



# FMCG



\*Refer our report dated 8 June 2010

## COMMODITIES COVERED PG

### Crude-linked

PFAD .....	12
LAB .....	13
HDPE .....	13

### Agri-linked

Sugar .....	14
ENA .....	14
Milk .....	15
Wheat .....	15
Copra .....	16

### Other

Soda Ash .....	16
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## COMPARATIVE VALUATION

	CMP	RECO	EPS (RS)			P/E (X)			EV/EBITDA (X)			ROE (%)		
			FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Asian Paints	2,768	Neutral	80.5	95.5	117.9	34.4	29.0	23.5	20.4	17.4	14.0	48.5	44.5	43.1
Britannia Industries	433	Buy	14.2	17.7	22.1	30.5	24.5	19.6	28.5	16.0	12.3	51.5	50.6	50.6
<b>Colgate</b>	<b>868</b>	<b>Neutral</b>	<b>29.7</b>	<b>33.7</b>	<b>38.7</b>	<b>29.2</b>	<b>25.8</b>	<b>22.4</b>	<b>22.8</b>	<b>18.4</b>	<b>15.4</b>	<b>156.0</b>	<b>124.6</b>	<b>115.4</b>
<b>Dabur</b>	<b>106</b>	<b>Neutral</b>	<b>2.9</b>	<b>3.3</b>	<b>4.1</b>	<b>36.8</b>	<b>31.9</b>	<b>26.0</b>	<b>14.4</b>	<b>24.0</b>	<b>19.8</b>	<b>45.8</b>	<b>41.5</b>	<b>40.0</b>
Glaxo Smithkline	1,929	Buy	55.4	68.1	83.1	34.8	28.3	23.2	23.5	20.2	16.1	25.7	26.5	27.0
Godrej Consumer	409	Neutral	10.5	14.7	18.0	39.0	27.7	22.8	25.1	18.1	14.8	50.2	33.3	34.4
Hind. Unilever	298	Neutral	9.4	9.6	11.3	31.6	31.2	26.5	22.5	22.4	18.7	79.7	72.4	71.7
ITC	175	Buy	10.6	6.3	7.5	16.4	27.8	23.3	20.0	17.1	14.3	29.2	31.3	31.5
Marico	130	Buy	4.0	4.6	5.7	32.5	28.2	22.6	21.8	19.0	15.6	36.9	40.8	3.1
Nestle	3,273	Buy	72.4	83.8	106.9	45.2	39.1	30.6	30.2	26.3	20.6	120.0	108.9	115.0
United Spirits	1,566	Buy	25.8	43.5	61.4	60.7	36.0	25.5	21.8	17.7	14.1	8.0	12.0	14.8

Source: Company/MOSI

## Post-monsoon input prices & impact analysis

In our report titled *Monsoon Impact and Category Analysis* (dated 8 June 2010), we had highlighted that a normal monsoon would result in a twin benefit for FMCG companies - benign agri-input prices and improved pricing power. While commodity prices indicate mixed trends, companies have raised prices in a few categories.

### ■ Input prices a mixed bag - sugar, ENA benign; PFAD, titanium dioxide up:

We observe a mixed trend in raw material prices for our FMCG universe. While crude-linked inputs are ruling firm YoY, agri input prices are softening. Prices of sugar have declined 34% from the recent peak while ENA prices have declined 8% YoY. Milk and edible oil prices are likely to soften post the festive season. Copra prices are likely to remain firm until the new harvest in December. Prices of major crude-linked inputs are up 5-50% YoY, with PFA (up ~47% YoY) and titanium dioxide (up ~15% YoY) witnessing a major surge, though prices of LAB (down ~3% YoY) and HDPE (down 4% YoY) are benign.

### ■ Normal monsoon, subsiding inflation reinstate pricing power of FMCG majors:

Overall, the monsoon has been normal, with 4% surplus as on 15 September 2010. This should boost farm output and income levels. Higher output will reduce supply-side inflationary pressure while higher incomes will boost purchasing power. HUL (5-8% in select SKUs in soaps and detergent) Asian Paints (~7%), Marico (3-5% in *Parachute* and *Saffola*), Dabur (3-5% in select brands) and Nestle (5-8% in major brands) have increased prices.

### ■ FMCG universe margins unlikely to deteriorate significantly from FY10 levels:

Much of the input cost pressure for our FMCG universe is likely to be offset by (1) selective price increases / better mix, (2) control on ad-spend (for select companies), and (3) operating leverage (led by robust volume growth). United Spirits and Britannia would witness meaningful margin expansion while HUL and Nestle would witness margin pressure. For the other companies under coverage, margins are likely to be range-bound (up/down 10-20bp).

### ■ Prefer ITC and Nestle; downgrade Colgate and Dabur to Neutral:

Most companies in our FMCG universe are trading at 10-25% premium to their historical multiples. **ITC** and **Nestle** are our **top picks**. We downgrade **Dabur** and **Colgate** to **Neutral**.

### Prices of crude-linked inputs up 5-35% YoY; near-term spike in agri-input prices unlikely

We observe a mixed trend in raw material prices for our FMCG universe. While crude-linked inputs are ruling firm YoY, agri input prices are softening. We expect prices of agri inputs to remain benign due to a normal monsoon. Prices of crude-linked inputs would continue to display mixed trends.

#### IMPACT OF INPUT PRICE CHANGES

INPUT	PRICE TREND		UNIT	52 WEEK H/L	CURRENT PRICE	IMPACT	COMPANIES
	YOY	SINCE LAST					
	REPORT						
Crude-linked							
PFAD	Up	Up	US\$/MT	700/445	US\$ 640/MT	Negative	HUL, Godrej Consumer
LAB	Up	Down	Rs/Kg	90/84	Rs86/Kg	Negative	HUL
HDPE	Down	Flat	USD/MT	1,405/1,100	USD1,250/MT	Positive	All companies
Agri-linked							
Sugar	Down	Down	Rs/Qtl	4,105/2,525	Rs2,603/Qtl	Negative	Britannia, Nestle, GSK Cons
ENA	Down	Down	Rs/Case	152/135	Rs135/Case	Positive	UNSP
Wheat	Down	Up	Rs/Qtl	1,355/1,189	Rs1,270/Qtl	Positives	Nestle, ITC and Britannia
Milk	Up	Up	Index	285/235	285 (Index)	Negative	Nestle, GSK Consumer
Copra	Up	Up	Rs/Qtl	3,825/2,900	Rs3,400/Qtl	Positive	Marico
Other							
Soda Ash	Up	Flat	Rs/75kg	837/885	Rs885/75Kg	Negative	HUL

Note: Source: Company/MOSL

Prices of sugar have declined 34% from the recent peak and are likely to remain benign in the coming season; ENA prices have declined 8% YoY (expect 12% decline in FY11). Milk and edible oil prices are likely to soften post the festive season. Copra prices are likely to remain firm until the new harvest in December. Wheat prices have increased by 2-3% from the recent lows following news flows on drought in Russia; however, prospects of a good Rabi crop would arrest price increase.

Prices of major crude-linked inputs are up 5-50% YoY, with PFA (up ~47% YoY) and titanium dioxide (up ~15% YoY) witnessing a major surge, though prices of LAB (down ~3% YoY) and HDPE (down 4% YoY) are benign. We note that the linkage of LAB and HDPE to crude has weakened this year (3% decline in LAB and 4% decline in HDPE v/s 11% increase in crude prices YoY).



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### Normal monsoon, subsiding inflation reinstate pricing power

Overall, the monsoon has been normal, with 4% surplus as on 15 September 2010. Area sown has increased 7.3% YoY and covers 95% of the long-term area under cultivation. This should boost farm output / income levels and reduce supply side inflationary pressure (in line with our thesis highlighted in our report titled *Monsoon Impact and Category Analysis*. Asian Paints (~7%), Marico (3-5% in *Parachute* and *Saffola*), Dabur (3-5% in select brands) and Nestle (5-8% in major brands) have increased prices. The rising trend of companies increasing prices to pass on input cost inflation indicates the return of pricing power in several categories. HUL has raised prices by 3-8% in the highly competitive soaps segment and has increased the prices of mid-market detergents by 8%.

