rs 4bn Penetration - 7% Value growth -6-8% MS – Nestle (56%), HLL(44%), 	<ul style="list-style-type: none"> Instant : Brooke Bond Bru Filter : Deluxe Green Label 	<ul style="list-style-type: none"> Nescafe Tata coffee 	<ul style="list-style-type: none"> Attractive margin and hugely popular in the south. To be driven by penetration Price sensitive. Consumers largely willing to shift to alternate beverages like tea HLL has regained lost market share in the instant coffee segment
Branded Staples	<ul style="list-style-type: none"> Size– Branded atta (Rs 7bn) Penetration – 38% Value growth - 11-13% MS –ITC(19%), HLL(3%) 	<ul style="list-style-type: none"> Wheat Flour - Annapurna Salt - Annapurna 	<ul style="list-style-type: none"> Pillsbury, Aashirvaad Tata Salt, Captian Cook 	<ul style="list-style-type: none"> Increased awareness, hygiene, VFM & convenience is helping atta category grow Penetration and income level is the key ITC has gained very fast and continues strong growth
Culinary Products	<ul style="list-style-type: none"> Size-Rs22bn (ketchup-Rs 1.6bn, Jam – Rs 0.7bn) Penetration -15% Value growth - 8-10% 	<ul style="list-style-type: none"> Jams – Kissan (MS-70%) Ketchup - Kissan (MS -28%) 	<ul style="list-style-type: none"> SIL (4.5%) Maggi (32%), Heinz 	<ul style="list-style-type: none"> Improvement in penetration and income are key drivers HLL continues to be the dominant player in jams segment Kissan is strong; Hienz is gaining ground
Ice Creams	<ul style="list-style-type: none"> Size –Rs 20bn Penetration - 250ml/capita Value growth – 20% MS (organized) – 25% 	<ul style="list-style-type: none"> Kwality Wall's 	<ul style="list-style-type: none"> Amul, Vadilal, Mother Dairy Ice cream parlours 	<ul style="list-style-type: none"> Growth to be driven by conversion of large unorganized market (~ 80%) and reliable storage/distribution chain Amul has gained a dominant position since 2002, when HLL decided to focus on the premium segment HLL: Turnaround in growth & earnings due to cost re-engineering and improved penetration

