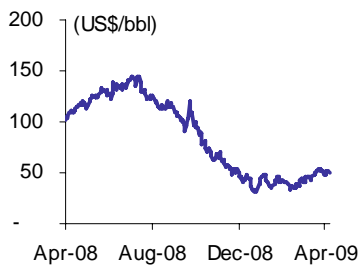
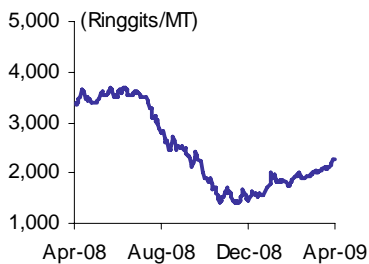
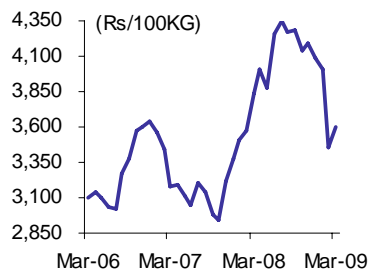
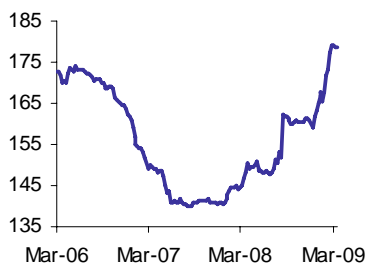


Trend in crude WTI price

Palm Oil prices

Copra prices*

Sugar index


Source: Bloomberg, * Company

We expect our FMCG universe to maintain its healthy growth momentum in Q4 FY09. Correction in key raw material prices is likely to fuel operating margin expansion. During the quarter, the Government reduced excise duty on most FMCG products by ~8-14%. Many players have passed on the excise and input cost benefits to consumers by taking price cuts and increasing grammage of products. Volume growth is likely to be maintained at levels seen in recent past aided by upsurge in rural demand, which is on back of higher MSP across major agri-commodities, ~Rs716bn farm loan waiver and ~Rs300bn payout for people in rural areas provided by National Employment Guarantee Act. We remain positive on the sector with ITC, Nestle and Marico as our top picks.

Revenue growth to remain strong

We expect our universe of nine consumer stocks to record ~12-24% yoy revenue growth during Q4 FY09 led by stable volume growth. HUL is likely to witness 17% yoy increase in revenue. However, volume growth will remain low due to volume slowdown in the core soaps and detergent segment impacted by short winter and transporters strike in January 2009. ITC is expected to report ~12% rise in revenue with decline in cigarette volumes arrested at ~2-3% as conversions to filter cigarettes has been strong. Loss in the other FMCG segment is likely to continue while the hotels segment will remain impacted by the slowdown in the tourism industry. Nestle is likely to witness strong 21% increase in revenue primarily driven by over 22% rise in domestic sales. Britannia and Marico are expected to outperform the peers with a 24% yoy growth partly due to low base effect.

Correction in input prices to fuel margins

With the exhaustion of high cost inventories and decline in key raw material prices, most of the players will witness healthy margin expansion. Personal care companies like HUL, Colgate and Dabur will benefit from the correction in LAB, palm oil and packaging material prices. Decline in copra prices will cushion Marico's operating margin. HUL has passed on the benefits of lower input cost and excise savings to consumers with price cuts and increased grammage of its mass consumer brands like Lux, Wheel Powder and Lifebuoy. ITC is expected to witness 90bps expansion in OPM as a result of full impact of price hikes taken in H1 FY09. Impact of firm sugar and wheat prices on food companies is likely to be mitigated by decline in prices of skimmed milk powder and price hikes initiated in the recent past.