## Pricing action

## HINDUSTAN UNILEVER



Detergent

8%



Toilet Soaps

3-8%

## MARICO



Coconut Oil

5%



Edible Oil

3%

## NESTLE INDIA



Instant Noodles

5%

## ASIAN PAINTS



Decorative Paints

5%

## PRICE INCREASES BY MAJOR PLAYERS

COMPANY	PRODUCT CATEGORY	PRICE INCREASE (%) (SINCE LAST REPORT)
Asian Paints	Decorative Paints	5.3
Britannia	Biscuits	5-15
Godrej Consumer	Toilet Soaps	0-5
	Powder Hair Dye	10
HUL	Toilet Soaps	3-8
	Detergent (Mid market)	8
Nestle	Milk Products/Confectionary	5-10
	Instant Noodles	5
Marico	Pure Coconut Oil	5
	Premium Edible Oil	3

Source: Company/MOSL

- HUL initiated its first major price increases post the series of corrections it had taken in the last 12 months. It has raised the prices of select toilet soap brands by 3-8%, and the price of detergent brand *Rin* by ~8%.
- Asian Paints has showcased strong pricing power, with three successive price hikes (weighted average increase of 7%, 5.3% since 1 June 2010) in response to higher input cost of monomers and titanium dioxide.
- Nestle initiated price increases in major segments like Milk Products, Infant Nutrition and Chocolates (although with a lag), which would restrict margin contraction in the coming quarters.
- Britannia continues to alter mix of grammage and price increase so as to ward off the input cost pressure. Price increase has been both in Glucose segment (~20%) and value-added biscuits (0-10%).
- Marico has initiated 2-5% price hikes in larger packs of *Parachute* and 3% hike in the entire range of *Saffola* post the increase in copra prices.

While price increases have been well absorbed by the market, we would keenly watch out for the impact of price increases in categories like toilet soaps and detergents. Price increases in these categories are known to result in brand switches and downtrading.

**FMCG universe margins unlikely to deteriorate significantly from FY10 levels**

We believe that much of the input cost pressure for our FMCG universe is likely to be offset by (1) selective price increases / better mix, (2) control on ad-spend (for select companies), and (3) operating leverage (led by robust volume growth). We expect ITC, United Spirits and Britannia to witness meaningful margin expansion over FY10-12. HUL and GCPL would witness significant margin contraction due to bottomed-out input prices and high competitive intensity in toilet soaps and detergents. For the other FMCG companies under our coverage, margins are likely to be range-bound (up/down 10-20bp).

## MARGINS LIKELY TO STABILIZE/INCH-UP FROM FY10 LEVELS

COMPANY	GROSS MARGIN (%)			EBITDA MARGIN (%)		
	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Asian Paints	43.8	42.8	43.2	18.4	18.1	18.6
Britannia	28.1	30.2	30.5	5.2	7.6	8.4
Colgate	60.4	61.5	61.4	24.6	26.0	26.3
Dabur	53.6	52.8	53.1	18.8	18.8	19.0
Godrej Consumer	51.8	50.1	48.6	20.7	20.6	19.6
GSK Consumer	63.0	62.0	61.4	16.1	15.9	16.4
Hindustan Unilever	49.9	49.3	49.6	15.5	14.1	14.9
ITC	59.9	60.7	60.9	32.5	34.8	35.3
Nestle	52.5	51.0	52.0	20.2	19.5	20.7
Marico	51.1	50.2	49.6	14.1	13.4	13.3
United Spirits	44.3	49.2	50.3	15.7	18.8	20.1

Source: Company/MOSL

ITC and Britannia estimated to post EBITDA margin expansion of ~300bp over FY10-12

## Prefer ITC and Nestle; downgrade Colgate and Dabur to Neutral

Most companies in our FMCG universe are trading at 10-25% premium to their historical multiples. However, we note that most of these are still trading at a discount to their 3-year peak valuation multiples. There could be volume growth surprise in a few categories, led by rising affordability in rural India, and this could in turn result in a re-rating of the sector. **ITC**, and **Nestle** is our **top pick**. We downgrade **Dabur** and **Colgate** to **Neutral**.

## VALUATIONS NEAR 3-YEAR HIGHS

COMPANY	CURRENT	3 YEAR	PREMIUM/	3 YEAR	PREMIUM/
	FORWARD P/E (X)	MEDIAN (X)	DISCOUNT (%)	PEAK (X)	DISCOUNT (%)
Asian Paints	26.0	21.0	23.8	29.6	-12.2
Britannia Industries	21.7	18.3	18.6	24.3	-10.7
Colgate	23.6	19.4	21.6	23.9	-1.3
Dabur	28.7	23.0	24.8	29.9	-4.0
Glaxo Smithkline*	25.6	15.0	70.7	25.3	1.2
Godrej Consumer	25.0	17.8	40.4	22.5	11.1
Hind. Unilever	28.6	24.6	16.3	30.7	-6.8
ITC	23.8	20.3	17.2	24.4	-2.5
Marico	25.1	19.8	26.7	24.8	1.2
Nestle*	32.4	25.6	26.6	31.4	3.2
United Spirits	30.3	32.7	-7.3	95.2	-68.2

Source: Company/MOSL

Sector valuations at premium to 3-year average but still at discount to 3-year peak multiples

## COMPARATIVE VALUATION

	CMP	RECO	EPS (RS)			P/E (X)			EV/EBITDA (X)			ROE (%)		
			FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Asian Paints	2,768	Neutral	80.5	95.5	117.9	34.4	29.0	23.5	20.4	17.4	14.0	48.5	44.5	43.1
Britannia Industries	433	Buy	14.2	17.7	22.1	30.5	24.5	19.6	28.5	16.0	12.3	51.5	50.6	50.6
<b>Colgate</b>	<b>868</b>	<b>Neutral</b>	<b>29.7</b>	<b>33.7</b>	<b>38.7</b>	<b>29.2</b>	<b>25.8</b>	<b>22.4</b>	<b>22.8</b>	<b>18.4</b>	<b>15.4</b>	<b>156.0</b>	<b>124.6</b>	<b>115.4</b>
<b>Dabur</b>	<b>106</b>	<b>Neutral</b>	<b>2.9</b>	<b>3.3</b>	<b>4.1</b>	<b>36.8</b>	<b>31.9</b>	<b>26.0</b>	<b>14.4</b>	<b>24.0</b>	<b>19.8</b>	<b>45.8</b>	<b>41.5</b>	<b>40.0</b>
Glaxo Smithkline*	1,929	Buy	55.4	68.1	83.1	34.8	28.3	23.2	23.5	20.2	16.1	25.7	26.5	27.0
Godrej Consumer	409	Neutral	10.5	14.7	18.0	39.0	27.7	22.8	25.1	18.1	14.8	50.2	33.3	34.4
Hind. Unilever	298	Neutral	9.4	9.6	11.3	31.6	31.2	26.5	22.5	22.4	18.7	79.7	72.4	71.7
ITC	175	Buy	10.6	6.3	7.5	16.4	27.8	23.3	20.0	17.1	14.3	29.2	31.3	31.5
Marico	130	Buy	4.0	4.6	5.7	32.5	28.2	22.6	21.8	19.0	15.6	36.9	40.8	3.1
Nestle*	3,273	Buy	72.4	83.8	106.9	45.2	39.1	30.6	30.2	26.3	20.6	120.0	108.9	115.0
United Spirits	1,566	Buy	25.8	43.5	61.4	60.7	36.0	25.5	21.8	17.7	14.1	8.0	12.0	14.8

\* December Year-end; FY10 implies CY09 and so on

Source: Company/MOSL

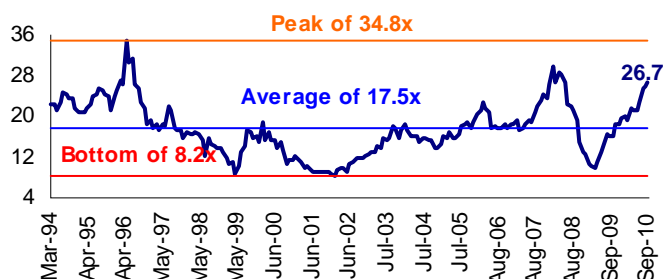
**Asian Paints****Bloomberg: APNT IN****CMP: Rs2,768****Neutral**

- Industry sources indicate that titanium dioxide prices are up 32% in the past six months. Asian Paints has increased prices by 7% to ward off the impact.
- Volume growth remains strong. However, extended monsoons and late Diwali (6 November v/s 18 October in FY10) will have some impact on 2QFY11 volume growth.
- The stock trades at 24x FY12E EPS. Maintain **Neutral**.