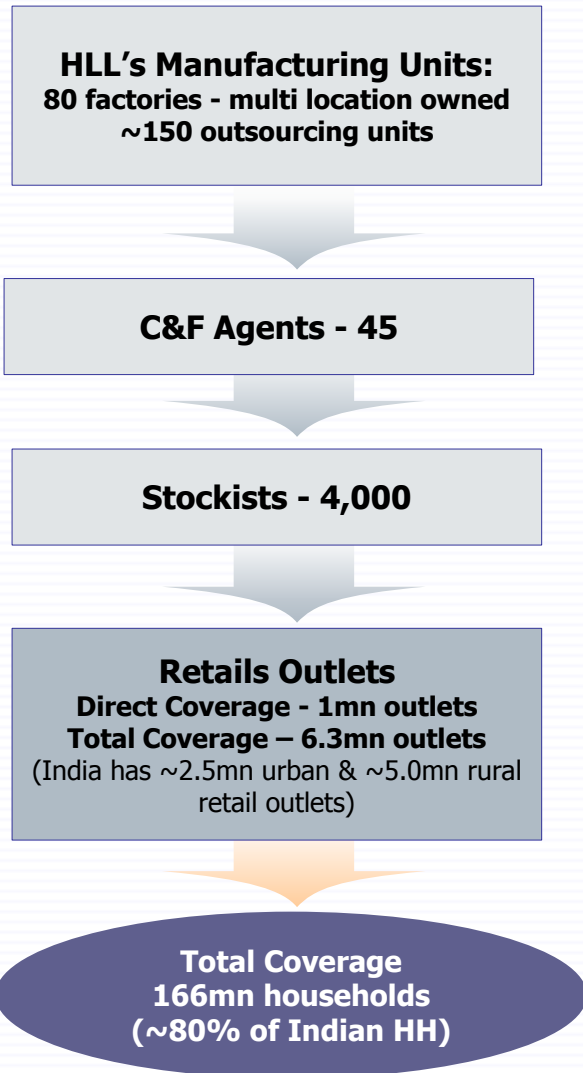
HLL: Exports

Category	Categories	Brands / Performance
HPC	<ul style="list-style-type: none"> Soaps, skin care products and oral care products 	<ul style="list-style-type: none"> Turnover CY06 – Rs 4.34bn, grew 24% YoY Oral care grew 46%, Skin care 10% Becoming a sourcing hub for Unilever Lux, Lifebuoy, Pears, Fair & Lovely, Dove, Vaseline, Close-Up, Pepsodent, Signal
Beverages	<ul style="list-style-type: none"> Branded packet tea and instant tea 	<ul style="list-style-type: none"> CY06 revenue growth highest in last 4 years 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	<ul style="list-style-type: none"> Surimi, crabsticks, shrimps and several value-added products 	<ul style="list-style-type: none"> Ocean Diamond, Ocean Excellence, Shogun, Hima, Gold Seal, Tara and Prima
Rice	<ul style="list-style-type: none"> Basmati rice and basmati rice-based ready-to-eat rice meals 	<ul style="list-style-type: none"> Branded business grew by 6% in CY06. Value added portfolio at 70% Gold Seal Indus Valley, Rozana and Annapurna
Castor	<ul style="list-style-type: none"> Castor oil, castor-oil based products, like hydrogenated castor oil, 12 - Hydroxy Stearic Acid, Ricinoleic Acid & specialty oils 	<ul style="list-style-type: none"> Value added business grew by 60% in CY06 driven by new markets and broader consumer base Topsol

Source: Company, ENAM Research

Reach & Positioning

High Urban & Rural Penetration



Dominant Market Positioning (Dec-06)

Market Leader	Category	HLL Market share (%)	2 Market share (%)
	Fabric Wash	35.8	15.1
	Personal Wash	55.3	9.2
	Dish Wash	55.4	9.5
	Skin	54.7	7.4
	Shampoo	48.5	23.8
	Talcum Powder	59.3	5.8
	Packet Tea	24.9	19.9
Jams	69.6	4.4	
Strong No.2	Category	HLL Market share	1 Market share (%)
	Tooth Paste	30.4	48.5
	Instant Coffee	44.1	56
	Ketchups	27.6	34.4

Source: Company, A.C Nielsen

CONFLICT OF INTEREST DISCLOSURE

We, at ENAM, are committed to providing the most honest and transparent advice to our clients. However, given the nature of the capital markets, from time to time we are faced with situations that could give rise to potential conflict of interest. In order to provide complete transparency to our clients, before we make any recommendations, we are committed to making a disclosure of our interest and any potential conflict IN ADVANCE so that the interests of our clients are safe-guarded at all times. In light of this policy, we have instituted what we believe to be the most comprehensive disclosure policy among leading investment banks/brokerages in the world so that our clients may make an informed judgment about our recommendations. The following disclosures are intended to keep you informed before you make any decision- in addition, we will be happy to provide information in response to specific queries that our clients may seek from us.

Disclosure of interest statement (As of May 15, 2007)

1. Analyst ownership of the stock	No
2. Firm ownership of the stock	No
3. Directors ownership of the stock	No
4. Investment Banking mandate	No
5. Broking relationship	No

We are committed to providing completely independent and transparent recommendations to help our clients reach a better decision.

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommending nature

Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors

Enam Securities Private Limited has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval

Enam securities Private Limited, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document

This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of ENAM Securities Private Limited. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions

Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

Copyright in this document vests exclusively with ENAM Securities Private Limited.