Strong revenue growth and margin expansion to drive PAT growth

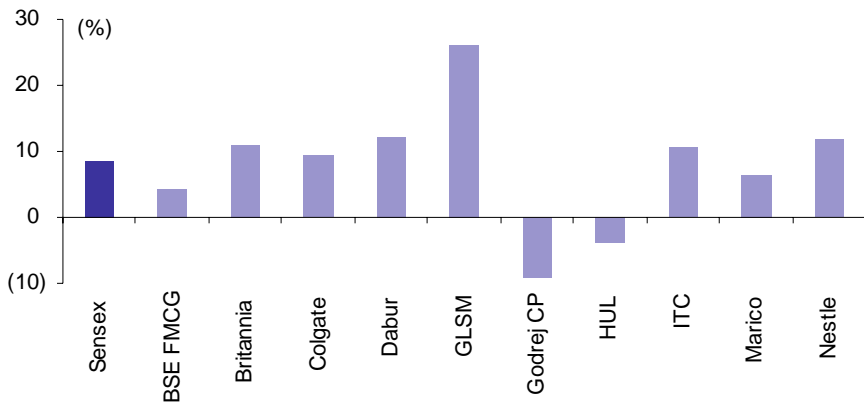
We expect our universe to witness ~17% yoy surge in net profit driven by strong revenue growth and expansion in margin. The players are focusing more on lower price unit products, taking price cuts for driving volumes and are also offering freebies to gain market share. We believe, going forward the revenue growth to be mostly volume driven and not price-led.

Q4 FY09 Estimates

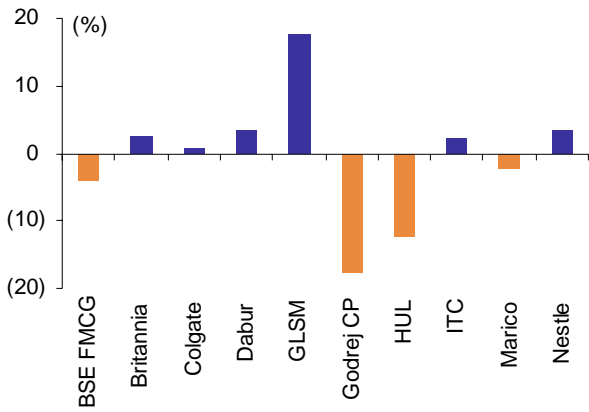
(Rs m)	Revenues	yoy growth (%)	OPM (%)	yoy Change (bps)	PAT*	yoy growth (%)
Britannia	8,518	23.0	7.6	(91)	675	8.3
Colgate	4,499	15.0	14.1	113	667	19.9
Dabur	7,223	19.1	16.0	(13)	948	13.9
GSK Consumer #	4,933	20.2	18.5	(91)	665	17.5
Godrej Consumer	3,301	21.4	18.4	(251)	472	15.6
Hindustan Unilever	44,476	17.2	11.8	100	4,647	22.8
ITC	44,148	12.2	27.5	90	8,256	12.2
Marico	5,782	23.7	10.1	30	370	22.7
Nestle #	13,176	20.8	24.9	202	2,069	29.2

Source: Company, India Infoline Research *Pre-exceptional PAT, #Year end December

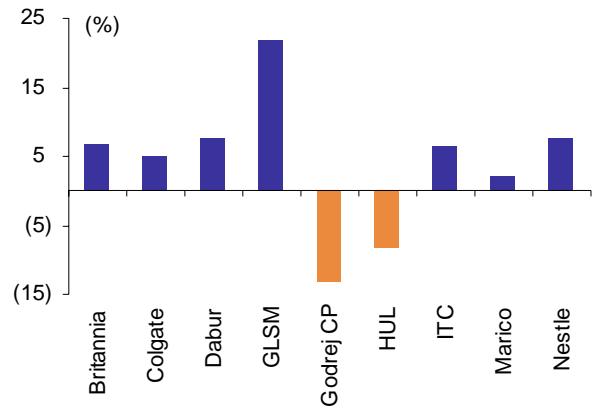
Performance since January 2009



Performance v/s Sensex



Performance v/s BSE FMCG



Source: BSE

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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