Equity Shares (m)	95.9
52-Wk Range (Rs)	2,920/1,343
1,6,12 Rel. Perf. (%)	-8/26/86
M.Cap. (Rs b)	265.5
M.Cap. (US\$ b)	5.7

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/09A	54,639	4,014	41.8	-3.9	66.2	22.1	33.4	39.4	4.9	39.7
3/10A	66,809	7,720	80.5	92.4	34.4	15.5	45.1	58.5	3.9	21.2
3/11E	80,914	9,102	94.9	17.9	29.2	12.1	41.6	52.8	3.2	18.1
3/12E	97,129	11,049	115.2	21.4	24.0	9.7	40.3	52.5	2.6	15.0

P/E BAND (X)



STOCK PERFORMANCE (1 YEAR)

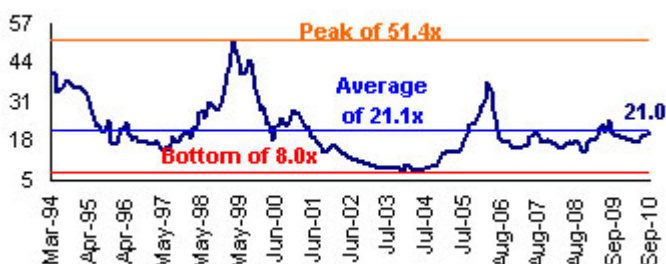
**Britannia****Bloomberg: BRIT IN****CMP: Rs433****Buy**

- Britannia will be the largest beneficiary of lower sugar and benign wheat prices. We expect QoQ expansion in margins led by lower input costs and price increases.
- Pricing action by Parle and ITC are key factors to watch out for even as competition from new entrants like Kraft and United Biscuits is likely to increase.
- The stock trades at 19.5x FY12E EPS. Maintain **Buy**.

Equity Shares (m)	119.5
52-Week Range (Rs)	535/299
1,6,12 Rel. Perf. (%)	-2/22/25
M.Cap. (Rs b)	51.7
M.Cap. (US\$ b)	1.1

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/09A	31,271	2,011	16.8	9.7	25.7	6.3	24.4	34.6	0.2	2.1
03/10A	34,014	1,634	14.2	-15.8	30.5	13.0	42.7	27.0	0.3	5.3
03/11E	41,301	2,114	17.7	24.8	24.4	9.9	40.5	35.6	0.2	2.8
03/12E	47,259	2,645	22.1	25.1	19.5	7.7	39.5	38.9	0.2	1.8

P/E BAND (X)



STOCK PERFORMANCE (1 YEAR)





**Colgate Palmolive****Bloomberg: CLGT IN****CMP: Rs868****Neutral**

- Colgate has shown 39% PAT CAGR over FY07-10 backed by ~9.3% increase in EBITDA margins. The company has also strengthened its toothpaste market share by 5% to 53.3% in the past 2/3 years.
- However we believe that Colgate is entering a low growth phase as (1) margin expansion seems difficult, and (2) excise duty and tax rates (18.5% in FY10 to 27% in FY12) will increase due to incremental production from full tax areas.
- Likely India entry of P&G in toothpaste can result in pricing pressure and increased advertising support.
- We estimate EPS CAGR of only 14.2% over FY10-12. The stock trades at 25.8x FY11E EPS of Rs33.7 and 22.4x FY12E EPS of Rs38.7.

## COLGATE VS P&amp;G: TOOTHPASTE COMPETITIVE MATRIX

ATTRIBUTE	P&G	COLGATE	REMARKS
Brand	Oral B or Crest	CDC, Cibaca, Total, Active Salt, Sensitive	Colgate is India's 2nd most trusted brand, high stickiness
Pricing	Likely to be aggressive	Presence in Rs1, 5 and 10 packs	Don't rule out Economy segment product from P&G
Portfolio	Portfolio building will be gradual	Economy, Premium and Super Premium segments	Colgate has full portfolio
Distribution	Increasing reach	83% of FMCG universe	P&G weak in interiors
Focus	Oral Care - 6% of global sales	Oral Care - 95% of sales in India, 41% globally	More R&D support, higher brand push

Source: Company/MOSL

**Colgate remains most trusted brand; however, P&G entry can impact margins:**

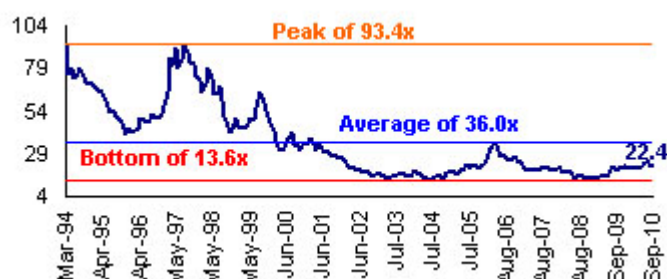
Colgate's 3-year toothpaste volume CAGR is 13-14%, due to full brand portfolio, presence across price points, and strong distribution.

We believe increase in competitive intensity can impact profit growth in the coming years as, (1) Colgate will have to increase ad spend and sales promotion to match any aggressive entry by P&G. It has reduced ad spends from 17.4% of sales in FY08 to 15.3% in FY10, (2) Colgate's incremental production from full excise units will increase duty and impact net realizations and, (3) Colgate has achieved 24.5% EBITDA margins due to efficiency gains and acquisition of its contract manufacturers; further increase in margins would be hard to come by. **Downgrade to Neutral.**

Equity Shares (m)	136.0
52-Week Range (Rs)	868/550
1,6,12 Rel. Perf. (%)	-4/7/19
M.Cap. (Rs b)	118.1
M.Cap. (US\$ B)	2.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/09A	16,948	2,902	21.3	25.2	40.7	54.6	153.3	150.2	6.8	34.1
03/10A	19,625	4,038	29.7	39.1	29.2	36.2	156.0	154.0	5.8	22.8
03/11E	22,770	4,580	33.7	13.4	25.8	28.9	124.6	123.6	4.9	18.4
03/12E	26,609	5,269	38.7	15.0	22.4	23.4	115.4	114.7	4.2	15.4

P/E BAND (X)



STOCK PERFORMANCE (1 YEAR)



**Dabur****Bloomberg: DABUR IN****CMP: Rs110****Neutral**

- Dabur India continues to maintain steady growth due to its niche positioning in the herbal space and strong growth momentum in the international business. Dabur India has reported 20.8% PAT CAGR over FY07-10 led by 17% sales growth and 160bp margin expansion despite 420bp increase in tax rate.
- We believe that Dabur India is very well placed to report an estimated 19% PAT CAGR over FY10-12 due to the following: 1) More than 50% of domestic sales comes from rural India which is growing faster 2) Limited competition in niche segments like Health Supplements, OTC and Hair Oil 3) Sustained momentum in categories like Toothpaste, Fruit Juices, and 4) Margin expansion in international business.
- However, valuations are rich at 32x FY11E EPS of Rs3.3 and 26x FY12E EPS of Rs4.1. **Downgrade to Neutral.**

CATEGORY GROWTH (%)

	FY 09	FY 10	10FY 11
Hair Care	23.0	13.6	8.9
Health Supplements	11.0	20.4	43.0
Oral Care	5.0	11.5	20.2
Foods	23.0	20.0	21.2
Digestives	12.0	10.8	14.7
Baby & Skin	14.0	33.2	12.4
Home Care	10.0	3.3	31.5
IBD	39.9	26.3	28.7

Source: Company/MOSL

**International business to enable 19% PAT CAGR; valuations expensive**

Dabur India has maintained strong growth momentum in key categories like Hair, Health Supplements, Oral Care, Foods etc for quite some time. We believe Dabur will be a beneficiary of expected surge in rural demand post normal monsoon of this year (currently, rural sales are more than 50% of total sales of the company). We note that Skin Care remains a weak area in Dabur's portfolio given rising competitive intensity in the space.

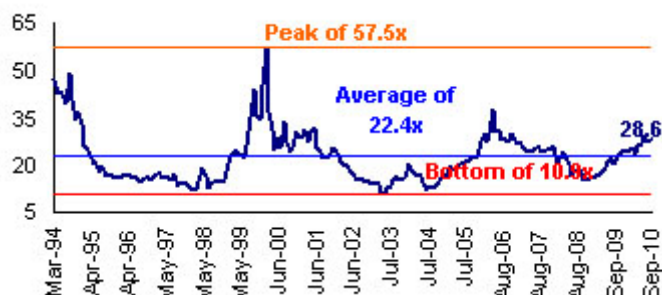
Dabur's international portfolio is growing sales in excess of 25% due to low base and geographical expansion in MENA (Middle East and Africa) region. The company has recently acquired Hobi Kozmetik Group of Turkey which would further bolster growth rates. We believe growing presence in Egypt, GCC, Nigeria and Turkey augurs well for medium term growth in international business. Margin expansion in higher growth international business will boost overall EBITDA margins by 120bp over FY10-12.

We see low probability of margin surprise. We also foresee Dabur facing some headwinds in businesses like Toothpaste and Shampoos due to expected increase in competition from MNCs. We estimate 19% PAT CAGR over FY10-12. The stock trades at 32x FY11E EPS of Rs3.3 and 26x FY12E EPS of Rs4.1. We believe valuations are rich. **Downgrade to Neutral.**

Equity Shares (m)	864.0
52-Week Range	110/64
1,6,12 Rel. Perf. (%)	-6/18/37
M.Cap. (Rs b)	91.5
M.Cap. (US\$ b)	2.0

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	28,054	3,912	2.3	17.1	46.8	11.2	47.7	44.5	3.2	18.9
03/10A	33,657	5,015	2.9	27.2	36.8	8.4	45.8	46.9	2.7	14.4
03/11E	39,851	5,735	3.3	15.3	31.9	13.2	41.5	47.8	4.5	24.0
03/12E	46,778	7,053	4.1	23.0	26.0	10.3	40.0	47.2	3.8	19.8

P/E BAND (X)



STOCK PERFORMANCE (1 YEAR)



**GSK Consumer**

Bloomberg: SKB IN

CMP: Rs1,929

Buy

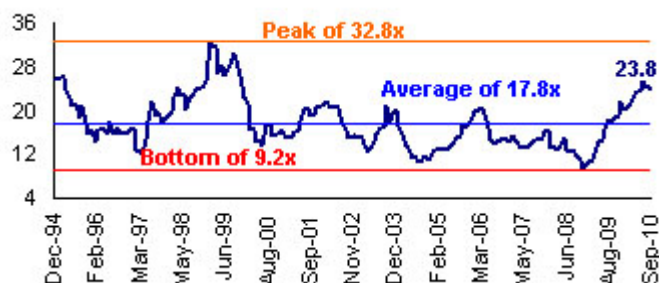


- GSK has unleashed new packaging for *Horlicks* and new range of biscuits. Deficient rains in East India can impact volume growth (~35% of sales from the East).
- Input cost pressures are likely to subside as milk prices are unlikely to increase, and malt and wheat prices are likely to remain benign.
- The stock trades at 23.2x CY11E EPS. **Buy.**

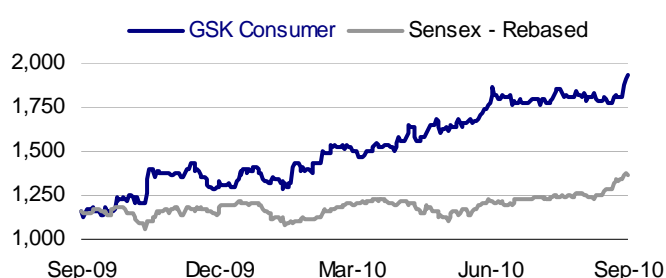
Equity Shares (m)	42.1
52-Wk Range (Rs)	1,939/1,113
1,6,12 Rel. Perf. (%)	-2/14/49
M.Cap. (Rs b)	81.2
M.Cap. (US\$ b)	1.8

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/08A	15,431	1,883	44.8	16.3	43.1	10.7	24.8	38.4	5.0	32.1
12/09A	19,213	2,328	55.4	23.6	34.8	9.0	25.7	39.6	3.8	23.5
12/10E	22,680	2,865	68.1	23.1	28.3	7.5	26.5	40.3	3.2	20.2
12/11E	26,750	3,493	83.1	21.9	23.2	6.3	27.0	40.9	2.6	16.1

P/E BAND (X)



STOCK PERFORMANCE (1 YEAR)

**Godrej Consumer**

Bloomberg: GCPL IN

CMP: Rs409

Neutral



CONSUMER PRODUCTS

- Good monsoon will boost income and rural demand for value-for-money products like *No1* toilet soap and *Godrej Expert* hair color. We expect strong demand for mosquito repellents due to bumper rainfall.
- Steady PFA prices will impact toilet soap margins; GCPL has not increased prices, although it has reduced trade margins by 3-4%.
- Integration of newly acquired companies and currency fluctuation remain key risks to estimates. The stock trades at 22.8x FY12E EPS. Maintain **Neutral**.

Equity Shares (m)	323.6
52-Week Range (Rs)	480/225
1,6,12 Rel. Perf. (%)	-2/38/47
M.Cap. (Rs b)	132.4
M.Cap. (US\$ b)	2.9

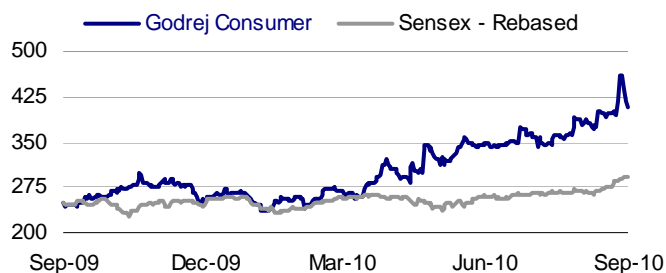
YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/09A	13,957	1,824	5.6	-20.1	72.6	18.5	30.4	27.2	7.5	51.1
03/10A	20,412	3,396	10.5	86.2	39.0	17.6	50.2	48.1	6.1	29.5
03/11E	34,323	4,772	14.7	40.5	27.7	9.2	33.3	25.1	4.3	20.9
03/12E	42,870	5,815	18.0	21.9	22.8	7.8	34.4	29.3	3.4	17.2

\* Estimates from FY10 factor in 49% consolidation for Godrej Saralee

P/E BAND (X)



STOCK PERFORMANCE (1 YEAR)





**Hindustan Unilever**

Bloomberg: HUVR IN

CMP: Rs283

Neutral



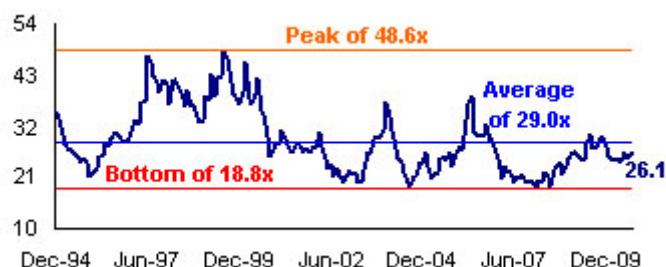
- We believe recent price increase in toilet soaps and *Rin* detergent would significantly neutralize the impact of input cost inflation.
- We would keenly watch for absorption of price increases by the consumers; other toilet soap players have not increased prices.
- We expect steady input costs scenario. The stock trades at 25.1x FY12E EPS. **Neutral**.

Equity Shares (m)	2,177.5
52-Week Range (Rs)	300/218
1,6,12 Rel. Perf. (%)	2/16/-6
M.Cap. (Rs b)	648.1
M.Cap. (US\$ b)	13.8

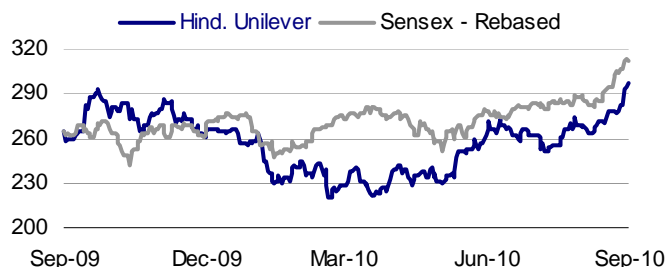
YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A*	167,617	20,636	9.5	18.5	31.4	31.5	119.0	122.8	3.1	20.8
03/10A	177,253	20,587	9.4	-0.4	31.5	25.1	79.7	105.1	3.5	22.5
03/11E	194,947	20,889	9.6	1.5	31.1	22.5	72.4	95.4	3.2	22.4
03/12E	218,191	24,564	11.3	17.6	25.1	18.9	71.7	95.4	2.8	18.7

\* EPS for 12 months (April 08-March 09)

P/E BAND (X)



STOCK PERFORMANCE (1 YEAR)

**ITC**

Bloomberg: ITC IN

CMP: Rs174

Buy



- Normal monsoon to boost rural purchasing power and expedite conversion from *beedi* to cigarettes. Long-term growth potential is huge, given that the *beedi* market is 8x the current cigarette market.
- Lower input costs of sugar and benign prices of wheat will benefit the Biscuits and Atta divisions in New FMCG. Overall demand for New FMCG will improve.
- The stock trades at 23.3x FY12E EPS. **Buy**.

Equity Shares (m)	7,636.4
52-Week Range (Rs)	179/111
1,6,12 Rel. Perf. (%)	-1/22/35
M.Cap. (Rs b)	1,334.1
M.Cap. (US\$ b)	28.4

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/09A	158,065	32,636	8.6	4.6	20.2	9.7	25.3	35.2	8.3	25.6
03/10A	183,810	40,610	10.6	24.4	16.4	9.5	29.2	40.9	7.0	20.0
03/11E	213,655	48,048	6.3	18.3	27.8	8.0	31.3	44.0	6.0	17.1
03/12E	245,666	57,139	7.5	18.9	23.3	6.8	31.5	44.9	5.2	14.3

P/E BAND (X)



STOCK PERFORMANCE (1 YEAR)



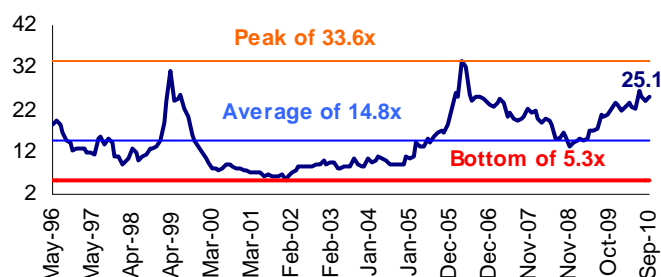
**Marico****Bloomberg: MRCO IN****CMP: Rs130****Buy**

- Copra prices are at 2-year high of Rs4,350/quintal; an extended monsoon has delayed the onset of harvest season. Marico has raised prices for select SKUs by 0-8%.
- We are lowering our FY11 and FY12 estimates by 6% and 4% respectively to factor in higher Copra prices.
- The stock trades at 22.6x FY12E EPS. **Maintain Buy.**

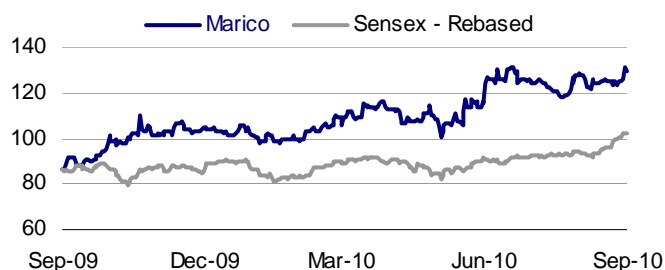
Equity Shares (m)	609.0
52-Week Range	136/85
1,6,12 Rel. Perf. (%)	-76/8/32
M.Cap. (Rs b)	79.1
M.Cap. (US\$ b)	1.7

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/09A	23,884	2,038	3.3	28.5	38.8	17.4	44.9	42.5	3.4	26.9
03/10A	26,608	2,454	4.0	20.4	32.2	12.1	36.9	40.8	3.1	21.8
03/11E	31,329	2,777	4.6	14.3	28.2	9.3	32.8	42.9	2.5	19.0
03/12E	37,396	3,467	5.7	24.8	22.6	6.9	30.3	41.9	2.1	15.6

P/E BAND (X)



STOCK PERFORMANCE (1 YEAR)

**Nestle****Bloomberg: NEST IN****CMP: Rs3,273****Buy**

- Lower inflation/buoyant rural income will boost demand in popularly positioned products in Instant Noodles and Chocolates & Confectionary.
- Ample fodder availability will increase milk production and ensure benign prices for liquid milk (45% of raw material cost); good Rabi crop prospects will ensure benign prices of wheat and protect margins in Instant Noodles.
- The stock trades at 30.6x FY12E EPS. **Buy.**

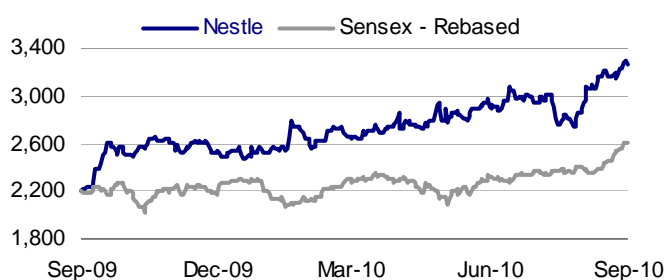
Equity Shares (m)	96.4
52-Wk Range (Rs)	3,325/2195
1,6,12 Rel. Perf. (%)	6/9/30
M.Cap. (Rs b)	315.5
M.Cap. (US\$ b)	6.8

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/08A	43,242	5,650	58.6	31.0	55.8	66.7	119.4	169.9	7.2	36.3
12/09A	51,294	6,976	72.4	23.5	45.2	54.3	120.0	165.2	6.1	30.2
12/10E	61,099	8,080	83.8	15.8	39.1	42.5	108.9	148.4	5.1	26.3
12/11E	72,897	10,302	106.9	27.5	30.6	35.2	115.0	155.6	4.3	20.6

P/E BAND (X)



STOCK PERFORMANCE (1 YEAR)



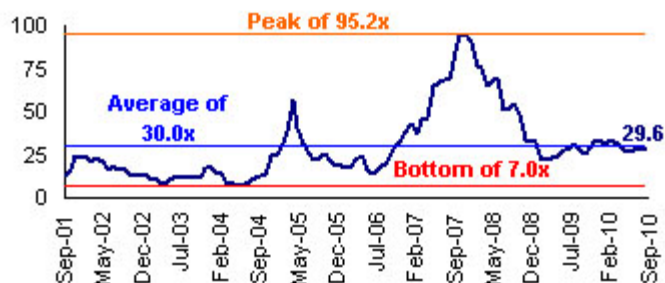
**United Spirits****Bloomberg: UNSP IN****CMP: Rs1,620****Buy**

- Normal monsoon will boost sugarcane production and reduce price of molasses/ENA. We estimate 12% decline in ENA prices in FY11 and a further 5% reduction in FY12.
- We expect the company to sustain 13-14% volume growth in the coming years. Success of branded operations in Whyte and Mackey is crucial for long-term growth.
- The stock trades at 25.5x FY12E EPS. **Buy.**

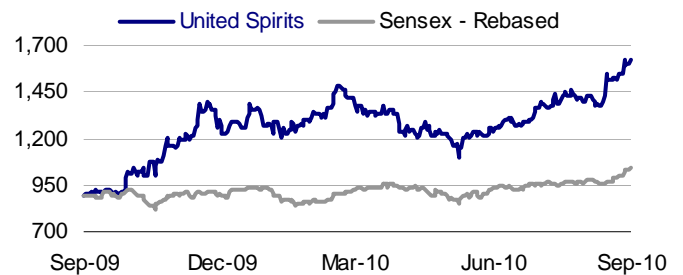
Equity Shares (m)	117.8
52-Week Range (Rs)	1,644/844
1,6,12 Rel. Perf. (%)	1/2/54
M.Cap. (Rs b)	196.7
M.Cap. (US\$ b)	4.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/09A	54,681	1,875	23.0	24.9	68.1	6.6	7.8	9.9	3.6	22.6
03/10A	63,623	3,026	25.8	12.3	60.7	5.0	8.0	11.5	3.4	21.8
03/11E	71,824	5,098	43.5	68.5	36.0	4.5	12.0	13.1	3.0	17.7
03/12E	84,949	7,202	61.4	41.3	25.5	3.9	14.8	15.6	2.5	14.1

P/E BAND (X)



STOCK PERFORMANCE (1 YEAR)



## Annexure: Commodity profile

### COMMODITIES COVERED PG

#### Crude-linked

PFAD .....	12
LAB .....	13
HDPE .....	13

#### Agri-linked

Sugar .....	14
ENA .....	14
Milk .....	15
Wheat .....	15
Copra .....	16

#### Other

Soda Ash .....	16
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FMCG products use commodities, which typically account for 35-45% of the total sales of various companies. In this section, we analyze the price trends in major commodities and their impact on prices of consumer products and fortunes of consumer companies.

In our report titled *Monsoon Impact and Category Analysis* dated 8 June 2010, we had suggested that the prices of crude-based commodities will move in line with crude prices and that the prices of agricultural commodities could decline if the monsoon is normal. Now that we are at the end of the monsoon season, we present a follow-up.

#### Our key observations:

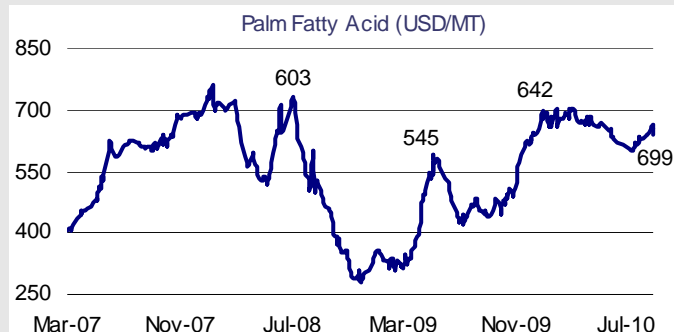
- We note that Palm Oil Fatty Acid, Copra and Sugar have been the most volatile commodities.
- Copra has seen the sharpest increase (23%) while LAB and ENA have seen price reductions of 0-5%.
- Input price changes have resulted in price increases in Toilet Soaps, Biscuits, Milk Products and Pure Coconut Oil during the quarter.

### Palm Fatty Acid (PFAD)

End Use: Toilet Soaps

Major Users: HUL (5% of Sales), Godrej Consumer (21% of Standalone Sales)

Price chart as on 8 June 2010 ...



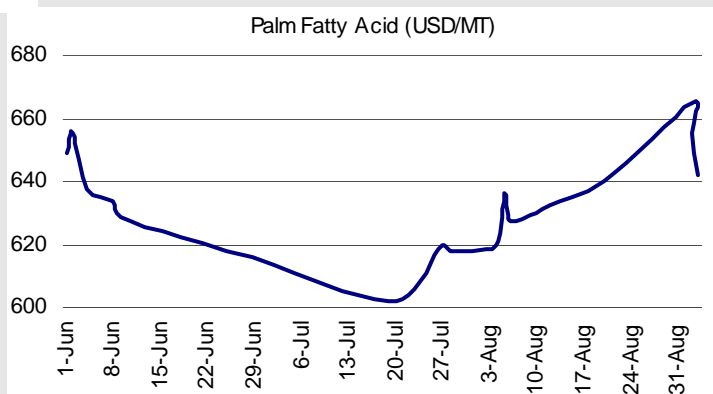
#### IMPACT: HUL raises toilet soap prices by 3-8%, GCPL by 5%

- HUL has raised prices by 3-8% in brands like *Lux*, *Lifebuoy*, *Pears* and *Dove*, but is running an aggressive sales promotion scheme in *Breeze*.
- GCPL has announced upto 5% increase in toilet soap prices; it had reduced trade margins by 4-5% earlier
- According to the trade, *Vivel* has gained share at the expense of *Lux*; *Breeze* has gained at the expense of *No 1*.

**What we had said:** "PFAD prices are linked to crude prices but normal monsoons can reduce dependence on oil imports and reduce prices".

**What has happened:** Up ~4% since June. After dipping 6.6%, PFAD prices recovered and are up 4% since June 2010. On a YoY basis, PFAD prices are up 47%.

... Price movement since then

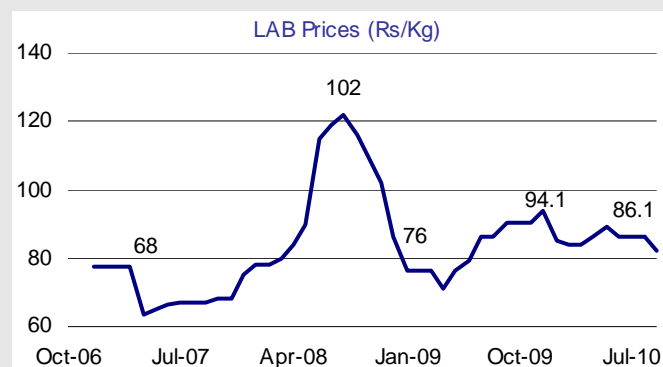


## Linear Alkyl Benzene (LAB)

End Use: Detergents

Major Users: HUL

Price chart as on 8 June 2010 ...



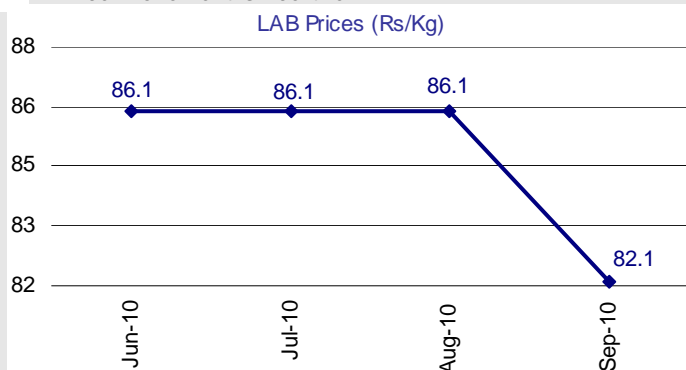
**What we had said:** "LAB price movement will be in line with the crude prices".

**What has happened:** Down ~5% since June. Crude prices have increased 7.5% while LAB prices have declined 4.7% since June 2010, indicating a divergent trend.

### IMPACT: Rin and Tide prices up 8-10%

- HUL has raised the price of *Rin* detergent from Rs50/kg to Rs54/kg, an 8% increase.
- P&G has reduced grammage in the *Tide Detergent* from Rs70/1.25kg to Rs70/1.1kg. In addition, it is launched *Tide Plus* at Rs70/kg.
- Nirma has undertaken aggressive sales promotion schemes, impacting sales of brands like *Wheel*, *Ghari* and *Fena* in the mass market.

... Price movement since then

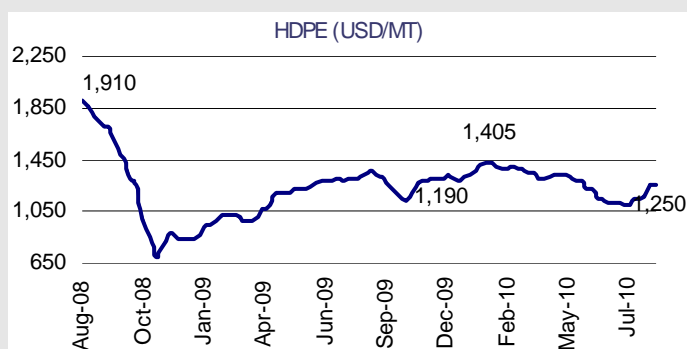


## HDPE

End Use: Packaging

Major Users: All FMCG Companies (6-10% of Sales)

Price chart as on 8 June 2010 ...



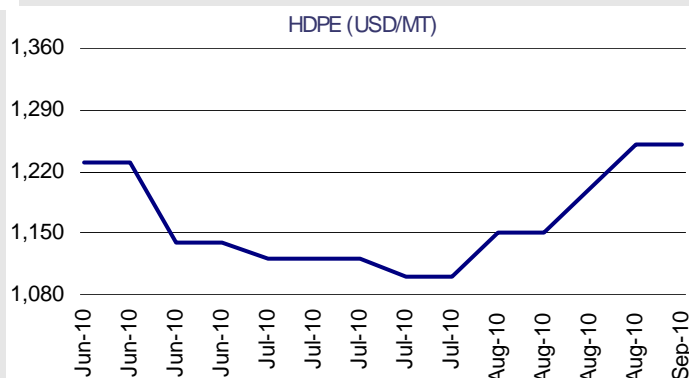
**What we had said:** "HDPE prices to move in line with crude prices as has been the case historically".

**What has happened:** Up 1.6% since June. HDPE prices are up 1.6% since June 2010, although they had dipped 10% mid-quarter. On a YoY basis, HDPE prices are down 4% while crude prices are up 11% - a divergent trend.

### IMPACT: Packing cost to remain benign

- Lower HDPE prices will benefit personal care companies that have higher sales of bottled products.
- Processed food players like GSK Consumer (packaging for *Horlicks*) and Nestle (packaging for *Dahi*, etc) will gain.
- The entire sector will gain from benign packaging costs, which constitute 6-10% of sales.

... Price movement since then



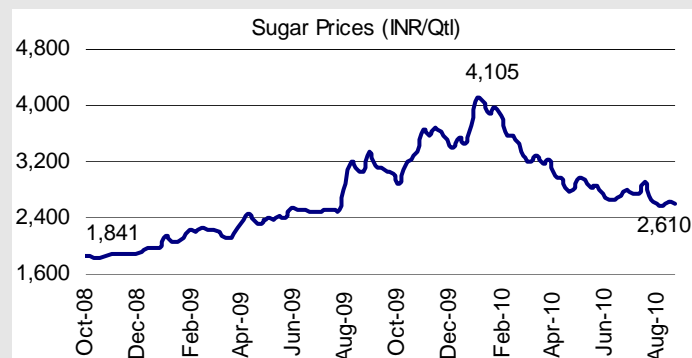


## Sugar

End Use: Biscuits, Confectionary, Malted Food Drinks, Chocolates

Major Users: Britannia, ITC, Nestle, HUL, GSK Consumer

Price chart as on 8 June 2010 ...



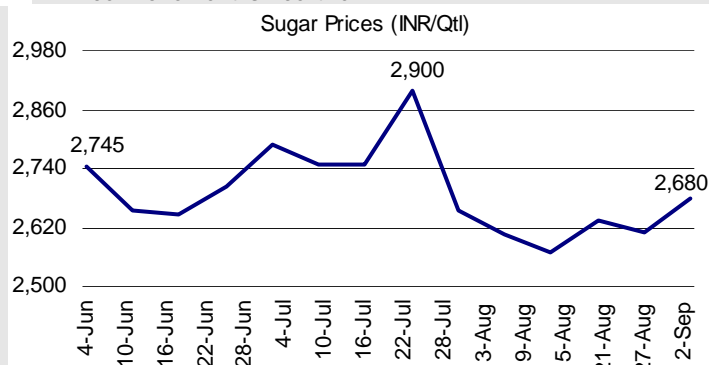
## IMPACT: Biscuit prices increased by 5-10%

- Biscuit majors have raised prices by 5-10% in the last six months due to all-time low profitability.
- Prices are up across segments, either through grammage reduction or increase in MRP.
- Competitive intensity is increasing, as MNCs like Kraft are planning an entry, United Biscuits is slowly gaining ground, and GSK Consumer has unveiled a new range of biscuits.

**What we had said:** "Good monsoon likely to result in 20-25% higher sugarcane crop output, enabling lower prices".

**What has happened:** Up ~2.5% since June. Though sugar prices are up 16% YoY and 2.5% since June 2010, they have declined 34% from peak levels. We expect sugar prices to remain benign due to higher production.

... Price movement since then

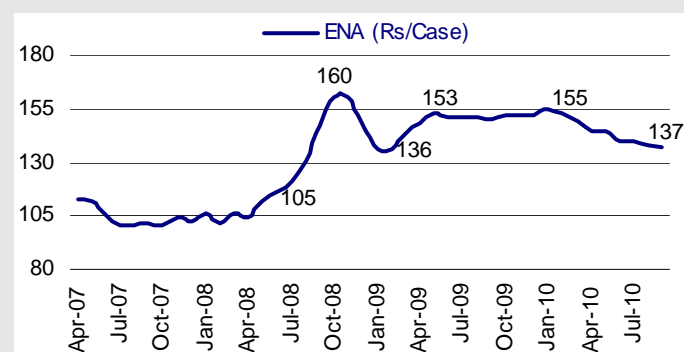


## ENA

End Use: IMFL

Major Users: United Spirits

Price chart as on 8 June 2010 ...



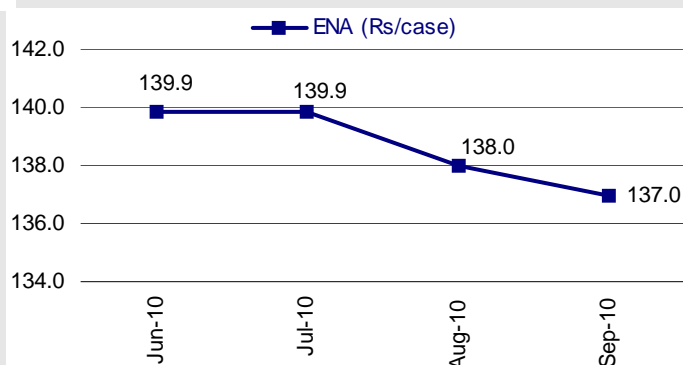
## IMPACT: Margins of IMFL players to expand

- ENA constitutes 40% of IMFL volumes; we estimate 12% decline in ENA prices in FY11 (20% correction in absolute terms) and a further 5% decline in FY12, as the sugar cycle usually lasts for a couple of years.
- We expect meaningful margin expansion for IMFL players like United Spirits and Radico Khaitan in both FY11 and FY12.

**What we had said:** "Good monsoon is likely to result in higher sugarcane output and decline in prices of ENA".

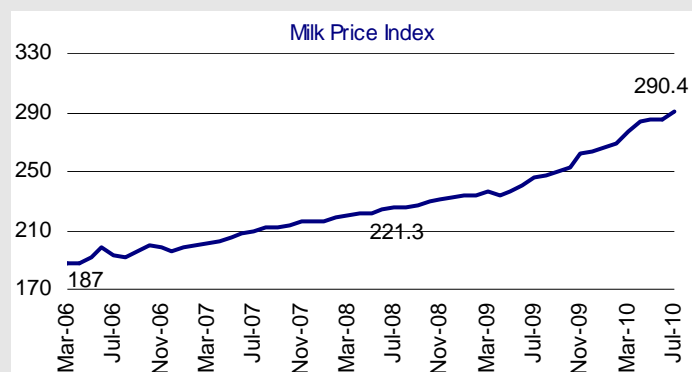
**What has happened:** Benign prices. Prices of ENA have declined by 3% in the past three months. We expect meaningful correction in prices, as we approach flush season (mid-October onwards).

... Price movement since then



**Milk****End Use:** Milk Products and MFD**Major Users:** Nestle (~15% of Sales), GSK Consumer (~13% of Sales)

Price chart as on 8 June 2010 ...

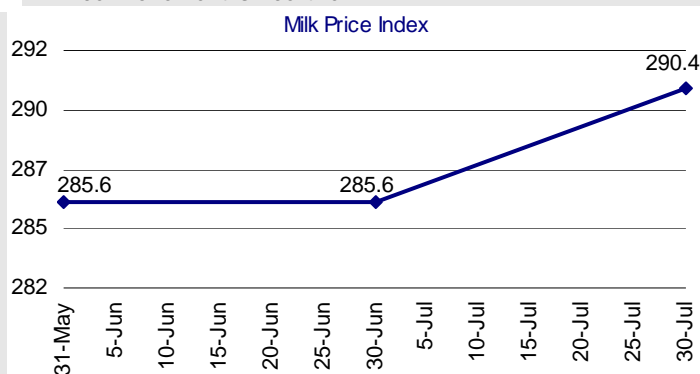
**IMPACT: Nestle and GSK Consumer to gain**

- Milk product prices have increased 15-20% in the last 12 months. MFD (malted food drink) prices have been raised by 5% since January 2010.
- Competitive intensity is increasing, with aggressive plans of MNCs like Group Danone and Kraft.
- Nestle would be the biggest beneficiary of a softening in milk prices. Milk constitutes more than 45% of its raw material requirement.

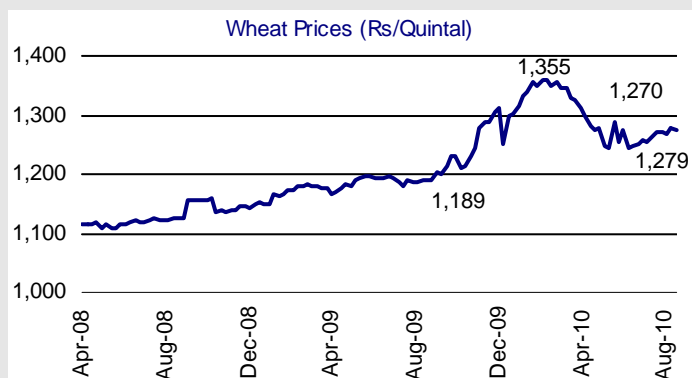
**What we had said:** "Good monsoon is likely to result in higher fodder availability and milk production; this would enable sedate increases (if not decline)".

**What has happened: Up 2% since June.** Milk prices are up 2% since June 2010; they have increased 20% in the past one year. We expect prices to soften only post the festival season in November.

... Price movement since then

**Wheat****End Use:** Biscuits, Noodles and MFD**Major Users:** Britannia (~17% of Sales), Nestle (~3% of Sales), GSK Consumer (~3% of Sales)

Price chart as on 8 June 2010 ...

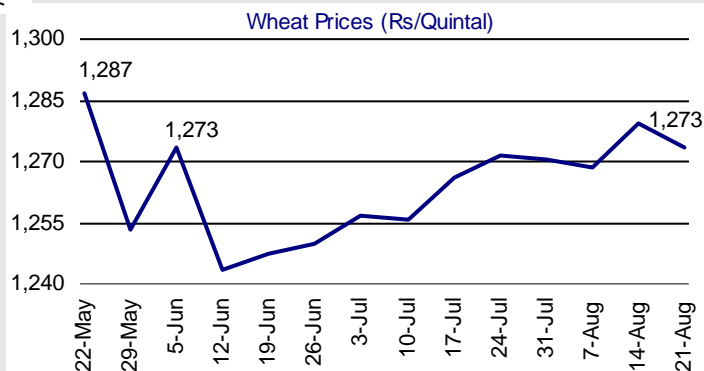
**IMPACT: Britannia/ITC key gainers**

- Wheat constitutes 60% of a biscuit by volume.
- Britannia would be the key gainer from benign wheat prices.
- Other gainers would be ITC (*Sunfeast Biscuits*, *Aashirvaad Atta* and *Sunfeast Pasta*), Nestle (*Maggi Noodles*) and GSK Consumer (*Horlicks Biscuits* and *Foodles*).

**What we had said:** "Good rainfall will ensure bumper Rabi crop and benign wheat prices in FY11 and beyond".

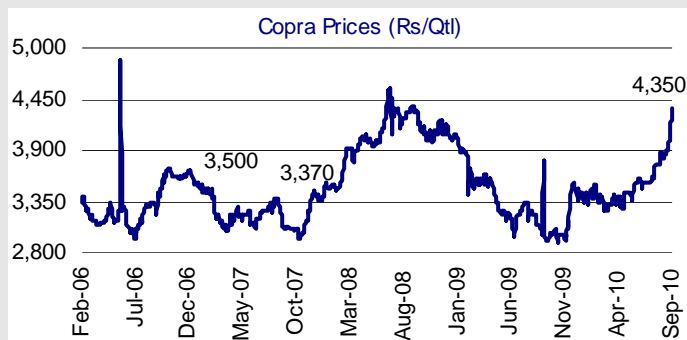
**What has happened: Prices down 1% since June.** Wheat prices have largely moved sideways - down 1% since June 2010 but up 2% from the bottom due to sharp upsurge in global wheat prices following a drought in Russia.

... Price movement since then



**Copra****End Use:** Pure Coconut Oil and Hair Oil**Major Users:** Marico

Price chart as on 8 June 2010 ...

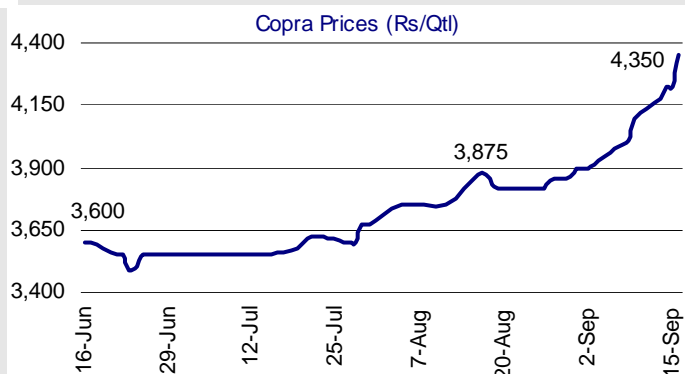
**IMPACT: Parachute prices up ~5%**

- Marico has increased prices by 0-8% for *Parachute*. Blister packs have not seen any price increase; this will enable consumer up-trading.
- Marico has strong pricing power in coconut oil and has been able to pass on the input cost increase. However, sustained uptrend can result in lower consumer conversion from loose oil to branded oil.

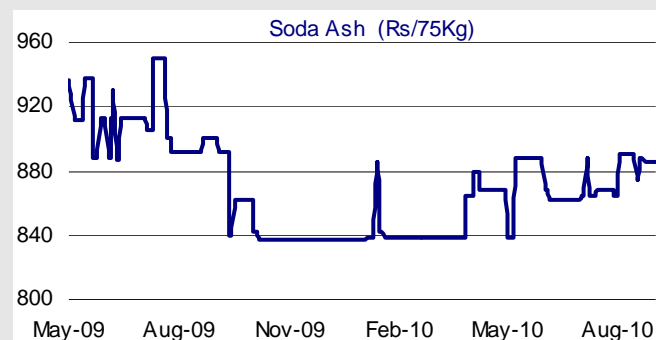
**What we had said:** "Good monsoon would increase oilseed production and check sharp price increase; estimate 10% price increase in FY11".

**What has happened: Up 23% since June.** Copra prices are at a 2-year high of Rs4,350/quintal, up 43% YoY. Prices are unlikely to decline before the next flush season (post November).

... Price movement since then

**Soda Ash****End Use:** Detergents**Major Users:** HUL

Price chart as on 8 June 2010 ...

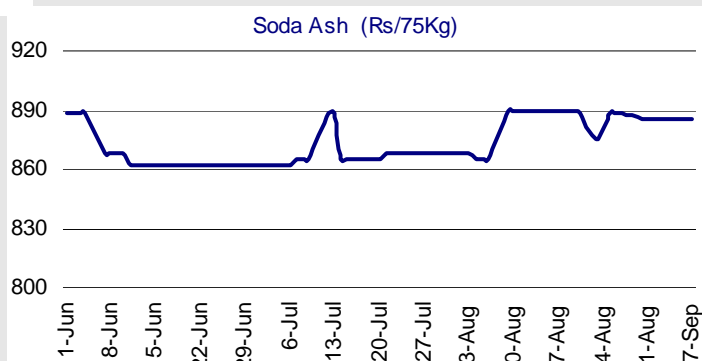
**IMPACT: Rin and Tide prices up 8-10%**

- Soda ash is a key input in detergents, more so in the highly competitive economy segment which has *Wheel* (HUL), *Tide Naturals* (P&G), *Ghari* (RSL) and *Nirma* (Nirma).
- Players are running promotion schemes to gain market share in this segment - price cut in *Tide Naturals*; formulation change in *Wheel*.

**What we had said:** "Soda ash prices are benign; they are up 3-4% from the bottom".

**What has happened: Flat prices.** Soda ash prices have remained largely flat during the quarter, with the fluctuation being less than 1%. We expect the price trend to sustain.

... Price movement since then



## **N O T E S**



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Disclosure of Interest Statement	Asian Paints	Britannia	Dabur	GSK	Cons.	Godrej	Cons.	HUL	ITC	Marico	Nestle	UNSP
1. Analyst ownership of the stock	No	No	No	No	No	No	No	No	No	No	No	No
2. Group/Directors ownership of the stock	No	No	No	No	No	No	No	No	No	Yes	Yes	No
3. Broking relationship with company covered	No	No	No	No	No	No	No	No	No	No	No	No
4. Investment Banking relationship with company covered	No	No	No	No	No	No	No	No	No	No	No	No

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